Outsourcing Development?

Minutes of the side-event held on July 10, 2014

During a side-event of the Development Cooperation Forum held at the UN headquarters last July 10, Social Watch launched its 2014 report on "Means and Ends" and offered a critical view of the current debate on financing development.

Based on the conclusions of the Social Watch report 2014, on "Means and Ends" the event addressed key issues of the current development cooperation debate, such as the "leveraging" of ODA and it's redefinition, corporate access to ODA funds and the global financial architecture.

Introducing the debate, Barbara Adams from Social Watch and the Global Policy Forum, said that current conversations about "partnerships" are changing the landscape of development cooperation into one of multiple non transparent and unaccountable loose associations with corporations as main actors.

"Partnerships are not new" she said, mentioning the long term struggle to achieve a level of ODA of 0.7% of the GDP of developed countries, and the fifteen year old Global Partnership for Development as defined by MDG-8, the Declaration on the Right to Development, adopted 25 years ago and "now we see in the zero draft of the Open Working Group a goal including both Means of Implementation and global partnerships for development".

Jeroen Kwakkenbos, researcher from Eurodad, explained that while ODA is the most scrutinized and transparent financial flows, the idea that these characteristics could be transferred to other flows is "naive". The so-called "leveraging" of ODA, using public funds to mobilize other resources for development purposes has no empirical base.

Trillions of dollars are needed in developing countries to bridge the gap in infrastructure needed for development and the question is where that money will come from. It is not coming from ODA, certainly, but the idea that we can get it from portfolio flows or foreign direct investments by utilizing ODA flexibly is silly, because the best way to get these types of flows to the infrastructure sector is good public policy and governance at the national level, not through some small guarantees that would hopefully push the money in the right direction.

These flows go mainly to countries where there is resource extraction or where they have export processing zones. It has been demonstrated that 90 per cent of the money that comes in flows immediately out. The long term development impact of these flows is a bit overstated. This is particularly so in the case of portfolio flows. Donors try to valorize these flows and estimate their development contribution. This is quite concerning, particularly due to the lack of transparency of most of those flows and their volatility.

Developed countries are simultaneously encouraging their partners to let those investors come in and buy your securities and at the same time they are saying that you can't have capital controls. So that when these volatile funds rush out of the country you're pretty much left with the bill and maybe you will get some debt relief at the end but for the most part your children and the children of your children will still be paying.

We hear a lot about the “new development finance landscape”. From my perspective there is nothing really new about it. The geopolitics has changed, the payers have changed, but for the most part financial flows are very similar, perhaps a bit more complex now.

The idea that there is a lot of new money out there that we could somehow utilize is a bit shocking because, yes, there is money, there are some 40 trillion dollars out there... but how are we going to get them to work for development purposes?

The question is not how to get the institutional investors to invest in infrastructure development in poor countries but the question is how to ensure that countries have the control over the finances that affect their development goals. This is not just for developing countries but also for developed countries where poverty and inequalities are growing problems. There is eleven percent malnutrition in the United States, where there is no lack of financial resources.

I think that the notion of “outsourcing development” highlighted by the Social Watch report is a very interesting one. At Eurodad we follow the resources, where they come from and where they go. We hear a lot of talk now about the role of the private sector in development, but when you study the OECD-DAC figures about ODA, “tied aid” and contracts allocation you find that 60% of ODA already goes to the private sector through procurement contracts. So they are already partners and actors. We don't need to “bring them in”. They are there and have been “in” for quite a while. The difference in the present conversation is about the policy influence. It used to be that governments would issue contracts with the private sector, following their criteria and those of the donors. What we see more and more of now is governments talking with large international private finances about how to attract them to their countries. It used to be the IMF and the World Bank that did this, but now developing countries are outsourcing their policy making directly to large private finances.

The secretary general's report on trends and progress in international development cooperation deals with these issues in paragraphs 14, 15 and 16. (see Box) Paragraphs 14 and 15 are quite worrying, but paragraph 16 struck me as the most balanced approach about leveraging other sources of finances. It is a realistic approach that clearly outlines what the difficulties are.

The real challenges are issues of accountability, development impact, additionality. The data we currently have is quite limited as only a few bilateral donors have done this assessment, but for the most part the private sector has shown very little additionality. Development impact is not the main priority of a majority of actors when they use financial intermediation in order to raise private equity funds. Their main goal is not development but profits repatriation, increasing their own resources and extract as much as they can out of the projects they invest in.

Finally, I don't understand where the justification of this “leveraging” idea comes from. When you look at the literature, you find that development economists or left-leaning economists think that additionality is difficult to prove and development results are not what you thought they would be. Meanwhile, more liberal or right-wing economists will complain that there is moral hazard involved. The state should not subsidize some private investors because that will exacerbate risk-taking and create all kind of bubbles and it would distort markets.
So this dialogue is coming ultimately, not from economists, but from senior political level and we need to understand their motivations to be able to challenge them effectively.

Trends and progress in international development cooperation

Report of the Secretary-General
of the United Nations (May, 2014)

14. Global foreign direct investment (FDI) remains the largest and most stable external source of private financing in developing countries. FDI inflows to developing countries reached a new high of $759 billion in 2013. Both the allocation and quality of FDI continue to be of concern. FDI remains concentrated in a small number of developing countries. A total of $322 billion of FDI goes to Brazil, the Russian Federation, India, China and South Africa (BRICS). Flows to Africa, although on the rise, remain concentrated in resource-rich countries. Data suggests a shift towards more volatile forms of investment. ODA can help to catalyse FDI and support developing countries in creating an enabling domestic environment for FDI that promotes growth, employment and other development objectives. Such efforts

This should be supported by an enabling macroeconomic and financial environment and better access to international financial markets.

15. Steps also need to be taken to tap the resources of institutional investors. Currently, less than 1 per cent of institutional investors’ portfolios are allocated to infrastructure investments in developing countries. Pension funds, insurance companies, mutual funds or sovereign wealth funds in high-income and emerging economies are seen as potential pools for such investments. Some of the major barriers to unlocking this potential include the lack of high quality feasibility studies and bankable projects, an enabling environment conducive to investment in developing countries, expertise to assess infrastructure projects and adequate governance mechanisms and institutions.

16. Leveraging public financing has potential to generate additional resources for development

cooperation. It can encourage investment that would otherwise be deemed too risky or unprofitable. There will be added impact if investments are backed by an enabling macroeconomic environment and structures that link them to value chains in which poor farmers and service providers can participate. Leveraging and blending public and private financing should be guided by development effectiveness principles to prevent drawbacks such as lack of clarity about additionality and purpose; limited influence of donors and recipients on investment design and implementation; diminished transparency and accountability; risk of misalignment of private sector and country priorities; danger of increased debt burden; inattention to small- and medium-sized enterprises; the opportunity cost incurred when use of public money to mobilize private resources does not have the same or a larger development impact than if it had been devoted directly to a developmental purpose; and the risks of misappropriation.

Roberto Bissio, from Social Watch, explained the findings of over 50 national coalitions included in the report and the dynamics between the "ends" (the agreed goals) and the means to implement them, which is at the core of all development cooperation debates. In the current conversations, the "ends" are being lowered in such a way that no additional cooperation efforts would be required. The limited poverty definition of $1.25 a day, for example, if transformed into the main goal for 2030 would imply that no transformational change is needed, since current projections indicate that this reduction is what is going to happen anyhow if present trends continue.

In 2004, at the eleventh session of UNCTAD in Sao Paulo, secretary-general Rubens Ricupero warned developing countries about liberalizing capital accounts comparing such a move with joining the mafia. If the expected benefits do not materialize after a while, you cannot just send a resignation letter!

Many countries, too many countries tried financial liberalization and now they are realizing it is not bringing the desires benefits, but they can't get out. It is extremely difficult. Ask Argentina!

What is needed is a "witness protection program" for countries that try to get out of extreme liberalization of finances and investments, protected through a network of bilateral investment treaties that penalize any changes in the rules that investors don't like. Such a program can only come from the UN, but there is very little help currently in the UN development system for countries that want to recover their authority over their own development policies.

Next week in Fortaleza, Brazil, the BRICS will be launching their own development bank and a monetary fund, with a capital of one hundred billion dollars each. And this happens as a moment when the IMF has depleted its funds with the last loan to Ukraine. Ninety percent of the IMF funds are currently deployed in Europe and the US Congress has vetoed an increase in Special Drawing Rights (the IMF "currency") as well as an increase in the voting power of developing countries, even when both measures had been agreed by the G20 in 2010 and even when the veto power of the US would not be challenged.

We risk entering a new cold war with the world divided in two more or less equally powerful blocs, or we may enter a new era of real and genuine collaboration. This is the real development cooperation agenda of the future, not that of fuzzy “partnerships” with corporations that might put the very prestige and legitimacy of the UN at risk.

Jens Martens, from Global Policy Forum argued that “multistakeholder Partnerships are the flavor of the day”. They build on the notion that governments will not be able to solve global problems by themselves. Especially business is seen as the main driver of development, as the “principal engine” of growth and job creation – leading up to the recommendation by the Global Compact to create “business led” global issue platforms aligned to specific sustainability challenges. The Global Compact urges Governments that the Post-2015 Agenda be designed with business engagement in mind – “allowing for maximum alignment with corporate strategies and multi-stakeholder partnerships.”

Following this line of argument, one would assume that there is no alternative to the partnership approach. Collaborative projects including corporate actors, philanthropic foundations and some NGOs are seen as pragmatic, solution-oriented, flexible, efficient and un-bureaucratic.

So, where is the problem? The basic problem is that the assessments of the advantages of global partnerships are for the most part not based on empirical research and a thorough power and interest analysis of the actors involved. The widely held notion that there is no alternative is often no more than a profession of faith.

Multistakeholder partnerships in fact bring a number of risks and side effects. Growing influence of the business sector in the political discourse and agenda-setting is one of those risks. Critics fear that partnership initiatives allow transnational corporations and their interest groups growing influence over agenda setting and political decision-making by governments.

Additionally, choosing the wrong partner might damage the reputation of the United Nations. It is particularly problematic for the UN to collaborate with partners whose activities contravene the UN Charter and UN norms and standards. This is especially true of partnerships with those transnational corporations accused of violating environmental, social or human rights standards.

Project-related public private partnerships between international organizations and individual companies in particular, are generally exclusive. These partnerships can distort competition, because they provide the corporations involved with an image advantage, and also support those involved in opening up markets and help them gain access to governments. The selection of partners is also problematic in many multistakeholder initiatives. Often, the initiator of a partnerships rather than respective stakeholder groups nominates representatives to the partnership bodies.

The explosive growth in partnerships can lead to isolated solutions, which are poorly coordinated, contributes to the institutional weakening of the United Nations and its specialized agencies, and hinders comprehensive development strategies.

The provision of public goods becomes increasingly privatized, it will become dependent on voluntary and ultimately unpredictable channels of financing through benevolent individuals or private philanthropic foundations.

Instead of considering partnership initiatives as complementary to inter-governmental processes, they are often promoted as replacements of intergovernmental agreements.

Partnerships only develop selectively and concentrate on problems in which technical solutions lead to relatively quick wins (vaccination programs, promoting renewable energy systems). Long-term structural problems such as building up a health system or overcoming gender inequality are only peripherally touched.

Trends toward elite models of global governance – weakening of representative democracy: Inasmuch as partnerships give all participating actors equal rights, the special political and legal position occupied legitimately by public bodies (governments and parliaments) is sidelined.

What hast to be done?

In order to avoid the “corporate capture” of the UN and undue influence of business actors on the Post-2015 Agenda, the UN and member states should build an intergovernmental framework for partnership accountability in the Post-2015 Agenda.

In the current system, guidelines for UN-business interaction are generally formulated and adopted in the secretariats of the relevant UN organizations. In contrast to the participatory rights for NGOs, governments have neither adopted the guidelines nor are they responsible for their implementation and monitoring. More accountability of UN partnerships with the private sector requires governments to build the intergovernmental structures required for monitoring and oversight.

The High-Level Political Forum (HLPF) and the Development Cooperation Forum (DCF) could become the hub for the monitoring and oversight of partnerships in the post-2015 development agenda.

Many governments have supported the UN’s outreach to the corporate sector while others have remained silent, even though they are uncomfortable with recent developments. It is time for member states to speak out on the role they envision for the business sector in the Post-2015 agenda and the UN system at large, and what risks current practices and attitudes may pose. The recent initiative spearheaded by Ecuador (and supported by several member states) in the Human Rights Council to advance a binding instrument to regulate transnational corporations may be signaling that the discourse is shifting towards a much stronger recognition of business responsibilities towards human rights.

The UN should adopt mandatory guidelines for its interaction with the private sector. This could take the form of a General Assembly resolution, comparable to the ECOSOC resolution on the regulation of the consultative relationship with NGOs. Such a resolution should set minimum standards for the shape and composition of initiatives involving the private sector. This should prevent undue influence of business actors on public policies, any distortion of competition, and a lack of representation of affected populations.

To minimize the risk to the UN's reputation, this resolution should define standardized partner selection and exclusion criteria, which apply to the whole UN system. It should prevent companies and private actors who violate internationally agreed environmental, social and human rights conventions or otherwise violate UN principles (for example through corruption, breaking UN sanctions, proven lobbying against international UN agreements, evading taxes, etc.) from entering into collaborative relationships with the UN.

The United Nations should adopt a system-wide conflict of interest policy. UN entities should disclose to the public any situation that may appear as a conflict of interest. They should also disclose if an UN official or professional under contract with the UN may have any kind of economic ties with the corporate partner.

Specific requirements in the code of ethics for UN employees could also help address the potential conflicts of interests raised by the circulation of staff between UN entities and national governments, private foundations, corporations, lobby groups and CSOs. A "cooling off" period, during which former UN officials cannot start working for lobby groups or lobbying advisory firms, could be considered.

Before the UN enters into new multi-stakeholder initiatives or partnerships with business actors, the possible impacts of these activities must be systematically assessed. This should include evaluating the added value of the initiative for the realization of the UN's goals; the relation between the risks, costs and side effects and the potential benefits; human rights impacts; and the possible alternatives to the planned activities.

Impact assessments and evaluations should be carried out by neutral bodies and not by institutions which see themselves as promoters of the partnership approach and are pursuing the rapid expansion of global partnerships (for example the Global Compact Office). The results of the investigations must be made publicly accessible and must be debated.

A UN regulatory framework for partnerships, in particular with the business sector, will require capacity in the secretariats and at the intergovernmental level. Staff is needed for the additional duties of screening companies, legal advice, and monitoring and evaluation of partnerships. Minimum standards and detailed partnership selection and exclusion criteria will remain useless if not systematically implemented. This task could be fulfilled, for instance, by the existing Joint Inspection Unit of the UN, if its financial resources and mandate were extended accordingly.

At a minimum, the UN should disclose the funding it receives from the private sector more transparently. There is currently no systematic reporting of the funds that the UN receives in the form of "extra-budgetary resources," and these resources are not subjected to surveillance by member states. According to UN data, extra-budgetary resources from "Major Other Organizations, NGOs, Foundations, Private Sector" increased substantially in recent years. But there is no disaggregated reporting to track the evolution of private sector funding.

Better reporting is also needed for funds committed to multi-stakeholder initiatives, such as "Every Woman, Every Child" or "Sustainable Energy for All." While these initiatives claim billions of dollars in pledges and investments, it is usually difficult to assess where money has gone, whether it has been really new and additional to existing commitments, and which impact it had. If these initiatives are going to be part of the Post-2015 agenda, they require much more stringent reporting.

The UN seeks extra-budgetary funding in a context where member states have failed to pay their full dues and cut their contributions to the organization's voluntary funds. Therefore, member states have a key role to play in reversing this trend, by providing adequate core funding to UN programs.