DEVELOPMENT COMMITTEE
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Boards of Governors of the Bank and the Fund
On the
Transfer of Real Resources to Developing Countries)

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GLOBAL MONITORING REPORT 2006: STRENGTHENING MUTUAL ACCOUNTABILITY - AID, TRADE AND GOVERNANCE

Attached for the April 23, 2006, Development Committee Meeting is a paper entitled "Global Monitoring Report 2006: Strengthening Mutual Accountability - Aid, Trade and Governance", which includes the Executive Summary and the Overview Chapter of the full report, prepared by the staff of the World Bank and the International Monetary Fund. The full report will be available as a background document. This item will be considered under Item II of the Provisional Agenda.

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Global Monitoring Report 2006

Strengthening Mutual Accountability - Aid, Trade and Governance

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Strengthening Mutual Accountability -

Aid, Trade and Governance

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ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
AfDF	African Development Fund
AsDB	Asian Development Bank
AsDF	Asian Development Fund
DAC	Development Assistance Committee
GDP	Gross Domestic Product
GNI	Gross National Income
HIPC	Heavily Indebted Poor Country
IDA	International Development Association
IEO	IMF Independent Evaluation Office
IF	Integrated Framework
IFI	International Financial Institution
IMF	International Monetary Fund
JSAN	Joint Staff Advisory Note
LDC	Least Developed Country
LICUS	Low-Income Countries under Stress
MDBs	Multilateral Development Banks
MDGs	Millennium Development Goals
NEPAD	New Partnership for Africa's Development
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OED	World Bank Operations Evaluation Department
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper

Executive Summary and Issues for Discussion

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

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

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

Key Actions to Strengthen Mutual Accountability

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

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

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

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

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

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

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

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

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

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

Following the modest progress with multilateral trade liberalization at the 6th ministerial meeting in Hong Kong, all countries must provide new impetus to rescue the Doha 'development round'. Hope is pinned on new negotiating modalities for agriculture and industrial products, and comprehensive draft schedules for liberalization to be negotiated by end-July 2006. Developing countries' own liberalization also matters, and could account for half of their potential gains from trade reform. Many poor countries are unlikely to gain from liberalization in the short run, particularly in Africa, and new aid-for-trade pledges have been made to assist those that will be hurt. While crucial, aid for trade should not be viewed as a substitute for trade liberalization.

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

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

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

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

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

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

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

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

Issues for discussion

The Report argues that delivering on aid and debt relief commitments made in 2005 requires that: (i) debt relief be 'locked-in' through careful benchmarking and monitoring of flows, and (ii) disbursements and composition of ODA be monitored to track improvements in the quality and modalities of aid linked to MDG-based strategies (less volatile, more flexible, aligned with poverty reduction strategies). It also argues for better tracking of public expenditures and public financial management in recipient countries. Implementation of these commitments is to be monitored in future GMRs.

- How do ministers think that the aid and debt relief commitments made in 2005 can most effectively be locked-in?

- How can recipient countries get the most benefit from the MDRI while avoiding unsustainable future borrowing?

- What specific steps are needed to make aid more predictable, better targeted in support of the MDG agenda, and better coordinated (particularly in the health sector) across donors and global funds?

The discussion of IFI performance focuses largely on the question of IFI progress with Managing for Development Results. The GMR concludes that implementation of the results agenda poses major challenges to both MDBs and partner countries. For the MDBs, the main challenge is to shift from a culture of managing inputs and standardized products (loans and analytic reports), to refocus over a longer horizon on development outcomes. For development partners, strengthening outcome measurement (statistical capacity) and institutional capacity are key challenges.

- What concrete steps do the Ministers recommend for strengthening the results focus in the World Bank and other MDBs, and supporting country statistical and institutional capacity?

The GMR sets out a monitoring framework for governance as a centerpiece of mutual accountability and efforts to advance the MDGs, while underscoring the complexity and importance of governance for development effectiveness.

- Do Ministers agree that governance should be monitored as part of mutual accountability and that greater emphasis should be placed on the development and use of actionable indicators (public financial management, procurement, business environment.)?

The GMR notes that countries may have different mixes of governance strengths and weaknesses and that these need to be taken into account by development partners. Certain forms of assistance are likely to be better suited to conditions of poor governance, while other forms are likely to be more effective where governance is better or is improving.

- How should the development community modify its engagement in countries with very weak or difficult governance?

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

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

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

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

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

Box 1 Global Monitoring Report 2006: six key messages

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

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

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

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

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

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

Part I: Monitoring Progress

Reducing Income Poverty

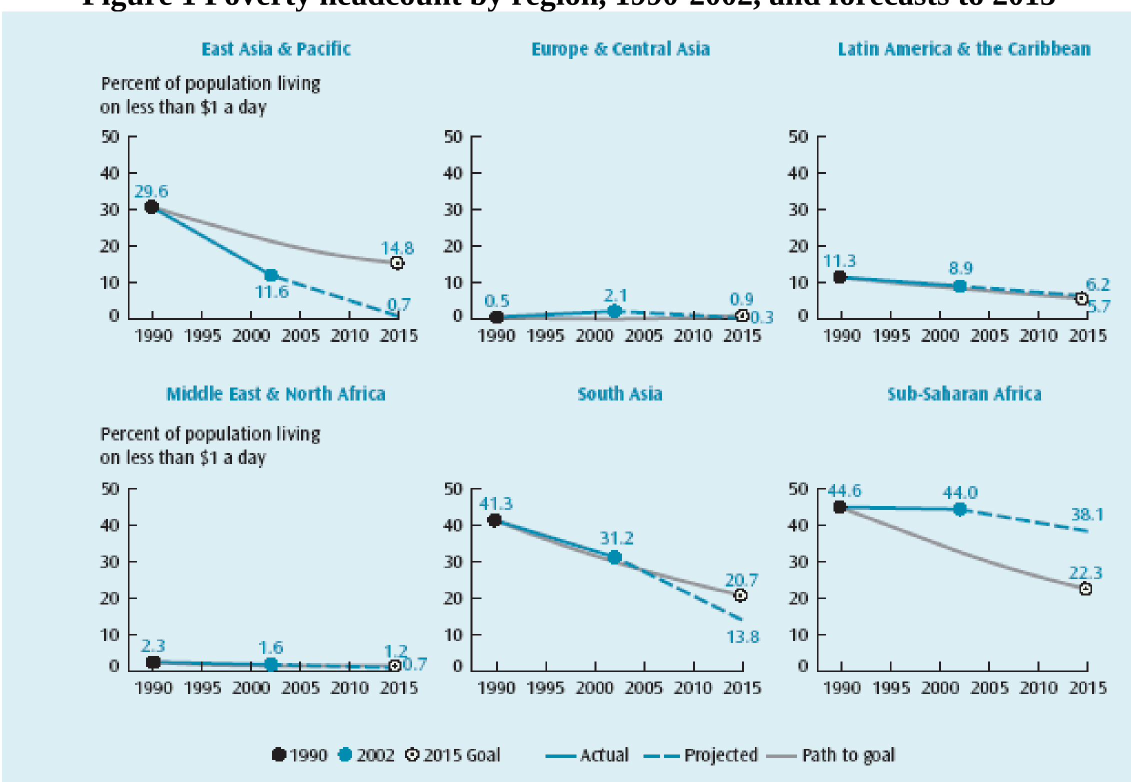
The favorable global growth environment that has helped sustain poverty reduction in recent years continued in 2005**.** Growth per capita for both low and middle-income countries averaged just under 5 percent in 2005, well above historic rates, as buoyant trade, low interest rates, and strong growth in OECD countries helped sustain performance. More rapid growth is likely to have reduced poverty between 2000 and 2005 significantly – simple projections based on aggregate income growth by as much as 10 percent, or over 100 million people.

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

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

However, while strong overall growth has helped reduce poverty, the gains remain uneven. All regions have, to varying degrees, shared in the recent favorable growth, but there are major differences in regional performance in reducing poverty (figure 1), and in individual country performance. Much of the improvement occurred in East and South Asia, and in Eastern Europe and Central Asia, as stronger growth resumed after the Asian financial crisis, and the transition economies adjusted to market systems. In Latin America, growth is up over the past two years, but it is still too low to make strong inroads into poverty reduction. African growth has also improved, outpacing its historical average, by accelerating to more than 2 percent per capita in 2005---but on current trends, few African countries will reach the MDG income-poverty target. However, several countries within Africa have performed well over the last decade, due to a combination of better policies, enhanced trade performance, and foreign aid. This demonstrates the potential for more rapid progress.

Figure 1 Poverty headcount by region, 1990-2002, and forecasts to 2015



Source: World Bank staff estimates.

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

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

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

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

Meeting the Human Development Goals

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

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

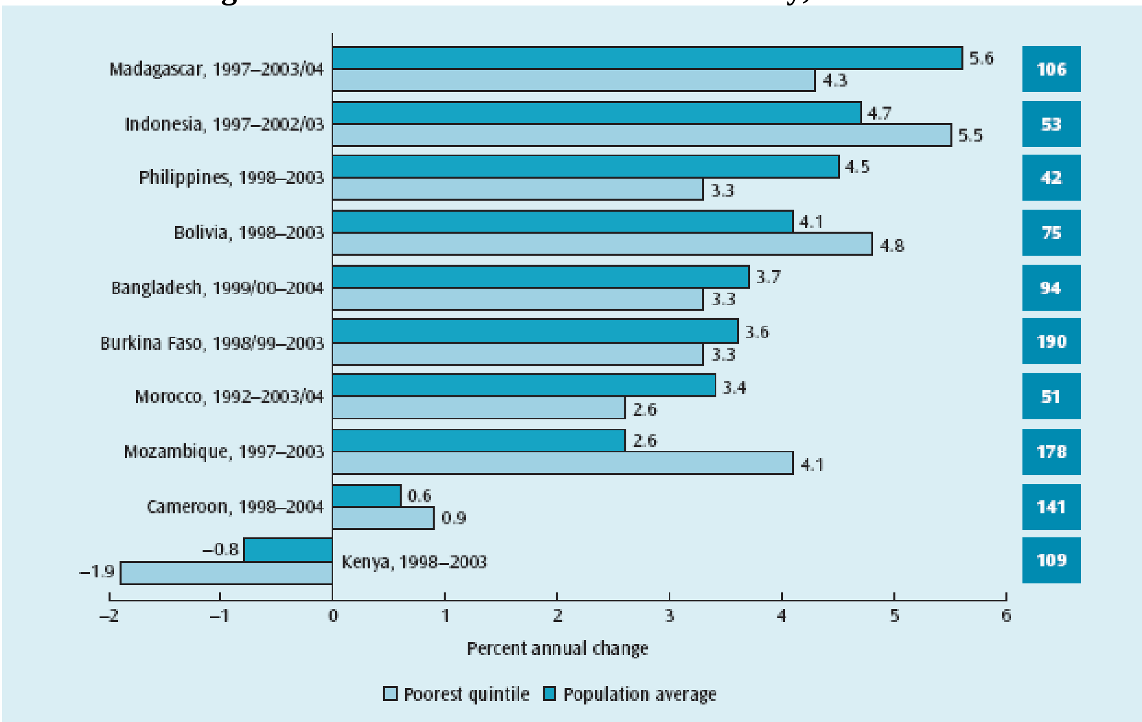
- The number of countries that have achieved or are on track to achieving universal primary completion (MDG2) has increased significantly since 2000, and the pace of progress has also increased. Even faster rates of progress are observed in countries that have joined the global Education for All Fast Track Initiative (EFA FTI). Gender disparities in primary and secondary education (MDG3) are also narrowing, with girls' enrollment rates growing faster than boys' in all regions, although the target of achieving gender parity by 2005 was not met.
- While only 20 percent of developing countries are on track to reducing child mortality (MDG4), the most recent survey data suggest that rates of progress are accelerating in some countries, and very significant progress is being made to reach the poor with key interventions, such as childhood immunizations.
- Access of women to trained birth attendants, the best indicator of maternal mortality (MDG5), shows strong improvement in East Asia, more modest in Latin America, but shows little gain in Sub-Saharan Africa.
- The first signs of decline in HIV/AIDS infection rates (MDG6) are emerging in high-prevalence countries such as Haiti, Uganda, and Zimbabwe. Evidence is growing that prevention programs work when they are intensive and sustained. The number of AIDS patients under treatment in the developing world has scaled up rapidly, approaching 1 million in 2005, from less than 100,000 in 2000. And new global efforts to combat malaria are improving treatment and rapidly spreading the use of treated bednets.

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

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

There has also been a substantial increase in external support. Official development assistance (ODA) for primary education nearly tripled between 2000 and 2004. Aid is also better aligned with MDG priorities, and in education, the EFA FTI is producing tangible gains in donor harmonization at both the country and global level. However, spending on health and education in government budgets is tracked only by the World Bank and the IMF, and there is a need to improve the consistency of the data.

Figure 2 Annual reduction in child mortality, 1997–2004



Source: World Bank estimates from Demographic and Health Surveys.
Note: The boxed numbers show the number of child deaths per 1000 in the most recent survey.

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

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

Meeting Donor Commitments of Aid, Debt Relief, and Trade

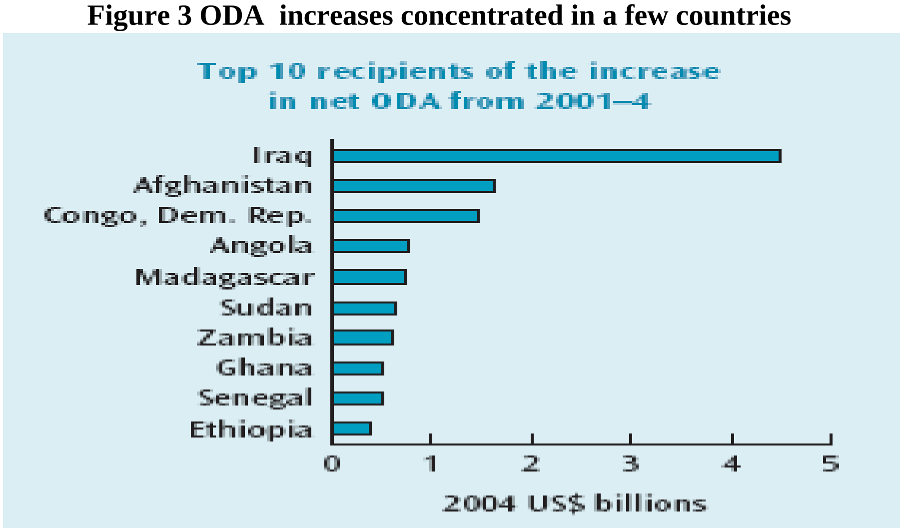
Meeting donor commitments is a central facet of the mutual accountability framework. Major progress was made in this area in 2005: the international community sharpened its focus on the Millennium Development Goals and reaffirmed commitments to increase aid, advancing the agenda for donor harmonization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

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

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

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

Figure 3 ODA increases concentrated in a few countries



Source: OECD DAC database, staff calculations.

Increasing the Volume and Quality of Aid

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

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

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

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

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

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

Making Progress in Debt Relief

The multilateral debt relief initiative (MDRI) that emerged from the G-8 Summit in July, 2005, complements the existing efforts to reduce the debt burden facing HIPCs. The existing HIPC initiative has delivered debt relief to 28 countries as of end-2005. Debt service to fiscal-revenue ratios were halved, and expenditures related to poverty reduction are estimated to have increased from $6 billion to nearly $11 billion. The new MDRI initiative goes beyond this level to cancel all of the debt claims of the African Development Fund (AfDF), IDA, and the IMF for countries that have reached, or will eventually reach, their completion points under the HIPC initiative. The IMF has already fully implemented the initiative, while the AfDF and IDA are finalizing arrangements. As a result, the estimated annual debt service flows of these countries will fall by around $1 billion annually over the next decade, and by somewhat higher amounts after that.

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

Meeting Commitments to Liberalize International Trade

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

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

IFI Performance: Strengthening Results Management

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

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

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

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

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

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

MDBs' concerns about corruption range from preventing fraud and corruption in MDB-financed projects, to promoting good governance in country programs, and to supporting international efforts to fight corruption. Efforts are under way to improve their ability to reduce corruption in the use of their own funds, and to empower investigative departments. However, numerous challenges remain: ad hoc reactions to instances of corruption remain the norm while systematic management of risks is still being developed. Moreover, ring-fencing of projects cannot substitute for strengthening country systems, which is a much more challenging and lengthy task.

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

Part II: Governance as Part of Global Monitoring

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

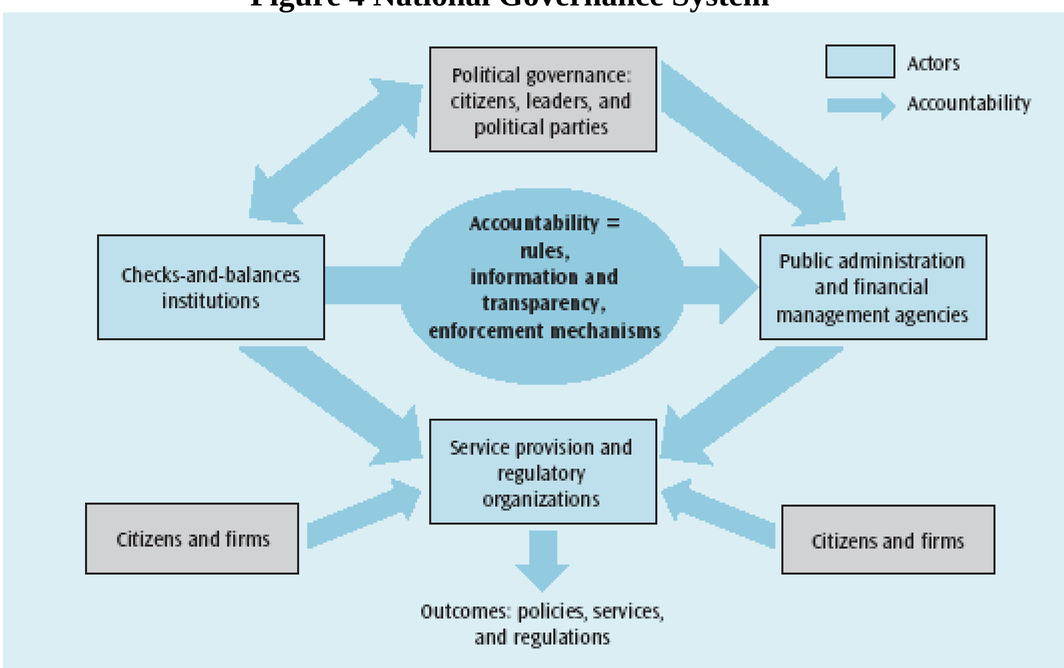
This Global Monitoring Report (GMR) aims to provide a platform for the inclusion of governance as an ongoing part of MDG monitoring. To do so, it provides a governance monitoring framework that can enable a more empirically grounded dialogue, and notes some indicators that might be used in going forward,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

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

A Framework for Monitoring Country Governance

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

Figure 4 National Governance System



Source: World Bank and IMF staff.

Political leaders are the prime drivers, setting the objectives for the rest of the governance system. Often they work for the general interest; other times they cater to special interests and core supporters. Sometimes these powerful interests may capture the state. Even a democratic electoral process does not guarantee that politicians will focus on the general interest.

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

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

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

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

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

While it may be difficult to get more than a subjective measure of political governance, the capability of the bureaucracy, the strength of checks and balances, and some aspects of service delivery can be measured more objectively. The framework thus points to three different ways in which governance can be monitored, and for each, specific foci for measurement are suggested:

A: *Overall governance performance*:

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

B: *Quality of bureaucracy:*

- (i) Public financial management and procurement systems;
- (ii) Public administrative systems;
- (iii) Front-line service provision and regulatory agencies.

C: *Performance of checks-and-balances institutions:*

- (i) Constraints on the executive;
- (ii) Justice and the rule of law;
- (iii) Transparency and voice.

The Challenge of Monitoring Governance

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

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

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

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

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

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

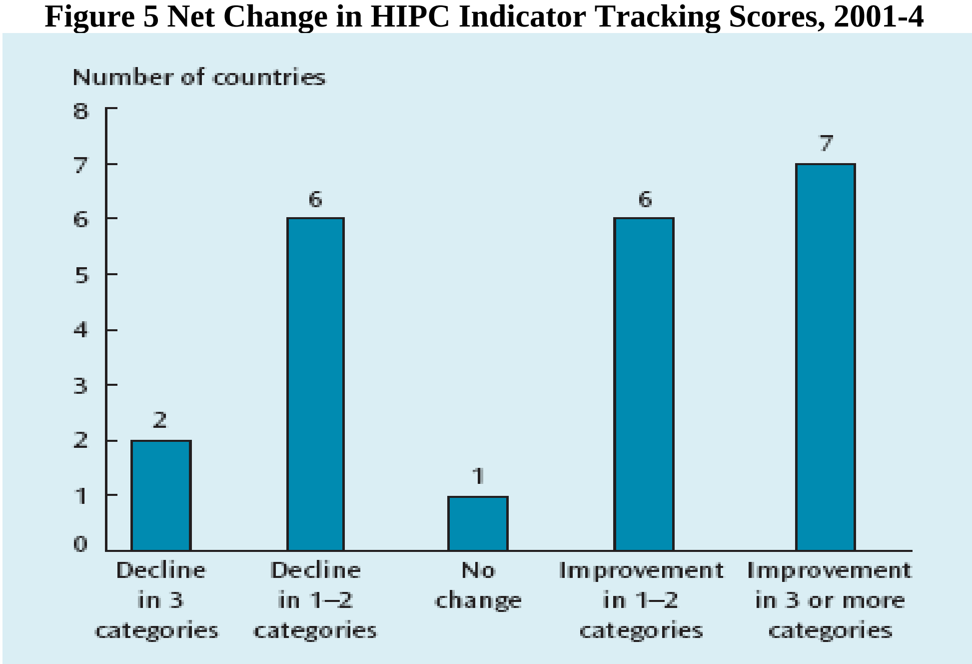
So far, however, other than in the areas related to private sector development and to the public financial management for HIPC countries, there has been no focus on refining and applying such indicators systematically.

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

Strengthening Bureaucratic Capability, Checks and Balances, and Service Delivery

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

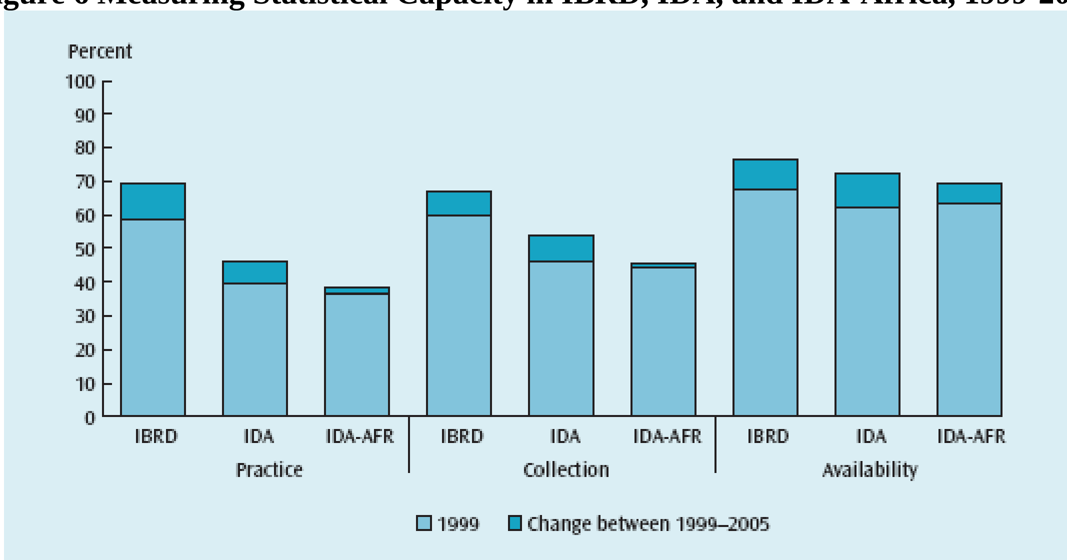
Figure 5 Net Change in HIPC Indicator Tracking Scores, 2001-4



Source: IDA and IMF (2005), Update on HIPC tracking

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

Figure 6 Measuring Statistical Capacity in IBRD, IDA, and IDA-Africa, 1999-2005



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

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

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

In countries where formal "top-down" accountability is weaker, sector-wide programs, decentralization, and community-based (CDD) approaches have become increasingly used to enhance service delivery. The World Bank alone channeled over US$10 billion directly to poor communities between 1999 and 2005. All of these approaches have limitations. Donors fail to harmonize; for instance, in 2004 Tanzania had 110 projects on the books with an estimated average size of under $1 million. Donor financed projects often bypass line ministries and subnational governments. While a 2005 review concluded that CDD projects have supported participation and helped to get services to citizens cost-effectively in various administrative settings, the wider impact on governance of such approaches is still debated. In difficult governance settings, sectoral and bottom-up approaches may be the most feasible entry points for governance reform, although their effects are slow, indirect, and uncertain. These approaches need to be monitored for their impact on both the demand for, and supply of, good governance.

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

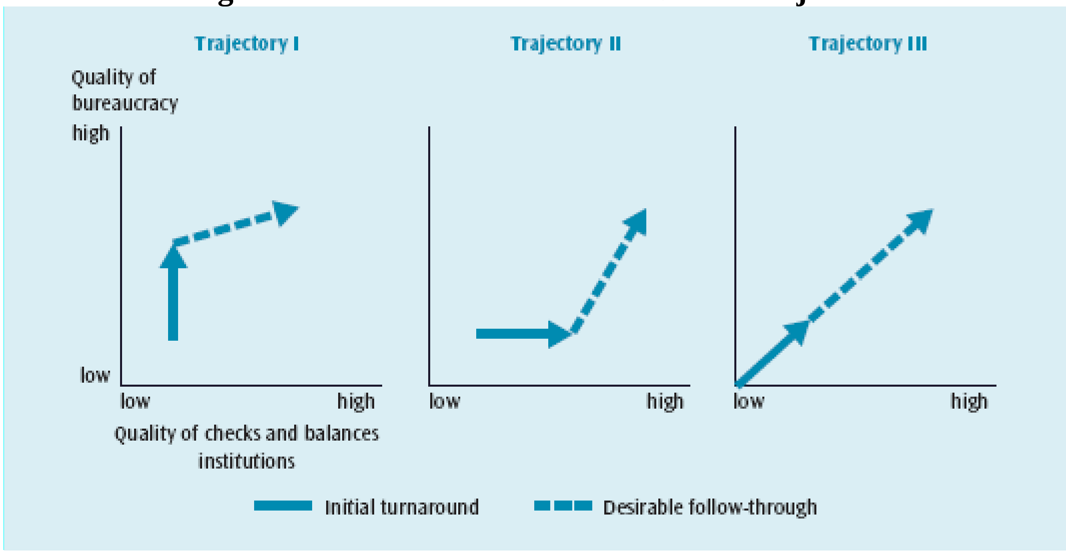
Even taking margins of error into account, some judgment as to governance quality can be made for about two-thirds of the 66 low-income countries. At the upper end of the spectrum, about one-third of the countries generally score well across all or most measures. At the lower end of the spectrum, another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

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

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

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

Figure 7 Governance turnarounds: three trajectories



Source: World Bank staff.

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

Strengthening Global Checks and Balances

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

- International law enforcement: OECD's anti-foreign bribery convention and the anti-money laundering activities of the Financial Action Task Force complement each other; they help to tackle international corruption and they enable OECD countries to share in the prosecutorial burden. This is valuable for poor countries, which often lack the capacity and reach to pursue complex cases across international borders.
- Anti-corruption treaties: the UN Convention Against Corruption (effective December 2005), provides a global legal framework to address corruption, which complements regional anti-corruption treaties. It recognizes the recovery of looted assets as a "fundamental principle."

- International transparency initiatives: recognizing the special challenges posed by concentrated natural rents, the Extractive Industries Transparency Initiative for hydrocarbons and other minerals and the Kimberley Process Certification Scheme for raw diamonds, build on broad international support for transparency.

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

IFIs and donors can assist these checks-and-balances processes by providing technical assistance and funding to support countries' participation, and by encouraging the participation of middle-income countries, which loom larger in commercial dealings with poor countries. More generally, donors can strengthen their own anti-corruption controls (including through the debarment and cross-debarment of suppliers engaging in bribery and corruption), increase transparency, and provide aid in ways that encourage good governance rather than fragment and deplete already weak country systems. Implementation of the Paris Declaration is needed both to improve the quality of aid and to contribute to good global governance. Developing countries have begun to implement mutual programs to support good governance, in particular the NEPAD African Peer Review Mechanism: donors can also help to support such programs.

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

Scaling Up: Moving the Agenda Forward

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

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

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

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

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

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