



# **Economic and Social Council**

## **2012 Development Cooperation Forum**

### **High-level Symposium**

#### **DRAFT CONCEPT NOTE**

**18-19 October 2011 – Luxembourg**

*“Working together to increase the development impact of aid”*

#### **Mandate**

The 2005 United Nations World Summit mandated the United Nations Economic and Social Council (ECOSOC) to convene a biennial high-level Development Cooperation Forum (DCF) to review trends and progress in international development cooperation, including strategies, policies and financing; promote greater coherence among the development activities of different development partners and strengthen the normative and operational link in the work of the United Nations. It also encouraged multi stakeholder participation in the DCF.

The DCF aims to promote development cooperation and advance the implementation of the Internationally Agreed Development Goals (IADGs), including the Millennium Development Goals (MDGs). It is mandated to give policy guidance and recommendations to promote coherent and effective development cooperation. As a UN body, the DCF enjoys a unique legitimacy and is a multi-stakeholder platform focused exclusively on development cooperation.

#### **Background**

The second biennial DCF, which took place on 29 and 30 June 2010 in New York, advanced the agreement on a number of priority actions to pursue the implementation of commitments on development cooperation<sup>1</sup>.

The next DCF will be held in July 2012. Its preparations will examine how to promote development cooperation and maximize its long term impact in order to achieve national development priorities of developing countries and the internationally agreed development goals (IADGs) including the MDGs.

Following the MDG Summit in September 2010, and during the DCF preparations in early 2011, a special focus was placed on development cooperation for the Least Developed Countries (LDCs), in view of the Fourth UN Conference on LDCs (LDC-IV) in Istanbul in May 2011. These 48 countries, which are most lagging behind on the achievement of the internationally agreed development goals, including the MDGs, and are at the bottom of the Human Development Index rankings, represent the poorest and weakest segment of the international community.

The DCF preparations will also help forge agreement on development cooperation for sustainable development, so as to contribute to the upcoming Rio+20 Earth Summit to be held in Rio de Janeiro

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<sup>1</sup> See [http://www.un.org/en/ecosoc/julyhls/pdf10/2010\\_dcf\\_president\\_long\\_summary.pdf](http://www.un.org/en/ecosoc/julyhls/pdf10/2010_dcf_president_long_summary.pdf)

(Brazil) in June 2012. Issues such as developing capacity, policy coherence for development, aid allocations, conditionality and balanced mutual accountability between programme countries and their donors will also be high on the agenda. A special effort will also be made to better understand the role of various forms of development cooperation, including South-South and triangular cooperation.

The DCF preparatory work will also inform the Fourth High-Level Forum on Aid Effectiveness to be held in Busan (Republic of Korea) in November 2011.

### **The Luxembourg High-level Symposium**

To facilitate an effective consultation process and solid substantive and technical inputs into the 2012 DCF, some Member States and the United Nations Department of Economic and Social Affairs (UNDESA) are supporting the organization of several High-Level Symposia. These are organized as multi-stakeholder events with the participation of senior experts in aid management and development cooperation from national and local governments, parliaments, non-governmental organizations (NGOs) and other civil society organizations (CSOs), philanthropic foundations and the private sector.

This concept note focuses on the second high-level symposium to be hosted by the Government of Luxembourg on 18 and 19 October 2011 in Luxembourg-city.

The High-level symposium will concentrate on the theme of “*Working together to increase the development impact of aid*”. The proposed theme echoes recommendations of the Monterrey Consensus, which recognized that Official Development Assistance (ODA) “plays an essential role as a complement to other sources of financing for development, especially in those countries with the least capacity to attract private direct investment” and that “substantial increase in ODA and other resources will be required if developing countries are to achieve the internationally agreed development goals and objective.”

The Monterrey Consensus also noted that ODA “can be critical for improving the environment for private sector activity and can thus pave the way for robust growth”. It accordingly underlined the need to intensify efforts to promote the “use of ODA to leverage additional financing for development, such as foreign direct investment, trade and domestic resources”.

Under its broad theme, the High-level symposium in Luxembourg will examine how to ensure that the growing amounts of aid targeted at mobilizing other sources of development finance (such as foreign direct investment or domestic resources) has maximum impact on mobilizing such funding to promote poverty reduction and the achievement of the Internationally Agreed Development Goals, including the Millennium Development Goals. The Symposium will also analyze lessons from good practices in using aid to catalyze both international and domestic resources. This will include a discussion on the role of international development cooperation to support broadening access to inclusive financial services, including microfinance. It will also look at how to ensure that additional resources advance sustainable development.

The symposium will also discuss experiences of programme countries in promoting more coherent management and use of diverse aid modalities and domestic and foreign development finance.

Another theme during the Symposium will be how to improve mutual accountability among development cooperation actors and make it more balanced. This would include recommendations for promoting evidence-based and inclusive country- and sector-level reviews of national aid policies and definition/review of targets for individual donors – to enhance the results of aid.

## Symposium sessions

The Symposium will be organized as a two-day meeting with five sessions. The sessions will be structured around panel discussions based on case studies and a series of analytical background papers which are being planned in connection with the symposium.

**Session 1.** How to maximize the development impact of aid: Mobilizing development finance or supporting social programmes

At the 2010 General Assembly High Level Plenary Meeting on the MDGs, Member States re-committed themselves to achieve the MDGs by their 2015 target date. This will mean a special effort to make progress on aid promises under MDG-8. With the onset of a trend of early fiscal consolidation, it appears increasingly unlikely that the estimated 2015 target level of ODA of US\$ 300 billion (at 2009 prices and exchange rates) will be reached. The need to deliver on aid promises will be one of the key messages forming the backdrop of the Symposium.

The 2010 DCF showed that a growing share of aid is provided to promote trade, domestic and foreign private sector investment, financial sector reforms, and enhanced Public Financial Management in developing countries. Given the MDG financing gap, the question of how to best deploy the limited domestic and international resource is emerging with renewed urgency. The call of the Monterrey Consensus to intensify efforts to promote the use of ODA to leverage additional financing for development is more topical than ever. This is seen to be part of a strategy to foster exit from long-term aid dependence.

Developing countries, donors and non-executive stakeholders will have an opportunity to discuss when aid has been most effective in leveraging additional sources of development finance and the perceived impact on long-term development and on poverty reduction. This will be compared with the impact of aid targeted directly at the most vulnerable and marginalized groups of societies.

**Session 2.** Aid to catalyze for domestic and external resources: What have we learned?

The objective of this session is to identify and share examples of best practices on how aid can best promote mobilization of domestic and external source of development finance and how to ensure that the additional funds help reduce poverty. In this regard, the national capacity to mobilize domestic savings and public revenue is critical to expand the fiscal space of developing countries and their policy space. The first and second panels will therefore respectively focus on domestic resources and the third one on foreign direct investment

The first panel will address how to “*Broaden access to inclusive financial sectors for development, including microfinance*”. The Monterrey Consensus in 2002 explicitly recognized that “microfinance and credit for micro-, small and medium-sized enterprises, including in rural areas, particularly for women, as well as national savings schemes, are important for enhancing the social and economic impact of the financial sector”. It further recommended that “development banks, commercial banks and other financial institutions, whether independently or in cooperation, can be effective instruments for facilitating access to finance, including equity financing, for such enterprises.” The development of microfinance as a strategy to eradicate poverty was a central theme of the International Year of Microcredit in 2005.

In addition, at the MDG Summit in 2005, Heads of State and Government recognized “the need for access to financial services, in particular for the poor, including through microfinance and microcredit.” Finally, at the MDG Summit in September 2010, Heads of State and Governments committed themselves to accelerating progress in order to achieve MDG 1, including through “promoting inclusive financial services, particularly microfinance and including affordable and accessible credit, savings, insurance and payments products, for all segments of society, especially women, people in vulnerable situations and those

who would not normally be served or are underserved by traditional financial institutions, as well as for micro-, small- and medium-sized enterprises”.

Recently, in the context of the G20 Summit in July 2011, three challenges have been pointed out in order to strengthen microfinance as a development tool. This included (i) ensuring appropriate regulation and supervision of the microfinance sector; (ii) facilitating private and local funding; and (iii) focusing on the diversity of the financial needs of the poor in order to strengthen social and financial inclusion through microfinance.

Against this backdrop, the DCF will discuss the catalytic role of ODA in promoting inclusive financial activities.

It is estimated that around 10,000 Micro Finance Institutions (MFIs) exist today, serving over 190 million clients (Source: Microcredit Summit Campaign, Data as of Dec 2009). A study of the Consultative Group to Assist the Poor (CGAP) estimates that international donors and investors have committed more than \$13 billion in 2010 with an increase of \$1 billion each year. To continue to finance such growth, MFIs will require large amounts of funding which will have to come both from the public and private sectors.

There has been much analysis about the impact of microfinance. A series of studies have been conducted recently to assess the real effectiveness and social impact of microfinance, beyond anecdotal evidence. One of the challenges of microfinance is that it has had a major impact for people around the poverty line and those living beyond it, but that it has struggled to develop financial services adapted to the needs of the poorest. Recent criticism against microfinance raised the question of mission drift and pushed the industry to strengthen its focus on social impact and social performance monitoring tools.

This panel discussion will be an opportunity to discuss how ODA can be used to leverage additional resources in the area of microfinance. It will examine the impact of the commercialization of MFI for the social performance of the sector. It will present examples of MFI providers which have been particularly successful in reaching out to the poorest groups of society while ensuring continued financial sustainability. The panel discussion will also explore whether and how MFI can participate in national coordination structures to ensure that MFI activities are supportive of nationally defined development strategies.

The second panel will focus on *“Using aid to help developing countries promote domestic resource mobilization”*. It will specifically focus on how to increase tax revenues. The relationship between aid and tax receipts has been widely debated. Recent evidence suggests that the income generated by ODA disbursements may indirectly lead to increasing tax receipts. It also shows that the building of national institutions can have the same effect. Aid moreover increases tax revenues indirectly through its impact on growth.

A range of actions may be deployed to directly increase tax revenues. They include building national capacities in tax policy and tax administration, increasing taxation of major projects (e.g. in natural resources) as well as combating cross border tax evasion, money laundering and capital flight<sup>2</sup>. Ending the tax exoneration granted to imports financed by foreign aid may also help mobilize more public revenues.

The panel could discuss the relationship between aid and tax revenues - and how improving tax revenues can go hand in hand with poverty reduction. It could also showcase one or two case studies where ODA has been used for improving tax revenues. It would look at issues such as: who initiated the process? How were priorities and approach determined? How was success judged? Was there a visible impact on MDGs and poverty? What have been the key success factors? What are current constraints and how to overcome them?

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<sup>2</sup> International Development Cooperation Report, UN, 2010

The third panel will focus on “*Using aid as a catalyst for Foreign Direct Investment (FDI)*”. It is estimated that one third of ODA is currently devoted to promoting FDI. This includes aid aimed at supporting programme countries’ infrastructure development, improving their investment climate (e.g. simplifying procedures and facilitating access to global trade and finance) or directly financing private sector development (e.g. by co-financing or guaranteeing FDI or promoting financial sector development)<sup>3</sup>.

Little is known about the impact of these aid flows on poverty reduction, as they tend to bypass governments and go directly to the private sector. Establishing the development impact of using aid to improve developing countries’ investment climate has also been difficult. This session will address questions such as: How effective have these aid flows been in promoting additional investment? Have they been successful in realizing sustainable national development results (e.g. enhanced employment) and social and environmental improvements? In which sector has aid had the maximum impact on promoting FDI (e.g. infrastructure)? Have these improvements impacted on the more remote parts of the country? What has been the impact on the costs/volatility/risks of investment? How can donors and partner countries work together to ensure that public private cooperation is better coordinated and supportive of national development strategies?

**Session 3.** Enhancing coordination and mutual accountability at country level: How can all actors work better together

The first panel - *Towards more coherent management and use of development financing* - will discuss how programme country governments can manage and use diverse modalities and types of (domestic and external) development financing in a more coherent manner to enhance results and strengthen aid independence. It will debate how all government ministries and agencies can better coordinate with each other and design integrated policies to mobilize the range of development finance in supporting national development strategies. This could also include coherent monitoring, reporting and evaluation of implementation of policies by all government agencies and providers of development cooperation. The panel will build on country experiences.

The panel will therefore address questions such as: How can programme country governments manage and best use diverse types of development finance in the most effective way? What coordination mechanisms would be needed to ensure that the various sources of funding are channeled in the most effective way to maximize development outcomes? To which extent can greater coordination among different actors advance aid independence?

The second panel - *Towards more inclusive mutual accountability at country level* - will place emphasis on the role of mutual accountability mechanisms at country level to encourage all actors to live up to their promises on aid quantity and quality. It has been repeatedly emphasized that mutual accountability monitoring mechanisms at country level benefit from the inclusion of different actors providing development cooperation. Building on this premise and the work of the DCF in the area of mutual accountability, the second panel will discuss how to include all relevant actors in national and sectoral reviews of aid policies and aid targets.

It will start from the premise that many programme countries stress the importance of including aid exit strategies in national aid policies and that national mutual accountability mechanisms need to be conceptualized within the context of all development results (including those from trade, investments etc.).

The panel will therefore address questions such as: How can programme country governments take the lead in developing national aid (and beyond aid) policies? How can they include in such policies targets for individual donors? Could all relevant providers of development cooperation engage in annual high-level consultations to assess their individual progress towards aid commitments? How can the programme country government keep ownership and leadership throughout such process? How can mutual account-

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<sup>3</sup> International Development Cooperation Report, UN, 2010

ability best assure that providers live up to agreed targets in the short-, medium- and long-run? How can global mutual accountability mechanisms help to make progress in this regard?

#### **Session 4. DCF Stakeholder consultations on “Working together to increase the development impact of aid”**

In the afternoon of the second day of the conference, three parallel stakeholder caucuses will be organized. The three parallel caucuses (G77 and China, Other Countries, Non-Executive Stakeholders (Parliament, Civil Society, Local Governments foundations and private sector)) will give an opportunity for participants to brainstorm on their group’s positions or views on the various issues addressed during the Symposium. A number of questions will help guide the discussion in the different groups. In addition to identifying key messages and concerns on the issues discussed during the Symposium, the session might also provide an opportunity to share observations on the draft of the latest version of the Busan outcome document to be issued in connection with the second meeting of the OECD Working Party on Aid Effectiveness in early October 2011.

#### **Session 5. Key messages of the Luxembourg High-Level Symposium from stakeholder consultations and discussions**

At this session, the three groups will report on their discussions and participants will agree on a few key messages emanating from the Luxembourg Symposium.

A half day Expert Group Meeting is planned to be held back to back with the High-level Symposium on Monday, 17 October 2011. The meeting will bring together around 30 experts on mutual accountability. The experts participating in this meeting will also enrich the discussion during the Luxembourg High Level Symposium.

#### **Contact for further information**

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