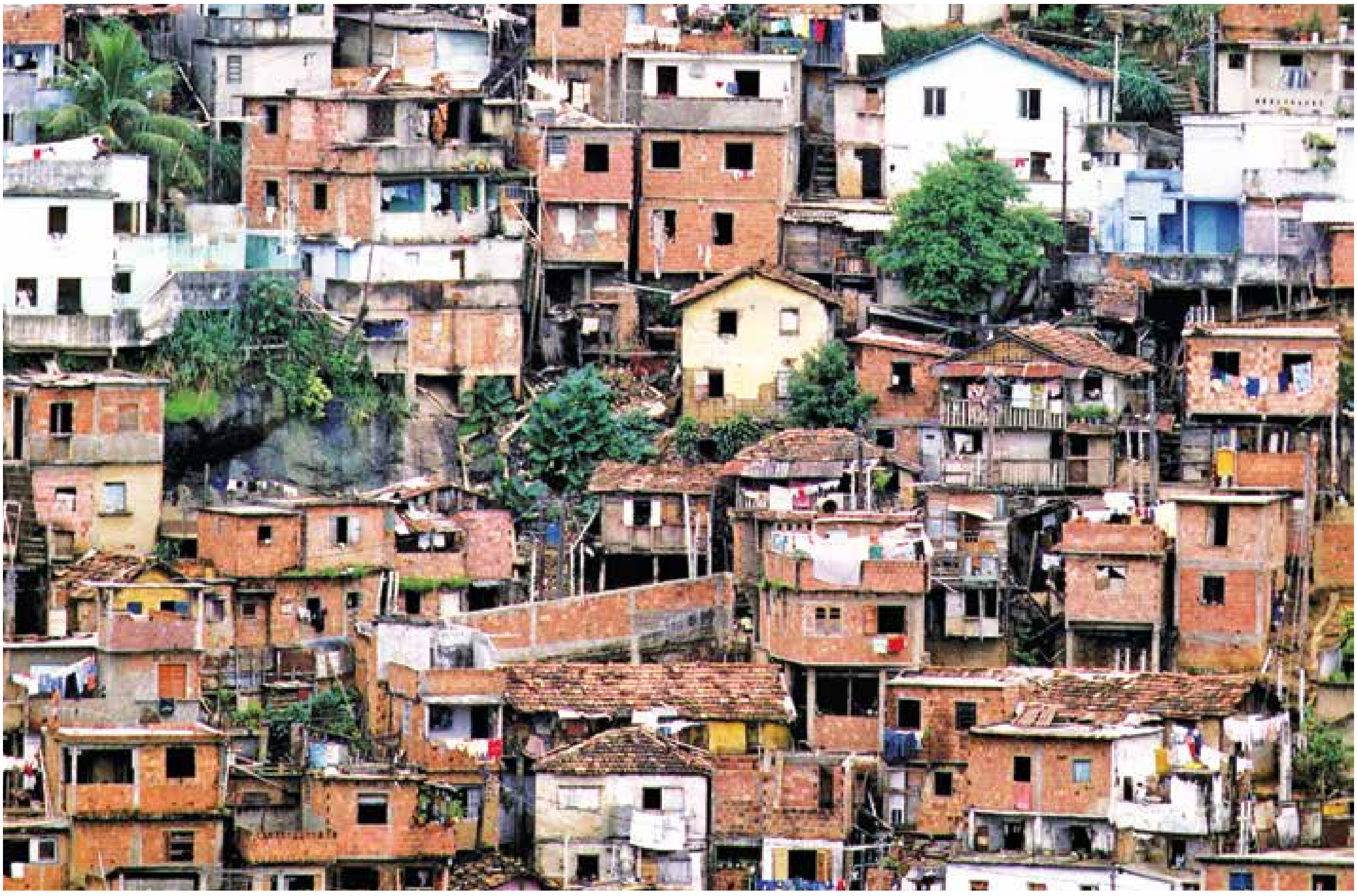
Millennium Development Goal 8

The Global Partnership for Development: The Challenge We Face

MDG Gap Task Force Report 2013



UNITED NATIONS

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 30 United Nations entities and other organizations 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 Department of Economic and Social Affairs of the United Nations Secretariat and the United Nations Development Programme acted as lead agencies in coordinating the work of the Task Force. The Task Force was co-chaired by Shamshad Akhtar, Assistant Secretary-General for Economic Development, and Olav Kjørven, Assistant Secretary-General and Director of the Bureau for Development Policy of the United Nations Development Programme, and coordinated by Pingfan Hong, Acting Director, and Keiji Inoue, Economic Affairs Officer, in the Department of Economic and Social Affairs of the United Nations Secretariat.

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Department of Economic and Social Affairs of the United Nations Secretariat (UN/DESA)

Department of Public Information of the United Nations Secretariat (DPI)

Economic and Social Commission for Asia and the Pacific (ESCAP)

Economic and Social Commission for Western Asia (ESCWA)

Economic Commission for Africa (ECA)

Economic Commission for Europe (ECE)

Economic Commission for Latin America and the Caribbean (ECLAC)

International Labour Organization (ILO)

International Monetary Fund (IMF)

International Telecommunication Union (ITU)

International Trade Centre (ITC)

Joint United Nations Programme on HIV/AIDS (UNAIDS)

Office of the United Nations High Commissioner for Human Rights (OHCHR)

Organization for Economic Cooperation and Development (OECD)

United Nations Children's Fund (UNICEF)

United Nations Conference on Trade and Development (UNCTAD)

United Nations Development Programme (UNDP)

United Nations Educational, Scientific and Cultural Organization (UNESCO)

United Nations Framework Convention on Climate Change (UNFCCC)

United Nations Fund for International Partnerships (UNFIP)

United Nations Industrial Development Organization (UNIDO)

United Nations Institute for Training and Research (UNITAR)

United Nations International Strategy for Disaster Reduction (UNISDR)

United Nations Office for Project Services (UNOPS)

United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS)

United Nations Population Fund (UNFPA)

United Nations Research Institute for Social Development (UNRISD)

World Bank

World Food Programme (WFP)

World Health Organization (WHO)

World Institute for Development Economics Research of the United Nations University (UNU-WIDER)

World Intellectual Property Organization (WIPO)

World Meteorological Organization (WMO)

World Tourism Organization (UNWTO)

World Trade Organization (WTO)

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Preface

The Millennium Development Goals (MDGs) have mobilized action from Governments, civil society and other partners around the world, with significant results. Extreme poverty has been cut in half. More people have access to improved sources of water. Conditions are better for 200 million people living in slums. More girls are in school. Child and maternal mortality is declining.

Around the world, wherever we look, the MDGs have brought success—but not complete success. Achievements vary within and among countries. Globally, we are lagging badly on some targets—especially sanitation, which poses a major threat to the health of people and the environment.

Less than 1,000 days of action remain to close these gaps. To accelerate momentum and scale up what has been shown to work, the international community must keep fiscal promises and reinforce the global partnership for development. This is important not just for achieving the MDGs but for the credibility of a post-2015 sustainable development agenda that can eradicate extreme poverty and hunger.

The present report tracks delivery on the commitments listed under Millennium Development Goal 8—the global partnership for development. Some of the indicators show progress, but efforts towards the United Nations target of allocating 0.7 per cent of gross national income to development aid have been receding in the past two years. We must reverse this trend.

An increasing proportion of exports from least developed countries entering developed-country markets on a preferential basis demonstrates some advance in international trade policy, but the Doha Development Agenda has officially been at an impasse since the end of 2011. In the case of debt sustainability, the international initiative for heavily indebted poor countries has been successfully implemented. However, a number of small island developing States needed to restructure their debt in 2012 and additional countries are at high risk of debt distress, nine of them in sub-Saharan Africa.

Access to essential medicines is insufficient. Prices remain high and dispensing facilities are not appropriately stocked. And, while access to information and communication technologies is expanding rapidly, disparities in access and costs remain high.

The picture is mixed. We can do better. The best way to prepare for the post-2015 era is to demonstrate that when the international community commits to a global partnership for development, it means it and directs its resources to where they are most needed. Let us therefore intensify our efforts in the remaining months to achieve the MDGs by 2015.

Ki Moon Ban

Ban Ki-moon
Secretary-General of the United Nations

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Goal 5: Improve maternal health

Goal 6: Combat HIV/AIDS, malaria and other diseases

Goal 7: Ensure environmental sustainability

Goal 8: Develop a global partnership for development

Targets	Indicators
	Some of the indicators listed below are monitored separately for the least developed countries (LDCs), Africa, landlocked developing countries and small island developing States.
Target 8.A: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system Includes a commitment to good governance, development and poverty reduction—both nationally and internationally **Target 8.B:** Address the special needs of the least developed countries Includes tariff and quota free access for the least developed countries' exports; enhanced programme of debt relief for heavily indebted poor countries (HIPC) and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction **Target 8.C:** Address the special needs of landlocked developing countries and small island developing States (through the Programme of Action for the Sustainable Development of Small Island Developing States and the outcome of the twenty-second special session of the General Assembly)	**Official development assistance (ODA)** **8.1** Net ODA, total and to the least developed countries, as percentage of OECD/DAC donors' gross national incomes **8.2** Proportion of total bilateral, sector-allocable ODA of OECD/DAC donors to basic social services (basic education, primary health care, nutrition, safe water and sanitation) **8.3** Proportion of bilateral official development assistance of OECD/DAC donors that is untied **8.4** ODA received in landlocked developing countries as a proportion of their gross national incomes **8.5** ODA received in small island developing States as a proportion of their gross national incomes **Market access** **8.6** Proportion of total developed country imports (by value and excluding arms) from developing countries and least developed countries admitted free of duty **8.7** Average tariffs imposed by developed countries on agricultural products and textiles and clothing from developing countries **8.8** Agricultural support estimate for OECD countries as a percentage of their gross domestic product **8.9** Proportion of ODA provided to help build trade capacity

Goal 8: Develop a global partnership for development (*continued*)	
Targets	**Indicators**
	Debt sustainability
Target 8.D: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term	**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 HIPC and MDRI Initiatives **8.12** Debt service as a percentage of exports of goods and services
Target 8.E: In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries	**8.13** Proportion of population with access to affordable essential drugs on a sustainable basis
Target 8.F: In cooperation with the private sector, make available the benefits of new technologies, especially information and communications	**8.14** Fixed telephone lines per 100 inhabitants **8.15** Mobile cellular subscriptions per 100 inhabitants **8.16** Internet users per 100 inhabitants

Executive summary

Progress has been made in the past year on a number of commitments, but significant backsliding has occurred in other target areas of Millennium Development Goal (MDG) 8. While there are advances to report in increasing access to new technologies, in duty-free access for exports from developing countries and, to a lesser extent, in efforts to increase access to more affordable essential medicines, the international community is not fully delivering on its commitments to development assistance and to reaching an agreement on development-oriented multilateral trade. The differences in directions taken and the disparity in results weaken the cohesiveness of the global partnership. As many developing countries are redoubling their efforts to accelerate the progress towards achieving the MDGs by 2015, more policy coherence and consistency is needed within the global partnership to support the endeavours of developing countries.

The global partnership for development in retrospect

In the aftermath of the global economic crisis, the political momentum for advancing international development cooperation seems to have waned. The international community must take this into account when redesigning a global partnership that would enjoy endorsement and enthusiasm by all parties after 2015.

For half a century, the international community has used the concept of partnership to draft a compact of commitments on promoting development. It has entailed making conditional financial transfers and providing technical assistance to developing countries, granting trade preferences, and according special and differential treatment. By the turn of the century, however, this model of the global partnership was showing signs of wear, and Member States gathered in 2000 at the Millennium Summit to reinforce outstanding commitments. In 2002, a different kind of global agreement was forged in the Monterrey Consensus, where countries jointly made development policy commitments. A decade has passed since the Monterrey conference and almost 15 years since the Millennium Summit. The dose of political momentum injected in the early 2000s now needs to be revitalized.

An effective global partnership needs to embrace a shared vision, embody an acceptable sharing of obligations and responsibilities, and entail a package of commitments attractive enough for partners to join. A policy package needs to address the most salient concerns today, potentially including: strengthening international cooperation in tax matters; strengthening systemic financial regulation; and advancing negotiations to address climate change.

Official development assistance

Official development assistance (ODA) suffered a second consecutive year of contraction in 2012 for the first time since 1997, falling 4 per cent, down to $125.9 billion, from $134 billion in 2011. Sixteen of the 25 Development Assistance Committee (DAC) members decreased their ODA, owing mainly to fiscal austerity measures. Multilateral ODA and humanitarian aid fell by about 6 per cent and 11 per cent, respectively. Bilateral ODA increased slightly, by about 1 per cent, but bilateral ODA to least developed countries (LDCs) fell 12.8 per cent in real terms, to about $26 billion in 2012. Preliminary data show that bilateral aid from DAC donors to sub-Saharan Africa fell for the first time since 2007, with assistance totalling $26.2 billion in 2012, a decline of 7.9 per cent in real terms. Aid to landlocked developing countries (LLDCs) and small island developing States also fell in 2011.

In 2012, the combined DAC donors' ODA was equivalent to 0.29 per cent of their combined gross national income (GNI). This widened the delivery gap in reaching the United Nations target—for donor countries to provide 0.7 per cent of GNI annually—from 0.39 per cent of GNI in 2011 to 0.41 per cent in 2012. The gap between DAC donors' ODA to LDCs and the lower bound of the United Nations target of 0.15 per cent has widened to 0.05 per cent of donor GNI.

The United Nations Conference on Sustainable Development (Rio+20) in June 2012 and the OECD-DAC High Level Meeting in December 2012, recognized that the fulfilment of all commitments related to ODA remained crucial. The Rio+20 outcome document called for an exploration of new partnerships, and innovative sources of financing to augment and leverage traditional sources of funds for international cooperation. As a follow-up to the Fourth High-level Forum on Aid Effectiveness in Busan, Republic of Korea, in 2011, a Global Partnership for Effective Development Cooperation was established in June 2012 as an ad hoc platform for political dialogue, accountability and mutual learning on effective development cooperation. Subsequent discussions have envisioned a partnership, including through the Development Cooperation Forum, to promote more effective, more inclusive and forward-looking international cooperation in support of efforts to eradicate global poverty, achieve all the MDGs and help implement a post-2015 development agenda.

Policy recommendations

- Donor Governments urgently need to reverse the two-year contraction of ODA and make greater efforts to reach the United Nations targets, especially in assistance to LDCs
- Governments from both developed and developing countries should increase transparency in the delivery, predictability and use of development assistance
- All stakeholders should strengthen their processes for coordination and cooperation at country and global levels, as outlined in the Global Partnership for Effective Development

Market access

After more than a decade, the Doha Round of global trade negotiations remains stalled. However, the Ninth Ministerial Conference of the World Trade Organization (WTO), which will take place in Bali, Indonesia, in December 2013, will be an occasion to break the impasse by dealing specifically with trade facilitation, issues in agriculture negotiations, and a basket of development issues, including a package for LDCs.

Meanwhile, developed and developing countries have been creating narrower regional trade agreements (RTAs), which may pose a further challenge to global trade discussions. They represent an overlapping system of bilateral and multi-country "free trade" agreements, which depart from the general rule of WTO calling for each member to treat the trade of all other members equally.

World trade grew at a slower rate in 2012 than in 2011, reflecting sluggish economic growth in developed countries. Trade of developing countries and transition economies outpaced the global economy. The developing-country share of world trade rose to 44.4 per cent in 2012, although shares for Africa and the LDCs remained at 3.5 per cent and 1.1 per cent, respectively.

In 2012, Group of Twenty (G20) members reaffirmed their pledge not to impose protectionist measures and have largely resisted creating new trade barriers. Despite mounting unemployment and the high cost of transferring remittances in developed countries, flows of remittances to developing countries grew to $401 billion in 2012, a 5.3 per cent increase over 2011.

Duty-free market access increased to 83 per cent and 80 per cent of LDC and developing-country exports as a whole in 2011, respectively. Average tariffs imposed on developing countries remained relatively high in agriculture, textiles and clothing. Agricultural subsidies in developed countries amounted to $259 billion in 2012, which represented 18.6 per cent of gross farm receipts.

Developing-country exporters continue to struggle to achieve compliance with sanitary, phytosanitary and technical requirements. Total donor commitments to the Aid for Trade initiative declined 14 per cent in 2011, to $ 41.5 billion, with Africa being the region most affected by the decline.

Policy recommendations

- Reach a development-oriented conclusion of the Doha Round of trade negotiations
- Implement the commitment to eliminate all forms of agricultural export subsidies, and to provide duty-free, quota-free market access to LDC products
- Increase support for strengthening productive sectors in developing countries

Debt sustainability

Total external and Government debt in developing countries as proportions of GDP increased slightly in 2012, to 22.3 per cent and 45.9 per cent, respectively. External debt service increased from 24.9 per cent of exports in 2011 to 27.1 per cent in 2012. While these ratios are relatively low, they mask the extent to which some developing countries, particularly Caribbean countries, remain critically indebted or are at significant risk of debt distress. Most developing countries' fiscal balances have improved, but the pace of fiscal adjustment and its impact on social outlays is set to increase in the period 2013-2015. On the other hand, the current-account balances of low- and lower-middle-income countries continue to worsen.

As of April 2013, 35 countries out of 39 highly indebted poor countries (HIPCs) had reached the completion point. While the link between debt relief and poverty-reducing expenditure is difficult to demonstrate, data show that HIPCs have increased poverty-reducing expenditures as their debt service payments have declined.

In recent years, debt crises have been significant. The goal of the adjustment process in sovereign debt crises has often been defined as stemming panicked capital outflows and restoring market confidence in lending to indebted countries. Efforts to reform the architecture for debt workouts yielded little progress and the steps that have been taken have not led to timely or cost-effective debt crisis resolution. The inability to adequately resolve excessive sovereign debt is a threat to global financial stability, and there is a need to explore the establishment of an international mechanism for early, cooperative and comprehensive resolution of sovereign debt crises.

Policy recommendations

The international community should:

- Assure timely debt relief for critically indebted developing countries so as not to impede progress on the MDGs
- Develop and disseminate techniques for effective debt management, taking into account the social dimension of debt sustainability
- Convoke an international working group to examine options for enhancing the international architecture for debt restructuring

Access to affordable essential medicines

Access to affordable essential medicines in developing countries remains costly, insufficiently available and often unaffordable. Essential medicines were available in only 57 per cent of public and 65 per cent of private health facilities in 2012. Prices of medicines are about 3.3 to 5.7 times the international reference prices and many treatment regimens are priced far above the WHO affordability benchmark.

Innovation without expanded access to the fruits of innovation leads to underservicing of public health needs, while increasing access to the existing pharmacopoeia without encouraging the development of new medicines and technologies does not address emerging threats to health. Developing-country access to affordable medicines can be facilitated by certain flexibilities allowed under the Agreement on the Trade-related Aspects of Intellectual Property Rights (TRIPS). The issuance of compulsory licences has proven to reduce the price of medicines.

Policy recommendations

- Pharmaceutical companies should make essential medicines more affordable and, through innovation, develop new medicines most needed by developing countries
- Developing-country Governments should make essential medicines more available in their public facilities

- Developing countries are encouraged to make use of the TRIPS flexibilities in order to increase access to more affordable essential medicines

Access to new technologies

In recent years, there has been an explosion in access to information and communication technologies (ICT). The number of mobile cellular subscriptions in the world has risen to 6.8 billion, and active mobile broadband subscriptions have grown more than 30 per cent annually over the last three years. Meanwhile, the number of fixed telephone lines is continuing its decline since 2006.

The growth in the number of individuals using the Internet in developing countries continues to outpace that in developed countries, growing at 12 per cent in 2013 compared with 5 per cent in the developed countries. The penetration rates in Internet use in developing countries have also increased, to 31 per cent in 2013 from 25 per cent in 2011. ICT services continued to become more affordable in 2011, but the difference in costs between developed and developing countries is still substantial.

Adequate regulation of the ICT sector is essential for increasing access to ICT services. While independent regulators were established in 160 countries by the end of 2012, the number of telecommunications privatizations has slowed over the past five years, partly due to the global financial crisis and the simplification of licensing regimes.

Technology transfer is essential to addressing the impact of climate change. At the eighteenth session of the Conference of Parties to the United Nations Framework Convention on Climate Change (UNFCCC) in Doha in December 2012, States parties endorsed the establishment of new institutions and means to deliver scaled-up climate finance and technology to developing nations. More still needs to be done to provide access to new disaster-mitigating technology, particularly for vulnerable small island developing States.

Policy recommendations

- Governments of developing countries should accelerate efforts to increase access to and affordability of ICT
- Governments of developing countries should continue to increase the use of ICT applications to improve the provision of services, especially those with a direct impact on the MDGs
- Governments and research institutes of developed and developing countries should increase the transfer of climate change–related and disaster preparedness/mitigation technologies to developing countries

The global partnership for development in retrospect

In this report, the MDG Gap Task Force presents the most recent data and policy discussions on the specific dimensions of international cooperation that have been brought together and identified as "Goal 8" of the Millennium Development Goals (MDGs). The Task Force was created by the Secretary-General of the United Nations in 2007 to assess progress in realizing the international commitments covered by Goal 8 and thereby to help the international community focus attention on how to close the gap between commitment and delivery. As the report highlights, there has been further progress on a number of commitments in the past year, but significant backsliding in others. Indeed, a redoubling of effort is required to realize internationally shared goals.

A particular concern is that the political momentum necessary for advancing international development cooperation seems to have weakened. The initial impetus for that momentum can be traced back to the United Nations Millennium Summit thirteen years ago at the hopeful opening of the new century. Today, the aftermath of the global financial crisis of 2008 and the "Great Recession" that followed have contributed to a global policy context that has not accommodated the agreed ambitions of multilateral trade negotiations or the commitments of development assistance by a number of countries.

While there has been an element of Governments' turning inward to address their financial and economic difficulties, they have, at the same time, fully maintained their outward orientation. For example, in the trade arena, starting in 2011, the European Union (EU) relaxed the conditions under which developing countries could gain preferential access to the EU market. On the other hand, a conscious effort was needed, led by the Group of 20 (G20), to limit the degree to which its member countries added protectionist barriers to their trade policies, a largely but not completely successful exercise.

In the case of official development assistance (ODA), the United Kingdom of Great Britain and Northern Ireland has consistently pursued its commitment to raise its volume of aid towards the United Nations target of 0.7 per cent of gross national income (GNI), despite adopting an aggressive domestic austerity policy. In addition, Denmark, Luxembourg, the Netherlands, Norway and Sweden continue to provide 0.7 per cent or more of their GNI as ODA. However, these five countries accounted for only 11 per cent of total aid provided by the member countries of the Development Assistance Committee (DAC) in 2012; even adding in United Kingdom assistance during 2012 would bring the share to only 22 per cent.

It seems possible that factors other than the Great Recession have dampened the commitment of many developed countries to realizing the MDGs. The decline in ODA is the most striking evidence of this, especially because of the leadership role of the aid ministries represented in the DAC. These had been instrumental in laying out the original framework for the MDGs in 1996, drawing on the commitments of United Nations conferences in the 1990s, and then successfully promoting them to the international community, including through their adoption in the Millennium Declaration.[1] As the target year for achieving the MDGs is still two years away, and as the need for ODA has not diminished but will indeed grow with the emerging post-2015 development agenda, it is time to increase, not reduce, ODA.

If the long-run political commitment to the global development partnership is in fact eroding, the international community must take that into account in redesigning the global partnership for the years following 2015. Care must be taken to construct a framework that is fully consistent with the emerging requirements of all parties so that it enjoys widespread endorsement and, indeed, enthusiasm. Further, the commitments in the compact need to be monitored effectively and fully so as to give reliable signals to international accountability forums. The ensuing sections thus seek to draw attention first to issues of measurement and then to the challenge of mobilizing the political commitment needed in order to realize "the future we want for all".

Lessons from monitoring Goal 8

Publicly monitoring progress in realizing the MDGs became a notable exercise in inter-agency cooperation.[2] It has been measured statistically each year in the United Nations *Millennium Development Goals Report* and assessed annually in the *Global Monitoring Report,* jointly produced by the International Monetary Fund (IMF) and the World Bank, as well as in various other publications and studies produced in the United Nations system and by civil society organizations.

As part of this process, each edition of the *MDG Gap Task Force Report* continues to focus the international community's attention on the progress and shortfalls in the implementation of the developed-country commitments to the global partnership for development. Since the first publication of this *Report* in 2008, it has been increasingly appreciated that some factors had been overlooked and should be added to the indicators, and that implementation of additional commitments made during the decade should also be monitored. The Task Force has thus added indicators to its monitoring as warranted, while maintaining its coverage of the official MDG 8 indicators created at the start of the decade (box 1).

1 Organization for Economic Cooperation and Development, *The DAC: 50 Years, 50 Highlights* (Paris, 2010), box 4.

2 A working group drawn from the United Nations system, including the International Monetary Fund and the World Bank, as well as from the Development Assistance Committee (DAC), came together under the auspices of the Office of the Secretary-General to develop a set of indicators, which were first published, along with the goals and targets, in the annex to the "road map" report of 2001 (A/56/326). A subsequent inter-agency working group further examined the indicators and in 2003 the United Nations Development Group published the definitive set in *Indicators for Monitoring the Millennium Development Goals: Definitions, Rationale, Concepts and Sources* (United Nations publication, Sales No. E.03.XVII.18). The Inter-agency and Expert Group on Millennium Development Goal Indicators revised this list in 2007 and it has been used since 2008 (a periodically updated online technical handbook on the indicators is available from http://mdgs.un.org/unsd/mi/wiki/MainPage.ashx).

Box 1

Evolution of indicators monitored by the Task Force

The initial set of indicators for monitoring Goal 8, which are reproduced in the front matter of this publication, has served as a framework for the MDG Gap Task Force. However, the Task Force realized that additional detail was warranted in some cases.

Official development assistance

The Task Force tracked delivery of the official development assistance (ODA) pledges through the target year of 2010 that had been announced at the Group of Eight (G8) Summit in Gleneagles, Scotland, in 2005. The Task Force has also regularly reported on progress made towards realizing the aid effectiveness goals of the 2005 Paris Declaration and its 2008 Accra follow up through their 2010 target year. For example, it has monitored implementation of the pledged mutual accountability of donors and recipients. Indeed, the ODA chapter of this report continues to monitor efforts to strengthen aid effectiveness. In addition, although outside the formal MDG commitments, the growing significance of South-South cooperation and the increased role of non-governmental donors have also been highlighted.

Market access (trade)

Besides the mandated indicators, the Task Force has regularly reported on changes in "tariff peaks" and "tariff escalation" in agricultural goods and other products of importance to developing countries, as well as non-tariff measures with discriminatory restrictive impact. The reports have also tracked developing-country trade patterns, highlighting diversification of export markets but with continued dependence of many developing countries on a few commodity exports, leaving them still highly vulnerable to trade shocks. In addition, following pledges by the Group of Twenty (G20) to avoid protectionist measures in response to the global financial crisis, the Task Force has annually reported on their monitoring, as well as the availability of trade financing, which had been hurt by the crisis. As the G20 committed in 2011 to reduce the charges for transferring worker remittances, the Task Force began to report on the issue in 2012. The reports have also tracked trade policy negotiations and discussions, for example, reflecting concerns about potential adverse effects of climate-linked trade measures.

Debt sustainability

The Task Force added to the initial indicators in order to strengthen advance warning of emerging debt difficulties, drawing in particular on the periodic International Monetary Fund (IMF) and World Bank assessments of debt risks of countries classified as low income. It has also monitored the ratio of debt to gross domestic product (GDP), the share of short-term debt in total external debt and current accounts in the balance of external payments, as well as work by the IMF and World Bank on improving the methodology of debt sustainability assessments. While the original indicators focused on implementation of the HIPC Initiative, the Task Force has monitored other debt-relief processes and international discussions about the creation of an international debt workout mechanism.

Access to affordable essential medicines

As the mandated indicator was quite broad, the Task Force has monitored access to and quality of selected paediatric and adult medicines in public and private health facilities. Additionally, the Task Force has reported World Health Organization efforts to track the impact of high prices, including by estimating the

Box 1
Evolution of indicators monitored by the Task Force (*continued*)

proportion of the population that would be pushed below international poverty lines if households had to purchase necessary medicines privately. The intention of the affordable medicines target, however, was not measurement per se but increased access in cooperation with pharmaceutical companies. The Task Force has thus monitored international developments, such as the search for and introduction of innovative mechanisms to finance purchases, new partnerships between stakeholders, and new mechanisms, including the creation of patent pools, licensing agreements, and the use of flexibilities and public health safeguards in the World Trade Organization agreement on Trade-related Aspects of Intellectual Property Rights; it has also monitored developments in developing countries, including local production.

Access to new technologies

While the technologies target is quite broad in principle, the mandated indicators referred only to elements of information and communications technologies (ICT). Besides tracking the extent of access, as requested, the Task Force has reported data on the prices of ICT services by region, since high prices prevent greater access, for example, in the use of the Internet. As the target called for government cooperation with the private sector, the Task Force has also reported trends in regulation of the sector and the percentage of countries with competing Internet service providers, as well as ICT applications in government services, in mobilizing information for disaster risk management and in addressing climate change. The Task Force has also selectively monitored negotiations and policies in climate policy financing.

It needs to be stressed, however, that Goal 8 did not cover all aspects of the global partnership for development, whose scope was defined by the General Assembly in the 2005 World Summit Outcome to include the commitments made in the Millennium Declaration, the Monterrey Consensus on Financing for Development and the Johannesburg Plan of Implementation of the World Summit on Sustainable Development (General Assembly resolution 60/1, para. 20). While the Outcome significantly expanded the potential scope of the monitoring exercise, in the subsequent revision of the MDG indicators, no change was made to those indicators pertaining to Goal 8.

While some additional indicators have thus been monitored over time by the Task Force, it was also deemed imperative that once the monitoring of specific targets and indicators had been accepted, they should not be discarded or substantively altered. Changing an indicator could amount to redefining the commitment that the indicator was set up to monitor, undermining the intention of the exercise itself.

However, it was also possible that a fixed indicator could lose reliability as time passed. A case in point has been aired recently by a former Chair of the DAC.[3] To qualify as ODA, a donor's expenditure must be for a development purpose and take the form of a grant or a loan with a sufficient degree of concessionality. Changes in the global financial market—lower interest rates, in particular—have made the original test of concessionality obsolete, inflating the

3 See Letter to the Financial Times from Richard Manning, 9 April 2013.

measured amount of ODA disbursed. In sum, ODA today does not represent the same donor effort as it did earlier, despite its being measured in a consistent way.

While there have been debates throughout the years on what to include or exclude in ODA, the international community has maintained confidence in the DAC definition. The DAC is currently revisiting its methodology for defining ODA and whether ODA is even the most relevant category of official development support that should be reported to the world.[4]

Origins of the global partnership for development

The international community has long used the concept of partnership to draft a compact of commitments on promoting development. The compacts, adopted in a sequence of international declarations, have embodied sets of international trade and financial policy commitments by developed countries that were joined with developing-country commitments to pursue policies for more enabling domestic environments, so that increased opportunities would become development achievements. Such constellations of policies have been deemed partnerships since at least the 1969 publication of *Partners in Development*, the report of the Commission on International Development headed by the former Canadian Prime Minister, Lester Pearson. Commission members met with some 70 developing-country Governments and with most DAC member Governments and produced their report in less than a year, emphasizing its urgency. The Commission had been created in 1968 by World Bank President Robert McNamara, in order to

> "…elaborate an [international] aid strategy based on a convincing rationale, that could be used to attack effectively the wariness of will so increasingly evident. For various reasons, some having to do with domestic problems and balance of payments difficulties, some relating to the public's judgments about 'waste and corruption', a number of the major donor countries were decreasing their foreign aid appropriations. In doing so, they were (and are) endangering the very viability of an international political idea that, until 1961, supported a rapidly increasing flow of concessional development finance from the richer to the poorer countries.…"[5]

The Commission proposed that donors provide 0.7 per cent of gross national product (GNP) as ODA,[6] to be achieved "by 1975 or shortly thereafter, but in no case later than 1980".[7] In addition, the report observed that effective

4 The DAC work programme spans two years, beginning in 2013. See Organization for Economic Cooperation and Development, "Initial roadmap for improved DAC measurement and monitoring of external development finance" (DCD/DAC(2013)12), 20 March 2013.

5 Peter M. Kilborn, as cited in "Pages from World Bank history: The Pearson Commission", available from http://go.worldbank.org/JYCU8GEWA0 (accessed 14 April 2013).

6 This was not the origin of the concept of an official development assistance (ODA) target, as the World Council of Churches had circulated a statement to all United Nations delegations in 1958 proposing a target for grants and concessional loans of 1 per cent of national income. See Helmut Führer, "The story of official development assistance: A history of the Development Assistance Committee and the Development Cooperation Directorate in dates, names and figures", OECD/GD/(94)67 (Paris: Organization for Economic Cooperation and Development, 1996), p. 7.

7 See Commission on International Development (Pearson Commission), *Partners in Development* (New York: Praeger, 1969), page 149.

partnership requires that the actions of both sides be subject to scrutiny and it called for supportive trade and investment policies, arguing that inconsiderate trade policies could nullify the effects of increased aid.[8]

The Pearson Commission thus highlighted several central and continuing aspects of the global development partnership. First, it was donor-driven, addressed primarily to donor Governments who were being asked to finance the partnership. Second, it recognized that numerous policies in developed and developing countries impact the development trajectory of developing countries, not only those under the responsibility of aid ministries. Indeed, developing countries had themselves pressed this latter point on the international community since at least the early 1960s, calling for international attention to their trade policy needs, which they felt were not being addressed in negotiations under the General Agreement on Tariffs and Trade (GATT). Developed countries accepted this point, leading to the initial United Nations Conference on Trade and Development (UNCTAD) in 1964.[9] UNCTAD would later provide the forum to negotiate a generalized system of preferences for developing-country exports and several international commodity price stabilization agreements, and the IMF would introduce a compensatory financing facility for quick-disbursing loans to developing countries experiencing unexpected export earnings shortfalls or surges in the cost of food imports. UNCTAD also initiated the call to pay special policy attention to developing countries in more difficult situations, classified in the second session of the conference in 1968 (resolution 24(II)) as the "least developed countries" (LDCs). GATT, meanwhile, adopted a set of principles on trade and development in 1965 that introduced "non-reciprocity" into the negotiations, which is to say that developing countries participating in trade liberalization negotiations would not be expected to open their markets to the same extent as developed countries or in a manner "inconsistent with their individual development, financial and trade needs".[10]

The United Nations General Assembly also played an active role in the partnership, serving as the global coherence forum on economic and social as well as political matters. The Assembly thus began to look systematically at the global requirements for promoting development. That exercise was undertaken at the technical level by the United Nations Committee for Development Planning (CDP), chaired by the joint recipient of the first Nobel Prize in Economic Sciences, Jan Tinbergen. It proposed that international cooperation for development for the decade of the 1970s be framed within a consistent set of targets for growth of output and per capita income of the developing countries, along with targets for the growth of their agriculture and industry, imports and exports, and financial transfers, backed by policies in developed and developing countries to realize those targets. The report of the CDP was considered by a preparatory committee of the General Assembly, which had been formed to negotiate an "International Development Strategy", which was adopted by the General Assembly in 1970.[11]

8 Kilborn, op. cit.

9 United Nations, *The History of UNCTAD, 1964-1984* (United Nations publication, Sales No. E.85.II.D.6), pp. 8-10.

10 Alexander Keck and Patrick Low, "Special and differential treatment in WTO: Why, when and how?" *World Trade Organization Staff Working Paper ERSD-2004-03,* May 2004, p. 4.

11 See Mahfuzur Rahman, *World Economic Issues at the United Nations: Half a Century of Debate* (Boston: Kluwer Academic Publishers, 2002), chap. 7.

This strategy included a call for special measures for LDCs, to which the CDP made concrete recommendations in 1971 recognizing their specific vulnerabilities.

Some Governments embraced selected elements of the Strategy with a degree of enthusiasm, while a few Governments entered reservations on specific paragraphs. Nevertheless, the world had for the first time laid out a comprehensive set of projections, and policies to achieve them. This also laid a specific foundation for international partnership.[12]

Although the world economy of the 1970s turned out nothing like what the General Assembly had foreseen, the international community negotiated two more International Development Strategies, one for the 1980s and another for the 1990s. In each successive case, however, there seemed to be less clear-cut political commitment to their implementation. Long-term economic projections were (and are) highly uncertain exercises and are no longer in favour. The process was finally supplanted by the Millennium Declaration in 2000, which was comprehensive in a different sense by addressing issues of peace and security, development and poverty eradication, the environment, human rights, and strengthening the United Nations itself (General Assembly resolution 55/2).

The global partnership since the Millennium Declaration

For half a century, as we have seen, the partnership for development entailed developed countries' making financial transfers and providing technical assistance to developing countries, to which they also granted trade preferences and accorded "special and differential treatment" in the give and take of global trade negotiations. The offers of assistance were generally accompanied by donor policy advice, often coordinated at the country level by international financial institutions through formal "conditionality" agreements.

By the time of the Millennium Declaration, however, this model of the global partnership was showing signs of wear. On the one hand, developed-country policy advice in the 1990s had been increasingly shaped by what can be said with the benefit of hindsight was often an excessive faith in the efficiency of markets, especially financial markets, leading many developing countries into unnecessary economic crises. On the other hand, donors increasingly rethought the objectives of their assistance, which focused more and more on pressing social concerns, such as the eradication of poverty and gender inequality, while boosting health and education.[13] Donors thus directed some of their attention away from investing in infrastructure, agriculture and other fundamental economic sectors that had previously been the focus of development cooperation, increasingly

12 The strategy included a call for special measures for least developed countries (LDCs) and the Committee for Development Planning (CDP) was charged with defining which countries should be included in the group. In 1971, the General Assembly approved the list (resolution 2728(XXVI)) and the DAC agreed to pay special attention to LDCs (Fürher, op. cit., p. 23); in time, the General Agreement on Tarrifs and Trade (GATT) codified the legal basis for trade preferences for LDCs and other countries in the 1979 adoption of the "enabling clause" (Keck and Low, op. cit., p. 5).

13 See Organization for Economic Cooperation and Development/Development Assistance Committee (OECD/DAC), *Shaping the 21st century: the contribution of development cooperation* (Paris, May 1996).

leaving the financing of capital formation in these sectors to private international sources, sometimes in active partnership with developing-country Governments, sometimes as foreign direct investment and sometimes as private financing of public investment.

As a result, it was not out of place in 2000 to ask what sort of global partnership for development might be inspired by the Millennium Declaration. Nor was it impertinent to ask to what extent Governments would honour their commitments. The decades-old practice of announcing a "global partnership" meant that partners would feel political pressure to make pledges to each other. Not all of the pledges would be carried out. Moreover, the scope of the Declaration as adopted at the Millennium Summit was very broad and focused on reinforcing outstanding commitments to goals and targets drawn from United Nations conferences in the 1990s.

In December 2000, the General Assembly asked the Secretary-General to spell out how the Declaration's commitments should be achieved and to prioritize development's place in the ongoing global policy dialogue (resolution 55/162). In response, the Secretary-General prepared a "road map" report for fulfilling the commitments (A/56/326). It addressed the full range of issues in the Declaration, but it also contained an annex listing the goals and targets drawn from the Millennium Declaration, as well as specifying a set of statistical indicators to measure progress in achieving those targets. Thus, a strategy was adopted to encourage Governments to honour their Millennium pledges by quantifying the commitments, monitoring their implementation and then publicizing the results. As Governments agreed to be monitored in their support of the MDGs, this approach promised renewed life in the global partnership.

Nevertheless, aid flows did not begin to reflect this promise until a different kind of global agreement was forged. At the International Conference on Financing for Development in Monterrey, Mexico, in 2002,[14] Governments jointly made a wide range of policy commitments—commitments that were broader in scope than those captured in Goal 8, but that shared their spirit—which were agreed in the Monterrey Consensus of 2002.

Indeed, policy steps were taken soon after to implement the Monterrey commitments. These included the pledges by major providers of ODA at the Summit of the Group of Eight (G8) in Gleneagles, Scotland, in 2005, as well as the intensified international work to increase aid effectiveness led by the DAC. The commitments were also evident in the Multilateral Debt Relief Initiative of 2005, which substantially deepened the relief made available to a group of heavily indebted poor countries (HIPCs), and in what would turn out to be intricate negotiations to honour the pledge to strengthen the voice and participation of developing countries in decision-making at the IMF and the World Bank. And, while negotiated reductions in barriers to imports from developing countries were often stubbornly elusive, the multiple attempts to advance those negotiations nonetheless demonstrated a significant commitment in effort. Meanwhile, many developing countries pursued cautious domestic policies on monetary, fiscal and exchange-rate management (building substantial buffers of official reserves in many cases). Moreover, interested developed

14 See Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002 (A/CONF.198/11), chap. 1, resolution 1, annex.

and developing countries began to devise innovative proposals for mobilizing international resources for development.[15]

Towards a more effective global partnership for development

It is important to recall the unique intergovernmental process that led to the Monterrey Consensus. Developing-country representatives at the United Nations, joined by a number of developed-country partners, had begun to address a number of concerns, including failures in an international economic system in whose governance developing countries played little part. United Nations diplomats took a very pragmatic approach, engaging their own finance ministries and their intergovernmental representatives at other international institutions, attracting as well the interest of some business and civil society stakeholders. The process began in the Second Committee of the General Assembly and led to an important degree of political momentum around a package of policy initiatives of interest to a large number of Governments, albeit one that took five years to reach fruition (1997-2002).[16]

The result, as noted above, was a set of commitments upon which Governments and institutions immediately began to act. The work was not everywhere successful but it was everywhere serious. In fact, the Monterrey Consensus was simultaneously a new collective push for the traditional partnership for development (in particular in the focus on ODA, poor country debt cancellation and aid effectiveness) and the first time Governments meeting at the United Nations agreed to bring specific systemic shortcomings to the responsible international bodies for action. It was also agreed that progress in realizing the commitments and challenges embodied in the Consensus and consideration of further policy needs would be reviewed in a holistic manner by representatives of Government and international institutions who specialize in development, finance and trade during annual meetings of the Economic and Social Council, and biennially in high-level dialogues in the General Assembly. The commitments would also be subject to review in subsequent international conferences, one of which has been held thus far, in 2008 in Doha, Qatar.[17]

It is now more than a decade since the Monterrey Conference and almost 15 years since the Millennium Summit. The dose of political momentum injected in the early 2000s now needs a boost. How might it be generated?

The answer to such a question may first lie in asking what the word "partnership" means. The word describes a relationship voluntarily entered into to achieve shared goals. There is no presumption in the word itself that the relationship is an equal one. Some partners may have more of a stake in the partnership and receive more of its benefits, and some partners may have more power

15 See United Nations, *World Economic and Social Survey 2012: In Search of New Development Finance* (United Nations publication, Sales No. E.12.II.C.1).

16 See Barry Herman, "The politics of inclusion in the Monterrey process", *DESA Working Paper No. 23* (ST/ESA/2006/DWP/23), April 2006.

17 See United Nations, Report of the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus, Doha, Qatar, 29 November-2 December 2008 (A/CONF.212/7).

over the partnership's decision-making than others. Nevertheless, it is generally understood that each of the partners has certain rights as well as obligations to the other partners and each of the partners expects to benefit from it. An effective global partnership thus needs to embrace a shared vision, embody an acceptable sharing of obligations and responsibilities, and entail a package of commitments attractive enough for the partners to join it.

After a common vision is developed, an effective global partnership needs to embrace an attractive yet politically deliverable "deal" for realizing the vision. An underlying principle of the partnership—or condition necessary for the partnership to be effective—might be stated as "shared global governance needs to support effective national governance". A second principle might be that Governments must offer some prospect of fully implementing agreed reform agendas (for example, as regards the global financial architecture and its governance) and credible advances in global negotiations (in trade and climate change, for example). A third principle might be to recognize that the citizens of the world understand that anything less will not warrant serious attention.

In the end, only official stakeholders can make the commitments in a global partnership and be held accountable for them in intergovernmental forums, although specific partnerships between official and non-governmental entities may be forged as part of the implementation of global agreements. Indeed, one aspect of the Johannesburg Plan of Implementation was to inspire multiple implementing partnerships.[18] In addition, the Secretary-General has promoted specific implementing partnerships, in particular, to advance achievement of the MDGs.[19] Thus, an operating principle for strengthening the global partnership for development should be (and is) to provide space for appropriate participation of all relevant stakeholders.

As noted above, the Monterrey Consensus embraced a broader global partnership for development than had been contained in Goal 8 of the MDGs. Recommitting to the policy actions in that Consensus through additional concrete cooperation steps could rekindle the confidence and enthusiasm in the partnership. The policy package needs to address the most salient concerns today, among which the following might be considered:

- One issue with strong current global economic focus is strengthening international cooperation in tax matters, which has thus far mainly involved intensified cross-border cooperation among developed countries. Taxpayers everywhere who meet their obligations rightly want stronger efforts to prevent tax evasion and avoidance, as well as more effective international cooperation to fight corruption and return illicitly removed funds to their countries of origin.
- Following cases of abuse of the right of labourers to work in safe conditions, people around the world would welcome a global commitment by Governments to jointly monitor and maintain minimum factory safety standards. National and voluntary efforts have failed in the face of the global competition that creates pressure to produce at the lowest price no matter the

18 Under the Johannesburg process and its follow up, almost 200 partnerships for sustainable development have been launched (a complete list is available from http://sustainabledevelopment.un.org/index.php?menu=1500).

19 The initiative is coordinated by the United Nations Office for Partnerships (see http://www.un.org/partnerships/).

human cost. International agreement to enforce minimum standards at the national level could stop the "race to the bottom" in policy practice. The principles which hold that developing manufacturing and industry must be sustainable and fully respect human rights—and also that they should be resource-efficient in production and consumption, apply appropriate health and safety standards, and promote a fair income distribution—are easy to state. What matters most to citizens, however, is how the principles are incorporated in actual policies.

- Backsliding and delays in strengthening systemic financial regulation leave the global economy unnecessarily vulnerable to additional economic shocks emanating from global financial centres, thus requiring a strengthened international commitment to address them further. Moreover, the multilateral trade system cannot long survive Governments making alternative ad hoc trading arrangements when progress in global trade talks remains elusive. And promises about sustainable development will not be credible if the world cannot find a way to seriously advance negotiations to address climate change.
- The world can—and therefore must—end the outright suffering of the roughly one billion people still in extreme poverty. While poverty has multiple causes and requires multiple policies for its eradication, there is much here that ODA can effectively address, along with the other developmental, environmental and health imperatives that have been the focus of ODA for a generation. Moreover, there is much in the work on innovative sources of international public financing to build upon, as well as the growing international contributions of foundations, South-South cooperation and engagement with the private sector (as noted in chapters to follow).

Such a multifaceted package—and the foregoing should not be presumed to be that package—might win widespread support in countries at all stages of development and propel urgent, concerted action by the partner nations that agree to join together actively to realize it.

Official development assistance

The financial and economic crisis of 2008-2009 and the post-crisis austerity policies in a number of donor countries have broadly had a negative impact on outlays for official development assistance (ODA), which suffered a second consecutive year of contraction in 2012. It is encouraging to see that there are exceptions, however, as some donor countries reiterated their intention to fulfil their commitments in support of the efforts of developing countries to achieve the Millennium Development Goals (MDGs) by 2015 and are increasing aid, despite adverse budgetary conditions. As the international community moves towards adopting a post-2015 development agenda, it is crucial that there be an adequate volume and quality of ODA, complemented by new and innovative forms of international public financing. Recently, disappointing flows signal a challenge that must be addressed; ad hoc and official forums on development cooperation provide opportunities to meet that challenge.

Update of commitments

Donors have reaffirmed commitments

The United Nations Conference on Sustainable Development (Rio+20) in June 2012 reaffirmed the international community's commitment to achieving the internationally agreed development goals, including the MDGs.[1] It was recognized that the fulfilment of all commitments related to ODA remained crucial, including the commitments by many developed countries to deliver ODA equivalent to 0.7 per cent of gross national income (GNI) by 2015, as well as 0.15 per cent to 0.20 per cent of their GNI as ODA for least developed countries (LDCs).

Members of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) echoed the message on ODA of the Rio+20 Conference at their High Level Meeting in December 2012. Participating Governments reiterated their commitment to remaining focused on supporting the MDGs and emphasized the full integration of the sustainability dimension in the post-2015 era.[2] It was acknowledged that ODA is essential as an external financing resource for development and that it can also be effectively combined with and leverage other flows.[3] DAC members, including those who had endorsed the United Nations target of 0.7 per cent of GNI, reaffirmed their respective ODA targets and agreed to continue to make every effort to achieve them.

Members of the Group of Eight (G8), meeting at Camp David, United States of America, in May 2012, committed to fulfilling outstanding financial

1 General Assembly resolution 66/288 "The future we want", 27 July 2012, annex.

2 See the "Development Assistance Committee High Level Meeting 2012 Communiqué", London, 5 December 2012, para. 9, available from http://www.oecd.org/dachlm/pressreleasesspeechesstatements.htm.

3 Ibid., paras. 15 and 16.

pledges made in L'Aquila, Italy, in July 2009, which they accomplished by year's end.[4] The G8 will seek to address current and future global food security challenges by maintaining strong support, including through bilateral and multilateral assistance. Members also agreed to take new steps to accelerate progress towards food security and nutrition in Africa and globally.[5] The G8 committed to launching the New Alliance for Food Security and Nutrition to accelerate the flow of private capital to African agriculture, scale up new technologies and other innovations that could increase sustainable agricultural productivity throughout the continent, and reduce the risk borne by vulnerable economies and communities there.[6]

In addition, the Group of Twenty (G20), meeting in Los Cabos, Mexico, in June 2012, reaffirmed its commitment to the global partnership for development, as set out in the MDGs, and welcomed efforts to contribute to this end, including through the Global Partnership for Effective Development Cooperation as agreed at the Fourth High-level Forum on Aid Effectiveness held in Busan, Republic of Korea, from 29 November to 1 December 2011.[7] The G20 also committed to continuing its efforts to increase investment in infrastructure, including through the multilateral development banks.

An intergovernmental committee will assess financing needs

Facing new challenges in achieving global sustainable development, more resources will need to be mobilized at the international level. In view of this, the Rio+20 outcome document recommended that United Nations Member States develop a sustainable financing strategy that would assess financing requirements and explore new partnerships and innovative sources of financing that could augment and be leveraged by traditional sources of funds for international cooperation. An intergovernmental committee, under the auspices of the General Assembly, was established in June 2013 to assess financing needs, consider the effectiveness, consistency and synergies of existing instruments and frameworks, and evaluate additional initiatives. The committee would prepare a report proposing options for an effective sustainable development financing strategy to facilitate the mobilization of resources and their effective use in achieving sustainable development objectives.

Finally, the ministerial-level Development Committee of the International Monetary Fund and the World Bank endorsed the goals proposed by the World Bank Group to reduce the incidence of extreme poverty (defined as living on the equivalent of $1.25 per day) to no more than 3 per cent of the world's population by 2030 and to foster income growth of the bottom 40 per cent of the population of every country—goals that are to be achieved in an "environmentally, socially and economically sustainable manner". The World Bank Group has proposed a strategy to "relentlessly focus its activities and resources" on its poverty-eradicating

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4 The 2012 Report on the L'Aquila Food Security Initiative reported that 106 per cent of the three-year pledge of $22.24 billion in funds had been fully committed by December 2012, although not fully disbursed. The 2012 Report is available from http://www.state.gov/documents/organization/202922.pdf.

5 See "Camp David Declaration", G8 Meeting, Camp David, Maryland, 19-20 May 2012, para. 16, available from http://www.whitehouse.gov/the-press-office/2012/05/19/camp-david-declaration.

6 Ibid., para. 18.

7 See "G-20 Leaders' Declaration", G20 Meeting, Los Cabos, Mexico, 19 June 2012, para. 67, available from http://www.g20.org/documents/.

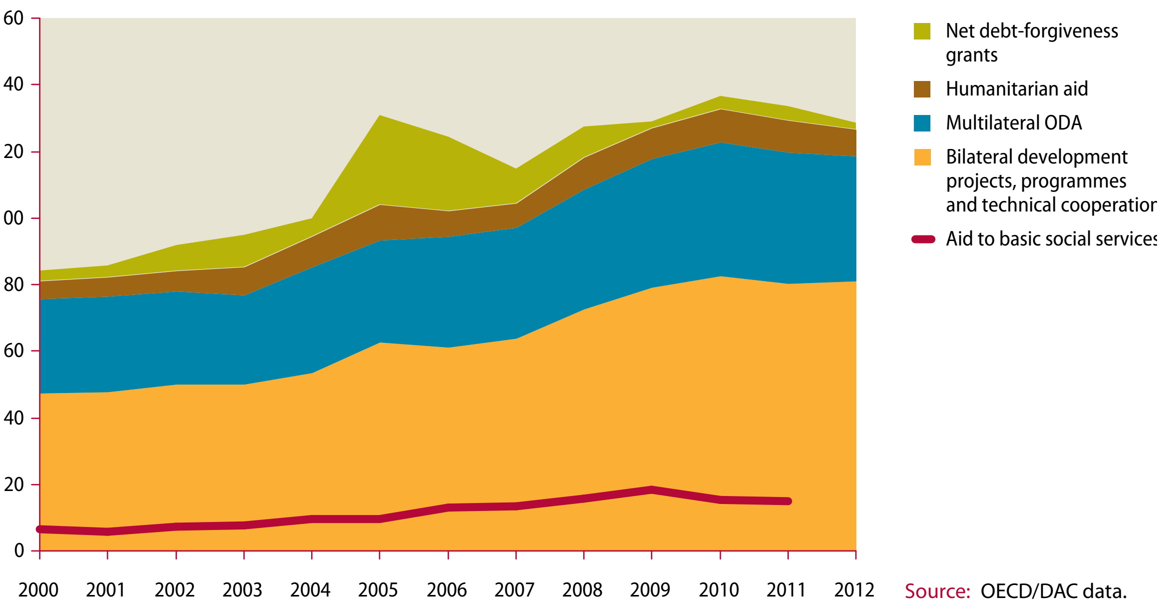
mission, which the Development Committee will consider at its October 2013 meeting. In this context, the Committee also called for a "robust replenishment" of the resources of the International Development Association, the World Bank's facility for lending to the poorest countries, consideration of which has recently begun.[8]

ODA delivery and prospects

ODA has fallen for two consecutive years…

Pledges notwithstanding, ODA from DAC countries fell 4 per cent in 2012, after falling 2 per cent in 2011, measured in 2011 prices and exchange rates.[9] This is the first time since 1997 that ODA has experienced two consecutive years of decline, excluding the period after the exceptional debt relief to Iraq and Nigeria in 2005 and 2006, respectively. Multilateral ODA, which represented about 30 per cent of total ODA, suffered the greatest reversal in terms of total amount in dollars, falling by about 6 per cent. Bilateral ODA—which amounted to 63 per cent of total ODA—increased only slightly, by about 1 per cent. Humanitarian aid fell 15 per cent, while debt-relief grants decreased by about 60 per cent, which is consistent with the near completion of debt-relief initiatives (figure 1).

Figure 1
Main components of ODA from DAC members, 2000-2012 (*billions of 2011 dollars*)



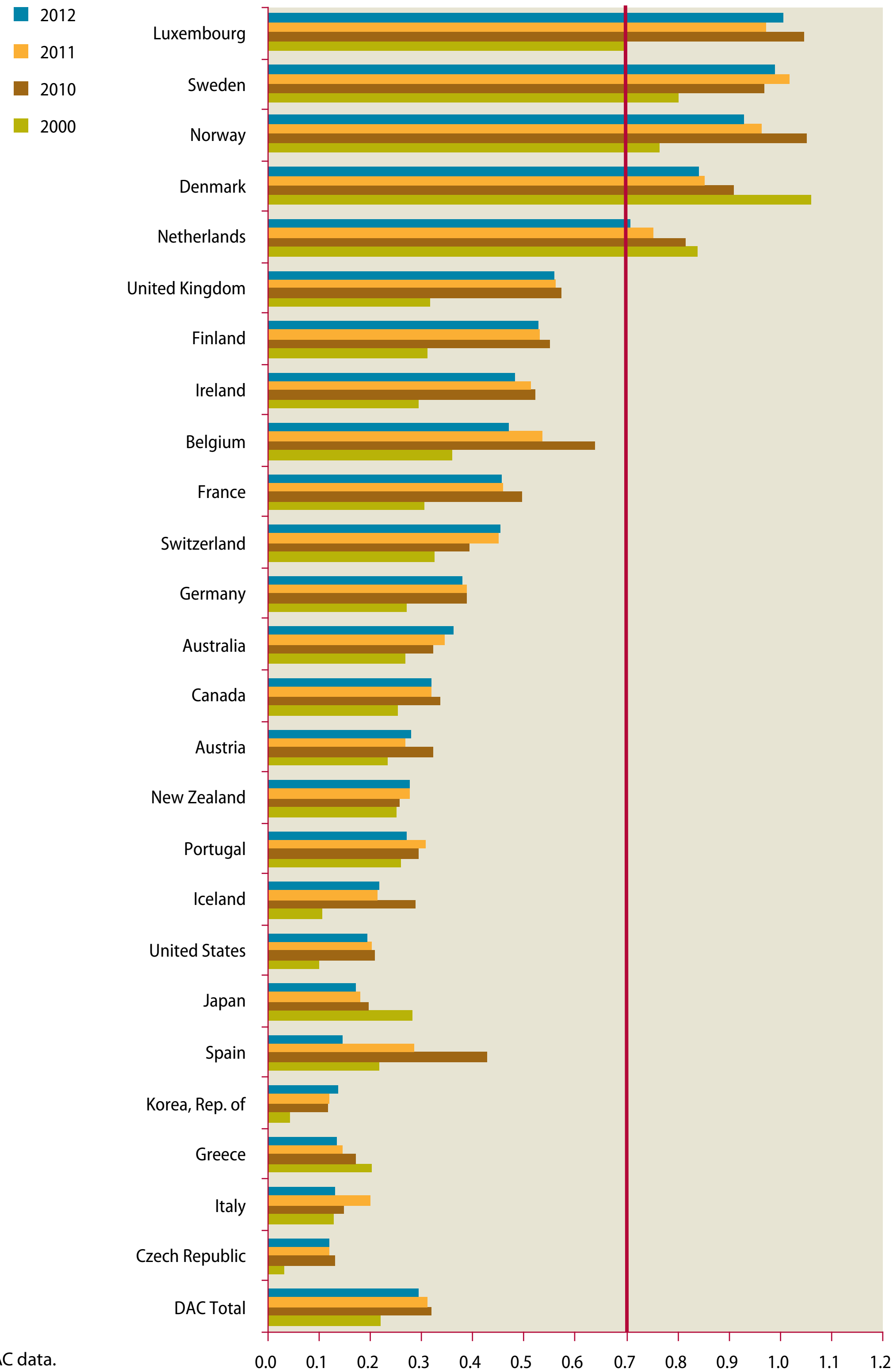
Source: OECD/DAC data.

Total net ODA flows from DAC countries amounted to $125.9 billion in 2012 in current dollars, down from $134 billion in 2011. Sixteen of the 25 DAC members decreased their ODA (figure 2). Fiscal austerity in DAC member

8 Communiqué from the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries ("Development Committee"), Washington, D.C., 20 April 2013, paras. 4-8.
9 Measured in dollars, taking into consideration inflation and exchange rates in 2011.

Figure 2

ODA of DAC members, 2000 and 2010-2012 (*percentage of GNI*)



Source: OECD/DAC data.

countries of the European Union (EU) was the main source of the decrease. ODA from these countries fell $8.3 billion. Spain halved its aid, and flows from Italy dropped by more than one third, representing a large proportion of this fall. Other countries that have made explicit cuts to their aid budget, mostly in the context of the financial crisis, were Greece and Portugal.

Meanwhile, Denmark, Luxembourg, the Netherlands, Norway and Sweden continue to fulfil their commitment to the United Nations target (figure 2). In addition, Australia and the Republic of Korea increased their contributions to $5.4 billion (9 per cent in real terms) and to $1.6 billion (almost 18 per cent in real terms), respectively, in 2012. Australia has committed to providing ODA equivalent to 0.37 per cent of its GNI in the period 2013-2014 and 0.5 per cent by 2017-2018, while the Republic of Korea aims to reach 0.25 per cent of its GNI by 2015. New Zealand is also striving to increase its ODA to $NZ 600 million, from its current level of $NZ 562 million (which is equivalent to 0.28 per cent of its GNI, or about $455 million). Iceland, which joined the DAC in March 2013, raised its ODA by almost 6 per cent, to 0.22 per cent of GNI in 2012. In May 2013, the Czech Republic also joined the DAC; it provided 0.12 per cent of its GNI as ODA in 2012.

Although ODA flows from Italy decreased in 2012 owing to lower levels of aid to refugees from North Africa and fewer debt-relief grants, it has made a firm commitment to increase ODA allocations in order to reach the equivalent of 0.15 per cent to 0.16 per cent of GNI in 2013. Expected increases from Switzerland and the United Kingdom of Great Britain and Northern Ireland are in line with their commitments to reach flows equivalent to 0.5 per cent (by 2015) and 0.7 per cent (by 2013) of their GNI, respectively.

…and the gap to reach the United Nations target is widening further

The decrease in ODA has meant a further widening of the gap between the United Nations target of disbursing 0.7 per cent of donor GNI and the actual flows. In 2012, the combined DAC donors' ODA was equivalent to 0.29 per cent of their combined GNI (table 1), widening the delivery gap to 0.41 per cent of GNI from 0.39 per cent in 2011. In order to reach the United Nations target, which would now amount to $300.6 billion in 2012 dollars, DAC donors would need to increase their annual disbursements by approximately $175 billion.

Table 1
Delivery gaps in aid commitments by DAC donors, 2011 and 2012

		Percentage of GNI	Billions of current dollars
Total ODA	United Nations target	0.7	300.6
	Delivery in 2012	0.29	125.9
	Gap in 2012	0.41	174.7
ODA to LDCs	United Nations target	0.15–0.20	64.7–86.2
	Delivery in 2011	0.10	44.7
	Gap in 2011	0.05–0.10	20.0–41.5

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

Aid is expected to stagnate in the medium term

Aid predictability is highly important to recipient country planning, but is more challenging for donors to achieve in times of crisis and scarce resources. Based on the survey of donors' forward spending plans, country programmable aid (CPA) fell in 2012 (to $92.2 billion), consistent with the overall decline in ODA. In 2013, global CPA is projected to recover with a 9 per cent increase, mainly resulting from the planned increases of a few larger bilateral development providers, such as Australia, Germany, Italy, Switzerland and the United Kingdom, and concessional loans from multilateral agencies. However, CPA flows are not expected to grow further during the period 2014-2016.[10]

Allocation by region and country

Aid to Africa and LDCs falls

Preliminary data show that bilateral aid from DAC donors to sub-Saharan Africa was $26.2 billion in 2012, a decline of 7.9 per cent in real terms. Bilateral aid to the African continent as a whole fell 9.9 per cent, to $28.9 billion in 2012, albeit following a 44 per cent increase in 2011 owing to exceptional support to some countries in North Africa, propelled by support for the Arab Spring. This has been the first fall in ODA to Africa since 2007.

Bilateral net ODA to the LDCs fell 12.8 per cent in real terms to about $26 billion in 2012. Including imputed multilateral aid,[11] DAC ODA flows to LDCs had increased minimally from $44 billion in 2010 to $ 44.7 billion in 2011, the latest year for which detailed data are available. As a share of DAC GNI, aid to LDCs has almost doubled since the start of the millennium, rising from 0.06 per cent in 2000 to 0.11 per cent in 2010, but it dropped to 0.10 per cent in 2011. The gap between DAC donors' ODA to LDCs and the lower bound of the United Nations target of 0.15 per cent has thus widened to 0.05 per cent of donor GNI (table 1).

Only 10 of the 23 DAC donor countries in 2011 reached the lower bound United Nations target for aid to LDCs of 0.15 per cent of GNI in that year (figure 3). France had almost reached the target, while Canada, which had reached the target in 2010, reduced its ODA to LDCs by 0.04 percentage points, from 0.15 per cent to 0.11 per cent. Except for Sweden and the United Kingdom, all of the donors that met the lower bound target in 2010, reduced their ODA flows to LDCs in 2011.

Aid also fell to two additional groups of countries that are considered international priorities for assistance because of their geographical situations: landlocked developing countries (LLDCs) and small island developing States (SIDS). The first time in a decade that aid to LLDCs fell was in 2010 when it amounted to an average of 4.0 per cent of their GNI, and 2011 marked a continuation of that decline with a further fall of 0.6 percentage points, down to 3.4 per cent of their GNI. Aid to SIDS, which increased substantially from an average of 1.7 per cent of their GNI in 2000 to an average of 5 per cent in 2010, fell to an average of 4.5 per cent in 2011, down 20 per cent in real terms from $4.8 billion in 2010 to $3.7 billion in 2011 (figure 4).

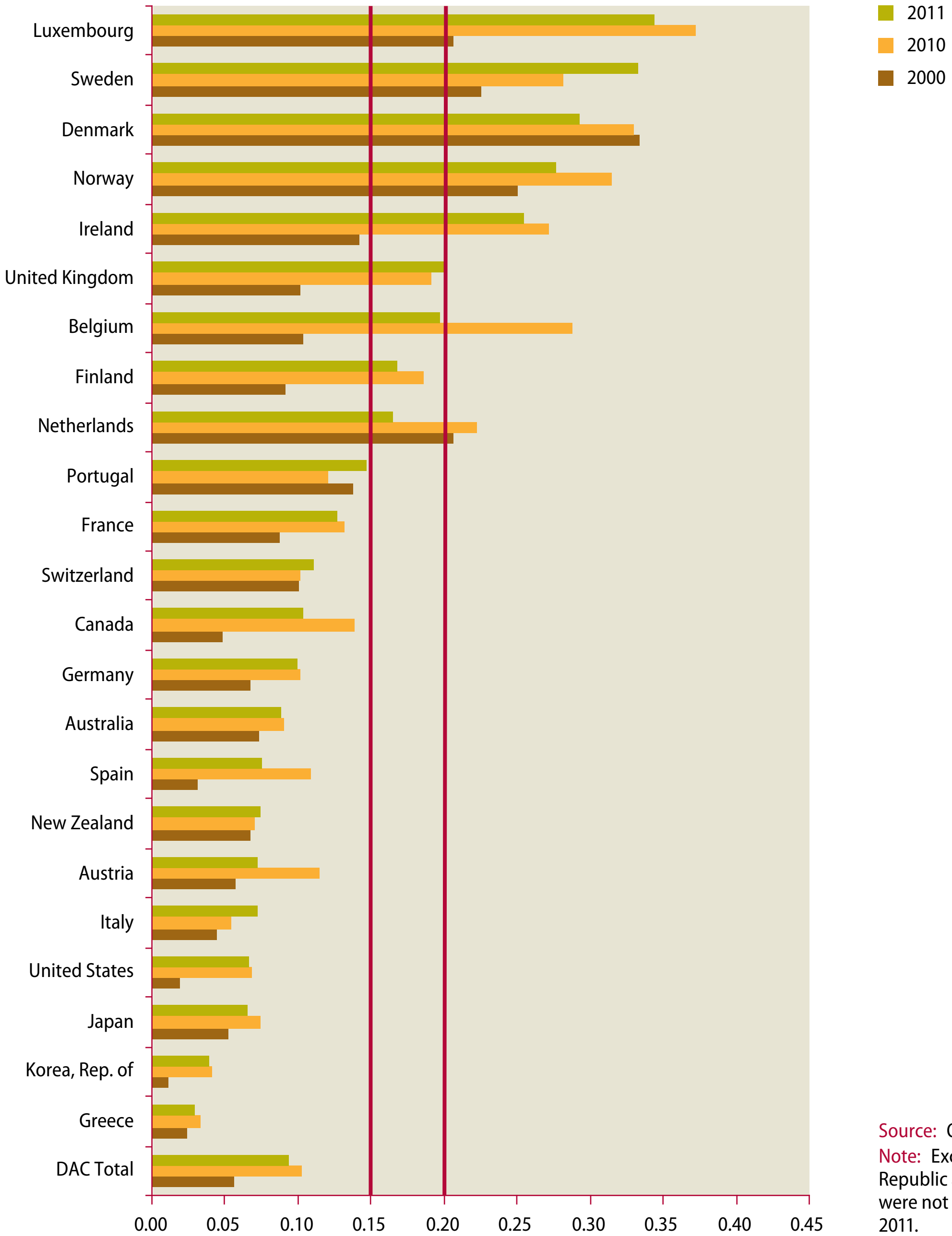
Top recipients of aid are receiving a larger share of aid…

Aid is being increasingly concentrated in a small number of countries. The top 20 recipients in 2011 (out of 158 countries and territories) accounted for

10 Organization for Economic Cooperation and Development, "Outlook on aid: survey on donors' forward spending plans 2013-2016", available from http://www.oecd.org/dac/aid-architecture/aidpredictability.htm (accessed on 16 April 2013).

11 The Organization for Economic Cooperation and Development (OECD) calculates an approximation of multilateral aid to a specific sector or region based on the multilateral agencies' reporting to the Development Assistance Committee (DAC) of the share of each agency's total aid to that sector or region. This approximation is then applied to donors' contributions to the core resources of that agency.

Figure 3
ODA of DAC donors provided to least developed countries, 2000, 2010 and 2011
(*percentage of GNI*)

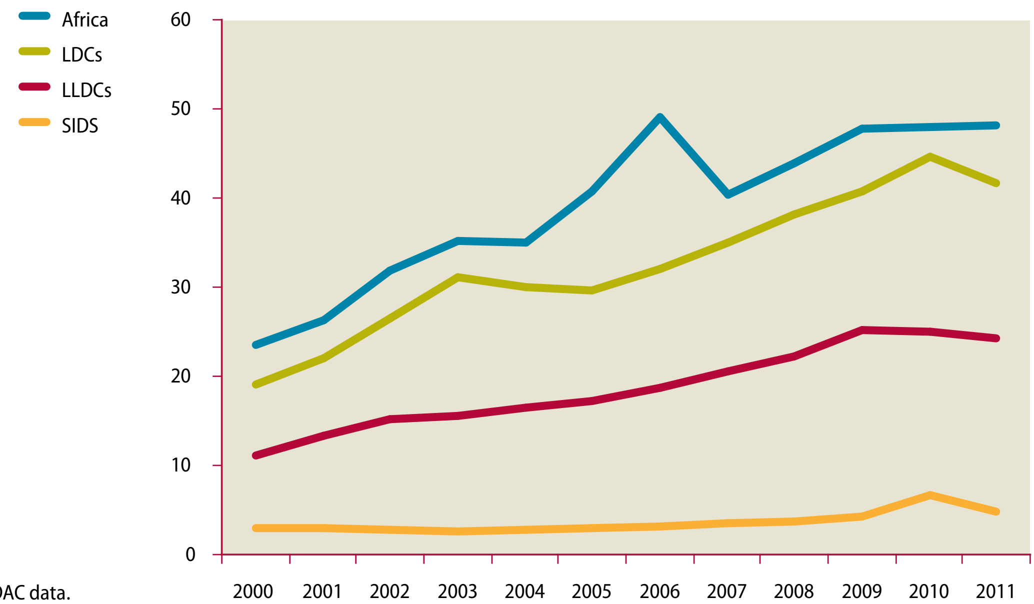


Source: OECD/DAC data.
Note: Excluding the Czech Republic and Iceland, which were not DAC members in 2011.

about 55 per cent of total ODA, up from 38 per cent the year before. The country composition of the top 20 recipients has changed somewhat in 2011 compared with 2010.[12] Despite a small decrease in its aid flows, Afghanistan continues to

12 The top three aid recipients in 2011 were the same as in 2010. Haiti dropped 10 places, from the fourth highest aid recipient in 2010 to the fourteenth in 2011. This can be attributed to a slowdown in aid flows in the country's post-earthquake period. The

Figure 4
Total ODA received by priority groups of countries, 2000-2011
(*billions of 2010 dollars*)



Source: OECD/DAC data.

be the largest recipient of aid, not only among LLDCs but among all developing countries, receiving over $6 billion in 2011 (table 2).

…and the poorest regions require more aid

A key objective of ODA is to reduce poverty in developing countries. At the global level, ODA as a ratio to the number of poor people has been increasing, especially since 2003. This reflects the decline in poverty ratios globally and the increase in ODA since the adoption of the Monterrey Consensus at the International Conference on Financing for Development.[13] However, this finding does not imply that the decline in poverty can be attributed to ODA nor that it reaches the poorest people in the poorest countries. At the regional level, we can see that there is a great disparity between the amount of aid per poor person and the incidence of poverty in that region (figure 5). For example, although sub-Saharan Africa as a region is receiving the largest share of ODA, it is not receiving the most ODA per poor person, despite the fact that it has the highest poverty ratio.

Current aid allocations vary significantly from one country to another and are also very unevenly distributed across countries with similar income levels (table 2). An OECD study attributed these disparities in aid allocations to the lack

United Republic of Tanzania also fell from being aid recipient number 6 in 2010, to number 9 in 2011. Mozambique, Ghana and Kenya all moved up in the ranks from positions 13, 15 and 16 in 2010 to positions 10, 13 and 7, respectively, in 2011. Sudan, Liberia, Indonesia and the Congo fell out of the top twenty in 2011 from positions 12, 17, 19 and 20, respectively, and were replaced by Côte d'Ivoire, South Africa, Mali and Rwanda, which rounded out the top twenty.

13 United Nations, Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002 (A/CONF.198/11) chap. 1, resolution 1, annex.

Table 2

Top aid recipients in 2011 (*millions of 2010 dollars*)

	2001 ODA receipts	2011 ODA receipts	Change from 2010 to 2011 (*percentage*)	GNI per capita in 2011
Afghanistan	704	6384	-1	470
Democratic Republic of the Congo	398	5216	47	190
Ethiopia	1697	3364	-5	370
Pakistan	2698	3341	11	1120
Viet Nam	2150	3268	11	1270
India	2538	3014	7	1420
Kenya	724	2342	44	820
West Bank and Gaza	1559	2301	-9	..
United Republic of Tanzania	1918	2294	-22	540
Mozambique	1514	1921	-2	460
Iraq	204	1829	-17	2640
Nigeria	263	1716	-17	1280
Ghana	980	1713	1	1410
Haiti	249	1625	-47	700
Uganda	1278	1489	-14	510
Bangladesh	1595	1398	-1	780
Côte d'Ivoire	328	1349	60	1090
South Africa	675	1214	18	6960
Mali	565	1196	10	610
Rwanda	475	1190	15	570
Top 10 total	15901	33445	..	..
Share in total ODA (percentage)	25	38	..	..
Top 20 total	22515	48164	..	..
Share in total ODA (percentage)	35	55	..	..

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

of coordination among donors.[14] Nine countries appeared as potentially under-aided according to needs- and performance-based aid allocation approaches. These countries were Bangladesh, Burkina Faso, the Gambia, Guinea, Madagascar, Malawi, Nepal, Niger and Togo. Each of these nine countries is designated as an LDC and six of them are classified as conflict-affected States and countries in vulnerable situations, each with varying levels of institutional capacity; they are also lagging in achieving the MDGs.[15]

Aid modalities

Aid continues mostly in the form of grants…

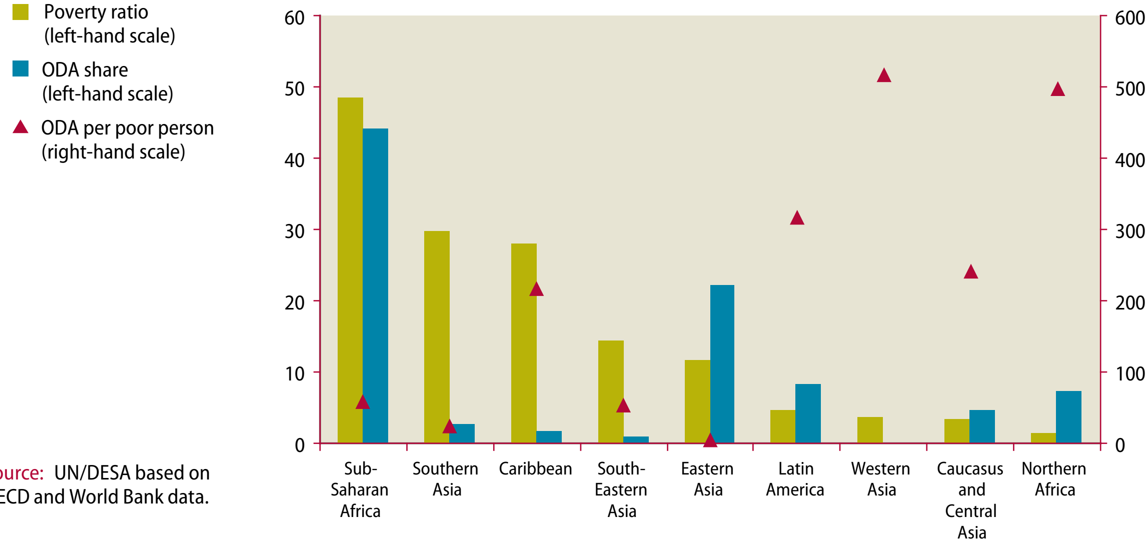
ODA is defined as concessional assistance provided to developing countries and multilateral organizations for the promotion of economic development and wel-

14 Organization for Economic Cooperation and Development/Development Assistance Committee (OECD/DAC), "Improved identification and monitoring of potentially under-aided countries" (2012), available from http://www.oecd.org/dac/aidarchitecture/Identification_and_Monitoring_of_Potentially_Under-Aided_Countries.pdf.

15 Ibid., p. 15.

Figure 5

ODA per poor person (living on $1.25 a day) in 2010 and poverty ratios, by region *(poverty ratio as a percentage of population; ODA share; ODA in current dollars per poor person)*



Source: UN/DESA based on OECD and World Bank data.

fare of the developing countries. Some of the assistance can be in kind (e.g., technical assistance, food aid, scholarships to study in donor countries) and some as a financial flow, which is counted as ODA on condition it is provided either as a grant or as a subsidized loan containing a "grant element" of at least 25 per cent.[16] Aid continues to be provided mostly in the form of grants. The average share of grants in total aid in the biennium 2010-2011 was 85.8 per cent. Only five countries have an average share of grants less than 80 per cent (France, Germany, Japan, Republic of Korea and Portugal). Some donors—the Republic of Korea in particular—based on their own experience as recipients, emphasize that loans have positive learning effects on the recipients, encouraging fiscal discipline.[17] The average grant element of ODA to LDCs in the period 2010-2011, at 99.3 per cent, continues to be higher than the average for total ODA, at 95.6 per cent.[18]

…but more needs to be untied

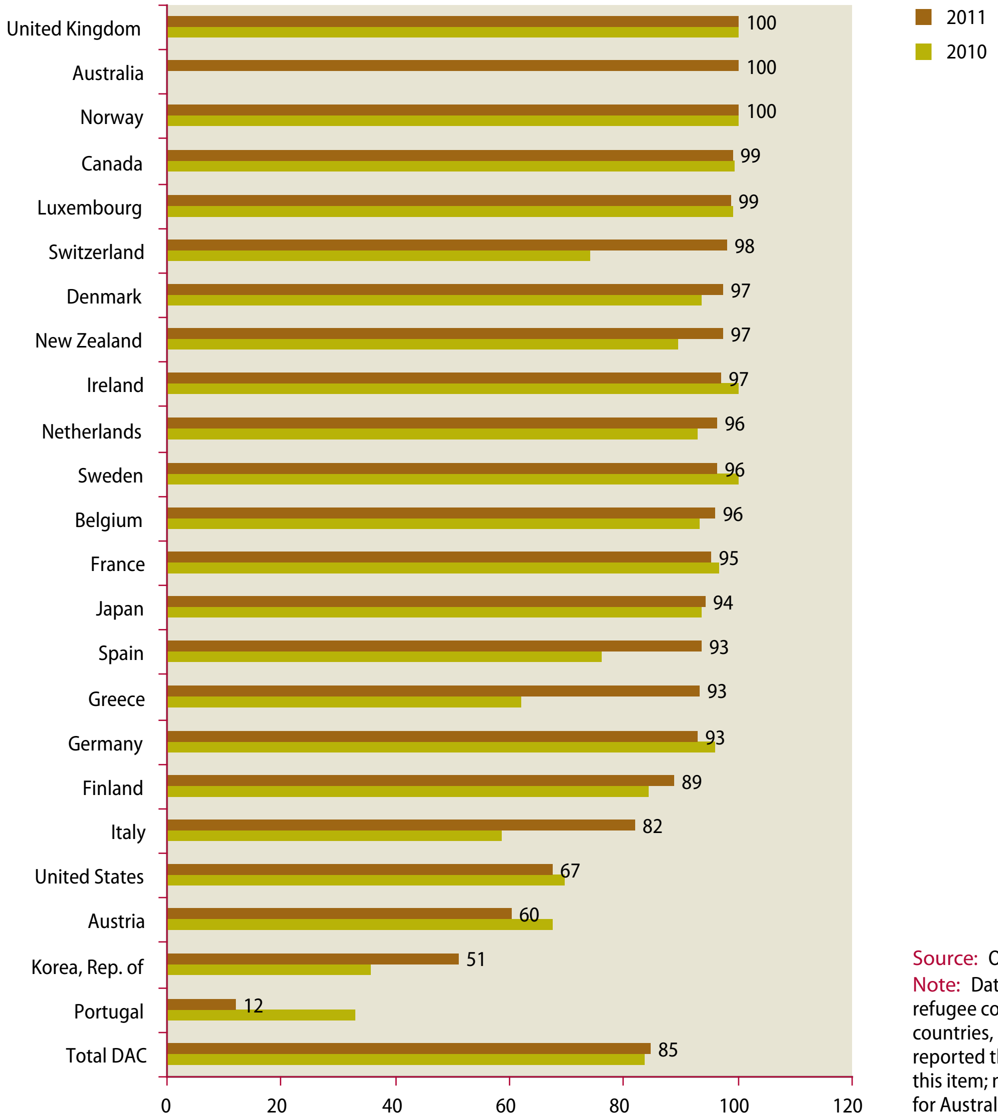
In 2011, 84.6 per cent of bilateral aid—excluding technical cooperation, in-donor country refugees and administrative costs—was untied, a slight increase from 83.6 per cent in 2010 (figure 6). However, this improvement should be seen against the peak in 2005 of 91.4 per cent. Country policies have differed. A number of donors, including Canada, have gradually untied aid over the past decade, while others have reversed earlier progress. In 2011, the United States share of untied aid remained below 70 per cent. In Greece, the share of untied aid stood at 93.2 per cent in 2011, a notable increase from 62.2 per cent in 2010. All DAC donors with the exception of Portugal have untied more than half of

16 Organization for Economic Cooperation and Development/Development Assistance Committee (OECD/DAC), "Recommendation on terms and conditions of aid (1978)", available from http://www.oecd.org/dac/stats/31426776.pdf.

17 Organization for Economic Cooperation and Development, "DAC Peer Review 2012: Korea", available from http://www.oecd.org/dac/peer-reviews/korea.htm.

18 Organization for Economic Cooperation and Development, "Statistics on resource flows to developing countries", available from http://www.oecd.org/dac/stats/statisticsonresourceflowstodevelopingcountries.htm (accessed 17 May 2013), table 20.

Figure 6
Share of untied bilateral ODA of DAC members, 2010 and 2011 (*percentage*)



Source: OECD/DAC data.
Note: Data for 2011 exclude refugee costs in donor countries, as not all countries reported the tying status of this item; no data are available for Australia in 2010.

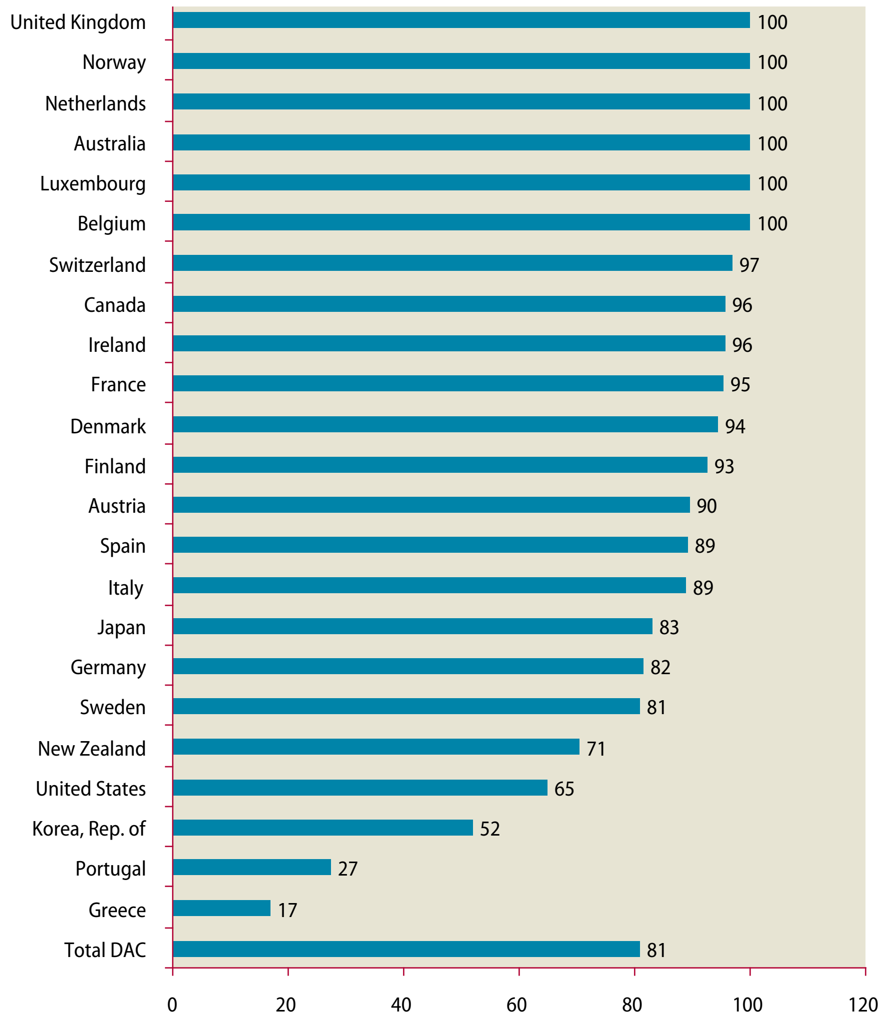
their aid. Only 11.9 per cent of aid from Portugal was untied in 2011, a drop from 32.9 per cent in 2010.

Questions remain on the negative effects of aid-tying, given its implication for cost-effectiveness and the lack of alignment with national development strategies. In addition, OECD emphasizes that it is necessary to improve “the accuracy, consistency and comprehensiveness of reporting on the tying status of aid…and [work] with partner countries on related approaches to increase the local benefits of aid procurement”.[19]

In 2001, the DAC issued a recommendation to untie ODA to the LDCs to the greatest extent possible. As can be seen in figure 7, 81.1 per cent of DAC bilat-

19 Organization for Economic Cooperation and Development/Development Assistance Committee (OECD/ DAC), “Aid untying: 2012 report” (DCD/DAC(2012)39), 15 October 2012, p. 10.

Figure 7
Share of untied bilateral ODA of DAC members to LDCs, 2011 (*percentage*)



Source: OECD/DAC data.
Note: Only administrative costs are excluded to follow the DAC recommendation on untying ODA to the LDCs.

eral aid to the LDCs in 2011 was untied, excluding administrative costs, a slight improvement from 2010 (80.3 per cent).

Additional actors in international development cooperation

Development financing from non-DAC countries and private sources continues to increase

In addition to ODA from DAC member countries, developing countries receive concessional assistance from other providers. Some of these countries report their assistance to the OECD, which records it according to DAC specifications for ODA. In 2011, $9.7 billion of this assistance was reported, compared with $7.3 billion in 2010. The majority came from Saudi Arabia ($5.1 billion), followed by Turkey ($1.3 billion). Other developing countries are also significant providers of assistance. Gross concessional flows from non-reporting countries, including Brazil, China, India, South Africa and Venezuela (Bolivarian Republic of), were estimated to be about $3.6 billion in 2010.[20] However, there are also higher estimates of assistance flows from these countries, with flows from China representing the bulk.[21] Clearly, there is a large measure of uncertainty in the extent of these important sources of development cooperation flows, underscoring the importance of increased transparency in official flows from all providers.

Developing countries also receive large philanthropic flows, including for development purposes. A portion of these flows can be seen as complementary to ODA owing to their concessional nature and development-related target areas, including health, economic growth, governance and education. Although private philanthropy is growing, assessing its impact on development remains a challenge; there are difficulties in collecting data from multiple sources that measure their flows differently, and the degree of their relationship to development goals varies. It is estimated that in 2011, grants from private voluntary agencies amounted to $30.6 billion, unchanged since 2010.[22] United States agencies accounted for $23.3 billion of this amount.

The future of effective development cooperation

The Global Partnership for Effective Development was established…

As a follow-up to the Fourth High level Forum on Aid Effectiveness in Busan, Republic of Korea, in 2011, a Global Partnership for Effective Development Cooperation was established in June 2012 as an ad hoc platform for political dialogue, accountability and mutual learning on effective development cooperation. The Global Partnership for Effective Development Cooperation, which engages business and civil society representatives as well as provider and recipient Governments and multilateral institutions, will meet at the ministerial level roughly every 18 months, beginning in the first quarter of 2014. It is being guided by a 15-member Steering Committee, co-chaired by Indonesia, Nigeria and the United Kingdom, with secretariat support provided by OECD and the United Nations Development Programme (UNDP).

Pursuant to the principles agreed in Busan, discussions within the Steering Committee have framed a vision in which the Global Partnership for Effective Development Cooperation will promote more effective, more inclusive and forward-looking international cooperation in support of efforts to eradicate global poverty, achieve all the MDGs, and help implement a post-2015 development agenda. To this end, a limited set of substantive priorities were identified, which include looking at the interface between development cooperation and domestic resource mobilization such as through raising taxes and curbing illicit flows, engaging the private sector on its role and contribution to development, trans-

20 Estimated from data in Felix Zimmermann and Kimberly Smith, "More actors, more money, more ideas for international development co-operation", Journal of International Development, vol. 23, No. 5 (July 2011), pp. 722-738.

21 For example, see Julie Walz and Vijaya Ramachandran, "Brave new world: a literature review of emerging donors and the changing nature of foreign assistance", Center for Global Development, Working Paper No. 273 (Washington, D.C., November 2011).

22 Organization for Economic Cooperation and Development, "Statistics on resource flows to developing countries", updated on 20 December 2012, available from http://www.oecd.org/development/stats/statisticsonresourceflowstodevelopingcountries.htm.

parent cooperation that fosters inclusive development, and the identification of approaches to knowledge-sharing as a form of development cooperation.[23]

…a monitoring framework has been proposed and…

A global monitoring framework has also been drafted and offered to countries that may wish to track the implementation of their commitments at the Busan Forum. The framework consists of 10 indicators, including some that were based on the indicators used to measure implementation of the commitments in the 2005 Paris Declaration on Aid Effectiveness.[24] The set of global indicators is the result of an extensive consultation process based on the indicators identified by developing countries as being particularly important, and may not fully reflect the views of all stakeholders involved in the process. The final set of indicators aims to capture the key indicators relating to unfinished aid effectiveness business as well as some of the broader dimensions of the Busan Partnership agreement. The indicators focus on strengthening developing-country institutions; promoting greater involvement of civil society, the private sector and parliaments; and increasing transparency, predictability, mutual accountability, gender equality and untying of aid. Most of these will be measured at the level of individual developing countries and aggregated to offer an overview of global progress.[25]

While voluntary, participation in global monitoring efforts is critical to providing evidence of progress and signalling opportunities for—as well as obstacles to—further progress. The nature of the agreement reached in Busan recognizes that different stakeholders may approach a common agenda for development in different ways. In this context, non-traditional donors will be invited to share their experience and achievements in implementing agreed principles of effective development cooperation.

Preliminary stocktaking by the DAC suggests that more efforts by its members are needed if they are to implement their Busan commitments to accelerating aid untying, increasing medium-term predictability and addressing legal and procedural constraints.[26] Progress in accelerating efforts to untie aid is uneven. As we saw above, a number of donors have untied 90 per cent or more of their ODA. But while some are committed to making further progress, others see little scope for additional untying in areas that they view as politically difficult. Moreover, the Busan commitment to improving medium-term predictability by halving the proportion of development cooperation funding not covered by indicative forward spending plans is unlikely to be met by the 2013 target year. Although several donors have made efforts to improve the availability of forward spending information, such efforts tend to focus on a set

23 See Global Partnership for Effective Development Cooperation, "Second Meeting of the Steering Committee: Summary", Bali, Indonesia, 23-24 March 2013, available from http://www.effectivecooperation.org/resources.html.

24 See Organization for Economic Cooperation and Development, *The Paris Declaration on Aid Effectiveness and The Accra Agenda for Action* (Paris, 2005 and 2008).

25 See Global Partnership for Effective Development Cooperation, "Guide to the monitoring framework of the global partnership: preliminary version for consultation, 1 March 2013, available from http://www.effectivecooperation.org/resources.html.

26 See Organization for Economic Cooperation and Development, "The Global Partnership for Effective Development Cooperation: Enhancing the future contribution to development by all stakeholders", DAC High Level Meeting, London, 4-5 December 2012, available from http://www.oecd.org/dachlm/DACHLMGlobalPartnership.pdf.

of "priority" partner countries and few donors appear to be on track to providing developing countries with comprehensive, forward-rolling spending plans.

…electronic publication of aid information will begin

An ad hoc group formed by the International Aid Transparency Initiative (IATI), the DAC Working Party on Development Finance and Statistics (WP-Stat) and the Busan Building Block on Transparency has made progress in more clearly defining the common, open standard for electronic publication of aid information, as agreed in Busan. Over 40 countries and organizations have now published their implementation plans, in which they outline how they will make their systems for reporting development finance more transparent by the end of 2015. OECD/DAC and IATI are working closely to ensure that all Busan endorsers meet their commitments to full implementation of the common standard. The ad hoc group continues to work closely to contribute to the development of the transparency indicator as part of the global partnership monitoring framework.

Overall, the commitment to realize mutual accountability is still in its infancy. A full-fledged global mutual accountability mechanism with universal membership and multi-stakeholder participation has yet to emerge. Yet some progress has been made in recent years. Within the United Nations system, the establishment of the biennial high-level Development Cooperation Forum (DCF) in 2008, under the Economic and Social Council, marked an important step in strengthening mutual accountability. During its first five years, the DCF has served as an inclusive multi-stakeholder forum, fostering dialogue and knowledge-sharing through global and regional expert group meetings on mutual accountability, as well as through discussions in the DCF itself.

Nevertheless, two broad-based surveys which the Department of Economic and Social Affairs and UNDP conducted in 105 countries in 2010 and 2011 for the DCF have shown that much work remains to be done to strengthen mutual accountability in the relations between individual donors and aid-receiving countries. A maximum of 26 countries had made some progress on indicators of national-level mutual accountability, and 20 had initiatives under way to improve the quality of their mutual accountability. However, only three countries had adopted targets on aid policies with individual providers which are monitored regularly. Lack of political leadership and capacity constraints were identified in the surveys as major obstacles to stronger mutual accountability.

Policy recommendations

- To accelerate progress on achieving the MDGs and to ensure a strong start to the emerging global development agenda, a major impetus on aid flows is critical. Donor Governments urgently need to reverse the two-year contraction of ODA and make greater efforts to reach the United Nations target
- Given the limited access to other resources and the greater need for them by LDCs in order to achieve the MDGs, aid flows to LDCs should be restored and given priority so as to reach United Nations targets
- Governments from both developed and developing countries should increase transparency in the delivery, predictability and use of development cooperation and participate in international initiatives in order to increase development effectiveness

- Member States should collectively formulate concrete steps to increase mutual accountability and effectiveness in development cooperation at the 2014 session of the Development Cooperation Forum
- Donor Governments, other official providers, foundations, aid-receiving Governments and other stakeholders should strengthen their processes for coordination and cooperation at country and global levels as outlined in the Global Partnership for Effective Development

Market access (trade)

For more than half a century, the international community has sought to dismantle policy barriers to international trade, strengthen the legal means for resolving trade disputes and support the contribution of trade to development. Great strides were made in realizing these ambitions over the closing decades of the twentieth century. The new century began with a strong promise in the Millennium Declaration to further advance these goals. In November 2001, the World Trade Organization (WTO) launched a comprehensive set of multilateral negotiations the (the Doha Development Agenda). However, after more than a decade has passed, it is fair to say that global trade negotiations are largely stalled. Trade negotiators from a number of countries are instead refocusing on negotiating arrangements among smaller groupings of countries or bilaterally. Aid for Trade has begun to decline, although a number of international trade policy commitments that favour developing countries, and in particular the least developed countries (LDCs), are being implemented. Reaching agreements within the next two years in what have thus far been elusive multilateral trade negotiations would not only help bring the global partnership for development back on track towards realizing the vision in Millennium Development Goal 8, but also support global economic recovery and lay a strong foundation for the post-2015 development agenda.

Uncertain direction for multilateralism

Twelve years of talks under the WTO Doha Round of multilateral trade negotiations have left considerable gaps separating the interests of its members, especially in regard to agricultural support measures and industrial tariffs. Indeed, the talks were formally declared at an impasse in December 2011.[1]

Efforts to break the Doha Round impasse

The Ninth Ministerial Conference of WTO, which will take place in Bali, Indonesia, in December 2013, will be an occasion to break the impasse. Three areas are emerging as potentially deliverable: trade facilitation, certain issues in the agriculture negotiations and a basket of development issues, including a package for LDCs. Members are also discussing a post-Bali road map that would allow for the conclusion of the Doha Round, respecting the principles and mandate under which the Round was launched.

Regarding trade facilitation, WTO members are seeking to reach an agreement that would expedite the movement, release and clearance of goods, including goods in transit; clarify and improve agreed rules and disciplines; enhance

1 See World Trade Organization (WTO), Chairman's Concluding Statement (WT/MIN(11)/11), 17 December 2011.

technical assistance and support for capacity-building; and provide for effective customs cooperation. Ongoing discussions focus on flexibilities to schedule commitments based on implementation capacities, coupled by needs assessments, that will determine the resource requirements to implement new trade facilitation commitments. While inadequate trade facilitation remains a major bottleneck in many poor countries, and an agreement could help these countries overcome the constraints they face, the current resource-constrained environment makes it unclear whether assistance will match the requirements of developing countries.

Discussions on agriculture have so far focused on how countries manage and apply "tariff rate quotas"[2] and public stockholding for food security purposes. These are not, however, the central issues in the treatment of agriculture, which remain at an impasse. A large group of developing countries recently proposed achieving a partial outcome on export subsidies and export credits, pending the long-awaited end of all forms of agricultural export subsidies. An additional proposal on cotton is also expected.

The cluster of developmental issues includes applications of the principle of special and differential treatment of developing countries; full implementation of duty-free and quota-free (DFQF) market access for LDC products, as agreed at the 2005 Hong Kong Ministerial Meeting; implementation of preferential market access for LDC services exports, as agreed at the 2011 Geneva Ministerial Meeting; and a meaningful outcome on cotton trade.[3] A related important element is the discussion regarding an extension of the transition period for LDCs to implement their obligations under the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS), which was recently extended by the TRIPS Council until 1 July 2021 (see also chapter on access to affordable essential medicines).[4]

The question remains what might follow if Bali actually delivers on an "early harvest" agenda. There is concern that progress in the areas noted above would not spur action in other areas, such as agriculture. Many countries are signalling that some of the more far-reaching issues, which include agricultural protection, might be better addressed within a wider, post-Bali negotiation, rather than as part of an early harvest package.

Also, many developing countries have continued to voice concerns about the need to see progress in 2013 on export competition. Trade ministers had agreed in Hong Kong in 2005 to eliminate all forms of export subsidy and parallel measures with equivalent effect (i.e., export credits, food aid and exports by state trading enterprises). However, some countries where such measures remain prevalent signalled their unwillingness to eliminate this form of trade-distorting support in the absence of considerable progress in the Round.

A complete conclusion of the Doha Round is key for development

Concluding the Doha Round in all of its aspects and under its original mandate is the best way to ensure a greater role for trade in development, which can help boost prospects for realizing the Millennium Development Goals.

2 Some countries charge higher tariffs on additional goods being imported after an initial quota has been filled.

3 Led by the "C-4" countries, Benin, Burkina Faso, Chad and Mali.

4 The WTO members agreed on 11 June 2013 to extend by eight years the deadline for least developing countries (LDCs) to implement their obligations under the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS).

Indeed, a rebalancing of global trade rules would help restore global confidence in the multilateral trading system.

Increasing reliance on regional trade agreements

Complementing the global trend towards trade liberalization, developed and developing countries have at the same time been creating regional trade agreements (RTAs). A narrower instrument of trade policy, the RTA departs from the general rule of WTO that calls for each member to treat the trade of all other members equally (i.e., each country's trade in a specific good or service should be accorded the same treatment it gives to its "most favoured nation" (MFN)). The WTO regime encompasses certain general exceptions to MFN treatment, such as developed countries' granting preferential access to their markets for exports from developing countries. WTO also accommodates RTAs among developing countries and more far-reaching RTAs, such as free trade areas or customs unions (as long as they follow WTO guidelines).

As members are required to notify WTO when they adopt an RTA or when new members join an existing RTA, WTO can monitor their prevalence. WTO has thus observed that the number of RTAs has risen exponentially since 1995 (figure 1). And while RTAs related to goods have historically predominated, services have increasingly figured in more recent RTAs. Currently, 247 RTAs are operational and more are under negotiation.[5] Every WTO member belongs to or is negotiating at least one RTA, and, on average, each WTO member belongs to 13 separate RTAs.[6]

A multilateral agreement would better serve global trade than do regional agreements

From a global point of view, the multilateral approach to trade liberalization is superior to the differentiated trade access of RTAs. The latter can divert trade from a more efficient (external) producer to a less efficient (inside the trade bloc) producer, although they can also create new trade between countries, which are said to benefit thereby from increased specialization according to comparative advantage. RTAs can also complicate administration of trade and distort market incentives by requiring distinct rules within the bloc that non-members do not share. In addition, RTAs may create regulatory divergence, although some regulatory reform under RTAs may be non-discriminatory.[7]

RTAs have always risked fragmenting the multilateral trading system. That risk seemed worth taking in the past when the RTAs being formed involved deep integration processes, as in the European Union (EU). It is also argued that a continental integration framework for Africa would be the best integration option for that region in terms of economic and human development outcomes.[8] However, the rapidly growing series of RTAs seen in figure 1 are less reflective of traditional

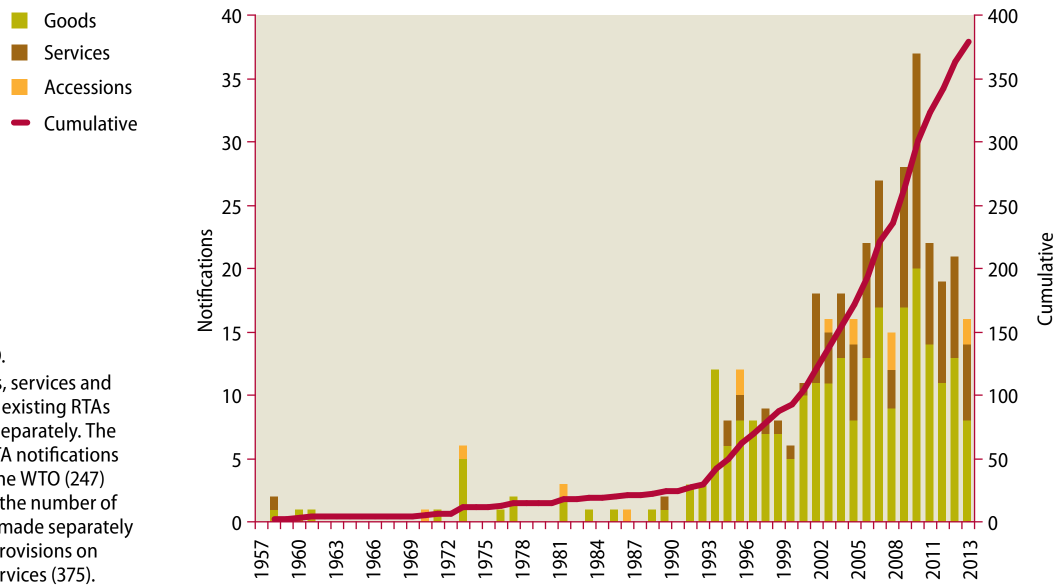
5 Because WTO members make separate notifications of regional trade agreements (RTAs) in services and goods, there were 375 notifications relating to 247 RTAs, based on the WTO RTA database (consulted in May 2013).

6 World Trade Organization, World Trade Report 2011: The WTO and preferential trade agreements: From co-existence to coherence (Washington, D.C., 2011).

7 World Trade Organization, "The Future of Trade: The Challenges of Convergence", report of the Panel on Defining the Future of Trade convened by WTO Director General Pascal Lamy on 24 April 2013.

8 See United Nations Development Programme, *Regional Integration and Human Development: A pathway for Africa, 2011*, and the series of reports by the United Nations Economic Commission for Africa, *Assessing Regional Integration in Africa*, various years.

Figure 1
Active notifications of regional trade agreements, 1957-2013



Source: WTO.
Note: Goods, services and accessions to existing RTAs are counted separately. The number of RTA notifications received by the WTO (247) is lower than the number of notifications made separately under WTO provisions on goods and services (375).

regional integration schemes and more representative of a new overlapping system of bilateral and multi-country "free trade" agreements. Moreover, when these agreements are adopted between a developed and a developing country, producers in the developing country may find themselves competing against subsidized producers in the developed country, as in the areas of agricultural and technology-intensive products. There may be benefits to the developing country for entering into the arrangement, but viewed from a global perspective, the spread of such RTAs erodes the important WTO principles of non-discrimination and the generalized "special and differential" treatment accorded to developing countries. Typically, in most North-South RTAs, developing countries also undertake additional commitments in areas such as investment protection or intellectual property rights, which they would not be obliged to do under WTO rules.

A number of proposed multi-country RTAs that involve some of the world's largest trading nations pose a further challenge to global trade discussions. One is the 2009 United States initiative to negotiate a Trans-Pacific Partnership with 10 countries that border the eastern and western shores of the Pacific Ocean.[9] The initiative aims to liberalize trade in nearly all goods and services and would include commitments beyond those currently established in the WTO. A draft agreement is targeted for 2013.[10] A second initiative is the Bi-regional Association Agreement between the EU and MERCOSUR,[11] which has been under negotiation since 2010. The aim of the trade pillar of the proposed Association Agreement

9 The prospective partners are Australia, Brunei Darussalam, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore and Viet Nam. Japan was brought into the negotiations in April 2013.

10 See Office of the United States Trade Representative, available from www.ustr.gov (accessed 6 June 2013).

11 Mercado Común del Sur, comprising Argentina, Brazil, Paraguay, Uruguay and Venezuela (Bolivarian Republic of) as full members, with the Plurinational State of Bolivia

is a comprehensive accord to reduce barriers to trade in industrial and agricultural goods, services, rules of government procurement, intellectual property and other areas. The most recent initiative, announced in 2013, is to create a Trans-Atlantic Trade and Investment Partnership between the United States of America and the EU. The countries involved in these negotiations are all members of WTO, and most of them were its architects. It is sometimes claimed that agreements in limited forums such as those mentioned might catalyse more global agreements.[12] But if these RTA negotiations were to be concluded and later globally adopted, the policies would reflect the interests of the narrower groups in which the rest of the world played no part. More beneficial would be to put equivalent effort into making the global system better able to deliver on its promises.

Developing countries in global trade

World trade grew only 2.0 per cent in 2012, down from 5.2 per cent in 2011, reflecting the slow economic growth in developed economies. This was the smallest annual increase in world trade since 1981.[13] Trade of developing and transition economies grew faster than the world average, albeit at the relatively low rate of 3.3 per cent. Thus, the gap between the shares of global exports of developed and developing countries continued to narrow (figure 2). The developing-country share of world trade rose to 44.4 per cent in 2012. However, the African share remained at only 3.5 per cent and the LDC share (including oil) was still at 1.1 per cent. Moreover, five countries account for 62 per cent of the merchandise exports of LDCs.[14] Commodity exporters benefited from commodity prices that remained high by historical standards in 2011 and part of 2012, but prices continue to display strong volatility.[15]

Trade-restrictive measures

Countries are resisting protectionist pressures

When the global financial and economic crisis began, the members of the Group of 20 (G20) pledged to resist domestic pressures to impose protectionist measures, a pledge that they have regularly reaffirmed, most recently at their June 2012 Los Cabos, Mexico, summit where they pledged to maintain their standstill on trade and investment measures until the end of 2014, and to roll back any new

in the process of accession, plus Chile, Colombia, Ecuador and Peru as associated States (see www.mercosur.int).

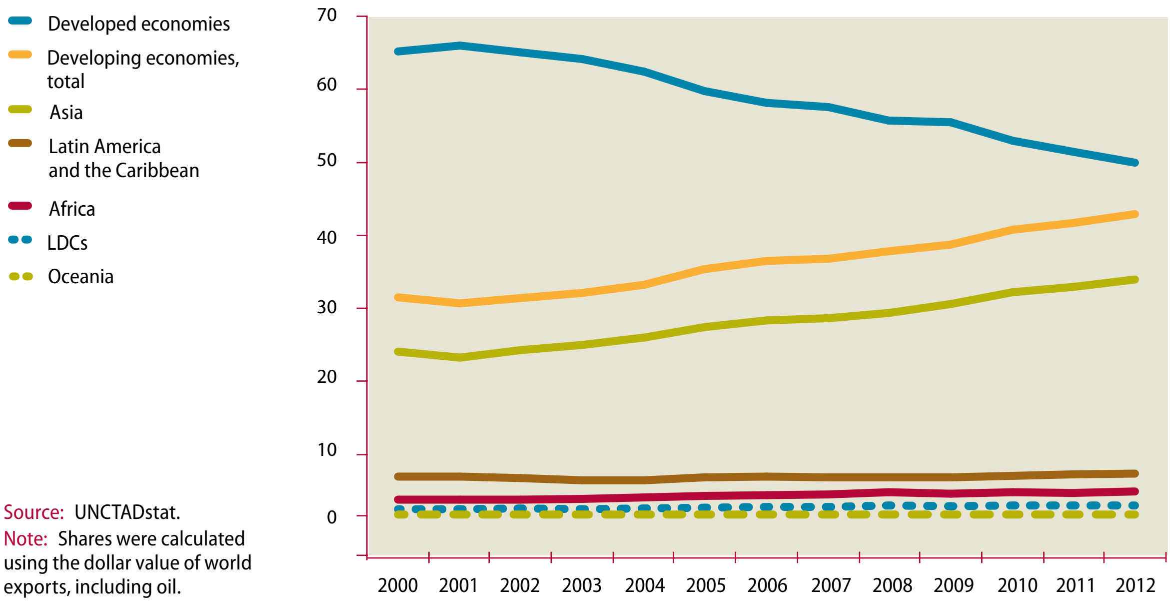
12 See remarks of Robert D. Hormats, United States Under Secretary for Economic Growth, Energy, and the Environment in "The Transatlantic Trade and Investment Partnership: America's new opportunity to benefit from and revitalize its leadership of the global economy", Washington, D.C., 23 April 2013, available from http://www.state.gov/e/rls/rmk/207997.htm accessed 6 June 2013.

13 World Trade Organization, "World Trade 2012, Prospects for 2013", press release, 10 April 2013.

14 Angola, Bangladesh, Equatorial Guinea, Sudan and Yemen. See United Nations Conference on Trade and Development, *The Least Developed Countries Report 2012: Harnessing Remittances and Diaspora Knowledge to Build Productive Capacities* (United Nations publication, Sales No. E.12.II.D.18).

15 See *World Economic Situation and Prospects 2013* (United Nations publication, Sales No. E.13.II.C.2) and World Trade Organization, "World Trade 2012, Prospects for 2013", op. cit.

Figure 2
Regional shares of global exports, 2000-2012 (*percentage*)



Source: UNCTADstat.
Note: Shares were calculated using the dollar value of world exports, including oil.

protectionist measures that nevertheless arose.[16] In fact, G20 Governments have largely, but not completely, resisted creating new trade barriers. According to information collected by the WTO from its members, 71 measures were imposed between mid-May and mid-October 2012 (which is the latest information available), down from 124 between mid-October 2011 and mid-May 2012.[17] While the number of measures may seem significant, they covered only about 0.4 per cent of G20 imports, or 0.3 per cent of world imports, down from 1.1 per cent and 0.9 per cent, respectively, in the earlier period.[18] Nevertheless, only 21 per cent of the measures imposed since October 2008 had been removed as at October 2012.[19]

Labour mobility and remittances

The high and rising unemployment situation in developed countries following the financial and economic crisis led to tighter restrictions on immigration and more difficult circumstances for a number of migrant groups. Young migrants were particularly hit by the crisis: according to the Organization for Economic Cooperation and Development (OECD), the increase between 2008 and 2011 in the share of young people not in education, employment or training had been especially marked among migrants.[20]

16 See "G-20 Leaders Declaration", Los Cabos, Mexico, 18-19 June 2012, para. 28, available from http://www.whitehouse.gov/the-press-office/2012/06/19/g20-leaders-declaration.
17 World Trade Organization, Report on G-20 Trade Measures (mid-May to mid-October 2012), October 2012, p. 2.
18 Ibid, p. 4.
19 Ibid, p. 5.
20 Organization for Economic Cooperation and Development, *International Migration Outlook 2012*, Paris.

Remittances increased despite employment woes

However, remittance flows continued to grow despite migrants' employment difficulties. Remittances to developing countries reached $401 billion in 2012, a 5.3 per cent increase over 2011.[21] Remittances are expected to increase at an annual average rate of 8.8 per cent during 2013-2015, to about $515 billion in 2015, although this may be an optimistic projection if unemployment levels remain high in host countries.

At the 2011 Cannes Summit, G20 leaders committed to bringing down the cost of transferring remittances from 10 per cent to 5 per cent of the value of funds transferred by 2014. The global average cost of remittances had been on a declining trend between 2008 and 2010, reaching a low of 8.7 per cent in the first quarter of 2010. Since then, however, remittance prices have risen again and have been broadly unchanged, at around the 9 per cent level over the past 12 months. The cost of remitting from G20 countries has been stable over the last twelve months and has followed a pattern similar to the global average.[22]

Market access

The core trade policy commitments under Goal 8 pertain to expanding the access of developing countries, especially LDCs, to the markets of the developed countries. The focus has been on reducing developed-country tariffs and quotas on imports from these countries.

Preferential access

At the 2005 Hong Kong WTO Ministerial Conference, and building upon the Doha Ministerial Declaration of 2001, it was agreed that developed countries and developing countries in a position to do so would provide DFQF market access to LDCs. This added to the benefits accorded to all developing countries under the Generalized System of Preferences (GSP). In fact, duty-free market access has been improving, including in 2011, the latest year for which data are available, when it covered 83 per cent of LDC exports and 80 per cent of the exports of developing countries as a whole (figure 3).

More LDC exports are enjoying true preferential access…

The majority of developing-country exports enter developed-country markets duty free under MFN treatment and thus without any specific preference.[23] However, more than half of LDC exports benefit from "true" preferential treatment.[24] In all, 52.7 per cent of LDC exports entered these markets duty free under true preference in 2011. However, the actual rate of utilization of preferential schemes offered by developed countries on products from LDCs and develop-

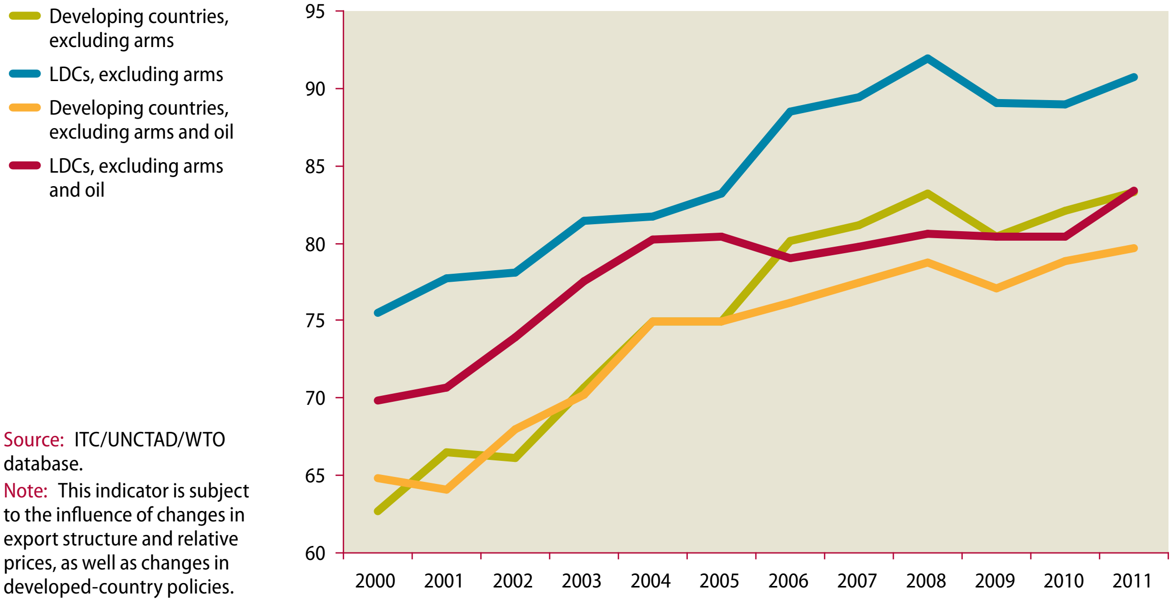
21 World Bank, *Migration and Development Brief No. 20*, April 2013.

22 In the first quarter of 2013, the global average total cost for sending remittances was 9.1 per cent, as measured by the World Bank's Remittance Prices Worldwide (RPW) database.

23 This reflects, inter alia, the concentration in large emerging economies on exports of industrial products that are covered by the Information Technology Agreement, while a higher share of non-oil LDC exports is in items that are normally dutiable under the most-favoured-nation agreement (MFN), such as agriculture or clothing.

24 "True" preferential access is defined as the percentage of exports offered duty-free treatment under the Generalized System of Preferences (GSP) and other preferential schemes, as opposed to products offered duty-free entry under the MFN treatment.

Figure 3
Proportion of developed-country imports from developing countries admitted duty free, 2000-2011 (*percentage*)



Source: ITC/UNCTAD/WTO database.
Note: This indicator is subject to the influence of changes in export structure and relative prices, as well as changes in developed-country policies.

ing countries varies for different reasons, including restrictive rules of origin or high administrative costs.

Compared with lower levels over the last decade (35 per cent in 2000), the improvement in true preference for LDCs was due, inter alia, to clarification of the "rules of origin" developed countries use to determine eligibility of an imported good for the preferential treatment. In particular, the EU revised the rules of origin of its GSP in 2010, to become operational in January 2011, and increased the flexibility, in particular for imports from LDCs. More recently, it introduced changes in its GSP scheme to better focus on countries most in need and to comply with institutional changes required under the Lisbon Treaty, which has governed the EU since 2009.[25] Also, the EU has argued that the withdrawal of preferences for upper-middle- and high-income developing countries would strengthen the competitive position of LDCs and open up new market possibilities for them.[26]

With a few exceptions, including Japan and the United States for clothing or textile products, all developed countries now offer LDC exports duty-free market access. However, whereas in most countries DFQF schemes for LDCs cover all products or have only very limited product restrictions, certain Asian

25 See http://europa.eu/lisbon_treaty/index_en.htm.
26 However, the impact of the GSP reform on LDC exports remains to be seen. It would need to be complemented in some cases with supply-side improvements in order to come into compliance with sanitary, phytosanitary and other requirements of the European Union market.

LDCs do not enjoy duty-free access in the United States market for some key items of export interest.[27]

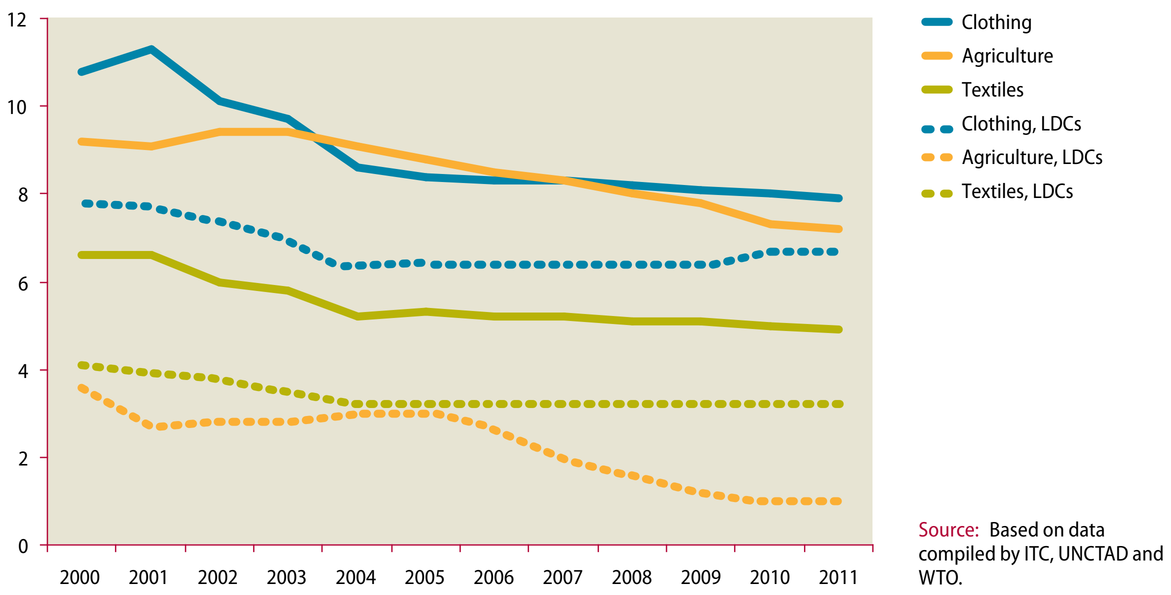
As noted in previous MDG Gap Task Force reports, a number of key developing-country partners also grant a significant degree of DFQF market access to exports from LDCs. Countries such as China, India and the Republic of Korea continue to increase the product coverage of their DFQF. Indonesia has recently announced it is also considering the introduction of a DFQF scheme for LDCs, which it expects to implement starting in 2014. Chile has also announced a move to gradually implement a DFQF scheme for LDCs, which currently are subject to tariffs 5 percentage points higher than partners trading on a preferential basis.

Tariff barriers

…but the preferential margin for LDC clothing is small

The average level and the structure of a country's tariffs combine to determine the size of the barrier to expanded exports from its trading partners. In the case of the products exported by LDCs, developed-country tariffs have been almost entirely removed or are very low, as in agriculture. At the same time, the average tariffs paid on imports from other developing countries have also declined, eroding the preference margin granted to LDCs. However, average tariffs imposed on developing countries remain relatively high in the cases of agriculture, textiles and clothing (figure 4). This leaves a significant preferential margin for LDC

Figure 4
Average tariffs imposed by developed countries on key products from developing countries, 2000-2011 (*percentage ad valorem*)



Source: Based on data compiled by ITC, UNCTAD and WTO.

27 Key exports, including apparel, of such LDCs as Bangladesh and Cambodia are not covered under the United States GSP scheme. In the case of Bangladesh, its apparel exports to the United States face, on average, a 15 per cent MFN tariff. Despite these higher tariffs, Asian LDCs exporters have increased their share in United States markets.

exports of agricultural goods (about 6 percentage points), but much lower preference for textiles (around 2 percentage points) and, in particular, clothing (about or below 1 percentage point), owing to preference exclusions noted earlier. Given that clothing is the most important export good for many LDCs, overall average tariffs faced by them can easily be higher than average tariffs faced by non-LDCs.

The structure of tariffs is particularly important in assessing the barriers to imports of processed and manufactured products. Developing countries may face high tariffs on individual product categories ("tariff peaks"), despite a low average tariff, as well as a cascading structure of tariffs that protect final products more heavily than inputs ("tariff escalation"). Removing such features of the tariff structures of developed countries on products of export interest to developing countries has the potential to increase the former's gains from trade.

Tariffs and escalation on agricultural products remain high

As seen in table 1, almost 10 per cent of the trade-weighted tariff lines in high-income member countries of the OECD continue to be subject to relatively high tariffs. The data on tariff peaks show a slight increase over the past two years. Moreover, the high degree of protection of agricultural products is clear from the data on tariff peaks for agricultural products.

The overall degree of tariff escalation has been small, and remained so in 2012 in the sense that the average tariff on all raw materials is about the same as the average tariff on all finished goods. The situation may be less sanguine on an industry-by-industry basis, however, and is especially apparent in the case of agricultural goods, where tariff escalation remains significant.

Table 1

Tariff peaks and escalation in high-income OECD countries, 2000 and 2006-2012[a]
(*percentage*)

	2000	2006	2007	2008	2009	2010	2011	2012
Tariff peaks[b]								
All goods	9.2	9.5	9.3	9.0	8.9	8.8	9.3	9.7
Agricultural	33.4	37.6	37.4	37.5	36.5	34.6	36.3	36.0
Non-agricultural	3.1	2.3	2.2	2.2	2.2	2.2	2.3	2.5
Tariff escalation[c]								
All goods	1.0	0.2	0.1	0.1	0.1	0.1	0.2	-0.4
Agricultural	12.6	10.7	11.2	11.8	11.2	9.8	11.2	10.0
Non-agricultural	2.1	1.6	1.3	1.4	1.4	1.2	1.2	0.3

Source: ITC.
a Values shown are averages weighted by share in world imports.
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. Prior to aggregation over countries, the country average is a simple average of "Harmonised System", six-digit duty averages.

Agricultural subsidies in OECD countries

The persistence of providing subsidies and…

Domestic policies may also have a trade-impeding impact and agricultural subsidies in developed countries have been a primary case in point. In 2012, support to farmers across the OECD area amounted to $259 billion. As a percentage of farm receipts, support was little changed in 2012, and overall it remained lower than in recent years. The part of this support that is directly linked to production—the most trade-distorting type—still represents about half of the

Table 2
Agricultural support in OECD countries, 1990, 2000 and 2006-2012

	1990	2000	2006	2007	2008	2009	2010	2011	2012[a]
Total agricultural support in OECD countries[b]									
In billions of United States dollars	325	321	356	347	380	376	383	409	415
In billions of euros	256	348	284	253	260	270	289	294	323
As a percentage of OECD countries' GDP	2.37	1.15	0.95	0.88	0.94	0.95	0.93	0.96	0.94
Support to agricultural producers in OECD countries[c]									
In billions of United States dollars	251	245	255	244	265	249	242	257	259
In billions of euros	198	266	203	178	181	179	183	185	201
As a percentage of gross farm receipts (PSE)	31.8	32.3	25.6	20.8	20.7	21.9	19.2	18.3	18.6

Source: OECD, Agricultural Policies in OECD Countries and Emerging Economies (Paris, forthcoming).
a Preliminary data.
b The Total Support Estimate (TSE) comprises support to agricultural producers, both at the individual and collective levels, and subsidies to consumers.
c The Producer Support Estimate (PSE) measures support provided directly to agricultural producers.

total.[28] While such support is of obvious interest to its primary beneficiaries, it conflicts with other priorities of the countries providing subsidies and, in particular, with the global goals of promoting development and helping to eradicate global poverty.

Non-tariff measures

Market access also depends on compliance with an increasing number of regulatory measures, generally referred to as non-tariff measures (NTMs). In practice, many of these policies have a much higher trade-restrictive effect than tariffs. For example, although the existing systems of preferences grant low-income countries a relatively low tariff for their agricultural exports (on average about 5 per cent), once an ad valorem equivalent effect of NTMs is added, the total restrictiveness becomes about 27 per cent (figure 5).[29]

…the increased use of non-tariff measures are affecting agricultural export access

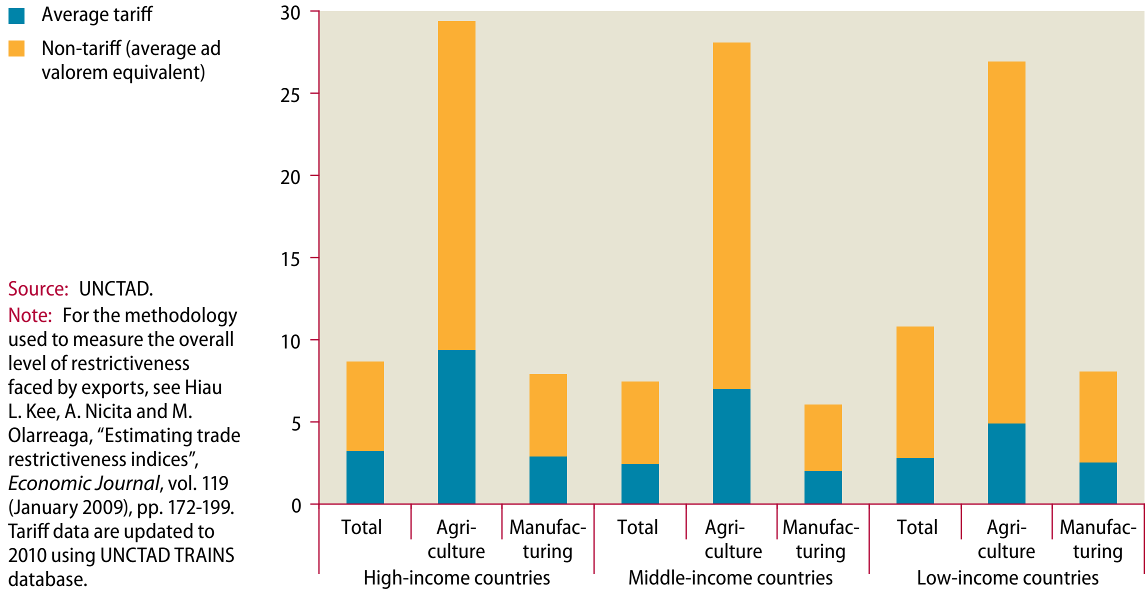
The use of NTMs has increased since 2000, especially with regard to trade in agricultural products and other sectors of substantial export interest to developing countries, such as textiles and clothing. Moreover, the effects of NTMs depend not only on regulatory frameworks per se, but also on their implementa-

28 Organization for Economic Cooperation and Development, *Agricultural Policy Monitoring and Evaluation 2012: OECD Countries* (Paris, 2012).

29 United Nations Conference on Trade and Development, "A preliminary analysis on newly collected data on non-tariff measures", *Policy Issues in International Trade and Commodities*: Study Series, No. 53 (UNCTAD/ITCD/TAB/54), New York and Geneva, 2013.

Figure 5

Tariffs and non-tariff measures affecting exporters (*average ad valorem tariffs and NTM equivalents, 2000-2010; percentage*)



Source: UNCTAD.
Note: For the methodology used to measure the overall level of restrictiveness faced by exports, see Hiau L. Kee, A. Nicita and M. Olarreaga, "Estimating trade restrictiveness indices", *Economic Journal*, vol. 119 (January 2009), pp. 172-199. Tariff data are updated to 2010 using UNCTAD TRAINS database.

tion procedures and administration mechanisms.[30] In this regard, developing countries and their enterprises often have a more limited capability (or incur higher costs) in meeting the requirements dictated by NTMs. Inadequate production processes, weak trade-related infrastructure and poor export support services are main obstacles.[31]

For example, a recent analysis of major trade partners' border rejections of agricultural and food products shows that developing-country exporters continue to struggle to achieve compliance with sanitary, phytosanitary and technical requirements (figure 6).[32] Overcoming these challenges requires the enhancement of local capacities to ensure, assess and prove conformity with international standards and technical regulations, public-private sector efforts to establish a culture of quality, improvements in production processes and investment in new technology.[33]

There is a need to address NTMs through a coherent approach that addresses both legitimate importing country purposes for imposing NTMs and

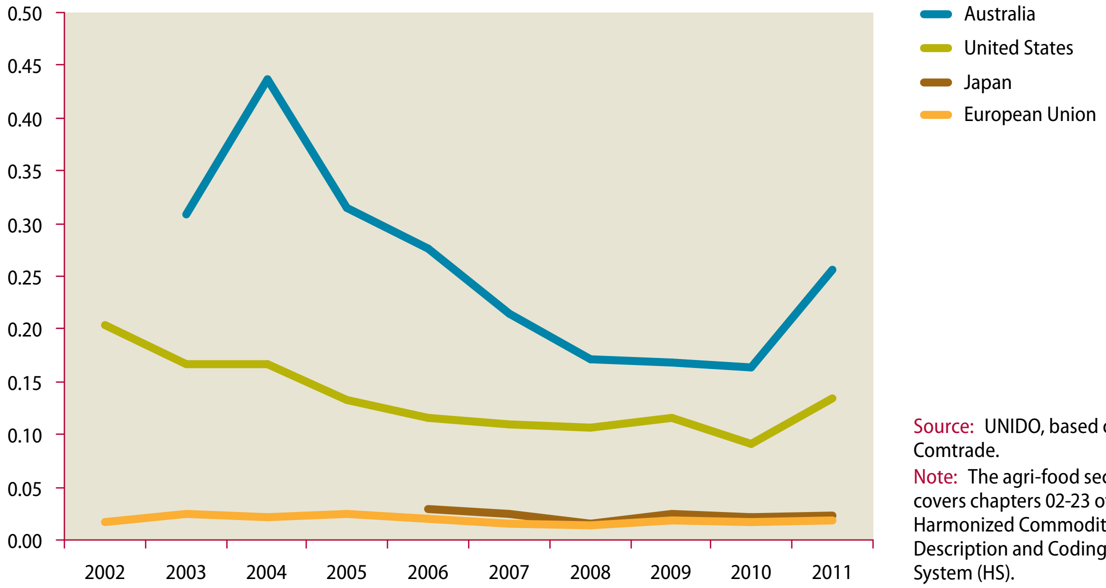
30 United Nations Conference on Trade and Development, "Non-tariff measures to trade: Economic policy issues for developing countries", *Developing Countries in International Trade Studies* (UNCTAD/DITC/TAB/2012/1), New York and Geneva, forthcoming.

31 United Nations Conference on Trade and Development, "Evolution of non-tariff measures: Emerging cases from selected developing countries", *Policy Issues in International Trade and Commodities*: Study Series, No. 52 (UNCTAD/ITCD/TAB/53), New York and Geneva.

32 Based on data from the Australian Quarantine and Inspection Service (AQIS), the Rapid Alert System for Food and Feed (RASFF) of the European Union's Directorate General for Health and Consumers (DG SANCO), the Japanese Ministry of Health, Labour and Welfare (MHLW), and the Operational and Administrative System for Import Support (OASIS) database of the United States Food and Drug Administration (FDA).

33 See United Nations Industrial Development Organization, *Meeting Standards, Winning Markets. Trade Standards Compliance Report 2013*, Vienna, forthcoming.

Figure 6
Rejections of "agri-food" imports, 2002-2011
(*number of rejections per US$ 1 million imports*)



Source: UNIDO, based on UN Comtrade.
Note: The agri-food sector covers chapters 02-23 of the Harmonized Commodity Description and Coding System (HS).

international agreements on harmonization and mutual recognition of regulatory measures.[34] Developing countries require expanded capacities to both comply with and provide proof of compliance with trade-related standards.

Aid for Trade

Commitments for aid plunged…

"Aid for Trade", the category of official development assistance (ODA) devoted to strengthening trade capacity, declined significantly in 2011. Commitments amounted to $41.5 billion, down almost 14 per cent from 2010, measured in 2011 prices and exchange rates. As noted earlier in this report, ODA fell again in 2012 and it is expected that, when detailed data are available, Aid for Trade will also have fallen again.

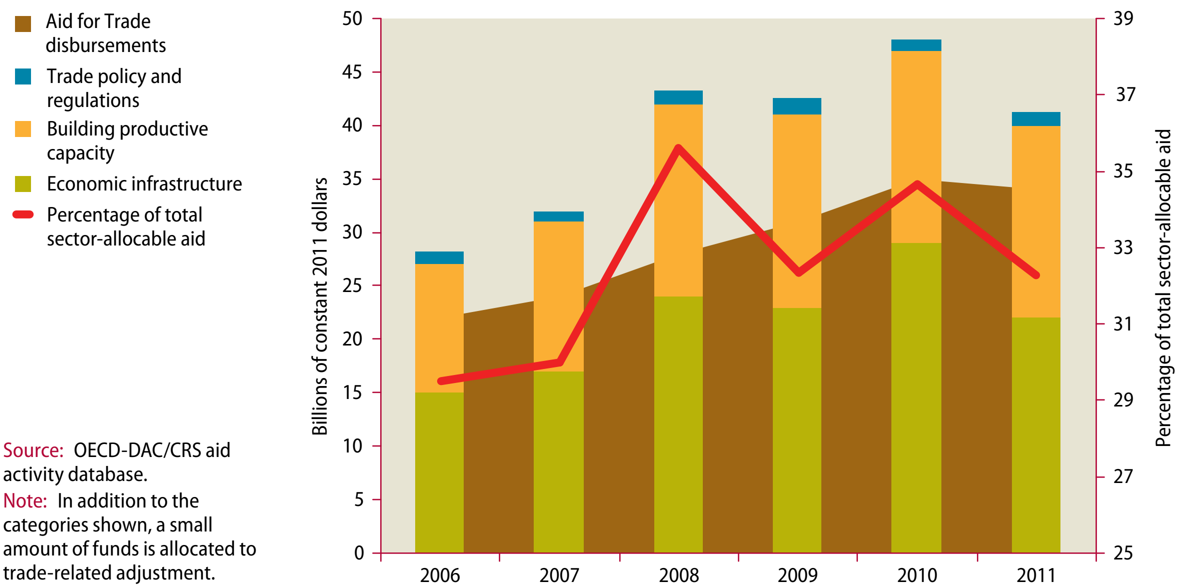
More than half of commitments and disbursements continue to be made towards economic infrastructure, but this is where the bulk of the decline has been registered (figure 7). Support for building productive capacities in sectors such as agriculture and industry registered a slight increase in 2011. Commitments to assist in trade facilitation declined 10 per cent from 2010.

…especially in Africa

Africa was the region most affected by the decline in 2011 funding. Commitments fell 29 per cent, or over $5.4 billion, to $13.1 billion (figure 8). Northern African countries saw a decline of 75 per cent from 2010. Southern Asia's share of Aid for Trade continues to be sizeable. The Caribbean, followed by

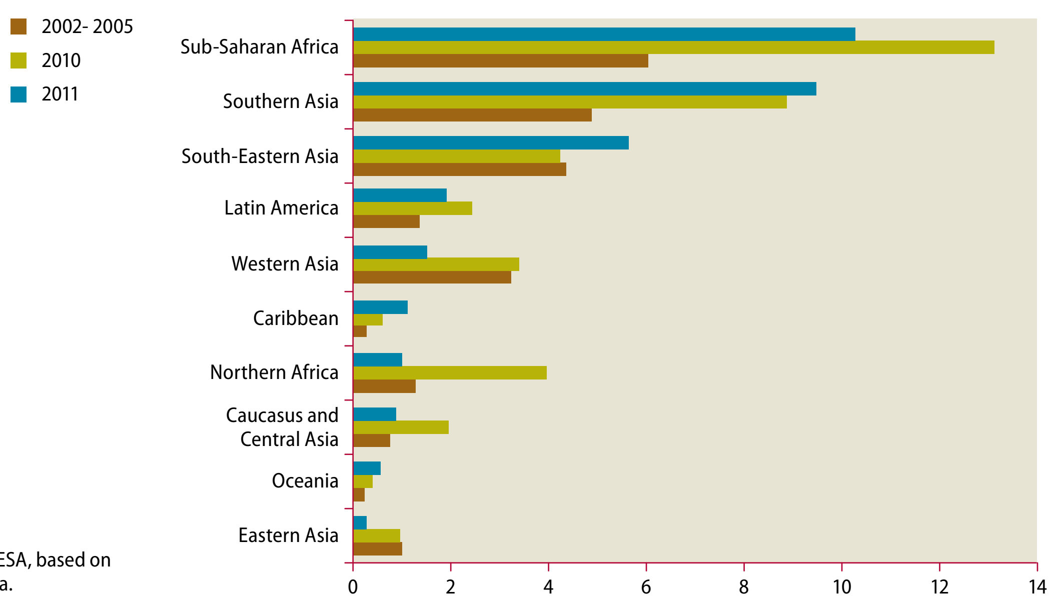
34 United Nations Conference on Trade and Development, "Non-tariff measures to trade: Economic policy issues for developing countries", op. cit.

Figure 7
Aid for Trade commitments, 2006-2011
(*billions of constant 2011 dollars; percentage of total sector-allocable aid*)



Source: OECD-DAC/CRS aid activity database.
Note: In addition to the categories shown, a small amount of funds is allocated to trade-related adjustment.

Figure 8
Aid for Trade commitments by region, 2002-2005, 2010 and 2011 (*billions of 2011 dollars*)



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

Oceania, showed the largest increases from 2010—84 per cent and 34 per cent, respectively—although volumes remained small.

The international focus on Aid for Trade increased at the 2005 Hong Kong WTO Ministerial Meeting. It did not embody a new ODA target, but rather called for efficiently earmarking and applying a portion of ODA to boost the capacity of developing countries to benefit from trade. The G20, at its Seoul Summit in 2010, committed to maintaining spending on Aid for Trade at least at the average level of the period 2006-2008.[35] Meanwhile, every member of the Group of Seven provided less Aid for Trade in 2011 than in 2010, accounting for almost the entire 2011 decline. This notwithstanding, France, Germany, Japan and the United States continue to be the largest donors, together accounting for 40 per cent of total flows.

Support to Aid for Trade, including the Enhanced Integrated Framework (EIF), an implementing multi-institution arrangement for LDCs, remains important.[36] A recent mid-term review to assess progress of EIF activities shows that this global programme is indeed building capacities at the country level. It also reveals that LDCs would benefit from additional and customized support to develop catalytic projects, manage the trade agenda, coordinate support and mainstream trade into development planning.[37]

The OECD and the WTO lead the international monitoring of the Aid for Trade initiative and will undertake the Fourth Global Review in Geneva from 8 to 10 July 2013. The focus will be analytical, on formulating strategies to connect LDC and other developing-country firms to "international value chains", a term used to describe the design, production and delivery of products (or services) that take place in stages across different countries. As the value added (and income) is lower at the more routine stages of the value chain, the objective is to "move up" in the value chain. The implicit goal is to increase efforts to develop all stages in a value chain within one country. As indicated in a recent study by the United Nations Conference on Trade and Development (UNCTAD), there are developmental benefits to participation in international value chains, although they are not automatic and the environmental and social impact of moving goods along internationally dispersed value chain segments must be taken into account.[38]

35 See Group of Twenty (G20), "Multi-year Action Plan on Development", adopted at the Seoul Leaders Meeting held on 12 November 2010, p. 4.

36 The Enhanced Integrated Framework (EIF) programme is supported by a multi-donor trust fund with paid-up contributions of US$ 168 million (as at end-2012).

37 See Enhanced Integrated Framework, "EIF Steering Committee welcomes the proposed extension of the programme until end of 2015 and acknowledges the impact of the programme on the ground", Press Release, Geneva, 14 December 2012.

38 See United Nations Conference on Trade and Development, *Global value chains and development: Investment and value added trade in the global economy* UNCTAD/DIAE/2013/1), 2013.

Policy recommendations

It is undeniable that the success of the global partnership for development will hinge on whether it can mobilize actions and international support measures in key policy areas, including on trade and labour mobility. In the remaining years of the MDGs, actions are required to improve market access for developing countries. The commitment to multilateralism is also at stake. Failure to deliver on the core issues will seriously undermine the legitimacy of the trading system. Coherent actions at national and international levels are needed, as reflected in the following recommendations:

- Reach a balanced, development-oriented conclusion of the Doha Round of trade negotiations, including on all the core elements of the original mandate
- Implement the commitment to eliminate all forms of agricultural export subsidies and all disciplines with equivalent effect by the end of 2013, as pledged in the 2005 Hong Kong Ministerial Declaration
- Fully implement the 2005 Hong Kong Ministerial Declaration commitment to provide duty-free, quota-free market access to LDC products, along with simplified rules of origin and coherent implementation of preferential schemes
- Recommit to removing all trade-restrictive measures that have been adopted since the onset of the global crisis and refrain from imposing new ones
- Increase support for strengthening productive sectors in developing countries, including through sustainable and predictable Aid for Trade and the Enhanced Integrated Framework for LDCs
- Explore options to reach multilaterally brokered regional trade agreements with a view to increasing trade gains on a most-favoured-nation basis
- Contribute to the global debate on the post-2015 framework by clarifying the conceptual linkages between trade and sustainable development and by assessing options for national and global targets related to productive capacities and economic diversification

Debt sustainability

Since the inception of the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI), considerable debt relief has been provided to a number of HIPCs. Other developing countries have arranged restructuring of their debts with various groups of private and official creditors. Nevertheless, a central issue remains for domestic and international economic policy, namely, how to reduce the occurrence of sovereign debt problems in developing and developed countries and, when their debt burdens become excessive, how to help them restructure their obligations in an effective and fair way that gives them a fresh start. Effective debt resolution is critical to minimizing the economic and social costs incurred by excessive debt accumulation. The history of debt relief and restructuring is replete with examples of the time and costs incurred by the delay in finding a solution.

The international community has agreed to certain broad principles for debt restructuring, including "fair burden-sharing" between debtors and creditors, as called for in the Monterrey Consensus (A/CONF.198/11, chap. 1, resolution 1, annex, para. 51), and "legal predictability", prescribed in the Doha Declaration (A/CONF.212/7, chap. 1, resolution 1, annex, para. 60). However, they have yet to be institutionalized through concrete practices. The outcome document of the High-level Plenary Meeting of the General Assembly on the Millennium Development Goals (resolution 65/1) and the Istanbul Programme of Action (IPoA) for the least developed countries (LDCs)[1] underline the importance of ensuring long-term debt sustainability and reiterate the need for appropriate debt workouts when sovereign debts become unsustainable.

The United Nations Conference on Trade and Development (UNCTAD) has coordinated an expert group that has drafted a set of Principles of Responsible Sovereign Lending and Borrowing,[2] which has so far been endorsed by 12 countries. Moreover, technical assistance programmes of UNCTAD, the World Bank and other providers are strengthening debt management. While exploratory discussions on a rules-based framework for debt crisis management are ongoing in various forums, including at the United Nations, there is not yet a consensus on how to proceed. Putting the "rules of the game" into an agreed framework could go a long way to ensuring more efficient and speedier solutions to future debt problems.

1 The Istanbul Programme of Action (IPoA) was adopted at the Fourth United Nations Conference on the Least Developed Countries (LDCs) in June 2011 (A/CONF.219/3). It recognized that despite benefiting from debt relief, many LDCs still struggle with a high debt burden. The IPoA also calls, inter alia, for specific debt-relief measures for LDCs that are not beneficiaries of the HIPC Initiative on a case-by-case basis.

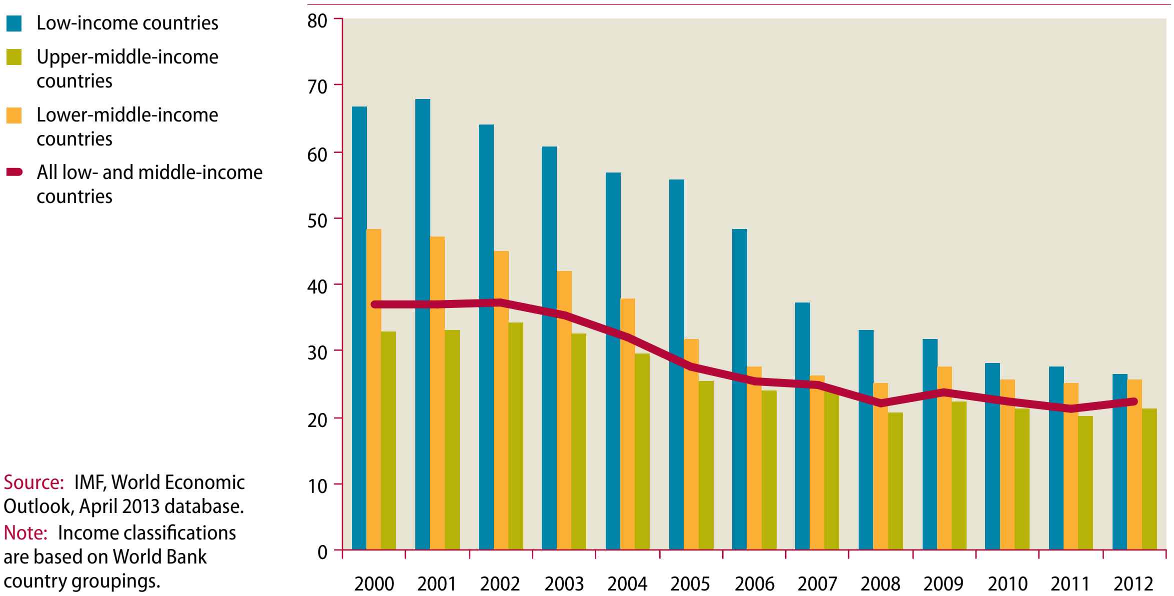
2 See United Nations Conference on Trade and Development, "Draft principles on promoting responsible sovereign lending and borrowing", Geneva, 26 April 2011, available from http://unctad.org/en/Docs/gdsddf2011misc1_en.pdf.

The debt situation in developing countries

External debt ratios decreased…

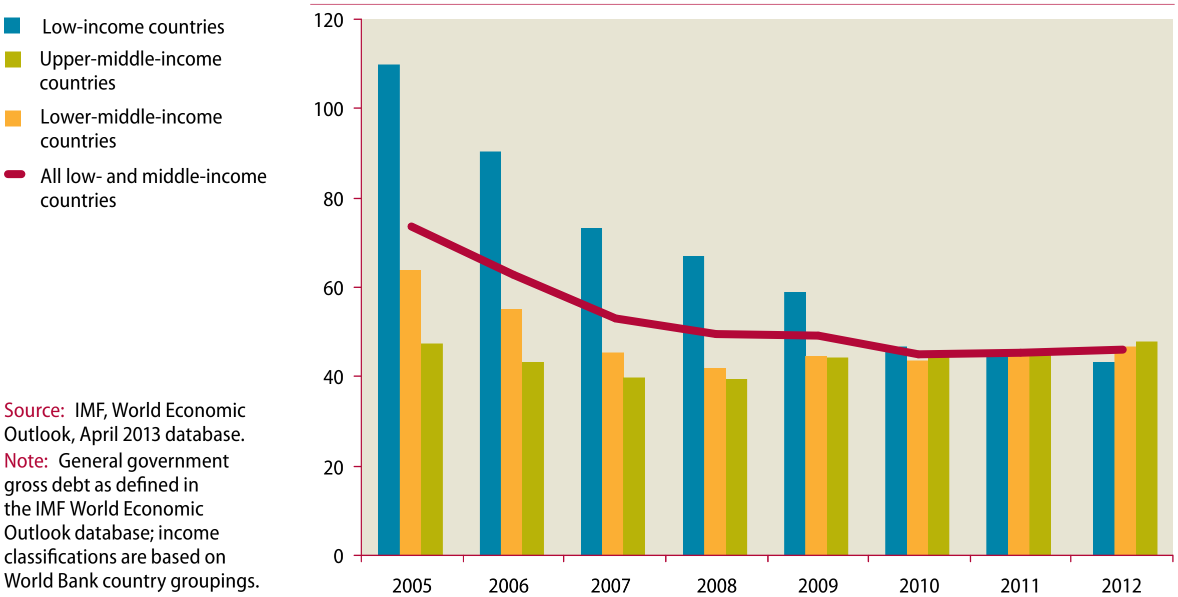
For developing countries as a whole, the ratio to gross domestic product (GDP) of total external debt (public and private) averaged 22.3 per cent in 2012, up slightly from 21.4 per cent in 2011 (figure 1). The total government debt-to-GDP ratio (borrowed from foreign and domestic sectors) stood at 45.9 per cent in 2012, a slight increase from 2011 when the ratio stood at 45.3 per cent (figure 2). These

Figure 1
External debt of developing countries, 2000-2012
(*percentage of GDP*)



Source: IMF, World Economic Outlook, April 2013 database.
Note: Income classifications are based on World Bank country groupings.

Figure 2
Government debt of developing countries, 2005-2012
(*percentage of GDP*)



Source: IMF, World Economic Outlook, April 2013 database.
Note: General government gross debt as defined in the IMF World Economic Outlook database; income classifications are based on World Bank country groupings.

ratios are low in historical terms and the differences from 2011 do not suggest significant change.

…but many developing countries, especially those in the Caribbean, face challenges…

Nevertheless, the aggregate data mask the extent to which some developing countries remain critically indebted or are at significant risk of debt distress. In particular, several small States face challenges in macroeconomic management and sovereign debt. The problem is most acute among countries in the Caribbean, where Belize, Grenada, Jamaica and St. Kitts and Nevis, with unsustainable debt levels, sought to restructure portions of their debt in 2012.

The debt situation in the Caribbean highlights the challenges faced by many small States. Prior to the global financial and economic crisis, several countries stabilized and even reduced their public debt ratios, supported by economic growth. However, strong linkages to the economies of the United States of America and Europe and a high dependence on tourism meant the region as a whole suffered a severe negative impact from the recent financial crisis. These factors, combined with the erosion of trade preferences (see chapter on market access) and extreme weather events in several countries, led to poor—and even negative—economic growth. Several Caribbean countries responded by increasing public expenditures in order to stimulate economic activity and limit job losses. This was financed through new borrowing which resulted in higher public debt. Since then, fiscal consolidation imperatives have competed with the need for continued outlays to cushion the employment impact and pressures on social stability.[3]

A contrast may be drawn with the experience in the low-income countries in sub-Saharan Africa, many of which have benefited from comprehensive and deep debt-relief programmes over the past two decades. The number of countries assessed by the International Monetary Fund (IMF) and the World Bank as being at high risk or in debt distress has fallen from 18 at end-2006 to 8 as at June 2013 (figure 3).

…and external debt service increased

This encouraging trend notwithstanding, external debt service increased from 24.9 per cent of exports in 2011 to 27.1 per cent in 2012, as export growth did not match that of debt servicing. For upper-middle-income countries, debt service stood at 29.1 per cent of exports in 2012 (figure 4).

Fiscal balances improved more slowly…

Although most developing countries' fiscal balances have not yet reverted back to pre-crisis levels, they have improved. Fiscal balances improved slightly in 2012, from a deficit of 2.53 per cent of GDP in 2011 to 2.27 per cent in 2012 for low- and middle-income countries (figure 5). The concern of many countries about the negative social impact of severe austerity measures, in particular if imposed in times of crisis, has resulted in slower reduction of fiscal deficits. Nevertheless, the pace of fiscal adjustment and its impact on social outlays is set to increase in the period 2013-2015.[4]

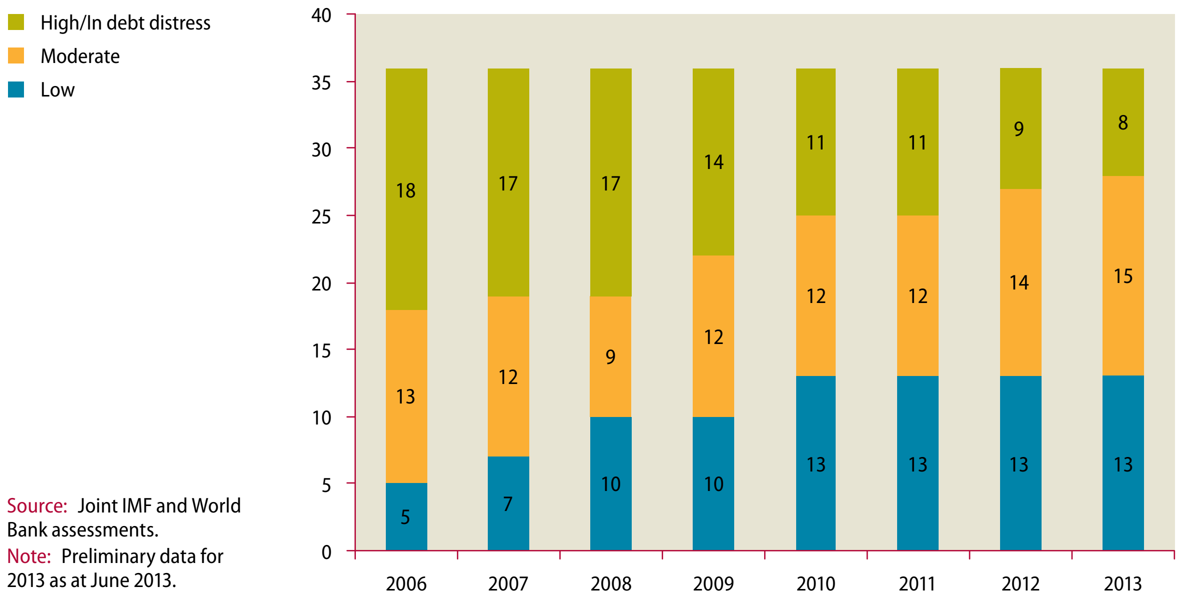
…while current-account balances worsened

On the other hand, the current-account balances of low- and lower-middle-income countries have continued to worsen. This is important because the

3 See also International Monetary Fund (IMF), "Macroeconomic issues in small states and implications for Fund engagement", 20 February 2013.

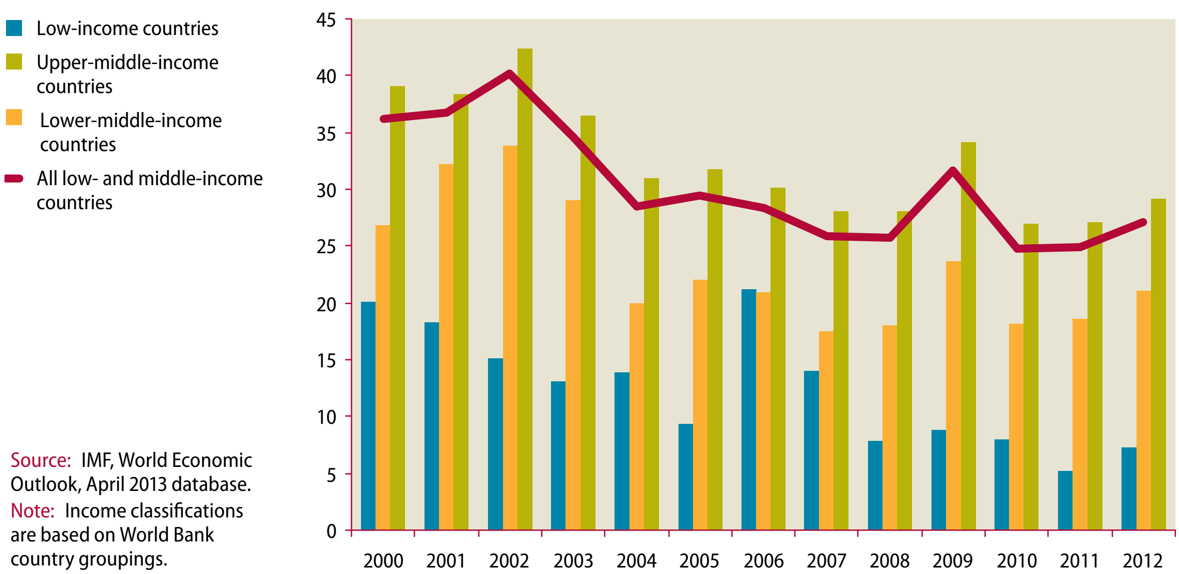
4 Based on a review of IMF reports on 181 countries, inter alia, monitoring public expenditure plans (see Isabel Ortiz and Matthew Cummins, "The age of austerity: a review of public expenditures and adjustment measures in 181 countries", Initiative for Policy Dialogue Working Paper, Columbia University and South Centre, 29 March 2013, available from http://policydialogue.org/publications/working_papers/age_of_austerity/).

Figure 3
Risk of debt distress in sub-Saharan Africa, 2006-2013
(*number of countries*)



Source: Joint IMF and World Bank assessments.
Note: Preliminary data for 2013 as at June 2013.

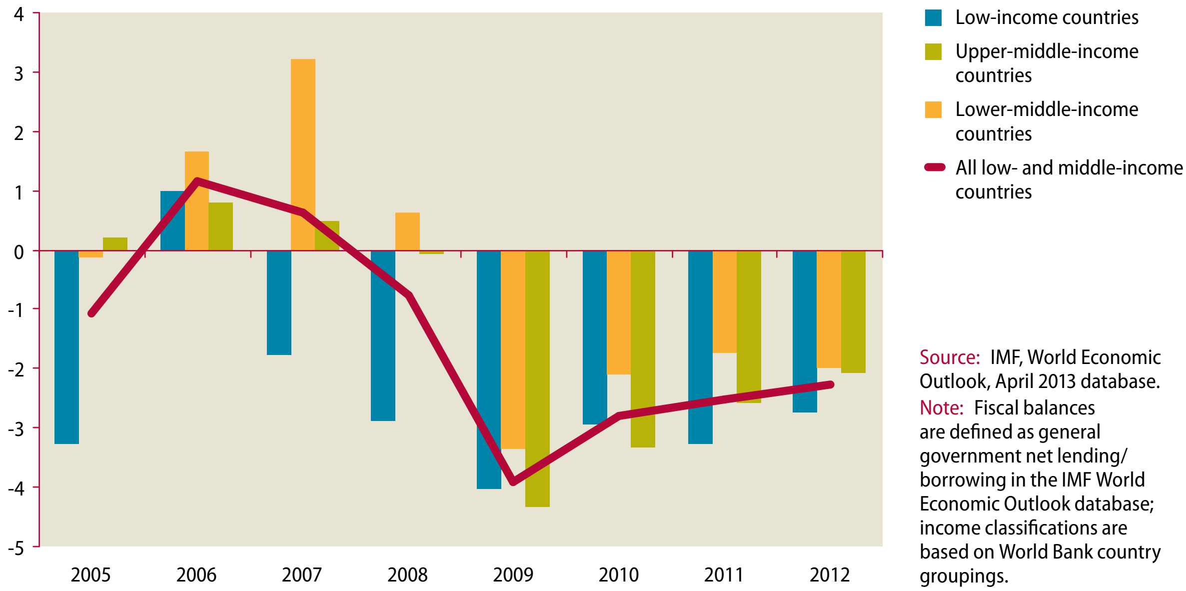
Figure 4
External debt service of developing countries, 2000-2012
(*percentage of exports*)



Source: IMF, World Economic Outlook, April 2013 database.
Note: Income classifications are based on World Bank country groupings.

extent to which a country's current account is in deficit determines its external borrowing needs. Low-income countries registered a current-account deficit of 6.5 per cent of GDP in 2012 compared with 6.4 per cent in 2011; for lower-middle-income countries the current-account deficit widened much further from 1.4 per cent of GDP in 2011 to 2.8 per cent in 2012. While upper-middle-income

Figure 5
Fiscal balances of low- and middle-income countries, 2005-2012
(*percentage of GDP*)



Source: IMF, World Economic Outlook, April 2013 database.
Note: Fiscal balances are defined as general government net lending/ borrowing in the IMF World Economic Outlook database; income classifications are based on World Bank country groupings.

countries have registered consistent current-account surpluses since 2005, the size of the surplus has progressively declined, particularly since the outbreak of the recent economic crisis (figure 6).

A greater share of developing-country public debt is short-term…

Finally, the composition of the public debt is changing for all categories of developing countries. One aspect of this change is that the share of short-term debt as a proportion of GDP and of overall debt is increasing (figure 7). This is especially the case for lower- and upper-middle-income countries. For upper-middle-income countries, 31.5 per cent of external debt was short-term debt in 2012, up from 30.2 per cent in 2011. For lower-middle-income countries, 16.9 per cent of external debt was short-term in 2012 compared with 15.7 per cent in 2011. If this were to continue, it could present rollover challenges.

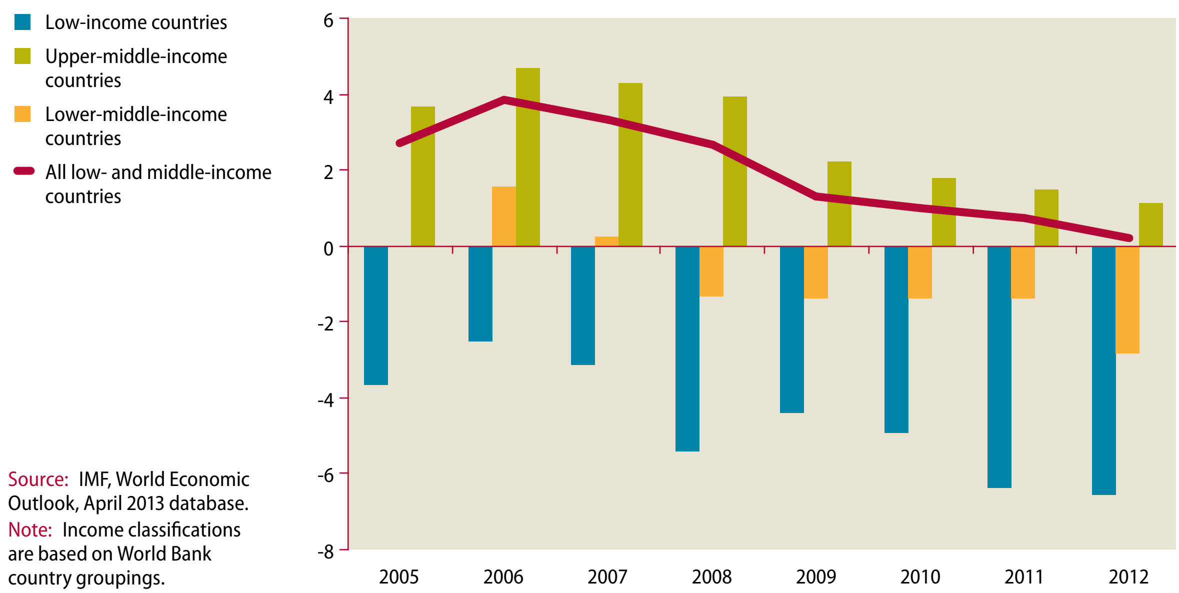
…and these countries are relying more on the private sector

A second aspect is that many developing countries are increasingly relying on private rather than official forms of borrowing. An increasing number of countries—including several low-income sub-Saharan African countries—have begun to issue sovereign bonds on international capital markets. This trend continued in 2012 and 2013 with issues by Rwanda, the United Republic of Tanzania and Zambia, for instance. The success of these bond issues, secured at high spreads, can be attributed in part to the financial market perception of the issuing countries, including prospects for high economic growth, persisting high commodity export prices, resource discoveries, and lower levels of outstanding debt resulting from comprehensive relief operations. In addition, international investors have found themselves with excess liquidity as a side effect of expansionary monetary policy stances in developed countries.

However, such debt is non-concessional and underscores how important it is that Governments use the resources raised on international capital markets for highly productive investments that generate returns to service the debt secured at higher spreads. Moreover, the increased use of non-concessional loans by some

Figure 6

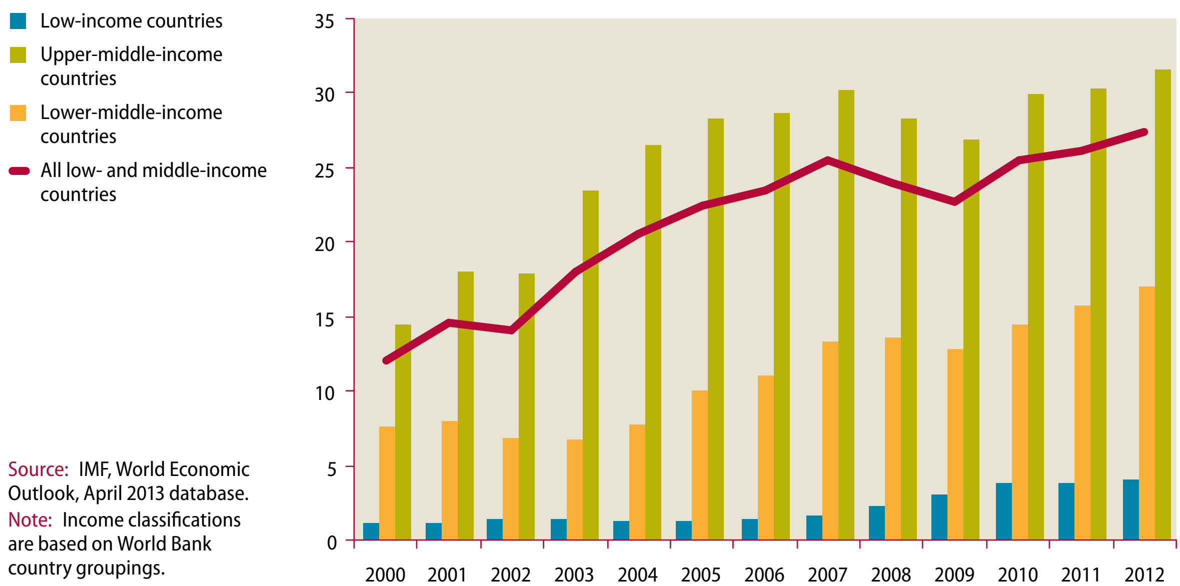
Current-account balances of developing countries, 2005-2012
(*percentage of GDP*)



Source: IMF, World Economic Outlook, April 2013 database.
Note: Income classifications are based on World Bank country groupings.

Figure 7

Share of short-term debt in external debt of developing countries, 2000-2012
(*percentage*)



Source: IMF, World Economic Outlook, April 2013 database.
Note: Income classifications are based on World Bank country groupings.

countries that are dependent on a few volatile commodity exports could increase their debt vulnerability and underscores the undiminished need for an adequate supply of grant resources for development cooperation. A recent study showed how eight formerly heavily indebted low-income countries have increased their debt-to-GDP ratio, thereby retreating one third of the way back to their pre-relief levels in only four years.[5]

While bond issues are medium- to long-term funding sources, when bonds issued in local currencies are purchased by foreign investors, they can be used to speculate on short-term interest and exchange-rate movements and add to volatility concerns in macroeconomic management. Consequently, countries that rely more heavily on international capital markets to meet fiscal deficits and fund public development expenditures, even when borrowing in local currency, are vulnerable to abrupt and unforeseen interruptions in their access to finance, changes in the cost of that finance, and the disruptive impact caused by a rapid exit of funds. In some developing countries, moreover, debt is also increasing at the subnational level; Governments may therefore have substantial contingent liabilities associated with public enterprises, State guarantees and public-private partnerships, not to mention the domestic banking system. Countries need to consider these factors in assessing their risk profiles.

Progress in relief for debt-crisis countries

The HIPC Initiative is almost completed...

While most developing countries in debt crisis have to make ad hoc arrangements with their various groups of creditors to restructure their excessive debt, the international community devised a comprehensive initiative for a group of HIPCs. Begun in 1996, strengthened in 1999 and complemented by the MDRI in 2005, the HIPC Initiative is now nearly completed.

As at end-April 2013, 35 countries out of a total of 39 HIPCs had reached the so-called completion point, the point at which comprehensive debt relief becomes irrevocable (table 1). In 2012, 3 countries reached their completion point: Côte d'Ivoire, Guinea and Comoros. However, 6 of these 35 countries are still at high risk of debt distress. Chad is now the only country at the "decision point", where interim relief is accorded for it to reach its completion point. Three additional countries—Eritrea, Somalia and Sudan—are eligible to receive debt relief under the HIPC Initiative and MDRI. The IMF and the World Bank report that Sudan has made progress towards the decision point, including undertaking a debt reconciliation exercise with creditors and drafting a Poverty Reduction Strategy Paper (PRSP). Eritrea and Somalia are not expected to enter the Initiative any time soon. Bhutan, Kyrgyzstan and the Lao People's Democratic Republic are no longer considered in need of support from the Initiative, while the assessment of Myanmar awaits improved data. Nepal remains potentially eligible, although the country's authorities have indicated that they do not wish to avail themselves of the programme. Finally, Zimbabwe remains in debt distress and could also be added to the list of eligible countries if future debt assessments confirm that it meets the indebtedness criterion and its eligibility to draw from the IMF Poverty Reduction and Growth Trust is reinstated.[6]

5 See Dino Merotto, Mark Thomas and Tihomir Stucka, "How clean is the slate? African public debt since debt relief", Mimeo, World Bank, 2012.

6 See International Development Association and International Monetary Fund, "Heavily indebted poor countries (HIPC) initiative and multilateral debt relief initiative (MDRI)—statistical update", 25 March 2013, available from http://siteresources.worldbank.org/INTDEBTDEPT/Resources/468980-1256580106544/HIPCStatisticalUpdate2013.pdf.

Table 1

Debt-relief status of HIPCs (*at end-April 2013*)

35 post-completion-point HIPCs[a]				
Afghanistan	Comoros	Guinea	Malawi	Sao Tome and Príncipe
Benin	Congo	Guinea-Bissau	Mali	Senegal
Bolivia	Côte d'Ivoire	Guyana	Mauritania	Sierra Leone
Burkina Faso	Democratic Republic of the Congo	Haiti	Mozambique	Togo
Burundi	Ethiopia	Honduras	Nicaragua	Uganda
Cameroon	Gambia	Liberia	Niger	United Republic of Tanzania
Central African Republic	Ghana	Madagascar	Rwanda	Zambia
1 interim HIPC[b]				
Chad				
3 pre-decision-point HIPCs[c]				
Eritrea	Somalia	Sudan		

Source: World Bank, HIPC/MDRI Update, April 2013.

a Countries that have qualified for irrevocable debt relief under the HIPC Initiative.

b Countries that have reached the decision point under the HIPC Initiative, but have not yet reached the completion point.

c Countries that are eligible or potentially eligible and may wish to avail themselves of the HIPC Initiative or the MDRI.

…and public spending to reduce poverty is increasing

A strong motivation for the HIPC Initiative was to free up resources that were being used for debt servicing and allow their allocation to poverty-reduction measures. The link in practice between debt relief and poverty-reducing expenditure is difficult to demonstrate, as other factors besides debt relief come into play. Nevertheless, the data do show that HIPCs have increased poverty-reducing expenditures[7] over recent years while at the same time experiencing a decline in debt service as a proportion of GDP (figure 8). This is an important achievement.

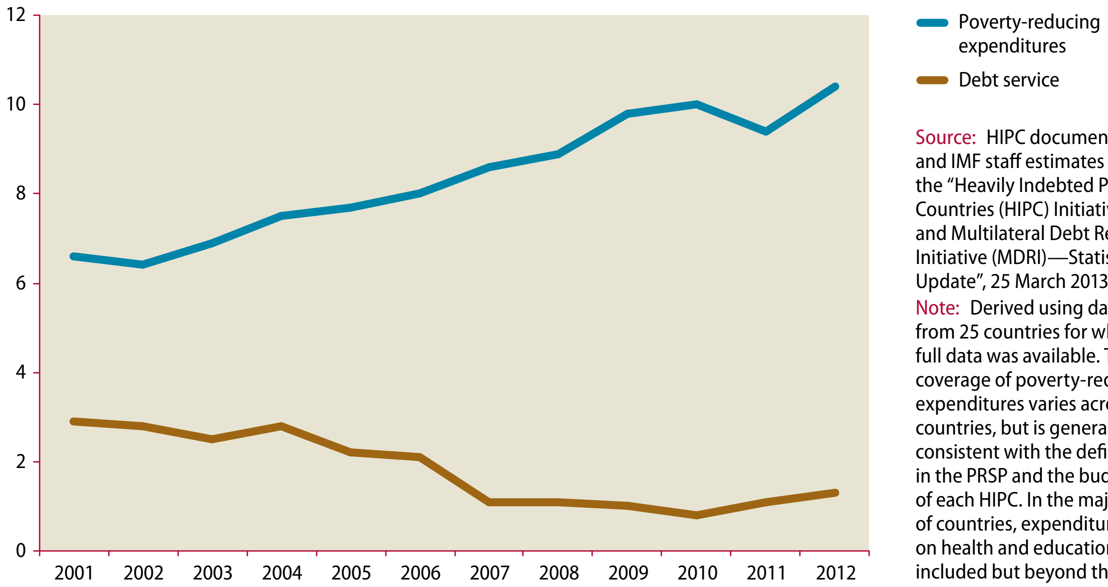
More creditors are needed to complete the Initiative

The total cost of HIPC Initiative debt relief to creditors is estimated at $76 billion in end-2011 present value (PV) terms. The cost of the MDRI for the four participating multilateral creditors (IMF, World Bank, African Development Bank and Inter-American Development Bank) is estimated at $37 billion in end-2011 PV terms. When all the agreed relief is granted (including debt relief under traditional mechanisms and additional relief from Paris Club creditors), the external debt burden of the HIPCs will be reduced by 90 per cent, on average. Over 99 per cent of multilateral creditors have committed to deliver the requisite relief (funded through bilateral donations and own income) and most bilateral creditors that participate in the Paris Club have voluntarily committed to provide additional debt relief beyond that required under the HIPC Initiative. However, securing the participation of a number of non-Paris Club bilateral creditors has been a challenge as the Paris Club agreements are reached by its members and are not binding on other creditors. As at June 2013, one third of the 55 non-Paris Club creditors reportedly have not participated in the HIPC initiative.[8] The

7 As defined by the IMF and the World Bank for the Poverty Reduction Strategy Papers (PRSP), and coverage of which varies among countries.

8 International Development Association and International Monetary Fund, "Heavily indebted poor countries", op. cit.

Figure 8
Average poverty-reducing expenditure and debt service in HIPCs, 2001-2012 (*percentage of GDP*)



Source: HIPC documents and IMF staff estimates in the "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI)—Statistical Update", 25 March 2013.
Note: Derived using data from 25 countries for which full data was available. The coverage of poverty-reducing expenditures varies across countries, but is generally consistent with the definition in the PRSP and the budget of each HIPC. In the majority of countries, expenditures on health and education are included but beyond that there are wide variations in the sectoral spending included.

World Bank and the IMF have continued to rely on the use of moral suasion for lack of a legal basis for Paris Club agreements, and on the efforts by the HIPCs themselves to increase the participation of these creditors.

International efforts have also been made to encourage private creditors to provide HIPC relief. The World Bank has used its Debt Reduction Facility (DRF), originally created to deal with the 1980s debt crises, to provide grants to HIPCs to buy back commercial debt at steep discounts. It has supported $10 billion in buybacks in 21 HIPCs. On average, buy-back prices on DRF-supported operations have declined and creditor participation rates have remained high.[9]

Nevertheless, some private creditors have sought to collect the full value of the obligations (including default penalties and fees) through litigation against individual HIPCs. In 2013, the IMF and World Bank reported at least 16 separate commercial creditor lawsuits against 9 HIPCs.[10] The legal struggle against so-called vulture funds takes up considerable debtor-government time and resources and is one illustration among many of the desirability of developing some form of sovereign debt resolution mechanism at the international level.

Towards an international debt workout mechanism

No formal mechanism for sovereign debt restructuring exists

Sovereign debt restructuring lacks a number of characteristics enjoyed by corporate bankruptcy regimes at the national level, including a centralized dispute resolution mechanism, enforceable priority rules for creditors and organized rep-

9 See presentation by Jeffrey D. Lewis entitled "Learning from debt relief" at the United Nations Economic and Social Council, New York, 23 April 2013.
10 International Development Association and International Monetary Fund, "Heavily indebted poor countries", op. cit.

resentation of all stakeholders. In addition, corporate cases are often resolved by informal negotiations of the debtor and its creditors that avoid the need for a formal approach to the insolvency process, saving both time and money. This does not exist in sovereign cases, as there is no formal mechanism standing by to take the case. Corporate insolvency cases also benefit from the provision of "breathing space" by the overseeing court, which prohibits litigation against the debtor while the parties seek a cooperative solution.

In the early years after the Second World War, international capital flows were small and most countries maintained controls on them to reduce their volatility. Thus, no provision was made in international policy for standstills on capital transfers, nor was a framework for sovereign debt resolution put in place (although the Paris Club of bilateral creditors was established in 1956 at a time when official lending made up most of the international financing of developing countries). International payments problems emanated mainly from imbalances between exports and imports and were managed through adjustment in domestic policies and temporary lending by the international official sector.

Capital-account driven crises are significant…

With the recovery of international private financial flows and the opening of capital accounts in the 1990s, the phenomenon of capital-account crises arose, involving sometimes very large gross flows of funds and the resulting build-up of unsustainable debt levels, sometimes including the failing financial institutions that the Government then takes over. As a result, capital-account-driven debt crises are significant and may simultaneously involve a panicked withdrawal by investors and thus a currency crisis. Given the size of the adjustment required, owing to the involvement of banking systems and the systemic imperative to maintain their operations, and given the limited international funding available, adjustment of the Government's fiscal imbalance (whatever its source) has been compressed into a short time frame, raising the human costs for debt-crisis countries.

The goal of the adjustment process in sovereign debt crises has often been defined as stemming panicked capital outflows and restoring market confidence in lending to the indebted sovereign. How this is done has involved considerable resources from the public sector, including the IMF, provided in the context of policy measures aimed at restoring normal funding.[11] In principle, a distinction needs to be made between problems of liquidity and insolvency. In liquidity crises, a Government may have temporary problems meeting payments, but if it has access to finance or debt restructuring, its prospects are good for growth and a return to regular funding sources. It might thus require a rescheduling of those payments as well as IMF crisis funding. Insolvency is a deeper crisis in which debt reduction may be needed and in which new borrowing would add to an already unsustainable debt burden. The question then is how much debt reduction is warranted. To add to the complexity, an apparent problem of liquidity can quickly be revealed as one of insolvency. Furthermore, concerns remain that official support can lead to both debtor and creditor moral hazard, as debtors defer needed adjustments hoping for an improvement in economic conditions and lenders do not correctly calculate for risk.

11 See International Monetary Fund, "Sovereign debt restructuring: recent developments and implications for the Fund's legal and policy framework", 26 April 2013.

…and the adjustment process is costly and time-consuming

To restructure its debt during the adjustment process, a debtor country has to approach different institutions and informal organizations, making a debt restructuring operation multifaceted, costly and time-consuming. For example, to address the rescheduling of official bilateral debt, debtor countries need to approach the Paris Club, and reach an agreement with all the represented creditors. However, as an increasing number of official bilateral creditors are not members of the Paris Club, a number of further bilateral negotiations need to take place with these countries. In addition, restructuring commercial bank debt leads a debtor country to enter into discussions with its "London Club", an informal group of the country's main private creditors, which has a different set of procedures from the Paris Club. Furthermore, with the increasing reliance on international capital markets as opposed to banks, a different process is needed for restructuring bond debt.

In fact, the HIPC Initiative was introduced as a comprehensive process, addressing all debts of a debt-crisis Government, albeit only for some low-income countries. In any event, the initiative is now closed to further entrants, save those few countries mentioned in the previous section. This means that for those low-income developing countries facing critically high public external debt burdens, as for the middle-income countries, there is no mechanism at the international level to deal comprehensively with sovereign debt problems should they arise, as target 8D of MDG 8 calls for; instead, they will need to rely on ad hoc negotiations with creditors.

In fact, the Paris Club has sought to assert a degree of coherence over the various creditor groups through its "Evian Approach". However, it is itself a creditor group and thus not seen by other creditors as a neutral party for overseeing the terms of a country's debt restructuring. Moreover, Paris Club creditors account for a diminishing share in developing-country obligations owed to bilateral creditors, not to mention a diminishing share of bilateral debt vis-à-vis total debt. This means that some other forum for comprehensive sovereign debt resolution would seem warranted.

A voluntary approach was put in place…

A decade ago, the IMF considered a proposal for such reform of the architecture for debt restructuring, called the Sovereign Debt Restructuring Mechanism (SDRM). Although it would have allowed a more comprehensive approach to a debt workout than now exists and had support from some Governments and stakeholders, in the end it was opposed by the financial sector and various Governments. They preferred a voluntary approach, which focused on making contractual modifications to bond covenants—called "collective action clauses" (CACs)—so as to facilitate creditor coordination for future restructuring, if needed.

The international community then directed its efforts at the inclusion of these CACs in new bond issues. This was clearly only a partial solution. At best, it would lead to rules for creditor coordination in the restructuring of individual bond issues, but often several bond issues were outstanding. To address this problem, "aggregation clauses" were devised under which the holders of all covered bond issues would decide jointly on accepting a proposed restructuring. Such clauses are now included in standardized euro CACs and in other bond contracts, but their efficacy in debt workouts has yet to be tested. Moreover, it will take years before a critical mass of bond issues that include CACs without aggregation clauses will be retired. In addition, CACs do not address the other creditors with claims on a debtor Government or resolve other problems that raise the cost of debt restructuring for a country.

…but recent crises show the potential magnitude of the problem

Following the failure of the SDRM in 2003, the international discussion went into a decade long hiatus as a result of the seemingly benign global financial environment that preceded the recent global financial and economic crisis. Efforts to reform the architecture for debt workouts yielded little progress and the incremental steps that have been taken have not led to timely or cost-effective debt crisis resolution.[12] The challenge of preventing and managing sovereign debt crises is universal, as has been evident in recent years in developed as well as developing countries. The inability to resolve excessive sovereign debt adequately is a threat to global financial stability. The potential magnitude of future problems is suggested by the recent bailouts of some European countries, the size of which is unprecedented.

In other words, the complacency in both policy circles and among the private financial sector has been shaken up by the debt crisis of eurozone members, forcing recognition of the political nature of debt workout policies and perhaps disturbing the confidence of investors in the strength of their rights as creditors. In addition, the possible threat to the enforceability of bond covenants posed by the recent legal challenges of a small group of Argentina's creditors adds further uncertainty.

The need for an international debt workout mechanism is on the agenda of various international forums

In this context, the need to explore establishing an international mechanism for early, cooperative and comprehensive resolution of sovereign debt crises has again been placed on the agenda of international forums. The discussion in the United Nations General Assembly in October 2012 and the Economic and Social Council in April 2013 showed concern about the current approaches to sovereign debt restructuring. In addition, the Department of Economic and Social Affairs of the United Nations Secretariat has been organizing high-level panel discussions and expert group meetings to consider possible measures to enhance the effectiveness of the debt-restructuring process. The meeting reports present possible options going forward and include both contractual and statutory alternatives for further discussion.[13] Also, UNCTAD is holding technical discussions on the design of debt workout mechanisms as a follow-up to its Principles for Responsible Borrowing and Lending[14] and is focusing on identifying a set of core building blocks for a debt workout mechanism. In addition, the IMF is taking a fresh look at sovereign debt restructuring, having decided to review its sovereign debt restructuring policies and practices following the IMF Board discussion on Sovereign Debt Restructuring in May 2013.[15]

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12 See Udaibir S. Das, Michael G. Papaioannou and Christoph Trebesch, "Sovereign debt restructurings 1950-2010: Literature survey, data and stylized facts", IMF Working Paper, No. 12/203, 1 August 2012, pp. 60-65.

13 See "External debt of developing countries" from Multi-stakeholder consultations on Financing for Development, Department of Economic and Social Affairs of the United Nations Secretariat, available from http://www.un.org/esa/ffd/msc/externaldebt/index.htm.

14 See meetings organized around the Debt Workout Mechanism project, available from http://www.unctad.info/en/Debt-Portal/Events/Our-events/Debt-Workout-Mechanism-meetings/.

15 See IMF Survey online, "IMF launches discussion of sovereign debt restructuring", 23 May 2013, available from http://www.imf.org/external/pubs/ft/survey/so/2013/pol052313a.htm.

Policies for sustainable debt financing

Credit is a powerful—even essential—financial instrument for Governments as well as private firms and households, but loans involve relationships and obligations between the borrower and the lender.[16] Credit needs to be used in a sustainable manner and repayments should be adjusted when events make it necessary. In this regard, there are three policy pillars that can enhance the role of sovereign borrowing for growth and development: responsible lending and borrowing; debt management; and orderly restructuring of debt, when necessary.

Responsible lending and borrowing

Citizens not only receive the benefits of government borrowing in normal times, but also bear its burden. They pay the taxes that will service the debt and suffer the austerity policies that accompany adjustment when debt reaches excessive levels. Citizens thus have a strong claim on their Governments to borrow responsibly. Citizens equally have a reason to insist that creditors lend responsibly to their Governments. But what does that mean? As noted earlier, UNCTAD has taken the initiative to formulate Principles on Responsible Sovereign Lending and Borrowing and has proposed them to States and their stakeholders for their consideration and endorsement. In addition, the Human Rights Council has encouraged all Governments, relevant United Nations agencies, funds and programmes, as well as the private sector, to take the "Guiding Principles on Foreign Debt and Human Rights" (A/HRC/20/23) into consideration when designing their policies and programmes (resolution 20/10, para. 3). Civil society organizations have also proposed guidelines for States.[17] The international community, not to mention individual Governments, should consider adopting such proposals as standards for sovereign borrowing.

Debt management

Well-designed strategies to manage sovereign debt and contain its risks become increasingly important as the range of creditors and borrowing instruments expand. Governments need to make regular use of analytical tools to assess alternative borrowing strategies and manage the assets and liabilities on their balance sheets. Borrowing for individual projects should be based on sound economic and financial analyses of the estimated rates of return and debt-servicing capacity. Debt sustainability analysis should also be further developed in borrowing countries and the international financial institutions. Bolstering technical cooperation to strengthen debt management capacity in developing and transition economies is also warranted.

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16 It has ever been thus; see David Graeber, *Debt: The First 5,000 Years* (Brooklyn: Melville House, 2011).

17 See, for example, African Forum and Network on Debt and Development (AFRODAD), *Borrowing Charter: Principles and Guidelines for sovereign financial borrowing for sub-Saharan African countries* (Harare, Zimbabwe, 2011), available from http://www.afrodad.org/?afrourl=Pages/Debt/External%20Debt/Borrowing%20Charter; and European Network on Debt and Development (Eurodad), *Responsible Finance Charter* (Brussels, Belgium, 2011), available from http://eurodad.org/uploadedfiles/whats_new/reports/charter_final_23-11.pdf.

Orderly restructuring of debt when necessary

As argued above, the international community should more actively pursue the development of an agreed rules-based approach to sovereign debt workouts to increase predictability and the timely restructuring of debt when required, with fair burden-sharing, including providing a "safe harbour" for social protection floor outlays in the budget. Convoking an international working group to examine options for enhancing the international architecture for debt restructuring would be a first step in that direction.

Policy recommendations

- Assure timely debt relief for critically indebted developing countries struggling with unsustainable debt so as, inter alia, not to impede progress on the MDGs
- Encourage the international community to further develop and disseminate the tools and techniques for effective debt management, including by systematically taking into account the social dimension of debt sustainability
- Improve the timeliness and coverage of publicly available country debt data based on both creditor and debtor reporting systems so as to strengthen capacities for assessing debt sustainability and encourage greater transparency
- Encourage the consolidation of national debt data to take account of the fiscal risks associated with subnational debt, government guarantees and contingent liabilities
- Devise principles for the path of adjustment to reduce excessive debt that strike a social and developmental balance between financing, debt restructuring and the pace of policy reform
- Encourage Governments to adopt and implement proposed principles and guidelines for responsible sovereign borrowing and lending
- Convoke an international working group, supported by a balanced international group of experts, to examine options for enhancing the international architecture for debt restructuring

Access to affordable essential medicines

As reported at various international forums, despite a greater awareness within the private sector regarding the need to increase access to affordable essential medicines in developing countries, medicines remain costly, insufficiently available at dispensing facilities and often unaffordable. Increasing access to medicines and the technology needed to produce them, while encouraging further innovation, requires a better understanding of the linkages between policies on public health, innovation, intellectual property and international trade. Greater international cooperation on policy formation in these areas is needed urgently.

International commitments and developments

A number of steps have recently been agreed upon to improve the policy nexus affecting access to affordable essential medicines. One example is the follow-up to the High-level Meeting of the United Nations General Assembly on the Prevention and Control of Non-communicable Diseases (NCD) in 2011, where Member States committed, inter alia, to improve accessibility to safe, affordable, effective and quality medicines and technologies to diagnose and treat NCDs.[1] Subsequently, in May of 2013, member States of the World Health Organization (WHO) adopted a Global Action Plan for the Prevention and Control of Non-Communicable Diseases 2013-2020. The plan seeks to facilitate the implementation of this commitment through the strengthening of health systems and the monitoring of progress to achieve the global voluntary targets, which include access to basic technologies and essential NCD medicines.[2]

In addition, in response to the request by the African Union (AU) in its Assembly of the Union's Eighteenth Ordinary Session held in Addis Ababa on 29 and 30 January 2012, the AU Commission and the New Economic Partnership for Africa's Development Planning and Coordinating Agency (NPCA), in collaboration with the Joint United Nations Programme on HIV/AIDS (UNAIDS), launched the Roadmap on shared responsibility and global solidarity for AIDS, TB and malaria response as a strategy for African-sourced and sustainable action on HIV, malaria and tuberculosis for 2012-2015.[3] The Roadmap centres around

1 United Nations General Assembly resolution 66/2 of 19 September 2011.

2 World Health Organization, "Global action plan for the prevention and control of non-communicable diseases 2013–2020", adopted on 27 May 2013 at the Sixty Sixth World Health Assembly (WHA66.10), available from http://apps.who.int/gb/ebwha/pdf_files/WHA66/A66_R10-en.pdf.

3 African Union, "Roadmap on shared responsibility and global solidarity for AIDS, TB and malaria response in Africa", available from http://www.au.int/en/sites/default/files/Shared_Res_Roadmap_Rev_F%5B1%5D.pdf.

three pillars: diversified financing, access to affordable and quality-assured medicines, and enhanced leadership and governance.

Furthermore, in January 2012, a group of pharmaceutical companies met in London with a range of public and private partners and agreed to unite in a new coordinated push to accelerate progress towards eliminating or controlling 10 "neglected" tropical diseases. The participants in the meeting specified their engagement and commitments in the "London Declaration on Neglected Tropical Diseases".[4] In the Declaration, all partners committed to expanding current programmes in order to ensure the necessary supply of medicines and other interventions for treating neglected tropical diseases, and to advancing research and development through partnerships and provision of funding to develop next generation treatments. Partners also pledged to continue providing financial support to accelerate progress towards eliminating or controlling these diseases by 2020.

The Global Commission on HIV and the Law is an independent commission comprised of eminent leaders in various fields and a technical advisory group convened by the United Nations Development Programme on behalf of the UNAIDS family who investigate the relationship between legal responses, human rights and HIV. The Commission released its report in July 2012. It recommended, among other things, ensuring "an effective, sustainable response to HIV that is consistent with human rights obligations", and calls upon the United Nations to convene a neutral, high-level body to review and assess proposals and recommend a new intellectual property regime for pharmaceutical products.[5]

Availability and prices

Essential medicines are in stock in just over half of public facilities…

Essential medicines remain insufficiently available in developing countries, especially low- and lower-middle-income countries.[6] The average availability[7] of generic medicines in public sector health facilities in the group of sampled countries was 57 per cent (figure 1). In private sector facilities, the average availability was 65 per cent.[8] Availability was extremely low in a number of countries.

…and prices are still too high

Over and above limited access, patients in developing countries pay relatively high prices for the lowest-priced generic medicines. Prices in low- and lower-middle-income countries were, on average, 3.3 times higher than international reference prices (IRPs)[9] in public sector facilities and 5.7 times higher in

4 The Declaration is available from http://www.unitingtocombatntds.org/downloads/press/london_declaration_on_ntds.pdf.

5 United Nations Development Programme, *Global Commission on HIV and the Law: Risks, Rights and Health* (New York, 2012), available from http://www.hivlawcommission.org/resources/report/FinalReport-Risks,Rights&Health-EN.pdf.

6 During the period 2007-2012, medicine price and availability data from national and subnational surveys were undertaken using the standardized World Health Organization/Health Action International (WHO/HAI) methodology *WHO/HAI Measuring medicine prices, availability, affordability and price components, 2008* (Geneva, 2008), available from http://haiweb.org/medicineprices/.

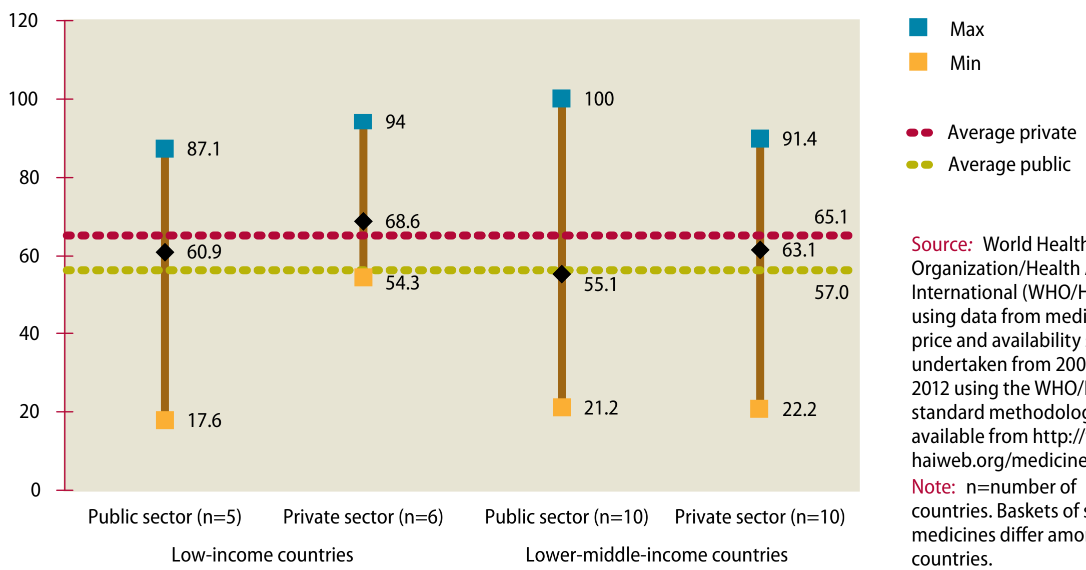
7 Availability is assessed as the percentage of facilities stocking the medicine on the day of data collection.

8 Time series data are not available for this indicator.

9 International reference prices (IRPs) are median prices of quality multi-source medicines offered to low- and middle-income countries by not-for-profit and for-profit suppliers (where there is no supplier price, buyer/tender prices are used). See Management

private sector facilities (figure 2). Another factor to consider is the difference in prices between originator brand medicines and generic medicines. In a sample of low- and lower-middle-income countries, it was found that originator brand medicines were priced four times higher than the equivalent lowest-priced generic medicines, on average.[10] The price difference was found to be as much as 18 times higher in the case of Indonesia.

Figure 1
Availability of selected generic medicines in public and private health facilities in low- and lower-middle-income countries, 2007-2012 (*percentage of medicines available*)



Source: World Health Organization/Health Action International (WHO/HAI), using data from medicine price and availability surveys undertaken from 2007 to 2012 using the WHO/HAI standard methodology, available from http://www.haiweb.org/medicineprices.
Note: n=number of countries. Baskets of survey medicines differ among countries.

Also of particular concern are the relative high prices and lack of availability of medicines for treatment of NCDs, including cardiovascular disease, diabetes and chronic respiratory diseases. The WHO Global Action Plan for the Prevention and Control of NCDs 2013-2020 set a target of 80 per cent availability of affordable essential medicines, including generics, required to treat major NCDs in both public and private facilities.

Affordability of essential medicines

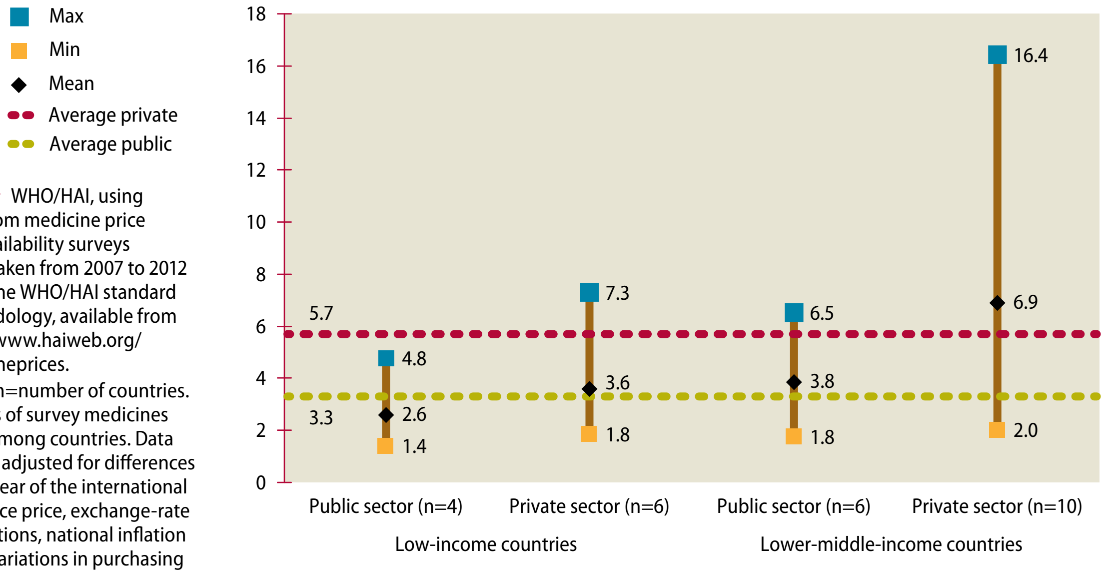
As noted above, essential medicines are not always available, but when they are, patients must be able to afford them. This is especially important when medicines are not readily available in public sector facilities and patients are forced to make out-of-pocket purchases from private facilities where prices are usually higher. Affordability of treatment depends on a number of factors, including household income, the price of the medicine, and the regimen and duration of the treatment. Unfortunately, it has been found that treatment in many developing countries is unaffordable, albeit with great differences among these countries.

Sciences for Health (MSH) International Drug Price Indicator Guide, available from http://erc.msh.org/mainpage.cfm?file=1.0.htm&module=DMP&language=English.

10 Based on information provided by WHO/HAI.

Figure 2

Ratio of consumer prices to international reference prices for selected lowest-priced generic medicines in public and private health facilities in low- and lower-middle-income countries, 2007-2012



Source: WHO/HAI, using data from medicine price and availability surveys undertaken from 2007 to 2012 using the WHO/HAI standard methodology, available from http://www.haiweb.org/medicineprices.

Note: n=number of countries. Baskets of survey medicines differ among countries. Data are not adjusted for differences in the year of the international reference price, exchange-rate fluctuations, national inflation rates, variations in purchasing power parities, levels of development or other factors.

Essential medicines are unaffordable for many poor patients

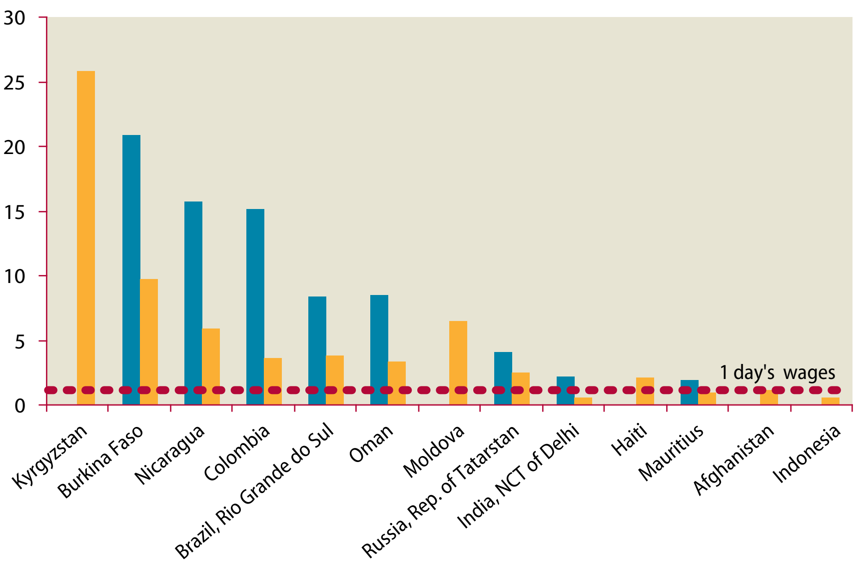
More precisely, using median prices and expressing affordability as the number of days the lowest-paid unskilled government worker needs to work to buy treatment in the private sector, surveys have shown that a 30-day supply of treatment for high levels of cholesterol in the blood requires the equivalent of over 25 days of wages in Kyrgyzstan, even when purchasing the lowest-priced generics (figure 3). This treatment is far above the WHO affordability benchmark, set at one day's wages. Difficult situations are also seen in many other countries. For example, in Burkina Faso and Nicaragua, over 15 days of wages are needed to buy the originator brand, and 6 days or more for lowest-priced generics. Although the situation appears to be better in some countries, such as Afghanistan, India, Indonesia and Mauritius, where no more than one day's wage is needed to buy the lowest-priced generics, the situation is likely worse for a large number of patients who earn less than the lowest-paid government worker or who are unemployed, especially since the costs are mostly borne by individuals.

Efforts to increase affordable access

Given the low availability and high prices of essential medicines, improving this situation is critical. Increasing access to affordable essential medicines depends on many interrelated factors. While the role of pharmaceutical companies as suppliers is important, the engagement of Governments in all related policy areas is of central importance. Many regulatory measures can help to make medicines more affordable, including abolishing tariffs on medicines, controlling taxes and markups, containing prices, creating a competitive and enabling environment for innovation, and facilitating the use of trade policy flexibilities. Local production in countries with the requisite capacity can, under certain

Figure 3

Number of days of wage income needed by the lowest-paid unskilled government worker to pay for a 30-day treatment for hypercholesterolaemia, 2007-2012



Source: WHO/HAI, using data from medicine price and availability surveys undertaken from 2007 to 2012 using the WHO/HAI standard methodology, available from http://www.haiweb.org/medicineprices.

Note: Treatment is a 30-day supply of 20mg tablets of simvastatin (30 tablets) purchased at private sector facilities.

circumstances, also be a strategy for increasing the availability of medicines. Promoting research and development for improved and new cures is essential in facing the challenges of an expanding disease burden. But assuring the quality of all medicines is also vital.

Company ranking

It is important to monitor and evaluate what pharmaceutical companies themselves, as the producers and suppliers of medicines, are doing to increase access to their products. The Access to Medicine Index[11] ranks pharmaceutical companies according to their strategic and technical efforts to enhance global access to their medicines. It is published every two years by the Access to Medicine Foundation (AMF). The aim is to develop a transparent means by which pharmaceutical companies can assess, monitor and improve their own performance and build a platform on which all stakeholders can share best practices in the area of global access to medicine and encourage companies to make their medicines more accessible.

The Index ranks 20 pharmaceutical companies on their efforts to provide access to medicines, vaccines and technologies for preventing, diagnosing and treating disease in 103 countries. The Index for 2012 covered 33 diseases, including neglected tropical diseases, communicable diseases and non-communicable diseases, and introduced analysis of maternal health and neonatal infections. Rankings are based on indicators that measure performance in areas such as overall organization, relationships with stakeholders that may affect access, research and development, pricing policies, patents and licensing policies,

11 Access to Medicine Foundation, *Access to Medicine Index 2012* (Haarlem, Netherlands, November 2012), available from www.accesstomedicineindex.org.

capacity-building in developing countries to develop and distribute their own drugs and to monitor drug effects, and product donation initiatives and philanthropic activities. GlaxoSmithKline (GSK) led the list in 2012 for its access to medicine management, research and development activity, capacity-building advancement and drug donation and philanthropy. According to the survey, GSK makes its entire vaccine portfolio available to developing countries at an equitable price and has a pro-access approach to patents and licensing.

Companies are making greater efforts to increase access to medicines

One important finding of the 2012 Index is the fact that the majority of companies are performing better now than when they were surveyed for the 2010 Index. For example, there are greater efforts to increase access to medicines, and the issue is beginning to appear on the agendas of the boards of more companies.[12] Also, the difference in the degree of achievement among the top performers has decreased. Companies seem to have a more organized approach and are increasingly setting targets to increase access to medicines. More companies are also applying tiered pricing, depending on the country or region within a country, and are investing more in new medicines for diseases affecting the poor.

Intellectual property

Innovation in the pharmaceutical industry is especially important, as the human and economic burden of disease is already high and increases when new diseases or new variations of diseases appear. In addition, many tropical diseases remain neglected and need research attention. A standard way to create an incentive for innovation in health products is through the patent system, which provides time-limited exclusive rights over an invention, subject to certain conditions, in those countries where the patents have been granted. This enables the innovating firm to compensate for and profit from the investment in the research for new medicines. It also compensates for the opportunity cost of developing a new medicine. Moreover, most finished medical products consist of a combination of multiple technological inputs, and the patent system plays a role in facilitating the research partnerships and licensing agreements that are needed to create and bundle these inputs, thereby augmenting the incentive effect.[13] However, as for any incentive for innovation, the patent system is ineffective without research capacity and infrastructure, in addition to sufficient investment of financial and other resources. Pharmaceutical companies undertake some of that research, but they generally do not engage in basic research where it is difficult to capture profits from discoveries; thus, public funding of research is typically an important precursor to private investment in research. In all, building and maintaining the necessary capacity and funding pose a challenge for most countries, especially for developing countries. The industry has therefore been concentrated in developed countries and multinational pharmaceutical firms.

Innovation and access should be pursued together

Extending access to low-income patients in foreign countries during the life of patent coverage has been a major policy concern over the past decade. In addition, as a recent study emphasizes, innovation and access must be pursued

12 Ibid.

13 World Health Organization, World Intellectual Property Organization and World Trade Organization, *Promoting Access to Medical Technologies and Innovation: Intersections between public health, intellectual property and trade* (Geneva, 2012), available from http://www.who.int/phi/promoting_access_medical_innovation/en/index.html.

in conjunction. Innovation without expanded access to the fruits of innovation leads to the underservicing of public health needs, while increasing access to the existing pharmacopoeia without encouraging the development of new medicines and new medical technologies would not address emerging threats to health.[14]

Developing-country access to affordable medicines can be facilitated by certain flexibilities in intellectual property rights that are allowed under the Agreement on the Trade-related Aspects of Intellectual Property Rights (TRIPS), which had been negotiated by the World Trade Organization (WTO).[15] Among the various flexibilities are the issuance of a "compulsory licence" and authorization for "government use" of the medicine for a public, non-commercial purpose. Under compulsory licensing, the patent-issuing Government must permit a third party, which could be a government agency, to produce or import a patented medicine without the permission of the patent holder. Usually, that party should first attempt to negotiate a voluntary licence with the patent holder,[16] but this requirement does not apply in the case of a national emergency or when intended for public non-commercial use. In either case, the patent holder is entitled to "adequate remuneration" for the authorized use of their innovation.[17] This avenue for access generally assumes that the country demanding the compulsory licence is capable of producing a generic version of the patented product locally and then selling or distributing it. To accommodate countries that do not have local production capacity, WTO members agreed to establish the so-called Paragraph 6 System, which allows generic medicines to be produced under compulsory licences exclusively for export to countries lacking domestic production capacity.

Another way that developing countries may obtain patented medicines at a reduced price is through "parallel importation". This can occur when a country has adopted a regime of "international exhaustion", in which case the patent holder's distribution right in that country is exhausted regardless of where the first distribution took place. Thus, the patent holder cannot prevent the further importation and sale of medicines at a reduced price.[18] It must be noted that the capacity to take advantage of this flexibility will again depend on a broad range of assumptions regarding the beneficiary country's administrative and regulatory capacity, legal framework and trade-related infrastructure.

The use of compulsory licences have helped reduce the price of medicines

In November 2012, the Government of Ecuador issued compulsory licensing on the HIV medicine abacavir/lamivudine, and managed to reduce the royalty rate according to relative per capita nominal incomes.[19] Similarly, in

14 Ibid.

15 Article 31 of the Agreement on Trade-related Aspects of Intellectual Property Rights adopted by the World Trade Organization (WTO) on 14 November 2001, available from http://www.wto.org/english/docs_e/legal_e/27-trips.pdf.

16 A voluntary licence is a contractual agreement under which a rights holder, such as a patent holder, allows the other party the use of the right under certain conditions, often, but not necessarily, in exchange for payment of a negotiated royalty.

17 Agreement on Trade-related Aspects of Intellectual Property Rights, op. cit., as interpreted in the World Trade Organization, Fact Sheet: TRIPS and Pharmaceutical Patents, available from http://www.wto.org/english/tratop_e/trips_e/factsheet_pharm02_e.htm#importing.

18 World Trade Organization, Fact Sheet: TRIPS and Pharmaceutical Patents, ibid.

19 Knowledge Ecology International, "Ecuador issues a compulsory license on abacavir/lamivudine on 12 November 2012", available from http://keionline.org/node/1589.

September 2012, the President of Indonesia issued compulsory "government-use" licences of seven HIV/AIDS and hepatitis B medicines.[20] The impact of these compulsory licences on price changes is yet to be reported, but is expected to increase access to treatment by the large number of people living with HIV in Indonesia. Earlier cases have shown that the use of compulsory licences can significantly reduce the price of essential medicines for patients (table 1). For example, in early 2012, the Government of India granted a compulsory licence on a liver and kidney cancer drug called sorafenib (sold under the trade name Nexavar®). Under the licence, generic manufacturer Natco was able to reduce the price of the monthly treatment to $175. This represented a 97 per cent reduction from the price that the producer was charging.[21] That licence was challenged by Bayer, the patent owner; however, the decision to award a compulsory licence was upheld by the Intellectual Property Appellate Board (IPAB) of India in March 2013.[22] The mere announcement of a plan to issue a compulsory licence can also cause prices to fall on certain essential drugs. Recently, the Indian Ministry of Health recommended the issue of compulsory licences for cancer drugs manufactured by Roche. Responding to the call, Roche reportedly said it would drop the price it currently charges in India by 30 per cent.[23]

As noted above, voluntary licensing agreements can be a means of promoting a generic supply of medicines and enhancing access if they allow for robust competition. Since the Medicines Patent Pool Foundation[24] was created with the support of UNITAID in 2010, pharmaceutical companies continue to enter into voluntary licence agreements for HIV treatments, increasingly broadening their geographical coverage (see table 2). The Pool has been negotiating licensing agreements with research-based pharmaceutical companies that produce HIV commodities with the aim of sublicensing them to generic medicine companies to increase access to treatment in developing countries. In 2013, the Pool signed an additional non-exclusive licensing agreement on an HIV medicine (abacavir) for paediatric use with very wide geographical coverage. Under the agreement, the Pool can license the product to generic suppliers for a total of 118 countries, representing 98.7 per cent of children living with HIV.

In 2002, the least developed countries (LDCs) were given an extension of the transition period that exempts them from complying with the TRIPS Agreement with respect to pharmaceutical products until 2016. In 2005, they were given a general extension on other provisions of the TRIPS Agreement, except for

20 Matthew Bigg, "Indonesia acts to over-ride patents on HIV drugs", Reuters, 12 October 2012, available from http://www.reuters.com/article/2012/10/12/us-indonesia-hiv-idUSBRE89B0O620121012.

21 Doctors Without Borders press release, "Bayer Attempting To Block Affordable Patented Drugs In India", 3 September 2012, available from http://www.doctorswithoutborders.org/press/release.cfm?id=6282.

22 Rupali Mukherjee, "Bayer loses cancer drug patent appeal", The Times of India, 5 March 2013, available from http://timesofindia.indiatimes.com/business/india-business/Bayer-loses-cancer-drug-patent-appeal/articleshow/18805475.cms.

23 Eric Palmer, "Roche dropping Herceptin price in India by 30%", FiercePharma, 1 March 2013, available from http://www.fiercepharma.com/story/roche-dropping-herceptin-price-india-30/2013-03-01.

24 Medicines Patent Pool is available from http://www.medicinespatentpool.org/.

Table 1
Selected cases of the use of compulsory licence and government-use declarations

Country and date of issue	Type of measure	Medicine and medical indication	Impact
Ecuador November 2012	Compulsory licence to produce generic version locally	Abacavir/lamivudine (ARV)	Not known
Indonesia September 2012	Government-use	Seven ARVs and hepatitis B medicines	To be determined
India February 2012	Compulsory licence to manufacture generic version	Sorafenib (kidney cancer treatment)	Price reduction of 97 per cent
Ecuador April 2010	Compulsory licence to import and, if necessary, to produce generic version locally	Ritonavir (ARV)	Patent holder reduced price of brand medicine by 70 per cent
Thailand January 2008	Government-use licence to import generic version	Letrozole (breast cancer treatment)	Projected price reduction of 97 per cent
Brazil May 2007	Compulsory licence to import generic version	Efavirenz (ARV)	Price reduction of 72 per cent
Thailand January 2007	Government-use licence to import or to produce generic version locally	Lopinavir/ritonavir (ARV)	Projected price reduction of 80 per cent
Indonesia October 2004	Government-use license to produce generic version locally	Lamivudine/ nevirapine (ARV)	Price reduction of 53 per cent
Malaysia November 2003	Government-use licence to produce generic version locally	Combination of stavudine, didonasine and nevirapine (ARV)	Price reduction of 83 per cent

Sources: Ecuador: Andrés Ycaza Mantilla, "Propiedad Intelectual y Salud Pública: La Experiencia Ecuatoriana", presentation at the "Regional Meeting on the Access and Management of Medicines and Essential Supplies for HIV/AIDS", Santo Domingo, Dominican Republic, 9-11 November 2011; Thailand: Adun Mohara and others, "The impact of the introduction of government use licenses on the drug expenditure of seven medicines in Thailand", *Value in Health Journal*, vol. 15, No. S95-99, available from www.ispor.org/consortiums/asia/ViH/3rdIssue/Impact-of-the-Introduction-of-Government-Use-Licenses.pdf; Brazil: M. El Said and A. Kapczynski, "Access to medicines: The role of intellectual property law and policy", Working Paper prepared for the Global Commission on HIV and the Law, 2011; Indonesia and Malaysia: M. Khor, "Patents, Compulsory Licenses and Access to Medicines: Some Recent Experiences" (Penang, Malaysia: Third World Network, 2009), available from http://www.twnside.org.sg/title2/IPR/pdf/ipr10.pdf.

that on non-discrimination, until July 2013. Subsequently, in June 2013, WTO members adopted a further extension until 1 July 2021.[25]

Local production

Local producers, particularly those in low-income countries, still have to face a number of obstacles, including lack of infrastructure, lack of qualified human

25 See WTO document IP/C/64, press release and text of the decision available from http://www.wto.org/english/news_e/news13_e/trip_11jun13_e.htm.

Table 2

Selected voluntary licensing agreements

Company	Medicine (medical indication)	Geographical scope	Number of countries	Number of licensees	Royalties
Boehringer-Ingelheim GmbH	Nevirapine; tipranavir (HIV)	All Africa, India, least developed and low-income countries	78	Several	Royalty-free
Bristol-Myers Squibb	Atazanavir (HIV)	Sub-Saharan Africa, India	48	4	Royalty-free
	Didanozine; stavudine (HIV)	Sub-Saharan Africa, others	50	11	
Gilead Sciences	Tenofovir disoproxil fumarate (HIV/hepatitis)	Country list	112	Several, including through MPP	3-5 per cent 10-15 per cent for semi-exclusive licences
	Elvitegravir		100		Outside MPP
	Cobicistat		103		
	Quad (HIV)		100		
MSD (Merck & Co.)	Efavirenz (HIV)	South Africa	1	6	Royalty-free
	Raltegravir (HIV)	Sub-Saharan Africa, low-income countries	60	2	
F. Hoffmann-La Roche Ltd.	Saquinavir (HIV)	Sub-Saharan Africa, least developed countries	65	13	Royalty-free
Tibotec Pharmaceuticals	Darunavir[a]	India	1	1	Not known
Janssen Research and Development	Rilpivirine (HIV)	Country list	112	5	2-5 per cent
ViiV Healthcare	Zidovudine; lamivudine; abacavir (HIV)	Sub-Saharan Africa, least developed and low-income countries	68	11	Royalty-free
ViiV Healthcare through MPP	Abacavir for paediatric use	Country list	118		Royalty free

Source: Based on P. Beyer, "Developing Socially Responsible Intellectual Property Licensing Policies: Non-Exclusive Licensing Initiatives in the Pharmaceutical Sector", in *La propriété intellectuelle dans l'industrie pharmaceutique: Intellectual Property in the Pharmaceutical Industry*, J. de Werra, ed. (Zürich: Schulthess Verlag, 2012).

Note: For additional information on the geographical scope of licensing agreements (country list, others), refer to P. Beyer (2012) (see Source).

a In November 2012, the Janssen Pharmaceutical Companies of Johnson & Johnson announced their intention not to enforce the patents they own and control on the ARV drug darunavir provided the product is medically acceptable and is used only in resource-limited settings, i.e., sub-Saharan Africa and least developed countries. See http://www.jnj.com/connect/news/all/janssen-announces-intent-not-to-enforce-patents-for-darunavir-in-resource-limited-settings.

resources and lack of raw materials. However, some developing countries have managed to develop the capacity to produce locally through national efforts with international support.[26]

Several international initiatives have been implemented to facilitate local production…

Within the context of the implementation of the Global Strategy and Plan of Action on Public Health, Innovation and Intellectual Property (GSPA-PHI),[27]

26 For recent examples, see *MDG Gap Task Force Report 2012: The Global Partnership for Development—Making Rhetoric a Reality* (United Nations publication, Sales No. E.12.I.5), p.66.

27 World Health Organization, *Global Strategy and Plan of Action on Public Health, Innovation and Intellectual Property* (Geneva, 2011), available from http://www.who.int/phi/publications/Global_Strategy_Plan_Action.pdf.

WHO is leading a project, supported by the European Commission, on local production to increase access to medical products in developing countries.[28] The first phase aimed at identifying the main challenges of local production of medical products and related technology transfer to developing countries in a number of areas, including medicines, vaccines, blood and blood products, and medical devices. The second phase of this project will include a country-based policy analysis to identify the existence of policy coherence across industrial and health policies, the degree of promotion of local production, the development of a price comparison methodology to compare locally produced medicines with imported medicines, and training and capacity-building work to support quality production across a range of medical products for manufacturers and national regulatory authorities. Targeted actions will include the identification of essential medicines that are the most suitable for local production, determination of the feasibility of local production of blood products, as well as analysis of the patent landscape for a number of medicines, in order to assess the possibilities for local/regional production in developing countries.

In order to promote the production of high quality, affordable essential medicines to contribute to improved health outcomes and their corresponding economic benefits, the Pharmaceutical Manufacturing Plan for Africa (PMPA) was endorsed by Heads of State and Government of African countries at their Summit in Accra in 2007.[29] A Business Plan was subsequently endorsed in July 2012 by the African Union (AU) Heads of State and Government at their Summit in Addis Ababa. The business plan was the result of an alliance between the AU Commission and the United Nations Industrial Development Organization (UNIDO) to accelerate the implementation of the PMPA.[30] This document lays out a comprehensive approach to developing the pharmaceutical industry in Africa. The objective is to improve access to affordable, safe, efficacious medicines through the development of the industry. The approach addresses the needs arising from the three pandemics of tuberculosis, malaria and HIV/AIDS and other communicable and non-communicable diseases afflicting the continent.

There are also regional initiatives complementing the efforts of the PMPA. The Southern African Development Community (SADC) Pharmaceutical Business Plan, for instance, aims to enhance the capacities of member States to effectively prevent and treat diseases that are of major concern to public health in the region.[31] The Plan addresses issues that concern access to quality medicines in all member States. In the East African Community (EAC), the EAC Regional Pharmaceutical Manufacturing Plan of Action (2012-2016) aims to evolve an efficient

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28 The website of the project is available from http://www.who.int/phi/publications/local_production/en/.

29 See "Decision on the Report of the Third Session of the African Union Conference of Ministers of Health, Johannesburg, South Africa, 9-13 April 2007, DOC. EX.CL/354 (XI)" (EX.CL/Dec.361(XI)), released during the Ninth African Union Summit held in Accra, July 2007. Available from http://www.africa-union.org/root/au/conferences/2007/june/summit/doc/accra/EXCL_DECISIONS.pdf.

30 Available from http://www.unido.org/fileadmin/user_media_upgrade/Resources/Publications/Pharmaceuticals/PMPA_Business_Plan_Nov2012_ebook.PDF.

31 Southern African Development Community, "SADC Pharmaceutical Business Plan 2007-2013", 27 June 2007, available from http://www.unido.org/fileadmin/user_media/Services/PSD/BEP/SADC%20PHARMACEUTICAL%20BUSINESS%20PLAN%20-APPROVED%20PLAN.pdf.

and effective regional pharmaceutical manufacturing industry that can supply national, regional and international markets with efficacious and quality medicines.[32] In April, the Economic Community of West African States (ECOWAS) approved a charter to facilitate public private partnerships for the local pharmaceutical production of antiretroviral medicines and other essential medicines.[33]

Research and development

...promote research and development…

While new and improved medicines are needed for neglected diseases, market-based incentives are weak in these cases. Therefore, public initiatives are needed to address this. In May 2013, WHO member States thus agreed to establish a global health research and development (R&D) observatory within the WHO secretariat to monitor and analyse relevant information on health R&D. This agreement was based on the report of the WHO Consultative Expert Working Group on Research and Development: Financing and Coordination.[34] WHO member States also agreed to explore and improve existing mechanisms for financial contributions to health R&D for diseases that disproportionately affect developing countries, particularly their poorest populations, and to promote capacity-building and better research coordination. The WHO secretariat was also tasked with facilitating the implementation of a few health R&D demonstration projects to address identified gaps for these diseases for which immediate action should be taken.[35]

In addition, in October 2011, WIPO Re:Search, a consortium of a broad range of public sector and private sector entities, created a platform for knowledge-sharing and asset management through licensing with the goal of fostering research in neglected tropical diseases, in addition to malaria and tuberculosis, and eventually bringing new and affordable products for the treatment of those diseases to the market.[36] All licences granted for R&D and manufacturing are royalty-free to any user anywhere in the world. In addition, any products developed under a WIPO Re:Search licence must be sold royalty-free in all LDCs. During its first year, WIPO Re:Search facilitated 11 research collaborations or agreements among its members.

Quality of medicines

…and assure quality control of essential medicines

Assuring quality control and establishing regulation measures for local production and the importation of medicines pose a challenge in many countries. A key

32 See "East African Community Regional Pharmaceutical Manufacturing Plan of Action (2012-2016)", available from http://feapm.com/fileadmin/user_upload/pharma_marketing_plan_2011.pdf.

33 See http://www.wahooas.org/IMG/pdf/CHARTE.pdf.

34 World Health Organization, *Research and Development to Meet Health Needs in Developing Countries: Strengthening Global Financing and Coordination,* Report of the Consultative Expert Working Group on Research and Development: Financing and Coordination (Geneva, April 2012).

35 World Health Organization, Report by the Secretary General on "Follow-up of the report of the Consultative Expert Working Group on research and development: Financing and coordination" (A66/23), 11 March 2013, available from http://apps.who.int/gb/ebwha/pdf_files/WHA66/A66_23-en.pdf.

36 More information is available from http://www.wipo.int/research/en/.

component of the African Union's PMPA is the harmonization of regulation for medicines. The African Medicines Regulatory Harmonization Programme works with the African Regional Economic Communities to support African countries in improving public health by increasing access to good quality, safe and effective medicines through harmonizing and simplifying regulation of medicines, increasing transparency in approval processes, and expediting registration of essential medicines.[37]

Policy recommendations

As the measures above illustrate, multidimensional approaches are needed where different policies and initiatives coexist and they must therefore be coordinated to stimulate innovation and to improve affordable access to essential medicines. In addition to the existing measures, increased momentum is warranted as follows

- Pharmaceutical companies are encouraged to deepen their efforts in making available more affordable essential medicines and innovating in the creation of new medicines, especially those most needed by developing countries
- Developing-country Governments are urged to make essential medicines more available in their public facilities
- Developing countries are encouraged to make use of the TRIPS flexibilities in order to increase access to more affordable essential medicines whenever conditions justify, through local production and importation, including parallel imports
- Manufacturing companies in developing countries with the capacity to do so are encouraged to produce more affordable essential medicines locally, taking advantage of international efforts that facilitate such production
- New R&D initiatives that help delink the high cost of R&D from the price of the product need to be further developed and implemented
- Countries should work towards regional harmonization and simplification of regulatory requirements so as to increase access to good quality, safe and effective medicines

37 See African Medicines Regulatory Harmonization website, available from http://www.amrh.org/.

Access to new technologies

Goal 8 of the Millennium Development Goals (MDGs) addresses one aspect of the benefits of new technologies for development in particular—information and communication technologies (ICT). Over the years, the *MDG Gap Task Force Report* has followed the explosion in access to ICT in developing countries, largely driven by private industry. It has also looked at different approaches by which Governments have facilitated the spread of the benefits from ICT and have increasingly used ICT to improve their own services through "e-government". The *Report* has further monitored increased access to climate-related and medical technologies (see the chapter on access to afforable essential medicines).

Other areas in which technology is relevant for development include sustainable agricultural methods and food security to reduce hunger, sustainable sources of energy, access to safe drinking water and delivery of financial services to the poor. The United Nations Economic and Social Council decided to deepen international discussion of the broad role of technology in development, recognizing its widespread economic and social benefits. The focus of the 2013 Annual Ministerial Review, in particular, is "Science, technology and innovation and the potential of culture for promoting sustainable development and achieving the MDGs".[1] As the international community decides priorities for a post-2015 development agenda, expanding the scope and monitoring of efforts to increase access to new technologies—along with strengthened capacities to assess, absorb and also generate technological advances in the public interest—is assuming renewed significance.

Access to information and communication technologies

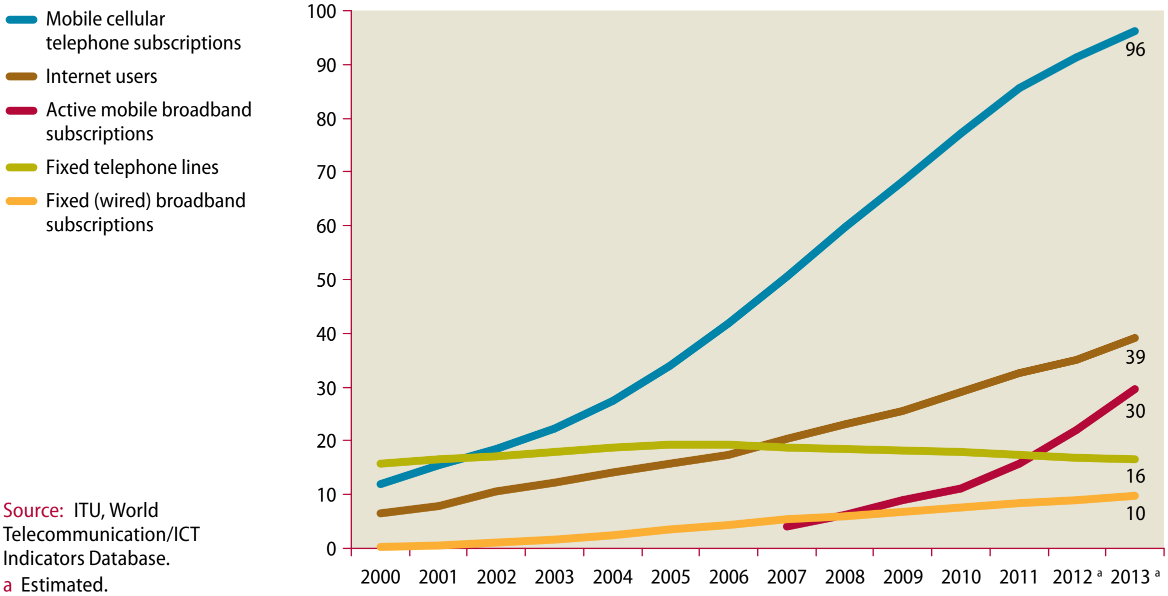
Access to ICT, especially mobile telephony and broadband, continued to increase

The use of ICT is continuing to grow in all regions of the world as more and more people are connecting to and making use of ICT. According to the latest estimates for 2013, the number of mobile cellular subscriptions in the world has risen to 6.8 billion, nearly the level of the world population of 7.1 billion, reaching a penetration rate[2] of 96 per cent (figure 1). As the global mobile cellular market approaches user saturation, the growth rate has fallen to below 10 per cent thus far in 2013. The number of active mobile broadband subscriptions has grown more than 30 per cent annually over the last three years, owing to the ubiquity of mobile telephones and the spread of mobile broadband networks and services,

1 Report of the Secretary-General on "Science, technology and innovation, and the potential of culture, for promoting sustainable development and achieving the Millennium Development Goals" (E/2013/54) submitted to the 2013 Annual Ministerial Review of the Economic and Social Council, 18 April 2013. Available from http://www.un.org/ga/search/view_doc.asp?symbol=E/2013/54.

2 Penetration rate refers to the number of subscriptions per 100 inhabitants.

Figure 1
Global trends in access to ICT, 2000-2013
(*penetration rates per 100 inhabitants*)



Source: ITU, World Telecommunication/ICT Indicators Database.
a Estimated.

coupled with the availability of "smartphones" and tablet computers. Meanwhile, the number of fixed telephone lines per 100 inhabitants is continuing its decline since 2006, gradually being replaced by mobile cellular telephony.

The gap between developed and developing countries has decreased, but…

Although the global growth in mobile cellular subscriptions has recently tapered off, growth has continued in developing countries, narrowing the gap between developed and developing countries (figure 2).[3] Notably, China is already home to over 1 billion mobile cellular subscriptions, while India had just under 900 million subscriptions at the end of 2012.

…LDCs still lag in mobile cellular telephony

The penetration rate of mobile cellular subscriptions in least developed countries (LDCs) increased to 42 per cent in 2011, up from 34 per cent in 2010 (figure 3); however, it remained low overall. Oceania and sub-Saharan Africa continue to be the geographical regions with the lowest penetration rates, although the latter surpassed the 50 per cent mark in 2011. The penetration rate of mobile cellular phones exceeds 100 subscriptions per 100 inhabitants in Latin America, Central Asia, South-Eastern Asia and Northern Africa.

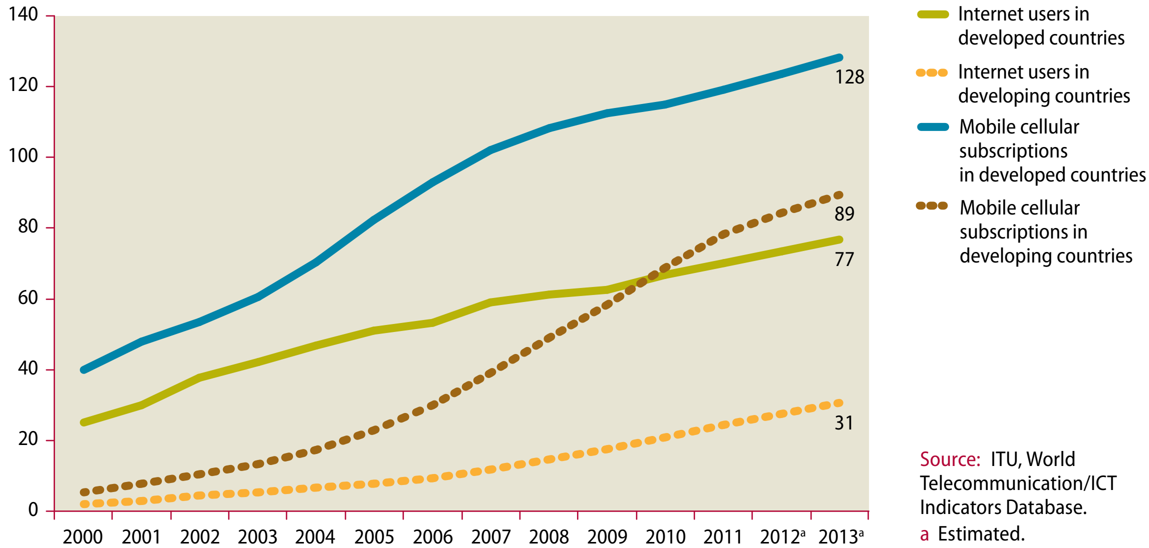
The penetration rate of fixed telephone lines is continuing its decrease in most developing regions (figure 4). There is only one fixed telephone line per 100 inhabitants in the LDCs. Sub-Saharan Africa, Southern Asia and Oceania still lag behind all regions, with less than 10 lines per 100 inhabitants.

Internet use also grew faster in developing countries

The increase in the number of individuals using the Internet in developing countries continues to outpace that in developed countries, growing at 12 per cent in 2013 compared with 5 per cent in the developed countries. The total number of Internet users in developing countries comprises 65 per cent of

3 International Telecommunication Union, *Measuring the Information Society 2012* (Geneva, 2012).

Figure 2
Mobile cellular subscriptions and Internet users in developed and developing countries, 2000-2013 (*penetration rates per 100 inhabitants*)



Source: ITU, World Telecommunication/ICT Indicators Database.
a Estimated.

the total number of users in the world in 2013, up from 40 per cent in 2005. The penetration rates in Internet use in developing countries have also increased, to 31 per cent in 2013 from 25 per cent in 2011 (figure 2). The lowest penetration rate remains in Africa, at 16 users per 100 inhabitants, but it has been increasing gradually.

Increasing broadband connectivity is essential to enhancing the use of the Internet. Fixed (wired) broadband subscriptions worldwide have more than tripled, from 220 million in 2005 to 696 million in 2013. Much of this growth is located in developing countries, which account for more than half of these subscriptions, surpassing the total number of fixed broadband connections in developed countries in 2013. However, fixed broadband penetration rates remain very low, at 6 per cent in developing countries and 27 per cent in developed countries (figure 5). Africa has the lowest penetration rate at 0.3 subscriptions per 100 inhabitants.

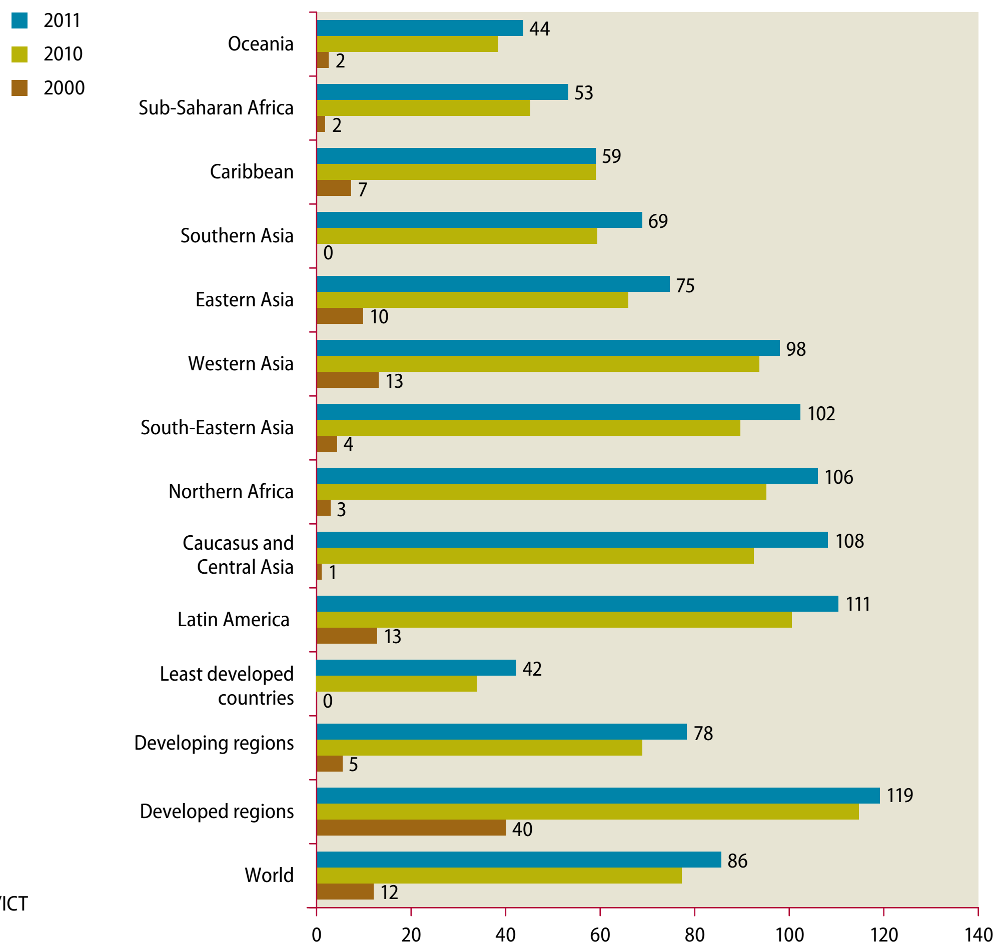
Mobile broadband use took off in developing countries, especially in Africa

Mobile broadband subscriptions, by contrast, have increased almost eightfold, from 268 million subscriptions in 2007 to 2.1 billion in 2013. Over half of these subscriptions are located in developing countries, who surpassed the developed countries in numbers in 2013. However, the difference in penetration rates relative to population are large—20 per cent in developing countries compared with 75 per cent in developed countries. In stark contrast to progress in the other ICT services, Africa has been the fastest-growing region in terms of mobile broadband penetration, increasing from 1.8 to 10.9 subscriptions per 100 inhabitants between 2010 and 2013. Nonetheless, it remains the region with the lowest overall penetration rate.

The cost of ICT continued to lower but gaps persist

ICT services continued to become more affordable in 2011, mostly owing to a decrease in the relative cost (measured as the price of monthly subscriptions of fixed telephone, mobile cellular and fixed broadband services as a percentage

Figure 3
Number of mobile cellular subscriptions per 100 inhabitants, 2000, 2010 and 2011



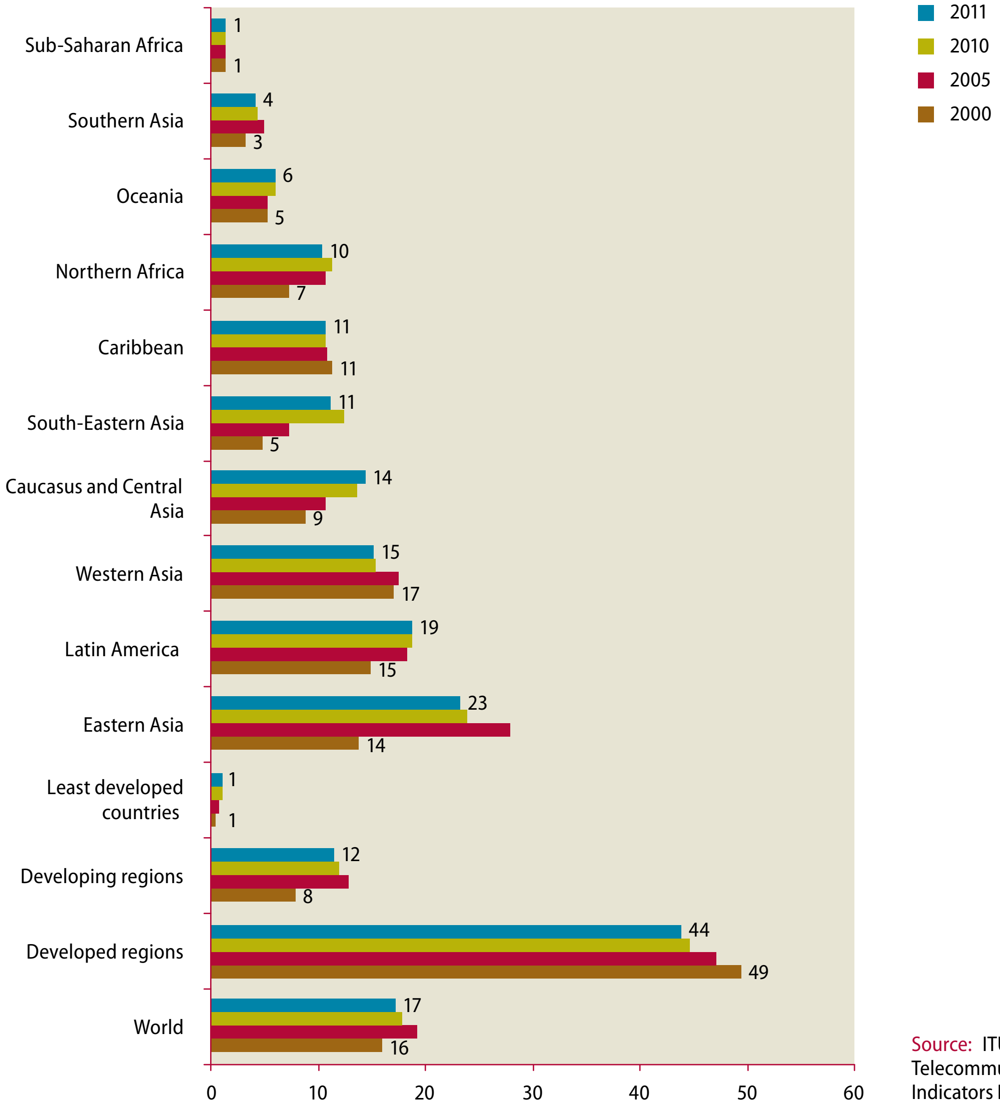
Source: ITU, World Telecommunication/ICT Indicators Database.

of gross national income (GNI) per capita) in developing countries.[4] However, the pace in the decrease of relative costs has slowed down in developed and developing countries. In addition, the difference in costs between developed and developing countries is still wide, although the gap is narrowing. The cost of fixed broadband services experienced the largest fall, followed by the cost of mobile cellular telephony and fixed telephone services (fixed telephone services actually increased in terms of relative costs in 2011 in developed countries). Despite the decrease in relative costs of fixed broadband services, they remain unaffordable for most of the population in developing countries.

Mobile broadband services are relatively more affordable than fixed broadband services. In developing countries, for example, a 1-gigabyte (GB) postpaid computer-based mobile broadband plan costs the equivalent of 18.8 per cent of

4 Based on the International Telecommunication Union (ITU) ICT Price Basket that measures an index based on the price of monthly subscriptions of fixed telephone, mobile cellular and fixed broadband services as a percentage of gross national income per capita. See International Telecommunication Union, ibid., p.71.

Figure 4
Number of fixed telephone lines per 100 inhabitants, 2000, 2005, 2010 and 2011



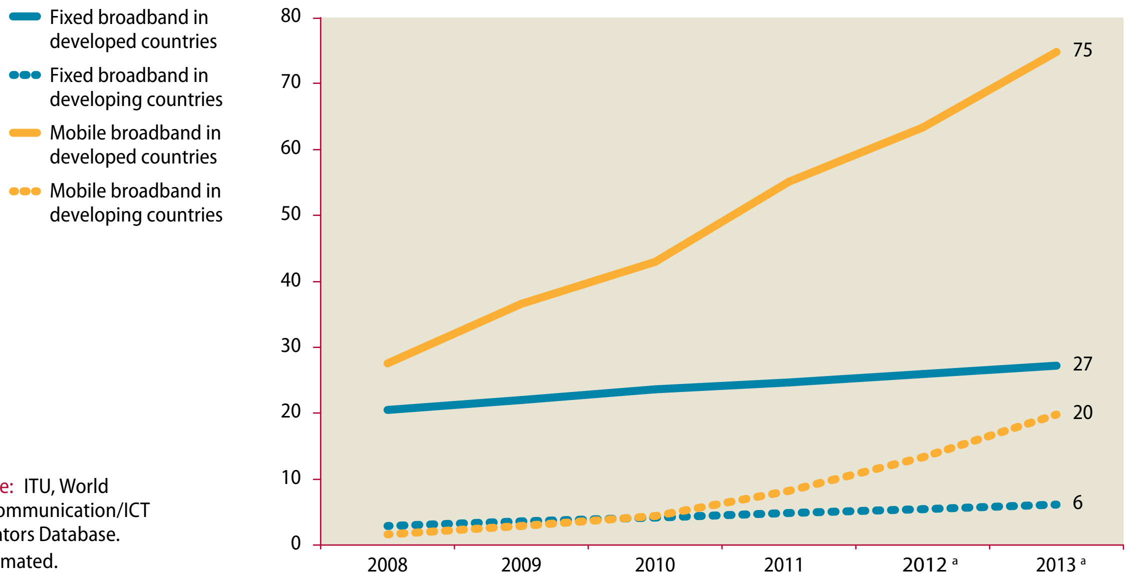
Source: ITU, World Telecommunication/ICT Indicators Database.

monthly GNI per capita, compared with 30.1 per cent of monthly GNI per capita for a postpaid fixed broadband plan with 1 GB of data volume, in 2012. The cost of an entry-level mobile broadband plan represented from 1.2 per cent to 2.2 per cent of monthly GNI per capita in developed countries, compared with around 11.3 per cent to 24.7 per cent in developing countries, depending on the type of service. There thus seems to be room for prices to fall in the developing world.

The development impact of ICT

The economic benefits of ICT are not automatically harvested. ICT needs to be available and affordable to a large percentage of the population and regulated in ways that encourage development of appropriate applications. Investment to upgrade and enhance interconnected networks and systems is also necessary. The

Figure 5
Fixed (wired) broadband and mobile broadband subscriptions in developed and developing countries, 2008-2013 (*per 100 inhabitants*)



Source: ITU, World Telecommunication/ICT Indicators Database.
a Estimated.

greatest access gaps lie in broadband Internet, a key medium for ICT applications. Dedicated enhanced networks, as well as the Internet, can also help improve the quality and efficiency of government services, especially in public programmes aimed at advancing progress towards achievement of the MDGs.

International efforts to increase access

The target is set at making broadband policy universal by 2015

In May 2010, the International Telecommunication Union (ITU) and the United Nations Educational, Scientific and Cultural Organization (UNESCO), with the support of the United Nations Secretary-General, established the Broadband Commission for Digital Development to strengthen the role of broadband technology in development and help accelerate progress on the MDGs. One of the Broadband Commission's main targets is to make broadband policy universal by 2015. By the end of 2012, 121 countries (including 78 developing countries) had adopted a national broadband plan or policy and another 25 were planning to introduce such measures. In addition, 50 countries that had adopted a universal access/service (UAS) definition had included broadband in their definition. Three other targets include making broadband affordable, connecting households to the Internet and increasing the number of people online regardless of where they are. At its seventh meeting in March 2013 in Mexico City, the Commission established a fifth target calling for gender equality in access to broadband by 2020, and will soon start tracking its progress.

In December 2012, ITU convened the World Conference on International Telecommunications in Dubai, United Arab Emirates. The Conference reviewed the International Telecommunication Regulations (ITRs), a 1988 treaty aimed at facilitating international interconnection and interoperability of information and communications services, as well as ensuring their efficiency and widespread usefulness and availability. The new ITRs treaty, agreed on 14 December 2012,[5] charts a globally agreed road map to bring connectivity to all. The treaty sets out general principles for assuring the free flow of information around the world, promoting affordable and equitable access for all and laying the foundation for ongoing innovation and market growth. Some key elements of the ITRs include a special emphasis on freedom of access to international telecommunication services and an affirmation of countries' national commitment to implement the treaty in a manner that respects and upholds their human rights obligations. Overall, it is hoped that the ITRs will encourage investment in international telecommunication networks, promote competitive wholesale pricing of telecommunication traffic and avoid double taxation on international telecommunication services.

Trends in regulation of the ICT sector

Regulation and competition is almost universal

Regulation is essential to increasing access to ICT services. A regulatory authority can protect the interests of consumers by, for instance, intervening to prevent excessive charging for services. It can also promote competition by setting minimum prices to prevent the dominance of some providers or set rules to allow subscribers to keep their mobile number when switching providers. This facilitates subscribers' free choice of providers.[6] Since 1990, most countries in the world have adopted strategies for regulated private provision of ICT. The number of countries that have established a dedicated telecommunication regulator, have allowed competition and have increased the number of privatized incumbents now includes most of the world (figure 6).[7] By the end of 2012, independent regulators were established in 160 countries throughout the world. Meanwhile, the number of telecommunications privatizations has slowed over the past five years, partly owing to the global financial crisis and the simplification of licensing regimes allowing for easier entry for private entities to the market.

The role of e-government

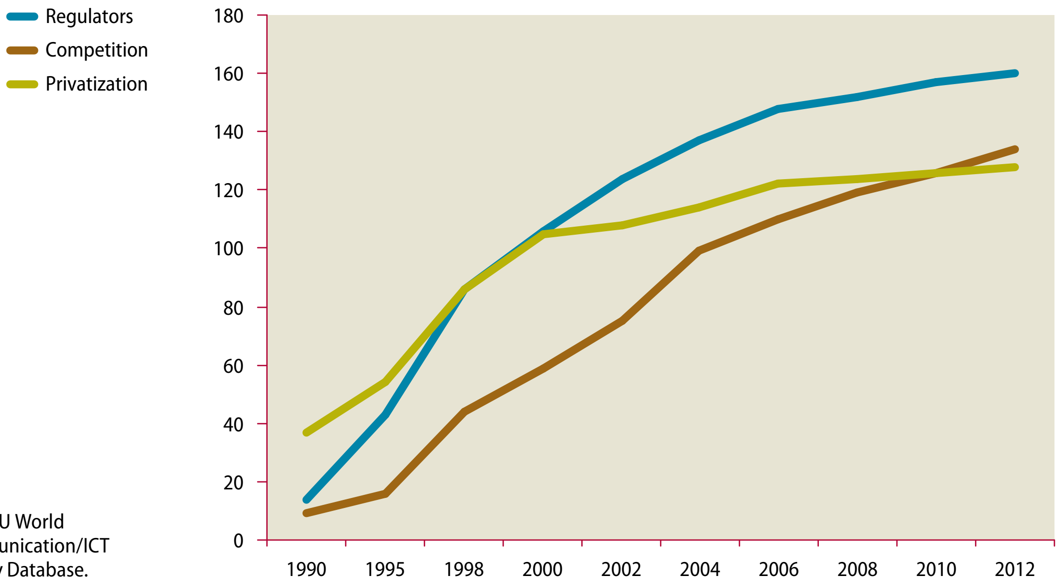
Use of ICT for improvement of public services increased

Information technologies can play a key role in improving the quality of governance and public administration and in boosting institutional capacity in Governments. National Governments have increasingly deployed technology solutions in education, health, agriculture, poverty reduction and public sector management, among other areas. However, developed countries continue to be more advanced than the developing countries in the use of new technology by their Governments, which points to additional areas for enhancement in developing countries.[8]

Governments at the national and local levels in both developed and developing countries have adopted online solutions to improve their efficiency, efficacy, flexibility and outreach to the public. Access to ICT has also improved institu-

5 See http://www.itu.int/en/wcit-12/Documents/final-acts-wcit-12.pdf.
6 International Telecommunication Union, ibid.
7 International Telecommunication Union, *Trends in Telecommunication Reform 2013: Transnational Aspects of Regulation in a Networked Society* (Geneva, 2013), chap. 1.
8 Based on data from the United Nations E-Government Development Index, available from http://unpan3.un.org/egovkb/.

Figure 6
Liberalization and reform trends, 1990-2012 (*number of countries*)



Source: ITU World Telecommunication/ICT Regulatory Database.

tional linkages between different government agencies, enabling more efficient distribution of resources and improving transparency. With the aim of improving efficiency, Governments are increasingly centralizing the entry point of service delivery to a single portal where citizens can access all government-supplied services, regardless of which government authority provides them. [9]

In addition, an increasing number of Governments are collaborating with third-party organizations in civil society or the private sector to provide e-services.[10] At the same time, ICT was also deployed for e-participation by many countries of the world. As a result, citizen participation and government consultation with citizens through ICT increased by 73 per cent between 2010 and 2012.

While increasing use of ICT by national Governments has led to better access to information and services in developing countries, many challenges remain. Lack of technical skills in general, high costs of technology and ineffective government regulation are obstacles to increasing investment in many developing countries. Progress towards the achievement of the MDGs is impaired by inadequate integration of e-government into development plans and with providers of public services. The digital divide in e-government continues to persist; Africa lags with a mean e-government development index of about half of the world average.

Access to climate-related technologies

A universal climate change agreement is to be adopted by 2015

Attending to environmental needs such as adaptation to and mitigation of the impact of climate change requires the development and transfer of technology to

9 United Nations, *UN E-government Survey 2012: E-Government for the People* (United Nations publication, Sales No. E.12.II.H.2).

10 Ibid.

developing countries. Further progress has been made in this area. At the eighteenth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC), held in Doha at the end of 2012, States parties agreed to adopt a universal climate change agreement by 2015, with implementation beginning in 2020.[11] In addition, they endorsed the establishment of new institutions and means to deliver scaled-up climate finance and technology to developing nations. Among these was the Green Climate Fund, which is expected to start its work in the second half of 2013 and launch its activities in 2014. Governments also confirmed a consortium to host the Climate Technology Centre and Network (CTCN), the implementing arm of the "Technology Mechanism" that had been agreed upon in 2010 as a means to focus international support for technological development for climate mitigation and adaptation. The CTCN will be led by the United Nations Environmental Programme, in collaboration with the United Nations Industrial Development Organization and 11 leading technical organizations in developed and developing countries. It aims at accelerating the transfer of climate-related technology and expertise to developing countries and expanding international partnerships to accelerate the diffusion of environmentally sound technologies.

Developed countries reiterated their commitment to scale up long-term climate finance support to developing nations, with a view to mobilizing $100 billion annually from all sources for adaptation and mitigation by 2020. In addition, individual countries also announced concrete financing pledges for the period up to 2015 towards financing for developing countries.

Disaster risk management

Access to technology is also needed to mitigate the impact of disasters

Mitigating the impact of disasters also requires access to new technology. The magnitude of disasters in both developed and developing countries and their impact on the lives of people has increased the need to build better disaster resilience and preparedness. Small island developing States (SIDS) are a highly vulnerable group of countries in this regard. Their high dependence on tourism, exposure to various natural hazards, and low economic resilience have put them at the top of the list of countries at high risk of disaster.[12] Similarly, many countries in sub-Saharan Africa, where a large share of the population depends on agriculture, are in drought-prone areas, putting them at risk of chronic food shortages and crises. For countries in both of these categories, the risks and potential human and financial cost of natural disasters are extremely high. These countries in particular could benefit from improved technology to monitor risks and provide earlier warnings, fostering both short-term strategies (so people may evacuate to safer places) and long-term strategies (so risk-mitigating investments may be undertaken).

11 United Nations Framework Convention on Climate Change, "Report of the Conference of the Parties on its eighteenth session, held in Doha from 26 November to 8 December 2012, Part Two: Action taken by the Conference of the Parties at its eighteenth session" (FCCC/CP/2012/8/Add.1), 28 February 2013, available from http://unfccc.int/resource/docs/2012/cop18/eng/08a01.pdf.

12 United Nations, *From Shared Risk to Shared Value: The Business Case for Disaster Risk Reduction. Global Assessment Report on Disaster Risk Reduction 2013* (Geneva).

Besides the tragic loss of life, today, disasters carry the threat of major global impact due to the greater interdependence of global supply chains. For example, the "Great Earthquake" of 11 March 2011 in Japan disrupted the automobile and electronic component production in Indonesia, Malaysia, the Philippines and Thailand.[13] Regardless of where the disaster occurs, disaster risk reduction is an area where the private and public sectors in both developed and developing countries need to cooperate, share knowledge and technology, and take joint action that both increases resilience through the construction of more appropriate infrastructure and improves the risk assessments of their investments.

Policy recommendations

- Governments of developing countries should accelerate efforts to increase access to and affordability of ICT, especially broadband Internet, by adopting broadband policies and regulations that promote the competitive entry of providers
- Governments of developing countries should continue to increase the use of ICT applications to improve the provision of services, especially those with a direct impact on the MDGs, and launch efforts to support an emerging development agenda
- Governments and research institutes of developed and developing countries are encouraged to continue supporting the efforts of the Technology Mechanism, including the Climate Technology Centre and Network, to increase the transfer of climate change–related technologies to developing countries. Developed countries are urged to scale up long-term climate finance and reach their commitments by 2020
- The public and private sectors of developed and developing countries are urged to increase cooperation in expanding access to new technologies to enhance preparedness for and resilience to the effects of natural disasters
- All United Nations Member States and stakeholders should re-examine and bring to the international agenda the importance and role of science, technology and innovation and the transfer of all relevant technologies in the achievement of development goals in all areas

13 Ibid.

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