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Speeding up progress towards the MDGs
Financing for Development and Aid Effectiveness

The international architecture of Financing for Development is changing rapidly due to international debates including those on how to deliver more and better aid under the agenda of the Paris declaration. Since the Monterrey conference in 2002 the political conditions that affect the quality and quantity of financial flows to and from the South have changed dramatically – involving severe consequences for developing countries.

In the light of the current crises in the financial markets it is generally recognised that financial stability and efficient use of financial means are essential for the achievement of the international development goals including the Millennium Development Goals (MDGs).

One of the greatest current threats to achieving the MDGs comes from the global financial volatility and the real economic spill over resulting from the current financial crises. This is impacting on the productive sector and labour, and risks stability, social polarisation and the erosion of democracy. The international monetary system has hedged this financial instability as it has become clear that the tremendous growth of financial transactions worldwide has not resulted in a similar increase in resources available for the fight against poverty and the realisation of the MDGs. On the contrary, new institutional investors such as hedge funds and private equity funds have a high share of trade in complex financial derivates which are at the root of the current crises. Taking the aid effectiveness agenda seriously into account in the run-up to the Financing or Development follow-up conference in Doha therefore requires that the root causes of the financial volatility itself are tackled.

A main issue that affects the resources available to the MDGs is the IMF requirement and developing countries' practice to build substantial reserves to protect against volatility. Whilst these measures might be prudent in the current volatility and reduces dependence on the IMF, it takes away important resources that could and should be used for the achievement of the MDGs. In order to avoid inflation risks linked to stronger aid flows, IMF demands restrictive policies concerning human resource spending. As a result, developing countries governments are often forced to keep health and teaching staff expenditures low, which creates further obstacles to the achievement of the MDGs.

There is a need for linking reforms in aid modalities to MDGs outcomes. The aid effectiveness debate is focusing strongly on technical mechanisms of the aid delivery system and often omits the link between increasing aid effectiveness and reducing poverty and inequality as expressed in the MDGs.

General Budget Support is promoted on the basis of the Paris Declaration, as this is seen to be contributing to the strengthening of financial governance and oversight mechanisms. Currently 5% of ODA is delivered as General Budget Support. The European Commission is aiming that 50% of its aid is delivered as General and Sector Budget Support.

General Budget Support has the potential to be an effective instrument that provides medium to long term predictable finance. This is vital for building effective systems for health and education, for which the training and employment of millions of health workers and teachers is essential around the developing world. It is therefore important that the use of General Budget Support is explicitly linked to meeting the MDGs, and that the review mechanism for monitoring the use of national budgets have this as a central objective.

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However, General Budget Support alone cannot lead to progress in the MDGs, especially for the poorest, most marginalised groups and for subjects that lack high political profile and are controversial in some cultures, especially on sexual and reproductive health and rights. In fragile states, where access to basic social services and supplies are particularly vital, the need for other means of funding, including SWAPs, is also crucial, as the often weak state infrastructure and oversight mechanisms makes budget support in these countries currently not viable.

Emphasis is now being placed on improving the effectiveness of how to disburse aid, but little attention is paid to the cost-benefit of aid to different areas. With regards to the aid effectiveness agenda, it should be recognised that the causes of inefficiency in the use of aid are duplication, as well as tied aid, the volatility of finances, and the unpredictability of aid, and incoherent policies.

In order to achieve the MDGs and to ensure the efficient use of aid resources the EU should urgently give leadership to create a much needed wide-ranging, ambitious and coherent agenda for both Accra and Doha. On the way from Accra to Doha and beyond there is a double challenge: Governments must find ways to increase the real transfers of official resources to countries in the South and to leverage an increase in domestic public resource mobilisation, but they must also agree urgent measures to hedge the risks of the current financial crises and a looming US recession for developing countries.

The EU must actively engage in the preparations towards the Doha UN Conference for Financing for Development, so that the following issues can urgently be addressed at a global level:

Expectations for ensuring democratic and inclusive decision-making processes

- A challenge to donor dominated and donor driven processes governing donor-recipient relationships as a means towards the creation of real ownership. Overcome the donor-dominated OECD led processes with processes based on inclusion of all Southern governments, especially in the newly created Development Cooperation Forum within ECOSOC at the UN to provide global leadership on global strategies for international co-operation.

- Resolve the inherent conflict between the broad themes of the Paris Declaration and those underlying progress indicators that seem to promote potentially harmful economic policies. For instance by calling for non-discrimination of foreign TNCs indicator 2b seems to be motivated by donor interests in accessing public procurement in developing countries. In addition indicator 2a on public financial management does not enhance partner's national ownership but in stead follows the World Bank's CPIA. .

- Have contract procedures attached to aid used for public expenditure so as to govern the handling of aid with good financial governance practices, thereby replacing policy conditionality. These should be subject to parliamentary accountability and scrutiny.

- Identify clearly defined processes of dialogue with and inclusion of engagement with civil society organisations as a basis for national policy-setting so as to ensure ownership. These processes to be undertaken jointly by national governments and by donors.

- De-link alignment with IMF conditionality which create obstacles for poverty eradication and stop linking of aid to harmful macroeconomic policy conditions.

- Promote the contribution of CSOs in capacity building and oversight in public financial management. Enhance CSOs playing a role in strengthening democratic accountability by providing a platform for groups that do not have access to the political elite. These voices are particularly necessary in areas to which the poorest and most marginalised groups have least access.

Improve North - South Cooperation

- Any kind of military aid not to be counted as ODA; debt cancellation should be paid by new money; compensation for trade agreements must be additional to aid, and financial mechanisms for compensation for climate change should also be additional money;

- Increase ODA to achieve the promised target of 0.7% of ODA/GNP; according to the definition of ODA that focuses on real aid and excludes new areas such as security or environmental expenses as called for by UN SG in UN Doc A/62/217 dated 10.8.2007, 78.

- Implement the 2001 OECD/DAC agreement on untying aid to developing countries. Untie technical assistance from the disbursement of aid and reform technical assistance to be aligned to national strategies, which respond to national priorities and build capacity. The right of recipient countries to contract according to their needs should be respected. More effective South-South forms of technical assistance should also be promoted.

- Ensure that harmonisation does not become an end in itself and leave space for initiatives to try new and innovative approaches from civil society organisations, which, when successful, can be up-scaled and integrated in government's policies.

- Ensure transparency in donor aid flows, and public availability of data concerning these flows, including public access to government-to-government contracts.

- Ensure parliamentary scrutiny in General (and Sector) Budget Support programmes which should be subject to parliamentary control both domestically and by parliaments in donor countries;

- Ensure the cost efficiency of aid to improve aid effectiveness. It has been shown in different research that reproductive health supplies are very cost-effective: US$1 million for commodities can prevent 800 maternal deaths, 11,000 infant deaths, 14,000 additional deaths of children under 5. Outcomes of this size would have exponential impact on the achievement of other development outcomes, and are crucial to the attainment of MDG 4 and 5.

- Promote the realisation of the international Human Rights Treaties and ILO Conventions, the Beijing Platform for Action, and ensure the implementation of the Human Rights Treaties and International Programmes of Action including with regards to the environment. Give particular emphasis to the implementation of the Brussels Programme of Action for Least Developed Countries; and realize gender justice and respect for human rights obligations under international laws in all national budgets.

- Transparency in any funding arrangement to be set to combat climate change.

- Create adequate mechanisms to fund the main priority areas of the MDGs, which should include sustainable financing mechanisms (including sector and general budget support) for salaries for teachers and health workers, and ensure access for women to sexual and reproductive health and rights.

- Ensure inclusive social security with regards to health, education and pensions and create inclusive accessible and affordable social security systems.

Promote the effective use of resources for poverty eradication

1. Mobilisation of domestic resources for development

    - Support fair and efficient domestic tax systems that provide for an equitable and sustainable system of taxation rather than regressive tax system that rely on value-added taxation. Technical assistance needs to be provided to increase financial management and democratic oversight mechanisms.

    - Introduce an effective system of corporate taxation by reducing tax incentives for TNCs and other private investors in special economic zones, and through the regulation of transfer prizing schemes.

    - Strengthen new and binding reporting and accounting procedures for private banks and corporations to publish corporate financial transactions. As a first measure for introducing new accounting standards, a country-by-country reporting scheme should be introduced at international level.

    - Strengthen measures to fight corruption and for the repatriation of stolen assets. The UN Convention against Corruption needs to be complemented by an effective monitoring system at country level, including support for initiatives such as the World Bank's Stolen Assets Recovery (StAR) initiative.

2. Make private resources work for development

    - In line with the Johannesburg Summit recommendations to "*actively promote corporate responsibility and accountability, based on the Rio principles, including through the full development and effective implementation of intergovernmental agreements and measures* …" continue to develop binding social and environmental norms for TNCs that respect international human rights obligations.

3. Develop new international financing instruments

    - Put the issue of international taxation for development, including a Currency Transaction Tax or a Financial Transaction Tax on the Doha Conference agenda. The outcome of the Conference should contain a political commitment to introduce a Currency or Financial Transaction Tax or a Currency Transaction Development Levy at a low rate to gain experience in its implementation. As a first step a new task force within the leading group on solidarity levies to fund development should be agreed.

4. Overcome the debt burden

    - Cancel quickly and irreversibly all unpayable and unjust debts. 'Unpayable' debts are those that a country cannot afford to pay whilst meeting its own people's basic needs. 'Unjust' debts are those that are not legitimate claims, such as 'odious' debts on loans knowingly given to dictators, or those from loans given on unfair terms, or for failed projects based on lenders' advice.

    - Stop attachment by international institutions such as the World Bank and IMF of harmful strings to debt relief. Poor countries should no longer have to privatise basic services or cut public spending as a condition for receiving desperately needed debt relief.

- Establish a transparent, impartial and comprehensive international insolvency process to resolve debt crises, to judge what debt is unpayable or unjust, and to ensure that human needs take priority over debt repayments.

5. Reform the international financial architecture

   - Further reform voting rights in the IMF and World Bank to allow stronger democratic representation and involvement in decision-making by developing countries. This should include the proposals to introduce double voting rights to ensure the inclusion of all developing countries in decision-making processes that deeply affect t their countries.

   - Improve the transparency of hedge funds in order to limit their negative macroeconomic effects. Reform the corporate governance limiting incentives for management. Limit the leverage of hedge funds by increasing capital requirements and restrict over-the-counter trade of derivates. These measures will help to control the negative impact hedge funds have within the current or future financial crises.

   - Regulate private equity funds in order to mitigate their negative impact on long term interests, technological innovation, labour and social concerns in developing countries, by increasing in-capital requirement and transparency, introduce licensing to prevent offshore companies from operating, change the governance structures of institutional financial actors, prohibit extra dividends, and facilitate workers participation.

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