

Focus on Development

No. 3, 10 July 2014

2015: A Pivotal Year for International Cooperation

Author: Dr Felix Povel

Editor: Annemie Denzer

The year 2015 is considered a pivotal year for international cooperation. A new Post-2015 Agenda will include sustainability goals to replace the Millennium Development Goals, which are set to expire. The framework for development financing enshrined in the Monterrey Consensus of 2002 is to be overhauled and the ODA or Official Development Assistance (measurement) system is being reformed. There are also plans to ratify a new global climate treaty. There are clear interdependencies between the international negotiation processes: Sustainability targets can only be achieved with the appropriate financing. Finance and climate-related aspects could be directly incorporated into sustainability targets. The fields of sustainable development financing, ODA and climate-related financing also overlap. The main obstacles to both an agreement within the individual processes and close coordination between them are currently the principle of Common But Differentiated Responsibilities and the levels of commitment involved.

"Our goal must be to make 2015 a defining moment for people and the planet..." (Ban Ki-moon, Secretary-General of the United Nations (UN), in *A Life of Dignity for All*, July 2013)

The year 2015 can rightly be considered a pivotal one for international cooperation. This is because four highly interconnected, international processes are expected to be (re-)negotiated by the end of next year:

- The 2001 Millennium Development Goals (MDGs) for international development cooperation will be replaced by universal Sustainable Development Goals (SDGs) in September next year as part of a new Post-2015 Agenda. The new goals are expected to widen the existing focus on social issues and the fight against poverty to include aspects such as the environment and (inclusive) growth.
- The updated list of goals means that the 2002 Monterrey Consensus, an international agreement on development financing based on the MDGs and reaffirmed at a second financing conference held in Doha in 2008, will also have to be updated ("Monterrey III"). This will involve adjusting the consensus to reflect new challenges as well as changes in the world of financing including new agents and instruments.
- The process of measuring official development assistance (ODA) is also being reformed after remaining largely unchanged since the end of the 1960s. The aim is to more accurately reflect the reality of present-day development financing, as well as the efforts undertaken by donors. ODA is a monitoring indicator for the eighth MDG and is closely linked to the Monterrey Consensus in the form of the 0.7% target¹ in particular.
- Finally, the existing Kyoto Protocol is to be replaced with a new global treaty involving legally binding climate targets for industrialised and developing countries. CO₂ emissions are already used as a monitoring indicator for the seventh MDG. Since the climate represents an important aspect of sustainability, there are clear links between the Kyoto process and the SDGs and their financing.

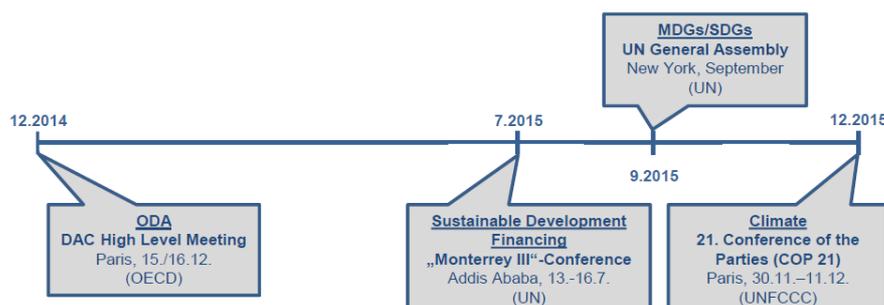
The international conferences that will be approving the new foundations on which international cooperation will be based are all being held within a short space of time (refer to figure 1).

In the following we will describe the most important questions being addressed by these four international processes and how they relate to each other.

Process 1: From MDGs to SDGs – the Post-2015 Agenda

The MDGs, which took effect in 2001, mainly consist of goals relating to health, education and the alleviation of poverty. They are primarily

Figure 1: Schedule of international conferences



Source: Original illustration

¹ As part of the Monterrey Consensus, the traditional donor countries such as Germany undertook to spend 0.7% of their gross national income on ODA in 2015.

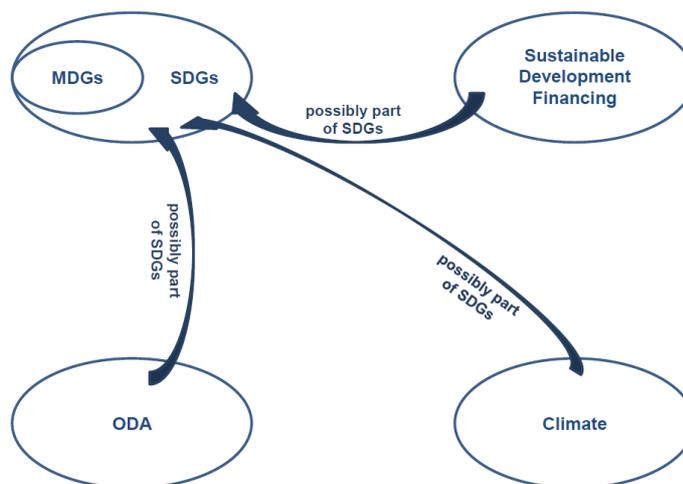
aimed at developing countries, with industrialised countries only helping to achieve them. The most prominent MDG of halving the rate of extreme poverty amongst the population has already been achieved at a global level. Nevertheless, there are many countries in which extreme poverty is still rampant, and many of the other MDGs will not be achieved by the target year of 2015.

There is broad international consensus that the Millennium Development Goals should be replaced by the SDGs next year as part of a new Post-2015 Agenda. These will, on the one hand, finish the work started by the MDGs (including the eradication of global poverty). On the other hand, they will also incorporate other aspects such as economics (growth and employment) and the environment (climate, biodiversity etc.). This would mean that the SDGs would address all three aspects of sustainability (economic, environmental and social). There are also discussions about whether they should include other elements of the 2000 Millennium Declaration, such as peace and good governance.

Unlike the MDGs, the new system of goals is being developed by means of a participatory process and is intended to be universal in nature. This means that the SDGs should apply equally to developing, emerging and industrialised countries. The Post-2015 Agenda will also incorporate them into a narrative that could play a role similar to the Millennium Declaration. There are signs that this narrative will be guided by the concept of a new global partnership that goes "beyond aid" and will also involve civil society, the private sector and the scientific community alongside governments on an equal footing².

Negotiations regarding the final details of the SDGs are well under way. The High-Level Panel of Eminent Persons appointed by Ban Ki-moon had already come up with a new list of goals for illustrative purposes by last year. Further recommendations have been or are being drawn up by the UN System Task Team, the Scientific Sustainable Development Solutions Network, the private-sector oriented UN Global Compact and in the course of numerous consultations involving civil society. The UN's Open Working Group, formed as an outcome of the Rio+20 process, is currently working on a concrete proposal for SDGs. This will serve as an input for

Figure 2: MDGs/SDGs and other international processes



Source: Original illustration

this year's General Assembly in New York in September. Ban Ki-moon will bring together all recommendations to create a "synthesis report" by the end of 2014, in which he will present his ideas for the SDGs to the international community. Finally, the plan is for intergovernmental negotiations to give rise to a new system of goals to be ratified at the UN's General Assembly in September 2015.

If the Post-2015 Agenda includes a goal or targets regarding means of implementation, aspects of financing could be taken into account at the goal level. This would mean that both the Monterrey III negotiations and the process of ODA reform would have a direct impact on the details of the SDGs (refer to figure 2)³. Alternatively, it is also conceivable that the financing of sustainable development will be addressed in a less binding manner within the narrative of the new framework. The Post-2015 Agenda will also address climate change and therefore the corresponding international negotiations on climate-related issues. The exact form that this will take is still not clear⁴.

Process 2: Financing sustainable development – Monterrey III

The financing of the MDGs was negotiated in 2002 at a UN conference in the Mexican city of Monterrey and set down in the document referred to as the Monterrey Consensus. Even then, financing by the developing countries themselves by means of taxes and levies was given equal emphasis alongside the role of the global finance system (including private foreign

investment, trade finance and debt/credit) and ODA (0.7% target). The importance of the Monterrey Consensus was underscored in 2008 as part of a second global conference on the issue of development financing held in Doha, Qatar.

Against the backdrop of the discussion regarding the new Post-2015 Agenda, calls for a new financing treaty (Monterrey III) are also getting louder. On the one hand, this should cover the increased financing requirements of a broader system of goals (refer to figure 3). On the other hand, it should adequately reflect the fundamental change in the general conditions on the international finance markets as well as in financial instruments and patterns of financing, and the agents involved. These changes include the fact that the relevant development financiers are now a larger and more heterogeneous group than before. Instead of only comprising the traditional government donors, for some time now they have increasingly also included institutional investors (such as pension funds), philanthropic foundations, migrants transferring remittances to their home countries and what we call the "new donors" (such as China and India). Private capital flows (direct and portfolio investments etc.) have also become more important, and now make up the large majority of the total financing received by developing countries.

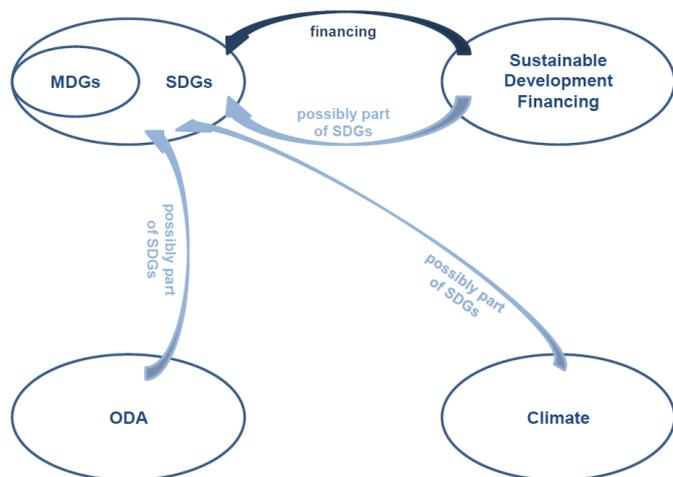
The UN set up an Intergovernmental Committee of Experts on Sustainable Development Financing in order to be in a better position to

² The global partnership in connection with the Post-2015 Agenda should not be confused with the Global Partnership for Effective Development Cooperation in connection with the Aid Effectiveness process.

³ "More generous ODA for countries committed to poverty reduction", for example, is already part of the list of goals for the MDGs (more specifically target 8b).

⁴ The MDGs already touch on the issue of climate, albeit only very marginally as part of the seventh millennium development goal (more specifically target 7a, which is based among other things on the indicator "CO₂ emissions, total, per capita and per \$1 GDP (PPP)").

Figure 3: Sustainable Development Financing and other international processes



Source: Original illustration

assess the need of funds and the potential offered by the various sources of financing (including ODA). The committee's aims also include identifying specific approaches for mobilising funds and making effective use of them. It is drawing up proposals for a new regulatory framework for the financing of sustainable development and is expected to present its final report in August 2014. Like the goals recommended by the Open Working Group, this report will be a subject of debate at the UN General Assembly in September 2014 and will be incorporated into the UN Secretary-General's "synthesis report". It will also serve as the basis for preparations for a conference on the financing of sustainable development. This Monterrey III conference will be held in Addis Ababa, Ethiopia, in July 2015. Its outcomes will be an important input for the strategy to implement the Post-2015 Agenda and, provided the SDGs include means of implementation, for the list of goals itself.

Process 3: ODA reform and the 0.7% target

ODA will once again be an important factor in the discussion regarding a Monterrey III finance treaty. However, the ODA concept (which has remained largely unchanged since the end of the 1960s) is no longer entirely suitable for the realities of the present day. For this reason, the Development Assistance Committee (DAC) of the OECD already resolved to conduct a comprehensive review of the definition of ODA at the end of 2012. The DAC Secretariat is expected to draw up proposals for a reform of ODA with the help of an international group of experts. These proposals are to be negotiated in December 2014 during the High Level Meeting of DAC member states in Paris.

The negotiations will mainly look at the question of what exactly should count as ODA. Opinions

differ on whether the current definition is much too narrow or much too broad. It overlooks many of the most recent, innovative financing instruments. It also includes a series of "perverse incentives" that prevent the scarce resources available in the field of official development assistance from being used efficiently. For example, guarantees are only effective for the purposes of ODA if the guaranteed development measure fails, meaning the guarantee is utilised and results in a flow of funds. The current definition therefore does not motivate donors to make use of the full spectrum of financial instruments available in certain respects. Most of these criticisms can be countered by amending the definition of ODA. It is, however, more difficult to combat ODA's strong focus on the input side of the equation (i.e. the funds provided by donors instead of the benefit to recipients). Many observers consider this approach to be outdated in light of the current state of the debate on ownership and impact.

ODA will help finance the achievement of the SDGs, which is why it can be considered to be an element of sustainable development financing

(refer to figure 4). If ODA reporting is therefore used to monitor the financing of the Post-2015 Agenda, even more far-reaching reforms would be conceivable. These would mainly involve expanding the range of issues covered from focusing on the alleviation of poverty to sustainable development, although government climate-related funding from donors in partner countries already counts towards ODA⁵. Shifting from an OECD-based to a global platform that integrates the development financing concept of the new donors as well as monitoring other financing arrangements (such as private and national) would also be up for debate.

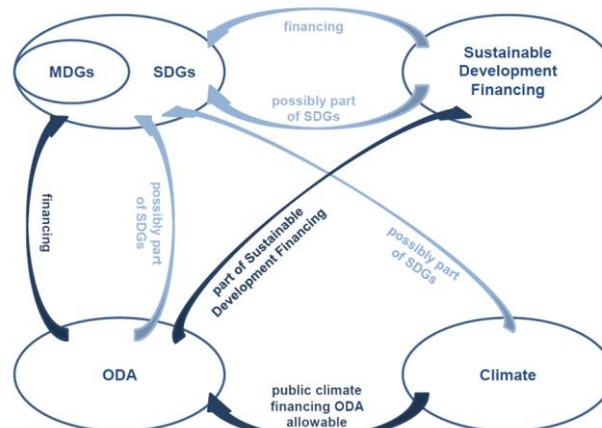
The discussion in this context automatically centres around amending the 0.7% target, firstly because the definition of the ODA measurement parameter on which the target is based could be changed. Secondly there is increasing doubt surrounding the usefulness of a financing target in the form of a percentage of the donor's gross national income and therefore entirely unrelated to the financing requirements of the developing countries (which have grown based on the new goals).

The reform of ODA is therefore very closely linked to the parallel processes of the Post-2015 Agenda, the financing of sustainable development and the financing of climate-related issues, and must be well-coordinated with the timing of those processes. The process of reform should be completed before new quantitative goals are discussed as part of a Monterrey III conference.

Process 4: New climate treaty

Negotiations regarding a new global climate treaty are currently running in parallel to the discussions on the SDGs and their financing in connection with the *United Nations Framework Convention on Climate Change* (UNFCCC)⁶.

Figure 4: ODA and other international processes



Source: Original illustration

The Kyoto Protocol, named after the city in Japan where it was negotiated in 1997, divides the signatory countries into industrialised and developing countries based on their status at the time. The former are required to meet binding targets for the reduction of greenhouse gas emissions, while the latter do not have to enter into any obligations to reduce emissions. This division of the countries follows the UNFCCC's core principle of Common but Differentiated Responsibilities⁷.

The international community also ratified the Copenhagen Accord at the UNFCCC's 15th Conference of the Parties (COP 15) held in Copenhagen in December 2009. Amongst other things, this includes the goal of limiting anthropogenic global warming to no more than 2°C. The industrialised countries also agreed to mobilise 100 billion US dollars each year from government and private sources for measures to mitigate and adapt to climate change in developing countries starting from 2020.

At the COP 18 in Doha in December 2012, the Kyoto Protocol was expanded and extended until 2020. When it expires, it is to be replaced with a new, binding climate treaty containing targets for all signatory countries, both industrialised and developing. It will also incorporate other issues such as financing, adaptation, forest conservation, technology transfer and capacity building. The assessment report recently published by the Intergovernmental Panel on Climate Change (IPCC) highlights the urgent need for a treaty of this kind. The member states

of the UNFCCC hope to ratify the treaty at the 21st COP in Paris in December 2015. However, to do this they will still have to overcome the considerable obstacle of fundamentally redistributing responsibility for climate-related issues among the various groups of countries.

Climate-related goals and financing are being addressed as part of a stand-alone process that is not up for discussion. At the same time, however, they are being looked at as part of the debate on sustainability and development, for example by the Open Working Group. In terms of financing, the main goal for the next few years will be to identify credible ways of achieving the target of providing financing of 100 billion US dollars by 2020. There is currently uncertainty regarding what counts towards this target, and to what extent. The relationship between the financing of climate-related issues and (reformed) Official Development Assistance is equally unclear. While some countries report their climate-related ODA under the UNFCCC (refer to figure 5), other countries generate their own measurement parameters. There are currently intensive efforts being made to standardise reporting on the financing of climate-related issues for the new treaty. It is reasonable to assume that it will still not be possible to consider the issues of climate-related and development financing separately from one another in future, especially in light of the new, comprehensive sustainability agenda. As a result, it is likely that aspects of climate-related financing will also be included in any new Monterrey III treaty.

Prospects for the successful conclusion and close coordination of the four processes

Until now, the negotiations in connection with the international processes have been conducted relatively independently of each other despite the clear interdependencies between them. Another argument for closer coordination is to avoid unnecessary fragmentation (for example between different systems of financing), thus enabling solutions and reporting systems that are both efficient and coherent.

On the other hand, there are strong arguments for keeping the four processes separate. Bringing the different forums together, for example, would be difficult in practice. There is, for instance, the question of to what extent the modalities of one process can be tailored to another, if at all (for example the ODA debate at the level of the OECD and the Monterrey III negotiations at the level of the UN). Furthermore, often only certain initiatives are given the authority to reach agreements on targets for their respective fields. The UNFCCC, for example, is widely regarded as the only legitimate forum for setting climate-related targets. Finally, closer integration would also entail substantial risks. This is because the larger the overall process, the greater the risks of never-ending rounds of negotiations, reaching an agreement on the least binding and lowest common denominator or even failure.

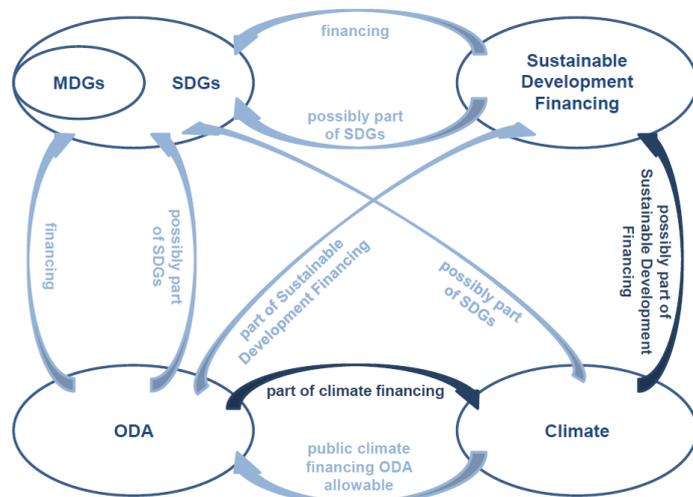
As a result, while the four processes are conducted separately in formal terms, their content is likely to be closely coordinated. This would keep open the possibility of reaching binding agreements relatively quickly in some of the negotiation processes on the one hand, while also minimising the risk of contradictory targets or reporting systems on the other.

The main obstacles to both an agreement within the individual initiatives and close coordination between them are currently (i) the principle of Common But Differentiated Responsibilities and (ii) the levels of commitment involved.

i. The principle of Common But Differentiated Responsibilities (CBDR)

In connection with the amalgamation of the SDGs and MDGs, the G77 countries and China are pushing for the principle of CBDR to be expanded beyond the traditional field of the environment to include the field of development.

Figure 5: Climate negotiations and other international processes



Source: Original illustration

⁵ The practice of counting government climate commitments towards the development-based ODA target of 0.7% is controversial. Those who do not agree that it should count towards the target call for "additionality", i.e. counting development and climate financing separately.

⁶ At the United Nations Conference on Environment and Development in Rio in 1992, a number of treaties such as the Convention on Biological Diversity were signed in addition to the UNFCCC. Due to the prominence of the discussion regarding an agreement on climate, however, we have focused here on climate-related issues.

⁷ The phrase "...and Respective Capabilities" is now added to the name of the principle in order to express the fact that some developing countries such as the up-and-coming, industrialising countries can and should contribute more to mitigating and adapting to climate change than others.

In doing so, they interpret the principle to mean that the world is divided into the two groups of industrialised nations and developing countries. The former are mainly required to fulfil their global responsibility by financing development and reducing emissions, while the latter are exempt from this obligation. This interpretation is mainly rejected by the OECD member states. They insist that there are now more than just two groups of countries in the world, and the up-and-coming economic powers should assume more responsibility. In connection with the negotiations on climate issues, it is precisely this difference of opinion that is a major reason why no agreement has been reached yet on a treaty to replace the Kyoto Protocol. Efforts to reach an agreement on a Post-2015 Agenda, including a new global partnership, and the harmonisation of the discussion on sustainability and development are now running into a similar problem.

The interpretation of the CBDR principle not only determines the details of the new agenda, but also the future financing framework. The relationship between ODA and national financing efforts is an important factor in this respect. The far-reaching deliberations of the Intergovernmental Committee of Experts on Sustainable Development Financing also include the role of new governmental development financiers. This does not, however, necessarily imply any active cooperation or even official obligations on the part of the new donors, many of whom want to tailor the details of the planned Monterrey III conference on sustainable development financing to suit traditional government development financing. It therefore seems that they are also applying their

dichotomous interpretation of the CBDR principle to issues of financing, for the time being at least.

ii. Binding nature of the new agreements

The paralysing discussion surrounding the allocation of responsibility in the climate process can serve as a warning not to labour sustainability targets too much with climate-related aspects. From the perspective of the climate debate, however, there are also arguments for avoiding being too heavily influenced by any treaty on sustainable development. In some ways, the political dead-end arrived at in some aspects of the climate negotiations is simply a downside of their highly binding nature. This is because failure on the part of the industrialised nations that have signed up to the Kyoto Protocol to meet their targets for reducing emissions does not just result in them being publicly blamed and shamed. Real penalties are also imposed in the form of temporary exclusion from emissions trading as well as a 30 percent increase in their target for reducing emissions. There are no similar penalties in connection with the MDGs, for example.

The highly binding nature of the climate targets goes hand-in-hand with strong monitoring and accountability mechanisms. Signatories to the Kyoto Protocol report on their emissions each year. Transactions of emission rights are closely monitored. The current development goals are also struggling to keep up in this respect, despite annual MDG Monitoring Reports.

While the future climate treaty will be legally binding, the politically-binding sustainability goals

in future will not entail the same degree of commitment. It remains to be seen whether effective monitoring and accountability mechanisms will be introduced, for example within the mandate of the UN's High Level Political Forum on Sustainable Development. It may therefore be entirely reasonable to fence off robust agreements on climate from any less binding arrangements.

There are parallels with issues of financing in this context. Although the 0.7% target valid at least until 2015 is not legally binding, it is used to publicly blame and shame donors who fail to meet it. This is one of the reasons why the target is said to be quite effective at mobilising funds. This can above all be attributed to the fact that the existing ODA reporting system offers a clearly defined framework for monitoring Official Development Assistance. It is not yet possible to say to what degree this will be the case with respect to the financing of sustainable development.

Conclusion

By the end of the pivotal year of 2015, the multi-layered framework of international development (including climate-related issues) will have changed fundamentally compared to its present state. The exact details are still up in the air. The most likely scenario is a pragmatic solution with negotiations for the four processes running in parallel but coordinated to an as-yet unknown degree. This would at least allow the international community to quickly come to agreements in those areas where there is enough of a consensus. ■