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The Contribution of the Addis Ababa Action Agenda to Agenda 2030

Toward a new era of international cooperation

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- The 2016 Financing for Development Forum faces a tremendous challenge to forge coherence among three flagship development agreements from 2015: the Addis Ababa Action Agenda, Agenda 2030 and the Paris Climate Change Agreement. To move these interdependent processes forward, international cooperation is needed in four areas.

- Tax evasion and avoidance are massive problems: 100-240 billion US dollars are lost every year to tax evasion and avoidance, while 100 billion US dollars alone go missing from developing countries due to profit shifting by multinational corporations. The international community therefore needs strong forms of cooperation to control these problems.

- The system of Multilateral Development Banks faces two major challenges: providing countercyclical financing and enabling infrastructure and climate change financing. The BRICs New Development Bank and the Asian Infrastructure Investment Bank have strengthened this system.

- The proliferation of bi-lateral and mega-regional trade and investment agreements in recent years has eroded policy space for developing countries and constrained macroprudential policies to regulate cross-border capital flows. In addition, the dispute settlement processes put in place by investment agreements are eroding the democratic principles on which our judicial systems are based.

- Persistent systemic imbalances require a proper global financial safety net, including macroprudential regulations on cross-border flows, but this concern has been largely ignored by the Financial Stability Board, just as the design of a system for sovereign debt restructuring has advanced in only a limited way in the International Monetary Fund (IMF).

Initiative *for* Policy Dialogue

Introduction and Background[1]

The world economic situation highlights both improvements and challenges for fulfillment of the new set of global development agreements reached in 2015. Advances and improvements include rapid economic growth in emerging and developing countries in the ten years following Monterrey,[2] although with a marked slowdown since 2012, from peak levels of eight to around four per cent per annum. Other advances include a period of rapid growth in Sub-Saharan Africa and the ongoing graduation of several countries from Least Developed Country status. There has also been a significant expansion of foreign direct investment and access to finance for developing countries.

In regard to official development assistance (ODA), there has been a recovery since Monterrey, with relatively stable funding in recent years — despite the 2007-09 crisis in the developed countries — although the share received by low-income countries has fallen. Other positive signs include the adoption of the Paris Declaration on Aid Effectiveness, with its principles of ownership, alignment, harmonization, results and mutual accountability, and the Global Partnership for Effective Development Co-operation, known as the Busan Partnership, in which the United Nations Development Programme (UNDP) and the Organization for Economic Co-operation and Development (OECD) jointly provide support for the steering committee and the ministerial-level meetings. There is also a growing network of multinational financial institutions and increasing South-South cooperation.

Key challenges to the new global development agreements include the unfinished recovery of the industrial world after the 2007-09 North Atlantic financial crisis and the risk of »secular stagnation«. Developing countries face many specific challenges related to the Chinese slowdown, collapsing commodity prices, and premature de-industrialization processes in several parts of the developing world. In addition, pro-cyclical finance has recently hit emerging and developing countries hard. Other challenges include the weak growth of international trade after the North Atlantic crisis and old institutional deficiencies in tax cooperation, sovereign debt and investment agreements. Finally, the long unfinished reforms of the international monetary »non-system« present many challenges.

The United Nations Processes

The main task faced by the first Financing for Development Forum in April 2016 is to exploit the synergies and ensure coherence among the three processes that were approved by the United Nations in 2015: the 2030 Agenda, the Addis Ababa Action Agenda, and the Paris Climate Change Agreement. This challenge will be extremely hard to meet.

First of all, the follow-up of Monterrey and Addis must focus on national actions, but national actions alone will be insufficient without advances in international cooperation. Also, since the review processes for Millennium Development Goal 8 and the Monterrey Consensus were inherently weak, they must be revamped to design proper processes for the follow-up to both Agenda 2030 and the Addis Ababa Action Agenda.

In the context of the Financing for Development process, international cooperation is particularly critical in four areas on which I will focus here. Those areas are:

- Taxation;
- The system of development banks;
- Trade, investment and technology; and
- The international monetary and financial architecture.

In both the Monterrey and Addis agendas, the latter are referred to as *systemic issues.*

Taxation

Addis Ababa brought a major improvement to the financing for development agenda, by including the issue of taxation, and particularly the need for modernized, progressive tax systems to provide domestic resources

1. This is a revised transcript of the Keynote Speech delivered at the Retreat of the Group of Friends of Monterrey in Mexico City on 28.1.2016.

2. The International Conference on Financing for Development in Monterrey, Mexico, 18-22.3.2002, was the first United Nations sponsored summit-level meeting to address key financial and related issues pertaining to global development. Its outcome document is the *Monterrey Consensus*, available at: http://www.un.org/esa/ffd/wp-content/uploads/2014/09/MonterreyConsensus.pdf (last accessed on 7.3.2016).

for development. This is essential for the provision of public services and social protection needed for human development, as well as for science and technology and infrastructure development, all of which are addressed in the Addis Agenda. Capacity building is also important, and therefore all cooperation of this sort is to be welcomed, including the high-quality cooperation on fiscal issues of the International Monetary Fund (IMF), as well as new initiatives such as the OECD/UNDP partnership, Tax Inspectors Without Borders.

However, there also has to be broader cooperation in this area that is »universal in approach and scope«, to use the terminology found in Paragraph 28 of the Addis Ababa Action Agenda. This cooperation has to involve both corporate and personal income taxes, which are the major sources of tax avoidance and evasion. The problem is massive: the OECD has quantified that tax avoidance results in revenue losses of between 100 billion and 240 billion US dollars annually, while the United Nations Conference on Trade and Development (UNCTAD) has estimated that developing countries alone lose 100 billion US dollars each year as result of profit shifting, amounting to one third of their corporate tax base.

In this regard, the OECD Base Erosion and Profit Shifting (BEPS) process and the Global Forum for Transparency and Exchange of Information for Tax Purposes are steps forward. It is important to underscore, in particular, the importance of country-by-country reporting by large multinational corporations on their taxation, which was one of the main decisions of the OECD-BEPS process. It is necessary, however, that the threshold for required reporting be lowered, to increase the number of multinational corporations that must comply with this rule, and that the information should be made available to the tax authorities of all countries when relevant. It is also the view of the Independent Commission for the Reform of International Corporate Taxation (ICRICT), which I chair, that this information should be made public for reasons of transparency.

However, the process has to go further than that. It is necessary, first, to combat illicit financial flows and tax avoidance and evasion through tax havens and, second, to identify and promote cooperation to prevent harmful tax competition. Certain new forms of tax cooperation would be positive, such as the adoption of a minimum corporate tax rate by developed countries, and the broader use of the cost and profit split method of the OECD in areas such as interest payments, revenues from intellectual property rights and overall administrative costs. In the long run, the world should move to taxing multinationals as single firms, which is the proposal that the ICRICT has made.

The UN has to be at the center of this process. I say this with deep conviction because, as Under-Secretary-General for Economic and Social Affairs, it was I who proposed transforming the old *ad hoc* committee of experts on international tax cooperation into an intergovernmental organ of a technical character, similar to the tradition of the UN Statistical Commission. Although I failed to convince Member States to adopt that more ambitious reform, the UN Committee of Experts on International Cooperation in Tax Matters was made a regular committee and its agenda broadened beyond the old focus on the UN model of double taxation treaties. I was very happy to see that the 2004 proposal to create a UN intergovernmental body on international tax cooperation was again raised in Addis Ababa in 2015, with full support from the Group of 77 and China. I strongly endorsed that proposal at the Addis Conference, but unfortunately, it was defeated once again.

We should continue working in this direction, as in the long run, we should aim at creating such a body within the United Nations. For the time being, however, the promotion of the work of the expert committee is a priority, because the actions on which it can take the lead are quite important. One of its activities could be writing a first draft of a UN convention to combat abusive tax practices that ICRICT also proposed.

The System of Development Banks

The system of multilateral development banks (MDBs) presents the best case of what I call a »dense« system of international financial cooperation, as it is a multilayered structure made up of the World Bank Group, several regional development banks, with some sub-regional and interregional banks in addition. This system has been strengthened with the recent creation of the BRICs' New Development Bank and the Asian Infrastructure Investment Bank. In assessing the strength of this system, there are two problems to bear in mind. The first concerns constraints posed by certain countries on expanding and changing quotas in the World Bank; the second concerns the uneven regional coverage of the current system.

For example, Latin America and the Caribbean and the Arab region have very good coverage of regional and sub-regional institutions, but in East Asia the coverage is poor. This is also true of sub-regional institutions in Sub-Saharan Africa. This argues for promoting the positive experiences of regional networks by peer learning. On this note, an excellent model that should be spread to other regions, particularly Africa, is the Latin American and Caribbean network of development banks, which is made up of the Development Bank of Latin America (known as CAF, the Spanish acronym for Corporación Andina de Fomento), the Central American Integration Bank and the Caribbean Development Bank.

The major challenges that MDBs face are twofold: (i) countercyclical financing, which will be important again in the next few years, given the downswing that many emerging and developing countries are facing, and (ii) infrastructure and climate change financing, which present major challenges in terms of design. On infrastructure, but also in several other development areas, one of the roles the system of MDBs should play is to promote *national* development banks. This is an area in which there was a significant step backward in the 1990s, associated with wrongheaded ideas coming out of the World Bank at the time. Since then, there has been significant progress in reconstructing the case for national development banks.

I would argue that national development banks have three critical roles to play. The first concerns inclusive finance, which can be achieved by working with commercial banks, including state-owned banks, but also with credit unions, specialized microfinance institutions and mobile banking, among an increasing array of institutions. A policy of inclusive finance should also take into account the specific needs of the rural sector in every country.

The second role is the promotion of long-term financial instruments, including assistance to create domestic bond markets for both public and private sectors, with an emphasis on the private sector, where the task is more difficult.

The third area is infrastructure financing, which in the case of multilateral development banks and national development banks is a huge priority in terms of the amount of resources and the design of the instruments required to promote new projects. In that regard, the development of appropriate public-private partnerships is part of the story, but the allocation of risk between the public and private sectors in these partnerships remains an area in which we are still learning from past mistakes. Given the difficulties in the proper allocation of risk, public sector infrastructure investment will continue to be critical all over the world and, likewise, the taxes and different forms of international and domestic instruments required to finance them.

Trade, Investment and Technology

In relation to trade, investment and technology issues, let me start by underscoring the huge challenges associated with the very weak performance of international trade since the 2007-09 North Atlantic financial crisis. International trade has been growing at an average of less than three per cent a year since 2007. It is the weakest performance of the post-Second World War period, and there are no signs of improvement.

Last year was the first since the North Atlantic crisis in which the value of international trade fell. This means that the question of how we choose to move forward is crucial. One idea that has come from my research on Latin America is that strengthening regional integration should be part of the process, both in Latin America and Sub-Saharan Africa, and could be a significant source of re-industrialization in countries that have de-industrialized in recent decades.

Aside from that, the weakening of the World Trade Organization (WTO) and the proliferation of bilateral trade agreements and now mega-regional agreements —including the Trade in Services Agreement currently under negotiation—remain major sources of concern. International debates should seriously consider whether there might be advantages to bringing plurilateral agreements into the WTO as was the case with its predecessor, the General Agreement on Tariffs and Trade (GATT). They were eliminated in the course of the Uruguay Round, but it can be argued that it would be beneficial to keep the Trade in Services Agreement within the WTO, thus preserving the possibility for new countries to accede to the agreement, rather than negotiate outside the WTO. Such reasoning can probably be also applied to many other agreements, including the Trans-Pacific Partnership and the ongoing U.S.-European negotiations for a similar Trans-Atlantic agreement.

Investment agreements have also proliferated, generating three interrelated concerns. The first is how to guarantee the fulfillment of the commitment specified in Paragraph 91 of the Addis Agenda, »to craft trade and investment agreements with appropriate safeguards so as not to constrain domestic policies and regulation in the public interest«. A significant concern raised by many studies is that these investment agreements are eliminating the space for social and environmental policies in many countries because they can be contested by investors on the grounds that those policies reduce their profits.

The second issue concerns the specific constraints imposed on the adoption of macroprudential policies to regulate volatile cross-border capital flows. The third issue is that the dispute settlement process put in place by investment agreements may be creating an international justice system entirely detached from the basic principles of the democratic judicial systems that we have developed through history. For example, in the ongoing discussions with the U.S. on investment agreements, the European Union has refused to have any system imposed that overrides Europe's own judicial systems. There are many other cases in the world today, including in South Africa and Canada, where dispute settlement processes have led to decisions contrary to those handed down by the supreme and constitutional courts of those countries.

In the area of cooperation in science, technology and innovation, I welcome the major advances made in the relevant section of the Addis Ababa Action Agenda. I want to underscore, however, the importance of designing mechanisms that promote *free* access to technology, which can be done in many different ways, and which is essential to guarantee the character of knowledge as a public good. This can be achieved, as it has traditionally been done through the Consultative Group for International Agricultural Research (CGIAR), through research that produces truly global public goods, but it can also be done with global funds that could buy patents to make the associated technology freely available, which will be crucial for climate change technologies. Finally, there can be a broader use of public sector funds (including partnerships involving several countries) that contract research leading to technologies to be made freely available to everyone.

The International Monetary and Financial Architecture

More advances have to be made in macroeconomic policy cooperation because the system is constantly creating new forms of global imbalances. For example, with the 2007-09 North Atlantic financial crisis, the U.S. current account deficit fell, and the Chinese surplus as a proportion of GDP also fell, but the Eurozone surplus increased substantially. Now we are seeing a revival of U.S. deficits that will come as a result of the large appreciation of the U.S. dollar. To underscore the degree of risk that this implies for the international community, every time the U.S. deficit has been corrected, there has been a global recession or strong growth slowdown.

Now there is also unfinished business concerning the role of IMF Special Drawing Rights (SDRs) in the system. This topic was mentioned only in passing in the Addis Agenda (Paragraph 107). However, last year, during the regular five-year review of this issue by the IMF Board, priority was given to the inclusion of the Chinese *renminbi* in the SDR basket of currencies. This was a step forward, but not toward the active use of SDRs, which remains the major issue in terms of crisis prevention and management.

There is also a need to replicate in this area the dense architecture that characterizes the system of multilateral development banks. I have long advocated the position that the IMF of the future should be designed as a network of regional reserve funds and swap arrangements. This is the proper design of the global financial safety net that we have to build up, to which the Addis Agenda refers simply in passing (Paragraphs 104 and 107).

The volatility of capital flows, and the role that macroprudential regulation of international capital movements can play in mitigating it, should also be a chief concern for emerging and developing countries. The IMF took a major step forward a few years ago in designing an institutional view on the subject, but surprisingly this issue has been entirely ignored by the Financial Stability Board, which peculiarly does not include cross-border capital flows as a source of financial risk. From the point of view of emerging and developing countries, this is a particularly important issue, as the excess inflows they received in 2010-12 have now been replaced by massive capital outflows.

There is also a need to guarantee a system in which sovereign debt restructuring is »timely, orderly, effective, fair and negotiated in good faith«, as emphasized in Paragraph 98 of the Addis Ababa Action Agenda. Some advances were made in 2014 when new clauses in debt contracts were introduced. However, we still need to put in place a multilateral system for sovereign debt restructuring that guarantees the fulfillment of those principles.

Needless to say, there is still much more to be done »to broaden and strengthen the participation of developing countries and countries with economies in transition in international economic decision-making and norm-setting«, as called for in the Monterrey Consensus (Paragraph 62). It should be emphasized that international economic decision-making and norm-setting refers not only to the Bretton Woods institutions, but also to the Financial Stability Board, where the participation of developing countries is limited to G20 members. This key sentence from the Monterrey Consensus also implies, as the Addis Ababa Action Agenda indicates in Paragraph 106, that there should be an »open and transparent, gender-balanced and merit-based selection« of heads of the international financial institutions. The record in this regard is poor, with the most recent selections of the heads of the Bretton Woods institutions once again resulting in the traditional outcome: an American chosen as World Bank President and a European chosen as Managing Director of the IMF.

The Financing for Development Follow-up Process

Finally, I would like to turn to the process itself. Following up and ensuring coherence among the three major agendas—Agenda 2030, Addis Ababa and Paris—should be a priority focus of the Financing for Development Forum. Given the challenges of a very complex agenda and huge gaps in the system, focusing in depth each year on a set of specific topics is the best route to reaching an agreement on concrete solutions to be implemented. This paper suggests four families of topics on which the agenda should focus: taxation, development banks, trade, investment and technology, and systemic issues.

One important institutional issue is to find the appropriate division of labor between the Financing for Development process and the Development Cooperation Forum. One alternative is to leave the whole area of ODA to the Development Cooperation Forum, making it a multi-stakeholder forum in which different cooperation processes converge, including the OECD Development Assistance Committee, the Busan Partnership, South/South Cooperation, philanthropic and civil society cooperation, and private sector involvement as a development assistance partner. Financing for Development and the Development Cooperation Forum should converge in the high-level political forum, but how this is carried out will be important.

It is essential to ensure that the Global Partnership for Development (SDG 17), to which both processes relate, is given top priority when Heads of State meet in the high-level political forum every four years. As part of this process, there is an excellent opportunity to involve the whole UN Economic and Social Council (ECOSOC) system, including its functional and regional commissions and expert bodies. In particular, the Committee of Experts on International Cooperation in Tax Matters and the Committee for Development Policy can be used widely in these processes. Finally, it is necessary to discuss how to avoid duplications between the ECOSOC and the General Assembly, a challenge that has long faced the United Nations, arguably from its very outset.

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