

Financing for Development

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Financing for Development: History & Process

The first International Conference on Financing for Development (FfD) was held in Monterrey in 2002 i.e the “Monterrey Consensus”. This was against the backdrop of the Asian financial crises in the late 90s and was an attempt to recover the UN’s voice on the global economic and financial system. Though international economic cooperation is part of the responsibilities of the United Nations, it has been systematically marginalized by the International Monetary Fund (IMF) and World Bank (WB). Not surprisingly, with developing countries having greater influence in the UN’s ‘one country one vote’ system, the issue of democratizing global economic governance remains at the heart of the FfD process. On the other hand, rich countries prefer to control international economic policy decision-making through institutions like the IMF & WB, where they have a larger vote share.

Though the FfD process is a UN activity, the review process includes non-UN financial institutions such as the IMF, the WB, and the World Trade Organization (WTO). This is the reason that the FfD conferences are ‘international’ and not ‘UN’ conferences on Financing for Development. In addition, civil society and the private sector are also recognized as stakeholders in the process, making the FfD process a uniquely inclusive space for discussing the global economic system.

Since the Monterrey Consensus, there have been two international FfD conferences: in Doha, Qatar in 2008 and in Addis Ababa, Ethiopia in 2015, which produced the Addis Ababa Action Agenda (AAAA). Substantively, the FfD is organized into topic areas to address a range of financing sources in a holistic manner: domestic resource mobilization; domestic and international investment; international trade; official development assistance; debt; and systemic issues.

Addis Ababa Action Agenda (AAAA) – Third FfD conference

Beyond fundraising for SDGs

The second FfD conference was against the backdrop of the 2007-2008 economic crisis that originated in the global North. As [noted](#) by the South Centre, for two decades, the net flow of investment had been from developing countries to developed countries. In other words, the international financial system was actually not mobilizing resources for development for developing countries. Rather than addressing the economic structures underpinning this outflow of resources from the developing world, the third FfD conference overemphasized the need for bridging financing gaps for the SDGs. The negotiations were fraught with developed countries arguing that the AAAA be reduced to Means of Implementation (MoI) of the SDGs while developing countries argued to preserve the FfD process as distinct and separate from the SDGs.

FfD Myths

Myth: FfD is a fundraising exercise for SDGs

Fact: FfD is neither a pledging nor fundraising process to finance SDG implementation; it is meant to create the policy space for developing countries to finance their development in a sustainable manner.

Myth: FfD is the Means of Implementation (MoI) for SDGs

Fact: One of the goals of the outcome of the third FfD conference, Addis Ababa Action Agenda (AAAA), was to support, complement and contextualise the MoI for SDGs. But the goals of the FfD process extend beyond the SDGs.

The final compromise was that one of the goals of the AAAA specifically (not the FfD process) was to support, complement and help contextualise the means of implementation for the 2030 Agenda (the SDGs). But the broader goal of the FfD goes beyond SDG implementation. The FfD process is not meant to be a fundraising exercise to finance SDG implementation, but to create the policy space for developing countries to finance their development in a sustainable manner. This requires the removal of the systemic and structural impediments to transformation and the re-design of global economic governance to promote truly democratic multilateralism.

Unfortunately, the AAAA failed in fulfilling those broader FfD goals. Though an annual FfD follow-up process was agreed for the first time in the AAAA, four years of the FfD Forum has not led to any meaningful progress on the critical FfD issues that need to be resolved.

Key FfD Issues and Recommendations

Domestic Resource Mobilisation

Domestic resource mobilization (DRM) is not a development panacea. But it is a development priority in the post-2015 era and it represents the foundation of financing for states. Tax is the most reliable source of financing for public services and strengthens the social contract between the government and the people.

Recommendations

- **Establish UN intergovernmental tax commission:** A key deficiency of the global tax system is the exclusion of more than half of the world's countries from the decision-making processes on global tax standards, currently led by the OECD and the G20. An inclusive intergovernmental UN tax commission needs to be established, with the mandate and resources to ensure effective and fully inclusive international tax cooperation and domestic resource mobilization, as well as address all issues related to illicit financial flows, including international tax avoidance and evasion. Such an intergovernmental tax commission, where all countries participate on a truly equal footing, should deliver a convention with legally binding rules to ensure effective international tax cooperation, including by ensuring transparency, tackling harmful tax policies and practices, tax havens and secrecy jurisdictions, and other factors facilitating illicit financial flows.
- **Progressive, gender-just tax policies should be prioritised:** Tax policy is not gender or class neutral. Regressive taxes such as value-added tax (VAT) disproportionately harm people living in poverty, women, minorities, people with disabilities, children, and other marginalized groups. Women living in poverty are increasingly affected because of their socially constructed roles as primary care givers. Thus, domestic resource mobilization policies need to be reviewed to take into account their impact on women's income and work, including unpaid labor and unpaid care, and property and assets ownership.

Gender and the AAAA

The Women's Working Group on Financing for Development [noted](#) that:

- The AAAA might leave the impression that it is strong on gender equality, women's empowerment and women's rights. However, it lacks an integrated, consistent and explicit human rights based approach.
- Some of the references to women's rights in the outcome document show strong tendencies toward the instrumentalization of women (i.e. Para 21) and to financing gender equality and women's empowerment as a means to achieve economic growth, increased productivity, and improved economic performance rather than realizing women's and girls' human rights as per the foundation of the UN.

Debt

The risk of debt crises has been increasing rapidly and debt service costs have also risen and increasingly crowd out spending for sustainable development and essential services. The 'billions to trillions' agenda has been a part of the problem. When billions in grants are used to mobilize trillions in private loans, it leads to debt problems on the receiving side. For too long, the international community has turned a blind eye to debt issues and procrastinated over institution building.

Recommendations

- **Build global consensus on Principles on Responsible Borrowing and Lending:** It is promising to see the commitment to work towards a global consensus on responsible lending and borrowing in the 2019 FfD Forum's outcome document. The United Nations now needs to establish a process to move quickly with building this consensus, and eventually to ensure compliance with this consensus.
- **Establish a Sovereign Debt Workout Mechanism:** For many countries, debt crisis prevention comes too late. They are already stuck in a debt trap. They need debt crisis resolution: a debt workout. It is a matter of high priority for the UN to create a debt resolution framework that makes speedy, fair and sustainable debt workouts possible.
- **Commit to Caribbean Debt Relief:** Time is a luxury some communities do not have. Debt relief processes are urgently required for Caribbean and other Small Island Developing States and other countries vulnerable to climate-induced disasters. Governments and international financial institutions need to act immediately before the next hurricane season strikes.

Private Finance

The central role that private finance has taken in the FfD process is disconcerting. Evidence of its sustainable development impact remains weak and, in some sectors – for instance, the privatization and commercialization of education, health, water provision, and other essential services -- substantial available evidence shows their negative impacts on inequality and marginalization. Private sector companies are also increasingly benefiting from development cooperation funds without adequate impact analysis. Indeed, whole new categories of development finance instruments have emerged such as blended and leveraged finance, including a robust promotion of Public-Private Partnerships (PPPs). However, there is a lack of evidence that they are actually delivering positive economic, social and environmental outcomes.

Recommendations

- United Nations should hold inclusive, open and transparent discussion on principles and criteria for publicly-backed private finance. Governments should declare a moratorium on funding, promoting or providing technical assessment for PPPs until an independent review into their development outcomes, and particularly of the World Bank's PPP portfolio, is completed. This should include accumulated off-balance sheet debts, and human rights and environmental impacts.
- Realigning business models to the imperatives of sustainable development requires the reaffirmation, rather than the abdication, of the role of the state in defining a new set of global rules and regulations upholding the centrality of human rights. There should be a move towards promoting mandatory standards and accountability mechanisms rather than voluntary principles. These standards should be based on internationally agreed commitments and principles, such as the labour standards enshrined in ILO Conventions and the ILO Declaration on Multinational Enterprises, the Rio Principles on Environment and Development, the UN Guiding Principles on Business and Human Rights and Development Effectiveness Principles.

International Development Cooperation

Access to quality concessional resources and the effectiveness of the development partnerships play a key role in the realization of the international agreed development goals, SDGs included. In this regard, Official Development Assistance (ODA) in particular, remain critical for development financing, and fulfilling the commitment made more than four decades ago to reach the 0.7% ODA/Gross National Income (GNI) target for provision of ODA remains the cornerstone of success. ODA dropped from \$153 billion in 2017 to \$149.3 billion in 2018, a decline of 2.7%. ODA to Africa dropped by 4%. As a portion of GNI, ODA across all DAC donors sits at 0.31%, well below the UN target of 0.7%. Also, progress in the realization of the effectiveness principles – national ownership, inclusive partnerships, focus on results and transparency & mutual accountability – lags behind, putting in jeopardy the country's political acknowledged by the AAAAA. This glaring lack of ambition on the part of donors coincides with an overly optimistic, and rather unrealistic assumption that private finance will appear to fill the financing shortfalls to deliver on the SDGs and targets.

Recommendations

- Development partners should re-commit to the 0.7% target by providing timetables and accountability frameworks, including enacting legislation at national level. Development partners should also redirect aid to where it is most needed with clear actions and timelines, by providing 50% of ODA to Least Developed Countries (LDCs).
- Governments must redouble efforts and establish time-bound targets to deliver on meeting the commitments associated with the development effectiveness agenda, such as providing an enabling environment for civil society, untying aid, transparency, and using country systems, amongst others, speeding up progress and reversing regression.
- The global community should make sure that quality resources available are not utilized to serve other interests or be invested in blending mechanisms whose development impacts are still to be demonstrated. Rather, it should back innovative financing mechanisms to generate new concessional resources such as an international Financial Transactions Tax (FTT).

International Trade

The global trading system is facing an unprecedented crisis, a reflection of the failed policies of globalization. However, the current approach of the WTO reform process is a concern as it seems to move away from working to benefit small players and marginalized groups in the South to ensuring more power to rich countries and more profits for corporations in the North. It is pushing for inclusion of new issues such as binding e-commerce rules and multilateral investment facilitation, which will impose major constraints on future policy choices of governments across a range of areas such as control of critical data; ensuring future economic policy space; protection of jobs, natural resources, essential services; and their capacity to uphold human rights.

Recommendations

- Any reform of current trade rules must keep sustainable development and the generation of decent work at its heart and allow developing countries, LDCs, SIDS, and their people to realise their full development potential and not constrain them. The current push to dismantle special and differential treatment will significantly undermine the development objectives of developing countries.
- Governments should critically evaluate trade and investment agreements and the multilateral trading system, eliminate investor-state dispute settlement clauses, and undertake human rights impact and sustainability assessments of all these agreements to ensure that they are aligned with the national and extraterritorial obligations of governments.

Technology

The AAAA accorded technology a distinct role in the financing for development discourse, a deviation from previous FfD declarations. There is a misguided assumption that digital technologies will bring inclusiveness and will lead us to the path of “Leaving No One Behind.” The history of technological disruptions tells us otherwise. Adoption of technological solutions to attain development goals must not be based on an uncritical acceptance of the promises of new technologies and their potentials to bridge development divides, but in recognizing the risk that they will deepen inequalities and in understanding available technology options to suit specific needs, conditions and capacities of countries and communities. Technology development is not a monopoly of the formal sector, nor is technology only transferred and diffused by the private sector and industrialized countries. Indigenous, traditional knowledge and community innovations must be supported on par with those in the formal sector.

Recommendations

- **Establish global technology assessment mechanism:** As the UN, governments and institutions grapple with the governance of digital technologies, there is an urgent need for broad, transparent, inclusive, accessible and participatory deliberations on the current and potential impacts of these technologies on the environment, the labour market, livelihoods and society. Horizon scanning and foresight capacities need to be developed and should involve identifying options beyond the technological solutions. Governance measures on technologies are not just about regulation but ensuring that the common good remains as the ultimate goal and takes precedence over profits.

Systemic Issues

The process of financialization of the economies continues unabated and is creating greater global inequality, instability and diverting finance from sustainable and equitable development sectors. Calls for restructuring the very foundations of the international financial and monetary system, including those made in the UN World Conference on the Financial and Economic Crisis (2009), have gone unheeded. If another crisis were to strike today, the world would be just as unprepared as it was in 2008. While banks have been a bit more strictly regulated, increasingly complex and risky financial products are again being issued on the financial market, which increases uncertainty and could become a systemic risk for the global financial system.

Recommendations

- **Capital control measures:** Capital control measures should be considered standard policy in the context of a comprehensive set of policy options. This would encourage countries to limit short-term capital inflows and outflows in order to prevent excessive financial and exchange rate volatility.

ECOSOC Forum on FfD Follow-up

Paragraph 132 of the Addis Ababa Action Agenda commits to an annual FfD Forum of ‘up to five days’. The outcome consists of inter-governmentally agreed conclusions and recommendations to review implementation of Addis Ababa Action Agenda (AAAA) and other FfD outcomes.

Inter-Agency Task Force

The [Inter-Agency Task Force on Financing for Development](#), convened by the Secretary-General to follow up on the Addis Ababa Action Agenda, is comprised of over 50 United Nations agencies, programmes and offices, regional economic commissions and other relevant international institutions.

Paragraph 133 of the Addis Agenda mandates the Task Force to (i) report annually on progress in implementing the AAAA and other FfD outcomes and the means of implementation of the 2030 Sustainable Development Agenda, and (ii) advise the intergovernmental follow-up process on progress, implementation gaps and recommendations for corrective action, while taking into consideration the national and regional dimensions.

The Task Force's publication, [Financing for Sustainable Development Report \(FSDR\)](#), is the major substantive input to the ECOSOC Forum on Financing for Development follow-up.

- Special Drawing Rights: Reform of the Special Drawing Rights regime towards its full potential to serve as a development finance tool and as the centre of the international monetary system should be prioritised. Failing to do so validates the insufficiencies of the IMF governance reform process. The IMF should also be encouraged to define a method to ensure that its interventions support sustainable development, such as through the guiding principles on human rights impact assessments of economic reform policies.

Conclusion: Looking Ahead

Despite four FfD follow-up Forums since AAAA in 2015, the world remains completely off track to reach the 2030 Agenda, Paris Climate Agreement and the ambitions outlined in the FfD outcomes. In order to make meaningful progress on resolving the critical FfD issues highlighted here, governments which claim to still support multilateralism need to move forward.

The upcoming **High Level Dialogue (HLD) on FfD in September 2019** will be a key moment to generate the necessary political will by **adopting a political declaration** that commits to moving beyond current stalemates on critical issues. The HLD could provide the political impetus to build momentum for governments to pledge their support for multilateral solutions in the context of FfD. The next step that can emerge from this could then include UNGA voting to **establish formal or informal working groups on some of the critical FfD issues** (debt, tax related illicit financial flows, trade, technology assessment etc) for member states committed to multilateralism to start to do the groundwork on building consensus on these issues.

The FfD process is critical not just to unlock the necessary means of implementation to realize the aspirations exposed by the 2030 Agenda for Sustainable Development but is critical to removing many of the structural barriers to advancing systemic reforms of global economic frameworks to realign them with the imperatives of human rights, gender justice, people-centeredness and sustainable development.

For more details, see: Civil Society FfD Group: <https://csoforffd.org/> and Women's Working Group on FfD: <https://wgonffd.wordpress.com/>

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