

# ***Good intentions aren't enough*** \*

Hearing with representatives of Civil Society on Financing for Development

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At the end of March 2002, in Mexico City, Heads of State and Governments committed themselves to adopting policies orientated towards mobilizing internal resources, attracting international financial and technical currents, promoting international trade, increasing international financial and technical aid, promoting the sustainable financing of external debt, adopting measures to alleviate external debt and increasing the coherence and cohesion of international monetary, financial and trade systems. All of these elements are believed to be fundamental for the eradication of poverty, for achieving sustainable economic growth and for promoting the sustainable development of our countries<sup>1</sup>.

In general terms, the mobility of financial resources (internal and external), the promotion of more trade with less barriers and the strengthening and articulation of old institutions (IMF, WB, WTO, etc.) as instances of control and regulation, are the axes around which the Monterrey Consensus (MC) actions were orientated.

Just over six years since this declaration, only weak and limited results have been achieved, given that the Millennium Development Goals are far from being reached by 2010 and that the financial fragility and vulnerability of our countries has again been brought to light in the last few years. This is made even more notorious due to the economic disturbances generated by the bigger world economies.

Within this framework, it is important to note that the MC actions are not based on principals or axes which differ from the current development model. Neither does the mobility of resources that the MC promotes prioritize the financial strengthening of our States for their autonomous management. Rather they aim to generate conditions so as these States are receptors of transnational capital and that the "goodness" of international trade only deepens economic and social concentration and differentiation.

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1 Report of the International Conference on Funding for Development, Monterrey, 2002.

## **Economic model in question**

### **a. The structural limits of the model:**

The structural limits of the model: The economic structure which sustains the current macroeconomic situation is no different from that which capitalist development has been structuring in the last few decades through various reforms. In this framework, the results hoped for by the MC related to the fight against poverty, using a series of proposals related to internal and external financing, have a structural limit determined by the development model's conception.

The United Nations Secretariat's Report (A/62/217) and the Economic Commission for Latin America and the Caribbean (CEPAL), place a special emphasis on the extraordinary macroeconomic behaviour of our countries. According to CEPAL<sup>2</sup>, the growth rates of the region are higher than ever before. This dynamic is also accompanied by a surplus in current accounts, the reduction of external liabilities, the increase in international reserves and a primary surplus in fiscal accounts. All of these are elements that, for some economic analysts, make possible the reduction of the vulnerability of Latin American countries when faced with possible external disturbances.

CEPAL also takes into consideration that poverty, inequality and unemployment, in relative terms, during these last four consecutive years of growth, have shown improvement<sup>3</sup>. According to these statistics, between 2005- 2006, poverty levels were reduced by 3.3% and extreme poverty reduced by 2%. By 2007, a similar tendency is expected, but at a slower rate.

Even though in quantitative terms there is a "reduction,"<sup>4</sup>

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2 Preliminary Balance of the Economies 2007

3 Social Panorama of Latin America 2007.

4 Considering the information on incomes and costs existing in the region and adding to this the methodology which they would have used, we consider that a debate is pending over the form in which these indicators are calculated and the representativity of the information used. This debate or analysis is a paper in itself which is not possible to develop in

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these statistics still do not reveal the characteristics which allow for the reduction of poverty, inequality and unemployment in qualitative terms. Furthermore we must note that these results are sustained in a world historically determined by capitalist development as the provider of primary materials, a situation which in the last few years has risen due to the increase in the price of basic exportation products (commodities)<sup>5</sup>. All of this means that the social results could be considered fragile, or merely due to current circumstances.

This fact is shown in the inflationary process that is currently being lived in the region. According to CEPAL, it is "calculated that an increase by 15% in the price of food would increase extreme poverty by almost 3 points, from 12.7% to 15.9%. This implies that this change in prices would cause 15.7 million more Latin Americans to fall into extreme poverty. In the case of poverty, the increases are similar as the same amount of people would become poor." <sup>6</sup> These results turn around the reduction of poverty and inequality in the region.

The winners of this whole process are none other than the transnational agro businesses that control agricultural and food trade. Some of the biggest grain trading businesses in 2007 registered an increase in profit of 36 and 67% respectively. In absolute terms this is equivalent to around US\$2.340 and US\$2.200 million respectively. <sup>7</sup>

Moreover, the growth of the financial market is another factor which explains the recurrent crisis. It is difficult for international organizations to intervene in disturbances. "The resources that international credit organizations have are considerably less than what is necessary for carrying out various rescue operations. For example, at the end of 2000, the IMF has US\$200 billion available for loans. This figure represents only 10% of the external debt of low and middle income countries." <sup>8</sup>

These results and tendencies reveal that the measures of opening up capital accounts, the promotion of Direct Foreign Investment (DFI), the signing of treaties or economic agreements, the selling of State businesses and the deregulation of the financial market have not favoured

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this description, but which we want to point out due to the criticisms and doubts that could be had over these indicators.

5 The evolution of the Exchange Terms and Conditions in Central American and Caribbean countries is difficult due to their condition as net importers of petroleum (CEPAL, Economic Study of Latin America and the Caribbean 2006- 2007).

6 Press release CEPAL.

7 Against the grain: The Business of Killing People through Hunger, GRAIN, 2008.

8 The debt, international funding and private sector participation crisis, CEPAL, 2002.

economic stability, nor have they helped improve the living conditions of the population.

The search for change in Latin American society must begin with radical changes in the economic structure of its countries, based on progressive politics orientated towards development from and focusing on the internal. In order to achieve this it is necessary to demand a State which acts as a catalyst for these transformations. International aid is important in this process because its decisions and actions come directly from the political and economic interests of hegemonic groups and from the principles that govern the current development model.

### **b. The State as the promoter of integral and inclusive development:**

In the 1950's, underdevelopment theories sustained that the problem of backward economies was their own incapacity to use their available resources and it was proposed that the State should directly intervene to change this situation. In the last few years this proposal has started to sound relevant due to the lack of solutions from the market for the distribution and redistribution of economic surpluses.

However, the MC's proposals assign the State with the role specified by the current development model, as an instrument that assures the conditions for private initiative, on the one hand attending to capital needs and infrastructure which facilitates the mobilization of resources and on the other hand, generating favourable conditions for private financial flows, principally at the international level. This direction, which is consistent with the logic of the model, has benefited commercial, industrial and financial capital, generating conditions so as they are assured extraordinary profit rates.

And so as not to leave room for doubt regarding this role, the MC establishes that "(...)" <sup>9</sup> the public sector and the multilateral development banks should remain active in the funding of projects when the private investors cannot obtain sufficiently elevated profits (...)," that is to say, what is not profitable for capital should be taken on by the State.

Considering all of the above, the MC should assume a wide and integral debate on the State's new role in development. We suggest that in order to do this, the following should be taken into consideration:

- The promotion of greater State presence in strategic economic activities in order to financially strengthen the State

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9 Follow up to and application of the results of the International Conference on Financing for Development, August 2007, United Nations General Assembly.

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apparatus. This presence should be achieved via conventional instruments used in economic policies (taxes, rates and others), but also actively incorporating the State in productive processes, i.e. as the owner of production methods.

- The respect for and support of national development policies and strategies defined by each government even though these subject private interest to national welfare.
- The respect for regulations that determine the international trade and financial flow.
- The acknowledgement that instruments used in economic policies are fundamental for the establishment of changes in economic relations which seek greater equality and integrity.

### **Mechanism for the mobilization of internal resources**

The MC establishes that one of the difficulties for economic development is the limited financial resources available. In this context, the importance of mobilizing national financial resources is underlined. However, before the mobilization and administration of internal savings (public and private), a debate needs to be established on the methods and forms of generating these financial resources; a debate which should be considered by the MC before they determine the direction of public costs. Two aspects should be considered

- i.** Participation, control and use of economic surpluses generated in strategic sectors of the economy. This should be taken into consideration for States that carry out economic activities which generate extraordinary profits. This would help create strategic State businesses. In order to achieve this the support of the political apparatus and international aid is fundamental.
- ii.** Progressive economic policies which include:
  - a.** Tributary reforms directed towards the establishment of a progressive system which in the long term supposes replacing consumption taxes with taxes on industrial, commercial and financial income.
  - b.** The elimination of tributary exemptions which have favoured business sectors linked to external markets.
  - c.** The control and regulation of foreign capital, fundamentally that which is produced by transnationals.

- iii.** The consolidation and strengthening of Sovereign Investment Funds. The obtaining of extraordinary public incomes via the

exploitation of natural resources (hydrocarbons and mining) should be used to create Development Funds which: (i) would mean that there are financial resources to count on in case of economic fluctuations; (ii) prioritize the financing of economic activities which generate multiplier effects in the economy. This supposes going back to the internal market as a possibility for diversifying tributary income and (iii) diversify the portfolio of the financial system.

### **The mobilization of international financial resources. A development instrument?**

According to the United Nations General Assembly report (A/62/217), Direct Foreign Investment (DFI) is still the principal source of private resources destined towards developing countries. It is estimated that this is around \$US 400.000 millones.

However, this type of financial flow has not significantly contributed to economic and social development (increased employment, transference of technology, promotion of national industry, etc), due to its sectorial focus<sup>10</sup>. It has prioritized the accelerated exploitation of natural resources without incorporating the added value to this process. The extraordinary profits were not aimed towards the same market, which has increased the transference of these surpluses to central countries.

If the MC still sustains that DFI can be a determining factor for the development of our economies it should incorporate the following aspects:

- The accumulation of capital should take place in the country where the economic activity takes place. A large part of the economic surpluses which transnational capital or DFI generates are generally transferred to developed countries. Forcing transnational capital to reinvest a proportion of its extraordinary profits in the economic activity itself or in other productive activities would contribute to the generation of employment, the incorporation of technology into productive processes, the promotion of industrialization processes, etc.
- The attraction of DFI should not take place at the expense of internal savings, that is to say, the canalization of DFI should not be translated into public policies directed towards exonerating these international flows from fiscal obligations.
- Stability in DFI flows: This should be obtained via tributary systems that penalize the abrupt exportation of these resources and that promote high taxes on the transferal of extraordinary profits.

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10 In the Latin American case this is in the primary exporting and services sectors.

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## International Aid

International aid resources (multilateral, bilateral, aid agencies) are another important source of finance for "development." However, these flows can behave in a volatile manner, they have not reached, at any time, the levels that developed countries promised they would reach and the financial support has been accompanied by policies which sustain and strengthen the capitalist development model.

Data from Global Development Finance show that the official net flows to Latin America and the Caribbean have registered a gradual decrease. However what is more worrying is the tendencies that these resources have towards negative net transferences; i.e. expenditures in official aid have been less than the service that has generated these resources. This fact demonstrates that the supposed complementarity of these resources to the fiscal treasury of Latin America and Caribbean countries is not as it should be, meaning it does not contribute to the development of poor countries.

Furthermore, the resources that are received from international development do not meet the strategic definitions defined by the countries. However, this also requires a critical reading of the State and its role in internal development, given that the governments has an active participation in determined productive processes and that international aid supports this participation via the harmonization of aid resources,<sup>11</sup> which could lead to the breakdown in the type of aid given for the development of poor countries.

## Debt

The processes for debt relief or cancellation have not really led to an increase in the resources destined for development. This statement can be found in the report on the follow up of and application of the MC results.

Practically, debt relief measures have not reduced the dependency on external debt. The results of these mechanisms are: (i) a new cycle of indebting. After the debt relief, developing countries are found in situations "technically" adequate for getting into debt again. For example, in countries such as Bolivia and Honduras, the HIPC relief was accompanied by a new spiral of indebting. This situation is repeating itself in the first few years of the

application of the Multilateral Debt Relief Initiative (MDRI); (ii) the liberalization of resources by the relief mechanisms have been insufficient when faced with objectives such as poverty elimination, which it promoted; (iii) in the long term the MDRI will signify more costs than benefits due to the technical characteristics because the countries that benefit from this initiative will have to access credits in concessional terms, but also in market conditions, i.e. hybrid credits. For example, in the Bolivian case, the new credits that they have contracted with the International Development Bank (IDB) already have this characteristic: they are credits that are made up, in minor quantities, of resources from the concessional window of these organizations, of the Fund for Special Operations (FSO) and in greater quantities, of resources from the IDB's ordinary capital, which are more expensive resources.

These aspects show that the debt relief mechanisms have not been the answer to the problem of financing development, given that they are short term measures which do not look to solve the central problem of State financing.

Considering all of this, the management of public external debt must consider two moments:

i. In the short term, it is very unlikely that developing economies stop indebting themselves. Therefore, relief mechanisms will still be part of the agenda in external debt management and therefore when resorting to a new relief, the cancellation of market credits must be considered and technical aspects of relief should not be translated into elevated financial costs in the long term. They should also not be accompanied by economic and political conditions.

Furthermore, processes to audit public external debt contracted in different government periods should be supported, as these look to determine the illegitimacy or illegality of these loans. In this sense it is important to acknowledge the actions carried out by the government of Ecuador in this process, which in 2007 created the Commission for the Integral Audit of Public Credit, which includes civil society participation.

Moreover, the institutionalization of external debt audits would allow the control and monitoring of new loans our governments are taking on.

ii. In the long term, dependency on outside resources can only be a thing of the past if public, progressive measures are taken which are directed towards the strengthening of public finances. This is fundamental if we consider that processes to restructure the debt are further complicated

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<sup>11</sup> In March 2005, ministers from developed countries and chiefs and functionaries from aid organizations reaffirmed the commitments made in Rome (2003) to harmonize international aid to the development objectives of developing countries.

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by changes in financial markets, given that the debt has become concentrated in bonds, insurance companies, private investment funds or pension funds.

Given these scenarios, the MC should facilitate access to credits in concessional terms and support States in radical policies which aim for greater financial sustainability.

## **Internacional trade**

The promotion of international trade is one of the MC's objectives as it supposes that this will contribute to economic growth, the generation of employment and the development of all countries. However, these aspirations have not been met. For example, free trade has created a productive specialization and has required the State to sustain and strengthen free trade.

Taking this into consideration, the MC should establish international trade regulations which allow changes to the productive, economic and social situations of our countries:

a. Elimination of agricultural subsidies. The elimination of these subsidies could open up the possibility for the medium producers to compete in the trading of some agricultural products which would allow for the possibility of productive diversification. Furthermore, States should promote progressive or structural agrarian reforms in order to strengthen the small and medium agricultural peasants. If this is not done, the elimination of subsidies will principally benefit the bigger agricultural producers and the agroindustries.

b. Elimination of fiscal concessions. For example, trade agreements for various countries, have meant not charging certain taxes "the discourse says that liberalization will compensate them with great fiscal income because economic activity will grow which serves as a basis for taxations."<sup>12</sup>

What is certain is that States have been characterized by having a fragile financial balance. In this framework, the elimination of these fiscal exonerations could contribute to the strengthening of the State apparatus.

c. Focalized tax policies. The influx of importations is still a problem when establishing internal development policies. In this framework, rationalized tax policies could regulate this impact on national production by restricting the entrance or exit of determined products. In the last few months, the inflationary process that the region is living

through has led countries such as Argentina to withhold exportations, and therefore exportation taxes, in order to avoid the reduction of certain products in the internal market.

It is not possible to confront the food crisis in poor countries by promoting the liberalization of their economies and accompanying this with measures such as subsidies in homes (a cost which should be taken on by fiscal treasuries), nor permitting that agroindustries keep making extraordinary profits.

## **Reform of the international financial system**

The central actors in the consolidation of the current development model are the international financial institutions (IMF, WB, IDB, etc). Many who aim to "modernize" and reform international finance institutions do not understand the role of these instances in determined financial crises, nor the illegitimacy and lack of credibility that they have.

The incapacity of these instances to prevent recurrent financial crises is without doubt the best argument to explain the failures of these organizations. Between 1980 and 1996, 150 crises, that affected 70% of the member states of the FMI were registered<sup>13</sup>, that is to say, during this time, on average we lived through nine financial crises per year.

In this framework, as various civil society entities are demanding, it is necessary that international aid and heads of State promote and support the creation of new regional financial institutions, such as the Bank of the South, the initiative Chiang Mai towards an Asian monetary fund or the efforts of Southern Africa in this respect.

It is also necessary to promote the establishment of more regionally stable monetary units and the reduction of the size and weight that International Financial Institutions currently have.

The new International Financial Institutions should be strengthened at the regional level, gradually replacing the current international financial institutions. Their conception and function should be under a system in which each country has a vote. This would break with the current financial governability mechanisms which are much closer to commercial societies: more capital, more decision.

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12 Free trade and its impact on Latin American finances, Aldo Caliarì, Center of Concern.

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13 Crisis Financiera, Girón Gonzales Alicia, México 2002.