

June 2006

Small change

An assessment of G8 action on trade justice, debt cancellation, more and better aid, 1 year on from Gleneagles

1. Introduction

Where were you in July 2005?

Whether you sent a postcard, lobbied your MP, joined the march in Edinburgh or sat at home and watched a pop concert, it was hard not to know that 8 of the World's most powerful leaders were meeting in Gleneagles and the public was demanding action on poverty. And the Group of 8 – Russia, USA, Canada, Japan, Germany, France, Italy and the UK – did respond. But was the response adequate and have these governments lived up to their promises?

The Make Poverty History (MPH) Campaign set a range of challenges to the G8 summit in Gleneagles on aid, debt and trade. Critically, the campaign was not confined to asking simply for more aid money to help the world's poor but was challenging the economic agenda that keeps people poor; the free market and free trade policies that have crippled developing countries across the world.

What follows is an analysis of G8 commitments on the main MPH demands and a brief assessment of what has happened since. The conclusion we reach is that while the G8 summit produced a useful step on debt cancellation and small steps on aid, not only are these inadequate but also no action has been taken to change the economic policies that will undermine this aid provision in the long term.

2. More and better aid

MPH Demand: Fully finance the Millennium Development Goals by providing at least \$50bn more in aid each year from 2005 onwards.

G8 promise: The G8 committed to providing \$50 billion more in aid by 2010.

MPH Demand: Reach the internationally agreed target of 0.7% of gross national income by 2010 at the latest.

G8 promise: The G8 statement reiterates the timetables set by various G7 countries to reach the 0.7% target: France by 2012, UK by 2013 and Italy and Germany by 2015. There is no mention of a timetable for Japan, Canada and the USA.

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These were small steps (or no steps) when giant leaps were needed. Since last year's G8, there has been no further progress on commitments to meet

the 0.7% target and as already mentioned, some countries are expressing doubt over whether they can meet the target.

The UK has even taken a step backwards. Campaigners have always called for debt cancellation to be additional to aid budgets in order to, amongst other things, help long term financial planning in poor countries. Earlier this year the UK announced that its aid budget has increased from 0.36% of national income in 2004 to 0.48% in 2005. However, if the major debt relief initiatives for Nigeria and Iraq are subtracted, UK aid actually fell to 0.33% of national income. As the Financial Times reported in April, “Excluding debt relief, the UK was only one of three countries whose aid contribution fell in real terms last year. Others were Portugal and Germany”.¹

MPH Demand: Develop innovative sources of financing for development, including a Currency Transaction Tax and an Aviation Tax, while at the same time ensuring that any such mechanisms are additional to our commitment to reach the 0.7% target.

G8 promise: The G8 statement says that “A group of the [G8] countries ... firmly believe that innovative financing mechanisms can help deliver and bring forward the financing needed to achieve the Millennium Development Goals.” These countries commit to “continuing to consider the International Financing Facility (IFF), a pilot IFF for immunization and a solidarity contribution on plane tickets to finance development projects, in particular in the health sector, and to finance the IFF. A working group will consider the implementation of these mechanisms.”

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On the plus side, since the G8 meeting, France committed to an air ticket levy to help increase aid spending. However, there has been no commitment on ensuring this is in addition to planned aid budget increases towards the 0.7% target. It is probable therefore that France will count the revenue from the taxes as part of their planned aid increases.

Gordon Brown has supported the idea but, rather than raising new revenue, he has said the UK will use the money from our existing air ticket tax to fund aid.² In all likelihood, this will simply be counted as part of the aid budget and result in no net increase in aid spending.

MPH Demand: Work with other donors and the international financial institutions to ensure that all economic policy conditionality, such as privatisation, deregulation and trade liberalisation, is ended.

G8 promise: The G8 state that, “It is up to developing countries themselves

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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.”

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If the G8 countries had really meant what they said, they would have abolished all economic policy conditions attached to their own bilateral aid programmes and voted for abolishing all economic policy conditions attached to World Bank and IMF loans, grants and debt relief. This did not happen.

According to United Nations research, poor countries with the most open markets have seen increases in poverty during the 1990s. Those using higher degrees of trade protection have experienced reductions in poverty.³

In contrast, when standing next to Tony Blair at a pre-G8 press conference, George W Bush made it clear what the US expects in return for aid, saying, “We're really not interested in supporting a government that doesn't have open economies and open markets. We expect there to be, you know, reciprocation.”⁴

3. Debt cancellation

MPH Demand: Commit to cancelling all bilateral and multilateral debts owed by any poor country that needs such cancellation in order to meet the MDGs.

G8 promise: “The G8 has agreed a proposal to cancel 100% of the outstanding debts of eligible Heavily Indebted Poor Countries to the IMF, IDA and African Development Fund and to provide additional resources to ensure that the financing capacity of the IFIs is not reduced.”

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At the beginning of December 2005 there was a formal announcement from the International Monetary Fund (IMF) agreeing to the G8 debt deal, involving the cancellation of US \$4.8 billion in debts owed up to December 2004.

In Spring 2006, the World Bank finally confirmed that the debts owed by 18 HIPC ‘Completion Point’ countries will be cancelled on July 1st. Unfortunately, unlike the IMF part of the deal, debts up to December 2003 (rather than up to December 2004) will be cancelled. This makes the deal worth \$37 billion over 40 years (rather than \$42 billion).

To date, of the \$37 billion needed to pay for the initiative, only 60% has been pledged by rich countries including the G8, leaving them \$14.8 billion short. Worse still, of this 60%, only 10% is a firm commitment. The remainder is

"qualified" meaning it has first to be agreed by various national parliaments, budgetary processes and cabinets, with no guarantee it will happen. In other words, nine months after the deal was announced by the G8, so far they have committed only 10% of the money needed to finance it.

If the remaining 90% is not forthcoming, poor countries will effectively end up paying for their own debt cancellation through a reduction in their aid budgets. This is because the World Bank will have to foot the bill out of its own resources, so reducing the amount of money it has to distribute to them.

On top of the 18, a further 22 countries stand to benefit fully from the scheme in future, although only 9 of them look likely to qualify in the next few years. The scheme also has several major flaws:

- Countries will have to implement failed IMF & World Bank free market policies to qualify for the cash
- It does not include a further 20 or so countries that have been identified as needing debt cancellation to achieve the Millennium Development Goals
- It does not include other regional development banks so has less utility for poor countries in Latin America and Asia.

MPH Demand: All debt relief must be fully funded, and this will require additional resources from national budgets over and above the agreed increases in development assistance outlined above.

G8 promise: No firm promise.

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It looks likely that the money to fund the debt cancellation proposal will come out of aid increases which have already been announced. As already mentioned, the UK has counted debt relief to Iraq and Nigeria as part of its normal aid spending.

MPH Demand: Vote for the sale of a limited portion of IMF gold stocks in order to fund multilateral debt relief.

G8 promise: There was no mention of IMF gold sales in the G8 communiqué.

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No action. In fact this is looking increasingly unlikely as the IMF is now short of cash to maintain its own operations.

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MPH Demand: Adopt a Fair and Transparent Arbitration Process where future sovereign debt crises can be resolved.

G8 promise: There was no mention of a Fair and Transparent Arbitration Process in the communiqué.

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No action.

MPH Demand: To avert future debt crises, support the giving of bilateral and multilateral development assistance to the poorest countries in grants rather than loans.

G8 promise: There was no mention of grants rather than loans in the communiqué.

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It is still the subject of an ongoing debate in the World Bank but no action has been taken.

4. Trade justice

MPH Demand: No longer demand trade reforms as a condition of aid or debt relief and use their controlling stake in the World Bank and IMF to ensure that these institutions do likewise.

G8 promise: As already mentioned, the G8 stated that developing countries should define and implement their own economic policies.

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As stated earlier, no action has been taken to eliminate World Bank and IMF economic (including trade) policy conditionality.

MPH Demand: Work with other WTO members to support binding Special and Differential Treatment for all developing countries in the WTO to ensure that they are not forced to implement agreements that are against their own development interests.

G8 promise: Rhetoric on the 'Doha Development Agenda' was reiterated in the G8 communiqué with no meaningful commitments made on Special and Differential Treatment for developing countries in the WTO.

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Contrary to its own development rhetoric, and contrary to its rhetoric on the flexibility of the services negotiations, the EU spent the second half of 2005 trying to force compulsory services liberalisation down the throats of developing countries. Although this was rejected many times, it took a major rearguard fight at the WTO Hong Kong Ministerial to get it off the agenda. So much for 'special and differential treatment'.

MPH Demand: Commit to keeping water supply out of the General Agreement on Trade in Services and to withdrawing all requests that other WTO members make legally binding liberalisation commitments in the water supply sector.

G8 promise: There was no mention of GATS and water in the communiqué.

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Although the EU has struggled to gain support from other countries for its plan to get legally binding liberalisation in water supply, and although the Bolivian government has called for water to be excluded from WTO rules, the EU has not withdrawn its requests.

MPH Demand: Work within the WTO to ensure that developing countries can reduce their tariffs by a smaller amount than developed countries, and protect some key development products from any reduction at all, in all sectors under negotiation in the WTO.

G8 promise: The now well-worn rhetoric on the 'Doha Development Agenda' was trotted out in the G8 communiqué with no meaningful commitments made on ensuring developing countries have the flexibility to use tariff protection to achieve development.

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In the current WTO talks, the US and European Union have been attempting to reverse the principal that developing countries should liberalise less than developed countries by trying to force through an industrial tariff reduction scheme that would require greater cuts from developing countries than developed countries. The US has also opposed developing country proposals aimed at protecting food security and livelihoods. The net result is a great deal of developing country anger in the WTO.

MPH Demand: Follow through the mandate established at the World Summit on Sustainable Development to “*Actively promote corporate responsibility and accountability, based on Rio Principles, including through the full development and effective implementation of intergovernmental agreements...*”, by committing to work with other UN members to establish binding internationally agreed rules for corporate accountability.

G8 promise: The communiqué only made reference to voluntary schemes such as the UN Global Compact and no commitment was made on binding regulations for multinationals.

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There has only been further support for voluntarism from G8 governments. In fact, the UK government has resisted attempts by the Trade Justice Movement to introduce amendments to the Company Law Reform Bill that would require companies to report on their social and environmental impact and minimise the damage they do to local communities and the environment.

MPH Demand: Commit to unilaterally eliminating all agricultural export subsidies by 2010 and ensuring that no agricultural exports are dumped on the markets of developing countries.

G8 promise: The G8 refused to unilaterally agree to eliminate export subsidies. Instead the G8 agreed to work in the WTO to set a ‘credible end date’ for export subsidies. This is no more than they had already committed to achieving in the WTO.

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At the Hong Kong Ministerial conference a deal was done to eliminate export subsidies by 2013. However, this was by no means a unilateral action by rich countries. A huge price was extracted from developing countries in the form of a radical industrial tariff cutting scheme. In return, poor countries got the belated elimination of €3 billion, out of a total European agricultural subsidy

budget of €58 billion.

MPH Demand: Commit to not creating bilateral and regional trade agreements that require developing countries to go beyond commitments made in the WTO.

G8 promise: There was no mention in the communiqué of bilateral/regional deals that go beyond WTO rules.

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The USA is going full steam ahead to negotiate bilateral trade treaties with Malaysia and South Korea. The EU is pressing ahead with its so-called 'Economic Partnership Agreements' – regional free trade deals with 79 of the world's poorest countries. All of these agreements will seek to go beyond WTO rules with potentially harmful consequences for these countries.

5. Conclusion

The campaigning in the run up to the G8 put a spotlight on world leaders and demanded action. But the response was disappointing. Even the most promising of the G8's commitments, on debt cancellation, has become stuck in an implementation quagmire and is in danger of being massively under-funded.

Campaigners can rightly feel that some limited progress has been made on providing more money to the poor – through some debt cancellation and increased aid. And more money can certainly be useful. For example, debt relief and grants have enabled the government of Burkina Faso to build 241 schools, 24 dispensaries and 72 maternity clinics. For the very first time, many thousands of people are now within reach of education and healthcare.

But more money alone is not enough. Between 1990 and 2002, sub-Saharan Africa received US\$212 billion in aid (over US\$16.3 billion per year on average) yet poverty increased across the region. A key culprit for this enduring poverty has been the harmful 'structural adjustment' policies foisted on these countries by the IMF and World Bank.

So, just as, if not more important than increasing aid and cancelling debts is abolishing the harmful economic strings attached to debt cancellation and aid. The G8 declaration agreed in Gleneagles stated that poor countries should define and implement their own economic policies. Hailed as a potential step forward at the time, the G8 countries have subsequently done nothing to stop the International Monetary Fund and the World Bank (institutions controlled by rich countries) from imposing unsuccessful, undemocratic and unfair policies like privatisation of basic

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services and trade liberalisation on poor countries in return for aid and debt relief. Instead, these institutions have continued with this 'conditionality'.

Also critical is a fundamental change to global trade rules and the way they are negotiated. But the actions of G8 countries since July 2005 have simply confirmed their unwillingness to support such changes. Their insistence on opening up developing country markets threatens jobs and livelihoods across the global south.

The most recent World Bank economic model estimates that developing countries will gain \$16 billion per year from the likely outcome of the Doha Round.⁵ At the same time, UN research based on the same 'liberalisation scenario' estimates a loss of developing country tax revenue of some \$63.4 billion.⁶ Even being optimistic about the ability of developing countries to create new forms of tax income to replace import tariffs, the loss is likely to be in the region of \$25 billion – far outweighing the estimated benefits. The end result will be increasing the reliance of developing countries on unpredictable and conditional aid rather than having their own sources of government revenue.

So without a major shift in economic policies, throwing more aid at poor countries will not work, yet the UK government and other G8 countries seem intent on business as usual. In other words, free markets and deregulation with some increased aid to help those who suffer from free markets and deregulation. While it remains important to challenge the world's most powerful countries on the inadequacies of their aid and debt policies, the more pressing task has always been, and remains, to achieve a more radical change to their relationship with the developing world. And the World Development Movement will continue to work with campaigners from across the globe in fighting for this goal.

References

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⁴ Transcript: Joint Press Conference with President Bush and Prime Minister Blair, Tuesday, June 7, 2005; 4:20 PM. *Washington Post*.

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⁶ Fernandez de Cordoba, S & Vanzetti, D. (2005). *Now What? Searching for a solution in WTO industrial tariff negotiations. Coping with Trade Reforms*. Geneva. United Nations Conference on Trade and Development.