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EURODAD
European Network on Debt and Development

Oxfam International

Joint NGO Briefing Paper

EU Heroes and Villains

Which countries are living up to their promises on aid, trade, and debt?

Published in association with

Nagle Community, Presentation Justice Network (Ireland)
Missionary Sisters of the Holy Rosary
Wingspread International
Columban Sisters, Ireland
Children in Crossfire
International Federation Terre des Hommes
Trocaire
Austrian National Platform of Development NGOs
BOND (UK National Platform of Development NGOs)
Ibis

Summary

2005 is already an extraordinary year. The tsunami in the Indian Ocean on 26 December 2004 caused widespread devastation, killed hundreds of thousands of people, left millions homeless, and plunged already poor countries into even deeper poverty. While the disaster has caused great devastation, the global wave of solidarity and public generosity that followed it offers grounds for hope. The outpouring of aid to those affected showed just what the international community is capable of when it acts in unison. The destruction caused by the tsunami was more than a 'natural disaster': the impact was made far worse by the prevalence of extreme poverty and marginalisation in the region, and it is generally recognised that the affected countries will need significant support for many years if they are to recover. But it should also be recognised that the lack of international action to reform debt, aid, and trade policies has a similarly devastating impact on poor countries and requires the same level of solidarity and determination by the world community. Every week, poverty kills more people than the Asian tsunami. The question is: was the reaction to the tsunami a one-off event, or will the concerns of the poor be a continuing priority for the rich world?

2005 could be the year when we make poverty history. The European Union will start to discuss how it can help the poorest countries to meet the Millennium Development Goals (MDGs) when Development Ministers meet on 15th February. The G8 Summit, scheduled to take place in the UK in July, will focus on the particular problems of Africa. In September in New York, UN members will review progress towards achieving the MDGs, which include fighting hunger, reducing infant deaths, and expanding access to primary education. To conclude the year, the World Trade Organisation will meet in Hong Kong to discuss reform of world trade rules that should benefit the poorest communities.

It won't be easy. Rich countries are way off-track in terms of meeting their commitments to support poor country efforts to meet the MDGs: today they give half as much aid, as a proportion of their income, as they did in the 1960s; poor countries are still labouring under the burden of massive debts; and the world trade system is in crisis – characterised by mistrust, a lack of transparency, and rules which are rigged against the poor. Co-operation and a concerted effort are essential if 2005 is to 'inaugurate a decade of bold action', as urged by Jeffrey Sachs, economic adviser to the UN Secretary General, in a recent report. The EU will be absolutely key to the success or failure of this venture.

In this paper we consider the heroes and villains in the EU's 25-member bloc. We ask: are they collectively doing enough to make sure that the EU seizes the opportunity to make poverty history?

The EU must take positive action on three key issues: improving the quantity and quality of international aid; easing the burden of unsustainable debt; and making the rules of world trade more fair.

On aid, the EU could play a pivotal role in helping to achieve the increases that are necessary in order to meet the MDGs by the year 2015. In the past, EU commitments have acted as a catalyst to stimulate action by other major aid donors, such as the USA. The EU should achieve an average level of 0.7 per cent of GNI allocated to overseas aid by 2010. Sadly, the EU has a mixed record. Rich countries all agreed in 1970 to reach 0.7 per cent of GNI as foreign aid, at the latest by 1980. Twenty five years after this deadline, only five countries have reached this target. Four are EU member states. Luxembourg and Sweden deserve gold stars for their efforts. So does the Netherlands, which is giving more than 0.8 per cent of its GNI as aid – but their

gold star is at risk as they are keen to change the rules to allow security-related expenditure to be counted as aid. Denmark is also a leading aid champion, giving the highest percentage of GNI as aid in the EU. However, from 2001 to 2004 Danish aid as a proportion of GNI declined from 1.03 per cent to 0.84 per cent, and Denmark could soon be knocked off the top spot. The other 21 EU member states are still a long way off track in terms of their promise to reach 0.7 per cent; this is inexcusable. Italy is one of the world's wealthiest nations, yet gives only a miserly 0.17 per cent of its GNI in aid. Hardly a laudable record for a G8 member. Chancellor Gerhard Schroeder, speaking at the 2005 World Economic Forum in Davos, committed Germany to reaching the 0.7 per cent target in the 'medium term'. On current trends, Germany will not reach 0.7 per cent until 2087, which is a long way from being in the 'medium term'. If the German government is serious about creating a greater role for itself on the world stage, or securing a permanent place on the UN Security Council, it must now set an ambitious and binding timetable to reach 0.7 per cent. Ireland deserves a special black mark for abandoning its plans to reach the target of 0.7 per cent by 2007, a change of policy which illustrates the fragility of these commitments. Relying on average EU aid levels is deceptive in that some member states are seriously under-performing. In a dramatic contrast, the Czech Republic increased its aid contribution by 300 per cent between 2000 and 2003, while Greece and Portugal continue to contribute a mere 0.2 per cent of their GNI.

There is some support among member states in Europe for the proposed International Financing Facility (IFF), which would use aid pledges as collateral for issuing bonds on international markets in order to release money that could be spent now. There are some positive features in the IFF and the UK, Italy, France, and now Germany support the proposed facility. However, the IFF should in no way substitute for member states adopting binding timetables to reach 0.7 per cent of GNI as aid as soon as possible. In addition, all countries supporting the IFF must publicly guarantee that repayments to the IFF will not be taken from aid budgets. Longer-term innovative financing mechanisms, such as a tax on international currency transactions and air travel supported by the French and Spanish governments, should be supported, but again should not be seen as a substitute for reaching 0.7 per cent, and staying there.

On the question of unsustainable debt, the majority of EU member states have committed themselves to cancel the bilateral debts of the world's poorest countries. The record of Italy shows, however, just how slow member states can be in delivering on their promises. In 2000, Italy pledged to cancel €4 billion. Three years later, only half of this amount had been delivered. Member states know, however, that multilateral debts need to be cancelled too since the majority of poor countries owe most of their debts to multilateral institutions, such as the International Monetary Fund and World Bank. This type of debt is not being cancelled systematically and even when limited cancellation has been granted, countries have often had to implement harmful economic reforms for very little gain. Ireland deserves a special mention for being the first member state to support full cancellation of multilateral debts, and the UK, which has consistently driven forward the debate on debt relief in international forums, recently announced proposals for deeper and broader debt relief for initially 21 countries and up to 65 countries in the future. These efforts are welcome, although they could go further, for example by challenging World Bank- and IMF-imposed conditionality and providing genuinely new money rather than diverting resources from existing aid budgets. Many other member states, including the Netherlands and France, remain opposed to a policy of 100% cancellation of multilateral debts, even though evidence demonstrates that this measure is essential if countries are to have any hope of reaching the MDGs by 2015.

On the question of unfair terms of trade, the EU has the potential to make a huge difference to the economic prospects of poor countries. Europe accounts for 20 per

cent of world trade and is the world's biggest importer and second-biggest exporter of agricultural goods. But despite some very small and tentative steps forwards, accompanied by some pro-reform rhetoric, Europe has largely failed to make any contribution to initiatives designed to make trade work for poor people. Europe's expensive and anachronistic Common Agricultural Policy continues to devastate livelihoods in developing countries, by facilitating the dumping of subsidised exports on world markets and blocking imports from poor countries.

On trade perhaps more than on the other issues, internal political divisions continue to impede progress. France remains a major obstacle to the reform of agricultural trade, ceding power to its farm lobby and blocking the most basic and essential reforms, including an end to agricultural export subsidies. Other big players, like the UK and Germany, are more inclined towards reform; but they have not done enough to argue for it at the World Trade Organisation (WTO) and elsewhere. The Dutch and the Nordic nations have the most progressive policies and need to use their collective influence to make progress on this vital issue. [1]

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[1] In preparing this report, we were very surprised to discover that EU countries do not all publish information about their policies and performance on aid, debt, trade and agricultural spending in a form that enables easy comparisons across countries; indeed, some essential information is not even published at all and often even the most authoritative source - the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) - has received and published several different statistics for the same activity in the same year. We were therefore able to develop only a partial picture of the ways in which EU countries use public money to advance development in the poorest countries in the world.

1 The need for more and better aid

The European Union could play a pivotal role in helping to achieve the increases in aid to poor countries that are necessary in order to meet the Millennium Development Goals by the year 2015. It is collectively responsible for more than half the world's aid flows. In the past, EU commitments have acted as a catalyst to stimulate action by other major aid donors, such as the USA. To determine which member states are leading and which are lagging behind in terms of efforts to meet international aid commitments, we focused on four aspects for which comparable data are available. [2] Although there is a paucity of data for new EU members, we expect to see rapidly rising levels of aid over the coming five years in all new member states.

Quantity of aid as a percentage of Gross National Income (GNI)

Donor countries agreed, 35 years ago, to spend 0.7 per cent of their GNI on aid by 1980 at the latest. Twenty five years after this deadline 21 EU member states have yet to reach this target. Although this failure is understandable for the new EU member states who face major economic challenges themselves, this is inexcusable for other EU countries which include some of the richest in the world.

Table 1: Aid spending as % GNI (for EU-15 member states in 2003)

Countries below 0.3%	Italy (0.17)
	Austria (0.2)
	Portugal (0.21)
	Greece (0.21)
	Spain (0.23)
	Germany (0.28)
Countries meeting 0.3%	UK (0.34)
	Finland (0.35)
	Ireland (0.41)
	France (0.42)
Countries meeting 0.5%	Belgium (0.61)
Countries meeting 0.7%	Sweden (0.70)
	Luxembourg (0.8)
	Netherlands (0.81)
	Denmark (0.84)

Denmark, Luxembourg, the Netherlands, and Sweden are heroes on the world stage, in that they have surpassed the internationally agreed target of devoting 0.7 per cent of their Gross National Income to development assistance. However, the good reputation

[2] Our evaluation draws on the international statistics online database on the website of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD), the organisation to which all donors report annually. The figures used here relate to 2003.

of the Dutch is at risk as they are pushing for a change in the rules to allow security expenditure to be counted as aid. In addition, from 2001 to 2004 Danish aid as a proportion of GNI declined from 1.03 per cent to 0.84 per cent, and Denmark's position at the top of the EU aid league table is under threat. In November 2004, member states asked the European Commission to propose ways in which the EU could reach an average aid level of 0.55 per cent by 2009/10. This is welcome and would provide additional money, but a more ambitious target of 0.7 per cent by 2010 is needed if the MDGs are to be met. However, relying on average EU aid levels is deceptive in that some member states are seriously under performing. It is equally important therefore to hold member states to their individual target of devoting 0.33 per cent of GNI to aid by 2006.

Italy is one of the world's wealthiest nations, but its aid budget is the most miserly. Aside from the new EU member states, Italy is last on the list of European donors, currently allocating a mere 0.17 per cent of its GNI to development assistance for poor countries, and it looks unlikely to reach the target of 0.33 by 2006.

Even though many of the new member states are only now beginning to progress from being net recipients of aid to being net donors, they are already threatening to overtake Italy, which in terms of aid is clearly the leading villain on the EU stage. The Czech Republic reports that its aid had reached 0.1 per cent of total GNI in 2003, having increased by a factor of three in as many years. Poland plans to reach 0.1 per cent by 2006 and is in the process of adopting a law which would guarantee aid levels in the future.

Austria, Greece, Portugal, and Spain, with scores of approximately 0.2 per cent, lag far behind Denmark, the EU aid champion, whose record now stands at 0.84 per cent. Hot on Denmark's trail is Sweden, with a commitment to achieve 1.0 per cent by 2006. These heroes are increasing the pressure on Germany. Germany will only meet its 2006 0.33 per cent commitment because it has agreed to write off Iraqi debt, worth 0.05% of GNI. Chancellor Gerhard Schroeder said at the 2005 World Economic Forum in Davos that Germany should reach 0.7 per cent in the 'medium term', and his development Minister has said that Germany should reach this target before 2015. On current trends Germany will not reach the 0.7 per cent target until 2087 which is hardly in the 'medium term'. If the German government is serious about creating a greater role for itself on the world stage, or securing a permanent place on the UN Security Council, it must now set an ambitious and binding timetable to reach 0.7 per cent. Belgium's aid budget was also temporarily increased through debt relief for the Democratic Republic of Congo, from 0.43 per cent to 0.61 per cent.

Table 2: 0.7% timetables (for EU-15 member states)

EU 15 already meeting 0.7 per cent target	*EU 15 with a timetable*	*EU 15 with no timetable*
Denmark	Belgium (2010)	Italy
Netherlands	Finland (2010)	Austria
Luxembourg	France (2012)	Portugal
Sweden	Spain (2012)	Greece
	UK (2013)	Germany
		Ireland

The Spanish government deserves some praise for committing itself to reach 0.5 per cent by 2008, and 0.7 per cent if the party that forms the current government wins the next general election. As things stand, six members – Belgium, Finland, France, the

UK, Ireland, and Spain – have published timetables to reach the target of 0.7 per cent, and we call on all EU members who lag behind them to do the same. Ireland, however, deserves a special black mark for abandoning its plans to meet the target by 2007, a change of policy which illustrates the fragility of these commitments. In addition, timetables which run to 2012 (like that of the French) or 2013 (like that of the UK) are simply not ambitious enough. This money is needed now in order to achieve the MDGs by 2015. Both the heroes and the villains will need to keep increasing their levels of aid if they are to make poverty history.

Beyond the 0.7 per cent target there is some support among member states in Europe for the proposed International Financing Facility (IFF), which would use aid pledges as collateral for issuing bonds on international markets in order to release money that could be spent now. There are some positive features in the IFF and the UK, Italy, France, and now Germany support the proposed facility. However, the IFF should in no way substitute for member states adopting binding timetables to reach 0.7 per cent of GNI as aid as soon as possible. In addition, all countries supporting the IFF must publicly guarantee that repayments to the IFF will not be taken from aid budgets. Longer-term innovative financing mechanisms, such as a tax on international currency transactions and air travel supported by the French and Spanish governments, should be supported, but again should not be seen as a substitute for reaching 0.7 per cent, and staying there.

The proportion of aid directed towards the poorest countries

Aid will make the greatest impact if it is spent on the poorest people. The OECD divides developing countries into five categories according to per capita GNI. We studied the proportion of member states' aid that is allocated to least-developed countries (LDCs) and other low-income countries, to see whether the poorest are indeed a priority. The results are shocking.

Greece reports that a mere 6 per cent of its total aid expenditure is allocated to low-income countries. The comparable expenditure reported in the case of Spain is only 13 per cent; for Austria it is 15 per cent, and for Finland 24 per cent. The country that spends the highest proportion of its aid in low-income countries is Italy (72 per cent of its bilateral aid went to low-income countries in 2003), followed by Luxembourg (58 per cent), Belgium (55 per cent), Ireland (49 per cent), Portugal (47 per cent), and France (40 per cent).

This failure to focus aid on the poorest countries is unacceptable. Donors should be aiming to increase their focus on low-income countries. Achieving the MDGs will require donors to focus their resources on countries where the greatest effort is needed. It is low-income countries, particularly in Africa, that are the least likely to reach the MDGs. Aid money for these countries must be increased immediately.

The proportion of aid spent on basic social services

In 1995, at the World Summit for Social Development, a historic agreement was reached. It committed donors to spending 20 per cent of their aid on basic social services, and developing countries to spending 20 per cent of their national budgets on such services: basic education, primary health care, and water and sanitation. These resources should also be used to help developing countries to remove user fees for health and education services. Some EU donors, such as Greece and Luxembourg, have not even reported how they spend their money.

Table 3: Aid to basic social services (EU-15 member states)

	% of aid to basic health, education, and water and sanitation
Netherlands	19.09
Finland	11.58
Spain	10.41
Austria	7.57
Denmark	6.73
Germany	6.57
France	5.72
United Kingdom	4.96
Belgium	3.56
Portugal	3.03
Sweden	2.79
Italy	0.57

No data available for Ireland, Greece and Luxembourg

Only the Netherlands approaches the target of 20 per cent, reporting that it spends 19 per cent of its aid on basic social services. Even Denmark, host country of the historic Summit, records only 7 per cent, and Italy is bottom of the league table with a negligible 0.6 per cent. Yet these sectors are critical, not only in their own right, but to enable healthy, skilled populations to take advantage of economic opportunities – laying the foundations for equitable economic growth which could lift millions out of poverty.

The extent to which aid is 'untied' from requirements to purchase donor-country goods and services

Despite an international agreement in 2001 to 'untie' their aid to Least Developed Countries, few member states have kept their promise, and this pernicious practice continues unabated.

Italy has not reported since 2001 whether or not its aid is tied to the purchase of Italian goods and services, but in that year no less than 92 per cent of its aid was reported to be tied. Austria and Spain tie more than half of their aid. The Spanish government has recently promised up to €50 million to countries devastated by the Indian Ocean tsunami; but, of this sum, only €2 million will be in the form of grants: the rest will be loans. Worse, to receive these loans on favourable terms, recipient countries may have to commit to purchase goods or services from Spanish companies. Only Ireland and the UK report 100 per cent of their bilateral aid as untied, while Belgium reports that 99 per cent of its aid is untied.

Moreover, it is not always clear whether member states are including their so-called 'technical co-operation' when reporting on whether or not their aid is tied. In strict terms, this people-to-people co-operation is excluded from the aid agreement reached in 2001, yet on average it represents 38 per cent of aid budgets. Research

commissioned by the European Commission in 2004[3] demonstrates that untied aid is more efficient and more effective than tied aid. Furthermore, the perceived advantages of tied aid, such as increased public support in the donor country, were not demonstrated in reality. The research clearly favours the untying of aid beyond the limited 2001 international agreement, and all member states should immediately untie all their aid.

[3] An Independent Study on the Further Untying of European Aid, K. Outterside et.al., European Commission 2004.

2 Lifting the burden of debt

EU member states agreed in 2002 to collectively pursue policies which would ensure that 'developing countries, and especially the poorest ones, can pursue growth and development unconstrained by unsustainable debt'[4]. In this section we assess which countries are honouring those commitments, and which are shirking their responsibilities. [5]

Cancellation of bilateral debt

Most EU countries have agreed to cancel 100 per cent of the bilateral debts owed to them by the 42 Highly Indebted Poor Countries (HIPCs) and, in the case of Denmark, Italy and the UK, by other low-income countries as well[6]. This is not the case for the Czech Republic, Hungary, and Poland who have cancelled only some, not all, of the debts owed by HIPCs. Another new member state, the Slovak Republic, shows that this can be done: it has delivered debt relief on all claims on HIPCs.

At the same time, some member states have been very slow to deliver on their promises. Italy's ambitious plans for the cancellation of up to €4 billion in debt, owed by HIPCs and other low income countries by 2003, have not been realised; in fact only €2 billion has been cancelled, all to HIPC countries. In the case of Germany, only six HIPCs have so far benefited from the full debt relief available: Benin, Mauritania, Mozambique, Nicaragua, Tanzania, and Uganda. In all other cases, Germany still has to deliver – and the figures speak for themselves: out of a total amount of HIPC bilateral debt relief available of €6 billion, Germany has delivered only €2 billion. Other countries have followed the same pattern which means that debt-service ratios for many countries remain unacceptably high, and that the resources are not being released to fund poverty-reduction programmes. Other low-income equally deserving countries, such as Nigeria, Kenya, and Bangladesh, also remain excluded from these efforts, which is unacceptable.

Moreover, member states must recognise that bilateral efforts are not enough to deal with the debt problem, since low-income countries owe a large portion of their debt to multilateral institutions, such as the IMF and World Bank. These debts need to be cancelled too, if poor countries are to have any hope of reaching the internationally agreed MDGs by 2015.

Multilateral debt cancellation

In addition to cancelling bilateral debt, most EU member states are contributing to multilateral debt cancellation through the HIPC Initiative. Ireland and Estonia deserve a special mention because they have both contributed to the HIPC Trust Fund - despite having no outstanding claims on HIPCs. Sweden also decided very early on to provide grants instead of loads to the poorest countries, which means that it does not have large debt claims on poor nations. It seems, however, that many EU member states are very late in paying in their contributions to the HIPC Trust Fund. Of the UK's

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[4] As agreed in March 2002 in the EU's Barcelona Commitments.
[5] We used data provided by national Finance Ministries, NGOs, and the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD).
[6] IMF and IDA, HIPC Initiative: Status of implementation, August 2004.

$95 million bilateral pledge to the Fund since October 2002, only $29 million has been paid in so far. The Netherlands is also late with its contributions.

The HIPC Initiative has so far failed to achieve the promised goal of reducing debt to sustainable levels, even under its own extremely narrow criteria. Only 7 out of 15 so-called completion-point countries had sustainable debt burdens at the end of 2004. Burkina Faso and Ethiopia will have unsustainable debt ratios until at least 2015, despite extra debt relief over and above what creditors had initially promised. A number of HIPC countries still spend more on debt repayments than they do on health. What more are member states doing (or failing to do) to resolve this problem?

In 2002, the Irish government was the first EU member state to argue in favour of cancelling multilateral debts. Their proposals were to be financed by means of additional bilateral contributions. However, the list of eligible countries extends only to the 42 countries on the HIPC list drawn up by the World Bank and IMF. NGOs have called for a much more inclusive list which would include other equally poor, deserving countries, such as Nigeria and Bangladesh.

The UK Government has recently proposed a similar move, calling on rich countries to pay their share of the debt repayments made by the poorest countries to the World Bank and other development banks. The UK has committed to delivering their share immediately. Furthermore, the UK proposal applies to some other countries outside the HIPC initiative, such as Vietnam and Sri Lanka. However, the UK proposed relief is still linked to the risky and unproven conditionality from the World Bank and IMF, and is not additional to the UK aid budget. Nevertheless, it is an important step forward and one which other member states should follow.

The UK is also proposing that IMF gold reserves should be used to fund the cancellation of IMF debt. These reserves are undervalued by a staggering $40 billion. However, it seems that other member states are not convinced, even though research shows that the IMF has no real use for this resource. The Netherlands likens the proposed use of IMF gold reserves to 'selling the family silver'. In contrast, the German government, at least informally, supports the use of IMF gold, and it seems as though the Italians could probably be persuaded on this. The French have traditionally been supportive of bilateral debt relief and the HIPC Initiative, but actively oppose moves to go any further on multilateral debt cancellation. For France, the HIPC Initiative has not been a failure and the main concern should not be cancellation but an increase in financial flows to developing countries. In this context, France will push for global taxation instruments in all international forums. We believe, however, that this is clearly an argument for more aid and not less debt relief. Sadly, Sweden also fails to acknowledge the shortcomings of the HIPC Initiative, and seems reluctant to boldly state its position on what improvements it would support. It is important to stress that we are extremely disappointed to see that no member state seems to be actively working to change the current creditor-dominated process for agreeing debt cancellation. In international debt negotiations, it is the creditors who decide whether, when, and on what terms they will grant debt relief, and they do not take into account the very desperate levels of poverty prevalent in debtor countries. We believe this must be replaced by a fair, transparent, and comprehensive international insolvency process which would allow creditor and debtor countries to fairly resolve debt crises without compromising the ability of poor countries to meet the basic needs of their people.

Past experience has shown what the EU can achieve if it acts as a single bloc. We call on the EU to do the same in international debt negotiations, in order to avoid endless cycles of indebtedness and relief.

Debt relief should mean more money for poor countries

Member states should refrain from claiming credit for debt cancellation and using this cancellation to inflate their aid statistics. This principle is of fundamental importance. Debt relief must not divert aid from other poor non-indebted countries and must unlock new resources for investment in poverty reduction.

In France, 29 per cent of official development aid is devoted to debt relief, and indeed officials admit openly that increases in France's ODA budget are largely due to debt relief. Worse, of this amount, 47 per cent in 2005 will be ring-fenced to cancel export-credit debt (up by 10 per cent on the figure for 2004, and 15 per cent on that for 2003); thus France proposes to cancel loans which did not necessarily serve any development purpose when they were made, and in many cases were unlikely to be repaid. Nevertheless, the sum allocated to such cancellation is drawn from official aid budgets. In the Netherlands – according to most recent figures €300 million is reserved for export-credit cancellation. This amounts to 10 per cent of the annual ODA budget, to be allocated at the expense of other development programmes. When the published level of Spanish aid reached its historic high point of 0.3 per cent of GNI in 2001, the rise was more apparent than real, in that it was mainly due to debt cancellation: no new cash actually flowed to poor countries. The level of aid reverted to 0.24 per cent of GNI immediately afterwards. Belgium's aid budget was also temporarily increased through debt relief for the Democratic Republic of the Congo, from 0.43 per cent to 0.61 per cent, although this did not result in actual disbursements to the country for investments in poverty reduction.

Counting debt relief as official development assistance exaggerates the degree to which resources are actually being made available for use by developing countries. And using aid money to cancel debts deprives other low-income countries of resources as well as absolving creditors from taking any responsibility for poor countries' debt problems. Debt relief should be treated and reported separately from aid and should always be additional to, rather than drawn from, the funds required to meet the target of allocating 0.7 per cent of GNI to development assistance.

3 Making trade work for the poor

Which European countries are keeping their promise to reform trade rules so that trade works for poor people, not just for the developed world and wealthy corporations? And which EU countries are reneging on their promise?

Despite tentative and very small steps forwards, the EU's credentials as a reformist, pro-development trade bloc remain distinctly weak. It is not clear what impact new member states will have on EU trade policy. The EU gained great prestige with its much-lauded 'Everything but Arms' initiative in 2001, which gave unlimited access to European markets for all products, with the exception of arms, from the very poorest countries. However, several studies have subsequently shown that the direct impact of this initiative has been negligible. More than 99 per cent of products from the poorest countries were already theoretically eligible for duty-free access to Europe's markets, and the lucrative prize of enhanced access for sugar, rice, and banana exports was postponed, to satisfy vested domestic interests. In addition, strict rules and safeguards limit the possibilities for poor countries to gain access to European markets. Europe should make 2005 the year for new – and this time meaningful – pro-development action on trade.

As a major player in global trade, the onus is on the EU to keep its development promises. Europe accounts for 20 per cent of world trade, and is the world's biggest importer and second biggest exporter of agricultural goods. So, with less than a year to go before the next ministerial meeting of the World Trade Organisation in Hong Kong, and with regional trade negotiations surging forward, which EU member state deserves a gold star, and which should be sent to the back of the class when it comes to adopting a trade policy which really does have development at its heart?

A focus on agriculture

Ninety-six per cent of the world's' farmers – approximately 1.3 billion people – live in developing countries. One sure test of whether Europe seriously intends to put its pro-development rhetoric into practice is whether member states will end the dumping of subsidised agricultural products on poor countries' markets, give poor countries access to their own markets, and adopt development-coherent trade policies, acknowledging the right of poor countries to protect their agricultural markets.

In recent years, the issue of agricultural dumping has moved up the trade agenda and is now widely understood to be a major injustice. The EU's Common Agricultural Policy (CAP) generates vast surpluses, which are dumped overseas, with the help of direct and indirect subsidies. Despite published commitments to the contrary, the EU continues to obstruct efforts to eliminate all export subsidies, tackle trade-distorting domestic subsidies, and improve market access for the poorest countries.

In terms of agricultural trade, the black mark goes to France – the biggest beneficiary of EU largesse to farmers, and the most ardent defender of the EU's current agricultural regime. During the 2003 debate on the reform of the CAP, France threatened to use its veto in an effort to block progress, and in May 2004 led opposition to attempts by the EU Trade Commissioner to initiate negotiations on the abolition of all EU export subsidies. Hiding behind the highly publicised tactics of the French, there are, however, a number of committed allies in the fight to maintain the *status quo*. Greece, Ireland, Italy, Portugal, and Spain are long-standing members of the CAP supporters' club, and EU enlargement brought with it some new recruits, such as Poland. The Nordic nations and the Dutch still lead the pro-reform camp. Over the

years the UK has been a consistent supporter of European agricultural reform, but the British let the side down in 2003 when the UK government led opposition to proposals to limit payments to individual farms –putting the interests of large wealthy landowners over those of small European farmers and millions of poor farmers in the developing world. Germany continues to prioritise its relationship with the French over any serious attempt to lead a radical new approach to EU agriculture.

To date, the EU has made plenty of public pronouncements about the right of developing countries to protect their vulnerable farm sectors from international competition, in the interests of ensuring food security and in defence of rural livelihoods; but at the WTO, Europe is still refusing to commit itself on this issue. This is a matter of life and death for many countries, such as India – where 550 million people depend on small-scale agriculture – and in sub-Saharan Africa, where millions of people live on less than one dollar a day. Luxembourg has said that it would welcome a debate about this issue during its Presidency, and because this aspect of policy does not touch on sensitive domestic issues the EC could build support for reform across member states.

The current debate about the future of the EU's sugar regime is dominated by self-interest and intransigence on the part of most EU member states. We fear that a sector which has escaped much-needed reform for more than 40 years will again emerge untouched. While EU governments dither, hundreds of thousands of developing-country sugar farmers, farm workers, and their families suffer.

Regional and bilateral trade talks with developing countries

Through negotiations on Economic Partnership Agreements (EPAs), the EU continues to put pressure on 79 of the poorest countries across Africa, the Caribbean, and the Pacific to accept reciprocal market opening and an aggressive timetable for trade liberalisation. Scrutiny of these negotiations remains weak across much of the EU, and unless checked, EPAs will impede progress in many countries, rather than acting as the panacea for poverty reduction that the Commission promises. The majority of member states seem content to follow the Commission's lead uncritically, without any serious examination of the potentially damaging impact on poor communities. The same concerns apply to moves by the EU to negotiate similar deals with Euro-Mediterranean countries, and countries across Central and South America. Even though developing countries successfully resisted attempts by the EU to force the complex Singapore issues, which include investment and competition policy, on to the WTO agenda, these issues are now being re-introduced by the back door through bilateral and regional trade agreements. This is clearly reflected in recent comments from the Commission about EPAs, and is very evident in negotiations between the EU and the Mercosur countries (Argentina, Brazil, Paraguay, and Uruguay).

Textiles and clothing

The EU continues to maintain trade barriers against exports of clothing and textiles from developing countries, thus depriving them of jobs and foreign exchange. As noted above, the world's 48 least-developed countries (LDCs) theoretically enjoy duty-free access to EU markets; but they are not able to benefit from this provision, because the EU insists that, to qualify, the fabric as well as the clothing must be produced locally. As a result, LDCs such as Bangladesh, Cambodia, and the Maldives, which need to import fabric, are obliged to pay duty on most of their exports. Some member states would like to remove this injustice in the 'rules of origin', but others such as Portugal, Italy, and some of the new member states are resistant.

EU quotas (limits on the volume of imports) on textiles and clothing came to an end on 1 January 2005, as part of the WTO agreement to phase out the Multi-Fibre Arrangement, which for decades had protected domestic manufacturers in the USA and EU. However, tariffs remain high, not only against the more competitive manufacturers such as China and India, but also against smaller producers such as Sri Lanka and Indonesia, which between them face EU trade taxes of about €250 million per annum. This is particularly cruel in the context of the devastation caused by the tsunami in December 2004. These countries also face unfair rules of origin: if Sri Lanka imports fabric from China to be made into clothing for export to the EU, it cannot take advantage of lower tariff rates. European member states and the Commission recently agreed to support trade reforms that would benefit, among others, tsunami-affected countries. These proposals, though welcome, now need approval from the European institutions, and there are certain aspects that should be reformed if they are to deliver meaningful and lasting benefits for developing countries.

Patents and development

The way in which WTO patent rules drive up the price of vital medicines in the developing world is perhaps the most shocking illustration of the way in which trade policy is often subordinated to corporate interests, at the expense of the public good. The rules, enshrined in the WTO's patent agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), also push up the price of seeds, textbooks, software, and other knowledge-intensive goods that are essential for development. At the same time, the TRIPS agreement offers no protection to the traditional knowledge and biological assets of the developing countries.

Although the USA was the driver of the TRIPS agreement, which of all WTO agreements is arguably the most hostile to the development of poor countries, the EU was and is a willing passenger, and beneficiary. There is a creeping realisation in the Commission and in some member states of the unfair nature of the agreement, yet there is a reluctance to face up to the need for reform. On the issue of the impact of patents on poor people's access to medicines, the EU has shifted from an uncritical acceptance of all of the arguments of the pharmaceutical industry to a more considered view, and a recognition that there is indeed a problem. However, this admission has yet to translate into effective action. One constraint is the more conservative position of member states which are the base for large pharmaceutical companies, notably Germany, the UK, and France.

4 Manifesto for change

In 2005 the EU can make a difference to the prospects of the world's poorest countries, if its combined resources and political will are directed in a coherent way towards global poverty eradication. The EU should not give with one hand and take away with the other. All EU policies must support the objective of making poverty history, and those that do not, such as the maintenance of export subsidies, must be changed.

The EU should also publish timely and comparable data to demonstrate how it is meeting its commitments improve the quantity and quality of international aid; ease the burden of unsustainable debt; and make the rules of world trade more fair.

More and better aid

The EU must take the following steps:

- Achieve an average level of 0.7 per cent of GNI allocated to overseas aid by 2010. This would allow five years of increased aid flows in order to achieve the Millennium Development Goals and, if possible, surpass them. All member states should adopt timetables for reaching the target of 0.7 per cent, and Italy, Austria, Greece, Portugal, and Spain should increase their lamentably low levels of aid. New member states should publish proposals for steadily increasing their levels of bilateral aid over the next 10 years, in the context of higher economic growth rates following accession to the Union.
- Prioritise low-income countries and allocate at least 20 per cent of aid to the improvement of education, health care, water supplies, and sanitation. There must be no requirement to purchase goods and services in donor countries (so called 'tied aid'). Aid should aim to build the economic capacity of developing countries.

Cancelling the debt burden

The EU must adopt the following measures:

- Demonstrate moral and political leadership in international debt negotiations, using its significant power within the international financial institutions which currently control these processes.
- Cancel 100 per cent of the debt of the poorest countries where relief is needed to enable them to reach the MDGs.
- Ensure that funding for debt relief is additional to, rather than drawn from, the funds required to meet the target of allocating 0.7 per cent of GNI to development assistance. EU countries should not include debt relief figures when calculating and reporting on their ODA levels.
- Ensure that sufficient grants are made available to poor countries to avoid their becoming debt-distressed again in the future.
- Cancel poor countries' debts without imposing economic-policy conditions such as privatisation and liberalisation. The phased sale of IMF gold reserves represents one effective and viable option for the funding of this cancellation, and the EU should energetically support this course of action in all relevant international forums.

- Support the creation of a fair and transparent debt-arbitration process for private as well as public debt. This will allow both creditor and debtor nations to resolve debt crises without compromising the ability of poor countries to meet the basic human needs of their peoples, and will determine which debts are odious and should not be repaid.

Making trade work for the poor

The EU should take the following measures:

- Give poor farmers in developing countries a chance to trade their way out of poverty, by immediately eliminating all EU export subsidies, significantly reducing trade-distorting subsidies, supporting the right of developing countries to protect their sensitive agricultural sectors, and ensuring that market-access concessions work in favour of the poor.
- Stop pursuing potentially damaging Economic Partnership Agreements (EPAs) with African, Caribbean, and Pacific countries in their current form; change the EPA negotiating mandate to withdraw the demands for reciprocal trade liberalisation, and negotiations on the so-called Singapore Issues (investment competition policy and government procurement); and immediately examine all possible alternatives to EPAs, based on the principle of non-reciprocity and special and differential treatment.
- Openly support developing countries which try to use the opportunities available to them to reduce the price of essential medicines, and work to remove all remaining restrictions on the production of generic substitutes.
- Refrain from resorting to protectionist measures to obstruct imports of textiles or clothing from developing countries, and urgently reform its rules of origin for the most needy countries.
- Democratise the WTO to ensure greater transparency and better access for developing countries and observers.

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This paper was written by Louise Hilditch of ActionAid, Jo Leadbeater of Oxfam, and Gail Hurley of Eurodad (debt section). We acknowledge the assistance of all those who have contributed to its production. The text may be freely used for the purposes of campaigning, education, and research, provided that the source is acknowledged in full.

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EURODAD
European Network on Debt and Development

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