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ADDIS ABABA JULY 2015: NEAR DEATH OF A GLOBAL GOVERNANCE EXPERIMENT

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Reports about the Third International Conference on Financing for Development (FfD) have lamented the end of globally-expanding official development assistance (ODA), questioned the faith in profit-led public investments, and asked if philanthropic foundations would selectively deliver on public responsibilities. But the deliberations in Addis Ababa also opened up a potential space for UN-led conversations among relevant policymakers and other stakeholders about these and other aspects of financing for development.

During the final United Nations preparatory meeting for the 13-16 July FfD Conference in Addis Ababa, some delegates in New York acted like their predecessors who prepared the first FfD Conference in 2002 at Monterrey, Mexico, worrying that they might fail to make the initiative succeed. They cared because of something special in the international economic forum that was FfD. If nothing more, the Addis Ababa Action Agenda (AAAA)[1] may have rescued that July forum from a near-death experience.

One challenge in negotiating the outcome in Addis was to confront the objective of the European Union (EU) and certain other countries of merging FfD into another track of international policy discussions. The world's foreign ministries had decided to devise a set of sustainable development goals (SDGs) to succeed the Millennium Development Goals (MDGs). Unable to agree on the new goals (or much else) at the Rio+20 Conference in June 2012, UN member states instead created an Open Working Group in the General Assembly which agreed to a first draft of SDGs in 2014.[2] They also decided to monitor their implementation through a "high-level political forum" (HLPF). The EU wanted monitoring of whatever would be agreed in the FfD track in Addis Ababa to fall directly under the HLPF.

The problem or advantage with this approach—depending on one's perspective—is that FfD had created a global substantive as well as political forum for discussion of finance, aid, trade and their coherence to which governments send representatives from relevant ministries and in which the International Monetary Fund (IMF), World Bank, and World Trade Organization (WTO) participated, along with civil society and business. The HLPF would be more political and less technical than FfD; it would not likely address such FfD issues as the norms of international banking regulations. Proponents of this approach thought it desirable to keep those "systemic" issues off the UN agenda.

In the end, a compromise was struck between the EU's proposal and that of the Group of 77 and China to create a formal FfD Commission to take charge of the follow-up. Each year there will be multi-stakeholder FfD meetings in the Economic and Social Council (ECOSOC) for up to five days to address the outcomes agreed in Addis as well as the means of implementation (MoI) for the post-2015 development agenda to be finalized at the September 2015 World Summit in New York. Not only will the scope of Addis broaden the policy content of the MoI follow-up, but the technical level of some of the MoI reviews may be deeper within the FfD process than they would otherwise have been.

THE FfD IDEA

FfD began in 1997 as the Asian financial crisis took hold. While FfD had been proposed by a group of Latin American countries, a number of East Asian ones became active supporters, followed by African countries, at which point the United States decided to support the initiative. A skeptical EU could not escape joining, albeit more with the aim of financing the undelivered promises from UN conferences on social issues in the 1990s rather than adopting the broader Latin American-led focus on public and private financing for development. Under FfD, the UN would not attempt to usurp decision-making power that resided elsewhere but would "set the table" (an African diplomat's phrase) for relevant decision makers to benefit from others' insights.

FfD thus came to involve ministries of finance as well as the ministries of foreign affairs and development that usually attend UN discussions. As noted, FfD also involved the IMF, the World Bank, and to a lesser extent WTO as active participants in substantive policy debates, along with members of civil society and the private investment community. Staff of the institutions, other parts of the UN system, and financial regulatory committees also cooperated

Future UN Development System supports and helps accelerate change in the UN development system to increase effective responses to global development challenges—especially after 2015, the target date for the Millennium Development Goals. Recognizing the many frustrations that have accompanied UN reform efforts, FUNDS envisages a multi-year process designed to help build consensus around necessary changes. Financial support currently comes from the governments of Denmark, Norway, Sweden, and Switzerland, and UNDP.

with the UN Secretariat in preparing material for intergovernmental discussion. The World Bank even allocated staff to the UN for the purpose.

The basic concept was to make the UN a forum for substantive discussion of domestic and international money, finance, aid and trade, their systemic interrelations and their impact on development. The focus in the preparations for the first FfD conference in Monterrey, Mexico, was on frank talk (including a ban on reading speeches) in which participants spoke to one another with no press coverage and with nothing published beyond an anodyne Secretariat summary.[3]

FfD UNRAVELS

Steps to implement each of the pledges made at Monterrey were taken, but the journey has been incomplete at best. The ministerial-level joint IMF/World Bank Development Committee began discussions of IMF and World Bank governance a month after Monterrey, but to date with only small changes implemented. ODA increased substantially and aid-effectiveness entered the intergovernmental process, first under leadership of the Organization for Economic Co-operation and Development (OECD), later joined by the UN's Development Cooperation Forum. The UN anti-corruption treaty was agreed but the section on monitoring took additional years to negotiate. The sovereign debt mechanism under consideration at IMF was rejected.

Most disappointing, Monterrey failed to construct an effective, standing global coherence forum at the United Nations. FfD meetings slipped into numbing routine with lower and lower-level participation. The 2002 "Monterrey moment"—a phrase mentioned by a senior Bretton Woods official—had passed.

Then in November 2008, responding to the worst financial and economic calamity since the Great Depression, an upgraded Group of 20 (G20) took control of global policy making.[4] In less than five months, it adopted a comprehensive program for global economic recovery and financial regulatory reform. And in 2010 it added development to its portfolio of self-appointed responsibilities, with a focus on means to encourage an expansion in infrastructure investment in developing countries, especially the poorest.

However, the pragmatic, multi-ministerial, multi-institutional, and multi-stakeholder approach of FfD still had its champions. A second conference planned for Doha at the end of 2008 took place two weeks after the G20 leaders met in Washington, D.C. During the months leading up to the second FfD conference, however, negotiations descended into familiar North/South diatribes. Diplomats also retreated from organizing Monterrey-like private exchanges.

The biggest controversy in Doha was whether or not to hold a special intergovernmental conference on the financial crisis and its impact on development. Proponents had in mind a "Bretton Woods II," a notion rejected by the major powers. The G20 had already adopted a systemic reform agenda with input from the largest developing countries. FfD was irrelevant if not dead.

ADDIS "CONSENSUS" ON FINANCING

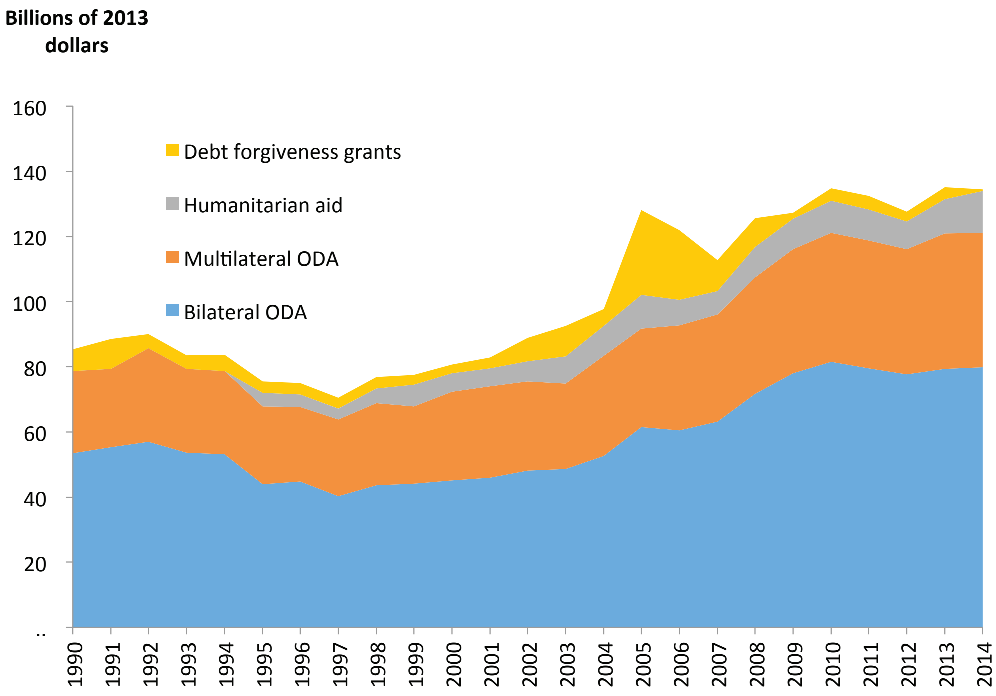
Press accounts of the AAAA and civil society assessments have complained that no policy changes were agreed, no significant additional funds were pledged, no trade concessions were promised, and no relaxation made of OECD (and G20) control over international tax cooperation norms as on how to tax multinational corporations.[5]

The message brought by Western negotiators to Addis was the end of expanding volumes of ODA, a development already visible in donor aid statistics (see Figure 1). The future would see more of what used to be aid-funded development and anti-poverty projects and programs financed instead in combination with private, for-profit funds in "blended" arrangements or in cooperation with rich foundations or by private investment. Anyone hoping for a return to robust aid and an expansive view of the economic role of the state in development had to be disappointed.[6]

Observers should not have been surprised, however. The Rio+20 Conference in 2012 had deadlocked on financing as well as on defining the SDGs. It thus mandated an Intergovernmental Committee of Experts on Sustainable Development Financing and asked it to propose "options" for a post-2015 financing strategy. In fact, the committee's report in 2014 proposed essentially the same approach just adopted in Addis.[7] Moreover, the OECD and its Development Assistance Committee of donor governments have been working in recent years to broaden the concept of development cooperation to include activities excluded from the traditional (and the recently updated) definition of ODA. The new concept, "total official support for sustainable development" (TOSSD), would include export credits and other private funds mobilized by guarantees or other official interventions, etc.[8] It would be measured and monitored by the OECD and could come to serve as a broader benchmark than ODA for the volume of official financial cooperation for sustainable development.

In fact, the huge volume of infrastructure and other investment needed in developing countries to deliver sustainable development requires mobilization of largely private financial resources. This is not new. Traditionally, infrastructure investment has been undertaken by domestic or international public authorities for everything from municipal sewerage systems to vast World Bank-funded dams. They have typically been financed by long-term bonds issued either by the project or the investing institutions. Estimates are that the global savings rate is adequate to the future financing task, although the funds are now largely invested elsewhere. However, the new approach to mobilizing necessary funds differs from the traditional one in adding more intense collaboration between the official and private sectors and more profit opportunity than merely the interest paid on bonds or bank loans. For example, it includes a scaling up of "public private partnerships," which have a checkered history in being able to deliver public services effectively or at acceptable cost.[9] Addis promised increased official cooperation to facilitate project design and matching investors to investment projects. It left open the question of ensuring social oversight of the investors.

Figure 1: Total ODA, 1990-2014



Source: Author based on data from OECD
Note: Category of humanitarian assistance not shown separately before 1995; surge in debt relief in 2005 mainly for Iraq and Nigeria.

Sustainable development will require the substantial expansion of regular government expenditure in developing countries as well as increased investment. Most of these expenditures (for operating schools, health facilities, the social protection floor, etc.) are financed through domestic taxation, supplemented in the poorest countries by bilateral and multilateral ODA. Foundations and other philanthropy may supplement government funding or independently provide complementary services. With less growth expected in ODA, more domestic tax revenues will be essential. Developing country governments are aware of this imperative, and most have scope to increase their "tax take." AAAA promised more international cooperation on taxes to assist in such efforts, both to catch and discourage tax cheats and to raise more revenue from taxpayers, albeit within the context of the tax standards developed in OECD.

This picture, however, is incomplete as it omits reference to widening cracks in the global system. WTO negotiations initiated just before Monterrey have produced very little; and the major economies have instead turned to forging trade and investment agreements among limited numbers of countries as the more effective way to advance the interests of their firms and investors. Meanwhile, China has been pursuing its own strategy of expanding trade and financial relations with the rest of the developing world, including its new Silk Road Initiative that links Asia and Europe and its Asian Infrastructure Investment Bank that will finance some of the necessary infrastructure. International initiatives by Brazil, India, and other emerging economies also offer alternatives to the standard Northern-governed aid, trade, and financial institutions. Perhaps the future of international cooperation is less settled than the Addis document might make it seem.

REBIRTH AFTER ADDIS?

Two agreements in the AAAA that were not headline material may offer opportunities for frank international policy debate about a more heterogeneous world. One concerns a new "technology facilitation mechanism" to promote information about and policy discussions of the development and dissemination of technologies in developing countries. The other pertains to keeping FfD alive by adapting the new approach to intergovernmental discussions within ECOSOC noted above. The challenge will be to turn these initiatives into confidence-inspiring forums. The first such meetings should be scheduled for 2016 in New York.

FfD follow-up, in particular, requires a fresh start that leads back toward the informality and openness of Monterrey. The Addis agenda all but begs policymakers to flesh out its more than 100 policy statements. In light of the priority accorded to private financing, one policy matter seems especially urgent as the focus for the first follow-up meetings: "We will work toward harmonizing the various initiatives on sustainable business and financing, identifying gaps, including in relation to gender equality, and strengthening the mechanisms and incentives for compliance" (para. 37). The AAAA acknowledges that multiple initiatives already aim to define economically, socially, and environmentally responsible corporate behavior, including the human rights responsibilities of business and government oversight of the private sector. It could be useful to firms seeking to behave responsibly to have a common set of guidelines. Governments dealing with firms that operate in multiple jurisdictions may wish to decide what those guidelines should be.

While the AAAA does not specify how to allocate the up-to-five FfD days at ECOSOC, it provides an important opportunity to structure in-depth discussions. For example, ECOSOC could devote four days to the selected focus in two separate sessions and the fifth day to the overall review also mandated in Addis. The initial two days could be held back-to-back with the IMF/World Bank spring meetings, and the second two days could be held together with the overall review back-to-back with the IMF/World Bank Annual Meetings in the fall. Both occasions could provide opportunities to engage finance and development ministry officials, who would be nearby in Washington. If the topic were announced in October 2015 (and annually thereafter at that time), it would give governments, international organizations, and other stakeholders a year to prepare. The spring session could comprise a day of expert hearings and a day of the original FfD round tables (that is, closed and frank) to highlight potential areas of agreement and disagreement. The UN Secretariat, drawing on the discussions and assisted by relevant partners and expertise, could then prepare a draft proposal for consideration at the fall session.[10] The Addis conference also mandated that the annual set of meetings end with an intergovernmental statement, which in this case could include a first draft of agreed guidelines.

Nothing of this sort exists at this moment. Addis officially recognizes its need. Why not try it?

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NOTES

1. "Addis Ababa Action Agenda," UN General Assembly resolution 69/313, 27 July 2015.
2. See "Report of the Open Working Group of the General Assembly on Sustainable Development Goals," UN document A/68/970, https://sustainabledevelopment.un.org/content/documents/1579SDGs%20Proposal.pdf.
3. See Barry Herman, "The Politics of Inclusion in the Monterrey Process," in *The Politics of Participation in Sustainable Development Governance*, ed. Jessica Green and W. Bradnee Chambers (Tokyo: United Nations University Press, 2006), pp. 153-178, and also available as DESA Working Paper No. 23, United Nations, April 2006, www.un.org/esa/desa/papers/2006/wp23_2006.pdf.
4. The largest developing countries (Argentina, Brazil, China, India, Mexico, Indonesia, Republic of Korea, Saudi Arabia, South Africa, and Turkey) plus Australia and the EU acquired new seats at the Group of 8 (Canada, France, Germany, Italy, Japan, Russia, United Kingdom, and United States). See Andrew F. Cooper and Ramesh Thakur, *The Group of Twenty* (G20) (London: Routledge, 2013).
5. See, for example, "Addis Ababa Outcome: Milestone or Millstone for the World's Poor?" *The Guardian*, 16 July 2015, with links to assessments by Civicus, Eurodad, and Oxfam.
6. A partial exception was the larger role seen for national and international development banks to invest in sectors and locations ignored by private finance (para. 33).
7. The report of the committee is available in English, French, German, Russian, and Spanish at www.un.org/esa/ffd/follow-up/finance-committee.html.
8. See OECD, "Measuring Total Official Support for Sustainable Development," briefing note for Third FfD Conference, Addis Ababa, July 2015, www.oecd.org/dac/financing-sustainable-development/Addis%20flyer%20-%20TOSSD.pdf.
9. The literature on public private partnerships is vast, including training materials for negotiating deals appropriate for developing countries. For a critical literature review, see María José Romero, *What Lies Beneath: A Critical Assessment of PPPs and their Impact on Sustainable Development* (Brussels: European Network on Debt and Development, 2015).
10. The AAAA encouraged the Secretary-General to convene an inter-agency task force to report annually on implementation of the Addis Agenda and the MoI (para. 133). Officials working with the secretariat in preparing the report on the thematic focus could overlap, at least in part, with those in the standing task force, but they are envisaged here as distinct activities.