FINANCING FOR DEVELOPMENT (FfD)
Trade Union position paper

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1. The origins of Financing for Development (FfD) and the modern development challenges

1.1. Where Financing for Development began

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

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

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

The Doha Review Conference (the second high level conference on FfD) was held in 2008. The conference mobilised large civil society participation, with Trade Unions taking an active role in the overall coordination. The Doha Declaration on FfD\(^2\) reaffirmed the Monterrey process, but also succeeded to turn significant attention towards innovative sources of development finance, such as the Financial Transaction Tax (FTT), in addition to the abovementioned six pillars. The declaration also set the stage for a follow-up high level, taking place in Addis Ababa, Ethiopia, in July 2015.\(^3\)


1.2. **FFD in light of Post-2015 negotiations**

The FfD agenda is an important reference point for discussions on development finance, and serves as a unique space where governments, in particular from the South, are able to debate important issues like trade and foreign direct investment, as well as systemic issues like the international financial architecture and financial regulation. These are the global economic issues some of which were absent in the origin and overall framework of the Millennium Development Goals (MDG) and remain piecemeal in the proposed Sustainable Development Goals (SDGs) framework (see Goal 17)\(^4\). These macroeconomic and systemic issues are the core of the FfD debates.

The FfD process is also very different from the Post-2015 process in its composition, methodology and outcomes. Typically, the FfD process concerns finance ministers who are tasked to agree a package of policies and deliverables to be channelled through the different international specialised policy fora. The Post-2015 debates which typically concern development and/or foreign affairs ministers, aims to establish a concrete set of objectives or goals, targets and a list of “measurable indicators”, and is only marginally focused on the policies needed to achieve the objectives.

The SDG approach moreover could result in a disperse set of sector clusters on different goals (health, education, water) with the attached, donor driven or promoted finance mechanisms (vertical funds and an increasing reliance on the private sector), adding additional burdens to the already existing fragmentation of development finance. The two processes therefore have distinct political objectives which should be preserved, as they are complementary.

However, various important players, often from OECD countries, are now proposing integrating the FfD and the Post-2015 process. The success of a Post-2015 framework will in large part depend on the availability of financial resources at the country, regional and global levels to see the objectives to fruition. This gives particular relevance then to the third International conference on FfD which will take place in Addis Ababa in July 2015.

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This raises both the question of the impact of the Addis Ababa FfD outcomes on the overall process, just months ahead of the Post-2015 summit at the UN 2015 General Assembly (UNGA), as well as the follow-up mechanism(s) or governance structure of the development framework beyond 2015. It is becoming clear that although the agendas are not the same, a failure in Addis Ababa will have a huge impact on the implementation of the Post-2015 agenda.

Since Monterrey, the FfD process has given governments, especially those of the South, a unique forum to table the systemic issues linked to the global development agenda. Although it has not fulfilled all promises (though it did give birth to a number of agendas like the Aid Effectiveness process, Debt Workout, International Cooperation in Tax Matters), it remains the only legitimate UN forum that has the potential to tackle such important questions. The Global Partnership discussion under the Post-2015 is clearly not looking into shaping these policies or creating the forum to do so.

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

1.3. Inequality has become the major development challenge in today’s world

The MDGs have been able to mobilise the international community behind agreed goals and targets, without giving much consideration to the enabling policy framework necessary to redress the structural causes of poverty. Between the early 1990s and mid-2000s the economy grew substantially, especially in emerging and developing countries, but the benefits of this expansionary period were unevenly shared.

Overall, the most remarkable trend of that period has been an unprecedented widening of income inequality: at present the richest 1% of the world’s population owns 40% of global assets while the bottom half of the world’s population owns just 1% of global wealth.

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6 International Trade Union Confederation - ITUC (2012), “A new distribution of income and power”:
Income inequality is a factor that emulates other inequalities, such as access to education, equal opportunities and equality between men and women. However, we recognize that global policies must address all the structural dimensions of inequality.

Wage inequality is a key factor in income inequality and it is striking to note that, during the period 1990-2008, income distribution took place away from labour, despite an increase in employment rates globally. In contrast, the share of profits in national income virtually increased everywhere.

The experience of the last 20 years shows that high levels of inequality limit the effectiveness of growth in reducing poverty, while growing inequality increases poverty. Furthermore, high levels of inequality tend to push large segments of the population into low-wage, precarious and informal jobs, constricting domestic demand and hindering structural changes. As a matter of fact, economic growth does not reduce inequalities if it is not accompanied of redistribution policies.

Outside the economic, field high levels of inequality create polarised societies associated with higher crime rates, lower life-expectancy, social tensions, malnutrition and an increased likelihood of children being taken out of school in order to work, thus continuing the vicious circle of poverty. Equally worrisome, inequality tends to trap younger generations into poverty as social mobility is limited.

Moreover, from the control of national and global assets, the richest 1% can not only derive more wealth, but also power, by influencing electoral process, and through this enhanced power, more capacity to influence national budgets and national and international taxation system on their own behalf.

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8 ITUC, op. cit.
1.4. Fixing the global economic, trade, tax and financial system

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

Corruption and capital flight through mispricing, transfer pricing, tax evasion and tax avoidance results annually in trillions of development dollars foregone. But there is more: developing countries, on average, lose US$2 for every US$1 they gain. While the biggest loss was through illicit financial flows (US$634 billion in 2011), the second biggest loss entails profits extracted by foreign investors (US$486 billion in 2012). The third: developing countries lend money to rich ones (US$276 billion in 2012). Then there are interest payments on foreign debt (US$188 billion in 2012).9

Notwithstanding the political and financial efforts in the past, and the potential commitments on the new sustainable development framework, the endemic inequity of the current systems has to be tackled, and the systemic failure has to be remediated. And this should happen not only by policy coherence efforts, but also more fundamentally by restructuring the international institutional, financial, trade and economic governance, as suggested by the UN Committee of Experts on Reforms of the International Monetary and Financial System10.

10 The Commission of Experts of the President of the UN General Assembly on Reforms of the International Monetary and Financial System: http://www.un.org/ga/president/63/commission/financial_commission.shtml
1.5. A changing development terrain

The hype of the private sector’s potential for development has reached unprecedented heights over the past years. The private sector can surely contribute to development, not least through the delivery of decent work in the formal sector, as well as important tax contributors.

However, the ongoing policy discussions on “private sector for development” are to a large extent based on ideological assumptions about the undisputable benefits of the free market, the need for deregulation and creating an enabling environment for business. This is in contrast to many assessments and policy initiatives showing that, in order to ensure sustainability and fight inequalities, the developmental role of the State is essential. Economic development policies need be rooted in rights-based social policies on human rights, decent work, women’s rights and environmental impacts.11

Official Development Assistance (ODA) has struggled over rocky terrain in the last decade, leaving many actors in the global development community frustrated and disillusioned. While total volume has increased in recent years, ODA has reached only 0.3% of total gross domestic product in OECD-DAC countries (aggregate flows across all donors), less than half of the 0.7% promised.

On top of this the definition of ODA is now under scrutiny, both in terms of its composition and its destination. Recently, OECD-DAC have embarked on effort to redefine ODA, and to develop alternative “complementary” measures, which try to (better) account for expenditures like peace keeping costs, refugees, student or migration-related expenditure as well as the impact of blending ODA with other financial streams. Also, the growing trend for ODA to go to middle-income countries over Least Developed Countries (LDC) has put into question its focus on poverty eradication and given rise to new challenges in aid predictability.

In this regard, we encourage the development of more realistic parameters to measure the performance and development of countries, given the internal asymmetries and the persistence of inequality in most emerging nations.

The emergence of the private sector as a development actor has also altered the ODA environment. For example, donors have introduced **ODA-based support schemes to support their domestic private sector actors** in developing country markets by promoting Public Private Partnerships (PPPs) as a preferred institutional arrangement, despite the lack of evidence of their developmental added value\(^{12}\).

On the contrary, often the private sector is the main beneficiary of inequitable and unsustainable development patterns. No doubt corporate interests are using their voice in development aid policy to create new markets and new mechanisms to control the market to their own corporate ends, all the while claiming to support the goals of donors and governments in development. Finally, “business-for-development” approaches start to look very similar to tied aid and thus constitute a **hurdle to delivering on promises to untie aid**.

Another important development has been the emergence of private foundations as donors. It signals that there is a real risk of corporate takeover of large parts of development assistance agenda both in programme and service delivery and policy influence. There is a blooming sector of related (sponsored) private think-tanks and consultancies created to reinforce and mainstream global businesses interest.

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

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2. A sustainable development model

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

Trade Unions contend that the human rights based approach form the foundation of our development objectives. This means that shared prosperity creates decent work and sustainable livelihoods for all, and that internationally-agreed principles and conventions are respected and upheld everywhere for everyone. A new impetus to jumpstart the global economy is the adoption of an alternative paradigm that promotes fair distribution of wealth and resources, addresses growing inequality and recognises the centrality decent work has as a mechanism for employment generation, social protection, social dialogue and rights at work.

We stand by our call for full and universal integration of core labour standards and decent work into development agreements that involve private investment, and into all trade and financing agreements. These must also include monitoring mechanisms with enforceable provisions. If all development actors are playing by the same universal rules, different aspects of development can cease to work against each other, which will greatly enhance development’s effectiveness.

The global development agenda and international development cooperation should be based on the Common but Differentiated Responsibilities (CBDR), and should address not only financial resources and technology transfers but also the structural reform of the international financial and trade systems.

The conclusions of the 2009 United Nations General Assembly Commission of Experts on Reforms of the International Monetary and Financial system (commonly referred to as the Stiglitz Commission) should be unearthed and promoted within the current FfD discussions. Remediating many of the crisis-related issues, as well as the structural systemic defaults will be essential for allowing sustainable development to take shape. In the absence of systemic change, sustainability of development will remain unachievable.

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2.2. **Reinforce and support the developmental role of the State and with its democracy**

The creation of policy space and democratic ownership for developing countries is essential to counter-balance the current global trade, financial and investment flows and undertake when appropriate, counter-cyclical actions. Democratic States should be supported in their developmental role as the legitimate and accountable partner, driving innovation, incubating the creation of decent work through employment and labour market policies, instituting pro-equity tax policies, steering investments towards sustainable sectors and implementing effective redistribution policies for inclusive growth. Development cooperation relationships should be based on national sustainable development strategies and implemented through own-country systems. Effective institutions and participatory mechanisms including social dialogue are cornerstones for country ownership and will help to sustain development efforts.

The centrality of the state in guaranteeing human rights, which are essential to development, also needs to be recognised. The UN High Commissioner for Human Rights has stated that human rights cannot be left to the market. While States are not obliged to be the sole provider, they must “guarantee the availability, accessibility, acceptability, and adaptability of essential services including their supply, especially to the poor, vulnerable and marginalised”. For profit provision will not ensure universal health or education outcomes. The market simply does not provide services to those who cannot pay.

Further, universal public services are a significant tool in overcoming inequality and promoting development. Public services are inherently progressive and when the value of public services to individuals is calculated, the poorest 20% receive the equivalent of a 76% increase in disposable income. This is largely because universal public services are well targeted and by design reach the neediest. They also provide valuable social capital in the form of health and education that benefit both the recipient and the economy.

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3. Have the elements really changed since Monterrey?

3.1. Domestic resource mobilisation, inequality and the public sector

Universal provision of public services is a cornerstone to development. Governments should protect people’s right to universal and affordable public services and invest in public sector capacities. These are only possible with a large degree of public provision. There is substantial evidence that when services essential to development such as water, health, waste and education are provided by the private sector, they are both less efficient and less equitable. PPPs in these sectors have proven to be unstable resources for quality sustainable development investments and to overlook impacts on critical areas including jobs, taxes and environment.

Historically in the development of societies, public services like health, education, housing and transportation, and others have operated as important tools not only for indirect income distribution, but also to avoid the perpetuation to the future of present inequalities.

Fiscal reform and tax justice are key issues for domestic resource mobilisation. Governments should seek to establish or strengthen progressive taxation regimes that place the highest tax requirements on capital gains and on the wealthy, and provide tax relief for low-income families and the poor. There is a need to improve and raise the ambition of intergovernmental cooperation to fight tax evasion and tax avoidance practices by multinational enterprises. The OECD-led G20 Action Plan on Base Erosion and Profit Shifting (BEPS) is a positive step but it needs to be supported by a much more inclusive process for developing countries.

Specifically on corporate tax planning, the country-by-country tax reporting framework for Multinational Enterprises (MNEs), as agreed upon by the G20, should be made public. Business confidentiality should never be used as a shield for tax avoidance. Transfer pricing rules require a complete rethink. Where it is necessary to regard companies as genuinely separate entities operating at arm’s length the onus of proof should be on the company to demonstrate this. Not the other way around.
Regarding the elimination of tax havens, countries should effectively meet the standard Global Forum on Transparency and Exchange of Information for Tax Purposes, including the ten essential regulatory elements regarding availability of, access to and exchange of information.

The UN Tax Committee of Experts should be strengthened into a new intergovernmental body that can deal adequately with this range of contentious and complex issues and enlarge and adjust the OECD Action Plan (BEPS), the Global Forum and other tax relevant international initiatives, in a global, inclusive and legitimate way.

Effective measures should be adopted to recapture these lost resources, and they should, in turn be channelled into SDG sensitive investments including decent work objectives, supporting Decent Work Country Programmes and Social Protection Floors.

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

The fight for the formalisation of workers, among which, domestic and agricultural workers, should provide not only the transition to formality of subsistence activities but also the inspection of government agencies to legal businesses that deny rights to their workers.

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

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3.2. **Foreign direct investment, international private finance, business accountability and decent work**

Private financial institutions, including banks (both local and global banking groups), institutional investors (insurance companies, pension funds, sovereign funds), asset managers, private equity funds and other financial intermediaries should be made accountable and ensure transparency all along the investment chains. They should mainstream internationally recognised environmental, social and governance criteria in their investment policy.

Fair and transparent risk and reward sharing arrangements should be ensured, whenever public money is used to mobilise private finance. Public support to private finance development – including government guarantees and state-owned equity participation in joint ventures – should demonstratively stimulate sustainable investments, with focus on decent work strategies, low carbon economy and infrastructure. Public administrations should reinforce or retain the necessary in-house resource and expertise in public finance management.

Financial inclusion and financial consumer protection strategies should be implemented, helping the empowerment of local communities and developing access to affordable financial services. Transaction cost of remittances of migrant workers should be minimised.

Job-creation through private-financed investment and FDI should pursue all dimensions of the decent work agenda as they are mutually reinforcing and be consolidated through labour market governance institutions such as social dialogue, labour inspection and enabling employment policies. A business enabling environment should include full respect for workers’ rights, social dialogue, social protection and investments in education and human resources and should step away from the pernicious effects of the use of the World Bank’s Doing Business report.17

International cooperation should be enhanced to prevent mutually destructive tax competition between countries through “harmful tax practices”, including reversing the trend for foreign investor tax privileges (tax incentives and exemptions, export processing zones, “patent boxes”, etc.). Tax breaks to companies are rarely transparent and provide fertile ground for corruption.

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

There is a growing, though misguided idea that remittances can somehow be relied upon as a form of financing core state budget operations. This is not a viable government financing strategy. While it is good to reduce fees for migrant remittances, this will not address the basic problem of budget shortfalls. Therefore, this debate should be limited to the reduction of transaction costs for migrant workers.

3.3. Delivering effective and innovative development cooperation

First and foremost donors need to deliver on long-standing commitments to allocate the 0.7% GNI for ODA and .15-.2% support for LDCs, through time bound mandatory commitments. Likewise, progress on aid effectiveness commitments needs to be ramped up. For example, donors need to fully untie direct and indirect aid including the new business-for-development support schemes which essentially subsidise donor-country private sector sectors.

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

ODA should focus on poverty eradication, be untied, and addressing essential sustainable development areas such as human rights, gender equality, good governance, decent work, including social protection environmental protection and democracy. Further to this, all aid instruments and financing from international financial institutions should contain enforceable mechanisms to ensure relevant ILO conventions related to sector workers rights are respected.
Public policy frameworks should address the risks of new aid modalities such as loans and blending to ensure that the public interest and the developmental role of the state are safeguarded and sustainable development effectiveness criteria are met.

Effective control on transnational tax evasion. Tax heavens and financial heavens should be the rule, in order to guarantee funds for public policies, development policies and public services by countries.

Effective regulation of the financial system and introducing a global FTT as, inter alia, recommended by the UNGA Experts Committee are prerequisites for enhancing sustainable developmental impact of international public finance. New and additional sustainable development funding would be generated through the implementation of an FTT, and it would limit prevalence of transnational tax evasion.

3.4. Trade, growth and the modern economy

Trade policies should be fully aligned with the Internationally Agreed Development Goals (IADG) and the too be adopted Post-2015 Framework, as well as with decent work objectives and the observance of ILO labour standards.

MNEs are responsible to guarantee respect of core labour standards, including women’s rights, and environmental integrity throughout their supply chains. Legally binding instruments should be developed so as to hold MNEs accountable for shortcomings along their supply chains. To this end, compliance with the United Nations Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises and the ILO Tripartite Declaration on Multinational Enterprises should be integrated and be fully enforceable in all trade and economic cooperation agreements.

The current WTO negotiating round and the post-Bali working programme should deliver the mandate of the Doha Development Agenda with an emphasis on the needs of LDCs and special and differentiated treatment.
**Developing countries should enjoy ample policy space** in all trade agreements, including on the multilateral level. Trade policy should not create an environment that facilitates privatisation or makes public sector expansion or evolution difficult. Domestic firms and workers should be entitled **fair shares of the gains from trade and domestic trade policies should be enhanced** and protected.

Trade and growth policies will differ depending on the state of development in individual countries. Developing nations must have the right to adopt industry policies relevant to their circumstances. It must be recognised that the majority of the developed world’s industry development was conducted under various forms of protection and state subsidies. Developing countries must not be bound to trade or aid packages designed to suit the needs of the developed world.

**3.5. Technology and innovation for sustainable development**

The FfD agenda will need to consider measures to promote, facilitate and finance access to and the development, transfer and diffusion of environmentally sound technologies and corresponding know-how to developing countries, on concessional and preferential terms, as mutually agreed at the Rio+20 UN Conference on Sustainable Development in 2012. This however, should not be a “blank check” for the promotion of the private sector and PPPs.

Consistent programs for long-term development of sustainable economic sectors generating low emissions should be promoted, with the aim of creating decent work, prioritising social dialogue and democratic consultation.

**3.6. External debt**

Monterrey and Doha commitments for establishing a legitimate international debt workout mechanism should be implemented taking advantage of the recent UNGA resolution on the matter\(^{18}\). So far governments have failed to meet the commitments made in Monterrey and Doha which presents a major hurdle in efforts to resolve current debt crises and prevent new ones from emerging.

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External debt remains a central obstacle to the less developed economies and middle-income nations. An international debt restructuring mechanism should include the rejection of illegitimate debt for which payment usually absorbs much of the budget of those nations, as well as intervention and accountability of loans, programs, source and destination of funds.

### 3.7. **A global system of social justice for all**

A new and inclusive global economic architecture should be worked out accompanied by the creation of a UN Economic and Social Security Council. Top of the agenda for this new body must be a remit to ensure policy coherence between the economic, financial and trade systems as recommended by the 2009 *Stiglitz Commission* and in the interest of economic, social and environmental sustainable development. For Trade Unions, the coherent implementation of the decent work agenda, in line with the ILO’s Social Justice Declaration (2008),\(^\text{19}\) is an integral component of the new sustainable development approach.

The structural reform of the international financial and trade systems must include full integration of fundamental human rights, core labour standards, decent work, and mechanisms to ensure compliance.

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

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