Civil Society FfD Group’s Comments to the 2021 FSDR Draft Outline

This document has been collectively developed by the Civil Society Financing for Development (FfD) Group (including the Women’s Working on FfD), a very broad platform of civil society organizations, networks and federations from around the world, that followed closely the Financing for Development since its origins, facilitated civil society’s contribution to the Third International Conference on Financing for Development, and continues to provide a facilitation mechanism for the collective expression of civil society in the FfD Follow-up process. More information can be found on the Civil Society FfD Group’s website: https://csoforffd.org/about/

While the group is diverse and positions might differ on specific issues, this document expresses the elements of common concern.

General comments

• The world is confronted with a human crisis of inestimable proportions which is imposing its heaviest tolls on the marginalised and those at the intersections of multiple vulnerabilities. In this context, it is alarming to witness the re-emergence of an inadequate mix of over-optimistic growth projections with the same austerity policies, maybe masked under different terminologies, that created many of the vulnerabilities now exacerbated by the covid-19 pandemic. Overoptimistic growth forecasts not only provide false parameters for debt sustainability assessments, but also offer a complacent smokescreen that understate the need for profound transformation of the current global economic frameworks.

• Some might have said that we are all in the same storm, but we are certainly not on the same boat. The pandemic is far from acting as “the great equalizer.” Instead, it revealed the uneven consequences of decades of failed policies including over-reliance of market-based mechanisms, private finance-based solutions against public finance, fiscal consolidation, regressive taxation, labour market reforms and austerity, often consistently guided by international financial institutions. These policy choices resulted in a structural under-investment in essential public services such as health, education, care and social protection systems, now proving so crucial. More recently, drastic reduction of public-sector wage bills and social benefits part of structural reforms designed by the IMF to deal with the 2008 global financial crisis had long-lasting effects.

• The Covid-19 crisis has therefore exposed, once again, all the ways in which our economic system is broken. But it has also suggested some of the critical elements that should be urgently fixed: invest in caring jobs, strengthen public systems and invest in public services, re-affirm the centrality of global public goods with common-but-differentiated responsibilities, strengthen multilateralism and democratize global economic governance. The report should explicitly discuss how the FfD agenda is going to take stock of these lessons.

• Fundamentally, the 2021 report should take stock of what international financial and development architecture has been able to achieve and where it has fallen short of its own promises. It should highlight the big gap between what is needed and what the architecture has been able to deliver, and recommend ways to close this gap, including radical transformation to the system itself. In particular, it should analyze the gap between what UNCTAD called for in March¹ and what has actually taken place. It should point to insufficient or lack of action by G20, IMF, World Bank and private actors.

• COVID-19 knows no borders. As such, no country can recover alone, as the virus will find its way across borders. A failure to address the health and economic needs of the most vulnerable communities in the developing world would cost both lives and long-term, critical damage to the world economy. Renewed commitment to multilateralism and global solidarity is essential to repair the global social contract by upholding the principles of equity between nations, human rights, and public system strengthening.

¹ A $2.5 trillion crisis package for developing countries including: $1 trillion liquidity injection through allocation of SDR; $1 trillion debt cancellation for distressed economies; $500 billion ‘Marshall Plan’ for health; capital controls to arrest capital outflows from developing countries
Gender equality:

- The COVID 19 crisis has shown how our societies rely so much on women’s unpaid domestic and care work that there are estimations calculating that women’s human rights have seen a regression of almost 20 years. Women have been in roles of first responders and at the frontline of the impacts, while facing concerning increase of gender violence in the context of the lockdown, with lack of access to sexual and reproductive services and rights. Women become “shock absorbers” due to the “elasticity” of the time-value-work relation linked to women, which can be detected more clearly in an austerity context.

- The notion of “labour” becomes much more useful than “employment” to analyse the economic drive and potential of an economy. In that sense, labour can not only be analyzed by paid or unpaid, but also by formal and informal. In all these axes, women stand in the lower scale, by undertaking more unpaid and more informal labour, making precarious in multiple ways their access to human rights, opportunities, income, social protection and wellbeing. When referring to the economic dimension of gender, usually all these dimensions are emphasized. The macro-economic dimension of gender, though, points out that without addressing the sectoral inequality gender gaps alongside those of time use and the sexual division of labour, we may not be able to eradicate gender inequalities in the upcoming centuries.

- Policy space, or genuine policy autonomy at national and regional levels, for employing gender equitable and women's rights strategies that fully integrate the paid and unpaid care economy towards improving the material conditions of life and opportunities for women.

- Women are being disproportionately affected by the crises through multiple channels, including the unpaid care economy, employment in the informal sector, export processing zones, domestic work, migrant work and healthcare sectors and greater reliance on public services and social protection systems.

- IMF financing documents reveal that in 2021 austerity measures are required in many developing countries. Decades of empirical evidence illustrate that austerity reduces the social protection and public services, particularly in health and education, which support women, children, the elderly, disabled and physically ill. Labour protections weaken, extraction increases and privatisation, including through PPPs, scales up to benefit corporations and financial interests, often via trade and investment agreements. Women’s unpaid work and time poverty is increased, as they involuntarily become shock absorbers.

- A feminist economy for recovery centers the care economy and gender equality through fiscal policy space for financing public services and social protection. A feminist reform of macro-policy calls for a rewriting of the rules of the economy, particularly the governance of fiscal policy, debt sustainability and macro-stability assessments, as well as illicit financial flows. A feminist assessment of debt sustainability integrates SDG, climate and human rights financing.

- The economic recession across most developing countries reveals the critical importance of non-market institutions, beyond the state, in stabilizing the world’s macro-economies. Households and non-market production have always played an essential stabilization role during macroeconomic crises. This role has been made more evident in the current pandemic. Economic activities in the market sphere, such as childcare, education, food preparation, etc., have been displaced to the non-market sphere. In effect, the provision of unpaid labor has served as an automatic stabilizer, propping up household consumption, in a way not entirely dissimilar to state programs such as unemployment insurance.

Chapter II. (Thematic Chapter): Financing resilience

- The choice to focus on risk in the chapter dedicated to financing resilience in the context of Covid-19 runs the risk to present the crisis that the global communities is facing as being borne from nowhere instead of being the precise results of a broken economic system. And it may appear contradictory to focus on
risk, which, by definition, means “the possibility of something bad happening”, in the middle of that “bad” having actually happened to the full extent possible and even beyond the imaginable;

- General definitions of “resilience” include “the ability of a system, community or society exposed to hazards to resist, absorb accommodate to and recover from the effects of a hazard in a timely and efficient manner” (UNISDR), or “the ability of a social or ecological system to absorb disturbances while retaining the same basic structure and ways of functioning, the capacity for self-organization, and the capacity to adapt to stress and change” (IPCC), or, alternatively, “the capacity of a system to absorb disturbance and reorganize while undergoing change” (Resilience Alliance). Borrowing the concept as understood in social and natural science contexts, an entity—be it an individual, community, organization or natural system—is resilient when it prepares for disruption, recovers from shocks and learns from disruptive experiences. An entity that has built up resilience is one that is better able to prevent the shocks it can predict and respond to those it cannot. As devised by Judith Rodin, a resilience framework has five components: (1) being aware of one’s situation and vulnerabilities; (2) being diverse, in order to mount a range of responses; (3) being integrated, in order to ensure collaborative solutions; (4) being self-regulating, in order to prevent disruptions from cascading through the system; and (5) being adaptive, in order to improvise in the face of challenges.

- In all these cases and whatever definition is picked, “resilience” does not offer a normative framework to alter the nature of the risk and therefore tackle the fundamental drivers that generate that risk in the first place. It offers primarily an “adaptation and mitigation strategy” to cope with the consequences that are generated by the current system. This shifts attention away from the system reforms and rather risks placing excessive focus on coping strategies. Many are also concerned that resilience might be a sophisticated way to tell those at the margins “you are on your own”;

- On the contrary, the emphasis of the IATF and subsequent policy discussions should remain on the policy and fiscal space by developing countries and therefore the actual resource transfers to developing countries, which may often be the prevention of their flight in the form of debt (service) repayments and illicit financial flows. By focusing on risk management, the report minimizes the urgency of the situation and takes away attention from more pressing needs.

- Should the focus be maintained, the chapter should also qualify what risks and for whom it is talking about (first and foremost, the risk of people of falling in extreme poverty and marginalization, or there remaining). It should include a section recognising that these risks arise largely from a broken economic model, which is in turn the outcome of specific policies and institutional systems. It should also recognise that the current multilateral system and international financial development architecture is utterly inadequate to address these risks and the ensuing crisis.

- The chapter should include a section showing how (climate, health, financial, systemic, environmental) risks impact primarily poor people, informal workers, women, indigenous people. This section should therefore include a section on policies to redistribute risk within and between countries – first and foremost climate and environmental risk.

- Section 4 should strongly make the point that policies that work for both prevention and increasing resilience include:
  - large investment in public services and global public goods (with emphasis on global health) and in jobs to care for people and the planet;
  - economic redistribution policies to reduce gender and economic inequalities; and,
  - prevention policies include reducing wealth inequalities, eliminate political capture and tackle large monopolies.
Chapter III.A Domestic Public Resources

1. Key Messages and Recommendations

- Fundamentally, this chapter should include a discussion on the impact of Covid-19 on countries’ fiscal and policy space, how to address the reduction in this space and avoid long-term (economic, political and social) consequences.

- The chapter should clearly note the devastating impacts of advanced countries blocking progress on international tax cooperation at the UN and urge member states to prioritise addressing international tax loopholes through a UN negotiation process. This could build from the analysis from UNCTAD’s trade and development report from September 2020 that noted that “the Covid-19 pandemic brought into sharp focus what government expenditures would have been possible and how many lives been saved, had the international community advanced further in tackling IFFs in general and tax-motivated IFFs in particular, including the closing of tax havens, beginning with those in the advanced countries.”

  “Regrettably, multilateral efforts towards reforming international corporate taxation under the OECD Base Erosion and Profit Shifting (BEPS) initiative, insufficient as they were, have suffered a setback by the recent withdrawal of the United States and are unlikely to lead to meaningful reform in the near future. However, there is a strong case to be made for broader reform of international corporate taxation that deals with profit shifting and addresses the global inequalities in taxing rights between countries under the auspices of the United Nations as a genuine global forum.”

- This chapter should include an analysis of the consequences of lack of investment in public services, especially health, as highlighted by Covid-19 crisis.

2. Public Expenditure in Response to COVID-19

- Focus should be on recognition of countercyclical fiscal stimulus policies as the most effective and equitable means to stimulate economic recovery, job creation and equity-enhancing redistribution through public transfers. An expansionary fiscal policy toolkit includes, for example, establishing universal social protection floors, extending coverage of social security, including for informal sector workers, progressive taxation, tapping into foreign exchange reserves for some middle-income developing countries and so on.

- Countries that use fiscal policy tools for economic recovery should not experience adverse impacts in access to capital markets, terms of borrowing, debt sustainability or credit ratings.

- Section should caution against fiscal consolidation driven austerity which will undermine the achievement of economic and social rights while deepening poverty. Empirical evidence on the impact of fiscal consolidation measures demonstrate reductions in health and education investments; losses of hard-earned pensions and social protections; public wage freezes and layoffs affecting public sector employees such as teachers, nurses, doctors and public civilians who comprise a large portion of the public wage bill in developing countries; increased unpaid care work; and, greater consumption taxes—all of which disproportionately affect the poor and women.

3. Domestic Resource Mobilisation in the COVID-19 era

- The section should clearly recommend the importance of progressive tax measures, such as raising taxes on large firms and the wealthy, to raise additional financial resources to address the economic fallout of the pandemic and are effective channels for human rights-based revenue mobilisation strategies.
4. International Tax Cooperation

- We recommend a separate bullet point/section on UN Tax Committee related updates. The current outline appears to be unbalanced and skewed towards highlighting OECD and PCT updates.

- We recommend the section to include relevant criticisms of the BEPS process from developing country perspective, particularly regional perspectives. This should include, for instance:
  - Logan Wort, CEO of African Tax Administration Forum (ATAF), expressed concerns about the OECD standard-setting process where developing countries' issues and African countries' issues in particular have not been considered and they feel like ‘collateral damage’ in the negotiations.
  - The report on ‘Tackling Illicit Financial Flows for Sustainable Development in Africa’ from September 2020, which notes that “At the global level, it could be argued that only the United Nations, with its near universal membership and democratic structure, can provide a truly global tax body. Reflecting these concerns, as of March 2020, OECD proposals did not fully address the priorities of African countries.”

Chapter III.B. Domestic and international private business and finance

- It is concerning that the risk management framework might imply furthering the role of states as guarantors for private finance risks, taking first loses to support investors now facing greater risks in the COVID19 context. The overview should critically assess the ‘de-risking’ private finance/blended finance/MFD approach, especially in view of the acute DRM challenges faced by countries at this time. Financing instruments like guarantees, blended finance and the use of public-private partnerships (PPPs) to finance essential services should be carefully re-evaluated and challenged.

- Point 2 should also include a discussion of the impacts of the Covid-19 crisis on privately financed projects, for instance, the fiscal risk arising from PPP infrastructure projects and other risks arising from privately financed and run social services.

- Point 3 should also include the following topics, including formulating policy recommendations:
  - the impact of the Covid-19 crisis and measures for informal sector workers;
  - the role of green and social/human rights conditions in bailouts for large companies.

- It is also important to include an assessment of how effective (or not) the commercial financial sector has been in supporting companies negatively impacted by the crisis (also linked to MDBs’ response to the crisis).

- Point 4.2: carbon markets should not be featured as a solution for addressing climate risks. Both carbon trading and offsetting schemes do not address the real causes of the climate crisis and have been failing to deliver on emissions reductions or meaningful climate policy change. Moreover, carbon offsetting mechanisms have had severe impacts on indigenous peoples and local communities, while deflecting responsibility from historical polluters and stalling urgent and equitable action to repair climate injustice and reduce resource extraction and consumption driven by donor countries.

Chapter III.C. International Development Cooperation

The content list for the IDC chapter covers a very comprehensive set of areas. However, it may be still worth shedding light on the contentious themes that such a broad list should help us with. In short, which IDC issues we would like to be addressed across the FSDR?
• The overarching question is whether or not the donor community has responded efficiently and effectively to the C19 outbreak, and consequently is also about the changes needed for greater preparedness for future shocks.

• More specifically, the report should help development stakeholders – from governments to civil society organizations have a reliable picture of both the overall volumes and the type of flows mobilized by the international community in the response to C19.

• Early CSO analysis (see for instance for the EU AW Report or the CPDE’s assessments) is highlighting critical areas that need further research such as diversion of funds from previous standing development priorities, a mix of grants and loans, and country reorientation. All these trends can be explained and are exacerbated by the lack of additional resources.

• It will be equally beneficial that report looks into the donors’ practices as regards tracking and reporting of allegedly C19 spending. As the international community struggles to implement an agreed framework, there is in fact the risk of misleading the international public option about the real magnitude of the global efforts to fight the pandemic.

• It would be also time to assess international development policies in terms their ability to safeguard the CSO space in times of C19 social restrictions imposed by many governments as a measure to fight the pandemic.

• As for blending, there is a standing priority regarding consistency with LNBO principle and consequently resources generation serving the interest of LDCs. It would also be important to emphasise the opportunity cost of using ODA to subsidise private finance. This point is even more relevant now in the context of the crisis.

• An analysis of “MDB response to Covid-19 and future implications” is welcome. This point should include a detailed assessment of strategies focused on promoting private sector solutions, as they run the risk of further amplifying existing vulnerabilities in public service provisioning. References to the implications of MDBs’ focus on the commercial financial sector have to be included too.

Chapter III.D. International trade as an engine for development

1. Key messages and recommendations

• Turn the COVID-19 crises into an opportunity for reviewing global trade rules under which developing countries have increasingly lost the policy space to support the development of domestic agriculture and key manufacturing sectors, including in critical health & food products. Now is the time to review the trade rules (under WTO and FTAs) and achieve a new balance under which developing countries can pursue national self-reliance in critical sectors while simultaneously engaging in international trade. Otherwise we will see increasing disengagement and protective policies in richer countries while developing countries are forced to liberalise and give up vital policy space for economic and social development.

• Review Intellectual Property Rights commitments under the WTO TRIPS Agreement with a view to ensuring access to diagnostics, prevention and treatment in the case of COVID-19 and other serious health crises of the future. (more under section 6)

• Re-affirm and re-commit to the UN mandate for UNCTAD to work on development by strengthening the development content in trade negotiations and building the capacity of developing and least developed countries in trade negotiations so they can meet their sustainable development objectives.
This needs a critical assessment of UNCTAD’s recent work which has moved away from its stated objectives, and to promote its independent role as a support organization for developing countries.

- **Review of issues e-commerce policies from the perspective of regulation and taxation**: This is under review in many countries; both developed and developing, and countries need the policy space to determine their independent national policies on the digital economy, while working with a global community to ensure coherence. Especially for developing countries where such policies are at a nascent stage, prior commitment in trade negotiations can be a major constraint, especially since the proposed trade rules go much beyond trade and gets into deep policy areas.

2. Developments in international trade

The following two points need to be added to the list:

- **6.5 Promoting an intellectual property rights framework for access to diagnostics and treatment**: The COVID-19 crisis has shown that the IPR regime as promoted by the WTO TRIPS Agreement is acting as a barrier to the prevention, detection and treatment of COVID-19 by making for example, ventilators, medicines and vaccines patentable and therefore supply-constrained and high priced. It shows that only rich countries with resources can book and access these many times that of population needs, but poorer countries will find it difficult to procure and make it available to their people. Future health crises will reinforce this inequity. Therefore, the current standards and understanding of IPRs in general, and the TRIPS agreement, in particular has to be reviewed. Proposals such as that tabled by India, South Africa, Kenya and Eswatini, which asks a “Waiver from certain provisions of the TRIPS Agreement for the prevention, containment and treatment of COVID-19” has to be supported by the UN membership.

- **6.6 Promote trade rules that support primary sectors such as agriculture and fisheries in developing countries in the light of the current negotiations at the WTO and FTAs**: The current rules not only in fisheries subsidies negotiations but in e-commerce, services and investment facilitation will impact primary sectors in addition to the traditional rules on tariff elimination. Many of these will create greater divide between rich and poor countries and producers thereof. These new negotiations and proposed rules need to be examined from a sustainable development, human rights and equity perspective.

**Chapter III.E. Debt and Debt Sustainability**

- The focus is problematically on debt crisis prevention and tools that provide marginal improvements to debt sustainability rather than debt crisis resolution. Immediate debt cancellation for debt distressed countries, with the participation of both multilateral and private lenders, needs to be a priority.

- On “International response to the Covid-19 pandemic and global recession”, we urge the IATF to ensure the limitations of those responses (DSSI and Common Framework) are addressed not only in terms of volume of debt relief provided, but also in relation to private sector involvement and multilateral debt relief, as well as how those responses are actually defined by creditors to respond to creditors needs, pushing the problems forward down the road and repeating the same mistakes from the past.

- On Debt swaps for development and specifically on climate and debt swaps, it would be good to look at the limitations of such tools and the issue of ownership.

- Clear reference is needed to debt governance issues, the evident ill-preparedness of the international financial architecture to deal with the crisis (especially regarding the lack of capacity to advance towards binding private sector participation in debt relief efforts) and the need for a debt workout mechanism at the UN.

- Debt restructuring should be based on *independently* conducted Debt Sustainability Assessments that consider fulfillment of human rights obligations, SDGs, gender equality and climate financing.
Chapter III.F Addressing systemic issues

- The COVID crisis exposed the worrisome combination of supply and demand shocks, with sudden drop in commodity prices and the blatant failure of global value chains. Furthermore, the COVID-19 pandemic has triggered rapid capital outflows and currency depreciation in Emerging Market Economies (EMEs) and other developing countries, thereby enhancing financial market volatility, and a sharp increase in credit spreads and debt burdens. EMEs are thereby exposed to substantial swings in capital inflows and are facing significant rollover risks and higher cost of refinancing foreign currency debt. This might further complicate debt restructuring attempts given the growing number of countries in distress. This exposed once again the urgent need to regulate volatile capital flows, including both inflows and outflows.

- In this respect, it must be noted that the finance sector is far bigger and more interconnected today than it was before the last financial crisis, with a significant rise of the asset management industry in the absence of adequate regulation. Hyper-financialization of the global economy has continued to advance, while the financial needs of developing countries remained unanswered. Not only these dynamics augmented inequalities, including the structural limitations in gaining access to finance by women, indigenous peoples and many vulnerable segments of the population. They also magnified speculative flows that are now triggering increased financial risks, financial market volatility and liquidity shortages – for which central banks needed to intervene with billions of dollars. The resulting downward economic pressures will deepen the COVID-19 crisis. Overall, finance continues to evolve in directions not consistent with the sustainable development imperatives for people and planet. Regulation and international standards have failed to steer finance to support the climate and SDG commitments. Capital controls should be given their legitimate place in any policy regime to curtail the surge in capital outflows, to reduce illiquidity driven by sell-offs in developing country markets and to arrest declines in currency and asset prices.

- It is therefore essential for the IATF Report to highlight the importance of, and the use of, capital account management to prevent excessive speculative capital inflows, capital flight and currency depreciation.

- In addition, it is essential to limit speculative trading and passive investment to stop herd-like behaviour that results in declines in currency and asset prices. This urgently requires a new global consensus for countries to apply smart capital controls, with flexibility for each member state, with the particular aim of allowing developing countries to protect themselves against central banks and financial market behaviour out of their control. In this context, the IATF Report should also assess the implications of the continued push by the OECD, including through clauses embodied within trade and investment agreements, to adhere to the Code of Liberalisation of Capital Movements;

- The need for regulation of short selling among all financial markets and algorithm based automated trading should feature prominently on the report analysis, including the consideration of punitive taxes on, high frequency trading, day trading, speculative hedge funds strategies and speculative financial products such as betting on volatility;

- Financial market and bank regulations that are being relaxed in response to COVID-19 should still have clear, strict conditions to be held accountable to, even during an emergency. For instance, relaxed regulations should only apply to those banks that will not distribute dividends based on their profits of last year and in 2020, nor pay back shares, and do not award bonuses, requiring a retaining of profits to strengthen buffers. Financial and central bank rescue packages should be conditioned to prevent financing of environmentally, climate and socially harmful activities;

- The COVID-19 measures will have an impact that increases the existing inequality based on a rentier economy. Many wealth asset and company owners have safeguarded their wealth and their volatile investments have been supported by central bank liquidity provisions. Governments should not foot the bill for a financial system that rewarded the rich through share buy-backs while not increasing wages and
avoiding taxes. The COVID-19 stimulus packages should be accompanied by a prohibition of share buybacks and bonuses, as well as an extra tax on wealthy individuals, on companies that are paying dividends in 2020 and 2021, and on companies that are profiting extra-ordinarily from the COVID-19 situation;

• Since the 2008 financial crisis, mergers and acquisitions have been the norm in the business world, concentrating capital, consolidating sectors and fostering inequality. It is therefore essential that, in this conjuncture, effective measures are established to prevent predatory mergers.

• It also essential that the Report explores pathways to undertake measures against new systemic threats and financial risks by strictly monitoring, regulating, supervising and limiting renewed expansion of securitization and derivatives trading, unregulated shadow banking, investment fund industry and asset management, concentration of credit rating agencies and the rapid development of fintech. In addition, ensuring that entities that issue, trade or exchange crypto-currencies (e.g., bitcoins) are regulated and supervised to prevent money laundering, for instance by identifying the beneficial owners of such crypto-currencies;

• It also essential to define new standards that promote a more diverse banking system in all countries, including state-owned and development banks at the regional and local levels, as well as cooperatives, savings and ethical banks and non-profit institutions. The banking system should address the gender gaps in women’s financial inclusion, and ensure finance to rural economy, small and medium enterprises, non-formal sector and poor people at large.