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**ACHIEVING THE MILLENNIUM DEVELOPMENT GOALS
IN THE UNECE REGION***

Progress so far, policy framework and the role of UNECE

Note by the Executive Secretary

This paper provides a short overview of the MDG trends in the region, followed by the analysis of the policy framework for the achievement of MDGs. Regional policies and the link of some major UNECE activities with MDGs are also outlined. The material and issues presented in this paper are covered at greater length and detail in the ECE Regional MDG Report prepared by the secretariat. This same report also includes a Statistical Appendix with data on all of the MDG indicators.

INTRODUCTION

1. The eight Millennium Development Goals (MDGs) and related targets (see Annex) embrace a broad range of socio-economic problems and represent an enormous policy challenge for governments. Within the UNECE region, the political and economic transformations that have occurred since the early 1990s have strongly influenced the evolution of the target indicators and hence progress towards achieving the MDGs so far. The early years of the transition process were generally characterized by a worsening of several MDG indicators in Central Europe, South-eastern Europe (SEE) and in the Commonwealth of Independent States (CIS). (In the rest of this paper, the group of Central and Eastern European countries and the CIS

* Late submission due to delay in the decision on the dates and agenda of the annual session of the Commission, pending the conclusion of the ECE reform.

will be referred to as the UNECE emerging market economies, or EMEs in short.) Subsequently, improvements have been observed in many countries. The depth of the initial economic crisis and the strength of the subsequent recovery vary to a considerable extent across the UNECE emerging market economies (EMEs), reflecting inter alia the speed of economic reforms and the creation of adequate institutions that foster market-based economic transactions. In general, the new European Union (EU) Member States seem to be closer to achieving most of the MDGs. Conversely, several of the lower income countries in SEE and the CIS lag significantly behind the rest of the region and therefore need to strengthen their efforts towards improving their socio-economic development. Clearly, such efforts to succeed must be supported by the concerted action of the international community.

2. The achievement of the MDGs requires a multidimensional policy framework. Institutional and economic reforms for sustained growth have to be combined with policies for a fair distribution of income and opportunities, social protection, and employment promotion to prevent social exclusion and to ensure that all individuals have access to the benefits of economic expansion. Furthermore, an appropriate environmental strategy is required to ensure the sustainability of development. While the design and implementation of this policy framework is largely the responsibility of national governments, effective international support can help promote this process. In addition to financial support, the international community can provide the EMEs with technical assistance, policy advice, and help create a more conducive economic environment, e.g. through trade arrangements. The regional dimension for such a supportive international process appears to be particularly relevant. In the UNECE region there is still a great potential for closer regional cooperation on issues such as the development of physical infrastructures, the harmonization of standards and legislation, the design and enforcement of soft regulations, and the promotion of trade linkages. It is in this context that UNECE can play an important role as a forum for discussion among member States and as a catalyst of coordinated policy measures.

I. MDG TRENDS IN THE UNECE REGION

3. The MDGs set a number of quantified targets for addressing extreme poverty in its main dimensions – income poverty, hunger, disease, lack of adequate shelter, social exclusion – while promoting gender equality, education, and environmental sustainability. There are various indicators that are used to assess progress in achieving the targets and this section provides a brief overview of the trends in these indicators since 1990. As noted above, for most EMEs 1990 also marked the beginning of transition from plan to market. The first years of transition entailed a sharp decrease in economic activity (the so-called transformational recession). The associated social hardship was exacerbated by declining supply of public services, particularly in the sectors of health and education. The result was that most MDG indicators significantly worsened in the early 1990s and only recently returned to their pre-1990 level.

(a) Extreme poverty and hunger (MDG 1)

4. The sharp contraction in economic activity at the beginning of transition was associated with rising poverty in both absolute and relative terms. (Absolute poverty refers to the share of population living below the national poverty line while relative poverty is instead the share of population with income below a defined percentage (usually 60%) of national median income.) The depth and duration of the deterioration of poverty

indicators varied across countries depending on initial conditions, patterns of structural and economic reforms, and other socio-political factors. In the new EU Member States and accession candidate countries, the most recent relative poverty figures display no significant tendency to increase. The other SEE and the CIS countries also convey a rather comforting picture, with extreme poverty declining in countries like Belarus, Russian Federation, Kazakhstan and Kyrgyzstan, and being substantially stable in the other economies (possibly with the exception of Georgia). Yet, average extreme poverty remains high in SEE and CIS, with some countries having more than a quarter of their population below the national poverty line. Malnutrition also remains a problem for several SEE and CIS economies. In the Caucasus and Central Asian countries in particular, food supply still appears problematic, even though there is a general trend towards a reduction in the proportion of undernourished people and underweight children.

(b) Universal primary education (MDG 2)

5. The collapse in tax revenues associated with the transformational recession forced EMEs to adjust their fiscal position by reducing expenditures. Public education was also cut as part of this re-adjustment in the size of government, particularly in the CIS. In spite of those cuts, quantitative measures of education attainments in EMEs generally remain above the average recorded in other countries at comparable level of income. Even though some decrease occurred in the most recent years in some countries, primary education enrolment rates are well above 90 per cent in new EU Member States and SEE and above 80 per cent in most CIS countries. Secondary education enrolment ratios have instead increased in most countries, and particularly in some SEE and CIS economies (i.e. Albania, Bulgaria, Kazakhstan, Romania and Russian Federation). Concerns have instead emerged with respect to the quality of the education services provided. Budget cuts have in fact reduced the ability of the public education system to cope with problems like insufficient training and re-training of teachers and the provision of adequate teaching materials (i.e. textbooks, equipments). Curricula of study also need to be updated in order to prevent mismatches between what the labour markets request and what students are taught at school.

(c) Gender equality and empowering women (MDG 3)

6. The assessment of gender equality and empowerment of women involves various dimensions: access to schooling and labour markets, participation in decision-making and elections, entrepreneurship, domestic violence, time-use, poverty and gender attitudes. For certain of these dimensions, however, the analysis is complicated by the lack of reliable data (i.e. time-use, gender attitudes and informal labour markets). Based on available information, a rather heterogeneous picture emerges. Gender differences are minimal with respect to school enrolment at all levels of education in most EMEs. In the labour market, female unemployment rates are on average slightly higher than male unemployment rates. More relevant is instead the gender wage gap, especially in the SEE and CIS economies. This gap is partly due to a restricted access to high-paid jobs and sectors for female workers in some countries. Cuts in public service expenditures fell heavily on women who had to bear an increased burden of unpaid care work. With respect to decision-making and power-related issues, such as the right to vote, the gender composition of government, civil service, and quotas, progress has been mixed. For instance the share of women in national parliaments has (moderately) increased in several countries since the 1990s. However, an analogous increase is hardly observed at the level of sub-national and local governments.

(d) **Health issues: child mortality (MDG 4), maternal health (MDG 5), HIV/AIDS and other diseases (MDG 6)**

7. Official health statistics show a rather steady decline in infant mortality after 1995 in almost all EMEs (the period between 1990 and 1995 was instead characterized by increasing infant mortality). However, data collected through surveys provide a different picture, with higher (sometimes double) rates of infant mortality, and a trend that is sometimes increasing. Maternal mortality has been significantly reduced in all EMEs, even though it remains particularly high in the CIS in spite of improvements observed since 1995 (especially in Armenia, Republic of Moldova, Russia Federation and Ukraine). Estimates provided by UNAIDS show that HIV/AIDS is fast expanding, but in most countries the epidemic is still in its early stages and rapid interventions could therefore stop its spread. Nevertheless, some of the CIS countries (i.e. Central Asian and Caucasian countries) are experiencing among the world's fastest increasing estimates of infections. Finally, tuberculosis is re-emerging as a health problem among the general population, especially in urban areas. To combat the disease, the World Health Organization recommends the Direct Observed Therapy Short Course (DOTS), whose implementation and success however vary considerably across EMEs.

(e) **Environmental sustainability (MDG 7)**

8. The environment data reports produced since the early 1990s emphasize that water pollution and overexploitation of resources for drinking water and irrigation are causing serious environmental problems. Throughout the 1990s floods became one of the most costly "water-quantity" problems and large proportions of water supply networks have become seriously deteriorated, particularly in non-urban areas. Energy efficiency needs also be improved, especially in the SEE and CIS countries (See Section II(e)).

(f) **Global partnership for development (MDG 8)**

9. The global partnership for development builds around the establishment of an open, rule-based, non-discriminatory trading and financial system. A key instrument to achieve this is the World Trade Organization (WTO). Membership in the WTO is therefore an important step that countries take towards the consolidation and improvement of global links for development. Most of the new EU Member States became WTO member as early as 1995. The Baltic countries followed in 1999 (Estonia and Latvia) and 2001 (Lithuania). The accession candidates, Albania and The former Yugoslav Republic of Macedonia, have also already joined WTO. In the CIS, the Russian Federation is still negotiating its terms of accession. It is expected that the successful completion of this negotiation will also push several other CIS countries (which are currently not members) to apply for membership. A second important pillar of the global partnership is financial assistance from advanced economies (and international financial institutions) to developing and emerging economies, Least Developed Countries in particular. Official aid towards most EMEs increased between 1997 and 2002. However, based on the estimates of the United Nations Millennium Project, the financing gap – that is, the difference between the investment needed to achieve the MDGs by 2015 and the resources that can be mobilized internally through government or household expenditure – is still quite large in the Central Asian economies (with the exception of Kazakhstan and Turkmenistan), Republic of Moldova and Armenia. The aid flows going to these economies seem to be well below their financing needs to achieve the MDGs and therefore stronger official development assistance is desirable.

II. POLICY FRAMEWORK FOR ACHIEVING THE MDGS

10. The MDGs constitute an integrated framework of objectives and targets and hence need to be pursued through an integrated system of policies. This section describes the pillars of such an integrated policy package. The key issue in this perspective is to combine economic and social policies to ensure that the broad benefits of sustained economic expansion are received by the population at large, and by those initially poorer and more vulnerable in particular. In fact, while economic growth is an important ingredient of success, it is not in itself sufficient to ensure achievement of the MDGs. Different models of growth can have different impacts on poverty reduction and human development. In fact, human development should not be postponed until the expansion of economic resources makes it more affordable. On the contrary, growth and human development reinforce each other; for instance growth provides resources that permit investment in human capital (i.e. education, health), while a greater stock of human capital is certainly an engine of further growth. The implication is that the policy framework for the MDGs must promote growth and human development simultaneously.

11. This Section focuses on five policy areas which are essential for promoting a balanced pattern of socio-economic development: (i) **political and economic institutions** that promote sustained growth and the fair participation of each individual; (ii) **redistribution and social protection** to guarantee the equitable allocation of economic gains and the protection of most vulnerable individuals in the society; (iii) **pro-employment policies and investment in human capital** to improve an individual's opportunities to earn an income and achieve a better standard of life; (iv) **an enabling external environment** to integrate national efforts within the broad context of international economic integration and rationalize international support to national development; (v) **environmental sustainability** to ensure the sustainability of development through the preservation of natural resources and appropriate energy policies. For each of these areas, the section provides a brief analytical development and a number of policy options (that in some countries have already been successfully implemented) for consideration by member States.

(a) Institutions and reforms

12. A market-oriented environment promotes sustained growth with equity to the extent that there are clear and transparent "rules of the game" to facilitate active economic participation of all segments of the population. Poor governance and weak legal and political institutions create uncertainty, discourage investment, and favour rent-seeking activities that distort the pattern of economic development. Similarly, inefficient regulatory frameworks (i.e. for banking supervision, competition, international trade) and the cumbersome interference of government in the economy distort the functioning of markets and the distribution of assets and opportunities. Institutional and economic reforms therefore complement each other in creating conditions to achieve MDG 1 and the other MDGs that heavily depend on the expansion of economic activity (most notably MDGs 2, 4, 5, 6).

13. The challenge faced by EMEs at the start of the 1990s was paramount. Political, legal and economic institutions had to be set up from scratch while the transformation of the economic system led to massive labour redeployment and the appearance of a high and persistent unemployment. While some countries entered a virtuous circle of reforms and economic progress, others remained trapped in vicious circles where stalemates on reforms and poor economic performance reinforced each other. The Central European economies and the Baltic

States achieved considerable progress, possibly also as a consequence of the strong incentive to reform stemming from the prospects of EU accession. The other EMEs present quite a heterogeneous picture, with stalemates occurring in some CIS and SEE economies. In particular, in a few CIS countries, public governance and institutions remain weak, the private sector share of GDP is low (in some cases less than 25 per cent, compared to 80 per cent in several of the new EU Member States), and financial sectors are underdeveloped and not supportive of economic activity. Some possible policy options are as follows:

- One way for EMEs to improve governance and institutional quality is *to increase their capacity to control corruption and guarantee full enforcement of property rights, particularly for the poor*. These measures help remove obstacles to investment (both domestic and foreign) and to avoid a situation where only the initially better endowed and connected individuals have access to investment opportunities.
- To provide the private sector with incentives for innovation and investment, *EMEs can strengthen pro-competition measures and deliver a stable and predictable macroeconomic environment*. In any case, competition and macroeconomic stability ought to be achieved consistently with the objective of *ensuring effective social protection to the most vulnerable individuals in the economy*.
- *Specific areas of intervention for consideration by CIS and SEE economies include: (i) the reform of the public administration through better training of civil servants, higher wages to attract most qualified workers, and wider use of information technology; (ii) upholding the rule of law and eliminating the red-tape; (iii) strengthening financial sector to improve the allocation of resource and relax liquidity constraints on the poor; (iv) making faster progress on large-scale privatizations.*
- To reduce their vulnerability to external shocks, increase employment opportunities, and generate a broader demand for education, *EMEs can promote the diversification of their productive base*. While new EU Member States and accession candidates are characterized by a growth process that is becoming more broad-based, in several CIS and SEE economies a narrower pattern of specialization has emerged. This is particularly true for resource-abundant countries.

(b) Public policies for reducing inequalities and social protection

14. The achievement of the MDGs relies on the equitable distribution of the gains from economic growth among all individuals in the economy. This is particularly crucial in view of MDG 1. The institutional and economic reforms discussed in Section II(a) above already aim at integrating the distributive dimension into the pro-growth framework. These reforms however need to be complemented by other policies that more directly address distributive inequalities in the society and social protection. Entailing investment in human capital and actions to facilitate gender equality, these policies are also relevant for MDGs 2 and 3 in addition to MDG 1.

Policies for redistribution

15. There are two fundamental forms of distributive inequality in a society: the unequal distribution of opportunities (initial endowments/assets) and the unequal distribution of incomes (or earnings). These two forms of inequality are closely associated: the latter relates to the

outcome of the economic process while the former relates to the starting conditions of the same process. In this perspective, a skewed distribution of assets/opportunities *ex-ante* is most likely to generate a similarly skewed distribution of incomes *ex-post*. The action of governments to reduce economic inequality in a society might therefore address both forms.

16. In the EMEs, these two forms of inequality are driven by both internal and external factors. Domestically, the privatization process often resulted in a highly concentrated ownership structure and hence sharpened inequality in assets distribution. Inadequate mechanisms for financing retirement incomes raised the problem of redistribution across generations. External factors of inequality are mainly associated with the process of integration into the world economy. International trade liberalization tilts the distribution of profits and incomes towards export-oriented sectors and the expense of non-tradable sectors. For example, the flow of FDI, while creating potential for spillovers that support domestic development, might lead to the emergence of wider wage gaps across workers depending on their skills and sectors of employment. Agglomeration effects can also cause greater regional disparities in association with FDI. Against this background, the following policy actions can be considered:

- *Investment in human capital is an option available to EMEs to make the distribution of assets and opportunities more equitable.* This form of investment can occur through education, on-the-job learning and training, and health assistance (see II(c)).
- *EMEs can use privatizations as a mean of redistributing ownership over production factors.* Mass privatization through voucher schemes, which should in principle imply greater redistribution of equity, has not always proved efficient. Privatization through direct sales implies that the ownership of the company remains in the hands of a core dominant owner, albeit minority quotas can be redistributed among citizens. Privatization through employees' ownership can work as a redistributive tool to the extent that property and ownership rights of employees are enforced.
- The tax system is potentially an important tool for the redistribution of incomes. *Strengthening the efficiency of tax administration* to combat tax evasion and ensure the timely and fair collection of revenues is therefore an important policy option that EMEs might want to consider. Policies for growth and macroeconomic stability will also help expand the tax base. In most CIS economies another relevant policy option to be discussed is *to gradually move away from flat income tax rate towards more progressive tax rates while preserving the simplicity of the tax system* in order to reach jointly the objectives of efficiency and income redistribution.
- The transition period brought about a setback in gender equality. To help restore gender balance, *EMEs might undertake initiatives to promote Gender Responsive Budgeting.*

Social protection

17. Social protection is clearly a pivotal element of equitable development, and more generally of progress towards MDGs. Its contribution is twofold. Firstly, by shielding individuals against income losses, social protection evens out inequalities in living standards and ensures that even the most vulnerable segments of the population have access to minimum levels of consumption and hence welfare. Furthermore the shield against income losses contributes to sustaining investment in education of poor households. Secondly, by promoting social cohesion, social

protection can be a factor driving political stability and hence growth and human development. In spite of the cuts that have occurred in the process of fiscal stabilization, social protection expenditure in percent of GDP in most EMEs remains higher than in other countries at comparable level of economic development. Yet to strengthen its developmental impact, and hence its contribution to the MDGs, governments can consider the following options:

- *A way for EMEs to foster employment is to make sure that unemployment insurance schemes give rise to a compatible system of incentives for workers. In other words, unemployment benefits and insurance should not prevent workers from actively seeking new jobs.*
- *EMEs can also consider improving the efficiency of social assistance by designing appropriate and efficient targeting mechanisms. Making sure that benefits are targeted towards those who suffer from extreme hardship can increase the incidence of social spending.*
- *Several EMEs have moved towards establishing multi-pillar pension systems, with the state directly responsible for one of those pillars (namely, the guaranteed minimum pension). In many countries, however, there are ways to reinforce the viability of the pension system. This can be achieved by tightening the links between contributions and benefits at individual level, without the need to completely erase the pay-as-you-go (PAYG) system that guarantees protection to the elderly poor. The creation of regional common labour markets can foster the sustainability of the PAYG, especially in the CIS and Balkan countries.*
- *Mainstreaming gender considerations into welfare reforms is a way to address gender imbalances. Pension reforms in particular should be decided based on the analysis of their implications on men and women, acknowledging women's unpaid caring work.*

(c) **Fostering employment and investing in human capital**

18. Policies for high-employment and investment in human capital are conducive of achieving a broad range of MDGs, including poverty eradication (MDG 1) and better education and health (MDGs 2, 4, 5, 6). Human capital is primarily formed through education. Public education expenditure is therefore the main instrument that governments in EMEs can use to foster human capital formation, especially for the poor. The sharp revenues contraction that occurred in the early years of transition and the need to stabilize the budget deficit led most EMEs to cut on expenditures, including public education. While quantitative indicators of education attendance did not dramatically worsen (see Section I), the quality of education decreased more significantly due to school closures, cuts in curricula, the introduction of users fees, and higher prices of textbooks.

19. Unemployment has been a problem for EMEs since the start of transition. The transformation of the economic system forced the redeployment of labour, with a growing number of laid-off workers. In the new EU Member States the tendency was to provide generous unemployment benefits and social protection, while maintaining real wages fairly stable. In the CIS, and in the Russian Federation in particular, the choice was to let the market adjust through flexible real wages. Labour markets in EMEs are currently characterized by rather high and persistent unemployment. The average unemployment rate is over 14 per cent in the

new EU Member States and 15 per cent in SEE. In the CIS, Labour Force Survey (LFS) unemployment is around 8.5 per cent in the Russian Federation and above 10 per cent in several of the countries for which LFS data are available. High rates of youth unemployment and the long average duration of unemployment spell denote the existence of barriers to entry and skill mismatches. At the same time, sharp differences in the rate of unemployment across sectors and regions indicate the presence of obstacles to labour mobility.

20. A number of policy options are available to EMEs:

- *Addressing quality issues in public education is a way to make public education expenditure more effective.* Possible options in this respect include allocating public funds to upgrade curricula to prevent skill mismatches, to modernize the training of teachers and increase their salaries, to provide students and teachers with appropriate material and equipment, and to make sure that enough hours of instruction are guaranteed.
- *Linking the reform of the education system to the establishment of life-long learning systems could be a means to promote human capital formation.* Policies to foster on-the-job learning and to re-train displaced workers, especially in countries where unemployment duration is long, might therefore be considered.
- *EMEs can also consider using health care and social protection expenditure as instruments to promote human capital formation in addition to public education.* The provision of health care services is important to protect the initial investment in education. Social protection is a shield against income losses and hence reduces the opportunity cost of education for poorer households.
- *Deepening and expanding labour market reforms might help improve the employment situation, especially in the CIS countries.* There are different elements of the reform strategy that are available to countries. One is the design of labour market institutions to promote greater flexibility and mobility of labour across sectors and regions. Another element is the implementation of pro-active policies that include re-training programmes for the unemployed, job search and job placement assistance, and temporarily subsidized employment. A third element is the reform of unemployment benefits to make sure that remaining unemployed is not preferable to actively seeking employment (see also para.17 on social protection).
- *Putting more emphasis on full employment in the design of the macroeconomic policy framework can further ease the achievement of high-employment equilibria in the EMEs.* This policy option entails giving more weight to the consideration of employment effects in making policy choices for interest rates, inflation targets, government expenditure and revenues, and exchange rates.

(d) **An enabling external environment**

21. There are various components to an enabling external environment: openness to trade, openness to international financial flows, and development aid. Policies discussed in this section directly contribute to MDG 8 and through the creation of a supportive external environment indirectly contribute to the other MDGs.

Openness to trade

22. Trade allows countries to exploit their comparative advantage, reap the benefits of scale economies, develop technologically by importing advanced technology, and create more competitive and efficient market structures. However, trade liberalization might also generate a less equal distribution of income, with an increase in the rate of unemployment and a decrease in earnings in non-tradables or inward-looking sectors. To maximize the benefits of liberalization and prevent its negative effects, countries ought to increase economy's capability to adapt by increasing the flexibility of labour and product markets, enforcing competition and anti-trust legislation, and establishing effective social protection mechanisms. A number of policy actions can then be put forward for discussion:

- *WTO membership is a course of action that those EMEs that are still not members can undertake to foster the process of multilateral trade liberalisation.* WTO can provide these countries with improved market access for their industries. It can also provide a stable framework for developing trade amongst themselves. More generally, for SEEs and CIS countries, *regionalism can be conducive to multilateralism.*
- *Pursuing regional integration along with multilateral liberalization is a relevant option open to SEE countries.* The current patchwork of bilateral agreements in the SEE sub-region can be rationalised. A possibility is to set-up a free trade area comprising the whole sub-region (perhaps including the EU).
- *The simplification of custom procedures can help the trade integration process, particularly in the CIS.* In an MDG perspective, this is particularly important for landlocked countries in Central Asia where inefficiencies at the border are particularly damaging for trade promotion and economic integration.

Openness to financial flows and worker remittances

23. International financial flows in the form of FDI have a large developmental potential through technological spillovers, demonstration and competition effects. However, the practice clearly indicates that more financially open economies are at greater risk of crises and instability if a number of underlying conditions are not in place. These include sufficiently strong institutions, particularly in the financial sector, good banking and corporate governance, and an efficient system of social protection.

24. Another type of international financial flow that is becoming increasingly important in several SEE and CIS economies is worker remittances. Remittances generally tend to be less volatile than other forms of capital inflows (either private or official). Furthermore, they appear to be counter-cyclical; that is, they increase when a country is hit by a negative shock. This in turn suggests that remittances are a stable source of income with a desirable insurance function. As a source of foreign exchange, remittances can also facilitate recipient countries' achievement of the external equilibrium. On the less positive side, it is often observed that in recipient countries, remittances tend to be allocated less efficiently than other forms of capital. Possible policy actions then include:

- *A number of policies can contribute to increasing EMEs' attractiveness for FDI.* Actions for consideration include: promoting a more effective enforcement of property rights

(including intellectual property rights) and eliminating non-friendly business legislations, investing in education to form a qualified stock of domestic skills, ensuring a stable macroeconomic environment, developing physical infrastructures, establishing the legal and regulatory frameworks for the development of domestic financial systems, and improving the efficiency of governance through reforms of the public administration and the eradication of corruption practices. Regional integration is a further option open to EMEs to create enlarged markets and remove small-scale limitations that reduce their attractiveness to international investors.

- A policy option that might be particularly beneficial in several lower income countries is to *encourage the use of worker remittances for profitable investment (i.e. start-up of small businesses, investment in education) and to bring more funds into formal channels.* Strengthening financial sector infrastructures and increasing financial sector literacy of workers abroad and recipient families can achieve this. International cooperation on policies to liberalize workers' movements could also contribute to the objective.

Development aid

25. Limited access to international capital markets forces several lower-income EMEs to rely on official development assistance (ODA) to finance their development. As noted in Section I, inflows of ODA are still insufficient to bridge the financing gap estimated to achieve the MDGs in some SEE and CIS economies. Towards these countries (Central Asian Republics excluding Kazakhstan and Turkmenistan, Republic of Moldova, Armenia), donors and advanced economies should strengthen the flow of ODA. At the same time, countries relying on ODA should make a more efficient use of resources and increase their access to international capital markets.

(e) Policies for environmentally sustainable development

26. Budgetary problems and the dislocations caused by economic transition have resulted in a neglect of environmental matters and the deterioration of infrastructure. Because the cost of environmental damage is likely to fall disproportionately on the poor, the policy framework to achieve the MDGs must include environment-related actions as a key component. Two areas appear to be particularly relevant in view of MDG 7 ("Ensuring environmental sustainability"): sustainable energy and sustainable management of natural resources and ecosystems.

27. Most EMEs are characterized by an inadequate policy of energy prices, ample tolerance for the accumulation of arrears, and little incentive to renew equipment. These factors underlie inefficient and polluting energy systems, with high energy-consumption per unit of output and a substantial waste of energy. Reforming energy prices so that they better reflect the economic cost of producing energy and the associated externalities is on the agenda of several countries. This should result not only in greater efficiency of energy systems, but also in more resources becoming available to finance (at least partly) renewable energy investments.

28. With regard to natural resources and ecosystems, the mounting pressure on freshwaters stemming from population growth and economic expansion is being faced by EME governments through investment in physical infrastructures. More attention however should be devoted to the use of water resources. Considering the environmental services that water related ecosystems,

such as forests and wetlands, might provide, using them wisely is a cost-effective complement to infrastructure development. The following actions can help pursue sustainable development:

- To shelter the poor from price hikes, *EMEs can consider using subsidies or tax exemption directed to vulnerable households when reforming energy prices.*
- *Integrating energy efficiency consideration into sectoral policy decision-making, most notably in the energy intensive sectors, can help EMEs to achieve sustainable energy.* International agencies should strengthen their efforts to facilitate access to finance for energy efficiency and renewable energy and to support national capacity building.
- *Integrated water resources management and planning is a tool for EMEs to integrate water supply and use with the management of waste and sewage.* Policy options for the sustainable management of water resources need to be considered on the basis of an exchange of good practices in protecting ecosystems.

III. REGIONAL APPROACHES AND ROLE OF UNECE

29. Regional cooperation helps countries to pool their resources (i.e. financial means, physical and human capital) to provide regional public goods such as: the development of transport infrastructures, the design and harmonization of rules and standards, environmental management, and in general concerted actions to tackle issues of a transboundary nature (i.e. epidemics, crime and illegal trafficking). Moreover, regional cooperation can be an important driving force of national capacity building. Sharing experiences and best practices, organizing forums and workshops for discussion of policy issues will help the countries to develop their policymaking capacity and to identify solutions to policy problems.

30. UNECE contributes to the provision of a significant number of these regional public goods which have an impact on the achievement of MDGs. Some practical examples of the activity of UNECE are reviewed in this Section.

(a) **Regional approaches and the provision of regional public goods**

Transboundary waters and water pollution control – contribution to MDGs 4 and 7 (targets 9 and 10)

31. The UNECE is an important participant in the management of the region's transboundary water resources. This includes both promoting the rational use of this resource as well as ensuring fair distribution and access. This also includes protection of water-related ecosystems and enhancing cooperation in using transboundary groundwaters. Sound management of these resources can increase the availability of safe drinking water which has important implications for health and child mortality, and support the overall quality of life and environmental sustainability by limiting pollution, controlling floods and the minimizing the over utilization of water for irrigation. Two major policy tools have been developed in this area: the *1992 UNECE Convention on the Protection and Use of Transboundary Watercourses and International Lakes* (Water Convention) and the *EU Water Initiative* where the UNECE is the lead organization for the section related to Eastern Europe, the Caucasus and Central Asian countries.

Transport infrastructure – contribution to MDG 1 (target 1) and MDG 8 (target 14)

32. An efficient regional transportation infrastructure promotes trade and is therefore instrumental to economic growth and employment creation. This is of particular importance to a number of landlocked EMEs that are dependent on other nations' transport networks in order to effectively participate in the global economy. The UNECE is a major contributor in developing an efficient transportation network through its four main legally binding infrastructure agreements that focus on the coordinated development of road, rail, combined transport, and inland waterways. Special emphasis in the activity of UNECE is given to Central, Eastern and Southern-Eastern Europe on the one hand, and the Euro-Asian transport links (EATL), in cooperation with the UN Economic Commission for Asia and Pacific (ESCAP), on the other. Two major initiatives established under the aegis of UNECE are: the *Trans-European North-South Motorway (TEM) Project* and the *Trans-European Railway (TER)*. Concerning the EATL, some important achievements relate to the agreement on main road and rail transport routes connecting Europe and Asia, the identification of main transshipment points along the routes, and the identification of priority projects along selected routes. In the context of support to landlocked countries, the Almaty Programme of Action calls upon landlocked and transit countries to accede to and implement relevant international agreements and conventions on transport. In response to this call, UNECE selected 17 of its agreement and conventions, which are open to all UN member States and aim at improving traffic safety and efficiency, simplifying and harmonizing border procedures, and reducing the environment impact of transports.

Trade facilitation infrastructure – contribution to MDG 8 (target 12 and 14)

33. In order to encourage the participation of less developed economies and small and medium-sized enterprises in the global economy, it is important to simplify the process and reduce the costs of trade transactions. The UNECE has been active in the development of trade facilitation tools and e-business standards. For instance, through its UN Centre for Trade Facilitation and Electronic Business (UN/CEFACT), UNECE fulfils the role of consensus builder and standards developer at a global level; the trade facilitation and e-business instruments are available free of charge to all interested parties. The Centre works closely with other international organizations, including in particular the United Nations Conference for Trade and Development (UNCTAD), World Bank, World Customs Organization (WCO), United Nations Industrial Development Organization (UNIDO) and International Organization for Standardization (ISO); and regional organizations such as the other UN regional commissions and the Asia-Pacific Economic Cooperation (APEC). The harmonization of standards and regulatory frameworks is another instance of trade facilitation where UNECE contributes. In particular, UNECE has been active in helping the CIS and SEE countries develop a framework for the mutual recognition of national standards and a regulatory framework for products traded among themselves.

(b) UNECE support to national policies

34. In addition to facilitating regional cooperation and supporting the provision of regional public goods through initiatives such as those described in Section III(a), UNECE organizes activities at the regional level that promote policy dialogue and exchange of national experiences. Activities have focused on national capacity-building in MDG related areas in the EMEs and the creation and development of statistical databases that allow for informed decision-making in these areas. A number of examples can be provided.

Environmental Performance Reviews (EPR) – contribution to MDG 7 (target 9)

35. The EPR Programme of the UNECE assesses the progress of its member countries that are not OECD members in reconciling their environmental and economic objectives and in meeting their international commitments in the field of sustainable development. Almost all the EMEs have been assessed once and most are now being assessed for a second time. These reviews evaluate how well countries integrate their environmental concerns into their sectoral policies, strategies and programmes (in energy, agriculture, industry, transport and health), and make recommendations that are fully in line with the principles of sustainable development. A standard component in every EPR is an assessment of the country's implementation of international environmental agreements and commitments, its management of water resources, the impact of agricultural and forestry on the environment, and conservation measures to protect its biodiversity and soils. A set of EPR indicators is used to describe the environmental, social and economic situation in the reviewed countries; the status of nearly all MDGs is reflected in these data.

Promotion of sustainable energy – contribution to MDG 7 (target 9)

36. The UNECE Sustainable Energy programme is involved with MDG related issues of CO₂ emissions and consumption of solid fuels through its work in three areas: energy efficiency, energy prices and clean coal technology. The emphasis has been on identifying projects that can increase energy efficiency, promoting renewable energy investments, and meeting international environmental treaty obligations in the EMEs. Of particular importance has been an emphasis on developing sources of financing for investment in energy saving equipments for public utilities. The application of sustainable energy policies in the UNECE region will require reforms to energy prices and tariff structures, especially in former transition economies. The widespread application of energy efficiency measures and deployment of renewable energy technologies calls for energy prices that properly reflect energy production costs.

Capacity building for trade development – contribution to MDG 8 (target 14)

37. The UNECE Trade Development programme supports the implementation of the MDG objective of creating a global partnership for development by providing countries information, advice and capacity building activities for enhancing trade opportunities. The special needs of landlocked countries are given special emphasis. In addition, programmes have been established to help countries examine ways in which regional trade can be improved by focusing on how enlargement of the European Union could serve as a catalyst for increased regional trade, and on ways to support for further regional integration in South East Europe and the CIS.

Support to national policies in the forest sector – contribution to MDG 1 (target 1) and MDG 7 (target 9)

38. Because in several EMEs a significant share of population lives in forest areas, well-designed and implemented national forest policies can contribute to both poverty reduction and environmental sustainability. The UNECE Timber Committee provides a forum for policy dialogue on national forest programmes. Additional services provided by UNECE include the organization of workshops for national capacity building, the development and maintenance of statistical databases on production and trade of forest products, and the analysis of the forest

sector and relevant policy recommendations spelled out in the European Forest Sector Outlook study.

Support for sustainable human settlements and social housing – contribution to MDG 1 (targets 1 and 2) and MDG 7 (targets 10 and 11)

39. While the UNECE region is fortunate in not facing as large slum populations as other regions, the problem of informal settlements is a relevant one. Due to the lack of affordable housing, poor households settle and build on unoccupied land with no ownership rights and consequently no protection of their property. Sanitary conditions in informal settlements are often substandard and have potential to give rise to infectual diseases. As a framework for its activities in this area, the UNECE Committee on Human Settlements adopted in 2000 the *ECE Strategy for Sustainable Quality of Life in Human Settlements in the 21st Century*. UNECE has also given support to sub-regional initiatives to tackle the issue of informal settlements, such as the *Vienna Declaration on Informal Settlements for South- East Europe*. Related areas of activity include the preparation of guidelines on land administration and guidelines on social housing and the provision of capacity building tools through country profile programmes.

Strengthening statistical capacity in the region – cross-cutting contribution to monitoring MDGs

40. The UNECE plays a leading role in developing statistical capacity to monitor socio-economic phenomena, and the progress towards the MDGs in particular. Within the framework of the Conference of European Statisticians, UNECE develops standards for the collection and dissemination of official statistics, coordinates the statistical work in the region, and provides technical assistance to CIS and SEE economies in the area of social and demographic statistics. Two projects of particular relevance for the monitoring of MDGs are (i) the development of *Recommendations for the 2010 Round of Population and Housing Census*, undertaken in cooperation with EUROSTAT; and (ii) the *Gender Statistics programme*, which aims at improving quality, availability, and use of gender-related statistics in the region.

ANNEX

MILLENNIUM DEVELOPMENT GOALS AND TARGETS

Goal 1: Eradicate extreme poverty and hunger

Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than \$1 a day.

Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

Goal 2: Achieve universal primary education

Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

Goal 3: Promoting gender equality and empower women

Target 4: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015.

Goal 4: Reduce child mortality

Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

Goal 5: Improve maternal health

Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.

Goal 6: Combat HIV/AIDS, malaria, and other diseases.

Target 7: Have halted by 2015 and begun to reverse the spread of HIV/AIDS

Target 8: Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases.

Goal 7: Ensure environmental sustainability

Target 9: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources.

Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation

Target 11: Have achieved by 2020 a significant improvement in the lives of at least 100 slum dwellers.

Goal 8: Develop a global partnership for development

Target 12: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system.

Target 13: Address the special needs of the Least Developed Countries

Target 14: Address the special needs of landlocked developing countries and small island developing states.

Target 15 Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long-term.

Target 16: In cooperation with developing countries, develop and implement strategies for decent and productive work for youth

Target 17: In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries.

Target 18: In cooperation with the private sector, make available the benefits of new technologies, especially information and communication technologies.