



Cold Autumn of Development Finance

Results of the G20 summit in Pittsburgh/US and the annual meetings of the World Bank and the IMF in Istanbul/Turkey 2009

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1. Introduction

The G20 are now established as the supreme forum of global economic governance. Their next summit will be held in June 2010 in Canada. Therefore, it is now a good time to assess how this new forum considers issues of developing countries and development finance.

In 2007, even the poorest countries in Africa were on a path of economic growth. They then fell victim to the financial crisis and its economic impact. This paper looks back to the meetings of these global actors in the field of global finances and macro economy, the G20¹ (Pittsburgh, 24./25.09.2009), the World Bank and the International Monetary Fund, (Annual Meetings 04. – 07.10.2009 in Istanbul), the civil society sees the need to ask:

- Are sufficient finances available for the economic recovery of developing countries?
- Can the problem of debt be managed?
- Will the civil society eventually see coordinated action against tax evasion and capital flight?
- Will the reduction of conditionalities provide developing countries space for economic self-determination?
- Will developing countries achieve more influence in the World Bank and the IMF?
- And finally, are the perils of a new financial crisis really over?

¹Argentina, Australia, Brazil, Canada, China, France, European Union, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, United Kingdom, United States of America

2. Glimmers of Hope?

In the global economy signs are on change. There are hopeful tendencies regarding the economic recovery of developing countries and a greater stability of the financial architecture in this otherwise rather cold autumn of development finance; cold because- as usual- practice doesn't follow promises. These glimmers of hope are:

Fair debt work-out system for insolvent national economies have yet another chance? The second Finance for Development Conference in Doha, Qatar, in December 2008 and the UN- Conference on the Financial Crisis in July 2009 brought back to the political agenda the question of a state insolvency procedure. Such a procedure would move the responsibility for achieving the purposes of the loan a little more to the side of the creditors. This could also prove effective against taking too much of risk. In case the economic recovery for is not sustained beyond 2010, many developing countries may experience another sovereign debt distress and possibly rising interest rates. In such a situation a fair debt work-out procedure would have another chance to reach the international agenda.

Financial Transaction Tax: France and Germany proposed a global Financial Transaction Tax for all financial transactions at the summit of the G20 in Pittsburgh. The funds raised would be substantial: With stock and currency markets mobilizing about 900 trillion US Dollar in turnover each year and derivatives another 625 trillion, a tax of 0.05 percent might raise \$760 billion annually², sufficient to stabilise the global financial system and to approach the development of even the poorest countries in a systematic fashion. Unfortunately, the G20 did not accept this proposal. The IMF was requested³ to present a report at its spring meeting in 2010 and propose ways to include banks and financial institutions to help covering the cost of the financial crisis they have caused. At least the matter is not closed. The discussion will go on.

Tax evasion: The G20 have discussed the extent of the problem that tax evasion and capital flight constitutes for development. The facilitation of the necessary global tax transparency still has a long way to go. The global financial centres are jealously guarding their comparative advantages. Still, the G20 have come to agree to actively cooperate against capital flight and tax evasion. Though the World Bank and the intergovernmental institution against money laundering “ Financial Action Task Force” (FATF) have been entrusted with this task, they have not been given clear reporting duties or definite objectives to be achieved.

Global Currency Reserves: The oil producing countries do not anymore exclusively bill in US Dollars. This could be looked upon like the proverbial “writing on the wall” for the status of the Dollar as the only global reserve currency. Step by step other currencies like the Euro or the Chinese Yuan take over the functions of global order settlement. The earlier World Bank chief economist and Nobel Prize winner Josef Stiglitz proposes to utilise the IMF Special Drawing Rights as a global reserve currency⁴, a proposal repeatedly supported by the Vice-

²Bloomberg, <http://www.bloomberg.com/apps/news?pid=20601109&sid=aZxk6z7R4V5I&pos=10>

³ Leader's statement: The Pittsburgh Summit, see: <http://www.pittsburghsummit.gov/mediacenter/129639.htm>
This text frequently refers to this document

⁴ Stiglitz Josef, E: Making Globalization Work, New York 2006

President of the Chinese Central Bank. A diversification of the global reserve currency US Dollar could in the mid term help to stabilise the global financial system.

Global imbalances: The financial crisis was triggered by the burst of the real estate bubble in the US, accompanied by an hitherto unknown level of risk preparedness and a total loss of responsibility on the part of leading bankers, brokers and speculators and a laissez-faire attitude on behalf of the Governments. The deeper origins of the crisis can be found in the global imbalances, the enormous build up of currency reserves on one side and too much debt on the other⁵. The G20 in their “leader’s statement” have communicated their intention to balance out their economies contributions to the global financial imbalances. The Pittsburgh statement points out that while the US must increase its savings, China, Germany and other countries with strong exports of goods and services must stimulate domestic growth by spending programs and social policies. The macro economic program of the new Government in Germany follows this resolution of the leader’s statement –, nevertheless it is seen very critically in Germany, for example the debt financed spending programmes, because of their negative distributional effects. Given the structures of the German or the Chinese economies which are based on exports, or the structures of the economies of Russia, Norway, or those of Arab or African countries to sell their resources on the world market, nothing can really change in the short run. The US is fighting against the loss of the status of the US Dollar as a world wide reserve currency, despite of the fact that, because of this function of their currency, the US owes large debts to many governments. Nevertheless, it is a positive sign that this subject has been included in the leader’s statement. Growing debt on one side and growing reserves on the other can never form the fundament of a sustainable global economic system.

The financial crisis has brought it to light rather conspicuously: the privileges of the rich countries governing the structures of the world finances, the International Financial Institutions and the global markets slowly wear out. The future will see more sharing. That is good news. 1.4 billion people live in absolute poverty. They demand their rights; they can’t be ignored any longer.

⁵Wolff, Martin: Fixing Global Finance, How to Curb Financial Crisis in the 21.Century; Baltimore, 2008, p.120ff

3. Victims of the Crisis

Many developing countries did not believe that they might get much affected by the crisis in the summer of 2008. Their banks had little financial interrelationship with the big business and financial centres. Soon however, the affected big banks and investment houses in London, Tokyo and New York withdrew their investment from emerging markets and developing countries. These finances were needed at home. At the same time the financial crisis expanded. Banks denied each other credit. Risk aversion against loan seeking enterprises increased. This is now the crisis crept into the general economy. The demand for goods, services and labour from developing countries dwindled already in September 2008⁶ and since then only recovers slowly and with interruptions⁷.

The World Bank highlighted in March 2009 that developing countries will have to bridge a financial gap of 350 to 635 billion US Dollars in the same year on account of the financial crisis. In its 2009 Global Development Finance report the Bank calculates that private capital flows into developing countries would decrease from 1,2 trillion in 2007 to 363 billion US Dollars in 2009, i.e. dwindle to about 30 percent of its former value⁸. The IMF sees a reduction of direct investments impending from 2008 to 2010 by 37 percent⁹.

By the end of 2010, 90 million people more than now will live in extreme poverty, i.e. with less than one Dollar, announced the Development Committee of the World Bank at its annual meeting in Istanbul. The International Labour Organisation (ILO) published that about 52 million jobs in industry and commerce would be lost, 22 million of those by women. For the informal sector of the economies in developing countries, i.e. the areas where domestic workers, daily labourers or vendors find their subsistence, there are but a few assessments about employment and livelihood losses available. In Asia alone 1,1 billion jobs are categorised as vulnerable, strongly affected by the dwindling demand as a consequence of the crisis¹⁰. The remittances of migrants decreased by 15 billion US Dollars i.e., by about 5 percent, to the level of 290 billion in 2009. For the remittances all further developments depend upon the economic recovery in the industrial countries.

In 2009 and 2010, African economies will likely record 578 Million US Dollars less export revenues. The total Overseas Development Assistance (ODA) for Africa amounts to only one fifth of this sum! The average rate of economic growth in Africa in 2009 will only reach half of the pre-crisis period. In toto, the crisis means a brutal economic and social shock, and a return

⁶ see: http://hwwa.hwwi.net/typo3_upload/groups/32/hwwa_downloads/Rohstoffindex-dia.xls.pdf

⁷ see:
http://hwwa.hwwi.net/fileadmin/hwwi/Mediencenter/Pressemitteilungen/2009_Pressemitteilungen/rohindex-10-09/2009-10-02_Pressemitteilung_HWWI-Rohstoffpreisindex.pdf

⁸ World Bank, Global Development Finance 2009: Charting a Global Recovery: see http://siteresources.worldbank.org/INTGDF2009/Resources/gdf_combined_web.pdf.

⁹ IMF: <http://www.imf.org/external/pubs/ft/weo/2009/02/weodata/download.aspx>

¹⁰ ILO: http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_101461.pdf

to increasing poverty. In the area of health e.g. this means a child mortality of 1,4 to 2,8 million children in 2009¹¹.

3.1 Are sufficient finances available for economic recovery?

Of the almost 5,5 billion people living in developing countries, 1,4 billion live in absolute poverty, i.e. with less than 1,25 US Dollars a day¹². The G20 leader's statement recognizes that there are about 4 billion people on earth suffering from lack of education, have almost no access to technologies to help ease the drudgery of labour, have very little access to capital for investment and are not integrated into the world economy. These people need to be helped to catch up faster with the standard of living of people in the already progressed countries, say the G20. To begin with they want to start – on a voluntary basis- with an initiative to ensure food security and a program for renewable energy for the poorest (para 23). The access of poor people and small enterprises to loans and credit is to be improved. To realise this plan, a G20 expert group is to be found and the private sector will be invited to help mobilise the finances. The G20 do not allocate any new financial means for these plans. In view of the depth of the crisis, these plans appear to be inappropriate. How much ever of these plans may be turned into reality, in the end it will have to be paid by the existing Official Development Assistance (ODA). This pertains also to the a.m. G8 plan announced at their meeting in L'Aquila, Italy in 2009, that is, to make 20 billion US Dollars available for food security in developing countries.

Industrial countries so far have made available 10,2 billion US Dollars in order to control the financial crisis in and between their countries¹³. The G20 summit in London also impressed the public with gigantic figures. Indeed the heads of states and the financial institutions have made available 1,127 trillion US Dollars to overcome the crisis in developing countries (see table, i.e. roughly 10 percent of what the industrial countries mobilised to protect themselves). The lion share of these finances consists of bonds, guaranties and securities, extended to the Emerging Markets and Middle Income Countries through the International Financial Institutions in order to stimulate their economies as well as the G20's own trade. Only about 93 billion US Dollars (see table) were reserved for fighting poverty in the 79 Low Income Countries, i.e. less than one percent of what the more well to do countries mobilised for themselves.

Yet, in this narrow financial framework for the Low Income Countries one has still expanded their access to concessional loans grants at the IMF and the World Bank. If such a country has a promising project, the World Bank is now also prepared to provide loans at market rates, a practice otherwise reserved for Middle Income Countries.

Most of the commitments are already part of the Overseas Development Assistance e.g. by preponing payments and disbursements. The Pittsburgh statement of leaders of the G20 again confirms their will to reserve these account summits or the fulfilment of their promises. 0,7

¹¹ <http://www.carnegieendowment.org/publications/index.cfm?fa=view&id=22995>

¹² World Bank Poverty Net, see: <http://iresearch.worldbank.org/PovcalNet/povDuplic.html>

¹³ <http://www.business-standard.com/india/news/total-costworld-financial-crisis-at-119-trn-imf/70296/on>

percent of the GDP for developing countries and expressed their determination their will to finance the Millennium Development Goals. Meanwhile, because of the many commitments, accountability and responsibility for their realisation has become an important subject for summits. Can they show fulfilment? The UN Task Force for the Millennium Development Goals in its 2009 report has identified a gap of 37 billion US Dollars in Overseas Development Assistance between the promises of the G8 summit of 2005 in Gleneagles¹⁴, Scotland and the level of Overseas Development Assistance that would have been due in 2008.¹⁵

Moreover, the disbursements of the World Bank do not seem to respond to the present emergency. The creditors commitments for loans at market conditions for Middle Income Countries grew from 2008 to 2009 by 144 percent (i.e. from 13 to 32 billion US Dollars). But during this period only 77 percent more disbursements were carried out (18 billion US Dollars in 2009 compared to 10 in 2008). Low Income Countries receiving concessional loans and grants obtained even less. Concessional commitments in 2009 were 14 billion US Dollars, i.e. 25 percent more than in the previous year (11 billion US Dollars), yet in 2009 not even one percent more disbursements were carried out (from 9,1 billion US Dollars in 2008 to 9,2 billion in 2009)¹⁶.

The Governments of developing countries had much less budget finances available to promote the development of their countries than in the previous years because of the financial crisis caused by the rich.¹⁷ At the end of the day this is what matters. The fact that developing countries could draw some more resources from the International Financial Institutions to overcome liquidity gaps, etc. helped. But most of it is new debt, for which eventually recovery will have to be mobilised.

Especially for Low Income Countries more concessional finance such as grants and low interest long term loans must be made available, so that hunger, child and maternal mortality or lack of education can be fought effectively.

¹⁴ <http://www.g8.utoronto.ca/summit/2005gleneagles/africa.html>: 50 million annually more from 2010, baseline 2004.

¹⁵ United Nations: Strengthening the Global Partnership for Development in a Time of Crisis, New York 2009, http://www.un.org/millenniumgoals/pdf/MDG_Gap_%20Task_Force_%20Report_2009.pdf S 8

¹⁶ Romero, Maria José: "The World Bank in Times of Crisis: Too many Commitments and few Disbursements", October 2009

¹⁷ Eurodad: From Pittsburgh to London, Brüssel Sept. 2009, p 5., see: <http://www.eurodad.org/debt/article.aspx?id=2190&item=3820>

3.2 Will tax evasion and capital flight be reduced?

An example: Kenya's annual gold exports are estimated to amount to around one billion US Dollars¹⁸. At a levy of 10 percent, the Kenyan exchequer would receive around 100 million US Dollars. But in 2007, the state revenue from gold was only 34,000.- US Dollars and in 2008 it dropped even lower to 20,000.- US Dollars. Evidently, considerable raw material levies disappeared in private pockets.

Every year developing countries lose revenue between 256 and 366 billion US Dollars from commercial transactions. This happens partly under legal but also often under illegal conditions. It constitutes double or triple the amount of the annual Overseas Development Assistance and demonstrates how successful the mobilisation of development resources in poor countries could be, if e.g. the end of banking secrecy could be achieved by installing a globally transparent and effective taxation system. The Washington based Think Tank "Global Financial Integrity" has calculated the annual amount of 865 billion to one trillion US Dollars being stripped from the capital basis of developing countries due to tax evasion and capital flight¹⁹. About 40 percent of these are derived from corruption especially from the illegal trade in drugs and arms. The remaining 60 percent are attributed to globally active corporations. Goods and services are produced in one country but taxes are paid in another particularly, in those countries where the tax level is low, i.e. often in tax havens²⁰. Therefore the main demand of global civil society networks is a "country by country" taxation. Wherever value is added to a product or a service that is where it must be taxed.

The Pittsburgh G20 meeting in September 2009 already saw considerable progress on the road to more tax transparency since their London summit in April the same year. The "unregulated jurisdictions" as Cayman Islands, Guernsey or Switzerland are called, in the meantime have been advanced from the grey to the white list of tax transparency by the Organisation for Economic Cooperation and Development, the OECD, the club of the industrial countries based in Paris. To become white listed, the tax heavens only had to sign tax transparency agreements with 12 countries of their choice and thus avoid further undesirable measures.

For the exchange of experiences in the struggle against tax evasion internationally, Germany has proposed an "International Tax Compact" institutionally attached to the OECD in Paris²¹. This tax compact is based upon the automatic exchange of data by tax authorities in the 27 EU countries. Some of them have agreed to this automatic exchange but there are still a number of exceptions such as Luxemburg or Austria. Amongst other countries, Spain supports the idea of installing an international tax compact. Spain will take over the EU presidency in the first half of 2010 and during these six month take up this issue of automatic tax data exchange. At the international level, states continue to insist on bilateral tax agreements. For example,

¹⁸EURODAD: Gail Hurley, Istanbul Report: 5.10. 2009

¹⁹Global Financial Integrity: Illicit Financial Flows from Developing Countries: 2002-2006, <http://www.gfip.org/storage/gfip/executive%20-%20executive%20summary%2012-26-08.pdf>

²⁰Eurodad: Marta Ruiz et al : A European Agenda to Fight Capital Flight, Brüssel 23.10.2009

²¹http://www.bmz.de/de/presse/reden/ministerin/2008/september/rede_20080930.html

Australia has signed 110 tax agreements with other countries, Germany 130. It seems however, inconceivable that all 192 UN member states would conclude bilateral tax agreements with each other for tax transparency. Therefore, the UN should offer its members to join a multilateral agreement to make banking and tax data available to national authorities, and at the same time create an operational mechanism for this purpose.

Stolen Assets: The World Bank has developed a programme for the recovery of stolen wealth²² from developing countries, the Stolen Asset Recovery Programme (STAR). Significant recoveries, however, have not yet happened. One example: The loot collected from the people and the mines by the ex-dictator Mobutu of the former Zaire, remaining in Swiss banks amounting to 6.68 billion US Dollars had to be left to his heirs (on April 21, 2009) because the present Government of the Democratic Republic of Congo blocked the taking back of the money and thus allowing the deadline of April 21 2009 to pass!²³. To avoid such despicable events, the World Bank must document the ongoing cases, make the data publicly available and build in-country legal capacities. However, not only corrupt elites of Southern countries but also the banks in Northern countries have a great interest in these stolen properties. A survey of the Federal Financial Supervisory Authority in Germany had reviewed 31 German banks and their involvement in such “unregulated jurisdictions”. The following facts were published: Financial institutions in Germany, particularly the Deutsche Bank, maintain more than 1,600 foundations and trusts in almost all offshore centres of the world. There, they also share ownership of 395 corporations²⁴. Data on the origins, amounts and destinations of the covered financial flows are not available. For the banks, the co-ownership of off shore financial corporations comes at a high price. Therefore, the expectation is not far flung that the profits must be fantastic. There is a clear overlap of interest among the elites in developed countries and those governing the global financial markets. The southern financial elites look for safe and profitable investments and the bankers look for capital and profits.

This field of illegal and illegitimate financial flows should be looked upon as the biggest untapped resource for financing development in poor countries. It actually shows an unethical attitude or even complicity to remain inactive or even secretly supportive of these hidden financial flows. This revenue from the resources and the labour of people in developing countries must finally be made available for their development to the full extent, rather than being invested into mutual investment funds, or credited to state budgets and industries in well-to-do countries.

A multilateral agreement must be signed by all countries ensuring the exchange of tax details of all countries and their firms and citizens. It is the task of the United Nations to provide the global public good of tax transparency. In future all value addition must be taxed where it happens (country by country reporting). The IMF and the World Bank must finally cease to deny developing countries the application of capital controls. The World Bank needs to equip its STAR-programme with more money and personnel. It should collect data on illegal financial flows and should highlight the subject of stolen assets, capital flight and tax evasion at their next annual meeting in order to direct the attention of the world to the poverty impact of illegal financial flows.

²²World Bank, see: <http://siteresources.worldbank.org/NEWS/Resources/Star-rep-full.pdf>

²³http://www.swissinfo.ch/eng/front/Lawyer_warns_against_returning_Mobutu_assets.html?siteSect=105&sid=10632689&rss=true&ty=st

²⁴FAT Finance.net 2.9.09: Deutsche Banken in Steueroasen aktiv, <http://www.fazfinance.net/Aktuell/Steuern-und-Recht/Deutsche-Banken-in-Steueroasen-aktiv-2386.html>

3.3 Less IMF conditionalities – indeed?

Even before the annual meeting in Istanbul, a study of the Centre for Economic Policy Research (CEPR) has irked the pundits in Washington. Since a few years, the IMF maintains to apply much less conditionalities to its loan business. The CEPR scrutinized 41 recent country loan programmes and came to astonishing results²⁵. 31 of the 41 country studies show that, the IMF demanded to increase interest rates to reduce liquidity or to reduce budget deficits by reducing salaries in the public sector during the economic recession. These are measures leading to a contraction of the economy and a deepening of the recession whereas, one would expect loans from the IMF during the financial crisis to stimulate the economy. Countries like Ghana, the Ukraine or the Seychelles had to accept many conditions. In Hungary, Lithuania, the Democratic Republic of Congo and Haiti, these mistakes were so conspicuous that, the IMF had to modify its conditionalities because of social upheavals or strong resistance of the recipient Governments. At the beginning of the recession a number of developing countries had already been indebted they found it difficult to finance their budget and current account deficits. However, even in these cases the IMF should have waited until the end of the recession before prescribing loan conditionalities contracting the economy. The motivation for imposing growth stifling conditionalities in some countries, such as increases in interest was to reduce capital flight. If the domestic currency remains strong, investors keep their money at home. However the IMF, in none of the 41 countries, has allowed the Governments to utilize effective capital account controls. Pakistan has been actively prevented to do so. And yet, after the increase of its reserves by the G20 in April 2009, the IMF definitely had sufficient financial means to protect every single one of its member countries. But, the IMF has not taken up this chance on the contrary it has implemented its traditional policy of budget discipline, liberalisation and privatisation in spite of new financial means amounting to 17 billion US Dollars made available particularly, for Low Income Countries (plus further billions from the increase of access modalities), finances that could have been provided without conditionalities.

Political conditionalities are poison for the democracy and sovereignty of a country. The IMF must finally end its provision of loans based upon conditionalities that directly interfere with the economic policy of a country particularly regarding its fiscal, money, trade and privatisation policy.

²⁵Center for Economic Policy Research, see: <http://www.cepr.net/index.php/publications/reports/imf-supported-macroeconomic-policies-and-the-world-recession/>

3.4 Are the World Bank and the IMF in full management control of sovereign debt?

In March 2009, the IMF reported that 28 developing countries might slip into a new sovereign debt crisis. At this point in time the debt of these countries was as high as double the amount of their GDP. On an average, this is also double the amount of foreign debt permitted according to one indicator of the Debt Sustainability Framework of the World Bank and the IMF. The latest UNCTAD report about the Least Developed Countries sees 49 countries threatened by a sovereign debt crisis²⁶. Under the impression of the financial crisis and directed by the G20, the World Bank and the IMF have flexibilised the criteria of the Debt Sustainability Framework. Now poor countries can accept higher debt levels than before without losing the favourable loans and grants given by World Bank and IMF. But the danger of a new debt crisis is seen by the G20. The communiqués of the annual meetings of the World Bank and the IMF in Istanbul underline that the stimuli-programmes provided to boost the economies of developing countries should not add to new debt²⁷.

However, the G20 and the International Financial Institutions rely mostly on the hope that in 2010 the economy will boom again and therefore remain inactive against the build up of sovereign debt²⁸. The truth is now after the “one off”- debt cancellation initiatives of 1999 and 2005, there is no tool left in the tool box of IMF and World Bank to counter the negative impact on food security, health or education caused by the impending insolvency threats to developing countries.

At a press conference in Istanbul, the finance ministers of the Heavily Indebted Poorest Countries (HIPC) partly relieved of their debt in 1999 and 2005 assured that one would do everything possible, to avoid building up once again an unsustainable level of foreign debt. This sounds like a confident demonstration of self-reliance. However, it can also be interpreted as bad news for the poor. The question is whether the finance ministers would rather pay to their creditors than finance the realisation of the Millennium Development Goals in their own country. Mr. Cephias Lumina, the independent expert of the UN Human Rights Council in Geneva, and many people involved in the Churches and in the Jubilee movements are of the opinion that the finance ministers may act against human rights if they prioritize the repayment of foreign debt over the financing of the Millennium Development Goals. This press conference has confirmed how immensely important the International Financial Institutions still are for the liquidity and the financing of the budgets of developing countries despite the emergence of China, India or Brazil as new donors of development assistance. The claim of Civil Society Actors globally to impose a moratorium on debt services for developing countries until the end of the crisis was rejected during the annual meetings. The IMF however, defers repayment of interest to the 79 poorest countries until 2011. At 0.5 percent interest this amounts to about 110 million US Dollars, a mere gesture. But it shows: It makes a difference that now with Dominique Strauss-Kahn, there is a French socialist heading the IMF. It also shows, political will could do much more.

²⁶UNCTAD, see: http://www.unctad.org/en/docs/ldc2009_en.pdf

²⁷Paragraph 6 in the Communiqué of the Development Committee and Chapter 11 in the IMFC-Communiqué of the Istanbul annual meetings

²⁸Bretton Woods Project: IMF Financial Package for Low income countries: “Much ado about nothing”, see <http://www.brettonwoodsproject.org/art-565055>, 7.8.2009

For years Civil Society Organisations have been struggling for a fair and transparent arbitration procedure in case of state insolvency. During arbitration, un-payable debt of countries would be cancelled and still payable debt would be restructured. Such a treatment of sovereign debt could be a permanent solution to the ever revolving cycle of sovereign indebtedness and its impact on poverty. During the annual meetings it became clear that the World Bank and the IMF, at the level of their staffs have become more open to this discussion. Very slowly a fair, sovereign debt work-out arbitration becomes part of the general debate on debt management.

To those countries which are on the brink of insolvency on account of the financial crisis the World Bank, the IMF and large creditors should offer to cancel their debt already now before their last Dollar of international currency reserves has been spent. Defacto insolvent developing countries must repudiate debt services otherwise they would be paid at the expense of human rights. They should negotiate with their creditors in a transparent procedure (taking the example of chapter 9 of the US insolvency laws) and discriminate between debts that could be repaid over time and debts that need to be cancelled (for instance also the illegitimate debts). In order to do so, affected countries need to ensure the cooperation of supportive donor countries for interim finance. To ensure the extension of better quality loans in the future, the G20 should adopt a charter for responsible lending.

3.5 Global Governance – a global public good?

On account of the persistent pressure of the global Civil Society, the World Bank and the IMF have in the past decade taken a few positive steps. The amount and quality of information of their websites compares most favourably with the ones of ministries and Governments or even Non-Governmental Organisations. The work of the boards of both International Financial Institutions has become more transparent. There are meaningful minutes of the meetings, though there is no full public disclosure of the voting behaviour of particular Executive Directors. African Executive Directors represent many African countries in the boards. They have been supported by the addition of professional capacity to their offices.

At the annual meeting of both institutions in Istanbul, a proposition was made to shift 3 percent of the quota (i.e. a decision making power) of the World Bank and 5 percent of the quota of the IMF from the rich countries to the emerging markets and larger developing countries. The final decision concerning this reform at the World Bank is to be expected at the spring meeting in 2010 and at the IMF in January 2011²⁹. Already earlier, the position for a third African Executive Director in the Board of the World Bank was established. As part of the calculation of the relative economic position of a member state of the IMF as compared to all the others now a 40 percent share of its Purchasing Power Parity is considered. This is to the advantage of large developing countries. In future the heads of both institutions in the future are no more to be determined by the US and Europe but are to be appointed on the basis of a merit based selection.

The G20 had already decided in April 2009 in London that the Financial Stability Forum (FSF) was to be expanded by the twelve non-G8 member states of the G20 and its name changed from a board to a forum. In future, the Financial Stability Forum is to work out a set of

²⁹MF: Reform of IMF Quotas and Voice: Responding to Changes in the Global Economy, April 2008

criteria for the regulation of financial markets and banks in cooperation with a network of further institutions worldwide.

Still, the worldwide networks of Civil Society Groups are not convinced by these reform steps of the International Financial Institutions. The roles allocated to them by the G20 are not acceptable without a strong democratisation of their structures and governance. In the global South, the IMF and the World Bank are still seen as instruments of exploitation of natural resources, markets, capital and labour of poor countries by the rich world. They do not enjoy legitimacy for their roles and tasks.

Yet, the European Executive Directors of the World Bank and the IMF blame the actors of the Civil Society of political naivety. They say, it is the European Governments who stand for the protection of climate or resources, gender orientation, human rights, good governance and democracy during the discussions of the boards about the provision of loans. They also say that the majority of other Governments do not feel committed to these criteria and values. Indeed, herein lies a problem. For Civil Society there is no alternative to Human Rights, Justice and Democracy as principles of Global Governance.

Regarding their economic policy orientation, the G20 do not differ much from the G8. Now there are more Governments and more representatives of interest at the table. They represent indeed about 70 percent of the world's population and about 80 percent of its economic might. Therefore, this must be considered as a step in the right direction. Already at their second summit in April 2009, London, the G20 had created strong ties with International Financial Institutions by providing fresh mandates for the IMF and the Financial Stability Forum, and by promising 1.1 billion US Dollars to them. Today, after the summits of London and Pittsburgh, these institutions can be understood as the operational entities of the G20. The World Bank will promote development, the IMF will manage the economic crises of member Governments and act as fire brigade for a global financial crisis and the Financial Stability Forum will regulate financial markets, institutions and banks. These institutions coordinate a very intricate international network of institutions for development, for economics and financial markets. The system is built up parallel to the United Nations and is politically controlled by the G7 and now the G20 countries. The building up of this parallel system to specialized UN institutions by the G20 is bad news for global governance. Not only the G20 but a further 172 countries are members of the United Nations and about 120 belong to the poorer section of countries on the globe. With the G20 the tendency continues to exclude these countries from decision making vital to them.

The IMF, the World Bank and the Financial Stability Forum must become more accountable, transparent and democratic. The poorest countries, often also the best clients of the International Financial Institutions, must have more decision making power. The USA must give up their defacto veto right. The European Union must learn to speak with one voice. The power sharing principle based on the relative strength of a country in the global economy (the quota system) must slowly lose its significance. This system does reflect the division of power on the globe. It does not however, set incentives for the future prevention of financial crisis and is insensitive to poverty, climate change or democracy. The United Nations need to build up an operational "Council for Economic and Financial Coordination", a council of all the 192 member states into which the G20 can introduce their initiatives.

3.6 Financial crisis – are the perils under control?

This question is of interest to the developing as well as the industrial countries alike. Will the G20 be able to deliver with the agreed- upon steps for the regulation of banks? The bankers resist attempts to reduce their remuneration and boni and to tie them to long term success. Their chances are good. According to most European Ministers of Finance, complex financial products should in future only be traded at stock markets and not "Over The Counter", i.e. outside of any supervision so that financial surveillance could be effectively applied. This is rejected f.i. by the British Government under the pressure of the lobby of the London City, the financial centre with the highest turnover³⁰. A good share of the profits is derived from unregulated speculation in goods, contracts and stocks. The credit/ co-lateral ratio is to be improved, so that the public no longer needs to stand in for security in case of default. But banks, investment funds, hedge funds and private equity funds resist this move. They say, it makes loans less competitive when the banks and not the public have to stand guarantee. Financial products such as the "Credit Default Swaps", which have triggered the 2008 financial crisis, have not been banned or even made more secure. The sale of derivatives and securitized debts to investors continues with terrifying turnovers (500 trillion US Dollars) and risks (3.5 billion US Dollars) annually³¹. The banks have been in a position to push their bad loans into bad banks and states guarantee for them. This only shifts the day of reckoning to the future. The remaining money houses after the insolvencies of huge banks (Lehman Brothers, CTI in the US) and investment houses (Bear Sterns, US) grow only bigger. When next time the world financial system crashes, the tax payers will once again have to perform as creditor of last resort. It is as if the bankers hold the whole world hostage. No government can allow the collapse of the banking system- because everything else would also collapse. Again, the developing countries would be hit the hardest. Still, neither in Europe nor anywhere else effective measures against banks "too big to fail" have been decided upon³². Above all, states fear to lose competitive advantages or governments fear to lose votes. Thus the danger of a new financial crisis is not at all under control. Poor and rich countries alike must face up to the horrific reality that the fruits of their labor can be gambled away by speculators once again.

The big banks must be re-proportioned to a smaller level so that they cannot affect the financial system as a whole. The G20 regulations of the financial markets are actually only recommendations. They must be transferred into a UN based banking convention and thus become international law. All types of businesses in the financial markets must be so collateralized so as not to need bailing-out by the public in case of default. All "Over The Counter " trade is to be transferred into regulated stock markets. A financial transaction tax of 0.05percent to all financial products is to be levied on all transactions everywhere.

³⁰Handelsblatt, Finanzzeitung 21.10.2009 S. 22

³¹Le Monde Diplomatique, Sept. 2009, Cordonnier, Laurent: „Der nächste Crash ist schon in Arbeit“

³²ECOFIN Communiqué 16.10.2009

4. Conclusion: A very cold autumn for development finance

The G20 have more or less fulfilled their monetary commitments. They have made available finances for overcoming the finance and economic crisis (see table)³³. These finances are important for developing countries. Their provision however, does not correspond with an end of the crisis. And only a modest part is available at concessional terms and with economy contracting conditionalities attached.

The finances consist of, for instance, Special Drawing Rights provided to all countries according to their quota share at the IMF. Special Drawing Rights make it possible for poor countries, even those highly indebted, to take on even more loans for urgently required imports such as gasoline or pharmaceuticals. But in this situation poor countries basically need cash to cover budget deficits particularly, because as a result of the crisis the state revenue has dropped. Unfortunately, the Special Drawing Rights are not by themselves an inexpensive means for development finance of poor countries. Transferring them into cash can cause high costs once the overall interest rates increase.

The greater part of the finances made available by the G20 and other donors consist of loans at market rates for investments, for liquidity, for projects or for financing the G20's and the others' exports. All plans are built upon the assumption that the economy would pick up latest in 2010. While some economic indicators point into this direction³⁴ other observers see the next crash already looming around the corner because the problems in the financial system have been solved only at the level of symptoms. As soon as the fear of inflation would grow stronger than the worry of recession, the central banks in the major economies will likely hike the interest rates. Higher rates will increase debt services critically and quickly. In such a situation even larger middle income countries may be faced with insolvency.

Only then, we shall know whether the strategy of the G20 to manage the financial crisis will pay dividend. This strategy was based on considerable debt financed investment but avoided structural changes in the financial architecture and in the orientation of the economic policy. It may just not deliver what is required to provide a sustainable exit from the crisis. Yet, it may help to “muddle through”, and enable banks, financial institutions and speculators to continue as before.

The G20 entirely missed to develop a perspective to connect the requirements of climate change and climate finance with the new financial architecture.

To make the structures of the financial systems more stable and safe for the world would have meant to cut down the size of the banks, to regulate the financial markets in a determined way and to levy a financial transaction tax that could help to accumulate a stabilization fund and promote development. It would have also meant to curb capital flight and tax evasion through country by country taxation, effective tax data transparency, capital account controls and by

³³The seeming over-achievement is due to the inclusion into the 2009 US Senate approval of 250 billion US Dollars for the financial crisis of a 33 billion US Dollars IMF Special Drawing Rights- increase of 1998 favouring the earlier members of the Soviet Union.

³⁴World Bank: Global Development Finance, 2009 p 9

introducing a state insolvency procedure. It would have also meant to finally prepare the way for a new global currency reserve system, slowly de-linking the US Dollar from this function, initially by cooperation of strong currencies and later on the basis of/ the Special Drawing Rights of the IMF³⁵.

In the end, changing the global macro economic and financial structures will require the institutionalization of a permanent “Global Economic Coordination Council” at the United Nations. It could do for the global economy what the UN Security Council is expected to do for security, but with greater democratic governance. It could ensure the cooperation of all member states based on international law as well as the operational capabilities of the World Bank, the IMF, the Financial Stability Forum, etc. A council with such powers, building upon the legitimacy of the United Nations could begin with the difficult task of re-balancing the global economy and thus help to create the basic prerequisite for a peaceful and democratic world, a just and sustainable global economy.

Despite some glimmers of hope it's a long way to go: Yes, some new thinking in the direction of greater economic justice and better global governance can be recognized in the documents of the G20 and the annual meetings of the International Financial Institutions. Civil society must press on for its realization.

³⁵Le Monde Diplomatique Sept. 2009 S.9, Stiglitz, Josef, E: „Anpacken und zwar sofort- Globale Antworten auf eine globale Rezession“

Tables

Committed and actually made available finances of the International Financial Institutions and the G20 to overcome the financial crisis and support development

Table 1: International Monetary Fund

Plan	Committed	Made available	Remarks
283 billion US Dollars Special Drawing Rights without conditionality	283 billion US Dollars	283 billion US Dollars	(250 + 33 billion US Dollars from 1998 quota increase) allocated equivalent to IMF quota shares
500 billion US Dollars from New Arrangements to Borrow at market rates partly with conditionality	500 billion US Dollars	501,3 billion US Dollars	Reserves made available as committed, but not needed for 2009 disbursements (173 billion US Dollars)
Additional concessional loans supported by the sale of IMF-Gold, with stronger conditionalities	17 billion US Dollars	17 billion US Dollars disbursed over several years	helped by the high gold price
Extension of access limits for concessional loans for Low Income Countries		Depends on requisition	Low Income Countries now can obtain loans as high as three times their IMF quota share

Table 2: World Bank (WB) and Regional Development Banks

Plan	Committed	Made available	Remarks
Up to 300 billion US Dollars over 3 years for non-concessional loans based on securities in the balance sheets	100 billion US Dollars	59 billion US Dollars disbursed by World Bank in 2009	WB assesses disbursement of 88 billion US Dollars by the Multilateral Development Banks (includes WB)
Trade Finance by WB-International Finance Corporation (IFC)	50 billion US Dollars	3 billion US Dollars	IFC could not mobilize more from G20, despite plans

Table 3: G20 and other Industrial Countries

Plan	Committed	Made available	Remarks
Trade finance	250 billion US Dollars	250 billion US Dollars ³⁶	Used by export credit agencies of export countries

³⁶“We welcome the swift implementation of the \$250 billion trade finance initiative“ : <http://www.pittsburghsummit.gov/mediacenter/129639.htm>



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