Financing people-centred sustainable development

Summary

- Christian Aid believes that this year's Financing for Development Conference is a critical moment for sustainable development. A successful outcome could act as a catalyst for further global agreements.
- The scale of the 'financing gap' for achieving the Sustainable Development Goals means that business as usual is not an option. Structural solutions are required, and a successful outcome must include commitments to the creation of more effective, democratic and accountable institutions for managing global finance.
- All forms of financing for development must be aimed at fulfilling international human rights standards, achieving gender equality, and reducing the risk and impacts of climate change. If these criteria cannot be met, it cannot be considered as development finance within the financing for development process.
- Domestic resource mobilisation in the form of fair tax policies and practices represents the most effective, sustainable and legitimate form of development finance, and offers the greatest potential for scaling up development through effective and coordinated actions.
- Private finance has a critical role to play in development, but must be subject to environmental and social safeguards, and meet human rights, gender equality and climate change criteria if it is to be considered financing for development.

'All forms of financing for development must be aimed at fulfilling international human rights standards, achieving gender equality, and reducing climate change'

Introduction

Ending the scourge of poverty, stopping debilitating inequality, fulfilling human rights, achieving gender equality and ensuring sustainable development in a world confronted with climate change are all within our grasp if we live up to the ambition and intent of existing UN-facilitated processes. Realising the urgency of these challenges is vital. Getting the required resources in the right way to the right place is eminently feasible.

'Getting the required resources in the right way to the right place is eminently feasible'

In 2015, the global community faces a set of closely linked opportunities to move the world on to a path of equitable and sustainable development. Agreement on mobilising fair and adequate international and domestic resources at the Third UN Conference on Financing for Development (FfD) in Addis Ababa in July is a prerequisite for the successful implementation of the Sustainable Development Goals (SDGs) in New York later this year.

A successful outcome at the FfD conference will also increase the chances of reaching an international deal to tackle global warming at the 21st Conference of Parties to the UN Framework Convention on Climate Change (UNFCCC COP21) in Paris later this year, as well as the setting of a new agenda for global humanitarian action at the World Humanitarian Summit in April 2016. It will also support progress towards gender equality as affirmed by the 1995 Beijing Declaration and Platform for Action.[1]

In addition, an ambitious, fair and inclusive agreement in Addis Ababa will provide the foundations for further success in the future. An outcome that is perceived to lack ambition or clarity will undermine the confidence of developing countries in particular, and reduce the likelihood of progress in the future.

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This paper sets out Christian Aid's overall vision for the FfD process, highlights those parts of the agenda where we believe progress is crucial, identifies the key principles that we want to see reflected in the outcomes, and pinpoints key recommendations that we will take to the conference.

Our positions have been developed in alignment with previous Christian Aid policy statements, specifically with regard to the SDGs, the UNFCCC and the climate targets we would like to see set, and the proposals for a post-2015 'fiscal revolution' (developed with the Center for Economic and Social Rights).[2]

Throughout the FfD process, we will be working with a range of civil society partners from the global North and South, and through key European and UK development NGO networks (most notably the Global Alliance for Tax Justice, Eurodad, ACT Alliance, CONCORD, Bond and the Financial Transparency Coalition), supporting recommendations across the spectrum of areas under discussion. But as Christian Aid, our specific analysis and recommendations will focus on the areas of **official development assistance (ODA), domestic resource mobilisation (DRM), and private finance including foreign direct investment (FDI).**

Overarching principles

Economic growth is an important instrument in pursuit of development, but it is only one among many and cannot be a goal in itself. World leaders need to ensure that fulfilling human rights, eradicating poverty, reducing economic and gender inequality, and ensuring environmental sustainability are the objectives behind mobilising and moving money, not growth alone, which all too often entrenches inequality. Current systems of financial governance do not adequately reflect this perspective.

Critical to success in mobilising the resources required, and building the trust between developed and developing nations, will be the establishment of effective systems of governance globally. The creation of institutional frameworks essential for effective cooperation towards the common good is also essential, one principle of which must be ensuring that poor women and men have a voice in decisions that directly affect them and are able to hold institutions to account.

It is the poor, and poor women especially, who are the most vulnerable to the effects of economic and financial shocks. The actions of global institutions that affect the world economy should be reviewed and measures taken both to reduce the likelihood of future shocks and ensure that those most vulnerable are insulated from their impact. This could entail reviewing the mandate, governance and effectiveness of multilateral agencies, such as the IMF, World Bank and Organisation for Economic Co-operation and Development (OECD), as well as groupings in which governments take collective action, such as the G8 and G20.

The amount of financial resources made available to developing country governments is obviously important, but it is crucial that finances from all actors, including the private sector, are delivered in a way that support, and do not undermine, the wider principles of sustainable and equitable development.

One basis for discussions at the Addis Ababa conference will be the six chapters of the consensus that emerged from the first FfD Conference in Monterrey, Mexico in 2002. Another will be the new topics that emerged from the sustainable development principles to which the Rio+20 process subscribed.

Christian Aid calls on world leaders to ensure that the following principles are reflected in the discussions.

1. The objective of financing must be sustainable development and the fulfilment of human rights in terms of the quality of life enjoyed by all citizens in developing countries.
2. Development finance must have significant impact in terms of increasing the control poor and marginalised women and men have over decisions that affect them.
3. Ensuring environmental sustainability and resilience to environmental change, including climate change, must be at the heart of the conference outcomes.
4. Development finance must increase equality between and within countries.
5. Development finance must increase the resilience of the world economy to further economic shocks.
6. Stronger global finance institutions that genuinely represent the interests of the global poor are needed through the United Nations system.

'Critical to success in mobilising the resources required and building trust between nations will be the establishment of effective systems of governance globally'

Prioritisation

At current levels of investment in SDG-relevant sectors (such as countering climate change and gender inequality), developing countries face a potential gap of $2.5 trillion annually, according to UN Conference on Trade and Development (UNCTAD).[3]

Filling such a gap is entirely feasible, but it cannot be achieved through business as usual. All countries will need to play their part, and both private and public sector finance will be required. More importantly, a step change will be needed in the structural approach to managing global finance.

Developed countries need to focus on reducing the harm done by the tax and financial systems that facilitate tax dodging and illicit financial flows (IFFs) – the illegal movement of money or capital from one country to another, which in 2011 was estimated to amount to a loss of $634bn for developing countries.[4]

The potential for growth in the domestic revenues of developing countries – in the form of widening the tax base and ensuring multinationals pay fair revenues based on profits made – is substantial, estimated at $4.45tn of public financing.[5]

In addition, private sector flows have a significant potential for scaling up in the near term. International flows of private finance to developing countries, including FDI, are estimated at $584bn annually. However, these are balanced by flows out of developing countries (repatriated profits) of $486bn (although of course there will have been some economic impacts of investments in the local economy). But in contrast with these figures, domestic private investments reached $7.33tn in 2012.[6]

In terms of future scale and capacity, we expect to see a major focus on building the capacity of revenue collection agencies and other institutions that would enable greater DRM to take place, while ensuring that public and private inflows are not undermined by harmful illicit outflows.

In addition to quantitative increases, the other priority for the FfD process must be to improve the qualitative aspects of development financing. Developed countries need to meet the UN target of giving ODA equivalent to 0.7% of their gross national income (GNI). At present, the UK is the only major economy to fulfil the commitment to that figure.

But as well as providing funding for specific projects, ODA must be aimed at having the greatest impact, which may include playing a catalytic role in strengthening governance, supporting civil society, reducing disaster risks and promoting gender equality.

There also needs to be a general agreement that all development financing must have a role in minimising the impact of climate change and help poorer countries develop in a low carbon way. It is important therefore that the Rio+20 agenda is integrated into FfD thinking. This in no way diminishes the need for specific additional climate financing in the UNFCCC process, including delivering on an already-agreed pledge by richer countries of $100bn per year of climate finance for the developing world by 2020.

'A step change will be needed in the structural approach to managing global finance'

Private finance

Private finance makes up the largest aspect of international finance to developing countries, especially when we include private and public debt inflows and outflows. However, this does not mean it can be simply counted as 'financing for development', and the role of private finance needs to be clearly defined in the FfD process. Private finance under FfD should be subject to the same social and environmental safeguards as ODA and other public sources, and must meet the same developmental criteria.

There should be a clear separation of function. While governments have a primary duty to ensure investment in social sectors, the private sector's role should be mainly the provision of investment and equity into productive aspects of the economy.

In some areas, these functions may overlap in what are known as public private partnerships (PPPs), but such partnerships should not enable the state to sidestep its obligation to provide infrastructure and public services for its citizens.

The real scale and impact of private financing is difficult to measure due to the frequently opaque nature of the movement of private capital. Flows of FDI were measured at $480bn on an annual basis in 2012, and portfolio investments of shares and equity made up an additional $104bn.[7] However, the dramatic rise of FDI in recent years, especially to developing countries, includes 'round tripping' where finance is taken out of a country and then 're-invested' via a tax haven, often utilising Special Purpose Entities (SPEs), and the number of countries offering favourable tax treatment to SPEs is on the increase.[8] There is a risk that these SPEs are indeed set up with the purpose of dodging taxes.[9] The quantitative measure of FDI therefore needs critical examination by UNCTAD and other agencies. Portfolio capital is increasingly measured by the IMF's surveys that equally lack geographic and sectoral destinations in many countries. Finally, the real returns on capital need to be better known given the repatriation of profits on FDI and dividends on equity.

Private loans, guaranteed by donor countries, have existed both as part of ODA and increasingly independently of it in the development financing landscape. They have a role to play, being most effective when given to productive sectors, including agriculture, services and industry, to provide development outcomes. However, loans may undermine, as well as support, sustainable development.

Debt vulnerabilities around the world are high. Developing countries currently pay $188bn per annum in debt repayments, which erodes public spending in social services and public investments.[10] Some countries have unsustainable levels of indebtedness and the UN agreement to develop a multilateral legal framework for sovereign debt restructuring is critical in this context.

In addition to debt creation, loans can undermine development in other ways. Public subsidies of fossil fuels currently amount to $550bn annually, hugely undermining the environmental sustainability of FfD objectives.[11] Outcomes from the Addis Ababa conference must include a strong commitment by governments to phase out subsidies on fossil fuel production and consumption, while protecting people living in energy and fuel poverty.

Last year, the UN established a set of guiding principles to endeavour to ensure that businesses are bound by the universal principles of human rights, including the provision of reporting, remedy and accountability mechanisms. A resolution from the UN Human Rights Council supported the development of an internationally legally binding instrument, aimed at regulating multinational activities according to international law.

'Private finance under FfD should be subject to the same social and environmental safeguards as ODA'

Building on this link between business and human rights, binding principles for responsible investment now need to be discussed that will introduce safeguards against human rights violations and environmental risks, while at the same time ensuring that multinationals are obliged to record publically the impact of their activities, wherever they are operating.

The FfD process is a platform to discuss concrete proposals towards enhancing the transparency and responsibility of private finance in a human rights context, and to understand and safeguard the social, gender, environmental and governance impacts of private financing beyond simple calculations of quantitative inflows and outflows.

To this end, a responsibility charter for private investors should be included in the FfD outcome document.

Mobilising domestic financial resources

Tax is the most sustainable, scalable and dependable form of finance, and also the one that is most likely to lead to sustainable development outcomes through increased public budgets. Widening the tax base in developing countries to include multinationals and the rich, who frequently enjoy exemptions, has a direct impact on the capacity of governments to fulfil the economic, social and cultural rights of their citizens.

Equally, actions that restrict the ability of states to raise the appropriate levels of tax (diverse abusive tax practices) can be seen as human rights violations because they deprive states of development financing[12] and undermine the important principles of countries' ownership of their own development process.

A progressive tax system can also contribute to sustainable development goals in other ways, including countering gender[13] and economic inequalities, and promoting good governance[14] and environmental sustainability.[15] Proposals for strengthening DRM must be focused on supporting tax systems that:

- raise **sufficient** public resources to finance high-quality essential services for all
- improve **redistributive** capacities to reduce inequalities between socio-economic groups and between women and men, in all regions
- reduce economic inequality within countries through enhanced use of **progressive** taxation on income and wealth
- are fully **accountable** to the people that they serve at both the national and global level.

One of the fundamental obstacles to DRM in developing countries is the amount of finance leaving these countries untaxed. Globalisation, as well as outdated and broken global tax rules, have made it possible for multinationals in particular to dodge their tax obligations on a very large scale.

Responding to this situation requires action in three key areas:

- increasing financial transparency
- changing the rules of the global tax system to ensure a fairer and more appropriate distribution of the global tax base
- creating a more inclusive and democratic institutional framework for the governance of the global tax system.

Outcomes from the FfD process must include clear agreement for reform in each of these areas. There must be agreement on global transparency that includes public country-by-country reporting by multinationals, public registers of beneficial owners of companies and trusts, effective and fully inclusive automatic exchange of tax information between countries, and universal use of open data formats (provided in a way that is fully accessible and usable by anyone). It also means going beyond the current Organisation for Economic Cooperation and Development (OECD) process on Base Erosion and Profit Shifting (BEPS) to develop a wider and more inclusive process that looks at the problems from the perspective of developing countries where different sectors, such as extractive industries, food and agriculture, and telecoms, are of a higher priority for action on tax dodging than the digital economy highlighted in the BEPS process.

‘Tax is the most sustainable, scalable and dependable form of finance’

Agreements at the FfD conference will need to be supported by a commitment to establish a new intergovernmental body on international cooperation in tax matters under the auspices of the UN, and provide the resources necessary to allow the body to operate effectively, including gender expertise for an effective assessment of tax policies from a gender equality perspective.

Addressing the ‘delivery gap’ of ODA

ODA, while limited in how far it can be scaled up, retains a critical role, both in directly financing development actions and also in supporting the entire infrastructure of institutions and global governance that underpin effective, accountable and sustainable development.

Most ODA should be directed at addressing the gaps in public financing for tackling poverty and inequality, and should be focused in ways that reduce aid dependency.

In this context, greater priority needs to be given to aid focused on gender equality (according to the OECD, in 2012 gender-focused aid accounted for less than a third of the total aid mobilised by donor countries[16]). In addition, ODA can also play a role in helping shine a light on economic injustice through supporting civil society to participate in inclusive development.

Many developed country governments consider that ODA should serve a catalytic purpose in assisting other development finance flows – especially private finance flows. It is important to consider whether such a catalytic role would erode the primary impact of ODA in addressing poverty, and whether this catalytic role can be better achieved in other areas, including mobilising domestic resources. Currently the reform of ODA is discussed at the OECD’s Development Assistance Committee (DAC), but the discussions over new directions for ODA should emerge from a rights-based vision within the FfD process. This should then be followed up in institutional spaces that ensure the widest possible representation of all developing countries in defining the future directions of international aid flows, such as the UN’s Development Cooperation Forum (DCF).

The FfD process is the right forum to set in motion a process of linking ODA to supporting global mechanisms to ensure that the trade-offs concerning private lending and financing are balanced in favour of developmental needs. It can also clarify the unique and additional role for ODA in relation to other domestic and international flows to fulfil its overall mission in fighting poverty, marginalisation and inequality, especially in the least-developed countries (LDCs). We need to ensure strong ODA levels to LDCs by committing to a gradual increase in the share they receive.

At the 2002 Monterrey FfD conference, developed countries committed to meet the Millennium Development Goals by 2015 with a strong focus on increasing aid spending to meet the 0.7% of GNI target set by the UN. Other important public spending targets include the EU target to reach 0.7% of GNI target by 2015 and the UN target of giving between 0.15% – 0.20% in aid to LDCs. Currently only Sweden, Luxembourg, Denmark and the UK have reached the 0.7% target, while only a few others even plan to reach the 0.7% target in the near future.[17] The Addis Ababa conference must build on this progress and ensure that there is a strong ODA target that recognises the unique and additional role of aid, and reflects the needs and desires of partner countries with the perspective of financing development from other domestic resources once capability exists to this regard.

Additional/systemic issues

The financing requirements for sustainable development are very large and may be substantially greater than many estimates if appropriate, multidimensional definitions of poverty are used, such as gender inequality and genuine criteria for environmental sustainability.

Redistribution and representation must play key roles in meeting the needs of the poorest and most vulnerable women and men, but there remains a need to explore all possible forms of finance and advance new mechanisms that can help close the gap. If the poor do not have a voice in how development financing decisions are made, such agreements are unlikely to serve their needs, which means that the voices of developing nations must be included when deciding on global rules and agreements. To achieve this, the participation of civil society in developing nations must be broadened, especially those representing the needs of women and marginalised populations.

'The voices of developing nations must be included when deciding on global rules and agreements'

The global financial crisis demonstrated how public budgets are constrained by monetary policy and currency fluctuations. The use of Special Drawing Rights (an international reserve asset, created by the IMF based on four key international currencies) is an established mechanism for countering the impact of global imbalances, but other possible options should also be explored.

Since the last FfD conference in Doha in 2008, one solution by developed nations was to engage in unprecedented quantitative easing policies. Due to limited reserve currency positions and less liquid capital markets, developing nations were not able to inject similar stimulus in their economies. There is a need to explore new approaches to the provision of debt-free, interest-free public finance for development in developing nations, and a working party should be established to explore the options in greater detail.

In addition, other areas of further investigation with potential to enhance financing for development could include taxes on arms trading and financial transactions.

Finally, the current process of holding an FfD review summit every five years is not an adequate way to address the vast systemic imbalances and institutional arrangements that underlie the mobilisation of development financing today.

It is critical that the outcome of the Addis Ababa conference is supported by an adequately resourced permanent institution, with sufficient mandate to hold governments accountable to their commitments.

Such an institution should produce monitoring reports in conjunction with inputs from other relevant institutions within the UN and beyond, culminating each year in a review of progress made.

Endnotes

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15. See iied.org/kathmandu-declaration-recommendations-for-financing-communities-most-vulnerable-climate-change
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Christian Aid is a Christian organisation that insists the world can and must be swiftly changed to one where everyone can live a full life, free from poverty.

We work globally for profound change that eradicates the causes of poverty, striving to achieve equality, dignity and freedom for all, regardless of faith or nationality. We are part of a wider movement for social justice.

We provide urgent, practical and effective assistance where need is great, tackling the effects of poverty as well as its root causes.