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Round tables 1, 3 and 5

Global Partnership and the Three Dimensions of Sustainable Development

Background note by the Secretariat

The current draft of the Addis Ababa Action Agenda calls for an "enhanced and revitalized global partnership for sustainable development, led by governments… [as] a vehicle for strengthening international cooperation for implementation of the post-2015 development agenda," to be complemented by "multi-stakeholder partnerships and the resources, knowledge and ingenuity of the private sector, civil society, the scientific community, academia, philanthropy and foundations, parliaments, local authorities, volunteers and other stakeholders."

Although the concept of a global partnership for development has been implicit in the main United Nations agreements on development since the 1960s, the phrase was given concrete form in the Millennium Declaration and in the specification of that partnership as Millennium Development Goal 8. While MDG 8 focused on international means for accelerating progress towards the seven other MDGs, a broader conception of the global partnership for development was elaborated in the 2002 Monterrey Consensus of the International Conference on Financing for Development.

The global partnership for development has played a central role in galvanising aid, increasing market access, providing debt relief, improving access to technology and other forms of support, and bringing greater attention to the needs of the most vulnerable countries. Yet, it had important shortcomings in implementation. The MDG Gap Task Force, created by the Secretary-General in 2007 to review progress in Goal 8, has noted gaps regarding the achievement of the targets set in MDG 8, as well as in its monitoring. The lack of quantitative time-bound targets has been compounded by the lack of data to track quantitative and qualitative commitments adequately and in a timely manner.

The present Conference is bringing the different international threads of discussion of the global partnership together to cohesively serve as the international strategy for mobilizing financial and technical resources for the post-2015 agenda for sustainable development, and to support the implementation of the proposed sustainable development goals (SDGs).

This set of roundtable discussions presents an opportunity to consider in a multi-stakeholder format how to transform the commitments in the draft Addis Ababa Action Agenda into a living, vigorous global partnership for sustainable development, including its monitoring and follow-up. Discussion in the three round tables should also help guide implementation and monitoring of partnership commitments, while offering opportunities to consider further proposals.

A Revitalised Global Partnership for Sustainable Development

The Monterrey Consensus provides a basic structure for a reinvigorated global partnership, given its emphasis on the use of all forms of financing, including public and private, domestic and international in a holistic manner. Its recognition that each country has primary responsibility for its own social and economic development and that the global community has responsibility for an enabling international environment carries forward as the dual bases for the draft Addis Ababa Action Agenda.

The draft Action Agenda not only builds on the Monterrey Consensus, but also updates it to better reflect the economic, social and environmental dimensions of sustainable development. As in Monterrey, all financial flows are considered. The draft Agenda stresses the importance of domestic public resources and of domestic public policies, emphasizing their role in creating the enabling environment and effective regulatory framework for investment. It includes a nuanced understanding of private finance, including its strengths, weaknesses and incentive structures, as well as an enhanced and targeted role for international cooperation. In this regard, it builds on the work of the Intergovernmental Committee of Experts on Sustainable Development Financing, which assessed sustainable development financing needs, current financing flows and potential sources of financing. The Committee has found that "needs are huge and the challenges in meeting them are enormous – but surmountable. Indeed, global public and private savings would be sufficient to meet the needs." However, "there is no one simple policy solution. Instead, a basket of policy measures will be necessary, encompassing a toolkit of policy options, regulations, institutions, programmes and instruments, from which governments can choose appropriate policy combinations." In addition, to fully reflect the comprehensive scope of the post-2015 development agenda and the diverse needs of sustainable development, the draft Addis Ababa Action Agenda also includes a chapter on science, technology and innovation, as well as on the importance of data.

Strengthening domestic resource mobilisation

As recognized in the draft Addis Ababa Action Agenda, significant additional domestic public resources, supplemented by international assistance as appropriate, will be critical to realizing sustainable development and achieving the SDGs. Developing countries as a whole have made significant progress in mobilising domestic resources since Monterrey. Public domestic finance in developing countries more than doubled between 2002 and 2011, increasing from $838 billion to $1.86 trillion.[1] Similarly, impressive growth is being achieved in domestic savings rates, with developing countries likely to account for almost two-thirds of global savings by 2030.[2] However, countries differ greatly in how they share in these advances. Moreover, developing countries on average collect much lower proportions of their gross domestic product (GDP) in tax revenue compared to the member countries of the Organization for Economic Cooperation and Development (OECD): 10-20 per cent average tax-GDP ratios in developing as opposed to 30-40 per cent in OECD countries.

The draft Addis Ababa Action Agenda welcomes efforts by countries to set nationally defined domestic targets and timelines for enhancing domestic revenue as part of their national sustainable development strategies. Also, it seeks to support developing countries in

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[1] Report of the Intergovernmental Committee of Experts on Sustainable Development Financing, para 39.
[2] World Bank (2013). Capital for the Future: Saving and Investment in an Interdependent World. Global Development Horizons report. Washington DC: World Bank.

reaching those targets, including through capacity building funded through official development assistance (ODA). Public resource mobilization depends on many factors, such as size of the tax base, a country's capacity to collect and administer taxes, tax elasticity, the volatility of sectors being taxed, and commodity prices. In this regard, countries commit to work to improve the fairness, transparency, efficiency and effectiveness of their tax systems, including by broadening the tax base and continuing efforts to integrate the informal sector into their formal economies.

In addition, the draft Addis Ababa Action Agenda expresses concern about the growth of illicit financial flows (IFFs) and agrees "to redouble efforts to substantially reduce illicit financial flows by 2030, with a view to eventually eliminate them, including by combatting tax evasion and corruption through strengthened national regulation and increased international cooperation." To aid in policymaking, there is also a call for better accounting of IFFs.

World leaders would further commit to scale up international tax cooperation through a range of concrete measures, including enhanced reporting and transparency. Governments would commit in the outcome document to ensure that all companies, including multinationals, pay taxes to the governments of countries where they undertake economic activity. They would also invite countries to engage in voluntary discussions in regional and international fora on tax incentives and ending harmful tax practices.

To be effective, international tax cooperation should be universal in approach and scope and should fully take into account the different needs and capacities of all countries. The draft Addis document supports ongoing efforts in this direction by international organizations. To ensure inclusive cooperation and dialogue, Governments would also agree to strengthen the UN Committee of Experts on International Cooperation in Tax Matters.

Questions for discussion

1. How can technical assistance for tax reforms and capacity building be strengthened and harmonised? How can lessons from country experiences be better shared?
2. What do country experiences tell us about which tax policies have been most effective in mobilizing resources in a fair manner?
3. What are the most effective ways to strengthen international tax cooperation, while ensuring inclusive discussions and agreements?
4. Assessment of progress in tax cooperation will be part of the follow-up of the Addis Agenda. What mechanism or framework would be best for detailed review in the area of tax co-operation and domestic resource mobilisation? Should there be any quantitative and qualitative targets?

Enhancing international development cooperation

A central aspect of the global partnership for development has been increases in concessional international public finance – in particular ODA – to support developing countries' development and poverty eradication efforts. ODA reflects the continued international commitment of developed countries to provide concessional financial and technical resources to developing countries. ODA increased substantially following the Millennium Summit and Monterrey Consensus, rising from $82 billion in 2000 to approximately $135 billion in 2014, reversing an almost decade-long decline in aid flows. Least developed countries (LDCs), with the least capacity to raise public resources domestically, also received significantly increased volumes of aid during the MDG period, increasing from 0.06 per cent of donor gross national income (GNI) in 2000 to 0.10 per cent in 2013 (the last year for which country-disaggregated data are available).

However, collectively, at 0.29 per cent of the DAC members' GNI, ODA fell short of the UN target of 0.7 per cent of donor GNI, as well as the 0.15 – 0.20 per cent target for LDCs. In particular, bilateral ODA to LDCs has declined in recent years, falling by 16 per cent in 2014 to $25 billion. In the present Conference, donors would reaffirm their prior commitments to the 0.7 per cent target and in particular commit to reverse the decline in ODA to LDCs. The draft outcome document also encourages developed countries to provide aid equivalent to 0.20 per cent of GNI to LDCs, with the European Union committing to do so collectively by 2030.

In addition to increasing the volume of aid flows, countries have committed to increase the effectiveness of aid. The international community adopted a first set of guidelines for more effective development cooperation in the Monterrey Consensus. Countries have worked together since then to strengthen development effectiveness in a process that has evolved into the Global Partnership for Effective Development Cooperation, and the UN Development Cooperation Forum. The draft Addis Ababa Action Agenda would further these efforts, including by better aligning aid activities with national priorities, reducing fragmentation, accelerating the untying of aid, particularly for LDCs and countries most in need, promoting country ownership, results orientation and strengthening of country systems. Governments would also commit to use programme-based approaches where appropriate, strengthen partnerships for development, reduce transaction costs, and increase transparency and mutual accountability, and make development more effective and predicable by providing developing countries with regular and timely information on planned medium-term support.

The draft Addis Ababa Action Agenda further recognises that financial and technical cooperation among developing countries plays an increasingly important role in development. It invites countries to further scale up South-South cooperation, as a complement to North-South cooperation, and to make their support more effective and transparent. World leaders would also commit to strengthening triangular cooperation as a means of bringing relevant experience and expertise to bear in development cooperation.

In addition, the draft Agenda reaffirms the importance of meeting existing commitments on climate change and related global challenges. It also notes the need for transparent methodologies for reporting climate finance and welcomes the ongoing work under the UN Framework Convention on Climate Change.

Multilateral and other international development banks would be given a particularly important role in the new Agenda, as sources of concessional and non-concessional long-term development finance. The draft Agenda calls on development banks to make optimal use of their resources and balance sheets, and to update and develop their policies in support of the post-2015 development agenda, including progressing towards the SDGs. It encourages the multilateral development finance institutions to establish a process to examine their role, scale and functioning to enable them to adapt and be fully responsive to the sustainable development agenda.

The draft document recognizes that when countries' per capita incomes grow, they lose access to concessional finance, which they may not be fully able to replace. Even those lower middle income countries that have been able to borrow on international capital markets, have often done so at relatively high interest costs, usually with relatively short maturities. There is a risk that when global interest rates rise, it will be difficult for these countries to refinance their borrowings, which may lead to precipitating sovereign debt crises. Therefore, the draft Action Agenda encourages shareholders of multilateral development banks and bilateral donors to develop graduation policies that are sequenced, phased and gradual, as well as to set up processes to offer different levels of concessionality to borrowers facing different situations.

In view of vast financing needs of the post-2015 development agenda in particular in infrastructure investment, leveraging of private finance is seen as an important opportunity. The draft Addis Ababa Action Agenda welcomes the contribution of “blended” finance and partnerships, and encourages such partnerships to support country-driven priorities and strategies. To assure the development impact of leveraged private investments, projects should share risks and rewards fairly, meet social and environmental standards, and have clear accountability mechanisms. Macroeconomic and debt risks also need to be monitored. The draft agenda calls for increased capacity building and sharing of lessons learned through regional and global fora.

In a similar vein, multi-stakeholder partnerships have increasingly been used to lever the strengths of different actors – public, private and philanthropic – for common goals. The draft outcome document encourages and promotes such partnerships as a way to support country-driven priorities and strategies, building on lessons learned and available expertise. It recognizes the work of the Global Alliance on Vaccines and Immunization (GAVI) and the Global Fund to Fight AIDS, Tuberculosis and Malaria and calls on better alignment among such initiatives in the field of health. It also calls for scaling up and strengthening initiatives in the area of education, such as the Global Partnership for Education, and it recognizes the work of the Global Environment Facility (GEF) in mainstreaming environmental concerns into development efforts and providing grant and concessional resources to support environmental projects.

<u>Questions for discussion</u>

1. The overall dollar volume of ODA in constant prices was projected not to rise after 2015. What is required to improve on this projection? Should donors focus on meeting existing targets for assistance to LDCs, and/or adopt an additional target, such as devoting 50 per cent of their assistance to LDCs?
2. How can the complementarities and differences between climate finance and financing for development be best addressed? How can countries ensure that climate finance does not crowd out ODA to fight poverty? Are new measurements necessary?
3. What concrete policy steps are needed to assure that international public resources are used most effectively? What measures are needed to reduce the fragmentation of the international public financing landscape? Is there a constituency for these measures?
4. What steps should international development banks and donors take to ensure adequate access to financing for lower middle income and other countries in need? How can the lending policies of international financial institutions be more effectively aligned with sustainable development goals, especially for social and environmental sectors?
5. How can South-South and North-South triangular cooperation for sustainable development be strengthened? What roles can the Southern initiatives such as Asian

Infrastructure Investment Bank, BRICS Bank and the 21st Century Maritime Silk Road initiatives play in this regard?

Mobilising private sector financial resources

The draft Addis Ababa Action Agenda welcomes private business activity, investment, and innovation as major drivers of increased productivity, inclusive economic growth and job creation. It calls on all businesses to apply their creativity and innovation toward solving sustainable development challenges, and invites them to engage as partners in the development process.

Private international flows, such as foreign direct investment (FDI), remain an important source of finance for development. According to the *World Investment Report 2015*, FDI inflows to the LDCs grew by 4 per cent in 2014 to $23 billion. Significantly, the largest component of this FDI was 'greenfield' investment – new investment or expansion of existing investment, as opposed to investment through mergers and acquisitions – which originated in other developing economies. However, FDI inflows are concentrated in a limited number of countries, with 71 per cent of FDI to developing countries flowing to just nine countries.[3] In this context, the draft Addis Ababa Action Agenda commits to use various instruments to incentivize additional FDI flows to developing countries, particularly to LDCs and countries in conflict and post-conflict situations, including by establishing investment promotion regimes for LDCs.

Many observers have looked to institutional investors as a potential source of additional finance for sustainable development. However, to date these investors have tended to engage in liquid investments. Indeed, only around 3 per cent of their assets under management are invested in infrastructure. Overall, institutional investors appear to have a short-term investment horizon, which is reflected in the high volatility associated with portfolio capital flows.

Nonetheless, certain categories of institutional investors, particularly those with long-term liabilities (such as pension funds, life insurance companies, and sovereign wealth funds which hold around $60 trillion in assets) may be well suited to finance longer-term investments. To tap these resources, challenges have to be addressed on both the supply and demand side. In the draft Action Agenda, governments agree to embed resilient and quality infrastructure investment plans in national sustainable development strategies, while also strengthening domestic enabling environments. They would also commit to provide technical support for countries to translate plans into concrete project pipelines, as well as for individual implementable projects. The support would include assisting in preparation of feasibility studies, negotiation of complex contracts, and project management. At the same time, the draft document also encourages removing inappropriate policy distortions, introducing effective regulations and market incentives, and encouraging investors to develop long-term oriented incentive structures aligned with sustainable development.

The draft Action Agenda welcomes the growing number of businesses that embrace taking account of the environmental, social and governance (ESG) impacts of their activities in their core business model, and urges all others to do so. The draft Action Agenda agrees to promote sustainable corporate practices, including integrating ESG factors into company

[3] DESA calculations based on UNCTAD (2015), *World Investment Report 2015*, UNCTAD/WIR/2015.

reporting, as appropriate. Governments would also agree to work towards harmonizing the various initiatives on sustainable business and financing, to identify remaining gaps, and to strengthen the mechanisms and incentives for compliance.

The draft Addis Ababa Action Agenda also calls for measures to develop domestic long-term bond markets, and stresses the importance of building stable markets, with appropriate risk management by investors, supervision by regulators, and appropriate incentives along the investment chain that are aligned with long-term performance and sustainability indicators.

To promote financial inclusion, Governments would agree to work towards full and equal access to formal financial services for all, along with consumer protection and financial literacy. In this regard, microfinance institutions, development banks, agricultural banks, mobile network operators, agent networks, cooperatives, postal banks and savings banks can play important roles.

Remittances play a key role in many countries in meeting the needs of recipient households. In 2013, an estimated $404 billion was remitted to households in developing countries from migrants, representing a more than ten-fold increase since 1990. However, transaction costs on average absorbed over 9 per cent of the sum being transferred in 2011 (12 per cent in Africa). In the draft Action Agenda, Governments agree to work to bring down these costs by enhancing market transparency and ensuring financial inclusion in both host and recipient countries, and doing more to avoid unintended consequences from anti-money laundering regulations. As an important step to reduce the cost of remittances, the Group of 20 has agreed to reduce remittance costs to 5 per cent. However, recent research by the World Bank has indicated that the cost can feasibly be reduced further, to 3 per cent or even 1 per cent, on average.[4] The draft Addis Ababa Action Agenda commits to work to ensure that the average cost of remittances is reduced to 3 per cent and that no remittance corridor requires charges higher than 5 per cent, mindful of the need to maintain adequate service coverage, especially for those most in need.

Private organisations have also grown in significance as a source of concessional financing for development, including large philanthropic foundations and faith-based and humanitarian organisations that mobilise sums usually from millions of very small donations from households. Many foundations have contributed in substantial ways to the global effort to achieve the MDGs. In total, the OECD estimates that total private grants to developing countries amounted to around $30 billion in 2012, as compared to only $3 billion ten years earlier.[5] The draft outcome document welcomes philanthropists as partners in the new agenda.

<u>Questions for discussion</u>

1. What measures can be used to incentivize greater FDI in countries most in need?
2. How can policies, including capital market regulations where appropriate, promote incentives along the investment chain that are aligned with long-term performance and sustainability indicators, and that reduce excess volatility?
3. How can regulations be designed to ensure that the policy and regulatory environment support financial market stability and promote financial inclusion in a balanced manner, and with appropriate consumer protection?

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[4] http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1288990760745/MigrationandDevelopmentBrief24.pdf

[5] Bathylle Missika and Emile Romon, *Foundations as development partners*, in OECD Development Cooperation Report 2014.

4. What lessons have been learned from research and experience that should be recommended to policy makers for offering the “unbanked” access to essential financial services (payments, savings, credit and insurance)?
5. Which policy incentives have been found most and least effective in extending the transformation of savings into long-term investment? What role should insurance and guarantees or tax incentives play? How can private-public partnerships be designed so to raise additional resources for sustainable development while ensuring that the risks and returns are fairly shared? Should the international community develop guidelines for policymakers seeking to deploy blended financing?
6. How should voluntary “ESG” reporting initiatives be assessed? How can ESG be mainstreamed into the criteria used by investors, bankers and rating agencies?

Enhancing science, technology, innovation and capacity building

The creation, development and diffusion of innovations and technologies and associated know-how are of pivotal importance to sustainable development. Technology was included in the global partnership as defined under MDG 8, focussing on information and communication technologies in particular. In view of its critical role in achieving sustainable development, science, technology and innovation represent a key aspect of the revitalized global partnership for sustainable development.

Despite rapid advances in the use of new technologies globally, access to technology remains unevenly distributed. Gaps persist in developing countries and LDCs in particular. To overcome these gaps, the draft Addis Ababa Action Agenda supports adoption of domestic policies to strengthen domestic enabling environments for harnessing innovation and technology development. It also calls for enhanced international cooperation in this regard, including by establishing a technology facilitation mechanism. In addition, the draft Agenda looks forward to the recommendations of the High-Level Panel on the feasibility and organizational and operational functions of a proposed technology bank and a science, technology and innovation capacity building mechanism for LDCs, with a view to operationalizing it by 2017.

The draft outcome document also puts capacity building at the core of the agenda, including for domestic resource mobilization, international support to develop local capital markets, public-private partnerships, FDI and infrastructure.

<u>Questions for discussion</u>

1. What policy actions are needed to address the gaps in innovation and technological capabilities in developing countries? What is required to mobilize long-term and patient capital to finance innovation? The draft Addis Ababa Action Agenda calls on countries to consider setting up innovation funds. What lessons can be learned from existing funds?
2. How can the new technology facilitation mechanism be most useful? What are the best ways to ensure technology sharing and transfer? What lessons can be learned from country experiences?