11 CRITICAL OUTCOMES THAT THE ICESDF REPORT MUST INCLUDE

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Introduction[1]

The Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF) was mandated by the Rio+20 Conference on Sustainable Development in 2012, to " assess financing needs, consider the effectiveness, consistency and synergies of existing instruments and frameworks, and evaluate additional initiatives, with a view to preparing a report proposing options on an effective sustainable development financing strategy to facilitate the mobilization of resources and their effective use in achieving sustainable development objectives."[2] The Report of the Committee is a strategically important report as it will feed into the Third Conference on Financing for Development in July 2015 and the financing discussions of the Post-2015 framework and Sustainable Development Goals. The Report must be thorough and well-rounded, covering all aspects of the Committee's mandate.

The Report must, as a minimum, put forward the following 11 critical outcomes. We believe that these basic outcomes will be essential to ensure that finance in all its dimensions (international/domestic, public/private) and the financial systems itself contributes to putting all countries- and the international community- on track to fulfil their commitments to free humanity from poverty and hunger; and ensure the promotion of an economically, socially and environmentally sustainable future for our planet, and for present and future generations.

1. **More domestic resources for sustainable development through progressive taxation and effective international tax cooperation**

Progressive, transparent and accountable taxation systems that are not undermined by tax avoidance, evasion and other forms of outward illicit financial flows are central to sustainable development. Billions are lost each year in developing countries due to systemic and deliberate minimization of the tax share of companies and wealthy individuals. Developing countries lost an estimated US$946.7 billion in 2011 with trade mispricing alone leading to a loss of almost US$ 597.693.[3] While each country is responsible for their revenue-raising systems, all countries, including industrialised ones, play a key role in curbing tax dodging that deprive States of necessary resources to meet their human rights obligations. Greater transparency of countries' activities, better tax cooperation through an inclusive multilateral systems and sanctions against tax havens are among the necessary steps to adopt in a post-2015 world.

In parallel, the ICESDF must emphasise the need for progressive tax systems as an important

[1] 11 Critical Outcomes has been developed by Financing for Development Task Force composed of CONCORD, CAN Europe and Eurodad.
[2] UN General Assembly Resolution 66/288. The Future We Want. Outcome document of the UN Conference on Sustainable Development 2012, P255
[3] Global Financial Integrity. Illicit Financial Flows from Developing Countries: 2002-2011. Washington, 2013 http://www.gfintegrity.org/report/2013-global-report-illicit-financial-flows-from-developing-countries-2002-2011/

means for countries to fulfil their human rights obligations, their international sustainable development commitments, and - crucially-to address inequality between and within countries. Tax revenues are needed to finance Social Protection floors, an important instrument to combat inequality through the public sector.

Governments often resort to regressive taxes like value added taxes (VAT) to make up for lost revenues which impact the poorest more. The Report should address the roles played by International Financial Institutions' policy advice and donors' conditionality in the design of regressive tax systems. Alongside enhancing capacity of tax administrations, it should call for the strengthening of UN governance on Tax matters first of all by making the UN Committee of Experts on Tax Matters into an intergovernmental body subsidiary to the ECOSOC. There is an urgent need for a legitimate authority to lead global tax discussions including multilateral automatic exchange of information, establishing mandatory requirements for public country-by-country reporting of Transnational Corporations, establishing Public Registers of the Beneficial Owners of Companies, Trusts and similar legal entities.

2. The unique and specific role of public domestic and international finance is reinforced

Poverty is still widespread, and growth alone cannot eradicate it. Effective aid has a unique and important role to play amongst the various possible sources. In particular, effective aid can be targeted to support essential public services, good governance and building capacity to enhance domestic resource mobilisation. Effective aid is also one of the only forms of development financing that is in principle a transparent and accountable form of financing in itself.

The Report should call for a renewed commitment, backed up by concrete and verifiable timetables to scale up to meet the 0.7% commitment, also for the time beyond 2015.

It should call for aid to be spent effectively, in line with the Paris, Accra and Busan Principles on Aid/Development Effectiveness.

The Report has to address a reform of the definition of Official Development Assistance (ODA), which currently includes some financial flows which do not represent genuine transfers, not providing benefit and additionality to partner countries. Through this process the practice of tied aid and counting debt relief, scholarships offered to students of partner countries to study in donor countries, refugee costs and interest of loans as ODA would have to be ended.

The Report should also stress the need to reform the definition of "concessionality", i.e. how ODA loans with a certain grant element are transacted, repaid and accounted for in donor budgets. Only genuine costs to donors should be counted as ODA, i.e. the grant element, and real cost for the recipient should be included by deducting interest repayments. In addition, ODA loans should not increase debt vulnerabilities of developing countries.

The Report should reaffirm that climate finance has to be new and additional to existing ODA commitments and that climate finance commitments made in the UNFCCC must be met, namely the commitment to raise US$100 billion by 2020. This finance should be channelled through the Green Climate Fund, with pledges from developed countries already coming through by the Ban Ki-Moon Climate Summit in September.

3. New public financing sources for development are set up

Even if financial commitments (in the context of the MDGs/SDGs, Climate Finance, Biodiversity...) are fulfilled, the scale of the challenges means it is essential to create new and additional sources of public finance.

The Report must highlight the Financial Transaction Tax and Carbon taxes as two potential sources of new public finance which would also have the added bonus of reducing other negative externalities (i.e. financial instability through speculation and carbon emissions). Similarly the Report should place a focus on rectifying existing problems, emphasizing the importance of cutting fossil fuel subsidies and reallocating the funds to low carbon development.

4. A permanent and lasting solution to sovereign debt crises is reached

In spite of successive debt cancellation initiatives and the implementation of the IMF/World Bank Debt Sustainability Framework since 2005, four countries are in debt distress, 13 are at high risk and 27 at moderate risk (IMF 2012). Moreover, 6 of the high risk countries and 15 of the moderate risk countries reached "Completion Point" under HIPC, that is, they received all the stock and flow cancellation available through this program.

This raises questions about the effectiveness of the Initiative's ability to make debt "sustainable in the long term," even for the limited sphere of its beneficiary countries. Several countries in the Caribbean and Pacific regions are also at high risk or in debt distress. According to the latest MDG 8 Gap Task Force report 2013, the debt repayment problems remain acute in several small States, particularly countries in the Caribbean such as Belize, Grenada, Jamaica and St. Kitts and Nevis. These countries had to seek the restructuring of some of their debt in 2012.

The anticipated rolling back of quantitative easing is expected to put further pressure on the debt situation of developing countries, particularly through the currency depreciation that occurs during capital flight. At the same time, the bailouts of European countries such as Greece are evidence that debt distress is no longer confined to the developing world.

The Report should call for unsustainable debt to be addressed by: reviewing onerous debts and cancelling illegitimate debts, especially in least developed countries; and revising Debt Sustainability parameters to make them more objective and accountable to the prioritization of financial needs for meeting development goals above debt repayments. It must call for agreement that the real threat of debt distress- measured on the basis of indicators including the inability of a country to fulfil its human rights obligations will serve as a signal to put in motion a debt work-out process.

It must also emphasise the urgent need to put in place a fair and permanent system of debt work-out and set up an intergovernmental process to establish transparent arbitration processes.

5. Trade and investment is oriented to contributing to states' human rights obligations and international social, environmental and climate change commitments

In most cases international trade and investment agreements restrict governments' ability to regulate foreign investment in the public interest, promote investor rights at the expense of fulfilling human rights obligations, impose barriers to technology transfer, productive capacity and industrial transformation, prevent fair taxation and narrow the policy space countries need to achieve sustainable development objectives. 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.

The Report must emphasise that in negotiating or entering into trade and investment agreements, States should respect, protect and fulfil their obligations under the Maastricht Principles on Extraterritorial Obligations of States in the area of Economic, Social and Cultural Rights. It must highlight the need to monitor gender differential impacts of trade policies and take protective measures where impacts are expected to be harmful. It must call for a process to be put in place to revise rules on the liberalisation of financial services at all levels, including negotiations on financial services in the WTO.

6. Alternative credible monetary systems are established

Increased exchange rate volatility constricts levels of domestic investment, destabilizes export product prices (thus impacting on an economy's competitiveness), increases the price of access to finance for production and shifts the value of market-access concessions. As prices of imports of essential commodities such as food and energy are effected by increases in exchange rate volatility, it effects the food security of a country as well as the balance of trade (by contributing to the current account deficit). Developing countries are particularly vulnerable to such impacts and will continue to be so long as the international financial and monetary system is not reformed. Despite the growing consensus that the international monetary system has many shortcoming, no concerted and coordinated action for reform has been taken. The dangers of the continuation of the *status quo* (based on the domestic currency of one currency as the main international trading and reserve currency) are increasingly apparent, yet there is no shared vision for reform.

The Report must address this situation, highlighting the need for reform of the international monetary system towards the objectives of preventing recessionary adjustments, reducing exchange rate volatility and raising innovative finance for development. It must emphasise the need to establish alternative credible mechanisms for the multilateral management of exchange rates, protect policy space for introducing capital controls and plan gradual moves towards placing a supranational currency as the main reserve and trading currency. It must also highlight the need to strengthen and encourage regional and sub-regional schemes for monetary and financial cooperation, pooling of reserves and payments in domestic currencies.

7. The contribution of private sources of finance to sustainable development is enhanced through regulation

Governments are increasingly looking to 'unlock' the potential of private sources of finance to bridge the large development financing gaps particularly for infrastructure and also for other public goods and services. At the same time, the recent financial crisis provides adequate evidence that the system of financial regulation as it is today designed and oriented does not respond to the demands of sustainable development. To ensure that governments do not undermine sustainable development gains in their effort to attract private finance, a strong regulatory framework starting at the national levels up to the international level is needed.

In this regard the Report must enumerate the essential financial regulations needed. These include putting in place capital controls- and the need for policy space for countries to determine their appropriate form and design; specific measures to prevent private financial institutions from becoming so big or so complex that their failure would have knock-on effects on the real economy nationally as well as across borders, adopting ex-post regulatory measures to reduce the size and complexity of existing institutions that are "too big or too complex to fail" and putting in place feasible mechanisms for the orderly resolutions of such institutions; strict supervision of derivative markets, enhancing the transparency of shadow banking vehicles building on the work of the Financial Stability Board and strong governance requirements of Credit Rating Agencies are essential parts of this agenda.

Particularly pertinent to current considerations of how to attract private finance to invest in sustainable development, is the need to understand the contagion risk that such finance will always carry. The Report must address this and underline the need to ensure that private finance intended to deliver specifically defined development outcomes is subject to a very strict regulatory framework that is particularly monitored and supervised for compliance and adequacy and that seeks to mitigate and minimise risk.

Binding corporate accountability rules should be agreed on to ensure that private sector actors respect human rights, environment, development effectiveness principles and promote sustainable development. The rules should include due diligence reporting; effective access to justice and compensation for victims of corporate abuse. The rules should build on effective implementation of the UN Guiding Principles on Business and Human Rights.

8. Foreign direct investment and other financial inflows assessed on quality not quantity

Lessons from developing countries that attract high levels of Foreign Direct Investment (FDI) teach us that more FDI does not guarantee greater job creation capacity.[4] The whole report should reflect the reality that a significant proportion of FDI flows are not new flows but reinvested earnings from existing investments – i.e. income earned from within the country. In addition, recognise that FDI and portfolio inflows areas are highly volatile and pro-cyclical: they have boomed during the early 2000s and fallen dramatically during the recent global recession. There are significant macro-economic risks to large volumes of inflows including the Dutch disease, caused by decreases in competitive advantage of a country's' export sector due to currency appreciation when there is a high influx of FDI. The Report must emphasise the need to adopt approaches focussing on quality and effectiveness, using and improving UNCTAD's FDI contribution index.

9. Development effectiveness principles for the use of public funds to support the private sector are followed

Public development finance used to directly support the private sector should align to development effectiveness principles as outlined in Busan and should comply with international standards on responsible finance. Private finance must also comply with development effectiveness principles and international standards of responsible finance.

These resources should be subject to the same scrutiny and assessment as other flows, development effects should be evaluated before and after, and the finance should be aligned with democratic ownership, mutual accountability, and transparency. Supporting the development of developing countries´ local private sector should be emphasised. Tax avoidance should be prevented, binding corporate accountability standards used and environmental sustainability taken into account.

[4] See for instance ECLAC 2012, Foreign Direct Investment in Latin America and the Caribbean , http://www10.iadb.org/intal/intalcdi/PE/2013/11869en.pdf

10. Developing countries voice and decision-making in international policy and outcomes are made equal to those of developed countries

The reform of the Bretton Woods Institutions is long overdue. The deadline to reform their quota formula risks being missed again. The stagnancy of action in this agenda belies the critical development importance of implementing this reform. Many borrowing countries continue to be denied adequate and fair voice in the Boards of these Institutions despite the considerable impact decisions made by these bodies have on their macroeconomic situation. A more balanced approach would ensure that variables related to the "demand for" and supply of" finance are sufficiently reflected in the Boards for instance.

The Report must underline the urgency of implementing the long-discussed voice and vote reform agenda of the Bretton Woods Institutions, address the lack of voice and participation of developing countries in international standard setting bodies and underline the need to strengthen the UN in international economic governance. A key first step would be to introduce double majority voting at the IMF.

Similarly, developing countries should participate on an equal footing in the international reform of corporate taxation, currently ongoing in the OECD, which only includes OECD and G20 countries.

11. Policy coherence is recognised as essential for effective mobilisation and optimal investment of sustainable development finance

The Report of the World Commission on the Social Dimension of Globalisation[5] called States to "act consistently and responsibly by adhering strictly to international laws, regulations and norms that are the foundations of global governance (...) they should carefully consider the consequences of their actions and policies on the rest of the world, especially the LDCs and the poor. As in other domains, the richer and stronger countries carry a heavier burden of responsibility to ensure that domestic decisions do not harm the interests of people in other parts of the world." Unfortunately, little of the Commission's findings and recommendations on Policy Coherence have been put into action.

It now turns to the ICESDF's Report to underline the importance of Policy Coherence, and the specific responsibility of industrialised countries herein. The Report should emphasize the need for mechanisms at the most appropriate level to be established to monitor and assess the impact of new policies (particularly in the areas of trade and investment, Intellectual Property Rights and Patenting, labour, agriculture and extraction of natural resources and tax policy) on commitments and obligations, and costing the losses caused by policy incoherence.

It must emphasise the need for both, availability of development-related information, disaggregated and timely data and evidence to policymakers to guide them, as well as supervision (wherein democratic institutions such as a parliaments, an independent media and an active and empowered civil society play important roles) and accountability, so that the most development-friendly policy options are made.

[5] World Commission on the Social Dimension of Globalization. A Fair Globalization: Creating Opportunities for all. ILO, Geneva, 2004.