

STATEMENT



March 2017

More justice in international financial and tax policy

VENRO's demands for the German G20 presidency

Sustainable development in the sense of the 2030 Agenda and of the Paris climate agreement requires stable financial markets and sufficient public funds. They are prerequisites for being able to achieve the global goals such as overcoming hunger and poverty and achieving health, education and gender equality for all people and future generations as well as the protection of the natural foundations of life.

Since the financial crisis of 2008, the Group of 20 (G20) has adopted partly far-reaching regulations for banks and derivatives markets. Nevertheless, the financial market system continues to be crisis-prone, since its fundamental structural weaknesses have still not been addressed. It is therefore cause for concern that the will of some G20 member states for reform appears to be waning. Unfortunately, with its proposals the German government also does not go beyond what has already been decided.

The G20 has also made considerable progress in fighting tax flight and tax avoidance of companies and individuals. But the regulations agreed on are not yet sufficient for consolidating public finances especially in the developing countries in the long term. Moreover, especially poorer countries need comprehensive technical and financial support to implement all measures.

The German government has announced that in the framework of its presidency of the G20, which lasts from December 1, 2016, to November 30, 2017, it will push for measures to stabilise the financial markets, to strengthen the international financial market architecture and to shape international taxation. Moreover, it wants to contribute to improving the investment conditions in the African countries. The "Compacts with Africa" are a focus of the German presidency. They are meant to improve conditions for private investment, in particular in the infrastructure sector. In principle, this initiative is to be

welcomed. As for all measures taken towards a sustainable design of the financial, tax and investment system, here, too, measures must not come at the expense of the poorest and of vulnerable groups and must adhere to socio-ecological and human-rights standards.

In the framework of its G20 presidency, the German government has the opportunity to advocate for a more just and more sustainable international financial and tax system. In particular, at this point it should push for the following measures within the G20:

ENSURING FINANCIAL MARKET STABILITY AND STRENGTHENING THE INTERNATIONAL FINANCIAL ARCHITECTURE

Capital movements: Liberalisation not as a basic condition

The German government wants all G20 states to adopt the OECD Code of Liberalisation of Capital Movements. The Code is one-sidedly oriented towards liberalisation. Particularly developing and emerging countries had great problems with too heavily liberalised capital movements and correspondingly volatile financial flows in recent decades. While some countries are granted some freedom for controls, the restrictions still go too far.

VENRO therefore calls on the German government to

- abandon the attempt to have the G20 adopt the OECD Code of Liberalisation of Capital Movements.

Shadow banking: Further regulation required

The German government wants to advance the implementation of the measures adopted by the G20 for regulating shadow banks. This project is to be welcomed, as it addresses the impending systemic risks posed by the new financial products and the interconnection of banks and shadow banks.

VENRO expects the German government to push in the G20 for

- the shadow banking sector to be regulated and supervised in accordance with the systemic risks it poses. This includes that new financial products are

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reviewed, that risky products are prohibited and that all actors have to hold appropriate securities for the risks they pose.

- the interconnection of banks and shadow banks to be prevented.

Green finance: Making disclosure and minimal standards binding

The German government is continuing the work of the Chinese G20 presidency on green finance. Measures for regulating green bonds and for disclosing climate-related financial risks are to be developed further.

VENRO calls upon the German government to push, in the framework of its G20 presidency, for regulations through which

- climate-related financial risks are bindingly disclosed. This applies above all to products of large and listed companies.
- financial products and financing, whether offered on the capital market or through the banking sector, support the goals of the 2030 Agenda and of the Paris climate agreement. Accordingly, regulations and accountability mechanisms need to be formulated which guarantee this and lay down binding socio-ecological and human-rights standards which also ensure the free, informed and prior consent of those affected.

Financial inclusion: Acting judiciously

The German government plans to further pursue the financial inclusion especially also of poorer people. In principle, improved access to accounts, electronic payment systems and financing options for companies and individuals is welcome. However, it is important that this inclusion occurs sustainably and does not lead to crises. For example, last year the proscription of most cash in order to promote electronic payment systems in India sometimes had catastrophic consequences, in particular for many poor people and marginalised population groups, since many people do not even have an account. Further risks of including all people in the financial sector also must not be disregarded. As the experience with microloans has shown, easier access to loans can quickly lead to excessive debt.

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VENRO expects the German government to advocate for all G20 countries to apply the “Leave no one behind” principle of the 2030 Agenda and to make sure that

- no-one is neglected in financial inclusion, in particular not women and vulnerable groups.
- the financial inclusion of all people into the financial system is carried out judiciously. Where possible, locally appropriate solutions should be chosen in order to ensure that no-one is disadvantaged.

Public debt: Debt relief procedures with binding rules

The German government wants to make an effort to improve public debt sustainability. In addition to public debt, private debt is now also to be a focus. In particular in promoting public-private partnerships (PPPs) and making other public concessions towards private investment, it must be ensured that private companies do not skim the profits while the public sector is left with the unsustainable risks and the possibly resulting future debt. This applies also and in particular to the PPPs in the high-risk infrastructure sector envisaged through the “Compacts for Africa”.

VENRO calls on the German government to advocate for a sustainable approach to public debt in the G20. Accordingly, it should push for at least the following measures to be taken:

- A binding and comprehensive procedure for debt restructuring and relief, as proposed by the UN General Assembly, must be agreed. Debt relief procedures must cover all debt, including debt from public-private partnerships.
- Not only borrowing states, but also lenders should orient themselves by the guidelines for responsible sovereign lending and borrowing that UNCTAD has proposed. A loan cap in certain sectors and a prohibition of particularly risky lending (e.g. in foreign currency) may also be necessary.
- Decisions about debt cancellation must be made by independent entities on the basis of expert assessments that are independent of creditor interests. The basis for this is a binding legal framework for debt restructuring and relief, as proposed by the United Nations (UN). Investor-state lawsuits against measures in debt crises must be excluded.

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SHAPING TAXATION INTERNATIONALLY FAIR AND RELIABLE

Corporate tax avoidance: Implement and expand measures

The G20 decisions on corporate tax avoidance (OECD project on base erosion and profit shifting, BEPS) lead *inter alia* to improved corporate transparency, through country-specific reports.

VENRO expects the German government to advocate for the G20 countries to

- further increase this transparency by exchanging their country-specific reports with all affected states and moreover publishing the data therein in order to allow governments and the population to review the tax payments.

Tax information: Carry out exchanges even unilaterally

The G20 rightly made the BEPS project's automatic exchange of tax information the international standard in the fight against tax evasion. It is to be implemented by nearly 100 states by 2017 or 2018. However, the extent of the information exchanged is as yet undetermined. There is a need for clarification in this regard, in particular with respect to some tax havens such as Switzerland.

VENRO calls on the German government to push the G20 countries to

- lead by example and comprehensively exchange the important tax information. As far as poorer states are not yet able to provide data for lack of capacity, they should be unilaterally provided with the most important tax information.

Beneficial owners: Creating transparency

The identification of effective owners ("beneficial owners") of companies, foundations and investment trusts remains a centrepiece of the fight against tax evasion, money laundering and corruption. The Federal Ministry of Finance made a notable proposal at the national level in late 2016 and plans to disclose the data in a register.

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VENRO calls on the German government to urge all G20 countries and the EU to

- introduce public registers with the beneficial owners of companies, foundations, trusts and other legal constructs.

Tax competition: High time to prevent it

Further measures are necessary to eliminate harmful special taxes that fuel international tax competition. The G20's decision to invite all states to participate in the BEPS project ("inclusive framework") is to be welcomed in principle. But it should not hide the fact that the poorer countries particularly affected by the measures were insufficiently involved in the entire BEPS process.

VENRO expects the German government to push, in the framework of its presidency in the G20, for

- international tax competition to be prevented and agreement to be reached that companies are subject to minimum taxation. For transnational corporations, a consolidated corporate tax with globally consolidated profits and an apportionment formula based on revenues, employees and physical assets could be introduced.
- the poorer countries to be comprehensively involved in shaping the implementation of the BEPS measures in the "inclusive framework". In the medium term, the BEPS project and the work on international tax standards should be brought under the auspices of the UN.

IMPROVING INVESTMENT CONDITIONS FOR ALL

Tax incentives and concessions: Preventing tax competition

Tax incentives and other concessions intended to attract investors should be eschewed. They further fuel the destructive tax competition among the countries.

VENRO expects the German government to push in the G20 for

- international treaties on minimum standards for investment promotion that eliminate the tax incentives that are harmful for public revenues.

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Private investment: Not at the expense of the poorest

Profit-oriented private and institutional investors should adjust their activities to the national development strategies and adhere to minimum socio-ecological and human-rights standards in order to meet the respective needs of the populations.

VENRO expects the German government to push in the G20 for

- private investment in infrastructure projects not to occur at the expense of the poorest and of vulnerable groups or to compete with investment in basic social services.

Financing: Securing it nationally and locally

Sustainable investments conducive to development must take into account the interests the people. International investments can only partially fulfil this requirement. Moreover, the strong focus on loan-financed international private investment involves many risks, as the financial crises of recent decades have shown time and again.

VENRO calls on the German government to push in the G20 for

- national and local financial systems like public savings banks and cooperative banks to be established for sustainably financing private investment.

IMPRINT

Published by:

Association of German Development and Humanitarian Aid NGOs (VENRO)

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Berlin, March 2017

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Final editing:

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Supported by Engagement Global on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ)