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THE ROLE OF PARLIAMENTS IN ESTABLISHING INNOVATIVE INTERNATIONAL FINANCING AND TRADING MECHANISMS TO ADDRESS THE PROBLEM OF DEBT AND ACHIEVE THE MILLENNIUM DEVELOPMENT GOALS

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The report consists of two separate sections:

- ***Section A** contains the contribution by Mr. O. Martínez (Cuba)*
- ***Section B** contains the contribution by Mr. R. del Picchia (France)*

SECTION A (contribution by Mr. O. Martínez)

Introduction

The last two decades have witnessed a sharpening of foreign debt-related issues as a result of the implementation of neoliberal economic policies.

The debt relief proposals advanced by the creditor countries since the 1980s were just mild palliatives for one of the most serious problems affecting 85 per cent of mankind.

Reality brings us extremely crude figures. In 2003, the developed economies – with only 15.4 per cent of the world's population – accounted for 55.5 per cent of the global gross domestic product (GDP) and 74.6 per cent of international trade.

The underdeveloped[1] countries – home to 84.6 per cent of the world's population – accounted for 44.5 per cent of the global GDP and 25.4 per cent of international trade.

The underdeveloped countries' external debt stood at $2.6 trillion, according to 2003 figures.

[1] These figures include the former socialist countries of Central and Eastern Europe and the Commonwealth of Independent States.

In order to promote effective measures in the solution of this very serious problem, the role of parliaments must combine a detailed analysis of its causes, the different alternatives applied to try to find a solution and the current status of this phenomenon.

The origins of the debt

By the mid-1980s, the external debt in the underdeveloped countries had already become economically unbearable. They have been trapped in the never-ending effort to pay interest, which forces them to divert even most of the meager funds they have allocated to health, education and food security, thus making real economic development an unreachable goal.

The Third World external debt in figures

By 2003 the external debt grew even more, reaching $2.6 trillion,[2] and the debt service stood at the astronomical level of $436 billion. If we take into consideration that the Third World debt was around $50 billion in 1968, it can be easily concluded that in 35 years the debt rose 50-fold.

The external debt has not only grown; its regional distribution has also changed. Several factors have influenced the new trends in the size of the debt by regions, including the financial instability of emerging markets, the deteriorating social and economic situation in Africa, and the appeal that regions like Eastern Europe, the Middle East and Asia hold for foreign investment.

The regional distribution of the external debt in 2003 was as follows: Africa 10.4 per cent, Asia 26.3 per cent, the Middle East 11.6 per cent, Eastern Europe 15.2 per cent, the Commonwealth of Independent States 8.3 per cent and Latin America 28.2 per cent.

Figures released recently by the International Monetary Fund (IMF) can help to illustrate the situation better. In the period from 1990 to 2003 alone, the underdeveloped countries paid $4.1 trillion in debt service, i.e., an average of $296 billion per year.

From 1982 to 2003, the underdeveloped countries paid $5.4 trillion in debt service, which means that the current external debt of the underdeveloped world has been repaid twice.

Based on the fact that official development assistance (ODA) has been dwindling in past years (in 2002 it was $58.3 billion), it can be stated that the countries of the South have paid the North five times more in debt service than what they have received as “aid”.

The problems resulting from the external debt situation are also a discouragement for foreign investment. A high level of indebtedness is something that the international financing sources take as a sign of potential risk for investments. Consequently – and apart from the human side of the issue – the countries that are both indebted and impoverished are either denied the resources that are indispensable, shut out of the international financial markets or charged high interest rates on their loans. The United Nations Development Programme (UNDP) has estimated that in the 1980s the interest rates charged to poor countries were four

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[2] This includes the debt of the following regions: Africa, Asia, Middle East, Eastern Europe, the Commonwealth of Independent States and Latin America.

times higher than those for the rich nations, as a result of risk assessments made by financial agencies or expectations about potential currency devaluations.

Since the beginning of the debt crisis, World Bank and IMF loans have been conditioned to the implementation of a drastic program of economic "liberalisation".

This set of monetary, fiscal, economic and commercial reforms came to be known as "structural adjustment programmes".

Although there are differences among countries, the main policies include: less involvement of the national State in economic issues, a lowering of import tariffs, the elimination of restrictions on foreign investment, tax increases, eliminating subsidies for basic food products and the national industries, salary cuts, currency devaluation and a greater emphasis on export-oriented production to the detriment of production for local consumption.

"Liberalisation" means liberating the economy from government control, on the presumption that by themselves the free forces of the deregulated market can bring about growth, and that will benefit all somehow, through various channels.

The United Nations Children's Fund (UNICEF) regularly reports that the poor and their children are bearing the cost of the structural adjustment programmes in a disproportionate way. The impoverished nations are required to demonstrate austerity in social spending and internal policies to prove their "fiscal responsibility". This translates into cuts in social services for the poor, the elimination of consumption subsidies for food commodities and public transportation, schools without teachers or study materials, and hospitals without nurses and medicines. Former president Julius Nyerere of the United Republic of Tanzania rightfully challenged this system, asking "Should we let our children starve to death just to pay the debt?"

Some external debt relief proposals

In September 1996, a group of world leaders launched an initiative to reduce the debt of the most indebted poor nations.

Many attempts to relieve and even cancel the debt can be found in the history of the external debt prior to 1996.

In 1953, Germany negotiated the 1953 London Agreement, under which its debt with the United Kingdom and other creditors was rescheduled. In addition to cancelling nearly 80 per cent of its war debt, this agreement allowed Germany to use only 3 to 5 per cent of its export income to pay the remaining external debt. Nowadays, the most indebted poor countries are required to devote 20 to 25 per cent and even more of their income to service the debt.

The antecedents in the field of debt cancellation are not only prodigal compared to the initiative for the most indebted poor countries, but also are of a clearly political nature.

Other examples reveal that by the late 1980s the creditor countries cancelled about 50 per cent of Poland's debt when socialism began to collapse in Europe.

In 1991, the United States wrote off $7 billion of Egypt's debt in appreciation of its support during the Gulf War.

Another example is the so-called Baker Plan, launched by the United States in 1985. This provided for an increase in the combined financial support from private and official sources; it explicitly acknowledged the need for the growth of the debtor countries' economies, but insisted on neoliberal reforms such as the privatisation of the state sector and the liberalisation of foreign investment.

The Baker Plan was considered a belated, scant initiative in view of its meager $29 billion contribution ($20 billion from private banks and $9 billion from the World Bank) in a context of increasing economic deterioration and sharpening of the crisis in the Third World.

Of the 15 underdeveloped countries chosen to be part of the plan, 10 were in Latin America (Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, Uruguay and Venezuela). However, according to estimates by the Latin American Economic System (SELA), the $8 to 9 billion per year that the countries of the region were to receive under the Baker Plan would not even be sufficient to pay one fourth of their external debt interest. (Latin America paid $28,530 million in 1985 and $27,706 million on average between 1980 and 1990 for interest on its debt) The Plan was a failure, as the credits from private banks were in fact reduced.

After the Baker Plan came an avalanche of formulas from creditors. The seriousness of the debt issue, the debt repayment moratoriums and payment suspensions declared by some Latin American countries, the depreciation of the debt value in the secondary market and the failure of several initiatives taken by the debtor countries to address the problem led to a strengthening of the creditors' positions.

On the one hand, they reduced considerably their exposure in the region. This was especially true for United States banks, which had a more compromised situation. At the beginning of the 1982 crisis, the commitments of United States banks in the region amounted to 124 per cent of their primary capital, a figure that fell to 38.9 per cent by 1989.

On the other hand, early in the crisis, creditor banks began to increase their reserves for bad debts. The major banks have reserves for 40 to 100 per cent of the loans granted. This is an important element, as it can show the private banks' reluctance to renew credits to debtor countries, even more so as in 1993 new regulations of the Bank for International Settlements entered into force whereby all banks had to increase their capital-to-loan ratio to at least 8 per cent.

All this promoted the search for ways to achieve partial payment through the so-called Menu Approach, which includes options like debt-for-ownership, bonds or investment rights swaps, and buybacks by debtors. The menu, the development of the secondary debt market and the writing off of some of the debt are more directly linked to the trend to strengthen the capital basis of the banks, diversify their portfolios and enhance their ability to sustain losses than to the potential acceptance of the need to promote the economic development of the Latin American countries.

The Brady Plan, launched in March 1989, was the response of the United States to the economic deterioration and the political and social instability that resulted from eight years of a crisis that had no prospective solution. It was an implicit recognition of the fact that it was impossible to pay off the debt, as it stressed the need to reduce the absolute amounts owed by 39 selected countries.

The strategy of the United States had several key elements: the continuation of structural adjustments in the debtor countries; 20 to 30 per cent discounts; reduction of the debt with private banks (no amount was specified); guarantees for the principal in multilateral institutions; and a three-year waiver of bank clauses that would prevent debt reduction operations. It also pointed to the need for flexible and timely financing for debtors, again without setting a specific figure.

Although it is still in place, the plan is now practically exhausted, as it clashes with the banks' intentions to reduce drastically future credits to debtor countries. Therefore, potential allocation of resources to support debt relief operations is unlikely.

By the late 1980s, the situation became unbearable for many debtors. They were forced individually to declare debt repayment moratoriums and temporary suspensions of payments and to resort to buybacks at reduced values. Also, new alternatives were commonly applied, such as the repayment of part of the debt through debt-commodity or debt-for-nature swaps.

This change varied among countries. Some governments proposed to limit the debt service to levels that matched growth, as in the cases of Peru (10 per cent of its export income) and Brazil (2.5 per cent of the GDP).

There were also failed attempts to circumvent the IMF terms and reach agreements directly with creditors (Peru, Brazil, Venezuela). Heterodox policies, such as the Austral Plan and the Plan Cruzado, were a temporary detachment from the kind of adjustment demanded by the IMF; they made the payment of debt servicing subordinate to domestic priorities.

The SELA Secretariat drafted a programme that proposed to reduce interest on the debt registered at the time by some 75 per cent; to reduce the total capital of the debt by 75 per cent; and to reduce the debt principal and combined interests to such levels, so as to obtain the same results on transfers.

Creditors have also eased certain terms during each of the renegotiation rounds. The Toronto terms adopted in 1988 are applied to low-income countries. They provide for the possibility to cancel one third of the non-concessional debt, as well as the long-term rescheduling of concessional loans.

New conditions were later adopted that enhanced the concessional terms, but ignored the situation of the middle-income countries. Debt relief formulas have focused on the countries considered to be the poorest, but these only account for 9 per cent of the underdeveloped world's external debt.

However, for the middle-income countries – which account for 85 per cent of the underdeveloped world's external debt – the only measure was one in line with the 1990 Houston terms. Those terms do not provide for cancellations of any kind, only for swap operations. The terms requested in 1994, known as the Naples Terms, included the reduction of the accrued debt as a new proposal.

The debt has continued to grow rapidly under the new renegotiations that bring about new commitments.

In fact, the part of the external debt of the heavily indebted poor countries which cannot be rescheduled is continuing its upward trend, and falls outside the traditional rescheduling framework.

The sustained levels of the debt-export ratio in the period from 1991 to 1999, coupled with a relative decline in the interest payment-export ratio, has led the creditors to assert that the debt issue has been solved.

Nonetheless, it should be noted that the potential decline in interest payments has been mainly due not to a substantial reduction of the old debt, but to a lowering of interest rates.

To pay the debt service, debtor countries have been forced to release from their domestic savings and even from their foreign savings (which have also declined) funds which would have otherwise been devoted to foster investments. A cut in imports has generated a foreign currency surplus that has been channeled for such purposes. Consequently, the underdeveloped countries continue to be net exporters of capital.

The external debt problem is still far from abating; it has in fact worsened in the past few years as a result of a lack of economic dynamism, the decline in capital investments, inflation, unemployment and a further deterioration of living standards.

The Heavily Indebted Poor Countries (HIPC) Initiative

This initiative led to strong debate about its real scope and the potentials of the selected countries. When launched, the initiative for the most heavily indebted poor countries was received with caution, as it was the first initiative from the G-7 to include multilateral creditors. However, its flaws were soon obvious, in terms of both implementation and design.

By the end of 1996, the total external debt of the 42 poor countries classified as the most heavily indebted nations amounted to $245 billion. As a group, the debt burden of these countries is still critical: the debt-export ratio is over 300 per cent, well above the 200 per cent considered as the limit for a manageable debt. For them, most of the debt is public debt, 80 per cent of it is government-guaranteed. The marginal total of the private debt and bonds is a reflection of the constraints faced by the public sector in securing loans. Of the long-term debt, 30 per cent is with multilateral institutions, 54 per cent with bilateral entities and 16 per cent with private creditors.

In about one third of these countries the public debt exceeds annual GDP. In Nicaragua, Sao Tome, Guinea-Bissau, Guyana, Mozambique and the Republic of the Congo, the public debt is many times the annual GDP. Those countries also have low levels of human development. A child born in any of these countries has 30 per cent less chance to reach the first year than the average figure in developed nations, and a mother is three times more likely to die in childbirth.

In September 1996, the IMF and the World Bank agreed to implement the Heavily Indebted Poor Countries Initiative. Its main goal was to have the 42 eligible countries achieve a sustainable debt level in six years, and to offer them a way out from the rescheduling process.

All but eight of the selected countries are from sub-Saharan Africa. In real terms, only 9 per cent of the underdeveloped countries are covered by this formula. These countries contribute just 5 per cent of all exports from the underdeveloped world, and produce only 3 per cent of the Third World's GDP.

Their situation is truly dramatic. Every year, several African countries spend four times more funds on debt service than on their citizens' health and education. It is now estimated that for each dollar received as ODA, three return to the rich countries as debt service payments.

The requirements to qualify for this debt-relief initiative are:

- The country's per capita income should be less than $400;
- The country must demonstrate that it has made strong progress under the adjustment programmes, which in each case are designed by the IMF;
- The country must have passed all the previous debt relief alternatives to achieve a sustainable debt level. These debt relief alternatives are described above.[3]

The Heavily Indebted Poor Countries Initiative has not performed well. In September 2003, debt reduction plans had been approved for 27 countries, 23 of which were in Africa. This represented a debt relief amounting to $51 billion for the period from 1998 to 2004.

That reduction took place at a crucial stage of the economic and social crisis in these countries. The reduction is totally insufficient, as the African continent will have paid a total of $219 billion, or an average of $28 billion per year, for debt interest service during that period.

Obviously, any debt relief is a respite for these countries, given their difficult situations. However, it is intolerable that the international financial institutions fail to write off the debt of countries that are nearly disappearing from the face of the Earth as a result of the very severe conditions which they face.

The period from 1998 to 2004, the debt service of the 27 countries that have received debt relief should decline by more than 50 per cent of their exports and income. However, if the debt relief effort is to have a real impact on poverty, there should be also programmes and strategies in place for the promotion of health care, employment creation and the diversification of income sources. Allocating funds for the poor sector is not enough. Before and after the launching of the Heavily Indebted Poor Countries Initiative, poor developing countries that qualified for the project spent and still spend on average more on debt service than on health and education combined.

The funds allocated for health and education may have slightly increased in some countries as a result of the reduction. It should be noted, however, that among the 27 countries that have received debt relief are 23 African nations – some strongly affected by HIV/AIDS and other diseases – in need of a substantial increase in health spending, which is yet to come.

Most of the African countries under this initiative are suffering dramatically from famine or conflicts, and therefore require new, large loans for their development. This will create a new debt, even as the old debt is reduced.

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3 S. Claessens et.al., *Analytical aspects of the debt problem of highly indebted poor countries,* in Z. Iqbal and R. Kanbur, eds, *External Finance for Low-Income Countries*, IMF, Washington DC, 1997, p. 29.

An analysis of the situation in some of the countries allegedly with the best performance under this initiative shows that the debt is not decreasing, but is in fact growing. Such is the case in Bolivia.

According to statistics released by Bolivia's Central Bank, the debt in December 2003 was $5,041 million, the highest ever. A newsletter issued by the bank explains that although the debt decreased between 1995 and 2002 as a result of the reductions proposed by the Initiative, that trend was reversed in 2003 by a 33 per cent increase in disbursements. Also in 2002, the country received credits totalling $893 million, and its debt consequently grew by some 17 per cent.

Ninety percent of Bolivia's debt is with international bodies like the Andean Development Corporation (ADC), the Inter-American Development Bank (IDB), the IMF and the World Bank. Bolivia is also a debtor to Japan, Spain, Brazil and France.

In 1999 the country paid $249 million in debt service. That figure rose to $268 million in 2000, while it stood at $248 million in 2001 and $253.4 million in 2002.

Another interesting case is Honduras, the third poorest country in Latin America and the Caribbean after Haiti and Nicaragua. Its external debt amounts to $4,650 million. However, after 2005, it can only benefit from debt relief and debt forgiveness totalling $960 million under the terms of the Heavily Indebted Poor Countries Initiative.

Why underdeveloped countries cannot pay the debt

The debt and international trade

Most of the export income of the underdeveloped countries is devoted to servicing the external debt.

In terms of trade marginalisation, it should be noted that the underdeveloped countries' share in global exports declined from 35.6 per cent to 26.1 per cent between 1953 and 2002. The share of the South in world agricultural commodity exports – which are vital for most of these countries – fell from 40 per cent in 1961 to 35 per cent in 2001.

This is a reflection of both the downward trend of export prices – with the resulting worsening of the terms of trade – and of the increasing protectionist policies of the industrialised countries.

Regarding export prices, the trade ratio of the underdeveloped countries – except for oil and manufactured goods – has fallen by over 20 per cent since 1980. For Africa, the decline was over 25 per cent.

Trade barriers prevent developing countries from acceding to industrialised countries' markets. This perpetuates the payment of the external debt service.

A reduction in the protectionist policies in agriculture alone would account for around 60 per cent of the benefits that would result from a full liberalisation of the world commodity trade. While agriculture is crucial in development, as 70 per cent of the world's poor live in rural areas and live off agriculture, it was nearly excluded from the trade agreements that preceded the Uruguay Round.

In the Organisation for Economic Co-operation and Development (OECD), member countries' subsidies total $330 billion, of which around $250 billion are paid directly to producers. This is what encourages high-cost overproduction in the rich countries and promotes protectionism, thus excluding the potentially more competitive commodities of the poor countries.

The poorest and so-called least developed countries are the most affected by the protectionist practices of the developed world. Exports from those 49 poorest countries face tariffs that are on average 20 per cent higher than for the rest. And for the very few manufactured goods that they export, tariffs are 30 per cent higher.

The protectionist policies of the developed nations cost the countries of the South at least $100 billion every year - twice what they receive as official assistance for development.

Generally speaking, the major global trends in trade are marked by transnational businesses which control most of theses activities and the resulting profits.

It is only natural then that two thirds of the world's trade takes place between companies, i.e., transactions between branches of transnational companies that scatter the production of parts of finished goods around to several countries offering lower costs – mainly wage costs. This kind of captive trade inflates trade statistics in countries where such branches are based, and shows as exports – and sometimes “high technology” exports – growth that is merely a corporate chain operation in which the countries in question have no say.

Current financial trends

The situation in the international financial field is not much different from the one affecting world trade, especially in respect of the progressive displacement of the underdeveloped countries.

These countries, with more than 80 per cent of the world population, hold only 38 per cent of the voting power in the IMF and 39 per cent in the World Bank, while the developed nations control 62 per cent and 61 per cent, respectively. These statistics reveal the huge disproportions underlying the decision-making process in the international monetary and financial field.

ODA has fallen greatly in the last 20 years. While aid disbursements from the Development Assistance Committee increased from $5.9 billion to $60.5 billion from 1964 to 1992, in the period between 1993 and 2002 ODA totalled an average of just $54 billion. In 2003, ODA flows grew slightly, to $68 billion.

In an attempt to obscure that trend, the international financial institutions resorted to counting the debt relieved under the Heavily Indebted Poor Countries Initiative as ODA.

This practice concealed the real drop in the flows of ODA funds. If we look at how ODA performed in 2002 and 2001 ($58 billion in 2002 and $52 billion in 2001), of the increase, some $3 billion are believed to be a result of debt forgiveness, and only $2 billion are in the form of technical assistance, according to World Bank statistics.

This approach is a mechanism to balance funds already released as credits for other activities – like investments or business operations which are not always in the national interest and are considered as external debt – against funds that have historically been allocated as ODA in relatively advantageous terms, and have served the interests of the underdeveloped countries.

Such policies only lead to a worsening of the external debt situation. The decline in ODA must be reversed. The quality of the aid must be enhanced, with an emphasis on poverty eradication and social development. On the other hand, funds must be increased in line with the commitments made by the North at the United Nations. More aid must be given to the poorest countries, especially to build development capacities in poor communities.

Even direct foreign investment (DFI) – considered as the major financial flow to the underdeveloped countries – has dropped considerably in recent years, and continues to be targeted to a small group of recipient countries with greater relative development levels.

The year 2003 was the second consecutive year of DFI decline. DFI totalled only $135 billion, 24 per cent less than in 2001, according to World Bank figures.

Will the Millennium Development Goals be met under these circumstances?

In terms of income poverty and after more than two decades of neoliberalism, over 1.2 billion people – one out of five in the world – “lives” on less than $1 per day. In the 1990s, a total of 54 countries increased their level of poverty.

Specialised sources agree that although the number of people living in absolute poverty may eventually fall by 2005 compared with the 1990 figures, at least 900 million people will continue to live in extreme poverty in the underdeveloped countries.

If we exclude China, the number of people living in extreme poverty in fact increased by 28 million in the 1990s. A similar picture applies to people suffering from hunger.

By the end of 2003, there were 20 million more poor people in Latin America and the Caribbean than in 1997. Some 44 per cent of the Latin American and Caribbean population lives under the poverty line, and 79 per cent of them are under 20 years of age. The number of indigents is almost 100 million, or 19 per cent of the region’s population.

It should also be noted that 60 per cent of the Third World’s poor live in ecologically fragile areas and are therefore trapped in a vicious circle of underdevelopment, poverty and environmental degradation.

On the one hand, poverty is becoming more enrooted, and on the other, income distribution is becoming increasingly unequal.

From a historical perspective, the gap between the rich and the poor has widened significantly. Today, the income of the wealthiest 5 per cent of the world’s population is 114 times higher than that of the poorest 5 per cent.

The income of the 25 million wealthiest people equals that of the 2 billion poorest people in the world.

Among the world's regions, Latin America and the Caribbean hold the inequality record: the wealthiest 20 per cent of the population holds 60 per cent of the total income, while the poorest 20 per cent receive only about 3 per cent.

In these conditions, from 1999 to 2003 the number of people suffering from hunger around the world rose to 842 million, 18 million more than in the period from 1995 to 1997. Of them, 798 million lived in underdeveloped countries, 34 million in Eastern European countries and the nations of the former Soviet Union, and 10 million in industrialised countries, according to statistics from the Food and Agriculture Organization of the United Nations (FAO).

Health indicators are among the ones that have worsened most as a result of the neoliberal boom. More than 10 million children die every year of preventable diseases, i.e., 30,000 per day, 1,250 per hour, nearly 21 per minute. More than half a million women die every year during pregnancy or in childbirth.

In Africa, 35 per cent of children are now more at risk of dying than 10 years ago. Every hour, more than 500 mothers see one of their small children die. In 2003, more than 4 million African children died. Those who survive to adulthood then face mortality rates higher than they were 30 years ago.

During the 1990s, life expectancy fell in 34 countries. For underdeveloped countries, this indicator stands at 64 years (in the poorest countries it is 43 years). In sub-Saharan Africa, life expectancy continues to be only 46 years.

Education indicators have also experienced a significant setback. There are now 876 million illiterate adults. One out of every six adults cannot read.

Around 115 million children of primary education age do not attend school, while 325 million are in the same situation in respect of secondary education.

Unemployment is another social scourge affecting the Third World and the vulnerable sectors in the developed countries. Bringing down unemployment rates is key to achieving poverty reduction. However, in 2003 unemployment remained at record levels around the world, with 185.9 million job-seekers in the world according to statistics from the International Labor Organization (ILO). Among the people most affected by unemployment are those who are between 15 and 24 years old; there are around 88.2 million unemployed people in that age group, or 14.4 per cent of the total.

All the above-mentioned social issues were extensively reviewed during the international debates that led to the adoption of the Millennium Development Goals in 2000. However, they have been exacerbated since, and solutions are not quite in the offing.

For some regions, meeting the Millennium Development Goals in the agreed timeframes remains a monumental challenge. Unless the situation improves, it is estimated that sub-Saharan Africa will not achieve universal primary education until the year 2129; it will not be able to reduce absolute poverty by half until 2147, and to reduce infant mortality rate by one third until 2165.

If current trends prevail, the international mortality rate among children under five years of age will drop by approximately one quarter between 1990 and 2015, which is far from the reduction goal of two thirds.

Sub-Saharan Africa accounts for nearly 70 per cent of all HIV/AIDS cases. However, the epidemic will continue wreaking havoc in other regions too. It is estimated that the situation will worsen in the Russian Federation, India and China, all heavily-populated countries which risk a rapid increase in their HIV-infection rates.

Among the major obstacles to meeting the Millennium Development Goals is the limited access of poor countries to financial resources.

According to World Bank figures, the underdeveloped countries will require some $120 billion per year in basic infrastructure investments until 2010 for the electricity sector alone, and about $49 billion until 2015 in the field of water and sanitation.

Also, United Nations sources have estimated that $40 billion per year will be needed through 2005 to meet the goal of providing basic social services for all in the underdeveloped countries.

The United Nations High-Level Panel of Eminent Persons on Financing for Development (the Zedillo Commission) estimates that achieving the MDGs will require a $50 billion per year increase in foreign aid. This will mean nearly a doubling of ODA from the 23 members of the Development Assistance Committee (DAC) of the OECD.

In sharp contrast to this situation, military spending is very high. In 2004, some $950 billion were spent for military purposes.

The United States has spent $500 billion in the military field, which accounts for 50 per cent of the world total. This means that the United States spends as much as all the other countries combined; it allocates $1,370 million per day to military purposes.

If the developed nations honoured their commitment to devote 0.7 per cent of their GDP to ODA, the underdeveloped countries would receive about $175 billion per year. This exceeds by far the $50 billion they are currently receiving.

The $120 to $125 billion needed to meet the ODA commitment of 0.7 per cent of GDP (to bring the level of ODA to $175 billion) represents just 12 per cent of total world military spending.

Looked at another way, less than 40 per cent of the agricultural subsidies applied by the developed countries would suffice to meet the ODA commitment. Such a reallocation would also promote greater access to markets for the developing countries.

The external debt relief formulas have not resulted in significant progress in terms of a durable solution to the debt issue.

International financial institutions such as the IMF and the World Bank have opted for a two-year extension of the Heavily Indebted Poor Countries Initiative, which is due to expire at the end of 2004. Until the beginning of 2004, only $36 billion of the debt had been written off.

Parliaments and the external debt

National parliaments should work to ensure that the external debt issue is discussed in their democratic framework and that any relevant decision is adopted with the full participation of the people.

To date, renegotiations to reschedule the debt in most cases take place without the national parliaments being consulted.

There should be no further delay in cancelling the debt. Collection of the debt would be an inhuman act given the economic and social deterioration of debtor countries. The debt of countries with an unsustainable situation should be written off.

The external debt issue should be reconsidered with all due urgency. The total or partial payment conditions should be reviewed in a search for solutions that will make it possible to address fully the serious consequences of the adjustment programmes.

Given the seriousness of the crisis in the debtor countries, the lack of flexibility of IMF policies and the conditionality of its adjustment programmes have imposed constant demands on the Third World.

Furthermore, promoting debt relief initiatives is not enough. There should be an effort to promote policies for the mobilisation of large funds to eradicate economic and social inequities, attacking their causes and structural factors. This will provide the countries of the South with the basic conditions to initiate a process of sustainable development.

Not even the latest proposals seem to provide a lasting solution to the problem. Such is the case of the International Finance Facility, put forward by the Government of the United Kingdom. It was presented as a mechanism that would facilitate the disbursement of aid funds under a borrowing plan guaranteed by the States involved, with the aim of doubling the current ODA flows and meeting the MDGs by 2015.

It is estimated that aid will hence increase initially by $15 to 16 billion per year, and later by 4 per cent annually, until it reaches some $50 billion in 2015. However, among the major challenges of this mechanism is that it shifts the repayment burden onto future generations, with no guarantee of returns on investments; also, the funds it offers are too limited.

Parliaments should carefully analyse why the heavily indebted middle-income countries are not included in any of the proposed mechanisms, although they have considerably high debt levels and serious economic and social imbalances.

The strongest criticism against the instruments designed thus far for the solution of the debt is that they are not sufficiently flexible to cope with the volatility of financial markets or the fluctuating prices of the export and import commodities that are crucial to debtor countries. Also, they do not take into consideration the many obstacles to trade that the developing world encounters, nor do they provide for the identification of the legality or legitimacy[4] of the debt.

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[4] Legality and legitimacy are the basis for any claims regarding the external debt issue.

None of the proposed instruments aims at that. In this regard, it is worthwhile to revisit the issue of global military spending and the need to reduce it. This must be done at the same time as funds are mobilised to combat poverty and hunger. Devoting just 5 to 10 per cent of the funds currently spent for military purposes to increasing ODA flows would release $50 to $100 billion.

If comprehensive development is to be achieved, parliaments must launch campaigns to heighten awareness of the need to honour the international development commitments that have already been made, by designing strategies that promote fundamental changes in ODA funds, guarantee access to new technologies, and promote an increase in development financing and the use of clean technologies.

Solving the developing countries' external debt problem may be the way out from the long economic crisis affecting developed and underdeveloped countries alike, and which is far from over.

Therefore, parliaments should work for the elimination of the old and new obstacles to market access (such as tariff and non-tariff barriers), against the enhanced protection of intellectual property rights, and against acts of theft and piracy of indigenous peoples' ancestral knowledge.

They should strengthen the review and analysis of the WTO reforms with a view to promoting a fair, equitable multilateral trade system that is based on non-discriminatory, inclusive and transparent norms and that benefits all countries, especially the countries of the South.

Furthermore, they should contribute to bridging the gap between rich and poor countries in terms of competitiveness, for example by quickly implementing the new financial services which will be further expanded through the revolution in information, communication and technology.

Another issue that parliaments should address is the volatility of capital flows that has characterised the world economy in recent decades and has led to great instability in economic growth. Countries are experiencing significant economic and financial imbalances that prevent economic stability in the face of acute changes in international financial flows.

Also worth revisiting is the issue of taxes on financial transactions. Parliaments should consider proposals such as the one put forward by James Tobin in the 1970s, which called for the establishment of an international tax of 0.1-0.5 per cent on financial transactions not related to trade in goods and services. The implementation of this tax would contribute to exchange rate stability, reduce the influence of financial markets over government monetary and fiscal policies, and yield $100 to $300 billion per year, which may help the development of the poorest countries.

Applying a tax of just 0.01 per cent on all transactions in hard currency would yield $120 million per day, or $30 billion a year.

There is another major, pressing challenge in the external debt issue. Humanitarian institutions have proposed a process of audits on the external debt. The aim is to identify the responsibilities of governments and creditors. If any irregularity is found, it could substantiate claims for compensation.

The audits would involve civil society and could prove that the underdeveloped countries have shifted from being debtors to becoming creditors. The audits of the public external debt in the countries of the South have a legal basis. Every loan should be reviewed carefully, along with the conditions in which it was negotiated, the use given to the funds and the results achieved.

Most of the Third World governments did not apply fiscal reforms and preferred to borrow abroad at fluctuating interest rates. The unilateral increase of interest rates by creditors at the end of the 1970s was illegal, and has in fact meant that several Third World countries have paid back their debts several times over.

We should also call upon the international financial institutions to re-examine carefully the proposal to revalue or sell some of the gold reserves. The current IMF reserves are estimated at 3,271 metric tonnes of gold (103.4 million ounces). These are valued at $51 an ounce, which was the price of gold in 1971, and is much lower than the current market price. The IMF account books show the total value of the reserves is $8.5 billion, while the market value would be $42.2 billion according to estimates made by the Fund itself. In October 2004, an ounce of gold was worth $429. Analysts expect it can rise still more as a result of the weakening of the dollar.

There is an antecedent to revaluation. In 1999, the IMF adjusted the value of 12.9 million ounces of gold – of the 103.4 million it holds – and with the resulting benefits it financed its involvement in the Highly Indebted Poor Countries Initiative.

At present, correcting this imbalance would provide the Fund with resources worth $34 billion which could serve to repay part of the debt of the poorest countries, such as Bolivia, Nicaragua, Honduras, Haiti, Senegal or Madagascar.

It is important that parliaments manage to disseminate and increase awareness about the documents related to the external debt rescheduling process. They should try to specifically identify the positions and arguments of the various governments and work for the unity of the broad social sectors, including the business sector, in the defence and preservation of the domestic markets as a key element for their countries' economic, social and cultural progress.

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SECTION B (contribution by Mr. R. del Picchia)

At the World Summit held at the United Nations in 2000, world leaders adopted the Millennium Declaration along with 8 Goals and performance indicators. In all, 191 Member States of the United Nations pledged to achieve those goals by the year 2015.

Only a few days prior to that event, 148 presiding officers of 140 national parliaments adopted on 1 September 2000 a declaration on the parliamentary vision for international cooperation at the dawn of the third millennium. The declaration proposed in particular that "We must work to create national and international conditions conducive to social development, social integration, the eradication of poverty and the reduction of unemployment".

The report, prepared for Mr. Annan by a group chaired by the former Mexican President, Ernesto Zedillo, noted that at least an extra 50 billion dollars would be needed each year to achieve the Millennium Development Goals (MDG).

In 2002 at the Monterrey Conference on Financing for Development, the United States pledged to double its aid (US$ 5 billion per year), while the European Union pledged an extra 7 billion dollars per year. These commitments constitute the first steps towards achieving the target of contributing 0.7 per cent of GNP to official development assistance (ODA).

The efforts aimed at achieving the MDG were boosted by the new objectives and initiatives adopted at the World Summit on Sustainable Development held in Johannesburg also in 2002. It was agreed that efforts should be made to halve the proportion of people without access to basic sanitation in tandem with the Millennium Goal of halving the proportion of people without access to clean water.

Five years on, the United Nations, like the presiding officers of national parliaments, intends to undertake a preliminary review of the implementation of the Goals. The IPU plans to organize a second Conference of Presiding Officers of National Parliaments in September 2005 to coincide with the Summit of Heads of State and Government at the United Nations Headquarters in New York.

The Report of the United Nations Secretary-General, debated at the Fifty-ninth United Nations General Assembly, constituted another stock-taking exercise at the end of 2004 on the implementation of the Millennium Development Goals.

Moreover, a meeting spearheaded by Brazil to combat hunger and poverty was held on 20 September, at which a declaration signed by over 120 countries was adopted.

What is clear from these myriad initiatives and reports is that, as things stand, and in spite of the progress made, the goals will not all be achieved and indeed are unlikely to be, mainly due to the shortfalls of the development financing system.

The three usual sources of development financing – official development assistance (ODA), debt servicing, and economic growth, particularly through international trade – are inadequate to achieve the MDGs. As Kofi Annan has underscored, the international community is not acting in an optimal manner.

Official development assistance (ODA) reached 68.5 billion dollars in 2003, or 0.25 per cent of the overall gross domestic income of donor countries. Several countries have put in place multi-year plans with a view to achieving the target of contributing 0.7 per cent of gross domestic income to ODA. Ireland has pledged to do so by 2007, Belgium by 2010, France and Spain by 2012 and the United Kingdom by 2013. Only a handful of countries, namely: Denmark, Luxembourg, Norway, Sweden and the Netherlands, already honour this commitment.

It should be recalled that for the member countries of the Organisation for Economic Co-operation and Development (OECD), honouring these 30-year old commitments would be tantamount to tripling the current level of development aid.

Although a slight increase has been noted, it should be recalled that is largely due to efforts aimed at compensating for a long-term downward trend, particularly at the beginning of the 1990s. Considered from this perspective, the "political" nature of ODA is demonstrated by the fact that its sharp drop corresponded symbolically to the fall of the Berlin Wall and the dismantling of the Communist Bloc. Similarly, the recent upturn is due to extraordinary events such as additional aid to Afghanistan, Pakistan and Iraq, for example.

Furthermore, ODA often tends to be bilateral and is used by governments as a foreign policy tool. Included in ODA are debt cancellations as well as administrative charges and technical assistance. In total, the net cash flows effectively received by beneficiaries in 2003 reached 28 billion dollars. This means that in order to finance the Millennium Development Goals, not only must ODA be doubled or tripled but in addition, net financial flows must increase four- or five-fold.

Finally, given that ODA is calculated in US dollars, one cannot help but be concerned at the downward trend of the currency, which has implications for the value of European and Japanese contributions.

At any rate, the commitments made at Monterrey represent a total increase of between 18 and 20 billion dollars per year by the year 2006, a far cry from the 50 or 100 billion dollars needed.

Several IPU resolutions underscore the role of parliaments in bringing pressure to bear on governments and ensuring that these commitments and targets are met (particularly contributing 0.7 per cent of GDP to ODA). This task must be carried out bearing in mind that every year when the budget is passed, other national priorities are also vying for a piece of the pie. From this perspective, the fact that ODA is an annual item is a significant disadvantage. Far too often it is considered as a left-over following budgetary wrangling and disbursements are almost always systematically lower than the commitments made.

Efforts geared towards finding new forms of development financing should in no way detract from the focus on this issue. Increasing ODA in keeping with pledges made offers a number of obvious advantages as this can be done either bilaterally or multilaterally and the improvements it is likely to bring require no legal or administrative overhauling. Parliamentary oversight and monitoring of selected government spending in keeping with the principles of good governance and development strategies is but one possible improvement.

Parliaments have a pivotal role to play in encouraging governments to foster greater coordination and harmonization among donors (of particular interest is the Rome Declaration of February 2003 and follow-up meetings of the Forum on Harmonization and Aid Effectiveness), build on the predictable nature of ODA, focus on budgetary aid, and make specific medium-term commitments before parliament and the nation as well as take measures in support of the poverty reduction strategies implemented by beneficiary countries.

Debt relief or cancellation for debtor countries, particularly the most heavily indebted countries, is a priority. It should be recalled that the debt burden hampers or indeed bars the way to development. In this regard, MDG 8 provides as follows:

- Implementation of the enhanced debt relief programme for heavily indebted poor countries.
- Cancellation of official bilateral debt.
- Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term.

Kofi Annan's report to the Fifty-ninth United Nations General Assembly provided the following review of the situation in April 2004:

> "With regard to debt relief, of the 37 least developed countries that have been classified as eligible for the Heavily Indebted Poor Countries (HIPC) debt relief programme, as of April 2004, 13 had reached "completion point" and 14 had reached "decision point". Partly as a result, the debt-to-gross national income (GNI) ratio for those countries fell from 109 percent in 1997 to 86 percent in 2002. While the debt-to-export ratio shrank across all regions of the developing world over the same period, it remained above the 150 percent threshold condition for a country's heavily indebted poor country (HIPC) designation in Latin America, the Caribbean and sub-Saharan Africa. Even for several countries that reached the completion point, debt sustainability is not guaranteed".

The IPU has focused on this issue on several occasions, in particular at its Conferences held in Stockholm in September 1992 (need for a radical solution to the problem of debt in the developing world), in Windhoek in April 1998 (foreign debt as a factor limiting the integration of the Third World countries into the process of globalisation), and in Brussels in April 1999 (writing off the government debt of heavily indebted poor countries (HIPC).

Parliaments take note of the efforts spearheaded by the international financial institutions in the area of debt relief to developing countries, particularly under the Paris Club arrangements, but cannot but remain concerned at the situation of far too many countries. As the United Nations points out, in light of the fact that some countries use the savings they have made through debt relief to invest in sectors targeted by the Millennium Goals, such as health or education, debt relief efforts should be redoubled. Furthermore, it makes sense to offer HIPC status to certain relatively large or middle-income countries that are caught in a debt trap.

The primary purpose of the **World Trade Organization (WTO)** is not to achieve the Millennium Development Goals. The aim of international trade negotiations is to foster higher levels of growth in the world economy, the fruits of which must be shared equally while favouring least developing countries. To achieve this aim, each country's national production assets must be optimized, the fairest rules of competition have to be agreed and conditions conducive to investment must be safeguarded. The advantages of higher growth are evident for the international community at large. The World Bank estimates that reducing trade barriers imposed by the developed countries and the subsidies granted by those countries to their agricultural sectors could make the world 120 billion dollars richer.

Nevertheless, it is obvious that health and education, for instance, are necessary conditions for integration into the world economy. Unhealthy and under- or uneducated populations cannot contribute to growth in a meaningful way.

Millennium Development Goal 8 proposes to “develop further an open trading and financial system that is values-based, predictable and non-discriminatory”. It also aims to “address the least developed countries’ specific needs. This includes tariff- and quota-free access for their exports”. From this perspective, the European Union’s “Everything but Arms” initiative and the United States’ Africa Growth and Opportunity Act are undoubtedly steps in the right direction.

The fact that the Doha programme has been called a "development programme" and has put forward poor countries' interests and concerns as a priority negotiating issue, emphasizes the clear, conditional link between growth, development and democracy. It is however that trend towards reaching the millennium development goals (MDGs) that brought negotiations to a standstill for ten months.

As pointed out in the declaration adopted at the third Parliamentary Conference on the World Trade Organization (WTO) held in Brussels on 24-26 November 2004, the WTO General Council's decision of July 2004 offers some hope that the failure of the Cancun conference has been overcome but sizeable doubts remain. Member States have for the first time set a date for the elimination of all types of agricultural export subsidy and agreed to cut down internal agricultural assistance that distort trade.

Should no agreement be reached, there is a huge risk of seeing the global economic system return to an era of protectionism and bilateralism, or even unilateralism, which could only lead to slower growth. Clearly, strong sustainable growth is the prerequisite for development. The guidelines to be followed, particularly in agriculture, are the crux of the problem of sustainable and equitable development.

The parliaments gathered in Brussels expressed in particular the wish that with each stage of ongoing trade negotiations, the expectations of developing countries with regard to the fight against poverty, food security and sustainable income be high on the agenda. They also stressed the important contribution of the parliaments, symbol of the people's sovereignty, in expressing popular will at international *fora* and in helping gain popular support for international agreements. The parliaments should also exercise their powers of supervision and monitoring of international trade talks, receive from governments all relevant information and take part in official ministerial conference delegations.

Those parliaments which have not yet done so should back the official launch of national reports on the Millennium Development Goals from their headquarters; they must also promote the preparation of national and regional MDG progress reports. They must also encourage governments to adopt national strategies to produce real changes by adjusting their policies to reflect those goals. Developed countries should draft reports on goal 8 of the MDGs (setting up global partnerships for development) matching their commitment with a view to showing their true efforts. The delivery of those reports and development of national and regional strategies could be debated in parliament and followed up.

Developing countries, on the other hand, must respect the guidelines set out below, in accordance with reciprocal commitments made at the Millennium Summit and at the Monterrey conference:

- Generate and mobilise more internal resources;
- Reform their institutions to reflect national priorities;
- Adopt sovereign, effective economic and social policies aimed at stimulating economic growth;
- Promote democracy, human rights and sound, responsible management of public affairs.

Major strides have been taken towards meeting those guidelines in Asia, Latin America and Africa, with the New Partnership for Africa's Development (NEPAD).

While it is clear that parliaments must follow through to influence their respective governments at the national level and continue to act collectively, whether at the regional or international level through the IPU, so that commitments are met, it is equally clear that the resources from those three sources are sorely inadequate to enable the achievement of those millennium development goals, regardless of positive advancement in the three areas. It is taking a long time for global solidarity to take root.

It is a matter of some urgency to promote a global resource offering concessionality, stability and predictability at the same time. From that angle, it seems that among the solutions discussed, the best suited would be that of an instrument for international taxation.

Moreover, this proposal enjoys strong international support as a result of the meeting held on 20 September 2004 on Brazil's initiative, which was devoted to the fight against hunger and poverty. As a result, a declaration was adopted and signed by over 120 countries. In short, it stated:

> *"In addition to the need to raise and improve assistance levels, we acknowledged that it is also appropriate and timely to give further attention to innovative mechanisms of financing – public or private, compulsory and voluntary, of universal or limited membership – in order to raise funds urgently needed to help meet the MDGs and to complement and ensure long-term stability and predictability to foreign aid. In this respect, we urge the international community to give careful consideration to the report that has been prepared by the Technical Group established by the January 30th 2004 Geneva Declaration. This report explores ways to find new resources for development, on a sound economic basis and at a significant level."*

The advantages of international taxation are significant:

- It makes it possible to resolve the issue of the co-ordination and sharing of the effort among contributing countries since based on a stable durable formula, it would determine objectively the contribution of each country;
- Once the basis of assessment and tax rates are determined, it would be an important democratic tool for transparency since each citizen of the world would be able to compare his country's rate with that of others;
- Above all, it would be enable predictable financing of the fight against poverty.

Beyond the immediate benefits, taxation is part of an economic rationality that offers a bonus, making development more effective. By the same token, there are environmental taxes that mitigate adverse effects and eliminate distortions. The possibility of taxation of financial transactions implies global co-ordination with a view to reaching a highly movable tax base. As emphasised in the IPU's report on global public goods, global taxation is necessary to finance them.

A whole range of international taxes has been proposed: taxes on the environment, arms sales and financial transactions.

Whatever the outcome, there are three prerequisites for taxation:

1. It must be a separate source of funding, and not a full or partial substitute for current resources;
2. It implies developing new conditionality criteria for measuring the effectiveness of aid and its proper use;
3. It should be based on specific commitments for governance by the beneficiaries in order to ensure that the populations of tax-paying countries will accept it.

Lastly, parliaments will have a new role to play since the basis of democratic regimes is the acceptance of taxation by freely elected representatives of the people. Indeed, there is no taxation without representation. Since a possible international taxation system should take the form of a treaty, stating a will, determining a base and tax and defining as an allocation, parliaments should be able to take a stand on it and authorise its ratification. A truly international basis--in conjunction with the national basis for tax acceptance--could be envisaged by giving the IPU, a UN observer, a role in that endeavour.

Those tax proposals for international financing are not by any means exhaustive; there are others. One of the most original proposals, the "International Finance Facility (IFF) ", was made by Great Britain and supported by France. It was put forward by Mr. Gordon Brown, UK Chancellor of the Exchequer at a ministerial forum on financing for development held in Paris on 8 April 2004. The Carnegie Council on Ethics and International Affairs summarised the proposal as follows:

> *"The International Finance Facility (IFF) is a joint proposal of the U.K. Treasury and the U.K. Department for International Development. The IFF aims to raise up to $50 billion a year until 2015 by selling long-term bonds in the world capital markets. The funds from the sale of the bonds will be disbursed to recipient countries as grants rather than loans through existing bilateral and multilateral mechanisms, such as government agencies and the World Bank or the Global Health Fund.*
>
> *The IFF will function for a period of thirty years as a bank of the additional aid pledges that donors have made since the 2002 International Conference on Financing for Development in Monterrey, Mexico. Against the donors' legally binding pledges for future contributions, the IFF will issue bonds in its own name that will have the highest (triple-A) quality and safety rating, and hence will be low interest. During funding rounds every three years, donors will pledge their annual payments to the IFF for the next fifteen years. Donor funding will increase annually for a period of fifteen years, by 4 per cent in real terms from the previous year, beginning with the current donors' commitment of $16 billion a year; after that, the 4 per cent increase will occur every three years for the next fifteen years. Disbursements from the IFF will increase from $10 billion in the first year to $50 billion in*

the fifth year; will remain at $50 billion for the next five years; and will decline to 0 over the final five years.

Potential income and other benefits

- *Double ODA from $50 billion in 2006 to $100 billion a year in 2010–2015 and provide predictable and stable financing for developing countries over the next fifteen years.*

Potential challenges and costs

- *There is some concern that a sharp fall in aid after the IFF ceases to exist could have a significant disruptive impact on the economies of the recipient countries, potentially threatening the progress achieved during the IFF's existence period.*
- *The IFF will require significant political co-ordination among donor countries, including through legally binding financial commitments. While France and the United Kingdom have fully supported it, a number of other key developed countries have yet to express support for the IFF."*

There are other proposals, such as those which earmark Special Drawing Rights (SDR) for development, or the use of market-related methods, such as taxing remittances or finding more voluntary systems, such as lotteries. These innovation solutions should be discussed and compared. Ultimately, the international community should choose the proposal that has the best chance of gaining a consensus. Since virtually everyone has deemed inadequate the decision to maintain the existing system as a means of reaching the millennium goals, a new, innovative resource offering concessional benefits, stability and predictability must be established in the short term.