



**Swiss Coalition
of Development
Organizations**



AGEZ/ Swiss Coalition/ VENRO

NGO Policy Document on the

UN Conference “Financing for Development” (FfD)

in Monterrey/Mexico from the 18th – 22nd March 2002

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Introduction

The NGOs organised in the NGO associations of Germany (Association of German Development NGOs/ VENRO), Austria (Development Co-operation Association/ AGEZ) and Switzerland (Swissaid - Catholic Lenten Fund - Bread for All – Helvetas - Caritas/ Swiss Coalition of Development Organisations) support the UN’s ambitious bid to organise a world conference with an extensive agenda to discuss all issues pertaining to development financing over the next decade. We believe it is paramount that this conference resolve a plan of action with concrete commitments for industrialised and developing countries and adopt suitable instruments to monitor the implementation of these commitments.

Our considerations and demands are guided by the goals of reducing the number of people living in absolute poverty by half by 2015 and also achieving further important progress with respect to socially and ecologically sustainable development by this point. These goals were formulated by the OECD’s Development Aid Committee (DAC) and were supported by the entire community of states at the UN’s Millennium Summit in September 2000. In approving its “ Program of Action 2015” on the 4th April 2001, the German Federal Government emphatically adopted these “International Development Goals”.

We therefore call upon the governments of Germany, Austria and Switzerland to adopt an active and constructive role in pursuing the Millennium Goals in the preparatory process for the FfD Conference. In the case of Germany and Austria, this would also apply to the formation of a position within the EU. In consequence, the governments would have to provide a considerably greater degree of support in development co-operation to the efforts the countries in the South are making themselves than they did in the nineties. Second, they would have to contribute to remedying undesirable developments and governance deficits in the international economic and finance system by significantly stepping up their involvement in the area of “Global Structural Policy”.

From an NGO angle, it generally has to be stressed that while raising additional funds to finance development is the crucial goal, providing “more money” is in fact only going part of the way. What is equally necessary is to work out new approaches in development co-operation so that these funds can be applied appropriately. In this context, we consider the increased integration of civil society as a decisive factor.

Development processes can only yield a sustainable effect if they are embedded in suitable national and international framework conditions. If the international financing institutions do not reject the goals embodied in the “Washington Consensus” while simultaneously focusing on a more regulatory role of government and supra-government institutions in the sense of a “Global Governance”, then improved financing for development will probably only result in

the emergence of new global inequality rather than in socially balanced, participatory and ecologically sustainable development for all people in all regions of the world.

1. Mobilising domestic financial resources

1.1 Demand:

In order to finance their development strategies on a lasting basis and with their own resources, the countries of the South have to establish effective and socially balanced fiscal systems. In this context, it must be ensured that tax legislation does not destroy existing self-help mechanisms in the informal sector, which would only contribute to a further impoverishment of the population.

Reasons:

Developing countries frequently do not have the resources required to establish an effective and socially balanced fiscal system. So tariffs and excise tax, which above all burden low-income groups, frequently represent the chief source of income (in addition to ODA) for their government budget. Since assets or business profits are only insufficiently taxed, the tax share of the overall gross national product in developing countries is usually significantly lower than it is in the industrialised countries. In order to enable the developing countries to develop by relying on their own resources, the funds existing locally have to be made available to combat poverty by consistent taxation. Such taxation can be made more acceptable by orienting it on the economic power of those to be taxed, administering it efficiently and its allowing for a minimum of loopholes. The more just a fiscal system is, i.e. the more it is oriented on social balance and the promotion of equal opportunities, the greater the likelihood will be that it is accepted by the majority of the population. The industrialised countries can contribute to this goal by extending their collaborative effort regarding advice and technical assistance in establishing fiscal systems at national and local level. However, care has to be taken that tax legislation does not destroy self-help mechanisms in the informal sector, since this would only add to further impoverishment.

1.2 Demand

In order to prevent tax evasion and tax competition, an international framework has to be created that is binding for all nations. As a preparatory step, an “International Tax Organisation (ITO)” must be established at UN level that ought to set itself the initial task of improving the exchange of information and the development of common standards. The long-term goal is the elimination of all practice, above all tax havens, that undermines an efficient and socially balanced taxation of income and assets in other countries.

Reason:

The British NGO Oxfam¹ puts the losses that developing countries suffer through tax evasion by absconding, international tax competition and damaging fiscal practices at 50 billion dollars, which is exactly the amount that all OECD states together raise in Official Development Assistance (ODA). It is above all the Offshore Centres (OFC) that literally invite people to engage in tax evasion. Their assets total an estimated 6,000 billion dollars, which is a third of the gross national product world-wide. According to an OECD report of

¹ Oxfam, Tax Havens: Releasing the Hidden Billions for Poverty Eradication, Oxford, 2000

June 2000¹), there are a total of 35 tax havens world-wide, mainly in the Caribbean (e.g. Aruba, Virgin Islands, St. Vincent and the Grenadines), but also in Europe (e.g. Andorra, Gibraltar, Liechtenstein and Monaco). 13 of the total of 35 tax havens are dependencies of OECD states (above all the United Kingdom). Tax havens are damaging to the other states both by promoting tax evasion and tax loopholes and by facilitating criminal activities (e.g. money laundering). Alone 35 billion dollars is denied the developing countries because, for reasons of competition for Foreign Direct Investment, they levy lower capital gain taxes than the 35% that is commonplace in the OECD countries. Both in the developing countries and in most of the industrialised countries, a world-wide harmonising of taxation of business profits and capital gains as well as the introduction of obligatory minimum tax rates could significantly mitigate the crisis that government budgets are in, thus representing a crucial precondition for the achievement of the UN Millennium goals by 2015.

1.3 Demand:

Access of poor sections of the population, in particular the rural population and people in urban slums, to capital is crucial to ensuring that development processes have a broad impact. In order to enable poor and socially excluded people to participate in development processes as well, existing support for microcredit programmes ought to be considerably extended.

Reasons:

Microcredit systems are designed to enable poor sections of the population that are without access to the formal finance sector, such as the rural population and the people in the urban slums, to escape misery and poverty by investing in their own small enterprises and peasant farms. According to the FAO² these systems were used by 21 million people world-wide in 1999, and twelve million of their borrowers even belong to the group of the extremely poor, who are forced to live on less than a dollar a day. Around 70 percent of them are women who often have to earn a living for the whole family. The funds allocated by the microcredit programmes may look modest in terms of their volume. However, their significance in the respective framework conditions as regards the self-help of poor and disadvantaged sections of the population – particularly with a view to gender issues – should not be underestimated. The setting up of savings and credit groups that are located below the threshold of a complete integration of the borrowers in market activities and that are mainly run by NGOs ought to be given more emphasis in official development programmes. All microcredit systems ought to aim at being integrated into the rest of a respective country's banking and finance sector in the long run. Depending on the different contexts however, different interest rates ought to be established. Governments in developing countries can support this process by seeing to it that the necessary legal framework is in place and by promoting the development of the capital market in their own country.

1.4 Demand:

The governments of developing and industrialised countries have to step up their efforts to combat corruption and misappropriation of public funds. At UN level, suitable framework conditions (e.g. conventions on combating corruption and on repatriating misappropriated public funds) are to be designed to support the process started in the context of the OECD.

¹ OECD: Towards Global Tax Co-operation. Report to the 2000 Ministerial Council Meeting on Recommendations by the Committee on Fiscal Affairs, Paris 26.6.2000

² FAO, The State of Food and Agriculture 2000

Reasons:

Corruption is rightfully regarded as an example par excellence of the misappropriation of public (and private) funds, and therefore as a serious obstacle to development. However, corruption cannot be combated by conditionality in development co-operation alone. This is all the more the case since the issue of credibility arises here. After all, the industrialised nations have been rocked by corruption scandals again and again. While, for example, Switzerland (12th position) and Austria (15th position) were given comparatively good ratings in the corruption identification index published by “Transparency International” towards the end of June, Germany is only at position 21 out of a total of 91 states that are covered. It has above all dropped by six positions since 1999 owing to scandals in party financing and the award of public construction orders.

The promotion of democracy is essential to improve control of the use of public funds within society in developing countries or to establish it in the first place. Only where rule is exercised in the interest of the majority of the population (while respecting the rights of minorities) can there be any mention of good governance and genuine democracy. However, the implementation of good governance in the developing countries has to be supported and accompanied by suitable international framework conditions. As a continuation of preliminary work by the OECD, an International Convention on Combating Corruption ought to be resolved at UN level that will make both active and passive bribery punishable. At national level, there should be a legal ban on making bribes tax-deductible (as costs or profit-reducing expenses). Also, a UN Convention for repatriation of misappropriated public funds ought to be agreed so that money that dictators or corrupt politicians have transferred to overseas banks can once again be made available to development. And developing countries have to be urged not to act as tax havens and trafficking centres for criminal capital flows. They need support to abstain from this practice. In its latest report of the 22nd June 2001, the OECD’s “Financial Action Task Force on Money Laundering” (FATF) referred to a total of 17 countries and territories not showing willingness to co-operate in the international campaign against money laundering. With the exception of Russia, Hungary and Israel, all the countries of this group are developing countries.

2. Foreign investments and other private capital flows

2.1 Demand:

Suitable international and national framework conditions are required to ensure that Foreign Direct Investment (FDI) can benefit development. A forum ought to be set up at UN level to this end with the aim of preparing a set of regulations defining minimum requirements for FDI, portfolio investments, etc.

Reasons:

There are a multitude of ways in which Foreign Direct Investment can represent a sensible supplement to ODA. But they cannot replace it. Since they are always associated with an anticipation of profits, they will only flow to a very limited extent to the poor and the poorest countries and into sectors that are important to combating poverty, such as education and health. Moreover, there is only a limited scope for attracting direct investment by further liberalisation steps. Although the FDI flows to the developing countries did rise slightly to 240 million dollars last year according to UNCTAD’s World Investment Report 2001¹ at just

¹ cf. UNCTAD press releases of 18th September 2001 on the World Investment Report 2001

18.9%, their share of FDI raised world-wide dropped to the lowest value since 1990. UNCTAD is reckoning with a sharp decline in direct investment world-wide in 2001 that will also make the level of FDI flows to the developing countries drop to 225 billion dollars. Although African governments have introduced around 30 amendments of laws over the last few years in order to enhance attractiveness for foreign investors, the continent's share in foreign direct investment dropped from around 2% to less than 1%.

Not every type of foreign investment is of equal value from a development policy angle. Portfolio investments, which as a rule amount to the purchase of shares by foreigners at local stock exchanges, tend to be dubious in terms of development policy goals. This also applies to mergers and take-overs of existing companies, which, for example, accounted for 29% of investment in developing countries¹. What is above all interesting in terms of development policy is the so-called greenfield investments, i.e. the construction of new factories, involving a genuine transfer of capital, machines, technology and know-how as well as with local investment in training and infrastructure. As a rule, the lower the environmental impact and the more good jobs are created on a lasting basis, tax is paid and foreign currency is generated, the greater the effects of foreign investment will be in terms of sustainable development. An international set of rules for FDI ought to contain such social and ecological criteria as well as regulations limiting the repatriation of profits and the use of local resources.

The NGOs oppose attempts made by the industrialised countries to establish inside the framework of the WTO a new version of the failed MAI concept via GATS (General Agreement on Trade in Services) that would give investors a maximum of rights without corresponding social and ecological commitments.

2.2 Demand:

Moves made by private industry towards a voluntary commitment to socially and ecologically responsible conduct in developing countries (Codes of Conduct) are a step in the right direction. But they are far from sufficient. What is crucial to the credibility of such codes of conduct is their external monitoring by staff and external specialists. Trades unions and other organisations in civil society ought to be given the opportunity to verify monitoring results.

Reasons:

In anticipation of a UN set of guidelines, voluntary initiatives on the part of private industry, such as codes of conduct, company guidelines, etc., can already make an important contribution to sustainable development today. However, they are no substitute for national, European and international legal provisions or for regulations that would be binding for all companies. Such voluntary sets of regulations above all make sense if their content goes beyond the core labour standards set out in the respective ILO conventions and the standards of the OECD Guidelines for Multinational Enterprises that were reformulated in 2000². If standards regarding social human rights, industrial safety and health protection regulations, environmental compatibility and how natural resources are used are observed, foreign companies can set an influential example for developments not only in industry but also in society. What is important for voluntary codes of conduct is that they are observed at all organisational levels and throughout the entire production chain. This aspect is also stressed

¹ in absolute terms: 69.7 billions of 240 billion dollars, UNCTAD WIR 2001

² cf. OECD Council of Ministers Declaration of June 27th 2000

in a Green Paper issued by the European Commission on Corporate Social Responsibility¹. It is also important that these rules are developed in a clear and straightforward way, and that they are implemented and monitored correctly, also in the framework of a continuous dialogue to be held with staff and local communities as well as with representatives of organised civil society. Compulsory public disclosure for companies, e.g. in the shape of annual reports on their activities in all countries in which they are operating or hold significant investments, would represent a useful supplement to such voluntary codes.

Nowadays, a large proportion of FDI flows into Offshore Centres and Free Production Zones in which environmental, labour and tax norms are valid that are miles away from international standards. Companies acting in a socially responsible and environmentally compatible way ought to break off their business relations with firms located in such regions.

3. Trade

3.1 Demand:

In order to ensure that the developing countries can increase their export revenue, the markets of the industrialised nations need to be further opened up. Exports from the Low-Income Countries (LICs) and geographically disadvantaged areas ought to be exempted completely from customs and quota, as has already been introduced (with certain exceptions) by the EU for the LDCs as from March 2001. Voluntary initiatives of the industrialised nations to improve access to markets for all developing countries (such as the GSP) ought to be integrated in the WTO's set of regulations. The capacity to trade of developing countries has to be given efficient support in the shape of suitable technical co-operation measures. However, the developing countries also have to be conceded the right to determine their respective agricultural policy themselves in the area of conflict between export orientation and the enhancement of food self-sufficiency capacities.

Reasons:

The World Bank has calculated that, owing to the escalation of customs and the import restrictions of the industrialised nations which have continued to be in place after the creation of the WTO, the developing countries lose around 100 million dollars a year in potential export revenue. The agricultural and textiles sector is particularly affected. The EU responded to this problem this year, and, as from March 2001, via its General Preference System, it has at least granted the poorest countries (LDCs) customs and quota free access to the EU market for almost all of their products (except for sugar, rice and bananas). Owing to these exceptions and the small extent of concessions on the part of the EU, the so-called "Everything but arms" Initiative (EBA) has always been criticised by NGOs as a completely insufficient move. However, World Bank calculations demonstrate that the LDCs could achieve additional export revenue to the tune of around three million dollars if all industrialised nations were to guarantee genuinely unrestricted market access for LDC products. This would at least represent a certain compensation for the decline in ODA finance that has been going on for years. The draft of the facilitator Mauricio Escanero issued in mid-September 2001 of a possible final declaration of the FfD Conference demands that all industrialised countries initiate immediate measures to ensure complete market access both for the other low-income countries as well as the small island developing states (SID) and the landlocked developing

¹ Commission of the European Communities, Green Paper: Promoting a European framework for Corporate Social Responsibility, Brussels, 18.7.2001, COM(2001)366 final

countries. We call on the industrialised nations to implement this recommendation before the end of 2002.

However, what is problematic with the GSP of the EU and similar systems of other industrialised nations is that they only represent unilateral, voluntary concessions and can be withdrawn at any moment. In order to achieve more legal security for the exporting countries of the South, the GSP systems ought to be based on a contractual foundation and integrated into the WTO system of regulations.

Opening up the markets in the North does not automatically result in significant increases in export revenue in the countries of the South. For owing to a lack of technical and staff capacities, many developing countries are virtually unable to make use of their theoretical exporting prospects. However, the consequence to draw from this must not be that of the industrialised countries, in the course of ill-considered liberalisation, once again abolishing or restricting all regulations established so far on health and consumer protection as so-called “non-tariff trade obstacles”. Rather, with a view to sustainable development world-wide, the countries of the South have to be empowered to observe these standards for export and also adopt them step by step for local production.

What is also exemplary for technical assistance is supporting the establishment of export credit insurance in the countries of the South that they themselves would be in charge of, such as the African Trade Insurance Agency set up in Kampala on 20th August 2001 by Lloyds/London and supported by the World Bank.

Generally, with all measures to promote more involvement in world trade, care should be taken that orienting production on exports should not result in a restriction of agricultural production for the domestic market and a worsening of the supply situation for the indigenous population. Setting up a special Food Box in the agricultural agreement of the WTO could give developing countries the opportunity to protect their local staple food production against liberalisation measures.

3.2 Demand:

In the framework of the forthcoming WTO negotiations protective rights for the weaker economies (special and differential treatment) need to be established more firmly in the WTO’s set of regulations. The TRIPS agreement has to be reformulated so as to prevent it from resulting in a further destruction of traditional social and economic structures and the ecological balance and a further outflow of capital from the developing countries in the shape of licence fees.

Reasons:

While a greater opening up of the markets in the North is in the interest of sustainable world-wide development, the incomparably weaker economies of the South continue to require protective rights that prevent the development of their own industries by and large from being hampered by their industrially more advanced competitors in the North. Therefore, the rules of the WTO have to be changed with a view to making an exemption from reciprocity in liberalisation commitments an obligatory rule of the WTO system rather than an exception to its rules.

One fundamental amendment of the WTO rules is also urgently required in the area of intellectual property rights. The paramount task is a review of the TRIPS agreement in order

to protect the developing countries against further bio-piracy, and to guarantee them – especially women and indigenous communities – an appropriate and just participation in the proceeds from the exploitation of biodiversity, as is pledged in the UN Biodiversity Convention. What is equally important is that the farmers' traditional rights are respected and the livelihood and health of the populations in the developing countries is given priority. In this context, it is crucial for the area of financing development that capital from developing countries does not flow out via the payment of licence fees for seed, life-supporting medicaments, etc. Here, voluntary agreements with industry (as is the case, for example, with AIDS medicaments with several pharmaceutical companies) are not sufficient.

3.3 Demand:

Basic commodities are still the most important export item for most developing countries. In order to at least provide for a partial compensation for the dramatic drop in prices for many of these raw materials (e.g. coffee, cocoa) while energy (crude oil and natural gas) and food (wheat) prices have been increasing simultaneously, comprehensive and lasting compensatory mechanisms have to be developed that go beyond the Compensatory Financing Facility (CFF) recently set up by the IMF. At the same time, the Marrakesh Decision on the Least Developed and Net Food-Importing Developing Countries should at last be implemented.

Reasons:

Over the last few years, the ever sharper competition for import revenue has led to a dramatic decline in world market prices for raw materials such as coffee or cocoa. Not only does sinking export revenue put a severe strain on the government budgets of the producing countries, but it also exacerbates the already existing social problems in these regions. In Central America or East Africa, the drop in raw coffee prices to its lowest level for 30 years has resulted in the dismissal of hundreds of thousands of workers, the impoverishment of peasants and an increase in poverty. In other regions too, the drop in prices for basic commodities and the simultaneous increase in prices for many imported goods (above all crude oil) has resulted in a worsening of the commodity terms of trade, i.e. purchasing power in foreign trade, by up to 10% for some countries (e.g. Ghana). This development also calls the success of the HIPC initiative into question. In order to counteract it, we call on UNCTAD to take suitable steps both with regard to voluntary self-restriction of production and the establishment of appropriate compensatory mechanisms, e.g. the setting up of an international compensation fund to make up for voluntary restrictions of production in coffee-growing, as suggested by British NGOs¹. Compensation funds of this kind also ought to contribute to a diversification of production and to the development of processing industries in order to avoid that the developing countries affected remain pinned down to their role as exporters of basic commodities in the coming years and decades.

The Marrakesh Decision in the WTO Agreement on Agriculture (Decision on measures concerning the possible negative effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries) guarantees the developing countries that are reliant on food imports a compensation for increases in world market prices owing to the contract itself. For example, compensation could be paid for higher grain import prices if these increases are due to the GATT regulations. The countries concerned have been waiting for the implementation of this commitment since 1994.

¹ Oxfam, Bitter Coffee: How the Poor are Paying for the Slump in Coffee Prices, Oxford, 16.5.2001

3.4 Demand:

Products from the area of Fair Trade should generally be given access to all markets free of tariffs and quotas. The industrialised nations are called upon to give preference to products in government procurement that meet the Fair Trade social and ecological standards. The sets of regulations on Government Public Procurement of the WTO, the EU and the other industrialised countries ought to be amended correspondingly.

Reasons:

For more than 30 years, the Fair Trade movement has been calling for fair world trade structures in the interest of the small-scale producers involved in the countries of the South. Fair Trade organisations are currently campaigning in most of the countries of the EU, Switzerland, Norway, Canada, Japan and the USA. Standards for Fair Trade seals of approval have been established for coffee, tea, cocoa, sugar, chocolate, honey, flowers, bananas and orange juice made out of concentrate. By favouring the import of Fair Trade products, economically and socially weak producers in the developing countries are directly supported and an efficient and sustainable contribution to combating poverty is made.

Giving preference to Fair Trade products in government procurement can result in a considerable increase in imports from fair trade. Moreover, it can set an example to other areas of industry. In order to achieve such preference, the respective international sets of regulations have to be amended. For example, we are currently campaigning for the establishment of social and ecological criteria in the new EU procurement guidelines for the public sector that are to be passed on the 26th November 2001.

4. The future of Official Development Assistance

4.1 Demand:

The international agreement that has been in existence for three decades according to which the industrialised countries provide 0.7% of their gross national product to support the developing countries ought to be established by contract. This also applies to the agreement reached for the first time at the UN LDC Conference in 1981 that a fixed share of this that would correspond to at least 0.15% of GNP be made available to the poorest countries. A fixed schedule (by 2010 at the latest) ought to be agreed on for the implementation of these targets.

In addition to the quantity of assistance, its quality also has to be raised, for example by a clear orientation on the 2015 goals as well as better co-ordination among donors.

In order to achieve a greater acceptance of the 2015 goals among the citizens of the OECD countries, an international public awareness campaign ought to be carried out by the United Nations and the national governments from 2002 to 2005.

Reasons:

The principle need to boost development processes in the economically weak countries of Africa, Asia, Latin America, eastern, central and southern Europe and in the areas of the former Soviet Union by providing external funds is undisputed. The rich countries ought to provide 0.7% of their gross national product (GNP) to this end. Out of this money, as was once again agreed at the LDC III Conference in Brussels in May 2001, a share of 0.15 to 0.20% of GNP ought to be provided to the poorest countries. These agreements have been emphasised again and again. At almost all of the development conferences over the last few

years, the governments involved have either explicitly or implicitly pledged their commitment to this goal.

Neither is the significance of public funds for development co-operation in the least developed countries in particular diminishing in the light of growing capital flows in the shape of foreign direct investment. One of the reasons for this is that while more money really is flowing into the countries of the South, it is being concentrated almost exclusively on the economically more successful countries or sectors. In contrast, the large capital flows are, to a large extent, bypassing precisely those countries that need them most. It is therefore all the more important that more public funds are made available to them so that they can put poverty eradication measures into practice and create better conditions for private investment.

In spite of a considerable degree of agreement in general, however, the concrete efforts of the OECD states have since fallen far behind the original promises and expectations. Developments show a strong opposite trend.

While the share of funds for Official Development Assistance (ODA) of total economic activity (gross national product = GNP) of the OECD states in 1990 was still at 0.33%, it had dropped to an average of 0.22% in 2000. Denmark, with its GNP share of 1.06%, demonstrates the highest development aid effort, while at 0.1%, the USA shows the lowest performance. Measured in absolute numbers, it is at position 2, behind Japan, among the donor countries. In the German Federal Republic, the development aid share of GNP dropped from 0.42% to 0.27% from 1990 to 2000, while that of Austria was slightly lower, at 0.25%, in 2000. Switzerland could still boast 0.34%.

In its report published on 28th June 2001, a High-Level Panel that UN Secretary-general Kofi Annan had appointed to prepare the Financing for Development Conference and that was headed by former Mexican President Ernesto Zedillo puts the additional costs required to achieve the 2015 International Development Goals at 50 billion dollars a year. This proposal amounts to a doubling of the current public payments made by all OECD states for development co-operation. Consequently, each individual state would also have to double its government budget to make an appropriate contribution to the realisation of the 2015 goals. In Germany, which explicitly pledged its support for the 2015 goals in an action programme submitted in early April, a reduction in the development budget of 5.3% was stipulated in a draft budget for 2002 that was issued shortly afterwards.

A legal commitment, as existent in the Netherlands, would prevent the support of global development goals again and again becoming the object of domestic policy debates on the allocation of budgetary funds. In a joint hearing of various committees of the German Federal Parliament on the 2nd April 2001, IMF Director Köhler also demanded a corresponding arrangement for Germany that would ensure that the 0.7% rate was reached by 2010 at the latest. We support this demand, which goes beyond the doubling of ODA the Zedillo Committee regards as necessary. In analogy to the legal commitment at national level, the Financing for Development Conference ought to prepare an internationally binding agreement that would establish the 0.7% goal for 2010 in a world-wide state financial compensation arrangement.

As the examples of Denmark, the Netherlands, Sweden, Norway and Luxembourg demonstrate, reaching this goal is by no means a pie in the sky, and it is above all a question of the political will of a respective government rather than of its current budgetary situation. It is not a lack of funds that constitutes the real problem but how priorities are set in

appropriating public funds. For instance, the United States only provides 9 billion US dollars a year for development aid, and yet it has just authorised around 60 billion dollars for the procurement of 295 new F22 Stealth bombers and is planning a further 200 billion dollars for a new missile defence system.

Ultimately, in co-operating with the countries of the South, it is not only the volume of public funds for development co-operation that counts but also measures of global structural policy (e.g. debt relief, dismantling of trade obstacles, etc.) as well as the improvement of quality and efficiency in development co-operation, e.g. by better co-ordination among the donor countries. But as also borne out by experience in the eastern German Federal Länder, development processes can usually not be achieved or stabilised in countries or sectors with weak economies without massive external aid and investment. The willingness of the societies in the industrialised countries to share their wealth in solidarity with the poor countries has to be kept awake, and if necessary, it has to be wakened again and again. This is why we support the recommendation of the Zedillo Committee to stage an international campaign to this end that ought to focus in a special way on those countries that have fallen back most of all in terms of their aid effort.

4.2 Demand:

Tapping new international sources for Official Development Assistance financing has to be comprehensively assessed. We are campaigning for the taxation of international foreign exchange transactions. Since they offer a combination of controlling and fundraising roles, we also regard taxes and levies on the utilisation of the global commons (atmosphere, oceans) and their being put to use to secure access to life-supporting public goods (such as drinking water) for all people as a sensible approach to an ecologically sustainable and socially balanced global development.

Reasons:

The introduction of international taxes and levies as new instruments to finance development offers the greatest success in terms of autonomous financing of sustainable development in the long run. Since such taxes also always pursue the goal of restricting socially and ecologically damaging practice, instruments such as the “Tobin Tax” or another form of a Currency Transaction Tax (CTT), a CO2 tax or an air traffic tax bear an inherent contradiction between the controlling and the fundraising role. Nevertheless, the additional revenue that could be raised to the benefit of sustainable development would probably be considerable. According to UNDP calculations, alone a foreign exchange transaction tax would result in around 90 billion dollars a year in additional income at a minimal tax rate of 0.05%.

We support the demand to make use of international taxes as additional resources to finance access for all people to the global public goods. In particular, the Zedillo Report recommends a serious assessment of a CO2 tax that would be levied on the consumption of fossil fuels (graded according to the level of contribution to the pollution of the atmosphere). Together with national eco taxes, an international tax of this kind could make an important contribution to stopping or at least slowing down changes in global climate. Since air traffic plays a particularly important role in destroying the ecological balance an especially high tax ought to be raised on kerosene or a combination with an additional levy charged by the airports for cargo flights would be recommendable. The Belgian EU presidency made a move on the issue of a kerosene or an air traffic tax, announcing initiatives at international level and a possible solo effort of the EU following a meeting of the Council of Transport Ministers in mid-

September 2001. This proposal certainly is worth supporting, but in putting it into practice one has to take care that revenue coming from it is not used for a general consolidation of budgets in the industrialised countries but is genuinely allocated to the financing of global public goods.

The concepts for a taxation of the use of the oceans (e.g. deep-sea fishing) or space (e.g. satellites) mentioned in the Zedillo Report are also worth serious consideration. But even if such proposals were to meet with only little immediate success, short-term feasibility studies should not be abused as obstacles to sensible ideas on a reorientation of global development towards sustainability, which is definitely required in the long run.

5. Debt reduction

5.1 Demand:

The extended debt relief initiative for highly indebted poor countries (HIPC II) launched at the Cologne G7 Summit will not resolve the debt crisis of the developing countries. Restricting all debt relief efforts to the circle of the HIPC countries is going to lead to further disastrous debt situations in highly indebted countries with low (SILICs) and medium (SIMICs) income. This is why appropriate possibilities for debt relief have to be created for further countries outside the circle of the HIPCs. We call on the governments of Germany, Austria and Switzerland to also campaign for an immediate moratorium on debt servicing for all those countries belonging to the group of HIPCs and/or LDCs. The Austrian government should also immediately waive all remaining bilateral debts of the HIPCs.

Reasons:

It has to be appreciated that, in launching the HIPC II initiative, the creditors have taken a step towards poverty-oriented debt relief. However, as the current crisis in the Argentine shows, further highly indebted countries have also entered an economic cul-de-sac on account of the debt crisis that they will not be able to get out of on their own without a substantial reduction in debt. But at the moment, the creditors are showing no willingness to offer these highly indebted states a solution that would result in substantial and sustainable debt relief.

The rigid criteria of the Paris Club or the multilateral HIPC initiative do not stand up to scientific criteria. Rather, they are above all developing into instruments with which debt relief is denied to “expensive” countries for the creditors. A sensible debt policy that is oriented on development requirements must in principle be open to all countries whose foreign debts have turned from an instrument of development financing into a brake impeding development. This requires flexible framework arrangements for debt relief in individual cases rather than rigid country categories.

In special cases, the plan of action for the UN LDC III Conference of 14th – 20th May 2001 in Brussels calls for a moratorium on debt servicing of LDCs. We support this demand to achieve necessary relief as quickly as possible and ahead of a comprehensive debt reduction process, and we are in favour of extending this moratorium to the debt servicing payments of all HIPCs. A standstill moratorium of this kind initially ought to be valid for a period of three years and should be extendable. At bilateral level, the Austrian government should also at least immediately waive all remaining debts of the HIPCs provided that they are to be used to combat poverty.

Since 1999, the drawing up of poverty eradication programmes has become compulsory for those countries that wish to be granted part remissions of debt in the framework of the HIPC initiative as well as concessional loans. These programmes ought to be prepared with the involvement of civil society. With the aid of the PRSPs (Poverty Reduction Strategy Papers) the poverty situation in a respective country is to be established and a package of economic, structural and social measure is to be suggested that are aimed at reducing poverty. Furthermore, the financing of these measures – for example in the framework of ongoing IMF and World Bank programmes, but also through anticipated budget savings in the course of debt relief measures – is being analysed.

The governments of Germany, Austria and Switzerland should campaign for a guarantee that the Poverty Reduction Strategy Papers, which represent the precondition for debt relief measures and new, concessional credits, are really drawn up in an open and participatory process with civil society.

5.2 Demand:

Within the HIPC Initiative, the criteria for acceptable debt have to be redefined. In future, priority must be given to the financing of national poverty eradication programmes. Only part of the remaining state revenue ought to then be used for debt servicing and repaying loans.

Reasons:

According to calculations (e.g. of the US General Accounting Office), it is improbable that the HIPC II initiative will succeed in solving the debt problems of the affected countries. The precondition for a substantial debt reduction in these countries would be that the HIPC countries reach a 9% annual growth rate in exports over a period of 20 years. This is a rate of growth that can hardly be achieved, let alone sustained, given the current trade balance structures. If the countries remain below this critical growth threshold, the means released by debt relief can only be used for poverty reduction if the countries immediately take out new loans again. Thus the debt problem is perpetuated rather than solved.

The current level of the HIPC Initiative for the debt sustainability (150% cash value of total debt in relation to annual export revenue) clashes with the internationally agreed 2015 goals for poverty reduction. A group of NGOs (above all the Catholic aid organisations organised in the CIDSE umbrella organisation) have therefore developed an alternative approach to defining debt sustainability. According to this approach, the requirements of poverty reduction would take precedence over debt servicing and loan repayment. Only that part of foreign exchange income or the state budget that is beyond this “subsistence level” should partly be used to honour payment commitments. The signatory NGO networks support this approach, which is above all oriented on the needs of the poor in the highly indebted countries of the South.

5.3 Demand:

The governments of Germany, Austria and Switzerland ought to campaign for the introduction of a fair and transparent arbitration procedure in analogy to national insolvency procedures if the debtor countries run into financial difficulties.

Reasons:

Over the last 20 years, debt management developed and dominated by the creditors has resulted in continually insufficient debt rescheduling and debt relief. In order to avoid a

periodical return of over-indebtedness crises, the debtor-creditor relation therefore has to be placed on a new basis. In future, in the event of financial difficulties among individual debtor countries, decisions should no longer be taken at the Club of Paris or the World Bank or IMF boards. Rather, in analogy to national insolvency legal procedures, a fair and transparent arbitration procedure (FTAP) should be carried out if there are financial difficulties. Procedures of this kind must cover all demands on the respective debtor country, including those of private creditors.

The proposal developed by NGOs for a FTAP rests on four pillars: 1. A neutral international arbitration court (on an ad hoc basis or linked to the UN) that decides on the level and the conditions of further debt repayments. 2. A right to be heard for the people that is to guarantee that the interests of those directly affected can also be voiced. 3. The protection of people's basic needs in the debtor countries and 4. An automatic standstill of debt servicing as soon as procedures have commenced. A procedure of this kind ought to replace all current debt regulation procedures in the long run.

6. Reform of the financial system

6.1 Demand:

A better representation of all states in the decision-making bodies of the international financial institutions has to be achieved as soon as possible. In this sense, we call on the governments of Austria, Germany and Switzerland to campaign for a comprehensive reform of the IMF, the World Bank and the WTO and their increased integration in the UN system.

Reasons:

More than 50 years after the Bretton Woods Institutions were set up, today's completely different world situation has made a fundamental reform of the IMF and the World Bank long overdue. Broad criticism over the last few years has already resulted in reform steps being taken, particularly in the case of the World Bank, towards more transparency and accountability of the institutions. This also includes the issue of participation of those affected in the sense of ownership. However, a reform of the fundamental institutional decision-making mechanisms has not taken place. Therefore, as a contribution to more democratisation of international organisations, we also demand that the developing countries have more influence on the decision-making process. An institutional integration of the IMF, the World Bank group and the WTO in the UN Human Rights system as well as closer co-operation with the Economic and Social Council of the UN in the sense of comprehensive accountability is necessary, too.

6.2 Demand:

The international finance system bears a flagrant governance deficit. New international rules (e.g. the above-mentioned insolvency procedure/FTAP) and new international institutions (e.g. the foundation of an International Tax Organisation/ITO mentioned at the beginning) are necessary to avoid financial crises and raise additional funds for development financing. Here, as already proposed in the Escanero Report, the coordinating role of the UN should be underlined by the foundation of a World Economic Body. At national level, measures (such as capital flow controls or a better bank supervision) have to be promoted that lead to a stabilisation of the financial markets. In

the sense of a fairer distribution of burdens, the private sector involved in financial speculation has to contribute more to coping with the costs of financial crises.

Reason:

The negative impact of unfettered globalisation has made itself felt most in the area of the financial markets. Owing to the liberalisation policy of the last two decades, the financial markets have, to a considerable extent, become autonomous, and they have developed a degree of power that can nullify success achieved in decades within the course of a few weeks, as was demonstrated in the Asian crisis of 1997. Instead of subjugating themselves to the financial markets in their policies, the states have to agree on rules for the financial markets that make them serve the requirements of socially balanced and ecologically sustainable development. There is a considerable requirement for regulations both at international and national level.

Capital transfer controls may not be a panacea, but for the large majority of the developing and take-off countries, they are an indispensable means of crisis prevention or, in the case of capital transfer restrictions to prevent an outflow of capital, for the management of financial crises.

Hedge funds and other highly leveraged institutions can be a considerable threat to stability as well. The Financial Stability Forum (FSF), founded in April 1999, has repeatedly referred to this aspect, making its latest mention of it in a report of the 17th May 2001 in which it points out slow progress made in activities and calls for a duty to provide information. In the EU, unregulated speculative funds are not permitted. We demand that a similar ban be imposed world-wide.

Measures lowering the volatility of financial flows, combating tax evasion, harmful tax practises and money laundering and helping to expand the equity position of the developing countries also serve the stabilisation of the financial markets. Here, a number of suggestions of the UN and NGOs, like the international “Attac” network, are on hand, such as the introduction of a Currency Transaction Tax (CTT), or the proposal that is also taken up in the Zedillo Report to set up an International Tax Organisation (ITO) that has already been dealt with in an earlier section of this text.

Efforts already undertaken on the part of the IMF and the World Bank to “bail in” the private sector, which is involved in financial speculation, to a greater degree when it comes to assuming responsibility for coping with financial crises in future ought to be supported. This can prevent crisis management from above all restricting the losses of private investors and burdening the public sector with them in the sense of a bailing out of expenses.

In order to underscore the key role of the United Nations in this process, a World Economic Body ought to be set up at top political level that could by and large also take over the role of the existing G7/G8 summits. The UN Commission on Global Governance already proposed the setting up of an Economic and Social Security Council in its 1995 Report. The FfD Conference is the suitable venue to tackle the implementation of such proposals. As suggested in the paper of the Facilitator of the FfD process, Mauricio Escanero, of the 17.9.2001, a high-level inter-governmental forum ought to meet in 2005 in order to support the follow-up and the implementation of the FfD Conference results. At the latest, this is when the World Economic Body ought to take up its activities as well.

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