Global governance and the impact of the crisis in developing countries: Building back better?

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"You never want a serious ***crisis*** *to go to* ***waste****"*

Rahm Emanuel

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“Things will have to change in order that they remain the same,”

Il Gattopardo.

The impact of the crisis in figures

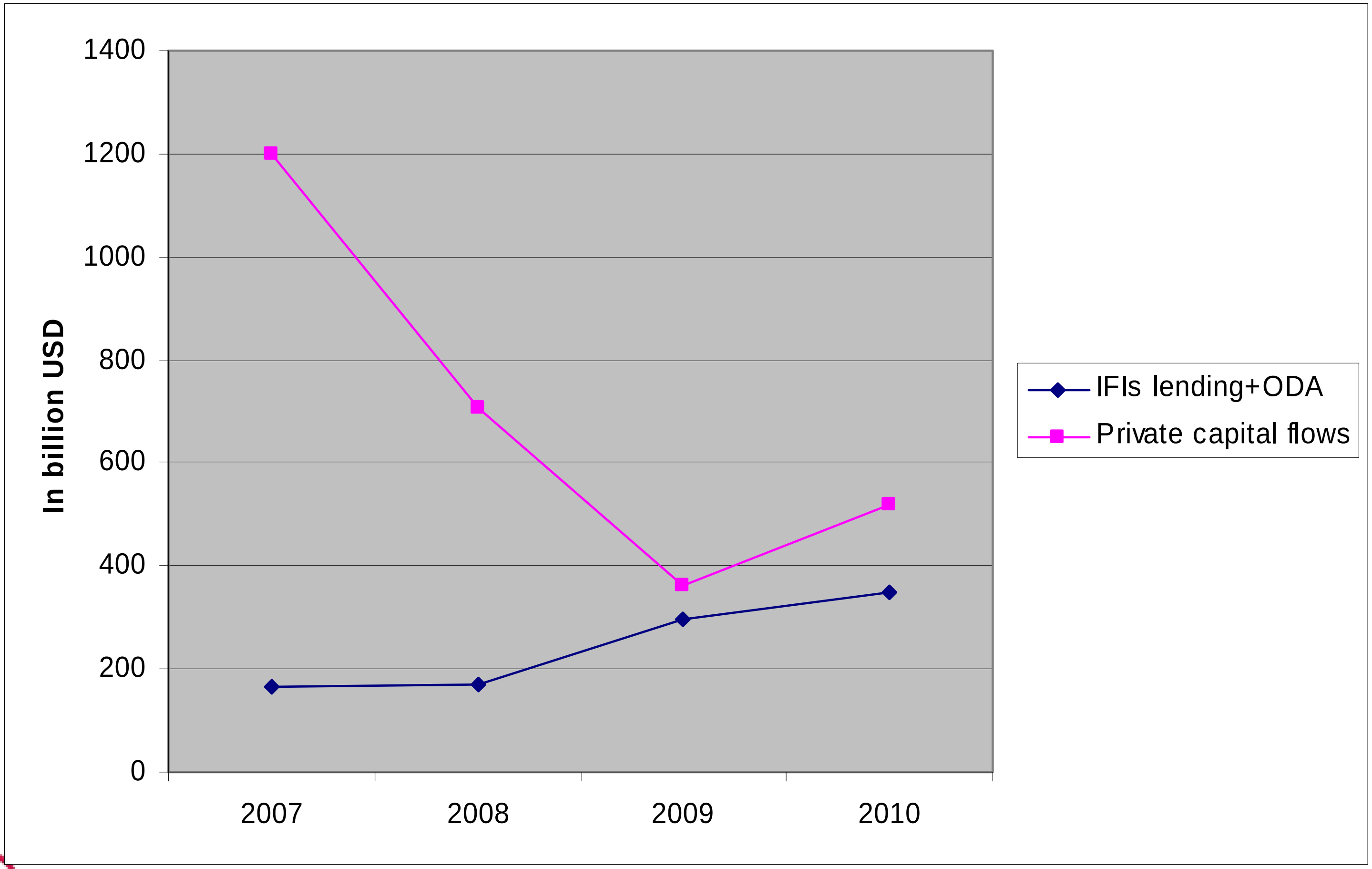
61 million workers have lost their jobs due to the crisis; more than two thirds of these jobs will be lost in developing countries.

Worldwide **90 million people may be pushed back below the $1 per day poverty line by the end of 2010**.

Unsustainable debts could be mounting in 49 Least Developed Countries.

$1.1 trillion will be needed to cover financial needs of developing countries in 2010. SSA's financing needs: nearly 12% of their GDP.

Some trends in DCs' external financing flows



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What amounts and type of finance (or lack of thereof)

- Financing shortfall: $690 billion in 2009, and $315 billion in 2010.
- What type of external financial flows?
  - Mostly debt creating financial flows: two thirds of all official flows are loans
  - Increasing share of IFIs funds to private sector support: tenfold increase since the 1990'. In 2010, out of all WB lending to LICs over one quarter will go to support private sector development.
- Who's getting the money?
  - Roughly only 2% of the total injection for DCs agreed by the G20 in April 2009 in London has flown to LICs (whereas their economies account for 7% of the world's GDP, and they face the greatest constraints to access global financial markets).

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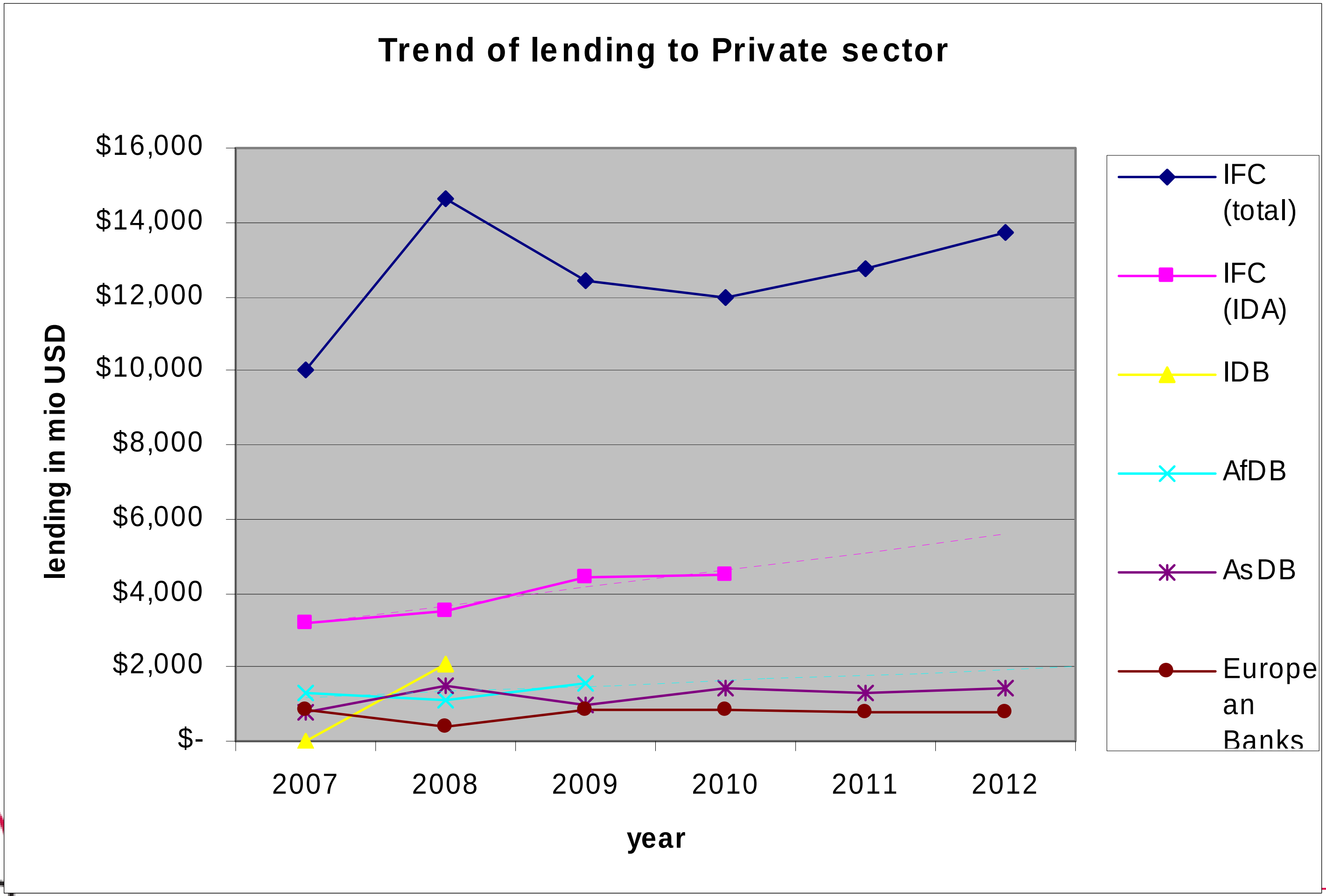
Public support to private sector development



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What policies?
No departure from old orthodoxy

IMF fiscal and monetary policy in Ghana, Senegal and Benin: marginal revision of macroeconomic targets: from 1.5% GDP in 2007 to 3.7% in 2009. They come down again beneath 3% in projections for 2010.

Republic of Congo: 2009 loan includes **trade liberalisation** conditions

Kyrgyz Republic: Privatisation of the energy sector and **financial sector** institutions (state-owned bank)

Ethiopia: Phase out **fuel subsidies** and market based pricing (incl. kerosene)

El Salvador: Still pushing the **tax consensus**: reduction of corporate taxes, increase of regressive taxation, but largely ignoring the problem of tax avoidance and tax evasion by multinational companies and wealthy individuals.

El Salvadorian CSO: ***"Curtailing tax evasion by 50% could generate $200 million per year. A reform of income tax, rather than VAT hikes, would generate new resource. The government and the IFIs should agree on a more progressive tax structure."***

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Key flaws in global governance undermining DCs' recovery

- Tax evasion by multinational companies
  - Six times the amount of annual global ODA. Despite G20 commitments, very little progress has been done so far.
- Debt service and the risks of a new debt crisis
  - Accounting tricks, rather than additional efforts to broker a debt moratorium, further debt relief, or a fair and transparent debt work-out procedure.
- The cost for developing countries to hold massive reserves to insure themselves against financial volatility.
  - No serious proposals to enhance global monetary coordination and global reserves system, or to curb financial volatility through financial regulation and the use of capital controls at national level.

Turning the tables

Lasting solutions for a development friendly global financial architecture

A set of binding principles on responsible development finance

Including provisions for an independent and transparent debt work-out procedure in case of repayment difficulties or disputes

In-depth reform of IFIs governance and lending

Mutual obligations, and not unilaterally imposed economic policy conditions, should regulate the terms of development finance agreements. This should ensure that developing countries are allowed the necessary policy space to adopt alternative economic policies, such as counter-cyclical fiscal and monetary policies and capital management mechanisms.

Strict regulatory frameworks to curb capital flight and tax evasion from poor countries

Including by improving global regulatory frameworks on tax matters and clamping down on tax havens

Nothing else will do.

Thanks!

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