

# Third International Conference on Financing for Development (FfD3): Implications for Transport

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## Background

The Third International Conference on Financing for Development (FfD3) was held from 13-16 July 2015 in Addis Ababa, Ethiopia. FfD3 followed on the first international conference on FfD in 2002, which yielded the Monterrey Consensus, and the second international FfD conference in 2008, which produced the Doha Declaration.

FfD3 carried a heavy burden, since outcomes from Addis were expected to have a strong bearing on the forthcoming post-2015 sustainable development negotiations and COP21 climate change negotiations. As a result, delegates were [under pressure to deliver substantive outcomes](#), as failure of the FfD process could derail the post-2015 effort, and in the eyes of some, the credibility of UN and multilateralism as a whole.<sup>1</sup> Much was also at stake at FfD3 for the transport sector, whose key cross-cutting role had not been sufficiently emphasized in the FfD process. In the run-up to FfD3, delegates produced several successive drafts of the Addis Ababa Accord (AAA), which formed the basis for negotiations at the Addis conference.

In March 2015, SLoCaT posted a draft assessment of the AAA zero draft, noting that transport was directly referenced four times in the zero draft, specifically in passages related to ensuring sufficient investment in sustainable and resilient infrastructure, addressing gaps in trade and transport related regional infrastructure, and scaling up support to PPPs targeting sustainable urban development. SLoCaT was further encouraged to note that transport was indirectly referenced in passages related to fossil fuel subsidies, carbon pricing, and ensuring enabling environments necessary for infrastructure investment. It was also acknowledged that the approach taken in the zero draft is generally in line with the approach defined in the SLoCaT [Results Framework on Sustainable Transport](#) to improving access and reducing negative externalities.

In June 2015, the SLoCaT Partnership submitted comments to the co-facilitators of FfD3 on the position of sustainable transport in the final draft AAA. While SLoCaT expressed encouragement by the emphasis in the draft text on the development of infrastructure, it was also noted that the text does not fully acknowledge specific funding requirements of the transport sector (in contrast to other sectors such as the energy sector, whose position is detailed at various points throughout the document). SLoCaT asserted that more specific references to the transport sector – as a vital, cross-cutting sector that enables all other sectors to develop and deliver on the national and global policies, targets and agreements on sustainable development and climate change – should be more prominently emphasized in the ultimate outcome document from FfD3.

## Key Discussion Issues

The proceedings in Addis Ababa touched on a number of key issues of relevance to the transport sector, which are organized among the five SLoCaT Partnership workstreams,

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<sup>1</sup> <http://www.iisd.ca/download/pdf/enb2314e.pdf>

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which include climate change, sustainable development goals (SDGs), financing, rural transport and poverty and transport.

### A. Financing

Several complementary global commitments and frameworks within the global transport, development and climate community stress the importance of scaling up sustainable, low carbon transport. Considering the urgency and scope of change required by these commitments, it is critical to quickly scale up current levels of funding for sustainable low carbon transport infrastructure and services, as much of the [additional funding will be required to develop transport infrastructure and services](#) which currently does not exist.<sup>2</sup> FfD3 thus offered a unique opportunity to provide funding for sustainable transport infrastructure and services to enable economic and social development with fewer negative impacts. Discussions at FfD3 naturally touched upon a range of financing topics including private sector involvement, tax reform, among others.

It appears increasingly unrealistic for limited public sector funding to provide needed sustainable transport investments within the required timeframe, and thus, it is becoming increasingly important to find ways to mobilize private sector involvement to help to fill the funding gap. In [FfD3 discussions on private sector involvement](#), *Bahrain* argued that official development assistance (ODA) alone is not sufficient to achieve the post-2015 development agenda and thus that private financing flows will be necessary, and *Madagascar* similarly highlighted ODA, private flows and infrastructure investments as highly important to the FfD process. *Cameroon* also highlighted efforts to increase private investment, and *Equatorial Guinea* called for multinationals to commit to fostering sustainable development in developing countries. In addition, *Bulgaria* said the private sector is important for its ability to drive productivity, and the *Netherlands* emphasized the need for closer cooperation with the private sector.<sup>3</sup>

Discussions at FfD3 reflected the growing role of the private sector and the reality that ODA is diminishing as the major source of development finance (despite the fact that developed countries have reaffirmed their ODA commitments of 0.7% of gross national income), with claims that [ODA must be used in a more catalytic manner](#).<sup>4</sup> Yet, despite strong support for private sector involvement among many delegates (in many cases from developing countries), reactions from civil society on this topic were on balance skeptical, as described further in the 'Outcomes and Reactions' section below.

Tax reform, which also has great potential to generate financing to scale up needed global transport investments, was prominently featured in the FfD3 agenda, though negotiations on the establishment of a global tax body proved contentious, with the *G-77/China* insisting on upgrading the UN Tax Committee to an intergovernmental body to provide for an inclusive forum for discussion on global norms. In the end, [compromise language on the nomination process for the UN Tax Committee](#) allowed for the adoption of the Addis outcome document, by striking a balance between developing countries' desire to make the UN Tax Committee more intergovernmental in nature, and developed countries' requests to maintain a focus on the expertise of nominated members.<sup>5</sup>

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<sup>2</sup> [http://slocat.net/sites/default/files/uncrd\\_-\\_est\\_8\\_background\\_paper\\_-\\_final\\_-\\_19\\_december\\_2014.pdf](http://slocat.net/sites/default/files/uncrd_-_est_8_background_paper_-_final_-_19_december_2014.pdf)

<sup>3</sup> <http://www.iisd.ca/download/pdf/enb2313e.pdf>

<sup>4</sup> <http://www.iisd.ca/download/pdf/enb2314e.pdf>

<sup>5</sup> <http://www.iisd.ca/download/pdf/enb2314e.pdf>

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Other financing topics discussed at FfD3 included strengthening domestic resource mobilization by widening tax bases; setting revenue targets, and addressing [base erosion and profit shifting](#), issues many consider to be the [core of development finance](#).<sup>6</sup> Additional discussion focused on urging Member States to [adopt a new social compact](#) to establish spending targets in specific sectors like health, education, water and sanitation, though it is unclear whether transport was among sectors discussed.<sup>7</sup>

### B. Sustainable Development Goals (SDGs)

SLoCaT's [Results Framework on Sustainable Transport](#) describes the potential contribution of sustainable land-based transport to the realization of the United Nations Post-2015 Development Agenda and associated Sustainable Development Goals (SDGs). SLoCaT has proposed six main targets to realise the potential of the proposed SDGs, which include targets on rural access; urban access; national access and regional connectivity; road safety, air quality and human health; and greenhouse gas emissions. The proposed six targets are supported by associated process indicators that can be used for measuring progress in the implementation of the targets.

As an important complement to the post-2015 process, FfD3 gave significant attention to the SDGs. In conference dialogue, *the Netherlands* noted that Addis commitments on policy coherence are critical for the success of the post-2015 development agenda, and drew attention to the country's combined "[aid for trade](#)" agenda. Similarly, *El Salvador* asserted that the public finance system must align more closely with the proposed SDGs, and called for the establishment of [a world council on economic coordination](#).<sup>8</sup> In addition, the topic of returning illicit financial flows (IFFs) to developing countries to help finance implementation of SDGs was raised in general discussion.

### C. Climate change

Reducing greenhouse gas emissions from transport is essential to tackling global climate change, since transport contributed about [one quarter of energy-related global GHG emissions in 2009](#),<sup>9</sup> and transport-related GHG emissions are projected to rise by nearly 50% by 2030 under a 'business as usual' scenario. There is also an urgent need for the transport sector to adapt to climate change by strengthening the resilience of infrastructure and services to extreme weather events.

As expected, climate change received significant attention in the FfD3 dialogue, as an umbrella issue that is certain to escalate the financing requirement to meet sustainable development goals. In negotiations, *Benin's* President highlighted [the need to address climate change through technology transfer](#),<sup>10</sup> *Barbados* called for the adoption of a vulnerability and resilience index to allow middle-income countries (MICs) to gain access to concessional finance, and *Israel* urged movement towards more [innovative climate-smart financing approaches](#).<sup>11</sup>

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<sup>6</sup> <http://www.iisd.ca/download/pdf/enb2314e.pdf>

<sup>7</sup> <http://www.iisd.ca/download/pdf/enb2314e.pdf>

<sup>8</sup> <http://www.iisd.ca/download/pdf/enb2313e.pdf>

<sup>9</sup> International Energy Agency (2011), "Energy Technology Perspectives". Page 423.

<sup>10</sup> <http://www.iisd.ca/download/pdf/enb2311e.pdf>

<sup>11</sup> <http://www.iisd.ca/download/pdf/enb2313e.pdf>

## **D. Rural transport**

In the current SDG structure there is still a pressing need to emphasize improved rural transport and enhanced rural access, which are key elements to advance rural development, food security, and equitable access to education, health care and economic opportunities. Thus it is incumbent upon the FfD process to address the challenges of funding and financing sustainable rural transport within the context of a comprehensive financing framework for sustainable, low carbon transport.

In FfD3 negotiations with relevance to rural transport, *Nepal* asserted that landlocked countries need preferential access to international markets to join global value chains, and *Azerbaijan* emphasized regional cooperation and trade as essential elements in generating necessary finance to achieve development goals. While the FfD3 outcome document notes the need to promote rural development to ensure food security, and to strengthen economic, social and environmental links between urban, peri-urban and rural areas, it contains no direct references to improved rural transport and access.

## **E. Poverty and transport**

It is widely believed that mobility is a key driver of development, with positive economic and social benefits from investment in transport. It can also be argued that a very significant part of the [poverty reduction achievements](#) (e.g. alleviating hunger, reducing child mortality, improving maternal health) have been due to the improved mobility of the target populations, and increased access to supporting services and goods,<sup>12</sup> and thus that poverty and transport priorities must be advanced further within the FfD process.

In discussions at FfD3, *Nicaragua* said poverty eradication efforts continue to be threatened by inequality, unfettered capitalism and climate change, and the *Russian Federation* said debt relief to least-developed countries (LDCs) should be a priority. The FfD3 outcome document advances the [growing trend of prioritizing aid](#) to LDCs, landlocked developing countries (LLDCs) and small island developing states (SIDS), which many considered a major victory for the world's most vulnerable countries.<sup>13</sup>

## **F. Other Transport-Relevant Topics**

Other transport-relevant topics that figured centrally in discussions at FfD3 included infrastructure, trade, and city-focused actions.

On the topic of infrastructure, a global infrastructure forum was established during FfD3, which is to meet periodically to align major actors on infrastructure development (e.g. MDBs, UN agencies, national institutions, private sector). While developing countries had pushed for an infrastructure fund, [some suggested](#) that ensuring coordination and sharing best practices across institutions may be even more important pillars to achieving the SDGs.<sup>14</sup> Infrastructure discussions also centered on public-private partnerships (PPPs), which have many direct implications for transport and are discussed further in the 'Outcomes and Reactions' section below.

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<sup>12</sup> [http://www.slocat.net/sites/default/files/u10/odi-unhabitat-slocat-transport-poverty-review-starkeyhine-1411052\\_2.pdf](http://www.slocat.net/sites/default/files/u10/odi-unhabitat-slocat-transport-poverty-review-starkeyhine-1411052_2.pdf)

<sup>13</sup> <http://www.iisd.ca/download/pdf/enb2314e.pdf>

<sup>14</sup> <http://www.iisd.ca/download/pdf/enb2314e.pdf>

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Trade expansion also figured heavily in FfD3 negotiations, which would require significant scaling up of sustainable transport at national and regional levels in the coming decades. In the course of negotiations, Member States agreed to focus on “aid for trade” in developing countries (particularly LDCs), specifically through the [Enhanced Integrated Framework](#) for trade-related technical assistance to LDCs,<sup>15</sup> and the *African Union* highlighted the need for Africa to address “[infrastructure backlogs](#),” while strengthening intra-Africa trade through the creation of free trade areas.<sup>16</sup>

In addition, the FfD3 outcome document includes a specific focus on cities, which are key contributors to sustainable transport policy and practice. During FfD3, Member States agreed to increase cities’ access to finance, either through support of municipal bond markets or through access to multilateral development banks. The document also commits to [supporting sustainable and resilient urban infrastructure](#) in developing countries.<sup>17</sup>

## Outcomes and Reactions

Following a compromise agreement on the last remaining tax issue, the [Addis Ababa Action Agenda \(AAAA\)](#) was adopted on the final day of the Conference. The AAAA includes three main sections: (1) a global framework for financing post-2015 development; (2) action areas; and (3) data, monitoring and follow-up.<sup>18</sup> While FfD3 delegates declared the agreement [a win for multilateralism](#),<sup>19</sup> reactions to the AAAA have been mixed, and implications for transport are similarly complex.

Civil society organization (CSO) responses to FfD3’s initial drafts and outcome document have ranged from cautious to critical, especially regarding the role of private sector involvement in development finance. A coalition of CSOs have noted that while PPPs are proposed as a key component of the FfD agenda to address pressing infrastructure needs, it is crucial to examine based on past experience whether PPPs will help deliver needed infrastructure facilities and services for developing countries. These CSOs cited various reports from donor governments, multilateral institutions, and academic institutions which show that PPPs have mixed development impacts and can often be risky and expensive for the public sector, noting that in some cases PPP projects have left lasting negative impacts in both developed and developing countries. During negotiations, the Global Alliance on Tax Justice [warned](#) against allowing an unfettered role of the private sector in development financing.<sup>20</sup>

SLoCaT maintains that while increased private sector financing will be required to bridge the transport investment gap, ultimately, the merit of private sector financing must be tested with [a value-for-money analysis](#), which is substantially influenced by the degree to which risk can be transferred to the private sector, and which can help to determine the optimal degree of public and private sector involvement for transport investments.<sup>21</sup>

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<sup>15</sup> <http://www.iisd.ca/download/pdf/enb2314e.pdf>

<sup>16</sup> <http://www.iisd.ca/download/pdf/enb2314e.pdf>

<sup>17</sup> <http://www.iisd.ca/download/pdf/enb2314e.pdf>

<sup>18</sup> <http://www.iisd.ca/download/pdf/enb2314e.pdf>

<sup>19</sup> <http://www.iisd.ca/download/pdf/enb2313e.pdf>

<sup>20</sup> <http://www.iisd.ca/download/pdf/enb2314e.pdf>

<sup>21</sup> [http://slocat.net/sites/default/files/uncred\\_-\\_est\\_8\\_background\\_paper\\_-\\_final\\_-\\_19\\_december\\_2014.pdf](http://slocat.net/sites/default/files/uncred_-_est_8_background_paper_-_final_-_19_december_2014.pdf)

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While early proponents of raising the status of women and girls (including *Iceland*), expressed satisfaction that gender equality has been “adequately mainstreamed” in the FfD3 outcome document,<sup>22</sup> the Women’s Working Group (WWG) criticized the “commodification” of women in the AAAA, arguing that while equal participation and leadership for women are vital to enhance economic growth, **gender equality must be addressed** by placing women as holders of rights and not as a strategy to improve economic performance.<sup>23</sup> In addition, the WWG argues that the AAAA relies too strongly on private sector contributions to FfD and women’s empowerment, thereby diverting attention from the role of states in removing development obstacles by mobilizing ODA and domestic public resources. Finally, the WWG asserts that FfD3 has failed to put in place accountability mechanisms for private sector and PPP projects that are in compliance with human rights standards, including environmental and social safeguards for women and girls, indigenous communities and people facing structural discrimination.

SLoCaT proposes that safe and reliable urban and rural transport can facilitate women’s economic empowerment and overall improvement of the economic health of the state. This is especially vital in contexts in which women are increasingly becoming heads of household and primary breadwinners in developing countries. The SLoCaT Partnership aims to further emphasize in global processes the fact that access to sustainable transport is a key component in comprehensive gender equality for women and girls.

In sum, while discussions at FfD3 showed strong support for private sector involvement in development finance, CSOs appear skeptical at best. Though the devil is in the details, these arguments will provide useful counterpoint in forthcoming discussions.

## FfD3 Implications for Transport

The SLoCaT Partnership’s initial reaction to the AAAA is measured, based on the modest increase in *direct* references to transport, which have increased from four to five between the zero draft and the final outcome document.

*Direct* transport references include intentions to develop more efficient transport systems for landlocked developing countries (para 8); to bridge the infrastructure gap by investing in sustainable and resilient infrastructure in transport and other sectors (para 14); to support local authorities in LDCs and SIDS in implementing environmentally sound infrastructure in transport and other sectors (para 34); to encourage MDBs and regional banks to address gaps in trade, transport and transit-related regional infrastructure by connecting LLDCs, LDCs, and SIDS through regional networks (para 87); and to provide technical assistance to improve trade- and transit-related logistics in LLDCs (para 90).

In addition, the AAAA provides important references with *indirect* relevance to transport, which include reaffirming a commitment to rationalize inefficient fossil-fuel subsidies that encourage wasteful consumption (para 31); and encouraging innovative financing mechanisms to bring together public and private resources, such as green bonds and carbon pricing mechanisms (para 69).

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<sup>22</sup> <http://www.iisd.ca/download/pdf/enb2314e.pdf>

<sup>23</sup> <https://wgonffd.files.wordpress.com/2015/07/women-working-group-reaction-to-addis-ababa-action-agenda-17-july-20151.pdf>

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Despite these direct and indirect transport references, SLoCaT notes that the AAAA still does not make adequate explicit references to rural transport, goods transport (including agricultural products), and road safety, as recommended in SLoCaT's June 2015 comments to the FfD3 co-facilitators. In addition, SLoCaT notes that AAAA's references to transport focus primarily on the provision of transport infrastructure at the expense of the equally crucial provision of transport services. Finally, SLoCaT notes that additional sector-specific recommendations in the outcome document could do more to advance the position of transport relative to other sectors.

Furthermore, SLoCaT concludes that while private sector participation has a key role to play in providing sustainable transport infrastructure and services (and by extension, in other sustainable development sectors), it must place within strong public sector regulatory and planning frameworks that maximize the private sector's knowledge, technology and assembly of capital resources to yield the most optimal outcomes under often sub-optimal circumstances. SLoCaT is encouraged by the fact that these points are generally reflected in the AAAA (para 48).

Finally (as noted in the review of the zero draft AAA), SLoCaT notes that the AAAA fails to make the critical point that sustainable, low carbon transport investments are more cost-effective than traditional approaches, when considering environmental and social co-benefits (e.g. air quality, GHG reductions, time savings, fuel savings, road safety). Thus the FfD agenda has missed a key opportunity to note that within the transport sector and other sectors, the most efficient way to generate development finance is to leverage efficiencies that reduce the need for such finance in the first place.

In sum, while SLoCaT is encouraged by existing references to sustainable transport in the AAAA, additional emphasis this crucial cross-cutting function of sustainable transport is required in forthcoming dialogue on development finance. Thus, while SLoCaT applauds these small steps forward for transport, key arguments remain overlooked.

## The Road Ahead

At the close of FfD3, delegates had already begun to [turn their eyes](#) toward the post-2015 development negotiations in New York in September 2015 and the climate change negotiations in Paris in December 2015.<sup>24</sup> For the post-2015 summit, a [key question](#) is whether the AAAA can redirect financial flows to match the ambition of the SDGs, with implementation expected to cost up to \$175 trillion over 15 years.<sup>25</sup> Regarding COP21, the AAAA leaves open the question of [additionality of climate finance](#) to ODA, and a largely satisfactory FfD3 outcome has also raised optimism for the December climate conference in some corners. Finally, the [reaffirmation of Rio Principles in the AAAA](#) was seen by some as an endorsement of common but differentiated responsibilities (CBDR), but this is likely to remain a contentious issue in both New York and Paris.<sup>26</sup>

In the wake of Addis Ababa, the SLoCaT Partnership will continue to develop and promote its [financing framework for sustainable low carbon transport](#) in the context of discussions on sustainable development in September 2015, climate change in December 2015, and sustainable urban development at Habitat III in October 2016.

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<sup>24</sup> <http://www.iisd.ca/download/pdf/enb2314e.pdf>

<sup>25</sup> <http://www.iisd.ca/download/pdf/enb2314e.pdf>

<sup>26</sup> <http://www.iisd.ca/download/pdf/enb2314e.pdf>