Why Addis Ababa Matters

CIDSE Recommendations for the Third UN International Financing for Development Conference

March 2015
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FOREWORD

2015 is a once in a lifetime opportunity to make giant leaps towards our vision of justice, equity, dignity and protecting our natural environment. International agreements to be made this year on financing for development, climate change and the Post-2015 framework will lock us in – people and the planet, for better or for worse, on certain pathways. They may have a transformative effect on all our lives and how we interact with our natural environment. Or they may not. Most critically they will have big impacts on the lives of people who are systematically denied their basic human rights, living in poverty and structurally excluded from circles of influence and decision-making. The optimism of the new millennium and the global outcry prompted by the attacks on the United States on 11 September 2001 provided a particular sense of purpose to the first International Conference on Financing for Development in 2002. Determined to make globalisation fully inclusive and equitable, the international community undertook to mobilise and use financial resources effectively and achieve the national and international economic conditions needed to eliminate poverty, improve social conditions and protect our environment in the Conference's outcome document, the Monterrey Consensus.

In Addis Ababa there should be an even greater sense of purpose reflecting an acute awareness that globalisation is not working for either people or the planet. According to recent research the richest 1 per cent of people in the world own 48 per cent of global wealth, leaving just 52 per cent to be shared between the other 99 per cent of adults on the planet. We have been emitting more greenhouse gases than ever before despite 20 UNFCCC conferences and other climate summits and all the technical means at our disposal. Our use of the entire planet's plant production has more than doubled compared to a century ago.

At the same time, Post-2015 discussions have created a new sense of optimism. We have hopefully learned our lessons. We believe we can forge an agenda of universal responsibility that not only the global South has to deliver on but the global North as well. Yet getting it right this time around will need as much if not greater levels of political ambition and leadership.

Unfortunately, calculations of political risk have been winning over considerations of the leadership opportunities that this year provides. This trend is clear in preparations for the Financing for Development Conference in Addis Ababa with an apparent “wait and watch” approach for others to make the first move and non-committal posturing. It is a disturbing approach to be taken towards a Conference which will need to rebuild North-South trust as an essential condition for the success of the Post-2015 Summit in New York and the Climate Conference in Paris.

To rebuild an urgently needed spirit of multilateralism, the agreement in Addis Ababa will need to demonstrate international cooperation that is holistic and built on international solidarity rather than charity. It will need to equally uphold all the three dimensions of sustainable development: environmental, social and economic. It must put people and not markets at the centre. All States and not just recipient “partner countries” must be made accountable for its delivery. This paper sets out recommendations that are the essential building blocks for such a holistic agreement. They are realistic and achievable. At the same time they respond to a reality where action, including responses to the financial crisis, have so far been too little and too piecemeal. We call for the Addis Ababa agreement to go much further. This is essential to make finance contribute to the realisation of economic, social and environmental well-being as envisioned by the Monterrey Consensus.

INTRODUCTION

The 2002 International Conference on Financing for Development in Monterrey was convened to bring firm resolve and clear strategies for financing in order to implement all the global commitments that had been made so far at UN summits in Rio de Janeiro (1992), Vienna (1993), Cairo (1994), Beijing (1995) and Copenhagen (1995). The Second International Financing for Development Conference in Doha in 2008 and the ensuing UN Conference on the World Financial and Economic Crisis and its Impact on Development responded to the urgency of a truly international response to the unfolding financial and economic crises. The Third Financing for Development Conference in Addis Ababa in 2015 (FfD3) will have to combine both objectives. That is why CIDSE welcomes the timing of the Third Financing for Development Conference in July, shortly before the high level segment of the UN General Assembly agrees on the new Post-2015 Sustainable Development Framework in September and a new international climate agreement is reached in December 2015. FfD3 will need to bring firm resolve and secure multilateral strategies to ensure that the financial, trade and monetary systems contribute to – rather than detract from – the new international consensus on sustainable development and addressing climate change that will hopefully emerge in 2015. For CIDSE, this consensus should be built on the vision that all people everywhere can enjoy their fundamental human rights, in a climate-constrained world where environmental integrity is upheld and respected.

The first paragraph of the Monterrey Consensus stated clearly: “Our goal is to eradicate poverty, achieve sustained economic growth and promote sustainable development as we advance to a fully inclusive and equitable global economy system.” To achieve this goal the Monterrey Consensus explicitly calls for a holistic approach (para.8) including national as well as international policy efforts to address interconnected global challenges. These efforts should be based on “a new partnership between developed and developing countries” (para.4) built on “full and effective participation of developing countries” (para.7) and aiming at “national and global economic systems based on the principles of justice, equity, democracy, participation, transparency, accountability and inclusion” (para.9). Unfortunately, much of this aspiration was not reflected in the Doha declaration on Financing for Development restricting itself to recognising that “National development efforts need to be supported by an enabling international economic environment.” Working towards the successful outcome of the Addis Ababa Financing for Development Conference, we strive to regain the spirit of partnership evoked by the Monterrey Consensus.

STRUCTURE OF THIS PAPER

The structure of this paper is based on the core six chapters of the Outcome Document of the International Conference on Financing for Development, in Monterrey in 2002 or the ‘Monterrey Consensus.’ The Monterrey Consensus addressed all financing sources in a holistic way. It transcended the usual identification of financing for development with aid and provides a framework in which all sources of finance are considered, while situating them in the context of mobilising these sources to finance development. The Doha Declaration in 2008 kept the same structure, while adding a section for “emerging issues.”

4 The six Chapters of the Monterrey Consensus are: mobilising domestic financial resources for development, mobilising international resources for development: foreign direct investment and other private flows, international trade as an engine for development, increasing international financial and technical cooperation for development, external debt, and addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development. www.un.org/en/events/pastevents/pdfs/MonterreyConsensus.pdf.
CIDSE advocates maintaining the structure of the Monterrey Consensus and Doha Declaration in the outcome of FfD3. In addition to the continued pertinence of that structure to address all conceivable sources of finance for development, the structure of the Monterrey Consensus represented a delicate balance between views of the various stakeholders about the importance of certain international and national policy issues that a decision to discard it would risk upsetting. It could also be perceived as a desire to sweep under the carpet the parts of the Monterrey Consensus where little progress has been booked.

An outcome of FfD3 that departs from this structure would, therefore, be ill-advised at a time when efforts should be made to enhance trust to guarantee a maximally ambitious outcome of the three important international Conferences in 2015 rather than adopt measures that are prone to deepen mistrust. Moreover, the UN General Assembly resolution\(^5\) which serves as the legal basis for the organisation of FfD3 clearly states as its objective the review of the Monterrey Consensus and the Doha Declaration. Failing to uphold the structure of the Monterrey Consensus, FfD3 would not be fulfilling its legal mandate.\(^6\)

Alongside our advocacy on keeping the structure, CIDSE agrees with the widely recognised need to further progress in the integration of the three pillars of sustainable development across the sources of finance addressed in Monterrey. These are perfectly compatible aims, recognising that the Monterrey Consensus was a lasting and complete platform to address financing for development sources and an initial point also for the integration of sustainable development (mentioned several times in that document) without the need to establish new pillars that would denaturalise the essential balance in the document.

**DOMESTIC RESOURCE MOBILISATION**

Raising domestic resources for development including the provision of adequate national and international frameworks for this purpose is of utmost importance to enable a country to fulfil its human rights obligations and ensure country-led sustainable human development and domestic accountability. Beyond this, it is a matter of justice. Pope Francis encourages financial experts and political leaders to ponder the words of St. John Chrysostom: “Not to share one's wealth with the poor is to steal from them and to take away their livelihood. It is not our own goods which we hold, but theirs.” The fundamental requirement to fairly distribute wealth necessitates action to end illicit financial flows from developing countries to be treated as a matter of priority.

In the Doha Declaration in 2008 the international community committed to: “step up efforts to enhance tax revenues through modernized tax systems, more efficient tax collection, broadening

\(^{5}\) A/Res/68/279 of 10 July 2014 states that the conference should “assess the progress made in the Implementation of the Monterrey Consensus and the Doha Declaration, reinvigorate and strengthen the financing for development follow-up process, identify obstacles and constraints encountered in the achievement of the goals and objectives agreed therein, as well as actions and initiatives to overcome these constraints, address new and emerging issues, including in the context of the recent multilateral efforts to promote international development cooperation, taking into account the current evolving development cooperation landscape, the interrelationship of all sources of development finance, the synergies among financing objectives across the three dimensions of sustainable development, as well as the need to support the United Nations development agenda beyond 2015.

the tax base and effectively combating tax evasion. We will undertake these efforts with an overarching view to make tax systems more pro-poor.” Recognising that countries on their own cannot overcome the many obstacles to domestic resource mobilisation caused by illicit financial flows, capital flight, tax evasion and tax avoidance, the Declaration stated that “it was important to support national efforts in these areas by strengthening technical assistance and enhancing international cooperation and participation in addressing international tax matters, including in the area of double taxation.”

Yet in 2014 the UN Special Rapporteur on Human Rights and Extreme Poverty observed that “States are undoubtedly hamstrung in their efforts to enact progressive taxation and combat illicit financial flows that could combat inequality and resource better economic, social and cultural rights realisation.”

In 2011 developing countries lost an estimated US$ 1 trillion through capital flight according to conservative estimates. Eighty per cent of these financial flows came from systemic and deliberate minimisation of the tax share of multinational companies and wealthy individuals.

Continued failure to implement existing commitments in the FfD agenda to stop revenue losses from international tax issues would increase the pressure to resort to private finance for basic public services provision with all the risks this involves from a fiscal, social and human rights perspective.

The OECD makes claims to have resolved many of the issues within the agenda through its 'Base Erosion and Profit Shifting' (BEPS) project. Despite evidence of the enormous scale of developing country losses in potential revenue due to illicit financial flow, these countries were not able to contribute to the initial design of the BEPS Action Plan in 2013. Only a small group of developing countries have been invited to take part in the second phase of the project and only after the blueprint of the action plan has been put in place. Moreover, issues of extractive sector taxation, allocation of taxing rights between countries and taxation of services that are key for developing countries in this context have been excluded from the BEPS process. The BEPS Action Plan has also failed to propose measures to address the strategies many transnational corporations use to avoid taxes. Despite evidence including from the IMF that the ‘arms length’ principle is being employed by many such corporations as a tax avoidance measure, the plan continues to treat national operations of multinational corporations independent of each other despite the reality that de-facto they operate as an integrated whole under central direction. Taxation at the point where the economic activity takes place and value is created would require a shift from the arms length principle to a unitary principle, a change which the BEPS Action Plan has failed to deliver upon. The plan has also failed to deliver on advancing the corporate transparency agenda through the country by country reporting requirement of transnational corporations, thereby lagging behind legislative action being put in place in the EU, US and other countries.

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9 See for instance OECD Watch (2011), Complaint of Sherpa et al vs. Glencore International AG filed on 12 April 2011 with OECD National Contact Point in Switzerland, oecdwatch.org/cases/Case_208.
parts of the world. In addition to its intrinsic weaknesses, the process to formulate the BEPS Action Plan is in itself faulty failing to include any developing countries. Despite these failures and weaknesses, the G20 adopted its proposed standard on Automatic Exchange of Information.

An international forum that allows for truly global negotiations with a broader mandate for reform is essential. It is the only way that all countries will have an equal say in the adoption of fairer tax rules to combat illicit financial flows internationally. The UN Committee of Experts on International Cooperation in Tax Matters has undertaken important work on developing countries’ tax rights issues, transparency issues related to taxation, BEPS issues and taxation of the extractive sector. However, the absence of a political mandate and the financial means has prevented this Committee, and consequently tax officials from developing countries to influence international tax standards. The time has come to turn this Committee into an Intergovernmental Tax Body under the auspices of the UN.

The call for the strengthening of the role of the UN in international tax matters dates back to the Zedillo Report in 2001 which called for the establishment of an “International Tax Organisation”. Developing countries have also repeatedly proposed that the UN Expert Committee be upgraded to an intergovernmental body, most recently at ECOSOC’s special event on tax matters in June 2014.

Recommendations for FfD3 Outcome:

- Call for setting up an intergovernmental body on international cooperation on tax matters under the UN auspices and provide the resources necessary to allow the body to operate effectively. The mandate of the new intergovernmental tax body must include work around abusive tax laws, policies and practices that prevent other countries from collecting revenues towards meeting their human rights commitments. This includes work concerning base erosion and profit shifting, tax and investment treaties, tax incentives, taxation of extractive industries, beneficial ownership transparency, country by country reporting, automatic exchange of information for tax purposes, alternatives to the ‘arms length’ principle;
- Call on the IMF and World Bank to conduct independent assessments of their tax advice to developing countries, to ensure they promote the mobilisation of domestic resources in a progressive way and in line with the fulfilment of human rights for all;
- Integrate national human rights frameworks in assessing abusive tax practices both on the national and international level in order to constantly monitor the revenue constraints concerning the progressive realisation of human rights. Investigate and report on the enforcement of economic and social rights at the international level including women's rights (such as through the Optional Protocol to the Covenant on Economic, Social and Cultural Rights) and the regional and domestic level through the courts and national human rights institutions.

INTERNATIONAL PRIVATE FLOWS AND FOREIGN DIRECT INVESTMENT

The Monterrey Consensus emphasised private capital flows as a significant contributor to productivity enhancement, technology transfer and job creation in developing countries. Indeed, under certain conditions, foreign capital that is used in fixed capital formation and set within clear regulatory frameworks can play an important role in this regard. However, large inflows of foreign capital are usually associated with various macroeconomic challenges including financial bubbles, currency appreciation, current account deficits and rising domestic debt. Short term
flows of foreign direct investment in particular tend to exacerbate the fragility and vulnerability of domestic financial systems. These flows tend to be very volatile and greatly influenced by events mainly in developed countries that are usually outside the control of the host countries. Excessive exposure to external capital flows that were not oriented to productive purposes were major factors in the build-up of economic crises in developing countries over the last few decades.\footnote{11 UNCTAD Trade and Development Report 2014.}

It therefore remains critically important for a government to manage capital flows, to be able to influence not only the amount of foreign capital movements, but also their composition and use. However, ability to introduce policies proactively to do so is constrained by a variety of factors. Capital control measures tend to be viewed by potential or existing lenders or investors as detrimental to the ‘business climate.’ Multilateral or bilateral agreements, such as international, regional or bilateral trade agreements may also limit countries’ ability to take capital account measures. Pressure on developing countries to create an ‘enabling environment’ for foreign investors has also increased.

IMF programmes have also been a pressure factor. Even though the IMF’s Articles of Agreement deny its authority to restrict capital controls\footnote{12 Article VI states “Members may exercise such controls as are necessary to regulate international capital movements.” www.imf.org/external/pubs/ft/aa/.
}, the Fund’s programmes and surveillance traditionally displayed a bias toward capital account liberalisation. The IMF has recently endorsed the use of capital controls. However, its bias still shows in the many macroeconomic prerequisites (such as low fiscal deficits, adequate foreign reserves) that it considers should be applied to manage capital flows, which in its view is still a measure of last resort. The stated prerequisites undoubtedly diminish the practicality and effectiveness of capital flows’ management measures.

In the context of faltering political will to deliver on Official Development Assistance (ODA) commitments, there is an increased discussion – and indeed policy steps – to ‘unlock’ the potential of international private finance and to use ODA to leverage private finance either through guarantees, loans or equity investments, or providing other guarantees, assets, acceptance of risk or other concessions. Assumptions that “Public Private Partnerships” (PPPs), one of the concrete instruments to operationalise such leveraging, can be a broad response to a host of problems currently associated with development programming are largely unfounded. Proponents of PPPs claim that they can deliver superior cost-effectiveness. This has not been demonstrated to be an intrinsic feature of PPPs. In fact, there is ample evidence of poorly performing PPPs as compared to other forms of finance, particularly public finance.\footnote{13 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.} PPPs generate important fiscal and corruption risks and in some cases they drained an important portion of public resources available for development priorities, generating profits for private companies at public expense (e.g. the case of a PPP for a hospital in Lesotho which currently absorbs over half of the country’s health budget).

PPPs should be pursued only when and where there is ample evidence that they will achieve the desired impact at the required scale. “PPPPs”, or “public-private-PEOPLE partnerships” – those that include genuine participation, transparency, accountability, and governance roles for civil society – can be an important piece of the puzzle for financing sustainable development. But even then, they are far from sufficient, and have a number of limitations in delivering the needs
to the most vulnerable countries and communities. Just as crucially, private sector actors committed to sustainable development must move beyond simply how their partnerships are structured to actually changing their own policies and practices, such as wage scales and community consultation and engagement strategies. Achieving the Sustainable Development Goals (SDGs) will require scaled, across-the-board, human rights-oriented policies from private sector firms, (e.g. living wages/income) – rather than un-scaled, one-off company partnerships.

Given the nature of ODA, partnerships funded with this budget line must go beyond only respecting “do no harm” principles to actively respect and protect human rights, labour rights and environmental and social safeguards and contribute to equitable sustainable development. Linkages with and support of the local private sector, building up of value chains with a focus on SMEs, training and job creation for women and poor and vulnerable groups can play an important role to achieve these goals. They need to promote rather than undermine space to put in place national policy in this regard.

PPPs should be approached cautiously, and only considered if other less expensive and risky financing and/or delivery options are not available. When designing PPP projects, they must be fully owned by the ostensible beneficiaries where their development needs should be explicitly assessed and equity concerns addressed in terms of equitable and affordable access to infrastructure and services. The design of PPPs must explicitly prioritise development outcomes, make private sector agents accountable for negative outcomes, and demonstrate how the PPP leverages additional financing compared to purely public finance. Clear exit clauses for the parties involved are also important. It is important to mitigate any negative spillovers. As there is not always an easy win-win-win, Addis Ababa outcomes should prioritise those financing arrangements which best deliver outcomes for the poor and maximise progress against the SDGs.

**Recommendations for FfD3 Outcome:**

- Emphasise the need for policy space for countries to apply capital account management measures pro-actively and not only as a temporary instrument during crises;
- Pledge support to strong, comprehensive and dynamic capital controls to prevent the creation of possible loopholes for investors to take advantage of;
- Emphasise the need for capital controls to both inflows and outflows and differentiated interventions for different groups of financial actors, so that they target specific actors as well as specific types of flows;
- Emphasise the need to have strong *ex-ante* assessment mechanisms to ensure developmental outcomes with a poverty-reducing impact before deciding to engage in partnerships with private actors on development projects or use public money to leverage private finance;
- Emphasise the need for assessment criteria before engaging in PPPs to integrate Development Effectiveness Principles, emphasising a multi-stakeholder approach and focus on local ownership. Additionally, they must integrate environmental safeguards, due diligence requirements, legitimate public oversight, equitable risk and benefit sharing as well as demonstration of evidence of job creation, tax contribution, poverty alleviation and financial additionality in order to avoid market distortions and crowding out of local firms;
- Emphasise the need for independent assessments and building in clear accountability mechanisms into such partnerships or leverage mechanisms to ensure that there are adequate means of redress and restitution for those negatively impacted by them and to ensure application of *ex-ante* criteria do not remain only voluntary;
• Emphasise the importance of international cooperation to prevent a ‘race to the bottom’ on social, fiscal and environmental policies between countries in a bid to attract foreign direct investment.

INTERNATIONAL TRADE

Global trade, particularly in goods and to a lesser extent in services, has been deeply impacted by the global financial crisis.\(^\text{14}\) To add to this grim situation, aggregate export numbers hide the fact that value added, industrialisation, and diversification of trade have stalled or gone backwards in most developing regions. Rates of imports of Least Developed Countries (LDCs) have also increased faster than their rates of export leading to significant trade deficits in these countries. Furthermore, with natural resources constituting the large bulk of exports from these countries, they remain particularly vulnerable to highly volatile global commodity markets.

A large number of developing countries remain at the “wrong end” of Global Value Chains (GVCs) which have disabled rather than enabled domestic firms and workers from capturing equitable shares of the gains from trade. Lead companies in the chain have benefitted at the expense of the rest. Much of this has been exacerbated by the lack of governance of the value chains. There is a great vacuum of international policy frameworks to regulate the operation of Global Value Chains and at most national levels as well. This lack of governance and accountability with regard to the Global Value Chain allows large transnational corporations to get away with little indictment in the event of a catastrophe, as in the case of the Rana Plaza disaster or resource extraction in conflict areas like the Great Lakes Region in Africa.\(^\text{15}\)

For trade to effectively contribute to financing for development, domestic trade as well as regional and interregional agreements will remain significant building blocks. Developing and promoting adequately governed regional Value Chains remains important for regional industrialisation. At the same time for sustainable development, reform of trade policy and practice in general is imperative. This will require significant transfer of technology and flexibility of trade and investment to ensure that this adaptation does not further impoverish developing countries or lead to new inequalities.

While the World Trade Organisation (WTO)’s Doha Development Round is not yet finalised, bilateral and multilateral trade agreements as well as comprehensive free trade agreements have gained in number and significance. As mentioned in the previous section, in most cases, these agreements restrict governments' ability to regulate foreign investment in the public interest. Investor rights are promoted at the expense of fulfilling human rights obligations. Countries' capacity to alleviate crises have been greatly compromised by bilateral, regional and multilateral trade and investment agreements as well as the WTO-GATS “request-offer” negotiations on liberalisation of trade in financial services.

Recommendations for FfD3 Outcome:

• Recall the obligations of States to respect, protect and fulfil their human rights obligations, including extraterritorial obligations, when negotiating or entering into trade and investment agreements;

• Call for gender differentiated assessment and monitoring of the impacts of trade policies including on distributional effects;

\(^\text{14}\) UNCTAD, Trade and Development Report 2014.

\(^\text{15}\) See [www.cidse.org/conflict-minerals.html](http://www.cidse.org/conflict-minerals.html).
• Call for ex-ante safeguards to ensure that every insertion in GVCs is aligned with a long term national industrialisation strategy and the active policy measures required to implement it;
• Emphasise the need for strong governance frameworks starting at the international level to make GVCs transparent and enforce the responsibilities of actors right across the chain, particularly at the top end and support ongoing efforts to craft a binding human rights instrument for transnational corporations;
• Emphasise the importance of empowering producers to negotiate fairer prices for their products or services and for measures to increase their capacity to add value to their products;
• Call for measures to favour products and services that are produced using internationally recognised social and environmental standards;
• Emphasise the need to revise rules on the liberalisation of financial services at all levels, including negotiations on financial services in the WTO.

INTERNATIONAL COOPERATION FOR DEVELOPMENT

Alongside raising domestic resources for development, countries have extraterritorial obligations to ensure human rights fulfilment beyond their borders. Pope Francis reminds us that this is also a question of solidarity and ‘social citizenship’: “Hence the need to rethink ‘solidarity’ no longer as simply assistance for the poorest, but as a global rethinking of the whole system, as a quest for ways to reform it and correct it in a way consistent with the fundamental human rights of all human beings. It is essential to restore to this word ‘solidarity’, viewed askance by the world of economics – as if it were a bad word – to social citizenship that it deserves. Solidarity is not an additional attitude, it is not a form of social-alms-giving but, rather, a social value; and it asks us for its citizenship.” ¹⁶

As recognised by the Monterrey Consensus, Official Development Assistance (ODA) plays an essential role as a complement to other sources of finance for development.¹⁷ Indeed ODA occupies an important place in the history of financing for development since Monterrey, both in documents and in practice. ODA¹⁸ increased steadily from 2000-2011 but never exceeded 1990 levels. Moreover, in 2011 it stood at an average 0.31 per cent of GNI for all DAC countries, almost the same level as 1995 when development agencies considered there was a crisis of support for ODA¹⁹, which clearly calls into question the real extent of progress. The international community is still far from reaching its targets to provide 0.7 per cent of Gross National Income (GNI) to ODA and to provide 0.15-0.20 per cent of GNI to Least Developed Countries. Budget problems in donor countries have led to cuts in ODA allocation.

The urgency to finance adaptation to climate change and mitigation of its impacts has also put a strain to development budgets as donors ignore calls to commit new and additional money for these purposes. As the share of resources committed to development shrinks, there are greater

¹⁸ As a percentage of GNI.
¹⁹ In 1996, “Shaping the 21st century report,” a OECD report intended to raise political support for ODA, lamented that aid levels the previous year had been of “only 0.3 per cent of GNP.” OECD (1996), www.oecd.org/dac/2508761.pdf.
demands for development money to be used ‘efficiently’ with ever increasing demands of proof of impact and results. Moreover, donors are keen to shift the focus to “unlocking the potential” of private sources of international finance. The increasingly important share of South-South development cooperation has also been seized as an opportunity to broaden responsibility to provide development assistance. Developing countries providing such cooperation are under increased pressure to assume responsibility in global frameworks for the provision of global public goods, climate finance and renewed arrangements of global governance. The call for these countries to assume their fair share of responsibility first of all calls into question the issue of historic responsibility which underlies the internationally accepted principle of ‘Common But Differentiated Responsibility’, particularly with regard to climate finance. Despite their status as donors, most of these countries continue to remain vulnerable to shocks and crises as current economic downturn and devaluation of many of their currencies demonstrate. People living in poverty – the global majority of whom live in these countries – and marginalised people and groups continue to live in situations of extreme vulnerability, exacerbated by such shocks. The responsibility and action of the State to respect and protect the rights of people living in poverty and vulnerability in these countries must be acknowledged. The need to maintain a focus on marginalised groups in all developing countries remains while at the same time according specific support to countries where ODA remains a critical source of finance with particular attention to countries in conflict or post-conflict situations.

**Recommendations for FfD3 Outcome:**

- Emphasise the need to set ODA commitments in at least a normative framework which includes the duty of international cooperation based on the right to development;
- Emphasise the importance of ODA for excluded and vulnerable groups in all developing countries alongside its importance for countries with significant financing needs, and those in conflict or post-conflict situations;
- Emphasise the need to integrate development cooperation in a coherent policy and financing framework that is oriented towards sustainable development:
  - to ensure that all inflows and outflows are considered
  - to ensure that monitoring and accountability are in the hands of representative institutions housed in the UN;
- (Re)commit to strong and binding ODA targets – 0.7 per cent that are backed up by concrete and verifiable timetables to scale up donor aid budgets;
- Emphasise the need to supplement ODA with innovative public sources of finance such as through Financial Transaction Taxes and Carbon taxes to fulfil existing financing needs and international finance commitments;
- Emphasise the importance of respecting and enforcing the Development Effectiveness Principles of predictability, ownership, transparency and accountability as well as the importance of upholding the rights to information, participation and freedom of expression and association, including where public money is used to leverage private finance;
- Emphasise the importance of strong criteria to ensure tax, social, environmental responsibility of corporate entities working in development cooperation arrangements;
- Call for the application of human rights due diligence measures by all private sector actors in line with the UN Guiding Principles on Business and Human Rights, and most rigorously in projects which involve public finance in any form;
Call for the publication of information on the final beneficiaries of aid money from bilateral Development Finance Institutions or International Financial Institutions channelled through financial intermediaries.

DEBT

Normative progress has been made since Monterrey to acknowledge the link between debt sustainability and human development. In 2012 the Human Rights Council adopted the Guiding Principles on Foreign Debt and Human Rights according to which States “should ensure that any and all of their activities concerning their lending and borrowing decisions, those of international or national public or private institutions to which they belong or in which they have an interest, the negotiation and implementation of loan agreements or other debt instruments, the utilisation of loan funds, debt repayments, the renegotiation and restructuring of external debt, and the provision of debt relief when appropriate, do not derogate from [their human rights] obligations.” (Principle 2). Another stepping-stone at the normative level was, in 2012, UNCTAD’s release after a process of wide consultation with governments, financial institutions and non-governmental stakeholders, of a set of principles on Promoting Responsible Sovereign Lending and Borrowing. The principles do not create new obligations, but build on existing basic legal principles and practices, and elaborate on their implications for sovereign borrowers and their lenders.

In stark contrast to the progress in the normative front, today, with literally no time left before expiration of the Millennium Development Goals (MDGs), it is clear that the commitments in Monterrey and in MDG Goal 8 are far from being met. This is in spite of successive debt cancellation initiatives that progressively yielded near US$ 130 billion in debt cancellation and the implementation of the IMF/World Bank Debt Sustainability Framework since 2005. Six countries that reached “Completion Point” under the Heavily Indebted Poor Countries and Multilateral Debt Relief Initiatives (thus receiving all the stock and flow cancellation available through this programme) are at high risk of debt distress while 15 are at moderate risk.

The Debt Sustainability Framework (DSF) adopted by the IMF and World Bank in 2005 was purportedly their way to fulfil both the MDGs and Monterrey Consensus mandates (IMF and IDA, 2004). The framework was based on two assumptions: that debt had already been adequately reduced in all countries assessed by the framework and that grant financing for them would be available in sufficient quantities. In the face of continued limitations on concessional financing, the framework just led to overall lesser access to new financing for development so, paradoxically, the DSF curbed the potential for debt policy to operate as a tool for debtor countries to fulfil their human rights and MDG commitments.

The picture is still less satisfactory for countries that were not even reached by such initiatives. Several countries in the Caribbean and Pacific regions are either at high risk or already in debt distress. The ongoing phasing out of quantitative easing measures in the US has added pressure to the global economy and the debt situation of developing countries, particularly through depreciation of their currencies and capital flight. Furthermore, the bailouts of European countries such as Greece are evidence that debt distress is no longer confined to the developing world.

The shortcomings of the current system have been starkly demonstrated by the recent case of US courts ruling that Argentina should fully pay vulture funds’ claims on Argentinian debt. The vulture funds were part of a small minority of less than seven per cent of creditors that stayed out of the debt restructuring agreement the country had reached with all their other creditors. The
case’s jurisprudence raises the incentives for creditors in future debt crises to hold out in the hope of getting fully paid, threatening to make future debt restructurings by any country much more difficult.

A historical review of mechanisms to deal with sovereign debt reveals several, more structural problems:

- Debt restructuring mechanisms are dominated by creditors who are also interested parties, thus undermining impartiality and sometimes resulting in politically biased decisions often coupled with harmful policy conditionality;
- The process and outcome of the deliberations within such mechanisms are not transparent and highly unpredictable. The ad hoc nature of the process lengthens the process, thus making it costly for both creditors and债务ors. In 2013 an International Monetary Fund review found that sovereign “debt restructurings had often been too little and too late, thus failing to re-establish debt sustainability and market access in a durable way.” (IMF, 2013);
- 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 and 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 made responsible for the consequences;
- The lack of a formal procedure to ensure fair burden-sharing between creditors and debtors and assess the validity of claims, means that current procedures fail to discipline lenders and prevent them from irresponsible lending in the future.

In Monterrey, Heads of State pledged to address these problems in the form of an “international debt workout mechanism, in the appropriate forums, that will engage debtors and creditors to come together to restructure unsustainable debts in a timely and efficient manner” (para.60). In Doha they recognised a number of principles that needed to underpin such a mechanism including that debt resolution is a joint responsibility of all debtors and creditors, furthering development and restoring debt sustainability are the main objectives of debt resolution and facilitating equivalent treatment of all creditors (para.61). Yet, it was not until September 2014 that the UN General Assembly protractedly started a process to elaborate a multilateral legal framework for sovereign debt restructuring through intergovernmental negotiations. In spite of how late that resolution came to fill the gap in fulfilling the Monterrey commitments, Western creditor countries abstained or voted against it. A widely reported reason they gave for the lack of engagement was that such an issue should be discussed at the IMF. This in spite of the fact that it is clear the IMF does not intend to take such item on its agenda anytime soon.

**Recommendations for FfD3 Outcome:**

- Commit all UN Member States and the International Financial Institutions (IFIs) to contribute constructively to the multilateral legal framework for sovereign debt restructuring processes developed through the intergovernmental process mandated to create such a text by the UN General Assembly Resolution 68/304 (17 September 2014). The proceedings should, further, lead to the adoption of a framework that:
  1) Is independent of creditors in analysis and decision making, and is situated in a neutral forum;
  2) Is comprehensive: includes bilateral, multilateral and private creditors treating all foreign creditors on an equal basis, and is available to all sovereign states who are at risk of debt distress or claim that their debts are illegitimate;
3) Provides a human needs based approach to debt sustainability: when assessing a government’s capacity to service its debt, takes into account the financial resources needed by a government to fulfil its obligations to provide essential services for its population;
4) Holds lenders and borrowers to account for irresponsible behaviour by auditing the legitimacy of claims and demanding the cancellation of unjust debts based on corrupt, irresponsible or undemocratically contracted loans which did not benefit the people of the borrowing country; and
5) Gives all stakeholders, including civil society, the right to be heard and give evidence;

- Emphasise the need to reform debt sustainability frameworks and analyses to take countries’ development needs into account, including the financial costs to grapple with climate change shocks and invest in climate adaptation and mitigation. Governments’ financial needs to fulfil their human rights and SDG related obligations must take priority over debt service obligations;
- Call on international institutions to improve the collection of debt data, its timeliness and coverage, and reconciliation between creditor and debtor reporting systems to enhance the capability to monitor debt sustainability and respond to early warning signals;
- Call on governments, International Financial Institutions and the private sector to endorse and commit to implement the UNCTAD Principles on Responsible Sovereign Lending and Borrowing;
- Recognise 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 and undemocratic conduct. Celebrate progress in cancellation of illegitimate debt while calling for all creditors to cancel debt determined to be illegitimate after national debt audits.

**SYSTEMIC ISSUES**

One of the most historic achievements of the International Conference on Financing for Development in 2002 was the consensus achieved on so-called “systemic issues.” In a very unique moment of multilateralism, the international community agreed that enhancing the coherence, governance and consistency of the international monetary, financial and trading systems was an essential and urgent element inextricably linked to the success of mobilisation in all other development finance fronts. The Monterrey Consensus includes detailed commitments on systemic reform. They go beyond IFIs’ reform to address the reform of financial standard setting bodies including the Bank of International Settlements (BIS), the Basel Committee and the Financial Stability Board.\(^{20}\) It also recognises the fundamental importance of reinvigorating the UN system to a global economic system that works for all.\(^{21}\)

**Financial Regulation**

Since 2008 Europe spent an amount the equivalent to over 30 per cent of European GDP on bailouts of financial firms. Bailouts were justified by arguing that institutions bailed out are ‘too big to fail’ (TBTF) or too complex or too interconnected to fail. Six years of Financial Stability Board's efforts to enable the orderly resolution of ‘too big to fail’ banks have not managed to

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\(^{20}\) Monterrey Consensus, para.63.

\(^{21}\) Monterrey Consensus, para.73.
clarify what can be done if a new crisis requires it. Even limited reforms that were approved are under risk of never being fully implemented. This was sadly exemplified when in December 2014 the US Congress repealed a hard fought mandate from the Dodd-Frank financial reform that would have required banks to trade derivatives through separately capitalised units, in order to segregate, to some extent, the risks of such trading from taxpayer-funded deposits.

Exclusively relying on the capacity and will of regulators to spot and provide early warning of systemic risk threats has not delivered the desired responses either, especially given the failure of these regulators to act in the past. For instance, the US Federal Stability Oversight Council has merely regrouped existing regulators in which the Federal Reserve, whose role previous to the 2008 financial crisis has raised suspicion, enjoys significant decision-making power.

In the area of capital requirements agreements under Basel III continue to rely on banks implementing their own internal risk management techniques. As a result banks can get away with keeping less capital by claiming that certain assets are less risky than they really are. Internal monitoring will continue to put a great burden on regulators to understand and eventually change highly intricate risk-management frameworks. Moreover, the capital requirement surcharge of a maximum of 3.5 per cent under the Basel III agreements is too low to reduce the incentive to grow in size and activities and to deter them from excessive risk taking.

The derivatives market is another area of the financial system that requires urgent attention. The exponential increase of this market – from US$91 trillion in 1998 to US$605 trillion in 2008 – has contributed to making it more opaque and risk-ridden. Speculation facilitated by derivatives has led to greater volatility of prices of a range of commodities from food grain to oil and metals. ‘Over the Counter’ derivatives have proliferated and defy the standardisation required to trade them in public exchanges. Derivatives have also increasingly been used to boost the profits of companies who use them to hide the risk of certain assets or to avoid paying taxes.

The increasing trend which has resulted in ordinary citizens being exposed to the risks of hedge funds also calls for regulatory attention. Wealthy clients have traditionally been the sole clientele of hedge funds and private equity funds. They have been able to absorb the risk posed by investing in such funds without too many social and economic consequences. However, there is an increasing number of social investment funds, such as pension funds using hedge funds. In 2004 the US Securities and Exchange Commission (SEC) reported that about 20 per cent of corporate and public pension plans were using hedge funds in 2002, up from 15 per cent in 2001 and this trend is becoming stronger. Beyond this, access to such funds has also steadily increased without clients really understanding or being able to adequately appreciate the risks involved. In Germany for example, investors could invest in Deutsche Bank hedge funds for as little as 125 euros per unit. While the EU has taken some regulatory action, setting leverage limits for such funds, the US has no such law yet. Moreover, EU legislation to curtail the right to market such funds to retail investors has been rendered toothless by the freedom given to EU countries to issue less constraining requirements than what is set in the EU Directive. Another limitation is domicile in third countries that have not signed up to the OECD Tax Convention which leaves many offshore centres untouched.

The increasing interconnection between the formal banking system and the shadow banking system is another area that requires regulatory attention. The IMF pointed out that in the wake of the rise of offshore financial centres, the global financial architecture is increasingly decentralised with a ‘core group of centres or nodes’ such as the US, UK, Luxembourg and France around
which offshore centres are clustered and through which funds are sourced globally.\textsuperscript{22} During the 2008 crisis, the US government found it necessary to bail out investment banks such as Goldman Sachs, Morgan Stanley, Merrill, Bear Sterns and finance companies such as GE Capital, GMAC, CIT, AMEX and Discover, all of whom fit the definition of shadow banks. Recent regulatory efforts undertaken by the Financial Stability Board are based on the rationale that the sector performs a desirable function by permitting financial entities test higher risk strategies and spur innovation. Nonetheless, it is often the case that shadow banking entities are there for no other purpose than exploiting regulatory arbitrage generated, hiding the true risks of certain instruments from the ultimate consumer or allowing extra margins of profit by evading taxes.

Credit Rating Agencies (CRAs) need regulatory attention. Their significant influence, which to a large extent is legally-mandated through the Basel II agreements requiring banks to rely on CRAs to assess the risk of their assets, must be addressed. The risks associated with CRAs were clearly demonstrated when it became clear in 2008 that there would not have been a market for the toxic products that were at the heart of the financial crisis without the blessings of CRAs. This also raised questions regarding CRAs’ governance, accountability and conflict of interest. The ‘issuer pays’ principle – that the company issuing the securities pays the agency rating them – is an obvious issue that raises conflict of interest concerns.

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\textbf{Recommendations for FfD3 Outcome:} \\
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- Emphasise the need for adequate policy space for financial market regulation at the national level in which authorities performing these functions are protected from undue influence exerted by financial institutions and the corporate sector they aim to regulate; \\
- Call for enabling legislation for cross-border resolution of firms operating in more than one country which should include the requirement to file orderly wind-down plans and capital surcharges to dis-incentivise institutions from becoming too big; \\
- Agree on implementing measures to separate investment and commercial banking; \\
- Call for stronger requirements on leverage ratio and risk-weighted capital buffers under the Basel agreements, including ending the ability of the banks to establish their own risk weighting; \\
- Emphasise the need for all derivatives to be traded in public exchanges, reported to trade registers and to be centrally cleared by reporting houses that have adequate capital buffers and that require collateral for each transaction; \\
- Call for the banning of risky products such as Credit Default Swaps, dangerous speculative practices like Naked Short selling and use of government-insured deposits to engage in proprietary trading; \\
- Call for \textit{ex-ante} position limits to be set in derivatives trading to prevent food and fuel price volatility and ban financial entities from speculating through physical holdings of commodities, most particularly for those that also trade derivatives contracts in those commodities, and thus are in a position to manipulate the prices of the underlying assets of the derivatives contracts; \\
- Commit to strict reporting requirements for shadow banking vehicles to ensure proper monitoring and enhance their effective regulation. In this regard, particularly call for clearance procedures for innovative products to ensure that they play a useful real economic function, are consumer friendly and do not threaten financial stability; \\
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• Agree to strengthen governance requirements of Credit Rating Agencies and to legislate on their liability for negligent behaviour where such legislation is missing. Call for alternatives to the “issuer-pays” model, through, inter alia, competing public agencies and CRAs within the national domain with independent rating processes;

• Recognise the need for mandatory and comprehensive financial and non-financial reporting requirements for companies whereby they would also need to report on risks related to exposure to/dependence on unsustainable assets (e.g. fossil fuels).

**Monetary System Reform**

The shortcomings of the current international monetary system – based on the domestic currency of one country as the main international trading and reserve currency – are clear. The system is prone to recessionary adjustments, building of imbalances, and high exchange rate volatility. This is an issue of special importance for developing countries pursuing trade-led development strategies. Increased levels of exchange rate volatility have a strong impact on trade performance by constricting levels of domestic investment, destabilising relative prices of export products (which in turn affect the competitiveness of the economy), increasing the price of access to finance for production and shifting the value of market access concessions. They also impact on the price of essential imports such as food and energy thereby affecting the food security of people and the balance of trade.

Another issue of concern for developing countries is the current system’s inability to fully take advantage of the potential of generating resources for development through the use of the Special Drawing Rights.

The Addis Ababa Summit will offer an opportunity to take concerted and coordinated action for reform.

**Recommendations for FfD3 Outcome:**

• Resolve to initiate a process to reform the international monetary system with: a) credible coordination among trade deficit and surplus countries through a system of coordination, b) a reworked form of Special Drawing Rights as a proxy leading towards a supranational currency as its cornerstone, and c) actively supporting countries that use capital flows management measures;

• Restate the need for a greater diversity of, and regionally sensitive approaches to build a resilient monetary system including through regional monetary funds, extending intra-regional trade paid in domestic or regional currencies, establishing or consolidating regional development banks that are oriented to finance the productive and social sectors and aligned to the realisation of human rights, decent work and sustainable development and creating democratic regional forums to discuss coordination to stem financial outflows.

**Institutional Reform**

The Monterrey Consensus was unique compared to typical UN conferences insofar as it entailed the understanding that Heads of State meeting at the conference could make commitments that not only instructed the UN to do certain things, but also any global economic institutions they owned, including the World Bank and the International Monetary Fund. As a result, the FfD agenda included calls for reforming the International Financial Institutions, particularly the
International Monetary Fund and the World Bank, which have since been accorded special attention in the international debate.

Unfortunately, despite the enhanced attention this aspect of the systemic issues agenda has received, progress has been slow and limited in meaningfulness. Governance and representation continue to be unbalanced, particularly to the disadvantage of Least Developed Countries. They are denied adequate and fair voice in the Boards of these Institutions despite the considerable impact of decisions made by these bodies on their development prospects. Repeated postponed deadlines to reform the Fund's quota formula risk being missed again. The stagnancy of action in this agenda belies the critical development importance of implementing this reform.

**Recommendations for FfD3 Outcome:**

- Call for the expeditious implementation of the voting system of the IMF including the transfer of two Board chairs from European countries to developing countries with specific attention to the African members who are currently in the most crowded constituencies;
- Call for urgent action to ensure that the deadline to reform the quota formula not to be missed again and that the reform gives adequate and fair voice to borrowing countries, especially the poorer ones by 2016;
- Opting a more balance approach to variables relating to the “demand for” and “supply of” finance and accords greater weight to Purchasing Power Parity variables and the size of the population of a country;
- Call for the introduction of a “double majority system” to ensure that decisions are taken based both on the quota distribution and the total number of countries supporting it;
- Recognise the need to further enhance the legitimacy of the leadership of the International Financial Institutions by requiring democratic accountability of members of the Board and by ensuring that leaders of these institutions are selected by gender-balanced, open, transparent, merit-based processes that also reflect the composition of their membership;
- Call upon the World Bank and IMF to put in place transparent accountability mechanisms in line with international human rights laws, global norms and agreements that are stronger than the existing mechanisms.

**STAYING ENGAGED: THE IMPERATIVE OF A FINANCING FOR DEVELOPMENT AGENDA IN A CLIMATE-CHALLENGED POST-2015 ERA**

The Monterrey Consensus represented a delicate balance between views of different clusters of stakeholders about the importance of certain international and national policy issues. The Consensus saw the critical importance of finance supporting sustainable development in all its dimensions: social, economic and environmental. The Doha declaration also called for a new Global Partnership for Sustainable Development, addressing financing for climate change in its section on “emerging issues” while recognising that decisions on climate finance needed to be negotiated within its respective negotiating track.

Building on these foundations, FfD3 must renew and strengthen the FfD agenda. This strengthened agenda must ensure that the global financial, monetary and trade systems contribute to the equitable distribution of rights and responsibilities to support the universal realisation of
human rights and sustainable development within the limit of planetary resources and the pressing need to change production and consumption patterns. It will need to pay greater and more special attention to countries that are in conflict or post-conflict situations or are vulnerable due to their geographical location exacerbated by climate change and natural resource limitations. An outcome oriented to fulfil this function will ensure the essential complementarity between the FfD agenda and other international agendas that are being set in parallel to it: the Post-2015 framework with a new set of Sustainable Development Goals – providing a solid basis particularly for an agreement on their means of implementation – and the climate agreement.

To counter the stagnation of multilateralism in the global financial, trade and monetary cooperation arena, it is essential that a robust and legitimate institutional framework is built up in the UN that is fit to take on this challenge. Concretely, we propose the establishment of a Financing for Development intergovernmental body that meets periodically (annually or biennially) to review progress in the implementation of the global FfD agenda, concluding with a negotiated outcome document to advance implementation of the agenda and to ensure that the agenda remains current and responding to the challenges of the day.

We propose that membership of this body consists of Ministers of Finance, Trade and Development who meet on the basis of an agenda negotiated by all stakeholders (in keeping with the multi-stakeholder nature of the Financing for Development process), agreed by all governments and endorsed by the relevant institutional stakeholders.

Such a body could become the intergovernmental counterpart of the existing Financing for Development secretariat to ensure that follow-up is adequately supported politically and to become the intergovernmental focal point to maintain ties of cooperation with other institutional stakeholders. The meetings of the FfD body would need to be prepared by a coordination structure – possibly in the form of a small bureau that would have representation from the Secretariat, the intergovernmental body, and all traditional FfD stakeholders, including civil society and the private sector.

**Recommendations for FfD3 Outcome:**

- Establish an intergovernmental process to put in place a new Financing for Development body and its accompanying machinery in open consultation with all relevant international and regional financial institutions and other stakeholders including civil society;
- Ensure the Financing for Development follow-up process, while retaining its distinctive autonomy, contributes to the overall accountability framework for the broader Post-2015 agenda and SDGs.
CONCLUSION

Over a decade ago, Heads of State and Government gathered in Monterrey, Mexico in March 2002 declared: “Our goal is to eradicate poverty, achieve sustained economic growth and promote sustainable development as we advance to a fully inclusive and equitable global economic system.” There have been great changes in the external context from the spirited multilateralism of the Monterrey Consensus to the renewed energy reflected in the UN General Assembly’s resolution to organise FfD3 to “reinvigorate and strengthen the financing for development follow-up process, identify obstacles and constraints encountered in the achievement of the goals and objectives agreed therein, as well as actions and initiatives to overcome these constraints, address new and emerging issues, including in the context of the recent multilateral efforts to promote international development cooperation, taking into account the current evolving development cooperation landscape, the interrelationship of all sources of development finance, the synergies among financing objectives across the three dimensions of sustainable development, as well as the need to support the United Nations development agenda beyond 2015.” It is critical that the outcomes of FfD3 channel these energies to ensure that the global financial, monetary and trading systems are fully galvanised and part of the larger international effort towards sustainable development in all its three dimensions: social, economic and environmental. We conclude with the words of Pope Francis who reminds all policy makers: “... the rich must help, respect and promote the poor. I exhort you to generous solidarity and to the return of economics and finance to an ethical approach which favours human beings.”

23 Monterrey Consensus, para.1.
24 UN General Assembly Resolution A/RES/68/279, 10 July 2014.
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