From Collapse to Opportunity:

Development Perspectives on the Global Financial Crisis

Policy paper

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CIDSE

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Most developing countries are facing the consequences of a food, climate and financial crisis in whose making they played no part. CIDSE analyses these problems and sets out proposals drawing on the principles of the just distribution of wealth and power, the dignity of each person and particular attention being paid to the poorest. This document, written by Jean Letitia Saldanha/CIDSE Secretariat for the CIDSE Resources for Development Working Group, sets out CIDSE's position on the global financial crisis in particular while briefly touching on the food and climate crises.

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CIDSE is an international alliance of Catholic development agencies. Its members share a common strategy in their efforts to eradicate on poverty eradication and establish social justice. CIDSE's advocacy work covers global governance, resources for development, climate change, trade & food security, EU development policy and business & human rights.

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LIST OF ACRONYMS

BWIs	Bretton Woods Institutions
CPIA	Country Policy and Institution Assessment
CSO	Civil Society Organisation
CTDL	Currency Transaction Development Levy
CTT	Currency Transaction Tax
DCF	Development Cooperation Forum (UN)
DSF	Debt Sustainability Framework
EU	European Union
FATF	Financial Action Task Force (G8)
FSF	Financial Stability Forum
FTT	Financial Transaction Tax
GDP	Gross Domestic Product
GNI	Gross National Income
HIPC	Heavily Indebted Poor Country
IASB	International Accounting Standards Board
IDA	International Development Association (World Bank)
IFIs	International Financial Institutions
ILO	International Labour Organization
IMF	International Monetary Fund
MDGs	Millennium Development Goals
OECD	Organisation for Economic Cooperation and Development
ODA	Official Development Aid
OTC	Over the counter
PRGF	Poverty Reduction Grant Facility
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
SSM	Special Safeguard Mechanism
TNCs	Trans-national Corporations
TRIMs	Trade Related Investment Measures
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organisation

EXECUTIVE SUMMARY

The world is in the throes of multiple crises. On the heels of a food and energy crisis, most developing countries are facing the consequences of a financial crisis in whose making they played no part. Many parts of the industrialised world find themselves facing a deep recession and their main reaction has been to look inwards, protecting their economies and financial sectors from collapse.

The global crises grew out of an economic model that is fuelled by risk-taking and speculation, with lop-sided standards that cannot effectively supervise such behaviour. The financial system's growing opacity hid the danger of this risk-taking behaviour. The present model of growth is based on an unsustainable over-exploitation of natural resources. Additionally, international conventions and agreements for the protection of the environment and human rights, particularly economic and social rights are not effectively enforced. Global integration has meant that those in control of financial resources and with political and economic leverage have become increasingly mobile and can 'shop around' to find the most favourable tax and standard regimes to invest in.

Growing out of this flawed model of growth, the global crises have claimed millions of victims. Those most affected are the poor and vulnerable, groups with little political influence and bargaining power in all parts of the world and particularly in low and middle income countries. Millions of workers have been forced out of their jobs. Women, youth and the working class have been hit the hardest. Inequalities in the distribution of income and wealth are increasing. The target of achieving the Millennium Development Goals by 2015 seems a distant dream with poor countries facing a serious drop in budget revenues and development budgets of donors set to decrease.

CIDSE analyses the crises and makes recommendations to overcome them drawing on the principles of Catholic Social Teaching. Accordingly we advocate that social, political and economic relationships are organised and public policy is formulated to ensure that wealth and power are distributed justly, the dignity of each person is respected and particular attention is paid to the poorest.

Turning to the financial crisis, CIDSE believes that it arose out an increasingly integrated world that was not effectively governed at the global level.

- International financial regulation and the bodies that design them are deficient in many ways. The standards they used are faulty and their membership is unrepresentative. CIDSE recommends that financial standard-setting bodies add developing countries to their membership. In bodies of limited membership, we recommend that participation is based on arrangements that ensure participants have received a mandate from and are accountable to country groups. An intergovernmental group of experts based in the United Nations (UN) should be established to address development-related questions that arise out of the design of financial standards.
- The International Monetary Fund (IMF), which is the designated global body to oversee international monetary stability, failed to broker the coordination of exchange rates among hard-currency issuers. This function is essential to avoid the negative impacts of exchange rate volatility on the trading and debt-servicing capacities and ultimately the development prospects of developing countries. There is an urgent need to establish alternative credible mechanisms for the multilateral management of exchange rates. The current system that relies on a single country's currency should be substituted by strengthened regional and sub-regional schemes for monetary cooperation. We recognise that reforms to develop a balanced and development-friendly system for multilateral management of exchange rates will take time. Steps to protect 'trend-takers' (most poor and undiversified economies) from the impacts of the currency fluctuations of 'trend-makers' are immediately needed.
- The governance of the Bretton Woods Institutions (BWIs) is out of date, reflecting a power distribution going back to the post-World War II era. Many developing countries do not consider that their interests are adequately upheld by these institutions. The great hesitation with which only a small number of developing countries sought IMF assistance when they started to feel the impacts of the financial crisis illustrates this. Reforms tabled so far have been piece-meal. CIDSE

recommends deep and extensive reforms of the voting system. The international community must also take measures to enhance the accountability of governments and the BWIs to citizens at the national level and to international law. The procedure for the selection of the BWI's leadership must also be changed.

- The UN has been rendered incapable of governing the global economic and financial systems. Much of this inability arose from countries in the global north shifting political emphasis and resources to the BWIs. Additionally, the UN mandate to hold the BWIs accountable to international social and economic agreements or conventions remains underdeveloped. Finally, the organisation is also marked by internal deficits that restrict its effectiveness and are still the subject of a series of reforms. There are a number of proposals to enhance UN leadership over global economic governance. These include the establishment of an Economic and Social Security Council and, more recently, the establishment of a Global Economic Council. Questions whether there is sufficient political willingness to do so on the one hand and how to design a process to channel this political will into a clear operational plan on the other remain unanswered. CIDSE proposes a mechanism by which the follow up to the International Conference on Financing for Development (the 'Monterrey Consensus') that integrally deals with development in all its aspects can provide for this.

The climate, food and financial crises have made resources scarcer if they have not made them completely dry up. Countries all over the world have been affected. At the same time developing countries suffer from a particularly serious deficiency of resources. There is an urgent need to review current channels by which revenue is generated. The current model of financing for development presupposes the primacy of donor assistance. Yet, history demonstrates how misguiding it is to consider financing for development as a mere needs-fulfilment exercise. As an international network of Catholic development organisations CIDSE advocates for wealth to be distributed more equally within and among countries. It therefore considers that taxation specifically, and revenue generated from a country's natural wealth and resources as a whole, should be at the heart of development finance. There are a wide range of problems that reduce a state's ability to effectively raise revenue through domestic sources. These include capital flight and the associated role of secrecy jurisdictions, unsatisfactory reporting standards of commercial operators in countries, unsustainable debt and inequitable trade conditions. They make it difficult for a state to raise adequate revenues. They also prevent the effective functioning of the financial system as a whole and have contributed in no small way to the current financial crisis.

The urgency of tackling these issues aside, many low income countries will continue to require sufficient levels of donor resources to effectively fill existing resource gaps in their budgets. Donor countries need to ensure that they reach the international target of spending 0.7 percent of Gross National Income on Official Development Assistance and additionally guarantee that the needs of developing countries to finance their mitigation and adaptation measures in the face of climate change are met.

Many of the measures to overcome the resource crunch require significant amounts of political will. Yet the enormity and complexity of the global crises require a fundamental change in the status-quo. The sense of urgency driving governments to address these crises is welcome. However, small exclusive groups, such as the G8 or the G20, will not succeed in the endeavour to come up with a global response. The interests and needs of all countries and all groups in society must figure in the solutions. The UN Conference at the highest level on the Economic and Financial Crisis and its impacts on development in June 2009 is a forum that provides for this.

CIDSE is working at all levels of political influence to promote global economic, finance and trade reforms. It fed its recommendations into the EU's discussions on the food, financial and climate crises as well as into the UN General Assembly President's Commission of experts on the financial crisis led by Nobel Prize laureate Joseph Stiglitz.

Additionally we work with other groups in civil society to make sure that politicians know that the public is concerned and expects serious policy change to ensure that the world that emerges out of the global crisis is better than the one that caused it.

INTRODUCTION

The world is in the throes of multiple crises. On the heels of a food and climate crisis, most developing countries are facing the consequences of a financial crisis in whose making they played no part. Investments have dried up, revenues from remittances have rolled back and export demand has fallen. Particularly at risk are countries where poor and vulnerable communities make up the majority of the population and who have high debt levels and low levels of reserves. These countries do not have the financial resources and fiscal or policy space that their rich country counterparts have at their disposal for rescue packages. Additional liquidity for them to tide over the crisis has not been forthcoming from the financial sector.

Many parts of the industrialised world find themselves facing a deep recession and their main reaction has been to look inwards, protecting their economies and financial sectors from collapse.

Causes of the crises: flaws in the structures and policies governing global growth and development

The global crises grew out of a global model of growth fuelled by:

- Risk-taking and speculation, with lop-sided standards that could not effectively supervise such behaviour. As examined in detail in this paper, standards supposed to regulate such behaviour are set by entities with vested interests;
- Growing opacity in the financial system that hid the danger of this risk-taking behaviour. Opacity grew out of the collapse of the global regulatory authority originally entrusted to the Bretton Woods System. The US dollar emerged as the only currency exchange standard. Financial markets have exploded with an array of 'innovative' financial instruments. Secrecy jurisdictions or tax and regulatory havens have mushroomed;
- Over-exploitation of finite natural resources based on a carbon-based model of growth;
- The failure to effectively enforce international conventions and agreements for the protection of the environment and human rights, particularly economic and social rights. In a paper published in 2008, CIDSE highlighted the lack of national and international safeguards to prevent business enterprises and their beneficiaries from becoming complicit in or tacitly benefiting from human rights violations.[1] This has meant that those with large amounts of power and resources can accumulate profits of considerable magnitude without being held responsible for their behaviour. This group has therefore been able to free itself of paying a just compensation to those groups who actually own the resources that have been exploited - whether industrial labourers, farmers, communities living in mineral/fossil fuel-rich areas or the communities in which they house their operations;
- Increased global integration has meant that those who possess the resources -whether in power or financial resources- have become increasingly mobile and can 'shop around' to find the most lucrative spots to exploit. Typically, host countries cannot or will not regulate the behaviour of these foreign entities. Home countries have usually preferred to maintain an 'arms-length' policy thereby giving these entities a free-hand in deciding the level of accountability they wish to adopt.

The reasons for the flawed structures of economic and financial governance go back to its origin. Most have been created and controlled by the industrialised world driven by the aim of maximising profit as quickly as possible. Concerns for sustainable development have been factored in only marginally if at all. Consequently, broader concerns to safeguard the common good, to take account of the interests of those impacted most by this model of development, whether they are vulnerable communities in the industrialised world itself or industrialising/ non-industrialised countries, were not reflected in their policy making.

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[1] CIDSE (2008), *Recommendations to reduce the risk of human rights violations and improve access to justice : Submission to the UN Special Representative on Business and Human Rights,* February, Brussels.

Consequences of the crises: victims in countries and communities that have had no role in the creation of this crisis

On the human side, the media has been quick to cover the impacts of the financial crisis on the bankers and finance agents in big financial centres. Other less glamorous human stories of the impacts of the crises are left untold.

Increasing unemployment with vulnerable groups pushed into a poverty trap

Export-oriented industries in developing countries -whether middle income or low income- have been the first hit by falling demand for their products. According to a World Bank report[2] in the last quarter of 2008, exports from Indonesia, the Philippines and Turkey dropped by 20 per cent or more. India registered a historical first ever year-over-year decline of exports of 15 per cent. Exports from low income countries are already being seriously impacted as well.[3] This situation is particularly dangerous for this group of countries as the export revenue share of their Gross Domestic Product (GDP) has been steadily increasing from the 1990s to reach almost a third of their GDP in 2007.[4.]

Along with falling demand for their products, industries in developing countries have also been hit by increasingly scarce trade finance. Small and medium enterprises are the most threatened as they are 'crowded out' by big players[5] compounded by the fact that the costs of trade finance have increased across the board.[6]

Millions of workers have been laid off as a result of these strains on industry. In its annual Global Employment Trends Report,[7] the International Labour Organisation has warned that global unemployment in 2009 could increase over 2007 levels by a range of 18 to 30 million workers depending on new developments in the labour market and the timeliness and effectiveness of recovery efforts. The figure could go up 50 million if the situation continues to deteriorate.

In this last scenario, some 200 million workers, mostly in developing countries, could be pushed into extreme poverty. Women and youth are likely to be the hardest hit. Already in 2008, youth in Asia were more than three times as likely as adults to be unemployed. In South-East Asia, the youth unemployment rate stood at 15 per cent in 2008. This figure is likely to rise sharply as young workers will be among the first to be sacked, while first-time jobseekers are likely to find themselves at a substantial disadvantage when competing against a rising pool of more experienced (and recently unemployed) jobseekers.

An analysis of seven industry groups most affected by the crisis to date,[8] based on labour forces surveys of Thailand and the Philippines and the 2004 Living Standards Measurement Survey of Vietnam, show that the impact of the job losses follows gender lines. Women dominate garment, textiles and electronics at the ratio of two to five female workers for every male worker and are thus experiencing some of the initial blows of job losses.

The World Bank estimated that 53 million people would be driven into poverty in developing countries as a result of the financial crisis. This is on top of the 135-150 million people driven into poverty by the rise in food and fuel prices over the period 2007-08.

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[2] World Bank (2009), *Swimming Against the Tide: How Developing Countries Are Coping with the Global Crisis*, March, Washington D.C.

[3] Based on figures of US imports showing imports from low income countries into the US falling by 5.8 per cent in the last quarter of 2008 compared to the same quarter in 2007.

[4] International Monetary Fund (2009), *The Implications of the Global Financial Crisis for Low-Income Countries,* March Washington DC.

[5] Large firms are advantaged by the fact that they enjoy previously financed international sales on 'open account' as being advantaged. In Africa for instance, there has been an increased use of 'cash in advance' transactions as a result of drying up trade finance.

[6] The sharp increase in capital requirements is a result of the move to Basel II capital adequacy standards as being the cause of this increase in cost of trade finance.

[7] International Labour Organisation (2009), *Global Employment Trends Report 2009,* Geneva.

[8] Identified by the ILO as textile manufacture, garment manufacture, footwear and leather products, electronics, car manufacturing and auto-parts, hotels and restaurants and construction.

Rising inequalities with low-income groups hit the hardest

One clear outcome of the increases in poverty and unemployment, particularly affecting vulnerable groups like the working class, women and youth, is an increase in inequality. Inequalities between states have dramatically increased in the 20th century and accelerated since the latter part of the century. The International Labour Organisation's World of Work Report 20089 has shown conclusively that the gap between richer and poorer households widened since the 1990s and that this gap is expected to increase due to the current crisis. "*The ongoing global economic slowdown is affecting low-income groups disproportionately*", the report says. "*This development comes after a long expansionary phase where income inequality was already on the rise in the majority of countries.*"

Between 1990 and 2005, the income gap between the top and bottom 10 per cent of wage earners increased in 70 per cent of the 73 countries investigated in the report. In the United States in 2007, the chief executive officers of the 15 largest companies earned 520 times more than the average worker. This is up from 360 times more in 2003. Similar patterns, though from lower levels of executive pay, were reported to have been registered in Australia, Germany, Hong Kong (China), the Netherlands and South Africa. A UNU WIDER study in 2006 noted that the richest 2 per cent of adults in the world owned more than half of the global household wealth while the poorest half of the world's adult population owned barely 1 per cent of global wealth.

The ILO report points out that in countries with unregulated financial innovation, workers and their families became increasingly indebted in order to fund housing investment and consumption. With stagnant wages, this was the key to sustaining domestic demand. However, the crisis has underlined the limits to this growth model. Another important factor is the evolution in taxation systems making them less progressive. Between 1993 and 2007, the average corporate tax of the countries studied were cut by 10 percentage points. In the case of top personal income tax rates, the cut was of 3 percentage points over the same period. To add to this, declining tax progressivity has not been offset by social policy including stronger social safety nets.

Doubts cast on MDG achievements

Filled with optimism and recognising the imperative of halving the number of people living in absolute poverty at the beginning of the new millennium, world leaders resolved to do so by 2015. They renewed the commitment to achieve the Millennium Development Goals by 2015 in 2005 and 2008 by stepped up action. Thanks to this political resolve, the 2008 UN MDG Report stated that 'sound progress' was being made in some MDG areas and that the overarching goal of reducing poverty by half was within reach for the world as a whole mainly owing to the pace of growth in Asia and the commodity price boom. Yet, successes booked in attaining even the MDGs -which CIDSE would consider are minimal goals for development[10]- are at a risk of being negated by the crises as a result of increasing economic insecurity in developing countries coupled with likely cuts in donor spending on development.

Ireland, Italy and Latvia have already announced cuts in their development budgets. Ireland cut back its projected spending in ODA to 0.53 per cent of its GNI for 2009, a 10 per cent cut in the governments aid budget, this cut will make it increasingly difficult for Ireland to reach its interim target of 0.6 per cent of GNI in ODA by 2010. Italy has cut its development budget by 56 per cent and Latvia has said it will cut aid by 100 per cent, thereby ceasing to be a donor country shortly after it became one.

The United Kingdom's development budget has been affected by the lower value of its currency. In February 2009, CIDSE's member organisation CAFOD calculated that at current rates even if the UK increases aid as pledged to 0.7 per cent of its Gross Domestic Product (GDP) in 2014, the US-dollar

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[9] International Labour Organisation (2008), *World of Work Report 2008 - Income Inequalities in the Age of Financial Globalization,* Geneva.

[10] See CIDSE (2005), *More than a numbers game: Ensuring that the Millennium Development Goals address Structural Injustice*, April, Brussels.

(USD) value of disbursed UK aid might fall by 41 billion USD over the next seven years, compared to the amount projected before the crisis hit the British economy.[11] In other countries, the impact of aid spending is likely to be less effective even if aid amounts are not under immediate threat. The Spanish government launched a new "anti-crisis plan for the internationalisation of the Spanish economy" which includes new loans worth 100 million euros to finance infrastructure projects in Africa - tied to orders to Spanish corporations.[12]

[11] CAFOD (2009), *The Financial Crisis- A CAFOD briefing,* February, London.
[12] Eurodad (2009), *Less and worse aid? Financial crisis shows first impacts on European aid budgets,* February, Brussels.

I. A VALUE-BASED LENS TO ANALYSE THE PROBLEM AND ITS SOLUTIONS

CIDSE draws its inspiration from the Social Teaching of the Catholic Church. We base our proposals for action to reverse the effects of the global crises on our vision of the world, the way social, political and economic relationships should be organised and the way public policy should be formulated. The underlining principles for this approach are the just distribution of wealth, resources and power, the dignity of each person and particular attention being paid to the poorest.

1.1 Just distribution of wealth and power

The introduction to this paper noted that inequality in the distribution of income and wealth has been growing and will be exacerbated by the financial crisis. The next chapter criticises the failure, exposed by the financial crisis, of an outdated and unbalanced international financial architecture that serves the interests of a few. CIDSE recommends action to correct the unequal distribution of wealth and power based on the principles of the 'universal destination of the earth's goods' and 'subsidiarity.'

The universal destination of the earth's goods

This principle means that the 'use' of all the earth's resources, while marked by freedom, needs to be subordinated to their original common destination as created goods.

Pope Paul VI wrote the encyclical 'Populorum Progressio' more than 40 years ago but its prophetic vision is very informative in addressing the current crisis. It states very clearly "*All other rights whatsoever including those of property and of free commerce, are to be subordinated to this principle [of the universal destination of earth's goods]"* (Populorum Progressio, 22). It emphasises that "*No one is justified in keeping for his exclusive use what he does not need, when other lack necessities (…) The right to property must never be exercised to the detriment of the common good.*" (Populorum Progressio, 23). It then calls on "*the responsibility of public authorities to look for a solution*" to conciliate private property rights and the necessary redistribution.

Subsidiarity

The principle of subsidiarity affirms that responsibility for decisions and actions lies best at the level closest to the problem that is able to respond to it effectively and therefore that policy decisions must be attentive to local realities.

Pope John Paul II explained it to mean that "*A community of a higher order should not interfere with the life of a community of a lower order, taking over its functions. In case of need it should, rather, support the smaller community and help to co-ordinate its activity with activities in the rest of society for the sake of the common good.*" 13

In calling for an overhaul of today's global economic governance CIDSE stresses the need for subsidiarity to be the cornerstone of future global governance.

1.2 The dignity of each person

When doubts are cast on the ability of the international community to fulfil even the minimal development ambitions of the MDGs, millions of vulnerable men, women and children are denied a very fundamental principle of humanity: their dignity as human beings.

For CIDSE a basic goal of policy making is "*building a world where every man, no matter what his race, religion or nationality, can live a fully human life, freed from servitude imposed on him by other men or by natural forces over which he has not sufficient control; a world where freedom is not an empty word*" (Populorum Progressio, 47). Freedom from

[13] The Hundredth Year, No.48.

servitude would imply that human needs must not go unsatisfied. Therefore the poor should be provided with realistic opportunities to live dignified lives.

The principle of the fundamental dignity of the human being has been recognised by the international community through the UN Charter, which declares: "*We the peoples of the United Nations, determined… to reaffirm faith in fundamental human rights, in the dignity and worth of the human person…have resolved to combine our efforts to accomplish these aims*." The UN has codified the rights of the human person into a covenant of civil and political rights and a covenant of economic, social and cultural rights. It also recognises that rights belong to the person by virtue of his or her humanity.

1.3 Particular attention being paid to the poorest or the Preferential option for the poor

At times of global instability, the fate of the poorest in the world becomes the indicator of our common humanity: "*Whatsoever you do to the least of these, my brothers and sisters, you do unto me*" (Matthew, 25: 40). We are therefore challenged to make a preferential option for the poor, namely to create conditions for marginalized voices to be heard, to defend the defenceless, and to assess lifestyles, policies and social institutions in terms of their impacts on the poor.

The option for the poor does not mean putting one group against another, but rather, it calls us to strengthen the whole community by assisting those who are most vulnerable. After all development and social justice ultimately serve us all: "*The advancement of the poor constitutes a great opportunity for the moral, cultural and even economic growth of all humanity*." (Centesimus Annus, 28).

On the other hand, leaving the most disempowered to their own means will only increase social instability and conflict. The ILO World of Work Report 2008 points out that rising poverty and inequality will increase social conflict, with crime rates and corruption rising, a higher prevalence of disease and lower life expectancy, discrimination in labour markets and greater polarisation of political interests in society. Consequently, we argue that urgent political choices will have to be made to ensure that socially harmful, economically inefficient and unjust policies are reversed.

II. GLOBAL GOVERNANCE AT THE CROSS-ROADS

The current financial crisis clearly shows the risk of an increasingly integrated world without adequate global regulation. While the financial crisis originated with the sub-prime credit crisis in the United States, the whole world has since been affected. People with no safety buffers in developing countries are likely to suffer the most in absolute terms.

The lack of global economic governance is reflected in the scattered and inadequate response to financial stability that has prevailed so far. Many global institutions including the International Accounting Standards Board (IASB), the Basel Committee on Banking Supervision and the International Monetary Fund (IMF) are meant to deal with financial stability. Basic problems with their design and membership have caused them to fail in this task.

2.1 A new design for financial regulation standard and financial standard-setting bodies

The financial crisis has shed light on gaps in international financial regulation. Issues that have arisen around standard-setting go back to the faulty design of the bodies that design them. The financial crisis has proven that problems in the design of financial standards have far-reaching implications for development and access to credit for the broad range of national stakeholders in all countries as well as for developing countries as a whole that have had no say in the design of such standards and are not represented in the bodies that design them.

The crisis, for instance, exposes the flaws of banking supervision that relies on market-based incentives for risk management. The systemic risk of 'shadow banking' can no longer be ignored by regulation and should be replaced by a new system for monitoring and supervision of risk management that encompasses all financial institutions with an impact on systemic risk.

Credit rating agencies share responsibility for backing the concealment of risks that led to the crisis and must be regulated and monitored by national governments in whose jurisdictions they operate. Legal incentives to rely on credit rating agencies should be removed from law, unless guaranteed by stepped up supervision by the government issuing such law.

Issues that have arisen around standard-setting go back to the faulty design of the bodies that develop them:

1. **Involvement of all countries, affected by internationally set standards, including less resilient and diversified economies**
   While such standards affect all developing economies, they have a far more dramatic impact on less resilient and diversified economies. Problems arising out of a lack of participation in the design of financial standards are compounded by the pressure put on developing countries to adhere to them. The World Bank and the IMF, the main bodies assigned to pursue the implementation of particularly the 12 G7-endorsed standards and codes14 in developing countries, in most cases pursue their implementation through sanctions and incentives -a practice which calls into question the 'voluntary' nature of their implementation as agreed in the Monterrey Consensus (the global consensus reached at the first International Financing for Development Conference in 2002).
   Fundamental principles of democracy and fairness underline the need for standards meant for universal application to be designed with universal participation.

2. **Participation of all stakeholders affected by internationally-set standards**
   Standards have a great impact on a wide range of actors within an economy itself. For instance the accounting standards of companies have an impact on the governments of the countries in which they operate, the companies' own employees and all citizens of the countries they operate in as a whole. Therefore, the International Accounting Standards Board (IASB) should recognise that the company's stakeholders include this broad range of actors beyond just capital providers and investors. Similarly, in the case of the Basel Committee on Banking Supervision, national constituents should not just be Central Bankers concerned with financial stability but also trade-unions, small and medium-size companies operating in the countries that will have to eventually implement the standards.

3. **Defining standard-setting goals in the context of overall sustainable development**
   The goals of standard-setting are also important considerations. Thinking of standards in the context of a politically-agreed goal of full capital account liberalization -an approach that has prevailed in standard-setting so far- could be quite different from thinking of them in the context of a different politically-agreed goal. Each area of financial standards requires it own approach to setting goals and methods of participation to ensure adequate involvement by developing countries.

The implications of the international agreed goal of at least halving poverty by 2015 should be taken into consideration as an important factor in determining the institutional composition.

[14] The 12 standards and codes are: A. Macroeconomic policy and data transparency: i. Code of Good Practices on Transparency in Monetary and Financial Policies; ii. Code of Good Practices in Fiscal Transparency; iii. Special Data Dissemination Standard and General Data Dissemination Systems; B. Institutional and market infrastructure: iv. Principles and Guidelines on Effective Insolvency Systems; v. Principles of Corporate Governance; vi. International Accounting Standards; vii International Standards on Auditing; viii. Core Principles for Systemically Important Payment Systems; ix. The Forty Recommendations of the Financial Action Task Force on Money Laundering and eight special recommendations on terrorist financing in the aftermath of 11 September 2001; C. Financial Regulation and Supervision: x. Core Principles for Effective Banking Supervision; xi. Objectives and Principles of Securities Regulation; xii. Insurance Supervisory Principles.

Financial standard-setting bodies should add developing countries to their membership. In bodies of limited membership, participation should be based on arrangements that ensure they have received a mandate from and are accountable to country groups they are taken to represent including, if necessary, the possibility of arrangements for rotation. There should be a clearly established time-line and the bodies should be asked to report regularly on their compliance with this task. Guidelines should also be established on the composition of these bodies and their goals. They should be required to ensure national members' contributions to these bodies come from a consensus among a diverse range of domestic constituencies. A UN-based intergovernmental group of experts for addressing development-related questions arising from the design of financial standards should be established.

2.2 A balanced and development-friendly system for international monetary stability

As part of this crisis, the last few years have seen a dramatic transformation of the roles of the IMF. The IMF has clearly failed to broker the coordination of exchange rates among hard-currency issuers. This function is essential to avoid the negative impacts of exchange rate volatility on the trading, debt service capacity and ultimately the development prospects of developing countries.

There is an urgent need to establish alternative credible mechanisms for the multilateral management of exchange rates. UNCTAD, for instance, has called for a new code of conduct to subject real exchange-rate changes to multilateral oversight.15

While an institution that coordinates among hard currency issuers is desirable, problems would remain so long as the domestic currency of one country continues to be widely used as the main international trading and reserve currency.

Drawing on lessons learned about the strength of single currency zones in the current crisis, such as the Eurozone, **the current system that relies on a single country's currency should be substituted by strengthened regional and sub-regional schemes for monetary cooperation.** In CIDSE's view, while being a more feasible form of multilateral exchange rate coordination, by supporting intra-regional trade, it would lead to diversifying products and markets, which would be particularly beneficial for developing country economies by deepening their resilience to external shocks such as the current financial crisis.

The ultimate goal should be the development of a balanced and development-friendly system for multilateral management of exchange rates that builds on and seeks to gradually coordinate South-South regional currencies and currency units.

Such reforms would need a long time to come about. In the interim, some degree of currency exchange rate instability will presumably continue to exist, leaving non-reserve currency countries to disproportionately bear its impacts. These fluctuations impact on developing countries' terms of trade in the same way that high tariffs imposed on their exports or subsidies enjoyed by developed countries' exports impact on them.

As an immediate step, a regular and predictable mechanism should be put in place to ensure that developing countries can opt-out of their trade obligations to the extent required to counter the impacts of exchange-rate volatility on their economies.

So long as there are no global institutions to manage exchange rates of trend-makers, trend-takers (most poor and undiversified economies) should be allowed to enjoy the necessary policy space to manage their exchange rates, for instance through taxing capital flows and currency market interventions.

[15] UNCTAD (2007) *Trade and Development Report*, p. 29.

2.3 Reforming the Bretton Woods system to reflect the interests of all its members

Developing countries' reluctance to turn to the IMF to bail them out of the crisis reflects the distrust and caution with which these countries treat the institution. As the financial crisis unfolded in its considerable magnitude in 2008, Pakistan as the only Asian country turned to the IMF for finance after a period of great reflection. Facing double food and fuel price shocks, Ethiopia in Africa and Haiti in the Caribbean sought IMF assistance. El Salvador was the only country in Latin America to agree to a 'precautionary' financial arrangement with the IMF which it could draw in case of critical need.

Prior to 2008, the IMF had gradually lost its functions as an emergency lender in times of crisis. The IMF scrapped the only existing instrument for this financing (the Contingent Credit Line) in 2003, and did not implement a replacement.[16] Rather than being faced with the prospects of turning to the IMF in times of crisis, developing countries that were able to do so tried to cope with financial volatility by building large amounts of dollar reserves. This policy came at a huge development and social cost to their own citizens and ultimately was one of the factors that caused the current financial crisis.

Much of these feelings of distrust towards the institution come from a sense that the IMF does not adequately represent developing countries' interests. This in itself, along with a recognition of the inequity of the current system of representation calls for a reassessment of the depth and extent of governance reform of the Bretton Woods Institutions. IMF reforms tabled so far, i.e. the reform of its voting structure at the Annual Meetings in 2006 and the Spring meetings in 2008 can only be described as piece-meal. The continued use of the existing formula -Gross Domestic Product (GDP) openness, variability and reserves- continues to favour rich countries.

The measurement of GDP at market-based rates systematically underestimates the size of developing countries' economies. The current reform has accepted to measure GDP in terms of Purchasing Power Parity only to a limit of 40 per cent. The second variable, openness is highly correlated to GDP measured in market-based rates, and therefore equally biased against developing countries. Moreover, intra-currency unions trade remains included in what is considered international trade, thereby substantially overestimating the share of the Euro-zone members. The third element, variability is potentially a powerful variable to capture developing countries' need for the IMF, but as it is not measured as a ratio of GDP, does not work in that direction.

The current formula to determine voting rights in the IMF and World Bank should be amended to include a consideration of 'demand-oriented' variables that may favour developing countries as against 'supply-oriented' ones.

The original Articles of Agreement of the IMF and the Bank ensured that only a few key decisions would be taken by special majorities. In the case of the IMF, the US share of 17 per cent meant that in a number of these decisions, which could only be taken with a special majority of the votes (85 per cent) the US would effectively have veto power. Over the years, however, the categories of decisions that require special majority have increased and so have the number of decisions subject to US veto.
For a number of decisions, the Charters of the Institutions provide they require a certain proportion of voting power and a numerical majority of members (double majorities). The introduction of a double majority requirement can increase the weight of developing countries in decision-making and encourage broader and more diverse coalitions across the membership - thereby ensuring more ownership - in support of policy decisions. Such type of provisions, including the requirement of a majority of 'regional members,' is already in place in several Regional Development Banks.

The double-majority requirement should be mainstreamed for policy decision-making in the IMF and World Bank. An interim step could be the immediate introduction of this system in the IMF for decisions related to its mandate to ensure global financial stability.

[16] In October 2008, the IMF implemented the Short Term Liquidity Facility, an instrument that attempts to fill that vacuum. So far none of the members that would qualify for it has made use of it, despite of the severity of the crisis.

The current crisis and the extent to which poor countries are being affected also reflects the failure of the Bretton Woods Institutions' standardised approach to managing the economic problems of a country regardless of its particular circumstances. Instruments such as the Country Policy and Institution Assessment (CPIA) and the Poverty Reduction Grant Facility (PRGF) remain far-removed from public discussion. There is a real or perceived fear in developing countries that they will not be provided with new loans or debt relief if countries dare to address their economic policies in a different way. The Boards of the Institutions have the ability to reject the macro-economic policies in the Poverty Reduction Strategy Paper (PRSP) by suspending the PRGF or Poverty Reduction Support Credit (PRSC)-supported programmes. All these factors remove the opportunity for real democratic control over IFI operations in developing countries while parliaments in developed countries have little oversight over the policy interventions being made by their countries' Board representatives.

The BWIs should make it mandatory for shareholders to certify that policy positions taken at the Board are regularly reviewed by a national Parliamentary Committee or another representative forum. Implications of financial commitments to the BWIs should similarly be reviewed by such fora. Low-income members' governments should be held accountable by public representatives and civil society for the implications of loans contracted, as should the institution who gives the loans.

The flawed nature of the current selection process for the leadership of the BWIs based on an unwritten agreement between the USA and Europe coupled with the weak attempts to open up the process, compounds a lack of confidence in the BWIs as legitimate institutions in the global economic architecture. While steps in the last appointments at both institutions show movement in that direction, the announcement by members carrying a significant amount of voting power that they support a candidate, before the deadline put forward for submitting candidacies has expired, undermines the incentives for other members to submit qualified candidates.

The leadership of the BWIs should be selected through open and transparent merit-based processes, an imperative that has been acknowledged by G20 Finance Ministers.[17]

Finally the current discussion of the role of the BWIs in the financial crisis should also clarify their responsibilities in global governance. The UN Charter was conceived as a normative model to ensure that international policies, notably those in the monetary, financial and trade sectors, would be coherent and thereby provide solutions to international problems of an economic, social, cultural or humanitarian character, while promoting the respect of human rights for all. To this end, the system relied on two principles: specialisation and coordination. Within this scheme, the BWIs were specialised agencies of the UN. Ensuing events have distanced these institutions from this role.

As part of the UN system the IFIs are accountable to international human rights law including the International Covenant on Economic, Social and Cultural Rights and the interpreting jurisprudence. The Relationship Agreements linking the IMF and World Bank respectively with the UN should be renegotiated. The aim should be to enhance the responsibility of the BWIs to the UN and to enhance the ability of the UN to ensure that IFIs fully abide by the mandates of other agencies, funds and bodies, particularly those with non-economic mandates. Clear legal principles for addressing conflicts of interest between the Bretton Woods Institutions and other UN bodies, agencies and fora should be established.

2.4 A new robust multilateralism

The financial crisis has once again highlighted the need for financial stability to be treated as a global public good and the need for a strong multilateral set up to ensure this. It is quite telling that Robert Zoellick, the President of the World Bank, called for a 'new multilateralism' to replace outdated

[17] G20 Finance Ministers' and Central Bank Governors' Communiqué - 14 March 2009, para. 8.

structures.'[18] UN Secretary General Ban Ki-Moon has also stressed the "*UN's responsibility for leading an 'inclusive multilateralism' that would need to be reflected in any discussion of the reform of the international monetary and financial system.*"[19]

Yet, the role of the UN in addressing economic governance, and particularly the financial crisis at present has been far from obvious. It was only after a long and contentious discussion at the Financing for Development Review Conference in Doha in November 2008 that the international community agreed to mandate the UN to organise a conference at the highest level to discuss the financial crisis. Some of this apprehension, mainly from the North, about the role and ability of the UN to deal with economic issues comes from a shift of political emphasis and resources to the BWIs by this very group of countries. Additionally, the United Nations' mandate to hold the Bretton Woods system accountable under international social and economic agreements or custom remains under-developed. Finally, the organisation is also marked by internal deficits that restrict its effectiveness and are still the subject of a series of reforms.

A new and more effective role for the UN on global economic and financial issues?

Under the UN Charter, the Economic and Social Council is responsible for coordinating economic and social affairs. It has faced many difficulties in fulfilling this co-ordination function. Its failure can be traced back to the original perception of it as a left-over of colonial times with an over-representation of developed countries; the proliferation of special programmes forced on the ECOSOC during the 1960s and 70s by many newly independent country members of the UN parallel with the development of a preference by major industrialised countries to confer power and resources to the Bretton Woods Institutions. Structurally, it has failed to provide for dynamic, interactive dialogue -particularly among high-level government officials- on the most crucial international issues related to global economic governance. It is a large body that only has periodic meetings and consists of 54 members that makes in-depth discussions and decision-making difficult.

To strengthen UN leadership on economic and financial issues the 1994 Human Development Report and the 1995 Report of the UN Commission on Global Governance suggested the establishment of an UN Economic and Social Security Council. . The Commission on Global Governance recommended the creation of "*a global council at the highest political level to provide leadership on issues of global governance… through its political leadership it would provide a long-term strategic policy framework to promote development, secure consistency in the policy goals of the major international organisations and promote consensus building among governments on possible solutions for issues of global economic and social governance."* More recently there have been calls for the development of an 'Economic and Social Security Council,' by leaders such as European Commissioner for Development and Humanitarian Affairs Louis Michel[20], French President Nicolas Sarkozy and German Chancellor Angela Merkel.[21]

The evolution of the ECOSOC to an Economic and Social Security Council would require the amending of the UN Charter. Such changes can only be accomplished within the context of the UN if there is political will to do so. The current crisis and the sense of urgency for serious change it has brought about could provide an ideal climate for such a political mood. One possible scenario is that the Council have a limited number of seats, i.e. 25, and could adopt a well balanced rotation system, whereby none of these would be permanent or carry veto power.

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[18] Speech, 6 October 2008 at the Peterson Institute for International Economics, in Washington DC. See http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:21927552~pagePK:34370~piPK:42770~theSitePK:4607,00.html.

[19] New York, 24 October 2008 - Statement attributable to the Spokesperson for the Secretary-General on discussion on the international economic situation, http://www.un.org/apps/sg/sgstats.asp?nid=3492.

[20] Speech on 'The impact of the crisis on developing countries' at the Informal Meeting of EU Development Ministers, Prague, 30 January 2009.

[21] Statements made at an international symposium on financial crisis, Paris 8 January 2009.

In its preliminary conclusions, the Stiglitz Commission[22] has recommended the setting up of a Global Economic Council. Such a Council would be established at a level equivalent with the General Assembly and the Security Council and which would meet annually at the Heads of State and Government level to assess developments and provide leadership in economic, social and ecological issues.[23]

The Financing for Development process as a venue to discuss UN leadership on global economic and financial issues

While there is no lack of proposals, what is clearly needed is the political willingness on the one hand and a process to channel this political will into a clear operational plan. The follow-up to the International Conference on Financing for Development that integrally deals with development in all its aspects is a unique process that can provide for this.[24] The preparations and the Conference itself saw an unprecedented level of discussion on development in all its dimensions between member states, UN agencies, other organisations such as the World Trade Organisation, civil society and the private sector represented at the highest levels. As part of the Conference's outcome or the 'Monterrey Consensus' which provides the background for its follow-up, participants committed to continue "*to build bridges between development, finance and trade organizations and initiatives, within the framework of the holistic agenda of the Conference."* [25] The role of the UN in this regard was confirmed.[26]

Unfortunately after the first Financing for Development Conference in 2002 where the Monterrey Consensus was adopted, commitment to the process has ebbed. The scarce high level political representation at the Financing for Development Review Conference in Doha in December 2008 that took place in the shadow of the G20 meeting in Washington DC dramatically symbolised this. At the same time the Doha Conference's resolve to further a discussion on a mechanism to strengthen the follow-up process[27] and its commitment to organise a UN Conference at the Highest Level on World Economic and Financial crisis, assuming such a conference is allowed to address global financial architecture issues, would indicate a new momentum in upholding the Monterrey Consensus.

The issue of UN leadership on global economic and financial issues fits well within the financing for development agenda. Doubtless to say that in order to make this possible, the follow-up process would need to be strengthened. Ahead of the Doha Conference, CIDSE put forward a proposal to replace the current financing for development process with a new institutional mechanism[28] backed by a strengthened UN Secretariat in Financing for Development matters.

A concrete way to reach such a mechanism could be by establishing a periodic Financing for Development Integrated Ministerial Forum. The existing follow-up process in both the General Assembly and ECOSOC, in a simplified format, could continue to meet periodically (annually or biennially) to

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[22] A Commission of experts chaired by Nobel Prize winner Joseph Stiglitz and established by the United Nation's General Assembly President in late 2008.

[23] Note by the President of the General Assembly, 19 March 2009.

[24] Para 8 of the Monterrey Consensus (outcome of the International Financing for Development Conference) states: "*In the increasingly globalizing interdependent world economy, a holistic approach to the interconnected national, international and systemic challenges of financing for development -sustainable, gender-sensitive, people-centred development- in all parts of the globe is essential. Such an approach must open up opportunities for all and help to ensure that resources are created and used effectively and that strong, accountable institutions are established at all levels. To that end, collective and coherent actions are needed in each interrelated area of our agenda, involving all stakeholders in active partnership".*

[25] Monterrey Consensus, para 68.

[26] Monterrey Consensus, para 72.

[27] Doha Declaration, para.89 "*We acknowledge the need for a strengthened and more effective intergovernmental inclusive process to carry out the financing for development follow-up, which would review progress in the implementation of commitments, identify obstacles, challenges and emerging issues and propose concrete recommendations and actions, taking into account various proposals that have been put forward.*"

[28] Minimum features of this new mechanism would need to be: periodic and frequent meetings; a negotiated outcome; participation at the highest level of officials covering key economic portfolios in member countries, IFIs, the WTO and all relevant development actors; space for civil society; accessibility to information and to negotiations for all stakeholders.

review progress on implementation of the Monterrey Consensus and advance agreement on an annual Inter-Ministerial Statement to be adopted at the Ministerial Forum. This forum should include ministers of development, finance, foreign affairs and trade.[29]

The General Assembly would need to establish a 'Committee on Financing for Development' to become the inter-governmental counterpart to the Secretariat on day-to-day follow-up matters, and the intergovernmental focal point to maintain ties of cooperation with the other institutional stakeholders. A bureau would need to be created as a platform for this Committee on Financing for Development of the General Assembly, and members of the Bretton Woods Institutions, WTO and other relevant stakeholders, to conduct the preparation of the periodic meetings of the Ministerial Forum.

The Financing for Development Office would have to be significantly strengthened so it can serve more demanding needs of the Financing for Development follow-up process. A strengthened Financing for Development Office would include the activities of the Bureau in preparing the regular negotiated outcomes of the Integrated Ministerial Forum.

III. OVERCOMING THE RESOURCE-CRUNCH CAUSED BY THE CRISIS

Resources available to all countries -and particularly those in the developing world- have been made scarce if not completely dried up due to the current crises.

There is an urgent need to review current channels by which revenue is generated. The current model of financing for development pre-supposes the primacy of donor assistance. Yet, history confirms that it is misguiding to consider financing for development as a mere needs-fulfilment exercise. The source of a state's revenues greatly influences its ability to fulfil its obligations.[30] Sociology suggests there is no grant without a return to the donor[31]. The gift also places the donor in a superior position vis-à-vis the recipient which is placed in a position of dependency under the donor.

As an international network of Catholic development organisations advocating for wealth to be distributed more equally within and among countries, CIDSE considers that taxation specifically, and revenue generated from a country's natural wealth and resources as a whole, should be at the heart of development finance.

There are a wide range of problems that deny a state of its ability to effectively raise revenues through domestic sources. These include capital flight and the associated role of secrecy jurisdictions, unsatisfactory reporting standards of commercial operators in countries, unsustainable debt and inequitable trade conditions. Many of these issues not only pose obstacles in enabling a country to effectively raise revenues but also pose problems to the financial system as a whole and have contributed in no small way to the current crisis.

The urgency of tackling these issues nonetheless, many low income countries will continue to require sufficient levels of donor resources (corresponding to the donor country target of spending 0.7 per cent of GNI on ODA and going beyond this to fulfil additional needs to finance mitigation and adaptation measures in the face of climate change) that effectively fill existing resource gaps in their budgets, even if only in the short term.

[29] Also in conformity to the agreement reached at Doha, para. 88. "*It is important that the follow-up process be undertaken in an integrated fashion, including through the continued engagement of all relevant ministries, in particular ministries of development, finance, trade and foreign affairs.*"
[30] See for instance Mick Moore, *Death without taxes: aid dependency, democracy and the fourth world,* Institute of Development Studies (IDS), Sussex University, February 1997 and *Taxation and political development*, IDS, June 1999. See also http://www2.ids.ac.uk/gdr/cfs/pdfs/Wp280.pdf. http://taxjustice.blogspot.com/2008/01/how-to-build-state.html. http://www.aei.org/publications/pubID.27798/pub_detail.asp.
[31] Mauss M. (1990), *An essay on the gift: the form and reason of exchange in archaic societies,* Année Sociologique 1923-1924.

3.1 Transparency, regulation and taxation of capital and profits

The very reasons that undermine the ability of all countries and particularly those in the middle and low-income groups to raise revenue from domestic sources have also been at the basis of the financial crisis:

A lack of traceability of and regulation of capital

This has mainly been thanks to the watering down of international financial transparency standards over the years since the original Keynes-Whites proposal to control capital flight in the 1940s in the context of the rebuilding of post-war Europe.[32] This in turn led to the growth of tax havens and secrecy jurisdictions which accelerated with greater global inter-connectedness. In 2006 the IMF reported that there were more than 52 offshore financial centres, as compared to 25 in the 1970s.[33]

Secrecy jurisdictions have played an important role in the present financial crisis:

- They have systematically undermined the application of other jurisdictions' legislations;
- By ensuring secrecy and favouring complex financial arrangements, they allowed the concealment of excessive risks taken by banks and companies and have brought much uncertainty to the financial markets;
- Hedge funds which have caused a lot of distrust and loss of confidence in the financial system as a whole are mainly located in secrecy jurisdictions.

Secrecy jurisdictions directly undermine development by triggering a flight of resources from an economy that should normally contribute to a governments' budget revenue. Developing countries lost an estimated 858.6 billion USD to 1.06 trillion USD in 2006[34] in illicit financial flows. The UN estimated that net finance transfers from developing countries reached an outflow-peak of 658 billion USD in 2006 (UN, World Economic Situation and Prospects 2007, New York 2007, 58f).[35] The judicial leeway of tax havens provide a shelter for assets looted by dictators and officials which are often hidden behind banking secrecy, trusts, foundations or other special purpose vehicles allowing for anonymity.

Trans-national companies are also major users of tax havens. According to statistics from the World Trade Organisation (WTO) more than 50 per cent of world trade is intra-group trade between affiliates of the same company or holding[36], most of them maintaining entities in tax havens.

Lower revenue from taxes on capital and profits and as a result of stolen assets puts greater pressure on consumption and wages imposing a relatively high burden on the poor and women in particular. A conservative estimate of losses from non-taxable assets held by wealthy individuals in tax havens is about 50 billion USD per year for developing countries alone.[37]

Ability of capital and investment to 'shop around' for the most lucrative conditions

This is the direct result of the increased and uncontrolled mobility of capital due to globalisation and liberalisation of financial markets. Countries have increasingly waged a 'race to the bottom' to attract foreign investors through all sorts of incentives, holidays and benefits. Governments have competed with each other to offer the most favourable climate for investment by increasingly abdicating their responsibility to regulate, supervise and tax foreign capital and investment. Trans-national corporations

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[32] See also CIDSE (2008), *Closing the gap: Addressing imbalances in global finance,* November, Brussels.

[33] International Monetary Fund (2006), *Offshore Financial Centers: the Assessment Program - A Progress Report,* Washington DC.

[34] Kar, D and Cartwright-Smith D (2008) *Illicit Financial Flows from Developing Countries: 2002-2006,* Global Financial Integrity project of Center for International Policy, USA.

[35] Gurtner, B (2007) *Verkehrte Welt: Der Süden finanziert den Norden.* In IUED, Schweizerisches Jahrbuch für Entwicklungspolitik, Vol. 26, N°2, 61-84, Geneva.

[36] World Trade Organisation (2006) *International Trade Statistics 2006*, Geneva.

[37] Tax Justice Network (2005): *The price of offshore*, London. The estimate for all countries is about $255 billion.

(TNCs) have profited from this 'race to the bottom' by shopping around for the most favourable conditions and lowest rates of taxation. Additionally, they have taken advantage of the considerable trade in between their multiple companies to develop complex mispricing strategies in order to avoid paying taxes (i.e. transfer pricing). For example, TNCs manipulate intra-firm capital structures to transfer profits from high-tax to low-tax countries. Annual reporting and accounting standards of TNCs provide no precise information on where the company is active or on its respective turnovers, profits and taxes paid per fiscal year. These falsified pricing structures and distorted/manipulated capital structures coupled with non-transparency are major channels to avoid taxes. The consequent annual loss for developing countries was estimated at 50 billion USD in 2000 – almost the total amount of global ODA at that time.[38]

The role of international financial institutions and other donors

The IMF, World Bank and other donors have habitually attached conditions to their development assistance, debt relief and trade-agreements with developing countries. The current crisis has left particularly those developing countries which have greatly liberalised their trade and financial systems under pressure from such conditional arrangements particularly vulnerable. Many of these countries have not been able to accumulate adequate financial reserves as trade liberalisation did not come with adequate compensation for the massive losses of tariff revenues caused by externally imposed trade liberalisation.[39] The attempt to compensate the lost revenue tends to increase taxation on less mobile tax bases such as consumption and work, which have a regressive character and hit the poor especially hard. In Brazil, between 1996 and 2001, labour income taxes increased by 27 per cent and social security subscription charges increased to 66 per cent, while corporate taxes decreased by 16 per cent and the tax on rural property was halved.[40]

Fiscal limitations imposed through conditions or advice of the International Financial Institutions have also meant that these countries do not have the policy space to provide for fiscal stimuli in a measure comparable to the actions of their industrialised country counterparts. Additionally, the liberalisation of their finance markets has meant that they have little control over the mobility of capital moving out of their economies. Consequently, countries like Kenya, Nigeria, Malawi, Ghana, Uganda and Zambia with increasing direct and indirect foreign financing in local markets have been hard hit by the crisis.[41] Moreover, foreign banks present in such economies have not provided the urgently needed credit in these countries, quite the contrary has occurred. For instance, countries such as Uganda and Zambia have suffered funding pressures in their banking systems mainly as a result of the ongoing stress in the international credit markets which has curtailed the operations of foreign banks in their local markets.[42]

Actions to address the issues listed above are first of all a matter of justice to reverse harmful impacts on the ability of developing countries to invest in their peoples' development. They are also a matter of common interest of the international community as a whole -including industrialised countries- concerning gains in financial stability and transparency.

CIDSE recommends the following actions to end tax havens and secrecy jurisdictions, increase transparency in the financial system and enable developing countries to effectively use domestic resources for their development:

1. The adoption of a **Code of Conduct for states** on cooperation in combating international tax evasion and avoidance that has been approved by the subcommittee on tax matters of the UN's ECOSOC. The code of conduct should include the following key content elements:

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[38] Oxfam (2000) *Tax havens: Releasing the hidden billions for poverty eradication*, Oxfam Briefing Papers, Oxford.

[39] A study by IMF researchers, reviewing a panel of information of 125 countries, concluded that middle-income countries had been able to recover between 35 and 55 cents per dollar of income from lost trade income, whereas lowest income countries had recovered basically none. (Baunsgaard, Thomas and Keen, Michael (2004): *Tax Revenue and (or?) Trade Liberalization*, Washington DC).

[40] GRESEA (2003) *La Justice fiscale pour le développement social – Etudes de cas: Brésil et Algérie*, pp. 17-18, Brussels.

[41] International Monetary Fund (2009) *Implications of Global Financial Crisis for Low-Income Countries,* Washington DC.

[42] Ibid.

- A requirement of transparency in financial matters that would, for example, limit bank secrecy rules;
- An agreement on comprehensive and automatic information exchange between tax authorities;
- A commitment to avoid the establishment of legal instruments that are intended to confound tax enforcement, such as trusts with undisclosed terms;
- Conformity with emerging standards with respect to 'know your customer' rules for banks and other financial intermediaries and 'know your shareholder' rules for corporations and other legal entities;
- A commitment to adopt and enforce reporting rules, such as rules on large cash transfers.

2. The enhancement of international tax cooperation by upgrading the UN Committee of Experts on International Cooperation in Tax Matters into **an Intergovernmental Committee based on political representation** which would expand on existing international efforts, especially by the OECD. This upgrading should be accompanied by substantially more resources. Proposals for the creation of an International Tax Organization should be seriously considered.

3. The requirement of **Country by Country Reporting** as part of the international accounting standards for TNCs not only in the extractive sector but in all sectors. Accounting standards would require the disclosure of all financial transactions, not only with regard to tax obligations. On the one hand, this would allow transparency regarding financial transactions between such companies and the governments of the countries they are operating, thereby enabling citizen-monitoring of resources that are transferred to the governments. On the other hand, this would considerably curtail the possibilities for transfer pricing. Host country requirements such as local purchasing and trade-balancing requirements, currently forbidden by the Trade Related Investment Measures (TRIMs) agreement, should be re-enabled, given their potential to prevent transfer pricing.

4. Ensuring **policy space** for developing countries for progressive taxation which allows redistribution and guarantees financing of public services such as health and education and support social and gender impact analyses of taxation schemes.

5. Strengthening **judicial cooperation** between states including the following elements:
   - An obligation to provide foreign judicial and tax authorities any bank information on people suspected not only of corruption or misappropriation of public funds, but also of tax evasion;
   - An obligation to repatriate stolen assets whether or not the receiving state is able/ willing to initiate judicial proceedings for their repatriation.

6. **Black-listing secrecy jurisdictions** which do not cooperate with foreign judicial and tax authorities. We welcome the developing consensus in the international community, to develop a new list of tax havens which do not cooperate with foreign judicial and tax authorities. Renewed black-listing efforts should combine the rationale behind OECD, FATF and FSF work in this regard rather than stick to a narrow view on the issue. Rather than restricting cooperation to voluntary disclosure, as currently contemplated by agreements between the UK and its tax-haven dependencies or that other secrecy jurisdictions are happy to reconcile themselves to, it should be based on clear and transparent criteria including all states and territories unwilling to agree to the automatic exchange of tax and judicial information, to abandon strict banking secrecy and to register trusts' beneficial owners. Major financial centres such as London and Delaware should also be included if appropriate.

   Gradual and strong retaliation measures should be put in place against uncooperative secrecy jurisdictions based on an international agreement. Such measures should target secrecy jurisdictions themselves, but above all they should target trans-national companies, banks, rich individuals who use them and their advisors.

   As a minimum, the benefit of national and multilateral rescue plans should be strictly conditioned to the full disclosure by banks and companies of their offshore activities and benefits. The recent UBS scandal in the US proves that a tax administration can obtain transparency regarding its citizens holding an offshore account, despite banking secrecy, by threatening to take away the bank's license.

7. Setting up a multilaterally-agreed **common standard defining a tax basis** to minimise tax avoidance and a race to the bottom. States at comparable levels of economic development and in geographic proximity should cooperate to eliminate destructive elements of tax competition. Harmonisation of tax bases and minimum rates for corporate taxation within regional economic groupings such as the EU would be important steps to further such cooperation.

8. The **promotion of or undertaking tax evasion should be made legally actionable**. Financial intermediaries such as corporate directors, lawyers and accountants in large financial centres should be held responsible before national courts for promoting or hiding tax evasion. This requires the generalisation of tax evasion as a criminal offence in every country. Tax evasion should also be included under anti money-laundering legislation. Anti-money laundering efforts should generally be stepped up and particularly enhanced in developing countries, including by the strengthening of regional Financial Action Task Forces and by providing them with constraining power.

9. The **International Monetary Fund should fulfil its responsibility for the monitoring and surveillance of financial centres** and the international financial architecture. Reports on Observance of Standards and Codes should also report on compliance of jurisdictions that are financial centres handling assets on behalf of non-resident clients with standards of international financial transparency and effective exchange of information.

10. Finally, **small vulnerable economies that have turned into tax havens, many of which house poor communities who do not take any advantage of the offshore status, need support and financial assistance** to diversify their income and comply with standards to prevent money laundering.

3.2 Tackling speculation in the currency and financial markets

Trading in the financial markets, particularly on the credit markets affects the stability of economies. The impact of such trading and the consequent fluctuations in currency values are particularly damaging in periods of financial uncertainty such as in the present crisis. Recently, Brazil, Hungary, Iceland, Romania and Turkey have suffered extreme currency devaluations as a result of 'carry trade' in the currency markets.

To counter the harmful impact of such trading while also raising resources for development, CIDSE advocates for the adoption of a Currency Transaction Tax (CTT) and the further exploration of a broader Financial Transaction Tax (FTT). International taxes on currency and finance respond to the need for a just redistribution of the profits of globalisation and the benefits and costs of financing global public goods. Moreover, taxing such trading would be long overdue given the fact that this sector of the economy has remained untaxed despite its impacts on the larger financial system.

Currency transaction tax (CTT)

CIDSE has consistently advocated for a Currency Transaction Tax convinced of its potential of realising a more equitable distribution of wealth and a more stable financial climate while at the same time raising revenues that would be dedicated to financing the MDGs.[43]

CIDSE's key arguments for advocating the CTT's adoption are:

Regulation: The two-tier (two-rate) CTT model that Professor Paul-Bernd Spahn proposed which is a version of the proposal popularised by James Tobin in the 1970s, would enable cooperative action by the

[43] Ref. CIDSE website on actions on CTT, CIDSE paper. 2004, CIDSE paper on Innovative resources 2005.

world community or even individual governments to better predict rapid speculative runs on currencies and moderate their effects while generating revenue for development. Thus, a currency transaction tax could contribute to the prevention of major currency crises, acting as a monitoring device.

Re-pricing and redistribution: A tax on currency transactions would tap the large and fast growing share of financial markets in the global economy. Since the greatest volume of capital that passes through the financial market is largely owned by entities with considerable disposable resources, such a tax would oblige them to some contribution for global development and provide for a fairer distribution of wealth between the rich and poor, in the North and South. It would also shift the tax burden from wages and consumption to capital thus making the overall tax system more equitable.

Revenue generation potential: Possible revenues depend on the rate and scale of introduction. Rodney Schmidt in 2007 estimated that a CTT of 0.5 basis points on the major currencies would yield an annual revenue of at least 33.41 billion USD.[44] The revenue generated would need to be earmarked as additional (to the 0.7 per cent ODA) and directly supporting the achievement of the MDGs.

Feasibility: Many were sceptical about the feasibility of a CTT in the past and it has been the subject of serious debate. Over a period of time several studies have proved the feasibility of the CTT at a single low rate as a revenue-raising device (see following paragraphs on the Currency Transaction Development Levy). It was endorsed by the UNU-WIDER report in 2004, by the *Landau Report* sponsored by the French government, by the *Quadripartite Report* supported by Brazil, Chile, France and Spain and by the World Bank in 2004. While often global introduction was deemed necessary and seen as very unrealistic, publications have proven that it is feasible for a group of countries to implement a CTT e.g. the study by Bruno Jetin and Lieven Denys in 2006.[45]

Political support for the introduction of a CTT has so far come from France, Belgium (legislation), and Austria (Government programme) while currently debates are underway in Japan.

Studies such as "*A Euro solution*"[46] by the international financial advisory firm, Intelligence Capital Limited, confirm the possibility of a unilateral introduction of a CTT by any country or currency zone without major negative economic side effects or disturbances of the respective currency markets. These publications suggest a '*Currency Transaction Development Levy* (CTDL)' with a very low rate of half a basis point (0.005 per cent) and taxation based on all trade in a particular currency wherever they take place - not on jurisdiction as promoted by Spahn - to minimize market distortions or chances for evasion.

Highly conservative estimates of the likely annual revenue raised through the CTDL based on unilateral implementation at a rate of 0.005 per cent by the UK would reach 2.08 USD billion, by Norway 170 million USD and the Eurozone 4.55 billion USD.[47]

The first practical test of its implementation was done by INTL, a British private company, specialised in foreign exchange in May 2007. In a week-long trial, all currency transactions were taxed at a rate of 0.005 per cent. The company raised almost 4,000 Pounds Sterling in a few days, the proceeds of which were given to charity.

Research conducted on the implementation of a transaction levy at a country or currency-zone level has demonstrated the feasibility of adoption of a simple stamp duty on foreign currency transactions such as a '**Currency Transaction Development Levy'** at a national or even regional level (for instance in the Eurozone).[48] It has demonstrated that such a levy could be implemented thanks to the developments in

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[44] Schmidt R. (2007), *The Currency Transaction Tax: Rate and Revenue Estimates,* The North-South Institute, Ottawa.
[45] Bruno Jetin and Lieven Denys (2006), *Ready for Implementation* published by WEED, February, Bonn, 2006.
[46] Spratt S. (2006) *A Euro solution,* Intelligence Capital Limited, London; Schmidt R. (2007) *The Currency Transaction Tax: Rates and Revenue Estimates,* The North-South Institute, Ottawa.
[47] Hillman, David; Kapoor, Sony and Spratt, Stephen (2006) *Taking a next step – Implementing a Currency Transaction Development levy* commissioned by the Norwegian Ministry of Foreign affairs.
[48] Spratt Stephen (2006) *A Euro solution,* Intelligence Capital Limited, London.

the foreign exchange markets and would cause minimal disruption to currency markets while raising significant sums of money in cost-effective manner.

At the same time, given its primary potential to provide for financial stability, CIDSE argues that a policy that puts in place such a levy should retain the possibility of enforcing a **full fledged Currency Transactions Tax**.

Financial transaction tax (FTT)

The exponential growth of the financial market and development of new financial instruments, beyond currency speculation, has affected global financial stability and contributed to the financial crisis. This growth of the market in new financial instruments led to recent explorations of the creation of a FTT. On the revenue side, the equal treatment of all financial instruments, with its very broad tax base, as considered in a FTT, allows for very low tax rates nevertheless resulting in substantial revenues.

Regulation function: A study by the Austrian research institute WIFO[49] has argued that the expansion of financial markets, with the disproportionate growth of trading in derivates (which makes up 80 per cent of financial transactions) has been considerably rapid as compared to the "underlying" markets of goods and services. The growing importance of technical trading systems in financial markets has significantly contributed to the volatility of asset prices. The cumulative effect of the consequent increasingly short-term transactions is rather destabilizing. Therefore the regulatory effect and a reduction of volatility is one of the main aims of the introduction of a FTT.

The FTT would be levied on a whole range of financial transactions in the course of a step by step introduction covering all transactions with "financial assets", spots and derivates[50] starting on organised exchanges at key financial centres with an expansion to Over-the-Counter (OTC) trading and broader geographical coverage in a next step. "Normal" transactions between customers (private as well as corporate) would be exempted. Proposed tax rates range between 0.01 per cent and 0.1 per cent.

According to the WIFO study, a FTT as described above would have a regulatory effect thereby stabilizing excessive dynamic financial markets. As the tax base is the notional value of the respective transaction, this design implies that the tax burden relative to the cash invested grows as the leverage effect rises. Such an FTT will specifically hamper those transactions that involve high leverage and therefore a high risk. A general FTT would render transactions more costly the shorter their time horizon is, hence, it would tend to dampen technical trading. It can be expected to reduce excessive liquidity stemming from transactions which are very short-term oriented and might be destabilizing at the same time. Moreover a FTT could contribute to a small correction of the imbalanced tax load on '*real capital*' and labour. Its regulatory effect on oil and food prices is currently studied given the high proportion of speculation in the recent price hikes[51]. This would particularly benefit the poor.

Revenue-generation function: Potential revenues of a general FTT have been calculated for three tax rates, namely, 0.1 per cent, 0.05 per cent, and 0.01 per cent. Even though revenue estimates are based on the assumption that transaction volumes will be reduced by the introduction of an FTT, in North America and Europe, tax revenues should lie between 0.7 per cent and 2.2 per cent of GDP. This means even a tax at a minimal rate of 0.01 per cent within the EU would generate income of about 103.9 billion USD per year i.e. about 82.7 billion Euro or two-thirds of the EU budget.

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[49] Schulmeister, S.; Schratzenstaller, M.; Picek, O. (2008), *A General Financial Transaction Tax – Motives and Effects*; Study of the Austrian Institute of Economic Research (WIFO) commissioned by Ökosoziales Forum Europa and co-financed by the Ministry of Finance and the Ministry of Economics and Labour, Vienna.

[50] All spot and derivatives transactions on organized exchanges, e.g. trades of stocks and interest rate securities, as well as trades of futures and options related to stocks, interest rate securities, currencies and commodities.

[51] Schulmeister argues that oil price hikes cannot be explained by increased demand only. The increase of global demand on crude oil increased only by 1.2 per cent per year since 2004 compared to a price increase in the same period of 250 per cent. Trade with oil futures double since early 2006 and amounts to 530 Millions of "paper barrels" - 6 times the global production of "real" oil.

Redistribution function: Transactions on exchanges are highly concentrated in financial centres in developed nations; within Europe, these are mainly market places like London and Frankfurt. In fact the tax will effectively be paid by all actors who make use of the exchanges in these places. If one assumes that trading activities are roughly proportionate to the overall economic performance (i.e. nominal GDP) then a FTT might well be in line with the principle of a fair sharing of the tax burden. However, if the FTT serves the principle of redistribution, much will depend on the use of revenues which still needs further clarification. Presently, in Austria, the use of potential revenues from a FTT to finance its contribution to the EU budget is being discussed alongside with its use to finance supranational challenges such as development cooperation.

Recognising the still early stages of the discussion of the feasibility of a more general FTT, further effort should be made at the political and technical level to investigate its value and practicability.

Decisions on the structure to administer the funds, their use and disbursement will be equally important to ensure a legitimate and representative set up.

3.3 A comprehensive and binding response to sovereign unsustainable debt

Countries benefiting from multilateral and bilateral debt relief over the past years have been able to invest significantly more in development, and in the current situation have greater breathing room for their own fiscal stimulus responses. Yet, debt relief operations to date have remained restricted in their scope and to the number of countries that have been able to get debts cancelled.

The latest debt cancellation initiatives have neither supplied sufficient resources nor resolved the problem of debt burden, for the following reasons[52]:

- Many countries with illegitimate/ odious debts were left entirely off the list;
- Since the measure consisted of a one-off, ad hoc set of debt reductions, it did nothing to address the traditional power imbalances between creditors and debtors;
- Harmful, one-size-fits-all conditionalities imposed by IFIs were not removed. On the contrary, they were made a requirement to access debt relief. In fact, (as mentioned earlier in the context of pressure put on countries to liberalise their economies) onerous forms of conditionality which form a central part of most debt cancellation operations go well beyond basic fiduciary standards such as mutual accountability and transparency into micro-management of the economies of impoverished countries;[53]
- Except for debts owed to the IMF, the mechanism chosen for debt relief consisted of gradual provision of grants to meet debt service and principal obligations as they become due. With regards to the debts of several beneficiary countries to the International Development Association (IDA) and the African Development Bank, this meant less than full additionality of resources.

Not surprisingly, developing countries' external debt was calculated to be as high as 3.35 trillion USD in 2008. Even for countries who have successfully 'graduated' from debt relief operations, there is a real possibility of again defaulting on their debts as a result of the current crisis and recent endogenous and exogenous shocks. Many of the reasons for this go back to the ineffectiveness of the Debt Sustainability Framework (DSF) of the World Bank and the IMF. It is not applied universally by private and new official donors. It sanctions only the debtor for breaches in the debt ceiling it establishes per country

[52] CIDSE (2007) *A Human Development Approach to Preventing New Cycles of Debt,* Brussels.
[53] For example, in Zambia and Nicaragua, requirements from the IMF for tight monetary policies that have eliminated or vastly reduced the amount of money freed up by debt relief for spending on social services (see Weeks, John and McKinley, Terry (2006), *Does Debt Relief Increase Fiscal Space in Zambia? The MDG Implications* UNDP International Poverty Centre, Country Study no. 5, September; and Acevedo, Adolfo (2006) *Nicaragua: "the Millennium Development Goals (MDGs) and the IMF program,"* p. 9-11.

although breaching a ceiling always needs a debtor and a creditor. At the same time, new borrowing is in many instances the result of insufficient access to grants in the first place. Debtors are first left without alternative but to borrow and are then punished for taking credits. The DSF does not address endogenous and exogenous shocks which many post-HIPC countries were hit by recently. The situation of several countries where external debt levels have apparently improved at the expense of generating new domestic debt is not considered.

In times where donors are finding it hard to fulfil their ODA commitments, making development flows more unpredictable than ever, there are strong political arguments for debt cancellation. Once committed, it is highly predictable. Writing off debts can also relieve the pressure on domestic borrowing, increasing the availability and reducing the cost of domestic credit, thereby spurring economic growth. By providing *de facto* budget support, debt cancellation can reduce the transaction costs of donors, and enhance local accountability and good governance.

Along with debt cancellation, a reform of the economic system should include the development of a new approach to deal with the process of lending and sovereign borrowing, both in terms of quantity and quality that overcomes current problems enumerated above.

Responsible lending must be the cornerstone of future sovereign financing arrangements. It can only be achieved by the adoption of a binding legal framework. This would ensure that all creditors engaging in irresponsible lending take responsibility for such lending, and that problems associated with irresponsible lending and borrowing are resolved on a predictable and equitable basis. Such a framework would take account of both the origin and impact of the debt. It would offer equal treatment to both debtors and creditors ultimately affecting the incentives not only for debtors, but also for lenders and prevent renewed indebtedness on a sustained basis. The framework could be in the form of an impartial and transparent process for resolving debt crises and disputes.

3.4 Official development assistance

On the occasion of the Monterrey conference in 2002 several countries made formal commitments to increase their official development assistance (ODA) e.g. the EU countries with their Barcelona agreement. These commitments have been reconfirmed and adapted 'in some cases with specific timelines' in later years (e.g. for the EU countries in Luxembourg in 2005). At the Doha Financing for Development Review Conference in December 2008, it was agreed that greater efforts would be made to develop and adhere to time-tables for increasing volumes of ODA.

The need for legally-binding commitments on ODA

The sufficiency of ODA volumes are greatly threatened by the financial crisis. Donors are likely to 'window-dress' the figures to demonstrate that they are living up to commitments by counting debt relief, export credits and even credits that have been repaid at market value.

This makes it even more essential for donors to be legally bound to commitments to reach their ODA targets. In times of financial uncertainty, low income countries in particular need ODA that is sufficient in quantity, oriented to sustainable poverty eradication, predictable and effective, to support domestic efforts to improve the living conditions of millions of poor people.

ODA is especially important to enable sufficient investment in sustainable small-scale agricultural development within a coherent framework of environmental sustainability. Particularly concerning is the fall in ODA support to agriculture over the years from 18.1 per cent in 1979 to 3.5 per cent in 2004. Even this small pool of resources has been invested in an export-oriented model of agriculture in a restricted number of commodities which are fragile, energy-intensive and exploited by a small group of rural elites and agribusinesses.

The need for ODA to effectively invest in development

As actual volumes of resources that are available for development fall, the need for development money to actually deliver poverty reduction and improve the lives of people becomes even more important. The Paris Declaration on Aid Effectiveness of 2005 and the more recent Accra Agenda for Action have seen donors pledge to improve the effectiveness of their ODA.

However, practice does not yet match positive rhetoric, particularly in the areas of:

- Improvement in flexibility of ODA delivery;
- The untying and suppression of burdensome restrictions on ODA;
- The utilisation of frameworks that are owned and driven by recipient countries.

The quality of development assistance goes far beyond the official aid effectiveness agenda. It entails essential political questions of the distribution of power, of access to resources, of development assistance-related risks and opportunities. These issues are not covered by the agenda of the Paris Declaration.[54] Without coherent policies and politics in favour of human global development and environmental sustainability, development assistance on its own will be fruitless.

A crucial point for ODA effectiveness as well as for political coherence is adequate participation of all stakeholders, especially the poor and marginalized. Participation includes support for national initiatives of civil society for public budget monitoring, democratic accountability and participation. On the international level it calls for a fundamental review of the conditionality system. Basic standards of fiduciary accountability and transparency are important parts of the development assistance contract. The requirement made of recipient governments to provide accurate financial and budgetary accounting for the use of development money, should be complemented by the provision of timely and predictable flows of ODA by donors. Beyond this, conditions -particularly economic conditions- tied to ODA are not legitimate if they are imposed rather than arising out of an inclusive process of dialogue and negotiation. [55] While the principle of dialogue in formulating ODA-related conditions has been recognised by the Accra Agenda for Action (Para 25 a), the structure of the forum (led by the OECD, an organisation of industrialised countries) to facilitate this raises questions of the fairness of the dialogue.

In the context of current discussions of global governance reform, the need for a new aid architecture where developing countries are included in decision-making and norm-setting must be addressed. Tasks such as defining what should be counted as ODA, reviewing performance of mechanisms such as vertical funds and trust funds, deciding ways and means to coordinate policy and aid delivery mechanisms, advancing concepts for donor and recipient partnerships, remain more concentrated in the hands of donors or donor-driven forums. Efforts to implement the Paris Declaration on Aid Effectiveness have not provided an adequate institutional setting to negotiate with non-OECD countries as a collective. As a universal and multilateral institution the UN, through a considerably strengthened Development Cooperation Forum (DCF), would be a far more adequate venue for the involvement of donors and recipient countries in the design and monitoring of conceptual and operational aspects of the emerging aid architecture.

In conclusion, CIDSE supports broader CSO demands for specific action on ODA to be taken by donors keeping in mind the adverse impacts of the crisis on development budgets. These include:

- **Restricting calculation of ODA** to only count resources that are channelled to poverty reduction and not those transactions that would not represent a real transfer of resources such as debt relief;
- **Binding timetables to achieve commitments on aid** as reflected in the 20/20 initiative launched at the 1995 Copenhagen Conference on Social Development, in the Monterrey Consensus and at the MDG Summit in 2005;

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[54] Also see CIDSE (2008), *Development Aid: Compensation for Injustice or Instrument for Justice?,* Brussels.

[55] Also see CIDSE-Caritas Internationalis Working Group on Resources for Development (2005), *Statement on Conditionality*, Brussels.

- **Integrate development assistance in a coherent policy framework** oriented at sustainable global development for the benefit of the poor and the most vulnerable and environmental sustainability. The Accra Agenda for Action and the Paris Declaration must be implemented through consultation with government, civil society and parliaments in developing countries. Clear plans of action should be laid out to make this possible;
- **Eliminate economic policy conditions** that constrain developing countries' policy space to take measures in the macro-economic, financial, trade and social sphere to weather the multiple crises in the short term; and which reduce their long-term ability to institute country-specific models of development;
- **Increase the concessional level of loans** from development budgets;
- **Untie all ODA**;
- **Channel ODA not only to finance safety-nets but also into structural investment in agriculture and rural development policies.** Such investment should focus on small-scale farming and overcoming the variety of supply constraints farmers face – such as access to water, credit, agricultural inputs and market information.

3.5 Fairer trade conditions

Failure to increase the coherence of global development goals with global trade rules has not only prevented developing countries from harnessing the potential of trade for their economic and social development, but has resulted in a trade model which prioritises markets over people. The present food crisis proves once again that an unchecked liberal approach to trade – particularly in trade in agriculture – is dangerous, as it directs food to where the market will pay the highest price, and not to where people are hungry.

The explosion of the food crisis in 2008 was the result of the confluence of longstanding policy failures in agriculture and rural development and an unjust system of international trade rules, with a number of critical emerging factors including incentives for biofuel/agrofuel production and speculation on agricultural markets. Beyond the alleviation of price fluctuation-impacts on households through the provision of food aid to those immediately in need, and steps to increase productivity in developing countries, there is a need to look at the structural obstacles to food security at the national and international levels.

Despite the 'Development Agenda' rhetoric under which the Doha Round was launched seven years ago, negotiations have unravelled time and again due to the counter market access ambitions of the EU and US in agriculture, industry and services. The frequent breakdown of negotiations on issues fundamental to the interests of developing countries reflects the non-willingness of developed countries to accept the necessary changes to establish fairer global trade rules that promote the interests of the developing world. The Doha deal as it was proposed in July 2008 would not solve the financial, food and energy price crises and would in fact exacerbate it by making food prices more volatile and increase developing countries' dependence on imports; it would furthermore severely restrict the policy space open to developing countries for pursuing agricultural and rural development.

Farmers in developing countries have been suffering from 'dumping' – the sale of cheap agricultural goods below the cost of production, from the US and the EU for decades. 'Dumping' destroys local markets and has forced millions to leave agriculture, exacerbating both rural poverty and rural-urban migration. With a simultaneous decline in investment in agriculture in accordance with prevalent development theories and economic conditionalities, the result is that many developing countries are now dependent on foreign imports for food. This means that with the current rise in global food prices, the poor, and in particular the urban poor, can no longer access basic food staples. Ironically, the most recent collapse in WTO talks was triggered by developed countries opposition to an effective Special Safeguard Mechanism (SSM) for developing countries. Access to such a mechanism would allow developing countries to mitigate some of the negative impacts arising from dumping. The SSM is a crucial protection instrument which must be included and effectively implemented in multilateral and bilateral or regional agreements alike.

Sustainable solutions to global food security will require structural investment into agricultural and rural development policies in developing countries, with a focus on small-scale farming and the variety of supply constraints they face – such as access to water, credit, agricultural inputs and market information. This must be combined with pro-development international trade rules that provide the policy space sought by developing countries.

The lack of policy options available to developing countries under current trade rules meant some had little choice when food prices began to spiral but to impose export restrictions in response to the scarcity of supplies, a measure which prompted others to follow suit and exacerbated the crisis.

Whilst the collapse of the Doha Round in 2008 highlighted once again some of the weaknesses of the WTO, it also clearly demonstrated the increased representation and weight of developing countries in the organisation, and that their interests can no longer be simply overruled by developed countries.

The importance of a multilateral trading system should not be undermined as the alternative of bilateral and regional trade agreements result in the implementation of advanced liberalisation arrangements, previously rejected at the WTO, that often have even more serious negative implications for developing country parties.

Additionally any immediate assistance tied to addressing the impacts of the food crisis should not intrude on the trade and investment negotiation space of countries that need this financing.

3.6 Financing to counter climate change remains an urgent need

Climate change is presenting additional challenges to developing countries striving to achieve poverty reduction while struggling to find the financial resources to cover pressing budgetary demands in a situation of falling growth, investment and revenue. In responding to the financial crisis, many industrialised economies have prioritised investments in new technology that would facilitate their own transition to low carbon economies. However, there are no clear indications that financial resources shall also be extended to developing countries for their investment needs in adaptation. Neither has there been a clear commitment from developed countries that financing for tackling climate change will be in addition to or independent of existing development aid commitments.

The 0.7% commitment, which is at risk of being set aside by many donor countries because of the crisis, was made well before the impacts of climate were known. Climate change is placing additional constraints on countries struggling to improve the basic living conditions of their populations. It is clear that achieving low carbon development, and livelihoods that are adapted to a changing climate, will mean that development and climate action must go hand in hand. However, the diversion of ODA funds already committed to support improvements in sectors such as health and education, would effectively short-change developing countries, and reflect a step back on commitments to the achievement of the MDGs.

We stress that financing action to tackle climate change is not development aid and must be additional to existing ODA commitments, in particular the 0.7% GNI target. Climate change and its current and impending impacts on developing countries are a result of the fossil fuel-based growth of industrialised countries. It is thus a matter of justice that those who have created the problem should take the lead in tackling its sources, and should pay for the solutions. Funding for adaptation must be paid by industrialised countries as the payment of compensation for damage done to the atmosphere as a result of their fossil fuel-based growth.

Industrialised countries must provide sufficient, predictable, secure and accessible financing, technology-sharing and capacity building – each in a measurable, reportable and verifiable manner – to support and enable the mitigation and adaptation efforts of developing countries.

It is clear from many decades of unfulfilled development and climate financing commitments that the only way to ensure secure, sufficient, additional, accessible and predictable financing for climate action is to establish resource generating mechanisms that are independent from national budgets. The UNFCCC post-2012 global climate change agreement must therefore include new and innovative financing mechanisms. A number of such mechanisms have been proposed that deserve serious consideration.

Priority should be given to mechanisms that internalise the cost of environmental damage of goods and services, realising a 'double dividend' to discourage polluting actions.

People in developing countries are already experiencing devastating impacts on their lives and livelihoods as a result of current levels of global warming. In recognition of this, funding for adaptation in particular must increase significantly in the short term, in advance of the implementation of a new global agreement.

Annex II countries[56] under the United Nations Framework Convention on Climate Change (UNFCCC) must release funds already pledged for mitigation, adaptation and technology transfer without further delay.

[56] Annex II countries include the 24 original OECD members plus the European Union which have a special obligation to provide financial resources and facilitate technology transfer to developing countries.

CONCLUSION

Industrialised and emerging economies should realise that the enormity and complexity of the global crises with their multiple dimensions require a response that represents a fundamental change in the status-quo. This response must be based on a profound reflection on the inequity and unsustainable nature of current models of growth, the differential value placed on the various modes of production and the vastly different patterns of consumption across income groups and across countries.

A new global model of development must be designed that:

- serves the well-being of all, beginning with the most vulnerable;
- recognises that the earth's resources are finite and should be used with care; recalling that our actions impact the lives of coming generations. Additionally, the earth's resources belong to all thereby implying that wealth generated from their use must be equitably distributed;
- recognises the urgency of this task, given the challenges of climate change, growing poverty and inequality in the world and recalling all the international commitments to overcome this.

We welcome the sense of urgency that is driving leaders from all countries to come up with ways to address the crises. However, small exclusive groups, such as the G8 or the G20, will not succeed in coming up with a global response. The interests and needs of all countries and all groups in society must figure in the solutions.

We therefore view the internationally agreed UN Conference at the highest level on the Economic and Financial Crisis and its impacts on development scheduled for June 2009 as a promising moment. We are aware that much of what it can achieve will depend on the political will of all politico-economic power blocs, particularly those in the G20 forum to commit to it, supporting its preparation and participating at the highest level in its proceedings.

In its turn, CIDSE works at all levels to influence discussions and promote a fundamental reform of the global economic, finance and trade system. In preparations for the G20 Meeting in London (April 2009) and the UN Conference (June 2009), it fed its recommendations into the EU discussions on the financial crisis as well as into the UN General Assembly President's Commission of experts led by Nobel prize laureate Joseph Stiglitz to propose a menu of options to address the crisis for the UN Conference.

Additionally we work with other groups in civil society to make sure that politicians know that the public is concerned and is expecting serious policy change to ensure that the world that emerges out of this global crisis is better than the one that caused it.

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