



Interim Report of Task Force 1 On Poverty and Economic Development

February 10, 2004

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Note to the reader

This Interim Report is a preliminary output of the Millennium Project Task Force 1 on Poverty and Economic Development. The recommendations presented herein are preliminary and circulated for public discussion. Comments are welcome and should be sent to the e-mail address indicated above. The Task Force will be revising the contents of this document in preparation of its Final Task Force report, due December 2004. The Final Task Force report will feed into the Millennium Project's Final Synthesis Report, due to the Secretary-General by June 30, 2005

Disclaimer

This publication does not necessarily reflect the views of the United Nations Development Programme (UNDP), its Executive Board or its Member States.

The Millennium Project is the independent advisory body to United Nations Secretary-General Kofi Annan that is commissioned with recommending, by June 2005, operational strategies for meeting the Millennium Development Goals (MDGs). This includes reviewing current innovative practices, prioritizing policy reforms, identifying frameworks for policy implementation, and evaluating financing options. The Project's ultimate objective is to help ensure that all developing countries meet the MDGs.

As a United Nations-sponsored initiative, the Millennium Project proceeds under the overall guidance of the Secretary-General and United Nations Development Programme (UNDP) Administrator Mark Malloch Brown in his capacity as chair of the United Nations Development Group (UNDG). Professor Jeffrey Sachs directs the Project, which brings together the expertise of world-class scholars in both developed and developing countries, United Nations agencies, and public, non-governmental, and private-sector institutions. Ten Task Forces carry out the bulk of the Millennium Project's analytical work with support from a small secretariat based at UNDP headquarters in New York. The Task Forces and their Coordinators are listed below.

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Additional information on the Millennium Project is available on its website at www.unmillenniumproject.org

**An Enhanced Strategy for
Reducing Extreme Poverty by the Year 2015**

**Interim Report of the
Millennium Project
Task Force on Poverty and Economic Development¹**

February 2004

¹ Numerous portions of Chapters I through III of this report are excerpted from the *Human Development Report 2003* (particularly the Millennium Development Compact and Chapter 3 in the HDR 2003), which in turn drew significantly on this Task Force's initial background paper as well as contributions from the Millennium Project secretariat.



This interim report was prepared as a collaborative effort of the Millennium Project Task Force on Poverty and Economic Development. It draws upon contributions from across the Task Force membership and from background work conducted in preparation for the Human Development Report 2003. The report aims to serve as a basis for broad consultation and public comment, explicitly highlighting numerous areas that the Task Force aims to consider in more detail over before its final report is completed in the end of 2004. Comments and suggestions are welcome.

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CHAPTER I – INTRODUCTION

The Millennium Development Goals, the Millennium Project and the Task Force on Poverty and Economic Development

The Millennium Development Goals (MDGs) are the international community's bold commitment to reducing poverty in the world's poorest countries by 2015. While many of the world's poor countries have seen tremendous success in poverty reduction over the past decades, and are on track to achieve the MDGs, many others are lagging badly. For those countries, success in meeting the MDGs would mark a dramatic turnaround from current trends, and would constitute an achievement of unprecedented proportions. This report outlines a framework for achieving the MDGs in the world's poorest countries, particularly those that are currently far off track from success.

Goals alone, even when they are quantified, time-bound, and endorsed repeatedly by the international community, are certainly not enough to ensure success. The problem is not the lack of tools available to achieve the MDGs but rather the lack of systematic coherence in implementation, both at the country level and the international level. As outlined in the "Millennium Development Compact" (UNDP 2003), which the Millennium Project leadership produced in collaboration with the Human Development Report Office of the United Nations Development Program, the world needs an operational framework for achieving the MDGs, one in which the predominant question is changed from the current question "How close can we get to achieving the Goals under current constraints?" to the more operational question "What steps need to be taken to achieve the Goals and what current constraints need to be overcome to achieve success?"

With that in mind, UN Secretary-General Kofi Annan commissioned the Millennium Project as an advisory body to recommend practical ways to help every country to achieve the MDGs. The Millennium Project brings together experts from around the world – from academia, civil society, government, the private sector and multilateral organizations – to make recommendations for how the international system can best organize itself to ensure the achievement of the MDGs. There are three crucial components of the Millennium Project's work: first, a rigorous understanding of the factors that drive and impede progress in different parts of the world; second, clear sense of the operational challenges faced by the world's poorest countries; and third, a systematic set of recommendations as to how these challenges can be met.

The Millennium Project has established 10 separate task forces (TFs) to consider various sectoral aspects of the MDGs. In addition to this Task Force on Poverty and Economic Development (TF1), nine other task forces focus on the respective issues of hunger (TF2); education and gender equality (TF3); child health and maternal health (TF4); HIV/AIDS, tuberculosis, malaria and access to medicines (TF5); environmental sustainability (TF6); water and sanitation (TF7); improving the lives of slum dwellers (TF8); trade (TF9); and science, technology and innovation (TF10). Since poverty is so complex in nature and progress in any Goal is crucial for achieving all of the other Goals, each of the Task Forces' recommendations will be crucial for outlining the conditions in which all the Goals can be achieved.

In the context of the 10 task forces, this Task Force on Poverty and Economic Development plays a special role. While an over-arching synthesis report will bring together all of the key Task Force recommendations into one set of recommendations, this Task Force has the broad role of

identifying the economic conditions for success in meeting the MDGs. This includes five components:

- Identifying the regions in most peril of not achieving the MDGs;
- Describing the basic dynamics of poverty reduction, including both income and non-income poverty;
- Describing factors that can trap countries in poverty;
- Describing basic policy priorities that need to be pursued in order to break out of poverty traps and achieve the MDGs;
- Proposing an operational framework through which the national-level MDG plans can be systematically pursued with the necessary degree of international cooperation and support

The last two of these points are crucial. In taking seriously the notion of country-level MDG achievement, our Task Force is focused first and foremost on identifying the practical steps that will help “off-track” countries get “on-track” to achieve the MDGs. At this stage we do not, therefore, focus most of our attention on the countries that are making sufficient progress to meet the Goals, even though some have large numbers of poor people today. Instead, we focus on the “top priority” countries (UNDP 2003) where levels of human poverty are so severe and progress so limited that concerted action and increased international assistance is needed to achieve the Goals. This choice does not in any way imply a lack of concern for the large numbers of poor people living in countries currently on track to achieve the Goals. Indeed, in its final report the Task Force plans to address more systematically the policy issues relevant to countries that are experiencing general progress towards the MDGs but nonetheless have large numbers of extremely poor people. In this report, however, the Task Force aims to emphasize the fact that dozens of the world’s most impoverished countries will require urgent changes in national and international practices in order to meet the MDGs, and it is those countries where our attention is most urgently required.

In focusing on the poorest countries that are making the least progress, this report emphasizes a basic strategy of public investments in social services and infrastructure. For many of the world’s poorest countries, these public investments form a crucial underpinning for necessary market-friendly reforms and policies to promote industry. Minimum levels of health, education, infrastructure, and market access are all needed to create the conditions for sustained economic growth, which will in turn provide greater resources for public investments. Thus countries must make progress on all of the MDGs in order to sustain progress in any of the MDGs.

Key Issues

We have identified eight core problems in the current international arrangements that impede success in achieving the MDGs in the countries currently far off track. For each problem, we summarize our recommendations on changes in current practices.

1. Problem: International development processes are not sufficiently oriented around the MDGs. While the international community has adopted the MDGs, it has not yet established adequate implementation mechanisms.

Solution: The international community should adopt a set of coherent and cooperative procedures to enable all low-income countries to achieve the MDGs.

2. Problem: There is no rigorous “needs assessment” or plan of what is actually required for each low-income country to meet the MDGs.

Solution: Each low-income country should prepare a needs assessment for meeting the MDGs. This needs assessment should form the basis of each country’s official Poverty Reduction Strategy (PRS).² An MDG-based PRS should focus on domestic policy reforms, increased public investments in basic human needs (including health, nutrition, education, water and sanitation, energy services, and reproductive health); increased development assistance to help finance public outlays; human rights for women and excluded groups; promotion of non-traditional industries and exports; specific needs for international market access; promotion of small farm productivity in marginal agricultural lands; special attention to the specific infrastructure needs of structurally distressed regions; and investments in environmental management. The needs assessment and the PRS must address the specific components of any perceived “capacity constraints” in order to map out how they can be overcome through specific investments in physical infrastructure, human resource and management systems through to 2015. If necessary, this MDG-based framework should be developed through two scenarios: one, as above, outlining the investments and policies necessary to achieve the MDGs; a second outlining the investments and policies to be made under current resource constraints. The distinction between the two scenarios could then be outlined explicitly in PRS documents.

3. Problem: Coordination among international agencies is inadequate to support countries as they try to meet their poverty reduction goals.

Solution: The UN Development Group (UNDG), including the specialized UN agencies and working with the Bretton Woods institutions, should work in a coordinated fashion to support each national PRS.

4. Problem: Official Development Assistance from rich countries is insufficient to achieve the Millennium Development Goals and is poorly targeted towards these goals.

Solution: The Donors Committee in each low-income country should formally and transparently align development assistance with the national PRS, including agreement to increase the quality and quantity of ODA as needed in order to support an MDG-based PRS.

5. Problem: The international trading system impedes economic growth in the poorest countries.

Solution: A new Trade Committee should be constituted for each low-income country, under the aegis of the World Trade Organization, to support improved market access for each of the vulnerable countries.

6. Problem: The key human rights institutions are not sufficiently engaged in poverty reduction

² Where Poverty Reduction Strategy Papers (PRSPs) exist, the needs assessment will need to form the basis of the PRSP.

Solution: International and national human rights bodies should be mobilized to participate in and support the poverty reduction process in every country.

7. Problem: Key science and technology institutions are not sufficiently mobilized to address the specific challenges of health, agriculture, and the environment that afflict the poorest countries, nor to develop these countries' local technological capacity for economic development.

Solution: National science and technology development plans should be prioritized in low-income countries' poverty reduction strategies. These should include strengthening science advisory mechanisms for policy makers, promoting science education and focusing scientific investments in locally specific challenges in health, agriculture and the environment.

8. Problem: The international private sector is not systematically engaged in the MDG process.

Solution: Private sector companies should agree to undertake specific initiatives that will help to support the achievement of the MDGs, especially under the aegis of the UN Global Compact.

This report proceeds in five chapters. Following this introduction, chapter II includes a diagnosis of poverty, economic growth and poverty reduction, focusing on the countries making the least progress towards the MDGs and the reasons for "poverty traps." Chapter III then outlines the core policy priorities that needed to be emphasized in any national strategy to break out of a poverty trap. Chapter IV presents a framework for countries to operationalize MDG-based poverty reduction strategies with the support of the international system. The final chapter applies the report's MDG-based framework for analysis and policy prescription to a country, Tanzania, outlining the broad range of public investments that need to be made for Tanzania to achieve the MDGs.

CHAPTER II – DIAGNOSIS OF POVERTY, GROWTH AND POVERTY REDUCTION

1. Defining Poverty and Its Locations

The MDGs embody a broad-based view of economic and human development, one in which success includes not only a rise in per capita incomes but also a reduction in non-income dimension of poverty, including improved health, education, access to basic infrastructure such as water and sanitation, and increased and equal opportunities for marginalized groups in society. The progress should accrue with full gender equity. The MDGs also recognize that successful economic development must be environmentally sustainable and built upon strategies for protecting vital ecosystems.

This broad conception of poverty is important analytically, since there is no single economic measure that captures people's living conditions or level of "human development." Household monetary income is important, to be sure, since it provides the resources that enable households to purchase consumption goods to satisfy many basic needs (especially for food, clothing, and shelter) and to invest for the future. However, lack of household income does not constitute the sole source of poverty, since many services contributing to human development are publicly provided, and can be in short supply even if private household income is adequate. Public services such as primary health care (including reproductive health), primary education, and basic infrastructure such as water, sanitation, roads, and power, can be just as important, or even more important, for living standards as monetary income. Similarly, environmental services can have a large direct effect on human well being, and often require public as well as private provision. Thus, the safety of the air and water, the reliability of the climate, the risks of flooding, and the loss of biodiversity, are problems that cannot be met by private household income alone. Thus, any proper measure of poverty must extend beyond household income, to include the provision of public services, including social services, basic infrastructure, and environmental services.

For these reasons, this report distinguishes between three forms of poverty, all of which we place under the umbrella of "human poverty": (1) income poverty, as typically defined by lack of private household income (so-called "dollar-a-day" poverty); (2) social service poverty, including the lack of public provision of education, health, water and other services; (3) environmental poverty, including the lack of, or degradation of, core environmental resources needed for human well-being.³ This report stresses the links among all three forms of poverty, as described in more detail in the next section.

A. Where are the MDGs off-track? Where is poverty most severe?

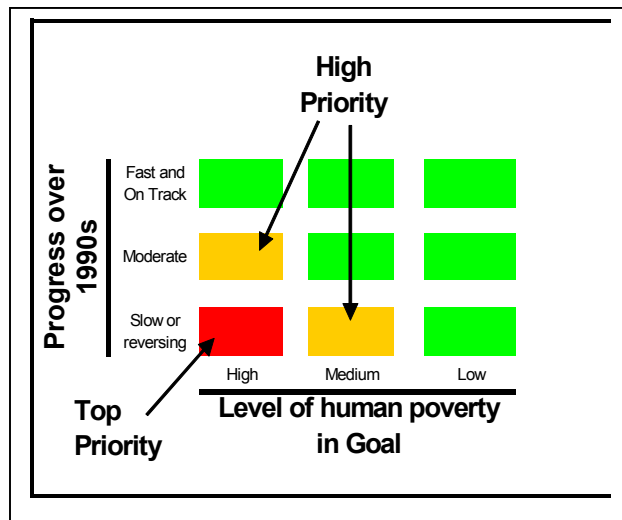
Given the MDGs' broad conception of poverty and ambition to reduce the suffering of the world's poorest people, our first step is to outline where poverty is most severe and where the Goals are currently least likely to be met. Here we outline the countries furthest off track from achieving the goals, the countries suffering from the most severe conditions of poverty, and the sub-national regions suffering from the most severe poverty.

³ We note that this use of the term "human poverty" is more expansive than the typical use of the term in, for instance, Human Development Reports, where it refers to non-income poverty. Here human poverty refers to all three forms of income and non-income poverty, the latter include social service poverty and environmental poverty.

i. MDG Top Priorities

In order for the MDGs to provide a useful reference for policy, they must be evaluated at the country level (A country-level approach to the MDGs is crucial for the reasons outlined in Box II.1.). To that end, for the *Human Development Report 2003* the Millennium Project secretariat helped to identify the poorest countries making the least amount of progress towards the MDGs. The results of this exercise are presented in Map II.1, which outlines the “top priority” and “high priority” countries that need the greatest progress if they are to achieve the Goals. top priority refers to countries where levels of poverty are highest across the MDG targets and where progress is stagnant or reversing. high priority refers to the less desperate but still critical situations where countries are either not quite as poor but making little progress or just as poor as their top priority counterparts but making slightly faster progress.

To construct Map II.1, a goal-by-goal assessment was conducted to identify top priority and high priority countries for each MDG. Top priority countries are those with high levels of human poverty in 1990 and slow progress or negative results during the decade of the 1990s⁴ high priority countries are those with high levels of human poverty in 1990 but slightly more progress, though still insufficient to achieve the Goal; or countries with moderate levels of poverty in 1990 but slow progress or negative results during the 1990s. For country-level Goal-by-Goal assessments the reader is referred to Chapter 2 of the HDR 2003.



To identify the *overall* top priority countries shown in the map, we included those countries that were top priority on at least three Goals or for at least half of the Goals for which they have data, with a minimum of three data points. If data are available for only two goals, the country is top priority in both. To identify *overall* high priority countries, we counted those that do not fall into the top priority category but are top or high priority for at least three Goals, those that are top priority for two Goals, and those that are top or high priority for at least half of the Goals for which they have data, with a minimum of three data points. If data are available for only two Goals, they are top or high priority in both. Importantly, for 32 countries there were insufficient data to make reliable assessments.

Notably, of the 31 top Priority Countries – those where levels of poverty are high and from 1990 to (for most data) 2000 progress was slow or non-existent – only 4 are outside of Sub-Saharan Africa: Afghanistan, Haiti, Iraq, and Tajikistan. It is clear Sub-Saharan Africa needs to be the primary focus for urgent efforts to achieve the MDGs. Importantly, most of the countries of Sub-Saharan Africa not in the top priority grouping are included in the high priority category, which also includes India, Oman, Yemen, and geographically isolated countries in central Asia, such as

⁴ In some cases, the indicators are not precisely for the 1990-2000 period. For example, progress in the income poverty and child mortality indicators are measured across 1990-2001. Progress in the hunger indicator is measured from 1990-92 to 1998-2000.

Kazakhstan and Mongolia. Thus Map II.1 presents a clear picture of the regions where urgent action is required to achieve the MDGs.

Box II.1: Why the MDGs Need to be Country-Level Goals

Since the MDGs were first established, there has been some ambiguity regarding whether the Goals should be interpreted at the global, regional, or national level. For instance, should the headline Goal of cutting the proportion of people living on less than a dollar a day by 2015 aim to cut the proportion in half worldwide? Should it aim to cut the proportion in half by geographic region? Or should it aim to cut the proportion in half in each country? Those in favor of a global MDG interpretation suggest that this is the best way to measure progress for all of humanity, avoiding artificial averages caused by national boundaries. Meanwhile, those in favor of a regional MDG interpretation argue that it allows enough granularity to show regional variations in progress, such as the general MDG stagnation in Sub-Saharan Africa and slow progress in South Asia, without burdening developing countries with unrealistic expectations.

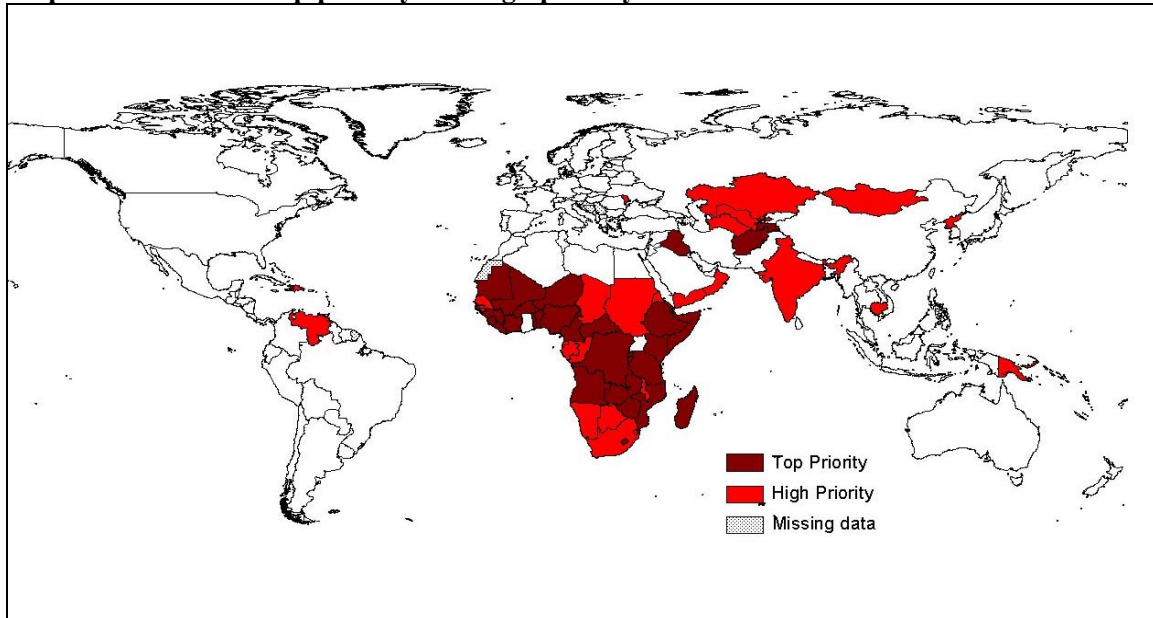
To be useful for policy, the MDGs can only be interpreted as country-level goals, for a number of reasons:

- First, global measures of progress do not help to guide policy. Since a third of the world's population lives in two countries, China and India, if those countries continue to sustain their current progress rates in poverty reduction then they alone will provide enough aggregate momentum for the world to achieve the Goals. While progress in China and India is to be lauded, declaring global victory through these two countries alone would amount to a betrayal of the hundreds of millions of the world's poorest people living in Sub-Saharan Africa, Latin America and the rest of Asia. It is the poor people living in places with no overall progress whom the MDGs are really meant to help.
- Second, while regional aggregates highlight conditions in particularly challenged regions such as Sub-Saharan Africa, they mask national successes and failures. Within a region, standout countries of remarkable success would gain little credit if other countries continued to see no improvements in poverty reduction. Conversely, countries making no progress would be pulled up by the success of others in their region. These issues are considerable in Sub-Saharan Africa, which has 47 countries.
- Third, measuring progress at any level of cross-country aggregation is inconsistent with the fact that intergovernmental policies are decided at the country-level. The MDGs *must* be interpreted as national goals because the international system is based on the principle of state sovereignty, with inter-governmental processes – including development assistance mechanisms such as Poverty Reduction Strategy Papers, debt relief, and trade negotiations – decided by countries. Likewise investment frameworks and priorities – including decisions to decentralize decision-making to the community level – are set nationally, so this is the level with the greatest source of traction for poverty reduction. Practically speaking, countries will only achieve the MDGs when national governments are committed to making the necessary social investments in their citizens and when they receive adequate support to do so from the international system. Moreover, aggregation is at odds with the principles of country ownership that underpin national poverty reduction strategies and the Monterrey Consensus, the latter of which stressed the responsibilities of national governments to implement good governance towards poverty reduction.

Box II.1: Why the MDGs Need to be Country-Level Goals (continued)

The concern typically voiced about country-level MDGs is that they might not reflect government priorities or that they are not “realistic” and simply too ambitious. Given the availability of applicable technologies, the commitments of rich countries to Goal 8, the commitments of all UN member nations to the MDGs in general, and the fact that we still have 12 years to reach the MDG deadline, it is too soon to discard the MDGs as country-level impossibilities. Often implicit in the world “realistic” is the suggestion that MDGs are not achievable on current trajectories. But the MDGs are explicitly aimed at breaking the current trends of poverty. Systemic change is needed, as are high aspirations. Low-income countries are often reluctant to commit to the MDGs not because they don’t want to cut poverty in half by 2015 or because they don’t want to reduce child mortality by two thirds, but because they don’t think they will have the donors’ support – in aid, trade, and debt relief – needed to achieve the Goals. Achieving the Goals will require committed actions from all sides.

Map II.1: The MDG top priority and high priority Countries



Source: excerpted from the Human Development Report 2003, p.44; prepared in collaboration with the Millennium Project secretariat.

The top priority and high priority categories should be interpreted carefully. The underlying data for individual Goals are often measured imprecisely, and some country classifications will change as data improve. Many of the countries – such as Kyrgyzstan and Pakistan – in the “other” category would probably be top or high priority countries if the underlying data were more complete. Moreover, imperfections in the data mean that many of the world’s poorest places, particularly those that have suffered major downturns since 2000, are not captured. The joint emphasis on levels and changes also risks masking the places where poverty levels remain extremely high, even if some indicators have recently improved significantly. Furthermore, the national categories do not capture sub-national variations in poverty. Map II.1 does not capture, for example, the areas of extreme poverty in Central America, the Andean region of South America, or in Southeast Asia. These places need important attention of the international community as well.

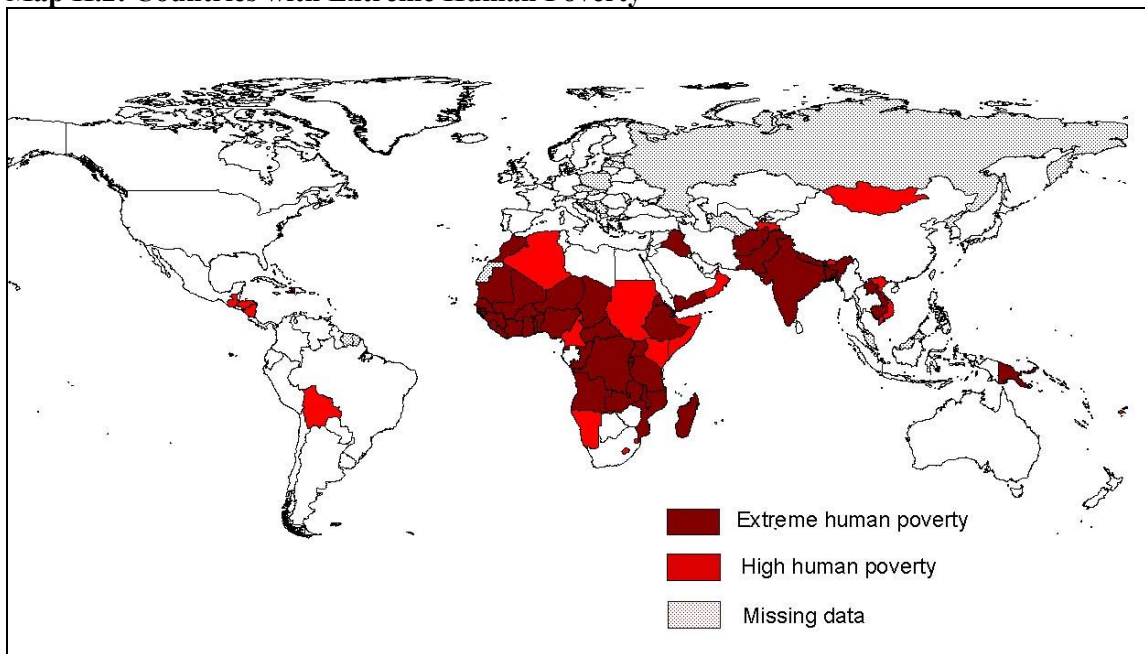
ii. Countries with the Most Extreme Levels of Human Poverty

To capture the notion of human poverty from another angle, Map II.2 presents an assessment of current *levels* of deprivation around the world. Since there is no ideal way to measure poverty, an MDG-oriented approach needs to look at several dimensions. Therefore, to construct this map we evaluated the following key indicators that directly affect well-being:

1. Malnutrition (children underweight for height),
2. Grain yields per hectare,
3. Access to clean water,
4. Access to sanitation services,
5. Literacy rates,
6. Primary education completion rates,
7. Gender equality in primary and secondary school, and
8. Infant mortality rates.

Importantly, we do not include any measure of income poverty in this set of indicators. We then identified cut-off points for each indicator in order to identify countries with high average levels of poverty in each.⁵ By aggregating these indicators one can identify countries suffering from “Extreme human poverty” and those suffering from “High human poverty.” While this approach clearly relies on discretion in identifying cut-offs and indicators to include, it does provide a sense of which countries are the world’s poorest, independent of rates of progress.

Map II.2: Countries with Extreme Human Poverty



Source: World Bank, *World Development Indicators 2003*; Task Force calculations

⁵ The cut-offs used were as follows, with all data from the most recent year available in WDI 2003. (1) Malnutrition prevalence, weight for age, in percent children under 5: 20%; (2) Cereal yield, in kg per hectare: 1750; (3) Access to improved water source, in percent of population: 50%; (4) Access to improved sanitation facilities, in percent of population: 50%; (5) Illiteracy rate among adults age 15 and above, in percentage: 30%; (6) Primary education completion rate (total), in percent of relevant age group: 75%; (7) Ratio of girls to boys in primary and secondary education: 90%; (8) Infant mortality rate, deaths per 1,000 live births: 100.

Nonetheless, the degree of overlap between Map II.1 and Map II.2 is striking. It is generally the world's poorest countries that are not making progress towards the MDGs. We return to this point in more detail in chapter III of this report. For now, it is important to note the countries shaded in Map II.2 that are *not* shaded in Map II.1, i.e., non-“Priority” countries that still have extremely high levels of human poverty. In the Central American region of Map II.2, Guatemala, Honduras and Nicaragua are all shaded gray to represent their high levels of human poverty, as is Bolivia in South America. In North Africa, Morocco is shaded in dark for its extreme poverty, while its neighbor Algeria is noted as having high overall poverty. In Sub-Saharan Africa, both Ghana and Uganda are still at levels of extreme poverty, despite their progress over the 1990s. In South Asia, Pakistan is noted for its extreme poverty and Bangladesh for its high poverty. In East Asia, Lao PDR and Papua New Guinea both suffer from extreme poverty, the latter also being a high priority for MDG progress.

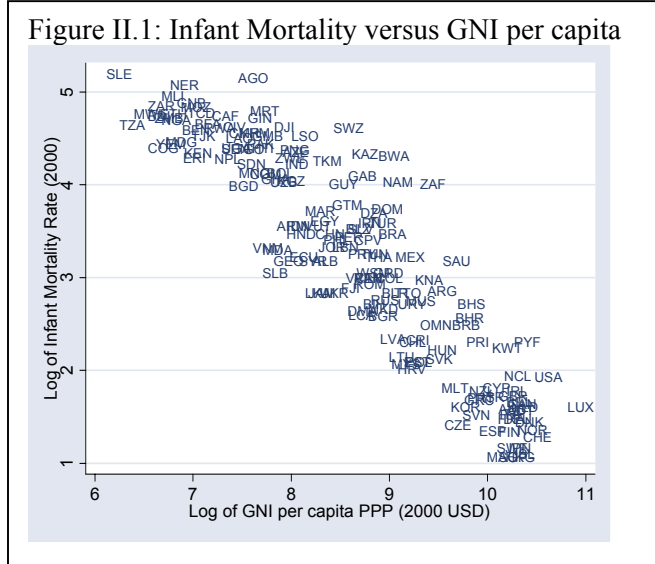
It is also worth noting the countries that are shaded in Map II.1 but *not* in Map II.2. These are the places that are high priority on the MDGs because they have significant poverty levels and are not currently on track to achieve all the Goals, but their overall poverty levels are actually not as severe as those in the poorest countries. This includes the Dominican Republic, Kazakhstan, Swaziland, Uzbekistan, and Venezuela. Importantly, it also includes Botswana, South Africa, and Zimbabwe. These countries all need to make urgent progress to achieve the MDGs, but the overall extent of poverty is generally less severe than in their African neighbors.

iii. The Poorest Places, Rather than Countries

While the MDGs need to be taken seriously at the country-level, country-level measures of any indicator may be very coarse, hiding significant variations within countries. They take averages across populations of varying sizes, comparing for example an average for the 1 billion people in India to the average for the 1.5 million people in Botswana. A better set of indicators needs to provide much more granular information to show variations within countries and where communities are poor. In developing a more detailed understanding of poverty, one can begin to assess more carefully the factors – including policies, geography, and demographics – that might be causing different outcomes both within and across countries.

Developing a sub-national map of global poverty represents a host of serious technical challenges that have not yet been overcome. Most efforts to map poverty sub-nationally have focused on developing spatially-referenced income measures that can be matched with population census data. Despite major recent technical advances in this approach, it does not lend itself to comparison across countries due to country-specific differences in consumption and income measures. To that end, one of this Task Force's major research efforts so far has been to develop a new dataset and approach for measuring sub-national variations in poverty around the world. In collaboration with the Center for International Earth Science Information Networks (CIESIN) at Columbia University, the Task Force has collected and standardized data from dozens of relevant survey and census data sources around the world to develop a highly comprehensive assessment of sub-national poverty indicators.

Unlike previous approaches to poverty mapping, however, the Task Force has not looked at income or consumption poverty but has instead looked at poverty outcomes to measure “absolute poverty.” Specifically, the Task Force and CIESIN have identified two core measures of human poverty that are commonly collected at a sub-national level around the world: infant mortality and malnutrition. Both of these measures are closely linked to income levels in any event (see, for example, Figure II.1 which graphs national income against infant mortality across countries), but since they do not suffer from the same issues of comparing income and consumption across countries, in many ways they provide a cleaner estimate of human poverty outcomes.⁶

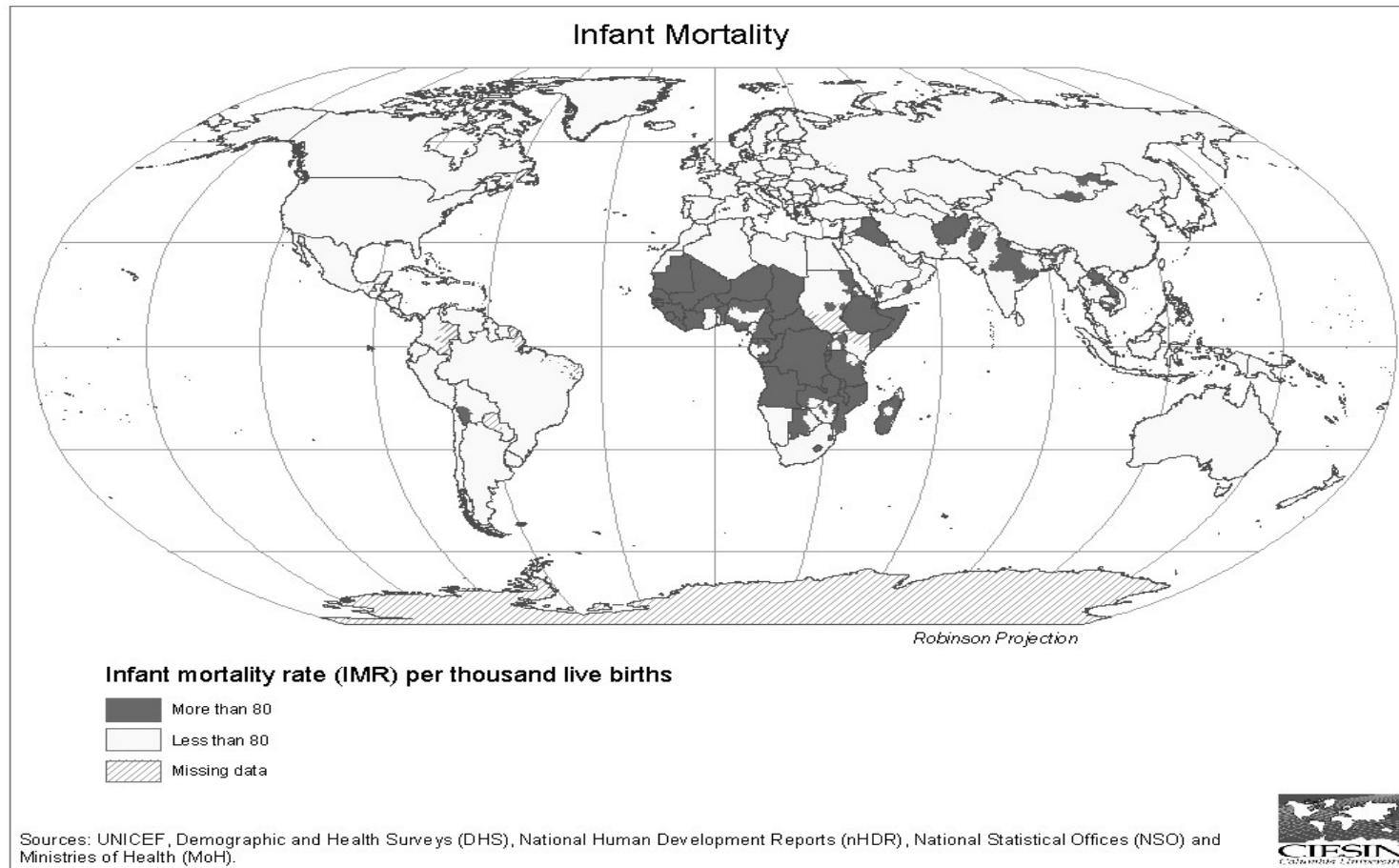


Even with the additional resolution provided by the sub-national maps, the picture of absolute poverty in Maps II.3, II.4, and II.5 below remains remarkably consistent with that of Map II.2. The infant mortality map, which is benchmarked to the year 2000, shows that most of Sub-Saharan Africa has the highest levels of infant mortality in the world (shaded regions indicate more than 80 infants dying before age one out of every 1,000 live births), along with Afghanistan, Iraq, large portions of northern India, and the southern and eastern regions of Mongolia. Notably the infant mortality levels in the southwestern corner of Bolivia are extremely high. Although Brazil has very large numbers of poor people, only a very small number of the country’s easternmost districts show up for their high infant mortality levels. These literally show up as dots on the map because Brazil has some of the world’s most sophisticated regional data indicators.

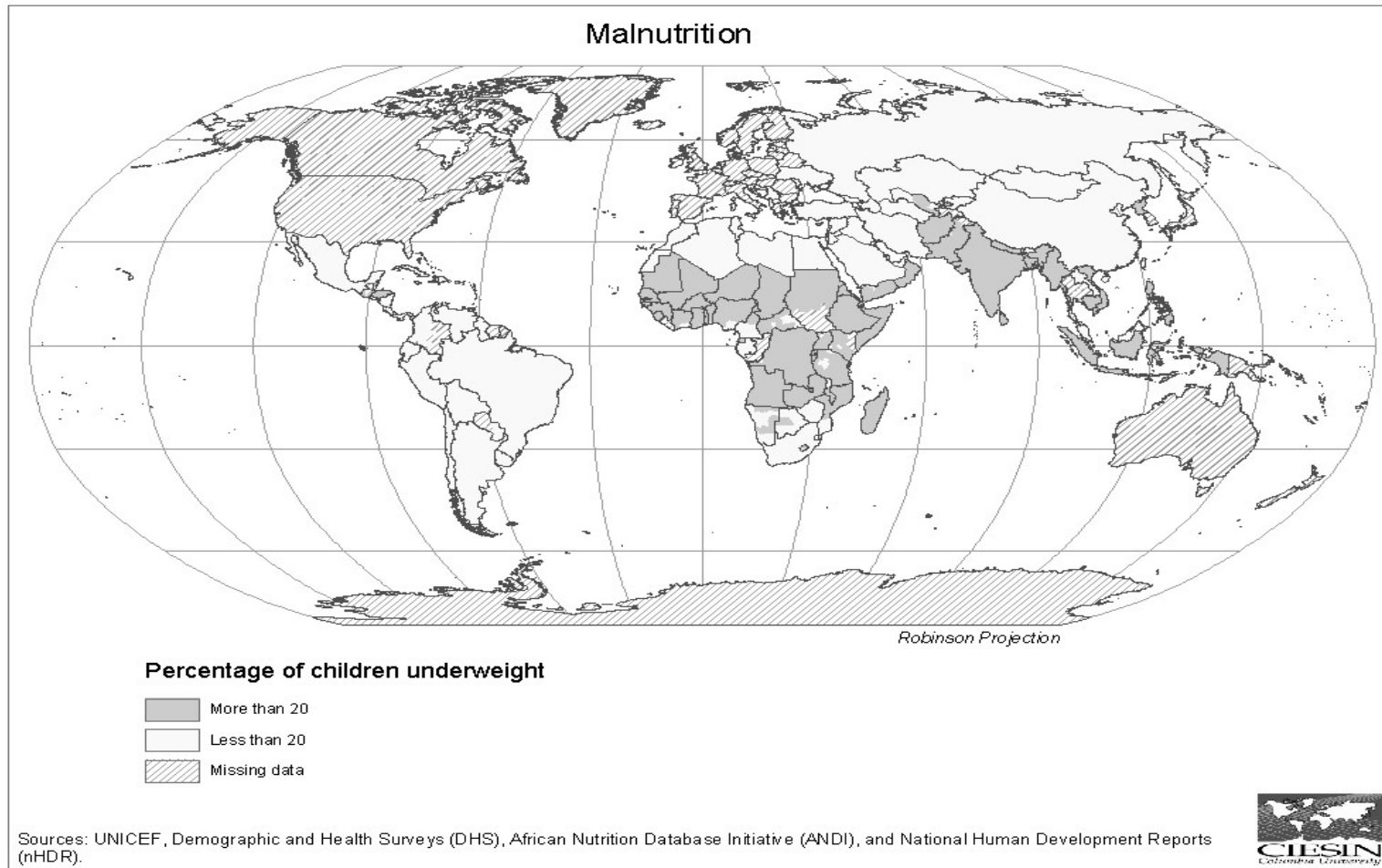
The sub-national malnutrition map, which is also benchmarked to approximately 2000, has even more places shaded than the infant mortality map. This partially reflects the choice of cut-off, 20 percent of children measured as underweight for age, and also partially reflects the likely anthropometric bias against south Asia that is inherent in this measure. All current hunger indicators suffer from significant weaknesses, so we do not visit that discussion here. We do, however, note that Guatemala and Honduras both show up on this map with high malnutrition rates, as does much of southeast Asia, including Indonesia and Vietnam.

⁶ These are the two indicators for which results are ready at this time. A measure of maternal education was attempted but not used in these maps due to problems with data sparseness. An estimate of persistent nighttime lights in the year 2000 was also attempted as a proxy for access to electricity. Results for these and similar indicators remain experimental and should hopefully have major advances completed in time for the Task Force’s final report in 2004. Locating communities with high poverty levels is valuable particularly for targeting efforts to improve social indicators which are more sharply differentiated by economic status.

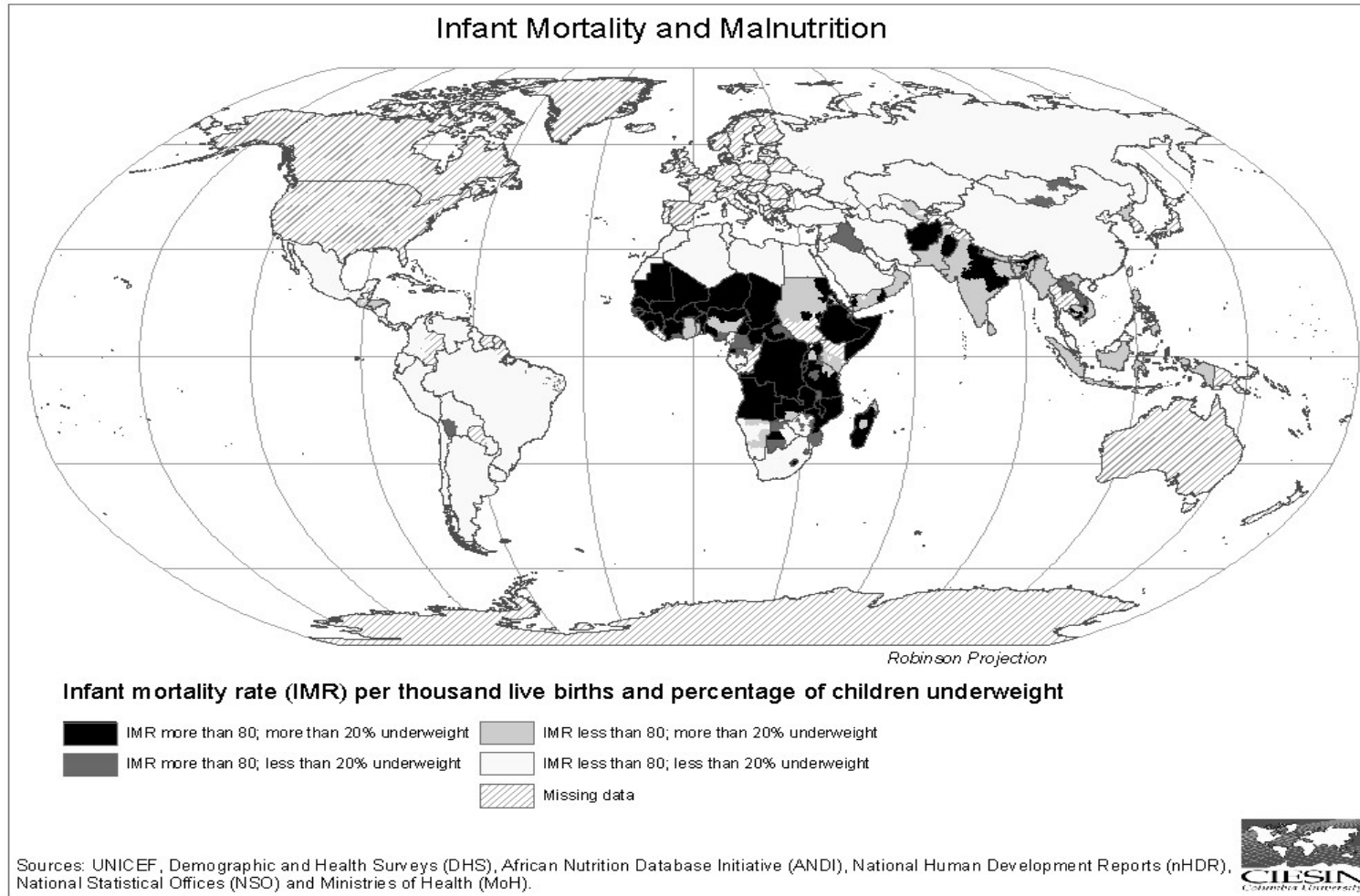
Map II.3 Sub-national Infant Mortality Rate



Map II.4 Sub-national Malnutrition



Map II.5 Sub-national Infant Mortality Rate and Malnutrition



Summary

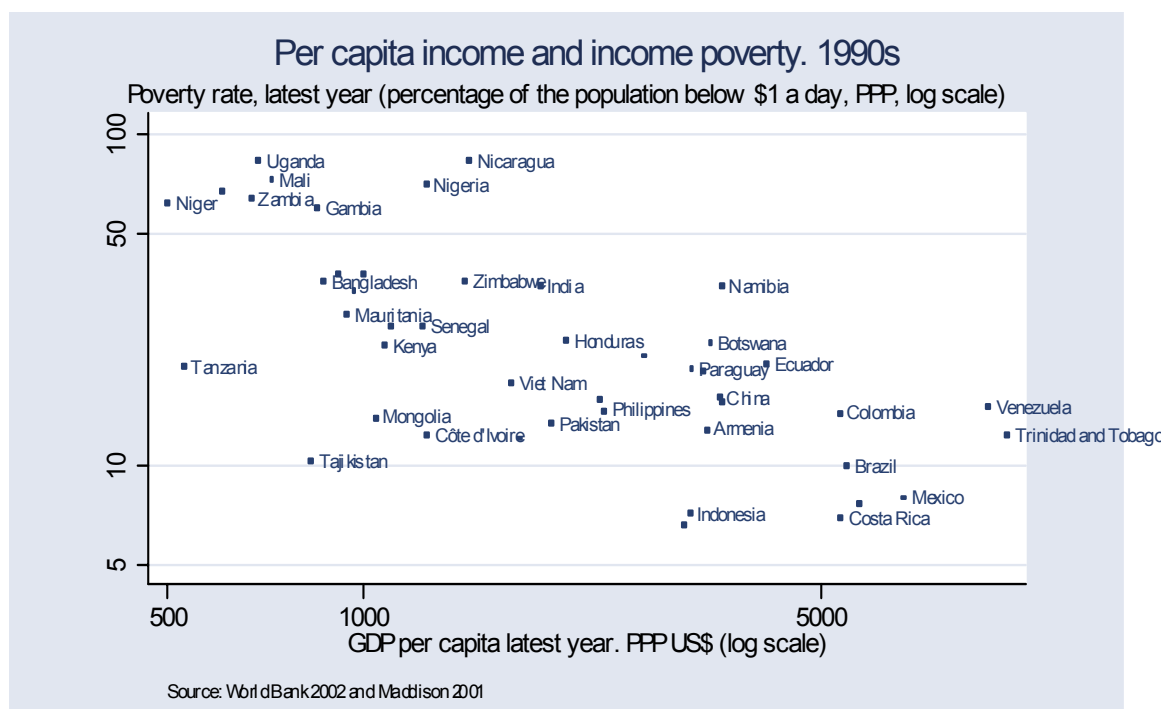
While there is variation between the specific shaded areas in Maps II.1 through II.5 and no single map should be regarded as definitive, together these maps very clearly convey where the world's human poverty is most severe and where progress is slowest. These are the places that require the most attention, support and urgent action in order to achieve the MDGs. In every map, the indicators are worst in sub-Saharan Africa, followed closely by regions in Central Asia and in South Asia, particularly India. Latin America also has countries with extreme poverty, notably Guatemala, Haiti, Honduras and sizeable parts of Bolivia. Meanwhile, several of the former Soviet countries of central Asia are struggling to make progress from low but less desperate poverty levels, and Mongolia remains persistently challenged by its poverty.

2. The Nature of Poverty Reduction

The maps above outlined two fundamental points that underscore the rest of this report. The poorest places in the world are geographically concentrated – in sub-Saharan Africa, in central and south Asia, and in certain parts of central and Latin America. Second, the very poorest places in the world are systematically not making progress in poverty reduction. This section aims to explain why poverty is so concentrated in these regions, and why so many places are stuck without real progress.

A. The Core Role of Economic Growth in Poverty Reduction

Economic growth is necessary to reduce human poverty and to achieve the Millennium Development Goals. This is for two reasons. First, economic growth is a direct input into the alleviation of income poverty. Only through overall economic growth can an impoverished country hope to reduce sharply the proportion of households below the income poverty line of \$1 per day. Second, economic growth tends to result in increased government revenues, therefore providing critical resources for increased investments in social services, infrastructure, and environmental services.



As seen in the figure above, in countries with higher incomes, a smaller proportion of people fall below the poverty line, suggesting that higher per capita income is needed to reduce poverty rates. But, importantly, countries do not fit the line perfectly, mainly because of inequalities of household income. Even though Côte d'Ivoire and Nigeria have very similar per capita incomes, Côte d'Ivoire has a much lower poverty headcount ratio because it has a more equal distribution of income. Per capita income is also closely linked with non-income poverty. Some countries (Costa Rica) have very good levels of human development for their income, while others (Nicaragua) are performing worse than others at similar levels of economic development. These differences reflect both policy choices (Costa Rica has long emphasized investments in public

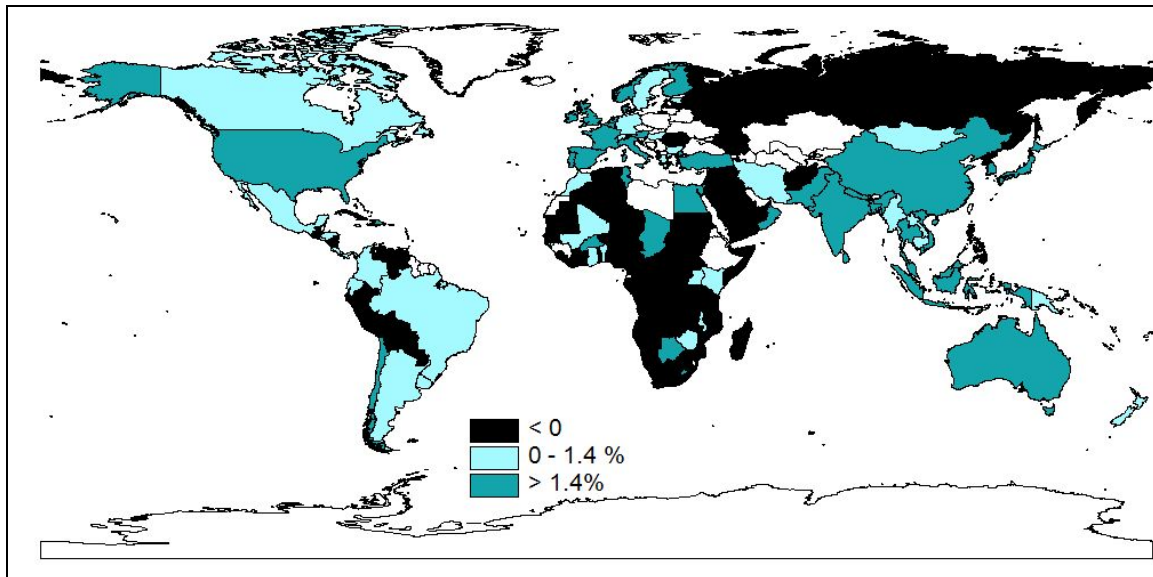
education and health, while Gabon has not) and structural conditions (Gabon suffers from an extreme vulnerability to malaria transmission compared with Costa Rica). Thus the strong links between economic growth and poverty reductions are mediated both by policy choices and structural factors. Several countries with economic growth of more than 4% a year since 1990 have not advanced much in some non-income dimensions of poverty (*e.g.*, India has made little progress in reducing chronic under-nutrition).

So while economic growth is not sufficient to ensure poverty reduction, sustained economic growth is a necessary condition for sustained reductions in poverty. Thus a first question is to identify why some countries have achieved sustained economic growth in recent decades, while others have not.

B. Regions Enjoying Sustained Economic Growth

Of the world's 129 countries with at least 1 million people in 1990 and with available data for calculation, 77 saw their economies grow in per capita terms from 1980–98, but 52 saw them shrink. Map II.6 shows the regional patterns of economic growth during 1980–98 according to constant per capita GNP in purchasing-power-parity adjusted terms.⁷ The growing economies include the broad regions of North America, Western Europe, Oceania, East Asia and South Asia. The declining countries are concentrated in sub-Saharan Africa, the former Soviet Union, the oil-rich Middle East, and parts of Latin America, mainly the Andes and Central America. Sub-Saharan Africa is the worst performing region in the world, with two thirds of the countries, containing three-quarters of the region's population, experiencing economic decline rather than economic growth during the period 1990-98.

Map II.6: Real GNP per capita (PPP) growth rates, 1980-98



Source: Maddison (2001)

⁷ The data only cover up to 1998 because that is the most recent year for which reliable cross-country PPP measures are available. Updating the table to include GNP data for, say, 2001, would not result in a very different picture.

However, merely counting countries provides a misleading view of the tremendous reductions in world poverty around the world since 1980. Countries with large populations have tended to grow, so when economic trends are measured by numbers of people, the outcomes appear much better. Today more than 4 billion people live in countries that averaged annual real per capita GDP growth of more than 1.4% during 1980–98—including China and India, the two most populous countries.⁸ This 1.4% figure provides a rough estimation of the rate of per capita economic growth required to achieve the income poverty MDG.⁹

From the viewpoint of the MDGs, approximately 1.5 billion people live in developing countries that averaged annual growth in per capita incomes of less than 0.7% during 1980–98 (that is, less than half of the indicative threshold of 1.4% per annum), including many of the poorest countries. If these countries continue to stagnate, they will not have the resources to achieve the Goals. Finding ways to achieve the Goals, especially in high-priority countries that combine widespread poverty with little or no economic growth (see chapter II), requires understanding why such countries are experiencing little or no growth while so many others are growing rapidly.

C. Why Economies Grow

While the composition of long-term determinants of economic growth forms the subject of intense debate among professional economists, two key elements of sustained modern economic growth can be identified: the Human Capital Transition and the Industrial Transition.

i. The Human Capital Transition

At the core of economic development is the rise of human capital per person. Human capital measures the productive capacities of individuals in the economy, as determined by their health, education, and labor market skills. The poorest countries face a syndrome of low human capital per person, signifying an environment of poor health and nutrition and low educational attainment. Morbidity (disease) and mortality rates are very high; life expectancy is short. In the process of development, these conditions systematically improve for the bulk of the population. Health and nutrition improve, schooling and on-the-job training increase, and morbidity and mortality rates are brought under control.

Human capital is accumulated mainly through investments in health and education, with crucial investments taking place early in a person's life. We now know that a mother's level of nutrition

⁸ Based on calculations using Maddison (2001) and World Bank, *World Development Indicators 2003*, CD-ROM.

⁹ Many studies have calculated an “elasticity of poverty to average income”—the percentage decline in the headcount poverty ratio for each 1% increase in per capita income. A typical estimate in the vast econometrics literature, holding constant the distribution of income, is that the poverty rate declines by 2% for each 1% increase in average per capita income, for an elasticity of 2 (Bruno, Ravallion and Squire 1998; see also Adams 2002). This elasticity estimate suggests that cutting headcount poverty in half requires a 41% increase in per capita income. If the 41% is spread over 25 years (1990 to 2015), annual growth of 1.4% is needed. If a country must accomplish the entire 41% increase between 2003 and 2015, a much higher annual rate (2.9%) is needed. Yet even the higher rate is well within the realm of possibility for a low-income country—if preconditions for growth are in place. See: Bruno, Michael, Martin Ravallion, and Lyn Squire. 1996. "Equity and Growth in Developing Countries: Old and New Perspectives on the Policy Issues." Policy Research Working Paper 1563. World Bank, Washington, D.C. [<http://www.worldbank.org/html/dec/Publications/Workpapers/wps1563-abstract.html>]; Adams, Richard. 2002. "Economic Growth, Inequality and Poverty: Findings from a New Data Set." World Bank Policy Research Working Paper 2972. World Bank, Washington, DC.

during pregnancy affects her offspring's health and wellbeing during their entire lifetime. After birth, a child's lifetime productivity is likely to be determined critically by nutrition and health conditions early in life, as well as by the extent of investments made in the child's education. For these reasons, the extent to which a society invests in its children is a good indicator of its ability to rise out of extreme poverty.

One fundamental aspect of the accumulation of human capital is the demographic transition, in which a society moves from a situation of high fertility and mortality rates to a situation of low fertility and mortality rates. The transition from high to low fertility is a fundamental step in the accumulation of human capital, mainly because poor households and governments of low-income countries generally face a severe budget constraint in investing in their children. When fertility rates are high (i.e., households are having large numbers of children), then the household and the public sector generally lack the resources to invest adequately in the human capital of every child. Total investments in the human capital of the children must be spread over a large number of children, with the result that human capital investments per child are low. Moreover, it is of course typical that household investments are asymmetrical across children. Parents often invest disproportionately in their eldest child, or particularly their eldest son, leaving the remaining children with lower levels of nutrition and education, and thereby condemning them to a greatly increased likelihood of poverty. It is only when impoverished families have fewer (2-3) children that there is a significant increase in the human capital invested per child.

The tight link between the demographic transition and economic growth is suggested by comparing a global map of the Total Fertility Rate and the global map of economic growth. The Total Fertility Rate is the average number of children per woman in a society, based on the age-specific fertility rates in the population at any point of time. Aside from the special cases of the post-communist (transition) economies, almost all countries with low TFRs show positive economic growth rates, while many countries with high TFRs show negative economic growth rates. The strong association between the demographic transition and overall economic development suggests, indeed, that governments can spur poverty reduction by adopting policies to encourage the transition to lower fertility rates. Actual fertility often already exceeds desired fertility (as indicated in survey responses about intentions for recent births, desires for spacing or limitation of future births and existing levels of recourse to abortion), particularly in poor countries and families. Keeping pace with both population growth and growing demand for smaller families in poor countries will require appropriate national investments.

The TFR is itself the result of several economic, public health, cultural, and policy factors. A sound strategy of promoting the demographic transition typically requires policy actions on several fronts. According to statistical evidence as well as a vast number of studies, the TFR is determined by the following:

Child mortality rates. Countries with high child-mortality rates tend to have high TFRs. Poor households have large numbers of children in order to ensure a high probability of survival of one or more of the children. Public health interventions to reduce child mortality therefore play a vital role in reducing total fertility rates as well. Information lags must also be addressed (see Merrick 2002). Pockets of high mortality may persist longer in poor communities and information about the changing economic benefits of different family sizes may be less immediately available. Interventions to improve access to information relevant to family size decisions can reduce the lag time to more optimal choices.

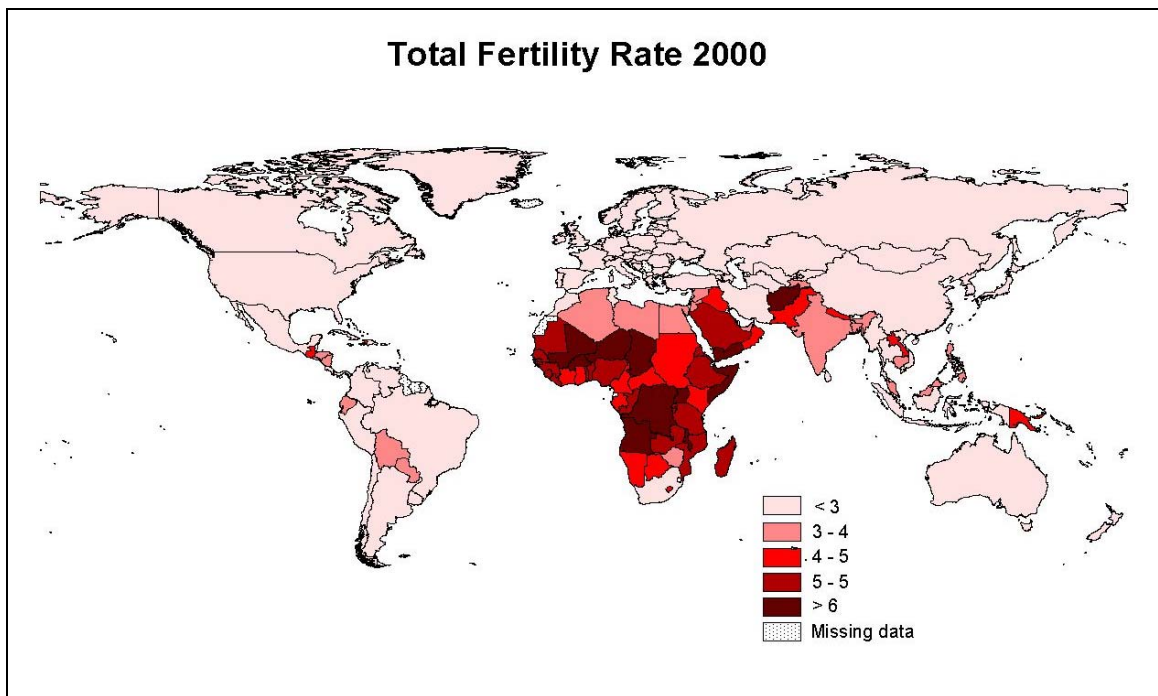
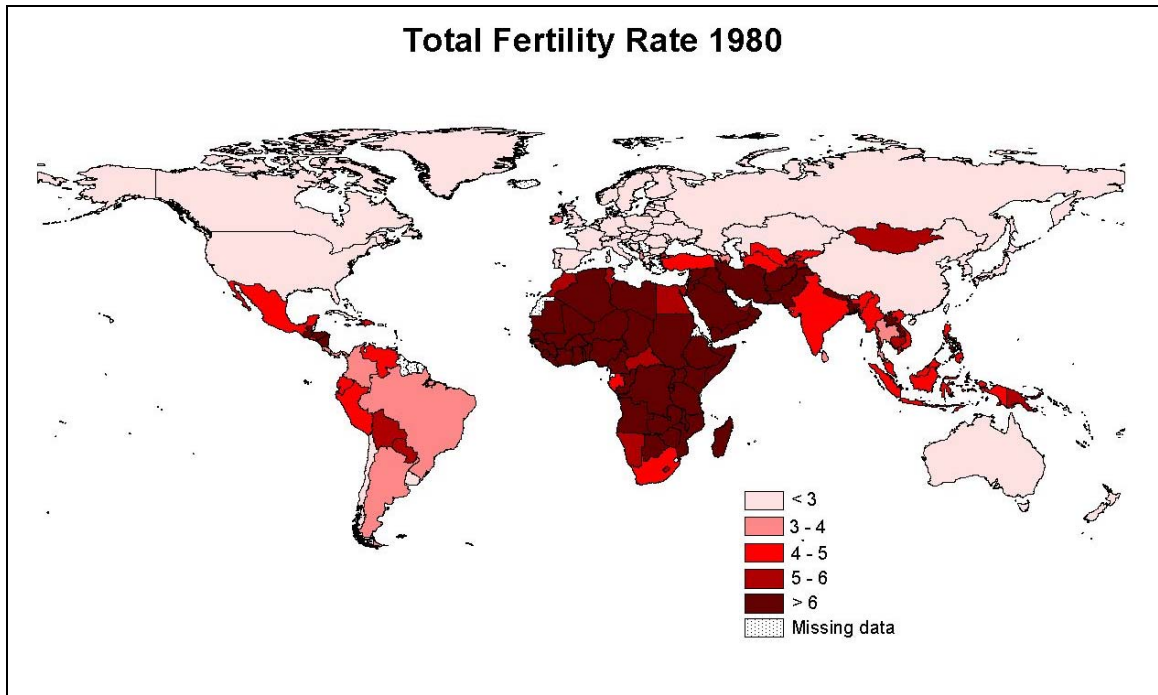
Women's literacy. Literate women are better able to plan their own fertility and have a smaller desired number of children. Illiterate women may not know the contraceptive choices available

to them, or how to access family planning and reproductive health services, or may simply lack bargaining power within the household. The spread of female literacy is therefore one of the most important contributors to reduced fertility rates in poor countries.

Availability of reproductive health services. Fertility reduction depends in part on the reliable availability of contraceptives and family planning services. Direct provision of these services has therefore played an important role in many countries in speeding the transition to lower fertility rates. Service availability also facilitates birth spacing which can ameliorate intra-household allocation conflicts (even at equal family sizes), improve health and education outcomes, and allow time for information and resource accumulation to improve family welfare and aid avoidance of poverty traps. Reproductive health, as defined in the Programme of Action of the International Conference of Population and Development (UN 1995) is comprised of integrated packages for provision of family planning, safe motherhood, prevention of sexually transmitted diseases and research, data and policy formulation. In its diverse national operational implementations the broad concept of reproductive health is relevant to progress towards many MDGs.

Farm productivity. When the productivity of rural women's time is very low, children are often a net economic asset to the household. Poor children often help in farm chores, including the care of farm animals and the collection of fuel wood and water. As farm productivity rises, however, women spend more time away from the farm in peri-urban activities, and children tend to become net economic liabilities instead, as the mother's cost of supervising the children outweighs the direct economic contributions of the children. Thus, raising farm productivity (and substituting modern fuels and water supplies for traditional sources) can shift the household's preferences towards having fewer children.

Map II.7 and Map II.8: Total Fertility Rates, 1980 and 2000



Promotion of women's rights. Gender equity generally plays an important role in reducing total fertility rates. When women are empowered to pursue their own careers outside of the farm, they tend to choose having a fewer number of children as well. Therefore, social and economic

policies (for example, microfinance programs for women) that empower women and that protect their human rights, can play a direct role in reducing the total fertility rates as well. One of the greatest barriers to the human capital transition is the denial of basic human rights to a significant part of the population, and this applies broadly to women.

The pace of demographic transition and additional population factors (*e.g.*, distribution, migration, age structure) affect the prospects for poverty reduction in multiple and complex ways. Population operates as a scale effect with possible positive implications (*e.g.*, for market development and realization of production economies) and negative implications (*e.g.*, resource dilution, increase in absolute levels of resource needs). It also interacts dynamically, setting constraints and conditions for the diverse components of development captured by the MDGs.

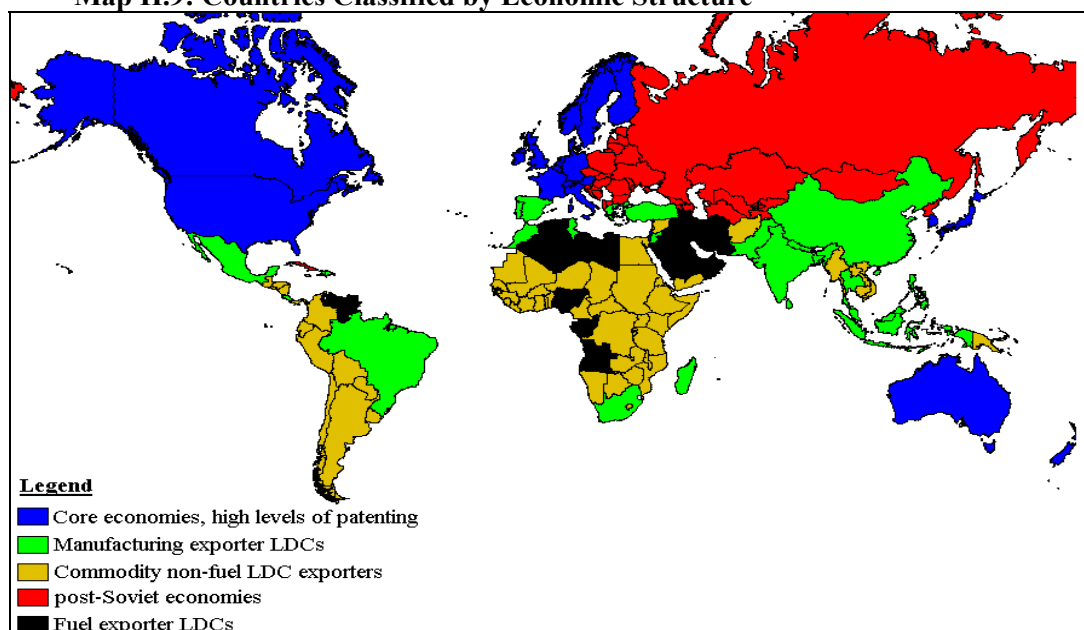
In addition to the demographic transition, the human capital transition depends on scaling up the investments in health, nutrition, and education in the population. Most of these investments are publicly provided, at least for the poorest members of a society. They also have synergies among one another: improving health and education requires related interventions in schooling, family planning, health care, nutrition and water and sanitation. Controlling diarrhoea and measles not only improves health, it also reduces malnutrition. Malnutrition severely undermines a person's capacity to learn and grow, and so has important implications for education and the development of a productive workforce. But control of diarrhoea is affected by improved water and sanitation—as well as by hygienic behaviour fostered by education.

Thus, increasing the capacity of the state to manage and to finance key social investments is critical to success of the human capital transition. Our analytical findings described later put an enormous stress on one basic financial truth: many poor countries are simply too poor to mobilize sufficient resources to meet the basic social needs in the areas of health, nutrition, and education. In order for such countries to succeed in achieving the MDGs, there needs to be a significant increase in official development assistance from donors.

ii. The Industrial Transition

Success—or failure—in economic growth is also closely linked to how an economy is integrated with global markets. Some forms of globalization help produce economic growth, but some do not. Success or failure is less related to a country's initial income than to the structure of its exports. When excluding the post-Soviet and fuel-exporting economies from the calculations, from 1980-98 middle-income countries achieved average annual growth of 1.6%, while low-income countries averaged -0.1%. But many low-income countries, including China and India, did extremely well.

A schematic of the global economy is presented in Map II.9, which divides the world into five categories of countries. First are the countries that demonstrate a high level of economic innovation, as measured by the number of patents per million population, shown in blue. These tend to be the high-income countries. Second are the manufacturing exporter developing countries, shown in green. These are the developing economies that had at least 50% of their exports in the manufacturing sector in 1995. Third are the fuel-exporting economies, shown in black. Fourth are the post-Soviet (or transition) economies, coloured in red. Fifth are the commodity (non-fuel) exporting developing countries, coloured beige on the map.

Map II.9: Countries Classified by Economic Structure

Sources: McArthur and Sachs (2002); WDI (2002); IMF (2002)

One notable element of Map II.9 is the extent to which it matches Map II.6. The darker areas in Map II.6, indicating low or negative growth, map closely to the beige (commodity-exporting), red (post-Soviet) and black (fuel-exporting) categories of Map II.9. Table II.1 breaks down the patterns of economic growth according to the same five categories. Here we see that the main problems in economic growth have come in three types of economies: the Soviet (and post-Soviet) economies that entered into economic transition in the 1990s; the oil-exporting economies, that faced a huge loss of purchasing power from their single or dominant export commodity; and the commodity exporting developing countries. Most of the commodity-exporting countries are located in sub-Saharan Africa, Latin America, and Central Asia. The innovating economies and the manufacturing exporters among the developing countries have, by and large, experienced economic growth.

Table II.1: Economic growth rates by economic structure

Group	Number of countries that grew in GDP pc (PPP) from 1980-98	Average growth in GDP pc (PPP), 1980-98
Technologically innovating economies	18 out of 18	1.7%
Soviet countries	4 out of 12	-1.7%
Fuel-exporters	2 out of 13	-1.5%
Manufacturing exporters	23 out of 24	2.7%
Commodity exporters	19 out of 41	-0.2%

Source: Maddison, Angus. 2001. *The World Economy: A Millennial Perspective*. Paris: OECD (Organization for Cooperation and Development).

These figures underscore the important link between economic structure and economic growth. The question thus becomes: what determines a country's export structure? For our purposes, it's best to put aside the post-communist economies and the fuel exporters, which are largely special

cases, and to focus on the non-fuel, non-Soviet developing countries. What has influenced whether such countries have remained primary commodity exporters, or instead have made the transition to manufacturing exporters and eventually to innovators in their own right?

Once again, there is no single answer, but rather a set of variables which condition whether countries tend to remain commodity exporters or not. The following are the most important determinants:

Trade policies. Simply put, countries that are highly protectionist in their own trade policies are unlikely to become manufacturing exporters. There are several reasons. Most importantly is that international competitiveness in manufacturing exports depends on the ability of potential exporters to buy needed inputs and capital goods at world market prices. If the potential exporting firms are unable to obtain the needed inputs from world markets, or are able to purchase them only at inflated costs (inclusive of high tariffs for example), then the firms are unlikely to achieve international competitiveness. Sachs and Warner (1995) created a measure of overall trade policy openness that is highly predictive of a country's success in becoming a manufacturing exporter.

Overall macroeconomic and business environment. International competitiveness in manufacturing depends on a business environment that is conducive to investment, whether by foreign or domestic business. When property rights are poorly defended, corruption is rampant, and policy instability is rife. In such cases, potential investors will be unwilling to commit funds to industrial projects. Similarly, when macroeconomic instability is chronic (with high inflation, or an overhang of external debt, or frequent crises in public finances), investors will be wary as well.

Geographic proximity to world markets. International competitiveness can be impeded by high transport costs, of the sort that afflict geographically remote regions (e.g. mountains, continental interiors, and remote small island economies). On the other hand, countries that are on international sea routes (e.g. Singapore), or share a border with major economies (e.g. Mexico), or that have a long coastal expanse with easy access to sea-based trade (e.g. Vietnam), are much more likely to attract export-oriented manufacturing investors.

Size of the domestic market. Many industrial sectors have important economies of scale. Such sectors require a large domestic market, or very low-cost trade proximity to world markets, in order to support a competitive industry. Similarly, some of the key infrastructure needed to support an internationally competitive industry (e.g. container port facilities, or major highways) also have important economies of scale. For this reason, industrialization is far more likely in highly populous economies, or in economies with very low transport costs to major markets. Small populations and remote economies will find it much harder to industrialize, especially on the basis of inward foreign direct investment (since potential foreign investors will shy away from these remote small markets).

Table II.2 highlights the importance of basic geography (proximity and size of markets) in recent patterns of economic growth. We expect that remote, small economies will have a much harder time sustaining economic growth than proximate, or large, economies. This is exactly what we find for the period 1980-98. We divide the non-fuel, non-Soviet economies according to population size and proximity to sea-based trade. For these purposes we consider countries to be "small" if they have a population of less than 40m in 1990. "Coastal" countries are those with more than 75% of their populations living more less 100km from the coast. The data highlight how the countries that are *both* small and non-coastal experienced negative economic growth

during 1980-98. Roughly 800 million people live in these geographically stressed economies. The table highlights the crucial fact that it was “good enough” to be either coastal or large to achieve economic growth. The worst combination is being both small and with a population far from the sea. These findings are particularly relevant for Africa, since 33 of the 53 countries counted as small and inland are located in that continent. However, the challenges of small inland economies are similar in other continents as well. Among the non-African small inland countries with data available, only 11 out of 20 grew in GDP per capita (PPP) from 1980-98.

Table II.2: Economic growth rates by population size and location

	Small Countries			Large Countries		
	Number that grew in GDP pc (PPP) from 1980-98	Average growth in GDP per capita (PPP), 1980-98	Population living in Countries that grew (1999)	Number that grew in GDP pc (PPP) from 1980-98	Average growth in GDP per capita (PPP), 1980-98	Population living in Countries that grew (1999)
Inland populations	24 out of 53	-0.2%	379m out of 799m	10 if 10	2.5%	3,087m out of 3,087m
Coastal populations	15 out of 17	1.9%	118m out of 130m	3 of 4	3.2%	341m out of 418m

Source: Maddison, Angus. 2001. *The World Economy: A Millennial Perspective*. Paris: OECD (Organization for Cooperation and Development). [<http://www.theworldeconomy.org/about.htm>]. March 2003.; Gallup, John, Jeffrey Sachs, and Andrew Mellinger. 2003. "Geography and Economic Development." *International Regional Science Review* 22(2):179-232.

D. Poverty Traps: When Economic Growth Fails Systematically

Sustained economic growth requires both human capital and industrial transitions, and therefore depend upon a complex set of dynamics among all the contributing factors. As an example of the links between health and economic growth, consider the average growth in per capita incomes in several dozen developing countries between 1965 and 1995, grouped by their incomes and infant mortality rates in 1965. (Infant mortality is a general proxy for overall disease levels.) In countries starting with per capita incomes below \$750 (in constant 1990 PPP-adjusted dollars) and infant mortality rates above 150 per 1,000 live births, incomes grew by an average of 0.1% a year—while those with rates between 100 and 150 on average grew 1.0% a year and those with rates below 100 grew at an average rate of 3.7% a year. In countries with initial incomes of \$750–1,500, those with infant mortality rates above 150 grew on average –0.7% a year, those between 100 and 150 averaged 1.1% annual growth and those below 100 3.4% annual growth (WHO 2003). Thus, even after accounting for level of initial income, countries with better health conditions were systematically more successful in achieving higher growth. Moreover, economic growth provides more resources to invest in education and health—and as noted, those investments contribute to higher growth. The maps and tables above also suggest that certain places are systematically failing to develop and pursue the conditions through which sustained economic growth can take place. These are places stuck in poverty, places where achieving the MDGs would have the greatest effect.

To understand why certain countries get stuck in poverty traps, one needs to consider a range of factors, including geography, conflict, social exclusion, disease, trade system barriers, debt overhang. Below we discuss each briefly.

i. Geography

We have already outlined that small and inland countries are more likely to become stuck at high poverty levels with slow to little progress economically or socially. This is for much the same reason as Adam Smith explained more than two centuries ago.¹⁰ A country's ability to sustain the complex division of labour required for internationally competitive manufacturing depends on the "extent of the market". There are two ways for a country to have a large "extent of the market." The first is through a large population: countries with small populations tend to have small domestic markets. The second is through low-cost trade with world markets, recognizing that trading costs are strongly influenced by geography. Countries next to major markets (for Mexico, the United States, and for Poland, Germany) or coastal countries with easy access to low-cost ocean shipping have advantages over inland countries far from major markets or ocean ports. This is why the small inland economies face such major challenges, particularly those in Africa that are so distant from major markets.

Geographically-linked challenges can come through other forms as well. Some regions are vulnerable to climatic shocks (such as El Niño) while others are not. Some regions are vulnerable to natural disasters (earthquakes, tropical storms, volcanic eruptions, floods) while others are not. Some regions are prone to environmentally based diseases (malaria) while others are not. Some regions suffering from extreme water stress while others are not. All these geophysical constraints can weigh heavily on an economy—and require policy attention.

¹⁰ Adam Smith, 1776, *The Wealth of Nations*.

On the flipside, geography can be a boon as well as a bane. It is no coincidence that all the East Asian success stories of the late 20th century have access to coasts and major shipping routes—thus access to large markets can help counter the effects of small populations.

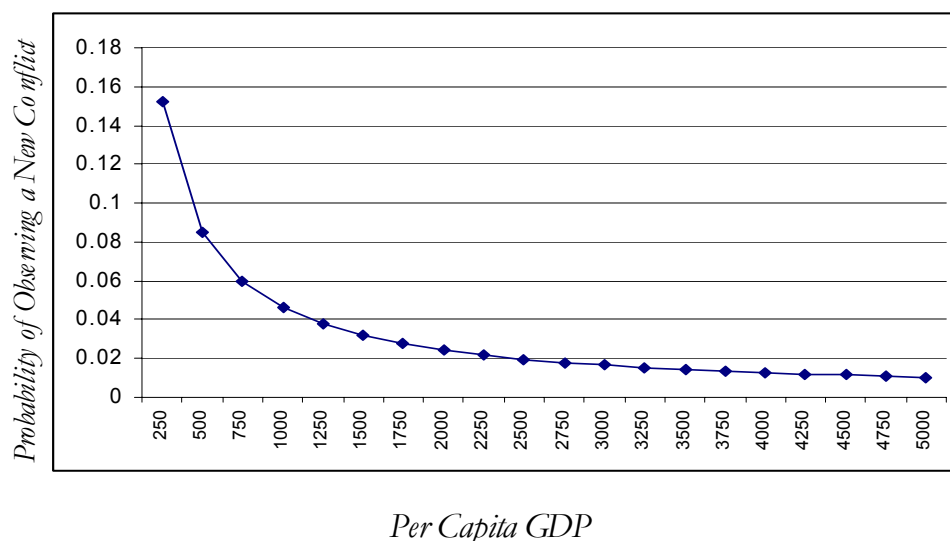
Natural resources—another manifestation of geography—can similarly provide a major boost if their financial dividends are properly managed. The best example is Botswana’s diamond discoveries, where revenues invested in education and health helped a fairly tiny, landlocked country quadruple its per capita income in 25 years (though these advances have recently been hindered by a heavy HIV/AIDS burden).

While geography can pose challenges, it does not define a country’s destiny. The focus on geography here highlights the need for policies tailored to each country’s challenges. With proper policies even the difficulties of small markets—or poor soils, or climatic fluctuations—can be overcome. In geographically isolated countries better roads and communications can trounce many of the disadvantages of distance. In countries with small populations, integration with neighbouring countries can provide the requisite scale for markets. Moreover, rich countries can open their markets to exports from small developing countries. That is how the small or landlocked countries of Western Europe have succeeded: through the close economic integration of the European Union. If an economy is burdened by poor soils, soil nutrient supplements (through fertilizers, leguminous trees, better crop rotations and other means) are needed. And tropical diseases can be controlled through interventions such as insecticide-impregnated bednets to fight malaria. The problem is not that geophysical obstacles are insurmountable. The problem is that they are too often overlooked—and addressing them costs money.

ii. Conflict

One of the most frequently cited but weakly understood links to poverty relates to conflict. Most research shows that economic growth and wealth levels each reduce the likelihood of civil war. Figures derived from World Bank econometric models (Figure II.2) show a striking relationship between the wealth of a nation and its chances of having a civil war.¹¹ The figure suggests that differences in wealth are most relevant among poorer countries. A country with GDP per person of just \$250 has a predicted probability of war onset (at some point over the next five years) of 15%, even if it is otherwise considered an “average” country. This probability of war reduces by half for a country with GDP of just \$600 per person and is reduced by half again to below 4% for a country with income of \$1250. Countries with income per person over \$5000 have a less than 1% chance of experiencing civil conflicts, all else being equal.

¹¹ To produce this graph I use the Collier-Hoeffler (2000) model to predict the expected probability of civil war onset conditional upon different income levels ranging from \$250 to \$5000. To make these predictions I hold all other variables constant at their means. The data and model used are available from Anke Hoeffler’s website (icoll&hoe.zip).

Figure II.2: Probability of a New Conflict Compared to National Income Per Capita

Source: Humphreys (2003), based on data and model from Collier and Hoeffler (2002)

Similar results are found in a model of genocide. That model found that poverty is a strong indicator of genocide risks: the countries most and least likely to experience instances of massive violence against ethnic or political groups at the end of the 1990s, along with indicators of per capita income are indicated in Table II.3.

Table II.3: Countries with Highest and Lowest Probabilities of Genocided or Politicide

Five Countries With Highest Predicted Probability of Genocide or Politicide			Five Countries With Lowest Predicted Probability of Genocide or Politicide		
Country	Income	Predicted Probability	Country	Income	Predicted Probability
Angola	\$230	23%	Japan	\$15,834	0%
Burundi	\$392	9%	Italy	\$13,866	0%
Rwanda	\$628	6%	Austria	\$17,989	0%
Uganda	\$741	5%	Germany	\$15,758	0%
Ethiopia	\$361	3%	Switzerland	\$16,261	0%

Source: Humphreys, dependent variable from Harff (2003)

There are various explanations for why there should be such a strong relationship between violence and poor growth performance, although research to date has done little to distinguish between them. The most common is that wealthier societies are better able to protect assets, thus making violence less attractive for would-be rebels.¹² Conversely, individuals engaged in productive economic activity may have less attraction – for economic or dispositional reasons – to the use of violence to resolve their problems. Related arguments focus on the ability of wealthier societies to engage in more effective negotiation and contract enforcement.

¹² See for example Fearon and Laitin (2003).

Alternatively, poor economic performance may proxy for grievances and frustrations with governmental management.

Of course, the relationship between violence and poor economic performance runs in both directions. A particularly bitter consequence of violent conflict is that one episode of violence leads to greater risks for future episodes, in part through the impacts of conflict on human poverty. This produces a conflict-poverty trap: Poverty and low growth lead to a higher risk of conflict, yet conflicts in turn produce great economic costs and lower levels of growth, at least during the period of conflict. There are multiple channels through which this conflict-poverty trap operates. First, the lack of an industrial transition can link to conflict. There is some evidence that countries with weak manufacturing sectors that rely on primary commodities or natural resources are more prone to conflict. Yet conflict leads to disinvestment and the destruction of capital and increased reliance on primary commodities and natural resources. Second, conflict can be linked to lack of a human capital transition. Poor levels of human capital can lower growth and increase conflict risks, yet conflict can lead to the destruction of educational systems as well as to great losses in health through injury, maiming and the spread of diseases. Third, development policies themselves can be abandoned during conflict, when agendas are frequently abandoned, both by national governments and the international community, whose policies, if engaged at all, focus on relief.

Other, more subtle reinforcing relationships have been identified, although the evidence supporting them is weaker. One such argument is that conflict works through gender inequality: gender inequality may worsen conflict risks but conflict can also weaken women's social and political power).

iii. Misgovernance

Perhaps the most obvious factor that can lead to poverty traps is mis-governance, such as the theft of public property by those in power. The rule of law, sound property rights and public institutions all contribute to the efficient division of labor in an economy and increased returns on investments, so the absence of sound governance structure has clear implications for economic development. However, the link between governance and economic progress is far from absolute. Consider Malawi and Vietnam, for instance. Malawi actually ranks higher than Vietnam on aggregate governance measures, yet Malawi is much poorer (Kauffman et al., 2003). Not unrelated, Malawi as a low-income landlocked country has experienced general economic stagnation while Vietnam enjoys a sustained economic boom, largely since it is well located for exports along a major coastal shipping route. While governance matters for economic development, it is far from the only thing that matters.

iv. Social Exclusion

Related to misgovernance, processes of social exclusion can greatly inhibit a country's ability to grow. When income inequality is high, rich people often control the political system and simply neglect poor people, forestalling broad-based development. If governments fail to invest adequately in the health and education of their people, economic growth will not last, since economies require sufficient numbers of healthy, skilled workers. The nature of exclusion varies by country. In many places it is ethnic groups who are excluded due to long-standing rivalries. In others exclusion is structured along religious or regional lines. In many if not most, women are systematically excluded from the full benefits of social services such as health and education along with the benefits of labor market participation. Women typically suffer this exclusion amidst a high informal work burden at home and in agricultural. (See Box II.1 on the

Feminization of Poverty at the end of this chapter) Inadequate rights for women delay the human capital transition and the industrial transition.

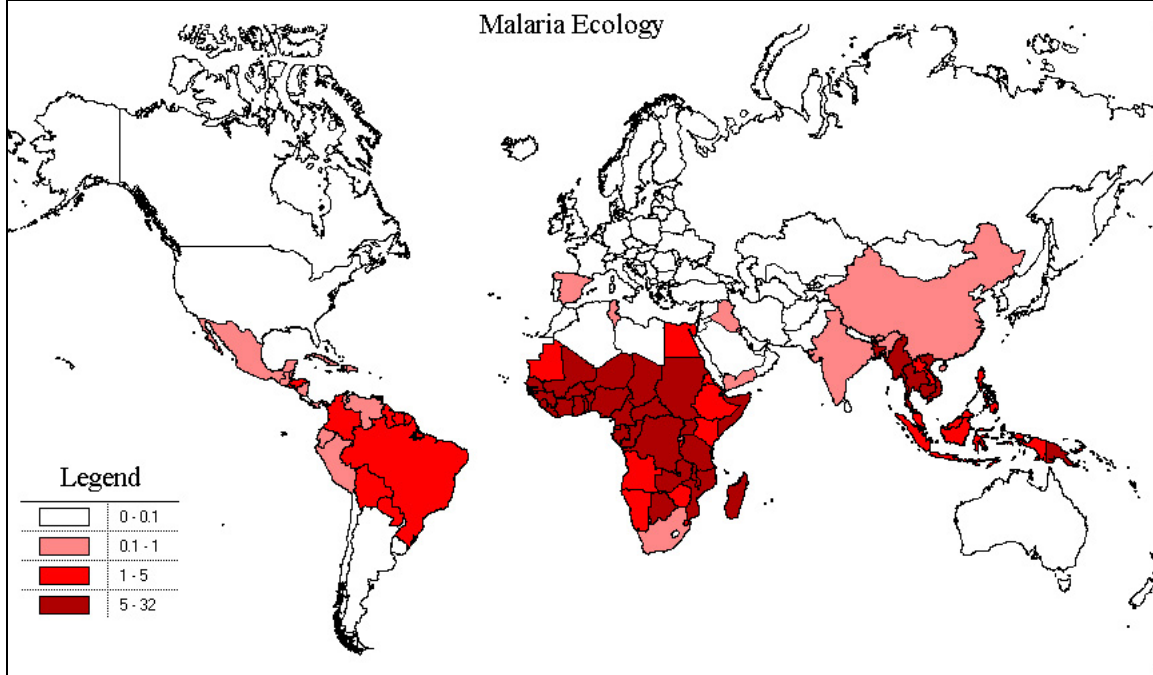
v. Disease

Many low-income countries are burdened by endemic disease, which place enormous burdens on both countries' industrial and human capital transitions. HIV/AIDS, for instance, is now ravaging many low-income countries in Sub-Saharan Africa in particular, infecting more than 20 percent of adults in several countries. Not only does this disease affect labor forces by killing people in the otherwise most productive years of their lives, but it also places huge strains on already-poor families that need to raise orphaned children. These families, typically extremely poor to begin with, cannot afford the basic costs of nutrition, health and education that children require in order to become healthy and productive adults.

Pandemic disease can also be ecologically-based, such as malaria, which is historically the world's greatest killer, taking 1 to 3 millions lives a year, mainly children under the age of 5. This is a disease that again affects both the industrial transition and the human capital transition. In addition to lost work days due to illness, countries with high malaria prevalence tend to have populations further from the coast, partly to be at higher altitudes where the disease is less severe, thereby placing populations at greater distances from major shipping routes than they would be otherwise and raising the costs of trade. Meanwhile foreign investors avoid malarious regions, thus further limiting the chances for manufacturing exports. On the human capital side, countries with higher child mortality rates tend to have higher total fertility rates and lower levels of investment per child, so malaria has a direct negative effect on human capital accumulation.

Although many researchers have argued that malaria is like other poverty-related issues that decrease in importance with level of economic development, most do not understand the way in which the most lethal forms of malaria are linked to specific types of geographies. Map II.10 presents the results of recent research that identifies the exogenous geographic correlates of malaria transmission. Malaria is intrinsically a disease of warm environments because a key part of the life cycle of the parasite (sporogony) depends on a high ambient temperature. This is, in essence, why malaria is a disease of the tropics and the sub-tropics. Falciparum malaria requires even higher temperatures than vivax malaria. Malaria also depends on adequate conditions for mosquito breeding, mainly pools of clean water, usually due to rainfall ending up in puddles, cisterns, discarded tires, and the like. As a result, malaria has a distinct seasonality in the sub-humid tropics, where wet and dry seasons alternate, and mosquito breeding and hence malaria follows the rainy season. Additionally, the intensity of malaria transmission depends on the specific mosquito vectors that are present. All malaria is transmitted by mosquitoes of the genus anopheles. Some anopheles species, especially those in sub-Saharan Africa, show a high preference for taking their blood meals from humans (anthropophagy) as opposed to animals such as cattle. These human-biting vectors lead to much more intensive transmission of the disease.

The temperature, mosquito abundance, and vector specificity can be combined into a single measure of Malaria Ecology (ME), an ecologically-based variable that is predictive of malaria risk (Kiszewski et al., forthcoming). The basic formula for ME includes temperature, species abundance, and vector type. The underlying index is measured on a highly disaggregated sub-national level, and then is averaged for the entire country. Because ME is built upon climatological and vector conditions on a country-by-country basis, and is therefore exogenous to public health interventions and economic conditions, ME provides an ideal instrumental variable for malaria risk.

Map II.10: Global Malaria Ecology, Country-level Aggregates

Source: Anthony Kiszewski, Jeffrey Sachs, Andrew Mellinger, Pia Malaney, Andrew Spielman, and Sonia Ehrlich. "A Global Index of the Stability of Malaria Transmission Based on the Intrinsic Properties of Anopheline Mosquito Vectors," *American Journal of Tropical Medicine and Hygiene*, forthcoming.

vi. Trade System Barriers

Not all factors contributing to poverty are found at the local level. Despite dramatic increases in global trade liberalization over the past five decades, in many instances low-income countries' development is impeded by trade barriers rich countries use to protect their own markets. Unfortunately these barriers – which can take the form of tariffs, import quotas or export subsidies – tend to be imposed on exactly the products where low-income countries have a comparative advantage. The often cited reality of subsidies to European farmers of \$2 a day per cow compared with 2 billion people living at less than \$2 a day puts a good perspective on the issue. The low-income countries most affected by these barriers are the agricultural exporters that compete on protected world markets, such as those for cotton, sugar, and dairy products. Countries in west Africa are particularly affected by these trade constraints that present a clear barrier to economic growth. The situation is different in countries that are net food importers, such as those in east Africa. In these countries a liberalization of international trade would raise the price of important foodstuffs and have uncertain effects on domestic consumers. Barriers to manufacturing exports are also not uncommon, with many developing countries facing increasing tariff burdens for moving up the technological ladder of goods processing in their export structures.

vii. Debt

Persistent debt overhang forms another element of the international system that frequently impedes poverty reduction in low-income countries. Many of the world's poorest countries spent much of the past two decades stuck in a trap of unsustainable debt payments, where debt accumulated by previous governments or under previous economic conditions became too large

to pay after economic collapse. Amidst low savings rates, debt payment spirals have often been set in motion by fluctuations in world interest rates and commodity prices and led many low-income countries into economic crises that lead to social upheaval and prevent long-term expenditure growth in key social sectors. While debt service burdens rose, inflation-adjusted foreign assistance levels per person in the recipient countries declined. As countries entered repeated crises, debt reduction targets were set and re-set arbitrarily, rather than being based on a serious assessment of each country's needs.

Of the 60 countries that required a Paris Club restructuring of debt during 1975-96, a full two thirds were in continuing debt crisis as of early 2002 (Sachs, BPEA 2002). Only 8 countries were neither in remission nor recurrent crises at the same time: Chile, Costa Rica, Equatorial Guinea, Guatemala, Jamaica, Morocco, and Trinidad and Tobago. Notably, it was mainly the low-income rather than the middle-income countries that stayed stuck in debt crisis or debt trap. This problem of chronic debt overlaps closely with the MDG Priority countries in Map II.1: 31 of the 59 MDG top priority and high priority countries are eligible for debt relief under the Heavily Indebted Poor Countries initiative. As of September 2003, only 8 of these countries have so far reached their "completion point" of some debt relief (World Bank 2003a).

When Impediments Combine

It is important to note that some of the challenges outlined above are the product of country-level policies; some are exogenous structural challenges that can be addressed by country-level policy but require sustained effort in order to be overcome; and some are entirely out of the hands of developing country governments. It is likewise important to note that they all combine to affect different countries differently, so no one-size-fits-all explanation will be appropriate for any country. Some countries have bad governance but favorable trade geography and thus grow quickly. Others have relatively good governance but, low soil fertility, a high disease burden and no access to major markets, so they grow slowly or not at all. Some countries have adverse demographic conditions that compound the negative impacts and relations of other factors.

Nonetheless, the main reason why countries get trapped in poverty is that they have insufficient resources to overcome structural challenges and fall short of critical thresholds—in health, education and infrastructure—to achieve self-sustaining economic growth. Many of the High-Priority countries identified in this chapter fall into this category. Though good governance and sound economic policies are needed to escape the poverty trap, they are not enough. In most cases enormous structural constraints must also be overcome to reach the thresholds for sustained growth.

Thus, achieving the Millennium Development Goals in the poorest countries facing structural impediments to growth will require special investments in a wide range of sectors. Better health, education, water, sanitation, roads, ports and power are needed to reach the thresholds required for private, market-based investments. Among other things, Chad and Mali could become successful garment exporters, tourist destinations and processors of tropical agricultural products. But such activities will take off only when health, education and other key thresholds are reached. Productive investments in these sectors will require that development choices be made with an eye to their distributional impacts, so as not to reignite the north-south conflicts that have plagued both countries. In any event, because these countries are much too poor to make these investments on their own, partner countries must provide the financing for economic takeoff

Box II.1: The Feminization of Poverty

The term *feminization of poverty* refers to the differential manner in which poverty affects women. This includes the trend of increasing *incidence* as well as *severity* of women's poverty, and women's different response mechanisms to dealing with poverty. One can consider these effects through both income poverty and non-income poverty channels.

Costs of unpaid work

Poor women are frequently affected by the fact that much of their work is unpaid, and that they perform much more of this work than men. This includes household work, subsistence activities and volunteer care. While this unpaid work makes enormous contributions to households and communities, women are often adversely affected by it:

- High opportunity cost of work. Time spent on unpaid work carries a high opportunity cost, since it inhibits the opportunity to generate earnings, pursue educational opportunities, enhance skills, or engage in leisure activities. As a result, women's long-term economic outcomes are often adversely affected.
- Low health outcomes. Large unpaid work burdens often place great stress on women's outcomes. Household surveys and participatory appraisal analyses have highlighted the fact that rural women consistently cite fatigue and illness due to large work burdens.
- Inappropriate policy responses. Since unpaid work is not included in national income calculations, policy makers and planners do not consider the needs of women in national policymaking and development programming. When decision makers fail to consider the differential impact policies can have on women and men due to their different roles and responsibilities, women can suffer disproportionately.

Non-income poverty burdens on women

Many women suffer from high levels of human poverty not just because they perform so much unpaid work but also because they face additional burdens in the rest of their lives when compared to men. Some examples are outlined below:

- HIV/AIDS: The alarmingly fast increase of HIV/AIDS incidence among women around the world highlights the increasing toll this pandemic is taking on women. In 1997, 41 percent of HIV-infected adults worldwide were women. In 2002, this percentage was reported to reach 50% and even more in the poorest regions of the world. In Sub-Saharan Africa, for instance, 58% of HIV-positive adults were women in 2002 (UNAIDS 2002).
- Unequal access to education. Gender differentials in educational enrolment represent one of the main tools for measuring the feminization of poverty. The recent UNESCO report on the state of girls' education worldwide confirms the validity for addressing educational challenges in terms of women's access to capabilities (UNESCO 2003). The report shows the gender parity index of girls enrolment proportionate to boys remains particularly severe in several African countries: 0.63 in Chad and Yemen; 0.67 in Guinea-Bissau; 0.68 in Benin; 0.68 in Niger; 0.69 in Ethiopia; and 0.69 in the Central African Republic. These statistics reflect the major discrimination against girls' access to schooling that represents a major capabilities constraint for women.
- Unequal access to resources. In many countries, women are systematically denied access to basic economic and social assets. For the rural poor, land is a primary source of income; lack of ownership and inheritance right results in lack of economic independence and restricts their ability to earn incomes. In many countries women perform a majority of the agricultural work but do not possess land title.

Source: Task Force background note by Yassine Fall.

CHAPTER III – POLICY CLUSTERS FOR OVERCOMING POVERTY TRAPS

As the “Millennium Development Compact” outlined, achieving the MDGs in countries stuck in poverty traps will require simultaneous public policy investments in at least six areas. The precise substance of these investments will differ by country, and individual countries will need to place particular emphasis on certain sectors, but they all must be properly addressed in order to break out of a poverty trap. Note that these public investments are presented as a necessary complement to market-friendly reforms that will promote private sector-led economic growth in poverty-trapped countries.

A core “checklist” of MDG policy priorities can be grouped under six policy clusters.

1. Increased public investments in basic human needs

Investments are required in nutrition, health, access to reproductive health services, education, water and sanitation and energy services are needed to foster a productive labour force that can participate effectively in the global economy. In the poorest countries, where GDP per capita is in the range of \$200-\$300, the necessary investments are simply too large at an absolute scale to be supported through domestic resources alone. For instance, the World Health Organization’s Commission on Macroeconomics and Health estimated that \$35-40 per person is the minimum level of expenditures required to sustain a public health system.

In a country like Mali, which has a GDP per capita of less than \$200, this would be equivalent to 20 percent of the country’s entire GDP, or roughly three times as much as is spent as a share of GDP in most rich countries. Countries generally spend more on social services as a share of GDP as their income goes up and more resources become available, so the *level* of \$35-40 per capita is simply too great for the poorest countries to afford on their own. Typically the poorest countries in Africa spend \$5-10 per capita on public health systems, so even if those expenditures are doubled, those amounts will not be adequate to maintain minimal health systems, particularly in countries being ravaged by the HIV/AIDS pandemic. To develop the necessary public systems, these countries require external resources that can only be provided by donor countries. Therefore this policy cluster needs to be built upon two components. First, it requires an assessment of a country’s social service needs in order to achieve the MDGs. Major gains in health, education and social service provision can and should be achieved well before per capita incomes rise substantially. Second, it requires an assessment of what resources can be mobilized domestically to finance the public needs and what resources must be mobilized from external sources to finance the needs.

2. Increased emphasis on human rights for women and other excluded groups, with a special focus on the critical role women will play in achieving the MDG

The second policy cluster entails a rights-based approach to poverty reduction, one in which historically excluded or disempowered groups are given a greater emphasis in policy making and are given a greater voice in decision making. This applies to ethnic and religious groups and poor people often removed from the benefits of policy-making in many countries. It applies pervasively to girls and women, who typically bear the most severe burdens of extreme poverty and who hold many of the keys to leading families out of poverty.

Many policy decisions, such as rights to land tenure and asset ownership, can benefit women and their families directly. A large majority of the world’s poor farmers are women, but in many countries they do not have the rights to own land or assets and thus are not able to invest properly

in the land they till, thus impeding desperately needed improvements in agricultural productivity. Exercise of the human right to determine the number, timing and spacing of children also ameliorates the dilution of household wealth, the gender-based dynamics of power and of economic and social participation and the capacity of family members to translate wealth improvements into quality of life gains. Similarly, education for girls can be a hugely productive investment for economic development since it affects everything from future productivity in employment to child-bearing decisions and family health outcomes. Yet education policies often pay too little attention to the specific incentives that will promote girls' enrollment, including school feeding programs and "take home rations" for girls, subsidies targeted at girls' parents, and access to separate girls' toilets in schools. Beyond the education sector, investments to prevent unwanted pregnancies facilitate longer school careers uninterrupted by domestic chores (whether as mother or as care-helper). Moreover, the global epidemic of violence against women represents an ongoing catastrophe in many societies, clearly limiting women's opportunities to make decisions, but its prevalence remains a taboo point of discussion and thus its overall effects are poorly understood.

Nonetheless, such basic attention to the needs of girls and women are crucial to reducing poverty. They are independent of, and in addition to, the need for women to be included in larger policy-making processes, where access to influence and power typically remains the domain of men.

3. Promotion of rural development through small farm productivity in marginal agricultural lands

A first step in economic progress often involves increasing productivity among poor small farmers. This can happen when market forces yield agricultural advances or governments invest in research and development. Poor farming households often produce food for their own subsistence, with little left over for the market. So, increasing agricultural productivity—say, through improved seed varieties and fertilizers, as during the green revolution of the 1970s—raises household income and nutrition. It also enables poor households to invest more in their children's health and education. Many of these children end up migrating to urban areas, particularly since food needs can now be met by fewer (but more productive) farmers.

In regions where agricultural productivity per capita is stagnant and large proportions of the population are farmers struggling in extreme poverty, farm yields can be raised by introducing improved extension technologies, including better seeds, better use of fertilizers, better tillage and crop rotation systems and improved pest and soil management. It can also be raised by improving rural infrastructure through irrigation systems, storage and transport facilities. Roads connecting villages to larger market centers are also critical for agricultural development in addition to external trade. They decrease the effective cost of inputs like fertilizers and increase farmers' ease of transporting goods to markets. Long-term productivity gains furthermore require security in land-holding to protect the rights of farmers and provide them with the incentives to invest in land improvement. In sub-Saharan Africa, such improvements in agricultural technology could combine to form a necessary agricultural revolution for the region, akin to the Green Revolution that occurred in South Asia in the 1970s but never took hold in Africa. Local scientific institutions will also need to be bolstered to develop new technologies that will contribute to long-term increases in agricultural productivity.

Of course, increasing food productivity alone will not address the full effects of hunger on poverty and economic growth. "Pro-poor" agricultural investments should be coupled with other food and/or cash interventions that improve access to food for those very poor (extremely small

landholders or landless poor) who remain unable to meet their consumption needs even when agricultural productivity increases.

4. Promotion of competitive urban business environments

Even under conditions of sustained macroeconomic stability, without any special policy stimulus it is difficult for small poor countries to gain a foothold outside of the primary sectors in the world economy, particularly if they face high transports costs in trading with major markets. For many economies stuck in the production of agricultural and other commodities, a transition to urban-based manufacturing and export-orientation in the global economy requires active policy stimulus, including investments in infrastructure, open trade policies, and an emphasis on the promotion of science and technology suited to local needs. Urban infrastructure requires efficient roads, railways and, where appropriate, ports – with operations and maintenance critical to maintaining service levels. As described above, many structurally distressed regions suffer not only from weak infrastructure that is directly linked to poverty levels but also from their particularly large infrastructure needs. Landlocked countries, for instance, are highly dependent on roads and railways for transporting goods to other markets. In countries with small populations, this need is amplified by lack of internal domestic market scope and the need to link to external economies. Thus small inland countries like Burundi and Rwanda are highly dependent on their road links through Uganda and Kenya to the port of Mombasa.

In terms of broader policy environments for urban growth nodes, governments need to stimulate private firm growth. Many development success stories, such as East Asia's tiger economies, the Dominican Republic and Mauritius supported the development of non-traditional industries through tax holidays, export processing zones, special economic zones, science parks, targeted funding for research and development and infrastructure, investment tax credits, and subsidies for the imports of physical capital.

5. Increased focus on rural environmental management

Since many of the world's poorest places suffer from enormous climatic variability and vulnerability, ecological management must form a core component of any national MDG policy. In rural areas, this must include reforestation, biodiversity preservation and watershed management. In tropical and subtropical regions vulnerable to climate shocks like El Nino, the impact of long-term climate change must also be considered and planned around (as much as possible). In countries with coast lines and large bodies of water, policies must address the needs of coastal protection, fish stock protection. Investments are also needed in local scientific capacity to monitor and manage rural ecosystems.

6. Increased focus on urban environmental management

Many urban areas in low-income countries are already under extreme stress due to inadequate infrastructure and environmental services. This strain will only grow as urban populations increase dramatically in coming decades. UN projections suggest that urban populations are growing so much faster than rural populations that 95 percent (UN 2002a) of the growth in the world's population between 2000 and 2010 will be in urban areas and virtually all of this growth will be in Africa, Asia and Latin America. Thus long-term poverty reduction strategies policies must emphasis large scale infrastructure required to maintain urban environments. This includes waste treatment, garbage collection, indoor pollution control and outdoor pollution control. Many of these interventions need to be provided by tripartite partnerships between national governments, local authorities and communities. In particular local authorities or municipalities

tend to be woefully underresourced and understaffed in most low-income countries. Resources need to be allocated in line with the complexities inherent in managing large cities.

Additional points to help guide policymakers across the six clusters

Across the priority policy areas listed above, decision makers need to incorporate several key principles into their MDG planning.

- **The MDG time horizon: Planning for the 2015, and beyond**

The processes of poverty reduction are complex and only proceed with considerable time. Thus planning for MDG success requires a long-term outlook. In many countries, it will take several years to lay the water pipes necessary at the scale of MDG achievement and likewise to construct the required electrical grids and fuel distribution systems and to pave the needed roads. Large scale human capital also requires several years to develop. Health care workers, teachers, and public sector managers all require training, just as schools and post-secondary institutions require intensive planning and construction. In countries where skilled workers are particularly scarce, it will take many years to train these public service professionals.

While this point might seem obvious or simplistic, it is important to stress that it is not addressed in the world's current poverty reduction processes, such as the Poverty Reduction Strategy Papers, which typically focus on a three or four year horizon. In such short-term horizons which emphasize budget monitoring and fiscal accountability, policy making is limited by perceived excessive emphasis on "capacity constraints." In longer-term planning horizons, one can ask and answer questions of how to build capacity to overcome human resource, infrastructural and management constraints. Therefore, while there is a clear rationale for three-year budget planning horizons, and of course annual budgets themselves, these horizons need to be anchored in 10-15 year national plans that outline how countries will achieve the MDGs. PRSPs and other core poverty reduction processes can then proceed within a long-term context and be adjusted over time as successes in the long-term plan are identified and weaknesses addressed.

- **Demystifying capacity constraints**

One of the most frequently-cited impediments to scaling up public investments is "lack of absorptive capacity." However, the components of capacity constraints are usually not described specifically and therefore left ambiguous regarding how they can be overcome. Moreover, even when capacity constraints are specified, it is typically within an implicit horizon of three-year constraints rather than long-term constraints. Many constraints, such as systems to train skilled health care professionals, cannot be adequately addressed within two to three years but can be addressed over longer periods. In pursuing the six policy clusters, governments need to demystify local capacity constraints by mapping out the details of how they will build up their capacity – including physical infrastructure, human capital and management systems.

When developing capacity scale-up programs, as the WHO Commission on Macroeconomics and Health (WHO 2001, pp. 69-72) outlined for the health systems, plans need to distinguish between constraints more amenable to solutions through increased financing and those where money is less the crucial obstacle. In the latter category, national governments marked by lack of planning and a lack of concern for development will pose a fundamental barrier to capacity-building. In the former category, many components of management can be further

disaggregated into differing horizons. The community-level availability of supplies and physical infrastructure, for instance, can be developed fairly quickly. Meanwhile strengthening the skill base and management practices of central government systems will frequently require sustained period of investments.

- **Differentiated assessments for rural and urban needs**

Two of the six policy clusters – on agricultural productivity and urban management – explicitly address the need to focus on the unique needs of rural and urban areas. The other five clusters must also differentiate between rural and urban needs. In social sector investments, for instance, service delivery mechanisms for rural areas will need to be based on very different strategies from those implemented in urban regions in order to reach less densely populated areas most effectively. In some areas, such as water services, entirely different technologies will be needed in rural than urban areas. In many countries rural water supply can be assured through individual dug wells (or tube wells if the water table is very low), whereas in urban areas larger scale water distribution networks are typically required. For sanitation, rural systems tend to be based on individual units, such as pit latrines, that only require local investments, while urban systems often require larger scale sewerage systems with significant core trunk infrastructure. Similarly, expanded energy service systems need to be optimized based on population density served, marginal cost of service extension and basic needs for health or productive economic activities. Urban energy demand should be mainly satisfied through connections to the central electricity grid (except for cooking needs), whereas in rural areas the focus will need to be on off-grid solutions (including microgrids and solar panels). Regarding cooking fuels, indoor air pollution is a major concern in both rural and urban regions but outdoor air pollution is primarily a concern of urban areas. As a result some cooking technologies that might be acceptable in rural areas (e.g., lignite coal stoves with gas exhausts) cannot be applied in urban areas. Road needs are also distinct in rural versus urban areas, with maintenance of essential high-traffic road corridors forming a priority for urban centers while feeder road expansion is the priority in rural areas.

- **The need for regional integration**

For many poor countries, particularly those with small populations and large structural challenges to benefiting from the global economy, national-level policy making must be integrated with regional policy making. This need is clearest in the infrastructure sector, since the transportation of traded goods requires cross-border roads and railways. As one example, landlocked Mongolia neighbors China, the world's fastest growing economy, but its railway infrastructure is problematic for trade since the two countries use different rail gauges. Shipments need to be unloaded and reloaded at Zamyn Uud when crossing the border, thus adding tremendously to transport costs. Developing a consistent rail gauge system would help Mongolia enormously. In the former Soviet republics of Central Asia, where core infrastructure was built on railway networks aimed northward to the key cities in Russia, entirely new transport networks are needed to foster integration with southern neighbors and international markets.

As another example, exports from Burundi and Rwanda, two of the world's poorest countries, are highly dependent on the Northern Corridor road to Mombassa, Kenya. Uganda is similarly dependent on the transit route (Faye et al 2003). It is likely not coincidental that exports as a share of GDP decrease progressively as one moves further inland along the main transit road – in 2001 the ratios were 26 percent for Kenya, 12 percent for Uganda, 9 percent

for Rwanda and 6 percent for Burundi. Rwanda and Uganda all face limited returns to their own infrastructural investments if Kenya does not make complementary investments in physical infrastructure. Of equal importance, these countries need to coordinate administratively to ensure border-crossing procedures are as efficient as possible and help to limit transport costs, particularly for goods with already low value-to-weight ratios.

Importantly, regional integration includes more than infrastructure coordination. It also includes regional market access in order to even, in countries with high disease burdens and high labor mobility, coordination in public health interventions. On the latter point, for instance, countries in Southern Africa with large populations affected by HIV/AIDS and large numbers of seasonal and migrant workers need to develop coordinated HIV/AIDS treatment and prevention protocols.

- **The need for energy services**

Although not included explicitly in the MDG framework, energy services are essential for achieving the Goals, and thus must be a core component of any country's national MDG plan. Energy services are required both to support the productive activities linked to economic growth and income poverty reduction and also to help achieve the other non-income MDGs. Therefore countries need energy service provision targets to meet non-income MDGs. As Box III.1 describes, improved energy fuels are crucial for reducing health risks (*e.g.*, of indoor air pollution), freeing up girls' time from fuel and water collection to enroll in school, freeing up women's time to engage in economically productive activities, decreasing the consumption rates of natural resources such as fuel wood, and increasing economic opportunities and health outcomes in urban areas. The Task Force has recently initiated a workstream on energy needs for the MDGs, developing a framework for determining electricity and cooking fuel needs, along with a range of suitable MDG-consistent technologies for rolling out these needs.

Box III.1: The Essential Role of Energy for the MDGs

Developing a modern energy system will be an ineluctable component of any plan that aims both to achieve the reduction of human poverty to which the MDGs aim and to position an economy or sustainable long-term growth. (World Energy Assessment, UNDP, 2000). Energy services are critical for several of the MDGs.

Energy Services save time:

The mechanism by which modern energy services may directly contribute to economic growth and poverty reduction is through the potential freeing up of time for other productive activities, creating the possibilities of small enterprises, enhancing agricultural productivity and replacing existing inherently inefficient biomass fuels. A recent study in rural India (ESMAP 2002) found collection time for wood to be 37 hours/month.

Rosen and Vincent (1999) report that households (primarily women) spend an average of 134 minutes/day collecting water, and that the time saved by bringing water supplies closer to households is likely to dominate estimates of the benefits of improving rural water supplies. Modern energy services through use of electric or fuel-operated pumps can make it easier to bring water supply closer to home.

Box III.1 (continued)*Energy and Education*

For school-age girls modern energy services could mean more time to go to school and time for after-school study. King and Alderman (2001) summarize studies that show that in Ghana, Tanzania, and Zambia, women account for two-thirds, and children—mostly girls—spend between 5 and 28 percent, of household time devoted to water and fuel collection. They also report that investments in time-saving infrastructure benefit all household members, and girls in particular as in rural Morocco where having wells or piped water increases the probability that both girls and boys will enroll in school.

Schultz (1993) also suggests that girls are constrained in their schooling in part by the demands placed on their time and suggest that the use of electricity and refrigeration could reduce households' dependence on the labor of girls. Reflecting the complexity of the problem Glick and Sahn (1999) argue that an increase in incomes is also an important factor since even when electricity access is available in urban areas, domestic work obligations continue to limit female schooling for the very poor.

Energy and Health

There is also increasing evidence that the use of solid biomass fuels for cooking in indoor environments, especially in poorly designed stoves and in inadequately ventilated spaces can lead to an increased disease burden. Once again where women, including mothers with young children, carry out disproportionate amount of cooking activity they are also likely to share a disproportionate disease burden. There has been substantial recent progress made in measuring, examining, documenting and attempting to identify quantitative links between use of solid cooking fuels and the associated disease burden¹³.

Smoke produced during the combustion of solid fuels contains a number of pollutants such as particulates, carbon monoxide, benzopyrene, formaldehyde, and nitrogen dioxide. In households with limited ventilation (as is common in many developing countries), exposures experienced by household members, particularly women and young children who spend a large proportion of their time indoors, have been measured to be many times higher than health-based WHO guidelines and national standards (Bruce et al. 2002; Smith et al 2003). Exposure to small particulates (smaller than 10 microns in diameter) is believed to be a risk factor for acute respiratory infections (ARI) and acute lower respiratory infections (ALRI). There also appears to be association of exposure with chronic bronchitis [assessed by symptoms] and chronic obstructive pulmonary disease [COPD - progressive and incompletely reversible airways obstruction] particularly among women. Smith et al (2003) also report evidence from China on increased evidence that exposure to coal smoke in the home markedly increases the risk of lung cancer, particularly in women. Evidence, though tentative, of possible risks of other important child and adult health problems, such as low birthweight babies and cataracts in adults is also reported.

Choosing Technologies

Determining which energy services are “MDG-compatible” defines the range of interventions governments can take to facilitate the realization of the MDGs. For lighting, electrical lighting,

¹³ Several leaders in this field, Kirk Smith, Dan Kammen, Majid Ezzati and Nigel Bruce to name a few have carried out much of the work and reviewed recent progress. Moreover organizations such as the WHO and the World Bank have also actively tried to document these linkages

Box III.1 (continued)

LPG gas lamps and kerosene hurricane lamps are all MDG compatible as they are clean burning and adequately luminous to allow family members to read and perform basic productive tasks at night (such as sewing, weaving or de-husking). For cooking energy services, criteria for MDG-compatibility are the impact on air pollution, the efficiency with which the energy is converted into useful heat for cooking, and the burdens imposed on both people and the environment in fuel collection. In many countries, a vast majority of residents, especially in rural areas, cook with unprocessed biomass fuels such as agricultural residues or wood using traditional three-stone fires. A number of interventions have been studied and implemented to reduce household exposure to indoor air pollution. In the absence of switching to LPG and kerosene the most widely implemented one is the promotion of improved stoves that emit fewer pollutants than traditional stoves. Other interventions include improving household ventilation, promoting practices that reduce fuel use, and altering childcare practices to keep children away from the kitchen during cooking times.

In addition to these lighting and cooking interventions, the undeniable comparative advantage of electrification as a platform for sustained economic growth warrants special consideration. Electricity's greatest advantages are its versatility, scalability and low marginal usage cost. Whereas providing an LPG lamp and cooking stove can provide cheap and clean cooking and lighting services, electricity can additionally power communication equipment such as radios and televisions, simple engines such as sewing machines for productive purposes, or a fan to provide ventilation for the sick. Similarly, electricity is remarkably scaleable—a household with access to grid-connected electricity can easily and cheaply add bulbs to light additional rooms, and add additional sockets to power devices. Providing incremental energy through electricity is also much cheaper (once the initial connection cost has been paid)—for example, providing light in an additional room costs at least three times more using kerosene or LPG, than it does with electricity.

Gas and LPG produce far less potentially detrimental emissions at least to the immediate user than wood or dung. There are numerous benefits to switching to modern cooking fuels such as LPG including reduced daily transport effort. The overall scale of the problem is manageable and not limited by world resources or by GHG emissions. The scale can be recognized by Kirk Smith's (Science, 2002) observation that "even if all 2 billion people shifted to LPG for household fuel, it would add less than 2% to global greenhouse gas (GHG) emissions from fossil fuels. In terms of human health, a shift to LPG would actually result in a net reduction of human exposures to air pollution that would be substantially larger than today's total exposure from all fossil fuel emissions".

Sources: Ezzati, M. and D.M. Kammen (2002) "Evaluating the Health Benefits of Transitions in Household Energy Technologies in Kenya," Energy Policy, 30 (2002), pp. 815-826; McKinsey and Company (2003), Background note for Millennium Project; Warwick, Hugh and Alison Doig (2004) "Smoke—The Killer in the Kitchen," ITDG; Modi, Vijay,(2003) "Energy and the role of roads and transport for rural development: Interim Report," Task Force Background Note.

- **Core macroeconomic constraints – including debt and vulnerability to external shocks**

Low-income countries are typically bound by macroeconomic envelopes that were established without alignment to the MDGs. Most countries are therefore used to developing macroeconomic frameworks based on very tight constraints, due either to constraints imposed through structural adjustment financing or even through debt relief programs. To achieve the MDGs, governments need to assess their policy goals not in terms of the resources currently available, but in terms of the resources needed to achieve the MDGs. They must then work with international financing partners, including the IMF and World Bank, to develop the new macroeconomic framework that will allow MDG achievement under conditions of macroeconomic stability. For heavily indebted poor countries (HIPCs) in many instances this would imply a full cancellation of past debts based on the need to invest in the MDGs, instead of the current system of monitoring debt performance based on the entirely arbitrary ratio of debt to exports. As just one example of the many weaknesses to this indicator, the debt relief “performance” of HIPC countries exporting primary commodities is linked explicitly to fluctuations in world commodity prices. Thus if an African country exporting coffee sees the world price of coffee decrease due to the entry of new producers and thus the value of its exports decrease, its debt to export ratio shoots up with no change in the debt level.

They would also include assessments of vulnerability to external economic shocks and identification of social safety nets that might need to be implemented to support vulnerable groups. As Annex 1 outlines, social safety net instruments need to be implemented before crises occur, with a particular focus on protecting a country’s poorest people. During crises, social spending for vulnerable groups needs to be maintained and key programs protected. Poor people’s short term income support and access to social services during economic crisis can be planned for in national budgets, alongside important institutional design issues. As Annex 2 outlines, macroeconomic policies also need to focus on labor-intensive strategies that increase opportunities for employment, particularly of young people.

- **A Focus on Conflict Prevention**

Low-income countries also need to attend to managing and preventing social tensions that can lead to conflict and thus exacerbate poverty. However, studies of conflict onset suggest more specific recommendations for conflict prevention that have implications for the types of policies that should be selected to achieve the MDGs. This includes a focus on¹⁴

- **Distribution.** Large scale violent conflict requires political organization. This in turn typically requires that disaffected groups can organize around identity categories—around region, ethnic group or religion. The structuring of disaffection around such categories facilitates the organization of violence, but it can also lead to social polarization and greater likelihoods of extreme violence. Avoiding polarizations of this form requires that policies be selected as a function not just of their impacts on poverty but in light of their distributive impacts on politically relevant categories. In the case of

¹⁴ Many further recommendations have been developed by the Carnegie Commission on preventing deadly conflict (<http://www.wilsoncenter.org/subsites/ccpdc/index.htm>) and the Global Action Program (www.globalactionpw.org)

growth-enhancing policies that are likely to produce regional inequalities, there are two types of responses: either provisions should be made to provide compensatory, although possibly inefficient, investments in disadvantaged areas; or steps should be taken to facilitate migration to growth areas and return of remittances. The aim of mitigating the effects of uneven development can be further facilitated by tracking the progress towards achieving the Goals for different groups in at-risk countries.

- **Promoting Budget Transparency.** The grievances that give rise to conflict often derive from perceptions of corruption by governments or beliefs that control of the state provides large private benefits. The best way to counter these grievances is for the institution of more transparent budgetary processes. Promoting budget transparency is also a key measure in directing resources towards the attainment of goals instead of towards supporting of private interests. Human Rights Watch, for example, has estimated that 4.2 billion dollars in state oil revenue went missing from Angolan government coffers between 1997 and 2002. In cases like Angola, publication of payments to government requires cooperation of both governments and international corporations and can lead both to lower levels of grievance and more efficient public investment.
- **Strengthening Political Institutions.** MDG policies should, when possible be used to strengthen political institutions rather than avoid them. The principle aim is to strengthen institutions rather than the people who head them. Essential to state strength, and to the control of the state by citizens, is the development of strong linkages between taxpayers and state structures. In the context of the MDGs the chief concern is to ensure that increases in aid flows should not result in the weakening of institutions for domestic taxation. Other priority sectors for state strength include transportation linkages, especially road infrastructure, local police services and linkages between local and national authorities. Projects and proposals touching on these areas should be evaluated in light of their impacts on institutions of state.
- **Tackling the Arms Trade.** There is an inconsistency in the fact that wealthy countries focus on conflict prevention and resolution yet continue to be major sources of poorly regulated arms flows to at-risk countries. Present policies to tackle illicit arms sales are failing. Besides normal police work, there is a need for better monitoring of the sale of arms by producer countries via the standardization of end user certificates. This monitoring should be accompanied by the compilation and publication by the UN on violations of end-user certificate provisions.
- **Monitoring of Conflict Risks.** Support at the national level for achieving the MDGs should take account of future conflict risks in recipient countries. Awareness of these risks can allow for MDG policies to take special account of their implications for conflict as well as of their expected effects on at-risk groups. Multiple early warning programs exist ranging from political risk assessments, that monitor risks to central government, to Demographic Information Monitoring systems that can be used to identify the timing of the arrival of large cohorts in vulnerable age groups that are associated with conflict. National MDG programs should take explicit account of concerns raised by these programs regarding high risk regions in their countries and indicate how proposed MDG policies will impact on conflict risks that have been identified.

CHAPTER IV – OPERATIONALIZING THE MILLENNIUM DEVELOPMENT COMPACT: AN ENHANCED STRATEGY FOR MEETING THE MDGs

The sections above have emphasized the basic dynamics of poverty reduction, the general conditions in which poverty reduction fails, and the core principles that need to drive poverty reduction policies – all with a focus on identifying the centrality of the MDGs and how the MDGs can be achieved. This section outlines an operational framework at the, country and international level, through which developing country governments, working closely with development partners, could develop and implement long-term strategies to achieve the Goals.

The basic principle underlying the MDGs is to create a goal-oriented international partnership that can help the poorest countries break out of poverty traps. As already suggested in this report, this includes two novelties compared to current international development practice. First, it implies that development processes and policies need to be targeted to achieving the MDGs. Second, it implies partnership in the international community, with improved developing country policies and institutions being matched by coordinated increases in donor assistance, improved rules of international trade, and more active engagement of the international scientific community.

The international system has not yet organized itself to work systematically towards achieving the MDGs through joint efforts by rich and poor countries as well as the international organizations. As a result, there is little goal orientation in the critical international agreements that guide development assistance. In fact most international organizations and bilateral donors do not systematically align their work with the Goals. As one example, the IMF Executive Board receives no systematic information on progress or lack of progress towards the MDGs in low-income countries that have an IMF Poverty Reduction Growth Facility (PRGF).¹⁵ Nor does the IMF staff conduct an analysis of how the country's budget framework should be altered to achieve the MDGs.

There is also little international partnership to date in support of the MDGs. While there is considerable rhetorical attention to the MDGs and specific commitments have been made at several recent international conferences (including Doha, Monterrey and Johannesburg), the actual processes within countries and at the international level are not aligned with the goal of achieving the MDGs. Donor assistance has only slightly increased in the past two years, and is poorly targeted and coordinated to support the MDGs.

Based on the two core principles of goal-orientation and international partnership, we now turn to the Task Force's main operational recommendations. We propose a country-level planning framework that would systematically enable all countries to achieve the MDGs, provided minimum standards of good governance relative to the country's per capita level of GDP are in place. While the precise operational details will differ from country to country and likely evolve over time, the following lays out a core set of guidelines through which the multilateral institutions, developed country governments, developing country governments and civil society could be aligned to ensure all countries reach the Goals.

¹⁵ There has, however, recently been an indication that in early 2004 IMF staff reports will begin to include standardized country-specific MDG evaluations.

1. Country-level processes to roll-out national MDG strategies

This report has already established the need for MDG planning and progress to take place at the country level. The Monterrey consensus outlines how developing countries that commit to good governance and poverty reduction will receive increased support from donor governments in order to achieve the MDGs. To actually achieve the Goals, developing country governments need to follow a two-stage planning process.

Needs Assessments: First, each low-income country should conduct a needs assessment that compares its current situation with MDG targets and identifies the combination of public investments that would enable the country to achieve the MDGs by 2015. This needs assessment will identify the particular obstacles faced in each country that are preventing faster economic development and greater progress towards poverty reduction, covering each of the six policy clusters outlined earlier in this report.

As a first approximation of what a national MDG needs assessment would look like, the Millennium Project has recently worked with local partners to conduct such MDG evaluations for five countries: Bangladesh, Cambodia, Ghana, Tanzania and Uganda.¹⁶ In each of these countries, the Project and local research partner built upon international best practices to identify, in as much detail as possible, the input targets that would be needed for each country to achieve the MDGs by 2015. These estimates cover hundreds of *interventions*, defined as goods, services and infrastructure that need to be provided to meet the Goals. Examples include the provision and operation of rural medical clinics, medicines, sanitation services, textbooks, and school uniforms; the training and employment of skilled professionals; and the construction and maintenance of physical infrastructure. Note that a needs assessment is *not* the same as a policy plan of institutional design, but instead forms a basis for designing policy.

Crucially, a needs assessment provides a framework for scaling up activities over the full MDG time horizon, from 2004 through 2015. The estimates also include local unit costs to assess the financial resources needed to achieve the Goals. In addition to estimating the total needs for meeting the MDGs, the country case studies develop a simple financing strategy, which explores the extent to which domestic resource mobilization towards meeting the MDGs can be increased.

Building Policies Around Needs Assessments: Second, each country needs to develop a long-term (10-12 year) policy plan for achieving the MDGs. Policies identified in this stage will need to be developed through domestic consultative processes and will need to build upon the results of the MDG needs assessment to identify the mechanisms for delivering necessary goods and services. In many instances this stage will require countries to align their long-range policy plans much more concretely with the MDGs than is currently the case. Next each country needs to construct its medium term (3-5 year) poverty reduction strategy (PRS) and, where appropriate, its Poverty Reduction Strategy Paper (PRSP) based on the long term MDG plan. Both the long-term and short-term plans will then need to be periodically reviewed and revised as countries learn from their scale-up experiences and fine-tune policies towards the MDGs.

Note that this does *not* suggest creating new poverty reduction processes. It does imply formulating and revising the content of current approaches based on needs assessments. For

¹⁶ The Millennium Project Working Paper, “Millennium Development Goals Needs Assessments: Country Case Studies of Bangladesh, Cambodia, Ghana, Tanzania and Uganda.” January 17, 2004 version is available online at http://www.unmillenniumproject.org/documents/mp_ccspaper_jan1704.pdf.

instance, PRSs are typically three-year financing frameworks, so they need to be built into the national 10-12 year financing plan for MDG achievement. Likewise national budgets need to be built in line with the MDG achievement.

It is crucial to note that current PRSs are not formulated in this manner. Instead, governments in low-income countries are advised by the Bretton Woods institutions to prepare PRSPs on the basis of existing development assistance availability. If existing development assistance flows are insufficient to achieve the MDGs, as is the case in most countries, then the developing country governments are encouraged to be “more realistic” in their targets. That is, they are encouraged to “accelerate *progress towards* the MDGs” rather than to *achieve* the MDGs.¹⁷ Thus the current PRSP process does support progress, but that progress is only directional rather than truly goal-oriented. The difference between the current process and the Millennium Project’s recommendations are presented schematically in Box IV.1. This box illustrates the the lack sufficient goal-orientation in current PRSs. It also highlights a deeper point – that current processes do not encourage countries stuck in a poverty trap to make the large scale public sector investments necessary to break free of the poverty trap and to achieve the MDGs.

In summary, the PRSP process needs to be streamlined with long-term national MDG plans if low-income countries are going to achieve the Goals. Beginning in 2004, low-income countries preparing or revising their PRSPs should be invited by their development partners to prepare them based on a rigorous MDG needs assessment. The PRSPs should identify priorities in three areas: domestic policy reforms, increased public investments, and reforms in international trade. The PRSPs should be built on a 12-year horizon, through to 2015, even though the financing commitments from donors and international agencies will be much shorter. Only the 12-year horizon will allow appropriate planning by both the countries themselves and by donors to allow for the gradual and long-term scaling up of human resources, infrastructure and other key sets of interventions.

Having established the need to construct national needs assessments and policy frameworks consistent with the MDGs, the next question is one of organizational design. What should be the process for developing national MDG plans? Recommendations to this end are outlined below.

A. National Governments

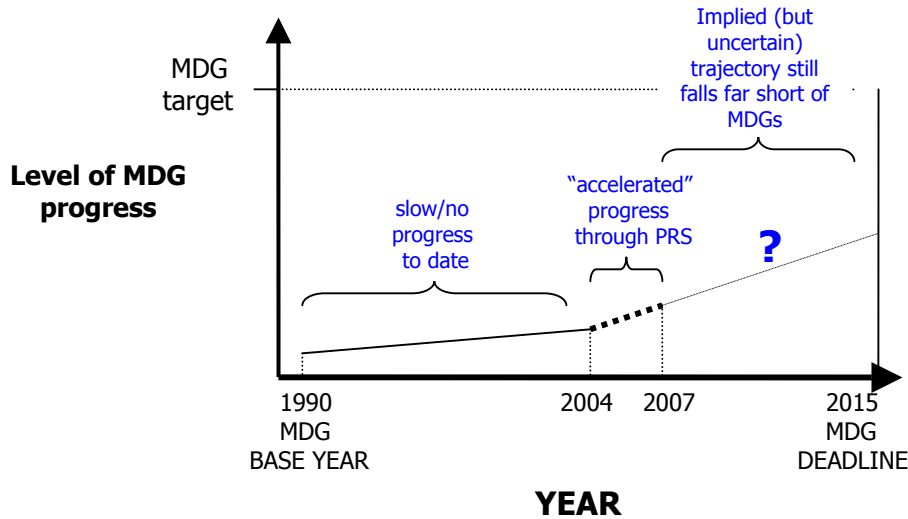
National governments need to lead the planning process. They need to develop and own their needs assessments and policy plans since they are the entity best suited to identifying and addressing local needs. We recommend that governments construct national teams responsible for overall MDG planning coordination. These teams should include senior technical officials from all key ministries – critically not just representatives from the ministries of finance and planning. Specific plans to achieve each of the MDGs must be put forward by sector specialists and then synthesized by the individual(s) commissioned with overall coordination. National MDG planning teams will be crucial for overcoming the common problem of ministries “not talking to each other,” resulting in governments not placing adequate emphasis on social and environmental sectors.

¹⁷ The language of “accelerating progress towards the MDGs” rather than “achieving the MDGs” is used, for instance, in the recent World Bank staff paper for the Development Committee, entitled “Supporting Sound Policies with Adequate and Appropriate Financing,” September 13, 2003. Paper available online at [http://siteresources.worldbank.org/DEVCOMMINT/Resources/Fall-2003/DC2003-0016\(E\)-Financing.pdf](http://siteresources.worldbank.org/DEVCOMMINT/Resources/Fall-2003/DC2003-0016(E)-Financing.pdf).

Box IV.1: Poverty reduction planning today vs. MDG-based poverty reduction planning

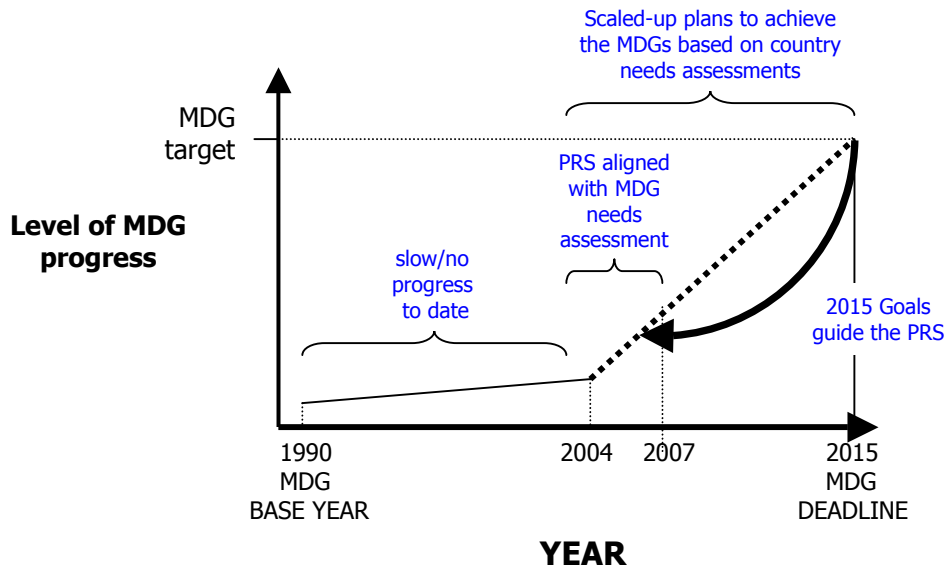
I. Today: Poverty reduction planning in Priority countries

This diagram captures how current poverty reduction strategies in “Priority” countries relate to the MDGs. Movement up the vertical axis represents progress towards the Goals while the horizontal axis represents the progression of time. The left side of the graph shows how the country has so far experienced slow progress toward the MDGs. A short-term PRS supports a slight acceleration in progress, but the implied trajectory is uncertain and far short of the MDGs.



II. Starting in 2004: MDG-based poverty reduction planning

This graph shows how country-level planning needs to work in order to achieve the MDGs. Countries that have made slow progress since 1990 need to draft 2015-based plans for scale-up to achieve the MDGs. The 2015-based plans need to guide the shorter-term PRS and resource allocations.



B. UN Country Teams

UN Country Teams must play a crucial role in assisting national governments as they develop their MDG plans. The poorest countries rely heavily on the UN specialized agencies and the Bretton Woods institutions for technical assistance. The UN agencies provide vital support in almost every sector. Within most low-income countries, the resident representatives of all agencies now meet regularly as UN Country Teams to discuss the development challenges facing the country. These Country Teams report to the UN Development Group, which was established in 1997 by the UN Secretary-General as the overall mechanism for coordination between development-oriented UN agencies.

However, the UNDG is not yet structured to take on this added responsibility. Its key limitation is the lack of operational engagement between the specialized agencies (e.g., FAO, UNDP, UNFPA, UNICEF, WFP and others) and the international financial institutions (i.e., the IMF, the World Bank, and the regional development banks) that set the budgetary and financing priorities for developing countries. While UNDG-World Bank cooperation is increasing, this disconnect is greatest between the IMF and the specialized UN agencies. The IMF works with low-income countries to set their budget framework, including levels of public investments and social outlays. In order to fulfill its responsibility of fiscal stewardship, the IMF needs to have a clear understanding of the levels of public spending needed in key sectors in order for a country to achieve the MDGs. In theory, IMF staff determine this information through consultations with the national government and with the relevant specialized UN agencies. In practice, though, this is not done. *The staff papers sent to the IMF Executive Board for approval do not offer any systematic assessment on the compatibility of a country's macroeconomic framework with progress towards achieving the MDGs.*

Starting in 2004, when a country's budget framework is not compatible with meeting the MDGs, the IMF and the national government should work together to explain how the budget framework can be made consistent with achieving the MDGs. This may require a country to re-orient its own domestic expenditures towards MDG priorities. It may also require increased tax collection. In addition, for the poorest countries, the solution will typically require significantly greater official development assistance to finance increased public sector outlays in MDG-related areas. Increased development assistance might take the form of deeper debt reduction or increased development assistance or both. Opportunities for increased foreign investment and remittance income should also be explored. These increases in ODA are entirely in line with the Monterrey Consensus established between developed and developing countries in 2002. Indeed the Monterrey Consensus states explicitly that, for the poorest countries, there is no realistic prospect of closing the financing gap through private flows.

In the future, the IMF, the World Bank and specialized UN agencies should work much more closely together to assess the development needs of each low-income country and to support a macroeconomic framework that will realistically achieve the MDGs. A promising example of this kind of coordination was provided by the "United Nations/World Bank Joint Iraq Needs Assessment" published in October 2003.¹⁸ The Iraq Needs Assessment involved a process in which the IMF, the World Bank and the specialized UN agencies cooperated closely to determine a public investment and financial framework for economic recovery and development in Iraq. The needs assessment offered a specialized analysis in twelve sectors, which were then aggregated

¹⁸ Available online at <http://www.iq.undp.org/UN-WB-IraqNeeds.pdf>.

into an overall financing framework that formed the basis of a donors' meeting in October 2003. The assignments for preparing the sector analyses were as described in Table IV.1, with lead agency and cooperating agencies listed by sector.

Table IV.1: Sectoral Assignments for 2003 UN/World Bank Joint Iraq Needs Assessment

Sector	Lead Agency	Cooperating Agencies
Agriculture	FAO	WB, WFP, UNEP
Education	WB	UNICEF, UNDP, UNESCO, UNOPS, UNHCR, UNEP, UNIFEM, UNOCHI
Electricity	UNDP	WB
Financial Sector	WB	
Governance	UNDP	UNCHR, UN/OPI, UNESCO
Health	WHO	UNICEF, WB, UNIDO
Water and sanitation	UNICEF	WB, UNIDO
Mine Action	UNMAS	UNOPS, UNICEF, UNDP, UNEP, WHO, WFP
Employment	UNDP	UNHCR, UN-HABITAT, ILO, UNEP
Housing	UN-HABITAT	WB
Investment	WB	IFC, UNIDO
State Enterprises	WB	IFC
Transport and Telecoms	WB	UNDP, ITU

The needs assessment document laid out a four-year strategy (2004-2007) for meeting specific sectoral and aggregate objectives in Iraq. Specifically, the report called for \$35 billion in donor financing over 4 years, or roughly \$364 per Iraqi per year. Notably, this figure is approximately 10 times greater than the per capita aid flows to well-governed low-income countries in Africa. It is also 40-50 times higher than the incremental ODA needs calculated by the WB country studies (REF) for Tanzania and Uganda by 2015.

C. Country-Level Donors Committees

In most low-income countries, a committee of bilateral donors exists and is typically organized by the UNDP or the World Bank. The committee of donors is well positioned to support the MDGs, but few have yet played that role. To do so, two things will be needed: much greater ODA flows for the poorest countries, as outlined above, and much better harmonization of aid flows to support the MDGs.

Box IV.2 outlines many of the structural flaws in current ODA development mechanisms that stand in addition to the overall insufficiency of flows. The weaknesses in the current ODA mechanisms reflect the same fundamental problem as that outlined for PRSs. Since international development cooperation is not goal-directed, ODA is not allocated on the basis of a rigorous calibration of needs. Rather, donor governments tend to haphazardly pursue political goals or are swayed by domestic lobbying.

In the future, the donor community should be reorganized to support an MDG-based PRS. Donor assistance should be formulated in light of a rigorous MDG needs assessment. ODA should then be pooled by donors to support national-scale programs in MDG-related areas. This can be pursued through Sector-Wide Approaches (SWAs), in which donors pool their money to provide

budgetary support to a particular sector like education or health. It can also be pursued through global funds such as the Global Fund to Fight AIDS, TB, and Malaria or the Global Environmental Facility, in which donors pool their money in a multilateral fund that is then accessed to support country-scale programs.

D. Country-Level Trade Committees

In the current international development framework, there is no real venue for low-income countries to seek redress for international systemic barriers such as protectionism in rich-country markets. As part of their repeated commitments to the Millennium Development Goals, the rich countries pledged to support international trade policy reforms in support of economic development. Specifically, Goal 8 commits all countries to “develop further an open, rule-based, predictable, non-discriminatory trading and financial system.” This goal should be pursued not only in the context of the Doha trade round, which amplifies the commitment of Goal 8, but also through new institutional mechanisms.¹⁹ We propose that the WTO establish a committee of trade ambassadors in Geneva for each low-income country, charged with identifying specific trade policy reforms in the rich countries to further the development goals of the country in question.

E. Human Right Institutions²⁰

As part of the Universal Declaration of Human Rights (1948), and the subsequent Covenant on Economic, Social, and Cultural Rights (1966), governments throughout the world have recognized human rights to adequate food, health, education, decent work, adequate housing, and other basic human needs. Thus, the MDGs can and should be defended not only on the basis of the needs of the poor, but also on their explicit *rights*. These rights can and should be mobilized at the level of the nation and the international community. Specific institutions and legislation designed to protect human rights can be deployed in support of the MDGs.

F. Mobilizing Science and Technology

One of the reasons why many of the poorest countries fail to break out of poverty is the lack of readily available technologies to remove key barriers to development. The poorest countries are often in ecological settings that are distinct from those of the rich countries: the crops are different; the climate and soils pose specific challenges; the plant and animal pests are distinct; and the human disease burdens are also specific to the local environment. For this reason, technological advances in the rich countries are often not immediately transferable to local conditions. In some circumstances, completely new basic research is required to develop solutions adapted to the needs of developing countries.

Consider some examples from the African context:

¹⁹ The Doha declaration declares, “The majority of WTO members are developing countries. We seek to place their needs and interests at the heart of the Work Programme adopted in this Declaration. Recalling the Preamble to the Marrakesh Agreement, we shall continue to make positive efforts designed to ensure that developing countries, and especially the least-developed among them, secure a share in the growth of world trade commensurate with the needs of their economic development. In this context, enhanced market access, balanced rules, and well targeted, sustainably financed technical assistance and capacity-building programmes have important roles to play.

²⁰ This human rights component will be an area of significant focus in the Task Force’s final report, with key contributions from Task Force member Philip Alston.

Agricultural technologies. Africa, for example, was unable to utilize the high-yield seed varieties of the Asian Green Revolution because of distinctive ecological conditions in most of sub-Saharan Africa (e.g. rain-fed agriculture, vulnerability to periodic drought, low soil fertility, tropical food crops such as sorghum, millet, and cassava). Advanced agricultural research is needed on soil management, tilling systems, water management for agriculture, inter-cropping strategies, germplasms, pest resistance, nutritional supplementation, etc. to increase agricultural productivity in tropical Sub-Saharan Africa.

Health technologies. Africa is uniquely burdened by malaria due to a combination of the high prevalence of *plasmodium falciparum*, the most lethal type of the parasite, highly competent mosquito vectors (with an especially high propensity to bite humans), and high ambient temperatures. This killer disease, which accounts for a massive share of under-5 mortality and countries' overall health burden, is under-researched by the international scientific community, whose attention is heavily focused on the diseases of the high-income countries.

Climate forecasting and adaptation. Much of Africa is vulnerable to drought conditions, especially in the sub-humid tropics close to the equator (e.g. the Sahel). These drought conditions, in turn, are linked to global climate dynamics, including El Niño, and longer-term trends in sea surface temperatures. In addition, tropical Africa is likely to be especially affected by anthropogenic climate change resulting in higher average temperatures and greater variability in precipitation. Thus there is an urgent need for site-specific research on climate trends and options for adaptation to long-term climate change (e.g. through changes in growing season or alternative water-management systems)

Biodiversity preservation. Africa is home to remarkable biodiversity, much of which is currently under extreme stress and even risk of extinction because of massive habitat change under pressures of Africa's growing population. Ecologists and economists need to work together under Africa's specific, indeed unique, ecological conditions, to design strategies for conservation management.

Yet focusing on science and technology is essential not just to solve local problems but also to develop the core processes for technological learning and advancement that underpin economic growth. The Millennium Project Task Force 10 on Science, Technology and Innovation has identified policy and institutional mechanisms for promoting the use, adoption and development of science and technology. Its framework emphasizes the need for low-income countries to focus on building human capabilities through science education, strengthening science advisory mechanisms, and spurring technological entrepreneurship to foster technological learning.

Such specific emphases on the overarching need for improved policies and institutions for science and technology are almost never incorporated into poverty reduction strategies. While new solutions are urgently needed, the range of existing technologies is typically taken as given for purposes of the PRS. As a result, international agencies and bilateral donors rarely decide to fund research projects as part of their assistance efforts to countries. While there have recently been several important initiatives to increase funding for neglected problems of low-income countries, such as disease control and agriculture, these efforts are still very modest in scale. These initiatives for science and technology need to be a systematic focus of a PRS and, where appropriate, PRSP.

G. Private sector engagement

The international business sector can support the MDGs through three forms of participation: (1) core business activities related to the MDGs (e.g. provision of drugs and other technologies at cost to low-income countries); (2) social investments and philanthropic activities; and (3) engagement in advocacy on behalf of the MDGs.²¹ The UN Country Team in each country can take the lead in identifying business participants – both domestic and international – for MDG business commissions. The UN can be assisted in this endeavor through various apex organizations, including the International Chamber of Commerce and the World Economic Forum. Members of the UN Global Compact should be encouraged to join these national-level councils.

Meanwhile, the local private sector can also play a key role in national PRS processes. Although most of the PRS in low-income countries will need to focus on the public sector outlays required to create the conditions for sustained private sector growth, private firms should still be involved in the country-level PRS consultations. In particular, local firms should be transparently involved with discussions regarding the promotion of specific industries and reform of domestic economic governance structures. Transparency in these discussions will be of paramount importance, since it will be crucial that politically well-connected firms are not able to profit unjustly through policy change. This will be particularly crucial if private firms are allowed to compete for public-financed service delivery contracts.

H. Civil society engagement

One significant area of policy progress over the past decade has been the growing influence of local, national and global civil society organizations and networks in driving policy change. The successes of the debt relief campaign stand as a leading example of civil society's potential to stimulate constructive change. Non-governmental organizations, community organizations, professional organizations and other civil society groups are regularly called upon to help design and implement PRSs. Their participation is also considered vital to the efforts of the GFATM.

These new approaches reflect the three key roles of civil society in PRSs: as participants in the design of strategies, as service providers through community organizations and national NGOs, and as watchdogs to ensure government fulfillment of commitments. In many countries these roles are taking root only gradually, with governments continuing to dominate decision-making and implementation. By insisting on transparent processes to develop national strategies for the MDGs, bilateral and multilateral development institutions can help civil society play an increasingly constructive role in national policy-making and implementation.

I. Overall Coordination of the International Agencies

Achieving the MDGs in the low-income countries will require an intensified program of global partnership and coordination lasting at least a decade. Many stakeholders have a key role to play: the low-income-country governments; NGOs; other institutions of civil society within the countries and at the international level; bilateral donors; the UN specialized agencies; and the Bretton Woods institutions. This enormous range of actors diminishes the responsibility that any

²¹ See *Business and the Millennium Goals: A Framework for Action*, produced by the Prince of Wales International Business Leaders Forum and the United Nations Development Programme, 2003.

single actor has in meeting the MDGs. There is little accountability when cooperation must be so complex and maintained for many years.

It is therefore especially important that all of the relevant actors be subject to some degree of cooperation and review. The natural locus for international cooperation is the United Nations Development Group (UNDG), which is charged by the Secretary General with system-wide coordination in support of development goals. The UNDG could take responsibility for the oversight of the interconnected processes of international agencies that operate at the country level, and could issue annual reports to the Secretary-General and the General Assembly on the progress of each country. These reviews would stress the mutual responsibility of all actors in achieving success in the MDGs, and would aim to hold each of the key actors responsible for their particular contributions to the process.

2. International Processes to Support National MDG Strategies

A. Official Development Assistance

The year 2002 was a landmark in official development assistance (ODA) policy, with donor countries pledging both to significantly increase the amount of development assistance they offer and to improve the way they deliver it in order to make aid more effective in helping to achieve the MDGs. Donors recognized that the amount of ODA currently on offer is insufficient for low-income countries to achieve the MDGs, even in the context of strong policy environments in the recipient countries. At the same time, donors increasingly realized that some of the perceived ineffectiveness of foreign aid was due to their own practices, including poor allocation of ODA, significant amounts of "tied" aid, and overly burdensome and unnecessary requirements on recipient countries. While aid is not the *only* policy lever on which the developed countries must follow-through for low-income countries to achieve the MDGs, it is a *necessary* lever.

i. International Declarations on Official Development Assistance

During 2002 the member countries of the United Nations twice committed to increasing all developed countries' ODA towards the target level of 0.7 percent of GNP. Member countries first made this pledge at the Financing for Development Conference in Monterrey in March, then again at the World Summit on Sustainable Development in September in Johannesburg. It is worth citing the explicit text of those commitments here, since many policy makers do not realize how specific these commitments were. First, paragraphs 41 and 42 of the Monterrey Consensus document state:

We recognize that a substantial increase in ODA and other resources will be required if developing countries are to achieve the internationally agreed development goals, including those in the Millennium Declaration. To build support for ODA, we will cooperate to further improve policies and development strategies, both nationally and internationally, to enhance aid effectiveness. In that context, we urge developed countries that have not done so to make concrete efforts towards the target of 0.7 per cent of gross national product (GNP) as ODA to developing countries and 0.15 to 0.20 per cent of GNP of developed countries to least developed countries (UN 2002b).

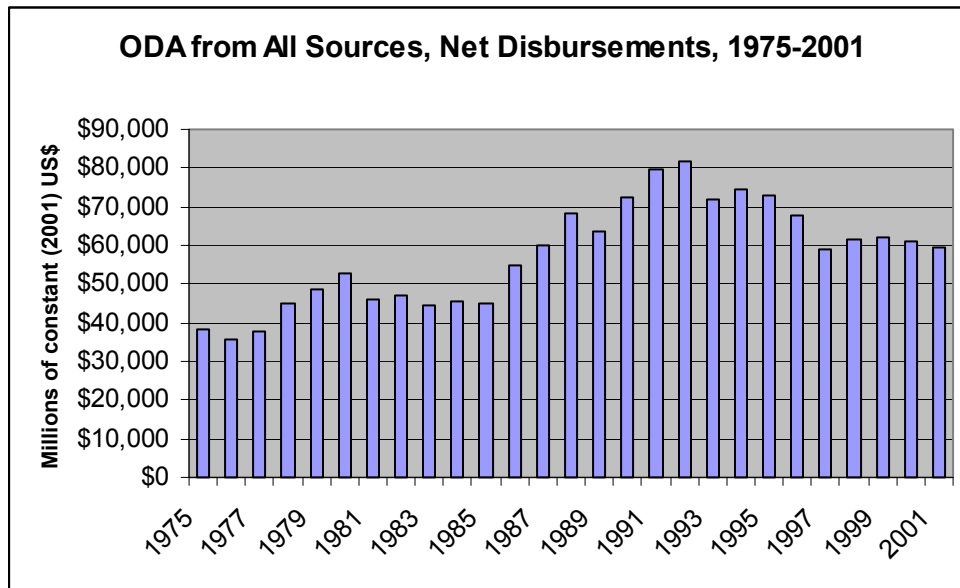
Similarly, paragraph 85 of Johannesburg Plan of Implementation asserts almost precisely the same commitment, ending with the same key sentence:

[We] urge the developed countries that have not done so to make concrete efforts towards the target of 0.7 percent of gross national product as official development assistance to developing countries and 0.15 to 0.20 per cent of GNP of developed countries to least developed countries”[italics added] (UN 2002c).

It would be difficult to overstate the importance of these two commitments by the member states of the United Nations. These are the international community’s firm commitment to a tremendous increase in ODA. Importantly, they were again reconfirmed by the leaders of the G8 countries at their 2003 annual meeting in Evian, France, where heads of government “Reaffirmed [their] commitment to address the challenge of global poverty and [their] support for the Millennium Development Goals and the Monterrey consensus” (G8 Summary 2003 Section 2).

While aid is not the *only* policy lever on which the developed countries must follow-through for low-income countries to achieve the MDGs, it is a *necessary* lever. As shown in Figure IV.1 below, current ODA levels are slightly more than \$59 billion, or 0.23 percent of the rich country’s total GNP of approximately \$25 trillion per year. This \$59 billion includes non-DAC bilateral aid, non-DAC ODA channeled through multilaterals, and ODA from the European Commission. An increase to 0.7 percent would be equivalent to \$175 billion, or roughly an incremental \$120 billion per year. If the rich countries continue to grow at a sustained real per capita rate of 2 percent per year, 0.7 percent would be equivalent to \$215 billion in 2015, or an extra \$165 billion over today’s levels.

Figure IV.1: Net Disbursements of ODA, 1975-2001

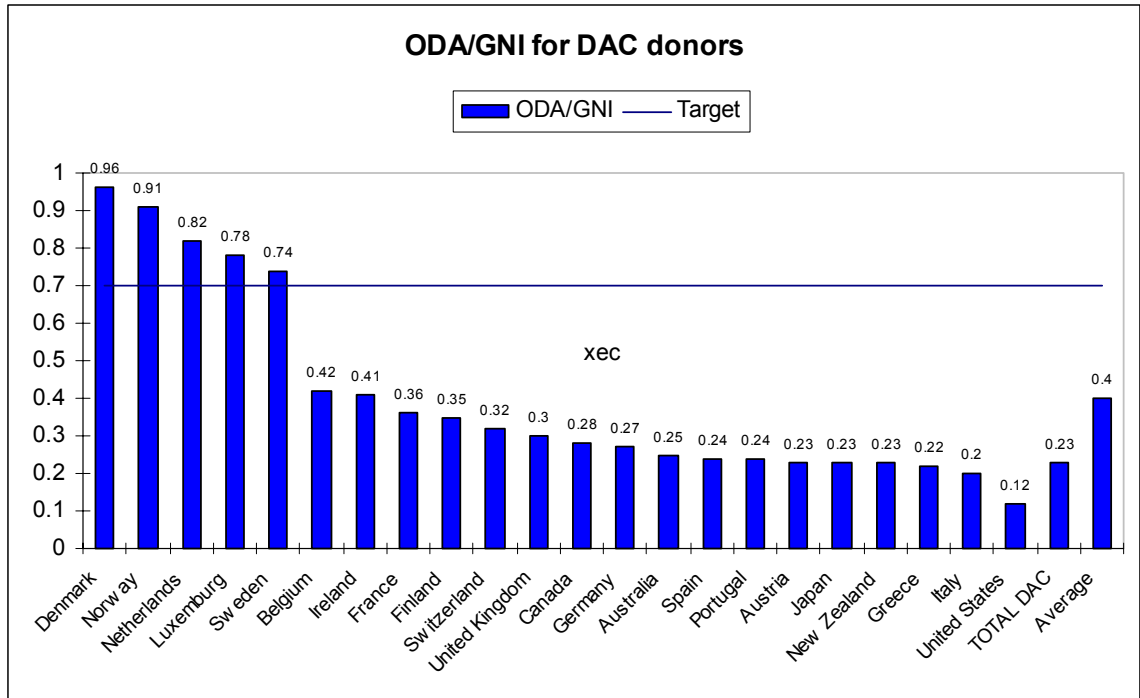


Source: DAC Table 1.

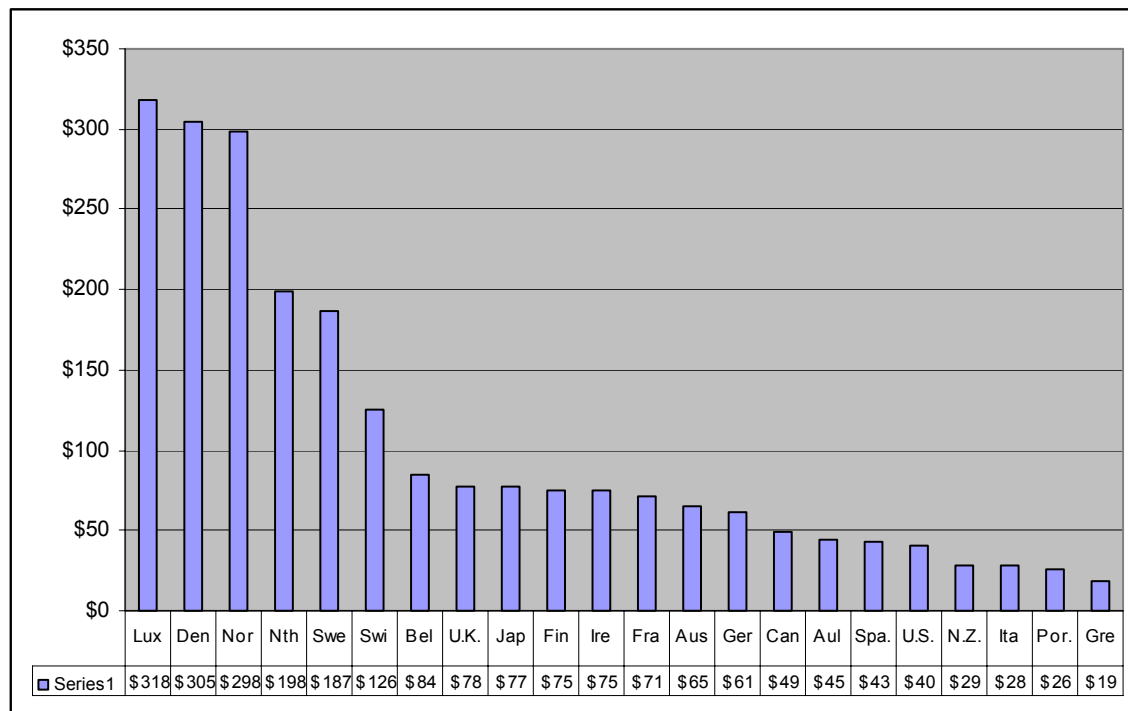
It is important to note that several countries have already achieved the 0.7 percent target, as shown in Figure IV.2 below. Denmark, Norway, Netherlands, Luxembourg and Sweden are the world leaders in development assistance. A majority of countries fall well below that level, with Belgium as the sixth highest as a percentage of national income at 0.42 percent. Importantly for

absolute global levels of aid, the United States ranks last at 0.12 percent. As the world's largest economy by far – with more than one third of the rich world's annual income at \$10 trillion per year – the United States is the largest ODA donor on an absolute scale, but its low proportionate ODA level needs to be overcome in order to achieve the MDGs. If the United States were to increase its ODA to only 0.4 percent of national income, that would be equivalent to an extra 30 billion dollars a year, or roughly a 50 percent increase in total global development assistance compared to today. Similarly Japan, as the world's second largest economy, at approximately \$5 trillion per year, could provide major improvements in global development trends with even similarly small proportionate increases in ODA.

Figure IV.2: ODA as a percentage of gross national income (GNI), 2002.



Source: DAC Press Release, "OECD DAC Countries Begin Recovery in Development Aid: 5% Increase in 2002," dated 22 April, 2003. [<http://www.oecd.org/dataoecd/43/56/2507734.pdf>].

Figure IV.3. ODA per capita, by donor.

Source: DAC Table 1, and OECD Population Information Sheet (<http://www.oecd.org/dataoecd/62/38/2698549.pdf>).

ii. How Much ODA is Needed to Achieve the MDGs?

Increasing aid substantially towards the 0.7 percent goal is crucial as a clear and incontrovertible international commitment. But one needs to ask how analytically sound it is. The ODA originally target originally grew out of the Pearson Commission's recommendations in 1969, decades before the adoption of the MDGs (Commission on International Development 1969). Thus the questions arise: How does 0.7 percent relate to the achievement of the MDGs? Would it be enough to achieve the Goals?

To date, two prominent studies have assessed how much ODA is needed to achieve the MDGs. Both were published in advance of the March 2002 Financing for Development Conference in Monterrey. The Report of the High-Level Panel on Financing for Development (United Nations 2001), chaired by former President of Mexico (and current co-Coordinator of the Millennium Project Task Force on Trade) Ernesto Zedillo, estimated that approximately \$50 billion in additional official development assistance (ODA) will be required each year to meet the MDGs.

Meanwhile, a World Bank study used two different approaches to estimate resource requirements for achieving the MDGs (Devarajan *et al.* 2002). The first approach estimated the cost of meeting MDG Target 1, which calls for halving income poverty by 2015, while the second assesses the costs of achieving the health, education and environment MDGs. According to the authors, both methods will lead to similar results since halving poverty will lead to the achievement of many of the other Goals, while investments in health, education and the environment will help achieve Target 1. The study estimated that an additional \$40-60 billion in ODA is needed each year to

meet the goals in 2015, although it did not include a detailed assessment of how these resources would translate into country-level investments.

Since these studies take a very high-level approach to calculating the need for additional aid, the Millennium Project has initiated a “needs assessment” approach to the MDGs by working with local partners in a series of country case studies – Bangladesh, Cambodia, Ghana, Tanzania and Uganda – to calculate, in considerable detail, the public investments required to achieve the MDGs in those countries. While the country-level results are preliminary and the methodology for aggregating to the global level is still being refined (see www.unmillenniumproject.org for the current draft), the early results suggest that achieving the MDGs will require *at least* a doubling of aid (*that is, to at least 0.46 percent of donor GNP*) but less than the international target of 0.7 percent of GNP. The necessary increase could be on the lower end to the extent that donors improve the quality of aid, for example by reducing the portion of aid that is “tied” to purchases in the donor country, or by improving the harmonization of donor administrative requirements, as discussed below. In other words, the ODA needed to achieve the MDGs is likely entirely within the realm of current international commitments. No new ODA commitments need to be made to achieve the MDGs; current commitments merely need to be followed through upon.

iii. Improving the Quality of Aid

For substantially higher levels of ODA to be used productively in accelerating low-income countries’ progress towards the MDGs, there will also need to be changes in the ways in which donors provide their assistance. As the World Bank has outlined, to achieve the MDGs donor assistance needs to follow four guiding principles:

1. A larger share of ODA should be allocated to those recipient countries with better governance and with greater needs.
2. ODA levels need to be coherently aligned with national MDG-based strategies
3. Overall donor assistance needs to be harmonized and coordinated across donors
4. ODA needs to be disbursed in a predictable and timely manner
5. ODA financing mechanisms need to be reconfigured to focus on cash outlays, to support recurrent costs, and to be “untied.”

Aid Allocation

In general, donors do not allocate aid very efficiently towards countries that need it the most or can use it most effectively. Significant amounts of aid budgets go to middle-income countries, where poverty is not as acute as in the low-income countries. Similarly, some donors provide substantial amounts of aid to countries with relatively poor governance, little commitment to implementing effective development strategies, and a weak record of using aid effectively. Several donors have begun to take steps in recent years to improve aid allocation, but more steps in this direction are necessary in order to make the most progress as possible towards the MDGs from any level of total aid.

Making ODA more effective will depend on the commitment of both recipient country governments and donor governments to ensure development cooperation is successful. One frequently-discussed component of this is recipient country’s quality of governance and hence ability to apply increased aid to the MDGs in an effective manner. One often-overlooked aspect of such discussions is that quality of governance tends to increase with economic development, since richer countries can afford better public institutions. Quality institutions definitely are an important factor in reducing poverty, but they are far from the only factor. Thus, when assessing countries’ governance levels, a more important question than “How good are there public institutions?” is “How good are there public institutions relative to their level of GNI per capita?”

Many poor countries have weak governance on a global scale but extremely competent governance for their level of economic development. These countries require tremendous support in bolstering their investments to achieve the MDGs.

MDG coherence in donor assistance

The first principle guiding donor assistance should be the achievement of the MDGs. As already described, achieving the Goals will require developing countries to develop rigorous scale-up plans through 2015 that will guide medium-term and short-term policy frameworks. At the core of the Monterrey Consensus lies the idea that developing countries must take this responsibility to develop and implement sound plans to achieve the Goals and they will receive the necessary donor support to finance these strategies. Thus, to achieve MDG policy coherence, donors need to coordinate their assistance to support long-term national MDG plans and, in turn, shorter-term PRSs. This implies donors pursuing developing countries' MDG policy and program priorities, rather than donors pursuing programs and projects driven by their own individual priorities.

Coordination and harmonization of donor assistance

Closely linked to the notion of coordinating donor activities to ensure coherence in the context of national MDG plans, in order to improve efficiency, aid delivery needs to harmonize institutional requirements and operational procedures and practices across donors. There are currently 23 members of the DAC. Asking low-income countries with scarce human resources to prepare separate funding proposals, monitoring plans, procurement strategies, and evaluation procedures for each donor results in at least an order of magnitude of extra and unnecessary administrative resources being allocated to donor requirements. These developing country resources will be much better utilized in drafting and leading plans and policies to achieve the MDGs. Harmonization practice has varied in the extent to which recipient countries' systems are used as the basis for common donor procedures and practices. Here the tension lies between reaping the benefits from harmonizing around the countries' own processes on the one hand and maintaining fiduciary standards acceptable to various donors.

Perhaps the best way of achieving improvements in both policy coherence and efficiency is to shift donor assistance to direct support for public budgets rather than for projects and programs, at least for those recipient countries with the appropriate institutional mechanisms in place to support such a change. A leading example of this is embodied in the recent application of sector-wide approaches (SWAs) to development financing. While the details have differed by country and sector, the core principle has been for donors to pool their resources into contributions to government budgets – health budgets have been at the fore of this development. While progress in developing SWAs has been significant, country-specific details still vary to reflect compromises between recipient governments' benefits of harmonized procedures and individual donors' desires to be associated with particular project components. Moreover, budget support and SWAs may not be appropriate in countries with weak budget systems, little fiduciary oversight, and poor governance, where there is less confidence that funds provided to the budget will be used as pledged.

Predictability and timeliness of financing

The issues of predictability and timeliness of financing are extremely important for recipient countries. First, donor assistance should be provided in a manner linked to recipient countries' budget cycles rather than donor countries' programming cycles. This would help countries plan ahead within the context of a medium-term expenditure framework. Second, these commitments should be made over a period consistent with the MDGs, *i.e.*, through to 2015. While mid-course adjustments and reviews will undoubtedly be necessary, in order to pursue a true MDG strategy the recipient countries will need to know that their development partners share an equal, long-term commitment to achieving the MDGs. Third, the sustained policy and governance reforms required to make fast progress towards the MDGs are necessarily long-term in nature. Governments can only make the proper reforms and investments if they have a reasonable degree of confidence in the resource levels that will be available. This implies that they require confidence in the stability and trajectory of external assistance and the conditions under which the resource inflows are scheduled to materialize. Moreover, upfront commitments from donors that link to recipient countries' policy performance will allow countries greater confidence in the delivery of aid over an extended period of time and help create a virtuous circle through which recipient country governments can initiate and sustain improvements in their public policies and institutions.

Reconfiguring financing mechanisms

Three major issues require attention if donor financing mechanisms are to be reconfigured in alignment with the MDGs. First, a greater share of aid needs to be provided in the form of grants (rather than loans) and direct cash outlays. Particularly for highly-indebted countries with good policies and governance but a high degree of susceptibility to shocks, a greater share of aid needs to be provided in the form of grants. Redirecting assistance towards grants will help address concerns that higher aid flows intended to assist low-income countries make faster progress towards the MDG targets might increase the risk of debt distress in the future.²²

Second, financing plans, particularly those designed to support long-term national MDG plans, must include recurrent as well as capital costs. Historically, donor programs have helped to finance capital expenditures and then aspired for projects and programs to meet tests of "sustainability" and local commitment by supporting the recurrent costs locally. This is not a very useful approach since in many sectors operating costs account for a very large share – if not a majority – of total outlays (e.g. education, health, water and sanitation, etc.).

Reflecting the lack of emphasis on this issue, the World Bank does not even keep data for the recurrent unit costs of projects supported throughout its decades of assistance for large scale project and government assistance. However, an increasing number of donor organizations are beginning to realize the need to focus on recurrent costs as well as the fact that the poorest countries simply cannot afford to pay these costs. For example, medical professionals are integral to a functioning health system but they are typically too expensive for a government to afford at anywhere near a scale required to achieve the MDGs. Training and employing health professionals needs to form a central component of any national MDG plan, and will require external assistance in order to succeed. Thus the traditional notion of "project sustainability" needs to be abandoned in the poorest countries. To get out of the poverty trap described in chapter II of this report, the poorest countries are going to require sustained external assistance in order to

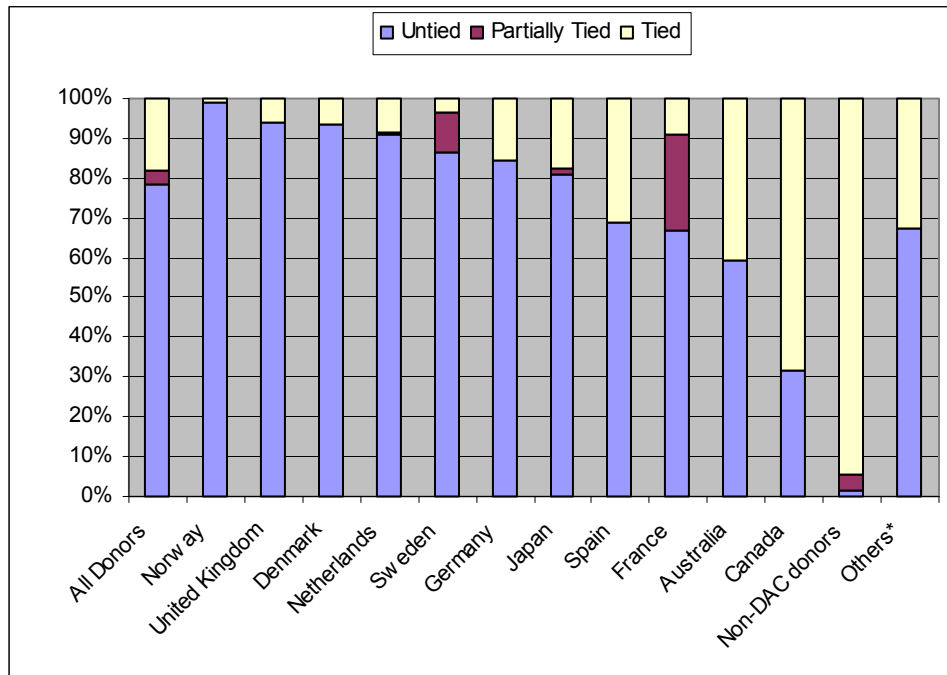
²² Of course, the necessary shift towards grants raises other issues to be addressed, including the implied substantial increases in development assistance and the long-term viability of the concessional lending affiliates of the multilateral development banks.

develop a public sector sufficient to support the conditions for sustained economic growth and the achievement of the MDGs.

Third, a large proportion of aid, particularly bilateral aid, is still “tied,” *i.e.*, goods and services must be purchased from the donor country (fully tied aid) or a limited group of countries (partially tied aid). For example, with tied aid a recipient organization may be compelled to import its office furniture from the donor country at vastly higher cost, thus wasting scarce resources. Most empirical estimates suggest that tied aid raises the costs of goods and services by 20-25%, which significantly undermines the effectiveness of existing aid.

As Figure IV.4 outlines, the variance of tying differs significantly by country. While over 90 percent of ODA from Denmark, the Netherlands and the United Kingdom is untied, almost two-thirds of Canadian bilateral aid is tied. According to the U.S. Congressional Research Service, approximately 70 percent of USAID's outlays were tied in 2000/01 (Tarnoff and Nowles 2001). Despite some donor countries lack of progress in this area, the overall movement to untying aid is positive particularly for the poorest countries. Following the agreement at the High-Level Meeting of the OECD Development Assistance Committee (DAC), all DAC members agreed to untie aid to the Least Developed Countries. As of January 2002, three-quarters of all bilateral aid to LDCs is untied, so increasing this proportion must remain an important policy priority for donor countries. Likewise the untying of aid remains a significant priority for aid to non-LDC low-income countries – such as Cote d'Ivoire, India and Kenya – and for middle-income countries.

Figure IV.4. Tying Status of ODA, by Donor, 2001.



Note that this table excludes the United States, whose ODA tying status is not reported to the OECD DAC. However, Congressional Research Services estimated that 70 percent of US aid was tied in 2000/2001. Sources: DAC Table 7; Curt Tarnoff and Larry Nowles, "Foreign Aid: An Introductory Overview of U.S. Programs and Policies," Congressional Research Service Report 98-916F, April 2001.

Finally, a core debate in development policy concerns the role of broad horizontal and targeted vertical funding mechanisms. The Task Force has not yet taken a position in this debate, but discusses the relative merits of each in Box IV.2.

Box IV.2: Funding Mechanisms to Achieve the MDGs: Vertical versus Horizontal

Much debate in development circles has recently focused on the relative advantages and disadvantages of vertical and horizontal funds as donor financing mechanisms. “Vertical funds” are those that focus on a particular issue or a small number of related issues, typically financing programs and projects encompassing all aspects of the issue. These funds have a long history, starting with the United Nations Children’s Fund (UNICEF), which was established in December 1946. There are many other examples, including the UN Population Fund, the World Food Program, the Global Environment Facility, the Global Alliance for Vaccines and Immunizations, and the recently founded Global Fund to Fight AIDS, TB and Malaria (GFATM). Horizontal funds provide financing for a wide range of interlocking issues across a broad spectrum of development challenges. Most of the major donor agencies operate as horizontal funds, including the World Bank, regional development banks, UN Development Programme, and the major bilateral donors. Some donor mechanisms are meanwhile a combination of horizontal and vertical, such as the World Health Organization.

Vertical Funds

There are several advantages to vertical funds. First, they help draw public attention to specific problems (e.g., specific MDGs). UNICEF has increased awareness of the particular problems facing children through various campaigns over the years, in particular when it was awarded the Nobel Peace Prize in 1965. More recently, GFATM has focussed world attention on HIV/AIDS, TB, and malaria. The more diffuse mandates of horizontal funds make it more difficult for them to draw attention to specific problems, since by design they are drawing attention simultaneously to a wide range of issues. Second, vertical funds can help mobilize donor resources because of their focus on a narrow set of issues. Individuals, foundations, and government budget officials tend to be more willing to provide financing if they have a clear idea what it will be used for. For example, it is often easier to get potential donors excited about providing financing for HIV/AIDS, children's health, or famine victims than for broad health or agricultural systems. In this vein, one could consider the possibility of organizing new vertical funds focussed on one or more of the MDGs as a way of generating more funding and greater attention on that specific goal.

Third, vertical funds can often maintain a sharper focus on specific goals. They can specialize their activities and develop advanced expertise and high skill levels in specific areas. This specialization and expertise can help improve the full range of donor activities including program design, implementation, monitoring, and evaluation. There is an analogy here with private firms that specialize in producing niche products or services. By contrast, horizontal funds take a broader approach with less focused goals, and their broad mandate can lead to continued expansion into new areas. Generally speaking, horizontal funds require staff with more generalized knowledge across several areas, rather than high-level expertise in one area. Of course, horizontal funds can include many staff with high level expertise in particular areas, in addition to generalists (as with the World Bank).

Box IV.2 (continued)**Horizontal Funds**

Meanwhile, horizontal funds offer clear advantages of their own. First, they typically take a more integrated approach, recognizing the interrelationships across issues. They are better placed to fund programs and projects that cut across issues, for example such as the impact of women's education on health. Vertical funds tend to miss out on these inter-linkages, and partly as a result, tend to expand their focus over time. UNICEF started by focusing on food, clothing, and health for children, and over the years has added education (including teacher training), gender, child labor, armed conflict, and other issues. In other words, horizontal funds are better placed to consider the linkages between and complementarities across the MDGs.

Second, horizontal funds can finance broader sector strategies or multi-sector development strategies. Vertical funds can plug into one aspect of a broader development strategy, but are less helpful on designing the broader strategy itself. Thus, a horizontal fund would be better placed to finance, for instance, a complete MDG-focused PRSP. Third, horizontal funds tend to put more focus on broader institutional capacity building issues. For example, the World Bank is more likely to focus on sector-wide health capacity issues than a narrower vertical fund, and is better placed for an even broader focus such as on the entire public finance system. While vertical funds can also build capacity in their particular areas of interest, they tend to have less focus on broader capacity issues. For example, UNICEF historically has focused on particular children's health issues, but less so on broader health systems. Similarly, there is some concern that GFATM's focus on AIDS, tuberculosis, and malaria may lead to less attention being given to broader health systems.

Fourth, horizontal funds can provide financing for lower-profile (but still important) issues that may fall through the cracks of vertical funds. Deworming tablets or training for budget officials may not attract the attention of a vertical fund, but can easily be covered by horizontal funds. Similarly, while the MDGs each represent important issues, they are by no means complete recipes for development. They say little explicitly, for example, about energy, infrastructure or private sector growth. Vertical funds focused on specific MDGs would run the danger of missing out on or under-emphasizing some of these other issues. Fifth, in terms of additionality and fungibility, horizontal funds are better placed to assess whether donor funds are truly additional, or whether increased funding in one area comes at the expense of another. For example, it is possible that while GFATM provides additional funding for HIV/AIDS, TB, and malaria, this funding may come at the expense of other health issues or funding for other non-health development issues. In principle, horizontal funds could be more efficient by avoiding overlapping programs and duplication of effort and by easing communication across activities.

Horizontal and Vertical support for National MDG plans

Notably, both horizontal and vertical approaches can be consistent with the increases in pooled funds and budget support that this report has outlined as necessary for low-income countries to achieve the MDGs. For example, a vertical fund that is large in scale and narrow in scope (like GFATM) can provide a common pool mechanism to which many donors can contribute. Some (or all) of these funds could be provided as budget support. Horizontal funds can provide a vehicle for pooling and budget support across a broader range of activities. However, vertical funds may be more difficult to link to a recipient country's budget than horizontal funds, because it may be harder to balance their country-specific allocations with the amounts that emerge from a recipient country's budget process.

Box IV.2 (continued)

The Task Force intends to consider the issues of horizontal and vertical funds in more detail as part of its work plan in 2004.

Source: Steve Radelet (2003), Task Force Background Note

*Macroeconomic Frameworks for Expanded Public Investment*²³

In order to accommodate the higher aid inflows required to achieve the MDGs, recipient countries will need to develop their macroeconomic planning frameworks accordingly. Many low-income countries have faced severely binding resource constraints for many years so formulating, executing and monitoring spending plans involving relatively large amounts of resources will pose a new set of challenges. These challenges will need to be surmounted through active collaboration between recipient country governments and the IMF, since the latter typically provides the international community's professional review of national macroeconomic frameworks before endorsing inflows of financial assistance.

The macroeconomic framework underpinning a country's PRS must address two key issues. First, it should account for the uncertainties associated with a country's vulnerability to exogenous shocks, which could undermine the success of its overall poverty reduction effort; and second, it must provide a practical basis for the formulation and execution of government policies. Even modest assumptions regarding growth, budget revenues and exports can have adverse consequences when countries are forced by circumstances to adjust mid-stream by reducing expenditure, incurring new debt or resorting to inflationary sources of financing.

External shocks are a particularly significant issue for low-income countries, since they are usually more vulnerable to them and economically harder hit by them than richer economies. This is because these countries often depend, as outlined in Chapter II, on a narrow commodity-based production and export structure; they rely heavily on the agricultural sector for creating output and employment with a greater percentage of their populations living in marginal areas; and they generally have low domestic savings and weak risk management capability. Exposure to shocks can seriously undermine a country's ability to implement its MDG strategy if its macroeconomic framework does not account adequately for the likelihood such shocks will occur.

Given these risks, the macroeconomic projections underpinning a country's development strategy must be based on a consistent and attainable set of macroeconomic assumptions, an explicit analysis of the sources of and obstacles to a country's economic growth, and an assessment of the major downside risks and uncertainties arising from external shocks and slippages in policy implementation. The government and the IMF need to work together to conduct the relevant sensitivity analysis and alternative scenario analysis. However, beyond analysis, the countries most at risk of external shocks also need contingency plans for assistance from donor countries in order to help balance the risk. With a very modest amount of their own resources, the rich countries could help to share this risk and lessen the persistent burden of shocks on the poorest countries.

While it might seem a small or obvious point for donors to provide additional risk-absorption support to the poorest countries, it is important to note that donor governments are a frequent

²³ Portions of this section draw upon a background note contributed to the Task Force by the International Monetary Fund.

source of risk for low-income countries. For instance, macroeconomic frameworks underpinning national PRSs have often assumed that sufficient concessional foreign assistance would be forthcoming to finance the spending required to achieve countries' poverty reduction goals, but then donors have frequently either not provided the requisite assistance or failed to follow-through on aid commitments.

Add to these risks the administrative challenges of developing the human resources and managerial systems required to accommodate higher spending and aid flows, and the practical challenges of expenditure framework planning can be considerable. Moreover, expenditure frameworks have not always been consistent with those on which annual budgets, and thus donor support, are based, and which generally reflect more conservative assumptions regarding expected aid flows, growth, and other key macroeconomic variables. This combination of complications is amplified when a time horizon and ambition is aligned with the MDG targets for 2015. Fortunately, the MDGs provide a common reference point around which low-income countries and international agencies can begin to implement coherence.

Partially to address the challenges of macroeconomic planning for the MDGs, the Development Committee of the IMF and World Bank recently proposed to support countries requesting the development of "alternative scenarios to reach the MDGs,"²⁴ suggesting one in which sufficient resources are available to meet the MDGs and another in which countries must continue under current resource constraints. Although such a two-scenario approach still falls far short of coherent planning to achieve the MDGs, it clearly represents a step forward in recognizing and making explicit the key resource constraints faced by many low-income countries.

In developing an explicit MDG-based macroeconomic planning scenario, the substantial increase in aid inflows required for many countries to achieve the MDGs raises a number of issues to be considered carefully. First are the structural macroeconomic issues. Governments should not spend what they don't have – especially through domestic credit expansion. The increases need to be financed through increases in ODA rather than domestic credit expansion. The increases in ODA will need to be focused on grants more than loans. Even concessional loans will probably prove to be prohibitive, given the scale of ODA needed relative to GDP. This will require a change in the financing rules for IDA and some other multilateral creditors. Countries will need to have exchange rate systems compatible with these increased inflows. The specific details for each country needs to be discussed and determined with technical advice from the IMF.

Closely related, governments and the IMF will need to assess carefully the impact of the aid inflows on fiscal and external debt sustainability, as well as the implications of the higher aggregate spending on the medium-term fiscal outlook and the recurrent cost implications of such spending within the context of a multi-year public expenditure framework. Debt cancellation will need to be deepened in most cases in order to meet the MDGs. Looking forward, countries must also maintain their efforts to mobilize domestic revenue and foster domestic savings and investment in order to support long-term economic growth.

Third, in many low-income countries the needed aid flows will be large relative to GNP, so they need to be highly predictable. Slippage of a few percent of aid could also be several percent of GNP, and hence a major macroeconomic factor. Donors will have to be much more careful and cognizant of the possibility that they themselves could become a destabilizing factor. Second, the

²⁴ See Paragraph 11, Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries, "Development Committee Communique," September 22, 2003.

increased aid flows could and probably will, have at least a small Dutch disease effect of real exchange rate appreciation. This will be manageable, according to recent IMF internal assessments of the issue, but still needs to be taken into account. The aid flows will be a form a positive "shock" (as desired) in particular sectors with large salary components of expenditures, such as health care and construction, where real wages for skilled workers are likely to soar. This is to be expected and even desired (to stop brain drain), but it must be anticipated economically and politically.

Fourth, the administrative capacity within the government to maintain the quality and efficiency of any additional aid-financed spending must be enhanced in pace with the increased aid flows. This will require a long-term administrative scale-up program. Countries will also need to develop their ability to monitor and evaluate the results of higher spending on services. In many cases donors will need to provide targeted assistance to partner countries to overcome and constraints in administrative capacity.

Monitoring and Evaluation

Central to the discussions above is the notion of monitoring and evaluation (M&E) in the aid process. There are many reasons why donors and recipients should design strong M&E systems. Foremost are fiduciary and financial requirements to make sure funds are spent where intended. Governments and taxpayers in donor countries have a reasonable desire to ensure their contributions are not being stolen. A second reason is to modify and strengthen programs to ensure progress towards intended goals. Effective M&E can help detect design or implementation problems at an early stage and allow for mid-course corrections. It can likewise help to pinpoint administrative bottlenecks, whether lack of physical infrastructure, trained personnel, or administrative services. Third, M&E can provide incentives for success. Well-designed M&E programs can be the objective basis for rewarding programs that show strong results and penalizing those with weak results. It can also help to inform the broader publics in both donor and recipient countries about where aid works and where it does not. The general skepticism that prevails about the effectiveness of foreign aid can only be countered with clear evidence about the circumstances in which aid can be effective and where it is not.

Unfortunately, many donors frequently discuss the role of strong M&E programs as critical to performance-based financing, but typically these programs are weak and ineffective. Most M&E efforts focus on financial and fiduciary monitoring aimed at ensuring funds are spent where they were supposed to be spent, with a minimum of theft and misappropriation. Much less effort is directed to ensuring the substantive results of aid-financed programs in order to reallocate funds towards their most effective use. Nor is much systematic effort used to learn what kinds of programs work best and which do not at all.

If the world's developing countries are going to achieve the MDGs and donors are going to follow-through on their commitments to give sufficient aid to ensure those achievements, M&E will be critical. The necessary scale-up of aid levels and reform of aid composition will undoubtedly require ongoing organizational learning in order to ensure consistent improvements in aid effectiveness. Donor and recipient governments will need to focus on four core dimensions of M&E as they design specific policies and programs to achieve the MDGs: fiscal accountability; institutional strengthening, substantive goal-orientation, and benchmarking progress.

- To ensure fiscal accountability, donors and recipients need to ensure that resources are spent where they were supposed to be spent, that programs remain within budget, that

regulations on procurement and payment are followed, and that funds are not stolen. This is the traditional focus of M&E.

- To strengthen institutions, M&E needs to focus on administrative systems, such as reducing the time to close accounts at the end of the month, removing ineffective bureaucratic procedures, and enhancing bureaucratic skills levels. Donors and recipients should specify precise goals in these areas during the program design phase. These institutional goals have historically been underemphasized by donors, at least in terms of specifying concrete targets and measuring progress against them, although that has changed to some extent in recent years.
- To ensure progress towards substantive goals in, for instance, health, education or other sectors, programs need to establish specific targets for key outputs. For example, the provision of bed nets could be an intermediate target for the overall goal of reducing malaria incidence.
- Across the three areas above, benchmarks for progress are required. An important question is who should set the benchmarks? Traditionally donors have set the goals, but recently donors have moved towards a more consultative process in program design. A cooperative approach to setting benchmarks between donors and recipients is necessary in order to ensure their fully shared understanding and ownership. To monitor progress effectively, it is essential that implementers gather relevant baseline data at the outset of every project and program, and that the progress be monitored continuously throughout. In too many aid projects, monitoring and evaluation begin only two years into the project, for a “mid-term” review. A serious commitment to benchmarking progress requires committed resources – time, staff and money – from the outset of a project.

The most serious technical difficulty in M&E is attribution of a particular project or activity to observed outcomes. Even when a specific outcome has occurred, it is often difficult to assess the contribution of a particular organization, group of organizations, or even a particular strategy. This is because the outcomes generally result from the interplay of many variables. The longer the time horizon, the more likely that other variables have influenced the outcome, either negative or positive. For example, a program aimed at increasing agricultural productivity could be very successful, but may be interpreted as a failure if other factors (such as drought, pests or disease) intervene to reduce productivity. On the flipside, a particular activity could be judged to be a success when it really was not, if other factors helped to achieve the specific goals. Randomized or controlled trials are more successful at correctly attributing the role of specific activities to outcomes, and should be conducted more thoroughly, but this procedure cannot be used for all M&E activities.

iv. ODA for Countries with Weak Governance or Conflict

The countries with weak governance or in conflict roughly correspond to those that the World Bank refers to as Low Income Countries Under Stress (LICUS) and the OECD calls "Difficult Partnerships." Some of these countries are failed states, others are failing, while still others could be considered weak or fragile. These countries must be dealt with on a careful, case-by-case basis, as the circumstances on the ground can vary widely. Some countries are in a downward cycle, where the political and economic situation appears destined to get worse before it gets better. Others are struggling to end conflict; still others are emerging from conflict and are beginning to show progress. Some countries are not faced with conflict, but are mired with poor governance, high levels of corruption, and governments with little interest in political or economic development. In these countries, bilateral aid will be heavily influenced by strategic

and security considerations. For example, the United States has expressed strong concern about "failed states" as part of the war on terrorism and has allocated substantial sums to weak states that are its allies in the war.

Foreign aid to poorly governed countries should be tightly focused on humanitarian relief and providing basic services to the poor. Donors should focus on a very limited set of high priority activities with the potential for quick results that can be demonstrated to policymakers and the general public in order to help consolidate the process of further reform (World Bank, 2001). Donors should play a much stronger role in setting priorities and designing activities here than in countries with strong governance, where principles of country ownership can be put into practice. Program aid and budget support, by and large, is out of the question, and in some countries, no aid should be provided at all. In these instances where governments are very weak, significant amounts of aid should be directed at civil society groups and NGOs. The World Bank (2001) and Collier (2002) have suggested establishing Independent Service Providers (which Collier likens to an expenditure-side version of an Independent Revenue Board) to oversee the delivery of basic services. Working in these countries is much riskier than other places. As a result, programs in poorly governed states require very careful monitoring, regular re-appraisal, flexible responses as initiatives begin to work or fail, and a higher tolerance for failure than when working in other countries.

Within this set of countries, aid has the most potential to be effective in post-conflict situations. Collier and Hoeffler (2002) find that, under a poverty-efficient allocation of aid, about twice as much aid should be allocated to post-conflict countries as to similar non-conflict countries, since post-conflict countries are starting from a lower economic base, have the potential for rapid catch-up growth, and have a greater capacity to deploy aid quickly. Mozambique, for example, has received large amounts of aid in the decade since its civil war has ended, which (along with policy reforms and institutional changes) has led to very a high rate of economic growth. The World Bank (2003d) also argues for significant aid to post-conflict countries, not just because the economic rates of return are potentially higher, but as a way of reducing the risk of a country slipping back into conflict. It warns against the typical donor pattern of providing significant aid in the first year or two when the country is very visible on the international agenda, followed by a sharp decline in aid. It argues instead for a slower ramping up of aid as peace is solidified, augmented by other international measures of support, especially peacekeeping forces. Aid flows should build to a peak four to five years after the conflict and gradually diminish thereafter.

One of the most difficult questions for donors working in poorly governed countries is when to continue providing some aid and when to stop. Since aid tends to be least effective in these countries, continuing with disbursements may have a high opportunity costs because the same aid could be used more productively elsewhere. Moreover, aid flows, if not directed carefully, can help sustain bad governments. However, there may be significant costs from entirely disengaging, including a greater risk of further destabilization and violence, or a deterioration of health and education systems (OECD 2001). It is probably true, as the OECD argues, that it is important for the international community – not all donors, but perhaps some – to maintain dialogue even with the most difficult governments.

B. The International Trade System

How should the international trading and financial system contribute to poor countries achieving the MDGs? In broad terms this means the realization of an open, rules based predictable and non-discriminatory trading and financial system which takes into account the needs of poor countries. In the trading system this ranges from systemic changes to ensure the "development" component of the Doha Development Round, to specific initiatives such as provision of drugs for

poor countries under the pharmaceutical agreement in TRIPS. It would also include addressing the special needs of the least developed countries including tariff and quota free access to exports.

Ever since the failure of the 1999 Seattle WTO meeting, there has been a great deal of concern regarding how the multilateral trading system should contribute to development and equity. The agreement to launch the Doha Development Round in November 2001 to address the development concerns of developing countries was a promising beginning, but since then missed deadlines and lack of agreement at the Cancun WTO Ministerial Meeting in September 2003, signaled that there are fundamental problems afoot. There is now great pessimism that the Round can be completed by the January 2005 deadline.

The crucial question is how can the trading system serve the needs of the poorest countries so that they can meet the MDGs? Whilst developing countries also have to play a role, the key to all successful outcomes of past multilateral rounds has been the political will of the developed countries to deliver on broken promises and play a leadership role in addressing the inequities of the international trading system. The key issues of the trade negotiations are as follows:

i. Special and Differential Treatment

A so-far elusive goal is that of a credible framework for special and differential (S&D) treatment, implementation of past commitments, and how to best integrate least developed countries into the trading system. The Doha Development Agenda (DDA) also promised to deliver on “capacity building”. S&D is a key pillar to achieving “development” in the agenda, and a key debate has always been “special” for whom and how “different”. It has been argued that the current S&D system which is not based on a clear definition of “who” gets the special treatment, requires non reciprocity and without clear graduation criteria, has not been effective.

The WTO does not have a definition for developing countries or for “graduation” from that status. It is based on self-declaration. The only definition comes with the least developed country definition and some policies or leeway being allowed for countries with per capita income of less than \$1000. However within the general definition of developing countries you have the whole range of rapidly growing middle income countries and the poorest developing countries. This makes it harder to focus S&D for the needs of the poorest countries and confining it to the current definition of least developed countries also leads to the exclusion of a number of the poorest developing countries.

The current framework of S&D on the one hand leads to developed countries giving limited and minimum preferences in the case of market access for goods, often using complicated rules of origin to reduce market access. This has affected for instance duty free access to EU by African countries. The fear of being overridden by competition from the richer and rapidly growing economies and the lack of clarity as to how long the preferences should be given leads to that outcome. On the other hand, developing countries receiving the preferences have no incentive to “develop” or graduate, and there is no counterbalance between exporting and import competing interests as there is no commitment that they have to make to also begin to undertake reforms.

How could S&D be made more effective to deal with the poorest developing countries? One suggestion is for developed countries to liberalize all trade and allow access for developing countries by a set deadline, say 2015 and not deal with ineffective preferential access (Hoekman et al 2003). Another suggestion is to design S&D framework for the needs of the poorest countries. This will require establishing a clear and non-arbitrary criteria defining which countries will benefit from S&D (e.g. per capital GNI and absolute size measure). Messerlin (2003) has suggested cutoff point which is already being used in the WTO of \$1000 per capita

combined with absolute size of not larger than 2 percent of total GNI of all donors. Based on 2000 data, this would include 74 poorest countries including the 49 Least Developed Countries (mostly in Sub-Sahara Africa), plus some other countries in Central and South East Asia, the Caucasus, the Middle East and elsewhere. These countries share many serious development problems such as being land locked. Using this criteria also excludes the competitive and large countries such as India and China, so that developed countries would be more willing to give concession.

Commitments from the beneficiaries will also be important and should include some form of reciprocity since full reciprocity would probably be unviable for the poorest countries (many of whom still rely on tariff revenues for government revenues). The poorest countries also need to begin the process of trade reforms as a means for development and having such commitments, even if limited, can also provide the tool for governments to counter powerful domestic vested interests. For instance in the case of market access for goods, commitments could be in the form of binding to a maximum tariff, adopting a more uniform tariff structure, and commitment to ban non tariff barriers.

ii. Goods Market Access

Agricultural goods: a successful outcome in agriculture will be the benchmark for trade success because of its potentially great impact on poverty. Three major outcomes are important in this regard: elimination (not just reduction) of export subsidies; phase out of other government subsidies to farmers in developed countries on products which are important for developing country exports; and reduction of agriculture tariffs. The decision rests on the two major countries, the European Union and the U.S. Current progress remains unsatisfactory, with no real commitment to eliminate, only to reduce and ability to still have acceptable domestic support (de minimus provisions) and non trade distorting subsidies (with no clear indication how it will be capped).

Developing countries will also need some flexibility to address food security and rural development. This could include extra financial and technical assistance for structural adjustments in the rural sector for poor countries. But they should be able to justify what "special products" are, and what their national plans are to support the development of such products and eventually integrate them into the international trading system.

Non-agricultural goods: the issue here, among others, is how to reduce tariffs for manufactured products using a formula and over a specific period of time. For developing countries this has to do with the speed and depth of tariff reduction, the removal of tariff peaks and escalation in developed country markets. There is also the specter of non-tariff barriers rising, in the absence of any agreement to discipline its use such as with regard to anti dumping, as tariffs fall, which can negate improved market access. The recent case of US tariffs on steel and in particular zeroing in on a number of Chinese products such as textiles and electronics, are particularly worrying.

Contingent Protection has in fact been biased against small and poor countries, who have initiated 12 percent of antidumping cases but have been the main target (62 percent of cases). In order to address the needs of poor countries as they become more competitive, is to increase the threshold that poorest countries exporting a product before initiating anti dumping case, and threshold reduced as the poor country "graduates".

iii. Trade in Services

Liberalization in trade in services can yield potential gains, but developing countries will face difficulties in achieving across the board liberalization, because of difficulties in creating the institutional and regulatory set up and addressing non economic objectives such as universal provision. Therefore, the multilateral trading system can set up the framework, but full liberalization can only be achieved in the longer term. Some have suggested 2015 for developed countries and longer for developing countries with “opt in” option for the poorest developing countries (S&D). This allows the poorest countries which have limited regulatory capacity to not participate in the liberalization commitments initially, but to join the agreement later without having to renegotiate. This means they can focus on the few services of interest and their resources and energy to domestic regulatory reforms. Within this framework, developing countries can prioritize opening mode 3 that is allowing foreign companies to establish themselves to provide services (mode 3), and fight for a major issue that can be beneficial for developing countries, the movement of workers to provide services (mode 4). The latter can be a major source of foreign exchange revenues as well as human capital building.

iv. Accession to the WTO by Poor Countries

The current group of 49 LDCs account for 0.5 percent of world trade and unprocessed primary products accounted for approximately 62 percent of their exports. No LDC has been admitted since the establishment of the WTO in 1995 and stringent requirements are imposed on their accession. Therefore, the issue that arises is what kind of degree of flexibility can be given to LDCs in undertaking their commitments and obligations to become WTO members?

v. Not Broadening the Agenda

Implementation of the Uruguay Round agreement has not even been completed by developing countries, and to add new issues being introduced will stretch the already thin capacity of most developing countries and it is also questionable that WTO as an institution can cope with the broader mandate. As for the "Singapore issues" -- negotiations on investment, competition policy, government procurement and trade facilitation -- most developing countries have not agreed to start negotiations because of capacity, and a lack of understanding of these complex issues.

C. Other International System Topics to be Addressed by TF1

In preparation for its final report, the Task Force aims to address the following crucial topics: (1) regional development strategies; (2) migration and remittances; and (3) global public goods.

CHAPTER V. Applying the Enhanced MDG Strategy in Tanzania

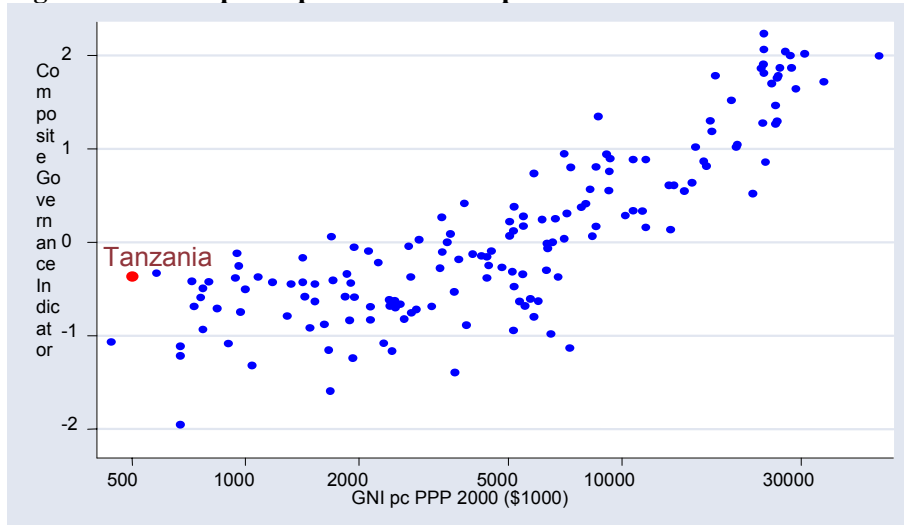
The previous chapters of this report have put forward an analytical framework for understanding why poverty traps occur, a policy framework for multi-sectoral investment strategies to escape such traps, and an operational framework through which countries can plan to achieve the MDGs with the coherent support of the international system. This chapter applies these concepts schematically to a country, Tanzania, with particular emphasis on understanding the multiple dimensions of Tanzania’s poverty and the broad public investment approach needed for Tanzania to achieve the MDGs.

To stress, this chapter presents only a sketch of how Tanzania might undertake an MDG needs assessment and plan for achieving the MDGs. A full MDG needs assessment and plan could only be conducted by the government with participation of all stakeholders and support from the UN Country Team. In fact, Tanzania is in the process of revising its PRSP during the 2004 calendar year, thus providing an excellent opportunity for a detailed assessment of Tanzania’s needed investments and policy plans to achieve the MDGs.

1. Tanzania’s current MDG situation.

Tanzania is one of the poorest countries in the world, suffering from extremely high levels of income poverty and basic needs poverty. Nonetheless, its level of governance is above average relative to its per capita income, as shown in Figure V.1 below, making it an important case study among low-income countries struggling to achieve the MDGs. In addition to the extreme levels of poverty, progress towards the Goals was limited during the 1990s, as summarized in Table V.1.²⁵ These conditions of extreme poverty and slow progress led Tanzania to be identified as an MDG “top priority” country in the 2003 *Human Development Report*.

Figure V.1: GNI per capita versus Composite Governance Indicator²⁶



Source: World Bank (2003c), Kaufmann et al. (2003)

²⁵ All indicators from the World Bank unless otherwise indicated.

²⁶ Composite governance indicator defined as the mean of indicators on control of corruption, government effectiveness, quality of institutions, regulatory quality, and rule of law (Source: based on data from Kaufmann et al. (2003)).

Table V.1: Status of MDG indicators in Tanzania

Indicator	Starting year value (1990)	Ending year value (2000)	Linearly projected 2015 value	MDG target value	Status
Proportion below poverty line	39% (1992)	36%	30%	20%	Off Track
Prevalence underweight children	30%	25%	18%	15%	Off Track
Primary net enrollment	51%	88% (2003)	100%	100%	On Track
Literacy of 15-24 year olds	75% (1985)	82%			
Ratio female enrollment primary	.82	0.95 (2003)	1.00	1.00	On Track
Ratio female enrollment secondary	.62	0.84 (2003)	1.00	1.00	On Track
Maternal mortality (per 100,000)	530 (1996)	-	-	133	
Under five mortality rate (per 1,000)	141 (1992)	147 (1999)	161	47	Off Track
Infant mortality rate (per 1,000)	92 (1992)	99 (1999)			
% with access to improved water (urban)	83%	86%	91%	92%	Off Track
% with access to improved water (rural)	45%	48%	53%	73%	Off Track
% with access to improved sanitation (urban)	53%	53%	53%	77%	Off Track
% with access to improved sanitation (rural)	46%	41%	34%	73%	Off Track

A. Poverty and Population Growth

Income poverty in Tanzania is severe. The country has one of world's lowest per capita national incomes, currently estimated at \$257.²⁷ During the 1990s, economic growth was virtually non-existent, averaging 0.1 percent on an annual per capita basis (World Bank 2003c). Closely related, the incidence of extreme poverty is widespread in Tanzania. The absolute number of people below the national basic needs poverty line²⁸ increased from 9.5 million in 1991/92 to 11.4 million in 2001/2002.²⁹ Over the same period the number of people below the food poverty line rose from 5.4 million to 6.0 million (URT 1993, 2003a). While the absolute number of extreme poor increased, the increase occurred amidst significant population growth, so there was a slight reduction in the proportion of basic needs poor, from 39 percent to 36 percent.³⁰ Regarding the spread of gains over the period, the Tanzania Household Budget Survey statistics show a slight increase in inequality over the same period, with a Gini coefficient increasing from 0.34 to 0.37 (URT 1993, 2003a). While the majority of the poor continue to live in rural areas, where 39 percent of the population falls below the basic needs poverty line, urban poverty is of growing concern as the urban population continues to grow (URT 1993, 2003a).

²⁷ World Bank 2003c.

²⁸ The food poverty line is defined as the minimum income required to afford a basic basket of food consumption..

²⁹ URT 2003a.

³⁰ Household Budget Surveys 2000/01

The demographic transition in the country has barely begun with fertility rates still at 5.3 children per woman in 2000, down only slightly from 6.3 in 1990 and 6.8 in 1960 (World Bank 2003c). This is roughly equivalent to the average fertility rate for Sub-Saharan Africa of 5.2, but much higher than the average of all low-income countries (3.6). As a result, over 45 percent of Tanzania's population is below 15 years of age – a share that has barely declined from a peak of 48 percent in 1980.

In response to the falling fertility rate and increased mortality rates due to HIV/AIDS, population growth in Tanzania has decelerated to 2.2 percent in 2000 from 3.2 percent in 1990 (World Bank 2003c) with much of this growth now taking place in urban areas. Overall, the country's population is expected to increase from 34 million today to 46 million in 2015 (UN 2002a).

B. Hunger

Hunger, malnutrition and lack of food security are all serious problems in Tanzania. Average per capita food consumption is merely 1,940 kcal per day, compared to a world average of 2,808 kcal per day. It is estimated that 25 percent of all children under the age of five suffer from malnourishment and are underweight. In addition, no progress has been made in reducing malnutrition during the 1990s since the proportion of severely underweight children has *increased* slightly on the mainland from 28.8 percent in 1991/92 to 29.4 percent in 2000.³¹

Severe and prolonged malnutrition leads to widespread stunting. In 1996, 43 percent of the children under five were found to be stunted (low height for age) and 18 percent were severely stunted (PRSP). In addition, large proportions of Tanzania's population suffer from malnourishment resulting from inadequate intake of nutrients. Especially, vitamin and mineral deficiencies are widespread, particularly among young infants and adolescent girls and women.

Clearly linked to this severe hunger situation is falling capita food production in Tanzania, which reached a peak in the late 1970s and has declined by 32 percent since then (FAO 2003a). In comparison, average per capita food production has also fallen in Sub-Saharan Africa as a whole, but only by 11 percent. In Tanzania, declining soil nutrient quality and very low rates of mechanization and animal traction have rendered agricultural productivity stagnant at 1.2 tons per hectare over the past decade.

The majority of Tanzania's small-scale farmers rely on rain-fed agriculture with only 3.3 percent of total cropland under irrigation (FAO 2003a). As a result, annual agricultural output is highly variable with an average variation from the mean of over 9 percent during 1992-2001, compared to a world average variation of only 3.5 percent (FAO 2003a). Given the low levels of food production, this high variability leads to severe periodical food shortages in parts of the country.

As further discussed below, Tanzania's rural transport infrastructure is poor, and most small-scale farmers are disconnected from regional and national markets. This makes it harder for them to gain access to cheap agricultural inputs and the urban markets for their produce. Poor access to farming inputs is reflected in the application of only 5kg of fertilizers per hectare cropland, compared to a world average of 94kg.

C. Education

Primary school enrollment in Tanzania increased significantly during the 1990s to a net enrollment rate of 88 percent, and the country is on track for achieving the corresponding MDG.

³¹ World Bank 2003c.

In addition, dropout rates have come down to 6 percent. However, the primary school system suffers from poor quality. Repetition in primary school is high and pass rates for the primary learning exams have been reported to be as low as 20 percent (UNDP 2002a). Moreover, transition rates to secondary schools remain extremely low (UNDP 2002a), especially for girls, and the country's secondary school enrolment rates are among the lowest in the world.

These problems in the area of education are exacerbated by the growing impact of the HIV/AIDS pandemic coupled with limited resources to treat infected teachers and to replace the dying ones. Furthermore, the high levels of poverty prevent households from meeting school fees and other related costs that act as a major deterrent towards further increasing and maintaining primary school enrolment rates.

D. Gender

Overall, Tanzania has made good progress towards achieving gender equality as measured by the MDG indicators. Gender parity in primary school enrolment has largely been achieved, even though girls continue to suffer from much higher drop-out rates than boys – especially at the secondary school level. The major challenges today include improving girls' performance relative to boys' in primary school exams and increasing public awareness of socio-cultural practices that discriminate against girls and women. Violence against women remains a significant problem that requires urgent action by the government and civil society.

E. Mortality and life expectancy

Life expectancy in Tanzania is low at 44 years, having *decreased* by 6 years between 1990 and 2000, primarily due to the HIV/AIDS pandemic (World Bank 2003c). Maternal mortality rates are extremely high, measured at 530 per 100,000 live births in 1996 (URT 1997). Since then national statistics offices have stopped tracking this critical indicator, so no trend data are available. The main drivers of maternal mortality include unsafe abortions, eclampsia, hemorrhage, anemia, and obstructed labor. Without dramatically increasing access to emergency obstetric care and reproductive health services, it will be difficult to bring down high maternal mortality rates. This picture of deteriorating health outcomes is further compounded by child mortality rates that have *increased* from 141 per 1,000 live births in 1992 to 147 in 2000 (URT 2000c).

F. HIV/AIDS, malaria, TB, and other infectious diseases

It is estimated that over 10 percent (URT 2002c) of the adult population in Tanzania is infected with HIV/AIDS. The gender dimension of HIV/AIDS also is significant, with women now accounting for the majority of the infected population. At present, AIDS is the leading killer disease in the age group 15-59 years. It accounts for as much as 35.5 percent and 44.5 percent of male and female deaths in that age group in Dar es Salaam (URT 2002b). The active labor force is estimated to be 9 percent smaller today than it would have been in the absence of AIDS.

The situation regarding malaria remains equally severe. Virtually all of Tanzania is an endemic malaria area. According to the government, the annual incidence ranges from 400-500 cases per 1,000, accounting for approximately 30 percent of the country's total disease burden and 17 percent of all deaths (URT 2003g). The number of clinical malaria cases per year is estimated to lie between 14 and 18 million with a mortality rate that ranges from 140 to 650 per 100,000 people, depending on geographical location (URT 2003c). The country's predominant malaria vector is *anopheles gambiae*, which is notoriously difficult to contain, and more than 95 percent of reported malaria cases are *plasmodium falciparum*, the most lethal form of the parasite.

According to WHO 2001 data, Tanzania is one of the 22 countries with the highest TB burden. Approximately 124,000 cases of TB occur each year in Tanzania, which is equivalent to an incidence rate of 344 per 100,000. With the growing HIV/AIDS pandemic, TB incidence has risen by over 100 percent over the past 15 years. In addition to the three major infectious diseases, respiratory tract infection and diarrhea contribute to high morbidity and mortality. Epidemics like cholera appear regularly in Tanzania.

G. Environmental degradation and ecosystem stress

Some 60 percent of the land area is classified as dryland, which is particularly vulnerable to environmental change and threatened by desertification (URT 2001). Poverty and environmental degradation have entered into a vicious spiral in many rural parts of the country, where rapid land degradation intensifies poverty, which in turn accelerates land use change and ensuing desertification.

One important driver of desertification is deforestation. It is estimated that approximately 91,000 hectares of forest were destroyed between 1990 and 2000 through unplanned forest clearance for agriculture, forest fires, rising demand for fuelwood and charcoal, and other non-sustainable forest resource uses (FAO 2001).

Freshwater ecosystems, particularly Lake Victoria and Lake Tanganyika, are heavily degraded. For example, eutrophication of Lake Victoria and overfishing of Lake Tanganyika have decreased fish stocks and, at least in Lake Tanganyika, have contributed to rises in schistosomiasis. Coastal erosion presents an additional environmental concern.

Tanzania's vulnerability to droughts is high and has been rising over the past years. According to the OFDA/CRED International Disaster Database, approximately 1.3 million people were affected by drought in 2000. These problems are likely to aggravate with climate change caused by anthropogenic emissions of greenhouse gases, which will worsen food security in East and Southern Africa. Potential crop yields are expected to fall with even minimal increases in temperature, because such crops are near their maximum temperature tolerance. In addition, Tanzania's dryland/rainfed agriculture is particularly vulnerable to increased precipitation variability projected to occur as a result of long-term climate change (IPCC 2001). In addition to worsening food security, climate change is also likely increase the geographical spread of endemic malaria and other vector-borne diseases.

H. Water and sanitation

Preliminary estimates recently calculated by WHO and UNICEF suggest that progress towards meeting the water and sanitation goals in Tanzania has been slower than previously thought. Between 1990 and 2002 access to improved water supply increased only slightly from 83 percent to 86 percent in urban areas and from 45 to 49 percent in rural areas. This pace of progress is insufficient for meeting MDG Target 10 on access to water supply by 2015. The proportion of people with access to improved sanitation in urban areas is estimated to have *stagnated* at 53 percent between 1990 and 2002, while the proportion has actually *declined* in rural areas from 46 percent to 40 percent of the population.

Importantly, Tanzania as a whole does not suffer from serious water stress since it only withdraws 1.6 percent of its annual renewable water resources (FAO 2003b). Hence per capita freshwater availability does not appear to be a major constraint in expanding access to improved water supply. Instead additional investments in infrastructure, behavior change programs and maintenance and operation will be required to reach the Goals.

I. Slum population

While the incidence of poverty in cities is lower than in rural areas, urban poverty and rapid slum formation are of growing concern. Tanzania has one of the highest shares of slum dwellers in the world, with more than 90 percent of the urban population, or roughly 12 million people, living in slum-like conditions (UN-Habitat 2003).³² This ratio is significantly above the average for Sub-Saharan Africa, which lies at roughly 72 percent. The country's relatively low rate of urbanization of 33 percent is projected to rise sharply through urban population growth of close to 5 percent per year (UN 2002a). Hence the number of slum dwellers is likely to increase dramatically unless corrective action is undertaken.

J. Infrastructure and energy

The country's road network is small and in very poor condition. It requires urgent upgrading and extension. The total density of paved roads is estimated at 0.11 km per 1000 people, compared to an average of 0.40 for low-income countries (World Bank 2003c). Across the country 67 percent of the road network is in either fair or poor condition (URT 2000a). The absence of a well-functioning road transportation network makes it impossible for food surpluses generated in some regions to be transported to food-insufficient regions at acceptable cost, thus fuelling hunger and malnutrition in remote parts of the country. Tanzania's information and communication infrastructure is also very limited with only 5 telephone mainlines per 1000 people, compared to the low-income country average of 27 (World Bank 2003c).

As this report has outlined, improved access to energy services is crucial for achieving the MDGs, even though there is no official MDG on energy. In Tanzania, access to improved sources of energy remains low. Biomass-based fuels (especially charcoal and firewood) account for over 90 percent of the country's energy sources (URT 2002a). Commercial energy sources, such as petroleum and electricity, make up only 8 and 1.2 percent, respectively, of the primary energy used. As a result, indoor air pollution is a serious problem in Tanzania, contributing significantly to the high levels of child and maternal mortality. Electricity consumption in the country stands at 55.6 kWh per capita and trails behind the average for low-income countries (352.5 kWh) (URT 2002a, World Bank 2003c). In addition to intensifying non-income poverty, the poor access to energy services in Tanzania constitutes a major constraint on the development of the private sector.

³² We are very grateful to UN-HABITAT for providing country-level estimates of the number of slum dwellers. Regional aggregates of these estimates have been published in UN-Habitat (2003).

2. Current Policy Responses

A. Alignment of National Policies with the MDGs:

Tanzania developed its Poverty Reduction Strategy Paper in 2000 after qualifying for the Heavily Indebted Poor Countries (HIPC) Initiative debt relief program in the late 1990s. The PRSP outlines a short-term strategy, which is set in the context of, and seeks to operationalize, Vision 2025³³ and the National Poverty Eradication Strategy (NPES)³⁴. Since the PRSP was drafted in 2000, it does not explicitly refer to the Millennium Development Goals. It is currently being reviewed and will be aligned more closely with the MDGs.

The PRSP identifies 3 major objectives: (i) reducing income poverty, (ii) improving human capabilities, survival and social well being, and (iii) containing extreme vulnerability among the poor (URT 2000B).³⁵ It also identifies 6 priority areas: Agriculture, Primary Education, Rural Roads, Water and Sanitation, the Legal and Judicial System, and Health. The 2002 Progress Report of the PRSP further adds private investments in agriculture and expanding secondary education to this list (2003g). Several cross-cutting challenges are also identified in the PRSP, including HIV/AIDS, environmental degradation, gender inequality, and governance.

The MDGs have been built into the PRSP Progress Reports and several of the Sector specific Plans since 2000. Table V.3 below compares the Tanzanian PRSP goals to the MDGs, with the more ambitious targets shaded in gray. Interestingly, many of the PRSP objectives are equivalent to or more ambitious than the MDGs. However, important gaps remain for which the PRSP currently sets lower targets or no targets at all, as in the case of HIV/AIDS, and the environment.

B. Current Resource Mobilization:

While the level of ambition in setting the PRSP targets is largely consistent with the MDGs, there is a clear acknowledgement within the PRSP and subsequent core Tanzanian planning documents that domestic resource mobilization is insufficient to meet those Targets.

The government continues to implement policies that can enhance domestic resource mobilization and to give priority to funding poverty reduction programs. In fiscal year 2001/02, domestic resources reached \$1.2 billion, which is about 70 percent of the minimum requirements of the priority sectors as identified in the Medium Term Expenditure Framework (MTEF), which stood at 1.7 billion. In the medium term, priority sector requirements are projected to be much higher, as sector development programs become operationalized. **Table V.2** shows the budget framework for the years 2001/02-2004/05.

³³ Vision 2025 is a long-term development strategy that defines the overall level of development the country wants to achieve by the year 2025 for the Mainland Tanzania. Its major goals are to have high quality of livelihood, peace, stability and unity, good governance, educated and learning society and competitive economy capable of producing sustainable growth and shared benefits by the year 2025.

³⁴ This is a medium-term strategy, which sets a wide range of more specific poverty reduction targets. Its overall objective is to reduce abject poverty by 50 per cent by 2010 and eliminate abject poverty completely by 2025.

Table V.2: Budget Framework, 2001/02-2004/05 (million 2001 US\$) (URT 2003f)

	2001/02	2002/03	2003/04	2004/05
	Actual	Budget	Projection	Projection
Total Resources	1,857	2,533	2,524	2,642
Domestic revenue	1,191	1,338	1,479	1,661
Budget support loans and grants	247	330	350	367
Project loans and grants	336	713	606	515
HIPC relief (ADB, IMF, WB)	69	91	89	99

i. Agriculture: The Agriculture Sector Development Plan (ASDS 2001) and the Rural Development Strategy (RDS 2001) focus on strengthening the institutional framework, creating a favorable environment for commercial activities, clarifying public and private roles in improving services, strengthening marketing efficiency for inputs and outputs, and mainstreaming planning for agricultural development in other sectors. The Government has budgeted \$73.4 million in 2002/03 – 90 percent of which is financed through donors. Additional donor support of \$19.1 million has also been budgeted for 2003. This translates into total public spending of approximately \$2.0 per capita.

ii. Primary Education: The 5-year Primary Education Development Plan (PEDP 2001) forms the basis of the national planning process around primary education. The main policy areas include abolition of school fees, hiring and training of additional teachers, construction of classrooms, and a focus on increasing retention of students and overall quality of education. In 2001, the actual public expenditure on primary education was \$133.1 million. This is equal to approximately \$3.7 per capita.

iii. Health: The government has drafted and is in the process of implementing the Health Sector Reform (HSR) program. The main focus is on increasing coverage of immunization programs for infants, and developing and implementing plans to limit the spread of HIV/AIDS. Total budget allocations are estimated at \$114.2 million in 2003, or approximately \$3.2 per capita.

iv. Rural Roads: Between 2002-2005, the Tanzanian government has budgeted \$1.03 billion to construct and upgrade 67,892km of rural roads. Current budget allocations cover \$819.9 million, leaving a resource gap of \$143.9 million by 2005.

v. Water: The government aims at increasing the sustainable access to safe, clean and adequate water in rural, urban and peri-urban areas, developing sewerage facilities in urban areas, implementing integrated water resource management, and protecting water sources from pollution. Total budget allocations to meet the water and sanitation targets are estimated at \$36.1 million in 2001, which is equivalent to approximately \$1.0 per capita.

C. PRGF/PRSC Arrangements:

The new IMF Poverty Reduction and Growth Facility (PRGF) for 2003-06 supports the Tanzania government's three-pronged strategy of mobilizing revenues to improve domestic saving and reduce aid dependence, liberalize trade, and remove key impediments to growth (IMF 2003b). The key macroeconomic objectives supported under the PRGF include the improvement of tax policy and administration, financial sector reform, improvement of the investment environment and governance.

Table V. 3: Comparison of Tanzania's PRSP Goals to the MDGs³⁶

MDG	MDG Target	Tanzania's PRSP Goal
1. Eradicate extreme poverty and hunger	a.Reduce by half the proportion of people living on less than a dollar a day	a. Reduce proportion of population below the poverty line by half from 35.7% in 2000/01 to 17.8%by 2010
	b. Reduce by half the proportion of people who suffer from hunger	b. Reduce the proportion of food poor by half from 18.7% in 2000/01 to 9.3% by 2010 c. Reduce the prevalence of stunting from 43.4% in 1999 to 20% by 2010 d. Reduce the prevalence of wasting from 7.2% in 1999 to 2% by 2010
2. Achieve Universal Primary Education	a. Ensure that all boys and girls complete a full course of primary schooling	a. Increase primary net enrolment from 85% in 2002 to 90% by 2005 b. Reduce illiteracy by 100% by 2010
3. Promote gender equality and empower women	a. Achieve gender equality in primary, secondary and tertiary education, preferably by 2005 and no later than 2015.	a. Achieve gender equality in primary and secondary education by 2005
4. Reduce Child Mortality	a. Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate	a. Reduce infant mortality from 99 per 1000 in 1997 to 50 per 1000 by 2010 and 20 per 1000 by 2025
5. Improve Maternal Health	a. Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio	a. Reduce maternal mortality by half from 529 per 100,000 in 1994 to 265 per 100,000 by 2010 b. Increase births attended by a skilled health worker from 36% in 1999 to 80% by 2010
6. Combat HIV/AIDS, malaria, and other diseases	a. Have halted by 2015 and begun to reverse the spread of HIV/AIDS	<i>No clear target</i>
	b. Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases	a. Decrease the rate of malaria in-patient fatality rate from 12.8% in 1999 to 8% in 2010.
7. Ensure Environmental Sustainability	a. Integrate the principles of sustainable development into country policies and program and reverse the loss of environmental resources	<i>No clear target</i>
	b. Halve, by 2015, the proportion of people without sustainable access to safe drinking water	a. Increase the provision of clean water access in rural areas from 48.5% in 2000 to 85% of the population by 2010
	c. Have achieved, by 2020, a significant improvement in the lives of at least 100 million slum dwellers	<i>No clear target</i>

³⁶ The targets are based on the revised PRSP targets in the PRSP Progress Report 2001-02.

The document states that

The government reaffirms its commitment to reducing poverty and reaching the Millennium Development Goals (MDGs). The authorities are integrating these objectives into the PRSP process, including the ongoing public expenditure reviews and MTEF. The

PRSP Progress Report recognizes that to reduce aid dependency and enhance priority sector outlays, efforts at mobilizing revenue will have to be reinforced. It furthermore notes the importance of improving the business climate. The new PRGF-supported program supports these goals and the authorities' efforts to consolidate macroeconomic stabilization. (IMF 2003b).

In May 2003, the International Development Association (IDA) approved a US\$132 million Poverty Reduction Support Credit (PRSC) to focus on private sector development and public sector management. Conditionality under this credit is linked to progress in the implementation of the PRS, institutional reforms, debt, and financial management.

D. ODA levels and Trends:

In 2001, total ODA commitments to Tanzania reached over \$1,440 million. It is difficult to allocate specific aid flows to specific MDGs and to identify which aid flows are contributing to MDG achievement and which ones are not. The OECD Development Assistance Committee (DAC) has, however, developed a methodology to allocate ODA commitments to individual MDGs³⁷. In applying that methodology, we estimate that roughly 60 percent of these ODA commitments were devoted to areas directly related to the MDGs.

3. Basic strategy for achieving the MDGs in Tanzania

To achieve the MDGs, Tanzania needs to exit the poverty trap and develop the conditions for sustained market-based economic growth. Doing so will require major public investments, strengthened respect for human rights, and improved governance to achieve simultaneous progress across the six policy clusters put forward in Chapter 4. The logic of the proposed MDG strategy is one of public investments since the poor cannot pay fully for the required services and infrastructure. In addition, many of the investments exhibit positive externalities and do not generate any immediate financial return over acceptably short period, which make it impossible to rely on private financing for the bulk of the required investments.

The MDG strategy presented here differs markedly from the approach advocated in the PRGF and the PRSC, which focuses on reducing aid dependence. Given the depth of income and non-income poverty and human deprivation in Tanzania, the country will not be able to achieve the MDGs without substantial and sustained increases in ODA, which, of course, need to be complemented and accompanied by good governance in terms of human rights, economic policies, and well-functioning institutions. Below we identify some key elements of an MDG-strategy for Tanzania.

³⁷ We thank Brian Hammond of the OECD DAC for sharing this methodology with us. David Simon conducted this analysis for the Task Force using DAC data for Tanzania.

Policy cluster 1: Increased public investments in human needs

Health outcomes in Tanzania are extremely poor and have been deteriorating during the 1990s as summarized above. It is therefore critical for the country to strengthen its health system with particular emphasis on reducing maternal and child mortality rates, as well as fighting HIV/AIDS, malaria and TB. Currently, public health spending is approximately \$4 per capita, which is much less than the minimum \$35-40 per capita estimated as necessary by the WHO (WHO 2001).

While much progress has been made in increasing primary school enrolment in Tanzania and literacy rates among the under 25-year old have increased steadily, additional investments are required to increase primary school completion rates – particularly for girls – and to improve the quality of teaching. Critically, secondary education needs to receive increased attention, since Tanzania continues to have one of the lowest rates of secondary school enrolment in the world.

Direct and indirect user fees for primary education and basic healthcare, including treatment of HIV/AIDS, need to be abolished to allow poor people to access these services. The challenge therefore remains to sustain the resources flowing into both sectors, which is necessary to scale up human resources and to improve quality. In particular, resource inflows from donors continue to be unpredictable and exhibit high variation, thus making long-term planning for the necessary scaling up of human resources difficult. A facilitating factor towards rapid increases in the number of teachers may be that Tanzania has significant numbers of unemployed teachers, who could presumably be reintegrated into the education sector relatively easily.

Policy cluster 2: Increased emphasis on human rights for women and other excluded groups, with a special focus on the critical role women play in achieving the MDGs

While the extent of gender discrimination in Tanzania is relatively modest compared to other parts of Sub-Saharan Africa, the country does need to strengthen its focus on promoting gender equality. In particular, girls' primary school completion and transition rates to secondary schools need to be increased through improved incentives for families to send their children to school. Particularly in rural areas this will require the abolition of all direct and indirect costs associated with sending girls to school.

In addition, Tanzania continues to have a very high incidence of violence against women that needs to be addressed through a combination of public awareness campaigns, improved counseling, strengthened regulation, and improved enforcement of existing laws.

Policy cluster 3: Promotion of rural development through small-farm productivity in marginal agricultural lands

The agricultural sector is of critical importance to the Tanzanian economy since the well-being of its large rural population or 80 percent of the workforce depend on it. However, the sector continues to decline with per capita food production at the lowest point since 1979. As a result, the country needs to promote investments in increasing agricultural productivity, including improved irrigation and other forms of water management for agriculture; investments in soil fertility, including increased use of fertilizers; and investments in rural transport infrastructure to connect smallholder farmers to the country's urban centers. While raising agricultural productivity is a necessary condition for reducing hunger in Tanzania, it is of course not sufficient. Increasing food production should therefore be accompanied by programs to improve food access and reduce malnutrition among the poorest and most vulnerable segments of the community.

Policy cluster 4: Promotion of competitive urban business environments

Tanzania relies on agriculture for 85 percent of its export earnings. A diversification of the country's economic base into the manufacturing and service sectors is necessary to create new jobs and to reduce poverty. Although only 16 percent of the population lives within 100km from the coast, Tanzania's long coastline and the potential major port of Dar es Salaam provide a strong foundation for developing an export-oriented manufacturing sector. However, transport, ICT and energy infrastructure are severely underdeveloped and in very poor condition. For the country to be able to sustain positive rates of economic growth, important investments will need to be made in these sectors to repair and extend existing networks.

In addition, the government needs to create a sound investment environment and attract key industries, such as textiles and manufacturing, to invest in the country through special industrial development policies. A critical focus of this policy cluster is on promoting science and technology through investments in tertiary education and research capabilities, coupled with improved science advice to policymakers.

Policy cluster 5: Increased focus on rural environmental management

Based on a broad assessment of the links between land protection policies and biodiversity preservation, Tanzania needs to strengthen its environmental management in several respects. First, land management practices need to be improved to maintain agricultural productivity, prevent soil erosion and halt desertification. Second, management of freshwater resources needs to be integrated across the different uses in order to avoid water scarcity. Third, management of protected areas needs to be improved to reduce encroaching and provide an incentive for local communities to protect the areas. Fourth, comprehensive management plans need to be developed and implemented to protect critical ecosystems, such as the large freshwater lakes, rivers and coastal regions. Fifth, environmental regulation will need to be strengthened and all sectoral development plans need to undergo environmental impact assessments. Finally, the country needs to develop a long-term adaptation strategy to climate change in order to minimize the adverse impact on agricultural productivity, public health, and biodiversity.

Policy cluster 6: Emphasis on improved urban management

Urban growth rates in Tanzania are expected to remain very high for the foreseeable future. Hence important investments in urban infrastructure and services, combined with improved urban management and planning will be required to maintain and improve living conditions in cities. A successful MDG strategy therefore needs to focus on extending access to roads and transport services, electricity, water and sanitation, treatment of sewage, and telecommunication infrastructure, as well as improved urban services, such as solid waste disposal. Improved urban management is particularly critical for Tanzania to complement Policy Cluster 4, since new income generating opportunities are likely to occur in the manufacturing and service sectors, which tend to be concentrated in urban areas.

4. Social Outlays and Infrastructure Investments Needed to Achieve the MDGs

To implement these six policy clusters, Tanzania, will need to identify the specific investments and policies necessary to achieve the MDGs. Two studies have recently been conducted to estimate the public investments needed to that end, each yielding different results.

One was conducted by the World Bank, which calculated the investments required for the MDGs in 18 countries, including Tanzania, as part of its preparations for its September 2003 Annual Meeting in Dubai. In its case studies, the World Bank focused mainly on identifying the immediate investments that could be made in Tanzania to *accelerate progress towards* the Goals,

rather than the longer-term investments needed to *achieve* the MDGs. This distinction is critical, since it is not clear to which extent the paper assesses specific investments needed through to the 2015 horizon to reach the MDGs. The analysis underlying the country studies is not publicly available, but the final report does include the following section on Tanzania:

Retrospective. Following a period of mediocre growth performance in the first half of the 1990s, economic reform led to a recovery of growth in Tanzania during the second half of the 1990s and into the current decade, with average GDP per capita growth of around 3 percent over the past four years. The reforms are credited with placing the country on a sustainable growth path, with less vulnerability to external shocks. Tanzania made progress in poverty reduction, primary school enrollment and access to safe drinking water over the period, but experienced some setbacks in under 5 mortality rates and in halting the spread of HIV/AIDS.

Prospective. Economic growth per capita in Tanzania is projected to be around 2.5 percent annually, rising to 3.4 percent if the country can reform its institutional and policy environment to the level of India, Brazil or Namibia. If growth is extended sufficiently to rural areas, the outlook for attaining the MDGs is favorable, with the exception of health. However, economic growth in the projected range by itself is unlikely to lead to the achievement of the MDG goals. Specific efforts to reach the service delivery targets will be required, in terms of both increased aid and enhanced absorptive capacity. Additional public sector investment required to reach the MDG targets is estimated at US\$350 million annually, though the proportion required in aid depends in large measure on the success of efforts to improve domestic revenue mobilization. With almost half of the FY04 fiscal budget financed by foreign credits and grants, debt sustainability will require enhanced grant financing. Institutional quality needs improvement to raise absorptive capacity, particularly at the local level, where education and pay levels of civil servants are low.

If current funding, policies and institutions are continued, Tanzania will likely achieve MDG targets in primary school completion, halting the spread of HIV/AIDS and forests/environment. However, if additional required funding is made available and policy and institutional reforms are undertaken, Tanzania will likely meet MDG goals with regard to poverty, hunger, gender, and the environment, in addition to primary education but will fall short with respect to maternal and child mortality where the impact of HIV/AIDS on mothers and medical personnel will make the targets difficult to reach. (World Bank 2003b)

This figure of \$350 million annually suggests that Tanzania requires approximately \$10 per capita in additional annual assistance to make faster progress towards the MDGs. In this first round of analysis, the document provides few details regarding the assumptions and methodology used to calculate this figure. It is also unclear *how close* Tanzania would get to the MDGs under this resource mobilization scenario. Moreover, it is so far not clear which interventions and targets have been included in the analysis and how investments would be scaled up over time. For example, while the country studies refer to infrastructure as a major constraint towards achieving the Goals, the results do not clarify if transport infrastructure has been included in the needs assessment. In addition, the paper argues that some goals, such as the health goals, may not be met in Tanzania, but at this stage no details are provided on how this conclusion was reached and under which conditions all goals could be achieved.

The study emphasizes “absorptive capacity” constraints on scaling up public investments, but so far does not explain how they have been integrated into the analysis of projected financing needs. While constraints in human resources, management systems and infrastructure can be binding in

the short term, they can be relaxed over the medium term through structured programs and investments. We understand that these questions are being assessed in more detail in the World Bank's follow-up work.

A second study to identify the investments needed to achieve the MDGs in Tanzania was conducted in the latter half of 2003 by the Millennium Project in collaboration with the Economic and Social Research Foundation (ESRF) in Dar es Salaam. In an attempt to develop a rigorous and transparent assessment of the public investments and resources required for Tanzania to achieve the MDGs, this study outlined a detailed set of input and output targets to estimate the infrastructure, human resources and financial resources required to achieve the MDGs.

Some preliminary results from this Millennium Project exercise are summarized in Table V.4, which assumes a linear scaling up of investments over 2005 through 2015. In addition to total resource requirements over the period, the table also projects domestic resource mobilization by estimating possible government and household contributions to meeting the Goals. The difference between domestic resources and total needs yields the external finance required in the form of increased ODA.

It is important to note that this financial framework assumes a significant increase in government expenditures towards the MDGs, with the government increasing MDG budget allocations by 4 percentage points as a share of GDP. It also assumes a simple (but not unreasonable) household spending model, which projects that households with incomes above the national poverty line will contribute to the capital and operating costs in some sectors.

The study estimates that Tanzania will need to spend a total of \$74 per capita in 2005, increasing to \$110 by 2015, to meet the MDGs. This translates into a total investment need of \$44.1 billion between 2005 and 2015, which is equivalent to an average annual per capita need of \$95. Of the \$95, it is projected that \$39 can be financed domestically through household and government contributions while the average external financing need is roughly \$57 per capita per year. This compares to current *total* ODA commitments to Tanzania of \$1,440 million in 2001, or \$41 per capita.

Note, however, that the current ODA figures are not directly comparable with the MDG-based ODA calculations since the latter only cover investments required for achieving the MDGs and therefore form a subset of national budget requirement and the range of activities currently financed through ODA. It should further be noted that the resource requirements reported in Table V.4 do not cover all interventions required for achieving the MDGs in Tanzania. The resource needs for several potentially expensive interventions still need to be quantified, as summarized in the box below.

Table V. 4 Preliminary results of Millennium Project – ESRF MDG needs assessment for Tanzania

Summary of projected financial resources required for meeting the MDGs in Tanzania

	Year 2005		Year 2010		Year 2015		Over the full period 2005-2015			
	Annual total (\$m)	Per capita (\$)	Annual total (\$m)	Per capita (\$)	Annual total (\$m)	Per capita (\$)	Overall total (\$m)	Average per year (\$m)	Average per capita (\$)	Average % GDP
Total Cost (Sum of A+B+C below)										
Hunger	163	4.2	337	8.0	365	8.0	3,341	304	7.2	1.6%
Education	377	9.8	499	11.9	686	14.9	5,575	507	12.1	2.8%
Gender Equality	82	2.1	100	2.4	118	2.6	1,086	99	2.4	0.5%
Health	842	21.9	1,483	35.4	1,999	43.5	16,073	1,461	34.8	7.9%
Environment	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.
Water Supply and Sanitation	149	3.9	224	5.3	305	6.6	2,481	225.6	5.4	1.2%
Improving the Lives of Slum Dwellers	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.
Science and Technology	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.
Energy	488	12.7	606	14.4	708	15.4	6,645	604	14.4	3.3%
Roads	750	19.6	815	19.4	879	19.1	8,960	815	19.4	4.4%
Total	2,851	74.3	4,063	96.9	5,061	110.2	44,162	4,015	95.5	21.8%

Summary of projected sources of financing in Tanzania

	Year 2005		Year 2010		Year 2015		Over the full period 2005-2015			
	Annual total (\$m)	Per capita (\$)	Annual total (\$m)	Per capita (\$)	Annual total (\$m)	Per capita (\$)	Overall total (\$m)	Average per year (\$m)	Average per capita (\$)	Average % GDP
A. Household Contributions										
Hunger	-	0.0	-	0.0	-	0.0	-	-	0.0	0.0%
Education	20	0.5	28	0.7	42	0.9	322	29	0.7	0.2%
Gender Equality	-	0.0	-	0.0	-	0.0	-	-	0.0	0.0%
Health	-	0.0	-	0.0	-	0.0	-	-	0.0	0.0%
Environment	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.
Water Supply and Sanitation	69	1.8	106	2.5	149	3.2	1,182	107.5	2.6	0.6%
Improving the Lives of Slum Dwellers	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.
Science and Technology	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.
Energy	161	4.2	217	5.2	268	5.8	2,374	216	5.1	1.2%
Roads	-	0.0	-	0.0	-	0.0	-	-	0.0	0.0%
Total	250	6.5	351	8.4	459	10.0	3,879	353	8.4	1.9%

	Year 2005		Year 2010		Year 2015		Over the full period 2005-2015			
	Annual total (\$m)	Per capita (\$)	Annual total (\$m)	Per capita (\$)	Annual total (\$m)	Per capita (\$)	Overall total (\$m)	Average per year (\$m)	Average per capita (\$)	Average % GDP
B. Domestically Financed Government Expenditures* **										
Hunger	42	1.1	101	2.6	139	3.6	1,056	96	2.3	0.5%
Education	98	2.6	150	3.6	262	5.7	1,762	160	3.8	0.9%
Gender Equality	21	0.6	30	0.7	45	1.0	343	31	0.7	0.2%
Health	218	5.7	447	10.7	762	16.6	5,079	462	11.0	2.5%
Environment	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.
Water Supply and Sanitation	39	1.0	67	1.6	116	2.5	784	71.3	1.7	0.4%
Improving the Lives of Slum Dwellers	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.
Science and Technology	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.
Energy	126	3.3	183	4.4	270	5.9	2,100	191	4.5	1.0%
Roads	195	5.1	245	5.9	335	7.3	2,831	257	6.1	1.4%
Total	739	19.3	1,224	29.2	1,930	42.0	13,955	1,269	30.2	6.9%

	Year 2005		Year 2010		Year 2015		Over the full period 2005-2015			
	Annual total (\$m)	Per capita (\$)	Annual total (\$m)	Per capita (\$)	Annual total (\$m)	Per capita (\$)	Overall total (\$m)	Average per year (\$m)	Average per capita (\$)	Average % GDP
C. Required Total External Budget Support										
Hunger	120	3.1	235	5.4	226	4.3	2,285	208	4.9	1.1%
Education	260	6.8	321	7.6	382	8.3	3,491	317	7.6	1.7%
Gender Equality	61	1.6	70	1.7	73	1.6	743	68	1.6	0.4%
Health	623	16.3	1,036	24.7	1,237	26.9	10,994	999	23.8	5.4%
Environment	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.
Water Supply and Sanitation	42	1.1	50	1.2	40	0.9	515	47	1.1	0.3%
Improving the Lives of Slum Dwellers	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.
Science and Technology	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.	tbd.
Energy	200	5.2	207	4.9	170	3.7	2,171	197	4.7	1.1%
Roads	556	14.5	569	13.6	544	11.8	6,128	557	13.3	3.0%
Total	1,862	48.5	2,488	59.3	2,672	58.2	26,328	2,393	57.0	13.0%

* I.e. government expenditures on the MDGs, which are financed solely through domestic revenue generation

** On a pro forma basis, expenditures are allocated to budget line items based on their relative share of total costs above

The results in Table V.4 provide some interesting insights for MDG-based policy planning. They suggest, for instance, that approximately one third of Tanzania's total investments are required for achieving the health MDGs. HIV/AIDS and malaria stand out as the two critical diseases that require high levels of investments. Underlying these financing figures is the operational point that, to address its health needs Tanzania will need to dramatically scale up the number of doctors employed in the health system. The study tentatively projects that approximately 14,000 doctors and 60,000 nurses will be required by 2015, up from the current figures of 1,500 and 48,000, respectively.

Important cost factors not included in these resource estimates for Tanzania

- Water storage and transport infrastructure, including large-scale irrigation,
- Interventions for improving the lives of slum dwellers,
- Interventions to ensure environmental sustainability,
- R&D expenditures (except for health) and higher education systems,
- Information and communication technologies,
- Ports and railways,
- Large-scale fuel distribution and storage infrastructure, and
- Disaster response and food aid.

Similarly, meeting the education Goals will require major investments – particularly in secondary education. A focus on secondary education is warranted both to promote completion of primary education and to train the number workers needed to satisfy the projected demand for skilled public and private sector employees as other investments are made to achieve the MDGs. Perhaps surprisingly, however, only relatively low resource needs have been projected for secondary schools, which are driven by the fact that current levels of enrolment and therefore operating costs are extremely low. Since the gradual scaling up of secondary education will take time, total education resource needs are lower than in other countries. Tentative results suggest that the total number of primary and secondary teachers will need to double to roughly 215,000 by 2015.

Another important point highlighted by this Millennium Project study is Tanzania's urgent need for investments in the water and sanitation, where progress has been inadequate during the 1990s. The study projects that approximately 6.4 and 8.6 million people will need to be provided with improved access to water supply and sanitation, respectively, in order to meet the MDGs.

5. Conclusion

While the discussion above clearly provides only a rough overview of Tanzania's current situation and the investments and policies it must pursue in order to achieve the MDGs, it aims to provide an outline of how a real MDG-based planning process might proceed. In practice, such an operational goal-oriented planning process in Tanzania would need to follow a three-stage planning process. First, the government would need to conduct a needs assessment that compares its current situation with MDG targets and identifies the combination of public investments that would enable the country to achieve the MDGs by 2015. This needs assessment will identify the particular obstacles that are preventing faster economic development and greater progress towards poverty reduction, covering each of the six policy clusters outlined above.

Second, the government needs to develop a long-term (10-12 year) policy plan for achieving the MDGs. Policies identified in this stage will need to be developed through domestic consultative processes and will need to build upon the results of the MDG needs assessment to identify the mechanisms for delivering necessary goods and services. In several areas this stage will require Tanzania to align its long-range policy plans much more concretely with the MDGs than is currently the case.

The third step will be for Tanzania to construct its medium term (3-5 year) poverty reduction strategy (PRS) and Poverty Reduction Strategy Paper (PRSP) based on the long term MDG plan.

Both the long-term and short-term plans will then need to be periodically reviewed and revised as the country learns from its scale-up experiences and fine-tunes policies towards the MDGs. To be clear, this approach of working backwards from 2015-based plans does *not* suggest creating new poverty reduction processes. It does imply, however, re-formulating the *content* of current approaches based on MDG horizons and transparent needs assessments.

Next Steps

As noted, many of the ideas here are preliminary and require further refinement. During the course of 2004, the Millennium Project Task Force on Poverty and Economic Development will be refining the ideas contained in this document through the continuation of its analytical work and broad public consultation. Readers are encouraged to send comments to the e-mail address listed on the front of this report. The Task Force's final recommendations will be included in a final Task Force report due for completion in December 2004.

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Annex 1: Targeted Income, Safety Nets, and Other Support for Vulnerable Groups⁴⁰

Broadly speaking, social safety nets comprise policies and programs that provide short-term income support and access to basic social services to the poor during economic crises and adjustment programs (IDB, IMF, WB, and ADB, 2001). These programs may not be different from those that address chronic poverty and long-term unemployment. The goal is to recognize, in the design of these policies and programs, that the causes and duration of poverty and unemployment during economic crises and adjustment programs (including those in response to exogenous shocks such as droughts, and fall in commodity prices) may differ from what prevails in more normal periods. As a result, social safety nets focus on immediate relief from the effects of crisis and adjustment programs, as opposed to protecting households against lifecycle contingencies, such as sickness and old-age.

Temporary crises may have adverse long-term consequences to the extent that they erode human capital and labor productivity as well as financial capital of households. This risk is particularly high for the poor in that they may be forced to take their children out of school or reduce their intake of food (Easterly and Fisher, 2001; Guitián, 1998). Transitory social safety nets thus play an important role in mitigating these costs for the individual and for society as a whole.

Countries have employed a number of different instruments as social safety nets. The choice of instruments depends on the existing social protection system, the availability of information on the vulnerability of different groups, administrative capacity, and the availability of budgetary resources in the context of a sustainable macroeconomic framework.

Existing social protection systems. Although some countries—particularly transition economies—have a variety of such instruments, others—notably in Africa—may lack them. Since social insurance programs do not have poverty reduction as their principal objective, they may need adaptation—a process that may generate political resistance, as found in transition economies. In cases where speed is of the essence, the administrative structure of existing instruments can be used to transfer benefits quickly to population groups affected by crises and reforms.

The availability of information. Data describing who the poor are and where they reside may not be available. Even when data are available, they may not reflect recent changes in incomes of households. For example, there are significant changes in household incomes during crises. Therefore, relying on pre-crisis assessments of poverty can fail to capture segments of the population in need of assistance, such as the new poor. Information on the characteristics of the poor is needed for targeting. While means testing may be a preferred targeting method, many countries lack the capacity to implement it effectively, due to the lack of accurate information on individuals and households, or because the poor derive incomes from the informal sector that are difficult to verify. Thus determining eligibility on the basis of income may lead to mistargeting, particularly when administrative capacity is weak. As a result, many programs must rely on indirect targeting mechanisms (for a discussion of targeting methods see Grosh, 1994).

Administrative capacity. In many countries, weak governance and administrative capacity hamper the targeting and delivery of benefits. Weak governance can divert and waste resources; weak administrative capacity results in a lack of cost-effective mechanisms to channel transfers to the designated population groups, insufficient

⁴⁰ Contributed by IMF Fiscal Affairs Department

information on the poor, and insufficient computerization of available data (Gupta and others, 2000). Even where administrative capacity exists, targeting and delivery can be difficult as incomes change over time and frequent updates of data are costly (van de Walle, 1998). The problems of weak administrative capacity are compounded by overlapping responsibilities for social safety net programs across various ministries and departments (Grosh, 1993). Finally, administrative structures may be especially weak at the local level, where benefits are typically disbursed.

Budgetary constraints. A common response to economic crises are fiscal adjustment programs. For emerging market countries, fiscal restraint may be essential for regaining access to financial markets; for others, it is needed to create the conditions for sustainable growth. This suggests that the amount of financing allocated for social safety nets must be consistent with broad macroeconomic goals. Spending on these programs should be fully costed and integrated into the budgets. Channeling more resources to social safety nets may require shifting resources away from other, less critical purposes. Foreign financing—when available and absorbed quickly and productively—can alleviate this pressure on the budget.

Desirable characteristics of social safety nets

To be effective, safety nets should:

1. Strike a balance between the need to provide protection to the poor and maintain appropriate incentives to work. That is, safety nets should not create a culture of dependency among beneficiaries (Atkinson, 1995; Kanbur and others, 1995);
2. Avoid displacing informal mechanisms of income transfer. Private transfers can be large, constituting between 10 and 46 percent of recipient households' incomes, and are typically directed towards vulnerable groups, including the elderly, the disabled, and the unemployed (Cox and Jimenez, 1989). Government support could displace private transfers, with no net gain on the part of beneficiaries, but an increase in public spending;⁴¹
3. Be in place *before* crises occur. Precrisis planning can contribute to the design of effective safety nets. Such planning typically includes an assessment of population groups at risk, the identification of relevant social safety net programs, a sustainable level of financing, and a strategy for expanding or contracting programs during and after the crisis (Ferreira and others, 1999; IADB, IMF, WB, ADB, 2001); and
4. Be transparent and open to public accountability. Mass publicity campaigns should inform the public about the nature and scope of different programs, as well as their eligibility criteria. Periodic, independent evaluations of social safety net programs should be made available to the public.

In what follows, the most common social safety net instruments are reviewed, along with an assessment of their strengths and weaknesses (Gupta and others, 2003).

⁴¹ For a description of public safety nets which complement and extend informal ones, see Morduch and Sharma (2002).

Cash transfers, as opposed to in-kind (often food) transfers, confer the maximum welfare upon recipients, owing to their fungibility. Compared to price subsidies, they have the advantage of not distorting prices, but may create disincentives for labor market participation. Their targeting through means-testing is information-intensive and often proxy-means testing is required by restricting benefits to single mothers, the disabled, elderly, or unemployed.

Price subsidies have low administrative costs and can be implemented very quickly. A drawback is that they are often biased towards the urban poor and difficult to remove (e.g., after a crisis has subsided); they may also entail substantial leakages in that they benefit the population as a whole (Gupta and others, 2000; Cornia and Steward, 1995). One solution is self-targeting by subsidizing goods consumed disproportionately by the poor. In Indonesia, for example, food subsidies were confined during the 1997/98 crisis to rice of lower quality (IMF, 2000b).

Public works programs are a common response to macroeconomic crises, as they can be implemented and removed quickly and, in addition, help create or maintain public infrastructure. Indonesia and Korea implemented public works programs during the Asian crisis, as did Mexico following the 1994 crisis, while Argentina extended an existing program in 2002. Mechanisms of self-targeting are easily incorporated by offering a wage below the market wage for unskilled labor (Subbarao and others, 1997). Should this wage be too low to support a household, the government may offer food as a benefit, possibly of lower quality to encourage self-targeting. Despite their apparent strengths, public works programs have at times proved difficult to administer. A large number of small projects created enormous logistical problems in Indonesia (IMF, 2000b), while in Korea, infrastructure projects tended to be executed in an ad hoc manner and wages were reduced several times because workers were leaving their regular employment.

Extension of existing social protection systems may be an option in some countries. By using administrative structures already in place, this is a speedy way of conferring benefits to the most needy. However, often the schemes intended to alleviate life-cycle contingencies need to be adapted to the crisis situation. Korea, for example, expanded its unemployment insurance programs from firms with more than 30 employees to all firms. Eligibility was also expanded to cover temporary and daily workers. In addition, the required contribution period for benefit eligibility was shortened and the duration of benefits extended. As a result, the number of beneficiaries increased tenfold between January 1998 and March 1999.

Expanding targeted assistance to foster human development can take the form of waivers for fees for health and education services, as well as cash and food transfers in exchange for school attendance or utilization of preventive health care. Initiating or expanding such programs during economic crises may prevent large numbers of people entering the vicious circle of malnutrition, low productivity, and poverty. In Argentina, budgetary allocations for emergency education programs were almost doubled in the wake of the crisis, including (i) school lunches and scholarships for secondary students to encourage attendance and (ii) the provision of learning materials, which may otherwise have been out of reach of poor families. Also, the coverage of emergency health programs was significantly expanded, in particular those focusing on financing immunization, disease control (including AIDS), drugs for primary health centers, and basic maternal and health care. However, these programs tend to be information-

intensive. In Indonesia, beneficiaries of a national scholarship program for the poor were chosen by administrative criteria, combined with recommendations by the school principal, the head teacher, and a representative of the community (IMF, 2000b). Their effectiveness also depends crucially on existing school and health infrastructure, as well as on the opportunity costs of school attendance.

Food stamps and other targeted food-based safety nets have the principal aim of alleviating and preventing malnutrition. In this respect they are superior to cash benefits, in that they are conducive to self-targeting, especially when restricting stamps to inferior foods (albeit enriched with nutrients). They are also believed to have a greater impact on children's health and nutrition, as they often fall under the control of women (Pinstrup-Andersen, 1988; Sanghvi and others, 1995). Still, additionality may be an issue, in that the household head could reduce own expenses for food when allocated food stamps. However, there is some evidence that food stamps have a larger effect on food consumption than cash transfers (Fraker, 1990; Fraker and others, 1995). In addition, some countries may lack the capacity to produce forgery-proof stamps.

The main lessons in effectively implementing social safety nets can be summarized as follows. First, safety net instruments should be in place before a crisis occurs. If adequate information and administrative capacity exist, programs can be better targeted. Second, safety nets should provide adequate protection to the poor, avoid creating a culture of dependency among beneficiaries, minimize disincentives to work, and be consistent with prudent fiscal policy. Third, transparency and accountability in the design and implementation of programs and in the use of resources are critical for the effectiveness of social safety net programs. Fourth, social safety net programs should be coordinated across implementing ministries and departments, as well as different government levels, to avoid inefficient overlap and administrative waste. Finally, during crises, proportional cuts in social spending in general and safety nets in particular should be avoided. If possible, spending should be maintained or increased and key programs should be protected.

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Annex 2: Youth Employment Strategies

Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment.

-Universal Declaration of Human Rights

The commitment to the right to work in the 1948 Universal Declaration of Human Rights draws attention to one of the fundamental human needs. This basic right was recognized as a separate MDG Target (Target 16): “In co-operation with developing countries, to develop and implement strategies for decent and productive work for youth.”

Although the Universal Declaration is remembered by many for the political rights it expresses, it is not only about freedom of speech but also about freedom from fear and want. It is an expression of economic and social rights, such as the right to work, the right to education and social security, the right to an adequate standard of living for health and wellbeing, and the right to rest and leisure for both men and women. It also includes the right to form and join trade unions.

While the Universal Declaration still forms the core framework for global labor standards, that framework is steadily being improved upon and extended. For example, the Declaration on Fundamental Principles and Rights at Work highlights core labor standards as identified at the Social Summit and promotes respect for them amongst states that have not ratified the relevant conventions. Ratification and implementation of international labor conventions not only improves labor standards but also contributes to better worker morale, reduction of absenteeism and accident rates, and so to higher productivity. By August 2002, there were a total of 7075 ratifications of ILO Conventions by the 175 member states of the Organization.⁴² Although the enforcement mechanisms relating to these conventions and other human rights instruments are criticized for their weakness, they reflect the growing emphasis on a human rights perspective in the development agenda.⁴³

Employment in the Poorest Countries

The concept of unemployment is inherently difficult to apply to the poorest countries, where much of the economy is informal or agricultural, the International Labor Organization’s official statistics indicate that, at the end of 2002, 180 million people around the world were openly unemployed (ILO 2003). In addition, roughly 550 million female and male workers were unable to earn enough to keep themselves and their families above the US \$1 a day poverty line, and a billion or so more wage-earners took home less than \$2 per day.

Regardless of the specific numbers of people unemployed, underemployed or employed at extremely low wages, there is now a clear international understanding the job creation needs to be a central component of poverty reduction strategies around the world. Within job creation strategies, an emphasis on youth will be extremely important. The August 2003 Report of the Secretary-General to the General Assembly on Promoting Youth Employment outlined the position (UN 2003a):

⁴² See Sengenberger, 2002, for a comprehensive review of these issues.

⁴³ For example, the report of the Secretary-General, *Strengthening of the United Nations: An Agenda for Further Change*, A/57/387, 30 October 2002.

More than 1 billion people today are between 15 and 24 years of age, and nearly 40 per cent of the world's population is below the age of 20. Eighty-five per cent of these young people live in developing countries where many are especially vulnerable to extreme poverty. The International Labour Office estimates that about 74 million young women and men are unemployed throughout the world, accounting for 41 per cent of the 180 million unemployed persons globally (ILO 2003), and many more young people are working long hours for low pay, struggling to eke out a living in the informal economy. There are an estimated 59 million young people between 15 and 17 years of age who are engaged in hazardous forms of work (ILO 2002a Fig.3). Young people actively seeking to participate in the world of work are two to three times more likely than older people to find themselves unemployed (ILO 2001).

The UN High-Level Panel on Youth Employment articulated a four-part strategy to create more job opportunities for young people in the developing world, focusing on macroeconomic policies; investments in education and training; encouraging entrepreneurship; and promoting equality of opportunities.

A. Employment Creation as a Central Element of Macroeconomic Policy:

In June 2000, the Geneva special session of the UN General Assembly on social development made a commitment to 'Ensuring that macroeconomic policies reflect and fully integrate, *inter alia*, employment growth and poverty reduction goals (UN 2000a, Para 27 (c)). It is therefore inconsistent that, for example, some of the Poverty Reduction Strategy Papers still do not mention employment amongst the goals of macroeconomic policy, and that the international financial institutions do not encourage them to do so. In fact some developing countries still feel that their poverty reduction strategies are less likely to be acceptable to the Boards of the IMF and the World Bank if they include employment growth as one of their principal macroeconomic goals, or focus attention on the issue.

In many countries, monetary policy has and continues to be tightly constrained such that access to credit is difficult and interest rates remain extremely high. It is difficult to overestimate the importance of the availability of credit at manageable interest rates to entrepreneurs in small and medium sized enterprises. Being readily able to borrow at low interest rates is a necessary condition for accelerating the establishment and growth of new enterprises, especially by youth. Meanwhile, fiscal policy can provide powerful instruments for growth of employment opportunities. Employment growth can be encouraged cost effectively by well-chosen expenditure increases aimed directly at equitable improvements in public services, especially education, training, health, housing and infrastructure. It can also be promoted by expanding public infrastructure and services through labor- rather than capital-intensive technologies. For example, core infrastructure like feeder roads, drainage, sewerage and water supply systems, forestry, soil and water conservation, land development, small-scale building and irrigation can all be promoted through labor-intensive or capital-intensive means. ILO experience shows that employment-based approaches are often between 10 and 30 per cent less costly than more equipment-intensive techniques and create between three and five times as much employment for the same investment (Langmore 2003)

B. Increasing Employability by Investments in Education and Training

A focus on employment growth in turn requires increasing attention on secondary, technical education, vocational training, and basic education. Education begins with literacy and numeracy and, despite considerable improvements, many countries still suffer from a large literacy gap.

Moreover, too many young women and men lack the necessary education and relevant training for productive jobs that fulfill their capacities.

The universal commitment to basic education for all is clearly outlined in the MDGs, but the appropriate extent of expenditure on secondary, technical, tertiary and adult education is more difficult to judge, not least because in some developing countries this has to be balanced with the existence of unemployment amongst the well educated. Yet increasing employability involves much more than basic education for all and must include not only secondary and technical training but, now more than ever before, life-long education, for women as well as men. Targeted programmes that combine work experience with classroom training, job search with vocational guidance and counselling can be highly valuable for all youth and especially for those who are or are at risk of being unemployed and who need to attain the social skills and work habits required to access work. Particular attention should be paid to such programs in countries experiencing or emerging from armed conflict. As far as possible, educational programs should contribute to reconciliation and peace building through a non-segregated, non-discriminatory and non-violent educational environment.

C. Encouraging Entrepreneurship

One reason there are too few job opportunities in the world at present is that there are too few employers so support for entrepreneurship is vital. Explicit public encouragement of entrepreneurship can be of particular value in cultivating a culture of attitudes conducive to firm growth. Within the labor-intensive infrastructure programs described above one crucial element of an employment-intensive approach is a tendering system that favors local, small enterprise. Training should also be provided for local and regional government officials administering the system. An excellent program in Ethiopia uses this approach, sponsored jointly by the ILO and the World Bank (Langmore 2003)

Overall entrepreneurship in a country can benefit from assessments of which sectors have the greatest scope for employment growth. Typically agriculture and the informal economy are characterized by a labor force that is self-employed and working outside formal regulation and protection. The best means of assisting them is by providing an enabling regulatory context within which they can take entrepreneurial initiative and organize participatory self-help programs. Public sector service provision – such as the major scale-ups of service delivery activities recommended in this report – can also form a core component of employment growth.

D. Promoting Equality of Opportunity for Employment

In many countries, gender still forms the most basic form of exclusion from labor market participation. Girls still do not have equal educational opportunities with boys, resulting in serious gender educational and literacy gaps. This leads also to a gender gap in recruitment and with job security and advancement. About half of all workers are in gender-dominated occupations in which at least 80 per cent of workers are of the same sex, a form of rigidity that reduces employment opportunity and impairs efficiency as well as equity. Such occupational segregation is also associated with lower pay for women. In crisis situations women are often the first victims of exclusion.

The framework of human rights, including international labor standards – such as equality of opportunity for women and men and all ethnic groups within a society – are essential for overcoming this exclusion. Operationally, a commitment to equality can best be implemented by setting goals and targets to rectify the gender and racial disparities in education, training, the

labor market and access to credit. Equality of opportunity should be mainstreamed into all public policies. To be effective, this requires support mechanisms such as adequate infrastructure, water, and waste disposal services, along with proximity to training and provision of child care.

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Appendix: Country Groupings for Table II.2

"Small & inland" countries

- 1 Afghanistan
- 2 Argentina
- 3 Benin
- 4 Bolivia
- 5 Botswana
- 6 Burkina Faso
- 7 Burundi
- 8 Cambodia
- 9 Cameroon
- 10 Central African Republic
- 11 Chad
- 12 Chile
- 13 Colombia
- 14 Congo DR
- 15 Cote d'Ivoire
- 16 Ecuador
- 17 Gambia
- 18 Ghana
- 19 Guatemala
- 20 Guinea Bissau
- 21 Honduras
- 22 Jordan
- 23 Kenya
- 24 Lao PDR
- 25 Lesotho
- 26 Liberia
- 27 Madagascar
- 28 Malawi
- 29 Mali
- 30 Mauritania
- 31 Morocco
- 32 Mozambique
- 33 Namibia
- 34 Nepal
- 35 Nicaragua
- 36 Niger
- 37 Papua New Guinea
- 38 Paraguay
- 39 Peru
- 40 Rwanda
- 41 Senegal
- 42 Sierra Leone
- 43 Somalia
- 44 South Africa
- 45 Spain
- 46 Sudan
- 47 Syria
- 48 Tanzania
- 49 Togo
- 50 Uganda
- 51 Yemen
- 52 Zambia
- 53 Zimbabwe

"Small & coastal" countries

- 1 Costa Rica
- 2 Dominican Republic
- 3 El Salvador
- 4 Greece
- 5 Haiti
- 6 Hong Kong
- 7 Ireland
- 8 Jamaica
- 9 Lebanon
- 10 Malaysia
- 11 Mauritius
- 12 Panama
- 13 Portugal
- 14 Singapore
- 15 Sri Lanka
- 16 Tunisia
- 17 Uruguay

"Large & coastal" countries

- 1 Indonesia
- 2 Korea
- 3 Philippines
- 4 Vietnam

"Large & inland" countries

- 1 Bangladesh
- 2 Brazil
- 3 China
- 4 Egypt
- 5 India
- 6 Mexico
- 7 Myanmar
- 8 Pakistan
- 9 Thailand
- 10 Turkey