Special High-level Meeting with the Bretton Woods institutions, the World Trade Organisation and the United Nations Conference on Trade and Development

New York, 16 April 2007

Talking Points for the UN NGO Committee on Financing for Development

The UN NGO Committee on Financing for Development of the Conference of Non-Governmental Organisations (CONGO), represents more than 40 international NGO networks, many of them faith-based organisations representing several million people in the North and South[1].

Theme 1 Good Governance at all levels

1. A key component for the Monterrey process is the effort to improve global monitoring over illicit international transactions. Estimates show that 225 billions USD are lost annually in government revenue that illicitly flows abroad[2]. Therefore, offshore **tax havens** must be eliminated, global monitoring over illicit international transactions must be improved and incentives for tax evasion reduced.

The UN needs to take further steps to truly establish a wider forum of experts to seriously tackle these problems. Therefore, we urge to strengthen the UN "Committee of Experts on International Cooperation in Tax Matters". There should be more members from the South and the agenda needs to be more representative of developing countries concern. In addition, there is a need to establish a political body or a tax authority to tackle harmful practices and violations of rules. We also urge governments to join the new international "Task Force on Combating Tax Havens and Capital Flight" set up by Norway.

2. Governments around the world feel increasingly compelled to offer **tax incentives** to attract mobile capital. But the supposed benefits, in terms of job creation, rarely materialise while the costs to taxpayers are enormous. Severe tax competition amongst countries, increased avoidance and evasion of taxes both by rich individuals and companies and a dramatic reduction in import tariffs have meant that tax revenues are being squeezed. This problem affects rich and poor countries alike, though the development costs in poor countries are likely to be much higher.

National governments need to maintain a clear leadership role in designing their governance programs, including their fiscal systems. Developing countries need a comprehensive economic development plan before giving tax breaks blindly for direct foreign investment and not to get engaged in an unhealthy competition and a "race to the bottom" with other countries. Domestic fiscal systems must be strengthened through more stable tax bases.

3. One of the most important domestic resources available to support development is the labour force. The 2005 World Summit and the 2006 ECOSOC reiterated the call to make the goals of **full employment** and decent work for all a central objective of national and international policies. However, we are seeing a shift of the tax burden from capital to labour. The economic consequences, particular for the poor countries are bad. This is another reason for the role of direct taxation to be reassessed and changed.

4. Income and wealth **inequality** in developing countries needs to be minimised by tax progression according to the level of income, land reform, equal property rights, and equity in inheritance rights.

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[1] These notes are based on the Talking points of the NGO Committee on Financing for Development
[2] "Closing the Floodgates", Tax Justice Network, Feb. 2007.

5. Corporate bankruptcies and scandals in recent years have had high social costs. Governance in the **private sector** is critical and needs improvement. Therefore initiatives such as UN's Global Compact should be promoted further. In addition, public sector oversight, regulatory framework and the rigorous application of accounting standards for the private sector are necessary to the integrity and healthy functioning of markets.

6. Civil society organizations have been strong supporters of the "**UN Conventions against Corruption",** but we regret that developed countries have been slower in ratifying the Convention than developing countries. We therefore urge all States to ratify this Convention as soon as possible. It remains necessary, as well, to turn this agreement on paper into living cooperation among signatory countries to combat corruption and return illicitly removed funds to their countries of origin.

However, secret bank accounts facilitate this corruption. Their use for terrorism has meanwhile been stopped. But their use for other purposes, like tax evasion, has not. Improved transparency, increased exchange of information and international cooperation is needed to combat corruption and capital flight.

Theme 2 Voice and Participation of Developing Countries in International Economic Decision-Making, including the Bretton Woods Institutions

The global economic environment has changed dramatically since the creation of the current international economic architecture, while international financial institutions adapted only slowly. The loss of relevance across many parts of the Global South of the International Monetary Fund (IMF) and the World Bank is one of the most critical issues in the international financial system today. Alternative sources of financing are now emerging, where policy conditions do not accompany loans and investments, thus increasing national policy space in developing countries. We increasingly see developing countries walking away from the Bretton Woods institutions. Thus the issue of voice and participation has become the heart of the credibility and legitimacy of the international institutions.

In my country Germany, civil society organizations prepare for this year's G8 Summit, sharing their grave concern with many NGOs at this meeting. There is a growing dissatisfaction with the global governance system, process and outcomes. The need for multilateralism and solving problems collectively has never been greater.[3] Large parts of civil society think that decision-making policies must be congruent with democratic principles, representative for all member countries and employ avoidance of domination by one country or country grouping.

We do not have much hope, that effective progress lies in the minor changes of the allocation of votes at IMF and the World Bank decided last year, nor in inviting some selected emerging economies to have consultations on specific issues of importance. Instead, the reform efforts of the Bretton Woods institutions should find a way to fully involve developing countries and countries in transition in the design of the reform to ensure that it will be most effective toward their increased and adequate voice and participation.[4] Prompt decisions are necessary on comprehensive reform and a specific timetable for action. In addition, a substantive increase in staffing resources available to Executive Directors is necessary.

Also other international financial institutions, like the Financial Stability Forum (FSF) and the Bank for International Settlement (BIS), do not adequately incorporate developing country participation. Consultations and technical discussions are no substitute for having a seat at the decision-making table. An adequate representation of developing countries in these bodies would contribute to a more stable financial system with well-fare enhancing effects for all.

[3] Initiative for Policy Dialogue (IPD), Chairman's Summary, Feb. 2007.

[4] For example: The basic vote within the current quota system with votes should be increased proportional to the country population.

In addition - as agreed in the Outcome Document of the 2005 UN Summit - there is a need to reach an international understanding on orderly debt restructuring modalities that would bring official and private creditors as well as borrowing countries together in a constructive dialogue to resolve debt problems in a timely manner and to protect the interest of debtors and creditors equitably. The discussion which began in the aftermath of the Argentine Crisis on developing a more systematic procedure for the debt restructuring should be restarted, but put the UN in the center as an impartial forum, not the IMF. The Monterrey Consensus meant to use the United Nations as the forum to build a coherent consensus over financial, economic and development policies, but such a forum has not yet been established. Therefore, we urge member states to establish a "Leaders Forum" (L27) within the UN as proposed in Nov. 2006 by the High-level Panel on UN Reform.

It is also necessary to build effective **regional institutions** and strengthen their independence and competence in order to support policy dialogue among countries at the regional level and take seriously the input they offer.

Theme 3 Realizing the Doha development agenda – effective use of trade and investment policies

The 2005 World Summit Outcome called on Member States to work expeditiously towards implementing the development dimension of the Doha work programme of the World Trade Organisation (WTO). But developed countries have not lived up yet to the commitments made, and agreed deadlines have been missed. We regret that the developed world could not compromise on critical trade policies on which millions of poor people in developing countries depend for survival. Today's trading system still shows imbalances that are harmful to developing countries and these must be corrected. Recent trends to regional trade agreements represent a threat to the global trade regime and can be even more disadvantageous to developing countries.

Developing countries need to have policy space to ensure that trade does not undermine their potential to grow their own competitive service sectors and is consistent with basic social objectives. Trade is not an end in itself, but works to raise living standards and reduce poverty. We therefore recommend:

1. Fundamental human rights and human dignity must be the basis upon which all trading practices are negotiated and implemented.
2. Trade agreements should be based on a "development agenda" as agreed in the Monterrey Consensus and must further the economic growth of poor countries and poor people. Government leaders should first lay out a set of principles and criteria by which to evaluate the development impact of any implemented trade measure before the next round of negotiations of trade ministers. Ex-ante assessments of the impact of bilateral agreements on developing countries should be conducted.
4. Trade negotiations must be transparent, and provide equal voice for all parties at the decision making table.
5. No trade agreement shall undermine national jurisdiction over natural resources, food security, foreign investments, labour, environment and regulatory standards.
6. All trade negotiations must include representatives of traditionally marginalized groups, giving significant consideration to the perspectives of women.
7. Agricultural export subsidies offered by developed countries need to be eliminated quickly. Protectionism, in the form of subsidies causes undue harm and suffering to developing countries.
8. There is a need for a development oriented intellectual property regime. Today, intellectual property regimes pay too little attention to the protection of Traditional Knowledge.

Theme 4 Aid effectiveness and innovative financing for development

1. **Official Development Assistance (ODA)** is essential for development. However, there is a disappointing progress in the implementation of the commitments made at Monterrey. Despite the positive trend since 2002,

the current and projected **levels** of ODA for 2006-2010 still fall far short of the estimated USD 150 billion deemed necessary for the developing countries to achieve the Millennium Development Goals (MDGs). Since much of the recent increase in aid flows from OECD countries has been the result of debt relief and emergency assistance (tsunami) it does little to provide the higher aid levels essential to meet the MDGs. This means that going forward, there will have to be substantial increases in real aid flows and they should be channeled through the budgets of the recipient countries and strictly monitored.

The Secretary General calls for a country driven approach[5] with broad participation by civil society as an essential part of the creating of a national development plan. The Millennium Development Goals should be at the center of such plans and they should favour the poor. Programs that carry high social value but have low financial returns should be funded by grants. It is also essential that ODA be directed principally to the poorest countries, at least 0.15 to 0.20 per cent as agreed at the UN Conference for the Least Developed Countries in 1990, reconfirmed in 2001 in Brussels and in 2002 in Monterrey. A few individual donors met that target, but aggregate ODA flows to the poorest countries declined to about half the target during the 1990s. In 2004, after exclusion of emergency, debt relief and reconstruction, aid for least developed countries was lower in real terms than in 1990.

Besides the areas covered by the Paris Declaration targets, we would like to see additional possibilities for aid improvement, for example the implementation of the commitment made 1995 in Copenhagen at the World Summit for Social Development to spend 20 % of ODA on basic social services. Tied aid should be reduced immediately as it has adverse effects in developing countries. Special Funds are growing, but should be handled carefully as they can distort the balancing of national priorities.

Aid decisions must come from a transparent, inclusive and participative process, not from closed door negotiations of finance ministers and donors alone. Recipient countries need to maintain the freedom to determine for themselves the policy content of their programs, and national development plans and budgets must be developed through an open and transparent process with public accountability. But donor country agendas, priorities and conditions are prone to change, making ODA volatile and an unreliable source of financing. Long term development programs need more certainty.

2. ODA cannot meet all the development needs of the world. **New and innovative sources** of development finance are necessary to achieve the Millennium Development Goals. They provide more predictable and sustainable income streams to better accommodate long-term development in areas such as education, sanitation and healthcare, infrastructure. However, they should **supplement *not* substitute** for existing sources of finance such as ODA. We welcome the recent Innovative Finance Initiatives and the establishment of the "Leading Group on Solidarity Levies to Fund Development" in Paris 2006, in which meanwhile 46 countries actively participate.

- We welcome the idea of an Air-Ticket solidarity Levy (ATL). Meanwhile, 25 States, among them Chile, France and the UK, have started or at least committed to introduce the Levy. This new instrument will probably only produce modest funds (France estimated to generate revenue of up to 200 million EUR per year), but is a vital stepping-stone for other additional financing initiatives. We urge more countries, like Germany, to joint this effort soon.

- We also urge governments to join the international task force set up by Norway to tackle capital flight and tax evasion from developing countries (see also Theme 1).

[5] The Secretary General's Report A/61/253 and Note by the Secretary General on "Coherence, Coordination and Cooperation in the context of the implementation of the Monterrey Consensus" - Advance Unedited Copy

- Micro-finance initiatives should be studied as an important innovative source of financing.

- Lastly, serious consideration should be given to a Currency Transaction Development Levy (CTDL) as another innovative levy to be nationally collected and pooled internationally to be disbursed to developing countries.

We hope, that these initiatives will become effective soon and that new ideas will emerge soon. Political will and mutual commitment can make it happen.

For the UN NGO Committee on Financing for Development, Eva-Maria Hanfstaengl