

## **The economic crisis and Financing for Development – threats and opportunities for global solidarity**

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### ***Introduction***

As the consequences of the financial crisis take their toll on the developing world, so grows the concern that the little progress made in recent years to ensure that rich countries provide extra financial resources for the fight against poverty will be whittled away as the global North closes its purse strings and governments back-track on aid commitments. Overwhelmed by their own domestic economic problems, including the almost daily announcement of job losses, and unwilling to give up the decision-making power they currently enjoy in major financial economic institutions, rich country governments are turning to simplistic policy solutions such as slashing aid budgets and reducing immigration quotas.

And yet the crisis, the result of many wrong-headed economic policies is also a great opportunity for a whole-scale reform of the global economic order. Trade and investment liberalization, which has eroded domestic agriculture and industry, drastically undermined domestic savings and government revenues, and amplified destabilizing capital flight, is finally being questioned even by mainstream economists and policy makers. This opens up the possibility to create a new system that allows developing countries to benefit from aid while at the same time reforming rules that currently stop them from being able to invest in human development and fund the necessary social programs and investment in decent work, at the same time as investing in the green technologies and climate adaptation mechanisms.

This paper looks at one such possibility for reform, through the so-called Financing for Development process. At the Monterrey and Doha UN Financing for Development Conferences in 2002 and 2008 respectively, countries recognized that many aspects of the international financial and economic system exert a detrimental effect on development and poverty reduction. Commitments agreed in Monterrey and Doha require governments to tackle these problems to improve development. How and whether these commitments are implemented and improved upon will have a great impact on ensuring the rich world puts its promises of solidarity into action.

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## ***What is Financing for Development?***

In 2002, world governments agreed to the so-called Monterrey Consensus on development finance, a document which set out commitments in six key areas: **mobilising domestic resources; foreign direct investment, international trade, financial and technical cooperation, external debt, and systemic issues**. As a process, the Monterrey consensus sits within the United Nations. The consensus that emerged out of the 2002 meeting in Monterrey was weak in some areas, but nevertheless opened up a window of opportunity for discussing these issues in the global arena. (See <http://www.un.org/esa/ffd/monterrey/MonterreyConsensus.pdf> )

In November/December 2008 in Doha, Qatar, progress on these issues was discussed at the *Follow up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus*. The Doha Conference aimed to take stock of progress made since the 2002 Monterrey Consensus.

The Monterrey agreement laid out a set of responsibilities between rich and poor countries, between private and public sectors, and on the overall scale of effort required. Solutions to development problems were presented in a holistic way by promoting a comprehensive approach to development. The idea was to optimise synergies between domestic resource mobilisation, aid, international trade, private capital flows and debt relief. Monterrey spawned rising Overseas Development Assistance commitments (it is under Monterrey that developed country governments committed to providing 0.7 of their GDP to aid), new initiatives in Barcelona and Gleneagles, some debt relief and the Paris Declaration on Aid Effectiveness.

([http://www.oecd.org/document/18/0,2340,en\\_2649\\_3236398\\_35401554\\_1\\_1\\_1\\_1\\_00.html](http://www.oecd.org/document/18/0,2340,en_2649_3236398_35401554_1_1_1_1_00.html) )

But since then, despite efforts to hold the donor community to its word, including the huge popular mobilizations in 2005 under the banner of the Global Call to Action Against Poverty (see [www.gcap.org](http://www.gcap.org)), the pledges made look distinctly shaky. Promises made in 2008 by the EU to honour its 0.56% pledge by 2010 are losing credibility, and the recent decisions by France, Italy and Ireland to slow the rate of their aid increases could be seen as signs of lost commitment. Similarly, G8 promises on aid have not materialized with the shortfall already amounting to some \$30 billion a year, or 30% of pledges made at the Gleneagles summit in 2005.

All this in the same year that developing nations were hit first and hardest by oil shocks and food-price surges, and now as the financial crisis takes its toll, research from the Overseas Development Institute (ODI) suggests that total financial flows to developing countries are likely to shrink by ten times as much as the extra promised by the G8 in Gleneagles: \$300 billion - or 25% of current flows.

In late 2008, the ILO estimated that the crisis could increase unemployment by 20 million, and the number of working poor, those working but living on less than two dollars a day, could increase by another 100 million, adding to half the world's workforce who already do so. There will also be an increase in poverty, adding to the 100 million driven back below the poverty-line by the sharp increases in food prices in 2007-08. The World Bank estimates that for every 1% drop in growth, another 20 million people will slide into absolute poverty.

The Doha Outcome Document, the official declaration that arose out of the Review conference simply did not rise to these challenges as it failed to commit governments to fix the many systemic issues that have led to the crisis in which the world finds itself, nor were they willing to clearly outline how they would deliver on their aid commitments. But the document does contain some useful openings which advocates of sustainable development can use to put decent work at the center of poverty eradication.

### ***Why Financing for Development matters***

At the heart of discussions on FfD lie the core challenges of redistribution, and rebalancing the transfer of resources that flow from the North to the South. The FfD process provides a window of opportunity because it acknowledges the unjust nature of the international financial system, and the often severe impact it can have on developing countries.

It is becoming increasingly clear that not only have increases in global flows of capital failed to correlate with poverty reduction, but also that economic growth in developing countries does not necessarily mean growth for the poor, and indeed, often means greater in-country inequality. Aid is one way of addressing these problems, but it has long been recognised that it cannot be effective without wider systemic change to the global economic system.

In this regard, SOLIDAR together with its trade union and other civil society partners in the Decent Work, Decent Life alliance took the opportunity of Doha to highlight the fact that full and productive employment and decent work as a central policy dimensions need to be mainstreamed throughout all the thematic areas of the Monterrey Consensus.

Shared prosperity, with decent jobs and livelihoods for all, should be the focus of the current fiscal stimulus and re-regulation frenzy. Indeed, the period prior to the financial crisis was characterised by satisfactory GDP growth, but this failed to generate decent jobs and to extend benefits to working people and the poor. A new impetus to jumpstart the global economy must adopt an alternative paradigm that promotes fair distribution of wealth created and resources generated in the economy, based upon the centrality of decent work as a mechanism for employment generation, social protection, social dialogue and rights at work.

## ***What happened in Doha?***

The Doha Outcome document, unlike the Monterrey Consensus, recognises decent work as central to development strategies and the eradication of poverty. The specific wording in Paragraph 12 of the Declaration reads:

*“Human development remains a key priority, and human resources are the most precious and valuable asset that countries possess. The realization of full and productive employment and decent work for all<sup>1</sup> is essential. We will continue to invest in human capital through inclusive social policies, inter alia, on health and education, in accordance with national strategies.”*

It is also no small feat that at this time of global economic slowdown, the Monterrey Consensus has been upheld as a whole and re-affirmed. Gender Equality is promoted as essential to achieving equitable and effective development in the Doha Declaration, and this goes far beyond the 2002 Monterrey Consensus. Governments also reached agreement on the sticky issue of convening a UN conference to address the impact of the financial crisis on developing countries. This was a key demand from developing countries which had been repeatedly blocked by the United States and other Industrialised Governments who saw the G20 meeting of governments as the right forum to discuss the crisis. The agreement to have an outcome document was the result of pressure by progressive governments, trade unions and civil society, showing clearly the value of working in alliances.

As a result, the UN General Assembly President has called for the UN Conference at the highest level on the world financial and economic crisis and its impact on development to be held in May 2009. Reporting to that conference will be the Commission of Experts of the President of the UN General Assembly on Reforms of the International Monetary and Financial System, headed by Joseph Stiglitz. The preparatory process for this conference provides an important opportunity to put a reformed and strengthened UN at the heart of the reforming the global economic system.

However, in general, the language of the Doha Declaration is non-prescriptive, and fails to establish clear commitments and easily monitored goals. Member States merely promised to do their best to honour commitments and formulate policies to address the issues of the Monterrey Consensus with a view to achieving the internationally agreed development goals, including the MDGs. But in each one of the sections of the document there are key commitments made which can be used

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<sup>1</sup> "This paragraph reaffirms the commitments on promoting decent work, agreed in the International Labour Organization Declaration on Social justice for a fair globalization (2008), as well as in the 2006 ECOSOC Ministerial Declaration, and the 2008 Resolution of the 46th Session of the UN Commission on Social Development."

by civil society to hold governments accountable and to ensure that in the follow up process meaningful reforms take place.

### ***The Doha Outcome Document and decent work***

The following is an analysis of each chapter of the document, the so-called Doha Outcome Document (DOD) that was finally agreed to, what's at stake for decent work and how the document can be put to use.

## **1. Mobilizing Domestic Resources for Development**

Taxation is one of the main ways through which governments access resources to invest in public expenditure including social protection which is a key component of decent work. It is therefore necessary for governments to **establish or strengthen progressive regimes that place the highest tax requirements on capital gains and on the wealthy**, and provide tax relief for low-income families and the poor. In this regard, the declaration does encourage states to make “tax systems more pro-poor” but there is no reference to “progressive” tax systems which is what civil society had called for.

Another major issue under this chapter is the **regulation of tax havens/secretary jurisdictions**. Many developed countries, including European ones, play a major part in maintaining the secrecy jurisdictions (tax havens) through which developing countries lose an estimated € 350 billion a year in illicit capital flight, two-thirds of which includes mis-pricing, transfer pricing and tax evasion practiced by many multinational enterprises. Governments must agree to plug these tax leaks in order for that money to be available to developing countries to use for their own development. Effective measures should be adopted to recapture these lost resources, and they should, in turn be channeled into achieving decent work objectives, and supporting Decent Work Country Programmes (DCWPs) for example which have shown to have significant beneficial effects on poverty eradication and overall inequality.

Civil society had asked for governments to adopt the goal of **closing down tax havens**. The DOD however only refers the need to “effectively combat tax evasion” and that within the context of money-laundering, stolen assets and capital flows that have criminal intent and corruption. There is no mention in that paragraph of illicit flows related to commercial activities.

Lastly, civil society had also strongly pushed to strengthen the institutional architecture within the UN system to deal with international cooperation on tax matters. The purpose of this demand was to shift these debates from the OECD, currently in charge of these issues, to the UN – which is not only more inclusive and universal, but also more prone to give the type of technical assistance that developing countries need on these issues.

The DOD finally recognized the need to strengthen the **UN tax committee**: "In this regard, we acknowledge the need to further promote international cooperation in tax matters, and request the ECOSOC to examine the strengthening of institutional arrangements, including the UN Committee of Experts on International Cooperation in Tax Matters". This wording presents an opening for this proposal to be further developed.

## **2. Mobilizing International Resources for Development, including Foreign Direct Investment and Portfolio Capital flows**

This section of the document concerns itself with the necessity to ensure that tools such as **Foreign Direct Investment** are used to harness the development potential of a country and not harm it. With this in mind, we had called for tripartite consultative mechanisms and core labour standards as explicit components of "enforceable mechanisms" believing that any socially responsible, corporate practices must be consistent with decent work objectives, including in export processing zones where the majority of workers' are women. We argued that the full observance of the ILO Tripartite Declaration of Principles on Multinational Enterprises and Social Policy must be promoted by the DOD, as integral to socially responsible FDI.

Secondly, this chapter concerns itself with so called "**innovative sources of financing**" ie. the necessity of finding extra funding to contribute to tackling some of the most challenging issues of our time, such as **climate change adaptation**. In practice this means that the rich world, which is largely responsible for the environmental degradation whose effects people are experiencing today, needs to find new and innovative sources of financing the cost of dealing with it. If we placed a simple tax of 0.005% per cent on currency speculation, we could raise billions of dollars for development, a suggestion that has been around for a long time but which now more than ever carries currency, to excuse the pun. And again, it is a simple question of governments having the courage to tax the financial transactions that have played such a destructive role in the current system. The DOD does not reflect our demands, despite overwhelming evidence that the current system of FDI needs a major overhaul.

## **3. Trade as an Engine of Growth and Development**

This was always one of the more controversial chapters of the Monterrey Consensus, given the fact that there is no consensus on the question of whether and how trade contributes to economic development, or more accurately what kind of capacity and regulatory context developing countries need to have before they can fully benefit from trade.

The labour movement had called upon Member States to use the FfD Doha process as an opportunity to reshape the WTO Doha negotiations towards a genuine development round. In the interests of policy coherence, outcomes should be fully aligned with the Internationally Agreed Development Goals (IADGs) including the MDGs, as well as with decent work objectives and the observance of core labour standards. We wanted the document to recognize that the pressure put on developing countries for rapid trade and financial liberalisation leaves them vulnerable to increased risks of economic slowdown in the current crisis. Developing countries must be accorded the policy space to determine if and how they choose to open up their markets to even greater competition. This is particularly key in the area of public services, which play a key role in promoting investment in decent work through education, health, pensions etc.

Unfortunately, a division between the G77 and the US and the EU emerged during key negotiations on this chapter. The G77 wanted more critical language inserted in the outcome document, in particular to ensure that developing countries have adequate policy space to develop their own industries and maintain their agricultural sector. This was not accommodated by the US and the EU.

The outcome document now calls simply for a quick conclusion of the Doha Round, paragraph 32: *“we will urgently re-engage and strive to reach agreement by the end of the year on modalities that lead to a successful and early conclusion to the World Trade Organization Doha Development Agenda”*.

If this takes place under the current modalities, employment and the provision of public services in developing countries will be severely affected. In the current crisis, developing countries cannot afford to negotiate away flexibilities and policy space which allows them to regulate and intervene, and trade barriers are one of the few means which they have left to do so. In addition, industrialized countries are not in the mood in the midst of a growing jobs crisis to give extra market access to developing countries so the possibility of some kind of pro-development deal is more remote than ever. It is also highly ironic that the conclusion to the latest round at the WTO is seen as some kind of panacea for the crisis, given that the services talks in financial services during the Doha Round will further deregulate the financial sector and further spread risky financial products, which caused the financial crisis in the first place.

#### **4 Enhancing Development Cooperation**

Civil society has been reminding governments that decent work lies at the heart of development effectiveness, and should be an important objective for development cooperation, a point taken on board during the **Aid Effectiveness** meeting in Ghana in April 2008. Aid can only be effective if the process for its allocation and disbursement is democratized through genuine partnerships and mutual accountability, with full civil society engagement. Democratic ownership of the development strategies by the people through representative political institutions

and civil society organizations, including trade unions, is the main challenge to effective governance for development.

We strongly argued that the Aid Effectiveness agenda needs to make significant progress with regard to the untying of aid, the removal of harmful policy conditionalities and the promotion of local procurement. Adopting local procurement policies would be consistent with employment and decent work objectives as part of a process of strengthening country systems.

However, disappointingly, the Doha document goes no further than the outcomes of the two high-level meetings that have taken place on this issue in Paris (2005) and Accra (2008). It merely welcomes these developments, and briefly mentions the main principles enshrined in the aid effectiveness declarations, such as “ownership, alignment, harmonization and managing for results.” We had hoped for stronger language on the need to stop policy conditionality or fully untie aid. However the most that DOD delivered was a general mention to the “growing need for more systematic and universal ways to follow quantity, quality and effectiveness of aid flows...(such as the UN) Development Cooperation Forum.” However, no specific roles for the UN DCF were agreed.

Most disappointingly, even though the G20 governments acknowledge the potentially serious impacts of the crisis on the poorest countries, no promises were made at the Summit to increase **official development assistance (ODA) commitments**. The global economic crisis, rising food and oil prices make early, predictable, aid increases all the more crucial and SOLIDAR argued that industrialised country governments should not use the current financial crisis as an excuse to renege on their ODA commitments. However the Doha Outcome Document only managed to restate the long-standing commitment of industrialised countries to reach the 0.7% of GNP for ODA (paragraph 42), which had already been mentioned at the Monterrey Consensus. Six years later the implementation gap is growing as industrialised countries fail to meet their aid commitments. The DOD only managed a passing mention of declining ODA levels in 2006 and 2007. In the EU, many governments have already signaled a cut in their aid budgets, and the misfortunes of the US economy make it likely that they will soon follow. This will present a major challenge for North-South solidarity.

## **5. Addressing External Debt**

Civil society had called for the Doha conference to adopt the implementation of impartial and transparent processes towards resolving debt disputes in order to deal efficiently and equitably with future debt crises.

However the outcome document does not mention to legitimacy of debt claims, although this language appeared in some drafts negotiated in New York and before getting to Doha. This is a great disappointment to civil society and few progressive governments, such as the Norwegians, which had been pushing for

the issue of illegitimacy to be included in the outcome document. Likewise, the reference to remove economic policy conditions from debt cancellation was dropped in the final version of the DOD.

There is some acknowledgement on the need “to ensure that debt resolution is a joint responsibility of all debtors and creditors, ...(and that solutions need to be) transparent and agreeable to all” (paragraph 61). But this is quite far from what civil society had hoped for. It is unfortunate that the last paragraph of the debt section is a clear step backwards from the Monterrey Consensus, which referred to the need to consider setting up an “international debt workout mechanism” (paragraph 60 of the Monterrey Consensus).

Worse still, the outcome document gives a central role to the Bretton Woods institutions, which civil society has long criticised for having failed to properly address the debt problems of Southern countries in a meaningful and balanced way. The document gives little hope that debt restructuring and resolution will take into account the human development needs of these countries rather than macroeconomic policies. In the current economic and financial crunch there are likely to be many more countries facing major debt distress in the coming years.

## **6. Addressing Systemic Issues and Policy Coherence**

Civil society had argued for **wholesale systemic reform of global financial institutions such as the World Bank and the IMF**, the so-called Bretton Woods institutions. These institutions have been at the forefront of advocating the types of policies that have resulted in destructive competition between national economies, including tax competition, privatization, under-investment in public services and labour market deregulation – leading to the exploitation and decent work deficits that we see today. The rich world is severely over-represented in their governance structure and any overhaul of the global economic system must include a complete re-vamp of these institutions and their rules so that they put sustainable development and decent work at the heart of their policies and include developing countries in their governance processes. In the current context of the global economic crisis, these reforms are more needed than ever.

Developing country governments are largely excluded from decision-making on key aspects of the financial system. Neither the G7, OECD, the World Bank nor the IMF, include them equally. This must be changed. However, discussions on revising the IMF’s governance system have so far led to only minimal change, and fall far short of the goals adopted in Monterrey.

In addition, and linked to the issue of global democratic governance, was the topic that caused a great deal of controversy among the different groups of delegations. This was the reform of the international financial and economic system and which body should be charged with making the necessary decisions to overhaul the

current system. The US, Japan and others had argued that the UN was not the place to make such decisions, and they ought to be left to the G20. The G77 and some European countries objected to this as it would once again see the world's poor being locked out of the decision-making process that impact on their lives. They wanted the UN to be a part of this decision-making.

In the end, a clear compromise between the US, the EU and G77 has been reached, stating that *“the United Nations will hold a conference at the highest level on the world financial and economic crisis and its impact on development. The conference will be organized by the President of the General Assembly and the modalities will be defined by March 2009.”* (paragraph 79).

This is a major step in addressing the systemic challenges and multiple crises in the global economy. We view this as a commitment to reinforcing international cooperation and multilateralism for the promotion of sustainable development, making use of the inclusive, democratic space of the UN where all member states have equal voice, and where trade unions and other civil society organizations with ECOSOC consultative status can engage fully in the process. Obviously, the commitment could and should have been stronger, mentioning that the conference actually had to take place before the G20, and not after as is the case, however, this is a great win of the developing countries in this conference, as it was at all times threatened and unclear that the US would give in on this point.

### ***Following up on Financing for Development***

The FfD Doha Outcome Document should commit Heads of State to decisive agreements and follow-up actions on a range of issues critical to decent work and development. Indeed, major changes in the governance of the global economy should be developed and promoted by the proposed new inter-governmental body of FfD (para 65 of the DOD). Top of the agenda for this new body must be a remit to ensure policy coherence between the economic, financial and trade systems in the interest of development, with decent work as an integral component, in line with the ILO's Social Justice Declaration. Consultative mechanisms should be put in place in this new body to ensure the continuing engagement of civil society organizations and trade unions in the follow-up and implementation of measures for effective governance of the global economy, restored global growth and shared prosperity for all.

Whatever shape or form the proposed summits and meetings that are being called for in the wake of the financial crisis take, we fear there will be attempts to paper over the cracks of a broken down system and provide some short term solutions which will return us to the business as usual of our current unregulated, free-for-all economy. Only a comprehensive re-think can ensure that what we are experiencing now does not happen again and that we do not forget the pledges rich countries have made to the developing world. And this re-think should only happen in a truly international environment, preferably that of the United Nations.

The days when the rich met to discuss the fate of the poor are over. Now that our economies and our fates are more intertwined than ever, now we must turn to truly international solutions, which everyone can participate in developing and which reinforce mutual solidarity in times of crisis, not blind self-interest. The labour movement, with its long history of international solidarity has a crucial role to play in ensuring this happens.