FINANCING FOR DEVELOPMENT (FfD)

TUDCN position paper (draft)

Contents

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1. INTRODUCTION

1.1. Financing for Development and the Sustainable Development Goals (+2015)

The Monterrey Consensus[1], agreed at International Conference on Financing for Development in Monterrey, Mexico in March of 2002, set the stage for the Financing for Development (FfD) agenda as we know it today and remains one of the main reference point for international policy decision making on different forms of development financing and cooperation. The importance of the Financing for Development process is its institutional home in the United Nations, where developing countries have influence in intergovernmental agreements.

The Monterrey Consensus identified six pillars of development finance which remain the foundation of the FfD to the present day. These are:

1. Mobilizing domestic financial resources for development.
2. Mobilizing international resources for development: foreign direct investment and other private flows.
3. International Trade as an engine for development.
4. Increasing international financial and technical cooperation for development.
5. External Debt.
6. Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development.

In 2008, the Doha Review Conference (the second high level conference on Financing for Development), was held. The conference mobilized large civil society participation, with the trade union movement taking an active role in the overall coordination. The Doha Declaration on FfD[2], reaffirmed the Monterrey process, but also succeeded to turn significant attention towards innovative sources of development finance, like the financial

[1] http://www.un.org/esa/ffd/monterrey/MonterreyConsensus.pdf
[2] http://www.un.org/esa/ffd/doha/documents/Doha_Declaration_FFD.pdf

transactions tax, in addition to the original six pillars. The declaration also set the stage for a follow up high level taking place in Addis Ababa, Ethiopia in July 2015.

The FfD at the time of the +2015 discussion

The FfD agenda, is an important reference point for discussions on development finance, and serve as a unique space where governments, in particular from the South, should be able to debate systemic issues like trade and financial architecture. These are the kind of issues related to the global economy that were not included in the MDG's nor are they part as such of the proposed SDG framework (cf. goal 17). These systemic issues are the core of the FfD discussion.

Also in its composition, methodology and outcomes, the FfD process is a very different one from the SDG/+2015 process. The FfD involves finance ministers who agree on **a package of policies and deliverables** to be channelled through the different international specialised policy fora. The SDG, involving development/foreign affairs ministers, is working its way down towards a set of goals and a list of "measurable indicators" and not on a set of policies (what you can measured is not necessarily what you can/should do). The SDG approach moreover could result in a disperse set of sector silos on different goals (health, education, water….) with the attached, donor (private sector) driven finance mechanisms (vertical funds), adding additional burdens to the already existing fragmentation of development finance. The 2 processes have therefore distinct political objectives and these should be preserved as they are complementary.

However, various important players, mostly donor countries, are now proposing integrating the FfD and the SDG process. The success of a Post 2015 framework will in large part depend on the availability of financial resources at the country, regional and global levels to see the objectives to fruition. This gives particular relevance then to the third International conference on Financing for Development which will take place.

This raises bit only the question of the impact of the Addis FfD outcomes on the overall process just months ahead of the Post 2015 summit at the 2015 General Assembly, but also of the follow-up mechanism(s) or governance structure of the development framework beyond 2015. It is becoming clear that although the agendas are not the same, a failure in Addis will have a huge impact on the success of the SDG discussion.

Since Monterrey, the FfD has given governments, especially those of the south, a unique forum to table the systemic issues linked to the global development agendas. Although it has not fulfilled all its promises (it did generated e.g. the Aid Effectiveness process), it remains the only legitimate UN forum that has the potential to tackle these questions. The Global Partnership discussion under the SDGs is clearly not looking into shaping these policies or creating the forum to do so.

The trade union movement necessarily should engage with the official FfD process and take an active part in the civil society efforts in the coming months. The issues being discussed under this agenda are too important to ignore despite concerted efforts by certain governments and institutions to limit the reach or influence of the agreements taken under the process.

1.2. Inequality has become the major development challenge in today's world[3].

The Millennium Development Goals (MDG) have been able to mobilise the international community behind agreed goals and targets without giving much consideration to the enabling policy framework necessary to redress the structural causes of poverty.

Between the early 1990s and mid-2000s, the economy grew substantially, especially in emerging and developing countries, but the benefits of this expansionary period were unevenly shared. Overall, the most remarkable trend of that period has been an **unprecedented widening of income inequality:** at present the richest 1% of the world's population owns 40% of global assets while the bottom half of the world's population owns just 1% of global wealth[4].

Wage inequality explains a big part of income inequality and it is striking to note that during the period 1990-2008 income distribution took place away from labour despite an

[3] http://www.ituc-csi.org/IMG/pdf/inequalities_consultation_paper_ituc.pdf
[4] http://www.un.org/en/development/desa/policy/untaskteam_undf/groupb_unrisd_inequality.pdf

increase in employment rates globally. In contrast, **the share of profits in national income increased** virtually everywhere.

The experience of the last 20 years shows that high levels of inequality limit the effectiveness of growth in reducing poverty while growing inequality increases poverty[5]. Furthermore, high levels of inequality tend to push large segments of the population into low-wage jobs, constricting domestic demand and hindering structural changes.[6] Outside the economic field high levels of inequality create polarised societies associated with higher crime rates, lower life-expectancy, social tensions, malnutrition and an increased likelihood of children being taken out of school in order to work. Equally worrisome, inequality tends to trap younger generations into poverty as social mobility is limited.

1.3. 2 for 1: the global economic, trade and financial system needs to be fixed

Despite the many commitments to effectively reform the global governance system and development efforts in the past, changes remain circumstantial and short term. Evidence shows that individual policies do not bring solutions, but that there is a systemic failure that drives the world away from economic, social and environmental sustainable development. The global economic, trade and financial setting works against development.

Corruption and capital flight through mis-pricing, transfer pricing and tax evasion results annually in trillions of development dollars foregone. But there is more: developing countries, on average, lose $2 for every $1 they gain. While the biggest loss was through illicit financial flows ($634 billion in 2011), the second biggest loss entails profits extracted by foreign investors ($486 billion in 2012). The third: money developing countries lend rich ones ($276 billion in 2012). Then there are interest payments on foreign debt ($188 billion in 2012).[7]

[5] Fosu, A. K. (2011). Growth, Inequality, and Poverty Reduction in Developing Countries: Recent Global Evidence. WIDER Working Paper (2011/01). Helsinki: UNU WIDER.

[6] http://www.unrisd.org/80256B3C005BCCF9/%28httpAuxPages%29/ACFC5542FBD29F44C1257B08005902E4/$file/02%20-%20Inequalities.pdf

[7] http://www.eurodad.org/files/pdf/5492c1109c4c6.pdf

Notwithstanding the political and financial efforts in the past and the potential commitments on the new sustainable development framework, the current systems' endemic inequity has to be tackled and the systemic failure has to be remediated, not only by policy coherence efforts, but more fundamentally by restructuring the international institutional financial, trade and economic governance, as suggested by the UN Committee of Experts on Reforms of the International Monetary and Financial System[8].

1.4. The changing development agenda

1.4.1. The hype of the **private sector's potential for development** has taken unprecedented heights over the past years. Private sector can surely contribute to development, not least through the delivery of decent jobs in the formal sector. However, the on-going policy discussions on "private sector for development" are to a large extent based on ideological assumptions about the undisputable benefits of the free market and of deregulation and business-friendly environment. Unlike the many assessments and policy initiatives that show the essential developmental role of the state, the need for framing the market driven development with rights based policies on human rights, decent work, women's' rights and environmental impacts in order to ensure sustainability and fight inequalities.

1.4.2. Official Development Assistance has been going through troubled waters in the last decade. Not only has it, in relative terms, only met up to 0.3% of total domestic product of donor countries, **less than half of the 0.7% promised**, ODA has itself been questioned in both its content and its destination/use. Donor countries tried to **redefine ODA** (OECD/DAC), extending it so donor domestic expenditure such as peace keeping costs, refugees, student or migration related expenditure as well as the willingness to blend ODA with other financial streams. Also the emergence of differentiating ODA support between Middle income countries and LDC's has questioned its predictability and poverty eradication focus.

[8] http://www.un.org/ga/president/63/commission/financial_commission.shtml

1.4.3. The emergence of the private sector as development actor has also altered the ODA environment. Donor countries introduced **ODA based support schemes to support their domestic private sector actors** in developing country markets promoting Private Public Partnerships as a preferred institutional arrangement, despite the lack of evidence of their developmental added value[9]. At the contrary, evidence shows that frequently the business sector is the main driver as well as the beneficiary of the inequitable and unsustainable development patterns. The "business-for-development" approaches may also constitute a **new burden for the untying-of-aid promises**.

1.4.4. Equally discussable has been the emergence of private foundation players. There is a risk for a corporate takeover of large parts of the development aid programmes and growing policy influence through related (sponsored) private think-tanks and consultancies reinforces the mainstreaming of the interest of global businesses and shapes **potentially a new neo-paternalistic and "assistentialist" development approaches**.

1.4.5. New treats to democratic country ownership have emerged through a variety of **misconceived, unilaterally driven economic and development "partnerships"**. *Free Trade Agreements* are imposed on developing countries; *international vertical funds* tend to sectorialise and often privatise areas of critical domains related to public goods and services; the promotion of *"multi-stakeholder" partnerships imposes private interest stakeholders* and dilutes the role and accountability of the states.

2. GENERAL CONSIDERATIONS

2.1. *Alternative development model based on decent work and systemic reform*

[9] http://www.government.nl/documents-and-publications/reports/2013/06/13/iob-study-public-private-partnerships-in-developing-countries.html

2.1.1. Trade unions contend that the development objectives to be attained should specifically be shared prosperity, with decent jobs and livelihoods for all through human rights based approaches respecting the internationally agreed principles and conventions. A new impetus to jumpstart the global economy must adopt an alternative paradigm that promotes fair distribution of wealth created and resources generated in the economy, and addresses the growing inequality, based upon the centrality of decent work as a mechanism for employment generation, social protection, social dialogue and rights at work.

2.1.2. The new multilateralism that should govern the international development cooperation based on the Common but Differentiated Responsibilities (CBDR) should address not only financial resources and technology transfers but also the structural reform of the international financial and trade systems.

2.1.3. The conclusions of the 2009 UNGA Commission of Experts on Reforms of the International Monetary and Financial system (Stiglitz commission) [10] should be high on the agenda of the FfD discussions. Remediating the many of the crisis related issues, as well as the structural systemic defaults are essential for allowing sustainable development to take shape. In the absence of systemic change, sustainability of development will remain off the map.

2.2. Reinforce and support the developmental role of the state and democracy

2.2.1. The creation of policy space and democratic ownership for developing countries is essential to counter-balance the current global trade, financial and investment flows and undertake when appropriate, counter-cyclical actions. Democratic States should be supported in their developmental role as the legitimate and accountable partner, driving innovation, activate decent job creation through employment and labour market policies, steer investments, ensure effective redistribution policies thus enhancing inclusive growth. Development cooperation relationships should be based on National

[10] http://www.un.org/ga/president/63/letters/recommendationExperts200309.pdf

Sustainable Development Strategies implemented through the use of country systems. Effective institutions and participatory mechanisms including social dialogue are cornerstones for country ownership and will sustain the development efforts.

2.3. ODA remains important

2.3.1. Governments should honour past commitments on the 0.7% GNI for ODA and support for LDCs, through time bounded legal arrangements.

2.3.2. "Contaminating" ODA costs such as student or refugee costs or expenses for peace keeping should be banned.

2.3.3. Governments should untie direct and indirect aid (including the new business-for -development support schemes and subsidies for donor-country based corporations and sectors) as contrary to the development effectiveness principles and the Monterrey agreement.

2.3.4. New and additional sustainable development funding should be generated through the instauration of a Financial Transaction Tax on financial firm assets and operations.

3. CONSIDERING "ELEMENTS"

3.1. Domestic resources

3.1.1. Fiscal reform and tax justice are key issues for domestic resource mobilisation. Governments should seek to establish or strengthen **progressive taxation regimes** that place the highest tax requirements on capital gains and on the wealthy, and provide tax relief for low - income families and the poor. There is a need to improve and raise the ambition of intergovernmental cooperation to **fight tax evasion, tackle tax havens as well as practices such as corruption, mispricing and transfer pricing** by multinational enterprises. The OECD-led G20 Action Plan on Base Erosion and Profit Shifting is a positive step but it needs to be supported by a much more inclusive process for developing countries. Effective measures should be adopted to recapture these lost resources, and they should, in turn be **channelled into SDG sensitive investments** including decent work objectives, supporting Decent Work Country Programmes and Social Protection Floors.

3.1.2. **Transition to the formal economy** will contribute highly to a stabilised income and taxation (redistribution) environment, when based on a coherent implementation of the rights based decent work agenda, investing in productive and decent job-creation and adequate social protection, as well as active labour market policies such as a minimum wage.

3.1.3. **Minimum wage and other appropriate labour market and fair fiscal policies** should be implemented in order to address the decreasing share of labour in national income and subsequent the increasing inequality[11] and emergent poverty. Particular attention should be paid to the gender pay gap that increases vulnerability and affects poverty rates among women and girls.

3.1.4. The **UN Tax Committee of Experts should be strengthen into an intergovernmental body** that can deal adequately with this range of contentious and complex issues and enlarge and reinforce the initial steps taken such as the OECD Action Plan (BEPS) and other relevant policies and practices.

3.2. Private finance

3.2.1. All development actors, including **private sector, should be made accountable** and should ensure transparency all along the investment chains, including institutional investors (insurance companies, pension funds, and sovereign funds), asset managers, bankers and other financial intermediaries.

[11] http://www.ilo.org/global/research/global-reports/global-wage-report/lang--en/index.htm

3.2.2. **Stimulate and protect domestic sustainable investments in the environmental, social areas and governance**, with focus on decent work strategies, enabling measures for public finance management, as well as social provisions, including health and education, and low carbon economy and infrastructure.

3.2.3. Job-creation through **private investment and FDI should pursue all dimensions of the decent work agenda** as they are mutually reinforcing and be consolidated through labour market governance institutions such as social dialogue, labour inspection and enabling employment policies. A business enabling environment should include full respect for workers' rights, social dialogue, social protection and investments in education and human resources and should step away from the pernicious effects of the use of the World Bank's Doing Business report.

3.2.4. Ensure financial inclusion and financial consumer protection strategies by governments and central banks.

3.2.5. Enhance international cooperation to prevent mutually destructive **tax competition** between countries including reversing the trend for foreign investor tax privileges (tax incentives and exemptions, export processing zones, "patent boxes", etc.) and to work toward minimum corporate tax floors and consolidated corporate tax bases and ensure country by country reporting by MNEs.

3.2.6. For-profit investment flows through Public-Private Partnerships (PPP) or otherwise, have proven to be unstable resources for quality sustainable development investments and to overlook impacts on critical areas including jobs, taxes and environment. Governments should protect people's right to **universal and affordable public services** and invest in public sector capacities and **ensure fair risk and reward sharing arrangements**, whenever public money is used to mobilize (long term) private finance.

3.2.7. Transaction costs for **remittances of migrant workers** should be reduced.

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3.3. International public finance

3.3.1. **Effective regulation of the financial system and introducing a global Financial Transaction Tax (FTT)** as, inter alia, recommended by the UNGA Experts Committee are prerequisites for enhancing sustainable developmental impact of international public finance.

3.3.2. The **aid effectiveness frameworks** should be empowered through the **legitimate UN framework** allowing for all development partners, including civil society and trade unions, to be involved on an equal footing and respecting the principle of Common but Differentiated Responsibilities.

3.3.3. ODA should **focus on poverty reduction, be untied, and addressing essential sustainable development areas** such as human rights, gender equality, good governance, decent work, including social protection environmental protection and democracy.

3.3.4. Public policy frameworks should **address the risks of new aid modalities** such as loans and blending to ensure that the public interest and the developmental role of the state are safeguarded and sustainable development effectiveness criteria are met.

3.4. Trade and growth

3.4.1. Trade policies should be fully aligned with the **Internationally Agreed Development Goals (**IADG**)** as well as with decent work objectives and the observance of ILO labour standards.

3.4.2. Multinational enterprises are responsible to guarantee respect of core labour standards, including women's rights, and environmental integrity throughout their **supply chains. Legally binding instruments** should be developed so as to hold multinational enterprises accountable for shortcomings along their supply chains. To this end, compliance with the United Nations Guiding Principles on Business and Human Rights, the OECD Guidelines for

Multinational Enterprises and the ILO Tripartite Declaration on Multinational Enterprises should be integrated and be fully enforceable in all trade and economic cooperation agreements.

3.4.3. The current WTO negotiating round and the post-Bali working programme should deliver the mandate of the **Doha Development Agenda** with an emphasis on the needs of Least Developed Countries and special and differentiated treatment.

3.4.4. **Developing countries should enjoy ample policy space** in all trade agreements, including on the multilateral level. Domestic firms and workers should be entitled **fair shares of the gains from trade and domestic trade policies should be enhanced** and protected.

3.5. Sustainable development

3.5.1. Implement **measures** to promote, facilitate and finance access to and the development, transfer and diffusion of environmentally sound technologies and corresponding know-how to developing countries, on concessional and preferential terms, as mutually agreed (Rio+20).

3.6. Debt

3.6.1. Monterrey and Doha commitments for establishing a legitimate international debt workout mechanism should be implemented taking advantage of the recent UNGA resolution on the matter[12].

3.7. Systemic issues, global governance and policy coherence

3.7.1. A new and inclusive global economic architecture should be worked out accompanied by the creation of a UN Economic and Social Security Council. Top of the agenda for this new body must be a remit to ensure policy coherence between the economic, financial and trade systems as recommended

[12] http://www.un.org/en/ga/search/view_doc.asp?symbol=A/RES/68/304

by the 2009 UNGA (Stiglitz) committee in the interest of economic, social and environmental sustainable development. For the trade union movement, in line with the ILO’s Social Justice Declaration (2008)[13] the coherent implementation of the decent work agenda is an integral component of the new sustainable development approach.

3.7.2. Consultative mechanisms should be put in place in this new body to ensure the continuing engagement of trade unions and other representative civil society organisations in follow-up and implementation of measures for effective governance of the global economy, restored global growth and shared prosperity for all.

[13] http://www.ilo.org/global/meetings-and-events/campaigns/voices-on-social-justice/WCMS_099766/lang--en/index.htm