PUBLIC FINANCE

Increasing international financial and technical cooperation for development

This is a background briefing on public finance within the Financing for Development negotiations, prepared by European Financing for Development Task Force which is coordinated by CONCORD, the European NGO confederation for Relief and Development.

Increasing international financial and technical cooperation for development has been on the UN agenda for decades, and was focused on at every International Financing for Development conference. This paper explores the history of these issues and processes in more detail before posing some recommendations for goals and outcomes at the Third UN Financing for Development Conference which takes place in Addis Ababa, Ethiopia, on 13-16 July 2015.

1. Background

Financing for Development Conferences and public finance commitments

The Financing for Development (FfD) Conference in Addis will be an opportunity to assess progress against historic commitments in the area of public financing for development but, most importantly, could definitively set out what is possible and available in terms of financing for new, universal sustainable development goals. Addis will follow and build on previous FfD conferences in Monterrey 2002, Doha 2008 and the special conference on the financial crisis in New York 2009 as well as other processes, conferences and commitments at the national, global and EU levels.

In 2002, at the International Financing for Development Conference in Monterrey, the world's most developed economies committed to mobilise sufficient resources to meet the Millennium Development Goals (MDGs) by 2015 with a strong focus on ramping up aid spending to meet the 0.7 ODA/GNI target. Other important public spending targets included an actual time-bound commitment by the European Union to reach 0.7% by 2015 and the UN 0.15%-0.20% target for aid to Least Developed Countries (LDCs). However, the international community is far away from reaching both targets. Even if four EU member states, i.e. Sweden, Luxembourg, Denmark and the UK, have met the 0.7% target ahead of the 2015 deadline, others are cutting their aid budget (e.g. the Netherlands) and the EU collectively will most likely fail its aid target by 2015.[1] Overall ODA to LDCs has also declined as a proportion of global ODA.

While progress towards meeting these targets - and the MDGs themselves - has been patchy and uneven, the last 15 years have seen notable progress. The Addis conference must build on this progress and ensure that there is a strong aid target which recognises the unique role of aid and reflects the needs and desires of partner countries – as a minimum fulfilling the 0.7% target as soon as possible, recommitting to ambitious aid targets and increasing the target for aid to LDCs to the 50% called for by LDCs. The EU has a key role to play in securing agreement and consensus on these targets.

OECD/Development Assistance Committee: definition and measurement of ODA

Alongside this process, the definition and measurement of ODA is being reviewed by the OECD DAC in particular the outdated definition of concessionality. While other issues – including country classification, peace and security, private sector or market-like instruments, measuring total official support for development, etc. – have been discussed, final decisions on all these issues are unlikely to be taken ahead of the Addis conference. As such Addis will be an important opportunity to address these key issues, including necessary steps on public finance.

Aid Effectiveness

Parallel to the discussion on the quantity of aid, Monterrey also kicked off a discussion on the quality of aid. The aid effectiveness process, both in the UN Development Cooperation Forum and in the

[1] CONCORD AidWatch Report 2014: collective EU ODA stood at 0.43% of EU GNI in 2013

High-Level Fora (HLF) on Aid Effectiveness, has helped to drive substantial shifts in the way aid is spent, how donors and recipients of aid interact, accountability and transparency mechanisms and many other changes. In 2011 at the fourth HLF in Busan, the aid effectiveness process shifted into the development effectiveness process with a broadening of the agenda with the creation of the multi-stakeholder Global Partnership on Effective Development Cooperation (GPEDC). The GPEDC had its first High-Level Meeting in Mexico in April 2014 which provided an opportunity to assess progress made – though progress has been slow – and to explore ways of pushing further progress. Both the DCF and the GPEDC are and will be vital for driving development effectiveness and thus ensuring our ability to deliver on ambitious sustainable development goals post 2015.

Innovative public financing

Innovative financing has been an area of increasing focus since the beginning of the MDGs as a potential additional supplement to traditional sources of public finance for development. For example, a Financial Transaction Tax (FTT) has been an area of focus, particularly since the global financial crisis, and could represent a new and additional source of financing for development, global public goods, climate change mitigation and adaptation.

This paper explores the history of these issues and processes in more detail before posing some recommendations for goals and outcomes at the Addis FfD conference.

2. Analysis

Below is an overview of agreements taken by Member States in different processes with a focus on the International Financing for Development Conferences (Monterrey 2002, Doha 2008, New York 2009) and links to other processes where relevant; and CSO suggestions for building on those agreements for Addis.

ODA quantity and targets

Monterrey 2002	Doha 2008	New York 2009	Other	Building on those CSOs would like to see:
Role of ODA				
Essential role especially in those countries with the least capacity to attract private finance; ODA critical for (1) improving the environment for private sector activity and (2) for supporting education, health, public infrastructure development, agriculture and rural development and to enhance food security (para 39)	Essential role reaffirmed; ODA plays a (1) catalytic role (growth, infrastructure, FDI, trade, innovation) and is critical for (2) improving health and education, fostering gender equality, preserving the environment (para 41)	Reaffirm Monterrey, Doha and other commitments		Stress esp. the role of ODA for both, the poorest people and in those countries with the least capacity to attract other resources, ODA is key in all inequality and poverty-reducing sectors including public goods (e.g. health, education, access to food and land), strengthening / building public services; ensure that climate finance remains additional to agreed ODA targets
0.7% target				
Urge developed countries that have not done so to make concrete efforts towards the target of 0.7 per cent of gross national product (GNP) as ODA to developing countries and 0.15 to 0.20 per cent of GNP of developed countries to least developed countries (para 42)	Monterrey commitments reaffirmed; Encourage donors to work on national timetables, by the end of 2010, to increase aid levels within their respective budget allocation processes towards achieving the established ODA targets (para 42); Encourage all donors to establish, as soon as possible, rolling indicative timetables that illustrate how they aim to reach their goals (para 43)	Monterrey and Doha and others reaffirmed; Encourage donors to work on national timetables; full implementation of these commitments (para 28);	UN resolution of 24th Oct. 1970 on 1% in net transfers – which became the 0.7% target later on (and is based on Pearson Commission report 1969 – "0.7% of donor GNP to be reached by 1975 and in no case later than 1980"). "Maintain and deliver on existing bilateral and multilateral ODA commitments and targets made" (re-)commitments at: UN Millennium Declaration 2000; UN Monterrey 2002; UN World Summit Outcome 2005; G8 Gleneagles 2005; EU Council Conclusions 2005: EU collective commitment to spend	Stress legally binding commitments; National timetables to increase aid levels within their respective budget allocation processes to achieve the established ODA targets; urge donors to spend 1% of GNI on development and meet at least the 0.7% / GNI target as soon as possible – set a new deadline (within 5 years)

			0.7% of its GNI on ODA by 2015; UN Doha 2008; G20 London 2009; UNGA 2010 UN Rio +20 2012 (para 258)	
ODA to LICs/LDCs				
ODA still the largest resource for many countries, incl. LDCs (para 39); … make concrete efforts towards the target of … 0.15 to 0.20 per cent of GNP of developed countries to least developed countries (para 42); Donors to increase ODA quantity and quality, including to LDCs (para 43);	ODA still the largest resource for many countries, incl. LDCs (para 41); Target of 0.15 to 0.20 per cent of GNP for ODA to LDCs reaffirmed (para 43); Reference to EU commitment to channel at least 50 per cent of collective aid increases to Africa (para 42); Stress importance of addressing the development needs of LICs, including through the provision of technical, financial and other forms of assistance (para 44)	Due to the crisis, economic and social progress achieved is now being threatened in developing countries, particularly LDCs (para 3); Particularly concerned about the impact on countries in special situations, including LDCs (para 4)	EU Council Conclusions 2005: collective commitment to increase its collective ODA to SSA by devoting at least o50% of the agreed increase in ODA to Africa as a whole; 50% target for LDCs: Cotonou agenda adopted by LDCs in July 2014; 0.15 – 0.20% target for LDCs: four UN conferences on LDCs, in particular the Brussels Programme of Action (2001) and Istanbul Programme of Action (2011) that included a (re)-commitment to this target	Recognise special role ODA plays for LDCs by committing to provide at least 50% of ODA to LDCs
ODA to MICs				
-	Recognise that middle-income countries still face significant challenges in the area of poverty eradication (para 45); Acknowledge that ODA is still essential for a number of those countries and has a role to play in targeted areas, taking into account the needs and domestic resources of these countries (para 45)	Equally concerned about the specific development challenges of MICs and LICs with vulnerable and poor populations (para 4)		No one should be left behind: Put in place a proper transparent coordinated strategy for all donors collaborating with middle income countries (MICs) which is part of an on-going dialogue with key stakeholders, including the recipient countries, to avoid disincentives for graduating to MIC status, ensure strong ODA levels to eradicate extreme poverty everywhere and for the poor and marginalised everywhere to be able to realise their human rights. Per capita income levels should not be the sole determinant and other criteria such as the level of health and education,

				inequality or gender equality should be taken into account.
Additionality of ODA				
Para on additionality of debt relief (para 51)	Para on innovative finance stresses it should be additional from ODA (para 51)	Para on ODA comprising debt relief implies ODA should be additional (42); Para on innovative finance stresses it should be additional from ODA (para 31)		Stress additionality of ODA, in particular in regards to climate finance commitments as well as debt relief
Multidimensional Poverty and needs-based assessment				
			Indices to measure multidimensional poverty: UNDP HDI OPHI	Suggest a more "realistic" poverty line than $1.25 via tackling multidimensional poverty and assessing relevant needs. So far, there an updated and adequate assessment of needs hasn't taken place.

ODA reform / quality of ODA

Monterrey 2002	Doha 2008	New York 2009	Other	Building on those CSOs would like to see:
Genuine transfers				
We encourage donor countries to take steps to ensure that resources provided for debt relief do not detract from ODA resources intended to be available for developing countries (para 51)	Highlight recovery of ODA... noting that a significant part of aid flows after 2002 comprised debt relief and humanitarian assistance (para 42)			Confirming additionality of resources backing debt cancellation/relief/swaps. Providing dedicated statistical reports highlighting debt relief operations by donors
Concessionality				
We acknowledge and appreciate the discussions taking place in other forums on proposals to increase the concessionality of development financing, including greater use of grants (para 43)	-		ICESDF Report 2014: mixed messaging on concessional finance to LDCs: "use of financing instruments and their concessionality should be appropriate to the level of development of each country" (para 61-5); but "ensure that LDCs	Using grants as the preferred financial tools in the case of LDCs, LICs, and freshly graduated MICs. Ensure the grant equivalent is the only measurement of ODA and not the face value of the loan. Concessional loans should be calculated at a more favourable discount rate than the

			are not refrained from accessing less concessional funds from IFIs and DFIs" (para 116)	current 10%, and below the interest rates at which donors borrow their funds on capital markets. Interest repayments should be deducted from net loan figures.
Debt vulnerabilities and grants				
See para on concessionality above (para 43)	-	We will also explore enhanced approaches to the restructuring of sovereign debt based on existing frameworks and principles (para 34) -> debt briefing; Donors and multilateral financial institutions should increasingly consider providing grants and concessional loans as the preferred modalities of their financial support to ensure debt sustainability (para 34)		In order to ensure ODA loans do not increase debt vulnerabilities, concessional loans should not be used in countries at risk of debt distress or already in debt distress. The adoption of a sub-clause should also be used to protect developing countries from debt vulnerabilities in a new definition of concessionality. Debt cancellation will continue to be important when countries are in debt distress, or where debts are illegitimate. This should be done through an independent, fair and transparent debt workout mechanism, that involves both lenders and borrowers.
Blending				
-	-	-	Major focus on blending in ICESDF report – e.g. table on blended finance instruments (p. 39)	To be added from private finance paper! Private flows mobilised by public resources should be fully transparent, fully untied and able to demonstrate clear financial and development additionality. Donors should only report public resources used to mobilise these funds.
Quality				
Base effective partnerships on the recognition of national leadership and ownership of development plans; sound policies; good governance to	Ensuring ODA is used effectively, we stress the importance of democratic governance, improved transparency and accountability,	Reference to aid effectiveness principles (para 29)	Rio +20: Welcome increasing efforts to improve quality of ODA and to increase its development impact	Full implementation of the global commitments to realize the key effectiveness principles, namely country ownership, transparency & accountability, focus on results

ensure ODA effectiveness (para 40); build development partnerships (…) to maximize the poverty reduction impact of ODA (para 40); Recipient and donor countries, and international institutions, should strive to make ODA more effective by increasing efforts on: Harmonisation; untying aid, including the implementation of the [OECD/DAC] recommendation on untying aid to LDCs; Enhance Ownership; Improve ODA targeting to the poor, coordination of aid and measurement of results (para 43)	and managing for results (para 43); Donors to fulfil commitments including through raising public awareness, and by providing data on aid effectiveness and demonstrating tangible results (para 43); Welcome increasing efforts to improve quality of ODA; Encourage all donors to improve the quality of aid, increase programme-based approaches, use country-systems for activities managed by the public sector, reduce transaction costs and improve mutual accountability and transparency, and, in this regard, we call upon all donors to untie aid to the maximum extent (para 46)		(para 259); Recognise the need to improve development effectiveness, increase programme-based approaches, use country systems for activities managed by the public sector, reduce transaction costs and improve mutual accountability and transparency, and in this regard, we call upon all donors to untie aid to the maximum extent (para 259)	and inclusiveness. Interested parties will have to fulfil commitments agreed in Paris and Busan. Ensuring that all development flows (beyond ODA – public and private) comply with the effectiveness principles. All donors should ensure that ODA represents genuine transfers to developing countries, including by ending the tying of aid both formally and informally, removing in-donor student and refugee costs as well as debt relief from ODA, provide the majority of their assistance in the form of grants, and reform concessional lending by reflecting the real cost of loans to partner countries including by deducting interest repayments. Donors should consider the International Aid Transparency Initiative (IATI) as a useful framework to improve the accountability and transparency of all financial flows.

ODA effectiveness (also see quality of aid above)

Monterrey 2002	**Doha 2008**	**New York 2009**	**Other**	**Building on those CSOs would like to see:**
Development effectiveness principles				
See above – input on quality: increasing ODA effectiveness by: Harmonisation; untying aid, Enhance Ownership; Improve ODA targeting to the poor, coordination of aid and measurement of results (para 43)	References to Paris, and Accra (para 46); Stressing effectiveness principles: ownership, alignment, harmonisation, managing for results, mutual accountability and transparency (para 46)	Reference to aid effectiveness principles (para 29)	Rio +20 – see above, input on quality: Recognise the need to improve development effectiveness, increase programme-based approaches, use country systems for activities managed by the public sector, reduce transaction costs and improve mutual accountability and transparency,	See above.

			and in this regard, we call upon all donors to untie aid to the maximum extent (para 259)	
Practical focus on challenges - solutions				
Responsibility of all development actors				
Apply development effectiveness for all forms of financing				
DCF[2] and GPEDC				
	All development actors should cooperate closely to ensure increased resources from all sources are used in a manner which ensures maximum effectiveness (para 47); Growing need for more systematic and universal ways to follow quantity, quality and effectiveness of aid flows, giving due regard to existing schemes and mechanisms (para 48);			The main global forums on development cooperation – UNDCF and GPEDC – should work together to mobilize different constituencies for a shared agenda on effective development.

Innovative sources of finance

Monterrey 2002	Doha 2008	New York 2009	Other	Building on those CSOs would like to see:
Innovative Finance				
Recognise value of exploring innovative sources of finance (para 44)	Progress made on voluntary sources of finance and innovative programmes linked to them since Monterrey (para 51); references to	Innovative finance forms can contribute to addressing our global problems (para		Emphasise innovative finance as means to fill the gap in public finance; Stress additionality; Make innovative financing contributions

[2] The 2005 World Summit [A/RES/60/1] mandated ECOSOC to convene a biennial high-level DCF that will: Review trends in international development cooperation, including strategies, policies and financing;, Promote greater coherence among the development activities of different development partners; Strengthen the normative and operational link in the work of the United Nations" – from the ECOSOC – DCF web site

	several innovative financing mechanism, no explicit reference to FTT (para 51); Encourage scapling up and implementation, where appropriate, of innovative sources of finance initiatives. (para 51); Funds should supplement and not be a substitute for traditional sources of finance (para 51); Recognise voluntary and complementary nature (para 51)	31); Establish, where appropriate, new voluntary and innovative sources of financing initiatives to provide additional stable sources of development finance, which should supplement and not be a substitute for traditional sources of finance (para 31)		mandatory; Explicitly recommend the FTT; Stress that parts, at least 50%, of innovative finance should be used to tackle poverty, climate change and provide funding for global public goods
Innovative finance to tackle climate change, carbon taxes				
	Reference to instruments based on the carbon market (para 51)	Utilisation of national stimulus packages (para 32)	Copenhagen Outcome 2009?	Ensure innovative carbon taxes are explored in developed countries and their revenues are used for national and international climate purposes, including capitalizing the UNFCCC Green Climate Fund. The example of UNITAID, whereby a levy on air tickets has been used to buy lifesaving medicines for poor people in LICs and MICs, demonstrates that such innovative sources work.

3. What's at stake

- Losing ambitious aid targets as a political and advocacy tool
- Losing public finance for development as a standalone category
- Undermining the credibility and quality of aid beyond 2015
- The provision of concessional loans even when inappropriate, contributing to debt accumulation in poor countries
- Undermining the effective use of public resources for development, including through its use to leverage private finance without a prior assessment of the financial and development additionality.

4. Recommendations

Building on these UN and international commitments, the outcome of the Third UN Financing for Development Conference should:

ODA quantity and targets

1.1. Re-emphasize the **unique role and value added of Official Development Assistance** (ODA) within the increasing mix of financial resources for sustainable development. Confirm that ODA's primary objective is to tackle extreme poverty, reduce inequalities, and promote sustainable development. Highlight that ODA has **two critical roles** to fulfil: supporting access to public goods and services (education, health, infrastructure); supporting democratic ownership of development processes, for instance by enhancing multi-stakeholder participation and the mobilization of domestic resources.

1.2. Call on all donors to **(re-)commit to binding ODA targets** backed up by concrete and verifiable timetables to scale up their aid budgets. A **binding donor commitment to spend 1% of GNI on ODA** would be an appropriate target; in the short term, donors should at least commit to **meet the 0.7% / GNI target as soon as possible and within five years at latest**.

1.3. Ensure strong ODA levels to **least developed countries** (LDCs) by committing to provide at least **50% of ODA** to such countries, and call on donors to give the majority of their aid to LDCs in the form of **grants**.

1.4. Simultaneously put in place a proper, transparent and coordinated **strategy for collaborating with non-LDC developing countries**[3] which is part of an on-going dialogue with key stakeholders, to avoid disincentives for graduating from Low Income to Middle Income Country status. Ensure strong ODA levels to **eradicate extreme poverty everywhere**, for the poor and marginalised in all developing countries to be able to realise their human rights and ensure long-term and sustainable development. Donors should commit to narrowly targeted aid to support those still living in poverty everywhere, alongside providing more structural or catalytic support to non-LDC developing countries as a whole. Per capita income levels should not be the sole determinant and other criteria such as the level of health and education, inequality or gender equality should be taken into account.

1.5. Protect ODA levels by ensuring ODA is established as a **stand-alone category** in the new financing for development framework and is separate and **additional** to climate finance, large financing for global public goods, private sector finance, debt relief and other forms of financing for development.

[3] This paper refers to the UN classification of Least Developed Countries versus non-LDC developing countries. Both categories comprise several country groups as classified by the World Bank: Low Income Countries, Middle Income Countries, High Income Countries.

1.6. Base efforts and commitments to step up public finance on a **rights-based and multidimensional definition of poverty**. Initiate an updated and realistic **assessment of financing needs** as a basis for evaluating financing needs for ending poverty, tackling climate change and providing global public goods.

ODA reform / quality of ODA

2.1. Ensure that an **ODA reporting system is based on genuine transfers of resources to recipient countries.** Other flows with an explicit and primary intention of tackling poverty might be included; ODA should exclude the majority of in-donor costs and debt relief, which should be additional to ODA. The practice of tied aid would also have to end.

2.2. Use a definition of "concessionality" that is fit for purpose by adopting a more favourable discount rate that reflects market realities in donor countries; and only **count the grant equivalent of concessional lending as ODA**. Interest repayments should also be deducted fromnet loan figures.

2.3. Ensure that ODA loans **do not increase debt vulnerabilities of developing countries** and advocate against the use of a risk-adjusted discount rate to assess the concessionality of loans, in order not to incentivise lending to poor countries at risk of debt distress or already in debt distress. The adoption of a sub-clause could also be used to protect developing countries from debt vulnerabilities in a new definition of concessionality.

2.4. Call on donors to commit to provide the **large majority of their aid** to LDCs in the form of **grants and through country systems such as local procurement processes and budget support**.

2.5. Ensure a **nuanced approach to blending** public and private finance and advocate for a Southern-led review of the benefits and risks of using public finance to leverage private finance.

2.6. Increase the **quality of ODA** by ensuring ODA flows support ownership, transparency, accountability and results, inclusivity and poverty eradication. Ensure ODA is based on fundamental aid and development effectiveness commitments: and implement democratic ownership, alignment, harmonisation, managing for results and mutual accountability.

ODA effectiveness (see quality of aid above)

3.1. Recommend the **explicit inclusion of development effectiveness principles and commitments** (and relevant processes in both the UNDCF and GPEDC) throughout the post 2015 and FfD framework for all forms of financing for development, public and private ones.

3.2. Ensure a more **practical focus on the existing and potential challenges** and the practical steps needed to achieve these goals.

3.3. Stress the **responsibility of all development actors** to meet effectiveness standards and the full/active inclusion of all legitimate development actors in development processes, decision-making and partnerships.

3.4. Ensure that **agreements to enhance an enabling environment for CSOs as development actors of their own – developed through the Paris Declaration, the Accra Agenda for Action and the Busan Partnership – are speedily translated into practice** and monitored over time in the face of evidence of a shrinking space for CSOs' independent action, globally and locally.

3.5. Promote practical steps, including recognising and promoting existing initiatives and processes, to further work to improve the effectiveness of all development flows, including non-public or non-ODA flows, and highlight how effectiveness **principles can help ensure all sources of financing for development are used effectively** - drawing and

building on existing work around the Mexico HLM on development effectiveness in tax and DRM, private finance, the private sector, etc. as a starting point.

3.6. Bring back to the fore **the need to manage fragmentation and diversity of development flows –** for instance setting up proper monitoring frameworks - as means to improve dramatically improve effectiveness.

3.7. Make a **clear case for the place and the role of the DCF and GPEDC** alongside addressing ways to improve the working of either of these structures at a practical level or challenges for the future. **Ensure that the GPEDC is mentioned explicitly as a key part of a renewed global partnership** as it is the only genuinely multi-stakeholder partnership functioning at the global level and is the legitimate body to push for and deliver greater implementation of key development effectiveness principles.

Innovative sources of finance

4.1. Recommend **innovative financing mechanisms as a means to fill the large gap of public finance**. Emphasise the **Financial Transaction Tax** as an important source of new public finance. Ensure 50% of the revenue are used for additional financing to tackle poverty and climate change, protecting global public goods and fund public policies in LDCs such as health system strengthening and education.

4.2. Ensure **innovative carbon taxes** are explored by developed countries and their revenues are used for national and international climate purposes, including capitalizing the UNFCCC Green Climate Fund. The example of UNITAID, whereby a levy on air tickets has been used to buy lifesaving medicines for poor people in LICs and MICs, demonstrates that such innovative sources work

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