The FfD Chronicle

CIVIL SOCIETY FINANCING FOR DEVELOPMENT Mechanism

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TRADE AS AN ENGINE FOR DEVELOPMENT ON THE WAY TO SEVILLE: WHAT WILL IT TAKE TO GET THERE?

The trade section in the zero draft offers some positive entry points for addressing some of the current challenges restricting the role of trade as a development tool for the Global South. The comments from Member States yesterday during the Third Prep Com confirm this. However, the level of ambition must be raised in order to ensure that such challenges are addressed.

The issue of unilateral trade measures has emerged as the rallying cry of the G77 and China, and understandably so. In addition to unilateral coercive measures, which have raised the hackles of developing countries for years, the recent aggressive use of environment-related trade measures, most notably by the EU, has put developing countries and LDCs at a significant disadvantage. Measures such as the Carbon Border Adjustment Mechanism (CBAM) and the Deforestation Act, imposes so-called sustainability standards and cuts off Global South producers from key export markets.

Add to this the US President's recent unilateral tariff impositions, and what becomes glaringly evident is the most one-sided, rampant, unfair, undemocratic use of trade policy tools by Global North countries, which collides head on with the sustainable development efforts of the Global South.

Nearly all G77 countries spoke out against this. However, the FfD4 zero draft only asks for a review of such measures and falls short of asking for an outright termination if they are found to be illegal under international law or the UN Charter, or are adversely impacting sustainable development efforts. This is clearly an area where higher ambition is the need of the hour. Furthermore, any environment-related trade measure must be based on the principles of common but differentiated responsibility (CBDR), multilaterally agreed, democratic and transparent.

Another important issue that has come up is that of investor-state-dispute-settlement (ISDS) provision in international investment agreements (IIAs).

This provision has allowed foreign investors, most often super rich multinationals, to sue governments in secret, international arbitration cases outside the jurisdiction of national courts for millions to billions of dollars for bringing in policies that are seen to "expropriate" their profits. A whole range of policies related to sustainable development; including climate action, health policies, labour policies, tax policies and most critically, natural resource policies have been challenged. These have resulted in shrinking policy space, a reduction in government finances available for national policies and social programmes and have trampled upon rights of citizens and marginalized communities.

The Zero Draft suggests the reform of the ISDS and this was echoed by several Member States during the discussion. But again, the need of the hour is to permanently abolish such provisions through a multilateral agreement under the UN mandated by FfD4. Given that ISDS cases have impacted both Global North and Global South countries and many have already initiated measures to disengage from the ISDS, this should be an easily doable task.

Another interesting area is policy space, an issue that has strong antecedence from the history of FfD and also from the SDG framework. Paragraph 43.g outlines a general provision for more policy space for development. Given the massive gap in the absolute levels of development between the Global North and Global South countries, this tool should be only for the latter, as they are ones which need the policy flexibility to address their development needs while trade rules and commitments are not allowing them to do that. Interestingly, between the Elements Paper and the Zero Draft, the ambition level seems to have taken a nosedive. The Zero Draft provides this policy space in a free for all manner, whereas the version in the Elements Paper provided it only for developing countries and LDCs.

Moreover, the Zero Draft suggests locating this policy space within the "current trade rules and commitments".

This irrationally limits the strength of this provision, as clearly the required policy space is not available within the unfairly designed trade and investment agreements, and these must be redesigned to deliver on this objective.

While the trade section has the usual pitfalls, if the UN Membership can deliver an ambitious outcome on these three issues, it would contribute constructively to trade acting as an engine for development, and at least will avoid it being a hindrance to the Global South's efforts to attain sustainable development.

TEARING DOWN THE WALL (STREET CONSENSUS)

For years since the Addis Ababa Action Agenda, the world has been living in a Groundhog Day when it comes to the positive role attached to big private capital. Institutional investors, the biggest of which are in Wall Street, were put to the forefront. They are holders of trillions which, the claim goes, could be mobilised to serve sustainable development in the Global South. – but, years later, still aren't, as they remain seekers of short-term and quick profits. The search for more foreign direct investment (FDI) became almost an end in itself. Governments, their rules and financial markets, had to be friendly to these fickle investors, despite unclear gains.

For the most part, the second day of the Third PrepCom was another Groundhog Day. But there are small cracks in the one-sided friendship of some member states with large private finance and business.

Frustration was the word Brazil used to describe the sentiment towards private investments on the SDGs; Pakistan said such investors have not delivered. Some Southern governments were careful to say that the quest for FDI should not overturn national priorities. G77 appreciated the language on re-evaluating credit rating methodologies, even as the EU seemed anxious about how it would affect US-based monopolies who merely capture 94 per cent of the ratings market.

The PrepComs to FfD4 and the Conference is the best time to turn this frustration into action.

For civil society, FfD4 could establish normative and actionable proposals to rethink the prevalent private-finance-first approach. It could reinforce the role of the UN in economic governance, by starting to tear down the Wall Street Consensus.

The Zero Draft and the Ministerial Segment on day one showed an appetite to standardise blended finance. But haste without evidence is what brought us to where we are. To this day, evidence stands on unclear development outcomes and lack of financial additionality of such means to leverage private finance.

CSOs propose a transparent and inclusive discussion in calling for an "UN intergovernmental process to review the sustainable development outcomes, fiscal, labour and human rights impacts of blended finance and other financing instruments to leverage private finance, as well as public-private partnerships." This review should provide the basis to identify the appropriate policy toolkit to regulate private finance in the public interest.

In the Zero Draft, the push for expanding MDB roles in catalysing capital and projects amid outstanding issues of harms, ecological impacts, and diversion of scarce public resources into de-risking approaches remains concerning. A UN intergovernmental process to review and transform the governance and mandate of IFIs and MDBs in ways that are accountable, development-centred and responsive to national and regional dynamics, is an ongoing CSO demand.

The right of the Global South to decide which private actors are appropriate for our contexts, strategies, industrial and agricultural transformation is at stake. As affirmed by Cuba, there is no "one size fits all", after decades of neoliberal globalisation forced a mold onto Southern economies that hollowed out prospects for domestic private actors and the real economy.

It is high time to affirm the public development roles of member-states, especially in the form of democratically-determined strategies and plans. Contributions to sustainable industrial policy and related transformations should be a basis for notions of impact, way beyond ESG self-reporting.

FfD4, if we proceed with enough ambition, might bring us a day that is different from the past decades. The global situation of unilateral coercive measures and outright war behooves a new consensus. A new consensus on private finance and business, as part of broader restructuring of the international financial architecture, is a brick in this bigger picture that has to be constructed.