BRIEFING PAPER

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Global Partnership for Development
Where are we Headed?

Introduction

Millennium Development Goals (MDGs) do not need any background or introduction. Put in place in 2000, there are eight MDGs with an associated deadline of 2015. While the first seven MDGs put the onus for attainment of the goals on nations themselves, the eighth MDG emphasises on the importance of a global partnership for development. This partnership is being currently put to test by the effects of the global economic recession and the stalling of the Doha trade talks. With the New York Summit a few weeks away, now is the right time to take a hard look at the achievements so far and revisit the goal.

The global multi-stakeholder partnership envisaged in MDG 8 encompasses a coherent agenda aimed at creating an international environment in which developing countries have space and opportunity to develop.

In this era of globalisation, no country is safe from what happens in another part of the world. The effects of the US financial crisis are being felt the world over. For instance, the downward trend of car manufacturing in the US has led to a significant decline in steel exports, which has impacted steel-producing African countries such as Guinea, Liberia and South Africa. Similarly, Foreign Direct investment (FDI) flows to and from developed countries contracted by more than 40 percent in 2009 following a similar decline in the previous year[1]. The World Bank has estimated that an additional 53 million people will be forced to live on less than US$1 per day as a result of the global economic downturn.

The crisis has compounded the problems that least developed countries (LDCs) and developing countries already face. Not only is progress towards the MDGs slowing, but in many areas, even the hard-won gains of recent years are under threat. The crisis has intensified the need for strengthened global partnerships for development as reflected in MDG 8.

MDG 8 is therefore an important element in the overall structure of the MDGs, more so because it recognises that the ability of developing countries to reach sustainable levels of growth often depends on the international environment in which they operate. While all MDGs are important in helping countries reach a level of development conducive to the elimination of extreme poverty, MDG 8 is a precondition for the pursuit and attainment of all of these goals to be sustainable in the long run.

This paper revisits MDG 8 and looks at the three main instruments – namely debt relief, official development assistance (ODA) and trade – through which the developed world and the intergovernmental institutions have pledged to help LDCs and developing countries achieve the first seven goals.

Official Development Assistance

The 2010 Gleneagles target is approximately US$154bn at current prices. However, actual aid disbursement is falling short of the target by about US$17bn. The UN MDGs Report 2010 finds that some EU Development Assistance Committee (DAC) countries will achieve or even surpass the goal of disbursing 0.51 percent of their gross national income (GNI) as developmental aid – Sweden, with the world's highest ODA as a percentage of GNI (1.01 percent), followed by Luxembourg (1), Denmark (0.83), the Netherlands (0.8), Belgium (0.7), the UK (0.6), Finland (0.56), Ireland (0.52) and Spain (0.51).

But others are unlikely to reach the target: ODA as a percentage of GNI is estimated at between 0.44 and 0.48 percent for France, 0.40 for Germany, 0.37 for Austria, 0.34 for Portugal, 0.21 for Greece, and 0.20 for Italy. This is because of the dampening effect of the global financial crisis on ODA, with several donor countries facing problems of indebtedness.

Table 1: ODA Performance	
Year	**ODA**
2004	0.26
2005	0.33
2006	0.30
2007	0.28
2008	0.31
2009	0.31
2010	0.36 (estimated)

In addition to this 'delivery gap' (disbursal falling short of the overall target), there is also a "coverage gap" in the distribution of development assistance – while the share of ODA flows allocated to the poorer countries in total ODA increased marginally between 2000 and 2007, the distribution of ODA across countries remained skewed, and did not, on several counts, favour countries with the least means and largest numbers of poor people[2]. Moreover, the Gleneagles target of raising ODA to Africa by US$25bn has been missed[3].

In addition, new channels of financing for low income countries, such as sovereign bond issues have been closed down as the credit market has tightened. There are also certain conditions tied to ODA – for instance, the US insists that the real equivalent of food aid provided by it must originate from its farms, be shipped on US carriers, and distributed by agencies such as CARE and Catholic Relief Services. As a result, 60 cents out of every dollar of aid goes to middlemen for transport, storage, and distribution. Similarly, a lot of Australian aid is tied aid, raising the question of whom it actually benefits. It has been remarked that much of Australia's donor contribution is 'boomerang aid' as one-third of the "donated dollars never left (leave) the country, and up to 90 percent of overseas development contracts were (are) won by Australian-based companies"[4].

The truth is that most of the donors are yet to each provide even half of what they had pledged. But in the end, aid effectiveness is not measured only by the amount of donor disbursals but in the tools and skills it gives to recipient countries so they can look after their own development..

TOTAL DAC COUNTRIES

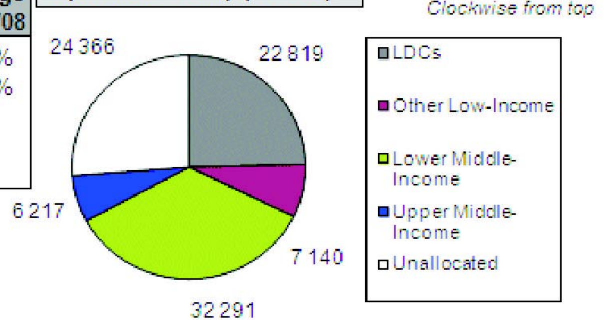
Gross Bilateral ODA, 2007-08 average, unless otherwise shown

Net ODA	2007	2008	Change 2007/08
Current (USD m)	103 485	121 483	17.4%
Constant (2007 USD m)	103 485	115 632	11.7%
ODA/GNI	0.28%	0.31%	
Bilateral share	70%	71%	

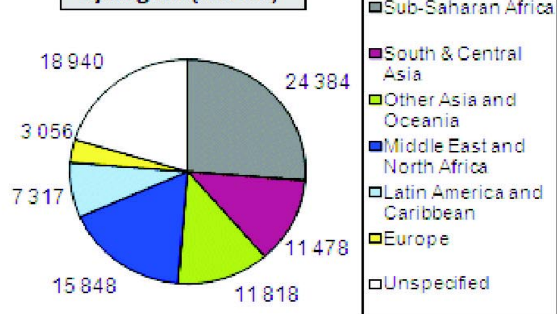
Top Ten Recipients of Gross ODA (USD million)	
1 Iraq	9 462
2 Afghanistan	3 475
3 China	2 601
4 Indonesia	2 543
5 India	2 263
6 Viet Nam	1 745
7 Sudan	1 743
8 Tanzania	1 603
9 Ethiopia	1 551
10 Cameroon	1 396
Memo: Share of gross bilateral ODA	
Top 5 recipients	22%
Top 10 recipients	31%
Top 20 recipients	43%

By Income Group (USD m)

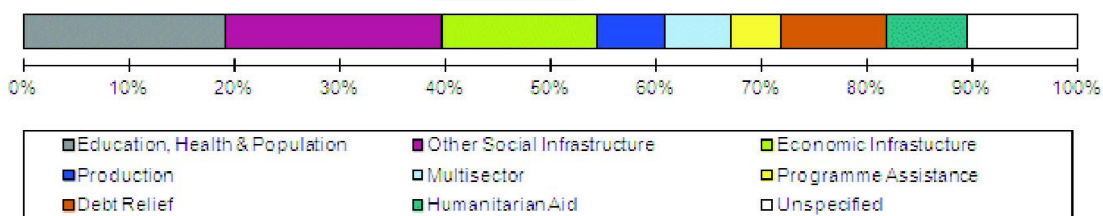
Clockwise from top



By Region (USD m)



By Sector



Source: OECD - DAC ; www.oecd.org/dac/stats

Trade

WTO's contribution to the achievement of the MDGs goes beyond MDG 8. In fact, the MDGs cannot be seen in isolation: these are all interconnected. The WTO's activities also have an impact on MDG-7, which aims to ensure environmental sustainability and protect biodiversity – the Agreement establishing the WTO recognises that Members' economic relations should be conducted in a way that allows "for the optimal use of the world's resources in accordance with the objective of sustainable development".

The failure to reach an agreement on the Doha Round of multilateral trade negotiations represents a major delivery gap in strengthening the global partnership for the MDGs as the developing countries have been deprived of the benefits that they would have received from a more timely completion of the Round.

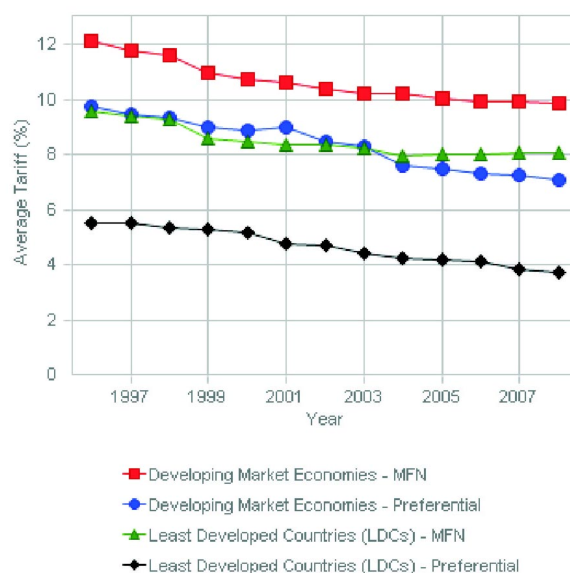
However, LDCs and developing countries' duty-free access to the markets of developed countries has continued to increase mainly through the continued elimination of tariffs in the form of autonomous liberalisation. Some developed countries have started to implement the target agreed in 2005 of granting duty-free and quota-free (DFQF) market access to LDCs for at least 97 percent of their exports, but many others are yet to do so. India and China have adopted preference programmes for LDCs though overall, there are large regional and sectoral variations in duty-free access by LDCs. Finally, agricultural support in developed countries remains a major distortion affecting trade and farm production in developing countries.

Recent DFQF offers do not immediately extend 100 percent market access. Potential LDC exports to developed and emerging markets have not materialised due to the immediate exclusion of non commodity products these can produce competitively; the high costs of doing business; large costs of transport to distant markets; non-tariff barriers; and the lack of capacity to produce diversified exportables.

In agriculture, there are proposals to eliminate export subsidies, considered as the most damaging type of agricultural subsidies. Similarly, in regard to industrial tariffs, there is a proposal on the table to cut tariffs on the basis of a formula according to which higher tariffs would be cut by a greater percentage. This would address tariff peaks and escalation. In sum, if and when the Doha Round is concluded, the multilateral trading system (MTS) will be more open, particularly for developing country exports.

To summarise, for developing countries in general, the main benefit expected from the Doha agreement with respect to access to the markets of developed countries (where most average tariffs are already low) would be the reduction of tariff peaks in agriculture, textiles & clothing and the lowering of market-distorting subsidies in agriculture.

Average Tariffs Imposed by Developed Countries on Agricultural Products and Textiles & Clothing from Developing and LDCs



Source: http://www.mdg-trade.org/

There is no denying that average tariffs have come down for both LDCs and other developing countries in the past decade. However, much more needs to be done to promote development through trade. Special attention needs to be paid to agriculture which is the source of livelihood for bulk of the population in LDCs and developing countries.

Since late 2007, the MTS has come under heightened pressure as the food and financial crises have given rise to new waves of protectionism. In the current global economic environment, it is even more crucial to assist all low income developing countries in building their trade-related infrastructure. At its core, Aid for Trade (AfT) is about providing financial and technical assistance to developing countries to enable them to "produce more and to trade better". The picture here is positive as illustrated by the year-on-year increases in commitments. In 2007, AfT increased by about 20 percent over the baseline period of 2002-05, with commitments exceeding US$30bn – up from US$25bn. The increase in AfT commitments for 2008 has been even more impressive, with preliminary estimates showing an increase of 35 percent to US$42bn. Very importantly, these increases have been achieved without impacting on the global commitments to social sectors, which are key to the achievement of the MDGs.

Debt

Substantial progress has been made with regard to debt relief, but full delivery on the Heavily Indebted Poor Countries (HIPC) Initiative, which was launched in 1996 by

the International Monetary Fund (IMF) and the World Bank with the aim of ensuring that no poor country faces a debt burden it cannot manage, requires continued efforts from the international community. In 2005, to help accelerate progress toward the UN MDGs, the HIPC Initiative was supplemented by the Multilateral Debt Relief Initiative (MDRI)[5].

Prior to the onset of the global financial turmoil, high commodity prices and strong trade growth had improved the export revenues of many developing countries. Consequently, the burden of servicing external debt for the developing countries as a group had fallen from almost 13 percent of export earnings in 2000 to below four percent in 2007.

Debt relief is a part of a much larger effort, which also includes aid flows, to address the development needs of low income countries and make sure that debt sustainability is maintained over time. For debt reduction to have a tangible impact on poverty, the additional money needs to be spent on programmes that benefit the poor.

The total cost of providing assistance to 40 countries that have been found eligible or potentially eligible for debt relief under the enhanced HIPC Initiative is estimated to be about US$75bn in end-2009 net present value terms. Resources available in the trust are currently insufficient to finance the cost of debt relief to all countries that meet the initial conditions for debt relief. The original financing plan did not include the cost of debt relief to Sudan and Somalia, as well as to other countries that entered the Initiative after 2006. Should these countries progress to the decision point, there would be an urgent need to mobilise resources.[6]

A number of commercial creditors have initiated litigations against highly indebted countries, raising significant legal challenges to burden sharing among all creditors, including the multilateral institutions. Also, given the voluntary nature of creditor participation in the HIPC Initiative, the IMF and the World Bank will continue to use moral suasion to encourage creditors to participate in the Initiative and to deliver fully their share of HIPC Initiative debt relief.

Estimates indicate that, today developing countries' debt stocks stand at a staggering US$2.9tr, and every day the poorest countries pay the rich world almost US$100mn in debt repayments (UNIRIN, June 2009).

The World Bank uses the ratio of a country's export earnings to debt as an indicator of its debt sustainability. The threshold considered as sustainable by the Bank is a debt-to-export ratio of 150 percent. Most poor countries' debt-export ratios are much higher than the threshold. For instance, in 2009, Zambia's debt-export ratio was over 300 percent, double of the threshold indicating the severity of the country's indebtedness.

It is further argued that the conditions set out in 'Decision Point Document' for completion of HIPC contain contradictions. While these conditions stipulate measures to target poverty, the compliance requirements in regard to various economic policy conditions can undermine poverty reduction efforts. The latter requires countries to cut public spending and privatise basic services such as water and electricity.

Debt relief was meant to have a positive impact on poverty reduction and make countries capable enough to handle

Table 2: List of Countries That Have Qualified for, are Eligible or Potentially Eligible and May Wish to Receive HIPC Initiative Assistance (as of July 01, 2010)		
Post Completion Point countries (30)		
Afghanistan	The Gambia	Mozambique
Benin	Ghana	Nicaragua
Bolivia	Guyana	Niger
Burkina Faso	Haiti	Rwanda
Burundi	Honduras	São Tomé & Príncipe
Cameroon	Liberia	Senegal
Central African Republic	Madagascar	Sierra Leone
Republic of Congo	Malawi	Tanzania
Democratic Republic of Congo	Mali	Uganda
Ethiopia	Mauritania	Zambia
Interim Countries (Between Decision and Completion Point – 6)		
Chad	Côte d'Ivoire	Guinea Bissau
Comoros	Guinea	Togo
Pre-Decision-Point Countries (4)		
Eritrea	Kyrgyz Republic	Somalia
Sudan		

their debt while developing. The multilateral institutions have tried their best to provide loans and grants to the HIPCs but for debt relief to be effective, it has to be tied to social sectors that promote revenue and employment.

Conclusion

MDG 8 highlights the importance of external economic assistance for LDCs and developing countries in achieving other seven MDGs. This is the opportune time to revisit this goal and take a hard look at what has been achieved and what needs to be done.

The recent global financial crisis has reiterated the fact that the ripples of what happens in one nation go far beyond it and generate a multiplier effect. At the New York Summit, it is time to undertake a realistic check of targets and means. All parties involved have to make changes in the way they have been working towards the goals, since time is of the essence.

There is no denying that the global financial crisis and the stalled Doha talks have had an adverse impact on all countries. The use of the three instruments of debt relief, trade and ODA has to be revisited.

In regard to debt, focussing on bilateral debt cancellation is not enough as poor countries owe money to multiple institutions. One way of helping countries get rid of debt is to encourage FDI[7] in LDCs and ensure that it is not concentrated only in certain countries. For instance, 70 percent of FDI in LDCs in 2004 went to six oil producing countries (Angola, Chad, Equatorial Guinea, Mauritania, Sudan, and Yemen). Second, intergovernmental institutions can conduct an MDG based analyses for debt cancellation to meet the specific need of each country.

As far as promoting trade is concerned, concluding the Doha Development Round – which aims to lower trade barriers around the world – is important if we are to meet MDG 8. It is the single biggest step we can take to help the poorest countries in the world trade their way out of poverty. The WTO has been egging on countries to come to a consensus and it is in the best interest of all parties – developed, developing and LDCs – to wrap up this round. The benefits of trade liberalisation and market access are much needed in this phase of recession.

While there have been positive developments in regard to AfT, development is about much more than aid which is only a means to an end. At the end of it, it is about wealth creation, private enterprise and jobs which will lift people out of poverty. Creating conditions where the private sector can flourish, where small businesses have access to finance, where international trade agreements propel economic growth in poor countries, is what development today is about. At the same time, efforts can be made to ensure that ODA is not “tied” with economic conditionalities.

To conclude, attention needs to be paid together to all three issues – debt relief, better aid and fairness in the trading environment – to achieve MDG 8. With more than 470 million people projected to be living in extreme poverty by 2015 in LDCs, the importance of MDGs cannot be undermined. If there is a good time to rethink what needs to be done, it is NOW.

Endnotes

1 http://www.unctad.org/templates/webflyer.asp?docid=13647&intItemID=1528&lang=1

2 In 2007, the largest recipient of ODA in absolute terms was Iraq, which received more than twice as much as the second-largest recipient, Afghanistan

3 Other countries to miss their commitments are Austria, Greece and Portugal

4 http://ipsnews.net/news.asp?idnews=52535

5 The MDRI allows for 100 percent relief on eligible debts by three multilateral institutions – the IMF, the World Bank, and the African Development Fund (AfDF) – for countries completing the HIPC Initiative process. In 2007, the Inter-American Development Bank (IADB) also decided to provide additional (“beyond HIPC”) debt relief to the five HIPCs in the Western Hemisphere

6 http://www.imf.org/external/np/exr/facts/hipc.htm

7 According to UNCTAD, FDI comprises about 52 percent of the overall gross fixed capital formation in Cambodia, and 25 percent in Vietnam. In Singapore, that proportion is as high as 60 percent. Any decline in FDI flows to developing countries may, therefore, pose a threat to financial stability and economic development

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