

G20 SUMMIT - TORONTO, 26-27 JUNE 2010

CIDSE STATEMENT

The world continues to be in the throes of an economic crisis. All economies have not been equally impacted by the crisis. But, in combination with the food and energy crises and grappling with climate change, the poor and vulnerable groups in almost all economies were dramatically affected by it, even though they had little to do with its causes. The crisis originated in the economies of a few countries, all of whom are represented in the G20. By coming together to discuss action to tackle the crisis in London and Pittsburgh in 2009, the G20 did reflect willingness to assume responsible leadership in tackling the crisis. However, their announcements of intent and commitment to action have still not been translated into concrete policy change.

CIDSE, the international Catholic network of 16 development organizations from Europe and North America therefore calls upon the G20 Summit in Toronto to deliver clear and concrete decisions on the following areas:

1. *The global adoption of a Financial Transactions Tax*

In the industrialised world, Eurozone countries directly experienced the dangers of unbridled speculation on their currency and economic situation during the Greek economic crisis. European countries and the US are deliberating policy responses such as the adoption of bank levies to regulate the financial markets. Germany has banned 'naked short-selling' in a bid to step up regulation. The government is also under significant political pressure to implement financial transaction taxes (FTTs).

CIDSE consider bank levies to be an instrument of limited use and unsuitable in generating revenue needed to pay for the broader economic costs of the crisis. We believe the selective implementation of this instrument should be no hindrance to implementing a Financial Transaction Tax, additional or instead of bank levies. We call on governments to implement FTTs to help limit the destabilising impact of financial markets while at the same time realising considerable revenue. Recent studies by the International Monetary Fund and the European Commission have acknowledged the popular support and the feasibility of FTTs. Most recently, German Chancellor Angela Merkel and French President Nicolas Sarkozy have publicly called on the G20 to support FTTs.

According to the Austrian Institute for Economic Research (WIFO), which has done pioneering research on FTTs, such taxes would increase the cost of speculative trading and thus help mitigate fluctuations of asset prices in stock markets, of exchange rates and commodity prices. At the same time it will have a minimal effect on the real economy as the tax would be limited to transactions between financial market actors while transactions between customers and financial institutions, for example the purchase of goods, labour market transfers and so on, would be exempt.

On the revenue side, with a tax range between 0.01% and 0.1%, FTTs' revenues would range between 0.5% and 2.4% of world GDP if all transactions are covered, even factoring in an assumption that transaction volumes due to taxation would be reduced in North America and

Europe. CIDSE believes that the revenue should be used to finance development, including and beyond the Millennium Development Goals, and other global imperatives such as combating climate change.

The G20 Summit must announce its support for the global adoption of FTTs. Countries that are in the G20 should announce when and how they intend to adopt FTTs.

2. *End tax havens*

The G20 has rightfully identified the need to end tax havens as a priority in the effort to overcome the economic crisis. Yet, the urgency of the task is not matched by the actions that have since been taken. The G20 exercise to reduce the number of secrecy jurisdictions has turned into little more than a formal exercise. The value of the peer group process launched by the Global Forum on Development of the OECD will have to be evaluated on the basis of a number of issues including their willingness to take up politically difficult issues like banking secrecy and revealing the beneficial ownership of trusts and shell companies; to include civil society in the exercise and; whether the peer reviews are quickly translated into a public ranking exercise to implement sanctions against secrecy jurisdictions and to enhance the pressure on countries to fulfill international obligations. Beyond these processes, important issues crucial to tackling capital flight and tax evasion need more political leverage.

The G20 Summit must:

I. Take clear and concrete action to lift bank secrecy

- Announce that the beneficial ownership of all companies, trusts, foundations, charities in all jurisdictions are to be made a matter of public record.
- Instruct the Financial Action Task Force (FATF) to amend recommendations 33, 34, and VIII to provide for the disclosure of such information, and to enforce compliance, as part of the FATF 40+9 recommendations' review in 2011, in advance of the next round of mutual evaluations.
- Make the availability of information concerning the beneficial ownership of financial assets a clear-cut criterion in progress reports on jurisdictions by the Peer Review Group of the Global Forum on Tax Information Exchange.
- Plan strong and coordinated counter-measures against jurisdictions that would remain non-compliant regarding this specific recommendation within a given timeframe. Ensure that FATF and Peer Review Group conduct public consultations, with adequate scope for participation by all stakeholders, as part of their review.

II. Announce new accountancy standards for transnational companies

- Instruct the International Accounting Standards Board (IASB) to revise the International Financial Regulation Standard 8, for segment reporting, to mandate country-by-country reporting by all multinational companies.
- Urge the IASB to include mandatory country-by-country reporting within International Financial Reporting Standard (IFRS) 6 for extractive industries, as part of its current review.
- Express support for the inclusion of a country-by-country reporting standard within the OECD Guidelines for Multinational Enterprises, currently being updated, and in the OECD Principles of Corporate Governance.

III. Announce concrete measures to step up international cooperation against tax evasion

- Announce the intention to lift the impunity that currently surrounds tax evasion and other financial crimes by unifying their definition of tax evasion and toughening the level and implementation of sanctions against tax evaders and the authors of financial crime.

- Commit to participating in a multilateral tax information exchange convention, such as the Council of Europe-OECD Convention on Mutual Assistance in Tax Matters, and use their leverage to get their dependencies and secrecy jurisdictions to join.
- Ask technically competent bodies, in particularly the OECD and the UN Committee of Tax Experts, to develop the technical standards necessary to facilitate comprehensive automatic exchange of information. It should set a timetable for the development of this standard and its eventual incorporation into the multilateral convention.

3. *Create an international debt-workout mechanism*

It is unacceptable that more than one third of Low Income Countries continue to be either in debt distress or at a high risk of debt distress. This shows that existing frameworks for debt restructuring lead to systematically suboptimal outcomes and undershoot the required levels of debt reduction. The poor and the vulnerable in indebted countries - in which groups women are overrepresented - have been subject to unnecessary suffering as a result. Similar problems plague the response to the recent debt crisis in the Eurozone.

Responsible lending must be the cornerstone of future sovereign financing arrangements. It can only be achieved by the adoption of a binding legal framework.

The G20 Summit must support the global adoption of a binding, independent and predictable framework for arbitrating on sovereign debt claims developed by relevant agencies with expertise.

4. *A monetary system supportive of trade and development*

The persistence of continued global imbalances and the strains in the Eurozone in an environment of free capital mobility continue to feed high levels of exchange rate volatility. There is an urgent need to provide for an orderly transition towards an international monetary system that supports stability, trade, development and full employment worldwide, while reducing the deflationary biases in the system.

The G20 Summit should call for the reform of the international monetary system in which Special Drawing Rights, in a revamped form become its cornerstone.

5. *The ongoing financial regulatory agenda*

The global financial crisis has exposed critical fault lines in the system. More than a year and a half after it hit the world economy, measures to reorient the financial sector to provide credit for productive and socially-useful activities are either delayed or will be too light to modify business as usual.

The G20 Summit should support:

I. A new framework for cooperation on international banking supervision

This framework must replace the current system of banking supervision that relies on market-based incentives for risk management. The framework should provide greater space for local authorities' intervention in light of, inter alia, their assessments of systemic risks, and the need for countercyclical regulation of capital.

II. Regulating credit rating agencies

Credit rating agencies share responsibility for backing the concealment of risks that led to the crisis and must be regulated and monitored by national governments in whose jurisdictions they operate. Legal incentives to rely on credit rating agencies should be removed from law, unless guaranteed by stepped up supervision by the government issuing such law.

III. Regulating commodity markets

The regulation of commodity markets should also be stepped up to prevent the speculation that led to food crises in many of the two thirds of developing countries that are food-import dependent. Previously unregulated *Over the Counter* derivative trades should be carried in public exchanges and speculative position limits (total number and value of contracts for a given commodity) should be established and apply equally to all investors.

As a network of Catholic development agencies CIDSE calls on the heads of governments who will gather in Toronto for the G20 summit to translate the sense of urgency that brought them together into the concrete actions that we recommend in this statement.

The world needs just solutions to ensure our common future. The G20 Summit must contribute to these solutions.

CIDSE is an international alliance of Catholic development agencies. Its members share a common strategy in their efforts to eradicate poverty and establish global justice.

CIDSE's advocacy work covers global governance; resources for development; climate justice; food, agriculture & sustainable trade; and business & human rights.

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