21 January 2015

Preparatory Process for the 3rd International Conference on Financing for Development

Elements

I. Overview

In September 2015, the international community will adopt the post-2015 development agenda, including the Sustainable Development Goals (SDGs). This universal agenda will aspire to transformative change to eradicate poverty and hunger and achieve economic growth and transformation, while protecting the environment, ensuring peace and realizing human rights. Its success will hinge on reaching an ambitious agreement on policies, financing, technology transfer, capacity building and systemic issues at the Third International Conference on Financing for Development (FfD) in Addis Ababa from 13-16 July 2015.

The financing needs for sustainable development are enormous. Estimates vary due to the complexities of quantifying needs, but consistently point to a significant financing shortfall.[1] But they can be met. Indeed, global public and private savings would be sufficient to meet the needs. Yet it is clear that current financing and investment patterns will not deliver sustainable development. The solution lies in an integrated policy framework that changes existing patterns, to mobilize and effectively use all sources of finance – public and private, domestic and international. Only an effort shared by all, at national, regional and international levels, will suffice to meet the SDGs and deliver sustainable development.

The post-2015 development agenda will be implemented primarily at the national and subnational level. Successful implementation will require an enabling domestic environment, including good governance, sound economic policies, solid democratic institutions responsive to the needs of the people, improved infrastructure, rule of law and national policy strategies that take account of the inter-relations between the economic, social and environmental dimensions of sustainable development and that are adequately financed. To this end, the Secretary-General encouraged countries to adopt national sustainable development financing strategies which would be integral parts of their national sustainable development strategies (NSDS).[2]

While countries are responsible for their own development, implementation of the post-2015 agenda will require partnerships between a broad range of relevant stakeholders, leveraging their resources and unique skills and advantages. Countries efforts' will need to be supported by coherent and mutually supporting world trade, monetary and financial systems, better processes to globally develop and share appropriate technologies, capacity building, a balanced approach to sovereign debt distress and strengthened global economic governance. We need a renewed and strengthened global partnership for sustainable development, which provides a global framework within which countries can situate national financing strategies.

The effort to forge a stronger global partnership should build on the full compact of policy commitments expressed in the Monterrey Consensus and the Doha Declaration, which remain relevant in their entirety. It should build on the outcome documents of the UN Conference on Sustainable Development (Rio+20) and other major United Nations conferences, and on the priorities expressed by the General Assembly when it called for the third International Conference on Financing for Development (resolution 68/204), and should take into account the report of the Open

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[1] See for example: Report of the Intergovernmental Committee of Experts on Sustainable Development Financing, A/69/315; UNCTAD, World Investment Report 2014

[2] Synthesis Report of the Secretary-General on the post-2015 agenda, A/69/700

Working Group on Sustainable Development Goals, the report of the Intergovernmental Committee

In considering this document, reflection is encouraged on the following questions:

Do the elements presented cover the most critical dimensions of the agenda?
Are the key challenges covered in each of the building blocks?
What are concrete policy proposals that can be most transformative to address these challenges? (To aid in this endeavour, a list of selected ideas presented during the preparatory process is included in an annex.)
How can the elements presented be made most relevant to and synergistic with the post-2015 agenda and implementation of the SDGs?
What should be the key deliverables in Addis Ababa?

II. THE BUILDING BLOCKS

A. Domestic public finance[3]

Domestic resource mobilization – public and private – is at the crux of financing for sustainable development. It is vital to achieving all the SDGs. In particular, public resource mobilization is essential for providing goods and services delivered by the government,[4] including education, health, and food security, as well as investment in infrastructure.

related to commodity exports are also exposed to commodity price volatility.[7] Addressing harmful tax competition between countries, and the resulting "race to the bottom", could also help raise needed resources. Furthermore, t

Foreign direct investment (FDI) and domestic private sector activity in developing countries have increased substantially since Monterrey. Though more needs to be done, many countries have strengthened the domestic business environment, including legal and regulatory reform, transparency, and the ease of doing business. Overseas remittances from migrant workers have also increased substantially. In addition, philanthropic finance from private individuals, foundations and other organizations to developing countries has become significant. There is also a renewed focus on corporate responsibility, partly driven by increased awareness of climate and sustainability risks to long-term profitability, though it is still far from a universally accepted practice.

Nonetheless, 2.5 billion people, disproportionately women and the poor, lack access to any formal financial services, and the transfer of remittances remains costly. Financial markets in many developing countries remain underdeveloped. At the same time, the 2008 financial crisis underscored the risks associated with excessive financial sector leverage, and thus the importance of a robust regulatory environment and quality of investment. In this regard, t

Blended finance and public private partnerships offer potential in many areas, but there are challenges in fair and effective implementation, and countries often lack capacity.

C. International public finance[11]

International public finance will play an important role in the post-2015 development agenda. It will remain essential for ending poverty, ensuring healthy lives, advancing education, and the inclusion of women and marginalized groups. ODA will remain a key means of implementation for the SDGs. It will remain necessary to address the needs of the poorest and most vulnerable in developing countries, particularly in those countries that have limited capacity to raise public resources domestically, such as LDCs, SIDS and other vulnerable countries, including countries emerging from conflict. It is also critical that countries have continued access to international public finance throughout their development, including after graduation to middle income status. Using ODA more 'smartly' can facilitate the mobilization of additional financial resources. International public finance will also be necessary for addressing additional global goals and leveraging private financing flows.

Net ODA has increased significantly since the Millennium Summit and Monterrey, but many donors still fall significantly short of their commitments. In addition, it is concerning that the share of ODA allocated to LDCs has recently fallen. As concerns about environmental degradation and climate change have grown, an increasing share of ODA has been targeted at environmental sustainability and climate change mitigation and adaptation and these flows are oriented more towards middle-income countries than other ODA flows. These and other international challenges that extend beyond the traditional remit of ODA, such as research on communicable diseases, science, innovation and new technologies, will also require stepped-up resources to achieve the SDGs.

Other forms of international bilateral and multilateral public finance play important roles in financing development. They include traditional non-concessional loans, which can play an important role in middle-income countries in particular. Other forms of official cooperation include innovative financing mechanisms, and South-South and triangular cooperation. There is unrealized potential in these sources that could be tapped to increase the pool of international public finance for sustainable development.

In addition, multi-stakeholder partnerships have increasingly become a modality to support the implementation of specific development-related goals (e.g. on health) drawing on complementary interests and roles of public, philanthropic and private actors.

Major challenges include:

ODA remains below commitments.

The share of ODA to LDCs, SIDS and other v Tme00getmentas4(me)5(vETBT/F3 12 T81 0 0 1 2.02432931 T

Financial markets and private capital flows remain volatile, exposing countries to risks of financial crisis.
The banking and shadow-banking systems pose systemic risks to the real economy.
International rules and standards are not always in line with sustainable development objectives.
Developing countries are inadequately represented in international economic decision-making and norm-setting and needs to reflect changing dynamics in the world

III. Monitoring, data and follow-up[18]

The Addis outcome document will embody a joint political commitment. It will rely on the political will of Governments both directly and through the international institutions they control to deliver on the commitments, aided by the joint monitoring of their implementation.

Effective monitoring of results depends on appropriate quantitative and qualitative data and statistics, and their comprehensive analysis. Despite an exponential increase in the volume and types of data collected, statistics on financial flows and investment are largely based on decentralized providers, are often incomplete, and in some cases are not publicly available. Updating and extending relevant statistical methodologies, and building partnerships with private data providers, is a continuing imperative of the international community. Annual assessment reports have served as a useful instrument.

The follow-up process can include strengthening the role of regional and national bodies. However, a complication arises when a commitment is made by a non-state entity. Only the committing entity can be held accountable, not the class of organizations. Nevertheless, individual firms or associations can make pledges and be monitored for their implementation.

One question for the FfD process is to agree on a suitable monitoring framework and processes to ensure the right data and analysis is available for mutual accountability purposes. It needs to ensure its relevance to the review process for the post-2015 agenda, and achieve effective linkages to other UN processes and bodies, in particular the High-level Political Forum on Sustainable Development, to the institutional stakeholders and other MDBs and IFIs, the OECD, and the Financial Stability Board (FSB), amongst others, as well as effective engagement with other stakeholders, including civil society and the business sector.

Major challenges include:
There are large gaps in data on financing flows.
Accountability relies on effective monitoring of commitments.
Staying engaged is key to ensuring that there is no gap between policy making and commitments on the one hand and implementation and follow-up on the other. To this end, the intergovernmental follow-up process will need to be strengthened.

[18] For a fuller analysis, see background notes prepared by the Secretariat on data (http://www.un.org/esa/ffd/wp-content/uploads/2015/01/11Dec14_DataGaps.doc

ANNEX: CHALLENGES AND A LIST OF SELECTED POLICY IDEAS

The following is an indicative list of policy ideas provided for consideration. The list is not exhaustive, but is meant to give a sample of the wide range of policy ideas that have been proposed. It is intended to stimulate more concrete discussions and elicit more specific guidance on the critical components that should comprise the outcome in Addis Ababa. The list has been compiled by the Secretariat based, in the first instance, on the informal substantive FfD sessions held in November and December 2014 as well as on inputs contributed by the institutional stakeholders, civil society and the business sector. The list also draws from the Report of the Open Working Group on Sustainable Development Goals, the Report of the Intergovernmental Committee of Experts on Sustainable Development Financing, the Secretary-General's Synthesis Report.

Suggested policy ideas include:

I. OVERVIEW

Adopt national sustainable development financing strategies to finance NSDS.

Match the type of financing flow with appropriate needs and uses.

Track 'To whom, from whom' information on cross-border financial flows.

Reflect SDGs in the setting/update of international tax norms and tax agreements.

Set up national, cross-departmental coordination task forces on IFFs to build joint capacity.

Upgrade the UN Tax Committee into a standing intergovernmental committee; *alternatively*, strengthening a participatory broad-based dialogue on international tax cooperation including the UN, G20, IMF, OECD, World Bank and regional forums.

Minimising wasteful tax competition:

Agree to international (or regional) minimum corporate tax floors and consolidated corporate tax base; *alternatively* voluntary (regional) cooperation between competing countries.

Ensure tax incentives are in line with sustainable development.

Ensure full transparency of tax incentives, tax holidays, and other measures.

B. Domestic and international private finance

Achieving financial inclusion:

Strengthen financial inclusion strategies at the national level.

Encourage central banks or regulatory authorities to include financial inclusion as a policy objective; broaden financial regulations to cover all financial intermediaries, balancing access to credit with stability.

Protect consumers, regulate business conduct, and improve financial literacy.

Use new technologies to promote financial inclusion.

Promote sharing experiences, through intraregional fora, other regional groups and globally.

Undertake multi-stakeholder reviews on the availability of financial services for all population groups, particularly women.

Increasing access to finance for micro, small, and medium enterprises (MSMEs):

Utilize national development banks and/or alternative institutions such as cooperative banks and credit unions to provide credit to MSMEs.

Enhance institutional and legal infrastructure to support MSME lending, including strengthening the use and quality of credit data.

Design regulations that take account of their impact on credit for MSMEs.

Develop innovative debt funding structures as well as promoting securitization, while incorporating safeguards to address risks.

Encourage public/private initiatives to create development-oriented venture capital funds.

Supporting remittances:

Increase competition and transparency in sending and receiving countries.

Make use of new technologies.

Launch a global non-profit remittance platform.

Set a target to lower the cost of remittances.

Reducing risks for private investment:

Improve the “enabling” business environment by strengthening domestic legal systems, and the policy, regulatory and institutional environments.

Use ODA for capacity building and streamlining business procedures, as appropriate.

Ensure a conducive policy environment for industrial diversification and value addition to commodities.

Strengthening the sustainable development impact of investment:

Encourage development-enhancing linkages between multinational enterprises and local production activities.

Provide incentives and regulations for companies to internalize adverse externalities, and to invest in sustainable development.

Increase the role of investment promotion agencies in promoting sustainable development and developing pipelines of investible projects.

Require all companies and asset managers to undertake mandatory environmental, social and governance (ESG) reporting, *or alternatively* governments determining the appropriate balance between voluntary and mandatory reporting.

Implement the UN's Guiding Principles on Business and Human Rights, core labour standards of the International Labour Organization, and relevant environmental standards, with enforcement and accountability mechanisms; *alternatively* encourage companies to sign on to principles consistent with socially and environmentally responsible investment.

Unify and strengthen various initiatives on responsible financing, identify gaps, and strengthen the mechanisms and incentives for compliance.

Developing stable long-term local currency bond markets:

Encourage local currency bond market development.[24]

Incorporate sustainability criteria and a long-term orientation into domestic bond market regulations.

Encourage development of domestic institutional investors.

Strengthen regional, inter-regional and global fora for knowledge sharing, technical assistance, and data collection.[25]

Increasing long-term investment by institutional investors in sustainable development:

Promote capital markets regulation that integrates sustainable development factors.

Promote incentives along the investment chain[26] that are fully aligned with long-term performance and sustainability indicators.

Ensure that brokers, rating agencies, investment consultants include sustainability and long-term investing assessments.

Include

Encourage national, regional, and multilateral development banks to channel resources of long-term institutional investors for sustainable infrastructure, e.g. through long duration green bonds.

Strengthen regional and global fora for technical assistance, data collection and sharing lessons across countries, building on current initiatives.[28]

Build capacity for project preparation and negotiations.

Establish public country-based databases containing viable infrastructure projects.

Partner with private sector groups to support the growth of new asset classes in infrastructure and sustainable investment.

Revisit safeguards and other measures to ensure infrastructure projects take account of their sustainable development and human rights impact, while not being overly burdensome.

Harnessing the potential of public private partnerships (PPPs) while addressing risks:

Develop and adopting principles and standardized documentation for PPPs, which include transparency, accountability, equity, fairness, sustainability.

Develop a set of standards for when use of PPPs is strategic and appropriate.

Support capacity-building in feasibility studies, negotiation and management.

Develop standardized blended finance toolkits in local languages and related support workshops for both government officials and the private sector.

C. International public finance

Meeting ODA commitments:

All developed countries meet the 0.7 target.

Set concrete and binding timetables to meet commitments.

Increasing the share of ODA to LDCs and other vulnerable countries, and to the most vulnerable households:

Allocate a specific share of ODA to LDCs and other vulnerable countries, either individually or collectively.

Reaffirm existing targets for LDCs with binding timetables.

Establish a fund from ODA grants to help finance social protection floors in the poorest countries.

Focus ODA on poverty eradication and on the poorest and most vulnerable countries and households.

Enhancing synergies between ODA and climate finance while ensuring that ODA is not diverted from the poorest households and countries:

Ensure additionality by increasing both climate finance and ODA net of climate finance.

Set up an expert technical group to develop and present to Member States options for a coherent framework that accounts for climate finance and ODA in a transparent manner.

Ensure increased coherence and strengthened linkages of ODA to the three pillars of sustainable development.

Improve the monitoring of other official flows:

Hold open and transparent discussions in the United Nations of the proposed modernization of the ODA definition and the proposed indicator of "total official support for sustainable development (TOSD)".

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[28] This could build on current initiatives (e.g. the G20 Global Infrastructure Initiatives).

Using partnerships in development cooperation while addressing concerns over increased fragmentation:

¾Encourage the formulation of initiatives for creating partnerships for implementing the SDGs at all levels when appropriate.

Establish principles for setting up global partnerships, to help determine what role they should play, for which sectors and challenges partnerships would be the most appropriate form of international cooperation (e.g. for education, agricultural and nutrition, etc.)

Establish a global fund for health that brings together existing health funds.

Adopt principles for partnerships, including transparency; accountability of all actors; adherence to development effectiveness principles; fair sharing of risks and benefits; alignment with NSDSs.

As a condition to obtain and maintain UN participation or endorsement, conduct independent periodic evaluations of adherence to agreed principles.

D. Trade

Agreeing sustainable-development-oriented multilateral trade rules:

Complete the Doha Round of multilateral trade negotiations.[31]

Include sustainable development in trade rules where appropriate.

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Strengthen public interest exemptions under the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) for health and technologies for climate change mitigation and adaptation.

Encourage the use of treaties on access to published works for people with disabilities.

Aligning regional and interregional agreements with sustainable development strategies:

Align regional agreements, including regional industrial policies.

Collect best practices of making agreements compatible with meeting the SDGs.

Aligning investment agreements with sustainable development policies and plans:

Elaborate binding environmental, social and human rights standards.

Amend treaties to address shortfalls of arbitration for investor-state dispute settlement.

Safeguard the right to regulate on health, environment, safety, financial stability, etc.

Undertake a comprehensive international review of existing investment agreements.

Guarantee transparency in arbitration and publication of arbitral awards.

E. Technology, innovation and capacity building

Fostering innovation and capacity:

Adopt coherent national science, technology and innovation strategies as part of NSDSs.

Increase investments in science, technology, engineering and mathematics (STEM) education, ensuring equal access to women and girls and encouraging their participation.

Enhance the use of enabling technologies, in particular ICT, to promote women's empowerment.

Increase international cooperation and collaboration on innovation, science and research, including by building on existing initiatives.

Providing sufficient financing for innovation, in particular for sustainable technologies:

Set up innovation funds to support innovative enterprises in the early stages of the technology cycle. These should take a portfolio approach to diversify risks and capture the upside of successful enterprises.

Scale up ODA for science and innovation to support research and development technology diffusion, as well as national innovation funds and innovation centres.

Addressing technology gaps in developing countries, particularly in the poorest countries:

Set up a facilitation mechanism to promote the development, transfer and dissemination of clean and environmentally sound technologies to developing countries on concessional and preferential terms, to support achievement of the SDGs.

Establish an online platform to map existing technology facilitation initiatives, enhance international cooperation and promote networking and information sharing, knowledge transfer and technical assistanc, trnational cooperai4(t)4(rna)7(ti)2>BDC BT/F11 12 Tf1 0 0 nternational revii6l/F7 ca

Incorporate financing the SDGs into debt sustainability frameworks and assessments; better use of debt sustainability assessments for setting the type of development assistance.

Adhere to UNCTAD Principles on Responsible Sovereign Lending and Borrowing.[34]

Improving information on debt stocks and flows:

Create databases on debt and debt holders, and on debt restructuring agreements; enhancing comparability and consistency of data from debtor and creditor records.

Publish all available information on public and publicly guaranteed debt.

Initiate country-owned national debt audits in creditor and debtor countries.

Improving the framework for sovereign debt restructuring:

Continue existing discussions on a multilateral framework for sovereign debt restructuring.

Implement a mediation service.

Create a sovereign debt forum to facilitate creditors- debtors-stakeholder engagement.

Convene a UN-and-IMF-supported intergovernmental committee to develop proposals for that may win widespread support.

Improve standardized contractual terms in sovereign bond contracts.

Aligning international rules and standards with sustainable development objectives:

Carry out coherence checks of international rules on the achievement of the SDGs.[37]

Assess national financial regulations' impacts on mobilizing development finance.

Align the business practices of development finance institutions, including IFIs with sustainable development objectives.

Use a broader metric of well-being than GDP as a sustainable development indicator.

Implementing a system of environmental-economic accounting (SEEA).

Promote sustainable patterns of production and consumption, including through the 10 year framework of programmes on sustainable production and consumption.

Respect each country's policy space and leadership to establish and implement policies for poverty eradication and sustainable development.

Enhancing developing countries representation in global economic governance:

Further enhancing the voice and vote of developing countries in the IFIs.

Enhance developing country participation in Financial Stability Board decision making.

Introduce open, transparent, gender-balanced, merit-based selection of senior leaders of all international institutions.

III. MONITORING, DATA AND FOLLOW-UP

Addressing data gaps:

Enhance capacity building and financial support to developing countries to significantly increase the availability of high-quality, timely and reliable data.

Invite international statistical services and forums, led by the UN Statistical Commission, to regularly assess and report on the adequacy of international statistics related to FfD.

Create a central tracking mechanism for data on all cross-border financing flows that brings together existing databases.

Support the strengthening of national capacities to monitor and publish the domestic flow of funds, including sources, uses, and impact on sustainable development.

Improve the availability of disaggregated financing data along sector, geographic, investor type, gender, ethnicity, age, ability, and other dimensions, where ap

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