Speaking points for LDC V CSO Consultation

Bodo Ellmers - Global Policy Forum

20 May 2021

- I will focus on Financing for Development. A key area of Pillar 6 (Global Solidarity)

Debt

- Debt problems in LDCs became way more severe over the past decade. The COVID-crisis was just another shock that made debt levels surge, due to the recession, but also because most additional external support came in form of loans.
- The share of revenue that LDCs spent on debt service has risen massively. Each dollar transferred to creditors is a dollar not spent on health, education or productive investment.
- The G20 have offered debt suspension to LDCs last year. But debt suspension is not debt reduction. The G20´s Debt Service Suspension Initiative in practice just means kicking the can down the road. Many LDCs require actual debt cancellation. The G20´s Common Framework for Debt Treatments beyond the DSSI that was adopted in November has not achieved anything in this regard either.
- Bilateral as well as multilateral debts need to be cancelled. This can be done by political decision.
- Debts owed to private creditors need to be cancelled too: This would be facilitated by debt architecture reforms, such as by creating a Sovereign Debt Workout Mechanism under the auspices of the UN.
- Action on debt must ensure the governments can prioritize development over debt service, and free up resources to fulfil their human rights obligations.

IFF/Tax

- Illicit financial flows are another black hole in which LDC´s scarce financial resources disappear. Especially the ones related to tax dodging by transnational corporations, who shift their profits to tax havens - most of them in the Global North - where they are untaxed.
- Global tax rules have been and are being negotiated, but the rules disadvantage LDCs, do not take their needs into account. Which is not surprising as they are being negotiated at the OECD, where LDCs have no stake.
- Given that, the UN´s FACTI expert panel has recently suggested setting up a UN Tax Convention, and a fully inclusive global tax body. The LDC V conference should work to implement this and the other 14 FACTI recommendations to the extent they are relevant for LDC, e.g. also the ones on asset recovery. The key objective must be that transnational corporations pay their fair share of tax in LDCs.

SDRs

- Lastly, in April the IMF made the decision to issue Special Drawing Rights worth 650bn USD. CSOs had asked for an allocation worth 3 trillion USD, due to the high financing needs in the COVID-crisis. But let´s call the decision at the IMF a start.
- Only a tiny share of this will go to LDCs, because a Member State´s IMF quota determines allocation, and LDC's IMF quotas are tiny. A reallocation mechanism is needed that ensures that the whole SDR-allocation goes to developing countries, with a substantial share to LDCs.
- This mechanism must preserve the SDR as a financial instrument that does not come with harmful economic policy conditionality attached. The use of SDRs should not be determined by foreign actors but by LDCs themselves, in a democratic process.