



european network on
debt and development

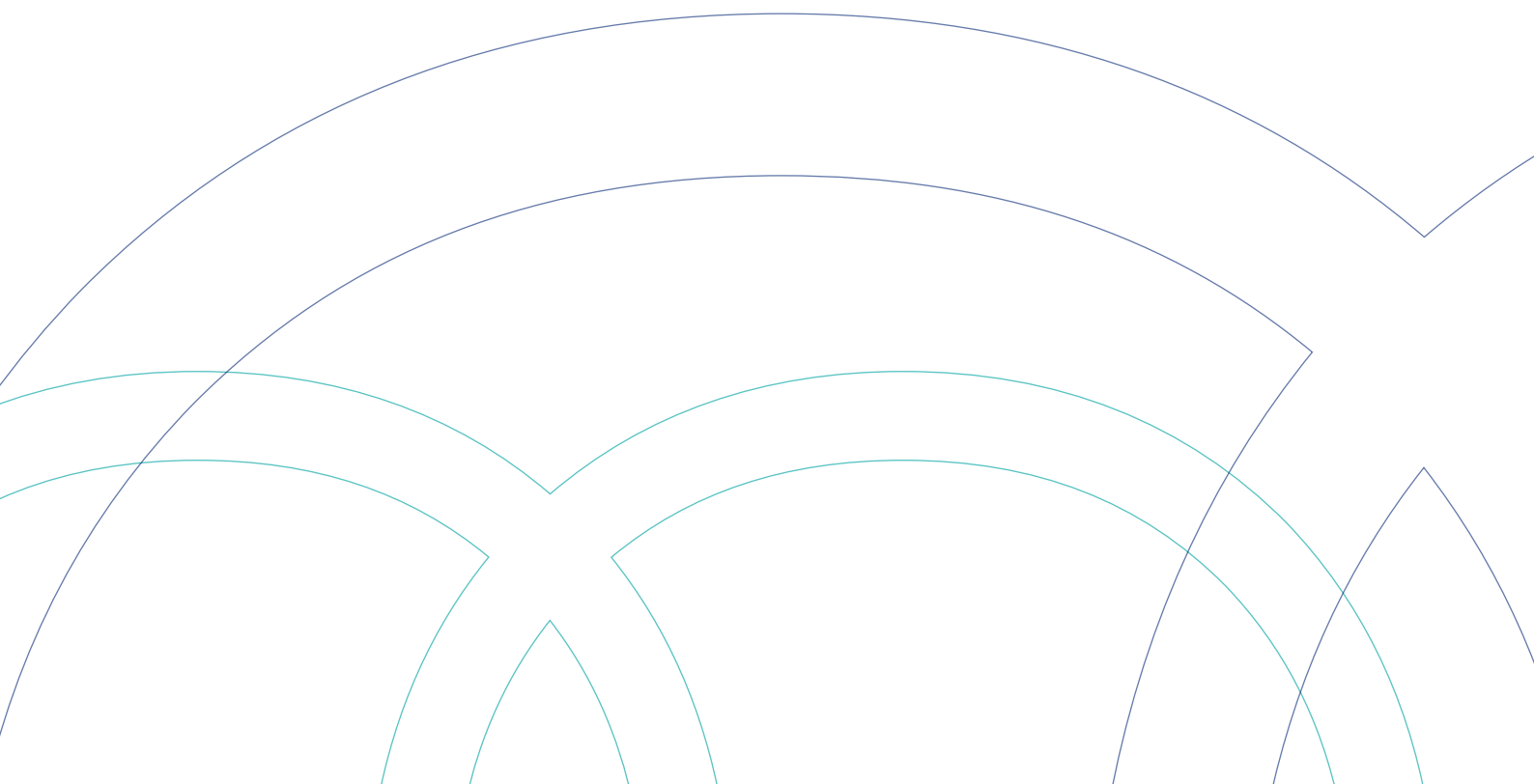
Is the global financial and economic system fit to deliver the Sustainable Development Goals?

By Jesse Griffiths • October 2017



Contents

1. Executive summary	3
2. Introduction: the SDGs require a structural transformation	4
3. Key challenges	5
a. Private finance	5
b. Public finance	7
c. Vulnerability to crises	9
d. Global economic governance	11
4. Implications for European states	12



1. Executive summary

The Sustainable Development Goals (SDGs) are ambitious objectives: business as usual will not deliver them. To meet this challenge, we will have to radically reshape national, regional and global economies. But if developing countries are to chart their own paths to prosperity, we must also rethink the way we govern and manage the global financial and economic system.

A review of the current state of financing for development shows the nature of the challenge:

Private finance: International private capital has proven volatile, is often short-term, and has been net negative since 2015. To protect themselves from external shocks, developing countries have built up their reserves, resulting in a further massive transfer of resources to developed countries. In total, therefore, financial capital has been flowing out of developing countries in net terms for over a decade. By contrast, domestic private investment has been a high share of GDP, particularly in middle-income countries, and has not suffered from volatility. Successful developing countries have directed domestic investment into productive sectors, while carefully managing international private finance: now their ability to do this is significantly curtailed by the international trading system and by international rules.

Public finance: Domestic public finance is by far the largest development finance resource for those developing countries which have significantly improved tax collection. However, their already-limited tax bases have been hurt by a trend to reduce taxes on multinationals. Furthermore, significant tax revenues are lost due to the use of offshore financial centres, intra-company operations within multinational corporations, and the secret transfer of financial resources out of developing countries. As a result there are significant public resource shortfalls for basic services, social protection and infrastructure – particularly in least developed countries. International public financial flows that could help fill this gap have been lower than stated, less than promised, and have proven volatile and subject to changing priorities in developed countries.

The architecture of global economic governance has been slow to change, meaning there are major gaps, including the absence of any mechanism to prevent and resolve debt crises – which have sadly become a common occurrence. In addition, the majority of developing countries are either excluded from, or have a weak voice in, global rule setting – thereby seriously weakening the quality of those rules. Unfortunately, despite some notable achievements, secrecy and opacity remain the norm at international financial institutions, rather than transparency and openness.

The SDGs are a universal agenda: they apply globally, and all states should strive to meet them, both at home and through their international actions. Europe is home to many of the wealthiest nations in the world, and has both the ability and duty to do far more to support developing countries' efforts to chart their own paths to prosperity. The report concludes by proposing ways that European states can make a difference, firstly by driving changes at global level to support developing countries, and secondly, by leading the way at home.

2. Introduction: the SDGs require a structural transformation

This paper focuses on the key ways in which the global economic and financial system will have to be transformed if we are to achieve the SDGs, and the role progressive European governments could play to promote change.

The SDGs are ambitious objectives:¹ not only do they call for the ending of poverty and hunger, they also recognise the need to fight inequality (including gender inequality), protect the environment, provide decent work, ensure sustainable consumption and production, and achieve global peace. Unlike the Millennium Development Goals that preceded them, they apply equally to all nations.

It is already clear that business as usual will not deliver the SDGs. For example:

- Though there has been significant progress in the fight against poverty, it has been slow, with very large numbers of people – particularly women and girls – remaining in abject poverty, and many countries are being left behind.²
- More than 200 million people are unemployed worldwide, and 42% of those that do have jobs work in 'vulnerable occupations'. According to the ILO, nearly 10% of youth are unemployed in developing countries, and almost 40% of those young people who are working are "living in extreme or moderate poverty in 2016."³
- Inequality is a defining feature of the global and many national economies: many of the gains that have been made in recent years have been directed towards the wealthy. According to Credit Suisse, more than 85% of the world's wealth is owned by fewer than 10% of the adult population,⁴ and according to IMF researchers "the share held by the 1 per cent wealthiest population is rising at the expense of the bottom 90 per cent population."⁵
- The global economic crisis has shown that our financialised, globalised economies are increasingly vulnerable to financial storms, while severe debt crises have sadly become a recurrent feature of the international system.

Current policies are not delivering the economic step change needed if we are to achieve the SDGs. As the Inter-agency Task Force on Financing for Development notes, "since the [global economic] crisis, global growth has been sluggish, trade and investment growth have decelerated and financial flows have remained volatile."⁶

The world continues to face grave related challenges. We are entering an era of planet-wide human impacts on the environment, which include climate change, over-fishing, soil degradation and loss of biodiversity. The Syrian conflict has reminded us of the continuing power of war and violence to destabilise countries and regions. These challenges could fundamentally undermine economic progress, and emphasise the need to take a much more active role in transforming our economies.

The only sensible conclusion is that a 'paradigm shift' is essential, and we need to start now. We will have radically to reshape national, regional and global economies but also rethink the way we govern and manage the global financial and economic system.

This report therefore focuses on this challenge from the perspective of developing countries: what are the key ways in which the global financial and economic system needs to be reformed if developing countries are to chart their own path to prosperity. Some European countries have already championed a more equal, progressive approach to economic development, and they are important players in many international processes, including the last UN Financing for Development conference. The report finishes by re-imagining how forward-thinking European governments can use their strengths to play an important role supporting developing countries to chart their path to a better future.

3. Key challenges

a. Private finance

International private capital has been flowing out of developing countries, in net terms, since 2015.

International private capital flows are made up of foreign direct investment (FDI), portfolio investment (buying and selling stocks and shares), and other investment – mainly international bank claims. These flows had been net positive until 2014, but swung dramatically negative in 2015 and 2016.⁷ According to the UN, this multi-year reversal in flows has not been seen since they started collecting records on this in 1990.⁸

The real drivers of volatility are short-term flows, driven by:

- Capital markets: portfolio investment has been a negative flow for five of the past ten years;
- International bank-related flows: 'other investment' has been a negative flow for the last six years, and is mainly made up of 'international bank claims' – in other words, the net total of how much foreign banks owe – or are owed – in developing countries, plus what is owed in the domestic banking system in foreign currencies.

While FDI dropped significantly in 2016, as the Inter-Agency Task Force on Financing for Development (the 'Task Force') notes, it still "has tended to be more stable and longer-term than the other types of cross-border finance". However "there are significant differences in the quantity and quality of FDI inflows accruing to different regions and countries," and "FDI flows to LDCs and small island developing states [are] concentrated in extractives industries, where their development impact is limited."⁹ In addition, developing countries lose a consistently large proportion of GDP to investors repatriating profits from FDI – over 2% of total GDP between 2005–12, for example.¹⁰

As the report of the Task Force summarises, "to date, private international capital flows have been subject to volatility, driven by trends in the global economy and by short-term investment horizons." The main explanatory factors for the switch in net private capital flows noted above are external: a collapse in commodity prices in 2015, and "monetary conditions and interest rates in major advanced economies and the strength of the dollar."¹¹

Protecting themselves from external shocks transmitted through the international financial system has very high costs for developing countries. Developing countries have been lending to developed countries on an enormous scale, to build reserves with the aim of protecting themselves against future crises. This has largely taken the form of buying assets in developed countries, and "in the first quarter of 2016, 64 per cent of official reported reserves were held in assets denominated in US dollars."¹²

It is a misconception that this is driven only by a small number of large developing countries: the phenomenon is widespread. For example, 16 developing countries, including three LICs, invested more than 5% of their GDP in building reserves between 2011 and 2012.¹³ A far better alternative to this diversion of scarce resources is the UN's proposal to issue new Special Drawing Rights (SDRs, a kind of global reserve asset) which would then be allocated to developing countries. The UN proposes that new SDRs would be allocated each year, with US\$100–167 billion going to developing countries.¹⁴

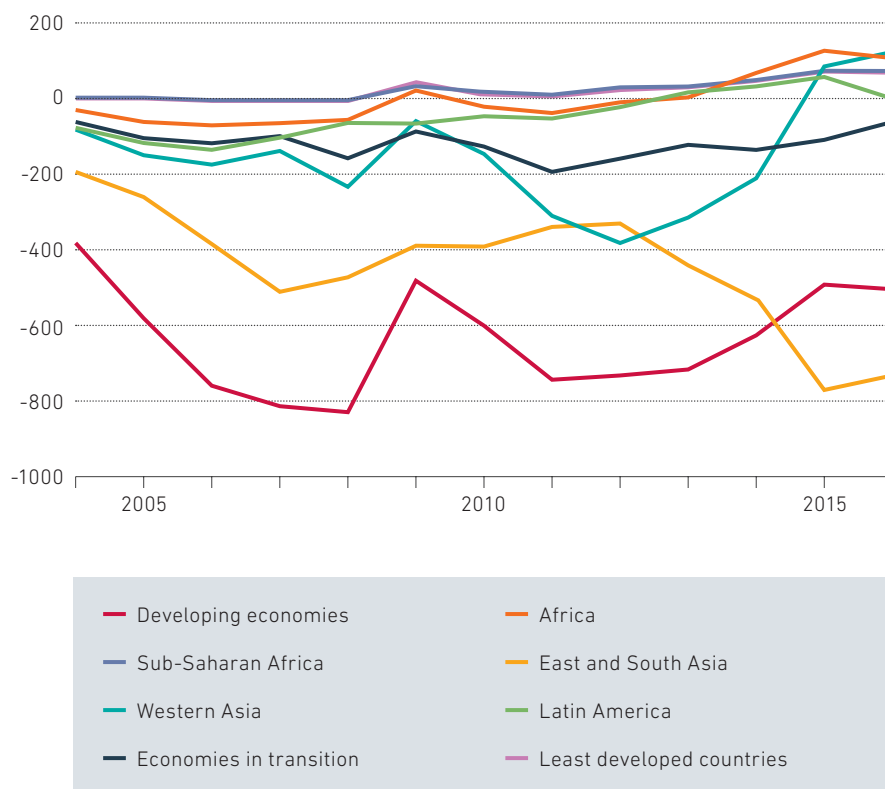
In total, therefore, financial capital has been flowing out of developing countries in net terms for over a decade as Figure 1 (from the UN's annual flagship economic report¹⁵) shows, reaching -US\$431 billion in 2016. This figure comes from adding together the outflows to build reserves and the private international finance flows noted earlier.

By contrast, domestic private investment has been a high share of GDP, particularly in middle-income countries, and has not suffered from volatility. Domestic investment is far larger than all external financing sources combined, in all categories of developing countries. There is a significant difference between middle-income countries, which have reached over 30% of GDP as domestic investment (of which around two-thirds is private investment) compared to low-income countries (LICs), which have reached around 25% of GDP. Most of this difference is explained by lower levels of public investment in LICs. In addition to proving far less volatile, domestic investment in developing countries does not appear to be greatly affected by external shocks, having increased as a percentage of GDP for developing countries in the years following the global financial crisis.¹⁶

Successful developing countries have directed domestic investment into productive sectors, while carefully managing international private finance: their ability to do this is now significantly curtailed by the international trading system and by international rules. A host of strategies successfully deployed by developing countries are becoming increasingly difficult or even prohibited by international agreements or WTO rules. For example, the WTO does not allow companies to apply subsidies linked to sourcing domestically or on export performance; the proliferation of bilateral trade and investment agreements restrict the use of procurement and competition policy to promote domestic industries; and the increasing power of investor-state dispute provisions in those treaties give multinationals the power to challenge governments' efforts to promote domestic industry,¹⁷ as well as to protect basic human rights.¹⁸

Figure 1
**Net transfer of resources
to developing countries and
economies in transition,
2004 -2016 (US\$bn)**

Source: UN/DESA calculations
from IMF and World Bank data
Note: Data for 2016 is partly estimated



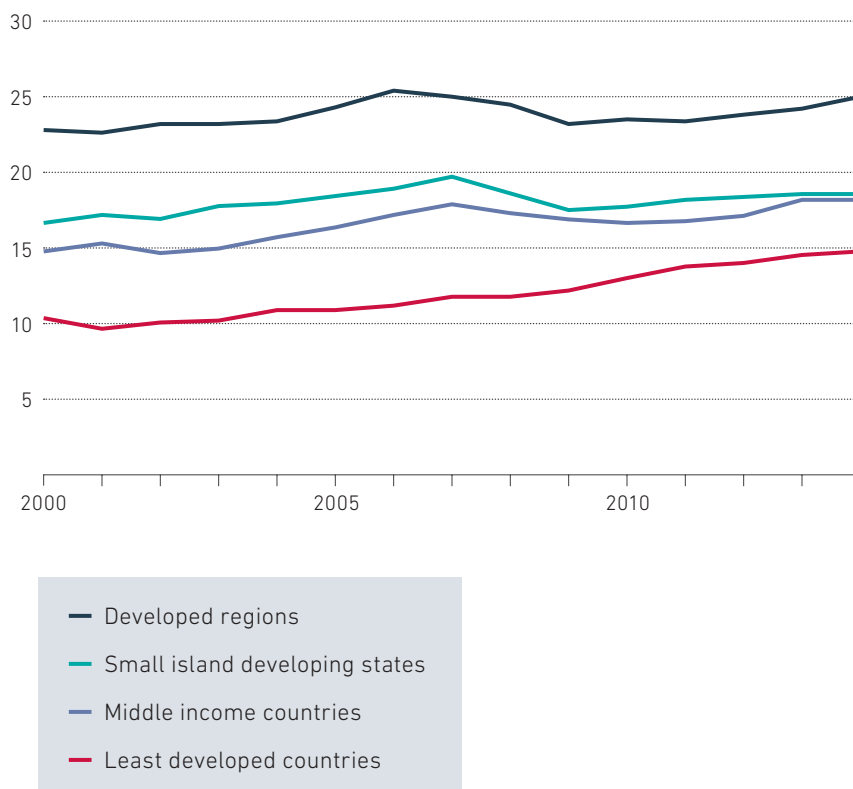
Meanwhile, the global production and trading system continues to relegate least-developed countries to low-value activities that cannot be the motor for rapid economic development. As the Task Force report notes, "...the rise of global value chains ... requires specialised production capabilities at a demanding level of quality and quantity... which largely confine LDC participation in value chains to upstream activities such as raw material provision."¹⁹ Many LDCs remain heavily dependent on commodities, and hence are vulnerable to volatile commodity prices.

Commodity prices collapsed in 2015, wiping out the gains of the previous decade,²⁰ and according to the IMF, "there were seven commodity exporters with reserve levels less than three months of prospective imports in 2014, a number set to reach 15 (out of 26) by end-2016."²¹ The international community has largely given up on efforts to help commodity producers stabilise their export income and capture a greater share of the global value chain. For example, the collapse of the International Coffee Agreement in the mid 1980s led to the producing countries' share of total income from coffee sales plunging from around half to just 10%, and it has not recovered since.²²

Though the key to managing international capital flows lies with developing countries, wealthy nations in the global north can also play a role by enforcing responsible business practices. These can have major international consequences, thanks to the multinational companies they impact. For example, European governments could make major gains in the fight against tax avoidance, tax evasion and illicit capital flight by adopting full public country by country reporting for multinationals.

European governments should also adopt responsible finance practices when they control large investment funds. Norway's sovereign wealth fund – the world's largest – could also help increase the resources available for tackling the very climate change problems to which the fund itself contributed. Given that "the absolute amount of [investment in renewable energy] has not continued to grow measurably since 2011, meaning that it has been falling as a share of world output",²³ the fund could, for example, invest all future revenues into renewable energy.

Figure 2
Median tax revenue,
2000-2014
(percentage of GDP)



b. Public finance

Domestic public finance is by far the largest development finance resource for those developing countries which have significantly improved tax collection in recent years.

Figure 2 shows the steady improvement in tax collection rates as a percentage of GDP made by developing countries. LDCs, for example, have increased tax revenue from a median of under 10% of GDP in 2001 to almost 15% in 2015.²⁴ It is important to note that the structure of developing countries' economies means they rely far less than developed countries on income tax, and more on corporate income tax (MICs) and trade taxes (LDCs).²⁵

Developing countries inevitably have limited tax bases compared to developed countries, but this has been made worse by a trend to reduce taxes on multinationals. Trade liberalisation, pushed heavily by international financial institutions, largely removed the trade tariffs which had been a tax collection option in previous decades, and the 'race to the bottom' through tax incentives is eroding the corporate income tax base. For example, ActionAid estimates that statutory corporate tax exemptions alone costs developing countries US\$138 billion per year.²⁶

However a report by the IMF, OECD, World Bank and UN found that "tax incentives generally rank low in investment climate surveys in low-income countries, and there are many examples in which they are reported to be redundant – that is, investment would have been undertaken even without them."²⁷ Another IMF study found that "taxation is not a significant driver for the location of foreign firms in SSA [sub-Saharan Africa], while other investment climate factors, such as infrastructure, human capital, and institutions, are."²⁸ In other words, public investment is a far more important driver of longer-term FDI than lower taxes, but this investment is itself harmed by lower tax revenues.

Furthermore, significant resources and tax revenues are lost due to the use of offshore financial centres, intra-company operations within multinational corporations, and the secret transfers of financial resources out of developing countries. The scale of the problem is, by its nature impossible to quantify precisely, but all available figures suggest there is a significant loss of resources by developing countries: both in terms of lost resources for investment or consumption expenditure in developing countries, and lost tax revenues. For example:

- The *Report of the High Level Panel on Illicit Financial Flows from Africa* found that the “amount lost annually by Africa through illicit financial flows is ... likely to exceed \$50 billion by a significant amount.”²⁹
- UNCTAD found “an estimated \$100 billion annual tax revenue loss for developing countries is related to inward investment stocks directly linked to offshore investment hubs”³⁰ – only one aspect of the problem of tax losses through opaque multinational corporate structures.

As a result of low tax bases, and tax losses due to tax competition and tax avoidance and evasion, there are significant public resource shortfalls for basic services, social protection and infrastructure, particularly in least developed countries. Public expenditure is vital for delivering basic social services, including health and education for all. However the range of public goods that require public expenditure is broader than this. For example, the 2030 Agenda for Sustainable Development includes the provision of social protection floors, including pensions, unemployment and disability payments, and, as the Task Force report notes, “financing social protection generally comes from the budget: thus tax revenues are first and foremost the basis of financing.” These shortfalls have specific implications for women and girls, as their health needs and socially constructed caring roles mean they are particularly reliant on public services and social protection.

Infrastructure should be added to this list. In developing countries “three quarters of infrastructure is financed by the public sector.”³¹ This has been the case historically and will continue to be the case in the future as many infrastructure investments – particularly in low-income countries – are not driven by a profit motive, or are high risk ventures that the private sector will only undertake if subsidised. “In China [for example] almost all infrastructure financing is undertaken by the public sector, with private financing as a proportion of GDP close to zero.”³²

While private finance is vitally important for development, it is a mistake to suggest that it can be a substitute for these shortfalls in public expenditure, including in infrastructure.

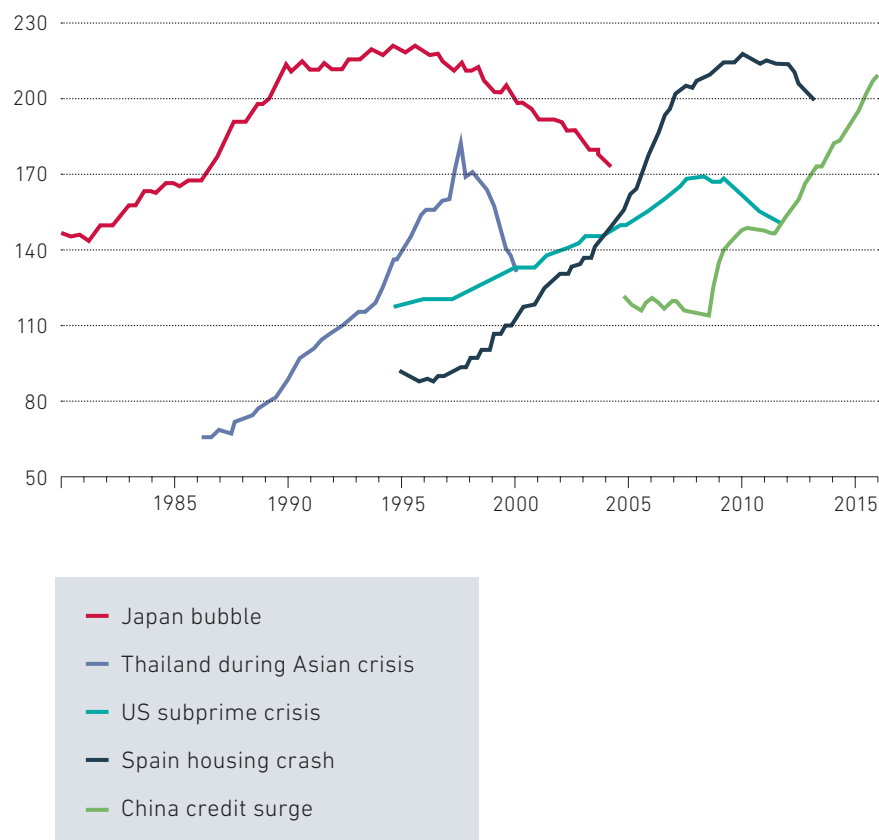
In fact, as we have seen, insufficient public expenditure is a significant barrier for investment. As the Task Force put it, “... public investments in basic infrastructure, health and education, and many other areas provide the preconditions without which markets cannot function.”³³ This is why the push by the World Bank Group and others to increase the use of public-private partnerships (PPPs) in infrastructure has been misguided: too often there is no revenue stream to repay the private sector investment, so the repayments are made by the government. PPPs have too often proved expensive, and because they can be kept off-budget have resulted in hidden debts.³⁴

International public financial flows that could help fill the public financing gap have been lower than stated, less than promised, and have proven volatile and subject to changing priorities in developed countries. As the Taskforce notes “...international public financial flows have fallen short of commitments made and remain insufficient to fill financing gaps for public investments in sustainable development.”³⁵ This is largely due to developed countries’ failures to meet the UN target of 0.7% of GDP – in 2016, members of the OECD Development Assistance Committee (DAC) reached less than half this figure.³⁶ However even these figures greatly overstate the amount of finance that actually reaches developing countries. Country Programmable Aid (CPA) is a subset of Official Development Assistance (ODA), which the OECD DAC has designed to be “much closer to capturing the flows of aid that go to the partner countries than the concept of Official Development Assistance (ODA).” CPA removes from ODA items that are unpredictable by nature, entail no cross-border flows, do not form part of cooperation agreements between governments, or are not country programmable by the donor. In 2011, for example, CPA was less than \$100 billion,³⁷ significantly less than the headline ODA figure of \$144 billion.³⁸ In 2014, for example, Norwegian CPA was less than half its ODA figure.³⁹

ODA figures are being brought into disrepute by increasingly large proportions that never leave the donor country, driven in recent years by increasing expenditure on in-donor refugee costs. ODA is also seriously undermined by the continued practice of many countries of ‘tying’ ODA – using ODA to support firms from the donor country. This not only subverts the sustainable development focus of ODA, it also increases the costs of projects by 15–30%.⁴⁰ This in turn is part of a broader problem of donor decisions, preferences and changing priorities causing ODA to be a highly unpredictable funding source. In Africa, UNCTAD has estimated that ODA is up to four times more volatile than domestic tax revenue.⁴¹

LDCs are understandably more dependent on ODA, as other public finance sources are constricted: tax collection rates are low, and opportunities to borrow are also limited. Worryingly, ODA to LDCs fell in real terms in 2016. A corresponding rise in the use of loans⁴² and forthcoming changes to the ODA rules – allowing more support to the private sector to be counted as ODA – are deeply troubling in this regard, as these are instruments poorly suited to LDCs. Unless there is a step change in the amount of ODA provided, spending more ODA on private sector support is likely to come at the expense of grants for public investments.

Figure 3
Fast credit growth and
major crises (% GDP)⁴³



c. Vulnerability to crises

As we have seen, the global financial system increases developing countries' vulnerability to financial crises. In the twenty first century, private capital flows to developing countries have been largely driven by the external economic situation and the policies of other countries. For example, the increased capital inflows which followed the global economic crisis were driven by low interest rates in developed countries. This led to a 'search for yield', additionally bolstered by higher commodity prices as a response to the Chinese government's efforts to boost demand in China.⁴⁴

At the same time, "widespread liberalization of international capital flows and greater openness to foreign financial institutions in [developing countries]" have "resulted in a significant increase in the presence of foreign investors and lenders in domestic financial markets of [developing countries] as well as the presence of their residents in international financial markets, rendering them highly vulnerable to global boom-bust cycles generated by policy shifts in major financial centres."⁴⁵ Globally, debt of the non-financial sector stood at 225% of global GDP in 2015, two-thirds of which were private sector liabilities.⁴⁶

Few countries' financial sectors have escaped impacts of the crisis, and even previously stable countries may be at risk in the future. The IMF, for example, has raised concerns about the potential for financial crisis in China, as Figure 3 illustrates.

The global monetary system has also increased the tendency for crises. Since the collapse of the Bretton Woods system in the 1970s, the international monetary system has been prone to significant swings in exchange rates. This creates enormous risks for small or poor countries which are extremely vulnerable to fluctuations in their exchange rates. Persistent trade imbalances make the system even more unstable. Many experts pointed to the huge current account imbalance run by the US as a major contributing factor to the global economic crisis: the vast scale of borrowing by the US government was financed in large part by China and other emerging countries eager to buy US securities to build their reserves. The security provided by this demand for dollars allowed the US government to maintain low interest rates, fuelling the disastrous private-sector borrowing bubble. Now the risks have shifted in a different direction: "On the eve of the crisis in 2008, advanced economies had a combined current account deficit of some \$600 billion; they now run a surplus of about \$300 billion. Accordingly, the current account balance of [developing countries] has shifted from a surplus of \$675 billion to a deficit of almost \$100 billion during the same period."⁴⁷ Hence, the external debt levels of developing countries are rising quickly as their deficits are naturally financed by capital imports – in other words, by borrowed money.

Debilitating sovereign debt crises continue to be a major feature of the international system, and debt risks have been rising in developing countries since 2011. Thanks to economic growth and international debt relief initiatives, debt levels of developing countries had been falling as a share of GDP until 2011, when this trend reversed.⁴⁸ In absolute terms, the debt of developing countries has now reached the highest level ever seen. On average, sovereign debt as a share of GDP in emerging markets and developing countries has increased by 12 percentage points since 2007, and by 2016 these economies on average had government debt equivalent to 47 per cent of GDP.⁴⁹ Sovereign debt crises continue to be a major feature of the international system, with debilitating effects on the countries that experience them. The nature of developing country debt has also changed significantly, with an increasingly high percentage borrowed from private sources, external as well as domestic.⁵⁰ In the event of a commercial debt becoming unsustainable – for example when a crisis hits – it has higher interest rates, and is more difficult to restructure, than debt owed to public creditors.

In summary, developing countries have become increasingly integrated into the global financial, monetary and economic system markets, increasing their vulnerability to shocks and crises. Though there can be obvious advantages to attracting increased international capital, this is only sensible if domestic and international policies and mechanisms exist to prevent or protect them from crises: as the next section will show, this is not the case.

d. Global economic governance

The architecture of global economic governance has been slow to change, meaning there are several important gaps.

For example, despite the fact that since the 1950s there have been more than 600 cases where unsustainable sovereign debt has had to be restructured,⁵¹ there is still no bankruptcy regime or 'debt workout mechanism' for governments that face unsustainable debt levels. This issue has been recognised at the UN, and proposals for how to deal with it tabled there by the IMF, CSOs and academics, but the gap still remains.⁵²

In addition, the majority of developing countries are excluded from, or have a weak voice in, global rule setting – which also significantly weakens the quality of those rules. For example, the OECD has made decisions on what it calls 'global' tax and transparency standards in fora where more than half the world's countries are excluded from the process. This often means that the interests of developing countries are not taken into account, while many of the key states and jurisdictions that are at the centre of the problem – such as the United Kingdom, Switzerland and the Netherlands – are key players at the table. Consider, for example, the OECD's Transfer Pricing manual, which requires data and capacity that even developed countries struggle to achieve.⁵³

Most developing countries are excluded from decision-making at many powerful international financial institutions (IFIs) such as the Financial Stability Board (FSB). In the wake of the economic crisis, the FSB was given a key role in setting new standards and agreeing new regulatory proposals in the financial sector. However, the FSB excludes the vast majority of UN member states, whilst including several smaller jurisdictions at the centre of financial secrecy problems – such as Switzerland, the Netherlands and Singapore.⁵⁴ This is just one example – several globally important international financial standard-setting bodies exclude most or all developing countries, including the Basel Committee on Banking Supervision and the Bank for International Settlements. Others are private entities, such as the International Accounting Standards Board, with no effective public oversight or participation.

The governance problems at the Bretton Woods institutions are particularly worrying, given the power and influence they have in developing countries, particularly during times of crisis. In 2010 for example, the IMF agreed minor reforms to its voting structure that independent analysis shows would have reduced the voting share of 'advanced economies' by less than 3%, to 55% of the total.⁵⁵ Even this minor shift, which still leaves the developed world in control of the institution, was only ratified in 2016 after being delayed by the US – which, thanks to the size of its shareholding has a veto over any governance change at the institution.

The G20 has major governance shortcomings and excludes most of the world's countries. In addition, as an informal club with no permanent secretariat and which operates by consensus, its ability to reach agreement can be held to ransom by powerful countries, such as the US, refusing to cooperate. This governance problem is inherent in the G20 design. A better model – which would give all countries the chance to participate, while improving effectiveness – would be its replacement by an Economic Coordination Council elected by all UN member states, as proposed by the UN Commission of Experts on reforms of the international monetary and financial system.⁵⁶

Unfortunately, despite some notable achievements, secrecy and opacity remain the norm, rather than transparency and openness. For example, the OECD makes decisions on tax and transparency standards behind closed doors, putting little information into the public domain. This is despite the fact that the public arms of the World Bank Group have shown that a transparency policy – based on the presumption of disclosure of all documents with limited exceptions – can work.⁵⁷

4. Implications for European states

We have seen that the global economic and financial system is severely hindering development progress, and radical changes will be needed if we are to meet the higher level of ambition the SDGs demand. In this section, we summarise the key conclusions from the review of the global development finance landscape, and outline two important roles that forward-thinking European states could play in making progress. Firstly, they can support the changes at global level to support developing countries. Secondly, wealthy countries have the ability, and the duty, to lead the way at home.

Private finance – supporting industrial policy and reducing vulnerability

In recent decades, developing countries have become deeply integrated into global capital markets and are more vulnerable to crises caused by external factors than ever before. Meanwhile, domestic finance will continue to provide the lion's share of private investment, and ensuring that this is directed to productive uses through industrial policy is the key challenge for developing country policy-makers. Equipping developing countries with the tools they need to direct domestic private finance to productive uses, and to manage volatile and potentially destabilising international private capital, should be at the top of the international development agenda.

Progressive European governments could support change at global level by:

- Supporting developing countries' use of capital controls and capital account regulation as a fundamental policy tool to protect countries from destabilising international capital movements.
- Calling for the removal of any obstacles to these important policies from all trade and investment agreements.

They could lead the way by:

- Agreeing to a full review – led by experts from the Global South – of their trade agreements and investment treaties, in order to identify all areas where they may limit developing countries' ability to prevent and manage crises, regulate capital flows, protect human rights, and ensure sustainable development.

Public finance – filling the finance gap with stable, predictable funding

There is an urgent need to help developing countries increase and improve public financing for basic services, social protection, environmental protection, infrastructure and other vital public investments, upon which successful economies are built. The main source of this financing will always be domestic tax revenues, which is why it is critically important to stop the tax avoidance, evasion, and tax competition that is undermining tax collection. However, in the face of severe domestic public financing shortfalls, the international public finance received by LDCs is too little, too tied to donor priorities and too unpredictable.

Developed countries could support change at global level by:

- Pushing the OECD DAC to undertake a process leading to the untying of all ODA both in policy and in practice, and calling for all revisions to the rules on ODA to be driven by development effectiveness principles.
- Funding the UN to develop a comprehensive plan for the issue of new international reserve assets (known as Special Drawing Rights or SDRs), covering their implementation and allocation to developing countries, and supporting such a plan.
- Reinvigorating plans for the mobilisation of innovative public finance to contribute to filling the public financing gap, including through the introduction of a financial transactions tax.

And they could lead the way by:

- Becoming leading players in driving greater transparency of multinational accounts to prevent tax avoidance, including by:
 - Adopting unqualified publicly accessible registries of the beneficial owners of companies, trusts and similar legal structures.
 - Adopting full country by country reporting for all large companies and ensuring that this information is publicly available in a machine-readable open data format and centralised in a public registry.

- Undertaking a rigorous study, jointly with developing countries, of the merits, risks and feasibility of more fundamental alternatives to the current international tax system (such as unitary taxation), with special attention to the likely impact of these alternatives on developing countries.
- Agreeing to stop counting in-donor costs against their ODA commitments, and seeking to ensure as much as possible of their aid can be programmed by developing countries to support their priorities, using Country Programmable Aid as a benchmark.

Protecting developing countries from externally-driven crises

Developing countries are increasingly vulnerable to a range of crises, which are often externally triggered but which can undermine years of development progress. At the same time, the system of global economic governance lacks transparency, omits key elements which could help prevent these crises, and too often excludes developing countries from decision-making.

European governments could support change at global level by supporting the G77 to lead a push for major reforms before or at the next UN Financing for Development conference, including:

- Creating a Debt Workout Institution, independent of creditors and debtors, to facilitate debt restructuring processes, and mobilising funding for the UN agencies that are undertaking the crucial work towards this aim. This would help re-establish the leadership role Norway used to play on debt issues (for example, through pioneering debt audits).
- Establishing an intergovernmental tax body under the auspices of the UN, with the aim of ensuring that developing countries can participate equally in the global reform of international tax rules. This forum should take over from the OECD to become the main forum for international cooperation in tax matters and related transparency issues.

These countries could be a strong ally for developing countries' efforts to gain a fair voice at the Bretton Woods Institutions, by supporting simple but effective reforms:

- The extension of the use of double majority voting at the IMF – requiring relevant majorities of both votes and countries for all decisions.
- Implementing genuine equality in voting shares between borrowing and non-borrowing countries at the World Bank Group, as a first step towards more significant reform.

Other European governments could lead the way by:

- Joining the UK, Ireland, France, and Belgium in enacting laws to stop vulture funds from undermining debt restructuring processes.
- Supporting open contracting, and a full audit of hidden debts in developing countries caused by off balance sheet operations, including public-private partnerships.
- Helping to mobilise independent, long term, predictable funding to support developing countries to develop their own proposals for global governance reform.

The SDGs are a universal agenda: they apply globally, and all states should strive to meet them, both at home and through their international actions. Europe is home to many of the wealthiest nations in the world, and has both the ability and duty to do far more to support developing countries' efforts to chart their own paths to prosperity. This report demonstrates that European states can make a difference, firstly by driving changes at global level to support developing countries, and secondly, by leading the way at home.

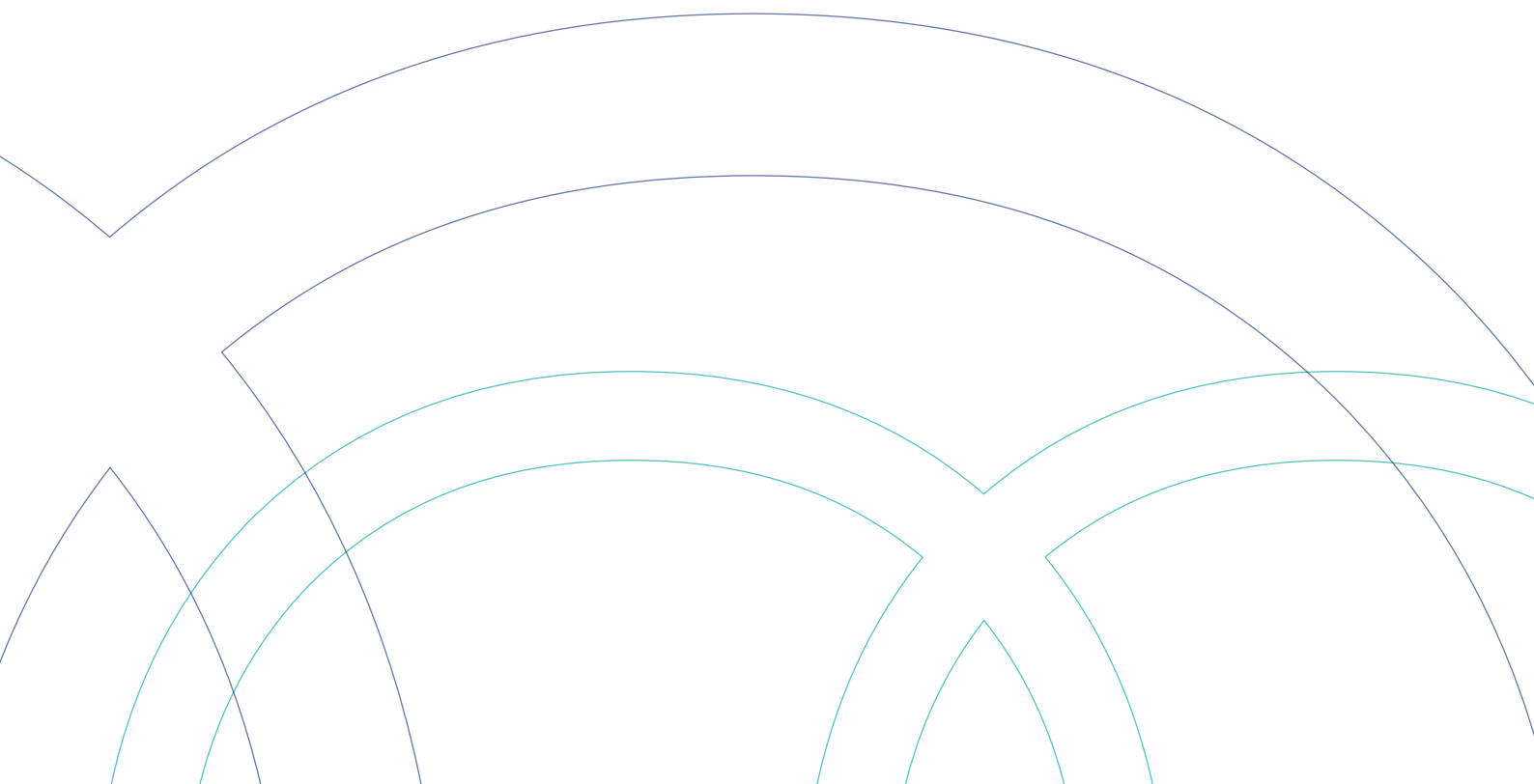
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