

Millennium Development Goal 8

# The Global Partnership for Development: Making Rhetoric a Reality

MDG Gap Task Force  
Report **2012**



UNITED NATIONS

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.

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

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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 Strategy for Disaster Reduction (UNISDR)
Economic Commission for Europe (ECE)	United Nations Office for Project Services (UNOPS)
Economic Commission for Latin America and the Caribbean (ECLAC)	United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLS)
International Labour Organization (ILO)	United Nations Population Fund (UNFPA)
International Monetary Fund (IMF)	United Nations Research Institute for Social Development (UNRISD)
International Telecommunication Union (ITU)	World Bank
International Trade Centre (ITC)	World Food Programme (WFP)
Joint United Nations Programme on HIV/AIDS (UNAIDS)	World Health Organization (WHO)
Office of the United Nations High Commissioner for Human Rights (OHCHR)	World Institute for Development Economics Research of the United Nations University (UNU-WIDER)
Organization for Economic Cooperation and Development (OECD)	World Meteorological Organization (WMO)
United Nations Children's Fund (UNICEF)	World Tourism Organization (UNWTO)
United Nations Conference on Trade and Development (UNCTAD)	World Trade Organization (WTO)
United Nations Development Programme (UNDP)	
United Nations Educational, Scientific and Cultural Organization (UNESCO)	

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# The Global Partnership for Development: Making Rhetoric a Reality

MDG Gap Task Force Report 2012



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# Preface

The protracted global economic crisis has begun to take its toll on international development cooperation. Last year, official development assistance (ODA) fell for the first time in many years, while trade protectionist measures increased. There has also been too little progress in fulfilling other key aspects of the global partnership for development. While the poorest nations have received generous debt relief over the past decade, many still face unsustainable obligations. Essential medicines remain too expensive and difficult to obtain in many developing countries. And despite recent progress, the vast digital divide between developed and developing countries persists, in part because access to the Internet and mobile phones remains far too costly for low-income households.

Trade is another source of concern highlighted in this report. Negotiating parties have yet to complete the Doha Round that was meant to usher in a fairer multilateral trading system. I urge negotiators to find a way out of the impasse through pragmatic approaches that seek agreement first on specific areas, such as ensuring duty-free and quota-free market access for exports from least developed countries.

At the just-concluded Rio+20 Conference, commitments were made on an ambitious sustainable development agenda. But to keep those pledges credible, we must deliver on previous commitments. As a world community, we must make rhetoric a reality and keep our promises to achieve the Millennium Development Goals (MDGs).

I am convinced this can be done. Notwithstanding considerable fiscal constraints, a number of donor countries continue to meet the globally agreed target of devoting 0.7 per cent of national income to ODA or have managed to protect aid budgets. These efforts can and should be emulated. With that in mind, and given that greater transparency can help accountability, I launched the Integrated Implementation Framework in June to better track international and national support towards achieving the MDGs. The Framework is available and accessible to anyone in the world—a one-stop shop to monitor all commitments made by Member States to help meet the MDGs.

This report contains a sobering warning. The Task Force has had difficulty identifying areas of significant new progress towards the MDGs. Yet, signs of promise can be found. Global health initiatives have proven effective in making important medicines more easily available. My Sustainable Energy for All initiative has shown the power of partnership by generating commitments from governments, businesses, foundations and others that will bring light and promise to more than a billion people over the coming decades. Further, several developing countries are taking the initiative to acquire and develop green technologies, showing that it is possible to leapfrog towards the green economies of the future and that development and environmental protection can go hand in hand.

These glimmers of what can be achieved should provide encouragement and inspiration. Our challenge is to scale up these success stories and add to them so that we can achieve the promise of the MDGs to improve the well-being of the world's poorest and most vulnerable people.

A handwritten signature in black ink that reads "Ki-moon Ban". The signature is fluid and cursive, with a long vertical stroke extending downwards from the end of the name.

Ban Ki-moon  
*Secretary-General of the United Nations*

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# List of Millennium Development Goals and Goal 8 targets and indicators

## 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

**Target 8.A:** Develop further an open, rule-based, predictable, non-discriminatory trading and financial system

Includes a commitment to good governance, development and poverty reduction—both nationally and internationally

**Target 8.B:** Address the special needs of the least developed countries

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

**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)

### Indicators

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

#### Official development assistance (ODA)

- 8.1** Net ODA, total and to the least developed countries, as percentage of OECD/DAC donors' gross national incomes
- 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)
- 8.3** Proportion of bilateral official development assistance of OECD/DAC donors that is untied
- 8.4** ODA received in landlocked developing countries as a proportion of their gross national incomes
- 8.5** ODA received in small island developing States as a proportion of their gross national incomes

#### Market access

- 8.6** Proportion of total developed country imports (by value and excluding arms) from developing countries and least developed countries admitted free of duty
- 8.7** Average tariffs imposed by developed countries on agricultural products and textiles and clothing from developing countries
- 8.8** Agricultural support estimate for OECD countries as a percentage of their gross domestic product
- 8.9** Proportion of ODA provided to help build trade capacity

Goal 8: Develop a global partnership for development ( <i>continued</i> )	
Targets	Indicators
<b>Target 8.D:</b> Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term	<b>Debt sustainability</b>
	<b>8.10</b> Total number of countries that have reached their HIPC decision points and number that have reached their HIPC completion points (cumulative)
	<b>8.11</b> Debt relief committed under HIPC and MDRI Initiatives
<b>Target 8.E:</b> In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries	<b>8.12</b> Debt service as a percentage of exports of goods and services
	<b>8.13</b> Proportion of population with access to affordable essential drugs on a sustainable basis
<b>Target 8.F:</b> In cooperation with the private sector, make available the benefits of new technologies, especially information and communications	<b>8.14</b> Fixed telephone lines per 100 inhabitants
	<b>8.15</b> Mobile cellular subscriptions per 100 inhabitants
	<b>8.16</b> Internet users per 100 inhabitants

## Executive summary

In 2007, the Secretary-General of the United Nations invited the organizations of the multilateral system to form an inter-secretariat task force to better monitor implementation of the commitments commonly summarized as “Goal 8” of the Millennium Development Goals (MDGs). Since its formation, the MDG Gap Task Force has been measuring progress in implementing commitments to strengthen official development assistance (ODA), to improve access of developing-country exports to international markets, to enhance cooperation to achieve and maintain sustainable external debt situations in developing countries, and to deepen developing-country access to affordable essential medicines and new technologies. In addition to reporting the progress in these areas, since its first report in 2008, the Task Force has identified the gaps between commitment and delivery and has called upon the international community to fill those gaps.

Each annual report has shown the additional progress and greater efforts needed if the world is to reach the MDGs on schedule. Even during the midst of the global financial and economic crisis, the MDG Gap Task Force reported additional progress and concluded that the international community was advancing towards its goals. The message of the present report, however, is a more sobering one: the Task Force has had difficulty identifying areas of significant new progress and for the first time there are signs of backsliding. With less than three years until 2015, there is no apparent commitment by Governments to “reverse the reversal” in time. Fewer MDGs will be reached in fewer countries as a result.

The waning of support for the global partnership for development may be understandable in the context of a protracted economic and financial crisis. But the global partnership for development should be seen as a “positive-sum game”. There is positive feedback when the economies of development partner countries achieve robust growth and become dynamic markets for world trade and investment. Unsustainable pressures on the Earth’s natural limits are a further reason why the global partnership should be seen as an opportunity to yield positive-sum outcomes. Massive investments are needed for climate change mitigation and adaptation and other dimensions of environmental protection with global ramifications. Such investment will come about only through collective action—nationally, of course, but also, and foremost, internationally. The United Nations Conference on Sustainable Development (Rio+20) committed itself in this regard to strengthening international cooperation to address challenges related to sustainable development for all. The international community cannot afford not to honour those commitments. But how credible can that agenda be if we have not delivered on previous commitments to achieve the MDGs? It will be credible only if the promises made are indeed fulfilled and rhetoric becomes reality.

## Official development assistance

After peaking in 2010, the volume of ODA fell almost 3 per cent in 2011, owing mainly to fiscal restraints of donor countries. Member countries of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD/DAC) provided \$133.5 billion in ODA in 2011, equivalent to 0.31 per cent of their aggregate GNI. Because of the decline, the gap between actual aid disbursements and committed amounts in accordance with the United Nations target of 0.7 per cent of donor country GNI widened to about \$167 billion in 2011. Moreover, growth of core ODA is expected to stagnate between 2013 and 2015, reflecting the delayed impact of the global economic crisis on donor country budgets.

ODA flows to least developed countries (LDCs) from DAC members increased to \$44 billion in 2010, or 0.11 per cent of their combined GNI. The shortfall in meeting the United Nations target of between 0.15 per cent and 0.2 per cent of GNI was between \$17 billion and \$38 billion. Preliminary estimates indicate that DAC donors reduced bilateral aid to LDCs by 2 per cent in real terms in 2011. Bilateral aid to sub-Saharan Africa fell by almost 1 per cent in 2011, though aid to North Africa increased, reflecting support for the political transitions arising from the Arab Spring. Aid to landlocked developing countries fell in 2010 for the first time in a decade, while aid to small island developing States increased substantially.

Although progress has been made towards meeting the thirteen targets of the Paris Declaration on Aid Effectiveness, only the target pertaining to coordinated technical cooperation was met at the global level. Some progress was realized in other individual indicators, especially by recipient countries. On the other hand, aid flows remain highly volatile and donors have made very little or no progress towards agreed targets for improving aid predictability and transparency and enhancing mutual accountability.

The Fourth High-level Forum on Aid Effectiveness, which took place in Busan, Republic of Korea, from 29 November to 1 December 2011, shifted the focus from pure aid effectiveness to a more holistic approach, looking at the contribution that effective development cooperation can make to overall development effectiveness. An agreed framework for development cooperation was established that, for the first time, embraced traditional donors, South-South donors, developing countries, and a number of civil society organizations and private funders. The United Nations Development Cooperation Forum (DCF) can play a key role in providing opportunities for a broader dialogue in a continuing official forum on the implementation of agreements reached in Busan and on how development cooperation contributes to financing for development.

While ODA remains the main source of funding for development cooperation, other sources of financing for development continue to grow, including non-DAC aid and private philanthropy. Although relatively small amounts of funds from innovative sources of international financing have been mobilized and disbursed, a number of proposals could mobilize larger amounts for development. Each of these additional sources can make an important contribution to development financing, but aligning them effectively with national development priorities remains a challenge.

### Policy recommendations

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- Donor Governments should honour their commitments to deliver increasing ODA, despite budgetary constraints
- All donors and multilateral organizations are strongly recommended to develop multi-year spending plans for country programmable assistance publicly available to increase transparency and reduce volatility in aid
- The United Nations DCF should be used by Member States to discuss measures to improve the effectiveness of development cooperation according to needs, to strengthen mutual accountability for development results by building on existing commitments and accountability processes, and to have a broader dialogue on financing for development
- Countries and institutions providing non-DAC ODA and philanthropic and innovative development financing are encouraged to continue enhancing resource mobilization for development and to ensure that funds are stable and the delivery modalities are aligned with recipient country priorities and strategies

## Market access (trade)

After more than 11 years of protracted negotiations, the Doha Round of trade negotiations remains at an impasse and its successful conclusion remains at risk. Despite world leaders' pledges to pursue fresh, credible negotiating approaches to conclude the Doha Round negotiations, no progress has been made. Concluding a development-oriented Doha Round would be a significant way to redress structural imbalances in the trading system, and even a partial set of deliverables would send a positive message and restart negotiating momentum.

Trade of developing economies rebounded more strongly after the global economic crisis than that of developed economies. By 2011, the former had captured 43 per cent of world trade. LDCs, however, continue to account for a miniscule share of world trade. Trade among developing countries expanded substantially in 2010, on account of fast growth in Asia's trade.

The current economic situation has lured Governments back into using protectionist trade policies. The implementation of new trade restrictions by Group of Twenty (G20) countries has not slowed down and their increasing effect on global trade is now a cause for concern. Cumulatively, since the beginning of the crisis, nearly 3 per cent of world trade has been affected by these trade restrictions. Trade finance markets also seem to have deteriorated and concerns have been raised that the Basel III regulations might raise obstacles to financing trade of developing countries.

About 80 per cent of the value of exports from developing countries and LDCs is now imported free of duty in developed markets. For LDCs as a group, this share has remained more or less constant since 2004. Yet, most LDCs do enjoy true preferential access. Tariffs imposed by developed countries on products from developing countries have also remained unchanged by and large since 2004, except for agricultural products from LDCs. Tariff levels and trade preferences remain uneven across products and regions. Available evidence suggests that increasing efforts are being made by developing countries to open up their own markets to products from LDCs.

Agricultural subsidies in advanced economies adversely affect developing-country agricultural trade and production. Total support to the agricultural sector in OECD countries reached a high of \$407 billion in 2011. As a share of gross domestic product (GDP) of OECD countries, support increased to 0.95 per cent, reversing the decline observed in 2010.

Non-tariff measures (NTMs), which include technical requirements that imported goods must satisfy (such as sanitary and phytosanitary standards) and non-technical measures (such as rules of origin) are another class of trade impediments. NTMs are more restrictive than tariffs. Although it is unintentional in many cases, trade of developing countries in general, and low-income countries in particular, tends to be disproportionately hurt by NTMs. Additional and more effective technical assistance will be essential to enable developing countries to meet international standards and regulations, and to allow them to overcome compliance challenges while staying competitive in international markets.

Total donor commitments to the Aid for Trade initiative reached \$45.3 billion in 2010. While this represents a substantial increase over previous years, it is expected that allocations for Aid for Trade will also have been affected by tighter aid budgets of donor countries in 2011 and 2012.

### Policy recommendations

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

- Continuing to explore different negotiating approaches in order to reach a balanced conclusion of the Doha Round of trade negotiations, including a meaningful package for LDCs
- Removing any trade-restrictive measures that have been adopted since the onset of the global crisis and avoiding the introduction of any new ones
- Significantly enhancing the availability of trade finance at affordable cost to all low-income countries
- Fully implementing the commitment to provide duty-free quota-free market access to LDC products, along with simplified rules of origin
- Increasing support for capacity development in developing countries, including compliance to international standards and non-tariff measures through predictable Aid for Trade and the Enhanced Integrated Framework for LDCs
- Eliminating all forms of agricultural export subsidies by 2013 and trade-distorting agricultural production subsidies in developed countries
- Implementing the Rio+20 commitment to strengthen international cooperation for the transformation of developing countries into green economies

## Debt sustainability

The standard debt indicators do not indicate a systemic debt problem in developing countries at this time, but vulnerabilities remain. Following an increase in the external public debt-to-GDP ratios of developing countries in the immediate aftermath of the global financial crisis, ratios fell in 2011, except in low-income countries. Despite relatively low debt ratios in most low-income countries, the recent increase in indebtedness could become a cause of concern if the trend continues. A number of other developing countries also face renewed vulnerability to



increased external debt overhang owing to the uncertain global economic environment and the expected deceleration of world output and trade growth in 2012.

The debt service-to-exports ratios of developing countries increased slightly in 2011, to 26.4 per cent, mainly on account of an increase in lower-middle income countries. In contrast, the ratio in low-income countries continued to decline. Although the situation varies across countries and regions, the debt-service burden is rising in Northern Africa, Eastern Asia, South-Eastern Asia and Oceania.

Currently, two separate frameworks are used to analyse debt sustainability. A recent review of the joint International Monetary Fund (IMF)-World Bank Debt Sustainability Framework for low-income countries focused on adapting the framework to changes in the debt profiles of low-income countries. The changes will give greater opportunity for debt sustainability analyses to take account of individual country-specific issues. The IMF framework for debt sustainability analysis in developed, middle-income developing and transition economies was also reviewed recently in the light of the recent debt crises in developed countries.

By May 2012, 36 of the 39 heavily indebted poor countries (HIPC) had reached the decision point in the HIPC process, when interim relief is accorded, and 32 had reached the completion point, thus benefiting from irrevocable debt relief complemented by further relief under the Multilateral Debt Relief Initiative (MDRI). Three of the four interim countries are expected to reach their completion points within a year. The total cost of the HIPC Initiative to creditors has been estimated at \$76 billion and that of the MDRI at \$33.8 billion in end-2010 present value terms. By 2012, the large multilateral and Paris Club creditors provided their full share of debt relief to all the completion point HIPCs, but full participation of all creditors remains to be secured. The activity of the Paris Club creditors has decreased in recent years, and 70 per cent of outstanding external debt of developing countries is now with private creditors.

Despite the success of debt relief initiatives in reducing the external debt of HIPCs and the number of restructurings in certain middle-income countries, 20 developing countries remain in or at high risk of debt distress, including 7 HIPC countries that have reached their completion point.

With the HIPC Initiative now largely completed, if any new countries require a sovereign debt workout they will have to rely on an ad hoc process. There are nascent signs of a renewed interest in exploring the development of an international sovereign debt workout mechanism.

### Policy recommendations

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To mitigate the impact of high debt burdens on the poor in developing countries, continued international efforts to prevent and manage debt crises are needed. Several policy options to strengthen these efforts should be considered:

- Improving the timeliness and coverage of country debt data based on both creditor and debtor reporting systems so as to strengthen capacities for assessing debt sustainability
- Bolstering technical cooperation to strengthen debt management capacity in developing and transition economies and employing debt sustainability analyses
- Impeding litigation by those creditors not participating in internationally arranged debt workouts

### Policy recommendations *(continued)*

- Fostering discussion of proposed principles on responsible borrowing and lending and guidelines on foreign debt and human rights
- Convoing an international working group to examine options for enhancing the international architecture for debt restructuring

## Access to affordable essential medicines

Increasing access to affordable essential medicines is important to achieving the health-related MDGs. Yet, there has been little improvement in recent years in improving availability and affordability of essential medicines in developing countries. Only 51.8 per cent of public and 68.5 per cent of private health facilities in those countries are able to provide patients with essential medicines. Prices of available essential medicines tend to be the multiple of international reference prices. As a result, obtaining essential medicines, especially for treatment of chronic diseases, remains prohibitive for low-income families in developing countries. The problem is compounded when several family members suffer from illness at the same time. In such cases, treatment of common diseases with even the lowest-priced generics becomes impossible for many low-income households. Availability of originator brand medicines tends to be greater in private health facilities, but they are also priced substantially higher and therefore out of reach for the poor.

Despite the global economic downturn, resources available for the provisioning of essential medicines through some disease-specific global health funds increased in 2011. New funding was pledged to the Global Fund to Fight AIDS, Tuberculosis and Malaria and the Global Alliance for Vaccines and Immunisation. Global initiatives such as these have been effective in the prevention and control of specific diseases. The challenges for these initiatives are to generate new and additional resources, rather than merely intermediating already committed ODA and private charitable contributions, and to align the disease-specific interventions with broader national health programmes and policies of recipient countries.

Various initiatives to improve access to essential medicines are being explored. Some efforts aim to reduce production and distribution costs of generic medicines through manufacturing in developing countries. Several developing countries have managed to produce medicines locally with the support of pharmaceutical companies and initiatives from developed and developing countries.

In recent years, an increasing number of developing countries have successfully used the flexibilities provided in the World Trade Organization (WTO) Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS) to lower costs and increase access to essential medicines by facilitating local production or the importation of generic medicines. However, many countries have yet to amend their national laws to incorporate TRIPS flexibilities fully. Furthermore, an increasing number of bilateral and regional free trade agreements include intellectual property protection that exceeds the minimum standards required by the TRIPS Agreement, which may hamper the use of flexibilities.

Quality is another key issue in access to essential medicines. Counterfeit as well as substandard pharmaceutical products can pose a very serious threat to health. However, resource constraints limit the capacity of regulatory authorities in developing countries to properly oversee the quality, safety and efficacy of medicines circulating in their markets.

### Policy recommendations

- Donor commitments to support global initiatives for the treatment and prevention of acute and chronic diseases should be truly additional to ODA
- The international community should assist developing-country Governments in increasing availability and use of medicines in the public sector and in providing these medicines at little or no cost to the poor through the public health system
- The international community, including new partners from the South, should further strengthen cooperation for supporting local production of generic medicines in developing countries
- The international community should further encourage the pharmaceutical industry to use voluntary licensing agreements and join patent pools
- Developing countries should carefully assess possible adverse impacts on access to medicines when adopting TRIPs plus provisions
- The international community should continue to support efforts to strengthen developing-country regulatory capacity to oversee the quality of medicines
- The international community should continue efforts to increase funding in research and development of new medicines, especially for neglected diseases

## Access to new technologies

The development impact of providing all people with access to the Internet and mobile phones is high. The access to such information and communication technologies (ICT) continues to increase worldwide, but large inequalities persist. By the end of 2011, the number of mobile cellular subscriptions worldwide reached almost 6 billion. In developing countries, mobile phone subscriptions continue to expand at a very rapid pace, growing by 20 per cent in 2010 and narrowing the gap with developed countries. By the end of 2011, 79 per cent of the population in developing countries had a mobile cellular subscription. By contrast, only one third of the people living in LDCs had access to mobile phones in 2010.

Internet use has also continued to grow worldwide, but the digital divide between developed and developing countries remains large. Internet penetration in the developing countries stood at 26.3 per cent of the population in 2011 compared to 74 per cent in developed countries.

Even with the rapid spread of ICT, the challenge of making the technologies easier, more accessible and more affordable continues. Although the costs of ICT services have been decreasing, they remain much higher in developing than in developed countries and are still prohibitive for the majority of people in some regions, especially Africa.

Adequate competition among operators and service providers, aided by necessary regulatory measures, has proven critical in reducing prices of services and protecting consumer interests. Countries continued to make considerable

efforts to foster competition in telecommunication/ICT markets during 2011. In more than 90 per cent of all countries, the provision of mobile cellular phone and Internet services takes place in markets where competition is allowed. At the same time, the fast growth of the use of ICT in many new areas has also increased the need for an expansion of regulation into such areas as electronic content, cyber security, data protection and environmental issues.

Affordable access to new technologies for climate change mitigation and adaptation and disaster risk management have also become pressing priorities. At the conference held in Durban from 28 November to 11 December 2011, Parties to the United Nations Framework Convention on Climate Change (UNFCCC) reaffirmed their commitment to support developing countries in their efforts to mitigate and adapt to the effects of climate change through a variety of mechanisms. Arrangements have been made to make sure the Green Climate Fund and the Technology Mechanism become operational in 2012.

The risk of natural disasters continues to increase in both developed and developing countries. Making further progress in reducing and managing risk will require, inter alia, better and more systematic recording of disaster losses and impacts, and the institutionalization of national disaster inventory systems. Most countries currently lack such systems.

#### Policy recommendations

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- In cooperation with the private sector, developed- and developing-country Governments should accelerate efforts to increase access to and affordability of Internet usage, especially broadband
- Governments are encouraged to increase the use of ICT in the provision of their services in order to increase efficiency and support the achievement of the MDGs
- Governments are urged to abide by their commitments to the Green Climate Fund and the Technology Mechanism so as to increase access to technologies that address the impact of climate change in developing countries
- Governments are encouraged to increase coordination in technology transfer in order to decrease disaster risk and find synergies with adaptation strategies in developing countries

# Introduction

Five years ago, the Secretary-General of the United Nations invited the organizations of the multilateral system to form an inter-secretariat task force to better monitor implementation of the commitments commonly summarized as “Goal 8” of the Millennium Development Goals (MDGs). The resulting MDG Gap Task Force produced its first report in 2008, which measured progress in implementing commitments to strengthen official development assistance (ODA), to improve access of developing-country exports to international markets, to enhance cooperation to achieve and maintain sustainable external debt situations in developing countries, and to deepen developing-country access to affordable essential medicines and new technologies. In addition to giving an account of the progress in these areas, the first report identified the gaps between commitment and delivery and called upon the international community to fill those gaps.

That has also been the message of each of the subsequent reports: additional progress has been achieved, but much remains to be done and greater efforts are needed if the world is to reach the MDGs on schedule. Even during the depths of the global financial and economic crisis, the MDG Gap Task Force reported additional progress on enough dimensions of international cooperation to conclude that the international community was advancing towards the Goals. The message of the present report is a more sobering one: the Task Force has had difficulty identifying areas of significant new progress and, for the first time, there are signs of backsliding on certain key dimensions monitored. With less than three years until 2015, Governments do not appear committed to “reversing the reversal” in time. Fewer MDGs will be reached in fewer countries as a result.

## Continuing impact of the global financial and economic crisis

To be sure, the global financial and economic crisis that erupted in 2008 could have eroded international development cooperation efforts; fortunately, this did not happen. When the Group of Twenty (G20) upgraded itself from a finance ministers’ discussion forum to include Heads of State and Government, and made serious efforts to tackle the crisis jointly, it also reaffirmed donor development assistance commitments and promised to refrain from taking new protectionist or export-promoting measures that were inconsistent with World Trade Organization (WTO) regulations. A commitment was also made to conclude finally the cluster of negotiations it called the Doha Development Agenda. In all, in its communiqué of November 2008, the G20 was mindful of the impact of the crisis on developing countries and reaffirmed the global commitment to the MDGs.<sup>1</sup> The international community as a whole reiterated these commitments

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<sup>1</sup> Group of Twenty (G20), “Declaration of the Summit on Financial Markets and the World Economy”, Washington, D.C., 15 November 2008, paras. 13 and 14.

less than a month later at the Follow-up International Conference on Financing for Development held in Doha.<sup>2</sup>

The crisis had been generated by financial sector excesses in developed countries. Although G20 Governments focused first on policy actions to counter the crisis in their own countries, they were also concerned about the negative impact on the developing world and the threat posed to the realization of the MDGs in all developing countries by 2015. Thus, in addition to the measures taken to restart their own economies and re-regulate developed countries' financial systems, the G20 promised to provide emergency financial support to developing countries impacted by the crisis and to monitor closely trade-related policies of G20 members in order to resist collectively protectionist pressures that would harm recovery efforts in developed as well as developing countries. These initiatives were endorsed by the international institutions that were asked to carry them out or to monitor national efforts. They were also welcomed at the global level by the Conference on the World Financial and Economic Crisis and its Impact on Development held in July 2009 at United Nations Headquarters in New York, which additionally insisted on maintaining international focus on development priorities, including the MDGs, and "strengthening the foundation for a fair, inclusive and sustainable globalization supported by renewed multilateralism".<sup>3</sup>

The emergency financial measures included the creation of new and reformed lending facilities and credit lines at the International Monetary Fund (IMF) and issuance for the first time since 1981 of a multilateral form of international liquidity, the Special Drawing Right (SDR). However, most of the \$284 billion worth of SDRs that were created in 2009 (\$250 billion as promised by the G20 and \$34 billion that had been pending since 1997) were allocated to developed countries. Developing and transition economies together received about \$107 billion worth of SDRs.<sup>4</sup> In addition, the World Bank and the regional development banks boosted their lending programmes, backed by increases in their capital and replenishment of their concessional lending facilities. Meanwhile, as the close monitoring of trade policy measures undertaken for the G20 revealed, there were relatively minor (though recently increasing) slippages in the pledge to avoid recurrence to trade protectionist measures.<sup>5</sup>

In fact, most developing and transition economies quickly bounced back from the crisis-induced output decline and total employment returned to pre-crisis levels. Yet, the crisis left more workers in vulnerable employment, and unemployment rates in some regions, especially among youth, remained generally high.<sup>6</sup> In addition, although most recent international attention on sovereign debt

<sup>2</sup> Report of the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus, Doha, Qatar, 29 November–2 December 2008 (A/CONF.212/7), chap. 1, resolution 1, annex, paras. 3, 32 and 40.

<sup>3</sup> General Assembly resolution 63/303 of 9 July 2009, para. 10.

<sup>4</sup> Calculated from International Monetary Fund (IMF) data, employing the country classification of *World Economic Situation and Prospects 2012* (United Nations publication, Sales No. E.12.II.C.2).

<sup>5</sup> World Trade Organization (WTO), Organization for Economic Cooperation and Development (OECD) and the United Nations Conference on Trade and Development (UNCTAD) have jointly monitored trade and investment restrictions by the G20 in semi-annual reports, which have cumulatively affected about 3 per cent of world imports (see chapter on market access below).

<sup>6</sup> *World Economic Situation and Prospects 2012*, op. cit., pp. 10–11 and annex table A.8.

issues has focused on a number of developed countries, the IMF and the World Bank have continued to view a number of low-income and vulnerable developing economies as being at risk of debt distress (see the chapter on debt sustainability). The developing countries with the most difficult economic situations were also the countries about which there was most concern in terms of achieving the MDGs by 2015. In this context, in September 2010, the United Nations General Assembly hosted a global stocktaking on progress in realizing the MDGs, during which the Member States of the United Nations recommitted themselves to deepening the global partnership for development. Moreover, many individual Member States and international organizations promised to undertake specific additional contributions to the partnership.<sup>7</sup>

Unfortunately, 18 months later, the information being compiled on international cooperation efforts for the present report can only be described as disappointing. As will be detailed in the subsequent chapters, the value of ODA measured in constant prices and exchange rates fell in 2011 and neither the Doha Round negotiations at the WTO nor the promised “early harvest” trade agreements for the least developed countries (LDCs) has been realized. Moreover, the global outlook—and thus the extent to which the international economic environment can be called “enabling”—has deteriorated notably from the second half of 2011. As seen in mid-2012, the outlook was, at best, uncertain and, at worst, a cause for concern.<sup>8</sup>

The developed economies have been slow to emerge from the crisis and several have already fallen back into recession with the future of the euro at stake, with severe fiscal austerity negatively impacting growth inside and outside the euro area, with continued financial sector fragility and with a faltering and largely jobless recovery in the United States of America. Nevertheless, implementing the international partnership commitments—in particular, ODA and the early harvest—did not require substantial, economy-wide sacrifices in developed economies. Budget allocations for ODA could have been preserved in fiscal consolidation plans, as was indeed the case in some donor countries. Also, specific industries likely to face stronger competition could have been protected had barriers to competitive imports from LDCs been relaxed as proposed in the early harvest. The fact that this did not happen but could have goes completely against the spirit and aim of the global partnership. The priority accorded to development should and can be higher.

## Is political support for the global partnership weakening?

The global partnership for development has embodied both cooperative international deliberations to design strategies and assess their implementation, as well

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<sup>7</sup> Commitments made at the General Assembly session were summarized in the previous report of the Task Force (see *MDG Gap Task Force Report 2011—The Global Partnership for Development: Time to Deliver* (United Nations publication, Sales No. E.11.I.11), pp. 1-4). In addition, as discussed further on in the text, frequently updated information on partnership commitments and their implementation may be found at the website of the Integrated Implementation Framework, “Tracking Support for the Millennium Development Goals (MDGs)”, available from <http://iif.un.org>.

<sup>8</sup> United Nations, “World economic situation and prospects as of mid-2012” (E/2012/72).



as the actual adoption of concrete policies in developing and developed countries. For much of the past decade, the partnership has been active at the discussion level, followed by substantial though insufficient policy delivery. However, the significant and growing disappointments at the policy-delivery level may now be souring the dialogue in international deliberations.

How many times and in how many forums can the member countries of WTO pledge to complete the Doha Round of multilateral trade negotiations without delivering on that pledge and still retain their credibility? How many times can the international community pledge to take major steps to address climate change and environmentally sustainable development and produce minor progress, at best? How many times can Governments pledge to reach financial cooperation targets and not achieve them? How many times will multilateral conferences need to issue bland and non-committal outcome declarations to paper over deep divisions?

The waning support for the global partnership for development may be understandable in a context where much of the developed world is stuck in a protracted economic and financial crisis. The same withdrawal from solidarity is also happening at national and regional levels. Taxpayers in donor countries want to shrink Governments and pay less taxes, not only because they feel economically insecure personally, but also because they seem no longer to trust government to deliver appropriate services effectively and efficiently—services for which their taxes pay—to the targeted recipients. Justified or not, ultimately, such perspective is not sustainable at either the national or international level. Voluntary private initiatives, even those of the wealthiest people in the world, cannot match the mobilization and financing capacity of Governments when addressing social and economic problems. Collective action through States remains essential nationally and internationally.

To regain the momentum and credibility of the global partnership, stronger mutual accountability is essential. The web-based platform “Tracking Support for the MDGs”,<sup>9</sup> recently launched under the aegis of the MDG Gap Task Force, was designed to enhance accountability for the delivery on commitments in support of the MDGs and puts into practice the Integrated Implementation Framework proposed by the United Nations Secretary-General as a follow-up to the High-level Plenary Meeting of the General Assembly on the MDGs held in September 2010. Making commitments and delivery gaps more transparent should help. However, it is up to all stakeholders to make sure that commitments do not remain mere rhetoric, but become reality.

## The case for rebuilding the global partnership

International solidarity is the compelling, moral case for the global partnership for development. However, there is an even stronger political and economic case to be made: the ultimate security and well-being of people *anywhere* depend on the expectation of adequate living standards *everywhere*. Rich people may try to live behind fortress walls in their countries and rich countries may try to erect fortress protections against the foreign poor. They would all be fooling themselves

<sup>9</sup> Available from <http://iif.un.org/>.



in our highly globalized world. Whether they realize it or not, they already rely on one another.

The global partnership for development should be seen as a “positive-sum game”. There is positive feedback when the economies of development partner countries achieve robust growth and become dynamic markets for world trade and investment. Citizens in rich countries also stand to gain when welfare in poor countries improves. Pressure on migratory flows will diminish when there are good jobs and improved living conditions at home. Unsustainable pressures on the Earth’s natural limits caused by increasing human activity are a further and primordial reason why the global partnership should be seen as an opportunity to yield positive-sum outcomes. Massive investments are needed for climate change mitigation and adaptation and other dimensions of environmental protection of global ramifications.<sup>10</sup> Such investment will come about only through collective action, both nationally and, foremost, internationally. The United Nations Conference on Sustainable Development (Rio+20) committed in this regard “to strengthen international cooperation to address the persistent challenges related to sustainable development for all, in particular in developing countries...[and] reaffirm[ed] the need to achieve economic stability, sustained economic growth, promotion of social equity and protection of the environment, while enhancing gender equality, the empowerment of women and equal opportunities for all, and the protection, survival and development of children to their full potential, including through education”.<sup>11</sup>

No one should presume that the global distribution of scientific and enterprise creativity matches the global distribution of income. Scientific breakthroughs do not take place, inventions are not made and innovations are not commercialized when the global stock of capacity is not developed because some regions remain poor and opportunities are skewed in favour of the rich. The global partnership for development must work to overcome such constraints and inequalities.

The postulate advanced here is that, for pragmatic as well as ethical reasons, the world very much needs the benefits of international economic cooperation. It is essential to convince policymakers that this is where their national interests lie, to fight the myopia and to rebuild the case for the global partnership for development.

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<sup>10</sup> See, for example, *World Economic and Social Survey 2011: The Great Green Technological Transformation* (United Nations publication, Sales No. E.11.II.C.1); United Nations Environment Programme (UNEP), *Towards a Green Economy: Pathways to Sustainable Development and Poverty Eradication* (Nairobi, 2011), available from [www.unep.org/greeneconomy](http://www.unep.org/greeneconomy); and Rob Vos, Richard Kozul-Wright and Frank Ackerman, eds., *Climate Protection and Development* (London: Bloomsbury Academic).

<sup>11</sup> United Nations, “The Future We Want” (A/CONF.216/L.1), 19 June 2012, para. 11.



## Official development assistance

In 2011, as fiscal austerity took its toll on the economies of developed countries in general, its specific impact on official development assistance (ODA) was also felt. Excluding debt relief, the total volume of ODA fell in real terms for the first time in more than a decade, widening the delivery gap against outstanding commitments. At the same time, the international donor community reinforced previous commitments to increase ODA, and high-level international meetings led to new pledges to improve aid effectiveness. However, progress in meeting the targets previously set for making aid more effective has been disappointing. This is the context in which the international community finds itself in 2012: facing the clear and mounting challenge of how to turn ODA rhetoric into reality.

### ODA commitments made in 2011

Development partners reiterated aid commitments as part of the Istanbul Programme of Action, which was agreed upon in May 2011 at the Fourth United Nations Conference on the Least Developed Countries (LDC-IV). To ensure the fulfilment of ODA commitments to LDCs, donor countries providing more than 0.2 per cent of their gross national income (GNI) as aid to LDCs promised not only to maintain their level of aid but to maximize efforts to raise it even further. Donor countries that had met the lower bound United Nations target (that is, to provide 0.15 per cent of GNI in development assistance to LDCs) promised to reach the 0.2 per cent target expeditiously. Countries that adopted the LDC aid targets but had not yet met the 0.15 aid target pledged to make their best efforts either to reach the target by 2015 or to accelerate their endeavours to increase assistance to LDCs. And finally, other donor countries agreed to exercise their best efforts to increase ODA for LDCs within the period of the Programme of Action, significantly increasing collective assistance to LDCs.<sup>1</sup>

Donors reaffirmed their aid commitments

In addition, the donor countries of the Group of Eight (G8), meeting in Deauville, France, in May 2011, reaffirmed their commitment to meeting their aid commitments, including those announced the previous September at the High-level Plenary Meeting of the General Assembly on the Millennium Development Goals (MDGs). The G8 also emphasized its commitment to health and food security through initiatives begun earlier.<sup>2</sup>

At the Deauville meeting, the G8 also promised to improve the transparency and accountability of their aid information. In addition, development part-

<sup>1</sup> Report of the Fourth United Nations Conference on the Least Developed Countries, Istanbul, Turkey, 9-13 May 2011, "Programme of Action for the Least Developed Countries for the Decade 2011-2020" (A/CONF.219/7), chap. II, para. 116.

<sup>2</sup> See "G8 Declaration: Renewed Commitment for Freedom and Democracy", Deauville, France, 27 May 2011, paras. 56-63.

A new framework for development cooperation is established

ners promised in Istanbul to increase the alignment of their aid with the national priorities and national systems and procedures of recipient LDCs.

In a broader context, this was also a theme at the Fourth High-level Forum on Aid Effectiveness, which took place in Busan, Republic of Korea, from 29 November to 1 December 2011. The Forum brought together a wide group of international stakeholders to review progress in implementing the Paris Declaration principles of aid effectiveness and to discuss how to strengthen the development impact of aid further. The participants agreed to build the Busan Partnership for Effective Development Cooperation, which establishes an agreed framework for development cooperation that, for the first time, embraces traditional donors, South-South cooperators, emerging donors, developing countries, and a number of civil society organizations and private funders. The Busan Forum marked a turning point in international consideration of development cooperation as it moved from a focus that had been purely on aid effectiveness to a more holistic approach, looking at the contribution that effective development cooperation can make to overall development effectiveness. A New Deal for Engagement in Fragile States was also endorsed, aiming to create a new development architecture that would be better tailored to the situation and challenges of fragile States.

Apart from affirming existing promises on aid and aid effectiveness, the Group of Twenty (G20) at its Summit in Cannes in November 2011 acknowledged the need to tap new sources of funds for development and global public goods over time, including innovative mechanisms which some G20 countries are already implementing (such as the airline ticket levy) and those which they are prepared to explore (such as a financial transactions tax). They also agreed to mobilize their capacities to address agricultural challenges in the developing world by increasing agricultural production through investment and mitigating agricultural commodity price volatility.<sup>3</sup>

## ODA delivery in 2011 and prospects

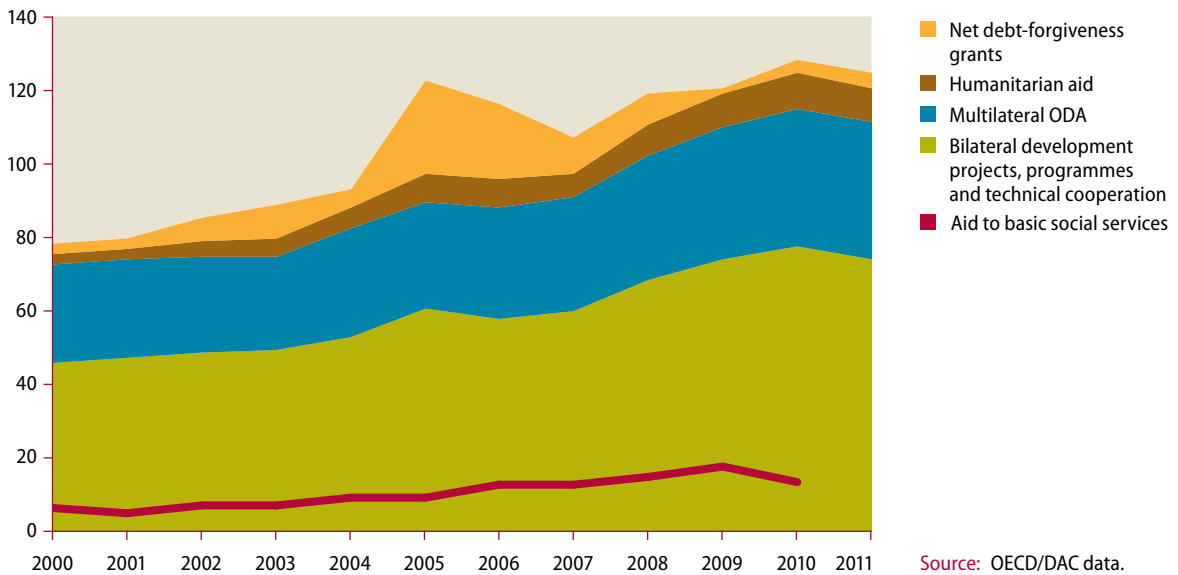
Aid fell in 2011...

After reaching a peak in 2010, the volume of ODA fell almost 3 per cent in 2011, as measured in constant prices and exchange rates (see figure 1). Excluding the years following the granting of exceptional debt relief, which had boosted measured ODA flows, the 2011 decline represents the first significant fall since 1997, when aid fell by nearly 6 per cent. Aid for core bilateral projects and programmes, which excludes debt relief grants and humanitarian aid, fell by 4.5 per cent in real terms.

ODA flows from the member countries of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) reached \$133.5 billion in 2011, equivalent to 0.31 per cent of their combined GNI. Out of the 23 DAC donors, 16 reduced their aid in 2011, mainly as a result of fiscal constraints related to the current economic crisis, which had negatively affected their ODA budgets. The largest falls were seen in Greece (39.3 per cent) and Spain (32.7 per cent) as a direct result of the crisis. These were followed by Austria (14.3 per cent) and Belgium (13.3 per cent), owing to reduced debt-forgiveness grants. Japanese ODA also suffered a large decrease (10.8 per

<sup>3</sup> See “Cannes Summit Final Declaration—Building our Common Future: Renewed Collective Action for the Benefit of All”, Cannes, France, 4 November 2011, paras. 71-72 and 81-82.

Figure 1  
Trends in main components of ODA from DAC members, 2000-2011  
(billions of 2010 dollars)



Source: OECD/DAC data.

cent) after a significant rise in 2010. Only Sweden, Norway, Luxembourg, Denmark and the Netherlands<sup>4</sup> continue to exceed the United Nations target of 0.7 per cent of GNI (see figure 2).

The fall in ODA resulted in a slight widening of the gap between actual flows and the United Nations target of 0.7 per cent of donor GNI. The gap was equivalent to 0.39 per cent of GNI in 2011 (table 1) compared with 0.38 per cent in 2010. To meet the United Nations target, total ODA should more than double, to about \$300 billion (in 2011 dollars), thus leaving a delivery gap against that commitment of \$166.8. The gap widened by \$4 billion in 2011 compared with the year before.

...and the gap to reach the United Nations target widened

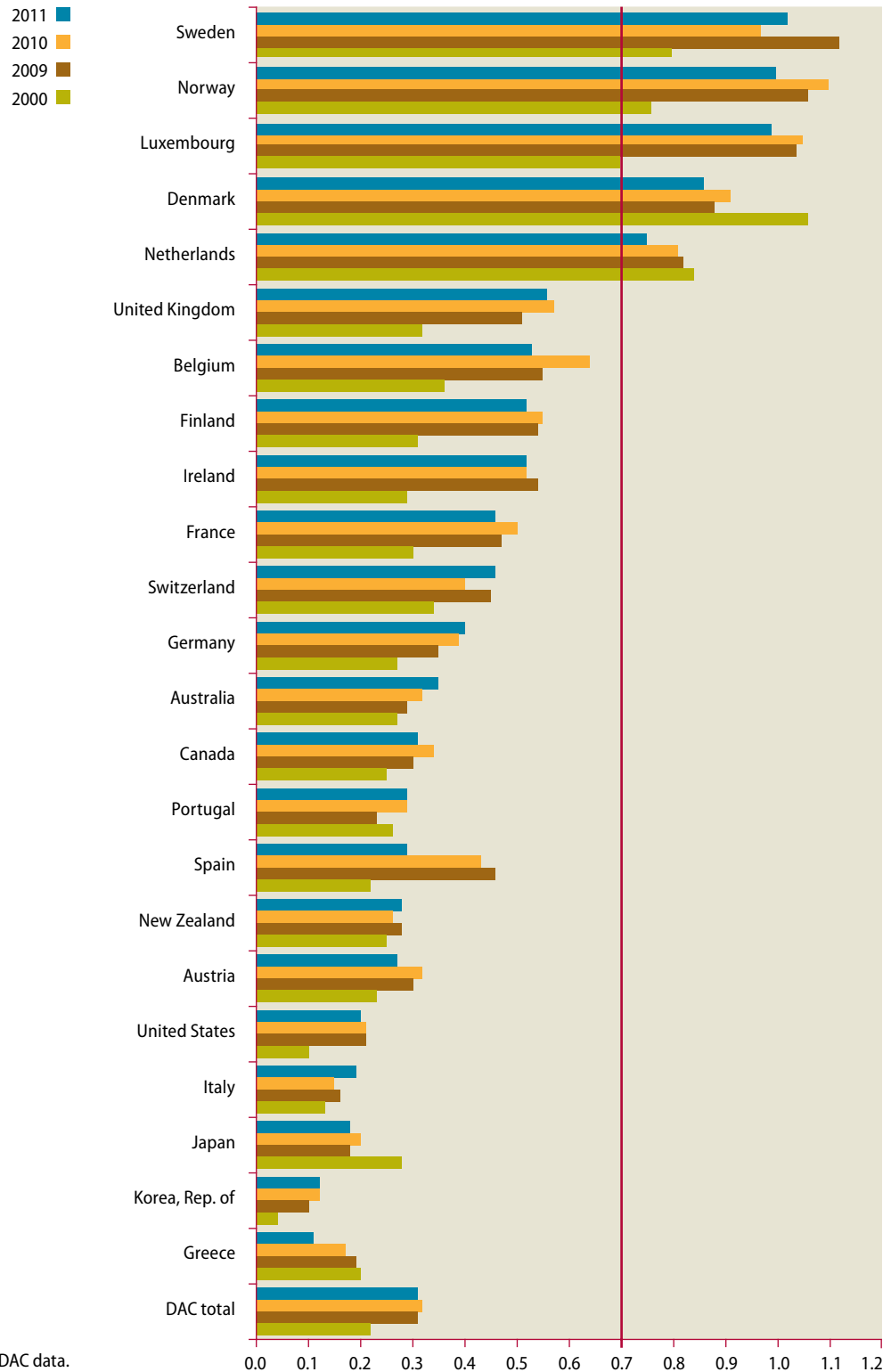
Table 1  
Delivery gaps towards aid commitments by DAC donors, 2010 and 2011

		Percentage of GNI	Billions of 2011 dollars
<b>Total ODA</b>	United Nations target	0.7	300.3
	Delivery in 2011	0.31	133.5
	Gap in 2011	0.39	166.8
<b>ODA to LDCs</b>	United Nations target	0.15-0.20	63.7-84.9
	Delivery in 2010	0.11	46.5
	Gap in 2010	0.04-0.09	17.2-38.4

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

<sup>4</sup> In the case of the Netherlands, official development assistance (ODA) decreased 6.4 per cent in 2011 in real terms, reflecting the decision of the Government to reduce ODA to 0.75 per cent of GNI. The budget for 2012 sets out to reduce ODA further, to 0.7 per cent of GNI.

Figure 2  
**ODA of DAC members in 2000, 2009, 2010 and 2011 (percentage of GNI)**



Source: OECD/DAC data.

The fall in aid flows in 2011 was not foreseen by the DAC. The 2011 OECD survey of donors' forward spending plans had predicted a small increase in country programmable aid (CPA),<sup>5</sup> which has typically been a good predictor of trends in total aid. Looking forward, preliminary results from the 2012 OECD survey of donors' forward spending plans indicate that CPA is expected to increase by about 6 per cent in 2012, albeit mainly on account of expected increases in outflows of soft loans from multilateral agencies that had benefited from earlier fund replenishments (2009-2011).<sup>6</sup> From 2013 to 2015, however, CPA is expected to stagnate, reflecting the delayed impact of the global economic crisis on donor country budgets.

In fact, if history is a guide, the impact of the economic crisis on aid may persist for several years. The fiscal austerity responses following the recessions of the early 1990s also pushed ODA flows into a steep and prolonged decline during much of the 1990s.<sup>7</sup> It took Finland and Sweden more than six years to increase ODA back to the levels reached before the Nordic crisis of 1991.<sup>8</sup>

Under the current pressures for fiscal consolidation, the discretionary nature of ODA puts it at enhanced risk of budget cuts. Strong political commitment can offset this risk; indeed, seven countries—Australia, Germany, Italy, New Zealand, the Republic of Korea, Sweden and Switzerland—increased their aid in 2011. The increase in Italy's aid came on account of more generous debt forgiveness and support to rising numbers of refugees from North Africa. In the case of the other countries, however, the increase resulted from their continued commitment to increase ODA. The Government of the United Kingdom of Great Britain and Northern Ireland has reiterated its intention to pledge to reach the target of 0.7 per cent of its GNI by 2013. In 2011, there was a setback in reaching that target as ODA provided by the United Kingdom fell slightly to 0.56 per cent of GNI, down from 0.57 per cent in 2010. Furthermore, as its economy entered into recession in the first quarter of 2012, reaching the United Nations target will imply much less of an increase in the actual aid volume than would have been the case without the economic downturn.

Most OECD/DAC countries that cut their budget deficits also reduced ODA (net of debt relief). Norway and Spain recorded the largest drop in ODA as a percentage of GDP. Ireland, undergoing by far the strongest fiscal retrenchment, cut ODA only to a minor degree. ODA remained virtually the same in Germany and Portugal despite significant overall fiscal adjustment (see figure 3).

The global crisis will have an impact on aid in the next few years...

...as fiscal austerity measures are putting pressure on aid budgets

5 Country programmable aid (CPA) is a core subset of ODA that applies to programmes and projects and excludes non-programmable items such as humanitarian aid, debt relief and costs incurred in donor countries, as for administration and care of refugees.

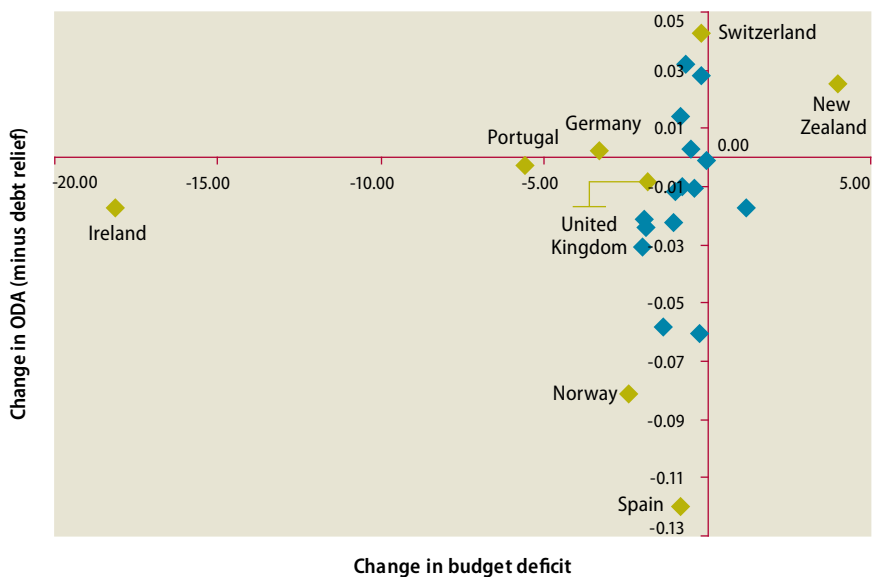
6 Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD/DAC), "Outlook on aid: preliminary findings from the OECD/DAC survey on donors' forward spending plans 2012-2015", available from <http://www.oecd.org/dataoecd/45/25/50056866.pdf>.

7 OECD, *Development Cooperation Report 1996: Efforts and Policies of the Members of the Development Assistance Committee* (Paris), chap. IV.

8 The analysis is based on net aid transfers, rather than net ODA. See <http://blogs.cgdev.org/globaldevelopment/2008/10/history-says-financial-crisis.php>.

Figure 3

**Fiscal retrenchment and change in ODA disbursement (minus debt relief) in 2011 compared with 2010 (in percentage points of GDP)**



Sources: OECD, OECD Economic Outlook, vol. 2012/1 (May) for budget deficit data; OECD National Accounts Statistics for GDP data; and OECD/DAC for ODA data.

Note: A negative value for the change in budget deficit depicts a reduction in the deficit or an increase in its surplus.

## Allocation of ODA by countries

Gleneagles targets expired, but other commitments to Africa remain

At the 2005 G8 summit in Gleneagles, Scotland, donor countries made commitments to increase aid to Africa by \$25 billion a year by 2010. This target was not met, however. Nonetheless, sub-Saharan Africa remains the region that receives the most ODA, and existing commitments in general are still largely focused on Africa, including the Istanbul Programme of Action for the LDCs, the majority of which are in Africa; aid commitments made by the G8 at the 2009 LAquila and 2010 Muskoka Summits to support, respectively, agriculture and food security and maternal, newborn and child health; and aid flows committed to the Joint African Union and EU Strategy Action Plan 2011-2013.<sup>9</sup> Other pledges to advance the MDGs in Africa, such as the Global Strategy for Women and Children's Health proposed by Secretary-General, were also contained in commitments made at the 2010 High-level Plenary Meeting of the General Assembly.<sup>10</sup>

Despite these commitments, preliminary data for 2011 show that bilateral aid to sub-Saharan Africa fell by 0.9 per cent in real terms, to \$28 billion.<sup>11</sup> By contrast, aid to North Africa increased, reflecting support for the political transitions arising from the Arab Spring. As a result, total bilateral aid to Africa increased by 0.9 per cent in real terms in 2011, to \$31.4 billion.

ODA to LDCs also fell in 2011

As indicated, increased assistance to LDCs is another international priority. ODA flows to LDCs from DAC members (including imputed multilateral aid) increased to \$44 billion in 2010, the latest year for which detailed data

<sup>9</sup> See [http://www.africa-eu-partnership.org/sites/default/files/doc\\_jaes\\_action\\_plan\\_2011\\_13\\_en.pdf](http://www.africa-eu-partnership.org/sites/default/files/doc_jaes_action_plan_2011_13_en.pdf).

<sup>10</sup> See <http://www.everywomaneverychild.org/>.

<sup>11</sup> Data on total aid, which includes imputed multilateral aid, was not available for Africa at the time of writing.



are available, up from \$37.4 in the previous year. As a share of DAC GNI, aid to LDCs almost doubled from 0.06 per cent in 2000 to 0.11 per cent in 2010, getting closer to the lower bound of the United Nations target (table 1). This gap has narrowed to 0.04 per cent of donor GNI, or approximately \$17 billion. Nevertheless, consistent with the trends in aid to sub-Saharan Africa, preliminary estimates indicate that DAC donors appear to have reduced bilateral aid to LDCs by 2 per cent in real terms in 2011.

From a longer-term perspective, though, donors have given increasing priority to LDCs. The share of ODA provided to LDCs increased from 26.0 per cent in 2000 to 34.4 per cent in 2010. Recent increases, however, have largely consisted of increased debt relief to the Democratic Republic of the Congo and Liberia and emergency relief to Haiti. Liberia received \$800 million in debt-forgiveness commitments in 2010 (compared with \$100 million in 2009) and the Democratic Republic of the Congo received \$1,300 million (compared with \$144 million in 2009).

While the increase in ODA to LDCs observed in 2010 was encouraging, only 9 of the 23 DAC donors reached the lower bound United Nations target of 0.15 per cent of GNI. Canada has almost reached that target (see figure 4).

Two additional groups of countries that are considered international priorities for assistance because of their geographical situations are landlocked developing countries (LLDCs) and small island developing States (SIDS). For the first time in a decade, aid to LLDCs fell in 2010, dropping by 1 per cent in real terms, to \$25 billion (see figure 5). Aid receipts have fallen gradually to an average of 4 per cent of GNI of LLDCs, down on average from 7.4 per cent in the first half of the 2000s. Afghanistan continues to be by far the largest recipient of aid among not only LLDCs but all developing countries, receiving over \$6 billion in 2010 (see table 2).

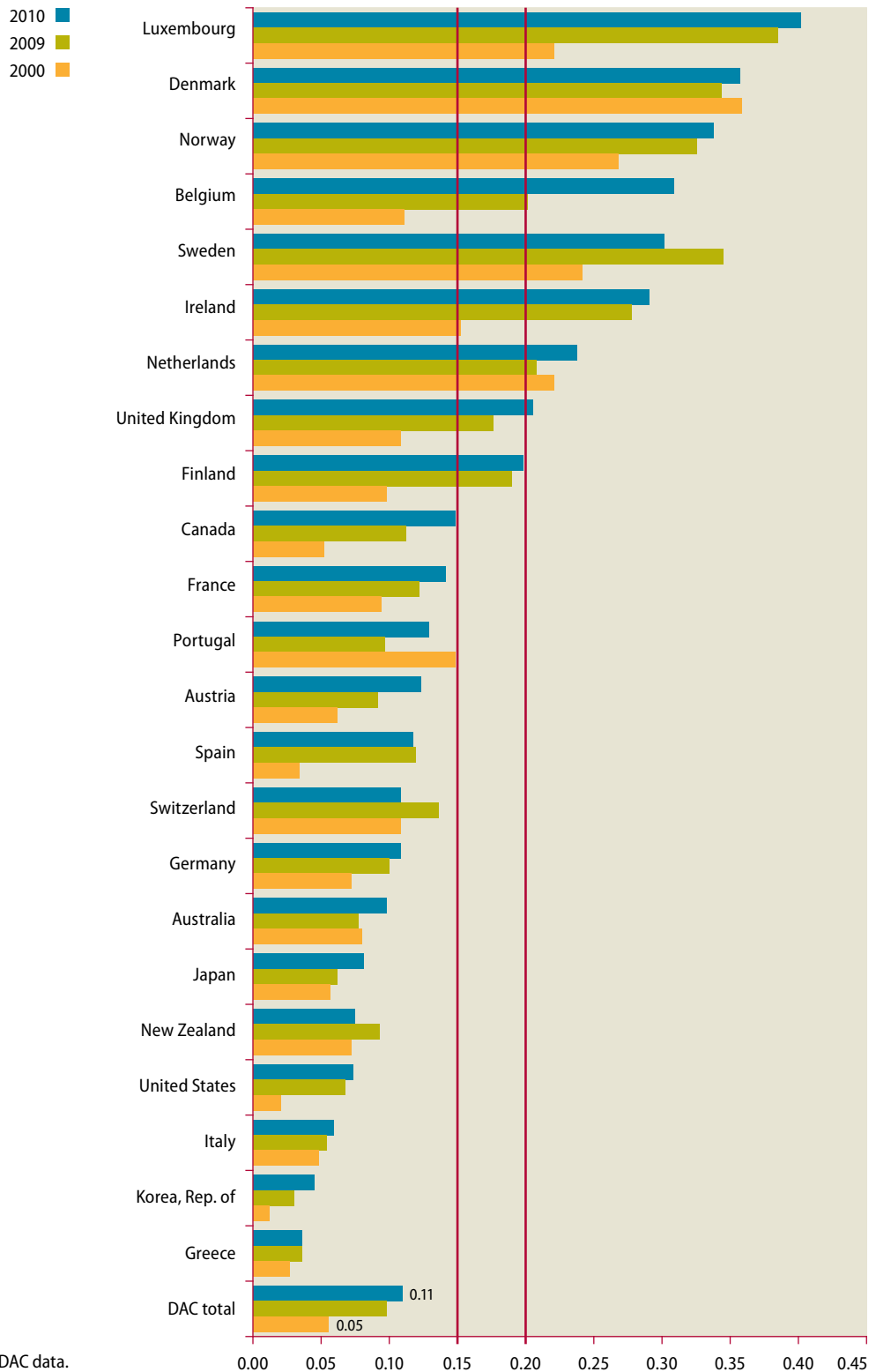
Aid to SIDS, by contrast, increased substantially to a volume of \$6.8 billion in 2010, an increase of 57 per cent in real terms from the year before. ODA flows to SIDS increased as a share of their GNI from 2.4 per cent in 2000 to 5 per cent in 2010. This increase can be attributed mainly to aid provided to Haiti in the aftermath of the devastating earthquake of January 2010. The country received \$3 billion, of which almost \$2 billion was for emergency humanitarian assistance.

Aid continues to be concentrated in a small number of countries. The top 20 recipients in 2010 (out of 153 countries and territories) accounted for about 38 per cent of total ODA. This degree of concentration has not shifted notably since 2000, although the country composition of the top 20 has changed somewhat. The group of recipient countries that made up the top 20 recipients in 2010 received only 25 per cent of ODA in 2000.

As noted earlier, the disappointing overall ODA prospects for the near future will not affect all aid-receiving countries to the same degree. Countries in Central America and several large recipients in Eastern Asia, such as Indonesia and the Philippines, are expected to see the largest declines in country programmable aid (CPA). CPA is expected to continue decreasing in Latin America beyond 2013, but may increase in Southern and Central Asian countries. The OECD expects little change in CPA provided to Africa. The Democratic Republic of the Congo and Kenya are expected to experience large increases, while Afghanistan and Haiti may see strong declines. Until 2015, any

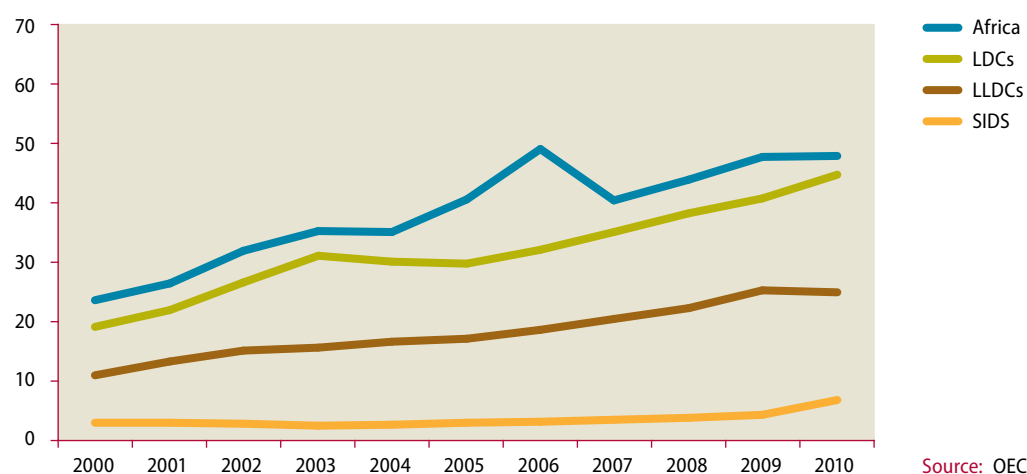
Aid remains concentrated  
in a few countries

Figure 4  
**ODA of DAC donors provided to least developed countries, 2000, 2009 and 2010**  
*(percentage of GNI)*



Source: OECD/DAC data.

Figure 5  
**Total ODA received by priority groups of countries, 2000-2010**  
*(billions of 2010 dollars)*



Source: OECD/DAC data.

Table 2  
**Top aid recipients in 2010** *(millions of 2010 dollars)*

	2000 ODA receipts	2010 ODA receipts	Change from 2009 to 2010 (percentage)
Afghanistan	223	6,371	0.6
Democratic Republic of the Congo	286	3,541	49.6
Ethiopia	1,037	3,524	-8.4
Haiti	298	3,065	171.0
Pakistan	936	3,011	7.1
United Republic of Tanzania	1,559	2,958	-0.4
Viet Nam	2,212	2,940	-22.8
India	1,869	2,806	10.9
West Bank and Gaza	1,033	2,517	-11.1
Iraq	167	2,190	-22.8
Nigeria	246	2,062	23.4
Sudan	354	2,046	-14.3
Mozambique	1,427	1,952	-3.3
Uganda	1,287	1,723	-4.0
Ghana	850	1,693	6.4
Kenya	731	1,629	-9.0
Liberia	99	1,419	176.7
Bangladesh	1,705	1,414	13.4
Indonesia	2,184	1,392	25.2
Congo	52	1,312	376.6
<b>Top 10 total</b>	<b>9,620</b>	<b>32,923</b>	<b>..</b>
Share in total ODA (percentage)	13.1	25.3	..
<b>Top 20 total</b>	<b>18,554</b>	<b>49,566</b>	<b>..</b>
Share in total ODA (percentage)	25.3	38.1	..

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

additional core aid provided to developing countries is expected to be outpaced by population increases in all regions except for Africa, and thus CPA per capita is expected to fall back to about the same levels as in 2005.<sup>12</sup>

## Aid modalities

Aid is distributed mainly in the form of grants...

The DAC defines aid flows as highly concessional financial and technical assistance provided for the purpose of development. The aid may take the form of grants, or loans conveying a grant element of at least 25 per cent, and include relief of debt owed to the donor countries. Over the past decade, donors have provided aid mainly in the form of grants. In 2010, the share of grants in total aid was 86 per cent, and was substantially lower in a handful of countries only, including France, Japan and the Republic of Korea with shares of 68 per cent, 52 per cent and 46 per cent, respectively.<sup>13</sup> The grant element of total ODA commitments reached 95.4 per cent, the same level as in 1999-2000 and slightly down from 96.3 per cent in 2009. The grant element of ODA to LDCs is above average, reaching 99.4 per cent in 2009-2010, consistent with the long-standing DAC recommendation that LDCs should receive aid in grants rather than loans.<sup>14</sup>

...but more of it should be untied...

Aid is considered to be “tied” when donors require recipients to spend the aid they receive on goods and services provided by suppliers based in the donor country. As such, tied aid may reduce the cost-effectiveness of aid by limiting the recipient’s choice of providers. It also weakens national ownership of the use of aid resources, which can erode alignment with national development priorities.<sup>15</sup> In 2010, 83.6 per cent of bilateral aid, excluding technical cooperation and administrative costs, was untied, down from its peak of 91.4 per cent, reached in 2005 (see figure 6).<sup>16</sup> Progress towards untying aid varies considerably among donor countries. A number of donors, including Canada, have gradually untied aid over the past decade, while others, such as Austria, Italy and Spain, reversed earlier progress. In 2010, the United States share of untied aid remained below 70 per cent. In Greece, the share of untied aid stood at only 62.2 per cent, but this represents an increase from much lower levels in the previous years. Less than half of the aid of Portugal and the Republic of Korea was untied in 2010. The latter, a recent DAC member, intends to untie 75 per cent of its aid by 2015.

...especially aid to LDCs

In 2001, the DAC issued a recommendation to untie ODA to the LDCs to the greatest extent possible.<sup>17</sup> In 2010, 80.4 per cent of DAC bilateral aid to the LDCs was untied, excluding administrative costs, leaving some room for improvement (see figure 7).

<sup>12</sup> “Outlook on aid”, op. cit.

<sup>13</sup> OECD, “Statistics on resource flows to developing countries”, December 2011, available from [www.oecd.org/dac/stats/dcrannex](http://www.oecd.org/dac/stats/dcrannex).

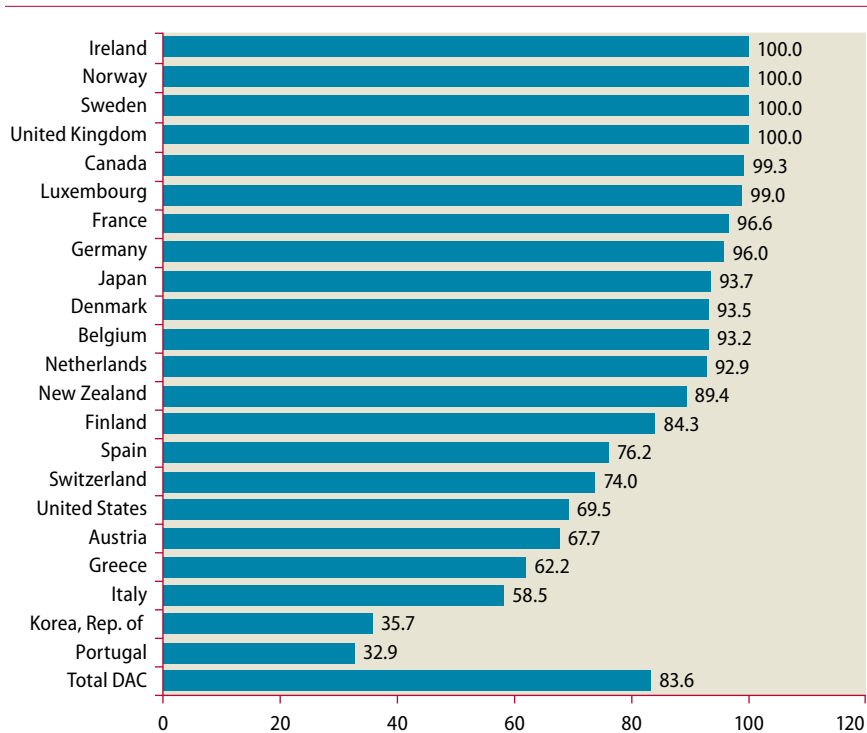
<sup>14</sup> See OECD/DAC, “Recommendation on terms and conditions of aid 1978”, para. 8, available from <http://www.oecd.org/dataoecd/58/25/31426776.pdf>.

<sup>15</sup> OECD, *Aid Effectiveness 2005-10: Progress in Implementing the Paris Declaration* (Paris, 2011), p.53.

<sup>16</sup> It should be noted that Australia did not report aggregate statistics on the tying status of its bilateral aid, excluding administrative costs and technical cooperation, based on commitments in 2010 slightly affecting the comparability of the total average for DAC.

<sup>17</sup> See “DAC recommendation on untying official development assistance to the least developed countries”, DCD/DAC(2001)12/FINAL, para. 2, available from <http://www.oecd.org/dataoecd/14/56/1885476.pdf>.

Figure 6  
Share of untied bilateral ODA<sup>a</sup> of DAC members, <sup>b</sup> 2010

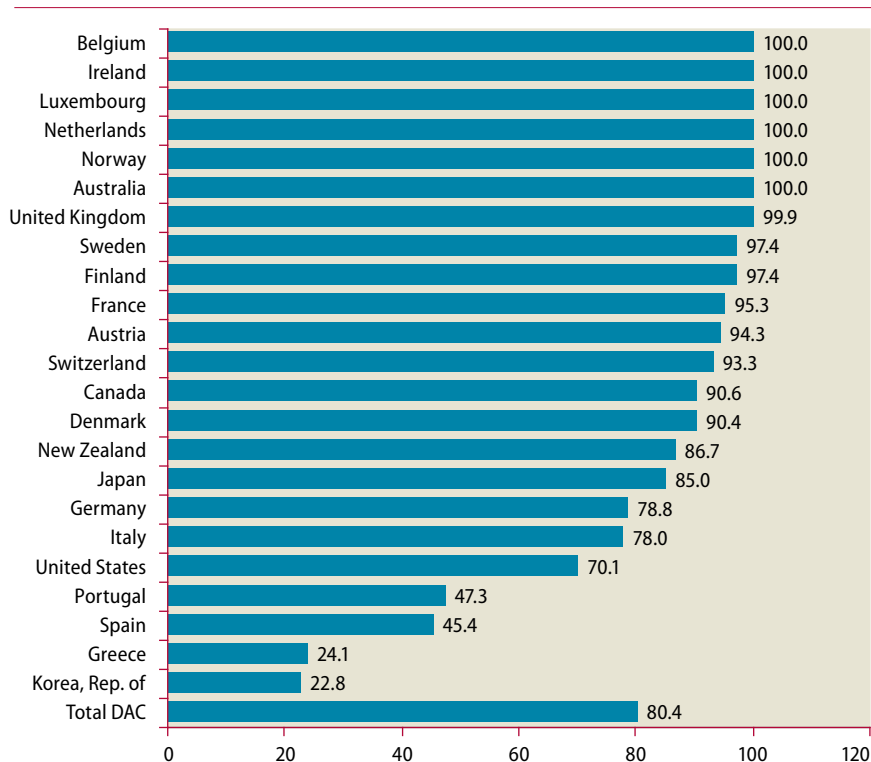


Source: OECD/DAC data.

<sup>a</sup> Excluding technical cooperation and administrative costs.

<sup>b</sup> Australia did not report aggregate statistics on the tying status of its bilateral aid excluding administrative costs and technical cooperation based on commitments slightly affecting the comparability of the average of the DAC total.

Figure 7  
Share of untied bilateral ODA<sup>a</sup> of DAC members to LDCs, 2010



Source: OECD/DAC data.

<sup>a</sup> Excluding administrative costs.

## ODA allocated for specific purposes

Aid allocations to basic social services declined...

Donors have sought to increase the proportion of bilateral sector-allocable aid that is provided for basic social services. This sector category comprises basic education and health services, population and reproductive health programmes, drinking water supply and basic sanitation systems, as well as multisector aid for basic social services. In 2010, 15.6 per cent of donors' bilateral sector-allocable aid was allocated to basic social services, down from 21.2 per cent in the previous year. This represents a decline of 20.7 per cent, to \$13.8 billion in 2010 dollars. Aid flows supporting population and reproductive health programmes increased substantially in the period 2006-2010 to an average of 8.8 per cent of DAC sector-allocable ODA, up from 5.6 per cent in 2000-2005.

...while the agricultural sector is receiving increasing international attention

The agricultural sector has gained renewed attention in recent years with a number of commitments made by donors, among them the promotion of agricultural productivity, production and sustainability, as committed at the 2010 High-level Plenary Meeting of the General Assembly on the MDGs; provision of enhanced financial and technical support for the development of the agricultural sector in LDCs, as committed at the LDC IV Conference; and a commitment of over \$20 billion by the G8 L'Aquila Food Security Initiative, some of which will focus on sustainable agricultural development. In 2010, \$5.4 billion in ODA resources were allocated for the agriculture sector, equivalent to 6.1 per cent of sector-allocable aid, up from 5.1 per cent in 2009. It should be noted that food aid and food security assistance is registered as a separate category, amounting to \$1.4 billion in 2010. According to the G8 Camp David Accountability Report,<sup>18</sup> a total of \$22.2 billion was pledged for the L'Aquila Initiative. As of May 2012, 58 per cent of this pledge had been disbursed. Of the 13 donors that committed themselves to this initiative, 4 countries—Canada, Italy, the Netherlands and the United Kingdom—have fully disbursed their pledges.<sup>19</sup>

## Aid effectiveness

Only 1 of the 13 targets of the Paris Declaration was met...

The developed and developing countries and multilateral institutions that met in Paris in 2005 adopted 5 principles to strengthen aid effectiveness and 13 targets to measure their implementation; these were reinforced in Accra in 2008.<sup>20</sup> The targets were to be achieved by 2010. The final report on the implementation of the Paris Declaration principles and targets indicates that while considerable progress had been made towards many of the 13 targets, only target 4 (coordinated technical cooperation) was met at the global level (figure 8).<sup>21</sup> This

<sup>18</sup> See "Camp David Accountability Report—G-8 commitments on health, food and security: actions, approach and results", available from <http://www.state.gov/documents/organization/189889.pdf>.

<sup>19</sup> See Integrated Implementation Framework website, available from <http://iif.un.org>, for individual donor progress in meeting the L'Aquila Food Security Initiative pledges.

<sup>20</sup> Available from <http://www.oecd.org/dataoecd/11/41/34428351.pdf>.

<sup>21</sup> OECD, *Aid Effectiveness 2011: Progress in Implementing the Paris Declaration* (Paris, 2012), based on a survey of 78 countries, capturing over \$70 billion of core aid provided to developing countries. Thirty-two countries participated in both the 2006 and 2011 surveys and constitute the baseline in figure 8.

target was for technical cooperation programmes in 50 per cent of aid-receiving countries, to be provided through donor-coordinated programmes that were consistent with partner national development strategies. In fact, the target had already been exceeded in 2007. The share has actually fallen slightly since that date, although it remains at above 50 per cent of countries. Moreover, it has been argued that this support for capacity development is still mainly supply driven and not actually responding to the needs of the developing countries.<sup>22</sup>

Despite this weak overall result, some progress was realized in individual indicators, especially those for which recipient countries have been responsible. For example, with the aim of increasing country ownership of aid, participating developing countries agreed to design sound national development strategies with clear priorities, linked to medium-term expenditure plans reflected in the annual budget. The target was that 75 per cent of participating developing countries should achieve this result. By 2010, 37 per cent of the 76 developing countries surveyed had achieved it. A comparable survey of 32 countries in 2005 found only 19 per cent meeting the criteria for this target. However, among these original 32 countries, 52 per cent satisfied the criteria in 2010 (figure 8).

Mixed results were found in other indicators related to aligning aid with partner countries' priorities. One path to better aid alignment is improving the quality of recipients' public financial management systems and having donors use them. More than one third of countries were found to have improved in this area. The target aimed for half of the countries to raise their score for budget and financial management by at least one measure (0.5 points on the scale of performance). Of the 52 countries for which data is available for both 2005 and 2010, 20 achieved this and 7 countries (Cambodia, the Central African Republic, the Gambia, the Lao People's Democratic Republic, Mauritania, Togo and Tonga) improved by two measures (1 point on the scale of performance). Donors have increasingly adapted to these improved developing-country systems; nonetheless, by 2010 still more than half of all aid disbursements were managed through donor-defined public financial management (PFM) and procurement systems, rather than those of the recipient countries. Furthermore, no systematic relationship has been found between the measured quality of PFM systems and the willingness of donors to use them.

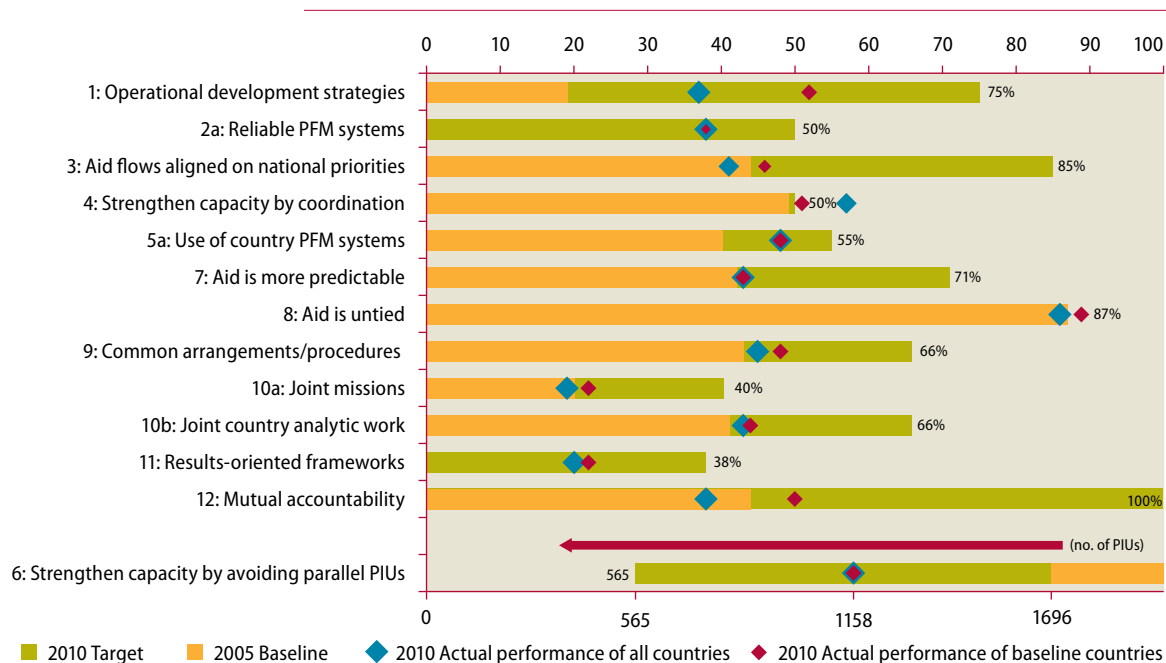
No progress has been recorded since 2005 in terms of aid predictability and transparency, measured as the extent to which aid is disbursed within the scheduled year. While OECD efforts in collecting data on future aid allocations has improved information on the medium-term predictability of aid, many donors are limited by annual budgeting systems that make it difficult to provide reliable information on forward expenditures. Preliminary results from the 2012 OECD Survey of donors' forward spending plans indicate that 23 out of 40 surveyed DAC donors and multilateral organizations are willing to make their forward spending plans publicly available.<sup>23</sup> Reasons for reluctance cited by the remaining donors include uncertainties about future budgeting and beliefs that their own current channels of communication are sufficient to ensure predictability and transparency.

...while recipient countries  
fared better than donors

<sup>22</sup> Ibid.

<sup>23</sup> OECD/DAC, "Outlook on aid", op. cit.

Figure 8  
Progress in the Paris Declaration indicators at the global level, 2010 (percentage)



Source: OECD, *Aid Effectiveness 2011: Progress in implementing the Paris Declaration* (Paris, 2012).

Notes:

- (i) The 2005 baseline refers to assessment of the situation in the 32 partner countries that participated in both the 2006 and 2011 surveys.
- (ii) The 2010 actual performance of baseline countries refers to the progress made against the 2010 targets by the 32 countries participating in both the 2006 and 2011 surveys.
- (iii) The 2010 actual performance of all countries refers to the progress against the 2010 target made by all 78 partner countries participating in 2011 (except for indicators 5a, 6 and 7, whose indicator target is dependent on the 2005 baseline). For the following indicators, data are available for only a subset of these countries: Indicator 1 (76 countries), indicator 2a (52 countries) and indicator 11 (44 countries).
- (iv) Some of the targets in the 2011 OECD monitoring report may differ from indicative targets published in previous years as a result of adjustments to historical data.
- (v) PIUs stands for project implementation units.

Despite commitments made in the Accra Agenda for Action to start discussions on an international division of labour among donor institutions, aid has become more fragmented. The number of partner countries with 12 or more non-significant aid relations<sup>24</sup> has increased from 40 in 2008 to 44 in 2009.<sup>25</sup>

The Paris Declaration emphasized that to increase aid effectiveness, mutual accountability mechanisms must be in place; yet this is the area of least progress. A country's progress is evaluated by the existence of an aid strategy, aid effectiveness targets and broad-based dialogue with donors and other stakeholders. A recent survey finds that very few countries have these mechanisms in

<sup>24</sup> The significance of the relation is based on the share of the donor's ODA in the recipient country.

<sup>25</sup> OECD, "2011 OECD Report on Division of Labour: addressing cross-country fragmentation of aid", November 2011, background material prepared for the Fourth High Level Forum on Aid Effectiveness, 29 November-1 December 2011, Busan, Republic of Korea.



place.<sup>26</sup> Lack of political leadership and capacity constraints have been identified as the major obstacles to stronger mutual accountability.

As the target year for the Paris Declaration has now passed, the High-level Forum in Busan in 2011 served as a turning point in the discussions on aid effectiveness, as noted earlier. Progress was also made in Busan regarding transparency when Canada, the United States of America, the Commonwealth's CDC Group, the Inter-American Development Bank, the United Nations Capital Development Fund and UN-Habitat announced that they would sign the International Aid Transparency Initiative (IATI), increasing the membership of IATI to represent up to 75 per cent of official aid flows. Donors who signed the IATI committed to providing developing countries with regular and timely information on their rolling three- to five-year forward expenditure and/or implementation plans. This will include, at least, indicative resource allocations, which developing countries can integrate into their medium-term planning and macroeconomic frameworks.

The Busan outcome document recognized the importance of complementary United Nations processes and invited the United Nations Development Cooperation Forum (DCF) to play a role in consultations on the implementation of agreements reached in Busan. Indeed, the DCF offers opportunities for a broader dialogue involving more stakeholders in a continuing official forum on how development cooperation contributes to financing for development. Discussions at the DCF can help broaden the development effectiveness agenda to include dimensions that are of concern to stakeholders but which might not get an adequate hearing in more limited forums. For example, a deeper dialogue on how to increase the predictability of aid might lead to policy changes that would enable countries to engage in longer-term development strategies, while improving the flexibility of aid delivery would enable donors to respond faster to shocks or changes in Government priorities. Past debates at the DCF have also pointed to the need to give greater attention to the speed of delivery of development assistance, a factor that has not been a focus of the aid effectiveness agenda.

The Development Cooperation Forum can play a role for broader dialogue

## ODA needs of developing countries

While the focus of the present chapter is on measuring the delivery of ODA against agreed targets for both aid volume and aid effectiveness, attention should also be given to whether these targets are sufficient to meet the development needs of recipient countries. However, calculating how much financing would be needed to achieve the MDGs, let alone how much of it should be provided in the form ODA, is no easy task.

A number of studies have come up with aggregate estimates. For example, the UN Millennium Project calculated in 2005 that in order to achieve the MDGs, a typical low-income country in 2006 would have needed to invest about \$70–\$80 per capita towards meeting the MDGs, gradually scaling up to \$120–\$160 per capita towards the end of the period before 2015. Although a rising share of this would be financed with domestic resources, the study calculated that 10–20 per cent of GDP would need to be financed by ODA. This would

<sup>26</sup> Based on broad-based surveys carried out in 105 countries by UN/DESA and UNDP in 2010 and 2011 for the United Nations Development Cooperation Forum (DCF).

mean that DAC member countries would need to increase the annual flow of ODA to 0.54 per cent of their combined GNI by 2015.<sup>27</sup> These figures would cover only the achievement of MDGs, without considering other priorities such as meeting needs for enhancing environmental protection and putting economies on a sustainable development path. In order to attend to all the priorities and achieve the MDGs, the Millennium Project study concluded that donor countries must contribute 0.7 per cent of their GNI, coinciding with the United Nations target. Previously, the World Bank had estimated that between \$40 billion and \$70 billion a year in additional assistance would be needed to either halve poverty by 2015 or achieve the education, health and environment targets.<sup>28</sup> This would have been roughly equivalent to doubling the amount of aid in 2000, which amounted to 0.22 per cent of donor GNI in that year.

It is difficult, however, to generalize financing needs across countries. Initial conditions vary greatly and so does the relative importance of determinants of MDG achievement. This means cost-effective policy interventions will differ across countries regarding reducing poverty, getting all children in school, reducing child and maternal mortality, and enhancing access to drinking water and sanitation. A considerable number of comprehensive country studies would be required to arrive at global estimates of the financing needs for underpinning those interventions. Also, public finance conditions differ across countries, making it difficult to say in general how much would be needed in the form of external funding. Finally, investing in human development will generate repercussions economy-wide in developing countries; changes in wage and price levels would in turn affect the cost of achieving the MDGs.

Substantial external financing is needed to meet the MDGs in developing countries

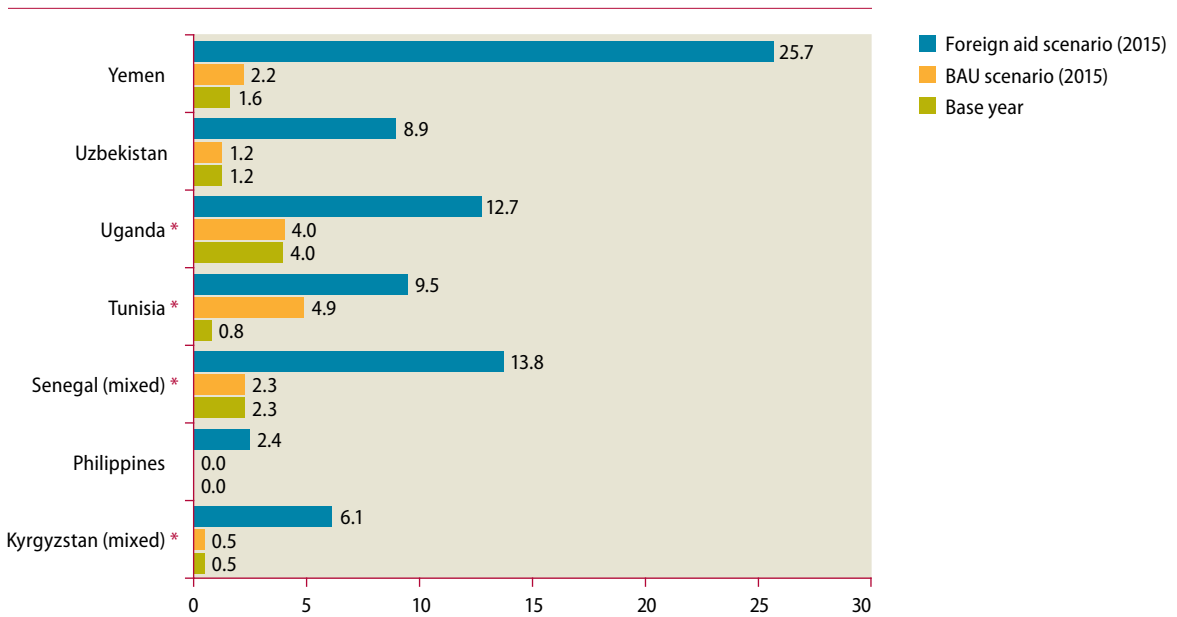
Without attempting to make a global estimate of financing needs, a recent study making the necessary comprehensive and rigorous assessment for nine developing countries suggests that the annual cost of achieving the MDGs by 2015 may be quite substantial, equivalent to at least 5 per cent of GDP annually in additional resources, depending on the type of financing.<sup>29</sup> The study recommends that five of the nine countries studied (Egypt, the Philippines, South Africa, Tunisia and Uzbekistan) could feasibly finance their MDG strategy by increasing domestic tax revenues. In the four other cases (Kyrgyzstan, Senegal, Uganda and Yemen), the study recommends that domestic resource mobilization be complemented with additional foreign aid in order to meet the financing costs. These countries require the equivalent of 6-26 per cent of GDP in additional annual flows (figure 9). These findings and the methodology that led to them may be of general use in countries seeking to develop strategies to reach the MDGs or other development goals, and for engaging in country-led dialogues with donor partners. However, it should be noted that these figures assume compressing all efforts in the short time horizon until 2015, something which is not feasible in many countries. The findings do indicate that substantial external financing will be needed to meet the MDGs.

27 UN Millennium Project, *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals* (London and New York: Earthscan, 2005).

28 Shantayanan Devarajan, Margaret J. Miller and Eric V. Swanson, "Development goals: history, prospects and costs," World Bank Policy Research Working Paper, No. 2819 (Washington, D.C.), April 2009.

29 Marco V. Sánchez and Rob Vos, eds., *Financing Human Development in Africa, East Asia and the Middle East* (London: Bloomsbury Academic, forthcoming (2012)).

Figure 9  
**Foreign aid required for financing MDG-related public spending by 2015**  
 (percentage of GDP)



Source: Marco V. Sánchez, Rob Vos, Keiji Inoue and Diyora Kabulova, “Financing human development: a comparative analysis”, in *Financing Human Development in Africa, East Asia and the Middle East*, Marco V. Sánchez and Rob Vos, eds. (London: Bloomsbury Academic, forthcoming (2012)).

Note: The base year of the simulation period is around 2005 (2004 for Yemen, 2006 for Kyrgyzstan and the Philippines, 2007 for Uganda and 2005 for all others). Results are only presented for cases where foreign aid financing of the MDG strategy is considered a realistic option. The “foreign aid scenario” indicates the level of social sector spending required to achieve the MDGs in education, health and drinking water supply and sanitation if fully financed by ODA or, as in the cases of Kyrgyzstan and Senegal, by a mixture of increased ODA and domestic tax collection. Additional spending requirements are compared with a business-as-usual (BAU) scenario of spending under unchanged economic and policy trends up to 2015. Spending needs refer to scaled-up service delivery in order to make up for remaining deficits towards MDG targets during 2010-2015.

\* An asterisk indicates that the corresponding country study recommends the aid-financing option (alone or combined with increased tax revenues).

## Multiple modalities of development cooperation

While ODA remains the dominant source of funding for development cooperation, other sources of financing for development continue to grow. These include non-DAC official assistance, private philanthropy and innovative sources of development financing. Each of these sources can make an important contribution to development financing, but aligning them effectively with national development priorities remains a challenge.

Non-DAC donors reporting to OECD disbursed \$7.2 billion in development assistance to developing economies in 2010.<sup>30</sup> Aid from these donors has

Non-DAC and private actors are becoming important sources of development financing

30 In 2010, these included Cyprus, the Czech Republic, Estonia, Hungary, Iceland, Israel, Kuwait, Latvia, Liechtenstein, Lithuania, Malta, Poland, Romania, the Russian Federation, Saudi Arabia, Slovakia, Slovenia, Taiwan Province of China, Thailand, Turkey and the United Arab Emirates.

been growing rapidly, increasing threefold in real terms since 2000. The biggest reporting donor is Saudi Arabia, accounting for almost half of the total.

Private philanthropy from various sources in developed and developing countries is increasingly seen as an important complement to ODA. However, the lack of comparable data and comprehensive information on the nature and purpose of these flows makes it difficult to determine how much is actually devoted to supporting development efforts.<sup>31</sup> Estimates of private assistance flows in 2010 range from about \$30.6 billion to \$56 billion.<sup>32</sup> Most of the private philanthropic organizations are active in health and education.

In addition, a number of countries have sought to develop innovative sources of international financing for development, that is, financing processes characterized by all or more of the following attributes: (a) entailing official sector cooperation on cross-border transfers; (b) proposing innovations in the type of resources and how collection or disbursement is governed; and (c) supplementing traditional ODA. Innovative sources are deemed attractive not only as supplementary sources of development financing, but also for the promise they hold as a more stable source of funds, less dependent on annual budgetary decisions in national capitals.

To date, relatively small amounts of innovative funds have been mobilized and disbursed to help address highly targeted needs. However, the initiatives undertaken thus far do represent interesting departures from familiar methods—a kind of experimentation agreed to by certain groups of countries. In particular, the Leading Group on Innovative Financing for Development has brought several proposals to fruition, including a tax on airline tickets now imposed by 11 countries, and a Norwegian tax on carbon emissions from aviation fuel. In both cases, funds are earmarked for UNITAID, a special international facility that purchases medicines in bulk for treatment of HIV/AIDS, malaria and tuberculosis. A different type of mechanism frontloads part of a donor country's ODA flows by issuing bonds whose interest and repayments will be drawn from future ODA budgets. In particular, the International Finance Facility for Immunisation (IFFIm) binds ODA commitments over an extended period to service bonds whose proceeds were provided to the Global Alliance for Vaccines and Immunisation. A third type of innovation uses public funds to mitigate private investment risks by assuring a market for producers of a new product. A prominent case in point is the Pilot Advance Market Commitment for Pneumococcal Vaccines launched in 2009 by a group of developed countries and the Bill and Melinda Gates Foundation.<sup>33</sup>

At the same time, there are a number of proposals that could mobilize large amounts of funds for development, including a carbon tax, continuing allocations of special drawing rights by the International Monetary Fund (and their use for

Various types of innovative financing are being explored ...

...but challenges remain in ensuring that these funds are allocated to development

31 United Nations DCF, "Private philanthropic organizations in international development cooperation: new opportunities and specific challenges," issues note prepared for the United Nations Special Policy Dialogue, February 2012, available from [http://www.un.org/en/ecosoc/newfunct/pdf/DCF\\_philanthropy\\_issues\\_note.pdf](http://www.un.org/en/ecosoc/newfunct/pdf/DCF_philanthropy_issues_note.pdf).

32 The source for the lower estimate is OECD, Statistical Annex of *Development Cooperation Report 2012*; the higher estimate is from Carol Adelman, Kacie Marano and Yulya Spantchak, *The Index of Global Philanthropy and Remittances 2012* (Washington, D.C.: Hudson Institute Center for Global Prosperity, 2011).

33 For additional details, see *World Economic and Social Survey 2012: In Search of New Development Finance* (United Nations publication, Sales No. E.12.II.C.1).

development financing) and a financial or currency transaction tax. Only the last is in a more advanced stage of political discussion, in particular in the European Union. However, at the time of writing there is no clear commitment to apply a portion of the funds to development cooperation. In other words, implementing a financial transaction tax and earmarking a portion of its revenues to development is still a project requiring considerable mobilization of political will. The more financially modest innovations show that it is possible to rally Governments to undertake innovative measures to support development. It is now a question of meeting the challenge to mobilize sufficient political will to adopt potentially bigger schemes—a challenge, indeed, to breathe new life into the commitment to provide official development assistance itself.

### Policy recommendations

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- Donor governments should honour their commitments to deliver increasing ODA, despite budgetary stringency, as failure will endanger the progress already made to achieve the MDGs by 2015
- All donors and multilateral organizations are strongly recommended to develop multi-year spending plans for country programmable assistance and to make them publicly available, so as to increase transparency and reduce volatility in aid
- The United Nations DCF should be used by Member States to hold productive discussions on the implementation of measures to improve the effectiveness of development cooperation according to needs, to strengthen mutual accountability for development results by building on existing commitments and accountability processes, and to foster a broader dialogue on financing for development. The DCF can and should help broaden the aid and development effectiveness agenda, bringing additional issues of concern to the stakeholders
- Countries and institutions providing non-DAC ODA, philanthropy and innovative sources of development financing are encouraged to increase generation of resources for development, but to assure at the same time that these are stable and the modalities of their delivery are aligned with recipient country priorities and strategies



## Market access (trade)

The ability of developing countries to expand export earnings—something so critical to accelerating the economic growth needed to achieve the Millennium Development Goals (MDGs)—depends upon the growth of world trade, open access to markets and the ability to diversify. Owing to the continuing effects of the global financial and economic crisis, world trade is still growing at a rate slower than that of the pre-crisis period. Moreover, as the overall world economic outlook darkened in 2012, estimates of the growth of world trade have been repeatedly revised downwards.<sup>1</sup>

Slow trade growth is not only cause for concern in itself, it brings the risk of added pressure on Governments to adopt protectionist trade policies. The increasing use of non-tariff measures is having discriminatory restrictive impacts on market access. At the same time, the Doha Round of global trade negotiations remains at an impasse, making it increasingly difficult to envision a successful conclusion. While assistance through Aid for Trade has increased and many member countries of the Group of Twenty (G20) have delivered significantly beyond their commitment at the G20 Seoul Summit in 2010, which was to maintain Aid for Trade resources at the average of 2006-2008 levels, the fiscal and economic difficulties in many donor countries could weaken support in the coming years (see the chapter on official development assistance).

### Unproductive global trade negotiations

World leaders pledged at several high-level meetings and summits to pursue fresh, credible negotiating approaches to conclude the Doha Round negotiations, as well as to resist protectionist pressures within their countries (for example, at the Deauville Summit of the Group of Eight (G8) in May 2011, the G20 Cannes Summit in November 2011, the Eighth Ministerial Conference of the World Trade Organization (WTO) in December 2011 (MC8), the G20 Meeting of Trade Ministers in Puerto Vallarta in April 2012 and the G20 Leaders' Summit in Los Cabos in June 2012). However, actual agreement remains elusive.

### The Doha Round in deadlock

More than 11 years of negotiations have failed to conclude the Doha Round. While WTO member States expressed a commitment to work actively and pragmatically towards a successful multilateral conclusion of the Round during the MC8 of December 2011,<sup>2</sup> there are no concrete results to report as of June 2012.

<sup>1</sup> United Nations, “World economic situation and prospects as of mid-2012” (E/2012/72).

<sup>2</sup> World Trade Organization (WTO), “Elements for political guidance”, WT/MIN(11)/W/2, 1 December 2011; and WTO, “Chairman’s concluding statement”, Eighth WTO Ministerial Conference, WT/MIN(11)/11, 17 December 2011.

Despite agreement at the MC8 to explore ways of reaching provisional or definitive consensus agreements earlier than the full conclusion of the single undertaking, no progress was made.

Indeed, some WTO members, especially developing countries, expressed strong reservations about such an “early harvest” approach and argued that the single undertaking should be respected. While negotiating groups are still working, it seems unlikely that these—let alone all other elements of the Doha Round—will be concluded in the near future. One of the reasons for the impasse is that member States have yet to address the question that lies at its heart: What constitutes a fair distribution of rights and obligations within the global trading system? This is a political question. A political response is required.

Nevertheless, a few decisions of special relevance to least developed countries (LDCs) were taken at the MC8.<sup>3</sup> First, members will now be allowed to grant preferential market access to service exports and service suppliers from LDCs. This agreement is widely seen as experimental and its practical effectiveness remains unknown. Second, the Subcommittee on Least Developed Countries was instructed to develop recommendations to further strengthen, streamline and operationalize the 2002 guidelines on LDC accession to WTO. This includes developing benchmarks in the area of trade in goods and services that take into account the level of commitments undertaken by existing LDC member States, enhancing transparency in the accession negotiations by complementing bilateral market access negotiations with multilateral frameworks, making special and differential treatment provisions applicable to all acceding LDCs and enhancing technical assistance and capacity-building. Third, LDC members will be able to submit requests for extension of their transition period beyond 2013 under Article 66.1 of the TRIPS Agreement.<sup>4</sup>

New negotiations must address the developmental mandate of the Doha Round in a transparent and inclusive manner

Concluding a development-oriented Doha Round would be a significant way to redress structural imbalances in the trading system, and even a partial set of deliverables would send a positive message and restart negotiating momentum. However, any new approaches will need to address the Doha Round developmental mandate and be conducted in a transparent and inclusive manner. Issues of importance to all developing countries, such as increasing duty-free market access, eliminating export subsidies and trade-distorting domestic support to cotton production in developed countries, must be fully addressed.

The conclusion of the Doha Round would bring benefits to the global economy, in particular through lowering trade tariffs and enhancing transparency and predictability at borders. Additionally, a concluded Doha Round would bring security to the international trading system by “locking in” unilateral liberalizations through WTO commitments and by lowering tariff bindings, thus

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<sup>3</sup> These include: (i) Preferential treatment to services and service suppliers of least developed countries (WT/L/847); (ii) Accession of least developed countries (WT/L/846); and (iii) Transition period under Article 66.1 of the TRIPS Agreement (WT/L/845). Other decisions included reinvigorating the work programmes on small economies and electronic commerce to strengthen their developmental focus, extending the moratorium on TRIPS non-violation and situation complaints, and strengthening the role of the Director-General’s trade monitoring reports in the trade policy review mechanism.

<sup>4</sup> WTO, “Agreement on Trade-related Aspects of Intellectual Property Rights”, part VI, Article 66, available from [http://www.wto.org/english/docs\\_e/legal\\_e/27-trips.pdf](http://www.wto.org/english/docs_e/legal_e/27-trips.pdf).



constraining the potential for future protectionism.<sup>5</sup> These effects are expected to be shared among developed and developing countries, albeit with each benefiting in different ways.

## Other international trade policy discussions

The Thirteenth Ministerial Meeting of the United Nations Conference on Trade and Development (UNCTAD XIII) in April 2012 addressed a number of economic, trade and financial topics. The Conference adopted a compromise text, the Doha Mandate,<sup>6</sup> that, inter alia, directs UNCTAD “to enhance the effectiveness” of its contributions to the Enhanced Integrated Framework for LDCs and contribute to the effective implementation of Aid for Trade. It also recognizes the need to identify and implement appropriate policies, at national, regional and international levels, to address the impacts of commodity price volatility on vulnerable groups, and to support commodity-dependent developing countries in formulating sustainable and inclusive development strategies that promote value addition and economic diversification.

G20 leaders meeting in Los Cabos in June 2012 reiterated the importance of an open, predictable, rules-based, transparent multilateral trading system and are committed to ensuring the centrality of WTO. They explicitly stressed support for the Doha Round mandate and recommitted themselves to working towards concluding the negotiations, including outcomes in specific areas where progress is possible, such as trade facilitation, and other issues of concern for LDCs.<sup>7</sup> In the Los Cabos Growth and Jobs Action Plan, G20 leaders similarly called for actions to reduce trade-restrictive measures inconsistent with WTO rules and to resist financial protectionism, but stopped short of identifying the conclusion of the Doha Round as an action towards medium-term growth and jobs recovery.<sup>8</sup>

The United Nations Conference on Sustainable Development (Rio+20) that took place in June 2012 addressed trade and environmental imperatives. In the outcome document, *The Future We Want*, Member States stressed that the transformation to a green economy should neither create new trade barriers nor impose new conditionalities on aid and finance; rather, it should enable closing technology gaps between developed and developing countries and reduce technological dependence on developed countries, including by strengthening international cooperation through adequate provisioning of financial resources, capacity-building and technology transfer to developing countries.<sup>9</sup> The agreement also explicitly addressed concerns of developing countries that the green economy should not become a vehicle for arbitrary or unjustifiable discrimina-

Member States agreed that the transformation to a green economy should not create new trade barriers

5 This could prevent potential losses in the global economy in the order of up to 1 per cent of gross domestic product (GDP). See International Monetary Fund (IMF), “The WTO Doha trade round—Unlocking the negotiations and beyond”, 16 November 2011.

6 See [http://unctad.org/meetings/en/SessionalDocuments/td500\\_Add\\_1en.pdf](http://unctad.org/meetings/en/SessionalDocuments/td500_Add_1en.pdf).

7 See “G20 Leaders Declaration”, Los Cabos, Mexico, 18-19 June 2012, available from [http://www.g20.org/images/stories/docs/g20/conclu/G20\\_Leaders\\_Declaration\\_2012.pdf](http://www.g20.org/images/stories/docs/g20/conclu/G20_Leaders_Declaration_2012.pdf).

8 See “The Los Cabos growth and jobs action plan”, G20 Leaders’ Summit, Los Cabos, Mexico, 18-19 June 2012, available from [http://www.g20.org/images/stories/docs/g20/conclu/Los\\_Cabos\\_Growth\\_and\\_Jobs\\_Action\\_Plan\\_2012.pdf](http://www.g20.org/images/stories/docs/g20/conclu/Los_Cabos_Growth_and_Jobs_Action_Plan_2012.pdf).

9 See United Nations, “The Future We Want” (A/CONF.216/L.1), 19 June 2012, para. 58, available from <http://www.uncsd2012.org/thefuturewewant.html>.

tion, or a disguised restriction on international trade; instead, unilateral actions to deal with environmental challenges outside the jurisdiction of the importing country should be avoided and environmental measures addressing transboundary or global environmental problems must be based on international consensus.<sup>10</sup> In addition, Member States reiterated that intellectual property regimes in the transfer of environmentally sound technologies should serve as an incentive and in no way as an obstacle to the transfer of technology and corresponding know-how. Member States also stressed the need for an open, non-discriminatory and equitable multilateral trading system to promote agriculture and rural development in developing countries and global food security.<sup>11</sup>

## Developing-country trade performance

Trade in developing and transition economies rebounded more strongly after the global economic crisis than in developed economies. As a result, the share of exports from developing economies in world exports increased from 39 per cent in 2008 to 43 per cent in 2011.<sup>12</sup> Developing Asian countries, especially China and India, were the drivers of developing-country trade following the crisis, just as they had been in the previous decade. The region's share in world trade has risen to 34 per cent in 2011, up from 30 per cent in 2008.<sup>13</sup> The share for LDCs rose in 2010, but at only 1.1 per cent of world trade (remaining unchanged in 2011 and at only 0.5 per cent when excluding oil), it remains miniscule.

Trade among developing countries expanded by a substantial 32 per cent in 2010, on account of fast growth in developing Asia's trade and a relatively steep fall in North-South trade in 2009. South-South trade now absorbs 49 per cent of developing-country exports.<sup>14</sup> This share has increased by 3 percentage points since 2008, driven mainly by the resilience of intra-Asian trade, which accounted for almost half of South-South trade. China's dynamic intraregional imports were the main drivers. On the other hand, trade between other developing Asian economies and the rest of the developing countries outside Asia remained 5 per cent lower in 2010 than in 2008.

## Impact of the global economic crisis

### Trade-restrictive measures

While global macroeconomic phenomena and global shifts in the structure and location of production are the first determinants of developing-country trade patterns, trade policy interventions also play a role. Indeed, with the worsening global economy, there are reasons for concern about trade protectionism. According to information collected by the WTO from its member States, 124 new trade-restrictive measures were implemented between mid-October 2011

Nearly 3 per cent of world trade has been affected by trade restrictions since the beginning of the global financial crisis

<sup>10</sup> Ibid., para. 58

<sup>11</sup> Ibid., para. 118.

<sup>12</sup> Data from UNCTADSTAT database.

<sup>13</sup> Ibid.

<sup>14</sup> WTO, "Note by the Secretariat on participation of developing economies in the global trading system", 21 October 2011, WT/COMTD/W/181.

and mid-May 2012.<sup>15</sup> New import-restrictive measures covered around 1.1 per cent of G20 imports, or 0.9 per cent of world imports, up from 0.6 per cent and 0.5 per cent, respectively, in the previous six-month period. Cumulatively, since the beginning of the global financial crisis, nearly 3 per cent of world trade has been affected by trade restrictions.

The new measures have most frequently affected iron and steel, electrical machinery and equipment, vehicles, vegetables, beverages and spirits, and chemical products.<sup>16</sup> More importantly, some of the new measures were introduced by large trading nations, and affect a wide range of sectors, product categories and trading partners.

Contrary to the G20 members' pledges to resist protectionism, to introduce no new measures until end of 2013, and to roll back any protectionist measures, the removal of trade-restrictive measures has been very slow. As of mid-May 2012, only 18 per cent of all the measures introduced since the beginning of the crisis have been eliminated.

The weak and slowing recovery of the global economy and persistent high levels of unemployment, especially in Europe, are continuing to test the political resolve of Governments to resist trade protectionism. This raises the concern that the increasing use of restrictive trade measures could gradually undermine the benefits of trade facilitation and openness. More political will is needed from Governments to abide by their commitments.

## Trade finance

In 2008 and 2009, following the outbreak of the crisis, trade finance availability tightened considerably and the cost increased to unaffordable levels, especially in many low-income countries. Availability seems to have improved somewhat since then, although monitoring of trade finance remains difficult since consistent data are practically non-existent.

Based on recent survey results,<sup>17</sup> in the year from the second quarter of 2009, trade finance increased by 19 per cent, and then by 17 per cent in the following year. However, respondents expected that the trade finance market would start deteriorating. Financial constraints were the most important reason given for the expected reduction in 2012. Most respondents indicated that lower availability of credit or liquidity would affect their trade finance activities, particularly in sub-Saharan Africa, Central and Eastern Europe and Latin America and the Caribbean. An increase in the cost of credit was also noted for several regions.

Concerns have been raised in international forums, including at the G20 Seoul Summit in November 2010, that the Basel III regulations might raise obstacles to financing trade of developing countries. The Basel II and III frameworks introduced additional requirements that in effect classify trade finance as a risky asset, even though the short-term nature of most trade finance makes it a rela-

Trade finance is expected to fall in 2012 with new financial constraints

<sup>15</sup> WTO, "Report on G20 trade measures (mid-October 2011 to mid-May 2012)", 31 May 2012.

<sup>16</sup> Ibid.

<sup>17</sup> Recent surveys of bank and financial institutions on trade finance conditions by the IMF with industry collaboration give some indication of recent trends and the outlook for trade finance. See International Chamber of Commerce (ICC) and IMF, *ICC-IMF Market Snapshot January 2012* (Paris, January 2012), available from [http://www.uscib.org/docs/2012\\_01\\_19\\_trade\\_finance\\_survey.pdf](http://www.uscib.org/docs/2012_01_19_trade_finance_survey.pdf).

tively safe financial activity as repayment is generally covered by the movement of goods.<sup>18</sup> The revised regulations did not account for the low-risk and short-term nature of trade finance, as had the original Basel framework. Indeed, almost three quarters of the respondents to the above survey indicated that they had already been impacted. To address this, the WTO and the World Bank, in conjunction with the International Chamber of Commerce, raised their concern with the Basel Committee on Banking Supervision, which agreed to modify the treatment.<sup>19</sup>

## Labour movement and remittances

Trade in goods, capital, investment and services has expanded with reduced costs of transportation and increased information availability. However, migration regimes across borders that facilitate the movement of persons have not kept up with increasing mobility. Indeed, tighter immigration policies were introduced after the onset of the crisis, and unemployment rates of migrants have been higher than for natives, especially in the European Union (EU). Remittance flows continued to grow despite migrants' employment difficulties. Remittances to developing countries are estimated to have reached \$351 billion in 2011, an increase of 8 per cent over 2010.<sup>20</sup> Thereafter, remittances are expected to increase at an annual rate of 7-8 per cent until 2014, although this is subject to downside risks, including continuing high levels of unemployment in host countries, volatile exchange rates and uncertainty surrounding oil prices (affecting demand for migrant labour in the Middle East).

At the 2011 Cannes Summit, G20 leaders committed themselves to bringing down the cost of transferring remittances from 10 per cent to 5 per cent of the value of funds transferred by 2014. This five-percentage-point reduction would translate into an additional \$15 billion per year for the recipients in developing countries. The cost of remittances, weighted by bilateral remittance flows, has been on a declining trend, falling to 7.3 per cent in the third quarter of 2011, from 8.8 per cent in 2008.<sup>21</sup> When measured as a simple average, however, the cost has been increasing since the first quarter of 2010. The difference reflects remittance "corridors" where the high volume of flows brings more competition to the market, compared to smaller markets which are less competitive. The establishment of concrete measures and time frames for facilitating the temporary movement of natural persons would foster MDG progress. It would also help reduce the current asymmetry between the liberalization of capital and labour.

18 WTO, "Report on G20 trade measures (May to mid-October 2011)", 25 October 2011.

19 WTO, "Lamy outlines benefits of changes to Basel framework for trade finance", press release, 27 October 2011, available from [http://www.wto.org/english/news\\_e/news11\\_e/gc\\_rpt\\_26oct11\\_e.htm](http://www.wto.org/english/news_e/news11_e/gc_rpt_26oct11_e.htm). For details of the revisions, see Bank for International Settlements, Basel Committee on Banking Supervision, "Treatment of trade finance under the Basel capital framework", October 2011, available from <http://www.bis.org/publ/bcbs205.pdf>.

20 Sanket Mohapatra, Dilip Ratha and Ani Silwal, "Outlook for remittance flows 2012-14: Remittance flows to developing countries exceed \$350 billion in 2011", Migration and Development Brief, No. 17 (Washington, D.C., World Bank, December 2011), available from <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/MigrationandDevelopmentBrief17.pdf>.

21 Ibid.

## Market access

About 80 per cent of the value of exports (excluding arms and oil) that developing countries send to developed-country markets is now imported free of duty. However, this share has remained almost constant for LDC exports since 2004, while that of developing countries as a whole has risen (figure 1). When exports from developing countries access developed-economy markets free of duty, it is generally because the product is no longer taxed under the “most favoured nation” (MFN) regime and thus no particular preference is accorded.

### Preferential access to developed-country markets

Most LDCs enjoy “true” preferential access to developed-country markets: 53.5 per cent of LDC exports entered developed-country markets duty free under true preference in 2010, compared with 35 per cent in 2000.<sup>22</sup> In 2010, for developing countries as a group, no duties were paid on 79 per cent of exports, of which 60 per cent were admitted under the MFN treatment and 19 per cent under true preferential access.

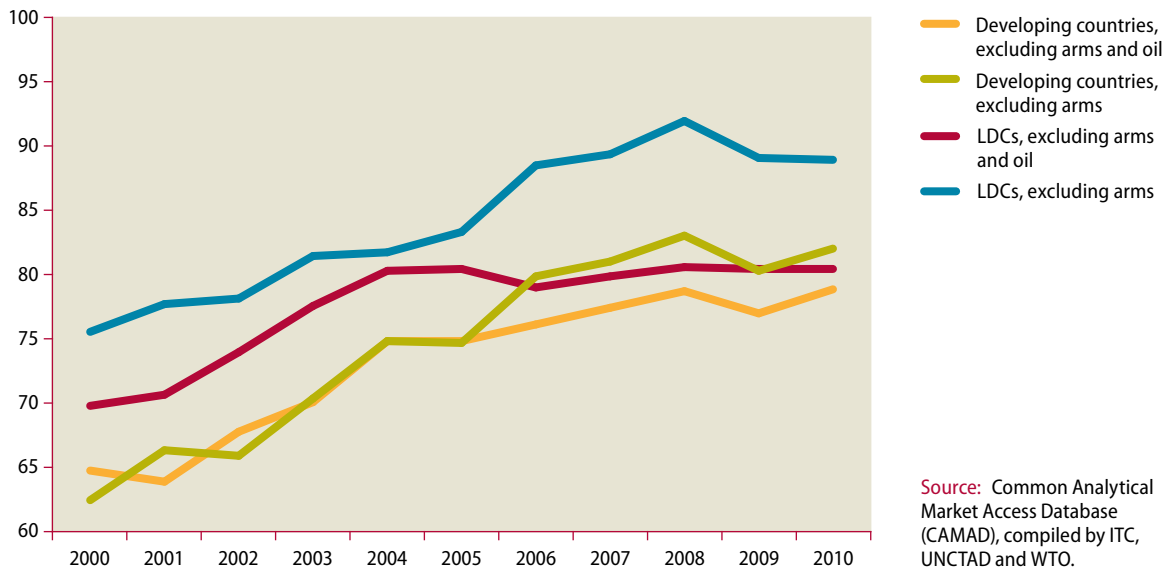
True preferential access is particularly low for exports from Oceania and Eastern and South-Eastern Asian regions (figure 2). Imports from North Africa and Western Asia and from Eastern and Southern Asia face the lowest levels of overall duty-free market access in developed markets in 2010.

With the exception of the United States of America, most developed countries provide duty-free access to LDC products in line with the 2005 Hong

Most LDC exports enter developed-country markets duty free

Figure 1

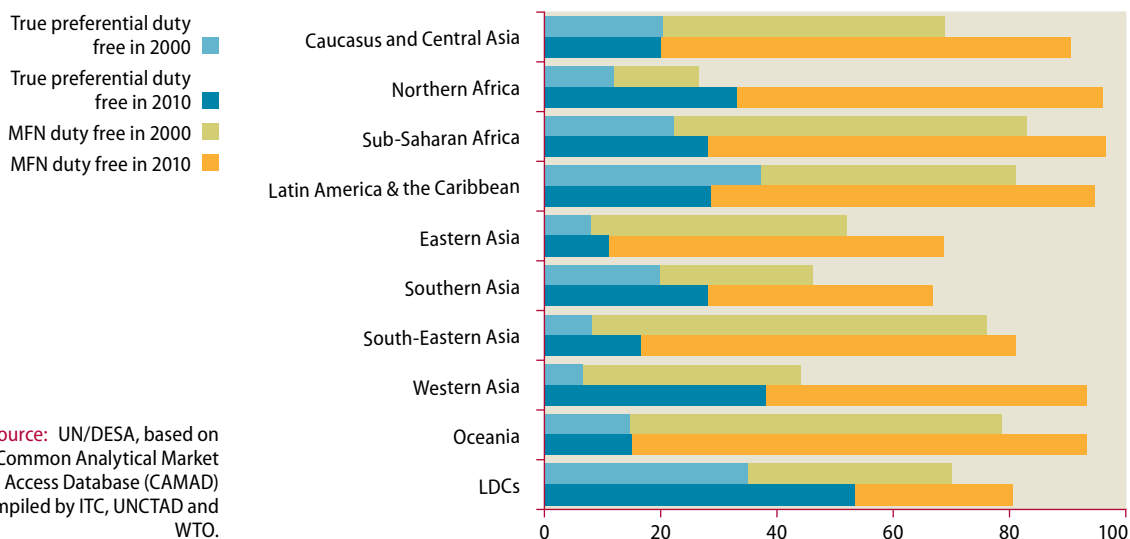
**Proportion of developed-country imports from developing countries and least developed countries admitted free of duty, by value, 2000-2010 (percentage)**



Source: Common Analytical Market Access Database (CAMAD), compiled by ITC, UNCTAD and WTO.

<sup>22</sup> “True” preferential duty-free access is defined as the percentage of exports offered duty-free treatment under the Generalized System of Preferences (GSP) for least developed countries (LDCs) and other preferential schemes, compared to products offered duty-free entry under the most favoured nation (MFN) treatment.

Figure 2  
**Proportion of developed-country imports from developing countries admitted free of duty under MFN and true preferences, by region, 2000 and 2010 (percentage)**



Source: UN/DESA, based on the Common Analytical Market Access Database (CAMAD) compiled by ITC, UNCTAD and WTO.

Kong Declaration of WTO. However, the actual rate of utilization of preferential schemes offered by developed countries on products from LDCs and developing countries varies for different reasons, including restrictive rules of origin (see below) or high administrative costs. Nevertheless, the rate of utilization of preferences has been improving over time, standing at an estimated 87 per cent in selected developed markets.<sup>23</sup>

Full implementation of the 2005 Hong Kong commitment to provide duty-free quota-free market access to LDC products, along with simplified rules of origin, would boost the participation of LDCs in the world trading system.

## Preferential access to Southern markets

Developing countries open up their own markets to products from LDCs

Available evidence suggests that increasing efforts are being made by developing countries to open up their own markets to products from LDCs, for example, by granting duty-free market access in line with the 2005 Hong Kong decision as well as through regional and bilateral schemes. Some examples of such schemes are shown in table 1. Thanks to these schemes, the preferential duty-free access for LDC products in developing countries ranges from 32 to 95 per cent of their tariff lines.<sup>24</sup>

<sup>23</sup> WTO, "Note by the Secretariat on market access for products and services of export interest to least developed countries", WT/COMTD/LDC/W/51, 10 October 2011.

<sup>24</sup> Ibid.; and WTO, "Developing members confirm commitment to open market for poorest countries", press release, 16 April 2012, available from [http://www.wto.org/english/news\\_e/news12\\_e/acc\\_16apr12\\_e.htm](http://www.wto.org/english/news_e/news12_e/acc_16apr12_e.htm).

Table 1  
LDC market access policies of selected developing economies

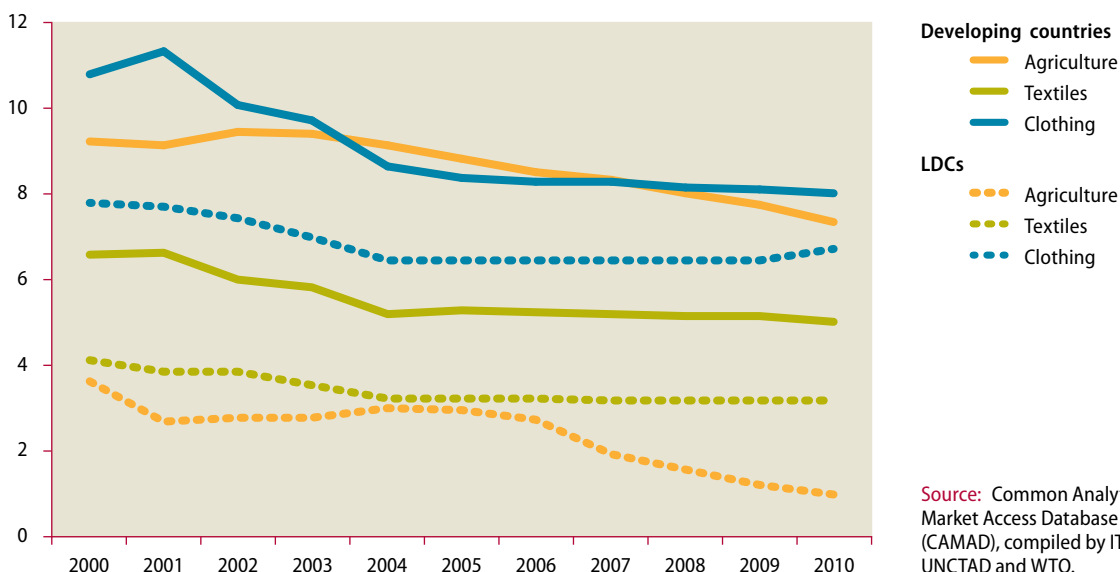
Economy	Description	Entry into force	Percentage of duty-free tariff lines
China	Duty-free treatment for LDCs	July 2010	60 per cent (2010), gradually expanding to 97 per cent
India	Duty-free Tariff Preference Scheme for LDCs (DFTP)	August 2008	85 per cent to be covered by 2012
Republic of Korea	Presidential Decree on Preferential Tariff for LDCs	January 2000	95 per cent (2011)
Taiwan Province of China	Duty-free treatment for LDCs	December 2003	Nearly 32 per cent (2009)
Turkey	Generalized System of Preferences (GSP)	January 2002	Nearly 80 per cent (2009)

Source: WTO, "Note by the Secretariat on market access for products and services of export interest to least developed countries", WT/COMTD/LDC/W/51, 10 October 2011; WTO, "Developing members confirm commitment to open market for poorest countries", press release, 16 April 2012; WTO, Preferential trade agreements database, available from <http://ptadb.wto.org>.

## Tariff barriers

Tariffs imposed by developed countries on agricultural products from developing countries have changed little since about 2004 (figure 3). The average tariffs on agricultural products fell slightly between 2009 and 2010, mainly reflecting changing prices and composition of imports rather than trade policies. Tariffs on agricultural products from LDCs dropped from 3 per cent in 2004 to 1 per cent in 2010.

Figure 3  
Average tariffs imposed by developed countries on key products from developing countries and least developed countries, 2000-2010 (percentage *ad valorem*)



Source: Common Analytical Market Access Database (CAMAD), compiled by ITC, UNCTAD and WTO.



Tariffs on textile imports remained unchanged, while tariffs paid on clothing products from LDCs increased for the first time in more than a decade. This rise resulted from higher imports from countries that do not benefit from LDC preferences in the United States market (Bangladesh, Cambodia and three African countries that have been excluded from a separate United States preference programme, the African Growth and Opportunity Act (AGOA): Guinea, Madagascar and Niger). The United States imposes the highest tariffs on LDC imports in all three categories of products when compared with other developed countries.

Small island developing States (SIDS), African LDCs and other low-income African countries benefit from an almost complete preferential duty exemption on clothing and a very low tariff on agricultural products. Asian LDCs still have to pay about 3 per cent duty for their agriculture and textile exports, and 7 per cent for clothing. Products from developing countries in Eastern Asia face by far the highest average tariffs in all three categories, at 10.5 per cent for agriculture, 11 per cent for clothing and 5.7 per cent for textiles. Moreover, these tariff levels have fallen only slightly since 2000. The tariffs on agriculture and clothing imports from South-Eastern Asia, the Caucasus and Central Asia are also above the average for developing countries.

As the decline in preferential tariffs has largely followed that in the MFN tariffs, the margin of preference has remained practically constant over the last decade, with the exception of agricultural exports by LDCs.

Based on data available for 7 economies,<sup>25</sup> emerging economy tariffs on imports from LDCs are higher than those in developed markets, at 14 per cent on agricultural products, 8 per cent on textiles and 20 per cent on clothing products in 2009.<sup>26</sup> However, the tariff levels have been falling since 2005. While the margin of preference has been increasing since 2005, average tariffs on LDC products in these selected developing countries remain close to their MFN levels.

## Tariff peaks and tariff escalation

### Agricultural tariff peaks and escalation remain high

The structure of tariff schemes and their different rates across different imported products also matter for determining the degree of market access. Tariff peaks refer to a situation where tariffs on some products are considerably higher than usual, defined as above 15 per cent. As seen in table 2, around 9 per cent of tariff lines have been affected by tariff peaks in high-income member countries of the Organization for Economic Cooperation and Development (OECD), with little change over the past decade. Tariff peaks concern mainly agricultural products, with over 36 per cent of tariff lines affected, up slightly from 34.6 per cent in the previous year.

Another aspect of tariff schemes is tariff escalation, whereby a country applies a higher tariff rate on finished products than on their intermediate components and, correspondingly, a lower rate still on their primary inputs. Tariff escalation gives stronger protection to the later stages of production. The degree of tariff escalation has increased slightly in 2011. There is an especially large difference between the tariffs applied on processed agricultural products and those for raw agricultural products.

<sup>25</sup> Brazil, China, India, Mexico, South Africa, Taiwan Province of China and Turkey.

<sup>26</sup> WTO, "Note by the Secretariat on market access for products and services", op. cit.



Table 2

**Tariff peaks and escalation in high-income OECD countries, 1996, 2000 and 2006-2011<sup>a</sup> (percentage)**

	1996	2000	2006	2007	2008	2009	2010	2011
<b>Tariff peaks<sup>b</sup></b>								
All goods	10.4	9.2	9.5	9.3	9.0	8.9	8.8	9.3
Agricultural	35.4	33.4	37.6	37.4	37.5	36.5	34.6	36.3
Non-agricultural	4.0	3.1	2.3	2.2	2.2	2.2	2.2	2.3
<b>Tariff escalation<sup>c</sup></b>								
All goods	1.1	1.0	0.2	0.1	0.1	0.1	0.1	0.2
Agricultural	13.4	12.6	10.7	11.2	11.8	11.2	9.8	11.2
Non-agricultural	2.4	2.1	1.6	1.3	1.4	1.4	1.2	1.2

Source: International Trade Centre.

<sup>a</sup> Aggregated values over countries are the weighted average by share in world imports.

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

<sup>c</sup> 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 "Harmonised System", six-digit duty averages.

## Agricultural subsidies in OECD countries

Agricultural subsidies in advanced economies adversely affect developing-country agricultural trade and production. Total support to the agricultural sector in OECD countries reached a high of \$407 billion in 2011 (table 3). Agricultural support in relation to OECD countries' GDP had declined in the first half of the previous decade, but was reversed in the latter half. It was 0.95 per cent in 2011, almost the same level as in 2006. As a percentage of gross farm receipts, support provided directly to agricultural producers in OECD countries increased in 2009, but it appears to have returned to its slowly declining trend thereafter.

In 2011, the EU accounted for roughly one third of the agricultural support given by OECD countries (29 per cent). As a percentage of EU GDP, however, it has fallen from 2.05 in 1990 to 0.68 in 2011, which is now below the aver-

Total agricultural support reached a high in 2011

Table 3

**Agricultural support in OECD countries, 1990, 2000 and 2006-2011**

	1990	2000	2006	2007	2008	2009	2010	2011 <sup>a</sup>
<b>Total agricultural support in OECD countries<sup>b</sup></b>								
In billions of US dollars	325	321	357	351	374	377	384	407
In billions of euros	256	348	284	256	256	271	290	293
As a percentage of OECD countries' GDP	2.38	1.15	0.96	0.89	0.93	0.96	0.93	0.95
<b>Support to agricultural producers in OECD countries<sup>c</sup></b>								
In billions of US dollars	251	244	255	248	258	250	241	252
In billions of euros	198	265	203	181	176	180	182	182
As a percentage of gross farm receipts	31.8	32.2	26.4	22.0	21.0	22.7	19.9	18.8

Source: OECD, *Agricultural Policies in OECD Countries and Emerging Economies* (Paris, forthcoming).

<sup>a</sup> Preliminary data.

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

<sup>c</sup> The Producer Support Estimate (PSE) measures support provided directly to agricultural producers.

age for OECD countries of 0.95 per cent. Over the past 25 years, the Common Agricultural Policy (CAP) of the EU has been reformed numerous times, partly in response to pressures to reduce the trade distortions it causes.<sup>27</sup> The reforms have lowered the share in total support of market price support and payments based on output and on variable input use, the most distorting kinds of support, from 92 per cent in 1986-1988 to 25 per cent in 2011.

Thanks to these reforms, the distortions to production and trade in the EU agricultural sector have been reduced. However, for some commodity sectors, notably sugar, cereal, rice and dairy products, market access remains restricted and provisions for using export subsidies remain in place. Export subsidies have not been greatly used in recent years by the EU, and their value has gradually fallen since the 1990s, from €14.5 billion in 1991 to €3.9 billion in 2000 and €0.92 billion in 2008. Nonetheless, future reforms of the CAP should focus on improving market access more widely. This will require further reducing the level of price support based on output, one of the most distorting forms of support, which needs to be accompanied by a reduction in trade barriers, including greater market access and elimination of export subsidies.

## Non-tariff measures

There is a class of trade impediments that differ from conventional import tariffs and quotas. These so-called non-tariff measures (NTMs) include technical requirements that imported goods must satisfy, such as sanitary and phytosanitary standards (SPSs), and non-technical measures, such as rules of origin (specifying how much of a product must be made in a preference-receiving country).

Under the Multi-Agency Support Team (MAST) Eminent Experts initiative led by UNCTAD, and in partnership with the World Bank and the International Trade Centre (ITC), data on NTMs have been collected in about 30 developing countries as at April 2012, including about 10 low-income countries. This effort will be continued as part of the Transparency in Trade (TNT) initiative.<sup>28</sup>

According to ITC surveys,<sup>29</sup> agricultural exporters seem on average more affected by NTMs than exporters of manufactured products. The most burdensome NTMs were reported to be SPSs and technical barriers to trade (TBTs), such as certification, testing and technical inspection requirements, followed by rules of origin, pre-shipment inspections and charges/taxes.<sup>30</sup> Also, evidence shows that

<sup>27</sup> Organization for Economic Cooperation and Development (OECD), *Evaluation of Agricultural Policy Reforms in the European Union* (Paris, October 2011).

<sup>28</sup> This new global partnership to identify and track policies that increase the costs of trade was developed by the World Bank, the African Development Bank, the International Trade Centre (ITC) and the United Nations Conference on Trade and Development (UNCTAD), in collaboration with the United Nations Statistics Division. The World Bank has also developed a toolkit for policymakers to help them navigate issues related to trade competitiveness and business regulatory improvement agendas (see Olivier Cadot, Mariem Malouche and Sebastián Sáez, *Streamlining Non-Tariff Measures: A Toolkit for Policy Makers* (Washington, D.C., World Bank, 2012).

<sup>29</sup> Based on data from the surveys conducted in Burkina Faso, Egypt, Jamaica, Kenya, Madagascar, Mauritius, Morocco, Paraguay, Peru, Rwanda and Uruguay.

<sup>30</sup> When exporting to developed countries, nearly three quarters of the non-tariff measure (NTM) cases concern SPS/TBT measures. When partner countries are developing, this share drops to about half and other types of measures gain relevance.

regional trade agreements do not insulate exporters from NTM requirements. For instance, exporters in the East African Community reported they faced NTMs in shipping to partner countries. Overall, the use of TBTs and SPSs has increased considerably.<sup>31</sup> The average country now imposes TBTs on about 30 per cent of trade and SPSs on about 15 per cent of trade.

Developing countries in general, low-income countries even more so, and LDCs in particular may be disproportionately impacted by the distortionary effects of NTMs (although in many cases unintentionally). NTMs are applied more frequently to agricultural products and textiles and apparel. Indeed, a recent analysis by UNCTAD shows that NTMs are more significant in restricting developing-country market access than are tariffs.<sup>32</sup> For example, the study shows that while agricultural imports from low-income countries face average tariffs of about 5 per cent, once the effects of NTMs are included, the overall trade impediment is equivalent to about a 27 per cent tariff.

LDCs in particular can be disproportionately impacted by the NTMs

Rules of origin associated with preferential trade agreements or arrangements are an often complex and restrictive form of NTM. They can set out country-of-origin requirements that are hard to satisfy. For example, the strict “double-transformation requirement” (applying the required qualifying domestic origin percentage to inputs imported from other preference-receiving countries), as contained in the EU rules of origin, has to some extent discouraged African exports. Compliance with rules of origin raised the cost of certain Nepalese exports to the EU, Japan and the United States by 20-30 per cent.<sup>33</sup> Rules of origin need to be revised to allow developing countries and LDCs in particular to benefit fully from offered preferences. Indeed, in 2011, the EU simplified its rules of origin criteria under its General System of Preferences, especially benefiting LDCs.<sup>34</sup>

A recent analysis of data on EU and United States border rejections of agricultural and food products and commodities shed light on challenges that developing countries face in compliance with SPS and TBT measures.<sup>35</sup> As may be seen in figure 4, the reasons for rejections vary from non-compliance with restrictions on levels of mycotoxins (mainly in the EU market) to non-compliance with labelling and company or process registration requirements (mainly in the United States). TBT and SPS measures are in place to ensure that products meet consumer needs and guarantee consumer safety; protect human, animal and plant health; and ensure transparency and product compatibility. They are the foundation for equitable treatment for all in the multilateral trade system, yet they can be seen by exporters in developing countries as an obstacle to trade, especially by those who lack capacity to comply with them. Compliance with these measures usually requires improved production processes, investment in new

31 UNCTAD, *Non-Tariff Measures to Trade: Economic and Policy Issues for Developing Countries* (Geneva, forthcoming).

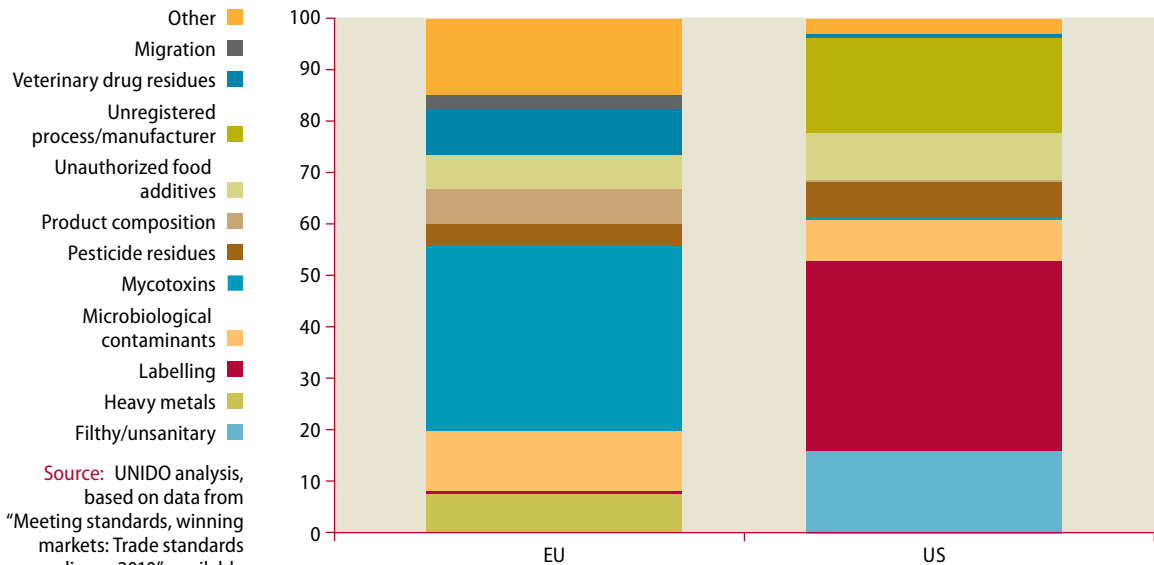
32 Ibid.

33 Ibid., based on survey results of Khanal.

34 WTO, “Note by the Secretariat on market access for products and services”, op. cit.

35 Spencer Henson and Edward Olale, “What do border rejections tell us about trade standards compliance of developing countries? Analysis of EU and US Data 2002-2008”, Working paper (Vienna, United Nations Industrial Development Organization (UNIDO)); and UNIDO, “Meeting standards, winning markets: Trade standards compliance 2010”, available from [www.unido.org/tradestandardscompliance](http://www.unido.org/tradestandardscompliance). The analysis focuses on the agri-foods sector, especially fish and fisheries products, fruits and vegetables, nuts and seeds, and herbs and spices, as this is where most rejections occur.

Figure 4  
Reasons for EU and United States border rejections of food and feed products, 2002-2008 (percentage)



Source: UNIDO analysis, based on data from "Meeting standards, winning markets: Trade standards compliance 2010", available from [www.unido.org/tradestandardscompliance](http://www.unido.org/tradestandardscompliance).

technology and efficient trade infrastructure. Some exporting countries experience difficulties in meeting specific standards for selected products.<sup>36</sup>

Many NTMs are issued by developing countries as well as developed countries. Increased and more effective technical assistance will also be essential to help developing countries meet international standards and regulations, allow them to overcome domestic constraints and compliance challenges, and stay competitive in international markets. A good example in this regard is the Standards and Trade Development Facility (STDF), a global partnership that provides support and financial assistance to developing countries in building their capacity to implement international SPS standards. More targeted Aid for Trade for capacity-building could also support progress in this regard.

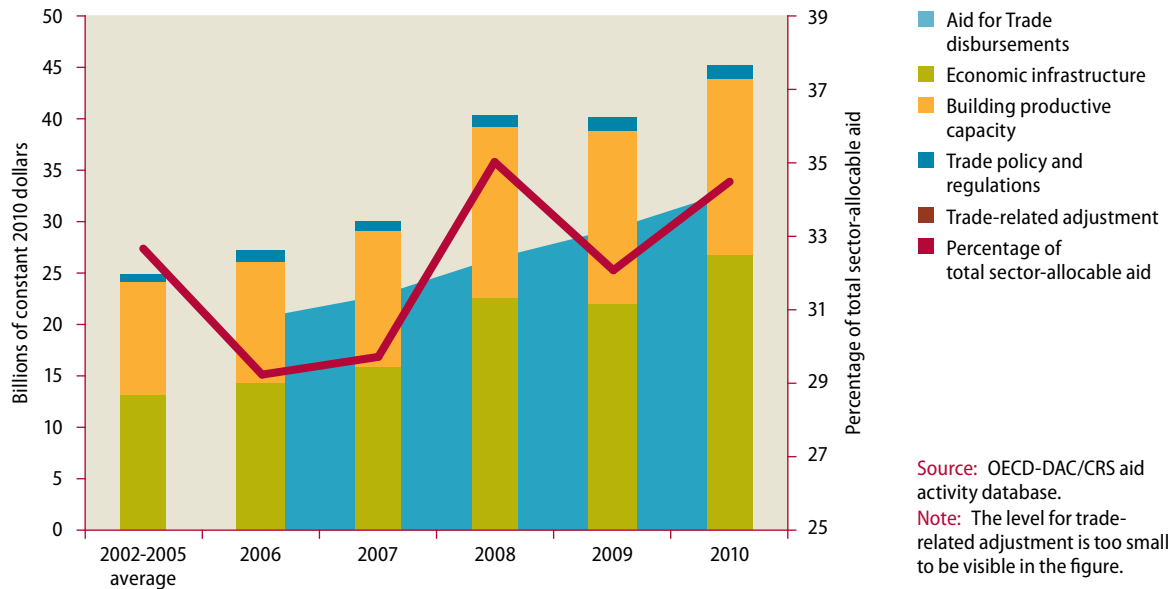
## Aid for Trade

Aid for Trade will likely be affected by tighter overall aid budgets

Total donor commitments to the WTO-led Aid for Trade initiative reached \$45.3 billion in 2010, despite the fiscal and economic difficulties in many OECD countries (figure 5). This amount represents an 80 per cent increase in real terms with respect to the average for 2002-2005 and an increase of 12 per cent over 2009 levels. While showing some fluctuations, the share of Aid for Trade in official development assistance (ODA) has also increased over the same period, accounting for about 35 per cent of sector allocable ODA in 2010. Disbursements have been less volatile than commitments, reaching a total of \$33 billion in 2010. The increase in Aid for Trade flows was mostly due to the increased efforts by Japan,

<sup>36</sup> Such is the case for Iranian nut exports to the European Union or Thai fishery product exports, while a small number of countries, most notably China and India, experience constraints in meeting standards across all types of agricultural products. On the other hand, countries like Argentina, Chile, Ecuador and South Africa were found to have a very good compliance record.

Figure 5  
**Aid for Trade commitments by category, 2002-2005 average and 2006-2010** (billions of constant 2010 dollars; total aid for trade as a percentage of total sector-allocable aid)



the United States and Germany, which collectively account for nearly 70 per cent of total bilateral contributions and over 40 per cent of total Aid for Trade. Allocations for Aid for Trade will likely be affected by tighter overall aid budgets in OECD donor countries, as discussed in the chapter on ODA.

As may also be seen in figure 5, the increase in Aid for Trade was mostly concentrated in economic infrastructure. Aid for building productive capacities has remained stable, while support to trade policy and regulations dropped slightly in 2010.<sup>37</sup>

The increased support in 2010 was primarily allocated to Southern Asia and Northern Africa (figure 6). Sub-Saharan Africa, together with Southern Asia, continued to receive most of the pledged funding. India was the largest individual recipient in 2010,<sup>38</sup> followed by Afghanistan, Egypt and Viet Nam. Aid for Trade to LDCs more than doubled from the 2002-2005 baseline level, to \$13.7 billion in 2010, and was up 14 per cent from 2009 levels. LDCs now account for 30 per cent of total Aid for Trade.

## Results on the ground

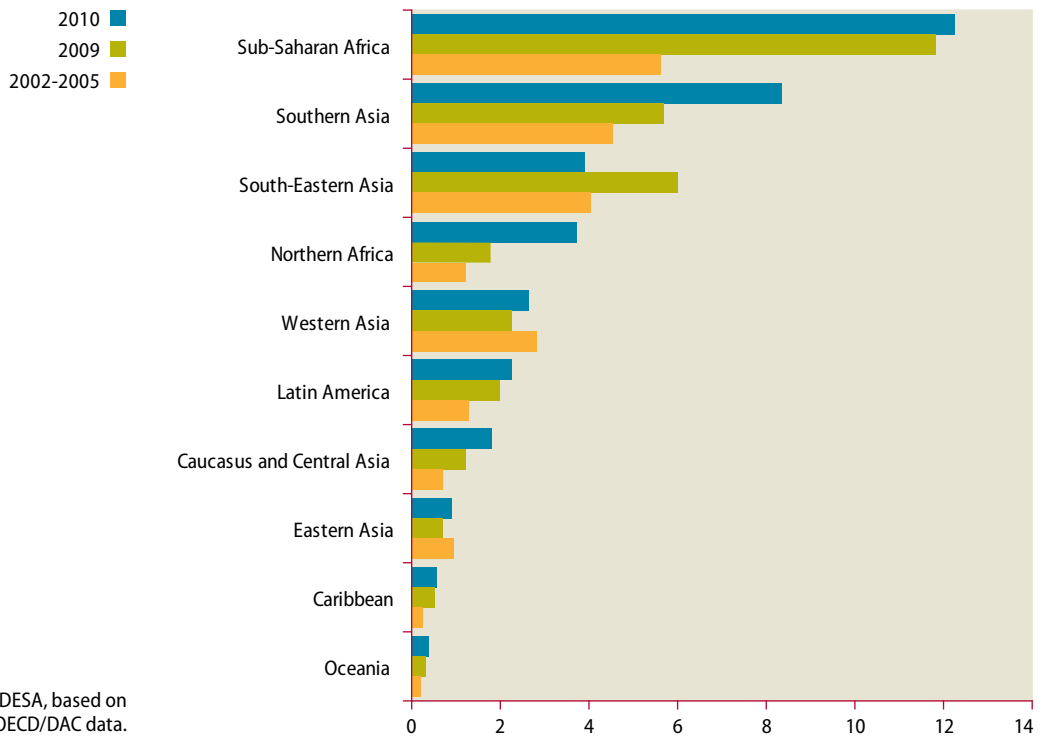
The Third Global Review of Aid for Trade in 2011 included 269 case stories and more than 140 self-assessments that were submitted by aided countries, bilateral

<sup>37</sup> Trade-related adjustment assistance, launched as an Aid-for-Trade programme in 2008, is too small to be visible in figure 5, recording \$29 million in 2010.

<sup>38</sup> Aid for Trade commitments to India in 2010 amounted to \$2.8 billion, mostly from rail transport finance provided for the extension of Delhi's Mass Rapid Transport system. Increase in Aid for Trade to Northern Africa in 2010 can be mostly attributed to significant investments in renewable energy in Egypt, as well as investments in rail transport in Tunisia and road construction in Morocco.

Figure 6

**Aid for Trade commitments by region, 2002-2005, 2009 and 2010 (billions of 2010 dollars)**



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

and multilateral donors, donor partners from the South and regional economic communities, covering more than 150 countries. The sheer quantity of activities described in these stories suggests that Aid for Trade efforts are substantial and have taken root across a wide spectrum of countries.

Ownership is critical for successful Aid for Trade

The case stories highlighted several factors that are essential for successful Aid for Trade programmes. Country ownership at the highest political level is most frequently reported as a critical factor for success. Active local participation and involvement of the private sector and civil society in the preparation and implementation of activity is also crucial. Integrated approaches to development, for instance, by combining public and private investment with technical assistance, increase the success rate. Equally, long-term donor commitment and adequate and reliable funding are considered essential. Other elements of success highlighted in the case stories include leveraging partnerships, including with partners from the South, keeping project design flexible to facilitate adjustments in initial plans, sharing knowledge and transferable lessons at local and global levels, as well as maintaining supportive macroeconomic and structural adjustment policies and good governance. Aid for Trade efforts should concentrate in particular on mainstreaming trade in development policy, engaging the private sector and integrating the key principles of aid effectiveness into Aid for Trade programmes and projects.

### Policy recommendations

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A Global Partnership for Development on trade that delivers improved market access for developing countries effectively will require renewed efforts by the international community to meet the targets by 2015. Actions required at the national and international levels to ensure and further improve market access for developing countries include the following:

- Continuing to explore different negotiating approaches in order to reach a balanced conclusion of the Doha Round of trade negotiations, including a meaningful package for LDCs and MC8 decisions made in favour of LDCs
- Removing any trade-restrictive measures that may have been adopted since the onset of the global crisis and avoiding the introduction of new ones
- Significantly enhancing the availability of trade finance at affordable cost to all low-income countries
- Fully implementing the 2005 Hong Kong Declaration commitment to provide duty-free quota-free market access to LDC products, along with simplified rules of origin
- Increasing support for capacity development in developing countries, including capacity to comply with international standards and non-tariff measures, through, inter alia, sustainable and predictable Aid for Trade and the Enhanced Integrated Framework for LDCs, while ensuring that development effectiveness principles are incorporated
- Eliminating all forms of agricultural export subsidies by 2013 and trade-distorting agricultural production subsidies in developed countries
- Implementing the Rio+20 commitment to strengthen international cooperation (through adequate provisioning of financial resources, capacity-building and technology transfer) for the transformation of developing countries into green economies, and not at the cost of restricted market access conditions in developed countries





## Debt sustainability

Dramatic developments have taken place over the past year in the world of sovereign debt. The fact that the key debt crises have occurred in European developed economies only emphasizes that the exigencies of public finance and the political difficulties of tackling a debt overhang effectively are universal. Lessons from the European crisis reiterate lessons from emerging market debt crises, as well as from the entire history of sovereign debt crises. One of those recent lessons from Europe is that ad hoc political processes for debt workouts do not necessarily lead to timely, effective or fair burden-sharing after debt crises occur.

Most developing countries managed the global crisis reasonably well, supported by emergency increases in official international financing in 2009, mediated through the International Monetary Fund (IMF), the World Bank and the regional development banks, as well as larger financial flows from a number of bilateral sources, including other developing countries. Nevertheless, some countries have faced debt difficulties during the crisis and a number of countries still face the risk of debt distress. Furthermore, the international initiatives to reduce and restructure excessive sovereign debts of heavily indebted poor countries (HIPCs) are coming to a close, such that there is a need to develop a new international framework for addressing future sovereign debt crises in low-income countries. Europe's present sovereign debt crises suggest there is a need for a broader framework for fair and orderly debt workouts applicable to a much wider range of country conditions. Indeed, the 2010 outcome document of the High-level Plenary Meeting of the General Assembly on the Millennium Development Goals<sup>1</sup> and the 2011 Istanbul Plan of Action for the Least Developed Countries<sup>2</sup> (LDCs) reiterated the importance of ensuring long-term debt sustainability. These documents also stressed the need for the establishment of an orderly debt workout mechanism to deal more adequately with unsustainable sovereign debt situations. An agreed and general international framework for debt restructuring could provide Governments and creditors with the opportunity for more efficient, fair and speedy solutions to debt problems.

The threat that future international disruptions will provoke new crises is never far away, and can impact both developed and developing countries. The need to explore establishing an international mechanism for early and cooperative resolution of sovereign debt crises is as great today as it was when the international community recommended it a decade ago in the Monterrey Consensus.<sup>3</sup>

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<sup>1</sup> General Assembly resolution 65/1 of 22 September 2010.

<sup>2</sup> The Istanbul Programme of Action (IPoA) was adopted at the Fourth United Nations Conference on the Least Developed Countries that took place from 9 to 13 May 2011 in Turkey.

<sup>3</sup> See *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.

## The debt situation in developing countries

The standard debt indicators do not portend a systemic debt problem in developing countries at this time. Vulnerabilities remain, however, owing in particular to the uncertain global economic environment and the expected deceleration of export growth in 2012.

External debt ratios fell in 2011...

In the immediate aftermath of the global financial crises, external public debt<sup>4</sup> of developing countries as a whole increased as a share of gross domestic product (GDP), but, owing to economic growth recovery, the debt ratio fell in 2011 (figure 1). In 62 of the sample of 121 developing countries for which data were available, the external public debt-to-GDP ratio was below 40 per cent in 2011, which some observers have marked as indicating a low debt-risk situation. However, global economic growth decelerated in the second half of 2011 and the slower growth is expected to continue during 2012 and 2013. This would likely slow GDP and export growth in developing countries,<sup>5</sup> which could weaken debt ratios.

...but debt vulnerabilities remain in low-income countries

In low-income countries, however, external public debt as a share of GDP increased in 2011 for the first time since 2005. The IMF projects that debt ratios are likely to rise in about half of the low-income countries, reflecting further widening of deficits on primary fiscal balances.<sup>6</sup> These countries are also expected to experience an increase in the effective interest rate on external debt as access to grant financing will likely become more limited given the disappointing outlook for overall bilateral aid (see the chapter on official development assistance), and low-income countries are increasingly resorting to non-concessional loans to fund investments in infrastructure, energy, mining and the transport sectors. The IMF warns that, despite relatively low debt ratios in most low-income countries, the recent increase in indebtedness could become a cause of concern if the trend continues.<sup>7</sup>

By a different measure, a number of low-income countries already face a challenging situation owing to unusually high external debt-to-export ratios.<sup>8</sup> This is the case in particular in Eritrea (589.3 per cent) and the Sudan (286.4 per cent), which are yet to receive debt relief under the HIPC Initiative, and Comoros (196.1 per cent), which has thus far only received interim debt relief. Among countries that have successfully exited the HIPC debt-relief process, Sao Tome and Principe faces an external debt-to-export ratio of 215.3 per cent, well above

4 Only external public debt is included in the main debt data series at this time, as data on domestic public debt were not available for all developing countries in the sample. To address this issue, at the end of 2010, the International Monetary Fund (IMF) and the World Bank launched a public sector debt database that includes data on general Government debt, with maturity, currency, and foreign/domestic creditor breakdowns. Data are also scarce on corporate debt and private debt, some of which might become a public liability, as when a bank bailout would be needed.

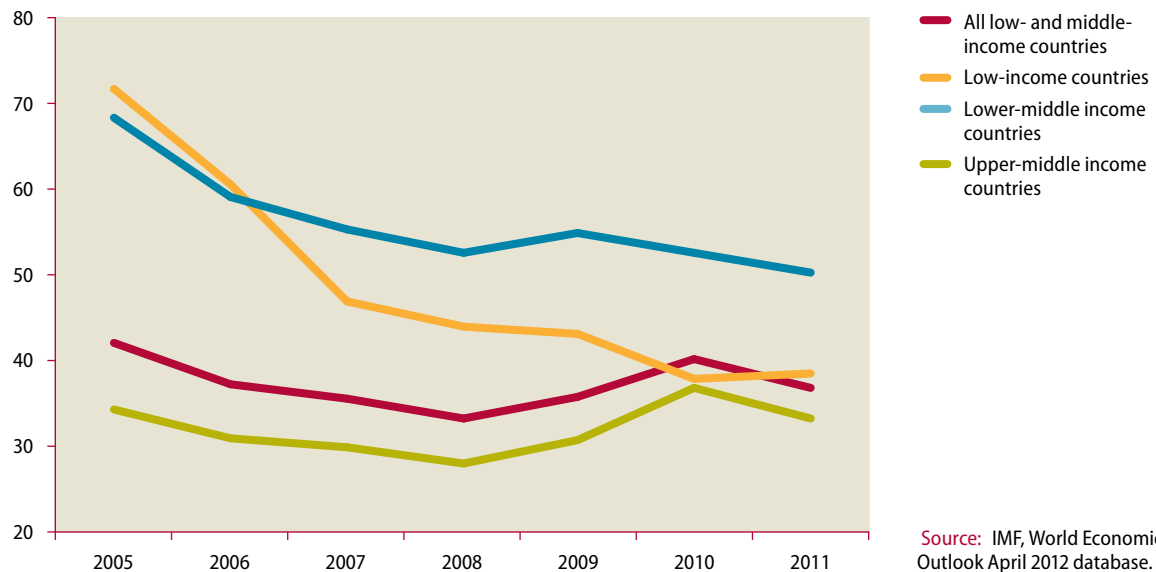
5 United Nations, World economic situation and prospects as of mid-2012 (E/2012/72), 10 May 2012.

6 The primary fiscal balance refers to government revenue less expenditure, excluding debt service payments.

7 IMF, *Fiscal Monitor: Balancing Fiscal Policy Risks* (Washington, D.C., April 2012), pp. 7-10.

8 More precisely, the indicator is the ratio of the present value of public and publicly guaranteed external debt to exports of goods and services.

Figure 1  
**External public debt-to-GDP ratios of developing countries, 2005-2011**  
 (percentage)



the 150 per cent threshold established under the HIPC initiative for eligibility for debt relief. A number of other low- and middle-income countries also have high debt-to-export ratios.<sup>9</sup>

A third debt indicator, the ratio of debt service to exports, increased slightly in 2011 for the aggregate of developing countries (figure 2). The increase came mainly on account of the lower-middle income countries. The debt-servicing burden of low-income countries continued to decline, to 4.8 per cent of export earnings in 2011, although if the growing debt ratios noted above continue, this is likely to change in the future.

As can be seen in figure 3, the debt-servicing burden rose in Northern Africa, Eastern Asia, South-Eastern Asia and Oceania in 2011. Sub-Saharan Africa was the only region where the overall level of debt-service payments fell. In Latin America, the Caribbean, Western Asia, and Caucasus and Central Asia, the increase in exports outpaced the increase in debt service, thereby lowering their debt service-to-export ratios in 2011.

A fourth indicator is the share of short-term debt (the obligation of a country either to roll over debt as it matures within a year or to repay it) in total external debt. The ratio increased in 2010 in all income groups (figure 4). This upward trend continued in 2011, with the exception of a few HIPCs and LDCs that experienced a slight drop in the share of short-term external debt. In upper-middle income countries, about one third of external debt is now short-term; in lower-middle income countries it increased to 14.8 per cent, while in low-income countries the share is just over 4 per cent.<sup>10</sup> Much of the increase in short-term

<sup>9</sup> For country details on a number of indicators, see World Bank, *Global Development Finance 2012: External Debt of Developing Countries* (Washington, D.C., December 2011), summary table 1.

<sup>10</sup> Calculations based on IMF, World Economic Outlook April 2012 database.

Debt-servicing ratios increased slightly...

...but varied across income groups and regions

Figure 2  
**External debt service-to-exports ratios, developing-country income groups, 2005-2011 (percentage)**



debt is trade related, which is usually not problematic as the borrowing pertains to goods moving in or out of the country, and their sale usually generates the revenues to service the debt. However, as was the case during 2008-2009,<sup>11</sup> trade credit may quickly dry up and constrain import demand in a time of crisis. This contracts total debt as outstanding trade credits are paid off, while the negative impact on trade reduces domestic incomes and overall debt-servicing capacity.

## How vulnerable are developing countries to new debt crises?

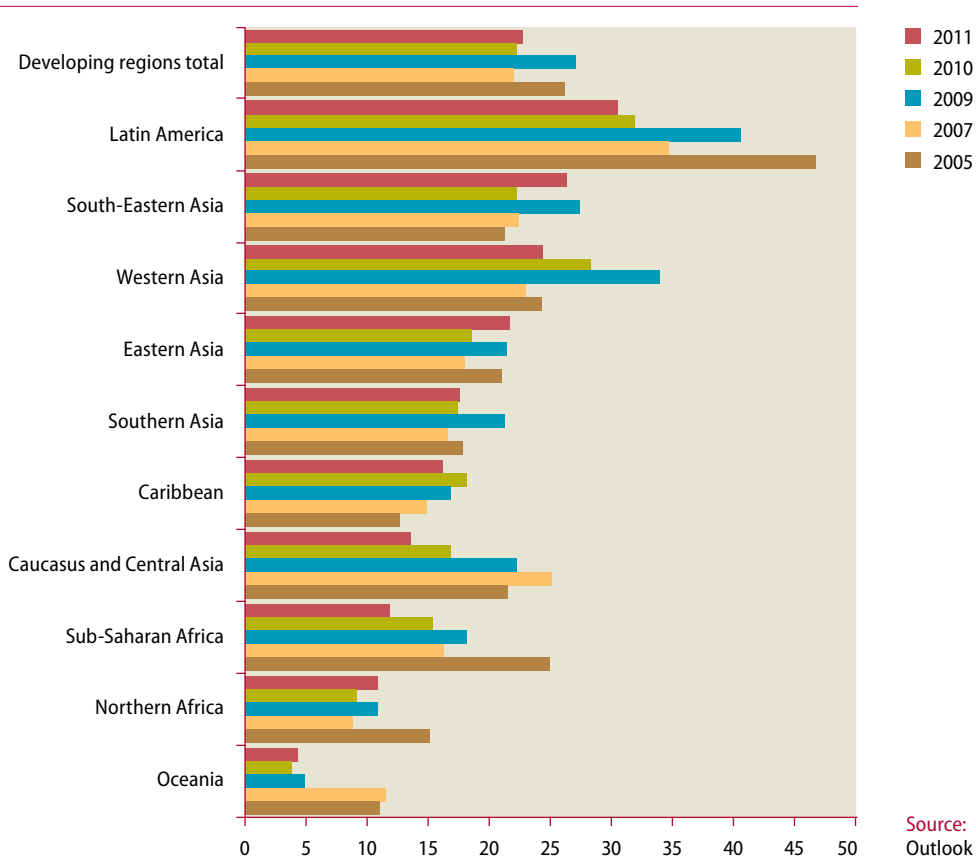
Twenty countries are at high risk or in debt distress

Despite the GDP and export recovery in many developing countries and the success of debt relief initiatives in reducing the external debt of HIPC, not to mention certain middle-income country restructurings arranged directly with bondholders, the IMF and World Bank have jointly classified some 20 developing countries as being in debt distress or at high risk of debt distress. Based on their most recent joint debt sustainability analyses (DSAs) as compiled in May 2012, 4 countries out of 72 that are eligible to draw from the IMF concessional facilities in the Poverty Reduction and Growth Trust (PRGT) were classified as being in debt distress (Comoros, Côte d'Ivoire,<sup>12</sup> the Sudan and Zimbabwe), while 16 countries were rated as being at high risk of debt distress. Another 23 countries

<sup>11</sup> Jean-Pierre Chauffour and Mariem Malouche, "Trade finance during the 2008-9 trade collapse: key takeaways", World Bank Economic Premise, No. 66 (September 2011).

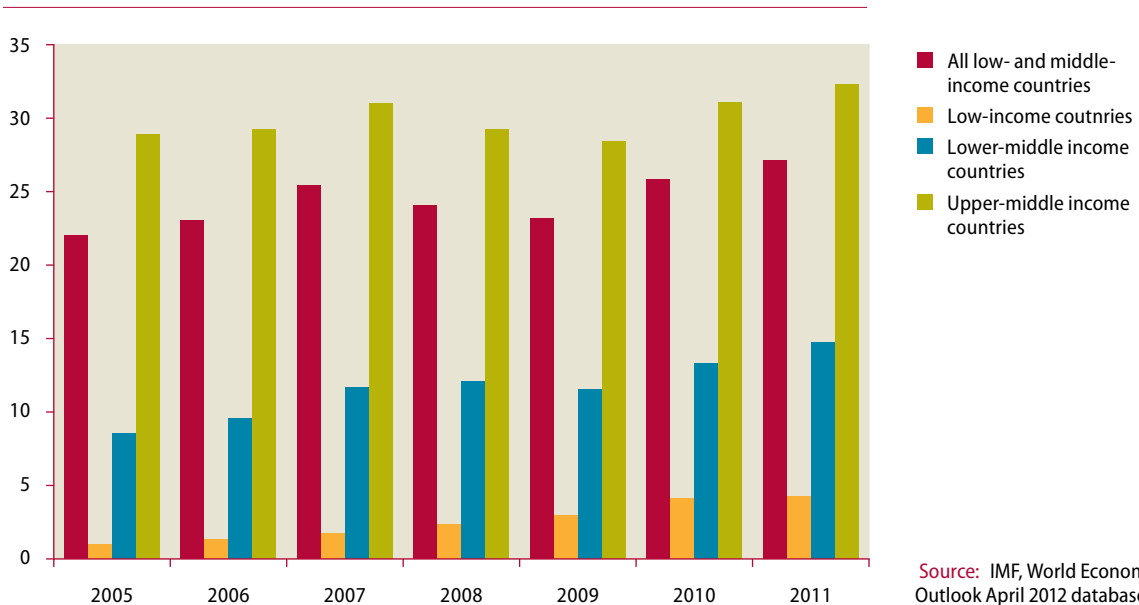
<sup>12</sup> The situation in Côte d'Ivoire has improved significantly since its last debt sustainability analysis (DSA). It is close to completing the HIPC process at which point its debt will be considerably reduced. The country is expected to be rated as being at moderate risk in the next review.

**Figure 3**  
**External debt service-to-exports ratios, developing-country regions, 2005, 2007 and 2009-2011 (percentage)**



Source: IMF, World Economic Outlook April 2012 database.

**Figure 4**  
**Share of short-term debt in external debt, developing-country groupings, 2005-2011 (percentage)**



Source: IMF, World Economic Outlook April 2012 database.

(including Guyana) were rated as facing moderate risk of debt distress and 25 countries were perceived to be at low risk (table 1).<sup>13</sup>

Although the risk of debt distress has not changed for most countries since 2009, the Fund and Bank have lowered their joint assessment of the degree of risk faced by some countries, while increasing it for others. Between 2010 and 2012, Benin, Cambodia, the Congo and Ethiopia were reclassified from moderate or high to low risk of debt distress. The Democratic Republic of the Congo and Guinea went from being in debt distress to being at high risk of debt distress. Guinea-Bissau and Togo went from debt distress to moderate risk of debt distress. Liberia went from being in debt distress to being at low risk of debt distress. However, Maldives went from moderate to high risk of debt distress, while Côte d'Ivoire went from high risk to being in debt distress. Finally, Mali went from low to moderate risk of debt distress.

## Sources of protection and vulnerability

Fiscal balances are recovering slowly, except in low-income countries...

With memories of having to absorb debt crises, many developing countries had sought to build up macroeconomic buffers before the current crisis erupted in 2008, including large holdings of international reserves, improved fiscal stances and reduced debt ratios. This enabled them to pursue countercyclical policies and helped weather the storm.<sup>14</sup> Fiscal buffers are being rebuilt in the aftermath of the global crisis, albeit slowly. Average fiscal deficits have retreated somewhat from the crisis-swollen levels. Upper-middle income countries, whose average fiscal balance showed a surplus before the crisis, remained in deficit at the end of 2011. However, the fiscal deficit of low-income countries increased from 3 per cent of GDP in 2010 to 3.5 per cent in 2011 (figure 5).

Fiscal deficits have widened significantly in countries that took measures to protect their populations against higher energy and food import prices by enhancing domestic subsidies. In effect, about half of the low-income countries took fiscal measures to mitigate the social impact of the commodity price shocks

Table 1

**Debt distress risk ratings in low-income and vulnerable economies, 2009-2012<sup>a</sup>**  
(number of countries<sup>b</sup>)

Risk Rating	End-2009	End-2010	End-2011	May 2012
In debt distress	8	6	5	4
High	14	14	16	16
Moderate	23	23	21	23
Low	19	23	25	25

Source: IMF classification for countries eligible to draw from the faculties of its Poverty Reduction and Growth Trust (PRGT).

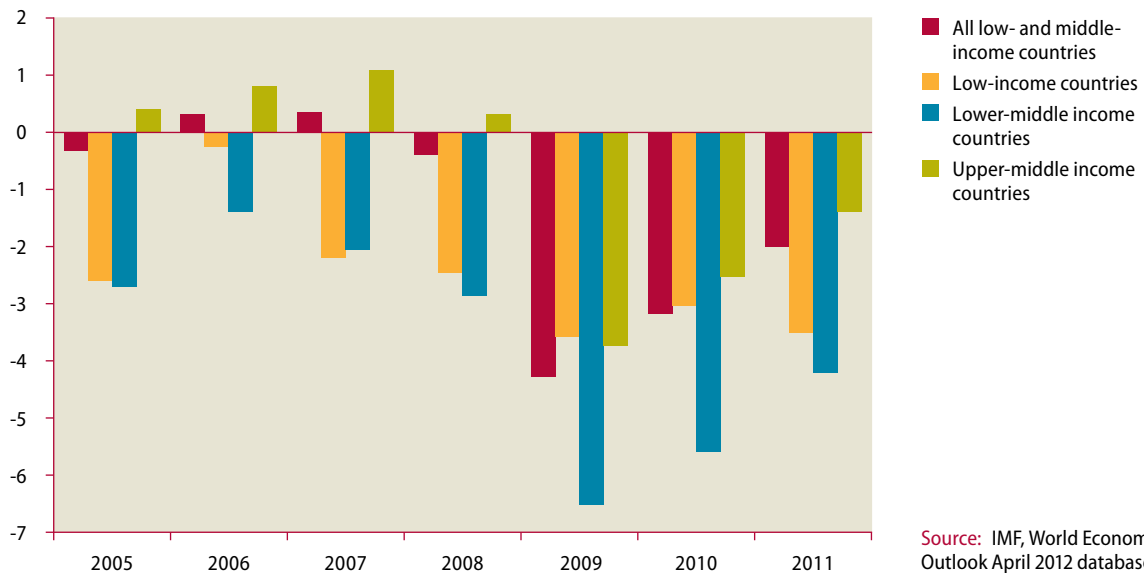
<sup>a</sup> End-year data, except for 2012 which is as at 3 May.

<sup>b</sup> Classifications were not available for all PRGT-eligible countries in each year.

<sup>13</sup> The list of debt sustainability analyses for countries eligible to draw on facilities of the IMF Poverty Reduction and Growth Trust on which the risk classification is based is updated monthly (see <http://www.imf.org/external/pubs/ft/dsa/dsalist.pdf>). Data are as consulted on 4 June 2012.

<sup>14</sup> IMF, "Emerging from the global crisis: macroeconomic challenges facing low-income countries" (Washington, D.C., 5 October 2010). Available from <http://www.imf.org/external/np/pp/eng/2010/100510.pdf>.

Figure 5  
**Fiscal balances of low- and middle-income countries, 2005-2011**  
 (percentage of GDP of group aggregates)



Source: IMF, World Economic Outlook April 2012 database.

that started in the first quarter of 2011, with a median budgetary cost estimated at more than 1 per cent of GDP.<sup>15</sup> Measures included food and/or fuel price subsidies, safety net expenditures and reductions in taxes and import tariffs.

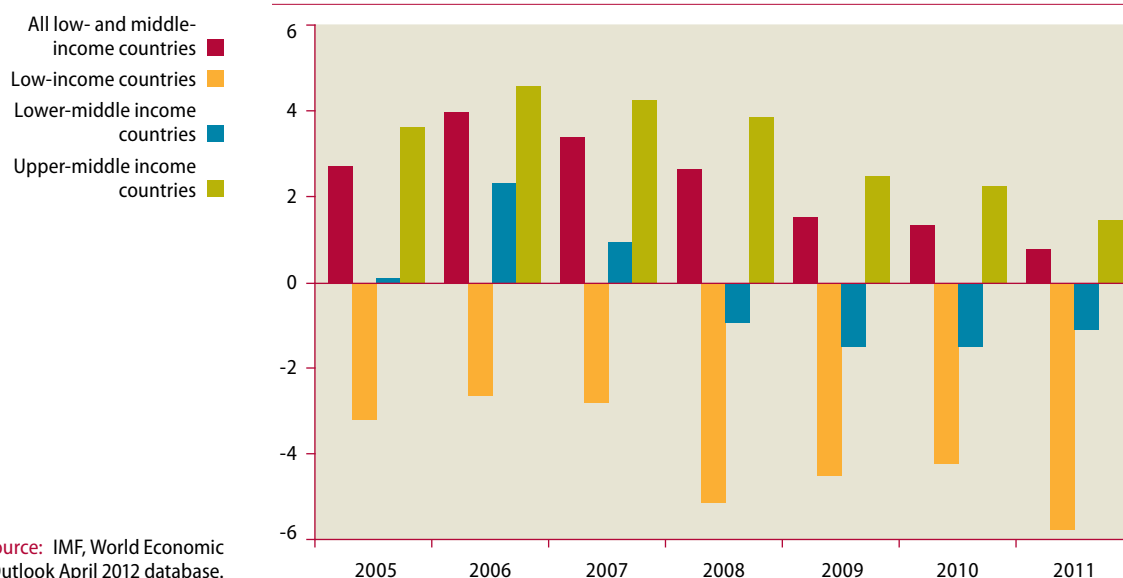
The external borrowing needs of a country depend in part on the size of the balance of payments on current accounts and whether it is in surplus or deficit. Of 160 developing and emerging economies included in the IMF World Economic Outlook database in April 2012, 77 had a current account deficit in 2011 larger than 5 per cent of GDP (versus 62 countries in 2005). These countries are drawing on international financial resources of one form or another. As can be seen in figure 6, after decreasing slightly in 2009-2010, the current account deficit of low-income countries increased to 5.8 per cent in 2011; more than double the level of 2006-2007. They, too, are drawing on international resources, borrowing more from public sources than private. The surpluses of upper-middle income countries have been on a gradual decline, from 4.6 per cent of GDP in 2006 to 1.4 per cent in 2011.

Countries can cover a current account deficit through net capital inflows or by using official reserve assets. By accumulating reserves, countries increase their ability to weather external economic shocks. A robust international reserve position may also give confidence to foreign creditors that foreign exchange will be available to repay short-term debt and other debt-servicing obligations; it may also provide a cushion to maintain essential imports during a crisis. However, in some middle-income countries, reserve accumulation has increased beyond the levels often deemed necessary for precautionary insurance. Together, developing countries added an estimated \$1.1 trillion to their reserves in 2011, bringing the total to above \$7 trillion; accumulation of another trillion dollars is forecast

...while current account balances are worsening

<sup>15</sup> IMF, *World Economic Outlook*, op. cit., box 4.1, p. 162.

Figure 6  
**Current account balances of developing countries, 2005-2011**  
 (percentage of GDP of group aggregates)



Source: IMF, World Economic Outlook April 2012 database.

for 2012.<sup>16</sup> In low-income countries, however, growth of imports has outpaced reserve accumulation and their reserve cushion stood just above the bare minimum level of 3.8 months of imports in 2011.<sup>17</sup>

In sum, it appears that the lower-income countries are relatively more vulnerable to being hurt in future crises. The IMF has boosted its resources for use by these countries in such a situation. It will more than double its concessional resources for use by low-income countries, raising them to \$17 billion through 2014. The Fund has also boosted its overall resources for deployment as needed by other countries, and additional bilateral funds may be mobilized in a new emergency. However, these are all new debt-creating flows. Countries that are already carrying heavy debt loads may instead need to suspend debt servicing and in some way restructure their external obligations. As will be discussed later, the proposed mechanisms to handle such situations may be cumbersome and ad hoc.

## Improving debt sustainability assessments

Debt sustainability frameworks were reviewed recently...

The Bretton Woods institutions have been using a framework for debt sustainability analysis that they have revised over time, based on lessons of experience and changing financial circumstances. Currently, two separate frameworks are used to analyse debt sustainability, one for low-income countries (jointly developed by the World Bank and IMF) and another for the rest of the world, referred to as “market-access countries” (developed by IMF). Recently, both frameworks were subject to thorough review.

<sup>16</sup> *World Economic Situation and Prospects 2012* (United Nations publication, Sales No. E.12.II.C.2), p. 69.

<sup>17</sup> Data from IMF, World Economic Outlook April 2012 database.



## Debt Sustainability Framework for low-income countries

The review of the joint IMF-World Bank Debt Sustainability Framework focused on changes in the debt profiles of low-income countries.<sup>18</sup> The review addressed the increasing importance of domestic public debt and private (external) debt, which, although not yet pervasive in low-income countries, are increasing in some. The changes adopted will give greater opportunity in Fund and Bank analyses to take account of individual country specificities, such as deciding when it is necessary to measure total public debt and not just external debt, when to take account of the role of remittances as a regular and reliable source of foreign exchange inflows, how to more adequately reflect the potential contribution of new borrowing to economic growth, and when to pay greater attention to the maturity structure and currency composition of the debt and to the Government's investor base. The review also encouraged greater use of judgement when interpreting a country's breaching of debt-indicator thresholds. The related issue of vulnerabilities and emerging risks will be tackled through a new vulnerability exercise for low-income countries, which aims to analyse risks coming from changes in the external environment.<sup>19</sup>

...in the light of changing debt profiles of low-income countries...

## Debt Sustainability Analysis for market-access countries

The IMF framework for DSAs in developed and middle-income developing and transitions economies was reviewed in the light of the recent debt crises in developed countries.<sup>20</sup> As a result, the Fund will start incorporating as a reference point (though not an explicit threshold) a 60 per cent ratio of public debt to GDP to be used flexibly as a trigger for deeper analysis. Staff will also make greater use of the so-called balance sheet approach (assessing the structure of assets and liabilities in the key sectors of an economy, including households and non-financial corporations) and in the future, better integrate contingent liabilities into the analysis. It will also give more attention to maturity, currency composition and interest rates on the debt, as well as liquidity considerations, and assess whether a country's creditor base is diversified, reliable, captive, largely domestic or foreign.

...and recent debt crises in developed countries

Overall, the review emphasized the need for "greater realism" in specifying the fiscal adjustment path, economic growth and interest rates in the baseline projection.<sup>21</sup> This reflects an important recognition of a degree of over-optimism in some past cases regarding the attainable degree and speed of fiscal correction and the adverse consequences of overly ambitious austerity policies.

## Progress in debt relief

The resolution of debt crises usually requires some combination of cancelling and rescheduling debt repayments and interest obligations on each class of debt,

<sup>18</sup> IMF and World Bank (2012), "Revisiting the debt sustainability framework for low-income countries" (Washington, D.C., 12 January 2012), available from <http://www.imf.org/external/np/pp/eng/2012/011212.pdf>.

<sup>19</sup> IMF, "Managing volatility: a vulnerability exercise for low-income countries" (Washington, D.C., 9 March 2011).

<sup>20</sup> IMF, "Modernizing the framework for fiscal policy and public debt sustainability analysis" (Washington, D.C., 5 August 2011).

<sup>21</sup> *Ibid.*, pp. 7-11.

which countries typically undertake sequentially with banks, bondholders, other Governments and, for the poorest countries, the international financial institutions and the IMF. The international community devised a special process to treat the debts of the poorest countries comprehensively—the HIPC Initiative. That process is drawing to a close and brings into question the specific future role of the Paris Club, a major intergovernmental creditor forum.

## Completing the HIPC Initiative

The HIPC Initiative substantially reduced debt burdens...

Donor Governments have supported the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI), which were launched in 1996 and 2005, respectively. These initiatives have reduced the debt of the HIPC countries with the aim of restoring long-term debt sustainability and directly freeing resources for development in those countries. The total cost to creditors of HIPC relief is estimated at \$76 billion and that of the MDRI at \$33.8 billion in end-2010 present value terms.

By 17 May 2012, 36 of the 39 HIPC countries had reached the “decision point” in the HIPC process (the point at which interim relief is accorded) and 32 had reached the “completion point”, thus benefiting from irrevocable debt relief, complemented by further relief under the MDRI.

Debt relief accorded to the post-decision-point countries reached almost 35 per cent of their 2010 GDP. This assistance, together with debt relief under traditional mechanisms and “beyond HIPC” relief from a number of Government creditors, has reduced the debt burden of these 36 decision-point countries by 90 per cent relative to their pre-decision-point levels, thus allowing them to increase expenditures on poverty reduction programmes by more than 3 per cent of GDP, on average, over the past decade.

...but several countries that received debt relief are at high risk of debt distress

Nevertheless, official monitoring reports have found that some countries that had received debt relief under the HIPC Initiative are again at risk of unsustainable debt. Of the 32 countries that have reached the completion point, 7 are classified as being at high risk of debt distress and 12 at moderate risk of debt distress. Moreover, a few countries have had difficulty satisfying the policy requirements to complete the process and obtain the full relief.

Though potent, the HIPC process has been complex, as one may appreciate from the recent experience of Côte d’Ivoire. The strife-torn country defaulted in 2011 on \$2.3 billion worth of eurobonds when it could not pay \$29 million in interest. It also defaulted on debts owed to other Governments. The workout began when the major Government creditors, meeting in the Paris Club, agreed on 15 November 2011 to apply the 1999 “Cologne terms” for relief, following satisfaction of the Paris Club prerequisite that the country enter into an economic adjustment arrangement with the IMF. The Cologne terms entail cancellation of 90 per cent of the obligations on debts incurred before a specified cut-off date and long-term rescheduling of the remaining 10 per cent.

Because of Côte d’Ivoire’s limited debt-servicing capacity, Paris Club creditors also agreed to defer and reschedule over a 10-year period the repayment due on short-term debt and loans taken after the cut-off date; it also rescheduled the arrears on those claims over an 8-year period. Additionally, they agreed to defer all the interest due on the amounts treated. As the cut-off date for Côte d’Ivoire was 1 July 1983, less than \$400 million out of the \$2.3 billion treated will be

cancelled.<sup>22</sup> In May 2012, the IMF Executive Board endorsed the progress in the country's recovery programme.<sup>23</sup> This supportive review moved the country closer to its HIPC completion point, when the Paris Club countries would fully implement their November agreement and all obligations to the World Bank's International Development Association (IDA), IMF and the African Development Bank that had been incurred before the MDRI cut-off dates would be eliminated (end-2003 for IDA and end-2004 for the others). Finally, in May 2012, the Government announced it would resume servicing its bonds in June and would begin to address the arrears since its default. In sum, through separate arrangements made by the Paris Club for bilateral debt (under the HIPC Initiative), by the HIPC Initiative and the MDRI for multilateral debt, and by a forthcoming arrangement for private debt, Côte d'Ivoire is obtaining a measure of debt relief.

By 2012, the large multilateral and Paris Club creditors had provided their full share of debt relief to all the completion point HIPCs, but full participation of all creditors is yet to be secured.<sup>24</sup> The majority of small multilateral creditors have committed themselves to delivering debt relief at the completion point. Such creditors have already delivered 55 per cent of the relief committed to completion-point HIPCs. There has also been some increase in the delivery of debt relief by non-Paris Club bilateral creditors over the past year. Commercial creditor delivery of debt relief to HIPCs has also increased in recent years and the number of cases of private creditor litigation against HIPCs remained unchanged, at 17, in 2010 and 2011 (the IDA Debt Reduction Facility, which has helped reduce the risk of litigation, was extended to end-July 2017).

The HIPC Initiative has thus been largely completed, with three of the four interim countries expected to reach their completion points within a year, and only three countries left to start the process of qualifying for debt relief under the Initiative (Eritrea, Somalia and the Sudan).<sup>25</sup> In its most recent review of the status of implementation of the HIPC Initiative and MDRI, the IMF Board of Directors agreed on 30 November 2011 that the objectives of the initiatives have largely been achieved, but saw the desirability of focusing on the potential need for additional actions. Directors also agreed to "ring-fence" the list of eligible or potentially eligible countries based on a recalculation of the qualification criteria using 2010 data. Most Directors considered that this limited change would reduce moral hazard and bring a further sense of closure to the HIPC Initiative. Directors recognized that the list of eligible or potentially eligible countries could be amended to include countries whose data were later verified to have met the

The HIPC Initiative is almost complete but HIPC challenges linger

22 Additional details of the Paris Club debt treatment are available from <http://www.clubdeparis.org/sections/traitements/cote-d-ivoire-20111115/viewLanguage/en>.

23 See <http://www.imf.org/external/np/sec/pr/2012/pr12175.htm>.

24 International Development Association (IDA) and IMF, "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI)—Status of Implementation and Proposals for the Future of the HIPC Initiative", 8 November 2011, available from [http://siteresources.worldbank.org/INTDEBTDEPT/ProgressReports/23063134/HIPC\\_MDRI\\_StatusOfImplementation2011.pdf](http://siteresources.worldbank.org/INTDEBTDEPT/ProgressReports/23063134/HIPC_MDRI_StatusOfImplementation2011.pdf).

25 The situation of the pre-decision-point countries is uncertain, with protracted arrears impeding the process in Somalia and the Sudan, and the continuing indecision about seeking HIPC assistance in Eritrea. In addition, while currently regarded as not being potentially eligible for the HIPC Initiative, Zimbabwe may need comprehensive relief owing to its unsustainable debt, measured at 231 per cent of GDP.

indebtedness criteria at end-2004 and end-2010. Directors also acknowledged that many HIPCs continue to face challenges in meeting the MDGs.<sup>26</sup>

## Future engagement of the Paris Club

Paris Club activity has decreased...

As at June, the Paris Club had held two negotiations in 2012 (for Guinea and Saint Kitts and Nevis). During all of 2011, there were only two Paris Club negotiations (Côte d'Ivoire and Guinea-Bissau), compared with nine negotiations in 2010, reinforcing a trend observed over the last few years of a decreased number of meetings compared with the 1990s.<sup>27</sup> The main reason behind reduced Paris Club activity is the deep cuts in the stock of HIPC debt. The Initiative aimed at stopping previous typically repeated rescheduling. There are a number of non-HIPC cases coming for treatment and certain outstanding cases still to be settled, notably that of Argentina, which has remained an unresolved element of the workout since its 2001 crisis. But on the whole, the Paris Club may have a shorter agenda than in the past.

...and the majority of debt now comes from private creditors

Indeed, Paris Club creditors seem to be providing a smaller share of the external credits taken by developing countries. The share of all official debt in total external debt has been declining since 2005 in low- and middle-income developing countries, with 70 per cent of outstanding external debt now originating with private creditors (table 2). HIPCs and LDCs, however, have not followed this trend, as the share of official debt in their external debt continued to increase, reaching 81.4 per cent and 91.5 per cent, respectively, in 2011. Should these countries experience new debt crises, it is likely that the Paris Club may, in fact, need to play a large role in the workout, assuming it moves the cut-off date closer to the present. For the rest of the world, it is not so clear that a Paris Club agreement would affect a large enough share of debt to substantially impact the overall debt burden.

During the decade before the global financial crisis, member countries of the Paris Club received more in debt repayments and negotiated prepayments by middle-income countries than they were disbursing in new loans. There was a surge in new borrowing from bilateral official sources in 2009 and net borrowing increased further by 76 per cent in 2010. However, the increase was mainly driven by loans from emerging market creditors that are not Paris Club members, China in particular.<sup>28</sup> (Between 2007 and 2010, bilateral creditors signed new loan agreements totalling about \$135 billion; China alone accounted for almost one third of that amount.) Consequently, the share of debt owed to members of the Paris Club continues to fall in middle-income countries.

## Towards an international debt workout mechanism

In total, one quarter of HIPCs and one third of LDCs are currently classified as facing high debt vulnerabilities. Moreover, as income per capita rises in LDCs and other developing countries, access to grants and concessional loans will diminish, making non-concessional borrowing a more attractive, albeit possibly dangerous,

<sup>26</sup> See <http://www.imf.org/external/np/sec/pn/2011/pn11151.htm>.

<sup>27</sup> Details may be found on the website of the Paris Club ([www.clubdeparis.org](http://www.clubdeparis.org)).

<sup>28</sup> World Bank, *Global Development Finance 2012*, op. cit., p.4.

Table 2  
**Share of developing-country external debt owed to private creditors,  
 2005-2011 (percentage)**

	2005	2006	2007	2008	2009	2010	2011
All low- and middle-income countries	55.7	61.8	67.0	68.4	67.2	68.6	70.0
Low-income countries	5.8	6.9	10.0	12.1	13.7	16.6	16.7
Lower-middle income countries	32.0	37.3	41.6	43.6	44.3	45.7	47.6
Upper-middle income countries	68.8	74.0	77.9	79.7	77.9	78.7	79.8
HIPCs	12.0	13.8	16.1	17.1	16.9	19.7	18.6
LDCs	1.4	3.1	5.7	7.3	7.6	8.7	8.5

Source: IMF, World Economic Outlook April 2012 database.

alternative. If any of the post-HIPCs require a new sovereign debt workout, they will have to rely on the ad hoc process as it exists today for non-HIPCs. As much as the HIPC Initiative has been criticized from different perspectives, it did aim at a comprehensive debt workout that would place the country back on a path of sustainable debt. Post-HIPCs will now have to join with the rest of the countries in debt distress and deal separately with Paris Club creditors, non-Paris Club bilateral creditors, multilateral development banks and the IMF, private banks, suppliers and bondholders, making it difficult to ensure that an adequate overall degree of relief is obtained.

In this context, and facing the recent unsatisfying experience in the ad hoc restructuring of Greek sovereign debt, there are nascent signs of a renewed interest in exploring the development of an international sovereign debt workout mechanism that all countries might draw upon. One sign is that in June 2011, the German development ministry brought together 44 high-ranking officials and other stakeholders in a workshop on managing sovereign debt. In summarizing the meeting, the Parliamentary State Secretary noted, “In spite of all the difficulties it is worthwhile to continue to be advocates for the creation of an international debt workout mechanism.”<sup>29</sup> A second sign is that in October 2011, the Swiss Parliament adopted a motion that mandated the Federal Council to “present a proposal for a fair and independent international insolvency framework for States... [and] advocate for the international support and the implementation of this proposal”.<sup>30</sup> And a third is that in May 2012, the Centre for International Governance Innovation (CIGI) in Canada and the Financing for Development Office of the Department of Economic and Social Affairs of the United Nations Secretariat jointly organized an expert group meeting in New York to encourage a frank, technical discussion among prominent emerging market investors, legal advisors, international organization specialists and academics of possible measures to enhance the effectiveness of the debt-restructuring process. According to

A comprehensive international sovereign debt workout mechanism is needed

<sup>29</sup> German Federal Ministry for Economic Cooperation and Development, “Managing sovereign debt crises in developing countries”, BMZ Workshop, Berlin, 27 June 2011, p. 4, available from [http://www.development-finance.org/en/component/docman/doc\\_download/948-managing-debt-crises-bmz-wks.htm](http://www.development-finance.org/en/component/docman/doc_download/948-managing-debt-crises-bmz-wks.htm).

<sup>30</sup> See “Debt court idea for bankrupt states gathers pace”, Swissinfo.ch, 7 October 2011.

a preliminary summary of the meeting, private creditors who had fought hard against any debt workout mechanism in the past might well consider supporting the creation of one at this time.<sup>31</sup>

Decision-making in such a framework could be guided by principles of “responsible” borrowing and lending. Indeed, the United Nations Conference on Trade and Development (UNCTAD) has undertaken to work with experts and policymakers to devise an agreed set of voluntary “principles on promoting responsible sovereign lending and borrowing”.<sup>32</sup> In addition, a set of “guiding principles on foreign debt and human rights”, also prepared with the support of an international consultative process, is being presented to the Human Rights Council in June 2012.<sup>33</sup> These initiatives could provide guidance to the facilitators or arbitrators or “bankruptcy judges” that might be engaged to help reach the timely, effective and fair debt workout that sovereign debtors and their creditors should seek.

### Policy recommendations

To mitigate the impact of high debt burdens on the poor in developing countries, continued international efforts to prevent and manage debt crises are needed. Several policy options to strengthen these efforts should be considered:

- Improving the timeliness and coverage of country debt data, based on both creditor and debtor reporting systems, to strengthen capacities to assess debt sustainability
- Bolstering technical cooperation to strengthen debt management capacity in developing and transition economies so that they increasingly customize and employ debt sustainability analyses as part of their own national policymaking
- Impeding litigation by those creditors not participating in internationally arranged debt workouts
- Fostering discussion within individual debtor and creditor countries on proposed principles for responsible borrowing and lending as well as guidelines on foreign debt and human rights. Such discussion should inform policymaking in borrowing countries and among lenders, and ultimately create commonly endorsed standards
- Convoking an international working group, supported by a balanced international group of experts, to examine options for enhancing the international architecture for debt restructuring

31 The summary mentions two reasons for this change in position: (1) under the current practice of delaying restructurings, official loans that have seniority for repayment tend to substitute for private ones requiring ever greater private “haircuts” to achieve a needed overall debt reduction, compared to the outcome in a rules-based and comprehensive approach; and (2) after Greece’s debt deal, creditors are likely to demand innovations in bond covenants to make the bonds “restructuring proof”, in which case “voluntary” debt workouts will no longer work (see James A. Haley, “The evolving debate on sovereign debt restructuring”, The New Age of Uncertainty blog (Ontario, Canada: Centre for International Governance Innovation, 24 May 2012), available from [www.cigionline.org/blogs/new-age-of-uncertainty](http://www.cigionline.org/blogs/new-age-of-uncertainty)).

32 The draft principles, as at January 2012, are available from [http://www.unctad.info/upload/Debt%20Portal/Principles%20drafts/SLB\\_Principles\\_English\\_Doha\\_22-04-2012.pdf](http://www.unctad.info/upload/Debt%20Portal/Principles%20drafts/SLB_Principles_English_Doha_22-04-2012.pdf).

33 See United Nations, “Note by the Secretary-General on the effects of foreign debt and other related international financial obligations of States on the full enjoyment of all human rights, particularly economic, social and cultural rights”, A/66/271, 5 August 2011.

## Access to affordable essential medicines

Despite a greater focus on health issues by the international community, little progress can be seen in access to essential medicines. New data show that essential medicines remain unaffordable and insufficiently accessible to the poor. Although international initiatives supported by public and private funding will continue to help increase the supply of affordable medicines and improve their distribution, other developments will also help narrow the gap, if conditions allow. Local production of medicines in developing countries, for example, can reduce production costs, but will depend on enhancing the capacity of these countries and facilitating the use of flexibilities in international trade regulations. Thus, the augmented participation of developing countries will be critical in strengthening the global partnership to increase access to essential medicines.

### New commitments made in 2011

Two major health-related international meetings took place in 2011. Although the scope of these meetings goes beyond the provision of medicines, they will help galvanize efforts to improve access to essential medicines. In June, Member States of the United Nations gathered for the High-level Meeting on AIDS. Governments made new commitments and set new targets intensifying the global AIDS response. In a General Assembly resolution, Member States agreed to work towards achieving the following by 2015: a 50 per cent reduction of sexual transmission of HIV, the elimination of mother-to-child transmission and substantially reduced AIDS-related maternal deaths, a reduction in deaths caused by tuberculosis (TB) in people living with HIV by 50 per cent, and the provision of antiretroviral (ARV) treatment to 15 million people.<sup>1</sup>

In September 2011, the High-level Meeting of the General Assembly on Non-communicable Disease Prevention and Control was held at the United Nations. Member States recognized the major challenges that non-communicable diseases (NCDs) pose to development, including limiting progress towards the health-related Millennium Development Goals (MDGs). They agreed that prevention of NCDs should be given high priority on national and global development agendas. Member States committed to the following: to advance the implementation of interventions to reduce the impact of NCD risk factors, to establish or strengthen national health systems and multisectoral policies for the prevention and control of NCDs, to strengthen international cooperation and partnerships in support of plans for the prevention and control of NCDs, and to promote research and development. Some concrete actions include creating a global monitoring framework and setting concrete global (voluntary) goals

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<sup>1</sup> General Assembly resolution 65/277 of 10 June 2011.



GAVI and the Global Fund  
mobilize resources...

and targets by the end of 2012, creating partnerships between United Nations agencies and other institutions, and developing an implementation plan for the period 2013-2018 to forge a global strategy for the prevention and control of non-communicable diseases.<sup>2</sup>

Despite the global economic downturn, two major advances in financing essential medicines occurred in 2011. In September 2011, the Global Alliance for Vaccines and Immunisation (GAVI) announced that it will provide new and additional funding to introduce rotavirus vaccines in 16 developing countries, pneumococcal vaccines in 18 countries (a major step towards protecting children against severe diarrhoea and pneumonia, the two leading child killers), as well as funding for pentavalent vaccine<sup>3</sup> in 5 countries and other types of vaccines in 12 countries.<sup>4</sup> A total of 37 new beneficiary countries will receive these vaccines (with some receiving more than one type of vaccine), of which 24 are in Africa. This development has been made possible through \$4.3 billion that major public and private donors pledged to GAVI in June 2011, bringing its total available resources for the period 2011-2015 to \$7.6 billion.<sup>5</sup> By 2015, GAVI and its partners plan to have expanded the programme for rotavirus vaccines to more than 40 of the world's poorest countries and to have immunised more than 50 million children.

Since its creation in 2002, the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) has become the main source of funding of programmes to fight HIV, tuberculosis and malaria, with approved funding of \$22.6 billion for more than 1,000 programmes in 150 countries. To date, programmes supported by the Global Fund have saved an estimated 7.7 million lives by providing HIV treatment for 3.3 million people, anti-tuberculosis treatment for 8.6 million people, and 230 million insecticide-treated nets for the prevention of malaria. However, as a result of the global economic downturn, in late 2011, the Global Fund Board reassessed earlier financial forecasts and set up a Transitional Funding Mechanism (TFM) designed to support Global Fund programmes that may face significant programme disruption of essential services and programmes.<sup>6</sup> The Global Fund is forecast to have \$1.6 billion in additional

2 World Health Organization (WHO), "Report by the Secretariat on prevention and control of noncommunicable diseases: outcomes of the High-level Meeting of the General Assembly on the prevention and control of noncommunicable diseases and the First Global Ministerial Conference on healthy lifestyles and noncommunicable disease control" (EB130/6), 8 December 2011, available from [http://apps.who.int/gb/ebwha/pdf\\_files/EB130/B130\\_6-en.pdf](http://apps.who.int/gb/ebwha/pdf_files/EB130/B130_6-en.pdf).

3 The pentavalent vaccine is a combination of five vaccines in one: diphtheria, tetanus, whooping cough, hepatitis B and Haemophilus influenza type b (the bacteria that causes meningitis, pneumonia and otitis).

4 Global Alliance for Vaccines and Immunisation (GAVI Alliance), "Vaccines against major childhood diseases to reach 37 more countries", press release, 27 September 2011, available from <http://www.gavialliance.org/library/news/press-releases/2011/vaccines-against-major-childhood-diseases-to-reach-37-more-countries/>.

5 GAVI Alliance, "Donors commit vaccine funding to achieve historic milestone in global health", press release, 13 June 2011, available from [http://fr.gavialliance.org/media\\_centre/press\\_releases/pledging\\_conference.php](http://fr.gavialliance.org/media_centre/press_releases/pledging_conference.php).

6 Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund), "Transitional Funding Mechanism (TFM)", Information Note, 12 December 2011, available from [www.theglobalfund.org/documents/tfm/TFM\\_Request\\_InfoNote\\_en/](http://www.theglobalfund.org/documents/tfm/TFM_Request_InfoNote_en/).



funds available to disburse between 2012 and 2014.<sup>7</sup> In January 2012, the Bill & Melinda Gates Foundation announced the issuance of a promissory note for \$750 million to the Fund in order to strengthen its finances.<sup>8</sup> This was followed by a contribution of \$340 million by the Government of Japan in March 2012.<sup>9</sup>

Global initiatives such as the Global Fund and GAVI have supported a surge in development assistance focused on health and have changed the architecture of development cooperation in this area. However, they have not generated new and additional resources; rather, they have channelled official development assistance (ODA) and private charitable contributions into the health sector.<sup>10</sup>

...but these are not new and additional

## Availability and prices of essential medicines

The poor continue to face difficulties in obtaining or purchasing essential medicines because of scarce availability and high prices. Data from a number of national and subnational surveys implemented in developing countries<sup>11</sup> indicate that their access to affordable (generic) essential medicines has improved only slightly. Average availability<sup>12</sup> of selected essential medicines was 51.8 per cent in public sector health facilities and 68.5 per cent in the private sector over the period 2007-2011, up by a few percentage points on both counts from the previous measurement.<sup>13</sup> Availability of essential (generic) medicines in the subsample for low- and lower-middle income countries was only 50.1 per cent in public sector health facilities and 67 per cent in private facilities (figure 1). At 44.4 per cent, the average availability of generics was even lower in public health facilities of upper-middle income countries. The data show large inequalities in the availability of generics, ranging from zero in the State of Rio Grande do Sul, Brazil, to 96.7 per cent in the Islamic Republic of Iran. In most low- and middle-income

Availability of essential medicines remains low...

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- 7 Global Fund, “Global Fund forecasts \$1.6 billion in available funds for 2012-2014”, press release, 9 May 2012, available from [http://www.theglobalfund.org/en/mediacenter/pressreleases/2012-05-09\\_Global\\_Fund\\_Forecasts\\_USD\\_1\\_6\\_billion\\_in\\_Available\\_Funds\\_for\\_2012\\_2014\\_Major\\_Shift\\_Reflects\\_Strategic\\_Choices\\_by\\_Board\\_Renewed\\_Confidence/](http://www.theglobalfund.org/en/mediacenter/pressreleases/2012-05-09_Global_Fund_Forecasts_USD_1_6_billion_in_Available_Funds_for_2012_2014_Major_Shift_Reflects_Strategic_Choices_by_Board_Renewed_Confidence/).
  - 8 Global Fund, “The Global Fund welcomes US\$750 million promissory note from the Bill & Melinda Gates Foundation”, press release, 26 January 2012, available from [www.theglobalfund.org/en/mediacenter/pressreleases/2012-01-26\\_The\\_Global\\_Fund\\_Welcomes\\_USD750\\_Million\\_Promissory\\_Note\\_from\\_the\\_Bill\\_Melinda\\_Gates\\_Foundation/](http://www.theglobalfund.org/en/mediacenter/pressreleases/2012-01-26_The_Global_Fund_Welcomes_USD750_Million_Promissory_Note_from_the_Bill_Melinda_Gates_Foundation/).
  - 9 Global Fund, “Global Fund welcomes \$340 million contribution by Japan”, press release, 13 March 2012, available from [http://www.theglobalfund.org/en/mediacenter/pressreleases/2012-03-13\\_Global\\_Fund\\_welcomes\\_USD\\_340\\_million\\_contribution\\_by\\_Japan/](http://www.theglobalfund.org/en/mediacenter/pressreleases/2012-03-13_Global_Fund_welcomes_USD_340_million_contribution_by_Japan/).
  - 10 *World Economic and Social Survey 2012: In Search of New Development Finance* (United Nations publication, Sales No. E.12.II.C.1).
  - 11 During the period 2007-2011, medicine price and availability data from 17 national and subnational surveys in low- and middle-income countries were undertaken using the World Health Organization/Health Action International (WHO/HAI) methodology.
  - 12 Availability is assessed as the percentage of facilities stocking the medicine on the day of data collection.
  - 13 Although not strictly comparable, the MDG Gap Task Force Report 2011 quoted an availability of 42 per cent in the public sector and 64 per cent in private facilities from surveys conducted between 2000 and 2009.

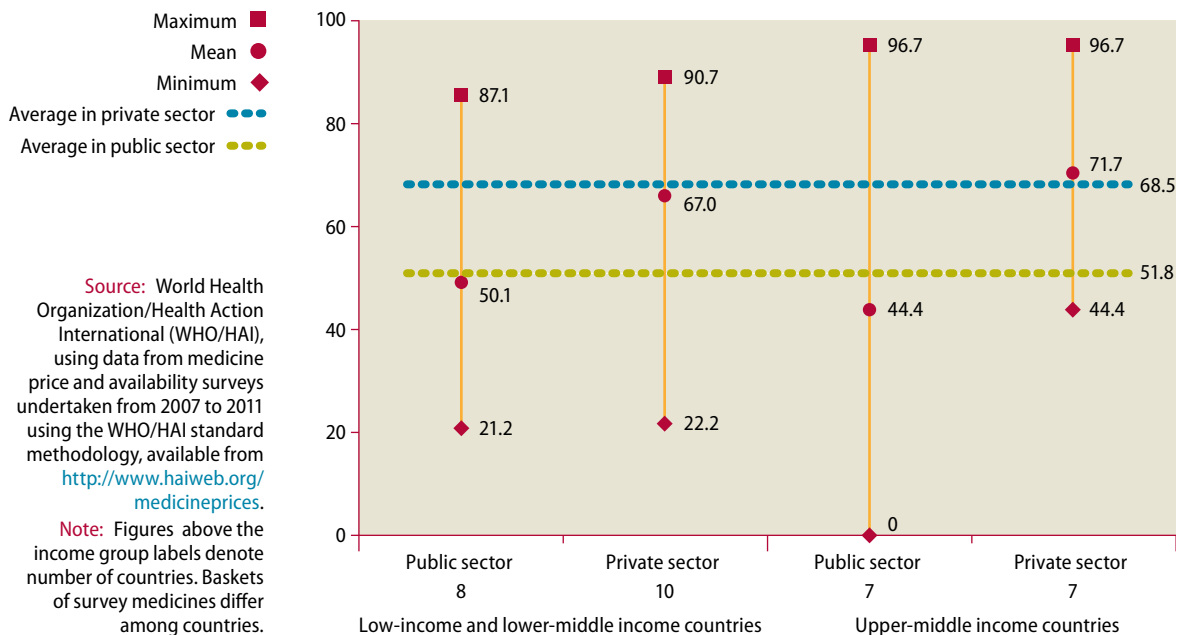
...and prices remain high

countries, the poor rely on the public sector to obtain medicines, since they can obtain them there free of charge or at much lower prices than in the private sector, where medicines are mostly available as higher-priced originator brands.

Prices of available essential medicines continue to be relatively expensive in developing countries, that is, they are several times greater than the international reference prices (IRPs).<sup>14</sup> New data show only minor improvement. The aforementioned surveys show that average prices were still 2.6 times higher in the public sector compared to IRPs. Patients pay five times more in the private sector of developing countries.<sup>15</sup> In low- and lower-middle income countries, patient prices for lowest-priced generics were, on average, 3.1 times the IRP in public sector facilities and 5.3 times higher in private sector facilities (figure 2). In upper middle-income countries, average private sector prices were slightly lower than in low- and lower-middle income countries (4.7 times the IRP). Prices in the private sector of lower-middle income countries showed the greatest variation, from 2 times international reference prices in Indonesia to nearly 14 times higher in Sao Tome and Principe.

Figure 1

**Median availability of selected generic medicines in public and private health facilities during the period 2007-2011 (percentage)**

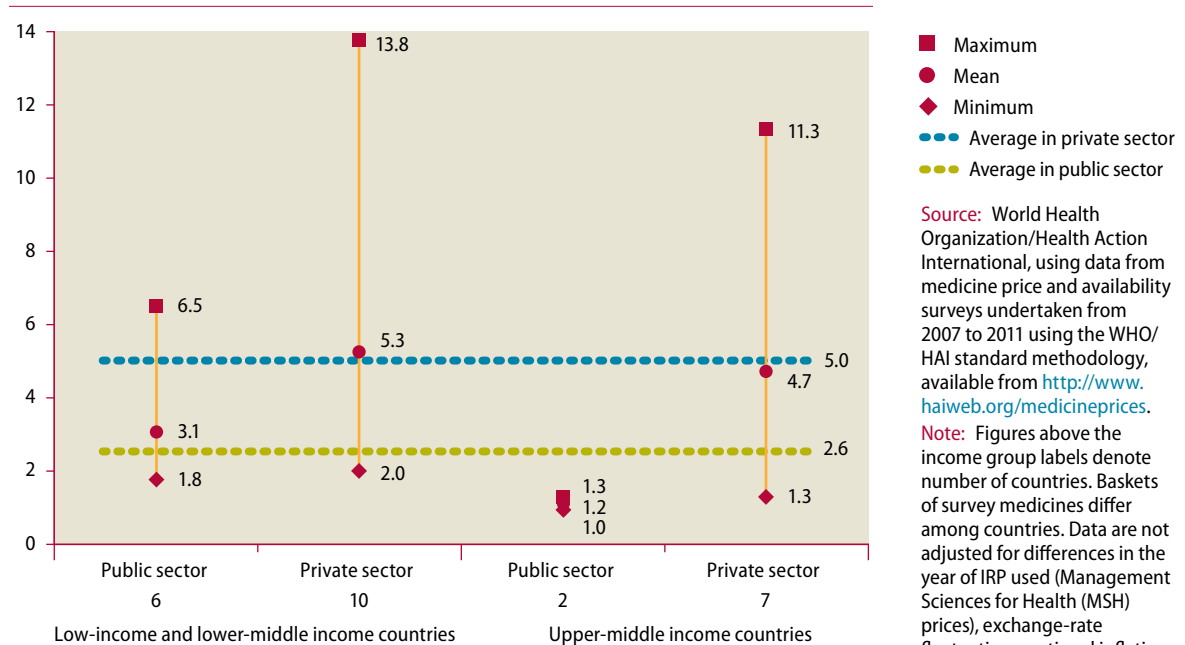


<sup>14</sup> International reference prices (IRPs) are median prices of quality multi-source medicines offered to low- and middle-income countries by non-profit suppliers and, where there is no supplier price, international tender prices, available from the Management Sciences for Health (MSH) International Drug Price Indicator Guide. See <http://erc.msh.org/mainpage.cfm?file=1.0.htm&id=1&template=Introduction&module=DMP&language=English>.

<sup>15</sup> Surveys conducted between 2000 and 2009 showed that median prices were 2.7 times greater than the IRP in the public sector and 6.1 times greater in the private sector.

Figure 2

**Ratio of consumer prices to international reference prices for selected lowest-priced generic medicines in public and private facilities during the period 2007-2011**



Although these findings are based on a limited number of country surveys, they are indicative enough to cause concern over deficiencies in affordable access to medicines in some middle-income countries, especially where large shares of the population live in poverty. In some cases, social insurance systems with outpatient medicine benefits provide some protection against high costs. These typically provide coverage for only a limited share of the population.

## Availability and prices of antiretroviral medicine

Worldwide, about 34 million people were living with HIV in 2010.<sup>16</sup> The number of people dying from AIDS-related causes fell from a peak of 2.2 million in 2005 to 1.8 million in 2010. Greater efforts at prevention and behavioural change have contributed to this positive trend, but the recent reduction in deaths can be attributed to a larger extent to increased access to ARV treatment. In 2010 alone, an estimated 700,000 AIDS-related deaths were prevented through scaled-up access to ARV treatment.

At the end of 2010, 47 per cent of people living with HIV in low- and middle-income countries in need of treatment were receiving ARV therapy, compared with 39 per cent at the end of 2009, with coverage improving across all regions. In sub-Saharan Africa, the most affected region, ARV coverage rose 20 per cent between 2009 and 2010, reaching 49 per cent. Universal access to treatment, defined as coverage of 80 per cent or above, was reached in Botswana,

<sup>16</sup> Joint United Nations Programme on HIV/AIDS (UNAIDS), *World AIDS Day Report 2011* (Geneva, 2011); and WHO, UNAIDS, United Nations Children's Fund (UNICEF), *Progress Report 2011: Global HIV/AIDS Response* (Geneva: WHO, 2011).

Availability of ARVs has increased, while prices have decreased

Namibia and Rwanda. Swaziland and Zambia have coverage of between 70 and 79 per cent.

The availability of ARV therapy, which is part of the WHO Model List of Essential Medicines,<sup>17</sup> has increased by 18 per cent in low- and middle-income countries in 2010. A total of 78 per cent of the facilities that provided ARV treatment in 2010 were in the public sector and 8 per cent in the private sector.<sup>18</sup> The prices of the six most frequently used first-line ARV treatments declined between 2 per cent and 53 per cent between 2009 and 2010 in low-income countries. Similar trends are found in middle-income countries. Prices in sub-Saharan Africa tend to be lower on average than in other regions.

While prices of second-line ARV treatment declined between 2006 and 2010, they remain significantly high in all regions and above the prices of first-line treatment. The slight decline in the prices of second-line drugs can be attributed to falls in the prices of generic versions of the medicines, the scaling up of treatment, and efforts by key stakeholders to expand second-line medicine markets. However, only 3 per cent of adults in need of the treatment in low- and middle-income countries outside of the Americas were receiving second-line treatment. As the number of people who need second-line ARVs increases, it remains important to find ways to lower the price of these medicines.

## Affordability of essential medicines

Essential medicines are still unaffordable

Determining whether a certain medicine or treatment is truly affordable depends on many factors, such as household income, the price range of the particular medicine and the disease prevalence. Lack of sufficient data at the household level that combines information on all these dimensions makes it difficult to come to a rigorous assessment. Using proxy variables from available surveys,<sup>19</sup> however, it appears that the cost of many essential medicines, especially those for chronic diseases, remains prohibitive in many developing countries. Affordability varies greatly among countries, though (figure 3). Originator brands, which are usually more available in the private sector and are higher priced, are even further out of reach of the poor. The problem can be compounded if more than one member is suffering an illness at the same time. Treating a parent with hypertension and a child with asthma requires many days of wage income for low-income families. A day's wage of the lowest paid government worker is used here as the benchmark for what might be considered an acceptable monthly household burden for covering the cost of medicines. Against this benchmark, even the lowest-priced generics put common treatments beyond the reach of many low-income households in developing countries. In Burkina Faso, for example, the lowest-paid government worker would need to set aside 5.7 days of wage income per month to purchase the lowest-priced generics in the private sector and 17.1 days when needing to buy originator brands. Medicines are even less affordable for low-income families in the Democratic Republic of the Congo, where they would need half a month's

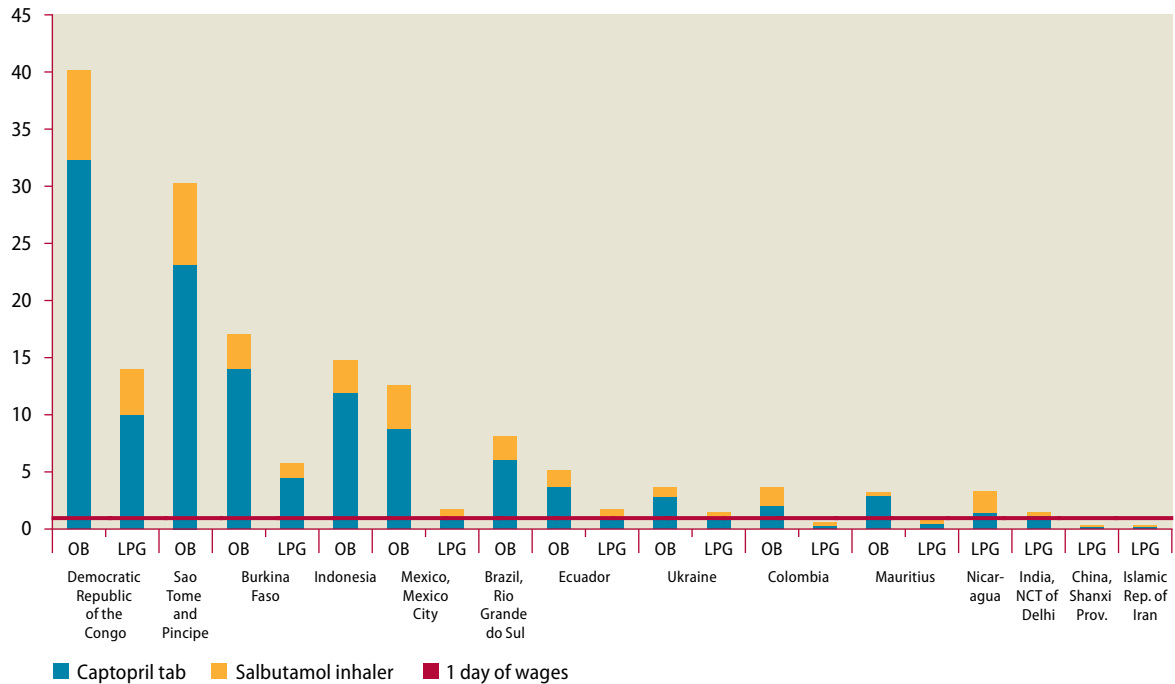
17 Available from <http://www.who.int/medicines/publications/essentialmedicines/en/index.html>.

18 The remaining 14 per cent did not specify a sector.

19 Laurens M. Niëns and others, "Practical measurement of affordability: an application to medicines", *Bulletin of the World Health Organization*, vol. 90, No. 3 (March), pp. 219-227.

Figure 3

**Number of days of wage income needed by the lowest-paid government worker to pay for 30 days of drug treatment for an adult with hypertension and a child with asthma during the period 2007-2011**



**Source:** World Health Organization/Health Action International, using data from medicine price and availability surveys undertaken from 2007 to 2011 using the WHO/HAI standard methodology, available from <http://www.haiweb.org/medicineprices>.

**Note:** OB stands for originator brand and LPG is the lowest-priced generic equivalent. The dosages for hypertension and asthma, respectively, are Captopril 25 mg tab x 2/day and Salbutamol inhaler 100mcg/dose, 200 doses. Prices for medicines used for these estimates refer to those of private health facilities.

salary of one family member to pay for even the lowest-priced medicines. In practice, the situation is worse in many contexts where a majority of workers earn less than the wage of the lowest-paid government worker.

## Other developments regarding access to essential medicines

International efforts to improve the affordability of essential medicines continue. One such effort relates to measures that would help reduce the production costs of generic medicines, in particular through stimulating their manufacture in developing countries. Expanding production capacity will depend, inter alia, on human resource development and technology transfer, on enhanced ability of developing countries to take advantage of flexibilities offered by the Trade-Related Intellectual Property Rights Agreements (TRIPS) and on adequate quality control.

## Local production of generic medicines

Local producers, particularly in low-income countries, have to address a number of major challenges, including weak physical infrastructure, scarcity of appro-

privately trained technical staff, heavy dependence on import of raw materials including essential active pharmaceutical ingredients (APIs), weak and uncertain markets, high import duties and taxes, lack of a conducive policy environment and policy coherence across sectors, and weak quality control and regulation measures. However, some developing countries have managed to produce locally through national efforts with international support.

Developed countries have supported local production bilaterally through technical assistance and policy advice. For example, the Artepall project, funded by the European Commission provided technical assistance to producers of artemisinin raw material and formulations in Asia and Africa. Germany is one of the most active supporters of the development of local production facilities in least developed African countries, through the Gesellschaft für Internationale Zusammenarbeit (GIZ).<sup>20</sup>

South-South cooperation  
has facilitated local  
production of drugs

South-South cooperation in support of local production has also increased in both the public and private sectors. As an example from the private sector perspective, Quality Chemicals, a pharmaceutical manufacturer based in Luzira, Uganda, that was pre-qualified by WHO and created with the help of the Indian generic manufacturer Cipla and the Ugandan Government, began production of tenofovir, an ARV, in February 2012.<sup>21,22</sup> Quality Chemicals also produces generic Duovir-N tablets, a triple ARV combination of lamivudine, nevirapine and zidovudine, and generic efavirenz, as well as antimalarial medicines. From a public sector perspective, Brazil has announced its intention to invest \$23 million in an ARV production plant in Matola, Mozambique, to provide medicines in South-eastern Africa. Farmanguinhos, a laboratory of the Brazilian Oswaldo Cruz Foundation (Fiocruz), is expected to supply technology and training to the Mozambican regulatory agency for marketing surveillance, inspection, certification, and control of medication in the ARV production plant.<sup>23</sup> The South African Government, through Pelchem (Pty) Ltd., entered into a joint venture with the Swiss company Lonza Ltd. in 2012 to establish a pharmaceutical plant to manufacture APIs for ARV medicines in South Africa.

20 WHO, *Pharmaceutical Production and Related Technology Transfer* (Geneva, 2011), available from [http://www.who.int/phi/publications/Local\\_production\\_and\\_access\\_to\\_medicines.pdf](http://www.who.int/phi/publications/Local_production_and_access_to_medicines.pdf).

21 See “WHO Public Inspection Report (WHOPIR)”, available from [http://apps.who.int/prequal/WHOPIR/WHOPIR\\_QCIL25-28January2010.pdf](http://apps.who.int/prequal/WHOPIR/WHOPIR_QCIL25-28January2010.pdf).

22 Taddeo Bwambale and Vivian Agaba, “Uganda makes new AIDS drug”, *New Vision*, 8 February 2012, available from [www.newvision.co.ug/news/628873-uganda-makes-new-aids-drug.html](http://www.newvision.co.ug/news/628873-uganda-makes-new-aids-drug.html). See also “Uganda to make new low cost HIV/AIDS drug”, 8 February 2012, available from [http://news.xinhuanet.com/english/health/2012-02/08/c\\_131398948.htm](http://news.xinhuanet.com/english/health/2012-02/08/c_131398948.htm).

23 See “Innovation policies to meet the challenges of neglected diseases”, presentation by Claudia Inês Chamas at the World Intellectual Property Organization (WIPO) Conference on Intellectual Property and Public Policy Issues held in Geneva on 13 and 14 July 2009, available from [www.wipo.int/meetings/en/2009/ip\\_gc\\_ge/presentations/chamas.pdf](http://www.wipo.int/meetings/en/2009/ip_gc_ge/presentations/chamas.pdf); *Health Cooperation*, Brazilian International Health Bulletin, No. 1, October 2009, available from [http://portal.saude.gov.br/portalsaude/arquivos/pdf/2011/Ago/23/boletim1\\_ing\\_180811.pdf](http://portal.saude.gov.br/portalsaude/arquivos/pdf/2011/Ago/23/boletim1_ing_180811.pdf); and Katherine E. Bliss, ed., “Key players in global health: how Brazil, Russia, India, China and South Africa are influencing the game” (Washington, D.C.: Center for Strategic and International Studies, November 2010), available from [http://csis.org/files/publication/101110\\_Bliss\\_KeyPlayers\\_WEB.pdf](http://csis.org/files/publication/101110_Bliss_KeyPlayers_WEB.pdf).

To ensure a strong linkage between local production and improved access to essential medicines by the poor, a comprehensive and system-wide approach is needed.<sup>24</sup> Countries with a successful local manufacturing industry have shown that coherence across national policies plays a very important role in the development of local production.<sup>25</sup> Industrial policy should be coordinated with health policy objectives and should support local production, if feasible. Incentives and direct support of local production have also played an essential role.

## Intellectual property

In recent years, an increasing number of developing countries have successfully used the flexibilities provided for in the WTO Agreement on TRIPS to lower costs and increase access to essential medicines by facilitating local production or the importation of generic medicines. For example, in 2012, the Indian Controller of Patents issued, at the request of an Indian generic company, the first compulsory licence<sup>26</sup> under the Indian Patents Act for a treatment for liver and kidney cancer (sorafenib). The request for the compulsory licence was based on the Indian Patents Act that allows interested persons to apply for the grant of a compulsory licence on the grounds, among others, that it is not available at a reasonably affordable price.<sup>27</sup>

Unfortunately, however, the use of these “TRIPS flexibilities” is far from commonplace. One reason for this is that many countries have yet to amend their national laws to incorporate them fully. In a study of 95 countries, only about half of the countries were found to adjust their patent legislation to allow for the use of a patented invention without the authorization of the patent owner to obtain marketing approval of a generic product before the patent expired, as allowed by the so-called Bolar exception.<sup>28</sup> This exception would allow generic products to enter the market more quickly after patent expiry.

In addition, over the past several years, the deadlock of the Doha Round at the WTO has led to an increasing number of bilateral and regional free trade agreements. Many developed countries tend to include so-called TRIPS plus provisions in these agreements, that is, levels of intellectual property protection that exceed the minimum standards required by the TRIPS Agreement. TRIPS plus provisions that may have an impact on public health or may hamper the use of flexibilities have included placing restrictions and limitations on the right

TRIPS flexibilities are used increasingly...

...but challenges persist

<sup>24</sup> See the results of the series of reports available from <http://www.who.int/phi/en/>. For a review of initiatives supporting investment in local production and technology transfer in pharmaceuticals, see WHO, *Pharmaceutical Production and Related Technology Transfer*, op. cit.

<sup>25</sup> *Local Production of Pharmaceuticals and Related Technology Transfer in Developing Countries: A series of case studies by the UNCTAD Secretariat* (United Nations publication, Sales No. E.11.II.D.18).

<sup>26</sup> Compulsory licences are mechanisms used by Governments to authorize the use of a patent-protected invention by another Government or third party without the consent of the patent holder.

<sup>27</sup> See [http://www.ipindia.nic.in/ipoNew/compulsory\\_License\\_12032012.pdf](http://www.ipindia.nic.in/ipoNew/compulsory_License_12032012.pdf).

<sup>28</sup> WIPO, “Patent related flexibilities in the multilateral legal framework and their legislative implementation at the national and regional levels” (CDIP/5/4), Geneva, 1 March 2010, available from [http://www.wipo.int/edocs/mdocs/mdocs/en/cdip\\_5/cdip\\_5\\_4-main1.pdf](http://www.wipo.int/edocs/mdocs/mdocs/en/cdip_5/cdip_5_4-main1.pdf).



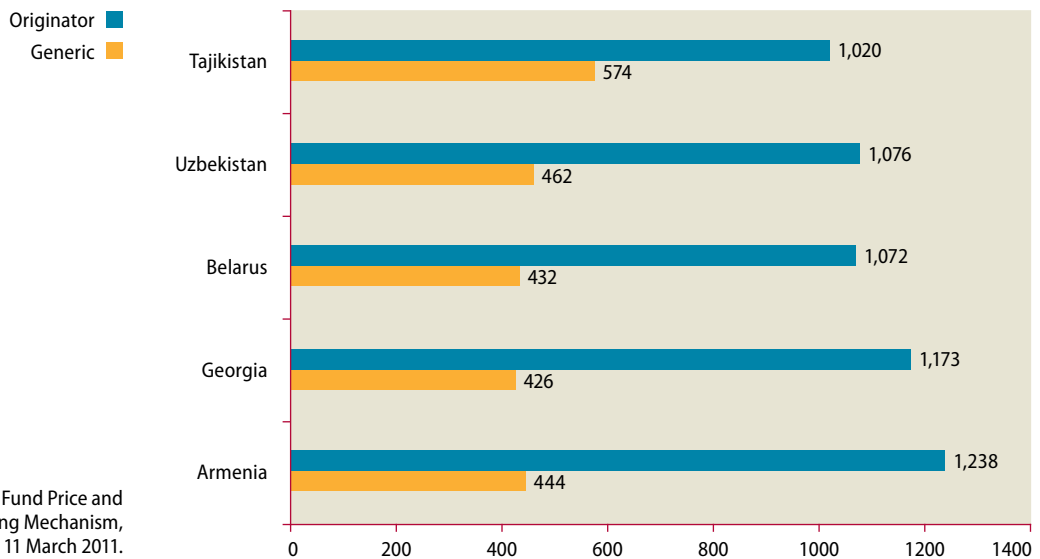
to issue compulsory licences; providing for patent extensions or supplementary protection; requiring drug regulatory authorities to consider the patent status of medicines before granting marketing authorizations to generic manufacturers; requiring test data protection that restricts the use of clinical test data on pharmaceutical products by drug regulatory authorities for the approval of generic medicines for a certain period of time; and allowing patent holders to restrict parallel imports,<sup>29</sup> which may prevent developing countries from buying medicines from the most affordable international source.<sup>30,31</sup>

Some countries in Eastern Europe and Central Asia with less stringent intellectual property protection regimes appear to have successfully reduced the cost of their treatment programmes through generic competition. Figure 4 illustrates how countries have achieved a two- to almost threefold cost reduction by using generic lopinavir/ritonavir, an ARV medicine.

The Medicines Patent Pool aims to facilitate the production of generic HIV medicine

Voluntary licensing agreements are another means of promoting competition in the supply of generics and enhancing access to medicines. One initiative in this regard is the Medicines Patent Pool Foundation, created by UNITAID in 2010. The Pool is negotiating licensing agreements with research-based pharmaceutical companies producing HIV commodities, with the aim of sublicensing

Figure 4  
Cost of generic and originator brand lopinavir/ritonavir in Eastern Europe and Central Asia (dollars)



Source: Global Fund Price and Quality Reporting Mechanism, data as at 11 March 2011.

<sup>29</sup> Products bought from countries that have lower-priced medicines and where the patent owner has “exhausted” their property rights in the product sold and cannot prevent the resale of units sold.

<sup>30</sup> UNAIDS, WHO and United Nations Development Programme (UNDP), “Using TRIPS flexibilities to improve access to HIV treatment”, Policy Brief, available from [http://www.unaids.org/en/media/unaids/contentassets/documents/unaidspublication/2011/JC2049\\_PolicyBrief\\_TRIPS\\_en.pdf](http://www.unaids.org/en/media/unaids/contentassets/documents/unaidspublication/2011/JC2049_PolicyBrief_TRIPS_en.pdf).

<sup>31</sup> Carsten Fink and Patrick Reichenmiller, “Tightening TRIPS: the intellectual property provisions of recent US free trade agreements”, Trade Note, No. 20 (Washington, D.C.: World Bank, International Trade Department).



these products to generic companies to increase access to treatment in developing countries. The Pool also endeavours to assemble the necessary intellectual property rights regarding key HIV products in order to develop new fixed-dose combination products that integrate multiple drugs into one pill, as well as missing paediatric formulations of existing treatments. In 2011, the Pool reached an agreement on non-exclusive licences with Gilead on tenofovir (TDF) and the co-formulation of TDF with emtricitabine, as well as licences on elvitegravir, cobicistat and their combination with tenofovir and emtricitabine. The negotiations also led to the inclusion of the indication for TDF for the treatment of hepatitis B. Subsequently, the Pool signed three licensing agreements with generic companies for the manufacturing of these products.

In 2011, several research-based pharmaceutical companies that produce ARVs signed non-exclusive licensing agreements that allow for generic competition in a number of countries. Farmanguinhos (the technical-scientific unit of Fiocruz) has entered into an agreement with Bristol-Myers Squibb that allows for the manufacturing and distribution of atazanavir in Brazil, including the local manufacturing of the active pharmaceutical ingredient.<sup>32</sup> Other companies have expanded existing licensing programmes to cover more products or countries. Tibotec Pharmaceuticals, for example, decided not to enter into negotiations with the Patent Pool, but it expanded the geographical scope of its current licensing agreements on rilpivirine, a potent ARV, from 66 to 112 countries.

## Quality of medicines

Quality is another key issue when considering access to essential medicines. There are serious concerns about counterfeits, which are one source of potentially harmful products, but there are also substandard drugs that are registered for distribution on the market. Counterfeit products are a significant problem, but the focus on them has distracted attention from substandard pharmaceutical products, which also pose a very serious threat to health.<sup>33</sup>

The quality of pharmaceuticals depends on many factors, including API content, appropriate formulation and degradation of the product caused by poor production or inappropriate storage and distribution, contamination of the product with other drugs or impurities, and mislabelling of products.

Only a limited number of surveys are available that provide information on the quality of medicines in developing countries. The existing ones focus mainly on products for major acute diseases such as tuberculosis and malaria.<sup>34,35</sup>

Improving access to essential medicines should include ensuring quality

32 Bristol-Myers Squibb, “Bristol-Myers Squibb signs new agreement to expand access to Reyataz® (atazanavir sulfate) in Brazil”, press release, 11 November 2011, available from [http://www.bms.com/news/press\\_releases/pages/default.aspx?RSSLink=http://www.businesswire.com/news/bms/20111111005380/en&t=634600733951874311](http://www.bms.com/news/press_releases/pages/default.aspx?RSSLink=http://www.businesswire.com/news/bms/20111111005380/en&t=634600733951874311).

33 See Oxfam’s report on medicine regulation versus intellectual property enforcement as the appropriate means to address sub-standard medicines, available from <http://www.oxfam.org/en/policy/eye-ball>.

34 A summary of the major prevalence surveys for substandard drugs can be found in JM Caudron and others, “Substandard medicines in resource-poor settings: a problem that can no longer be ignored”, *Tropical Medicine and International Health*, vol. 13, No. 8 (August), pp. 1062-1072.

35 A non-exhaustive list of publications on poor-quality medicines can be found on the QUAMED website (<http://www.quamed.org/en/news-articles/quamed-factsheet-on>

Despite the lack of information across the much broader range of drugs that a health system requires, there is already evidence to suggest that the impact is substantial and warrants enhanced efforts. For example, a recent study looking at product quality of antimalarial products in African countries found that 39 per cent of products tested in Ghana and as high as 64 per cent of products tested in Nigeria were substandard.<sup>36</sup> The samples included imported as well as locally produced products.

Comprehensive quality assurance conducted by regulatory authorities involves enforcing concepts such as Good Manufacturing Practice, Good Laboratory Practice and Good Distribution Practice as well as conducting “pharmacovigilance” activities to monitor products in the market. Regulatory capacity is often not the major bottleneck in developing countries. Rather, resource constraints limit the capacity of regulatory authorities to enforce regulation and provide adequate oversight of product quality. A recent study of 26 countries in Africa showed that, overall, countries did not have the capacity to control the quality, safety and efficacy of medicines circulating in their markets.<sup>37</sup> The countries had legal provisions for most essential aspects of medicines control, but lacked resources for adequate regulatory oversight.

To ensure the quality of the products procured by international funding agencies for the treatment of the major acute diseases, WHO established the pre-qualification programme. It replicates some of the functions that stringent regulatory authorities conduct for a limited range of products for HIV, tuberculosis and malaria. In recent years, additional products have been added to the pre-qualification list, such as those to treat opportunistic infections<sup>38</sup> associated with AIDS (for example, fluconazole and azythromycin), contraceptives, pandemic flu treatments and zinc products for the treatment of diarrhoea. Since its inception, the programme has been able to approve roughly 240 products.<sup>39</sup> While the pre-qualification scheme has been able to provide oversight for products to treat some crucial diseases and has played a critical role in assuring the quality of ARVs, for example, scaling up such an approach for the full range of essential medicines would be very costly and does not represent a sustainable approach to long-term quality assurance for essential medicines.

There are ongoing initiatives to meet this challenge. The Essential Medicines Group at WHO provides regulatory capacity-building assistance. The National Quality Control Laboratory in Kenya, for one, has been pre-qualified by the WHO programme. The United States Pharmacopeia (USP) supports post-market surveillance for antimalarial products in African countries. The African

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<sup>36</sup> WHO, “Survey of the quality of selected antimalarial medicines circulating in six countries in sub-Saharan Africa” (Geneva, January 2011), available from [http://www.who.int/medicines/publications/WHO\\_QAMSA\\_report.pdf](http://www.who.int/medicines/publications/WHO_QAMSA_report.pdf).

<sup>37</sup> WHO, “Assessment of medicines regulatory systems in sub-Saharan African countries: an overview of findings from 26 assessment reports” (Geneva, 2010), available from <http://apps.who.int/medicinedocs/documents/s17577en/s17577en.pdf>.

<sup>38</sup> An infection that takes advantage of a weakened or absent immune response from immunocompromised individuals.

<sup>39</sup> WHO, “Prequalification of medicines by WHO”, Fact Sheet, No. 278 (August 2010), available from <http://www.who.int/mediacentre/factsheets/fs278/en/>.

Medicines Regulatory Harmonisation initiative (AMRH)<sup>40</sup> sponsored by the Bill and Melinda Gates Foundation and implemented by WHO, the World Bank and the New Economic Partnership for Africa's Development (NEPAD) are looking to build synergies between the work of National Medicines Regulatory Authorities (NMRA) within the regional economic communities in Africa. The African Union, in partnership with the United Nations Industrial Development Organization (UNIDO), has developed a Pharmaceutical Manufacturing Plan for Africa (PMPA)<sup>41</sup> to develop sources of international standard drug production across the essential medicines list that can be properly overseen by NMRAs.

## Research and development

Only 10 per cent of the world's funds for health research are applied to the study of diseases in developing countries, which is where 90 per cent of the world's preventable deaths occur (also known as the "10/90 gap").<sup>42</sup> Tropical diseases and tuberculosis account for 12 per cent of the global disease burden, yet only 1.3 per cent of 1,556 new medicines developed during 1975-2004 were used for treatment of these diseases.<sup>43</sup> In total, 46 new medicines for neglected diseases were approved between 1975 and 1999, 85 per cent of which were placed on the WHO list of essential medicines. From 2000 to May 2009, despite significantly higher research and development (R&D) funding, only 26 new medicines and vaccines for neglected diseases were marketed and only 50 per cent of these were placed on the essential medicines list.<sup>44</sup>

R&D is needed for neglected diseases in particular

The Consultative Expert Working Group on Research and Development: Financing and Coordination (CEWG) was established by WHO in 2010 to address the insufficient resources allocated to R&D for treatments for diseases that predominantly affect developing countries. The CEWG proposed the following measures: to create a binding global instrument for R&D and innovation for health, to direct grants to companies, to promote patent pools and pooled funds, to promote open approaches to R&D and innovation, and to award prizes that reward innovation.<sup>45</sup>

40 Detailed information available on the African Medicines Regulatory Harmonisation website (<http://www.amrh.org/>).

41 A business plan for the Pharmaceutical Manufacturing Plan for Africa (PMPA) is currently being developed following terms of reference established by a multi-stakeholder workshop conducted by the African Union Commission in Chad in June 2011. The PMPA was originally endorsed by African Heads of State at their Summit in Accra in 2007.

42 Hélène Delisle and others, "The role of NGOs in global health research for development", *Health Research Policy and Systems*, vol. 3, No.3 (21 February 2005), available from [www.health-policy-systems.com/content/pdf/1478-4505-3-3.pdf](http://www.health-policy-systems.com/content/pdf/1478-4505-3-3.pdf).

43 Pierre Chirac and Els Torreelle, "Global framework on essential health R&D", *Lancet*, vol. 367 (13 May 2006), pp. 1560-1561.

44 Joshua Cohen, Maria Staroselsky Dibner and Andrew Wilson, "Development of and access to products for neglected diseases", *PLoS One*, vol. 5, Issue 5 (May 2010), available from <http://www.plosone.org/article/info:doi%2F10.1371%2Fjournal.pone.0010610>.

45 WHO, "Research and development to meet health needs in developing countries: strengthening global financing and coordination", Report of the Consultative Expert Working Group on Research and Development: Financing and Coordination (Geneva, April 2012), available from [www.who.int/phi/news/cewg\\_2011/en/index.html](http://www.who.int/phi/news/cewg_2011/en/index.html).

In October 2011, the World Intellectual Property Organization (WIPO) announced the launch of “Re:Search”, a new consortium of pharmaceutical manufacturers, Government entities and non-governmental organizations (NGOs) which will share patents in order to drive R&D for new drugs, vaccines and diagnostics for tuberculosis, malaria and neglected tropical diseases.<sup>46</sup>

India has set an example in the area of neglected diseases with the creation of the Indian Open Source Drug Discovery Initiative (OSDD). OSDD is an open innovation platform where ongoing projects and research results are reported on a web resource.<sup>47</sup> Approximately 5,300 partners are registered from more than 130 countries, whereas 1,500 registered participants from 31 different countries are currently working on more than 100 projects posted online. In 2011, OSDD announced that they were involved in discussions with two pharmaceutical manufacturers for the start of clinical trials for two molecules that could lead to the production of effective and inexpensive medicines for treatment of tuberculosis.<sup>48</sup>

### Policy recommendations

- Donor commitments for global initiatives for the treatment and prevention of both acute and chronic diseases should be truly additional to ODA
- The international community should assist developing-country Governments in increasing availability and use of medicines in the public sector and in providing them at little or no cost to the poor through the public health system
- The international community, including new partners from the South, should further strengthen multilateral and bilateral cooperation for supporting local production of generic medicines in developing countries where this has the potential to improve access
- The international community should further encourage the pharmaceutical industry to use voluntary licensing agreements and join the patent pools to allow for early entry of generics into the market
- Developing countries should carefully assess possible adverse impacts on access to medicines when adopting TRIPs plus provisions as part of bilateral or regional trade agreements
- The international community should continue to support regional and national efforts to strengthen developing-country regulatory capacity to oversee the quality of the medicines that enter their markets
- The international community should continue efforts to increase funding in R&D for new medicines, especially for neglected diseases, in order to narrow the “10/90 gap”

<sup>46</sup> WIPO, “Leading pharmaceutical companies and research institutions offer IP and expertise for use in treating neglected tropical diseases as part of WIPO Re:Search”, press release, 26 October 2011, available from [http://wipo.int/pressroom/en/articles/2011/article\\_0026.html](http://wipo.int/pressroom/en/articles/2011/article_0026.html).

<sup>47</sup> See Open Source Drug Discovery, available from [www.osdd.net/home/organisation](http://www.osdd.net/home/organisation).

<sup>48</sup> Jacob P. Koshy, “CSIR in talks for clinical trials on two open-source molecules”, *livemint.com*, 24 March 2011, available from <http://www.livemint.com/2011/03/23224801/CSIR-in-talks-for-clinical-tri.html?type=tp>.

## Access to new technologies

Access to new technologies, especially in the area of information and communication technologies (ICT), continues to expand at an accelerated pace in developing countries. The spread of ICT also continues in developed countries and, as a result, the digital divide remains wide. The growing use of ICT is supporting broader development processes, including the improved accessibility and effectiveness of social services. While the cost of ICT continues to fall, such services remain much less affordable to citizens of developing countries. Thus, further reduction in the cost of ICT services may help accelerate progress towards the Millennium Development Goals (MDGs).

While MDG 8.F focuses in part on ICT, the pressing need to address climate change and ensure that environmental limits are not surpassed requires significantly accelerated technological progress and diffusion of knowledge. Sustainable development is unattainable without this. Consequently, affordable access to new technologies for climate change mitigation and adaptation, as well as disaster risk management, have become urgent priorities. While there has been recent progress in creating frameworks and mechanisms that should help enable adequate technological progress and diffusion on these fronts, the challenge now is to put these measures into practice and secure them with adequate funding.

### Access to ICT services

#### Rapidly expanding mobile telephone and Internet services

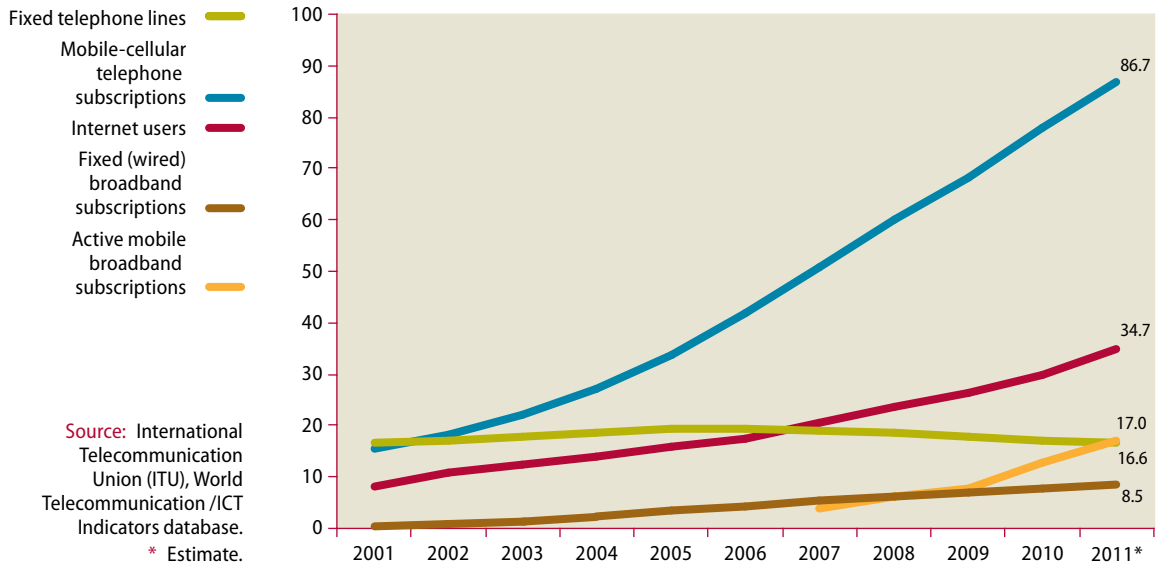
The use of ICT services continues to grow rapidly at the global level, particularly in the area of mobile cellular telephony. By the end of 2011, it is estimated that the number of mobile cellular subscriptions reached almost 6 billion, up from 2.7 billion in 2006. The global penetration rate<sup>1</sup> went up from 41.8 per cent in 2006 to 86.7 per cent in 2011 (see figure 1). The number of Internet users increased to 2.4 billion. This implies that one third of the world's population is able to access the Internet, compared with less than one fifth five years ago, while fixed-line telephony continues a decline that began in 2005.

The penetration rate of mobile cellular phones in developed countries appears to be nearing a saturation point, as the number of subscriptions increased by only 1 per cent between 2009 and 2010. However, mobile phone subscriptions in developing countries continue to expand at a very rapid pace, recording growth of 20 per cent in 2010, with no signs of a slowdown, thereby narrowing the gap with developed countries. By the end of 2011, developing countries had reached an estimated mobile cellular penetration rate of 78.8 per cent, which is 39 percentage points less than that of developed countries (see figure 2). While this gap is the same as in 2001, the digital divide in cellular telephony has narrowed since 2008.

The gap in cellular telephony continues to narrow...

<sup>1</sup> Penetration rates refer to the number of subscriptions per 100 inhabitants.

Figure 1  
Global trends in access to ICT, 2001-2011 (penetration rates per 100 inhabitants)



...but least developed countries lag behind

The penetration rate of mobile cellular subscriptions in least developed countries (LDCs) remains very low, at 34 per cent, despite a higher rate of increase than the average for developing countries in 2010. By geographic regions, Oceania and sub-Saharan Africa lag well behind other regions, with penetration levels of less than 50 per cent in 2010 (see figure 3). Latin America, on the other hand, has surpassed a penetration rate of 100 per cent.

Figure 2  
Mobile cellular subscriptions and Internet users in developed and developing countries, 2001-2011 (percentage of inhabitants)

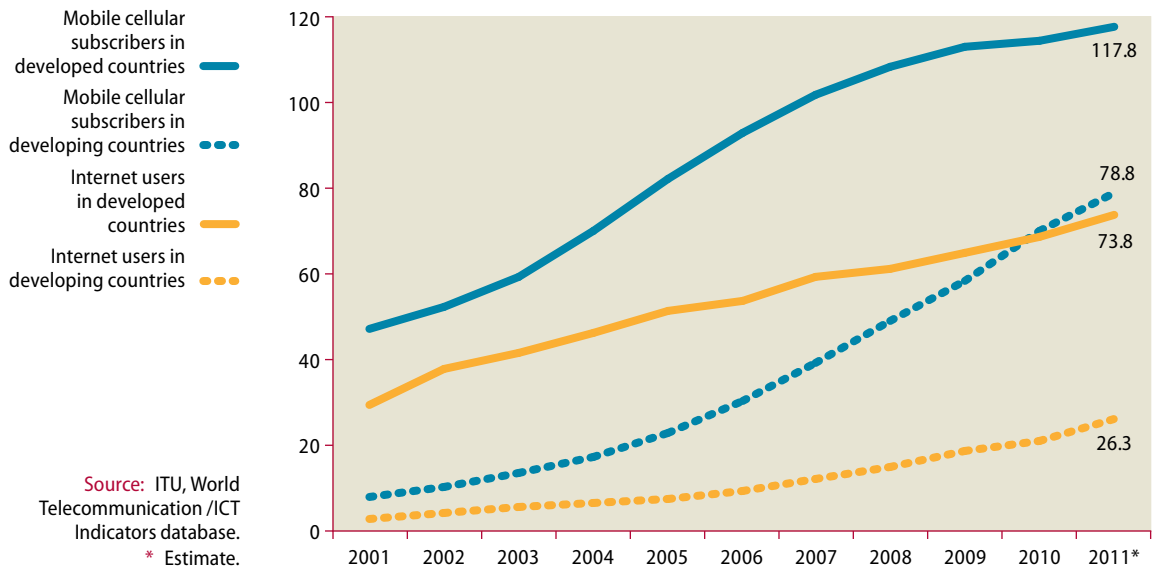
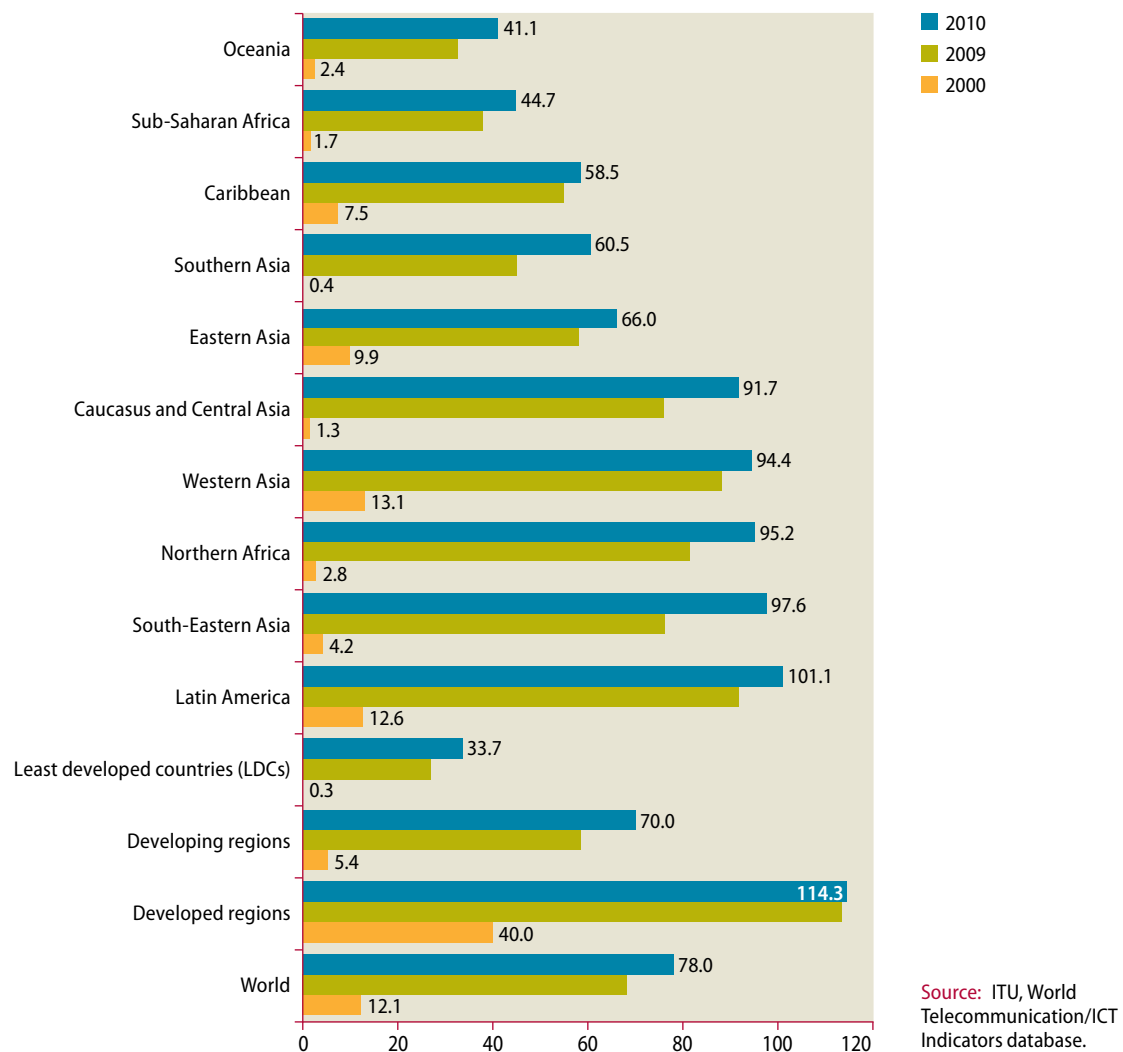


Figure 3  
Number of mobile cellular subscriptions per 100 inhabitants, 2000, 2009 and 2010

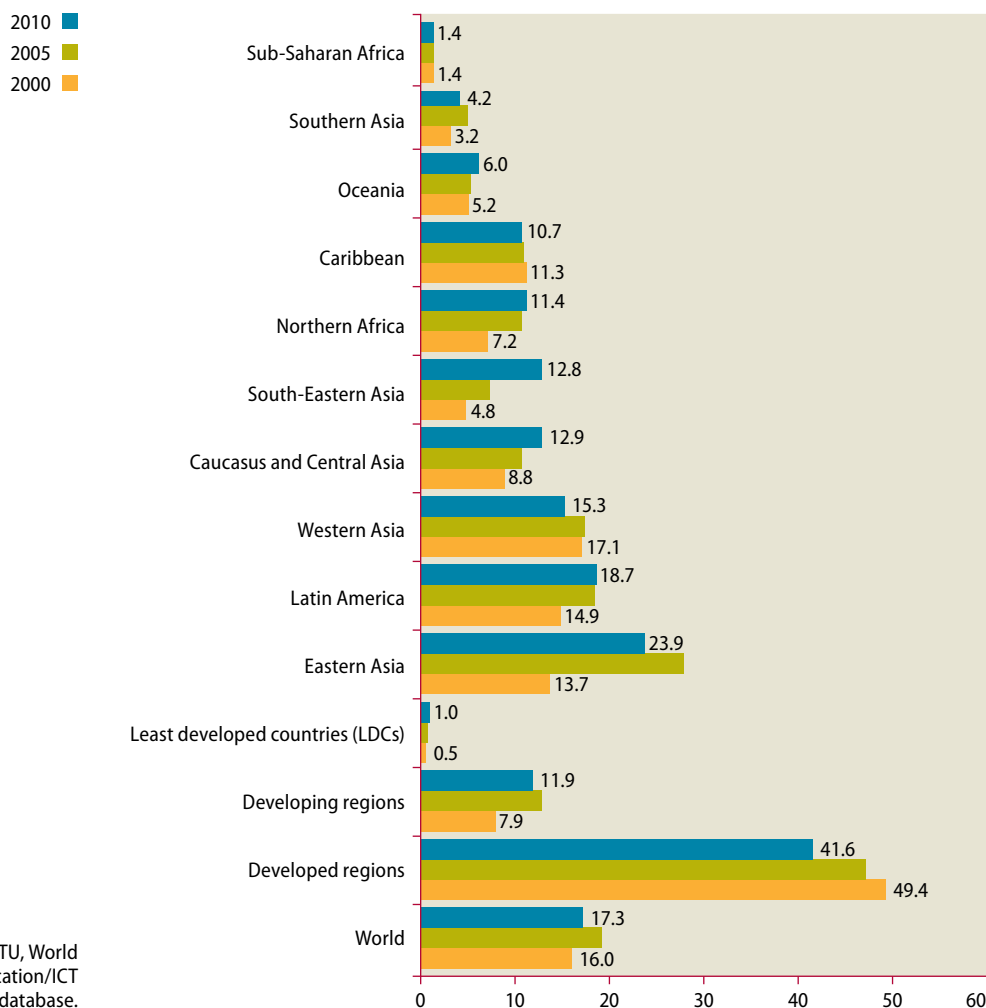


Sub-Saharan Africa, Southern Asia, Oceania and the Caribbean are the regions with the lowest penetration rates of fixed telephone lines, at around 10 per cent or less (see figure 4).

Developing countries have increased their share of the world's total number of Internet users from 44 per cent in 2006 to 62 per cent in 2011, and Internet penetration in the developing countries stood at 26.3 per cent (figure 2). However, the vast majority of people in the LDCs still lack access to the Internet (figure 5). Fewer than one in nine people in Oceania, Southern Asia and sub-Saharan Africa have Internet access.

Policymakers and investors have been giving considerable attention to the diffusion of broadband networks. Worldwide, fixed broadband subscriptions have more than doubled over the past five years, from 284 million in 2006 to 591 million in 2011. The developing-country share is increasing rapidly, but a large gap with developed countries remains. While the penetration rate of fixed broad-

Figure 4  
Number of fixed telephone lines per 100 inhabitants, 2000, 2005 and 2010



Source: ITU, World Telecommunication/ICT Indicators database.

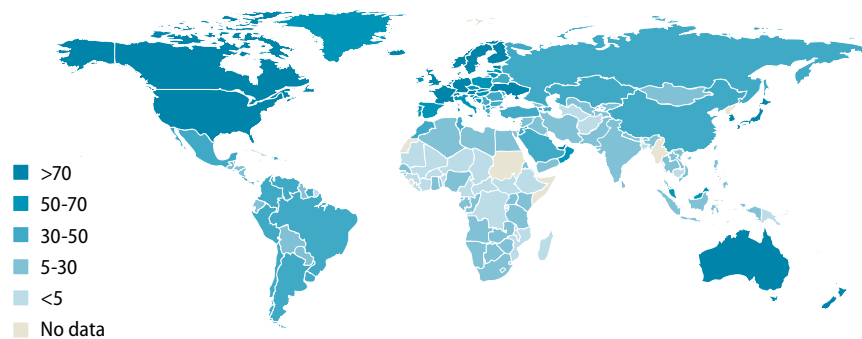
band connections in developed countries reached almost 26 per cent in 2011, growth has slowed in recent years and may reach saturation soon (figure 6). Fixed broadband coverage in developing countries reached 4.8 per cent on average, but coverage varies greatly across countries and regions.

Mobile broadband expands faster than fixed broadband

By contrast, mobile broadband has expanded at a much more dynamic pace. The number of active mobile broadband subscriptions reached an estimated 1.2 billion at the end of 2011, twice the number of fixed (wired) broadband subscriptions. Today, more than 160 countries provide commercial 3G services. For many people in developing countries, mobile broadband, including prepaid mobile broadband, is often the only type of Internet access available. Active mobile broadband penetration in developing countries reached an estimated 8.5 per cent by the end of 2011. The potential development impact of bringing people online via wireless access is very high, and mobile broadband technology and developments are expected to play an important role in achieving development goals. The expansion of wireless broadband access is much faster in developed countries, where coverage reached 56.6 per cent in 2011, up from 19 per cent in 2007.



Figure 5  
Internet users per 100 inhabitants, 2010

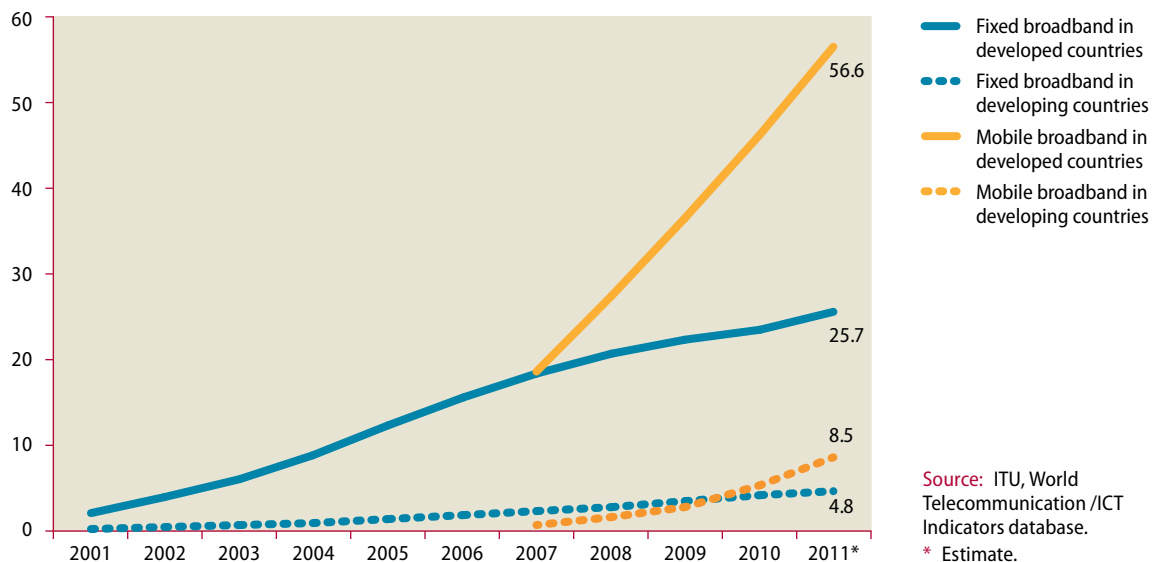


Source: UN/DESA, from the website of the Integrated Implementation Framework (IIF), available from <http://iif.un.org>.

### Wide gaps in affordability persist

Although the cost of ICT services has been decreasing, they remain much higher in developing than in developed countries. Costs are still prohibitive for the majority of people in some regions, especially Africa. Mobile cellular services cost, on average, about 10 per cent of per capita income in developing countries, but their cost is as high as 25 per cent of per capita income in Africa.<sup>2</sup> The average cost of a fixed broadband subscription in Africa is almost three times the per capita income. In developed countries, however, the average cost per user is less than 2 per cent of per capita income.

Figure 6  
Fixed (wired) broadband and mobile broadband subscriptions in developed and developing countries, 2001-2011 (percentage of inhabitants)



Source: ITU, World Telecommunication /ICT Indicators database.  
\* Estimate.

<sup>2</sup> MDG Gap Task Force Report 2011—*The Global Partnership for Development: Time to Deliver* (United Nations publication, Sales No. E.11.I.11).

New broadband targets and indicators have been established

In October 2011, recognizing the potential of enhanced accessibility of the Internet to promote development, the Broadband Commission for Digital Development proposed the establishment of concrete targets and indicators to guide broadband policies and monitor affordability and uptake of broadband.<sup>3</sup> The targets include making broadband policy universal by adopting national broadband plans or strategies and connecting people and households in developing countries to affordable broadband services.

The establishment of the broadband targets will help improve the monitoring of progress in access to ICT. Target 8.F of the global partnership for development regarding cooperation with the private sector has been criticized for lacking numerical and, therefore, measurable precision. Nonetheless, the indicators associated with the target have helped verify progress made regarding the spread of ICT. There have been parallel efforts, however, to establish measurable targets for building information societies. One such effort has been undertaken by the Partnership on Measuring ICT for Development, a global initiative to improve the availability and quality of ICT statistics. In May 2010, the Partnership launched a new Task Group on Measuring the WSIS Targets (TG WSIS) in order to track progress towards the achievement of the 10 targets agreed upon at the 2005 World Summit on the Information Society (WSIS), which range from connecting villages, universities and schools, to ensuring that more than half of the world's population has access to ICT by 2015.<sup>4</sup>

## Enabling the development impact of ICT

ICT has transformed more than just the way people communicate; arguably, it has also made business transactions more efficient and, more generally, made information much more accessible in nearly every field imaginable. As already noted, important challenges remain if ICT is to become more accessible and affordable. Adequate competition among operators and service providers, aided by the necessary regulatory measures, has shown to be critical in lowering prices of services and in protecting consumer interests. The same conditions have spurred innovation and facilitated the emergence of new business models. The fast growth of ICT has also given rise to the need for new and better forms of regulation, as spelled out further below. Governments can also set an example when promoting the use of ICT by themselves making greater use of ICT in improving service delivery, which in turn would help accelerate achievement of the MDGs.

## Trends in regulation of the ICT sector

The cross-sectoral and pervasive nature of ICT today is requiring regulators to go beyond traditional regulation, which has consisted mainly of regulating access to

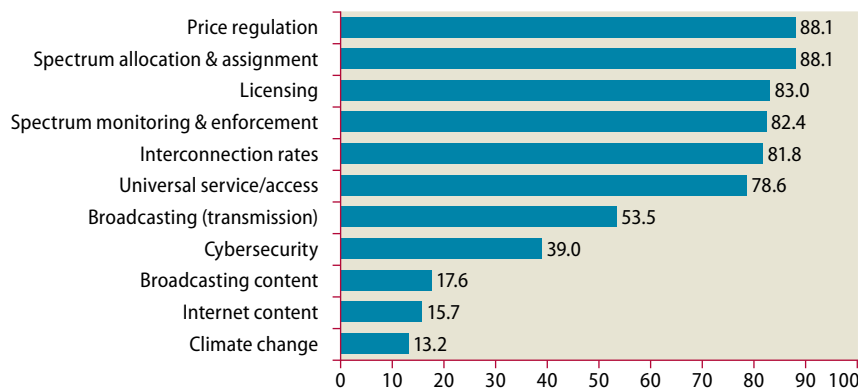
<sup>3</sup> Broadband Commission for Digital Development, "Broadband targets for 2015", available from [http://www.broadbandcommission.org/Documents/Broadband\\_Targets.pdf](http://www.broadbandcommission.org/Documents/Broadband_Targets.pdf). The Broadband Commission was established in 2010 by the International Telecommunication Union (ITU) and United Nations Educational, Scientific and Cultural Organization (UNESCO) with the support of the United Nations Secretary-General.

<sup>4</sup> For the list of the 10 World Summit on the Information Society (WSIS) targets as approved by the WSIS Geneva Plan of Action, see <http://www.itu.int/wsis/docs/geneva/official/poa.html>.

networks and services, ensuring fair competition, protecting the interests of consumers and advancing universal access. Over the past five years, telecommunications and ICT regulators have seen their mandate expand to include information technology, broadcasting and, more recently, electronic content, cyber security, data protection and environmental issues (figure 7). In 2011, almost 40 per cent of regulators included cyber security in their mandate and almost 16 per cent also regulated content. Some Governments have merged the separate regulatory authorities for telecommunications/ICT and broadcasting into a single authority; others, mainly in Africa, the Americas and Europe, established multisector agencies after their markets reached a certain level of maturity.<sup>5</sup>

Recognizing the critical role ICT and broadband play in today's digital economy, over 130 Governments have adopted or are planning to adopt a national policy, plan or strategy to promote broadband. Most of the broadband policies focus on building nationwide broadband infrastructure, stimulating demand uptake through the adoption of online services and applications, and extending connectivity to provide universal access. To meet these goals, large investments are needed. Where private investment is limited, the public sector may initially invest in the construction and operation of the network, as has been the case in Australia, Malaysia and Singapore. Alternatively, public-private partnerships can be created to manage universal access projects as in France, Kenya and Thailand. As a third option, Governments may also consider providing direct subsidies; this has been done by the European Union and the United States of America as part of stimulus packages to enhance broadband access.<sup>6</sup>

Figure 7  
Mandate of regulatory authorities worldwide, 2011 (percentage)



Source: ITU, World Telecommunication/ICT Regulatory Database.

Note: Data refer to responses from regulatory authorities to the annual ITU telecommunication/ICT regulatory survey regarding the mandated areas of their regulatory frameworks, and are reflected as a percentage of a total of 159 responses.

<sup>5</sup> ITU, *Trends in Telecommunication Reform 2010/2011: Enabling Tomorrow's Digital World* (Geneva, 2011).

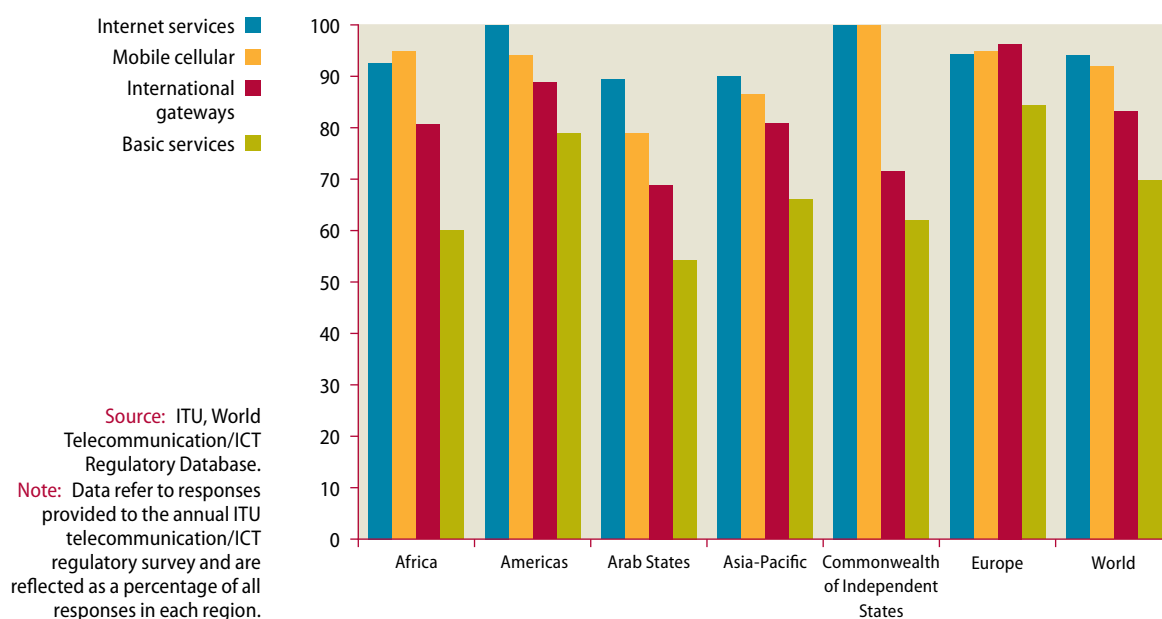
<sup>6</sup> David Rogerson, "Open access regulation in the digital economy", ITU Global Symposium for Regulators (GSR) 2011 discussion paper, available from <http://www.itu.int/ITU-D/treg/Events/Seminars/GSR/GSR11/documents/02-Open%20Access-E.pdf>; and Mandla Msimang, "Strategies for financing universal broadband access", GSR 2011 discussion paper, available from <http://www.itu.int/ITU-D/treg/Events/Seminars/GSR/GSR11/documents/06-Universal-broadband-access-E.pdf>.

## Increasing competition in ICT

In 2011, countries continued to make considerable efforts to foster competition in telecommunication/ICT markets. The provision of mobile cellular phone and Internet services remained highly competitive globally. In more than 90 per cent of countries worldwide, competition is allowed in the provision of such services (figure 8). International gateways<sup>7</sup> are now competitive in 83 per cent of countries worldwide. In 2011, 92 per cent of all countries allowed competition in the provision of 3G services. Basic fixed services continued to lag behind other ICT markets in terms of competitiveness. Nonetheless, competition in this area has also been on the rise, with 70 per cent of countries allowing competition in 2011, up from 38 per cent in 2000.

Privatization activity has slowed over the past few years. With more than 65 per cent of providers worldwide already privatized, there are fewer interested investors and reduced availability of investment funds. Of the very few privatizations that were expected to occur over the last two years, only Zamtel, the incumbent operator in Zambia, and SamoaTel, the incumbent in Samoa, were privatized in 2010. Other countries made further efforts to liberalize their markets by simplifying the licensing regime and opening up the ICT sector to foreign investment. While more than three quarters of countries worldwide have either no restrictions or allow for foreign controlling interest in their national ICT market, some 15 per cent still restrict investment to a minority interest.

Figure 8  
Share of countries allowing competition for selected ICT services, by region, 2011 (percentage of countries per region)



<sup>7</sup> An international gateway is any facility through which electronic communications (that is, voice, data and video) can be sent from the domestic networks of one country to those of another.

## The role of e-government

The use of new technologies in Government can support the achievement of the MDGs by increasing efficiency, effectiveness, transparency and inclusiveness in public administration and public service delivery. One of the key challenges of national Governments has been improving the quality of public administration. Through the use of ICT, Governments are increasing efficiency and transparency by providing more information online, simplifying administrative procedures, streamlining bureaucratic functions and increasingly providing open Government data. According to a recent survey, 179 countries provided information via their national portals on laws, policies and other documentation of interest to their citizens in the areas of education, health, social welfare and other sectors.<sup>8</sup> ICT is also used effectively in poverty reduction; it gives vulnerable groups access to information on a range of subjects, including health and education information and management systems, education, and management of natural resources. Studies to evaluate the impact of broadband on national economies have shown that it not only has direct impact in terms of revenues and employment creation, but also has spillover effects in other sectors by helping to increase efficiency and, at the same time, further stimulate broadband adoption.<sup>9</sup>

Governments are also moving towards centralizing the entry point of service delivery to a single portal where citizens can access all Government-supplied services. In 2012, 70 per cent of countries provided a consolidated one-stop-shop portal compared with 26 per cent in 2003. This not only makes it easier for citizens to find public services, but it encourages Governments to integrate processes across departments and increase efficiency.

ICT can vastly improve public services

## Increasing access to climate change technology

Some additional progress has been made in creating a more enabling framework for international cooperation in reducing global greenhouse emissions, mitigating the impact of climate change and supporting developing countries' efforts in these areas. Parties to the United Nations Framework Convention on Climate Change (UNFCCC) agreed at the United Nations Climate Change Conference in Durban, held from 28 November to 11 December 2011, to develop a legal agreement on climate change. The process, which began in 2012 and is headed by the Ad Hoc Working Group on the Durban Platform for Enhanced Action, is to be completed by 2015. Governments also reaffirmed and made further progress in implementing their commitment made in Cancun in 2010 to provide a package of mechanisms to support developing countries in their fight against climate change.<sup>10</sup> This package includes the Green Climate Fund, the Technology Mechanism and an Adaptation Committee.

<sup>8</sup> *United Nations E-Government Survey 2012: E-Government for the People* (United Nations publication, Sales No. E.12.II.H.2).

<sup>9</sup> See <http://www.broadbandcommission.org/work/documents/case-studies.aspx>.

<sup>10</sup> United Nations Framework Convention on Climate Change (UNFCCC), "Report of the Conference of the Parties to its seventeenth session, held in Durban from 28 November to 11 December 2011, Part Two: Action taken by the Conference of the Parties at its seventeenth session" (FCCC/CP/2011/9/Add.1), 15 March 2012, available from <http://unfccc.int/resource/docs/2011/cop17/eng/09a01.pdf>.

Fast-start finance is disbursed for enhanced climate-related support

The Green Climate Fund has received pledges towards its start-up costs from several countries, including Denmark, Germany and the Republic of Korea. It was agreed that a focused work programme on scaling up long-term climate finance and analysing possibilities for mobilization of resources from a variety of sources be undertaken in 2012, recalling that developed-country Parties had committed to mobilize \$100 billion per year by 2020 to address the needs of developing countries. In addition, a management framework has been adopted to make the Fund fully operational in 2012. The Fund will finance activities to enable enhanced action on adaptation, mitigation, technology development and transfer, capacity-building, and the preparation of national reports by developing countries. In the meantime, a pledge for fast-start finance was also made by developed countries to disburse \$30 billion in additional resources during the period 2010-2012.

Although some efforts have been made to measure how much has been provided towards climate-related assistance, the first comprehensive data on climate-related aid was only recently published.<sup>11</sup> Preliminary figures for 2010 show that total bilateral climate change-related aid by members of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD/DAC) was \$22.9 billion in 2010, equivalent to about 15 per cent of total official development assistance (ODA). Two thirds was targeted for mitigation and one third for adaptation. However, it is not clear what portion of this, if any, pertains to the fast-start finance commitment.

Further arrangements were agreed on at Durban to ensure that the Technology Mechanism, established to facilitate action on technology transfer, becomes operational in 2012. Full terms of reference for the Climate Technology Centre and Network (CTCN), the operational component of the Technology Mechanism, were agreed upon, and its activities to address the technology needs of developing countries are set to begin. The mission of the CTCN is to stimulate technology cooperation, to enhance the development and transfer of technologies and to assist developing-country Parties at their request. The CTCN will consist of a Climate Technology Centre and a Network of relevant institutions capable of responding to requests from developing-country Parties related to technology development and transfer.

The Adaptation Committee, composed of 16 members, will report to the Conference of the Parties (COP) periodically on its efforts to improve the coordination of adaptation actions around the world. The adaptive capacities of the poorest and most vulnerable countries are to be strengthened. The most vulnerable are to receive better protection against loss and damage caused by extreme weather events related to climate change.

## Access to ICT to address climate change

In September 2010, the Broadband Commission established a number of working groups to focus on specific issues related to the challenges and opportunities of broadband networks, services and applications. Climate Change was one of the key issues. In 2011, the dedicated Working Group on Climate Change<sup>12</sup> (WG-

<sup>11</sup> Available from [www.oecd.org/dac/stats/rioconventions](http://www.oecd.org/dac/stats/rioconventions).

<sup>12</sup> For more information, see <http://www.broadbandcommission.org/work/working-groups/climate-change.aspx>.

CC) was established with the main objective being to support innovation in the ICT industry as well as in broadband networks, services and applications that have the potential to accelerate the uptake of transformative low-carbon solutions. The WG-CC will identify how investments in broadband can be leveraged from an environmental perspective to address climate change. The working group will report on the potential of broadband as a solution to mitigate and adapt to climate change and make recommendations for achieving a low carbon, sustainable future with the use of ICT.

## Access to information for disaster risk management

The risk of disasters is increasing in developed and developing countries. The proportion of people living in flood-prone river basins increased by 114 per cent and on cyclone-exposed coastlines by 192 per cent.<sup>13</sup> More than half of the world's largest cities (those with populations of over 2 million) are currently located in areas of high risk for the occurrence of earthquakes. With growing exposure, the risk of economic loss is also increasing. Although the risk of deaths of people living in flood plains and along cyclone-exposed coastlines relative to population size is decreasing, many countries are struggling to address losses caused by exposure. Moreover, losses suffered by low-income households owing to frequently occurring disasters are often under-recorded. Disaster risk levels depend on a number of factors, such as climate variability, poverty levels, land-use planning and management, and ecosystem degradation. Mortality risk for all weather-related hazards continues to be concentrated in countries with high levels of poverty, poorly planned and managed urban and regional development, and environmental degradation.

Further progress in risk reduction will depend on Governments' taking decisive steps to explicitly recognize their stock of risk. A crucial first step involves the systematic recording of disaster losses and impacts, and the institutionalization of national disaster inventory systems. Countries collect statistics on demography, employment, economic activity and many other development indicators, but without accurate accounting for disaster losses, such indicators do not form a complete picture. While some 40 countries have already established disaster inventory systems, there remains significant room for improvement as the majority of countries do not currently have functioning and institutionalized systems for recording disaster losses. Indonesia, Mozambique and a regional initiative—involving Egypt, Jordan, Morocco, the Syrian Arab Republic and Yemen—have established policy-relevant databases. In Mozambique, for instance, detailed information on the areas and types of crops affected and destroyed is providing farmers as well as policymakers with relevant information on the probability of natural hazards and the ways in which they may affect the agricultural sector and rural livelihoods.

In 2011, the Third Session of the Global Platform for Disaster Risk Reduction called for the use of ICT to ensure accountability, monitor and report on

The risk of death decreases, but loss from exposure increases

ICT must assume an integrating role in addressing climate-related challenges

<sup>13</sup> United Nations International Strategy for Disaster Reduction, *2011 Global Assessment Report on Disaster Risk Reduction: Revealing Risk, Redefining Development* (Geneva, 2011).



progress, account for disaster losses in a standardized manner, track investments and provide access to risk information, among other measures.<sup>14</sup> The aim is to promote the efficient use of resources and integrated approaches to development that address climate change adaptation, disaster risk reduction and ecosystem management and restoration.

Technology transfer and knowledge-sharing are crucial in the advancement of disaster risk reduction and climate change adaptation. The lack of coordination in technology transfer and cooperation has contributed to fragmented implementation. Therefore, the Intergovernmental Panel on Climate Change (IPCC) has called upon the global community to explore synergies, particularly in international finance for disaster risk management and adaptation to climate change.<sup>15</sup>

### Policy recommendations

- In cooperation with the private sector, developed- and developing-country Governments should accelerate efforts to increase access to and affordability of Internet usage, especially broadband, by adopting national broadband policies to increase infrastructure, adopt online services and applications, and extend connectivity to provide universal access. Governments should also continue efforts to increase competition in the ICT sectors by promoting new investment and ensuring fair competition through regulation
- Governments are encouraged to increase the use of ICT in the provision of their services in order to increase efficiency and support the achievement of the MDGs
- Governments are urged to abide by their commitments to the Green Climate Fund and the Technology Mechanism to increase access to technologies that address the impact of climate change in developing countries
- Governments are encouraged to increase coordination in technology transfer to decrease disaster risk and find synergies with adaptation strategies in developing countries

<sup>14</sup> See [http://www.preventionweb.net/files/20102\\_gp2011chairsummary.pdf](http://www.preventionweb.net/files/20102_gp2011chairsummary.pdf).

<sup>15</sup> Intergovernmental Panel on Climate Change (IPCC), "Managing the risks of extreme events and disasters to advance climate change adaptation", special report of Working Groups I and II of the IPCC (Cambridge: Cambridge University Press, 2012).









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