



INTERNATIONAL DEVELOPMENT NEWSLETTER

Forthcoming:

May 22-23 – New York, G7 Finance Ministers Meeting.



June 8 – 10 Sea Island, Georgia G8 Summit



July – IFF Conference at the Vatican.



October – Washington, Annual Meetings of the International Monetary Fund (IMF) and World Bank



October – Second Commissioners Meeting of the Commission for Africa.



December – Abuja, Nigeria, Commonwealth Heads of Government Meeting (CHOGM).



For those who have access to the Internet there is further information is available on the following websites:

www.hm-treasury.gov.uk

www.dfid.gov.uk;

www.imf.org; and

www.worldbank.org

“And I propose we all – all of us who believe that globalisation must also mean justice on a global scale – commit ourselves to a specific course of action, and then each of us as partners – government, business, NGOs and faith groups, international institutions – agree to work together to make the radical changes required. And as Tony Blair has said: for the sake of Africa and the poorest countries we will make our 2005 G8 presidency a ‘Development Presidency’.”

**Gordon Brown
Chancellor of the Exchequer
16 February 2004**

Reply to BOND (British Overseas NGOs for Development) 0.7% campaign

Since 1997 the Government has demonstrated its commitment to tackling global poverty and meeting the UN aid target of an official development assistance/Gross National Income (oda/GNI) ratio of 0.7%.

Since 1997, official development assistance has increased by 97% in real terms, and the UK's aid ratio as a proportion of national income has increased from 0.26% in 1997 to 0.33% in 2003 and will rise to 0.40% in 2005/06. This is more than double the current G7 average of 0.19% and well above the current Development Assistance Committee (DAC) average of 0.23%. The UK will also exceed the EU Member state target for an average oda/GNI ratio of 0.39% by 2006, agreed at the 2002 UN Financing for Development Conference at Monterrey.

The Government remains committed to the UN target and will continue to make progress towards 0.7% as the fiscal climate permits. The 2004 Spending Review is an opportunity to consider plans for development spending beyond 2005/06, alongside other priorities and pressures, but at this time it is not possible to predict the outcome of the Spending Review.

The Government believes aid effectiveness is just as important as aid volumes. By 2005/06, 90% of the Department for International Development's bilateral spending will be in the poorest countries which need it most.

But the achievement of the goal of global poverty reduction is not just a matter for the UK aid effort alone. It is vital that all partners - governments, business, NGOs, faith groups, international institutions - work together to realise our goals for education, health, AIDS, economic development, debt relief and trade and make the radical change required.

It has been estimated that achievement of the Millennium Development Goals (MDGs) will require an additional \$50 billion more in aid every year until 2015 - an effective doubling of the global aid effort.

This is why the Chancellor has proposed that development aid be increased, on the road to 0.7 per cent of GNI, and immediately create an [International Finance Facility](#) (IFF) that, by leveraging in an additional \$50 billion each year until 2015, would bring forward the development aid and investment that is essential to meet the MDGs.

The support of other donors already at 0.7% oDa/GNI is also important to the UK. The advantage of the IFF is not just that it is a better means of providing the necessary resources immediately and faster than other initiatives, but that the IFF can proceed even if some fail to participate.

The UK will continue to press donors on the case for frontloading aid to meet the immediate need for resources to help achieve the MDGs. Indeed, the proposals have recently been welcomed and endorsed by a range of significant individuals and organisations, including the French Government and many developing countries, Pope John Paul II and Nelson Mandela.

Further information: [Press Release. UK Announces Overseas Aid Figure](#). This is also available on the Treasury's website at: www.hm-treasury.gov.uk

Commission for Africa

On 26 February the Prime Minister launched a new initiative to take a fresh look at Africa's past, present and future, which will generate increased support for G8 Africa Action Plan and the New Partnership for African Development (NEPAD).

A team of Commissioners will take forward discussions on the key challenges to Africa's development, and their work will help inform the UK's agenda for Africa during its G8 and EU Presidencies next year.

The themes of the report were decided at the first meeting of the Commission on 4 May: the economy (including development finance, economic integration and trade, pro-poor growth and private sector development); human development; peace and security; natural resources, agriculture and the environment governance; and culture, heritage and participation.

The Chancellor, Trevor Manuel and Ralph Goodale will together chair the work on the economy.

This presents an excellent opportunity for all those committed to development in Africa – governments, faith groups, NGOs, academics and business in Africa and internationally – to come together to address the challenge of meeting the MDGs in Africa.

HIV/AIDS

On 1 December 2003, (World AIDS Day) the Government published its "Call for Action" on HIV/AIDS. The Call for Action is the first stage in an intensified effort on HIV/AIDS leading up to the UK Presidencies of the G8 and EU in 2005, when HIV/AIDS will be a centrepiece. It is the beginning of consultations with partners (including civil society), leading to a strategy in the first half of 2004.

The UK Government calls for:

- stronger political direction;
- better funding; and
- better donor coordination in support of HIV/AIDS Programmes.

We are calling on the international community to work better together to achieve real progress towards the international targets for HIV/AIDS, in particular:

- supporting the World Health Organisation's (WHO) target of three million people – two million in Africa – to be receiving treatment by the end of 2005;
- reducing by 25% the number of young people infected with HIV/AIDS by 2005;
- slowing the progress of the endemic by 2015; and
- introducing one national strategy, one national AIDS commission and one way to monitor and report progress in every country affected by HIV (the "Three ones").

More information on the Government's policy on HIV/AIDS – in particular, the "Call for Action" launched by the Secretary of State for International Development, Hilary Benn, on the 1st December 2003 (World Aids Day) – can be found at www.dfid.gov.uk, or from the Department for International Development (DfID) Public Enquiry Point which can be contacted on 0845 300 4100 or by email at enquiry@dfid.gov.uk.

HIPC Debt Relief

The UK government has been at the forefront of the international debate on debt relief issues, and continues to press for the rapid and full implementation of the Heavily Indebted Poor Countries (HIPC) Initiative.

At their Summit in Evian, G8 governments reaffirmed their commitment to the HIPC Initiative. They recognised the need to encourage and assist eligible countries in taking the steps necessary to complete the HIPC process. They urged the IMF and World Bank to intensify their efforts to secure full participation of all creditors in the Initiative, and reaffirmed their objective of ensuring debt sustainability for countries reaching completion point.

Of the 38 countries that stand to benefit from HIPC debt relief, there are now 27 – 23 from Africa and 4 from Latin America – which are already benefiting from debt relief, that amounts to over \$70 billion. Thirteen countries have also now reached Completion Point and are receiving irrevocable debt relief. This is a significant step towards achieving the \$100 billion commitment made at the Cologne summit in 1999, and will reduce their debts to below the average for developing countries. For these 27 countries, the UK is providing 100 per cent relief on their debts. Furthermore, the Chancellor has announced that any payments from countries yet to reach Decision Point will be held in trust for the day they can be returned to fund poverty reduction. Since 1999 the total UK commitment to multilateral institutions such as the World Bank, the African Development Bank, the Inter-American Development Bank and the IMF to support the HIPC initiative has been around \$474 million

The UK believes that financing of topping up at Completion Point should be flexible to account for exogenous shocks, such as reduced export earnings resulting from falls in commodity prices.

The UK government has been a strong supporter of generous debt relief for Ethiopia and Niger, and welcomes the acknowledgement of the good performances of both countries through the recent decisions by the Executive Boards of the IMF and World Bank to agree Completion Point and topping up for both countries.

The UK continues to use international meetings, such as G7/8 and bilateral meetings, to encourage other creditors to follow the UK's lead. G7 leaders have also agreed to take action to secure the participation of all creditors, and to address the issue of debt sustainability at Completion Point.

For more detail on both the HIPC Initiative, IMF-lending to low-income countries, and PRSPs, see IMF and World Bank websites at: www.imf.org and, www.worldbank.org, respectively.

International Finance Facility

The World Bank and the United Nations estimate that at least an additional \$50 billion in aid will be needed from the international community each year if the MDGs are to be achieved by 2015. The significant increases in aid pledged by the EU and US in March 2002 could total \$12 billion by 2006 and will make an important contribution to meeting the MDGs. However, they still fall far short of what is required.

To bridge the gap between what has been pledged and what is required, the UK has proposed a new \$50 billion **International Finance Facility (IFF)** to leverage pooled resources to finance the investment needed. This facility would capitalise on long-term commitments from donors, and leverage additional financing through the issue of development bonds on international capital markets. Additional aid could then be disbursed in the form of grants and concessional loans to developing countries.

The commitment by donors to provide additional funding to 2015 and beyond, would allow a commensurate commitment in aid flows over the longer term to developing countries, and avoid the short-term volatility that is so damaging to investment planning and development spending. Crucially, developing countries would be able to budget for substantially higher aid flows over the medium term to tackle poverty. An IFF would also promote a balanced distribution of resources and coordination between donors.

The UK Government stands ready to provide the clear long-term commitment to developing countries that is needed, but full international cooperation is essential. To build global support and consensus, the Government has published a prospectus for the IFF, setting out the key features of the Facility and outlining the steps that the international community must take to ensure that the

MDGs are achieved. An updated version of the proposal is now available on the HM Treasury website (details below).

Recent progress has been very positive with the majority of countries that attended a Ministerial conference on 8 April either expressing support, or at least interest for the IFF. Developing Countries and Emerging Markets attending the conference made a statement to the conference urging donors to implement the IFF proposal. At the Spring Meeting of the World Bank Development Committee, many countries made statements welcoming the Facility as the only feasible way in the short term to raise the funding. The World Bank and the IMF interim report into Financing Modalities presented to the Spring Meetings concluded that frontloading aid held considerable attractions. Communiqués from the meetings looked forward to reviewing the full report due at the Annual Meetings in October 2004.

We are also working with a range of stakeholders in national and international fora, and with both developed and developing country governments to gain support for the IFF.

The UK will continue to press donors on the case for frontloading aid to meet the immediate need for resources to help achieve the MDGs. An important part of this is engaging with civil society to create moral and political pressure to take the IFF forward. Events include a recent conference hosted by the Treasury which brought together faith leaders, figures from the business world and NGOs to discuss taking forward to 2005 the global compact between the richest and poorest countries and meeting the financing for development challenge. In addition, at the 8 April Ministerial Forum on Financing for Development in Paris, jointly chaired by France and the UK, emerging markets and developing countries strongly endorsed the IFF, and urged donors to implement the proposal.

For more details on the IFF, see the HM Treasury's website at: www.hm-treasury.gov.uk/IFF.

Trade Reform

Despite the failure at the World Trade Organisation (WTO) Ministerial Session in Cancun, the Government remains fully committed to the aims of the Doha Development Agenda – to achieve a fairer trading system for developing countries – and to achieve this through a multilateral system.

Trade is a key driver of economic growth and poverty reduction. According to World Bank figures removing barriers to trade in a good pro-poor Doha agreement could boost global income by \$520 billion a year. This would reduce the number of people living on less than \$2 a day by 144 million. Agriculture is by far the most distorted sector - if global barriers to trade in agriculture alone were significantly reduced, developing countries could benefit by up to \$240 billion a year from an increase in global income of \$349 billion. This is an opportunity developing countries cannot afford to miss. But to fully reap benefits of this magnitude, future negotiations must focus on the core issues of interest to developing countries especially agriculture.

WTO negotiations have now restarted in Geneva. The Government is working closely with the EU and other international partners to ensure that progress is made and that the needs of developing countries are prioritised. The Government is a leading advocate of reform of agricultural and trade policies which work against the poor. Last year, the EU agreed to reforms of the Common Agricultural Policy which break the link between subsidies and production for many important products, so reducing incentives to over-produce. However, further reform is necessary both to extend decoupling to the remaining sectors and to improve market access for developing countries, and the Government continues to press for reform.

A key advance was made in August last year when WTO members reached an agreement to allow countries without manufacturing capacity to import essential medicines cheaply in times of crisis. This will be critical in helping to keep pharmaceutical prices low after 2005, when tighter intellectual property rules come into effect. It shows the ability of the WTO to make important decisions to help developing countries when sufficient political will exists, and the UK will build on this success going forward.

Poverty Reduction Strategy Papers (PRSPs) and IMF Conditionality

The UK has strongly supported the introduction of the Poverty Reduction Strategy Paper (PRSP) approach to development in low-income countries. These are plans developed by the country, with the

involvement of civil society, the private sector and the international community. The plans set out key policy priorities for the medium term, and make linkages to budgets and spending. Ensuring that government revenue, aid, and debt relief through the HIPC Initiative are directed at poverty reduction. This approach has involved substantial changes in World Bank and IMF operations, with their programmes providing support to, and their funds being channelled through, these nationally led development plans.

The basic principle of the PRSP approach is national ownership. A government will only implement policies that it believes in. So the PRSP has to be written in-country, by the government. Increasingly these plans are being used to direct donor aid to country priorities. Donors, whether through the G7 or through the OECD-DAC, are committing themselves to aligning their aid behind these country plans.

In addition the World Bank and the IMF have, for all low-income countries, made new commitments to analyse the poverty and social impact of reforms supported by their programmes. They have also agreed to delay the introduction of measures where the impact is found to be negative, and to support the introduction of mitigating measures. While we would have liked the World Bank and the IMF to put these commitments into effect more quickly, we strongly endorse this approach and are supporting the Bank and the Fund to develop practical approaches to this work.

A PRSP also includes measures to improve governance, as poor people frequently stress how important it is to them that they are safe and secure, and have access to justice. This may require institutional reform within central and local government. Governance reforms that improve transparency and accountability and combat corruption are often needed to improve service delivery (for example, of basic healthcare and education) to the poor.

The IMF's main instrument of support to PRSPs is through the Poverty Reduction and Growth Facility.

As the PRSP approach develops, the IMF is considering ways to improve the effectiveness of their support, for instance in the recent discussion by the Board of the IMF of 'Aligning the PRGF and the PRSP approach.'

The UK will work to ensure that new guidelines on conditionality introduced by the IMF in September

2002 are upheld. Where a policy is not part of a country's own poverty reduction strategy, and not essential to the success of an agreed programme, it should not be imposed as a condition of IFI support. IMF conditionality is monitored by biennial review, which will take place this year alongside a specific review of Fund trade policy advice and conditionality. The UK will play a full part in discussions on this and will continue to monitor the practice of the IFIs to ensure these guidelines are reflected in their actions.

*For more detail on PRSPs and PRGFs, see the World Bank website at: www.worldbank.org, and IMF at: www.imf.org. For more details on UK policy and the IMF see our annual report: *The UK and the IMF 2003*, which was published in March 2004 and is available on the Treasury website at: www.hm-treasury.gov.uk.*

Aid: Levels and Effectiveness

Our commitment to poverty eradication means that action beyond debt relief is needed. The UK is committed to achieving the UN target of an aid to national income ratio of 0.7%. Since 1997, official development assistance has increased by 93 per cent in real terms, and our aid ratio as a proportion of national income has increased from 0.26 per cent in 1997 to 0.34 per cent in 2003, higher than the original target of 0.33 per cent for the year. As a result of the Spending Review in 2002, the UK aid ratio will rise further to reach 0.40 per cent in 2005-06 – double the current (2002) G7 average of 0.20 per cent and well above the current (2002) Development Assistance Committee (DAC) average of 0.23 per cent. The UK will also exceed the EU Member State target for an average aid ratio of 0.39 per cent by 2006, which was agreed in 2002 at the UN Financing for Development conference at Monterrey, Mexico.

For its part the UK will establish, for the first time, a £1 billion annual bilateral programme for Africa from 2005-06.

The UK is also a strong advocate of the need to combine greater development assistance with better aid effectiveness. By 2005-06, 90 per cent of the UK's bilateral aid resources will be spent in low-income countries where research shows it can be used best. In April 2001 the Government untied 100 per cent of its aid, and now provides more aid through direct budget support. The UK is seeking to

work more closely with bilateral and multilateral donors to reduce transaction costs in aid for developing countries.

For more details on the UK aid levels and recipient countries, see DFID's website at: www.dfid.gov.uk.

For more details on the IFF, see the HM-Treasury's website at: www.hm-treasury.gov.uk/IFF.

“International development is working – we estimate that the UK development aid is lifting two million people permanently out of poverty every year. Britain has already written off the debt owed to us by the most heavily indebted poor countries and the HIPC Initiative is releasing around \$1.7 billion dollars a year to fight poverty in 27 countries. The government remains committed to spending 0.4 per cent of our national income on international development by 2005/06. I also look forward to the UK taking over the Presidencies of the G8 and the expanded EU in 2005 as an opportunity to highlight development and confirm our determination to meet the Millennium Development Goals.”

**Hilary Benn
Secretary of State for the Department for
International Development (DFID)
30 April 2004**

Health & Education

The Department for International Development (DFID) has committed \$280 million to the Global Fund to Fight AIDS, tuberculosis, and malaria, to 2008.

Since 1997, DFID has agreed new bilateral commitments worth over £1.5 billion to help strengthen the capacity of health systems in poor countries.

In Budget 2002, the Government announced new tax measures to encourage the British private sector to increase investment into research & development into drugs and vaccines to treat specific diseases threatening lives in poor countries, and a new relief to encourage industry to make appropriate donations

of medical equipment and supplies to developing countries.

Since 1997, DfID has committed over £700 million to help to deliver Universal Primary Education (UPE) in developing countries. It plans to increase this support by over £1 billion in the next four years. In April 2004, DFID also announced a £12 million contribution to the Fast-Track Initiative's Catalytic Fund (administered by the World Bank), for donor orphan countries, which have met the FTI criteria for FTI funding.

To provide strategic support to the goal of UPE in the Commonwealth, the Government has launched a Commonwealth Education Fund (CEF), with a £10 million initial grant. The fund is chaired by Sir Eddie George former Governor of the Bank of England and managed by Action Aid, Oxfam and Save the Children Fund. The Government will match pound-for-pound, including tax relief for qualifying UK donors, contributions from business and individuals until April 2005.

The WTO decision improving access to cheap copies of patented drugs for countries facing health crises will be a key bargaining tool for developing countries, and will help to keep drug prices down in future (See trade section). The UK played an important role in bringing the deal to fruition.

The Private Sector

As the key source of economic growth, the private sector has a clear role to play in meeting the MDGs. Increasingly the private sector is expected to think about wider issues – such as the contribution of its investments to poverty reduction and the wider social and environmental impacts of its core operations.

The **Extractive Industries Transparency Initiative** was announced by UK Prime Minister Tony Blair at the World Summit on Sustainable Development in Johannesburg, September 2002. Its aim is to increase transparency over payments by oil, gas, and mining companies to governments and transparency of revenues received by those governments.

Nigeria, Ghana and Azerbaijan have volunteered to pilot the Extractive Industries Transparency Initiative (EITI). Nigeria launched in February with a conference and the establishment of a Stakeholder Working Group, which includes industry and civil society representation.

In February, Sir David Manning – the UK ambassador to the US – hosted a group of US institutional investors at the British Embassy in Washington DC. The investors had been invited to learn about EITI in order to encourage them to become signatories to the **Investors Statement on Transparency in the Extractives Sector**, the financial sector’s statement of support for EITI issued at the June 2003 conference.

More recent information and further updates of the Newsletter (to be published bi-annually in the Spring and Autumn) will be made available on the Treasury’s website at:
www.hm-treasury.gov.uk

The Chancellor’s speeches can be found on the HM Treasury website at:
www.hm-treasury.gov.uk/speech/chex.html

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