



COMMONWEALTH POLICY STUDIES UNIT: 17

2005 Commonwealth Finance Ministers' Meeting:
Policy Brief

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Policy Brief for the Commonwealth Finance Ministers Meeting, 18-20 September, 2005, Barbados

Executive Summary

The year 2005 is the year of development. Just before Commonwealth Finance Ministers meet, world leaders will have gathered in New York for the UN Millennium Summit. They will consider what further progress is needed to realise the Millennium Development Goals – and especially how to halve the levels of world poverty and hunger by 2015. The UN summit will focus on increasing international aid to 0.7 per cent of donors' gross national income in order to double aid flows, as well as a deeper and wider debt relief programme. With respect to global trade, efforts will centre on the Doha Round of multilateral trade negotiations and how to open more markets for exports from developing countries. This process will culminate in the Hong Kong ministerial meeting in December 2005. Commonwealth Finance Ministers gather at a strategic point between the UN and the WTO conferences. Global discussions are proceeding on two implicit assumptions: that wealthy nations can promote development in the poor world, and that their methods should consist largely of providing resources to and trading opportunities for poor countries. Although macroeconomic international development is by no means this simplistic, these assumptions dominate the policy agenda. It is an agenda in which the Commonwealth can continue to play a leading role, both by its statements and by concrete political action. Commonwealth Finance Ministers will continue trying to shift the topography of international development towards developing countries.

Executive Summary

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Author, Commonwealth Policy Studies Unit, acknowledgments

1 Status, representation, recent meetings

The Commonwealth provides a sophisticated and comprehensive structure of ministerial fora ranging from Heads of Government to Tourism ministers. Within these intergovernmental fora, the annual meetings of the Commonwealth Finance Ministers are pivotal. They tie together international economics and finance with long term strategic goals of the Commonwealth; they try to ensure that the positive products of globalisation are shared by developed and developing states alike. Their significance is reflected in excellent attendance records by over 50 states each year, as the 2004 meeting in St Kitts and Nevis attested.

The Commonwealth is *sui generis* in both its current complexion and historical lineage. It draws together 53 states of disparate character ranging from economic powerhouses -- such as G8 members like the UK and Canada -- to many of the countries defined by the UN as “least developed” (LDCs), who are struggling to break out of economic stagnation and absolute poverty.

This year’s meeting will take place between the UN Millennium Review Summit (14-16 September) and the increasingly influential G24 meetings of developing countries scheduled for 22 September in Washington DC. The World Bank and International Monetary Fund (IMF) will also be holding their annual meetings on 26 and 27 September. Commonwealth Finance Ministers will also look forward to the 52nd session of the UNCTAD Trade and Development Board in early October, prior to the sixth WTO Ministerial Conference in Hong Kong (13-18 December) 2005. Hence there is a real opportunity for the Commonwealth to make its voice heard; to consider key questions in a voluntary and collegial forum; and to bridge the gap between the developed and developing countries of the world.

This years CFMM is being hosted in Barbados by the incumbent Finance Minister and Prime Minister, Hon. Owen Arthur. The choice of venue continues a tradition of holding meetings in small island states within reach of the World Bank and IMF; Canada in 1997, London in 2002, and Brunei in 2003 were exceptions to this rule.

Commonwealth Finance Ministers already have much to reflect upon after the G8 meetings in Gleneagles; not only how to operationalise the key decisions made, but also how to overcome the devil in the detail that plagues grand bargains to the detriment of the developing world. Despite the Commission for Africa’s call for a development compact between North and South, much remains to be done if the MDGs are to be realised by 2015. This is also particularly true of the Doha Round of trade negotiations, which ought to enable the developing world to earn its way out of poverty. There has clearly not been sufficient progress to fulfil the Doha mission statement as a development orientated agenda, or to deliver an “endgame document” by December 2005. However, the mini-ministerials of 2005 should help to prevent a repetition of the Cancun meetings, where the G24 were simply left with no option but to reject the largely mercantilist package put before them in 2003.

2 Record for policy

The Commonwealth encompasses a disparate array of members, ranging from those presiding within the G5 and G8, to key players in the G20, G24, G77 and G90. It also possesses 14 of the world's LDCs and 25 of the 46 Small Island Developing States (SIDS), which are vulnerable to economic downturns and natural disasters such as this year's Caribbean hurricane and Asian tsunami.

In covering the UN development system from both a donor and recipient perspective, the Commonwealth also taps into the fast growing OECD economy of Australia, Asian tigers like Singapore, as well as the world's largest democracy and burgeoning economic giant in the form of India. The Commonwealth also has a major stake in the HIPC initiative, with 10 of the HIPC 38 countries. This lends added importance to the dialectical quality of the CFMM, where southern voices carry as much weight as their industrial and post-industrial counterparts.

Mauritius (1997) and Ottawa (1998) focused on the urgent need for better regulation of international financial flows in the wake of the Asian currency crisis. The Financial Stability Forum headed up by the UK's Gordon Brown began an incremental change, bringing developing countries into the decision making process of international financial institutions (IFIs). But this remains a work in progress, rather than a task completed.

The Commonwealth was instrumental in providing the intellectual stock for the HIPC initiative in the 1980s, and has been an important agitator for change since the Mauritius Mandate in 1997. This called for the Paris Club and the IFIs administering the HIPC initiative to have embarked upon the process of examining and rescheduling debt by 2000, and to allow for three-quarters of the countries to be able to settle the terms for forgiveness and repayment. Crucially, it also urged HIPC assistance for additional categories of debt, including bilateral, multilateral, and -- tentatively addressed -- commercial debt. It also raised the prospect of revaluing IMF gold reserves to facilitate greater levels of debt relief. This idea is by no means completely off the policy table if the resources generated from the 1999 sale-buyback agreement prove insufficient to fund the latest proposals.

Progress on the HIPC initiative has been painstakingly slow; although the enhanced HIPC Initiative in 1999 started to redress many of the structural inequities of the 1997 programme; it was only really this year's breakthrough on debt relief by the G8 that started to deliver on much of the Commonwealth's policy agenda over the last decade. However, if development is to be truly **MDG-centric**, then debt relief still needs to go much wider, deeper and at an accelerated rate.

Intrinsic to this is the issue of IFI conditionalities imposed through the Poverty Reduction Growth Facility and Poverty Reduction Strategy Papers. The Commonwealth has repeatedly sought to give genuine ownership of PRSPs to developing countries, and to ensure that they are tailored to realising the MDGs from a donor **and** a recipient perspective. This new development covenant clearly ties into the intellectual architecture of the Commonwealth Action Plan on Delivering the Monterrey Consensus, which provides an exciting blueprint for future action. This blueprint should come to the fore if the G8 follows up on paragraph 31 of its 2005

communiqué, which claimed to give developing countries genuine ownership of future strategies.

To this end, London (2002) Brunei (2003) and St Nevis & Kitts (2004) all helped to force the pace on the development triumvirate of debt, aid and trade, whilst reflecting on endemic issues of concern such as promoting investment, fighting a rearguard action against the HIV/AIDS pandemic, and harnessing the potential global public goods that globalisation and trade liberalisation could offer if utilised in the correct manner. They also repeatedly highlighted the chronic need for increased international aid budgets to meet UN targets of 0.7 per cent GNI, which has been grudgingly forced out of many of the G8 and EU capitals this year. The Commonwealth has also been quick to endorse innovative financing mechanisms to deliver this aid as quickly as possible, foremost of which is the British proposal of an International Financial Facility, which regrettably is yet to find much favour in Washington, Paris, Tokyo or Berlin beyond a pilot scheme.

The Commonwealth has also become a leading advocate for the cause of small states of fewer than 1.5m people, throughout the international system. Such states lead a precarious economic and social existence, vulnerable to the vagaries of international economics. This is worse still for states with “endowed handicaps,” which further stack the odds against long-term growth and poverty reduction. A joint Commonwealth-World Bank task force began to think seriously about these issues in 2000, and is due to be reviewed this year. Key problems include the fast erosion of preferences for traditional exports and the pressing need to diversify into new economic activities; a rapid rise in the debt burden; increased environmental susceptibilities; the HIV/AIDS pandemic; and crucially, for vulnerable small states to get a special status within the WTO. This remains a highly contentious issue both for developing and developed states alike.

Small states have been concerned by the OECD’s “harmful tax practices initiative” which, in aiming to close loopholes for tax avoidance in developed states, could have had a catastrophic impact on many small developing ones. Prime Minister Owen Arthur has been active in this struggle. To its credit, the Commonwealth has cooperated in standardising the Transparency and Exchange of Information on Taxation by arranging a series of fora between concerned jurisdictions and the OECD.

Future work and objectives have been mapped by the Commonwealth Secretariat in a Commonwealth Strategic Plan, which highlights nine programmes that it will work through to deliver pro-poor growth and sustainable development. These include international trade; investment; finance and debt; public sector development; environmentally sustainable development; small states; education; health and young people. These strategic areas provide a wide ranging and innovative policy agenda, which connects with the 2005 agenda for the Commonwealth summit in Valletta, at the end of November, on “Networking the Commonwealth for Development.”

3 Agenda for 2005 meeting

The current draft agenda, which will be confirmed or amended on the eve of the conference, is as follows:

1 Election of Chairperson

2 Adoption of agenda

3 Current world economic situation and prospects

An examination of the world economy's recovery in 2005 and inherent dangers including:

- High oil prices, the twin US deficits and the weak dollar, high interest rates in industrial country markets and weak economic performance in the Eurozone and Japan.
- Balance of risk in the short and medium-term and implications for Commonwealth countries
- Marginalisation of sub-Saharan Africa and small states and the MDGs, including a report of recommendations from the Commonwealth HIPC Ministerial Forum (Maputo, March 2005)
- Debt, the HIPC initiative and debt sustainability, in particular the IMF/World Bank long term debt sustainability framework for low income countries; the burden of domestic debt; non-participatory creditors; litigating commercial creditors; deeper and wider debt relief beyond HIPC for achieving MDGs and special consideration for conflict-affected countries and infrastructure and basic services needs; flexibility for managing exogenous shocks, and ensuring HIPC graduates avoid a reversion to unsustainable debt.
- Secretariat to present the outcomes of its second country report on monitoring donor and international financial institutions' support behind country-owned poverty reduction strategies, in relation to Ghana.

4 Special theme: giving practical effect to the Millennium Project review

- Practical steps that can be taken to achieve the MDGs in light of the UN General Assembly high level plenary on the Millennium Review
- Professor Jeffrey Sachs to present his findings for actions of particular relevance to Finance Ministers
- Input from civil society/Commonwealth Foundation
- Business perspectives from the Commonwealth Business Council

5 Investment

- A progress report on and a profile of the Commonwealth Private Investment Initiative (1995).
- Relevant Fund Managers to make presentations on the performance of the funds
- Secretariat to report back on progress of investment to countries with endowed handicaps.

6 Small states issues

- A review of the of the 2000 Report "Small States: Meeting the Challenges in the Global Economy" in light of new and emerging vulnerabilities and key

messages that can be transmitted to the World Bank's Small State Forum at the Annual Meetings

7 Monterrey Consensus

- A review of the Commonwealth Action Plan on the Monterrey Consensus in keeping with the CFMM in London 2002, which agreed a three-part action plan for the Commonwealth to be reviewed in 2005.
- The Secretariat will report on the different elements of the Plan to facilitate a progress review by Ministers.
- A review of the Gender Budget Initiative from 2002

8 Other issues

Senior Officials' meeting will consider the communiqué framework, and a technical theme of the Commonwealth Guidelines on Public Financial Management Reform in Commonwealth developing countries to build a public financial management template and a programme of reform; this will be put to the Ministers and then submitted to the CHOGM in Malta, November 2005

9 Any other business

Including:

- Papers for information
- Communique
- Acknowledgments
- Next meeting
- A small group of Ministers to hold a post-CFMM press conference in Washington to brief the wider international community at the IMF/World Bank annual meetings on the main conclusions of the CFMM

4 Comments on agenda items

3 Current world economic situation and prospects

The world economy has seen a steady recovery in 2004-5, and is widely forecast to grow throughout the remainder of the year -- albeit at a slackening pace. International capital markets remain on an even keel, gross world product is expected to grow by more than 3 per cent in 2005-6; flows of FDI to developing countries actually managed to reverse their three year downward trend, and international financial markets seem relatively benign. Yet this positive diagnosis of economic health needs to be set against a number of risks emanating from higher oil prices, higher inflationary expectations and creeping interest rates, which could threaten the economic progress of many Commonwealth states. Widening external imbalances across major region urgently need addressing to keep world growth and macroeconomic stability intact.

The most glaring imbalance is the huge fiscal and current account deficit of the United States, which currently stands at over \$700bn and the corresponding large surpluses in emerging Asia engendered by export-led development strategies. As the

deficit continues to widen, the risk of a disorderly adjustment in financial markets and in global growth can only be heightened. In the long term, root and branch reform of the international monetary, financial and trade system will be needed to reduce the dependence of global growth on the United States.

The current reliance on US and Chinese growth becomes axiomatic when we look at both the EU and Japan. Weak growth in the Eurozone will only be offset by major structural reforms. According to the IMF, on average, annual GDP growth in the EU over the last ten years was 2.2 per cent. This compares to 3.4 per cent per annum in the US; 5 per cent per annum in the newly industrialised countries (Hong Kong, Taiwan, Singapore and Korea); and 7 per cent per annum in developing Asia, (China, Malaysia, and Thailand).

China now accounts for a third of all world growth. Its insatiable demand for raw materials to fuel industrial expansion has been an important factor in increasing non-oil commodity prices (when coupled with the concurrent depreciation of the dollar). This has created a number of winners and losers in developed and developing countries alike, but mainly winners to date, with sharp upturns in mineral prices and agricultural prices for vegetable oils, tropical beverages and oil seeds.

However, an excessive reliance on China could be misplaced for two reasons. The first is the notion of a “hard landing” due to too much money flowing into speculative property ventures as it did in the Asian crises in the mid-1990s. The second reason is high oil prices, which remain underpinned by this same strong demand in the US and China. Tight supplies, and geopolitical instability in the Middle East, have combined to push crude oil prices to nominal records of \$65 a barrel in 2005. Any major shocks could disrupt the oil markets to the instant detriment of global economic growth. This will inevitably slow world activity, particularly amongst oil dependent economies and those with weak trading links with the oil producers. This will also have a detrimental impact on fiscal policy as deficits increase.

Although brighter political conditions should help avoid another major recession in Latin America, this recovery is likely to remain anaemic and fragile. Indeed, when we speak of global imbalances in the international economic system, this is very much a semantic sleight of hand when compared to the real global imbalance of crippling poverty in vast swathes of the developing world. Whilst the IFIs are keen to note that some states are already implementing ‘MDG Plus’ targets in Africa, UN statistics show that the percentage of people living on less than \$1 a day in Sub Saharan Africa has risen from 44.6% to 46.4%, and the number of people facing extreme hunger or starvation has risen in real terms by 340 million people. Similarly, in small states, average GDP growth rates have declined relative to larger low income and middle-income countries, they are increasingly threatened by the HIV/AIDS and pandemic and have seen a rapid rise in their debt burden.

The debt issue has risen again in the Commonwealth agenda, not least as the G8 debt package from Gleneagles creates something of a zero sum gain for a number of Commonwealth members. If the \$40bn deal manages to navigate its way through the IFIs, it will provide for 100 per cent debt stock cancellation (relating to IMF and AfDF debts) to the current 18 HIPC countries which have completed the process, and could rise to \$55bn when all 38 HIPCs reach completion. In receiving 100 per cent

debt cancellation, the amount of debt forgiven will then be put into IDA as a whole to be redistributed across all IDA-only countries according to the current Performance Based Allocations (PBA) system, which in turn is based on the Country Policy and Institutional Assessment. On a positive note, this means that non-HIPCs will have access to these new resources -- which plays well for a substantial number of Commonwealth members. But, for many HIPC nations, there will only be nominal gains in net transfers, through a dollar for dollar reduction in gross assistance flows.

Whether this suggests the glass is half full or half empty on debt relief will remain a matter of dispute; it certainly got a considerable top-up through the Paris Club's decision to offer debt relief for Nigeria under Naples terms in July. But ministers will be concerned to note that the G8 deal also fails to consider low income or middle income countries that need partial or 100 per cent debt cancellation to reach the MDGs, many NGOs calculate this to be up to 70 states, at an annual cost of \$10bn.

For the HIPC initiative to flourish it must become more flexible and country-intelligent in virtually all regards. A truly viable approach would be to place development objectives at the centre of sustainability. The UN has already made the case for debt sustainability to be defined as the level of the debt that allows a country to achieve the Millennium Development Goals and still achieve its obligations. In addition to the debt dynamics, this would mean that work on debt sustainability should take into account the sources of the capacity to serve the debt. This would need to define debt in terms of the ability to pay; the capacity to repay debt taking domestic priorities of human development and poverty reduction into account; and a level of debt that is growth-enhancing. Naturally, this framework would also cater for exogenous shocks and would safeguard against reversion to unsustainable debt.

If this provides something of a dream list for the HIPC framework, in the shorter term, the Commonwealth should move to establish the "rapid reaction legal assistance" called for in 2004 to offset commercial creditors bringing litigation against a number of HIPCs. It also needs think imaginatively about how to bring non-participatory creditors into the Paris Club fold, and how to expand the HIPC Trust Fund beyond a voluntary basis.

4 Special theme

The Millennium Project Review can be approached on two strategic levels to achieve the MDGs. The first is through implementing a long-term Grand Strategy between donor and recipient countries, through the vehicle of **MDG-centric PRSPs** that are ambitious enough to turn these abstract goals into policy realities. This is the core recommendation of the Sachs report and builds on the Commonwealth Action Plan for Delivering the Monterrey Consensus recommendations (see section 7 below).

The Commonwealth can lead by example through recommending that its developing country members prepare MDG-based PRSPs, (as pioneered in Kenya and Ghana); developed counterparts can then support these with financing and technical assistance. This would indicate what could be achieved on a global scale. It would demonstrate the linkages between developed and developing countries, which could halve poverty and hunger by 2015. Yet these linkages also need to be built conceptually between the eight goals, as well as with regional initiatives such as those of NEPAD, ASEAN and

CARICOM. International donors should consider “fast tracking” any country with a rigorous investment plan for the rapid scale-up of ODA in 2005.

The second strategy is through a series of Quick Win actions, to start fresh momentum towards the Goals, and in the process save millions of lives. These might include the ending of user fees for primary schools and health services; a completion of the “3 by 5 campaign” to bring three million AIDS sufferers onto antiretroviral drugs by the end of 2005; free mass distribution of malaria bed-nets and anti-malarial medicines by 2007; replenishment of soil nutrients for lands with nutrient-depleted soils and expansion of school meals to cover children in the hunger hotspots by 2006. Crucial to all these, is equipping local communities with expertise in health, education, agriculture and public sector management.

Implicit in all these measures is the need to increase ODA from 0.25 per cent of donor GNP in 2004 to 0.4 per cent in 2006 and 0.54 per cent in 2015 for grant-based budget support. Each donor state should reach 0.7 per cent no later than 2015, a target which is currently far from being universally accepted. The added complication is that the World Bank is already concerned that IDA will not be sufficiently replenished by rich country donors to honour the G8 debt relief package. This will no doubt send alarm bells ringing throughout the Commonwealth, as IDA countries would see no benefit from the initiative, and could seriously imperil future grants. Debt relief packages would have to be spread over time by relieving payments as they come due rather than writing off the debt stock to ensure that new money is not simply taken from other poor countries supported by the Bank. Similar back sliding is evident within the IMF.

The Commonwealth needs to tackle these political stumbling-blocks head on. The political priority of the day is *still* to get rich nations to expedite their international commitments as donors; it is only with these concrete commitments in place that they can then be married with the dense network of institution-building that the Commonwealth is engaged in.

To this end, the Commonwealth Foundation, coordinating civil society input to the Finance Ministers, has highlighted a raft of concerns, ranging from democratisation of the IFIs; to advocating a rights-based approach to development. It also noted the importance of effective monitoring to oversee the MDGs. However, it had little to say on the utility of the private sector, which all too often strikes a dissonant chord for civil society which sees little merit in a “Third Way” for sub-Saharan Africa. The Commonwealth Business Council’s Sixteen Point Action Plan should inspire some confidence; but public-private partnerships are not suitable everywhere.

5 Investment

To date, the Commonwealth Private Investment Initiative has raised approximately US\$450m for investing in the emerging economies of the Commonwealth and is delivered through six regional venture capital funds. These include the Commonwealth Africa Investment Fund (launched in 1996); the Kula Fund for the Pacific Islands and the South Asia Regional Investment Fund (both launched in 1997); the Caribbean Investment Fund (launched in 2000) as part of the IMF Multilateral Investment Funds group and the Pan-Commonwealth African Partners Fund (launched in 2002). The latter has seen impressive levels of investment with

extensive Saudi backing tipping it over the \$100m mark. SARF remains the largest fund investing over \$106 million in Asia and an additional \$92 in Bangladesh, India and Sri Lanka. Returns have been in excess of \$91m to date, and SAFFII has already made its first investments in Pakistan with Actis anticipating commitments amounting to \$150m by the end of the year.

COMAFIN was able to invest \$63.5m in a wide range of industries and in countries ranging from Ghana, Zimbabwe, Mozambique, Zambia, Tanzania and South Africa. \$44m has been returned to investors, and the remaining portfolio looks strong. Aureos has also been able to launch three new regional SME funds to cover Eastern, Western and Southern Africa amounting to \$107m. Meanwhile the Kula Fund has been sufficiently successful in the Pacific region to moot the launch of a Kula II with a \$20m fund being marketed to investors. This will focus more on injecting capital into smaller Pacific Island countries and it is hoped that technical assistance from New Zealand AID and Australia AID should draw interest from the ADB and EIB. The Caribbean Fund is also about to operationalise CIFIII, which should attract much attention at the meeting.

The major shift in the second round of investments is to focus on the Small and Medium Enterprise (SME) sector to diversify developing economies through offering business support and additional finances. This has also become an increasingly prominent focus within the World Bank.

Whilst these developments look good on paper, the Commonwealth is still operating against a backdrop of high risks and volatility. India remains an obvious hot spot for investors, but in areas where returns do not always match risks and volatility it remains an uphill struggle to persuade financial investors to commit capital. This is particularly true for small vulnerable economies, with endowed handicaps; these are economies whose competitiveness as locations for private investment is seriously handicapped by natural or man-made factors, such as being landlocked, resource deficient, or in areas of intractable conflict. The Commonwealth has pioneered the use of vulnerability indices to measure progress and to use as monitoring tool, but as efforts in Malta show, major methodological questions remain to be resolved before the Commonwealth Vulnerability Index is internationally accepted.

6 Small states issues

The cornerstone of Commonwealth policy was devised with the World Bank in a joint task force report -- "Small States: Meeting the Challenges in the Global Economy." It has won almost universal support in the global arena. There are four action areas for small states: tackling volatility, vulnerability and natural disasters; strengthening capacity; meeting challenges and opportunities of globalisation; and adapting to the changing global trade regime. A *de facto* fifth area was added on counter terrorism, in response to UN Resolution 1373 in 2002.

The Commonwealth is calling for small states to design and implement aggressive outward-looking export-based development strategies, claiming that "for preference-dependent small states, nothing less than a repositioning of their economies is required". If increased export competitiveness does indeed offer the best exit from

vulnerability, then this translates into focusing on the service sectors such as tourism, finance, health and e-commerce. Developing niche markets remains important.

Yet this has to remain a two-way game - the need to diversify into new economic activities through SMEs is acute – but as is the need to ensure that the WTO takes sufficient account of the special needs of small states in light of the rapid erosion of trade preferences. To this end, the Trade Policy Formulation, Negotiation and Implementation Project (“Hub & Spoke”) along with TIAF, has scored some successes in negotiating Phase II of the ACP-EU negotiations on EPAs, but still only enjoys a modest budget of 20.6m Euros. The Commonwealth must also focus on achieving greater coherence between national and regional trade policy and to deliver the necessary expertise as a matter of urgency.

The danger of shifting too rapidly to an outward-orientated development strategy is that small states become litigants caught between two claimants – wanting to retain the vestiges of the traditional economy on the one hand, whilst trying to deliver on the new with the other. Similar issues of transition apply to small states that are progressing beyond LDC categorisation; retaining sustainable development and seeking political support for drawing on IBRD funds remain the firm order of the day.

7 Monterrey Consensus

The Commonwealth Action Plan put its finger on the missing ingredients for a new development compact to realise the MDGs and to operationalise the Monterrey Consensus agreed in 2002. As noted in section 4, this has to be viewed on two levels of analysis; firstly in a grand strategy for the international community to work towards, with a secondary level of capacity and institutional building measures that inform the day-to-day practices of the Commonwealth.

The clarion call of the grand strategy was for developed countries to reach 0.7 per cent of GNI in ODA and to increase funds to the World Bank’s IDA facility in a more flexible, predictable and aligned manner. The successful replenishment of IDA 13 was a major coup for the Commonwealth, and pressure will be maintained to ensure that IDA14 follows suit. The Action Plan also recognised the need to increase aid to regional organisations such as the Africa Union’s NEPAD, which remains vital for improving international economic integration by harmonising cross-border policies.

The remainder of the grand strategy includes the mobilisation of domestic resources, the attraction of FDI, additional debt relief to reduce the debt overhang in low-income countries and perhaps most crucially, the successful completion of the Doha Development Round. Unfortunately, this is where the “global partnership for development” seriously begins to fall down.

Progress within the WTO seems to show blatant disregard for the gathering political storm. Pascal Lamy has already voiced grave concerns for future progress on NAMA, services, rules of origin, special and differential treatment and any softening of positions on *ad valorem* equivalents, not to mention that the G8 refused to provide an end date for agricultural export subsidies.

Beyond the high politics of the WTO, the Commonwealth Action Plan seeks to tie together the entire network of the Commonwealth to prepare the ground for poverty

reduction. 2005 has also seen a major push to mainstream gender considerations into MDG-based PRSPs through the Commonwealth Plan of Action for Gender Equality 2005-2015. However, only a third of Commonwealth countries have introduced gender budgeting which seek economic empowerment for women. If Sierra Leone and Sri Lanka can build gender issues into their peace and post-conflict reconstruction programmes, much more progress can be made across the board.

Similarly, as the Ghana case study illustrates, the big idea of MDG-centric PRSPs supported by developed states is still at a formative stage. Commonwealth states need to show more commitment here.

5 Interaction with other bodies

Since 2002 the CFMM has worked with a wealth of NGOs and civil society movements through the Commonwealth Foundation. It has cultivated a valuable partnership with the World Bank via a Small States Forum, and with the UN General Assembly through its SIDS agenda. It also increasingly works with the EU, UNCTAD and Regional Development Banks and has starting to link up with the IMF, World Bank, and UN to strengthen public accounts systems in developing countries -- as called for in the Aso Rock Declaration, by Commonwealth Heads in 2003. Although the Commonwealth Secretariat is so small, with a staff of some 280, it has links with a huge range of bodies.

6 Other issues

Beyond a successful completion of the Doha Round, ministers should give more thought to the slow growth of employment and the persistence of high rates of under-employment in most developing countries. Unless improved economic growth is reflected in increased employment, it will be difficult to reduce poverty.

Another major issue, not flagged up in the Ministers' agenda, is capital flight; developing countries are currently losing \$500bn to \$800bn in untaxed money that is leaving their economies unchecked. This is largely due to the mispricing of exports and imports to shift profits out of the country, with multinationals using networks of notional companies in tax havens to hide billions of dollars in profits. If capital flight inches up the political agenda, (which it may do under a Russian G8 Presidency) the Commonwealth may wish to consider how this might impact on Small States, as well as looking towards the effectiveness of the Commonwealth Action to Counter Money Laundering and the Financing of Terrorism. The channels that facilitate resource leakage from both developing and developed countries are all too often the same channels that facilitate terrorist financing networks.

Ministers may also wish to consider the major issue of aid delivery mechanisms and their impact on the MDGs. The British Government want to use the IFF as a proof of concept for some larger aspects of the IFF, including the capacity to garner donor support for such a mechanism and acceptance of IFF-generated AAA bonds by rating agencies and capital markets. The IFF is clearly the Commonwealth's mechanism of choice, but is by no means certain to make further progress beyond its current status of being tangentially included in the appendix to the G8 communique. One possible alternative is the introduction of an aviation tax, as mooted by the EU. This could raise \$9bn per annum, if levied globally at a rate of \$0.20 per gallon. It would require considerable political brinkmanship to overcome the technical and political

difficulties to utilise global taxes *and* the IFF to create a win-win situation for developing countries, but it is time to start thinking about this.

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