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Is MDG 8 on track as a global deal for human development ?

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"Whether greater concern with the social dimensions of development will emerge in the years ahead are among the most salient issues confronting the UN."
Richard Falk, Princeton University, 2002

1. Introduction

Poverty is an old enemy with many faces; it means going hungry, not being able to attend school, not knowing how to read or write, not having access to safe drinking water, or not being able to visit a health centre when ill or pregnant. Poor people describe poverty not so much in terms of lack of material items – money, food, shelter and clothing – or living in unhealthy, polluted and risky environments; but as a sense of powerlessness, voicelessness, and social exclusion.

Endemic and persistent poverty, the scourge of HIV/AIDS, frequent and brutal conflicts, and the widening chasm between the rich and the poor all fuel the growing sense of injustice, which is often expressed in protests against institutions that mirror or reflect the concentration of power in today's global economy.

Poverty eradication is a call to action to change the world so that all may have enough to eat, decent work, a place to sleep, access to basic education and health, protection from violence, and a voice in what happens in their lives and their communities. The Millennium Development Goals (MDGs) express various dimensions of human poverty in a set of numerical and time-bound targets.

The MDGs reflect the consensus that development is ultimately about reducing human poverty and protecting human rights. Traditionally, the belief was that economic growth would be sufficient to reduce poverty, and that trade liberalisation is the best way to accelerate aggregate growth. But strategies aimed at raising average incomes and liberalising markets have mostly failed the poor. Economic growth and trade are necessary but far from sufficient to reduce poverty. The assumption that more growth and trade will automatically translate into less poverty is – regrettably – incorrect. We wish we could share the faith some analysts have in the power of trade and growth to reduce poverty; but the available evidence raises the spectre of reasonable doubt. Furthermore, the case that inequality is good for growth has been dismissed in the court of economic analysis. Today, we understand better that poverty results not just from the lack of income and jobs but also from a lack of access to basic social services, lack of equity and powerlessness.

At the UN Millennium Summit in 2000, world leaders resolved to *"spare no effort to free our fellow men, women and children from the abject and dehumanising conditions of extreme poverty."* The MDGs express many of the faces of human poverty in eight goals:

1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality
4. Reduce child mortality
5. Improve maternal health

6. Control HIV/AIDS, malaria and other diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development

The entire United Nations system, with its funds and programmes, departments and specialised agencies, has been galvanized by an urgent call to action. Already, the MDGs are taking the debate about human development to parliaments, pulpits, the press and pubs, involving presidents, prime ministers, preachers and primary school teachers.

Most of these discussions centre on the first seven goals. This paper reviews progress on the eighth goal regarding the global partnership for development. Three important aspects of MDG 8 relate to aid, trade and debt relief. They find their current official commitments in the Monterrey Consensus on development finance, the Doha 'development' round on trade, and the Heavily Indebted Poor Countries (HIPC) initiative, respectively.

Progress on global commitments for improved aid, fairer trade and steep debt relief will determine, to a large extent, the successful achievement of the first seven MDGs by 2015 in most if not all developing countries. It is, therefore, important to assess whether current progress in these three critical areas points towards a stronger global partnership, based on mutual accountability. This is particularly important and urgent because of the long-standing perception among developing countries that demands for accountability has been and remain imbalanced and are applicable mainly to them – while the developed countries have escaped accountability and adequate criticism when failing to fulfil their pledges and live up to their international commitments.

2. Aid

The 2002 International Conference on Financing for Development adopted the Monterrey Consensus that includes a commitment to good governance, development and poverty reduction – both nationally and internationally. As part of the global partnership for development, it addressed official development assistance and the protection against international financial volatility, among other areas. We review progress on these two elements below.

2.1 Official development assistance

To meet the MDGs, external financing will need to complement domestic resources, especially in low-income countries. Unfortunately, private flows to developing countries have fallen significantly in recent years. Their decline has not been offset by an increase in official flows, including official development assistance (ODA).

The aid picture gets particularly worrisome when the ODA effort is measured against the gross national income (GNI) of developed countries. The ODA/GNI ratio fell by one-third in the 1990s, from an average 0.33 per cent in 1990-91 to an average of 0.22 per cent in 2000–01; before increasing slightly to 0.23 per cent in 2002. Most notable is the

low and falling ratio among G-7 members: from 0.31 per cent in 1990 to 0.18 per cent in 2002. This is considerably lower than the 0.7 per cent reaffirmed by the Monterrey Consensus. Only five countries have attained or surpassed the 0.7 per cent target: Denmark, Luxemburg, the Netherlands, Norway and Sweden. None of these "G-0.7 countries" belong to the G-7. Italy and the United States had the lowest ratio among the 22 DAC countries in 2002 – 0.20 per cent and 0.12 per cent, respectively.

ODA flows were lower in 2001 than in 1995 for all developing regions except South Asia. Most troubling is the decline in ODA to sub-Saharan Africa. Although it still gets the largest regional ODA share, its total ODA has fallen from nearly $18bn in 1995 to just over $12bn annually in 2001. As a result, its share of total ODA declined from 29 in 1995 to 24 per cent in 2001. The G-7 Summit in 2002 agreed to channel half of their additional ODA pledged in Monterrey to Africa. The UK plans to allocate £1 billion of its pledged 2005–2006 foreign assistance to Africa. These commitments express support for the New Partnership for Africa's Development (NEPAD), through which African leaders committed themselves to transparent governance and people-centred development. NEPAD was again on the agenda of the G-8 Summit in Evian, France in June 2003.

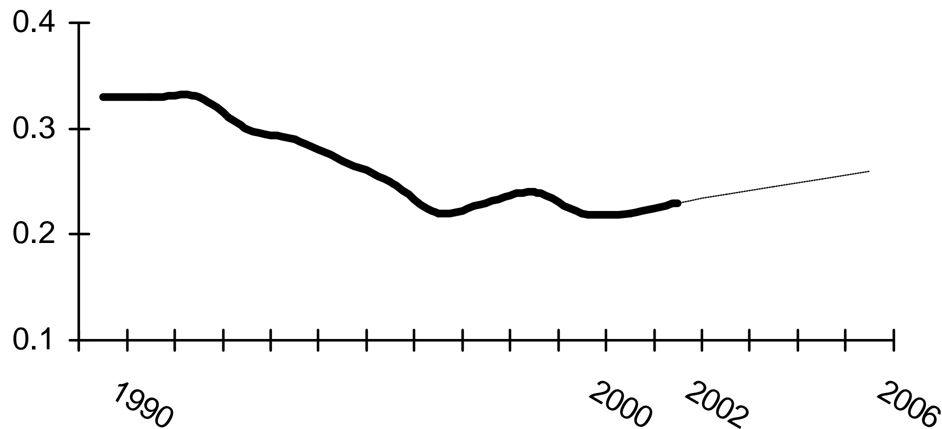
ODA pledges at Monterrey

At Monterrey, several developed countries pledged to increase their ODA:

- The US pledged to increase its annual ODA contributions by $5bn by 2006 to be channelled through the Millennium Challenge Account, and by about $2bn for combating AIDS.
- The EU committed to increase ODA to an average of 0.39 per cent of gross national income by 2006. By then, no EU member is expected to spend less than 0.33 per cent of GNI on foreign assistance. These efforts are expected to increase the EU's total ODA by about $7bn annually.

According to OECD/DAC estimates, fulfilling these promises will raise ODA in real terms by 31 per cent (about $16bn) and the ODA/GNI ratio to 0.26 per cent – but this is still well below the level achieved before 1992. While these increases would reverse a decade-long decline in aid efforts, the ODA promises made at Monterrey are not as significant as they are sometimes made out to be since they fail even to restore aid efforts to earlier levels (see diagram below).

Diagram: aid efforts in developed countries
(ODA as a percentage of their combined gross national income)



Source: OECD/DAC

Aid levels will have to increase much faster if they are to help achieve the MDGs by 2015. Globally agreed estimates indicate that the MDGs will require, at a minimum, a doubling of current ODA levels. Strong advocacy and lobbying will be required to double the current levels of ODA to over $100bn per year. Such efforts will have to concentrate on the G-7 member countries, given their large share (nearly three-quarters) in global ODA.

The International Financial Facility
The UK Chancellor of the Exchequer proposed the International Financial Facility (IFF) to raise and disburse funds for achieving the MDGs. The proposed scheme is intended to double annual ODA from its current level to more than $100bn through the use of long-term donor pledges for issuing bonds to cover the MDG needs of developing countries. Backed by donor countries' pledges and commitments, it is expected that these bonds will be given a high rating, allowing the IFF to borrow on favourable terms. The disbursal of funds, conditionalities and reporting procedures would be kept flexible.

The 20/20 Initiative
The initiative, born at the 1995 Social Summit in Copenhagen, is a practical way of fostering MDG progress. As a concrete example of partnership between developing and developed countries, it calls for the allocation of an indicative 20 per cent of the national budget in developing countries to basic social services – including basic education, primary health, reproductive health, water and sanitation, and nutrition. At the country level, the donor community would match that allocation by directing an indicative 20 per cent of ODA in support of the same services.

A detailed analysis indicates that about 12-14 per cent of the national budget is allocated to basic social services; while about 10-12 percent of ODA is directed to these services.

Both shares have shown a tendency to increase in recent years. Nonetheless, only a few countries allocate a fifth of their national budget to basic social services and receive a similar share of their aid in support of such services. Without faster progress from a 12/12 ratio to a 20/20 compact, most MDGs will remain elusive in the majority of countries.

It is fully recognised that the extra resources will need to be complemented by reforms to make spending more equitable and more efficient. The MDGs will only be achieved if more spending is accompanied by better spending. In many instances, however, the link between the two will be nearly automatic because insufficiencies all too frequently lead to inefficiencies and inequities.

Even though the primary source for financing basic services is the national budget, external support can play a critical role in overcoming obstacles to restructuring the national budget, which is never an easy task, especially in the least developed countries. Also, improving access to primary health care, basic education, water and sanitation are concrete ways of showing parliamentarians and the public in donor countries how aid can have a tangible impact on people's lives. A greater focus on basic services, therefore, can contribute to reversing the decline in ODA.

2.2 Protecting against international financial volatility

The other relevant element of the Monterrey Consensus is to protect developing countries from international financial volatility. The 1990s showed the vulnerability of even emerging market middle income developing countries to short-term capital outflows. Severe financial crises affected a variety of countries and regions, ranging from East Asia to Latin America, Eastern Europe and Central Asia. These crises, at least in the short-term led to a significant deterioration in human and social conditions. The response by the international community was to push for a new international 'financial architecture' – prudential financial regulations and new international financial standards. These programmes are embodied in the Financial Sector Assessment Programme (FSAP) and the Financial Sector Reform and Strengthening (FIRST) initiative.

Strengthening the financial sector of developing countries is important, but it cannot be implied that developing countries were wholly at fault in bringing about the financial crises. The IMF recently acknowledged that opening up capital markets and financial sectors to international short-term flows can have harmful effects.

Based on this assessment, the merits of a Sovereign Debt Restructuring Mechanism (SDRM) have been considered. The mechanism would give indebted countries the right to call for bankruptcy and insolvency proceedings to protect their financial resources from massive outflows, thereby avoiding a regression in terms of human development and poverty reduction. The US, however, expressed its opposition to such a mechanism at the joint IMF/World Bank meeting in April 2003.

The international coalition of civil society groups – Jubilee Plus – had earlier called for such bankruptcy and insolvency proceedings but believes that the Bretton Woods

institutions – being major creditors themselves – should not be involved in the filing of the insolvency cases and in their arbitration.

All in all, despite a series of serious financial crises in many different parts of the developing world over the last decade, little progress has been achieved in protecting developing countries against the impact of international financial crises.

3. Trade

UNDP, together with the Rockefeller and other foundations, published the book 'Making Global Trade Work for People' (Earthscan, 2003). It is based on the premise that the relevance of the global trading regime for human development and the achievement of the MDGs has gradually increased in the past few years. This is partly because the global trading system under the World Trade Organisation (WTO) has expanded its embrace of issues and policies that were not part of the General Agreement on Tariffs and Trade (GATT). The package of agreements under the current trade regime commits members not only to trade liberalisation in goods, but also in the areas of services, investment and intellectual property rights. These policy choices affect human development because they have an impact on food security, income, employment, public health and education, gender equality, capital flows, labour migration, and ownership of and access to technology.

As the global trade regime under the WTO is closely linked to human development, the multilateral trade regime must be evaluated in terms of its scope for achieving the MDGs. For this to happen, global trade rules will need to shift their primary concern from the promotion of liberalisation and market access to enabling or at least not constraining already existing policy space for human development. While recognising that trade liberalisation and market access can make an important contribution to human development in specific situations and for specific sectors, the global trading system must enable the creation of domestic policy space and flexibility for fostering MDG progress within member states.

Different perceptions and expectations exist among WTO members vis-à-vis global trade negotiations. For some, the Doha round ought simply to be a continuation of the Uruguay round, aimed at the extension of multilateral trade discipline into new hitherto domestic policy areas. For others, multilateral trade negotiations should be of a corrective nature, ensuring that the system becomes more supportive of human development efforts and the MDGs.

Some of the important agreements in the Doha round that embody its 'development' content include (i) agricultural subsidies; (ii) intellectual property rights and public health; (iii) liberalising trade in certain service sectors; (iv) special and differential treatment; and (v) capacity strengthening for trade. The Doha agenda is much broader than these five issues and progress in them can only be viewed as steps towards making the global trade regime more 'development friendly'. However, even if judged against

this limited set of issues, progress has been very modest. Deadlines for agreements on agriculture, TRIPS and S&D have come and gone without tangible results. Little progress has been made in integrating trade strategies with broader national development or poverty reduction strategies, including the Poverty Reduction Strategy Papers (PRSPs). As a result, without several major breakthroughs in the very near future, the Doha 'development' agenda is likely to be dismissed as empty rhetoric.

3.1 Agriculture

Agriculture remains the mainstay of the majority of the world's poor people. The majority of the people in developing countries rely on agriculture for employment and livelihood. Thus, the WTO Agreement on Agriculture has major implications for the MDGs.

Two proposals are particularly important with respect to MDG 8: (i) the need to allow developing countries greater flexibility in their agricultural development policy to enable them to achieve food security and foster human development; and (ii) the need for increased market access, especially to the EU, Japan and North America, through reductions in subsidies, cuts in tariff and non-tariff protection, and the cessation of export dumping practices. The Doha agreement mandates the reduction, "with a view to phasing out" export subsidies. This offers the possibility of agreeing on a concrete target for the phasing out of such subsidies well before 2015, and ideally by the end of the Doha Round, as part of a global partnership around MDG 8. A 2015 target for phasing out other domestic subsidies which are production related and harm developing countries should also be agreed as part of MDG 8. Nevertheless, the current trend in this respect is disheartening since OECD countries continue to grant generous subsidies to their agricultural sector – to the tune of over $300bn per year, or approximately 6 times their combined ODA contributions.

Comprehensive proposals embodied in the 'development box' – a set of proposals which emphasize that global trade rules need to provide more policy space to developing countries to pursue food security and broader pro-poor agricultural development policies, including a special safeguard mechanism for developing countries, are important because of their direct relevance to human development. Discussions on these issues are at a crucial stage in global trade negotiations on agriculture. Agreement on a 'development box' will communicate the message that the trading regime can put human development and the needs of the poor at its core, thus giving substance to the widely proclaimed aspiration towards a Doha 'development' round.

3.2 Trade related aspects of intellectual property rights (TRIPS) and public health

The TRIPS agreement has far-reaching consequences for human development. In public health, TRIPS affects access to drugs and medical equipment through higher prices and disincentives for the production of generics through restrictions on reverse engineering. While expected to fuel research, there is no strong evidence that patent protection has led to more research on the diseases of the poor. Diseases that occur only in developing

countries seldom attract much research and development. Out of 1,223 new chemical entities that were developed between 1975 and 1997, for example, only 13 treated tropical diseases. Of those, two were slight modifications of existing drugs, two were produced by the US military, and five were the result of veterinary research. Thus, private drug companies invented only four new drugs specifically for tropical diseases in the past two decades. It may also be relevant to recall that in the 1940s, when Merck Co. owned exclusive rights to the first antibiotic against tuberculosis, the head of the company released its hold on the patent. This decision made access to cheaper generic versions of this life-saving drug more affordable, especially for poor people. George W. Merck, the son of the company's founder, justified his decision thus, "*medicine is for people not for profit*".

The Doha Declaration reaffirms the right of developing countries to interpret the TRIPS agreement from a public health perspective and explicitly recognises the flexibility to grant compulsory licenses and the right of countries to determine the grounds on which these are granted. As such, it is an important milestone in the debate on trade and human development. However, even in terms of public health, it does not provide a solution for countries without a generic drug manufacturing capacity, which includes most of the poorest and least developed nations. The fact that no agreement was reached on this critical unresolved issue by the set deadline has serious negative implications for the Doha 'development' agenda. Real progress on this issue should be viewed as an important benchmark against which commitment to MDG 8 is judged.

3.3 General Agreement on Trade in Services (GATS)

From a human development perspective, it is vital that countries preserve adequate policy space for sequencing the progressive liberalisation of basic public services such as water, health, education and social protection. The liberalisation of these basic services cannot be imposed as a blank prescription and the 'single undertaking,' dispute settlement and cross-retaliation frameworks of the current world trade regime are inappropriate for progressive liberalisation of such basic social services which are critical to the achievement of many of the core MDGs. As the GATS agreement already stipulates, liberalisation should take place with due respect for national policy objectives. Great caution and care need to be exercised in these vital areas since the private management of public utilities – for example, water supply – has raised concerns in many developing countries – particularly in Latin America – because of their impact on access for the poor.

Another area of the General Agreement on Trade in Services (GATS) deals with the movement of natural persons, which is also relevant to human development. The establishment of concrete measures and time frames for facilitating the temporary movement of natural persons would foster MDG progress. This would also help reduce the current asymmetry between the liberalisation of capital and labour.

3.4 Special and differential treatment

The concept of 'single undertaking' means that countries are required to accept all aspects of an internationally agreed set of rules. More flexibility would be welcome for a country to opt out of particular sub-parts that are potentially or actually inconsistent with its human development objectives, while maintaining a 'fundamental core' of non-negotiable tenets and practices to which all countries would subscribe. Such flexibility would reflect better the varied needs of such a large and diverse membership which is at such different stages of development.

S&D treatment constitutes an effective mechanism for incorporating human development targets in the global trade regime. Its actual strengthening and implementation is a measurable benchmark for the achievement of MDG 8. But S&D provisions are still seen as the exception rather than the rule. Developing countries often see them as insensitive to the stage of their development. In their current formulation, the S&D provisions are rarely phrased in contractual language and thus difficult to operationalise. In most cases, S&D treatment is conditional on continuous renegotiation for transition periods and discretionary exceptions. As such, they are open to costly and time-consuming litigation.

The S&D principle relates directly to the 'development' dimension of the Doha agenda. Its scope should be widened to cover issues of education, preventive health and essential drugs, transfer of relevant technology, the right to the use of traditional knowledge, policies that ensure gender equality, and the poor's access to energy. Greater acceptance of the S&D principle as a generalised rule rather than an exception or a special case will foster the 'development friendliness' of the global trade regime.

3.5 Strengthening capacities

A global trading system cannot deliver fair and effective outcomes unless its members have the capacity to negotiate in a meaningful way. But capacity for trade-related policy research and negotiations are limited in many developing countries. Strengthening the capacities – to set the agenda, to negotiate effectively and to keep pace with trade negotiations, especially for the least developed – is a crucial component of a multilateral trading regime oriented towards human development and the MDGs. The need for technical assistance in this field has been recognised in the Doha agreement. Tangible criteria and indicators that track progress need to be agreed upon and monitored regularly. Aid-for-trade will help the least developed countries take fuller advantage of the gradual liberalisation of global trade.

The Integrated Framework (IF) was established in response to the complexity of the LDCs' trade-related problems that constrain them from realising the potential development dividend of a multilateral trading regime. The IF was first mandated by the WTO Singapore Ministerial Conference (1996) as the principal mechanism for mainstreaming trade within national development plans of the LDCs. While trade is considered an engine for economic growth, the gains from open trade cannot be assured unless trade policy is appropriately factored into the national planning framework. The

IF, as a joint initiative of six multilateral institutions (i.e. IMF, ITC, UNCTAD, UNDP, World Bank and the WTO) is structured as a multi-agency, multi-donor programme to assist LDCs' develop their human and institutional trade policy capacities. Mainstreaming trade needs to be rooted, not only at the policy level, but also in government institutions and in the government-donor partnership. If the IF is to realize its potential it will need to be much more focused on capacity deepening and strengthening and more closely integrated with national development strategies and poverty reduction strategy papers (PRSPs) in the LDCs.

4. Debt

Related to the third key element in the financing segment of the Monterrey Consensus are efforts to address the reverse capital flows from developing countries. In 2000, these countries spent about 6 per cent of their combined GDP on debt servicing. Among several countries, the situation is more serious. Sub-Saharan Africa countries, for instance, spend about twice as much to comply with their financial commitment vis-à-vis external creditors than to comply with their social obligation vis-à-vis their population. To spend more on external debt servicing than on basic social services – when millions of people lack access to primary education, preventive health care, adequate food and safe drinking water – is not only morally wrong, it is also poor economics.

In the early 1980s, the debt crisis was seen as a temporary liquidity problem. Hence, debt relief took the form of partial and short-term rescheduling. By the mid-1980s, it was acknowledged that the problem was more fundamental. Several debt reduction initiatives were taken by the so-called Paris Club of creditors, resulting in successive sets of 'special terms', usually named after the city in which they were adopted – Toronto, Houston, London and Naples. But they all failed to stop the debt burden from rising and arrears from accumulating. Out of this situation emerged the Heavily Indebted Poor Countries (HIPC) initiative, largely as a result of pressure exerted by the Jubilee 2000 campaign driven by non-governmental organisations.

The HIPC concept
The HIPC initiative was launched in 1996, followed by the 'enhanced' HIPC initiative in 1999. They form laudable attempts towards large-scale debt cancellation rather than palliatives such as debt rescheduling and interest rate reduction. They are focused on the cancellation of debts owed to multilateral institutions such as the World Bank, the International Monetary Fund (IMF) and the regional development banks because a large fraction of the HIPCs' debts are owed to these multilateral institutions. Bilateral and commercial creditors also provide debt relief through this scheme.

The technical design of the original HIPC initiative – as conceived by IMF and World Bank staff – made eligibility conditional on the maintenance of macro-economic stability under IMF-approved programmes for at least six years – referred to as the 'decision point' – and receipt of a permanent reduction in their official debt stocks only after another three years of a satisfactory policy environment to reach the 'completion point'.

These conditions proved too stringent for most HIPCs. The eligibility criteria under the enhanced HIPC scheme included the following:

- low per capita income;
- demonstrated good reform performance;
- ratio of net present value of debt to exports exceeding 150 per cent; or
- ratio of net present value of debt to tax revenue exceeding 250 per cent for open economies (i.e. minimum 30 per cent export to GNP ratio) with substantial tax revenue (i.e. minimum 15 per cent of GNP).

The new element in the enhanced HIPC concept was not only its broader coverage and softer conditions, but also its linkage to poverty reduction. To qualify for debt relief under the enhanced HIPC, a country is required to prepare a wide-ranging PRSP that demonstrates its intention to use the freed resources for poverty-reducing purposes. Not only must the PRSP document chart the course towards poverty reduction, its preparation should also involve broad participation by civil society and other domestic stakeholders. Such an inclusive process is meant to create 'national ownership' of the strategy and provide political legitimacy among the citizenry.

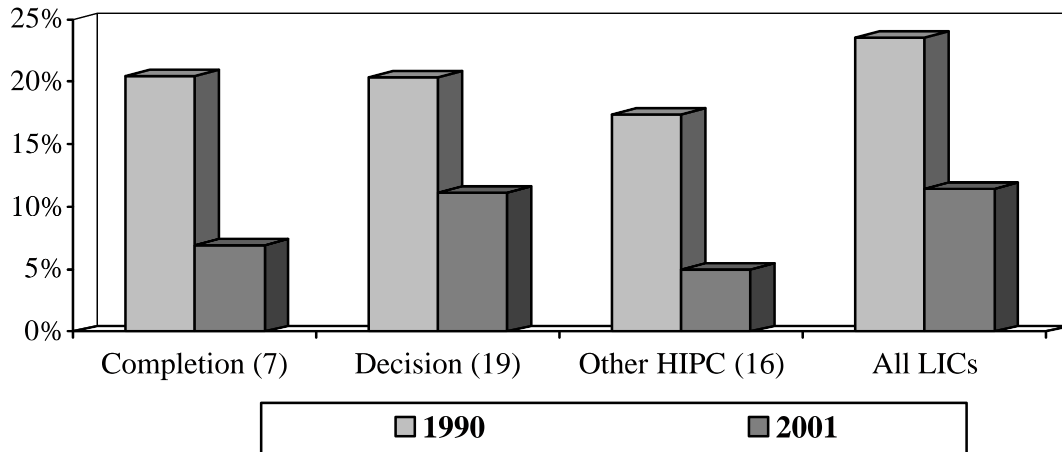
Eligible countries begin receiving debt service relief once the 'decision point' is reached, i.e. once the *ex ante* conditions are fulfilled in terms of macro-economic track record and the approval of PRSP by the Boards of the IMF and the World Bank. The permanent debt stock reductions are delayed until the 'completion point', i.e. once the *ex post* conditions have been met in terms of process, performance benchmarks, and the use of HIPC resources.

It should be pointed out that the servicing of debt owed to multilateral credit institutions is particularly important because the credit market generally treats them as 'preferred creditors'. By defaulting on multilateral debt, a debtor runs the risk of a dramatic drop in its creditworthiness, including for short-term trade credits. In effect, it may mean a retreat from the international credit market altogether. For this reason, the HIPC initiative takes on added significance as a critical element in the total financing of development.

HIPC progress

Seven years after its launch, the HIPC results are mixed. Whilst it is true that the debt burden has decreased for most HIPC countries, the diagram below suggests that the HIPC initiative did not make much of a difference. Non-HIPC countries saw their debt burden fall by a similar magnitude as HIPC countries did; and the 16 HIPC members that did not reach 'decision point' saw their debt decline by a similar degree as the 7 HIPC countries that reached 'completion point'.

Diagram: debt reduction in developing countries
(debt service as a percentage of export earnings)



Source: World Development Indicators

Of the seven countries that reached 'completion point' (as of end March 2003), three saw their debt-to-export ratio deteriorate in 2001–02 as the reduction in debt stock was overtaken by a bigger fall in export earnings – mainly caused by a dramatic deterioration in their terms of trade. At least one of these 'completion point' countries (Uganda) has a net present value of external debt in 2002 that is not sustainable in terms of the HIPC initiative's own definition, i.e. 150 per cent of total exports.

The Joint Ministerial Committee of the Boards of Governors of the World Bank and the IMF reported that of 26 countries with a HIPC debt-relief programme – having passed either the 'decision' or 'completion' points – 15 found their debt to export ratio worsening in 2001 and 2002, even after obtaining debt relief. Many of the 19 countries that have reached 'decision point' cannot advance to their 'completion point' because they are unable to meet the conditions set and/or to handle the social conflicts they are facing.

Many reasons have been given for why debt relief should be denied or delayed. Typical arguments include that debt relief rewards poor performers; that resources are fungible so as to make it impossible to track the impact of the debt dividend on poverty reduction; that many governments lack political commitment and/or institutional capacity to reduce poverty; and that there is no guarantee that governments will not refrain from entering another cycle of 'odious' debt. The fact remains, however, that the Jubilee 2000 campaign had it basically right: debt is a millstone around the neck of the poorest countries. The time for debt relief is not today; it was yesterday; for hundreds of thousands of people, tomorrow will be too late.

Improving HIPC

The concept of debt sustainability must be amended. The enhanced HIPC initiative continues to define debt sustainability essentially in terms of export ratios. It does not take full account of the fiscal burden when determining a country's external debt sustainability, despite the obvious fact that it is the public purse rather than private exporters who repay external debt. But even with improvements of the debt sustainability definition, HIPC's impact is likely to remain inadequate and slow.

The last two HIPC Ministerial Meetings, held in Washington D.C. and Kigali, respectively, highlighted a number of the important issues that confront the HIPC initiative and enumerated some of its inadequacies:

- *Weak linkages between HIPC and the MDGs.* The HIPC Ministers are concerned that there is no systematic analysis that links the benefits of the HIPC initiative and the extra funds needed to achieve the MDGs. The analysis is also inadequate for determining the financing gap that will remain unfilled even after debt relief – if the MDGs are to be achieved. HIPC Ministers have suggested the estimation of MDG financing gaps for all countries to ensure that the concept of debt sustainability take account of MDG financing needs. The implication is that the export earnings and public finance required to achieve the MDGs should be excluded from the pool of revenues from which debt payments are to be drawn. In other words, MDG expenditure would be considered as non-discretionary in the national budget.

- *Over-optimistic export and growth forecasts.* The IMF and the World Bank tend to overestimate the prospects for export and economic growth, and to underestimate the effects of external shocks such as commodity price declines and world economic downturns. Since the amount of debt relief depends on the projected debt to export ratio (the higher the ratio the more the debt relief provided), over-optimistic export projections translate into less debt relief. To address this, the World Bank and IMF allow for 'topping up' of debt relief for countries reaching completion point whose debt sustainability ratios have deteriorated due to external conditions. So far, only Burkina Faso has benefited from this facility. Uganda would be a logical country to follow suit. There is also a pending plan to provide a contingent facility for HIPCs hit by exogenous shocks after achieving 'completion point'.

- *Need to include more countries.* At present there are 42 countries classified as HIPCs, 34 of them in Africa. Debt relief is needed for another dozen or so heavily indebted countries not covered by the HIPC initiative. These countries may require interim programmes and a softening of conditionalities. Other low-income countries have unsustainable debts too, and proposals have been made to include them in the scheme. There are at least another ten low-income countries whose human development indicators and debt sustainability ratios warrant inclusion in the HIPC initiative.

- *Litigation*: the establishment of a legal technical assistance facility is needed to help HIPC deal with costly litigation by some private creditors.

- *Domestic debt*: domestic debt in many African countries requires urgent attention because it reduces fiscal flexibility, raises domestic interest rates and crowds out private investment.

5. Conclusion

It is a truism that conditionalities have always shaped the relationship between donors and recipients. It is only reasonable for donors and lenders to require that their aid and debt relief be put to good use, especially towards the attainment of the universally agreed MDGs. On the other hand, it is also instructive to see the debate from the recipients' side. Only then can the reciprocity and mutual accountability perspective be brought into the picture.

A new world trade regime, as envisaged in the Doha 'development' round, can contribute to the achievement of the MDGs. The operationalisation of the five-point trade agenda discussed in this paper can help define more precisely the substance of MDG 8, with appropriate indicators and monitoring benchmarks. These points appear realistic and achievable since they have already been agreed as part of the Doha 'development' agenda. Unfortunately, progress on realising them remains elusive.

Similarly, the aid commitments and pledges made at Monterrey point to the way towards raising the volume of development assistance, which has seen a steady decline since 1992. But again, delivering on those pledges has been slow. Moreover, the fiscal prospects in the EU, Japan and US do not augur well for a major and sustained increase of official development assistance in the near future.

With regard to debt relief, the current pace of progress also suggests a discouraging trend. In response, the HIPC Ministers have made the following plea: (i) limit programme conditionalities to those essential to poverty reduction and economic development, and avoid micro-management; (ii) allow more flexible macro-economic frameworks for anti-poverty programmes and economic development, taking into consideration possible adverse shocks and low commodity prices; and (iii) develop methodologies for poverty and social impact analysis (PSIA) of all programme conditionalities so that countries can ascertain the appropriateness of policy reforms.

If the world is to attain the MDGs, an important condition will be that aid, trade and debt relief are driven by human development concerns. For example, each country will need adequate space to determine its trade policy according to its own development strategy and priorities, based on its economic, social and political conditions. This is essential for giving practical meaning to the concept of 'national ownership'.

The UN's roles in the areas of aid, trade, debt relief and technology transfer are important because they all relate directly to the prospects of achieving the MDGs. The UN, as a

relatively neutral interlocutor between developing and developed countries – at both national and global levels – can help to ensure that the MDGs are seen as a 'global deal' and that the global development partnership as envisaged in MDG 8 becomes a practical reality.

The major international initiatives reviewed in this paper – Monterrey, Doha and HIPC – hold great promise to make significant contributions to the achievement of the MDGs. However, progress thus far has been extremely slow. The blame for the unsatisfactory advance can be attributed to several causes – both domestic and international – but it cannot be denied that slow action on key initiatives in the areas of aid, trade and debt will seriously reduce the likelihood of achieving the MDGs by 2015. Continued inaction in these crucial areas of MDG 8 which impact on the possibility of achieving the other seven MDGs for most developing countries also casts doubt on the seriousness with which developed nations are addressing the global partnership embodied in MDG 8 and its inherent notion of mutual accountability and joint responsibility.