Financing for Development 2015
ONE's Policy Recommendations for Addis Ababa

In September 2015, the world's governments are set to agree to a new set of development goals with the ambition of ending extreme poverty by 2030 and ensuring no one is left behind. The implementation plan for this ambition will require greater focus on delivering for the poorest and most vulnerable, especially women and girls; the African Union's (AU) declaration of 2015 as the "Year of Women's Empowerment" offers a golden opportunity to advance progress towards gender equality in the post-2015 framework. The Third International Conference on Financing for Development (FfD), to be held in Addis Ababa, Ethiopia in July 2015 could hold the key to delivering the political will, policy reforms and financial investments required to end extreme poverty and ensure that no one is left behind in the post-2015 financing strategy.

ONE's PRIORITY POLICIES FOR 2015

To end extreme poverty by 2030 will require a concerted effort from all development actors to create the conditions for all to lead a dignified life. The new goals must deliver on the core areas of health, agriculture, energy poverty, gender equality and accountability. At ONE, we concentrate on our core priorities, but we are supportive of many of the areas covered by the goals beyond our mandate. A successful outcome for the new development agenda will require adequate finance and the ability to track the goals adopted, hence enabling citizens to hold leaders to account. ONE's policy priorities for 2015 are based around three pillars: making sure the goals are ambitious enough to end extreme poverty; ensuring sufficient and smart finances are unleashed to deliver the goals' full ambition; and putting in place the tools which will equip citizens and policymakers to follow money from resources to results:

(1) **Inspiring New Framework**: The 2015 goals and targets should include ending preventable child and maternal deaths, eliminating hunger and malnutrition, securing universal access to affordable, reliable, and modern energy, all delivered through accountable and transparent systems as part of a coherent and holistic package to inspire citizens; combined, these policies will help achieve the overriding goal of virtually eliminating extreme poverty by 2030.

(2) **Financing the Framework**: 2015 must kick off with a fully funded replenishment for Gavi, the Vaccine Alliance at the January 27 2015 pledging conference. The Financing for Development (FfD) conference must deliver transparent and accountable commitments from all development partners on aid, domestic resource mobilization, private sector investment and other forms of finance.

(3) **Following Resources to Results**: Ensure that a monitoring and accountability mechanism – with quality data at the core – and long term systems are in place so that citizens & policymakers can track resources to results, monitor implementation of national development plans and hold leaders accountable for delivery until the goals are achieved.

This brief outlines one of our three core policy priorities for 2015 – 'Financing the Framework' – by setting out our recommendations for the Financing for Development Conference.

Contact: Isabelle De Lichtervelde, isabelle.delichtervelde@one.org or
Catherine Blampied, catherine.blampied@one.org

CAN WE AND SHOULD WE SET A FINANCIAL GOAL FOR ADDIS?

Several recent estimates offer an approximate guide to the order of magnitude of financial resources required to achieve sustainable development over the coming 15 years, with estimates of between $1-3 trillion per year.[1] This is less than 5-14% of global savings each year and only 1-4% of the world's annual GDP.[2] By July 2015, the new development goals will be almost finalized, and countries should be in a better position to cost out their best estimate of how much investment it will take to achieve these goals. **ONE will seek to work with partners over the coming months to explore to what extent country strategies can and should set the level of ambition for the FfD Conference.**

This paper maps out ONE's policy positions on five key finance streams that will be part of the FfD discussions: official development assistance (ODA), domestic resource mobilization (DRM), climate finance, debt and accountability, with a secondary focus on further areas that will be covered at the FfD Conference on remittances, innovative finance, private finance, trade and governance reform in international financial institutions.

ONE'S PRIORITY POLICY RECOMMENDATIONS

(1) Official Development Assistance: Development assistance providers should build on their existing international aid quantity and quality commitments. Half of all official development assistance must be directed to least developed countries (LDCs), with at least 90% of this aid to LDCs provided in grant form. The UN 0.15–0.20% ODA/GNI benchmark could be used as an interim target.

(2) Domestic Resource Mobilization: All development partners should take the measures necessary to channel resources through transparent national budgets for investment in development priorities, while curbing illicit financial flows and boosting domestic resource mobilization capacity.

(3) Climate Finance Additionality and Transparency: Climate finance should be transparent and new and additional to existing and promised ODA levels, without creating an unnecessary administrative burden for developing countries. No money that has been promised to fight poverty should be redirected towards middle income countries to fund mitigation.

(4) Debt: All countries should agree to fair lending rules to prevent developing country debt crises and adequate mechanisms to resolve them.

(5) Accountability: All development partners must agree to transparent and timely reporting of all financial flows into, within, and out of developing countries.

While ONE's areas of focus will not change, this document will be iterative in order to reflect the opportunities that arise within the FfD process, progress towards a final set of new development goals and political negotiations around both related processes.

Contact: Isabelle De Lichtervelde, isabelle.delichtervelde@one.org or
Catherine Blampied, catherine.blampied@one.org

ONE's Top 5 Priorities for Addis

1. MAXIMISING OFFICIAL DEVELOPMENT ASSISTANCE

Governments must recommit to their longstanding commitments on aid quantity and quality, while allocating a greater share of aid to those countries that need it most.

Although all financial resources are important, official development assistance (ODA) is the only external flow explicitly aimed at promoting development. Smart ODA will continue to play a critical role beyond 2015. Least developed countries (LDCs) – the majority of which are in sub-Saharan Africa – have the least access to other sources of finance and remain highly dependent on ODA, particularly in grant form. For these countries, ODA still accounts for over 70% of all external flows and is equivalent, on average, to half of their tax revenues.

- **LDCs target:** In line with calls by LDCs, development assistance providers should commit at least half of their development assistance to LDCs, providing at least 90% of their aid to LDCs in grant form. The UN 0.15–0.20% ODA/GNI benchmark could be used as an interim target.
- **Overall ODA:** Providers of development assistance should build on their own existing ODA targets, including the commitment to deliver 0.7% of ODA/GNI, with a concrete timetable to meet this target, by 2020.
- **Loan concessionality:** The measurement of concessional loans should better reflect current market rates, while not incentivizing over-lending to countries that are unable to sustain the debt.
- **Aid effectiveness:** All development assistance providers should recommit to and implement internationally-agreed aid effectiveness principles, as agreed at conferences in Paris, Accra, Busan and Mexico City.
- **Aid transparency:** Development assistance providers should urgently improve the transparency, quality, comparability and timeliness of their ODA data, and, as agreed in Busan in 2011, seek to implement the common, open standard, including the IATI standard, by the end of 2015.
- **Additionality:** All other forms of international public finance, including debt relief and climate finance, should be new and additional to existing and promised ODA levels.

2. MOBILIZING DOMESTIC RESOURCES

Governments must commit to policies that increase spending on essential services, strengthen the ability of developing countries to capture revenues lost through corruption and illicit financial flows, and raise and collect greater revenues.

'Domestic resources' refer to financing by developing country governments themselves, from tax and non-tax revenues, as opposed to external flows such as aid and foreign direct investment. In 2011, net domestic government expenditure[3] across all developing countries stood at $5.9 trillion, almost three times the level of total international flows.[4] However, while domestic resources are key to sustainable development, in 37 countries (home to a third of the world's extreme poor), government spending per person in 2011 was less than just $500, and in 7 of these (9% of the world's extreme poor), annual public spending was just $200.[5]

Contact: Isabelle De Lichtervelde, isabelle.delichtervelde@one.org or
Catherine Blampied, catherine.blampied@one.org

<u>*Increasing spending on development priorities:*</u>

- **Public spending:** Governments should increase public spending on essential public services, through transparent open budgets down to the local level. In particular, progress towards health, agriculture and education spending targets, with a focus on women and girls, should be prioritized.
- **Building strong systems:** All development partners should advocate for costed, country-level strategies to achieve the new development goals.

<u>*Capture potential lost revenues:*</u>

- **Illicit financial flows:** All development partners should take the measures necessary to curb illicit financial flows and tax evasion, particularly through:
    - **Beneficial ownership:** Governments should ensure that information on the beneficial ownership of companies, trusts and similar legal structures is publicly available.
    - **Automatic exchange of tax information:** Governments should pursue multilateral agreements on the automatic exchange of tax information between countries, ensuring that such agreements work to the benefit of developing countries.
    - **Tax governance reform:** Governments must ensure crucial reforms of tax rules including the revision of tax and investment treaties to benefit developing countries, and ensure the full participation of developing countries in international processes on tax.
    - **Country-by-country reporting:** Governments should require companies to publicly report financial and non-financial data on a country-by-country basis so that governments and companies can be held to account regarding the payment, collection and, in the case of governments, the spending of revenues.

<u>*Strengthen ability to collect greater revenues and manage them effectively:*</u>

- **Budget transparency:** Governments should publish accurate, timely and standardized and comparable revenue and expenditure data in open data formats.
- **Extractives transparency:** Governments should implement mandatory disclosure laws, and the Extractive Industries Transparency Initiative (EITI), to ensure the full public disclosure of natural resource payments.
- **Support for revenue collection capacity:** Development partners should increase investment into public financial management and support for capacity-building in tax and customs authorities.

3. CLIMATE FINANCE

Increase transparency of climate finance and ensure its additionality to existing and promised aid.

The extra investment required for climate mitigation and adaptation is estimated at several trillion dollars per year.[6] Some 95% of estimated global total climate finance is for mitigation, linked to measurable greenhouse gas emission targets,[7] with the rest allocated to adaptation – addressing the effects of climate change. The lack of clear, consistent and transparent reporting of climate finance – over and above existing and promised ODA – hinders monitoring and accountability. Furthermore, the heavy bias towards mitigation funding fails to address the threats of climate change to the most vulnerable populations. All climate financing should be transparent and accountable. A significant portion should be aligned with initiatives that will build the economic resilience of vulnerable communities to climate disruptions, recurrent drought, poor water management practices, and degradation of natural resources, ecosystems, and soil quality.[8]

Contact: Isabelle De Lichtervelde, isabelle.delichtervelde@one.org or
Catherine Blampied, catherine.blampied@one.org

- **Additionality:** Climate finance should be new and additional to existing and promised ODA levels.
- **Transparency:** Climate finance providers must report clear, regular and consistent information about financing for adaptation and mitigation, preferably through coordinated funding mechanisms.
- **Adaptation:** Greater levels of adaptation support should go to the poorest countries and most vulnerable populations, especially with respect to livelihoods and agriculture preferably through transparent, predictable funding mechanisms.
- **Climate-smart development:** Climate finance should be aligned with country-owned, climate-smart development initiatives, such as the African Climate Smart Agriculture Alliance.

4. SOVEREIGN DEBT SUSTAINABILITY

Governments must agree to prevent debt crises from recurring in developing countries and institute adequate debt resolution mechanisms to swiftly, fairly and transparently tackle crises when they do occur.

Increased financial flows to developing countries must not contribute to future unsustainable or unjust debt burdens. A study of 43 developing countries found that total lending to them has increased by 60% from $11.4 billion in 2009 to $18.5 billion in 2013.[9] Previous debt relief initiatives (the Heavily Indebted Poor Countries scheme and the Multilateral Debt Relief Initiative) have almost come to an end, but no permanent solution has been implemented to deal with debt crises.[10]

- **Sovereign Debt Sustainability:** Debtors and creditors must share the responsibility for preventing and resolving unsustainable debt situations.
- **Debt Relief:** Creditor governments should ensuring the value of debt relief is neither overstated nor double-counted in OECD DAC statistics, and ensure debt relief is additional to ODA.
- **Debt Sustainability:** Debtors and creditors should adopt and implement an adequate debt sustainability framework and ensure transparency and accountability in the contraction and management of debt.
- **Debt Workout Mechanism:** Governments should establish a multilateral debt workout mechanism that includes all relevant actors and ensure its impartiality, transparency and independence.[11]

5. ACCOUNTABILITY FRAMEWORK

All participants must agree to a robust accountability framework to monitor commitments made, underpinned by a data revolution for sustainable development.

To see real results, countries have to make clear and measurable commitments, strengthen the independence of accountability institutions and all forms of financing must be transparent and reported – in high quality and a useful level of disaggregation – on a timely and consistent basis. ONE calls for clear institutional accountabilities and investments to improve the capacity of governments and citizens to track resources to results.

- **Transparency and accountability**: All development partners must agree to transparent and timely reporting of all financial flows into, within, and out of developing countries.
- **Development effectiveness:** All development partners must commit to uphold and accelerate the implementation of development effectiveness principles, as advanced at Busan and Mexico City.
- **Official statistics:** All development partners must commit to strengthen national official statistical systems in developing countries, with a particular focus on civil registration, vital statistics and developing a robust 2015 baseline from which to measure future development progress.

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Brief on Other Financial Flows

ONE's core focus in the FfD process will be on ODA, domestic resource mobilization climate finance, debt and accountability issues. However with the full range of financial flows on the table, ONE will also be following debates and working with partners on some other areas of work.

REMITTANCES

Development partners should commit to further reducing the transaction costs for remittances at the FfD conference.

Estimated at $436 billion in 2014, remittances - the money transferred back to their home countries by migrant and non-resident workers - generate three times more money every year than the total global aid budget. Money delivered directly to households can contribute to welfare and poverty reduction, and offer a form of demand stimulus to the local economy and counter-cyclical flow. Yet the average fee on sending remittances remains excessively high, at over 8%.[12] In sub-Saharan Africa, where annual remittance flows are valued at $32 billion (or around 2% of the region's GDP) and several countries (including LDCs with very high rates of extreme poverty) that are highly dependent on theses flows, the average fee paid is much higher, at almost 12%.[13]

- **Reduced transfer costs:** The average global remittance fee should be reduced to no more than 3%.
- **Exclusivity:** Regulators in both sending and recipient countries should revoke and reduce the legal scope for exclusivity agreements between money transfer operators and banks/agents.
- **Transparency:** Consistent high standards of financial transparency on foreign exchange operations including charging structures and conversion fees should be ensured.
- **Diversified institutions:** Governments in receiving countries should enable financial institutions such as post offices, cooperatives and microfinance institutions to play a larger role in money transfers.

INNOVATIVE FINANCE

Countries should seek to adopt further innovative financing mechanisms that are additional to existing and promised ODA flows and provide greater resources for development.

The OECD reports that the resources mobilized by innovative finance for development initiatives currently amount to, on average, $2 billion per year.[14] The UN has estimated that over $600 billion could be mobilized each year.[15] While there is no standard definition of 'innovative finance', many creative solutions to development challenges that go beyond traditional aid flows (donors' budgetary outlays) and tap into new financial sources or models have been proposed or adopted, including the International Finance Facility for Immunisation (IFFIm), the levy on airplane tickets in favor of UNITAID, the Advance Market Commitments, and the European Financial Transaction Tax.[16]

- **Financial transaction tax:** A significant proportion of the revenues from the EU Financial Transaction Tax should be allocated to development programs, and should be additional to ODA budgets.
- **Social impact investment:** Long-term institutional investors such as pension funds, charitable endowments and sovereign wealth funds should commit to dedicating at least 1% of their assets to social impact investment.

Contact: Isabelle De Lichtervelde, isabelle.delichtervelde@one.org or
Catherine Blampied, catherine.blampied@one.org

PRIVATE FINANCE

Private-sector actors must be transparent, accountable and compliant with standards for responsible investment. They should be incentivized to prioritize positive development impacts on the most vulnerable and hardest to reach.

Private investments are crucial for economic transformation, helping to provide decent jobs, including for youth and women, raise domestic revenues, and enhance technology transfer. Foreign direct investment (FDI) flows to developing countries in 2013 were $778 billion, yet these flows are not predictable, or evenly distributed.[17] FDI is just one piece of a complex picture of private capital flows into, within and out of developing countries. Across all these flows, there is no consistent or detailed reporting of volumes, sectors or recipients, let alone impacts. The Monterrey Consensus urged businesses to take into account "the developmental, social, gender and environmental implications of their undertakings."[18] Beyond the principle of 'do no harm' (with respect to human rights, labor rights and environmental protection) – which must constitute the fundamental minimum standard for all private-sector financing – the environmental, social, gender and governance impacts of private investment must be better evaluated and transparently reported.

- **Standards:** All governments and private-sector partners should recommit to and implement agreed standards for responsible private financing, including the UN Guiding Principles on Business and Human Rights, the OECD's Policy Framework for Investment, and the CFSUN Principles for Responsible Investment in Agriculture and Food Systems.
- **Public-private finance:** Governments must ensure that the same high standards of transparency and accountability are upheld for joint public-private projects as for purely public development finance.

TRADE

All governments should promote and advocate for trade rules and mechanisms that support the most vulnerable people and promote gender equality in developing countries, creating new economic opportunities and access to global markets.

Boosting trade has enormous potential to unlock economic growth and development. Sub-Saharan Africa currently struggles more than any other region to reap the benefits of global trade. In 2012, its share of world exports was just 2.3% – less than it was in 1980 (3.8%). Capturing just a small additional percentage could make a big difference – even this small slice was worth $428 billion in 2012 (around 10 times the value of aid to the region in the same year). The Monterrey consensus in 2002 listed the major concerns of developing countries about the imbalances and dysfunctions of the international trade. But progress on trade issues has ground to a halt with the failure of the Doha Round of talks. On top of these challenges, developing countries also face profound supply-side constraints, such as weak and uncoordinated national and regional customs and tax policies and regulations, lack of reliable infrastructure, and inadequate access to financial and business services. Aid-for-trade can provide vital support in overcoming such obstacles, in particular in LDCs. Efforts by African governments and their development partners to increase trade between sub-Saharan African countries themselves should also be seen as a priority.

Contact: Isabelle De Lichtervelde, isabelle.delichtervelde@one.org or
Catherine Blampied, catherine.blampied@one.org

- **Access to markets:** Developed countries should recommit to expediting the extension of quota-free, duty-free access to LDCs.
- **Intra-regional trade:** African governments should commit to reducing intra-regional barriers and promoting intra-Africa trade.
- **Aid-for-trade:** Development assistance providers should pledge to increase levels of aid-for-trade, especially to LDCs.

GOVERNANCE REFORM IN INTERNATIONAL FINANCIAL INSTITUTIONS

Developing countries should have a voice in global decision-making.

Most developing countries continue to be excluded or sidelined from decision-making at powerful international fora from the Bretton Woods institutions to bodies such as the Basel Committee on Banking Supervision and the Financial Stability Board. In the Doha Declaration of 2008, leaders agreed that "the Bretton Woods institutions must be comprehensively reformed" and "the reform of the international financial architecture should focus on providing greater transparency and strengthening the voice and participation of developing countries and countries with economies in transition in international decision-making and norm-setting".[19]

- **Voting shares:** The use of double majority voting should be extended to ensure that developing countries are more fairly represented. In the World Bank, governments should pursue moving towards equality in voting shares between borrowing and non-borrowing countries.
- **Transparency:** International financial institutions should commit to greater transparency and should prohibit the investment of money in tax havens.

CONCLUSION

Development partners have an opportunity at Addis to spur transformational change, but the challenge they face is formidable. Together, we must double down on measures to end extreme poverty and substantially improve the lives of the poorest and most vulnerable, especially women and girls, through robust financing commitments coupled with smart policy changes across all dimensions of sustainable development.

Contact: Isabelle De Lichtervelde, isabelle.delichtervelde@one.org or
Catherine Blampied, catherine.blampied@one.org

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[15] OECD (2014) Development Cooperation Report: Mobilising Resources for Sustainable Development
[16] Other ideas that have been put forward include aviation and maritime taxes, taxing tobacco consumption, lotteries, taxing assets held in offshore tax havens, a billionaire's tax, voluntary contributions, or various forms of leveraging public balance sheets (for example, through the creation of additional IMF Special Drawing Rights. Sachs and Schmidt-Traub (2014) Financing for Sustainable Development: Implementing the SDGs through Effective Investment Strategies and Partnerships, Draft *open for public consultation*; OECD (2014) Development Cooperation Report: Mobilising Resources for Sustainable Development.
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Contact: Isabelle De Lichtervelde, isabelle.delichtervelde@one.org or
Catherine Blampied, catherine.blampied@one.org