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Financing for Development

The first UN summit level conference on Financing for Development takes place in Monterrey, Mexico from 18-22 March 2002.

The UN and international community have adopted a set of millennium development goals for 2015. But independent UN and World Bank assessments show that meeting these will require at least an extra $50 billion a year in international aid: around twice that currently provided.

The conference takes place at a time of falling levels of aid provision, and NGOs hope that it will mark a turning point, although many are pessimistic. The government has promised to increase the amount that it spends on aid. But like many other countries, it has not yet set a timetable for reaching a target set by the UN of spending 0.7% of gross national income.

This paper examines international development spending and initiatives.

Patsy Richards

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Summary of main points

The amount of money spent on official aid by the main donor countries of the world was some $66 billion in 2000, $20 billion less than in 1999, and the lowest amount since 1989.

Few countries are close to meeting a UN target of 0.7% for official development assistance (ODA, the main measure of aid provision) as a proportion of gross national income, or have set timetables for doing so. Indeed, levels of ODA fell by $2.6 billion from 1999 to 2000, to just under $50 billion.

Yet two recent major reports, the report of the UN high level panel on financing development, the Zedillo report, and a World Bank assessment, have estimated that ODA needs to double if the UN Millennium development goals are to be met.

The enormity of this funding gap: that identified needs are roughly double the existing provision, and yet levels of aid are currently falling, has been highlighted by Kofi Annan:

> 'We simply cannot allow the decline in ODA to continue if we want our commitment to the millennium development goals to be taken seriously at all. The Zedillo Panel calculated that, to reach these goals by 2015, we need another $50 billion of official development assistance per year – and the World Bank has come up with very similar figures'
> Kofi Annan, Secretary General of the United Nations, January 2002[1]

While aid is not the only answer, and trade liberalisation will help to promote growth, there is a growing consensus that aid is needed as a catalyst to help the very poorest countries take advantage of the opportunities that trade liberalisation offers. At the same time many developing countries' growth rates are too low for rapid poverty reduction and the World Bank says that in the last forty years, the deceleration of world GDP was sharper only during the oil crisis of 1974.[2]

The UN will hold its first summit-level Financing for Development (FfD) conference in Monterrey, Mexico from 18-22 March 2002. NGOs have been hoping that the conference will mark a turning point and help reverse the downward trend in aid flows. Yet ahead of the conference few countries have shown themselves willing to commit to greater aid targets.

The UK Chancellor has been prominent in international discussion of such issues, but has not yet set a timetable for increasing the UK's ODA to meet the UN target.

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[1]Quoted in *Tackling Poverty: A Global New Deal* A pamphlet based on the speeches by the Rt Hon Gordon Brown MP, Chancellor of the Exchequer to the New York Federal Reserve on 16 November 2001 and the Press Club, Washington D.C. on 17 December 2001 HM Treasury, February 2002

[2]World Bank anticipates global upturn, urges increased help to poor countries. News release 2002/225/S 13 March 2002

CONTENTS

I Introduction

The amount of official development assistance (ODA, the main measure of aid) provided by the main donor countries of the world in 2000 was $49.5 billion, less than in 1998 and 1999, and over $10 billion below a peak in 1994. In the same year total official development finance amounted to $66 billion, $20 billion less than in 1999, and the lowest amount since 1989.[3]

Two recent major reports (see section III.B) estimate that the amount of ODA provided needs to at least double, if the UN millennium development goals (MDGs) are to be met. These goals deal with such issues as reducing the number of people living in extreme poverty by half between 1990 and 2015; reducing infant and child mortality rates by two thirds over the same period, and making progress in gender equality.

This leaves an enormous gap to bridge, with aid falling at a time when it instead needs to at least double from existing levels. Yet few countries are close to meeting a UN target for ODA as a proportion of gross national income, or have set timetables for doing so.

NGOs have been hoping that the forthcoming UN Financing for Development (FfD) conference will mark a turning point and help reverse the downwards trend in aid flows. Yet ahead of the conference few countries have shown themselves willing to commit to greater aid targets, and some NGOs go so far as to doubt the value of the conference.[4]

According to the OECD:

> The International Conference on Financing for Development, to be held at Monterrey, Mexico, in March 2002 will seek broad agreement on an integrated approach to development finance, with good governance as the foundation for building strong flows of public and private finance from both domestic and external sources, including foreign investment and sustainable debt financing. The Conference will also consider calls for significant increases in ODA volume and effectiveness to underpin efforts to reach the Millennium development goals.[5]

This paper considers such issues. It starts by setting the scene by looking at the amount of aid currently provided and recent trends; different countries' performances and the UK's commitments. The Chancellor has been prominent in international discussion of these issues, but has not yet set a timetable for increasing the UK's ODA to meet the UN target.

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[3] OECD *Development Co-operation Report 2001* Statistical Annex
[4] *Politiken*, Denmark 24 February 2002 quoted in World Bank development press review, 25 February 2002
[5] OECD *ODA Steady in 2000; Other Flows Decline* 12 December 2001 Final ODA figures for 2000 PAC/COM/NEWS(2001)108

II Resource flows

A. Total flows, 1993-2000

There are many forms of 'aid' and 'assistance', so to make like-for-like comparisons across countries and time, the measures official development assistance (ODA) and official assistance (OA) are used. Although there are numerous different measures, references to 'aid' generally mean ODA. The technical box[6] provides definitions.

Looking first at 'total flows', including private money, in 2000 some \$190 billion worth of resources flowed to aid recipients from multilateral agencies and the main donor countries of the world (the members of the OECD development assistance committee, the DAC[7]). This compared to \$251 billion in 1999 and a peak of \$354 billion in 1996. Private flows, the vast majority of which were direct investment, made up over half of the total flows (some \$117 billion). Some \$7 billion was provided through NGO grants and \$8 billion as export credits.

Table 1. Total Net Resource Flows from DAC Member Countries and Multilateral Agencies to Aid Recipients

	Current $ billion							
	1993	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000 (p)**
I. OFFICIAL DEVELOPMENT FINANCE (ODF)	**82.4**	**84.5**	**87.6**	**73.5**	**75.4**	**88.8**	**85.9**	**65.5**
1. Official development assistance (ODA)	55.5	59.6	59.1	55.8	47.9	50.1	52.1	49.5
2. Official Aid (OA)	6.0	6.9	8.4	5.6	5.6	7.0	7.8	7.8
3. Other ODF	21.0	18.1	20.1	12.2	22.0	31.7	26.1	8.2
II. Export credits	**-3.0**	**6.3**	**5.6**	**4.0**	**4.8**	**8.3**	**4.0**	**7.7**
III. Private flows	**86.3**	**134.7**	**170.7**	**272.8**	**240.2**	**131.8**	**161.1**	**117.0**
1. Direct investment (DAC)	41.6	52.1	59.6	68.9	102.3	119.8	145.6	119.5
of which: to offshore centres	9.4	10.8	6.3	16.7	19.1	20.3	37.9	29.8
2. International bank lending (a)	4.8	32.1	76.9	86.0	12.0	-76.3	-79.6	-36.0
3. Total bond lending	28.7	32.0	24.7	78.5	83.7	34.2	28.8	18.9
4. Other (including equities) (b)	5.5	12.5	3.5	33.8	37.0	48.4	59.5	7.8
5. Grants by non-governmental organisations	5.7	6.0	6.0	5.6	5.2	5.6	6.7	6.9
TOTAL NET RESOURCE FLOWS (I+II+III)	**165.7**	**225.5**	**263.8**	**350.3**	**320.4**	**229.0**	**251.0**	**190.3**
For cross reference								
Total DAC net ODA (c)	56.5	59.2	58.9	55.6	48.5	52.1	56.4	53.7

a) Excluding bond lending by banks (item III.3.), and guaranteed financial credits (included in II).
b) Incomplete reporting from several DAC countries (including France, the United Kingdom and the United States). Includes Japan from 1996.
c) Comprises bilateral ODA as above plus **contributions to** multilateral organisations in place of ODA **disbursements from** multilateral organisations. p) Provisional.

Source: OECD Development Co-operation Report 2001 Statistical Annex

Discounting private flows, official development finance (ODF) totalled \$66 billion in 2000 compared to \$86 billion in 1999, in cash terms the lowest figure since 1989.[8] Of

6 See page 12 of this paper. Sources: OECD Development Co-operation Report 2001 and OECD Geographical Distribution of Financial Flows to Aid Recipients 2002

7 Along with the European Commission the DAC comprises Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, UK and the USA.

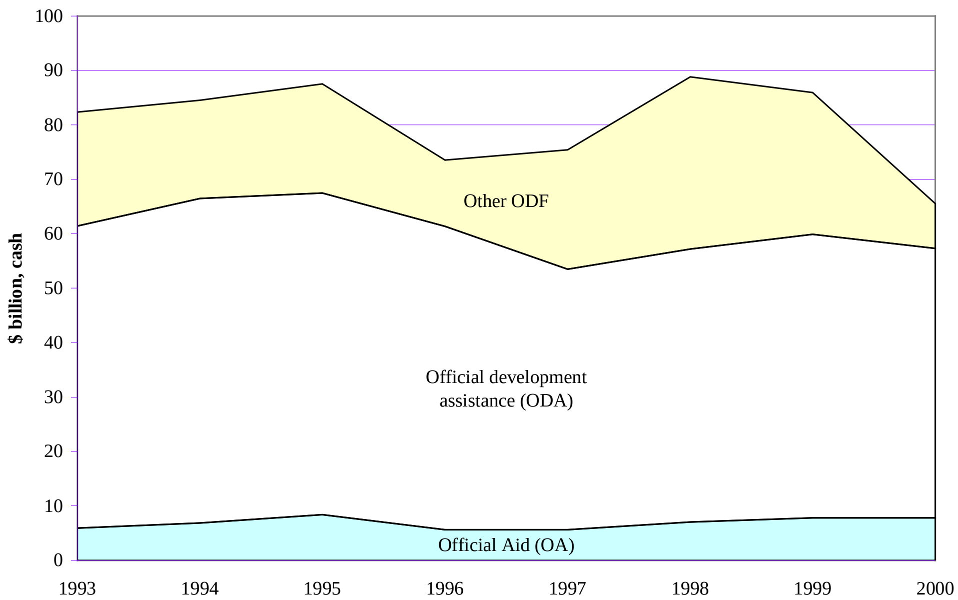
8 OECD Development Co-operation Report 2001 Statistical Annex and previous years' editions

this, some $49.5 billion qualified as ODA. This was some $2.6 billion less than in 1999. Donor countries that do not belong to the DAC provided some $1 billion of aid (ODA plus OA) in 2000.

Official flows were less than half of private flows in 2000. The composition of finance for development has altered during the last decade, with private flows becoming the dominant component of financial flows to developing countries. During the 1990s foreign direct investment expanded steadily and as did other flows such as bank lending, bonds and equities. At the same time ODF started to decline. The OECD says that the increase in FDI was welcomed, but one problem is that it has been heavily concentrated in a relatively small number of countries. Also, mechanisms are needed to deal with volatility in these flows and crises that may occur. [9]

Looking at official development finance (ODF) only, the overall decline from over $80 billion in 1993 to under $66 billion in 2000 can be seen to comprise a decline in both ODA and other ODF. Official aid, which as the technical box explains is aid to the relatively richer aid recipients, has remained relatively stable:

Total ODF from DAC member countries and multilateral agencies



The next section looks at different countries' contributions to these figures.

[9] OECD DAC Journal Development Co-operation Report 2001 p.84

Technical Box

The OECD, specifically its development assistance committee (DAC), is the source of international statistics on aid and their definitions. The most important measure for comparative purposes is **official development assistance** (ODA), which is defined as follows:

> ODA consists of flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following test:
>
> a) it is administered with the promotion of the economic development and welfare of developing countries as its main objective, and
> b) it is concessional in character and contains a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent).

To make international comparisons, the OECD uses the measure of ODA, net after deduction of loan capital repayments, as a percentage of Gross National Income (GNI), or the **ODA/GNI** ratio.

Official aid (OA) is aid that meets the tests for ODA, but is given to relatively richer and newer aid recipients compared to the traditional developing countries. The DAC maintains a list of aid recipients (the **DAC List)**. Traditional developing countries are shown on Part I of the DAC list and are eligible for ODA. Part II of the DAC list includes new aid recipients, generally above the World Bank High Income Country threshold such as Eastern European and former Soviet Union countries. Aid to these is recorded as OA. The two parts of the List are there for statistical purposes only, and do not influence provision of aid.

Other official flows (OOF) are monies whose main aim is not development–related, or which do not meet the 25% grant element threshold that would qualify them as ODA/OA. They include official export credits, portfolio investment or rescheduling of debt on non-concessional terms.

Total official flows is the sum of ODA/OA and OOF and is the total (gross or net) flows from the official sector to the recipient country concerned.

Total flows include all private flows too.

ODA/OA loans are loans with maturities of over one year that meet the ODA criteria. The **rescheduling** of loans (extending the maturity date of official loans) and loans made to refinance indebtedness are included under this header or as OOF, as appropriate.

Grants are transfers of money or in kind for which no repayment is required. The **forgiveness of loans** has been reportable as ODA since 1992, apart from forgiveness of loans for military purposes, which must be reported as OOF.

Official development finance (ODF) is aid defined from the recipients' viewpoint; it is the sum of receipts of bilateral ODA, concessional and non-concessional flows from multilateral sources, and bilateral OOF, especially loans to refinance debt.

B. International comparisons

Comparisons of countries' performances can be made by looking at the absolute amount of money spent as ODA, but more usefully by looking at the ratio of this to gross national income (GNI). For instance, the USA appears to be a very large donor in cash or absolute terms, but as a proportion of GNI it is the smallest donor.

The UN General Assembly launched the second UN development decade in 1970 with a target of 0.7% of GNP for ODA to be reached 'by the middle of the decade'. (For a definition of ODA see the technical box. The new system of national accounts has broadened the coverage of GNP, now renamed Gross National Income, GNI.) Progress towards the 0.7% ODA/GNI target has been very slow even though spending on administrative costs and the costs of debt relief are included in ODA totals.

In the year 2000, net ODA from the DAC donor countries totalled some $53.7 billion. (This is more than the ODA figure in Table 1, because of the way payments to and by multilateral agencies are treated.) The unweighted average ODA/GNI ratio for DAC members was 0.39%. Full figures are shown in the table overleaf, which includes a column allowing for the changes in the DAC list. Some key points follow:

- ODA/GNI fell in real terms from 1999 to 2000 in Austria, Canada, France, Italy, Japan, New Zealand, Norway and Spain.

- EU countries combined gave $25.3 billion in 2000, an unweighted average ODA/GNI ratio of 0.32%.

- The largest cash or absolute donor is Japan, giving $13.5 billion in 2000. But its ODA fell from 1999 to 2000 and is expected to fall further next year as a result of efforts to reduce the budget deficit.

- The second largest donor is the United States, giving almost $10 billion. But in terms of the ODA/GNI ratio, the US was the smallest contributor (0.1%).

- French aid fell by only 3% in real terms on the year if changes to the DAC list of aid recipients (the removal of French Polynesia and New Caledonia from the list of ODA-eligible territories) and exchange rate movements are allowed for. The UK and France have the highest ODA/GNI ratio (0.32%) of G7 countries.

- The UK's apparently large increase on the year, of 38%, was partly due to accounting anomalies which lowered 1999's figure.[10]

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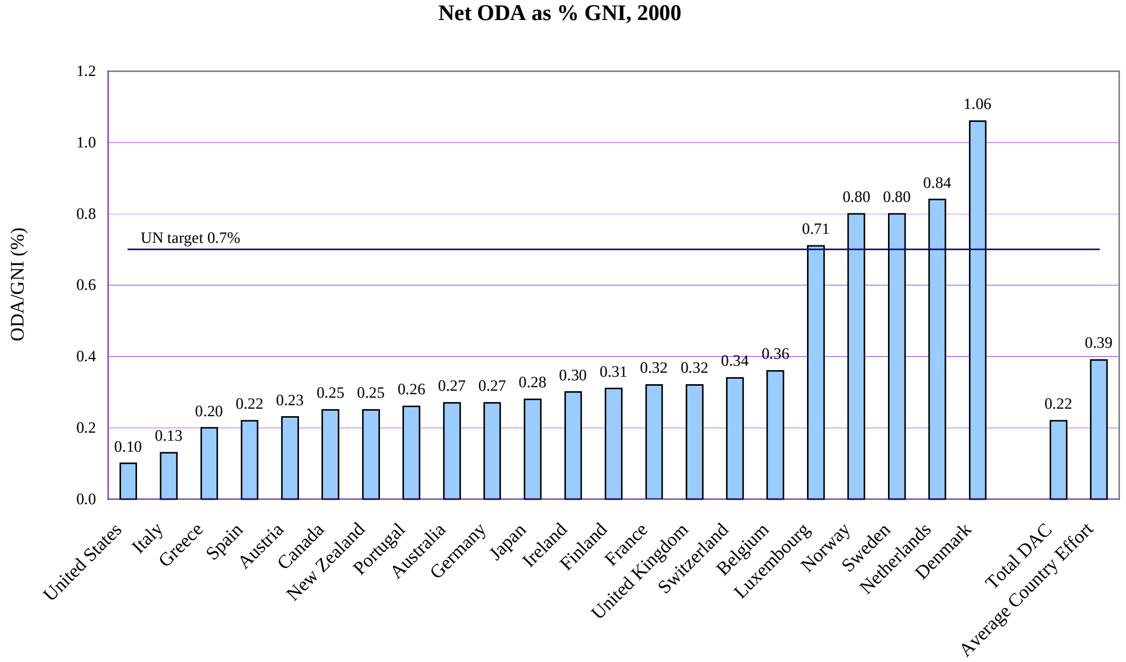
[10] The different time-frame of the UK's financial year and the DAC's calendar year; the timing of the deposit of promissory notes in respect of IDA and the African Development Fund; lower than predicted spending by the EC and the timing of bringing to book expenditure on Kosovo.

Net ODA flows from DAC members, 2000

	ODA US$m	ODA/GNI (%) (1)	Real percent change 1999-2000 (2)	Real percent change (2) excluding effect of changes of list of recipients (3)
United States	9,955	0.10	6.7	6.3
Italy	1,376	0.13	-13.8	-13.4
Greece	226	0.20	35.0	35.0
Spain	1,195	0.22	-2.1	-2.1
Austria	423	0.23	-8.3	-8.3
Canada	1,744	0.25	-1.4	-1.4
New Zealand	113	0.25	-3.1	-2.9
Portugal	271	0.26	10.5	10.5
Australia	987	0.27	8.4	8.4
Germany	5,030	0.27	5.9	6.2
Japan	13,508	0.28	-15.1	-16.1
Ireland	235	0.30	5.6	5.6
Finland	371	0.31	0.1	0.1
France	4,105	0.32	-16.3	-3.2
United Kingdom	4,501	0.32	37.9	37.9
Switzerland	890	0.34	0.4	0.4
Belgium	820	0.36	22.8	22.8
Luxembourg	127	0.71	18.7	18.7
Norway	1,264	0.80	-9.6	-9.6
Sweden	1,799	0.80	21.4	21.4
Netherlands	3,135	0.84	12.2	18.8
Denmark	1,664	1.06	7.3	7.3
Total DAC	53,737	0.22	-0.4	0.9
Average Country Effort		0.39		

(1) DAC Members have progressively introduced the new System of National Accounts, which replaced GNP by GNI. GNI has generally been higher than GNP; ODA/GNI ratios are slightly lower than previously reported ODA/GNP ratios.
(2) Taking account of both inflation and exchange rate movements.
(3) Aruba, French Polynesia, Gibraltar, Korea, Libya, Macao, the Netherlands Antilles, New Caledonia, Northern Marianas and the Virgin Islands (UK) transferred from Part I of the DAC List of Aid Recipients (ODA recipients) to Part II of the List (Official Aid recipients) on 1 January 2000
Source: OECD news release PAC/COM/NEWS(2001)108 12 December 2001

Only five countries have so far met the 0.7% target: Denmark, the Netherlands, Sweden, Norway and Luxembourg, as the chart (overleaf) shows:



C. Timetables for increasing ODA or meeting the 0.7% target

Several DAC Members, including Canada, Greece, Sweden, Switzerland and the UK have specific targets for raising ODA in the short to medium term. Others, including the Netherlands and Norway that are already at 0.7%, have fixed targets to increase ODA with economic growth to maintain their current ratios.[11]

At the UN Millennium Summit Ireland's Prime Minister pledged to reach 0.7% by the end of 2007, with an interim target of 0.45% by the end of 2002.[12]

In February 2002 the Belgian government committed to reaching the 0.7% target by 2010, saying it would raise its development co-operation budget by €100 million a year. 'This is a great victory,' Development Minister Eddy Boutmans said. 'It is a break with decades of a downward trend in development aid.'[13]

NGOs have been critical of the stance of some donors, particularly the EU and US, in the run up to Monterrey. Save the Children has claimed that the US 'no longer believes in aid' and that the US insisted that mention of the 0.7% target be removed from the draft Monterrey consensus. In fact the target is still mentioned within the draft consensus, but the need to double ODA is now less strongly worded (see section IV.A.)

[11] OECD *ODA Steady in 2000; Other Flows Decline* 12/12/2001 Final ODA figures for 2000 PAC/COM/NEWS(2001)108

[12] *DAC Journal Development Co-operation Report 2000* OECD 2001

[13] *Le Soir* (Belgium) quoted in World Bank Press Review 22 February 2002

The US recently announced an increase in its overseas aid budget of up to $5 billion over three years from 2004. The President said this would be available to countries that committed to reform, and officials explained that the money would be in a pool for which all developing countries could bid. While the direction of the move was welcomed, Oxfam made the point that it fell short of the extra $50 billion year needed from all donors, and that it would be phased in.[14] If all this money qualifies as ODA and without any other increases, it will raise US ODA to some $11.6 billion from 2004, and raise its ODA/GNI ratio from 0.1 to just under 0.12.

NGOs have also claimed that the European Commission proposal that the conference should aim to agree a 0.33% goal for 2006 is too modest. Also, Oxfam has lamented the fact that Spain will represent the UN at the conference, since its current ODA/GNI ratio is so low.[15]

The Commission's position is in fact that EU member states already supply an unweighted average of 0.33% of GNI in ODA. If those below the 0.7% target at least met the EU average of 0.33% by 2006, then the EU average would move to around 0.39%. This is, in the Commission's view, an appropriate intermediate target towards reaching 0.7%. In a Communication to Council the Commission called on member states to 'substantially increase' their aid.[16]

EU Foreign Affairs Ministers met on 11 March 2002. Reportedly, Germany, which has been opposing the 0.39% target, is now softening its position, as are Italy and Spain. Predictably those states who are already at 0.7% consider the 0.39% target too low. The Commission is said to want to shame the US into signing up to the 0.7% target, and to prevent it from being able to use the excuse that others have not done so.[17]

D. UK aid spending and timetable

In the year 2000 the UK spent almost £3 billion on ODA.[18] The UK government's firm commitment so far is for the UK's ODA/GNI ratio to increase to 0.33% in 2003/04 while the government 'remains fully committed to the 0.7% ODA/GNI target'.[19] The Chancellor has given hints that he will go further (see page 25), but no more than this yet.

On 12 March 2002 the Treasury announced extra funds for the Commonwealth Education Fund (CEF), being launched in the Golden Jubilee Year to help Commonwealth countries meet the UN education Millennium Development Goal. The Government has already announced a grant of £10 million to start the Fund which will begin from mid-2002 and

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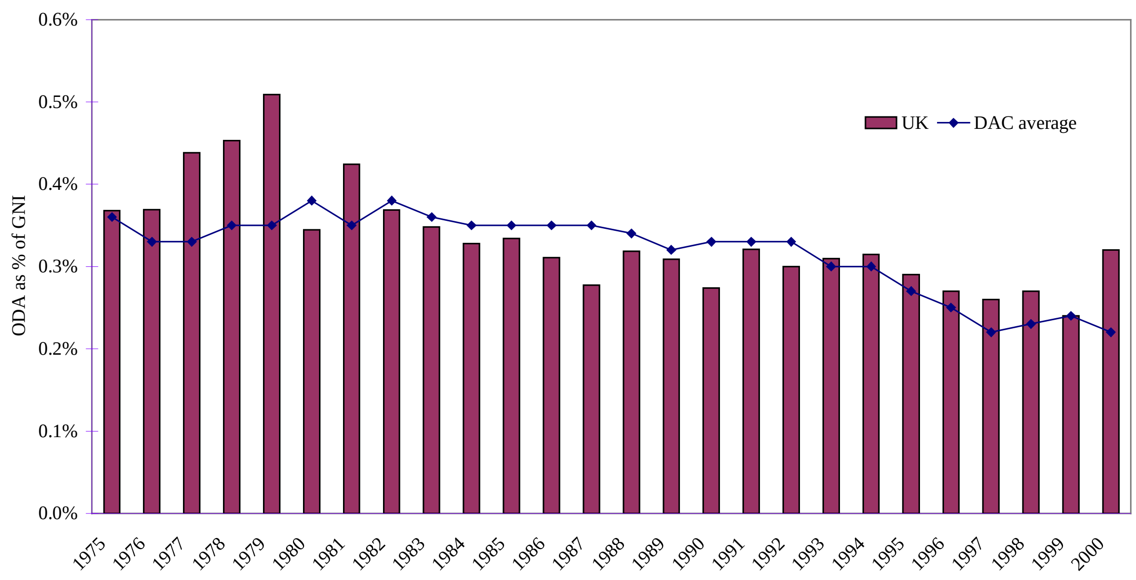
[14] *Financial Times* 15 March 2002 p.1 Bush promises big rise in US aid to help fight war on world poverty.
[15] World Bank Press Review 22 February 2002
[16] Commission calls for increased aid to developing countries. Memo/02/25 Brussels 13 February 2002
[17] *Financial Times* 12 March 2002 p.14 EU close to deal on help for world's poor
[18] DFID Statistics on International Development 2001
[19] HC Deb 15 January 2002 c142w

continue to December 2005. Alongside this, the Chancellor has now announced that money raised by business will be matched pound for pound by the Government; as will funds raised for education in Commonwealth developing countries by Comic Relief's Sport Relief.[20]

With an ODA/GNI ratio of 0.32 in 2000, the promised increase of 0.01 by 2003/4 looks modest. But assuming trend GDP growth at around 2¼% a year,[21] ODA at just under £3 billion in 2000[22] has to increase by around £67 million just to keep pace with growth. Another way to look at it is that GNI was over £950 billion in the year 2000.[23] 0.7% of this is some £6.6 billion- more than double the current budget. This is roughly an extra £3.6 billion a year, without taking into account future growth in the economy. Increasing the basic rate of income tax by 1p would not raise enough for this.[24] Past trends in UK ODA spending are shown in the chart:[25]

UK ODA/GNI ratio



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[20]Treasury press notice 18/02 12 March 2002. Brown launches fund to boost education in the Commonwealth.
[21]November 2001 pre-Budget Report
[22]DFID Statistics on International Development 2001
[23]Quarterly National Accounts, 20 December 2001
[24]Raising the basic rate by 1p would raise £2.75 billion in 2002/03 on an accruals basis. *Tax Ready Reckoner* November 2001
[25] DFID Statistics on International Development 2001

III The millennium development goals

189 countries affirmed the millennium development goals (MDGs) at the Millennium Summit[26] in New York in September 2000. They are not new goals: after being proposed by various UN conferences over the course of some decades, they were first brought together and adopted by the OECD in 1996.[27] Each is to be achieved by 2015 compared to 1990 levels where relevant and they are to:

1. Eradicate extreme poverty and hunger
- Halve the proportion of people with less than one dollar a day (living in extreme poverty).
- Halve the proportion of people who suffer from hunger.

2. Achieve universal primary education
- Ensure that boys and girls alike complete primary schooling.

3. Promote gender equality and empower women
- Eliminate gender disparity at all levels of education.

4. Reduce child mortality
- Reduce by two thirds the under-five mortality rate.

5. Improve maternal health
- Reduce by three quarters the maternal mortality ratio.

6. Combat HIV/AIDS, malaria and other diseases
- Reverse the spread of HIV/AIDS.

7. Ensure environmental sustainability
- Integrate sustainable development into country policies and reverse loss of environmental resources.
- Halve the proportion of people without access to potable water.
- Significantly improve the lives of at least 100 million slum dwellers.

8. Develop a global partnership for development
- Raise official development assistance.
- Expand market access.
- Encourage debt sustainability.

The World Bank's annual publication *World Development Indicators* reports progress towards meeting these targets. The 2001 report said that with less than 15 years to go, while the prospects for success in some areas were improving, none of the goals on health or education were likely to be achieved on present trends at a global level.

A. Effect of growth rates

Growth rates in developing countries are key in determining whether the poverty goals are met. After 11th September the World Bank revised its forecast for developing

[26] UN General Assembly 55th session see http://www.un.org/millennium/ for details
[27] DAC Journal Development Co-operation Report 2001

countries' growth to 3.5-3.8% for 2002 (annual percentage change), from its earlier forecast of 4.3%.[28]

The latest forecasts, in the Bank's *Global Development Finance 2002* are for developing country growth to accelerate from 3.2% in 2002 to 5% in 2003. But this rebound will not occur in the poorest economies that are dependent on commodities, since commodity prices will continue to be weak. In such countries growth rates will be below those needed to meet the poverty goal.[29] The Bank points out that even in 'successful' poor countries, commodity prices, declining aid levels and lower global growth are causing adverse effects. It says that the deceleration of world GDP has been sharper during the past forty years only during the first oil crisis of 1974, and it used the publication of *Global Development Finance 2002* to push yet again for increased aid flows and the opening up of markets.

The World Bank's report *Global Economic Prospects and the Developing Countries 2002*[30] presents a number of scenarios based on different growth rates and takes into account the economic effects of 11th September. There has been a downgrading of economic growth forecasts, but other factors (better information on poverty, populations and inequalities, and stronger than expected effects of growth on poverty) have outweighed this. But the only region forecast to meet the under-five mortality goal, for instance, is South Asia. Sub-Saharan Africa is 'well off the target path'.

The base case income growth scenario for developing countries in this report for 2005–2015 is 3.6% per annum, per capita. Based on this, the poverty goal would be met on a pooled, world-wide basis, but not in every developed country, and notably not in sub-Saharan Africa. If growth rates are lower, then the goal will not be met world-wide:

> Growth will substantially reduce the number of people living in poverty. With base case growth, the total number of destitute poor, living on less than $1 per day, would decline to about 750 million persons in 2015, down from 1.15 billion in 1999.[31] The number of people living on $2 per day or less would decline by 600 million, from 2.8 billion to 2.2 billion. While this rate of poverty reduction would be sufficiently robust to achieve the target of reducing poverty by one-half in 2015, not all regions would succeed. Sub-Saharan Africa would be far from reaching the goal even under this favorable growth scenario. Moreover, should growth in developing countries turn out to be less than the 3.6 per-cent per capita of the baseline scenario, the world as a whole would not reach the target.
>
> Nonetheless, these projections would continue the reduction of the number of people living in poverty that began roughly about 1980. Up through the 1970's

[28] News release 2002/093/S Poverty to Rise in Wake of Terrorist Attacks In US Millions More People Condemned To Poverty In 2002

[29] News release 2002/225/S World Bank anticipates global upturn, urges increased help to poor countries. 13 March 2002

[30] At http://www.worldbank.org/prospects/gep2002/

[31] The figure was 1.3 billion in 1990, according to World Development Indicators 2001

> [sic], long-term increases in population swamped the growth effects in the global economy and the number of people living below $1 day increased. However, since 1980 faster growth, particularly in China and South Asia, has contributed for the first time in recent history to a steady decline in the number living in destitute poverty. These new projections confirm that trend.
>
> … The long-term projection underscores the importance of achieving fast growth and distributing the benefits of growth equitably. Even under this scenario, the harsh reality is that over 2.2 billion persons will be living below the $2 per day income level in the year 2015—some 36 percent of developing country population. ...

The report goes on to say that the baseline scenario will not be reached without macroeconomic stability, improved governance and sustained structural reforms including for example, improvements in the provision of public services and in infra-structure. Faster rates of growth would be possible given greater liberation of trade, *if* adequately supported by domestic policies and development assistance.

Other analyses show that development assistance, not just sustained growth or even substantial trade liberalisation alone, is needed to meet the MDGs in all countries. Indeed, 'trade not aid' is a slogan from which the World Bank is now trying to distance itself, [32] while 'trade for aid' still holds, as the next section outlines.

B. Funding the development goals

1. The Zedillo report

The 2001 report of the United Nations high-level panel on Financing for Development, the Zedillo report,[33] made an estimate of the amount of ODA that would be needed to meet the MDGs. Others, including the World Bank, have broadly supported this estimate. The 11-member panel included Jacques Delors and Robert Rubin and was chaired by former Mexican President Ernesto Zedillo. It considered how to mobilise resources to promote growth in developing and transition economies and fulfil the commitments in the UN Millennium Declaration.

The principal recommendations of the Zedillo report were that:

> 1. Every developing country needs to set its economic fundamentals in order.
> 2. WTO should launch a Development Round.
> 3. [But] the least developed countries need some immediate help in improving their position in the world trading system.
> 4. Developing countries should create an attractive environment for foreign investment, especially FDI [foreign direct investment].

[32] La Tribune quoted in World Bank Development News press review 12 March 2002

[33] 26 June 2001 General Assembly 55th session at http://www.un.org/esa/ffd/a55-1000.pdf

> 5. The Panel urges the International Conference on Financing for Development to obtain a commitment from the industrial countries to implement the target of providing ODA equal to 0.7 per cent of their GNP.
> 6. Donors should distribute ODA across countries according to two criteria: the depth of poverty in a country, and their assessment of the extent to which the country's policy is effectively directed to reducing poverty.
> 7. The Panel recommends that aid be voluntarily and prudently shifted to a common-pool basis that would finance the recipient's announced development strategy.
> 8. The Panel endorses the proposal of the Commission on Global Governance to create a global council at the highest political level to provide leadership on issues of global governance.
> 9. WTO should be better funded, and its governance should be reformed to enable small countries to play a more effective role in decision-making. ILO [international labour organisation] should be given teeth and should be prepared to use them. The sundry organisations that currently share responsibility for environmental issues should be consolidated into a Global Environment Organisation.
> 10. The International Conference on Financing for Development should explore the desirability of securing an adequate international tax source to finance the supply of global public goods.
> 11. IMF should recommence SDR [special drawing rights- see section V.A of this paper] allocations.
> 12. The Panel proposes that the international community should consider the potential benefits of an International Tax Organisation.

The Panel considered that even if there were substantial advances in trade liberalisation, foreign direct investment and domestic policy reforms, there would still be a great need for development assistance.

In particular, four vital roles for ODA could not be substituted. The first was helping to initiate development in countries and sectors unattractive to private investment where borrowing from commercial sources was unaffordable (the traditional role of ODA and lending by the multilateral development banks). The other three were coping with humanitarian crises; providing or preserving the supply of global public goods (e.g. peacekeeping, disease control, fighting climate change or biodiversity protection) and finally confronting and accelerating recovery from financial crises.

The Panel made very crude estimates of the funding needed for the first three of these roles. The first, development needs alone and meeting the MDGs, would require an extra $50 billion per year of ODA, almost double that currently provided. The broader need for ODA was certainly much greater than this.

Achieving a reasonable minimum standard of response to humanitarian crises would cost $8-9 billion in a typical year, an increase of at least $3 billion from recent spending levels. A more systematic approach was also needed, and adequate funding of the UN.

Beginning to address the need for global public goods in a more satisfactory manner would probably require at least $20 billion per year, four times the current spending level.

The Panel also decided it was imperative to separate finance for development and humanitarian assistance from finance for global public goods and to find adequate funding for both of these. These, says the Zedillo report, should be primary aims of the international conference on FfD.

Since the Zedillo report was published, the figure most often seized upon is the extra $50 billion, or $100 billion in total, needed each year to meet the MDGs.

The Zedillo report pointed out that if the DAC members actually delivered ODA according to the 0.7 per cent target, aid would increase by about $100 billion per year.

2. World Bank estimates

The World Bank has been making its own costings, and they agree with the Zedillo report's. In February 2002 the World Bank issued a press release:

> The World Bank estimates that financing the successful achievement of a key set of development goals known as the United Nation Millennium development goals (MDGs) could cost in the range of $US 40-60 billion a year in additional aid for the next decade and a half. The Goals call for a halving of extreme poverty and for substantial improvements in health and education in developing countries by 2015.
> However, the Bank warns that while this level of funding is crucial to meeting these global targets, developing countries would also need to reform their health, education, and institutional policies to improve the effectiveness of development aid.[34]

To meet the poverty goal:

> The Poverty Goal: Halve the proportion of income poverty by 2015, relative to 1990.
> The challenge is to meet this goal in each country. There are 65 countries which are unlikely to meet the goal without further external assistance and/or policy changes.
> The Bank estimates that, of these 65 countries, 43 could effectively absorb more aid today, and would require an additional $39 billion per year to reach the poverty goal by 2015.
> For a remaining 22 countries, with weak policies, the Bank assumes that if these countries are able to bring their policies and institutions up to the average of the better-performing countries, then an additional $15 billion per year would be needed to assist these countries in reaching the poverty goal. Thus the additional

[34] 21 February 2002 Reaching the MDGs to Cost $40-$60 Billion Annually in Additional Aid, Says Bank

> aid required for this goal ranges from $39 billion to $54 billion depending on whether the worse performers do or do not improve their policies. The upper end of this range represents a doubling of current levels of Official Development Assistance ($57 billion in 1999).
> Another 33 countries seem to be on target to meet these goals although substantial extra inroads into poverty in these countries would flow from an increase in their aid to GDP ratios.
> All of these calculations assume that, with the exception of foreign aid, all other international exchanges continue as "business as usual." Specifically, this assumes that private capital flows, already quite small in these countries, will not increase as a share of GDP over the medium term.

The calculations also assume that the world trading system will remain as present; neither more protectionist nor more open. Liberalising trade and increasing market access for developing countries would bring greater financial benefits than ODA in the period to 2015. But even this would not substitute for ODA in very poor countries with poor infrastructure. Trade-related benefits favour the high-trading, middle-income countries. To benefit from increased trade, countries need investments in transportation, telecommunications, trade-related government institutions (better customs and tax administration), and better overall management of public investment. In fact development assistance, or 'aid for trade' is needed. The UK government says that between 1998 and 2000 it has invested £15 million in trade related capacity building in developing countries and has undertaken to put in twice that over the following three years giving a total of £45 million.[35]

Essentially, then, reducing trade barriers is not enough to eliminate the need for aid in very poor countries, at least for several years. Regarding the other goals:

> The Education, Health and Environment Goals:
> …
> The World Bank estimates that the additional cost of achieving universal primary education by 2015 at some $10 billion to $15 billion a year, depending on whether regional, national or global averages are used. These preliminary figures are also close to those obtained by UNICEF in their "minimum global estimate" of $9.1 billion.
> For the health goals, the Bank can identify specific inputs that contribute to reduction in infant or maternal mortality, and then estimate the costs of delivering these inputs. For example, re-hydration therapy, vaccinations and promotion of breast-feeding have all been shown to reduce infant mortality. Similarly, for the goal of reducing infectious diseases, there are specific interventions, such as insecticide-treated bed-nets for malaria, and the DOTS strategy for tuberculosis, for which cost estimates exist. The Bank calculates that the sum required to meet

[35] Tackling poverty: a global new deal. A pamphlet based on the speeches by the Rt Hon Gordon Brown MP, Chancellor of the Exchequer to the New York Federal Reserve on 16 November 2001 and the Press Club, Washington D.C. on 17 December 2001 HM Treasury, February 2002

> the health goals is in the range of \$20 and \$25 billion per year for the health-related goals.
> Environment goal: Universal access to water and sanitation by 2015
> The costs of achieving the environment goals (essentially water and sanitation) have been calculated by looking at a range of estimates, one for achieving universal coverage (\$30 billion a year), another for reaching basic levels of coverage (\$9 billion). These estimates should be approached cautiously, because there are some who believe that enough resources exist to achieve universal access to water supply—it is just, they argue, the institutional arrangements that prevent it from being achieved. Similarly, some of the improvements in access to sanitation are likely to be achieved through the pursuit of the health goal of reducing infant mortality.
> Finally, the "City without Slums" program has estimated the cost of providing secure land tenure and upgrading slums to be \$3.5 billion annually. Taking these estimates and their caveats together, the cost of reaching the environment goal is estimated at between \$5 and \$21 billion a year.

Given that some of these goals will contribute towards meeting each other, and that FDI flows and ODA should increase, the World Bank feels that, given the uncertainties in the estimation, the range \$40-60 billion of additional aid needed seems appropriate.

3. The UK Chancellor's proposals

On 16 November 2001 the Chancellor addressed the Federal Reserve Bank in New York and highlighted the need to meet the MDGs. As well as measures related to increasing investment flows and developed countries' share of trade, the Chancellor argued for an international trust fund. He said:

> We are moving – as Clare Short has argued – from providing short term aid just to compensate for poverty to a higher and more sustainable purpose: that of aid as long-term investment to tackle the causes of poverty by promoting growth, prosperity and participation in the world economy.
> The suggestions I am making today will work only if we see development assistance as investment that is untied, targeted, where possible pooled internationally, conditional on reform, and cost effective in its delivery.
> My proposal involves the richest countries making a substantial additional commitment of resources beyond 2015. It involves the creation of a new 2015 international development trust fund which will build on the existing achievements of the World Bank, the IMF and the Regional Development Banks but go further by seeking to address the sheer lack of investment that the poorest countries face.
> Bridging this investment gap will require contributions from developed country donors and institutions – possibly channelled as paid-in capital to the trust fund – but the international capital markets could be used to leverage up these contributions.
> In future no country genuinely committed to economic development, poverty reduction and the transparency and standards I have outlined should be denied the chance to make progress because of the lack of basic investment.

> The fund could be overseen by a new joint implementation committee of the IMF, World Bank and possibly other donors, and to minimise bureaucracy, its resources distributed through existing mechanisms. [36]

The Chancellor said that he thought the extra $50 billion investment a year needed to 2015 identified by the Zedillo report was achievable:

> But to try to reach $50 billion a year each year until 2015 we must all substantially increase development assistance budgets.
> One of a number of possible ways is for national governments to pre-commit development resources - for say 30 years or more - and with national governments offering a guarantee, either through callable capital or other means as security, it is possible to lever up these contributions to reach our targets.
> The international community has already made a commitment to raising the level of overseas development assistance to 0.7 per cent of GDP. And, in Britain, since 1997 we have increased the aid budget of the Department for International Development to £3.6 billion – $ 5.2 billion – a 45 percent real terms increase by 2004. And we are committed to making substantial additional progress.
> Today I am challenging each country to accept their responsibility to play their part and to go further than they have been prepared to go in the past.
> In the 21st Century, increased development assistance to tackle poverty is essential to match gains from liberalising trade, raising private investment and entrenching stability. And it is right that there now be a full debate in the IMF, World Bank and the United Nations as we prepare for next spring's meeting, including those of the World Bank and IMF.

The Treasury has subsequently produced the pamphlet *Tackling Poverty: A Global New Deal: A modern Marshall plan for the developing world.*[37] Its section on financing for development says that while progress on trade could be worth $150 billion a year to the lowest income countries, or three times the development aid they now receive, a substantial increase in development aid is also needed.

To raise the additional $50 billion a year the Chancellor suggests, first of all, making better use of existing aid. He calls for better targeted, untied and pooled aid to low income countries with large, poor populations who are implementing sound reforms. He notes that the EU needs to learn lessons in this regard.[38] Aid needs to be less of a short term fix and, rather, part of a longer term strategy for growth. It should operate under the World Bank's country-owned poverty reduction strategy approach.

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[36] http://www.hm-treasury.gov.uk/Newsroom_and_Speeches/Press/2001/press_126_01.cfm

[37] A pamphlet based on the speeches by the Rt Hon Gordon Brown MP, Chancellor of the Exchequer to the New York Federal Reserve on 16 November 2001 and the Press Club, Washington D.C. on 17 December 2001 HM Treasury, February 2002

[38] This is accepted: see for instance Library research paper 01/85, *the International Development Bill*

The Chancellor goes on to describe possible new sources of finance. The UK has considered novel suggestions including the Tobin tax, an arms tax or issuing developing countries special drawing rights at the IMF (see section V.A). But he goes on:

> But in the end, it all comes back to the duties national governments – especially the richest national governments – recognise and are prepared to discharge. If the international community is to move with the urgency that the scale of today's suffering demands, we must each, as national governments, be bold and acknowledge the obligations of the richest parts of the developed world to poorest and least developed parts of the same world.
>
> One proposal for additional resources involves the richest countries making a substantial additional commitment of resources to 2015 and beyond. And there is a case for adding to these resources by examining a further option. Through richer countries making a long-term commitment of increased resources for development for, say, 30 years and with national governments offering a guarantee – either through callable reserves or appropriate collateral as security – then additional aid contributions could be levered up in the years to 2015 to meet our target for extra funds.
>
> In this way $50 billion more could be available each year to the poorest countries in their fight against poverty. In future no country genuinely committed to economic development, poverty reduction, and transparency and proper standards should be denied the chance to make progress because of a lack of investment.

The Chancellor called for a full debate in the IMF, World Bank and UN as the international community prepared for the Monterrey Financing for Development conference.

IV Financing for Development (FfD) conference

The UN conference on financing for development (FfD) will take place from 18 to 22 March 2002 in Monterrey, Mexico. This is the first time a UN summit-level meeting has been convened to address financial issues related to global development and it will involve 54 heads of government or state and 300 finance, trade, foreign and other ministers, plus the World Bank, IMF, and WTO.

A background paper released ahead of the World Bank/IMF November 2001 meeting in Ottawa[39] said that 43 poor countries with good policies and governance in place should be the primary recipients of aid. The extra ODA funding needed to halve poverty by 2015 for these countries was $39 billion. An extra $15 billion would be needed for 22 other countries with poor policy performance, if those countries' policies improved. At a press conference held after the IMF/Bank meeting by Gordon Brown and Horst Köhler, Managing Director of the IMF, the Chancellor said that the time for discussing sums of

[39] *Financing for Development* 18 September 2001 by the World Bank/IMF staffs, which can be found at http://www.imf.org/external/np/pdr/2001/ffd.pdf

money would be at the FfD conference and at the April meetings of the IMF and the Development Committee. [40]

The preparatory meetings for the FfD conference have considered the Zedillo report[41] and also the relative roles that need to be played by the donor and recipient communities.[42] Texts are available on the World Bank's official web site for the Conference.[43]

A. Draft outcome document

A draft outcome document or 'Monterrey consensus' has been prepared[44], and 'notes with concern current estimates of dramatic shortfalls in resources required to achieve the internationally agreed development goals, including those contained in the United Nations Millennium Declaration'.

The document echoes calls for development from within, through good governance and economic development, mobilising foreign direct investment and other private flows, and through freer trade, in many cases 'the single most important external source of development financing'. The document acknowledges the tariff and other barriers that currently exist and calls for full implementation of the WTO Doha agenda, and for the removal of all quotas and tariffs from goods from least developed countries.

The document goes on to outline the importance of ODA. The first draft of the consensus, produced in January 2002, was more strongly worded in this regard. It said:

> Along with substantial policy improvements in the recipient countries, ODA must at least double if the Millennium development goals and other internationally agreed development targets are to be achieved. We underscore the need to increase overall ODA to the equivalent of 0.7 percent of industrial countries' annual GNP, including ODA of 0.15 to 0.2 percent of industrial countries' GNP for least developed countries. [45]

The new draft of the text says:

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[40] International Monetary and Financial Committee Press Conference by UK Chancellor of the Exchequer Gordon Brown and IMF Managing Director Horst Köhler Government Conference Centre Ottawa, Canada Saturday, November 17, 2001

[41] *Development Financing conference must not become North-South confrontation, Committee is warned.* PrepCom for the International Conference on Financing and Development 2nd meeting, 15 October 2001

[42] *Australia Says Too Much Stress on Outside Help; UN Commissioner Says Human Rights Perspective Must Be Key to 'Better Life' Proposals.* PrepCom for the International Conference on Financing and Development 3nd meeting, 16 October 2001

[43] http://www.un.org/esa/ffd/

[44] A/AC.257/L.13 UN, 30 January 2002 Draft outcome of the International Conference on Financing for Development Monterrey Consensus at http://www.un.org/esa/ffd/aac257L13E.pdf

[45] 19 January 2002 Unedited version. Draft text of the MONTERREY CONSENSUS, prepared by the Co-Chairpersons, with the assistance of the Facilitator at http://www.un.org/esa/ffd/aac257-32Chairs.pdf

> We recognize that a substantial increase in ODA and other resources will be required if developing countries are to achieve the internationally agreed development goals and objectives, including those contained in the Millennium Declaration. To build support for ODA, we will cooperate to further improve policies and development strategies, both nationally and internationally, to enhance aid effectiveness.
>
> In that context, we urge developed countries that have not done so to make concrete efforts towards the target of 0.7 per cent of gross national product (GNP) as ODA to developing countries and 0.15 to 0.20 per cent of GNP of developed countries to least developed countries, as reconfirmed at the Third United Nations Conference on Least Developed Countries, and we encourage developing countries to build on progress achieved in ensuring that ODA is used effectively to help achieve development goals and targets.

The draft Monterrey consensus outlines a number of measures to make ODA more effective, such as untying aid, linkage to poverty reduction strategies when recipient countries want this, and the use of aid for trade measures. It says that innovative sources of finance will be explored, including using special drawing rights for development purposes so long as this does not contravene the rules of the IMF (see section V.A).

On debt, it says that debtors and creditors share the responsibility and solutions should be sought within the Paris Club and also through the heavily indebted poor countries initiative (see section VI). It stresses that speedy, effective and full implementation of the initiative is critical, with full financing, and the need for flexibility regarding the eligibility criteria is stressed.

The draft consensus notes that the international financial architecture is being reformed, and says that this process needs to continue with maximum transparency. The multilateral financial institutions and especially the IMF need to continue surveillance operations to identify potential crises. As well as this, the social costs of adjustment programmes leading to reform need to be taken into account. The consensus says that the IMF's current financial position is strong and it has a range of instruments it can use in times of crisis, but an international debt workout mechanism should also be considered.

The Monterrey consensus says that developing countries' roles in WTO, IMF and World Bank decision-making and consultation need strengthening. It also says that the UN and WTO should work together to provide technical assistance and towards development. It makes a commitment to producing a UN convention against corruption, and to reinvigorating the role of the UN as fundamental to the promotion of international co-operation for development, and a global economic system that works for all.

B. Follow-up

There will be a follow-up to the conference at the 2001 spring meeting of the Bretton Woods institutions and the UN Economic and Social Council. The high-level dialogue on strengthening international co-operation for development held every two years in the

General Assembly will be reconstituted, to make it the focal point for following up the FfD conference.

Recognising the link between financing for development and reaching the MDGs, the UN will produce an annual report on this. The UN, World Bank, IMF and WTO will co-operate in its production. The UN will run a global information campaign on the MDGs, and the Monterrey consensus calls on the UN to produce an annual report on the follow-up to the conference. A further conference should be held, with the details to be decided upon by 2005.

V The roles of the IMF and World Bank

A. The IMF

As its name suggests, the IMF is a fund to which member countries subscribe capital, to finance lending. A major purpose of IMF lending is to help countries experiencing balance of payments problems or, increasingly, major crises; it does not lend to support projects as do, for example, development banks. But it also plays a large role in structural reform in developing and transitional economies.

Low-income countries may borrow at a concessional interest rate through the Poverty Reduction and Growth Facility (PRGF), which has replaced the previous Enhanced Structural Adjustment Facility, placing more emphasis on poverty reduction. Loans made under the PRGF are based on a Poverty Reduction Strategy Paper (PRSP) which is prepared by the country in co-operation with civil society and other development partners, in particular the World Bank. In 1999/00 the UK paid £17 million to the structural adjustment facility trust fund, which supports economic reform in low-income countries. [46]

Each country's maximum financial commitment (its quota or subscription) is made up of reserve assets (foreign currencies or special drawing rights) plus an amount in the member's own currency.

Special drawing rights (SDRs) are essentially an artificial currency unit based on a 'basket' of other currencies (currently the dollar, euro, yen and pound sterling). It is the IMF's, and the World Bank's, unit of account. Member countries are allocated SDRs in proportion to their quotas, and this also determines their voting powers. No new allocations of SDRs have been made since 1981, and there are calls from some quarters, such as in the Zedillo report, for allocations to be made to developing countries (see next section).

[46] DFID Statistics on International Development 2001

A country that subscribes by placing a proportion of its reserves at the IMF's disposal then has a liquid claim on the IMF that can be used in the case of a balance of payments need. These claims earn interest and are considered by members as part of their international reserve assets. The UK's quota is currently almost 11 billion SDR of which some 7 billion is held in currency. As well as the UK being a subscriber to the IMF, the IMF has arrangements to borrow from the UK (and other countries) to finance extra support if needed. The UK's financial position within the Fund can be found on the IMF website. [47] The Chancellor is the UK's IMF governor, and the Governor of the Bank of England our alternative governer.

The IMF lends money from the reserve asset subscriptions of members or by calling on countries considered financially strong to exchange their currency subscriptions for reserve assets. The amount of the IMF's holdings of reserve assets and the currencies of financially strong countries determines the IMF's lending capacity (liquidity). At the moment, the IMF is in a strong financial position.

Over the last year or two the IMF has been trying to respond to critics who say it lacks transparency and accountability; that its crisis resolution processes are lacking or that it attaches too many conditions to lending. For instance, in February 2000 the Treasury Committee published a report into the IMF that outlined many perceived shortcomings.[48]

Argentina's current problems perhaps encapsulate the line that the IMF seeks to tread. A typical statement by IMF critics is that 'For the past twenty years the developing world has been adjusting to the agendas of the IMF and the World Bank. It is time to reclaim the right of nations to policy autonomy, the right to make the best use of one's own resources, and the right to engage in the international economy on one's own terms.' [49] But others say that in its two most recent loans, to Turkey and Argentina, the IMF has been too 'hands off'. In the case of Argentina, allowing the Government too much free reign to determine its own policies, economically disastrous as these were, was a mistake.[50]

The UN Conference on Trade and Development (UNCTAD) in its 2001 *Trade and Development Report* expands on these issues:[51]

> Over the past two decades, the unwillingness of the advanced countries to defer to IMF on contentious monetary and financial matters which directly affect their own interests has meant that the Fund's surveillance of the policies of the most important players in the global system has lost any real purpose. Instead, there

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[47] http://www.imf.org/external/np/tre/tad/exfin2.cfm?memberKey1=1010

[48] HC 72 Third Report of 1999-2000 15 February 2000

[49] 'The right to development' Kari Polanyi Levitt (Department of Economics, McGill University) in *South Letter* No.38 Autumn 2001, The South Centre

[50] *Financial Times* 2 January 2002 'IMF seeks to draw lessons from turmoil in Argentina: Despite their reservations about the running of the economy, fund officials felt obliged to continue lending'

[51] UNCTAD Trade and Development Report 2001

> has been an intensification of surveillance of developing countries, which has now been extended to include financial sector issues, consistent with the diagnosis that the main flaws are to be found in debtor countries.
>
> One result has been the expansion of conditionalities attached to IMF lending to countries facing actual or potential crisis. This has given rise to serious concerns about undermining sovereign responsibility, even as the effectiveness of IMF surveillance is increasingly questioned. These concerns increased in the aftermath of the East Asian crisis, when excessive conditionalities led to policy responses which intensified the crisis. As a result, there have been calls, including within the International Monetary and Financial Committee, for the streamlining and refocusing of surveillance in line with the Fund's core competence in macroeconomic policy and related reforms. However, the recent financial difficulties in Turkey and Argentina illustrate the reluctance to break with the past practice of attaching wide-ranging policy recommendations to any IMF-negotiated loan package.
>
> …
>
> Perhaps it is too early to judge how far in practice this refocusing has been pursued, but it is notable that the recent Fund programmes in Turkey and Argentina show no significant tendency to depart from past practice ... They stipulate a wide range of policy actions not only in the purview of other international organizations, such as WTO and the development banks, but also of national economic and social development strategies, including actions relating to privatization and deregulation, agricultural support, social security and pension systems, industrial and competition policy, and trade policy.

The IMF is currently reviewing its guidelines for the conditions it attaches to lending and IMF staff have prepared a number of papers on conditionality[52] and other related issues. These admit that IMF conditionality grew throughout the 1990s, and often involved privatisation. But the recent *Strengthening country ownership of Fund-supported programmes*[53] shows the way that IMF conditionality is heading. For the past two years, the IMF and World Bank have recognised the need for country 'ownership' and have developed the Poverty Reduction Strategy Paper (PSRP) process for the poorest countries.[54]

Transparency - internal decision making and accountability- are issues that IMF critics often raise,[55] and this is an issue the IMF feels that it has addressed:

> The IMF used to be accused of lacking transparency and accountability. But recent reforms have effectively addressed that issue. A series of initiatives since the mid-1990s have opened most IMF activities to public scrutiny, including its

[52] Conditionality in Fund-Supported Programs—Overview IMF Policy Development and Review Department February 20, 2001 http://www.imf.org/external/np/pdr/cond/2001/eng/overview/index.htm

[53] 14 December 2001 at http://www.imf.org/external/np/sec/pn/2001/PN01125.HTM

[54] *Independent* 12 December 2000 p.5 and *Finance and Development* (Quarterly magazine of the IMF) December 2001 Refocusing IMF conditionality

[55] 'Making the IMF and World Bank more accountable' Woods, *International Affairs* **77**(1) 2001

> reports on the economies of a majority of its member countries, its lending activities, and many of its internal policy deliberations. Moreover, its policy deliberations have in some cases been opened up to public participation.
> One of the challenges that the IMF faces in becoming more transparent is that its role as confidential adviser to the authorities of its member countries must not be compromised, since this is essential to its effectiveness in serving its members and providing them with candid advice. [56]

Yet whatever the IMF does, along with the WTO and World Bank, it will be hard to satisfy critics who claim that they operate secretly, and jointly favour the private sector. The following is an example of such criticisms:

> Regardless of what objectives might be desired by democratically-elected governments, the IMF and World Bank have long insisted upon their own liberalization objectives being met first, and have used conditions on desperately-needed loans to implement and enforce their own policies in the political economies of developing countries. The IMF and World Bank wring hundreds of concessions and promises out of governments with secret loan documents, negotiated outside of public view, with civil society organizations and even entire parliaments remaining excluded and uninformed. Most rich countries that provide foreign aid and loans to countries in the South will first look to the IMF to judge whether a country's economic policies are "sound" before offering loans or aid. Because the bulk of governments in the South are heavily dependent on foreign aid and bilateral loans to both repay their existing debts as well as for their own recurrent budgets, most are at the mercy of the IMF, whose "stamp of approval" acts as a green light for other bilateral aid and loans. In this way, the institutions use their position of power to exploit this dependency and circumvent democratic processes even where they exist.
>
> Similarly, the World Trade Organization (WTO) holds its main negotiations in secret, unaccountable proceedings, then makes sure its members follow the agreed upon rules or else face expensive lawsuits (discussed below) or expulsion from membership in the organization. In these ways, the IMF, World Bank and WTO all seek to promote market liberalization to benefit private sector actors even if this involves overriding or circumventing any democratic input that may be voiced by the public or elements of civil society. These institutions have developed the capacity to undo existing state responsibilities to the public interest, or block those which might be enacted in the future. [57]

In the Chancellor's speech to the Federal Reserve Bank[58] he implied that the IMF should expand its role. Developing countries should develop and adhere to a set of agreed codes and standards for fiscal and monetary policy and for corporate governance. Clear

[56] IMF Issues briefing on *Transparency,* April 2001

[57] *An Overview of the Increased Coordination of the International Monetary Fund (IMF), World Bank, and World Trade Organization (WTO) Trade Liberalization Policies* 2nd Draft Working Paper Financing for Development PrepCom at the United Nations in New York on 15/10/01 Rick Rowden, RESULTS Educational Fund

[58] 16 November 2001 Treasury press release 126/01

transparent procedures on their part for monetary and fiscal decisions should be a condition for IMF and World Bank support. There should be an enhanced role for the IMF monitoring and reporting on the operation of codes and standards. Indeed:

> The IMF Article IV surveillance process is an invaluable tool in crisis prevention - indeed it has some of the characteristics of a global public good. Over recent years we have seen greater openness in publishing Article IV assessments and their press notices; set up the Independent Evaluation Office; and established the Article IV process at the centre of the monitoring of codes and standards.
>
> But there is a case for going further. Enhancing the IMF's role in Article IV surveillance of the world economy – making it more transparent, more independent and, therefore, more authoritative – would contribute to greater stability and ensure it is seen to be providing impartial advice independent of the inter-governmental decision-making process. Whilst governance of the IMF and decisions about financial support for countries are, of course, matters for the IMF Board, there is a case now for enhancing the IMF's surveillance and monitoring functions so that surveillance is - and is seen to be - independent of decisions about crisis resolution.

B. World Bank

The World Bank, originally known as the International Bank for Reconstruction and Development (IBRD), is one of four parts of the World Bank Group, and the loans it makes are the Bank's main activity. The loans are designed to be medium term, with relatively low, but still profitable, interest rates.

The Bank also includes the International Development Association (IDA), established in 1960 to provide soft loans (very long term, with very concessional interest rates and a large grant element) to countries with particularly low GDP per head.[59] (Other parts of the Bank are further removed and deal with the private sector and private sector investors in developing countries.)

In 2000/01 the UK made multilateral contributions worth £277 million to the World Bank Group, including £28 million to the Heavily Indebted Poor Countries trust fund and £233 million to the IDA.[60] The Secretary of State for International Development, Clare Short, is the UK's governor at the World Bank and Gordon Brown the alternative governor.

1. US proposals regarding Bank loans

Recently, the US has proposed that the Bank should switch from the use of loans to the greater use of grants. Specifically, the Bush administration proposes that 50% of IDA

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[59] *The World Bank Structure and Policies* CEPR Eds. Gilbert and Vines 2000 and *Overseas Aid Its defence and reform* Mosley, 1987

[60] DFID Statistics on International Development 2001

resources be distributed as grants, not low-interest loans. Contributions from the USA would be tied to the future effectiveness of IDA programmes.[61] The US Treasury Secretary Paul O'Neill has said that giving money to health, education and sanitation projects in developing countries would be more effective than giving loans to governments 'that sometimes waste the resources'.[62]

This is related to the Bush administration's general positioning of itself in the run up to Monterrey. It is reported to have blocked efforts by the Bank, UK and UN to use the Monterrey conference to push for large increases in aid. But European countries are said to have in turn resisted the US proposals regarding the World Bank, saying that the US devotes too small an amount of money to development assistance.[63] The recent US announcement regarding an increase in aid is described in section II.C.

DFID has produced a background briefing on this issue.[64] It outlines the reasons why the UK Government believes that the character of the IDA as a provider of highly concessional loans to poor countries should remain. Following 11th September, the Government supports the Heavily Indebted Poor Countries process as a much more immediate way to help developing countries than converting new IDA loans into grants, which DFID says would only have an impact on debt servicing in 10 years' time.

2. The Bank's assessment of the effectiveness of aid

The Bank has indirectly responded to the US criticisms by publishing a report *The Role and Effectiveness of Development Assistance,*[65] which shows that over the past 50 years development assistance has worked, and more so as lessons have been learned. Foreign aid, it says, is increasingly a catalyst for change.

Although it acknowledges that the impact of aid cannot always be simply separated from other effects, the study used certain types of evidence to show that aid has become more effective, and that it works:

> In 1990, $1 billion in aid lifted an estimated 105,000 people permanently above the $1 a day poverty line. But by 1997-98, the same amount of aid was lifting 284,000 people out of poverty – almost a tripling of the productivity of aid. Aid provided through the Bank's soft-loan program, known as the International Development Association or IDA, is even better targeted, and therefore more effective, lifting an estimated 434,000 people out of poverty.
> Since aid promotes overall economic growth, many low and moderate income people who are not technically below the poverty line also benefit. IDA aid flows,

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[61] *Financial Times* 26 February 2002 In praise of grants: The Bush administration's proposals for the World Bank would make aid far more effective, argues Nancy Birdsall
[62] *New York Times* quoted in World Bank development news press review 12 March 2002
[63] *New York Times* quoted in World Bank development news press review 12 March 2002
[64] DFID, undated at http://www.dfid.gov.uk/News/News/files/bg_ida_grants.htm
[65] 11 March 2002

> for example, generate a 40 percent rate of return in terms of increased incomes across the whole economy.
>
> Well-targeted aid also increases private investment, both domestic and foreign, by supporting improved policies and helping to strengthen the regulatory framework, institutions and infrastructure that entrepreneurs require. Research cited in the study shows that every dollar of IDA leads to an increase of nearly two dollars in gross investment, including 60 cents in foreign direct investment (FDI).
>
> Aid helps recipient governments to improve the investment climate—especially for small and medium firms and farms, the study says. This creates jobs, improves productivity, and makes possible the rapid, sustained growth that is necessary for poverty reduction.

There have been failures, of course. Improvements have been patchy, and sub-Saharan Africa saw no increase in its per-capita incomes between 1965 and 1999. During the Cold War, aid allocations were driven by geopolitical, not poverty-reduction aims. Too many isolated projects were funded, or formulaic reform measures were followed. Conditionality was placed above country ownership of reforms, so the commitment of the recipient country was not guaranteed. Such lessons have been learnt and a wider approach is now advocated:

> The understanding of what development means has evolved. It is now widely accepted that poverty reduction efforts should address poverty in all its dimensions— not only lack of income, but also the lack of health and education, vulnerability to shocks, and lack of control over their lives that poor people suffer.
>
> This multidimensionality of poverty is embodied in the Millennium development goals adopted by heads of state at a United Nations summit in 2001, which will be taken forward at the Monterrey Financing for Development conference in March 2002.
>
> Knowledge about what works and what does not work has also improved. Experience has shown that neither the central planning approach followed by many countries in the 1950s and 1960s, nor the minimal-government free-market approach advocated by many people in the 1980s and early 1990s, will achieve these goals.
>
> Most effective approaches to development will be led by the private sector, but with effective government to provide the governance framework, facilitation or provision of physical infrastructure, human capital investments, and social cohesion necessary for growth and poverty reduction. Institutional development has too often been neglected in past policy discussions, but is now recognized to be essential to sustained poverty reduction. While a number of key principles for effective development are clear, there is no single road to follow. Countries must devise their own strategies and approaches, appropriate for their own country circumstances and goals.
>
> We have improved our understanding of the main sources of growth and poverty reduction, although there is still much to learn. Experience and analysis show that countries reduce poverty fastest when they put in place two pillars of development: Create a good investment climate—one that encourages firms and farms, both small and large, to invest, create jobs, and increase productivity.

> Empower and invest in poor people—by giving them access to health, education, social protection, and mechanisms for participating in the decisions that shape their lives.

The choice of examples used by the Bank has been criticised by the Center for Global Development at Washington which says that some broad failures have been ignored, and that some countries such as China and India that have developed would probably done so without the Bank's help.[66]

The Bank's examples are as follows:

> **Aid in Action**
> Over the past 40 years, life expectancy at birth in developing countries has increased by 20 years - about as much as was achieved in all of human history prior to the middle of the 20th Century.
> Over the past 30 years, adult illiteracy in the developing world has been cut nearly in half, from 47 percent to 25 percent.
> Over the past 20 years, the number of people living on less than $1 a day has fallen by 200 million, even as the world's population grew by 1.6 billion.
> Driving much of this progress has been an acceleration of growth rates in the developing world - more than doubling the income of the average person living in developing countries over the past 35 years.
> In Vietnam, the number of people in poverty has halved over the last 15 years.
> In China, the number of rural poor people fell from 250 million to 34 million in two decades of reform.
> In India, the literacy rate for women rose from 39 percent to 54 percent in just the past decade.
> In Uganda, the number of children in primary school has doubled.
> In Bangladesh, dramatic strides have been made to achieve universal primary education – and raised the enrollment of girls in high school to about par with boys.
> In Brazil, the number of AIDS-related deaths have been cut by more than a third.
> In Ethiopia, six million Ethiopians are now benefiting from better education and health services.[67]

The Bank says that this study has been released a week before Monterrey to help urge donors to give greater access to their markets, and increase development assistance. It says that over the past decade, aid has declined by about 20% in inflation adjusted dollars.[68]

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[66] *New York Times* quoted in World Bank development news press review 12 March 2002

[67] 11 March 2002 *Now More than Ever, Aid is a Catalyst for Change. New study shows effects of development assistance over last 50 years* World Bank news release 2002/228/S

[68] 11 March 2002 *Now More than Ever, Aid is a Catalyst for Change. New study shows effects of development assistance over last 50 years* World Bank news release 2002/228/S

C. Zedillo and Monterrey recommendations for reform

The draft Monterrey consensus deals with reform of the international financial architecture:

> 53. Important international efforts are under way to reform the international financial architecture. Those efforts need to be sustained with greater transparency and the effective participation of developing countries and countries with economies in transition. One major objective of the reform is to enhance financing for development and poverty eradication. We also underscore our commitment to sound domestic financial sectors, which make a vital contribution to national development efforts, as an important component of an international financial architecture that is supportive of development.
>
> 54. Strong coordination of macroeconomic policies among the leading industrial countries is critical to greater global stability and reduced exchange rate volatility, which are essential to economic growth as well as for enhanced and predictable financial flows to developing countries and countries with economies in transition.
>
> 55. The multilateral financial institutions, in particular the International Monetary Fund, need to continue to give high priority to the identification and prevention of potential crises and to strengthening the underpinnings of international financial stability. In that regard, we stress the need for the Fund to further strengthen its surveillance activities of all economies, with particular attention to short-term capital flows and their impact. We encourage the International Monetary Fund to facilitate the timely detection of external vulnerability through well designed surveillance and early warning systems and to coordinate closely with relevant regional institutions or organizations, including the regional commissions.
>
> 56. We stress the need for multilateral financial institutions, in providing policy advice and financial support, to work on the basis of sound, nationally owned paths of reform that take into account the needs of the poor and efforts to reduce poverty, and to pay due regard to the special needs and implementing capacities of developing countries and countries with economies in transition, aiming at economic growth and sustainable development. The advice should take into account social costs of adjustment programmes, which should be designed to minimize negative impact on the vulnerable segments of society. [69]

The Zedillo report addressed similar issues and outlined areas in which the IMF and World Bank could improve:

> In the International Monetary Fund, the shift to crisis prevention, including the timely detection of external vulnerability, is yet to be completed. Another important pending issue is the streamlining of IMF conditionality, to ensure that the Fund's demands on borrowing countries take sufficient account of domestic authorities' capacity to implement them, and that its core mandate is not

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[69] A/AC.257/L.13 UN, 30 January 2002 Draft outcome of the International Conference on Financing for Development Monterrey Consensus at http://www.un.org/esa/ffd/aac257L13E.pdf

exceeded. Without impairing the Fund's ability to comply with its core mandate, borrowing countries should be given the opportunity to choose their own path to reform. The World Bank should also accelerate its refocusing, to support client countries' longer- and medium-term structural and social reforms, particularly those useful for preventing crises and fostering economic and social recovery from financial crisis, including the construction of social safety nets.

Efforts to correct anomalies in the governance of both institutions should continue.

…

Revive special drawing rights. Consideration should also be given to reviving the special drawing rights (SDRs) created by IMF in 1970. The original intent of the SDR system was to allow international reserves to be increased, in line with need, without imposing real costs on the average country. In effect, no allocation has been made since 1981. Developing countries have had a strong need in recent years to build up reserves to reduce their vulnerability to crises, and have financed this build-up either by running current account surpluses or by borrowing on terms much more onerous than those associated with SDRs. The result is a large flow of what is sometimes called "reverse aid". To prevent it or at least reduce it, IMF ought to resume SDR allocations.

…

"Ownership" and "participation" are now buzzwords. The World Bank has introduced a Comprehensive Development Framework to help donors coordinate their support for a country's chosen strategy. IMF has renamed its Enhanced Structural Adjustment Facility the Poverty Reduction and Growth Facility and has revamped it around the new vehicle of Poverty Reduction Strategy Papers (which the World Bank also plans to support via Poverty Reduction Credits), which present a country's own deliberated strategy for tackling poverty. These initiatives go very much in the right direction.

The question is whether they go far enough.[70]

VI Debt

The total external debt of aid recipients was $US 2,534 billion at the end of 1999, which was $US 33 billion less than in 1998. Half of the total debt stock is held by nine developing countries, the larger economies of Asia and Latin America. Debt service payments were $US 300 billion in 1999, 9% more than in 1998, reflecting the 1997/98 financial crisis and restructuring of some short term loans.[71] The heavily indebted poor countries (HIPC) initiative covers a relatively small amount of all developing countries' debt, and only those countries that meet certain strict criteria.[72] For example, Angola and Kenya are not eligible, since they are regarded as potentially sustainable.[73]

[70] 26 June 2001 http://www.un.org/esa/ffd/a55-1000.pdf

[71] *DAC Journal Development Co-operation Report 2000* OECD 2001

[72] The Initiative is open to the poorest countries, those that: (i) are eligible only for highly concessional assistance such as from the World Bank's International Development Association (IDA) and the IMF's Poverty Reduction and Growth Facility (formerly called Enhanced Structural Adjustment Facility); (ii) face

A. Paris Club

Certain countries are not covered by the HIPC initiative but are still deeply in crisis and debt, such as Argentina where the IMF has recently provided packages to restructure debt.[74] Aside from crisis resolution, conventional debt treatment generally takes place under Paris Club auspices. Indeed, the first meeting with a debtor country was in 1956 when Argentina agreed to meet its public creditors in Paris. Today the Club remains:

> … an informal group of official creditors whose role is to find co-ordinated and sustainable solutions to the payment difficulties experienced by debtor nations. Paris Club creditors agree to rescheduling debts due to them. Rescheduling is a means of providing a country with debt relief through a postponement and, in the case of concessional rescheduling, a reduction in debt service obligations. [75]

The Club describes itself as a 'non-institution' with no legal basis or status. But 342 agreements with 77 debtor countries have been made since 1956 and since 1983 the amount of debt covered by agreements has been worth $389 billion. Countries that have recently had debt restructuring or reduction agreed include Tanzania, Ghana, Pakistan, Mozambique, Sierra Leone and the Federal Republic of Yugoslavia.[76]

B. HIPC Initiative

The IMF and World Bank are responsible for administering the heavily indebted poor countries (HIPC) initiative. The 41 HIPCs account for 7.5% of developing countries' debt stocks. In other words, the HIPC initiative relates to a small amount of the debt outstanding in the world. Background information can be found in Library research paper 01/85, *The International Development Bill*, and only an update is provided here.

According to the most recent figures, at the end of February 2002 25 countries had reached their 'decision point' under the initiative and were receiving debt service relief which will amount to about US$40 billion over time. Ghana is the latest country to qualify.[77] A status table of country cases showing those at decision and completion point, the next stage, can be found on the World Bank's website.[78] For some countries[79] that are

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an unsustainable debt situation even after the full application of traditional debt relief mechanisms; and (iii) have a proven track record in implementing strategies focused on reducing poverty and building the foundation for sustainable economic growth – from http://www.worldbank.org/hipc/faq/faq.html

[73] HC Deb 13 March 2002 c1127W

[74] *Financial Times* 30 August 2001 Argentina likely to need more aid, says Fischer and 4 September 2001 The end of top-down IMF packages: The fund's programme in Argentina signals a shift towards local ideas, says Domingo Cavallo

[75] http://www.clubdeparis.org/en/

[76] Ibid.

[77] World Bank press release 2002/217/AFR 26 February 2002 Ghana to receive $3.7 billion in debt service relief

[78] February 2002 edition at http://www.worldbank.org/hipc/progress-to-date/status_table_feb26_rev.pdf

[79] Central African Republic, the Democratic Republic of Congo, Burundi, Comoros, Republic of Congo, Cote d'Ivoire, Liberia, Somalia, Sudan and Toga

eligible progress has been slow, since they are affected by conflict or have governance problems.[80] The World Bank lists the following benefits that will accrue to the countries that have reached decision point:

> *Slash debt stocks*
> Reduce total debt stock by nearly 50 percent;
> Cut the ratio of debt-to-GDP from under 60 percent to under 30 percent.
> *Lower debt service*
> Overall debt service requirements are cut by one-third or about US$1.1 billion annually (during the 2001-2003 period), *compared with actual annual payments made in 1998-99;*
> Reduce the ratio of debt service-to-exports to about 8 percent (less than one-half the developing country average);
> Actual debt service savings for these 24 countries over the initial years represents an average of 1.2 percent of GDP;
> Debt service as a percentage of exports cut from about 17 percent to an average of 8 percent (less than half the average for developing countries);
> Debt as a percentage of GDP reduced from 3.7 percent to around 2 percent; and
> Debt as a percentage of government revenue from 27 percent to about 12 percent in the next few years, and to below 10 percent by 2005.
> *Boost social spending*
> Social expenditures in the decision point countries are projected to increase by an average of $1.7 billion per year during 2001-2002, equaling about 1.2 percent of GDP. Increases in education and health spending are expected to absorb about two-thirds of the total relief. Other priority sectors include HIV/AIDS, where almost every HIPC is creating or strengthening education and treatment programs, rural development and water supply, governance and institution building, and road construction. [81]

Organisations such as Jubilee 2000 and its successor Drop the Debt have been pushing for faster or complete debt relief. The Drop the Debt campaign has now officially finished, but similar and related organisations continue, notably Jubilee Plus.[82]

The Bank and IMF have issued a joint response to those calling for 100% debt relief and have defended progress under the HIPC initiative. They say that supporters of 100% debt cancellation must be honest about the costs; the total public external debt for low-income countries stands at some $460 billion, and HIPCs and many other poor countries will rely on external financing for their development needs long into the future.[83]

The Zedillo report stressed that debt relief needs to be funded by extra ODA, not redeployment of existing aid budgets:

> The campaign spearheaded by Jubilee 2000 resulted in a welcome reduction in the debt burden on heavily indebted poor countries. The official estimate is that

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[80] HC Deb 13 March 2002 c1127W
[81] World Bank *HIPC Initiative: Background and progress through December 2001*
[82] see http://www.dropthedebt.org/index.html and http://www.jubileeplus.org/
[83] 100% Debt cancellation? A response from the IMF and World Bank at http://www.worldbank.org/hipc/Debt_Cancellation_-_100_.pdf

> under the HIPC Initiative the highly indebted poor countries will pay $1.1 billion per year less in debt service than they would otherwise have paid, and $2.4 billion per year less than they would have owed. The scheme is welcome despite the fact that the actual delivery of substantial debt reduction has taken a very long time and that it has not been fully financed by additional ODA, as many had originally hoped. Some donors are simply reassigning part of their traditional aid resources to finance commitments to the enhanced HIPC Initiative.
>
> While the enhanced HIPC scheme is clearly providing increased resources for poverty reduction, in most cases it has not gone far enough to make these countries' debt sustainable. Certainly the principle that debt obligations should be repaid is central to the functioning of credit markets; debt relief programmes are an exception for extraordinary circumstances. Yet the situation of several countries is still desperate. A further effort is needed to reduce debt in HIPC to sustainable levels and thus help to improve those countries' ability to attract private finance.
>
> In the view of some Panel members, a further debt relief agreement would be an excellent step. Others believe it would perhaps be worth serious consideration.
>
> Most important, all agree that a further debt relief agreement would only be worthwhile if it is based on a firm commitment from donors to provide strictly additional resources for its proper financing. If a re-enhanced HIPC scheme is not financed by increased ODA, then its main effect would be to redistribute aid among poor countries — an outcome that must certainly be avoided. All Panel members also believe that any debt relief scheme should be designed so as to reduce, not increase, moral hazard; that is, it should not weaken borrowers' responsibility for their own actions.

As this paper has already outlined, the Zedillo report estimated that meeting the MDGs alone would require an extra $50 billion per year of ODA. It also said that the broader need for ODA was certainly much greater, not least if it was to be used for HIPC debt relief. And if the DAC members actually delivered ODA according to the 0.7 per cent target, aid would increase by about $100 billion per year.

The Chancellor addressed debt in his speech to the Federal Reserve Bank:

> … And we must continue to move forward on debt relief – now extended to 24 countries – and make provision for a special route to debt relief for post-conflict countries coping with the double burden of debt and reconstructing their ravaged economies. One of the challenges we face is that of changing the way we think about supporting development in developing countries. [84]

Later he continued:

> Because we must never return to the unsustainable burdens of debt of the 80s and 90s, the very poorest and most vulnerable countries should receive investment help in the form primarily of grants to partner their soft IDA loans and all other

[84] 16 November 2001 Treasury press release 126/01

> low income countries should be offered interest free loans. Some beneficiaries will be countries with millions of poor but today classified as middle income countries. Here assistance should be given via interest-reduced loans conditional upon implementing the agreed poverty reduction strategies and engaging civil society.

Similarly, the draft Monterrey consensus[85] deals with the challenges involved in debt relief:

> 47. Sustainable debt financing is an important element for mobilizing resources for public and private investment. National comprehensive strategies to monitor and manage external liabilities, embedded in the domestic preconditions for debt sustainability, including sound macroeconomic policies and public resource management, are a key element in reducing national vulnerabilities. Debtors and creditors must share the responsibility for preventing and resolving unsustainable debt situations. Technical assistance for external debt management and debt tracking can play an important role and should be strengthened.
>
> 48. External debt relief can play a key role in liberating resources that can then be directed towards activities consistent with attaining sustainable growth and development, and therefore, debt relief measures should, where appropriate, be pursued vigorously and expeditiously, including within the Paris and London Clubs and other relevant forums. Noting the importance of re-establishing financial viability for those developing countries facing unsustainable debt burdens, we welcome initiatives that have been undertaken to reduce outstanding indebtedness and invite further national and international measures in that regard, including, as appropriate, debt cancellation and other arrangements.
>
> 49. The enhanced Heavily Indebted Poor Countries Initiative provides an opportunity to strengthen the economic prospects and poverty reduction efforts of its beneficiary countries. Speedy, effective and full implementation of the enhanced Initiative, which should be fully financed through additional resources, is critical. Heavily indebted poor countries should take the policy measures necessary to become eligible for the Initiative. Future reviews of debt sustainability should also bear in mind the impact of debt relief on progress towards the achievement of the development goals contained in the Millennium Declaration. We stress the importance of continued flexibility with regard to the eligibility criteria. Continued efforts are needed to reduce the debt burden of heavily indebted poor countries to sustainable levels. The computational procedures and assumptions underlying debt sustainability analysis need to be kept under review. Debt sustainability analysis at the completion point needs to take into account any worsening global growth prospects and declining terms of trade. Debt relief arrangements should seek to avoid imposing any unfair burdens on other developing countries.
>
> 50. We stress the need for the International Monetary Fund and the World Bank to consider any fundamental changes in countries' debt sustainability caused by

[85] A/AC.257/L.13 UN, 30 January 2002 Draft outcome of the International Conference on Financing for Development Monterrey Consensus at http://www.un.org/esa/ffd/aac257L13E.pdf

natural catastrophes, severe terms of trade shocks or conflict, when making policy recommendations, including for debt relief, as appropriate.

51. While recognizing that a flexible mix of instruments is needed to respond appropriately to countries' different economic circumstances and capacities, we emphasize the importance of putting in place a set of clear principles for the management and resolution of financial crises that provide for fair burden-sharing between public and private sectors and between debtors, creditors and investors. We encourage donor countries to take steps to ensure that resources provided for debt relief do not detract from ODA resources intended to be available for developing countries. We also encourage exploring innovative mechanisms to comprehensively address debt problems of developing countries, including middle-income countries and countries with economies in transition.