

Millennium Development Goal 8

The Global Partnership for Development at a Critical Juncture



MDG Gap Task Force
Report 2010



The present report was prepared by the MDG Gap Task Force, which was created by the Secretary-General of the United Nations to improve the monitoring of MDG 8 by leveraging inter-agency coordination. More than 20 United Nations agencies are represented on the Task Force, including the World Bank and the International Monetary Fund, as well as the Organization for Economic Cooperation and Development and the World Trade Organization. The United Nations Development Programme and the Department of Economic and Social Affairs of the United Nations Secretariat acted as lead agencies in coordinating the work of the Task Force. The Task Force was co-chaired by Olav Kjørven, Assistant Secretary-General and Director of the Bureau for Development Policy of the United Nations Development Programme, and Jomo Kwame Sundaram, Assistant Secretary-General for Economic Development, and coordinated by Rob Vos, Director in the Department of Economic and Social Affairs of the United Nations Secretariat.

List of bodies and agencies represented on the MDG Gap Task Force

Department of Economic and Social Affairs of the United Nations Secretariat (UN/DESA)	United Nations Framework Convention on Climate Change (UNFCCC)
Department of Public Information of the United Nations Secretariat (DPI)	United Nations Fund for International Partnerships (UNFIP)
Economic and Social Commission for Asia and the Pacific (ESCAP)	United Nations Industrial Development Organization (UNIDO)
Economic and Social Commission for Western Asia (ESCWA)	United Nations Institute for Training and Research (UNITAR)
Economic Commission for Africa (ECA)	United Nations International Research and Training Institute for the Advancement of Women (INSTRAW)
Economic Commission for Europe (ECE)	United Nations International Strategy for Disaster Reduction (UNISDR)
Economic Commission for Latin America and the Caribbean (ECLAC)	United Nations Office for Project Services (UNOPS)
International Monetary Fund (IMF)	United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS)
International Telecommunication Union (ITU)	United Nations Population Fund (UNFPA)
International Trade Centre (ITC)	United Nations Research Institute for Social Development (UNRISD)
Joint United Nations Programme on HIV/AIDS (UNAIDS)	World Bank
Office of the United Nations High Commissioner for Human Rights (OHCHR)	World Food Programme (WFP)
Organization for Economic Cooperation and Development (OECD)	World Health Organization (WHO)
United Nations Children's Fund (UNICEF)	World Institute for Development Economics Research of the United Nations University (UNU-WIDER)
United Nations Conference on Trade and Development (UNCTAD)	World Meteorological Organization (WMO)
United Nations Development Programme (UNDP)	World Tourism Organization (UNWTO)
United Nations Educational, Scientific and Cultural Organization (UNESCO)	World Trade Organization (WTO)

Millennium Development Goal 8

The Global Partnership for Development at a Critical Juncture

MDG Gap Task Force Report 2010



United Nations
New York, 2010

Cover photo credits

Top: UN Photo

Left: UN Photo/Marie Frechon

Bottom middle: [iStockphoto.com/MalcolmFife](https://www.iStockphoto.com/MalcolmFife)

Bottom right: [iStockphoto.com/peeterv](https://www.iStockphoto.com/peeterv)

United Nations publication

Sales No. E.10.I.12

ISBN 978-92-1-101224-8

© Copyright United Nations, 2010

All rights reserved

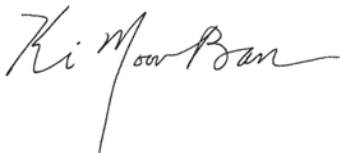
Preface

At the Millennium Summit held in 2000, world leaders agreed that strong international partnerships would be crucial to achieving the Millennium Development Goals. Tremendous progress has been made in strengthening those partnerships, especially through increased official development assistance and generous debt relief. The efforts put forth are yielding dividends, as a number of countries are now on track towards achieving several of the Goals. At the same time, we know that many other countries are falling short, and that, as a result of the global economic crisis, larger numbers of people are facing much more difficult conditions. The agreed deadline of 2015 is fast approaching, and there is still much to be done.

Despite the renewed commitment to international cooperation, economic upheaval and uncertainty have taken a toll on progress towards achieving Goal 8, which is to strengthen the global partnership for development. Delivery of official development assistance is slowing down. The Gleneagles commitments to doubling aid to Africa by 2010 will not be met. The Doha Round of multilateral trade negotiations remains stalled. Debt burdens have increased, with a growing number of developing countries at high risk or in debt distress. And rising prices are hampering access to medicines, while investment in technology has weakened.

Nevertheless, economic uncertainty cannot be an excuse for slowing down our development efforts or backing away from international commitments to provide support. Quite the contrary: the uncertainty is one reason to speed up delivery on those efforts and commitments. By investing in the Millennium Development Goals, we invest in global economic growth; by focusing on the needs of the most vulnerable, we lay the foundation for a more sustainable and prosperous tomorrow.

This, the third report of the MDG Gap Task Force, tracks international cooperation efforts, measuring them against commitments, and offers recommendations on how, by placing development at centre stage, to strengthen the global partnership and thereby achieve a more balanced and sustainable growth of the world economy. Let us use the present report as a resource for advancing this objective, for ensuring a successful High-level Plenary Meeting of the sixty-fifth session of the General Assembly on the Millennium Development Goals, to be held in September 2010, and for delivering on the global partnership for development by 2015. By fulfilling the promises that have been made to the poor, the vulnerable and the marginalized, we can build a world that is more prosperous, more just and more secure.



Ban Ki-moon
Secretary-General of the United Nations

Contents

	<i>Page</i>
Executive summary	
Official development assistance	x
Market access (trade)	xii
Debt sustainability	xiii
Access to affordable essential medicines	xv
Access to new technologies	xvi
Introduction	
The global partnership for development at a crossroads	1
MDGs, crisis and the global partnership	1
The challenge of measuring the needs gap	3
Pushing on all fronts	6
Official development assistance	
The trace of policy commitments	7
The ODA delivery gap	8
Total ODA from DAC donors in 2009 and 2010	10
Emergency response to the global crisis	10
ODA receipts	12
ODA terms	14
The ODA country coverage gap	14
Priority countries	14
Main ODA recipients	16
Matching aid to country needs	17
Progress in the aid effectiveness agenda	17
ODA allocation for specific purposes	19
Coherence and mutual accountability	21
Complementary international development cooperation	22
South-South cooperation	22
Innovative and other sources of financing for development	22
International cooperation in mobilizing domestic public resources	23
Strengthening international development cooperation	24
Market access (trade)	
A decade of trade policy expectations	27
Developing-country trade performance	28
Impact of the global crisis	28
The stalemate in the Doha Round	30
The state of protectionism	33

	<i>Page</i>
Developed-country tariff barriers	33
Agricultural subsidies in developed countries	34
The state of LDC preferences	36
Aid for Trade	39
Strengthening the global partnership in international trade	41
Debt sustainability	
Policies undertaken and policies promised	43
The global crisis and developing-country debt	45
Progress in providing debt relief under the HIPC Initiative and MDRI	49
Countries at risk of sovereign debt distress	51
The way forward: bridging the gaps in the international debt architecture	53
Access to affordable essential medicines	
Availability and prices of essential medicines	57
Affordability of essential medicines	59
National expenditures on pharmaceuticals in the private and public sectors	59
Impact of the global economic crisis on the pharmaceutical sector	60
Global initiatives to improve access to essential medicines	64
Innovative financing mechanisms	64
Local production of antiretroviral medicines	64
Intellectual property and innovation policy	65
Strengthening the global partnership to increase access to affordable essential medicines	66
Access to new technologies	
Impact of the global economic crisis on ICT	69
Usage of ICT services	70
Privatization and liberalization of ICT	74
The role of e-Government in achieving the MDGs	74
Access to technology to address climate change	75
A new technology mechanism	76
Financing needs and gaps for climate-related technology development and transfer	76
Access to know-how for disaster risk reduction	79
Strengthening the global partnership for access to technology	80

List of Millennium Development Goals and Targets

Goals 1 to 7	
Goal 1: Eradicate extreme poverty and hunger	
Goal 2: Achieve universal primary education	
Goal 3: Promote gender equality and empower women	
Goal 4: Reduce child mortality	
Goal 5: Improve maternal health	
Goal 6: Combat HIV/AIDS, malaria and other diseases	
Goal 7: Ensure environmental sustainability	
Goal 8: Develop a global partnership for development	
Targets	Indicators*
<p>Target 8.A: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system</p> <p>Includes a commitment to good governance, development and poverty reduction—both nationally and internationally</p> <p>Target 8.B: Address the special needs of the least developed countries</p> <p>Includes tariff and quota free access for the least developed countries' exports; enhanced programme of debt relief for heavily indebted poor countries (HIPC) and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction</p> <p>Target 8.C: Address the special needs of landlocked developing countries and small island developing States (through the Programme of Action for the Sustainable Development of Small Island Developing States and the outcome of the twenty-second special session of the General Assembly)</p> <p>Target 8.D: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term</p> <p>Target 8.E: In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries</p> <p>Target 8.F: In cooperation with the private sector, make available the benefits of new technologies, especially information and communications</p>	<p>Official development assistance (ODA)</p> <p>8.1 Net ODA, total and to the least developed countries, as percentage of OECD/DAC donors' gross national incomes</p> <p>8.2 Proportion of total bilateral, sector-allocable ODA of OECD/DAC donors to basic social services (basic education, primary health care, nutrition, safe water and sanitation)</p> <p>8.3 Proportion of bilateral official development assistance of OECD/DAC donors that is untied</p> <p>8.4 ODA received in landlocked developing countries as a proportion of their gross national incomes</p> <p>8.5 ODA received in small island developing States as a proportion of their gross national incomes</p> <p>Market access</p> <p>8.6 Proportion of total developed country imports (by value and excluding arms) from developing countries and least developed countries admitted free of duty</p> <p>8.7 Average tariffs imposed by developed countries on agricultural products and textiles and clothing from developing countries</p> <p>8.8 Agricultural support estimate for OECD countries as a percentage of their gross domestic product</p> <p>8.9 Proportion of ODA provided to help build trade capacity</p> <p>Debt sustainability</p> <p>8.10 Total number of countries that have reached their HIPC decision points and number that have reached their HIPC completion points (cumulative)</p> <p>8.11 Debt relief committed under HIPC and MDRI Initiatives</p> <p>8.12 Debt service as a percentage of exports of goods and services</p> <p>8.13 Proportion of population with access to affordable essential drugs on a sustainable basis</p> <p>8.14 Telephone lines per 100 population</p> <p>8.15 Cellular subscribers per 100 population</p> <p>8.16 Internet users per 100 population</p>

* Some of the indicators listed below are monitored separately for the least developed countries (LDCs), Africa, landlocked developing countries and small island developing States.

Executive summary

The world economy is recovering from its most severe downturn since the Great Depression of the 1930s. The recovery is still very fragile and uneven, however. The global jobs crisis has not subsided, as can be seen from persistent high unemployment rates in the major developed countries and increased rates of under-employment and vulnerable employment in many developing countries. The lack of recovery in employment presents a risk for output recovery as it suppresses consumption and investment demand. Fiscal and monetary stimulus measures have been critical in preventing the global recession from turning into a new depression and remain a main driving force in the ongoing recovery. But such stimuli have also widened fiscal deficits in a number of countries, especially in many advanced economies, where public debt is approaching critical levels.

The ongoing jobs crisis and increasingly limited fiscal space not only pose a risk to the recovery of the global economy but also make achievement of the Millennium Development Goals (MDGs) more challenging. Poorer employment opportunities around the world are slowing progress towards poverty reduction. Greater income insecurity and weakening of government spending on social services are hurting access to education, health services, drinking water and basic sanitation. To mitigate the potentially lasting, harmful effects of the global economic crisis, national policy responses will need to be supported by stronger global partnerships.

With only five years until the 2015 deadline, enormous gaps remain in the delivery of MDG 8 commitments. It is now clear that delivery of official development assistance (ODA) will fall well short of the Gleneagles targets set for 2010. The perceived need among many donor countries to start fiscal consolidation sooner rather than later could put resource availability under further pressure precisely at a juncture where aid commitments beyond 2010 have yet to be firmed up. The prospect of concluding a development-oriented Doha Round in the near future still seems highly uncertain. The existing internationally concerted framework for dealing with the debt problems of heavily indebted poor countries (HIPC) is not available to countries that are not currently declared eligible, and this at a time when heavy debt-service obligations are limiting the fiscal resources available for supporting MDG achievement in a number of low- and middle-income countries and when future debt distress cannot be ruled out in many countries. Resource availability to meet needs for affordable access to a number of essential medicines is under stress. Improved access to new technologies has become increasingly pressing, especially those technologies necessary for climate change mitigation and adaptation.

The global partnership for development therefore stands at a critical juncture for the following reasons:

- The time horizon for delivery on the commitments made and for achieving the MDGs is becoming increasingly short

- The deadlines set by groups of countries for delivery on a number of partnership commitments (for example, aid volume and effectiveness, conclusion of the Doha Round of multilateral trade negotiations) is 2010, but there is little prospect of their being achieved
- The global economic crisis and the looming threat of climate change have consequences that render the need for such strengthened partnership even greater

Official development assistance

Aid from members of the Development Assistance Committee (DAC) reached almost \$120 billion in 2009, increasing by less than 1 per cent, in real terms. The share of ODA in donor gross national income (GNI) was 0.31 per cent, well below the United Nations target of 0.7 per cent, which has been reached and exceeded by only five donor countries. If this target were to be met by all donors by 2015, it would raise over \$300 billion per annum for development (in 2009 prices and exchange rates).

DAC members as a group will not meet the Gleneagles targets for increasing aid volume, which expire in 2010, although some of the countries will meet their individual targets. The gap between delivery in 2009 and the 2010 target was \$26 billion (in 2009 dollars). With only modest growth of ODA projected for this year, aid in 2010 will fall at least \$20 billion short of the target.

ODA to Africa is estimated to have reached almost \$44 billion in 2009. However, in 2010, Africa is expected to receive only about \$45 billion, leaving a gap of \$16 billion relative to the Gleneagles target (in 2009 prices). DAC aid to least developed countries (LDCs) was just 0.09 per cent of donor GNI (\$36 billion) in 2008, the latest year for which comprehensive data are available. In response to the financing needs of developing countries in the face of the global financial and economic crisis, the international community substantially increased funding and reform of concessional financial facilities at the International Monetary Fund (IMF) and the multilateral development banks.

Behind the aggregate levels of ODA, allocation of aid across countries is very uneven and has been increasingly concentrated in a limited number of countries. The top 10 aid recipients accounted for 38 per cent of total country-allocable ODA in 2008. The largest recipient of aid, Iraq, received twice the aid received by Afghanistan, whose aid, in turn, was almost 50 per cent more than that of the third largest recipient, Ethiopia.

ODA from DAC members allocated to basic social services was \$15.5 billion, rising from about 15 per cent of bilateral sector-allocable ODA in 2000-2001 to just less than 20 per cent in 2006-2008.

There has been some success in implementing commitments to improve various dimensions of aid effectiveness, such as in the alignment of technical assistance with country programmes and the strengthening of public financial management systems. Much less progress has been made, however, regarding donor use of recipient-country systems, improving the predictability of aid flows and reducing the transaction costs of providing aid. DAC reported that 87 per cent of bilateral donor aid was untied in 2008, but the range with respect to individual countries was quite wide. Mutual accountability constitutes an area

for further development, as only seven countries had established fully functioning mutual accountability mechanisms by the end of 2009. A related focus of attention has been improvement of aid transparency.

Complementary to ODA, various international efforts have become increasingly noteworthy, including South-South financial and trade cooperation, actions by interested countries aimed at developing and implementing innovative sources of financing, and the strengthening of international cooperation to combat corruption and tax evasion. Conversely, international foundation grants and private philanthropy have declined during the crisis.

To accelerate progress in providing developing countries with the support required to achieve the MDGs and counteract the impact of the global crisis on the poor, the international community should:

- Recommit to the United Nations aid target and set a time path for its realization. To reach the 2015 target, annual increments of approximately \$35 billion per year would be needed from 2011 to 2015 in order to attain an estimated target level of ODA of \$300 billion (at 2009 prices and exchange rates)
- Ensure that individual pledges by donor countries are made in a way that is transparent and readily verifiable by the international community, as was the case with the Gleneagles commitments
- Urgently replenish the multilateral and regional development funds that advanced their outlays as part of the counter-crisis efforts of the past two years and increase them to levels that would empower these funds to play the expanded role foreseen for them in the post-crisis world. Donors that have not yet contributed their share of the cost should join those that have
- Fully deliver the committed additional resources to priority country groups, including those for Africa and the LDCs. Aid should also be stepped up for other, presently underserved, low-income and vulnerable economies where social and economic needs are great, and means should be devised, as required, for effective delivery of aid-financed services
- Increase the share of aid provided as budget support and ensure that earmarking of ODA by donors for specific purposes is always consonant with expressed national priorities of recipient countries
- Deliver on aid effectiveness commitments targeted for attainment in 2010 and agree on a renewed set of targets beyond that date. This is the shared responsibility of donors and recipient countries. Of fundamental importance is the realization of mutual accountability (including transparency in the provision and use of aid resources), an essential step to building mutual confidence and effectively aligning aid behind sustainable national development strategies. Such steps should go hand in hand with improving aid transparency and delivering on the commitments regarding predictability, transparency and conditionality

To complement and deepen traditional forms of aid, the following actions should also be considered:

- Encourage the expansion of development cooperation among developing countries
- Recognize the catalytic efforts of the Leading Group on Innovative Financing for Development both for raising additional funds for the MDGs and for exploring innovative financing mechanisms, including the financial transaction tax, and implement the Group's recommendations
- Strengthen international tax cooperation and multilateral anti-corruption initiatives so as to stem tax evasion and corruption and mobilize additional resources for development

Market access (trade)

Global trade flows have rebounded in 2010 following very sharp declines from the end of 2008 to mid-2009. Developing countries were severely affected by the near collapse of trade. Recourse to trade restrictions in response to the crisis has been limited, in general, thus helping to prevent a much more prolonged downturn.

Nearly nine years since its launch, the Doha Round of multilateral trade negotiations is at an impasse. Since the last serious push for a breakthrough collapsed in July 2008, no new concrete deadline for the conclusion of the Round has been set, despite recent efforts to revive negotiations and the target announced by the Group of Twenty (G-20) to complete the Round in 2010. There is also a strong sense among some developing countries that the development dimension of negotiations has been put on the back burner.

There has been no significant reduction in the tariffs imposed by developed countries in 2008, and average tariffs on key products from developing countries remain relatively high. While trade-distorting agricultural support provided by Organization for Economic Cooperation and Development (OECD) countries continued to decline in 2008 as a percentage of gross domestic product (GDP), falling to 0.84 per cent in 2008 from 0.88 per cent in 2007, it was mainly the result of high market prices rather than policy reform. At \$376 billion, support remains high in absolute terms, and was even \$12 billion higher in 2008 than in 2007.

MDG 8 calls for addressing the special needs of LDCs, which tend to be highly vulnerable to trade shocks and possess weak exporting capacity. A gap remains in reaching the target to provide duty-free and quota-free (DFQF) market access to at least 97 per cent of products originating in LDCs, a target which still falls short of providing full coverage. Because the remaining dutiable products can fall into the category of products actively exported by beneficiary LDCs, the proportion of developed-country imports from LDCs admitted free of duty, excluding arms and oil, reached only 81 per cent in 2008, that is to say, less than 1 percentage point higher than in 2004. There are significant regional and country variations and gaps in duty-free access. While many developed countries provide 100 per cent DFQF access for LDC exports, there is room for improvement in many of their programmes, especially considering the estimated effects of extending full market access to LDCs on production and exports in preference-giving countries are very small. Indeed, in some cases, non-tariff barriers render market-access opportunities ineffective for LDCs. Large developing countries have also made significant contributions by granting DFQF access to LDCs. This is a welcome development which holds potential for expanding LDC exports given the increasing role of emerging developing countries as drivers of world trade.

Aid for Trade commitments to developing countries increased 35 per cent in real terms in 2008, to reach a record level of almost \$42 billion, substantially more than the average increases of 10 per cent in 2006 and 2007. But resources continue to be concentrated in a few countries, as evidenced by the top 10 recipients' accounting for 45 per cent of total commitments. LDCs received just 25 per cent of total commitments.

To enable developing countries to reap greater gains from trade, the international community should:

- Intensify efforts to conclude, within a realistic timeframe, a development-oriented Doha Round of trade negotiations in order to effectively establish a more open, equitable, rule-based, predictable and non-discriminatory multilateral trading system
- Ensure that developing countries, especially the most vulnerable among them, are given the flexibility and support needed to strengthen their production and trading capacities as part of broader development strategies. Developing such country capacity is a function of both domestic policy choices and international support and requires that:
 - developing countries continue to prioritize trade and its links to development and poverty reduction in national development strategies, and
 - donors accelerate delivery on existing aid commitments, including through renewed technical, financial and political support to the Aid for Trade initiative, as well as through increased support to the Enhanced Integrated Framework, which is the entry point for LDCs in accessing Aid for Trade
- Ensure that protectionist measures taken as a response to crises are dismantled and that further measures, including new forms of non-tariff barriers, are resisted
- Accelerate delivery on the commitment made by developed countries in 2005 to eliminate, by 2013, all agricultural export subsidies and other support measures with equivalent effect, in order to increase the ability of developing countries to produce and export agricultural products competitively
- Accelerate progress towards the full implementation of DFQF market access for all products exported by LDCs, which remains a critical aspect for accelerating employment creation in LDC export sectors, and combine this with the creation of more transparent and simplified rules of origin

Debt sustainability

The debt situation of many developing and transition economy countries deteriorated during the financial and economic crisis owing to the slowing down of the global economy and the fall in trade, remittances and commodity prices. With private finance in crisis, with balance-of-payments problems emerging in many countries and with fiscal deficits widening, multilateral financial institutions sharply increased lending while Governments also borrowed more at home. Public debt ratios increased as a result of the combined effect of increased internal and external borrowing and increased borrowing costs, on the one hand, and falling fiscal revenue, export earnings and income, on the other. Higher debt-servicing obligations are weakening fiscal positions. This, in turn, is threatening MDG-related expenditures in an increasing number of countries.

Prior to the crisis, the debt situation of many countries had improved, reflecting relatively strong economic growth and less need for new borrowing. Some developing and transition economies, however, entered the crisis with debt situations that were still quite weak, in particular a number of small island developing States and low-income countries. They were thus adversely affected when, between 2008 and 2009, the debt-servicing ratios in developing and transition economies rose by almost 5 per cent. The steepest rise was experienced by several middle-income countries in Europe and Asia.

A number of low-income countries were already in debt distress before the crisis erupted, including some countries eligible for debt relief under the HIPC

Initiative. By the end of May 2010, of the 40 countries potentially eligible for debt relief under the Initiative, 28 had reached their completion point (at which time the full amount of relief is accorded irrevocably) and 7 were between their decision and completion points (when some of the creditors start providing interim relief). The remaining five countries can reach their decision point if they have a track record of macroeconomic stability, have prepared a Poverty Reduction Strategy (PRS) through a participatory process, and have debt-burden indicators above HIPC Initiative thresholds using the most recent data for the year immediately prior to the decision point.

The total cost of delivering the assistance under the enhanced HIPC Initiative in end-2009 present value terms is estimated at \$76 billion, of which \$58.5 billion has already been committed to cover the relief of the 35 countries that have passed their decision point. An additional \$27 billion in present value terms has been provided under the Multilateral Debt Relief Initiative (MDRI), which cancels obligations to several of the major multilateral financial institutions on loans that had been disbursed before the MDRI cut-off date and were still outstanding at the completion point after application of HIPC debt relief. If all 40 countries reach the completion point under the HIPC Initiative, the total cost of the MDRI is expected to increase to \$31 billion in end-2009 present value terms. While the largest creditors have provided debt relief in line with their commitments under the HIPC Initiative, others have delivered only a partial share.

IMF and the World Bank have recently classified 11 countries (out of 39 examined) as being in debt distress and 16 as being at high risk of debt distress. They do not rule out the need for debt relief in at least some of these countries. Given the fragile and uneven pace of global economic recovery, however, the number of middle- or low-income countries at elevated risk of entering into debt distress could be larger.

When debt crises occur and debt workouts become necessary, they are arranged under the soon-to-conclude HIPC Initiative, the “Evian Approach” which the Paris Club of government creditors offers to non-HIPCs, or other ad hoc means. However, these processes do not generally meet the criteria set out in the Monterrey Consensus of the International Conference on Financing for Development that would “engage debtors and creditors to come together to restructure unsustainable debt in a timely and efficient manner”, nor do they necessarily produce a workout that embodies a “fair burden-sharing between public and private sectors and between debtors, creditors and investors”.

Additional measures that are required in order to make progress towards dealing comprehensively with the debt problems of developing countries include the following:

- The impact of debt obligations on progress towards the achievement of the MDGs should be taken into account in the debt sustainability frameworks, as proposed in the Monterrey Consensus. It is thus recommended that a technical working group of relevant stakeholders, including the Bretton Woods institutions, be convoked—taking advantage of international discussion modalities developed in the financing for development process—to consider how the interrelationships of public debt, medium-term fiscal frameworks and the MDGs might better be taken into account in debt sustainability analyses

- Bilateral donors and multilateral institutions should increasingly provide their ODA resources in grant form to low-income countries that have significant government debt burdens
- Countries seriously affected by the financial crisis, external shocks, conflict and natural disasters should be offered the option of moratoriums on debt-service obligations based on agreed, standardized criteria
- All of the country arrangements under the HIPC Initiative must be fully and urgently concluded. This will require not only that all HIPCs make adequate progress on completion point requirements (when full relief is accorded) but also that all government and institutional creditors deliver their full share of programmed relief promptly
- Efforts of private holders of HIPC debt to collect unethical, if not illegal, claims must be impeded
- Having recognized the need to explore enhanced approaches to sovereign debt restructuring as outlined in the Monterrey Consensus and reiterated in the Doha Declaration on Financing for Development, an expert group of multi-stakeholders should be convened to prepare alternative proposals for consideration by the international community, taking advantage of international discussion modalities developed in the financing for development process
- Pending the creation of a strengthened international mechanism, innovative forms of debt crisis resolution should be considered, including the following:
 - Setting up schemes of independent arbitration or mediation, or providing further support in organizing ad hoc meetings of a debtor with its creditors
 - Extending and re-opening eligibility to participate in the HIPC Initiative; that is to say, the possible extension of the sunset clause following adaptation of criteria and clauses for the potential inclusion of any low-income and lower-middle-income country vulnerable to debt distress

Access to affordable essential medicines

Providing greater access to essential medicines continues to be extremely urgent and challenging. While some countries showed some progress, on the whole, little recent improvement has been made in providing affordable access to medicines in developing countries. Availability of essential medicines in developing countries continues to be low, especially medicines to treat chronic diseases. This is of particular concern in low-income countries, where chronic diseases have become a main cause of mortality and are putting enormous burdens on the economic conditions of households and national health systems.

In developing countries, essential medicines are typically available at prices only many times higher than international reference prices. Owing to low availability in the public sector, out-of-pocket expenditure is the major source of pharmaceutical payments in low- and middle-income countries. As a result, many medicines, even the lowest-priced generic medicines for chronic and acute diseases, remain unaffordable for many people in developing countries. In high-income countries, in contrast, public funding or mainly employer-based health insurance covers the cost of most medicines.

More progress has been made in providing medicines in the fight against acute diseases in developing countries. Enhanced provision of antiretroviral therapy as a prevention strategy for HIV has had a large impact on reducing the viral

load of patients living with AIDS. The Global Fund to Fight AIDS, Tuberculosis and Malaria has provided treatments free of charge to patients and helped stem the prevalence of such diseases. There have been setbacks as well, including in the form of the spread of drug-resistant forms of tuberculosis. Furthermore, in many countries, the capacity to respond to the AIDS epidemic has been diminished because of falling household incomes and reduced government revenues which have led to cuts in budgets for HIV/AIDS programmes.

The impact of the financial crisis on access to medicines has been mixed. While pharmaceutical consumption did not fall, prices and expenditure on medicines have increased.

In order to reduce the burden of acute and chronic diseases and improve the accessibility and affordability of essential medicines in developing countries, the international community should consider taking the following actions:

- Encourage Governments of developing countries to increase the availability of medicines in the public sector and strengthen national health systems, supported by ODA, where needed, and ensure that medicines are also affordable for low-income families, preferably as part of a broader mechanism to establish a social protection floor
- Tailor measures to improve availability of essential medicine to country conditions by means of the following:
 - Countries without significant pharmaceutical manufacturing capacity should take advantage of flexibilities contained in the World Trade Organization Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) so as to facilitate imports of more affordably priced essential medicines
 - Developing countries with the capacity to produce pharmaceuticals should take advantage of public-health-related TRIPS flexibilities to manufacture generic versions of patented medicines and promote foreign investment to acquire new technologies for producing such medicines
 - Developed countries should further facilitate the export of generic medicines at the lowest costs to countries without manufacturing capacity by incorporating the relevant TRIPS flexibilities into domestic legislation
 - In order to facilitate the above TRIPS-related actions, the international community should increase efforts to reduce costs incurred by developing countries when making use of the flexibilities offered in the Agreement, or compensate them for such costs
- The international community should support research and development into neglected diseases in developing countries with a view to developing medicines for their treatment
- Developing countries should strengthen information-sharing mechanisms regarding prices of medicines in order to strengthen their capacity to negotiate lower prices with pharmaceutical companies. They could further strengthen their bargaining power by setting up joint or "pooled" procurement or other innovative financing mechanisms

Access to new technologies

Despite the global economic crisis, further progress has been made in increasing access to information and communication technologies (ICT), especially to mobile cellular telephony and the Internet. This growth in the use and application

of ICT has significantly boosted its potential as a catalyst for development across sectors. Increased use of “e-Government” has helped improve the management of education, health and environmental programmes, which can have an impact on the achievement of the MDGs.

Mobile cellular subscriptions grew to 4.6 billion by the end of 2009, reaching 68 per cent of the world’s population. Growth continues to be strongest in developing countries, where mobile cellular penetration grew rapidly from 38 per cent in 2007 to 57 per cent in 2009.

As a result, the digital divide narrowed further in 2008, though disparities between developed and developing countries remain. Large regional disparities in the use and uptake of ICT services also persist. For instance, access to the Internet at broadband speeds remains very low in developing countries and is practically negligible in LDCs. Given the lack of access to Internet services, high-speed (3G) mobile broadband networks can play a leading role in boosting the number of Internet users, especially in areas where fixed-line penetration is very low, as is the case in many parts of Africa.

The economic crisis has affected new investments in the sector and this could delay leapfrogging to new technologies. There is evidence of reduced investments in planned network upgrades, and the introduction of “next generation” networks into the market has been delayed or abandoned as a result of financial constraints.

ICT is increasingly provided by the private sector and is open to competition, particularly in mobile and Internet services. While this has generally helped drive down prices, making services more affordable, it may not always hold true for developing countries.

The challenges of addressing climate change require further access to technologies for renewable energy production and environmental protection for sustainable development. But economic and market barriers, particularly lack of finance, have been identified by developing countries as the main obstacles to technology transfer. At the 2009 United Nations Climate Change Conference in Copenhagen, developed countries agreed to ensure that predictable and adequate new and additional funding would be mobilized and improved access to technologies would be granted, particularly for developing countries, so as to enable enhanced action and further technology development and capacity-building for climate change mitigation and adaptation.

Natural disasters affect the poorest countries the most, especially if measured in relation to the size of their economies. Implementing disaster risk reduction measures has long-term benefits, from reduced future losses and reconstruction costs to less vulnerable livelihoods, resilient communities and protective and productive ecosystems.

In order to improve the accessibility and affordability of new technologies, the international community should take the following actions:

- Support the development of concrete targets and indicators to monitor access to new technologies
- Strengthen public-private partnerships in support of the use of Internet services, including in the form of regional communication networks and e-Government and its application towards improved social service delivery

- Encourage ICT investment in developing countries in order to enhance access to broadband Internet services. To this end, in countries that currently have very low levels of coverage of fixed broadband, especially those in Africa, priority should be given to expanding wireless networks
- Strengthen both competition and regulatory frameworks for markets of Internet service providers in order to promote the spread of new technologies and reduce prices
- Enhance internationally concerted efforts to promote the development and transfer of technologies for mitigation of and adaptation to climate change in developing countries, and provide the necessary financial resources and technical assistance in order to address urgently the needs of developing countries in dealing with its adverse effects
- Increase development assistance to support developing countries vulnerable to natural hazards in adopting disaster risk prevention programmes as part of national development strategies

Introduction

The global partnership for development at a crossroads

In the United Nations Millennium Declaration, the nations of the world pledged to intensify the global partnership for development to support country efforts to achieve each of the Millennium Development Goals (MDGs) by 2015. In many countries, national authorities and civil society have joined with international partners to make important and effective efforts towards this end. In the present report, the MDG Gap Task Force reviews the state of the global MDG partnership in 2010 and recommends steps to intensify it in ways that would increase the probability of universal attainment of the MDGs by 2015.

This is the third report of the MDG Gap Task Force, which was created in 2007 when the Secretary-General of the United Nations invited the family of multilateral economic and development agencies to improve jointly the monitoring of the set of international commitments and targets that had been clustered together as “Goal 8” and identified as essential to the global effort to realize the MDGs. More than 20 agencies responded to the Secretary-General’s invitation and, since 2008, the Task Force has issued annual reports on the status of those commitments and targets.

In September 2010, world leaders will take stock of MDG achievements to date at the High-level Plenary Meeting of the United Nations General Assembly. Much progress has been made since 2000, but there is still a great deal more to be achieved in order to fulfil the promise of the MDGs. In this sense, the global partnership for development stands at a critical juncture, as the time horizon for delivery on the commitments made and for achieving the MDGs is becoming increasingly short, remaining gaps are still very large and there have been setbacks because of the global food, energy and financial crises. In a number of crucial partnership areas (including increased aid volume and improved aid effectiveness, as well as a conclusion of the Doha Round of trade negotiations), the critical deadline for defined commitments is 2010, but there is little prospect of successful delivery.

MDGs, crisis and the global partnership

The MDGs are an interrelated set of social and development objectives. Achieving them requires both explicit national policies and specific categories of expenditures, primarily channelled through government budgets, coupled with adequate and sustained growth of per capita income and employment. The primary locus for organizing national efforts to realize the MDGs resides with the Governments of developing and transition economies, through, inter alia, adopting suitable

tax policies, reducing expenditures that do not advance social and economic development, and adding in a sustainable way to government borrowing at home and abroad. Success also requires comprehensive and coherent national strategies that accelerate development and reduce poverty, thus leading to integrated public expenditure packages for those parts of the strategies that Governments undertake directly. The role and obligation of the international partners in development is to support these processes.

The global financial crisis and economic recession of 2008-2009 has caused major setbacks in the progress towards the MDGs. Many developing and transition economies lost output, income and employment. Per capita gross domestic product (GDP) (measured in constant prices) fell in 54 developing and 10 transition economies in 2009, and the number of working poor rose by an estimated 215 million. More important still, the crisis seems to have broken the medium-term momentum of global economic growth. Even though economic recovery has begun around the world, it is generally weak and the possibility of a retreat into another global recession cannot yet be ruled out. Moreover, compared to the predictions made for pre-crisis trends, it is estimated that, by the end of 2010, about 64 million more people will live in poverty and 41 million more will be malnourished.¹

Besides the direct impact of the recession on jobs and poverty, the ability of Governments of developing countries to maintain momentum in MDG-related expenditures has been challenged. In the face of shrunken tax revenues and increased demand for services, Governments around the world borrowed heavily, especially in 2009. In many countries, this situation has now created intense pressure to limit expenditures going forward. Also, many non-governmental organizations active in the delivery of social services, especially those in sub-Saharan Africa, have faced declining contributions, thereby limiting their operations.²

When the financial crisis erupted in late 2008, the Group of Twenty (G-20) mobilized the international community's response to the crisis. While the primary focus was on mutual financial support among its member countries, the G-20 also arranged for significantly increased international assistance to developing and transition economies. This was achieved, in particular, through expanded lending by the multilateral development banks and the International Monetary Fund (IMF), which also eased the terms of the resources it provided to low-income countries, including cancellation of interest payments due through 2011. Most of the additional resources were made available to middle-income countries and disbursed quickly. However, these new resources have been far from sufficient to offset the impact of the economic downturn, and many developing countries, especially low-income countries, remain hard pressed to protect their outlays for MDG activities. Indeed, the same applies to government aid donors, which are being called upon to increase their international assistance despite their own fiscal restrictions.

Thus, the crisis has also made delivery on the global partnership for development all the more challenging. Even before the crisis, enormous gaps remained in the delivery of MDG 8 commitments. It is now clear that delivery of ODA will fall well short of the Gleneagles targets set for 2010. The perceived need

¹ See "World economic situation and prospects as of mid-2010" (E/2010/73), p. 3.

² See the study by Eva Hanfstaengl on the "Impact of the global economic crises on civil society organizations", 10 February 2010, available from <http://ngosocdev.files.wordpress.com/2010/01/full-study-on-impact-of-global-crises-on-csos-2-25-10.pdf>.

among many donor countries to start fiscal consolidation sooner rather than later could put resource availability under further pressure precisely at a juncture where aid commitments beyond 2010 have yet to be firmed up. The prospect of concluding a development-oriented Doha Round in the near future still seems highly uncertain. The existing internationally concerted framework for dealing with debt problems of heavily indebted poor countries (HIPC) has closed its doors to new countries, at a time when future debt distress cannot be ruled out in many countries and heavy debt-service obligations are limiting the fiscal resources available for supporting MDG achievement in a number of both low- and middle-income countries. Resource availability to meet needs for affordable access to a number of essential medicines is under stress. Improved access to new technologies is increasingly pressing, especially those necessary for climate change mitigation and adaptation.

The challenge of measuring the needs gap

As in the previous reports of the Task Force, this year's edition closely monitors the progress (and setbacks) in delivery on the commitments related to MDG 8. The analysis of the "delivery gap" (defined as the shortfall between promised delivery on global commitments³ and actual delivery) is complemented—as in the 2009 Report—by an updated assessment of the "coverage gap" (loosely defined as the shortfall in actual delivery on global commitments and what may be considered as a reasonable distribution of actual receipts across beneficiary countries). The present report makes a modest attempt to assess some dimensions of the global partnerships as they relate to how and to what extent they support meeting the perceived needs of countries. To this end, four country case studies were commissioned.⁴ The findings of this analysis of perceived "needs gaps" are therefore presented merely as country-specific illustrations, since it was not possible to make broad generalizations. Measuring the needs gap remains a daunting challenge and much more work is needed if the global partnerships are to be better tailored to countries' needs.

The difficulty of this task may be illustrated by comparing a number of approaches. Several differing approaches have been taken in an attempt to answer the question how much it will cost at the global level to achieve the MDGs. Some of the estimates refer to the cost of realizing individual MDGs. For example, the United Nations Educational, Scientific and Cultural Organization (UNESCO) estimated that achieving universal primary education and the wider goals of "education for all" across 46 low-income countries by 2015 would require an additional \$24 billion per year on top of an estimated existing national spending on basic education of \$12 billion in 2007. Assuming an increased domestic resource mobilization effort for this purpose of around \$8 billion, UNESCO estimates low-income countries would face an annual external financing gap of about \$16 billion for basic education (literacy, pre-primary and primary education).⁵ Using a similar

³ The assessment is supported by the updated MDG Matrix of Global Commitments, available from <http://www.un.org/esa/policy/mdggap/>.

⁴ The four country cases are Bangladesh, Bolivia, Cambodia and Uganda, available from <http://www.un.org/esa/policy/mdggap/>.

⁵ United Nations Educational, Scientific and Cultural Organization, *Education for All—Global Monitoring Report 2010: Reaching the Marginalized* (Paris, UNESCO, 2010).

approach, the World Bank estimates that an additional \$10.3 billion in public resources and \$1.5 billion in private household resources would be required to fight undernutrition successfully in the 36 countries carrying the highest burden.⁶

A second approach has been to estimate the cost of meeting a particular class of MDGs in a specified group of countries. For example, the World Bank estimated that the annual incremental costs for meeting the “service-delivery MDGs”—education for all, health, HIV/AIDS and water and sanitation—in low- and lower-middle-income countries was \$35 billion to 65 billion.⁷ A third approach was to estimate the resources needed to achieve all the MDGs for a segment of the population. For example, a team of researchers estimated that external resources in the range of \$13 billion annually were required to finance interventions that promoted gender equality in the context of the MDGs in low-income countries over the next few years, with readjustments thereafter based on increased domestic resources for these interventions. They further estimated that the costs for achieving gender equality, on average, accounted for between one third and one half of the total costs of achieving the MDGs, depending on the country.⁸

Finally, a fourth approach was to estimate the cost of achieving all of the MDGs in selected individual countries that were studied in depth, then gross up those estimates to a global total. This was the approach taken by the UN Millennium Project. It led to an estimated MDG financing gap (defined as total MDG resources required minus domestic resources) for all low-income countries of \$73 billion in 2006, \$89 billion in 2010 and \$135 billion by 2015 (in 2003 dollars).⁹

Given the variety of approaches to costing the MDGs, it can be appreciated that the international community did not adopt one single global estimate of the resources needed, let alone specify the share of those resources that should be provided internationally, or the share of the latter that should be provided as aid. Rather, the general approach has been for countries to work out individual needs assessments as part of their development and anti-poverty strategies, often in dialogue with the donor community. Individual donors would then offer to help finance individual programmes or projects, or provide budget support. The international community would also stand ready to provide contingent additional support, as in the case of the counter-crisis funding noted earlier. The external economic and policy environment is usually taken as given in these exercises and not as variables subject to policy change. In fact, changes in the environment can be very important in both positive and negative ways.

Possible changes in international policies over which developing countries have no control may also be considered. For example, in the case of the four country studies, had the developed countries extended duty-free and quota-free (DFQF) access to all least developed countries (LDCs) as promised, such action

6 Susan Horton and others, *Scaling up Nutrition: What Will it Cost?* (Washington, D.C., World Bank, 2010).

7 World Bank, Development Committee, “Progress report and critical next steps in scaling up: education for all, health, HIV/AIDS, water and sanitation” (DC2003-0004), 27 March 2003.

8 Caren Grown and others, “The financial requirements of achieving gender equality and women’s empowerment,” in *Gender Equality Now: Accelerating the Achievement of the Millennium Development Goals* (New York, UNIFEM, 2008).

9 UN Millennium Project, *Investing in development: a practical plan to achieve the Millennium Development Goals* (New York, 2005).

would have been beneficial to Bangladesh (especially in its garment exports to the United States) and to Cambodia, but it might have proved somewhat problematic for Uganda and Bolivia, as competitors would have gained further market access at their expense. Indeed, it is estimated that extending DFQF to all LDCs would cost Bolivia about \$72 million a year and would not help Uganda, whereas Bangladeshi and Cambodian export revenues would increase by about \$375 million and \$100 million, respectively.¹⁰

Besides taking into account possible international policy changes, countries may consider altering their own financing strategies. Indeed, through a modelling exercise, a major study tested different strategies for financing MDG programmes in 18 Latin American countries, comparing the impact of relying relatively more heavily on foreign borrowing, domestic borrowing or raising tax revenues.¹¹ The study took into account interactions that are not usually considered within a formal needs assessment exercise. For example, it was found that an emphasis on financing a country's share of MDG programmes through domestic borrowing could crowd out private investment and reduce income growth, and thereby the ability of households to provide certain MDG-related services themselves. Such a financing strategy would thus raise the need for public sector outlays (and could possibly raise public debt to dangerous levels). In other words, the method of financing can affect the size of the public MDG programmes that need to be financed. The study also found that reliance on foreign borrowing is in many cases the least costly option (as foreign borrowing costs are typically lower than domestic ones in Latin America, especially for low-income countries that access concessional funds), but it does not recommend it for most countries as it may cause the exchange rate to appreciate and create a risky external debt situation. Instead, the preferred strategy in most cases is greater reliance on domestic taxation, although the study acknowledges limits to the ability of Governments to raise taxes and opts for combinations of the different types of financing.

The above notwithstanding, if the world economy remains weak, there are limits to what individual countries can achieve on their own in terms of realizing the MDGs. The World Bank investigated just how far countries could compensate for a disappointing international economic and aid environment, and concluded they could not compensate sufficiently: domestic adjustments can make up some but not all of the losses in terms of MDG achievement that result from a scenario of low global economic and aid growth.¹² In short, the economic and financial crisis and its aftermath are global phenomena, and to keep the MDGs on track requires a global solution.

10 Overseas Development Institute, "Case studies for the *MDG Gap Task Force Report*: overview of Bangladesh, Bolivia, Cambodia and Uganda", available from <http://www.un.org/esa/policy/mdggap/>.

11 Rob Vos, Marco V. Sánchez and Cornelia Kaldewei, "Latin America and the Caribbean's challenge to reach the MDGs: financing options and trade offs," in *Public Policies for Human Development: Achieving the Millennium Development Goals in Latin America and the Caribbean*, Marco V. Sánchez and others, eds. (New York, Palgrave, 2010).

12 The World Bank, using the same methodology as the Latin America study cited in the text, examined alternative scenarios for prototype countries (one low-income, resource rich; another low-income, resource poor) under different assumptions about world growth, aid inflows and domestic policy reactions (see World Bank and International Monetary Fund, *Global Monitoring Report 2010: The MDGs after the Crisis* (Washington, D.C., World Bank), pp. 107-110).

Pushing on all fronts

Unfortunately, there are reasons for caution as regards the outlook for expanded global economic growth, aid financing and market access for tradable goods and services of developing and transition economies. The world also continues to lack a comprehensive international mechanism for speedy and equitable resolution of sovereign debt crises, a more salient need today given the surge in sovereign borrowing around the world—not all of which is sustainable—in the wake of the crisis.

The MDG target year of 2015 is now a mere five years away and, as noted earlier, the recovery from the global crisis is fragile and uncertain. It will require the intensified efforts of all relevant actors—not least to strengthen international cooperation along the lines emphasized in Goal 8—if the drive to achieve the MDGs is to become reality. In truth, we stand at a crossroads in international development cooperation.

Official development assistance

The United Nations Millennium Declaration called on the industrialized countries to grant more generous development assistance, especially to those countries that are genuinely making an effort to apply their resources to poverty reduction.¹ This two-track strategy of increasing aid volumes and making aid more effective in generating poverty reduction and meeting the other Millennium Development Goals (MDGs) has characterized much of international policy on official development assistance (ODA) since the beginning of the millennium.

The trace of policy commitments

Two years after the Millennium Summit, at the International Conference on Financing for Development, held in Monterrey, Mexico, from 18 to 22 March 2002, the global community recognized that a “substantial increase in ODA”, *inter alia*, would be required to achieve the MDGs and called upon developed countries that had not already done so to “make concrete efforts” towards the United Nations aid targets,² which is to say, ODA net disbursements of 0.7 per cent of donor gross national income (GNI) and 0.15-0.20 per cent of GNI for the least developed countries (LDCs). The “Monterrey Consensus” also launched a global process to “make ODA more effective”.³ Perhaps most significant of all, the political momentum for aid began to reverse its earlier weakening.

In the ensuing eight years, donors made increasingly specific pledges to enhance the volume and effectiveness of their ODA. The most specific ODA volume targets were announced by the Group of 8 (G-8) major industrialized countries at the Gleneagles Summit in 2005, namely, on the basis of their specific commitments and those of other donors, total aid to the developing countries would increase by “around \$50 billion a year by 2010, compared to 2004”; in addition, within that envelope, assistance to Africa was projected to rise by “\$25 billion by 2010, more than doubling aid to Africa compared to 2004”.⁴ This was a unique commitment both in its specificity and in that progress towards its realization would be regularly monitored as a spur to delivery. In addition, a few months prior to the Summit, donor Governments had hosted a major conference on aid effectiveness at which ministers from aid agencies and

ODA targets have become more specific in recent years and aid effectiveness has been made a priority

1 See General Assembly resolution 55/2 of 8 September 2000, para. 15.

2 *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002 (A/CONF.198/11, chap. 1, resolution 1, annex), paras. 41-42.*

3 *Ibid.*, para. 43.

4 See the Gleneagles Communiqué adopted by the Group of Eight (G-8) on 8 July 2005, section on Africa, paras. 26-27 and annex II, available from <http://www.g8.utoronto.ca/summit/2005gleneagles/communique.pdf>.

a number of recipient countries adopted the Paris Declaration on Aid Effectiveness; as at Gleneagles, the Paris Declaration included a set of specific monitored targets to be reached by 2010.⁵

Subsequent international conferences endorsed and further elaborated these basic compacts. In 2008, ODA donors met in Accra with a number of aid recipients and adopted the Accra Agenda for Action to “accelerate and deepen implementation of the Paris Declaration”.⁶ In addition, the United Nations created the Development Cooperation Forum (DCF) under the Economic and Social Council as a global body to review development cooperation strategies, policies and financing; promote greater coherence and effectiveness among the development activities of different development partners; and strengthen the normative and operational links in the work of the United Nations. The Forum met for the first time in 2008 with the participation not only of Member States but also of organizations of the United Nations system, international financial and trade institutions, regional organizations, civil society, and private sector representatives.

G-20 leaders introduced emergency measures to help deal with the global crisis

Most recently, in reaction to the onset of the global financial crisis in late 2008, the leaders of a re-energized Group of Twenty (G-20) met in April 2009 and agreed to a set of emergency measures to address the crisis. These included mobilization of “\$50 billion to support social protection, boost trade and safeguard development in low income countries”, as well as \$6 billion of “additional concessional and flexible finance for the poorest countries over the next 2 to 3 years”, to be raised primarily from sales from the gold holdings of the International Monetary Fund (IMF) and surpluses from IMF operations.⁷

The ODA delivery gap

Donors are unlikely to meet the Gleneagles targets in 2010

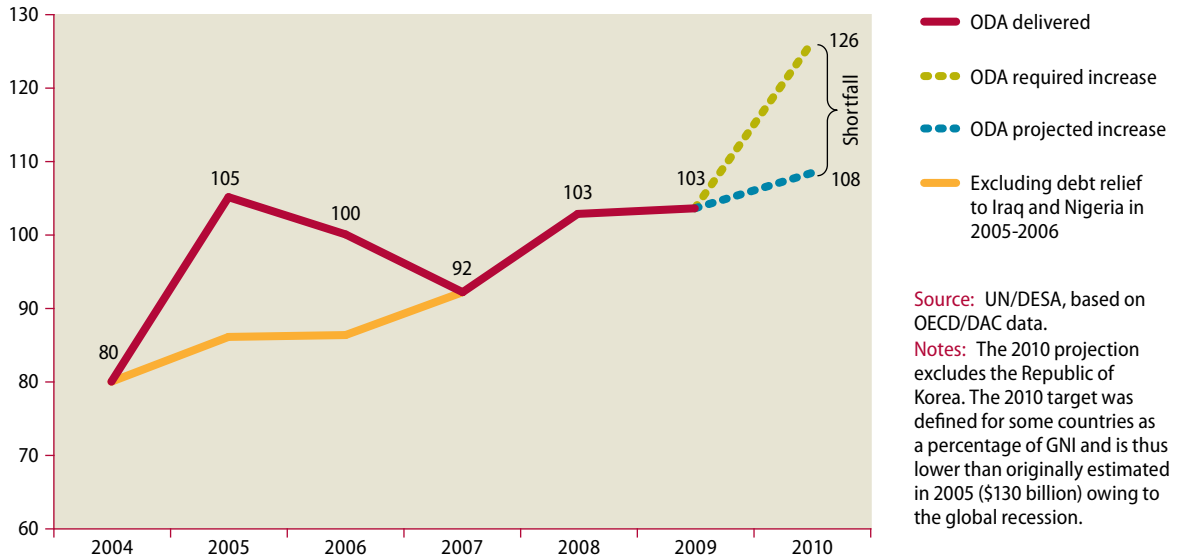
The Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) monitors aid flows of its member countries. Based on the DAC secretariat’s preliminary estimates for 2009 and its review of aid budgets for 2010, DAC members as a whole were not on track to meet the 2010 aid volume targets described above (see figure 1). Indeed, OECD has projected that total ODA in 2010 will fall \$18 billion short (in 2004 prices and exchange rates) of the updated Gleneagles target (figure 1). Translated into more recent 2009 prices, the shortfall is \$20 billion (see table 1). No intermediate targets have been adopted for the years after 2010, leaving the United Nations target as the remaining applicable benchmark, against which the delivery gap in 2009 is \$153 billion.

⁵ A set of indicators to measure progress towards the targets was also adopted (see Organization for Economic Cooperation and Development, *The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action* (Paris, OECD, 2005/2008), pp. 9-11), available from <http://www.oecd.org/dataoecd/11/41/34428351.pdf>.

⁶ *Ibid.*, p. 14.

⁷ The Global Plan for Recovery and Reform adopted by the Group of Twenty (G-20) at the London Summit on 2 April 2009, para. 25; for additional details, see the Declaration on Delivering Resources Through the International Financial Institutions adopted by the G-20 on 2 April 2009.

Figure 1
Official development assistance since 2004, in relation to 2010 commitments
(billions of 2004 dollars)



Source: UN/DESA, based on OECD/DAC data.

Notes: The 2010 projection excludes the Republic of Korea. The 2010 target was defined for some countries as a percentage of GNI and is thus lower than originally estimated in 2005 (\$130 billion) owing to the global recession.

Table 1
Official development assistance in 2009 and 2010 in relation to commitments and targets

		Billions of 2004 dollars	Billions of 2009 dollars	Percentage of GNI
Total ODA	Commitment for 2010	125.8	145.7	-
	Delivery in 2009	103.3	119.6	-
	Gap in 2009	22.5	26.1	-
	Projected shortfall in 2010 ^a	17.7	19.7	-
	Overall United Nations target	-	272.2	0.7
	Delivery in 2009	-	119.6	0.31
	Gap in 2009	-	152.7	0.39
ODA to Africa	Commitment for 2010	53.1	61.5	-
	Delivery in 2009 ^b	37.9	43.9	-
	Gap in 2009 ^b	15.2	17.6	-
	Projected shortfall in 2010 ^b	14.1	16.3	-
ODA to least developed countries	Target	-	58.9-78.5	0.15-0.20
	Delivery in 2008	-	36.0	0.09
	Gap in 2008	-	22.9-42.5	0.06-0.11

Source: UN/DESA, based on OECD/DAC data.

^a Based on the OECD review of donors' budget plans for 2010, excluding the Republic of Korea.

^b Based on OECD estimates of ODA to Africa.

Total ODA from DAC donors in 2009 and 2010

Preliminary data show that total aid by DAC donors reached almost \$120 billion in 2009, or 0.31 per cent of donor country GNI.⁸ Only five European countries met—and in fact exceeded—the 0.7 per cent United Nations target, namely, Denmark, Luxembourg, the Netherlands, Norway and Sweden (see figure 2). The five largest donors in order of aid volume were the United States of America, France, Germany, the United Kingdom of Great Britain and Northern Ireland and Japan; however, given the size of these countries' economies, their ODA/GNI ratios were considerably below the target.

ODA increased slightly in 2009, but donor performance has varied

While the volume of DAC aid in 2009 had increased from the level of 2008, albeit by less than 1 per cent measured in 2008 prices and exchange rates, the overall total masks quite diverse national results. Of the seven DAC countries that had met in Gleneagles in 2005, France had increased the value of its aid by 17 per cent, the United Kingdom by 15 per cent and the United States by over 5 per cent. In contrast, Canadian aid had fallen by almost 10 per cent, that of Germany by 12 per cent, that of Italy by 31 per cent and that of Japan by 11 per cent (each measured in 2008 prices and exchange rates).

Emergency response to the global crisis

International financial institutions have substantially increased their lending and assistance

The global financial and economic crisis increased the need for many developing countries to secure substantial additional, quick-disbursing financial support. The international community responded with substantially increased funding and reform of multilateral financial facilities. In the case of IMF, in particular, in January 2010, countries that qualified to draw concessional resources were given enlarged access to a simplified set of facilities (see figure 3). Even before the streamlined facilities were in place, IMF concessional lending commitments to low-income countries, which had been \$0.2 billion in 2007, rose to above \$1 billion in 2008 and to almost \$4 billion in 2009.⁹ By 30 April 2010, 30 low-income countries had arranged concessional IMF programmes totalling almost \$5 billion.¹⁰

Multilateral development banks also sharply boosted their lending in the face of the crisis. While the bulk of their outlays were non-concessional, as with IMF, there were very significant increases in concessional lending as well. In particular, the International Development Association of the World Bank committed \$14 billion in loans in 2009, a 20 per cent increase over 2008.¹¹ All told, the extension of these credits—and their front-loading to the extent possible, so as to expedite the movement of resources to countries—has strained the capacities of these institutions. The joint World Bank/IMF assessment is

8 See OECD, "Development aid rose in 2009 and most donors will meet 2010 aid targets," 14 April 2010, available from http://www.oecd.org/document/11/0,3343,en_2649_34487_44981579_1_1_1_1,00.html.

9 Information supplied by International Monetary Fund staff.

10 IMF data available from <http://www.imf.org/external/np/fin/tad/extarr11.aspx?memberKey1=ZZZZ&date1key=2010-04-30>.

11 For additional results by institution, see World Bank and IMF, *Global Monitoring Report 2010: The MDGs after the Crisis* (Washington, D.C., World Bank, 2010), pp. 139-142.

Figure 2A

Development Assistance Committee members' preliminary data on official development assistance in 2009 (billions of US dollars)

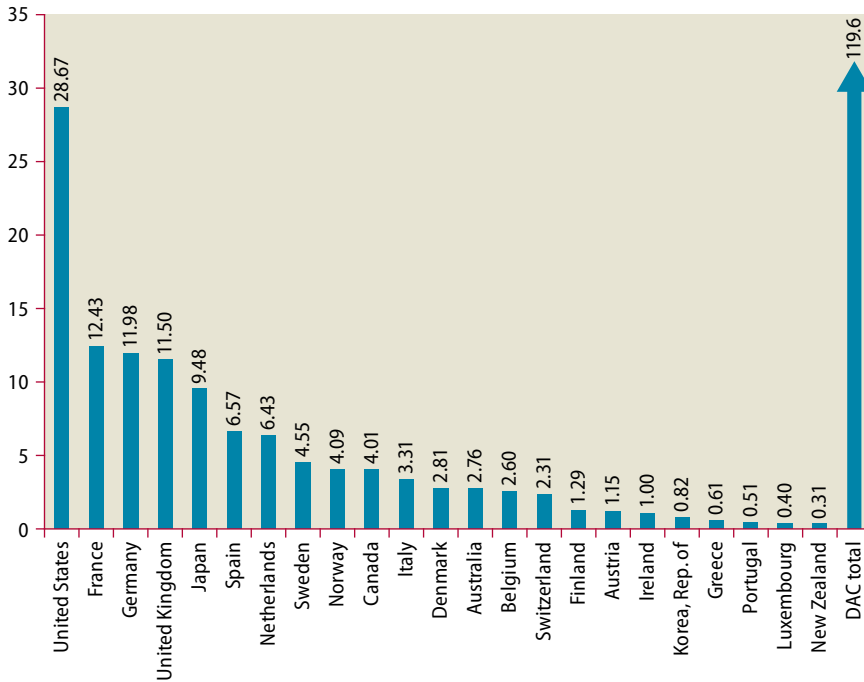
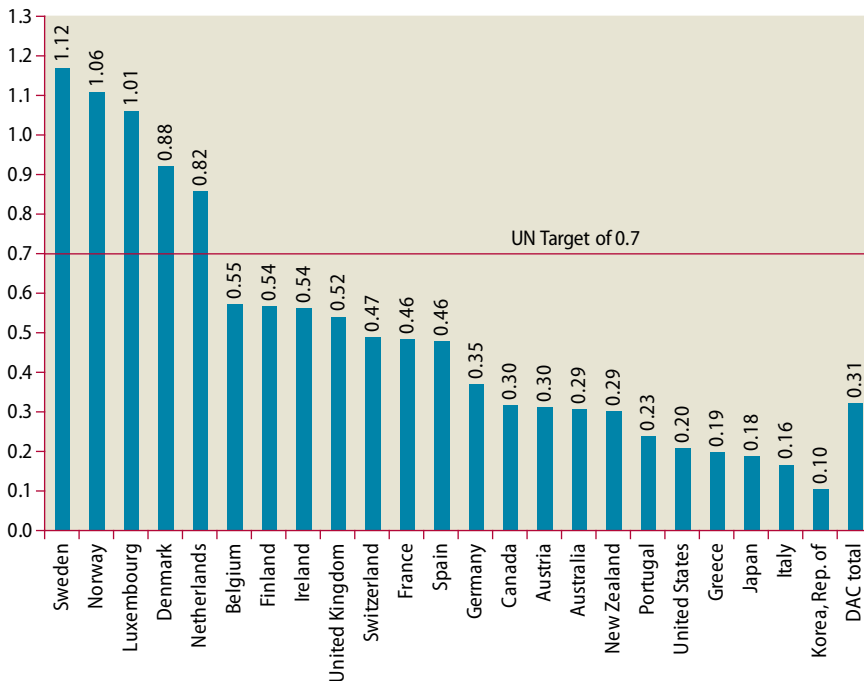


Figure 2B

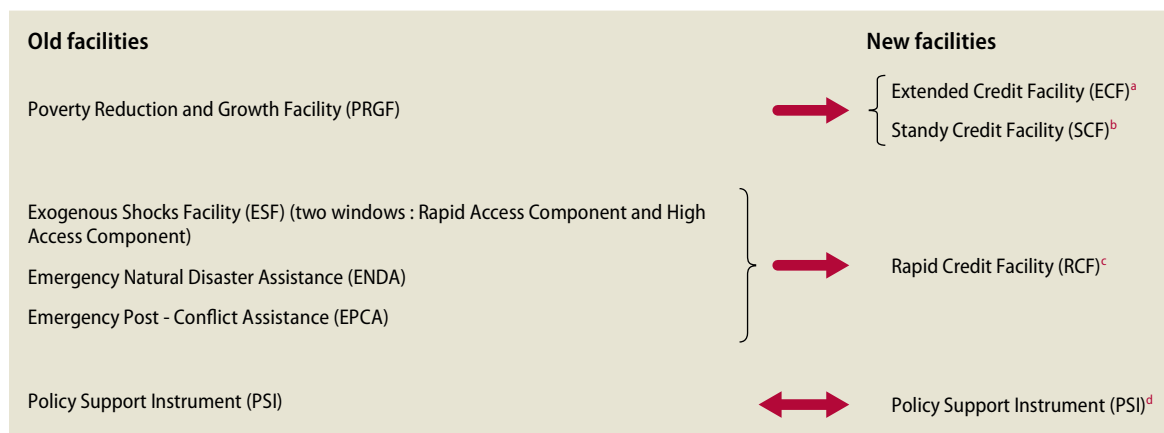
Development Assistance Committee members' preliminary data on official development assistance in 2009 (percentage of gross national income)



Source: OECD/DAC.

Figure 3

Simplification of International Monetary Fund facilities for low-income countries, 2010



Source: IMF fact sheets on Fund support for low-income countries (available from <http://www.imf.org/external/np/exr/facts/eng/list.aspx>) and "IMF's new lending framework", presentation by Elliot Harris to the United Nations General Assembly Ad Hoc Open-ended Working Group to follow up on the issues contained in the Outcome of the Conference on the World Financial and Economic Crisis and Its Impact on Development, held in New York on 30 April 2010.

Note: The interest rate on new facilities is 0.25 per cent annually (currently suspended through 2011).

^a The ECF is a 3-5 year lending arrangement, conditioned on an adjustment programme, to be repaid over 10 years with a grace period of 5.5 years.

^b The SCF is a 1-2 year lending arrangement (with access limited to 2.5 years out of 5 consecutive years), conditioned on an adjustment programme, to be repaid over 8 years with a grace period of 4 years.

^c The RCF is a quick-disbursing loan (without programme-based conditionality) to be repaid over 10 years with a grace period of 5.5 years.

^d The PSI is not a financial instrument, but an agreement with IMF to closely monitor and support national economic adjustment programmes (for countries wishing to signal economic adjustment intentions to donors and creditors).

that "[a]bsent increased resources, these essential steps to provide desperately needed resources at the height of the crisis will imply a substantial shortfall in concessional financing over the next couple of years."¹²

ODA receipts

Debt relief should be additional to ODA

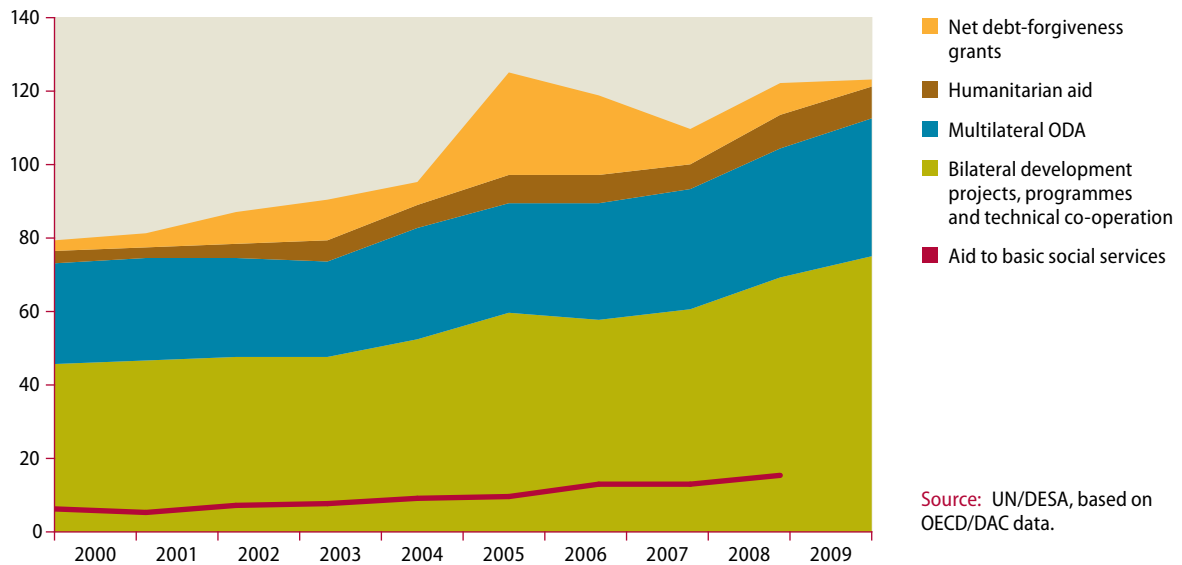
Donor accounting of aid efforts includes, by convention, funds that are not spent or transferred to recipient countries. Figure 4, which shows a breakdown of DAC aid into major expenditure categories, illustrates a major reason for the discrepancy. The shaded area between the top two lines of the graph is an accounting of debt relief given by the Governments of DAC countries. Counting debt relief as part of ODA has long been controversial. From a donor point of view, there may be an argument for its inclusion, especially if the donor Government's export credit agency giving up the claim for repayment is compensated from the country's aid budget.¹³ If the creditor is a bondholder, its defaulted credit would be

¹² Ibid., p. 142.

¹³ ODA data are reported for the Goal 8 indicator and elsewhere as "net ODA", which includes the provision of cash grants, the budget value of technical assistance and other aid provided in kind, as well as the disbursement of concessional loans minus repayments of such loans. Actual repayments thus enter the data with a negative sign, while defaulting has no net entry; however, forgiving repayments enters the statistics with a positive sign.

Figure 4

Main components of Development Assistance Committee members' official development assistance, 2000-2009 (billions of 2008 dollars)



priced at a small fraction of its face value by the market and the agency would have already absorbed the loss, or most of it, even before the write-off. By the same token, viewed from the debtor side, when a credit on which it had defaulted is wiped out, there is no additional cash flow. There is no net contribution to development, which is otherwise a defining characteristic for a financial flow to be included as ODA by DAC. Rather, the creditor formally recognizes that the debt cannot be collected.

In part because there are additional categories of ODA that are not received in aided countries, the DAC developed a concept of donor flows called “country programmable aid” (CPA). The donor programmes its CPA funds at the country level with the authorities of the aid recipient. CPA thus excludes funds that are not a direct transfer, such as debt relief, funding research for development in the donor country or administrative costs, as well as unpredictable assistance, as for humanitarian relief in emergencies, and other outlays that are not programmable in the above sense (core funding of non-governmental organizations (NGOs), for instance). In 2008, the CPA of DAC countries was estimated at almost \$60 billion, out of \$122 billion in total DAC ODA, or almost 50 per cent.¹⁴ Combining current and projected CPA reported by DAC member countries with that from selected multilateral agencies, and including additional DAC secretariat estimates, total CPA is expected to rise from \$81 billion in 2008 to \$82 billion in 2009 and \$86 billion in 2010 (in 2008 prices and exchange rates).¹⁵

Country programmable aid represents about half of total aid

¹⁴ Based on OECD, *2009 DAC Report on Aid Predictability: Survey on Donors' Forward Spending Plans, 2009-2011* (Paris, OECD, 2009), p. 11; and OECD, “Development aid rose in 2009”, op. cit.

¹⁵ Information provided by the DAC secretariat.

Donors have increasingly eased the financial terms of their aid ...

ODA terms

To qualify as ODA, a donor's expenditure has to be either an unrequited grant or a highly concessional loan, technically, a loan with a "grant element" of at least 25 per cent.¹⁶ Donors have increasingly eased the financial terms of their ODA, especially in their aid to LDCs where for DAC countries as a whole the grant element was 99 per cent in 2007-2008. For all recipients, the grant element was 96 per cent (84 per cent of bilateral ODA was pure grants; some multilateral contributions are also in grant form and the rest are concessional loans).¹⁷ Even with a high grant element, ODA provided in the form of loans adds to the external indebtedness of recipient countries. As discussed in the chapter on debt sustainability, a fair number of low-income countries are facing a high risk of debt distress; providing more ODA as pure grants in these cases could, therefore, avoid generating aid flows that add further to the debt burden of those countries.

An additional important aspect of ODA terms is the degree of aid "tying", that is to say, restricting ODA funds to the purchase of goods or services from the donor country only. In 2008, the latest year for which comprehensive data are available, DAC donors reported that on average they had untied 87 per cent of their ODA. However, the range for individual countries was quite wide, from 100 per cent (completely untied aid) for Ireland, Luxembourg, Norway and the United Kingdom to rather heavily tied aid for Greece, Portugal and the Republic of Korea.¹⁸

... but improvements can be made in untying aid

Such progress notwithstanding, aid untying can go further. The data from DAC donors as compiled by OECD exclude technical cooperation and administrative costs. In fact, the DAC donors have formally committed completely to untie aid only to the LDCs and to heavily indebted poor countries (HIPC) that are not also classified as LDCs. Moreover, even after formally untying aid, constraints appear to remain. The World Bank and IMF suggest that pre-qualification and procurement processes may be favouring donor-based companies even after untying, providing a possible reason why a high share of contracts are even then still won by firms from donor countries.¹⁹ Indeed, under paragraph 18b of the 2008 Accra Agenda for Action, DAC donors committed themselves to "elaborate individual plans to further untie their aid to the maximum extent" by 2010.²⁰

The ODA country coverage gap

Priority countries

There has been little progress on aid to LDCs

Delivery on aid targets for LDCs has been disappointing. The most recent data show the overall DAC ODA effort to be 0.09 per cent of donor GNI in 2008, well

¹⁶ A concessional loan may be imagined as being financially equivalent to a grant plus a loan on commercial terms that together disburse the same amount of funds as the concessional loan. The more concessional the interest rate, the larger the "grant element" and the smaller the commercial loan portion of the financially equivalent package.

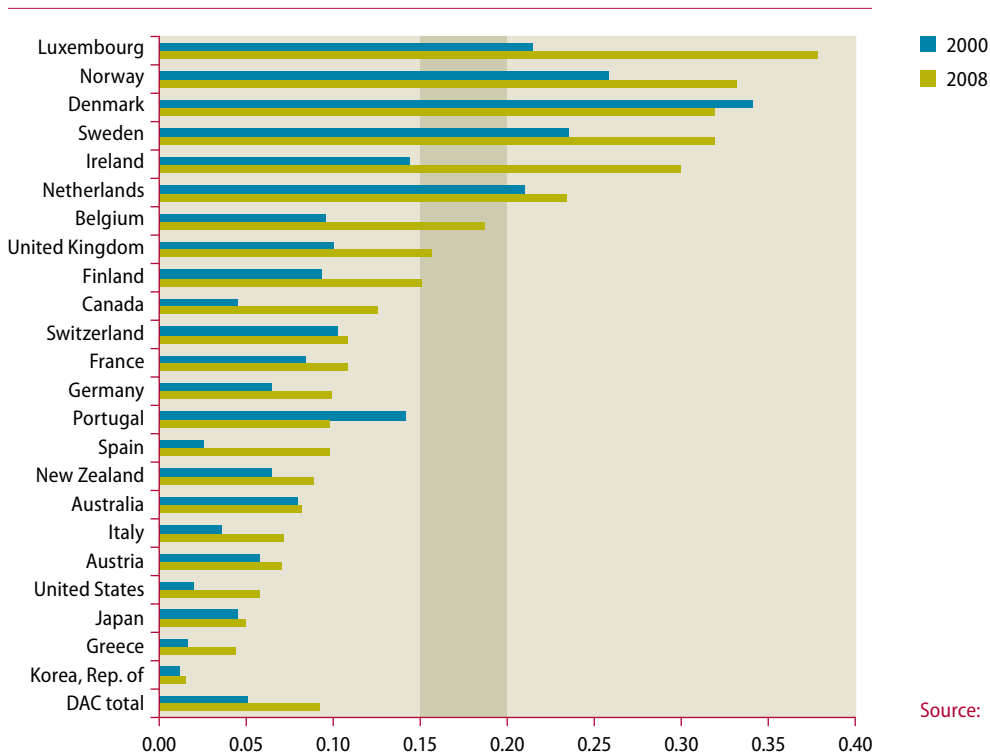
¹⁷ OECD, *Development Cooperation Report 2010* (Paris, OECD, 2010), statistical annex, table 20 (data exclude the Republic of Korea).

¹⁸ Portugal reported that 59 per cent of its aid was only partially tied (*ibid.*, table 23).

¹⁹ See World Bank and IMF, *Global Monitoring Report 2010*, *op. cit.*, p. 136.

²⁰ See also OECD, *Development Cooperation Report 2010*, *op. cit.*, box 1.1.

Figure 5
Development Assistance Committee members' official development assistance for least developed countries, 2000 and 2008 (percentage of gross national income)



Source: OECD/DAC data.

below the lower bound target of 0.15 per cent (see table 1).²¹ As may be seen in figure 5, only nine DAC donors met the target, four countries more than in 2000. Together they provided 34 per cent of total DAC aid to LDCs in 2008.

The international community has repeatedly urged that Africa be given high priority in aid delivery. According to estimates of OECD, ODA for Africa reached almost \$44 billion in 2009. Aid to Africa has been growing significantly, but not enough to meet the Gleneagles target. To meet that target, Africa's ODA in 2009 would have had to exceed \$61 billion (see table 1). The Gleneagles target was to have provided an estimated \$25 billion in additional assistance for Africa, measured in 2004 prices and exchange rates, of which only about \$11 billion is now expected to be delivered, according to the DAC Secretariat. This will leave a shortfall of \$14 billion, owing mainly to reduced aid delivery relative to ambitious targets set by a number of European donors that usually allocate large shares of their aid to African countries. This unfortunately overrides significant increases in aid for Africa by some of the other DAC donors. For example, the United States promised to double its aid to sub-Saharan Africa between 2004 and 2010 and met that goal in 2009.²²

Two other groups of countries have been singled out for special attention in the context of Goal 8, namely, small island developing States (SIDS) and

Aid to Africa has grown substantially but remains short of the Gleneagles target

²¹ Data include bilateral net disbursements and the donor's imputed share of multilateral flows.

²² OECD, "Development aid rose in 2009", op. cit.

landlocked developing countries (LLDCs). SIDS comprises 38 member States of the United Nations and 14 non-members that are associate members of the United Nations regional commissions. Their small size and island locations make them more than typically vulnerable developing economies. There are 31 LLDCs, ranging from small countries, such as Lesotho and Swaziland, to countries with relatively large territories, such as Kazakhstan and Bolivia. These countries lack territorial access to the sea and face high transit and transportation costs for international trade.

OECD data show that SIDS received almost \$4 billion in ODA in 2008, the latest year for which comprehensive data are available, an amount that has grown relatively slowly over the current decade (3.2 per cent annually, on average, in 2008 prices and exchange rates). LLDCs, in contrast, received almost \$23 billion in ODA in 2008, reflecting an increase of 9 per cent annually since 2000. The primary reason for the strong growth of aid receipts for this group is that two of its members are the second- and third-largest aid recipients in the world, namely, Afghanistan and Ethiopia. In neither case is their landlocked characteristic the primary motivation of the donors.

Main ODA recipients

Iraq and Afghanistan continue to receive the largest amounts of aid ...

The fact that internationally agreed priorities for ODA allocations are very imperfectly reflected in actual ODA outlays is not hard to understand. Donors give aid for a variety of reasons and in a variety of contexts. As may be seen in table 2, the \$10 billion in ODA for Iraq in 2008 far exceeds aid allocations to other countries.²³ It was more than twice the aid received by Afghanistan in that year, whose aid, in turn, was almost 50 per cent more than that received by the next largest recipient, Ethiopia. Following Ethiopia in the list is the Occupied Palestinian Territory, whose population is 5 per cent of that of Ethiopia and whose per capita income is almost five times larger.²⁴

Table 2 highlights the importance accorded to assisting strategically sensitive developing areas. The security of entire regions depends in part on successfully cooperating to overcome political fragility in certain countries. It is a reminder, moreover, of how the international community can mobilize substantial aid resources when adequately motivated. The policy challenge in the MDG context is to focus political attention on developing countries and territories that do not rank high in the strategic concerns of foreign policymakers, but whose needs must not be neglected.

... but donor priorities can change over time

Table 2 shows, moreover, that while the degree of concentration of aid has slightly increased from 2000 to 2008, the countries receiving the largest amounts of aid changed. That is to say, while the top 20 aid recipients in 2008 received over half the country-allocable aid that year, the same countries had received less than 38 per cent of the total in 2000. Donor priorities change for a variety of reasons, but they typically result in the creation of both “donor darlings”—

²³ Iraqi aid data reflect the standard practice of including exceptional debt-relief packages arranged through the Paris Club.

²⁴ Data from the United Nations Statistics Division, *World Statistics Pocketbook 2009*, available from <http://unstats.un.org/unsd/pocketbook/default.htm>.

Table 2
Top 20 recipients of official development assistance in 2008
(millions of 2008 dollars)

	2000 ODA receipts	2008 ODA receipts
Iraq	174	9,880
Afghanistan	232	4,865
Ethiopia	1,065	3,327
Occupied Palestinian Territory	986	2,593
Viet Nam	2,104	2,552
Sudan	359	2,384
United Republic of Tanzania	1,601	2,331
India	1,867	2,108
Bangladesh	1,716	2,061
Turkey	502	2,024
Mozambique	1,488	1,994
Uganda	1,362	1,657
Democratic Republic of the Congo	299	1,648
Pakistan	907	1,539
China	2,256	1,489
Kenya	745	1,360
Egypt	1,927	1,348
Ghana	864	1,293
Nigeria	252	1,290
Liberia	102	1,250
Sub-total, 2008 top 10	10,607	34,124
Sub-total, 2008 top 20	20,808	48,994
Memorandum items		
Shares of total ODA (percentage of country-allocable aid):		
Share of 2008 top 10	19.1	37.6
Share of 2008 top 20	37.5	53.9
Share of each year's top 10	34.5	37.6
Share of each year's top 20	51.9	53.9

Source: UN/DESA, based on OECD/DAC data.

whether for strategic reasons or because the countries make relatively productive use of aid—and “donor orphans”. Whether owing to a challenging aid-delivery process or lack of donor policy focus, the poor in the latter set of countries pay the consequences.

Matching aid to country needs

Progress in the aid effectiveness agenda

The most recent comprehensive survey of the implementation of the Paris principles—national ownership, alignment, harmonization, managing for results, and mutual accountability—was prepared for the 2008 Accra meet-

Progress has been made in improving aid effectiveness in some areas ...

ing on aid effectiveness.²⁵ It found that, of the 12 numerical targets contained in the Paris Declaration, the target of aligning and coordinating 50 per cent of technical assistance projects with country programmes had been achieved in 2007. Donors had also made good progress towards the goal of untying all aid (see above). Further, from 2005 to 2008, developing countries had made good progress in improving their public financial management systems (36 per cent of countries had improved their score for public financial management, against a target of at least 50 per cent). Yet, much less progress had been made towards the remaining targets, in particular regarding the use of local country systems, the predictability of aid flows and the reduction of the transaction costs of providing aid.²⁶

... but more effort is
needed in others

Donor reluctance to rely on partner-country public financial management and procurement systems has been a particular disappointment. The 2008 survey indicated that donors were using country systems in only 45 per cent of the countries covered in 2008, as against the target of 80 per cent. Although the reasons are said to include donors' perception of fiduciary risk as agents for their home constituencies, there appears to be a lack of correlation between the quality of country systems and their use by donors.²⁷ In response, developing countries and their aid partners are increasingly undertaking joint diagnostic exercises. In particular, by the end of 2009, over 60 countries had applied the Public Financial Management Performance Measurement Framework, developed by the Public Expenditure and Financial Accountability (PEFA) initiative.²⁸ Such a standardized diagnostic process helps partner countries and donors agree on reform and capacity-building priorities. It also provides a compelling means to engage donors in the use of country systems when objective assessments show those countries to have reasonable capacity and a track record on reform.

Aid should become
more transparent
and predictable, and
less volatile

A related focus of attention has been ODA transparency. Lack of relevant and timely information on aid flows impedes the ability of Governments to plan, budget and evaluate the impact of aid in their countries. Together with governmental financial transparency, ODA transparency strengthens domestic accountability and the participation of citizens, let alone parliaments, in decisions about programmes and projects, and also facilitates holding Governments to account for development results.

Moreover, every time planned aid disbursements do not occur or are delayed, recipient Governments are challenged to compensate, by, for example, drawing on reserves or increasing their borrowing. The Paris Declaration has thus included among its goals making aid more predictable and less volatile. Indeed, there is evidence that aid volatility impedes economic growth.²⁹ Moreover, aid volatility is not immutable, as evidence from four country case studies suggests

²⁵ A subsequent survey of implementation as of 2010 is to be prepared for the final assessment of the Paris commitments, which is to take place at the Fourth High Level Forum on Aid Effectiveness, to be held in the Republic of Korea in 2011.

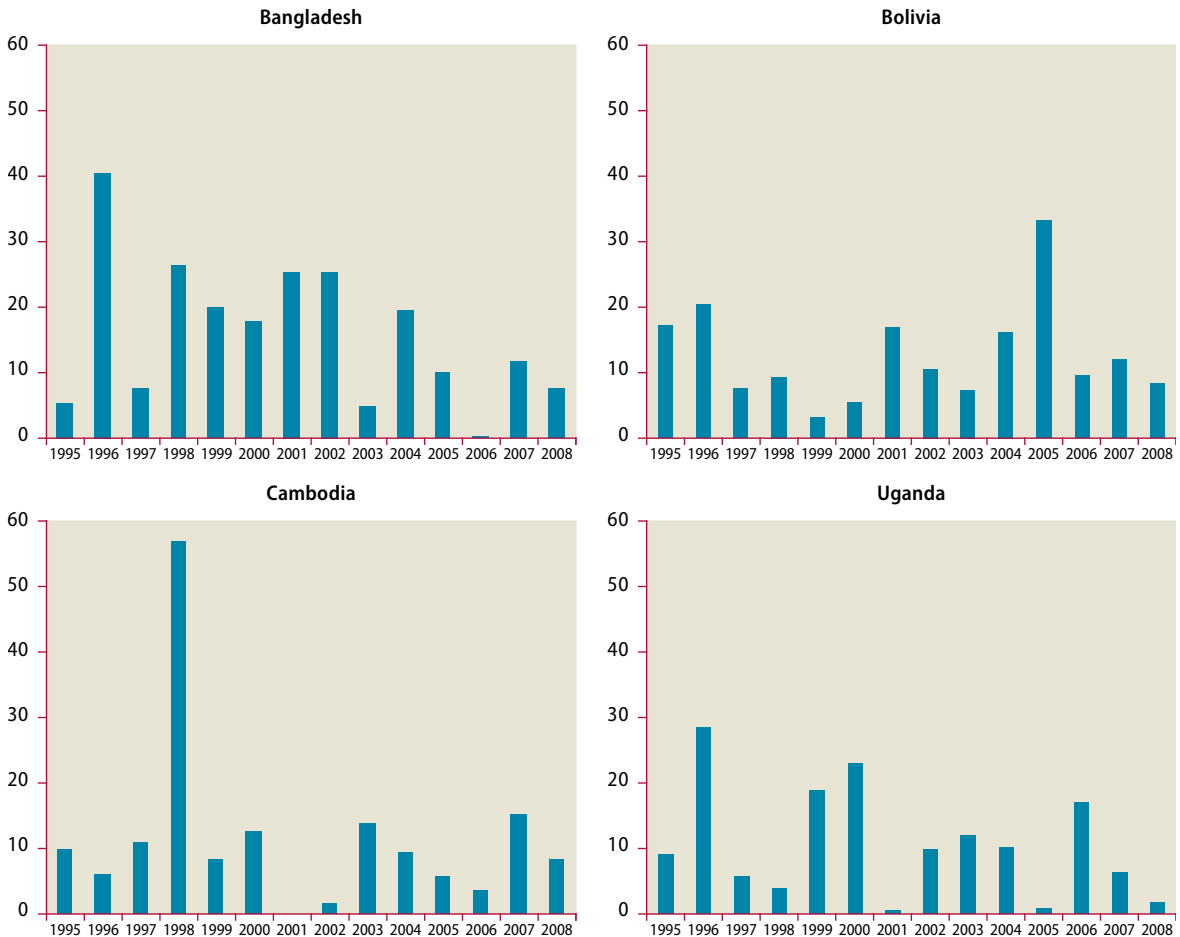
²⁶ OECD, *2008 Survey on Monitoring the Paris Declaration: Making Aid More Effective by 2010* (Paris, OECD, 2008).

²⁷ Ibid. For additional reasons for donor reluctance to use national systems and DAC activities to encourage increased use, see OECD, *Development Cooperation Report 2010*, op. cit., chap. 3.

²⁸ For additional information, see <http://www.pefa.org>.

²⁹ See *World Economic and Social Survey 2010: Retooling Global Development* (United Nations publication, Sales No. E.10.II.C.1), pp. 60-61.

Figure 6
Volatility of aid flows to four countries,^a 1995-2008 (percentage)



Source: Overseas Development Institute, four case studies prepared for the MDG Gap Task Force: Bangladesh, Bolivia, Cambodia and Uganda, May 2010.

^a Volatility is measured as the share of the logarithm of official development assistance received in a year that was accounted for by a transitory component (in contrast to the calculated trend component), per the Hodrick-Prescott filter (R. J. Hodrick and E. C. Prescott, "Postwar U.S. business cycles: an empirical investigation," *Journal of Money, Credit, and Banking*, vol. 29, No. 1 (1997), pp. 1-16).

that volatility can decrease and be kept low. In each of the countries in figure 6, except Bolivia, aid has also been significantly increasing during the period that volatility has been declining or has generally remained low (as in Cambodia). The volatility seen in Bolivia seems to reflect the substantial cutbacks in donor flows following Bolivia's success in raising public resources from its hydrocarbon exports and increasing domestic tax revenues in a buoyant economy.

ODA allocation for specific purposes

The international community has agreed to focus attention on the volume of ODA directly allocated to basic social services in aid-receiving countries. The latest data at the level of detail necessary to identify funding of basic social services is for 2008. The amount allocated by DAC members as a whole came to

Basic social services have been a priority

\$15.5 billion.³⁰ As seen in figure 4 above, this amount has more than doubled since 2000. On the other hand, as total aid has also increased, the share of aid addressed to basic social services has risen from only about 15 per cent of bilateral sector-allocable ODA in 2000–2001 to just less than 20 per cent in 2006–2008.

Additional categories of ODA spending have also been prioritized by the international community. For example, the Heads of State and other senior officials who met at the World Summit on Food Security in Rome in November 2009 pledged to “substantially increase the share of ODA devoted to agriculture and food security based on country-led requests” and encouraged the international financial institutions and regional development banks to do likewise.³¹ Advocates of particular categories of ODA spending within or outside ODA budgets rarely indicate which other categories of spending should henceforth receive a smaller share of ODA resources, nor, for that matter, that increased allocations for one sector should be wholly additional to existing aid flows.

In a related vein, special-purpose international funds have proliferated over the past two decades, such as those for investing in environmental improvements or combating specific diseases. These efforts transfer additional resources from official and private donors to countries in need, but they can also impede other programmes at the national level. For example, a local programme to combat a specific disease will need complementary community health services and could draw away from other priorities. In addition, recipient Governments typically have to administer multiple and usually small individual projects from such funds, thereby worsening the fragmentation of aid, increasing its administrative cost and highlighting the coordination problem.³²

Earmarking funds may not necessarily address priority needs

Indeed, there are compelling arguments against seeking to earmark donor funds. One reason is simply practical: the donor has limited control over the net outlays of the recipient Government. The goal of earmarking aid is usually to increase total spending on an earmarked category and not merely to substitute foreign taxpayer funds for domestic taxpayer funds. This category of concern speaks to what economists call the “fungibility” of budgetary resources.

Besides the practical difficulty, an additional argument against donor earmarking is that it may run counter to the international strategy increasingly to align ODA behind national development strategies and thus rely upon national

³⁰ The data provided by OECD includes outlays for basic education, basic health, population and reproductive health, basic drinking water supply and basic sanitation, and multi-sector aid for basic social services.

³¹ The Summit also welcomed the “L’Aquila” Joint Statement on Global Food Security: L’Aquila Food Security Initiative (AFSI), including the commitment to progress “towards a goal of mobilizing \$20 billion over three years” (subsequently increased to \$22 billion), which is to be applied under a “coordinated, comprehensive strategy focused on sustainable agriculture development” (see Food and Agriculture Organization of the United Nations, “Declaration of the World Summit on Food Security”, Rome, 16–18 November 2009 (WSFS 2009/2), para. 38, available from http://www.fao.org/fileadmin/templates/wsfs/Summit/Docs/Final_Declaration/WSFS09_Declaration.pdf; and “L’Aquila Joint Statement on Global Food Security—L’Aquila Food Security Initiative,” adopted on 10 July 2009 at the L’Aquila G-8 Summit, para. 12, available from http://www.g8italia2009.it/static/G8_Allegato/LAquila_Joint_Statement_on_Global_Food_Security%5B1%5D,0.pdf).

³² See the Policy Note of the Committee for Development Policy, *Implementing the Millennium Development Goals: Health Inequality and the Role of Global Health Partnerships* (United Nations publication, Sales No. E.09.II.A.2).

leadership—or ownership—in development programming and budgeting. Consistent with the principles of the Paris Declaration, the ultimate aim is to build mutual confidence for providing ODA as unrestricted budget support. The argument for earmarking is political: it is often easier to build a donor legislative majority in favour of aid to advance a specific social or economic goal than one that favours unrestricted financial support. That does not necessarily make it the best policy for development, as it might not address the priority needs of the recipient country.

Coherence and mutual accountability

The primary accountability of Governments of developing countries—indeed, of all countries—is to their constituents, those living and future generations who, it is hoped, would enjoy more of the fruits of development and fewer of the burdens of poverty. The aid effectiveness agenda underlines an additional accountability of developing-country Governments that is embodied in the development cooperation relationship, a “mutual accountability” that each developing-country Government shares with its donors.³³ Not only are Governments accountable to donors for the use of their funds, but donors are also accountable to Governments for promises, commitments and disbursements—in other words, they are accountable to each other.

There is an opportunity to further develop and build commitment to the concept of mutual accountability—at global and regional, as well as at national levels—within the framework of the United Nations DCF, which has been tasked to enhance the coherence and effectiveness of international development cooperation, including towards realizing the MDGs. As a global multi-stakeholder forum under the auspices of the Economic and Social Council of the United Nations, the DCF offers a unique opportunity to address this question. Indeed, mutual accountability is a focus of this year’s meeting, which takes place at the end of June.

The need for the discussion is clear. By the end of 2009, only seven countries had established fully functioning mutual accountability mechanisms,³⁴ and the change in provider behaviour that results has been uneven. Country-level experience shows that national aid policies and joint performance frameworks can help improve mutual accountability, not only by engaging stakeholders in an ongoing dialogue but, more importantly, by assigning responsibilities and by making commitments on development targets and transparency more tangible.³⁵ The practical question is how to spread such mechanisms, strengthen their operations and thereby make the aid relationship more effective.

Aid could be more transparent and targets more attainable in the presence of mutual accountability mechanisms

³³ For a discussion of the different meanings and practices of “mutual accountability”, see “Background study for the Development Cooperation Forum High-Level Symposium: enhancing mutual accountability and transparency in development cooperation”, November 2009, available from [http://www.un.org/en/ecosoc/newfunct/pdf/analytical%20background%20study%20\(mutual%20accountability%20and%20aid%20transparency\).pdf](http://www.un.org/en/ecosoc/newfunct/pdf/analytical%20background%20study%20(mutual%20accountability%20and%20aid%20transparency).pdf).

³⁴ Afghanistan, Cambodia, Mozambique, Rwanda, the United Republic of Tanzania, Viet Nam and Yemen (ibid., annex 2).

³⁵ Information provided by the United Nations Development Programme.

Complementary international development cooperation

While the basic commitments in MDG 8 embody interrelationships between developed and developing countries, the world at large has joined in forming additional partnerships for development that complement the traditional ones. As many of these are already of significant size, and growing, some mention of them here is warranted.

South-South cooperation

Aid from non-DAC and developing-country donors has become more important

Countries outside the traditional group of developed country donors are making increasingly important financial contributions to the MDG efforts of developing countries. Governments of developing and transition economies that inform the OECD of their aid effort reported about \$9.6 billion of assistance in 2008, the latest year for which comprehensive data has been collected. While more than half of this total was provided by Saudi Arabia, Governments of transition economies in Eastern Europe provided over \$800 million, and Turkey provided almost that amount. While this accounts for only about 10 per cent of DAC bilateral aid, the volume has been growing strongly. For example, the flow of aid grew by almost half in constant prices and exchange rates from 2006 to 2008.³⁶ In addition, it appears that roughly at least another \$2 billion has been provided by non-reporting countries, primarily by China but with substantial aid also having been provided by India and the Bolivarian Republic of Venezuela. Significant contributions in aid have also been made by Brazil, Nigeria and South Africa.³⁷ Furthermore, despite the strain of the global financial and economic crisis on many of these providers, it is likely that total contributions rose again in 2009. If pledges are kept, it is thought that total flows could reach \$15 billion in 2010.³⁸

Innovative and other sources of financing for development

The Leading Group on Innovative Financing for Development, which now includes 55 member countries, 5 observer countries, 16 international organizations and a number of non-governmental networks and organizations from the South and North, has come together to launch initiatives that go beyond what has been agreed by global consensus or in the standard donor country forums. It has demonstrated, as with the international air ticket levy, that it is politically possible to mobilize significant additional funds through innovative means of cooperation.³⁹

³⁶ Data provided by the OECD.

³⁷ Based on information provided by OECD, and the report of the Secretary-General of the United Nations, entitled "The state of South-South cooperation", of 24 August 2009 (A/64/321), para. 8.

³⁸ Ibid.

³⁹ Chile, Côte d'Ivoire, France, Madagascar, Mauritius, Niger and the Republic of Korea have introduced air ticket levies, while Luxembourg and Spain collect voluntary contributions from air travellers, the proceeds being allocated to UNITAID. In addition, several countries have legally bound themselves to provide the funds to service bonds whose proceeds can be used immediately to immunize children against disease (France, Italy, Norway, Spain, South Africa, Sweden and the United Kingdom of Great Britain

The Group plans not only to develop agreed modalities for mobilizing resources further but also to work on additional proposals, including implementing an international financial transactions tax (FTT).⁴⁰ The FTT is also being considered at IMF and in the G-20, along with other proposals. In accordance with those discussions, the FTT would raise resources which would primarily defray the costs of the recent financial emergency and prepare for future contingencies, but which could also be deployed for development purposes, including achieving the MDGs.

Private foundations from developed and developing countries, along with millions of individuals, of both large means and small, have also been making a growing contribution to MDG-related activities. According to the OECD, cross-border grants for development assistance by private voluntary agencies totalled almost \$24 billion in 2008, the latest year for which comprehensive estimates are available.⁴¹ However, it is expected that the fall in income and assets associated with the global financial and economic crisis will reduce philanthropic contributions of individuals and foundations in the near term. While the reduction in donor capacity is already evident, the extent of the decline in cash flow may only emerge with a lag.

Other international actors have launched initiatives to mobilize increased international resources ...

International cooperation in mobilizing domestic public resources

International efforts have grown to help Governments counter tax evasion, strengthen anti-corruption programmes and ensure that illicitly removed funds are returned. For example, the Stolen Asset Recovery (StAR) Initiative, a joint undertaking of the United Nations Office on Drugs and Crime and the World Bank that began in 2007, is expecting to see initial, albeit modest, asset recoveries in 2010.⁴² An increased launching of investigations, requests for legal assistance and freezing of assets are being complemented by the strengthening of international cooperation against corruption. Signals are thus being sent to the effect that people who engage in corruption face increased risks.

Other initiatives are under way to strengthen international cooperation to combat tax evasion. In particular, the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes, which agreed in September 2009 to deepen the role of participating non-OECD member countries, launched a first set of 18 national peer reviews of how tax authorities are implementing widely agreed standards, such as those adopted in both the OECD and United Nations

... as well as domestic resources for the MDGs and development

and Northern Ireland). Moreover, in June 2009, a pilot Advance Market Commitment was agreed upon to guarantee purchase at a prearranged price of medicines not yet developed against pneumonia (Canada, Italy, Norway, the Russian Federation, the United Kingdom, and the Bill & Melinda Gates Foundation).

⁴⁰ See "Declaration of Santiago," adopted at the Seventh Plenary Meeting of the Leading Group on Innovative Financing for Development, Santiago, Chile, 28-29 January 2010; and summary of the meeting, available from <http://www.leadinggroup.org/article589.html>.

⁴¹ OECD, *Development Cooperation Report 2010*, op. cit., table 13.

⁴² See World Bank and United Nations Office on Drugs and Crime, *Stolen Asset Recovery: StAR Progress Report*, October 2009, p. 3.

Model Double Taxation Conventions.⁴³ In addition, the United Nations Committee of Experts on International Cooperation in Tax Matters in October 2009 adopted and referred to the Economic and Social Council a proposed code of conduct on cooperation in combating international tax evasion and avoidance.⁴⁴

Strengthening international development cooperation

The Gleneagles targets for increasing aid volumes expire in 2010 (as do the Paris targets on aid effectiveness). The volume targets were met by some donor countries, but not by others. The United Nations target for ODA is 0.7 per cent of donor GNI. If delivered by 2015, it would raise over \$300 billion per annum for development (in 2009 prices and exchange rates).⁴⁵ The European Union is committed to meeting that target by 2015.⁴⁶ All other donors that have not already done so should be encouraged to join them.

To accelerate progress in providing developing countries with the support required to achieve the MDGs and counteract the impact of the global crisis on the poor, the international community should:

- Recommit to the United Nations aid target and set a time path for its realization. To reach the 2015 target, annual increments of approximately \$35 billion per year from 2011 to 2015 would be needed in order to attain an estimated target level of ODA of \$300 billion (at 2009 prices and exchange rates)
- Ensure that individual pledges by donor countries are made in a way that is transparent and readily verifiable by the international community, as was the case with the Gleneagles commitments
- Urgently replenish the multilateral and regional development funds that advanced their outlays as part of the counter-crisis efforts of the past two years, and increase them to levels that would empower these funds to play the expanded role foreseen for them in the post-crisis world. Donors that have not yet contributed their share of the cost should join those that have
- Fully deliver the committed additional resources to priority country groups, including those for Africa and the LDCs. Aid should also be stepped up for other, presently underserved, low-income and vulnerable economies where social and economic needs are great, and means should be devised, as required, for effective delivery of aid-financed services

⁴³ The 18 authorities are from Australia, Barbados, Bermuda, Botswana, Canada, the Cayman Islands, Denmark, Germany, India, Ireland, Jamaica, Jersey, Mauritius, Monaco, Norway, Panama, Qatar and Trinidad and Tobago.

⁴⁴ See the report of the Committee of Experts on International Cooperation in Tax Matters on its fifth session, 19-23 October 2009, *Official Records of the Economic and Social Council, Supplement No. 25 (E/2009/45)*, annex.

⁴⁵ Assuming advanced economies grow at the average rate of 2.3 per cent per year forecast by IMF in its *World Economic Outlook: Rebalancing Growth* (Washington, D.C., IMF, April 2010).

⁴⁶ See European Commission, "Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, and the Committee of the Regions: a twelve-point EU action plan in support of the Millennium Development Goals" (COM(2010)159 final), Brussels, 21 April 2010.

- Increase the share of aid provided as budget support and ensure that earmarking of ODA by donors for specific purposes is always consonant with expressed national priorities of recipient countries
- Deliver on aid-effectiveness commitments targeted for attainment in 2010 and agree on a renewed set of targets beyond that date. This is the shared responsibility of donors and recipient countries. Of fundamental importance is the realization of mutual accountability in the provision and use of aid resources, an essential step to building mutual confidence and effectively aligning aid behind sustainable national development strategies

To complement and deepen traditional forms of aid, the international community should:

- Encourage the expansion of development cooperation among developing countries
- Recognize the catalytic efforts of the Leading Group on Innovative Financing for Development both for raising additional funds for the MDGs and for exploring innovative financing mechanisms, including the financial transaction tax, and implement the Group's recommendations

Strengthen international tax cooperation and multilateral anti-corruption initiatives so as to stem tax evasion and corruption and mobilize additional resources for development

Market access (trade)

The United Nations Millennium Declaration and the Millennium Development Goals (MDGs) give considerable weight to promoting developing-country access to markets, especially to those of developed countries, in an open, rule-based, predictable and non-discriminatory international trading system. In addition, Goal 8 calls upon Member States to address the trade-related needs of developing countries through specific support measures. It further acknowledges the need to assist developing countries to respond more effectively to trading opportunities through domestic capacity-building in what has come to be called “Aid for Trade”. A number of steps have been taken towards implementing these targets, but there have also been a number of challenges, not least the shock to developing countries of the severity of the recent global economic and financial crisis.

Challenges remain towards the full implementation of the market access targets

A decade of trade policy expectations

Almost a decade ago, in November 2001 in Doha, Qatar, member States of the World Trade Organization (WTO) agreed to negotiate a global package of trade-promoting measures, giving special emphasis to producing outcomes that promote development. The so-called Doha Round thus sought to remove trade barriers in a number of areas of particular interest to developing countries, including areas that had resisted earlier efforts at reaching multilateral agreement, such as agriculture, services (potentially including international labour movements), non-agricultural trade (as in the practice of tariff escalation), and protection of intellectual property (by ensuring that it not be carried out at the expense of public health in developing countries by restricting access to medicines).¹

The Doha package also committed member States to work towards preferential market access policies (for instance, duty free and quota free (DFQF) access) for the exports from least developed countries (LDCs). This has also been the focus of policy commitments at the United Nations conferences on the LDCs, in particular those contained in the Brussels Programme of Action adopted by LDC development partners at the Third United Nations Conference on the Least Developed Countries, held from 14 to 20 May 2001.² The international community also agreed to focus attention on meeting the special needs of small island developing States (SIDS) and the landlocked developing countries (LLDCs).³

1 A full review is available from http://www.wto.org/english/tratop_e/dda_e/dda_e.htm.

2 See A/CONF.191/11, para. 68.

3 See *Mauritius Strategy for the Further Implementation of the Programme of Action for the Sustainable Development of Small Island Developing States* (A/CONF.207/11, annex II), particularly paras. 66–69 and 97; and *Almaty Programme of Action: Addressing the Special Needs of Landlocked Developing Countries within a New Global Framework for Transit Transport Cooperation for Landlocked and Transit Developing Countries*, (A/CONF.202/3, annex I), paras. 38–41.

In addition, there has been broad recognition of the long-term pay-off from Aid for Trade in assisting developing countries. The current donor effort in this regard builds on a multiagency programme for the LDCs that began in 1997 called the Integrated Framework (IF) for Trade-Related Technical Assistance to Least Developed Countries, whereby donors and six core international institutions⁴ supported LDC Governments in better integrating trade into their national development strategies. Today, Aid for Trade includes helping developing countries to develop trade strategies and negotiate more effectively, on the one hand, and to invest in infrastructure and productive capacity and adjust to the domestic consequences of tariff reductions, preference erosion or declining terms of trade, on the other. Such programmes for assisting LDCs, LLDCs, SIDS and other developing countries have required increased funding, primarily provided as part of official development assistance (ODA). Global coordination and monitoring of Aid for Trade takes place in the WTO and through the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD), as well as at the country level, for both donors and aid recipients.

Developing-country trade performance

Impact of the global crisis

The international effort to help developing countries participate more effectively in international trade has been predicated on a continuance of the dynamic growth of developing-country trade seen in recent decades. However, the recent global crisis has delivered an economic shock of almost unprecedented magnitude.

The collapse in commodity prices has particularly affected least developed countries

World trade volume dropped by 13 per cent in 2009.⁵ The downturn was compounded by sharp declines in commodity prices between September 2008 and March 2009. The most affected countries were in the group of transition economies and in Western Asia, which witnessed adverse trade declines of almost 13 and 9 per cent of gross domestic product (GDP), respectively. The impact of the crisis was especially visible in the LDCs, who depend heavily on a few commodities for most of their export revenue. The collapse in commodity prices thus severely reduced the value of their exports.⁶ Nevertheless, the quantity of their exports saw continued growth in 2009, particularly their top exports, in respect of which volumes expanded by 6 per cent; values, however, declined by 9 per cent (table 3). These were led by large declines in prices of minerals, metals and wood. LDCs were therefore exporting more for less.

Recovery, accompanied by a rebound in commodity prices, began in the second half of 2009. However, by some estimates, one year later, the dollar value of trade in some developing regions remains about 20 per cent lower than pre-

4 International Monetary Fund, International Trade Centre, United Nations Conference on Trade and Development, United Nations Development Programme, World Bank and World Trade Organization.

5 *World Economic Situation and Prospects as of mid-2010* (E/2010/73), p. 2.

6 WTO, "Market access for products and services of export interest to least developed countries" (WT/COMTD/LDC/W/46/rev.1), 26 February 2010. LDCs were especially affected by the decline in the international price of oil and minerals, their main products of export.

Table 3

Least developed country exports to major partners: growth in 2009 (percentage and percentage change)

Harmonized System Code	Products	Share of exports, 2008	Value growth	Volume growth
--	All commodities, excluding crude oil	100	-8.5	5.8
61	Articles of apparel, accessories, knitted or crocheted	21	-2.8	-1.2
62	Articles of apparel, accessories, not knitted or crocheted	16	-0.5	-1.5
27	Mineral fuels, oils, distillation products, etc.	15	-29.4	-13.0
26	Ores, slag and ash	9	-22.3	19.9
03	Fish, crustaceans, molluscs, aquatic invertebrates	5	-13.6	4.0
74	Copper and articles thereof	4	14.6	63.0
44	Wood and articles of wood, wood charcoal	3	-32.9	-23.3
09	Coffee, tea, mate and spices	2	-6.9	6.4
81	Other base metals, cermets, articles thereof	2	-58.1	-8.1
76	Aluminium and articles thereof	2	-22.5	5.2

Source: International Trade Centre, ITC Trade Map Fact Sheet No. 3.

crisis levels.⁷ World trade is expected to grow by over 7 per cent in 2010 and by about 6 per cent in 2011, according to the baseline scenario of the United Nations *World Economic Situation and Prospects as of mid-2010*.⁸ Bearing in mind that these are recovery years, the projections do not augur well as they are lower than the average growth in world trade in 2004–2007, which was almost 8 per cent per year.

The problems induced by the global recession were compounded for developing-country exporters by the fear of a retreat from trade liberalization in developed economies. In the initial months of the global crisis, as some countries began to take protectionist measures in response to the crisis, the Group of Twenty (G-20) committed themselves to resisting such practices and requested the main international trade agencies to monitor country activities in this regard.⁹ From September 2009 to mid-February 2010, recourse to new trade restrictions by G-20 members was less pronounced than in the year from September 2008, and the overall extent of these restrictions has been limited.¹⁰

The financial crisis that set off the recession also damaged developing-country exports, as trade finance became hard to arrange. While the global mar-

Recourse to trade restrictions in response to the crisis has been limited

Low-income countries continue to face constraints in accessing trade finance

⁷ World Bank and IMF, *Global Monitoring Report 2010: The MDGs after the Crisis* (Washington, D.C., World Bank, 2010).

⁸ *World Economic Situation and Prospects as of mid-2010*, op. cit.

⁹ See WTO, “Overview of developments in the international trading environment” (WT/TPR/OV/12), 18 November 2009.

¹⁰ See OECD, UNCTAD and WTO, “Report on G-20 Trade and Investment Measures (September 2009–February 2010)”, 8 March 2010, available from <http://www.oecd.org/dataoecd/21/21/44741862.pdf>.

ket for trade financing eased up in the second half of 2009, regions benefited to different extents. Emerging markets led in this regard, but low-income countries, particularly those in sub-Saharan Africa, continue to face significant constraints in trade finance. The package to support short-term trade finance set up by the G-20 at the London Summit in April 2009 helped ease the situation. However, further focus of the package's remaining resources should be directed towards longer-term action plans and should ensure access to countries that need it the most.¹¹

Pre-crisis trends in developing-country exports

While it is hoped that the current crisis will be a temporary phenomenon, it is not clear if and when a more dynamic, pre-crisis world trade growth will return. Developing-country participation in world trade has increased dramatically over the past two decades. Several developing countries and countries with economies in transition have become major trading nations and have achieved sustained economic growth over a number of years.¹² Developing countries as a whole continued to increase their share in global exports, reaching 39 per cent in 2008 (31 per cent excluding oil), of which Asian developing countries captured 30 per cent. However, the LDC share in world exports remains extremely small. It barely surpassed 1 per cent in 2008, but with the exclusion of oil, LDCs supply only 0.4 per cent of global exports.¹³

LDCs remain dependent upon few commodity exports and are vulnerable to price swings

Prior to the crisis, the export concentration of some groups of developing countries had been increasing, although this was in part due to the rising commodity export prices some countries were enjoying. Thus, while the export concentration of developing countries as a whole has remained relatively stable since 2000, it has increased for LDCs and African countries, and most dramatically for LLDCs because of higher earnings from minerals and fuels (figure 7). This also points to the high vulnerability related to price swings, as seen in table 3.

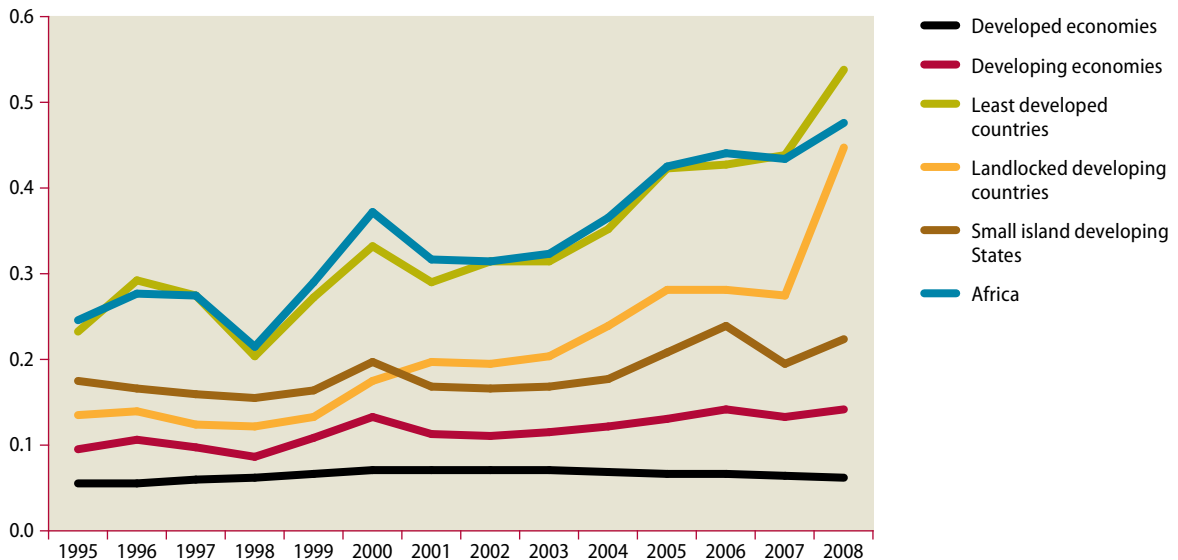
Export markets of developing countries have increasingly diversified, including those of LDCs. In 2008, as much as 50 per cent of LDC exports were shipped to other developing countries. China became the main importer of LDC products in 2008 (23 per cent of global LDC exports compared with 21 per cent for the European Union (EU)). Significantly, the products in which LDC exports to other Southern countries became more buoyant were also those for which international prices were increasing.¹⁴

The stalemate in the Doha Round

The fundamental strategy of the Doha Round has been to increase trading opportunities for developing countries by lowering trade barriers, particularly

-
- 11 See WTO, "Report to the TPRB from the Director-General on trade-related developments" (WT/TPR/OV/W/3), 14 June 2010.
 - 12 UNCTAD, *Developing Countries in International Trade 2007: Trade and Development Index* (Geneva, UNCTAD, 2007).
 - 13 WTO, "The impact of the financial crisis on Least Developed Countries", background material for the Seventh Ministerial Conference of the WTO, 30 November–2 December 2009, Geneva, available from http://www.wto.org/english/thewto_e/minist_e/min09_e/impact_fin_crisis_e.pdf.
 - 14 WTO, "Market access for products and services", op. cit.

Figure 7
Export concentration ratios of developing countries, 1995-2008^a



Source: UNCTAD Handbook of Statistics online.

Note: Herfindahl-Hirschman Index of market concentration normalized to obtain values from 0 to 1. An index value that is close to 1 indicates a very concentrated market; values closer to 0 reflect a more equal distribution of market shares among exporters or importers. For further details, see http://www.unctad.org/en/docs/tdstat33ch2_enfr.pdf.

^a Herfindahl-Hirschman Index.

in developed markets. In fact, however, the negotiations under the Doha Round are at an impasse. Since the last major push for a breakthrough collapsed in July 2008, WTO members have made repeated attempts to move the negotiations towards an end-game, but without success. Recent “stocktaking exercises” following the Seventh Ministerial Conference of the World Trade Organization held in Geneva, Switzerland, at the end of November 2009 have disappointed those hoping to build positive momentum.¹⁵

During the Ministerial Conference, calls were made for concluding the Round with a strong pro-development impact, in particular with regard to issues of special interest to LDCs. All developing-country groups stated that anything short of a transparent, fair, equitable completion of the Doha Round would fail to eliminate the current imbalances in the multilateral trade system that have negative implications for poor countries.¹⁶ In the end, the goal set by the G-20 to conclude the negotiations in 2010 appears unrealizable, and no new deadline has been set. Differences persist on how to improve market access in agriculture and industrial goods, including by significantly reducing agricultural subsidies. In addition, developing-country requests to enhance special and differential treat-

¹⁵ WTO, “Stocktaking ends with collective determination to start building global Doha package”, Trade Negotiations Committee, 26 March 2010.

¹⁶ On the sidelines of the Ministerial Conference, two coordinating meetings of the WTO G-20 and the WTO Informal Group of Developing Countries emphasized the need to conclude the Doha Round with a strong development-oriented outcome.

Lifting restrictions on the international movement of natural persons could facilitate trade in services

ment for their trade (such as permitting smaller tariff reductions) have remained unanswered.

Restrictions on the international movement of natural persons in search of work are recognized as a serious impediment to trade in services, another area of WTO negotiations. Removing restrictions could result in important benefits to the world as a whole and in particular to developing countries, the largest suppliers of such labour. According to some estimates, gains for developing countries stemming from temporary labour mobility could be as high as \$150 billion annually.¹⁷ However, the movement of natural persons remains heavily regulated, and proposals for negotiation of the issue in the context of the Doha Round have found resistance from developed countries. Furthermore, improvements, through such trade, in the efficiency of infrastructure services, such as in the areas of finance, telecommunications and transportation, could yield substantial gains for developing countries.

Increasing emphasis is also being placed on the liberalization of trade in environmental goods and services (EGS) and how it could contribute to the fight against climate change.¹⁸ Gradual trade liberalization and carefully managed market opening in these sectors can be a powerful tool for economic development through generating employment and enabling the transfer of skills and technology. But some developing countries remain concerned about the definition of EGS and the scope of goods and services to be liberalized. To capture the benefits of such liberalization, developing countries need to build supply capacities, adapt regulatory frameworks and develop supportive physical, institutional and human infrastructure.

Climate-linked trade measures can damage developing-country trade

There is an urgent need to resolve the conflicts between multilateral trading rules and multilateral environmental agreements.¹⁹ In the view of the Director-General of WTO, climate concerns should be given preference when attempting to align a multilateral climate agreement with multilateral trading rules, since trade depends on climate conditions and is not an end in itself, but should enhance welfare.²⁰ There are already concerns that countries implementing strict climate change policies will have to compete with exports from countries where costs of production may be lowered as a result of the absence of mandatory emission reductions on producers. To remedy the potential adverse effects on trade, proposals for carbon-based border measures are being put forward in an increasing number of developed countries. Such climate-trade links can potentially be used as a basis for protectionism and can damage developing-country trade.

17 T. Walmsley and A. Winters, "Relaxing restrictions on temporary movement of natural persons: a simulation analysis", *Journal of Economic Integration*, vol. 20, No. 4 (December 2005). The model simulations underlying the estimate cited assume that quotas on the number of temporary workers permitted entry into the developed economies are increased to 3 per cent of the labour force of developed economies.

18 WTO, "Chairman's Summary", Seventh Ministerial Conference of the WTO, Geneva, 2 December 2009 (WT/MIN(09)/18).

19 *World Economic and Social Survey 2010: Retooling Global Development* (United Nations publication, Sales No. E.10.II.C.1).

20 Pascal Lamy, "Climate first, trade second: GATTzilla is long gone", keynote address, Simon Reisman Lecture, organized by the Norman Paterson School of International Affairs, Carleton University, and the Department of Foreign Affairs and International Trade of Canada, Ottawa, 2 November 2009, available from <http://www2.carleton.ca/newsroom/speech/pascal-lamy-simon-reisman-lecture/>.

G-20 leaders have underscored the need to move beyond the advocacy for trade and against protectionism by, inter alia, supporting negotiations with sufficient political will and ensuring coherence between international and national policy measures. But calls for redefining the level of ambition of the Round bring into question the level of political commitment to a development-oriented outcome.²¹

There is a strong sense among some developing countries that the development dimension of negotiations has been put on the back burner. Likewise, some developing countries argue that their contributions to the multilateral tariff reductions would be greater than those of developed countries in any of the previous negotiating Rounds.²² Against this background, there is fear that a rush to conclude the Round in the near future might undermine the legitimate interests of developing countries. The aim should be to achieve significant and balanced progress in all areas of negotiation, particularly those important to development. On the other hand, further delay in concluding the Doha Round would signify further delay in reducing global farm subsidies; rebalancing WTO rules in a number of areas; and taking other steps that could open additional policy space for developing countries.

Progress in the Doha Round must be achieved in all areas of negotiation, particularly development

The state of protectionism

The Doha Round promised to address many aspects of trade policy that impede developing-country access to developed-country markets. The state of protectionism in those markets indicates the continuing cost of not completing negotiations with a strong liberalization of market access.

Developed-country tariff barriers

Most developed countries are not altering trade policies at this time (except in limited ways in response to the global economic crisis, as mentioned above). Thus, recorded changes in average tariff levels reflect mainly the changing composition of trade. The data indicate a small decline during the decade ending in 2008, the latest year for which comprehensive data are available. The data also indicate that average tariffs on key products from developing countries, particularly textiles and apparel, remained relatively high. Tariffs on agricultural products fell for developing countries as a whole and for LDCs in particular to 8 per cent and 1.6 per cent, respectively, thereby sustaining a margin of preference for LDCs in these products (figure 8). Against this background, margins in clothing and textiles remained at about 2 percentage points in 2008, providing little advantage to the LDCs.

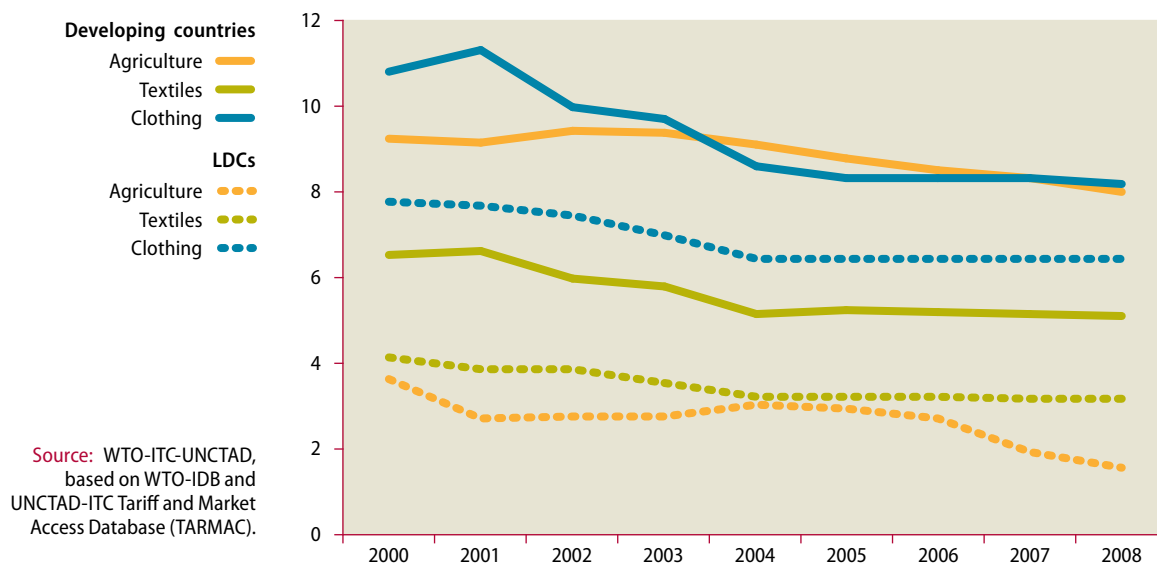
Average tariffs on key exports of developing countries remain high

The structure of tariffs has not changed significantly in recent years either. One of the objectives of the Doha Round has been to reduce tariff peaks and escalation in products of particular interest to developing countries. There is a

²¹ Group of Twenty (G-20), "Joint Letter from G-20 leaders", 29 March 2010, available from <http://www.whitehouse.gov/the-press-office/joint-letter-G-20-leaders>.

²² WTO, statements by members and observers at the plenary session of the Seventh session of the WTO Ministerial Conference, Geneva, 30 November–2 December 2009, available from http://www.wto.org/english/thewto_e/minist_e/min09_e/min09_statements_e.htm.

Figure 8
Average tariffs imposed by developed countries on key products from developing countries and least developed countries, 2000-2008
(percentage ad valorem)



higher value added, and hence greater potential return, from the exporting of processed goods. Therefore, focusing on market-access issues that relate to both raw and processed commodities and corresponding tariff levels at both upstream and downstream stages is clearly warranted.

Agricultural tariff peaks remain high

Overall, tariff peaks in high-income OECD countries have remained fairly stable over the past decade, at an average of 9 per cent of all tariff lines (table 4). However, the incidence of agricultural tariff peaks remains high, at 36 per cent. Similarly, while overall tariff escalation has shown a stable trend over the past decade, large differences remain between the tariffs applied to fully processed agricultural products and those for raw agricultural products.

Agricultural subsidies in developed countries

Agricultural subsidies in OECD countries remain high and continue to distort trade

The level of trade-distorting agricultural support provided by OECD countries is a function of policy and market prices. In 2008, it showed a small drop as a percentage of those countries' GDP, falling from 0.9 per cent in 2007 to 0.8 per cent in 2008, thus continuing the downward trend observed since the 1990s. However, at \$376 billion, support remains high in absolute terms and has even increased by \$12 billion since 2007 (table 5). Likewise, the level of support provided directly to producers continued to fall in percentage terms and has reached its lowest level since the mid-1980s.²³

As had been the case in 2007, the fall in agricultural support was largely caused by high agricultural prices, which remain above their long-term averages,

²³ The level of the Producer Support Estimate (PSE) provided varies greatly by country, ranging from 0.8 per cent of gross farm receipts in New Zealand to 62 per cent in Norway.

Table 4

Tariff peaks and escalation in high-income Organization for Economic Cooperation and Development countries, 1996, 2000 and 2004-2009^a (percentage)

	1996	2000	2004	2005	2006	2007	2008	2009
Tariff peaks^b								
All goods	10.4	9.2	9.7	9.5	9.5	9.3	9.0	8.9
Agricultural	35.4	33.4	35.6	37.6	37.6	37.4	37.5	36.5
Non-agricultural	4.0	3.1	2.4	2.2	2.3	2.2	2.2	2.2
Tariff escalation^c								
All goods	1.1	1.0	0.5	0.1	0.2	0.1	0.1	0.1
Agricultural	13.4	12.6	10.8	10.7	10.7	11.2	11.8	11.2
Non-agricultural	2.4	2.1	1.6	1.6	1.6	1.3	1.4	1.4

Source: International Trade Centre.

^a Aggregated values over countries are a weighted average by share in world imports.

^b Proportion of total tariff lines in a country's MFN tariff schedule with tariffs above 15 per cent.

^c Percentage-point difference between the applied tariffs for finished (or fully processed) goods and the applied tariffs for raw materials. Prior to aggregation over countries, the country average is a simple average of Harmonized System six-digit duty averages.

Table 5

Agricultural support estimate in Organization for Economic Cooperation and Development countries, 1990, 2000 and 2004-2008

	1990	2000	2004	2005	2006	2007	2008 ^a
Total agricultural support in OECD countries^b							
Billions of U.S. dollars	327	323	383	375	363	364	376
Billions of euros	257	351	308	302	289	266	257
As a percentage of OECD countries' GDP	2.0	1.2	1.1	1.0	1.0	0.9	0.8
Support to agricultural producers in OECD countries^c							
Billions of U.S. dollars	249	245	286	271	258	260	265
Billions of euros	196	266	230	218	206	189	182
As a percentage of gross farm receipts	31.5	32.5	30.0	28.3	26.2	22.5	21.3

Source: OECD, PSE/CSE database, 2009.

^a Preliminary estimates.

^b The Total Support Estimate (TSE) comprises support to agricultural producers, both at the individual and collective levels, and subsidies to consumers.

^c The Producer Support Estimate (PSE) measures support provided directly to agricultural producers.

rather than agricultural policy reform. Support based on commodity output, the most distorting form of support in terms of production and trade, continues to account for the majority of producer support.²⁴

There is concern about the high level of trade-distorting subsidies provided by OECD countries given their harmful effects. Even when subsidies are targeted at locally consumed products, or when they are decoupled from production or prices, they still represent a barrier to trade and thus limit access for developing-country exports. Furthermore, subsidized products entering world markets drive prices down, hurting developing-country exporters, who are affected through two channels. First, agricultural support in OECD economies insulates producers from world price changes, shifting the adjustment burden abroad. Second, OECD country exports take significant market shares away from more efficient

²⁴ OECD, *Agricultural Policies in OECD Countries: Monitoring and Evaluation 2009* (Paris, OECD, July 2009).

developing-country exporters and local producers. In some countries, this situation is aggravating food security problems.

The state of LDC preferences

A large gap remains in providing duty-free and quota-free market access to LDC products

The international community agreed in various forums to accord preferential market access to LDCs. Although almost all developed WTO member States have adopted preference schemes in favour of LDCs and a number of developing countries have improved their market access for those countries, actual market opening has had virtually no effect on LDC trade flows since 2004. The proportion of imports from LDCs admitted free of duty into developed-country markets, excluding arms and oil, reached 81 per cent in 2008, less than 1 percentage point higher than in 2004 (figure 9). At the same time, developing countries as a whole managed to increase their duty-free access to 80 per cent in 2008 owing to overall tariff cuts on a most favoured nation (MFN) basis, thereby attaining nearly the same level as that of LDCs based on preferential treatment. For developing countries as a whole, the coverage of preferential access has been about 20 per cent since 2004 and their use of MFN duty-free access reached over 60 per cent by 2008.

Indeed, significant differences remain in the degree to which individual countries can access the preference schemes, as these schemes can differentiate among countries in quite complex ways. For example, while market access for exports from Bhutan and the United Republic of Tanzania increased from less than 97 per cent in 2007 to 98 and 99 per cent in 2008, respectively, it decreased below 97 per cent for exports from the Lao People's Democratic Republic, Malawi, Mozambique, Myanmar, Somalia and Zambia (figure 10). Access fell for another 10 countries, but remained above 97 per cent.

Figure 9
Proportion of developed-country imports from developing countries and least developed countries admitted free of duty, by value, 2000-2008 (percentage)

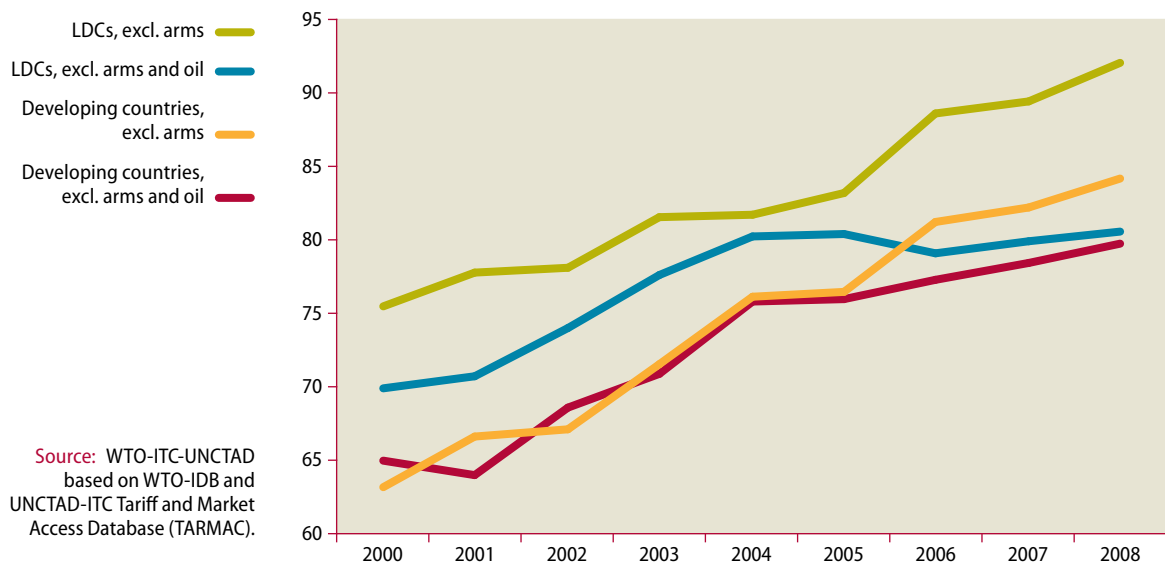
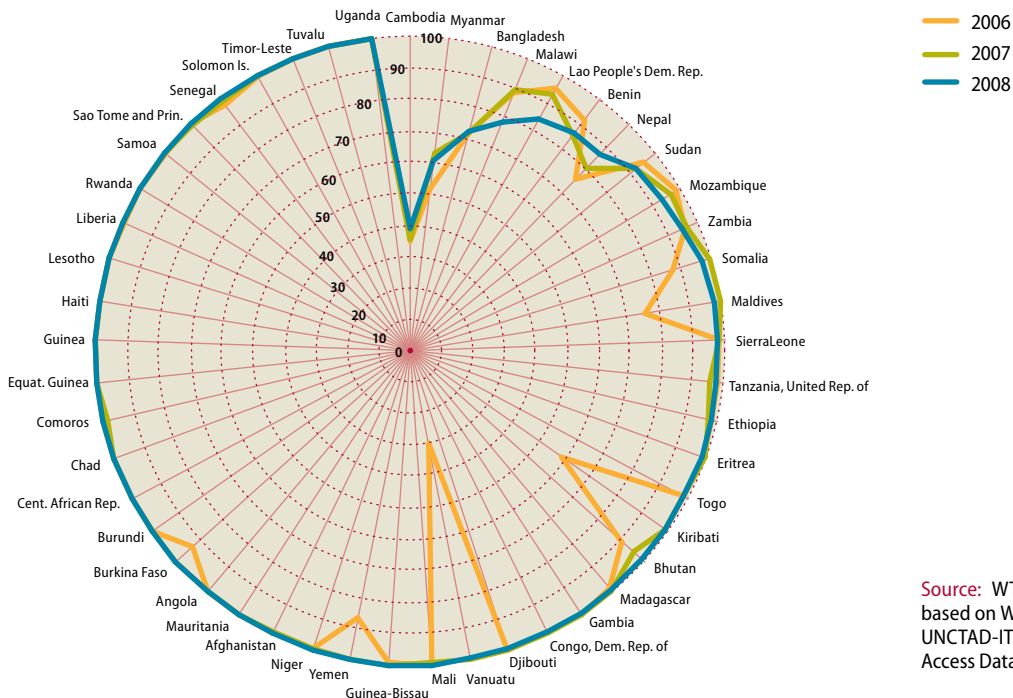


Figure 10

Proportion of total developed market economies' imports (by value) from selected least developed countries, admitted free of duty, 2006-2008 (excluding arms and oil) (percentage)



Source: WTO-ITC-UNCTAD based on WTO-IDB and UNCTAD-ITC Tariff and Market Access Database (TARMAC).

Asian LDCs would benefit significantly if they were to acquire full DFQF. Estimates indicate that full DFQF provided by the OECD to LDCs would provide benefits to Bangladesh and Cambodia, including a boost in exports of 4 per cent (approximately \$375 million) and nearly 3 per cent (approximately \$100 million), respectively.²⁵ Equally, LDCs face the challenge of preference erosion stemming from significant across-the-board MFN tariff and subsidy reduction in developed countries. A decrease in OECD tariffs and subsidies on an MFN basis would reduce Bangladesh's export revenues by about \$220 million and Cambodia's by about \$54 million.²⁶ But other low-income countries also stand to lose. Bolivia, for instance, would suffer preference erosion vis-à-vis LDCs if full DFQF market access were granted. Uganda, which already benefits from several preference schemes, may also suffer preference erosion.²⁷

Besides developed-country LDC preferences, a number of large developing countries have also begun to grant DFQF access to LDCs (table 6). This is a

²⁵ Overseas Development Institute, "Bangladesh: Case Study for the MDG Gap Task Force" (May 2010) and "Cambodia: Case Study for the MDG Gap Task Force" (May 2010). See also David Laborde, *Looking for a Meaningful Duty Free Quota Free Market Access Initiative in the Doha Development Agenda*, ICTSD Issue Paper No. 4 (Geneva, International Centre for Trade and Sustainable Development, December 2008).

²⁶ ODI, op. cit.

²⁷ ODI, "Bolivia: Case Study for the MDG Gap Task Force" (May 2010) and "Uganda: Case Study for the MDG Gap Task Force" (May 2010).

Table 6

Preference schemes provided for exports from least developed countries^a

Programme or country	Entry into force	Product coverage	Duty-free access for LDC exports in 2007 (percentage of tariff lines)	Rules of origin: level of flexibility	Programme length
Australia	2003	100 per cent	100	Moderate	Indefinite
Brazil	2010	Initially, 80 per cent of tariff lines by mid-2010; to be expanded to reach 100 per cent	Announced in late 2009
Canada—Least Developed Country Tariff	2003	100 per cent (excludes quota-controlled dairy, poultry and eggs)	98.9	High	Extended through 2014
China—Forum on China-Africa Co-operation	2008	Starting with 60 per cent of products, expanding to 95 per cent (for LDCs in Africa that have diplomatic relations with China)	..	Moderate	..
China—DFQF for Asian LDCs	2006	DFQF on selected tariff lines only	..	Moderate	..
EU—Everything But Arms (EBA)	2001	100 per cent as of 2010 (excludes arms and ammunition)	99.4	Moderate	Indefinite
Iceland	2002	Essentially all products, but not 100 per cent	..	Low	Indefinite
India—Duty Free Tariff Preference (DFTP) Scheme	2008	85 per cent of tariff lines within five years (fully operational for 14 LDCs in 2010)	..	Moderate	..
Japan	2007	98 per cent of tariff lines (excludes certain agriculture, fish and leather products)	98.2	Low	Extended for 10 years (through 2011)
Republic of Korea	2008	Presidential decree providing DFQF access expanded to 75 per cent	17.4 (in 2006)	Low	Uncertain
New Zealand—LDC/LLDC GSP Scheme	2001	100 per cent	100	Moderate	Indefinite
Norway	2002	100 per cent	100	Low	Indefinite
Switzerland	2007	100 per cent as of 2010	85.2	Low	Indefinite
Turkey (EBA)	2005	100 per cent as of 2010	..	High	Indefinite
United States—GSP for LDCs	1976	83 per cent (excludes apparel)	82.5	Moderate	Ad hoc/usually 1-2 years (extended through 2010)
United States—African Growth and Opportunity Act (AGOA)	2000	Varies up to 98 per cent (24 sub-Saharan LDCs)	..	High	Extended for 11 years (through 2015); 5 years for apparel
United States—Haitian Hemispheric Opportunity through Partnership Encouragement Act	2006	Duty-free entry for garments manufactured in Haiti	..	Moderate (potential flexibilities under discussion through the Haiti Economic Lift Program Act of 2010)	Extended for 10 years; ongoing discussions to extend through 2020

Source: World Trade Organization, *Market access for products and services of export interest to least developed countries* (document WT/COMTD/LDC/W/46/Rev.1); Kimberly Elliot, *Opening markets for poor countries: are we there yet?*, CGD Working Paper 184 (Washington, D.C., Center for Global Development, 2009); Kimberly Elliot, *Open markets for the poorest countries: trade preferences that work*, CGD Working Group on global trade preference reform (Washington, D.C., Center for Global Development, April 2010).

^a Belarus, Kazakhstan, Kyrgyzstan, the Republic of Moldova, Morocco, Pakistan, the Russian Federation, Sri Lanka, Tajikistan and Uzbekistan also implement preference programmes in favour of exports originating from all or selected LDCs.

welcome development which holds potential for expanding LDC exports given the increasing role of emerging developing countries as drivers of world trade.

While many countries provide 100 per cent duty-free access for LDC exports, there is room for improvement in many of these programmes, especially considering that the economic costs in the preference-giving countries of extending full market access to LDCs on production and exports are very small.²⁸ Asian LDCs, in particular, stand to gain the most from an expansion of these programmes, especially from a broadening of the United States scheme under the Generalized System of Preferences (GSP), which currently excludes apparel exports. While these preferences are largely unilateral, a conclusion of the Doha Round could consolidate them. In turn, this presents a real challenge of preference erosion for other low-income countries with little capacity to adjust to a more competitive trading environment in the medium run.

Statistical indicators of preferential access are based on the assumption that existing preferences are fully utilized by LDCs, but some preferential regimes have conditions that impede full utilization.²⁹ Addressing non-tariff barriers, which can render market access opportunities ineffective for LDCs, remains an important challenge. Examples are restrictive “rules of origin” criteria to determine eligibility for the preferences (as in the percentage of the product to be made in the LDC) or improper sanitary and phytosanitary standards meant to keep products out rather than keep consumers safe.

Strict rules of origin and non-tariff barriers render market access opportunities ineffective for LDCs

Aid for Trade

Further to the emerging consensus on strengthening the trading capacity of developing countries, donor commitment on Aid for Trade continues. Total commitments to developing countries increased 35 per cent in real terms in 2008 to reach a record level of \$42 billion,³⁰ contrasting with increases averaging 10 per cent in real terms in 2006 and 2007. This represents a 62 per cent increase from the 2002–2005 baseline established by the WTO Task Force on Aid for Trade.

The share of Aid for Trade in total sector-allocable aid commitments increased to 37 per cent in 2008. The composition of commitments has shifted slightly towards trade-related infrastructure, which in 2008 represented 55 per cent of total Aid for Trade compared with an average of 52 per cent between 2002 and 2007 (figure 11). On the other hand, the share of commitments to help build productive capacity has fallen to 41 per cent, from 45 per cent, between 2002 and 2007.

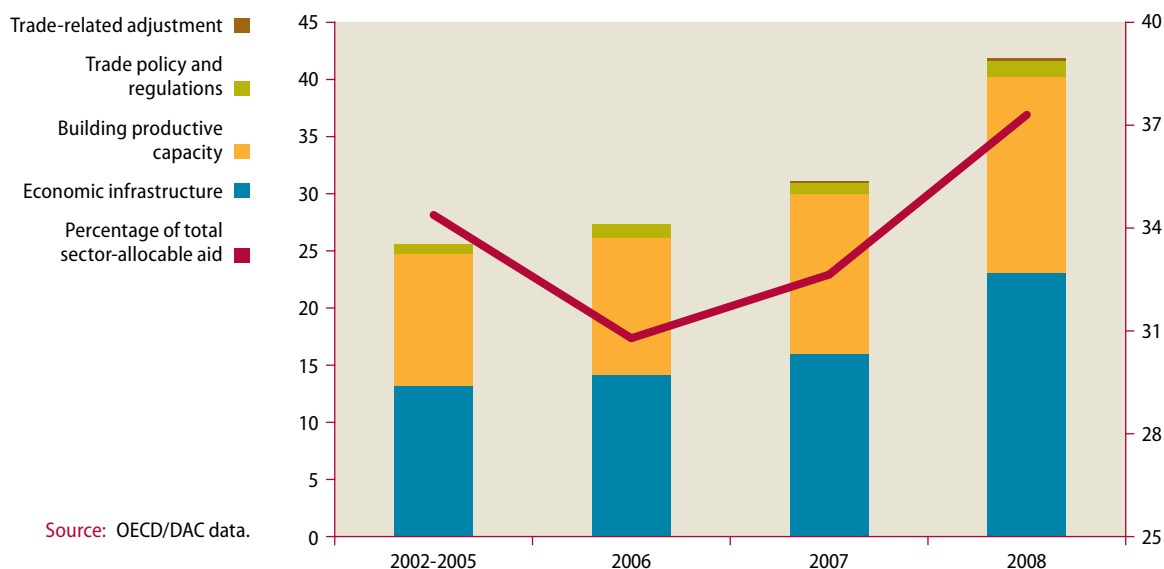
²⁸ Antoine Bouët and others, *The costs and benefits of duty-free, quota-free market access for poor countries: who and what matters*, Center for Global Development, Working Paper 206 (Washington, D.C., March 2010). Estimates show that if the United States were to grant DFQF to 97 per cent of tariff lines, LDCs might increase exports to that country by about 10 per cent, or to about \$1 billion; see Celine Carrere and J. de Melo, “The Doha Round and market access for LDCs: scenarios for the EU and U.S. markets” (Centre for Studies and Researches on International Development (CERDI), March 2009).

²⁹ The actual rate of utilization may be as low as 40 per cent for products such as textiles and clothing. WTO, *Market Access for Products and Services*, op. cit.

³⁰ Aid for Trade figures are provisional.

Figure 11

Total Aid for Trade commitments, 2002-2008 (billions of constant 2008 US dollars, left-hand scale; total aid for trade as a percentage of total sector-allocable aid, right-hand scale)



Aid for Trade resources continue to be concentrated in a few countries

The top 10 recipients of Aid for Trade accounted for 52 per cent of country-allocable commitments in 2008, or 45 per cent of total commitments (table 7). Commitments to a number of countries for large projects help explain the high concentration of Aid for Trade assistance. Some of these are explained by one-off loans to fund large infrastructure projects that started in 2008. Among bilateral donors, Japan is now the largest contributor in absolute terms (\$9 billion), followed by the United States of America (\$6 billion) and the EU (\$6 billion).

Aid for Trade is intended to assist developing countries, especially LDCs, in building their trade-related infrastructure and productive capacity. In 2008, the largest share of Aid for Trade (40 per cent) was committed to lower middle income countries. LDCs received \$10.5 billion in Aid for Trade, representing 25 per cent of the total. The top 10 Aid for Trade recipients in 2008 included just three LDCs (Afghanistan, Bangladesh and the United Republic of Tanzania), compared with four in 2007.

While important political and financial resources have been devoted to the Aid for Trade and Enhanced Integrated Framework (EIF) initiatives, additional resources would help integrate trade in development programmes (“trade mainstreaming”) and support measures to meet trade liberalization adjustment costs. Preliminary estimates indicate that there is scope for increasing and improving the targeting of resources to ensure that the countries in most need receive the most aid.³¹ While more developing countries are taking ownership of the initiatives—as evidenced by the number of developing countries responding to the Aid

³¹ Elisa Garmberoni and R. Newfarmer, *Aid for Trade: Matching potential demand and supply*, World Bank Policy Research Working Paper, No. 4991 (Washington, D.C., World Bank, July 2009).

Table 7

Top Aid for Trade recipients in 2008 (millions of US dollars and percentage)

Rank	Country	Amount	Rank	Country	Amount
1	India	3,254	11	Indonesia	871
2	Iraq	2,836	12	China	762
3	Turkey	2,421	13	Ethiopia	761
4	Viet Nam	2,033	14	Nigeria	729
5	Morocco	1,894	15	Ghana	654
6	Afghanistan	1,701	16	Thailand	640
7	United Republic of Tanzania	1,353	17	Tunisia	602
8	Bangladesh	1,240	18	Mali	591
9	Pakistan	1,126	19	Mozambique	542
10	Egypt	1,014	20	Mongolia	533
Top 10 recipients			Top 20 recipients		
Sub-total		18,873	Sub-total		25,559
Share in total country-allocable Aid for Trade		51.8	Share in total country-allocable Aid for Trade		70.2
Share in total Aid for Trade		45.3	Share in total Aid for Trade		61.3

Source: UN/DESA, based on OECD/DAC data.

for Trade WTO/OECD questionnaires in 2009, where most of them indicate a growing trend towards integrating trade into their national development strategies—increased funding would ensure that country-based formulations of trade-related needs and priorities meet strengthened donor response.

For countries whose trade-related needs and priorities have not been identified, an important step would be for the Government to conduct appropriate national needs assessments. There is recognition that some countries require technical and financial assistance to support this process, leading to the development of a concrete action plan that would include specific projects to overcome identified constraints as well as adjustment measures that would constitute a basis for capturing additional support from development partners.³² Essential to this process is the reflection of these assessments in national development strategies, around which donors programme their financial support.

Developing countries require further assistance to support their “trade mainstreaming” efforts

Strengthening the global partnership in international trade

A global partnership for development on trade that will effectively deliver improved market access for developing countries can make the difference between weak and dynamic contributions of trade to growth and efforts to meet the MDGs by 2015.

³² D. Gay, A. Mbonde and M. Riva, *Aid for Trade and Human Development: A Guide to Conducting Aid for Trade Needs Assessment Exercises* (United Nations publications, Sales No. E.09.III.B.28).

Actions required at the national and international levels to ensure and further improve market access for developing countries include the following:

- Intensify efforts to conclude, within a realistic time frame, a development-oriented Doha Round of trade negotiations in order to effectively establish a more open, equitable, rule-based, predictable and non-discriminatory multi-lateral trading system
- Ensure that developing countries, especially the most vulnerable among them, are given the support needed to strengthen their production and trading capacities in a flexible manner as part of broader development strategies. Developing such country capacity is a function of both domestic policy choices and international support and requires that:
 - Developing countries continue to prioritize trade and its links to development and poverty reduction in national development strategies
 - Donors accelerate delivery on existing aid commitments, including through renewed technical, financial and political support to the Aid for Trade initiative, as well as through increased support to the Enhanced Integrated Framework, which is the entry point for LDCs in accessing Aid for Trade
- Ensure that protectionist measures taken as a response to crises are dismantled and that further measures, including new forms of non-tariff barriers, are resisted
- Accelerate delivery on the commitment made by developed countries in 2005 to eliminate, by 2013, all agricultural export subsidies and other support measures with equivalent effect, in order to increase the ability of developing countries to produce and export agricultural products competitively
- Accelerate progress towards the full implementation of DFQF market access for all products exported by LDCs, which remains critical for accelerating employment creation in LDC export sectors, and combine this with the creation of more simplified rules of origin

Debt sustainability

When the United Nations Millennium Declaration was adopted in 2000, many developing-country Governments, especially those of low-income countries and a number of middle-income countries, were suffering under unsustainable external debt burdens. The international community had already established the Heavily Indebted Poor Countries (HIPC) Initiative in 1996 to address the debt problems of a group of low-income countries in a comprehensive manner. The Initiative was enhanced in 1998, but by 2000 was still not providing sufficient relief. In addition, in lieu of the 1990s bailouts in Asia and elsewhere, the international community had begun to develop a new international policy to push for cooperative “private sector involvement” in workouts from sovereign debt crises of middle-income countries, whereby private creditors might take losses in debt restructurings. However, it was recognized at the time of the Millennium Declaration that the HIPC and other initiatives were incomplete. Ten years later, they remain incomplete.

Yet, the debt situation seemed to improve as the decade evolved, at least until strains were revealed by the global financial and economic crisis. First, the HIPC Initiative was complemented in 2005 by the Multilateral Debt Relief Initiative (MDRI), which provided 100 per cent relief on eligible debt owed by selected low-income countries to participating multilateral financial institutions. Second, the debt difficulties of individual middle-income countries, mainly involving obligations to private creditors, were being resolved through debtor-organized market swaps of new bonds for old debts. Regardless of whether relief was adequate to return the countries to sustainable situations, the countries did regain access to financial markets. Subsequently, external government debt burdens of many developing and transition economies eased in mid-decade, helped by favourable trends in world trade and commodity prices and low interest rates. After 2008, however, the debt burdens of many countries worsened again. As some countries entered the crisis in less robust conditions than others, the risk of debt distress in those weaker countries grew.

While it is to be hoped that debtor countries will be able to weather the strains, it is best to be more adequately prepared and thus to return to the question of developing a broad international framework to handle debt crises in a comprehensive and equitable manner as and when they arise, thereby delivering fully on the MDG 8 commitment to enable the international system to “deal comprehensively with the debt problem of developing countries”.

Policies undertaken and policies promised

The international community pursued three tracks of debt-related reform in the wake of the Millennium Declaration. The first was to focus on the commitment to help Governments of eligible low-income countries covered by the HIPC Initiative reach sustainable external debt situations. This required successive rounds

After experiencing improvements over the last decade, the debt situation of many countries deteriorated during the crisis

The international community has progressively made efforts to make debt more sustainable

of ever-deeper relief, as the official creditors of these countries repeatedly discovered that their promised degrees of relief were insufficient. In the end, the major traditional government creditors, members of the Paris Club, and the multilateral institutions covered by the MDRI virtually eliminated the bulk of outstanding HIPC debt.

The second track was to step up international assistance to help debtor countries manage their sovereign debt more effectively and provide guidance to official creditors of low-income countries on when it would be excessively risky to lend, rather than offer assistance in the form of grants. To this end, the International Monetary Fund (IMF) and the World Bank developed a specific debt-sustainability framework for low-income countries. IMF defined a separate framework for countries that access a significant volume of funds from international financial markets. These frameworks have not only focused policy attention in developing and transition economies on their evolving external and total public debt situations, but they have also prompted a considerable increase in public information on sovereign indebtedness, as publication of the debt assessments has become standard practice. Nevertheless, the frameworks are best understood as broad indicators to inform policy discussion, as they necessarily involve an amount of subjectivity. Indeed, the methodology is periodically reviewed and revised, most recently at the urging of the Group of Twenty (G-20) in April 2009 as regards the low-income country framework.¹

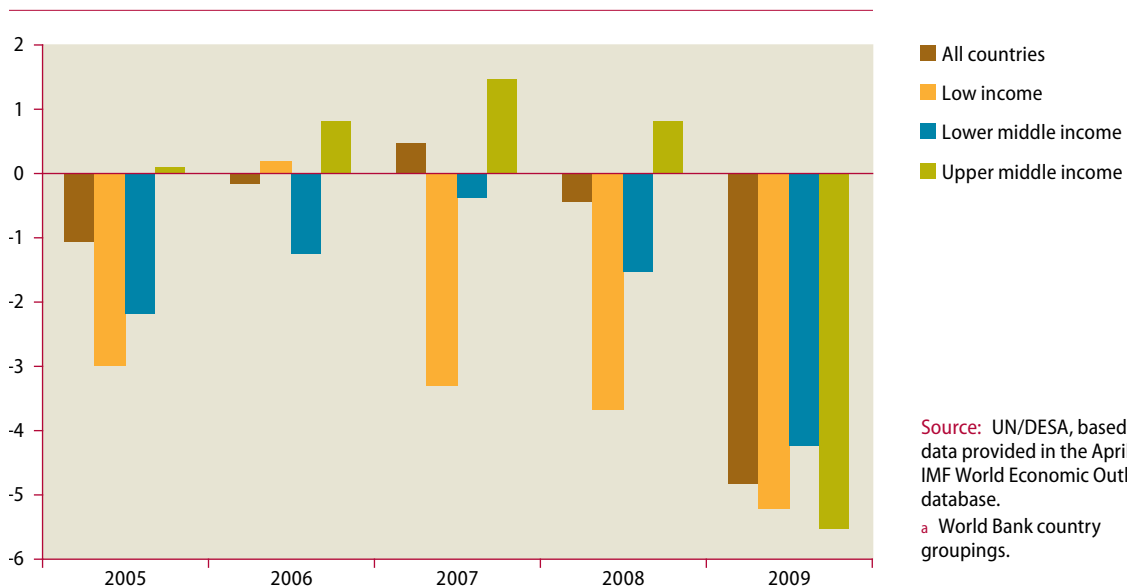
The third track considered the creation of a comprehensive sovereign debt workout mechanism that would seek sufficient restructuring of a crisis country's debt obligations to eliminate the Government's insolvency and give it a "fresh start". Such a mechanism would also aim to apportion the burden of relief fairly among a Government's creditors, including various categories of private creditors. The HIPC Initiative was a nascent form of such an approach, but it was meant as a one-time exercise and not as a precedent for treating sovereign debt in general. The Monterrey Consensus adopted at the International Conference on Financing for Development in 2002 promised to tackle this problem, as has each major United Nations meeting on economic and financial issues since then, including the June 2009 Conference on the World Financial and Economic Crisis and its Impact on Development.² A partial step in this direction was taken by the Paris Club when it adopted its "Evian Approach" in 2003,³ whereby it offered to take the lead in deciding on the need for comprehensive debt relief of non-HIPCs in crisis and, if deemed necessary, formulate in cooperation with IMF a comprehen-

1 See World Bank International Development Association and International Monetary Fund, "Staff guidance note on the application of the joint Bank-Fund debt sustainability framework for low-income countries", 22 January 2010, available from <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTDEBTDEPT/0,,contentMDK:22482307-menuPK:4876135-pagePK:64166689-piPK:64166646-theSitePK:469043-isCURL:Y,00.html>.

2 See, respectively, *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (A/CONF.198/11, chapter 1, resolution 1, annex), para.60, and General Assembly resolution 63/303 on the Outcome of the Conference on the World Financial and Economic Crisis and its Impact on Development (annex), para. 34.

3 On the approach in general, see Paris Club, "Evian Approach", available from <http://www.clubdeparis.org/sections/types-traitement/reechelonnement/approche-d-evian/switchLanguage/en>.

Figure 12
Fiscal balances of developing and transition economies,^a 2005-2009
 (percentage of gross domestic product)



sive debt workout package designed to apply on a comparable basis to all bilateral official and private creditors.⁴ A more systematic reform proposal, the sovereign debt restructuring mechanism, was proposed at IMF but rejected in 2003, largely owing to opposition from stakeholders in financial markets.⁵ No further proposals have since been discussed in any official international forum.

The global crisis and developing-country debt

The global financial and economic crisis affected developing and transition economies across the board in ways that impacted their public debt situations. Many Governments pursued counter-cyclical expenditure increases or did not curtail expenditures in proportion to the cyclically related fall in tax revenues. In either case, the result was expanded government deficits, as may be seen from figure 12.

A key indicator of external debt of developing countries regularly monitored under Goal 8 quickly reflected this development: the ratio of external debt servicing—which comprises total foreign interest and principal payments due during a given year—to exports of goods and services rose. In addition to expanding the debt on which debt servicing is paid, the global crisis weakened the denominator of the ratio, owing to the impact of the global recession on foreign-exchange earnings in many countries.⁶ As may be seen from figure 13, every

Fiscal positions have deteriorated

There has been a reversal in the declining debt-servicing ratios seen prior to the crisis

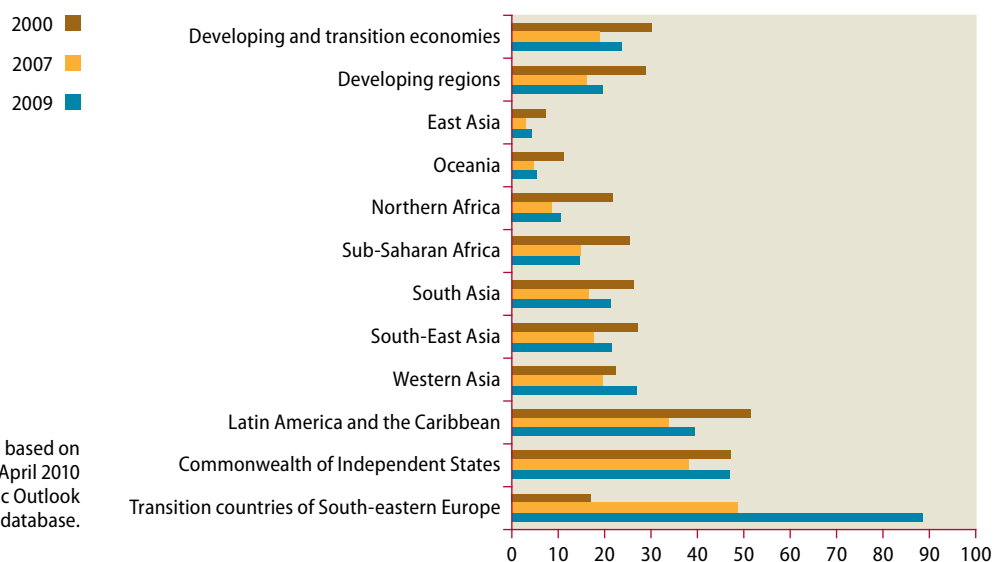
⁴ One recent such arrangement was agreed for Seychelles in April 2009 and accepted on comparable terms by Malaysia and South Africa, its two main non-Paris Club bilateral creditors; at the end of 2009, Seychelles also restructured its commercial debt.

⁵ See Sean Hagan, “Designing a legal framework to restructure sovereign debt”, *Georgetown Journal of International Law*, vol. 36 (2005), pp. 299-402.

⁶ On average, the rise in the debt service-to-export ratio of developing countries resulted from a drop of 21 per cent in export earnings, while debt-servicing obligations increased by less than 4 per cent in 2009.

Figure 13

External debt-servicing ratios of developing and transition economies, 2000, 2007 and 2009 (percentage of exports of goods and services)



Source: UN/DESA, based on data provided in the April 2010 IMF World Economic Outlook database.

region of the developing world was affected, albeit to different degrees, owing to policy choices, borrowing opportunities or the degree of fiscal space within which a Government was operating.

As may also be seen from figure 13, the debt-servicing ratios were generally lower in 2007 and 2009 than they had been in 2000, except for the transition economies. The World Bank estimated that the transition economies of Europe and Central Asia were the most severely hit regions and are regarded as the most vulnerable.⁷ The rapid expansion in finance (both domestic and external) in a number of emerging European countries prior to the crisis exceeded their absorptive capacity, spilling over into inflation and rising current-account deficits, and eventually making these economies vulnerable to domestic and foreign shocks. Other countries that had managed their debt more cautiously were in a healthier condition when they entered the crisis, but they, too, had to adjust to a strong negative shock.

For those Governments that borrow on international capital markets, the first impact of the global crisis was felt in the cost of international borrowing. In October 2008, average interest-rate spreads on developing-country sovereign bonds reached a seven-year high of 874 basis points.⁸ Interest-rate spreads widened to more than 1,000 basis points in five countries (Argentina, Ecuador, Kazakhstan, Pakistan and Ukraine). Meanwhile, virtually all the currencies in the

⁷ World Bank, *Global Economic Prospects-Summer 2010: Fiscal Headwinds and Recovery* (Washington D.C., World Bank).

⁸ The convention in pricing international bonds is to compare the interest rate or yield to a base rate given by what is deemed to be a riskless alternative (in the sense of its having little chance of default), usually a United States Treasury bond of comparable maturity. The “spread” above the riskless rate is measured in “basis points”, which are one hundredth of a percentage point.

world depreciated against the United States dollar, with some developing-country currencies losing more than 50 per cent of their value. This considerably increased the burden of external debt service at precisely the same time as Governments saw their revenue streams decline sharply. Across the board, developing countries experienced credit downgrades from major international ratings agencies. This, in turn, further increased the cost of borrowing and weakened many Governments' fiscal positions. A few middle-income countries managed to limit the negative impact of these developments as the Government (as well as corporations) was able to rely more heavily on domestic currency bond markets. Many countries of the developing world, however, were not in a position to draw on deep domestic financial markets.

As the global crisis embodied a sudden and sharp decline in international private financial flows, many countries suddenly faced balance-of-payments financing problems and approached IMF for support. The Fund was able to respond with additional resources and new flexibility in its lending arrangements pursuant to the initiative of the G-20, as noted in the chapter on official development assistance (ODA). In 2007, before the outbreak of the crisis, IMF gross lending commitments stood at just \$1 billion, but they had risen to \$49 billion in 2008 and to \$120 billion in 2009.⁹ By the end of April 2010, 57 countries had an IMF arrangement, including 30 low-income countries.

Other multilateral financial institutions also sharply increased their lending levels. The World Bank increased its gross commitments from \$36.5 billion in 2007 to \$65 billion in 2009 to help countries cope with the crisis, a record high for the global development institution. The main regional development banks together increased their lending from \$30 billion to \$50 billion over the same period.¹⁰

The impact of the new domestic and external borrowing in response to the financial crisis is reflected in the higher ratio of public debt to gross domestic product (GDP). After falling for several years, the ratios rose in 2009, as seen in figure 14, which shows countries grouped by per capita income level. By the same token, total external debt (including obligations of the private sector as well as those of Governments) rose in 2009 for each of the country groupings. Nonetheless, and with few exceptions, these ratios are still below what they were in 2000.

Since mid-2009, however, the crisis has been abating and global economic recovery—albeit modest and fragile—has begun.¹¹ Interest-rate spreads have shrunk considerably since the outbreak of the crisis, and credit rating agencies have upgraded many sovereigns. There has been revived access to international capital markets for both sovereign and corporate borrowers from some middle-income countries, while a few countries (notably Chile and Brazil) have started to attract large capital inflows again; but bank lending remains weak.¹² Nevertheless, considerable volatility remains in international financial markets and substantial uncertainty surrounds the global outlook.

International financial institutions substantially increased their lending ...

... leading to higher public debt ratios

Global economic recovery has begun, but the outlook remains uncertain

⁹ Information provided by IMF staff.

¹⁰ World Bank and IMF, *Global Monitoring Report 2010: The MDGs after the Crisis* (Washington, D.C., World Bank, 2010), table 5.3.

¹¹ See *World Economic Situation and Prospects as of mid-2010* (E/2010/73).

¹² See World Bank, *Global Economic Prospects-Summer 2010*, op. cit., and *World Economic Situation and Prospects as of mid-2010*, ibid.

Figure 14A

Public debt ratios of groups of developing and transition economies,^a 2005-2009 (percentage of GDP)

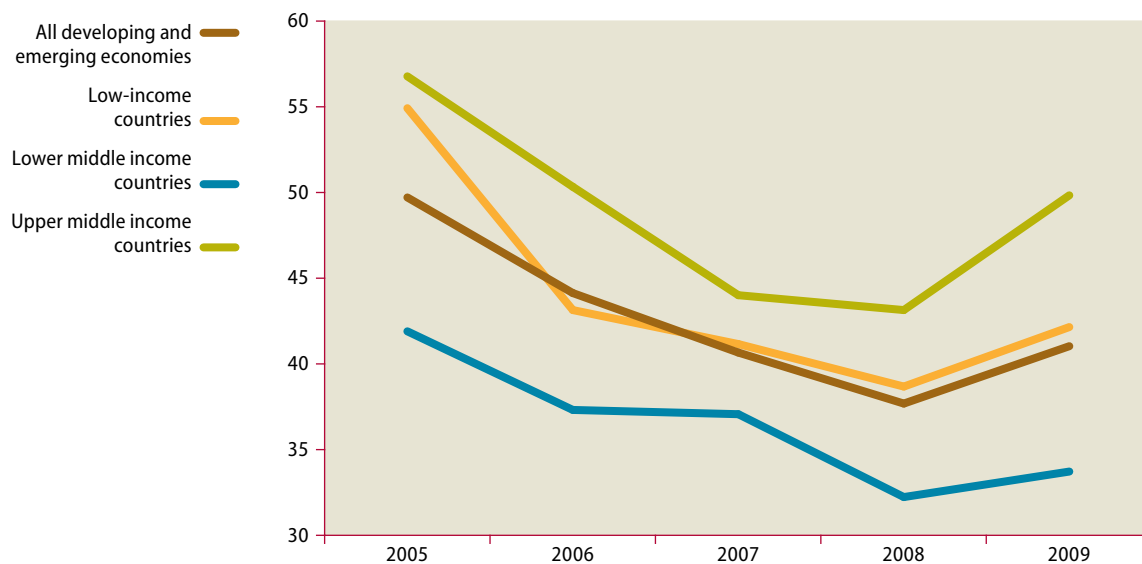
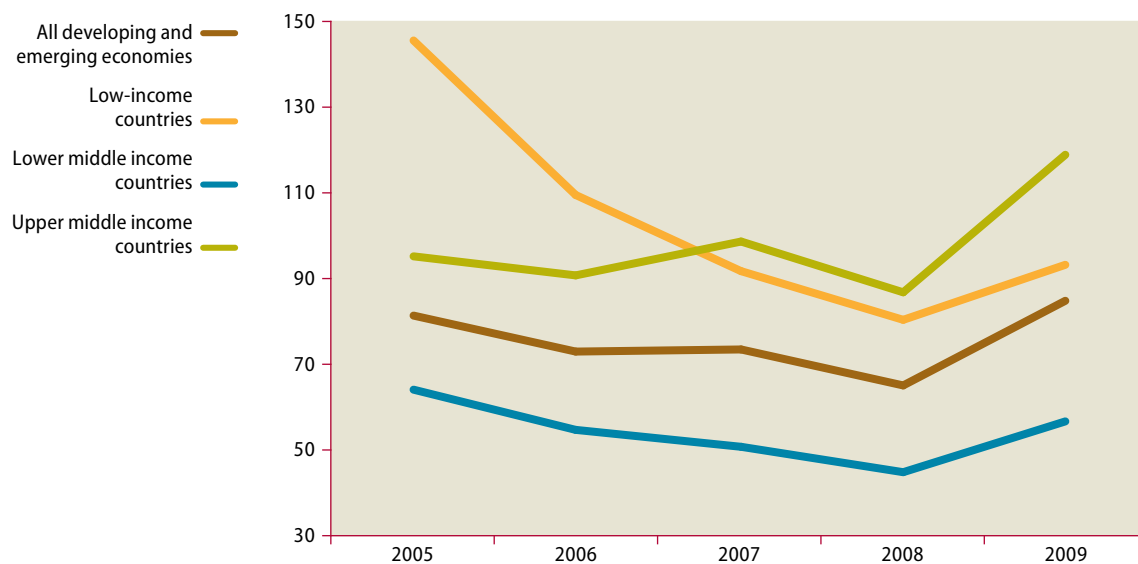


Figure 14B

External debt ratios of groups of developing and transition economies,^a 2005-2009 (percentage of exports)



Source: UN/DESA, based on data provided in the April 2010 IMF World Economic Outlook database.

Note: Public debt includes domestic and foreign government debt; external debt includes foreign debt of government and private borrowers.

^a World Bank country groupings.

Progress in providing debt relief under the HIPC Initiative and MDRI

By the end of March 2010, of the 40 countries that were eligible or potentially eligible for debt relief under the HIPC Initiative, 28 had reached their “completion point” and were accorded the full relief programmed for them. They then also qualified for additional relief from remaining multilateral obligations owed to participating institutions under the MDRI. Seven countries were between “decision” and “completion” points, wherein they receive interim relief, making a total of 35 countries receiving at least some relief under the Initiative. In the year since June 2009, four countries—Afghanistan, the Central African Republic, Congo and Haiti—had fulfilled their conditions for the irrevocable debt relief granted at the completion point of the HIPC process.

Owing to the HIPC Initiative and MDRI, as well as traditional debt relief and other additional assistance, the debt burden of those 35 countries is expected to be reduced by over 80 per cent compared to pre-decision-point levels. The aggregate ratio of their debt-service payments to GDP has already declined from 3.2 per cent in 2001 to 1.0 per cent in 2009; perhaps indicative of the constraint caused by unresolved debt difficulties prior to debt relief, poverty-reducing expenditures in these countries increased on average from 6.3 per cent of GDP in 2001 to 8.9 per cent in 2009.¹³

Nevertheless, not all creditors have been delivering on the programmed relief. The largest creditors—the World Bank, the African Development Bank, IMF, the Inter-American Development Bank and Paris Club members—have provided debt relief in line with their commitments under the HIPC Initiative. As of 2009, however, other creditors have delivered or agreed to provide only a partial share. Smaller multilateral institutions, accounting for 14 per cent of the total cost of HIPC debt reduction, have committed to delivering relief to HIPCs at their completion points. According to a survey conducted in 2009, 7 of the 20 multilateral creditors that responded indicated that they had delivered half or more of their relief during the interim period. Non-Paris Club bilateral official creditors, representing about 13 per cent of the total cost, have provided about 35–40 per cent of their programmed relief, although the overall total masks quite diverse results as close to half of those creditors have not delivered any relief at all. Commercial creditors, accounting for 6 per cent of the total cost, have provided an estimated 33 per cent of expected relief.¹⁴

To complicate matters further, a number of commercial creditors have initiated litigation against some of the HIPCs, aiming to collect fully on the original obligations. Over the past two years, at least 12 HIPCs have been targeted in at least 54 commercial creditor lawsuits. The amounts claimed by creditors have totalled just over \$2.6 billion. Most cases have been settled out of court, including through creditor participation in highly discounted debt buyback operations

Four countries have reached their completion points since June 2009

Smaller creditors have not delivered on their promised share of debt relief ...

... and commercial creditors have initiated lawsuits

¹³ World Bank, “Debt relief”, April 2010, available from <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20040942~menuPK:34480~pagePK:34370~theSitePK:4607,00.html> (accessed on 11 May 2010).

¹⁴ World Bank IDA and IMF, “Heavily indebted poor countries (HIPC) initiative and multilateral debt relief initiative (MDRI)—status of implementation”, 15 September 2009, available from <http://www.imf.org/external/np/pp/eng/2009/091509.pdf>, pp. 17–19.

through the World Bank's Debt Reduction Facility (14 cases remained as of September 2009, although new cases could still be filed). In some cases, judgements in favour of the creditors have been awarded for the full amounts claimed. Meanwhile, multilateral organizations and several creditor Governments have introduced legislation at the national level or other initiatives to curb such activities.¹⁵

When official creditors give HIPC debt relief, in essence they remove a debt claim from their books in exchange for another asset. Reduction of bilateral and multilateral debt under the HIPC Initiative thus represents a budgetary cost. Such cost is estimated to total almost \$76 billion, measured in end-2009 net present value (NPV) terms,¹⁶ of which \$58.5 billion has already been committed to cover the relief of the 35 countries that have passed the decision point. Multilateral institutions and Paris Club creditors account for the largest share (45 per cent and 36 per cent, respectively) of the total cost of the HIPC Initiative. Similarly, an additional \$27 billion in present value terms has been provided under the MDRI, of which about 85 per cent has already been delivered to the post-completion point HIPCs as well as to two non-HIPCs (Cambodia and Tajikistan) to which IMF extended its component of the MDRI.¹⁷ IMF estimates that adequate resources are at hand to cover remaining multilateral HIPC and MDRI relief commitments to the 35 countries, but substantial additional resources will be required when Somalia and the Sudan are ready to embark on the HIPC Initiative.¹⁸ The total cost of the MDRI is expected to increase to \$31 billion in end-2009 present value terms if all 40 countries reach the completion point under the HIPC Initiative.

Only five countries, including Somalia and the Sudan, have been approved to enter the HIPC process under current policy (the others are the Comoros, Eritrea and Kyrgyzstan). After several extensions, the "sunset clause" on the HIPC Initiative was fixed for the end of December 2006. Countries that are currently not listed as eligible, or potentially eligible, may not be added under current policy.¹⁹ This means that no low-income country with debts that subsequently become unsustainable, owing to the recent global economic crisis, for example, will be able to draw upon HIPC/MDRI debt relief. Extending the sunset clause could serve as a short-term option for dealing with the debt distress of low-income countries that did not receive relief under HIPC/MDRI.

Extending the HIPC Initiative to include countries vulnerable to debt distress could constitute a short-term option

¹⁵ For example, in 2008, the European Union (EU) secured a commitment from all 27 EU Member States not to sell official debt claims on the secondary market, and Paris Club creditors have agreed to a similar measure. The African Development Bank recently launched the African Legal Support Facility to provide technical legal advice. The Commonwealth Secretariat operates a Legal Debt Clinic for HIPCs which offers a resident legal advisor to countries facing commercial creditor litigation.

¹⁶ As much of the HIPC debt had been extended on concessional terms, the value of the claim to the creditor, namely, today's value of the cash flow of the loan over time, is less than the face value of the debt. The "net present value" of a concessional loan is an estimate of the value of a market-rate debt that would produce a cash flow equivalent to the actual concessional loan.

¹⁷ World Bank IDA and IMF, "Heavily indebted poor countries", op. cit., pp. 11-14.

¹⁸ IMF, "Update on the financing of the Fund's concessional assistance and debt relief to low-income member countries", 20 April 2010, pp. 16-17.

¹⁹ Myanmar is a possible exception in that suitable data were unavailable when the "ring fencing" exercise was undertaken. It could therefore be included in the list of potentially eligible countries upon availability of such data (IMF, "Preserving debt sustainability in low-income countries in the wake of the global crisis", 1 April 2010, p. 19).

Countries at risk of sovereign debt distress

While the debt situation of developing and transition economies in general warrants ongoing monitoring, two groups of countries in particular seem to be facing potentially difficult public debt scenarios at this time: low-income countries and small, vulnerable middle-income economies, which have not been eligible to receive concessional resources from the major multilateral financial institutions. When a Government has a large share of its debt in foreign currency, a seemingly sustainable debt-servicing burden can quickly turn into an unsustainable one if the exchange rate depreciates dramatically, as can happen when export earnings plummet or holders of wealth move their assets offshore. In such a scenario, policymakers also have to be concerned about the exposure of their banking systems to exchange-rate volatility, as Governments have had to take responsibility for their banks during crises so as not to lose their essential financial services.

In this context, results from recent country analyses, mainly under the joint IMF/World Bank debt sustainability framework developed for low-income countries, are informative. The framework posits levels of the main debt ratios that are said to signal low, medium and high risks of debt distress depending in part on the World Bank's judgement of the quality of the country's economic policies and institutions. For example, in the case of the countries deemed as having "medium policy" quality, the benchmark level of the ratio of external public debt (measured in present value terms) to exports is 150 per cent, while the ratios relative to GDP and government revenue are 40 per cent and 250 per cent, respectively. In addition, debt-servicing obligations should be less than 20 per cent of exports and under 30 per cent of government revenue. Countries deemed to have weaker policies and institutions are assigned lower benchmark levels and, correspondingly, stronger countries are assumed to be able to manage higher debt burdens. However, the ratios are not applied to data of a particular year, nor are they applied in a mechanical way. Rather, a view is taken of the expected time path of the ratios in projection exercises for a "baseline" scenario, along with alternative scenarios and "stress tests" which ask what happens if certain economic shocks, such as a major devaluation, were to occur. The analytical question then posed is whether the ratios breach the thresholds, and, if so, under what conditions and whether the breach is temporary or long-lasting.²⁰

IMF and World Bank staff have reviewed the debt sustainability analyses undertaken since May 2009 (thus incorporating global economic forecasts as adjusted after the crisis) for 39 low-income or small, vulnerable economies (benchmarks are not applied to middle-income countries but a judgement is made of the debt dynamics). They recently classified 11 of the countries as being "in debt distress" and 16 of them as being "at high risk of debt distress" (see table 8). Debt distress is defined as having debt and debt-service ratios that are judged significantly beyond the thresholds, as being in or close to having debt restructuring negotiations or as being in the process of accumulating arrears. High risk is defined as having a protracted breach of thresholds, but not yet facing difficulties in making debt payments as they fall due.²¹ Not surprisingly,

Low-income and small, vulnerable countries are facing potential debt difficulties ...

... with many of them classified as being in debt distress or at high risk

²⁰ For a detailed exposition on how Fund and Bank staff should apply the framework, see World Bank IDA and IMF, "Staff guidance note", op. cit.

²¹ IMF, "Preserving debt sustainability", op. cit., p. 6.

Table 8
**Low-income and small, vulnerable economies at high risk of
 or in debt distress, 2010**

In debt distress	At high risk of debt distress ^a
HIPCs	HIPCs
Pre-decision point	Post-decision point
Comoros Eritrea Somalia Sudan	Côte d'Ivoire
Post-decision point	Post-completion point
Democratic Republic of Congo Guinea Guinea-Bissau Liberia Togo	Afghanistan Burkina Faso Burundi Gambia Haiti Sao Tome and Principe
Non-HIPCs	Non-HIPCs
Myanmar Zimbabwe	Djibouti Grenada Lao People's Democratic Republic Maldives Saint Lucia Saint Vincent and the Grenadines Tajikistan Tonga Yemen

Source: IMF, "Preserving debt sustainability in low-income countries in the wake of the global crisis," 1 April 2010, p. 17.

^a Maldives, Saint Lucia and Saint Vincent and the Grenadines are also included in the list on account of high total public debt vulnerabilities, defined to be a present value of public debt to GDP in excess of 65 per cent. Dominica, whose ratio of the present value of public debt to GDP experiences only a small and temporary breach of this threshold even under the baseline scenario is, however, not included in the list.

pre-decision-point HIPCs are classified as in debt distress or at high risk since that is a qualification for entering the HIPC Initiative. However, it is noteworthy that six post-completion point HIPCs are also classified as high risk. It is of note also that several small, vulnerable economies are assessed as being at high risk. Indeed, two countries not on this list, namely Jamaica and Seychelles, would have been if not for the debt restructuring packages recently agreed with their official and private creditors.

The IMF and World Bank staff suggests that the debt situation of the 27 countries identified in table 8 could be handled without taking extraordinary measures, such as debt restructuring, albeit under certain assumptions. First, the countries concerned would need to receive an increased share of their external funding in the form of grants instead of loans, or at least have a larger grant element in their loans. Indeed, provision of international assistance in the form of grants to low-income and high-risk countries during general periods of stress is warranted, as is offering moratoria on debt-servicing obligations (an example being the Fund's waiving of interest payments on its concessional loans until the end of 2011). Second, stricter fiscal adjustment would be needed, while protecting "priority spending".²² Nonetheless, the need for debt relief for at least some of these countries should not be ruled out.

In addition, the 27 countries identified by the IMF/World Bank analysis might not be the only countries that potentially need debt restructuring. As indicated above, the debt sustainability analysis as a result of which these countries

²² Ibid., pp. 22-25.

were identified was based on the global economic outlook of IMF. The Fund, like the United Nations and the World Bank, and most private forecasters, has assigned a good measure of uncertainty to its recent forecasts. Indeed, it is possible that the world will experience a “double dip” recession and another round of financial turmoil. In other words, there may be even more than 27 low- or middle-income countries that are or could become vulnerable to debt difficulty in the short to medium term.

The way forward: bridging the gaps in the international debt architecture

The conclusion that a number of countries may need sovereign debt restructuring in the coming years underlines the point made above that the world lacks a comprehensive mechanism within which to treat sovereign debt crises adequately. Several post-completion point HIPCs are on the list of vulnerable countries, but they have exited from the HIPC process. These countries may apply to the Paris Club for treatment under the Evian Approach outlined above. However, Paris Club members themselves, which have already written off or reduced their claims against these countries, are unlikely to be major creditors at this point. It is not clear whether non-Paris Club creditors (bilateral or private) would be willing to accept the terms for relief on the grounds of “comparability” set by minor creditors of a country in crisis.

The lack of an international forum in which post-HIPCs can seek a comprehensive debt-crisis workout, should they need it, is not unique. No general international sovereign insolvency mechanism exists. Sovereign bankruptcies are settled, but not necessarily in an efficient or fair manner. Indeed, sovereign insolvency is treated differently than non-sovereign insolvency: whether under HIPC, the Paris Club, or the usual ad hoc arrangements, the creditors of the insolvent Government determine the debt workout. The exception is when the biggest debtors default and owe so much that they acquire countervailing power, such as that exercised by Argentina after its default in 2001. However, neither creditor nor debtor power is the appropriate model; rather, there should be oversight of negotiations between the parties by an independent authority (judge or arbitrator) who does not have a stake in the outcome. That is the usual model within countries for workouts from corporate or personal bankruptcy, and it is a compelling one. There is also no shortage of ways in which such a model could be made operational.²³

Such an authority could also be instructed by the international community to take account of principles that would be agreed internationally for effective and fair debt workouts, including guidance in how to treat the impact of debt obligations on the ability of the Government to reach the MDGs and other development goals. Broad statements of the main principles have already been agreed, including that the workout embodies “fair burden-sharing between public and private sectors and between debtors, creditors and investors” and that it “engage debtors and creditors to come together to restructure unsustainable debts in a

No comprehensive sovereign debt workout mechanism exists

²³ See, for example, Barry Herman, José Antonio Ocampo and Shari Spiegel, eds., *Overcoming Developing Country Debt Crises* (New York and Oxford, Oxford University Press, 2010).

timely and efficient manner”;²⁴ and also, as implied by the target of Goal 8, that it not impede a country’s progress towards achieving the MDGs and sustainable and equitable development.

Debt sustainability frameworks need to be more flexible

More generally, the international community has a legitimate interest in sovereign debt management by individual countries owing to the possibility that a Government’s debt difficulties might disrupt international financial stability. It thus mandates IMF to engage in dialogue with national authorities on their debt sustainability, a function carried out in cooperation with the World Bank with respect to low-income developing countries. The flexibility recently added to the framework for assessing sustainability in low-income countries is a step in the right direction. The methodology might evolve further with additional scenarios (in particular for countries accessing capital markets) that take more explicit account of interactions among countries, possibilities of contagion, and consequences of deepening regional integration. Ultimately, while the scenarios analysed for low- and middle-income countries might continue to differ, along with their primary sources of funding, there seems no analytical reason for a separate approach employing mechanistic benchmarks exclusively for low-income countries.

The international community provides assistance to countries to manage their debt better

The main objective, after all, should be to assist Governments in managing their debt effectively in the context of their macroeconomic management, medium-term fiscal frameworks and development strategies. In this regard, the results of analyses of debt dynamics could help inform assessments of the impact of prospective public debt-servicing obligations on a country’s ability to attain the MDGs.²⁵ In fact, the international community already provides significant debt management assistance to countries through, for example, the Debt Management and Financial Analysis System (DMFAS) of the United Nations Conference on Trade and Development, the Commonwealth Secretariat’s Debt Recording and Management System, and the Debt Management Facility of the World Bank. These systems aim to help countries both to collect complete, timely and accurate debt statistics and to manage public debt exposure to reduce the risk of debt-servicing difficulties.

These considerations point to a number of actions that are warranted at national and international levels:

- The impact of debt obligations on progress towards the achievement of the MDGs should be taken into account in the debt sustainability frameworks, as proposed in the Monterrey Consensus. It is thus recommended that a technical working group of relevant stakeholders, including the Bretton Woods institutions, be convoked—taking advantage of international discussion modalities developed in the financing for development process—to consider how the interrelationships of public debt, medium-term fiscal frameworks and the MDGs might better be taken into account in debt sustainability analyses

²⁴ *Report of the International Conference on Financing for Development ...*, op cit., paras. 51 and 60.

²⁵ “Future reviews of debt sustainability should also bear in mind the impact of debt relief on progress towards the achievement of the development goals contained in the Millennium Declaration” (*Report of the International Conference on Financing for Development*, op. cit., para. 49).

- Bilateral donors and multilateral institutions should increasingly provide their ODA resources in grant form to low-income countries that have significant government debt burdens
- Countries seriously affected by the financial crisis, external shocks, conflict and natural disasters should be offered the option of moratoria on debt-service obligations based on agreed, standardized criteria
- All of the country arrangements under the HIPC Initiative must be fully and urgently concluded. This requires not only that all HIPCs make adequate progress on “completion point” requirements, at which time full relief is accorded, but also that all government and institutional creditors deliver their full share of programmed relief promptly
- Efforts of private holders of HIPC debt to collect unethical, if not illegal, claims must be impeded
- Having recognized the need to explore enhanced approaches to sovereign debt restructuring as outlined in the Monterrey Consensus and reiterated in the Doha Declaration on Financing for Development, an expert group of multi-stakeholders should be convened to prepare alternative proposals for consideration by the international community, taking advantage of international discussion modalities developed in the financing for development process
- Pending the creation of a strengthened international mechanism, innovative forms of debt crisis resolution should be considered, including the following:
 - Setting up schemes of independent arbitration or mediation, or providing further support in organizing ad hoc meetings of a debtor with its creditors
 - Extending and re-opening eligibility to participate in the HIPC Initiative; that is to say, extending the HIPC Initiative’s sunset clause following the adaptation of criteria and clauses for potential inclusion of any low-income and lower-middle-income country vulnerable to debt distress

Access to affordable essential medicines

Improving access to affordable essential medicines is critical for the achievement of the Millennium Development Goals, particularly MDGs 4, 5, and 6. Since the MDG Gap Task Force began monitoring the situation in 2007, there have not been any clear improvements on average in access to essential medicines in developing and transition economies. In many countries, availability remains grossly inadequate and prices are high, making medicines unaffordable to large sections of the populations of developing countries. The impact of the global economic crisis on access to essential medicines has been uneven. Although pharmaceutical expenditures have not fallen globally, they have decreased in several countries, in particular, the Baltic States. In addition, national and international programmes for the treatment and mitigation of HIV/AIDS have been directly affected in the form of less funding.

The obstacles to increased access to essential medicines are multifaceted and exist at national, regional and international levels. Challenges include constraints to public financing, intellectual property law and policies, the cost of active pharmaceutical ingredients, limited health-care expertise, the provision of adequate health and pharmaceutical supply and distribution systems, and technological and other health-care delivery constraints.

Availability and prices of essential medicines

Developing countries continue to face low availability and high costs of essential medicines. On average, 42 per cent of facilities surveyed in the public sector had essential medicines available and 64 per cent in the private sector, showing little improvement in 2001-2008.¹ The median prices for drugs in developing countries are on average 2.7 times higher than international reference prices in the public health-care sector and 6.3 times higher in the private sector (see figure 15).

The availability of essential medicines to treat chronic diseases (such as cardiovascular and respiratory diseases and diabetes) is particularly low. Generic medicines used for chronic diseases have been found to have significantly lower availability than those used for infectious or acute diseases in both the public (36 per cent versus 53.5 per cent) and private sectors (55 per cent versus 66 per cent).² In low-income and lower-middle-income countries, the availability rate of medi-

Low availability and high prices persist

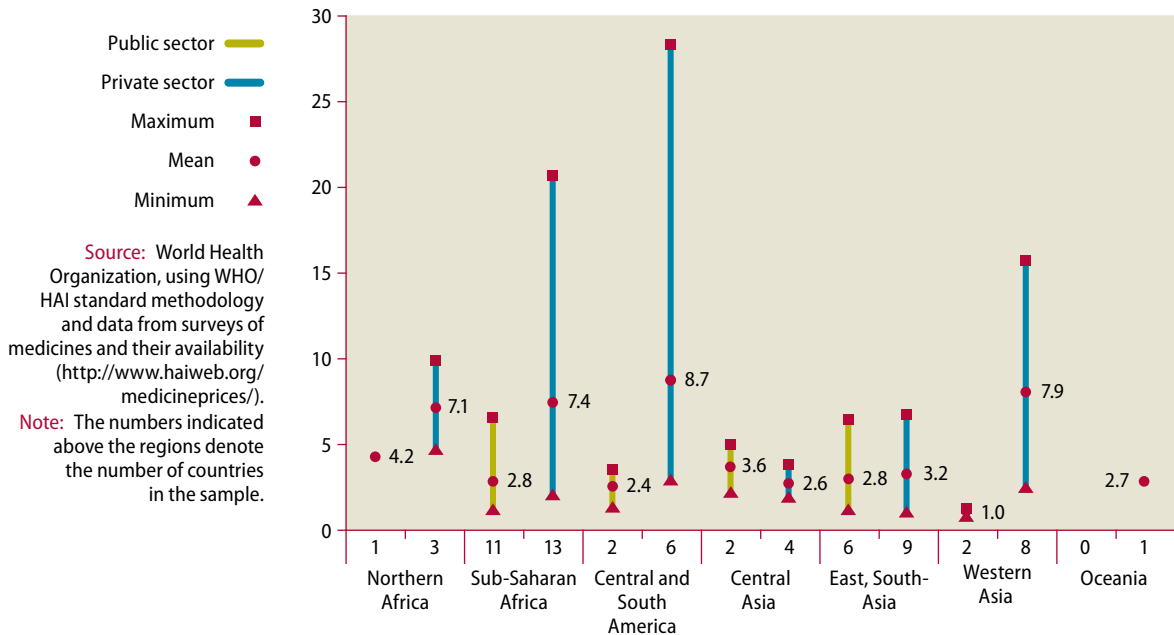
Medicines to treat chronic diseases are less available than those for acute diseases ...

¹ World Health Organization, using WHO/HAI standard methodology and data from surveys of medicines and their availability, available from <http://www.haiweb.org/medicineprices/>.

² Data provided by WHO based on a comparison of the availability of 30 commonly used medicines for acute and chronic conditions in 40 developing countries, using information obtained from standard facility-based surveys.

Figure 15

Ratio of consumer prices to international reference prices for selected generic medicines in public and private health facilities during the period 2001-2008



cinics for treatment of acute illnesses was four times that of medicines for chronic diseases. In Africa, the differential is nine times. These gaps in availability by types of medicine are not commensurate with differences in the prevalence of acute illnesses and chronic diseases. Chronic diseases are the cause of 60 per cent of total mortality globally, 40 per cent of total mortality in low-income countries and 25 per cent of total mortality in Africa.

... and can lead to negative economic consequences

Poor availability of medicines to treat chronic disease has negative economic consequences. Chronic diseases tend to put a heavy burden on households owing to protracted health-care needs and lower income due to lost working days and decreased labour productivity. Higher prevalence of these chronic diseases also means a higher cost for health systems and limits the economic growth potential of the economy at large.³

More progress has been made in the fight against acute diseases in developing countries, but new problems have arisen. For example, antiretroviral therapy as a prevention strategy for HIV, like the highly active antiretroviral therapy (HAART), has had a significant impact on reducing the viral load of patients living with HIV. This is supported by observational studies that find a correlation between low viral loads and a reduced risk of transmitting HIV to sexual partners. The relationship between lower viral load and reduced risk of transmission has also been observed in some studies of HIV-positive women breastfeeding their HIV-negative children.⁴

³ WHO, *Preventing Chronic Diseases: A Vital Investment* (Geneva, WHO and Public Health Agency of Canada, 2005), available from http://www.who.int/chp/chronic_disease_report/full_report.pdf.

⁴ Global Advocacy for HIV Prevention, "Fact sheet: treatment as prevention", January 2010, available from <http://www.avac.org/ht/a/GetDocumentAction/i/5855>.

However, multidrug-resistant tuberculosis (MDR-TB) and extensively drug-resistant tuberculosis (XDR-TB) are posing new threats. According to a 2008 World Health Organization (WHO) report on anti-tuberculosis drug resistance, MDR-TB has been shown to be almost twice as common in tuberculosis patients living with HIV compared with tuberculosis patients without HIV.⁵ The report also found that XDR-TB, a virtually untreatable form of the respiratory disease, has been recorded in 45 countries. The treatment costs of MDR-TB can be as much as one hundred times the cost of first-line tuberculosis treatment, while fatality cases for MDR-TB and XDR-TB amount to over 90 per cent.

Treatment of acute diseases faces new problems

Affordability of essential medicines

The low availability of medicines in the public sector may either deprive patients of treatment or lead them to purchase medicines in the private sector, where they are often more expensive, thus compounding the problem of access. Figure 16 shows the cost of a course of treatment of an adult respiratory infection with the antibiotic ciprofloxacin expressed in terms of the number of days' worth of earnings of the lowest-paid government worker.⁶ A cost of one day's salary for this type of worker would be considered "affordable" in most cases. It must be kept in mind, however, that large sections of the populations in low- and middle-income countries earn considerably less than do government workers. Consequently, the true extent of the affordability constraints is likely to be underestimated using this indicator. Figure 16 shows that even when lowest-priced generic medicines are used, treatment with the above antibacterial costs over one day's wage in nearly all countries studied and over two days' wages in half of the countries. This suggests that the treatment is not affordable in many countries, even with the cheapest generic medicines.

Even generic medicines are unaffordable in many developing countries

However, costs are even higher and affordability decreases further when originator brands are used. Treatment with the brand product would cost the lowest paid government worker over ten days' wages in the majority of the countries studied. In Armenia and Kenya, more than one month's salary would be needed to purchase this treatment. In none of the countries studied was the treatment with brand medicines worth less than two days' wages. This reveals that, in the countries studied, treatment with brand medicines was consistently unaffordable not only for the lowest paid government workers, but also for most people of low income. The case of combating malaria in Uganda shows how the introduction of a more effective drug may reduce affordable access (see box 1).

National expenditures on pharmaceuticals in the private and public sectors

Enormous gaps remain in pharmaceutical expenditures between developed and developing countries. Across a sample of 161 countries, average spending per capita ranged from \$7.70 in low-income countries to \$434.70 in high-income countries in

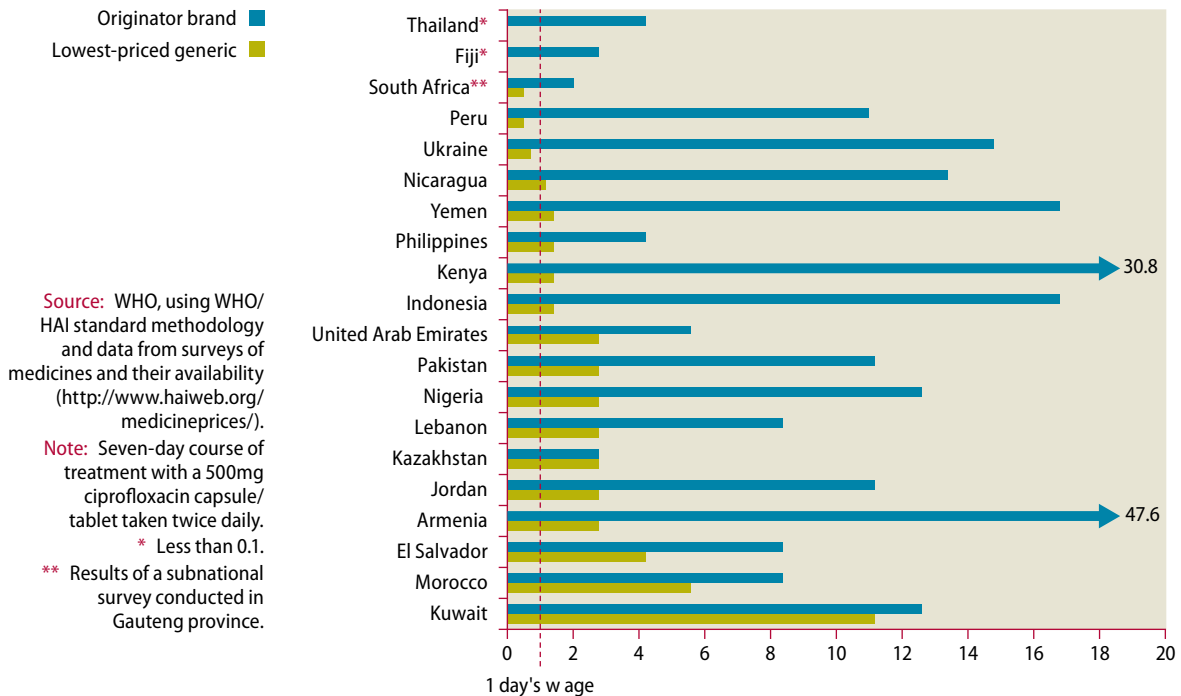
The gap in the level of pharmaceutical expenditures remains large

5 WHO, "Anti-tuberculosis drug resistance in the world: fourth global report" (WHO/HTM/TB/2008.394), available from http://www.who.int/tb/publications/2008/drs_report4_26feb08.pdf.

6 The data are for a seven-day course of ciprofloxacin (500mg capsule/tablet, twice daily). See A. Cameron and others, "Prices, availability and affordability", in *World Medicines Situation Report 2010* (Geneva, WHO, forthcoming).

Figure 16

Number of days' wages needed by the lowest-paid government worker to pay for treatment of adult respiratory infection (various years)



2005-2006, with considerable variation between countries in each income group.⁷ Both public and private spending on medicines per capita increased from 1996 to 2006 in all income groups except the low-income group, for which public spending on medicine per capita first decreased in 2000, then increased in 2006 (see figure 17). The increase in private spending was faster than that of public spending in middle-income countries, whereas the opposite is the case for high-income countries.

Impact of the global economic crisis on the pharmaceutical sector

Overall consumption of medicines did not decline despite the global economic crisis ...

The global financial crisis may have had a considerable impact on government budgets and the available funding for health services.⁸ Past economic recessions, in particular the 1997 Asian financial crisis, have shown that the impact on public health and pharmaceutical expenditures can be severe. However, evidence of the impact of the present crisis is mixed. In global terms, little or no decline in pharmaceutical consumption was observed, except in the Baltic States and other parts of Europe.⁹ Even before and during the crisis, prices increased in almost all

7 See WHO National Health Accounts database, available from <http://www.who.int/nha/en/> and <http://www.who.int/whosis/en/index.html>.

8 I. Buysse, R. Laing and A. K. Mantel-Teeuwisse, "Impact of the economic recession on the pharmaceutical sector", mimeo, February 2010.

9 WHO, "Fourth quarter 2009 update: tracking the effect of the economic crisis on pharmaceutical consumption, expenditures and unit prices", available from <http://www.who.int/medicines/areas/policy/imsreport/en/index.html>.

Box 1.

Introducing more effective antimalarial medicines in Uganda

Malaria is a serious health problem in Africa, particularly in Uganda where up to 50 per cent of the country's morbidity and mortality is attributable to malaria. National and international willingness and ability to tackle malaria is at an unprecedented level. New funding, tools and leadership have emerged, and an effective class of drugs, artemisinin combination therapies (ACTs), have been developed which can replace failing medicines. Since 2004, there has been a strong commitment in many countries to making these products available in the public sector.

However, the cost of ACTs is many times more than older classes of drugs such as chloroquine (CQ) and the previous recommended first-line treatment, sulphadoxine-pyrimethamine (SP). ACTs are purchased for the public sector largely using international funds, such as the Global Fund to Fight AIDS, Tuberculosis and Malaria, and are provided free of charge to patients. However, ACTs are unaffordable for the majority of the population if they are purchased out of pocket from the private sector. Nonetheless, treatment for malaria is often sought through the private sector since it is not always available in the public sector.

In 2007, a market survey was conducted to contribute to the development of effective, affordable, high-quality ACTs in malaria-endemic countries such as Uganda. The results informed the design of international financing mechanisms to subsidize the manufacturers' price of ACTs, which are consequently expected to bring down patient prices significantly.^a The study found that:

- ACT was provided free in public and mission facilities, but was available only in 50 per cent of public health facilities in some districts, many of which ran out of stock before their next delivery
- As few as 4 per cent of private sector outlets in some districts stocked ACTs
- ACTs were up to 60 times more expensive than the older, ineffective medicines
- The poor could not even afford the price of the cheapest antimalarial (CQ) found on the market
- A significant proportion of the population could not afford complete courses of any antimalarial medicines, with only 50 per cent purchasing a full course of even the lower-priced (but ineffective) ones
- Eleven days' average household income was needed to purchase a single course of ACT for a child 5 years of age
- The equivalent of 1.5-2 months' worth of basic food needs for the average household would be needed to purchase its antimalarial medicine needs for one year using the first-line recommended treatment (artemether-lumefantrine tablets 20/120mg)

^a Medicines for Malaria Venture, *Understanding the Antimalarials Market: Uganda 2007—An Overview of the Supply Side* (Geneva, MMV, August 2008).

countries, which may indicate that despite declining incomes, households may have absorbed much of the additional costs.

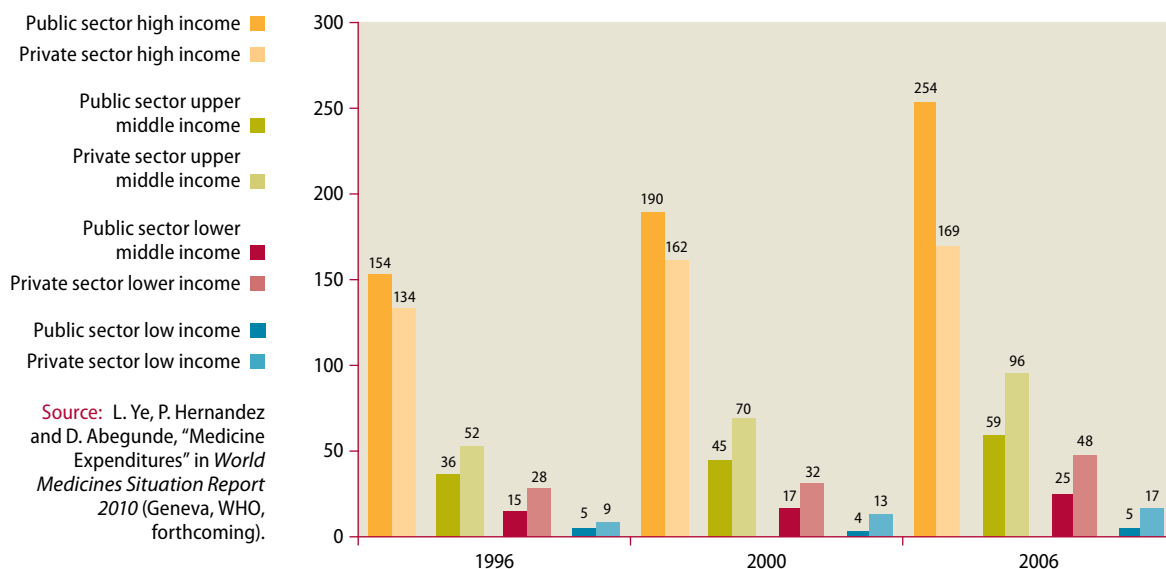
The countries with the greatest decline in pharmaceutical consumption were Estonia, Latvia and Lithuania, where consumption fell at least 17 per cent during the latter half of 2009 compared with the beginning of 2008. Malaysia, Mexico, Romania, the Russian Federation and Ukraine also showed important declines in pharmaceutical consumption.

Price increases were observed in nearly all countries, however. When compared with the first quarter of 2008, high-income countries had a relatively modest price increase of 5 per cent during the last quarter of 2009, while low-income countries had an increase of 11 per cent and upper-middle-income countries 15

... except in the Baltic States and some other countries

Figure 17

Public and private per capita spending on medicines by country groups, classified by income level, 1996, 2000 and 2006 (in purchasing power parity dollars)



per cent. In Europe, Romania had the biggest price increase, 39 per cent, followed by Estonia and Latvia with an increase of 21 per cent and 11 per cent, respectively.

With the exception of European countries, pharmaceutical expenditures increased throughout the study period. In low-income countries, the increase was 31 per cent on average comparing the last quarter of 2009 with the beginning of 2008. Among middle-income countries, China's expenditures increased

Box 2.

Impact of the economic crisis on HIV/AIDS programmes and services

The global economic downturn continues to have a negative impact on HIV programmes in most low- and middle-income countries, although the severity of the impact has varied from one country to another. The capacity to respond to the AIDS epidemic has decreased in developing countries because of falling household incomes and reduced government revenues which have led to cuts in budgets for HIV/AIDS programmes.

Cuts in budgets for HIV treatment programmes have been reflected in reductions in non-salary expenditures in the public health sector; shortages in antiretroviral (ARV) medicines, including those provided through external aid; and worsening nutrition.^a The budget restrictions are making it increasingly difficult to meet the demand for treatment. By the end of 2008, only about 4 million people living with HIV/AIDS in low- and middle-income countries in need of antiretroviral therapy (ART) were receiving it, leaving an additional 58 per cent of those in need without treatment.^b The situation is worse for children living with HIV. Of the 730,000 children in low- and middle-income countries under 15 years of age who were living with HIV and needed ART, only an estimated 275,700, or 38 per cent, were receiving it by end-December 2008.^c However, two countries in sub-Saharan Africa, namely, Kenya and Zambia, saw the total number of patients on ART rise from a few hundred to nearly 250,000 by the end of 2008. South Africa's treatment coverage increased to about 700,000 patients living with HIV at the end of 2008, with an average of 20,000 patients being added during every month of 2009.

There are also increasing cost pressures. Emerging drug resistance has also led to the introduction of more sophisticated and more expensive second- and third-line ARVs which, by the end of 2008, had cost low- and middle-income countries several times the price of first-line therapies. The median price of the four combinations most widely used in first-line treatment (representing 91 per cent of the prescribed first-line treatments in low-income countries) was \$143 per person per year in 2008. Yet, the median cost of the most commonly used second-line regimen (didanosine, abacavir and ritonavir-boosted lopinavir) cost \$1,105 per patient per year in low-income countries and \$2,192 in lower-middle-income countries. The cost of ART, particularly the high price of several medicines under patent, remains a major barrier to access.

Negative effects anticipated from the economic downturn would slow countries' progress towards reaching the treatment targets contained in their national strategic plans. This, in turn, could have negative consequences for HIV prevention. In South Africa, for instance, budget shortfalls of over \$100 million prompted the Minister of Health to announce in September 2009 that the country would be unable to meet its universal access target by 2011 unless additional funding could be found from alternative sources.^d In its efforts to mitigate the negative effect of the downturn, South Africa started an HIV Counselling and Testing (HCT) campaign in April 2010. The campaign aims to test 15 million people by June of 2011 in order to meet the national target of reducing new infections by 50 per cent and to provide treatment to 80 per cent of the persons in need by the end of that year. South Africa's antiretroviral treatment programme, which is the largest in the world, will further expand through a decentralized model, bringing services closer to where patients live. The ultimate goal of the programme is to enable all of the country's 4,000 public health-care facilities to deliver ART. Pilot projects of this programme are already being implemented. As the HCT programme has only just started, it is too early to determine its impact.

In contrast, many other national Governments have downsized ART coverage goals, as did Botswana,^e or have announced cuts in programme budgets, as did the United Republic of Tanzania.^f Furthermore, falling household incomes could reduce access to treatment programmes, as patients in need of ART can no longer afford to pay for their travel to clinics or health centres that provide relevant treatment. There are also increasing reports documenting that people are sharing or rationing their ARVs. In addition, the increased impoverishment of households may result in worsening nutritional conditions and decreased access to water and sanitation, all of which tend to undermine ART adherence and long-term treatment success.

More limited donor financing is affecting treatment programmes in low-income countries heavily dependent on such funding. In Ethiopia and Rwanda, close to 100 per cent of the cost of ART programmes is being paid by external donors. Global funds are falling short of cash. The Global Fund to Fight AIDS, Tuberculosis and Malaria has indicated that it expects a \$4 billion gap in its budget needs for 2010. The United States President's Emergency Plan for AIDS Relief (PEPFAR) is unable to expand any of its programmes for at least the next two years.^g There is some scope for mitigating the budgetary restrictions through efficiency gains by lowering the costs of inputs, reducing waste, avoiding duplication in funding support to programmes and improving the targeting of beneficiaries. ARV costs could be lowered through, for instance, instituting better procurement practices, utilizing the World Trade Organization's Trade-Related Aspects of Intellectual Property Rights (TRIPS) flexibilities whenever possible, shifting some components of treatment services to less expensive health personnel (also known as task-shifting) and reducing the number of patients lost to treatment follow-up. Countries should also explore other mechanisms for reducing medicine prices, including using market information to negotiate lower prices with pharmaceutical companies, reducing import tariffs, increasing economies of scale and bargaining power through joint (or "pooled") procurement, and investing in local production capacity, wherever feasible.

^a See World Bank, "Averting a human crisis during the global downturn: policy options from the World Bank's Human Development Network", available from <http://siteresources.worldbank.org/NEWS/Resources/AvertingTheHumanCrisis.pdf>.

^b WHO, Joint United Nations Programme on HIV/AIDS (UNAIDS) and United Nations Children's Fund, *Towards Universal Access: Scaling Up Priority HIV/AIDS Interventions in the Health Sector: Progress Report September 2009* (Geneva, WHO, 2009), available from <http://www.who.int/hiv/pub/2009progressreport/en/>.

^c *Ibid.*

^d Médecins Sans Frontières, "Punishing success? Early signs of a retreat from commitment to HIV/AIDS care and treatment", available from http://www.msf.org/source/countries/africa/southafrica/2009/aidsreport/punishing_success.pdf.

^e See "Botswana: bleak outlook for future AIDS funding", PLUS News report, 25 February 2009, available from <http://www.aidsmap.com/en/news/0E611AB8-9920-4BB9-AF53-D13F6B8987CD.asp>.

^f See UNAIDS, "The global economic crisis and HIV prevention and treatment programmes: vulnerabilities and impact executive summary: Tanzania", available from http://data.unaids.org/pub/Report/2010/20100204_executivesummary_tanzania_coverpage_final_40210_en.pdf.

^g Médecins Sans Frontières, *op. cit.*

by 37 per cent in the third quarter of 2009 and Malaysia's by 14 per cent. In contrast, expenditures in the Baltic countries decreased. Latvia has had the largest decline (23 per cent in the third quarter of 2009).

The impact of the crisis is more visible in the funding of specific programmes and services, especially those related to HIV/AIDS (see box 2). At the global level, there has been a fall in donor funding. Reduced economic activity has meant lower government support for these programmes. This reduced support comes at a time when households find it increasingly difficult to seek or continue treatment as their income positions have weakened and new and improved treatment has become more expensive.

Global initiatives to improve access to essential medicines

In order to redress the incongruity of developing new and better treatments for diseases that are less affordable and to make progress in increasing access to affordable essential medicines, innovative global initiatives are being explored in the areas of financing, incentives to local production of ARVs and the use of exceptions to intellectual property rights.

Innovative financing mechanisms

A new innovative financing mechanism to expand access to affordable artemisinin-based combination therapies (ACTs) will be launched in 2010. The Affordable Medicines Facility—malaria (AMFm) aims to promote the use of effective antimalarials and drive out ineffective medicines from the market by reducing consumer prices to an affordable level through price negotiations and a buyer co-payment, and ensuring the safe and effective scale-up of ACT use by introducing in-country supporting interventions. Managed by the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), the roll-out of AMFm will begin in pilot countries in 2010.

Local production of antiretroviral medicines

In seeking to decrease the cost of essential medicines, there have been efforts to promote local production, but the experience has been mixed. On the one hand, the data for 2006 indicates that India's ARV supplies accounted for 70 per cent of the value of transactions in terms of patient-per-year equivalents.¹⁰ Indian ARV generic pharmaceutical manufacturers play an essential role in meeting HIV treatment needs in low- and middle-income countries. On the other hand, countries like Ghana, Kenya, South Africa, Uganda and Zimbabwe also produce ARVs locally, although most manufacturers of ARVs in sub-Saharan Africa import the active pharmaceutical ingredients (APIs) and complete the drug formulations in their respective countries. One exception is Aspen Pharmacare of South Africa, which manufactures APIs, the key raw materials required in the

Producing medicines locally is reaping mixed results

¹⁰ Data from WHO Global Price Reporting Mechanism (GPRM), which tracks ARV procurement by the Global Fund to Fight AIDS, Tuberculosis and Malaria and several other agencies.

manufacture of finished pharmaceutical dosage forms. The manufacture of APIs has been enabled through Aspen's joint venture companies in Cape Town, South Africa, and Hyderabad, India, which are co-owned by Matrix Laboratories of India. There are other examples of significant cost savings as a result of local production of ARVs in Africa.

However, local pharmaceutical manufacturers in Africa face a number of challenges. Danadams, a Ghanaian manufacturer of generic medicines, identifies three key ones. First, the potential market available to African local manufacturers can be severely reduced if they do not obtain WHO pre-qualification, a pre-requisite for participating in treatment programmes financed by GFATM, or the marketing approval from the United States Food and Drug Administration (FDA) required to supply treatment programmes sponsored by the United States President's Emergency Plan for AIDS Relief (PEPFAR). Second, bioequivalence tests for each product, which are required for the acquisition of WHO pre-qualification, are expensive. Third, APIs have a high cost when purchased in small quantities.

To strengthen Africa's ability to manufacture and supply essential drugs locally, African leaders adopted the Pharmaceutical Manufacturing Plan for Africa (PMPA) in 2007, within the framework of the New Partnership for Africa's Development (NEPAD). This Plan aims to reduce Africa's dependence on overseas suppliers as well as the financial burden of diagnosis, care and prevention. The Plan and similar initiatives could provide an important opportunity for defining government responses on the production of essential medicines in Africa, including the establishment of regulatory and financial environments as well as quality control procedures that are conducive to the long-term engagement of investors.

Intellectual property and innovation policy

Intellectual property laws, policies and measures can play a critical role in either facilitating or impeding access to generic ARVs and related essential medicines. For countries without significant pharmaceutical manufacturing industries, enabling legislation can facilitate the importation of more affordable essential medicines. Even though the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) ushered in a new era of required compliance, WTO member States retained important flexibilities and safeguards. For instance, countries have the space to interpret the three criteria of patentability (novelty, inventive step and industrial applicability) in line with strategic domestic objectives. Countries can also issue compulsory licences and government-use orders which authorize the use of patent-protected inventions by the Government or assigned third parties without the consent of the patent holder, provided adequate compensation is provided. These flexibilities, if utilized effectively, enable developing low- and middle-income countries with the capacity to do so to achieve a balance between intellectual property protection and specific developmental priorities, including increasing access to medicines.

One of the enduring challenges faced by developing countries in increasing access to essential medicines by their citizens is that of stimulating research and development activities for diseases that primarily affect low-income developing countries. Two initiatives provide a valuable opportunity in this regard.

The use of Trade-Related Aspects of Intellectual Property Rights could facilitate improved affordable access to medicines

More research and development of diseases affecting developing countries is needed

First, the Global Strategy and Plan of Action on Public Health, Innovation and Intellectual Property (GSPOA) adopted by the World Health Assembly of 2008 presents an opportunity for countries to participate and engage in the international discussion on how to increase innovation for the production of medicines for diseases that primarily affect the developing world. Second, the UNITAID voluntary patent pool, which was approved in December 2009, provides an important opportunity to promote increased access to newer first- and second-line ARVs and to encourage the development of other important ARVs, such as fixed-dose combinations of newer products and special formulations for children.

Pooled procurement could also reduce costs

Other options available to developing countries are making increased use of market information to negotiate lower prices with pharmaceutical companies and increasing economies of scale and bargaining power through joint or “pooled” procurement. There are examples of initiatives at both the regional and international levels. For instance, in 2007, the GFATM established the Voluntary Pooled Procurement (VPP) mechanism, which enables countries with small purchasing volumes to pool their purchases, thereby increasing the opportunity for achieving greater price reductions through competition. By December 2009, more than 30 countries from various regions had confirmed their participation in the VPP initiative. Pooled procurement also exists on a regional basis. For example, the Organisation of Eastern Caribbean States (OECS) reportedly saved approximately 44 per cent through joint procurement in 2002, compared with the amount paid by countries procuring medicines individually.

Strengthening the global partnership to increase access to affordable essential medicines

Ensuring access to affordable essential medicines in developing countries remains both an urgent and a very challenging endeavour. As target 8.E implies, the public and private sectors must work together to improve the provision of medicines, and this must unfold on a sustainable basis. As described above, the global economic crisis has hampered progress because of rising costs and reduced budgets for treatment programmes.

Actions recommended at the national and international levels to improve the accessibility and affordability of essential medicines include the following:

- Governments of developing countries should be encouraged to increase the availability of medicines in the public sector and to strengthen national health systems, supported by official development assistance where needed
- All Governments should provide increased protection to low-income families for acquiring essential medicines, such as health insurance that covers medicines for both inpatients and outpatients
- Measures to improve the availability of essential medicine should be tailored to country conditions by means of the following:
 - Countries without significant pharmaceutical manufacturing capacity should take advantage of flexibilities contained in the TRIPS Agreement so as to facilitate imports of more affordably priced essential medicines

- Developing countries with the capacity to produce pharmaceuticals should take advantage of public health–related TRIPS flexibilities to manufacture generic versions of patented medicines and should consider foreign investment as a way to acquire new technologies for producing such medicines
- Developed countries should further facilitate the export of generic medicines at the lowest costs to countries without manufacturing capacity by incorporating the relevant TRIPS flexibilities into domestic legislation
- In order to facilitate the above TRIPS-related actions, the international community should increase efforts to reduce costs incurred by developing countries when making use of the flexibilities offered in the Agreement, or compensate them for such costs
- All countries should support initiatives in developing countries to increase access to essential medicines by stimulating research and development in the field of neglected diseases through implementation of the GSPOA
- Developing countries should strengthen information-sharing mechanisms regarding prices of medicines in order to strengthen their capacity to negotiate lower prices with pharmaceutical companies. They could further strengthen their bargaining power by setting up joint or “pooled” procurement or other innovative financing mechanisms, such as the UNITAID voluntary patent pool

Access to new technologies

Access to new technologies has helped developing countries leapfrog to higher levels of technology, allowing them to save resources and even facilitate activities which would otherwise not be possible without the supporting infrastructure. Although target 8.F focuses on information and communication technologies (ICT), it also encompasses access to all new technologies. As pointed out in previous reports of the MDG Gap Task Force and reaffirmed in various international conferences, it is also imperative that the international community come together to better provide other key technologies to developing countries, such as those for coping with the adverse effects of climate change and reducing greenhouse gas emissions. The United Nations Framework Convention on Climate Change (UNFCCC) enshrines commitments by developed countries to “take all practicable steps to promote, facilitate and finance, as appropriate, the transfer of, or access to, environmentally sound technologies and know-how to other Parties, particularly developing country Parties”.¹

In the area of ICT, tremendous progress has been made in increasing usage of mobile cellular telephony and the Internet. This growth in the use and application of ICT has significantly boosted its potential as a catalyst for development across sectors. Increased use of “e-Government” has helped improve the management of education, health and environmental programmes, and this can have an impact on the achievement of the Millennium Development Goals (MDGs). However, the digital divide, in terms of access and affordability, still persists.

It is difficult to determine the precise delivery gap against international commitments for improving access to new technologies as no quantitative target was established as part of MDG 8. The World Summit on the Information Society (WSIS) enunciated a total of ten ICT-related targets to be achieved by 2015. These include targets “to connect villages with ICTs and establish community access points” and “to ensure that more than half the world’s inhabitants have access to ICTs within their reach”.² The year 2010 marks the midpoint between the 2005 Tunis phase of the WSIS and 2015, the deadline for achieving the ten targets that Governments agreed upon at the WSIS.³

Concrete targets and indicators are needed to monitor access to new technologies

Impact of the global economic crisis on ICT

The global economic crisis has not spared the ICT industry. The demand for IT-related equipment has weakened, leading to lower investments. There has

1 United Nations Framework Convention on Climate Change, Article 4, para. 5, adopted on 9 May 1992, available from <http://unfccc.int/resource/docs/convkp/conveng.pdf>.

2 See <http://www.itu.int/wsis/docs/geneva/official/poa.html> for a complete list.

3 While the WSIS Plan of Action does not attach precise quantitative indicators to the targets either, the *World Telecommunication/ICT Development Report 2010: Monitoring the WSIS Targets—A Mid-term Review* (Geneva, International Telecommunication Union, 2010) will provide a mid-term review of each WSIS target, based on a set of proposed quantitative indicators.

also been some evidence of reduced investments in planned network upgrades, and the introduction of next generation networks (NGNs) into the market has been delayed or abandoned as a result of financial constraints. At the same time, the industry has benefited from a series of stimulus packages introduced in several major economies—particularly member countries of the Organization for Economic Cooperation and Development (OECD)—in response to the crisis, which have included activities in the telecommunication sector. Government-led investments in broadband infrastructure are seen as a means to offset the negative effects of the crisis and enhance further growth prospects, based on the recognition that ICTs are key enablers for overall economic and socio-economic development through stimulating innovation and creating new jobs.⁴

Usage of ICT services

Access to ICT services has increased despite the crisis

Despite signs of weakness in investment, the recent economic downturn does not, thus far, seem to have slowed the increase in the use of ICT services such as mobile phones and the Internet. This trend has been supported by continuously falling prices of devices such as computers and handsets. The steady growth of the number of mobile cellular subscriptions is striking, reaching an estimated 4.6 billion by the end of 2009 and a penetration level of 68 per 100 inhabitants globally. In contrast, fixed telephone lines continued to lose their share in the market⁵ with a penetration of less than 18 per 100 inhabitants globally.⁶

Mobile cellular penetration in developing countries has grown rapidly

Growth in mobile telephony continues to be strongest in the developing world, where there are now more than twice as many mobile subscriptions as in the developed world (3.2 billion and 1.4 billion, respectively). China and India account for most of the users in the developing countries, with over 1.2 billion subscriptions (about 750 million and 525 million, respectively). Between 2008 and 2009, mobile cellular penetration in developing countries surpassed the 50 per cent mark, to reach an estimated 57 per 100 inhabitants by the end of 2009 (see figure 18), while in developed countries penetration largely exceeded 100 per cent.

Despite significant growth, developing countries lag behind developed countries in Internet usage

Internet use has also continued to grow, albeit at a slower pace than mobile cellular telephony. Internet penetration rates in developed countries have grown on average at about 6 per cent annually since 2007. In developing countries, average annual growth during the same time period has been strong, at over 20 per cent, though much lower than the average annual growth of 38 per cent experienced by these countries between 1998 and 2009. In 2009, an estimated 26 per cent of the world population, that is to say, over 1.7 billion people, was using the Internet. However, in developed countries, the proportion is much higher than in developing countries (64 per cent and 18 per cent of the population, respectively) (see figure 18). In other words, in 2009, over 80 per cent of the population in developing countries was still excluded from the online world and its benefits.

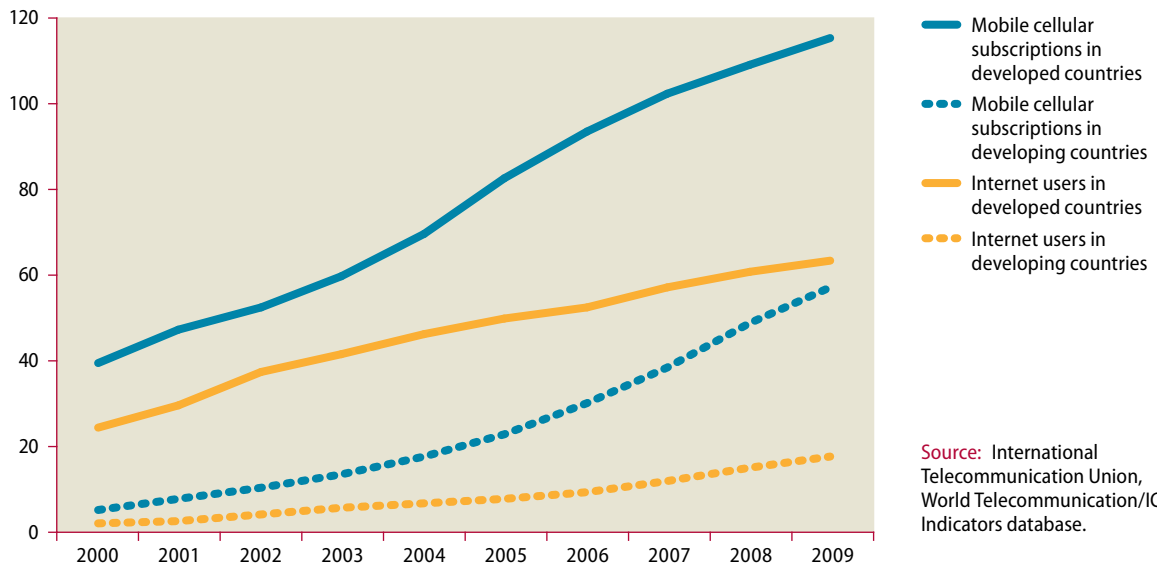
⁴ See ITU, “Confronting the crisis: ICT stimulus plans for economic growth”, available from http://www.itu.int/osg/csd/emerging_trends/crisis/confronting_the_crisis_2.pdf and OECD, “Policy responses to the economic crisis: Investing in innovation for long-term growth”, available from <http://www.oecd.org/dataoecd/59/45/42983414.pdf>.

⁵ The decline in the number of fixed telephone lines is partly because of the increase of Voice Over Internet Protocol (VoIP), which is often offered as a bundled service and part of Internet service.

⁶ Data from ITU, World Telecommunication/ICT Indicators database.

Figure 18

Penetration of mobile cellular subscriptions and Internet users in developed and developing countries, 2000-2009 (percentage)



Source: International Telecommunication Union, World Telecommunication/ICT Indicators database.

Many of those having access are to be found in China, which accounted for one third of the Internet users in the developing world. The least developed countries (LDCs) still lag far behind in usage, despite an increase to 2.1 users per 100 in 2008, up from 1.6 in 2007. Oceania, sub-Saharan Africa and South Asia continue to be the regions with the fewest mobile cellular subscriptions per capita (figure 19) and the lowest number of fixed telephone lines (figure 20).

Broadband is playing an important role in transforming societies through the introduction of applications that are changing the way businesses and people interact with each other.⁷ Fixed broadband access is still largely confined to Internet users in developed countries, and a large and persistent broadband divide can be observed, with 27 per cent penetration in developed countries compared to only 3.5 per cent in developing countries in 2009. Fixed broadband subscriptions in the developing world are heavily concentrated in a few countries, with China accounting for half of the 200 million fixed broadband subscriptions, having overtaken the United States of America as the largest fixed broadband market in the world in 2008.⁸

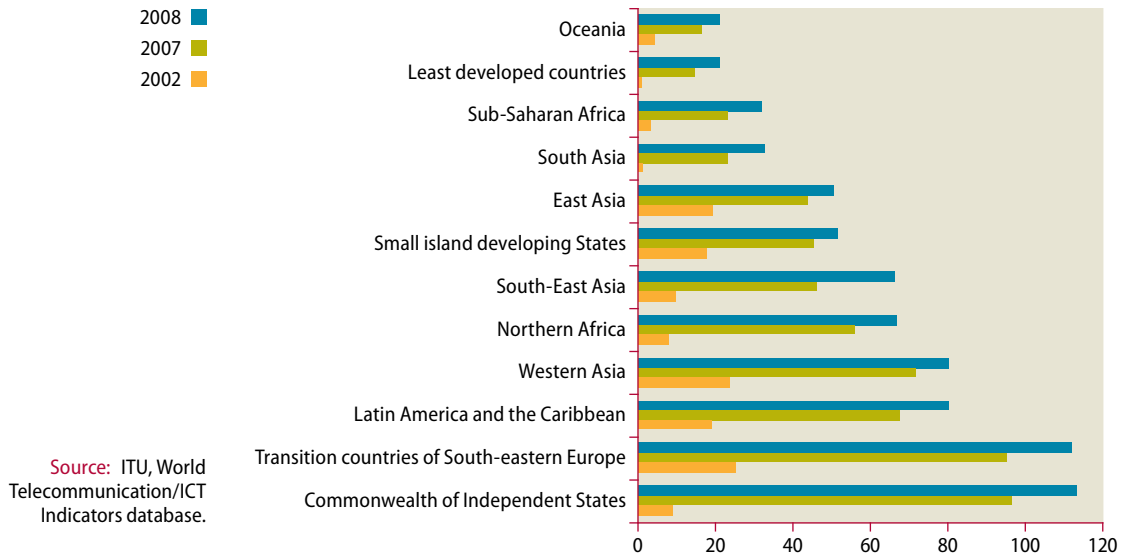
Although fixed broadband usage has been increasing, major disparities persist between regions (figure 21). In many of the poorest regions of the world, the number of fixed broadband subscriptions is still negligible. In Oceania, South Asia and sub-Saharan Africa, penetration rates are less than 1 per cent. Although by 2009 most of the LDCs had commercially deployed broadband, the service remained inaccessible since it was prohibitively expensive.

Large regional disparities in the use of ICT services persist

⁷ Since access to basic communications in the developing world has been achieved largely through mobile communications, broadband wireless access is expected to play a key role in developing countries. Currently, data on mobile broadband use are not widely available, however (nor are they internationally comparable).

⁸ ITU, World Telecommunication/ICT Indicators database.

Figure 19

Number of mobile cellular subscriptions per 100 inhabitants, 2002, 2007 and 2008

Prices of fixed broadband services are extremely high in developing countries, particularly in Africa

Despite a continuing decline, prices for fixed broadband services in most developing countries remained high compared to income levels in 2009. In fact, in 28 LDCs, the price for a fixed broadband service actually exceeded the monthly gross national income (GNI) per capita. Users in developing countries pay on average 7 times as much for this service than those in developed countries, while in Africa it costs 15 times as much (and the figure for sub-Saharan Africa is even higher) (see figure 22).

Figure 20

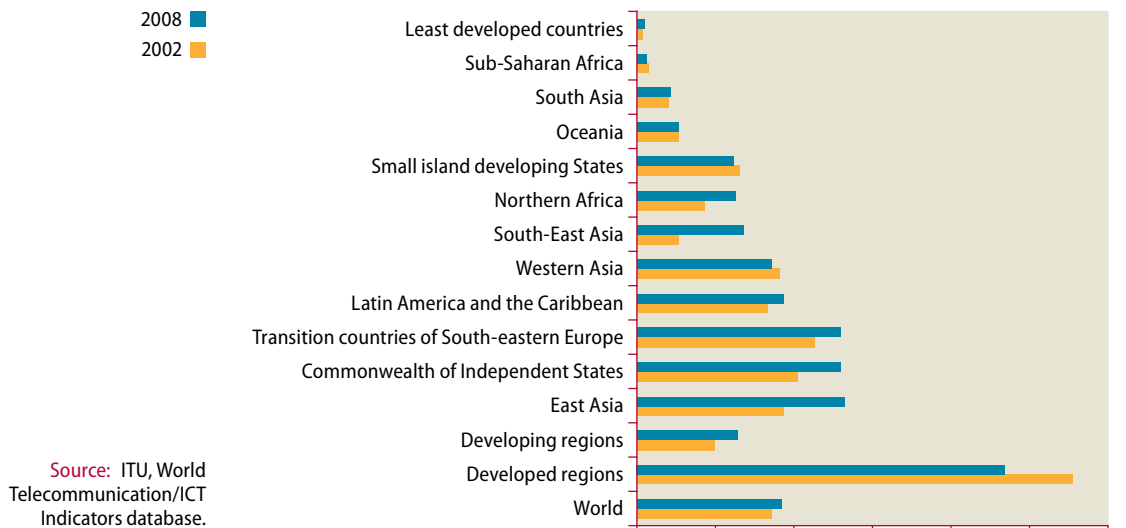
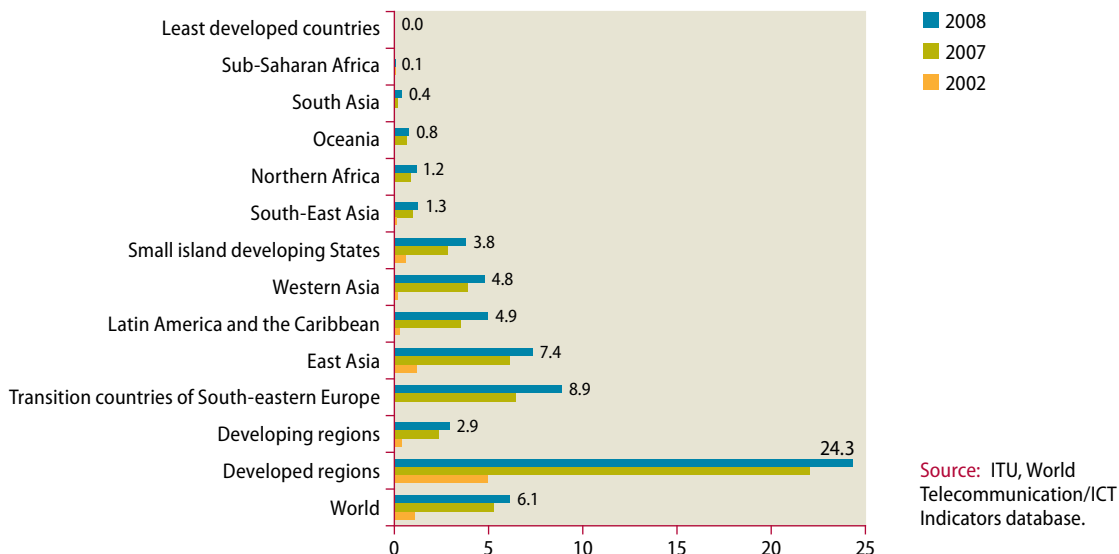
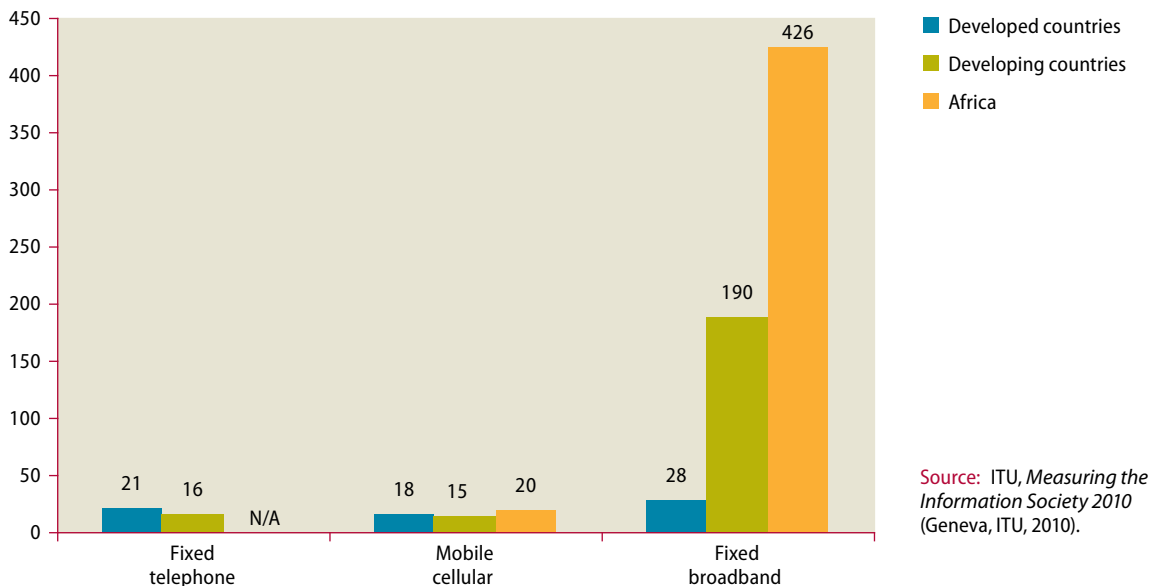
Number of fixed telephone lines per 100 inhabitants, 2002 and 2008

Figure 21
Number of fixed broadband subscriptions per 100 inhabitants, 2002, 2007 and 2008



Fixed broadband is the world’s dominant access method for high-speed Internet access, but the introduction of high-speed (3G) mobile broadband networks in an increasing number of countries could give a further boost to the number of Internet users, especially in the countries with little coverage of fixed broadband connections, as in much of Africa. The number of mobile broadband subscriptions actually surpassed the number of fixed broadband subscriptions in

Figure 22
Monthly average prices of ICT services by region, 2009
(in purchasing power parity dollars)



2008. Although there is still a wide gap in mobile broadband coverage between the developed and the developing countries (39 subscriptions per 100 versus 3 per 100 in 2009), mobile broadband subscriptions can be expected to increase significantly in the developing countries in the near future.

Privatization and liberalization of ICT

The ICT sector is becoming increasingly more privatized and open to competition

The telecommunication/ICT sector is becoming increasingly privatized and the markets more liberalized. In nearly 65 per cent of countries worldwide, fixed-line incumbents, the main operators who used to be almost exclusively State-owned in the 1980s, are now fully or partially privatized. In another 19 per cent of countries, privatization is either currently in process, or planned. Despite the clear global trend towards privatization, slightly more than one third of incumbents worldwide remain State-owned.

Telecommunication and ICT markets have also become more open to competition, particularly in the area of mobile and Internet services. By the end of 2009, 171 countries (or nearly 90 per cent of all countries) worldwide had a competitive mobile cellular market. The percentage is even higher in the markets for Internet service providers, as there is competition in such markets in 92 per cent of countries worldwide (figure 23). These figures highlight the increasing role of the private sector, particularly in spreading newer information and communication technologies. Competition also tends to reduce prices, which in turn leads to higher levels of ICT uptake.⁹

The role of e-Government in achieving the MDGs

ICT services facilitate development across other sectors

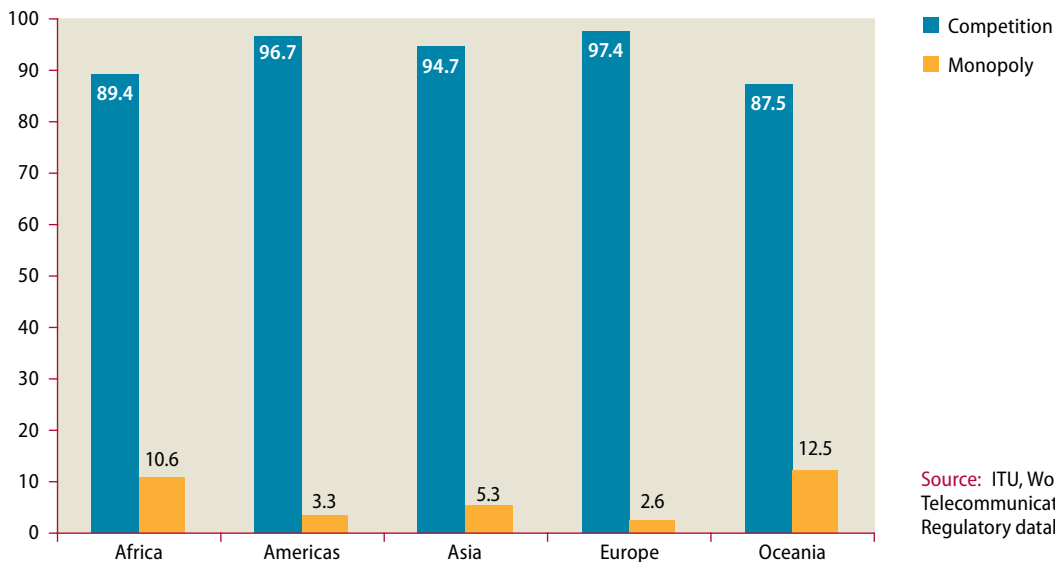
E-Government is the use of ICT for strengthening governance and public institutions. It can help make public service delivery more agile and less costly. Similarly, e-Government can be useful in the implementation of regulatory reforms by making processes more transparent and by streamlining activities.¹⁰ In addition, e-Government can be useful in improving delivery of social services that are important for the achievement of the MDGs. For example, broadband Internet facilitates faster and wider dissemination of health information and allows remote diagnostic and therapeutic medical decision-making. This form of “e-health” has been successfully applied in Neak Loearng, a remote village in Cambodia. Doctors and nurses of the village can now use broadband Internet to access online information on illnesses and to communicate with partners and other medical workers via e-mail. These developments are enabling health workers to attain more medical knowledge which, in turn, is contributing to improved health care for thousands of Cambodians. The experience is being replicated in 50 other villages. More specifically, the new technology is facilitating better management through enhanced use of public health information systems, including the tracking of immunization of poor children and the efficient processing of medical records, insurance claims and payment records.

⁹ ITU, *Measuring the Information Society* (Geneva, ITU, 2010), available from http://www.itu.int/ITU-D/ict/publications/idi/2010/Material/MIS_2010_without%20annex%204-e.pdf.

¹⁰ *United Nations E-Government Survey 2010: Leveraging E-government at a Time of Financial and Economic Crisis* (United Nations publication, Sales No. E.10.II.H.2).

Figure 23

Distribution of countries with competitive and non-competitive markets for the provision of Internet services, 2009 (percentage)



Source: ITU, World Telecommunication/ICT Regulatory database.

At present, 189 of the 192 United Nations Member States have a national government website. However, utilization of the full potential of e-Government is yet to be realized in the majority of the developing countries, primarily owing to the wide digital gap between developed and developing economies in their access to and use of ICTs.

Access to technology to address climate change

Technologies to cope with climate change are a key area in which the international community should strengthen its global partnership in support of efforts to achieve sustainable development. The Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) at its fifteenth session, held in Copenhagen from 7 to 19 December 2009, took note of the Copenhagen Accord. The Accord represents a letter of political intent and provides guidance to the ongoing discussions under the UNFCCC. Developed-country Parties agreed to scaled-up, new and additional, predictable and adequate funding as well as to the provision of improved access to developing countries to enable and support enhanced action on mitigation, adaptation, technology development and transfer and capacity-building for enhanced implementation of the Convention. The collective commitment by developed countries is to provide new and additional resources amounting to approximately \$30 billion for the period 2010-2012 and with a balanced allocation between adaptation and mitigation. Developed countries also committed themselves to a target of mobilizing \$100 billion dollars per year by 2020 to address the needs of developing countries. It is hoped that these funds can be sourced through a wide variety of channels both public (bilateral and multilateral) and private, as well as through innovative sources of finance.

Addressing climate change requires access to new technologies ...

A new technology mechanism

Access to new technologies is essential to enabling action by developing countries to reduce greenhouse gas emissions and adapt to the adverse effects of climate change. In 2001, in order to enhance the transfer of technologies to developing countries, the Parties to the UNFCCC Convention established a Technology Transfer Framework,¹¹ which encompasses cooperative activities across five themes: technology needs and needs assessments; technology information; enabling environments for technology transfer; capacity-building for technology transfer; and mechanisms for technology transfer. A wide range of additional actions were agreed upon in 2007 to enhance the implementation of the Technology Transfer Framework, including innovative options for financing, enhanced cooperation with relevant conventions and intergovernmental processes, endogenous technology development, and collaborative research and development.

A recent review of the effectiveness of the implementation concluded that, although there has been an increase in financial support for the development and transfer of technology in developing countries, greater amounts are required to meet the needs.¹² In addition, there is a need for policies and measures to promote more private sector investment in technologies for mitigation and adaptation.

At the 2009 Copenhagen Summit, the Parties made progress on the elaboration of the scope and possible functions of a new “technology mechanism” to be established under the UNFCCC. The new mechanism should accelerate research and development, deployment, diffusion and transfer of technology in support of action on mitigation and adaptation by developing countries, in accordance with their national circumstances and priorities.

Financing needs and gaps for climate-related technology development and transfer

As of 2009, estimates of the financing resources available in all countries for technology research, development, deployment, diffusion and transfer in relation to mitigation technologies were between \$77.3 billion and \$164 billion per year. Only partial estimates are available for current financial resources available within developing countries (see table 9). Current information on financial needs for technology development and transfer for mitigation is biased towards the energy sector. Reliable data for technologies for adaptation are currently not available.

... and large-scale financing

The financing gap is specified for technologies as they progress through the innovation cycle from research and development to demonstration and deployment of new technologies and diffusion within the global economy (see figure 24). Estimates are for a mixture of both public and private sources, and the range signals a sensitivity to the baseline and mitigation scenarios used. Although there is still debate on the exact financing requirements, what is clear is that large-scale financing will be necessary. UNFCCC estimates indicate that financing for

¹¹ UNFCCC, Report of the Conference of the Parties on its Seventh Session (FCCC/CP/2001/13/Add.1, Decision 4/CP.7).

¹² UNFCCC, Report by the Chair of the Expert Group on Technology Transfer on recommendations on future financing options for enhancing the development, deployment, diffusion and transfer of technologies under the Convention (FCCC/SB/2009/2 and Summary).

Table 9

Estimates of current financing for development and diffusion of climate mitigation technologies, by stage of technological maturity and source (billions of dollars per year)

	R&D (total spending)	Demonstration (total spending)	Deployment (additional cost of climate mitigation technologies)		Diffusion (additional cost of climate mitigation technologies)		Total
	Global	Global	Global	Developing countries	Global	Developing countries	Global
Public	6 ^a 10 ^b	Included in R&D	33 ^c 45 ^d 30 ^e	..	19.5–27.0 ^f	8.0–15.5 ^g	55.5–82.0
Private	At least 9.8 ^h 13 ^a 40–60 ⁱ	Included in R&D	12–22 ^h	3.3 ^h	21.8–82.0
Total	15.8–70		30–45	..	31.5–49	11.3–18.8	77.3–164.0

Source: Data compiled by the United Nations Framework Convention on Climate Change Secretariat.

^a Based on a 2 per cent share of global R&D expenditure in 2006.

^b International Energy Agency, *R&D Budgets* (2008), available from <http://wds.iea.org/WDS/ReportFolders/reportFolders.aspx>.

^c Nicholas Stern, *The Economics of Climate Change: The Stern Review* (Cambridge, United Kingdom, Cambridge University Press, 2007), p. 347.

^d R. Doornbosch, D. Gielen and P. Koutstaal, "Mobilising investments in low-emission energy technologies on the scale needed to reduce the risks of climate change" (SG.SD/RT(2008)1), p. 5.

^e UNFCCC, *Investment and Financial Flows to Address Climate Change* (Bonn, UNFCCC, 2007), p. 7.

^f This is the sum of financing for mitigation technologies provided by the clean development mechanism (CDM), bilateral official development assistance (ODA), multilateral development banks (MDBs), export credit agencies (ECAs) and the Global Environment Facility (GEF), plus the New Energy Finance estimate of investment in carbon funds for the purchase of emissions permits in compliance and voluntary markets in 2007.

^g Excludes the investment in carbon funds for the purchase of emissions permits.

^h United Nations Environment Programme, *Public Finance Instruments for Climate Mitigation: Options Document* (Paris, UNEP-SEFI, 2008).

ⁱ IEA, *Energy Technology Perspectives 2008: Scenarios and Strategies to 2050* (Paris, IEA, 2008), p. 169.

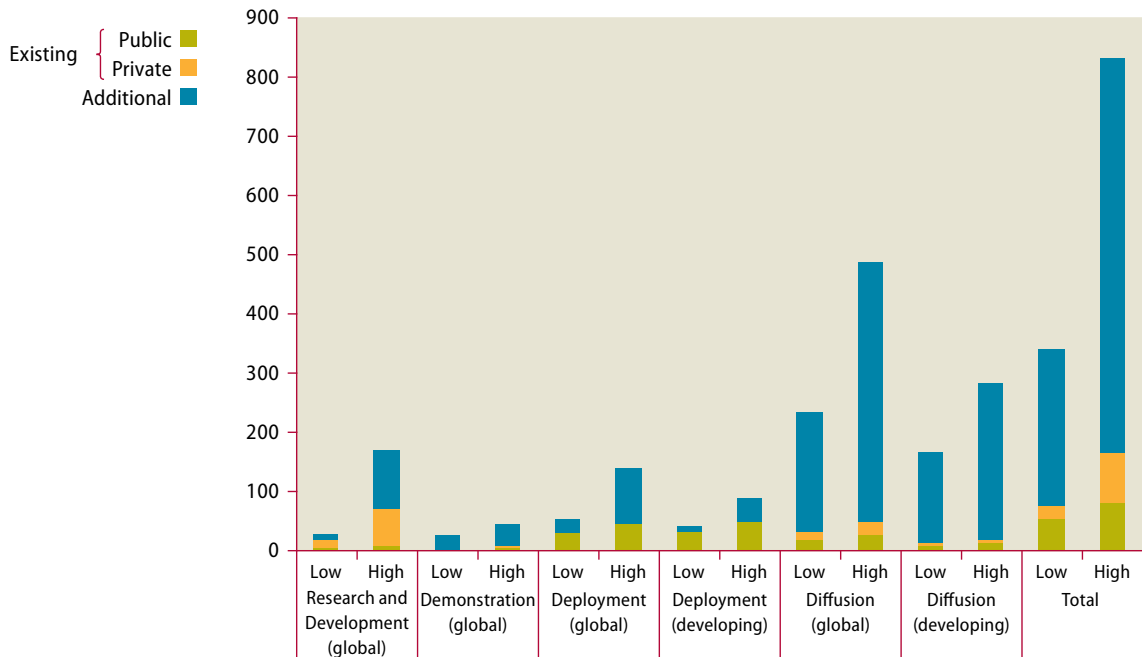
mitigation technologies in all countries needs to increase by \$262 billion, to \$670 billion annually, over current levels. It is projected that, of this increase, 40–60 per cent, or an additional \$105 billion to \$402 billion per year, will be needed in developing countries, indicating that additional ODA will be required for this purpose. A McKinsey & Company study estimates that mitigation costs could rise to as high as \$800 billion. While Nicholas Stern's latest estimate calls for an additional cost of \$600 billion to \$1.2 trillion per year by 2030, depending on whether the target level for stabilizing greenhouse gas concentrations is 550 or 450 parts per million of carbon dioxide equivalent.¹³ In addition, the UNFCCC estimates that annual investment and financial flows needed worldwide for adaptation would be in the order of \$49 billion to \$171 billion by 2030. However, as such investments in new, climate-friendly technologies will need time to mature for usage at the appropriate scale and at an affordable cost, it has also been argued that a large share of the investments and financing will likely need to be "front-loaded" (that is to say, they will need to be made much earlier than 2030) in order to meet global emission reduction targets in a timely fashion.¹⁴

¹³ Nicholas Stern, *A Blueprint for a Safer Planet: How to Manage Climate Change and Create a New Era of Prosperity* (London, The Bodley Head, 2009).

¹⁴ *World Economic and Social Survey 2009: Promoting Development, Saving the Planet* (United Nations publication, Sales No. E.09.II.C.1).

Figure 24

Estimates of annual financing needs for mitigation technologies up to 2030, by source and stage of technological maturity (billions of dollars per year)



Source: United Nations Framework Convention on Climate Change Secretariat.

Notes: "Existing" refers to estimates of current levels of finance; "additional" is the amount estimated to be needed beyond current levels. Existing financing for deployment in developing countries is not disaggregated by source. Existing financing needs for demonstration are included in research and development. The levels of required financing are estimates for a scenario aimed at stabilizing greenhouse gas concentrations in the atmosphere at about 500 parts per million carbon dioxide equivalents. "Low" and "high" refer to lower and upper bound estimates from available studies.

Many developing countries have undertaken detailed assessments of their technology needs. The most commonly identified needs for mitigation are renewable energy technologies, technologies for improved crop management, energy-efficient appliances, waste management technologies, forestry-related technologies and more clean and efficient vehicles. The most commonly identified technology needs for adaptation are related to crop management, efficient water use, improved irrigation systems, early-warning systems for forest fires, technologies for afforestation and reforestation, and technologies to protect against and accommodate rises in sea level.

The main barriers to technology transfer identified by developing countries were economic and market barriers, particularly lack of access to finance. The measures identified by Parties to the UNFCCC to address these barriers were aimed at increasing foreign investment, increasing participation of the private sector in technology transfer, removing subsidies and price distortions, improving collaborative research and development of technologies and increasing public awareness. Most countries specify that existing in-country capacity was insufficient to address national technology needs adequately, indicating that there remains a large demand for capacity-building support within developing countries.

Access to know-how for disaster risk reduction

The population and economies of the poorest countries are generally more vulnerable to natural hazards and are taking the brunt of losses, particularly when measured against the size of their economies. It is estimated that related economic losses as a percentage of gross domestic product (GDP) are 20 times greater in developing countries than in more advanced economies. For example, in 1995, Hurricane Luis caused damages to Antigua and Barbuda at an estimated cost of 66 per cent of the Caribbean nation's GDP. The overall damages and economic losses caused by the earthquake that hit Haiti in January of 2010 are estimated to be \$7.9 billion, which is equivalent to more than 120 per cent of Haiti's GDP in 2009. Measures to protect assets and land through investments in disaster risk reduction and adaptation to climate change require external resources.

Experience from certain countries has shown that implementing disaster risk reduction measures have long-term benefits—from reduced future losses and reconstruction costs to benefits such as less vulnerable livelihoods, resilient communities and protective and productive ecosystems. Countries such as Bangladesh, Cuba, Madagascar and Viet Nam have been able to reduce drastically the impact of weather-related hazards, such as tropical storms and floods, through improved early-warning systems and other disaster preparedness and risk-reduction measures. China averted losses estimated at about \$12 billion after investing \$3.2 billion in flood-resilient infrastructure between 1960 and 2000.

The Global Facility for Disaster Reduction and Recovery (GFDRR) is a partnership between the World Bank and the United Nations International Strategy for Disaster Reduction (UNISDR) to support the implementation of the Hyogo Framework for Action 2005-2015: Building the Resilience of Nations and Communities to Disasters. In 2009, the GFDRR focused on advocating for disaster-resilient health and education systems, with a view to providing tools for safer hospitals and schools. The GFDRR has made concerted efforts towards ensuring that developing countries quickly return to the path of sustainable development should a disaster strike. With GFDRR support, 30 countries prepared comprehensive national programmes for disaster risk reduction and climate change adaptation, setting out a road map to achieve the goals of the Hyogo Framework for Action within the next three years.

Disaster risk reduction and resilience-building also requires the development and use of ICT to provide knowledge and information to the population, including the dissemination of alerts on impending hazards through early-warning systems. Governments will need to implement these information platforms with the help of the private sector which would provide the technology.

Private sector cooperation can be further fostered in the area of disaster insurance. The protection of assets and investments need to be developed through systematic efforts, including developing standards for diminishing risk. The private sector should be the provider of disaster insurance schemes to safeguard against catastrophic losses. Such insurance should also be part of inclusive financial services for the poor to ensure coverage for the most vulnerable members of society.

Use of ICT to disseminate information is critical in implementing disaster risk reduction measures

Strengthening the global partnership for access to technology

New technologies have allowed developing countries to advance faster than did developed countries at a similar stage in their development. At the same time, the rapid progress of technology has also created new divides between the haves and have-nots. The global economic crisis and the effects of climate change have also created bigger obstacles and a need for new technologies in developing countries. The global partnership needs clearer objectives and initiatives in this area.

To improve access to new technologies for development, the international community should take the following action:

- Support the development of concrete targets and indicators to monitor access to new technologies
- Strengthen public-private partnerships in support of the use of Internet services, including in the form of regional communication networks and e-Government and its application towards improved social service delivery
- Encourage ICT investment in developing countries in order to enhance access to broadband Internet services. To this end, in countries that currently have very low levels of coverage of fixed broadband, especially those in Africa, priority should be given to expanding wireless networks
- Strengthen both competition and regulatory frameworks for markets of Internet service providers in order to promote the spread of new technologies and reduce prices
- Enhance internationally concerted efforts to promote the development and transfer of technologies for mitigation of and adaptation to climate change in developing countries, and provide the necessary financial resources and technical assistance in order to urgently address the needs of developing countries in dealing with its adverse effects.
- Increase development assistance to support developing countries vulnerable to natural hazards in adopting disaster risk prevention programmes as part of national development strategies

