



## Towards a Doha Deal on Development

*November 25, 2008*

**The Doha Financing For Development Summit comes at a pivotal moment in the global effort to reach the Millennium Development Goals. 2008 is the halfway year between 2000, when the Goals were set, and 2015, when they are due. The Doha summit is an opportunity for donors to draw “a line in the sand”, to solidify their resolve against backtracking on development promises, to scale up effective programmes, and to agree the details of a deal – the Doha Deal – to move forward in efforts to tackle global poverty.**

2008 has also been the year when the global economy has deteriorated calamitously. This has led some policy makers to question whether development promises can be kept. Most recently the Italian and French budgets have dealt a blow to hopes of meeting the Millennium Goals. Doha is the moment when world leaders should make clear that they can and must deliver for the world's poorest people.

The poorest will be hit hard by the economic crisis. The impact will come through declining commodity prices, falling FDI, decreased exports and lower remittances. This impact will come on the back of the fuel and food prices shocks that have already hit the poorest hardest. Donors must not compound these shocks by delivering an aid shock.

In the last few years effective aid has helped to deliver impressive results:

- The number of people receiving ARV treatment for HIV/AIDS in Africa increased from 50,000 people in 2002 to 2.1 million in 2007
- In Rwanda deaths and cases of malaria have been cut by over two-thirds in two years
- Gross enrolments in primary schools in sub-Saharan Africa jumped by 34 million between 1999 and 2006

Despite these impressive results, effective mechanisms are facing major financial shortfalls. The World Bank's **Global Food Response Program**, an emergency facility to deal with a present crisis of food and hunger and productivity, remains underfinanced. The **Education for All – Fast Track Initiative** which donors have repeatedly committed to fully finance remains \$627 million short of needed cash for the 35 FTI-endorsed countries. Moreover, the financing gap keeps increasing as more countries receive endorsements. The **Global Fund to Fight AIDS Tuberculosis and Malaria** needs increased resources to fund the increase in excellent applications to this mechanism.

These clear and present needs to finance effective proven mechanisms are in stark contrast to the slow progress to fulfill the ODA commitments. The EU is far short of its promised aid increases to Africa largely because of broken promises from Italy and France. This situation cannot be put aside for months and years, but has to be considered now as part of a holistic



response both to the global downturn and to the long term effort towards sustainable global economic growth, achieving the Millennium Development Goals and beating extreme poverty.

### **The Doha Development Deal in Detail:**

At the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus, the international community should:

- 1. Reaffirm aid quantity and quality commitments**
- 2. Advance carbon finance and innovative financing**
- 3. Encourage new donors**
- 4. Tackle corruption, tax and capital flight**
- 5. Advance a fairer debt process**
- 6. Follow up the FFD, boosting Africa's voice**
- 7. Revive efforts towards a Doha Trade Deal for development and increase investment**

Each of these seven areas is explained in detail below.

#### **1. Reaffirm aid quantity and quality commitments**

While all countries are facing some combination of food, fuel and now financial crises, developing countries do so while still struggling with the daily challenge of fighting poverty.

Since donors met in Monterrey in 2002 many countries have made concrete commitments on ODA. The baseline directive from Monterrey should be reiterated in Doha and those donor countries that have made more specific, time-bound commitments on ODA such as setting more concrete timelines towards 0.7% GNI should reaffirm these commitments. To allow for better tracking of the range of development promises made over the past six years, the communiqué should include an appendix that lists those commitments in the form of a table, showing ideal annual increments required from each country to meet their aid promises. This would create the basis for an "aid pledge" of all OECD-DAC donors as suggested by the OECD Secretary-General.<sup>1</sup>

EU donors also need to recognize that because of the poor performance of some EU development partners (notably Italy and France) the EU as a whole will not meet its

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<sup>1</sup> In a letter to several heads of state of 28 October 2008, the Secretary-General of the OECD has urged members of the OECD-DAC to not repeat the mistakes made following the recession of the early 1990s when many OECD governments let aid efforts decline. He suggested refraining from any budgetary action that is inconsistent with such commitments.



commitment to 0.56% by 2010, which in turn means the promise of an additional \$25bn for Africa by 2010 will not be fully met. This poses a particular credibility crisis for the EU - requiring a strong co-ordinated continental level response. EU donors in particular need to follow through rapidly on their commitment (outlined last week in Brussels) to raise €1 billion for investment in agriculture, especially in Africa and to make these resources truly additional to existing aid flows.

Policymakers should also use the Doha meeting to make further progress on the aid quality improvement measures agreed in Accra, especially on aid transparency and strengthening recipient countries' capacity. National operational plans to implement the "Accra Agenda of Agenda" can help to achieve this progress.

## **2. Advance carbon finance and innovative financing**

Innovative financing instruments have proven their potential to be sources of much needed additional resources for development above the existing donor commitments. An example of the growing interest in such mechanisms is the International Task Force on Innovative Financing for Health, which will have their first formal meeting at the Doha conference. This panel of experts and policy makers should set itself ambitious targets.

Another priority is carbon financing for development. The current global and European policy processes related to climate change offer a chance to use carbon financing mechanisms to mobilize additional resources critical to achieving the MDGs and to helping development partners to adapt to climate change. Germany took a first step in this direction by allocating a part of the proceeds of the auctioning of CO<sub>2</sub> certificates to ODA. Between 2008 and 2009, these proceeds are expected to double from €120 to 240 million and are expected to continue on a steep trajectory of growth. The European Parliament proposed to use 25% of CO<sub>2</sub>-auction revenues for adaptation and development finance, which would mean that tens of billions of Euros would be generated annually, perhaps as early as 2013. We advocate that policymakers keep this level of ambition. As the climate negotiations will progress in Poznan during and after the Follow-up International Conference in Doha, it is important that the Doha conference supports carbon financing mechanisms, thereby sending a strong signal to the Poznan negotiations and the process that will continue until Copenhagen in December 2009.

Pending refined definitions of how exactly these mechanisms would work, ONE believes the EU's Global Climate Financing Mechanism and the "Assigned Amount Unit" proposal made by Norway are key examples of carbon finance mechanisms capable of raising sufficient amounts for additional adaptation and development measures for African and other developing regions.

Finally, suggestions made in the Landau Report in 2002 should be re-examined given the altered political and economic climate, looking again at proposals relating to taxes on currency speculation, SDRs, off market gold sales and other mechanisms.



### **3. Encourage new donors to assist and invest**

As evidenced by recent food, fuel and now economic crises, global challenges require global solutions and new countries should be encouraged to engage. A recent development is their global political leadership role, as witnessed by Saudi-Arabia's participation in the G20 and its contributions to the "Energy for the Poor"-Initiative and the "Education for all"-Initiative.

OPEC's higher income member countries should be seen as equal partners with OECD nations, which implies equal responsibilities. Considering their fiscal situation is much better than that of OECD countries, they could rapidly increase their ODA to 0.7% or above, of GNI. Integration into multilateral processes such as the International Development Association (IDA), the Fast Track Initiative (FTI) and the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) is an important next step for these donors, as is full and transparent reporting of their efforts to the Development Assistance Committee of the OECD. Participation in such multilateral processes can be consistent with unique bilateral contributions and approaches to development.

In addition, they should be encouraged to allocate some of their Sovereign Wealth Funds in investments to sub-Saharan Africa. The proposal of the President of the World Bank Robert Zoellick to invest 1% is one option. A similar proposal, modeled on the 1970's when some of the oil windfall money was used to endow the International Fund for Agricultural Development, has been championed by the German development minister.

### **4. Tackle corruption, tax and capital flight**

Corruption and capital flight are global problems that can only be tackled on a global scale. Existing structure and processes in this area need to be strengthened.

The international community should pay particular attention to the Extractive Industries Transparency Initiative (EITI) and its key quality control mechanism, the validation process. It is important to ensure that developed countries take the necessary steps to implement the EITI along with developing countries. To clear their backlog developed countries should implement measures to increase transparency of their companies, such as the development of international and national accounting standards for the extractive industries which require a country-by-country breakdown of company payments to all foreign governments among others as a condition of listing with financial market regulatory authorities.

In addition, those signatory countries that have not already done so need to urgently ratify the United Nations Convention against corruption (UNCAC).

Capital flight is a large obstacle towards raising more public resources for development. According to estimates by Global Finance International, capital flight costs developing countries between \$500 and \$800 billion annually, mainly as commercial actors seek to avoid taxes. This problem should be addressed by consolidating existing tax cooperation initiatives as well as agreeing to new measures to strengthen tax collection and deter tax avoidance in developing countries. In addition, as the mobility of capital has greatly



increased, tax authorities need to be enabled to cooperate more closely. An increased exchange of information and sharing of best practices of tax authorities can contribute to improve transparency. These new efforts should also lead to reform of banking laws in many countries that obstruct greater transparency in capital transfers.

As a first significant step to enhance the international cooperation in tax matters all UN members should adopt and implement the UN Code of Conduct on Cooperation in Combating International Tax Evasion (ECOSOC). This Code of conduct has the additional benefit of interdicting trusts and other legal instruments which disguise the origin and ownership of capital.

Development partners should also take measures to strengthen the Stolen Asset Recovery Initiative (StAR) which contributes to building capacity in developing countries to recover assets and stem new outflows, working with major financial centers to lower barriers to recovery of stolen assets as well as to detect and prevent their concealment

#### **5. Fairer debt process**

The governments gathered in Doha should acknowledge that the financial crisis puts at risk the substantial progress made on improving the debt situation of many developing countries. According to the Debt Sustainability Analysis of IMF and World Bank, which does not even factor in the repercussions of the financial crisis, 10 of 19 African Completion Point countries have moderate to high risks of incurring unsustainable debts. Furthermore, poor countries such as Kenya and Lesotho, which spend a significant portion of their domestic resources on servicing debt, were excluded from the original HIPC deal because their debt ratios were below the HIPC threshold. Due to the financial crisis these countries now face an additional stranglehold on their national resources. Partly as a consequence these countries lack critical resources to accelerate their progress towards the MDGs.

In spite of its adverse effects on the debt situation of many developing countries, the crisis also opens a window of opportunity to arrive at a more systemic solution for the ongoing debt crisis. External debt problems should be dealt with through a sovereign debt workout mechanism, which takes into account the joint responsibility of both debtors and creditors in creating and maintaining sustainable debt levels.

#### **6. Follow up the FFD, boosting Africa's voice**

Since the Monterrey conference in 2002, a broad range of new issues like food and energy shortages, climate change, and the financial crisis have emerged. All of them have direct implications for financing the achievement of the MDGs. However, the current follow-up process, which consists of an annual FFD meeting in the context of the Spring Meetings of the Bretton Woods institutions, has engaged with these issues in a rather limited way. Improvements to the follow-up process can ensure the responsiveness of the FFD process to emerging issues and more robust global perspectives on the remedies for emerging crises. The follow-up process should make use of existing structures. The Doha communiqué should task the Secretary-General to suggest viable details to be presented



and adopted at the spring meetings. It should also consider formally revisiting the FFD process once more between now and the regularly scheduled 2012 meeting, preferably not later than the first half of 2010 as this is a major moment of accountability for key development partners, especially the EU.

More widely, as the international architecture evolves, African countries must be included. For example, the AU should have a seat at the G20. In addition, objective criteria for global leadership positions should be developed and consideration given to whether countries should keep their positions of influence when they are falling far short on their global promises, such as on ODA.

#### **7. Revive efforts towards a Doha Trade Deal for development and increase investment**

In order to create opportunities for African countries to trade their way out of poverty, a comprehensive approach to trade and development policy that will “make trade work for Africa” is needed. Such a deal should boost African access to trading partner markets by giving duty and quota free access to all sub-Saharan African countries, not only LDCs. It should streamline rules of origin requirements, specifically by setting the African value component of all goods at 10% as recommended by the World Bank and Commission for Africa. In addition, it should allow flexibility for African countries to determine the best way to coordinate trade policy with economic development and poverty reduction strategies. Another component should encourage and support development of intra-regional trade. Moreover, developed countries should abolish their export and farm subsidies, giving priority to those that have the greatest impact on Africa’s ability to compete - such as cotton, rice, fruits and vegetables as well as scale up ‘aid for trade’ funding with particular focus on Africa’s export challenges.

18 non oil exporting countries in Sub-Saharan Africa have had an average annual economic growth of 5.5% over the past ten years. This proves the enormous economic potential of many African countries as they have only recently been “discovered” by investors. The governments of major economies which are home to the companies that invest worldwide can help shape the perception of business opportunities in Africa and set favorable incentives for direct investments.