Latin American and Caribbean Forum on Financing for Development Calls for Eliminating Asymmetries in the Global Financial Architecture

The pressing need to reduce the structural asymmetries in the global financial architecture was the focus of the Latin American and Caribbean Forum on Financing for Development (FfD), held 12 and 13 March in Santiago de Chile. Organized by the Economic Commission for Latin America and the Caribbean (ECLAC) and the government of Chile, this consultation brought together national ministers and other public officials, high-level representatives of the UN and of regional and international bodies, academics, and members of civil society, who agreed on the need to strengthen the Latin American position in the road to the Third International Conference on FfD (FfD3) that will take place in Addis Ababa, Ethiopia in July. Specifically focusing on issues such as systemic reforms and other themes relevant to Latin America and the Caribbean, governments and civil society in the room called upon the region to reclaim its historic leadership in the FfD process and to raise the level of analysis in the Zero Draft of the Addis Accord. In particular, the following demands emerged.

1. Build a more egalitarian international financial system

Both governments and civil society called for FfD3 to reform the international financial system and establish monetary regulation instruments to reduce the current global macroeconomic asymmetries. To balance a system prone to recession and exchange rate volatility that negatively affects developing countries, participants framed financial stability as a global public good. To that end, Nicaragua recommended setting up a global monetary council that would issue an international currency, while Guatemala supported the proposal by Oscar Ugarteche of the National Autonomous University of Mexico to establish financial transaction taxes (FTTs) that would be directed to the fulfilment of human rights. Additionally, José Antonio Ocampo and other experts recommended the use of the IMF's Special Drawing Rights (SDRs) as a reserve currency. A prerequisite for these systemic reforms, participants stressed, is the long-overdue democratization of the governance structures of the Bretton Woods institutions, the World Trade Organization (WTO), the Financial Stability Board, and the G-10 Basel Committee, through increased representation of developing countries.

2. Strengthen international tax cooperation

As outlined by Luis Moreno of the Latin American Network on Debt, Development and Rights (Latindadd), in addition to progressive tax reform, the mobilization of domestic resources necessitates increased and improved tax cooperation between developed countries, where transnational corporations (TNCs) are based, and developing countries, where these companies operate. This is essential, Luis explained, to address tax base erosion, a priority for the global South along with ensuring that double taxation agreements do not end up leading to a "double non-taxation" on behalf of TNCs, reducing the "race to the bottom" of fiscal incentives, tax avoidance and evasion, banking secrecy in tax havens, and importantly, illicit financial flows, which in developing countries account for outflows eleven times higher than the inflows derived from Official Development Assistance (ODA).[1] Effective cooperation on tax matters requires that developed countries share information with developing countries and country-by-country reporting by corporations. To that end, Belize, El Salvador, and Venezuela among others supported the proposal in the Zero Draft to upgrade the UN Committee of Experts on International Cooperation in

[1] According to a study by Global Financial Integrity: http://www.gfintegrity.org/report/2014-global-report-illicit-financial-flows-from-developing-countries-2003-2012/

Tax Matters to an intergovernmental body, reflecting the important role of the UN as the legitimate space for the definition of global fiscal rules [paragraph 28].

3. Private Finance: the Latin American experience calls for caution

The majority of governments underscored the need to prioritize the role of the state over that of the private sector in development, with Ecuador pointing out that some private financing mechanisms, such as public-private partnerships (PPPs), have minimal impact in reducing poverty and inequality. Verónica Serafini of Development Alternatives with Women for a New Era (DAWN) and Regions Refocus 2015 highlighted that governments must not incentivize foreign direct investment (FDI) through salary reductions and other "race to the bottom" tactics. After decades of neoliberal de-regulation that has resulted in increased structural inequalities, the Latin American experience evidences the need to defend the role of the state as the key guarantor of human rights, to ensure investment is directed towards development areas that may not be profitable but are vital for the full realization of rights.

4. Advance gender equitable policies

Uruguay stressed that gender equality must be reflected in the FfD agenda, "not only because of the human rights perspective that must prevail in all development processes," but also because of women's intrinsic contribution to the economy. Additionally, many governments – including Ecuador, Belize, Brazil, and El Salvador – underscored the need to develop new approaches to measuring progress, which move beyond GDP and capture the multidimensionality of inequalities, particularly gender-based inequalities. The consultation shed light on the differential effects that economic policies – in particular, tax and employment policies – have on women and men. In that regard, UN Women urged governments to make headway in the economic inclusion of women beyond micro finance policies; reducing gender imbalances in productive and reproductive activities through policies that promote the redistribution of care work; eliminating gender bias of indirect taxation; prioritising gender equality and women's rights in national budgets and promoting budget transparency and effective participation of civil society. In his closing remarks, Wu Hongbo, Under-Secretary-General for Economic and Social Affairs and Chair of the Addis Ababa Conference, "took note particularly of the call to fully address gender and inequalities in the outcome document."

5. Sovereign debt restructuring

The need to re-structure sovereign debt was highlighted by governments – including Belize, Brazil, Ecuador, El Salvador, Panama, and the Dominican Republic, as well as Chile's Foreign Minister, Heraldo Muñoz – and civil society in its entirety. The Executive Secretary of ECLAC, Alicia Bárcena, contributed what she regarded a "bold" proposal: condoning the debt of Caribbean countries using a HIPC (Highly indebted poor countries) initiative, for which she offered the technical support of ECLAC.

6. Establish fairer rules for international trade

Latin American governments emphasized the need to reduce asymmetries in international trade by eliminating tariffs in developed countries and establishing rules that take into account the special needs of developing countries and allow for the entry of value-added products into markets in the developed world. Additionally, participants expressed concern about open investment treaties that promote short-term capital inflows.

7. Strengthen regional financial mechanisms

Participants spoke in favor of establishing new regional and sub-regional development banks, as well increasing the representation and extending the tasks of existing ones, as a contra-cyclical tool against credit shrinkage and global financial instability. Brazil highlighted the importance of national development banks in ensuring large-scale access to credit by all citizens and cautioned against the private sector taking on micro-credit and inclusive innovative financing initiatives at the national level that could undermine the role of development banks. Respected scholars such as Ocampo and Ugarteche, along with Bárcena, supported the expansion of the Latin American Reserve Fund (FLAR) to include all countries in the region, so as to create space for reserve currencies to re-circulate and serve regional development. Also, some countries suggested enhancing regional cooperation in tax matters through the Union of South American Nations (UNASUR) the Central American Integration System (SICA), and/or the Community of Latin American and Caribbean States (CELAC).

8. Ensure common but differentiated responsibilities

El Salvador, Brazil, Ecuador, Nicaragua, and Chile asserted that the Addis Accord must apply the Rio principle of common but differentiated responsibilities to the three pillars of sustainable development: economic, social, and environmental. The FfD agenda – which includes ambitious systemic commitments made in the Monterrey Consensus – must remain separate from both the post-2015 sustainable development agenda and the UN Framework Convention on Climate Change (UNFCCC), participants added, to ensure the simultaneous importance of the commitments made in each process.

9. South-South and triangular cooperation as complementary to North-South cooperation

Unanimously, governments defended South-South cooperation and triangular cooperation as instruments that are complementary to – and not substitutes of – North-South cooperation. Argentina, Chile, and México proposed to systematize the more than two decades of experience of the region in international cooperation, citing the Petrocaribe oil alliance between Venezuela and Caribbean countries as a model of South-South cooperation. At the same time, Argentina supported the inclusion of triangular cooperation as means of implementation of the Sustainable Development Goals (SDGs). On innovative financing, Chile shared the best practice of charging a minimum fee on airfares that is used to purchase medication to treat AIDS/HIV, malaria, and tuberculosis.

10. Official Development Assistance (ODA): a historical debt

Latin American governments called for the establishment of a concrete timeline for the fulfilment of ODA commitments. Additionally, they argued for the separation of ODA from climate finance – in line with the demand by the G77 at the global FfD negotiations – and also from humanitarian aid.

During the ECLAC Regional Sustainable Development Forum, held on 19 and 20 March in New York, a Chair's Summary of the ECLAC FfD Forum was shared. While this document does not include the more progressive recommendations made during the Santiago consultation, it represents an important contribution, along with the outcome of the upcoming CELAC Ministers meeting, to build a strong Latin American and Caribbean position to take to Addis Ababa.