

Sixth High-Level Dialogue on Financing for Development

New York (7–8 October 2013)



Newsletter

Number 2013/7

3 October 2013

The Monterrey Consensus, Doha Declaration on Financing for Development and related outcomes of major UN conferences and summits: status of implementation and tasks ahead

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Round table 1: The impact of the world financial and economic crisis on the reform of the international monetary and financial system and its implications for development

More than five years after the global financial and economic crisis, the international financial system continues to be plagued by vulnerabilities. The sovereign debt crisis in Europe and the uneven global recovery have led to heightened risk aversion. Deleveraging of financial institutions continues, particularly in Europe. Economic activity in developing countries has been adversely affected, partly due to spillovers from developed countries, as well as to structural problems in their domestic economies. The fragile state of the global economy implies continuing high levels of unemployment in some countries and a slower pace of poverty reduction.

Although the prospects for 2014 appear to have slightly improved, a number of uncertainties and potential risks remain for the global economy. In particular, unconventional monetary measures adopted in major developed countries have generated spillover effects on emerging economies, further weakening the growth in these economies and reverberating globally. At the same time there is a risk that an early unwind of these mea-

asures can impact the nascent recovery in some developed countries and create additional volatility in developing countries. These spillover effects can increase volatility in major exchange rates, commodity prices and capital inflows to developing countries.

International capital flows and global imbalances

Volatile capital flows have been a major concern in the past few years. Excessive capital flows can lead to unsustainable credit expansion and asset price bubbles, thus increasing risks for economic stability. In contrast, capital reversals, which risk occurring when monetary policy stances turn round, may imply large real adjustments, potentially triggering financial crises. Macroeconomic policies, macro-prudential tools and capital-account regulations can be used as a package of measures tailored to the specific circumstances of individual countries, though they might not be sufficient. There are also calls for international policy coordination to mitigate negative spillover effects of unconventional monetary policy measures adopted in developed economies.

At the same time, global imbalances in current accounts between major countries improved in 2013. This trend has continued since the onset of the financial crisis, with a minor reversal only in 2010. This fall is mainly explained by subdued aggregate demand, but there is still concern on medium-term prospects, with a potential disorderly adjustment through large exchange rate swings posing a serious risk to the global economy and financial stability. As global imbalances are very unlikely to disappear in the absence of major policy efforts, the G20 pledged to undertake tailored policy

actions. However, it is not clear whether these actions will succeed in reducing imbalances, as many structural issues remain.

Financial market regulation

A major lesson from the financial crisis is the importance of comprehensive regulations aimed at reducing systemic risks, including in shadow banking. The international community has taken important steps to address vulnerabilities in the financial sector through regulatory reform. This reform has been primarily focused on ensuring the safety and soundness of the financial system, centred on the banking sector through Basel III. This has been supplemented by domestic policy stances and recommendations from the Financial Stability Board (FSB). However, one of the primary goals of an effective financial system that has not been fully incorporated into the regulatory and policy reform agenda is the importance of access to finance and financial services for all. Questions remain on how to encourage a financial system that ensures access—particularly to small and medium sized enterprises (SMEs), long-term finance, and other areas necessary for sustainable development—while still maintaining the safety and soundness of the system.

Even though Basel III is in the early stages of implementation, there have been some debates on the extent to which new requirements will raise funding costs and impact global growth. While there is no uniform view on the magnitude of the cost of implementing Basel III, a recent IMF paper indicates that interest rates will rise somewhat due to Basel III, but with only minimal effects on economic growth. However, concerns remain that as the tighter requirements are implemented, there could be a shift to lower cost assets, implying a reduction in the availability of financing of long-term and riskier assets. In other words, trade-offs with regard to access need to be considered. This could have a particularly negative impact on developing countries that have large infrastructure needs. The new rules also impact higher risk financing, such as for SMEs, and lending in areas without sufficient data on default histories, such as trade finance and green investments.

There are also concerns that tighter bank regulations, in conjunction with the complexity of the Basel III framework, might trigger a new wave of regulatory arbitrage. It is reported that new products are already being created to circumvent the rules. More generally, complex regulations can be difficult and costly to administer, which argues for broad-based simple rules that incorpo-

rate both balance sheet and off-balance sheet exposures, such as high capital ratios and low leverage ratios, with simple countercyclical rules built in. Nonetheless, there would still be a risk that activities that require higher capital would shift from the regulated banking system to shadow banking practices. This poses a major risk of regulatory arbitrage with a potential spill-over effect from the regulated banking sector and consequent dilution of regulation.

The value of shadow banking assets has risen from an estimated \$26 trillion in 2002 to around \$67 trillion, or 24 per cent of total assets in the global financial system. The FSB has formulated some principles for regulating shadow banking. Since most of these entities gain leverage through the formal banking system, the FSB recommendations focus on regulated banks' interactions with shadow banking entities as well as entities with shadow components. Another area that has received global attention is 'too big to fail' institutions. G20 leaders have agreed to strengthen the oversight and regulation of global systemically important financial institutions (G-SIFIs), focused on minimizing the adverse impacts their distress or failure might have on the financial sector as well as on the broader economy, though much remains to be done in this area. Progress on reform of the derivatives market has been slower than desirable, though improvements have been made.

Other regulatory initiatives under discussion include work on uniform global accounting standards, reduction in the reliance on credit rating agencies, reform of some compensation practices and the establishment of macro-prudential regulatory frameworks and countercyclical buffers. Taken together, these reforms represent important improvements that reduce risk in the financial system. However, implementation, supervision, and enforcement remain crucial. Furthermore, significant gaps remain, particularly in aligning incentives with long-term investment for sustainable development.

However, many of these steps are still considered insufficient. Furthermore, translation of international agreements and principles of financial regulation remain weak at the national level, with few exceptions. The development and adaptation of international financial regulation would also benefit from greater representation and participation of developing countries in the regulatory reform process. Despite some progress, formal representation in international financial regulatory bodies, such as the Bank for International Settlements, the Basel Committee and the FSB, is limited to advanced economies and some major emerging market economies.

Questions for discussion:

- How does unconventional monetary policy in developed countries impact developing countries? What measures can be taken in both developed and developing countries to address these spillovers?
- What does the drop in global imbalances indicate, and should the international community still be concerned with the risks posed by such imbalances? What are the policy options?
- How can the regulatory and policy framework be designed to focus on stability and reducing systemic risks while still encouraging access to credit?
- Is the implementation of the Basel III Accord likely to impact lending to small and medium enterprises, long-term investment, and other higher risk areas that are critical for sustainable development?
- What country-specific circumstances should be taken into account when designing financial policies at national and international levels?

Roundtable 2: Mobilization of public and private financing, including foreign direct investment and other private flows, and fostering international trade and sustainable debt financing, in the context of financing for development

Although estimates of the financing needs for sustainable development are necessarily imprecise, studies conclude, without exception, that needs are extremely large. It is clear that financing needs far outpace public sector resources in many countries. Nonetheless, estimated financing needs still represent a relatively small portion of global savings of around \$17 trillion in 2012. Although reallocating the pool of global financial assets would be challenging, redirecting a small percentage, say 3 to 5 per cent, of this investment toward the economic, social and environmental pillars of sustainable development could have an enormous impact.

The challenge lies in promoting a financial system that incentivizes such investment. Both private sources and public resources, domestically and internationally, will be necessary. Public and private resources should, however, not be necessarily seen as substitutes, as they have different investment objectives. Despite small (but growing) pockets of socially conscious investors, most private capital remains driven by the profit motive. As a

result, the private sector will under-invest in public goals when the expected return underperforms other investment opportunities on a risk adjusted basis. Hence it is important to recognize upfront that public financing and public sector policies are the lynchpin of any development financing strategy.

Domestic resource mobilization and illicit financial flows

The bulk of public resources to promote basic economic and social infrastructure will come through domestic resource mobilization. It is estimated that achieving the MDGs alone may require low-income countries to raise their tax-GDP ratios by around 4 percentage points. Ultimately, domestic resource mobilization will be driven by inclusive and sustained economic growth, underscoring the importance of effective domestic macroeconomic policymaking. The scope for additional resource mobilization through taxation is significant in many developing countries, both at national and sub-national levels. Yet, despite improvements in recent years, a significant gap between developed and developing countries persists in terms of their capacity to raise public revenues. The median tax-to-GDP ratio in low-income countries remains only about half of the median ratio in high-income countries.

Developing countries face a range of common challenges in raising resources, particularly pronounced in the most vulnerable countries, including: sectors that are 'hard-to-tax'; weak and/or under-resourced revenue administrations, low taxpayer morale, and poor governance; heavy reliance on receipts from multinational enterprises, whose adroitness in tax planning poses increasing challenges; and pressures on revenue from trade liberalization, including regional integration, and from intensifying international tax competition.

Domestic resource mobilization is being severely undermined by illicit financial flows. Not only because those flows partially constitute taxes that are avoided or evaded domestically and shifted across borders to be hidden from tax administrations but also because of their wider impact on economic growth and inequality as well as a country's governance system. Illicit financial flows have recently become a topic of high-level policy discussion, not least due to budgetary constraints in developed countries. However, the 2002 Monterrey

Consensus committed countries to strengthening international tax cooperation through enhanced dialogue among national tax authorities and greater coordination of the work. It also called for enhanced efforts to repatriate funds acquired illicitly to countries of origin.

Within the MDG framework, however—and specifically MDG 8 on a global partnership for development—a commitment on coordinated action on illicit financial flows was absent. Broad based national and international initiatives are required to curb illicit outflows of resources. This includes well-resourced tax and customs administrations, strengthened anti-money laundering measures as well as mutual legal assistance and exchange of information between countries.

International efforts aimed at improving developing countries' positions vis-à-vis aggressive tax planning schemes include the Practical Manual on Transfer Pricing for Developing Countries prepared by the UN Committee of Expert on International Cooperation in Tax Matters. The OECD recently prepared an action plan aimed at addressing base erosion and profit shifting (BEPS), which was endorsed by the G20 leaders at their most recent Summit. The UN is called upon to participate actively in the OECD's BEPS project, in order to provide insights regarding the particular challenges faced by developing countries. Nonetheless, public resources alone will not be sufficient; private sector investment will be crucial.

Private sector investment

Despite growing financing needs for sustainable development long-term investment by international investors appears to have been declining. Globally, FDI, one of the most stable forms of foreign capital, decreased by around 18 per cent from 2011 to 2012, though the largest drop in inflows was to developed countries. However, FDI to LDCs has increased by 20 per cent, though it remains concentrated in a few resource rich countries and regions. In fact, FDI inflows to developing countries in 2012, for the first time, exceeded those to developed countries. A further concern is that there has been an increase in financial FDI, which can be recalled at short-notice during times of crisis, at the expense of more stable greenfield investment. On a positive note, outward FDI from developing and transition economies has become increasingly significant, reaching 31 per cent of the world total in 2012. In that context, the scope for development-enhancing investment arising from South-South FDI is increased by the fact that the technology

and skills of developing country MNEs are often closer to those used by firms in host countries.

Institutional investors, who hold between \$75 to \$85 billion in assets, are increasingly looked to as an important investor group for long-term financing. However, to date, their investment in sustainable development financing, especially in areas with investment 'gaps', such as long-term investment in infrastructure, environmental finance, innovation, and SMEs, has been limited. This is partially due to weak regulatory structures and poor governance, as well as significant market failures. In addition, misaligned short-term incentives of investors have impeded long-term investment and increased systemic risks.

Public policies can help facilitate private sector investment, but need to take a multi-faceted approach, including: (i) reducing risks by creating an enabling environment; (ii) sharing risks to leverage private resources with public funds; (iii) restructuring investor incentives to reduce short-term oriented behaviour; and (iv) balancing regulations and policy frameworks to ensure financial sector stability with access to credit and financial services.

International trade remains an important source for financing development. The recovery in world trade following the financial crisis lost momentum in 2012. This deceleration is associated with weakening demand, particularly in developed countries. LDCs experienced a slight fall in their share in global trade, which remains low, at only 1.1 per cent. Moreover, LDC exports continue to be highly concentrated, both geographically and in terms of products. A conclusion to the WTO Doha Round of multilateral trade negotiations would help restrain protectionist measures and would contribute significantly to obtaining a faster recovery of the global economy and more equitable and inclusive growth. However, at this point a comprehensive accord remains out of reach, with trade negotiations formally declared at an impasse in December 2011. Ministerial Conference of the WTO to take place in December 2013, provides an opportunity to break this impasse, and to harvest deals in three areas: trade facilitation, agriculture negotiation and development.

After a hiatus of over a decade, the ongoing debt crisis in the euro zone has once again highlighted gaps in the international financial architecture with regard to timely and effective solutions to problems of debt distress. Debt overhangs in developed economies are currently more pronounced than in developing countries,

which are running close to historic low public debt to GDP ratios, posing virtually no systemic risks. In 2012, the external debt-to-GDP ratio for developing countries averaged 24.5 per cent and public debt-to-GDP stood at 45.9 per cent, up only slightly from 2011 and still low by historical standards.

However, the aggregate picture hides the extent to which some developing countries remain critically indebted. The problem is most acute among countries in the Caribbean. Furthermore, although many low-income countries have benefited from comprehensive debt relief programmes, recent increases in borrowing by HIPCs, including bond finance, lending from non-traditional creditors and concessional finance, is increasing debt burdens at a rapid pace in some countries.

The debt of developed countries continues to pose a risk for the global economy and needs timely and effective resolution. Important lessons are to be learnt from dealing with the resolution of debt problems in emerging markets and other developing countries. A balance is needed between new financing, debt restructuring and adjustment policies. In order to enhance the role of foreign borrowing for growth and development, efforts are needed to strengthen three pillars: responsible lending and borrowing, debt management and a framework for sovereign debt restructuring.

Questions for discussion:

- How can developing countries raise their capacity to collect public revenues?
- Which top down policies and bottom up industry changes can improve incentives for institutional and other investors to invest in a long-term manner, as well as in gap sectors necessary for sustainable development?
- How can developing countries build domestic long-term investor bases? What can they learn from lessons and challenges experienced in more mature markets?
- Which policies can reduce investment risks, especially in areas, such as environmental investments, which require enormous investments and transformational change?
- What types of risk sharing mechanisms and public private partnerships have been the most effective? What role have national and regional development banks played? How are deals structured to ensure that taxpayers are fairly compensated for risk?

- What are the major stumbling blocks to reach deals in the areas of trade facilitation, agriculture negotiation and development and how can they be overcome at the next Ministerial Conference of the WTO in December 2013?
- How can international cooperation be more effective in ensuring debt sustainability, especially for those that are prone to debt distress, and help enhance fair approaches to sovereign debt restructuring mechanisms?

Round table 3: The role of financial and technical development cooperation, including innovative sources of development finance, in leveraging the mobilization of domestic and international financial resources for sustainable development

Developing countries, in particular the most vulnerable countries among them, rely on international support and external sources to finance sustainable development efforts. The Monterrey Consensus urged developed countries to make concrete efforts towards the target of 0.7 per cent of gross national income (GNI) as official development assistance (ODA) to developing countries and 0.15 to 0.20 per cent of GNP of developed countries to LDCs. The United Nations Conference on Sustainable Development (Rio+20) in June 2012 reaffirmed ODA commitments and called on countries to meet them by 2015.

Nonetheless, ODA fell in real terms for a second consecutive year in 2012. DAC members provided \$125.6 billion in ODA in 2012, representing 0.29 per cent of GNI. This represents a 4 per cent decline in real terms from 2011. Aid to LDCs fell by 12.8 per cent in real terms to about \$26 billion. Reductions in aid budgets have largely been due to post-crisis austerity policies in a number of donor countries, with the largest cuts recorded in the countries most affected by the euro zone crisis. Globally, donors' ODA represents 0.29 per cent of their gross national income (GNI), well short of the United Nations target of 0.7 per cent.

Overall, aid is declining just as the world commits itself to accelerating progress towards achieving the Millennium Development Goals by their 2015 deadline. ODA remains a crucial component of financing for sustainable development, particularly for ensuring financing for countries without sufficient domestic or private

resources to fulfil development goals. In addition, ODA is increasingly considered as a means for leveraging private finance to meet sustainable development goals.

Aid effectiveness

The quality of aid has long been recognised as a constraint on its developmental impact. Countries committed themselves to increasing the effectiveness of aid in the 2005 Paris Declaration on Aid Effectiveness. However, the track record on the implementation of the Paris Declaration principles on more effective aid is disappointing. At the global level, only one out of 13 adopted targets has been met, although progress has been made towards achieving many of the remaining targets, especially on indicators where responsibility lies primarily with developing countries.

Of particular importance is stability of aid disbursements, including its predictability for recipients' development planning. Indeed, the Paris Declaration committed donors to provide aid over a multi-year horizon and disburse it according to schedule, making use of partner countries' systems for planning as much as possible. The follow-up 2008 Accra Agenda for Action mandated immediate actions to improve the availability of information to support medium-term planning, including three to five year forward expenditure and implementation plans. Yet, budget cuts in donor countries have also had a negative impact on aid predictability, and the commitment made at the Busan High Level Forum on Aid Effectiveness in 2011 to improve aid predictability is unlikely to be met by the target year of 2013.

South-South cooperation has become an increasingly important complementary source of development financing. Most of the resources come in the form of bilateral programmes of project funding. A distinctive characteristic of South-South development cooperation is an integrated approach that packages commercial transactions in trade, investment and loans with unidirectional support, for example, in education, health and infrastructural aid programmes. Expanding South-South cooperation may help to cushion the fall in aid receipts from traditional donors, but should not be seen as a substitute for traditional aid flows.

The international aid system still lacks a global mutual accountability mechanism with universal membership and participation. However, a Global Partnership for Effective Development Cooperation was established in June 2012, in follow-up to the Busan meeting, to support efforts to eradicate poverty, achieve MDGs and implement a post-2015 development agenda.

In the Busan outcome document, leaders further recognized the importance of complementary United Nations processes and invited the Development Cooperation Forum to play a role in consulting on the implementation of agreements reached in Busan.

Innovative sources of development finance

The need for more predictable international public financing has intensified the search for new sources of development financing, both for financing social needs, particularly in LDCs, but also for climate financing and other global concerns. The World Economic and Social Survey 2012 estimates that around \$400 billion to \$450 billion per year could be raised through international taxes on financial transactions and carbon emissions, and through the use of IMF's Special Drawing Rights (SDRs). While politically difficult to implement, these innovative mechanisms are technically feasible means to raise substantial resources in a predictable manner, and could contribute to tackling emerging global challenges such as climate change and to financing investments towards sustainable development.

It is, however, important that such financing be additional and complementary to traditional ODA. One important question, then, is how these measures should be accounted for. The increased emphasis on international public finance as a means to leverage private finance raises similar questions, for instance with regards to the accounting of guarantees. In this regard, the OECD suggests that the DAC investigate the feasibility "of alternative/complementary accounting methods that would better reflect contemporary budget and balance-of-payments accounting standards."

Public policy and international public finance will have a leading role in spearheading international resource mobilization efforts to fill the substantial resource gap and to incentivize investment, R&D, capacity building and technology transfer that would be needed.

Questions for discussion:

- What additional actions need to be taken to ensure that the international community meets aid commitments and contributes to accelerating progress towards achieving the MDGs by their 2015 target date?
- Which new measures of innovative financing have the most potential to raise substantial resources? How do we ensure that such financing be additional and complementary to traditional ODA?
- How do we ensure implementation of aid effectiveness criteria, ensuring country ownership as well

as results orientation? What steps need to be taken to streamline and render more effective the existing aid architecture, in particular in light of the formulation of a post-2015 sustainable development agenda?

- What could be the specific contribution of South-South cooperation to development cooperation beyond 2015?
- Should the concept of ODA be modernized? How can innovative sources of development finance and climate and other environmental financing flows be appropriately accounted for and delivered additionally to longstanding ODA commitments? How can guarantees and other measures to leverage private finance be accounted for?

Informal interactive dialogue: The link between financing for development and achieving the internationally agreed development goals, including the Millennium Development Goals, and advancing the United Nations development agenda beyond 2015

With only a little more than two years remaining before the 2015 target date, acceleration of MDGs is the top priority. To that extent, it is crucial that countries keep to their international commitments, including meeting the ODA objective of 0.7 per cent of gross national income. Acceleration of the MDGs will lay the ground for a strong post-2015 UN development agenda with sustainable development goals at its core.

This unified agenda will require a coherent financing strategy for implementation. This financing strategy should build on existing international agreements, as enshrined in the Monterrey Consensus and Doha Declaration. Its successful implementation will need to be supported by multi-stakeholder partnerships, which should include not only governments but also businesses, private philanthropic foundations, international organizations, civil society, parliaments, trade unions, research institutes and academia.

As a starting point, renewed and strengthened global partnerships should build on the present partnership for development under MDG 8, as well as on existing inter-governmental agreements, such as Monterrey Consensus and Doha Declaration on Financing for Development, the Johannesburg Plan of Implemen-

tation and the outcome of the 2010 MDG Summit. The new partnerships will, however, need to go beyond MDG 8 to include today's challenges, such as climate change, financial stability, and tax evasion, which can only be tackled fully through global action. In order to respond to new and emerging challenges and opportunities, the renewed global partnerships will have to be dynamic and flexible.

Arriving at such a framework will require at its most basic level coherence and consistency across various UN intergovernmental processes, including those relating to sustainable development, the post-2015 Development Agenda and financing for development. As part of the follow-up to the United Nations Conference on Sustainable Development, an *Intergovernmental Committee of Experts on Sustainable Development Financing* has been established to develop a comprehensive strategy for financing for sustainable development. Within the UN system, various aspects of a renewed global partnership for development and a financing strategy are also being discussed in ECOSOC's biennial High-level Development Cooperation Forum, the Open Working Group as a means of implementation for potential sustainable development goals, and in the context of the Financing for Development follow-up process.

The Financing for Development agenda, covering the mobilization of public and private resources at the domestic and international levels, the enabling environment, systemic issues, and policy coherence, addresses key issues at the heart of a renewed global partnership for development. In this regard, a proposal for a follow-up United Nations International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus and the Doha Declaration, to be held before 2015, was recently endorsed in the Ministerial Declaration of the G77. Similarly, *The Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda* reaffirmed that the principles and agreements established at Monterrey remain valid for the post-2015 agenda and recommended "that an international conference should take up in more detail the question of finance for sustainable development. This could be convened by the UN in the first half of 2015... A single agenda should have a coherent overall financing structure."

Questions for discussion:

- What are the existing shortcomings and the most pressing new challenges that the global partnership for development needs to address?
- How can a global partnership for development be best streamlined into the post-2015 development agenda? Should it be captured in a separate goal or linked to specific goals and targets?
- How can the financing for development process help shape the post-2015 UN development agenda?
- How can three dimensions of sustainable development be integrated into one financing framework?
- How do we achieve a more inclusive, flexible and coherent system of global economic governance that would help to enhance the effectiveness of a renewed global partnership for development?

Background information on substantive matters

- Report of the Secretary-General on “A life of dignity for all: accelerating progress towards the Millennium Development Goals and advancing the United Nations development agenda beyond 2015” (A/68/202)
- Report of the Secretary-General on “Follow-up to and implementation of the Monterrey Consensus and Doha Declaration on Financing for Development” (A/68/357)
- Report of the Secretary-General on “International financial system and development” (A/68/221)
- Report of the Secretary-General on “External debt sustainability and development” (A/68/203)
- Report of the Secretary-General on “International trade and development” (A/68/205)
- Summary by the President of the Economic and Social Council of the special high-level meeting of the Council with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development (New York, 22 April 2013) (A/68/78–E/2013/66)
- Note by the Secretary-General on “Coherence, coordination and cooperation in the context of financing for sustainable development and the post-2015 development agenda” (E/2013/52)
- MDG Gap Task Force Report 2013 “The Global Partnership for Development: The Challenge We Face”
- World Economic Situation and Prospects 2013
- World Economic Situation and Prospects 2013: Update as of mid-2013

General Assembly resolutions

- GA resolution on “Modalities for the sixth High-level Dialogue on Financing for Development” (A/RES/67/300)
- GA resolution 67/199 on “Follow-up to the International Conference on Financing for Development” (A/RES/67/199)
- GA resolution 67/197 on “International financial system and development” (A/RES/67/197)
- GA resolution 67/198 on “External debt sustainability and development” (A/RES/67/198)
- GA resolution 67/196 on “International trade and development” (A/RES/67/196)

For further information

Please refer to the Financing for Development Web site at www.un.org/esa/ffd/hld/HLD2013/index.htm.