The Politics of the Millennium Development Goals: Contributing to Strategies for Ending Poverty?

Part Two:

Financing the MDGs Through a Global Partnership for Development

CCIC CCCI

CANADA'S COALITION TO END GLOBAL POVERTY
ENSEMBLE POUR ÉLIMINER LA PAUVRETÉ DANS LE MONDE

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A Policy Background Paper by Brian Tomlinson, Policy Team,
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**PART TWO:
FINANCING THE MDGS
THROUGH A GLOBAL PARTNERSHIP FOR DEVELOPMENT**

1. 0 INTRODUCTION

Throughout 2005 civil society organizations, governments and multilateral institutions will be focused on progress in meeting the Millennium Development Goals (MDGs), with ten years remaining until the target year of 2015. Global meetings and campaigns will provide unique opportunities for Canadian CSOs to press government and multilateral institutions to give maximum priority to initiatives to achieve these Goals.

Among the Millennium Development Goals is the commitment to a Global Partnership for Development (Goal Eight). For many CSOs the MDGs are important time-bound benchmarks to which to hold governments accountable for their international commitments to make the maximum effort to end poverty. Part One of this paper makes an assessment of their capacity to create the political space for measures required to substantially reduce and end poverty. Issues in the politics of MDGs have implications for public and government campaigns that focus solely on MDG achievements. It questions the scope and strategies related to MDGs. It suggests that efforts to achieve the MDGs should be explicitly situated within existing human rights obligations of all states and citizens based on the International Covenant on Economic, Social and Cultural Rights, the Convention on the Elimination of all forms of Discrimination against Women, and the Right to Development.

CSOs point to issues of global equity – debt cancellation, trade justice, equitable governance in global institutions, and political, social and economic rights for the poor – as an indispensable foundation for a politics that will enable sustained progress to end poverty in the South. Under international human rights law, many would argue, Northern governments have an obligation to give maximum effort to achieving change in these critical policy areas.

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1 This paper reflects the author's analysis and views alone. It is written in his capacity as a Policy Officer for CCIC, but does not necessarily reflect the view of the Council or its members. Earlier drafts benefited from the comments of colleagues at CCIC, KAIROS, the North South Institute, Rights and Democracy and drew from rich discussions on these themes at a conference sponsored by the North South Institute and the World Federation of United Nations Associations for the *We the People…* project in December 2004.

This Part Two paper is one of three Parts for an overarching paper on *The Politics of MDGs Contributing to Strategies for Ending Poverty?* A Summary of all three parts is available on the Aid Policy page of CCIC's web site a www.ccic.ca. Also on the site is Part One which deals with the politics inherent in the promotion of the MDGs. Part Three assesses Canada's performance on Goal Eight, promoting a development partnership in support of the MDGs. Each Part can be read on its own.

Part Two of this paper looks more specifically at the commitments of the donor in light of financing required to achieve the MDGs. Part Three follows with a discussion of Canada's performance to date in light of these financing requirements.

The Millennium Declaration calls on governments "to spare no effort to free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty". The MDGs' Goal Eight, while a late addition to the MDGs[2], responds to this obligation. It outlines a commitment on the part of developed countries to a global partnership for development. While significantly flawed, it has been widely accepted as an important starting point for holding developed countries accountable in advancing the MDGs. Goal Eight makes the essential point that the responsibility to act to reduce poverty is shared and does not lie exclusively with Southern governments. However, the Goal and its Targets have been widely criticized for its lack of specificity and absence of timelines (unlike all other Goals).[3] CSOs also point out that the targets confirm a market-oriented growth-centred development model as the basis for expanding this "global partnership for development".

More specifically, developed countries commit to "more generous ODA for countries committed to poverty reduction", "further an open, rules-based, predictable, nondiscriminatory trading and financial system", and an "enhanced program debt relief". Goal Eight has a number of related targets and indicators for measuring progress:

1.1 Aid Flows

1. Net ODA and ODA to the least developed countries (total and share of GNI);
2. Proportion of bilateral, sector-allocable ODA of OECD/DAC donors for basic social services (basic education, primary health care, nutrition, safe water, and sanitation);
3. Proportion of Untied ODA.

1.2 Market Access

1. Proportion of developed country imports (by value and excluding arms) from developing countries and from least developed countries, admitted free of duty;
2. Average tariffs imposed by developed countries on agricultural products and textiles and clothing from developing countries;
3. Agricultural support for OECD countries as a percentage of their GDP; and
4. Proportion of ODA for building trade capacity.

[2] See Part One of this paper for a discussion of the origins of the MDGs and their relationship to the Millennium Declaration.

[3] The Millennium Development Goals and Targets are set out in Appendix One.

1.3 Debt Sustainability

1. Total number of countries that have reached their HIPC decision points and that have reached their HIPC completion points (cumulative);
2. Debt relief committed under HIPC Initiative; and
3. Debt service as a percentage of exports of goods and services.

These targets and indicators largely fail to take into account the need for deep reform in the relationships between developed and developing countries that might form the basis for an authentic development partnership. With respect to trade and market access indicators, CSOs have been critical of their narrow focus on market access as the sole measure of the contribution of trade policy to reducing poverty. Canadian CSOs have argued for a comprehensive assessment of trade and investment policies promoted by developed countries, measured by their contribution to the elimination of poverty, human rights and sustainable development worldwide.[4] In this regard, the negotiating framework for the Doha "Development" Round for further liberalizing trade, agreed in July 2004, is deeply disappointing, particular in the areas of agriculture, industrial tariffs and special and differential treatment. If this Round continues to undermine the capacities of the poorest countries to pursue appropriate development strategies to protect and strengthen livelihoods for poor people, progress on achieving the MDGs will be further eroded. A development partnership that includes the promotion of trade and investment for development in WTO and bilateral trade agreements requires agreement on considerable flexibilities to pursue development goals. Developing countries must retain national policy capacities in areas such as food security, expanding employment for marginalized groups, and stimulating local industry within an integrated domestic economy.

While a more equitable trade system is vital, donor official development assistance (ODA), along with substantial debt cancellation, provides the essential additional financing capacities, particularly for the poorest countries, to meet their human rights obligations to maximize progress in reducing and eliminating poverty. The balance of Part Two looks more closely at donor aid flows and MDG commitments, new initiatives for debt cancellation, and recent proposals for innovative resource transfers.

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[4] For a discussion of comprehensive benchmarks for the Doha Round of trade negotiations and an assessment of progress to date, see Canadian Council for International Cooperation, *Crossroads at Cancun: What directions for development?* Brief for the 5th WTO Ministerial Meeting in Cancun, May 2003, accessible at http://www.ccic.ca/e/002/trade.shtml. See also Gauri Sreenivasan, "The WTO August 1st, 2004 Framework: What's in it for development?", Canadian Council for International Cooperation, November 2004, accessible at http://www.ccic.ca/e/docs/002_trade_wto_framework_briefing_note.pdf. CCIC benchmarks for the Doha Round include:

1. No new issues on the WTO agenda.
2. In agriculture: to address dumping, and support special and differential treatment for developing countries that ensures policy space to promote rural development and food security.
3. In GATS: to ensure all governments policy space to exempt essential services from privatization.
4. In TRIPS: to address public health, farmers' rights, and biodiversity issues.
5. A plan for a fundamental democratization of WTO decision-making and governance.

2.0 AID FLOWS AND POVERTY ERADICATION: WILL AID 'BUY' THE MDGS?

2.1 Estimates of Aid Financing for MDGs

Since the 2002 UN Monterrey Conference on Financing for Development, the common estimate for the cost for the achievement of the MDGs has been an additional US$50 billion in aid each year directed to these purposes (about $100 billion in total aid each year starting in 2002).[5] The UN Millennium Project provides more detailed estimates based on several studies of low income countries, taking into account increased domestic resource mobilization for MDGs and other demands on Official Development Assistance (ODA). They increased the estimated increase in ODA to US$135 billion, starting in 2006, and rising to US$195 billion in 2015. When measured against the UN target of 0.7% of Gross National Income (GNI), ODA at these levels proposed by the Millennium Project will require an overall donor performance of 0.44% of GNI in 2006 and 0.54% in 2015. In 2003, the last year for actual statistics, donors provided US$69 billion, representing 0.25% of donors' GNI. The UN Millennium Project estimated the expected financing gap for 2006 at US$46.6 billion, rising to US$73.5 billion by 2015.[6]

2.2 Global Aid Performance to 2003

Both the Monterrey projections and the more recent Millennium Project calculations are highly optimistic when set against an analysis of actual donor performance. After falling dramatically in the 1990s (10% overall in real terms and 40% for Sub-Saharan Africa), ODA has begun a slow recovery, in part based on commitments made in 2002 at the Monterrey Conference by the United States, European Union member states, and Canada. However, these new resources are not necessarily directed to the MDGs, nor do they nearly make up for loss of ODA receipts by developing countries since 1990.

ODA of US$69 billion in 2003 was up from US$58.3 billion in 2002. However, inflation and exchange rate movements accounted for US$7.9 billion of the US$10.7 billion increase, leaving an actual overall increase of US$2.9 billion. Of this amount (US$2.9 billion), Iraq accounted for more than 65%, or US$1.9 billion, leaving a mere US$1 billion increase that <u>might</u> be applied to MDGs.

The OECD's Development Assistance Committee in its 2004 Report looks at increases between 2001 and 2003 for Sub-Saharan Africa, with similar results. A positive increase of US$7.8 billion for that region can be reduced to a mere US$0.6 billion in new money for development projects, after accounting for debt forgiveness (US$4.3 billion increase) and emergencies (US$1.6 billion increase).[7] To date, it seems donors have done little to target their modest increases in new aid to MDG goals (although some re-profiling of existing aid may have benefited these goals).

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5 Based on calculations made by the Zedillo Commission leading up to the Monterrey Conference and subsequently confirmed by World Bank studies.

6 UN Millennium Project, *Investing in Development*, *op.cit.*, Tables 8 and 10, pp. 55 – 65. Their estimates of ODA include at least US$40 billion in ODA **not** directed to the MDGs that will still be required in these years (emergency assistance and infrastructure development, for example).

7 Development Assistance Committee, "Final ODA Data for 2003", accessible at http://www.oecd.org/dataoecd/48/0/34282401.pdf.

The Millennium Development Goals use 1990 as the reference year for measuring progress in achieving specific Goals by southern countries. Using this same reference year for donor ODA performance produces a more balanced perspective on recent increases. Aid recipients lost more than US$34 billion between 1990 and 2001 due to donor aid cuts(in 2002 constant dollars). Since 2002 ODA recovered, gaining US$13 billion in 2002 and 2003. When measured against the UN target of 0.7% of Gross National Income, aid from all donors declined from 0.33% in 1990 to 0.25% of GNI in 2003.

2.3 Projected Aid Performance to 2015

The OECD DAC has monitored donor's Monterrey commitments to increase ODA up to 2006. Their estimate is that aid will increase to US$88.5 billion, an increase of US$19 billion by 2006 over 2002. Increases promised by the United States, the UK, Italy, Germany and France account for more than 70% of the overall increase. Five countries, out of 22 donor countries, currently allocate at least 0.7% of their GNI to ODA – Sweden (0.79%), Norway (0.92%), Netherlands (0.80%), Denmark (0.84%) and Luxembourg (0.81%). Five countries have existing timetables to reach 0.7% – France (2012), United Kingdom (2013), Finland (2010, subject to economic circumstances), Spain (2012), and Belgium (2010). Ireland had a timetable set to be achieved in 2007, but last year its government abandoned the timetable, with no future date.

On the other hand, the Japanese government has been reviewing and reducing its ODA budget since 1999, with an expected reduction of close to 5% in 2004. Part of this reduction is due to the fact that a large proportion of Japanese aid is in the form of loans, and the repayments of past loans in a given year are deducted from current disbursements. The US commitment to increase the Millennium Challenge Account to $5 billion by 2006 continues to be subject to budgetary pressures from Congress along with competing priorities for Afghanistan and Iraq in the "war against terrorism". It is expected that the at best, the Millennium Challenge Account will be allocated $3 billion (President Bush's request to Congress), some $2 billion short of what was promised for 2006. [8] Canada has a commitment to increase its ODA by 8% per year up to 2010, but no timetable to achieve 0.7% of GNI by 2015. By 2010/11, the Canadian Council for International Cooperation (CCIC) calculates that Canada's performance will rise only to 0.33%, well below 0.49% achieved in the early 1990s.[9]

Aid volume flows remain highly volatile and subject to competing budgetary pressures in donor countries.

[8] See the various country chapters in *The Reality of Aid 2004*¸Manila: IBON, 2004, accessible at www.realityofaid.org. See also "More Money for Foreign Aid in Bush Budget, But Some Accounts See Cuts", in *Monday Developments*, February 21, 2005, published by Interaction (www.interaction.org).

[9] For current Canadian ODA performance and proposals to reach 0.7% see Part Three of this paper and the Canadian ODA Budget Analysis section of CCIC's web site at http://www.ccic.ca/e/002/aid.shtml. See CCIC's analysis of the 2005 Federal Budget at http://www.ccic.ca/e/docs/002_aid_2005_fed_budget_analysis.pdf.

2.4 Delivering "quality" aid for MDGs

Measuring the commitment of donors to the MDGs through specific ODA performance targets provides an important set of accountability benchmarks (in addition to the traditional UN target of 0.7% of GNI). While increase aid resources are a critical component for achieving MDGs, this alone will not meet the responsibility of donors for maximum effort to reduce poverty. MDGs, or any other targeted measure of poverty reduction, cannot simply be "purchased" with increased aid budgets. Only when aid is structured appropriately will it be an effective *catalyst* for poverty reduction.

Advocacy for increased aid must therefore go hand-in-hand with fundamental reform of the aid regime; one without the other will not be effective in reducing poverty. More aid may not in fact be better aid. This paper argues that the call for "more and better aid" for the MDGs must be a call for donors to live up to their human rights obligations to maximize resources and make poverty reduction a priority. Are the current mechanisms for delivering aid appropriate and effective to achieving this goal? Do aid allocations remain captured by donor foreign policy priorities, such as security and conflict that directly affect their interests, which can undercut aid as a catalyst for poverty reduction?

Specialized researchers provide significant evidence that aid alone, even if properly managed and targeted, will achieve the Goals. Michael Clemens and his colleagues summarize the results of sector studies from the past 20 years, which

> "suggests that a) additional aid may not be the most important factor in improving social outcomes; b) the sectoral distribution of aid to maximize progress on any particular MDG is not clear; c) unit cost approaches utilized in costing studies may be dramatically misleading; and d) 'best practices' may not be easily exportable because they are dependent on a range of determining factors that may be difficult to replicate."[10]

Clemens *et al.* conclude that donors need to concentrate their aid over the long term on country level strategies that are rooted in the politics of poverty reduction in individual countries. They must be prepared to address the unique circumstances, the constraints, and priorities for reducing poverty of these countries. Ending the current over-whelming policy influence that donors exercise over the governments of the poorest countries is essential. Otherwise, there is a danger that developing country partners will experience the integration of MDGs into the aid system as another "top-down" set of policy directives, unrelated to their circumstances or to the policy changes required to maximize progress against poverty. It is therefore essential to examine issues in the **quality** of donor aid for MDG purposes that might have a bearing on their achievability, not just aid quantity targets.

The Right to Development suggests that donors have a human rights obligation to contribute to, and certainly not weaken, an equitable, non-discriminatory, system for international cooperation that progressively meets the claims of the world's citizens for human rights. But aid and debt relief have been used for more than two decades by donors as a strong incentive for the poorest

[10] Clemens, *et. al.*, *op. cit.,* pages 12-13.

countries to adopt donor policy prescriptions. These prescriptions, commonly referred to as the "Washington Consensus", have often resulted in devastating consequences for poor governments' capacities to meet their human rights obligations to their citizens. They have limited the scope of government as a development actor and privatized essential services, often to the detriment of the poor. Policy prescriptions attached to aid have imposed trade liberalization, opening developing country markets to subsidized agriculture products from developed countries, devastating poor farmers. They have expanded opportunities for investment by transnational resource-extraction companies – investment that produces little benefit to the countries concerned.[11] Such prescriptions continue to be strongly associated with donor aid modalities used to fund programs to meet the MDGs.

2.5 Achieving the MDGs and Donor Conditionality

Donor-imposed "Washington Consensus" policies remain at the heart of Poverty Reduction Strategy Papers (PRSPs). The poorest countries are required to prepare PRSPs, under the guidance of the World Bank and the IMF, in order to qualify for loans or debt relief. PRSPs are increasingly used by donors as a guide to achieving the MDGs, under the largely rhetorical claim by donors that these strategies are "owned" by developing countries.

However, civil society challenges the policy prescriptions that lie behind PRSPs and question the degree to which there is any "ownership" by poor and marginalized people of the priorities expressed in them. Country "ownership" must be centred on societal, economic and political choices, shaped as much by people living in poverty and the citizens of each respective country, as their government. Seen from this perspective, the policy conditions, imposed by the critical need for donor aid and debt relief, are more often constraining the choices available to low and medium-income developing country governments and citizens. Civil society actors in these countries have been highly critical of this lack of domestic political space for citizens to shape priorities and approaches of PRSPs. Irrespective of a country's expressed needs in its PRSP, there is a fixed policy matrix of IMF/World Bank conditions, defining what constitutes a "good policy performer", that influence country policies as the former determine the eligibility of a country to access considerable aid resources.[12]

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11 For a substantial critique of structural adjustment, based on a joint initiative of civil society, developing country governments and the World Bank see Structural Adjustment Participatory Review International Network (SAPRIN), *Structural Adjustment: The SAPRI Report, the Policy Roots of Economic Crisis, Poverty and Inequality*. London: Zed Press, 2004.

12 See for example, Susanne Possing, "Between Grassroots and Governments: Civil Society Experiences with the PRSPs, A Study of Local Civil Society Response to the PRSPs", North South Coalition PRSP Program, based at the Danish Institute for International Studies, Copenhagen, Denmark, September 2003, (http://www.eurodad.org/ articles/default.aspx?id=530) p. iv. See also Diana Sanchez and Katherine Cash, "Reducing poverty or repeating mistakes? A civil society critique of Poverty Reduction Strategy Paperss", Church of Sweden Aid, Diakonia, Save the Children Sweden and the Swedish Jubilee Network, (http://www.eurodad.org/articles/default.aspx?id=511), December 2003 and Walter Eberiei and Heike Henn, "Parliaments in Sub-Saharan Africa: Actors in poverty reduction?", GTZ (Germany), December 2003, (http://www.eurodad.org/articles/default.aspx?id=521).

Donor-imposed aid conditions affect the achievability of the MDGs in at least two respects. First, aid conditions are the tools with which the IMF and World Bank act as gatekeepers of aid channels based on their assessment of compliance to their policy prescriptions. So for example, in the case of Uganda, Zambia, or Kenya considerable controversy arose as government health and education ministries have been seemingly compelled to limit their budgets to comply with strict IMF guidelines for government expenditures, while other donors and domestic CSOs were pressing these same governments to increase spending for HIV/AIDS and basic education.[13] Countries must comply with IMF policy frameworks or risk losing access to critical budget support from the wider donor community.

Secondly, bilateral donors channel significant MDG aid resources into highly conditioned budget support for implementing a country's PRSP or into Sector Wide Programs in support of a line-ministry program in education, health or agriculture.[14] Jeffery Sachs estimates that more than 50% of all aid to Sub-Saharan Africa in 2002 was in the form of support to governments' budgets.[15] CIDA, Canada's aid agency, for example, has put considerable stress on "program based approaches" (PBAs), almost exclusively with developing country government ministries, and particularly in the basic education and health sectors. By 2005/06, these approaches, in partnership with other bilateral and multilateral donors, will represent about 15% of CIDA's overall programming. In Sub-Saharan Africa it is expected that 60% of CIDA's aid will be delivered through PBAs, particularly in the sectors that are most relevant for progress on the MDGs.

Clearly, governments in poor countries must be strengthened to deliver social services on an equitable and non-discriminatory basis to their citizens. But donor coordinated initiatives through PBAs are highly conditioned aid, often with the World Bank playing a leading role. The conditions are for the most part not set by the smaller donors, such as CIDA, but rather by the largest donors, particularly the World Bank. Donors contribute to pooled budget support mechanisms, for which all the donors agree to "harmonize" conditions and terms, many of which are derived from the IMF or the Bank eligibility for debt cancellation and IMF/Bank credit arrangements. Civil society critics suggest that this inter-donor collaboration is creating donor cartels of concentrated power in an already highly unequal aid relationship. Donors are constructing a "globalized" aid regime with global conditionalities for which no one donor

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[13] See Actionaid International, Global AIDS Alliance, Students Global AIDS Campaign, Results Educational Foundation, USA, *Blocking Progress: How the Fight against HIV/AIDS is being Undermined by the International Monetary Fund and the World Bank*, September 2004, accessible at http://www.actionaidusa.org/blocking_progress.php, including an interesting exchange with the IMF on the conclusions of this report.

[14] This discussion of program based approaches is drawn from Brian Tomlinson, Pam Foster, "At the Table or in the Kitchen? CIDA's New Aid Strategies, Developing Country Ownership and Donor Conditionality", a joint paper for CCIC and the Halifax Initiative, September 2004, accessible at http://www.ccic.ca/e/docs/002_aid_2004-09_at_the_table.pdf.

[15] Jeffrey Sachs, *et. al. Ending Africa's Poverty Trap*, Brookings Papers on Economic Activity, No. 2: 117 – 240, August 2004. page 170. Accessible at http://www.unmilleniumproject.org/documents/BPEA%20Ending%20Africa%27s%20Poverty%20Trap%20FINAL.pdf Net budget support after countries paid debt and interest to these donors was US$7.4 billion or 40% of gross ODA disbursements to the region. The 50% proportion quoted above is the gross ODA disbursements paid into governments' budgets by donors.

accepts responsibility.[16] These conditions relate more closely to donor pre-occupations with improving government's fiduciary accountability and policy compliance than with effective engagement of local populations for improved poverty outcomes.

The several donors supporting the Tanzania General Budget Support Program, for example, have imposed 50 prior actions, which require progress before the release of donor funds, and 60 additional results related to Tanzania's PRSP that are systematically reviewed by the Tanzanian government. Externally set conditions are increasingly penetrating deep into all levels of government processes, while largely excluding citizens from influencing the directions of their own government. The Ghana Budget Support program, which is intended to support Ghana's efforts to reduce poverty, for the first two years, has conditions that will trigger the release of funds focused solely on public sector reform, public finance management, governance and decentralization, including privatization. Only when progress has been made in these areas will the focus change to monitor sector specific result in areas such as health, education, roads etc.

Rather than strengthen citizens' engagement in the determination of political choices favouring poor and marginalized communities, donors depoliticize development options by engaging in largely technocratic discussions with specialized government officials. In summary, the conditions and mechanisms associated with these donor aid programs, directed to MDGs, may have significant consequences that undermine the domestic social, economic and political processes so necessary to achieve overall progress on poverty reduction.[17]

2.6 Tied Aid and financing MDGs

The quality of aid continues to be affected by the tying of donor aid disbursements to donor country goods and services. It is estimated that aid tying devalues aid for recipients by up to 30%.[18] Aid tying continues to be high for a number of donors, including Canada, despite a recent DAC agreement to untie aid to the least developed countries. In part, this is due to the fact that the agreement does not cover either technical assistance or food aid, which remains highly tied for all donors. The OECD DAC reports that only 6.8% of total DAC bilateral aid was

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16 Hall, D and de la Motte, R, "Dogmatic Development: Privatization and Conditionality in Six Countries" a Public Service Research Unit Report for War on Want, February 2004, accessible at http://www.waronwant.org/?lid=7540.

17 These paragraphs are adapted from a detailed examination of program based approaches for CIDA see Pam Foster, Brian Tomlinson, *At the Table or in the Kitchen? CIDA's New Aid Strategies, Developing Country Ownership and Donor Conditionality*, CCIC/Halifax Initiative Briefing Paper, September 2004, accessible at http://www.ccic.ca/e/docs/002_aid_2004-09_at_the_table.pdf

It is important to note that the UK government has undertaken a review of conditionality in which they are suggesting a more limited regime of conditions linked explicitly to PRSPs, but does not rule out the use of economic policy conditions in aid programs, nor privatization of public services. For more detail, see http://www.brettonwoodsproject.org/article.shtml?cmd[126]=x-126-83004 In the fall of 2004, pressure at the World Bank from CSOs and a few member governments compelled the Bank to initiate its own review of conditions attached to its loans, with the very reluctant cooperation of the IMF. Minister Goodale has recognized the need for donors "to become more sensitive to local conditions, especially with respect to structural reform conditionality."

18 See Tony German, Judith Randel (editors), *Reality of Aid 2002 Report*, Manila: IBON Foundation, page 15, accessible at www.realityofaid.org.

tied in 2003 (for 18 reporting countries), down from 17.7% in 1995. But when technical assistance is included (under the assumption that it is mostly tied to donor country consultants), approximately 30% of donor aid is still tied in 2003.[19] Unfortunately untying donor aid does not mean that developing country partners may choose the best opportunity for the purchase of goods and services, particularly within their own county or region. Rather, aid untying often benefits firms in other developed countries as these development contracts are put to international tendering.

In fact the portion of ODA that can actually be accessed in any form by developing country partners is relatively small. The Reality of Aid CSO project calculated in 1999 that only 37% of bilateral aid was available for developing country partners own spending. The remaining amount was made up of donor-controlled technical assistance (34%), support to refugees in the donor country (2%), imputed student costs for studying in the donor country (1%), debt forgiveness grants by donors (6%), the added cost associated with tied aid (1%), emergency relief (10%), and interest received (9%).[20] The Millennium Project reached a similar conclusion with their estimate that only 24% of bilateral aid is actually available to finance real MDG-based development investments on the ground.[21]

2.7 Diversion of aid increases to donor foreign policy priorities

There is considerable evidence that significant portions of recent aid increases have not gone towards meeting the MDGs, but rather have been diverted to donor foreign policy considerations, particularly the war on terrorism and the aftermath of the invasions of Afghanistan and Iraq. The allocation of bilateral aid has always been highly susceptible to the strategic interests of donors, particularly during the Cold War. Some CSOs see a new Cold War emerging in the war on terror with similar implications for donor priorities.[22] A recent study of major donor priorities concluded that

> "Development assistance which prioritizes the achievement of human development goals is at risk. A rapid increase in aid has been channeled to meet new security imperatives. But with acute budgetary pressures besetting Japan, France, Germany and the United States (among others), it is a virtual certainty that much of the new aid flows (largely to fund the war on terrorism as defined by the United States) will dry up. The more stable budgets of development agencies will then be urged to give priority to the development needs of countries in the frontline of the war on terror."[23]

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19 Development Assistance Committee, *Development Cooperation Report*, 2004, Table 24. For Canada, aid tying remains a significant issue. In 2003, 47% of our aid is tied, while two thirds is tied when technical assistance is included.

20 Reality of Aid 2002, *op.cit*., p. 157.

21 The Millennium Project, *Investing in Development*, *op. cit.*, January 2005, pages 197-98.

22 See for example, Christian Aid, "The politics of poverty: Aid in the new cold war", 2004, accessible at http://www.christian-aid.org.uk/indepth/404caweek/index.htm.

23 Nigaire Woods et. al., "Reconciling effective aid and global security: Implications for the emerging international development architecture", Global Economic Governance Program, University College, Oxford, November 2004, page 30, accessible at http://users.ox.ac.uk/~ntwoods/IDAFinalDraft2(26Nov2004).pdf.

In Canada, for example, fully 30% of new aid resources (up to 2003/04) have been allocated to Afghanistan and Iraq. Not only are donors diverting major parts of their aid increases to these priorities, at the OECD DAC some donors are also trying to stretch the criteria of what can be counted as ODA. In the security-centric, post-9/11 world, donors are seeking to count resources allocated more broadly for military aspects of peace operations as aid. If they are successful (and to date donors have not been able to agree), this will certainly increase the diversion of ODA to foreign policy priorities and away from MDGs.

When issues of aid quality are combined with significant diversion of aid resources to Afghanistan, Iraq and earlier to the Balkans, then clearly reform of current aid practices has to be a fundamental precondition for donors to live up to their human rights obligations to "spare no effort" to reduce and end poverty.

3.0 ALTERNATIVE FINANCING FOR THE MDGS

The Millennium Project, along with the Blair Commission on Africa in the lead-up to the July 2005 G7 meeting, call for all donors to commit to binding timetables to reach the 0.7% UN aid target by at least 2015. As noted earlier, 5 out of 22 donors are at or beyond the target, while an additional five countries have set out timetables. These countries represented 42.5% of all ODA in 2003. Notably absent from this list are the United States (0.15%) and Japan (0.20%), who together contributed 36.4% of aid in that year. Canada too has not stepped up to the plate, with no plan to achieve 0.7%. There is only the current commitment of 8% annual increases up to 2010.

Those countries who have announced timetables are in no way legally bound to their policy statements, with Ireland already reneging on a commitment for 2007. Moreover, no donor whether they have achieved the UN aid target or not, has taken real initiative to reform aid architecture so that funds may be directed to truly effective and equal partnerships with developing country counterparts working to achieve poverty reduction.[24] Nor is there much commitment among donor countries to substantially re-orient trade or investment practices so as to serve as a catalyst to poverty-reducing economic growth in developing countries. In this context, then, it is useful to examine some new financing options. These options address <u>both</u> the obligation to provide additional financial resources for poverty eradication and the need for equitable terms and power relationships in the delivery of these resources.

3.1 International Financing Facility (IFF)

The International Financing Facility is being strongly promoted by the British Government as a means to "front-load" aid commitments based on guarantees by donors that they will achieve 0.7% prior to 2015. The Facility would borrow money on the international bond market, giving creditors for these loans the security of future aid increases by participating donors, and then use

[24] See for example, the CSO statement of concern developed at the beginning of February 2005 in the lead-up to the second donor high level meeting on harmonization. These NGOs emphasized the importance of developing country ownership as a preliminary condition for harmonization and alignment of donor policies and called for a cessation of all economic policy conditionality. [check for web link and final version]

these borrowed dollars to finance programs for the MDGs today. A number of CSOs have given qualified support to the initiative[25]. Others have not gone this far. Support for the IFF has been tentative or qualified by CSOs (as well as donors such as Canada) because of the negative implications for donor capacity and obligation to address poverty in the post-2015 period. It is then that large amounts of borrowed money would have to be paid back to bond holders out of donor aid allocations after 2016, whatever the scale of aid resources in those years. Adding to the uncertainty for the Facility is the ability of future governments to change policies and effectively renege on aid financing (but not their obligation to IFF bond holders), pleading difficult pressing financial circumstances. It is important to recall that as many as 900 million people will still live in absolute poverty in this post-2015 period and it is highly unlikely that the MDGs will be met by most African countries, even in the best of scenarios. Nor is there any discussion by donors (or CSOs) who support the Facility that these borrowed resources would be available on terms any different than currently highly conditioned aid.

3.2 Debt Cancellation

Full and unconditional debt cancellation is crucial for the governments of the poorest countries to make progress on their human rights obligations to their citizens. The failure of the HIPC initiative to address with finality the drain of resources from South to North for these countries is well acknowledged by debt analysts and now by some G7 governments.[26] In 2002, the World Bank recorded that low income countries paid more than US$44 billion in debt servicing to northern official and private financial institutions (along with US$10.5 billion in profit remittances to private companies). In that year, DAC statistics recorded that these same countries received only US$30 billion in aid, for a net drain of US$24.5 billion.[27] For Sub-Saharan Africa, a region where all acknowledge that poverty is increasing, debt servicing (US$13.3 billion) and profit remittances to northern financing institutions and companies amounted to US$20.8 billion, while net aid disbursements by donors were US$18.4 billion. A hemorrhaging of resources of this scale from the South is clearly a major factor in the lack of progress on the MDGs to date. Estimates from Jubilee USA suggest that African governments still spend an average of US$14 per person a year on servicing their debt and just US$5 per capita on health care.

Permanent and unconditional cancellation of all debt for 52 impoverished countries is both an affordable and has the potential to add significant new resources on terms that respect ownership by developing country governments and their citizens. Access to debt cancellation by these countries should be limited only by a determination of serious persistent violations of international human rights law. In setting priorities for the use of these funds, creditors should accompany debt cancellation with measures to strengthen accountability between domestic citizens' organizations and their governments, rather than accountability to policies dictated by international bankers and northern finance ministers.

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[25] Oxfam International, *Paying the Price: Why Rich Countries Must Invest in a War on Poverty*, December 2004, pp. 43 accessible at http://www.oxfam.org/eng/pdfs/pp041206_MDG.pdf

[26] See Canadian Finance Minister Goodale's submission to the Commission on Africa, October 2004, accessible at http://www.fin.gc.ca/activty/consult/Af_ovr_e.html.

[27] See the World Bank, *Global Development Finance*, 2004, Volume 2 for debt servicing and profit remittances. DAC *Development Cooperation Report*, 2004, Statistical Tables for aid flows.

The British and Canadian governments have put a proposal before G7 countries that offers 10 years of relief of multilateral debt servicing **up to 2015**, with partial cancellation of 30% to 40% of existing debt. But there is plan for cancellation of the debt burden beyond 2015, and both countries restrict this offer to the full weight of World Bank/IMF conditions. Only the 15 countries that have completed the HIPC process are eligible now, along with 4 countries that have become eligible for the World Bank's Poverty Reduction Support Credit Program[28]. The proposal holds out the possibility of relief for an additional 37 countries, as they complete a demanding regime of policy conditions associated with HIPC or the PRCP at some time in the future. While welcome as a new initiative, these proposals, along with one from the United States that would effectively be funded through World Bank IDA resources, are a long way from 100% unconditional debt cancellation for the poorest countries, with additional financial resources available to these countries as a result of the cancellation of their debt.

In the British proposal, current eligible countries stand to reap modest benefits in debt servicing (principal and interest due) that will be paid on their behalf, **assuming** that all donor countries take up their share of the relief initiative. However urgent this relief might be for these countries to invest in health or education, the proposal is quite modest relative to the total weight of debt obligations for the poorest countries. CCIC has calculated that the 19 eligible countries in 2002 paid only $1 billion in debt servicing.[29] By way of comparison, total debt servicing for Sub-Saharan Africa amounted to $13 billion in 2002. To date, the UK has announced that it will pay 10%, its fair share of servicing due to the World Bank and the African Development Bank, and Canada has committed to 4% (estimated to be about Cdn$172 million over the next five years). In the proposal, additional relief would be allocated to these same countries for servicing debt owed to the IMF by revaluing or selling gold reserves held by the Fund. Similar to the IFF, the debt proposal remains tied to an artificial date, 2015. Removing this deadline and extending it unconditionally to the poorest countries would result in 100% cancellation for these countries.[30]

What would it take to achieve full cancellation of the debt of the poorest countries? EURODAD, a European coalition of CSOs that closely follows debt and finance, calculates that about US$35 billion is needed to fully cancel the multilateral debt of the HIPC countries, and up to $80 billion to cancel the debt of all low income countries (except India). This research determined that about US$30 billion could be realized from a gradual sale of IMF gold reserves at market prices for this purpose. In addition, the World Bank could appropriate about US$10 billion from its

[28] The PRSCs are highly conditioned loans that are available to low income developing countries based on World Bank verification of implementation of their "good policies" matrix, which are very similar to those attached to the HIPC debt relief process.

[29] World Bank, *Global Development Finance* Report, Volume 2, 2004. Using $172 million as Canada's estimate of 4% of total annual servicing for 5 years for the World Bank and ADB debt, total debt servicing covered is about $860 million per year on average. This does not include any cancellation of IMF debt which is financed separately.

[30] For a summary of the response of a coalition of Canadian CSOs to the British/Canadian proposal see documents posted on the Halifax Initiative site at www.halifaxinitiative.org. A less critical perspective by Oxfam Canada on the proposals can be seen at http://www.oxfam.ca/news/MDGs/Debtrelief.htm. The latter however fails to address the actual scope of the proposal by implying that it is available to all low income countries and is a viable substitute for debt cancellation.

reserves (currently at US$22 billion) and at least US$600 million from annual net income, resulting in another US$7.5 billion. Donor countries would be required to contribute the remaining needed funds spread, if they choose to do so, over a period of 20 to 30 years.[31]

Interestingly, donors were able to agree to the cancellation of 80% of Iraq's outstanding debt, which totals US$42 billion, in a matter of months. Cancellation of debt for the poorest countries is equally feasible, given the political will to do so. Rather than the modest US$1 billion per year envisaged in current debt proposals, full cancellation would immediately make permanently available more than $13 billion in additional government financing each year for Sub-Saharan Africa alone, increasing the level of aid resources by almost 75%!

3.3 Alternative Financing Mechanisms

In recent years, several developed country governments, including Canada, have proposed very tentative measures to review different options for alternative sources of development financing. The Canadian parliament was the first parliamentary body to approve a resolution supporting, in principle, a Tobin Tax on currency transactions, but the government subsequently did little if anything to examine the implications of implementing this tax.[32]

At a UN World Leaders Summit on Hunger and Poverty in September 2004, President Luiz Inácio Lula da Silva of Brazil and President Chirac of France, with Chile and Spain, provided new leadership on alternative financing. At that meeting, a new initiative was launched "to give further attention to innovative mechanisms of financing – public or private, compulsory and voluntary, of universal or limited membership – in order to raise funds urgently needed to help meet the MDGs and to complement and ensure long-term stability and predictability to foreign aid".[33] The Declaration called on governments to examine more closely several innovative financing mechanisms, including a tax on financial transactions, on the arms trade, a Special Drawing Rights mechanism for development, as well as other voluntary schemes.[34] At the February 2005 G7 Finance Ministers meeting the French Finance Minister proposed consideration of the Tobin Tax or a tax on international air tickets to reflect the cost inflicted by carbon emissions as an financing alternative to debt cancellation and the International Financing Facility.

Several of these proposals have been on the periphery of international meetings focusing on global finance for development for a number of years. The Tobin Tax would rely on a commitment to collect the tax at a national level. Countries would then further commit to

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31 Sonny Kapur, *Paying for 100% Multilateral Debt Cancellation: Current Proposals Explained.* EURODAD, January 2005, accessible at http://www.eurodad.org/uploadstore/cms/docs/GoldFAQPaper.pdf.

32 For a recent CSO push to have Canada again assume some leadership on alternative financing for development see Halifax Initiative, Letter to Prime Minister Martin, March 7, 2005, accessible at http://www.halifaxinitiative.org/index.php/Home/603.

33 The New York Declaration Against Hunger and Poverty, United Nations, September 20th, 2004, accessible at http://www.globalpolicy.org/socecon/glotax/general/2004/0920newyork.pdf.

34 Action Against Hunger and Poverty, *Report of the Technical Group on Innovative Financing Mechanisms*, September 2004, accessible at http://www.mre.gov.br/ingles/politica_externa/temas_agenda/acfp/Report-final%20version.pdf.

transfer a portion of the resulting revenue to a global fund. The Belgium parliament recently proposed a two-tiered tax (Tobin-Spahn tax) that institutes a very small tax on normal capital movements, with a much higher outflows tax on crisis outflows of capital that result from speculative attacks on currencies.[35] Other proposals, such as carbon tax, SDRs for development, or a tax on the use of the global commons, also have the potential to create an independent source of multilateral development funding. As noted in the September Declaration of the Summit on Hunger and Ppverty, these funds could complement and compensate for the current failures of aid programs that are directed largely in accordance with the interests of the donor countries. Within a revitalized UN system, these new funds could be the source for a more automatic redistribution of global wealth to developing countries, based on their level of development, limited only by a determination of systematic and persistent human rights violations by the governments concerned.

35 See Susan George, "What Would be Next", Transnational Institute, January 2005, (contribution to the Helsinki Process), accessible at http://www.tni.org/george/index.htm.

Appendix One
The Millennium Development Goals and Targets

1. ***Eradicate extreme poverty and hunger***
   - Halve between 1990 and 2015 the proportion of people whose income is less than $1 a day; and
   - Halve between 1990 and 2015 the proportion of people who suffer from hunger.

2. ***Achieve universal primary education***
   - Ensure that by 2015 all boys and girls complete a full course of primary schooling.

3. ***Promote gender equality and empower women***
   - Eliminate gender disparity in primary and secondary education by 2015.

4. ***Reduce child mortality***
   - Reduce by two thirds, between 1990 and 2015, the mortality rate among children under five.

5. ***Improve maternal health***
   - Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio.

6. ***Combat HIV / AIDS, malaria and other diseases***
   - Halt and begin to reverse the spread of HIV / Aids, malaria and other major diseases by 2015.

7. ***Ensure environmental sustainability***
   - Integrate the principles of sustainable development into country policies and programs and reverse loss of environmental resources;
   - Reduce by half the proportion of people without sustainable access to safe drinking water by 2015; and
   - Achieve significant improvement in lives of at least 100 million slum dwellers by 2020.

8. ***Develop a global partnership for development***
   - Develop further an open trading and financial system that is rule-based, predictable and non-discriminatory (including a commitment to good governance, development and poverty reduction – nationally and internationally);
   - Address the least developed countries' special needs. This includes tariff and quota-free access for their exports; enhanced debt relief for heavily indebted poor countries; and more generous official development assistance for countries committed to poverty reduction;
   - Address the special needs of landlocked and small island developing States;
   - Deal comprehensively with developing countries debt problems through national and international measures to make debt sustainable in the long term;
   - In cooperation with developing countries, develop decent and productive work for youth;
   - In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries; and
   - In cooperation with the private sector, make available the benefits of new technologies – especially information and communications technologies.