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Why Financing for Development Matters: Stepping Stones for SDG Implementation

In September 2015 the world's countries will agree a development framework that will build on the Millennium Development Goals (MDGs), which expire in 2015. Negotiations are ongoing and the Open Working Group of the United Nations (UN) has already proposed **17 Sustainable Development Goals** (SDGs) and 169 sub-targets for the future. The main discussions about the content of the future development framework have been concluded. Still, parallel to some fine-tuning on the targets and indicators, negotiations are ongoing about the **means of implementation of the post 2015 development framework**[1]. What kind of public and private finances will support the implementation of the SDGs? What kind of financial policies or systematic changes have to be enacted in order for the world's nations to achieve the social, economic and environmental development that is envisioned for the future?

The discussions about the means of implementation of the SDGs will take place in several fora during 2015. The first occasion, which is key, is the **Third Financing for Development Conference in Addis Ababa**, Ethiopia, 13-16 July 2015. During the conference diverse topics related to financing international development will be addressed, including how to finance the SDGs. The outcomes of the Addis Ababa conference will also to a large extent influence the intergovernmental negotiations and agreement on the content of the Post-2015 agenda during the UN General Assembly (UN GA) in New York in September, 2015.

This Policy Digest will look at some of the most crucial policy discussions that are happening around financing for sustainable development. There are a number of civil society organisations (CSOs) working on this topic and advocating for CSO views to be included – see below how you can get involved!

Why is the Third Financing for Development Conference important?

The road to the Addis Ababa conference started already in 2002 in Monterrey, Mexico. After adopting the UN Millennium Development Goals in 2000 the Monterrey conference was the first high-level UN

[1] Goal no. 17 of the proposed SDGs by the Open Working Group is "Strengthen the means of implementation and revitalize the global partnership for sustainable development", available at: http://docs.google.com/gview?url=http://sustainabledevelopment.un.org/content/documents/1579SDGs%20Proposal.pdf&embedded=true

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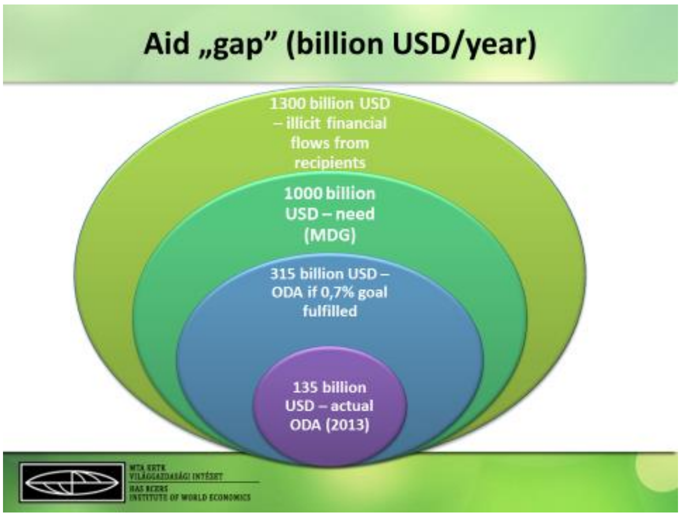
event to particularly address the question of how to finance the rather ambitious development goals the international community had set itself. The outcome of the conference is the Monterrey consensus[2], which covers in a systematic manner financial modalities in five areas that could potentially provide resources for development: domestic resource mobilisation, international private investments and flows, external debt and international public resources and technical cooperation. It also deals with non-financial factors – related to trade and other issues referred to as systemic – which have a great influence on mobilising the required resources and could create more partner country ownership over financial decisions as well.

The issues discussed in Monterrey were followed-up in many other fora both inside and outside UN bodies, such as during the High Level Meetings on Development Effectiveness, one of the most important among them being the follow-up conference held in Doha in 2008. 13 years after the Monterrey conference in many chapters of the consensus the results are lagging behind the expectations different stakeholders including the partner countries and CSOs initially had. The challenge in Addis Ababa is to tackle as many of these problems as possible and to set out how the Financing for Development (FfD) agenda will support and complement the post-2015 agreement – not only by adding new commitments but by deciding how to ensure that the commitments are fulfilled.

What are some of the financial means that can support SDG implementation?

For partner countries, **domestic resource mobilisation** represents the most sustainable and predictable way of financing development. As can be seen from the graph there is still much more **money flowing out illicitly from the aid recipient countries** than the amount of ODA going to these countries. Some call this the financial colonisation phenomena of our times, others speak about the inappropriate international financial systems.

The most important discussion is about how to reduce the biggest bubble of the chart – how to stop illicit financial flows. Even minor changes to the international financial system could yield generous results for aid recipient countries. On the EU level some signs of action towards this aim are evident, but in general the fight against tax dodging and raising the transparency of transnational companies is not moving fast enough. Clear recommendations for EU member states and EU institutions exist on how to start bringing an end to the scandalous tax dodging practices.[3]



From: Innovatív finanszírozás a nemzetközi fejlesztésben (to be published, Innovative finance in international development) by Judit Kiss, HAS RCERS, Institute of World Economics

Private sources like foreign direct investment and the complementary use of loans and ODA grants (blending) on one hand can enhance economic growth but on the other hand, poorly managed private flows, which do not take into account the social and environmental implications, could do more harm than good. Currently as the international community is more and more focused on private resources it is even more crucial to create necessary transnational safeguards which are non-existent at the moment. These could ensure every country's policy space, including countries from the Global South, in decisions over the use of private resources and creating a comprehensive regulatory framework fostering responsibility, transparency and accountability in private investment.

One of the problematic issues is that while there is commitment to securing international public resources for development in the form of **Official Development Assistance (ODA)**, it still only reaches about half of the decades old commitment of the European Union to commit 0,7% ODA to gross national income (GNI) ratio.

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[2] Monterrey Consensus on Financing for Development, http://www.un.org/esa/ffd/wp-content/uploads/2014/09/MonterreyConsensus.pdf

[3] See e.g. at the end of the report *Hidden profits – the EU's role in supporting an unjust global tax system 2014*, http://www.christianaid.org.uk/resources/policy/tax.aspx

Effective ODA has a unique role to play in tackling poverty and securing sustainable development. Therefore European CSOs are calling on EU governments to re-commit to strong and binding ODA targets with a clear timetable in the Addis Ababa conference[4].

The aim of saving countries from **external debt crisis** is still far from being achieved and needs the adoption of a legal framework for sovereign debt restructuring and also implies the complete reform of debt sustainability frameworks.

To illustrate how complex the issue of financing of development is – especially when public and private modalities meet – take the example of Development Finance Institutions[5] (DFI). In general DFIs are owned mostly by the richest donor states. In the last 13 years the amounts administered via DFIs have multiplied by 20. From 5 billion in 2002, the amount is expected to be 100 billion USD in 2015, over two thirds of all OECD Development Assistance Committee (DAC) registered ODA. Today it is over 50% of such public finance flowing from DFIs to the private sector, mostly to commercial banks. Transparency with regard to the use of development money stops right there. The same happens with the possibilities to secure a climate friendly and human rights based approach using these funds. Another aspect is that nearly half of the sums handled by DFIs go to companies based in OECD countries and some in tax havens.[6] This one example touches upon many of the problem areas of the international financial system which need to be addressed at the Addis Ababa conference through both financial and non-financial solutions.

Which systemic changes and non-financial means can support the implementation of the SDGs?

Systemic issues, along with trade, technology, innovation and capacity building, monitoring, accountability and data collection should, according to Monterrey consensus and the report by Intergovernmental Committee of Experts on Sustainable Development Financing[7], ensure an enabling environment for financial means to work best for sustainable development. Good governance, mainstreaming the gender perspective into development policies at all levels and in all sectors, strengthening international tax cooperation, promoting regional cooperation and fighting corruption add to this list.[8]

An especially crucial systemic area where not much progress has been made since Monterrey is **restructuring the international financial architecture**. The Monterrey Consensus called for reforming the International Financial Institutions, particularly the International Monetary Fund and World Bank, to increase representation of partner countries, especially the Least Developed Countries, in the boards of these institutions. Similarly there is a lack of representation of partner countries in decision-making on financing taken at the OECD. One way proposed to deal with this, for example, is to set up a Global Economic Coordination Council at the UN level[9], to ensure that decisions on financing aspects always include those that they influence.

Policy coherence for (sustainable) development (PCD) is a systemic issue that has been high on the EU's development cooperation agenda, calling also for its inclusion within the post-2015 framework. Policy coherence for development means ensuring that all policies that have an impact on other countries, such as e.g. trade, migration or agricultural policies should work in favour of sustainable development objectives,

[4] For more detailed CSO recommendations for the Addis Ababa conference see CONCORD publication *Destination Addis Ababa: European Union's Responsibilities at the Third Financing for Development Conference*, http://www.concordeurope.org/publications/item/412-destination-addis and Afrodad, Eurodad, Jubilee South Asia Pacific Movement on Debt and Development Latindadd, Third World Network publication *UN Financing for Development negotiations: What outcomes should be agreed in Addis Ababa in 2015?*, http://eurodad.org/files/pdf/54c7b792e11b4.pdf

[5] DFIs provide credit in the form of higher risk loans, equity positions and risk guarantee instruments to private sector investments in developing countries. Examples include ADB, EIB, WB Group, EBRD, DEG, FMO (of NL), IFC, PROPARCO (of FR), etc.

[6] Based on a two years long research project on DFIs by Eurodad producing four reports, summarized in *A private affair – Shining a light on the shadowy institutions giving public support to private companies and taking over the development agenda* by M. J. Romero, http://www.eurodad.org/files/pdf/53be474b0aefa.pdf

[7] Report of the Intergovernmental Committee of Experts in Sustainable Development Financing, https://sustainabledevelopment.un.org/content/documents/4588FINAL%20REPORT%20ICESDF.pdf

[8] For a more comprehensive overview read the European Financing for Development Task Force and Beyond 2015 European Task Force Position on the Means of Implementation, to be published at the beginning of April on www.concordeurope.org

[9] Afrodad, Eurodad, JSAPMDD, Latindadd, Third World Network publication *UN Financing for Development negotiations: What outcomes should be agreed in Addis Ababa in 2015?*

not against them.[10] In terms of financing the post-2015 framework it is important to establish both **impact assessment and redress mechanisms** for public or private policy incoherencies.

In terms of **trade**, the means of implementation proposed by the EU mostly focus on reform of trade policy and practice[11]. There is a vacuum of international policy frameworks to regulate the operation of Global Value Chains. Bilateral and multilateral Trade agreements as well as Free trade agreements often restrict governments' ability to safeguard public interest over investor rights. The proposed means of implementation include developing human rights instruments that could be made binding for transnational corporations, while human rights assessment could be carried out for all trade and investment agreements. Besides that the new financing framework is invited to promote fairer prices and to favour trade that abides social and environmental standards.

Remittances that are sent back home from migrant workers are increasingly contributing to the development of recipient countries. The amounts of remittances are already approximately twice as big as those of ODA. There is an active debate now about putting in place mechanisms that would facilitate temporary labour cross-border migration and increase the remittances as a form of financing global development.

Another topic that is connected both to systemic issues and trade issues is **the transfer of technology and knowledge** between North and South as well as South – South. Valuing local knowledge and innovations based on local knowledge goes in line with understanding the inclusiveness of post-2015 framework as a global partnership that outlines common but differentiated responsibilities.

Finally, important means of implementation are connected to **accountability** – both seeing the governments as the principal duty-bearers for national and global development, and promoting and establishing private sector accountability, as the role of the sector in development cooperation increases. Accountability issues though are expected to be one of the difficult issues in negotiations on post-2015 with some states wanting to reduce this to "monitoring and review" measures and others making accountability more mandatory and universal. **Data and information availability** is also looked at as a separate means of implementation, especially in light of establishing and mainstreaming alternative measures of progress beyond GDP-based indicators that only show the economic, not the social or environmental side of development.

The road forward towards Addis Ababa and New York

Globally the CSO work to influence Post-2015 negotiations in New York is done through the **Beyond 2015** platform which brings together CSO platforms from around the world. The advocacy work on Financing for Development is led by the European **Financing for Development Task Force** coordinated by CONCORD. On the EU level there is still room to influence both the individual member states' positions and the common EU position. Council Conclusions on financing for development that will be the common position of EU in Addis Ababa are planned to be adopted on the 26th of May at the Foreign Affairs Council on development. Finally on the 26th and 27th of June Council of Heads of States will discuss the EU's ODA targets.

[10] Read more on PCD from TRIALOG Policy Digest http://www.trialog.or.at/policy-coherence-for-development and CONCORD report *Spotlight* on Policy Coherence for Development, http://www.concordeurope.org/publications/item/259-spotlight-on-eu-policy-coherence-for-development

[11] EC Communication *A global partnership for poverty eradication and sustainable development after 2015*, February 2015, https://ec.europa.eu/europeaid/communication-global-partnership-poverty-eradication-and-sustainable-development-after-2015_en

What can I do?

- Follow the UN negotiations and the positions of your national government
- Follow the work of CONCORD and its national NGDO platforms and support or take part in their actions
- Address these issues in your actions under the European Year for Development
- After the approval of the SDGs and the means of implementation engage in monitoring the actual implementation of the SDGs both at national and international level

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TRIALOG Partners: EU13 Development CSO Platforms

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