# Financing Sustainable Development:
## Are we up to the challenge?

} Financial markets to serve the real economy

} Solidarity as a key value in the new economic consensus

} Democratic scrutiny and civil society participation

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CIDSE
together for global justice

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The paper argues that the international community needs to forge a new framework to reorient finance to serve sustainable development. Informed by Catholic Social Teaching, it presents CIDSE's position on how best finance - whether public or private, national or international - should be governed and channeled.

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# 1. Introduction

***"We are committed to making the right to development a reality for everyone and to freeing the entire human race from want."***

Millennium Declaration, para 11

2015 is a moment of reckoning and looking ahead. 15 years after the Millennium Declaration and reaching the deadline of the Millennium Development Goals (MDGs), the international community will measure the progress made to fulfill its aspirations. It also needs to forge a new framework to finance sustainable development. Reflecting conversations with our partners and their experience and ours working with people living in poverty worldwide, CIDSE is convinced of the need to rethink the logic of the current financial framework to replace it with one that upholds and safeguards the common good and is planetary in scope. This requires an economy that is organized to uphold the principles of subsidiarity and the fundamental dignity of all human beings, and pays specific attention to people living on the margins of society, particularly individuals and communities living in poverty.

Is the international community up to this immense challenge? With a Roadmap 2015 designed by the UN General Assembly in September 2013, there seems to be no lack of political energy. Questions can be asked though whether this political energy is going to be spent to the right end. Are the international human rights framework, the Sustainable Development Agenda engendered in the Rio declaration, the Millennium Declaration, the Monterrey Consensus and the host of other international commitments guiding the implementation of this roadmap?

Or are other -more short-term- calculations driving the process? Is the quest for 'innovation' merely a front to dress up these short term calculations? The singular preoccupation with finding innovative means to bring big private sector actors into the agenda seems to suggest this. Nobody can dispute the indispensable role that private initiative plays in development. As an alliance of Catholic development agencies, CIDSE recognizes this. It is an approach which is consistent with Catholic Social tradition's principle of subsidiarity. It states that "*It is wrong to withdraw from the individual and commit to a community what private enterprise and industry can accomplish…*"[1] At the same time, Catholic Social Teaching (CST) is clear that private initiative, must be directed -where necessary, with State intervention, for the common good. For instance, the need to intervene in the face of inequalities or to protect the interests of workers have been recurrent themes in Catholic Social Teaching.

Above and beyond this, the State, given its raison d'être to uphold the common good, is called upon to intervene itself in matters which may be of intimate concern to the individual, hence of great import and not devoid of risk: "*Hence the insistent demands on those in authority -since they are responsible for the common good- to increase the degree and scope of their activities in the economic sphere, and to devise ways and means and set the necessary machinery in motion for the attainment of this end.*"[2]

This vision informs CIDSE's position presented in this paper on how best finance -whether public or private, national or international- should be governed and channeled. It is one that represents a "*return of economics and finance to an ethical approach which favors human beings*", as Pope Francis calls for.[33] Recommendations on the role of private enterprise are part and parcel of this vision. It calls for recognition and respect of diverse forms of association. Singling out a particular type of enterprise, namely, large transnational companies and a singular focus on 'Public-Private Partnerships' is a very erroneous approach. Starting with such a narrow focus and priority crowds out discussions about the varied forms of enterprise and association that can contribute to the overall vision of a sustainable framework for finance and the economy.

# 2. Domestic **sources of finance**

***"The equity or 'distributive' function of public finance is motivated by ethical concerns and solidarity, and aims to foster equity."***

Working Group on Financing for Sustainable development, UN System Task Team (UNTT), October 2013

***"Profits should be taxed where economic activities deriving the profits are performed and where value is created. (…) Developing countries should be able to reap the benefits of a more transparent international tax system, and to enhance their revenue capacity, as mobilizing domestic resources is critical to financing development. We recognize the importance of all countries benefitting from greater tax information exchange. We are committed to make automatic exchange of information attainable by all countries, including LICs, and will seek to provide capacity building support to them."***

G20 St Petersburg Leaders' declaration, 2013

Raising domestic resources for development including the provision of adequate national and international frameworks for this purpose is of utmost importance to enable a country to fulfill its human rights obligations and ensure country-led sustainable human development and domestic accountability. Beyond this, it is a matter of justice. Pope Francis encourages financial experts and political leaders to ponder the words of St. John Chrysostom: "*Not to share one's wealth with the poor is to steal from them and to take away their livelihood. It is not our own goods which we hold, but theirs.*"[4] The fundamental requirement to fairly distribute wealth necessitates action to end illicit financial flows from developing countries to be treated as a matter of priority.

At the national level, the role of domestic public resources is to finance public goods such as basic social infrastructure geared towards the elimination of poverty, strengthening equitable development and the full realization of human rights. Governments in the South are limited in their capacities to mobilize domestic resources for sustainable development by structural barriers within the international financial system and by lingering policy conditionality imposed by donors and creditors. To date, net capital outflows from the South to the North fuelled by opaque rules and structures and unaccountable policy and governance drain away urgently needed domestic financial resources, undermining the basis for sustainable development.

Even as we gather efforts to build a sustainable development financing strategy for the future, reaching the MDGs and overcoming poverty today by mobilizing the necessary resources should remain a top priority on which further frameworks need to be built. In many countries this will mean increased efforts to mobilize domestic public resources, mainly from national taxation systems. In this, however, they will need the political support of industrialized countries, including commitment to structural policy reform in the North to overcome obstacles to effective domestic resource mobilization.

## Improve financial transparency and reporting

In today's prevailing corporate regulatory regime, transnational corporations can shift their profits to tax havens and get away with paying little or no tax on often very large rates of return. This could be reversed by adequate transparency requirements for companies in all sectors to make public all financial payments on a country-by-country and project-by-project basis. As the home of the majority of transnational companies (TNCs), Northern

countries have a particular responsibility to require transparency from companies registered or active in their jurisdictions and all companies receiving financing or guarantees from public development agencies. This would not only increase public revenue but would also increase the accountability of corporations, decrease the risk of corruption and strengthen democratic oversight. The data provided would also be useful to build a stronger international system of tax cooperation whereby TNC profit be effectively taxed where it is booked. To further ensure effectiveness, taxing rights will need to be reformed in the future to be allocated on the basis of real indicators such as sales and staff, based on the 'formulary apportionment' approach.

Southern countries should be able to measure the cost and effectiveness of tax incentives provided to attract foreign investment. Donor policy and macro-economic policy advice of International Financial Institutions have traditionally encouraged such incentives. Recent research has demonstrated the detrimental effect on domestic resources, however.[5] TNCs who receive public money from development banks and agencies must demonstrate that they are not unduly benefitting from tax incentives offered by host countries by publishing their contracts with local authorities.

Mandatory public registers of all types of beneficial ownership of companies including companies, trusts, foundations and charities is an additional measure to promote corporate transparency and good corporate tax citizenship. Public information would be accessible to all relevant parties, investigative and judicial authorities as well as civil society watchdog mechanisms and would meet the standards set out in the G8 open data charter. An additional measure to secure corporate accountability is to require nominee directors and shareholders to state on whose behalf they are working, as per Recommendation 24 of the G20's Financial Action Task Force. Following the French and Danish example, national registers for bank accounts that include data on beneficial ownership of residents and non-residents should be created.

## Work towards tax justice

Fair, transparent, accountable and equitable taxation plays an important role in supporting development pathways towards greater equity and sustainability. Yet, billions and billions are lost each year in developing countries through tax evasion and tax avoidance due to systemic and deliberate minimization of the tax share of companies and wealthy individuals. The link between tax and fiscal loss and human rights is more indirect but as pertinent as the impacts of corporate operational activity on human rights. Tax competition, for instance, reduces the progressive character of many national tax systems. Capital flight, tax evasion and tax avoidance are aided and abetted by the existence of tax havens and secrecy jurisdictions. These in turn negatively impact on countries' ability to meet their human rights obligations. Given that they house the majority of transnational companies, industrialized countries play a key role in curbing such practices.

More effective forms of international cooperation on tax matters are also needed. This would require all countries, including all secrecy jurisdictions, to join relevant international bodies such as the Multilateral Convention on Tax Exchange Information. Additionally, this would require more democratic spaces and institutions for rule-making and governance of tax matters internationally. This role is currently assumed by the OECD which is by default an organization that represents the interests of industrialized countries. The UN is a more appropriate inter-governmental organization for this. Hence the need to speed up and realize the commitments to reform and strengthen the UN Tax Committee, as committed to in Para 16 of the outcome document of the Doha Financing for Development Follow-up Conference in 2008.

Furthermore, governments need to take political action to implement provisions for automatic exchange of tax-related information. Countries should use the opportunity of the current negotiations in both the USA and in the EU to build momentum for a multilateral tool providing automatic information exchange.

The Global Forum on Transparency and Exchange of Information could create a new blacklist for all countries denying automatic exchange of information with countries that ask for it. This would be an incentive to increase transparency in secrecy jurisdictions such as Switzerland who currently have only moved to automatically exchange information with the EU and the US.

Encouraging developing countries to participate in automatic information exchange is also crucial, making sure that the new standard also suits their needs. Failing to incorporate them would run the risk of perversely incentivising developing countries to become tax havens themselves as we have seen in the case of the Gambia and Kenya. *Ad hoc* arrangements with willing countries in the North and South could provide pilot initiatives on automatic exchange. To overcome obstacles that could be caused by reciprocity demands, these agreements could allow unilateral (from North to South) information exchange in the short term.

In order to facilitate the recovery of misappropriated or stolen assets that are held in OECD or G20 countries, governments should implement the recommendations of the Stolen Asset Recovery Initiative (StAR initiative) as a matter of urgency.

Developed countries will also need to implement the recommendations of international institutions on how to support the strengthening of developing countries' tax systems.

**Within the ongoing discussions on a new sustainable development financing strategy there is the strong need for the international community to strengthen policy measures that support domestic resource mobilization while addressing the structural policies underlying the current erosion of financing development in countries of the global South.**

## Recommendations

- Increase financial transparency by adopting public country-by-country financial reporting requirements as the new standard in corporate accounting and reporting.
- Adopt specific rules for the extractive industry to make transparent payments made in countries of exploitation on a country-by-country and project-by-project basis similar to those laid down in the US Dodd-Frank Act and the EU Accounting and Transparency directives.
- Build a new international tax system based on formulary apportionment in order to tax wealth where it is effectively created.
- Evaluate the development value of providing tax incentives particularly in southern countries. Require TNCs being supported by development institutions to publish their contracts with local authorities.
- Avoid tax cheating by introducing automatic exchange of financial information as the new global financial reporting standard and actively promote developing country participation in the new standard starting with *ad hoc* arrangements allowing unilateral information exchange from North to South.
- Blacklist all secrecy jurisdictions that deny automatic information exchange to any country asking for it.
- Provide for the full disclosure of the beneficial ownership of companies, trusts and foundations and other similar legal structures in public registers.
- Facilitate the re-nationalization of stolen assets by following the recommendations of the StAR initiative.
- Strengthen international cooperation in tax matters and democratize international tax governance.

# 3. International **sources of finance**

***"As a complement to the efforts of developing countries, effective international co-operation is essential in providing these countries with appropriate means and facilities to foster their comprehensive development. "***

Declaration on the Right to Development Art.4. 2, General Assembly resolution 41/128, 4 December 1986

Alongside raising domestic resources for development, countries have extraterritorial obligations to ensure human rights fulfillment beyond their borders. Pope Francis reminds us that this is also a question of solidarity and 'social citizenship': "*Hence the need to rethink 'solidarity' no longer as simply assistance for the poorest, but as a global rethinking of the whole system, as a quest for ways to reform it and correct it in a way consistent with the fundamental human rights of all human beings. It is essential to restore to this word 'solidarity,' viewed askance by the world of economics -as if it were a bad word- to social citizenship that it deserves. Solidarity is not an additional attitude, it is not a form of social-alms-giving but, rather, a social value; and it asks us for its citizenship. "*[6]

In this section, we examine the role of three international sources of development finance: official development assistance, climate finance and the role of innovative sources of public finance. It once again highlights that first and foremost States have an obligation to fulfill existing commitments.

## Official development assistance

***"Official development assistance (ODA) plays an essential role as a complement to other sources of financing for development, especially in those countries with the least capacity to attract private direct investment. ODA can help a country to reach adequate levels of domestic resource mobilization over an appropriate time horizon, while human capital, productive and export capacities are enhanced. ODA can be critical for improving the environment for private sector activity and can thus pave the way for robust growth."***

Monterrey Consensus, 2002, para 39, p.14

Official development assistance (ODA) to poorer countries has a central place in the history of financing for development since Monterrey[7] and in the realization of the MDGs, both in conference documents as well as in practice.

In countries where, domestically raised finance cannot cover needs and obligations (because of a broad range of factors and particularly the constraints examined in the previous chapter), increased aid has contributed to the improvement of public services. Schooling and health infrastructure has been strengthened alongside public institutions. This has created a strong foundation for sustainable development in many areas.

Aid decisions and standards of accountability are largely in the hands of donor countries. While ODA has increased steadily from 2000-2011, it has never exceeded 1990 levels[8] and dropped in the past two years. This has especially affected Low Income Countries (LICs). Total country programmable ODA is expected to remain stagnant over the coming years[9]. This contradicts commitments to meet the target of 0.7 percent of GNI reiterated several times in major international conferences.[10] The credibility of donor countries is at stake. Their failure to honour commitments made hampers international negotiations with developing countries on issues like trade and climate change.

More essentially, development financing needs are still enormous and have increased due to the impacts of the global financial crisis and climate change. The UN estimates additional investment needs of developing countries for sustainable development at about US$1 trillion per year in the coming decades.[11] This is above and beyond existing financing needs for climate change mitigation and adaptation, ensuring access to clean energy for all, sustainable food production and forest resource management.

## Criticism of past ODA modalities

Today's aid regime indeed deserves to be critically looked at. Particularly critical issues are:

- Power imbalance and aid dependency.
- Donor interests and conditionality versus country ownership.
- Lack of long term planning and predictability.
- Upwards accountability to donors instead of downward accountability to intermediaries and citizens.
- Fragmentation and lack of coordination.
- Importance of governance issues in delivery.
- Inflation of ODA statistics through inclusion of debt relief and contributions within donor countries such as refugee and imputed student costs.

Implementation has also failed to live up to repeated commitments by donor countries. The UN Task Team on Post-2015 pointed out that MDG 8 lacked a strong normative foundation, as it did not integrate international human rights commitments, including the duty of international cooperation for development established by the UN Charter and affirmed by the Declaration on the Right to Development.[12]

## Current trends

Budget problems in donor countries have led to cuts in aid and prospects of stagnation. As the share of resources committed to development shrinks, there are greater demands for development money to be used 'efficiently', with ever increasing demands for proof of impact and results. Additionally, priority has turned to stimulating economic growth and job creation with the private sector in the driving seat, as the single most important priority of development finance. Yet there is little clarity on which elements of the private sector can deliver sustainable development outcomes, how to agree fair terms with States and citizens, how to define progress and measure impact and how to hold accountable when things go wrong.

On the other side of the coin changing patterns of economic and political power have led greater attention to be paid to so-called 'emerging donors', South-South and triangular cooperation. These countries are often donors and investors themselves and in this position are under increased pressure to assume responsibility in global frameworks for the provision of global public goods, climate finance and renewed arrangements of global governance. The self-confidence of new economic heavy-weights has at the same time resulted in calls for new partnerships on an equal footing. This was most visible at the Busan debates on development effectiveness. Yet it is important to pay attention to the fact that the majority of the poor live in Middle Income Countries (MICs). These countries remain vulnerable to shocks and crises as the current economic downturn and devaluation of currencies show. Poor communities and marginalized people and groups in these countries are hardest hit by these shocks.

Therefore it remains important to not only address poor countries and fragile States but also marginalized groups across countries who could lose out if they are not given special attention.

To sum up the risks involved in the response to current trends:

- Re-defining ODA widens the definition while real transfers remain stagnant or decrease.
- Other finance flows (private inflows, remittances, innovative resources, philanthropy) cannot cover the sum of financing for development needs. Nor can these needs be covered by domestic resources in the short run.
- 'Instrumentalizing' ODA through leveraging/ blending private sector resources is unlikely to have positive impacts on the lives of people living in the most extreme forms of poverty and those who are most vulnerable. Private sector finance is, by definition, based on a market-oriented logic. Decisions to use public money to leverage private finance in developing countries are often opaquely made and usually centered around donor countries' economic and political interests (including security, migration).
- Reversing the principle of additionality will result in the diversion of scarce resources for poverty eradication towards climate finance.
- Increasing the use of intermediaries (banks or investment funds) located in tax havens in the distribution of ODA or public support to private sector, with little control over the actions of the final beneficiaries.

## The role of aid in sustainable development: different countries have differing needs and specific situations

ODA plays an important role for people-centred sustainable development to ensure the provision of basic needs and rights. Through targeted contributions aid can correct market failure and help to overcome unjust structures. It can reach marginalized people and empower them to take an active part in shaping their well-being, to help overcome discrimination and contribute to equality. It can strengthen government institutions in accountability and service delivery as well as support civil society and work as an incentive for reforms with a view to graduated reductions of aid dependency in response to the specific situation. Beyond that it fulfills a role of international solidarity and redistribution. If done well it can contribute to a joint search for solutions on the international level for common global problems.

The aid effectiveness agenda from Paris to Busan tried to address some of the shortcomings of traditional aid.

But so far progress has been modest at best. While some progress has been achieved in establishing national development strategies and result orientation, little has changed in fragmentation, predictability or mutual accountability. The failure to uphold civil and political human rights obligations has undermined broad political participation and local accountability.

**The international community must improve development cooperation through adequate levels of effective aid. Aid should be complemented with other instruments and not be replaced by them.**

## Recommendations

- Normative frameworks based on human rights with adequate accountability mechanisms and including the duty of international cooperation based on the right to development.
- Put poverty eradication and sustainable development at the centre with a special focus on the most excluded and vulnerable groups.
- Integrate development cooperation in a coherent policy and financing framework oriented at sustainable development for the poor and most vulnerable:
  - Look at the whole picture by taking into account all in- and outflows
  - Ensure a reform process is inclusive and recognizes UN processes and institutions and monitoring and accountability in the hands of legitimate representative institutions
  - Supplement ODA with other financing means instead of widening the ODA definition
  - Account separately for financing for global public goods
  - Assess (country specific) financing needs
  - Select adequate modalities by partner countries.
- Fulfill international commitments, especially ODA commitment of 0.7 percent of GNI for rich countries.
- Ensure development effectiveness by donors upholding principles of predictability, ownership, transparency and accountability with regard to their ODA commitments and respect of the rights to information, participation and freedom of expression and association in partner countries.
- Introduce stronger standards for the private sector working with aid funds (corporate, social and tax responsibility).
- Publish all information on the final beneficiaries of aid money from bilateral Development Finance Institutions or International Financial Institutions channeled through financial intermediaries.

## Climate finance

***"We recognize the importance of mobilizing funding from a variety of sources, public and private, bilateral and multilateral, including innovative sources of finance, to support nationally appropriate mitigation actions, adaptation measures, technology development and transfer and capacity-building in developing countries. In this regard, we welcome the launching of the Green Climate Fund and call for its prompt operationalization so as to have an early and adequate replenishment process."***

The Future We Want, Outcome document, Rio+20 Conference on Sustainable Development, 2012, para 191

The shortcomings and challenges of international climate finance to reach the 2020 finance goal need to be overcome. This is essential to ensure that sustainable development gains will reach all, particularly those most vulnerable to the effects of climate change or those who have very little to do with its causes but have inadequate resources to tackle its impacts. As of today countries have failed to provide developing countries the minimum they need in terms of international climate financing, that is to say secured, reliable and predictable public climate finance.

Latest analyses estimate the costs of climate adaptation and mitigation in developing countries to be between US$600bn to US$1.500bn per year.[13] This does not count the costs of compensating existing or projected loss and damages due to climate change. Within the frame of the UN,[14] developed countries have committed to US$100bn annually for adaptation and mitigation in developing countries. Committing countries have not adequately delivered on these commitments. Unfortunately the first moves made since 2012 are not promising enough.

Though there is a commitment from developed countries to scale up climate finance from the US$30bn of Fast Start Finance (FSF) up to US$100bn per year by 2020, only small staggered steps have been taken towards such a goal, with a few finance announcements made by a handful of countries on the occasion of COP18.[15] Alongside the need to fulfill finance commitments, the lack of a common definition of additionality[16] of climate finance has led to a lack of clarity of donor reporting and consequently, accountability gaps. According to Oxfam, only 33 percent of Fast Start Finance through which US$30bn of 'new and additional resources'[17] was to reach developing countries from 2010 to 2012, was new money. The rest were funds already committed in other contexts or double counted. Only 24 percent of FSF was additional to existing aid promises[18]. Another analysis of climate funds promised and actually disbursed between 2010 and 2012 show that when US$34.36bn was committed over this period, only US$2.15bn was actually disbursed[19].

For an efficient framework for financing sustainable development, addressing issues including the lack of a definition of climate finance, a common understanding of what can be counted as climate finance[20], a common baseline defining new and additional finance and reporting that allows sufficient transparency, comparability of efforts and accountability of donor countries and additionality of climate funds is crucial. This is especially the case in the context of shrinking aid budgets as discussed above and growing challenges such as persisting development needs or increasing biodiversity loss -which also require important funding. Though there are some synergies between development needs and climate related projects, climate change puts an additional burden on development efforts, and even more when climate funds are tapping into already shrinking external aid budgets.[21] It is therefore crucial that the commitments of delivering new and additional international climate finance are respected, and strengthened through transparent monitoring and verification mechanisms.

Given the lack of political will for ambitious climate policies, allocation of climate funds in proportions to the types and scale of the needs is also critical. Developing countries' adaptation needs, that are mostly to support public goods and services or in areas where private finance might not be suitable[22] need to be given priority.[23] However, according to research carried out by Oxfam, only 21 percent of FSF went to adaptation projects. The EU performed a little better but still missed the goal, with around 31.5 percent of their FSF contribution going to adaptation.[24]

**Roadmaps are urgently needed to clarify how countries intend to scale up their financial commitments over the period 2014 to 2020, starting with the 2014-15 period. These roadmaps must give intermediate targets and provide information on the sources of public finance that will be used to scale up the funds.**

## Recommendations

- Fulfill pledges to the almost empty Green Climate Fund and underfunded Adaptation Fund and Least Developed Countries Fund. This will also contribute to better access and governance of the funds.
- Respect the principle of additionality and establish transparent monitoring mechanisms to verify and strengthen observance of this principle.
- Reaffirm the principle of balanced allocation of funds and commit to allocate half of public finance to adaptation.

## New sources of international public finance

It is clear that much greater volumes of public finance will be needed to fulfill existing human rights obligations in the face of biodiversity loss and the multiplying effects of climate change on development challenges. This makes innovative sources of finance a crucial component of sustainable development financing.

There is a new tendency to focus on those mechanisms to generate 'innovative finance' that rely on private sector finance. There are two points to be made on this new interpretation of 'innovative mechanisms.' First of all, it departs from the original innovative financing for development discussion which aims to find new and innovative ways to increase public sources of finance. Secondly, the systemic risks associated with socializing risk and privatizing gain implied in the use of public money to leverage private finance tends to be glossed over by framing this agenda as 'innovative'.

In a discussion paper prepared for the 4th Plenary Meeting of the Leading Group on Innovative Financing for Development in Dakar on 22-23 April 2008, the following criteria were proposed to differentiate innovative finance:

- Generate additional/complementary resources compared to traditional official development assistance,
- Improve the quality and efficiency of existing official development assistance,
- Address market shortcomings.

Similarly, the UNDP has created a list of nine questions to assess innovative finance mechanisms on the basis of the following criteria[25]:

- Additionality of financial flows for development,
- Support of country ownership of the development process,
- Predictability of finance flows,
- Inclusive governance of proceeds,
- Support for concrete development results.

For CIDSE new sources of development finance or innovative finance mechanisms should trigger structural and systemic change in order to contribute to sustainable development. These include increasing tax-related budget revenues through ending tax evasion and avoidance at the individual and corporate level, removal of harmful subsidies and other measures that discourage harmful activity in the real economy and financial sector, reflecting true costs to environment and society while contributing to greater equity. Mechanisms that internalize the costs of social, environmental and other damage of goods and services realize a 'double dividend' to raise revenue and dampen or reduce their damaging impacts. Carbon taxes and financial transactions taxes (FTTs) fulfill both criteria.

FTTs have been studied and tested extensively and countries already use them to generate revenues (World Bank study 2011, Leading group study 2011). If optimally designed and adopted worldwide, FTTs can generate up to US$250 billion per year. They are a mechanism to reintroduce a measure of equality and progressivity in taxation systems, helping governments to meet their legal commitments to make substantial resources available to respect, protect and fulfill human rights, while still being in a position to honor other international financial commitments such as on climate change and biodiversity. Beyond their revenue raising potential, studies have shown that FTTs have a positive impact on the economy, decreasing the probability of economic crises (Griffith Jones, Persaud 2012). In a statement issued before the G8 Summit in 2012 in Camp David USA, UN independent experts on extreme poverty, food, business, foreign debt and international solidarity said: "*Where the world financial crisis has brought about the loss of millions of jobs, socialized private debt burdens and now risks causing significant human rights regressions through wide-ranging austerity packages, a financial transactions tax (FTT) is a pragmatic tool for providing the means for governments to protect and fulfill the human rights of their people.*"[26]

As public sources of finance for sustainable development, their revenue can be monitored through transparent, robust tracking measures at national or regional level and at the international level through UNFCCC, UN Development Cooperation Forum, OECD-DAC, etc.

**Innovative mechanisms for financing development deserve their due attention in a new framework to finance sustainable development. It is essential to establish clear criteria to ensure the added value and genuine contribution of these mechanisms to sustainable development.**

### Recommendations

- Reach a clear definition of innovative mechanisms for financing for development that integrates their potential to trigger systemic change that contributes to sustainable development.
- Establish clear criteria for innovative mechanisms that incorporate agreed principles of development effectiveness of financial flows (Busan principles).
- Agree on a roadmap for the global implementation of financial transaction taxes.

# 4. The role of **private sector in development finance**

***"The interplay of development assistance with private investment, trade and new development actors provides new opportunities for aid to leverage private resource flows."***

The Future We Want, Outcome document, Rio+20 Conference on Sustainable Development, 2012, para 260

Donors are increasingly looking to 'unlock' private capital as the formula to bridge the large development financing gap, particularly for infrastructure and also for other public goods and services, such as health provision and energy.[27] The approaches to achieve this generally fall within the following three categories: improving the climate for investors, using ODA to 'leverage' private finance, either through guarantees, loans or equity investments or providing other guarantees, assets, acceptance of risk or other concessions to support the private sector's delivery of public goods or services.

## A critical assessment of private sector involvement in development finance

The resort to private sector sources is often justified by growing gaps in public budgets. Yet governments commit enormous amounts of fiscal resources in the quest to attract private sector funds. Private sector support, such as guarantees and other implicit and explicit contingent liabilities that are not accounted for in the budget, is often provided outside of public scrutiny. The general public rarely knows of the fiscal incentives provided as a result of the non-transparency surrounding these arrangements. A cost-benefit analysis of such incentives rarely takes place, let alone being the subject of public debate. Equally rare is the *ex-ante* investigation of alternative ways to achieve the same ends with the same financial resources.

Comprehensive assessments of whether such use of aid money represents good value rarely take place. Neither is the question of whether the private sector would invest regardless of the availability of public finance-based incentives adequately looked into in most cases and development goal achievement.

Other concerns with the pursuit of private sector funds for development finance purposes are that:

- Leveraging' techniques can skew limited aid resources to projects that are a better fit to private sector involvement, rather than to those that will provide the greatest benefit to poor men and women.
- Public finance to 'leverage' private sector investment distorts incentives and generates moral hazard. By reducing risk in private undertakings it can erode the most valuable feature that one seeks in private sector involvement, namely, its capacity to take risks, while reducing the efficiency gains that could have been gained by a really entrepreneurial private sector. If, additionally, the investments do not serve the poorest and most vulnerable, the result is a redistribution from the bottom-up, a situation exacerbated where the public resources at play are collected through regressive tax policies.
- The development impacts of private sector investment projects are often unclear, as is the relationship that public finance support had on such development impacts, when these are present.
- Despite enthusiasm for the skills, know-how and other technological resources brought by the private sector, there is little evidence of development impacts or that efficiency and other benefits brought by such private sector assets are captured by intended beneficiaries and users rather than by shareholders' higher rates of profit.
- There is no requirement for projects to undertake human rights due diligence to ensure they are compatible with international human rights standards, yet this has been recommended by the UN Guiding Principles on Business and Human rights (Principle 4).

**New enthusiasm for partnership with the private sector in financing development should not overlook accountability or development impacts.**

## Recommendations

- Donors need to develop indicators of success inclusively with all stakeholders to assess the development and human rights impact of private sector partnerships.
- Full transparency and a proper analysis of the process of design of projects, the allocation of contracts, the terms and conditions in each contract, resource allocation, long-term costs, risk sharing and distribution of social, environmental and economic benefits amongst all stakeholders are needed to test assumptions of additionality and value for money.
- Inclusive design processes and definition of objectives and safeguards are needed to ensure, rather than assume, good development outcomes.
- All projects should be obliged to demonstrate how learning from these evaluations is being applied before new designs and agreements are approved.
- Each project should be independently monitored and evaluated.
- Adequate complaint and redress mechanisms must be in place that are accessible to people living in poverty, in case all does not happen as planned.
- The effectiveness of using public money to leverage private investment should be assessed asking the questions: Would the private investment have happened anyway? Does the resulting investment achieve the aims of the public institution backing it?
- Stronger rules on country-by-country reporting, publication of contracts, identification of beneficial ownership, etc. must be put in place for private actors working with public money.

# 5. Sovereign debt

***"We recognize that ongoing serious global financial and economic challenges carry the possibility of undoing years of hard work and gains made in relation to the debt of developing countries. We further recognize the need to assist developing countries in ensuring long-term debt sustainability through coordinated policies aimed at fostering debt financing, debt relief and debt restructuring, as appropriate."***

The Future We Want, Outcome document, Rio+20 Conference on Sustainable Development, 2012, para 263

According to the 2013 MDG Gap Task Force's report, levels of indebtedness particularly of small low-income countries remain critical.[28] In Europe, Greece continues to suffer from a significant debt overhang. In its case, long tried and failed policies to deal with sovereign debt crises -fiscal consolidation and structural adjustment- have proven once again unable to provide a structural response to the crisis. Beyond having proved their ineffectiveness to deal with the debt crisis, these policies have deepened unemployment and led to the breakdown of social protection systems, particularly impacting the most vulnerable in society. As stressed by the UN High Commissioner for Human Rights, measures to deal with the financial crisis cannot overwrite governments' legal obligations to respect, protect and promote human rights including economic, social and cultural rights (Statement to Special Session of Human Rights Council, 20 February 2009).

Thanks to civil society's massive mobilization of public opinion with the Jubilee campaign in the late 1990s and the Make Poverty History campaign in 2005, the International Financial Institutions and creditors put in place measures they claimed offered a 'lasting exit' to the debt crisis (G8 Communiqué, 1998). Two debt relief initiatives have been put in place: HIPC (Highly Indebted Poor Country) and MDRI (Multilateral Debt Relief Initiative) alongside a new framework to prevent low-income countries from incurring excessive borrowing again and a specific programme for middle-income developing countries in debt within the framework of the Paris Club of creditors.

The policy consequence of the new debt sustainability framework for poor countries was to affect their ability to borrow. But, in the face of continuing limitations on concessional financing, it simply led to overall lesser access to new financing for development. In addition to this, low-income countries with a Fund supported programme are subject to conditionality related to the level of borrowing (IMF 2006a, para. 25/26).

Beyond direct budgetary and policy impact, the framework did not present a suitable mechanism to deal with debt owed to non-participating official creditors, the private sector and domestic debt. This resulted in so-called 'free riding', whereby non-participating creditors override the benefits of reduced debt overhang due to participating creditors by staking their claims on the freed up budgetary resources. Even more serious is when this situation has been carried over into cases of debt restructuring, as in the cases of vulture funds. The recent case in which US vulture funds won favorable rulings from US courts to get fully paid on their sovereign debt claim in a case related to Argentina's debt restructuring programme in 2005 once again illustrates the fact that the issues of free riding and vulture funds are far from settled.

As observed by the 2012 MDG Gap Report: "*Lessons from the European crisis reiterate lessons from emerging market debt crises, as well as from the entire history of sovereign debt crises. One of those recent lessons from Europe is that ad hoc political processes for debt workouts do not necessarily lead to timely, effective or fair burden-sharing after debt crises occur.*"[29]

Beyond the problems associated with the debt sustainability framework and the risks posed by free riding and vulture funds, a historical review of mechanisms to deal with sovereign debt reveals many other problems:

- Debt restructuring mechanisms are dominated by creditors who are also interested parties, thus undermining impartiality and sometimes resulting in politically biased decisions often coupled with harmful policy conditionality.
- The process and outcome of the deliberations within such mechanisms are not transparent and highly unpredictable. The *ad hoc* nature of the process lengthens the process thus making it costly for both creditors and debtors.
- The mechanisms completely ignore the principle of creditor co-responsibility. In many cases, countries continue to serve debt contracted by oppressive or corrupt regimes or for irrelevant or even damaging and overpriced projects. A report has documented instances of donor countries lending to regimes they knew to be corrupt or repressive in order to buy political allegiance or to secure access to natural resources (Eurodad et al 2007). Yet it is only the debtor who is made to pay the consequences.
- Financial considerations are often the only considerations in dealing with debt distress, obligations of a government to fulfill its human rights obligations and commitments to its people and the environment are seldom taken into account.
- The lack of a formal procedure to ensure fair burden sharing between creditors and debtors and assess the validity of claims; current procedures fail to discipline lenders and prevent them from irresponsible lending in the future.

## Towards a new permanent debt restructuring mechanism

According to the 2013 MDG Gap Task Force report, while debt ratios are low in historical terms, these figures mask the extent to which some developing countries -particularly small States- remain critically indebted or at a significant risk of debt distress. Beyond these potential risks to developing countries' debt overhang, the reality of falling ODA allocations, the failure of the international community to foot the bill of climate change mitigation and cover the increasing costs of biodiversity loss and climate-change related shocks will also weigh on a country's debt overhang.

The 2012 MDG Gap Task Force report warns: *"If any of the post-HIPCs require a new sovereign debt workout, they will have to rely on the ad hoc process as it exists today for non-HIPCs (...) Post HIPCs will now have to join with the rest of the countries in debt distress and deal separately with Paris Club creditors, non-Paris Club bilateral creditors, multilateral development banks and the IMF, private banks, suppliers and bondholders, making it difficult to ensure that an adequate overall degree of relief is obtained."*

A permanent, transparent debt arbitration mechanism is thus a necessary intervention. To be effective such a mechanism would need to have certain minimum features:

- It should be independent of creditors in analysis and decision-making and situated in a neutral forum.
- It should cover all creditors: bilateral, multilateral, public and private creditors. All foreign creditors should be treated on an equal basis. All sovereign States who are at risk of debt distress or claim that their debts are illegitimate should be able to access such a mechanism.
- It should use a human rights based approach to debt sustainability. A government capacity to service its debts must take into account the financial resources the government needs to fulfill its obligations to provide essential services for its population.
- It should hold lenders and borrowers to account for irresponsible behavior by auditing the legitimacy of claims in which debts from loans linked to corruption, irresponsibility and undemocratic conduct are by definition considered illegitimate and cancelled.
- It should give all stakeholders, including civil society the right to be heard and give evidence.

Various UN agencies and bodies, most notably UNCTAD and UN-DESA, are currently engaged in weighing and formulating proposals for a debt workout mechanism and building a global consensus around it.

It is essential that these efforts are supported and political weight put behind them to ensure their speedy implementation.

**The real threat of debt distress to countries' ability to fulfill their human rights obligations must serve as a signal of the urgency to put in place a fair and permanent system of debt workout and *ex-ante* measures to reduce the risk of debt distress in the future.**

## Recommendations

- Establish an independent and fair public debt workout mechanism accompanied by *ex-ante* rules for fair burden sharing.
- Adopt principles of responsible lending and borrowing universally.

# 6. Financial regulation

***"The current financial crisis, as well as the continued weaknesses in the international financial system, further underline the need to strengthen the international financial architecture (...) We resolve to undertake appropriate and timely steps to improve the functioning of the international economic and financial system."***

Doha Declaration on Financing for Development, 2008, para 68

Pope Francis calls for "*the return of economics and finance to an ethical approach which favors human beings.*"[30] Beyond the moral and legal duty for it, today's climate, food and other crises make such a shift imperative. Financial regulation is presently embedded in and subservient to an economic paradigm characterised by extreme profit and inequality that requires unsustainable levels of economic activity.

The system of financial regulation as it is today designed and oriented cannot respond to the demands of sustainable development. Its reform is therefore essential. Respect and protection of human rights and remedying human rights abuses caused by financial crises are an imperative part of this shift. It equally requires policies to prevent future crises to integrate commitments to provide comprehensive protection and respect of human rights.

## Current trends and deficiencies of policy responses

### Too big to fail

Since 2008 Europe spent an amount the equivalent to over 30 percent of European GDP on bailouts of financial firms.

Bailouts are justified by arguing that institutions bailed out are 'too big to fail' (TBTF) or too complex or too interconnected to fail. Resolving cross-border institutions, as seen in the European crisis, are an additional complication. The aim of bailouts has been to preempt the potential cascade of failures in other financial firms or even in other sectors of the economy that the meltdown of TBTF institutions would cause. As commonly observed, in large bailouts like these the whole social contract that underpins a country's budget is *de facto* overturned in a matter of hours in order to allocate funding to respond to the perceived threat, making a mockery of the participative processes democratic societies are required to be built upon.

While a bailout is a legitimate policy option and not *a priori* wrong, there should be an open and public debate on what sectors will be favored and on what basis. Moreover, measures to reduce the size and complexity of financial firms have a more significant impact than bailout knee jerk reactions. Exclusively relying on the capacity and will of regulators to spot and provide early warning of systemic risk threats cannot be considered to be the most adequate response either, given the fact that the same regulators failed to act in the past. For instance, the US Federal Stability Oversight Council merely regroups existing regulators in which the Federal Reserve, whose role previous to the 2008 financial crisis has raised suspicion, enjoys significant decision-making power.

Financial institutions should be regulated in a way that prevents them from growing or becoming interconnected or complex to an extent that does not generate tangible benefits for society as a whole and compromises the stability of the entire financial system. Significant international cooperation is a must to resolve such institutions that exist and operate across borders.

Separating banking services (deposits, credit provision to small and medium companies) from investment banking is an important instrument. Separation is a practical means to incentivize the banking sector to align with and support sustainable economic activities. Taxes, such as those applied on financial transactions, can also be designed in ways that contribute to managing the size, complexity and interconnectedness by adjusting incentives.

## Banking capital requirements

Many of the roots of the financial crisis of 2008 can be traced to the inadequacies of the Basel I and Basel II international banking agreements. Basel II allowed banks great discretion in determining their capital buffers to absorb losses in the event that transactions went wrong or empowered scarcely regulated credit rating agencies to make such assessments. The crisis revealed both systems to be ineffective resulting in the new Basel III agreement. Unfortunately the new agreement continues to rely on banks implementing their own internal risk management techniques. They can get away with keeping less capital by claiming that certain assets are less risky than they really are. Internal monitoring puts a great burden on regulators to understand and eventually change highly intricate risk-management frameworks.

Basel III's treatment of TBTF institutions is also very disappointing. A capital requirement surcharge of maximum 3.5 percent is too low to reduce the incentive to grow in size and activities and to deter them from excessive risk taking. This is particularly insufficient when not accompanied by more structural responses to the TBTF problem.

Bank capital requirements can be a useful tool to make systemic crises less frequent and severe, and to generate incentives for banks to undertake activities that support socially desirable goals in the real economy. To achieve these purposes capital requirements need to be tailored to the specific realities called for by the social contract in each country and allow for differentiated requirements across activity and sector, with such entities with risky profiles as TBTF institutions or 'Systemically Important Financial Institutions' being subject to considerably higher requirements. Banks should not be able to game the system by using complex risk-weighting techniques. The leverage ratio included in Basel III and to be calculated on the basis of total assets, should be preferred, as long as it is calculated through clear accounting rules.

For financial institutions with a strong presence in secrecy and poorly regulated jurisdictions, the risk is even more difficult to assess. In that case, capital requirements must also be strengthened.

## Derivatives

Derivatives in a properly regulated financial system are useful instruments to hedge risk, thereby playing a useful function for the real economy. However, the progressive deregulation of the last decades preceding the financial crisis led to considerable abuse of these instruments. The exponential increase

of the derivatives market (from US$91 trillion in 1998 to US$605 trillion in 2008) contributed to making financial markets more opaque and risk-ridden. Speculation facilitated by derivatives has led to greater volatility of prices of a range of commodities from food grain to oil and metals. 'Over the Counter' derivatives have proliferated and defy the standardization required to trade them in public exchanges, yet their social value is unclear. Derivatives have also been used to boost the profits of companies who use them to hide the risk of certain assets or to avoid paying taxes. Given these developments the value of derivatives as instruments serving the real economy as risk mitigation tools has been absolutely outweighed by the volatility, risk and hardship for the poorest consumers, producers and traders that their exponential growth has caused.

Requiring derivatives onto public exchanges and to be centrally cleared is a way of increasing transparency in the market. Public trading and central clearing also force the posting of margin and collateral for those transactions, reducing the overall leverage built in the system, and allowing regulators to spot risks more easily. The increased transparency also facilitates competition in price and better prices for users by making it more difficult for bank dealers to charge higher prices than when there are less disclosure requirements. Central clearing also facilitates multilateral netting of the positions in the transactions, better enabling regulators to understand the risks different actors, and the system as a whole, bear. However to fulfill this function it is essential that rules are put in place to reduce the risk of a few banks or dealers colluding to assume ownership of a clearing house, and in so doing, continuing the dominant role over derivative transactions that they enjoyed before the financial crisis.
As only standardized contracts are required to be publicly traded, it is essential to clearly define the circumstances where non-standardized 'Over-the-Counter' contracts are needed. Additionally, it is essential to reduce the risk of loopholes that allowing end users or certain types of contracts to be exempted from these obligations would allow. Over and above regulating the conduct and nature of the derivative trading, their potential to impact on the poorest and weakest in society makes it essential to put in place laws that ban derivatives that cannot be proven to fulfill any social functions or even damage society. By banning credit default swaps and naked short-selling, the EU has taken a first step to ban such derivatives.

Position limits for traders also make speculation more difficult and increase its costs. To be effective position limits should be set at adequately moderate levels to cover as much trading as possible. The requirement to provide a significantly high level of collateral and margins can also effectively reduce the number of positions taken for solely speculative purposes.

## Hedge funds and private equity funds

Hedge funds and private equity funds usually engage in highly sophisticated and highly risky investment strategies to book returns that are above average. While their sole clientele was intended to be wealthy clients who are able to absorb the risk posed by investing in such institutions without too many social and economic consequences, there is a growing trend towards ordinary citizens being exposed to their risks. Many social investment funds such as pension funds are increasingly using hedge funds. In 2004 the US Securities and Exchange Commission (SEC) reported that about 20 percent of corporate and public pension plans were using hedge funds in 2002, up from 15 percent in 2001 and that this trend was getting stronger. Beyond this, access to such funds has also steadily increased, without clients really understanding or being able to adequately appreciate the risks involved. In Germany for example investors could invest in Deutsche Bank hedge funds for as little as 125 euros per unit.

Putting in place registration and reporting requirements and on-site inspections are potential instruments that would allow regulators to assess the threats such funds pose to systemic risk. To ensure that hedge funds are properly covered by these requirements a sufficiently low threshold must be set or

a provision that allows regulators to impose such obligations to protect public interest. Beyond this, regulators must be empowered to set leverage limits for such funds as provided by the EU directive addressing them.

Accessibility of these funds must also be tackled by curtailing the right to market these funds to retail investors, also based on domicile in third countries that do not comply with the OECD standards on tax transparency. Unfortunately, EU legislation in this regard has been rendered toothless by the freedom given to EU countries to issue less constraining requirements than what is set in the EU directive. Even the limitation on the grounds of domicile of OECD Tax Convention non-compliant third countries is not optimal given the fact that offshore tax havens based in the EU are not touched. In the US such restrictions are not even fixed in law though at least those US companies operating in the EU would need to comply with the EU legislation's third-country tax standard compliance provision.

## Credit rating agencies

Institutional investors (such as pension funds, mutual funds), sovereign borrowers and banks rely on credit rating agencies (CRAs) for the assessment of the risk of their assets. This reliance is to a large extent legally-mandated, for instance the Basel II agreement required banks to rely on credit rating agencies to assess the risk of their assets. Credit rating agencies could potentially incentivize risk-taking that leads to financial crisis by providing an unwarranted sense of security about the quality of certain assets. Without the blessing of credit rating agencies there would have been no market for many of the toxic products that were at the heart of the financial crisis. This linkage has put the spotlight on their governance, accountability and conflict of interest. The 'issuer pays' principle -that the company issuing the securities pays the agency rating them- has been particularly under fire for causing a conflict of interest. Despite the significant influence that they wield, the credit rating agencies defend their rating as being mere opinions. This has been used to steer clear of government control as well as any standard or liability that applies to expert opinions provided for a fee in other sectors, such as accounting or investment banking.

Credit rating agencies should be subject to strong governance requirements to suppress conflicts of interest and ensure integrity and accountability. The International Code of Conduct developed by the International Organisation of Securities Commission (IOSCO), US and European legislation were aimed to increase oversight of CRAs. However, the incentives -often grounded in mandatory requirements to use credit rating agencies, which continue to be present in the Basel III agreements- that drive the conflict of interest in the rating business have been effectively neglected in regulation so far.

This makes it all the more important to revive political commitment that has stalled since the coming into effect of US and European regulation, to ensure strengthened supervision and regulation of rating agencies and launch a longer term agenda to shift from CRAs to alternate risk assessment measures.

## Shadow banking

The shadow banking system -the part of the financial system that is unregulated or lightly regulated even though they exhibit many characteristics of banks- is not supposed to be publicly insured. However in reality the many interconnections between banks and shadow banks make it impossible to maintain clear distinctions. Investment banks such as Goldman Sachs, Morgan Stanley, Merrill, Bear Sterns and finance companies such as GE Capital, GMAC, CIT, AMEX and Discover are some examples of institutions that fit the definition of shadow banking and yet benefitted from government bailouts when the 2008 crisis occurred. The linkages between banks and shadow banks are facilitated by offshore financial centers. This phenomenon has been confirmed by the IMF, which observed that in the wake of the rise of offshore financial centers, the global financial architecture is increasingly decentralized with a 'core group of centers or nodes' such as the US, UK, Luxembourg

and France around which offshore centers are clustered and through which funds are sourced globally (IMF 2010).

Part of the problem in designing and implementing better regulation of shadow banking vehicles results from the scarcity of data on a sector with entities that have been created for the sole purpose of regulatory arbitrage. To address this problem shadow banking vehicles should be subject to strict reporting requirements to ensure proper and successful monitoring.

**Financial regulation must be directed to support alternatives that improve quality of life and reduce the unsustainable drain of natural resources, as well as create decent jobs and guarantee decent livelihoods for all.**

## Recommendations

- Enact financial regulation at national level with participation of all those who have a stake in the performance of the financial sector.
- Apply regulation to all financial markets and financial actors without exemption.
- Downsize and simplify systemically important financial institutions (SIFIs). Separate investment and commercial banking as a first step. Enact legislation for the cross-border resolution of firms operating in more than one country, require orderly wind-down plans to be filed and impose capital surcharges to remove the incentive of institutions to become too big as complements rather than substitutes to downsizing and simplifying SIFIs.
- Set adequately high levels of the leverage ratio and all risk-weighted capital requirement ratios, as well as additional ratios for SIFIs.
- Require all derivatives to be traded on public exchanges and centrally cleared, in addition to being reported to trade registers. Innovative products must go through a clearance procedure to ascertain that they are consumer friendly and not harmful to the stability of the system. *Ex-ante* position limits should be set by regulators and deposit insured financial institutions should not be allowed to carry derivative operations.
- Ban risky products such as credit default swaps and products that have no demonstrable social value but purely short-term wins such as naked short selling.
- Require central clearing houses to have adequate capital buffers and require collateral for each transaction.
- Ban financial firms from speculating through physical holdings of commodities.
- Subject credit rating agencies to strong governance requirements to suppress conflict of interest and ensure integrity and accountability. Limit regulatory reliance on credit rating agencies and make agencies liable for negligent behavior.
- Implement alternatives to the ‘issuer-pays’ model, for instance through competing public agencies with independent rating processes.

# 7. Conclusion: Finance for the people and the planet

***"Money must serve not rule!"***

Pope Francis, Evangelii Gaudium, para 58

An out-of-balance financial system resulting from haphazardly regulated financial actors and minimally controlled markets has led to increased levels of inequality across the globe. Financial markets must be reoriented to serve the real economy. Democratic control over the sector must be ensured. Interventions to address global imbalances and put in place institutional and regulatory frameworks should achieve stability while decreasing income inequality. The financial sector must be made responsible for its own risks and be held publicly accountable when risks are transferred to the public account. In particular, private investors using public finance must be held to account and must assume their fair share of risks. Governments must transparently monitor the impact of portfolio investment and FDI and implement appropriate social, economic, cultural and environmental safeguards. Importantly, in order to turn around the global financial system we will need the strong and meaningful participation of civil society at all levels of political engagement.

Solidarity remains a key value to be reinstated into this new economic consensus.

As Pope Francis reminds all policy makers: *"…the rich must help, respect and promote the poor. I exhort you to generous solidarity and to the return of economics and finance to an ethical approach which favors human beings."*[31] The situation and country specific needs of lifting people out of poverty demand tailored responses, for which aid will remain crucially important in the short term. Similarly, sovereign debt should not be allowed to be an obstacle to prevent countries from attending to their human rights obligations, particularly efforts to reach vulnerable individuals and communities in their societies.

Throwing out a challenge to the G8 in 2005, the late Nelson Mandela said: "*Sometimes it falls upon a generation to be great. You can be that great generation.*"[32] This challenge echoes the call of Pope Francis to all of us to be this generation of change, policy makers or people of good will, we are called to look deep into our heart and ask ourselves: "*Is this really the world that I desire? Is this really the world that we all carry in our hearts? Is the world that we want really a world of harmony and peace, in ourselves, in our relations with others, in families, in cities, <u>in</u> and <u>between</u> nations?*"[33]

# Endnotes

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