CSO Position on Private Flows for the 3rd International Conference on Financing for Development in Addis Ababa, 13-16th of July, 2015

Private flows is one of the main financial streams to be discussed at the International Financing for Development conference in Addis Ababa in July this year. These flows have been put forth as having the potential to overcome the current finance gap of among other things the new Post-2015 sustainable development framework, and the new climate agreement. It is of crucial importance that the necessary frames for regulating and monitoring private flows are created, if these are to contribute to, rather than undermine, sustainable development globally. The specific outcomes from the FfD negotiations that Concord Europe wishes to see with regards to private flows are presented in the following:

The policy space for developing countries must be increased. This includes a frame that gives all countries possibility to shape domestic legislation that will allow for national capital control on inflows, such as developing a capital account regulation system. Furthermore, monitoring systems and indicators should be set to give DCs and LDCs the possibility to regulate FDI more effectively according to national sustainable development and poverty reducing priorities. Capacity of developing countries should be strengthened to establish comprehensive regulatory frameworks and negotiate fair contracts to avoid extraordinary high profits for private investors paid by consumers or public tax revenues.

A comprehensive regulatory framework that will ensure mainstreaming of sustainability, responsibility and accountability within private investments must be adopted. This should be standard-setting at the international level, and with a link to implementation and accountability at national levels, as well as provide a commitment to improving the enabling environment in DCs and LDCs through strengthening of domestic legal systems and regulatory institutional environments. I*nternationally agreed guidelines,* such as UN Guiding Principles on Business and Human rights (UNGP), OECDs guidelines for Multinational Corporations, IATI and EITI standards, and international environmental -and climate agreements should also be endorsed in this framework. Furthermore, countries should commit to effective implementation of the UNGP by enforcing human rights due diligence via regulatory measures, requiring large and transnational companies to report on their human rights, social and environmental impacts and risks, besides providing effective remedy. Further requirements of *disaggregation of FDI data*, as well as increased monitoring and transparency of blended finance and PPPs shall be mandatory.

All development actors, including the private sector, must live up to equal requirements of developmental outcomes with a poverty-reducing impact, and should show commitment to the *Busan Principles*, emphasizing a multi-stakeholder approach and focus on local ownership. This should include a checklist of sustainable development criteria, including environmental safeguards, to be applied before deciding to engage private actors and/or private finance in developmental projects, and clear accountability mechanisms for these projects should be developed. PPPs and blending initiatives, that mix ODA with private finance, should follow an evidence-based approach, and ODA should only be used for PPPs if there is evidence for job creation, tax payments, poverty alleviation, and if the criteria of financial additionality is fulfilled. Potential adverse risks such as higher tariffs on essential services (water, electricity, etc.) and exclusion of poor and marginalized groups should be mitigated.

Private flows should focus on promoting the development of the local private sector in DCs, especially when these flows are mixed with official development funds. Private flows and private sector investments should therefore, to the largest extend possible, support development of local private sector through promotion of technology transfer, capacity building and targeting local MSMEs. Sustainable investments in sectors that contribute positively to pro-poor and sustainable growth, and have better potential to contribute to gross domestic capital formation, such as agriculture and manufacturing, should furthermore be promoted. PPPs and private sector substitution should be based on the principle of financial additionality in order to avoid market distortions and crowding out of local firms.

Illicit outflows such as tax evasion and broader tax avoidance challenges that erode the tax base of developing countries require increased attention from global policy makers. The specific actions put forward in the Monterrey consensus such as increased information sharing and cooperation between international tax authorities have to be followed through under auspices from a new intergovernmental body on international cooperation on tax matters. This body should also agree to reforming the international tax rules and explore and alternative to the Arm's length principle through a process with equal representation from all countries. Increased transparency through full *Public Country-by-Country Reporting* should be required from MNCs. Private flows blended with ODA should not be allowed to use tax havens.