UN GA Hearings with Civil Society in preparation for the Third International Conference on FfD

Roundtable Discussion 4 - International trade and investment, including private finance

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A MISTAKEN DIAGNOSTICS INVARIABLY LEADS TO A FAULTY THERAPHY

The Zero Draft exposes an unjustified belief in the private sector, despite the historical phase in which the depth of market failures is increasingly recognized even within the bedrocks of orthodoxy. Such belief is even less justifiable as it becomes increasingly evident that poverty and marginalization are not the result of market-imperfections. On the contrary, they are necessary conditions for the persistence of many of the drivers of the current growth pattern and predatory private sector practises have actually been the vehicle to exploit the commons and extensively violate human rights and the right to development. Shifting from the conventional poverty approach into the analytical framework of inequalities immediately exposes the close nexus between prosperity and poverty and the political economy that consolidates existing power structures and the intergenerational cycle of inequity and marginalization.

We are concerned that the Zero Draft further strengthens such political economy by strengthening privilege rather than tackling equity. Without proper regulation, the private sector can at best provide limited inclusion, provided the terms of inclusion are favourable to ownership and capital. The current extractive nature of the much-celebrated African growth is a perfect example of this irrefutable reality.

We are concerned that the approach exposed by the Zero Draft leaves the drivers of the current extractive growth unchallenged, while continuing to promote the social bribery that has dominated development action over the past years: Let a few crumbles fall from the table of the rich to ensure the poor survive but remain weak enough not to challenge the structures of power.

The following dimensions would therefore need to be addressed in the negotiations and future re-iterations of the Zero Draft:

1. **Strengthen the commitment to develop binding rules to re-orient the current business model rather than voluntary guidelines, in particular for TNCs, and move beyond corporate social responsibility (often a cherry on a rotten cake)**: The current business model is at the core of many of the problems we are faced with and voluntary guidelines did not and will not help. Furthermore, speaking of voluntary guidelines in the context of a non-binding agreement makes whatever statement virtually irrelevant. The re-orientation of the business model towards human rights, greater social inclusion (one can say a greater socialization of production), environmental

sustainability, transparency and accountability, is the pre-condition for the "creation of enabling business environment" to make sense from a development point of view. In its absence, such enabling environment would only reinforce the current unsustainable and socially irresponsible (if not predatory) business practices. The private sector needs binding regulations as well as a new system of fiscal incentives and disincentives (for instance by de-taxing labour and taxing natural resources in order to re-write the productivity relations between the factors of production). Re-writing the rules of the game, providing the private sector with a timeframe for progressive adjustment, and creating incentives for those that would adapt more quickly is the only possibility for the private sector to be a virtuous player in the development process. The moment the rules change, the private sector will adjust even more rapidly than we would expect, as this is the nature of business competitiveness.

2. **Unpack the private sector and separate TNCs from the domestic sector**: The private sector is addressed as a homogenous entity throughout the document, strategy backed by TNCs to hide behind the domestic private sector entities. A vibrant domestic economy is essential to advance the transformative agenda of developing countries. The pretence of a virtuous ecology between powerful TNCs and local economic actors cannot be sustained any more. The hegemonic global food system and its agro-industrial production model is a perfect example of how powerful transnational economic actors can undermine local economies and their food systems, violate the human right to adequate food and nutrition and create new forms of malnutrition.

3. **Red flag on blending finance unless the business model is re-written and the private sector in unpacked**: Without binding rules on sustainable production patterns, workers' rights and the equitable distribution of gains, the use of public finance to support private sector investments equals to a redistribution of public resources for private interest and the socialization of risks to promote the privatization of gains and wealth for the few. Furthermore, the centrality of inclusive and sustainable industrial development for developing countries in order to promote economic diversification, add value to raw materials, improve economic productivity, develop and use modern and appropriate technologies is never mentioned when referring to blending finance, as it seems to be much more targeted toward the well-established transnational economic powers.

4. **Protect the public policy space from "stakeholderization" and corporate capture**: The multi-stakeholder language runs throughout the Zero Draft. It is essential to re-affirm that the public policy space needs to respond to right-holders, consistently with the State role as duty bearer. The multistakeholder approach is increasingly used to divert attention from right-holders to stakeholder and provide channels for undue influence by corporations in public policy with no

consideration of conflicts of interest. In this context, we increasingly experience the perverse function of global philanthropy that selectively supports “science” that support a self-serving narrative under the pretence of “objective” evidence.

5. **Remove language that encourages the use of PPPs and re-affirm the centrality of public investment**: We wonder where is the evidence for the multiple references to PPPs. The use of PPPs should be profoundly interrogated, as increasing evidence shows that they change the nature of public services, worsen the fiscal problems against which they are offered as solutions, and provide less efficient and more costly operations than they claim. PPPs also promote the abdication of States’ responsibility to provide public goods and services and involve differential impact of social groups and spatial realities, the increasing private provision of water, health and education being blatant examples. Another dimension of serious concerns are the significant hints that promote the financialization of PPPs to access pension funds and insurance funds.

6. **Infrastructure development requires qualification rather than a blind cheque**: Infrastructural development needs to be closely aligned both to the provision of public goods and service and to the advancement of sustainable industrialization, economic diversification and the strengthening of the domestic economy. We are therefore particularly concerned with the unsophisticated call to scale-up infrastructure plans and their financing. The Programme for Infrastructural Development in Africa (PIDA) offers an excellent exemplification of these concerns. It is increasingly clear that PIDA may greatly contribute to the ossification of the current African extractive growth model in the face of all the rhetoric of structural transformation as it remains dominated by the logic of connecting “extractive sites” to ports rather than promoting regional integration and economic diversification. It also calls for mega-projects with profound external debt exposures and related long-term macro-economic consequences.

To conclude, pretending that private solutions will provide for public problems seems to offer a gross misrepresentation of reality. We hope the Addis Accord will re-affirm the role of the State as duty bearer, the centrality of public investments and the urgent need for regulation of the private sector, particularly the transnational one, to re-orient the current unstainable and socially irresponsible business model and practices.