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The Third Conference on Financing for Development:

Outcome document adopted without intergovernmental tax body or new financial commitments

Negotiations conclude in bad faith as developed countries reject final hour proposals for improvements to the UN tax committee, let alone a global tax body.

(15 July 2015, Addis Ababa - Bhumika Muchhala and Ranja Sengupta, TWN)

The final outcome document for the 3rd international Financing for Development conference was accepted on Wednesday 15th July evening by the Main Committee of the conference, taking place this week in Addis Ababa. The outcome document will next be accepted by the Conference on Thursday 16th July afternoon.

The South African chair of the G77 group of developing countries, alongside Ethiopia as host country of the conference, had on Wednesday morning proposed some key improvements to the language on the UN Committee on tax experts. However, this proposal was rejected from the outset by developed countries, namely the U.S., the EU, Japan and Canada. This proposal included re-designating the Committee as the Intergovernmental Committee of Experts on International Cooperation in Tax Matters as well as increasing the provision of resources.

The proposal also decided that members of the committee will be directly nominated by governments through respective regional groups and appointed by ECOSOC, to be drawn from the fields of tax policy and tax administration, and will continue to act in their expert capacity. The most important language in this proposal was the invitation to ECOSOC to finalize, no later than at its 2016 Special Meeting on International Cooperation in Tax Matters, further proposals for turning the Intergovernmental Committee of Experts into a universal body with equitable participation of developing countries.

To the utter disappointment of many developing countries, as well as global civil society and many in the UN agencies that supported the objectives and aspirations of developing countries in seeking for a democratization of global tax governance, the tax paragraph adopted remains the exact same as the 7 July text that was presented to

Member States in the last New York plenary.

There is an addition of only two rather toothless sentences, which are, "*The Committee members shall be nominated by Governments and acting in their expert capacity, who are to be drawn from the fields of tax policy and tax administration and who are to be selected to reflect an adequate equitable geographical distribution, representing different tax systems. The members shall be appointed by the Secretary-General, in consultation with member states.*"

Critique and discontentment

The outcome document clearly reveals that the rich countries have absolutely no intention to democratize global economic governance in the most transformative and critical arena of tax. Developing countries most affected by illicit financial flows, tax evasion and avoidance and transfer mispricing by large corporations should have an equal say at an international negotiation table on global tax rules.

The missed opportunity to create a global tax body, as well as to reaffirm an international debt workout mechanism, on which discussions are ongoing in the UN, undermines reform in international systemic issues. The very foundation of Financing for Development is comprised of the international systemic issues of finance, capital flows, debt, monetary system, trade. Not only is the UN the only universal forum that addresses international systemic issues in global financial architecture, but it is the only context that connects these issues to the global partnership for development underpinned on a development cooperation framework that recognizes the North-South cooperation at the center and the global rules and designs that shape national policy space for development.

The outcome also undermines the potential of the UN as the world's most universal and inclusive body, thereby keeping power and control exclusively in the hands of the G7, the G20 and the Bretton Woods Institutions they control. The role of the UN in setting global rules and processes on tax and debt is necessary precisely to institutionalize fair governance for the next 15 years of the Sustainable Development Goals starting in September this year.

The outcome document of Addis Ababa presents no new financial commitments aside from a standard (and rather meaningless) reinstatement of existing aid commitments. This includes the failure to both scale up ODA and ensure new and additional ODA, particularly for climate finance. Apart from the establishment of a Technology Facilitation Mechanism, it is difficult to see this outcome is supposed to contribute to the Means of Implementation (MOI) for the achievement of the Sustainable Development Goals (SDGs) over the next 15 years from this September 2015 when they are adopted to 20130.

The language pertaining to debt, trade and systemic issues is a glaring retrogression from the language of the Monterrey and Doha agreements of 2002 and 2008. The private finance section also misses a critical opportunity to highlight safeguards, standards and accountability measures over public-private partnerships and private finance schemes such as blended finance.

However, there are two beacons light. The outcome document establishes a Technology Facilitation Mechanism in the UN that supports the achievement of the Sustainable Development Goals, as well as a follow-up forum for FfD that will at least allow for some issues of systemic importance to the international financial system and development financing to be regularly discussed in an intergovernmental and open manner.

Global civil society reaction

Hundreds of civil society organizations have released a powerful, collective statement that articulates a collective view that the 'Addis Ababa Action Agenda' misses the opportunity to tackle structural injustices in the current global economic system and ensure that development finance is people-centered and protects the environment.

It does not rise to world's current multiple challenges, nor does it contain the necessary leadership, ambition and practical actions. It undermines agreements in the Monterrey Consensus and the Doha Declaration and it is almost entirely devoid of actionable deliverables. Civil society regrets that the negotiations have diminished the FfD mandate to address international systemic issues in macroeconomic, financial, trade, tax, and monetary policies, while also failing to scale up existing resources and commit new financial ones. The outcomes is also deeply inadequate to support the operational MoI for the Post-2015 Development Agenda, exposing an unbridged gap between the rhetoric of the aspirations and reality of the actions.

While the Addis Ababa CSO FfD Forum Declaration addresses the full scope of civil society concerns, the following critical concerns are highlighted:

- Gender Equality as Smart Economics
- Misplaced optimism towards private finance
- International tax policy remains the domain of the powerful
- No concrete commitments to ensure tax justice and equity
- Tendency by traditional donors to elude responsibilities and effectiveness commitments
- No critical assessment of trade regimes, including investment treaties
- Recent UN normative developments on debt ignored
- Limited progress on technology
- Weakening of UN mandate to address systemic issues
- No strong commitment in terms of transparency and accountability

In bad faith

The position of developing countries from the very start of FfD negotiations has been to call for an upgrade of the UN Tax Committee into an intergovernmental body. In fact, earlier versions of the outcome document had contained the following language: "*We decide to upgrade the Committee to an intergovernmental committee, to complement the work of other ongoing initiatives and further enhance the voice and participation of developing countries in norm setting for international tax cooperation.*"

In spite of severe pressure from the developed countries to endorse the text of 7 July as it is, without any further negotiations in Addis Ababa, the G77 and China group of 134 developing countries that negotiate as one block in the UN General Assembly stuck to its bottom line, that of an intergovernmental tax body, until the very last hour on Wednesday.

The pressure campaign exerted by many developed countries is reflective of negotiations that have occurred in bad faith. A problematic lack of transparency marked the nature of discussions as behind-the-scenes deliberations persisted throughout the FfD negotiations. Some observers have commented that the atmosphere in Addis Ababa has been akin to a 'Green Room' style of discussions, where private discussions take place in small groups without any semblance of openness or transparency.

For developing countries the creation of an intergovernmental tax body under the auspices of the UN where all countries have a voice in setting global tax rules and changes to current policies embodies both a step forward in systemic issues as well as a concrete mechanism within the UN that can contribute to ensuring coherence of the international financial system with the new era of sustainable development that will unfold over the next 15 years.

The very countries most affected by illicit financial flows, tax evasion and avoidance and transfer mispricing by large corporations should have an equal participation in the agenda-setting and decision-making on global tax rules and policy reforms. Such a universal body, developing countries have stated from the beginning of FfD negotiations, can only exist within the UN. Civil society has supported this from the beginning.

Leading up to Addis Ababa

The Financing for Development negotiations over the last seven months or more have witnessed tough battles between developed and developing countries, with various complexities in positions and alliances.

Several iterations of the draft outcome document have seen differences on key issues. While some of these issues were resolved, others were accepted as diluted compromises by the G77 and China and a few continued to see a gap until the Addis Conference.

After weeks of closed-door informal negotiations in New York leading up to Addis

Ababa, Member States did not agree to seal the document before Addis Ababa. Transferring the text of 7 July from New York to Addis Ababa afforded, at least at first, some negotiation space on the key issue of upgrading the tax committee to an intergovernmental body.

Earlier a 25 June version of the Outcome document had been rejected by the G-77 and China, as it included a proposed paragraph at the very end of the document that read, "*We affirm that the present Accord is not intended to create rights and obligations under international law.*" This text was apparently introduced by the US.

The July 7 text reflected the deletion of this unfavourable text, which essentially negated any concrete impact of the outcome at large, and a few other critical and positive changes to the language on South-South cooperation and the relationship of the FfD conference to the post-2015 development agenda, in that the FfD conference supports the means of implementation (MOI) for the Sustainable Development Goals but does not comprise all of the MOI.

Leading into Addis Ababa, developing countries, in a display of solidarity, expressed their need to keep discussing in Addis Ababa a set of key issues which are as of yet missing in the 7th July text, without which an agreement on a final text cannot be reached. For developing countries, this set of key issues include first and foremost a tax body, second, an adequate follow-up mechanism for reviewing the implementation of FfD outcomes starting from the 2002 Monterrey conference, the Rio principle of common but differentiated responsibilities and the link between FfD and the post-2015 development agenda through the role of MOI.

(For an analysis of the New York negotiations leading up to the Addis Ababa conference please read 'From New York to Addis Ababa: Financing for Development on life-support' by Bhumika Muchhala, 8th July, 2015)

Developing countries at the last hour

Governments in Addis Ababa have acknowledged the powerful media attention on the intergovernmental tax body that has been generated by civil society efforts. Indeed, ministers and diplomats had taken note that global public opinion is on the side of the tax body, and that at the 11th hour in Addis Ababa could have been a critical moment to make a concerted decision for a global tax body. Civil society pressured governments to seize such an opportunity, otherwise more years will be lost to undemocratic governance in global tax cooperation.

While there were some rumours that Germany had a somewhat different opinion on the tax body, the negotiations are carried out at the EU level, and the EU group position is firm on yielding nothing more on the global tax body.

According to some delegates, the Ethiopian government, keen to ensure a success of the talks as a host country and as the home of the African Union, had been persistently appealing to developing countries to accept the 7 July draft outcome document. This was perhaps also driven by the implicit challenge thrown by the developed countries that if any one part of the document is opened up, the whole document could be opened up to negotiations.

While the G77 and China group was willing to accept this challenge of negotiating the entire document, it would have presented the prospect of jeopardizing the hard-won agreed language in several areas of the 7 July text that developing countries are relatively comfortable with. The danger of any further regression from an already regressed text was a highly unfavourable prospect.

In a meeting of the G77 ministers developing countries on Tuesday 14 July afternoon, it was agreed that the Ministers of Finance of Ethiopia and South Africa would speak for the G77 group in the "Main Committee," which is akin to a plenary. The plenary for Wednesday 15 July was scheduled to take place at 1:00 p.m. but was repeatedly postponed to 8:30 p.m. due to various bilateral and small group meetings taking place behind-the-scenes between various countries. Indeed, smaller developing countries are increasingly concerned that many discussions are being carried out without their participation.

While most African countries were in favour of accepting the 7 July draft outcome document, they had also indicated that the text is a work in process and that the important issues absent in the text could be addressed in the near future.

A few other countries defended the Financing for Development process as a separate process, independent and unique from the post-2015 development agenda. They stressed that the Addis Ababa outcome should not be accepted as the whole of the means of implementation for the post-2015 Sustainable Development Goals.

On common but differentiated responsibility (CBDR), the G-77 and China eventually accepted a reaffirmation of the Rio Principles as a whole instead of a specific reference to CBDR, as originally sought by the whole of G77. The current text contains CBDR in reference to climate change but not as an underlying principle for the overall agenda.

On the issue of integration of the FfD with the Post 2015 Agenda with associated but separate follow-up and review mechanisms, the developing countries' original demand was for a separate (from that of the Post 2015 Agenda) review process for the FfD, to be under an independent Commission that reports to ECOSOC.

The eventual result is a Forum under the ECOSOC that will review both the FfD and the Means of Implementation and Global Partnership of the Post 2015 Development Agenda, and will report to the High Level Political Forum (HLPF), which is the review body for the Post 2015 Agenda. +