French Non Paper on financing for development – January 2015

Following the three thematic sessions, the co-facilitators of the Financing for development process and the Secretariat will find hereafter a summary of the main points raised by France during these sessions, which are based on EU positions and which France would like to see reflected in the elements paper to be distributed by the co facilitators.

Overarching objective

The Addis Ababa conference must aim at identifying the available financing for sustainable development as well as adequate means of implementation (i.e. domestic and international actions and policies) to mobilize and use this financing in the most effective way.

Considering investment needs required to finance the future agenda implies defining the means to mobilize all sources of finance, whether domestic and international, public and private. While building on the Monterrey Consensus, it must update it, taking into account the achievements of the Rio+20 Outcome Document, and the results achieved in the Open Working Group on Sustainable Development Goals, the report of the Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF), as well as the UNSG synthesis report, in order to address emerging challenges and the evolving development landscape. During the Addis conference, countries must strive to reach a common understanding not only on the resources, but also on the purpose of development financing, which is the eradication of poverty and the achievement of sustainable development.

1. One of the key elements in implementing the sustainable development goals is policy coherence for development. Enhanced coherence and synergies between policies across sectors and at different levels is critical to ensure economic, social and environmental transformation. Therefore PCD needs to be applied universally by all the actors. **Domestic resource mobilization**

Each country has primary responsibility for its own development, hence, domestic resources are and will remain the main source of development financing.

An increase in domestic resource mobilization provides resources to finance sustainable development but it also strengthens public accountability and efficiency of public spending. Even though the share of tax revenue as percentage of GDP has substantially increased in developing countries since Monterrey, significant differences exist between countries. Effective mobilization of resources by developing countries must be supported by an increased and coherent effort to **strengthen domestic tax collection systems** (for example through technical assistance and capacity building). This should also be complemented by cooperation at the international level in order to increase efficiency in the **fight against fiscal base erosion and profit shifting, corruption and illicit financial flows**.

Domestic resources are not only public but also private. Effective domestic financial systems are crucial in order to mobilize domestic private resources (in particular savings) and allocate them in the most effective and coherent way. An effective financial system is characterized by inclusive access to financial services, by well-diversified intermediation institutions and financial instruments (in terms of complexity, horizon, liquidity, etc.) enabling to satisfy demand. There is much progress to be made in developing countries to improve the functioning of domestic financial systems and their contribution to the financing of sustainable development. Amounts that can be raised and expected benefits are huge since financial systems promote capital accumulation, innovation, employment and finally growth and development.

2. International Public Financing

ODA's role remains crucial even though its relative importance tends to diminish with growing domestic fiscal resources mobilization and the weight of private flows received by developing countries.

However, ODA should be used in a differentiated way, adapting the instrument (grant vs. loan) and the level of concessionality of the resource with respect to the level of development of the beneficiary country and the type of project founded. This principle is very well illustrated in the "concessionality matrix" presented in the report of the ICESDF[1]. ODA is particularly important for **least developing countries**, sub-Saharan countries and countries in situation of conflict and fragility, where it should be mainly focused on closing financing gaps for the poor and for social sectors like health and education.

In all developing countries and especially in**middle-income countries**, ODA and other public support and finance for development must play a leveraging role and attract additional flows, including from the private sector (by improving tax systems, improving projects selection and preparation process, by leveraging private, etc.).

Moreover, the **three dimensions of sustainable development should be integrated in public financing** while the funding of one dimension should not be opposed to the funding of another. In contrast, synergies between the various objectives should be exploited. An efficient way to use public financing is to address simultaneously various objectives. ODA with climate co-benefits, whether in the field of adaptation or mitigation, is already implemented in a number of countries and should be scaled up, as it is possible to act both in favor of sustainable development and against climate change. Climate finance must be thus seen as an accelerator for sustainable development implementation.

The leveraging power of ODA should also be more fully recognized, including through **blended finance**. Blended finance can allow public funds to leverage funds from other actors, including the private sector, sometimes up to ten times, and thus increase substantially the amount of available finance for development purposes.

ODA should also focus more on **local authorities**. The role of local authorities in implementing sustainable development goals has been fully recognized by the Open Working Group (goal 11). They will be at the forefront of the SDGs action agendas. There needs to be a similar recognition in the Addis Ababa outcome document, with the need in particular to increase the flows of ODA and other public finance which go to cities and local authorities.

Traditional public financing must also be complemented by **innovative financing**. Innovative financing can take many forms and is already implemented by more than 46 countries in a number of ways. It may mobilize and deliver resources in a more predictable, reliable and efficient way. In this regard, the Addis Ababa conference could send a message to scale up and expand existing innovative sources and mechanisms and explore new instruments to implement specific targets and goals. For

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[1] *More precisely, the level of concessionality should be high when ODA is used to finance social needs, this resource being focused in countries most in needs. The required level of concessionality decreases to finance global public goods – and all the more the level of development of the beneficiary country increases. The level of concessionality should be low to finance projects generating economic returns and profitable projects (as it is the case for some infrastructures, for instance). See page 30 of the report for more details.*

instance, the current initiative led by 11 European countries to introduce a tax on financial transactions presents great potential to raise significant funds for sustainable development and climate. At the field level, many other financial innovations – including social and development impact investing instruments **-** should be fostered to derisk and incentivize investments and actions to achieve the sustainable development goals. Representative of the diversity of actors involved in the international development agenda, the Leading group on innovative financing, currently chaired by Chile, aims to promote innovative instruments fitting in a global and multi-stakeholder partnership to fund development.

Mobilizing the **data revolution** for sustainable development is crucial, as data are the lifeblood of investments, decision-making, and the raw material for accountability. The international community can contribute in building ownership and strengthening national capacity for creating and analyzing data and promote existing system of information collection to national level.

Public-private international investments should be based on open, unbiased, reliable and timely data, gathered at the national level. To support this, data availability and data quality need to be improved, taking into account legitimate concerns about data privacy and data protection.

Monitoring needs to allow for both quantitative and qualitative measures of progress, for example by including social, wellness, security and equality dimensions, and perceptions of progress from beneficiaries. Indicators of sustainability beyond GDP should also be considered.

Finally, achieving the SDGs also requires coherence in public policies towards sustainable development. For instance, according to the IMF, direct **fossil fuel subsidies** represented in 2011 more than 450 billion dollars, i.e. more than three times the total amount of ODA. Fossil fuel subsidies target the wealthiest segments of the population, and entice wasteful consumption of fossil fuel which increase pollution and divert important resources from development needs. Phasing out fossil fuel subsidies will free available resources for the poor which should be steered towards sustainable development policies.

3. Conducive environment for sustainable development

Private flows, both from domestic and international sources, represent tremendous opportunities for development. However, in order for private investment to foster development, a proper conducive environment at the national and international level must be established. This includes, inter alia, good governance, the rule of law, fair arbitration, and effective public institutions. At the international level, the setting of norms and standards for responsible investment and corporate social and environment reporting should also be fostered.

At the local level, governments should improve the functioning of domestic financial systems by strengthening financial regulations and building financial infrastructures (such as credit bureau) to reduce uncertainty and enhance confidence in the domestic financial system – in particular the banking system. The international community (bilateral and multilateral donors, international financial institutions, etc.) should also support this process by accompanying reforms in developing countries (sharing good practices and examples of successful reforms, providing technical assistance and capacity building services).

Integrating sustainable development, taking into account policy coherence, in all policies and regulations and creating the right incentives can direct investment towards sustainable development and towards sustainable development goals. Carbon pricing for instance has been called for in both the

Expert Committee report and the Global compact July 2014 white paper on the role of the private sector in the post-2015 agenda.

Developing corporate social and environmental responsibility could also be a key driver for involving the private sector into sustainable development objectives. Economic incentives such as the promotion of green jobs and the integration of climate and environmental components into urban development plans could also support the economies towards low-carbon pathways.

A more conducive environment for **technological progress** and the promotion of innovation should also be implemented in developing countries to raise local capacities for the development challenges. This can include strengthening intellectual property regimes, as well as strengthening local supporting infrastructure (regulations, incubators, incentives, capacity) to innovation. A more business-friendly environment will foster trade and development which are historically the main sources of technology investments and transfers. At the UN level, there is scope for improving access to information on existing technology mechanisms and promoting coherence and coordination between them.

4. A more ambitious role for the private sector

The engagement of private sector in favor of development should be seen as a cross-cutting issue and should be strengthened. New private initiatives supporting sustainable development need to be supported. Actions are needed to mobilize and unlock the transformative power of private resources to deliver on sustainable development objectives. In this context, the Corporate Social Responsibility (CSR) dimension – as well as a more global reflection on sustainable and inclusive growth – is part of the discussions.

The private sector should be invited to increase its involvement in three main areas:

- It should strengthen its corporate and social responsibility commitments, through enhanced reporting and transparency. This could include outside evaluations, and stricter controls in value chains. “Social and inclusive businesses”, whose outcome is environmental or social, should also be encouraged in the Addis Ababa outcome document.
- Stronger thematic partnerships for action between the private sector, foundations and governments should be encouraged at the global and local levels to implement the SDGS.
- The private sector should also increase its responsible financial investments towards sustainable development, and help and support governments into achieving the SDGs.

Additional work is needed to define specific announcements in these areas from the private sector to be made in the Addis Ababa conference, taking into account the ongoing initiatives by a variety of major institutions. Developing inclusive business principles could be one of the deliverables of the Addis conference.

5. Strengthening our collective capacity to prevent and resolve sovereign debt crises

The preparation of Addis Ababa Conference should be the opportunity to recall both the necessity to prevent the emergence and to enhance the resolution of sovereign debt crises. Based upon its experience as President and Secretary General of the “Paris Club”, which plays a pivotal role in the international financial architecture for sovereign debt, France’s aim is to promote a global approach to sovereign debt issues which will both ensure the long term debt sustainability of low-income and developing countries and preserve and enhance the international financial community’s capacity to resolve sovereign debt crises.

The landscape of external debt of low income and developing countries has changed over the past few years and a lot of progresses have been made in this field since the Monterrey conference in 2002. Such evolutions have been facilitated by debt relief initiatives under the HIPC, the MDRI and the Evian treatment in the Paris Club, together with other debtor countries' efforts. As the HIPC initiative is drawing to a close, the international community should preserve and build upon these achievements to avoid a recurrence of unsustainable levels of debt. In this regard, the 2015 Declaration should stress new challenges for these countries and recall that we remain committed to ensure that financing decisions remain consistent with long-term debt sustainability.

The drastic rise in creditor litigations during and after sovereign debt restructurings has also become an important challenge for the orderly resolution of debt crises. Against this background, coordination between stakeholders is more than ever necessary within the international financial community, so that sovereign debtors can ensure fair, orderly and good-faith debt restructuring negotiations. In particular, it is important to strengthen the existing contractual approach to sovereign debt restructuring, building upon the work of the IMF on tackling collective action issues in sovereign debt restructuring. Specific attention should be given to the cases of more vulnerable countries with lower legal capacities, such as low-income countries, and non-cooperative strategies in debt restructuring crises should be monitored closely, especially during the transition period as the current stock of foreign law sovereign bonds does not include these strengthened contractual features.