ASSOCIATION OF GERMAN DEVELOPMENT NGOs

Sustainable Financing for Development and Poverty Eradication

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VENRO Policy Paper

for the Second International Conference on Financing for Development in Doha, 29th November to 2nd December 2008

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Achieving the internationally agreed development goals is threatened, especially in Africa. One of the reasons for this is the insufficient provision of financial resources and a world finance and world trade order that fails to adequately address development and poverty eradication. Six years after the International Conference on Financing for Development in Monterrey, this insight has hardly lost topicality. When the international community meets for the second International Conference towards the end of November, there will be an opportunity to reclaim lost ground and achieve a substantial result in the interest of the more than one billion people still having to survive on less than one dollar a day in extreme poverty. This opportunity must not be allowed to go wasted.

The topic has been on the United Nations agenda since the beginning of the Financing for Development (FfD) process, the initial climax of which was reached with the 2002 Monterrey Conference. The FfD process has given an impulse to many overdue dialogue and reform processes in development financing the development of which Non-governmental Organisations (NGOs) have played a role in right from the onset.[1] However, the Monterrey Consensus[2] itself received criticism from several NGOs when it was adopted. In terms of its contents, it does not represent a sufficient break with the previous paradigm of the Washington Consensus, which, being focused on privatisation and liberalisation, had had disastrous consequences for economic development and social justice in poor countries. Owing to the lack of an accompanying action plan and specific implementation deadlines, even its sections that were welcomed remain vague and non-committal recommendations. Issues of distribution as well as gender equality aspects are only insufficiently addressed.

This is why, from a civil society angle, regarding the forthcoming Doha Conference merely as a follow-up conference[3] to review the implementation of the Monterrey Consensus falls short of its actual significance. Many of civil society's recommendations for action have not been considered in the Monterrey Consensus. We could have made more progress in achieving the Millennium Development Goals (MDGs) and other internationally agreed development targets if important proposals had not remained unconsidered because of governments regarding them as unsuitable to reach a consensus on. For example, this applies to the introduction of innovative financing instruments, a fair and transparent arbitration procedure in debt management or legally binding environmental and social standards for transnational corporations. Given continuing poverty and the dramatic aggravation of hunger throughout the world, VENRO and its member organisations are reintroducing the recommendations for action, which continue to be relevant, to the debate. Wherever we have deemed this necessary given more recent developments over the last six years, for instance with regard to climate change, we are submitting new proposals for action.

With this Policy Paper, VENRO is responding to the UN General Assembly's calling on all actors in the development process to actively participate in the preparatory process for the Doha Conference with their contributions.[4] The following policy recommendations refer both to fundamental aspects of financing for development and to very specific demands that could be put into practice very soon if only the necessary political determination could be mustered.

1 VENRO and other NGO associations had already addressed governments and the public with a policy paper in the run-up to the Monterrey Conference (cf. e.g. AGEZ/Swiss Coalition/VENRO: Entwicklung braucht Finanzierung. Der Beitrag der Entwicklungsfinanzierung zur Erreichung der 2015-Ziele. Ein Positionspapier deutscher, österreichischer und Schweizer Nichtregierungsorganisationen zur UN-Konferenz für Entwicklungsfinanzierung (FfD), März 2002 in Monterrey/Mexiko; Bern/Bonn/Wien 2002) http://www.2015.venro.org/publikationen/dokumente/ffd/ffd.pdf After the Conference VENRO also dealt with the evaluation of the Monterrey Consensus and its implementation: cf. "Die Versprechen von Monterrey". Umsetzung und Bilanz der UN-Konferenz von Monterrey zur Entwicklungsfinanzierung. Dokumentation des VENRO-Fachgesprächs vom 19. November 2003 in Berlin; http://www.venro.org/publikationen/archiv/ffd-doku.pdf

2 "Monterrey Consensus of the International Conference on Financing for Development", Annex to the Report of the International Conference on Financing for Development, UN Doc. A/CONF.198/11, 22 February 2002; http://www.un.org/depts/german/conf/ac198-11.pdf

3 The cumbersome official title is: Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus

4 Cf. Resolution 62/187 of the United Nations General Assembly, 18 January 2008, Figs. 5 and 11; http://daccessdds.un.org/doc/UNDOC/GEN/N07/474/99/PDF/N0747499.pdf?OpenElement

1. Mobilising domestic resources – ensuring distribution justice and focusing on poverty eradication

In many developing regions, a high level of economic growth has resulted in significant increases in the national income of developing countries over the last six years since Monterrey. However, different groups of countries are benefiting from this to different degrees, and since economic growth has also gone hand in hand with unequal distribution of income, making full use of its potential to eradicate poverty has not been possible so far.[5] In addition, in many countries, the chief reason for economic growth is the current boom in raw materials and agricultural exports the continuation of which is uncertain. This gives rise to doubts regarding the lasting nature of the economic boom in the South.

It is of central importance to sustainable growth that the new economic power of the developing countries is put to use for productive investments in the developing countries in order to place the economic upturn on a broader base and create decent work and living conditions for a larger portion of the population. Public budgets have to be provided with sufficient resources for effective poverty eradication in order to enable the financing of education and health systems, social security, physical infrastructure and other public areas. Tax revenue of the developing countries has increased considerably over the last few years.[6] In Africa, it has more than doubled in absolute terms within six years. Nevertheless, at around 18 percent, the ratio of government expenditures to the gross national product is still not on a par with those of the OECD countries. Neither do all governments of the South give poverty eradication a sufficiently high political status.

For the developing countries in particular, increased tax competition in the age of globalisation is a chief obstacle to the mobilisation of public income. In many countries, lasting corruption is leading to the embezzlement of public funds and therefore to private enrichment rather than to expenditure in the interest of the community. Tax avoidance, tax evasion, corruption and capital flight of capital are encouraged by insufficient institutional framework conditions at global level the design of which is not in the hands of the developing countries. Thus also with regard to the mobilisation of domestic resources, which should really be a responsibility of the developing countries, support and the political determination to initiate and push through reforms on the part of governments in the North is required.

Since Monterrey, there have already been a number of institutional innovations that point in the right direction. What ought to be mentioned here, for example, is the UN Convention against Corruption[7], the Extractive Industries Transparency Initiative to enhance the transparency of revenue from raw materials[8], the UN and World Bank's Stolen Asset Recovery Initiative, with which embezzled funds are to be directed back to the developing countries[9], or the setting up of a committee on co-operation on tax matters at the United Nations.[10] Nevertheless, there is still an enormous requirement for action.

Policy recommendations:

- The political empowerment of poor and vulnerable sections of the population, especially of women, is to be improved at all levels of the political system in order to increase their share in the benefits of a growing economy in terms of affluence. Civil society organisations have to be put in a position to influence the development of government budgets at national, regional and local level. A necessary condition for this is that the budgetary process is transparent. In addition, the social and gender-specific impacts of public income and expenditure need to be established, and expenditure on poverty eradication and gender justice has to be explicitly referred to.
- Governments should make a greater effort to promote pro-poor growth. The risk of poverty has to be mitigated by extending and consolidating social insurance systems. Direct government social support to poor households can be an effective means to create an opportunity for the poorest sections of the population to secure a livelihood. This can always only constitute a first step. The aim has to be to enable poor sections of the population to participate in economic and social processes.
- Establishing and extending financial systems needs more support. Here, the focus should be on finance institutions oriented on public welfare that promote productive investment

5 In Africa in particular, discrepancies between the different groups of countries are enormous. Oil-exporting countries there grew at 8.8 percent in 2007, while fragile states could only manage an average 3.0 percent. Cf. IMF: Regional Economic Outlook Sub Saharan Africa 2008, Washington D.C., April 2008, p. 96; http://www.imf.org/external/pubs/ft/reo/2008/AFR/ENG/sreo0408.pdf

6 Cf. OECD Development Co-operation Report 2007. Summary, Paris, January 2008, http://www.oecd.org/dataoecd/21/10/40108245.pdf

7 Cf. http://www.unodc.org/unodc/en/treaties/CAC/index.html

8 Cf. http://eitransparency.org/

9 Cf. http://www.unodc.org/unodc/en/press/releases/2007-09-17.html

10 Cf. http://www.un.org/esa/ffd/tax/

rather than speculation and award socially commissioned loans. In order to create access for particularly poor sections of the population to financial services as well, micro-finance institutions with service programmes specially tailored to the target group need more support.

- The development of tax systems in developing countries needs further promoting. Here, the principle of taxation according to economic performance ought to apply. Preferably, the tax system ought to be based on income tax with progressive tax rates as well as capital gains and wealth tax.
- Anti-corruption measures have to be continued at all levels, which first of all implies the ratification and implementation of the UN Convention against Corruption by further countries. It is particularly hard to understand why Germany, of all countries, is postponing ratification while the German Federal Government has officially chosen Good Governance as one of the guiding notions of its development co-operation policy and German businesses are involved in corruption scandals in many places.
- The illicit flow of capital from developing countries through money laundering, transfer of corruption money and tax evasion by absconding needs to be stopped. The precondition for this is a better co-ordination of government tax authorities, holding international corporations to account, country by country, for turnover, gains and tax paid as well as the creation of the necessary legal preconditions for more transparency in capital transfer and to prevent the flight of capital and tax evasion by absconding.
- The Extractive Industries Transparency Initiative (EITI) has to be strengthened as does the international civil society campaign Publish What You Pay, which presses for binding rules on the disclosure of finance flows in the raw materials sector.

2. Foreign direct investment and other private capital flows: opting for quality rather than quantity

Over the last six years, the influx of foreign direct investment and other private capital flows to the developing countries and emerging economies has grown considerably. Alone direct investment, reached an all-time high at 379 billion US dollars in 2006, amounting to more than three times all development aid.[11] However, the influx of foreign capital is distributed most unequally in regional and sectoral terms. It has a pro-cyclic character, thus bearing the risk of aggravating financial instability. Moreover, private capital flows predominantly serve the interests of the investors. At best, they can contribute to development and poverty eradication in the developing countries via secondary effects.

The Monterrey Consensus gives private capital flows an undifferentiated positive appraisal and calls on the developing countries to create a stable and reliable investment climate for the investors and to protect their property rights. The risks are ignored, and the need to protect the people and the environment in the developing countries against certain investors is only referred to marginally.

Private foreign investment has private gains, the profits for the foreign investor, and social gains, the benefits for the host country, its people and its development. If it is regarded as an instrument of development financing, the focus must obviously be on raising its social gains. These comprise, for example, the number and quality of jobs that are created, or of the knowhow and technology transferred to the host country. Here, different investments will result in very different results. For instance, entirely new investments, so-called greenfield investments, as a rule make a more important contribution to the development of the host country than the acquisition of its businesses by transnational corporations.

Social gains may even be negative, for instance in the case of a foreign direct investment resulting in irreparable harm to the environment, which may occur quite often in the raw materials sector. Or if it leads to an excessive exploitation of local labour without bringing the host country any significant knowhow transfer or income revenue, which is far from rare in sweat shops located in special economic zones. Developing countries do well to avoid such investments.

However, this means that a paradigm shift is required in treating foreign investment, away from quantity, towards quality, away from across-the-board liberalisation, deregulation and privatisation, towards regulation in accordance with economic, social and environmental criteria.

11 Cf. UNCTAD: World Investment Report 2007, New York and Geneva 2007, p. XV

Policy recommendations:

- The corporate accountability of transnational corporations has to be given a legally binding status. Compliance with core labour standards, protection of the environment and respecting human rights cannot merely be a voluntary self-commitment but need to act as the binding framework condition for entrepreneurial action. The starting point for a catalogue of binding norms should be the UN norms on the responsibilities of transnational corporations and other business enterprises with regard to human rights, submitted as a draft in 2003.[12]
- International investment agreements ought to contain protective clauses and be supplemented with effective monitoring and sanctioning mechanisms. It ought to go without saying that they are subordinate to the human rights agreements. The instruments that the industrialised countries use to promote foreign investment should be focused more on social and environmental criteria, too.
- The attraction of private foreign investment should not be accomplished via privatisation. Utilities, in particular, should remain under government control in order to ensure that sections of the population with less purchasing power also have access to essential basic services such as water or power supply. In the case of earlier privatisations, some of them ought to be assessed with regard to whether they have not been too far-reaching. Concessions agreed with transnational corporations should also be checked with respect to whether an appropriate level of levies has been paid to the host countries given price increases for raw materials. If necessary, arrangements have to be renegotiated.
- In order to enhance their social gains and lower their potentially negative resulting effects on the balance of payment, developing countries should regulate private foreign investment more strongly, using economic performance criteria. Elements this includes are regulations on the employment of local staff at all levels of the hierarchy, on training programmes and technology transfer, on the use of local primary products or on the reinvestment of gains in the host country of the investment. International investment and trade agreements have to consider such necessities and, should the need arise, be appropriately adapted.
- In order to reduce the volatility of private finance flows, developing countries ought to be allowed to make use of suitable capital controls.

3. World trade: achieving fair trade instead of free trade

The last few years have seen an enormous increase in export revenue among the developing countries, which is above all a result of the rise in demand for raw materials.[13] These dynamics are all the more astonishing given that the reforms of the world trade regime have been characterised by a complete stillstand in the same period. The WTO Development Round is making no progress, dashing hopes of the developing countries for a reform of the world trade order that would promote development, especially regarding the agricultural subsidies and import tariffs of the industrialised countries. The reason for the failure of the reforms to materialise is above all the industrialised countries' insistence on getting something in return from the South in the areas of market access for non-agricultural goods and services.

The recommendations for action of the Monterrey Consensus above all focus on the Development Round agenda, demanding its implementation. Trade liberalisation is regarded as limitlessly positive, but the special needs of under-developed countries with poorly competitive business branches are hardly considered, while critical gender-specific aspects of trade liberalisation and potentially negative impacts on income distribution are ignored.

In practice, the industrialised countries have, in the meantime, shifted their assertment of interests to the regional and bilateral level. With the new regional and bilateral agreements, they are attempting to introduce through the backdoor controversial issues such as the liberalisation of the services sector or opening up to foreign investment, which go beyond the WTO sets of rules and have been rejected by many developing countries in the WTO round. Just like the WTO sets of rules, these agreements centre on the interests of transnational corporations while simultaneously neglecting socially just development, human rights and environmental protection.

12 UN ECOSOC: Norms on the responsibilities of transnational corporations and other business enterprises with regard to human rights; Doc. E/CN.4/Sub.2/2003/12/Rev.2 of the 26th August 2003; http://www.unhchr.ch/Huridocda/Huridoca.nsf/TestFrame/64155e7e8141b38cc1256d63002c55e8?Opendocument

13 Since 2003 export revenue of the developing countries and the emerging economies has been growing by an annual average of more than 10 percent. Cf. IMF: World Economic Outlook 2008, Washington D.C., April 2008, Table A9, pp. 256-257; http://www.imf.org/external/pubs/ft/weo/2008/01/pdf/tables.pdf

Policy recommendations:

- The industrialised countries ought to abolish their agricultural export subsidies and the most trade-distorting domestic agricultural subsidies. This should happen as soon as possible, taking advantage of the current high-price phase for agricultural goods, and without demanding anything in return from the developing countries. In order to ensure food security for poor people and promote rural development, the developing countries have to be granted the right to take measures to protect smallholders against overwhelmingly powerful competitors should the need arise. Furthermore, free access for agricultural products from developing countries to the markets of the industrialised countries has to be fully ensured.
- In the areas of industrial goods and services, the industrialised countries ought to give up their aggressive demands for market opening and allow the developing countries the necessary time and flexibility to promote the development of infant industries. To this end, it is also necessary to do away with tariff escalation in order to promote the processing of raw materials and production processes with high value-added in the developing countries.
- The Singapore Issues[14] ought to be omitted both from the WTO negotiating round and from the negotiations on regional and bilateral agreements. In order to give due consideration to the special requirements of the developing countries, bilateral trade agreements between unequal partners should not demand any reciprocal liberalisation.
- Public procurement in the industrialised countries should be specially used to promote fair trade. Wherever possible, certified products ought to be purchased that have been manufactured in compliance with social and environmental criteria and provide their producers with a decent income.
- Environmental and human rights agreements have to take precedence over international, regional or bilateral free trade agreements. The ILO ought to be equipped with sanctioning mechanisms in order to ensure compliance with the core labour standards in all countries. The environmental programme and the gender architecture of the United Nations ought to be given higher status and provided with more funding to ensure just and ecologically sustainable development. In the long term, the binding establishment of internationally agreed environmental and social standards within a fundamentally reformed world trade regime in the context of the WTO ought to be sought.

4. Increasing resources for development co-operation: keeping promises

In the Monterrey Consensus, the target was once again reiterated that the donor countries provide 0.7 percent of their gross national income for Official Development Assistance (ODA). Also, the Monterrey Consensus recommends the donors the adoption of schedules to achieve this goal, although it does not contain any itself. It was only in 2005 that the EU passed a multi-stage plan to achieve the 0.7-percent goal by 2015, and the G8 countries adopted a resolution to double ODA for Africa by 2010, too. According to the OECD, by 2007, just five of the 22 donor countries organised in the Development Assistance Committee (DAC) had reached the 0.7-percent target. The average ODA rate of the donor countries represented in the DAC was a mere 0.28 percent, while at 0.37 percent, Germany's ODA rate was slightly above this.[15]

On a positive note, there was a significant increase in ODA over the years following Monterrey. However, since 2007, it has been declining again, especially because larger debt cancellations such as those for Iraq and Nigeria have by now been almost completely written off. As sensible as debt cancellation measures may be for highly indebted developing countries, fresh money is also needed for poverty eradication and other development measures. The official OECD figures only give a distorted image of real transfer to the developing countries, since items such as debt cancellation, costs of foreign students and refugees in the donor countries and costs of certain military missions and follow-up costs of wars can be accounted to the ODA rate in accordance with the DAC criteria.[16] With these components in particular, which sometimes only very indirectly, if at all, serve the purpose of poverty eradication, there have been the highest rates of increase over the last few years. The picture is far bleeker when it comes to core expenditure on development co-operation. Growth since 2002 has been so marginal that one has to refer to stagnation at a low level. The inability of the donor countries to implement their commitments to increase ODA is one of the main reasons for lagging behind schedule in achieving the MDGs and other internationally agreed development goals.

14 These are the four thematic complexes of investment, competition, public procurement and trade liberalisation

15 Cf. the OECD-DAC preliminary statements on ODA 2007: http://www.oecd.org/document/8/0,3343,en_2649_33721_4038 1960_1_1_1_1,00.html

16 The practice of many donor countries of inflating their ODA with statistical tricks was particularly sharply criticised by the European NGO umbrella association CONCORD. Cf. CONCORD: Hold the Applause! EU governments risk breaking aid promises, Brussels, April 2007, pp. 7; http://www.concordeurope.org/Files/media/internetdocumentsENG/AidProzent20watch/Hold_the_Applause.FINAL.pdf

The Monterrey Consensus is particularly weak when it comes to innovative financing instruments. Some of the instruments that have been discussed for some time now, such as the capital transaction tax, the air ticket levy or the kerosene tax, would yield a double dividend. While potentially mobilising further funds to finance development, they also have steering effects contributing to the protection of public goods, for example by reducing CO_2 emissions or stabilising financial markets. Progressive climate change and repeated financial crises highlight the urgent need to overcome the political obstacles to introducing these instruments. So it is especially in this area that Monterrey left tasks unresolved that have to be taken up again in Doha.

In the Monterrey Consensus, the international community also commits itself to increasing aid effectiveness, for example by improved co-ordination and the standardisation of implementing procedures, or by improved pro-poor orientation and abolishing aid tying, or also by focusing services on development framework plans that the developing countries have drawn up and are responsible for themselves. In the Paris Declaration of 2005, these vague declarations of intent were put into concrete terms, targets were set for 2010 and a set of eleven indicators were developed. Progress is to be measured at national level and monitored internationally. So far, it could still be extended. In its latest Development Cooperation Report, the OECD states that while progress has been made regarding doing away with aid tying, even with non-tied aid, a large share of contracts still go to agencies from the donor countries. Generally, it notes, progress regarding the qualitative aspects varies considerably from country to country and can hardly be seriously measured owing to insufficient data and gaps in reporting.[17]

Owing to climate change and the current slowdown in world economic growth, it is going to become increasingly difficult to achieve the international development goals on schedule. This is why swiftly addressing the unfinished tasks in ODA is all the more important.

17 Cf. OECD Development Co-operation Report 2007. Summary, Paris, January 2008, http://www.oecd.org/dataoecd/21/10/40108245.pdf

Policy recommendations:

- The donor countries should immediately take steps to fulfil their commitment to raise ODA to 0.7 percent of the GNI. For any delay will complicate the achievement of international development goals, thus causing unnecessary human suffering. All donor countries that have still not adopted national multi-stage plans to attain this goal ought to introduce such plans with growth steps graded on an annual basis and by adjusting their budgetary planning for the coming years accordingly. Those donor countries that regard supplementing budgetary funds with innovative financing instruments as necessary ought to specify which instruments they intend to introduce, when they are to be introduced and the amount of funds expected to be raised.
- In its calculations, the OECD ought to apply a new definition of ODA that is more meaningful and that only refers to the transfers in real terms of money to the developing countries.
- Even though all donor countries are in a position to reach the ODA targets with budgetary funds, innovative instruments should be introduced for financing development owing to their positive steering effects. Here, the finance and currency transaction taxes, the levy on air tickets or the kerosene tax and revenue from emissions certificates or from international ocean shipping ought to be mentioned.
- The implementation of the recommendations in the Paris Declaration ought to proceed swiftly. Germany should clearly separate development co-operation from foreign trade and investment promotion and completely abolish aid tying in bilateral co-operation. In partner countries with working democratic and accountable institutions, budget aid ought to be extended as an instrument of German development co-operation – although this aspect has to be carefully assessed. Links between Financial and Technical Co-operation from Germany ought to be strengthened, while the division of labour and co-operation with other donors ought to be further improved. Here, however, the donor community has to take care that certain countries and sectors are not neglected as "aid orphans". The ongoing process of improving the pro-poor focus in German development co-operation has to be continued and improved.
- Co-operation between the donor countries organised in the OECD Development Assistance Committee and the new donors ought to be improved in order to achieve greater coherence and effectiveness of ODA, also given the new donor geography.
- Commitments to significantly increase ODA have to go hand in hand with corresponding increases in the financing of measures promoting gender equality and enhancing the sta-

tus of women. The share of ODA for these fields of action is of central importance and, in accordance with the recommendations of the UN Expert Group on Financing for Gender Equality, ought to be raised to 10 percent by 2010 and 20 percent by 2015.[18]

- Non-governmental organisations, in particular women's organisations, are important executing agencies of development co-operation and poverty eradication, especially in countries with weakly developed capacities, and they ought to be given special support with substantial funds that can be reckoned with in the long term.

5. Foreign debt: fair arbitration procedures instead of creditors' arbitrariness

Since Monterrey, considerable progress has been made with debt relief in developing countries. The Multilateral Debt Relief Initiative adopted in 2005 has relieved the group of Highly Indebted Poor Countries (HIPC) of a significant share of their foreign debts, thus releasing resources that many poor countries have been able to make use of to increase their expenditure on eradicating poverty. Some non-HIPC countries too, in particular Nigeria and Iraq, have benefited from major debt relief. With its debt transformation programme, the German Federal Government is employing financial co-operation funds to contribute to debt reduction in some countries. Also, with the Debt2Health Programme, with which debts are to be cancelled in return for increases in health spending, funds from debt relief are flowing into multilateral health funds for the first time.

However, that the economic debt indicators are showing better values overall than they did in 2002 is not so much thanks to the limited debt relief measures but to relatively high economic growth and a massive increase in export income in many regions of the South over the last few years. This related first and foremost to the boom in raw materials and agricultural goods whose world market prices have traditionally been subject to considerable fluctuations. Thus any long-term debt sustainability continues to remain unsecured for many developing countries.

Given the above, it appears all the more problematic that structural innovations should have been lacking in debt management so far. The Monterrey Consensus had encouraged the community of states to define clear principles to handle financial crises and consider a new mechanism to regulate debt. The subsequent negotiations over a Sovereign Debt Restructuring Mechanism in the framework of the IMF petered out. Neither were the NGO initiatives to introduce a fair and transparent arbitration procedure implemented.

The Monterrey Consensus had still ignored the existence of a category of illegitimate and despicable debts. Currently, it is receiving hesitant initial recognition by the German Federal Parliament, the German Ministry for Economic Cooperation and Development (BMZ) and the World Bank. Illegitimate debts have considerably contributed to the over-indebtedness of poor countries since the funds have not been employed for productive development purposes or have even been embezzled.[19]

Over the last few years, debt management has become increasingly complex and complicated. Some emerging economies are presenting themselves as new creditors of poor countries. The range of private creditors and the financing instruments they are using has grown considerably. In some cases, so-called vulture-funds are buying up old debts to have full collection enforced through judicial proceedings, thus undermining agreed debt relief. The traditional system of debt management – centring on the IMF and the London and Paris Clubs – is no longer up to date. The introduction of structural innovations giving the right to development and the needs of poverty eradication precedence over debt servicing is more urgently needed than ever nowadays.

18 Financing for Gender Equality and the Empowerment of Women. Report of the Expert Group Meeting, Oslo, 4.–7. September 2007, p. 29, § 107a; http://www.un.org/womenwatch/daw/egm/financing_gender_equality/EGMProzent20ReportProzent20Final.pdf

19 Illegitimate debts include, e.g., debts made by dictators that were taken out without the citizens' consent, with the latter, however, being made responsible for repaying them as taxpayers. So-called development loans that were wasted on pointless large-scale projects, serving de facto as instruments of the creditors to promote foreign trade and investment. And last but not least also debts financing the violation of international law (wars of aggression, torture, annexion of foreign sovereign territory, etc.).

Policy recommendations:

- Bi- and multilateral creditors ought to continue existing debt relief initiatives and extend them to further highly indebted developing countries. In order to prevent over-indebtedness, donor countries ought to opt from the start for grants instead of loans in development co-operation.
- Debt sustainability has to be redefined with a view to the financial requirements of achieving the MDGs.
- In addition to the quantity ("sustainability"), the quality of claims made by creditors vis-à-vis sovereign debtors needs to be checked. Illegitimate claims resulting from loans awarded to dictators or for white elephants must no longer be equated with sensible development financing. The German Federal Government ought to support the discussion that has started on the concept of cancelling illegitimate debts and its applicability within and outside the International Finance Institutions, with Norway serving as a model.
- In order to prevent the illegitimate award of credits in future, the development of legal standards needs to be promoted the criteria of which are gained from the analysis of and assuming of responsibility for existing illegitimate debts. The Eurodad Charta for responsible financing can serve as a model for credit agreements.[20]
- In order to modernise international debt management, a fair and transparent arbitration procedure ought to be introduced that includes all creditors and rules on the level of debt sustainability and the level of debt relief on a non-partisan basis and giving consideration to the right to development and the needs of poverty eradication.

6. World trade and finance system: fair global governance instead of the dominance of the North

Over the last few years, the traditional institutions of the world finance and trade order have lost more and more of their significance. The IMF's entire credit volume dropped from a peak level of 70.5 billion special drawing rights (SDRs) towards the end of 2002 to a mere 9.8 billion SDRs by the end of 2007.[21] The World Bank has lost its supremacy as a project financier in several developing countries and is being faced with an ever growing range of competitors. The WTO is not succeeding in breaking the blockade that has troubled the World Trade Round for years. And the G7/G8 are confronted with the problem that they no longer represent all the world's largest economies nowadays.

The loss of significance has been accompanied and accelerated by a loss of prestige that these institutions have enjoyed in the South. Developing countries are therefore increasingly opting for alternatives. They are protecting themselves from financial crises with a massive accumulation of currency reserves rather than relying on the insurance role of the IMF. In Latin America, new development banks are being established, such as the "Banco del Sur", which have purely regional membership and capital assets. In the trade sector too, several developing countries are opting for regional integration rather than integration in the world market. The reason for the loss of significance and prestige is that the developing countries no longer regard themselves as appropriately represented in the traditional institutions. Moreover, the latter's policy recommendations over the last decades, which had one-sidedly focused on privatisation and deregulation, had disastrous consequences for their development and income distribution.

While the urgent need for a reform of the international financial system has been recognised in the Monterrey Consensus, the recommendations for action remain vague and meagre, above all because the industrialised countries denied a UN conference the mandate to comment on the reform of the International Finance Institutions. They wished to hold the discussion in the executive committees of these institutions – where they preside over a secure majority.

This is why the Monterrey Consensus merely recommends a strengthening of the UN Economic and Social Council (ECOSOC) and better involvement of the developing countries in formulating financial standards and regulations as well as in the decision-making processes of the IMF and the World Bank. Their reform of voting rights has since become a perennial topic. However, the results are meagre and have so far been limited to adjustments of the quota of individual countries, which are of little significance, and quota calculation in general. The crucial breakthrough,

20 EURODAD: Charter on Responsible Finance, Brussels, January 2008: http://www.eurodad.org/uploadedFiles/Whats_New/Reports/Responsible_Financing_Charter.pdf

21 IMF statements: http://www.imf.org/external/np/fin/tad/extcred1.aspx; The exchange rate of a SDR is based on a weighted basket of commodities of the most important world currencies. Applying the status of April 2008, it roughly corresponds to 0.96 euro.

which would create true international finance institutions out of two Northern-dominated institutions with a de facto right of veto for the EU and the USA, has not materialised so far. Today, in an increasingly interdependent world, a fair and effective world finance and world trade order is more important than ever.

Policy recommendations:

- The reform of the right to vote in the IMF and the World Bank has to result in a substantial increase in the influence of the developing countries. In voting, the principle of a double majority ought to apply, in order to give poorer and smaller countries more influence. This would complement the current system of voting rights distribution according to economic performance with the "One Country – One Vote" principle, which is also applied in the UN system, and it would thus be fairly balanced.
- The IMF ought to withdraw from financing development and concentrate on the activity areas of monitoring finance markets, early warning of financial crises and provision of liquidity if there is a threat of a financial crisis.
- Regarding its credits, programmes and policy recommendations, the World Bank should give more consideration to social and environmental impacts as well as to gender equality. This necessitates a corresponding review of credit terms as well as conducting impact analyses in advance. Programmes ought to focus directly on poverty eradication instead of vague hopes of trickle-down effects. Gender justice and the empowerment of women and girls ought to be given special support, and the funding of fossil fuels should be massively reduced in favour of the renewable energies.
- The UN Economic and Social Council (ECOSOC) ought to be substantially strengthened, also to be in a better position to assume steering and supervisory roles vis-à-vis the IMF and the WTO. The UN Member States ought to actively participate in the new Development Cooperation Forum, which has a potential to become a democratically legitimised alternative to the OECD-DAC at global level and with universal membership.
- The United Nations' Committee of Experts on International Cooperation in Tax Matters ought to be elevated to the role of an International Tax Organisation (ITO) with a broad mandate. The ITO ought to set itself the task of developing effective measures against ruinous tax competition and harmful tax evasion. The areas with the greatest need for action are: better exchange of data, greater regulation of offshore centres and greater monitoring of transfer price setting in transnational corporations. In the long term, the international community ought to reach an agreement on minimum tax rates for transnational corporations, capital gains and more substantial private income in order to put a stop to the current race to the bottom.
- Financial stability is a public good that is being jeopardised by excessive speculation. This is why the international financial markets should generally be subjected to stronger democratic control. Speculative activities endangering stability need to be stopped or at least efficiently regulated. The necessary measures to this end are more effective banking supervision, flexibly applicable capital controls, transferring rating agencies to government, stronger regulation of private equity funds and hedge funds and a ban on financial products of a purely speculative nature as well as the introduction of currency transaction and stock exchange taxes.

7. Climate change: additional challenge for development financing

Climate change represents a considerable challenge for development and poverty eradication. So far, the additional costs that it causes have not been considered in the cost calculations of poverty eradication, such as those compiled by the UN Millennium Project. The UN Development Programme (UNDP) states that the annual financial requirement is going to increase to 86 billion US dollars by 2015 – and these are merely the costs of adapting to climate change.[22] In order to avoid its further exacerbation, further additional funds have to be provided if the adaptation costs are not to grow even more.

The current and historical emissions of the industrialised countries represent the chief reason for climate change, which is affecting the poorest countries most severely. And these are the countries that have contributed least to its causes. Thus the industrialised countries bear the chief responsibility for financing adaptation to climate change, also, and in particular, in the poorest countries, where the need for adaptation is greatest. The industrialised countries have committed themselves by International Law in the United Nations Framework Convention on Climate Change (UNFCCC) to provide funds. Such funds have to be regarded as compensation, not as development aid. As yet, the financing deficit is still enormous, and the various small funds in the context of the Climate Framework Convention and other instruments cover just about one percent of the calculated funds required. If swift and effective action fails to materialise, progressive climate change is going to nullify progress made so far in poverty eradication.

The dramatically worsening world food crisis, the serious consequences of climate change for the emerging economies and the developing countries, and the internationally agreed development goals the achievement of which continues to be in the distant future demand a common effort of international organisations, states, civil society and business. The Second World Conference on Financing for Development offers the opportunity to mobilise new resources in the sense of the recommendations that we have submitted to cope with the global challenges. This opportunity has to be made use of.

Policy recommendations:

- The necessary additional funds for adaptation to and mitigation of climate change have to be provided as quickly as possible, for any further delay will only raise costs while jeopardising the achievement of the international development goals. Even if climate-related measures cannot always be clearly separated from the traditional tasks of development co-operation in organisational terms, from a financial angle, the principle of additionality has to apply so that resources are not withdrawn from the traditional tasks. So climate-related measures should not flow into the ODA quota, or alternatively, the ODA quota would have to be raised. The additional funds ought to be administered in transparent climate funds whose secretariats have to render account and are established in the United Nations. In this respect, the Adaptation Fund, which is currently being set up under the Kyoto Protocol, is to be welcomed, since its 16-member committee constitutes an equal representation of all UN regions.
- Innovative financing instruments also have to be introduced to finance adaptation measures and measures to combat global warming in developing countries. For example, emissions rights have to be auctioned off 100-percent, and gains from auctioning must be used to finance the measures additionally necessitated by climate change.

22 Cf. UNDP: Human Development Report 2007. Fighting Climate Change: Human solidarity in a divided world, New York 2007, p. 194; http://hdr.undp.org/en/media/hdr_20072008_en_complete.pdf

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*) Guest members

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Verband Entwicklungspolitik deutscher
Nichtregierungsorganisationen e.V. (VENRO)
Dr. Werner-Schuster-Haus
Kaiserstrasse 201, 53113 Bonn
Germany
Tel.: +49-228-9 46 77 0
Fax: +49-228-9 46 77 99
E-Mail: sekretariat@venro.org
Internet: www.venro.org

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VENRO is the national umbrella organisation of non-governmental organisations (NGO) working on development policy. It has currently 117 German member NGOs which act as responsible for private or church-based development work, emergency relief as well as development education, public relations and lobby work. Via networks of the 16 German counties (Bundesländer), VENRO represents an additional 2000 local development initiatives and NGOs. This positioning paper was developed in association with the VENRO working group International Financial Institutions.

VENRO aims to intensify the commitment of NGOs for eradication of poverty, the realisation of human rights as well as the conservation of natural livelihoods. VENRO

- represents the interests of development NGOs towards political leaders
- strengthens the role of NGOs and civil society in development politics
- advocates for the interests of developing countries and poor populations
- sharpens public awareness of development issues.

Association of German Development NGOs (VENRO)
www.venro.org

Head office:
Dr. Werner-Schuster-Haus
Kaiserstrasse 201, 53113 Bonn
Germany
Tel.: +49-228 9 46 77 0
Fax: +49-228 9 46 77 99
E-Mail: sekretariat@venro.org
Internet: www.venro.org