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Addressing the Financial Crisis: Financing for Development

In the light of the current crises in the financial markets it is more than ever recognized that financial stability and efficient use of financial means are essential for the achievement of the international development goals including the Millennium Development Goals (MDGs). The financial system is meant to be a global public good and financial stability is an essential precondition for development. The frequent warnings from NGOs, that these crises in financial markets would happen have been overlooked and ignored. Proposals for financial mechanisms and instruments to address some causes of such crises, like the financial transaction tax or tobin tax, have been rejected.

One of the greatest current threats to achieving the MDGs comes from the global financial volatility and the real economic spill over resulting from the current financial crises. In developing countries, this is impacting on the productive sector and labour, and risks stability, social polarization and the erosion of democracy.

The current financial crises has increased international consensus on the need to fight the forces of destabilisation that are also induced by the current structure of the system. There is need for a complete renegotiation of the financial architecture, not just a piecemeal reform. A new regulatory framework, based on the principles of equity, justice and sustainability must be developed and negotiated. Developing countries must be fully represented in these international negotiations.

Moreover, an effective financial system needs effective oversight and transparency. Therefore, the shadow banking system must be addressed. Any future redesign of global institutions must reflect the global commitment to poverty eradication and sustainable development. To guarantee the participation of all countries in the renegotiations of the international financial institutions, the UN should take the leadership for the second 'Bretton-Woods' Conference.

Faced by the inherent weakness of the current financial system as a whole, Europe's leading policymakers are calling for an international summit to overhaul it. This new impetus could enable a more substantive discussion on the unequal structure of the current financial order during the upcoming conference on FfD. These circumstances offer a chance for developing countries to step into the negotiations, to attain better representation, i.e. voting systems, which are less biased towards the interests of the banks and financial institutions of industrialised countries.

The fact that systemic issues including the governance of the international financial system are a central part of the FfD agenda means that the upcoming FfD Conference would be an excellent place for such a summit of world leaders to discuss the reorganisation of the financial system in reference to the needs of developing countries. The debates should be governed by a human security and global social framework.

Developing countries must be allowed to protect their capital flows and capital markets, and to adopt any policies currently applied by the industrial countries to protect and stabilise their financial economy, including the domestic banking system, and any double standards in this respect should be avoided.

The EU must actively engage in the preparations towards the Doha UN Conference for Financing for Development, so that the following issues can urgently be addressed at a global level:

Towards a new international financial architecture

- Guarantee the participation of all countries in the renegotiations of the international financial institutions, with the UN in the leadership for the second 'Bretton-Woods' Conference, with the aim of introducing an equitable, sustainable financial architecture to allow strong democratic representation and involvement of decision-making by developing countries – including equal voting rights.
- Establish an internationally applicable, transparent, impartial and comprehensive process to resolve debt crises, to judge what debt is unpayable or unjust, and to ensure that human needs take priority over debt repayments.
- Override the free shadow banking system and offshore economic world.
- Regulate private equity funds in order to mitigate their negative impact on long term interests, technological innovation, labour and social concerns in developing countries, by increasing in-capital requirement and transparency, introduce licensing to prevent offshore companies from operating, change the governments structures of institutional financial actors, prohibit extra dividends, and facilitate workers participation.
- Improve the transparency of hedge funds in order to limit their negative macroeconomic effects. Reform the corporate governance limiting incentives for management. Limit the leverage of hedge funds by increasing capital requirements and restrict over-the-counter trade of derivatives.

Overcome the debt burden

- Cancel quickly and irreversibly all unpayable and unjust debts. 'Unpayable' debts are those that a country cannot afford to pay whilst meeting its own people's basic needs. 'Unjust' debts are those that are not legitimate claims, such as 'odious' debts on loans knowingly given to dictators, or those from loans given on unfair terms, or for failed projects based on lenders' advice. Call for principles for responsible lending and financing.
- Stop attachment by international institutions such as World Bank and IMF of harmful strings to debt relief. Poor countries should no longer have to privatise basic services or cut public spending as a condition for receiving desperately needed debt relief.

Mobilisation of new resources for development

- Put the issue of international taxation for development, including a Currency Transaction Tax or a Financial Transaction Tax on the Doha Conference agenda. The outcome of the Conference should contain a political commitment to introduce a Currency or Financial Transaction Tax or a Currency Transaction Levy at a low rate to gain experience in its implementation. As a first step a new task force within the leading group on solidarity levies to fund development should be agreed.

- In line with the Johannesburg Summit recommendations to “actively promote corporate responsibility and accountability, based on the Rio principles, including through the full development and effective implementation of intergovernmental agreements and measures...” continue to develop binding social and environmental norms for TNCs that respect international human rights obligations.
- Support fair and efficient domestic tax systems that provide for an equitable and sustainable system of taxation rather than regressive tax system that rely on value-added taxation. Technical assistance needs to be provided to increase financial management and democratic oversight mechanisms.
- Introduce an effective system of corporate taxation by reducing tax incentives for TNCs and other private investors in special economic zones, and through the regulation of transfer pricing schemes.
- Call on changing the IMF's demands for restrictive policies concerning human resource spending in developing countries, since these demands often force developing countries governments into keeping health and teaching staff expenditures low, which creates further obstacles to the achievement of the MDGs.
- Strengthen new and binding reporting and accounting procedures for private banks and corporations to publish corporate financial transactions. As a first measure for introducing new accounting standards, a country-by-country reporting scheme should be introduced at international level.
- Ratification of the UN Convention against Corruption and strengthening of measures to fight corruption and for the repatriation of stolen assets. The UN Convention against Corruption needs to be complemented by an effective monitoring system at country level, including support for initiatives such as the World Bank's Stolen Assets Recovery (StAR) initiative.
- Combat tax evasion by promoting the adoption of the UN Code of Conduct on tax evasion and illicit capital flights, upgrading the UN tax committee into an inter-governmental and supporting automatic exchange of information in tax matters.

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