

MDG 8 Develop a Global Partnership for Development

Target 8a: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system

Target 8b: Address the special needs of the least developed countries

Target 8d: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term

1. The global context

Since MDG 8 was set, despite many international commitments to debt cancellation and increases in aid, many developing countries are still struggling to meet the MDG targets and the international financial system is still heavily weighted against those countries. The EU continues to pursue free market trade policies that exacerbate poverty in developing countries. Lack of democratic participation of EU citizens and Parliamentarians allow corporate interests to dominate European and global economic decision-making.

The impact of the recent financial crisis has seriously impacted developing countries in terms of their ability to mobilise their domestic resources, facing the challenges of unjust trade rules, lack of financial reform and debt.

2. The role of the EU

Recommendations related to aid are addressed in the introduction on page 4.

Mobilising domestic resources

Most developing country governments have the potential to raise significant amounts of money through domestic taxation, including taxation of multinational companies. Helping all low- and middle-income countries to attain just 15% of national income through tax in 2007 (when the OECD average was 37%) would have made an additional \$198 billion.



In addition to addressing capacity constraints, an effective solution to this problem must tackle illicit capital flight, including the driving role played by tax havens. Capital flight from developing countries may total as much as US\$1 trillion per year – almost ten times ODA. Around 65% of this estimate corresponds to transactions motivated by tax avoidance and tax evasion schemes by European and other multinational companies.

Capital flight jeopardises the achievement of the MDGs, and commitments made at Monterrey and Doha. Europe has a paramount responsibility in this area:

- it is a major provider of ODA and technical assistance, including in fiscal matters
- it has pioneered two models of multilateral tax information exchange that expand beyond its member states – the European Savings Taxation Directive and the Council of Europe-OECD Convention on Mutual Assistance
- EU member states host many tax havens, both directly and through many of their overseas countries and territories

Fairer trade

Trade has the potential to support the achievement of the MDGs, but only if development goals are properly integrated into trade policy and processes. As the world's second biggest economic bloc and the biggest trade partner for many developing countries, the EU has an important role to play. However the EU's approach to date has been to prioritise its own commercial interests and ability to compete in the global market at the expense of development goals. As a result, current European trade policy constitutes a fundamental block to the achievement of the MDGs and runs counter to the EU's own principles of Policy Coherence for Development.

Aid for trade

The aid for trade process is a useful recognition that there are costs as well as benefits, losers as well as winners from trade reforms. It addresses the need to put in place the proper conditions and accompanying measures before undertaking liberalisation in developing countries in order to maximise and not reverse effects on poverty eradication.

Properly designed aid for trade could help poor producers and trader benefit from trade and contribute to their countries' economic development. Wrongly implemented, aid for trade could simply repeat the mistake of earlier decades of donor- and IFI-driven reforms that had devastating impacts especially on the poorest groups¹⁰⁰. In particular, aid for trade must not be tied to the signing of far-reaching trade and investment liberalisation commitments.

Total EU (EC and Member States) Aid for Trade, (Aft) in 2007 amounted to €7.161 billion in 2007 and has thus steadily increased from €5.156 billion in 2001. However, figures show that Aft to Sub-Saharan Africa has decreased from €2.814 billion in 2005 to €1.946 billion in 2007, while Aft to Northern Africa has increased from €442 million in 2005 to €627 million in 2007.

The EU's AfT commitments to the African, Caribbean and Pacific (ACP) States fell from €2.975 billion in 2005 to €2.097 billion in 2007, and the ACP's share of the EU's overall AfT commitments fell from 50% to 36% over the same period. This is not consistent with prior promises to prioritise aid for trade.¹⁰⁰

Financial reforms

Financial stability is a global public good. The current financial and regulatory system has proven to be insufficient and inadequate in preventing or even coping with financial instabilities. In their efforts to minimise the damage caused by investors' unregulated speculation, developed countries' governments had to resort to reactive ad hoc actions; meanwhile, developing countries suffered the consequences of a crisis for which they were not responsible. The burden is carried by taxpayers, and by the poor. Equally, poorly planned financial sector liberalisation and deregulation has restricted developing countries' abilities to increase the resilience of their economies to external shocks, and to implement sustainable development strategies.

These measures have too often been pushed through by International Financial Institutions (IFIs) through conditions attached to their grants and loans. Similarly, a self-regulatory approach to the financial sector has been driven forward by EU member states and the European Commission in past decades – in response to the financial sector's pressure groups.

Debt

All EU member states have signed up to the internationally agreed MDGs and most (but not all) participate in the Highly Indebted Poor Country (HIPC) Initiative which is intended to deliver a robust exit from the burden of unsustainable debt. Both official and civil society evaluations of the HIPC Initiative point to the dismal failure of the programme to deliver debt sustainability for the countries involved. Moreover, many poor countries were excluded from the schemes and debt, much of it based on irresponsible, unjust and self-interested lending, continues to prevent countries reaching their MDGs in scores of developing countries. This will be compounded by the international economic crisis.

3. Recommendations to the EU

Mobilising domestic resources:

The EU should work multilaterally to achieve four objectives by 2015:

- The creation of a global multilateral information exchange convention, with the potential to move towards automatic information exchange.
- A country-by-country financial reporting standard for MNCs, through reviews of International Financial Reporting Standards 6 and 8, and of the TOD Directive.
- A strengthened UN Committee of Tax Experts with a political mandate and additional resources, including by providing these resources.
- Increased funding for developing countries to strengthen their tax systems, surveillance and collection, and tackle illicit flows of capital. This should begin with transparency concerning the amounts of EU ODA set aside for such work.



Fairer trade:

We urge the EU to:

- Stop pushing developing countries to liberalise and deregulate their economies in the financial, industrial, agricultural or wider service sectors, via the WTO or EU regional and bilateral negotiations.
- There should be no rush through to a completion of the Doha WTO round – a deal that developing countries have rejected several times due to concerns at the potential impact on their economies.
- As part of the EU2020 process, the EC should undertake a fundamental review of its trade and investment agenda in order to prioritise development objectives including labour and environmental standards.
- Demonstrate full flexibility and support ACP requests for renegotiation of contentious issues in Interim-EPAs.
- Fully respect ACP positions on services, intellectual property and Singapore Issues, and refrain from pressuring countries into agreement in these areas in the context of EPA negotiations.
- Fully support any requests from ACP countries for alternatives to EPAs, as mandated in the Cotonou Agreement.
- Play a key role in reforming IFIs to become more transparent, accountable and development-focused.

Aid for trade:

We urge the EU to:

- Monitor implementation of Aid for Trade commitments, in particular disbursement and effective delivery of pledged financial and technical assistance; and give it equal weight to monitoring of implementation of commitments by parties to a trade agreement¹⁰¹.
- Improving mechanisms for designing local trade and development strategies to drive the aid for trade process according to local needs and priorities.
- As part of the EU2020 process, the EC should undertake a fundamental review of its trade and investment agenda in order to prioritise development objectives including labour and environmental standards.
- Negotiate the necessary changes to trade rules at the multilateral level so that these also accommodate the principles of sound aid for trade – for example linking compliance to effective aid delivery or market opening to development progress.

Financial reforms:

We urge the EU to:

- Push for a major democratisation of the governance of the IFIs, starting with the establishment of truly democratic structures and the improvement of transparency based on the principle of the right to information.
- Financial activities must be strictly regulated, taking into account the risks posed by highly leveraged speculative activities, unregulated financial instruments and institutions, and secrecy jurisdictions; in particular, activities of a purely speculative nature on food and energy as well as speculation on land must be strictly limited.
- The EU directive on alternative investors should target all funds (not just managers as is currently the case), increase capital requirements for these funds to match those required for banks, ban transactions with entities based in tax havens, and include social and environmental standards as part of risk assessment of financial institutions.
- Country-by-country reporting, mentioned above, would prevent excessive risk-taking in addition to tax avoidance and tax evasion.

Debt:

We urge the EU to:

- At the very least, offer a temporary moratorium on external debt service payments, without the accumulation of interest charges. This moratorium should be made available on demand to all those countries that are currently behind in achieving MDGs by the target date of 2015.
- Support a fair and transparent debt work-out procedure. This must be based in a neutral international space, such as the UN, rather than the IFIs and have a mutually agreed neutral arbitrator. The procedure could be instigated by either party, must include an immediate stay on payments, be empowered to investigate both payability and legitimacy of debts and include the right for civil society representation.
- Acknowledge the illegitimacy of much past debt and work to audit and cancel such debts. Continuing to force repayments of such illegitimate debts is having a major impact on the ability of countries to meet the MDGs, as acknowledged by the UN Special Expert on Foreign Debt.
- Agree on a set of including responsible lending standards, including the provision of export credit, to ensure that debt sustainability is permanent. These standards must be enforceable at national and European level. These standards must make explicit that 'sustainable' and 'payable' debt does not equate simply to ability to earn foreign currency, but to the primary importance of developing countries investing to meet their Millennium requirements *before* servicing debts.
- Support more creative and non-debt creating measures to help countries address the immediate pressures caused by the global recession and make progress towards the MDGs. Given the strength of EU member states within the International Financial Institutions (IFIs), CONCORD believes the EU must exercise moral and political leadership in international debt negotiations and pursue a common policy of 100% cancellation of the external debts of the poorest countries where debt repayments are seriously hindering efforts to reach the MDGs by 2015.
- The European Commission should strengthen its informal coordination of European Executive Directors to the World Bank and International Monetary Fund to this end. CONCORD urges the European Commission to publicly support the phased sale of International Monetary Fund gold reserves as one strong and viable option to fund part of this cancellation.

