

2008

## **VENRO Declaration on the global financial crisis**

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#### **The global financial crisis as an opportunity to reorganise the international financial system**

Currently, the global financial crisis dominates the political agenda. Daily new reports on banks that are hard up, rescue packages worth billions, probable stagnation or even recession threatening to grip all states and the danger of massive job losses are making people uncertain and demand convincing concepts and answers from both politics and economics. As the umbrella association of German development non-governmental organisations, VENRO is above all concerned with the issue of the impacts that the financial crisis is going to have on the newly emerging economies and the developing countries, and among these, above all, what the effects will be for the multitude of people living in poverty today.

#### **Impact of the financial crisis on newly emerging economies and developing countries**

The financial crisis is hitting the newly emerging economies and the developing countries at a time when they are already in a tense situation owing to increased food prices and energy costs. Capital to invest in the agricultural sector and for food programmes is now becoming even scarcer, which is threatening to prevent coping with the world food crisis.

The decline in prices of oil and raw materials is going to have both positive and negative consequences for individual countries. While exporting countries will have to come to terms with revenue losses, it will take the strain off energy importers. But even though crude oil prices and the agricultural produce rates are hitting rock bottom, this helps neither the smallholders in developing countries nor to consumers in industrialised countries; the food industry is a beneficiary of the crisis.

Just how hard the financial crisis is going to hit the newly emerging economies and the developing countries cannot be assessed yet. However, the first warning signals in some of the countries highly involved in the world market can hardly be overlooked: sudden falls in prices at the stock exchanges and devaluation pressure on the currencies of several countries. States like Pakistan, Ukraine and Argentina are facing imminent bankruptcy.

Some countries are already affected by a lull in the flow of

fresh capital or even by an active drain of capital. In mid-October, the Indian finance minister, Shri Palahiappan Chidambaram, complained that 15 billion US dollars had left the country within the previous two weeks. The results of these capital drains are liquidity bottlenecks, rising financing costs and pressure of devaluation on the currencies. Rising costs will inevitably lead to a decline in investment, resulting in ebbing economic growth. Thus there is a danger that fewer resources will be available to mobilise for the eradication of poverty.

Drops in production and flagging demand in the industrialised countries could lead to a severe decline in exports and thus to weakened growth in the developing countries. This would imply that fewer resources would be available for poverty eradication and the economic development of the developing countries.

Another effect that the financial crisis is having is a decline in the transfer of finance from industrialised countries to developing countries owing to a drop in transfers by migrants, which represent an important source of foreign exchange for many poorer countries. Already, transfers from the USA to Mexico, El Salvador and Honduras have sunk.

The suspected developments described above give rise to the concern that, in the course of the crisis, poverty could increase and further progress towards achieving the Millennium Development Goals (MDGs) could be hampered and prevented – in a nutshell: the developing countries are going to suffer from a crisis that they themselves have not caused.

## Impacts of the financial crisis on development co-operation

Even if budgetary appropriations for development co-operation were to be raised next year, the danger would still persist of pressure on the public budgets growing owing to the expensive rescue packages for the banks and, as a result, of budgetary appropriations for development co-operation once again dropping. A decline in funds for development co-operation world-wide by 740 million dollars in comparison to 2006 was already recorded in 2007. This negative trend needs to be reversed. Saving banks must not be at the expense of the poor!

If it is possible to put up a “protective screen” worth billions in next to no time, then – given the appropriate political determination – it must also be possible to make a corresponding political effort to contain the human and political disaster of world-wide hunger and extreme poverty. The intensive efforts to save the international finance markets give rise to the question why, given the scandal of more than a third of the world population living in extreme poverty, development should merely be attributed a “petitioner position” (for more resources). Rather, the intensive global engagement of the heads of states and governments suggests that the argument that there are not enough funds is unfounded.

At the forthcoming Financing for Development Conference in Doha, development politicians ought to insist that the fulfilment of the pledges made for years to substantially increase financial efforts to eradicate poverty on the part of the industrialised countries at last become visible.

Finance experts, politicians and everyone worried about his savings and provision for old age assess in unison that the crisis of the international finance markets is an acute threat to the system. However, world-wide extreme poverty is just as much of a drastic threat to the system, even though it may progress in a creeping manner. Just in case poverty resulting in the deaths of 24,000 people a day is not enough for the mobilisation of international political determination to ensure a resolute and sincere increased effort to eradicate poverty, the threatening consequences of a creeping destabilisation of the system can be referred to: migration from developing countries in which disastrous social and economic conditions are ruling out any perspective for even more people to stay in their home countries as well as a world-wide increase in both inner- and inter-state violence for ever scarcer resources and prospects for a decent and better life. Both politically and morally, the demands for a just distribution of incomes and equal opportunities for all people, which have always been justified ethically, appear even more urgent given the rescue packages worth millions to save the global finance markets.

## The crisis as an opportunity

For decades, the industrialised countries have imposed the model of a state reduced to a low level of influence on the developing countries and the newly emerging economies. Given the obvious deficits in regulating the international finance markets, however, this neoliberal model has begun to falter. But the current collapse of the international finance markets, malpractice on the market and market failure must not lead to the rich states determining on their own the way out of the crisis, which is increasingly also affecting the developing countries and the newly emerging economies. The involvement of the developing countries and the newly emerging economies is absolutely essential to solve the world-wide crisis and has to lead to their growing participation and co-determination in the measures needed to cope with the crisis, also beyond the circle of the G20 countries. In this sense, the global financial crisis offers an opportunity to redevelop the world’s power policy structures and adapt them to reality: in the sense that they would do justice to the power, economic and finance policy positions of the newly emerging economies that have evolved. The now pending reform of the international finance system has to head in a direction that is conducive to development. The new US administration offers an opportunity to establish a new, collaborative form of global multilateral co-operation. In this new constellation, the newly emerging economies and other rich countries could become involved by offering support, e.g. with the aid of the enormous Chinese foreign exchange reserves.

## Demands on the German Federal Government

Given their socio-economic heterogeneity, the developing countries are going to be affected in different ways by the financial crisis. Depending on the degree of their integration in the world market and the world finance system, they are pursuing different interests. However, they do have one thing in common: The poorer sections of the population in the newly emerging economies and the developing countries are particularly vulnerable owing to the consequences of the financial crisis.

This is why it is necessary to bear the negative consequences of the global financial crisis for the people in the developing countries in mind and counter them in all currently discussed measures to cope with the crisis.

### We call on the Federal Government to

- speak up for the finance market and economic crisis not to jeopardise finance for development and poverty eradication; the 0.7% pledge has to be met on schedule;
- make an effort to contribute to a successful outcome of the Doha Conference on Financing for Development, which in

particular has to comprise the mobilisation of additional resources for development and poverty eradication and an agreement on effective measures against flight of capital and tax evasion;

- speak up for a new international finance architecture that has to be developed democratically, with appropriate involvement of the newly emerging economies and the developing countries, and which has to pursue the goal of re-orienting the development of the finance markets. The global finance markets must not counteract the global development goals and, above all, poverty eradication;
- give top priority to creating more transparency and accountability as a crucial prerequisite to regain public confidence in the economy and politics and speak up in this sense for a complete and transparent supervisory framework that has been co-ordinated world-wide for all institutions and products of the finance sector, especially for hedge funds and rating agencies;
- develop a comprehensive regulatory standard for all financial products and urge for its swift international implementation in order to check speculation; especially at international level, effective measures need to be taken against speculating with raw materials and food;
- generally prevent short sales and financial products traded outside stock exchanges;
- establish an authorisation test for new financial products as well as a higher equity capital base for banks and businesses and the entering of financial derivatives in the balance sheet;

- measures to abolish tax havens (offshore financial centres/OFCs) in order to prevent the evasion of tax and finance regulation, money laundering and similar illegal activities;
- speak up for the development of an open, predictable and non-discriminatory trade and finance system supported by regulations and with an appropriate involvement of the developing countries (as called for in MDG 8);
- consistently take criminal law action in the framework of the existing legal provision and regulations in cases of corruption, the violation of supervising duties, etc.;
- campaign for newly emerging economies and developing countries to be permitted to protect and develop their nascent markets – including the stock markets – in a suitable manner;
- speak up at international level for a taxation of all types of short-term financial transactions (incl. foreign exchange transactions);
- campaign for a sweeping reform of the international finance institutions IMF and World Bank. The IMF should only play a major role in dealing with crises if it fundamentally changes its policies and is democratised in its structures in a manner that will allow newly emerging economies and developing countries to gain influence;
- to speak up for a general solution to the debt problem that has to comprise a fair and transparent arbitration procedure and the complete cancellation of illegitimate debts.

Status: 21.11.2008

## Imprint

### **Published by:**

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

**Authors:** Claus Körting, Leonie Otten

**Editors:** Dr. Claudia Warning, Prof. Dr. h.c. Christa Randzio-Plath, Ulrich Post, Heike Spielmans

**Layout:** Kava-Design, Bonn, [www.kava-design.de](http://www.kava-design.de)

Bonn, November 2008