



UN Financing for Development negotiations: What outcomes should be agreed in Addis Ababa in 2015?

Written by:

African Forum and Network on Debt and Development (AFRODAD)

www.afrodad.org

European Network on Debt and Development (EURODAD)

www.eurodad.org

Jubilee South - Asia Pacific Movement on Debt and Development (JSAPMDD)¹

www.apmdd.org

Latin American Network on Debt, Development and Rights (LATINDADD)

www.latindadd.org

Third World Network (TWN)

www.twn.my

This document was written by the civil society networks listed above, with the collaboration and comments of many other CSO colleagues.

It is open for endorsement by other civil society organisations and networks before 5th December 2014.

¹ JSAPMDD endorses most of the recommendations of this report.

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Executive Summary

2015 will be a landmark year for the global fight against poverty and for equitable and sustainable development, with three crucial summits in just six months. A central issue for all three summits is concrete proposals for reforms to international financial and trade systems so that they support the achievement of global sustainable development goals. Such reforms should be based on the right to development for all countries and ensuring economic and social rights for all. There are sufficient funds available to achieve human rights for all, end poverty and to achieve global sustainable development goals: but political decisions to change structures and systems are needed to make this possible. On these issues, the Third UN Conference on Financing for Development (FfD) in Addis Ababa in July will play a critical role.

This paper summarises our recommendations for concrete changes that could be made in Addis, under the six headings of the Monterrey Consensus, with a seventh chapter on other important issues:

1: Mobilizing domestic financial resources. Truly global cooperation is central to solving the problem of illicit financial flows and effectively combatting international tax avoidance and evasion. The lack of a common agenda for international cooperation in tax matters is costing all governments vast amounts of resources, which could have been allocated to sustainable development. Current global tax standards are being developed behind closed doors at the OECD while excluding 80% of the world's countries from the decision-making processes. Our key recommendations are:

- *Establish a new intergovernmental body on international cooperation in tax matters and provide the resources necessary to allow the body to operate effectively.*
- *Ensure a comprehensive mandate for the new intergovernmental tax body, including base erosion and profit shifting, tax and investment treaties, tax incentives, taxation of extractive industries, beneficial ownership transparency, country by country reporting, and automatic exchange of information for tax purposes.*

2: Foreign direct investment and other international private flows. A much more balanced approach to private international finance is needed, recognising risks and the need for developing countries to manage flows carefully. There are two different categories of concerns. On the one hand, there are macroeconomic risks associated with these flows, such as the volatility of short-term financial flows. On the other hand, there are concerns in relation to the content and terms of longer term investment, especially Foreign Direct Investment (FDI). Our key recommendations are:

- *Recognise capital account regulation as a fundamental policy tool for all countries and remove from all trade and investment agreements any obstacles to these important policies.*
- *Spell out the significant problems with using public institutions and resources to leverage international private finance.*

3: International trade. Trade policy should allow developing countries to have policy space, including the ability to focus on impacts on unemployment, vulnerable people, gender equality and sustainable development, and should not promote liberalisation as an end in itself. International trade plays an important role in development, and trade policies are an important tool that developing countries can use to support the growth of domestic industries with greater added value, not just as commodity producers. However the current trade regime has pushed developing countries to open their markets, both through the World Trade Organisation (WTO) and through

regional and bilateral trade and investment treaties, which reduces their policy space to address their development needs while doing little to address rich-country trade-distorting policies. We recommend:

- *A comprehensive review of all trade agreements and investment treaties to identify all areas where they may limit developing countries' ability to prevent and manage crises, regulate capital flows, protect the right to livelihoods and decent jobs, enforce fair taxation, deliver essential public services and ensure sustainable development.*
- *A review of all intellectual property rights regimes that have been introduced in developing countries through Free Trade Agreements, to identify any adverse impacts on public health, the environment and technology development, among other areas.*

4: Official Development Assistance (ODA) and other international public support for development.

Strengthened commitments to improving the quality and quantity of ODA are needed, with much firmer follow up mechanisms, as are new and additional sources of public finance. ODA remains a critical resource, particularly for the poorest countries, but its value has been severely undermined by failures of rich countries to meet the UN target to provide 0.7% of their Gross National Income (GNI) as ODA and lack of progress on the Paris/Accra/Busan commitments on aid effectiveness to stop the bad practices that significantly undermine ODA. Innovative public financing mechanisms can provide much needed additional resources. Our key recommendations are:

- *Set binding timetables to meet commitments to provide 0.7% of GNI as ODA.*
- *Ensure ODA represents genuine transfers, including by ending aid tying, removing in-donor costs and debt relief, providing the majority in the form of grants, and reforming concessional lending by reflecting the real cost of loans to partner countries.*
- *Implement a levy on financial transactions carried out by finance firms and use the revenue to finance sustainable development.*

5: External debt. The recent UNGA resolution² that mandates the “establishment of a multilateral legal framework for sovereign debt restructuring processes” is a critically important opportunity to put in place effective international mechanisms for preventing and resolving future crises: it must not be wasted. Debt crises risk wiping out the global development progress made over decades. Even in countries that do not suffer from an acute debt crisis, debt service competes with development spending for limited public resources. Despite promises made at Monterrey, the architecture for debt crisis prevention and management has not been developed. Debt crises continue to be addressed too late and too slowly. Our key recommendations are:

- *Reaffirm the commitment to agree to a multilateral legal framework for sovereign debt restructuring processes in a neutral forum and ensure it: is comprehensive; is based on a human needs approach; holds creditors and debtors to account for irresponsible behaviour; and gives all stakeholders the right to be heard.*
- *In order to scrutinize existing debt along responsible financing standards, including examining the legitimacy of the debt, independent debt audits should be commissioned, with commitments to cancelling debt found to be illegitimate.*

6: Systemic issues: effective, inclusive global governance and monetary system reform. The system of global economic governance is in urgent need of overhaul to give developing countries a fair and equitable seat at the decision-making table at all international organisations and financial institutions, strengthen transparency and accountability, and to tackle key international problems,

² UNGA Resolution A/RES/68/304 (2014)

while respecting developing countries' policy space. While the shift from the G8 to the G20 as the focus of global economic discussion signalled a change in power dynamics, the G20 is proving inadequate and ineffective at global coordination, while legitimate UN bodies do not have the mandate or resources to coordinate effectively in this area. The international monetary system is built on an unsustainable role for the US dollar, which needs to be gradually replaced as the world's reserve currency, while at the same time building additional stability into the system by increasing the reserve assets available to developing countries. We recommend:

- *Set up a process to set up a Global Economic Coordination Council at the UN to provide leadership on economic issues.*
- *Issue \$250 billion in new Special Drawing Rights (SDRs) annually, with the majority going to developing countries.*

7: Other important issues. We highlight four in particular that require additional attention:

- *The UN should take seriously the need for better approaches to measuring progress that go beyond short-term economic indicators such as GDP to include measures of social and environmental wellbeing, and emphasise how significant inequality, including gender inequality, can be.*
- *By developing an initiative on responsible financing standards, the UN could pull together and strengthen the various existing initiatives and proposals, and help ensure that standards are properly implemented.*
- *Given the growing recognition that all forms of development financing have specific threats and opportunities for women's rights, this vital agenda must be fully integrated into FfD.*
- *Develop the agenda, begun at the 2009 UNGA conference, for reform of financial regulation and the financial sector.*

The above are a summary of the key recommendations that are set out in clear detail below, with supporting evidence that shows why these and other key issues should be at the centre of the Addis FfD conference.

Introduction

2015 will be a landmark year for the global fight against poverty and for equitable and sustainable development, with three crucial summits in just six months. The Third UN Conference on Financing for Development (FfD) in Addis Ababa in July will be followed in September by the UN Summit for the adoption of the post-2015 development agenda in New York, and in December by the 21st UN Framework Convention on Climate Change (UNFCCC) Conference of the Parties (COP) in Paris. A central issue for all three summits is concrete proposals for reforms to international financial and trade systems so that they support the achievement of global sustainable development goals. Such reforms should be based on the right to development for all countries and ensuring economic and social rights for all. On these issues, the FfD conference will play a critical role.

The Addis Ababa conference is a follow up to the first FfD conference³ convened in Monterrey in 2002. The outcome ‘*Monterrey Consensus*’ introduced six chapters or “leading actions” for FfD that have been at the centre of the sustainable development agenda, and which form the structure for this paper. The second FfD conference in Doha⁴ in 2008 added a chapter on new challenges and emerging issues, addressing the impacts of the financial crisis and climate change, among others. In 2009, the UN General Assembly held a Conference on the World Economic and Financial Crisis and its Impact on Development, in New York, which was the only global conference to respond to the impacts of the global financial crisis on developing countries, setting out an important plan for tackling the systemic failings which brought the global financial system to its knees.

The process towards the third FfD conference has been preceded by reports from the UN’s Open Working Group on Sustainable Development Goals⁵, the Intergovernmental Committee of Experts on Sustainable Development Finance (ICESDF)⁶, and a forthcoming UN Secretary General Synthesis Report which provide valuable background information and context.

The issues tackled in Monterrey, Doha and New York continue to be of central importance, and the challenge for Addis Ababa is to set out a concrete action plan to address systemic and structural issues, and ensure the availability of resources for financing sustainable development. This paper sets out our proposals for concrete commitments that we believe governments should make in Addis Ababa.

The document contains key recommendations and key issues, including existing commitments for the six “Monterrey chapters” and a final Chapter 7 on new issues:

1. Mobilizing domestic financial resources;
2. Foreign direct investment and other international private flows;
3. International trade;
4. ODA and other international public support for development;
5. External debt;
6. Systemic issues: effective, inclusive global governance and monetary system reform;
7. Other important issues: that should be introduced and the follow-up processes that should be agreed, including measuring sustainable development beyond GDP;

³ UN (2003). *Monterrey Consensus on Financing for Development*.

⁴ UN (2009). *Doha Declaration on Financing for Development*.

⁵ UN (2014) *Report of the Open Working Group on Sustainable Development Goals established pursuant to General Assembly resolution 66/288*

⁶ UN (2014) *Report of the Intergovernmental Committee of Experts on Sustainable Development Financing*

responsible finance standards, reforming the financial sector and integrating women's rights.

1: Mobilizing domestic financial resources

Key Recommendations

Truly global cooperation is central to solving the problem of illicit financial flows and effectively combatting international tax avoidance and evasion. Our key recommendations are:

- *Establish a new intergovernmental body within the UN on international cooperation on tax matters and provide the resources necessary to allow the body to operate effectively. A key task for this body will be the development of a new multilateral instrument to further strengthen international cooperation on tax matters. The existing expert committee can be maintained as a subsidiary body providing expert advice to the intergovernmental negotiations.*
- *The mandate for a new intergovernmental tax body must include work on base erosion and profit shifting, tax and investment treaties, tax incentives, taxation of extractive industries, beneficial ownership transparency, country by country reporting, automatic exchange of information for tax purposes, alternatives to the ‘arm’s length’ approach, promotion of progressive tax systems, and minimising harmful spill-over effects of tax policies.*

Key issues

One of the fundamental obstacles to the mobilisation of domestic resources in developing countries is the amount of finance leaving these countries untaxed and therefore not contributing to government budgets to finance essential public services such as healthcare and education. Globalisation, as well as outdated global tax rules, have made it possible for transnational corporations to avoid and evade taxation on a very large scale, and evidence suggests that developing countries are losing more resources due to corporate tax dodging than they receive as official development assistance.⁷

The lack of a common agenda for international cooperation in tax matters is costing all governments vast amounts of resources, which could have been allocated to sustainable development. However, in a recent study⁸ of spillovers in international corporate taxation, the IMF highlighted that: “*The spillover base effect is largest for developing countries. Compared to OECD countries, the base spillovers from others’ tax rates are two to three times larger, and statistically more significant. The apparent revenue loss from spillovers, relative to a benchmark akin to source taxation, is also largest for developing countries.*”

A substantial part of international work on tax matters currently takes place under the G20 and the OECD. This includes the process on automatic exchange of tax information, which aims to ensure tax authorities cooperate to prevent tax evasion, and the process on ‘base erosion and profit shifting’ (BEPS), which is supposed to tackle tax avoidance and evasion by transnational corporations. Both of these processes have included “consultations” with those developing countries that are not part of the G20, but the actual intergovernmental negotiations and decision-making have been taking place behind closed doors and without proper links to the developing country consultation processes. Therefore, once again, global tax standards are being developed behind closed doors while excluding 80% of the world’s countries from decision-making processes. Even the OECD itself has admitted

⁷ Christian Aid (2008) *Death and taxes*.

⁸ IMF (2014) *Spillovers in International Corporate Taxation*.

that its BEPS work does not address some of developing countries' biggest concerns.⁹ The promise made at Monterrey to “strengthen international tax cooperation ... giving special attention to the needs of developing countries and countries with economies in transition” has not been met.

UNCTAD has also highlighted that:

“Because these initiatives are mostly led by the developed economies – some of which themselves harbour secrecy jurisdictions and powerful TNCs [transnational corporations] – there are risks that the debate will not fully take into account the needs and views of most developing and transition economies. It will therefore be important to give a more prominent role to institutions like the United Nations Committee of Experts on International Cooperation in Tax Matters, and consider the adoption of an international convention against tax avoidance and evasion. A multilateral approach is essential because, if only some jurisdictions agree to prevent illicit flows and tax leakages, those practices will simply shift to other, non-cooperative locations.”¹⁰

The UN's work on tax related issues has centred on the UN Committee of Experts on International Cooperation in Tax Matters. While the committee provides valuable advice and recommendations, it is by nature an expert committee – not an intergovernmental committee – and therefore not able to lead intergovernmental negotiations. The Doha FfD agreement requested the UN's Economic and Social Council (ECOSOC) “to examine the strengthening of institutional arrangements, including the United Nations Committee of Experts on International Cooperation in Tax Matters,” but the committee's work remains severely constrained by lack of resources.

In her 2014 report,¹¹ the UN special rapporteur on human rights and extreme poverty recommended that states should upgrade the committee “to intergovernmental status”. The recognition of the need to involve developing countries in the development of global tax standards dates much further back. For example, the 2001 “Zedillo-panel”¹² recommended the establishment of an “International Tax Organization”. The G77 has also repeatedly proposed¹³ that the UN expert committee be upgraded to an intergovernmental body, most recently at ECOSOC's special event¹⁴ on tax matters in June 2014. In a press statement in October 2014, finance ministers from DR Congo and Cameroon pointed out that: “*Consultation by the IMF and OECD cannot be sufficient: [low-income countries] need an equal seat at the table, which would best be provided by a high-level meeting under UN auspices, as part of the Financing for Development conference in July 2015*”

In addition to ensuring that developing country interests are included in the development of new global tax standards, an intergovernmental UN tax body is also needed to coordinate the revision of existing rules at the global as well as national level. As the finance ministers of DR Congo and Cameroon highlighted:

The global tax system is stacked in favour of paying taxes in the headquarters countries of transnational companies, rather than in the countries where raw materials are produced. International tax and investment treaties need to be revised to give preference to paying tax

⁹ OECD. Part 1 of a Report to G20 Development Working Group on the Impact of BEPS in low income countries. July 2014.

¹⁰ UNCTAD (2014) *UNCTAD TRADE AND DEVELOPMENT REPORT 2014*.

¹¹ http://www.ohchr.org/EN/HRBodies/HRC/RegularSessions/Session26/Documents/A_HRC_26_28_ENG.doc

¹² http://www.un.org/en/ga/search/view_doc.asp?symbol=A/55/1000

¹³ <http://www.un.org/esa/ffd/tax/2014ITCM/StatementG77China.pdf>

¹⁴ <http://www.un.org/esa/ffd/tax/2014ITCM/index.htm>

in “source” countries. [Low-income countries] need help to revise their tax codes to: eliminate exemptions; renegotiate bilateral tax and investment treaties; and resist a “race to the bottom” through harmful competition to reduce direct taxes.

Therefore, after more than a decade of delay, it is time for governments to establish a body for real global cooperation on tax matters, under the auspices of the United Nations.

The international community should also recognise that on the national level *equitable and progressive tax systems* are critical to the achievement of adequate domestic resources to finance the delivery of public services. Despite a growing body of evidence that fair tax policies are key to tackling poverty and inequality¹⁵, international agencies such as the IMF and the World Bank have only started to recognise that fair and equitable tax policies are critical to poverty reduction,¹⁶ but have been criticized for not walking the walk in terms of actual policy advice.¹⁷ It will be important for the IMF and the World Bank to conduct an independent assessment into their policy advice, especially in light of the recently published IMF staff report on ‘spillover’ effects of international business taxation.¹⁸

As part of a strengthened international effort to combat tax avoidance and evasion, governments must also increase corporate transparency. This should include the effective implementation of a ‘country by country reporting’ obligation for multinational corporations to publicly disclose as part of their annual reports for each country in which they operate: key data on profits made; taxes paid; subsidies received; turnover; and number of employees. Only if such data is publicly available will it be possible to assess whether transnational corporations are paying their fair share of taxes, and whether the taxes are being paid in the countries where their economic activities takes place and value is created.

Lastly, governments must establish a truly global system for automatic exchange of information for tax purposes. Such a system must be designed in a way that allows meaningful participation from all developing countries, including least developed countries, who should be allowed to receive information automatically even though they might not yet have the capacity to send the same information back.

¹⁵ CESR; Christian Aid (2014). *A Post-2015 Fiscal Revolution*.

¹⁶ <http://www.imf.org/external/pubs/ft/survey/so/2014/POL031314A.htm>

¹⁷ Action Aid; Eurodad. (2011) *Approaches and Impacts. IPI Tax policy in developing countries*.

¹⁸ IMF (2014) *Spillovers in International Corporate Taxation*.

2: Foreign direct investment and other international private flows

Key Recommendations

The conference in Addis Ababa can support a balanced approach to private international finance, recognising the need for developing countries to manage flows carefully. Our key recommendations:

- *Recognise capital account regulation as a fundamental policy tool for all countries, particularly developing countries who suffer most from global spillovers, including volatile short-term capital flows, with a commitment made to remove from all trade and investment agreements any constraints to these important policies, including at the WTO.*
- *Spell out the significant problems with using public institutions and resources to leverage international private finance, including lack of clarity about additionality, purpose and development impact, the limited influence of developing country stakeholders, and diminished transparency and accountability.*

Key issues

Private international capital flows, particularly foreign direct investment (FDI), can help foster sustainable economic growth, but also have significant risks attached, which need to be carefully managed. These flows have the potential to create decent jobs, facilitate technology transfer, and generate domestic resources through paying their fair share of taxes. However poorly managed private financial flows can lead to increased inequality and adverse impact for the poorest and the environment, and increase risks for developing countries. There are two different categories of concerns. On the one hand, there are macroeconomic risks associated with these flows, such as the volatility of short-term financial flows. On the other hand, there are concerns in relation to the content and terms of longer term investment, especially FDI. Monterrey highlighted the need for businesses to “...take into account not only the economic and financial but also the developmental social, gender and environmental implications of their undertakings”.

Short-term cross-border private finance flows, particularly portfolio equity, can be highly volatile with sharp swings in investment levels and massive capital outflows during crises. These are also known as ‘hot money’ outflows, which can trigger severe crises in the currency market and financial sector, and have damaging and often long-term impacts on the real economy. This type of panic exit of capital triggered the Asian financial crisis of 1997-98 starting a sudden currency depreciation which destabilised entire national economies, and was a major mechanism for the transmission of the global financial crisis to developing countries. Without stronger regulation by governments, it is likely that short term and volatile international private financial flows will ‘again’ cause the next crisis. Monterrey noted that “Measures that mitigate the impact of excessive volatility of short-term capital flows are important and must be considered.”

Recent limited moves by the IMF¹⁹ to relax its opposition to capital account regulation are welcome, and follow up on Doha’s firm position that developing countries “...should not be denied the right to ... impose temporary capital restrictions and seek to negotiate agreements on temporary debt standstills between debtors and creditors.” However, given the scale of the risks, a more pro-active agenda is urgently needed. It will be critical to recognize that capital account regulation is a fundamental policy tool that must be part of the toolkit for all countries seeking to prevent crises caused by ‘hot money’ inflows and outflows, particularly for developing countries that suffer most.

¹⁹ <http://www.imf.org/external/pp/longres.aspx?id=4720>

Regarding FDI and other longer term financing, a recent European Parliament study²⁰ highlighted key limitations:

- FDI hardly reaches low-income countries, with the exception of major exporters of natural resources. This can prove highly problematic, as the resource extraction sector has a low decent job creation potential, can have huge social, environmental and human rights impacts, and can increase problems of macroeconomic management.
- It has proved very difficult to target FDI towards micro, small and medium enterprises (MSMEs), which provide the majority of employment and GDP in developing countries.
- FDI's for-profit nature means it cannot tackle several key issues, including much public service provision which is vital for private sector growth.
- FDI is often associated with significant outflows of resources, through profit repatriation, estimated in 2011 to be 90% of the value of FDI inflows.²¹ In addition, as we have seen in Chapter A, illicit financial flows due to trade mispricing, and other tax avoidance tactics contribute to a massive draining of domestic resources in developing countries.

In addition, foreign investors often put pressure on national governments to introduce favourable conditions including tax exemptions, and lighter labour, social and environmental regulations, which can have damaging impacts both directly, and through creating an unfair playing field with national private sector actors. Finally, the figures greatly overstate the real net financial private flows to developing countries. For example, according to UNCTAD²², transactions or positions involving Special Purpose Entities are considerable, yet do not normally represent any genuine investment flows, and can lead to significant misinterpretations of FDI data.

Therefore, the critical issue is the quality and the development contribution of private flows, which matter more than their quantity. Doha noted that “the development impact of foreign direct investment should be maximized” and highlighted the need to link FDI to concrete improvements in the domestic economy, including by “enhancing the transfer of technology and creating training opportunities for the local labour force, including women and young people.” One important approach will be to develop a common set of principles for responsible investment for sustainable development, as outlined in Chapter 7.

Unfortunately, instead of focussing on how to manage the costs and benefits of foreign direct investment and other private inflows at the national level,²³ much discussion since Doha has focussed on using public finance and public guarantees to leverage private finance. This includes blending with ODA, discussed in Chapter 4. In doing so, multilateral development banks and development finance institutions (DFIs) have become some of the most important players in today's development arena. Recent reports²⁴ have highlighted the serious problems with this DFI-led agenda:

²⁰ Griffiths, Jesse; Martin, Mathew; Pereira, Javier; Strawson, Tim. (2014). *Financing for Development Post-2015: improving the contribution of private finance*. European Union.

²¹ Development Initiatives (2013) *Investments to end poverty*

²² UNCTAD World Investment Report 2014, highlighting data difficulties in measuring FDI via SPEs, the report implies that greater data collection is needed. See: http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf

²³ See for example UNCTAD's “common set of principles for investment in SDGs” in its most recent World Investment Report. (<http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=937>)

²⁴ See Griffiths, Jesse; Martin, Mathew; Pereira, Javier; Strawson, Tim. (2014). *Financing for Development Post-2015: improving the contribution of private finance*. (European Union, 2014) and Romero, María José; Van de Poel, Jan. (2014) *Private finance for development unravelled. Assessing how Development Finance Institutions*

- Problems in delivering measurable development outcomes, with difficulties in designing programmes that work for MSMEs in low-income countries.
- Little success in generating ‘additional’ investment, with external evaluations showing that many publicly-backed investments replace or supplant pure private sector investments.
- Most DFIs still use offshore financial centres to channel their funds, which gives a green light to their use, thus helping to legitimise the potentially harmful use of such jurisdictions²⁵.
- Low developing country ownership – from governments, parliaments and local stakeholders – over the institutions and programmes of DFIs. This is evident when analysing the governance structure of existing DFIs²⁶, or the EU’s blending platform²⁷.
- Significant problems of transparency and accountability, particularly when channelling the money through financial intermediaries, such as banks and private equity funds.
- Existing standards and safeguards are insufficient to protect the most vulnerable groups and the environment, while implementation of existing standards has been patchy.

Public-private partnerships (PPPs) are, in many cases, the selected mechanisms to implement infrastructure projects, but there are serious problems with this approach. The growing focus on developing countries’ enormous infrastructure needs, currently estimated at \$1 trillion per year of additional funding, has led multilateral and bilateral donors and forums to discuss proposals to tap into external private finance to make up the estimated shortfall, including through the G20’s Global Infrastructure Initiative, the World Bank’s Global Infrastructure Facility (GIF) and the Programme for Infrastructure Development in Africa (PIDA). However, there is rapidly growing evidence, including from a recent report by the World Bank’s Independent Evaluation Group (IEG)²⁸, which shows that PPPs have major problems:

- They are a very expensive method of financing, and have significantly increased the cost to the public purse. This is due in part to demands from equity funders and other lenders for 20-25% annual returns on even the most bankable projects, and costs of up to 10% for arranging the financing.²⁹
- This cost is often non-transparent and not accountable to auditors, parliaments or civil society groups. According to the IEG report, hidden debts run up by PPPs are “rarely fully quantified” at the project level and “advice on how to manage fiscal implications from PPPs is rarely given”. Debt sustainability assessments do not currently take account of this cost as these are treated as off-budget transactions, thus perversely encouraging countries to use PPPs in order to circumvent agreed debt limits.
- They have also tended to be very high risk financing. Evidence from developed countries is that 25-35% of such projects fail to deliver projects as planned, due to cost overruns, implementation delays or poor work specifications and bankruptcy or failure to repay

work. (Brussels: Eurodad 2014) and Kwakkenbos, Jeroen. (2012) *Private profit for public good?* (Brussels: Eurodad 2012).

²⁵ Vervynkt, Mathieu. (2014). *Going Offshore. How development finance institutions support companies using the world’s most secretive financial centres.* (Brussels: Eurodad, 2014).

²⁶ Romero, Maria José; Van de Poel, Jan. (2014) *Private finance for development unravelled. Assessing how Development Finance Institutions work.* (Brussels: Eurodad 2014).

²⁷ <http://www.eurodad.org/Entries/view/1546054/2013/11/07/A-dangerous-blend-The-EU-s-agenda-to-blend-public-development-finance-with-private-finance>

²⁸ <http://ieg.worldbankgroup.org/evaluations/world-bank-group-support-ppp>

²⁹ See footnote 20

financing.³⁰ In developing countries with lower negotiation/management capacity, failure rates have been even higher.

- If they fail, PPPs can end up ‘privatising benefits while socialising losses’ when the public sector has to rescue or bail out the project.

PPPs should therefore be approached cautiously, and only considered if other less expensive and risky financing options are not available. When designing projects, the development needs of people should be explicitly assessed, and equity concerns addressed in terms of equitable and affordable access to infrastructure and services. When implementing PPP projects, key elements that should be considered include: thorough cost-benefit analysis; full transparency throughout the whole process; careful design and implementation; engagement of local stakeholders; strengthened oversight and regulation, including transparent accounting; and strong monitoring and evaluation. Given that trade and investment agreements can impinge on the ability of governments to enforce regulations, it is important to ensure effective regulatory and safeguard policies for PPPs that ensure the human rights of people, including women’s rights, as well as environmental protection and sustainability.

Last but not least, governance and accountability systems over multi-stakeholder partnerships in the UN must be established before any partnerships are sanctioned and carried out. There need to be clear criteria, applied *ex ante*, to determine whether a specific private sector actor is fit for a partnership in pursuit of the post-2015 goals. UN member states should be at the forefront of formulating a criterion-based accountability and governance framework that includes oversight, regulation, independent third-party evaluation, and transparent monitoring and reporting partnerships with the private sector.

³⁰ See footnote 20

3: International Trade

Key Recommendations

Trade policy should allow developing countries policy space - including the ability to focus on impacts on unemployment, vulnerable people, gender equality and sustainable development - not promote liberalisation as an end in itself. We recommend:

- *A comprehensive review of all trade agreements and investment treaties to identify all areas where they may limit developing countries' ability to prevent and manage crises, regulate capital flows protect the right to livelihoods and decent jobs, enforce fair taxation, deliver essential public services and ensure sustainable development.*
- *A review of all intellectual property rights regimes that have been introduced in developing countries through Free Trade Agreements, to identify any adverse impacts on public health, the environment and technology development, among other areas.*

Key issues

International trade plays an important role in development, and trade policies are an important tool that developing countries can use to support the growth of domestic industries with greater added value, not just as commodity producers. However the current trade regime has pushed developing countries to open their markets both through the WTO and through regional and bilateral trade and investment treaties, which reduces their policy space to address their development needs while doing little to address rich-country trade-distorting policies.

The fundamentally important point for all who care about sustainable development is that developing countries must be accorded the policy space to determine whether, how and when they want to liberalize sectors and markets. Trade liberalization should not worsen unemployment, hurt vulnerable people, worsen gender inequality or threaten sustainable development or the environment.

Though we will focus on investment, as a key issue for FfD, there are many other important trade policy issues that must not be forgotten. Monterrey recognised the real development issues that developing countries wanted to see addressed, and listed many of them:

"...trade barriers, trade-distorting subsidies and other trade-distorting measures, particularly in sectors of special export interest to developing countries, including agriculture; the abuse of anti-dumping measures; technical barriers and sanitary and phytosanitary measures; trade liberalization in labour intensive manufactures; trade liberalization in agricultural products; trade in services; tariff peaks, high tariffs and tariff escalation, as well as non-tariff barriers; the movement of natural persons; the lack of recognition of intellectual property rights for the protection of traditional knowledge and folklore; the transfer of knowledge and technology; the implementation and interpretation of the Agreement on Trade-Related Aspects of Intellectual Property Rights in a manner supportive of public health; and the need for special and differential treatment provisions for developing countries in trade agreements to be made more precise, effective and operational."

However, most of these issues have been side-lined, which is why the Doha 'development round' took so long to negotiate, and is still not finalised. Many key issues remain outstanding. For example, as heads of state noted in Doha, developed countries should aim for "the goal of full duty-free and

quota-free market access for all least developed countries,” but this is still not a reality. Policy flexibilities to protect agriculture in developing countries should be proportionate to the flexibilities currently available to developed countries. In particular, developing countries should be allowed to protect their agriculture using a flexible and effective Special Safeguard Mechanism. Trade Related aspects of Intellectual Property rights (TRIPS) plus provisions such as data exclusivity and patent term extension have pushed smaller and cheaper producers, most often based in developing countries, out of production, leading to higher costs for essential medicines and health care, agrochemicals (and therefore food), which damage development and hurt the poor. Even use of TRIPS flexibilities allowed by the WTO to protect public health or the environment are being challenged and affordable access to technology is clearly hampered by intellectual property rights required by the WTO’s TRIPS Agreement. It is time for an urgent review of all intellectual property rights regimes that have been introduced in developing countries through Free Trade Agreements, to identify any adverse impacts on public health, the environment and technology development, among other areas.

In the area of investment policy, FfD could make important steps forward. In 2012 there were 3,196 investment treaties globally,³¹ many of them affecting developing countries. There are also important investment chapters in free trade agreements. While these treaties and agreements are supposed to both protect foreign investors and benefit recipient countries, the World Bank and others have found that there is little correlation between having an investment treaty and increased investment.³² There is also a growing number of investment disputes and “persistent concerns about the [investment arbitration] regime’s systemic deficiencies”³³. 2012 saw the highest number of international claims filed against states by foreign companies, with 66 % filed against developing countries.³⁴

The treaties often suffer from a number of problems that make it almost impossible for developing country governments to predict the impacts of the deals, including vague definitions of key terms such as ‘investment’ and ‘fair and equitable treatment’.³⁵ In practice, these treaties and agreements can make it harder for developing countries to maximise the benefits of FDI, for example by restricting their ability to require technology transfer or employment of local staff. They may also restrict the ability of governments to prevent ‘hot money’ outflows from destabilising their economies.

A comprehensive review of existing treaties is needed to identify all the elements that restrict valuable policy space for developing countries, or that may have negative development outcomes. Such a review should include participation by all relevant stakeholders including civil society groups. This review should include examining investor-state-dispute-settlement clauses as well as the definition of investment. The investor-state-dispute-settlement clause in bilateral investment treaties and free trade agreements allows transnational corporations to sue governments in closed-door international arbitration cases for extraordinary financial sums. This trend is freezing policy regulation to support the public interest worldwide. Most developing country governments lose these cases due to lack of adequate financial resources to fight their corner. More than half of these

³¹ UNCTAD, *World Investment Report 2013: Global Value Chains: Investment and Trade for Development* (Geneva: UNCTAD, 2013).

³² See World Bank (2003) *Do Bilateral Investment Treaties Attract FDI?* and Savant and Sachs (2009) *The Effect of Treaties on Foreign Direct Investment*.

³³ *ibid*

³⁴ *ibid*, p110

³⁵ Khor, Martin *The emerging crisis of investment treaties* (South Centre, Geneva, 2013)

cases are in the area of natural resources³⁶ threatening access to land, to clean water and air, and preventing environmental sustainability and conservation. They also disproportionately punish women and children, indigenous and local communities, the elderly and persons with disabilities.

In addition, governments should undertake mandatory human rights impact assessments of multilateral, plurilateral and bilateral trade and investment agreements, especially North-South agreements, focusing especially on the rights to development, and the specific rights to food, health, and livelihood, taking into account the impact on marginalised groups.

The WTO (as well as bilateral and plurilateral trade and investment agreements) is adversely affecting people's rights including their right to development by: forcing tariff cuts in key sectors like agriculture, infant industries and essential services; unfair agricultural subsidy rules; forcing investment in natural resources, and in sensitive goods and services. Many of these agreements also prevent local value addition by banning export taxes (through FTAs). For example, refusal to grant special and differential treatment to developing countries and LDCs is threatening their right to development. At the present moment in the WTO, not allowing essential subsidies to small producers for supporting a public food distribution programme is challenging right to food of the people of India.

As the South Centre and others have noted, the outcome of the December 2013 WTO Bali Ministerial Conference was unbalanced, with developed countries winning binding enforceable agreement on trade facilitation – a so-called “Singapore issue” – while LDC issues had only non-binding outcomes. Since then, developed countries have continued to push for the inclusion of other Singapore issues, including investment liberalisation, despite opposition from developing countries who continue to push for the Doha round to be genuinely development-focussed.

Finally, Aid for Trade should not be conceived as a substitute for a reformed trading system that refocuses its objectives on achieving full employment and sustainable development. Aid for trade can only succeed if it is unconditional, non-debt creating, additional to existing commitments and oriented to build the productive capacities of recipient countries, rather than the mere implementation of trade rules.

³⁶ <http://www.thirdworldnetwork.net/finance/articlef.php?ac=st&aid=25>

4: ODA and other international public support for development

Key recommendations

The Addis FfD conference provides an opportunity to strengthen commitments to improving the quality and quantity of ODA, to put in place much firmer and more specific follow up mechanisms, and to push for new and additional sources of public finance. Our recommendations are:

- *Developed countries should set binding timetables through national legislation to meet their outstanding 0.7% GNI ODA commitment, and commitments to LDCs, within five years and ensure these flows support democratic ownership, transparency, accountability, inclusiveness and maximise poverty eradication impacts. The UN’s Development Cooperation Forum (DCF) should be tasked with reviewing, monitoring and reporting on these.*
- *All donors should ensure that ODA represents genuine transfers to developing countries, including by ending the tying of aid both formally and informally, ensuring additionality, removing in-donor student and refugee costs as well as debt relief from ODA, provide the majority of their assistance in the form of grants, and reforming concessional lending by reflecting the real cost of loans to partner countries including by deducting interest repayments.*
- *A levy on financial transactions carried out by finance firms, rather than individuals, should be implemented on assets such as shares, bonds, currency and their derivatives, and the revenue used to finance sustainable development.*

Key issues

Official Development Assistance (ODA) remains a critical resource, particularly for the poorest countries, but its value has been severely undermined by failures of rich countries to meet the UN target to provide 0.7% of their GNI as ODA and lack of progress on the Paris/Accra/Busan³⁷ commitments on aid effectiveness to stop the bad practices that significantly undermine ODA.

Though ODA rose in 2013, after two years of decline, it stands at 0.3% of Gross National Income (GNI) of DAC members. This amount is less than half the 0.7% target that most donors agreed to achieve initially by 1985 and again by 2015. While some donors continue to take this target seriously, with five countries achieving the 0.7% target, it is unlikely that donors will be able to scale up their commitments before the 2015 deadline. Donor countries that have committed to, but not yet delivered on, the 0.7% target must implement a clear and actionable timetable or risk undermining their credibility as providers of ODA. This is needed to make good the failure to follow up on the proposal at the Doha FfD conference to “work on national timetables, by the end of 2010, to increase aid levels ... towards achieving the established ODA targets”, and “to establish, as soon as possible, rolling indicative timetables that illustrate how they aim to reach their goals.” The UN’s Development Cooperation Forum could play a critical role if it were mandated to report comprehensively on an annual basis on trends in ODA, including donors’ net transfers against agreed targets. We examine climate finance in more detail in Chapter 7, but it is critically important that other promised transfers to developing countries such as climate finance should be new and additional to the 0.7% commitments.

ODA quality is equally important but is consistently undermined by the failure of the donor community to fulfil the aid effectiveness commitments agreed in a series of agreements begun in

³⁷ The most recent international agreement is: OECD (2011) [Busan Partnership for Effective Development Cooperation](#)

Rome in 2003 and reaffirmed in Busan in 2011. The Monterrey declaration itself called on donors “to make ODA more effective” and Doha FfD conference encouraged “all donors to improve the quality of aid, increase programme-based approaches, use country systems for activities managed by the public sector, reduce transaction costs and improve mutual accountability and transparency and ... untie aid to the maximum extent.”

Unfortunately, the promises to make aid more effective by increasing developing country ownership stand in contrast to reality: ODA continues to be controlled by providers who keep hold of decision-making power about country allocation and often sectorial or project allocation. There is consequently poor democratic ownership, alignment to national development plans is undermined, and predictability remains low because providers can always change their priorities. Country allocation remains distorted by providers' geostrategic priorities, economic interests, post-colonial ties and other foreign policy priorities. Aid is often not rule-, or rights- or needs-based. Only a portion of ODA actually flows to and stays in developing countries, as we note below, and country systems are not widely used: the report to the Global Partnership Meeting in Mexico this year showed that just under half of the aid surveyed used country systems.³⁸ Providers continue to set up parallel bureaucracies to administer ODA, which can undermine recipients' institutions. Far better systems need to be put in place to measure and monitor how much aid is actually available for developing countries to programme according to their priorities, based on measurements developed by partner countries.

Providers are also increasingly delivering ODA as loans despite outdated rules allowing profit-making loans³⁹ to be counted as ODA. While aid figures rose in 2013, the largest increase (33%) was in the use of non-grant instruments such as loans. This trend is at the expense of the poorest countries, as loans are mostly targeted to middle-income countries, witnessed by a 4% decline in ODA to Sub-Saharan Africa in 2013. The use of loans instead of grants will lead to repayments in the future, increasing the debt burden of partner countries. As Chapter 5 shows, there is a growing consensus that rising debt levels combined with sluggish growth indicate that a new debt crisis is likely to emerge in the near future. Donors should provide their financial assistance primarily as grants in order to make sure that they do not increase the debt burden and debt vulnerabilities of developing countries.

Other loopholes in ODA reporting rules allow donors to report in-donor student and refugee costs as ODA – inflating ODA by an estimated \$2.7 billion in the EU alone in 2012.⁴⁰ Many donors continue to tie their ODA to the purchase of goods and services from companies in donor countries – rather than from local business – increasing costs significantly, and ruling out the ‘double dividend’ of stimulating the recipient’s economy through purchasing locally. Eurodad research⁴¹ shows that the majority of ODA is spent through public procurement contracts, buying goods and services from companies, and the majority of these contracts are informally tied and won by companies from donor countries. Efforts should be scaled up to stop informally tied aid practices which de facto exclude entrepreneurs in partner countries from winning ODA funded contracts. Reforming ODA procurement, including by proactively encouraging local companies to bid for tenders, setting social

³⁸ <http://www.eurodad.org/Entries/view/1546202/2014/05/08/The-Global-Partnership-for-Effective-Development-Cooperation-struggles-to-find-relevance>

³⁹ Colin, Stéphanie. *A matter of high interest. Assessing how loans are reported as development aid*. (Brussels: Eurodad, 2014).

⁴⁰ CONCORD (2013) *Aidwatch Report 2013*. <http://www.concordeurope.org/publications/item/275-2013-aidwatch-report>

⁴¹ Ellmers, Bodo. *How to spend it. Smart procurement for more effective aid*. (Brussels: Eurodad, 2011)

and environmental targets and domestic preferences should be part of a broader commitment to mainstreaming sustainable public procurement. Monterrey also raised the need for “donor countries to take steps to ensure that resources provided for debt relief do not detract from ODA resources intended to be available for developing countries”: a promise which has not yet been fulfilled.

Finally, there is an increasing trend to ‘blend’ ODA with private sources of finance, which raises significant concerns, which have never been properly recognised or addressed by the donor agencies that are driving this agenda, including the European Commission. The UN Secretary General’s report to the DCF⁴² summarised these well:

“...lack of clarity on additionality and purpose; limited influence of donors and recipients on investment design and implementation; diminished transparency and accountability; risk of misalignment of private sector and country priorities; danger of increased debt burden; inattention to small- and medium-enterprises; and the opportunity cost incurred when use of public money to mobilize private resources does not have the same or a larger development impact than if it had been devoted directly to a developmental purpose; and the risks of misappropriation.”

Given these serious problems, and the severe lack of developing country ownership over existing blending mechanisms, we believe that this agenda should not be pursued further until a developing country led review has taken place, including examining whether other ODA modalities, such as supporting public investment in health, education and infrastructure, could prove more effective ways of supporting the private sector in developing countries.

The Doha declaration encouraged “... the scaling up and the implementation, where appropriate, of innovative sources of finance” and said that “these funds should supplement and not be a substitute for traditional sources of finance.” However, as the term ‘innovative’ has since been used for a wide variety of different mechanisms, not just the public sources it was originally intended for, we focus on its original meaning, as used at Doha: the need for new and additional public sources of financing for development. Such sources have generated in excess of \$7 billion since 2006 through measures such as micro-tax on airline tickets. New public sources of finance can provide much needed additional resources for development, which should be above and beyond the 0.7% commitments of GNI to ODA. In particular, we recommend using the revenue from the implementation of a levy on financial transactions carried out by finance firms, rather than individuals, on assets such as shares, bonds, currency and their derivatives. Adoption of such a measure will serve to enhance the stability of the world’s financial system to the benefit of both developed and developing countries by incentivizing long-term investment over short-term trading.

⁴² Report of the UNSG (2014), *Trends and Progress in International Development Cooperation* (UN, 2014).

5: External Debt

Key Recommendations

The recent UNGA resolution⁴³ that mandates the “establishment of a multilateral legal framework for sovereign debt restructuring processes” is a critically important opportunity to put in place effective international mechanisms for preventing and resolving future crises: it must not be wasted. Addis Ababa can support this process. We make the following recommendations:

- *Reaffirm the commitment to agree to a multilateral legal framework for sovereign debt restructuring processes during the 69th session of the UN General Assembly, with a concrete proposal tabled before July. This framework should: be situated in a neutral forum independent of debtors and creditors, including large lenders such as the IMF; be comprehensive of all creditors, including the private sector, multilateral institutions and governments; provide a human needs based approach to debt sustainability: hold creditors and debtors to account for irresponsible behaviour; and give all stakeholders, including civil society, the right to be heard and give evidence.*
- *In order to scrutinize the existing legacy debt along responsible financing standards, including examining the legitimacy of the debt, independent debt audits should be commissioned with commitments to cancelling debt found to be illegitimate.*

Key Issues

Debt vulnerabilities around the world are high and growing:

- Least developed countries have riskier debt profiles as they scale up borrowing and start to add private finance raised on financial markets to the concessional loans that they receive from bilateral and multilateral creditors. In the low-income country group alone, 16 countries are currently in debt distress, or in high risk of debt distress.
- Many emerging markets suffer from volatility and the risks of crisis caused by international capital flow reversals or the bursting of speculative bubbles.
- Even in developed countries, including most of Europe, sovereign debts have reached the highest peacetime levels ever.

Debt crises risk wiping out the global development progress made over decades. In countries where a large share of the population lives near or below the poverty line, the economic dislocations of debt crises will cost lives. While middle-income and high-income countries are usually more resilient, a new debt crisis in one of the major emerging economies, or an advanced economy, would have global repercussions due to the high interconnectedness of financial markets.

Even in countries that do not suffer from an acute debt crisis, debt service competes with development spending for limited public resources. Doha stressed the need “to recognize that furthering development and restoring debt sustainability are the main objectives of debt resolution. It is necessary to recommend a fundamental reconsideration of how the international community plans to finance development in a sustainable way, including the development of a debt sustainability framework that takes the financing needs of sustainable development goals and responsible financing standards into account, which can guide debt relief and restructuring processes. These will remain essential if the SDGs are to be reached in all countries. This new

⁴³ See footnote 2.

framework should include the risks that surging levels of private debt and new instruments such as public-private partnerships bear.

In order to scrutinize the existing legacy debt along responsible financing standards, including examining the legitimacy of the debt, creditors and debtors should commission independent debt audits, and commit to cancelling debt found to be illegitimate. We highlight the need for UN leadership on responsible financing standards in Chapter 7.

While the debt picture has evolved, the architecture for debt crisis prevention and management has not. Debt crises continue to be addressed too late and too slowly. The institutions that conduct debt restructurings - the Western creditors' Paris Club and the International Monetary Fund - are creditor-dominated and thus unable to make independent judgements and assessments. Neither can they deal comprehensively with debt crises, as they are only in charge of certain categories of debt. Private creditors' participation in debt restructurings is not legally binding and enforceable, which is why vulture funds can sue debt crisis countries for full payment. Last but not least, development needs and human rights are not taken into account by existing institutions, so the harm that debt crises do to affected nations' economy and populations is not sufficiently mitigated.

To address these issues, the international community has done a lot of conceptual work since Monterrey on preventing and managing debt crises, but legally binding instruments are needed. UNCTAD has developed Principles on Promoting Responsible Sovereign Lending and Borrowing⁴⁴. At Addis, governments should affirm their commitment to the full implementation of the UNCTAD Principles and report periodically on the progress made. They should also reaffirm that debtors and creditors must share the responsibility for preventing and resolving unsustainable debt situations.

Concepts for a new debt workout mechanism are being developed at UNCTAD⁴⁵, UNDESA⁴⁶, and by academic initiatives⁴⁷. The IMF⁴⁸ proposed stronger collective action clauses as an alternative to a real statutory debt restructuring regime. Recent events, in particular the massive private creditor bail-out in Greece and the lawsuit of holdout creditors (vulture funds) against Argentina in New York demonstrate clearly that the existing (non-) regime is in urgent need of reform.

In September 2014, the UN General Assembly passed a Resolution that aims to create a multilateral legal framework for sovereign debt restructurings. This is one of the most critically important elements of a stable and development-oriented international financial system which has long been missing. This landmark Resolution was followed by a second Resolution by the UN Human Rights Council that put debt restructurings firmly in the context of the realization of human rights. At Monterrey governments said they *“would welcome consideration by all relevant stakeholders of an international debt workout mechanism, in the appropriate forums, that will engage debtors and creditors to come together to restructure unsustainable debts in a timely and efficient manner.”* It is time to make good on this promise of Monterrey, and establish a debt workout mechanism that promotes fair burden sharing between debtors and creditors, and minimises moral hazard. Fourteen years later, the Addis Financing for Development Conference is a key and long-delayed opportunity to promote and work towards the implementation of this vital reform.

⁴⁴ <http://www.unctad.info/en/Debt-Portal/Project-Promoting-Responsible-Sovereign-Lending-and-Borrowing/About-the-Project/Principles-on-Responsible-Sovereign-Lending-and-Borrowing/>

⁴⁵ <http://www.unctad.info/en/Debt-Portal/Project-Promoting-Responsible-Sovereign-Lending-and-Borrowing/About-the-Project/Debt-Workout-Mechanism/>

⁴⁶ <http://www.un.org/esa/ffd/msc/2012EgmSdr2/index.htm>

⁴⁷ <http://www.brookings.edu/research/reports/2013/10/sovereign-debt>

⁴⁸ <http://www.imf.org/external/np/sec/pr/2014/pr14294.htm>

To be effective, it is important that the framework meets the following minimum requirements. First, to ensure credibility and even handedness, it should be situated in a neutral forum independent of debtors and creditors, including large lenders such as the IMF. Second, it will not work unless it is comprehensive of all creditors, including the private sector, multilateral institutions and governments. Third, the only way to ensure it can help prevent the huge human costs of debt crises, and be consistent with internationally agreed standards is through providing a human needs based approach to debt sustainability. Fourth, it will need the teeth to hold creditors and debtors to account for irresponsible behaviour. Finally, to improve effectiveness and strengthen legitimacy and public support, it should give all stakeholders, including civil society, the right to be heard and give evidence.

Finally, it is important to note that official lenders, particularly the IMF and the World Bank have often attached economic policy conditions to their lending, which damage democracy, by making governments answerable to international financial institutions rather than their own populations, and have often entailed significant and controversial policy changes, which have had significant negative effects on poverty and human rights. Recent research has shown that the IMF has in fact increased its use of economic policy conditionality in recent years.⁴⁹ It is time for the practice of attaching economic policy conditions to loans to end.

⁴⁹ Griffiths, Jesse; Konstantinos Todoulous (2014), *Conditionally Yours* (Brussels: Eurodad).

6. Systemic issues: effective, inclusive global governance and monetary system reform

Key recommendations

The system of global economic governance is in urgent need of overhaul to give developing countries a fair and equitable seat at the decision-making table at all international organisations and financial institutions, strengthen transparency and accountability, and to tackle key international problems, while respecting developing countries' policy space. We recommend:

- *Set up a process to discuss design a Global Economic Coordination Council at the UN to assess developments and provide leadership on economic issues while taking into account social, human rights and ecological factors.*
- *Issue \$250 billion in new Special Drawing Rights (SDRs) annually, with the allocation based on economic need and the majority going to developing countries, and amend the IMF's Articles of Agreement to allow this.*

Key issues

Most developing countries are excluded from decision making at many powerful international financial institutions (IFIs), such as the Financial Stability Board, while reform at the Bretton Woods Institutions is so slow and minor that they continue to slip further away from global economic realities and basic democratic standards.

In the wake of the economic crisis, the Financial Stability Board was given a key role in setting new standards and agreeing new regulatory proposals in the financial sector. However its membership is extremely problematic. Though it contains G20 member states, several of which are large emerging markets, it excludes the vast majority of UN member states, and includes several smaller jurisdictions which are at the centre of financial secrecy and tax dodging problems, including Switzerland, the Netherlands and Singapore.⁵⁰ This is just one example: several globally important international financial standard setting bodies exclude most or all developing countries including the Basel Committee on Banking Supervision, and the Bank for International Settlements. Others are private entities, such as the International Accounting Standards Board, with no effective public oversight or participation. Not only are developing countries being excluded from making rules or setting standards that will affect them, but as we have seen in the case of tax policy and the OECD, the agreements made will not benefit from the increased scrutiny and greater support that true participation entails.

At Doha, heads of state agreed that “the reform of the international financial architecture should focus on providing greater transparency and strengthening the voice and participation of developing countries and countries with economies in transition in international decision-making and norm-setting.” However, current reform efforts are weak. For example, the Financial Stability Board is currently reviewing the structure of its representation, but no public details are available on how civil society groups and other stakeholders, including the countries that are not represented in the FSB, can feed in. The FSB, Basel Committees, and other bodies that set the financial sector ‘rules of the game’ should take immediate steps to open their membership, with the goal of achieving balanced, institutionalized and full participation by developing country governments.

⁵⁰ <http://www.financialstabilityboard.org/members/links.htm>

Heads of states agreed at Doha in 2008 that: “the Bretton Woods institutions must be comprehensively reformed”⁵¹, yet it is at the Bretton Woods Institutions that the governance gap is most problematic, because they still wield considerable power and influence in developing countries, particularly during times of crisis. In 2010, the IMF agreed minor reforms to its voting structure that independent analysis shows would have reduced the voting share of ‘advanced economies’ by less than 3%, to 55% of the total.⁵² Even this minor shift – which still leaves the rich world in control of the institution – has not yet been ratified by the US, which, because it holds enough votes to veto such changes, has prevented the 2010 deal from being implemented. The extension of the use of double majority voting at the IMF – requiring relevant majorities of both votes and countries for all decisions – would be a simple but effective way of giving developing countries a fair voice. The World Bank often trumpets that developing countries have half the votes and board seats, but this is simply not true: the claim is based on counting 16 rich countries such as Saudi Arabia as ‘developing countries’. In fact, independent analysis shows that high-income countries retain over 60% of the vote at the Bank.⁵³ The World Bank should implement equality in voting shares between borrowing and non-borrowing countries, as a first step to more significant reform.

In addition, transparency and accountability standards are woefully inadequate at most international institutions dealing with economic and financial issues, meaning people’s voices and concerns often play second fiddle to the interests of powerful multinational corporate interests.

After decades of campaigning by civil society groups, in 2010, the public sector arms of the World Bank agreed to update their transparency policy under the principle that all documents should be publically available, with a limited number of exceptions. However, even this basic principle is not applied by other international financial institutions, or the private sector arms of the World Bank Group. The right to access information held by public bodies is a fundamental human right, set out in Article 19 of the United Nations Universal Declaration of Human Rights – a right which is consistently denied by powerful global bodies that set the rules for finance. All international financial institutions should abide by basic transparency standards, as set out in the *Transparency Charter for International Financial Institutions*.⁵⁴

In line with Monterrey and numerous UN discussions and resolutions in recent years, the UN has a fundamental role in the promotion of international cooperation for development and for a global economic system that works for all. The General Assembly and the Economic and Social Council (ECOSOC) both play a pivotal role in the voice and substantive outcomes produced by the UN system. However, these important bodies have not been given sufficient mandate, resources or role and there remains a huge hole at the centre of global economic policy making, with no effective means of coordination or consultation that includes all countries. While the shift from the G8 to the G20 as the focus of global economic discussion signalled a change in power dynamics, the G20 is proving inadequate and ineffective at global coordination. Part of the problem stems from its design: it is an ad hoc body meaning that implementation is undertaken through other institutions, particularly the IFIs, the OECD and the FSB. The other major issue is that the G20 excludes the majority of UN Member States. A far better approach, called for by the UN Commission of Experts on Reforms of the International Monetary and Financial System would be to set up a Global

⁵¹ See footnote 4.

⁵² <http://www.brettonwoodsproject.org/2010/11/art-567219/>

⁵³ <http://www.brettonwoodsproject.org/wp-content/uploads/2014/04/WBgovreforms2010.pdf>

⁵⁴ http://www.ifitransparency.org/doc/charter_en.pdf

Economic Coordination Council at the UN, with a mandate to “assess developments and provide leadership in economic issues while taking into account social and ecological factors.”⁵⁵

Of course, the solutions do not just lie at global level: regional alternatives, such as regional monetary units and reserve funds are a sensible approach, particularly in the absence of effective or inclusive global alternatives. Finally, attempts to better regulate and coordinate at regional and global level should not come at the expense of developing countries’ policy space to chart their own path to development.

These failures of governance are particularly worrying, given the need to tackle fundamental issues, including the gradual replacement of the dollar as the international reserve currency. The role of the dollar not only gives the US the ‘exorbitant privilege’ of being able to print the world’s reserve currency, but was also a major factor behind the global financial crisis, as it allowed the development of huge global imbalances, with the US able to finance deficits by borrowing cheaply from the rest of the world, particularly emerging markets. All analysts are agreed that sooner or later the dollar will lose this position, as the US share of global economic output continues to shrink, and that if the transition to an alternative is done suddenly, it could trigger a major crisis. The main alternative is to gradually expand the use of the Special Drawing Right (SDR) through regular additional allocations of SDRs – in effect to create new reserve assets. In 2009, a G20 agreement led to the issuance of \$250 billion in extra SDRs showing that this is possible. If such assets were directed to developing countries, which would require a change in the IMF’s Articles of Agreement, they could also provide a significant boost to their reserve position, reducing the need to hold large amounts of hard currency reserves, which tie up resources that would be better directed to productive investment. On the basis of average historical spreads between the borrowing rate and return earned on reserves, the annual carry cost of reserves to developing countries can be estimated at \$130 billion.⁵⁶ This constitutes a net transfer of resources to reserve issuing countries, notably the US. This number would be even higher if the opportunity cost of foregone domestic use were quantified. UNDESA has proposed allocating \$250 billion in new SDRs annually, and ensuring \$100-\$167 billion goes to developing countries.

⁵⁵ UN (2009). *Report of the Commission of Experts of the President of the UNGA on Reforms of the International Monetary and Financial System* (New York: UN, 2009).

⁵⁶ <http://www.twinside.org.sg/title2/resurgence/2010/234/cover04.htm>

7: Other important issues

Though previous FfD conferences have covered a wide range of important issues, we would like to highlight five in particular that require additional attention.

First, the UN should take seriously the need for better approaches to measuring progress that go beyond short-term economic indicators such as GDP to include measures of social and environmental wellbeing, and emphasise how significant inequality, including gender inequality can be. This issue has been raised by many international institutions and opinion leaders, including the UNDP, European Commission, Organization of Economic Cooperation and Development's Better Life Initiative; UN Secretary General's High-level Global Sustainability Panel, and the 2009 Stiglitz-Sen-Fitoussi Commission, which concluded that a broader range of welfare indicators should be used alongside GDP. National initiatives to go 'beyond GDP' are also growing, including in Bhutan and the United Kingdom. Initiatives such as the UN's Human Development Index provide a useful starting point.

The 2012 UN Conference on Sustainable Development in Rio called for "the UN Statistical Commission, in consultation with relevant UN system entities and other relevant organizations, to launch a programme of work in this area, building on existing initiatives". In Addis, governments could add impetus to this important work, by committing to base future UN assessments on this broader measure of progress.

Second, by developing an initiative on responsible financing standards, the UN could pull together and strengthen the various existing initiatives and proposals, and help ensure that standards are properly implemented. The main international initiatives and proposed frameworks include UNEP's Principles for Responsible Investment, UNCTAD's Principles on Responsible Sovereign Lending and Borrowing, the OECD's Guidelines for Multinational Enterprises, and the International Finance Corporation (IFC)'s Equator Principles for banks. A common theme is that these tend to be voluntary, focussed on a 'do no harm' approach with poor tools to monitor compliance, and large swathes of finance unaffected by them. CSOs have proposed concrete alternatives, intended to make sure international finance has positive impacts for sustainable development, such as Eurodad's Responsible Finance Charter⁵⁷. The FfD conference gives an opportunity for the UN to exercise global leadership by developing and adopting a clear framework that draws together the existing standards, identifies and fills in gaps, and strengthens the mechanisms and incentives for compliance. This would include implementing the draft resolution passed in the Human Rights Council in Geneva in June 2014 to establish a working group to prepare an instrument imposing international human rights legal obligations on transnational corporations,⁵⁸ and UN member states should complete the establishment and effective implementation of a legally binding multilateral code of conduct for TNCs to secure social responsibility and accountability and prevent restrictive business practices.

Third, given the growing recognition that all forms of development financing have specific threats and opportunities for women's rights, this vital agenda must be fully integrated into FfD negotiations and outcomes. Monterrey highlighted that "gender-sensitive, people-centred development - in all parts of the globe is essential" and issued a call to "mainstream the gender perspective into development policies at all levels and in all sectors". We do not have space to address this fully, but

⁵⁷ Molina, Nuria (2011). *Responsible Finance Charter*. (Brussels: Eurodad, 2011).

⁵⁸ http://ap.ohchr.org/documents/dpage_e.aspx?si=A/HRC/26/L.22/Rev.1

will offer two examples of why this is critically important. Resources lost to tax dodging hinder governments' capacities to finance the policy goals to redress long-standing discrimination, and force them to adopt other tax measures such as increased indirect taxation which have serious and often negative impacts on women's ability to pursue key goods and services. As elaborated in the report by the UN independent expert,⁵⁹ due to their socially assigned gender roles, women are disproportionately affected by debt crises, and subsequent economic reforms, which have often resulted in impoverishment and marginalization of women, making basic social services even more inaccessible to them, thus deepening gender inequality and contributing to the feminization of poverty.

Fourthly, the 2009 UNGA conference rightly put the reform of financial regulation and the financial sector on the agenda, and the report of experts that fed into it provided useful detail on the myriad of problems that contributed to the greatest financial crash for many decades. The FfD conference should take this agenda forward and support the development of specific proposals in key areas that would form part of the agenda of a UN Economic Coordination Council (see chapter 6). These would include preventing the problem of 'too big to fail' banks, realigning banking regulations to promote long term investment and counter-cyclical practices, removing any products that can prove dangerous or destabilising, and regulating commodity markets to avoid excessive volatility and speculative activities, among other measures. Instead, a diversified financial system should serve the needs of people and sustainable development, and not be prone to damaging financial crises. These policies would be a necessary complement to the measures to tackle illicit financial flows and tax dodging outlined in Chapter 1, and the measures to control capital flows and improve international investment highlighted in Chapter 2.

Finally, it is clear that financing to tackle growing global environmental issues needs to increase dramatically, be new and additional to existing ODA commitments, and be disbursed in accordance with developing country led plans. The UN high level panel tasked with assessing biodiversity finance needs estimated them at several hundred billion dollars by 2020.⁶⁰ According to lower end estimates, developing countries' climate finance needs are estimated at between \$27-66 billion per year by 2030 for adaptation and \$177 billion per year for mitigation.⁶¹ Biodiversity public finance is needed to ensure that interventions that remain unattractive for the private sector, especially in lower income countries and in marginalized communities, receive the required support. Public finance and proper regulation can also help ensure private finance investments are not detrimental to and benefit the poorest and most vulnerable. It is critical to note that the most comprehensive assessments agree that the costs of inaction are many times greater than these figures.

Governments must meet this challenge in next year's UNFCCC Conference of the Parties (COP) in Paris, where climate finance commitments must be included as 'Intended Nationally Determined Contributions' under a new legally binding agreement. It will be important to ensure that these Paris financial commitments will provide public climate finance that is not double counted as ODA, but instead is adequate, new and additional. Furthermore, climate finance must not come in the form of debt-creating mechanisms nor speculative instruments. It must build on the lessons of efforts to improve aid effectiveness, which include prioritising developing country ownership, tracking actual transfers of resources, and avoiding short-sighted donor practices that attempt to link transfers to the narrow self-interest of their own companies.

⁵⁹ See footnote 12.

⁶⁰ <http://www.cbd.int/doc/meetings/fin/hlpgar-sp-01/official/hlpgar-sp-01-01-report-en.pdf>

⁶¹ UNTT Working Group on Sustainable Development Financing (2013). *Financing for sustainable development: review of global investment requirement estimates*.

