



Ensuring Development in the face of the financial crisis

The world is in turmoil. Multiple crises, above all the global financial and economic crisis, are pushing millions of people in developing countries, especially women and children, into poverty. The financial crisis is a systemic crisis, which originated in the advanced developed economies. It emerged in the context of the global crises, i.e. the crises of food, climate and social development. Loose monetary policy and inadequate regulation in combination with insufficient supervision and transparency created financial instability. The efficient use of financial means is essential for the achievement of the international development goals, including the Millennium Development Goals (MDGs). Financial stability is meant to be a global public good and the good functioning of the financial system is a precondition for development.

The global crises need global solutions. Global solutions can only be found in a truly inclusive process towards the transformation of the international financial and monetary architecture, in which all countries around the globe are able to participate. A new regulatory framework, based on the principles of equity, justice and sustainability must be developed and negotiated in a fully inclusive way. Therefore the **United Nations is the only existing legitimate forum through which the financial crisis can be resolved. The UN can allow for strong democratic representation and involvement of all developing countries in achieving an effective transformation.**

In the longer perspective a fundamental redesign of the overall structures of global governance and regulation is needed. It is not only the international financial system that has failed, but also the prevalent development model. The global crises graphically demonstrate these failures, as they impact on millions of people in all parts of the world, particularly those living in poverty. They also provide an opportunity to introduce profound changes to the deficient current approaches. **The recommendations presented by the Commission of Experts of the President of the UN General Assembly on reforms of the international monetary and financial system – also known as Stiglitz Commission - provide a good basis** on which new models can be built. They give comprehensive guidance towards a new way of organising a new world financial system.

One of the greatest current threats to achieving the MDGs comes from the crisis and global financial volatility, and the resulting severe economic recession. The impacts of the global financial crisis on developing countries are particularly severe. Many of them are struggling to address the effects of climate change and food shortages, as reduction in global food prices has not manifested for consumers in developing countries. Reduced inflows from exports, Foreign Direct Investments and particularly remittances impose serious difficulties on their social and economic situation. People living in poverty, especially women and children are being hit hardest. In this context any decrease in aid will push more people into poverty, in particular in the most vulnerable Least Developed countries. The cutbacks of aid by some EU member states are already signs that this is happening. It is imperative, therefore, that the **fundamental reform of the international financial system must take place in reference to the needs of developing countries.**

The world's richest Nations agreed a financial stimulus package amounting worth 832 billion Euro (1.1 trillion US dollars) yet barely one quarter will be given to developing countries. And the money destined for developing countries will be channelled through the IMF. **Its conditionalities imposed on developing countries have been central in spreading misery around the developing world. Recent changes in IMF's policies without reforming the institution itself have not resolved this problem.** Developing countries need the ability to manage their financial markets and systems – in particular the ability to apply counter-cyclical policies to prevent their economies from further crisis shocks and enables sustainable economic growth.

The G20 is primarily composed of the countries that created the framework that allowed and generated the crisis. It is a self selecting group that re-enforces the domination of the powerful, with little transparency in their way of working and decision-making. It has no democratic legitimacy to define the global framework, which can only be achieved through a fully inclusive and democratic process. It is hard to reconcile their self-appointed role with the commitments of the Paris declaration and the concept of ownership, which lies at the bottom of effective sustainable social development and economic growth.

The limits of the market have become evident in the unfolding of the global financial and economic crisis and it needs to be acknowledged that the balance of the role of the market and the role of the state requires redefinition. It was a failure to rely on self-correcting abilities of the market. An effective financial system needs effective oversight, transparency, and a strong regulatory framework. A new system should put an end to shadow banking, secrecy jurisdictions and offshore financial centres that were at the heart of the current financial crisis.

As a global player the EU is playing an active role in seeking to address the failures of the current system. In its claimed role as lead advocate for promoting sustainable development and the fight against poverty in all parts of the world it has a responsibility to ensure that the outcome of any change to the global financial systems fully encompasses its development commitments, and the principles on which they are founded.

The EU must actively engage in the preparations towards the UN Conference at the highest level on the world financial and economic crisis and its impact on development and ensure that the agenda comprehensively addresses the causes as well as the impact of the failure of the global financial system. In particular the EU should ensure the following:

Towards a new international financial architecture

- That there is **guaranteed participation of all countries in the renegotiations of the international financial and monetary institutions, with the UN at the heart of the process** of transforming the financial institutions with the aim of introducing an equitable, sustainable financial architecture in which there is strong democratic representation and the involvement of developing countries in decision-making process – including equal voting rights (i.e. through introducing a double-majority requirement in World Bank and IMF).
- To **ensure public accountability and transparency of international financial institutions.** This includes **preventing policy conditionality** and other strings attached that burden national economies and contribute to the violation of human rights. For instance, poor countries should not be required to privatise basic social services or cut public sector spending as a precondition for receiving the funds that they need. Reforms in the democratic governance of the IFIs are urgently needed to establish parity in voice and vote for developing countries.
- To **shut down secrecy jurisdictions, the shadow banking system and offshore financial centres** as a way to eliminate cross-border tax evasion and capital flight and limit the scope for future

tax avoidance. Such practices take resources much-needed for sustainable development. As a first step, a stringent regulation on bank transfers to OFCs needs to be developed and automatic information exchange extended. Ultimately, an international tax organization under UN auspices is needed for the democratic control of taxation, i.e. to combat tax competition, tax evasion and corrupt capital flight.

- To **stop highly speculative hedge funds, derivative markets, REITS¹ and other high-risk highly leveraged financial products** in order to limit their negative macroeconomic effects. Reforms in the corporate governance to limit harmful incentives for management are needed. Additionally the over-the-counter trading of derivatives should be banned.
- To ensure the respect, protection and fulfilment of **universal human rights** obligations.

Overcome the debt burden

- To establish an internationally applicable, transparent, impartial and **comprehensive process to resolve debt crises, to identify unpayable or unjust debt**, and to ensure that human needs take priority over debt repayments. Moreover, to set up guidelines for responsible, democratic, accountable and fair lending and borrowing including a legal framework for responsible lending, which promote sustainable and equitable development.
- To **cancel quickly, unconditionally and irreversibly all unpayable and unjust debts**. "Unpayable" debts are those that a country cannot afford to pay whilst meeting its own people's basic needs. "Unjust" debts are those that are not legitimate claims, such as "odious" debts on loans knowingly given to dictators, or those from loans given under unfair terms, or for failed projects based on lenders' advice.
- To **stop international institutions such as the World Bank and IMF from imposing conditions on debt relief** that infringe people's fundamental rights to a decent life. "Poor countries" should not be required to privatise basic services or cut public spending as a condition for receiving desperately needed debt relief.
- To **strengthen new reporting and accounting procedures** that are binding on private banks and corporations that require the public disclosure of corporate financial transactions. As a first measure for introducing new accounting standards, a country-by-country reporting scheme should be introduced at international level.
- To **continue to develop binding social and environmental norms for TNCs²** that respect international human rights obligations in line with the Johannesburg summit recommendations to "actively promote corporate responsibility and accountability, based on the Rio principles, including through the full development and effective implementation of intergovernmental agreements and measures...".

Mobilisation of new resources for development

- To make greater efforts to mobilising domestic and international financial resources for sustainable development, particularly to **enable access to basic economic and social infrastructure** including basic education and health, in order to meet the MDGs and other internationally agreed development targets.
- To put the issue of **international taxation for development high on the agenda of the UN Conference** on the world financial and economic crisis in June. The outcome of the conference should contain a political commitment to introduce a Financial Transaction Tax or a Currency Transaction

¹ Real Estate Investment Trusts

² Transnational Corporations

Development Levy at a low rate to gain experience in its implementation. As a first step a new task force within the leading group on solidarity levies to fund sustainable development should be agreed. To increase transparency and combat tax evasion the EU should also agree on the adoption of a Code of Conduct for states on cooperation in combating international tax evasion.

- To **support fair and efficient domestic tax systems** that provide for an equal and sustainable system of taxation rather than regressive tax system that rely on value-added taxation. Technical assistance needs to be provided to increase financial management and democratic oversight mechanisms.
- To call for **changing the IMFs demands for restrictive policies** concerning human resource spending in developing countries, since these demands often force developing countries governments into keeping health and teaching staff expenditures low, which creates further obstacles to the achievement of the MDGs.
- To ensure the **ratification of the UN Convention against Corruption** and strengthening of measures to fight corruption and for the repatriation of stolen assets. The UN Convention against Corruption needs to be complemented by an effective monitoring system at country level, including support for initiatives such as the World Bank's Stolen Assets Recovery (StAR) initiative.
- To combat tax evasion by **promoting the adaption of the UN Code of Conduct on tax evasion** and illicit capital flights, upgrading the UN tax committee into an intergovernmental and supporting automatic exchange of information in tax matters.

International trade

- To **promote international trade policies that are coherent with development objectives**. Only trade that enables sustainable development and lasting economic growth can contribute to poverty eradication.
- To promote a **review of existing financial service liberalization and deregulation measures** included in bilateral and multilateral trade and investment agreements. The Doha Round trade negotiations should separate the financial services agreements from the "single undertaking" package.