Civil Society Benchmarks for the Doha Preparatory Process on Financing for Development

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Since the 2002 Monterrey Conference, financial flows to support the achievement of the Millennium Development Goals (MDGs) and other internationally agreed goals, especially in the South have remained grossly inadequate, unpredictable, and volatile. The rapid growth of global capital flows has not automatically led to a corresponding increase in means available for poverty eradication and decent work. Worse, recurrent crises and dynamics in the international financial system have had grave consequences for many developing countries. The political conditions for creating an enabling environment for development, linked to the six thematic areas of the Monterrey Consensus, have, by and large, not materialized.

Each year, the exodus of capital and tax avoidance practices are robbing the countries of the South of hundreds of billions of dollars. The exponential increase of foreign exchange reserves, above all, benefits the state budgets and the ailing economies of the USA and Europe. Portfolio investments and short-term private loans are highly volatile, and should the world-wide crisis on the financial markets become aggravated, they may be withdrawn as suddenly from developing countries as they flowed in.

Since 2002, there is a growing concern over lack of compliance by developed countries with their commitment to 0.7 percent of GNI to Official Development Assistance (ODA). Only a small proportion of the increase has contributed to the transfer of fresh money to the South. And yet, increased transfers are a necessary pre-condition for the fulfilment of internationally agreed development goals including the MDGs, for the effective eradication of poverty, and the fulfilment of the decent work agenda.

Poverty is based on a radically unequal distribution of income, coupled with unequal distribution of assets, unequal access to opportunities for decent work and employment, social services and benefits, and on the unequal distribution of political power. Unequal access to information and political participation are also part of this "inequality predicament". This is largely the result of deep-seated and persistent imbalances in the current workings of the global economy which, according to the World Commission on the Social Dimension of Globalization, is "*ethically unacceptable and politically unsustainable*". Women suffer disproportionately from the negative effects of these inequalities, as they have been drawn in growing numbers into the global economy as assembly-line workers, as migrant service providers, health care providers, food producers and petty retailers in the informal economy, with low wages, insecure employment, and unsafe and unhealthy working conditions.

The current situation in many parts of the South is characterized by "growth without poverty reduction" or even "growth with growing inequities". This is especially troubling when economic growth rates in the South have never been so good in many decades. Commodity prices are up and interest rates are down. However, there is a serious risk of sharply increased inflation and even stagflation in many countries, and growth has not resulted in redistribution or even a reduction in extreme poverty. Rather, all the evidence points to more inequality within and between countries. Money is not flowing where it is needed most, so that poor countries or poor sectors of the population within countries are excluded from participation, and fail to reap the benefits of development.

Today still over 862 million people are suffering from hunger and malnutrition, and with the current global food crisis, the number is rising fast. Prices of staple foods are rising from between 10 and 50 per cent, and will remain well above the levels of the last decade. These trends will hit the poor and hungry the hardest over the coming years, and will reverse hard-won gains in poverty alleviation. Diversion from food to fuel production to meet the growing demand for biofuel is cited as a factor forcing up prices. IFI-inspired policies leading to the dismantling of national grain buffer stocks, and shifts from food to export production have contributed to the crisis. Climate change, low grain stock levels, financial and commodity speculation, the control exercised by a few dominant multinational corporations over agricultural trade have also added to price rises and price volatility.

Therefore, coherent action is urgently needed by the international community to deal with the impact of higher prices on the hungry and poor. Long-term approaches are needed to address the root systemic causes of the crisis, and to reverse disastrous economic policies. But the rising concern over access to food and suggested measures to increase food production and availability run the risk of yet again paying little attention to the role and potential of women as producers of food in some of the poorest countries and regions of the world. Policy measures geared towards overcoming the food crisis must take these gender dimensions into account.

The foregoing analysis serves to highlight why governments are facing a double challenge at the up-coming Financing for Development (Ffd) Conference in Doha: On the one hand, they have to find ways of substantially increasing the transfer in real terms of public resources to the South, while ensuring that public revenue is generated and mobilised for poverty eradication, decent work, achieving gender equality, and improving the livelihoods of the population. On the other hand, they have to agree to take steps to address the global imbalances and inappropriate economic and trade policies that are fuelling the current global crises in the food and energy sectors, and in the financial markets, and severely compromising development prospects for the countries of the South.

For one, it has now become clear that agriculture, food security and food sovereignty need to be put back on to the development agenda. **Further, the challenge of financing climate adaptation and mitigation must be addressed. In this regard, international agreements must be based on the principle of additionality in relation to already promised resources for development. Civil society analyses point to the critical need, both to address the systemic weaknesses that have undermined the consensus reached in Monterrey, and to supplement the 2002 commitments with a package of new, concrete monitorable measures, coupled with a strong and explicit political commitment to implement them. Some key recommendations for such a package emerge from the analysis which follows:**

A. Mobilising national resources

In order to achieve the international development goals and overcome dependence on external donors, whether governments, banks or the International Finance Institutions, the countries of the South need to substantially increase revenue from national resources, and channel these resources towards meeting the needs of the poor. The Monterrey Consensus had highlighted domestic resource mobilization both public and private as essential for sustaining productive investment and increasing human capacities. The domestic policy tools that can inform this process include fiscal reform, as well as fiscal and monetary instruments to moderate economic downturns and protect at risk economic sectors and populations from negative impacts.

To achieve sustainable development, international measures are just as indispensable as fiscal reform at national level. Common and coordinated measures are needed to address the world-wide tax race to the bottom. More effective taxation of trans-national corporations, combating corruption, addressing the capital exodus to tax havens and achieving the return of misappropriated monies from foreign accounts to the countries of the South, these are only possible via increased multilateral co-operation.

1. Supporting the establishment of efficient and fair taxation systems and strengthening financial administration

The key precondition to boosting public revenue is a progressive and efficient system of taxation, utilizing a broad and equitable tax base, and targeting those most able to pay. **Earnings from capital and resource extraction should be taxed more heavily than earnings from labour. Tax systems should be more redistributive, with tax relief for low wage workers and the poor. A progressive system of taxation must also be gender sensitive, taking account of the differential holdings of assets and rents between men and women.** Generalized value-added taxes should be discouraged, as they place a greater strain on the poor, owing to their regressive nature. National parliaments have a role to play in supporting tax reforms through legislative and policy measures. Development cooperation should also give increased support for these reform measures via *demand-driven* consultancy and technical assistance, and capacity-building for the establishment of efficient finance administration and independent audit offices.

2. Transparent income reporting and effective taxation of transnational corporations

An effective corporate tax must be an essential element of any efficient tax system. In this regard, **tax exemptions or tax incentives for transnational investors in Special Economic Zones is counterproductive should be strongly discouraged and corporate tax regimes promoted in an internationally co-ordinated manner.** All countries ought to implement laws on transfer pricing that would be based either on the arm's length method or the formulary apportionment method, whichever is more practical to apply, and provides the best results.

More transparent international accounting standards for transnational corporations on a country-by-country basis are also needed. Reports on the profits earned and the taxes paid in each country where a company operates can provide information on transfer pricing and trade invoicing. Key information on private and corporate payment flows at home and abroad must no longer be concealed from tax authorities. Lax reporting requirements in the mineral oil, gas and mining industries in particular, must be addressed. Moreover, stabilization clauses in contracts in the extractive industry compensate foreign investors for market shocks resulting from political instability or adverse legislative changes. In particular, the host government underwrites the loss to a foreign investor in the event of adverse circumstances. Stabilization clauses of this nature constitute a legalized form of capital flight from mineral producing countries, particularly in Africa.

Lack of transparency in reporting must be addressed, as it leads to misappropriation, corruption and tax evasion. Both the governments of the primary product producing countries and the companies involved must disclose the relevant data.

Since a competitive disadvantage may arise from the unilateral disclosure of information, voluntary disclosure requirements are inadequate. Instead, **all companies ought to be legally required to disclose all information on taxes, profits, fees and other payment flows between them and public institutions in all countries in which they operate. Such disclosure requirements should, at a minimum, use the reporting template adopted by the voluntary "Extractive Industries Transparency Initiative"(EITI). Jurisdictions controlling major capital markets should make such disclosure a requirement for being registered in such markets.** Country-by-country reporting should be included in international accounting standards as a binding requirement, particularly for the extractive sector. Host governments, including those implementing the voluntary EITI, should adopt regulations requiring disclosure of payments and receipts by government to foster greater accountability regarding the use of these financial flows. **Best practice with reporting mechanisms should in turn be used as the basis**

for establishing a binding UN Treaty to provide global disclosure requirements for the extractive sector.

Preserving national policy space is also key**. A government's capacity to implement an effective corporate taxation regime should not be limited by conditionalities attached to aid, loans or trade agreements**.

Sufficient appropriately skilled staff are needed in the tax authorities to ensure full implementation of tax laws, including those aimed at exposing malpractice, including tax evasion, illicit transfer pricing or the false declaration of import and export prices. Given the swift pace of financial and technological innovation, greater international support and co-operation are urgently required to assist countries of the South in building capacity to monitor compliance of trans-nationals and other enterprises with standards of accounting and reporting.

3. Supporting the repatriation of stolen public assets

A more determined approach is required both in the countries affected by the flight of public assets, and in the context of international co-operation in order to reduce the misappropriation of public monies and the losses the state incurs owing to corruption and bribery. Here, **the United Nations Anti-Corruption Convention must play an important role. The Convention ought to be ratified by all countries and implemented at national level as soon as possible. The Conference of Parties to the Convention must also set up an effective system of monitoring, to assess whether the states are effectively fulfilling their commitments regarding the Convention. Initiatives such as the StAR (Stolen Assets Recovery Initiative) ought to be strengthened. Recovered assets should be used for meeting the MDGs.**

4. Preventing capital flight to tax havens, strengthening world-wide tax co-operation and setting up an International Tax Organisation

Given the considerable leeway that transnational capital enjoys, regulatory measures taken by individual governments will only meet with limited success. Co-operation among governments at international level is pivotal to the success of national tax reforms. **One initial step towards combating tax avoidance would be the introduction of an automatic exchange of information between the financial centres and the tax authorities in the home countries of investors.** Special United Nations sanctions ought to be imposed on countries and territories that are not willing to comply with such a measure (e.g. tax havens).

Cross-border tax evasion should be treated as a suspicious activity and as a money-laundering offence which must be reported to the relevant government authorities. In addition, world-wide co-ordination and co-operation regarding tax matters requires institutional strengthening. For as yet, there is no intergovernmental forum at global level that addresses taxation issues. **In the short term, the UN Committee of Experts on International Co-operation in Tax Matters should be upgraded to an intergovernmental body such as a functional commission of the Economic and Social Council (ECOSOC), and adequately resourced. In the longer term, an independent International Tax Organisation ought to be created as a Specialized Agency of the United Nations.**

5. Towards a more balanced domestic economic policy agenda - Promoting participatory and gender responsive budgets as tools for including the voices of the poor and of women in fiscal policy

Public investments should be oriented towards the kind of diversified economic growth that provides opportunities for decent work and for people at all levels to lead better lives**. Increased government investment in support of social reproduction in the care economy should be promoted as a contribution to effective fiscal policy.** Women, particularly the poorest women in a society, are often at the margins of economic governance and decision-making about fiscal policy. Participatory, gender-responsive budgets were developed as a tool for inserting people's especially women's voices into discussions of taxation, spending and debt, in order to underscore that budgets are not gender or interest neutral and that they should include the inputs of poor communities and other intended beneficiaries. They also enhance transparency and accountability.

The greater allocation of domestic resources toward gender equality is critical to achieving MDG3 and signals a country's commitment to gender equality through investments of their own resources. National development planning needs to enhance the participation of women and actively take into account their concerns. To this end, national women's and civil society organisations should be included in the process of planning, programming, managing, monitoring and evaluating national development plans, including through donor support, informed by the principles of national democratic ownership and mutual accountability.

The Monterrey Consensus had already stressed the critical need for reinforcing national efforts in building capacity for gender budget policies and practice while the 2005 High Level Dialogue emphasized that domestic resource mobilisation should encourage gender-responsive budgeting to ensure that relevant commitments are made, and resources allocated. **Public Finance Management systems and practices need to support rather than undermine participatory and gender responsive budgeting. Moreover, participatory gender responsive budgeting will be facilitated by gender-budget analysis and gender-disaggregated data, including time-use surveys that measure women's unpaid work and its contribution to the national economy,** to make visible women's actual economic contribution in the National Accounts System. (ECLAC Quito Consensus 2007). These contributions should be costed as investments to the national economy, and used as a basis for providing matching funds for social services, family care and income generating activities, thereby freeing women for productive and decent work in the cash economy.

6. Supporting the ILO's Decent Work agenda

National economic policies need to foster the creation of decent work for all as a key step towards poverty reduction, gender equality and equitable growth. This includes training that improves women's options across different sectors of the labour market, and access to finance for women entrepreneurs, especially in small and medium enterprises. Policies to create decent work should fully account for rapid changes in labour markets and opportunities related to trade liberalization. They should include labour adjustment measures such as training and redeployment. Social dialogue and social protection measures are key, as well as recognition of workers' rights to join trade unions and bargain collectively for a fair share of the productivity gains of their labour. Particular efforts are needed to reach the large numbers of women in informal work, and to put in place the social safety nets that ensure the efficient functioning of labour markets. Attention must be given to the need for quality jobs with flexible time schedules and affordable child care that may be more critical for women than men (UNIFEM 2007).

B. Private capital for development

Two-thirds of world trade is carried out by multinational corporations (MNCs). Today, many corporations have become richer and more powerful than some national governments.

The conventional view among governments and international organizations is that private capital flows are per se conducive to development, particularly if they take the form of direct investment. For example, this is the view taken by the G8 in their 2007 Summit Declaration in Heiligendamm where they "*reaffirm that freedom of investment is a crucial pillar of economic growth, prosperity and employment.*"

Even though multinational corporations can be a force for good – providing jobs, boosting the economy and developing new technologies that can improve the lives of the poor, FDI does not automatically translate to development. Much of FDI in developing countries fails to translate to sustainable development because it operates as an enclave economy, narrowly oriented towards profit maximization and profit repatriation, while backward and forward linkages with local economies that could promote local enterprise development are weak, as is the transfer of knowledge and technology. Trade unions and other civil society organizations are concerned about the poor business practices of MNCs around the world, whereby irresponsible behaviour has led to abuses of workers' rights, repression of poor and marginalised communities and environmental devastation. In many countries, enforcement of laws to counter such abuses is weak, and the penalties imposed for not upholding the law are too low compared to the financial benefits gained through not meeting legal obligations

In Export Processing Zones (EPZs) concessions accorded to MNCs extend beyond generous tax breaks to cover exemptions from obligations to observe core labour standards. Workers in these EPZs, the majority of which are women, are unable to join unions and enjoy the benefits of proper collective employment contracts. In general, the policy framework within which MNCs operate, based on fundamental neo-liberal principles, are oriented towards the interests of investors, and aim above all at creating a favourable investment climate in the developing countries. World Bank policy prescriptions reinforce this policy framework. In its annual ***Doing Business Report,*** the Bank ranks countries on whether or not they have a favourable business environment, thereby providing guidance to investors as to where it would be profitable to invest. Through its labour indicators, the report gives low rankings to countries attempting to promote the decent work principles such as respect for core labour standards, and upholding the minimum wage. The net effect of this Report is therefore to undermine the decent work agenda, and by extension to hinder developing countries' efforts at poverty eradication through decent work (ITUC 2008).

In order to reverse these trends and ensure that the activities of Transnational Corporations make a positive contribution to development, fundamental policy changes are required at international level.

1. Agreeing binding norms for transnational investors at UN level

At the World Summit on Sustainable Development in Johannesburg in 2002, governments committed "*(to) actively promote corporate responsibility and accountability, based on Rio Principles, including through the full development and effective implementation of intergovernmental agreements and measures (...)".*[i] In 2003, the UN Sub-Commission on the Promotion and Protection of Human Rights adopted the "Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights".[ii] These norms represent a milestone in defining comprehensive legal principles for enterprises. They comprise human rights, humanitarian international law, the ILO's Core Labour Standards, international environmental standards, consumer rights and anti-corruption regulations. However, they were not adopted by the UN Human Rights Commission in 2005 and were initially shelved. Since that time, the UN Human Rights Council has appointed a Special Representative to the Secretary-General (SRSG) on business and human rights, who was mandated to undertake a comprehensive mapping exercise on this topic, and submit his recommendations to the Council. Submitted to the Council in June 2008, the final report proposes the development of **a framework for tackling corporate abuses based upon three pillars: the state duty to protect human rights, the corporate responsibility to respect human rights, and the need for access to effective remedies for victims, including through judicial mechanisms.**

Each of these pillars is of critical importance. The Human Rights Council has renewed the mandate of the Special Representative to continue work on business and human rights. Concrete and effective recommendations should be developed in all three of the areas, informed by Southern expertise, experience and local realities, through consultation and in-depth case analysis. **The Doha review process should call upon governments to reaffirm their declarations made in Johannesburg, and actively**

promote the process of developing measures in the three critical areas defined. As regards the obligations of MNCs in the field of labour, the ILO Tripartite Declaration of Principles on Multinational Enterprises and Social Policy and the OECD Guidelines on Trans-national Companies outline clear expectations as well as follow-up mechanisms to regulate the behaviour of MNCs. These instruments should provide the basis for establishing a social regulatory framework for the operations of MNCs.

2. World Bank Policy Advice on FDI must be consistent with Core Labour Standards

Documented evidence of women workers who are heavily represented in the lower end jobs created by multinational investments and the global assembly line, whether within or outside Special Economic Zones, point to very long hours, unsafe and often unsanitary and unhealthy working environments and practices, and poor compensation. Decent work according to ILO standards is not the norm in these situations. In their business activities, foreign investors should support the ILO's decent work agenda. **In this regard, the international community, using the platform of the review of the Monterrey Consensus should call for a review and a revision of the World Bank's Annual *Doing Business Report*.**

3. Strengthening co-operation to stabilise capital flows and improving regulation of institutional investors

The Monterrey Consensus highlighted the need for *"Measures [to] mitigate the impact of excessive volatility of short-term capital flows, [and strengthen] prudential regulations and supervision of all financial institutions, including highly leveraged institutions."* Over the past few years, governments have repeatedly pointed to the problem of the volatility of short-term capital flows and the need for better co-operation to stabilise the international financial system.[iii] Moreover, the impact of uncontrolled commodity speculation on soaring food and fuel prices, driven particularly by institutional investors, has in recent times highlighted the urgent need for effective regulation, and coordinated actions. Some of the necessary measures include:

- **More stringent disclosure requirements for hedge funds vis-à-vis the financial regulatory authorities.**
- **Higher margin requirements for commodity trading to discourage excessive speculation.**
- **Rebuilding buffer stocks of food to reduce the transmission of price volatility from futures markets.**
- **Strengthened international banking standards to restrict granting of loans to hedge funds and private equity funds.**
- **Strict regulations applied to institutional actors investing in food and energy futures and in the highly speculative hedge funds.**

4. No tax incentives for retransfer of profits from foreign investment

Investors withdraw their profits from the host countries because tax legislation is more beneficial for them in tax havens and sometimes in their home countries.[iv] Such incentives encourage the global tax race to the bottom. **Governments ought to commit to abolishing all incentives for the transfer of profits. Instead, they ought to boost international tax co-operation with the aim of preventing all forms of ruinous tax competition, and ensuring that tax regimes mobilize adequate resources for development**.

5. Actively taking advantage of instruments to promote foreign trade for environmental protection and technology transfer

Multilateral rules for transnational investors can and should be used to ensure that private capital is beneficial for, and not detrimental to development. What is more difficult is attracting capital flows into economic sectors or regions of the world in which investing is risky or not particularly profitable. Here, special forms of government investment promotion could be undertaken. However, **instruments promoting foreign trade such as export credit and investment guarantees should be made conditional on MNC compliance with environmental, social and human rights standards, and binding transparency criteria. Governments should simultaneously make use of them to actively support technology transfer to structurally weak regions of the South and to areas that are particularly worth supporting from a development angle, such as addressing climate change.**

C. Fair rules for world trade

The Monterrey Consensus called for trade measures to ensure that trade plays its full part in promoting growth, employment and development for all. After more than six years, the Doha Round of trade talks that the Monterrey Consensus called to deliver such measures remains deadlocked, and its potential to live up to that call, uncertain.

In this regard, **it is urgent that the WTO negotiations change their direction. Rich country governments should recognize that government regulation and interventions provide essential policy space to further economic development. Principally, the governments of the North ought to drop their demands on the countries of the South calling for onerous tariff reductions in all WTO negotiations. Instead, in the sense of Special and Differential Treatment, the countries in question ought to be able to define the speed and extent of further liberalisation steps in line with their development needs.**

Ongoing bilateral negotiations are also a matter of concern. The European Commission's schedule for the continuation of the European Partnership Agreement (EPA) negotiations is putting considerable time pressure on the ACP Countries, which are signatories of the "Lomé Convention" and some of which are still far away from independent regional integration. A large number of bilateral investment treaties proliferated in the last few years, promoting greater levels of investment liberalization than those existing at the multilateral level. **The stipulations of the regional and bilateral trade and investment agreements that counter the development targets of Southern countries, especially ACP countries, have to be renegotiated.**

All countries of the North should completely end their subsidies for agricultural exports to the developing countries, especially to Africa. **The EU's deeds should follow its words regarding its announcement to completely eliminate the remaining subsidies for agricultural exports by 2013, independently of the further course of negotiations in the WTO.** In addition, measures should be taken to enhance the performance of local markets and protect them from foreign agricultural dumping. This issue is increasingly important in light of growing recognition that agricultural subsidies in the North have contributed to the current global food crisis. This crisis, on the other hand, reaffirms the need for subsistence farmers and small producers in the South, many of whom are women, to be supported in a variety of ways so that they can continue to grow staple food.

Importantly, the Monterrey Consensus, with its pursuit of a holistic approach, recognized that trade measures alone cannot ensure that trade promotes growth, employment and development for all. **The FfD Review Conference, building on the overarching agenda of Monterrey, should call for an integrated assessment and negotiations, in the context of its follow-up process, to address the trade, financial and monetary pre-conditions for developing countries to utilize trade as a tool for development, the promotion of gender equity and full employment. It should, furthermore, recognize that such conditions are not present in the multilateral system today.** Some of the elements of this "new trade deal" that should be listed for examination and discussion are:

1. The accumulation of domestic capital through trade

The FfD Review Conference should call for the accumulation of domestic capital for development to be placed at the centre of agricultural, industrial goods and services trade, as well as investment policies. Inter alia, this calls for negotiations on Non-Agricultural Market Access (NAMA), the Economic Partnership Agreements (EPAs), and other Free Trade Agreements (FTAs) to withdraw requirements for developing countries to lower industrial tariff levels, given their potential to jeopardise industrial development, diversification of industries, and the creation of decent and productive employment. Such negotiations must further support the strategic use of tariffs, support and access to technology and the utilization of controls on foreign investment as a key tool to prevent transfer-pricing and erosion of public revenue bases.

While FDI has the potential for expanding exports, its impacts on growth and domestic capital accumulation are questionable. For example, the bulk of the windfall gains from higher commodity prices is being drained by increased profit remittances, rather than going to use by the commodity-producing countries. Transfer pricing and other revenue-eroding measures are made easier in the absence of controls on foreign investment and capital flows.

There is no straightforward connection between increased access to other markets and growth, let alone domestic process of capital accumulation in countries getting such access. While the Monterrey Consensus pays attention to the obstacles developing countries face when trying to access developed country markets, it does not acknowledge the broader challenge of developing countries' dependence on raw commodity exports with limited value added. In many cases, including where preferential schemes exist, developing countries are unable to take advantage of available market access provisions. This is because they lack the corresponding supply-side capacity. Strategic use of tariffs, support and access to technology are key to move into medium and high tech production and higher value added.

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2. Exchange rate and financial stability and trade performance

Growing levels of financial and exchange rate volatility have asymmetric impacts on the trade performance of developing countries, as compared to developed ones. **(See "Systemic Issues" for further elaboration and recommendations)**

3. Aid for Trade and the Multilateral Trading System

Aid for Trade can play an important role in helping developing countries that choose to develop through trade overcome some of the obstacles to do so. But, Aid for Trade cannot be approached as a mere add-on to a flawed trading system in the hope it will fix its imbalances. On the contrary, Aid for Trade can only play a positive role if taken as a complement to a reformed trading system that refocuses its objectives on achieving full employment and sustainable development. Thus, **the FfD Review should call for a realistic and joint assessment of what aid and trade both can achieve, as the necessary underpinning of any policies with regards to both aid and trade.**

Member countries should commit to FfD to ensure that recipient countries play the central role in the Aid for Trade decision process. The structures for diagnostics, delivery and monitoring should ensure developing countries are free to use funds to enhance their capacities to advance their

interests, regardless of what the donors' interests might be. Trade-related programs should be untied, unconditional and non debt-creating. Aid for Trade promises should be additional to previously promised increases in aid.

4. The role of international financial institutions and donors in trade negotiations
The role of the International Monetary Fund (IMF) and the World Bank should be redefined away from trade policy. Trade and investment agreements should urgently operationalize effective mechanisms to redress the asymmetric impact that development finance institutions and agencies have had on the negotiating space of recipient countries.

The OECD's Aid Effectiveness agenda utilizes the World Bank's Country Policy and Institutional Assessment as an evaluative measure for lending worthiness that rests on elements which emphasize trade openness as a criterion of good policies and good governance. **To be faithful to the principle of ownership it predicates, the OECD's Aid Effectiveness agenda should drop requirements such as the CPIA or government procurement standards that prejudice the role and direction of trade policy in the development strategies of recipient countries.**

5. Financial issues in free trade and investment agreements
The proliferation of provisions that constrain the capacity of governments to manage the financial sector, the capital account and sovereign debt in a number of trade and investment agreements runs contrary to the interests of developing countries, as they forcefully expressed in categorically rejecting their inclusion in multilateral trade negotiations in 2003. More importantly, these constraints are not consistent with the flexibility needed to successfully implement pro-development fiscal, monetary and banking policies, such as employment- or exchange rate-targeting, where governments may deem them necessary. Painful financial crises have been the product of exactly the type of policies that such provisions aim at crystallizing in legal rules and commitments. The risks intensify because trade and investment agreements also contain provisions for dispute settlement by supranational arbitral tribunals, so very delicate matters of regulation of the financial sector for development purposes may become subject to the decision of such tribunals. **Trade and investment agreements should incorporate the lessons from past financial crises by avoiding impinging upon the flexibility to manage the financial sector, the capital account and sovereign debt.**

D. Official Development Assistance

The flows of public resources from North to South remain indispensable for the financing of the internationally agreed development goals, including the MDGs. According to the Secretariat of the OECD Development Assistance Committee, aid from Development Assistance Committee (DAC) member countries fell in 2007, and has risen since 2000 at only half the rate needed to reach donor targets. Overall, most donors are not on track to meet their stated commitments to scale up aid, and will need to make unprecedented increases to meet the targets they have set for 2010. Constantly reiterating the pledge to fulfil the 0.7 percent target is not enough. Political resolutions are needed on the quantitative increase and qualitative improvement of real financial transfers to the South as well as an understanding in principle among the donor and recipient countries regarding the (re-)definition and the framework of Official Development Assistance (ODA). This would require the following steps:

1. Overcoming donor dominance in the development discourse
A genuine partnership discourse on development issues is only possible in an institution in which the interests of all countries are equally represented. The OECD is structurally unsuitable in this regard. In contrast, the FfD process provides a more comprehensive framework where clear agreements could be reached among countries, while the new Development Cooperation Forum (DCF) could become a

suitable platform for democratic discussions and exchange of good practices, including standard-setting.[v] **The DCF must be mandated to address the strategies, policies and financing of development co-operation as well as promoting coherence between the activities of the various development partners. This forum should receive the necessary political, institutional and financial support to enable it to convene the relevant development actors, including new official development assistance providers, for discussions on fundamental issues of development co-operation. Governments and civil society from the North and the South should be equally represented.** It would thus become the key forum at multilateral level for the discussion of development cooperation, overcoming the democratic deficits of more limited and donor-driven dialogue processes of the OECD and the G8. The key challenge will be for governments to use the DCF truly to re-frame the uneven debates.

2. Redefinition of "assistance" required

In order to meet their international obligations and show increases in ODA, the governments of the donor countries organised in the OECD DAC are declaring as ODA, more and more expenditures that do not benefit the developing countries, or do so only partially. In this context, the practices of including debt cancellation, the imputed costs for educating students from developing countries and the costs of assisting asylum-seekers as components of ODA, are particularly dubious. Inflating ODA statistics with these items and simply shuffling funds from one item to another is questionable politically and methodologically because this results in the practice of aid distortion by the powerful donor countries. This is certainly not in accord with the decision of governments to focus their entire development policies on combating poverty and realising the MDGs, for which additional and predictable flows of funds are necessary, if targets are to be met. In his Report to the up-coming DCF, **the UN Secretary-General** recognizes this problem of questionable accounting of aid levels, and **calls for the involvement of recipient countries in the formulation of accounting principles for determining aid quantities. Civil society organizations support this call, and insist that the issue of aid quality must also be addressed.**

3. Timetable for increasing real official development transfers

The timetable of the EU to realise the UN 0.7 percent target of GNI to ODA by 2015 had an important signalling effect. However, in order to increase the transfer of official aid to the extent required to achieve the MDGs, further steps are necessary. First of all, the two traditionally largest donors, the USA and Japan, have so far failed to commit to a substantial increase in their ODA, let alone to a binding 0.7 percent timetable. Second, many EU countries (including Germany) have as yet not submitted any medium-term financing plans indicating how they intend to meet their ODA obligations. Thirdly, even a massive increase in ODA on paper would be of little use to the people in the South unless it was linked to a genuine transfer of fresh money.

For these reasons, those governments of the North that have not yet done so, should agree to binding timetables to reach the 0.7 percent target by 2015 at the latest. All governments of the North should submit national ODA timetables ahead of the Doha Conference, in which they clearly state their quantitative financing pledges and determine in what year they intend to provide additional funding, and for what purposes. Such a timetable would help to achieve greater predictability in development financing, and better donor co-ordination. **The grant component of ODA should be substantially increased and prioritized over loans.**

4. Removing conditionalities that undermine national ownership

Even the official development transfers from the traditional western donors that do get to the South can only make a lasting contribution to combating poverty and to achieving the internationally agreed development goals if they serve the purpose of financing national development strategies, and are spent in the interest of the people affected. Economic policy conditionalities undermine democratic ownership in the countries in question. New funding initiatives and projects emerging from South-South Cooperation that are simple, devoid of conditionalities, and strongly engage beneficiary communities, provide alternative modalities and practices. Nevertheless, the principles of the Paris Declaration are important and concerns about their interpretation, implementation and targets should be pursued in multilateral and multi-stakeholder spaces.

The following recommendations emerge from this analysis:

- **All economic policy conditionalities defined by the donors should be abandoned. Rather, efforts must be expended to deepen the global consensus on human rights, social, labour and environmental standards, as well as mechanisms for enforcement in more democratic multilateral fora, based on the principles of universal compliance, shared responsibility, and mutual accountability.**
- **The commitment to suspend aid tying ought to be extended to all countries and all aid modalities including food aid and Technical Assistance, with clear timetables. At the same time, special measures ought to be introduced to promote public procurement from domestic goods and services markets.**
- **The donors ought to increase the predictability of their finance transfers by entering binding obligations to pay over a period of several years. This applies, not only to bilateral co-operation, but also to contributions to the multilateral development programmes and funds of the UN system.**

5. Strengthening the cross-cutting issues of gender equality, human rights, and environmental sustainability in development assistance and various aid management modalities

The cross-cutting issues of gender equality, human rights and environmental sustainability suffer from the lack of conceptual clarity, monitorable targets and weak accountability mechanisms for their delivery (Dublin Meeting). Such a trend has raised concerns about cross-cutting issues "falling off the agenda." This situation is linked back to a number of factors, such as lack of political will and technical capacity on the part of both donor and recipient governments, inadequate attention to and resources for data collection, (for example with regard to gender disaggregated data), and less than meaningful participation of civil society organizations advocating on these issues.

E. New international financing instruments

In spite of growing political support, only limited additional funds have been mobilized so far with the aid of innovative financing instruments. The Leading Group on Solidarity Levies to Fund Development has seen considerable growth in the last few years. An encouraging and concrete step has been the establishment of the Norwegian-led International Task Force on Illicit Financial Flows and Capital Flight. The initiative embodies much of what civil society organizations have been demanding. The work it has accomplished needs to be integrated in the Doha FfD process. Another positive signal is the appointment in February 2008, of the former French Minister of Foreign Affairs Philippe Douste-Blazy as Special Adviser to the UN Secretary-General on Innovative Financing for Development. The governments co-operating in the Leading Group are now called upon to respond with new political initiatives on their part to the step taken by the Secretary-General in the run-up to the Doha Conference on Financing for Development.

1. Expanding the solidarity levy on air tickets

So far, 20 countries have announced the introduction of an air ticket levy. Only a minority have translated this declaration into practice. **In the run up to the Doha Conference a fresh partnership between interested NGOs and governments should be built to recruit new participants and help the levy and UNITAID reach their full potential.**

While the financial volume raised would be relatively small, the successful implementation of such a levy by a number of countries proves the potential for such mechanisms to contribute to the generation of financing for the achievement of the MDGs, a contribution which would increase with every new State that implements it. Furthermore, best practice with the implementation of the solidarity levy could be used as a basis for designing internationally coordinated taxes aimed at mobilizing additional resources for financing development

2. Making use of proceeds from emissions trading for international measures to combat global warming

Trading emissions rights bears a considerable financing potential for development tasks. However, the precondition here is that the emissions rights are more strongly limited and are not giveaways to industry but are really sold or auctioned. The EU's practice of selling up to 10 percent of the emissions rights as of 2010 is an initial modest step in this direction. However, the goal of selling all emissions rights ought to be achieved much earlier than (as currently planned) 2020. Above all, the emissions rights for air traffic should already be fully sold or auctioned from 2012 on. At the same time, there is a need for measures to ensure that proceeds are not used to bridge budget gaps or provide industry with tax relief but are rather channelled into initiatives to combat climate change. The German Federal Government's decision to use part of the proceeds from 2008 for international measures to combat global warming is exemplary. However, from 2009 on, **the share should be raised** to at least 50 percent**, in order to support the countries of the South in applying urgently required measures to adapt to climate change, as well as develop low carbon economies.**

Under the United Nations Framework Convention on Climate Change (UNFCCC), Article 4.3, 4.4 and 4.5, developed country signatories have committed themselves to provide developing countries with new and additional financial resources in order to meet the costs of their efforts to address climate change, and to assist vulnerable countries to adapt to its impacts. Revenues generated from the emissions trading system, imposed with the aim of generating financing to address climate change, should therefore be seen as a means of developed countries fulfilling their international obligations under the global climate change regime, and therefore as separate from and additional to generating financing for development.

3. Introducing a currency transaction or financial transaction tax

Numerous studies demonstrate that a currency transaction or financial transaction tax would be technically feasible, could be efficiently raised, and could mobilise far more funds than all innovative financing instruments so far put together. Moreover, the implementation of such a levy would mean that a very important step has been made towards a better distribution of the world's wealth.

The UN Secretary-General noted in his recent report to the ECOSOC meeting with Bretton Woods institutions: *"There is renewed international interest in a possible currency-transaction "development levy" of 0.005 per cent, a minuscule tax that is not expected to materially affect market operations while having the potential to generate billions of dollars that can be allocated for development. OECD member countries are already raising substantial amounts of revenue on various types of financial transactions taxes, with no apparent negative impact on financial markets. The international financial system already has clearing and settlement mechanisms that can manage the collection of this levy at low cost for any one country unilaterally. The difference is that, by its very nature, currency transactions taxes involve more than one country, being levied on the exchange of the currency of one country for that of another. Thus, these are taxes that are best implemented in a cooperative manner among countries."*[vi]

What has been lacking as yet is governments mustering enough courage to take on the opposition of the finance industry and speaking out in favour of such a tax. NGOs are working at different levels, with the aim of setting up a new campaign, calling for leadership from key governments, in order to turn parliamentary resolutions into cooperative action. The governments of those countries in which parliamentary resolutions to introduce a currency transaction tax already exist or varieties of a foreign exchange transfer tax have been established, could assume a pioneering role in this context. The next step would be to form a Task Force in the framework of the "Leading Group".

Governments are urged to include this currency transaction development levy as a specific item for the Doha draft outcome text. The collection of this levy should take the shape of an "international political agreement", as implied in the Secretary General's April Report, and should be multilaterally managed by the UN, with the aim, at least at the beginning, of financing the achievement of the MDGs.

4. Promoting innovative financial instruments - in search of appropriate governance arrangements
Innovative sources of finance provide much needed additional resources for development, above and beyond the 0.7 percent commitment of GNI to ODA. They help to diversify the funding actors and mechanisms in support of the achievement of sustainable development, including the MDGs. Institutions such as UNITAID, IFFIM AMC or the Digital Solidarity Fund are conceived as multi-stakeholder initiatives, i.e. their decision-making bodies comprise private enterprise and civil society as well as governments (Triangular Relations). These operate outside of traditional/existing institutions that by and large uphold an asymmetrical and largely donor-driven governance of international development cooperation, and therefore have the potential to be more inclusive and democratic. Nevertheless, one should continually assess which interests are asserting themselves in these institutions, and how their democratic legitimacy and development focus could be guaranteed. Innovation is not per se positive, and new financing instruments may also bear risks and undesirable side-effects. In view of this, "new donors" need to be brought more actively into the rubric of global discussions on aid, in both its normative and its operational dimensions.

The tendency to create a new institution for each financing instrument promotes the proliferation and fragmentation of the system of global governance, and complicates co-ordination. **In future, wherever possible, innovative financing instruments ought to be implemented by making use of existing institutions, provided they are democratic, have proven expertise, and a demonstrated capacity for effective results. Innovative instruments should be monitored for their ability to generate truly additional funds, to engage new donors, and to prioritize allocations to critical social sectors.**

F. Lasting and sustainable solutions to the debt problems

The debt relief initiatives so far have fallen far short of the call of the Monterrey Consensus and Millennium Declaration to "comprehensively address debt problems of developing countries," which continue to represent a crushing burden for many developing nations.

1. Expanded debt cancellation
The Monterrey Consensus urges that *"Future reviews of debt sustainability should also bear in mind the impact of debt relief on progress towards the achievement of development goals contained in the Millennium Declaration."*

However, the liberation of resources to meet the Millennium Development Goals remains a challenge, with dozens of countries still falling far short of what is needed to achieve the UN's avowed goals of eliminating hunger and poverty. With the international community at risk of failing to meet these commitments, **the Doha Conference should call for expanded debt cancellation for many more**

countries to help them to achieve human development goals. The implementation of debt relief should ensure resources resulting from debt cancellation are utilized in accordance with shared responsibilities of lenders and borrowers on gender equality and women's empowerment.

2. Debt sustainability

In countries that have received debt cancellation, new borrowing threatens to return countries to debt crisis, hence undoing efforts over the past several years to reduce and cancel debts. To date, official efforts to address this problem have focused mainly on the IMF/World Bank's Debt Sustainability Framework (DSF). But this instrument has been ineffective in addressing the problem of debt re-accumulation. It is also inequitable, as it sanctions only the debtor for breaches in the debt ceilings, while new borrowing is co-responsibility of debtors and creditors and, in many instances, the result of insufficient access to grants.

The DSF's flawed methodology fails to heed calls to take into account incapacity to meet the MDGs or other human development targets and, instead, understands debt sustainability merely as inability to repay. It overemphasizes debt-to-exports and debt-to-GDP indicators, which fail to capture the real needs for debt relief, and gives a central role to one-size-fits-all Country Policy and Institutional Assessments by the World Bank, which constrain borrowing countries' space to implement nationally-owned development strategies. Debt sustainability approaches should also comprehensively address both the endogenous and exogenous shocks under which the post-Heavily Indebted Poor Countries (HIPC) now find themselves, and the situation in several middle-income countries, where external debt levels have improved at the expense of generating new domestic debt, with its own set of vulnerabilities.

The DSF does not leave space for participation by the borrowing country and its people in the preparation of their own debt sustainability analyses, strategies and goals. **The Monterrey Consensus commitment to *"broaden . . . participation of developing countries . . . in international economic decision-making and norm-setting"* also should apply in this area via the establishment of independent bodies to determine what level of debt is sustainable. Sustainability criteria should be based on the ability of countries to meet human development targets, de-emphasize export- and GDP-based indicators to privilege budget revenue ones, and be delinked from inflexible criteria such as the CPIAs. Both endogenous and exogenous shocks and the growing levels of domestic debt in middle income countries should be taken into account when making debt sustainability assessments.**

3. End harmful conditionality

Countries being awarded debt cancellation are required to implement hundreds of conditions as part of the IMF/World Bank HIPC Initiative. **While mutual accountability and transparency are essential to any debt cancellation agreement, current conditionality goes well beyond these basic fiduciary standards into micro-management of the economies of impoverished countries. Access to debt relief should not be tied to economic policy conditions.**

4. Vulture funds

Governments should commit to concrete steps towards changing their laws, so as to prevent vulture funds and other commercial interests from compromising the benefits arising from debt relief, and give judicial and financial assistance to debt-stressed countries in case they are taken to court. The UN should actively co-operate with other agencies to develop and strengthen the necessary binding codes of conduct that could prevent vulture funds from engaging in aggressive litigation, and profiteering from debt relief processes.

5. Cancelling Odious and Illegitimate debts
In the Monterrey consensus governments recognised a common responsibility of debtors and creditors to solve debt problems by stating that: "*(...) debtors and creditors must share the responsibility for preventing and resolving unsustainable debt situations.*"

Indeed, the principle of co-responsibility has been developed since Monterrey through a growing legal and political interest in the concepts of odious and illegitimate debts. Recently, Norway became the first Northern government to unilaterally cancel specific debt claims on the grounds that the credit in question was an example of "failed development policy," a key element of conceptions of illegitimacy of debt. Across the developing world, civil society has been implementing citizens' debt audits to examine the nature of debts, and in 2007, Ecuador became the first government to convene an official debt audit commission, with a mission of determining the legitimacy or illegitimacy of historical lending to Ecuador. The debate on odious debts has further been developed with the publication of papers on the topic by UNCTAD and the World Bank.

This evolution of the notion of odious and illegitimate debts, and the principle that they must be cancelled, must be recognized by the Doha Review.

6. A responsible financing framework for lenders and borrowers
The principle of co-responsibility has, furthermore, been applied by the international community by issuing several calls for more "responsible lending." These calls recognize that the problem of debt re-accumulation and over indebtedness should be tackled in a forward-looking way that looks comprehensively at the process of borrowing and lending – both in terms of *quantity* and *quality*.

Responsible lending will only be achieved via the adoption of a binding legal framework that fairly allocates the burden of irresponsible borrowing on both creditors and debtors. It would take account of both the origin and impact of the debts, and give equal treatment to both debtors and creditors. Only a framework like this will change the incentives, and thereby the behaviour, of lenders. Such a framework could assume the form of impartial and transparent processes for resolving debt crises and disputes such as, for instance, debt arbitration. It would also be more in line with the Monterrey Consensus' call for "a set of clear principles for the management and resolution of financial crises that provides for fair burden-sharing between public and private creditors and between debtors, creditors and investors." **The Eurodad Charter on Responsible Financing, developed by Eurodad, provides a good basis for this.**

Responsibility in the borrowing side of the process should also be emphasized through, inter alia, parliamentary oversight and civil society participation in the process of contracting and monitoring use of new loans.

7. Addressing the linkages between Debt and trade
Debt problems have typically been targeted with measures taken in isolation from other economic dynamics that tend to affect it. An example of this is the HIPC initiative, whose debt relief gains were quickly eroded by commodity price dynamics that the initiative failed to address. **The Doha FfD Review should recognize these linkages and call for the design of measures that integrate them into debt-oriented solutions.**

8. Addressing the ecological debt
The overconsumption of natural resources affects developing countries' ecology and livelihoods, an impact often referred to as the ecological debt to those countries. They often spend a considerable part of their income adapting to the consequences of such overconsumption beyond that which takes place within

their borders. **The tax and aid regimes should no longer neglect the effects of profligate consumption by industrialized nations. Polluters must bear financial liability for the impact of their actions and the international tax regime must recognize a levy tax on overconsumption of natural resources.**

G. Reforms of the international financial system

The FfD Review Conference comes at a timely moment when the major multilateral institutions, the World Bank, the IMF and the WTO, as well as the regional development banks in general, are rethinking their role in finance and development. The current policy of many governments in the South to protect themselves from financial crises with regional and unilateral measures reflects the confidence crisis of the global finance institutions. The still unfolding financial crisis emanating from Wall Street and its consequences shows conclusively that systemic problems of the financial system are not a thing of the past, neither one that can be solved by mere domestic reforms in developing countries.

An effective multilateral financial, monetary and trading system can only develop via sweeping reforms of existing institutions, a refocusing of their policies on the goals of sustainable development and a reformulation of their mandates.

1. Mechanisms for dealing with global imbalances are failing
Growing levels of financial and exchange rate volatility have asymmetric impacts on the trade performance of developing countries, as compared to developed ones. **The asymmetric impact created by these exchange rate fluctuations in developing country economies should be acknowledged in trade and investment negotiations and agreements.**

While the IMF has focused its surveillance activities on the countries of the South and pressured countries to change policies as a pre-condition for IMF loans, it holds little sway on threats to the stability of the world economy originating from the industrialised countries, which do not borrow from the IMF. Thus, the IMF is failing to broker the coordination of exchange rates among major hard-currency issuers - coordination mandated in the Monterrey Consensus - and the prevention of global imbalances. **The FfD Review Conference should explore the institutionalization of credible mechanisms to provide for orderly coordination among hard currency issuers. Such mechanisms should ensure the exchange rate stability needed by countries proportionately most affected by such fluctuations.**

In the absence of adequate and readily accessible emergency financing, developing countries have tried to cope with the ensuing volatility by building large amounts of reserves. But this is taking place at huge development and social costs, as such funds are invested in rich-country treasury securities instead of in growth-supporting investment at home. The unwinding of major-currency misalignments may bring large losses to the purchasing power of such reserves. The role of regional and sub-regional monetary arrangements is key in order to lower dependence on a few key currencies, so **the FfD Review should encourage the adoption of regional coordination mechanisms, including regional stabilization funds, and the South-South exchange of experiences and expertise on the design and work of such arrangements. Regional monetary units can, in turn, provide a stepping-stone to a more balanced and equitable mechanism for ensuring exchange rate stability.**

In turn, there is a need **for developing countries to manage their exchange rate policy as required by their trade and development needs in response to the global context. The pursuit of countercyclical fiscal, monetary and financial policies should, likewise, be encouraged as a domestic safeguard against global fluctuations and imbalances. There is also a need to curb speculative flows that generate or exacerbate the fluctuations of export-related incomes in developing countries.**

2. Reform of the governance of the Bretton Woods Institutions

The reform of voting rights in the IMF (and the World Bank) has to reach beyond the minimalist steps that have been concluded at the Spring meetings, and result in a substantial increase in the share of votes held by the developing countries. These reforms fall short of the significant revamping of variables required to achieve the political goals promoted in Monterrey. Moreover, they threaten to marginalize even further low-income countries which have become the main users of the IMF. In the Executive Board, the countries of the EU occupy seven of the total 24 seats in the executive board of the IMF, while 44 African countries are represented by a mere two executive directors. **The countries of the EU, which are currently most over-represented, have to hand over shares to the developing countries. This includes a greater bundling of the European Constituencies. But the reform of voting rights ought to reach beyond a mere update of voting power to align it with economic weight.**

A significant development since Monterrey has been the IMF moving into surveillance of financial standards, and also exchange rates, roles that require even-handedness—and an emphasis on the advanced, not the developing, economies—while moving away from its role of being a reliable emergency lender in times of crises. To the extent that this is the case, there is no justification for a governance structure that still gives so much primacy to the funding capacity of member countries. **A new voting system in accordance with the principle of double majority (every resolution has to be approved by the majority of the member states and a majority of the share capital) currently appears a pragmatic and better approximation to the one-country one-vote principle that must prevail in the norm-setting areas that they are claiming for themselves.**

The wholly unjustified practice of the IMF Managing Director always coming from Europe and the World Bank President always coming from the USA, should be abandoned.

Awarding credits must not empower the IMF to impose conditions on the debtor countries that impede the achievement of the international development goals or even render them impossible. The IMF ought eventually to withdraw from development financing in the narrower sense. This also implies that its Poverty Reduction and Growth Facility be phased out.

3. Avoiding financial crises require global cross-border cooperation on supervision and regulation

The crises and ensuing credit turmoil have renewed attention to the drawbacks in credit rating agencies, financial standards (in particular Basel II) and the bodies that design them, and the roles of supervisors and regulators.

The Monterrey Consensus called for broadening the participation of developing countries in financial standard-setting bodies. Yet, no progress has been registered in this area. In the light of the current crises, it is clear that even standards implemented in industrial economies end up affecting developing countries. In fact, the smallest and least resilient the economies are, the most they are affected. These countries are asked to live with the consequences, but not allowed to have a vote in the process, of designing these standards. **Since the same governments that agreed to the Consensus sit on the FSF, Basel Committees, and other bodies that set standards and codes, immediate steps should be taken by them to open these bodies' membership with the goal of achieving balanced, institutionalized and full participation by developing country governments.**

Lack of participation in the design of these standards would not be so serious if another commitment from Monterrey had been kept: this is that implementation of standards and codes by developing countries should be voluntary. But standards and codes have become a consistent part of conditionality and surveillance by the IMF and the World Bank, and recent announcements threaten to only deepen this trend. In line with the commitment made at Monterrey, **standards and codes should no longer be part of IMF and World Bank conditionality and surveillance.**

The Monterrey Consensus called for credit rating agencies to "maximize the use of strict, objective and transparent parameters" in developing sovereign risk assessments. Not much was done on this aspect, but it is clear that the call is also insufficient. The current crisis has to do with credit ratings on private sector companies and financial products. **There is a need to revamp the incentives structure within rating agencies so they produce more reliable assessments and introduce greater competition among what are few players. Proposals for a registry and oversight body could be studied in the context of the FfD Review Conference.**

The reality of cross-border financing requires stronger cross-border supervisory and regulatory efforts. **There needs to be greater global cooperation among supervisors and regulators in existing fora and institutions, and eventually through setting up inclusive and comprehensive fora that can provide an effective public sector counterpart to what is now a private international financial sector, spot problems early on and call for regulatory reform on emerging areas of risk.**

4. Fora for policy-making and dialogue with balanced representation

Representatives of the South, the North, as well as civil society organisations, increasingly demand that issues pertaining to international economic, financial and development policies no longer be determined by exclusive clubs such as the G8, but in multilateral bodies in which all regions of the world are equally represented. Such a body need not be newly invented. It could, for example, be housed in the United Nations Economic and Social Council (ECOSOC), which has been in existence for more than 60 years. So far however, governments have failed to display any readiness to give the Council political clout. It remains to be seen whether the decision to run a global Development Co-operation Forum (DCF) in the context of ECOSOC as of 2008 will represent an incremental step out of insignificance. The recommendation made by the *High-level Panel on System-Wide Coherence* goes much further. In its report in November 2006, it proposed that a Global Leaders Forum (L-27) of heads of state and government be created in the framework of ECOSOC.

From a mid-term point of view, some NGOs continue to insist that only a re-foundation of the Bretton Woods Institutions and the World Trade Organization inside the UN will allow the achievement of political coherence throughout the system. This re-foundation would end the contradictions often found among the action plans designed by the UN and the policies implemented by the aforementioned institutions.

In the short term, ECOSOC should be given the political clout play the role of a multilateral body in which international economic, financial and development policies are determined with all regions of the world being equally represented.

H. Strengthening the follow-up process

It is important to stress that the Monterrey Consensus was not meant to be an end, but a beginning. In a large measure, the realization of its promises and commitments can only come through continued dialogue and the engagement of all stakeholders, as embodied in the "spirit of Monterrey." Its major achievement is, perhaps, to have created such a framework for dialogue. But this also means that the measure of the commitment by governments should be gauged by the strength of the follow-up process, more than by the language of the outcome document.

There are good reasons to be deeply concerned in this regard. The failure to agree that the Doha Review Conference be held at a Heads of State level is the most recent but not the only sign of this wavering commitment to this process. In fact, the High Level Dialogues in ECOSOC and the General Assembly, are increasingly devoid of traction, with most non-UN stakeholders unclear about what the political value of their outcomes are, therefore tending to ignore them.

In the context of an ailing process, failure to strengthen the follow up is going to lead to the loss of the spirit of Monterrey, and the devaluation of all of its commitments. We therefore place most value on the strength of the follow up that is agreed at the Doha Review Conference.

In particular, the promise of the Monterrey Consensus to deliver a holistic consideration of all sources of finance remains unattained. While the Monterrey Consensus addressed all sources of finance, throughout the follow-up they typically tend to be addressed as separate, compartmentalized discussions, thereby giving an incentive to reproduce the compartmentalized nature of deliberations followed in other institutions. With this, it has reduced the UN's capacity to make contributions that add value to such other processes.

We recommend the current follow up process be replaced with a new institutional mechanism that has, at a minimum, 5 features:

1. **It should meet periodically and frequently (e.g., on a yearly basis).**
2. **It should produce a negotiated outcome, moving from the current non-negotiated follow-up mode, to a negotiated follow-up mode. This does not diminish the importance of non-negotiating instances as a prelude to consensus-building, but the Monterrey follow up process can no longer be limited to those instances alone.**
3. **This institutional mechanism should be at the highest level, not only in governments, particularly including high level officials covering key economic portfolios in member countries, but also the top leadership of the international financial institutions and the World Trade Organization, and all relevant development actors.**
4. **Civil society should be accorded a space as has been the case from the beginning of the FfD process. Their contribution to the process should be stimulated in the final phase of the Doha Conference preparatory process at the national, regional and international level as well as at the Conference itself by the provision of full access to its proceedings.**
5. **Accessibility to information and to negotiations for all stakeholders, including civil society, should be improved to ensure that the FfD process is upheld as a truly multistakeholder process.**

This institutional mechanism should be backed by a strengthened UN Secretariat in FfD matters, and by a strengthened intergovernmental counterpart to the Secretariat, to provide the necessary legitimacy, political guidance and leadership on concrete follow-up matters (This could be a General Assembly "Committee on Financing for Development").

In particular, we believe that **better use could be made of the mandate and follow-up process to ensure the UN's unique position is used to enable a structured discussion that integrates different sources of finance and more deliberately explores their interrelations. The objective of the follow-up process should be to undertake an <u>integrated</u> review of the six themes from Monterrey, with the participation of all the relevant stakeholders, as required in the "spirit of Monterrey." One practical way to achieve this would be to ensure that the periodic follow-up review proposed above always includes a section devoted to exploring interlinkages between two –or even three-- selected chapters, and draws policy conclusions to then be taken up by the institutions with specialized focus.**

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[i] Plan of Implementation of the World Summit on Sustainable Development, para. 49.
[ii] UN Sub-Commission on the Promotion and Protection of Human Rights, resolution 2003/16
[iii] UN Doc. A/CONF.191/11, Annex, para. 25.
[iv] For example, with its Homeland Investment Act of 2005, the US government created considerable incentives for US companies to declare their profits accrued abroad up to 2002 in the USA at a dumping tax rate of 5.25 percent (instead of the regular 35 percent). As a result, this year, 260 billion dollars in foreign profits of American corporations flowed back to the USA. In the previous five years, this had only amounted to an average 65 billion dollars.
[v] Cf. here www.un.org/ecosoc/newfunct/develop.shtml
[vi] UN Doc. A/62/217 of the 10th August 2007, para. 78