

EURODAD

European Network on
Debt and Development



**G8 COMMUNIQUE:
MORE AND BETTER AID?**

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EXECUTIVE SUMMARY

The much awaited G8 communiqué must be commended for responding to public demands and putting development firmly on the geo-political map. But, many of its policies are either too thin on detail (like just what conditions will be attached to potential new aid flows) or lack robust enforcement mechanisms (pledges on aid increases and enhancing aid effectiveness have no real enforcement mechanism to ensure they will happen) leaving one to question just how much will actually be put into practice. Sadly, if past political pledges of action on development are anything to go by, then genuine praise on the commitments contained in the communiqué will have to wait until we see evidence of real action on the ground.

If, however, civil society thought the time to lobby was over, they were wrong. The communiqué's many 'policy blanks' provide a window of opportunity for civil society to fill them in with progressive detail.

Aid Volume - As predicted and greatly welcomed, the communiqué includes a pledge by G8 countries and other donors to increase aid by US\$48 billion by 2010. However, the money is in no way guaranteed, with Germany and Italy, for example, citing budget problems as potentially getting in the way of them reaching the targeted increase. The United States Congress has also not passed President Bush's ODA increases and it is yet to be seen whether they will. It will also be a long time coming (spread over a five year period) and, could be raised through borrowing against future aid budgets, rather than new contributions. Finally, reading between the lines, it would appear that the business of counting debt relief as overseas development assistance will continue. Worryingly, for example, Russia's financial contribution to raising aid appears to be entirely accounted for in terms of debt write-offs (Annex II).

Conditionality – There is no clear information on what conditions countries will have to meet in order to receive any potential new aid flows, though the issue of good governance is flagged up numerous times in the report indicating their importance. This is probably because most of the aid will be disbursed independently by differing countries and as such will be subject to different degrees and types of conditions. Worryingly, the US have cited the Millennium Challenge Account (MCA) as a key vehicle for disbursing new aid. However, the MCA has notoriously tough conditions, making it likely that many countries will not benefit from future funds.

Much has been made by civil society groups of paragraph 31, which progressively calls for developing countries to have the right to decide their own economic policies, something which civil

society organizations have been campaigning for, for a long time. Yet with no elaboration on what this actually would mean in practice, it lacks enforceability and is open to wide interpretation. Civil society should push for more detailed policy measures here to ensure that space for developing countries to create their own economic policies exists, like calling for a cessation of economic policy conditionality and in turn ensuring bilateral donor aid to not tied to the IMF's Poverty Reduction and Growth Facility (PRGF) conditions.

Aid Effectiveness – The communiqué makes a direct call for donors to be held to account for full implementation of the Paris Declaration on aid effectiveness, highlighting the need for greater untying of aid, more aid predictability and greater use of program based approaches. However, firstly, a lot of the new money is likely to be channeled through 'vertical' or 'global funds' and questions have been raised as to the compatibility of these funds to enhancing ownership and moving towards greater budget support. Secondly, like the Paris Declaration, the communiqué dismally fails to articulate what monitoring mechanisms should be put in place to ensure donors are held to account on aid effectiveness. Eurodad, along with other NGOs have been campaigning for strengthening international level monitoring mechanisms and NGOs should continue to campaign on this issue calling for an international forum where donors and creditors are equally represented.

Sector Priorities - Finally, the communiqué goes into some depth around the need to enhance good governance, growth, trade capacity, infrastructure, health, education, water and private sector development in Africa referring to a number of existing or new initiatives that should be supported. The communiqué should be commended on governance for drawing upon African initiatives. However, what the communiqué fails to do is indicate which of these issues is a priority and in need of immediate attention.

RISE IN AID VOLUME: Not a done deal yet

Perhaps the most significant agreement reached at the G8 Summit was a pledge to increase the amount of aid given to Africa and developed countries. The communiqué is actually quite weak on exactly how much aid will be made available, noting that “*the OECD estimates that official development assistance (ODA) from the G8 countries and other donors to all development countries will now increase by around \$50 billion a year by 2010, compared to 2004.*”(para 28)

Though this increase should be welcomed by civil society groups which have campaigned for many years for a rise in ODA, it is in no way a done deal and there are some worrying aspects to it. For the European G8 countries (UK, Germany and Italy) the rise in aid reflects money already pledged at the European Union Development Ministers meeting in May (24th). At the May meeting, however, both Germany and Italy issued statements warning that their budget problems may hit EU borrowing limits and stop them meeting the target, making the rise dependent on budget matters.¹ Also, it is not decided as of yet whether the U.S. Congress will embrace President Bush's commitment to increase funds to the Millennium Challenge Account. In June the House Appropriations foreign aid subcommittee approved only \$1.75bn for the MCA next year, well below the administration's request for \$3bn, for example. Civil society must monitor carefully that countries are indeed meeting their commitments.

If aid does rise, it is going to take a long time to actually come into effect, with most aid increases set to happen over a five year period. Kumi Naidoo, Chair of the Global Call to Action against Poverty, noted that “*The promise to deliver by 2010 is like waiting 5 years before responding to the tsunami.*”

There is also the likelihood that some of the funds will be raised through borrowing against future aid commitments, meaning that it will not be new money. For example, the EU countries have committed to continue to consider innovative new financing mechanisms like the International Financing Facility (Annex II) and a working group will be set up by the EU, Germany, France, Italy and the UK to take work forward.

Finally, reading between the lines, the G8 communiqué hints that it is acceptable to count debt relief efforts as Official Development Aid (ODA) – and that debt relief will continue to be an

important component of ODA. The communiqué reads: “G8 countries and other donors have made substantial commitments to increase aid, through a variety of means, including traditional development assistance, debt relief and innovative financing mechanisms”(26). Statements like these fly in the face of commitments made at the Financing for Development Summit in 2002 to which all G8 Governments have signed up to. The Monterrey Consensus – which the same governments signed just three years earlier - states that it is “critical” that debt relief efforts “be fully financed through additional resources”. Yet, increasingly we see that debt relief is used as a tool to try to reach the commitment of 0.7% ODA/GNI. In France, for example, almost one third of the aid budget is devoted to debt cancellation efforts.

AID CONDITIONALITY: Limited detail on what the conditions will be

The communiqué is weak on exact details of what conditions will be attached to new aid increases, though good governance is clearly high on the agenda. Disbursement methods, particularly by the United States, also raise concerns that in some countries conditions will be extremely touch. Finally, the communiqué produces a progressive, albeit non-specific, statement on the need for greater economic policy freedom for developing countries which should be expanded upon by civil society in future campaigns.

There is very little exact detail about what conditions countries will have to meet in order to receive new aid increases. What is clear from the communiqué is that good governance will be high on the policy agenda in the coming years with the communiqué noting that G8 countries “will focus aid on low income countries, which are committed to growth and poverty reduction, to democratic, accountable and transparent government, and to sound public financial management.” (30) (For more on governance see sector priorities section)

The failure to identify exact details is probably due to the fact that aid will be disbursed by individual countries and as such will be subject to differing sets of conditions. Worryingly, much of the new aid increases by the United States in particular are going to be given through specific funds, like the US Millennium Challenge Account, which is set to provide \$5 billion new money a year. The MCA has extremely tough conditions which countries have to meet in order to receive the money. In fact, up until April this year, the MCA have only released funds to one country, Madagascar despite being in existence since 2002.

Finally, much has been made by civil society groups of the statement included in the communiqué on ownership and economic policy freedom. “It is up too developing countries themselves and their governments to take the lead on development. They need to decide, plan and sequence their economic policies to fit with their own development strategies, for which they should be accountable to all their people” (31) However, at present it lacks any detail as to what this would mean in practice. Civil society groups should use this to continue to campaign for a cessation of all economic policy conditions and in line with stopping bilateral donors tying their aid to IMF economic policy conditions contained with its Poverty Reduction and Growth Facility.

AID EFFECTIVENESS: Warm words, but little credibility

The communiqué acknowledges the need to make aid more effective, but the commitments put forward lack robustness and much of the way the new money will be disbursed, via vertical or global funds could pose a problem in ensuring greater country ownership and moving towards budget support, key tenets of the aid effectiveness agenda.

The communiqué makes a direct reference to the OECD Paris High Level Forum on Aid Effectiveness, held in March 2005 highlighting the need for greater untying of aid, more aid predictability and greater use of program based approaches. The seeming G8 unanimity on this issue, actually masks major differences between G8 countries with Japan and the United States in the past vigorously opposing more detailed and ambitious indicators and targets on the aid effectiveness agenda which were being pushed by European Governments.

Importantly, the communiqué notes that G8 countries “...will implement and be monitored on all commitment made in the Paris declaration on aid effectiveness.” (32) However, the communiqué fails to articulate what monitoring mechanisms should be put in place, particularly at the international level to ensure donors are held to account on these commitments, something which the Paris Declaration also fails to do. As a result this statement though welcome, lacks credibility.

Eurodad, along with other NGOs have been campaigning for strengthening international level monitoring mechanisms on aid effectiveness. In the immediate future, the DAC working party should establish a tripartite technical forum (comprising of donors, developing countries and civil society) to monitor implementation and review indicators and targets on a regular basis. In the long term it should be moved outside of the OECD and held in an international forum where donors and creditors are equally represented.

Finally, there is a tension between the aid effectiveness agenda which pushes for greater direct funding to government budgets and the way much of the new money appears to be earmarked for disbursement. As indicated previously, a lot of the new money will be going to vertical or global funds for education and health issues. However, some policy makers have raised attention to the need to ensure these funds are brought into the core aid architecture and do not produce parallel funding streams and implementation procedures outside of developing country government structures. Some funds, like the Education for All initiative have worked extensively to ensure that their programs are conducive with sector wide approaches, but others have a long way to go.

There is also a tension with ownership, as Geoffrey Lamb, Vice President of the World Bank at the OECD Aid Effectiveness Forum, stated *“if we are successful in these expensive interventions we are essentially earmarking resource flows in these areas..and fixing resources and these are important statements on development priorities...we are narrowing choices...we are predetermining priorities”*. Lamb also raised the issue of additionality, noting that if funds are tackling public health goods like HIV/AIDs then perhaps they should be funded outside of ODA.

Another interestingly development to be watched is a new lead role for the World Bank coordinating donor activities. Not included in the communiqué, but highlighted in an opening statement on the official G8 website, G8 countries *“agreed that the World Bank should have a leading role in supporting the partnership between the G8, other donors and Africa, helping to ensure that additional assistance is effectively co-coordinated.”*

SECTOR PRIORITIES: Governance, Trade and Health and Education High on the Agenda

The communiqué mentions a range of different sectors identified as priority areas for ensuring development. What is missing, however, is which of these areas will be given immediate priority and the sequencing of funding.

Promoting Good and Responsive Governance

The communiqué pledges to support *“African countries efforts to make their governments more transparent, capable and responsive to the will of their people”* (13). It seeks to strengthen the role of key regional institutions like NEPAD and the African Union and African led initiatives on corruption and human rights by;

- Providing flexible funding for the African Union and NEPAD, supporting the African Peer Review Mechanism, and providing appropriate and coordinated support for African countries implementation of their good governance national strategies
- Supporting greater transparency in public finance management
- Supporting African partners in ratifying the African Union Convention on Preventing and Combating Corruption
- Supporting the Extractive Industries Transparency Initiative (EITI) calling on the WB and IMF to support this initiative
- Supporting implementation of the African Charter on Human and People's Rights
- Working vigorously on ratification of the UN Convention Against Corruption (14)

All these commitments come at the same time Kofi Annan announces the launch of a new initiative to financially support states undergoing the democratization process through the creation of a UN Democracy Fund. It will provide assistance to countries seeking to establish or strengthen their democracy, as Annan proposed in its report "In Larger Freedom". Annan was quoted in the press as saying that "a number of member states have already indicated their intention to contribute" to the fund, without citing names of countries. He said the fund was being created based on the knowledge that maintaining democratic institutions "can put strains on a poor country's resources."

Education and Health

The communiqué highlights both education and health pointing to the Millennium Development Goals as the target. To achieve this, G8 countries will;

- Work with African Governments to invest in more better education, extra teachers and new schools
- Support the Education for All Agenda in African and support for the Fast Track Initiative
- Focus on higher education and centers of excellence in science and technology
- Help Africa train and retain doctors, nurse and community health workers
- Work to meet financing needs of HIV/AIDs including replenishment this year of the Global Fund to Fight Aids, TB and Malaria and work with local stakeholders to implement the '3 Ones' principles in all countries
- Support Polio Eradication Initiative by continuing or increasing contributions

- Work with countries to scale up action against Malaria to reach 85% of the vulnerable populations
- Implement the G8 water action plan agreed in Evian and increase aid to this sector (18)

Promoting Growth through Trade and Infrastructure

Growth is seen as crucial lever to ensure poverty reduction and development. G8 Countries have committed to:

- Help to promote strong investment climate by promote a stable and efficient and harmonized legal business framework
- Provide additional support for trade capacity building to assist LDCs to take advantage of new opportunities, calling on the IFIs to submit proposals to the annual meetings for additional assistance to countries to develop their capacity to trade and ease adjustment in their economies
- Continue to work to build an international infrastructure consortium involving the AU, NEPAD, World Bank and African Development Bank. NEPAD should be the lead agency
- Increase access to financial services through increased partnerships between commercial banks and micro-finance institutions (22)

CONCLUSION

The G8 communiqué goes along way to addressing the need for more and better aid. But, CSOs need to press for more detailed and improved pledges and timetables in the run up to the Millennium Summit in September. And, perhaps even more importantly, over the next few years, CSOs need to continue to hold governments to account for their commitments, especially when the issue is far from the public eye and media headlines. In the end whether the G8 Summit in 2005 will make a big difference to reducing world poverty is yet to be seen. The test will be whether G8 countries live up to their commitments.

FURTHER LINKS

G8 communiqué: http://www.fco.gov.uk/Files/kfile/PostG8_Gleneagles_Communique.pdf

NGO Statement on Aid Effectiveness: <http://www.eurodad.org/articles/default.aspx?id=581>

Joint NGO letter calling for more progress targets on aid effectiveness:

<http://www.eurodad.org/articles/default.aspx?id=629>

Eurodad Report on the Paris High Level Forum on Aid Effectiveness:

<http://www.eurodad.org/uploadstore/cms/docs/EurodadReportontheHighLevelForum.doc>