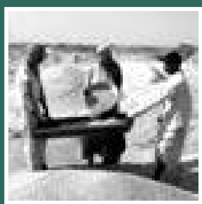
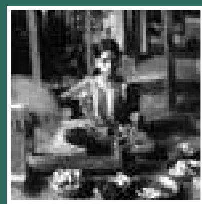
Upholding the Spirit of Monterrey

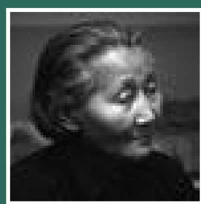
The Financing for Development agenda and its Unfinished Business

June 2008








CIDSE
Coopération Internationale pour le Développement et la Solidarité

This document has been written by the CIDSE Resources for Development Working Group and sets out the CIDSE recommendations for the UN 'Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus' that will be held in Doha/Qatar from 29 November to 2 December 2008.

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This Policy Paper is also available in French, Spanish and German.

CIDSE is a coalition of 16 Catholic development agencies in Europe and North America which share a common vision on poverty eradication and social justice and a common strategy on development programmes, development education and advocacy. CIDSE's advocacy work covers trade and food security, resources for development, global governance, and EU development policy.

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LIST OF ACRONYMS

BWIs	Bretton Woods Institutions
CTT	Currency Transaction Tax
CTDL	Currency Transaction Development Levy
DCF	Development Cooperation Forum (United Nations)
DSF	Debt Sustainability Framework
ECOSOC	Economic and Social Council (United Nations)
EU	European Union
FTT	Financial Transaction Tax
GDP	Gross Domestic Product
GNP	Gross National Product
GNI	Gross National Income
HIPC	Heavily Indebted Poor Countries (Initiative)
IDA	International Development Association (World Bank)
IFIs	International Financial Institutions
IMF	International Monetary Fund
MC	Monterrey Consensus
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
ODA	Overseas Development Assistance
OECD	Organisation for Economic Cooperation and Development
OFCs	Off-shore financial centres
TNCs	Trans-national Corporations
TRIMs	Trade Related Investment Measures' Agreement (WTO)
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organisation

SUMMARY OF RECOMMENDATIONS

I. SAFEGUARDING DOMESTIC RESOURCES AGAINST TAX EVASION AND CAPITAL FLIGHT

The effective and just mobilisation of domestic resources is not only crucial to finance development but also to strengthen democratic accountability and participation at the national and international level. This makes taxation and tax justice as well as tariffs and royalties a cross-cutting issue concerning domestic resource mobilisation as well as foreign private investment, trade, aid, external debt and systemic issues. Key actions for creating an enabling environment for mobilising domestic resources are:

1) Ensuring more effective **international cooperation on tax and fiscal matters** including:
   - The adoption as part of the Doha Outcome Document of a **Code of Conduct** on cooperation in combating international tax evasion and avoidance that is elaborated by the subcommittee on tax matters of ECOSOC
   - 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.
   - The requirement of **Country by Country Reporting** as part of the international accounting standards for Trans-National Corporations not only in the extractive sector but in all sectors, which would considerably curtail the possibilities for transfer pricing.

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

3) Strengthening **judicial cooperation** between states including the following elements:
   - An obligation to provide any bank information when required by foreign judicial and tax authorities 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.

4) Underlining the **responsibility of the International Monetary Fund** (IMF) for the monitoring and surveillance of financial centres and the international financial architecture. To fulfil this responsibility the IMF in its Reports on Observance of Standards and Codes should 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.

II. INNOVATIVE RESOURCES FOR FINANCING DEVELOPMENT

This issue has progressively gained attention since the Monterrey Conference in 2002 especially with the establishment of the Leading Group on Solidarity Levies to Fund Development and the adoption of an Air Ticket Levy by a broad group of countries. Among the mechanisms being discussed, a Currency transactions tax (CTT) has great potential to contribute to a more equitable distribution of wealth, to support a more stable financial climate and raise resources to be channelled into financing development. At the same time, the development of the financial markets with increasing importance of trading in other financial instruments besides currency spot transactions calls for further research in the feasibility and effects of a general Financial Transactions Tax (FTT). The Air Ticket Levy, subject to its improvement in some areas, is a valuable pilot project to understand the workings of international joint mechanisms to raise and administer finance for development on an equal basis between North and South, including state as well as civil society representatives in its structure. The Doha Review Conference should build upon these developments by:

1) Putting the issue of **international taxation for development** on the Doha agenda.
2) Calling upon the United Nations University- World Institute for Development Economics Research (UNU-WIDER) to **research the FTT** to investigate issues of its practical implementation.
3) Agreeing to introduce a **pilot CTT or CTDL at a low rate** to gain experience in its implementation.
4) Ensuring that the structures that manage resources out of innovative mechanisms **guarantee transparency, accountability and participation of stakeholders** in their use at national and international level. This will contribute to UN MDG 8 by making a global partnership for development more real.
5) Committing to the **additionality** of innovative sources of finance.
6) Committing to a stronger focus on **the regulatory effect of the Air Ticket Levy**, further improvements within the Leading Group on Solidarity Levies to Fund Development and the UNITAID structure such as cost efficiency, effectiveness and use of funds for sustainable development beyond distribution of drugs and greater country participation in the Leading Group's initiative of an air ticket levy to fund international development initiatives.
7) Increasing the number of states that implement innovative instruments and agreeing to develop **an institutional framework** to determine how funding raised by these new mechanisms will be utilized and administered. The UN should preserve its role as a catalyst to discuss, obtain support for and help implement some of these initiatives.

III. AID

Raising domestic resources and providing adequate national and international frameworks for these resources to be raised and to be used for the sustained benefit of the poor and most vulnerable is of utmost importance for global human development. Yet additional external aid remains necessary. Participants of the preparatory process and the Doha Review Conference should ensure that its final outcome includes commitments to:

1) Meet the target of **0.7% GNI for ODA**, at least in line with the 20/20 initiative launched at the 1995 Copenhagen Conference on Social Development, within clearly set and acceptable time-lines and by providing real aid (without counting transactions that would not represent a real transfer of resources such as debt relief).
2) Channel ODA to poverty eradication and apply **strict monitoring** for this purpose.
3) Integrate development aid in a **coherent policy framework** oriented at sustainable global development for the benefit of the poor and the most vulnerable.
4) Set clear time-tabled targets to **end economic policy conditionality** and support institutions for democratic accountability and public budget planning and control.

The Doha Review Conference should consider attributing decision-making responsibility on critical issues that define aid policy to the **ECOSOC Development Cooperation Forum**.

IV. DEBT

Some progress has been made since the Monterrey conference, namely the second phase of the Highly Indebted Poor Country Initiative and the Multilateral Debt Relief Initiative. Yet developing country debt today has increased to US$3.35 trillion. Debt relief initiatives, though laudable, thus prove to be falling short of the Monterrey Consensus. The Doha Review Conference, its preparatory process and its outcome must determine what still needs to be done to live up to the spirit of the Monterrey Consensus by making concrete commitments on debt issues placed in the present context, namely:

1) An agreement to **end binding onerous ex-ante conditionality**, in particular regarding economic policy, to debt relief operations.
2) A commitment to **review debt-cancellation needs** for countries, especially those not yet considered in existing debt relief operations on the basis of financing requirements required for achieving the MDGs and broader development goals, as already agreed in Monterrey.
3) An agreement on a process to develop, in cooperation with other agencies with relevant expertise, a **binding, independent and predictable framework for arbitrating** on sovereign debt claims.
4) With regard to **vulture funds**:
   - A commitment to **change national laws**, particularly in those countries such as the UK, USA and France, whose jurisdictions vulture funds exploit the most to take action against countries just recovering after debt cancellation, to end this phenomenon;
   - An agreement to free up **funds to give judicial and financial assistance** to countries in case they are taken to court by vulture funds.
5) A recognition of the existence of **illegitimate debt** and efforts of countries to investigate illegitimacy of their debts and commitment to cancel debts demonstrated to be illegitimate.

V. THE REFORM OF THE FINANCIAL, MONETARY AND TRADING SYSTEMS

The major multilateral institutions that emerged out of the post World War II architecture (the Bretton Woods Institutions and the World Trade Organisation) presently face their deepest crisis ever. At the same time, a major global economic slowdown that originated in a developed country reveals the vulnerabilities of today's global finance system. The Doha Review Conference should seize the moment, developing a multilaterally and politically agreed vision that provides guidance to the major global and regional economic institutions, while also identifying the institutional gaps and deficiencies that have helped trigger such crises. Important elements of this would be:

1) Stress the insufficiency of recent steps **to increase participation of developing countries** in international economic decision-making, calling for action in this regard particularly:
   - The **Bretton Woods Institutions should further reform** the formula to determine capital contributions, increase basic votes up to the original level, introduce double-majority vote modalities and provide for transparent selection processes for higher management positions including directors.
   - Financial standard-setting bodies should progressively add developing countries to their membership and be asked to report periodically on their compliance with this task. **Guidelines** should be established on their composition and goals.
   - A **UN-based intergovernmental group of experts** for addressing development-related questions arising from the design of financial standards should be established.

2) Agree to **greater cooperation for supervision and regulation of cross-border financing** as a first step and commit to establishing a process to set up inclusive and competent fora that can provide an effective public sector, spot early problems and call for speedy action on areas of risk.

3) Call for an effective code of conduct and institutional arrangements to ensure **multilateral oversight on coordination of exchange rates**, at least until the IMF can undergo the dramatic reforms that it would need to adequately perform this function.

4) Commit to **preserve long term and employment-friendly business** activities from short-term, highly leveraged and non-transparent new actors like Hedge and Private Equity Funds through appropriate regulation.

5) Commit to address the impact of **exchange-rate fluctuations on developing countries** by:
   - Supporting those developing countries that opt to manage their exchange rates and exempt this option from IMF bilateral surveillance;

- Acknowledging this impact in trade and investment agreements;
- Supporting the regionalisation of finance.

6) Commit to increase investment in agriculture and rural development, focusing on **small scale sustainable farming** particularly in developing countries, and to develop global trade rules to support and promote these policies. The principle of coherence in the consideration of all policies that influence the capacity of countries to mobilise resources for financing development, including trade should be explicitly underlined and supported.

7) Demand that multilateral and bilateral finance agencies **refrain from intruding upon the trade and investment negotiation space** of countries that depend on them for financing.

8) Address the WTO negotiations, calling for **reform of the practice of mini-Ministerials**, **avoidance of 'green rooms'** as a modality for negotiations and develop a clear and transparent system for **civil society participation**, perhaps akin to the consultative status enjoyed in relation to ECOSOC at the UN.

9) Give the **UN a clear and strong mandate** in the many areas of global finance that are not properly tackled by sufficiently inclusive bodies, such as sovereign debt regulation, accounting standards definition and tax cooperation.

VI STRENGTHENING THE FOLLOW-UP PROCESS

It is important to stress that the Monterrey Consensus was not meant to be an end, but a beginning. In a large measure, the realisation of its promises and commitments can only come through continued dialogue and the engagement of all stakeholders, as embodied in the "spirit of Monterrey." CIDSE recommends the replacement of the current follow up process with a **new institutional mechanism,** in the form of a Financing for Development Commission that should have, at a minimum, 5 features:

1) It should **meet periodically and frequently**.
2) It should produce a **negotiated outcome**.
3) This institutional mechanism should be **at the highest level**, not only in governments, particularly including high level officials covering key economic portfolios in member countries, but also the top leadership of the international financial institutions and the World Trade Organization, and all relevant development actors.
4) **Civil society should be accorded a space** as has been the case from the beginning of the Financing for Development process. Their contribution to the process should be stimulated in the final phase of the Doha Conference preparatory process at the national, regional and international level as well as at the Conference itself by the provision of full access to its proceedings.
5) **Accessibility to information and to negotiations for all stakeholders**, including civil society, should be improved to ensure that the Financing for Development is upheld as a truly multi-stakeholder process.

This institutional mechanism should be backed by a strengthened UN Secretariat in Financing for Development matters. The General Assembly should also establish a "Committee on Financing for Development" to become the intergovernmental 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. The resources currently available at the UN for serving the secretariat needs of the Financing for Development follow-up process should be directed to support the preparation of the regular negotiated outcomes. A bureau would need to be created as a platform for the Secretariat, the 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 Commission.

INTRODUCTION

> *"Our goal is to eradicate poverty, achieve sustained economic growth and promote sustainable development as we advance to a fully inclusive and equitable global economic system."*[1]

The 2002 International Conference on Financing for Development in Monterrey was convened to bring firm resolve and clear strategies for financing in order to implement all the global commitments that had been made so far at UN summits in Rio de Janeiro (1992), Vienna (1993), Cairo (1994), Beijing (1995) and Copenhagen (1995). The UN Millennium Summit of 2000 and the subsequent formulation of the Millennium Development Goals very symbolically added to the sentiment that urgent action was needed for "*ensuring that the twenty-first century becomes the century of development for all*" (Monterrey Consensus, para. 3).

To achieve this goal the Monterrey Consensus (MC) explicitly calls for a "*holistic approach*" (MC, para. 8) including national as well as international policy efforts to address interconnected global challenges. These efforts should be based on a "*new partnership between developed and developing countries*" (MC, para. 4) built on "*full and effective participation of developing countries*" (MC, para. 7) and aiming at "*national and global economic systems based on the principles of justice, equity, democracy, participation, transparency, accountability and inclusion*" (MC, para. 9). The Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus to be held in Doha, Qatar from 29 November to 2 December 2008 and hereafter referred to as 'the Doha Review Conference' is an important and necessary step to review progress, obstacles and new challenges in the implementation of the Monterrey Consensus. It is essential that this conference remains faithful to the holistic approach and to the urgency of the Monterrey agenda. It must be held at a summit level and prepared with the same transparency and participation of all relevant stakeholders including civil society as was the case for the Monterrey Conference in 2002.

CIDSE as a network of Catholic development organisations shares the Monterrey goal of a fully inclusive and equitable global development for all based on effective participation and partnership. But in our eyes this partnership is not "new." It is the basic relationship of men, women and children across time and space. Being created by God and in our stewardship of God's creation as well as in our common destiny to share the plenitude of life provided by God, all human beings build one community, one "*human family*" as Pope Benedict XVI recently recalled in his message for the World Day of Peace on 1 January 2008. This basic concept has far reaching consequences for global development. Development must be guided by solidarity, equitable distribution of wealth and power and prudent use of resources. It must enable everyone to cooperate on a just and equal footing. Economic development as part of overarching human development must be capable of responding effectively to the requirements of a common good which is now planetary in scope.[2]

Based on these principles this paper draws our conclusions and recommendations for the Doha Review Conference. While referring to actions to be taken under different chapters of the Monterrey Consensus (domestic resources, private flows, trade, ODA, external debt and systemic issues), the paper is structured around the key issues that we consider would need to be essentially and urgently addressed to achieve the overall objectives of poverty eradication, sustained economic growth and sustainable development within the framework of a "*fully inclusive and equitable global economic system*" (MC, para. 1).

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[1] United Nations (2002), *Monterrey Consensus of the International Conference on Financing for Development.* Chapter I.1. The final text of agreements and commitments adopted at the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002.
[2] Benedict XVI (2008), *Message for the World Day of Peace,* paras 9-10, Vatican, 1 January 2008.

I. SAFEGUARDING DOMESTIC RESOURCES AGAINST TAX EVASION AND CAPITAL FLIGHT

"Mobilizing domestic financial resources for development" is the first of the six action points in the Monterrey outcome document. For good reason. Mobilising such resources is crucial for development, not only to finance it but also to strengthen democratic accountability and participation both at the national and international level. This makes taxation and tax justice as well as tariffs and royalties a cross-cutting issue concerning not only domestic resource mobilisation but also foreign private investment, trade, aid, external debt and systemic issues.

Taxes (and to a different extent also tariffs and royalties) are the main instrument by which citizens and companies contribute to the common good of society whose services and resources they rely on. Private investment and trade can only promote pro-poor growth and development when this basic mechanism works properly. This is also a necessary precondition for a country to become and remain self-reliant, independent from external aid flows and unsustainable borrowing.

The widespread image of intrinsically poor countries depending on external aid from generous rich countries is misguiding. Most developing countries possess a wealth of domestic natural and human resources. The major problem is the obstacles at the national and international level which impede these resources from being used to finance public goods for the benefit of the whole population, especially the poor. The United Nations (UN) estimated that net finance transfers from developing countries reached an outflow-peak of US$658 billion in 2006 (UN, World Economic Situation and Prospects 2007, New York 2007, 58f)[3]. Aid from OECD countries in the same period was US$103.9 billion.[4] According to statistics from the World Trade Organization (WTO) more than 50 percent of world trade is intra-group trade between affiliates of the same company or holding[5], most of them maintaining entities in tax havens. Although "*reducing capital flight*" was mentioned in the Monterrey Consensus (MC, para. 10) and reiterated in the 2005 World Summit Outcome[6] as necessary undertakings "to create a domestic enabling environment for mobilizing domestic resources" these facts show that it has not been addressed seriously by the international community.

We consider that some of the obstacles to a successful mobilization and use of domestic resources are:

1. **A lack of traceability and regulation of capital because of the increased and uncontrolled mobility of capital** due to globalization and liberalisation of financial markets. This leads to difficulties in developing and developed countries to tax capital and regulate capital flight in times of crises. Lower revenue from taxes on capital increases tax pressure on consumption and wages putting 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 US$50 billion per year for developing countries alone.[7]

2. **Tax competition** of host countries to attract foreign investors through all sorts of incentives, holidays and benefits. This is used by **Trans-national Corporations (TNCs)** to minimise their tax payments leading to a 'race to the bottom' on corporate taxes and puts governments under pressure to cut public expenditure or to increase taxes which have regressive effects, particularly consumption taxes. Similarly, local entrepreneurs often have to face unfair competition against foreign companies that are offered tax exemptions.

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[3] Gurtner, Bruno (2007) *Verkehrte Welt: Der Süden finanziert den Norden*. In IUED, Schweizerisches Jahrbuch für Entwicklungspolitik, Vol. 26, N°2, 61-84, Geneva.
[4] OECD (2007) *Development aid from OECD countries fell 5.1% in 2006*, Paris.
[5] World Trade Organisation (2006) *International Trade Statistics 2006*, Geneva.
[6] United Nations General Assembly (2005), *2005 World Summit Outcome* (A/60/L.1), 24 (e), New York.
[7] Tax Justice Network (2005) *The price of offshore*, London. The estimate for all countries is about $255 billion.

3. Beyond benefiting from the tax privileges because of intergovernmental tax competition, TNCs 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 nor 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 US$50 billion in 2000 – almost the total amount of global ODA at that time.[8]

4. **Increasing importance of offshore financial centres (OFCs)** that provide shelter for tax avoidance. According to the IMF, there are now more than 52 such OFCs, as compared to 25 in the 1970s.[9] The Tax Justice Network estimates that US$11.5 trillion is held in offshore financial centres.[10] Moreover the offshore system has contributed to financial instability and financial crises which disproportionately affect the poor[11].

5. **The judicial leeway of tax havens provides a shelter for the illicit outflows of finance and for corruption**. Assets looted by dictators and officials are often hidden behind banking secrecy, trusts, foundations or other special purpose vehicles allowing for anonymity. Judicial cooperation needs to be significantly enhanced, including among rich countries, and the real ownership of any kind of legal entity should be accessible to judicial and tax authorities. The repatriation of illicit funds could go a long way to provide much-needed resources for development.[12]

6. **Advice and conditions from international financial institutions** such as the IMF and the World Bank and donors too often put pressure on developing countries to move towards trade liberalisation, deregulation of capital flows, tax exemptions to attract foreign investment and restrictive fiscal targets. Such policies counteract efforts to appropriately mobilise much needed revenues to increase spending in health, education or the implementation of demand-driven programmes for stimulating the economy. In most developing countries taxes cannot compensate for massive losses of tariff revenues caused by externally imposed trade liberalisation.[13] 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% and social security subscription charges increased to 66%, while corporate taxes decreased by 16% and the tax on rural property was halved[14].

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

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

[10] Tax Justice Network (2005)

[11] Oxfam (2000) *Tax havens: Releasing the hidden billions for poverty eradication*, Oxfam Briefing Papers, Oxford. The paper gives the example of the Bangkok International Banking Facilities (BIBF) in Thailand that acted as a channel for short-term capital flows into East Asia – functioning as offshore centre granting tax incentives and exemptions from regulatory requirements. These practices paved the way for the Asian crisis which pushed 1 million into poverty in Thailand and led to a doubling of the number of people living in poverty in Indonesia (see Bank for International Settlements (1998), *68th Annual Report*, Basel). See also Financial Stability Forum (2000) *Report of the Working Group on Offshore Centres* (point 36).

[12] A study by CCFD estimates the amount stolen by Southern countries' dictators over the last few decades between $100 bn. and $180 bn. (CCFD (2007) *Biens mal acquis… profitent trop souvent. La fortune des dictateurs et les complaisances occidentales*, Paris).

[13] 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.)

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

7. Within public finance **gender issues** are not sufficiently taken into account for public expenditures and public revenue-raising policies in general and taxation in particular. Men and women can be affected differently by taxes, as well as by the erosion of public financing, because socio-economic conditions and the situation of men and women differ, with regard to employment, income, responsibility for unpaid care, access to and disposal of resources differ and gender-specific behavioural differences can be found.

This assessment holds true notwithstanding the fact that there has been some progress mainly restricted to a focus on corruption. According to the World Bank: *"The cross-border flow of the global proceeds from criminal activities, corruption, and tax evasion is estimated at between $1 trillion and $1.6 trillion per year"*[15]. Evidence of the increasing involvement of the international community against corrupt money includes the UN Convention against Corruption (UNCAC), which entered into force in 2005, the World Bank Governance and Anticorruption Strategy and the launch in September 2007 of the Stolen Assets Recovery (StAR) initiative by the World Bank and the UN. The StAR initiative, though, focuses on the estimated US$20-40 billion money arising out of corruption. It does not cover a large bulk of illicit capital flows such as those arising out of tax evasion.

In the area of tax avoidance and evasion, IMF staff assessments of Offshore Financial Centres cover 26 jurisdictions so far[16]. At OECD level several bodies and initiatives such as the Committee on Fiscal Affairs, the Centre for Tax Policy and Administration and the Global Forum on Taxation are dealing with international tax issues. Yet, the OECD pays little attention to the problems that developing countries face in this regard and the list of non-cooperative offshore territories has been almost emptied. Andorra, Liechtenstein and Monaco remain the only three blacklisted tax-havens though there is little evidence of genuine change in policy of countries which have been out of the list since 2000. Similarly, the Financial Action Task Force (FATF) produced extremely valuable recommendations against money laundering, but the Task Force and its regional antennae have little if any means, aside from informal peer pressure to ensure their implementation.

The overall picture for developing countries regarding tax revenues remains dark. Besides domestic difficulties like weak tax administrations or large informal sectors, the main cause at the root of this vital problem is lack of public awareness and political will to address the global issue of tax evasion and capital flight. Even the above-mentioned initiatives, which deal with issues of anti-corruption, financial sector surveillance and taxes, either do not address these problems at all or face stark opposition resulting in little more than window-dressing instead of efficient measures.

This means a large agenda remains to protect and increase the financial resources that developing countries should be able to handle with the utmost policy space.

RECOMMENDATIONS

Key actions for creating an enabling environment for mobilising domestic resources are:

1) Ensuring more effective **international cooperation on tax and fiscal matters**, as already indicated by the Monterrey Consensus including combating tax havens and tax evasion. This cooperation should include:
    - The adoption as part of the Doha Outcome Document of a **Code of Conduct** on cooperation in combating international tax evasion and avoidance that is elaborated by the subcommittee on tax matters of ECOSOC, including the following key content elements :

[15] World Bank *Fact Sheet on Stolen Asset Recovery,* Washington DC.
[16] Many more jurisdictions have been contacted, but most of them do not participate (explicitly or de facto); see International Monetary Fund (2006) *Offshore Financial Centers. The Assessment Program – A Progress Report*, Washington DC.

  - 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.
- 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.
- 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, which would considerably curtail the possibilities for transfer pricing. Host country requirements such as local purchasing and trade-balancing requirements, currently forbidden by the TRIMs agreement, should be re-enabled, given their potential to prevent transfer pricing.

2) 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.

3) Strengthening **judicial cooperation** between states including the following elements:
   - An obligation to provide any bank information when required by foreign judicial and tax authorities 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.

4) Underlining the **responsibility of the International Monetary Fund (IMF)** for the monitoring and surveillance of financial centres and the international financial architecture. To fulfil this responsibility the IMF in its Reports on Observance of Standards and Codes (ROSCs) should 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.

II. INNOVATIVE RESOURCES FOR FINANCING DEVELOPMENT

Closely linked to international tax justice are some issues which are discussed at present under the heading of "innovative sources" for financing development and have gained increasing attention including promising developments like the establishment of the Leading Group on Solidarity Levies to Fund Development. While the main focus of these discussions lies on raising innovative financial resources (such as the International Finance Facility, Advance Market Commitments), some proposals also touch the question of a just redistribution of the profits of globalisation and the benefits and costs of financing global public goods by international taxes. CIDSE welcomes the proposals of taxation on aviation fuel, carbon, General Financial Transactions and Currency Transactions (CTT) and the first signs of progress of implementation that can be seen with the air ticket levy.

1. Currency and financial transaction taxes

CIDSE has promoted the two tier Spahn proposal of a **Currency transactions tax (CTT)**[17] for many years convinced of its potential for the realisation of a more equitable distribution of wealth and as a supportive measure for a more stable financial climate while at the same time raising development revenue. Additionally it contributes to a shift of the tax burden from wages and consumption to capital, making the overall tax system more equitable.

In 1994, Paul-Bernd Spahn (Professor of Economics at the University of Frankfurt-am-Main and an IMF expert at that time) proposed a very low, uniform rate on every currency transaction for the sake of collecting revenue (0.01 or 0.02%) *and* a much higher, temporary penal rate (50 or even 100%), if the speed of the currency exchange-rate movement indicates the currency is likely to be subject to a speculative currency flight.[18]

Since Monterrey, proposals for a CTT have gained further momentum in the debate, and become widely accepted as a feasible option within and across many countries. It is clear now that implementation is only a question of political will and the time for implementation has come. A CTT with a very low rate could be introduced by a single country or currency zone while the second tier with a much higher rate to counteract speculative attacks could be introduced independently.

Recent publications and debates at the Leading Group on Solidarity Levies to Fund Development suggest a "**Currency Transaction for Development Levy (CTDL)**" with a very low rate of half a basis point (0.005%) and taxation based on all trade in a particular currency wherever they take place to minimize market distortions or chances for avoidance. This could serve as a pilot to gain first experiences on practical implementation as a first step while maintaining a long-term perspective on the adoption of a CTT.

Following the developments of the financial markets with increasing importance of trading in other financial instruments besides currency spot transactions, the feasibility and effects of a general **Financial Transaction Tax (FTT)** were studied by Austrian research institutions with the support of the Austrian government. A tax levied on all financial transactions (spot as well as derivatives) going beyond currency transactions to include stock, bonds, etc. and related derivatives (interest rate contracts, futures, options) would broaden the tax base and could yield significant revenue while keeping the tax rate low. This tax might contribute to the stability of financial markets as it will be more heavily felt on short term transactions.

A general taxation of financial asset transactions in all major economies would only be the final stage in the process of implementing an FTT following a step by step implementation of a tax levied only on spot and derivatives transactions on organized exchanges in some major EU economies with further extension at a later stage.

Any further debate or study on the international level should concentrate on the details of the implementation of a FTT.

2. Airline ticket levy

As an initiative of the Leading Group on Solidarity Levies to Fund Development an air ticket levy was introduced voluntarily by a number of countries[19] at a low rate as a kind of minimum compromise not intended to have any impact on the aviation industry. It is currently used to finance a fund for drugs against tuberculosis, AIDS and malaria via the newly established structure of the International Drug

[17] See CIDSE website on actions on CTT, CIDSE (2004) *Redistribution through Innovative Measures: a Currency Transactions Tax*, Brussels and CIDSE (2005) *New Resources for Development*, Brussels.
[18] Spahn, Paul Bernd (2006) in IMF *Finance and Development*, June 1996.
[19] France, Chile, Côte d'Ivoire, Congo, Republic of Korea, Madagascar, Mauritius, Niger presently implement the tax (Source: UNITAID).

Purchasing Facility for the treatment of HIV/AIDS, malaria and tuberculosis in developing countries, UNITAID.

The introduction of an air ticket levy is an interesting pilot project helping to build experience in joint action to raise and administer finance for development on an equal basis between North and South including state as well as civil society representatives in its structure. It proves that first steps towards international taxes can be taken unilaterally or by a leading coalition of countries. However, the existing air-ticket levy has to be improved in a number of ways for it to be an effective mechanism, namely:

- It should be a compulsory rather than a voluntary charge.
- The rate of the air-ticket levy should be sufficiently high for it to internalise environmental costs and thus influence individual behaviour. This would also raise substantially higher volumes of revenue.
- It needs the support from a bigger community of states to increase its significance.

Allocation of resources raised from any innovative mechanism should respect principles of ownership of countries who would be the recipient of the finance and be free of any form of onerous conditionality. Resources should be allocated to comprehensive programmes for sustainable development. Too narrow a focus of the criteria for resource allocation as defined by donors would undermine country ownership and would probably not meet the needs and priorities of the beneficiary countries.

RECOMMENDATIONS

The Doha Review Conference should build upon the achievements and debates on innovative resources so far and take steps to further their progress by:

1) Putting the issue of **international taxation for development** including CTT on the Doha agenda.
2) Calling upon the United Nations University-World Institute for Development Economics Research (UNU-WIDER) to **research the Financial Transaction Tax** to investigate issues of its practical implementation.
3) Agreeing to introduce **a pilot CTT or CTDL at a low rate** to gain experience in its implementation.
4) Ensuring that the structures that manage resources out of innovative mechanisms **guarantee transparency, accountability and participation of stakeholders** in their use at national and international level. This will contribute to UN MDG 8 by making a global partnership for development more real.
5) Committing to the **additionality** of innovative sources of finance.
6) Committing to a stronger focus on **the regulatory effect of the Air Ticket Lev**y, further improvements within the Leading Group on Solidarity Levies to Fund Development and the UNITAID structure such as cost efficiency, effectiveness and use of funds for sustainable development beyond distribution of drugs and greater country participation in the Leading Group's initiative of an air ticket levy to fund international development initiatives.
7) New instruments of finance could increase their efficiency and size by being implemented on a multilateral basis, rather than by a few countries. There is also a need for **an institutional framework** to determine how funding raised by these new mechanisms will be utilized and administered. The UN should preserve its role as a catalyst to discuss, obtain support for and help implement some of these initiatives. But it is worth exploring more generalized uses of some of the forms of finance, via multilateral agreement. The work on innovative sources of finance, and their administration, could be improved by institutionalizing the governance into a multilateral UN body.

III. AID

Although raising domestic resources and providing adequate national and international frameworks for these resources to be raised and to be used for the sustained benefit of the poor and most vulnerable is of utmost importance for global human development, additional external aid will remain necessary as long as the chances for participating in the global economy are as unequal as they are at present.

In order to complement domestic efforts in improving the living conditions of the millions of poor in developing countries, development aid must be sufficient in quantity, oriented to sustainable poverty eradication, predictable and effective. The Monterrey Consensus recognised that a substantial increase in Official Development Assistance (ODA) will be required if developing countries are to achieve international development goals including the MDGs and in so doing urged developed countries to make concrete efforts towards the target of 0.7% of their GNP (MC, paras. 42, 43). The Consensus contained an international agreement to further improve policies and development strategies, both nationally and internationally, to enhance aid effectiveness (MC, para. 42).

On the occasion of the Monterrey conference in 2002 several countries made formal commitments to increase their official development assistance, e.g. the EU countries with their Barcelona agreement. These commitments have been repeated and adapted in later years (e.g. for the EU countries in Luxembourg in 2005). Other OECD countries like Switzerland or the United States of America still lack clear commitments for reaching the UN set 0.7% target. While we commend the fact that for the first time ODA commitments have been linked to a binding time-line we criticise the way most donors are trying to fulfil their pledges by window-dressing. The major flaw in this respect is the counting of debt relief as ODA. Although the Monterrey Consensus clearly encouraged donor countries to ensure that "resources provided for debt relief do not detract from ODA" (MC, para. 51) this practice has been continued. The loss of credibility is even greater when not only development credits but also commercial export credits and even credits that have been repaid at market value are counted as ODA. But even with this artificial inflation ODA rates are not in line with the increase that is necessary to reach the set targets – as the OECD had to remind donors after the publication of the 2006 and 2007 ODA statistics. CIDSE is closely monitoring discussions on the revision of ODA criteria in some donor countries, in the face of budgetary constraints. Discussions mainly appear to be a move to include existing expenses not acceptable as real development expenditure in place of stepping up budgetary efforts to raise actual volumes to meet international targets.

Besides sufficient quantity, the quality of development aid is a necessary precondition for its effective use for sustained global development for the benefit of the poor. This issue has been taken up by conferences in Rome (2003) and especially in Paris (2005) where an agenda with clear time-lines was set for improving aid effectiveness. To the extent that it helps make progress in key aspects of aid effectiveness identified in the Monterrey Consensus, this agenda (of governments and for governments) is a welcome move.

We are concerned, however, by signs that the implementation of the Paris Declaration is neglecting such aspects (MC, para. 43) as:

- The reduction in transaction costs and improvement in flexibility of aid delivery.
- The untying and suppression of burdensome restrictions on aid.
- The utilisation of frameworks that are owned and driven by the recipient countries.

Like other NGOs, CIDSE and its Southern partners will monitor progress of this agenda from the perspective of those children, women and men it is meant to serve: the poor and the most vulnerable.[20]

[20] While monitoring official discussions on the effectiveness of development aid, actively participating in development assistance with partners in the South, CIDSE is also keenly aware of this issue with respect to ourselves. CIDSE has launched a process to enable us to explicitly define our understanding of effectiveness in development cooperation. An initial reflection on this issue can be found in CIDSE (2008) *Development Aid: Compensation for injustice or Instrument for Justice?*, Brussels.

At the same time we need to underline that the quality of aid goes far beyond development aid effectiveness. It entails essential political questions of the distribution of power, of access to resources, of risks and opportunities which by definition are not covered by the agenda of the Paris Declaration. Preparations for Doha have to bear this in mind especially when another international conference (the OECD High Level Forum in Accra) will deal with the Paris agenda only two months before the Doha Review Conference. The scope of Monterrey and Doha goes beyond aid effectiveness and must also address the above mentioned political questions, within a framework of the respect of human rights. Without coherent policies and politics in favour of human global development, development aid on its own will remain fruitless.

A crucial point for aid effectiveness as well as for political coherence is adequate participation of all stakeholders, especially the poor and marginalized. Regarding development aid 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 aid contract, conditionality. The requirement made of recipient governments to provide accurate financial and budgetary accounting for the use of aid, should be complemented by the provision of timely and predictable flows of aid by donors. Beyond this, conditions - particularly economic conditions - tied to aid are not legitimate if they are imposed rather than arising out of an inclusive process of dialogue and negotiation. [21]

The emergence of a new aid architecture where developing countries are further excluded from decision-making and norm-setting contradicts the Monterrey Consensus (MC, para. 62). Tasks such as defining what should be counted as aid, 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 ECOSOC 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.

RECOMMENDATIONS

Participants of the preparatory process and the Doha Review Conference should ensure that its final outcome includes commitments to:

1) Meet the international target of **0.7% GNI for ODA**, at least in line with the 20/20 initiative launched at the 1995 Copenhagen Conference on Social Development, within clearly set and acceptable time-lines and by providing real aid (without counting transactions that would not represent a real transfer of resources such as debt relief);
2) Channel ODA to poverty eradication and apply **strict monitoring** for this purpose;
3) Integrate development aid in a **coherent policy framework** oriented at sustainable global development for the benefit of the poor and the most vulnerable;
4) Set clear time-tabled targets to **end economic policy conditionality** and support institutions for democratic accountability and public budget planning and control.

The Doha Review Conference should consider attributing decision-making responsibility on critical issues that define aid policy to the **ECOSOC Development Cooperation Forum**.

[21] Also see *CIDSE-Caritas Internationalis Working Group on Resources for Development Statement on Conditionality*, July 2005.

IV. DEBT

1. Debt relief and debt sustainability

In the field of external debt some progress has been made since the Monterrey conference. The HIPC-II and the Multilateral Debt Relief Initiative (MDRI) – although still ongoing – are proving that debt relief can make considerable contributions to increasing financial space for public development and poverty reduction spending. Yet developing country external debt today has increased to US$3.35 trillion[22]. In 2000, developing countries' debt stocks were US$2.49 trillion[23] up from US$1.4 trillion in 1990[24]. Developing countries paid out US$446 billion in debt related payments in 2006.[25] Low income countries continue to pay out US$100 million each day to creditors,[26] diverting large sums of scarce government revenue to external debt service and away from investment needed for social and infrastructure investment.

Debt relief initiatives, though laudable, thus prove to be falling short of the Monterrey Consensus (MC, para. 48). CIDSE has noted the following concerns regarding the latest debt cancellation initiatives[27]:

- 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 IDA and the African Development Bank, this meant less than full additionality of resources.
- Debt relief promises, while helpful, will not be enough to guarantee the financing countries need to reach the MDGs.
- 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.
- Many countries with illegitimate/ odious debts were left entirely off the list.
- Harmful, one-size-fits-all conditionality imposed by IFIs were not removed but, on the contrary, were made a requirement to access debt relief. In fact, 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.[28]

Even in the limited number of countries benefiting from these initiatives, new borrowing threatens to return them into debt crises.

To date, official efforts to address the problem of maintaining sustainability have focussed mainly on the IMF/World Bank's Debt Sustainability Framework (DSF). In 2005, a joint IMF-World Bank Staff paper[29] discussed the option of "lowering debt thresholds for *all* countries", which would have been coherent with the rationale behind the MDRI, but this option was discarded because it "could reopen

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[22] World Bank Data and Statistics available at http://go.worldbank.org/1M350PEJI0.
[23] World Bank (2002) *Global Development Finance*, Washington DC.
[24] World Bank (1999) *Global Development Finance*, Washington DC.
[25] Spratt, Stephen (May 2007), *External Debt and the Millennium Development Goals*, paper commissioned by UNDP, p.5.
[26] Oxfam International (May 2007), *The World is Still Waiting*, Briefing Paper 103, p.4, Oxford.
[27] CIDSE (2007) *A Human Development Approach to Preventing New Cycles of Debt*, Brussels.
[28] 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 John Weeks and Terry McKinley, *Does Debt Relief Increase Fiscal Space in Zambia? The MDG Implications* UNDP International Poverty Centre, Country Study no. 5, September 2006; and Acevedo, Adolfo *Nicaragua: "the Millennium Development Goals (MDGs) and the IMF program*," p. 9-11, 2006.
[29] International Development Association and International Monetary Fund, (2006) *Review of Low-Income Debt Sustainability Framework and Implications of the MDRI*, p. 19.

the question of HIPC eligibility (...), which could substantially increase the cost of the HIPC Initiative."

To be in line with the Monterrey Consensus, debt sustainability and debt relief needs should be calculated to ensure debt sustainability assessments are based on the requirements to achieve the MDGs (MC, para. 49).[30] This calls for developing countries to be able to set aside as much as is needed to achieve human development goals and the MDGs as public revenues. Only the balance would come under consideration as available resources to service their debts or pay back the principal amount. Such a requirement would imply the cancellation of approximately US$400-600 billion worth of debt[31] –from marginal to 100% debt cancellation depending on the situation of each country- while both the HIPC and MDRI initiatives account for little more than US$100 billion in debt relief. The DSF methodology is unable to meet the requirements set by the Monterrey Consensus.[32] Among the problems is its reliance on:

- Debt distress as defined by the pure inability of countries to repay (rather than incapacity to meet the MDGs or other human development targets);
- Debt indicators such as debt-to-exports and debt-to-GDP, which do not take domestic debt into account and as indicators have failed to capture the real needs for debt relief of countries; and
- A one-size-fits-all Country Policy and Institutional Assessment by the World Bank, which prejudges the diversity of policy approaches that borrowing countries may need in pursuit of country-owned development strategies.

The framework allows the establishment of debt ceilings for each country. But it sanctions only the debtor for breaches in the debt ceilings 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. Debtors are first left without alternative but borrowing and then punished for taking credits.

This instrument thus has been ineffective in addressing the problem of debt re-accumulation which was called for by the Monterrey Consensus (MC, para. 47). The DSF also does not address endogenous and exogenous shocks which many post-HIPC countries are presently being hit by. The situation of several countries where external debt levels have apparently improved at the expense of generating new domestic debt is not considered. The Monterrey Consensus (MC, para. 62) is clearly not reflected in the DSF which does not provide space for participation by borrowing countries and their citizens in the preparation of their own debt sustainability analyses, strategies and goals.

2. Debt workout mechanisms and responsible lending

The need for a different approach to comprehensively address the process of borrowing and lending, both in terms of quantity and quality, was already recognized in the Monterrey Consensus (MC, para. 51), but remains unimplemented. The international community has repeatedly issued calls for more 'responsible lending' for several years, including at G8 Summits, in the G20, at the OECD and at the UN General Assembly. Responsible lending will only be achieved via the adoption of a binding legal framework that ensures that creditors engaging in irresponsible lending take responsibility for such lending, and that they do so on a predictable and equitable basis, something the current system fails to provide for. Such a framework would take account of both the origin and impact of the debts and offer equal treatment to both debtors and creditors ultimately affecting the incentives not only for debtors, but also for lenders and preventing renewed indebtedness on a sustained basis. The framework could

[30] The UN Secretary General has called for redefining debt sustainability as the level of debt that allows a country to achieve the Millennium Development Goals and reach 2015 without an increase in debt ratios." : United Nations (2005) *In Larger Freedom: Towards Development, Security and Human Rights for All*: Report of the Secretary-General (A/59/2005, para. 54).
[31] Mandel, Stephen (2006) *Debt relief as if people mattered – A Rights-based approach to debt sustainability*, New Economics Foundation, London.
[32] CIDSE (2006) *A Human Development Approach to the World Bank/IMF Debt Sustainability Framework*.

assume the form of an impartial and transparent process for resolving debt crises and disputes. This would be more in line with the Monterrey Consensus (MC, para. 51). The Charter of Responsible Financing, developed by Eurodad,[33] which outlines the essential components of a responsible loan, is an important step towards this goal.

Vulture funds present a specific instance of creditors' irresponsible behaviour that compromises the benefits of debt relief. While a sovereign debt workout along the lines described in the previous paragraph is the only way to change the incentives for vulture funds, the urgency of the challenge calls for immediate shorter term measures at the level of the UN in cooperation with other agencies to develop and strengthen the necessary binding codes of conduct that could prevent vulture funds from buying debt from indebted countries. International mechanisms must also be put in place to give judicial and financial assistance to countries in case they are taken to court by vulture funds.

A significant development after the Monterrey Consensus has been the growing legal and political interest in the concepts of odious and illegitimate debts. Guided by ethical principles in Catholic Social Teaching that provide solid ground for these concepts,[34] CIDSE certainly welcomes the momentum to embed those principles in international and domestic law. The Norwegian Government's decision in October 2006 to unilaterally cancel specific debt claims on the ground that the credit in question was an example of 'failed development policy,' a key element of conceptions of illegitimacy of debt was a strong and encouraging sign of this development. Across the developing world, civil society has been implementing citizens' debt audits to examine the nature of debts, and in 2007 Ecuador became the first government to convene an official debt audit commission to determine the legitimacy or illegitimacy of historical lending to Ecuador. The debate has been further developed with the publication of papers on the topic by UNCTAD and the World Bank. As new developments in external debt are considered, the recognition of illegitimate debt must be noted and affirmed in Doha, and the principle of their cancellation considered.

RECOMMENDATIONS

The Doha Review Conference, its preparatory process and its outcome must determine what still needs to be done to live up to the spirit of the Monterrey Consensus by making concrete commitments on debt issues placed in the present context, namely:

1) An agreement to **end binding onerous ex-ante conditionality**, in particular regarding economic policy, to debt relief operations.
2) A commitment to **review debt-cancellation needs** for countries, especially those not yet considered in existing debt relief operations on the basis of financing requirements required for achieving the MDGs and broader development goals, as already agreed in Monterrey.
3) An agreement on a process to develop, in cooperation with other agencies with relevant expertise, a **binding, independent and predictable framework for arbitrating** on sovereign debt claims.
4) With regard to **vulture funds**:
    - A commitment to **change national laws**, particularly in those countries such as the UK, USA and France, whose jurisdictions vulture funds exploit the most to take action against countries just recovering after debt cancellation, to end this phenomenon;
    - An agreement to free up **funds to give judicial and financial assistance** to countries in case they are taken to court by vulture funds.
5) A recognition of the existence of **illegitimate debt** and efforts of countries to investigate illegitimacy of their debts and commitment to cancel debts demonstrated to be illegitimate.

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[33] Hurley, Gail (2008), *Eurodad Charter on Responsible Financing*, Eurodad.
[34] For more on the Catholic Social Teaching basis supporting the concepts of responsible lending and odious and illegitimate debts, see CIDSE (2007), *A Human Development Approach to Preventing New Cycles of Debt*, Brussels.

V. THE REFORM OF THE FINANCIAL, MONETARY AND TRADING SYSTEMS

The juncture of the Doha Review Conference is defined by two important factors. First, the Conference comes at a welcome time as the major multilateral institutions that emerged out of the post-World War II architecture, the World Bank, the IMF and the WTO, as well as the regional development banks in general, face their deepest crisis ever. Second, the unfolding effects of the sub-prime credit crisis, originated in a developed country and with respect to which the IMF failed to adequately fulfil its surveillance function, now threatens a major global slowdown of still uncertain scope. It shows conclusively that systemic financial problems are neither a thing of the past, nor one for which responsibility can be laid with developing countries alone.

Participants at the Doha Review Conference should use this opportunity to craft a multilaterally and politically agreed vision and guidance that can be taken by the major global and regional economic institutions, while also identifying the institutional gaps and deficiencies that have helped trigger such crises.

As part of this crisis, the last few years have seen a dramatic transformation of the roles of the International Monetary Fund. The IMF has clearly failed to broker the coordination of exchange rates among hard-currency issuers, a role also envisioned in the Monterrey Consensus – and the prevention of global imbalances (MC, para. 55). This function is essential to avoid the negative impacts of exchange rate volatility on the trading and debt service capacity, and ultimately the development prospects of developing countries. Noting this vacuum in today's global financial system, UNCTAD calls for a new code of conduct to subject real exchange-rate changes to multilateral oversight.[35]

The IMF has also failed to act as a credible emergency lender in times of crisis and, in fact, its role in this regard has retrogressed since Monterrey. The IMF scrapped the only existing instrument for this financing (the Contingent Credit Line) in 2003, and has since then failed to implement a replacement. The growing number of members that made early repayment to the IMF reinforces the perception of IMF's unsuitability to perform this function in the future.

In the absence of adequate and accessible emergency financing, developing countries have tried to cope with financial volatility by building large amounts of reserves at a huge development and social cost. The threat of unwinding currency misalignments may bring large losses to such reserves, underscoring risks and the need to move to a less dollar-dependent global monetary system.

Until such mechanisms and structures are in place, developing countries should be supported in opting to manage their exchange rates. The asymmetry created by these exchange rate fluctuations in developing country economies should be acknowledged in trade and investment agreements. Some relief could also be provided via trends towards the regionalisation of finance, so they should be encouraged and supported.

1. Financial standard-setting bodies

The ongoing credit turmoil and its global scale, brings a new dimension to the Monterrey Consensus commitment to increase the participation of developing countries in bodies that set financial standards (MC, para. 57). Fundamental principles of democracy and fairness validate the claim that standards meant for universal application should be designed with universal participation. But it is proved beyond doubt now that problems in the design of some of these standards, even as they are implemented in an industrial country that did participate in its design, could have far-ranging implications for development and access to credit in non-participating countries. Furthermore, implications are proportionally larger in less resilient and diversified developing country economies. However, there has been almost no progress in implementing this mandate. Some key international standards such as accounting norms, which have a great impact on the ability of shareholders and

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

citizens to monitor the activity of a company, are elaborated outside the scope of any public debate. For instance, the International Accounting Standards Board (IASB) represents exclusively corporate interests.

The Financing for Development follow-up process should establish effective guidelines to be followed in the composition of bodies that develop such standards. Moreover, it could convene Intergovernmental Groups of Experts. The follow-up process could also set politically agreed goals that should influence the approach of standard-setting bodies. For instance, 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 a context of a politically agreed goal that does not. Each area of financial standards requires its own approach to setting goals and methods of participation to ensure adequate involvement by developing countries.

Moreover, the Monterrey Consensus states that a major objective of the reform is "to enhance financing for development and poverty eradication." (MC, para. 53) The Financing for Development Review Conference should explore the implications of this statement for the institutional composition and the national counterparts to which such bodies should relate in each country.[36]

The lack of progress in participation in the design of the standards is compounded by neglect of another commitment made in Monterrey, namely, that implementation of financial standards and codes in developing countries would be done on a voluntary basis (MC, para. 57).

On the contrary, the implementation and surveillance of standards and codes has been more intense with regards to the 12 G7-endorsed standards and codes. The main bodies assigned to pursue their implementation have been the World Bank and International Monetary Fund, which have pursued implementation through sanctions and incentives, which calls into question the "voluntary" nature of such implementation.

2. Reform of the governance of the Bretton Woods Institutions

The Monterrey Consensus called very specifically on the World Bank and the IMF to enhance the participation of developing countries and countries in transition in their governance. The Monterrey Consensus (MC, para. 52) acknowledged that if these institutions are to become real instruments of good global governance, these issues had to be addressed.

After a protracted debate, agreements for reform of the voting structure of the IMF were reached at the Annual meetings held in Singapore in 2006[37] and at the Spring meetings in April 2008. In terms of implementation of the Monterrey Consensus this overhaul of the voting structure will result in a transfer of 2.7 percent of voting power from developed to developing countries. In line with previous announcements, it is expected that similar grounds for reform will be followed in the World Bank. The result confirms predictions that changes would be minimal and far from what is needed to actually increase the participation of developing countries in these institutions and restore the legitimacy in the institution.

This disappointing result is due to several factors. First, the continued use of variables that, overall, continues to favour rich countries. The variables are, in fact, the same in the existing formula-GDP,

[36] For instance, it is likely that if the national counterparts are only central bankers, concerned with financial stability, the results may be quite different than if they involve trade unions, or small- and medium-size companies operating in the countries that will have to eventually implement the standards.

[37] The resolution stated the two main goals of the reform were to ensure that the distribution of quotas adequately reflects member countries' economic weights and roles in the global economy, and to enhance the voice of low-income countries, in a two-step approach. In the first step, the resolution made ad hoc quota increases for a group of South Korea, Mexico, China and Turkey. For the second step, it called for more fundamental reforms, including an agreement on a simpler and more transparent quota formula, a second round of ad hoc quota increases based on a new formula, and an increase in basic votes.

openness, variability and reserves. The discussion was quick to eliminate other variables, potentially more beneficial to developing countries[38]. None of the variables on the table at this point are what an author has called "demand-oriented" variables - that is, variables that signal demand, and that may favour developing countries - but, on the contrary, 'supply-oriented' ones.[39]

Second, the measurement of these variables continues to be done on a basis that systematically underestimates the weight of developing country economies. The measurement of GDP at market-based rates systematically underestimates the size of developing country economies. It was agreed that GDP measured in Power Purchasing Parity terms (a less biased measure) will be accepted in the formula only to forty percent. Another factor, openness, is highly correlated with GDP measured in market-based rates and, therefore, equally biased against developing countries. Moreover, intra-currency unions trade will remain included in what is considered international trade, thereby substantially overestimating the share of the Eurozone members. The third element, variability, is potentially a powerful variable to capture developing countries need for the Fund, but as it is not measured as a ratio of GDP, will not work in that direction.

The third factor is the failure to recognise that basic votes are an important factor to address the voting power of low income countries. A minimum requirement to undo the erosion of the weight of basic votes which has taken place after numerous increases in quotas had affected the quota-related voting power would be a four-fold increase of basic votes. However, only a tripling of basic votes was agreed.

The fourth factor is the failure to adopt double-majority voting. Such a system would contribute to the increase in influence 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. The double majority is an option that has been tested in similar contexts, such as in regional development banks, and would not require further changes to the quota or to the Articles of Agreement. This option, which was envisaged in 2007, no longer seems to be under consideration at the Bretton Woods Institutions, even though, if the political will existed, it could still be adopted by them.

Governance reform of the Bretton Woods Institutions should, further, be assessed against the context of their changing roles and three main considerations have emerged since 2002 that deserve attention. First, with most middle-income countries repaying their obligations to the IMF, the IMF's main users are low income countries. These are exactly the countries that stand to be further marginalized in IMF voting power in the proposed scenario of a formula that has mainly sought to align economic weight with voting power. Second, global financial stability is increasingly considered to be a global public good, which makes it all the more necessary to change the IMF governance for it to better represent the entire world. Third, it is ironic that the decision on the overhaul of quota was completed at the same Spring meetings that witnessed the IMF's clear move from financing roles which require funding capacity, towards surveillance and monitoring which, to be effective, require even-handedness and a greater emphasis on the advanced economies rather than the developing ones. Maintaining a formula so influenced by considerations about the funding capacity of members becomes, in this scenario, no longer justified and further erodes democracy and effectiveness. The changing role of the Fund, and the required further changes to its governance structure should be dealt with as an "emerging issue", which the Doha Review Conference is empowered to address, and give an adequate response.[40]

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[38] Zaidi, Iqbal and Mirakhor, Abbas (2006) *Rethinking the Governance of the International Monetary Fund,* IMF Working Paper. WP/06/273.
[39] Beltran, Gil S. (2005) *Governance in Bretton Woods Institutions,* paper prepared for the XX G24 Technical Group Meeting, Manila.
[40] One possible way to address this issue via partial adoption of double majority voting has been proposed by a number of member countries: "The Fund's governance structure is prepared for its lending role, but it is totally unfit for its progressively more important supervisory and regulatory role. We think that it would be appropriate for the Executive Board to use a double majority system (of weighted votes and members) to adopt policy decisions; particularly those that are not strictly related to the use of Fund resources." Statement by Martín

3. Reform of the multilateral trading system

When the Monterrey Summit took place, the Doha Trade Round had just been launched (2001). Since then, it has been successively on and off several times, and its prospects for conclusion are still uncertain. Unlike in other trade rounds, persistent disagreements cannot be interpreted as mere disagreement on how much further to liberalize. They represent a deep crisis of the fundamental legitimacy and soundness of the WTO, a questioning of its basic tenets.

In the light of this, the Doha Review Conference should be seen as a crucial opportunity. The Monterrey Consensus (MC, para. 64) called to "Improve the relationship between the United Nations and the World Trade Organization for development…" This does not mean the UN should take over the detailed trade negotiations that are better suited to the framework of WTO negotiations. But the input and the political guidelines that may be agreed in a developmental forum such as the UN are essential to successful trade outcomes. 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. This regime has contributed to failures to invest sufficiently in key development sectors such as agriculture and rural development, and has turned many developing countries into net food importers. The consequences are clear. Rural communities in many developing countries have suffered from extreme hunger for decades and now with additional factors such as population growth, changing consumption patterns, climate change and increasing demands for biofuels, the food security of the urban poor, which has always been precarious, is progressively being undermined in dramatic proportions. To resolve the food crisis and to make right a longstanding systemic injustice, it is clear that global trade and development policy must undergo significant changes. This should include increased investment in agriculture and rural development, focusing on small scale sustainable farming and small producers, and the agreement of global trade rules to support and promote these policies. CIDSE asked governments in Monterrey to support the principle of coherence in the consideration of all policies that influence the capacity of countries to mobilise resources for financing development, including trade. It now reiterates that call.

The Doha Review Conference should also support calls for institutional reforms in WTO negotiations geared to enhance the participation of developing countries in them. A key obstacle to this effective participation is the practice of mini-Ministerials.[41] Excluded members would benefit from knowing what is going on at these meetings. "Green rooms"[42] are another practice that poses obstacles to such effective participation. Finally, the lack of access by civil society organizations represents a continued cloud over the legitimacy of the important regulatory reforms that have their source at the WTO.

RECOMMENDATIONS

CIDSE calls on participants at the Doha Review Conference and during its preparation process to:

1) Stress the insufficiency of recent steps to **increase participation of developing countries** in international economic decision-making, calling for action in this regard, particularly:
    - The **Bretton Woods Institutions should further reform** the formula to determine capital contributions. They should also increase basic votes up to the original level,

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Lousteau, Minister of Economy and Production/Argentina on behalf of Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay. IMFC Seventeenth Meeting, Washington D.C. April 12, 2008.

[41] CIDSE (2005) *A hearing in the WTO for all members. Guidelines for improving the WTO negotiating processes*, Brussels.

[42] *Green Rooms* refer to non-inclusive meetings consisting of a group of WTO member states coming together to further discuss negotiations, attempting to reach a common position, which is then taken back to all WTO Members, usually in the form of an un-bracketed chairperson's text. It is largely the same group of countries attending these meetings. These forums are criticised for bypassing established mechanisms for decision-making and are considered by the majority of excluded members to constitute a parallel decision-making authority.

introduce double-majority vote modalities and provide for transparent selection processes for higher management positions including directors.

- Financial standard-setting bodies should progressively add developing countries to their membership and be asked to report periodically on their compliance with this task. **Guidelines** should 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) Agree to **greater cooperation for supervision and regulation of cross-border financing** as a first step and commit to establishing a process to set up inclusive and competent fora that can provide an effective public sector, spot early problems and call for speedy action on areas of risk. The Doha Review Conference could also provide a forum to discuss the features of supra-national authorities for financial regulation and supervision, that some voices have advocated for.

3) Call for an effective code of conduct and institutional arrangements to ensure **multilateral oversight on coordination of exchange rates**, at least until the IMF can undergo the dramatic reforms that it would need to adequately perform this function.

4) Commit to **preserve long term and employment-friendly business** activities from short-term, highly leveraged and non-transparent new actors like Hedge and Private Equity Funds through appropriate regulation.

5) Commit to address the impact of **exchange-rate fluctuations on developing countries** by:
   - supporting those developing countries that opt to manage their exchange rates and exempt this option from IMF bilateral surveillance;
   - acknowledging this impact in trade and investment agreements;
   - supporting the regionalisation of finance.

6) Commit to increase investment in agriculture and rural development, focusing on **small scale sustainable farming** particularly in developing countries, and to develop global trade rules to support and promote these policies. The principle of coherence in the consideration of all policies that influence the capacity of countries to mobilise resources for financing development, including trade should be explicitly underlined and supported.

7) Demand that multilateral and bilateral finance agencies **refrain from intruding upon the trade and investment negotiation space** of countries that depend on them for financing.

8) Address the WTO negotiations, calling for:
   - **reform of the practice of mini-Ministerials**: Comprehensive minutes of these meetings should be made available in a timely manner and in the three WTO official languages;
   - **avoidance of 'green rooms'** as a modality for negotiations. There must be an operative General Committee or Assembly that should serve as the appropriate forum for decision-making;
   - develop a clear and transparent system for **civil society participation,** perhaps akin to the consultative status enjoyed in relation to ECOSOC at the UN.

9) Give the **UN a clear and strong mandate** in the many areas of global finance that are not properly tackled by sufficiently inclusive bodies, such as sovereign debt regulation, accounting standards definition and tax cooperation.

VI STRENGTHENING THE FOLLOW-UP PROCESS

It is important to stress that the Monterrey Consensus was not meant to be an end, but a beginning. In a large measure, the realisation of its promises and commitments can only come through continued dialogue and the engagement of all stakeholders, as embodied in the "spirit of Monterrey." Its major achievement is, perhaps, to have created such a framework for dialogue.

But this also means that the measure of the commitment by governments should be gauged by the strength of the follow-up process, more than by the language of the outcome document.

Having been engaged throughout the initial Monterrey process and participated regularly in its follow-up, CIDSE is concerned to see decreasing commitment to this process. The failure to agree that the Doha Review Conference be held at a Heads of State level is the most recent but not the only sign of this wavering commitment. In fact, the High Level Dialogues in ECOSOC and the General Assembly, are increasingly devoid of traction, with most non-UN stakeholders unclear about what the political value of their outcomes are, therefore tending to ignore them.

Civil society, as a key stake-holder, has also not been meaningfully included in the most recent phase of the follow-up process. This was particularly the case with regard to the regional preparatory meetings about which civil society was neither notified in advance nor invited to, as should have been the case as per the modalities of multi-stakeholder participation in the Financing for Development process.

In the context of an ailing process, failure to strengthen the follow up is going to lead to the loss of the spirit of Monterrey, and the devaluation of all of its commitments. We therefore place most value on the strength of the follow up that is agreed at the Doha Review Conference.

RECOMMENDATIONS

CIDSE recommends the replacement of the current follow-up process with a **new institutional mechanism** that should have, at a minimum, 5 features:

1) It should **meet periodically and frequently**.

2) It should produce a **negotiated outcome**. We have to move from a non-negotiated follow-up mode, to a negotiated follow-up mode.

3) This institutional mechanism should be **at the highest level**, not only in governments, particularly including high level officials covering key economic portfolios in member countries, but also the top leadership of the international financial institutions and the World Trade Organization, and all relevant development actors.

4) **Civil society should be accorded a space** as has been the case from the beginning of the Financing for Development process. Their contribution to the process should be stimulated in the final phase of the Doha Conference preparatory process at the national, regional and international level as well as at the Conference itself by the provision of full access to its proceedings.

5) **Accessibility to information and to negotiations for all stakeholders**, including civil society, should be improved to ensure that the Financing for Development is upheld as a truly multi-stakeholder process.

Additionally, this institutional mechanism should be backed by a strengthened UN Secretariat in Financing for Development matters.

Concretely, one way to achieve this outcome could be by establishing a Financing for Development Commission to replace the existing follow up process in both the General Assembly and ECOSOC. In order to preserve the spirit of Monterrey, the Commission should include participants from all relevant stakeholders and include modalities similar to those in ECOSOC for civil society and private sector participation.

The Financing for Development Commission should meet periodically (annually or biennially) to review progress on implementation of the Monterrey Consensus. It should include ministers of finance and of trade. It should meet on the basis of an agenda negotiated by all stakeholders and issue an outcome document that, preserving the spirit of Monterrey, should be agreed by all governments, and endorsed by the relevant institutional stakeholders.

The General Assembly should establish a "Committee on Financing for Development" to become the intergovernmental 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.

The resources currently available at the UN for serving the secretariat needs of the Financing for Development follow-up process should be directed to support the preparation of regular negotiated outcomes of the Financing for Development Commission. A bureau would need to be created as a platform for the Secretariat, the 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 Commission.

CONCLUSION

Having participated in the process leading up to Monterrey, the Monterrey Conference itself and its follow-up to the present Road to Doha, CIDSE is convinced that much still needs to be done to fulfil the spirit of the Monterrey Consensus. At the same time, the Doha Review Conference and its outcome cannot ignore the changing realities in global economy and finance and their impact on the financing for development agenda.

This document has reviewed the status of the Monterrey agenda and provides recommendations for action to be taken at the Doha Review Conference and beyond. CIDSE considers nothing less than an ambitious outcome which fulfils this agenda would demonstrate true commitment to the spirit of Monterrey.

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Annex 1

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