

# States must remain the Primary Duty Bearers in Financing for Development

## Key Messages

1. The Addis Accord on Financing for Development will directly impact on the delivery of the Sustainable Development Goals and the momentum needed for an ambitious programme of action at the UN Convention on Climate Change in December.
2. As the primary duty bearer for upholding human rights, governments individually and collectively must lead in the mobilisation and allocation of the maximum available financial resources for the progressive realisation of these rights. Responsibility for delivery cannot be delegated to the private sector.
3. Ireland must demonstrate its commitment to poverty eradication and sustainable development by committing to meeting the 0.7% GNI target for ODA by 2020.
4. In recognition of the additional financing needs required to meet the Sustainable Development Goals, Ireland should commit to mobilising additional public resources through the introduction of a Financial Transaction Tax.
5. In order to curb international tax evasion and tax avoidance Ireland should support the establishment of an intergovernmental body on tax matters under UN auspices.
6. Ireland should support the strengthening of the Finance for Development follow up process through the establishment of an autonomous intergovernmental body.

## Why Addis Matters

The international community's commitment to eradicating poverty, fulfilling human rights and advancing sustainable development will be reflected in the outcomes reached at a series of high level inter-governmental negotiations this year.

The first of these is the Third Financing for Development (FfD) Conference, which takes place in the Ethiopian capital, Addis Ababa, from 13-16 July. Agreement on mobilising adequate and fair resources at the Addis conference is a precondition for the successful implementation of the Post 2015 Framework being signed off at September's UN Special Summit for Sustainable Development. The Addis Accord will constitute a core part of the financing framework for the new development agenda. A successful Addis outcome will also reinforce international efforts to agree an ambitious programme of action at the 21<sup>st</sup> Conference of Parties to the UN Convention on Climate Change in December.

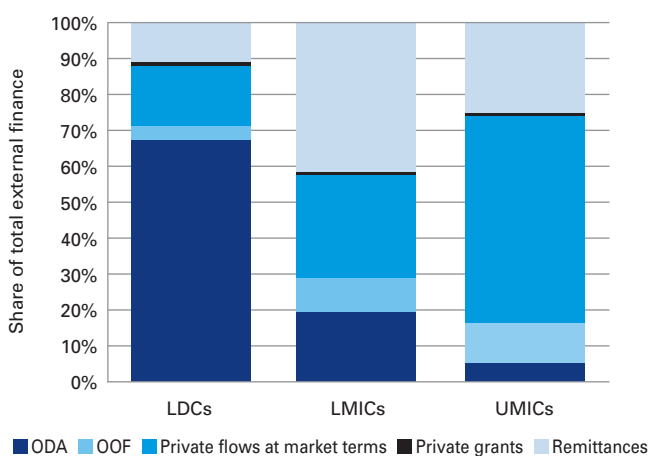
Acknowledging the relationship between these inter-governmental negotiations, FfD must remain a separate process with a mandate which extends beyond directly supporting the Sustainable Development Goals (SDGs). Apart from addressing financial resource mobilisation issues to achieve the SDGs, FfD has a wider remit in terms of enhancing the coherence and governance of the international monetary and trading systems. Since its inception in 2002, it has provided the most inclusive space where all countries participate in an overarching process to address financing issues. This inclusive space is essential to achieving the co-operative action needed for transforming financial policies in support of the realisation of human rights and protection of the environment.

Trócaire has been working with international civil society organisations throughout the FfD process since 2002 and has taken positions across all the chapters of the Addis Ababa Action Agenda.<sup>1</sup> As the Third FfD Conference nears, the intensity of negotiations rises. This briefing focusses on specific contentious issues in the areas of international public finance, domestic resource mobilisation and the shape of the Addis follow up, with particular focus on the positive role Ireland can play.

## 1. International Public Finance

The magnitude of investment needed to support the ambition represented in the SDGs does require a huge step change in current investment flows. As figure 1 illustrates, Official Development Assistance (ODA), remains the largest source of external financing for Least Developed Countries (LDCs) - countries with limited capacity to raise public resources domestically.

**FIGURE 1:**  
Composition of Financial Flows to Developing Countries in 2012<sup>2</sup>



**Note:** ODA=Official Development Assistance; OOF=Other Official Flows; LMICs=Lower Middle Income Countries; UMICs=Upper Middle Income Countries; LDCs=Least Developed Countries. *Source: OECD*

### 0.7%.

Developed countries first committed to provide 0.7% of their national income (GNI) as aid in 1970, a commitment that was reaffirmed in the 2002 Monterrey Consensus on FfD. Despite repeated commitments only a handful of countries have met or exceeded the target<sup>3</sup>. Though ODA reached a record high in 2013, the 2014 MDG Gap Task Force found that the combined DAC donors ODA equalled 0.3% of their combined GNI, leaving a delivery gap of 0.4%.<sup>4</sup>

Allocations are also shifting away from the poorest countries, ODA to Africa falling by 5.6% in 2013<sup>5</sup> and by 16% to the LDCs in 2014.<sup>6</sup>

Despite Ireland’s welcome commitment to the 0.7% target, first announced in 2000 at the UN General Assembly, the Irish percentage allocation has been in continuous decline since 2008 and is now at levels not seen in more than a decade. Ireland’s progress towards the target is now being made conditional on economic performance. Apart from the contradiction in this position highlighted by the continuing slide in percentage allocation despite growing GNP, this condition reflects a total misinterpretation of the target which serves as an indicator of relative commitment delinked from economic growth. The incoherence of this position is illustrated by the UK’s ability to fulfil the 0.7% commitment despite very challenging domestic economic circumstances.

With Ireland acting as a co-facilitator in the intergovernmental negotiations on the SDGs, creating important new international commitments in a range of areas, for developed countries it is essential that existing commitments are met for new ones to be credible. The fulfilment of the decades old ODA target may be seen by some donors as ‘old hat’ – but it still represents an essential commitment on which the poorest nations depend. For them, it is a red line. The step change that is needed in terms of ODA is for those countries, including Ireland, who have yet to meet the 0.7% target to do so by 2020 and by the end of 2015 to present a concrete timetable illustrating how this deadline will be met.

- 1 As a member of EURODAD and CIDSE, Trócaire is a signatory to both networks position papers for Addis, namely EURODAD et al’s December 2014 paper titled : UN Financing for Development Negotiations: What outcomes should be agreed in Addis Ababa in 2015? See <http://eurodad.org/files/pdf/54c7b792e11b4.pdf> and CIDSE’s March 2015 paper Why Addis Ababa Matters See <http://www.trocaire.org/resources/policyandadvocacy/why-addis-ababa-matters-cidse-recommendations-third-un-international>
- 2 From Billions to Trillions:Transforming Development Finance Post 2015 Financing for Development:Multilateral Development Finance, World Bank Group, April 2015
- 3 In 2014 these were: Norway, Denmark, Sweden, Luxembourg and the UK
- 4 The State of the Global Partnership for Development. MDG Gap Task Force Report 2014
- 5 Joint African Union Commission-Economic Commission for Africa elements paper for the regional consultation on financing for development (10 March 2015)
- 6 G 77 input to FfD revised draft discussions (19 May 2015)

Otherwise the incoherence of talking about sustainable development without consistent financing (finance that is not only pro-cyclical but also counter cyclical, available in good times and bad), will persist.

### **Innovative Public Financing**

Even assuming all donors were to recommit to the 0.7% target by 2020, ODA alone would fall very far short of the resources needed to fund the SDGs. While the SDG commitment to innovative financing remains unclear, FfD offers the possibility of expanding new and effective public financing measures. In accordance with the human rights duty of international cooperation and states obligation to support fulfilment of human rights extraterritorially, governments have an opportunity to agree to new public financing instruments to enable the maximum available resources for the realisation of human rights and development commitments.

A significant step change for Ireland would be to join the other eleven EU countries committed to introducing a financial transaction tax (FTT). The FTT represents a modest mechanism for the redistribution of revenues in support of domestic and international social and environmental goals. Part of the resources generated could be used to support Ireland's contribution towards climate financing, which must be new and additional to ODA. The measure would also help curb the kind of speculative trading that contributes to boom bust cycles, a feature of the recent global economic crisis.

The EU's Foreign Affairs Council meeting on 26 May 2015 failed to make explicit reference to the FTT in its conclusions on innovative financing. The conclusions were much more explicit in highlighting 'blending' of public and private finance instruments under this heading<sup>7</sup>. However, a report by the European Court of Auditors on EU blending activities claimed that the need for a grant to enable the loan to be contracted was demonstrated for only half of the projects examined.<sup>8</sup> The efficient and effective deployment of public finance is a key consideration in this regard. Harnessing the potential catalytic effect of public finance to mobilise additional resources should be subject to close scrutiny to assess consistency with aid effectiveness principles and to determine whether there is any real added value whenever international public finance is to be diverted from its primary focus on poverty reduction and sustainable development.

## **2. Mobilising Domestic Resources**

The scale of financing requirements to implement the SDGs requires a global partnership based on the principle of common but differentiated responsibility (CBDR). The increasing importance of domestic resource mobilisation should not diminish developed countries responsibility to fulfil ODA commitments as well as mobilise additional funds to face climate change and ensure international harm is not caused by domestic policies. In tandem with rich country responsibilities, domestic public finance by developing countries has a critical role to play in addressing poverty, increasing equity and enabling countries to become more financially independent.

### **Taxation Policies**

Taxes are not the only source of government revenue, but they are undoubtedly the most important. Taxation represents the main means by which the social contract between democratically elected governments and citizens is enacted. The key challenge in raising domestic tax revenues is to ensure it is done in a way that best supports the realisation of human rights, reduces inequality and advances sustainable development. Building the capacity of public revenue authorities to improve low tax: GNP ratios is not an end in itself. Tax systems must be progressive, targeting those most able to pay if they are to reduce gender and economic inequalities, promote democratic accountability and environmental sustainability.

However, a significant obstacle to domestic resource mobilisation in developing countries is the significant volume of finance leaving these countries untaxed. In 2011, developing countries lost \$ 946.7 billion due to illicit financial flows, more than seven times total ODA that year.<sup>9</sup> For developed countries too tax dodging means major revenue losses to the exchequer. There exists a common challenge to promote collective action on global tax rules.

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<sup>7</sup> Council Conclusions A New Global Partnership for Poverty Eradication and Sustainable Development after 2015, 26 May 2015

<sup>8</sup> European Court of Auditors (2014). The effectiveness of blending regional investment facility grants with financial institutions loans to support EU external policies

<sup>9</sup> Report of the Special Rapporteur on Extreme Poverty and Human Rights to the Twenty Sixth Session of the Human Rights Council, 14 April 2014

However, initiatives to establish tax norms and standards by the OECD exclude the majority of developing countries. The Addis Conference presents the international community with an opportunity to commit to the establishment of an intergovernmental body on tax matters under the auspices of the UN with a mandate to reform international corporate taxation, including the prevention of tax evasion and avoidance, and ensure global tax cooperation between governments.

Ireland, however, is opposing such an initiative with the Minister for Foreign Affairs asserting 'it is in the best interests of our endeavours to ensure that we work and deal with global tax issues through the OECD'<sup>10</sup>. This approach rests uneasily with the value of a just world where the UN receives Ireland's 'strong support to defend human rights'.<sup>11</sup>

### 3. FfD Follow Up

All UN international conferences have had dedicated bodies to ensure an effective follow up, examples include the Commission on the Status of Women and the Commission on Social Development. It can be of little surprise that Financing for Development commitments have been poorly implemented when there is no follow up body and seven years elapses between moments when governments gather to consider how implementation is going. The partial overlap in the FfD and SDG agendas should not be conveniently used to merge follow up into a common monitoring, accountability and review mechanism. Such proposals appear to be based on the faulty premise that FfD exists merely to finance the SDGs. How would the normative FfD programme of work, which represents the only venue for the international community to come together to address financing and economic policy operate in such a system? For these reasons, Trócaire calls on Ireland to strengthen the Financing for Development follow up by supporting an autonomous intergovernmental FfD body under UN auspices and stronger follow up at the European level.<sup>12</sup>

### A Global Partnership for Development

Only weeks remain to ensure the Addis outcome reflects the global partnership for development which is needed to successfully deliver the financial means of implementation for a transformative, universal and sustainable post 2015 framework.

The Addis outcome must reinvigorate the principal partnership between governments of developed and developing countries, with developed countries taking the lead in committing public resources and addressing systemic issues which drive inequality.

The global partnership for development incorporates the framework for international development cooperation that recognises the critical importance of North-South cooperation and the global drivers and determinants that shape national policy space for development. This foundation of global partnership for development means states are the primary duty bearers responsible for respecting, protecting and fulfilling the rights of their citizens. It is governments who will sign off on the Addis outcome. This outcome needs to underline the urgency of these same governments being able to regulate private financial flows and the activities of private corporations to 'protect, respect and remedy' human rights<sup>13</sup>. Similarly, it is all governments which must address the inequalities arising from international trade and investment policies ensuring their coherence with sustainable development objectives as well as agreeing on the establishment of a multilateral debt workout mechanism, the absence of which has resulted in chronic financial instability and crisis in both developing and developed countries.

Decisions on these issues, as reflected in the Addis Accord, will underline the status of the global partnership for development and the state's role in terms of meeting their human rights obligations and sustainable development commitments. The stakes could not be higher.



**For further information contact:**  
[Michael.obrien@trocaire.org](mailto:Michael.obrien@trocaire.org)

- 10 Minister Flanagan responding to Deputy Maureen O'Sullivan's questions on ODA, May 2015
- 11 The Global Island: Ireland's Foreign Policy for a Changing World, page 30
- 12 Some Reflections on the Third FFD Conference Follow Up – A Thinkpiece (CIDSE Briefing Note, May 2015) <http://www.cidse.org/publications/finance-and-development/third-ffd-conference-follow-up.html>
- 13 Where Aid Meets Trade, a report by Hannah Grene for Trócaire which addresses state-business human rights obligations <http://www.trocaire.org/sites/trocaire/files/resources/policy/where-aid-meets-trade.pdf>