The use of international financial markets to fulfil the MDGs: part of the problem or possible solution?

Fondazione Culturale di Banca Etica
Andrea Baranes

Introduction

Despite the continued growth of the world economy in the last decades, the distance between the rich and the poor has dramatically increased, and this trend shows no sign of decreasing.

In today's global economy the international financial world has enormous responsibilities with regards to this situation.

To contrast the ever-growing distance between the rich and the poor the United Nations launched the Millennium Development Goals (MDGs) in 2000 with the aim of eradicating poverty and other development objectives to be met by 2015.

One of the main challenges facing countries is how to raise the funds required to meet these goals. The World Bank (WB) has estimated the figure at between USD 40 and 70 billion per year until 2015. Several proposals have been put forward to raise funds for fulfilling the MDGs.

This article aims to contribute to the debate and analysis of the responsibilities of the financial world, proposing possible improvements and changes.

In the first place, the current situation will be described, concentrating on the role and responsibilities of the international development institutions and the financial markets. An analysis of some of the instruments proposed to raise the needed funds will be followed by major criticisms of these instruments.

Among the proposed instruments, the UK's International Finance Facility (IFF), the Tobin Tax, the Carbon Tax, and other possible global taxes are examined.

Secondly, another aspect to consider is the rapidly growing interest in Corporate Social Responsibility (CSR). The debate around the responsibility of financial markets and the need for radical changes has encouraged many international organizations and financial institutions to develop ethical guidelines and codes of conduct in order to improve their social and environmental attitudes. Although these initiatives tend to reduce the negative impact of private firms, there is an urgent need to study and draw attention to the various, and radically different, CSR practices.

The last part of this article will address ethical finance and microcredit as additional instruments in the fight against poverty. These are completely different approaches to finance and credit which aim to reduce negative impacts and produce positive ones instead. They provide a concrete example for today's financial community.

International institutions, development and external debt

The first element to consider when discussing the fight against poverty is debt. Thanks to international advocacy and grassroots campaigns, debt has become one of the main topics on the international agenda. The developing countries' debt is estimated as being about USD 2.5 trillion. According to UN statistics, in the last years there has been a net flow of money from the South to the North. In other words, despite the Official Development Assistance (ODA), despite the money sent home by Southern migrant workers, and despite other forms of aid, the burden of repayment and interest rates creates a net financial flow from poorer countries to richer ones.

Moreover, while the world's richest countries committed themselves to providing 0.7% of their Gross National Income (GNI) to development and cooperation aid, according to Organization for Economic Co-operation and Development (OECD), the global amount of ODA has fallen from USD 68 billion to USD 65 billion from 1992 to 2002, which corresponds to a 0.11% reduction (from 0.34% to 0.23%).

In the last few years several criticisms have been directed towards initiatives aimed at reducing or eliminating poor countries' debt which fell short of reaching their goals. We recall the Heavily Indebted Poor Countries (HIPC) Initiative, a programme conducted by the WB and the International Monetary Fund (IMF).

Recently the IMF acknowledged that the proposal put forward by civil society organizations for it to sell part of its gold reserves in order to cancel debts could be feasible and would not unduly affect the International Financial Institutions (IFIs) or the gold market itself. Nevertheless such a possibility appears to be far from being seriously considered or executed.

The two IFIs created at the United Nations Monetary and Financial Conference at Bretton Woods in 1944 are accused of being responsible, at least partially, for the present economic and financial differences between states and for many debt problems themselves. Many of the projects funded by the WB did not help development the recipient countries, but rather brought about heavy negative social and environmental impacts, including an increase in debt and corruption.

Similar negative consequences also took place when projects were fostered by export credit agencies. These are publicly controlled insurance companies that support and sponsor firms that carry out investments in developing countries. Agencies such as these often lack guidelines to evaluate the social and environmental impact of their activities, and only result in an increase in useless projects in poorer countries.

Also the structural adjustment programmes promoted by IFIs in the last 30 years also failed in their fight against poverty. In many cases they caused both direct and indirect negative effects, worsening the poverty situation even further.

These programmes always included macroeconomic policies, such as cuts in state expenses or inflation targets as well as structural reforms, such as the liberalization of markets and privatization of publicly owned firms.

It must also be said that the World Trade Organization (WTO), established about ten years ago, has become one of the most powerful international organizations becoming ever more the governing body in world economy.

Role and dimension of the financial markets

The WTO, by means of the General Agreement on Trade in Services (GATS), provided for the liberalization of financial assistance. This threatens the ability of developing countries to maintain control over domains of fundamental importance for their development, such as banking, insurance and finance. Financial markets are already almost completely liberalized in today's global financial village.

In the last 30 years financial markets have witnessed a growth far more important than the real economy. Independent studies indicate that the global value of financial transactions reached USD 220 trillion in 1992, whereas the same years' value of trade in goods and services is estimated at USD 4.3 trillion - merely 2% of financial activity. The growth of the financial market and of its liberalization is believed to be one of the major causes of today's inequalities and of the latest crisis, including the crises that hit Southeast Asia in 1997 and Argentina in 2001.

The following impacts are among the most dramatic consequences of the growth in the financial market:

- the progressive shift of resources and power from productive activities such as agriculture, industry and services, to financial activities
- the focus of companies on their daily quotation value rather than on long-term strategies that abide to international commitments on sustainable development
- financial and monetary speculations responsible for the most recent international financial crises
- the fixing of the prices of raw materials from agricultural and extractive production by a few western markets stock exchanges which

threatens the possibility for developing countries to obtain fair and adequate prices for their goods for export and in turn gather sufficient resources to fight poverty domestically
- investment of power in the financial sector to heavily influence political decisions against the will and the interests of the citizens.

Corporate social responsibility

The debate around ethical finance, socially responsible investments, and in particular corporate social responsibility has been growing. CSR is recognized as an important tool since it considers not only the economic consequences of business transactions but also non-economic environmental and social impacts.

At the same time, neoliberals who are also supported by major IFIs believe that the role of the state must be downsized and free market expansion become the solution for growth and development. In this way, virtuous firms are rewarded by the market and consumers while regulations and controls are progressively eliminated.

Unfortunately the European Commission appears to lean towards this neoliberal approach. In its green paper on "Promoting a European framework for Corporate Social Responsibility" CSR is defined as "essentially a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment". This exclusively voluntary approach to CSR does not address the lack of information available to the general public and consumers about CSR. Moreover it may increase greenwashing[1] initiatives whereby firms adopt non-binding codes of conduct or CSR statements without substantially changing their policies and behaviour. Considering how profit-oriented private firms are, corporations may decide to adopt a code of conduct only if it guarantees further earnings. Consequently, important aspects of development such as social integration, the environment and workers' rights may be reduced to a mere economic assessment.

Furthermore CSR could have a boomerang effect and become the first step towards the loss of the rights which won recognition over the last decades, such as labour rights, social rights, and environmental rights. The danger is deregulation and vesting the private sector with their voluntary enforcement. Also, despite some CSR statements including significant commitments, CSR initiatives are generally limited in the financial sector. It is therefore impossible to consider that CSR could provide a minimal level playing field that respects rights enshrined in fundamental human rights conventions and commitments made by the international community.

1 Editor's note: greenwash (a portmanteau of *green* and *whitewash*) is a term that environmentalists and other critics give to the activity of giving a positive public image to putatively environmentally unsound practices. The term arose in the aftermath of the Earth Summit held in Rio de Janeiro in June 1992. Corporate lobby groups saw the Earth Summit as a prominent platform from which to redefine their role and to shape the emerging debate on environment and sustainable development.

The International Financial Facility

In 2003, the Government of the United Kingdom proposed the creation of the IFF with the intention of collecting funds through the sale of bonds as a means of achieving the MDGs over the next ten years. This financial instrument, although not yet completely defined, could be issued by the OECD for the rich countries to subscribe to and then be offered to the public at large. The bonds would have a 10-15 year life-span. The money collected would then be used to fight poverty. However bonds are usually considered to be one of the main causes of the world's economic injustices.

It is still unclear whether the IFF would raise the entire sum necessary to fulfil the MDGs. A first evaluation suggests that the IFF could result in a net loss of aid. Moreover it is not possible to foresee what might occur when, once the 2015 deadline is reached, all the money would have to be returned. This would naturally cause a dramatic decrease in ODA contributions. During the bond's lifespan the subscribing countries could decide to include such amounts in their official ODA contribution, thus reducing the net amount donated. Or they may find other ways of shuffling numbers and fail to achieve the 0.7% GNI undertaking.

The most serious criticism of the IFF initiative is probably linked to the fact that the burden of repayment is transferred to future generations. Some governments are arguing that the current economic crisis hampers them from increasing ODA, and therefore support the IFF as a way to guarantee a certain level of ODA.

This may be the case for Italy, which according to OECD statistics is the last country in the list of donors in terms of percentage of ODA: in 2003 it contributed 0.17% while in 2004 it was down to 0.15%. The Italian Government, nevertheless, spent more than EUR 1 billion (USD 1.27 billion) in foreign military missions, notably to Iraq, and ordered 121 fight Eurofighter 2000 aircrafts, at a cost of more than EUR 14.2 billion (about USD 18 billion). These expenditures, coincidentally, should terminate in 2015 which is the same year set for meeting the MDGs.

At present it is not clear which authority should be vested with the power of managing the money from the IFF. One possibility is that the sums be managed, in whole or in part, directly by the WB. When the Treasury of the United Kingdom presented the IFF, it explained that recipient countries of grants or particularly advantageous loans (i.e. those with long expiry dates, no obligation to interest rates, etc.) should be subject to tight conditions such as good governance, anti-corruption commitments, transparency obligations, and market liberalization.

IFIs and their supporters have imposed conditions on developing countries for the last 30 years in the form of structural adjustment programmes. Therefore specific conditions, designed to open the countries' markets and implement free trade principles seem unacceptable considering the damage already caused by free trade policies in the same countries.

Considering the above, if the IFF does not take into account the overall role of the IFIs, this could lead to a further increase in their power, and also in the poorer countries status of dependency from the WTO, the WB, the IMF and from the financial markets themselves in general.

Global taxes

In order to achieve the MDGs, and so as to have a positive impact in the fight against poverty, what is needed is a radical change in international institutions and a proper solution to the debt crisis.

During the last few years, innovative proposals have been put forward to finance development, such as global taxes. The tax which probably received the most attention is the Tobin Tax. This is a tax on global currency speculations, named after the Nobel Economics Prize winner who first proposed the mechanism.

According to recent statistics, the currency exchange market has reached a value of USD 1.5 trillion per day. This figure must be compared to the total amount of international trade exchanges in goods and services, which is estimated at USD 4.3 trillion per year. This means that the amount of money dealt in trade during one year is equivalent to the amount dealt on the foreign exchange market in three days.

Therefore it is suggested that a small tax be charged on each foreign currency transaction regardless of the transaction's content and amount. This would create a disadvantage exclusively for those who, for speculative purposes, carry out many transactions per day, and not for those firms which import and/or export large amount of goods on a less frequent basis. Such a tax would vest governments with an instrument to control financial markets. The revenue could be used to finance development programmes in the fight against poverty without many of the inconveniences discussed above with regards to the IFF proposal. A further advantage is that the sums raised with this type of tax cannot easily be used by governments for other purposes, thereby decreasing their ODA contribution. The Landau report commissioned by President Chirac of France, together with the Spanish, Brazilian and Chilean Governments, outlines the possibility of using global taxes to finance the MDGs.

Among other global taxes, we will consider those whose aim is pollution reduction. For instance some European governments, notably the French and the German, started discussing the possibility of a tax on airplane tickets in order to use at least part of the revenue to finance MDGs. The Carbon Tax on carbon dioxide emissions, which are mainly responsible for global warming and climate change, also sparked an important debate. This tax would be based on the "polluter pays" principle. Unfortunately many initiatives regarding the Kyoto Protocol to the United Nations Framework Convention on Climate Change relating to carbon emissions trading, allow a company to buy and sell significant amounts of carbon dioxide emissions if it does not respect the parameters fixed by the protocol. Consequently, the basic polluter pays principle becomes the he-who-pays-may-pollute principle. This is an example of an environmental issue addressed

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using exclusively economic and financial considerations, increasing the power and the influence of the financial markets over environmental issues.

As in the case of CSR, the voluntary approach may push private corporations to adopt codes of conduct which only consider revenues and expenditures.

Alternative approaches to finance

The discussion on the fight against poverty using instruments such as CSR, global taxes, among others, uses the general term of "ethical finance" when referring to these economic tools.

However ethical finance implies a clear commitment to transparency and democracy, where money is not an end but a means to promote social rights, protect the environment and achieve sustainable development. Consequently, ethical banks do not fund all their activities on the principle of maximizing profit, but they consider credit a fundamental instrument to eradicate poverty. Access to credit is seen as a right in itself, or better said, as a common good, in opposition to the liberalization of trade and human rights' commodification. These experiences are growing both in the South and in the North, and are living proof that a radical change in today's economy and financial sector is not only desirable but feasible.

In the context of ethical finance, a major role is played by microcredit, which consists in very small loans used for productive purposes, such as for starting a small business. The importance of this practice in eradicating poverty has recently been recognized by the UN, which declared 2005 the International Year of Microcredit. In developing countries millions of men and women, who are the main recipients of these loans, are reasonably improving their incomes and overall life standards thanks to microcredit initiatives. Several small ethical banks in the South have been established, where the share capital property, the managerial resources and the work force are local. This is a concrete example of a useful procedure to fight poverty that promotes self-development rather than providing charity.

One of the main problems of these initiatives is the need to reach a certain critical dimension, or breakeven point, which allows small ethical banks in the South to be self-sufficient. In many cases, organizations from the North or UN agencies have helped these experiences in the start-up phase, although a lot remains to be done. One of the major criticisms of global taxes, and of a tax on currency transactions, is that if these measures are effective the sums raised would rapidly decrease. Thus the tax would not suit the needs of financing the fight against poverty on the long term. Even if this criticism turned out to be true, the revenues from a currency transaction tax could be very effective in assisting in the incorporation and start-up of ethical banks, microcredit programmes, or similar initiatives in the South, all of which require initial support and financial resources before becoming self-sufficient.

This could start a sustainable self-development process in poorer countries, managed directly by and for the benefit of the citizens in those countries. It would also be an effective way to combine the fight against pollution or speculative transactions, with the fight against poverty. Additionally it could help reverse the unacceptable financial flow which, along with the complicity of the IFIs, the external debt and the financial markets, is still draining resources from the poorer countries for the exclusive benefit of the richest ones.

Conclusions

The international community is presently questioning how to fulfil the MDGs, since in the first five years since they were launched very little progress seems to have been made. This comes despite further commitments taken at the International Conference on Financing for Development, held in March 2002 in Monterrey, Mexico. The debate today seems focused on putting a helpful but insufficient patch on the problem. The enormous imbalances and injustices that characterize the present situation do not seem to have been addressed.

We cannot ignore the responsibilities of the international institutions, such as the WB, the regional development banks, the IMF or the WTO, or those of the export credit agencies, private banks and other financial firms. A proper and definitive solution to the burden of the developing countries debt must also be found, and the rush for complete liberalization and privatization of trade, economy and finance must be halted.

A new global approach to human and sustainable development must be conceived. Despite the continued growth in global wealth, millions of people continue to live in extreme poverty. The ecological footprint methodology has widely demonstrated that the current approach to measuring development that only considers economic growth, calculated in GNI increases, is inconsistent, false, incomplete and unsustainable.

The change must pursue several different initiatives. A radical reform of international economic governance is needed since at present the economic, financial and trading rules control and dictate the political decisions of countries and governments. This approach must be completely turned on its head in order to bring human and social rights and environmental concerns to the heart of all international decision-making processes. The WB and the IMF must stop imposing conditions on the poorer countries, while the WTO must be subject to a democratic and transparent external control that evaluates the social and environmental impacts of trade issues. The decision-making process must be democratic, fair and transparent, where all interested parties are granted a role to play. It is unacceptable that today the Paris Club[2] or the IFIs themselves are the main creditors as well as the self-appointed arbitrators to finding a solution to the debt crisis.

At the same time, innovative instruments such as the global taxes should be implemented. These taxes could both limit heavy negative impacts on the poor countries and gather the resources needed to meet the MDGs, while more broadly collaborating in the fight against poverty and hunger.

In the same way, some concrete initiatives already exist and the duty of the international community is to support them. The fair trade movement is demonstrating - together with other ethical finance initiatives - that a different approach to trade is possible and that humans, their social relations and environment, can be at the heart of economic decision making processes. It is therefore important to clarify the concept of CSR, in order to eradicate greenwashing initiatives. The latter do not provide a proper solution and only risk ruining and obscuring the most interesting and useful initiatives.

For corporate accountability reasons a change in the CSR approach is needed. For instance, the correct use of water resources or energy-saving initiatives should not be determined by a statement of revenues and expenditures, or simply left to voluntary initiatives. Even more so such initiatives should not be simply referred to as "corporate responsibility" or "ethical finance". All stakeholders should have the right to participate and demand transparency of all activities. The financial community needs to change and all contributions are crucial to help ensure that over the next years financial activities do not cause further harm but instead help resolve environmental and social problems. ■

2 The Paris Club is an informal group of financial officials from 19 of the world's richest countries, which provides financial services such as debt restructuring, debt relief, and debt cancellation to indebted countries and their creditors. Debtors are often recommended by the IMF.