112th INTER-PARLIAMENTARY UNION ASSEMBLY

THE ROLE OF PARLIAMENTS IN ESTABLISHING INNOVATIVE INTERNATIONAL FINANCING & TRADING MECHANISMS TO ADDRESS THE PROBLEMS OF DEBT & ACHIEVE THE MILLENNIUM DEVELOPMENT GOALS.

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THE MILLENNIUM DEVELOPMENT GOALS.

Eight Millennium Development Goals (MDG) were agreed upon at the United Nations Millennium Summit in September 2000. Subsequently, 190 countries signed up to them. The Millennium Declaration calls for halving by the year 2015, the number of people who live on less than one US dollar a day.

Both developed and developing countries are committed to adopt and support a goal oriented approach to policy, planning and implementation. The Goals* commit the international community to an expanded vision of development, one that vigorously promotes human development as the key to sustaining social and economic progress in all countries, and recognizes the importance of creating a global partnership for development. The goals have been commonly accepted as a framework for measuring development progress.

This effort involves: Finding solutions to combating poverty, hunger, malnutrition and disease, illiteracy, environmental degradation, promoting gender, equality and the empowerment of women, guaranteeing basic education for everyone.

To help track progress, the United Nations Secretariat and specialized agencies of the UN system, as well as representatives of IMF, the World Bank and Organisation for Economic Cooperation & Development defined a set of time-bound and measurable goals and targets. A framework of 8 goals, 18 targets and 48 indicators has been defined.

The goals are quantified and have time-bound targets that are central to human development.

The following goals are to be fulfilled by 2015:

1. **Eradicate poverty and hunger**
2. **Achieve universal primary education**
3. **Promote gender equality and empower women**
4. **Reduce mortality**
5. **Improve maternal health**
6. **Combat HIV/AIDS, malaria and other diseases.**
7. **Ensure environmental sustainability**
8. **Develop a global partnership for development**

Implementation Assessment.

Each year, the UN Secretary-General prepares a report on progress achieved towards implementing the Declaration, based on data on the 48 selected indicators, aggregated at global and regional levels. Four years after the declaration, it is evident that a lot more needs to be done to if the work is to be accomplished.

In close collaboration with United Nations agencies and funds, the World Bank, IMF, and OECD, the United Nations Statistics Division coordinates data analysis and maintains the database containing the series related to the selected indicators, as well as other background series intended to supplement the basic 48 Millennium indicators, for more in-depth analysis.

In order to help focus analysis and assessment of progress at the country level,

* See the annexed list of Goals.

the Millennium indicators and background data series are also organized and presented country by country.

Country-level monitoring is an indispensable element in assessing progress towards the MDG's and in mobilizing resources to assist developing countries in meeting the targets. The United Nations Development Programme, assisted by other agencies and the United Nations Secretariat, is coordinating efforts and supporting the preparation of national monitoring reports in countries.

Kenya and the MDG's

In its progress report for 2003, the Kenya government conceded that it may be unable to fulfill its goals by 2015 unless the process of implementation is speeded up. On primary education for all, Kenya has made strides but on issues such as gender equity, HIV/Aids, environmental sustainability there is still much to do. For some of the goals to be achieved. Massive investment in social services such as schools, hospitals, communication infrastructure, water, energy, roads and dispensaries is needed. This also makes rural areas more productive and de-congests the urban areas. Another key to implantation is good governance principles.

An assessment of implementation of the MDG's in Kenya does not give positive results as according to the UNDP Country Head, it was not conducted scientifically (Paul Andre de la Porte) Projects have not taken off and the backlog is increased due to the slow procurement process. A holistic approach to implementing projects is needed. The country requires about US$1.4 billion per annum to implement MDG goals.

Forging of partnerships with donors is progressing though Kenya needs an increase of resources to achieve the goals.

Fast-tracing implementation is the only way though this is also dependent on donor support.

Parliamentary and MDG's

Implementation of the goals is not just an Executive function but the citizenry, community based organizations, civil society and parliamentarians have a role to play as money and donor funds are not the only answer to fulfilling the targets. Since implementation of MDG is dependent on transparency and accountability, parliamentarians can participate in various ways:

Nationally; through questions, in the House or parliamentary committees they can:

- Seek and receive regular updates from the government on the implementation process.
- Obtain regular update on all external financing received from donors towards for MDG's
- Monitor projects, especially the funded ones and possibly collaborate with NGO's on this.
- Raise public awareness about MDG's especially before the September 2005 Millennium Summit.
- Consider ways of speeding up the procurement process so that the backlog can be dealt with.

Worldwide Networking-

Parliamentarians can collaborate with other parliamentarians to promote monitor implementation and influence increased resource allocation especially the 0.7% (of Gross National Product) promised by developed countries. This can be collectively, for instance though:

The Parliamentary Network of the World Bank (PNoWB)-

Consisting of developed and developing countries, PNoWB formed the Parliamentarians' Implementation Watch (PIW) of the **Parliamentary Network of the World Bank (PNOWB)**.which aims to:

- Help translate commitments into real action on the ground benefiting the poor;
- Assess the role, and increase the accountability, of governments and multilateral organizations such as the World Bank, the regional development banks, the IMF, and the UN.
- Connect parliamentarians with other parliamentary organizations, civil society organizations, multilateral organizations, bilateral donors, the private sector and the media to promote common interests in coordinated ways.
- Build a knowledge base and boost parliamentary capacity, by collecting and sharing research and success stories from all over the world on how parliamentarians can advance the fight against poverty in concrete ways.

PNOWB-East Africa Chapter

Formed in 2003 in Nairobi Kenya. The inaugural meeting brought together some parliamentarians from 11 African countries with representatives from the World Bank and IMF as well as civil society organizations. Its intention is to:

- deepen East African parliamentarians' understanding of the Poverty Reduction Strategies and the Millennium Development Goals;
- facilitate relations between East African parliamentarians and the World Bank and other multilateral organizations;
- encourage and mobilize East African parliamentarians to take concrete action

Eight members of Parliament from Kenya are Member of the East African Chapter.

Direct support from richer countries, in the form of aid, trade, debt relief and investment is to be provided to help developing countries. The rest of this paper will examine two issues that impact upon the goals namely: International financing and trade relations.

INTERNATIONAL FINANCIAL INSTITUTIONS, THE PROBLEMS OF DEBT & ACHIEVING THE MILLENNIUM DEVELOPMENT GOALS

Goal eight of the millennium development goals states that global partnerships are to be forged so that countries can achieve the other seven goals. This is a commitment on more effective aid, more sustainable debt relief and fairer trade rules. This was one of the issues tackled at the Financing for Development Conference at Monterrey in 2001 when developed countries proposed funds to the tune of 0.75 of their Gross Domestic Product to be channeled as Overseas Development Assistance.

The two largest and most influential International Financial Institutions (IFI's are the International Monetary Fund (IMF) and the World Bank Group. Both institutions (the 'Bretton Woods Institutions) were founded at the Bretton Woods Conference in 1944. Other, less well known IFI's include the African Development Bank and the Asian Development Bank.

International Aid

Loans granted to countries are often accompanied with multiple conditions: Over the years allocation of loans has been used as a lever to impose policies that give the G7 greater access to developing country markets.

How aid is given, when, the amount and conditions determine its effectiveness.

Types of conditionalities

Good Governance – Governance has been framed as a technical issue to justify the Bank's involvement. This includes the manner in which power is exercised in the management of a country's economic and social resources. The dimensions include:

- Voice and accountability (civil liberties, political stability),
- Government effectiveness (quality of policy making, public service delivery),
- Rule of law, protection of property rights,
- Lack of regulatory burden,
- Independence of the judiciary and control of corruption.

Economic Policies

IMF and the World Bank have been imposing free market policies on the poorest countries as trade liberalization has been a key element of IMF supported programmes for the last 20 years.

Structural Adjustment Programmes (SAP)
Cost cutting measures were imposed on health and education resulting in greater inequalities within countries and marginalization.

PRSP conditionalities.

More recently, countries have been required to prepare and implement Poverty Reduction Strategy Papers (PRSP) which still gives the IMF and World Bank dominant influence and veto powers. Conditions imposed include:

- Privatisation of public utilities
- Removal of subsidies
- Import liberalization
- Export promotion
- Investment deregulation
- Reduced spending on the civil service

Some of these requirements undermine the negotiating positions in the World Trade Organisation.

Quality of Official Development Assistance
ODA often has strings attached such as:

- Technical assistance & emergency aid rather than investments and long- term institutional support.
- Tied to contractors from donor countries.
- Driven by donor objectives rather than support of a national plan.
- Directed to some countries for geo-political reasons.

Parliaments' capacity to influence international financial institutions.

Parliaments in loan recipient countries have typically had little involvement in negotiating loans. However for some countries, Parliamentary approval is critical to implementation. Especially when new legislation is required. They can be more proactive in the consultative process by:

- Scrutinizing the government's implementation process closely and constantly.
- Enacting legislation ensuring that information on loan agreements is made public.
- Creating mechanisms to ensure greater participation of parliamentarians and civil society in monitoring of programs.
- Making the Millennium Development Goals part of their debates
- Making their views known on loans conditions they consider not in the interest of the country.

In a few cases, national parliaments have refused to abide by the terms of loan agreements forcing countries to break their promises to lending institutions. [1]

Parliaments in Creditor countries Overseeing Lending Institutions
International financial institutions are made up of members from developed and developing countries. Their work is thus directly/ indirectly influenced by national countries. Some parliamentarians and Parliamentary Committees in creditor countries have influenced lending and policy

Parliaments; in the south can form alliances with Parliamentarians in the north that have an interest and then lobby for:

- Members of the House of Commons, Congress, the Bundestag and the French Parliament, who have a concern for the developing world can be identified and lobbied to influence their governments to exercise economic justice in their lending terms and the application of fair trade terms.
    - Work with the United Kingdom's Commission for Africa and the proposed New Marshall Pan

Debt relief is more efficient than aid as a way for donors to help poor countries reach the Goals as it provides more flexible funding, targets countries in need and provides budget support that can be applied to national priorities, since it is not tied to donor demands.

Types of debt

Multilateral Debt is money owed to international financial organisations such as the IMF and World Bank, as well as regional development banks. Over 50% of Kenya's external debt is multilateral.

[1] In 1998 the Turkish Parliament forced the government to breach a loan that required the non-increase of wages of public sector workers.

The Indonesian government was pressurized by parliament to break free from its IMF obligation in 2003 a fter a decree g iven i ssued in 2 003 requiring i t not to extend its current IMF programs.

Bilateral Debt is money owed to individual governments some of meet in two groups: **the Paris Club** (US, Japan and European countries) and the **non-Paris Club** group (Asia and Eastern Europe). Kenya has so far received Sh6.1 billion (£42). 60% of Kenya's loans are bilateral.

Commercial Debt is money owed to international commercial banks like Citibank. Commercial loans account for less than 1% of Kenya's debt.

Debt has adverse effects on many African economies especially when debt repayment is given priority over other development issues. Some of the consequences include:

- Slow economic growth
- In ability to implement fiscal policies that are incentive to increased domestic savings and investment.
- Reduction in social and physical infrastructure investment resulting in:
- Increased poverty levels
- Decreased funding on health and education.

Heavily indebted countries have conditions they must fulfill such as budget ceilings and privatisation.

Dependency Syndrome

Government borrowing puts countries at the mercy of the creditor as they seek to fulfill their obligations and defined conditional ties defined by the lender. Ultimately a country may end up paying more than it received.

Many developing countries are saddled with debt so high that paying off just the annual interest costs more than what is spent on health care and education combined. What's more, much of those debts were run up decades ago by regimes that did not use the funds for the country's benefit.

Servicing debt

This is key fiscal priority of many countries leading to a reduction in investment in physical and social infrastructure. Debt repayment accounts for 40% of the budget yet the country continues to accrue debts to finance development and a portion of the recurrent budget.

Continuous budget deficits indicate that the country is living beyond its means.

AFRICA

- Africa spends about US **$15 billion** a year on debt repayments but gets only **$12.7** billion in aid.
- For every **$1** developing countries receive in grants, they pay **$13 in interest on debt.**
- Africa's total debt stands at **$300 billion.**
- Sub-Sahara Africa external debt was $185 billion in 2003.
- All developing countries (including sub-Saharan Africa) pay **$1 billion per day in interest on debt.**

KENYA

For the 30 years, Kenya has experienced an increase in debt growth.

Between 2003- 2004 total public debt rose from Ksh. 628 billion to Ksh. 752 billion

At the end of 2004 the amount owing to external lenders was Ksh 449.93 (over US$5 billion) while domestic lenders were owed KSh.302.55.

Interest repayment for external payments by the end of 2004 was KS 1.61 billion (1.60% of total revenue.

By November 2004 external debt was 59.77% of total debt and 36.94% of the GDP. The amount spent on debt servicing in 2004 was estimated to be more than the total allocation to the Ministry of Education and 15 times the amount allocated to the Ministry of Agriculture.

Debt Servicing
Between 1997-2001- Ksh 490 billion (US$6.2) was spent on debt repayments. This was 52% of government revenue. Debt is often repaid using foreign currency which is subject to fluctuation.

In 2003 Ksh 114.7 billion needed to repay domestic and foreign debt

Budget Deficit
In 2003 the projected budget deficit was projected at Ksh 117 billion in 2004, this grew to 158 billion. According to the Minister for finance, an estimated Ksh.20 billion

Parliaments and debt.

Normally, parliament has no role in the debt accrual process but government has to seek its approval on expenditure. In a few cases, national parliaments have refused to abide by the terms of loan agreements forcing countries to break their promises to lending institutions. [2] They can be more proactive in the consultative process by exercising their monitoring and legislative roles in the debt contraction process to ensure transparency in the process and that the money borrowed is put to the intended use. Oversight functions can be utilized to enhance political accountability and monitor the borrowing and spending processes by:

- Revising national constitutions and legislation to make the Executive more accountable[3].
- Ensuring increased information disclosure and possible involvement in the loan contraction process from creditor countries and multilateral institutions. This can be done through Parliamentary Committees or on the floor of the House.
- Ensuring that loans are used for productive investments through regular reporting.
- Ensure increased information disclosure and possible involvement in the loan contraction process from creditor countries and multilateral institutions.
- Regular reporting and scrutiny of Executive actions can enhance accountability concerning debt and repayment. This can be done through Parliamentary Committees or on the floor of the House.
- Creating mechanisms to ensure greater participation of parliamentarians and civil society in monitoring of programs

Forming inter-parliamentary networks to enable:
- To mobilize potential allies in legislatures in developed countries (the House of Commons, US Congress, the Bundestag and the French Parliament).
- Lobbying for debt relief.

[2] In 1998 the Turkish Parliament forced the government to breach a loan that required the non-increase of wages of public sector workers.
The Indonesian government was pressurized by parliament to break free from its IMF obligation in 2003 after a decree given issued in 2003 requiring it not to extend its current IMF programs.

[3] The External Loans Act Cap 422 requires the Minister of Finance to provide information to the National Assembly after a loan has been arranged. There is a ceiling of 650 million pounds (Kenyan) for which Parliamentary must be sought but this rarely happens.

- Follow up on the UK's proposed "New Marshall Plan" for Africa that was unveiled on 11 March 2005 in the Report
- for the Commission for Africa.[4]

Conclusion

Debt arrangements need to be aligned to the goal of achieving the MDG targets. Relief is more efficient than aid as a way for donors to help poor countries reach the Goals as it provides more flexible funding, targets countries in need and provides budget support that can be applied to national priorities, since it is not tied to donor demands. However, relief needs to be based on human development needs and not arbitrary economic ratios that do not take into account the needs of the poor.

It will take full debt cancellation, as well as increased aid and fairer trade for low income countries to meet the internationally agreed targets, the Millennium Development Goals-Development Agencies

With Kenya's debt burden, it may be difficult to meet the MDG goals without debt relief; increased grants would help meet the MDG's but not increased loans.

International Trading Mechanisms

The Millennium Goals represent a global partnership for development. The deal makes clear that it is the primary responsibility of poor countries to work towards achieving the first seven Goals. They must do their part to ensure greater accountability to citizens and efficient use of resources availed for this purpose. Before 2015, it is absolutely critical that **fairer trade** rules-are developed. The main trading mechanisms in the world are under the auspices of the World Trade Organisation whose current membership is 148.

[4] Some of the proposals include: Commitment to a timetable for giving 0.7% of annual income to aid.
More aid given inform of grants and not loans
100% debt cancellation for poor countries and end of relief by 2015.
An end to export subsidies by 2010.

WORLD TRADE ORGANISATION*

WTO regulates international trade through negotiated rules. Formed in 1995, it is the successor to the General Agreement on Tariffs and Trade (GATT) which began operations after the end of the Second Word War. While rules have been defined, over the years, global corporations have influenced developed countries to for trade policies that suit them.

NEGOTIATION OF RULES

WTO rules cover not only the traditional items of trade such as agricultural and non-agricultural goods but also service, intellectual property, Sanitary and phytosanitary rules and technical barriers to trade.

In addition developed countries are keen to add issues such as transparency in government procurement, trade facilitation, competition policy and investment. This is opposed by developing countries and was partly the reason for the failure of the Cancun talks in 2001.

Negotiation of new rules is conducted through rounds after which countries are required to accept the rules as a single undertaking.

Tariff reductions operate on the basis of reciprocal; (largely bilateral) deals struck between the major trading countries, which are then extended outward via the Most-Favoured Nation (MFN) principle.

Developing and least developing countries have special and differential treatment for developing and least developing countries.

CONSENSUS DECISION-MAKING

WTO decision-making is based on **one equal vote for each member and universal participation of all members in all meetings.**

Decisions are taken by consensus, which is reached when "**no Member, present at the meeting when the decision is taken, formally objects to the proposed decision.**" In practice it is difficult for developing country Members to resist a consensus pushed by countries with greater economic power and higher stakes in the decision, particularly if they fear that they may lose more than they gain by making any one particular stand

* See the Annexure

If consensus should fail various rules of One-Member-One-Vote (OMOV) majority voting can be invoked. Voting has been and continues to be avoided in the WTO, and indeed has never taken place.

THE GREEN ROOM PROCESS

While the formal rules are relatively transparent, the informal ones are not and have not .emerged through the express consent of the member. They govern day-to-day decision-making.

Negotiations typically begin with the core group of "Quad" countries (Canada, the EC, Japan and the US), and would then, through the "Green Room" process, seek to accommodate the interests of mid-sized developed and the largest developing countries. The process has resulted in discontent among countries that have been excluded. Their crucial concern was representation in policy-making processes

DEVELOPING COUNTRIES & NEGOTIATIONS

Since the establishment of the WTO, participation of developing countries in negotiation meetings has changed from one that occurred under a veil of ignorance, uncertainty about their specific interests and inexperience to more informed and proactive participation.

- **During the Uruguay Round** (1986-1995) - developed countries fielded their economic and political might and the others hardly had any bargaining power thus, consensus was easily obtained using the carrot or the stick.

- **Seattle 1999-** African countries together with other developing countries blocked the launch of a new round of trade negotiations on the grounds (amongst others) that the continent had not reaped the benefits of the Uruguay round.

- **At Singapore** developed countries managed to introduce new issues which are still contentious and opposed by developing. Countries publicly registered their frustration at being excluded from the decision-making process.

- **In Doha** in 2001, twenty one subjects were outlined for negotiation; there has not been much progress as developing countries felt they had been short-changed.

- **In Cancun** in 2003, developing countries demanded that demanding that developed countries eliminate government subsidies for agricultural exporters (who flooded world markets with cheap produce).The talks failed as trade ministries (particularly throughout Africa), had intensified their bilateral and multilateral links with one another over the last few years, forging improved communication and networking in the face of intense political pressure from rich countries.

PARLIAMENTARY PARTICIPATION

Often, the role of Parliament seems to be purely legislative and oversight. The Executive draws up the policy, it negotiates and enters into trade agreements with little or no consultation and the Legislature is left to do is to ratify and domesticate treaties.

There is currently relatively little parliamentary scrutiny of WTO matters, including the preparation of negotiating positions. However this is slowly changing and parliamentary presence is being felt in international forums. **The failure of the Cancun ministerial meeting has been partly attributed to the participation of Members of Parliament.** Developing countries brought large numbers of parliamentarians and key policy experts from their NGOs along with them as members of their official country delegations and they proved invaluable in the process. As one Kenyan MP stated, "Parliamentarians were able to negotiate common positions in the region as representatives of policy makers' forum."*

WHAT CAN PARLIAMENTS DO?

Parliamentarians can do more to promote equitable international trade negotiations by:

√ Challenging their governments to make trade negotiations more transparent and consultative.

√ Seek regular briefs on on-going negotiations at the WTO headquarters in Geneva.

√ Holding their governments accountable for international commitments. This can be done through pre and post negotiations forums by the relevant parliamentary committees.

√ Holding joint parliamentary committee sessions with Committees between countries dealing with different trade issues.

* Hon. J.M. Mutiso writing in The Parliamentarian

√ Encouraging different ministries engaged in trade related matters (Agriculture, Trade, Health) are talking and have coherence of purpose.

√ Require that all new trade agreements must be consistent with the Millennium Development Goals.

√ Finding ways of participating in negotiations on agricultural policies aimed at removing export production subsidies given by developed countries.

√ Spurring public debate on trade-related issues (on how trade barriers affect poverty alleviation efforts in developing countries).

√ Collaborating with civil society groups offering research findings and policy analysis on how o achieve equitable trade.

√ Seeking, receiving and analysis reliable data from research institutes and civil society on possible impact of trade commitments particularly the new "Singapore issues.

√ Reviewing treaties and legislation that are barriers to regional trade.

√ With the Hong Kong Ministerial conference due in December this year, they can engage in pre –conference meetings with the Executive and civil society Organisations.

√ Raise public awareness about the country's expectations for the current negotiations thereby raising the level of national debate.

EXTERNAL NETWORKS

Parliaments can collaborate with relevant multilateral organizations focusing on trade by:

√ Exchanging ideas and experiences across borders with other parliaments.

√ Defining ways of assisting the East African countries arrive at common positions so that they may negotiate as a bloc in the international arena. Identify the adverse effects of trade and strategize for appropriate action.

√ Participating in the discussion forums offered by organizations such as the United Nations Conference on Trade and Development (UNCTAD) and International Centre on Trade and Sustainable Development.

√ Strategize with others on how to overcome negotiation stumbling blocks.

Actively participate in Committees or forums dealing in trade created by; The Parliamentary Network on the World Bank

(PNoWB Parliamentarians' Implementation Watch), the Commonwealth Parliamentary Association and the IPU. .

Participation in proposed annual l meeting of parliamentarians to increase awareness of members' trade policies (a European Commission initiative)

PARTICIPATION IN THE REFORM AGENDA

There are still many options for reform of the WTO negotiation process that could be enhanced with parliamentary participation such as: Improved external transparency of the WTO to ensure and that decision taken reflect the widest possible range of affected interests and increased national parliamentary scrutiny of WTO policy-making.

CONCLUSION

Attainment of all the other seven goals is dependent on countries sourcing resources to fund the MDG targets. One way this can be done is through revenue obtained from exports. All new trade agreements must be consistent with the Millennium Development Goals.

For as long as countries are required to trade in a system skewed towards developed countries,

they will continue to experience budget deficits and will have to rely on donor aid to fulfill the goals.

> *The constant need to borrow in order to service our debt, the constant need to service our debt in order to borrow-we can no longer get out of this vicious circle. Is human development a possibility when so much of Africa's wealth is channelled into debt servicing?" Julius Nyerere*

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