



**SUMMARY OF
EXPERT GROUP MEETING ON
“REGIONAL COOPERATION ON FINANCING FOR DEVELOPMENT”**

New York, 15-16 November 2010

Prepared by

FINANCING FOR DEVELOPMENT OFFICE

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1. INTRODUCTION: OVERALL THEME, OBJECTIVE AND RATIONALE OF THE MEETING

1. The Financing for Development Office/UN-DESA held an expert group meeting on “Regional cooperation on financing for development” in New York on 15-16 November 2010. The meeting brought together representatives from the African Development Bank (AfDB), Asian Development Bank (ADB), Inter-American Development Bank (IADB), the Bretton Woods institutions and the wider UN system (including the regional economic commissions, UNCTAD and UNDP), as well as academia. The full list of participants is contained in the annex at the end of this report. The event focused on the potential for regional cooperation to implement the commitments made in the Monterrey Consensus, the Doha Declaration on Financing for Development, and the Outcome of the World Financial and Economic Crisis and Its Impact on Development.

2. The purpose of the meeting was to shape an agenda for a series of multi-stakeholder consultations to be organized on this issue by the regional development banks in 2011 that would in turn feed into the High-level Dialogue on Financing for Development at the end of that year. The entire consultation process would entail a review of strategies at a regional level, including an assessment of what is working or not working in each region, a sharing of cross-regional experiences and best practices, and outlining ways to enhance regional cooperation and its impact on financing for development.

3. At the outset of the meeting, two broad arguments for increased regional collaboration were highlighted. Firstly, it was argued that regional arrangements have the potential to strengthen the international financial architecture. They can complement the work of international organizations through, among other things, better identifying and responding to specific regional needs and demands, ensuring better representation for smaller and poorer countries, and providing a source of counter-cyclical finance. Secondly, cooperation between countries in a region can help them to fill financing gaps and benefit from economies of scale. In particular, they can join forces to better mobilize resources, reduce costs and enhance stability through, among other things, risk pooling, trade integration and harmonization of policies and institutions to deepen regional markets.

4. The expert group meeting comprised five substantive sessions: regional cooperation on mobilizing domestic resources for development; regional mechanisms for attracting foreign direct investment (FDI) and other longer-term private investment; regional cooperation on international trade; regional initiatives for increasing international financial and technical cooperation for development; and regional mechanisms to complement the international financial architecture. In the following section, this report will highlight the key action-oriented points emanating from the presentations and discussions during those sessions. In addition, it will also outline additional issues, not captured under the above headings, proposed by participants. The final section of the report will summarize the agreements reached among the participants as to the immediate next steps.

2. KEY ACTIONABLE POINTS ARISING FROM THE SUBSTANTIVE SESSIONS

A) REGIONAL COOPERATION ON MOBILIZING DOMESTIC RESOURCES FOR DEVELOPMENT

5. Discussants explored the potential for regional mechanisms to increase tax revenue, provide financing for regional public goods, and enhance financial sector development. The following points were emphasized:

- Regional cooperation can play an important role in enhancing tax mobilization. At the domestic level, this can be done through cooperation to enhance administrative capacity/efficiency and jointly designing policies to broaden the tax base and introduce new taxes. This should be supplemented by greater international collaboration on tax-related matters between regional organizations (e.g., the African Tax Administration Forum) and bodies like UN and OECD, in order to address issues related to capital flight, transfer pricing and tax incentives to attract foreign investors.
- Regional development banks should develop complementary relationships with actors at the national and sub-regional levels. For a start, the relationship between regional and national development banks needs to be strengthened. In addition, it was also pointed out that regional, sub-regional and national development banks can jointly promote the development of national financial systems. Regional development banks can also cooperate with sovereign wealth funds – through providing risk mitigation - to ensure that some of their vast resources get invested in the poorest countries.
- There were three other areas where regional and sub-regional development banks were called on to expand their activities. Firstly, it was argued that these institutions should play a greater role in facilitating countries' access to international financial markets. Secondly, a participant commented that regional development banks not only need to allocate resources, but also develop financial services. Finally, it was argued that regional and sub-regional development banks also need to ensure effective resource management, in addition to resource mobilization.

B) REGIONAL MECHANISMS FOR ATTRACTING FDI AND OTHER LONGER-TERM PRIVATE INVESTMENT

6. Participants saw scope for significant deepening, expansion and consolidation of regional initiatives geared towards greater FDI flows in support of development. The following points were emphasized during the presentations and discussions:

- Greater efforts are required to leverage the potential for regional cooperation to facilitate infrastructure investment. Improving procedures to facilitate trade flows, one-stop-border posts and the regulatory environment would be key in facilitating both regional investment and trade. In addition, a regional financial sector framework would be

important in, among other things, mobilizing finance for regional infrastructure and public goods. Last, but not least, the role of regional development banks and other organizations in mitigating the risks facing foreign investors is also a useful area for comparing and critically reviewing experiences.

- Related to the above point, reference was made to cooperation in creating regional capital markets. On the one hand, there is scope for cross-fertilization of experiences with regard to developing regional bond markets. For example, the Asian Bond Markets initiative has generated larger and more diverse local currency-denominated bond markets in the Asean +3 region. At the same time, it was also pointed out that the potential and possibility of creating regional stock markets need to be explored further.
- Regional cooperation can play a useful role in enabling small and medium-sized enterprises integrate into regional and global value chains. While such value chains, or linkages, often serve to enhance the beneficial spillover effects a host country can expect from FDI, their potential has been limited owing to a variety of financial and non-financial constraints facing SMEs. Regional arrangements can address these obstacles in a variety of ways such as, for example, through strengthening access to finance of SMEs or putting in place schemes to enhance the ability of local companies to effectively interact with foreign investors. Participants also emphasized the role of South-South (inter-regional) knowledge sharing on supply chains and other mechanisms to enhance the development impact of foreign investment.
- The discussion emphasized the need to improve existing regional investment cooperation mechanisms¹. According to participants, investment cooperation mechanisms in many regions remain highly fragmented and frequently non-binding. For instance, there is scope for deepening, expanding and consolidating existing regional investment treaties and trade agreements.
- Other points that were made included the need to cross-regionally share good practices in public-private partnerships, to develop mechanisms for regional credit and insurance and to make better use of non-equity forms of FDI (e.g. management contracts in utility) rather than focusing solely on greenfield investment projects.

C) REGIONAL COOPERATION ON INTERNATIONAL TRADE

7. Participants emphasized that regional cooperation can help promote trade through multiple channels. The following points were emphasized during the presentations and discussions:

¹ These exist in the form of investment and double taxation treaties, investment agreements, investment chapters in regional trade agreements, as well as non-binding forms of regional cooperation, such as FDI incentive schemes, fora to engage the private sector and the development of harmonized technical standards and competition policies.

- Regionally integrated aid for trade can enhance trade-related infrastructure (e.g. through improvements in cross-border facilities), transport and productive capacity. A participant argued that in many instances infrastructure is a greater obstacle to trade at the regional level than tariffs. There is also scope for cross-regional learning through looking at how the different regional development banks have supported aid for trade and whether there are best practices that can be adopted elsewhere. Moreover, it is important that regional approaches in trade-related areas, such as infrastructure development, economic corridors, trade finance, competitiveness, and trade capacity, are backed by national strategies. Regional development banks and organizations need to ensure this alignment.
- Future collaboration on trade at the regional level should aim to effectively consolidate the current multitude of free trade agreements (FTAs), through the simplification of tariff schedules, rules, and standards. It was argued that the various FTAs should be consolidated into region-wide agreements. The untangling of these complex agreements and the formulation of harmonized standards and rules would require a concerted region-wide effort.
- The current lack of emphasis on trade facilitation (as opposed to trade agreements) was pointed out. Better trade facilitation can lead to enormous savings for businesses and economies. Regional arrangements can promote this through, among other things, promoting more effective customs procedures and regulatory cooperation.

D) REGIONAL INITIATIVES FOR INCREASING INTERNATIONAL FINANCIAL AND TECHNICAL COOPERATION FOR DEVELOPMENT

8. The discussion highlighted that regional integration can complement the existing aid architecture and provide additional and more concessional resources for development finance. The following points were emphasized during the presentations and discussions:

- Regional and subregional development banks should increase their funding for hard infrastructure (large physical networks), such as transportation, utilities and communication, as well as soft infrastructure (the institutions required to maintain the social and economic fabric), such as education, health and the financial sector. Frequently, these infrastructure investments target regional public goods, which have not received proper funding through national and international channels of development finance, including cross-border transportation facilities, environmental programmes and health initiatives. Whereas regional development institutions devote a significant share of their funding to these projects, there is a need to further increase volume and concessionality.
- Regional funds and mechanisms can generate large resources from the private sector through, for example, nations improving their credit rating and thus raising capital more effectively than they would separately. Further consultations could highlight best practices relating to such forms of co-financing and promote more effective intra and inter-regional cooperation in this field. For example, the Andean Development

Corporation mobilizes resources from international markets to Latin America, in order to provide multiple banking services to both public and private clients of its shareholder countries. The Asian Infrastructure Fund represents another regional mechanism that illustrates the capacity to leverage private funds through public resources. The fund has mobilized \$780 million with a \$20 million commitment by the ADB and has made 13 equity investments in telecommunications, power, ports, and toll roads. The African Financing Partnership (AFP) presents a collaborative, co-financing platform amongst development finance institutions active in private sector project financing in Africa.

- The consolidation of various national projects into region-specific development priorities can foster greater donor coordination and harmonization. Moreover, regional funds, as opposed to global mechanisms, give smaller countries a greater voice and participation in resource allocation and project formulation. This may reduce the need for conditionalities since a larger sense of ownership and regional peer review mechanisms help promote responsible fund disbursements.
- Regional development banks and regional economic commissions should further increase aid effectiveness through regional policy dialogue and technical assistance geared towards the development of more effective monitoring and evaluating capabilities.
- The creation of innovative financing instruments, such as new thematic funds to mobilise resources for regional priority areas, was proposed. Regional projects in the ITC, utility and transportation sector were seen as particularly important targets for increased regional cooperation.

E) REGIONAL MECHANISMS TO COMPLEMENT THE INTERNATIONAL FINANCIAL ARCHITECTURE

9. Participants underscored that regional macroeconomic cooperation arrangements were integral to the effectiveness of the global financial architecture. The following points were emphasized during the presentations and discussions:

- Regional multi-stakeholder consultations could further promote the exchange of knowledge and best practices with regard to financial and monetary cooperation within and among regions. The recent world financial and economic crisis has brought the fore significant flaws in the international financial architecture, which may be overcome through well-coordinated regional financial and monetary cooperation mechanisms. These arrangements entail policy dialogues to foster regional economic coordination, reserve pooling mechanisms to provide cushions in times of balance of payment crises, or exchange rate agreements to decrease capital volatility and lower transaction costs. Current initiatives include the ASEAN+3 Chiang Mai Initiative Multilateralization (CMIM) Agreement (which grants financial support to a member country through currency swaps for U.S. dollars), regional economic communities like ECOWAS, or reserve pooling mechanisms like the Latin American Reserve Fund. Similarly, there has also been a history of financial arrangements at the sub-regional level.

- Member countries of regional organizations, mechanisms and arrangements need to foster the necessary institutional environment to overcome key constraints for regional integration. For example, limited capacity and inadequate funding, slow implementation of agreed plans, little coordination and alignment, as well as overlapping memberships frequently impair regional cooperation. Therefore, participants underlined the need to enhance the capacity of regional organizations, champion policy harmonization in priority areas and clarify roles and responsibilities for regional mechanisms with overlapping memberships. Increased resources for priority programs could underpin confidence in integration by delivering tangible results. These efforts require the political will to foster linkages between regional strategies and national development plans.
- Synergies between various regional financial arrangements and international bodies like the IMF should increase. National, regional and international forms of cooperation have their own distinct characteristics. National governments remain the most reliable source of information on economic developments economic vulnerabilities and policy constraints. Regional mechanisms can share regional expertise, coordinate policies of member countries and effectively mobilize private sector capital. Moreover, there are fewer stigmas attached to regional forms of loans than international programmes. International funds, however, have greater capacities to mobilize large resources. Their near universal membership and long institutional history provides for great risk diversification, global economic perspectives and technical crisis management expertise. Some participants suggested a bottom up approach where a network of regional financial and monetary mechanisms would collaborate through a global Secretariat. While views diverged on his proposal, participants underlined the need for continued efforts to strengthen exiting and explore new types of regional financial and monetary arrangements to complement the gaps in the current international financial architecture.

F) OTHER AREAS FOR REGIONAL COOPERATION

10. Participants suggested extending the debate to regional mechanisms that help promote debt sustainability. Several proposals were made to focus on the potential for regional cooperation in the area of climate change mitigation and adaptation. In this connection, the needs of vulnerable countries, particularly small-island developing states, should be taken into account.

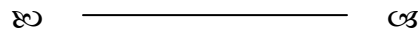
3. OUTCOME OF THE MEETING AND NEXT STEPS

11. The discussions at the expert meeting underlined the increasingly important role of regional cooperation in implementing the Financing for Development Agenda as envisioned in the Monterrey Consensus and Doha Declaration. There was some discussion regarding how the group should proceed with regard to the regional-level consultations. It was reiterated that the group bring forward mechanisms for reviewing strategies at a regional level, including an assessment of what is working or not working in each region, a sharing of cross-regional

experiences and best practices, and outlining ways to enhance regional cooperation and its impact on financing for development. There was agreement on the following:

- There is great potential in building on the expert group-meeting and taking the discussion to the regional level next year, with ADB, AFDB and IADB agreeing to sponsor regional multi-stakeholder consultations.
- Following the regional meetings, there would be a final meeting that would consolidate the findings of the different regional meetings and, in particular, emphasize areas for cross-fertilization in terms of experiences, best practices and policies. This final meeting would be held close to the time of the 2011 High-level Dialogue on Financing for Development (which will take place in New York on 7 and 8 December, 2011) and out of it would emanate a policy document that would be circulated to policy makers and other interested parties.
- In addition, to the above policy document, consideration should be given to bringing out a longer publication in early 2012, which would coincide with the 10th anniversary of the Monterrey Consensus.

12. As an immediate next step, it was agreed that the Financing for Development Office would prepare an informal summary and circulate it to all participants for inputs and comments. In the meantime, the regional development banks and other interested parties would propose possible dates for the regional meetings. These actions would be finalized by the end of 2010. It was further agreed that the findings of the regional multi-stakeholder consultations should feed into the 2011 High-level Dialogue on Financing for Development.



Annex

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