FUNDING THE ERADICATION OF POVERTY

Funding the eradication of poverty

Nearly one quarter of the world’s population live in extreme poverty – on less than 1 US dollar per day; nearly half live on less than 2 dollars per day. Some 800 million people worldwide are suffering from malnutrition and hunger, and a fifth of the global population - over one billion people - have no access to safe drinking water.

It is therefore vital that the world community works together with increasing urgency to improve the lives of the extremely poor.

The first step must be to raise more money to eliminate poverty and produce better living standards. This aid has to be used effectively, reaching as quickly as possible the people who need it most.

European Union aid to developing countries reached nearly €26 billion in 2001 and recently the EU pledged to increase that funding still further between now and 2006. The EU is the largest provider of Official Development Assistance and of humanitarian assistance in the world.

The EU considers the World Summit on Sustainable Development as an occasion of great importance, where the world’s commitment to sustainable development can be renewed with vigour 10 years after the successful Earth Summit on Environment and Development in Rio de Janeiro, Brazil.

WSSD should provide a further significant step forward on the road to achieving international development targets, notably the UN-agreed Millennium Development Goals, which include halving the proportion of people in extreme poverty, as well as targets in areas such as health and education, gender equality and sustainable development.

The EU believes that the WSSD should take priority action in six areas where poverty reduction and sustainable development objectives coincide – water, sanitation, energy, trade and globalisation, global public goods, sustainable consumption and production patterns – all areas, where, if a real difference is to be made, significant additional annual funding is needed.

The question is, though, how to find that funding, and how to ensure it reaches effectively those who need it most.

The EU’s commitment to development aid

If Agenda 21 (the comprehensive, global, national and local sustainable development action plan agreed at Rio in December 1992) and other internationally-agreed development goals are to be achieved (including those contained in the Millennium Declaration and in the Johannesburg Plan for Implementation), it will require a substantially increased effort from individual countries and from the international community.

Recent international conferences, such as the International Conference for Financing for Development in Monterrey in March this year, have already provided important steps in the right direction.

In Monterrey, the EU committed itself to a substantial increase in its Official Development Assistance (ODA) effort. The average ODA provided by EU member states is to rise from 0.33 to 0.39 percent of Gross National Income by 2006, as a first significant step towards the internationally agreed target of 0.7 percent of Gross National Income. This should result in additional annual ODA of about €9 billion as of 2006 and about €22 billion between now and 2006. So far, 4 EU Member States (Denmark, Luxembourg, Netherlands and Sweden) and only one non-EU OECD Member (Norway) have reached or exceeded the 0.7 percent target. The EU has initiated steps to make available its increased ODA and hopes that other donors will equally make good on their pledges. The EU recognises that there is a need to agree on a process through which the follow-up to these pledges can be monitored and evaluated. The EU continues to call upon all other developed countries that have not done so to make concrete efforts towards the target of 0.7 percent of Gross National Income as ODA to developing countries, and 0.15 to 0.20 percent of Gross National Income to Least Developed Countries.

Official Development Assistance has a critical role to play in the efforts to combat extreme poverty. The main objective of ODA must be to break the vicious circle of poverty, contagious diseases, hunger, illiteracy, the degradation of natural resources and discrimination against women, and to promote development rigorously.

Sustainable development and the fight against poverty are major objectives of the EU’s external and development policies. The EU is fully
committed to the Millennium Development Goals and all of its development cooperation funds aim to contribute to their achievement.

**Alternative channels**

The EU is also working to develop a series of integrated initiatives, which can channel some of these development funds to partners on a regional or national basis.

While ODA can play a significant role as a catalyst, the EU is also seeking to involve other types of funding, from private sources (private companies, civil society organisations, etc) or public sources (governments, local authorities, donors), so as to accelerate change and maximise benefits to developing countries.

The principles of ownership and partnership with developing countries will apply fully in each of the EU initiatives, which will be anchored in national and regional development strategies. These initiatives will include support for institutional and capacity building, and they will involve key stakeholders including civil society and the private sector. The commitment to extra funding by the EU and other donors in Monterrey has paved the way for decisions in Johannesburg on channelling strengthened development assistance to promote poverty eradication, sustainable development and to integrate developing countries into the global system..

**Mobilising further funding**

The basic assumption has not changed since the time of Rio: the bulk of development financing will have to come from mobilising domestic resources in developing countries.

There is a close correlation between a country's capacity for attracting investment and the way in which it is governed, i.e. state under the rule of law, sound economic policy, anti-corruption policy, transparency, and institutions which operate responsibly and professionally.

Developing countries must intensify their efforts to create an enabling, domestic environment, which is essential for mobilising domestic resources, increasing productivity, reducing capital flight, encouraging the private sector and attracting, and making effective use of, international investment and assistance.

Many countries, however, still depend heavily on public development aid as an essential accompaniment to private investment from home and abroad. Private investment is still confined to a restricted number of developing countries and to profitable economic sectors. The benefits for Least Developed Countries remain modest.

The EU will also intensify its efforts to make ODA disbursement and delivery more flexible and will improve ODA targeting to the poor, based on country-owned poverty reduction strategies, as well as reducing transaction costs in aid delivery and measures aimed at further untying aid.

**Pursuing efforts to obtain debt relief**

The EU will pursue efforts to restore debt sustainability through the enhanced Heavily Indebted Poor Countries (HIPC) initiative. We want to ensure that developing countries, and especially the poorest ones, can pursue growth and development unconstrained by unsustainable debt dynamics. The EU is fully committed to funding the HIPC initiative and pursuing debt-swaps as appropriate.

Where countries have suffered external shocks – such as sharp falls in the price of export commodities – the EU recognises the need for topping-up at completion point to ensure a lasting exit from unsustainable debt. The EU also acknowledges the problems of debt sustainability of some non-HIPC low-income countries facing exceptional circumstances and recognises that there may be the need, to be assessed on a case-by-case basis, to provide additional assistance with a country’s debt obligations.

International debtors and creditors must be brought together in relevant fora to restructure unsustainable debts in a timely and efficient manner, taking into account the need sometimes to involve the private sector in the resolution of crises due to indebtedness.

**Special attention to the interaction between poverty and environment**

The EU will specifically address poverty reduction in a sustainable manner through better environmental management that addresses the needs of the poorest, and by promoting appropriate policies at national and international levels.

Finally, the EU will also work to ensure the successful and substantial third replenishment of the Global Environment Facility (GEF), which was formed to finance actions addressing critical threats to the environment. This will allow the GEF to meet the funding requirements of new and existing focal areas, and to make it more responsive to the needs and concerns of its recipient countries,
levering additional funds from key public and private organisations, improving management of funds through speedier and better streamlined procedures, and simplifying the GEF project approval cycle.