

## **Summary of informal hearings of civil society on financing for development (New York, 22 October 2007)**

1. The General Assembly, in its resolution 61/191 of 20 December 2006, decided that the modalities for holding the 2007 High-level Dialogue on Financing for Development will be the same as those used in the 2005 High-level Dialogue. In its resolution 59/293 of 27 May 2005, it set out the modalities for the 2005 High-level Dialogue and determined that all issues regarding financing for development would be discussed during the informal interactive hearings to be held with representatives of non-governmental organizations, civil society organizations and the private sector. In response to this mandate, the General Assembly convened hearings of the business sector on 11 October 2007 and hearings of civil society on 22 October 2007 at United Nations Headquarters in New York.
2. The informal hearings of civil society on financing for development were chaired by **H. E. Dr. Srgjan Kerim, President of the sixty-second session of the General Assembly** and **H.E. Johan Ludvik Løvald, Permanent Representative of Norway**. The event was moderated by Mr. Jomo Kwame Sundaram, Assistant Secretary-General for Economic Development, Department of Economic and Social Affairs (DESA) and Mr. Oscar de Rojas, Director of the Financing for Development Office, DESA. The speakers were Ms. Rosario Romero, Program Coordinator for Social Development, Forum Solidaridad, Perú; Ms. Celine Tan, Senior Researcher, Third World Network, Malaysia; Mr. Vitalice Meja, Programme Director, AFRODAD, Zimbabwe; Mr. Rodney Schmidt, Principal Researcher, North-South Institute, Canada; Ms. Hellen Wangusa, Anglican Observer to the United Nations, Uganda. Salient features of the presentations of the panelists and the informal interactive discussion are outlined below.

### **Opening of the meeting**

3. In his opening remarks, the President highlighted the important role that non-governmental organizations had played in the financing for development process. The hearings of civil society would provide crucial input into the High-level Dialogue on Financing for Development to be held in the ensuing three days. The President emphasized that both the hearings and the dialogue would help set the stage for the Follow-up International Conference on Financing for Development in Doha, Qatar, in the second half of 2008. The Doha Conference would assess progress made so far, reaffirm goals and commitments made and share lessons learned. It should also identify obstacles and constraints encountered, actions and initiatives to overcome them, as well as new challenges and emerging issues. In order to realize this ambitious agenda, it was imperative that the views of civil society be fully understood and duly taken into account.

### **Presentations by panellists**

4. Ms. Rosario Romero presented on “The role of civil society in mobilizing domestic resources for development.” The panelist underscored that domestic resources encompass human, material and cultural factors which could not be converted into commodities or traded in the market place. Accordingly, the financing for

development agenda should not confine itself to the debate on how to increase monetary flows, but aim towards a broader concept of resource flows. Civil society organizations play a critical role in mobilizing resources for development by assuming the role of social actors and coordinating dialogue with the state. Moreover, they take on a crucial monitoring function for government actions and promote fair, equitable and ethical economic systems. Civil society organizations can also help generate resources at both the public and private levels by attracting official funds and supporting small entrepreneurs, in particular women. In addition, remittances are a significant contribution from civil society to the national economy.

5. However, poverty, inequality and corruption seriously limited the potential of civil society organizations to advance the development agenda. To strengthen the potential of civil society the panelist highlighted the importance of a progressive and development-friendly fiscal policy. Moreover, debt burdens and debt service needed to be reduced to free up essential resources. Ms. Romero also stated that further decentralization of state power was needed to empower citizens and communities to help set the right spending priorities. At the international level, the speaker called on participants to assess the impact of foreign investment on developing countries critically. In many countries, FDI continued to be channeled almost exclusively to extractive industries with questionable results for development. At the same time, there was a need for a more equitable trading system and stronger regulation of international capital flows to avert future financial crisis. In her conclusion, the speaker stressed the importance of regional financial arrangements through initiatives such as a regional development bank, currency stabilization funds and currency unions.
6. Ms. Celine Tan focused her presentation on “The finance and trade nexus: systemic challenges”. The panelist highlighted that five years after the International Conference on Financing for Development, there remained a lack of focus on development objectives within the trade and financial systems, which have served in many ways to exacerbate rather than redress the economic polarization that has accompanied the uneven process of economic globalization. As global economic rules were also increasingly developed outside formal inter-state channels, there were significant inequalities between states in the way they were constrained by multilateral economic rules. This has resulted in the selective application of multilateral economic rules, while reducing flexibility in national policies necessary for social and economic development in developing countries. One of the implications of these systemic flaws was that many economic sectors in developing countries were facing competition in their domestic markets from foreign imports as a result of rapid import liberalization, while, at the same time, they faced severe constraints to the expansion of their exports. Countries were also facing structural, supply-side constraints, including access to technology, which prevented endogenous productive growth and export capacity. As a result, many countries found themselves with growing trade deficits and risked getting into balance-of-payments difficulties resulting in financial instability and economic recession. Consequently, indebtedness to external official financing and dependency on aid would increase. However, official financing came with conditionalities attached that entailed a similar path of trade liberalisation and other structural reforms, such as privatisation and deregulation that would exacerbate existing problems faced by developing countries.
7. The panelist also highlighted that there was a lack of supervision of the domestic

financial policies of globally significant economies or cross-border financial flows by non-state financial actors. This was a major concern to developing countries that were highly vulnerable to external financial shocks, which could be more damaging than trade shocks. The absence of a comprehensive international framework for resolving systemic financial crises was another significant barrier to achieving internationally agreed development targets. This should include an orderly debt workout mechanism and multilateral regulation of macroeconomic policies and exchange rate regimes. Moreover, there was also little regulation of new financial instruments, such as hedge funds, whose activities can have a global impact. Current incremental proposals to reform the institutions at the heart of the international financial architecture, notably the IMF and the World Bank, did not go far enough and were unlikely to fundamentally reform the governance structure of the institution to establish sufficient autonomy of the institution from its major shareholders. The speaker concluded that the design of the multilateral economic governance system should be based on greater coherence between the trade and financial regimes and better balance of obligations between developed and developing countries cognisant of the different developmental stages of each country.

8. Mr. Vitalice Meja presented on “Challenges of the current aid architecture: Addressing the development needs of Africa”. The panelist underscored that Official Development Assistance (ODA) is essential to redress the financial gap that arises from the development needs of Africa. Ideally, ODA could act as a catalyst and play a complimentary role in the implementation of the national development strategies. Yet, historically ODA for Africa had often been inefficiently disbursed, unproductively utilized and allocated to the wrong priorities. The panelist stressed that the inclusion of such phrases as “mutual responsibility”, “partnerships” and “dialogue” as part of the current aid debate was a clear recognition of past mistakes. This new trend was evidenced by the Paris Declaration on Aid Effectiveness, which set out five basic principles for donors concerning ownership, alignment, harmonization, management and accountability. Despite the Paris Declaration there was a considerable concern over the lack of progress toward the coordination, alignment and harmonisation between and among donors with the African governments. Many African countries had no long-term vision, lacked appropriate public finance management systems and did not exercise effective ownership and leadership over their development policies. The concept of PRSPs was no substitute for a comprehensive long-term strategy, as it heavily depended on external financing and was weak in addressing cross-sectoral linkages across the economy. The panelist called on donor and recipient countries to make much wider use of sector-wide approaches (SWAPS) as they could help streamline national priorities across sectors.
9. Mr. Veja also highlighted the need to harmonize the delivery of aid mechanisms. While most governments prefer direct budgetary support, donors continued to disburse their assistance using a combination of modes, which added transaction costs to the ministries. Where donors were directly involved, more authority should be delegated to the country office. The panelist also stressed that conditionalities in the aid architecture both at the bilateral and multilateral level continued to pose problems for many African countries. He voiced his concerns over the dominant role of aid in the national budget with some countries having as high a share as 40 percent. Aid dependency could create problems with the national budget in cases of an aid freeze. There was thus a need for African governments to intensify their own domestic resource mobilisation efforts to reduce aid dependency. The current aid

architecture is also weak in addressing the needs of post conflict countries with enormous social, economic and infrastructural problems. Liberia has made considerable strides in creating stability and embarking on the path of growth and development, however the international community is stuck to the relief mode of development assistance with little regard to the efforts of the government to move from transition to development. Finally, the speaker highlighted the need to include civil society in the aid architecture at the national level, because of its critical role in advocacy and monitoring the impact of aid.

10. Mr. Rodney Schmidt focused his presentation on “Innovative sources of finance”, in particular the currency transaction tax (CTT). He stated that the CTT was one of the new mechanisms being considered by many governments, international institutions and others, to raise large amounts of independent, global and stable revenues. According to the speaker the revenues from the CTT should be used to finance international development and other projects addressing global issues, such as public health. He also highlighted that, of the possible new sources of finance for development, the CTT was the most immediately practical and effective one since it was easy and safe to implement, and would raise significant sums of money every year. The panelist explained the CTT was a proportional, or percentage, tax on individual foreign exchange transactions, assessed on dealers in the foreign exchange market and collected by financial clearing or settlement systems. The CTT could be gathered by the existing global financial settlement systems, such as the Continuous Linked Settlement (CLS) Bank or SWIFT and on all foreign exchange instruments, no matter where or how they were traded. The speaker further claimed that a CTT of 0.5 basis points on every foreign exchange transaction in dealer markets would widen spreads at most by one basis point. This was acceptable since, in his opinion, spreads in the major currency markets (dollar, euro, yen, and sterling) commonly had fluctuated by up to a basis point and, less commonly, by more.
11. Based on his research findings a CTT of 0.5 basis points would reduce transaction volumes by 14 percent. He further explained that volumes in the dollar markets had fallen by nearly that amount in the past, without any noticeable impact on exchange rate behavior. Therefore, it was unlikely that it would disrupt either exchange rate behavior or market liquidity. The speaker emphasized that a CTT of 0.5 basis points on the major currencies would yield annual revenue of at least US \$33 billion considering only the traditional spot, outright forward, and swap derivative markets. This number was likely to be much higher if other markets were added. Mr. Schmidt referred to other potential new sources of financing for development such as the International Finance Facility for Immunization and air ticket levies. However, the revenue potential of the CTT would be significantly higher than that of other mechanisms. The panelist concluded that the CTT was a feasible new source of revenue for development and other global projects because it was safe and easy to implement and could immediately raise at least US \$33 billion of global, independent, and stable revenue each year.
12. Ms. Hellen Wangusa Anglican Observer to the United Nations, presented on “External debt and financing for development”. The panelist highlighted that despite a decrease in the debt/GDP ratio in sub-Saharan Africa as a result of debt relief, there had been an unprecedented outflow of capital from developing to rich countries. At the same time, the financial cost of debt relief had been deducted from intended aid transfers and as a result actual aid transfers had been well below projected levels. Ms.

Wangusa criticized the way international financial institutions (IFIs) conducted debt sustainability analysis on several grounds. According to the panelist, current debt sustainability analysis is not based on adequate information on debt structure, did not include an audit of legitimacy or illegitimacy of all previous debts and did not fully distinguish solvency from liquidity problems. Moreover, it is too general, since it falls short of integrating the dynamics between domestic and external debt and risks replacing the former “one-size-fits-all” approach with a “four or five-size fits all” approach. The speaker also underscored that the current debt sustainability framework should include an evaluation of the needs that are necessary for reaching the Millennium Development Goals (MDGs). While the Multilateral Debt Relief Initiative (MDRI) provided 100% debt relief for countries completing the Heavily Indebted Poor Countries (HIPC) initiative, this did not reduce the dependence of countries on significant levels of concessional external assistance. Indebted governments need new and genuine policy space on debt management to overcome debt distress.

13. According to the panelist, there had been attempts at improving debt management through new instruments and systems. A safer debt structure, for instance, could reduce the probability of a debt crisis. However, it does not provide links between the borrower’s ability to pay and the payment contract. In a number of cases, IFIs had switched from lending in foreign currencies to local currency loans. Credit default swaps could also lead to a better distribution of risks and more efficiency. However, they do entail a high cost of risk modeling and management. The speaker recommended basing debt sustainability analysis on human development and developing sustainability criteria for debt management on a case-to-case basis, with full engagement of borrower governments, civil society organizations and subject to public scrutiny. Furthermore, debt sustainability frameworks needed to be based on primary debt servicing and explicitly include an evaluation of the needs that are necessary for reaching the MDGs. Debt audit should include an audit of legitimacy or illegitimacy of all previous debts. Further recommendations included the establishment of an effective Independent Debt Management Financial Analysis System Programme; stable resource flows to finance the enhanced HIPC initiative; the separation of debt relief from ODA; and additional resources for woman’s empowerment and gender equality. Finally, the panelist suggested canceling remaining debt in 2007 guided by the Jubilee principle.

## **Discussion**

14. During the ensuing discussion, participants raised a number of additional issues. Several speakers highlighted the need to make full and productive employment and decent work a central objective of the United Nations system’s activities. Development policies should reflect a strong commitment on economic and social rights, in particular gender equality. Some discussion focused on how the informal sector, in particular the issue of unpaid care workers, should be conceptually linked to the financing for development agenda. As regards systemic issues, one speaker cautioned that Basel II regulations could impair the effectiveness of the commercial banks in developing countries. To ensure that regulatory requirements correspond closer to the development needs of developing countries, the speaker suggested taking up these issues in universal and inclusive settings rather than in limited membership bodies. Some speakers called for the establishment of a sovereign debt workout mechanism that involved all creditors and that provided for fair burden-

sharing between the public and private sectors and among debtors, creditors and investors. Many participants stressed the need for more South-South cooperation and called on the UN to play a supportive role in this regard. It was also emphasized that the Review Conference in Doha in 2008 would be most effective if it took place at the Summit level. The process leading up to the Doha Conference should include Prepcoms, with the participation of civil society, and a negotiated outcome document that would take into account new issues and challenges.

## **Closing of the meeting**

15. The chairperson, Ambassador Løvald, closed the meeting by thanking all of the panelists for their rich and thought-provoking presentations as well as thanking the audience for contributing to the interactive discussions. He encouraged civil society representatives to remain engaged in the preparatory process leading up to the Follow-up Conference on Financing for Development to Review the Implementation of the Monterrey Consensus in the second half of 2008.