

Redesigning the financial architecture

Most citizens in rich countries think that a substantial proportion of the taxes they pay flow to poor countries in the form of aid, cheap loans, trade benefits and the frequently talked about debt cancellations. If poverty still persists, it must somehow be the fault of the poor people themselves, due to laziness, ignorance or some effect of the tropical climate, or else their inefficient and corrupt governments are to blame.

Meanwhile, from their perspective, citizens in Southern countries see money flowing out in the form of debt interest payments, unfair trade relations and massive profits siphoned out of their economies by foreign corporations. Investment return rates of 25% to 30% a year are not uncommon in Africa!

Invisible to citizens in the North or the South, subterranean channels divert huge flows of money to tax havens. The nets of the revenue services catch the small fish easily, but let the sharks through untouched. The two global intergovernmental institutions that are supposed to preside over world finances and regulate their flow do the opposite of what is expected from them: instead of channelling money towards development, the World Bank receives more from developing countries than what it disburses to them; instead of ensuring global financial stability, the International Monetary Fund is now rooting for a financial crisis to erupt or it will not have enough business to pay for its own staff.

The current global financial architecture thus looks like the impossible building designed by MC Escher in his famous "Waterfall" etching, where the water that seems to be falling actually flows up, against all rules of logic.

To put some order in this impossible architecture, in March 2002 the world's leaders met in Monterrey, Mexico, to discuss "Financing for Development" at



the summit level. Shortly before, the World Trade Organization had launched a "development round" of trade negotiations in Doha, the capital of Qatar. In the immediate aftermath of the 9/11 attacks on the US that shook the world, these conferences promised a new blueprint for the world economy. The reformed trading and financial systems would enable the poor to work their way out of poverty. With the help of some additional aid and debt cancellation for the poorest countries, enough social progress would be achieved by 2015 to successfully meet the set of basic social goals agreed by those same leaders in 2000 in order to "uphold the principles of human dignity, equality and equity at the global level."¹

The Monterrey Consensus of 2002 states that "every country is responsible for its own development, and it is crucial for development strategies to be owned

¹ United Nations Millennium Declaration, Resolution A/55/2 adopted by the General Assembly in September 2000.

by individual developing countries. However, development requires much more than aid. [It] implies joint efforts to address domestic resource mobilization, trade issues, debt problems and the reform of the international financial architecture.”²

*Almost five years have passed since then, and Social Watch feels those commitments are too important to be left ignored. Since 1996 the Social Watch coalitions around the world have reported yearly on the issues of poverty and gender and on the government policies that affect for better or worse the fate of the world's vulnerable and unprivileged majorities. This Social Watch 2006 report looks at the **means** for putting development policies into action.*

Development happens at the local level, and it is a national responsibility. The national Social Watch coalitions, looking at their own countries from within, find a variety of obstacles and reasons why the means are not there where they are needed. Those findings are the essence of this report, as they provide the bottom-up perspective of the people working with the grassroots.

This is not a commissioned report. Each national Social Watch chapter is made up by organizations and movements that are active year-round on social development issues. They come together once a year to assess government actions and outcomes. Their findings are not intended as pure research but are used to draw the attention of the authorities to these issues and help shape better pro-poor and pro-women policies.

Thus, the priorities and emphasis of each country report were decided by the reporting organizations themselves. To make the report possible, each group raises its own funds, most of which are invested in consulting with social movements to gather evidence and validate their findings. They do not shy away from criticizing national authorities, policies, elites or governance systems whenever

they feel it is necessary. And the voicing of critical views helps strengthen democratic processes. But even when the reports find that much can (and needs to) improve at home, they also point to obvious international constraints that cannot be solved at the country level.

The international section of the report, informed by the work of key NGO networks, throws light on those issues. Some of them, like aid, trade and debt, have been the subject of massive international campaigns. Others, like capital flight, tax evasion, fraudulent intra-firm trading and the very governance of the international financial institutions have yet to filter down from the debate of experts to the awareness of the citizens in the streets. But they all form part of a package, an architecture, that badly needs to be redesigned.

*The reason for such a change emerges with dramatic clarity from the careful tracking of social indicators around the world that forms the statistics section of the report. It is accurate, but not enough, to say that at present rates of progress, the Millennium Development Goals will not be achieved by the year 2015. What should shame the world leaders who agreed on those goals is the evidence that on whole continents it will take one or two **centuries** to achieve them!*

These trends can be reversed. This report offers ideas as to how it can be done. They are not particularly original or revolutionary. It is basic common sense that taxes should be paid by all, and that those who have more and earn more should pay more. But in a globalized economy this can only be achieved if governments coordinate their efforts. Yes, a new UN summit on finances might be necessary for that. Why would it succeed when so many other conferences have failed? Because the present architecture is “impossible” both in the sense of impractical and in the sense of intolerable. ■

Roberto Bissio
Social Watch International Secretariat

² United Nations, Report of the International Conference on Financing for Development; Monterrey, Mexico, 18-22 March 2002 (A/CONF.198/11).

THE MILLENNIUM DEVELOPMENT GOALS (MDGs) FOR 2015

Goal 1 Eradicate extreme poverty & hunger

- Reduce by half the proportion of people living on less than a dollar a day.
- Reduce by half the proportion of people who suffer from hunger.

Goal 2 Achieve universal primary education

- Ensure that all boys and girls complete a full course of primary schooling.

Goal 3 Promote gender equality & empower women

- Eliminate gender disparity in primary and secondary education preferably by 2005, and at all levels by 2015.

Goal 4 Reduce child mortality

- Reduce by two thirds the mortality rate among children under five.

Goal 5 Improve maternal health

- Reduce by three quarters the maternal mortality ratio.

Goal 6 Combat HIV/AIDS, malaria & other diseases

- Halt and begin to reverse the spread of HIV/AIDS.
- Halt and begin to reverse the incidence of malaria and other major diseases.

Goal 7 Ensure environmental sustainability

- Integrate the principles of sustainable development into country policies and programmes; reverse loss of environmental resources.
- Reduce by half the proportion of people without sustainable access to safe drinking water.
- Achieve significant improvement in lives of at least 100 million slum dwellers, by 2020.

Goal 8 Develop a global partnership for development

- Develop further an open trading and financial system that is rule-based, predictable and non-discriminatory, includes a commitment to good governance, development and poverty reduction – nationally and internationally.

- Address the least developed countries' special needs. This includes tariff- and quota-free access for their exports; enhanced debt relief for heavily indebted poor countries; cancellation of official bilateral debt; and more generous official development assistance for countries committed to poverty reduction.
- Address the special needs of landlocked and small island developing States.
- Deal comprehensively with developing countries' debt problems through national and international measures to make debt sustainable in the long term.
- In cooperation with the developing countries, develop decent and productive work for youth.
- In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries.
- In cooperation with the private sector, make available the benefits of new technologies – especially information and communications technologies.

The additional cost of achieving the MDGs

Ever since the UN Millennium Summit in 2000 committed all governments to achieve the MDGs by 2015 the question of their financing has arisen. How much funding is needed to meet the goals, in addition to what developing countries are currently spending on social issues?

The task of calculating this additional cost is more difficult than one would imagine, given that it is necessary to assume certain suppositions when projecting into the future. At the national level, estimates exist in some countries that calculate in a disaggregated way the cost of achieving each one of the goals. At the global level, the most frequent method has been to estimate the total cost of achieving all of the MDGs. The 'Zedillo Report' of the United Nations provides the most frequently quoted figure, while the 'Sachs Report' is the most detailed one.

	ADDITIONAL COST/YEAR TO ACHIEVE THE MDGS (USD BILLIONS)
Zedillo Report, UN high-level panel on Financing for Development ¹	50
World Bank ²	89 – 138
Jolly, Background Paper for UNDP Human Development Report 2003 ³	76,3
Paying the price (Oxfam) ⁴	50 – 100
Millennium Project (Sachs report) ⁵	121 (for 2006) and 189 (for 2015)
Vandemoortele, 'Are the MDGs feasible?' (UNDP, July 2002) ⁶	50 – 80
Greenhill, 'The unbreakable link' (Jubilee Research 2002) ⁷	31 – 37 + debt cancellation

1 United Nations (2001). "Report of the High-Level Panel on Financing for Development". Available from: <www.un.org/reports/financing>.

2 Devarajan, S., Millar, M.J. and Swanson, E.V. (2002). "Goals for Development History, Prospects, and Costs". Policy Research Working Paper 2819. The World Bank Human Development Network Office of the Vice President and Development Data Group. Available from: <www.worldbank.org>.

3 Jolly, R. (2003). "Occasional Paper Background paper for HDR". United Nations Development Programme (UNDP), Human Development Report Office. Available from: <www.undp.org>.

4 Oxfam (2005). "Paying the price. Why rich countries must invest now in a war on poverty". Available from: <www.oxfam.org>.

5 Millennium Project (2005). "Investing in Development: A Practical Plan to Achieve the Millennium Development Goals". Available from: <www.unmillenniumproject.org/reports/costs_benefits.htm>.

6 Vandemoortele, J. (2002). *Are the MDGs feasible?* New York. Available from: <mdgr.undp.sk/PAPERS/Are%20the%20MDGs%20feasible.doc>.

7 Greenhill, R. (2002). *The unbreakable link: debt relief and the millennium development goals. What are the chances of meeting the Millennium Development Goals?* Available from: <www.eldis.org/static/DOC7881.htm>.

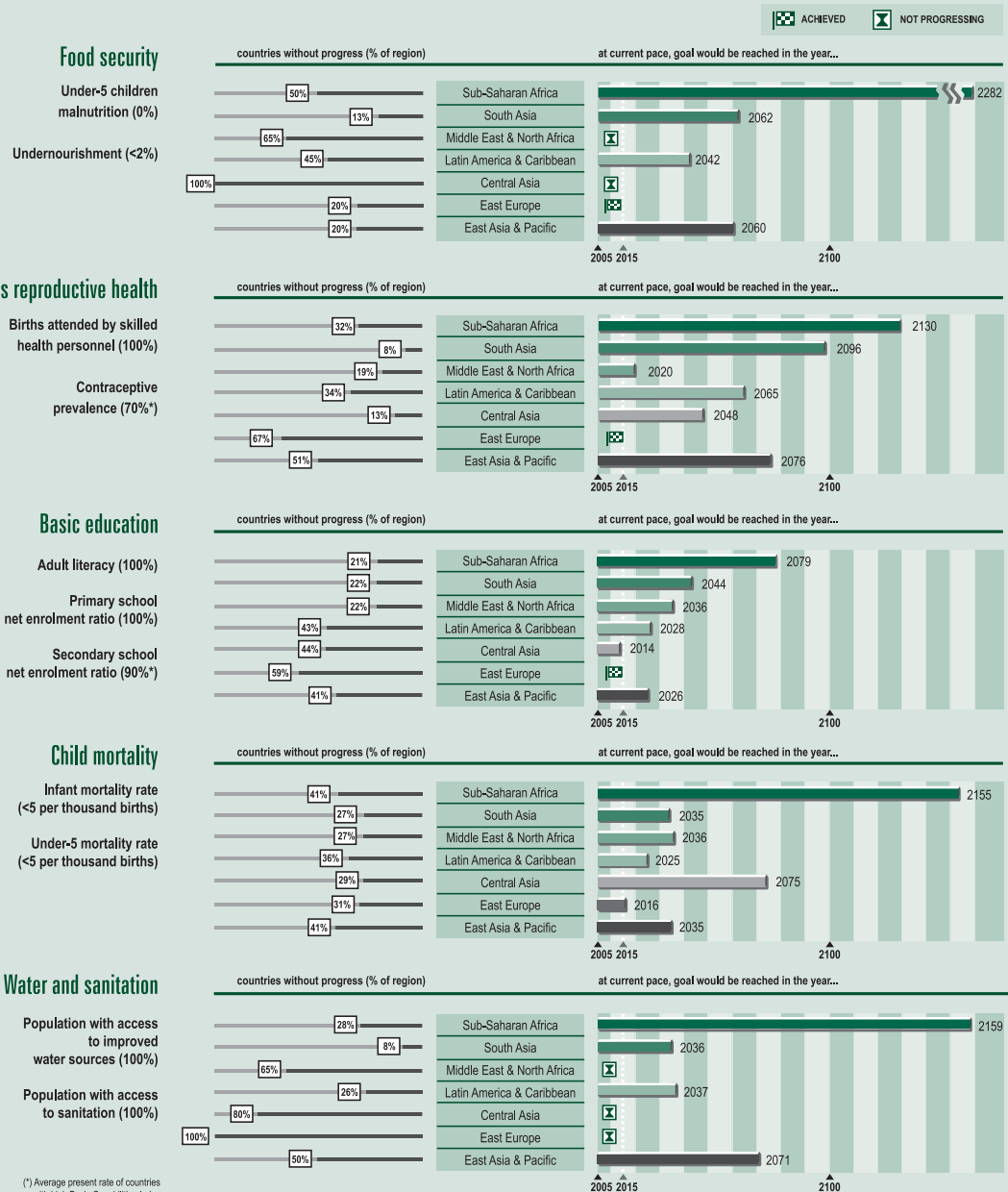
When will dignity for all be achieved?

"We have a collective responsibility to uphold the principles of human dignity, equality and equity at the global level. As leaders we have a duty therefore to all the world's people, especially the most vulnerable and, in particular, the children of the world, to whom the future belongs." (Millennium Declaration, 2000)

What is the bare minimum required for a decent life for all? The world leaders who signed the Declaration did not define it clearly, but its principles are embedded in the commitment to achieve certain targets by 2015. Some of these goals are set "for all" (100% basic education, 100% access to water and sanitation),

while others aspire, for example, to "reduce by half the proportion of people who suffer from hunger". Such a reduction would be a major achievement... but still leave the other half hungry. When will we achieve the basic standards of material dignity for all the world's people? Not in a hundred years unless we substantially accelerate the current trends of progress in the social areas!

In the following graphs, the date for achieving the listed minimum standards of life for all was estimated by projecting to the future the average progress rates of the indicators in each category as registered between 1990 and the latest available statistics.



(*) Average present rate of countries with high Basic Capabilities Index