



# Europe: A True Global Partner for Development?

**CIDSE Shadow Report  
on European Progress towards  
Millennium Development Goal 8**

*April 2005*

**CIDSE**  
Coopération internationale pour le  
Développement  
et la Solidarité





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# Foreword

Four months into 2005, and there is a growing expectation that this year will mark a watershed in global politics, for better or for worse. The convergence of major global events this year means that a number of key decisions and reforms in relation to poverty and injustice, particularly in Africa, will shape the global agenda for years to come. The G8 in the UK is focusing on Africa, the UN Millennium +5 Summit in September will review the implementation of the Millennium Declaration, and in December the WTO will hold its next Ministerial in Hong Kong. The EU both as a block, and as individual members, will play a decisive role in the success of each of these events.

The convergence of these three global events offers the possibility to shift the global agenda, and to put the fight against poverty and injustice centre stage. There can be no doubt that the EU public is fully behind such a shift. The public response to the Tsunami in December 2004 has led to unprecedented solidarity and compassion on the part of the general public. It has made visible the vast untapped resources of solidarity within the population, demonstrating for the first time, perhaps, the reality of the 'globalisation of solidarity'. Likewise, the growing impact of the alliance of NGOs, churches and social movements which make up the Global Call to Action Against Poverty in many EU countries demonstrates public commitment to a global agenda for change.

The political space for radical change exists within the EU. The will of the general public, however, must now be matched in word and deed by governments. Many commitments have been made, but as this Report demonstrates, some progress has been made, but this progress is too slow and too patchy. As the Secretary General of the UN stated in his recent report in preparation for the September Review of the Millennium Declaration: *"All this has been promised but not delivered. That failure is measured in the rolls of the dead – and on it are written millions of new names each year."*<sup>1</sup>

Now is the time for the EU to lead the way and to recognise the importance of true partnership – one that is based on honouring mutual commitments and obligations in a spirit of genuine solidarity. Such commitments are encapsulated in the Millennium Development Goals – in particular Goal 8. This report offers a unique civil society perspective on where the EU currently stands on its commitment to meet goal 8. It is based on views from 27 countries, drawing on a range of sources. It sets out what we understand as the critical steps that need to be taken in order to fulfil those commitments. It offers a comprehensive view of best practice, demonstrating that change is within the grasp of all EU countries.

CIDSE expresses its appreciation to all the individuals and organisations, within the CIDSE and Caritas Europa family and beyond, whose input has made this report a valuable tool for advocacy. Their role has not just been restricted to contributing to the content of the report. By using it to lobby officials in their own countries, they will make the report a real instrument of pressure to bring about change for the achievement of the MDGs. A special thanks to Judith Randel as well as Tony German and Lydia Baker from Development Initiatives, the authors of the report, without whose enthusiasm and professionalism this report would not have become a reality. Lorna Gold from Trocaire deserves special mention for her catalytic role in getting this report off the ground. Thank you!

**Paul Chitnis**  
President

**Christiane Overkamp**  
Secretary General

April 2005

<sup>1</sup> ANNAN, K (2005) *In Larger Freedom: towards development, security and human rights for all*, Report of the Secretary General A/59/2005 – Para. 32.

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# 1 Summary of Key Points

*“The Millennium Development Goals have galvanized unprecedented efforts to meet the needs of the world’s poorest, becoming globally accepted benchmarks of broader progress embraced by donors, developing countries, civil society and major development institutions alike. As such, they reflect an urgent and globally shared and endorsed set of priorities that we need to address at the September 2005 summit.” UN Secretary General’s Report – Para.29.*

The importance of MDG 8 is that it requires richer countries to assess how their policies and practices are contributing to development cooperation and the achievement of the MDGs, and then to act.

MDG 8 places the clear responsibility on European Governments to overcome short-sighted self-interest and become active partners in the fight against poverty, which is in the long run key to global peace and prosperity, as underlined by UN Secretary General Kofi Annan’s report. Key obligations on aid, trade and debt cancellation are the most immediate benchmarks of progress. This Shadow Report looks at the progress made by the European Union plus Norway and Switzerland in achieving both the letter and the spirit of MDG 8.

Five years on from the Millennium Summit and with a decade to go before 2015, the good news is that MDG 8 has succeeded in highlighting the need for coherence between all government policies and the objective of reducing poverty.

But the overall message from this report is that the urgency of the challenge of halving global poverty is not so far reflected in the

actions being taken and discussed. Self-interest – rather than the interests of children and families today being denied adequate nutrition, education, health care and clean water – is still the factor which makes change too slow, too incremental.

Poverty reduction is becoming a more mainstream political issue and in some European countries a welcome political leadership is being shown. A number of significant initiatives have been taken and policy improvements made.

The challenge now is to substantially increase the effort: for every European country to adopt ‘best practice’ on each issue, for the collective effort to move at the speed of the fastest, not of those countries who for reasons of self-interest or lack of commitment are failing to deliver on partnership.

## **A whole of government approach and REAL commitment?**

By March 2005 most European governments had produced reports outlining their contribution to the MDGs, covering both:

- Efforts European countries are making to reduce the obstacles to poverty reduction caused by the policies and practices of OECD countries
- Positive steps by European countries to forge a genuine partnership with developing countries in pursuit of the MDGs

Having coherence on the European agenda is clearly good news. Most European countries have now set up some mechanism to address coherence, in order to improve consistence between government policy and the global objective of reaching the MDGs. Sweden has a Shared Responsibility policy; the Netherlands and Ireland have both established Coherence Units; Finland’s

Development Policy Committee sees coherence as a key part of its mandate; Hungary is taking steps to gather relevant data from all ministries. All are examples of national level actions that can be replicated.

### Aid as a percentage of GNI – patchy commitment to MDG 8

- All 5 of the donors who meet or exceed the UN 0.7% aid target are European countries Norway, Denmark, Sweden, Netherlands and Luxembourg.
- But some of the countries with the worst record on aid as a percentage of GNI are also EU members – Italy, Greece and Austria.
- The EU as a whole expects to meet the 0.39% GNI target for aid in 2006 agreed at Barcelona in 2002.
- But several European countries look likely to miss the minimum EU standard of 0.33% - Italy, Germany, Spain, Austria, and Greece. All of these countries have a GNI ratio of 0.28% or less. Two of them – G7 members Germany and Italy - allowed their aid to decline in real terms between 2003 and 2004. Austria may reach the target, but if it does, this will be due to the inclusion of very large sums for debt relief.
- The majority of European donors are increasing their aid. Overall aid from EU member states rose by 2.9% between 2003 and 2004.
- Belgium, the Czech Republic, Finland, France, Germany, Ireland and the UK have all set timetables for 0.7%.
- Some donors have 0% credibility on meeting targets. In the mid 1990s many donors had committed themselves to targets of reaching 0.7% by 2000.

### Aid quality

- Most European donors are failing to meet the UN target on aid to Least Developed Countries – but 7 achieve it and most have increased aid to LDCs since 2000.

- Four EU donors - Portugal, Belgium, Italy and Denmark - allocate over 75 % of their aid to LDCs and most allocate over half to LDCs or other Low Income Countries. But this still leaves the EC, Austria, Spain and some new EU donors spending too much of their aid on Middle Income Countries.
- Only the Czech Republic and Greece record more than 20% of their aid as being spent on basic social services in education, health, water and sanitation – despite the 2005 Consensus on the 20/20 Initiative. But since 2000, all except 3 European donors have increased aid for Basic Social Services. Failure to establish proper international monitoring of spending on aid for Basic Social Services is undermining accountability on this issue.
- Efforts to reduce aid tying seem to have resulted in real progress – showing what can be done to improve quality and root out self-interest. Italy, Austria, Spain and Denmark need to follow the example of other European states in tackling this abuse of aid.

### Commitment to meeting MDG 8 needs real resources – not accounting tricks

- Just because DAC rules allow countries to count as aid several sorts of spending which bring little benefit to the poorest people, does not mean it is right. Counting domestic refugee costs and student funding as aid is a cheap trick. Countries should follow the lead of the UK and stop doing it.
- Debt relief is important. But as Belgium points out, it is not the same as real net resources being transferred to poorer countries.
- The EU must work to ensure – as Norway has done - that debt cancellation is treated as additional, so that aid increases really mean new money devoted to tackling poverty and achieving the MDGs.
- Rigorous monitoring and analysis of aid flows is essential to ensure that headline increases genuinely provide

more resources for reducing poverty in pursuit of the MDGs. It is crucial to ensure that commitment does not waver and the expedient measures which have been used to increase aid budgets in some countries are properly compensated for by real increases in spending.

- The vigorous promotion by several European donors of new forms of finance such as international taxation and the International Finance Facility to deliver timely, predictable and adequate resources to developing countries is a welcome move, in particular concerning international taxation, but it should not be a strategy to detract attention from their commitment to achieve 0.7% now.

### Equity and trade policy

- The obligation on OECD countries under MDG 8, to assess how their policies are affecting developing countries is a constitutional requirement for the European Union.
- The Everything but Arms initiative shows that Europe can take collective action to reduce the obstacles it places in the way of countries trying to trade their way out of poverty – duty-free access has sharply improved since the mid 1990s.
- But the case of sugar illustrates how deeply domestic interests are entrenched at the expense of the poor. 73% increases in support to EU sugar producers harms, rather than helps the poor.
- The EU remains wedded to the agricultural support that helps keep poor countries poor. Since the signing of the Millennium Declaration in 2000, the EU has increased its spending on subsidies for agriculture by \$37 (€33)<sup>2</sup> billion, more than the total spent on aid by EU members in 2003.
- Non-tariff barriers such as sanitary regulations, rules of origin... have no place in a genuine partnership – other countries could follow Sweden's lead in reducing their impact.

### Tackling the global structures that entrench inequality

- Goal 8 demands not just progress against the specific indicators, but progress on partnership. The global structures that maintain poverty and marginalise the rights of the poorest clearly need reform, but there is little attention to these major framework issues in governments' approaches to the MDGs.
- Currently, voting in the World Bank and IMF (International Financial Institutions – IFIs) is in proportion to shareholdings (WB) or special drawing rights (IMF), giving the rich countries of the North strong majorities in both institutions. Though Switzerland favours a modest streamlining of voting rights, and a few EU countries have taken steps to promote dialogue and transparency within the IFIs, the overall European position means little or no change in the IFIs' role: the recipe remains domination not partnership. The credibility of the EU commitment to poverty eradication and partnership can especially be questioned by their silent approval of Wolfowitz's unilateral and untransparent nomination as the head of the World Bank.
- Several European donors are taking concrete steps away from 'donorship' to developing country ownership and to aid harmonisation. These are welcome first steps on a long road but are contradicted by the tendency to reinforce the signalling role that international financial institutions are allowed to play.
- No European country identifies tax evasion and tax havens as an issue in relation to the MDGs, while they both cost more than \$50 (€44) billion to developing countries, according to most conservative estimates, and foster bad governance and corruption by providing a shelter to dirty money. European countries have a central responsibility in this system since 11 tax havens are in Europe, including Switzerland and Luxembourg, and also the Channel Islands, Gibraltar, Malta,

Cyprus, Liechtenstein, Monaco and Andorra and half of the world's tax havens belong to the British Crown.

### **From policy to hard choices**

Actions taken by countries such as Finland to increase transparency in development discussions are significant in improving the quality of development partnerships. And the steps taken by governments such as Belgium, Netherlands and the UK to promote socially responsible business are in line with MDG 8 obligations.

But such measures remain at the easy end of the partnership spectrum. Tackling the fundamental choices that European countries make – such as on the balance between military spending and allocations to reduce poverty - is much more challenging.

Austria has taken steps on arms exports and the Netherlands and the UK have been active in combating the illegal small arms

trade. But European countries still allocate 4 times more to military spending than to aid – many countries much more.

Given the huge political effort European countries expect of developing countries in meeting the MDGs – tackling inefficiency, improving governance, focusing on poverty – the steps currently being taken by European countries themselves in pursuit of MDG 8 and genuine partnership, remain quite modest.

Over the past 5 years some real progress has been evident. Coherence is now being addressed. Policies are being developed and some useful, if incremental, actions are being taken. But Europe needs to raise its game, to be more ambitious in the changes it envisages. Every European country needs to become more energetic – not waiting for European consensus to emerge but actively pushing for more positive policies and holding countries to account when they impede progress and fail to deliver on commitments.

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<sup>2</sup> US\$1 = €0.8851 (2003 OECD annualised exchange rate)

# Summary of Recommendations

## Reporting and Participation

- 1) Reporting and decision-making in relation to the MDGs should be more accountable and participatory, involving the European and national Parliaments and civil society in these processes. The views of the European Parliament, and of European civil society, should be taken into account beginning with the shaping of the EU position for the UN Millennium +5 Summit in September 2005.

**Good Examples and lessons of best practice:** *Denmark's and Belgium's reports on MDG 8 were produced with Inter-ministerial, NGO participation but donors do not report any consistent or systematic processes of participation across the European Union.*

- 2) At EU level, the European Commission should continue to play a strong role in regular monitoring of overall EU progress on Goal 8 every two years, within the context of the UN General Assembly reviews of the Millennium Declaration and the Financing for Development (FfD) follow-up process.

**Good Examples and lessons of best practice:** *Although most donors report on their progress towards MDG 8, few have set real accountability mechanisms in place, making an EU accountability process even more important. A positive example is Sweden, where progress on the implementation of Sweden's Policy for Global Development is to be submitted to Parliament in the form of an annual report.*

- 3) The framework for EU reporting on MDG 8 should be revised to include indicators on global governance and participation, and should use a common definition of ODA which ensures that ODA means a real transfer of resources to developing countries.

## Finance and the Reform of Aid

- 1) The EU should take concrete steps to finally implement a commitment set decades ago, by agreeing on a binding timetable for the EU to reach the UN target of 0.7% of GNI to ODA, at the General Affairs and External Relations Council (GAERC) in May 2005. European Community aid should also increase over the lifetime of the EU 2007-13 Financial Perspectives, thereby demonstrating the EU's collective commitment to leadership in the global partnership to achieve the Millennium Development Goals.

**Good Examples and lessons of best practice:** *All 5 donors who currently meet the 0.7% target are European Donors - Norway, Sweden, Luxembourg, the Netherlands and Denmark. Those countries still lagging behind should follow their lead and either set or shorten their timetable to achieve 0.7%.*

- 2) The EU should, at the GAERC meeting in May 2005, commit to an "additional financial resource package" including the adoption of a Currency Transaction Tax and an Aviation fuel tax possibly combined with the establishment of an International Finance Facility, in order to ensure long-term and predictable financial flows additional to 0.7% ODA pledges.

**Good Examples and lessons of best practice:** *For the first time, international financing mechanisms are being taken seriously. Belgium has enacted legislation to adopt a currency transaction tax. France, Germany, Spain and the UK have promoted new financing mechanisms.*

- 3) It is widely acknowledged that Least Developed and other Low Income Countries, particularly in sub-Saharan Africa have little chance of achieving the MDGs by 2015 unless significant

additional resources are released for their use. The EU and its Member States, which have a special commitment to Africa, should direct at least 0.2% of GNI to ODA towards the poorest countries, especially those in sub-Saharan Africa, to allow them to reach the MDGs. European Community aid should also have a clear poverty focus. A binding timetable to achieve this 0.2% commitment should be agreed upon by the GAERC in May 2005.

**Good Examples and lessons of best practice:** *All European donors could follow the lead of Belgium, Norway, Luxembourg, Denmark, Sweden and the Netherlands - all of whom spend more than 0.2% of GNI on aid to LDCs. Several donors have targets for spending in sub-Saharan Africa, including Italy and the Netherlands, which aim to spend half of their bilateral budget in sub-Saharan Africa. France has encouraged other donors to increase aid levels to Africa, in order to maintain the level of European Development Fund funding at 0.03% of the EU national income, at a minimum.*

4) EU donors should agree a revised definition of ODA that excludes debt relief and cancellation of all unpayable export credit debt; and should fully untie all aid, including food aid and technical cooperation, to all developing countries by 2010.

**Good Examples and lessons of best practice:** *It is clear from the examples of the UK and Ireland that donors can untie all ODA if they want to. Norway has set the pace on reporting bilateral debt relief as additional to ODA.*

5) Given the importance of donor harmonisation in an EU of 25 Member State donors plus the European Commission, the EU should step up implementation of its plans for harmonisation, with special emphasis on harmonisation at country level, cutting the duplication of studies and missions, and rolling out its pilot project on harmonisation beyond the first four test countries to other countries. However, EU donors need to ensure appropriate safeguards are in place so that donor harmonisation practices do not result in

further aid volatility.

**Good Examples and lessons of best practice:** *All European donors need to follow the lead of Denmark, Finland, Ireland, Norway, Sweden, the Netherlands and the UK in putting Joint Action Plans on harmonisation into practice.*

6) EU donors should immediately cancel the debt of those countries whose debts are unpayable on the basis of human development needs or for being odious, paid for by resources additional to ODA. Moreover, they should fulfil their commitment made in Monterrey (para. 49 of the Monterrey Consensus) to adopt a human development approach to debt sustainability.

**Good Examples and lessons of best practice:** *The Irish government is calling for a human development approach to debt sustainability and subsequent debt cancellation. The European Parliament has called for the total cancellation of developing countries' debt, starting with LICs. The UK government has produced a paper calling for up to 100% multilateral debt cancellation. EU countries should follow Ireland's lead and act on the call of the European Parliament. The UK initiative of temporarily relieving part of LIC's multilateral debt service should be considered as a very minimum step towards the total cancellation of debt stocks. Italy has approved a national Law calling for debt cancellation too (L.209 year 2000) and is progressively implementing it.*

7) The European Union should take the lead in the establishment of an internationally applicable fair and transparent arbitration procedure, such as an arbitration panel, open to all countries and stakeholders, and independent of financial institutions, which would determine debt sustainability thresholds.

8) In order for development finance to actually work towards the achievement of the MDGs, EU and Member States' criteria for its allocation should be based upon an evaluation of the gap faced by countries in resources required to reach the MDGs.

**Good Examples and lessons of best practice:** *Several donors have allocation procedures strongly geared to need. Luxembourg's 10 concentration countries are all ranked as HDI poorest countries; 90% of UK aid should be spent in LICs by 2006.*

- 9) The transparent and accountable management of public resources and wider participation of in-country stakeholders, including genuine representatives of the poor, in the allocation of development assistance should be conditions for eligibility for enhanced EU aid and debt relief. At EU level, the advanced partnership principles contained within the Cotonou Agreement should be equally applied to relations with all developing countries.

**Good Examples and lessons of best practice:** *It is clear that many donors are struggling to find ways of implementing more authentic partnerships. The Netherlands has taken steps in 2004 to strengthen PRSPs by building partnerships between the headquarters, embassies, and CSOs in recipient countries. Several donors, including the UK, advocate a stronger role for parliaments. Finland involves CSOs in bilateral negotiations.*

## Trade and Coherence

- 1) The distinct policy on coherence should be developed at EU and national level, covering the mechanisms to ensure that current relevant policies (trade and agriculture, fisheries, foreign and security policy, tax and investment matters, migration, environment) are evaluated in order to identify which policies are undermining developing countries' ability to escape poverty, and measures to redress these coherence gaps; and that new policies affecting developing countries are subject to development impact assessments. The European Commission should regularly report on progress made on coherence at EU and national levels.

**Good Examples and lessons of best practice:** *Sweden's lead should be followed. It has enacted a law which requires all Swedish policy - on any issue - to contribute to equitable and sustainable global development. The Netherlands provides a*

*model for government procedures to enhance coherence, including coherence on EU matters.*

- 2) As agriculture is key to poverty reduction efforts in the least developed countries, the EU should prioritise concrete outcomes on agricultural trade without any reciprocity or link to other trade areas. Significant and feasible special and differential treatment measures must be agreed as an integral element in international trade rules in order to give developing countries the ability to safeguard food security, rural development and livelihood concerns of the millions of people that depend on the agriculture sector.

**Good Examples and lessons of best practice:** *Some EU donors such as Germany have been advocating the dismantling of cotton subsidies; Ireland and the Netherlands have noted the importance of de-coupling subsidies so that support for agriculture has a smaller impact on exports.*

- 3) The EU should not ask for reciprocity in the EPAs with ACP countries. The Singapore issues should not be included in the EPA negotiations. The EU should provide policy space and technical assistance to the ACP countries for building alternatives to the EU proposal for EPAs.
- 4) With regard to market access, the EU should support the principle that tariff reduction in the developing countries should be progressive, proportional and flexible. The EU should address non-tariff trade barriers that impede market access in Europe for developing countries' production (e.g. sanitation regulations, rules of origin...). The EU should improve and strengthen the eradication of dumping measures and allow developing countries to protect their markets against dumping. The EU should set up a clear, frontloaded schedule in order to eliminate export subsidies with product-specific caps and reduction commitments.

**Good Examples and lessons of best practice:** *Several European Union donors have been active in promoting a development-friendly trade policy within the EU, including work*

on non-tariff barriers. The Danish parliament for instance has demanded speedier progress on the implementation of the Everything But Arms agreement on sugar. Sweden has taken unilateral action on non-tariff barriers as well as trying to influence the EU.

- 5) A new special safeguard mechanism should be set up for all developing countries to help them address import surges and price volatility and ensure food and livelihood security and rural development. In accordance with its own development needs, each developing country should be allowed to self-designate the special products relevant to food and livelihood security and rural development that need to be exempt from further tariff reductions. Least Developed Countries need special treatment, including duty-free, quota-free access to the EU market.
- 6) The EU should strengthen its development aid to develop rural infrastructure, supply capacity and trade capacity in the developing countries.

**Good Examples and lessons of best practice:** *Commitments of aid to trade policy and trade development have increased, but totalled only around \$500m in 2003. The USA alone contributes more than all European donors combined.*

### **Global Governance**

- 1) In line with the impetus given in the UN Secretary General's Report 'In Larger Freedom...' an agenda to strengthen the United Nations and to revitalise the Economic and Social Council, the EU should promote the proposal to establish an Executive Committee of the ECOSOC at the intergovernmental level responsible for providing ongoing and regular follow-up to the mandates emerging from the Monterrey Consensus. The EU and its Member States should also actively take steps to bring the IFIs and the WTO more solidly

within the framework of the United Nations and of international and human rights law.

- 2) The EU must strengthen its voice in the IFIs, through increased EU coordination as a first step towards progressive unified representation. European countries should take the lead in pressing for the reform of the IFIs and the WTO needed to address underlying structural injustices within global economic governance: modifying the composition of the boards and rebalancing the voting power of the World Bank and IMF, instituting formal voting and clarifying decision-making processes, and selecting leaders through open and transparent merit-based processes.

**Good Examples and lessons of best practice:** *The EU collectively has 32% of the votes at the World Bank and, if Norway and Switzerland are added to that, they hold 34%. They therefore have the capacity to act for IFI reform if they choose to.*

- 3) European countries should request that the IFIs improve their transparency by making the transcripts, minutes and important documents of board meetings available to the public. The EU and its Member States should also take active steps to ensure that democratic oversight of activities of the Bretton Woods Institutions is enhanced through parliamentary scrutiny. Their orientations and policies should be debated in the European and national parliaments.

**Good Examples and lessons of best practice:** *To meet their obligations under MDG 8, European donors need to take a more active stance on reform of the international system and the IFIs. This does not figure strongly in individual MDG reports, although there are exceptions. The Netherlands for instance, has been in favour of more openness of the IFIs and as such supported the disclosure policy of IFIs.*

## 2 The MDGs and why they are important for Europe

At the Millennium Summit in 2000, heads of state and government from 189 countries adopted the Millennium Development Goals (MDGs), with the aim of halving the proportion of people in the world living in poverty by 2015.

The MDGs are a step towards the concrete, time-bound implementation of economic, social and cultural rights and development goals set out in UN conventions and summits during the 1990s. They are not perfect and they are not ambitious enough – even if they are achieved in full, nearly a billion people will still be living in poverty in 2015 – but they are the best opportunity yet to make progress towards global justice and poverty eradication.

Five years on from the Millennium Summit, the UN is producing a report to assess progress towards the MDGs. NGOs in Europe have collaborated to produce this Shadow Report which assesses the performance of European countries against the task of halving world poverty.

The Millennium Summit agreed eight MDGs. The principle challenge of meeting goals 1 to 7 lies with the government and peoples of developing countries themselves – with aid playing a supporting role. But the 8th MDG is about global partnership. Under MDG 8, richer countries are expected to reform their policies and actions to contribute to the fight against poverty.

Goal 8 provides a set of benchmarks to help citizens to hold their governments to account. But it lacks a timeline or clear targets for addressing the international structures that are holding back progress. Substantial reforms of the global financial and commercial institutions are an essential ingredient for the achievement of the Larger Freedoms set out by the UN Secretary General.

### 2.1 How this report assesses progress on Goal 8

This report looks at the 6 key areas of Goal 8 and assesses the performance both of the EU as a whole and of individual Member States. The benchmarks of progress are not only those listed in the MDG indicators, but other measures which NGOs believe are vital conditions for the achievement of the Goal 8 targets.

Goal 8 is to ‘Develop a Global Partnership for development’.

This partnership has many aspects. First of all, there are sets of obligations on development finance, aid quality and distribution, debt, trade policy and market access.

But a global partnership for development also means having a framework for development cooperation which respects developing country ownership and leadership, ensures coherence across government on policies that affect developing countries, works to build international institutions based on fair representation and accountability and ensures that the capacity of the private sector is harnessed to the goal of poverty eradication. Values of transparency, predictability, good governance, and equity need to underpin the global partnership and to be evident in both national and international contexts.

These aspects of a global partnership, taken together, can demonstrate the extent of commitment and progress towards the MDGs and global poverty eradication.

This report looks at the progress made by the EU and its Member States (plus Norway and Switzerland) towards the achievement of a Global Partnership for development. It highlights the areas where progress needs to accelerate and identifies examples of good practice, so that all countries can promote themselves to the quality of the best.

# 3 The political priority on the MDGs

A precondition for progress is the political priority that governments give to the MDGs. This is reflected in the systems that governments have established to monitor their own standards of performance and to ensure they remain accountable for progress.

The availability of government reports on MDGs 8 varies – as does participation in the process of producing reports: some countries, like Italy, have yet to publish a report; others, like the Netherlands, have been produced as a ‘whole of government’ exercise on the basis of inter-ministerial groups; in others again, such as Belgium and Denmark, NGOs have been involved. A few of the official MDG reports set out accountability mechanisms such as annual reports to parliament and public engagement strategies.

All EU governments need to adopt the practice of the most progressive, to demonstrate the need for common (government and civil society) commitment and action on partnership with developing countries. If governments are not good at involving their own civil society, the chances of them being effective at international partnership are not great. The process and content of the MDG reports are therefore a good indicator of the prospects for achieving the goal.

While the reports as a whole show clear commitment to the vision of the MDGs, they would be improved by a more detached assessment of progress. Self-criticism is noticeable by its absence. Accountability is crucial to progress – and will not be helped if the donor MDG reports are exercises in public relations or window-dressing.

### Recommendations:

Reporting and decision-making in relation to the MDGs should be more accountable and participatory, involving the European and national Parliaments

and civil society in these processes. The views of the European Parliament, and of European civil society, should be taken into account beginning with the shaping of the EU position for the UN Millennium +5 Summit in September 2005.

At EU level, the European Commission should continue to play a strong role in regular monitoring of overall EU progress on Goal 8 every two years, within the context of the UN General Assembly reviews of the Millennium Declaration and the Financing for Development (FfD) follow-up process. The framework for EU reporting on MDG 8 should be revised to include indicators on global governance and participation, and should use a common definition of ODA which ensures that ODA means a real transfer of resources to developing countries.

## 3.1 Coherence – a ‘whole of government’ approach

### The imperative of collective action

*“In a world of interconnected threats and challenges, it is in each country’s self-interest that all of them are addressed effectively. Hence, the cause of larger freedom can only be advanced by broad, deep and sustained global cooperation among States. Such cooperation is possible if every country’s policies take into account not only the needs of its own citizens but also the needs of others. This kind of cooperation not only advances everyone’s interests but also recognizes our common humanity.”* UN Secretary General’s Report – Para.18.

### 3.1.1 GOVERNMENTAL ACTIONS TO ACHIEVE COHERENCE

Most European Union donors have set up some sort of mechanism to improve coherence between their ministries and to ensure their policies, individually and

collectively, are consistent with the achievement of the MDGs.

Sweden has a single policy, applied to all government departments, enacted in legislation (Shared Responsibility, Sweden's Policy for Global Development) and subject to an annual report to Parliament and citizen's forum to actively promote public engagement in Swedish policy. Accountability is to be strengthened through research – by developing countries – on the impact of rich country policies on poverty. There are Interministerial Working Groups in many countries; Ireland has set up a Coherence Unit – albeit one person; ensuring coherence is one of the main mandates of the Finnish Development Policy Committee. Hungary has started to lay the groundwork for coherence, by getting statistical data from line ministries to the Ministry of Foreign Affairs. In Germany, all new legislative proposals are assessed in terms of development considerations and a number of Member States, notably Austria and the UK, have strengthened collaboration across different government ministries.

The Netherlands has a long history of working on coherence and much of its experience could serve as a model to other donors. Some key features which have enabled the Netherlands to really empower the coherence agenda in government are

- ◆ Development Cooperation minister with full cabinet status
- ◆ Memorandums of Understanding have been signed between departments – for instance on Coherence between Agriculture and Development Policy (also involving the Minister for Trade and the Secretary of State for European Affairs)
- ◆ A five-person coherence unit positioned under the Director General for International Cooperation
- ◆ Identified policy areas – currently agricultural reform, WTO-TRIPS, fisheries and market access in relation to non-tariff barriers.
- ◆ The Directorate General for International Cooperation is recognised as an equal partner in discussions on EU policy

- ◆ An international dimension through the establishment of an Informal Network on Policy Coherence for Development.

## 3.2 Coherence Gaps

Although there has been some progress, NGOs point out the fact that there are some major gaps in coherence. Difficult though it may be, addressing these gaps is not an optional extra. As the UN Secretary General says, *"The Millennium Development Goals must no longer be floating targets, referred to now and then to measure progress. They must inform, on a daily basis, national strategies and international assistance alike. Without a bold breakthrough in 2005 that lays the groundwork for a rapid progress in coming years, we will miss the targets. Let us be clear about the costs of missing this opportunity: millions of lives that could have been saved will be lost; many freedoms that could have been secured will be denied; and we shall inhabit a more dangerous and unstable world."* UN Secretary General's Report – Para.72.

### 3.2.1 TAX EVASION AND BANKING SECRECY

One of the areas where there is a need for progress is the fight against tax evasion and tax havens. International tax evasion undermines the integrity of international financial activities and illegally reduces government revenues. The Landau Report suggests that the losses generated by evasion in developing countries may be equivalent to the sums needed to achieve the MDGs. In a number of countries in Europe (the Landau Report highlights Switzerland, Luxembourg, Belgium and Austria) tax and corruption affairs are covering by banking secrecy. NGOs have urged the EU to work on suspending relations with countries that do not cooperate on banking secrecy.

The report by the French civil society coalition "2005: Plus d'Excuses!"<sup>1</sup> notes that in general companies operating in developing countries are paying less and less tax. For instance, a major multilateral mining company in Zambia secured a reduction in tax rate from 35% to 25%. Tax-free zones can make it impossible for developing countries to compete on anything like a level playing. In some cases, tax levels can even become negative where

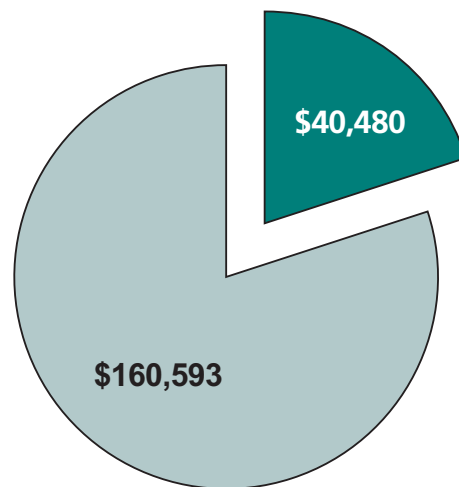
governments provide substantial incentives to attract foreign investment.

One donor action on this issue is the Extractive Industries Transparency Initiative (EITI), launched by the UK's Prime Minister at the 2002 World Summit on Sustainable Development. This aims to provide transparency over payments by companies to governments and government-linked bodies, as well as over the revenues of host country governments. The policy is the product of collaboration between five government departments and the Cabinet Office and ensures that the activities of UK companies working in these sectors in poor countries contribute to development objectives, rather than undermining them. Yet, the UK also bears a key responsibility in the development of tax evasion and money laundering with its Crown sheltering half of the world's tax havens.

**3.2.2 IN THE NAME OF HUMAN SECURITY: COHERENCE ON AID AND MILITARY SPENDING**

Coherence mechanisms for addressing peace and conflict have been established in several donors – often involving ministries of defence, foreign affairs and development cooperation and sometimes working on

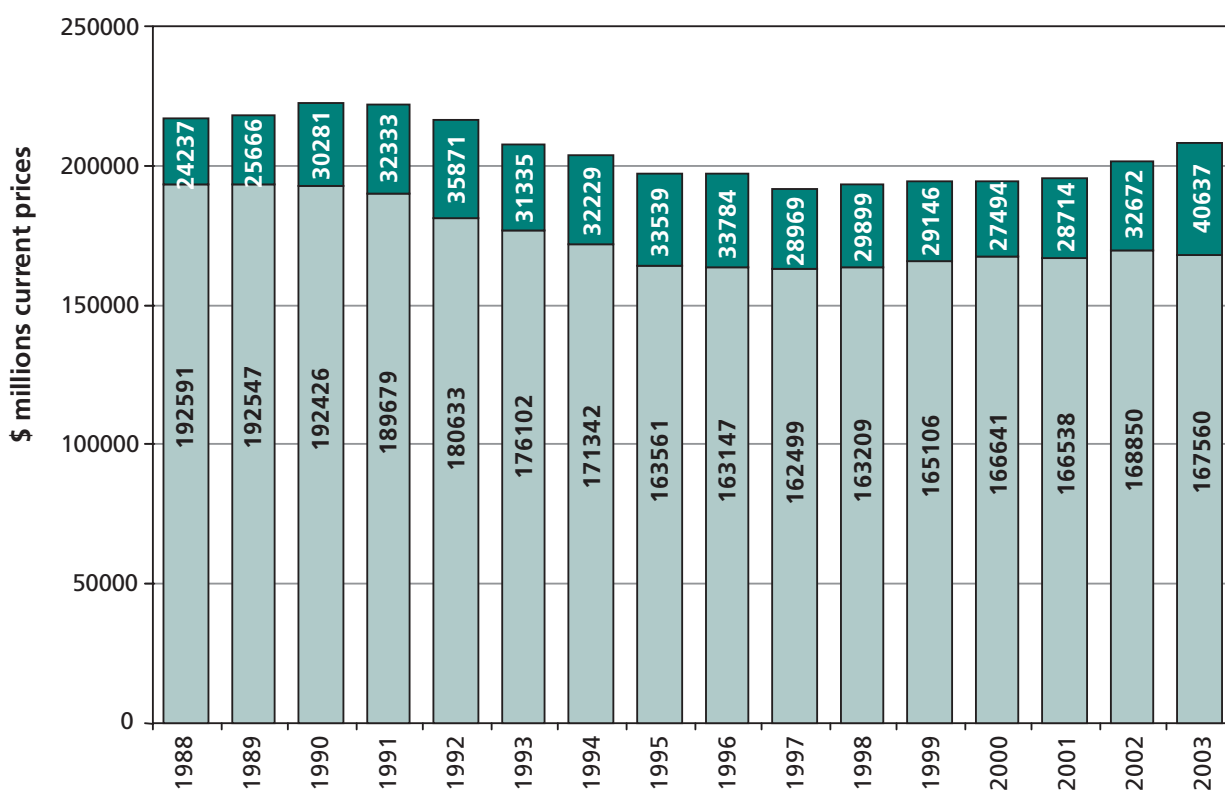
**FIG. 1: EUROPEAN DONORS SPENT FOUR TIMES AS MUCH ON MILITARY EXPENDITURE AS THEY DID ON GLOBAL AID IN 2003 - \$160 BILLION (€140B) COMPARED TO \$40 BILLION (€35B)**

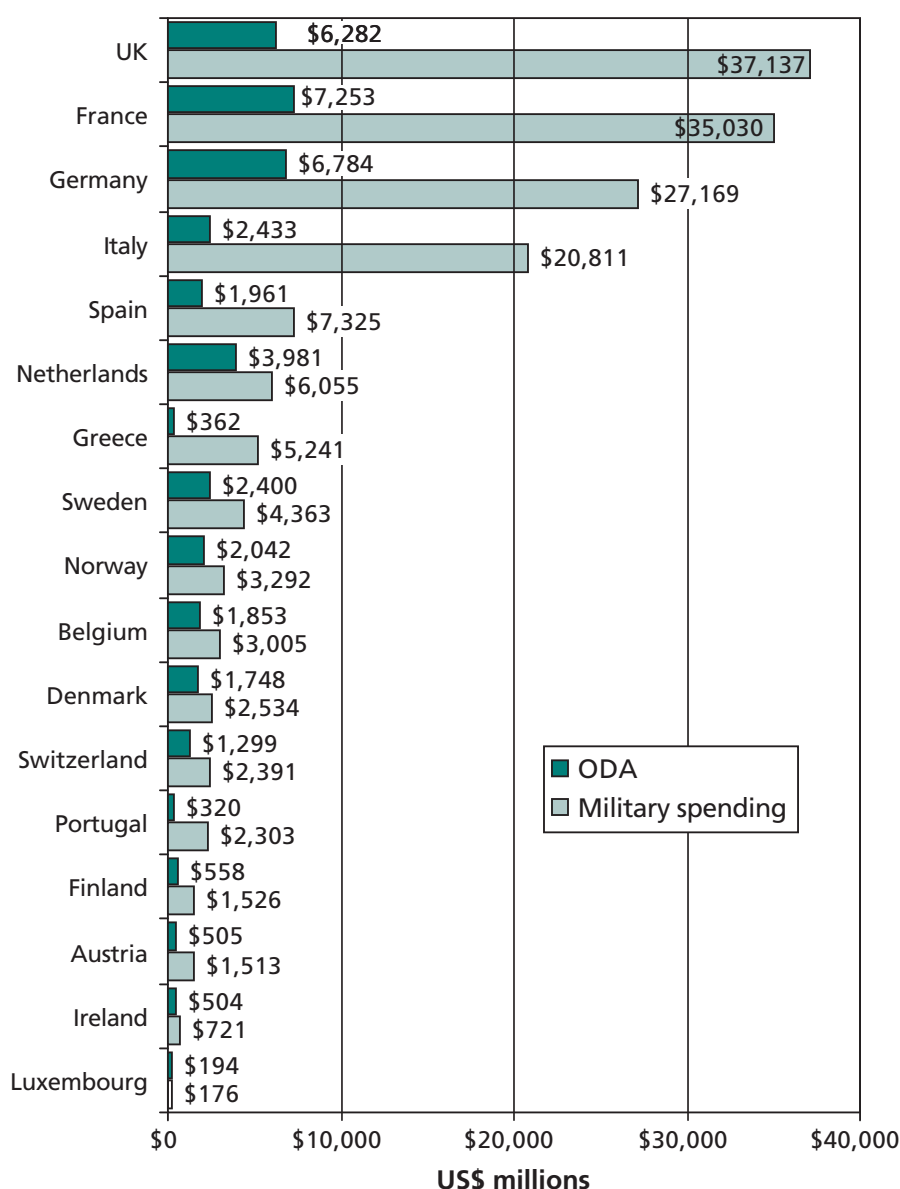


combined policy, programmes and funding. However, these do not stretch to address the coherence of donor country military expenditure and work to achieve the MDGs.

2003 was a record year for relatively high levels of aid as a share of military expenditure – but despite this, European donors allocated four times their aid volume to military expenditure.

**FIG. 2: AID AND MILITARY EXPENDITURE IN \$ MILLIONS FROM ALL EUROPEAN DONORS**



**FIG. 3: EUROPEAN DONORS: PRIORITY GIVEN TO MILITARY AND DEVELOPMENT EXPENDITURE, 2003**

- The biggest military spenders are also the three largest aid donors: UK (military expenditure 6 times aid), France (5 times) and Germany (4 times).
- Three other major arms spenders have much higher ratios: Italy spent nearly 9 times its aid budget on military activities; Greece, 14 times and Spain 4 times.
- The Netherlands, Sweden, Norway and Belgium have substantial military budgets but much smaller differentials between their aid and military expenditure: the Netherlands (1.5 times aid), Sweden (1.8), Norway (1.5) and Belgium (1.6).

#### **Recommendations:**

The distinct policy on coherence should be developed at EU and national level, covering the mechanisms to ensure that current relevant policies (trade and agriculture, fisheries, foreign and security policy, tax and investment matters, migration, environment) are evaluated in order to identify which policies are undermining developing countries' ability to escape poverty, and measures to redress these coherence gaps; and that new policies affecting developing countries are subject to development impact assessments. The European Commission should regularly report on progress made on coherence at EU and national level.

## 4 Development Finance

*“The real test will be whether broad-based actions by developed and developing countries to address this agenda are supported by global development assistance being more than doubled over the next few years, for this is what will be necessary to help achieve the Goals.” UN Secretary General’s Report – Para.29.*

The UN has called for all donor countries to meet the goal of 0.7% by 2015 and 0.5% by 2009.

### 4.1 Meeting the targets on ODA volume – Most rich European donors are not delivering the aid they promised

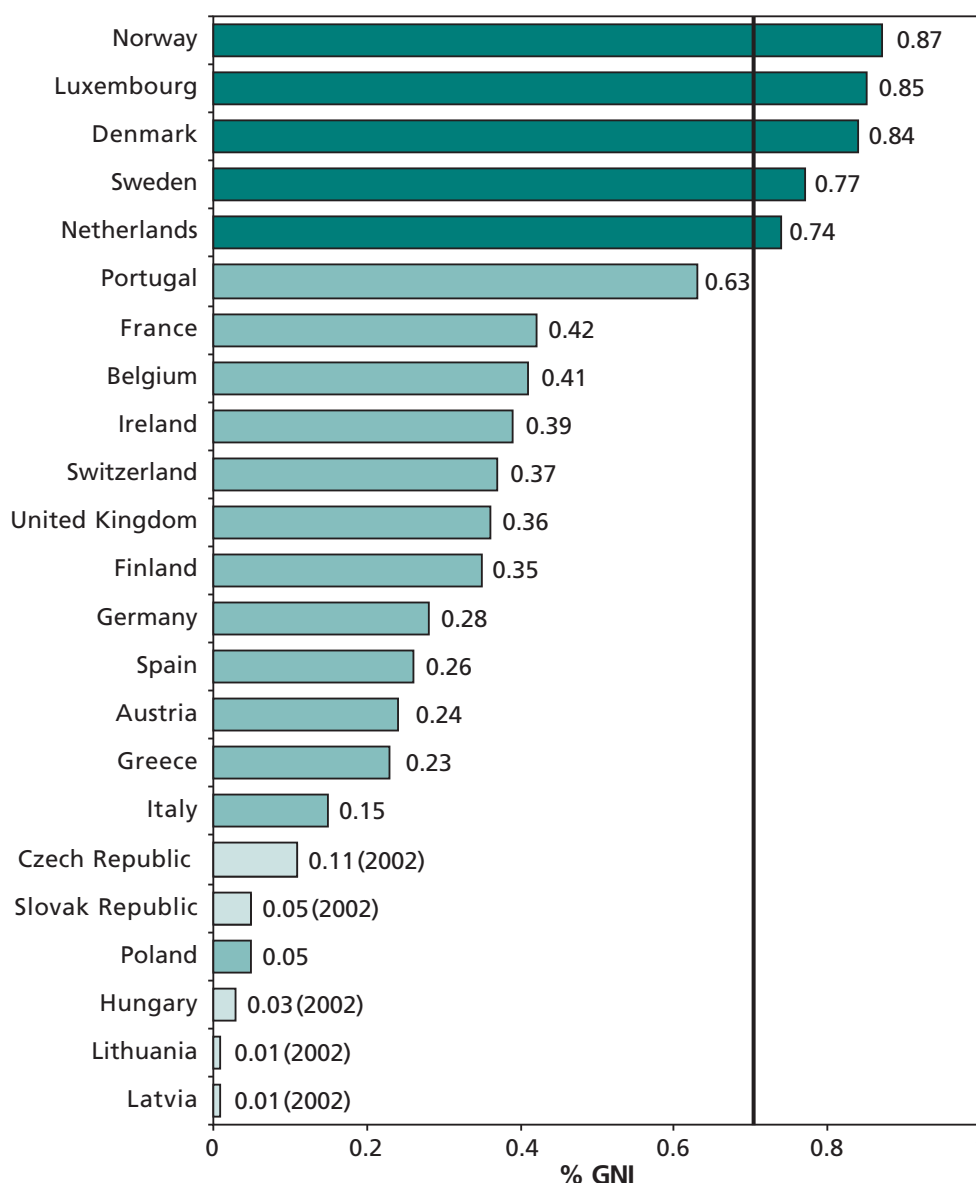
- All European countries (except Switzerland) have accepted the UN 0.7% target for aid.
- Five countries have achieved the target:
  - ◆ Norway: First achieved the target in 1976 and has never fallen below it since – in 13 years Norway has spent over 1% of GNI on aid.
  - ◆ Denmark: First achieved the target in 1978 and has never fallen below it since – in 7 years Denmark has spent over 1% of GNI on aid.
  - ◆ Luxembourg: First achieved the target in 2000 and has increased its share of GNI spent on aid from 0.71% in 2000 to 0.85% in 2004.
  - ◆ The Netherlands: First achieved the target in 1975 and has never fallen below it since – in 4 years the Netherlands has spent over 1% of GNI on aid.
  - ◆ Sweden: First achieved the target in 1975 and has never fallen below it

since. In 2 years Sweden has spent over 1% of GNI on aid.

- Of these five donors, three have become members of the 1% club: Norway (by 2006-9), Luxembourg and Sweden (within the next few years<sup>ii</sup>). Denmark and the Netherlands have committed to maintain ODA at 0.8% of GNI.
- 7 donors have timetabled their commitment to 0.7%:
  - ◆ Ireland – 2007<sup>iii</sup>
  - ◆ Belgium – 2010
  - ◆ Finland – 2010
  - ◆ France – 2012
  - ◆ United Kingdom – 2013
  - ◆ Germany - 2014<sup>iv</sup>
  - ◆ Czech Republic 2015
- 2 donors have a target of 0.5% of GNI:
  - ◆ Portugal – 2010
  - ◆ Spain – 2010
- 4 donors have set targets lower than 0.5% of GNI:
  - ◆ Austria – 0.33% in 2006
  - ◆ Greece – 0.33% in 2006
  - ◆ Italy – 0.33% in 2006
  - ◆ Switzerland – 0.4% in 2010

Of the accession countries, two have set a target – The Czech Republic has set itself the goal of 0.7% in 2015 and Hungary is aiming for 0.1% of GNI in 2006.

Setting the target is an important step, but only the starting point for achieving the resources that are needed to finance the eradication of poverty and the achievement of the MDGs. In the following sections, we look at the evidence on the prospects for achieving the target.

**FIG. 4: EUROPEAN DONORS IN 2004 WHO REACHED THE UN 0.7% TARGET**

#### 4.1.1 ACHIEVING THE TARGET: WHICH COUNTRIES HAVE ACTUALLY INCREASED THEIR AID?

EU Member States as a whole have increased their aid by \$5.8 (€5.1) billion since 2000. However, this masks a very uneven pattern between donor countries. 65% of the increase came from France and the UK – though not necessarily entirely in the form of flows of finance to poor countries. The fact that most of the growth in EU Member States' aid has come from these two countries does not mean that some other Member States have not been increasing their aid relatively quickly – Ireland for instance has increased aid by almost 60% since 2000, but because it is one of the smaller donors, this does not have great impact on EU aid overall.

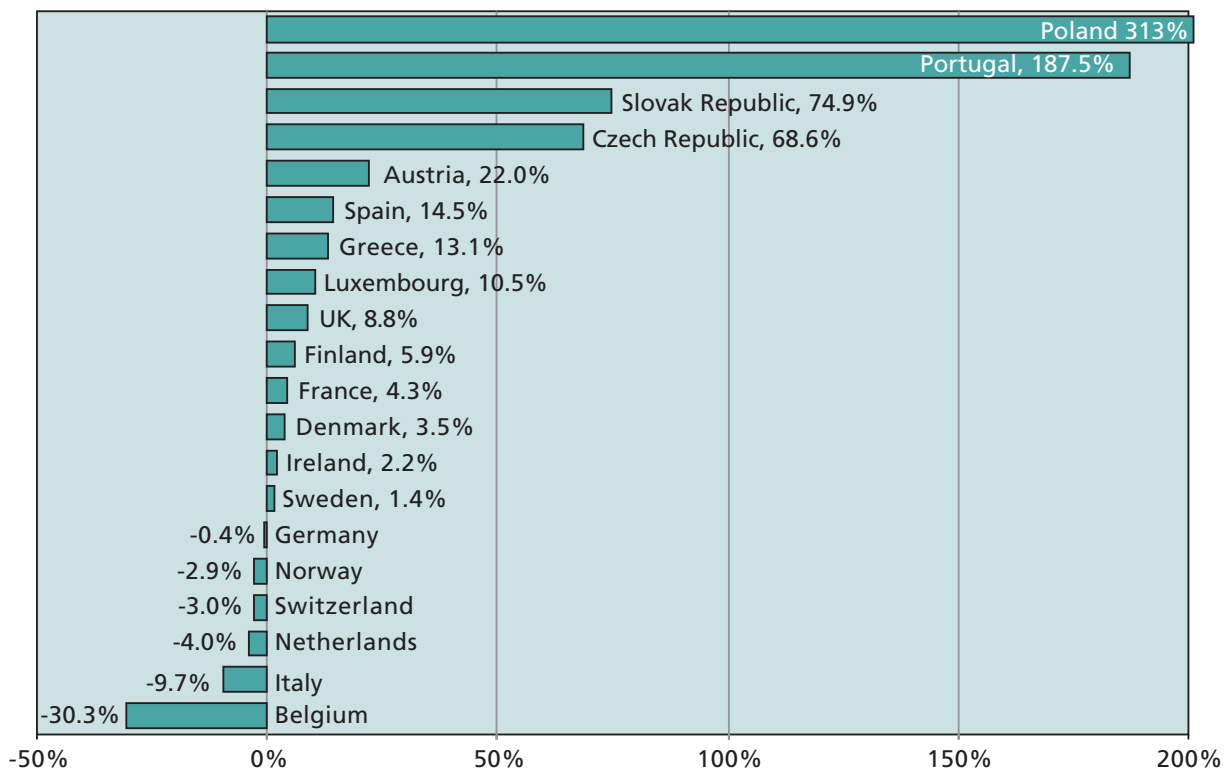
#### *Regular annual increases in aid as a % of GNI:*

- Since the MDG Declaration, just 3 of the European donors for which data is available have shown an improvement in aid as a share of GNI in each and every year since 2000. These are France, Luxembourg and the Czech Republic. Finland, Germany and Greece have not let their aid as a % of GNI fall in a single year since 2000.

#### *Fluctuating, but more as a % of GNI in 2004 than 2000:*

- A further 10 donors were giving more in 2004 than they were in 2000: Austria, Belgium, Ireland, Italy, Norway, Poland, Portugal, Spain, Switzerland and the UK.

FIG. 5: PERCENTAGE INCREASES OR DECREASES IN AID FROM EUROPEAN DONORS FROM 2003 TO 2004 (PROVISIONAL)



Whilst Italy’s aid has risen marginally since 2000 – its record on aid volume is terrible. As a European G7 member, Italy should be expected to show some leadership, but it is the worst performing member of the EU 15 and its aid as a percentage of GNI is substantially lower than other EU G7 members.

**Less in 2004 than 2000:**

- 3 donors are giving a smaller share of GNI in 2004 than they were in 2000: Denmark, the Netherlands and Sweden.

All of these donors have consistently been among the most generous in the DAC – and the fall in aid must to some extent be seen as reflecting the difficulty in retaining political support for high aid levels, when other large donor countries are failing to give even half as much as a percentage of GNI. Although Denmark and the Netherlands have shown a decrease each year in aid as a share of GNI, neither has allowed their aid to fall below the target of 0.7% and Sweden

has already indicated its intention to contribute 1% of GNI in ODA.

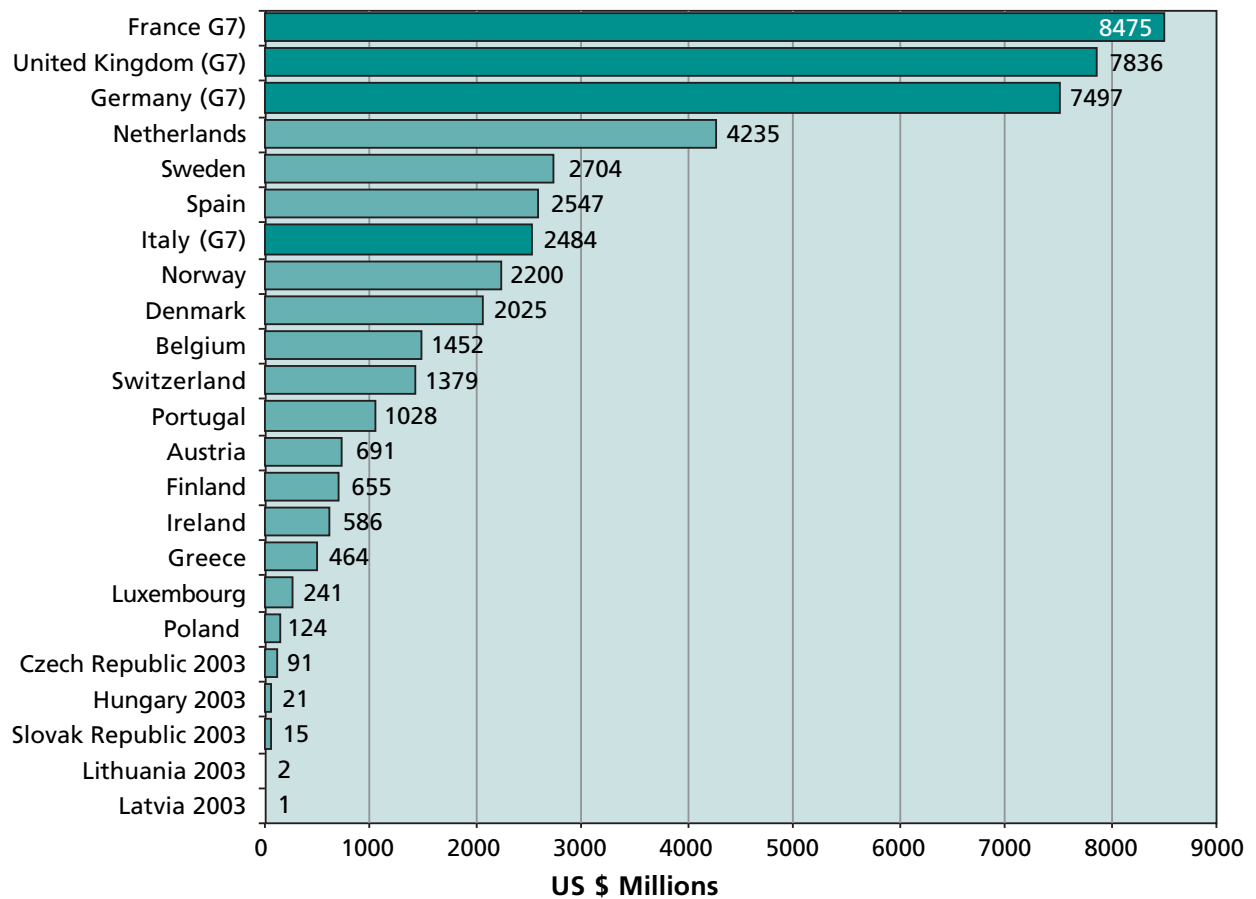
**4.1.2 LARGER VOLUME AND G7 EUROPEAN DONORS**

In order to deliver the resources needed to achieve the MDGs, it is only not the share of GNI that is important, it is also the sheer volume of aid.

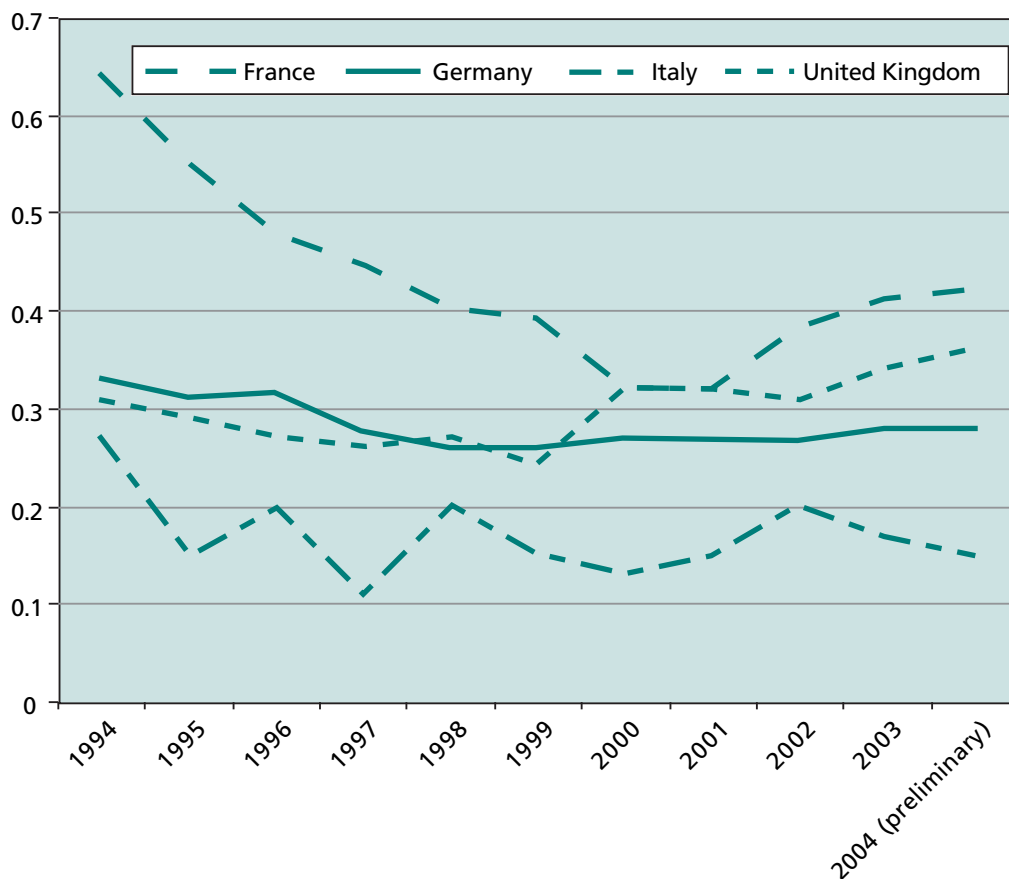
Europe’s biggest donors are France, UK, Germany and the Netherlands. Together these four donors accounted for six out of every ten Euros of aid from Europe. Three of them are G7 members. The other European G7 member, Italy, is the seventh largest European donor in volume terms, giving less than Spain and Sweden.

Since European countries which are also members of the G7 aspire to a role in global leadership, it is reasonable to see whether these countries are leading by example in efforts to reach 0.7%. Their record during the 1990’s was very poor – but since 2000, Germany, France, Italy and the UK have all improved their performance, with each showing growth in real terms and GNI%. However between 2003 and 2004, both Germany and Italy have allowed their aid to

**FIG. 6: AID FROM EUROPEAN DONORS IN 2004 US\$ MILLIONS**



**FIG. 7: TRENDS IN AID FROM EUROPEAN MEMBERS OF G7 AS A % OF EACH COUNTRY'S GNI**



fall in real terms. Italian aid fell as a share of GNI and German aid stayed at 0.28%.

**4.1.3 ACHIEVING THE TARGET: OVERCOMING A HISTORY OF UNMET COMMITMENTS**

*“We must ensure that all involved assume their responsibilities to turn good words into good deeds.”* UN Secretary General’s Report – Para.22.

There is a long and unedifying history of grant aid pledges being made by heads of state in global forums, only to be followed by years of abandonment and lack of action. As a result, the currency of aid pledges has been devalued and it is absolutely essential now that donors redeem their reputation by ensuring that commitments are met in full, and on time.

This failure to meet international obligations is particularly striking in the context of long term statements of commitment to 0.7%. In the first half of the 1990s, both Spain and Portugal expressed commitments to reaching 0.7% in 2000; the Austrian parliament set a target of 0.35% in 1998 and Italian NGOs reported in 2000 that the government had a ‘long term’ intention to raise ODA to 0.25% of GNI. Five years later, Italian aid was at 0.17%.

In this context, where the currency of aid pledges has become devalued, it is vital that progress to the target is monitored and

achieved within the timeframes that have been set.

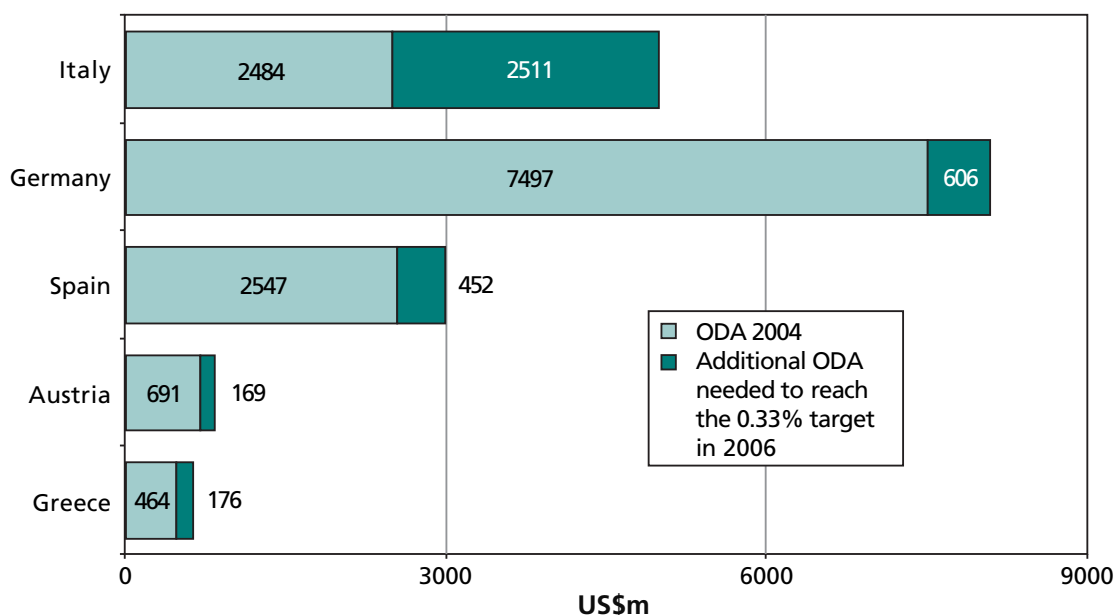
The Secretary General’s Report makes this point very clearly: *“Where there is accountability we will progress; where there is none we will under-perform.”* At present there is no accountability. The EU can play a major role in ensuring the aid pledges cannot be abandoned with impunity. For the International Finance Facility not to be at the expense of post-2015 aid flows, it will require pledges to be legally binding – a policy that should apply to all ODA commitments. Some countries, such as the Netherlands, have legislation that ties aid to a specific share of GNI.

To make donors accountable for the delivery of their aid pledges would, at a stroke, improve the quality of international governance and enable developing countries to plan on the basis of predictable resources.

**4.1.4 ACHIEVING THE TARGET: WHAT WOULD IT TAKE?**

The European Council made explicit commitments on aid volume in Barcelona in 2002. Among these was a target of 0.39% for the EU as a whole in 2006, by which time each and every Member State should have achieved 0.33%. Five countries will have to make good progress to achieve this interim target. Italy will have to find \$2.5 (€2.2) billion on top of its existing 2003 ODA;

**FIG. 8: HOW MUCH ADDITIONAL ODA WILL COUNTRIES BELOW THE 0.33% TARGET IN 2004 HAVE TO FIND IN 2006?**



Germany \$600 (€531) million; Spain \$452 (€382) million; Austria \$169 (€149) million and Greece \$176 (€156) million.<sup>v</sup>

See Fig. 8 in annex. How much additional ODA will countries below the 0.33% target in 2004 have to find in 2006?

The Barcelona targets, if fulfilled, will only take EU members individually to 0.33% of GNI, which is less than half-way to the UN aid target, established for over thirty years and to which every EU Member State is committed. So on 12 April 2005, the European Commission proposed more ambitious targets on the way to 0.7% in 2015:

- The EU collectively should achieve 0.56% by 2010.
- The 'old' 15 member states – all DAC members – should each reach 0.51% if they are not already at this level.
- New member states should reach 0.17% by 2010.

Given the tendency of many DAC donors historically to set and then miss targets, these new aspirations will have no credibility at all if the Member States miss the targets for 2006 that were established in Barcelona during 2002. Their failure would be even less acceptable with the easing of the European Stability Pact deficit threshold that was agreed in March 2005 in order to allow countries to spend on efforts to “foster international solidarity and to achieving European policy goals”.

#### **Recommendation:**

The EU should take concrete steps to finally implement a commitment set decades ago, by agreeing on a binding timetable for the EU to reach the UN target of 0.7% of GNI to ODA, at the General Affairs and External Relations Council (GAERC) in May 2005. European Community aid should also increase over the lifetime of the EU 2007-13 Financial Perspectives, thereby demonstrating the EU's collective commitment to leadership in the global partnership to achieve the Millennium Development Goals.

#### **4.1.5 INNOVATIVE SOURCES OF FINANCE**

Exploring innovative sources of financing is one of the Barcelona commitments; the Secretary General's Report urges the international community to launch an International Finance Facility in 2005 supplemented by other innovative sources of finance.

President Chirac of France commissioned the “Landau Report” in 2003<sup>vi</sup> on new sources of international finance. This takes as its basis that new financial sources must be additional to the obligations to meet the 0.7% target. The report prioritises an international resource that is both concessional and predictable and therefore multilateral and more automatic than current financing methods.

Two major proposals stand out as innovative ways of finding new sources of funding to meet the MDGs:

- various forms of international taxation - environmental taxes such as maritime and air transport; taxes on financial transactions; a surtax on profits from multinationals; and a tax on arms.
- and the proposal for an International Finance Facility that would frontload aid spending – enabling the \$50 (€44) billion necessary to achieve the MDGs to be found now and repaid after 2015.

These two proposals are complementary – the IFF will accelerate aid disbursements and international taxation would generate new, reliable finance and ensure that repayments of IFF borrowing did not harm resource flows still needed by developing countries.

Neither of these proposals will succeed without the backing of at least a few major European donors – international revenue-raising requires national level decisions and commitments. So whether European governments – especially those G7 members who do not meet the UN 0.7% target – are prepared to act on these plans is a key test of commitment to partnership under MDG 8.

- One country, Belgium, has enacted legislation to adopt a Currency Transaction Tax.
- The UK and France have been vigorously promoting new sources of

international finance – in the UK’s case, the IFF, and in France, three possible international taxes, including taxes on financial flows and air transport.

- All EU members supported the New York declaration in favour of innovative sources of finance that was launched by President Lula in the United Nations on 20 September 2004.
- Sweden, France and the UK have made public statements in support of the IFF for Immunisation and the UK has stated that it will provide funding for one third of the \$4 (€3.5) billion needed.
- France supports the IFF and sees it as a complementary mechanism for international taxes – also supported by Brazil, Chile, Germany and Spain.
- Spain has acknowledged the technical feasibility of international taxation and is considering its own capital transfer tax.
- Norway and Finland are open to new financing mechanisms such as carbon taxes.
- Italy has explicitly supported the IFF and has made proposals for international taxation.

However, those donors who have already reached 0.7% are particularly concerned that the new sources of finance should not divert attention away from the need to allocate adequate public expenditure to ODA in all donor countries.

**Recommendations:**

The EU should, at the GAERC meeting in May 2005, commit to an “additional financial resource package” including the adoption of a Currency Transaction Tax and an Aviation fuel tax possibly combined with the establishment of an International Finance Facility, in order to ensure long-term and predictable financial flows additional to 0.7% ODA pledges.

## **4.2 Allocation of aid to poor countries**

*“.. In most low-income countries and in nearly all the least developed countries, the*

*maximum that can be raised [domestically] will fall far short of what is needed to reach the Millennium Development Goals. According to the Millennium Project, the investment costs for the goals alone in a typical low-income country will be roughly \$75 (€66) per capita in 2006, rising to approximately \$140 (€124) in 2015 (in constant dollar terms). These small sums, equivalent to one third to one half of their annual per capita incomes, are far beyond the resources of most low-income countries.” UN Secretary General’s Report – Para.47.*

One of the first and most obvious steps along the route to aid that results in poverty eradication, is to allocate more aid to countries where the need is greatest. Two important categories within the list of aid recipients are the 50 Least Developed Countries. These include many small, island, landlocked and especially disadvantaged states (including many ACP countries) and the other Low Income Countries. These other Low Income Countries also have an average per capita income of \$2 (€1.7) a day or less, but include a few very large countries such as India and Bangladesh, where hundreds of millions of very poor people live.

### **4.2.1 LEAST DEVELOPED COUNTRIES**

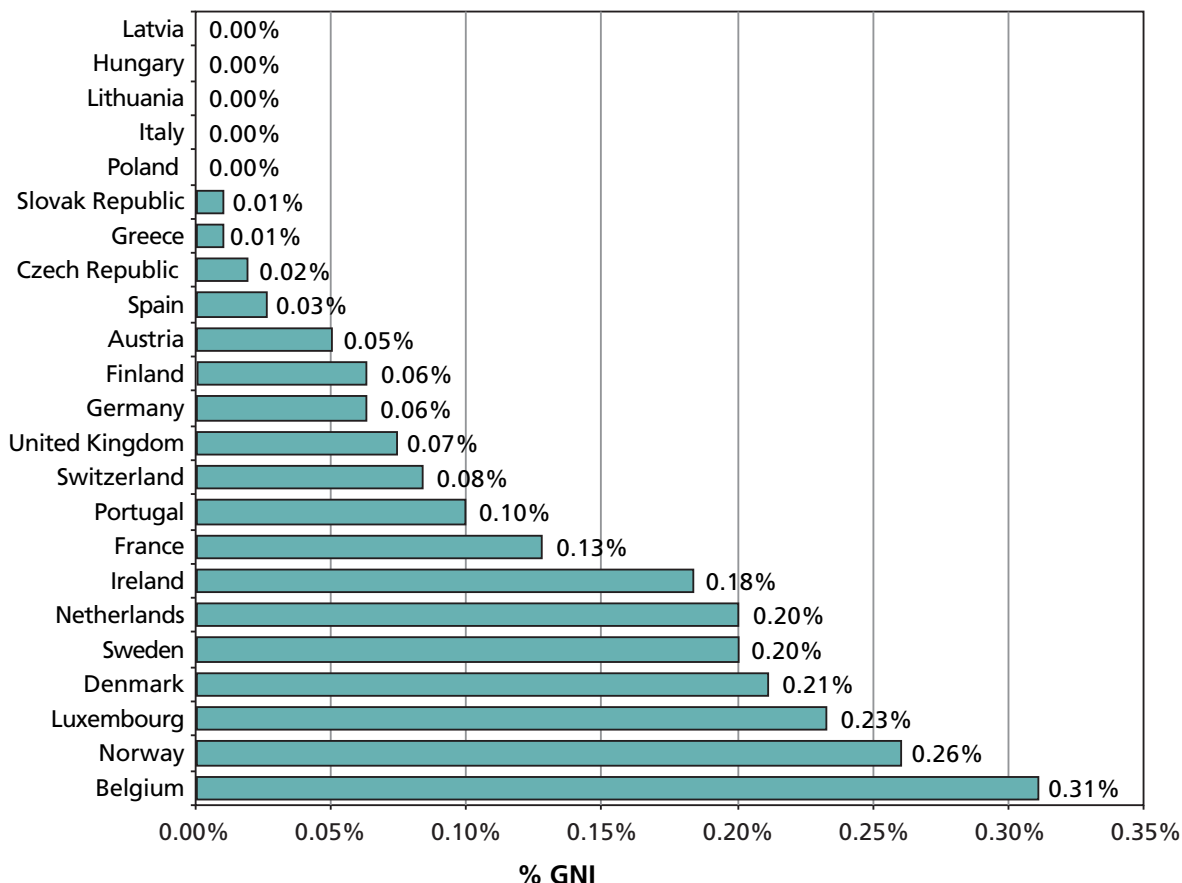
In 2001, the Brussels Programme of Action for LDCs established a target of 0.2% of GNI for LDCs – an increase on the earlier target of 0.15% of GNI.

Seven European countries meet the 0.2% target: Belgium, Norway, Luxembourg, Denmark, Sweden and the Netherlands. Ireland exceeds the 0.15% and Portugal manages 0.1% - but all other donors stand at less than half the Brussels target.

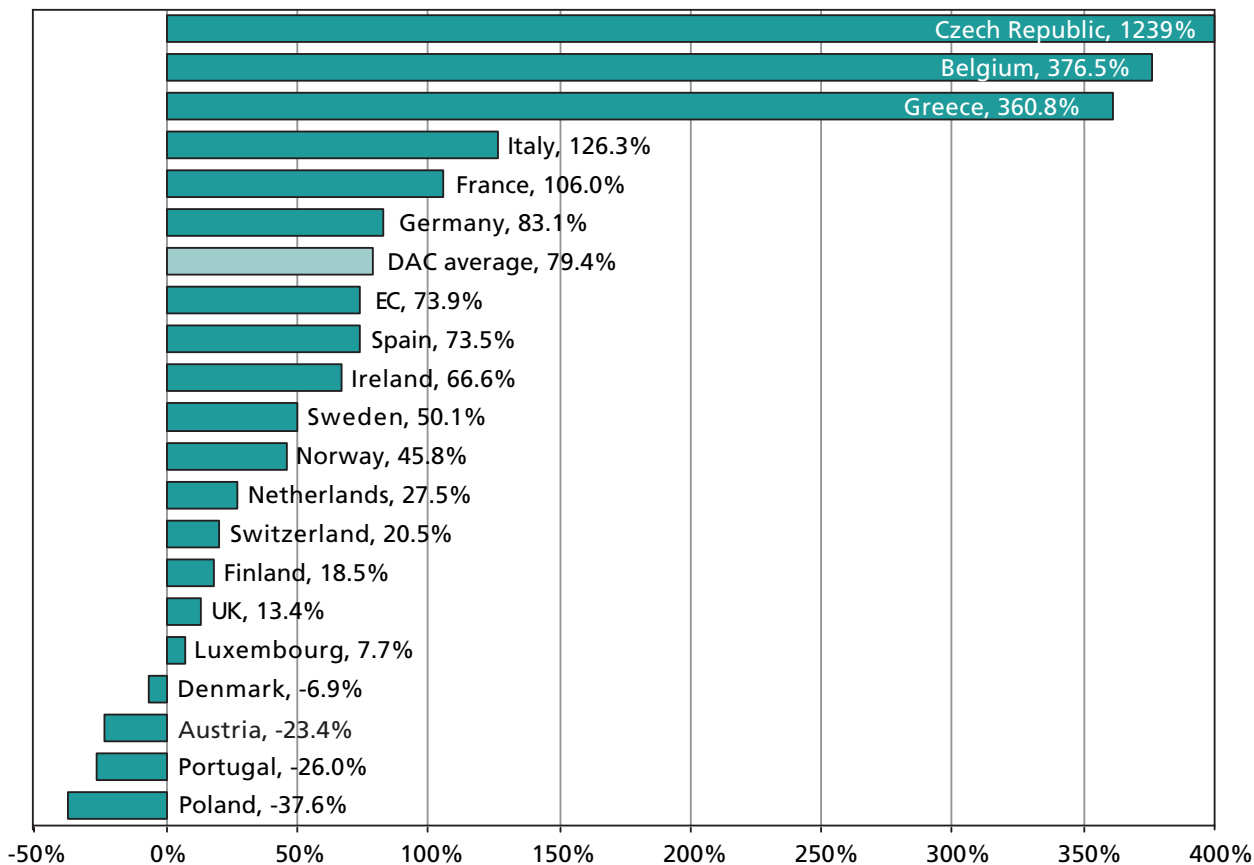
Collectively European Union Member States allocate 0.13% of GNI to Least Developed Countries, compared to the longstanding UN target of 0.15% GNI.

However, performance by the larger donors in the European Union – France, Germany and the UK – is well below target, with Germany and the UK failing to get even half-way there. France has made a commitment to achieve 0.15% of GNI by 2012 and Austria and Finland have also committed to the 0.15% target.

**FIG. 9: PERCENTAGE OF GNI TO LEAST DEVELOPED COUNTRIES, 2003**



**FIG. 10: PERCENTAGE CHANGE IN AID FROM EUROPEAN DONOR COUNTRIES TO LEAST DEVELOPED COUNTRIES BETWEEN 2000 AND 2003 (REAL TERMS)**



Despite the patchy progress on aid to LDCs as a share of GNI, the volumes and percentages of ODA that have been allocated to Least Developed Countries have been increasing since 2000 for 16 European countries, and for ten European countries, the increase has been over 50%.

**4.2.2 LOW INCOME COUNTRIES**

Least Developed Countries are particularly disadvantaged, but the share of aid which goes to Low Income Countries is also highly significant for impact on poverty and the achievement of the MDGs.

In 2003, the fifteen EU Member States collectively allocated 72% of their ODA<sup>vii</sup> to countries with an income per head of less than \$2 (€1.7) a day – the highest percentage on record since 1990. 25% - the lowest share on record since 1990 – went to Lower Middle Income Countries (with a per capita income of between \$2 (€1.7) and \$8 (€7) a day) and 4% to Upper Middle Income Countries (with a per capita income of between \$8 and \$25 a day).

The European Commission however has a different pattern. A growing share of EC aid has been spent in Least Developed Countries since 2000. But despite this, only 57% of ODA from the EC went to countries with a

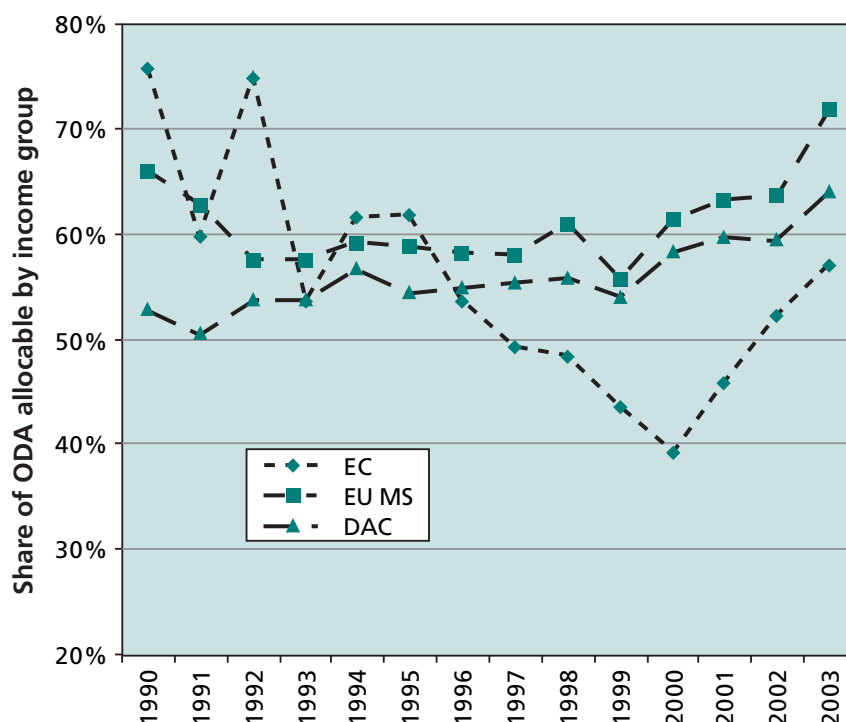
per capita income of less than \$2 (€1.7) a day in 2003. This compares with previous achievements of 62% to LICs in 1995 and 75% in 1992. The share of EC spending in Lower Middle Income Countries has been going down since 2000, but was still at 39% in 2003. The point of the MDGs is to halve the proportion of people living in absolute poverty by 2015, so it is hard to justify the EC’s lack of progress in refocusing its aid where the need is greatest. As a multilateral spending mechanism, the EC should be less subject to political self interest, and should be setting an example.

There is also great variation between European countries with six (Portugal, Belgium, Italy, Ireland, Denmark and the UK) allocating more than 80% of ODA to Low Income Countries and six (3 accession countries plus Greece, Spain and Austria) allocating less than 40%.

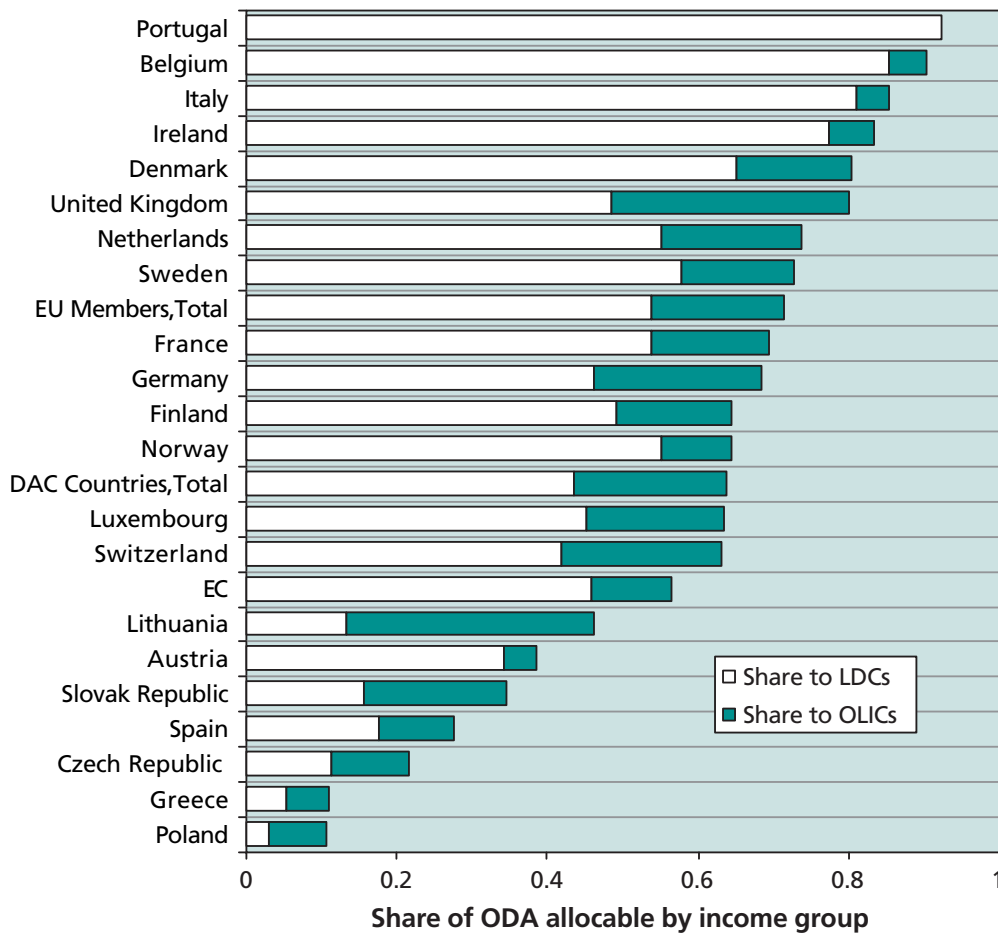
Danish NGOs report that the link between aid and security has, in practice, meant that aid has increasingly been allocated to Middle Income Countries, especially in North Africa and the Middle East.

The EC ranks 15<sup>th</sup> as a result of the fact that 43% of its aid allocations go to Upper and Lower Middle Income Countries, a higher

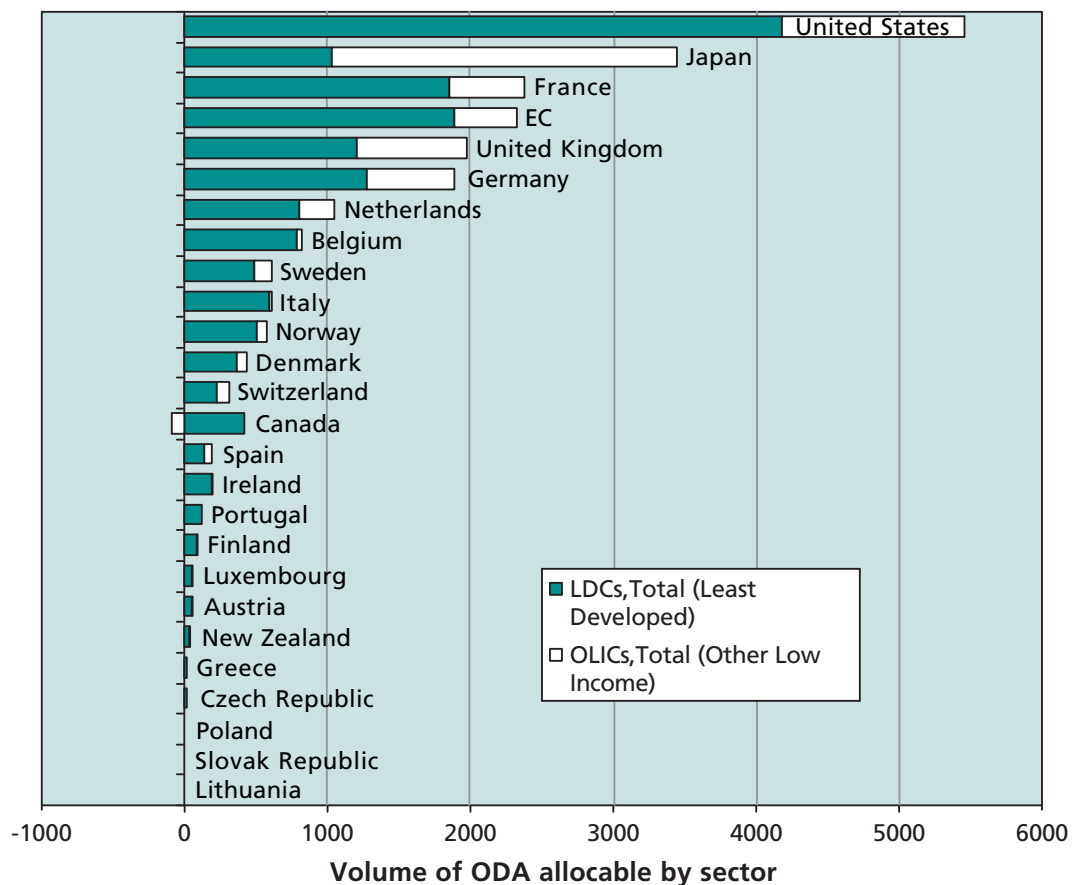
**FIG. 11: SHARE OF ODA TO ALL LOW INCOME COUNTRIES, 1990 - 2003**



**FIG.12: SHARE OF ODA ALLOCATED TO LEAST DEVELOPED AND OTHER LOW INCOME COUNTRIES, 2003**



**FIG. 13: TOTAL ODA TO LDCs AND OTHER LICs, 2003**



percentage than all non-accession Member States except Austria and Greece. However, because of the volume of ODA from the EC, it is still the third largest European donor to all Low Income Countries.

**Recommendations:**

It is widely acknowledged that Least Developed and other Low Income Countries, particularly in sub-Saharan Africa have little chance of achieving the MDGs by 2015 unless significant additional resources are released for their use. The EU and its Member States, which have a special commitment to Africa, should direct at least 0.2% of GNI to ODA towards the poorest countries, especially those in sub-Saharan Africa, to allow them to reach the MDGs. European Community aid should also have a clear poverty focus. A binding timetable to achieve this 0.2% commitment should be agreed upon by the GAERC in May 2005.

### **4.3 Allocations to Basic Social Services**

The Millennium Declaration envisaged a world free from want – and the MDGs focus strongly on the basic needs of health and education. Since then, the Millennium Project has reinforced the message of the profound effectiveness and reduced human suffering that results from investments in basic social services “relatively inexpensive, high-impact initiatives with the potential to generate major short-term gains and save millions of lives. These range from the free mass distribution of malaria bed nets and effective anti-malaria medicines to the expansion of home-grown school meal programmes using locally produced food and the elimination of user fees for primary education and health services.”

The UN Secretary General has also reinforced the need for resources to fight HIV/AIDS.

It has been known for decades that basic services are particularly vital to the poor and for the achievement of the MDGs. These services include the rights that most European citizens take for granted – and according to opinion polls, want to see their aid money spent on: basic health and nutrition, basic education, low-cost water

supply and sanitation. What choices have European donors made about the share of aid that should go to these basic services?

Ten years ago, the World Summit for Social Development hosted in the EU by Denmark, set out the goal that 20% of aid and 20% of developing country expenditure should be allocated to Basic Social Services (BSS). A number of European countries have taken up the baton and focused strongly on providing basic social services. But despite this, spending on BSS and on the broader areas of human development – general education and health – is lower than it should be.

Of the new EU member states, the majority focus on areas of comparative advantage which for countries such as Estonia and Hungary includes democratic state building and their focus therefore tends to be on countries in transition, which does not include the poorest countries or the most marginalised people.

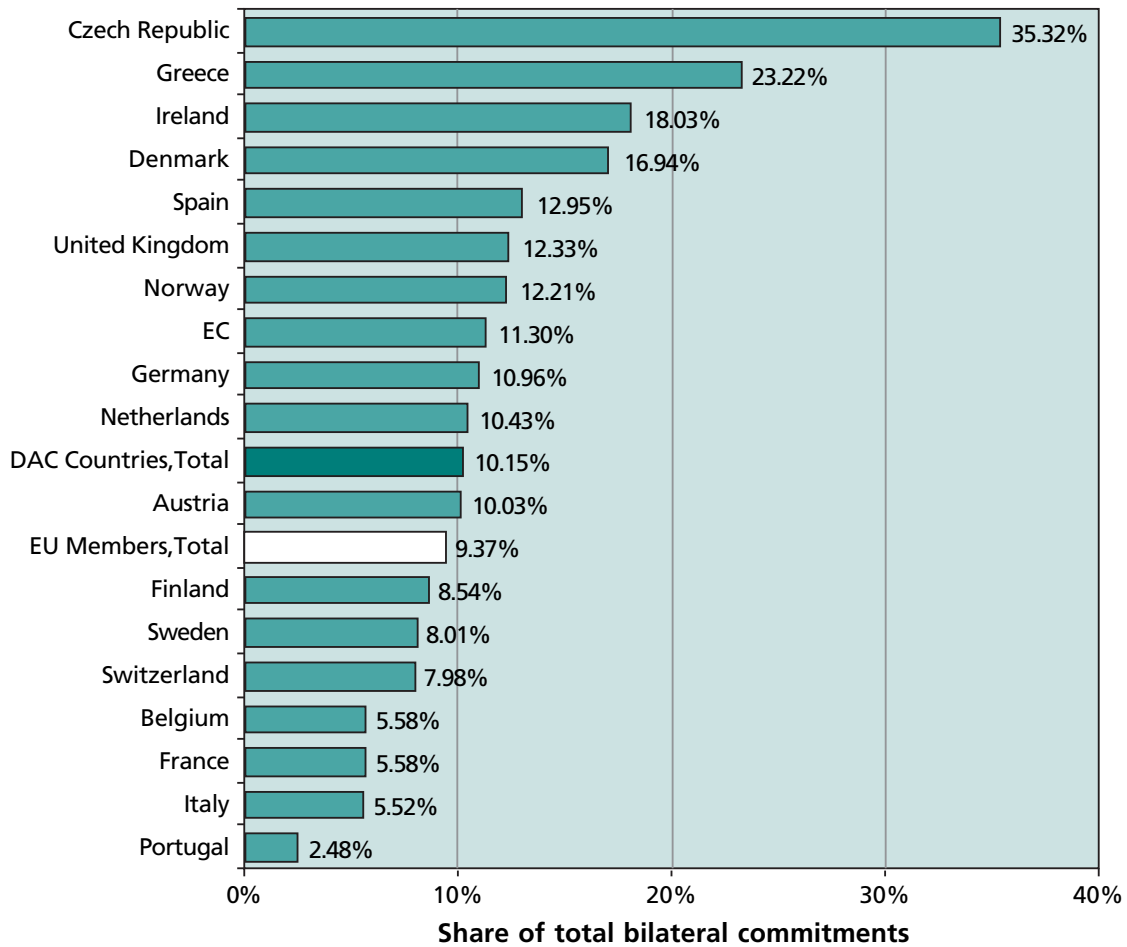
In 2003, according to DAC figures, just 9% of total bilateral commitments from European Union members were spent on Basic Social Services – slightly under the DAC average of 10%.

All but three European donors have increased their spending on Basic Social Services since 2000, the largest increases being in aid from France, the UK, Norway, the Netherlands and Spain. Ireland quadrupled its commitment to BSS in 2003 and Greece increased its spending from an average of around \$3 (€2.6) million a year to \$53 (€47) million in 2003. A number of others have shown a significant percentage increase in their spending, for instance Belgium, with an average increase of 25% a year since 2000, the UK with 26%, Spain 42%, Portugal 66%, Greece and Ireland. In its MDG Report, Hungary noted that approximately 20% of Hungarian ODA is spent on Basic Social Services.

Among those donors with a good record on spending on BSS, are those which have a clear policy which prioritises basic services – for instance:

- Four out of six priorities for French aid are basic social services.
- The Netherlands plans to increase spending on basic education alone to 15% of the total budget.

**FIG. 14: AID TO BASIC SOCIAL SERVICES AS A SHARE OF TOTAL BILATERAL ODA**



**FIG. 15: ACTUAL INCREASES IN AID SPENT ON BASIC SOCIAL SERVICES BETWEEN 2000/01 AND 2002/03**



- Denmark's own reports state that 44 per cent of bilateral assistance was granted to social sectors, and this share is expected to increase in the coming years.
- Greece, Czech Republic and Ireland give a very high priority to basic services.
- Germany has had a long term commitment to basic services, and a vocal NGO community in support of Basic Social Services.

#### **4.3.1 TIME FOR BETTER DATA ON SPENDING ON BASIC SOCIAL SERVICES**

Many donors argue that DAC figures understate their performance on basic services, and the reports that a number of donors produce for their own domestic audiences show much higher percentages of spending on basic services than are reported in the DAC data.

Belgium notes a difficulty in providing satisfactory estimates of the amount spent on BSS because, particularly in the past, development activities have not been systematically classified in terms of these services. But Basic Social Services have always been a key part of aid; they are what the public think aid is and should be about. It is now 10 years since the original 20/20 commitment – more than enough time to have produced reliable figures both internationally and domestically.

#### **4.4 Ensuring ODA becomes a real transfer to poor countries**

If real progress is to be made on the poverty eradication agenda set out in the MDGs, then aid needs to result in a real transfer of resources to developing countries.

The headline figures for aid show what a country has allocated and disbursed, but much of it may not result in a transfer to a developing country. Some of this is because the rules on what can and cannot count as ODA include some 'expenditure' which does not result in a transfer - this includes expenditure on domestic refugees, imputed student costs and on debt reduction. Another part of it results from the distortion

of aid flows through practices such as aid tying.

The DAC Chair has highlighted this issue in the two most recent annual DAC Reports. This is particularly significant in the context of the MDGs since the resources needed to achieve the targets have not taken into account the shares of ODA which are allocated to areas like administration, debt relief, imputed student costs and domestic refugees. <sup>viii</sup>

#### **4.4.1 TIED AID**

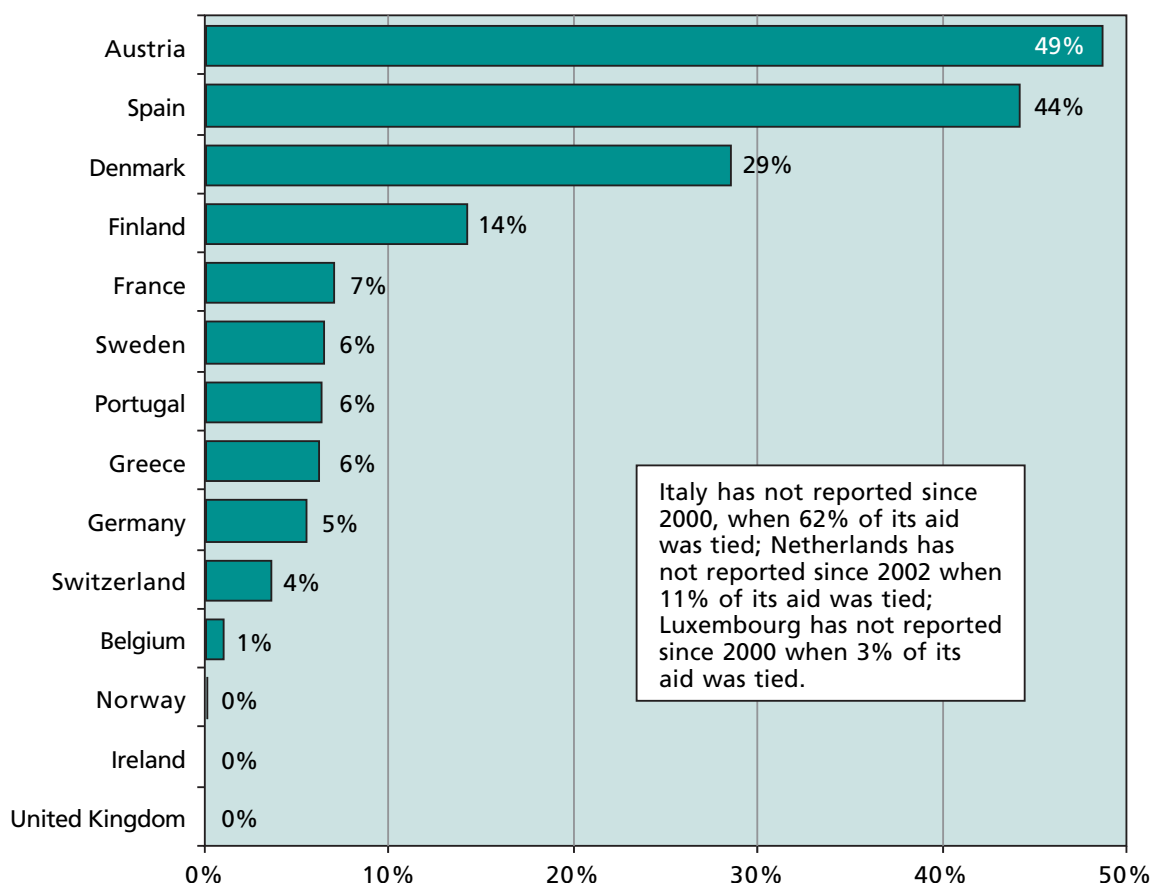
In April 2001, the DAC adopted a recommendation to untie some ODA to the LDCs. Technical Cooperation (TC) and Food Aid were excluded from the recommendation. This was not a minor exception: TC alone to LDCs amounted to \$3.6 (€3.2) billion in 2003.

In November 2002, the European Commission introduced new provisions for further untying of assistance from EU Member States following a commitment made to pursue the issue at Monterrey.

The EU position is that all aid from the EU should be untied, whether to LDCs or other developing countries. The Commission committed itself to making all the legislative and procedural changes (in 27 Council Regulations) necessary to ensure that Community aid would be untied between the 15 Member States and developing countries in Asia, Latin America, the Mediterranean and ACP for all forms of aid.<sup>ix</sup> However, the Commission proposal has not advanced because of difficulties in reaching agreement in the Development Council and because the regulations to which it would apply are being replaced by a new set of instruments in 2006.

Norway, not an EU Member State, has also unilaterally untied aid to developing countries, most of its free-standing technical cooperation is untied and it will be phasing out tied food aid by 2007.

In terms of policy proposals on the table, the European Union has gone well beyond the DAC rules – however, the actual volumes of untied aid still vary greatly between member states. Austria ties 49% of its aid, Spain 44% and Denmark 29%. Italy has not published statistics on the share of tied aid

**FIG. 16: TIED AID AS A PERCENTAGE OF BILATERAL COMMITMENTS, 2003**

since 2000, but NGOs report that it has increased from 60% then, to 92% now.

Part of the DAC process involved ensuring that untied contracts were properly notified and a website was set up for this purpose. <sup>x</sup>

Among EU Member States, two, France and Germany, have notified over 40 contracts in 2004, but that is very much the exception. Five Member States (Austria, Finland, Greece, Luxembourg and Portugal) have yet to notify any contracts, Denmark and Norway have not placed anything on the Bulletin Board since 2003 and none of the other Member States notified more than 7 contracts throughout 2004.

Despite the very positive EC policy on untying aid, \$1.4 (€1.2) billion was still wholly or partially tied in 2003 and a further \$7.4 (€6.5) billion was in the form of Technical Cooperation, much of which is likely to be spent on expertise from the donor country and even untied project and programme aid can bring benefits for donor country companies.

#### 4.4.2 STUDENT COSTS AND DOMESTIC REFUGEES

DAC rules allow donors to count some items as aid that many NGOs argue should be funded from domestic public expenditure. Two of these items are Imputed Student Costs and Domestic Refugees.

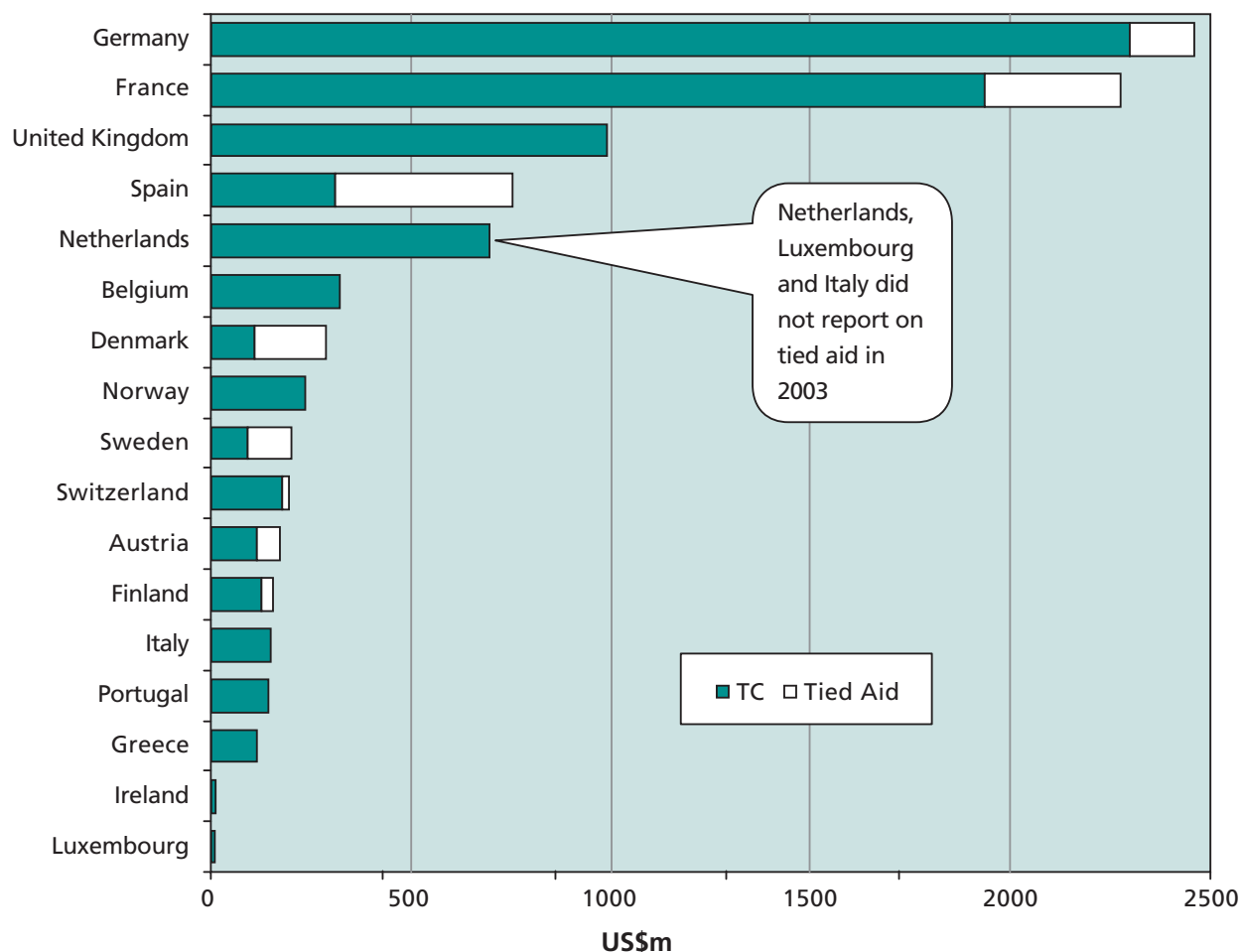
Under Domestic Refugees, the costs of supporting refugees in the donor country can be met from ODA for the first year of their stay. Imputed student costs are based on the share of official expenditure on education that corresponds to the percentage of the student body that is accounted for by students from developing countries – provided that this reflects a conscious policy of development cooperation.

Six EU Member States spent \$1,245 (€1,100) million of their ODA on developing country student costs in the donor country (more than all EU Member States combined spend on water and sanitation). France accounts for half of this amount, while its aid to basic education is six times less. Fourteen Member States spent \$931 (€824) million on domestic

**FIG. 17: NOTIFICATIONS OF UNTIED AID OFFERS TO THE DAC UNTIED AID BULLETIN BOARD AS OF MARCH 2005**

Country	Date of last notification	How many notifications in 2004
Austria	Has not yet notified any contracts	0
Belgium	16 December 2004	6
Denmark	07 February 2003	0
Finland	Has not yet notified any contracts	0
France	15 February 2005	42
Germany	07 march 2005	44
Greece	Has not yet notified any contracts	0
Italy	28 October 2004	4
Luxembourg	Has not yet notified any contracts	0
Netherlands	16 February 2005	1
Norway	24 July 2003	0
Portugal	Has not yet notified any contracts	0
Spain	23 September 2004	1
Sweden	29 July 2004	2
Switzerland	15 October 2004	2
United Kingdom	06 May 2004	7

**FIG. 18: TIED AID AND TECHNICAL COOPERATION FROM EU MEMBER STATES, 2003**



refugees (more than all EU Member States combined spend on basic education). The only countries who did not allocate any of their ODA to these categories were the UK and Luxembourg – Luxembourg’s aid does not include any debt relief either, so all of it is available for poverty reduction in developing countries.

#### 4.4.3 USING AID BUDGETS TO PAY FOR DEBT RELIEF

For several years now, NGOs have campaigned to ensure that debt reduction should be additional to existing ODA flows, based on the principle that debt relief is a separate issue of international justice. This is because donors count as aid the whole stock of forgiven debt – but the cash benefit to developing countries is only the cancellation of the debt that was being serviced.

Debt relief as a share of ODA is very significant for some European donors. In France more than 40 euros in every €100 of ODA is allocated to debt relief<sup>xi</sup>, in Italy €25 in €100 and Germany €19. Little of this results in any cash benefit to the developing

country. All other European donors allocate less than 10% of their ODA to debt relief. The large increases in aid from Portugal (up 187% in real terms) and the 30% decline in aid from Belgium in 2004 are both a result of debt relief being counted as normal ODA.

Some countries such as Belgium argue that debt relief programmes should not be accounted for in the same way as new ODA resources - which should be redefined as ‘net aid’. Norway has gone further and set up a Debt Relief Strategy Financing Facility, which permits cancellation of debt without a corresponding budget allocation. Thus the Norwegian Kroner 1.6 billion of debt cancellation achieved by 2003 was additional to ODA contributions.<sup>xii</sup>

However, in France, if debt relief is excluded from ODA, aid hardly increased at all. Since donors have recently agreed a debt relief package for Iraq, the volumes of ODA allocated to debt relief are likely to remain high and should not be allowed to mask the flow of real resources which can be allocated to poverty eradication.

FIG. 19: ODA AVAILABLE FOR POVERTY REDUCTION IN 2003

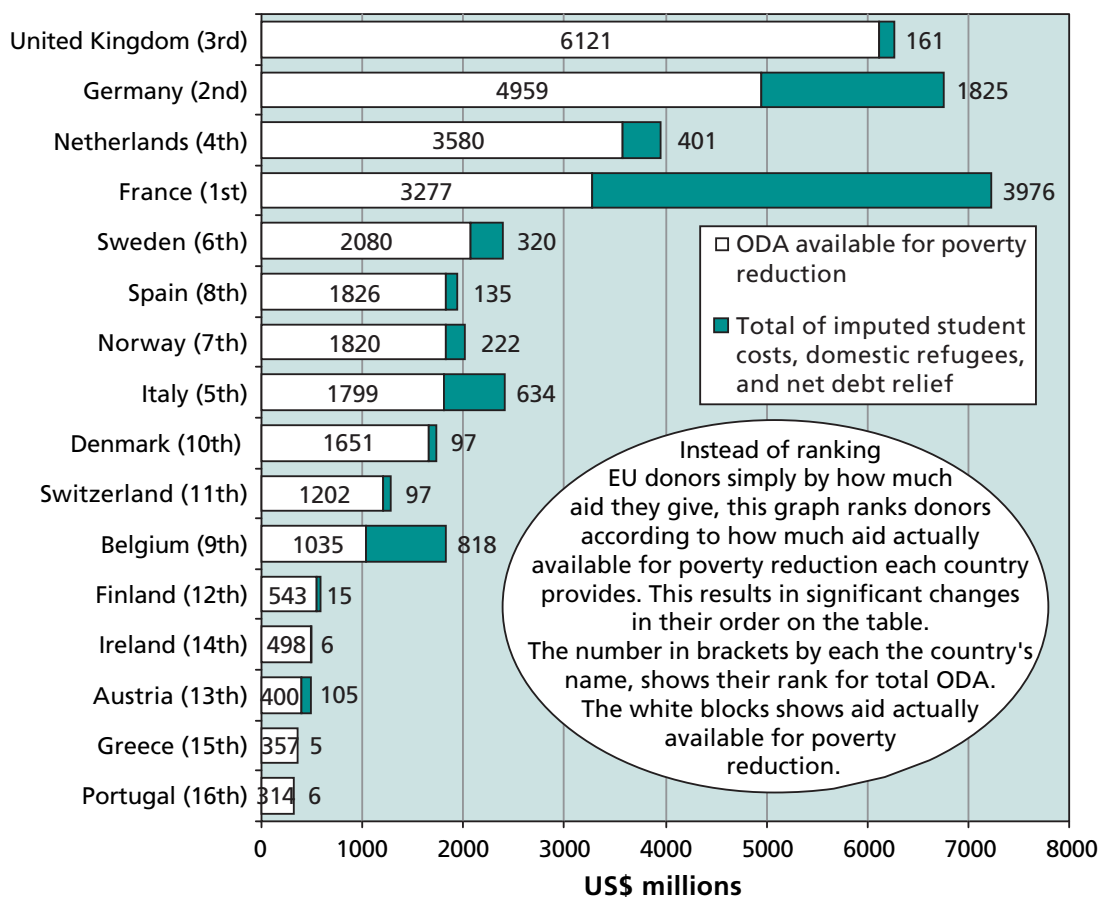
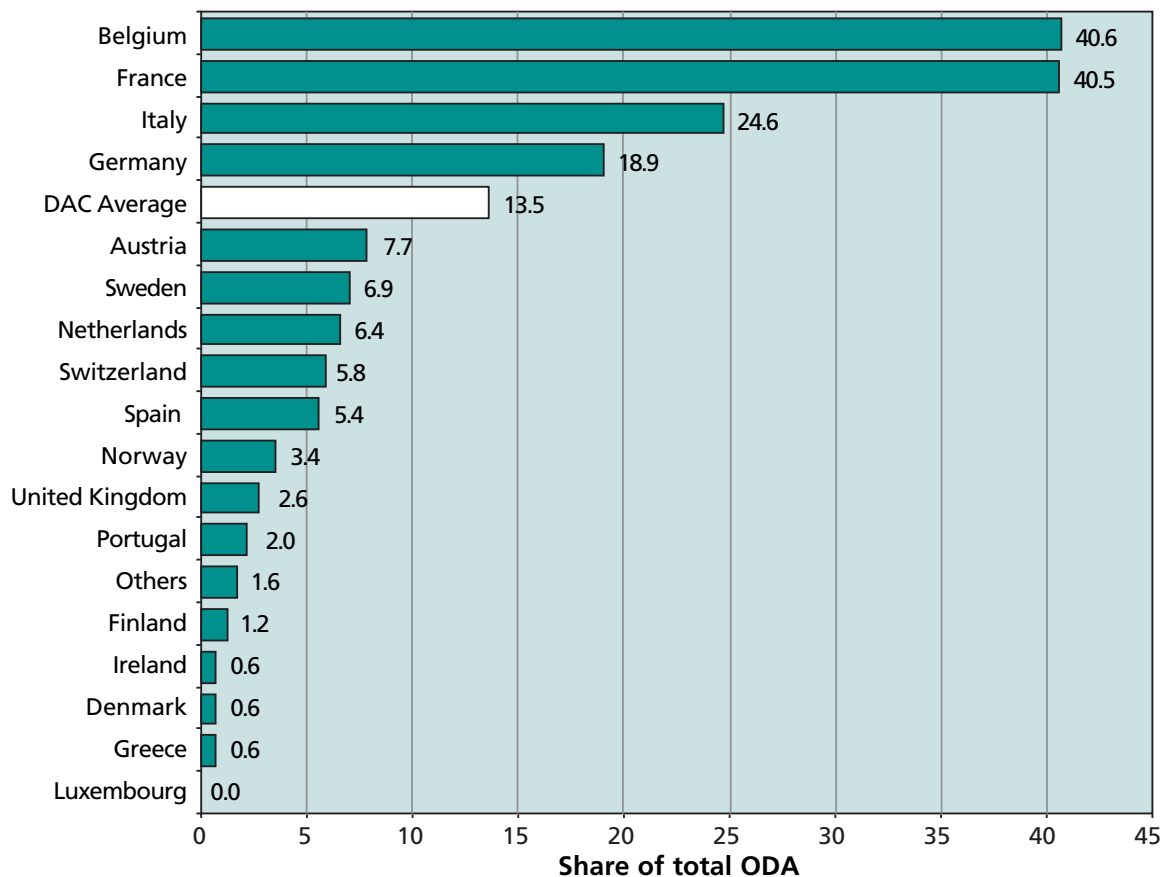


FIG. 20: DEBT RELIEF AS A PERCENTAGE OF ODA, 2003



#### 4.4.4 EXPORT CREDIT DEBT: USING AID TO REPAY NON-DEVELOPMENTAL LOANS

Debt forgiveness is categorised into ODA claims, Other Official Flow (OOF) Claims and Private Claims. Under DAC rules, forgiveness of non-ODA loans (mainly export credits) is recorded as ODA. Export Credits are loans given for the purpose of trade, usually between a donor country company and an aid recipient country. If the loan is extended by the private sector, it may be officially guaranteed by the donor country government. If the loan is not repaid, then the lender will be compensated with funds from the aid budget. That will be classed as debt forgiveness for private claims.

OOF Claims arise where the donor government has issued a loan which did not qualify as ODA, either because it was on market terms (to qualify as an ODA loan the grant element must be at least 25%), or because the purpose of the loan was not developmental. If the loan is not repaid, then the aid budget compensates the lender.

Overall, for EU Member States, 12% of debt forgiveness was for ODA claims, 69% was

for Other Official claims and 19% for private claims. This means that over \$1 (€900 million) billion of aid was spent in 2003 compensating private lenders who had extended credit to developing countries to enable them to buy their own products. Nearly \$4 billion (€3.5) was spent compensating government departments for bad debts incurred on non-developmental or commercial loans.

Dutch NGOs point out that the export credit agencies charge premiums to corporations taking out an export credit insurance/guarantee. In the case of the Netherlands, the agency reinsures these deals with the Dutch State, represented by the Ministry of Finance. Therefore the premiums are transferred to the Ministry, and enter the national accounts. If the insured corporation successfully files a claim under its export credit insurance, the export credit agency will pay, and the Ministry of Finance will then, in turn, reimburse the export credit agency. Thus, the Ministry will own the claim on the (developing) country in which the deal took place and, at the

same time, that country will have become indebted to the Netherlands. In this way Nigeria for example, has developed a debt of €1.3 billion.

Countries that became heavily indebted through previous publicly supported export credits/guarantees may call on the Paris Club to get (partial) debt cancellation. In such cases, the Netherlands, as part of this club, is obliged to write off part of its claims. In practice this is done at the expense of the ODA budget (as it is a fixed share of GNI) and other poverty alleviation activities. The premiums that the Dutch state receives for long term operating costs and losses are not, in fact, used to cover such losses. In the opinion of Jubilee Netherlands, this results in prohibited export subsidies, at the cost of ODA, which is a violation of the European Council Directive 98/29/EC.

This is not an academic point. The DAC has pointed out that aid flows over the next few years are likely to include very substantial amounts arising from the agreement on bilateral debt relief for Iraq. Much of this will arise from export credit debt and will be a lot of money for some European donors such as Austria and Germany. This aid should not be confused with resources for tackling the MDGs or allowed to mask the true trends in aid flows.

**Recommendations:**

EU donors should agree a revised definition of ODA that excludes debt relief and cancellation of all unpayable export credit debt; and should fully untie all aid, including food aid and technical cooperation, to all developing countries by 2010.

## 5 Action on Debt

*“To move forward, we should redefine debt sustainability as the level of debt that allows a country to achieve the Millennium Development Goals and reach 2015 without an increase in debt ratios.” UN Secretary General’s Report – Para.54.*

Debt reduction is a vital part of the programme to achieve the MDGs – not just because it will relieve developing country budgets – but because resolving the issue of unpayable debt is a litmus test of genuine commitment to partnership. Insisting that the poorest people and countries discharge debt to rich creditors – when often they received no benefit from the original loan – does nothing to accelerate progress towards MDG goals.

A number of donors have taken vigorous action on debt. Denmark and Switzerland have written off nearly all bilateral debt; Belgium is advocating different tools for different economic conditions in individual developing countries; Ireland advocates the write-off of multilateral debt from additional resources and the UK has placed its debt policy in line with the development agenda, working to get further debt reduction for the poorest countries and announcing its financing of multilateral debt relief to the World Bank and African Development Bank on behalf of eligible Low Income Countries. It has also called for further debt relief from the IMF to be funded through the “better use” of IMF gold resources.

Since the outbreak of the debt crisis in the early 1980’s, various solutions have been proposed by commercial creditors (with the so-called Brady initiative) and by sovereign creditors (with various Paris Club arrangements) and, more recently, the Heavily Indebted Poor Country (HIPC)

Initiative of the World Bank and IMF. The HIPC framework marked the first real attempt to establish a more comprehensive approach to low-income debtor countries. By bailing-in commercial, bilateral and multilateral creditors alike, it attempts to resolve debt crises from the point of view of debtor countries.

Whilst debt relief has freed up a large amount of resources for development, most of these initiatives have proved largely inadequate and have failed to provide a robust exit from unsustainable debt or be properly integrated with the MDGs.

The HIPC initiative uses an inappropriate analytical criterion - the debt-to-exports ratio - to judge the sustainability of a country’s debts whereas a wider set of human development indicators needs to be taken into account.

The capacity to earn foreign exchange through exports, which the HIPC initiative’s calculation of debt sustainability is based on, is an important element in any analysis of the sustainability of debts denominated in foreign currencies. But for Low Income countries challenged by widespread and deep levels of poverty, a crucial part of the analytical framework must be the tax revenue actually available to governments and the trade-off between maintaining their debt-servicing obligations and financing poverty reduction. The Country Policy and Institution Assessment (CPIA) which is to form part of the new debt sustainability framework being discussed within the International Financial Institutions, is an additional cause for concern as a criteria to determine a country’s ability to sustain debt. It would increase the amount of policy conditionality imposed upon a borrower country through the ‘back-door’, while donors are declaring their intentions to ‘stream-line’ conditionality in the front.

Despite these shortcomings, a number of donors, such as Germany, remain in favour

of traditional sustainability approaches rather than the write-off of all unpayable debt stocks, on the basis of an assessment of human development needs, or even a temporary suspension of debt service as being advocated by, among others, the UK.

Similarly, France as the single biggest contributor to the HIPC initiative, argues that HIPC was a success and what is now needed is not further debt relief (that is why France does not support the UK initiative on debt relief), but a mechanism to ensure the long-term sustainability of poor countries' debts. France has put forward a proposal to help countries maintain their debt sustainability when facing external shocks outside their responsibility. This would use IDA resources to suspend a country's repayments in case of debt distress due to an external shock.

Despite general support for HIPC, Switzerland has been critical of the choice of certain debt indicators and the high level of debt distress thresholds.

## 5.1 Fair and Transparent Arbitration

In response to some of these flaws and the growing debt crisis in middle income countries, the IMF proposed the "Sovereign Debt Restructuring Mechanism" (SDRM). This initiative was criticised for failing to resolve cumbersome decision-making procedures, failing to deal with multilateral debt and still lacking full transparency, impartiality and a poverty perspective. Furthermore, the Bretton Woods Institutions would still have acted as both creditors and centralised assessors of debt sustainability, which would still have maintained a clear case of conflict of interests. This initiative was eventually blocked in 2003 but it did start a positive move in the direction of establishing a fairer resolution of debt crises.

Proponents therefore argue that a more equitable Fair and Transparent Arbitration Process (FTAP) must be considered. This process would allow creditors and debtors alike (including civil society) to be guided by a neutral arbitration body and decide the conditions for a sustainable exit from over-indebtedness.

The process would be open to all debtor countries, addressing private as well as

bilateral and multilateral debts and driven by an independent institution, such as an international arbitration panel. This panel – whose members should be chosen by the debtor and the creditors alike – would determine debt sustainability thresholds consistent with basic economic and social rights and with internationally agreed poverty reduction objectives such as the Millennium Development Goals.

Representatives of the debtor country (parliament, trade unions, grassroots organisations, churches, NGOs, etc) would also have a right to be heard before the panel. The panel would also be the forum where the legitimacy of the individual creditor claims can be questioned and scrutinised. The panel's judgement would aim to bring down debts to sustainable levels where analyses of sustainability take into account, first and foremost, the financing of poverty reduction programmes.

Creditors and the debtor country must agree on safeguards to redirect debt reduction savings to these programmes. Furthermore, to avoid potential conflict of interests, the role of the IMF would be restricted to the provision of essential foreign exchange and technical advice.

European NGOs report little progress from their governments on either insolvency mechanisms or the cancellation of odious debt in the context of the MDGs. The Austrian government for instance has supported SDRM and Austrian representatives at the IFIs mostly support the view that the creditors should have the final word on debt restructuring. Hence they are not supportive of the idea of FTAP. In Germany however, the government has made announcements in favour of FTAP, but so far the policy has not been put into practice and awaits demands for an FTAP-style treatment from at least one developing country.

## 5.2 Support for the HIPC Trust Fund and HIPC countries

The HIPC Trust Fund was set up for the reduction of multilateral debts. Cumulative pledges from EU Members States plus Norway and Switzerland totalled \$2.3 (€2) billion by June 2004, 66% of the total fund.

FIG. 21: NET DEBT RELIEF FROM EUROPEAN DONORS, 2003

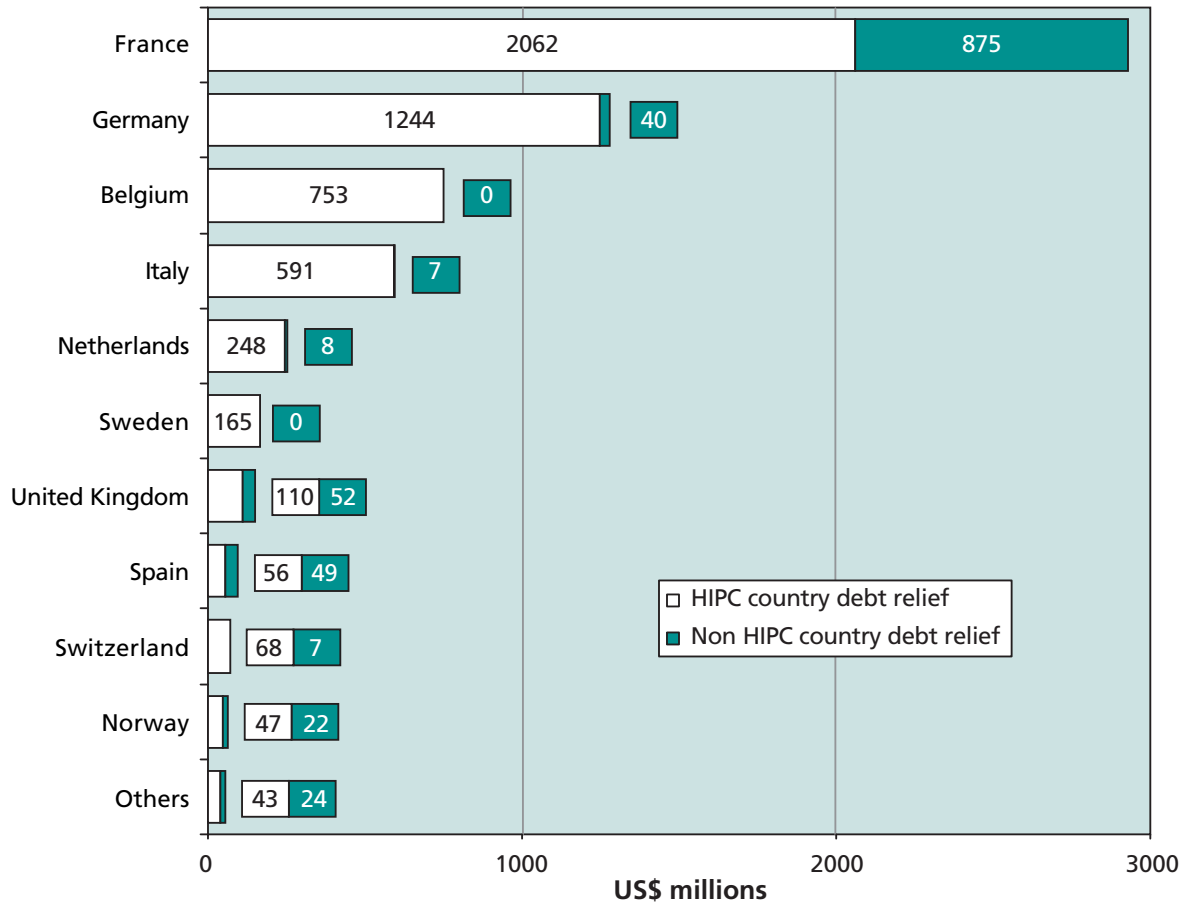


FIG. 22: SHARE OF TOTAL ODA TO HIPC COUNTRIES, 2003

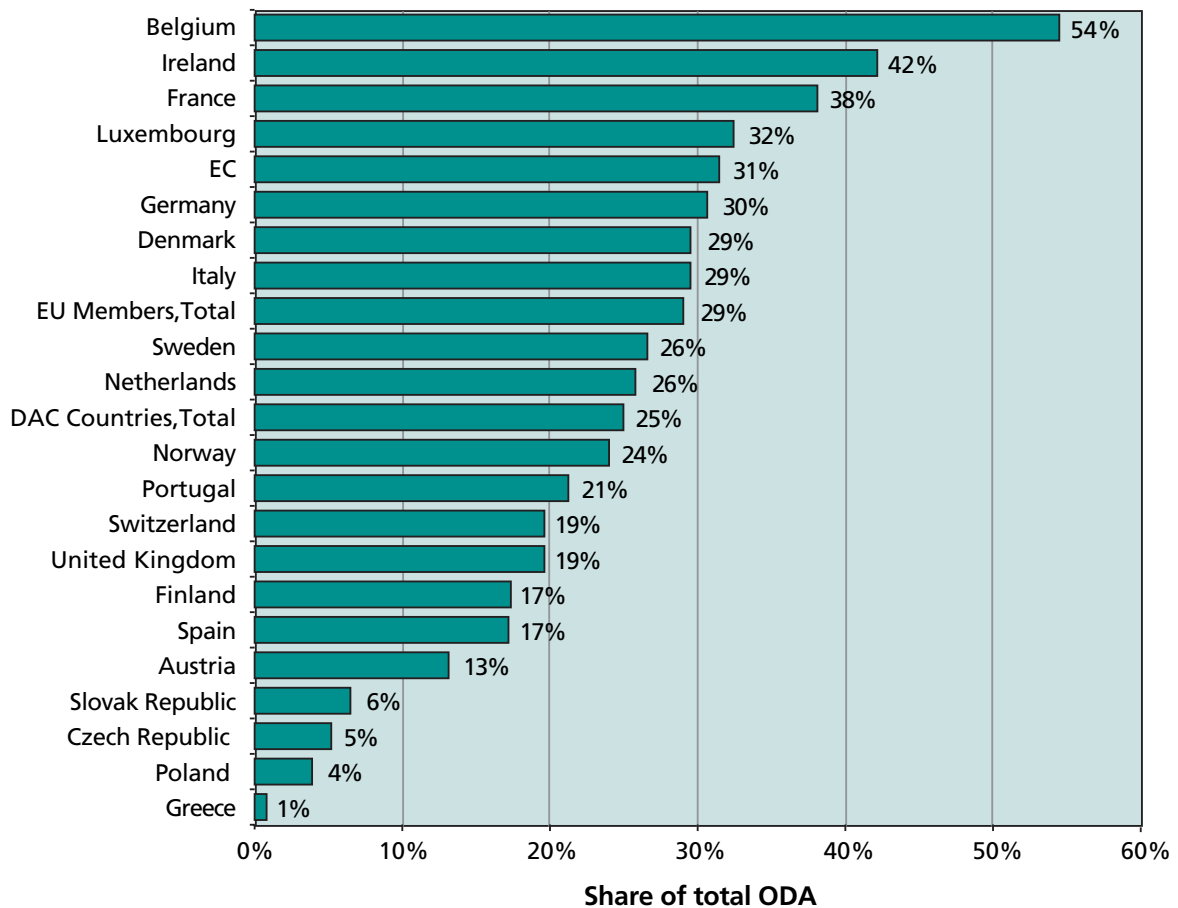
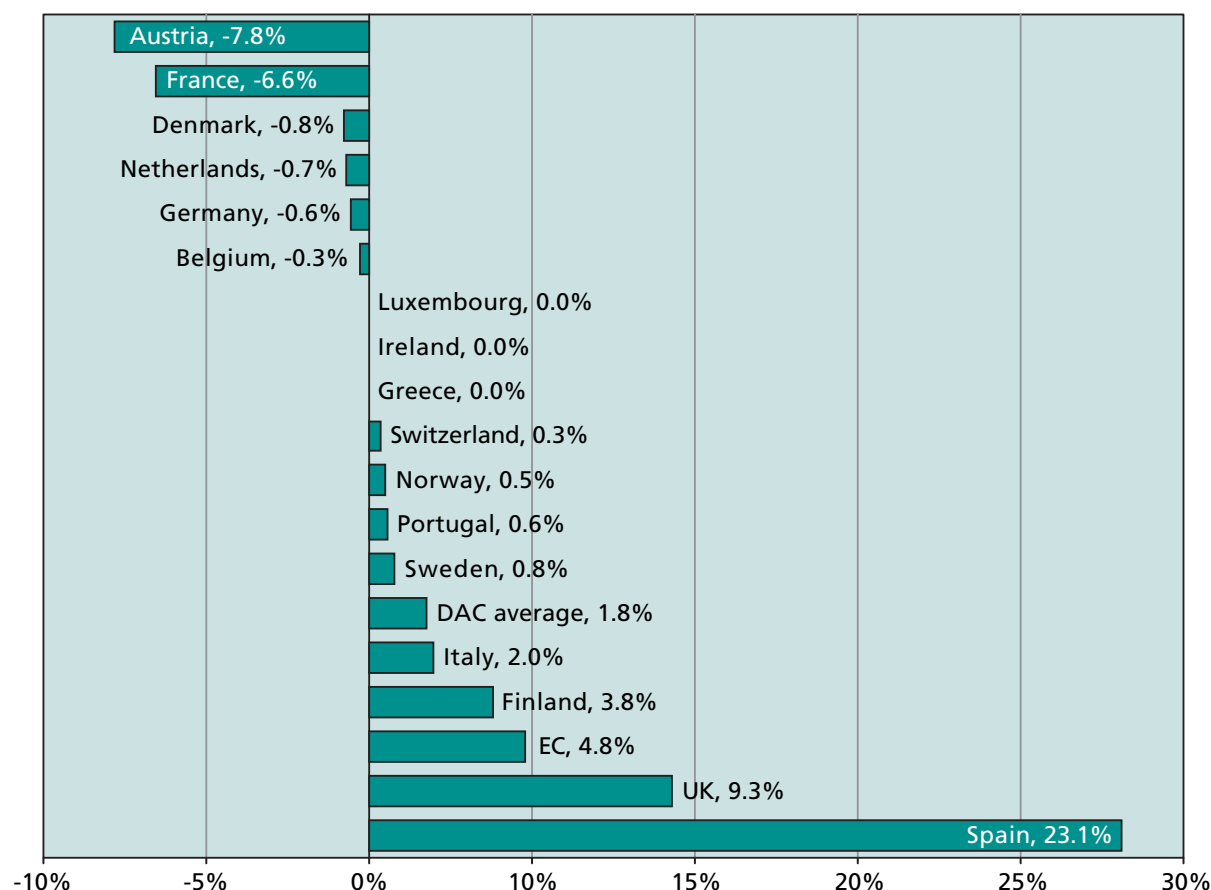


FIG. 23: LOANS AS SHARE OF TOTAL ODA TO HIPC COUNTRIES, 2003



Total Net Debt Relief from European donors amounted to \$6.5 (€5.7) billion in 2003. \$5.4 (€4.8) billion, or 83% of that, was for HIPC countries.

Only France, Spain and the UK have a significant share of debt relief to non-HIPC countries. In Spain, 46% of debt relief goes to non-HIPC countries. In the UK and France it is around 30%.

It is clear – as is pointed out in the Secretary General's Report – that to meet the MDG requirements on debt, most HIPC countries will require exclusively grant-based finance and 100% debt cancellation. Although most European donors give all of their aid to HIPC countries in the form of grants, there are some significant exceptions. Nearly a quarter of Spanish aid to HIPC countries is in the form of loans, 9% of UK aid and 5% of aid from the EC. This compares with the DAC average of 2% of ODA to HIPC countries in the form of loans. New loans totalling \$821 (€727) million were extended to HIPC countries in 2003 – compared with grant funding of nearly

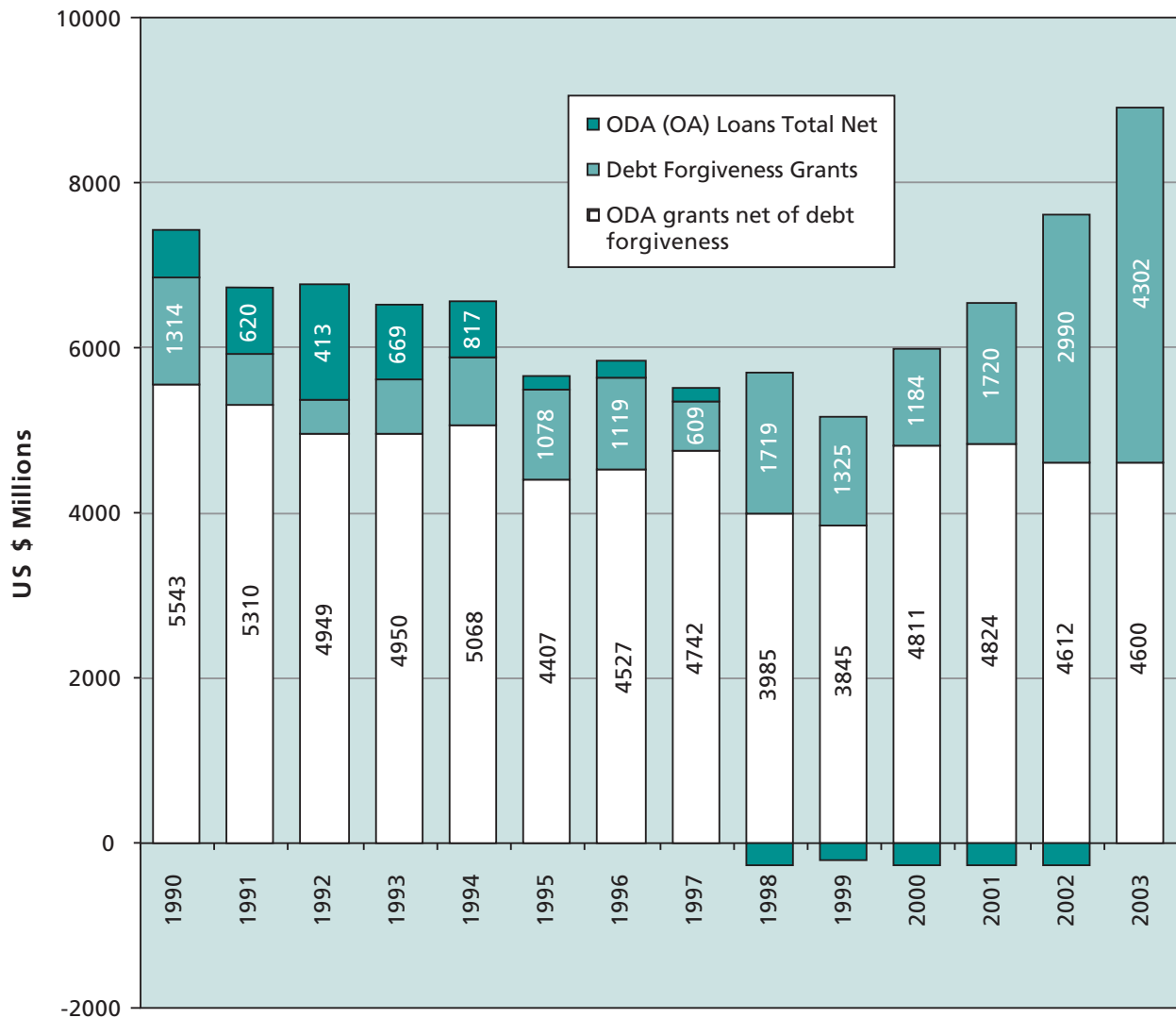
\$11 (€9.7) billion, half of which comprised grants for debt forgiveness. Six European donors lent \$50 (€44) million or more: France (\$365m - €323m); EC (\$166m - €147m); the UK (\$153m - €135); Spain (\$148m - €131m); Germany (\$86m - €76m) and Italy (\$49m - €43m).

Crucially, debt reduction should not come at the price of other development finance. The data shows that this has not been the case. In real terms, grant aid for activities other than debt forgiveness from EU member states to HICPs has been falling since 2000 and is around \$1 billion (€900 million) less than it was in 1990. Debt forgiveness grants from EU members have increased since 2000, growing from \$1.2b (€1b) to \$4.3b (€3.8) in real terms. Nearly two thirds of this comes from France and Germany alone.

#### Recommendations:

EU donors should immediately cancel the debt of those countries whose debts are unpayable on the basis of human

FIG. 24: ODA TO HIPC COUNTRIES, GRANTS, DEBT FORGIVENESS AND LOANS, 1990 - 2003



development needs or for being odious, paid for by resources additional to ODA. Moreover, they should fulfil their commitment made in Monterrey (para. 49 of the Monterrey Consensus) to adopt a human development approach to debt sustainability.

The European Union should take the lead in the establishment of an internationally applicable fair and transparent arbitration procedure, such as an arbitration panel, open to all

countries and stakeholders, and independent of financial institutions, which would determine debt sustainability thresholds.

In order for development finance to actually work towards the achievement of the MDGs, EU and Member States' criteria for its allocation should be based upon an evaluation of the gap faced by countries in resources required to reach the MDGs.

## 6 Trade Policy

*“At present, developing countries are often denied a level playing field to compete in global trade because rich countries use a variety of tariffs, quotas and subsidies to restrict access to their own markets and shelter their own producers.... An urgent priority is to establish a timetable for developed countries to dismantle market access barriers and begin phasing out trade-distorting domestic subsidies, especially in agriculture... [UN] Member States should provide duty-free and quota-free market access for all exports from the least developed countries.” UN Secretary General’s Report – Para.55.*

MDG Goal 8 demands an “open, rule-based, predictable, non-discriminatory trading and financial system”. What steps have European countries taken to achieve this? In the context of Europe, where the EU has competency in many trade areas, it is important to look both at what the EU has done as a Union AND at what steps Member States have taken to shape EU policy.

Some official MDG reports are very open about the policies they have been pursuing in the EU. The UK Department of Trade for instance has specifically stated that the EU should agree to further agricultural reform with a timetable such that export subsidies should no longer be an issue for World Trade in 2010. But in other countries, such as Finland, there is no transparent information about Finnish positions inside the EU. In Denmark, it is the parliament that has been most active in pursuit of trade reform, deciding that Denmark should work for a more drastic and rapid abolition of the CAP

and improved progress on market access for development - although NGOs point out that a timetable is lacking. France has been advocating a “moratorium on agricultural subsidies” – although NGOs point out the ambiguity of the proposals.

Constitutionally the European Union is required to take development cooperation objectives into account in setting and implementing all policies likely to affect developing countries.<sup>xiii</sup> The official EU trade policy also aims to contribute to a more equitable integration of developing countries into the international trading system. A practical illustration is EU recognition that the poorest countries are not ready to face the increased competition arising from market liberalisation - and therefore its support for Trade Related Assistance and Special and Differential Treatments under the WTO’s Doha Development Round.

The large volume of trade between developing countries and the EU means that decisions on trade have a large impact on developing countries and the prospects for achieving the MDGs. Examples of poor EU policies which have had an adverse effect on developing countries involve cotton and sugar – policies which essentially permit dumping on Southern markets.

The EU is one of the highest cost producers of sugar in the world – but even so it remains the 2<sup>nd</sup> largest exporter of sugar. In a November 2004 ruling by the WTO, the EU was found to be violating WTO rules by exporting four times more subsidised sugar than is allowed. Oxfam claimed that Europe dumps around 5m tons of excess sugar on world markets each year.

At the start of the new millennium, European cotton farmers received by far the highest level of support per kilo in the world - 154% above world prices in 2001/02. Over 10 million people in West and Central Africa alone rely on cotton for their livelihoods. Although the cost of producing cotton in

West Africa is lower, the subsidies mean that West African countries are competing on an uneven playing field.

Four West African countries (Benin, Burkina Faso, Chad and Mali) raised the 'Cotton Initiative' with the WTO in 2003, arguing for the complete elimination of cotton subsidies in the US and the EU on the basis of the damage caused to their economies. The EU now reports that it has significantly reduced trade-distorting domestic subsidies on cotton and has supported addressing cotton quickly in WTO agriculture negotiations – an example of a positive, albeit insufficient, step towards coherence under MDG8.

Some EU member states have also been pursuing this issue – the German Minister for Development Cooperation for instance has been supporting the dismantling of cotton subsidies and the Dutch have supported African cotton producing countries in making their case in the Doha Development Round at the WTO.

Some other EU donors may be guided more by their domestic interests. NGOs in Italy report that there has not been much resistance to rice and cotton subsidy reform because these are not priority products for Italy. However, Italy is the fourth largest sugar producer in Europe and NGOs suggest that it will not be in favour of the elimination of sugar export subsidies.

## **6.1 Market Access (duty and tariffs)**

### **6.1.1 MARKET ACCESS FOR LDCs**

In 2001 the EU agreed the Everything But Arms (EBA) initiative which allows duty free and quota free access for all goods from LDCs – except for arms. Currently, there is a transitional period for a number of agricultural products of vital interest to LDCs such as rice, sugar and bananas. Tariffs and quotas for bananas will be phased out by 2006, but for rice and sugar not until 2009. As Belgium notes, the full benefit of the EBA initiative will not be felt until the transitional period has elapsed and the Danish parliament has demanded speedier progress on sugar.

The opening of Southern markets to EU production often has a negative impact on Southern economies that reduces the

benefits coming from market access for developing countries to the EU market. In view of this, it is particularly important that the new Economic Partnership Agreements (EPAs) should not require reciprocal market access: tariff reduction commitment should not be the same for developing countries and the EU.

For the last seven years, around 95% of imports from LDCs (excluding arms and oil) have entered the EU duty-free. This compares with less than 40% for all other developed countries including the USA, Japan and Canada.

### **6.1.2 MARKET ACCESS: DEVELOPING COUNTRIES AS A WHOLE**

Two thirds of imports to the EU from developing countries are duty-free. This is only slightly higher than the 63% of imports which can enter other developed countries duty-free. But although this is small difference, duty-free access to EU markets has increased more sharply than access to other developed country markets.

In 1996 only 41% was duty-free compared to 66% in 2003. The corresponding figures for other developed countries were 46% and 63% - so the EU currently has a better record than other developed countries.

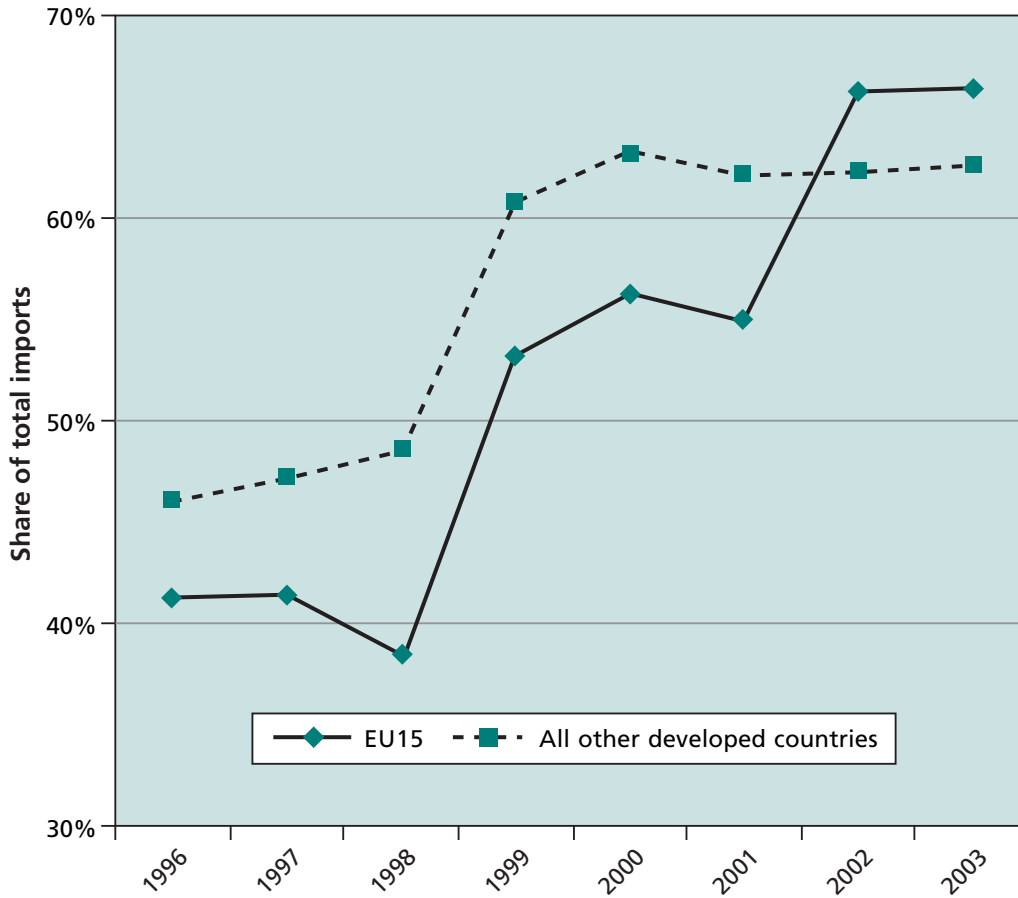
### **6.1.3 TARIFFS**

Agricultural and clothing products are particularly important to developing countries. The average tariffs that are imposed on agricultural products by the EU are higher than for all developed countries. But for textiles and clothing, the EU tariffs are lower and the EU has proposed initiatives on products such as clothing and shoes to reduce tariffs to as near zero as possible.

For LDCs, EU tariffs are very significantly lower in all sectors, although the difference is much less for agricultural products.

But NGOs argue that 'meaningful' access of developing country agricultural products, such as sugar and processed agricultural products such as chocolate still needs to be achieved. The UK has also been advocating this in the EU, arguing for elimination of tariff escalation so that no tariff on processed products is higher than for basic commodities.

**FIG. 25: PROPORTION OF IMPORTS (EXCL. ARMS AND OIL) FROM DEVELOPING COUNTRIES THAT ARE DUTY-FREE**



**FIG. 26: PROPORTION OF IMPORTS (EXCL. ARMS AND OIL) FROM LDCs THAT ARE DUTY-FREE**

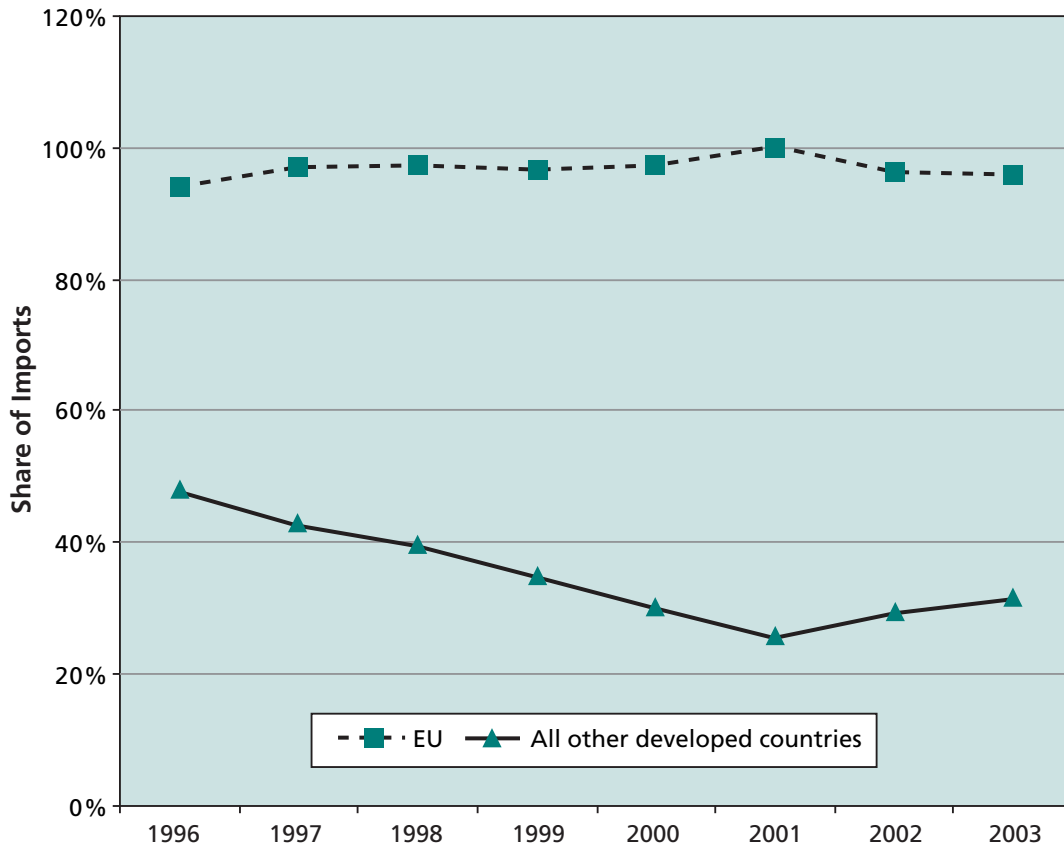
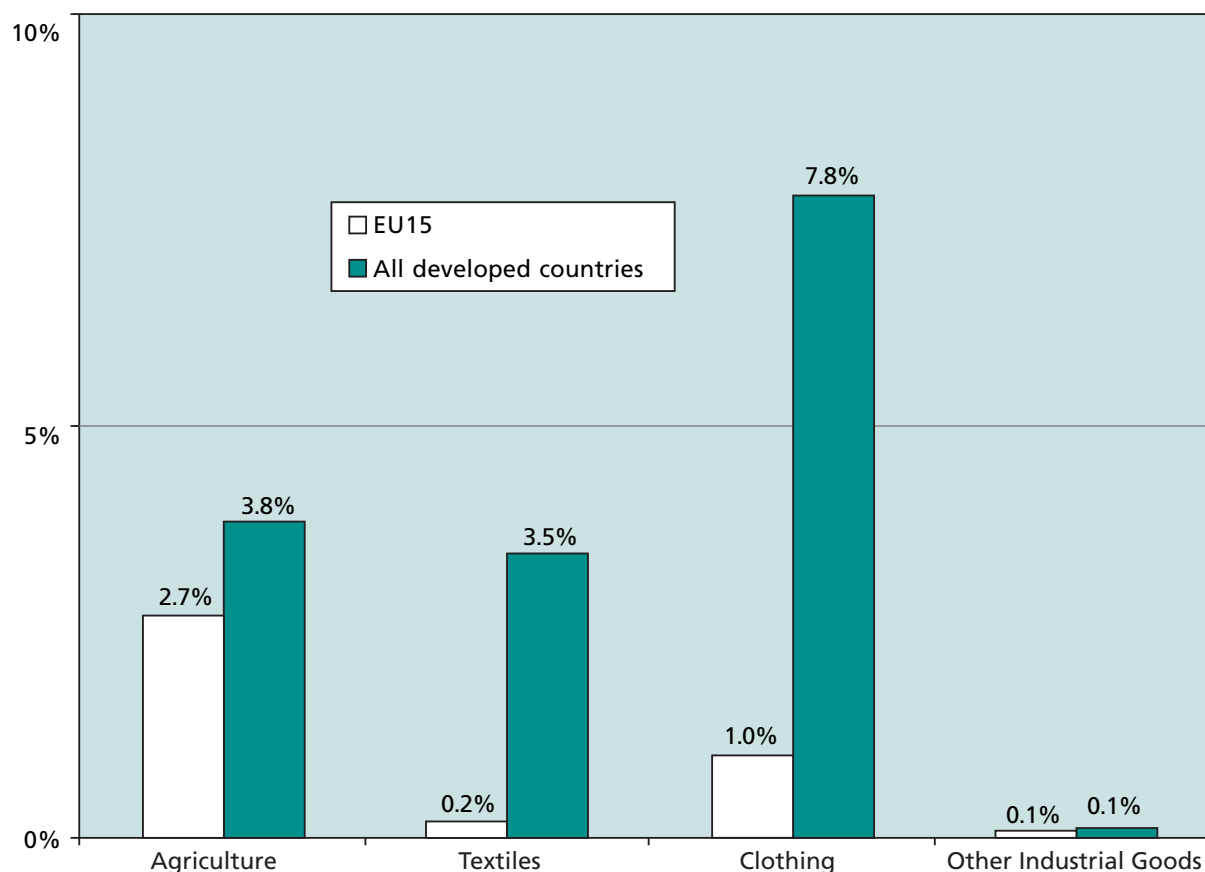


FIG. 27: AVERAGE TARIFFS IMPOSED ON LDC IMPORTS BY EU AND ALL DEVELOPED COUNTRIES



## 6.2 Subsidies and domestic support to agriculture

Producer support data for rice and sugar shows the European Union subsidies at \$375 million (€331 million) for rice and \$3,745 million (€3,314) for refined sugar.

For the last two years, the volume of domestic support for refined sugar production has increased by more than \$1.5 (€1.3) billion or 73%. In the same period, ODA from the EU Member States has gone up by \$2.5 (€2.2) billion in real terms, just 9%. EU sugar producers compete directly with sugar producers in poorer countries – so dramatically increasing support for domestic production at a far faster rate than increasing aid does not look like a strong commitment to partnership under MDG8.

### 6.2.1 AGRICULTURAL SUPPORT

EU support for agriculture dwarfs both subsidies for commodities and support for development cooperation and until this changes, EU commitment to partnership will always have a hollow ring.

The Producer Support Estimate for the European Union 15 was \$137 (€121) billion in 2003. This compares with ODA to agriculture for 2003 of \$0.6 (€0.53) billion.

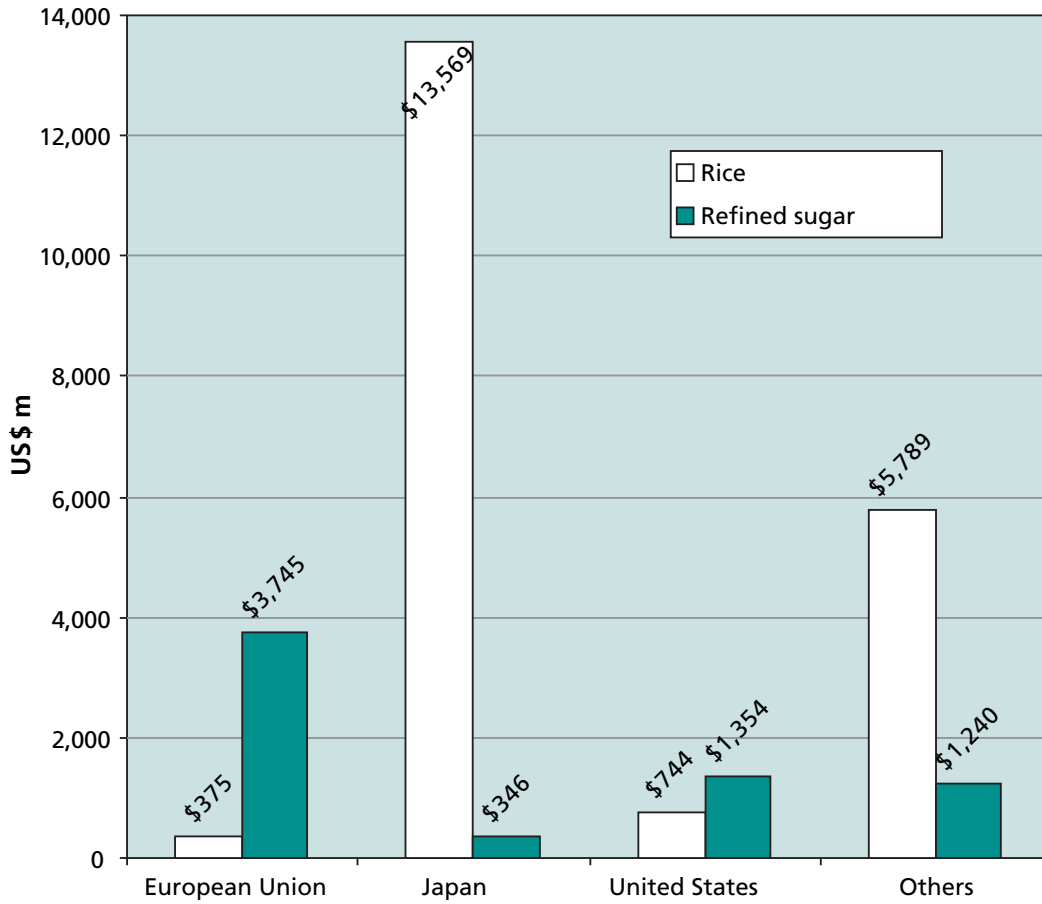
The cost per head for each citizen of the EU 15 in 2003 was \$360 (€318) – this compares with the total aid per person of \$81 (€72).

Since the signing of the Millennium Declaration in 2000, the EU has increased its spending on subsidies for agriculture by \$37 (€33) billion, more than the total spent on aid by EU members in 2003.

EU accession countries also spend significant sums on agricultural producer support, although much less per head than the EU. Data available for four countries shows that expenditure per head is \$191 (€169) in Hungary, \$123 (€109) in the Czech Republic, \$90 (€80) in the Slovak Republic and \$40 (€35) in Poland.

In three accession countries, agricultural support has been increasing, but Poland has steadily decreased its levels of agricultural support since 1998 – a fall of nearly 50% since 2000.

**FIG. 28: PRODUCER SUPPORT ESTIMATES FOR RICE AND SUGAR, 2003**



**FIG. 29: DOMESTIC SUPPORT FOR REFINED SUGAR, 1998 - 2003**

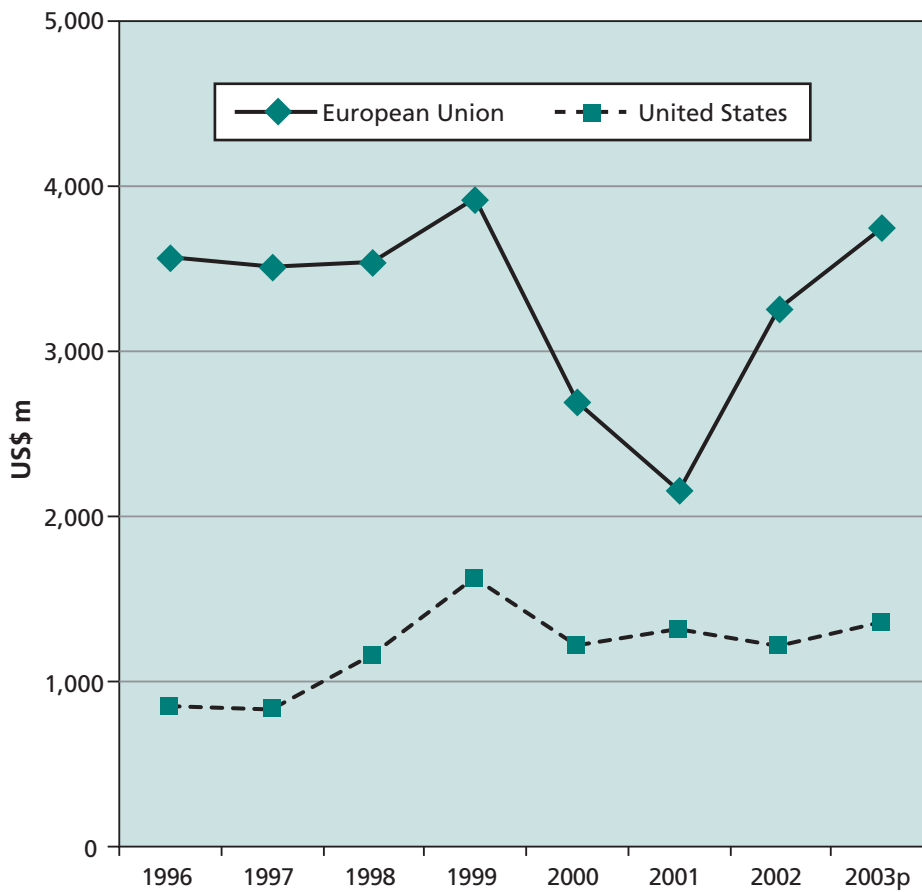


FIG. 30: TOTAL AGRICULTURAL SUPPORT ESTIMATE IN US\$ MILLIONS, 2003

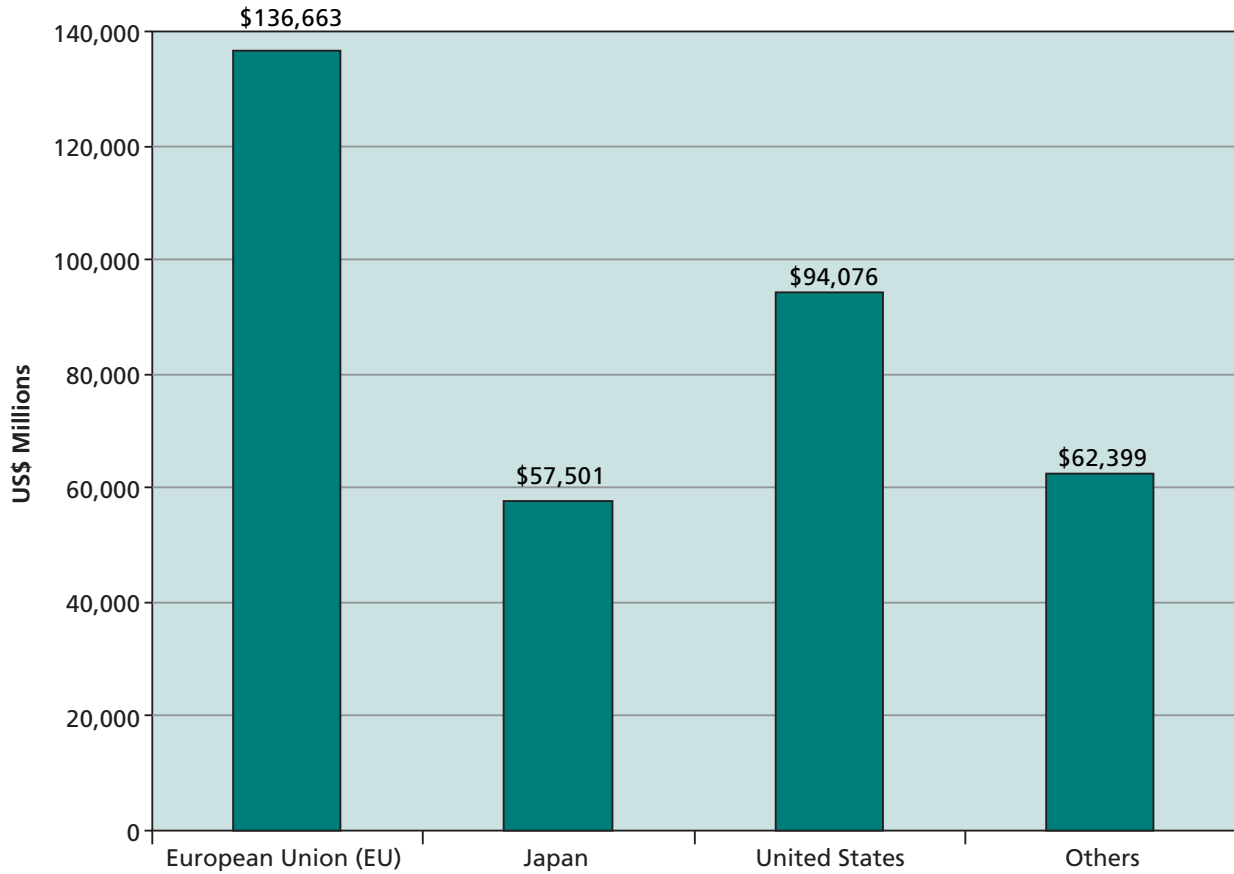
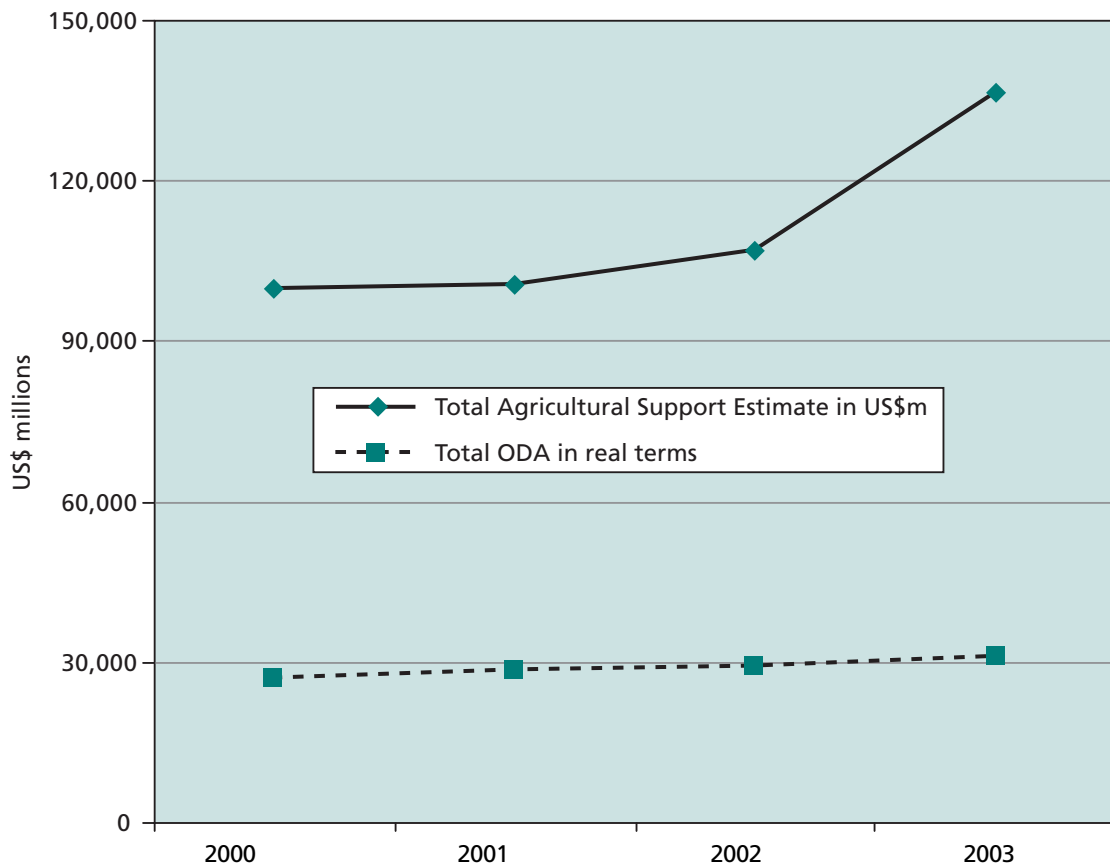


FIG. 31: EXPENDITURE ON AGRICULTURAL SUPPORT AND EXPENDITURE ON AID BY EU MEMBER STATES



Indicators for The EU <sup>xiv</sup>	1996	1997	1998	1999	2000	2001	2002	2003
• Percentage of EU imports (by value and excluding arms and oil) from developing countries (excluding LDCs) admitted free of duties	41	41	38	53	56	55	62	66
• Percentage of EU imports (by value and excluding arms and oil) from LDCs, admitted free of duties	94	97	97	97	97	100	96	97
• Average tariffs imposed by EU on:								
<i>a. Agricultural products</i>								
- Developing countries (excluding LDCs)	13	13	13	11	11	11	12	12
- LDCs	3	3	3	3	3	2	3	3
<i>b. Textile products</i>								
- Developing countries (excluding LDCs)	7	7	7	6	6	6	5	5
- LDCs	0	0	0	0	0	0	0	0
<i>c. Clothing products</i>								
- Developing countries (excluding LDCs)	10	10	10	9	9	9	9	9
- LDCs	0	0	0	0	0	0	1	1
• Agricultural producer support estimate for Australia as a percentage of Gross Domestic Product (GDP)	0							
• Agricultural producer support estimate for Australia, in volume (US\$ billion)	2.6	2.3	1.4	1.2	1.5	not applicable		
% of Official Development Assistance (ODA) provided to help build trade policy and regulations			1.0*	0.4	1.3	0.6		
• ODA (in US\$) provided to help build trade policy and regulations			5.7m*	2.7m	11.6m	not applicable		
% ODA provided to help build trade development capacity			0.9*	1.3	0.3	2.6		
• ODA (in US\$) provided to help build trade development capacity			5.3m*	8.8m	2.7m	not applicable		

2001\*\* the unweighted average is reported in order to avoid undue effects by the largest economies – the countries included are Australia, Canada, the EU, Japan, Switzerland, USA.

Source: OECD Doha Development Agenda Trade Capacity Building database, WTO, Netherlands Goal 8 Report 2004.

Dutch NGOs argue that the EU should eliminate export subsidies and trade-distorting domestic subsidies so, for instance, in the sugar sector, the EU should adopt a zero-export regime. A number of EU member states, such as Ireland and the Netherlands, have noted the importance of de-coupling subsidies so that support to agriculture does not affect exports.

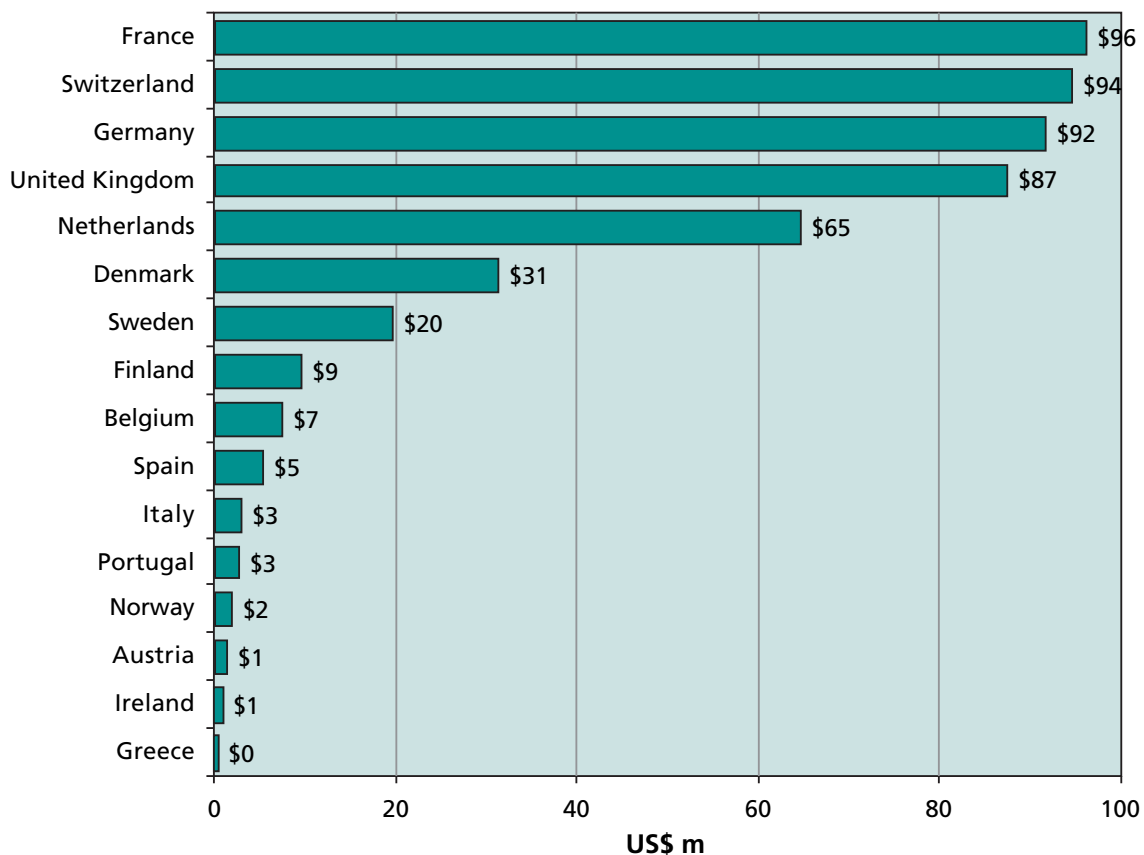
Some countries report differences in approach to agricultural subsidies, distinguishing the right for all countries to define their own priorities in terms of agricultural development and protect agricultural markets if necessary. Norway, for instance, exports only 5% of its agricultural products and argues in favour of domestic subsidies for a variety of reasons. In France, civil society groups tend to be opposed to subsidies for agricultural exports, but defend the right to protect the domestic agricultural sector. The Norwegian official MDG report recognises shared interests with developing countries on this – similar to the UK where the Department of Trade and Industry advocates extra flexibility in WTO

rules to reflect the different nature of agriculture and its links to poverty and food security in developing countries. The French are criticised for failing to emphasise the necessity for developing countries to be able to protect their own markets.

### 6.3 ODA invested in trade capacity

As Sweden notes, reducing tariff barriers is not enough, when complex entry requirements and “an elaborate web of non-tariff barriers” prevent market access in practice. Sweden has taken unilateral steps to overcome this problem and is seeking to influence EU policy as a whole on this issue. Other European donors e.g. Belgium and Ireland, have taken steps such as helping developing countries overcome trade barriers and supporting initiatives such as the Integrated Framework for Trade Related Technical Assistance to LDCs. Others again have taken a proactive position, advocating, as the UK has done, simplification and scrutiny of tariffs.

**FIG. 32: TOTAL ODA ALLOCATED TO TRADE POLICY AND TRADE DEVELOPMENT, 2003**



Aid commitments to trade policy and trade development from European donors have doubled since 2001 – rising from \$268m (€299) to \$517 (€478) million. However, as a share of total DAC investment in this area the European donors are lagging behind their other OECD partners. While the EU Member States plus Norway and Switzerland provide 55% of DAC ODA in 2003, they provided only 38% of commitments to trade capacity and development. The US alone provided more investment in trade capacity and development than all of the European donors combined.

### **Recommendations**

As agriculture is key to poverty reduction efforts in the least developed countries, the EU should prioritise concrete outcomes on agricultural trade without any reciprocity or link to other trade areas. Significant and feasible special and differential treatment measures must be agreed as an integral element in international trade rules in order to give developing countries the ability to safeguard food security, rural development and the livelihood concerns of millions of people that depend on the agriculture sector.

The EU should not ask for reciprocity in the EPAs with ACP countries. The Singapore issues should not be included in the EPA negotiations. The EU should provide policy space and technical assistance to the ACP countries for building alternatives to the EU proposal for EPAs.

With regard to market access, the EU should support the principle that tariff reduction in the developing countries should be progressive, proportional and flexible. The EU should address non-tariff trade barriers that impede market access in Europe for developing countries' production. The EU should improve and strengthen the eradication of dumping measures and allow developing countries to protect their markets against dumping. The EU should set up a clear, frontloaded schedule in order to eliminate export subsidies with product-specific caps and reduction commitments.

A new special safeguard mechanism should be set up for all developing countries to help them address import surges and price volatility and ensure food and livelihood security and rural development. In accordance with its own development needs, each developing country should be allowed to self-designate the special products relevant to food and livelihood security and rural development that need to be exempt from further tariff reductions. Least Developed Countries need special treatment, including duty-free, quota-free access to the EU market.

The EU should strengthen its development aid to develop rural infrastructure, supply capacity and trade capacity in the developing countries.

# 7 Developing a Global Partnership for Development – Measures to improve partnerships

*“In 2005, the development of a global partnership between rich and poor countries — which is itself the eighth Goal, reaffirmed and elaborated three years ago at the International Conference on Financing for Development, held in Monterrey, Mexico, and the World Summit on Sustainable Development, held in Johannesburg, South Africa — needs to become a reality. It is worth recalling the terms of that historic compact. Each developing country has primary responsibility for its own development — strengthening governance, combating corruption and putting in place the policies and investments to drive private-sector-led growth and maximize domestic resources available to fund national development strategies. Developed countries, on their side, undertake that developing countries which adopt transparent, credible and properly costed development strategies will receive the full support they need, in the form of increased development assistance, a more development-oriented trade system and wider and deeper debt relief. All of this has been promised but not delivered.*

*That failure is measured in the rolls of the dead — and on it are*

*written millions of new names each year.” UN Secretary General’s Report – Para.32.*

Whether European aid donors are moving from donorship to ownership is a key test of commitment to the global partnership envisaged in MDG 8.

The principles which should underpin the architecture for global governance are:

- solidarity – recognising that the institutions of global governance and finance are for the purposes of the common good
- subsidiarity, which affirms that responsibility for decision and actions lies best at the level closest to the problem and therefore that policy decision must be driven by local realities
- the principle of the preferential option for the poor, which ensures that the purpose of reform of global governance is poverty reduction and equitable development.

Despite the foundation of MDG 8 in the principle of global partnership, few donors seem to be addressing the global financial and governance structures which entrench the current distribution of power and wealth.

## 7.1 Global Institutional Democracy

The UN Secretary General has recommended that the Economic and Social Council should be reformed *“to hold annual ministerial-level assessments of progress towards agreed development goals, particularly the Millennium Development Goals; (ii) Deciding that it should serve as a high-level*

*development cooperation forum, reviewing trends in international development cooperation, promoting greater coherence among the development activities of different actors and strengthening the links between the normative and operational work of the United Nations". UN Secretary General's Report – Para. 175/176.*

Since the early 1990s, the importance of developing country government ownership has featured strongly in statements on development policy. The Poverty Reduction Strategy process (PRS) is a method used in most aid recipient countries to get donors to support a poverty reduction strategy which is owned and managed by the government of the country not the donors.<sup>xv</sup> One of the main criticisms of the PRS papers has been that they have been developed in a narrow framework of current IFI thinking and have not allowed proper space for Southern governments to choose between a wider range of policy options. Another concern is that parliaments have not been strongly involved in the PRS process.

Although concern with democratic governance in poor countries is a dominant feature of the aid community, the international institutional governance of aid and international cooperation gets much less attention. Particular issues relevant for the achievement of the MDGs and the eradication of poverty are the governance of the IFIs, the coherence of developed country government policies and the transparency and harmonisation of donor engagement in developing countries.

Leadership and management in the IFIs are crucial to progress on the MDGs. The current unwritten rule is that the wealthiest members select the heads of the IFIs, with the US traditionally nominating the President of the World Bank and Europe the Managing Director of the IMF. As long ago as 2001, a committee of Executive Directors recommended an open and competitive selection process, a call endorsed by the African Governors in 2004. Despite these statements of the need for a procedure which follows the minimum standards for basic good governance, the appointment process is unchanged and, in 2005, the only candidate put forward for President of the World Bank has been appointed in the face

of major concern about his development credentials.

Without attention to global institutional democracy, progress on authentic developing country ownership of poverty reduction and development strategies will be held back.

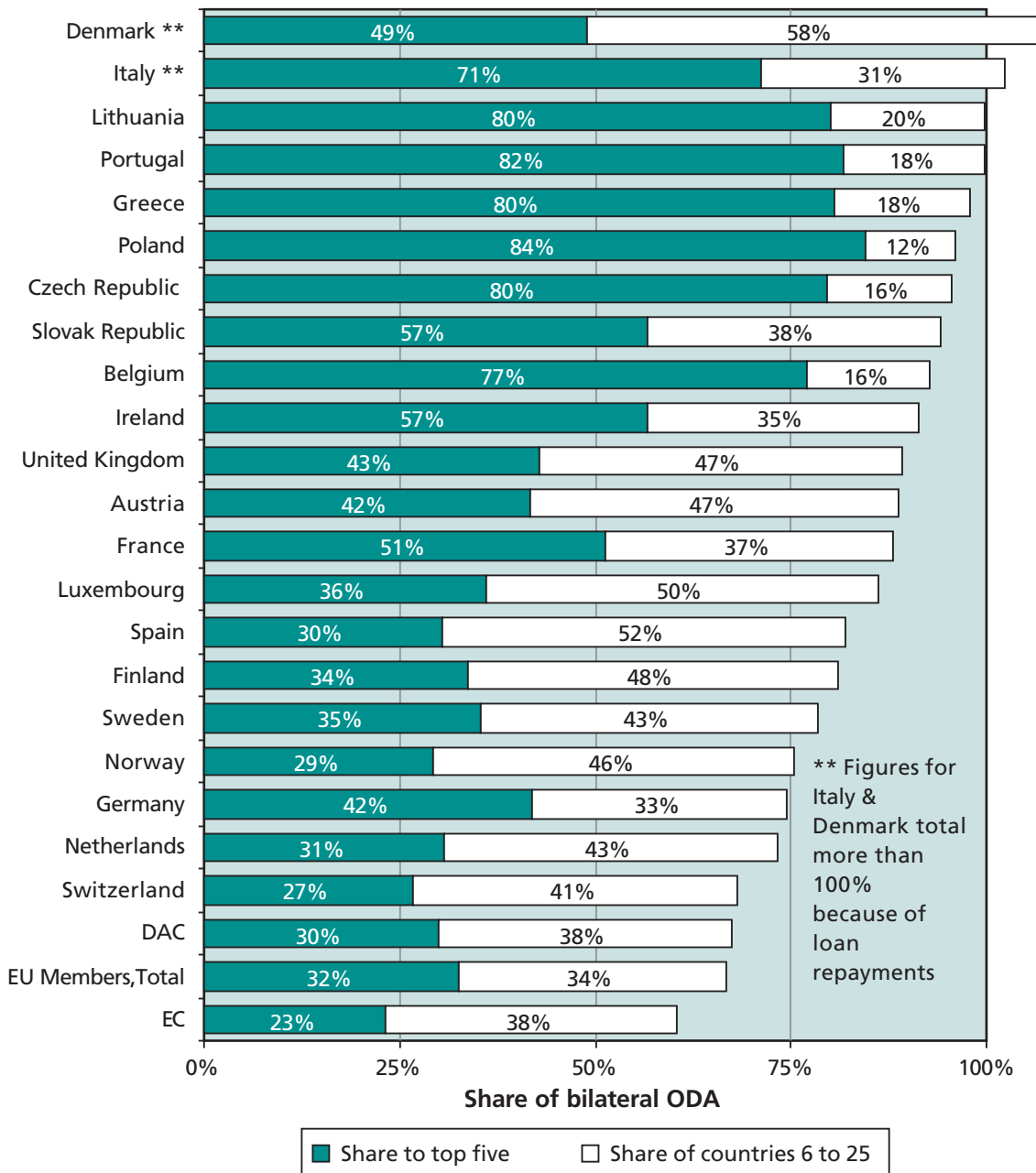
## **7.2 Southern ownership and reform of donor practices**

Most of the MDG reports acknowledge the importance of developing country ownership and talk about working in partnership – Finland's support, for instance, has been in line with partner countries' own priorities in the PRS and MDG framework. A few donors have taken more specific actions to increase Southern ownership. The Netherlands has taken steps to build partnerships between headquarters, embassies and CSOs in recipient countries. The UK has announced that it will not make its aid conditional on specific policy decisions by partner governments. It has also specifically distinguished 'government' from 'country' ownership, stressing the importance of civil society and poor people having a voice and saying that DFID will encourage greater participation by parliaments and people. Estonia has an inter-ministerial committee, which meets to approve projects submitted by NGOs for development cooperation.

Significant ways to increase Southern ownership are to increase the share of aid spent as budget support and to finance long term programmes rather than a series of projects. This allows the Southern government to use aid to finance its own poverty reduction priorities. A number of donors are making progress in this area – Belgium for instance has reported that it prefers multi-annual programmes and has started to experiment with budget support earmarked for education in Burundi, and multi-donor budget support to both education and health in Ethiopia, Mozambique and Tanzania. Fourteen donors are participating in a budget support group for Mozambique.

One of the first steps towards reducing transaction costs and making aid more effective by increasing predictability and transparency for Southern countries is the

FIG. 33: CONCENTRATION OF ODA ON THE TOP 25 COUNTRIES PER DONOR



concentration of resources on a smaller number of recipients. However, aid from many donors is still spread among, literally, hundreds of developing countries which are consequently burdened by relations with as many as 40 donors.

Denmark, Finland, Germany, Ireland, the Netherlands, Norway, Sweden, the United Kingdom, have signed the MOU on harmonisation of donor practices in Zambia,<sup>xvi</sup> where, as Denmark reports, “The intention is to make Zambia a pilot country for how international agreements on

development assistance harmonisation can be implemented”.

Several donors have undertaken delegated cooperation or ‘silent partnerships’. For instance, Norway manages Sweden’s support in Malawi and a similar arrangement is being set up in Mali with Sweden as the lead agency and discussions are underway for parallel arrangements with the UK and the Netherlands.

Whilst the above illustrations of attention to southern ownership and donor

## PROGRESS ON DONOR AID PRACTICES

Country	Partnerships – steps taken to implement recommendations from the DAC Task Force on donor practices	Has the government prepared an action plan on harmonisation?	Title and comment on the action plan
Austria	Participation in DAC groups but no specific initiative		
Belgium	<p>With a view to reducing excessive scattering of limited resources and to optimising aid impact, Belgium concentrates its state-to-state assistance on a restricted number of partner countries.</p> <p><i>Approaches based on multi-annual programmes are increasingly preferred over project-based interventions.</i></p> <p><i>Experiments - earmarked budget support in Niger, aimed at the sector of basic education, similar intervention in Burundi, or participation in a multi-donor budget support to the sector programmes (education and health) in Ethiopia, Mozambique and Tanzania.</i></p> <p><i>The DGDC has established a working group to revise and simplify procedures within this administration and to take an active part in international fora for dealing with coordination and harmonisation at OECD and EU level.</i></p>	Yes	<p>Débat belge sur l'Harmonisation et l'Alignement February 2004</p> <p><a href="http://www.aidharmonization.org/download/236282/DAC_Débat_belge_sur_.1.doc">http://www.aidharmonization.org/download/236282/DAC_Débat_belge_sur_.1.doc</a></p>
Cyprus			
Czech Republic	<i>Czech Republic has pledged to adopt and apply EC primary legislation in the field of development aid policy. This means, in particular, the adoption of the obligation to coordinate its policy in the field of development cooperation and to harmonize its programmes with the EU and member countries.</i>		
Denmark	<p>In all countries, Denmark participates in donor coordination groups with mixed results.</p> <p><i>In the OECD/DAC context, Denmark has presented a proposal for undertaking joint evaluations of multilateral organisations. Harmonisation in Practice Initiative in Zambia. Nordic + Initiative OECD/DAC working party on Aid Effectiveness</i></p>	Yes	<p>Joint Action Plan for Effective Aid Delivery through Harmonisation and Alignment of Donor Practices (Joint report of Denmark, Finland, Ireland, Norway, Sweden, Netherlands, UK)</p>
EC		Yes	<p>MoU between the EC, the EIB and World Bank in order to promote operational coordination and joint technical work (May 2004). For work in the Middle East, Southern Mediterranean and North Africa</p> <p>Joint Note on Supporting the PRSP Process in Africa (2003)</p> <p>Trust Funds and Cofinancing Framework Agreements between the EC and the World Bank Group (March 2003)</p>
Estonia	Estonia is not a member of the OECD, and therefore does not directly engage itself to DAC activities. However, Estonia recognises the need for more effective and efficient delivery of development assistance. Estonia has participated in the work of the ad hoc Working Party on Coordination and Harmonization.		

## Europe: A True Global Partner for Development?

Country	Partnerships – steps taken to implement recommendations from the DAC Task Force on donor practices	Has the government prepared an action plan on harmonisation?	Title and comment on the action plan
Finland	Increase efficiency, effectiveness and impact by concentrating activities and working for the harmonisation of donor procedures. Improve cooperation between public institutions in Finland	Yes	Joint Action Plan for Effective Aid Delivery through Harmonisation and Alignment of Donor Practices (Joint report of Denmark, Finland, Ireland, Norway, Sweden, Netherlands, UK)
France	Co-organised the High Level Forum "Joint Progress toward Enhanced Aid Effectiveness: Harmonisation, Alignment and Results". AFD developed a discourse around partnership and civil society participation (little effect so far on the ground)	Yes	It has three levels: Concerning international institutions, at the national level and in recipient countries.
Germany		Yes	Harmonisation of Donor Practices in German Development Cooperation – Action Plan
Greece			
Hungary	<i>Hungary will further strengthen its ties with partner countries (through framework agreements, country strategies, involving partner country's private and civil sector in international development projects).</i>		
Ireland	In November 2004, the donor agencies in Denmark, Finland, Ireland, the Netherlands, Norway, Sweden and the United Kingdom, adopted a Joint Action Plan (JAP) for effective aid delivery through harmonisation and alignment of our donor practices.	Yes	Ireland commissioned a study on harmonisation in sector programmes for the high-level in 1999 of PROAGRI in Mozambique. This has become a useful reference on the subject  Joint Action Plan for Effective Aid Delivery through Harmonisation and Alignment of Donor Practices (Joint report of Denmark, Finland, Ireland, Norway, Sweden, Netherlands, UK)
Italy	Italy does not publish statistics about the percentage of bound (tied) aid.		
Latvia			
Lithuania	Lithuania is not a member of the OECD DAC. However, initiatives are being taken within the EU framework.		
Luxembourg			
Malta			
Netherlands	The Netherlands belongs to a group of active partners promoting a transition from project to programme-based approaches such as SWAP and budget support in alignment with the PRSP.	Yes	Joint Action Plan for Effective Aid Delivery through Harmonisation and Alignment of Donor Practices (Joint report of Denmark, Finland, Ireland, Norway, Sweden, Netherlands, UK)  Participated with 7 other donors in a pilot mission in Zambia to explore opportunities for harmonising.  Participating with 14 other donors in a budget support group for Mozambique <i>Policy for next four years to seek partnerships with citizens, enterprises, knowledge and research institutes, civil society and government organisations</i>

Country	Partnerships – steps taken to implement recommendations from the DAC Task Force on donor practices	Has the government prepared an action plan on harmonisation?	Title and comment on the action plan
Norway		Yes	Joint Action Plan for Effective Aid Delivery through Harmonisation and Alignment of Donor Practices (Joint report of Denmark, Finland, Ireland, Norway, Sweden, Netherlands, UK)
Poland			
Portugal	Portugal drew up an internal Action Plan for the discussion and dissemination of the Good Practices adopted by the DAC.	Yes	Takes part in meetings on harmonisation Harmonisation of Donor Practices in Portuguese Development Cooperation
Slovak Republic			
Slovenia			
Spain	Spain has signed the Paris Declaration about aid harmonization, but it has not realized any specific offers, also there is no concrete measure for execution.		
Sweden		Yes	Joint Action Plan for Effective Aid Delivery through Harmonisation and Alignment of Donor Practices (Joint report of Denmark, Finland, Ireland, Norway, Sweden, Netherlands, UK) Sweden's Action Plan on Harmonisation and Coordination in Development Cooperation. Sweden also works through "delegated Cooperation" in Malawi and Rwanda where Norway and the UK manage Sweden's contribution
Switzerland		Yes	SDC Action Plan to Foster Harmonisation
UK	UK part of the Nordic + initiative. <i>UK will increase joint donor programmes and promote selectivity across countries and sectors.</i> <i>Agree to carry out joint reviews of progress at country levels based on the PRS objectives.</i>	Yes	Joint Action Plan for Effective Aid Delivery through Harmonisation and Alignment of Donor Practices (Joint report of Denmark, Finland, Ireland, Norway, Sweden, Netherlands, UK)  DFID Action Plan to Promote Harmonisation

harmonisation are welcome, these are exceptions, rather than the rule. There is little sense of urgency or of the need for fundamental change.

The field where there has been most progress is on the reform of donor working practices through the DAC-wide Task Force on Donor Practices, the Rome Declaration in March 2004 and the Paris 2005 meeting on Harmonisation. The step change achieved at the Paris meeting was for monitorable

targets on donor practices. Most of these have not yet had an agreed indicator set, but examples of others are that 85% of aid flows to the government sector should be reported on developing country national budgets; that 75% of aid should be released on an agreed schedule in annual or multiyear frameworks; that 25% of aid should be provided in programme-based approaches. These are limited targets, but a definite step in the right direction.<sup>xvii</sup>

**Recommendations:**

The transparent and accountable management of public resources and wider participation of in-country stakeholders, including genuine representatives of the poor, in the allocation of development assistance should be conditions for eligibility for enhanced EU aid and debt relief. Dialogue with civil society should be recognised for its important role in enhancing country ownership of poverty reduction strategies, and broad participation should be promoted in the shaping of programmes. At EU level, the advanced partnership principles contained within the Cotonou Agreement should be equally applied to relations with all developing countries.

Given the importance of donor harmonisation in an EU of 25 Member State donors plus the European Commission, the EU should step up implementation of its plans for harmonisation, with special emphasis on harmonisation at country level, cutting the duplication of studies and missions, and rolling out its pilot project on harmonisation beyond the first four test countries to other countries. However, EU donors need to ensure appropriate safeguards are in place so that donor harmonisation practices do not result in further aid volatility.

**7.2.1 INSTITUTIONAL REFORM AND TRANSPARENCY**

*“ The international financial institutions are essential to ensuring development around the world and successful implementation of the Millennium Development Goals. ....these institutions and their shareholders should consider what changes they might undergo in order to better reflect the changes in the world’s political economy since 1945. This should be done in the context of the Monterrey Consensus agreement to broaden and strengthen the participation of developing and transition countries in international economic decision-making and norm-setting”. UN Secretary General’s Report – Para.70.*

Very few donors comment on IFI reform or appear to be seeking changes in the current system of voting rights. Unlike the United Nations where each nation has one vote, the

voting power in the IFIs is determined by a member’s financial contribution. In terms of individual countries, the United States is by far the largest contributor and therefore has had an effective veto power. In IDA for instance (the part of the World Bank concerned with poverty reduction in developing countries), the USA holds 14% of the voting power, whereas EU Member States hold 32% and if Norway and Switzerland are added to that, they hold 34%.<sup>xviii</sup>

Switzerland would favour a modest streamlining of the basic voting rights in the BWIs, but is not very active in promoting it. The Netherlands has advocated more openness in the IFIs and some other countries, such as Belgium, report changes - currently at the level of theory - to improve the dialogue between development cooperation and engagement with the IFIs (which is often managed by a donor’s Ministry of Finance, rather than their Development Ministry). Austria’s new Development Cooperation Act, for instance, includes coherence and as one first step, an inter-ministerial working group on the IFIs has been established. UK finance and development ministries are working together to improve the World Bank and IMF operations in the poorest countries. Others such as Ireland have been critical, for instance, of IMF approaches to assessments of levels of debt sustainability.

A few donors comment on the role of parliaments. Austria, for instance, has made comments in favour of strengthening the role of parliaments and welcomes parliamentary initiatives particularly vis-à-vis the IFIs.

Some donors also stress the importance of the United Nations – Portugal for instance is actively promoting the leadership role for the UN and has been working with the African Union to promote a Commission for Peace and Development which would work under a mandate from the Security Council. Italy supports the reform of the Security Council, to increase the number of non-permanent seats.

Many NGOs argue for greater transparency in the decision-making processes on aid and in particular on the management of the IFIs. Donors, however, define transparency in

different ways – some focus on making their overall policies transparent to Southern governments; others address transparency in their information to donor country citizens; but few comment on transparency in development negotiations or in the IFIs. NGOs in France for instance comment that negotiations with developing countries remain highly political and only slightly open to public scrutiny and Austrian NGOs report that there is less transparency in the budget than there has been in the past and little information available on dialogue with country partners. Switzerland, however, has always favoured more transparency and increased disclosure in the IFIs.

In Finland however, CSOs have been invited to comment on and take part in bilateral negotiations between Finland and partner countries and Swiss NGOs report that information has become more accessible for the Swiss public, since Switzerland became a member in 1992. The Netherlands is broadening its engagement over the next four years, to seek partnerships with citizens, enterprises, knowledge and research institutes, civil society and government organisations.

The Czech Republic and Hungary have both highlighted transparency as critical issues for their ODA and the UK has stated that it will publish its aid agreement by March 2005.

### **Recommendations:**

In line with the impetus given in the UN Secretary General's Report *'In Larger Freedom...'* an agenda to strengthen the United Nations and to revitalise the Economic and Social Council, the EU should promote the proposal to establish

an Executive Committee of the ECOSOC at the intergovernmental level responsible for providing ongoing and regular follow-up to the mandates emerging from the Monterrey Consensus. The EU and its Member States should also actively take steps to bring the IFIs and the WTO more solidly within the framework of the United Nations and of international and human rights law.

The EU must strengthen its voice in the IFIs, through increased EU coordination as a first step towards progressive unified representation. European countries should take the lead in pressing for the reform of the IFIs and the WTO needed to address underlying structural injustices within global economic governance: modifying the composition of the boards and rebalancing the voting power of the World Bank and IMF, instituting formal voting and clarifying decision-making processes, and selecting leaders through open and transparent merit-based processes.

European countries should request that the IFIs improve their transparency by making the transcripts, minutes and important documents of board meetings available to the public. The EU and its Member States should also take active steps to ensure that democratic oversight of activities of the Bretton Woods Institutions is enhanced through parliamentary scrutiny. Their orientations and policies should be debated in the European and national parliaments.

# Endnotes

- i Objectifs du Millénaire pour le développement: plus d'excuses. Recommandations des organisations de la société civile française pour 2005, mars 2005. [www.2005plusdexcuses.org](http://www.2005plusdexcuses.org)
- ii Making it Happen. Sweden's Report on the MDGs, 2004
- iii But NGOs are now seriously concerned that Ireland is off-track to fulfill this commitment
- iv See Statement by Ambassador Dr Gunter Pleuger, Permanent Representative of Germany to the UN in Plenary Session of the General Assembly, 6 -8 April 2005
- v Based on assumptions that GNI will grow at the average annual rate for the five year period 1999 – 2003.
- vi Groupe de travail sur les nouvelles contributions financières internationales
- vii allocable by income group
- viii DAC Report DCR 2004 Page 21
- ix [http://europa.eu.int/eur-lex/lex/LexUriServ/site/en/com/2002/com2002\\_0639en01.pdf](http://europa.eu.int/eur-lex/lex/LexUriServ/site/en/com/2002/com2002_0639en01.pdf)
- x <http://webdomino1.oecd.org/comnet/dcd/untiedpubliccws.nsf>
- xi There are significant differences in data on France's debt relief in 2003 according to various sources. The present figures rely on the OECD DAC Report. For alternative data, see: [http://www.assemblee-nationale.fr/12/budget/plf2005/b1863-03.asp#P783\\_67784](http://www.assemblee-nationale.fr/12/budget/plf2005/b1863-03.asp#P783_67784)
- xii Norway's contributions to international debt relief operations have been financed from the Development Assistance budget
- xiii Article III-316 states that Union policy in the field of development cooperation shall be conducted within the framework of the principles and objectives of the Union's external action. The Union's development cooperation policy and that of the Member States shall complement and reinforce each other. Union development cooperation policy shall have as its primary objective the reduction and, in the long term, the eradication of poverty. The Union shall take account of the objectives of development cooperation in the policies that it implements which are likely to affect developing countries. The Union and the Member States shall comply with the commitments and take account of the objectives they have approved in the context of the United Nations and other competent international organisations
- xiv Any blank cells in the tables in this report are because comparable data is not available for the year in question
- xv In practice, because the PRSP is also the release mechanism for financing from the IFIs, genuine country ownership has been difficult to achieve.
- xvi Source ZambiaHIP.pdf
- xvii See <http://www.aidharmonisation.org/>
- xviii See [www.worldbank.org](http://www.worldbank.org) Voting Powers

# Acronyms

ACP	African, Caribbean and Pacific States	GDP	Gross Domestic Product
ADA	Austrian Development Agency	GNI	Gross National Income
AIDS	Acquired Immune Deficiency Syndrome	HIPC	Heavily Indebted Poor Country (Debt Initiative)
AITIC	Agency for International Trade, Information and Cooperation	HDI	Human Development Index
BIO	Belgian Investment Organisation	HIV	Human Immunodeficiency Virus
BWI	Bretton Woods Institutions	ICT	Information and Communication Technologies
BSS	Basic Social Services	IDA	International Development Association, World Bank
CAP	Common Agricultural Policy	IF	Integrated Framework
CIC	Commission for Cooperation (Portugal)	IFI	International Financial Institution
CICID	Comité Interministériel de la Coopération Internationale et du Développement.	IICD	Institute for Communication and Development
CPIA	Country Policy and Institution Assessment	IMF	International Monetary Fund
CPLP	Comunidade dos Paises de lingua Portuguesa	ITC	International Trade Centre
CSO	Civil Society Organisation	JAP	Joint Action Plan
CSR	Corporate Social Responsibility	LDC	Least Developed Country
CTT	Currency Transaction Tax	LIC	Low Income Country
DAC	Development Assistance Committee	MDG	Millennium Development Goal
DFID	Department for International Development (UK)	MOU	Memorandum of Understanding
DGDC	Director General of Development Cooperation	NGO	Non Governmental Organisation
DTI	Department for Trade and Industry (UK)	ODA	Official Development Assistance
EBA	Everything But Arms	OECD	Organisation for Economic Cooperation and Development
EC	European Commission	OOF	Other Official Flows
ECOSOC	Economic and Social Council (UN)	PROAGRI	Mozambique National Programme for Agricultural Development
EITI	Extractive Industries Transparency Initiative	PRS	Poverty Reduction Strategy
EPA	Economic Partnership Agreement	PRSP	Poverty Reduction Strategy Paper
EU	European Union	SDC	Swiss Development Cooperation
FCO	Foreign and Commonwealth Office (UK)	SDRM	Sovereign Debt Restructuring Mechanism
FfD	Financing for Development	SIPRI	Stockholm International Peace Research Institute
FTAP	Fair and Transparent Arbitration Procedure	SWAP	Sector Wide Approach Programme
GAERC	General Affairs and External Relations Council	TA	Technical Assistance
GAVI	Global Alliance for Vaccines and Immunization	TB	Tuberculosis
		TNC	Transnational Corporation
		TRIPs	Trade Related Aspects of Intellectual Property Rights
		UNCTAD	United Nations Conference on Trade and Development
		UNDP	United Nations Development Programme
		UNSG	United Nations Secretary General
		WTO	World Trade Organisation

# Data Sources

[www.oecd.org/dac/stats](http://www.oecd.org/dac/stats)

## **Figures 1 - 3:**

Aid data from OECD DAC Statistics Table 1; Military Expenditure data from Stockholm International Peace Research Institute, (SIPRI). Project for Military Expenditure and Arms Production. [www.sipri.org](http://www.sipri.org)

## **Figures 4, 5, 6, 7, 8:**

OECD DAC 2004 figures, press release 11 April 2005 "Official Development Assistance increases further - but 2006 targets still a challenge." [www.oecd.org/home](http://www.oecd.org/home); OECD National Accounts Portal for GNI data (Figure 8 only)

## **Figures 9, 10, 11, 12, 13, 22, 23, 24, 33:**

OECD DAC Statistics Table 2a

## **Figures 14, 15:**

OECD DAC Statistics Table 5

## **Figures 16, 18:**

OECD DAC Statistics, Table XX (tied)

## **Figure 17:**

OECD DAC <http://webdomino1.oecd.org/comnet/dcd/untiedpubliccws.nsf>

## **Figure 19:**

OECD DAC statistics Table 1

## **Figure 20, 21:**

OECD DAC Development Cooperation Report 2004, Table 34<sup>e</sup>

## **Figures 25, 26, 27:**

International Trade Centre, United Nations Conference on Trade and Development and World Trade Organization.

## **Figure 28, 29:**

OECD, PSE/CSE database 2004.

## **Figure 30, 31:**

OECD PSE/CSE Database via UNSTATS Millennium Indicators; OECD DAC Statistics, Table 1

## **Figure 32:**

OECD DAC Statistics

## **Donor Harmonisation At-a-Glance:**

Data from NGO reports, official MDG reports (*italics*) and DAC Aid Harmonisation site. [www.aidharmonisation.org](http://www.aidharmonisation.org)

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