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Remarks to the Intergovernmental Expert Committee on Sustainable Development Financing

Dear Excellencies, Committee Experts, Delegates and Colleagues:

- *I am very pleased to be able to address you today from both the Third World Network and the Women's Major Group.*

INTERNATIONAL ENVIRONMENT

- The international environment today is, as verified by international financial institutions such as the IMF as well as by key UN agencies, **marked by continuing economic recession, persisting global imbalances, reduced trading opportunities, unemployment and wage suppression** as well as volatile capital flows and its critical impacts on the stability of exchange rates and food and commodity prices.
- **Governments have have turned to fiscal consolidation** after a one-off trial of fiscal stimulus and countercyclical policies. The US economy is still marked by

economic contraction and decades of wage suppression; the Eurozone is still mired in recession; and China has shifted to investment-led growth as its exports have slowed down.

- **The continuing quantitative easing policies of the US** funnels vast sums of liquidity into high-risk investments in developing country financial markets. This has generated financial instability, currency depreciations (and resulting debt problems) as well as exchange rate instability in many developing countries -- while being largely ineffective in re-igniting bank lending and private spending.

- **In this overall context**, **growth in developing countries has also decelerated significantly**. In Asia, growth in 2012 was about 5% below the rate achieved before the onset of the 2007 crisis; in Latin America growth has been reduced to almost half.

FINANCE AND THE MEANS OF IMPLEMENTATION

- **Finance, both in the sense of resources and the international financial system,** are at the heart of sustainable development financing. **The Monterrey and Doha conferences** on financing for development are strong foundations to draw from from.

- **Financing needs** in developing countries are in the order of trillions of dollars per year. At the same time, there are a lot of global savings, especially in foreign reserves. This points to the urgent need for financial system reform in order to re-allocate savings to development needs.

- **Sources of financing** are public, private, domestic and international, and each has its own role and objective. They should complement but not substitute each other. Private sector financing is usually profit-oriented and not required to invest in social needs and global public goods. The public sector—whose crucial roles are to finance social needs towards poverty eradication and finance global public goods—thus remains the lynchpin of a sustainable development financing strategy.

OFFICIAL DEVELOPMENT ASSISTANCE (ODA)

- **ODA remains critical, especially for low income countries**. In 2012 the Organisation for Economic Co-operation and Development (OECD) reported that aggregate ODA flows from donor countries have decreased by 12.8% in real terms, the largest decline in ODA since 1997.
    - **A sustainable development financing strategy must reaffirm**

commitment to the 0.7% ODA target and call for a turnaround from its recent decline.

- **While the UN has recognized the increasing role that South-South cooperation can play, this should not be seen as a substitute for North-South cooperation**. These two types of cooperation are based on different premises. The main channel by which means of implementation and global partnership has thus far been carried out, and should continue to be, is based on North-South relations and cooperation. The challenge will be to ensure that the commitment of Financing for Development is not transferred to South-South cooperation.

- **New and innovative sources of financing** can be important, but they are additional to ODA and other public development financing, and are not an excuse or method to reduce traditional development finance. At the same time, innovative financing has meaningful scope, and potential sources that do not rely on public budgets include, for example, financial transaction taxes and the issuing of SDRs for sustainable development needs.

THE ROLE OF THE PRIVATE SECTOR IN DEVELOPMENT

- The private sector has increasingly been promoted across various institutions, such as the G20 and Multilateral Development Banks, as well as the UN, as a key and potential source of financing.

- Between 2006-2010, development finance institutions, particularly in Europe, increased their **private sector portfolios** by 190%. An assessment of all investment projects by the International Financial Corporation of the World Bank and the European Investment Bank in the world's poorest countries during the second half of the 2000s revealed that only 25% of all companies supported were domiciled in developing countries.

- States are encouraged by markets and institutions to promote policies that incentivize private investments through partnerships, such as **public-private partnerships (PPPs).** However, some PPPs have succeed while others fail, so lessons need to be learned.

- PPPs are predicated on the basis of the lack of public funding, and often seem more financially attractive due to accounting that hides their fiscal risks and costs. **Such costs and risks,** in the form of contingent explicit and implicit liabilities, tax incentives, lack of widespread coverage and underinvestment, are compounded in environments of low institutional quality. PPPs can socialize the

costs while privatizing the benefits of infrastructure thus worsening inequality in income and access.

- **Key challenges in the private sector's role in development** relate to ensuring accountability from private actors and to safeguard the sovereign policy space of states that are legally challenged by companies, especially through **bilateral investment treaties and investor-to-state dispute settlements**.

(With regard to investment agreements, the **TransPacific Partnership Agreement** in particular, could prevent the very kinds of regulatory, social, economic and rights-based policies that should form the backbone of sustainable development and the post-2015 agenda.)

- Central to the problematic issues involved in PPPs and the regulatory agency of the state is the notion of the **developmental role of the state**. This means that the state needs to play a pro-active developmental role in the governance of the economy, the regulation of the market and in ensuring that economic growth creates decent work and translates into equality, opportunity and well-being through ensuring the economic and social rights of people, including women's rights.

10 Recommendations on PPPs (particularly in infrastructure project financing)

1) **Fiscal and public debt risks** of PPPs are properly accounted for and placed under public scrutiny through mechanisms for participation and accountability;

2) **Institutional and capacity pre-requirements** for the success and effective functioning of PPPs should be in place before they are undertaken. Building competent and effective institutions for governance takes time and skills-training, which are often incompatible with the need to deliver quick public-private partnership deals;

3) Equity concerns should be addressed in distribution, access and affordability of infrastructure and services. Providing access alone has proven to be insufficient; it is **equitable and affordable access** that is an essential dimension to fight poverty;

4) **Regulation and enforcement** in infrastructure projects is necessary, particularly of laws, policies and safeguards to ensure the economic and social rights of people, including women's rights, as well as environmental protection and sustainability. **Regulations also include rules against tax evasion and tax loopholes**. For example, all firms involved should be required to disclose annual

information related to taxes paid, profits made, sales, and information regarding beneficial ownership, including trusts, foundations and bank accounts;

5) **Align private sector financing to developing countries investment and development priorities**. Developing country ownership should be respected by aligning investments to national development strategies, including national industrial and agricultural policies and strategic priorities for scaling up the domestic private sector. A coherent framework that sets clear guidelines for alignment and ownership, and regular reporting on results have been recommended by many actors as a first step forward;

6) **Make development outcomes the overriding critera for project selection and evaluation**. (One possible requirement could be that development outcomes are disclosed at the project, not the aggregate, level, whch could improve accountability of public-private projects to affected communities);

7) **Prioritise domestic MSMEs and companies over foreign companies**. (This is essential for private investments to actually support the development of competitive and locally-owned private industry);

8) **Compliance with international human, social and environmental standards**. (Adherence to rights and standards must be ensured through regulatory systems and governance institutions, through third-party and independent monitoring, among other mechanisms);

9) **Set higher standards for transparency of financial intermediary investments and review their use of investments**. (Besides improved reporting by financial intermediaries to both governments and the public, criterion can be developed whereby public agencies only channel financing to intermediary institutions if the investment flows can be tracked and investigated); and,

10) **A broad range of financing forms** from the public to the private exists, including a diversity of forms of association and partnership that are available for building and financing infrastructure. These various financing forms should be **openly discussed** with the participation of affected communities and groups, where their distributional consequences are debated in transparent and open ways.

AUSTERITY AND MACROECONOMIC POLICIES

- It is paradoxical to attempt financing sustainable development at a time when many countries (both developed and developing) are carrying out **austerity policies** (such as public spending cuts, public wage bill reductions, pension

reform, labor deregulation and regressive taxation) that undermine economic and social sustainability.

- Austerity will affect 5.8 billion people or 80% of the global population in 2013; this is expected to increase to 6.3 billion or 90% of persons worldwide by 2015. Fiscal contraction is most severe in the developing world.

- **A sustainable development financing strategy needs to call for** development-oriented fiscal and monetary policies that facilitate public expenditure on social sectors (especially health and education), create urgently needed jobs, re-orient tax policies toward wealth redistribution for greater socioeconomic equality and manage monetary policy to serve the needs of the real economy and for inclusive finance, particularly in access to credit.

FINANCING FOR GENDER EQUALITY

- A sustainable development financing strategy must also be a gender equitable financing strategy.

- **The unpaid care economy** is a key element of economic gender inequality, and should be recognised, valued and redistributed.

- Public budgets and policies must be re-oriented to expand and strengthen the provision of care and social services, including **social infrastructure for the unpaid care economy and the informal economy, public expenditure for gender-equitable social services, pensions and benefits, and women's access to affordable credit.**

- In 2007, the **Expert Group Meeting on financing for gender equality** recommended that the share of ODA for gender equality and women's empowerment should be 10% by 2010 and 20% by 2015.

DEBT

- The lack of a fair, equitable and effective means by which to address **sovereign debt burdens,** and the absence of an **international debt resolution mechanism** is arguably one of the most significant absences, or even failures, of the international financial architecture.
    - Addressing debt is indispensable for a coherent framework sustainable development financing in order to re-direct national earnings from debt servicing **toward public expenditure for sustainable development.**

- In spite of successive debt cancellation initiatives and the implementation of the IMF/World Bank Debt Sustainability Framework since 2005, **4 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 the **Heavily Indebted Poor Countries (HIPC)** programme. 2012 was the third consecutive year in which developing country debt increased by more than 10%. **Total annual debt service** is reported to be 5 times that of total annual ODA flows to developing countries.

- Particularly in developing countries, **foreign exchange earnings are funneled into external debt servicing obligations** rather than for key imports payments necessary to build the domestic economy or to public investments for development needs.

- The UN should lead the design and implementation of a **sovereign debt workout mechanism** that is independent and fair. Such a mechanism should be impartial in decision-making over debt workout terms and conditions, and should impartially assess sovereign debt sustainability and necessary debt relief.

    - **Important elements also include**: temporary debt standstills, automatic stays on litigation by creditors, selective capital controls, lending into arrears, and partial debt write-offs.

    - Reviewing odious debts and cancelling illegitimate debts, especially in least developed countries, is also critical.

INCOME INEQUALITY

- It is well known that global income inequality has been driven by the **low and declining share of wages in national income in all major advanced economies,** including the U.S., Germany and Japan, as well as China – while the concentration of wealth has sharply consolidated.

- **Establishing a level playing field between labour and capital** can be achieved through various means, including a shift towards wage-led growth, regulation of international financial markets and capital movements, more equitable tax policies and prevention of tax competition. **This calls for breaking the dominance of finance and corporate interests in the formulation of policies and operations in global markets.**

- The International Labour Organisation has called for a **wage-led growth strategy**

based on pro-labour distributional policies accompanied by legislative changes and structural policies. **This includes**: 1) Increasing wages in alignment to productivity; 2) Creating additional public employment opportunities; 3) Establishing legal minimum wages; 4) Progressive taxation, and channeling its proceeds to social transfers; and, 5) Public spending on essential goods and services.

CONCLUSION

A sustainable development financing strategy must create a viable plan of action, which includes means of implementation and a robust analysis of key systemic issue. Such a structure would recognize from the outset that sustainable development requires, as a precedent, adequate policy space for human rights-based development and a development- and environmentally-friendly global economic environment.

Thank You.