

Statement submitted CIDSE on behalf of the European Network on Finance and Development

The following organizations cooperate in the European Network: AGEZ (Austrian Platform of 29 development organizations); KOO (Co-ordination Office of the Austrian Episcopal Conference for International Development and Missions, 24 members); Stamp out Poverty (UK network of 54 cooperating organizations); Campagna per la Riforma della Banca Mondiale - CRBM (Italy); Coordination Sud (France); attac France; attac Belgium; attac Germany; Tax Justice NL; OIKOS (Netherlands); Ubuntu Forum Secretariat; 11.11.11. (Belgium); WEED (Germany).

Towards A New International Financial Architecture

Present financial crises show that systemic problems in the financial system have not been solved. Exchange rate volatility means altering foreign trade prices and amounts of debt service. The accumulation of currency reserves to protect from exchange rate risks ties up tremendous amounts of money, which are lost to a country's own development. New actors, highly leveraged and non-transparent, such as Hedge Funds and Private Equity Funds are a threat to financial stability. Complex instruments and most derivatives are uncontrolled by supervisory bodies. Unregulated offshore centers and tax havens make capital flight and tax evasion easy. Capital flight and tax evasion remove funds needed for government spending in developing countries. In 2002, the Monterrey Consensus (MC), in paragraphs 64 and 65, called for developing countries to strengthen their tax cooperation and reduce capital flight. Also, the 2005 United Nations World Summit called for efforts to reduce capital flight and requested measures to limit other illicit transfers of funds. The recently revealed involvement of hundreds of European high-level managers, rich individuals and politicians in scandalous tax evasion to Liechtenstein underline the urgent need for strict reforms.

Current proposals, such as the recommendations from the interim report of the *Financial Stability Forum* to the G 7 finance ministers are insufficient. Broader international space is required for discussion among all relevant stakeholders including civil society. International regulatory frameworks are needed which allow countries, especially in the developing world to preserve and ensure economic stability:

- **Macroeconomic policy coordination** - democratically controlled - has to make financial markets work for development. Official oversight is required e.g. for rating agencies, hedge funds, private-equity funds, asset-backed securities. The IMF and financial fora like the Bank for International Settlements, Basel Committees and the Financial Stability Forum should be truly democratized and their roles re-defined (MC 63).
- Capital flight and other illicit transfers of funds must be combated: There needs to be an automatic exchange of tax information between governments. Transparency, supervision and regulation are essential in institutions such as hedge funds, private equity and sovereign wealth funds. Cross-border tax evasion should be treated as criminal activity. Tax havens must be closed as they only serve the interests of tax avoiders and law breakers.
- Capital controls are needed to protect against instability and speculative attacks.
- Derivatives have to be strictly regulated.
- Regional cooperation to reduce exchange rate volatility and to preserve economic stability should be encouraged.
- The **UN Tax Committee** should be strengthened and upgraded into an **intergovernmental entity**. Its agenda should include measures to combat capital flight and tax evasion. In the long run a World Tax Organization should be established (proposed by an UN panel chaired by Zedillo in 2001).
- A "**Global Leaders Forum**" with balanced geographical representation under the auspices of the UN should be established to upgrade policy coordination to enhance coherence and consistency of international monetary, financial and trading systems (proposed by UN panel on "System-wide Coherence" in 2006).
- As proposed in the Monterrey Consensus, paragraph 60, and reaffirmed in the 2005 UN Summit Outcome Document multi-stakeholder consultations on an **international debt workout mechanism** to promote fair burden-sharing in sovereign debt crises and minimize moral hazard should be revived in the Doha follow-up.

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