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## **Diakonia comments on the Swedish government report: "Making it happen. Sweden's Report on the Millennium Development Goals 2004"**

### **Introduction**

Diakonia welcomes the government initiative to officially report on the Millennium Development Goals 7 and 8. This report sets an important precedent for all developed countries, and shows the commitment of the Swedish government to the fulfilment of the MDGs, which we are very happy to see.

Like the government, we hope that this report will stimulate the debate, both nationally and internationally, on the achievements towards the MDG's. Diakonia looks forward to a constructive dialogue around this report, and Sweden's efforts towards the achievement of the MDGs. However, we would also like to stress that the MDG goals and targets must be seen only as a step towards the final objective of eradicating poverty, and that it is important that all actors involved pursue efforts that go beyond the specific goals and targets expressed in the MDGs.

### **The process**

Diakonia regrets the fact that this report was produced without any consultation with civil society organisations. We strongly urge the Swedish government to include civil society organisations in the process of producing the next report and allow for a proper consultation process. According to the new Swedish policy for global development Swedish policies should be based more extensively on the experience and priorities of the poor themselves. In line with this objective, the next Swedish MDG report should allow for consultation with representative groups and organisations in order to include their perspective in the report.

### **The need to develop indicators**

The main missing factor in the MDG process so far is adequate indicators to measure progress and the effects of the initiatives taken to pursue the goals. There is an overall lack of relevant indicators, as well as country specific indicators that suit each national context best. Therefore there is an urgent need to develop such indicators to properly monitor the achievement of the goals. This is especially the case for goal 7 and 8, which is the main responsibility of the rich countries.

We urge the Swedish government to take the initiative in the process of improving, and developing new, indicators for measuring the work towards the MDGs. This process should be inclusive and allow for input from civil society in order to develop indicators that actually

measure whether the actions taken contribute to the achievement of the targets. Diakonia, as a civil society organisation, is committed to and will take an active part in this process.

### **The Swedish Policy for Global Development**

It is important that the overall objectives of the new Swedish policy for global development are translated into practical policies with clear measurable goals that include the promotion of human rights, the needs, interests and analyses of the poor, and gender equality. These measurable goals should have the MDGs as their reference point and it is important to relate the MDG report to the Swedish Policy for Global Development. The following points are relevant to both of these:

#### **Human rights in economic policy making**

Human rights principles should guide and inform the formulation and implementation of economic policies, and the concepts of human rights should become a means of empowerment and self-realisation for marginalized people and communities. The mechanisms of national and international human rights law should be fully utilised to meet these ends.

In line with this, we fully support the Swedish government's emphasis on human rights and democracy as central factors to achieving the MDG's. Sweden has a long history of constructive and committed contributions to multilateral institutions promoting human rights. We welcome the continued commitment to this work which was expressed in the report, and hope that it will also be sustained in the work relating to institutions relevant for goal 8; that is to say the World Bank, the International Monetary Fund (IMF) and the World Trade Organisation (WTO).

In this spirit we urge Sweden to support initiatives for institutional reform to increase transparency and democracy in the decision-making processes within these institutions.

#### **Gender in economic policy making**

Neither aid nor economic policies in general are neutral with regard to gender. All economic policies are formulated within a social context that for example enables or disables women to gain access to and control over productive resources. In spite of this, trade agreements are often presented as gender-neutral. A solid analysis of gender dynamics must be the starting point when analysing the effects of different economic policies. Factors need to be identified which affect women and men, girls and boys, differently on all levels in society.

Diakonia believes that the Swedish Government, with its commitment to gender equality, should take a lead in mainstreaming a gender focus in all the different MDGs. Indicators should be developed that adequately measure the effects on gender equality of all measures taken to implement the MDGs. We hope such an approach will be included in the next MDG report on goals 7 and 8.

#### **The importance of policy space**

Currently, parts of the economic regulatory system of the WTO, IMF and World Bank operate in direct conflict with what the MDGs are trying to achieve. Especially in goal 7 and 8 there is a need to highlight the importance of rules that ensure space for national democratic decision making procedures when deciding upon what policies suit best to pursue the internationally agreed upon common objectives of eradicating poverty and protecting the environment.

We therefore urge the Swedish government to ensure – in its bilateral as well as its multilateral capacities – that the policy space available to developing countries is extended, rather than further minimised. It should be in accordance with Sweden's efforts, both in the commitments towards the MDGs and the Swedish policy for global development, to highlight this crucial

factor, and put it on the international agenda. We are missing this discussion in the present MDG report and we hope to see such an analysis, and a strategy towards this, in the next report.

## **Aid and the MDGs**

There are a number of areas where Diakonia agrees with the Swedish MDG report in relation to aid.

Sweden recognises the fact that agricultural policies, debt management, trade regulation and investments policies can in individual cases be more significant for creating development. Diakonia fully support that statement. But of course development aid can create changes and conditions that more just trade systems cannot do, like support to grassroots organisations amongst poor, education in economic literacy etc.

### **The one per cent target**

In relation to aid, Diakonia welcomes the decision of the Swedish Government to resume the one per cent of GNI (Gross National Income) target in development aid in year 2006. When Sweden now takes the lead in going back to one percent of GNI in development aid it is an important message to other industrialised countries. It also gives Sweden a certain responsibility in taking the lead in quality issues, how aid is used to secure the poverty- and rights perspective in the Swedish government Policy for Global Development.

We also fully support the expressed need for a better focus on poverty eradication and simplified and harmonised aid procedures that are more result oriented.

The basis should be nationally owned Poverty Reduction Strategies, that are developed in broad based participation of governments, national parliaments and civil societies. It is especially important that organisations representing the poor are included in this process.

We hope that the Swedish Government will stay committed to maintaining the level of 1% of GNI in development aid, thereby giving a clear signal to other rich countries in relation to the achievement of the MDGs.

### **A long term perspective on aid**

The Swedish government has made the decision that any funds allocated by the Parliament to development aid during a certain year, is withdrawn by the Government if not used by the end of the year. This means that Sida is forced to use the allocations by the end of each year. Working in 45 countries with thousands of partners, often under very difficult circumstances, implies that the financial regulation forcing the funds to be used by the end of each year often contradicts the objective of providing predictable and long term aid. In this way, the Swedish government is also giving the public the impression that the resources for aid are not needed.

We strongly urge the Swedish Government to make development aid more predictable and stable by not imposing drastic cuts of money not used by the end of each year. Instead development agencies and partners should be given more space for long term planning

### ***More focus on poor people and poor countries***

Diakonia strongly believes that civil society participation in PRSP processes is a key element for a sustainable development. Many donors use aid as a foreign policy tool and to support international trade objectives. This is why, for example, the EU only gave 38% of its aid to the least developed countries and low income countries in 2001, whilst 62% was going to middle income countries.

Therefore we call on the Swedish Government to recognize the need to redirect and change the priorities of EU development policy in order to focus on poor people and countries.

#### ***More transparency in OECD DAC rules***

The OECD regulations on development aid are used as the international recognized tool to define what qualifies as ODA (Overseas Development Assistance).

Some industrialised countries are trying to change these rules in order to expand the criteria for development aid. This is a way to move money around in the national budgets and increase the development aid in that fashion.

To our knowledge there is very little discussion with parliaments or civil society in developing countries about these rules. There is a need for a strong commitment from the Swedish government to increase the transparency regarding these ongoing changes and that parliaments and civil society are consulted. It should not be up to the industrialised countries to make these decisions. Developing countries and civil society need to be involved in the process.

Diakonia urges the Swedish government to initiate a public and global debate on the OECD DAC regulations to ensure that development aid is used with a stronger poverty focus and not for other policy aims.

#### **End arms trade that contradicts development and implementation of human rights**

The UN Secretary General, Kofi Annan, has repeatedly pointed out military spending as one of the major threats against achieving the MDGs. The total annual world expenditure on arms amounts to 950 billion US dollars while 50 billion is spent on development aid. The industrialised countries are responsible of using loans and export credits, and sometimes aid, in promoting arms sales to countries with large poverty and human rights problems. This stands in stark contradiction to the commitment to the MDGs.

Swedish arms export has increased dramatically. The Swedish parliament has requested a critical analysis of, and ban against, export that might contradict the goals in the Swedish Policy for Global development. The Swedish government has not yet responded to this call.

The issue of arms exports in relation to the MDGs is missing in the report. We therefore recommend the Swedish government to initiate legislation and mechanisms to secure that Swedish arms exports do not contradict the MDG targets or the poverty and rights perspective in the Swedish Policy for Global development

#### **Debt and the MDGs**

The debt burdens of poor countries still pose a major obstacle to poverty reduction. The achievement of the MDGs demands faster and deeper debt relief, as pointed out in the UNDP 2003 Human Development Report. In light of this we welcome the statement in the Swedish MDG report that the debt issue is still a high priority for Sweden. However, we think that the section on debt in the Swedish MDG report does not reflect some of the crucial issues that need to be discussed and addressed in relation to the MDGs.

#### **HIPC is not enough**

As pointed out in the Swedish MDG report the aim of the so called Heavily Indebted Poor Countries (HIPC) initiative is to create a long-term sustainable debt situation for the poorest countries. Although the setting up of an international co-ordinated effort was an achievement, it is now clear that the HIPC initiative has not delivered the promised 'robust exit' from unsustainable debts. Eight years after its launch many countries are again experiencing severe debt problems. Countries that have reached the completion point are still facing unsustainable

debt burdens with a debt to exports ratio above the 150% threshold. The basic assumptions behind the initiative have been too optimistic. The pace of relief has also been too slow and not enough countries have benefited.

In light of the inadequacy of the HIPC initiative the question remains of what should be done to solve the debt problem. A decision has now been made to extend the HIPC initiative for another 2 years (IMF and World Bank annual meetings, October 2004), but this cannot be seen as a long-term solution to the problem. It is clear that more and more efforts that go beyond further contributions to the HIPC Trust Fund are needed. Some further initiatives on debt reduction have been proposed recently by the UK and US governments, which signal the inadequacy of the HIPC. In this respect the Swedish MDG report, and the new Swedish Policy for Global Development, fall short of a statement of the shortcomings of the HIPC and it falls short of a discussion of what further measures Sweden sees as possible ways ahead.

Diakonia would therefore welcome a statement on which strategy the Swedish government will pursue, and what measures Sweden is prepared to push for and support internationally, in order to provide an exit to the debt problem and to reach the MDGs.

### **Debt sustainability and the MDGs**

One issue of concern regarding debt is the debt sustainability criteria. The current definition of debt to export ratio does not take the MDGs into account. Diakonia, and other organisations within the Jubilee movement in Sweden and world wide, have argued that debt sustainability must be linked to the achievements of the MDGs. Debt relief to poor countries should be based on a human development approach, and be linked to each country's capacity to raise the finance needed to achieve the MDGs.

This approach implies that some poor countries will need 100% debt cancellation of pre-decision point debts. The Swedish MDG report does not discuss the concept of debt sustainability and how it relates to the MDGs. The government paper on the Swedish Policy for Global Development states that Sweden supports the new framework for debt sustainability presented by the World Bank and the IMF. This framework does however not link the concept of debt sustainability to the MDGs.

Diakonia calls on the Swedish government to work within the IMF and World Bank for a broadening of the discussion on debt sustainability so that it is clearly linked to the MDGs. This issue should also be elaborated on in future MDG reports.

### **Creditor responsibility**

On another level it is clear that the present debt restructuring mechanisms do not address the underlying issue of power relations between creditors and borrowers. Diakonia, and other organisations within the Jubilee movement in Sweden and world wide, have argued for the creation of a fair and transparent international arbitration process for debt reduction. This would allow creditors and debtors to resolve the repayment of past and future debts created through loans that went to non-productive or failed projects and programs, or were misappropriated by governments. On a pro-active level, it is of course also important to open up the process by which countries agree to take on the terms and conditions of loans to citizens and parliaments, in order to avoid future borrowing mistakes and the build up of debts that have to be paid back at the expense of MDGs.

There is also a need for a fair and transparent insolvency process for determining what debts are illegitimate. The concept of illegitimate debt is widely discussed among civil society organisations in both developing and developed countries. It has also gained some recognition among governments. For example in "Felles kamp mot fattigdom", the Norwegian equivalence of the Swedish policy for global development, the concept of illegitimate debt is

discussed in detail. It is also explored in a separate Norwegian Action plan on debt (May 2004) which states that Norway will support a study on illegitimate debt by the relevant multilateral institutions, with the purpose of coming up with concrete recommendations. Diakonia would welcome if the Swedish government could draw upon the Norwegian example and explore this issue further.

Diakonia calls on the Swedish government, in the context of the MDGs, to broaden the discussion on debt to address the issue of creditor responsibility. This should include to work for the establishment of an international fair and transparent arbitration process for debt reduction and to address the issue of illegitimate debt within the relevant multilateral institutions.

### **Conditionality, ownership and policy space**

In the Swedish MDG report it is stated that debt relief is intended to support the country's own initiatives in achieving a manageable debt burden, and that debt relief is provided to poor indebted countries that have sound economic policies clearly oriented towards poverty reduction. In relation to this we would like to bring up the issue of national ownership and policy space for national decision making versus conditionalities imposed by the World Bank and IMF.

According to the basic principles underpinning the Poverty Reduction Strategy Papers (PRSP), - a prerequisite for debt reduction, new loans and aid-, these strategies should be nationally owned and developed in broad-based participation. The recently produced reports by the independent evaluation offices of both the World Bank and the IMF, as well as many other studies, show that there are inherent tensions between a Bank/IMF-driven initiative involving conditionality and the objective of PRSPs to be country-driven and nationally owned. These conditionalities are not derived from, nor consistent with, nationally produced PRSPs. The reports also conclude that there is a general failing to explore and discuss alternative macro-economic policy options.

From these reports, and from the experiences of Diakonia's partner organizations around the world, it is clear that the World Bank and IMF are still deciding what 'sound economic policies' should be pursued, and that there is little space for debating alternative measures. The institutions are thereby inflicting upon national policy making processes, including, in some cases, overriding decisions made in national parliaments. This situation threatens to undermine 'democratic and participatory governance based on the will of the people' as the best way to assure basic human rights, as stressed in the Swedish MDG report. It also threatens to undermine the legitimacy of the institutions themselves.

Studies also show, including the Review of Nordic monitoring of the World Bank and IMF support to the PRSP process (March 2003), that the impact of standard policy recommendations in IMF and World Bank loan-agreements on poverty and on women and men, is unclear. The linkage between macro-economic and structural policies on the one hand and poverty reduction on the other is sometimes weak, based on theoretical thinking rather than proven empirical impact of the policy choices on poverty.

The issue of conditionality on part of the International Financial Institutions (IFIs) is an important issue to address in the context of poverty reduction. The World Bank and the IMF must allow important decisions on policy reforms to be decided through domestic policy-making processes.

Diakonia calls on the Swedish government to work within the World Bank and IMF for a shift from detailed policy conditionalities to a more outcome based approach focusing on the result to be achieved, such as the MDGs. Nationally owned PRSPs, defined by recipient countries with full parliamentary scrutiny, must be the basis for IFI lending instruments, rather than the

other way round. Diakonia also calls on the Swedish government to, together with other governments and the IFIs, work for an open debate on alternative macro economic policies for the purpose of achieving the MDGs.

### **Democratic governance and voice**

Another aspect not addressed in the Swedish MDG report, concerns policy space on the international level. It is a fact that while the World Bank and IMF have a huge influence over policies in developing countries, these countries have little influence over the policies pursued by the institutions. The representation and voting power within the institutions are outdated and threaten to undermine the work of the institutions. Particularly the African countries face a challenging situation with only two Executive Directors representing more than forty African countries. The government paper on the new Swedish Policy for global development (September 2004) address this issue by stating that Sweden will support the strengthening of the analytical capacity of particularly the African countries. Sweden has also expressed support of raising the so called basic votes, which would to some extent benefit developing countries. However, further measures are needed to shift away from the present skewed power balance.

Diakonia calls on the Swedish government to work for a much more balanced power relationship between developed and developing countries within the IMF and the World Bank.

### **Trade and the MDGs**

One of the key factors for development in poor countries is a just international system of trade that gives developing countries space to choose a development strategy based on their own needs and potentials, and which promotes a concern for the environment. International trade issues are therefore important for combating poverty and have a major effect on the results that can be achieved by investments in development co-operation.

The UN Millennium Declaration talks about trade rules that are open, rules based, predictable and non-discriminatory. The terms open and non-discriminatory are potentially confusing. The UN term of non-discrimination is quite different from the legal trade term. The normal UN term for non-discrimination allows for positive or affirmative action. According to our understanding of the UN Conventions on Human Rights, governments are obliged to actively support disadvantaged groups. We are concerned that the Swedish government in the report seems to read the MDG terms as legal trade terms, and not as UN human rights terms.

The Swedish report emphasises the need for open and free trade, but Diakonia would like to put the emphasis on the need for fair trade, that promotes sustainable development for all. In the WTO the removal of barriers to trade has in practice become a goal in itself, and concern for the effects this has on the potential for development for the poor has become a lesser priority. Trade can be a powerful force contributing to the development of poor countries through increased export incomes and employment opportunities. But trade and investment can also lead to increased poverty, the perpetuation of unjust power structures or the exploitation of both people and the environment. It is therefore important to differentiate between means and goals. Increased or free trade is not a goal in itself, but can be an important means as long as it contributes to sustainable development. The crucial point is under what terms trade takes place, and what its effects are.

We would welcome a trade regime where markets in the north are opened to the benefit of poor communities, in line with the position in the MDG report. It is, however, also important to ensure that weak economies in the south are allowed to be more protected while national production and financial systems are built up.

We welcome that the report correctly states and recognises that the WTO is still skewed towards the interest of the richest members of the world. We are happy to read that Sweden is determined to improve the international trading system in order to make it more beneficial for poor countries and poor people.

One important instrument to monitor these efforts would be an annual report to the Swedish Parliament where the efforts and policies pursued by the Swedish Government in relation to the EU and the WTO are outlined in detail.

We therefore urge the Government to submit such an annual report to the Parliament in order to increase the transparency in Swedish trade policy, and in order to improve the monitoring and measuring of the efforts in relation to the MDGs.

### **Trade and Aid**

We welcome the Swedish commitment to supporting the developing countries' efforts to upgrade their trade related capacity in negotiations and practical trading skills. However, Swedish development assistance should not be allocated to provide support for the implementation of WTO agreements that could conflict with the core aims of Swedish development assistance, especially when the agreements limit the policy space available to developing countries.

One striking example of the unhealthy link between trade and aid is the recent WTO negotiations where the losers, in the case of cotton, were promised compensation by the World Bank. This is especially absurd considering that it is the unwillingness of rich countries to cut down on destructive subsidies that created this problem in the first place. The problem is thereby not being dealt with but rather upheld through the intervention of World Bank, thus using aid as an instrument of rich countries in the negotiations.

Diakonia is of the belief that Swedish development assistance in the area of trade should neither directly nor indirectly be connected to any expectations surrounding the positions recipient countries will take in WTO negotiations.

### **Conflicts between trade rules and MDGs**

Currently, parts of the economic regulatory system of the WTO, World Bank and the IMF operate in direct conflict with what the MDGs are trying to achieve. A major problem is that the new trade regulatory frameworks have strongly increased their influence beyond regulating trade in goods, to also restricting the policy space of developing countries in many other areas such as capital flows, intellectual property rights, domestic regulations on services etc. This is why it is necessary to review and revise the current rules in relation to their impact on poverty reduction and human rights.

Sweden should actively support changes to trade rules to enshrine the right of developing countries to protect their domestic agricultural sectors on the grounds of food security, livelihood security and sustainable rural development. Food security does not negate trade, it rather promotes the formulation of trade policies and practices that serve the rights of peoples to safe, health and ecologically sustainable production.

Some other areas where Swedish efforts towards protecting the policy space for developing countries are required are the following:

- Oppose any restrictions on the ability of governments to regulate foreign investment in accordance with their development and environmental needs.
- Working to make the EU withdraw its demand that water, and other basic services, is included in GATS.

- Working to enact legislation that allows companies to be held accountable for their social and environmental impacts at home and abroad.
- Withholding demands from EUs Economic Partnership Agreement (EPA) negotiating mandate on negotiations on competition policy, investment and public procurement.

### **WTO and intellectual property rights**

Developing countries are under pressure from industrialised countries and the research-based pharmaceutical industry to implement patent legislation that goes beyond the obligations of TRIPS. So-called "TRIPS-plus" arrangements extend patent life beyond the 20-year minimum, tighten patent protection and limit the scope of use of compulsory licensing. Safeguards within the TRIPS agreement will therefore be essential to allow governments to overcome patent barriers, and in particular, excessive pricing of medicines under patent. It is important that the problems caused by the TRIPS agreement, as well as the various TRIPS-plus agreements, are not ignored.

Diakonia welcomes the support expressed in the report for the cause of developing countries within the WTO TRIPS agreement. But we strongly urge the Government to also stress this support in international fora, and to report on how this support is being implemented in practical policy and positions within the EU and WTO.

This is especially important in the areas of concern expressed by the UN Commission for Human Rights: Access to food; access to health, and the right of communities to traditional knowledge. Another crucial area is the issue of patent on life in relation to bio-diversity and access to research.

Diakonia is also calling on the Swedish government to commit to actively working to implement agreements such as the Doha Declaration to ensure that developing countries can live up to the right to health, and that the trade rules do not constitute an obstacle to this.

### **EU trade policy and the Economic Partnership Agreements**

The free trade agreements called Economic Partnership Agreements, EPA, are currently being negotiated between the ACP countries and the EU. These negotiations are of great importance to these countries and there are a number of concerns regarding the issues mentioned above, like policy space and the conflict between the MDGs and trade.

The EPA is absent from the Swedish MDG report and we strongly urge the Government to present the strategy and positions regarding the EPA in relation to the fulfilment of the MDGs.