The European Union and its responsibilities at the Third Financing for Development Conference in Addis Ababa

European civil society position, February 2015

ADDIS ABABA – THE CONFERENCE OF RESPONSIBILITY

The Third Financing for Development Conference (Addis Ababa, 13-16 July 2015) will be crucial to ending extreme poverty and tackling inequality everywhere. The conference will also lay the foundation for an agreement in September on the new sustainable development goals, and for a binding climate-change agreement in December.

Building on the conclusions of previous financing for development conferences (Monterrey in 2002 and Doha in 2008), and other key international processes, the commitments and agreements made in Addis Ababa will shape our ability to bring about a just, equitable world in which the rights of all peoples, including future generations, are fully respected and protected – in a way that upholds the integrity of the natural environment and remedies the damage climate change has already caused. If we are to have a new vision for sustainable development, Addis Ababa will need to produce ambitious, meaningful and comprehensive agreements on financing.

An additional task will be to set out how the financing for development (FfD) agenda is to complement and support the post-2015 framework, with its sustainable development goals (SDGs) and binding climate-change agreement. To support and contribute to the implementation of the SDGs, it is essential for the Addis Ababa outcome document to reflect the growing efforts being made to ensure that all forms and uses of finance mainstream sustainable development in all three dimensions: social, environmental and economic. A complementary responsibility is to ensure that all forms of development finance take climate change into consideration, and remain focused on reducing its risks and managing its impacts.

EXPECTATIONS OF THE EU'S RESPONSIBILITY

The EU has consistently stated its commitment to supporting and delivering adequate, high-quality, development-focused financing, in keeping with its international commitments.[1] Now is the time to make that commitment a reality. The EU, with its member states, is the world's largest aid donor bloc and trading bloc, and it sets many of the world's policy standards. The position it adopts at the Addis Ababa conference and the role it plays there will be important in influencing the outcome of the negotiations.

We, representing European civil society, expect the EU to uphold its pledge and assume this responsible role, thereby ensuring that the conference outcomes create the right kind of spirit and energy to make 2015 go down in history. We want it to be the year in which all humankind came together in an unprecedented way, to tackle human development, gender equality and economic and ecological justice, in order to "end poverty, transform the world to better meet human needs and the necessities of economic transformation, while protecting our environment, ensuring peace and realizing human rights for all".[2]

This paper, from the European Financing for Development Task Force coordinated by CONCORD, sets out the decisions European civil society expects the EU and its member states both to adopt in Addis Ababa and to act further upon, in the following areas: domestic resource mobilisation; international financial cooperation (official development assistance); international resources for development (foreign direct investment and other private flows); external debt; and systemic issues.[3] We call on the EU and its member states to do their utmost to bring about the following:

---

[1] European Council Conclusions: *Guidelines for EU participation in the International Conference on Financing for Development, Doha* (2903rd External Relations Council meeting, 10 and 11 November 2008)

[2] Synthesis Report of the Secretary-General on the Post-2015 Agenda. *Ending Poverty, Transforming All Lives and Protecting the Planet,* 4 December 2014

[3] While we fully recognise the importance of this area of action, trade issues in the financing for development agenda are not dealt with in this paper as the Task Force does not possess the necessary expertise in this area.

Domestic resource mobilisation for development	1. Fully representative institutional arrangements regarding international cooperation on tax matters, including tackling illicit financial flows. To this end, establish a new intergovernmental body for international cooperation in tax matters, under UN auspices; 2. **An end to the harmful spillover effects of tax systems** on other countries' capacity to mobilise appropriate revenue; 3. **Progressive tax systems** which will ensure that sustainable development principles and human rights obligations are met through fiscal policies.
International financial cooperation: official development assistance	1. A (**re-)commitment to strong, binding ODA targets – 0.7% of GNI –** that are backed up by concrete, verifiable timetables for scaling up their aid budgets; 2. The explicit inclusion of **aid and development effectiveness principles** and commitments in the Addis Ababa outcome document; 3. A commitment to ensuring the **additionality of innovative financing** mechanisms, both as a means of filling the large gap in public finance and to ensure that commitments on climate finance are met.
International resources for development: foreign direct investment and other private flows	1. Emphasis on the need to allow developing countries adequate **policy space**; 2. A commitment to **refrain from pushing trade and investment agreements or international taxation standards that are detrimental** to developing countries' economic and development interests and to their regional integration processes; 3. A call for the adoption of a **comprehensive,** transparent **regulatory framework** that will ensure the mainstreaming of all three dimensions of sustainable development: responsibility, transparency and accountability in private investment; 4. A commitment to applying strict **ex-ante criteria** to ensure sustainable developmental outcomes, with a poverty-reducing impact, before deciding either to engage in partnerships with private actors on development projects or to use public money to leverage private finance; 5. Recognition of the need for private flows to focus on **promoting the** equitable **development of the local private sector** in developing countries.
External debt	1. Commitments from all UN member states and the IFIs to contribute constructively to a **multilateral legal framework for restructuring sovereign debt**; 2. **A call to reform debt sustainability frameworks** and analysis so that they take into account countries' needs, commitments and obligations (including to meet the SDGs), together with the financial cost of grappling with climate-related shocks and investing in climate-change adaptation and mitigation; 3. The endorsement and **implementation of the UNCTAD principles** on responsible lending; 4. Recognition of the importance of **national debt audits to determine the legitimacy of claims**, especially where there is evidence or suspicion of debt linked to corruption, irresponsibility or undemocratic conduct – which, by definition, would be illegitimate.
Systemic issues and follow-up	1. Recognition of the urgency of implementing the long-discussed voice and vote agenda to reform the Bretton Woods institutions, calling for the introduction of **double majority voting at the IMF** as a crucial first step; 2. A call for the creation of a **global council at the highest political level to provide leadership on issues of global governance**; 3. Recognition of the need for **adequate policy space in which national authorities** can perform their regulatory function, protected from undue influence exerted by financial institutions or by the corporate sector they aim to regulate; 4. Commitment to **take measures to prevent volatility in the price of food and fuel**; 5. The establishment of an intergovernmental FfD follow-up body and strong follow-up at the European level.

Domestic resource mobilisation for sustainable development

For developing countries, domestic resource mobilisation represents the most sustainable and predictable way of financing their own development. Those aspiring to sustainable domestic resource mobilisation, however, face significant barriers, many of them global. Such countries have a low tax-to-GDP ratio (between 15% and 20%, compared to the OECD countries' average of 34%) ,which means they are farthest from meeting their revenue potential.

In particular, developing countries are more likely than developed ones to lose tax revenue because of profit-shifting activities by multinational corporations.[4] According to the IMF developing countries are also more vulnerable to the "spill-over" effects of developed countries' tax policies, which further erodes their tax base.[5] The fact that certain countries become tax havens or adopt tax-haven-like practices – e.g. by guaranteeing tax dodgers either anonymity or very low (or even zero) tax rates on their income or wealth – creates huge incentives for wealthy people or large companies to use existing loopholes and hide their money offshore. It is now widely acknowledged that every nation's duty to respect human rights requires it to refrain from practices that can have an adverse effect on the enjoyment of human rights by people living beyond its borders.[6]

Eventually, to give international cooperation on tax matters a solid framework, a legally binding agreement – an international UN tax convention – will be needed. This will have to include a clear definition of principles, and will need a secretariat to monitor the implementation of decisions agreed on. A recommendation to establish an "international tax organization" was already put forward in 2001, prior to the Monterrey conference, in the so-called "Zedillo panel",[7] and the "elements paper" in the current FfD discussion suggests upgrading the UN's tax committee to an intergovernmental body on tax cooperation – a proposal supported by many countries and civil society organisations. A new intergovernmental body for international cooperation on tax matters, under UN auspices, would indeed provide the most suitable framework.

Governments also need to align their tax policies with their human rights obligations at the national level,[8] e.g. by revising tax incentives and promoting equitable and sustainable tax systems to finance the delivery of public services that are key to reducing inequality. Long-term public commitments to a social protection floor would also help reduce inequality. Budget transparency – on both the revenue and expenditure sides, and including full participation by all stakeholders in budget making-processes – is essential for a progressive fiscal policy. Finally, particular attention should be paid to developing countries exporting natural resources: very often, they do not benefit from the use of these resources, largely owing to a lack of transparency, regulation or fair, effective taxation.

European civil society expects the EU and its member states to adopt the following recommendations for Addis Ababa, and to take further action on domestic resource mobilisation:

1. **Fully representative institutional arrangements for international cooperation on tax matters, including tackling illicit financial flows; to this end, establish a new intergovernmental body for international cooperation on tax matters, under UN auspices:**
    - Recognise that the current international tax reforms are unlikely to deliver promising changes for developing countries, so that a complementary and more inclusive approach is necessary in order to reform the broken international tax system.
    - To this end, establish a new intergovernmental body for international cooperation on tax matters under the auspices of the UN and provide the resources necessary to allow the body to operate effectively. The mandate for the new intergovernmental tax body must include work on base

[4] Cobham, A. and Loretz, S. (2014): *International Distribution of the Corporate Tax Base: Implications of Different Apportionment Factors under Unitary Taxation*, ICTD

[5] IMF (2014): *Spillovers in International Corporate Transactions*

[6] UNGA (2014): *Report of the Special Rapporteur on extreme poverty and human rights, Magdalena Sepúlveda Carmona*, A/HRC/26/28

[7] UNGA (2001): *Letter dated 25 June 2001 from the Secretary-General to the President of the General Assembly*, A/55/1000

[8] UNGA (2014): *Report of the Special Rapporteur on extreme poverty and human rights, Magdalena Sepúlveda Carmona*, A/HRC/26/28

erosion and profit-shifting, tax and investment treaties, tax incentives, the taxation of extractive industries, beneficial ownership transparency in relation to companies, trusts and other similar legal structures, public country-by-country reporting, the automatic exchange of information for tax purposes, and alternatives to the “arm’s length approach”.

2. **Reducing the harm one’s own tax system does to other countries' capacity to mobilise adequate revenues:**
   - Review all double taxation agreements to ensure that they are fully in line with sustainable development and human rights commitments and do not undermine them by eroding the mobilisation of domestic public resources.
   - Encourage developing countries to adopt measures to counter the practices of tax havens, as they are generally the countries most affected by tax dodging.
   - Call on the IMF and the World Bank to conduct independent assessments of their tax advice to developing countries, in order to ensure that they promote the mobilisation of domestic resources in a progressive, sustainable way that upholds human rights for all.
   - Ensure that tax incentives are transparent and in line with sustainable development principles, human rights and gender equity obligations.
3. **For progressive tax systems that will ensure that sustainable development principles and human rights obligations are progressively met through fiscal policies, we recommend that the EU and its members should:**
   - Ensure that all governments and intergovernmental agencies (such as the Bank for International Settlements (BIS), UNCTAD and the IMF) publish accurate, timely, standardised and comparable revenue and expenditure data alongside data that can be used to deduce tax liabilities (such as data on deposits at the BIS or portfolio investments at the IMF), in open data formats, and create appropriate mechanisms for public participation at all stages of the budget process.
   - Ensure that governments introduce laws on mandatory extractive contract and revenue disclosure, to guarantee the full public disclosure of natural resource revenues of all types.
   - Ensure that all capacity-building and technical assistance on tax matters is demand-driven and fully aligned with ODA effectiveness, and that it is not used to promote specific types of tax policies.
   - Adopt non-discriminatory and pro-poor budgets at all levels, and support and institutionalise a gender-sensitive approach to public financial management, including gender-responsive budgeting across all sectors of public expenditure, to address gaps in resourcing for gender equality and women’s empowerment; in addition, ensure that all national and sectoral plans and policies for gender equality and the empowerment of women are fully costed and adequately resourced, to ensure their effective implementation.

International financial cooperation: official development assistance

Funding the sustainable development goals is a challenge that will require the mobilisation of substantial new and additional financing, including official development assistance (ODA). While quantity does matter, equally, the implementation of the SDGs will not be achieved without improving the quality of all the types of development finance needed to fund the different facets of sustainable development. The Financing for Sustainable Development Framework needs to mobilise enough, and appropriate, financing to ensure sustainable development everywhere.

Both Monterrey and Doha recognise the crucial roles that international financial and technical cooperation for development play, and ODA continues to be irreplaceable in the increasingly varied financing landscape. ODA is most effective – delivers the best and the most results – when its fundamental purpose remains to tackle poverty, reduce inequality, fulfil human rights commitments and promote low-carbon and sustainable development. In order to eradicate poverty everywhere, ODA needs to focus on the most vulnerable countries, in particular the least-developed countries and low-income fragile and conflict-affected states, the countries most vulnerable to the adverse effects of climate change, and population groups commonly excluded because of sex, gender, race/ethnicity, age or disability.

As outlined by CONCORD AidWatch, effective ODA has a unique role to play and is irreplaceable as a source of development finance:[9]

a) Aid can target public services and support private enterprise for poor people
b) Aid is available now and helps establish longer-term resource collection
c) Aid has to be focused on generating genuine resource transfers for development
d) Aid can help support accountable institutions and improve governance
e) Aid means a public finance mechanism that is transparent and accountable
f) Aid is a suitable mechanism for investing in sectors that are key to eradicating poverty
g) Aid does not contribute to a potential future debt crisis
h) Aid is necessary until developing countries can raise adequate domestic resources through a fair tax system
i) Aid, unlike other sources of finance, has a clear development objective
j) Aid is the most powerful expression of global solidarity

The EU is collectively the world's largest donor of ODA and has been a key party to the global conferences on quality and effectiveness, from Paris to Busan. Consequently, it is responsible for (and holds the key to) ensuring that the Addis Ababa conference agrees to provide adequate finance to fund the SDGs – in particular, effective international public finance. The EU therefore needs to meet its commitments, made repeatedly since the 1970s: it must not start making this conditional on middle-income countries joining the club. Otherwise it is simply playing negotiating tactics with peoples' lives.

The EU and its member states should meet their existing ODA quality and quantity commitments as soon as possible, and should commit to more and better aid well ahead of the Addis Ababa conference.

European civil society expects the EU and its member states to adopt the following recommendations for Addis Ababa and to take further action on official development assistance:

1. **A (re-)commitment to strong, binding ODA targets that are backed up by concrete, verifiable timetables for scaling up their aid budgets**. This should include:
   - Meeting the **0.7% ODA/GNI target as a minimum commitment to ODA as soon as possible, and within five years at the outside**;
   - Ensuring that only genuine aid to developing countries is counted as ODA, by excluding inflated aid items from ODA reporting: refugee costs, imputed student costs, tied aid, interest on loans and debt relief; and
   - Providing high levels of ODA to least-developed countries (LDCs) by committing to the current UN target of 0.15–0.20% ODA/GNI, and setting themselves the even more ambitious target of providing at least 50% of total ODA to these countries.
2. **Explicit inclusion in the Addis Ababa outcome document of aid and development effectiveness principles and commitments** (and relevant processes in both the UNDCF and GPEDC) for all forms of financing for development, both public and private. This should include:
   - Delivering on existing aid and development effectiveness principles and commitments by defining practical next steps and participating in the UNDCF and GPEDC processes;
   - Improving the effectiveness of all sources of finance while drawing and building on the aid and development effectiveness work and stressing the responsibility of all development actors.
3. **A commitment to ensure the additionality of innovative financing mechanisms as a means of filling the large gap in public finance.**
   - In 2015 the EU can already commit itself to devoting finance from two key sources to sustainable development and climate action: financial transaction taxes, and revenues from carbon pricing through the Emission Trading System. Raising the overall levels of public finance available is the only way to meet the challenge of sustainable development in a warmer world. Mobilising and implementing alternative, innovative sources of public finance will help to increase overall finance and ensure that climate finance is delivered without diverting current non-climate ODA flows to it.

[9] 2013 CONCORD AidWatch Report: *The unique role of aid – the fight against global poverty*

International resources for development: foreign direct investment and other private flows

The Monterrey consensus emphasised private capital flows as a significant contributor to productivity improvement, technology transfer and job creation in developing countries. At the same time, the failure or inability to enforce the responsibility of foreign investors for **human rights**, labour standards and other sustainable development considerations continue to be serious challenges.

As a major donor bloc, through its policies and actions (or lack of them) and in its negotiations on double taxation agreements, trade agreements and investment protection treaties, and other policies such as transfer pricing rules, the EU all too often limits the ability of developing countries to put in place regulatory frameworks that would be in their own interest. Moreover, depending on the quality of their investment, European companies also have an impact on the policy environment, economic space and development objectives of the countries they operate in.

A new consideration has arisen with regard to the role of international private finance in financing for development, owing to proposed changes in how development assistance will be delivered in the future: there is an increasing focus on the use of **public-private partnerships** (PPPs) as a new way of mobilising development funds.

One facile assumption, made by some, is that PPPs are a panacea for development – others assume that they are its bane. Proponents of PPPs often claim that these partnerships can deliver superior cost-effectiveness. This has not been demonstrated to be an intrinsic feature of theirs, however. In fact, there is ample evidence of PPPs performing poorly in comparison to other forms of finance, particularly public finance.[10] In some cases PPPs can actually drain the public resources available for development priorities, generating profits for private companies at public expense (an example is the case of the hospital PPP in Lesotho, which has swallowed over half of the country's health budget).

PPPs should be pursued only when and where there is sound evidence that they will achieve the desired impact on the required scale. "PPPPs", or "public-private-PEOPLE partnerships" – those that include genuine participation, transparency, accountability, and governance roles for civil society – can play an important role in financing sustainable development. Even then, however, they are far from adequate, and they have a number of limitations when it comes to meeting the needs of the most vulnerable countries and communities. Just as crucially, private-sector actors committed to sustainable development must move on from merely examining how their partnerships are structured to actually changing their own policies and practices, such as pay scales and community consultation and engagement strategies. Achieving the SDGs will require scaled, across-the-board, rights-oriented policies (e.g. living wages/income) from private-sector firms – rather than un-scaled, one-off company partnerships.

PPPs need to be approached with caution, and should be considered only if other, less expensive and less risky, financing and/or delivery options are not available. Right from the design stage, PPP projects must be fully owned by the ostensible beneficiaries, whose development needs should be explicitly assessed and whose equity concerns should be addressed in terms of equitable and affordable access to infrastructure and services. In its design, a PPP must explicitly prioritise development outcomes and demonstrate how it leverages financing that is additional to purely public finance. Clear exit clauses for the parties involved also need to be included. It is important to mitigate any negative spillovers. As there is not always an easy win-win-win, Addis Ababa should prioritise those financing arrangements that best deliver outcomes for the poor and maximise progress, measured against the SDGs.

[10] See Alexander, N. (2013): *Responsible Investment in Infrastructure: Recommendations for the G20*, Heinrich Böll Foundation North America; Oxfam (2014): *A dangerous diversion: Will the IFC's flagship health PPP bankrupt Lesotho's Ministry of Health?*; and Oxfam (2014): *Moral Hazard? 'Mega' public-private partnerships in African agriculture*

European civil society expects the EU and its member states to adopt the following recommendations for Addis Ababa and to take further action on foreign direct investment and other private flows:

1. **Recognition of the need to give developing countries adequate policy space** so they can shape domestic legislation that will allow for national capital control on inflows, for example by developing a capital-account regulation system. Furthermore, monitoring systems and indicators should be introduced to enable developing countries and LDCs to regulate FDI more effectively in line with national sustainable development and poverty-reducing priorities. There is a need to strengthen the capacity of developing countries to establish comprehensive regulatory frameworks and negotiate fair contracts in order to prevent extraordinarily high profits for private investors, paid for by consumers or out of public tax revenues.
2. **A commitment to refrain from pushing trade and investment agreements or international taxation standards that are detrimental to developing countries' economic and development interests and to their regional integration processes.**
3. **A call to adopt an international regulatory framework that is comprehensive and that mainstreams sustainable development in all its three dimensions: responsibility, transparency and accountability in private investment.** Such an international regulatory framework must be accompanied by a commitment to strengthen domestic legal systems and the regulatory environments of institutions. International rules and standards – including ILO conventions and standards, international human rights law, sustainable development principles, the UN's Guiding Principles on Business and Human Rights, IATI and EITI standards, and international environmental and climate agreements – should also be endorsed in this framework.
4. **A commitment to apply strict ex-ante criteria to ensure developmental outcomes with a poverty-reducing impact before deciding either to engage in partnerships with private actors on development projects or to use public money to leverage private finance**. These criteria must include the principles of development effectiveness, emphasising a multi-stakeholder approach and a focus on local ownership. Additionally, they must stipulate environmental safeguards, due diligence requirements, legitimate public oversight and equitable risk- and benefit-sharing, together with demonstrable evidence of job creation, tax contribution, poverty alleviation and financial additionality, in order to avoid market distortions and the crowding out of local firms. Evidence must be collected through independent assessments. Clear accountability mechanisms must be built into such partnerships, or leverage mechanisms to ensure that those negatively impacted by them have adequate means of redress and restitution, and also to ensure that the application of ex-ante criteria does not remain merely voluntary.
5. **Recognition of the need for private flows to focus on promoting the development of the local private sector in developing countries**. Private flows and private-sector investment should, as far as possible, support the development of the local private sector by promoting technology transfer and capacity-building and by targeting local MSMEs. Furthermore, sustainable investment in sectors that contribute positively to pro-poor, sustainable growth, and that have greater potential to contribute to gross domestic capital formation – sectors such as agriculture and manufacturing – should be promoted.

External debt

International financial institutions and sovereign creditors have put in place two debt relief initiatives: the Highly Indebted Poor Country Initiative (HIPC), which donors announced would offer a "lasting exit" to the debt crisis (G8 Communiqué, 1998), followed by the Multilateral Debt Relief Initiative (MDRI), which claimed it would cancel all the outstanding debts of eligible HIPC countries. Alongside these initiatives a new debt sustainability framework was introduced, to prevent low- and middle-income countries from again borrowing excessively, together with a specific programme for middle-income developing countries, within the framework of the Paris Club of creditors. The policy consequence of the debt sustainability framework for poor countries was a risk assessment, to see whether their debt level might lead to a default: if the risk was considered high, their ability to borrow would be limited. In the face of continuing limitations on concessional financing, however, it simply limited their access to new financing for development, even in emergency situations such as natural disasters or pandemics (such as, recently, Ebola). In addition, low-income countries with an IMF-supported programme are subject to conditionality relating to the level of borrowing (IMF 2006a, para. 25/26). Developing countries call on the IFIs not to restrict their "fiscal space" and demand that conditionality attached to new finance should not diminish their "policy space" for choosing their own development path.

A historical review of mechanisms to deal with external debt reveals many problems:

- Debt restructuring mechanisms are dominated by creditors, who are also interested parties. This undermines impartiality and sometimes results in politically biased decisions, often coupled with harmful policy conditionality.
- The process and outcome of the deliberations within such mechanisms are not transparent, and are highly unpredictable. The ad hoc nature of the process lengthens it: this is costly for both creditors and debtors.
- The mechanisms completely ignore the principle of creditor co-responsibility. In many cases, countries continue to serve debt contracted by oppressive or corrupt regimes, or for irrelevant or even damaging, overpriced projects. A report has documented instances of donor countries lending to regimes they knew to be corrupt or repressive, in order to buy political allegiance or to secure access to natural resources (Eurodad *et al*., 2007). Yet it is only the debtor who is held responsible for the consequences.
- Financial considerations are often the only ones given any weight when dealing with debt distress: a government's duty to fulfil its human rights obligations, or its commitments to its people and the environment, are seldom taken into account.
- Owing to the lack of a formal procedure for ensuring fair burden-sharing between creditors and debtors, or for assessing the validity of claims, current procedures fail to discipline lenders or prevent them from lending irresponsibly in the future.

As observed by the 2012 MDG Gap Report in relation to Goal No. 8: "*Lessons from the European crisis reiterate lessons from emerging market debt crises, as well as from the entire history of sovereign debt crises. One of those recent lessons from Europe is that ad hoc political processes for debt workouts do not necessarily lead to timely, effective or fair burden-sharing after debt crises occur*."[11]

To respond to current regimes' inefficiency in dealing with external debt crises, a new contractual approach put forward by the IMF emphasises the importance of inserting "collective action" and "hold-out" clauses into debt agreements.[12] While such an approach does have its merits in preventing disorderly responses to external debt crises, it can only be applied ex-ante. As it does not apply to debt that has already been transacted, it cannot provide a holistic response. This approach should thus be seen merely as a complement to a more lasting solution in the form of a statutory approach. Such a statutory approach is currently being discussed in the UN, based on General Assembly Resolution 69/207 of 19 December 2014 which mandated the creation of a group to discuss the text of a multilateral legal framework for sovereign debt restructuring processes. The Addis Ababa conference provides an opportunity to forge the international consensus needed to see this process through to fruition. The EU, as a major bloc of sovereign creditor countries, can play a vital role at the conference by supporting language in the outcome document that reflects international support for this process, and by encouraging its peers to do likewise.

European civil society expects the EU and its member states to adopt the following recommendations for Addis Ababa and to take further action on external debt:

1. **Commitments from all UN member states and the IFIs to contribute constructively to a multilateral legal framework for sovereign debt restructuring processes** developed through the intergovernmental process mandated to create such a text by UN General Assembly Resolution 68/304 of 17 September 2014. The EU position for the Addis Ababa conference must commit the EU to engaging constructively in this process and to supporting its implementation fully, also undertaking

[11] MDG Gap Task Force Report (2012): *Millennium Development Goal 8, The Global Partnership for Development: Making Rhetoric a Reality*
[12] IMF (2012): *Strengthening the Contractual Framework to Address Collective Action Problems in Sovereign Debt Restructuring*

to do everything in its power to ensure that all other stakeholders (institutional and private) recognise the legal text and support its implementation.

  - Recognition of the need to involve civil society strongly in the design and implementation of debt restructuring processes. It must be entitled to be heard and to give evidence.

2. **A call to reform debt sustainability frameworks and analysis so that they take countries' development needs into account and include the financial cost of grappling with climate-change shocks and investing in climate-change adaptation and mitigation**.
   - Governments' financial needs arising from human rights and other obligations must take priority, while debt service obligations are a secondary and residual claim on public budgets.
   - A call to international institutions to improve the collection of debt data, and its timeliness and coverage, and to reconcile creditor and debtor reporting systems to increase their ability to monitor debt sustainability and respond to early warning signals.
3. **A call to governments, international financial institutions and the private sector to endorse and implement the UNCTAD principles on responsible lending and borrowing.**
   - An agreement on steps for putting the principles into practice – or, as a minimum, a commitment to implementing the principles and being accountable for them – should be included in the Addis Ababa outcome document.[13]
4. **Recognition of the importance of national debt audits to determine the legitimacy of claims, especially where there is evidence or suspicion of debts linked to corruption, irresponsibility or undemocratic conduct – which, by definition, would be illegitimate**.
   - Recognition for countries that have cancelled illegitimate debt, and a call for all creditors to cancel debt that has been determined in national debt audits to be illegitimate.

Systemic issues and follow-up

Thanks to the Financing for Development process, the international community has laid out an ambitious agenda to ensure that the international financial, trade and development systems work coherently together to promote sustainable development. Yet the international financial and economic crisis demonstrates that this agenda has been largely ignored. Social well-being has deteriorated dramatically in the societies most affected by the crisis, and financial commitments to public goods, including the global effort to eradicate poverty and combat climate change, have been curtailed.

Moreover, financial regulation is at present embedded in and subservient to an economic paradigm characterised by extreme profit and inequality, which requires unsustainable levels of economic activity. Reforming this paradigm is therefore essential. Respecting and protecting human rights, and remedying the human rights abuses caused by financial crises, are an indispensable part of this shift. Such a reform also means that policies to prevent future crises must be included in commitments to provide comprehensive protection and respect for human rights. Instead of acting with the urgency required by this agenda, however, the policy response has been slow and inadequate.

The Addis Ababa conference comes at a very important time. More than ever before it will be crucial to agree on the means to ensure that the systems of finance, trade and development – from the global level to the local – support the aspirations of the new post-2015 agenda, the sustainable development goals, and binding agreements to tackle climate change and, in particular, to protect the most vulnerable people on the planet from its impacts.

The Doha Declaration sent out a specific call to those countries whose policies have an impact on developing countries to increase their efforts to formulate policies consistent with the objectives of sustained growth, poverty eradication and the sustainable development of developing countries. The EU position for Addis Ababa must respond to this call and acknowledge the Union's specific responsibility in this regard, inviting other industrialised countries to assume a similar responsibility. We welcome the ambition demonstrated in the EU Accountability Report 2014 to contribute the EU's learning and experience to apply policy coherence

[13] Session participants were asked to discuss whether they preferred to take the moderate route (implement UNCTAD principles) or the more ambitious one (develop UNCTAD principles further). In our submission to the ICESDF, we asked for the latter

for development effectively in international discussions in 2014. To demonstrate its sincerity the EU must come to Addis Ababa with sound evidence of how it has applied policy coherence for sustainable development to its own policies so far, and how it intends to step up its efforts in the future. The EU must also define clearly what it will do to report on and monitor the follow-up on commitments made in the financing for development process. At the UN level, a strong follow-up mechanism will be needed for implementing the commitments made in Addis Ababa. The existing annual ECOSOC Bretton Woods dialogues are not well equipped to monitor the outcome of Addis Ababa nor to propose new action-oriented initiatives. NGOs therefore call for the establishment of an intergovernmental FfD body.

European civil society expects the EU and its member states to adopt the following recommendations for Addis Ababa and to take further action on systemic issues:

1. **Recognition of the urgency of implementing the long-discussed voice and vote agenda to reform the Bretton Woods institutions, calling for the introduction of double majority voting at the IMF as a key first step.**
    - Recognition of developing countries' lack of voice or participation in international standard-setting bodies and an emphasis on the need to strengthen the UN's role in international economic governance.
    - Recognition of the importance of regional and sub-regional schemes for monetary and financial cooperation, the pooling of reserves, and payment in domestic currencies.
2. **Call for the creation of a global council at the highest political level, to provide leadership on global governance issues** as recommended by the 1995 Report of the UN Commission on Global Governance. Recognise the timeliness of this reform in the context of the new post-2015 agenda and discussions on the means needed to achieve the sustainable development goals. Through its political leadership, such a body would provide a long-term strategic policy framework to promote development, secure consistency in the policy goals of the major international organisations and promote consensus-building among governments on possible solutions to problems of global economic and social governance. Agree to establish an intergovernmental process to reach a proposal on the architecture of the global council.[14]
3. **Recognition of the need for adequate policy space in which national authorities can perform their regulatory function, protected from undue influence exerted by financial institutions or by the corporate sector they aim to regulate**.
4. **Commitment to take steps to prevent food and fuel price volatility**, including setting ex-ante position limits in derivatives trading and banning financial entities from speculating by physically holding commodities (most particularly those entities that also trade in derivatives contracts in those commodities), thereby putting themselves in a position to manipulate the price of the assets underlying the derivatives contracts.
5. Establishment of an intergovernmental FfD follow-up body, and strong follow-up at the European level.

Conclusion

Addis Ababa will be a decisive Conference. It should deliver an agreement on how finance will support future sustainable development and set the world's ambition for the two other major international agreements that need to be made this year: on the post-2015 framework and the international climate agreement. The position the EU adopts for Addis Ababa will be an important factor in determining the success of these three agreements. The EU's position for Addis Ababa must demonstrate a strong level of credibility, starting by upholding its ODA and development effectiveness commitments. It must also show a willingness to shoulder its own share of responsibility in other areas of the FfD agenda. Words will not be enough: clear, concrete indications of the action the EU intends to take to demonstrate its sincerity and progressiveness will be essential.

[14] One scenario proposed is that the Council would have a limited number of seats (25), and could adopt a well-balanced rotation system, whereby none of these would be permanent or would have a veto.

List of abbreviations

BIS	Bank for International Settlements
DTAs	Double Taxation Agreements
EITI	Extractive Industries Transparency Initiative
EU	European Union
FDI	Foreign Direct Investment
FfD	Financing for Development
GDP	Gross Domestic Product
GPEDC	Global Partnership for Effective Development Cooperation
HIPC	Highly Indebted Poor Country initiative
IATI	International Aid Transparency Initiative
ICESDF	Intergovernmental Committee of Experts on Sustainable Development Financing
IFIs	International Financial Institutions
ILO	International Labour Organization
IMF	International Monetary Fund
LDCs	Least-Developed Countries
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MNCs	Multinational Corporations
MSMEs	Micro, Small and Medium-sized Enterprises
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PPPPs	Public-Private-PEOPLE Partnerships
PPPs	Public-Private Partnerships
SDGs	Sustainable Development Goals
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDCF	United Nations Development Cooperation Forum