DEINE STIMME GEGEN ARMUT

VENRO

ASSOCIATION OF GERMAN DEVELOPMENT AND HUMANITARIAN AID NGOS

From Addis Ababa to New York – Financing Sustainable Development after 2015

2015

Position Paper 2/2015

Contents

Cover picture: Office building in downtown Hong Kong

Introduction

At the end of 2015, the Millennium Development Goals (MDGs) are to be superseded by the Sustainable Development Goals (SDGs). Against the background of these new goals, the discussion on financing for development is a clarion call for the global community to take responsibility. The conference of the United Nations (UN) on Financing for Development (FfD) in Addis Ababa that will take place from July 13 to 16, 2015, will have to decide on the extent of the funding that will be provided for sustainable development, in particular for implementing the SDGs, in the coming years. The establishment of a new framework for sustainable development that offers political solutions for the global challenges like hunger, inequality and climate change will critically depend on the success of the conference. The need for funds for global development has grown because sustainable development is increasingly including ecological factors besides political and social factors. A further goal is to secure financing for climate protection and climate adaptation measures. However, this must not be at the expense of funding for poverty reduction. Thus, there needs to be additional funding for climate protection and adaptation measures.

The increased financing needs can only be fulfilled by mobilising different and diverse sources of FfD. These continue to be official development assistance (ODA) funds, tax revenues of the developing countries, contributions by the private economy, foreign direct investments and remittances as well as capital from national and international capital and financial markets. In addition, debt relief and a just, democratic, global financial architecture could contribute to securing financing for development. International tax cooperation with clear rules that prevents illegitimate capital outflow from developing countries is also a component of financing for development.

The quantity and quality of the funding that the states will pledge at the conference in Addis Ababa, in particular for implementing the SDGs, will crucially determine the success or failure of the new framework. Hence, the decision coming up in September 2015 on the extent and range of the SDGs must be taken into account at the financing conference, without narrowing the political breadth of the FfD negotiations. The funding for the envisaged ambitious universal list of objectives should already be secured in July 2015. However, this must not cause questions of systemic reform and regulation to disappear from the political agenda of the UN financing for development conference. UN General Secretary Ban Ki-moon addresses the financing of the SDGs in detail in his synthesis report[1], in which he summarises the main proposals for formulating them. He rightly demands that public development funds be provided and emphasises that the industrialised countries must finally deliver the agreed 0.7 percent of gross national income (GNI) for ODA. The 0.7 percent goal must be met credibly.

The UN General Secretary also demands the mobilisation of diverse private financial resources for financing the implementation of the SDGs. However, private capital flows should not be seen in a purely positive light. Foreign investments must fit into a country's development planning and take into account economic, but also social, human-rights and ecological criteria. This includes for instance the employment situation and employment conditions, the UN norms for the human-rights responsibilities of transnational corporations as well as governmental control of goods and services of public interest and of concessions to transnational corporations in the extractive sector.

Ban Ki-moon further emphasises that the establishment and development of the fiscal system in developing countries must be promoted, the fight against corruption must be advanced and the illegal outflow of capital from developing countries through money laundering and tax evasion must be stopped. This does not obviate consideration of innovative instruments of financing for development and of the necessary reform of the global financial and trade order.

Thus, for example, developing countries share no responsibility for the financial and economic crises since 2008, but they suffered the consequences and are affected by the lack of financial stability. This has stunted positive

1 United Nations (2014): The road to dignity by 2030: ending poverty, transforming all lives and protecting the planet. www.un.org/ga/search/view-doc.asp?symbol=A/69/700&Lang=E (accessed 16.04.2015)

developments in particular in African developing countries, e.g. in the area of trade and investment. Financing for development must serve to create global justice. It must help to overcome poverty and hunger worldwide. This includes eliminating structural conditions that favour poverty and hunger – on all levels, nationally as well as globally. Therefore, deliberations on financial stability at the international level must take into account the interests of developing countries. In this context, it is also important that effective measures against ruinous tax competition and harmful tax circumvention be developed. Innovative financing instruments such as the financial transaction tax, the aviation tax and ecological taxes must be levied worldwide and used in part for financing development. The implementation of the SDGs can only succeed through a transformative, sustainable, economic, social and ecological policy change backed by just and sound financing. The UN FfD conference in Addis Ababa is a new attempt to establish sustainable financing for development. The international and German non-governmental organisations (NGOs) will be actively engaged in this process.

VENRO calls on the German government to

- demonstrate its commitment to the 0.7 percent goal with the 2016 budget.
- put an adequate contribution to financing for climate protection and adaptation measures on the table in view of the climate change conference in Paris.
- advocate further reduction of fees for remittances and promote financial stability by further regulation of the financial markets and international tax cooperations.
- do everything in its power to contribute to a multilateral, more just world trade order through a new world trade round.

1. Mobilising domestic resources

The experience of recent years shows that high growth rates in many developing countries have not led to a significant decrease in poverty or an increase in wealth of broad segments of the population. To the contrary – higher growth rates go hand in hand with increasing inequality and unequal distribution of income and property. Thus, for strengthening sustainable and inclusive economic development it is essential that broad segments of the population can participate in gains in growth and welfare. This requires a sustainable improvement in tax and fiscal systems as well as active redistribution policies, in particular in countries with low incomes.

For effectively overcoming absolute poverty by 2030 and enforcing the universally valid human rights, sufficient resources must be available to the public budgets in the global South to finance the expansion of fundamental health and education systems, promote social security systems and carry out public infrastructure measures. Corruption as well as weak institutions and administrative structures lead to the loss of more than half of all tax revenue through tax evasion and tax flight. The problem is exacerbated by the net capital outflow from countries of the global South. According to recent estimates, for each euro in investments and financial inflows, developing countries lose two euros due to capital flowing out of the country, including through illegal profit transfers of corporations as well as other illegitimate capital outflows[2].

Capital outflows due to tax avoidance and evasion are a central obstacle to sufficient mobilisation of domestic resources for fighting poverty and inequality and for achieving a more sustainable economy. The globalisation of economic relationships as well as outdated tax and fiscal policies allow transnational corporations to circumvent and

2 Eurodad (2014): The State of Finance for Developing Countries, 2014. http://eurodad.org/files/pdf/5492f601aeb65.pdf (accessed 17.04.2015)

evade taxes on a large scale. A comparison with international development aid payments shows how high the proportion of revenue lost due to tax flight is in particular in developing countries: Through corporate taxes that are not paid, in particular in the extractive industry sector, the countries of the global South lose more funds annually than they receive through ODA[3]. According to recent estimates, the African states alone lose between 50 and 60 billion US dollars in tax revenue per year due to illegitimate financial flows[4]. This public revenue is lacking for programmes to finance basic social services and for implementing human rights, for overcoming poverty and for financing sustainable climate protection programmes. Only about 0.1 percent (118.4 million US dollars) of total ODA is being mobilised for improving the tax systems in poor countries[5]. In particular poor developing countries therefore urgently need more support to improve their weak tax and fiscal systems.

In 2008, in the declaration of the Doha Conference on Financing for Development, the international community decided to step up efforts to enhance tax revenues of the developing countries through modernised tax systems, more efficient tax collection, broadening the tax base and effectively combating tax evasion[6].

However, in subsequent years concrete reform projects were only advanced under the auspices of the Organisation for Economic Cooperation and Development (OECD). A further initiative originated from the action plan against base erosion and profit shifting of multinationally operating corporations (BEPS initiative). Developing countries mostly remain by-standers in the OECD negotiations. Their interest in the taxation of the profits from resource extraction, in the apportionment of taxation rights among states and in the taxation of services was not sufficiently taken into account. Also, the reform steps taken so far do not include effective measures against the international tax competition of transnational corporations, e.g. through intra-company profit shifting. Lastly, bilaterally negotiated treaties on double taxation and on the exchange of tax information also primarily serve the interests of the industrialised countries.

In order to adequately take into account the interests of a broad number of developing countries in the international negotiations on fair corporate taxation and the fight against illegal capital outflows, it is necessary to carry out these negotiations in a global and democratically legitimated framework with participation of all interested states. This can only happen under the auspices of the UN. However, there is currently no structure that has the required political mandate and could offer a more inclusive framework for the negotiations in place of the OECD. The demand for an appropriate structure is by no means new; already in 2001 the so-called »Zedillo Report« proposed the creation of an international tax organisation.

The duty to realise human rights is closely related to a state's fiscal room for manoeuvre. Against this background Magdalena Sepúlveda, UN Special Rapporteur on extreme poverty and human rights, demanded again in 2014 that the existing »Committee of Experts on International Cooperation in Tax Matters« be upgraded to an intergovernmental commission with representative international governmental participation. This committee would be able to lead the negotiations that are currently taking place at the OECD level.

VENRO calls on the German government to

- effectively support developing and emerging countries in modernising and reforming their tax and fiscal systems in order to mobilise additional funds for sustainable development and poverty reduction through progressive taxation and by closing tax loopholes.
- support states through suitable cooperation programmes in strengthening human-rights-based and gender-sensitive budgeting, with the goal of increasing financing of measures for the protection of human rights, for gender justice and for strengthening the role of women.

3 VENRO (2008): Nachhaltige Finanzierung für Entwicklung und Armutsbekämpfung. http://venro.org/uploads/tx-igpublikationen/2008-Positionspapier-Doha.pdf (accessed 17.04.2015)
4 Report of the High Level Panel on Illicit Financial Flows from Africa (2014). www.uneca.org/sites/default/files/publications/iff-main-report-english.pdf
5 OECD (2014): Strengthening Tax Systems to Mobilize Domestic Resources in the Post-2015 Development Agenda. http://www.oecd.org/dac/Post%202015 %20Domestic%20Resource%20 Mobilisation.pdf (accessed 17.04.2015)
6 United Nations (2008): Doha Declaration on Financing for Development. Paragraph 16. http://www.un.org/esa/ffd/doha/documents/Doha-Declaration-FFD.pdf (accessed 17.04.2015)

Moreover, it should urge the international community to

- establish an international tax organisation under the auspices of the UN. As a first step in this direction, the international community should decide to upgrade the existing Committee of Experts to a regular commission on international cooperation in tax matters in the framework of the UN Economic and Social Council (ECOSOC).
- invest the international tax organisation with authority to negotiate tax treaties in order to support the countries in mobilising sufficient budget resources. This includes in particular negotiations on international tax and investment treaties, measures against base erosion and profit shifting of multinational companies, country-specific disclosure requirements, automatic exchange of tax information, promotion of progressive tax systems, reduction of subsidies and other tax incentives as well as minimisation of negative effects of tax policies on third countries.
- introduce the principle of gender budgeting into budget policy. Tax systems and tax incentives in developing countries must also take into account gender equality.
- conduct an independent review of the advice on tax and fiscal policy provided to developing countries by the International Monetary Fund (IMF) and the World Bank, with the aim of supporting the progressive mobilisation of domestic resources.

2. International private investment: Focusing on quality and human rights

Private investment for financing for development is increasingly gaining in importance in the international debates on global sustainability policies. The Monterrey Consensus of 2002 already emphasises the potential contribution that private investment flows could make to increasing productivity, raising the tax revenue, transferring technologies and creating employment in developing countries. Thus, public funds are increasingly being provided for cooperations with private businesses in the framework of so-called public-private partnerships (PPP) and mixed financing. The pledges of many donors for international financing for development that were not fulfilled with reference to the weak budget situation increase the pressure on governments to raise private investment for reaching global development goals. In particular the necessity of comprehensive infrastructure investments in developing countries makes many multilateral and bilateral donors consider mobilising private sources of financing. But also in implementing the SDGs political actors focus on partnerships between the public sector and private business.

In the framework of the global sustainability agenda – and in particular when accompanied by public financing for development – private investments should primarily be orientated towards the goals of poverty reduction and creation of sustainable development. However, the interests of companies are primarily orientated towards profit. Positive effects of foreign investments on more sustainable development and poverty reduction are often only of an indirect nature and therefore hard to demonstrate. Moreover, in many countries of the global South there is a tension between economic interests and the realisation of human rights. This applies particularly to the discrimination of women both in value chains and in rural areas. Human rights violations along global value chains are a daily occurrence in many industrial firms in the global South. This was pointedly illustrated not least by the catastrophes of burning and collapsing textile factories in Bangladesh and Pakistan. Moreover, private investments predominantly flow to medium-income countries or to particularly profitable sectors while neglecting entire regions in sub-Saharan Africa and investments in education and health systems. Furthermore, macroeconomic risks are connected to the volatility of short-term private investment flows, in particular of portfolio investments. The experience of recent years shows that massive capital backflows in times of crisis have negative effects on the real economy in the long term. Lastly, foreign investors often exert pressure on governments in order to gain unilateral competitive advantages through tax breaks and through deregulation of labour, environmental and social standards.

If the transformation of the societies to sustainable modes of production and ways of life is to succeed, partnerships must not do business as usual; they must point out new paths beyond a model of growth and business that produces inequality and wastes resources. Thus, for private investment flows to be able to provide positive development impulses, for them not to harm the environment and at least not to threaten the realisation of human rights requires comprehensive environmental and social standards, human rights compatibility assessments, a clear legal framework and deliberate political steering through appropriate incentives. With the UN Guiding Principles on Business and Human Rights adopted in June 2011 there is now for the first time a catalogue of recommendations, accepted by all governments, on how to implement states' duties to protect human rights with respect to companies, but also the responsibility of companies themselves to exercise due care. This requires an intelligent mixture of voluntary and binding measures that close existing regulatory gaps and effectively prevent business-related human rights violations.

VENRO calls on the German government to

- subject private investment flows, in particular those leveraged by public funds, to binding ex ante human rights and sustainability impact assessments (HRIAs) and to tie these to adherence to binding social and environmental standards. Subsequently, their effectiveness must be evaluated in order to maximise the positive effects for sustainable development and overcoming poverty. Therefore, in a first step the recommendations of the UN Guiding Principles on Business and Human Rights must be implemented in national law in order to close the gap between the protection of the environment and human rights and existing business practices.
- push at the international level for private investment flows to fit into the countries' development plans and follow national priorities. The mobilisation of foreign investment should not be preceded by privatisation of important public service sectors in the global South. Securing people's access to basic social services is and remains a core public task. Quality counts more than quantity.
- push at the UN level for the creation of a catalogue of clear criteria for global partnerships with business in the context of the post-2015 agenda. The catalogue should be coordinated by the member states and should provide for disclosure of conflicts of interest, transparency of payment flows and regular review as well as independent evaluation of the partnerships.

Moreover, it should urge the international community to

- grant the countries of the global South sufficient political leeway for introducing capital controls proactively and not merely as a temporary instrument of crisis management, to reduce the volatility of private financial flows and prevent crises.
- ensure that private investment flows adhere to the Busan Principles for Effective Development Cooperation and are measured in an independent and transparent measuring system separately from official development cooperation.
- ensure that public-private partnerships are carefully reviewed according to clear criteria with respect to their potential risks and their cost-benefit ratio for the achievement of national development priorities, are structured transparently and allow for the participation of the parliaments and all relevant stakeholders.
- ensure that in all relationships in the worldwide value chains human rights are respected, International Labour Organisation's (ILO) core labour standards are adhered to and the health-related and material exploitation of women is ended. Private investment in rural areas must not threaten the situation of small farmers or of women as food producers.

3. International trade policy

Globalisation has intensified and accelerated world trade. The integration of the developing countries into world trade is often viewed as a contribution towards increased wealth and poverty reduction. Developing countries thereby get a chance to improve their economic development through increased exports, more foreign direct investment and access to new technologies. The rise of developing countries to become emerging or medium-income countries seems to confirm this success story. However, integration into world trade is by itself not sufficient for sustainably promoting the economic development of the countries of the South and effectively and sustainably overcoming poverty and underdevelopment. Integration into world trade and trade liberalisations do not by themselves guarantee success in overcoming poverty if the economic capabilities of the developing countries are not strengthened and market access is not assured by the industrialised countries. The world trade order must also allow developing countries to take protective measures, as the European Union (EU) did in the Europe Agreements with respect to the Central and Eastern European candidates for accession. Moreover, integration into world trade only makes sense if the industrialised countries' subsidies especially in the agricultural and textile sectors are abolished and coherence between development policy and trade policy is achieved.

A fair regulatory framework for world trade is needed so that all and in particular the smaller and poorer states can pursue policies conducive to development through integration into world trade. The majority of the members of the World Trade Organisation (WTO) are developing countries. However, the trade perspectives of the economically weakest countries could not be decisively improved. Due to the stagnation in the Doha Round, numerous bilateral and regional trade agreements were concluded in the last ten years. As a rule, these agreements were concluded by economically strong countries or, like the Transatlantic Trade and Investment Partnership (TTIP), are currently being negotiated. However, poorer countries are especially dependent upon a reliable multilateral system of rules, because developing countries can protect their interests more effectively in a multilateral framework. But the other WTO member states should also not underestimate the value of a stable and reliable world trade order. The asymmetry in international trade relations and the unequal starting conditions for the WTO member states require that the WTO continues to stand for a multilateral world trade order but also provides for exceptions that allow poor developing countries to integrate at different paces and to adopt rules according to their own needs and development interests and not be forced to adopt them all at once. The lack of policy coherence and thus also the increasing inequality among states can only be countered if the Doha Round can successfully be completed in the interest of the developing countries and the world community returns to a multilateral world trade order. At the same time, the democratisation of the WTO, a more just world trade as well as respect for international rules and standards for environment and labour, for equality and human rights and for sustainability in world trade must be promoted.

The goal of the world trade order, which was created in 1945 through the General Agreement on Tariffs and Trade (GATT) and further developed with the WTO, is a multilateral order for world trade. This approach is appropriate, but it has its limits because – as became apparent in the Uruguay world trade round – industrialised countries were able to push through their protectionist policies, e.g. in agricultural and textile trade, and thus put developing countries at a disadvantage. The current Doha world trade round is stagnating and has yet to focus on the needs of the poorest countries and give world trade a stronger development orientation as promised. The WTO allows for exceptions from the general principles of national treatment, reciprocity and most-favoured nation status in favour of the developing countries and acknowledges that special measures may be necessary for poorer countries. However, poor countries cannot compete with the goods structure of world trade because they still mostly export agricultural products and raw materials.

The EU also wants to contribute to promoting multilateral world trade policies. It is the world's largest importer of goods from the developing countries and has granted free market access to the poorest developing countries for all products except for arms. Moreover, preferential trade agreements ensure lower tariffs for developing countries with good governance. The EU also supports technical measures to promote trade. However, these instruments are not sufficiently effective due to a lack of coherence between the EU's development policy and its trade policy and especially its agricultural and fishing policies. This lack of coherence reinforces the primacy of short-term special interests of the industrialised countries.

VENRO calls on the German government to

- do everything in its power to achieve coherence between development policy and trade policy both at the federal and at the European level, and to deliver annual coherence reports. It must ensure that for value chains in trade relations, including in developing countries, binding minimum social and ecological standards are set and the core labour standards of the ILO are complied with.
- push for a revival of the multilateral world trade order, support trade-related development policy and trade cooperations and ensure at the European level that trade policy benefits development. Development cooperation must focus on improving the developing countries' position in international competition, without losing sight of the goal of sustainable development.
- push for the implementation of binding human rights impact assessments in the context of international trade and investment treaties, so that governmental freedom of action to implement human rights is not restricted. Additionally, effective human rights clauses must be enshrined in international treaties; these should take into account potential negative consequences of the treaties for human rights and provide effective remedies.
- push for effective measures for protecting small farmers from overwhelming competition by discounted imports from industrialised countries, strengthening the food security of poor people, protecting the right to food and promoting rural development and sustainability.
- align public procurement in Germany with social, ecological and human rights criteria.

4. International and innovative financing for development

ODA is an indispensable resource for poverty reduction. Even as other financial flows, such as domestic resources or private investments, are becoming more important and many voices are therefore questioning the significance of public development efforts, ODA remains an external financial resource with a unique character.

First, it can be employed according to the priorities of the partner government for central areas of poverty reduction, e.g. education, supporting small farmers, health or establishing social security nets with basic social security for all citizens, including those outside the work force. These are areas which are of little interest to private investors, or in which public systems must be established and strengthened in order to include the poorest segments of society in their scope. Second, in particular in the poorest developing countries and in highly fragile states, which offer little attraction to private investors, it remains the most important external financial inflow for the foreseeable future. Third, ODA has the advantage of being a relatively predictable resource in comparison to often volatile private investments.

This unique character, and the central significance that ODA has for eradicating extreme poverty by 2030 at the latest, should be acknowledged in Addis Ababa.

Despite the continuing high significance of ODA, the greater part of the OECD community is still not living up to its international responsibility in the area of official development financing. In 2013, only five donors (Norway, Sweden, Luxembourg, Denmark, United Kingdom) fulfilled the pledge of providing 0.7 percent of their GNI for ODA. The worldwide development expenditures of 134.8 billion

US dollars correspond to not more than 0.3 percent of the total GNI of the OECD donors. Germany reached a ratio of 0.38 percent (about 14 billion US dollars). The ratio has been stagnating for years. The political will to reach the 0.7 percent mark is not discernible. Addis Ababa must lead to a renewed political commitment of all donors to fulfil the international pledge as soon as possible. This commitment must be associated with binding schedules. It is equally important that Addis Ababa yield a commitment by all donors to provide 0.15 to 0.2 percent of GNI as ODA for the poorest developing countries. This target must likewise be accompanied by binding schedules.

In addition, innovative financing mechanisms for development must be introduced. These have been discussed ever since the first UN financing conference in Monterrey in 2002, but they are being used far too little. Concrete proposals have been on the table for a long time, e.g. revenues from emission trading or charges on emissions from international aviation and maritime traffic. Using the income from financial transaction taxes for development has also been on the agenda for years. Now a decision may soon be reached at least at the European level: Eleven EU member states want to introduce the tax on financial transactions. The revenue could amount to 17 billion euros in Germany alone – using part of this revenue for development and climate financing is essential in view of the current financing situation. The financing conference in Addis Ababa must send a strong signal for introducing innovative financing mechanisms for development and in particular the instruments mentioned.

However, success in development is determined not only by the extent of solidarity expenditures. Rather, it must be ensured that more funds are available locally for poverty reduction, since many measures recognised as ODA expenditures are not actually available in the countries of the global South (university fees, refugee relief, etc.). Moreover, the existing funds must be employed effectively and efficiently for the purposes of successful poverty reduction. The effectiveness of development expenditures must therefore be stringently linked to the debate on financing. In concrete terms, this means consistently implementing the effectiveness principles adopted in Paris (2005), Accra (2008) and Busan (2011) (ownership of the developing countries, mutual accountability and transparency, harmonisation and donor coordination, focus on results). Evaluations indicate that much remains to be done, particularly on the donor side. The financing conference in Addis Ababa should therefore underscore that the internationally agreed effectiveness principles must determine the practice of development cooperation, as this is the only way to contribute to greater effectiveness and efficiency of poverty reduction.

VENRO calls on the OECD countries to

- fulfil their ODA pledges, commit in Addis Ababa to reaching the 0.7 percent goal as quickly as possible, and present a corresponding binding plan with stages with concrete target dates and measures.
- commit in Addis Ababa to reaching the 0.15 to 0.2 percent goal for ODA to the poorest developing countries as quickly as possibly and to present a corresponding binding plan with stages with concrete target dates and measures also in this regard.
- not merely list the innovative financing instruments being discussed in Addis Ababa, but to also state which instruments they will be using in the future. For Germany, this means in particular to declare publicly that future revenue from the planned financial transaction tax will also be used for development and climate financing.

Moreover, it should urge the international community to

- commit clearly to implementing the principles of effective development cooperation agreed upon at the conferences of Paris, Accra and Busan and more strongly align its cooperation with these goals. This includes *inter alia* orientating ODA towards resources that are actually available for poverty reduction in the partner countries, focusing more strongly on programme-based approaches that support the development strategy of the partner country (general and sectoral budget support, basket financing, etc.), and complete and prompt transparency with respect to financial flows and their implementation.

Enshrining the separation of climate and development financing as a principle

At the UN Climate Change Conference in Copenhagen in 2009, the industrialised countries promised to mobilise funding for developing countries in the areas of climate protection and adaptation to climate change. 30 billion US dollars for the time from 2010 to 2012 and 100 billion US dollars annually from 2020 onwards were agreed upon. This promise was repeatedly reiterated at the subsequent UN conferences.

So far, funds for climate financing have been included in the ODA ratio. However, climate financing deals with additional challenges that arise due to policies in the global North and must therefore be addressed with additional funds and should not be included in the ODA ratio. Otherwise there is a risk of increasing competition for funds: »Classical« areas of poverty reduction could receive fewer funds due to the rising demand in climate financing. The additionality of climate financing should therefore find recognition in Addis Ababa.

VENRO calls on the German government to push the international community to

- agree on a precise and clear definition of climate financing, in particular with respect to adaptation measures. The funds for mitigation and adaptation should be »new and additional« to official development cooperation, while the 0.7 percent goal for ODA must be retained. A consensus should be generated as to what this means, as different states are currently using different definitions of these terms. The definition of »private climate financing« and its classification must also be clarified.
- actually provide the promised funds for mitigation and adaptation. Financial contributions could be determined according to the polluter pays principle and the historical responsibilities for emissions. Closing the financing gap before 2020 is an essential component, not least for the credibility of the industrialised countries.
- clarify how the countries and in particular the population groups that are most severely affected by the consequences of climate change can be prioritised, and how such a vulnerability approach can be implemented. In this context, the corresponding institutional design at the country level is also an important challenge. It should be clarified whether and how the money reaches the local level and how the local population can be involved.
- find an adequate balance in providing funds for mitigation on the one hand and adaptation on the other hand. Although the decisions of the climate change conferences in Copenhagen and Cancún demand such a balance, so far less than half of the public funds were provided for adaptation.

5. Debt: Establishing a fair and independent sovereign default process

The Conference on Financing for Development in Monterrey in 2002 took place during the first years of the implementation of the HIPC debt relief initiative[7], which led to extensive debt relief for the poorest countries with the creation of the Multilateral Debt Relief Initiative (MDRI) three years later. In its final declaration, the conference alluded at the time to the necessity of not just quantitative but also qualitative progress in dealing with global debt crises: »We also encourage exploring innovative mechanisms to comprehensively address debt problems of developing countries, including middle-income countries and countries with economies in transition.«[8] The IMF responded to this challenge with a proposal for a sovereign default process under its leadership, which however failed to find sufficient support even in its own board. Between 2002 and the onset of the global financial crisis in 2008, generally high growth rates characterised the economic development of most countries. In combination with the debt cancellations for the poorest countries under HIPC/MDRI, the problem of excessive debt burdens of states then appeared to be solved except for a few special cases.

However, debt crises can never reliably be ruled out as long as states take out loans for financing development or other purposes. This was dramatically illustrated in 2009/10 when the crisis of the banking and financial system turned into a sovereign debt crisis even in parts of Europe, in high-income countries that no one would have regarded as potential crisis states in Monterrey in 2002. Since then, the international financial system has been characterised primarily by efforts to stimulate European and global economic activity. Extremely low interest rates are one of the consequences. This leads to states in the global South being able to take out new loans under particularly favourable conditions – and actually doing so. A disciplining effect of the financial market, which could lead to expensive foreign financing being used only for the most safe and useful projects, is subverted by this environment. We thus have a similar constellation as in the seventies and early eighties, in which the often irresponsible lending of cheap capital caused the »third world debt crisis« that began in 1982.

In late 2014, the IMF assessed that 15 out of 67 low-income countries it studied were already at high risk of external debt distress. These can face different groups of creditors in different fora such as the Paris Club (creditor governments) and the London Club (commercial banks), but there is no place for them to negotiate a comprehensive debt reduction to a reliably sustainable level. In each of these fora[9], the creditors are their own judges and determine the conditions of the negotiations with the debtor as well as the results in the individual case. The excesses of this system are visible in the experience of Argentina and other developing countries with so-called vulture funds, whose business practices can threaten the entire international monetary transactions of an indebted country.

Against this background, the developing and emerging countries (group G77+China) tabled a resolution in the UN General Assembly in September 2014 which demands the creation of a »legal framework« for such a process. It was adopted by an overwhelming majority with only eleven countries voting against, unfortunately including Germany.

A redesign of global restructuring processes is crucial for lending and borrowing to be more disciplined in the future. So far, investors erroneously assume that states do not go bankrupt, and governments rely on crises being multilaterally financed rather than actually being solved through the realisation that debt cuts are inevitable. In this way, irresponsible lending and borrowing will continue to lead to debt crises. Capital markets can only serve to enable the distribution of scarce capital to the most promising projects if it is apparent that in case of a crisis both sides, investors and debtor countries, will have to accept losses.

7 The initiative for the heavily indebted poor countries (HIPC) aimed at the time to reduce all debts of a country to a sustainable level. This has only partially been achieved. See: http://www.worldbank.org/hipc (accessed 17.04.2015)

8 United Nations (2002): Monterrey Consensus on Financing for Development. Paragraph 51. http://www.un.org/esa/ffd/monterrey/MonterreyConsensus.pdf (accessed 17.04.2015)

9 This is true for the Paris Club of creditor governments, the London Club of commercial banks and also the HIPC/MDRI initiative. For restructuring of sovereign bonds there is no established forum at all, only ad-hoc restructuring offers of the debtor to the often very disparate set of creditors.

This deficit in the rule of law leads to the central demand to the conference in Addis Ababa of reviving the idea in the Monterrey Consensus of a regulated, comprehensive and fair debt relief process.

VENRO calls on the German government to urge the international community to

- bring about a consensus that global debt management must be guided by the following basic rule-of-law principles.
  - All debts must be dealt with in a single process, since only this allows a sustainable debt level to be negotiated without individual creditors or »vulture investors« undercutting a multilateral settlement.
  - The decisions on whether and how much debt relief occurs must be made by an impartial entity and not by the creditors.
  - These decisions must be based on an independent evaluation which assesses the necessity of debt relief; the evaluator must not be dependent on the debtor or the creditors (e.g. the IMF and the World Bank).

Moreover, VENRO calls on the German government to

- actively support the process initiated within the UN and bring its own positions and experiences into the discussion, especially with a view to the successful debt relief for the young Federal Republic in the London Debt Agreement of 1953.
- advocate in Addis Ababa for the independent evaluation that assesses the extent of debt relief to take the financing needs of the Sustainable Development Goals, in particular of the Social Protection Floor, as its point of departure.

6. Global financial architecture: Creating an economic and financial system based on justice and solidarity

The recent financial crisis showed that the current economic and financial system is neither stable nor sustainable. Uncontrollable risks were incurred in search of growth chances and high returns.

In 2008, amidst the crisis, the heads of government asserted in Doha that the international financial architecture was in urgent need of reform. They reiterated their decision to strengthen the voice and participation of the developing countries in international decision making and rule setting. Some important reforms have been implemented since, but the international financial markets are still not safe. Financial institutes and companies achieve maximal returns regardless of the concomitant global risks. New, unevaluated financial products are invented that allow the financial institutes to resell or insure their credit risks. Governmental regulation is not keeping pace with these processes. Most activities are now taking place in the unregulated so-called shadow banking sector. Moreover, a model of continuous growth based on consumption is destroying the foundations of our life in the long term. It leads to increasing social inequality within and among the countries and can only be maintained at the expense of the global public goods.

At the recent summits of the Group of Twenty (G20) in Russia in 2013 and in Australia in 2014, an initiative was launched to regulate the shadow banks and abolish banks that are too big to fail. This is a step in the right direction. The biggest challenge is now to reduce the rise in dangerous financial products and speculative financial flows. Experts therefore propose to make an independent assessment of the social, environmental and systemic risks of new financial products in order to ensure that they are consumer-friendly and do not endanger the stability of the overall system.

However, most developing countries are still excluded from decision making on rules for global financial stability in the G20 and the international financial institutions such as the Financial Stability Board (FSB) in Basel. Developing countries and civil society are demanding that the World Bank, the IMF and the Financial Stability Board, as well as other institutions that determine the rules of the international financial system, broaden their membership further. The aim should be balanced, institutionalised and complete participation of the developing countries. The global financial institutions must become more democratic in order to grant an equal say to the states most strongly affected by their political decisions. However, the reforms of the World Bank and the IMF are currently proceeding at such a slow pace that they are increasingly moving away from the global economic reality and fundamental democratic standards.

Also, initiatives for regulating the financial markets should not be decided upon only at the G20 and IMF level, but in the UN, with all affected states participating. The decisions on strengthening the UN General Assembly and the ECOSOC should finally be implemented to allow for new governance structures with democratic and participatory decision processes. The establishment of a global security council for sustainable social and ecological development at the UN level (»Global Economic and Social Security Council«), as proposed by the UN Commission of Experts on Reforms of the International Monetary and Financial System in 2009, is a priority. This council should have the mandate to evaluate current developments and to seek corresponding expertise in economic matters, taking into account social and ecological factors, in order to understand global threats. However, such institutional reforms have so far been blocked by the powerful states, i.e. the Group of Seven (G7) and the Group of Twenty (G20).

New dialogue structures for coherence were created in Monterrey, e.g. the annual meetings of the representatives of the ECOSOC and the executive directors of the IMF and the World Bank, but they have so far remained inefficient. For these dialogues to become more than a mere exchange of opinions, they should be developed into a decision-making body whose sessions are prepared by a »Panel on Systemic Risks« (as proposed by the UN Commission of Experts) or by a working group in regular session. Such bodies of experts on pressing economic issues would assist the ECOSOC/IMF/World Bank dialogue. They should make concrete proposals on important economic issues that can be discussed and adopted.

The second coherence instrument created in Monterrey consists of the »multistakeholder dialogues«. They serve to allow a more permanent and regular exchange on specific topics between the UN and financial institutions, private business and civil society. These dialogues are a suitable platform in which government representatives, financial experts and affected population groups from North and South meet to be able to discuss the effects of financial activities on the countries of the South. However, these dialogues have also failed to bring forth any concrete proposals in the past. Their mandate should be expanded to include drafting resolutions on important issues of economic and financial policy. These should then be presented to the ECOSOC and the UN General Assembly for adoption and finally implemented by the governments.

The conference of Addis Ababa is therefore quite timely. A reform process under the auspices of the UN that includes the international financial institutions and the WTO began in Monterrey and could therefore make progress at the conference in Addis Ababa. The international economic and financial architecture must remain a cornerstone of the agenda for the financing for development process.

VENRO calls on the German government to urge the international community to

- create a global security council for sustainable social and ecological development.
- strengthen the cooperation between the UN and the IMF under the auspices of the UN. As a first step, the German government must push in Addis Ababa for the dialogue between the ECOSOC, the IMF and the World Bank on promoting coherent sustainable development that has been taking place annually since Monterrey to be developed into a decision-making body.
- use not only the EU and G20 level but also the international conference on financing for development in Addis Ababa to further advance measures for stabilising the financial markets, in particular the regulation of the shadow banking sector and the development of an obligatory review procedure for new financial products that are relevant to the system as a whole.
- push for the adopted reform of the IMF to no longer be blocked by the US, in order to achieve a better participation of the developing countries in decisions of the international financial institutions.
- push in Addis Ababa for the establishment of a »Panel on Systemic Risks« as already proposed by the UN Commission of Experts on Reforms of the International Monetary and Financial System in 2009. This body of experts on systemic risks should assist the abovementioned ECOSOC/IMF/World Bank dialogue.
- use and support the instrument of the »multistakeholder« dialogues on financing for development between institutions, government representatives, private business and civil society in order to draft coherent resolutions on important issues of economic and financial policy that can achieve a consensus.

7. Going forward – Implementing and transparently reviewing and monitoring decisions

Institutional reforms and regulations of global economic processes are urgently required to save humanity and the natural foundations of life from further economic and financial crises and protect the most vulnerable from their devastating effects. If global conditions are created that are not strict enough to establish ecologically and socially sustainable financial and goods markets, the crisis spiral threatens to continue turning.

It is therefore important that the civil society actors approach the political decision makers in their countries already in the run-up to the conference in Addis Ababa. For with the appropriate political will the conference can become a milestone in fighting poverty and promoting sustainable development.

For the decisions of the conference of Addis Ababa to contribute towards setting a sustainable course and getting corresponding steps under way, there need to be robust and politically effective implementation mechanisms. In contrast to the World Summit for Social Development (Copenhagen 1995) and the World Conference on Women (Beijing 1995), the Conference on Financing for Development (Monterrey 2002) did not lead to the creation of a UN commission in which elected government representatives could consult on key issues. The dialogue between ECOSOC, IMF and World Bank and the dialogues that take place in the UN General Assembly every two years have turned out to be inadequate to the task.

VENRO calls on the German government to

- push for the establishment of a UN commission on sustainable financing for development under the auspices of the ECOSOC. The body would be tasked with discussing issues of economic policy, reviewing the state of knowledge on global sustainable development at the international level and promoting dialogue between policymakers and scientists in a targeted manner. Results and resolutions of the commission should be presented to the UN General Assembly or to the newly established High-Level Political Forum on Sustainable Development (HLPF) for adoption. In this context, the HLPF should receive the mandate to monitor the implementation of the decisions of Addis Ababa (in addition to the implementation of the SDGs) and to accompany the follow-up process on financing for development.

List of abbreviations

BEPS	Base Erosion and Profit Shifting
ECOSOC	Economic and Social Council of the United Nations
EU	European Union
FfD	Financing for Development
FSB	Financial Stability Board
GATT	General Agreement of Tariffs and Trade
GNI	Gross National Income
G7	Group of Seven
G20	Group of Twenty
G77	Group of Seventy-Seven
HIPC	Heavily Indebted Poor Countries
HLPF	High-Level Political Forum on Sustainable Development
HRIA	Binding ex ante Human Rights and Sustainability Impact Assessment
ILO	International Labour Organisation
IMF	International Monetary Fund
LDC	Least Developed Countries
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MOT	Ministry of Transport
NGO	Non-Governmental Organisation
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PPP	Public-Private Partnerships
SDG	Sustainable Development Goals
TTIP	Transatlantic Trade and Investment Partnership
UN	United Nations
VENRO	Association of German Development and Humanitarian Aid NGOs
WTO	World Trade Organisation

VENRO Members

- action medeor
- ADRA Deutschland
- Aktion Canchanabury
- AMICA e.V.
- Andheri-Hilfe Bonn
- Arbeiter-Samariter-Bund Deutschland
- Arbeitsgemeinschaft der Eine-Welt-Landesnetzwerke in Deutschland (agl)
- Arbeitsgemeinschaft der Evangelischen Jugend in Deutschland (aej)
- Arbeitsgemeinschaft Entwicklungsethnologie
- Arbeitsgemeinschaft für Entwicklungshilfe (AGEH)
- arche noVa
- Ärzte der Welt
- ASW – Aktionsgemeinschaft Solidarische Welt
- AT-Verband
- AWO International

- Behinderung und Entwicklungszusammenarbeit (bezev)
- BONO-Direkthilfe
- BORDA e.V.
- Brot für die Welt – Evangelischer Entwicklungsdienst
- Bund der Deutschen Katholischen Jugend (BDKJ)
- Bundesvereinigung Lebenshilfe

- CARE Deutschland-Luxemburg
- Caritas International
- Casa Alianza – Kinderhilfe Guatemala
- CHANGE e.V.*
- ChildFund Deutschland
- Christliche Initiative Romero
- Christoffel-Blindenmission Deutschland

- Dachverband Entwicklungspolitik Baden-Württemberg (DEAB)
- Das Hunger Projekt
- Deutsche Entwicklungshilfe für soziales Wohnungs- und Siedlungswesen (DESWOS)
- Deutsche Kommission Justitia et Pax
- Deutsche Lepra- und Tuberkulosehilfe (DAHW)
- Deutsche Stiftung Weltbevölkerung (DSW)
- Deutsches Komitee Katastrophenvorsorge
- DGB-Bildungswerk BUND – Nord-Süd-Netz
- Difäm – Deutsches Institut für Ärztliche Mission
- Don Bosco Mondo
- DVV International – Institut für Internationale Zusammenarbeit des deutschen Volkshochschul-Verbandes

- Eine Welt Netz NRW
- Eine Welt Netzwerk Hamburg
- EIRENE – Internationaler Christlicher Friedensdienst
- EMA – Euro-Mediterranean Association for Cooperation and Development
- EPiZ – Entwicklungspädagogisches Informationszentrum*
- Evangelische Akademien in Deutschland (EAD)

- Fairventures Worldwide
- FIAN Deutschland
- FUTURO SÍ

- Gemeinschaft Sant´Egidio
- German Doctors
- German Toilet Organisation
- Germanwatch

- Habitat for Humanity Deutschland
- Handicap International
- Help – Hilfe zur Selbsthilfe
- HelpAge Deutschland
- Hilfswerk der Deutschen Lions
- Hoffnungszeichen / Sign of Hope
- humedica

- Indienhilfe
- INKOTA-netzwerk
- Internationaler Bund (IB)
- Internationaler Hilfsfonds
- Internationaler Ländlicher Entwicklungsdienst (ILD)
- Internationaler Verband Westfälischer Kinderdörfer
- Islamic Relief Deutschland

- Jambo Bukoba*
- Johanniter-Auslandshilfe

- KAIROS Europa
- Karl Kübel Stiftung für Kind und Familie
- KATE – Kontaktstelle für Umwelt und Entwicklung
- Kindernothilfe
- Kinderrechte Afrika

- Lateinamerika-Zentrum
- Lichtbrücke

- Malteser International
- Marie-Schlei-Verein
- materra – Stiftung Frau und Gesundheit
- medica mondiale
- medico international
- MISEREOR
- Missionsärztliches Institut Würzburg*

- NETZ Bangladesch

- Ökumenische Initiative Eine Welt
- OIKOS EINE WELT
- Opportunity International Deutschland
- Ora International Deutschland
- OroVerde – Die Tropenwaldstiftung
- Oxfam Deutschland

- Plan International Deutschland

- Rhein-Donau-Stiftung

- SALEM International
- Samhathi – Hilfe für Indien
- Save the Children Deutschland
- Senegalhilfe-Verein
- Senior Experten Service (SES)
- Society for International Development Chapter Bonn (SID)
- Sozial- und Entwicklungshilfe des Kolpingwerkes (SEK)
- Stiftung Entwicklung und Frieden (SEF)
- Stiftung Nord-Süd-Brücken
- SÜDWIND – Institut für Ökonomie und Ökumene
- Susila Dharma – Soziale Dienste

- Terra Tech Förderprojekte
- TERRE DES FEMMES
- terre des hommes Deutschland
- Tierärzte ohne Grenzen
- TransFair

- Verband Entwicklungspolitik Niedersachsen (VEN)
- Verbund Entwicklungspolitischer Nichtregierungsorganisationen Brandenburgs (VENROB)

- W. P. Schmitz-Stiftung
- WEED – Weltwirtschaft, Ökologie & Entwicklung
- Weltfriedensdienst
- Weltgebetstag der Frauen – Deutsches Komitee
- Welthaus Bielefeld
- Welthungerhilfe
- Weltladen-Dachverband
- Weltnotwerk der KAB Deutschlands
- Werkhof Darmstadt
- Werkstatt Ökonomie
- World University Service
- World Vision Deutschland

- Zukunftsstiftung Entwicklung bei der GLS Treuhand

* Guest member

VENRO has currently 124 members.
(Status: April 2014)

Publishers:

Association of German Development and Humanitarian Aid NGOs (VENRO)
Stresemannstr. 72
10963 Berlin

Phone: +49 (0)30/2 63 92 99-10
Fax: +49 (0)30/2 63 92 99-99

E-Mail: sekretariat@venro.org
Internet: www.venro.org

Your voice against poverty – development needs participation
c/o VENRO
Stresemannstr. 72
10963 Berlin

Telefon: +49 (0)30/2 63 92 99-20
Fax: +49 (0)30/2 63 92 99-99

E-Mail: deinestimmegegenarmut@venro.org
Internet: www.deine-stimme-gegen-armut.de

Authors: Eva Hanfstängl, Tobias Hauschild, Jürgen Kaiser, Michael Kühn, Prof. Dr. h.c. Christa Randzio-Plath, Dr. Klaus Schilder
Editors: Dr. Sonja Grigat, Claus Körting, Nina Schröder
Final editing: Michael Katèrla

Picture credits: fazon – Fotolia.com (cover picture)

Layout: just in print

Berlin, June 2015

With financial support of

Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung

Gefördert durch die STIFTUNG UMWELT UND ENTWICKLUNG NORDRHEIN-WESTFALEN

VENRO

ASSOCIATION OF GERMAN DEVELOPMENT AND HUMANITARIAN AID NGOS

VENRO is the umbrella organisation of development and humanitarian non-governmental organisations (NGOs) in Germany. The association was founded in 1995 and consists of more than 120 organisations. Their backgrounds lie in independent and church-related development co-operation, humanitarian aid as well as development education, public relations and advocacy.

VENRO's central goal is to construct a just globalisation, with a special emphasis on eradicating global poverty. The organisation is commited to implementing human rights and conserving natural resources.

VENRO

- represents the interests of development and humanitarian aid NGOs vis-à-vis the government
- strengthens the role of NGOs and civil society in development co-operation and humanitarian aid
- engages in advocacy for the interests of developing countries and poorer segments of society
- sharpens public awareness of development co-operation and humanitarian issues

www.venro.org

›Your voice against poverty – development needs participation‹

The VENRO project ›Your voice against poverty‹ encourages debate about sustainable development. The aim of the project is to develop a sustainable understanding of development together with other social actors and anchor this understanding within politics and society. The project organises nationwide campaigns that are particularly intended to motivate young people to actively support the implementation of development goals. Further important aspects of the VENRO project include providing information and promoting dialogue.

›Your voice against poverty‹ is the German platform of the international alliance ›Global Call to Action Against Poverty‹ (GCAP). This alliance consists of charities and other non-profit organisations, but also celebrities and millions of people in more than 100 countries who are campaigning for an end to poverty.

www.deine-stimme-gegen-armut.de