CPDE Response to the Final Report of the Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF)

EXECUTIVE SUMMARY

In August, the Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF) released its final draft proposal for "an effective sustainable development financing strategy to facilitate the mobilization of resources and their effective use in achieving sustainable development objectives."[1]

ICESDF's policy recommendations are the result of a series of consultations that drew on the inputs of the Open Working Group on Sustainable Development (OWG) and an expert panel of 30 individuals nominated by the UN's five regional groups. Reports from both the OWG and ICESDF are meant to feed into discussions on the post-2015 Development Agenda.

To help inform those debates, the Civil Society Partnership for Development Effectiveness (CPDE) is releasing its own response to ICESDF's report. While commending the report's inclusion of progressive measures on accountability and the state's role in social welfare, it highlights other key issues, including ICESDF's emphasis on private sector finance, and its implications on democratic country ownership and sustainable development objectives:

- Civil society is concerned about the increasing push for private sector engagement in development taking place without proper discussion on regulatory and accountability frameworks.

- New sources of financing such as PPPs (blended finance) should be complementary at best and should not substitute traditional means of implementation, keeping public finance at the center of SDF. (§134-139)

- Assessing the role of private development assistance (or migrant remittances) should take into account the economic and social impacts of facilitating economic migration (§131-132)

- While there was mention of promoting lending mechanisms for SMEs in developing countries, regulations on initiatives that favour transnational corporations and big business remain on backburner. (§95-97)

- The underlying assumption of "Aid for Trade" is that more trade brings greater national wealth but evidence to prove its effects on poverty reduction is limited. (§152)

Civil society insists on an SDF architecture rooted in human rights and sustainability obligations, with an explicit recognition of HRBA, stronger accountability mechanisms and a regulatory environment for the private sector. This ought to ensure development effectiveness and additionality for projects funded through either public or private channels, and ensure that financing goes toward addressing the structural causes of poverty, inequality, and environmental degradation.

[1]See Par. 255, Resolution 66/288 endorsing the outcome of the United Nations Conference on Sustainable Development, "The future we want"

CPDE Critique/Response to finalReport of the Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF-8 August 2014)

The ICESDF Report begins with an overview of progress on the Millennium Development Goals (MDGs), an analysis of global financial flows and a projection of the scale of finance needed to fund potential post-2015 sustainable development targets.It outlines and expands on the four basic categories of financial resource mobilization available for this purpose – *domestic public, domestic private, international public, and international private finance* – while exploring options for blending all four channels and for strengthened collaboration between development actors.

The scale of sustainable development financing (SDF) needed is considerable if these actors are to address: a.) basic needs to eradicate poverty and hunger, improve health and education, promote gender equality and provide access to affordable energy; b.) funding for sustainable development investments at a country level, i.e. infrastructure, rural development, climate adaptation, climate resilience, and energy; and c.) global public goods, which include measures to protect biodiversity and combat climate change more broadly.

Incorporating measuresto ensure "climate-compatible" and "sustainable development scenarios" will add considerable weight to the bill, which ICESDF tags at over several trillion dollars per year. It insists, however, that the costs of inaction will be far greater in the long run if countries do not take immediate steps to transition to low carbon economies.

Nevertheless ICESDF notes with optimism that renewed commitments on ODA and rising overall growth rates, for the most part in developing countries, mean that financing from a diversity of sources is available. Yet considerable gaps remain.Additional challenges include the environmental crisis, an unfair trade system, and an unstable international financial architecture, as underscored by the 2008 crash. In addition, progress on the MDGs has been hampered by growing wealth disparities both between and within countries – with a few notable exceptions in Latin American countries, where a renewed emphasis on equitable public policies and a stronger role for governments in social welfarehave helped narrow the gap.

This paper acknowledges ICESDF's inclusion and insistence on some progressive measures in the SDF architecture but highlights key issues in the paper's overall premisesthat could hamper real progress toward the post-2015 development agenda. Above all, this concerns the privileging of private sector finance over public channels like ODA.

The Positives

The ICESDF Report acknowledges major challenges hampering access to SDF and progress on sustainable development. These are rooted in systemic issues, including inequality and the instability inherent to international financial and trade regimes. While highlighting a surplus of potential funding sources, both public and private, itcalls on the need to ensure that these resources come with appropriate regulatory frameworks, especially in the context of financial markets, and that they are mobilized adequately to meet future sustainable development goals (SDGs).

The report goes on to acknowledge that ODA can and should constitute a major source of funding especially for least developing countries (LDCs),but that only a handful of northern governments have met their ODA commitments thus far, tagged at 0.7% of GDP. It notes a troubling trend toward reduced ambitions on the part of northern governments as seen in the decline of ODA to LDCs.

On country ownership, the paper emphasizes alignment with developing country needs and priorities, the need to adapt funding targets based on developing country objectives,while maintaining policy coherence at all times to meet sustainable development targets. It calls on donors to maximise domestic sources of finance in developing countries, through progressive taxation, reforms in the international trade and tax system, and support for small and medium enterprises (SMEs).

ICESDF also mentions a stronger public sector role in social protection, but highlights the state's role in providing an enabling environment for private investment as a key priority.

Finally, the report even suggests options for major reforms in the international financial and investment architecture: for example, toward an international financial tax, or better regulatory mechanisms for foreign direct investments (FDI) which would take into consideration environmental, social and governance (ESG) impacts, while building capacity through technology transfer and training for domestic industries in the south.

At the heart of it all, however,is an overarching theme that couldhave troubling implications for any sustainable development agenda froma civil society perspective. While the report does take on the issues of country ownership, gender equality, human rights, the right to development, inclusive growth and poverty eradication – reiterating the Rio+20 principles– the overall picture is still one that stresses the primacy of private finance and other 'innovative' funding channels to meet these same objectives.

While governments will no doubt claim this is rooted in a pragmaticapproach to SDF in an era of scarce public funds,we argue the opposite is the case and that these trends pose serious questionsfor accountability and democratic ownership going forward.

ICESDF itself notes one of the major barriers to an SDF architecture that actually works are economic and financial structures at the international level that have worked against sustainable development, and prevented developing countries from accessing adequate financing.

Therefore an agenda for SDF that takes as its starting point the need to accommodate and incorporate these same structures, actors and institutions into a post-2015 agenda – while adapting them accordingly through vague regulatory frameworks and voluntary principles – is necessarily lacking in ambition. Indeed this appears to work against the need to depart from "business as usual", as openly acknowledged even among official negotiators.

Contradictions runthrough the report which, while taking note of the limits of the private sector's willingness to invest in sustainable development initiatives that are perhaps less profitable than conventional investments, nevertheless encourages the same. It calls on governments to facilitate enabling environments for the private sector, which is to play a major role in SDF and the broader sustainable development agenda, with governments called upon to essentially fill in the gaps on social provision. Universal social protection and productive and decent employment are called for, but it is unclear how these objectives are to be harmonized with the profit orientation of the private sector.

Details around whether and how SDF is to be assessed in terms of development effectiveness and additionality are not fleshed out. Just how much of a financial stake in the post-2015 agenda is to be given to the private sector (and which private sector) relative to other sources of finance is not thoroughly explored. While there was mention of promoting lending mechanisms for SMEs, regulations on public private partnership initiatives thatfavour profit-oriented corporations remain on backburner. There is no explicit mention of HRBA nor measures outlined to ensure that only projects and programmes aligned with sustainable development objectives and human rights principles are to be financed.

Of course, a paper of this nature cannot be expected to be an exhaustive treatise, inasmuch as it is an overview of possible options, but the overall premises can nevertheless be questioned. *How* SDF is to benefit people on the ground, and for whom, is just as important as the question of where the money comes from.

On their own terms perhaps, some of ICESDF's recommendations arecommendable. However there is a need to challenge the nearly dominant role proposed for the private sector in the SDF architecture, if only for the reasons mentioned above.The next section outlines some key issues surrounding the ICESDF reportwith the aim of stimulating debate as the post-2015 negotiations continue.

Key Issues and Debates

No room for HRBA – private sector approaches emphasized.

The report's most glaring omission is its lack of an explicit acknowledgement of a human rights-based approach (HRBA) to SDF.No*thorough*argument is made for HRBA,or for creating mechanisms to ensure financing only goes toward projects that meet international human rights standards. Instead, the report goes on to highlight in detail the potential for "blended finance" and other innovative financial options, and does not expand on regulatory mechanisms for the private sector, while harping on the need to attract or incentivise profit-oriented investments for sustainable development[1].

It makes the assumption that private sector investment isgood by default and can be harmonized with sustainable development objectives[2].

Yet the history of private sector involvement in development initiatives,particularly in the south, proves this is not the case.Foreign Direct Investment (FDI) is far more likely to be a blunt instrument for development, with outcomes that vary from country to country that operate at odds with social equity and sustainability concerns. The underlying assumption of "Aid for Trade"[3] is that more trade brings greater national wealth but evidence for its effects on poverty reduction is limited.

Oddly enough, the report acknowledges these issues, citing for example such failures as public-private partnerships (with a 35% failure rate, even in developed economies) and the propensity, inherent to an unregulated private sector, to promote the flight of capital and natural resources from south to north.

Fostering an enabling environment for the private sector[4] calls for equally vigorous initiatives by governments to promote an enabling environment for human rights, civil society participation, and environmental sustainability.

No explicit alignment of SDF with environmental sustainability.

In the case of climate finance, ICESDF does not mention the necessity to fund *only*programmes and initiatives in line with sustainable development objectives – to promote, for instance, renewable energy over fossil fuel-fired power plants in the south. Weak voluntary schemes leave open the possibility of donors funding high-emissions projects in the name of "development", as has been argued in the past.

In addition the report fails to distinguish climate finance from other forms of ODA – a contentious point, given the complexities of the climate crisis that will require more focused funding for both adaptation and mitigation. It also puts forward troubling suggestions for subsidizing carbon capture and storage technologies (CCT) and the commodification of ecosystem services, approaches that have been criticized on the basis of their questionable scientific merit and potential social impacts.

Public finance, international and domestic, can have a more direct and lasting impact on the pursuit of sustainable development objectives.

ODA derived from taxes from donor countries, for instance, can allow for a more cohesive and straightforward approach to sustainable development objectives while strengthening mutual accountability.

By contrast, financing from a variety of private sources complicates this, leaving considerable scope for time and resources lost on management and ensuring private sector returns on investment, especially for southern countries that lack the absorptive capacity to benefit from these "innovative" funding channels.

Stronger language on democratic country ownership over socioeconomic policiesis needed to address structural inequalities and barriers to inclusive development.

While the paper does make a case for policy coherence and alignment of finance along developing country needs and objectives, stronger language on democratic country ownership principles is needed to address the structural causes of poverty and inequality, both between and within countries.

Alongside broader reforms in international systems of trade, aid and finance, meeting commitments on ODA can mobilize resources for southern governments to enable them to enact broader reforms on social policy, trade, taxation and regulatory environments to bring about equitable outcomes for their constituencies. In that regard, there are clear risks involved in resorting to "innovative financing" channels that would allow donor governments to bypass commitments to finance sustainable development via public channels.

The report's insistence on donor governments to step up their commitments is long overdue. But one step forward is its emphasis on domestic resource mobilization within developing countries as a means to reduce dependence on ODA. However stronger clarity is needed on the implications of country ownership in the broader context of imbalances within the international financial and trade architecture,which is presently skewed toward the north. For example ICESDF cites migrant remittances[5] as a viable source of finance for developing countries, yet this ignores the ongoing crackdown on south-north migration flows, and the skewed development pathways that characterize economic relations at the global level.

In that context, attemptsatreforming institutions to make private investments like FDI more responsive to human rights and environmental concerns will have to work against a history of corporate tax evasion, labour exploitation, unfair trade regimes, and capital flight from south to north. This will doubtless involve challenging entrenched institutions and vested interests at the international level that will in turn require the necessary political commitment and cooperation to carry it through.

Civil society is concerned about the increasing push for private sector engagement in development taking place without proper discussion on regulatory and accountability frameworks

Crucially, reinforcing principles of democratic ownership in SDF will mean fostering an environment where governments are made fully accountable to their citizens from the bottom up.Fiscal oversight by experts must be matched by *democratic* oversight by citizens through institutions that allow them to participate in the implementation of projects at the local level, as well as access means of redress in case of 'development failure'. This is the best way to ensure that resources are spent effectively and in a mannerthat benefits people on the ground.

Ways forward

Civil society insists on an SDF architecture rooted in human rights and sustainability obligations, with an explicit recognition of HRBA, stronger accountability mechanisms and a regulatory environment for the private sector. This ought to ensure development effectiveness and additionality for projects funded through either public or private channels, and ensure that financing goes toward addressing the structural causes of poverty, inequality, and environmental degradation.

Amid rousing calls for a 'multi-stakeholder' approach and a global partnership for development, it is equally important to acknowledge real differences and power imbalances between development actors (i.e. government, the private sector, civil society), with the implications they have on development outcomes, especially for the marginalized. More space should be given for civil society and marginalized voices on decisions about funding and budgetary allocations, especially for projects that are necessarily local, such as in climate adaptation.

Finally, negotiators may be able to polish the post-2015 objectives and targets to a perfect sheen, but sources of funding will ultimately impact on their effectiveness and influence development outcomes once implementation gets underway. A key question in all this is whether these commitments are ever going to be carried out in practice, and in a manner capable of dealing with the challenges we face.

Governments and the private sector have the responsibility to ensure that this happens, and civil society can and must take them to task.

FOOTNOTES/REFERENCES

[1]"The solution includes better aligning private incentives with public goals and creating a policy framework that encourages for-profit investment in these areas, while also mobilizing public resources for essential sustainable development activities" [Introduction, §23]

[2]"Private financing is profit-oriented, making it particularly well suited for productive investment. However, the quality of investment matters. There continues to be a dearth of domestic long-term investment necessary for sustainable development, even while there is a growing understanding among the private sector that commercial interest and public policy goals can be realized at the same time." (§88)

[3]§152

[4]§104

[5]§131