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# FORUS POSITION PAPER

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## The Big Changes needed in Financing for Sustainable Development



# MAIN RECOMMENDATIONS



Wide-ranging systemic reform of the current system of global economic governance, to make it “fit for purpose” and to promote equality and common but differentiated responsibilities between countries for the global commons.



The adoption of new approaches to economic development that prioritise human rights and planetary well-being over financial interests and economic growth, the creation of more robust, just, ethical and equitable social-ecological economies, and a rapid shift away from the current, dominant growth-driven economic paradigm.



The stimulation of a global economic recovery from the current crisis across all countries of the world based on a clear development path provided by key global policy frameworks adopted by the international community, including the Paris Climate Agreement with its national commitments, and the 2030 Agenda for Sustainable Development with its 17 Sustainable Development Goals



A global economic pact to be agreed by UN Member States to enable the creation of new and additional international debt-free finance to support recovery from the global pandemic



Sustained support from governments for the transformative role of public finance in stimulating a global economic recovery and support for the vital role of Public Development Banks (PDBs) worldwide.



The establishment of a new, long-term, global public financing system to mobilise and disperse the financial resources required to enable all countries to realise the sustainable development objectives of the 2030 Agenda, and the commitments made under the Paris Climate Agreement, within agreed timeframes.

# MAIN RECOMMENDATIONS



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A requirement that development finance institutions ensure blended finance adheres to development effectiveness principles, and that robust transparency and accountability systems are in place including the appointment of 'public interest' bodies to monitor the expenditure of blended finance and to ensure that it delivers value for the public realm.



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The alignment of international development financing with individual country priorities and Integrated national financing frameworks



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The establishment of a specific global COVID-19 public health fund to be used for humanitarian purposes and to help stop the spread of the global pandemic.



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A UN Sovereign Debt Workout Mechanism to be established that will comprehensively address unsustainable and illegitimate debt through revisiting existing mechanisms and arrive at a fair, effective and timely international process for debt resolution.



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Global tax rules and decision-making processes to be subject to a universal, intergovernmental process through the establishment of a well-resourced, inclusive and transparent UN intergovernmental Tax Commission and Tax Convention to comprehensively address tax havens, tax abuse by multinational corporations and other illicit financial flows.



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A global strategy for financing civil society to increase its ongoing access to adequate, predictable, diversified and sustainable financial resources, and to support its role in the monitoring and implementation of international sustainable development policy frameworks such as the UN's 2030 Agenda and the Paris Agreement.

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## INTRODUCTION

The cumulative impacts of converging international crises including the coronavirus health pandemic, the accelerating climate and biodiversity crises, have contributed to an **extremely challenging global macro-economic context** and there is now a strong possibility of a prolonged sharp slowdown in global economic activity.

Although all countries are fragile in the face of the pandemic, its impact will not be equal everywhere. Its consequences for developing countries are likely be harsher and longer-term. Managing the crisis is likely to be **particularly difficult for countries with limited fiscal space and weak social protection**. Together, these effects are already compounding existing financial and debt vulnerabilities. The damaging economic impacts of the COVID pandemic have worsened the already slowing global progress towards poverty reduction in recent years. The humanitarian and economic crisis triggered by the pandemic is threatening the well-being of billions of people and **risks derailing the global efforts to achieve the Sustainable Development Goals and to respond to the accelerating climate emergency**.



## MAKING THE CURRENT SYSTEM OF GLOBAL ECONOMIC GOVERNANCE “FIT FOR PURPOSE”

The devastating economic impacts of COVID 19 pandemic globally have thrown into sharp relief **the need for wide-ranging systemic reform of the current system of global economic governance**, in order to make it fit for purpose. Governance arrangements at the IMF and World Bank have not kept pace with the economic reality linked to the growing importance of many emerging economies. While small steps have been taken to reduce the degree of control that the advanced economies exercise in key institutions of global economic governance, **emerging markets and developing countries have been increasingly frustrated at the lack of progress**. This has had two consequences. First, the larger emerging markets feel less constrained by the rules and norms of the institutions. Emerging markets have also responded by setting up institutions to rival the IMF and World Bank.

**A new system of global economic governance is needed which will promote equality and common but differentiated responsibilities between countries for the global commons.** It should act decisively to address issues such as debt, illicit financial flows, global liquidity and financial stability among others.

The gradual disintegration of the current global rules-based economic order, in place since the end of the Second World War, requires **a new ‘Global Commons’ international conference, of the same importance as the Bretton Woods conference of 1944.** As with its predecessor, the aim of this conference should be to reaffirm the benefits for all countries of international cooperation rather than unilateralism. **The creation of new and additional international finance as part of a global economic compact** would be an unprecedented economic and political initiative, but it could be achieved with the support of a substantial majority of UN Member States. The priority should be to avoid the widening of the North-South divide between the haves (a recovery plan) and the have-nots.

A Global Commons conference should also deal with **other critical systemic issues relating to the global economy** including overseas development assistance, tax justice, debt sustainability, alternative measures of economic progress and the fundamental reform of the international trade system to ensure an open, fair, sustainable and development-friendly trade system for all.



## ABANDONING THE DOMINANT NEO-LIBERAL GLOBAL ECONOMIC MODEL

The intellectual basis for the key institutions of global economic governance also urgently needs to be reviewed. The erosion of the 'Washington consensus', the support for the 'Occupy' movement, emerging social movements questioning of the capitalist system, and the challenge from climate change to the primacy of economic growth as an objective all point to **the need for a broad debate on different economic models.**

The dominant neo-liberal global economic model which is characterised by its powerful capital-accumulating growth imperative, consumerist values and its divorce from ecological and scientific realities must change. This model of economic growth, divorced from the material reality upon which it depends, is **increasingly responsible for devastatingly harmful social and environmental impacts.**

Another concerning trend in many developed economies over recent decades is towards the "greening" of economies, using price incentives (i.e. internalising externalities), in order to maintain growth in the face of environmental degradation and ecosystem decline and **will fail to prepare humanity for future crises and will only help to create them and make them worse.**

Rising levels of financial debt, expanding levels of material consumption and production, widespread pollution, increasing waste creation, accelerating climate breakdown and widening social and economic inequalities are the direct results of this "growth-first" economic model, and are completely unsustainable. Yet, **economic growth has been promoted since the late 1940s as the only means for addressing poverty and sustaining 'development'**. This persistent "growth equals development" ideology continues to operate amongst most policy and decision-makers, in denial of the associated social and ecological impacts. This must change.



# THE NEED FOR ALTERNATIVE ECONOMIC MODELS TO REBUILD ECONOMIES AND SOCIETIES

There is an urgent need to replace this model with new approaches to economic development and economic justice which **prioritise human and planetary well-being over financial interests and economic growth**. The world needs more robust, just, ethical and equitable social-ecological economic models. This global economic crisis should be taken as an opportunity to urgently shift focus of our economic activities towards promoting the well-being of ordinary people and the long-term health and sustainability of the planet.

A new approach to economic justice and sustainability globally must **prioritise the complete eradication of poverty everywhere** by developing and strengthening systems of universal social protection. It must promote investment in response to epidemics, pandemics and disaster risk reduction, develop the climate resilience of societies and focus on long-term human and planetary well-being.

Many of these longer-term political objectives **can be achieved through the timely, inclusive, equitable and effective implementation of several major global policy frameworks** already adopted by most of the international community – including the Sustainable Development Goals agenda (SDGs), the UN's Paris Climate Agreement, and the Addis Ababa Action Agenda on Financing for Development .



## DEVELOPING A NEW LONG-TERM GLOBAL PUBLIC FINANCING SYSTEM.

If the international commitments made by UN Member States linked to the implementation of the 2030 Agenda and the UN Paris Climate Agreement are to be honoured, the financial resources required will be considerable, and need to be mobilized on an unprecedented scale.

**A new global public financing system, in which public development banks should play a critical role, could be an important part of a new model of “global solidarity beyond aid”.** It should address, amongst other things, the growing trend towards the decline of overseas development aid (ODA) and respond to the urgent need for extensive and longer-term public investment in sustainable development globally. This public investment should be targeted at developing properly funded social protection systems, comprehensive food security systems, climate resilient infrastructure, climate mitigation and adaptation initiatives and a wide range of other important public policy measures in countries around the world.

A new global public finance architecture should be **multi-level and include not just global financial institutions and multi-lateral development banks, but also regional and national banks.** The public finance distributed through such banks should respond to a diversity of financing needs including meeting the needs of the SME sector, and the not- for- profit and social enterprise sector.

## ESTABLISHING A TARGETED COVID 19 GLOBAL FUND

A new global public financing system should urgently address, as a first step, the establishment of a targeted global COVID-19 fund. This fund **should be used for humanitarian purposes and to help stop the spread of the global pandemic.** It should enable the delivery of increased public health spending, including on screening, supplies, and treatment capacities. This will **help slow the spread and impact of COVID-19 and will have a multiplier effect on national economies.** Additional fiscal policy measures will be required at country level including paid family sick leave, wage subsidies and cash transfers. These measures are particularly important for the most vulnerable, those without access to health care, and those with precarious employment. COVID 19 related financial support should also be provided for SMEs, which are at the centre of national economies

The governance arrangements for this new COVID 19 global fund should **involve representation by civil society from different regions of the world and different levels (eg global, regional, national & sub-national levels) as well as other key stakeholders** including governments, international institutions with expertise in public health, private philanthropic organizations, the private sector, academia etc.



## SUPPORTING THE IMPLEMENTATION OF THE 2030 AGENDA

The Paris Climate Agreement, the 2030 Agenda and the Addis Agenda, are **global frameworks that provide a common direction, a common "political project"**, as well as partnership and cooperation modalities, based on the specific needs of each country, at a time of unprecedented global economic crisis.

The Addis Agenda recognizes the important role of development banks in implementation of the 2030 Agenda. This will place significant demands on public budgets and capacities that will require scaled-up and more effective international financial support. **The more than 400 Public Development Banks (PDBs) around the world have the potential to play a vital role not only in minimising economic decline and supporting recovery during the COVID 19 pandemic, but also in financing the social economic and environmental transformation of countries everywhere in line with the 2030 Agenda's Sustainable Development Goals and the Paris Climate Agreement.** The current mainstream narrative on development finance, however, prioritises private finance to close the gap to finance the Sustainable Development Goals (SDGs). Public resources and institutions are used to subsidise private finance, which risks undermining the transformational potential of public finance and Official Development Assistance. These are vital and irreplaceable resources for eradicating poverty and tackling inequalities.





## MOBILISING CLIMATE FINANCE

Climate finance remains skewed towards mitigation compared to adaptation activities, except in the case of Least Developed Countries (LDCs) and Small island Developing States (SIDS) where financing is more balanced. Most climate finance is provided through loans, with grant financing only making up about a quarter of public climate finance. **A more coordinated and complementary approach by bilateral and multilateral agencies is required to overcome the complex and fragmented climate finance architecture.**

New climate funds should have the potential to attract additional resources from philanthropy and/or raise greater donor interest. They should fit with country plans, ensuring complementarity, transparency, accountability and streamlined administrative processes should also be key elements in the design and implementation of new climate funds.

As women are often disproportionately affected by the climate crisis, **gender perspectives should be incorporated into operational and policy frameworks.**

Funds aiming to increase climate resilience could be much improved at sectoral and micro level in developing countries through upscaling adaptive social protection systems.

“Adaptative social protection” (ASP) programs could be ramped up and could be **expanded across poor and vulnerable countries, to contribute to building resilience to a wide spectrum of potential shocks.**

Prior to the Coronavirus pandemic, the climate crisis had highlighted the need to move away from fossil-fuel intensive activities and sectors and to take real precautions in the face of increasing global temperatures. Since the signing of the Paris Agreement the world’s largest investment banks have funnelled more than \$2.66 trillion into fossil fuels. However, there have been some positive developments over recent years with **various international and regional financial institutions announcing that they would discontinue their financial support for fossil fuels.**

To consolidate this trend, international community must ensure the full implementation of the joint framework for aligning the activities of financial institutions with the goals of the Paris Agreement by 2023-2024. An important stage in this process should involve a sufficiently broad coalition of progressive public development finance institutions **establishing a clear timeframe for ending direct and indirect support for coal, oil and gas and shifting their focus to clean and renewable energies.**



## PRIORITISING THE KEY ROLE OF PUBLIC DEVELOPMENT BANKS

Controlling more than USD 2 trillion in public money annually, Public Development Banks (PDBs) are a vast family of institutions at the intersection between finance and public policy. They have independent legal status and financial autonomy and are controlled or supported by central or local governments. They execute a public mandate, addressing market inconsistencies and are not engaged in commercial banking.

PDBs have the ability to adapt their roles to changing development needs at different stages of development. Thus, they are **not only better suited for carrying out a countercyclical role during a crisis but are also particularly suited to stimulate economic activity after a crisis.**

PDBs are well placed to **mobilize unprecedented amounts of public finance in response to the COVID 19 pandemic, and to ensure that a just and green recovery is supported.** They have at their disposal instruments to provide fresh financing during a crisis and can therefore supply an important boost to stimulus packages, recovery efforts and long-term structural transformation.

The Addis Agenda calls on Multi-lateral Development Banks including PDBs, to better leverage their balance sheets to increase lending for sustainable development, as well as to align their policies in support of the 2030 Agenda. However, **public money has for too long supported projects which are harmful to the environment, fuel the climate crisis and violate human rights.** Core values such as social justice, community care, people's health and well-being, equity and workers' rights must become the key priorities for the finance provided by PDBs going forward.





# ENSURING THE BLENDING OF PUBLIC & PRIVATE FINANCE ADHERES TO DEVELOPMENT EFFECTIVENESS PRINCIPLES

Over the past decade, donors and international bodies have increasingly looked to inject private sector resources and expertise into development **by using official development assistance (ODA)—public finance—to ‘leverage’ private finance through ‘blending’ the two together.** Donors claim that using ODA to subsidize and leverage private finance will bring in new investments to fill the \$2.5 trillion annual funding gap required to reach the Sustainable Development Goals (SDGs) and other public policy objectives. Donors also see blending as a means of supporting large-scale infrastructure projects in middle-income countries. **Blended development finance is also a response to growing pressure among donors to link their own commercial interests with development policy.**

The low proportion of blended finance invested in LDCs (as well as in conflict and post-conflict countries) highlights the fact that, like private finance, it is drawn to areas with lower barriers to private capital mobilization. **Blended finance tends to focus on less costly projects with lower-risk profiles, and potentially lower developmental impacts.**

There is a need to go beyond principles of how to engage in blended finance and to focus instead on how to change the terms of the debate. Although there is room for a private-sector approach within development cooperation, the share of ODA going to the private sector needs to be carefully monitored. **Overall, ODA should be directed at the public sector, which in turn is crucial to promoting and expanding private-sector investment.** A healthy and educated workforce, and well-functioning institutions and domestic markets, are powerful incentives for private-sector investment. There must be adequate complaints mechanisms linked to the use of ODA in blended finance and an increase in levels of transparency. **ODA tracking mechanisms must be better equipped to record and account for PF blending operations.**

If significant amounts of public and private finance for international development are mobilised as part of a global stimulus to promote economic recovery from the impacts of the pandemic, **the design of robust accountability systems must ensure a central role for appointed ‘public interest’ bodies.** This will help to counter any public perception that corporate/business interests are served or that policy frameworks like the SDGs are being overtaken by corporate interests because of a disproportionate reliance on private finance to fund their implementation.

# ALIGNING INTERNATIONAL DEVELOPMENT FINANCE WITH NATIONAL PRIORITIES

Countries should adopt Integrated national financing frameworks (INFF), and national development cooperation policies should help mobilize and align international development cooperation with their country priorities within an INFF

Access to reliable information on development finance is important. **Most countries need to increase their capacity to monitor the implementation of their national development strategies.** Countries must also increase the scrutiny of development finance by their national parliaments.

## DEBT RELIEF

The negative economic impacts of the COVID 19 pandemic have greatly **increased the risks of debt distress linked to both public and private debt**—both of which were already at record-high levels relative to gross domestic product (GDP) before the crisis.

Forty-four per cent of low-income and least developed countries (LDCs) are currently assessed as being at high risk of external debt distress or already in debt distress. COVID-19 and related global economic and commodity price shocks could significantly increase this number. **Steep increases in private sector debt, particularly non-financial corporate debt in emerging markets, have further increased countries' vulnerabilities to external shocks and capital flow reversals.**

This is a major concern, given the large, unmet investment needs of many countries to achieve the SDGs & the Paris Climate Agreement while maintaining sustainable debt levels.

According to many civil society experts working on debt relief, lenders dominate in setting the rules and definitions surrounding debt issues, resulting in **a system that drives many impoverished countries into long-term indebtedness, and which is ill-equipped to tackle debt crises in a timely, just and durable manner.** As the nature of developing country debt becomes more complex, and traditional creditors are joined by new, and increasingly commercial lenders, risks to debt sustainability are growing. Market-based approaches to development further exacerbate these risks. Unsustainable debt levels also result in an increase in the Country Risk Premiums and in reductions in credit ratings by the large rating agencies, making access to external financing more limited and costly.

As Covid-19 worsens an already precarious debt situation, particularly in developing countries, **debt relief is essential if another round of crippling austerity, privatisation, deregulation and cuts to public services are to be avoided.** Further work in the international community is needed in order to revisit existing mechanisms and arrive at a fair, effective and timely international process for debt resolution. A Sovereign Debt Workout Mechanism should be established at the UN that would comprehensively address unsustainable and illegitimate debt.



## PROMOTING TAX JUSTICE

**Taxation plays a positive role in development finance and is central to the creation of any form of economic justice globally.** It can raise revenue to finance public goods and services required for the realisation of human rights. It can contribute to a redistribution of income and assets from the richer to the poorer strata of society, thus promoting the realisation of their human rights. Where goods and services are concerned, it can contribute to an internalisation of their ecological and social costs and thus counteract conduct detrimental to human rights.

The increased mobility of companies and higher income earners brought about by globalisation has led governments to offer increasingly favourable tax policies in order to attract them. To compensate for this, governments have increased taxes on middle-income workers.

This tax injustice is further exacerbated by tax evasion, which primarily benefits transnational corporations and higher individual earners. The amount of financial assets held by individuals in tax havens is estimated at US\$5.6 trillion, about 10 per cent of the world's GDP. The global loss of tax revenue due to tax evasion by the richest one per cent, which accounts for the vast majority of individual tax evasion, is estimated at US\$200 billion a year.

The IMF estimates the total annual global loss of tax revenue due to tax avoidance by transnational companies at more than US\$600 billion, including US\$200 billion for developing countries.

There is a need for **global tax rules and decision-making processes to be subject to a universal, intergovernmental process at the UN, rather than at the OECD as happens at present**, where the perspectives and interests of developing countries are under-represented. A well-resourced, inclusive and transparent **UN intergovernmental Tax Commission and a UN Tax Convention** should be established to comprehensively address tax havens, tax abuse by multinational corporations and other illicit financial flows.

Capacity-building fiscal resilience programs for developing countries also need to be supported by donors.





## THE NEED TO INCREASE LEVELS OF ODA

Official development assistance (ODA) is defined as government aid designed to promote the economic development and welfare of developing countries. A long-standing United Nations target is that developed countries should devote 0.7% of their gross national income to ODA. In 2018, official development assistance (ODA) declined by 4.3 per cent and remains well below the 0.7 per cent commitment in the Addis Agenda.

**ODA is and should be an important expression of solidarity between developed and developing countries and meeting agreed, ambitious and publicly transparent ODA targets should remain part of the foreign policy toolbox of all developed countries. The financing of ODA should not be guided by self-interest whereby donors consent to providing aid to enhance their sphere of influence, or broaden their access to markets. It should be motivated by international solidarity, by humanitarian considerations and democratic values. It should recognise the obligations of former colonial powers to developing countries, based on their previous involvement in those countries.**

ODA providers should reverse the decline in ODA, particularly to LDCs, and to step up their efforts to meet commitments made in the Addis Ababa Action Agenda.





# PROMOTING HUMAN RIGHTS THROUGH DEVELOPMENT FINANCE

**Efforts to develop a collective public response to the daunting global challenges currently facing humanity including the Covid-19 crisis, should be informed by a clear human rights based approach.** A sustainable and equitable future for all can only be shaped by respecting human rights, ensuring the full participation of communities impacted by development and of supporting civil society organizations. In many instances, public finance has been invested in projects which have exacerbated poverty and inequality and promoted abuses such as reprisals against human rights defenders and forced evictions, without meaningful redress for affected communities.

International human rights standards should be adhered to in achieving sustainable recovery goals, including the need to address the abuses widely documented in international development-related investments and projects. **Increased investment in development should respect robust standards for human rights, social and environmental protection, climate change, and anti-corruption and should address failures to follow them in practice.**

**A commitment to public participation and the protection of civic space are essential to ensuring effective development.** Human rights and community needs must be explicitly discussed as part of any development initiatives, and specific space for human rights defenders and community representatives created. Development finance institutions including Public Development Banks, should open channels for the meaningful participation of communities in the appraisal, design, implementation, monitoring and evaluation of their projects and activities, as well as in their decision-making processes.

Zero tolerance policies against threats and reprisals by development banks and their clients should be a basic requirement **Prevention and mitigation strategies, and remedy in line with international human rights norms should be in place where development projects are concerned.** These strategies should be developed in close consultation with affected communities and updated regularly based on changing conditions and new information.



# ENSURING THE FUTURE OF CIVIL SOCIETY ORGANISATIONS (CSO) FINANCING

Discussions on the future of global public financing must include the critically important issue of the future of CSO financing. COVID 19 has catalysed new forms of civic mobilization. Civil society actors in many countries, have risen to the pandemic challenge in small and large ways.

**A vibrant and independent civil society is vital for an open civic space, a healthy democracy and social justice as it allows people to organise themselves, amplify their voices and be heard at local, national and supranational levels.**

Civil society plays a valuable role in safeguarding and improving the international multilateral system. Progressive civil society, although extremely active at local national and regional levels, is increasingly cosmopolitan in its orientation and forms a key element of an open, co-operative international system, supporting and defending democratic values, and universal human rights.

The availability of adequate and sustainable funding for CSOs varies significantly in different parts of the world. **Many CSOs in developing countries have limited access to public funding to support their activities and their governments increasingly restrict their access to funding available from “foreign” donors.**

Even in contexts where CSOs enjoy greater access to funding, much of it is relatively short-term and project based in nature. This means that the financial situation of many CSOs is precarious.

This can discourage long term organisational & strategic planning. It can also lead to a high turnover of human resources in the sector, due to the failure to cover core or structural costs which are essential to the institutional survival of CSOs. Many newer social movements cannot access official civil society funding because they lack formal structures and legal status, although the public impacts of their activities are socially and politically valuable.

**There is a clear need to increase civil society’s access to sustainable and predictable financial resources through going beyond a short-term, project-based approach to funding the sector.** Core and structural funding should be made available to the sector, while allowing for flexibility, experimentation and innovation in tackling complex social economic and environmental issues. New approaches to CSO financing must also prioritise the financing of small grassroots CSOs, those operating in difficult contexts and emerging social movements.

A medium and long-term global strategy for financing civil society needs to be designed that will increase its ongoing access to adequate, predictable, diversified and sustainable financial resources, and which **supports its role in monitoring and implementing international sustainable development policy frameworks such as the UN’s 2030 Agenda and the Paris Agreement.**



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Forus, previously known as the International Forum of National NGO Platforms (IFP/FIP), is a member-led network of 69 National NGO Platforms and 7 Regional Coalitions from all continents representing over 22,000 NGOs active locally and internationally on development, human rights and environmental issues.



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