



Norwegian NGOs' recommendations to the UN review conference on Finance for Development (FFD).

The Norwegian Forum for Environment and Development, a coalition of more than 50 Norwegian civil society organisations, has prepared this policy document towards the Doha follow-up conference on Financing for Development (FFD). **Our three primary objectives are for governments to:**

- Bring an end to illicit capital flight from developing countries.
- Commit to the principle of additionality in relation to already promised resources for development when working out an international agreement on financing climate adaptation and mitigation.
- Secure equal benefits for men and women from all financing for development, and channel more resources to the promotion of gender equality.

Introduction

The true value added to the global development agenda by the Monterrey Consensus came with the wide variety of stakeholders committed combined with the encompassing of the wide range of issues related to financing of development. Insisting on maintaining a holistic and coherent agenda, the political challenge for the Doha follow-up conference lies in assessing properly the delivery according to promises, the progress made towards internationally agreed development goals and addressing the new challenges and emerging issues since Monterrey.

Reviewing Monterrey, both governments and private sector are far from delivering what was promised. We are therefore a long way from reaching the Millennium Goals and delivering to people what their human rights entitle them to. First and foremost, the Doha meeting must now agree to **fulfill peoples' human rights** and to **deliver already promised resources**.

Among **the new issues since Monterrey** we have seen a broad discourse on international architecture of development cooperation, and a series of new and **innovative mechanisms** to generate and channel increased financial contributions for development. Despite several examples of considerable needs met by these new mechanisms, there is growing concern over an influx of parallel structures to both international and national bodies. It is important that such innovative financial mechanisms are monitored and evaluated by their ability to mobilize truly additional funds and new donors. Furthermore, such mechanisms should be required to strengthen *existing* international or national structures – such as national health or education systems etc.

The absence in Monterrey of integrated and operational perspectives on both **women's rights** and **environmental sustainability** needs to be corrected in Doha. From a gender perspective, the Monterrey document fails to discuss the relationship between development and gender. Development financing is still gender-blind. If aid is to eradicate poverty and inequalities, it must integrate gender equality and women's empowerment, and therefore more aid assistance must be directed towards these critical issues.

When it comes to the environment, it has since Monterrey become increasingly evident that **climate change** will have devastating effects on the already vulnerable resource situation of many developing countries. The highest costs for climate change adaptation and mitigation will fall on many of the least developed countries. This understanding is undisputed, and must be appropriately reflected in the Doha outcome document.

1. MOBILIZING DOMESTIC FINANCIAL RESOURCES FOR DEVELOPMENT

For a discussion of different possible *inflows* of capital to developing countries to be meaningful, one should have the necessary knowledge of the *outflows* of capital. The reduction of outflows, and addressing the systemic aspects that allows this outflow should be a central part of the FFD agenda. Recommendations from the Task Force on Tax Havens and Capital Flight which operate under The Leading Group on Solidarity Levies to fund development should be considered as inputs to the FFD review conference in Doha. We also hope that the World Bank study on illicit flows of capital which the Norwegian government has commissioned will come out with its conclusions in time for the Doha meeting.

1.1. Addressing the outflow of capital from developing countries

Capital outflow is the most ignored development issue. Tax evasion and the use of tax havens (see also 6.2) is a notorious global problem further widening the divide between the developed and developing world. Every year Africa alone is drained of USD 600 billion because of capital flight. This equals six times the total amount of ODA. Multinational companies play a major role in draining developing countries of capital, and transfer mispricing is one common vehicle for capital flight. Such mispricing occurs when a company conducts trade between its own subsidiaries. By setting the price unnaturally low or high on goods, services, intellectual property fees and intra-group finance (to avoid taxation of capital holdings), profits are shifted to tax havens where taxes are low.

One recent example shows how banana companies skipped tax using transfer pricing and a dozen subsidiaries in tax havens. The banana companies pay almost no tax. During the past five years, the three largest banana companies' global sales combined were more than USD 50 billion and together they made USD 1.4 billion of profits. Out of this they paid only USD 200 million (or 14.3% of profits) in taxes. In some years the banana companies have paid an effective tax rate as low as 8%, yet the standard rate of corporation tax in the US where they have their headquarters and file their accounts is 35%¹.

We therefore urge all governments at the Doha meeting to:

- Strengthen the Financial Action Task Force (FATF) to also put forward recommendations on capital flight and tax evasion.
- Strengthen the UN tax committee and upgrade it into an intergovernmental entity.
- Initiate a system for 'country by country reporting', implying that multinational companies have to report which countries they operate in, the name they trade under in each country, and data for financial performance in each country they operate, including: Sales, purchases, financial costs, labour costs, pre-tax profit and tax payment to the government of the country where it is trading.
- Endorse and assist South-South information sharing and capacity building to mobilise domestic resources to offset capital flight and loss of official tax revenues.
- Request that the IMF and the World Bank should include in their assessments of transparency, countries' information exchange and focus on the outflows of capital.

¹ The Guardian.06.11.2007: *Bananas to UK via the Channel islands? It pays for tax reasons.*
<http://www.guardian.co.uk/business/2007/nov/06/12>

1.2. Addressing the problem of tax competition and tax avoidance.

While we advocate for addressing *illicit* capital flows, it is equally important to focus on the global impact of “*formally legal*” *tax competition*, which is currently used by both legal and natural persons to the extent that the distinction between tax avoidance (legal) and tax evasion (illegal) seems more and more difficult to draw. Tax competition between countries and pressure from companies to lower taxes has been defined as a race to the bottom. Procedures for tax holidays, accelerated tax allowances, relaxation of regulation and other forms of tax inducement have been widely adopted across the world. The IMF, World Bank and EU have all encouraged developing countries to compete in this way to attract capital and investment. Tax competition is, however, fundamentally flawed as a development strategy because it limits the control a country can have over taxation policies and creates harmful distortions. Moreover, a state which facilitates tax avoidance on a large scale undermines the financial basis in those states where capital is taken out of the country, most often by the already affluent, hence causing extra tax burdens on ordinary persons.

A proposal for a *Code of Conduct on Cooperation in Combating Capital Flight and International Tax Evasion and Avoidance* was carried forward to the UN Tax Committee session in Oct/Nov 2007. The Tax Committee has now given approval for the sub-committee on tax information exchange agreements to prepare a draft code from this proposal.

We call upon governments to:

- Implement socially just tax systems to promote internal redistribution of resources.
- Actively support the work for the Code of Conduct, and include it in the final report from the Doha summit.

1.3. Gender-responsive budgeting

Government budgets are the largest single source of financing for gender equality and women’s empowerment for most countries. It is through national and sub-national budgets that government promises are translated into practical policies and programmes. Gender-responsive budgeting has been identified as a public finance strategy in a range of international commitments on gender equality² and in the Monterrey Consensus.

We therefore call on the Doha meeting to recommend that all governments:

- Develop a strategic plan with short, medium and long term targets for integrating a gender perspective in the public finance system.
- Make gender-responsive budgets mandatory for all sectors and areas.
- Develop methodologies and performance indicators to measure progress in introducing and implementing gender-responsive approaches to public finance.
- Strengthen the cooperation between Finance Ministries and women’s policy organizations to coordinate and monitor the implementation of gender perspectives into planning and budgetary decision-making.
- Build national capacity and ownership of government, parliamentarians and civil society with regard to effective planning, implementation, and monitoring/tracking of gender equality.

² E.g. the Beijing Platform for Action, the outcome of the twenty-third special session of the United Nations General Assembly, and the agreed conclusion from the 52th session of the UN commission for women.

2. MOBILIZING INTERNATIONAL RESOURCES FOR DEVELOPMENT: FOREIGN DIRECT INVESTMENT AND OTHER PRIVATE FLOWS

If investments are to serve as instruments for financing development in developing countries, there are several conditions that should be in place in order to avoid that investors take the profit while the host country is left with grave environmental and social costs.

2.1. Socially responsible investments

There is an urgent need to establish a binding regulation of corporate social responsibility and accountability, as agreed at the WSSD in 2002, including instruments for Socially Responsible Investments (SRI). The purpose is to ensure that corporations and financial institutions, wherever they operate, comply with the human rights instruments through their own activities and throughout their supply chain. This includes implementing the rights of workers, women, indigenous peoples and children, as expressed in specific conventions, and exercising special caution in countries and areas where the abuse of human rights is widespread. They should also comply with international obligations and observe commitments which aim to ensure sustainable development, protect the environment and strengthen good management of natural resources.

To act or invest socially responsible also means complying with recognised international guidelines and recommendations for multinational corporations (also in relation to economic matters) and ensure that the company contributes through taxes and duties to development and welfare, fights corruption, capital flight and other serious obstacles to development. Corporations should also negotiate and obtain agreements with legitimate representatives for affected local communities and legitimate representatives for occupied areas before establishing operations in an area. Particular caution must be exercised when establishing operations in countries in a state of civil war, or threatened by other types of war or violent conflict.

We therefore urge governments to enact legislations under which:

- Corporations *must report on the social and environmental consequences of their activities*. Such reporting should follow independent guidelines for reporting on sustainable development, e.g. Global Reporting Initiative. This means that the report should be published by the Board of Directors and be audited by an independent body.
- The responsibility of company directors is expanded so that directors can be made personally responsible for the consequences of their company's operations.

2.2. Administration of large funds

A number of large investment funds, such as the Norwegian Government Pension Fund – Global, represent large investments in world markets. These large public investment funds should provide means of finance for development, and a part of the portfolio of every such fund should be invested in developing countries with a designated share for the Least Developed Countries.

The objective of pension funds is to manage financial wealth to generate a sound, long term return. Such funds' financial interests can only be consolidated by using the ownership interests to promote sustainable development. Since 2004, the Norwegian Pension Fund has been subject to ethical guidelines³ regulating such areas as violation of human rights, the

³ These guidelines, however, only cover the part of the fund invested in stocks (approx 40-60 %). No guidelines exist for the investment the Fund has in the bonds market.

environment and production of certain arms. The economic and political success of the new management of the Fund has been an inspiration for socially responsible investors worldwide.

Exercising ownership rights can be done in different ways. Voting and proposing are together with the screening mechanisms the cornerstones of corporate governance. One method is negative screening of companies from the investment universe that either themselves, or through entities they control or their supply chain, systematically violate agreed corporate accountability standards. Another method is positive screening of companies that in a particularly positive way contribute to poverty reduction, social and environmentally sustainable development.

We therefore urge governments to:

- Enact legislations under which funds must report on the social and environmental consequences of their activities.
- Ensure a system for excluding companies from the investment universe where there may be an unacceptable risk of contributing to:
 - Serious or systematic human rights violations, such as murder, torture, deprivation of liberty, forced labour, gender based violence and child labour.
 - Grave breaches of individual rights in situations of war or conflict
 - Severe environmental degradation
 - Gross corruption
 - Other particularly serious violations of fundamental ethical norms
- Incorporate large public investment funds as a means of finance for development. A part of the portfolio of every such fund should be invested in developing countries with a designated share for the Least Developed Countries.
- Support the proposal by World Bank President Robert B. Zoellick that sovereign wealth funds should invest 1 percent of their funds in Africa⁴.

2.3. Innovative finance mechanisms

The financial development of the past years has made it necessary to implement new mechanisms for finance. The Leading Group on Solidarity Levies to fund development has brought up several important issues which we recommend.

A currency transaction levy will realise a more equitable distribution of wealth and contribute to a more stable finance climate while at the same time raising development revenue. The lacking regulation of trade in currency reduces the opportunities states have to influence their own economy, sometimes with catastrophic consequences. The implementation of a currency transaction levy can enhance redistribution of resources (from the north to the south) by limiting capital flight, and limiting the risk for financial crisis worldwide. In addition it can be a tool for alternative financial policies and can generate income for realisation of for instance the Millennium development goals or other public duties.

With a two-tier currency levy (Exchange Rate Normalization Duty - ERND), as proposed by Paul Bern Spahn, a very low levy will be collected under normal circumstances, but in situations of rapid changes in currency rates, a higher levy will apply. This will increase the

⁴ Washington Post. April 3, 2008. *Zoellick Wants Wealth Funds To Invest 1% In Africa.*
<http://www.washingtonpost.com/wp-dyn/content/article/2008/04/02/AR2008040203417.html>

transaction costs of trading with currencies in situations of financial turmoil, where all experiences show that the psychological effect is substantial, affecting the currency rate more than the underlying economic basis actually provides for. This will have a stabilizing effect, make the risk of currency fluctuations more predictable and prevent short term speculations and attacks on a country's currency. The relative value of currencies is of great importance to trade and investments across country borders. Insecurity in currency markets involves a potential extra cost in this system.

To collect a currency transaction levy is simple and non-bureaucratic, and can technically be done by utilising the bank's payment systems at the settlement point. Currency trade is completely digitalized, and every transaction can therefore be taxed without further institutional set-ups. The costs of administration will be minimal. There are a limited number of large banks that are allowed to conduct currency transactions. It is not necessary implement the levy in all countries at the same time. The currency transaction levy can as a start, easily be implemented in just one country or a few countries. The levy itself is small, and economic loss is therefore minimal. In return, it can secure investments, create safety and produce better control.

We expect those who have access to the world economy, and who make great earnings on a globalized financial market, to give something in return to the world community. The implementation of a currency transaction levy will be a first opportunity.

An environmental levy can bring a "double dividend" by raising revenues as well as having a regulatory effect. A levy on CO² emissions could potentially reduce emissions from the fastest growing emitter of greenhouse gases, namely the aviation industry. A number of European states have introduced carbon taxes domestically, but there is no internationally coordinated system, as neither the aviation nor the shipping industries are regulated by the Kyoto Protocol. To avoid the regressive effect this levy could have on poorer nations, which might be more dependent on carbon fuels and be in a weaker position to use environmentally friendly technology, lower rates for developing countries should apply.

Taxation of air transport could be beneficial in terms of increasing the incentives for air transport companies to become more fuel-efficient. The revenues generated should be used mainly for sustainable development.

3. INTERNATIONAL TRADE AS AN ENGINE FOR DEVELOPMENT

While trade can improve human living conditions through the sharing of the earth's resources and the gains of human work, it can also create and sustain inequality and lead to poverty and conflict.

Today's trading system allows rich countries to give enormous subsidies to their agricultural sectors, often resulting in overproduction of subsidised goods which are later dumped in poor countries. This drives the prices down on the world market, and exporters in poorer countries suffer. In addition, artificially cheap imports from the developed world make farmers in the poor countries unable to compete on their domestic markets. Also, rich countries protect their markets with tariffs which escalate in correspondence with degree of manufacturing/value added. These custom barriers restrict the industrialisation processes of the developing countries.

Legitimate objectives such as economic effectiveness and growth cannot justify trade policies that undermine the rights of the poor. Global trade rules can only be considered fair if they offer positive opportunities for the poor to meet their needs and provide opportunities for

growth in developing countries. This is possible when the *rights of the developing countries to protect their own markets are combined with an increased possibility to sell their products in the rich countries.*

3.1. Access to markets and political space to regulate trade

Developing countries have for a long time called for greater access to markets, and these challenges need to be met. But since it is not merely a question of *how much* you trade, but *in what*, the market access must not be restricted to primary goods. Goods and services with a higher value added, technology and skills content, generate higher revenues for development.

We therefore urge all governments to:

- Work for a global trade regime that is just and ecologically sustainable, where all countries have the same possibility to influence the rules.
- Request that the WTO secretariat, in the current round of negotiation, prioritizes the matters identified as important to developing countries when they agreed to the Doha-mandate in 2001.
- Give political space for countries to regulate trade and investments. Multilateral and bilateral financing institutions and agreements should not condition funding on liberalization or privatization demands.
- Stop the pressure on poor countries to open their markets.
- Improve market access for developing countries.
- End practice of escalating tariffs with degree of value added.
- Call for a renegotiation of the TRIPS-agreement.

3.2. Building trade capacity

While market access is important, it can only be used if you have something to trade. *Building trade capacity* is an important element of "Aid for Trade". While such aid to some extent can help develop regional markets and be valuable in improving infrastructure, it should also work to strengthen the developing countries' production capacity, governments' negotiating capacities and facilitate technology transfer. One must also avoid the danger of using development aid as a negotiation tool within WTO negotiations. Aid for trade should further support South-South trade and help countries to develop their own renewable energy resources.

We therefore urge governments at the Doha meeting to:

- Prioritize funding to developing a diversification of production capacity, and give support to a production of goods and services with high value added.
- Agree that the resources for expanding the aid for trade agenda should be additional, i.e. not be taken from existing ODA.
- Confirm that increased aid for trade must not be used as neither carrot nor stick in order to make the developing countries accept a new WTO agreement that is unbalanced and to their disadvantage.

3.3. Avoiding negative consequences of trade for women

Macroeconomic policies such as trade policies have important implications for gender equality. For example, the removal of tariffs and other trade barriers has an impact on prices of goods and services consumed by households. Decreases in government revenues from tariffs and taxes can lead to cuts in social spending, with direct impact on household budgets, and a disproportionate impact on women.

We therefore call on governments in the Doha conference to:

- Request that the WTO Trade Policy Review Mechanism incorporates social development and gender perspectives. This should include the monitoring of social impacts which incorporate gender equality objectives within trade commitments. The WTO should also systematically analyse trade agreements, and institute indicators and time bound targets for monitoring progress and the impact on empowerment of women in a wide range of countries.
- Agree to train all trade negotiators regularly in the gender perspectives on trade.

4. INCREASING INTERNATIONAL FINANCIAL AND TECHNICAL COOPERATION FOR DEVELOPMENT

Aid must change to fulfil its role in the larger scope of development efforts. This is precisely why at Monterrey the pledges for both quantitatively increased and qualitatively improved aid were included in the consensus.

4.1. ODA-financed cooperation: Translating pledges into progress

The ambition to mobilize official development assistance (ODA) to internationally pledged and agreed level has failed. Since Monterrey, ODA rose from 0.2 % of donor GNI to 0.33 % in 2005. ODA had then reached a total of over \$100 billion annually. However, the ODA level for 2006 and 2007 declined, and the projections to 2010 fall far short of what is needed to achieve the Millennium Development Goals (MDGs). Moreover, the Development Assistance Committee's *definition of ODA*, including f. ex. debt relief, financing of refugee assistance in donor countries and emergency humanitarian assistance, is too broad and not linked properly to poverty or human development indexes. Thus, aid figures exaggerate actual aid flows.

We therefore call on governments to:

- Make faster progress in increasing aid budgets and raising ODA towards the UN target of 0.7 % of GNI, with renewed and time-bound commitments.
- Revise and sharpen the definition of ODA with special attention to adequate measures for the realization of international human rights standards in developing countries.
- Intensify the efforts to give assistance where it is most needed – in particular for Africa and the least developed countries. And to ensure that support given is based on additionality.

4.2. Enhancing aid effectiveness

The ambition to enhance aid effectiveness is anchored in the Paris Declaration⁵ (2005), but here too, advancements are slow. The Third High Level Forum on Aid Effectiveness in

⁵ The Paris Declaration was a benchmark agreement in the aid coordination effort that embodies five principle tenets: (1) *Fostering local ownership of country policies*; (2) *alignment of donors behind national strategies*; (3)

Accra, September 2008, will review the implementation of the Paris Declaration. This review should be regarded as an input to the Doha FFD conference, even though the process leading to this meeting has been criticized for being mostly donor-driven. We are worried that there will be a lack of recipient state perspectives with regards to principles like *downwards accountability* (towards citizens – not only governments), *empowerment* and *transparency*. Other concerns are the perceived tendency to re-introduce aid conditionality policies and that the donor coordination process may impede innovation among donors and thus reduce the space for valuable variations in policy.

We welcome the entry of **new donors** and believe there is value in competition among donors. This particularly lies in the potential for stronger attention to a wider range of developing countries and issues relevant to development. However there is also the *danger of repeating errors of the past*, tempted by interests that are contrary to pro-poor policies both domestically and internationally. *Strengthened recipient capacity to evaluate and manage aid* is thus essential to more effectively absorb aid flows. This includes further opening up to the contribution of civil society.

The new **Development Cooperation Forum of the Economic and Social Council** is a global forum for discussion by *all* donor and recipient governments, with an institutionalized role for civil society participation. This forum should become a regular venue for donor and recipient countries to broaden the discussion of policy coordination and improve the governance structure of aid delivery and management. This way all donors, traditional and new alike, should be encouraged to harmonize their actions with agreed global standards.

The UN Development Cooperation Forum should address salient concerns, for example, the consequences of aid selectivity and failing to meet the special needs of fragile states and others among the least developed countries. There is also concern that aid and export-credit functions within governments should become better coordinated. In addition, the coherence of trust funds and private donations with national policy priorities need to be looked at. Slow donor movement to budget support also needs to be examined.

We therefore call on governments at the Doha conference to:

- Make the new UN Development Cooperation Forum, which brings together donors, recipients and civil society, a primary instrument for aid effectiveness.
- Strengthen recipient capacity to evaluate and manage aid.
- Develop open, transparent mechanisms that allow citizens to better hold their governments and donors to account for the use of aid.
- Ensure that donors improve aid predictability and adhere to the highest standards of openness and transparency.
- Ensure that technical assistance is truly demand-driven and linked to real strengthening of local institutions, in both public and private sectors and in the civil society.
- Commit to untying all aid, acknowledging downward accountability, with a particular emphasis on the most vulnerable persons.
- Agree to fair and transparent aid allocation, in accordance to need.

harmonization of donor efforts; (4) managing for results to raise the productivity of aid, and (5) mutual accountability of donors and recipients.

4.3. Aid effectiveness and gender equality

Monterrey was clear about the national responsibility for effective governance, adequate fiscal resources spent well, growing domestic savings and investment. Monterrey also recognized that the appropriate role of government would vary from country to country, but that all countries should promote what we now call the *decent work agenda* and *inclusive financial sectors*. The Monterrey Consensus failed to discuss corrective measures to financial practices that exclude women, particularly the poorest and those operating in the informal economy. The Paris Declaration reforms also need to be accompanied by adequate analysis to capture the role and functional necessity of gender equality and women's empowerment in achieving development effectiveness.

We therefore call on governments to:

- Take a much more inclusive and broad-based approach to financial services for all segments of the population in developing countries. Such an approach should also include the strengthening of access to finance for small and medium-sized enterprises, such as by encouraging the creation of venture capital funds and other appropriate financial institutions and relevant legislation. Microfinance is not a panacea for realizing the full range of women's entitlements and rights. Broader macroeconomic measures addressed at creating more pro-poor economic conditions need to work in tandem with a critical assessment of the access, delivery and evaluation of microfinance systems.
- Find ways to create stability and a favourable climate for private and foreign investment, and to develop measures to combat the serious inequalities between men and women in accessing resources, both financial and those that are usually their prerequisite, such as property.
- Advocate for standards such as minimum wages or the right to strike, strengthening the bargaining power of female workers, and to combat the use of temporary contracts or subcontracts that deprive women of labour rights, such as access to healthcare.
- Work for women's equal access to training, information and technology, particularly to low-income women.
- Establish mechanisms that mainstream gender equality and women's empowerment in the implementation of the principles and partnership commitments of the Paris Declaration;
- Increase financing for gender equality and women's empowerment. An expert group recommends that the share of ODA for gender equality and women's empowerment be scaled up to reach 10 per cent of all ODA by 2010 and 20 per cent by 2015.'
- Improve the tracking of ODA directed to gender equality and women's empowerment. Bilateral donors need to increase the number of donors using the DAC gender equality policy marker when reporting aid statistics, as well as the proportion of aid 'screened' using this marker. Multilateral agencies and vertical funds need to build on existing efforts to improve tracking and reporting on programmes focused on gender equality and women's empowerment. International Financial Institutions (multilateral and regional development banks) need to strengthen existing efforts to improve performance assessment, tracking and reporting on initiatives focused on gender equality and women's empowerment.

5. EXTERNAL DEBT

Developing country debt is continuing to increase, even after recent debt relief efforts like the HIPC and the MDRI. Developing countries still paid more than US\$ 540 billion in debt service (in 2005), and low income countries continue to pay \$100 million *each day*⁶ to creditors, diverting large sums of scarce government revenue to external debt service and away from investments needed to reach the Millennium Development Goals.

5.1. Debt cancellation and sustainability

The lack of real relief from debt payment commitments for developing countries, especially for the most indebted, translates into yet greater limitations on governments' provision of social services. Women are particularly affected by the lack of, or discontinuity in, health care and education services. In addition, women also have to bear the growing burden of combining household maintenance with economic participation in the labour market.

The Monterrey Consensus called on creditors and debtors to resolve *unsustainable debt* situations. However, the IMF/World Bank Debt Sustainability Framework (DSF) has erroneously taken as a point of departure the capacity of donor countries to provide grants, rather than the cost of resources needed to reach the MDGs, in defining sustainability. Likewise, while the Consensus calls for "a shared responsibility for preventing and resolving unsustainable debt situations", the DSF *sanctions only the debtor* for breaches in the debt ceilings. Last, the DSF does not leave space for participation by the borrowing country and its people in the determination of what a sustainable level of debt for the country is. This is contrary to the Monterrey Consensus commitment to "broaden and strengthen the participation of developing countries and countries with economies in transition in international economic decision-making and norm-setting."

We therefore call for the Doha meeting to agree to:

- Expand and deepen debt cancellation
- End harmful conditionality practices, such as demands for privatization and liberalization
- Secure that gender statistics on the population impact of debt servicing, among others, is developed, collected and disseminated.
- Balance the definition and measurement of debt sustainability to include resources needed to meet the MDGs

5.2. Illegitimate debt and responsible financing

Many of the loans developing countries are struggling with today were granted on illegitimate terms, either by irresponsible lenders or to illegitimate powers. Illegitimate debt needs to be addressed, both to establish justice for the past and to provide a framework for the future. One consequence of the current lack of a binding legal framework is that it opens up the opportunity for vulture funds to exploit the debt burden of developing countries. Also, many loans to developing countries have been granted on terms that are harmful to the countries' efforts at achieving development for its people.

⁶ NGO letter to the Secretary General, 29/02/08, http://www.un.org/esa/ffd/doha/chapter5/NGO_lettertoSG.pdf

In addition to unsatisfactory debt relief initiatives to answer the call of the Monterrey Consensus, *new borrowing* now threatens to return countries to debt crisis, even countries that have received debt cancellation.

We therefore urge governments/the Doha meeting to:

- Recognize odious and illegitimate debt and establish an international task force⁷ to address this issue.
- Encourage and support countries to perform debt audits with a mission of determining the legitimacy or illegitimacy of historical lending, and if loans are found to be illegitimate, cancel the debt.
- Adopt policies for responsible financing. This will only be achieved through a binding legal framework that fairly allocates the burden of irresponsible borrowing on both creditors and debtors. The Responsible Finance Charter, developed by EURODAD, outlines the essential components of a responsible loan.⁸

5.3. The relationship between debt and trade

The Monterrey Consensus was unique in its holistic considerations. The Doha document should go even further in clarifying the links between debt and other economic dynamics that tend to affect it, such as trade.

The Doha outcome document must therefore address the relationships between debt and trade, such as:

- export structure and debt profile of borrowing countries (e.g., commodity-dependence or low-value-added dependence);
- export-oriented structures and their impact on systems with growing domestic debt;
- the impact on debt of the privatization of natural resources revenue;
- the generation of liabilities by foreign investment;
- debt service as a constraint in the export-profit-investment nexus;

6. ADDRESSING SYSTEMIC ISSUES

The Doha meeting should generate specific spaces for reflection on the impacts, risks and opportunities that economic, trade, and financial policies pose for women and other vulnerable groups such as rural and indigenous populations, children and ethnic minorities, among others.

6.1. Reform of the Bretton Woods Institutions

Little progress has been seen in the Monterrey Consensus call for increasing participation by developing countries in economic policy-making institutions, especially the Bretton Woods Institutions (BWI). The discussions ensuing so far on the IMF quota formula has lacked ambition, and falls 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.

The need for democratic reforms of monetary, financial and trade institutions includes both the institutions' decision making *structures* as well as **transparency** in *decision making*

⁷ See <http://www.eurodad.org/whatsnew/articles.aspx?id=1806>

⁸ http://www.eurodad.org/uploadedFiles/Whats_New/Reports/Responsible_Financing_Charter.pdf

processes (including informal processes) and the *content* of different mechanisms and agreements.

We therefore urge governments to make sure that the long discussed reform of the BWIs makes progress before the Doha meeting and that goals for further reforms are iterated in the Doha document. The process towards reform of the institutions must involve governments and civil society organizations of developing countries, in particular organizations devoted to the advancement of women, as the gender perspective is absent in the proposals for a new international financial architecture.

The Doha outcome document should instruct that the ongoing governance reform process will:

- Ensure a review of the quota formula that removes elements that systematically underestimate the size of developing country economies (e.g. the measurement of GDP should be done in Power Purchasing Parity terms).
- Increase basic votes to ensure the ratio of basic votes to total votes is, at least, equal to that at the time of the founding of the institutions (approximately 12%). A clause should ensure periodic indexation of basic votes to total votes, to ensure capital increases do not erode this proportion.
- Prescribe a restructuring of the Board to increase the number of developing country Board seats. The constituencies represented by each Executive Director should be reshaped, with a ceiling of no more than 10 countries per constituency being established.
- Seriously consider the use of double-majority voting modalities as a tool to increase the weight of borrowing countries in decision-making within the BWIs.
- Make the IFIs more transparent, by for example adhering to the nine principles of the GTI Transparency Charter for IFIs.⁹

6.2. Addressing the problem of tax havens and illicit capital flows

In spite of the Monterrey Consensus demands for strengthening tax cooperation and reducing capital flight, capital flight and tax evasion continue to drain much-needed resources for development, and increase inequality, both domestically and internationally. Much of the resources are channelled to tax havens which exist in both developed and developing countries.

The Doha meeting should agree to:

- Create a mechanism for automatic exchange of tax information between governments in order to combat capital flight and other illicit transfers of funds.
- Demand transparency in institutions such as hedge funds, private equity and sovereign wealth funds.
- Treat cross-border tax evasion as a suspicious activity which must be reported to the relevant government authorities.
- Recognize and integrate the preparatory work on the UN Code of Conduct on international co-operation in combating tax evasion.
- Develop an international plan to outface the operation and existence of tax havens. In the mean time, tax havens must be obliged to much greater surveillance and control, so they can no longer house capital flows originating from criminal activity and tax avoidance.

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See http://www.ifitransparency.org/doc/charter_en.pdf

- Establish mechanisms for banks and other financial actors to the purpose of not accepting money that come from tax havens, and to strengthen these actors' efforts to trace the source and use of this money.
- Strengthen the *United Nations Tax Committee* and convert it into an intergovernmental entity. The agenda of the UN Tax Committee should include measures to combat capital flight and tax evasion in developing countries, and also measures to assist developing countries to improve their tax administration.
- Address the problems created by legal capital flight and tax avoidance which also drain developing countries of resources.

6.3. Transparency in international financial transactions

Complex corporative structures pose a major problem for public supervision, be it exercised by national or international supervisory organs. The current loopholes in national and international legislation allow for establishment of new subsidiaries and for withdrawal of these subsidiaries as soon as demands for financial reviews or investigations are initiated.

This problem will continue as long as there are certain states and jurisdiction which are ready to offer adequate secrecy and allow for registration of corporations which are hiding capital away from proper reporting requirements. The problem must therefore be addressed at an international level. The principle of transparency must also be made applicable to the negotiating and signing of loan agreements.

The Doha meeting should agree to:

- Initiate an international process resulting in demands on all states to require certain minimum information from corporations, which must include ownership structure, including holding companies, and location and capital formation of the whole company. This information must be provided annually, taking place with the reporting of the annual account.
- Address the issue of transparency in international loan agreements, and obligate all state-guaranteed loan agreements to be made public to parliaments and in other relevant forums a certain time before being signed, to allow for parliamentary and public debate on the nature and effect of the proposed loan agreement.

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The Norwegian Forum for Environment and Development

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