

Millennium Development Goal 8

Strengthening the Global Partnership for Development in a Time of Crisis



UNITED NATIONS

MDG Gap Task Force
Report 2009



World Trade



The present report was prepared by the MDG Gap Task Force which was created by the Secretary-General of the United Nations to improve the monitoring of MDG 8 by leveraging inter-agency coordination. More than 20 United Nations agencies are represented in the Task Force, including the World Bank and the International Monetary Fund, as well as the Organization for Economic Cooperation and Development and the World Trade Organization. The United Nations Development Programme and the Department of Economic and Social Affairs of the United Nations Secretariat acted as lead agencies in coordinating the work of the Task Force. The Task Force was co-chaired by Jomo Kwame Sundaram, Assistant-Secretary-General for Economic Development, and Ad Melkert, Under-Secretary-General of the United Nations and Associate Administrator of the United Nations Development Programme; and coordinated by Rob Vos, Director in the Department of Economic and Social Affairs of the United Nations Secretariat.

List of agencies represented in the MDG Gap Task Force

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Department of Public Information of the United Nations Secretariat (DPI)	United Nations Fund for International Partnerships (UNFIP)
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Economic and Social Commission for Western Asia (ESCWA)	United Nations Institute for Training and Research (UNITAR)
Economic Commission for Africa (ECA)	United Nations International Research and Training Institute for the Advancement of Women (INSTRAW)
Economic Commission for Europe (ECE)	United Nations Office for Project Services (UNOPS)
Economic Commission for Latin America and the Caribbean (ECLAC)	United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS)
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United Nations Children's Fund (UNICEF)	World Meteorological Organization (WMO)
United Nations Conference on Trade and Development (UNCTAD)	World Tourism Organization (UNWTO)
United Nations Development Programme (UNDP)	World Trade Organization (WTO)
United Nations Educational, Scientific and Cultural Organization (UNESCO)	

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MDG Gap Task Force Report 2009



United Nations
New York, 2009

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United Nations publication

Sales No. E.09.I.8

ISBN 978-92-1-101194-4

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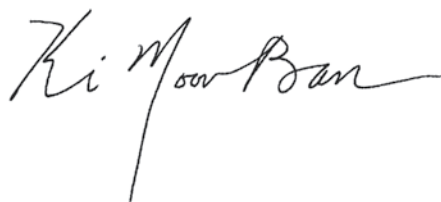
Preface

The present publication, the second report of the MDG Gap Task Force, comes out at a critical time. The global economic crisis continues to threaten efforts to achieve the Millennium Development Goals. In some cases, responses to the crisis, such as protectionist measures and new restrictions on migration, are compounding the risks. Pressures on donor countries to cut their aid budgets may limit the resources available to developing countries, which in turn will face further difficulties in tackling the crisis and providing for the needs of their people.

Since the Goals were adopted in 2000, there has been great progress in a number of areas, including reducing poverty and hunger, providing universal access to education, promoting gender equality, improving health conditions and ensuring environmental sustainability. But the economic crisis threatens to reverse these hard-won gains, and time is running short.

Without strong and concerted international responses, the crisis could become a development emergency. Fortunately, we have seen unprecedented action by Governments and the international community. Leaders of the Group of Twenty have agreed to make massive additional amounts of international liquidity available to countries in crisis, to fight protectionism and to reform the international financial system. They also reaffirmed existing commitments to provide more aid and debt relief to the poorest countries, and to set aside \$50 billion of the total promised resources to support social protection, boost trade and safeguard development in low-income countries.

The challenge now is to ensure that those resources are delivered and this report identifies what needs to be done. It demonstrates how to deal with existing and emerging gaps between commitment to and achievement of Millennium Development Goal 8, which is to develop a global partnership for development. Above all, it underlines the importance of a full and accelerated delivery on all commitments, which is crucial to our efforts to build a more secure and a more prosperous world for all. With that goal in mind, I commend this, the second MDG Gap Task Force report, to policymakers, development officials and concerned individuals throughout the world.

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

BAN KI-MOON
Secretary-General of the United Nations

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Executive summary

The present report recognizes that further progress has been made towards fulfilling the promises embodied in Millennium Development Goal 8 (MDG 8). At the same time, it identifies important setbacks, most of which have arisen from the current state of the world economy which is suffering its severest downturn since the Great Depression of the 1930s. Some donor countries are cutting their budgets for official development assistance (ODA); several developed and developing countries have resorted to protectionist measures; resurging debt distress is increasing the need for further and broader debt relief; the costs of essential medicines are on the rise; and the technological divide between developed and developing countries seems likely to widen further. These effects are compounding the devastating consequences that the global downturn is having within the developing countries themselves. Not only is progress towards the MDGs slowing, but in many areas, even the hard-won gains of recent years are under threat. The crisis has intensified the need for strengthened global partnerships for development as reflected in MDG 8.

The globally concerted actions which are being taken at an unprecedented level in response to the worldwide slowdown include those agreed upon by major economies at the London Summit of the Group of Twenty (G-20) in April 2009. The Summit agreed to provide large-scale emergency financing, to secure funding for low-income countries and to initiate major reforms to regulate global financial systems and international financial institutions. It also reaffirmed all existing commitments to increase ODA and provide debt relief to developing countries, as well as to resist new forms of protectionism. Nonetheless, delivery of these commitments has become more difficult as the slowdown continues.

In the countdown to 2015, and amidst a global economic crisis that originated in the developed countries, the need to accelerate delivery of MDG 8 commitments in all their dimensions has now become an emergency rather than simply a matter of urgency. Strengthening global partnerships by delivering on all commitments in the areas of aid, trade, debt relief and access to affordable medicines and new technologies is critical in order to prevent the economic crisis from turning into a development crisis.

Official development assistance

Following a decline in 2006 and 2007, ODA from members of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD/DAC) rose to \$119.8 billion in 2008, an increase of 10 per cent in real terms over 2007. Although the share of ODA in the gross national income (GNI) of the developed countries rose from 0.28 per cent in 2007 to 0.30 per cent in 2008, it remained below the 0.33 per cent reached in 2005 (when it was boosted by debt relief to Iraq and Nigeria).

Although ODA reached its highest level ever in 2008, there remain large delivery gaps in meeting existing commitments. The 2010 Gleneagles target is approximately \$154 billion in present values and additional flows of \$17 billion a year would be required to achieve this target. Aid to Africa reached about \$26 billion in 2008 but is still about \$20 billion short of being on track.

In 2007, ODA to the least developed countries (LDCs) was equivalent to 0.09 per cent of OECD countries' GNI. However, less than half of the OECD/DAC countries are meeting the 0.15-0.20 per cent target for aid to the LDCs that was reaffirmed as part of the Programme of Action for the Least Developed Countries for the 1990s adopted in Brussels in 2001.

Future flows of ODA to poor countries are at risk at a time when they need to be increased both to protect hard-won progress towards the MDGs and to counter the effects of the global slowdown. Some fear that aid budgets will be cut, as was the case after the recession in the early 1990s. Since several donor countries target aid as a share of GNI, and given declining national incomes, aid budgets in these cases may fall in absolute terms in 2009 unless corrective action is taken. In other cases, overall budget constraints are similarly threatening further progress towards the Gleneagles targets. The G-20 summit in April underlined the importance of not cutting back on ODA commitments during the crisis. It is, however, delivery on these commitments that will make the difference.

In addition to the delivery gap of aggregate levels' falling short of the overall target, there is also a "coverage gap" in the distribution of development assistance. The share of ODA flows allocated to the poorer countries increased between 2000 and 2007, but not by a large margin. The distribution of ODA across countries is skewed and, on several counts, does not favour countries with the least means and largest numbers of poor. In 2007, the largest recipient of ODA in absolute terms was Iraq, which received more than twice as much as the second-largest recipient, Afghanistan. Together, the top two countries received about one sixth of country-allocable ODA from the DAC countries, even though they account for less than 2 per cent of the total population of the developing countries.

By region, sub-Saharan Africa continues to be the largest recipient of ODA, having more than doubled receipts in current dollars between 2000 and 2007. This is consistent with the high proportion of poor in the region. Western Asia, however, ranks second owing to the large increase in funding for humanitarian and reconstruction purposes in Iraq. ODA flows to South Asia also more than doubled over the seven years, largely because of the increase in assistance to Afghanistan, but they remain small relative to the number of extremely poor people in the region. International assistance to South-East Asia declined during the period, even though poverty rates remain moderately high.

An increase in the number of development partners—including those involved in new multilateral arrangements and South-South cooperation, and a range of non-governmental organizations—has contributed to the increase in assistance received by the developing countries since the adoption of the United Nations Millennium Declaration in 2000. At the same time, it has compounded the challenge faced by recipient countries in managing development assistance. In order to maximize the benefits of international support, developing countries and their partners will have to reduce the fragmentation of this assistance and ensure that it contributes to national development strategies. The 2005 Paris Declara-

tion and the 2008 Accra Agenda for Action set out a number of principles and practices to guide developing countries in establishing their own strategies and partners in aligning themselves with those strategies and harmonizing actions among themselves.

In order to provide developing countries with the support required to achieve the MDGs and to mitigate the impacts of the global crisis on poor countries, the international community should:

- Fully deliver on the Gleneagles commitments by increasing ODA by \$34 billion (from the 2008 level and at 2008 prices) per year by 2010, with the great majority of this increase being directed to Africa to honour the pledge to double aid to that region within the same time frame.
- Ensure that aid is allocated in a manner that benefits the poorest countries and protects vulnerable groups within countries, thereby reducing present coverage gaps.
- Step up and accelerate efforts to improve aid effectiveness by implementing the Paris Declaration and the Accra Agenda for Action.
- Encourage other developing countries that provide development assistance to participate more fully in international debates, such as the United Nations Development Cooperation Forum, in order to improve the dialogue and transparency among all development partners.

Market access (trade)

The failure to reach an agreement on the Doha Round of multilateral trade negotiations represents a major delivery gap in strengthening the global partnership for the MDGs in two respects. First, developing countries have been deprived of the benefits that they would have received from a more timely completion of the Round. Second, the outcome of the Round as currently envisaged falls short of the original development intention of the Doha Development Agenda. In the negotiations, there has been some progress in reaching agreement on a range of hitherto intractable issues, but progress in the implementation of commitments—hindered by the “single undertaking” nature of the Round—is falling short of what had been agreed.

Developing countries’ duty-free access to the markets of developed countries continued to increase in 2007, mainly through the continued elimination of tariffs on a most-favoured-nation (MFN) basis. Primarily as a result of preferences, the LDCs increased their proportion of duty-free trade over the past decade, but there was no further progress in 2007. Some developed countries have started to implement the target agreed in 2005 of granting duty-free and quota-free access to LDCs for at least 97 per cent of their exports, but many others have yet to do so. Overall, there are large regional and sectoral variations in duty-free access among and within LDCs.

Agricultural support in developed countries remains a major distortion affecting trade and farm production in developing countries. Even though overall agricultural support in terms of developed countries’ GDP declined further in 2007, it remained high in absolute terms and in relation to ODA.

In the current global economic environment, it is even more crucial to assist all low-income developing countries in building their trade-related infrastructure

and supply-side capacity. Total Aid for Trade commitments increased in 2007, but more than half the amount was provided to only 11 countries.

Since late 2007, the multilateral trading system has come under heightened pressure as the food and the financial crises have given rise to new waves of protectionism. Both developed and developing countries have taken a variety of protectionist measures in response to these crises, including a range of tariff and non-tariff measures and certain elements of national stimulus packages that either limit trade or are a source of unfair trade.

To enable developing countries to increase their benefits from international trade, the international community should take the following actions:

- Reinvigorate the commitment to an early conclusion of an ambitious and development-oriented Doha Round; this would include making rapid and substantial progress in opening developed countries' markets.
- Provide duty-free and quota-free access to at least 97 per cent of products imported from LDCs, in accordance with the target adopted by the Sixth Ministerial Meeting of the World Trade Organization in 2005.
- Honour the 2005 pledge to eliminate all agricultural export subsidies by 2013.
- Deliver swiftly on commitments substantially to increase technical, financial and political support for Aid for Trade and the Enhanced Integrated Framework initiative.
- Maintain an open international trade and exchange system during the global economic crisis by ensuring that protectionist measures adopted in response to the crisis are dismantled as soon as possible and that further measures are resisted.

Debt sustainability

Substantial progress has been made with regard to debt relief, but full delivery on the Heavily Indebted Poor Countries (HIPC) Initiative requires continued efforts from the international community. By the end of March 2009, 35 out of 40 eligible countries had qualified for debt relief under the HIPC Initiative, 24 of whom had qualified for irrevocable debt relief under the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI).

Prior to the onset of the global financial turmoil, high commodity prices and strong trade growth had improved the export revenues of many developing countries. Consequently, the burden of servicing external debt for the developing countries as a group had fallen from almost 13 per cent of export earnings in 2000 to below 4 per cent in 2007. This downward trend is being reversed as developing country exports and commodity prices have fallen starkly as a consequence of the current crisis. The ratios of external debt to GDP and external debt service to exports for developing countries have risen significantly since the last quarter of 2008. Developing countries also face significant reversals in access to new external financing because of the global credit crunch.

The combination of these factors is creating increasing balance-of-payments problems for a large number of countries. Several are facing problems in servicing their external debt. Rising risk premiums on borrowing by developing countries and currency depreciations are also increasing the cost of external public borrowing, putting additional pressure on government budgets. This, in turn, is limiting

the ability of developing countries to undertake counter-cyclical measures and to sustain adequate levels of public spending on infrastructure, education, health and social protection.

In order to deal comprehensively with the debt problems of developing countries, the international community should take the following actions:

- Complete the HIPC and MDRI initiatives.
- Ensure that, in conformity with the two separate commitments embodied in the Millennium Declaration, all debt relief is additional to ODA.
- Provide additional support to prevent the HIPCs from entering into serious debt distress.
- Provide the option of a temporary moratorium on existing debt-payment obligations to countries facing severe financial distress because of the global crisis.
- Assist non-HIPCs in rolling over the large sums of sovereign and corporate debt that are due in 2009 and 2010.
- Develop an orderly sovereign debt workout mechanism and an improved framework for cross-border bankruptcies in order to handle situations of severe debt distress.

Access to affordable essential medicines

Many essential medicines are inaccessible to the poor in developing countries for two main reasons. First, there are large gaps in the availability of medicines in both the public and private sectors; second, the prices of the medicines that are available are high in relation to their international reference prices.

Non-communicable diseases (such as diabetes, asthma and cardiovascular malfunctioning) are the leading causes of death in developing countries, but the monthly cost of medicines to treat such chronic diseases are often equivalent to several days' salary for the lowest-paid government worker. Only a fraction of the cost of medicines in developing countries is carried by Governments, and only a small proportion of people in developing countries have health insurance. Most households need to spend out of pocket and a majority of households in developing countries cannot afford the continuous costs of treatment for such diseases.

The affordability of medicines is expected to deteriorate as a result of the global economic crisis. Incomes for many are falling and currency depreciations are further pushing up the cost of imported medicines. The situation is the most difficult for countries with a poorly funded or inefficiently run public sector procurement and distribution system, for countries where poorer households have no access to health insurance or public supplies of medicines, and for countries where medicines are mostly branded, rather than generic.

It is estimated that, if appropriate complementary measures are taken, it should be possible to give everyone in developing countries access to affordable medicines at a total annual cost of about \$5 billion, the equivalent of no more than \$1 per annum per capita for the developing world as a whole.

Furthermore, the world faces the challenge of random outbreaks of new infectious diseases and potential pandemics. As demonstrated by the outbreak of the H1N1 flu, the international community is usually able to develop a rapid

response in developed countries, but such a response presents much more difficulties for developing countries. Indeed, with regard to the H1N1 flu, a major challenge will be to make the forthcoming vaccine available at an affordable price to all those in developing countries who are considered to be at risk.

In order to reduce the burden of chronic diseases and to improve the accessibility and affordability of essential medicines in developing countries, the development community should take the following actions:

- Attach greater priority to treating chronic diseases in health-care policies in developing countries and in global health partnerships.
- Strive, in collaboration with the private sector, to make essential medicines available at affordable prices, including through the creation of international patent pools (which make patents more affordable) and through the expansion of health insurance coverage.
- Protect low-income families from increases in the costs of medicines brought about by the global economic crisis.
- Make maximum use of the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS) as it pertains to essential medicines, thereby facilitating the export by developing countries in a position to do so of generic medicines to countries in need.
- Encourage the international community, Governments and pharmaceutical companies to continue their containment efforts in view of the H1N1 pandemic in both developed and developing countries.

Access to new technologies

In the years prior to the global economic crisis, further progress had been made in access to information and communications technologies (ICT), especially in cellular telephony. However, large differences in access and affordability remain across countries and income groups.

It is not yet clear to what extent the global economic crisis will affect access to technology, although for those losing their jobs and/or incomes, the use of ICT will certainly become less affordable. Public and private investment in ICT infrastructure also may fall along with overall economic activity and government revenue.

Addressing the challenges of climate change has necessitated further access to new technologies. For both climate change mitigation and adaptation, massive investments are needed in research, development and deployment of technologies. Some of these technologies will need to be supported with enhanced access to ICT, but the challenge here transcends the scope of the specific target defined under MDG 8.

Mobile cellular subscriptions had soared to over 4 billion, equivalent to just over 60 per cent of the world's population, by the end of 2008; in contrast, there were only 1.3 billion fixed telephone lines. Use of the Internet increased steadily, with almost one fourth of the world's population online. However, less than 13 per cent of the population in developing countries was using the Internet (and only 1.5 per cent in the least developed countries), compared with over 60 per cent in developed countries. Given the lack of access to Internet services in the developing countries, new mobile technology supportive of broadband speeds

may offer a more accessible and affordable alternative to populations that lack fixed broadband Internet.

The ICT sector is characterized by increased privatization and deregulation. The large amounts of capital required, the lead role of transnational corporations in developing the required technology and the fast pace of technological development have resulted in the private sector's taking the lead in spreading ICT throughout the world. Nevertheless, Governments still have an important role to play in regulating the sector to ensure fair competition and in creating public-private partnerships in the absence of capable private sector providers.

In order to improve the accessibility and affordability of ICTs and reduce the digital divide, the development community should take the following actions:

- Increase access to broadband Internet service in developing countries by, among other things, expanding the 3G cellular phone system to serve as the broadband Internet platform.
- Encourage the establishment of public-private partnerships where private sector participation in the provision of ICT and ICT-facilitating infrastructure is lacking.
- Strengthen regulation of the ICT market to eliminate existing unfair market competition.
- Facilitate long-term financing in order to increase investment levels in ICT.

Introduction

The global partnership for development towards 2010

The first report of the MDG Gap Task Force,¹ published in 2008, had already warned that a weakening global economy, along with higher food and energy prices, was threatening to reverse the progress made in delivering on the global commitments on aid, trade, debt relief and access to affordable essential medicines and new technologies. In the past year, the financial crisis has intensified and mutated into a worldwide economic recession. The crisis has presented major challenges to the global partnership for development but it has also brought with it new opportunities for strengthening it. The outcome document of the Conference on the World Financial and Economic Crisis and Its Impact on Development² recognized that developing countries have been among the hardest hit by the global economic slowdown. Member States of the United Nations acknowledged the concerted action agreed upon by leaders of the Group of Twenty to make large amounts of additional financing available to revitalize the world economy but they also recommended that the financial needs of developing countries, especially low-income countries, should be further addressed.

Some early crisis responses included new protectionist measures that threatened to undermine the aim of achieving an open, rule-based and non-discriminatory trade and financial system. Aid budgets in some donor countries have come under increasing stress because of the crisis. Yet at various international forums, including the recent United Nations conference, there has been clear recognition that globally concerted efforts are needed in order to find adequate responses to the crisis and the development challenge. This will require stronger multilateralism, including delivery on the agreed goals for strengthening the global partnership for development that are embodied in the 2000 United Nations Millennium Declaration.

Greater commitment to this cause makes it even more necessary to enhance accountability and continuously assess the strength of the global partnership. Not all targets under Millennium Development Goal 8 (MDG 8), which relates to the global partnership, are defined with equal precision. The MDG Gap Task Force, formed by the Secretary-General in 2007, defined a general methodology to help resolve some critical problems in measuring the degree of delivery towards MDG 8. These problems range from those related to the lack of quantitative targets in several dimensions to differences in the way in which development

¹ *MDG Gap Task Force Report 2008: Delivering on the Global Partnership for Achieving the Millennium Development Goals* (United Nations publication, Sales No. E.08.1.17).

² Outcome document of the Conference on the World Financial and Economic Crisis and Its Impact on Development (A/CONF.214/3).

partners interpret some of the continuing changes to commitments that have been made since the Millennium Declaration of 2000.

The MDG Gap Task Force is contributing to the improvement of the monitoring of MDG 8 by providing a systematic accountability framework. The main responsibility of the Task Force is to identify possible shortfalls in delivery on the promise to strengthen the global partnership for development as laid down in MDG 8. The Task Force has identified three types of gaps which could emerge. The first is the so-called “delivery gap”, which is the shortfall between global commitments and their actual delivery. The second is the “coverage gap”, which has been loosely defined as the shortfall between the actual delivery on global commitments and a reasonable distribution of actual receipts across beneficiary countries. The third gap is labeled the “needs gap”, which would measure the gap between the actual delivery on global commitments and “estimated needs for support” by developing countries. The 2008 report focused mainly on the first of these gaps, that is, the “delivery gap”. The present report provides an update of the status of delivery on all agreed commitments, especially in the light of the global economic crisis; in addition it provides a first attempt at measuring “coverage gaps” in the areas of aid, trade, debt relief, access to affordable medicines and access to new technologies. In most dimensions, the international community has not defined any precise benchmarks for the proper allocation of benefits across countries such as would be needed to measure coverage gaps with some precision. Yet, it should be of concern if certain targets, say the aggregate commitment to increase aid, were to be met, but by benefiting only one or two countries and leaving others without added support to meet their needs. The present report identifies some uneven distributions of this nature for the attention and further consideration of the international community.

The methodology in the report is supported by two monitoring instruments: a “Matrix of Global Commitments”³ which serves as an inventory of commitments related to MDG 8 that have been made at major international events and forums; and a system of indicators related to the specific MDG 8 targets. A set of additional statistics is used to facilitate in monitoring the delivery of global commitments at the country level and in assessing factors that may be hampering the achievement of expected results in recipient countries.

Although data availability has limited the scope of the analysis, it has served as a stepping stone towards assessing the “needs gap” which will be a main focus of the MDG Gap Task Force report in 2010. The challenge ahead lies in how to estimate the gap between the real needs of developing countries and the delivery of support by the international community. The Task Force will aim to make a contribution to the dialogue at the 2010 summit that is to examine progress towards the MDGs.

Amidst a deep economic crisis and with less than six years in which to achieve the MDGs (by 2015), the present report shows that major challenges still lie ahead in consolidating the partnership for global development. It is anticipated, however, that the current crisis will provide an opportunity to accelerate delivery on agreed commitments and improve the distribution of benefits where these are wanting, rather than present an obstacle towards progress.

3 Available at <http://www.un.org/esa/policy/mdggap/>.

Official development assistance

Target

- 8b Address the special needs of the least developing countries [including] more generous official development assistance for countries committed to poverty reduction

Recent reaffirmations of ODA targets

Since the *MDG Gap Task Force Report 2008*,¹ there have been a number of reconfirmations by the developed countries of their commitments to increase official development assistance (ODA). The Doha Declaration, adopted by Member States of the United Nations at the Follow-up to the International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus in December 2008, stated that “[t]he fulfilment of all ODA commitments is crucial, including the commitments by many developed countries to achieve the target of 0.7 per cent of [GNI] for ODA to developing countries by 2015 and to reach the level of at least 0.5 per cent of [GNI] for ODA by 2010”.² It also “welcomed the declaration by the leaders of the Group of Eight in Hokkaido, Japan, that they are firmly committed to working to fulfil their commitments made at Gleneagles, Scotland, including increasing, compared to 2004, with other donors, ODA to Africa by \$25 billion a year by 2010”.

At their meeting on 2 April 2009, the leaders of the Group of Twenty (G-20) reaffirmed their commitment to achieving their ODA pledges, including commitments on Aid for Trade, debt relief and the Gleneagles commitments, especially those for sub-Saharan Africa. They also agreed to provide an additional \$50 billion to support social protection, boost trade and safeguard development in low-income countries as well as \$6 billion of additional concessional and flexible finance to the poorest countries over the next two to three years.³

At its meeting on 26 April 2009, the Development Committee of the World Bank/International Monetary Fund (IMF) recognized the need to translate these commitments and others into concerted action and additional resources. It urged all donors not only to accelerate delivery of increased aid commitments but also to consider going beyond existing commitments.

The Doha Conference on financing for development underlined the need to achieve ODA targets

G-20 leaders have reaffirmed their aid commitments

1 *MDG Gap Task Force Report 2008, Delivering on the Global Partnership for Achieving the Millennium Development Goals* (United Nations publication, Sales No. E.08.I.17).

2 See http://www.un.org/esa/ffd/doha/documents/Doha_Declaration_FFD.pdf.

3 See Communiqué on the Global Plan for Recovery and Reform, adopted on 2 April 2009 at the G-20 London Summit (available at <http://www.g20.org/Documents/final-communication.pdf>).

In the Action Plan adopted at the high-level meeting of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD), held on 27 and 28 May 2009, members reaffirmed their existing ODA commitments, especially those for Africa. Although this is encouraging, in practice delivery still falls short and fears exist that the crisis may put further pressure on aid budgets in donor countries.

Progress towards the targets for ODA

Total ODA

Indicator

8.1 Net ODA, total and to the least developed countries, as a percentage of OECD/DAC donors' GNI

ODA reached a new record in 2008

ODA has increased since the adoption of the United Nations Millennium Declaration, with some wide fluctuations in the debt forgiveness component (see figure 1). After a setback in 2007, total net disbursements of ODA from DAC members increased 10.2 per cent in real terms in 2008 to reach a record level of almost \$120 billion. The largest increases in absolute amounts were in the foreign aid budgets of the United States of America, the United Kingdom of Great Britain and Northern Ireland, Spain, Germany, Japan and Canada. In addition, there were significant increases by Australia, Belgium, Greece, New Zealand and Portugal.⁴ The countries with the largest aid programmes in 2008 were the United States, Germany, the United Kingdom, France and Japan.

Debt relief should be additional to ODA commitments

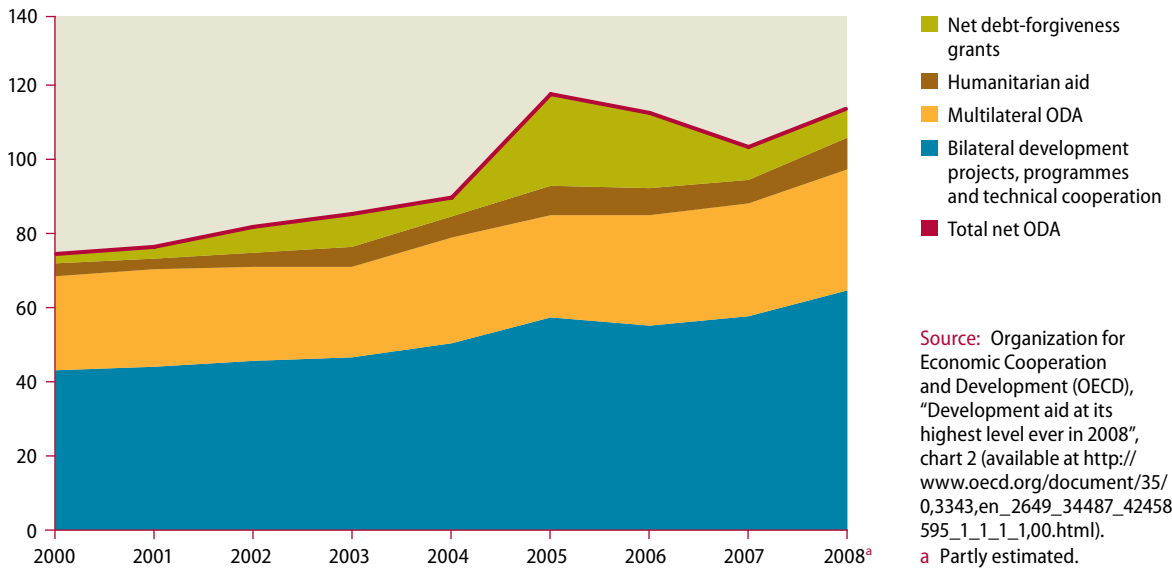
The Millennium Declaration commitment to reduce developing country debt was made separately and debt relief was to be additional to the commitment to increase ODA. Nevertheless, as reflected in figure 1, some of the costs of debt relief are included in ODA reported by donors. This raises the possibility that debt relief might replace non-debt relief aid flows, rather than add fresh resource flows. In conformity with the Millennium Declaration commitments, debt relief should be over and above the targets that have been established for ODA.

ODA as a share of donor country GNI remains far short of the 0.7 per cent target

Despite the increase in ODA, total net aid flows from DAC members in 2008 were equivalent to only 0.30 per cent of their combined gross national income (GNI). While this proportion had risen from 0.28 per cent in 2007 (and from 0.22 in 2001), it remained far short of the United Nations target of 0.7 per cent (see figure 2). Of the 22 members of DAC, only Denmark, Luxembourg, the Netherlands, Norway and Sweden have reached or exceeded this target. On average, DAC members allocated 0.47 per cent of GNI to ODA, but the proportion varied widely among countries, from almost 1 per cent for Sweden to 0.18 per cent for Japan and the United States and 0.20 for Greece and Italy. All donor countries except Japan increased their ODA as a proportion of their GNI between 2000 and 2007.

⁴ Organization for Economic Cooperation and Development (OECD), "Development aid at its highest level ever in 2008", available at http://www.oecd.org/document/35/0,3343,en_2649_34447_42458595_1_1_1_1,00.html.

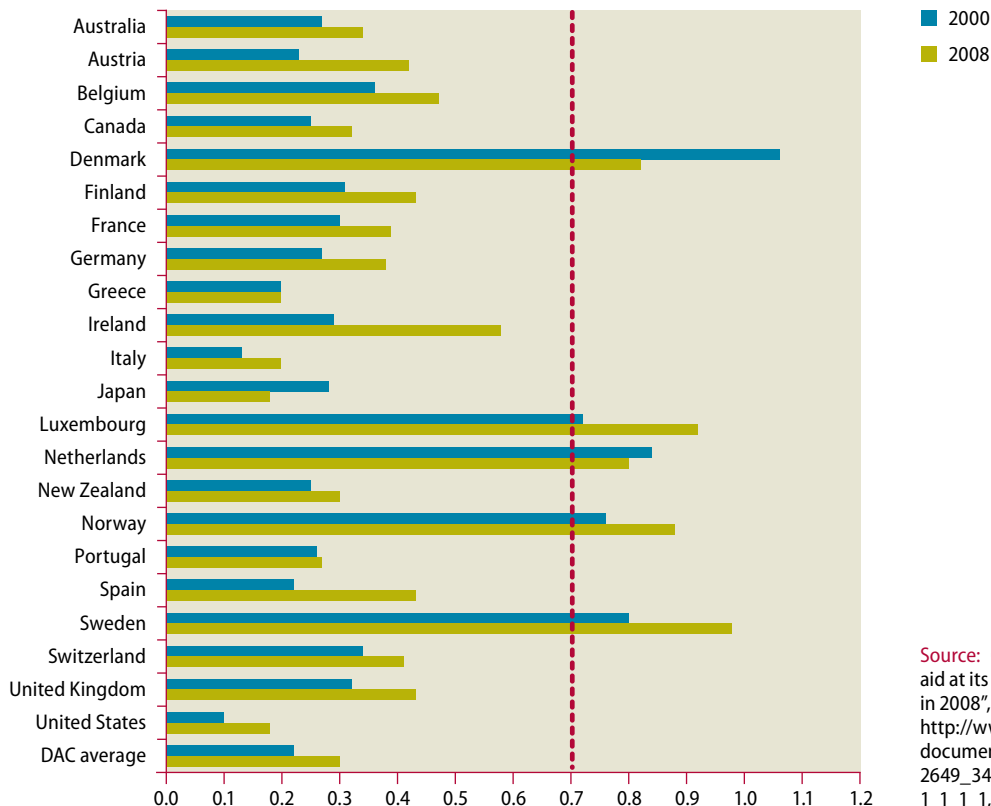
Figure 1
Total ODA flows from DAC countries by component, 2000-2008
(billions of 2007 dollars)



Source: Organization for Economic Cooperation and Development (OECD), "Development aid at its highest level ever in 2008", chart 2 (available at http://www.oecd.org/document/35/0,3343,en_2649_34487_42458595_1_1_1_1,00.html).

^a Partly estimated.

Figure 2
Progress towards the United Nations target for ODA between 2000 and 2008, by DAC donor country (percentage of GNI)



Source: OECD, "Development aid at its highest level ever in 2008", table 2 (available at http://www.oecd.org/document/35/0,3343,en_2649_34487_42458595_1_1_1_1,00.html).

In March 2009, OECD/DAC concluded that, based on a survey of future spending plans, total net ODA provided by DAC members in 2010 would be about \$121 billion in 2004 prices.⁵ If these expenditures materialize, they would fall short of the target of \$130 billion (in 2004 prices) that was implicit in the Gleneagles commitments (see figure 3). Part of this shortfall is attributable to reductions in commitments by some donors, but a larger part arises because, as a result of the global economic slowdown, the GNI of the DAC countries is below earlier expectations. Donors that target ODA as a share of GNI therefore will have smaller aid budgets in absolute terms. In 2008, total aid was \$100.7 billion at 2004 prices and exchange rates, thus requiring a further increase by \$14.7 billion per year in order to achieve the Gleneagles target for total ODA by 2010 (see table 1). Following through on existing spending plans as surveyed by the OECD will not be enough as these would only fill \$21 billion of the present delivery gap at 2004 prices.

At 2008 prices and exchange rates, the total delivery gap towards the Gleneagles commitment is \$34.7 billion (see table 1), of which \$10.2 billion would be the required increase on top of the planned foreign aid budgets by 2010.

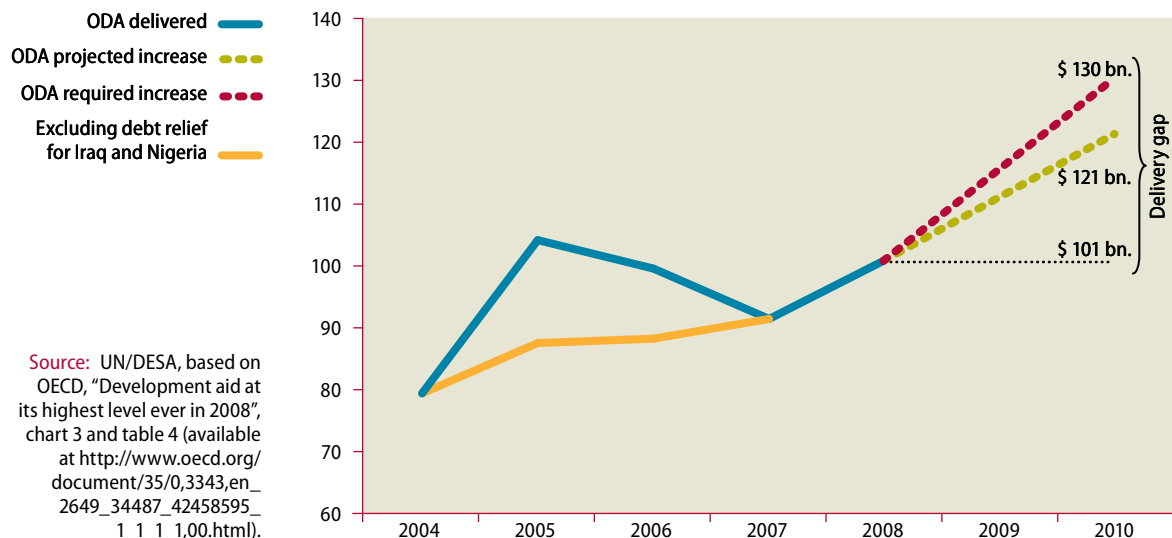
The commitment to Africa

Progress towards the Gleneagles target for Africa has been slow

Recognizing the major challenges facing Africa, the Millennium Declaration devoted special attention to that continent's development but did not set any quantitative targets for ODA to the region. Within the overall pledges made by the Group of Eight (G-8) in Gleneagles in 2005, some countries announced specific commitments to increase aid to Africa through a variety of means, including through traditional development assistance, debt relief and innovative financing mechanisms. At the time of the Gleneagles Summit, it was estimated that the

Figure 3

Total ODA from DAC countries, 2004-2008, and projections for 2009-2010
(billions of 2004 dollars)



Source: UN/DESA, based on OECD, "Development aid at its highest level ever in 2008", chart 3 and table 4 (available at http://www.oecd.org/document/35/0,3343,en_2649_34487_42458595_1_1_1_1,00.html).

Table 1
Delivery of annual flow of ODA in 2008 in relation to commitments and targets

		Billions of 2004 dollars	Billions of 2008 dollars	Percentage of GNI ^a
Total ODA^b	Commitment for 2010	130.0	154.5	–
	Overall target	–	–	0.7
	Delivery in 2008	100.7	119.8	0.3
	Gap	29.3	34.7	0.4
ODA^b to Africa	Commitment for 2010	52.7	62.6	–
	Delivery in 2008	35.3	42.0	–
	Gap	17.4	20.6	–
ODA^b to LDCs	Target	–	53.2-70.9	0.15-0.20
	Delivery in 2007	–	31.9	0.09
	Gap	–	21.3-39.0	0.06-0.11

Source: UN/DESA, based on OECD, "Development aid at its highest level ever in 2008", chart 3 and table 4 (available at http://www.oecd.org/document/35/0,3343,en_2649_34487_42458595_1_1_1_1,00.html).

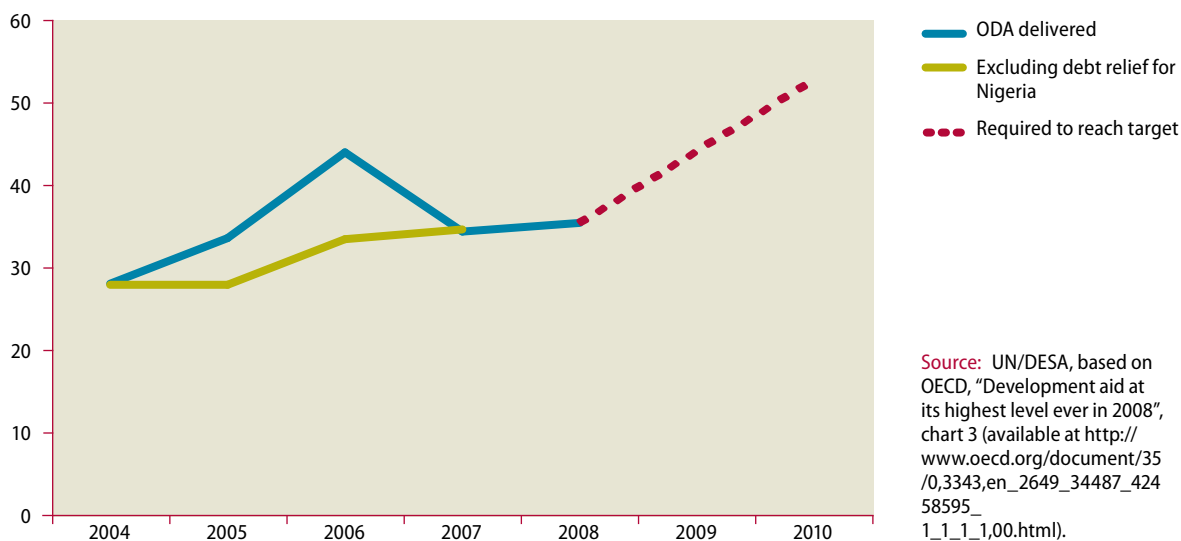
^a Combined GNI of DAC members.

^b ODA from DAC members.

ODA provided to Africa by the OECD countries was \$25 billion in 2004 prices. It was also estimated that the additional commitments that had been made would increase ODA to Africa by \$25 billion per year by 2010, more than doubling aid to Africa compared to 2004.

Excluding relief provided to Nigeria, ODA to Africa has grown only modestly since 2005. In 2008, the region received about 30 per cent of the increase in global ODA and, in 2004 prices, total ODA to Africa in that year was only about \$8 billion higher than in 2004-2005 (see figure 4). Data are not available on donors' plans for ODA expenditures in Africa for 2009 and 2010, but there

Figure 4
Total net ODA to Africa in relation to the Gleneagles commitment, 2004-2010
(billions of 2004 dollars)



Source: UN/DESA, based on OECD, "Development aid at its highest level ever in 2008", chart 3 (available at http://www.oecd.org/document/35/0,3343,en_2649_34487_42458595_1_1_1_1,00.html).

remains a gap of \$17.4 billion at 2004 prices and \$20.6 billion at 2008 prices between delivery in 2008 and the Gleneagles target (see table 1 above) and less than two years until the end of 2010 in which to remedy the situation. The shortfall in ODA flows to Africa accounts for 60 per cent of the shortfall between delivery in 2008 and global commitments for 2010. Several of the larger developing countries in particular will have to increase ODA flows to Africa substantially if they are to meet the pledges they made in 2005.

ODA to the least developed countries

Within the target of 0.7 per cent of GNI for total ODA, the international community has frequently called for increased flows of ODA to the most disadvantaged developing countries, notably the least developed countries (LDCs). The Brussels Programme of Action called upon donor countries to provide 0.15-0.20 per cent of their GNP as ODA to the LDCs, but did not set a date by which this target should be achieved.⁶ The target itself has been reaffirmed in numerous subsequent international forums.

ODA to the LDCs has risen
but remains short of the
Brussels target

Since the adoption of the Brussels Programme, flows of ODA to the LDCs have increased from less than \$14 billion in 2001 to a record \$32 billion in 2007. LDCs now receive about 30 per cent of all ODA. Total ODA flows to the LDCs have risen from 0.05 per cent of the GNI of the DAC countries in 2001 to 0.09 per cent in 2007, remaining short of the target of 0.15-0.20 per cent contained in the Brussels Programme of Action (see table 1 above). All donor countries except Portugal increased or maintained the proportion of their GNI allocated as ODA to the LDCs between 2000 and 2007, and the number of DAC countries meeting the target of 0.15 per cent of GNI increased from five to eight during this period (see figure 5). Greece and the United States, in contrast, allocated less than 0.05 per cent of their GNI as ODA to the LDCs in 2007.

Landlocked developing countries and small island developing States

Bilateral ODA to the landlocked developing countries (LLDCs) amounted to some \$11.3 billion in 2007. Following its review of the Almaty Programme of Action for the Landlocked Countries in September 2008, the General Assembly noted that much of the ODA to LLDCs takes the form of emergency and food aid.⁷ The allocation of development assistance to transport, storage and communications has not changed over the past five years, despite the need for increased financial support for the construction and maintenance of infrastructure.

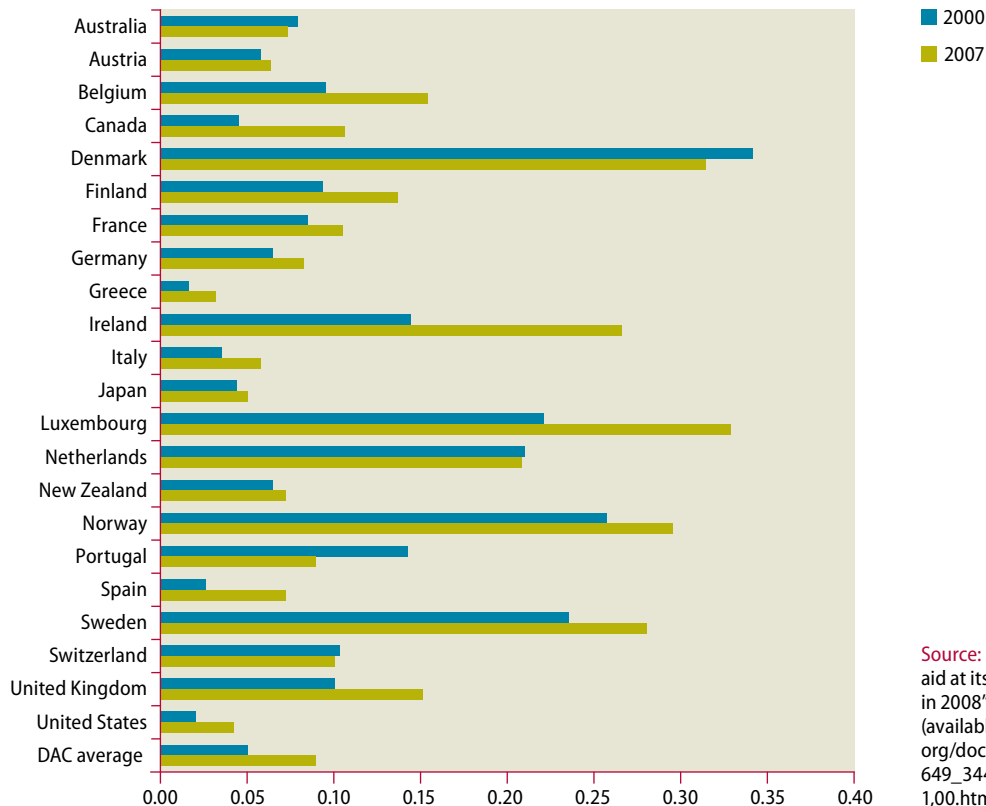
Small island developing States (SIDS) continue to receive between \$2 billion and \$2.5 billion of ODA per year, equivalent to about 3 per cent of their combined GNI.⁸ For some SIDS, ODA is very high as a share of gross domestic product (GDP) and in terms of ODA per capita (see below).

⁶ Report of the Third United Nations Conference on the Least Developed Countries held at Brussels, Belgium, from 14-20 May 2001 (A/CONF.191/13), para. 83 (a)-(d).

⁷ General Assembly resolution 62/204.

⁸ See Millennium Development Goals database (available at <http://mdgs.un.org/unsd/mdg/Data.aspx>), indicator 8.5 (based on data provided by OECD).

Figure 5
**Progress towards the Brussels target for ODA to the LDCs
 between 2000 and 2007, by DAC donor country (percentage of GNI)**



Source: OECD, "Development aid at its highest level ever in 2008", chart 3 and table 4 (available at http://www.oecd.org/document/35/0,3343,en_2649_34487_42458595_1_1_1_1,00.html).

Outlook for filling the delivery gaps

In the past, lack of political will and fiscal constraints within the developed countries have caused ODA to decline during an economic slowdown and there is fear that this pattern may be repeated during the current crisis. On this occasion, however, there appears to be a higher degree of political commitment, as reflected in the reaffirmations of past commitments made in late 2008 and the first half of 2009 referred to at the beginning of this chapter.

This change in attitude may be reinforced by a recognition of responsibility by the developed countries for the global economic crisis and a corresponding obligation to assist developing countries in addressing its profound negative consequences.⁹ The developed countries' response to the crisis domestically has involved additional fiscal and other spending which dwarfs ODA. This has two implications. First, these large additional domestic expenditures make it difficult for developed countries to justify reducing ODA at a time when their actions have caused difficulties for the developing countries. Second, the very large fiscal and other costs of domestic measures have undermined the fiscal discipline shown by

Political commitment is the key to increasing ODA during the slowdown

⁹ See, for instance, outcome document of the Conference on the World Financial and Economic Crisis and Its Impact on Development (A/CONF.214/3), especially paras. 16 and 28.

developed countries heretofore. Most developed countries have already violated their fiscal rules by such a wide margin that an increase in ODA of the amount required to fulfil existing commitments would make a negligible difference to their fiscal sustainability. At the same time, the additional international commitments made at the G-20 meeting in April 2009 could augur well for a further increase in ODA flows for the next few years, even though many of the additional resources will not take the form of ODA.

The Gleneagles targets
can still be achieved

There remains a substantial gap in the funding required to achieve by 2010 the total level of ODA and the amount for Africa that the leaders of the G-8 had aspired to in 2005. Nevertheless, the target remains achievable if world leaders maintain their political and financial commitment and if all development practitioners redouble their efforts to ensure that the anticipated increase in development assistance is delivered in recipient countries.

The “coverage gap”

In addition to the “delivery gap” between specific global commitments and the flow of ODA, the effective implementation of the Millennium Declaration also depends on an adequate distribution of ODA among regions and countries according to needs. An examination of ODA flows to a range of country groupings provides an insight into country coverage and helps identify any “coverage gap”, as defined in the introduction to the present report.

Regional distribution of ODA

Regional distribution
of ODA is only weakly
correlated with the
degree of poverty

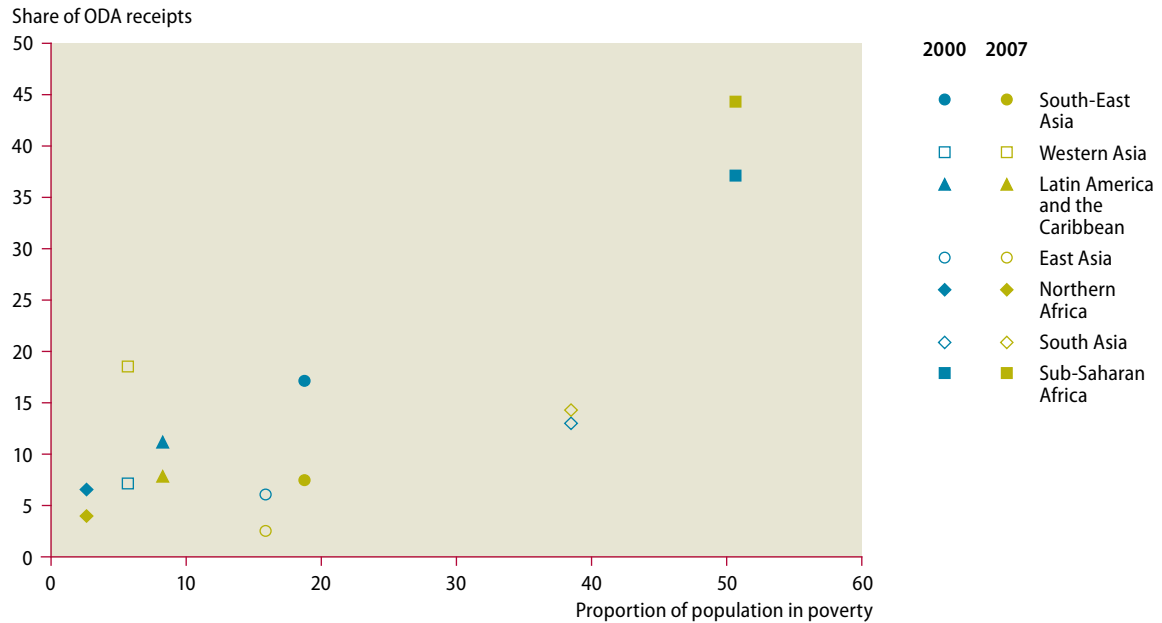
Among the developing regions, sub-Saharan Africa continues to be the largest recipient of ODA, having more than doubled receipts in current dollars between 2000 and 2007. This conforms with the high proportion of poor in the subregion (see figure 6). Western Asia now ranks second, having increased receipts more than fivefold over this period. In this case, however, the increase is attributable to exceptional debt relief and ODA for humanitarian and reconstruction purposes in Iraq, rather than for poverty alleviation. ODA flows to South Asia more than doubled over the seven-year period, largely because of increased flows to Afghanistan, but remained relatively small bearing in mind the high proportion of the population living in extreme poverty in the region. ODA flows to East Asia and South-East Asia declined during the period, despite the moderately high rates of poverty that remain. For the rest of the regions, ODA receipts increased modestly during this time.

Country coverage

To achieve the MDGs, the
ODA received by countries
should be inversely related
to their level of poverty

The overriding objective of the Millennium Declaration and the overarching MDG is to reduce poverty. Consequently, it should be expected that ODA would have become increasingly directed towards poor people and poor countries because of their low levels of development, vulnerability to external shocks and lack of access to other sources of international financing for development. While it is not possible to determine the final beneficiaries of ODA within a country or whether they have changed over time, data on the geographical pattern of ODA flows can be used to determine whether there has been a shift towards the poorest countries.

Figure 6
Shares of total net receipts of ODA in 2000 and 2007 and incidence of poverty in 2005, by region (percentage)



Source: UN/DESA, based on data from OECD Creditor Reporting System database and Millennium Development Goals database (available at <http://mdgs.un.org/unsd/mdg/Data.aspx>), based on data provided by the World Bank.

Note: The regions are those used by the Inter-Agency and Expert Group on MDG Indicators (see <http://mdgs.un.org/unsd/mdg/Host.aspx?Content=Data/RegionalGroupings.htm>).

The absolute amount of ODA received by each country is a first indicator of country coverage. Because countries with large populations would be expected to receive more in relative terms, it is also useful to examine ODA per capita. From the point of view of the recipient country, “coverage” could refer to the importance of ODA within the domestic economy; this would be reflected in the ratio of ODA to GDP. Finally, it is useful to see whether there are differences in the allocation of multilateral and bilateral ODA.

The largest recipient of ODA in 2007 was Iraq which, with a per capita income of \$2,100, received more than twice as much as the second largest recipient, Afghanistan (with a per capita income of \$350) (see table 2). Afghanistan received about 40 per cent more ODA in 2007 than the third-largest recipient, the United Republic of Tanzania, which has a bigger population and only a slightly higher per capita GDP. In 2007, the top 10 recipients among more than 150 recipient countries received almost 40 per cent of total ODA, compared to less than 35 per cent in 2000. Together, the top two countries received some 45 per cent of the increase in country-allocable ODA from the DAC countries between 2000 and 2007, even though they account for less than 1 per cent of the total population of the developing countries.

Viewed from the perspective of ODA per capita, all but 1 of the 10 largest recipients in 2007 were SIDS, most of which have very small populations: the top 5 have less than 225,000 inhabitants in total. The support that these countries receive, mostly from neighbouring States, is small in absolute terms but very large in per capita terms and highly variable. The only non-island State on the list is

Iraq and Afghanistan were the major recipients of ODA in 2007

SIDS received the largest amount of ODA per capita ...

Table 2
Top 10 recipients of ODA in 2007

Recipient	ODA receipts in 2007 (millions of dollars)	ODA receipts in 2000 (millions of dollars)	Population (millions)	ODA per capita (dollars)
A. By amount of ODA				
Iraq	9 176	96	29.5	311
Afghanistan	3 951	136	26.3	150
United Republic of Tanzania	2 811	1 035	41.3	68
Viet Nam	2 497	1 681	86.1	29
Ethiopia	2 422	686	78.6	31
Pakistan	2 212	700	173.2	13
Sudan	2 104	220	40.4	52
Nigeria	1 947	174	147.7	13
Cameroon	1 905	381	18.7	102
Occupied Palestinian territories	1 872	637	4.0	466
Recipient	ODA per capita, 2007 (dollars)	ODA per capita, 2000 (dollars)	Population (thousands)	ODA receipts (millions of dollars)
B. By ODA per capita				
Nauru	1 852	400	14	26
Palau	1 100	2 059	20	22
Micronesia, Federated States of	1 035	949	111	115
Tuvalu	978	403	12	12
Marshall Islands	784	1 101	67	52
Saint Vincent and the Grenadines	604	57	109	66
Solomon Islands	494	164	498	246
Occupied Palestinian territories	466	202	4 017	1 872
Cape Verde	336	214	492	165
Iraq	311	4	29 486	9 176
Recipient	ODA-GDP ratio, 2007 (percentage)	ODA-GDP ratio, 2000 (percentage)	Population (thousands)	ODA receipts (millions of dollars)
C. By ratio of ODA to GDP				
Liberia	95	13	3 627	696
Timor-Leste	70	99	1 064	278
Solomon Islands	63	23	498	246

Recipient	ODA-GDP ratio, 2007 (percentage)	ODA-GDP ratio, 2000 (percentage)	Population (thousands)	ODA receipts (millions of dollars)
C. By ratio of ODA to GDP (continued)				
Burundi	48	13	7 838	466
Micronesia, Federated States of	46	47	111	115
Marshall Islands	45	58	67	52
Nauru	44	12	14	26
Tuvalu	43	34	12	12
Afghanistan	41	..	26 290	3 951
Guinea-Bissau	32	35	1 541	123

Source: UN/DESA, based on data from the OECD Creditor Reporting System database, the United Nations World Population Prospects database, the IMF World Economic Outlook database and the World Bank World Development Indicators database.

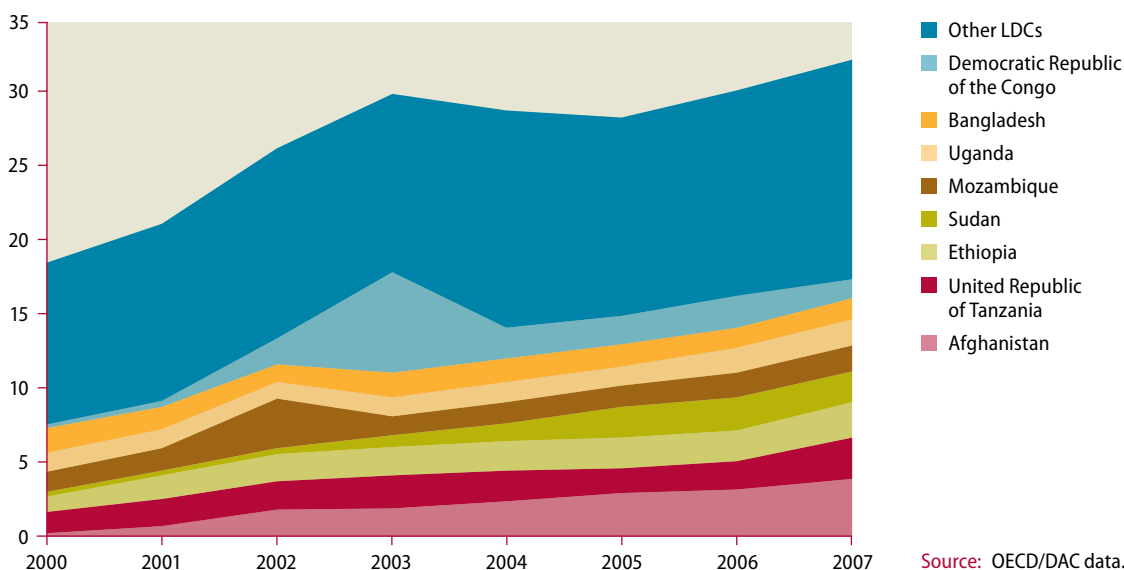
Iraq, which received over \$300 ODA per capita in 2007. The top five recipients in terms of per capita ODA were the same in 2000 and the other half were also mostly SIDS.

The LDCs as a group also have average receipts of ODA per capita that are far higher than for other developing countries. However, the total receipts of the group are also highly and increasingly concentrated (see figure 7). Eight countries, about one sixth of the group's members and accounting for 16 per cent of its population, received some 54 per cent of total ODA to the group in 2006/07, compared with about 42 per cent in 2000/01.

From the point of view of the importance of ODA within the national economy, 6 of the 10 countries with the highest ratio of ODA to GDP were SIDS, again reflecting the importance of external support to these small economies.

Figure 7

Major recipients of ODA among the LDCs, 2000-2007
(billions of dollars at 2006 prices and exchange rates)



Source: OECD/DAC data.

... but it is also high in the LDCs as a group

The remaining four were LDCs, including some that are currently encountering conflict or unrest or that have recently emerged from such a situation. Liberia is highest on the list, having received ODA equivalent to almost 100 per cent of its GDP in 2007.

Most of the recent increases in ODA have not been allocated to the poorest countries

Although limited in perspective, this review of the major recipients of ODA reveals large “coverage gaps”. First, a large proportion of the increase in ODA since the adoption of the Millennium Declaration has been provided to a small number of countries; the majority of countries have seen much smaller increases. Second, these major recipients account for only a small proportion of the population of the developing countries. Third, the major recipients of ODA by the above criteria account for a very small proportion of the world’s poor.

A comparison of the data for all developing countries provides further insight into the extent to which ODA is oriented towards the poorest. If ODA were allocated on the basis of population alone, and if individual countries were ranked according to per capita GDP, each decile of the total population of developing countries would receive 10 per cent of total (global) ODA. If ODA were oriented towards the poorest countries, the countries in the first (lowest income) decile would receive more than 10 per cent of global ODA and successive deciles would receive progressively less.

In performing such an analysis, China and India have been excluded since each accounts for more than two deciles of the world’s population (in 2007, China accounted for over 24 per cent and India for over 21 per cent). China would fall in the seventh decile of the 2006/07 distribution (when it received 1.9 per cent of total ODA) while India would be in the third decile (and received 1.7 per cent of total ODA).

Excluding these two countries, the 10 per cent of the rest of the developing world’s population that lived in the poorest countries received 14 per cent of bilateral ODA and 20 per cent of multilateral ODA in 2006/07 (see figures 8 and 9). For both bilateral and multilateral ODA, the first decile’s share of ODA in 2006/07 was higher than in 2000/01. In 2000/01, the second decile received more bilateral and multilateral ODA than the first decile, but this was reversed in 2006/07, largely because of the substantial increase in assistance to Afghanistan (which lies in the first decile).

The relationship between bilateral ODA and poverty is weaker at the middle-income levels

Data for the middle deciles show, however, that the link between bilateral ODA and poverty is weak as GDP per capita rises; some deciles receive a larger share of total ODA than lower-income deciles. For example, in both 2000/01 and 2006/07, the seventh decile received more bilateral ODA than any other decile and also more multilateral aid than might be expected on the basis of income level. This was largely the result of ODA to upper-income conflict-affected countries (countries of the former Yugoslavia in 2000/01 and Iraq in 2006/07). As was to be expected, the top two deciles received little bilateral or multilateral ODA in either period.

Despite the anomalies, the data show that multilateral ODA was more oriented towards poor countries than bilateral ODA for both periods in question, regardless of the threshold used to define poor countries. Second, the emphasis of multilateral ODA on poor countries increased further between 2000/01 and 2006/07. In contrast, apart from the increased share for the poorest decile, there are no signs of a similar shift in bilateral ODA. Countries in the lowest two deciles accounted for a lower proportion of bilateral ODA in 2006/07 than in

Figure 8
Distribution of DAC bilateral ODA by population decile for developing countries^a
ranked by GDP per capita, 2000/01 and 2006/07 (percentage)

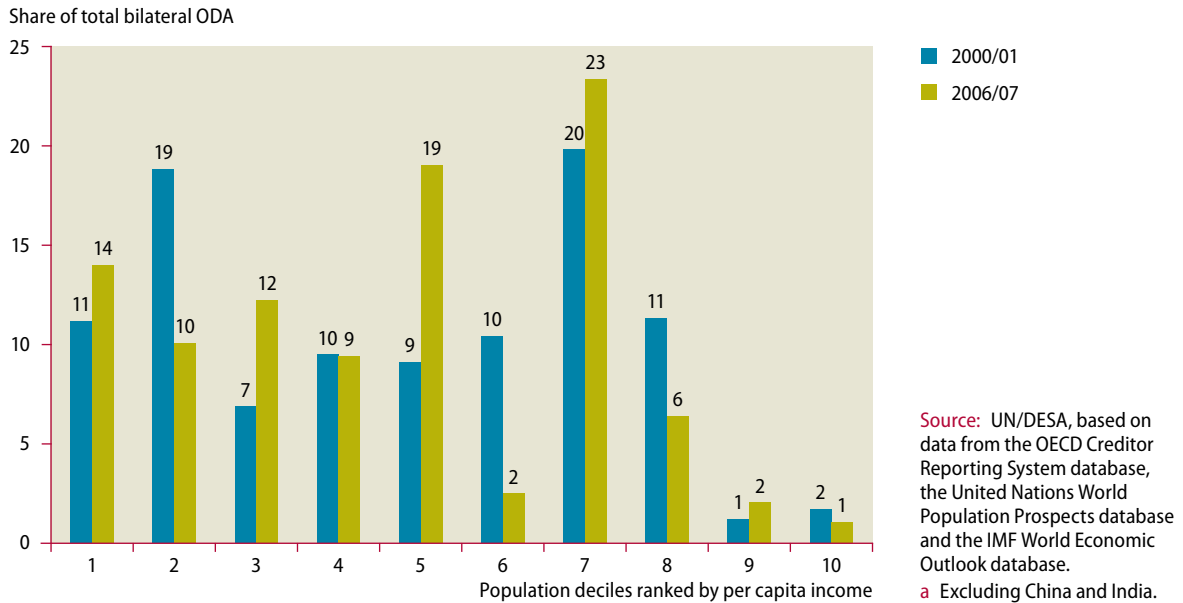
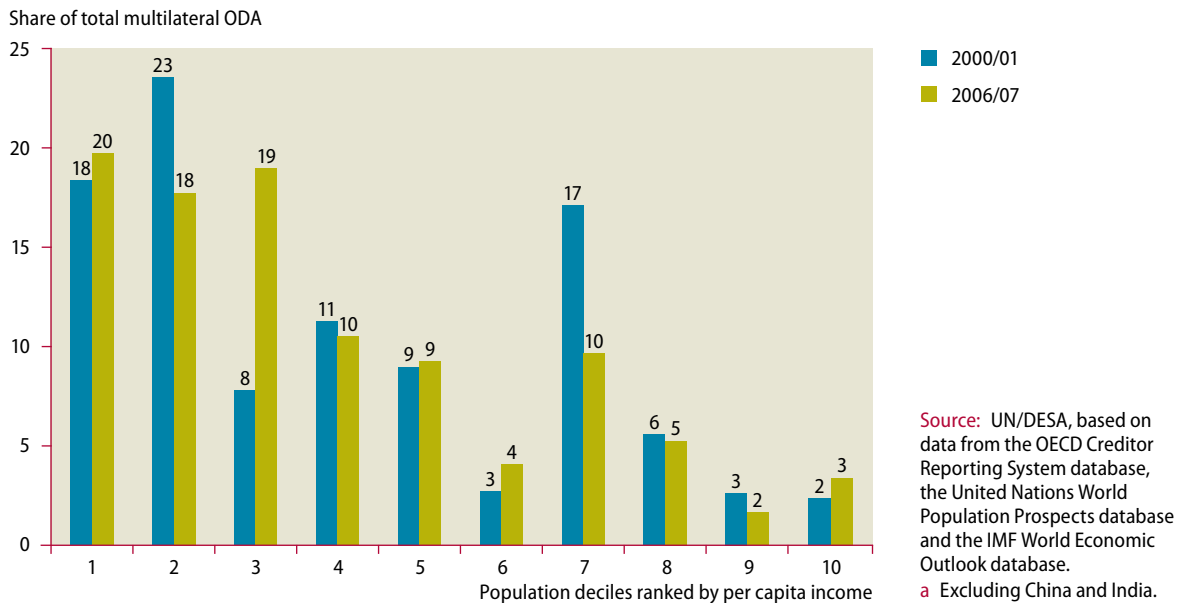


Figure 9
Distribution of multilateral ODA by population decile for developing countries^a
ranked by GDP per capita, 2000/01 and 2006/07 (percentage)



2000/01 and those in the lowest three and four deciles for about the same proportion in both periods. This suggests that considerable scope remains for improving the distribution of bilateral ODA between higher- and lower-income developing countries.

Indicator

8.2 Proportion of bilateral, sector-allocable ODA of OECD/DAC donors to basic social services

Sector allocation of ODA

Since the adoption of the Millennium Declaration, and as part of the effort to reduce poverty, donors have increasingly allocated ODA to basic social services, such as health and education. Particularly if there is a lack of evidence showing that higher growth is reducing poverty, donors, including private sources, have often felt that the most effective course of action is to bolster social services with a view to addressing the non-income (or basic needs) dimensions of poverty. These efforts have yielded tangible results in many areas, most notably health.¹⁰

There may be some shortcomings to this approach, however. First, it assumes that ODA is the best, or only, means of meeting these basic needs. However, it may be more appropriate to use domestic or other resources to meet basic needs and to use ODA for needs that cannot be met or that are of higher priority in the Government's national development strategy. Governments are always faced with competing demands for the use of all available resources and these demands change over time.

Several new demands
have arisen for ODA

Second, since the adoption of the Millennium Declaration, new concerns and additional needs have surfaced, all of which impose further demands on limited ODA resources. One overriding, long-term priority must be to address the consequences of climate change. While the necessary resources far exceed prospective ODA flows and must come mostly from other sources, some of the required activities may be financed through ODA. Similarly, the food crisis of 2008 underlined the need for developing countries to increase investment in their food security, including by reversing the neglect of their agriculture sector. The need for food and nutrition assistance remains as a result of persistently high food prices and the global economic and financial crisis, which has led to declining incomes and job losses. In 2009, the number of hungry people was more than 1 billion. More generally, there is a recognition that the increased attention given to the social sectors may have come at the cost of investment in infrastructure and productive capacity. As part of the effort to increase capital investment, and to enable developing countries to reap the benefits of integration into the world economy, particular attention is being given to the need to build trade capacity through the Aid for Trade Initiative and the Enhanced Integrated Framework (EIF).

Coupled with other longstanding needs, these new priorities underline the necessity of ensuring that donors fulfil their commitments to increase ODA. At the same time, however, these competing needs will have different priorities in different countries, depending on national conditions and the country's development objectives. Responsibility for the allocation of resources, including ODA, among the competing claims must rest with the recipient Government. This

10 See *The Millennium Development Goals Report 2009* (United Nations publication, Sales No. E.09.I.12), available at <http://www.un.org/millenniumgoals/reports.shtml>.

underscores the need to apply the principle of national ownership in the delivery of all ODA in practice.

Non-DAC partners and private sources

Development financing provided by non-DAC official donors and by non-governmental organizations (NGOs) and other international civil society organizations has increased substantially since the adoption of the Millennium Declaration. Israel, the Russian Federation and members of the European Union that are not members of the OECD are among the countries that provide extensive and increasing development assistance to developing countries. Among the developing countries themselves, a number of the major oil-exporting countries have long been an important source of assistance to other developing countries. They have been joined over the past several years by growing programmes of assistance from such countries as Brazil, China, India, South Africa and Thailand. In addition, most developing countries contribute to the development financing provided through multilateral institutions.

Some of these flows would qualify as ODA, but neither the international community nor individual developing countries themselves have set targets for the volume of such flows. Official data on the volume and terms of these flows are limited but it has been estimated that assistance from all non-DAC donors was about \$8.5 billion in 2007, equivalent to about 7.5 per cent of DAC flows. About \$7.1 billion of the total was from developing countries.¹¹ Contributions to multilateral institutions account for about 18 per cent of developing countries' development assistance flows, compared with an average of 29 per cent for DAC countries.¹²

A wide and growing range of private actors complement development assistance provided through Governments. These include international NGOs, private foundations and private sector businesses. It is estimated that private giving amounted to \$18.6 billion in 2007, but it is recognized that there is substantial underreporting.¹³ Much of the private giving is oriented towards health and education.

Non-DAC official donors are providing increasing assistance to developing countries

These flows are estimated to be less than one tenth of DAC flows

Aid effectiveness

Indicator

8.3 Proportion of bilateral ODA of OECD/DAC donors that is untied

In addition to increasing the volume of ODA, the international community has also recognized the need to improve the quality, or effectiveness, of aid and has agreed on a series of actions and targets to achieve this complementary objective.

The international community is addressing the need to improve the quality of aid ...

¹¹ See Matthew Martin and Jonathan Stever, "Key challenges facing global development cooperation", paper prepared for the 2007 United Nations Development Cooperation Forum, Geneva, 5 July, p. 21.

¹² See www.un.org/ecosoc/docs/pdfs/South-South_cooperation.pdf.

¹³ International Monetary Fund and World Bank, *Global Monitoring Report 2009* (Washington, D.C., 2009), p. 123.

The 2005 Paris Declaration on Aid Effectiveness aims to strengthen ownership by recipient countries, align aid with country priorities, harmonize the efforts of the multitude of donors, improve the quantitative and qualitative delivery of aid commitments and strengthen mutual accountability.

... but progress has
been slow

In September 2008, the Third High Level Forum on Aid Effectiveness reviewed an OECD report on the implementation of the Paris Declaration.¹⁴ This survey showed that aid effectiveness was improving, but only slowly: there remained a sizeable gap between the results achieved by 2008 and 12 numerical targets set for 2010. Of these, the target of aligning and coordinating 50 per cent of technical assistance projects with country programmes by 2010 had been achieved by 2008 (when the rate was 60 per cent). Donors had also gone halfway towards the goal of eliminating all remaining tied aid, while developing countries had made equal relative gains with respect to the target for improving their public financial management systems. Far less progress had been made towards the remaining targets.

The Accra Agenda
for Action aims to
accelerate progress

In order to step up and broaden implementation, the many and wide-ranging development partners participating in the Forum adopted the Accra Agenda for Action (AAA). The key thrusts of the Agenda are commitments by donors to use the developing countries' own development strategies as a framework for their assistance, to reduce the fragmentation of their assistance, to provide advance information on their planned aid to partner countries, to harmonize their activities, to use recipient country systems to deliver aid, and to untie aid.

Ownership

One overarching challenge in improving the effectiveness of ODA is the continued gap between the ideal of strong recipient country ownership of ODA and reality. In the sample of recipient countries that were covered by the 2008 OECD survey, less than one quarter had national development strategies that were regarded as providing an operational and effective basis for programming ODA. In particular, national budgets were often only weakly linked to national development strategies. Developing countries need to reflect their development objectives in national budgets and should increase the involvement of other stakeholders, such as parliaments, civil society and the private sector, in planning, implementing and monitoring development activities. At the same time, donors have to be more flexible in recognizing each recipient country's policy priorities when they allocate their ODA.

Fragmentation

The proliferation of donor
agencies has compounded
the problems of aid
effectiveness

For developing countries, the difficulties of managing aid are compounded by the plethora of donors. This fragmentation of aid has been a result of the growth of bilateral assistance, sector funds and non-traditional donors. The relative decline in the flow of multilateral ODA has reduced the role of these institutions in bundling funds from different donors. The Paris Declaration calls for a reduction in this fragmentation of aid through a division of labour at the global, country and sectoral levels, without reducing the total volume of aid.

¹⁴ OECD, *2008 Survey on Monitoring the Paris Declaration: Making Aid More Effective by 2010* (Paris, 2008).

While perhaps seen as essentially a donor responsibility, efforts to reduce fragmentation should be based on a dialogue between donors and recipients since, at the global level, unilateral donor action to reduce fragmentation might result in excessive attention being given to some countries or sectors at the expense of others. In the AAA, donors and developing countries agreed to start a dialogue on a cross-country division of labour in aid delivery by June 2009.

At the country level, unilateral actions by donors to reduce fragmentation would be contrary to the principle of country ownership. In the AAA, it was agreed that developing countries would take the lead in determining desired donor roles in their development efforts.

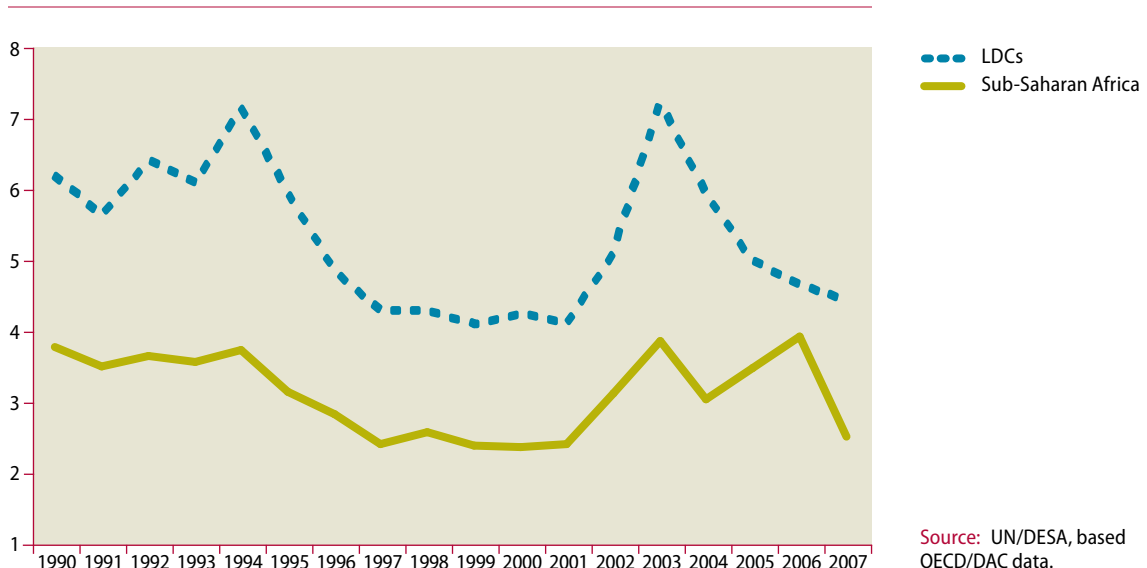
Predictability of aid flows

Some components of aid, such as humanitarian assistance and debt relief, are inherently unstable, but even longer-term development assistance has often proved volatile (see figure 10). Even when donor countries have medium-term plans for their total ODA, individual recipient countries may not always be provided with regular and timely information on how much aid they may expect to receive in the future or what form it might take. Even when such information is provided, planned expenditures may fail to materialize. This makes it difficult for developing countries to plan the use of aid resources. These factors not only undermine the effective use of such resources but also compromise efforts to give developing countries greater ownership of their aid programmes.

Increased aid predictability is one of the key targets of the Paris Declaration, which called upon developing countries to improve their budgetary planning processes, upon donor countries to provide annual information on financial commitments and upon both parties to identify ways of further improving aid predictability. While donor countries may have overall budget plans for their future aid expenditures, they do not necessarily convey information on their proposed expenditures in individual countries to the recipient Governments. The

Donors should provide information on their medium-term plans for ODA to individual countries

Figure 10
Ratio of ODA to GDP in the LDCs and sub-Saharan Africa, 1990-2007 (percentage)



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

OECD survey found that there had been little progress in this area since the adoption of the Paris Declaration. In this light, the AAA committed all donors to provide information on their future spending plans on a rolling three-to-five year basis, as called for in the Paris Declaration.

Harmonization of assistance

The 2008 survey found that there had been some progress in the harmonization of activities among development partners—especially in terms of joint procedures and financing mechanisms. In particular, technical cooperation had become much better coordinated and had already surpassed its unambitious 2010 target. Nevertheless, faster progress is needed to meet the target in the Paris Declaration.

Alignment

The 2008 survey concluded that recipient countries were making progress in improving their public financial management systems but that this had not elicited a commensurate response in the use of those systems by donor countries. Similarly, there had been little change in the use of recipient countries' systems for procurement. On the other hand, donors had succeeded in reducing the number of parallel project implementation units (PIUs), although this was partially the result of natural decay. Finally, the survey found that the number of countries with sound results-based monitoring frameworks had increased only from 5 per cent to 7.5 per cent between 2006 and 2008.¹⁵ Overall, if they are to meet the corresponding targets in the Paris Declaration, donors need to make greater efforts to use recipient countries' systems to manage their aid, including by taking actions that encourage field staff to do likewise.

Untying of aid

Although substantial progress in untying aid was made in 2006, it stalled in 2007, when 10.4 per cent of total bilateral aid was reported as tied (compared to 7.3 per cent in 2006); 58.2 per cent was untied (compared to 59.6 per cent in 2006); the tying status of the remaining 31.2 per cent in 2007 and 33 per cent in 2006 was not reported. Within the aid for which the tying status was recorded, the proportion of untied aid ranged from 100 per cent in the cases of Ireland, Luxembourg, Sweden and the United Kingdom to less than 43 per cent for Greece (see figure 11). In May 2008, DAC extended the coverage of its 2001 recommendation on aid untying to include eight HIPC countries that were not already covered because of their LDC status.

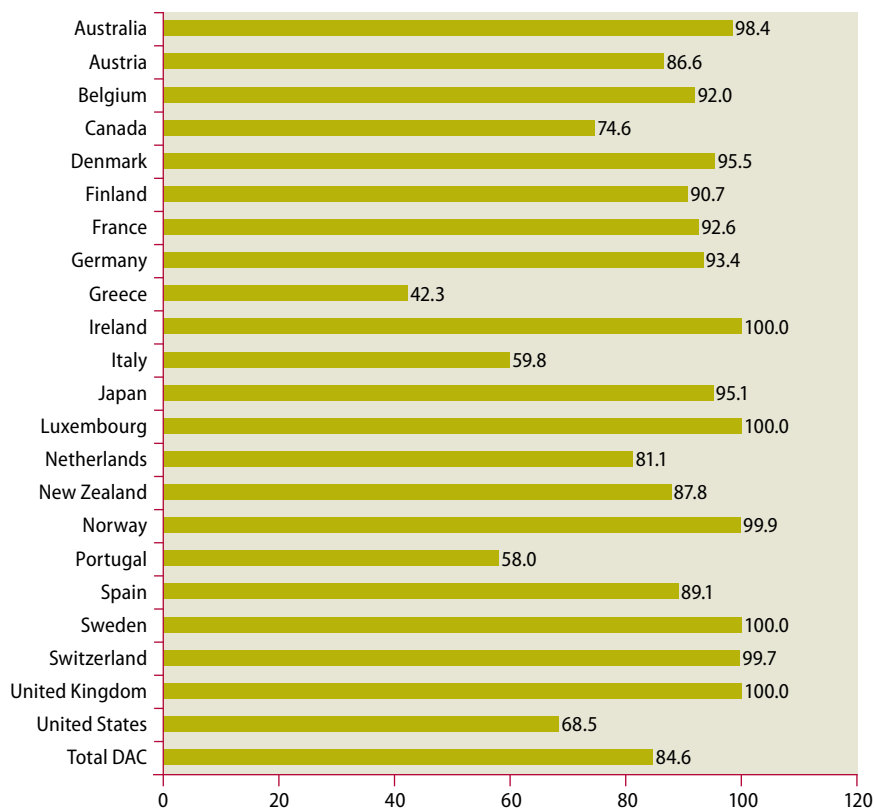
Strengthening the global partnership for ODA

ODA is the cornerstone of the global partnership for development and is playing a critical role in the progress that is being made towards the achievement of the MDGs. Nevertheless, there continues to be a gap between commitments and delivery of ODA, most notably in relation to the United Nations target but also

¹⁵ Ibid.

Figure 11

Proportion of bilateral ODA of individual DAC members that was untied,^a 2007
(percentage)



Source: OECD, *Development Cooperation Report 2009* (Paris, 2009), table 23.

^a Excludes ODA with an unknown tying status.

with respect to other more recent but less ambitious quantitative commitments. Further improvements also need to be made in the quality of ODA. Both dimensions have become more pressing in the light of the development crisis that is afflicting the developing countries.

Actions required at the national and international levels to enhance further the contribution of ODA include the following:

- Donors should fully honour the commitments made at Gleneagles and elsewhere regarding total ODA and ODA to Africa. Donors who have not yet done so should strive to increase their ODA to the LDCs to the target rate contained in the Brussels Programme of Action. Because of the huge setbacks suffered by developing countries as a result of the economic crisis, an immediate and substantial boost in ODA could have a useful counter-cyclical function.
- Donors should ensure that aid is allocated in a way that benefits the poorest countries and protects vulnerable groups within countries. Some of the shifts in the distribution of bilateral ODA among recipient countries since 2000 seem only weakly related to the global objective of reducing poverty.
- Both donor and recipient countries should increase their efforts to improve the quality and effectiveness of aid. In some areas, the lead responsibility rests with the recipient country but donors will have to be more forthcoming if the goals of the Paris Declaration and the Accra Agenda for Action are to be met.

- New development partners who are providing assistance to developing countries should be encouraged to participate in the international framework for development cooperation, including the United Nations Development Cooperation Forum. They should also be fully integrated into the community of donors at the country level.

Market access (trade)

Targets

- 8a Develop further an open, rule-based, predictable, non-discriminatory trading and financial system [including] a commitment to good governance, development and poverty reduction—both nationally and internationally
- 8b Address the special needs of the least developed countries [including] tariff- and quota-free access for [their] exports
- 8c Address the special needs of landlocked developing countries and small island developing States

The Doha Round as a major gap

In 2008, several attempts were made to build consensus on a comprehensive agreement on the Doha Round of multilateral trade negotiations that had begun in 2001. The Mini-Ministerial of the World Trade Organization (WTO) in July 2008 strove to reach an agreement on modalities in such critical areas as agriculture and industrial goods. Negotiations collapsed, not just because of a failure to agree on the trigger and the level of remedies that would enable a special safeguard mechanism (SSM) to come into effect, but also because several issues of importance to many developing countries received inadequate attention. These issues included the erosion of preferences, the liberalization of manufactured goods and the need for developing countries to preserve policy space. In accordance with the agreed principle of “less than full reciprocity”, developing countries argued in favour of much higher rates in the non-agricultural market access (NAMA) tariff reduction formula, exemption from the anti-concentration clause and the need to preserve the voluntary nature of sectoral initiatives. Developed countries argued for greater tariff reduction commitments for industrial products, the implementation of an anti-concentration clause and the mandatory implementation of sectoral initiatives for some developing countries. In the light of such differences, some seven years of protracted on-and-off negotiations have so far failed to come to a successful conclusion.¹

Beyond the proximate causes of the collapse of the talks are underlying differences among WTO members with respect to the development dimension of the Round. The 2001 Doha Ministerial Declaration² promised to rebalance

¹ With the exception of the differences regarding the anti-concentration clause, which were resolved in July 2008.

² Ministerial Declaration adopted on 14 November 2001 at the Fourth Ministerial Conference of the World Trade Organization, Doha, 9-14 November 2001(WT/MIN(01) DEC/1).

WTO rules in favour of developing countries. Even though the developing countries had identified distortions in the rules regarding agriculture and deficiencies in the implementation of Uruguay Round agreements as their main priorities, they were urged to accept a broad agenda of multilateral trade negotiations. The broader agenda was predicated on developed countries' receiving improved market access in emerging countries for their agribusinesses and for their industrial and service exporters in exchange, in particular, for reductions in agricultural subsidies in major developed countries. These divergent expectations for the negotiations have proven difficult to reconcile.

Other pending issues relate to the developing countries' concern that certain aspects of the implementation of trade-related multilateral agreements compromise their flexibility in some key areas of domestic policy. For instance, enforcement measures derived from the WTO Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS) have become a common element in free trade agreements (FTAs) between developed and developing countries. Similarly, developing countries have growing concerns about a wide range of initiatives launched by developed countries and their business organizations to aid in the enforcement of intellectual property rights (IPRs). Many of these initiatives refer to counterfeiting and piracy, but their scope is much broader and generally involves any type of infringement of IPRs.

There has been some progress in the Doha Round on a range of hitherto intractable issues, notably market access in agriculture and, in particular, the reduction of trade-distorting domestic support and export subsidies in this sector. Yet, in those areas where important agreements have been reached, including those already reached in 2005 (such as duty-free and quota-free (DFQF) access to least developed countries (LDCs) for at least 97 per cent of their exports and the elimination of agricultural export subsidies by 2013), progress in the implementation of commitments has been hindered by the agreement that the outcome of the Round will be a single undertaking.

Progress has been made in agricultural market access and reduction of domestic support

Crises and increasing protectionism

Both the food crisis that emerged in 2007 and the financial crisis of 2008 have given rise to new waves of protectionism. In response to the increase in food prices that started in 2007, several developing countries reduced or suspended tariffs and taxes on food and applied export taxes and quotas. While actions regarding imports were intended to encourage trade and production, the export measures exacerbated the increases and volatility in prices and further reduced the global food supply.³ As international food prices began to ease in the second half of 2008, some of these actions, especially export restrictions, were reversed. Many export bans were cancelled or relaxed and export duties reduced.

Similarly, the global economic slowdown has given rise to protectionist pressures that have resulted in the employment of a variety of independent measures, rather than coordinated multilateral action, to deal with a global problem.

³ Among developing countries, 31 introduced measures to reduce, limit or tax strategic agricultural exports, and among least developed countries (LDCs), 9 introduced or increased their export restrictions and/or duties (FAO, *Crop Prospects and Food Situation*, various issues (Rome)).

As economic activity collapsed in many countries, the temptation to employ protectionist and other trade-distorting measures heightened. Even though political commitments have been made to avoid a retreat into protectionism,⁴ the use of protectionist and other trade-distorting measures has increased.

In monitoring measures that could have an impact on international trade, WTO found that a number and variety of tariffs, non-tariff measures and other trade-distorting actions had been adopted since the beginning of the crisis (see table 3). Developing countries primarily have raised their import duties and adopted non-tariff measures, but about one third of their actions have involved subsidies to domestic producers. Developed countries overwhelmingly have favoured the use of subsidies and other support packages whose trade-distorting impact is sometimes less apparent. There has been an increase in potentially trade-distorting State aid and subsidies to relieve ailing industries, especially in the steel and automobile sectors and in financial services.⁵ National stimulus packages aimed at boosting domestic demand, which have been introduced in over 20 countries, may also have an adverse impact on trade. The number of new anti-dumping investigations and duties was more than 15 per cent higher in the second half of 2008 than in the same period in 2007. While the anti-dumping measures may be WTO-compatible, they have a restrictive effect on trade.

In addition to the setback inherent in the adoption of the above-mentioned measures, the new protectionist environment may make it more difficult to narrow the gaps towards finalizing the Doha Round and has increased the risk of a reversal of the progress already achieved. There is also the possibility that the continued use of these measures will slow the recovery from the crisis. Even if not augmented, protectionist measures are much harder to remove than they are to impose and dismantling them could be difficult once growth resumes.

Additionally, with the financial crisis spreading, trade finance has been tightening around the world. About 90 per cent of world trade transactions are financed through some form of credit and the causality between international trade and trade finance runs in both directions. A decline in trade reduces the demand for trade finance while a lack of financing or an increase in the cost of trade financing reduces the volume of trade by preventing some transactions from taking place. During the financial crisis, the many developing countries that rely heavily on trade finance have found themselves subject to the second of these causalities.

Data on trade finance remain scarce, but total global trade finance is estimated to be about \$10 trillion. In November 2008, the liquidity gap in trade financing was estimated at \$25 billion. It was estimated that global trade finance

Subsidies to domestic producers are increasing

Protectionist measures can be counterproductive

Increasing costs of finance are reducing trade

⁴ See declaration adopted on 15 November 2008 at the Group of Twenty (G-20) Summit on Financial Markets and the World Economy, Washington, D.C. (available at http://www.g20.org/Documents/g20_summit_declaration.pdf); and Communiqué on the Global Plan for Recovery and Reform, adopted on 2 April 2009 at the G-20 London Summit (available at <http://www.g20.org/Documents/final-communication.pdf>).

⁵ As of March 2009, about \$48 billion had been proposed to aid the car industry around the world, \$42.7 billion of which was in high-income countries (see Elisa Gamberoni and Richard Newfarmer, "Trade protection: incipient but worrisome trends", Trade Notes, No. 37 (Washington, D.C., World Bank International Trade Department, March 2009).

Table 3
Trade and trade-related measures introduced between
September 2008 and March 2009

Measure	Countries	Number of measures (total)
Trade-restricting measures		
Import tariff/duty	China, Ecuador, European Communities, India (2), Indonesia, Kazakhstan, Mexico, Republic of Korea, Russian Federation (2), Turkey, Ukraine, Viet Nam (2)	15
Import ban	China, India, Russian Federation	3
Export support/subsidies	Argentina, China, European Communities, India	4
Domestic support/subsidies (including buy local, domestic)	India, Indonesia, Paraguay, Taiwan Province of China, United States (3)	7
Export duty and restrictions	China (2), Indonesia, Philippines, Viet Nam	5
Other non-tariff measures (import quotas, restrictions, licensing, quality procedures)	Argentina (2), India (3), Indonesia (5), Malaysia, Russian Federation, United States (2)	14
Total		48
Trade remedies		
Anti-dumping initiations	Argentina, Canada, China, Turkey (3)	6
Introduction/extension of anti-dumping duties	Brazil, Canada (2), European Communities (5), India, Malaysia, United States	11
Countervailing duties	Canada (2), European Communities, United States	4
Special safeguard measures	India, Japan, Philippines, Taiwan Province of China (2), Turkey	6
Total		27
Trade liberalizing and facilitating measures		
	Argentina, Brazil, Canada (2), China (3), Ecuador, European Communities (2), Hong Kong Special Administrative Region of China, India (4), Indonesia, Kazakhstan, Malaysia (3), Mexico, New Zealand, Philippines, Russian Federation (4)	27

Source: World Trade Organization, "Report to the TPRB from the Director-General on the financial and economic crisis and trade-related developments" (JOB(09)/30).

Notes: (1) Comprises only verified information and does not include stimulus packages, national bailouts and assistance to financial institutions.

(2) Where a country introduced more than one measure in a category, the number is indicated within brackets.

had declined by about 40 per cent in the last quarter of 2008 compared to 2007. Meanwhile, survey-based data estimate the gap in trade financing to be between \$100 billion and \$300 billion. At their meeting in April 2009, the leaders of the Group of Twenty (G-20) agreed to make available, through multilateral development banks and export credit and investment agencies, at least \$250 billion to support trade finance over the following two years.

Increased duty-free access except for LDCs

Indicators

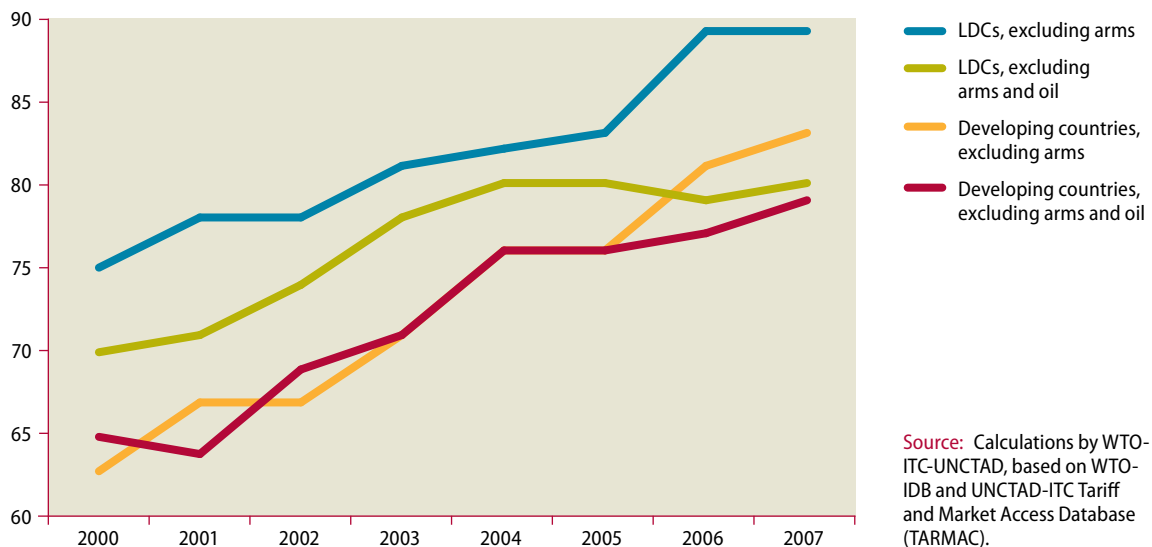
- 8.6** Proportion of total developed country imports (by value and excluding arms) from developing countries and LDCs admitted free of duty
- 8.7** Average tariffs imposed by developed countries on agricultural products and textiles and clothing from developing countries

The international community has long identified the LDCs as a group of countries that requires special treatment in the area of trade. Reflecting this notion, the Hong Kong Declaration, adopted at the Sixth Ministerial Meeting of the WTO held in 2005, established the target of providing DFQF access to at least 97 per cent of products exported from LDCs to developed countries.⁶ Most developed countries and some developing countries now provide significant levels of DFQF access to LDCs through unilateral preference schemes. Progress towards this target should be reflected in a difference in the country coverage of trade measures between LDCs and non-LDCs.

Prior to the onset of the current economic crisis, the proportion of developed country imports, excluding arms and oil, both from all developing countries and from the LDCs, admitted free of duty continued to increase (see figure 12). Contrary to the 2005 target, however, this measure shows virtually no further progress in duty-free access for the LDCs as a group since 2004, whereas duty-free access for the developing countries as a whole has continued to increase. By

Figure 12

Proportion of total developed country imports from developing countries and least developed countries admitted free of duty, by value, 2000-2007 (percentage)



⁶ The Hong Kong Declaration also encouraged developing countries in a position to do so to provide duty-free and quota-free (DFQF) access to products exported from LDCs.

2007, the proportion of LDC exports that entered developed countries duty free was less than one percentage point higher than that for the developing countries as a whole (80 per cent compared to 79 per cent). Although the two figures are not directly comparable (the target refers to the number of tariff lines, whereas the indicator refers to the proportion of imports), there remains a sizeable gap between the 2005 target for developed country imports from the LDCs and accomplishments to date, although the size of the gap varies across regions and products (see below for further discussion).

LDC exports are gaining in coverage of preferential access

The improved market access of developing countries is mainly attributable to the elimination of tariffs through the application of most favoured nation (MFN) treatment, rather than the result of being given preferential access. For developing countries as a whole, the proportion of imports receiving preferential duty-free treatment in developed countries has fluctuated around the 20 per cent mark over the past decade. In contrast, the coverage of preferential access for the LDCs has increased from 35 per cent of their exports to the developed countries in the late 1990s to over 50 per cent in 2007.⁷

For the developing countries as a whole, MFN treatment has become an increasingly important means of duty-free entry into the developed market economies for exports of industrial goods, textiles and clothing, whereas the LDCs have increased their proportion of duty-free trade in these sectors mostly through preferential access (see table 4). For the LDCs, almost 93 per cent of their agricultural exports entered developed markets on a duty-free basis in 2007, compared to 88 per cent in 2000. Within this total, however, there was a shift between those entering duty free on an MFN basis and those gaining entry through preferences. In 2000, over 70 per cent of agricultural exports from the LDCs entered developed countries duty free under MFN arrangements and a further 16 per cent entered as a result of preferences. By 2007, the former category accounted for less than 60 per cent of exports but the share of the latter had risen to almost 33 per cent, showing the importance of preferential access for LDC exports.

Variations are evident in duty-free access across products and regions

Within the averages, there are regional variations in duty-free access. The proportion of exports from Asian LDCs that receive duty-free access in the developed countries has not only remained lower than for other groups of LDCs but is less than for all developing countries (see figure 13). In 2000, the small island LDCs had the lowest proportion of duty-free exports but, by 2007, all of their exports had fallen into this category. African LDCs were also close to receiving duty-free access for all their exports to developed countries by 2007.

Slowing tariff reduction on agricultural products and textiles and clothing

The downward trend in the average tariffs imposed by developed countries on imports of agricultural goods, textiles and clothing continued in 2007, both for developing countries as a whole and for LDCs. However, with the exception of agricultural goods, tariff reductions since 2004 have been limited and the decrease in tariffs between 2006 and 2007 was small (see figure 14).

⁷ *The Millennium Development Goals Report 2009* (United Nations publication, Sales No. E.09.I.12).

Table 4

Proportion of exports of developing countries and LDCs, excluding arms and oil, entering developed countries duty free, by type of access, 2000 and 2004-2007 (percentage)

		2000	2004	2005	2006	2007
Agricultural goods						
MFN-based duty free	Developing countries	47.1	43.5	42.9	42.1	42.2
	LDCs	72.2	65.5	65.4	62.3	59.8
Preference-based duty free	Developing countries	15.6	22.7	23.3	24.1	25.1
	LDCs	15.9	26.3	27.0	31.0	32.9
Industrial goods						
MFN-based duty free	Developing countries	57.3	64.2	64.1	66.1	68.2
	LDCs	66.5	60.3	60.7	55.0	56.9
Preference-based duty free	Developing countries	16.4	18.7	19.0	18.3	18.0
	LDCs	28.8	38.2	38.1	43.6	42.7
Textiles						
MFN-based duty free	Developing countries	4.4	6.9	7.1	6.9	8.3
	LDCs	9.4	15.3	16.7	14.9	14.8
Preference-based duty free	Developing countries	19.8	30.9	27.0	27.0	27.8
	LDCs	40.5	51.1	50.7	55.7	59.2
Clothing						
MFN-based duty free	Developing countries	0.1	0.3	0.3	0.4	0.3
	LDCs	0.0	0.0	0.0	0.0	0.0
Preference-based duty free	Developing countries	14.4	34.0	30.3	28.4	27.6
	LDCs	45.0	65.5	63.0	63.0	62.4

Source: Calculations by WTO-ITC-UNCTAD, based on WTO-IDB and UNCTAD-ITC Tariff and Market Access Database (TARMAC).

Between 2004 and 2007, average developed country tariffs on clothing imports from LDCs remained constant at 6.4 per cent while, for developing countries as a whole, they fell from 8.6 to 8.2 per cent. As a result, the degree of preferential access of LDCs in this sector continues to be eroded. At less than 2 per cent, LDC preferential treatment in textiles and clothing is too small to provide several of those countries with a significant competitive advantage. On the other hand, the margin of preference of LDCs in agricultural exports remains over 6 percentage points, boosted by the fact that the average tariff

Figure 13
Proportion of LDC exports admitted into developed countries duty free, by region, 2000 and 2007 (percentage)

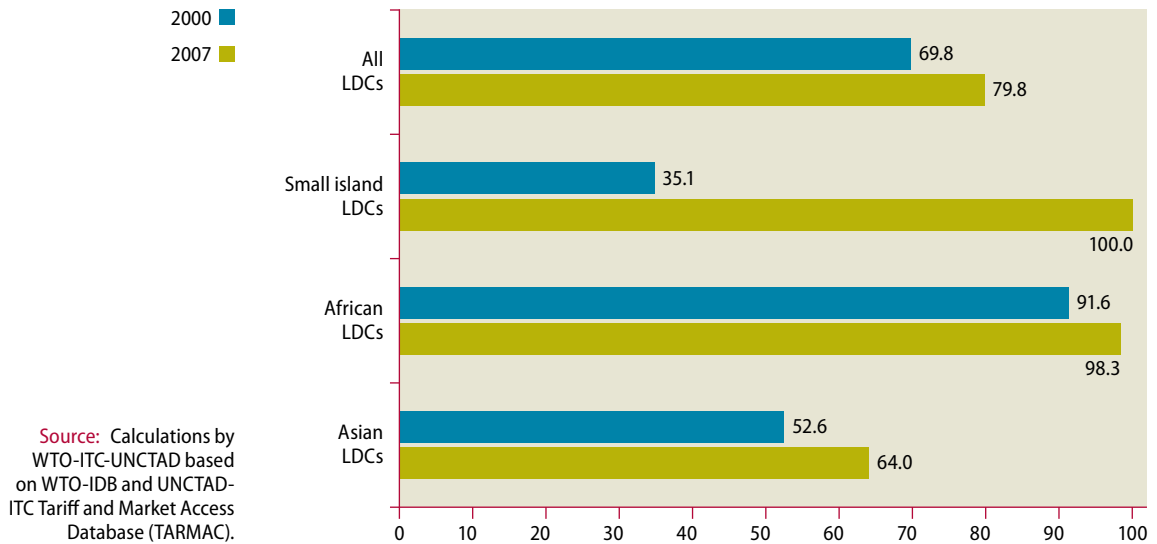
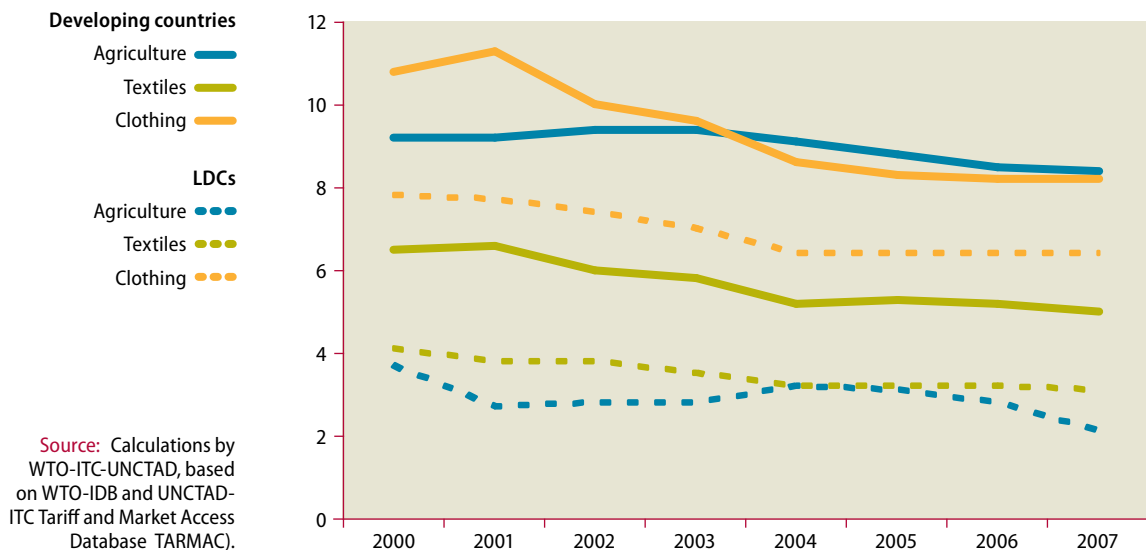


Figure 14
Average tariffs imposed by developed countries on agricultural products and textiles and clothing from developing countries and LDCs, 2000-2007 (percentage)



imposed on agricultural imports from the LDCs fell from 2.8 to 2.1 per cent in 2007, compared with a fall from 8.5 to 8.4 per cent for developing countries as a whole.

Labour-intensive manufactured products are facing the highest tariffs

Within the overall decline in preferential access for the LDCs as a group, there have been changes in country coverage within the group. LDCs in Africa and the small island LDCs have gained substantial preferences for their clothing

exports to developed countries since 2000, with tariffs having fallen to practically zero (see figure 15). The Asian LDCs, which tend to be more competitive, face higher tariffs on clothing and account for the majority of such tariffs. The most labour-intensive manufactured products remain the most taxed (6.4 per cent for the LDCs on average) and their preference margin vis-à-vis other developing countries is the lowest.⁸

LDCs continue to face difficulties in fully utilizing preferential schemes as well as in overcoming supply-side constraints. Although it remains difficult to measure the effective utilization of preferences,⁹ estimates show that rates of preference utilization were between 69 and 88 per cent in Canada, the European Union (EU) and the United States of America in 2006.¹⁰

Figure 15

Tariffs on LDC exports of agricultural products, textiles and clothing by region, 2000 and 2007 (percentage)



⁸ Ibid.

⁹ Difficulties arise due to measurement methods (based, for example, on customs data or on revenue collection, or on a product's eligibility to more than one preferential regime) (see WTO annual reviews of Market Access for Products and Services of Export Interest to Least Developed Countries (WT/COMTD/LDC/W/28, 31, 35, 38, 41/Rev.1 and 42/Rev.1)).

¹⁰ Ibid.

Mixed trends in tariff peaks and tariff escalation

Average tariff rates do not provide a complete picture of the barriers to entry faced by developing countries in their efforts to gain access to the markets of developed countries, particularly for processed and manufactured products, which are often subject to tariff peaks and tariff escalation. Correcting such features of the tariff structures of developed countries on products of export interest to developing countries has the potential to increase their gains from trade. While overall and industrial tariff peaks have declined in the developed countries since the late 1990s, tariff peaks for agricultural products have shown an increase since 2005 (see table 5).¹¹

Tariff escalation for non-agricultural goods has remained relatively stable since 2000, with the tariffs for finished goods keeping within one percentage point of tariffs for raw materials. However, tariff escalation has increased significantly for agricultural products since the early 2000s, from almost 5 percentage points in 2000-2004 to almost 20 percentage points in 2008.

Agricultural subsidies in developed countries

Indicator

8.8 Agricultural support estimate for OECD countries as a percentage of their GDP

Developed country support of the agricultural sector remains high and is distorting trade

The current decline in agricultural support as a result of the food crisis must be maintained

The overall support provided by the developed countries to their agricultural sectors further declined to 0.89 per cent of their gross domestic product (GDP) in 2007 from 0.97 per cent in 2006. Nevertheless, at \$365 billion, the Total Support Estimate (TSE) remains high in absolute terms and in relation to official development assistance (ODA). Similarly, although the level of the Producer Support Estimate (PSE) in developed countries continues to decline, it too remains high in absolute terms (see table 6). Support based on commodity output, the most distorting kind of support, continued to fall in 2007 but still accounted for 51 per cent of total PSE.

Most of the reduction in agricultural support to producers in developed countries has been a consequence of rising food prices rather than changes in agricultural policy.¹² As world prices rose, the gap between domestic and border prices narrowed, resulting in a decrease in producer support. Although food prices have fallen since mid-2008, expectations are that they will remain higher than for the past decade.¹³ As food prices decline, domestic support to producers might

11 The European Community's tariff structure has a high weight in the simple average of OECD agricultural tariff peaks; in other OECD countries, tariff peaks in this sector are declining.

12 Organization for Economic Cooperation and Development (OECD), *Agricultural Policies in OECD Countries: At a Glance 2008* (Paris, 2008).

13 OECD-FAO, *Agricultural Outlook 2008-2017* (Paris, 2008).

Table 5
**Tariff peaks and escalation in developed countries,
 2000-2008^a**

	2000-2004	2005	2006	2007	2008
Tariff peaks^b					
All goods	10.1	11.8	10.1	10.0	9.7
Agricultural	33.5	40.0	40.9	41.0	42.6
Non-agricultural	3.0	2.3	2.1	2.1	1.6
Tariff escalation^c					
All goods	-0.4	-0.1	0.1	-0.1	0.6
Agricultural	5.0	15.1	15.5	15.8	19.5
Non-agricultural	-0.5	1.6	1.7	1.3	1.4

Source: World Bank, World Trade Indicators database, 2008.

^a Values are a simple average over countries.

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

^c Percentage point difference between the applied tariffs for finished (or fully processed) goods and the applied tariffs for raw materials.

Table 6
**Agricultural support estimate in developed countries,
 1990 and 2003-2007**

	1990	2003	2004	2005	2006	2007
Total agricultural support^a						
Billions of dollars	322	351	381	376	363	365
Percentage of GDP	2.0	1.2	1.1	1.1	1.0	0.9
Support to agricultural producers						
Billions of dollars	237	258	283	272	257	258
Share of PSE ^b in gross farm income (percentage)	32	30	30	28	26	23

Source: OECD, PSE/CSE database, 2008.

^a Total Support Estimate (TSE) comprises support to agricultural producers, both at the individual and collective levels, and subsidies to consumers.

^b Producer Support Estimate (PSE) measures support provided directly to agricultural producers.

rise again. Optimistically, higher food prices could be used as an opportunity for developed countries to make their agricultural policies less trade-distorting.¹⁴ There has already been an important shift in agricultural policies with the general move, especially in the EU, towards policies that place less emphasis on supporting specific levels of production. Nevertheless, there remains scope for further reforms that would produce additional gains in efficiency and equity. The successful conclusion of the Doha Round can reinforce the process of agricultural policy reform in high-income countries, address other barriers to developing country exports and contribute to greater global food security.

¹⁴ OECD, *Agricultural Policies in OECD Countries*, op. cit.

Uneven increase in Aid for Trade

Indicator

8.9 Proportion of ODA provided to help build trade capacity

Aid for Trade resources to assist low-income countries should be increased

The majority of the increase in Aid for Trade has gone to support infrastructure in sub-Saharan Africa

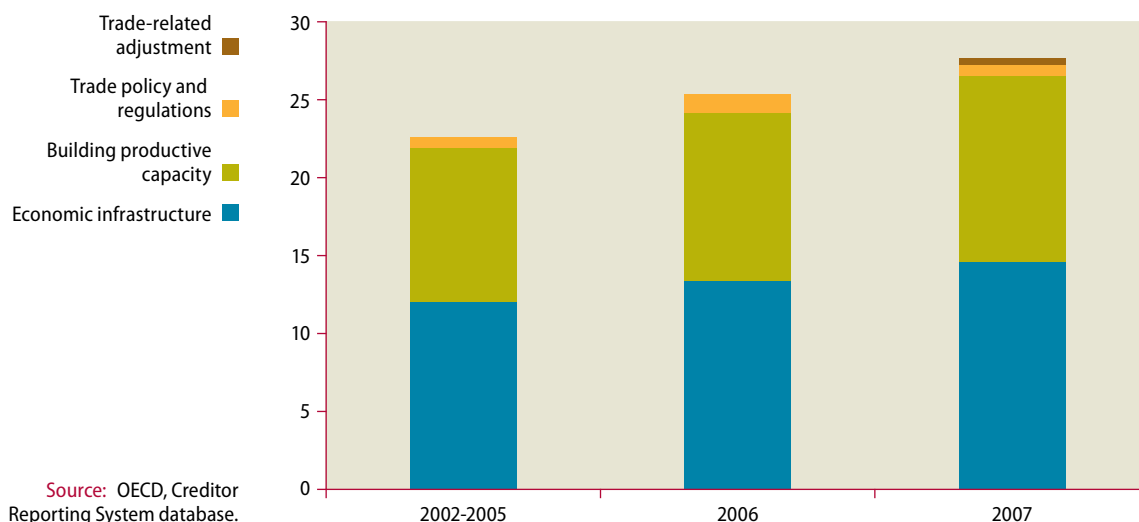
Many developing countries, particularly the LDCs, have been unable to benefit fully from trade opportunities because of their limited capacity to trade, including a lack of infrastructure and weak productive capabilities. Aid for Trade is intended to support countries in building trade capacity and, in particular, to assist low-income countries to take advantage of the outcome of the Doha Round. In the current worsening global economic situation, it is even more crucial to assist low-income developing countries in building their trade-related infrastructure and supply-side capacity.

Total Aid for Trade amounted to \$27 billion in 2007, an 8 per cent increase compared to 2006 and just over 20 per cent higher in real terms than the 2002-2005 baseline of about \$22 billion per year (see figure 16). The majority of the increase in Aid for Trade went to support infrastructure in sub-Saharan Africa.¹⁵ Trade-related infrastructure continues to receive the highest volume of commitments, at 54 per cent of total Aid for Trade, closely followed by aid to help build productive capacity.

In response to the expansion of the Aid for Trade agenda in 2005 and in order better to identify the composition of flows, a new category of aid—Trade-

Figure 16

Aid for Trade commitments by category, 2002-2007
(billions of constant 2007 dollars)



Source: OECD, Creditor Reporting System database.

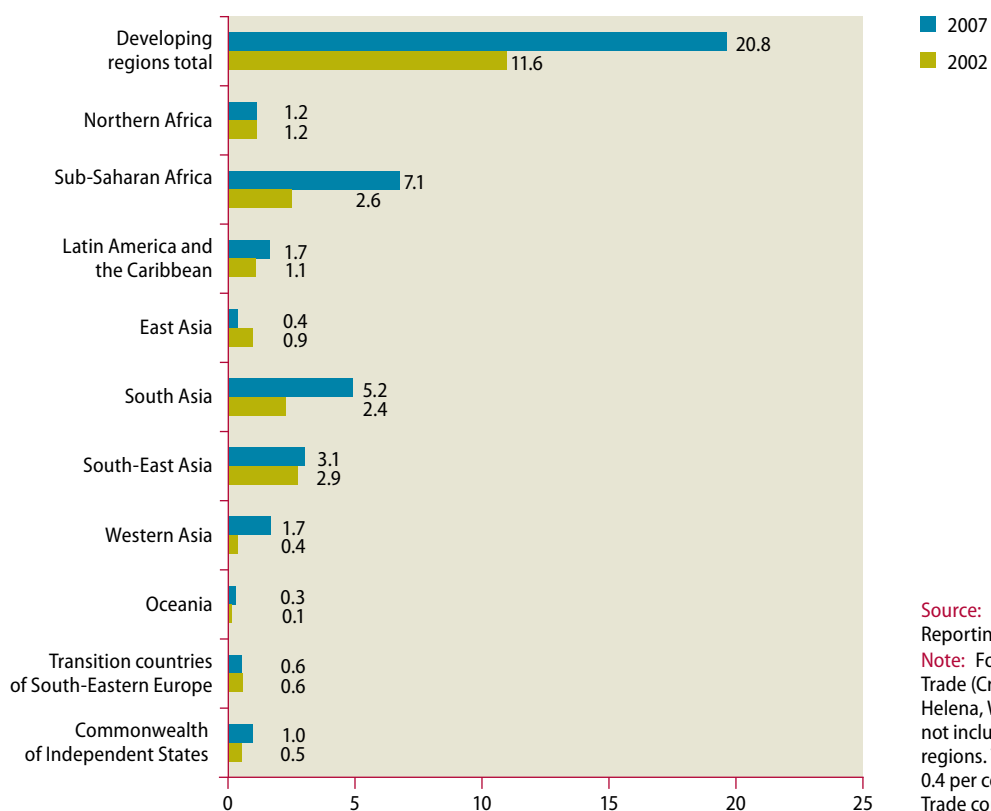
¹⁵ This increase is likely to be inflated because the data include aid for energy, transport and communications, not all of which is directly or exclusively related to trade (see OECD, *Aid for Trade at a Glance* (forthcoming)).

related Adjustment—has been added to the previous classification.¹⁶ Only Canada and the European Communities (EC) reported aid given for Trade-related Adjustment in 2007, in the amounts of \$0.3 million and \$19.4 million, respectively.

The United States, Japan and the World Bank continue to be the largest bilateral contributors of Aid for Trade in absolute terms. Together with the EC, they are close to meeting the Aid for Trade pledges made at the 2005 Ministerial Meeting of WTO. A number of countries have indicated their Aid for Trade expenditure plans for 2009-2011, which point to an upward trend. However, given the deteriorating fiscal situation in many donor countries as a result of the current economic downturn, the momentum and commitments for Aid for Trade and the Enhanced Integrated Framework (EIF) may diminish.

Asia is the largest recipient of Aid for Trade among the regions, receiving 41 per cent of the total (see figure 17). Africa has seen the largest increase in Aid for Trade. Commitments have also been increasing in Latin America and the Caribbean and Oceania.

Figure 17
Aid for Trade commitments by region, 2002 and 2007
(billions of constant 2007 dollars)



Source: OECD, Creditor Reporting System database.
Note: Four recipients of Aid for Trade (Croatia, Slovenia, Saint Helena, Wallis and Futuna) are not included in any of these regions. They account for just 0.4 per cent of total Aid for Trade commitments in 2007.

¹⁶ The impact of adding this code vis-à-vis previous years' Aid for Trade flows will be minimal and will probably remain gradual over the next few years, until reporters to the Creditor Reporting System database are able to adjust their internal systems to reflect this new reporting item.

In terms of country coverage, the top 11 recipient countries accounted for 51.5 per cent of country-allocable Aid for Trade commitments in 2007 (or 42.7 per cent of total Aid for Trade commitments) (see table 7).

Strengthening the global partnership in international trade

Overall, the gap between reality and the goal of an international trading system that is rule-based, predictable and non-discriminatory has widened over the past year. Not only does it remain critically important to preserve the gains made to date in the implementation of the MDG 8 targets regarding market access, but the international community needs to step up efforts to help developing countries mitigate the effects of the food and economic crises on the poor and protect spending critical for future growth in developing countries. A global partnership for development on trade that effectively delivers improved market access for developing countries will require renewed efforts.

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

- WTO member States should strengthen commitments towards an early conclusion of an ambitious and development-oriented Doha Round; rapid and substantial progress in opening developed countries' markets must remain a priority.
- Developed countries should make further reductions in their trade-distorting agricultural support (in addition to the elimination of export subsidies) so that developing countries have an opportunity to export their agricultural products in competitive markets.
- The international community should urgently address the drying up of trade financing by injecting new resources into specialized facilities, including by way of long-term action plans; transparent mechanisms to ensure access to countries that need it most are essential.
- The international community should deliver swiftly on commitments to increase substantially technical, financial and political support for Aid for Trade and for the Enhanced Integrated Framework, in spite of the current economic downturn. This would help developing countries to strengthen trading and production capacities, especially the poorest among them.
- The international community should resist taking any further protectionist measures in response to the crisis, and those that are already in place must be strictly time limited. Maintaining an open international trade system during the global economic crisis remains crucial.

Table 7
Top recipients of Aid for Trade commitments in 2007 (*millions of dollars*)

Recipient	Amount
India	2 033
Viet Nam	1 759
Afghanistan	1 399
Iraq	1 147
Ethiopia	882
Indonesia	792
Kenya	772
Ghana	702
Uganda	691
Mali	690
Bangladesh	689
Subtotal	11 555
Total country-allocable Aid for Trade	22 428
Total Aid for Trade	27 084

Source: OECD, Creditor Reporting System database.

Debt sustainability

Targets

- 8b Address the special needs of the least developed countries [including an] enhanced programme of debt relief for heavily indebted poor countries and cancellation of official bilateral debt ... for countries committed to poverty reduction
- 8d Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term

At the time of the adoption of the United Nations Millennium Declaration, the primary concern of the international community regarding the external debt of the developing countries was the difficult situation facing the low-income countries. The Heavily Indebted Poor Countries (HIPC) Initiative was launched by the International Monetary Fund (IMF) and the World Bank in 1996 and enhanced in 1998, but progress with the Initiative was slow. The 2002 Monterrey Consensus of the International Conference on Financing for Development underlined the need for the full and speedy implementation of the HIPC Initiative as an important contribution to achieving the MDGs. As part of this process, the HIPC Initiative was complemented in 2005 by the Multilateral Debt Relief Initiative (MDRI). The MDRI, by providing full relief on eligible debt, is designed to free up additional resources to help the HIPC countries achieve the MDGs.

The global financial crisis which erupted in 2008 has raised the spectre of external debt difficulties for a larger group of countries. Reduced export earnings have diminished the resources available to service existing debt while balance-of-payments difficulties have required a number of developing countries to increase their external borrowing. These developments point to the need for a broader multilateral framework if the international community is to deliver fully on its commitment in the Millennium Declaration to “deal comprehensively with the debt problems of developing countries”.

The impact of the global financial and economic crisis on the external debt situation of developing countries

Indicator

- 8.12 Debt service as a percentage of exports of goods and services

The decline in the debt-service ratio will most likely have reversed in 2008

The burden of external debt has been increased by the decline in export earnings

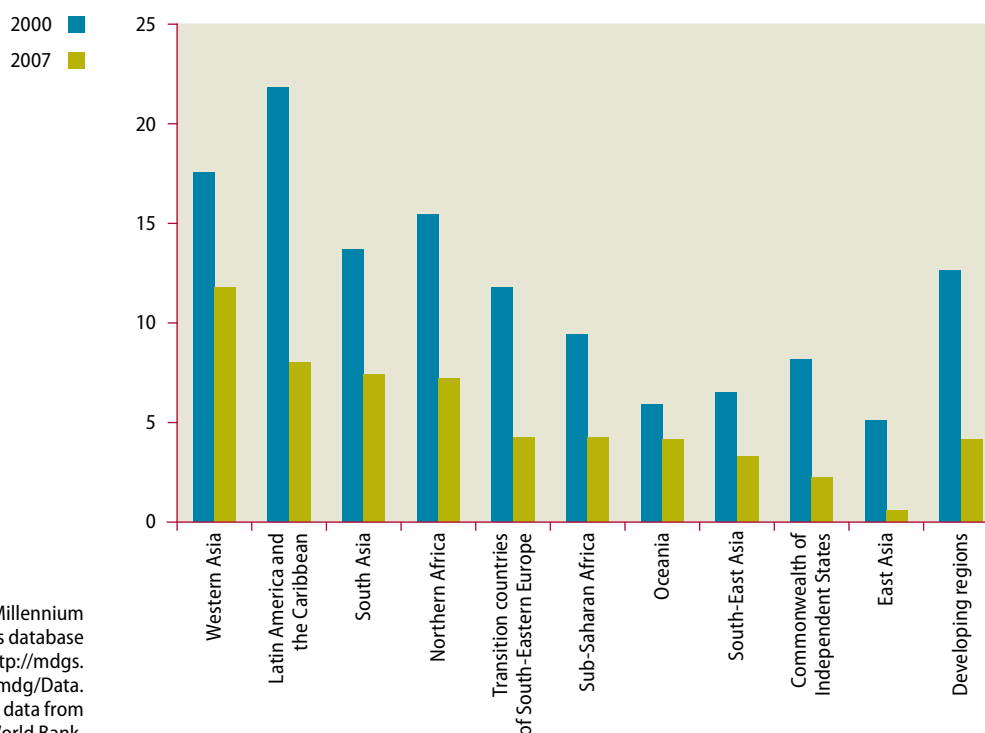
Higher import prices have exacerbated balance-of-payments difficulties

Export revenues of developing economies nearly doubled between 2003 and 2007, giving countries more resources with which to service their external debt. For the average developing country, the burden of servicing external debt fell from almost 13 per cent of export earnings in 2000 to 4 per cent in 2007 (see figure 18). The ratio declined in every region but remained above 10 per cent in Western Asia in 2007 and was between 5 and 10 per cent in Latin America and the Caribbean, and South Asia, in that same year. In all other regions, it had fallen below 5 per cent by 2007. In the last quarter of 2008, however, export revenues of developing countries began to fall because of the global economic crisis. Although consistent up-to-date data are not available at the time of writing, the ratio of debt-service payments to export revenue for developing countries is expected to have reversed its downward trend in 2008.

The global economic slowdown has affected the external debt situation of developing countries through a variety of channels which mostly originate in the decline in export earnings that has afflicted the majority of developing countries. The situation has been particularly severe for the commodity-exporting countries because of the decline in both the quantities and the prices of commodity exports after mid-2008. The fall in foreign earnings encountered by most developing countries increased the burden of existing debt-servicing obligations in relation to exports.

The collapse in export receipts has been accompanied by higher costs for imported food and fuel, resulting in overall balance-of-payments difficulties for many developing countries. Some developing countries had built up their foreign-

Figure 18
Ratio of external debt-service to export revenues,
by region, 2000 and 2007 (percentage)



Source: Millennium Development Goals database (available at <http://mdgs.un.org/unsd/mdg/Data.aspx>), based on data from World Bank.

exchange reserves when export revenues were growing rapidly and have been able to use such reserves to finance shortfalls over the short term. In some countries (such as Brazil, Kenya, South Africa and Thailand), strains on the balance of payments, coupled with the turmoil in world financial markets, have resulted in depreciation of national currencies.

The weakened external payments position has been accompanied by a deterioration in many developing-country fiscal positions. Depreciations have increased the domestic cost of servicing external debt and have raised the ratio of debt to gross national product (GNP). At the same time, the fall in export earnings has reduced foreign-currency earnings from taxes on such exports as minerals and, to the extent that imports have been curtailed, from import duties and value added tax (VAT). On the other hand, devaluations will have boosted government revenues from these trade taxes in the national currency. Where a country's external debt was large initially, the increased cost of servicing debt is likely to outweigh the revenue benefits of currency depreciation.

Countries with large foreign-exchange reserves or fiscal stabilization funds may be able to cushion the effects of a decline in public revenues. In other countries, a weakened fiscal position and the need to meet debt-service obligations may put public expenditures on development activities in jeopardy unless additional resources are forthcoming.

Many developing countries that lack domestic resources require additional external resources to help counteract the impact of the crisis, but borrowing could pose serious risks for countries that already have a high debt burden. The IMF has identified 28 countries with debt in excess of 60 per cent of gross domestic product (GDP)¹ and its simulations suggest that the debt ratios of another three countries could exceed this level if they undertook additional borrowing to cover the shortfalls in their external financing. Some post-completion point HIPC countries that already have elevated levels of debt distress (see below) may be among those that face difficulties. On the other hand, HIPCs that have not yet reached their completion point should be able to achieve debt sustainability with the potential debt relief available to them under the HIPC and MDRI initiatives. Overall, however, the crisis is aggravating the external debt situation of countries that have not received debt relief in the recent past and is compromising the progress made under these two initiatives.

Apart from the increased difficulties of servicing debt and borrowing funds to finance larger balance-of-payments deficits, many developing countries—even those that do not have debt-servicing problems—have faced problems in rolling over their increasingly large stock of existing private sector external debt, particularly corporate borrowing, since the global availability of credit in this regard has declined precipitously as a result of the financial crisis. Where available, interest rates for such credit have risen.

At their meeting in April 2009, the leaders of the Group of Twenty (G-20) reached agreement on a number of arrangements to increase the external financing available to developing countries. They announced a \$1.1 trillion package

Fiscal positions have also deteriorated

Rolling over existing debt has become more difficult

G-20 leaders have agreed on additional financing

¹ International Monetary Fund (IMF), *The Implications of the Global Financial Crisis for Low-Income Countries* (IMF, 2009), p. 25 (available at <http://www.imf.org/external/pubs/ft/books/2009/globalfin/globalfin.pdf>). Many of the countries concerned are identified in appendix V, table 1.

both to help affected countries meet the immediate financial needs that have arisen from the crisis and to boost economic activity worldwide. Of this amount, the IMF was expected to triple its resources from \$250 billion to \$750 billion. At its meeting on 26 April 2009, the World Bank/IMF Development Committee underlined the need to translate these commitments into action and urged all concerned to provide the necessary additional resources. At the Conference on the World Financial and Economic Crisis and Its Impact on Development (24-26 June 2009), United Nations Member States agreed that debtor countries could seek, as a last resort, to negotiate agreements on debt standstills in order to help mitigate the adverse effects of the crisis.²

Progress of the HIPC and MDRI initiatives

Indicators

- 8.10 Total number of countries that have reached their HIPC decision points and number that have reached their HIPC completion points (cumulative)
- 8.11 Debt relief committed under the HIPC and MDRI Initiatives

Sixty per cent of eligible HIPC countries have received debt relief

By the end of March 2009, 35 of the 40 countries that were deemed potentially eligible for debt relief under the HIPC Initiative had qualified (see table 8). Most of the remaining countries are not yet in a position to be considered because of conflict or political difficulties. The 35 qualifying countries are expected to receive debt relief of \$57.3 billion as well as \$23.6 billion in additional relief under the MDRI, both measured in terms of end-2008 values. In 2008, 2 more countries joined those that had reached their completion point and another was added in the first three months of 2009, meaning that 24 of the 35 countries had fulfilled all the conditions that would allow their debt relief to become irrevocable.

Debt relief should be additional to ODA

Debt relief provided under the HIPC Initiative was to be additional to existing flows of resources to the beneficiary countries. However, under OECD/DAC accounting procedures, some of the costs of HIPC debt relief are included in ODA reported by donors. Consistent with the Millennium Declaration commitments and in order to avoid double-counting, a more accurate measure of ODA would be obtained by excluding debt relief.

Some HIPC countries are still facing a high risk of debt distress

Reducing debt-service payments is not sufficient to avoid the risk of debt distress. This risk depends, in part, on the level of a country's export earnings, on their stability and other demands on such earnings. Debt sustainability analyses show that the debt situations of a number of HIPC post-completion point countries remain highly vulnerable to external shocks, particularly to trade shocks and factors influencing the cost of borrowing. Many HIPC countries continue to be highly dependent on commodity exports and therefore vulnerable to the falls in world demand and prices that have occurred since mid-2008. Even prior to this setback, only about 40 per cent of the post-completion point countries

² See outcome document of the Conference on the World Financial and Economic Crisis and Its Impact on Development (A/CONF.214/3).

Table 8
Status of implementation of the HIPC Initiative

	HIPC decision point ^a	HIPC completion point ^a	HIPC Initiative assistance ^b (millions of dollars)	MDRI assistance ^c (millions of dollars)
Afghanistan	July 2007	Floating	571	..
Benin	July 2000	March 2003	366	604
Bolivia (Plurinational State of) ^d	February 2000	June 2001	1 856	1 596
Burkina Faso ^{d,e}	July 2000	April 2002	772	603
Burundi ^d	August 2005	January 2009	908	67
Cameroon	October 2000	April 2006	1 768	747
Central African Republic	September 2007	Floating	611	..
Chad	May 2001	Floating	227	..
Congo	April 2006	Floating	1 847	..
Comoros	..	..	..	..
Côte d'Ivoire	March 2009	Floating	3 005	..
Democratic Republic of the Congo	July 2003	Floating	7 636	..
Eritrea	..	..	..	..
Ethiopia ^e	November 2001	April 2004	2 575	1 458
Gambia	December 2000	December 2007	93	199
Ghana	February 2002	July 2004	2 910	2 095
Guinea	December 2000	Floating	761	..
Guinea-Bissau	December 2000	Floating	581	..
Guyana ^d	November 2000	December 2003	852	402
Haiti	November 2006	Floating	147	..
Honduras	July 2000	April 2005	776	1 543
Kyrgyzstan	..	..	..	..
Liberia	March 2008	Floating	2 845	..
Madagascar	December 2000	October 2004	1 167	1 292
Malawi ^e	December 2000	August 2006	1 310	705
Mali ^d	September 2000	March 2003	752	1 043
Mauritania	February 2000	June 2002	868	450
Mozambique ^d	April 2000	September 2001	2 992	1 057

Table 8 (continued)

Status of implementation of the HIPC Initiative

Source: World Bank data prepared for the MDG Gap Task force.

a Enhanced HIPC Initiative.

b Total HIPC assistance (committed debt relief) assuming full participation of creditors, in end-2007 net present value terms. Topping-up assistance and assistance provided under the original HIPC Initiative were committed in net present value terms as of the decision point and are converted into end-2007 terms.

c MDRI assistance has been delivered in full to all post-completion point countries, shown in end-2007 net present value terms.

d Also reached completion point under the original HIPC Initiative; the assistance includes original debt relief.

e Assistance includes topping-up at completion point.

	HIPC decision point ^a	HIPC completion point ^a	HIPC Initiative assistance ^b (millions of dollars)	MDRI assistance ^c (millions of dollars)
Nicaragua	December 2000	January 2004	4 618	954
Niger ^e	December 2000	April 2004	899	519
Rwanda ^e	December 2000	April 2005	908	225
Sao Tome and Principe ^e	December 2000	March 2007	163	26
Senegal	June 2000	April 2004	682	1 374
Sierra Leone	March 2002	December 2006	857	352
Somalia	..	..	..	..
Sudan	..	..	..	..
Togo	November 2008	Floating	270	..
Uganda ^d	February 2000	May 2000	1 434	1 805
United Republic of Tanzania	April 2000	November 2001	2 828	2 038
Zambia	December 2000	April 2005	3 489	1 632

had a low risk of future debt distress (see figure 19) and the number of countries with a high risk of debt distress³ had increased from one to four since the 2008 report. While the post-completion point countries face less debt distress than many non-HIPC developing countries, the data show that debt relief alone is not sufficient to ensure that the debt situation of the HIPC countries will remain sustainable over the long term.

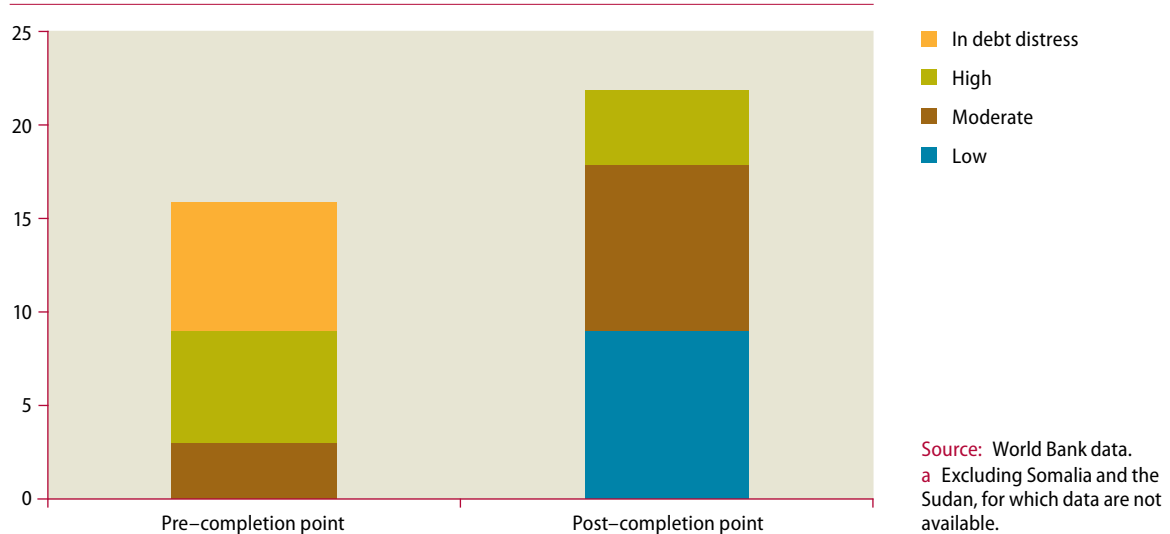
Prior to the adoption of the Millennium Declaration, there was concern that many developing countries, particularly many of the poorest, were spending more on debt service than on measures to reduce poverty, such as providing health and education services to poor people. Lower debt service has allowed HIPC countries to increase such social expenditures. In a sample of low-income countries for which data are available, there were almost 20 countries in which debt-service payments exceeded education expenditures in 2000; by 2006, this number had fallen to five. Fewer data are available for health expenditures but they show a similar downward trend (see figure 20).

With only a few intractable cases remaining, the international community has gone a long way towards delivering on its 1996 and 1998 commitments to provide debt relief to the most indebted poor countries and has made progress on key recommendations regarding debt relief that have been made since adoption of the Monterrey Declaration. Nevertheless, a number of challenges remain in fulfilling the HIPC commitment completely. First, there is a need to assist coun-

Renewed efforts are required to ensure that all eligible HIPC countries complete the process

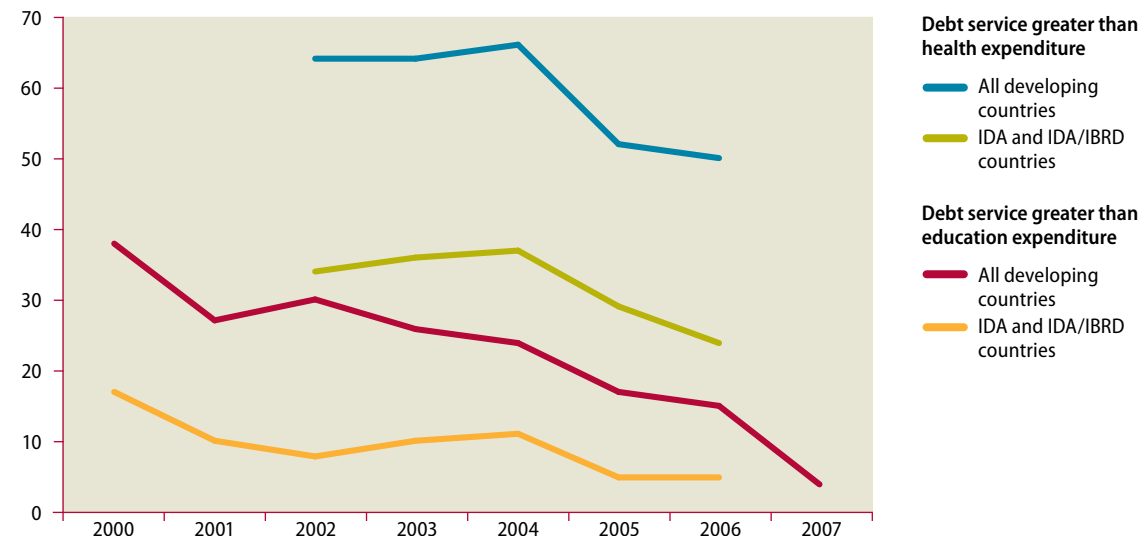
3 A country is considered at high risk of debt distress if there are protracted breaches of the debt and/or debt-service defined indicative policy-dependent thresholds.

Figure 19
Levels of debt distress in HIPC^a, September 2008 (number of countries)



tries that have been approved for debt relief to make the transition from “decision point” to “completion point” as quickly as possible. Second, full delivery on the HIPC commitment calls for decisions on the remaining candidates for debt relief. However, most of these countries need prior assistance in strengthening their development capacity so that they are in a position to benefit from debt relief.

Figure 20
Number of developing countries^a with public debt-service payments exceeding public spending on education and health, 2000-2007



Source: World Bank estimates prepared for the MDG Gap Task Force. Data on health expenditures are from the World Health Organization (WHO), World Health Report and updates, supplemented by the World Bank poverty assessments and country and sector studies; data on education expenditures are from the United Nations Educational, Cultural and Scientific Organization (UNESCO) Institute for Statistics; and data on debt servicing are from the World Bank Global Development Finance database.

a Countries for which complete data are available; sample size varies by year.

At the same time, the international community has to provide the financial resources required to deliver the outstanding debt relief. The amounts involved are likely to be large in some cases but participation in the HIPC Initiative is voluntary. Although an increasing number of non-Paris Club creditors have contributed to the debt relief that has been provided to date, some have not. All lenders should participate fully in this collective ongoing global effort to assist the world's poorest countries.

Debt position of non-HIPC countries

Even if the international community delivers fully on the HIPC Initiative, it will leave some coverage gaps at the country level in the commitment to deal comprehensively with the debt problem and to make the external debt of developing countries sustainable in the long term. In addition to the HIPC countries, there are several low- and middle-income countries which have longstanding external debt problems, but only a few of them have had their debt situations addressed since 2000.

Many developing countries need to renew their increased private sector borrowing

Several non-HIPC developing countries have reduced their reliance on multilateral financing by drawing on the record amounts of private sector credit which became available from 2003 to 2007. As a result, many developing countries will have to roll over large amounts of sovereign and corporate debt to the private sector in 2009 and beyond. Because of the financial crisis, they face potential difficulties in mobilizing the necessary finances and risk the prospect of an increase in the cost of borrowing. The external debt situation of many of these countries is therefore likely to deteriorate and some may come under debt pressure. In order to achieve the MDGs in these countries, and indeed also in the interest of global financial stability, the international community should consider the need to devise measures to address their debt situations, including a moratorium on debt service and the possibility of a sovereign debt-restructuring mechanism.

At the Conference on the World Financial and Economic Crisis and Its Impact on Development in June 2009, Member States of the United Nations affirmed that appropriate measures should be taken so as to mitigate the negative effects of the crisis on the indebtedness of developing countries and avoid a new debt crisis. They also agreed to explore enhanced approaches to the restructuring of sovereign debt and on the need and feasibility of a more structured framework for international cooperation in this area.⁴

Measuring debt sustainability

An accurate assessment of a country's debt sustainability requires complete information on the amount, duration and terms of all borrowing. In recent years, a number of new official lenders have begun providing development finance to developing countries, particularly low-income countries in Africa. In many instances, however, it is difficult to assess how much debt is being contracted with the new creditors and on what terms. This expansion and diversification of

⁴ See outcome document of the Conference on the World Financial and Economic Crisis, op. cit., paras. 33 and 34.

funding is a welcome development but the lack of transparency makes it difficult to determine the effect of these emerging creditors on the debt sustainability of recipient countries.

In order to address the changing debt situation of developing countries, the World Bank and the IMF have developed jointly a Debt Sustainability Framework (DSF) which seeks to ensure that external financing in support of development efforts and the achievement of the MDGs does not lead to the recurrence of debt distress in affected countries, particularly countries that have benefited from debt relief under the HIPC and MDRI initiatives. The DSF is also intended to help creditors tailor their financing terms to incorporate future risks and to assist debtor countries in reconciling their need for financing with their ability to service their obligations. The International Development Association (IDA), for example, utilizes the DSF to determine the grant-loan mix for its recipient countries. The DSF was set up in 2004 and last reviewed in 2006.

In April 2009, the G-20 agreed that the flexibility of the DSF should be reviewed in the light of the global economic crisis.⁵ Meanwhile, at the United Nations conference on the financial and economic crisis, Governments supported making full use of the existing flexibility within the DSF.⁶

The crisis has highlighted the fact that many developing countries in need of more resources to sustain their development face an unsustainable debt situation. There are no simple indicators of sustainability and any evaluation of a country's ability to meet its future obligations needs to be country-specific and should involve several variables. From the perspective of the Millennium Declaration, attention should be focused on ensuring that the need to service external debt is not allowed to take precedence over the effort to achieve the Millennium Development Goals.

G-20 leaders call for the flexibility of the IMF/World Bank Debt Sustainability Framework to be reviewed

External debt should not be allowed to compromise the attainment of the MDGs

Actions required at the national and international levels to deal comprehensively with the debt problems of developing countries include the following:

- Completion of the HIPC and MDRI initiatives.
- Ensuring that, in conformity with the two separate commitments in the Millennium Declaration, all debt relief is additional to ODA.
- Provision of additional support to prevent the HIPCs from entering into serious debt distress.
- Provision of the option of a temporary moratorium on existing debt-payment obligations to countries facing severe financial distress because of the global crisis.
- Provision of assistance to non-HIPCs in rolling over the large sums of sovereign and corporate debt that are due in 2009 and 2010.
- Development of an orderly sovereign debt workout mechanism and an improved framework for cross-border bankruptcies to handle situations of severe debt distress.

⁵ See Communiqué on the Global Plan for Recovery and Reform, adopted on 2 April 2009 at the G-20 London Summit (available at <http://www.g20.org/Documents/final-communication.pdf>).

⁶ See outcome document of the Conference on the World Financial and Economic Crisis, op. cit., para. 33.

Towards an enhanced global partnership for addressing external debt

Over the years, the international community has made notable progress in reducing the external debt burden of developing countries. However, because of the global financial crisis, the external payments and fiscal balances of developing countries have come under renewed stress. External financing conditions have tightened, both from public and private sources. Lower revenue, currency depreciation and the rising costs of borrowing are giving rise to increased fiscal stress. All these factors pose serious risks to the debt sustainability of developing countries and undermine their capacity to service or roll over external debt. The prospects for highly indebted countries have become uncertain, and some other developing economies could fall into debt distress.

Access to affordable essential medicines

Target

8e In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries

Indicator

8.13 Proportion of population with access to affordable, essential drugs on a sustainable basis

There are few international commitments in relation to the provision of medicines other than those for the three high-profile diseases, HIV/AIDS, tuberculosis and malaria. These are addressed under MDG 6 and their progress is monitored annually in *The Millennium Development Goals Report*.¹ Existing commitments regarding medicines often lack quantitative targets and, unlike the other commitments addressed in this report, usually do not refer to either the aggregate global or the country-level supply. This makes it difficult to both measure a “delivery gap” with regard to global commitments and assess the distribution of benefits across countries (the “coverage gap”).

Access to medicines depends on four key factors: first, it depends on ensuring that patients receive appropriate medicines in the correct dosages and within the required time frames; second, Governments and individuals must be able to afford the medicines essential to maintaining health; third, funds to pay for treatments must continue to be available when needed; and, fourth, access to medicines needs to be supported by health and supply systems that ensure their availability when required.

Since health goals primarily relate to individuals, international commitments usually take the form of improving people’s access to either preventive measures (for example, vaccines, insecticide-treated bednets or potable water) or curative medicines and treatments (such as antiretroviral therapies for HIV/AIDS and directly observed treatment, short course (DOTS) for tuberculosis). Like food, however, access to medicines is not only a question of total supply being adequate to meet total demand; it is also a matter of supply being available where and when required and a matter of individuals, particularly the poor, being able

¹ See *The Millennium Development Goals Report 2009* (United Nations publication, Sales No. E.09.I.12).

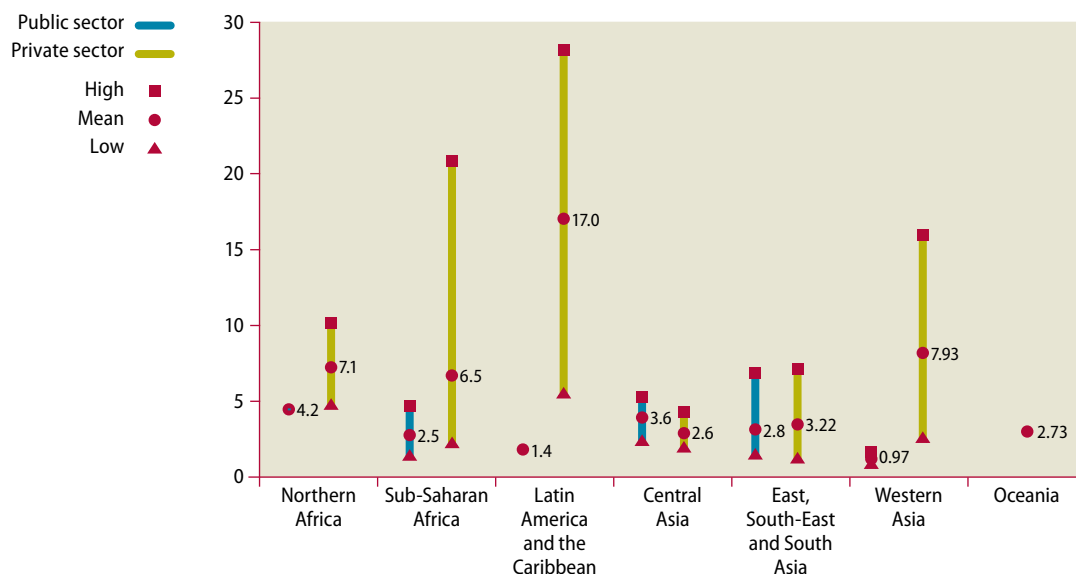
The price of medicines in developing countries remains high

to meet their needs. The latter requires that medicines be affordable to the poor either through government channels or in private sector markets. This is essentially a “needs gap”, rather than a “delivery gap” or a “coverage gap”, although it contains elements of both.

The *MDG Gap Task Force Report 2008*² found that large gaps exist in the availability of medicines in both the public and private sectors and that prices vary widely across countries and are generally much higher than international reference prices. These two factors combine to render essential medicines inaccessible to many of the world’s poor. The global economic crisis has plunged tens of millions more people into poverty, adding commensurately to those who do not have access to medicines. Even before the crisis, the availability of selected essential medicines in developing countries was low (38.1 per cent in the public sector and 63.3 per cent in the private sector) and this, together with high prices, had been already limiting access. Median prices were, on average, 2.5 times higher than international reference prices in the public sector and 6.1 times higher in the private sector (see figure 21). China, India, the Islamic Republic of Iran and

Figure 21

Ratio of consumer prices to international reference prices for selected generic medicines in public and private health facilities during the period 2001-2006



Source: World Health Organization, using WHO/HAI standard methodology and data from surveys of medicine prices and availability (see <http://www.haiweb.org/medicineprices/>).

Note: The number of countries included in the sample were distributed as follows:

	Public sector	Private sector		Public sector	Private sector
Northern Africa	1	3	East, South-East and South Asia	6	9
Sub-Saharan Africa	9	11	Western Asia	2	7
Latin America and the Caribbean	1	2	Oceania	0	1
Central Asia	2	4			

2 *MDG Gap Task Force Report 2008: Delivering on the Global Partnership for Achieving the Millennium Development Goals* (United Nations publication, Sales No. E.08.1.17).

Uzbekistan were the only countries surveyed that had succeeded in achieving private sector patient prices for generic medicines that were less than twice the international reference price.

High prices of medicines are caused in part by high add-on costs in the supply chain, such as wholesale and retail margins and duties and taxes, all of which can increase final prices in both the public and private sectors. In the limited number of developing countries for which data are available, private sector wholesale markups range from 2 to 380 per cent and retail markups from 10 to 552 per cent.³ In countries where value added tax is applied to medicines, the charge varies from 4 to 15 per cent. In addition to supply chain costs, manufacturers' publicity and marketing costs for promoting the use of medicines are often a significant component of the final price.⁴

Measuring the gap in access to medicines

The major causes of disease

Of every ten deaths worldwide, six are due to non-communicable conditions, three to infectious, reproductive or nutritional conditions and one to injuries (see figures 22a).⁵ Non-communicable diseases are the leading cause of death in low- and middle-income countries, which account for approximately 80 per cent of such deaths (see figure 22b).⁶ Chronic non-communicable diseases not only have a financial impact on individuals and families but also undermine national macroeconomic development. For example, estimated losses in national income from heart disease, stroke and diabetes in 2005 were \$18 billion in China, \$11 billion in the Russian Federation, \$9 billion in India and \$3 billion in Brazil. These losses accumulate over time. Between 2005 and 2015, it is estimated that China will have lost \$558 billion (or about 1.5 per cent of gross domestic product (GDP) per annum) in forgone national income owing to heart disease, stroke and diabetes alone.⁷ Despite the substantial and growing burden of these diseases in developing countries, improving access to medicines to treat them has received little international attention.

Access to medicines for children is another area of concern. It is estimated that up to 10.5 million children die each year, many of them from conditions that can be treated with existing essential medicines. However, many essential medicines do not exist in appropriate dosage forms for children. Even where paediatric

Non-communicable diseases are the leading cause of death in developing countries

3 Alexandra Cameron and others, "Medicine prices, availability, and affordability in 36 developing and middle-income countries: a secondary analysis", *The Lancet*, vol. 373, No. 9659 (17 January 2009), pp. 240-249.

4 World Health Organization, *Report of the Commission on Intellectual Property Rights, Innovation and Public Health: Public Health, Innovation and Intellectual Property Rights* (Geneva, 2006).

5 World Health Organization, *The Global Burden of Disease: 2004 Update* (Geneva, 2008).

6 Derek Yach and others, "Chronic diseases and risks", *International Public Health: Diseases, Programs, Systems, and Policies*, 2nd edition, Michael H. Merson, Robert E. Black and Anne J. Mills, eds. (Sudbury, Massachusetts, Jones and Bartlett Publishers, 2006), p. 293.

7 World Health Organization, *Preventing Chronic Diseases: A Vital Investment* (Geneva, 2005).

Figure 22a

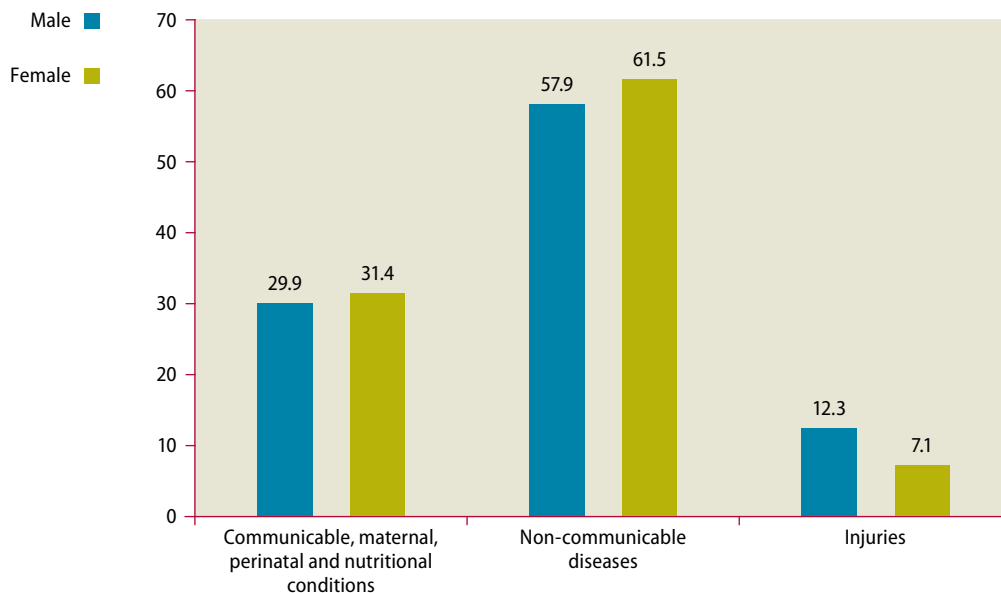
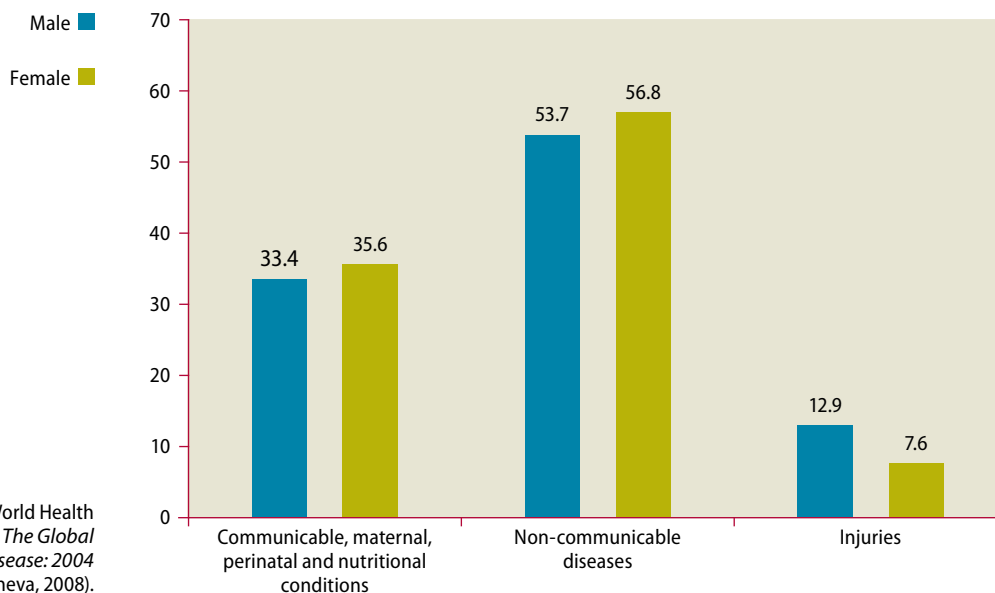
Distribution of deaths worldwide, by sex, 2004 (percentage)

Figure 22b

Distribution of deaths in low- and middle-income countries, by sex, 2004 (percentage)

Source: World Health Organization, *The Global Burden of Disease: 2004 Update* (Geneva, 2008).

dosage forms exist, their use can be problematic. For example, although oral liquid forms are available for some medicines for HIV/AIDS, they cost two to three times more than the same dose for the same product in pill form for adults.⁸

Other factors that inhibit the supply or use of paediatric medicines include their higher weight due to syrup content (resulting in increased shipping costs), lack of clean water for dissolving powders into liquids and the difficulty of administering liquid formulations in accurate amounts to children of different ages. Furthermore, liquid formulations are generally less stable than solid dosage forms and often require special storage conditions.

Affordability of essential medicines for non-communicable diseases

In order to judge affordability, it is necessary to establish a benchmark that relates the cost of medicines to income. One day's wages might be considered an affordable monthly cost for medicines that are required on a continuous basis for the remainder of a patient's life. For income, a readily and widely available benchmark for the country's poor is the earnings of the lowest-paid government worker. However, many people in low- and middle-income countries earn less than the lowest-paid government worker. Possible alternative benchmarks are the income levels used as benchmarks for international poverty, namely, \$1.25 (formerly \$1) per day (extreme poverty) and \$2 per day. Regardless of the benchmark used, medicine affordability does not take other treatment costs, such as diagnostics, into account and thus will underestimate the true cost of health care.

Diabetes mellitus affects over 220 million people worldwide⁹ and its prevalence is rising throughout the world, especially in low- and middle-income countries.¹⁰ For many in these countries, the cost of basic oral diabetes treatment alone is unaffordable when using the yardstick of one day's wages. The lowest-priced generic combination treatment regimen for diabetes costs over two days' wages in the majority of countries, reaching as much as eight days' wages in Ghana (see figure 23). Costs are even higher in the case of brand products. Moreover, diabetes sufferers also often have concomitant conditions, such as hypertension, which can increase the cost of treatment and further reduce its affordability.

Diabetes treatment costs over two days' worth of wages in most countries

A similar situation prevails with respect to asthma. Even when the lowest-priced generic equivalents are used, asthma treatment is unaffordable in almost all countries (see figure 24), and becomes even less affordable when originator brand medicines are prescribed and dispensed. In Kenya, the lowest-paid government worker would need nearly 10 days' wages to purchase these brand medicines, while the cost in Brazil, Kuwait, Peru, Sri Lanka and Uzbekistan would be over 5 days' wages. Overall, the use of originator brand inhalers may have an

8 Management Sciences for Health, International Drug Price Indicator Guide estimates, available at <http://erc.msh.org/mainpage.cfm?file=1.0.htm&module=Dmp&language=English>.

9 World Health Organization, *The Global Burden of Disease*, op. cit.

10 It is estimated that 7.3 per cent of the world's adult population (20-79 years of age) will suffer from diabetes by 2025 (International Diabetes Federation, *Diabetes Atlas*, 3rd edition (Brussels, 2006)).

Figure 23

Affordability of treatment for diabetes (days' worth of wages^a)

adverse effect on the affordability of treatment for many of the 235 million people worldwide who suffer from asthma.¹¹

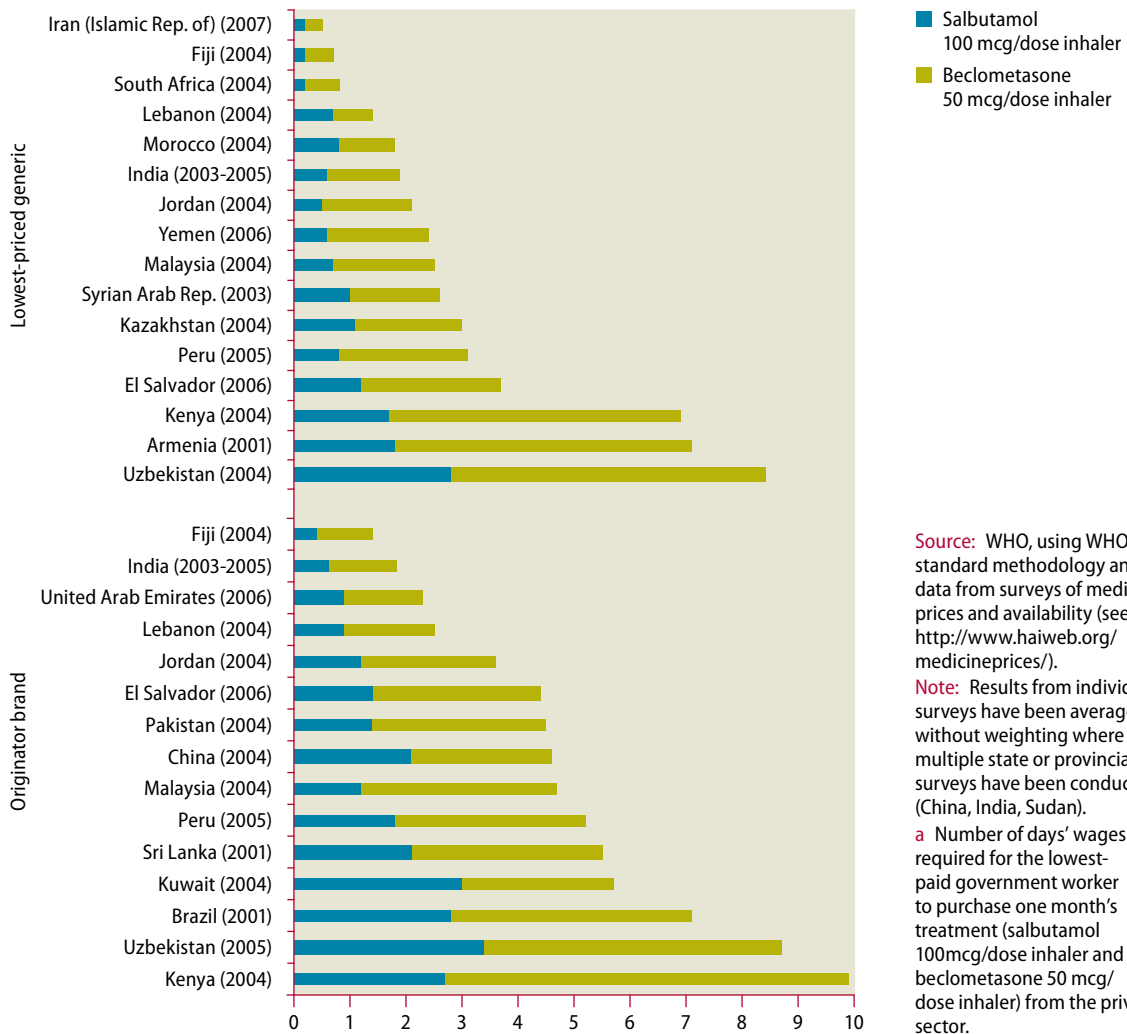
Cardiovascular diseases are the leading cause of death worldwide and account for 28 per cent of deaths in low- and middle-income countries.¹² For the lowest-paid government worker, the costs of hypertension treatment using a common Angiotensin-Converting Enzyme-inhibitor (captopril 25 mg cap/tab, 50 mg per day) exceed two days' wages in the majority of countries and may therefore be deemed unaffordable (see figure 25). Moreover, in all of the sample countries except Kyrgyzstan, Tajikistan and Uzbekistan, the lowest-paid government worker earns more than the \$1 per day benchmark for extreme poverty, meaning the treatment is even more unaffordable for the poorest in the population. In Peru, for example, treatment with captopril is relatively affordable for the lowest-paid government worker (0.8 days' wages), but the majority of the population in Peru earns less than this norm. For them, treatment is far less affordable:

¹¹ World Health Organization, *The Global Burden of Disease*, op. cit.

¹² Ibid.

Cardiovascular diseases are the leading cause of death in developing countries

Figure 24
Affordability of treatment for asthma (days' worth of wages^a)



Source: WHO, using WHO/HAI standard methodology and data from surveys of medicine prices and availability (see <http://www.haiweb.org/medicineprices/>).

Note: Results from individual surveys have been averaged without weighting where multiple state or provincial surveys have been conducted (China, India, Sudan).

^a Number of days' wages required for the lowest-paid government worker to purchase one month's treatment (salbutamol 100mcg/dose inhaler and beclometasone 50 mcg/dose inhaler) from the private sector.

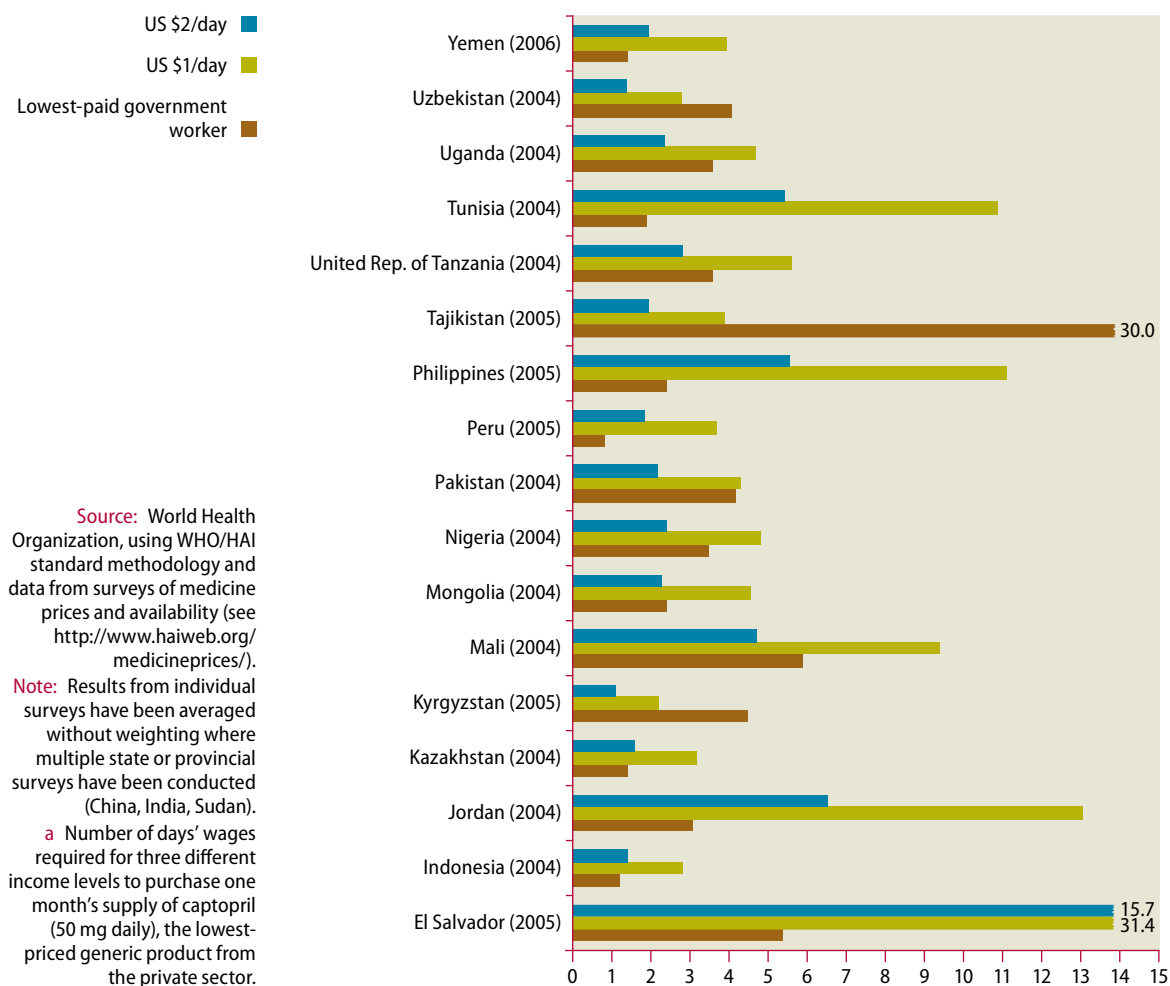
it requires 3.7 days' wages for those earning \$1 per day, and 1.8 days' wages for those earning \$2 per day.

The cost of treatment for chronic diseases is particularly unaffordable because of their ongoing nature and the frequent need for combination therapy. No matter how low prices are in the private sector, the poorest sections of the population will usually not be able to afford them. Even for those who are less poor, ongoing payments for medicines and catastrophic medicine costs can plunge families into poverty.¹³ Priority should therefore be given to strategies that help improve the affordability of essential medicines for chronic diseases for the poorest population groups and communities, including making such medicines available through the public sector at little or no cost. This, in turn, will contribute to increased access to treatment and care for the poorest and the most vulnerable.

The chronic nature of some diseases makes them more unaffordable

13 Ke Xu and others, "Household catastrophic health expenditure: a multicountry analysis", *The Lancet*, vol. 362, No. 9378 (12 July 2003), pp. 111-117.

Figure 25

Affordability of treatment for hypertension (days' worth of wages^a)**Other factors affecting the affordability of medicines***National expenditures on pharmaceuticals*

Total expenditures on pharmaceuticals are closely related to a country's GDP and to its total health expenditures. Expenditures on pharmaceuticals range from 1.35 to 1.5 per cent of GDP, with the share of GDP spent on pharmaceuticals being lower for higher-income countries than for lower-income countries. The proportion of total health expenditure spent on pharmaceuticals is also lower in rich countries than in poorer countries (see table 9).

There is also a difference between the sources of financing for medicines in developed and developing countries. In developed countries, the public sector accounts for almost 60 per cent of total pharmaceutical expenditures, with government health insurance or social security systems paying for most medicines. In developing countries, governments pay for less than one third of all expenditure on medicines. In these countries, most payments for pharmaceuticals are private, out-of-pocket expenditures. Among developing countries, the proportion of pri-

Table 9
**Cost of medicines in relation to GDP and health expenditures,
 by income group, 2006**

Income group	Population (millions)	Number of WHO members	Sample size	Share of GDP (percentage)		Share of total health expenditure (percentage)	
				Mean (percentage)	Median (percentage)	Mean (percentage)	Median (percentage)
High	983	48	43	1.40	1.40	18.6	17.9
Upper-middle	782	42	35	1.35	1.20	21.5	19.8
Lower-middle	3 106	54	33	1.48	1.20	25.3	22.7
Low	578	49	19	1.50	1.50	28.9	26.0
Total	5 449	193	130	1.40	1.30	22.6	20.2

Source: World Health Organization, National Health Accounts.

vate expenditures is inversely related to income: in low-income countries, private payments account for a higher proportion of expenditures on medicines than in higher-income countries, albeit only slightly.

Health insurance coverage

Comprehensive public health insurance which covers the cost of medicines is the most equitable system for making treatment widely available. Unfortunately, only a small proportion of people in developing countries are covered; in low-income countries, only 2.8 per cent of the population have health insurance and they tend to be mostly in the upper income brackets. In all but the high-income countries, less than half of the population are covered; the proportion of people with insurance covering medicines is even smaller.

Health insurance coverage is extremely low in developing countries

Impact of the global economic crisis on access to medicines

Through a number of channels, the global economic crisis has served to increase the proportion of people in the developing world without access to affordable medicines. On the demand side, the number of poor has increased, and the newly poor will be added to those who can no longer afford to buy medicines. At the same time, the crisis may increase demands on public health services because rising unemployment and lower incomes make people less able to maintain their health and expose them to greater health risks, thereby increasing the incidence and prevalence of disease.

On the supply side, discretionary public sector spending is under pressure around the world, particularly so in developing countries that are unable to borrow sufficiently to cover their fiscal deficits. If the budgets of health ministries are cut, salaries may be maintained while expenditure on medicines and transport are cut disproportionately. If exchange rates depreciate, medical imports, such as raw materials for the production of medicines or finished products for countries without manufacturing capacity, are likely to become more expensive. The global

credit crunch may also mean that importers will not be able to obtain credit to purchase medical products.¹⁴

Countries with a well-developed, well-stocked public sector system of essential medicines and countries with a well-established health insurance system that provides selected essential generic medicines will be better able to cope and adjust to these developments. The situation will be more difficult for countries with a poorly funded or inefficient public sector procurement and distribution system; for countries where the poor have to pay for medicines out-of-pocket; and for countries with a branded, rather than generic, supply system in the private sector.

In order to measure the impact of the global economic crisis on health systems, the World Health Organization (WHO), in cooperation with IMS Health, has put in place a programme to track the consumption of medicines.¹⁵ In most countries, there has been an increase in the average price of medicines.¹⁶ In some countries, this was associated with an increase in total expenditure on pharmaceuticals in the last quarter of 2008 and the first quarter of 2009; however, in most countries, except for a few in Eastern Europe, the consumption of pharmaceuticals does not appear to have been adversely affected.

As of the end of the first quarter of 2009, there did not appear to be either a major change in the overall volume of medicines used or a decline in the use of medicines against chronic diseases, as had been the case during the Asian crisis of 1998. There was no change from branded to unbranded formulations of these medicines. Overall, therefore, there is no firm evidence that the economic crisis has had a negative impact on access to medicines or that the moderate price increases have reduced the consumption of medicines.

However, the magnitude and duration of the crisis remain uncertain, and previous economic crises demonstrate that their impact is rarely consistent across countries. Past crises also suggest that the impact on medicines lags behind a fall in GDP. It may therefore be too early to observe the effects of the current crisis on pharmaceutical consumption. Should the situation deteriorate, Governments have a range of policy instruments at their disposal to alleviate the situation.

Some medicines, such as those funded by the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) or the Global Alliance for Vaccines and Immunizations (GAVI), including antiretroviral (ARV) medicines and Artemisinin-based Combination Therapies (ACTs), are likely to remain available regardless of the crisis. However, even where these programmes are paying for medicines, the economic crisis may still adversely affect prevention programmes. For other medicines, particularly chronic disease medicines, the situation is likely to deteriorate. The increasing incidence of chronic diseases has already raised demand for such treatments as insulin, cardiovascular medicines and asthma inhalants. Families that have to pay for chronic disease medicines on an ongo-

The impact of the global economic crisis is still unclear, but countries must strengthen health insurance systems

¹⁴ See the section on debt sustainability for a discussion of the impact of the economic crisis on trade credit.

¹⁵ No IMS Health data are available for sub-Saharan African countries, with the exception of South Africa.

¹⁶ IMS Health, "Indicators for tracking the effect of the economic crisis on pharmaceutical consumption, expenditures and unit prices", report prepared for the World Health Organization, 20 May 2009 (available at <http://www.who.int/entity/medicines/areas/policy/imsreport/en/index.html>).

ing, out-of-pocket basis are likely to become progressively impoverished, and the economic downturn is likely to exacerbate this effect.

On the positive side, experiences in Indonesia and Thailand suggest that economic crises can provide an opportunity to make needed but difficult policy changes. For example, during the crisis of the late 1990s, the Indonesian Ministry of Health took several measures to maintain access to medicines, including:

- Establishing a monitoring system to ensure the availability of key essential medicines in public health facilities and of generic products in the market.
- Maintaining a national buffer stock of essential medicines.
- Providing subsidies for the purchase of raw materials for pharmaceutical companies producing generic products.
- Taking actions to ensure the efficient use of donations.

As a result, the availability of key medicines remained high during both the acute crisis and the recovery phase, and the use of essential medicines in public health facilities remained high throughout the crisis.¹⁷ However, in both the public and private sectors, patients paid about 25-50 per cent more per prescription following the crisis.

The need to meet the costs of a global pandemic

In addition to improving access to treatments for longstanding, persistent and well-recognized diseases, developing countries, like developed countries, face the challenge of random outbreaks of new infectious diseases and potential pandemics, such as severe acute respiratory syndrome (SARS) in 2003 and the recent H1N1 flu. As demonstrated by HIV/AIDS, failure to stop or slow the spread of such diseases in a timely fashion can have devastating consequences in terms of mortality, morbidity and health status—as well as for health costs and economic development, over the longer term.

Responses may vary from preventive actions, to vaccines (if one is available or can be developed), to treatment of the disease itself. In all these areas, developing countries face greater difficulties than developed countries because of their relative lack of resources, mainly, but not limited to, those of a financial nature. Rapid dissemination of information about such diseases and the actions necessary to control them are hampered by poor communications and lower levels of education. Few developing countries have the capacity to develop new vaccines and, as with all other medicines, face difficulties in making them available on the scale required at an acceptable cost. This is also true for treatment.

As demonstrated by the recent outbreak of the H1N1 flu, while there is always room for improvement, the developed countries have been able to develop a response to the current global pandemic. This case of H1N1, however, may also provide evidence of whether the response is equally effective in developing countries, in particular whether it is possible to make the forthcoming vaccine

Of major concern is whether developing countries can respond effectively to the threats of the H1N1 flu

¹⁷ Sri Suryawati and others, “Impact of the economic crisis on availability, price and use of medicines in Indonesia, 1997-2002” (World Health Organization, Geneva, 2003).

available at an affordable price to all those in developing countries that are considered to be at risk. There is some evidence of the private sector's facilitating access to flu medicine.

Financing the gap to meet MDG target 8e

The creation of the High Level Taskforce on International Innovative Financing for Health Systems prompted efforts to estimate the cost of strengthening health systems, scaling up service provision and reaching the health-related MDGs in low-income countries.¹⁸ This exercise included the costing of the essential medicines required to treat a selection of mostly chronic conditions in 49 countries with a gross national income (GNI) per capita of \$935 or less in 2007, most of which were in sub-Saharan Africa.

The resulting estimates indicate that, in order to achieve the health-related MDGs in these countries, the funding for treatments for conditions other than those covered by MDGs 4, 5 and 6 would have to be increased by about \$630 million in 2009, increasing, as coverage and the population at risk rose, to \$3 billion in 2015. The incremental costs per year would increase from \$150 million in 2009 to \$1.17 billion in 2015. The annual per capita cost of these essential medicines is estimated to range from slightly less than \$0.50 in 2009 to almost \$2 in 2015.

It should be affordable to meet these gaps in access to essential medicines, as it would add less than \$1 per capita to a country's annual pharmaceutical expenditure. Mobilizing such amounts should be achievable with appropriate financing mechanisms, since the total per capita cost and the incremental per capita cost required each year to provide the treatment needed to meet MDG target 8e are only small fractions of a country's annual per capita health expenditure.

Role of pharmaceutical companies in increasing access to affordable drugs

UNITAID, an international pharmaceutical financing body, is consulting with pharmaceutical companies and other stakeholders to establish innovative mechanisms for improving access to medicines. Established in 2006 as a way of securing sustainable financing of medicines for HIV/AIDS, tuberculosis and malaria, UNITAID seeks to have a lasting impact on markets, essentially by reducing prices and increasing production. UNITAID also plans to play a role in ensuring the development of paediatric formulations for HIV/AIDS drugs or fixed-dose combinations where they do not exist.

The implementation of the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS) of the World Trade Organization (WTO) is leading to the patenting of new medicines in countries that traditionally have been important producers of generic essential medicines. As a result, generic versions of new medicines will become available only after the 20-year patent has expired,

Patenting is making
essential medicines
more expensive

¹⁸ See <http://www.internationalhealthpartnership.net/index.html>.

unless action is taken to the contrary. Patented medicines are, in general, more expensive. For example, treating a patient for one year with the most affordable, improved first-line regimen for HIV/AIDS, as recommended by WHO, costs between \$613 and \$1,033 using originator products compared with \$87 for the generic medicine.¹⁹ Patents may also stand in the way of the development of fixed-dose combinations or formulations for paediatric use because the patents on the different components are held by different companies.²⁰

One means of addressing the difficulties created by patents is the creation of patent pools. While patent pools exist in other sectors, they have yet to be applied in the pharmaceutical sector. Medicine patent holders have previously opposed measures that facilitate market entry of generics,²¹ but interest in making patent pools operational is growing. For example, on 13 February 2009, Glaxo Smith Kline (GSK) announced that it would put into a patent pool any chemicals or processes over which it has intellectual property rights that are relevant to finding medicines for neglected diseases listed in the United States Food and Drug Administration's voucher scheme,²² thereby allowing them to be explored by other researchers. This may be particularly useful in countries where patent research exemptions do not exist.

In July 2008, the UNITAID Executive Board decided to establish an international HIV/AIDS Medicines Patent Pool to deal with both access and innovation issues. In the patent pool, different patent holders, such as companies, universities and research institutes, would voluntarily make their patents available to others on a non-exclusive basis. In exchange for payment of a royalty to the pool to remunerate the patent holders, generic manufacturers can obtain a licence to access patents in the pool in order to produce HIV/AIDS medicines, make further improvements to them and produce and sell them in developing countries at low cost. The pool will therefore act as a licensing agency that manages licences, negotiations and the receipt of royalties without necessitating any fundamental changes to the existing medicines' patent system. This voluntary scheme provides an opportunity to improve access to affordable medicines, but its success will depend on the willingness of both patent holders (to put their patents into the pool) and generic manufacturers (to pay royalties, use the patents and adapt the medicines). It will therefore serve as an important measure of the willingness of the pharmaceutical companies to achieve the target of providing access to affordable essential medicines in developing countries.

The creation of patent pools may help alleviate the situation

19 Médecins Sans Frontières, "Untangling the web of antiretroviral price reductions", 11th edition, July 2008.

20 At its 2009 meeting, the Expert Committee on the Selection and Use of Medicines of the World Health Organization endorsed a list of missing fixed-dose combination medicines for HIV/AIDS as potential candidates for a patent pool (see http://www.who.int/selection_medicines/committees/expert/17/WEBuneditedTRS_2009.pdf).

21 Ellen F. M. 't Hoen, *The Global Politics of Pharmaceutical Monopoly Power: Drug Patents, Access, Innovation and the Application of the WTO Doha Declaration on TRIPS and Public Health* (Netherlands, AMB Publishers, 2009).

22 The scheme allows the sponsor of a newly approved drug which prevents or treats an eligible tropical or neglected disease to receive a priority review voucher which can then be applied to another product. Priority review reduces the time it takes the Food and Drug Administration to assess a product submitted for approval. Alternatively, the owner of the voucher can sell it on the open market.

Strengthening the global partnership to provide access to affordable essential medicines

There are large gaps in the availability of medicines in both the public and private sectors in developing countries, as well as wide variations vis-à-vis the international reference prices for medicines. Both factors make many essential medicines inaccessible, especially to the poor. This is not only a substantial obstacle to accelerating progress in the achievement of MDG 8 but also a barrier to the achievement of MDGs 4, 5 and 6.

Actions required at the national and international levels to improve the accessibility and affordability of essential medicines include the following:

- Governments should provide additional protection to low-income families to cope with the rising costs of medicines as a consequence of the global economic crisis.
- In addition to national efforts, further international actions should be taken to improve the availability and affordability of essential medicines, such as the establishment of international patent pools.
- Countries with manufacturing capacity should facilitate both the exporting of generic medicines to countries in need, in line with flexibilities contained in the TRIPS Agreement, and, where possible, the exchange of technology transfer between developed and developing countries for the production of essential medicines. Governments of low- and middle-income countries should reform national intellectual property legislation to enable TRIPS flexibilities and facilitate access to medicines for all.
- The public sector, in collaboration with the private sector, should strive to make essential medicines available at affordable prices and step up efforts to improve health insurance coverage.
- Governments, in collaboration with the private sector, should give greater priority to treating chronic diseases and improving the accessibility of medicines to treat them.

Access to new technologies

Target

- 8f In cooperation with the private sector, make available the benefits of new technologies, especially information and communications

In the years prior to the global economic crisis, further progress was made in access of the world's population to information and communication technologies (ICT), especially cellular telephony. Nonetheless, the digital divide, in the form of differences in access and affordability, is still very wide between the rich and the poor, both across and within countries, and has barely narrowed over the past decade.

It is not yet clear to what extent the global economic crisis will affect access to and transfer of technology. Obviously, to those losing their jobs and/or incomes, the use of ICT will become less affordable, while public and private investment in ICT infrastructure may fall along with economic activity and government revenues. To the extent that countries are able to engage in fiscal stimulus packages, however, it is possible that such adverse effects can be mitigated.

As pointed out in the *MDG Gap Task Force Report 2008*,¹ the lack of numerical or measurable targets in the MDG framework makes it difficult to measure a delivery gap for access to technology.² Furthermore, existing data sources do not allow for an estimation of the agreed indicators on a monthly or quarterly basis, making it hard to obtain immediate indications as to how the crisis is impacting the fulfilment of this component of MDG 8. With some time lag, it is possible to identify progress in terms of higher ICT penetration rates,³ but it is more difficult to tell whether that progress will be rapid enough to meet

¹ *MDG Gap Task Force Report 2008: Delivering on the Global Partnership for Achieving the Millennium Development Goals* (United Nations publication, Sales No. E.08.1.17).

² Currently, most of the statistics used to measure the digital divide and track progress made towards the information society are based on administrative or supply-side data, such as the number of fixed telephone lines, mobile cellular subscriptions and broadband subscribers. However, to track progress adequately and identify gaps, more specific indicators of information and communication technology (ICT) use need to be examined. Statistics on access and use of ICT by households and individuals are typically collected by national statistical offices (NSOs) by way of household surveys. An increasing number of countries are starting to survey households and individuals about their use of ICT and data availability is expected to increase over the coming years. The International Telecommunication Union (ITU), in collaboration with the Partnership on Measuring ICT for Development (see <http://www.itu.int/ITU-D/ict/partnership>), is actively encouraging countries to collect data on ICT use by providing a core list of ICT indicators, training material and capacity-building to NSOs.

³ Percentage of the total population using ICT or subscribed to ICT services.

the needs of developing countries. The 2003 Plan of Action of the World Summit on the Information Society (WSIS) announced a total of 10 targets to be achieved by 2015. These include the target “to connect villages with ICTs and establish community access points” and the target “to ensure that more than half the world’s inhabitants have access to ICTs within their reach”.⁴ Ambiguity remains about the type of ICT and the number of villages that should be connected, but this initiative could pave the way for identifying measurable targets that allow for more objective monitoring.

Generally, the needs for access to new technologies are widening, especially with the recognition that urgent action will have to be undertaken to address the challenge of climate change. For both climate change mitigation and adaptation, massive investments will be required in research, development and deployment of technologies for increasing energy efficiency, renewable energy, low-emissions technologies and climate-proof infrastructure.⁵ Some of these technologies will need to be supported with enhanced access to ICT, but the challenge here transcends the scope of target 8f as agreed at the time of the United Nations Millennium Declaration.

Indicators

- 8.14 Telephone lines per 100 population
- 8.15 Mobile cellular subscriptions per 100 population
- 8.16 Internet users per 100 population

Usage of mobile telephony

By the end of 2008, mobile cellular subscriptions worldwide soared to 4.1 billion (from 3.4 billion in 2007), equivalent to a penetration rate of just over 60 per cent. In contrast, fixed telephone lines amounted to 1.3 billion worldwide, with a penetration rate of under 20 per cent (see figure 26).

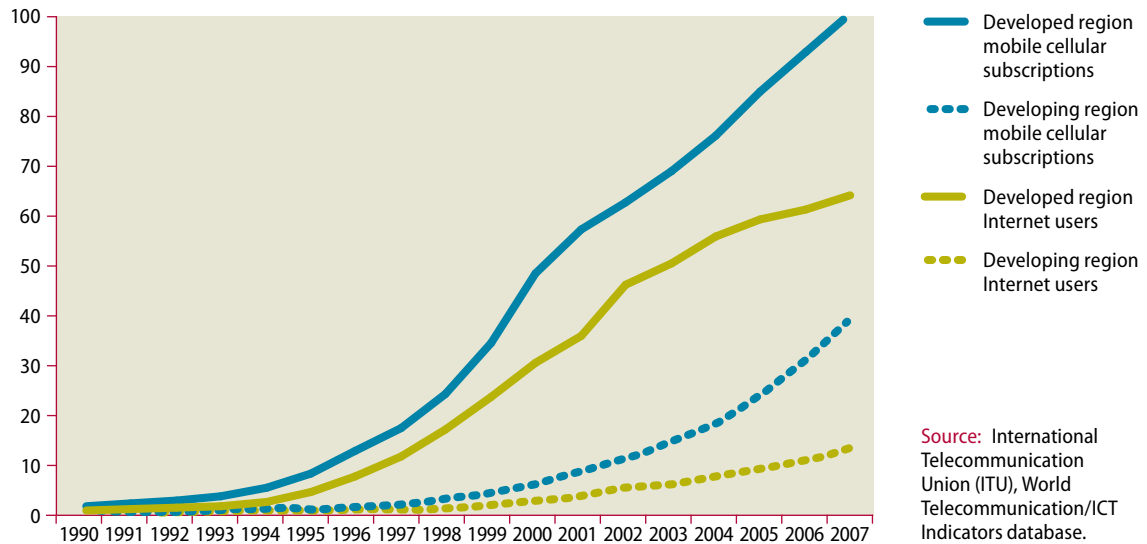
Mobile cellular telephony is offering new and critical communication opportunities to regions that used to be without access to ICT. During 2007, Africa added over 65 million new mobile subscriptions and mobile penetration had risen to close to one third of the population, from just 1 in 50 people in 2000.⁶ Just as mobile phones have increased access to basic voice communications, they are increasingly being used for non-voice applications, including Short Message Service (SMS), m-banking and m-commerce, and disaster management. Since third generation (3G) mobile technology is supportive of broad-

⁴ See <http://www.itu.int/wsis/docs/geneva/official/poa.html#c4>.

⁵ See, for instance, *World Economic and Social Survey 2009: Promoting Development, Saving the Planet* (United Nations publication, Sales No. E.09.II.C.1); Nebojsa Nakićenovic, “Supportive policies for developing countries: a paradigm shift”, background paper prepared for *World Economic and Social Survey 2009*; Nicholas Stern, *A Blueprint for a Safer Planet: How to Manage Climate Change and Create a New Era of Prosperity* (London, The Bodley Head, 2009).

⁶ Although global data exist for 2008, regional data are available only up until 2007.

Figure 26
**Penetration of mobile cellular subscriptions and Internet users
 in developed and developing regions, 1990-2007 (percentage)**



band speeds, mobile communications are expected to play an increasing role in providing high-speed Internet access in both developed and developing regions. This is an important development that may help compensate for the prohibitive cost and lack of access to Internet services in many developing countries, as discussed below.

Although mobile penetration in developing countries continued to increase between 2006 and 2007 (from 30 to 39 users per 100), these countries still lag far behind the developed countries, which have exceeded the 100 per cent mark (see figure 26), meaning that on average the population in the richer countries possesses more than one mobile phone subscription per person. The incidence continues to be lowest among the least developed countries, with only 15 users per 100 people in 2007, although this is up from just 1 per 100 in 2002. By geographic region, Oceania, sub-Saharan Africa and South Asia have the lowest penetration rates (see figure 27). The same regions also have the lowest number of fixed telephone lines, indicating their limited access to telecommunication and ICT (see figure 28).

Mobile cellular coverage is lowest in Oceania, sub-Saharan Africa and South Asia

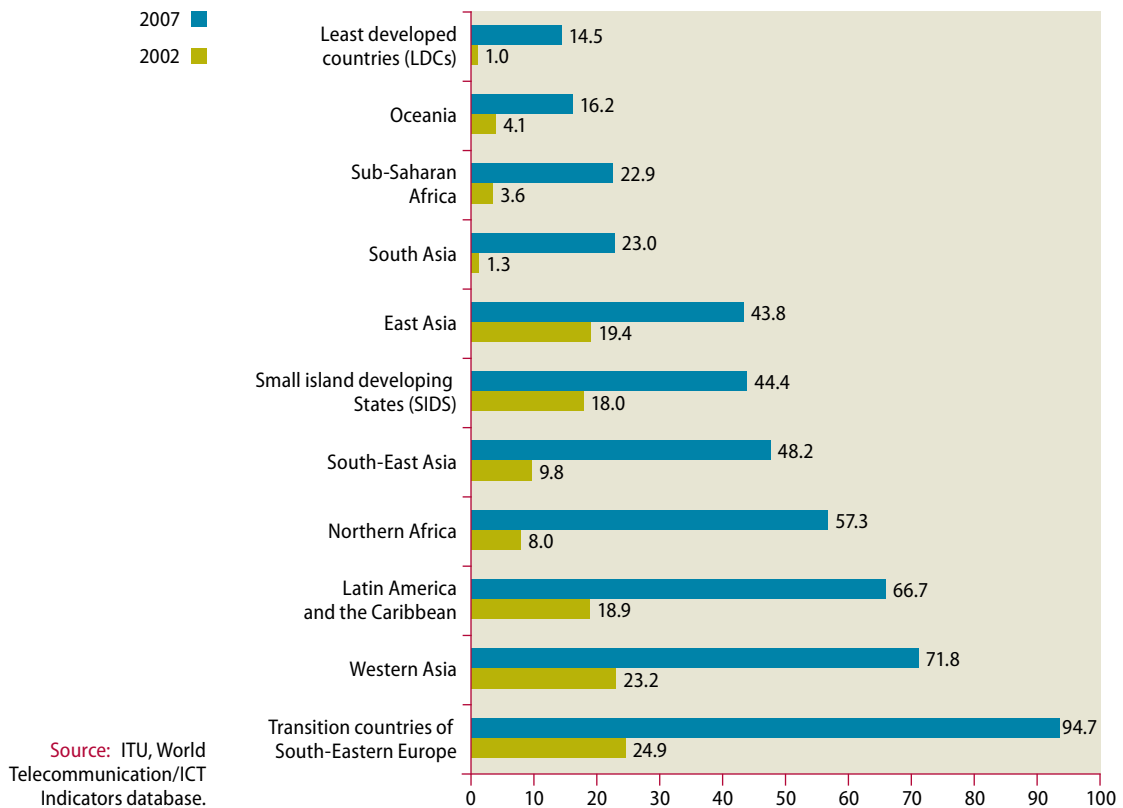
The gap in Internet usage between rich and poor countries

The use of the Internet is increasing steadily, with almost 1.7 billion people (about one fourth of the world's population) online by the end of 2008. However, 60 per cent of the population in developed regions was using the Internet, compared with less than 13 per cent in developing regions and only 1.5 per cent in the least developed countries.

Fixed broadband Internet access acts as a catalyst in speeding up the use of information technology, reducing transaction costs for businesses and indi-

Sub-Saharan Africa and South Asia also fall behind in broadband Internet

Figure 27

Number of mobile cellular subscriptions per 100 inhabitants, 2002 and 2007

viduals.⁷ The least developed countries, mostly found in sub-Saharan Africa and South Asia, have by far the least access to the benefits of this type of technology (figure 29). Their economies are thus placed at a great disadvantage when operating in world markets and this has long-term implications for growth and development.

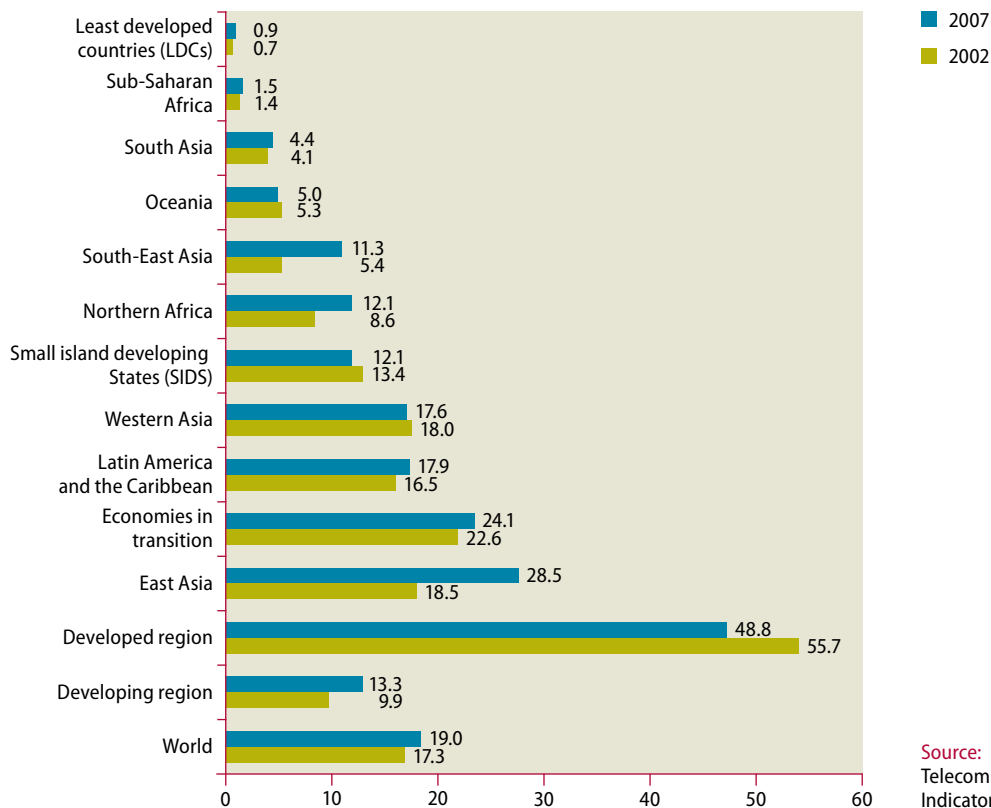
Fixed broadband Internet service remains extremely expensive in most developing countries compared with prices in developed countries (figure 30) and, as a result, is not affordable to the majority of potential users. A recent ITU study comparing broadband prices in 150 countries showed that prices in most developing countries tend to be very high compared to income levels.⁸ In 30 LDCs, the monthly price for a fixed broadband service exceeded monthly GNI per capita.

Today, fixed broadband is the dominant method for high-speed Internet access. However, in a growing number of countries, the deployment of International Mobile Telecommunications (IMT)–2000, or the so-called 3G mobile

⁷ For promising new broadband services and country studies of how broadband promotes growth and development, see ITU, *Asia-Pacific Telecommunication/ICT Indicators 2008 Report: Broadband in Asia-Pacific: Too Much, Too Little?* (Geneva, 2008), sections 2.1 and 2.2.

⁸ See ITU, *Measuring the Information Society: The ICT Development Index* (Geneva, 2009), available at <http://www.itu.int/ITU-D/ict/publications/idi/2009/index.html>.

Figure 28
Number of fixed telephone lines per 100 inhabitants, 2002 and 2007



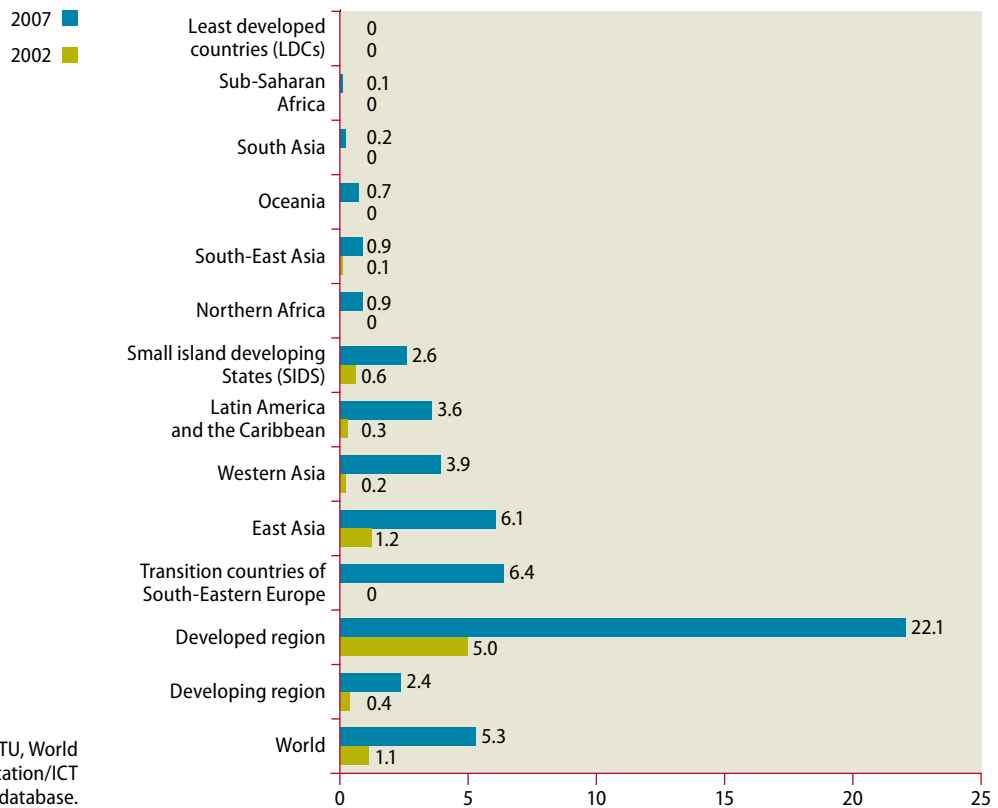
Source: ITU, World Telecommunication/ICT Indicators database.

cellular networks, is becoming an alternative platform. Mobile broadband, which allows users to access the Internet over the mobile cellular network, is particularly promising for regions with limited fixed telephone networks, such as Africa. By the end of 2007, there were about one dozen countries in Africa with commercially available mobile broadband services and about 2.3 million mobile broadband subscriptions. In theory, mobile broadband subscriptions allow subscribers to access the Internet at high speed and, although it is currently difficult to know how many subscriptions are actually used for this purpose, mobile broadband has the potential to become the main broadband Internet access method in Africa in coming years. Although the penetration rate of mobile broadband in developing countries is still very low, these alternative mobile broadband networks and services are likely to create a more competitive environment and affect the (currently high) prices for fixed broadband services.

Additional measures of the digital divide

In order to assess whether the global digital divide is widening or narrowing, ITU has developed the ICT Development Index (IDI), a composite index based on 11 indicators that compare ICT developments between 2002 and 2007. This benchmarking tool, which covers over 150 countries, highlights that while all countries generally have improved their ICT levels during the five-year period,

Figure 29

Total fixed broadband subscribers per 100 inhabitants, 2002 and 2007

Source: ITU, World Telecommunication/ICT Indicators database.

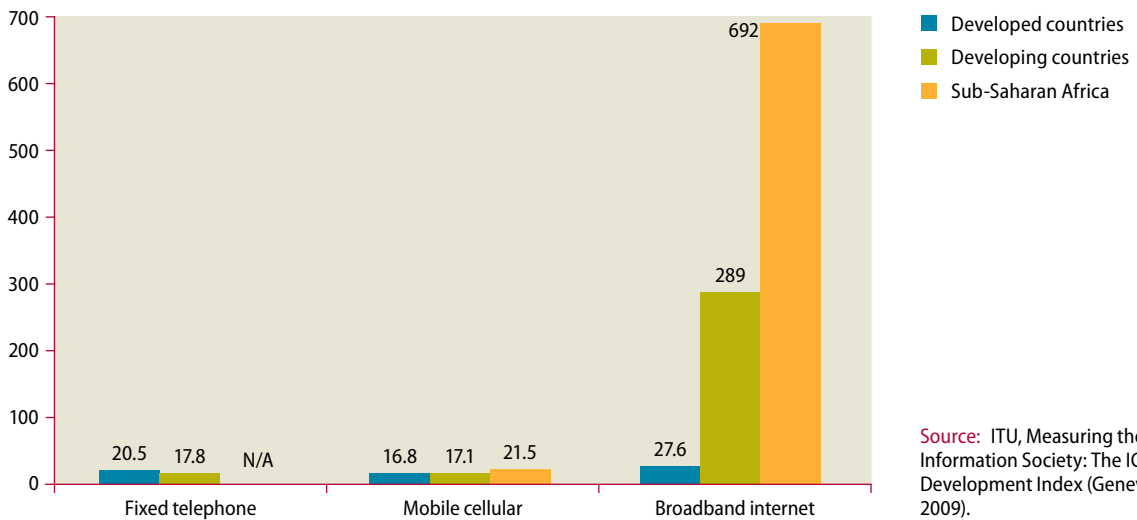
huge differences remain. Overall, during 2002-2007, the digital divide between developed and developing regions has remained, by and large, unchanged (see figure 31).

Increased privatization and liberalization of the ICT sector

An implicit aim of MDG target 8f is to encourage private-public partnerships. In practice, however, the trend in the telecommunication/ICT sector has been towards increased privatization and liberalization. The private sector has increased its relative participation because it is in a position to make the large-scale investments that are required to stay ahead in the business. Most of the new and fast-changing technologies are developed through major multinational corporations, which have also been leading their diffusion throughout the world. Twenty years ago, most fixed-line incumbents were State owned. Nowadays, in 64 per cent of all countries, these suppliers are fully or partially privatized, while privatization is under way or being planned in another 20 per cent of countries. In only about 30 countries (16 per cent of all countries) are fixed-line connections still provided by the State.

Telecommunication and ICT markets are not only increasingly privatized but are also open to competition and driven by the private sector, particularly in

Figure 30
Monthly prices of ICT services by region, 2008 (purchasing power parity dollars)



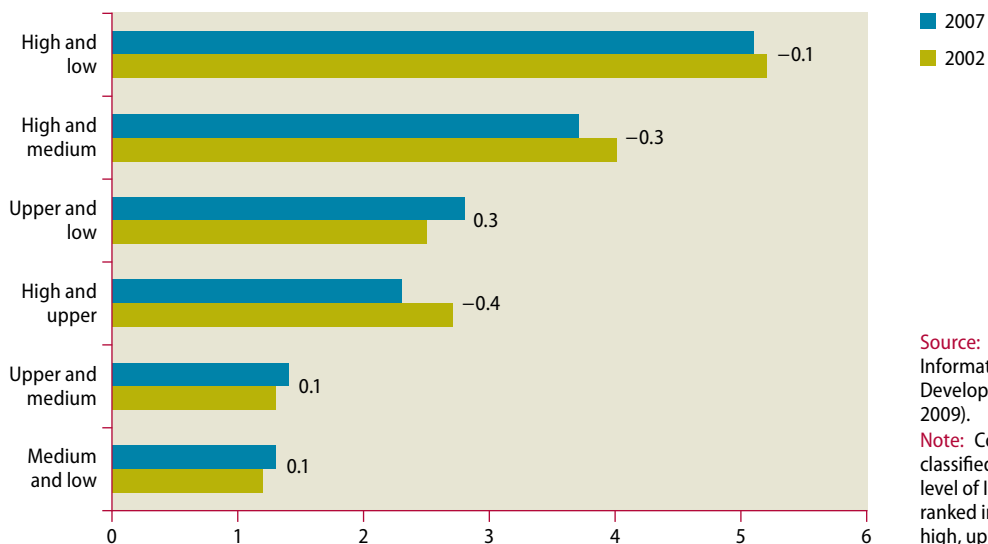
Source: ITU, Measuring the Information Society: The ICT Development Index (Geneva, 2009).

the area of mobile and Internet services. ITU data show that by the end of 2008, 160 countries (84 per cent of all countries) worldwide had a competitive mobile cellular market. The percentage is even higher in the Internet market, where 87 per cent of countries worldwide have competing Internet service providers (see figure 32). These figures highlight the increasing role of the private sector, particularly in spreading newer forms of ICT. However, the present economic crisis does not bode well for a continuation of this trend.

Effective regulation has been a key to rapid ICT growth over the past two decades in developed and developing countries. Both Governments and national

Public-private partnerships are still necessary

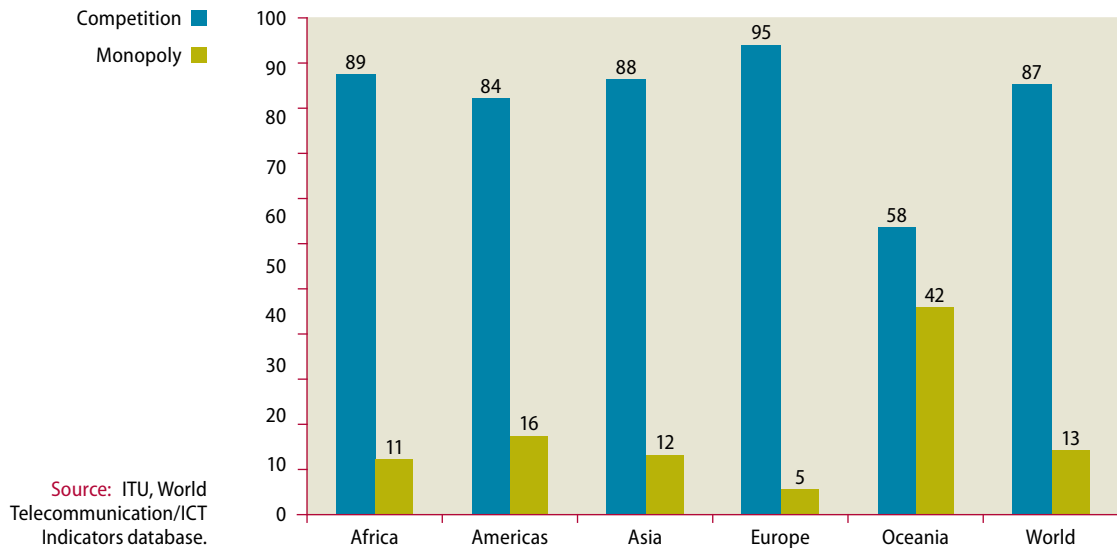
Figure 31
Changes in the magnitude of the digital divide among groups of countries, 2002 and 2007 (IDI values)



Source: ITU, Measuring the Information Society: The ICT Development Index (Geneva, 2009).

Note: Countries were classified according to their level of ICT access and use, and ranked in the following order: high, upper, medium and low.

Figure 32

Distribution of countries with competitive and non-competitive markets for the provision of internet services, 2008 (percentage share)

regulatory authorities have an important role to play in promoting a predictable, stable and transparent regulatory environment, in minimizing barriers to investment and in enhancing competition. Creating an enabling regulatory environment can foster public-private partnerships in the ICT sector, especially those that will serve to speed up deployment of ICT and broadband, in particular in rural and underserved areas. In times of economic and financial downturn, public-private partnerships may be better able to provide for ICT network infrastructure. In addition, many projects will naturally require the participation of both the public and private sectors, for example, the development of e-government or the creation of a regional communication network such as the Eastern Africa Submarine Cable System designed to connect 21 African countries to each other and the rest of the world.⁹

Climate change and access to technology

In general, target 8f calls for greater availability of new technologies to developing countries. Given the global environmental situation, technologies to cope with climate change are a key area in which the international community should strengthen its global partnership to cope with the related consequences and achieve the targets of MDG 7. It has been shown that even if the annual flow of emissions were to stabilize at today's level, by 2050 the stock of greenhouse gas emissions in the atmosphere would be twice pre-industrial levels, entailing a high probability of dangerous temperature rises with potentially destabilizing economic and political consequences, especially in developing countries.¹⁰ These circumstances beg the adoption of both mitigation measures to curb greenhouse

⁹ For further information, see <http://www.eassy.org/>.

¹⁰ See *World Economic and Social Survey 2009*, op. cit.

gas emissions in developing and developed countries and adaptation measures in the most vulnerable economies to address the climatic changes already materializing.

The United Nations has proposed three concrete strategies to help transfer technologies for mitigation and adaptation to developing countries.¹¹ First, an operational climate technology programme should be established to examine the various dimensions of the technology challenge in developing countries and to provide technical assistance. Second, the crucial economic resources required should be mobilized through a coordinated international funding mechanism. The world is investing barely \$2 per person per year in energy-related research, development and deployment activities. This needs to increase by a factor of 2 to 3 in order to enable the transition towards new and advanced technologies in energy systems. Third, the current intellectual property regime for technology needs to be reformed. Intellectual property rights (IPRs), in theory, provide incentives for innovators by conferring temporary exclusive rights in the commercialization of inventions. Owing to their exclusive nature, however, IPRs also tend to result in higher prices for the protected items, which may restrict access, especially in poor developing countries. There are several flexibilities available within the framework of the World Trade Organization Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS), such as compulsory licences,¹² exceptions to patent rights, regulation of voluntary licences and strict application of patentability criteria.

Countries can only take advantage of these measures if they already possess a critical mass of technological and institutional capacity. Consequently, the measures may not be of immediate benefit to many developing countries. Options such as allowing developing countries to exclude critical sectors from patenting, and establishing a global technology pool for climate change (and ICT and other technologies), therefore merit serious consideration, as they would provide certainty and predictability in accessing technologies and would further enable much needed research and development (R&D) for local adaptation and diffusion.

Enhanced use of ICT can also support efforts towards disaster prevention and climate change-related mitigation and adaptation. Developing countries are often the most vulnerable and the least equipped to protect their population and land against more frequent, unpredictable and severe weather patterns. ITU assists its member States in developing the national strategies and capacities needed to promote sustainable development through the use of ICT by disseminating relevant information, tools and training materials.

Strengthening the global partnership for access to technology

Although data are not yet available to assess the impact of the present economic crisis on the ICT sector, it will most likely also be affected by the overall decrease in investment and demand worldwide. There is no doubt that the current eco-

Intellectual property right regimes must be reformed to increase access to technologies by poorer countries

¹¹ Ibid.

¹² Compulsory licensing refers to government-allowed use of a patent without the authorization of the right holder.

conomic crisis will certainly present a further hurdle in the efforts towards narrowing the gap in access to technology between the developed and the developing countries. Thus, it is increasingly important for both the public and private sectors to work towards a stronger partnership. Given the need to address cross-cutting issues related to ICT in development in a comprehensive manner, in 2006 the Secretary-General approved an initiative to create the Global Alliance for ICT and Development (GAID).¹³ The Alliance serves as a global multi-stakeholder forum and platform for cross-sectoral policy dialogue on the use of ICT for enhancing the achievement of internationally agreed development goals, notably the reduction of poverty.

Actions required at the national and international levels to expand access to technology for development include the following:

- Development of more concrete ICT targets at the global and national levels in order to measure progress in access to ICT better.
- Support of global measurement projects and the development of benchmarking tools such as the Partnership on Measuring ICT for Development.
- Increased efforts to close the ICT gap, especially in the access to fixed broadband Internet service given its growing importance in the way people conduct business and communicate.
- Expansion of the 3G networks to serve as a broadband Internet platform, given their relative lower costs and the availability of mobile cellular networks in developing countries.
- Creation of public-private partnerships wherever private sector participation is lacking, better regulation of the ICT market to ensure fair market practices, and expansion of both basic and ICT-facilitating infrastructure.
- Promotion of the transfer of technologies for mitigation of and adaptation to climate change in developing countries through the establishment of an operational climate technology programme, reform of the intellectual property regime for technology and the setting up of a coordinated international funding mechanism.
- The harnessing of initiatives such as the GAID to link policy debate and concrete action at the international level.

¹³ See <http://www.un-gaid.org/About/tabid/861/language/en-US/Default.aspx>.

<http://www.un.org/esa/policy/mdggap>

USD 15

ISBN 978-92-1-101194-4



Printed at the United Nations, New York

09-3777—July 2009—5,000