

Financing for Sustainable Development

The Road to Addis Ababa

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DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS

Financing for Development

Third International Conference on Financing for Development (Addis Ababa, 13–16 July 2015)

- ▶ Substantive focus:
 - Assess the progress in implementation of Monterrey Consensus and Doha Declaration
 - Address new and emerging issues in the context of the post-2015 development agenda
 - Strengthen the FfD follow-up process
- ▶ Conference modalities:
 - Will be held at the highest possible political level, including HoS&G and Ministers of Finance
 - Will result in an intergovernmentally negotiated and agreed outcome

The Post-2015 context

- ▶ FfD as one of three UN processes leading to:
 - The Third International Conference on Financing for Development (FfD) in Addis Ababa in July 2015
 - The UN Summit on post-2015 development agenda, including SDGs, in New York in September 2015
 - COP-21 on global agreement on greenhouse gas emissions in Paris in December 2015
- ▶ General agreement that Addis must be relevant to, and coherent with, the post-2015 development agenda
 - The four co-facilitators have suggested that all MoI for post-2015 DA be discussed in the FfD process
 - Joint sessions of the FfD process and the post-2015 negotiations in April 2015 in New York

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The Road to Addis Ababa

- ▶ 8 Substantive informal sessions (October–December 2014)
- ▶ 1st Drafting session on Addis outcome (28–30 January 2015): *Elements paper*
- ▶ Zero draft of the outcome document (March 2015)
- ▶ Regional consultations on FfD (March–April 2015)
- ▶ Informal interactive hearings with civil society and the business sector (8–9 April 2015)
- ▶ 2nd Drafting session on Addis outcome (13–17 April 2015)
- ▶ IMF/World Bank Spring Meetings (17–19 April 2015)
- ▶ ECOSOC Special high-level meeting with the World Bank, IMF, WTO and UNCTAD (20–21 April 2015)
- ▶ MoI Meeting of Post-2015 negotiations (22–25 April 2015)
- ▶ 3rd Drafting session on Addis outcome (15–19 June 2015)



Third International Conference on Financing for Development
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Key Outcomes from Addis Ababa

- ▶ Cohesive and holistic financing framework for sustainable development: policy commitments
- ▶ Concrete deliverables, including in cross-cutting areas, such as:
 - Social needs, including poverty eradication
 - Agriculture and food security
 - Infrastructure development
 - SME financing
- ▶ Strong and robust monitoring and follow-up process

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The Monterrey Consensus and Doha Declaration serve as a basis for Addis



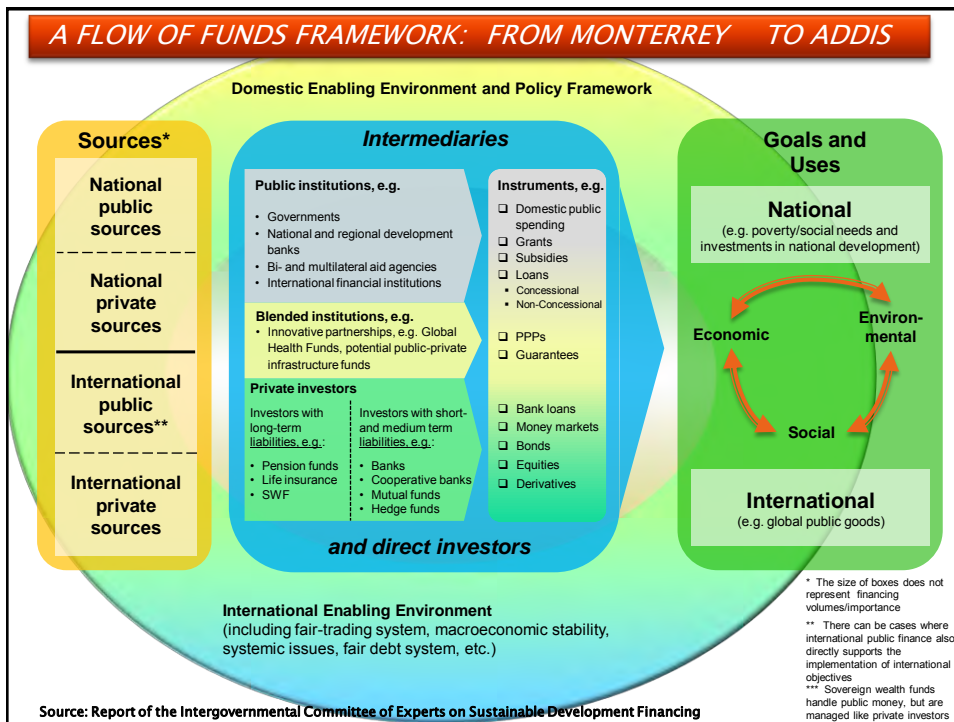
- ▶ A holistic approach and framework
- ▶ Finance is more than flows
 - Public, private, domestic and international flows + trade, debt, systemic issues
 - Domestic and international enabling environment
- ▶ Countries responsible for their own development; the international community responsible for an enabling international environment
- ▶ Primarily North-South agenda

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From Monterrey to Addis Ababa

- ▶ Assess progress and chart the way forward
 - Need to incorporate the roles and incentives of intermediaries
- ▶ Integrate sustainable development in its three dimensions (economic, social, environmental)
- ▶ Incorporate global public goods
 - How to include universality of post-2015 development agenda, while still maintaining emphasis on poverty eradication and economic and social development?

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Intergovernmental Committee of Experts on Sustainable Development Financing

Over 115 policy recommendations pertaining to domestic and international, public, private and blended financing

- ▶ Studies show needs are in the order of trillions of US\$ per year (though difficult to measure)
- ▶ Yet global savings, at \$22tr/year, are sufficient to meet the needs
- ▶ But they are not allocated where needed – and current financing patterns won't deliver
- ▶ The challenge is to promote a global (public and private) financial system that incentivizes a reallocation of a portion of savings
- ▶ No one simple policy solution
- ▶ ICESDF report presents a toolkit of options, from which governments can choose
- ▶ A cohesive approach, based on national financing strategies as part of national sustainable development strategies

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Building on the Monterrey Consensus

Monterrey Consensus

- A. Domestic financial resources
- B. International resources: foreign direct investment and other private flows
- C. International trade
- D. International financial and technical cooperation
- E. External debt
- F. Systemic issues

Elements Paper

- A. Domestic public finance
- B. International public finance
- C. Domestic and international private business and finance
- D. International trade
- E. Technology, innovation and capacity building
- F. Debt sustainability
- G. Systemic issues

Data, monitoring and follow-up

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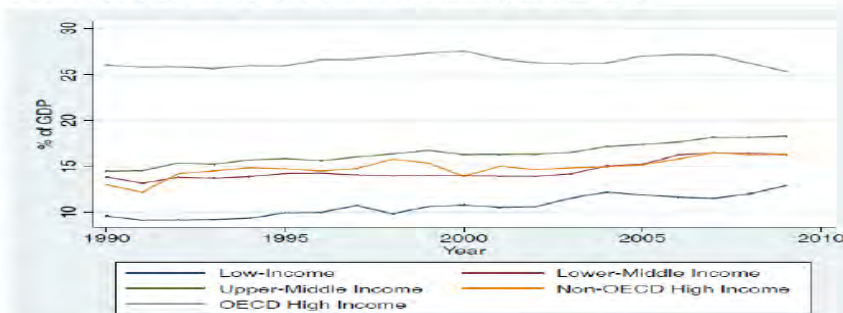
Elements of a Comprehensive Financing for Development Framework

- ▶ All sources of financing are needed for sustainable development
- ▶ Different financing flows are complements, not substitutes, as they have different roles and objectives
- ▶ Private finance is profit-oriented and is particularly suited for productive investment
- ▶ Public financing is indispensable in many areas of social need and public goods
- ▶ SD financing strategies need to maximize synergies across financing streams

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A. Public Resource Mobilization

Figure: Average tax to GDP ratios by country income level



Notes: OECD High income includes all OECD countries excluding Mexico, Poland and Israel. Non-OECD high income includes Uruguay, Qatar, Aruba, Croatia, Lithuania, Brunei Darussalam, Malta, Trinidad and Tobago, Antigua and Barbuda, Barbados, Singapore, Cyprus, Kuwait, Equatorial Guinea, Hong Kong, St Kitts and Nevis, San Marino, the Bahamas and Bahrain.

Source: Prichard, Cobham, and Goodall, 2014, based on ICTD Government Revenue Dataset

- ▶ Average revenue increase of 2–3% of GDP in DC, while some reach 5%.
- ▶ Tax revenues around 10–14% of GDP in LICs; 20–30% in HICs.

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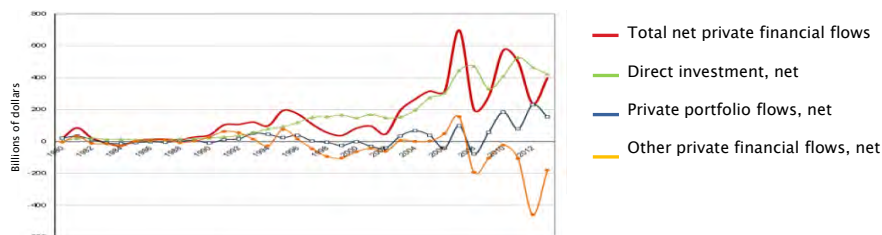
A. Domestic Public Finance

- ▶ **Public resource mobilization**
 - Essential for public provision of goods and services
 - Reduce inequalities by using tax and expenditure policies
 - Align domestic incentives with sustainable development
 - Manage macroeconomic stability
- ▶ **International cooperation**
 - Additional ODA for capacity building
 - Increase fiscal transparency: public country-by-country reporting by multinational enterprises; beneficial ownership registries; automatic exchange of tax information
 - Fora for discussions on voluntary cooperation for tax competition
 - Upgrading UN Tax Committee?
- ▶ **Effective spending**
 - New social contract – minimum social spending; social protection floors
 - Align with sustainable development criteria

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B. Private finance

Net private capital flows to emerging market and developing economies:



- ▶ Important driver of increased productivity, job creation
- ▶ Upward trend in private capital flows, but:
- ▶ Inadequate in key areas, e.g. infrastructure, agriculture, innovation, SMEs
- ▶ FDI flows largely bypass LDCs
- ▶ Great volatility due to global trends and short-termism

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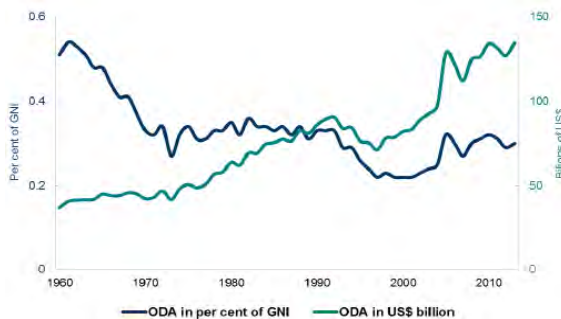
B. Private finance (and pooled financing)

- ▶ Inclusive finance
 - Microfinance, development banks (NDBs), postal banks, new technologies
- ▶ SME financing
 - NDBs, credit unions and bureaus, savings banks
 - New modes of securitization (while managing risks)
- ▶ Long term/infrastructure investment
 - Long-term institutional investors (though current investment only 3%)
 - New instruments: joint platforms, G20 hub, WB and others/new DBs
 - Pooled financing, potential and risks of PPP
 - Capacity building, peer learning, harmonized procedures, safeguards
- ▶ Policies to overcome obstacles
 - Regulation and capital account management to reduce volatility risk associated with short-term cross-border capital flows
- ▶ Creating an enabling environment: policies to change investment behavior, including mechanisms to price carbon, incentives, guarantees, regulations, mandatory reporting, pooling funds and sharing risk

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C. International public finance

ODA trends:



Source: OECD International Development Statistics

- ▶ Increased from \$84b in 2000 to \$134b in 2013
- ▶ Combined DAC donors' ODA/GNI is 0.3%,
- ▶ Targets of 0.7% ODA/GNI and 0.15–0.20% ODA/GNI to LDCs not met
- ▶ Share to LDCs fell from 34% in 2010 to 32% in 2012

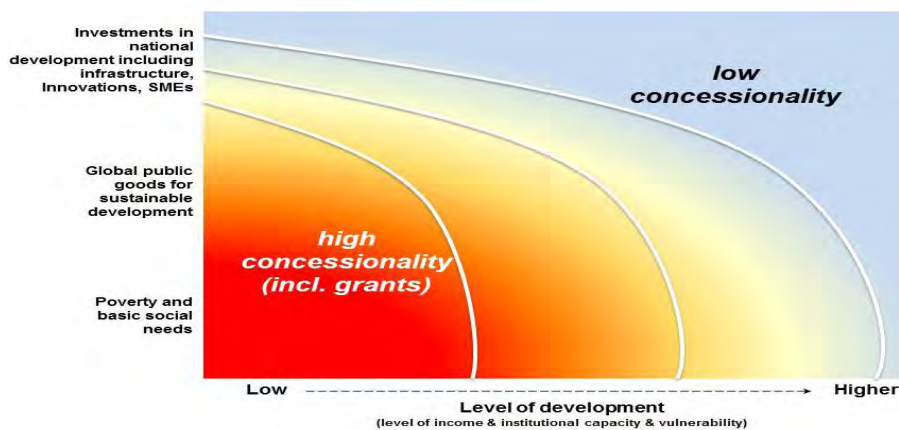
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C. International public finance

- ▶ Essential for ending poverty, basic social needs, particularly in LDCs, SIDS and vulnerable countries
- ▶ Growing agreement to allocate 50% of all ODA to LDCs
- ▶ Leveraging private financing flows for infrastructure and GPGs
- ▶ Other forms: non-concessional loans, innovative finance mechanisms, South-South and Triangular Cooperation
- ▶ When countries graduate to MIC status, they often no longer have sufficient access to ODA, need to revisit lending and concessionality criteria

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C. International public finance



Level of concessionality matched with type of investment and level of development – Concessionality highest for basic social needs, but assistance should still be available for infrastructure, climate financing and other needs

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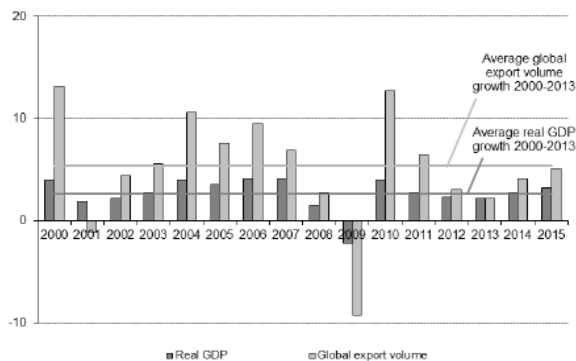
C. International Public Finance: Climate Finance

- ▶ UNFCCC commitments to mobilize \$100 billion annually of *new and additional* climate finance from a variety of sources (including public and private) by 2020
- ▶ Fast start finance commitments of \$30 billion annually by 2010–2012 were met (largely counted as ODA)
- ▶ Adaptation finance not separable from development finance...
- ▶ ...but mitigation finance (more than 60% of climate finance) has clear global public good character
- ▶ 80% of mitigation finance flows to MICs, raising concerns of LDCs about crowding out ODA from the poorest
- ▶ Concerns over double-counting could be addressed through more transparent accounting

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D. Trade

Annual changes in world real GDP and exports (goods and services), 2000–2015:



Source: UNDESA, taken from TD/B/C.I/MEM.5/5

- ▶ Fivefold increase in world trade in 1990–2013
- ▶ Share of developing countries rose from 24% in 1990 to 45% in 2013
- ▶ LDC share less than 2%

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D. Trade

- ▶ Completing multilateral trade negotiations at the WTO
- ▶ Removing market distortions in agriculture, and increasing duty free and quota free access for LDCs
- ▶ Increasing the volume and effectiveness of Aid for Trade
- ▶ Reducing trade and investment rule fragmentation, including addressing problems in investment agreements

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E. Technology, innovation and capacity building

- ▶ Science, technology and innovation crucial for SD
- ▶ Innovative capacity and access to technology uneven between developed and developing countries
- ▶ On the domestic level:
 - Systemic approach based on collaboration between all stakeholders (private, public, universities)
 - Innovation funds
 - Capacity/skills building and investment
- ▶ On the international level:
 - Need for balanced intellectual property rights regimes
 - Strengthen partnerships and collaboration among stakeholders: facilitation mechanism to promote the development, transfer and dissemination of clean and environmentally sound technology
 - Set up and operationalize LDC Technology Bank

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F. Debt Sustainability

- ▶ Debt plays a role in mobilizing resources
 - Particularly important for infrastructure investment
- ▶ Substantial decline in debt ratios of developing countries:
 - Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI)
- ▶ Strengthening debt management:
 - ODA for debt management
 - Debt sustainability models to allow resources for SDGs
- ▶ Resolution of sovereign debt crises is currently governed by a loose set of mechanisms (often “too little too late”)
- ▶ Ongoing discussions in the UNGA
 - Multilateral legal framework for sovereign debt restructuring
- ▶ Many proposals, including sovereign debt forum

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G. Systemic issues

- ▶ Lack of coherence across the decentralized system
- ▶ 2008 world financial and economic crisis triggered the adoption of important regulatory reforms
- ▶ But regulatory gaps and misaligned incentives continue to pose risks
- ▶ Need to strengthen permanent global safety net
 - Sustained increases in SDRs, with development bias?
- ▶ Governance reforms at IFIs slow
 - IMF/WB: broaden and strengthen participation of DEMCs
 - Heads of institutions: need for open and transparent, gender-balanced and merit-based selection
 - Representation in regulatory bodies – the Financial Stability Board, Basel Committee on Banking Supervision, etc. – remains limited
- ▶ Need for coordination and coherence on cross-cutting and emerging challenges: climate change, food and energy security, prudential financial regulation, macroeconomic policy coordination, etc.

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Monitoring, Data and Follow-Up

- ▶ Data and statistics essential for effective monitoring
 - Gaps in financing flow data (especially domestic data)
 - Multiple databases/private and public
- ▶ Strong follow-up process is needed
 - To ensure that no country is left behind
 - Based on technical expertise, including FfD institutional stakeholders and others (expert body?)
 - Encourage stronger regional involvement, e.g. in platforms for peer learning
 - Ensure relevance to the post-2015 agenda and achieve effective linkages to other UN processes
 - Engagement with all relevant stakeholders

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Comments on the Elements paper: Developing countries

- ▶ Retain the structure of Monterrey Consensus and Doha Declaration to effectively balance the role of the private vs. the public sector
- ▶ Domestic policies shouldn't be prescriptive
- ▶ Put the role of international public finance at the forefront of the discussions
- ▶ Upgrade the UN Tax Committee to an intergovernmental body
- ▶ Climate finance must be new and additional to ODA
- ▶ South-South complementary to North-South cooperation
- ▶ Urgent need for a sovereign debt restructuring mechanism
- ▶ Need assistance and capacity development, including for tax capacities and to further develop data collection capacities

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Comments on the Elements paper: Least developed countries

- ▶ Dedicate 50 per cent of ODA to LDCs
- ▶ Need for support in trade capacity building of countries in special situations
- ▶ Call for technology facilitation mechanism and the full operationalization of the Technology Bank for the LDCs
- ▶ Establish an Intergovernmental Commission on Financing for Development

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Comments on the Elements paper: Emerging economies

- ▶ Reflect the principle of common but differentiated responsibilities (CBDR)
- ▶ Blended finance may transfer undue risk to the public sector
- ▶ Need for continued access to international public finance
- ▶ Increase the voice and participation of developing countries in international financial institutions
- ▶ FfD follow-up process need to retain a degree of independence

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Comments on the Elements paper: Developed countries

- ▶ Addis outcome should constitute SDG 17 on the global partnership for sustainable development and be the MoI
- ▶ Follow the structure of the ICESDF report
- ▶ Go beyond the traditional North–South divide and consider all sources of finance, embodying a spirit of shared responsibility and mutual accountability
- ▶ More gender–responsiveness and transparency in tax and expenditure policy
- ▶ Large potential in blended finance to leverage public funds
- ▶ Unified, single and comprehensive monitoring and review framework
- ▶ No new institutions

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For additional information, please consult the FfD website
at <http://www.un.org/esa/ffd>

Thank you.