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Financing for development: hearings with civil society, 6 and 7 November 2000

Summary of panel presentations and discussion

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In its resolution 54/279, the General Assembly decided that the Preparatory Committee for the High-level International Intergovernmental Event on Financing for Development would hold two sets of hearings with civil society organizations and the business community to consider their views on areas of the financing for development agenda.

The civil society hearings were held in New York on 6 and 7 November 2000, and the present document summarizes the presentations made by 23 panellists, representing civil society organizations. It provides a synopsis of the dialogue among delegations, panellists and other NGO representatives that took place during the hearings.

The main areas of discussion were:

(a) Mobilizing domestic financial resources for development (sect. I);

(b) Mobilizing international resources for development: foreign direct investment and other private flows; and trade (sect. II);

(c) Increasing international financial cooperation for development through, inter alia, official development assistance; and debt (sect. III);

(d) Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development.

The statements made at the hearings are available on the Internet at:

http://www.un.org/esa/ffd/hear_panel_list1.htm

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I. Mobilizing domestic financial resources for development

Moderator:

Asda Jayanama (Thailand), Co-Chair of the Preparatory Committee

Panellists:

Fernanda Carvalho, Brazilian Institute of Social and Economic Analyses

Bart Bode, Head of Policy Department, Broedelijk Delen; member, International Cooperation for Development and Solidarity

Julian Disney, President, International Council for Social Welfare

Roberto Rubio, Director, International Foundation for Development; Coordinator, Structural Adjustment Participatory Review International Network — Latin America

Filomeno Santa Ana, Director, Action for Economic Reforms; Economist, School of Economics, University of the Philippines

Zo Randriamaro, Programme Manager, Gender and Economic Reform in Africa, Third World Network Africa

Social development and poverty alleviation

1. Ms. Carvalho outlined four key expectations of the financing for development process. First, it should assist national and international financing systems in becoming actively supportive of social equity and people's welfare. Second, the process should encourage transparency. It should bring issues of financial policy and decision-making, which are usually the opaque province of finance ministers, bankers and the international financial institutions (IFIs), into the open, engaging those parties to respond to the interests of wider social groups. Third, it should stimulate exchanges of experience in applying different fiscal policy measures for meeting people's needs. Finally, the process should recognize the diversity of developing countries by focusing on different regional experiences.

2. In making these points, Ms. Carvalho suggested that:

(a) The distinction between domestic and international resource mobilization may now be obsolete. It may be more useful to distinguish between countries that have access to private capital and those that do not;

(b) Markets are extremely important to the first group of countries, but pure market forces can punish progressive social policies. Negative developments, such as capital flight and crony capitalism, can weaken national currencies and cause wide social damage, while national measures to address social contract issues, such as labour rights, can become deterrents to foreign investment;

(c) The goal of the financing for development process must therefore be to define a role for the state that is not in opposition to market-generated growth but which helps to correct distortions created by markets in order to achieve patterns of quality growth compatible with social values.

Financial speculation and domestic tax systems

3. Mr. Bode of International Cooperation for Development and Solidarity (CIDSE) elaborated his proposal for a domestic currency transaction tax. The new proposal moves beyond the original ideas expounded by James Tobin in 1972 and is based on a dual taxation system: first, a minimum tax set at a very low level (0.01-0.02 per cent) to provide constant income and facilitate the transparent monitoring of currency flows during normal market development, and second, a ramped-up tax (50-100 per cent), applied as a circuit breaker during a financial crisis.

4. Mr. Bode stressed that the new tax should be a domestic instrument. As such, its introduction would not require an international institution with the power to levy, collect and distribute global taxes. There are precedents for such national instruments. Before the 1997 financial crisis, Chile showed that it is possible to levy the equivalent of a domestic tax on short-term capital inflows to discourage speculation, and after the crises Malaysia acted to restrict local currency movements. It would also be feasible to implement a currency transaction tax. Studies indicated that it would be possible to apply such a tax on the basis of inter-bank electronic networks in place and the daily settlement procedures between national banks.

5. Other arguments for the tax proposed by Mr. Bode included: (a) its role as a tool for prudential

regulation; (b) the protection it would offer small economies against speculative attacks on their national currency, thereby also releasing “immobile” national bank reserves for investment in domestic social development; and (c) its ethical impact as a tax on capital in countering the Western practice of taxing labour disproportionately. Lastly, since money markets are concentrated in a few industrialized countries, the latter would receive substantial extra revenue, which could be allocated for their own domestic purposes and to reinvigorate official development assistance (ODA).

Stronger international standards and cooperation in taxation policy and administration

6. Mr. Disney explained how the International Council on Social Welfare (ICSW) had developed an anti-poverty pact, incorporating the seven international development targets to be achieved by 2015 and initial resource commitments for implementation by 2005. These commitments reflect a mix of domestic and international as well as public and private resources. Most commitments, however, cannot be achieved without international cooperation to adopt significant national tax reforms.

7. According to ICSW, certain basic deficiencies in tax administration, compounded by the effects of globalization, stand in the way of mobilizing significant levels of domestic resources. The main weaknesses include lack of information, resources and political will to administer taxes effectively; promotion of excessive financial and property speculation; encouragement of capital flight; excessive reduction of corporate tax obligations; evasion of tax liabilities by multinationals; increased reliance on inequitable taxes; excessive secrecy provisions; tax privileges that promote unfair trade; and inadequate action to reduce harmful tax competition.

8. ICSW proposed a package of measures to address these challenges, including stronger international obligations to provide information to and between tax authorities; improved international technical and financial assistance for developing country tax authorities; stronger international taxation standards; international adoption of refundable withholding taxes on cross-border payments; international coordination of taxes on multinational companies; a currency transaction tax, as proposed by CIDSE; removal of tax exemptions on e-commerce; the development of an international convention for repatriation of misappropriated funds; and substantial and firm commitments to provide improved ODA and debt cancellation.

9. ICSW also proposed a number of implementation processes: setting up regional expert and technical negotiating units; strengthening the international coordinating role of the Economic and Social Council in tax reform; development through the Council of an international code of corporate conduct relating to tax compliance; and establishment of an international tax forum under United Nations auspices.

Mobilizing internal resources for the national development plan

10. Mr. Rubio stressed that, in mobilizing domestic resources, the key question is: how should such resources be used? While sources of domestic financing are few (usually internal savings and taxes), the possible uses of funds are many. What priorities countries plan to finance and how they finance those priorities are as important as where they obtain the requisite funding.

11. Explaining how El Salvador had developed its national plan, he underscored the role of institutional innovation and social inclusion in transforming budgetary processes into quality national investments consistent with human development goals, the preservation of ecosystems and the basic needs of the poor and excluded. The plan was formulated over two years under the direction of an independent and plural commission. The methodology emphasizes broad participation by all political groups and by all social segments, including the churches. The plan takes a differentiated approach to various regions of the country: in the Gulf region, the focus is on building a world gateway for trade, the South is defined as an exporting area and the North was dedicated to eco-farming. Through this concerted process, plan priorities and financing requirements were finalized on the basis of a genuine national consensus around the needs of different segments of society.

12. Sources of funding were tackled through a series of changes. It was decided to increase the 10 per cent general tax rate, change the distribution system by redressing imbalances between direct and indirect taxes through a new tax pact, reform the private banking system, reorganize the social security system to reflect

workers' interests and emphasize local counterpart funds for development schemes. Measures to stimulate savings and reinvest business profits in long-term growth were also adopted.

Mobilizing and retaining domestic financial resources in Africa to support local production in strategic sectors which affect women

13. Ms. Randriamaro presented a comprehensive case that liberalization has combined with the peculiar characteristics of African economies to put women working in strategic economic areas, notably agriculture and the food sub-sector, under even greater financial pressure. The situation calls for alternative policy responses.

14. Ms. Randriamaro observed that, in Africa, subsistence and commercial activities very largely involve small and microenterprises, many of which are organized by women and sustained by women's labour. These enterprises normally face acute financing gaps because: (a) financial instruments, such as credit, insurance and banking, are skewed in favour of import-export trade and cash crop sectors, and (b) weak, open African economies that are excessively vulnerable to external factors experience disproportionate outflows of resources. Before liberalization, these gaps were partly compensated for by targeted financial support through specialist agricultural banks. However, with the move to free market policies and the liberalization of financial services, such support has been abandoned. The general policy framework encouraged by the IFIs has become inimical to sectors key to sustainable growth and national development. Moreover, the financing vacuum in agriculture has not been filled by the private sector. Ms. Randriamaro pointed out that a major consequence of these macro-factors was that women, far from benefiting from market-led financial sector reforms, have found themselves trapped in a "microfinance ghetto". Studies indicated that microfinance might have been overemphasized in conventional approaches to the economic empowerment of women. Such approaches imply that women's productive capabilities should be confined to small-scale or informal activities, when in fact women's demand for services from mainstream financial markets is on the increase and is potentially a major spur to domestic investment and growth. Governments should therefore work with their aid partners to revive and broaden mainstream public financing and credit. This implies a new, more active policy role for Governments, which should re-engage with the national economy. Their new goal should be to devise innovative and supportive institutional frameworks for closing financing gaps in under-served strategic sectors, and for mobilizing the full productive and investment potential of African women.

Progressive tax reform agendas at the national level

15. Mr. Santa Ana emphasized that global rules are an essential support for effective national tax programmes. It is a basic principle that Governments should find the bulk of development financing from their own resources through equitable, buoyant and efficient tax systems. But external pressure to lower tax and tariff rates (fiscal degradation) makes national revenue generation very difficult. Wide differences in national tax systems are encouraging the transfer of resources away from countries, with progressive tax structures towards tax havens and countries using taxes as incentives. Global rules are therefore necessary to achieve coordination and harmonization, address tax evasion problems at the international level, prevent locational competition from becoming a race to the bottom, and help countries to exercise flexibility and autonomy under the homogenizing effects of globalization.

16. Mr. Santa Ana outlined several necessary features of a progressive national tax system, addressing direct and indirect taxes and loopholes leading to tax evasion. He suggested that the private sector be encouraged to participate in financing development in areas where profit and social benefit coincide. However, he cautioned that Governments should not rely on privatization simply to raise revenues. Privatization should proceed on the basis of its specific merits.

Highlights of discussion

Currency transaction tax

17. This proposal provoked four major questions. First, the global trend towards deregulation is a move away from widespread government failure. However, the currency transaction tax is a return to bureaucratic intervention by Governments.

18. How would this proposal address the major issue of government failure? Is the proposal as presented not

too rigid and insensitive to market realities? Second is the question of administrative feasibility. How would financial authorities set about keeping track of manifold global transactions that take place around the clock? It should be noted that both Chile and Malaysia only resorted to such dampening measures for a short period on an emergency basis. Third, implementation of such a measure by one or two countries alone would place them at a competitive disadvantage. Implementation would therefore have to be universal. Is it feasible to expect that all countries would simultaneously enact and enforce this kind of legislation? Finally, it is important to distinguish between the financing of ODA and market services since there are key differences in their respective roles.

19. On the first question, it was observed that markets are larger than Governments and that the consequences of market failure, as in the Asian crisis, might therefore merit greater public attention. In replying to the questions, Mr. Bode noted that the CIDSE proposal entailed a degree of reregulation but that a degree of prudential public regulation was in everyone's best interest. The dual structure of the proposed tax is designed not to disturb the normal functioning of the market but to provide a resort in emergencies. Deregulated markets operate under opaque conditions that offer virtually no scope for justifiable public intervention, such as when market failures cause heavy social crises. The tax proposal tries to address that contingency. Its feasibility has been assessed and upheld through studies such as that by Rodney Schmidt. The functioning of the tax rests on the daily final settlement process at the National Bank, which provides a 24-hour check on all currency movements. Universal implementation poses a challenge that will require some form of international coordination.

Role of the private sector and other sources of financing

20. It was asked how, in addition to broadening and deepening the tax base, countries should directly stimulate other sources of creative energy for financing development. What do NGOs believe should be done to create an enabling environment for private sector contributions? What role could be played by large pension funds, which account for substantial resources? In response, Mr. Santa Ana spoke about public-private roles. The private sector should focus its energies and resources on responsible growth objectives possibly in urban environments. This would free the state to target major anti-poverty measures in other areas. On the role of pension funds, he observed that there is an inherent conflict between the profit maximization motives of fund managers on behalf of their clients and public investment objectives with low financial returns. For pension funds to make a contribution commensurate with their asset base, nations would need to devise rules for using such funds transparently in the public interest. CIDSE agreed that prudential public regulation holds the key to the productive mobilization of private sector resources. One participant noted that, under the 1980s adjustment programmes, many developing countries took external advice and privatized without lasting benefits for their poor. Does privatization offer a durable long-term solution?

National spending priorities and capacity-building for domestic capital markets

21. The Panel was asked to comment on: (a) the statement that government spending priorities should be examined closely; and (b) whether the development of well-functioning domestic stock markets offers new sources of finance. Mr. Disney agreed that national spending priorities are key. A central part of the anti-poverty pact proposed by ICSW relates to reducing military expenditure and sources of leakage, such as corruption. These actions are part of a balanced, two-way pact between Governments and society. On domestic market capacity, there is a lot to be done, including removing distortions encouraging short-term speculation and fixing capital flight by addressing such matters as external tax incentives.

22. It was suggested from the floor that it is possible to over-emphasize the role of taxes in domestic resource mobilization, considering that a broader tax base would affect the informal sector and fledgling entrepreneurs that need incentives. Fixing volatile exchange rates that attack national currencies and addressing corruption, which siphons away large sums of public money, are higher priorities. Mr. Disney replied that the ICSW anti-poverty pact deals with all these issues as a comprehensive package. Fixing exchange rates and addressing corruption have clear external dimensions, including, in the case of misappropriated capital, the issue of the withdrawal by certain countries of withholding taxes on cross-border payments. This panel session, however, looked

primarily at domestic measures, although it is obvious that many national measures are bound up with the external environment.

23. Mr. Rubio agreed that the search for domestic resources is multifaceted and that taxes, although often the primary source, are not the only sources. Pension funds, social security systems and the reinvestment of business profits should be taken into account when trying to broaden and deepen the resource base. It is important to create the political and institutional space for both public and private sources of financing.

Effective intermediary structures for local development

24. Ms. Randriamaro's account of women trapped in a "microfinance ghetto" attracted a number of supportive comments. There is apparently some conflict between macrolevel liberalization policies and microlevel development needs. Microfinance services, while useful as safety nets, might not provide a developmental answer to the question of how to channel financing effectively to enable communities, chiefly women, to prosper in their local context or make their full contribution to economic development. The state evidently has a role to play in providing an intermediary structure between world capital and village-level finance. The representative of Financing for Development Cooperative of Australia suggests that the biases of domestic power structures have more to do with blocking gender equity than rural or microfinancing initiatives themselves. Affirmative political action is required to integrate women with the larger economic system. Accessible, convenient savings systems for poor communities are also required.

25. Ms. Randriamaro was asked to comment further on policy alternatives. She noted that Governments have for too long been content to leave microfinance programmes in the hands of NGOs. These programmes thus often reflect the constraints of NGOs in terms of lending volume and sustainability. High interest rates of sometimes 20 per cent or more are another issue. Instead of attempting to recoup the risk and transaction costs of short-term loans entirely through interest rates that penalize women, it would be better, as the United States Agency for International Development and other agencies have shown, to try and spread the costs of providing microfinance differently. An alternative policy response should start by lowering interest rates and asking Governments to put back effective intermediary financing institutions. Effective community savings schemes should be a part of that response.

Proposals of other NGOs

26. The representative of the International Union for Land Value Taxation drew attention to the benefits of its proposal to shift tax burdens away from labour and productive capital onto land and natural resources. The representative of the Global People's Network reminded participants that the action plans of the 1990s global conferences considered other forms of innovative taxation, such as green taxes, levies on airline travel and use of the electromagnetic spectrum.

27. Nothing has come of these ideas, and it is evident that key development goals in health, sanitation and education have still not been adequately funded. It is time to be serious about the global action plans and commission an in-depth study of these various revenue-generating proposals, including the proposed currency transaction tax. On broadening the tax base, the representatives of ICSW and CIDSE noted that such assets as land are often substantially under-taxed, and that the burden invariably falls on income and labour. This is a question that could be addressed through the international tax forum proposed by ICSW.

28. On necessary funding for the action plans, the representative of CIDSE cited the estimate provided by the *UNDP Poverty Report* of $40 billion annually. The amounts needed are known, and such proposals as the proposed currency transaction tax could raise such sums. The representative of ICSW remarked that its anti-poverty pact is designed to lend new momentum to conference goals, and represent a complete spending and taxing package. The time is ripe for developing countries to leverage the financing for development process to gain a comprehensive agreement on their behalf, including on such matters as ODA and debt.

Corruption

29. The large capital and revenue outflows caused by corruption were commented on by several speakers. It was underlined that there is also a supply side to the issue, including the role played by "rogue corporations" that offer bribes and other inducements to Governments. The proposed international convention for repatriating misappropriated funds

should have some scope to address both public and private corruption.

II. Mobilizing international resources for development: foreign direct investment and other private flows; and trade

Moderator:

Jørgen Bøjer (Denmark), Co-Chair of the Preparatory Committee

Panellists:

Professor Tariq Banuri, Senior Research Director, Stockholm Environment Institute, representing Regional and International networking group of organizations working for sustainable development (RING)

Mariama Williams, Visiting Researcher, Center of Concern, representing the International Network for Gender and Trade, Development Alternatives With Women for a New Era (DAWN) and DAWN Caribbean International

Marina Ponti, Policy Adviser for External Relations, Mani Tese

Yash Tandon, Director, International South Group Network Zimbabwe

Alternative sources of financing: microcredit for sustainable livelihoods

30. Mr. Banuri argued that the diagnosis of and proposed solutions for the economic difficulties facing developing countries have been misplaced. According to him, the problems of developing countries should be properly analysed in the context of a growing economic dualism, whereby the livelihood sector and corporate economy have diverged and become increasingly unconnected to each other. The solution to poverty eradication should be to revitalize this livelihood sector, where most of the poor are located; yet in practice, resources are being drained from here and flow instead to the corporate sector.

31. The policies of both the Bretton Woods institutions and the socialist model of economic development have failed to address this problem, according to Mr. Banuri. Moreover, the suggested solutions have wrongly focused on the need to increase the supply of resources for development, such as, for example, through increasing ODA. This ignores the fact that the existing resources around the world that are available for development are in fact quite large, especially with relation to the magnitude of poverty that exists. What is more essential is in fact the need to strengthen the access of the poor to these resources and to improve the utilization of these resources by both Governments and civil society institutions.

32. Thus, according to Mr. Banuri, the focus of the discussions on financing for development should be placed on the demand side, with a particular view to strengthening the abilities of the poor to demand and utilize existing resources. One proposed solution is sustained livelihood programmes. These programmes do not start from the basis that the poor are deprived of resources. Rather, employing microcredit and other tools, they aim to enhance the capacities of the poor to utilize existing resources. Examples of these programmes include measures to facilitate socially responsible investment and entrepreneurship, and to strengthen training and education programmes for the poor. Mr. Banuri recommended that a coalition of groups from around the world that have already engaged in these initiatives be formed and provided with the resources to broaden their work.

Maximizing the benefits and minimizing the costs of foreign direct investment: a gender perspective

33. Ms. Williams claimed that the assumption that trade liberalization and foreign direct investment will eliminate poverty and that foreign direct investment is not volatile and is inherently beneficial to recipient economies runs counter to actual experience. Moreover, gender has never been considered by policy makers as a core issue, although women are a key component of economic expansion given that they are the basis of the cheap labour that developing countries are endowed with and an important contributor to export expansion.

34. According to Ms. Williams, it is necessary to have a comprehensive assessment and reconfiguration of the trade and financial systems. Moreover, there is a need to highlight the interrelationships between gender, trade and foreign direct investment, and more broadly between economic growth and gender and between poverty and gender. When implementing trade or financial liberalization, gender and the general

dimension of sustainable development should be taken into account.

35. Ms. Williams enunciated some specific principles and recommendations. She stressed the need to restore the policy-making autonomy of Governments and to limit the rights of foreign investors. According to her, countries should have the right to protect their balance of payments, while Governments have the right to restrict imports and capital flows. At the international level, there is a need to cancel third world debt, to create a poverty eradication fund for developing countries, to promote the principle of differential treatment with regard to trade and investment rules, and finally to create supervisory mechanisms to oversee movements in capital.

Capital controls to reduce volatility and global financial turmoil

36. Ms. Ponti pointed out that the perceived virtues of globalization are far from being realized, partly due to the threat of volatile short-term capital flows, and made three specific recommendations. First, a global conference on financing for development should provide a seal of approval for countries to adopt capital controls during financial crises. In addition, although developing countries require long-term investment, standards should be set for foreign direct investment. Finally, policy makers around the world should pursue the idea of a small tax on currency transactions. This would serve many purposes, including reducing the volatility of external capital flows, restoring policy sovereignty in favour of the state and raising revenue for development purposes. However, this tax should not be employed as a mechanism to replace ODA. Ms. Ponti concluded her speech by stressing the need for a world conference on financing for development, which would involve ministers of foreign affairs, finance and trade.

Quality of African integration in the global system

37. Mr. Tandon's main argument was that the main source of financing for development in Africa must come from domestic savings. Aid, foreign direct investment and exports are less important sources. Moreover, it is false that there is a savings gap in Africa. This impression is created by the high rate of debt servicing in the region, which channels savings out of the continent. Therefore, instead of looking for outside funds to develop Africa, it is more important to find ways of stopping the seepage of funds from Africa.

38. According to Mr. Tandon, it is a myth to argue that open economies are more conducive to growth. It is also a myth to suggest that Africa must be more fully integrated with the global economy. The quality of integration is more important than the extent of it. Moreover, development cannot be reduced to finance. If finance comes to a country without bringing with it structural change, it can do more harm than good.

39. In sum, Africa should not open up its economies. It should realize that domestic savings are the primary source of growth, and in order to better utilize these savings it should implement structural change, not in the terms required by the Bretton Woods institutions but with relevance to its existing interrelationships with the global economy (for example, its terms of trade disadvantages). Finally, Africa must disown its debts.

Highlights of discussion

40. On the issue of debt, which was raised by a delegate and by the World Confederation of Labour, the possible consequences of debt repudiation by developing countries was addressed. Mr. Tandon admitted that the consequences of debt repudiation by the African countries could be sanctions. However, he felt that the damage could be limited if a large number of countries were to repudiate debt at the same time. Banuri, however, feared that debt repudiation could have a negative effect if it encouraged fiscal irresponsibility by Governments. For this reason, he felt that one has to approach this issue with caution.

Bretton Woods institutions

41. Another theme that received attention was the role of the Bretton Woods institutions, in particular views on how they should be reformed. Mr. Tandon argued that the existing Washington Consensus model preached by these institutions should be de-legitimized. In other words, the policy orthodoxy dictated by the World Bank and the International Monetary Fund (IMF) should not be blindly followed by developing countries, and moreover efforts should be made to confront the power of these institutions by, for example, creating regional financial mechanisms (as has, for example, been discussed in Asia). In response, a delegate argued that, even if the Bretton Woods

institutions were de-legitimized, whatever entity replaces them would still be driven by considerations of global politics and the vested interests of powerful member nations. Mr. Tandon, however, maintained that even if one accepts this point, the existing Bretton Woods institutions have become anachronistic, having been formed in line with the global conditions of the immediate post-war period, and are in need of significant reform.

42. Professor Banuri suggested that the role of these institutions be narrowed to the financing of large-scale infrastructure projects (in the case of the World Bank) and the maintenance of global financial stability (in the case of IMF). However, neither of these institutions should be involved in the area of poverty reduction and social objectives, nor should IMF provide policy advice and implement structural adjustment programmes.

Expert-driven model

43. A third issue that was discussed was whether the export-driven model adopted by Japan during the post-war era would be a prudent model for Africa to follow. The general view of the panellists was that Japan did not offer a model to Africa. First, global conditions at the time when Japan adopted its post-war development strategy were very different. In addition, conditions within Africa and its interrelationship with the outside world are very different from those that existed in Japan, not least due to the continent's experience with colonialism.

Strategies to reduce poverty

44. Strategies to reduce poverty were also discussed, in response to comments made by delegations. Mr. Tandon, Mr. Banuri and Ms. Williams argued that the poverty reduction strategies adopted by many countries at the behest of the Bretton Woods institutions were ineffective due to the arbitrary implementation of these strategies, their high costs and the overall policy and economic conditions brought about by World Bank/IMF programmes. The delegate from France argued that the elimination of poverty could be the focus for policy, but that this could best be implemented if there is unity among all the actors involved in this process. In response, Ms. Williams pointed out that different sets of actors have different views on how to eradicate poverty. Moreover, Mr. Tandon stressed that the existing global economic system is inimical to poverty reduction in the developing world.

Other issues

45. Two other issues discussed briefly were land reform (a question was posed by the representative of the National Union for Land Value Taxation) and the need for special and differential treatment of countries with respect to trade. Mr. Tandon argued that World Bank policies make it difficult to implement land reform. What is needed are outright measures that redistribute land to the tillers. With respect to trade, there was broad agreement on the need for special and differential treatment of countries.

46. Finally, there was a proposal from the floor by a civil society organization on a sustainable economic opportunities programme.

III. Increasing international financial cooperation for development through, inter alia, official development assistance; and debt

Moderator:

Asda Jayanama (Thailand), Co-Chair of the Preparatory Committee

Panellists:

Lidy Nacpil, Secretary-General, Freedom from Debt Coalition of the Philippines; and International Coordinator, Jubilee South

Vincent Edoku, Chairperson, Uganda Debt Network; and member of the Community Service Organization Poverty Eradication Action Plan Task Force

Rudolf Amenga-Etego, International Financial Cooperation for Development, representing the Executive Director, Integrated Social Development Centre

Jens Martens, United Nations Representative of the World Economy, Ecology and Development Association

Jenny Kimmis, Policy Department, OXFAM UK

Kunibert Raffer, Professor of Economics, University of Vienna

Increasing the consistency of financing and financial policies and processes with development principles and goals

47. Ms. Nacpil urged the United Nations to expand the scope for NGO participation in future activities, and made a number of points, as described below.

Debt servicing

48. The burden of heavy debt servicing and the urgency of releasing resources for development is not a problem of the heavily indebted poor countries (HIPCs) alone. Debt cancellation is needed and now by all countries of the South. Ms. Nacpil urged the United Nations to take a decisive role in challenging and changing the framework and instruments used to define indebtedness and debt sustainability, and in formulating alternative frameworks, concepts and instruments based on a more profound, critical, scientific, compassionate and just understanding of indebtedness and its extent and impact, and debt servicing. She asked the United Nations to direct appropriate agencies to work with civil society groups and grass-roots organizations for this purpose.

Debt cancellation

49. Debt cancellation should not be premised on compliance with economic policies and programmes that have been proven to have disastrous consequences for the economies of the South. Ms. Nacpil urged the United Nations to lead the call for the delinking of debt cancellation from economic conditionalities imposed by, prescribed by or identified with IMF and the World Bank; and to monitor and ensure compliance of Member States and IFIs with existing human rights norms and mechanisms (specifically in the context of how external debt and other economic issues and policies have led to gross violations of civil, cultural, political, social and economic rights, including the right to self-determination and development). She also urged the United Nations to form a global commission (with more than 50 per cent membership representing civil society) to critically review the work of IMF, the World Bank and other IFIs in order to determine whether they should continue to exist, and if so, to redefine the role they should play and if not to examine ways to de-commission them.

Debt legitimacy/illegitimacy

50. The debt problem involves the fundamental issue of the legitimacy and illegitimacy of debt. Ms. Nacpil urged the United Nations to make a decisive statement on the right of countries to non-payment of odious and illegitimate debts; to call for an immediate international investigation and inquiry of past and present illegitimate debts; and to establish mechanisms that will promote broad and critical interpretation and enforcement of an international law on odious and illegitimate debts.

Conclusion

51. Finally, she urged Southern Governments to form debtor coalitions and to repudiate debt.

The heavily indebted poor countries initiative and the Ugandan experience

52. Mr. Edoku used the Ugandan experience to illustrate that there are mismatches between domestic revenue and total expenditure, between exports and imports, and between economic and political mismanagement, and that there are problems of persistent shortages of foreign exchange resulting in problems servicing existing debt.

53. Although Uganda has been used as a model for sound macroeconomic management, it has not yet managed to translate this growth into improved living standards for the majority of the population. There have been problems with managing funds by the Government, and the terms of the borrowing are unfavourable.

Evolution of the debt situation

54. Heavy borrowing occurred during 1981/85, and after 1987. Problems included poor management, unfavourable borrowing terms and no debt-servicing policy.

Lack of progress in managing debt

55. From 1980/81 to now, efforts continued to help manage the debt, including debt verification exercises, debt rescheduling agreements, installation of debt recording and loan administration systems, and elaboration of debt management strategies. The debt stock was still at US$ 3.6 billion in 1998, and debt servicing reached US$ 163 million.

Initiatives to reduce high levels of indebtedness and poverty

56. A poverty eradication action plan was launched in 1997, directing the use of public resources for poverty eradication. The first phase of the HIPC initiative provided hope; in 1998, debt in terms of net present value was reduced from US$ 1,748 million to US$ 1,401 million, and debt servicing fell by an estimated US$ 41 million. The Government established a poverty action fund to channel savings from the first phase of the HIPC initiative to priority poverty reduction programmes in the plan. Now, the 1997 plan is being revised, decentralization is under way and the Uganda participatory poverty assessment project was launched in 1998. Uganda became the first country to receive debt relief under the second phase of the HIPC II initiative, in 1999. Together, the first and second phase of the HIPC initiative will have reduced overall debt stock from US$ 1,748 to $745 million in net present value terms, and reduced debt servicing from US$ 149 million to US$ 62.5 million in 2000/01. The poverty action fund is expected to grow from US$ 96.7 million in 1998/99 (22 per cent of budget) to US$ 447.68 million in 2002/03 (32.2 per cent).

More debt?

57. It is disheartening, however, that a new credit from the World Bank for poverty reduction (poverty reduction support credit) is already under discussion, although it is unclear whether this comes as a direct result of the HIPC cancellations.

Key points

58. The Ugandan Government and civil society must:

(a) Avoid policies that will take them back into another debt crisis;

(b) Improve governance and accountability in the use of public resources;

(c) Ensure donor coordination and partnership. Donor assistance strategies should be designed to support existing strategies and channel any funds through the budget;

(d) Emphasize that conditionalities and agreements should be enforced once agreed upon, to ensure funds are used for the identified programmes as agreed;

(e) Open up the political space for alternative views;

(f) Update legislation to regulate external borrowing and loan terms (only concessional);

(g) Create a debt coordinating agency and scrutinize all borrowing to ensure that it is needed and that the Government can service it;

(h) Seek endorsement of HIPC-type instruments by all creditors and donors. In the final analysis, the promotion and diversification of exports to minimize instability of export earnings, particularly in agriculture, is the only way out of the recurrence of debt.

Critical question

59. With the first and second phases of the HIPC initiative and with the poverty reduction strategy credits, are Uganda’s debt problems over?

International cooperation, official development assistance and debt

60. Mr. Amenga-Etego spoke of the problems associated with having one dominant ideology with its “one hat fits all” approach, which is socially unjust, ecologically destructive and violates the core principles under which the United Nations was born. The financing for development process offers an opportunity to construct alternatives: this requires bold ideas with far-reaching consequences for the organization of social life, economic enterprise and the role of the state. An examination of financial cooperation should answer the question: “How should the financial system be structured and managed to ensure that financial resources are available in non-sexploitative ways to finance human development worldwide in a predictable and stable manner?”.

Development cooperation today

61. Development cooperation has reduced the more far-reaching goals and ideals of international cooperation — maintenance of peace, pursuit of prosperity and dignity of all life without regard to sex, race, religion or culture, equality of humanity and pursuit of orderly exchange of knowledge and cultures — into a narrow discourse on aid effectiveness. Core values and beliefs underpinning human relations disappear; now institutions that convey and mediate aid

have become more powerful than the purpose and values underlying their creation. The arena is now characterized by asymmetrical power relations between "giver" and "receiver"; this has affected NGOs, which can help perpetuate this asymmetry. The basis of NGO engagement has eroded: we mobilize sympathy rather than organize for political change. Therefore, we must return to our roots. The depoliticization of poverty has ensured that the institutions, political arrangements and ideas inimical to the rights of the poor are getting stronger and more heartless.

Reality of aid and relationships within the aid industry

62. Much has been written about declining aid flows; paradoxically, as fewer resources are transferred from North to South, the influence of Northern-dominated institutions is more pervasive. The asymmetry takes several forms, controlling flows and sanctioning those Governments that diverge from the dominant paradigm. The subtle control of ideas, information and analyses generates the perception that for knowledge to be legitimate, it has to meet Western standards. Thus, the World Bank attempt to corral ideas into one coordinated framework through the global knowledge gateways and networks is insidious and should be opposed. Diversity in terms of ideas is essential. The comprehensive development framework claims to promote partnership but ignores asymmetrical power relations.

International financial institutions

63. Key decisions should not be made in the absence of the people (*you cannot shave a person's hair in his/her absence*). The World Trade Organization (WTO) is the greatest promoter of undemocratic decision-making and is the face of neo-colonialism (*at the tribunal of the foxes, the chickens are always guilty*). There is a gaping chasm between the participatory rhetoric of the IMF/World Bank and their operations on the ground, as evidenced by their poverty reduction strategy papers.

Poverty Reduction Strategy Papers

64. Poverty reduction strategy papers (PRSPs) represent a power shift from Governments of low-income countries to IMF and the World Bank, including the endorsement of national strategies that fall under the sovereignty of the state. They "manufacture consent" for the Washington Consensus, which has been promulgated through structural adjustment programmes for 20 years, with negative consequences, especially for low-income countries. They expand the micro-management of poor countries by IFIs and although they appear benign, they contain forces of destruction, offering too little assistance too late to the poor.

Policy recommendations

65. It is inappropriate for IMF and the World Bank to endorse national strategies; PRSPs should not be considered national strategies, nor should they be linked to the debt reduction process. Structural adjustment programmes should be transformed and scaled down or discontinued. Citizens' groups have a legitimate role in discussing macroeconomic and structural policies. Transparency on the part of IMF, the World Bank and borrowing Governments is essential.

Debt cancellation/reduction

66. Inherited bad debt, onerous and illegitimate debt should be cancelled in the spirit of social justice. No serious initiative exists to address the debt burdens of middle-income countries. ODA should not be diverted to service debt. Debt relief arrangements, such as the HIPC initiative, are inadequate and in some cases usurious. An independent international debt tribunal is needed to determine the legitimacy of debts and their eligibility for write-offs. Debt-distressed countries should enjoy the benefits of insolvency. The United Nations Conference on Trade and Development (UNCTAD) supports a six-point debt work-out strategy, including (a) a temporary standstill on payments, without capitalizing interest as it comes due; (b) continued financing during this period, and (c) debt restructuring that does not privilege the creditor.

Changing rules for international finance

67. The system must generate adequate and appropriate resources for investment where it is most needed, and be reasonably able to prevent crises and, when crisis breaks out, to manage the impact while minimizing the cost to the poorest and most vulnerable.

68. The financing for development process should give serious consideration to proposals that involve:

(a) National implementation of a currency transaction tax;

(b) Capital controls at the national level, where appropriate;

(c) Increased transparency and regulation of investors, especially hedge funds;

(d) Management of exchange rates;

(e) Coordination of macroeconomic policy to support exchange rate targets and promote sustainable development and full employment;

(f) Strengthening existing regional and subregional institutions and the creation of new ones, such as regional monetary funds;

(g) The abandonment of compensatory measures, combined with onerous debt servicing, have left poor countries unable to survive without concessional financing. But this financing can exacerbate the problems it aims to address unless the following strategies are followed at the national level: policies supporting investment in local production; fair and efficient taxation; creative local credit generation; incentives for reinvestment of profit and discouraging luxury imports; effective management of foreign exchange; anti-corruption measures; civic consciousness to force transparency and accountability and provide oversight over budget policy alternatives that enhance domestic resource mobilization without neo-liberal orthodoxy; and industrial strategies that support and provide incentives for building key strategic industries. This also requires restraint on the part of IMF and the World Bank from promoting capital account liberalization; restraint on the part of IMF from including exchange rate regimes as part of conditionality; and the pursuit of proposals to hold reserves in domestic financial markets rather than abroad.

Solidarity as an alternative framework for collaborative action

69. Solidarity produces progressive, transparent and egalitarian outcomes; there is less ambiguity about power relationships; and it represents shared values and interests but makes no pretence of sharing interest at all levels. It is clear that what is needed is a human-rights-based framework as a basis for international action.

The future of official development assistance: a global partnership

70. Mr. Martens spoke on overcoming the crisis of official development assistance, and the case for a global development partnership agreement. There is a broad consensus in the development community that ODA is one of the important financial instruments for fighting poverty and promoting sustainable development in the South, and cannot substitute for debt relief, improved trade conditions etc. ODA is needed because blind faith on private flows or markets leads to undesirable results. The challenge for the financing for development process is to offer a solution to the impasse in North/South negotiations on finance.

Crises

71. ODA is declining: contributions by all Organisation for Economic Cooperation and Development (OECD) countries fell from US$ 59.6 billion in 1994 to $49.7 billion in 1998 (from 0.3 to 0.24 per cent of gross national product (GNP)). OECD/Development Assistance (DAC) concludes that, from 1992 to 1998, there was a net loss of US$ 88.7 billion, a figure which is well over US$ 100 billion by now. Unfortunately, donors are not addressing quantity issues but are instead:

(a) Emphasizing quality of assistance, whereas they need to increase quantity and quality;

(b) Concentrating on selected recipients, showering “models” with resources while excluding others;

(c) Focusing on public-private partnerships, which are sometimes but not always sensible.

Policy recommendations

72. The financing for development process could:

(a) Start an official negotiation process to the formulation of a new development agreement along the lines of the anti-poverty convention discussed in Geneva at the five-year review of the World Summit for Social Development. Reaching the international development targets could be linked to such a convention;

(b) Analyse the feasibility of inter-country income transfers or state financing offsets at a global level (e.g., a progressive income tax of rich countries) to increase the reliability of official resource pledging and ease long-term development planning in the South;

(c) Targets for ODA assistance should depend on the real financing needs of recipient countries, resulting in needs-based targets for ODA rather than the target 0.7 per cent of GNP;

(d) To avoid further indebtedness of recipient countries, development assistance should be in non-repayable grant form; the United Nations should undertake further studies on the economic and social impact of loan-based ODA;

(e) Revitalize the role of the United Nations as the main body for decision-making and policy coordination. This will require institutional reforms and a new division of labour between the United Nations, the World Bank and IMF in global development finance, with the United Nations as the undisputed lead agency.

Conclusion

73. The financing for development process offers the historic opportunity to give a signal of global solidarity towards a new North-South partnership.

Tax havens

74. Ms. Kimmis spoke on tax competitions and tax havens, and on debt and liquidity crises in non-HIPC countries, both of which are inadequately addressed under the current system of global economic governance.

Tax competition and tax havens

75. One third of global GDP is now in financial havens, much of which is undisclosed and untaxed, and the rest under-taxed. Oxfam estimates the annual revenue losses for developing countries are, conservatively, at least US$ 50 billion.

76. Offshore centres undermine the capacity of poor countries to finance sustainable development in three ways:

(a) Tax competition and tax escape: tax havens and tax competition in general provide opportunities for wealthy individuals and businesses to escape their tax obligations, and force developing countries to progressively lower corporate taxes on foreign investors;

(b) Contribution to rising incidence of financial crises: foreign exchange traders and globally active private financial institutions use havens and offshore centres as booking centres for short-term and speculative investments in developing and transition economies;

(c) Providing a safe haven for proceeds of illegal gains from political corruption, illicit arms dealing, illegal diamond trafficking and the global drug trade: ongoing initiatives focus primarily on the concerns of Northern Governments and lack a development perspective.

77. Four policy options could help the international community deal with these problems:

(a) Signing a multilateral agreement to share information on tax matters;

(b) Supporting the proposal for an international convention to facilitate the recovery and repatriation of funds illegally appropriated from national treasuries of poor countries;

(c) Agreeing to allow States to tax multinationals on a global unitary basis, with appropriate mechanisms to allocate tax revenues internationally and help avoid transfer pricing abuses;

(d) Setting up a global tax authority to gather information, serve as a forum for discussing international tax policy issues, use peer pressure to bring tax-free riders into line, and develop best practices codes of conduct on tax issues.

Debt and liquidity crises

78. With the opportunity that many developing countries have to tap into external sources of credit come rising levels of external debt owed to private creditors. The latter is becoming increasingly short term and spread among a diverse group of creditors. There are no clear rules on how the international community should respond.

79. Oxfam believes that multilateral rules on debt restructuring are needed that are based on:

(a) Repayment capacities of the debtor country, including human development needs;

(b) A transparent trigger mechanism based on a range of debt and development indicators.

Any low- or middle-income country that meets these criteria would have the right to seek assistance through an international debt restructuring initiative. These principles could be supported by a set of procedures similar to bankruptcy provisions at a national level. Thus debtors would avoid often brutal adjustments and long delays in debt restructuring; debtor moral hazard would be minimized as this gives a right, not an obligation, to seek assistance; comparable treatment of creditors would ensure that official and private creditors share the burden fairly; and it would reduce the need for debt write-downs at a later stage.

Fair and open process of arbitration to solve the debt problem

80. Mr. Raffer explained how history shows that protracted manoeuvring cannot force the payment of unpayable debts; all it does is increase the debt overhang, adding debts that can never be repaid but burdening the debtor. Aid money often gets diverted to "maintain" debt service payments that countries cannot make by themselves.

81. British and French Governments defaulted in the 1930s, considering the needs of their peoples more important than legal obligations to creditors. United States states have a long history of defaulting; Germany, Indonesia and Poland have all been granted partial debt cancellations in the past; the Egyptian debt crisis of 1876 was managed by private creditors, who used the domestic bankruptcy law as a basis — this was economically successful for both debtor and creditors alike after a surprisingly short time.

Who decides?

82. Who decides how much can be repaid, how much protection the poor should get and what investments are needed to keep the country going? So far, creditors alone decide reductions with dire consequences for debtors. But the most fundamental principle of rule of law is that one cannot be judge in one's own cause.

Phantom debts

83. Creditors unwilling to grant sufficient relief when necessary increase their irrecuperable credits. Claims keep growing on paper, going further beyond the debtor's economic ability to pay, resulting in "phantom debts", existing only on paper. Deleting these debts is simply acknowledging the economic fact that these are funds the creditors cannot get.

Basic insolvency procedures

84. Basic insolvency procedures solve the conflict between (a) the right of bona fide creditors to interest and repayments and (b) the right that everyone has not to fulfil contracts if that leads to inhumane distress, endangers one's life or health or violates human dignity. This does not apply to odious debts, where no insolvency is needed, as they are null and void.

Can these procedures be used in cases of sovereign debt?

85. Although the rule for the insolvency of firms cannot be applied (as in United States chapter 11 bankruptcy laws), United States chapter 9 bankruptcy procedures show principles of justice and fairness can be implemented using arbitration. This principle, used in the United States for decades as the solution to the problems of municipalities, can apply to sovereign borrowers because it protects creditors' rights as well as both debtor's powers and the living standards of the population. It also ensures that individuals affected by the decision have a right to be heard.

Arbitration

86. Internationally, a neutral arbitration panel should be constituted, with each side nominating an equal number of arbitrators, who in turn elect one more member; these panels would be dissolved after their job is done. Arbitration is increasingly applied to international problems, including the North American Free Trade Agreement (NAFTA) or WTO; the London Accord with Germany (1953 etc.). The population can exercise its right to be heard by being represented by NGOs, trade unions, employers' association, grass-roots organizations, or international organizations, such as the United Nations Children's Fund (UNICEF). The United Nations can serve as the organization where such sovereign debtors can file their requests for arbitration, fairly balancing the interests of creditors and debtors, organizing the nomination of arbitrators and perhaps providing limited secretarial services for arbitrators.

Minimum protection

87. Protection of a minimum standard of life should be a part of every international plan. Basic human services must not be destroyed; subsidies and transfers necessary to guarantee humane minimum standards for

the poor must be maintained; and funds needed for sustainable economic recovery must be set aside. A transparently managed fund (as proposed by Jubilee 2000), financed by the debtor in domestic currency, would ensure that exempted money is used for the poor and for economic recovery, monitored by an international board with debtor and creditor membership.

88. Such arbitration, modelled after United States chapter 9 bankruptcy laws, would fulfil the demands of donor Governments — participation, transparency and respect for the rule of law — and would provide a disincentive to careless lending. It would also maintain both human rights and the rule of law for the debtor nations. No difficult or costly legal or administrative framework is necessary.

89. People in debtor countries need justice and economic sense, not generosity — and the same protection of their basic needs and human dignity that any other debtor already enjoys. The criterion is simple: "Everyone who looks like a human being should be treated like one".

Highlights of discussion

Official development assistance and debt

90. One delegate asked how can we analyse the underlying causes of indebtedness, and Ms. Nacpil replied that knowing and understanding the historical causes of debt is key to finding a solution and addressing strategically the vicious cycle of debt. The same delegate asked whether in countries that are ruled according to Roman law insolvent people are deemed uncreditworthy. Mr. Raffer answered that nothing about being insolvent precludes access to credit — if creditors see an opportunity, they will come. Also, arbitration is part of Roman law. On the role of debt, one participant noted that solutions existed in 1982, when Mexico, Brazil and Argentina were in crisis, but they were ignored.

91. One delegate asked how we could ensure that debts would not recur. What can we expect from Governments? Mr. Raffer answered that international arbitration will force creditors to look closely at how money is being spent before lending. Mr. Amenga-Etego stressed that Governments should be transparent and accountable to their own people, and should put into place laws to punish corruption and recover stolen funds. Political rights should also be denied to convicted corrupt officials. Ms. Nacpil said that creditors know they are lending to corrupt Governments, so the people do not need to pay. Continued borrowing to remain afloat will not end unless the debts are repudiated. Southern Governments should stop implementing IMF economic programmes.

92. The International Association Against Drug Trafficking called the meeting's attention to item 17 of the IMF communiqué from its Prague annual meeting, at which IMF and the World Bank promised to come up with a position on international crime and trafficking by its spring 2001 meeting, and urged all NGOs to focus on this. He also stressed that we are running the risk of institutionalizing current crimes and trafficking and corruption by being so kind as to forgive debt, as if people were being robbed twice. The panel agreed that on the institutionalization of crimes, local guilty parties would be held accountable by the people but the double crime is when people are robbed once by corrupt officials and then again when they are forced to repay the debts.

93. Mr. Edoku noted that in debtor countries, there has to be a needs assessment of what the money is being used for before funds are borrowed, and the borrowing terms have to be good. Mr. Raffer added that debt arbitration is not about kindness and should not be seen as such, it is simply common sense. The moderator concurred with Oxfam's analysis and asked that they and others help find out how much money is held offshore.

94. Mr. Martens noted that donors have several ways to react to debt crises. In many cases, bilateral creditors have cancelled loans. There are also serious ongoing discussions on how to solve debt crises at that level. The international courts in the Hague could conduct arbitrations.

95. From the floor, the Catholic Relief Services representative observed that the solutions given here for corruption all happen after the fact, and asked if there are ways to punish the corrupters as accomplices to these crimes.

96. Mr. Amenga-Etego stressed that Governments' accountability to the people will stop corruption worldwide. We need to focus on non-developing nation creditors, transnational corporations etc. We need to set up international tribunals for corrupt leaders and corporations. Intelligence agencies, too, should come

forth and provide what information they have to protect humanity.

97. One delegate made a comment on United States chapter 11 bankruptcy laws and arbitration, which have been on the table for a long time, but all creditor countries have been silent on these issues. Why is this? Mr. Raffer said that there is no logical answer to that. Chapter 9 bankruptcy laws are a better instrument in any case since they give populations the right to be heard.

98. The moderator called on the IMF representative to discuss issues related to IMF conditionalities, economic policies etc., and the IMF representative said that the same Governments that are creditors and debtors are also the governing body of IMF; so rather than blame innocent officials, those who do not agree with the policies of these Governments, should take it up with them.

99. The Global Policy Forum observed that the problem of lending into corrupt situations can also include lending by IFIs to corrupt situations, such as an IMF loan to an unnamed country that was followed immediately with a large deposit offshore. How can IFIs and individuals within those IFIs be held accountable for those types of loans? Mr. Raffer replied that national sovereignty is compatible with arbitration: in the case of NAFTA, Canadian law or American legislation can be overruled. So bring the market to IMF — they should shoulder the financial consequences of bad lending. Ms. Nacpil added that people of the South should refuse to pay as a first step — shut down IMF if it is not playing the role that you want it to play. The IMF representative noted that recently at meetings held in Prague these same Governments came together but they did not raise these issues.

100. The representative of Earth Rights and others agreed that there is another approach to wealth creation, as 80 per cent of the world's land and natural resources is in the hands of 5 per cent of the world's population. Taxation could help to generate new funds.

Trade

101. Debt and trade problems are intimately related. One participant added that the causes of debt must be analysed to avoid recurrence:

(a) Loan pushing by creditors occurs and is unethical;

(b) Structural problems exist: they are built into the trade system, which perpetuates trade deficits between well-off and poor countries, the only solution for which is debt. This imbalance needs to be rectified;

(c) Declining terms of trade cause debt;

(d) Goods valuation means that Northern goods (such as Coca Cola) can have sharply rising prices but Southern products (such as oil) come under attack.

102. The World Confederation of Labor raised the following questions:

(a) Do you consider the recent cooperative agreement between Cuba and Venezuela, trading services of health professionals for oil, as a good model of South-South collaboration?

(b) If IMF and World Bank are seen as obstacles to development finance, will the High-level Event make a statement to that effect?

(c) IMF Managing Director Köhler in Prague, together with World Bank President Wolfensohn, supported increased trade access for developing countries. This could possibly lead to US$ 100 billion in income for developing countries. How do the European panellists feel about the likelihood of this happening?

(d) Guyana was on the list of 10 original HIPC countries but was dropped because of its decision to increase salaries to civil servants in order to avoid civil (racial) unrest and give a living wage to its African workers. Should the HIPC initiative look at social and ethnic matters in addition to financial ones when deciding to provide debt relief?

103. Mr. Martens answered by saying that the European Union (EU) opened its markets to the South, but this should not have been reciprocal, i.e., Southern Governments should be able to protect their markets. There is still a need for special and differential treatment. Oxfam believes in opening up markets and is about to launch a campaign to that effect.

IV. Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development

Moderator:

Jørgen Bøjer, Co-Chair of the Preparatory Committee

Panellists:

Kandeh Yilla, Secretary-General, Sierra Leone Labour Congress; member, International Confederation of Free Trade Unions

T. Rajamoorthy, Senior Adviser, Third World Network; Editor, Third World Network Resurgence

Doug Hellinger, Executive Director, Development Group for Alternative Policies; Global Coordinator, Structural Adjustment Participatory Review International Network

Humberto Campodonico, Centro de Estudios y Promoción del Desarrollo

Alfred Pfaller, Policy Analysis Unit, Friedrich Ebert Foundation

Jocelyn Dow, President, Women Environment and Development Organization Board of Directors

Defining the institutional policy environment to harness resources for development

104. Mr. Yilla, identified two main goals for the financing for development process: the creation of the appropriate institutional and policy environment for social development; and the effective harnessing of resources for development.

105. Enhancing the consistency of the international monetary, financial and trading systems means ensuring that policies formulated within those systems are consistent with the outcome of sustainable development, including poverty reduction, employment growth and social protection. It also means that these social outcomes should be built into the design of policies. As a consequence, austere policies prescribed by IMF need to be revamped. Consistency also requires effective mechanisms to prevent systemic crises, which hurt workers and the poor more than capital markets and investors.

106. Effective intergovernmental cooperation is essential, and should be enhanced by a strengthened coordinating role of the Economic and Social Council, bringing together the United Nations specialized agencies with the Bretton Woods institutions and WTO.

Policy recommendations

107. To harness resources for development in the framework defined above, the financing for development process should focus on the following areas: an international tax on foreign currency transactions; regulation of hedge funds and off-shore financial arrangements; burden-sharing by commercial banks during debt crises, including standstill arrangements; deeper and broader debt relief under a vastly improved HIPC initiative; and a timetable for donors to reach the United Nations ODA target of 0.7 per cent of GDP.

108. With respect to trade, the High-Level Event should consider greater market access for developing country products; inclusion of social policy consideration in the world trading system; and measures to ensure that globalization does not lead to negative outcomes in the areas of development and equity, including fundamental workers' rights.

Financial liberalization

109. Mr. Rajamoorthy focused on the issue of financial liberalization. Recalling the damage that such policy — strongly advocated by IMF — had caused to the countries hit by the Asian crisis, he put forward two sets of proposals. The first involved the need to avoid further financial liberalization, including an end to the pursuit by IMF of amendment of its articles of agreement 1 and 8, to enable it to push developing countries to open up their capital account and markets; an end to any attempt by OECD to revive the proposed multilateral agreement on investment, which would give unfettered freedom of mobility to all types of capital flows, and to similar proposals under the aegis of WTO; a review of the financial services agreement in WTO to take into account the lessons learned from the negative effects of financial liberalization resulting from the latest round of financial crises.

110. The second set of proposals related to needed international policies, including effective crisis

management measures, such as debt standstill arrangements, debt workouts and an international version of United States chapter 11 bankruptcy laws, aimed at fair burden-sharing; a framework for the introduction of capital controls; regulation of institutions in the countries that are the source of mobile financial funds, aimed at preventing them from creating excessive volatility; international regulation of hedge funds and other highly leveraged institutions, off-shore centres, currency markets and derivatives; consideration of a more stable currency system (including a return to fixed exchange rates or bands); a reform of the decision-making system in such international institutions as IMF to give developing countries a fair say in their policies; and a change in the set of IMF-World Bank conditionality.

111. Unilateral actions in the area of financial and trade controls would be warranted in developing countries in the absence of implementation of the above measures.

Changing the nature of decision-making

112. Mr. Hellinger rejected the possibility of enhancing an international system that, in his view, has not been supportive of development in the past. On the contrary, the imposition of structural adjustment programmes has undermined democratic processes, increased poverty and inequality, and generated social, economic and financial instability. Mr. Hellinger challenged the leaders of the United Nations and its specialized agencies to converge around a different set of values and principles, including respect for diversity, equity, self-reliance, self-determination, environmental sustainability, democratic decision-making, and transparency and accountability, and to change the nature of global decision-making. A new partnership between their institutions and civil society movements was required, to launch a parallel process to the flawed PRSPs to look at the poverty effects of adjustment programmes. Progressive Northern Governments should help the United Nations finance these national exercises, thereby strengthening the role of United Nations agencies in promoting equitable economic and social development.

New development strategy to counter the Washington consensus

113. Mr. Campodonico denounced the absence of an international monetary system since 1971 and its negative consequences, especially on developing countries, as well as IMF's inability to fulfil its surveillance mandate. In view of the surge in international capital flows, controls and regulation of offshore centres were urgently required. Mr. Campodonico added his voice to the criticisms of structural adjustment programmes based on the Washington Consensus, and suggested four issues for discussion at the High-level Event: global implications of exchange rate movements of major currencies for other countries; unequal distribution of voting power in the global financial system; governance of IMF, where few countries have undue influence on the decision-making process; and insufficient transparency and accountability in capital markets and institutions of developed countries. He also called for a new development strategy alternative to the Washington Consensus to challenge the neo-liberal paradigm.

Policy priorities on the way towards a new international financial architecture

114. Mr. Pfaller stressed the need to strengthen the international financial architecture to reduce the likelihood and severity of new financial crises. New measures are being developed within the framework of the Financial Stability Forum, aimed at enhancing transparency in global financial markets; improving prudential regulation of international financial transactions; strengthening financial institutions in emerging market economies reducing “moral hazard” for reckless investors. However, they are insufficient.

115. More far-reaching proposals advanced by several academics, focusing on a more encompassing regulation of capital flows, reduction of flows and stabilization of currencies, are unlikely to be implemented. Hence, in the absence of a new financial architecture, available policy options should be considered. Sound macroeconomic policies and strengthened financial institutions are necessary but insufficient to immunize countries from financial vulnerability. One reason is contagion, owed to investors' tendency to herd behaviour in volatile markets. Another was boom-bust cycles in developing countries associated with inflation and interest rate differentials and currency misalignments. To reduce the likelihood of the latter, either capital controls or fixed exchange rates are necessary. Controls seem to be the preferable option, although they entail foregoing the benefits of open capital markets, such as lower cost and

better allocation of capital. Yet these trade-offs seem acceptable, as confirmed by the record of some of the best performing developing countries, which kept capital control until recently.

Mobilizing financial resources for women and girls

116. Ms. Dow noted that financing for development ultimately means mobilizing financial resources. It was less a matter of quantity of resources than of their fair distribution. The neo-liberal model that is at the core of the current global monetary, financial and trading systems, as well as the institutions that shape them and set the development agenda, do not work for women and girls. Extreme female under-representation in national and global decision-making is alarming. Ms. Dow put forward four sets of recommendations: (a) transforming institutions and Governments; (b) transforming their policies; (c) targeting more money for women and girls; (d) taking control of these funds.

117. An approach similar to the Women Environment and Development Organization (WEDO) campaign for gender equity in national Governments should be applied to multilateral institutions. Also needed were procedures to allow for more transparent NGO participation in the crafting and evaluation of policies of multilateral institutions, including the United Nations. With respect to transforming policies, WEDO has called for debt cancellation for Africa across the board, elimination of adjustment conditionalities from the HIPC initiative and strengthening of effort by United Nations agencies to reform definition and measures of development, to incorporate gender and environmental concerns. WEDO also supports the call for reaching the ODA target of 0.7 per cent of GDP, and within increased development assistance resources, proposed to set a target of 50 per cent of funds allocated to projects directly benefiting women and girls. Similarly, high targets in favour of the same cause should be set by World Bank and United Nations specialized agencies. Moreover, WEDO is in favour of such instruments as the Tobin tax on international currency transactions and pollution taxes. Finally, targeting resources to meet the needs of women and girls is a necessary step that needs to be coupled with increased accountability and transparency, to ensure that funds were used the way they were intended.

Highlights of discussion

Role of the United Nations

118. Several interventions stressed the importance of bringing back to the United Nations the economic and financial debate in order to define a reform agenda and to promote a more just globalization process. The United Nations is also seen as the appropriate forum for NGOs to discuss economic and financial issues.

Reform of the Bretton Woods institutions and their engagement in the financing for development process

119. A combination of "reason plus pressure" was suggested to effectively influence the Bretton Woods institutions policies, as their closure would be counterproductive, though advocated by some. Excessive demands for radical changes risk leading to isolation of NGOs. Despite their poor track record, it is essential to engage the Bretton Woods institutions in the financing for development debate. An open and responsible discussion of practical issues would make a successful event.

Transnational corporations

120. The need for a discussion within financing for development of the role of transnational corporations in development was stressed, as ICFTU pointed out that their impact in many developing countries had been even worse than that of the Bretton Woods institutions.

Digital divide

121. The implications of the revolution associated with the explosion of information technology, and the related issue of the digital divide should be included in the financing for development debate. There were indications that the development of the New Economy had not reduced inequality.