

Fifth High-Level Dialogue on Financing for Development

New York (7–8 December 2011)



Newsletter

November 2011

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Overview

In accordance with General Assembly resolution 65/314 of 12 September 2011 (A/RES/65/314), the fifth High-level Dialogue on Financing for Development will be held on Wednesday, 7, and Thursday, 8 December 2011, at United Nations Headquarters. The overall theme of the Dialogue will be “The Monterrey Consensus and Doha Declaration on Financing for Development: Status of implementation and tasks ahead”.

Plenary meetings

The Dialogue will include four plenary meetings. Three plenary meetings will be held on Wednesday, 7 December 2011, from 10 a.m. to 1 p.m. and from 3 to 6 p.m., and on Thursday, 8 December 2011, from 10 a.m. to 1 p.m., in the General Assembly Hall. A short closing plenary meeting will be held on Thursday, 8 December, at 5.45 p.m. in Conference Room 4 (NLB). During the plenary meetings, ministers and high-level officials, as well as executive heads of major institutional stakeholders will make formal statements.

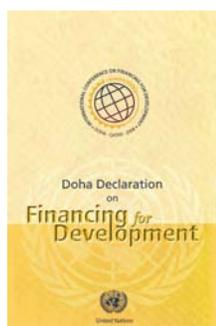
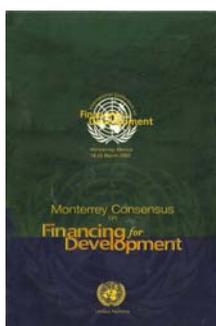
Round tables

On Thursday, 8 December, three interactive multi-stakeholder round tables will be held in parallel from 10 a.m. to 1 p.m. on the following themes:

Round table 1: The reform of the international monetary and financial system and its implications for development (Conference Room 2 (NLB));

Round table 2: The impact of the world financial and economic crisis on foreign direct investment and other private flows, external debt and international trade (ECOSOC Chamber (NLB)); and

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 development (Conference Room 4 (NLB)).



For further Information

Please refer to the Financing for Development Web site at www.un.org/esa/ffd/hld/HLD2011/index.htm.

Each round table will be open to participation by representatives of all Member States; 10 representatives of observers, relevant entities of the United Nations system and other accredited intergovernmental organizations; 3 representatives of accredited civil society organizations; and 3 representatives of accredited business sector entities.

Informal interactive dialogue

An informal interactive dialogue will be held on Thursday, 8 December, from 3 to 5.45 p.m., on the theme “The link between financing for development and achieving the internationally agreed development goals, including the Millennium Development Goals”, in Conference Room 4 (NLB). The informal interactive dialogue will be open to participation by representatives of all Member States; 15 representatives of observers, relevant entities of the United Nations system and other accredited intergovernmental organizations; 5 representatives of accredited civil society organizations; and 5 representatives of accredited business sector entities.

Media arrangements

The plenary meetings and the informal interactive dialogue, as well as press conferences, will be broadcast live into the media area and webcast live and on demand. In addition, press releases on plenary meetings and other events will be provided, as appropriate. A programme of special media briefings and press conferences will be announced.

Side events

A series of side events will be organized by interested Member States and accredited non-State stakeholders. A calendar of those events is posted at <http://www.un.org/esa/ffd/hld/HLD2011/CalendarSidevents.pdf>

Outcome

The Dialogue will result in a summary by the President of the General Assembly which will be issued as an official document.

Background documentation

- General Assembly resolution 65/314 on “Modalities for the fifth High-level Dialogue on Financing for Development” ([A/RES/65/314](#))
- Note by the Secretary-General on “Proposed organization of work of the fifth High-level Dialogue on Financing for Development” ([A/65/897](#))

- Report of the Secretary-General on “Follow-up to and implementation of the Monterrey Consensus and Doha Declaration on Financing for Development” ([A/66/329](#))
- Report of the Secretary-General on “Innovative mechanisms of financing for development” ([A/66/334](#))
- Report of the Secretary-General on “International financial system and development” ([A/66/167](#))
- Report of the Secretary-General on “External debt sustainability and development” ([A/66/164](#))
- Report of the Secretary-General on “International trade and development” ([A/66/185](#))
- Note by the Secretary-General on “World commodity trends and prospects” ([A/66/207](#))
- 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, 10 and 11 March 2011) ([A/66/75–E/2011/87](#))
- MDG Gap Task Force Report 2011 “The Global Partnership for Development: Time to Deliver”

Global Economic Outlook

World Economic Situation and Prospects 2012 warns that two years after anaemic and uneven recovery from the global financial crisis, the world economy is teetering on the brink of another major economic downturn. The greatest immediate challenges are the continued jobs crisis and the declining prospects for economic growth, especially in the developed countries. Particularly, the sovereign debt crisis in a number of European economies, threatens to aggravate the still fragile banking sector in the region and may trigger renewed financial turbulence worldwide. In the potential scenario that problems in major developed countries would trigger a double-dip recession, developing countries, which had rebounded strongly from the global recession of 2009, would be hit hard through trade and financial channels.

Plenary meetings

“The Monterrey Consensus and Doha Declaration on Financing for Development: status of implementation and tasks ahead”

The 2002 Monterrey Consensus and 2008 Doha Declaration on Financing for Development contain agreements on principles, guidelines, policies and actions in six major thematic areas: mobilization of domestic financial resources, private capital flows, international trade, official development assistance, external debt and reform of the international monetary, financial and trading systems in support of development.

Given the bleak world economic outlook, **domestic resource mobilization** for financing poverty eradication and expanding employment opportunities remain priority items on national development agendas. However, there are concerns about growth prospects of developing countries, including the risk of spillovers from developed countries, rising domestic inflation, excessive capital inflows, exchange rate misalignment and commodity price volatility. In addition, substantial resources, both domestic and external, will be needed for the transition towards a green economy, as well as to address climate change, invest in food security and reduce economic vulnerability to external shocks.

Net **private capital flows** to developing countries are estimated to have risen from \$325 billion in 2009 to \$392 billion in 2010. However, there have been indications of a recent decline in portfolio equity flows to developing countries which, in turn, have led to a sharp depreciation in most of the leading emerging market currencies. Despite some diversification, the distribution of investment flows remains uneven, particularly among the least developed countries (LDCs). South-South investment flows have also increased, particularly those from emerging market economies. Despite its potential contribution to development, the surge in foreign capital may make the domestic financial sector more vulnerable.

After a deep decline in 2009, **world trade** rebounded by almost 12 per cent in 2010. Developing countries have been leading the recovery in international trade, while trade by developed economies continues to teeter below pre-crisis levels. In the absence of significant progress in multilateral trade negotiations, a wide

range of tariff and non-tariff protectionist measures continue to limit the development potential of international trade, especially for LDCs. The share of LDCs in global trade has remained constant at 0.33 per cent (excluding oil) since 2002. In this context, LDCs have called for an “early harvest” on the implementation of the duty-free and quota-free access for all products originating from all LDCs. On a positive note, recent increases of aid for trade directed towards LDCs have been encouraging. Yet, the distribution of aid for trade remains skewed, as two thirds of the assistance goes to only ten LDCs. The 2011 Istanbul Programme of Action called on development partners to implement effective trade-related technical assistance and capacity-building to LDCs on a priority basis.

In 2010, net **official development assistance** (ODA) from OECD/DAC member countries reached a record level of \$128.7 billion, representing 0.32 per cent of their combined gross national income (GNI). However, net ODA/GNI ratios of many large donors remain below the United Nations target of 0.7 per cent, while only five countries (Denmark, Luxembourg, the Netherlands, Norway and Sweden) exceed that target. Moreover, the Group of Eight did not deliver on its promise at Gleneagles to increase aid to Africa by \$25 billion (in 2004 prices). The delivery gap in 2010 was estimated at \$18 billion (or \$15 billion in 2004 prices). ODA to LDCs reached \$37 billion raising their share to 0.10 per cent of donors aggregate GNI, which was still well below the United Nations target of 0.15-0.20 per cent. There is a need to strengthen monitoring, evaluation and accountability mechanisms of development cooperation, a central priority for both the follow-up to the Fourth High-Level Forum on Aid Effectiveness in Busan and the outcome to the next ECOSOC Development Cooperation Forum.

- Thanks to a recovery in growth and exports, **external debt** indicators improved in many developing countries in 2010, despite considerable divergence across regions. However, high public debt-to-GDP ratios in many developing countries can be a cause for concern. There is a growing risk of spillover effects from the European debt crisis and other risk factors, such as volatile energy and food prices and exchange-rate instability, which could significantly affect the outlook for debt sustainability of countries with external vulnerabilities.

Debt problems often occur due to natural disasters, international financial volatility and other exogenous shocks, despite good policies and debt management. Structural vulnerabilities to external shocks can therefore be as important as policy and institutional quality. Further technical work at the inter-agency level could play a useful role in enhancing the analysis and effectiveness of existing debt sustainability frameworks.

The international community has continued its efforts to **reform the international monetary and financial system**. Key areas include financial regulation and supervision, multilateral surveillance and macroeconomic policy coordination, sovereign debt, global financial safety nets and the international reserve system. Further steps have also been taken by the Bretton Woods institutions to improve their governance structures through shifts in voting power to developing and transition countries. In addition, it is critical that macroeconomic policy coordination be sustained, strengthened and institutionalized on the multilateral agenda. There is a need for stronger institutional linkages between informal limited-membership bodies like the G-20 and universal international organizations, such as the United Nations. Clearer procedures, greater coordination and more coherent policies would help ensure complementarity of efforts between the G-20, the United Nations, the Bretton Woods institutions and other multilateral organizations.

Proposed questions:

- What are the challenges and constraints to domestic resource mobilization in developing countries? What can be done to expand and support employment creation and infrastructure investment as part of national development strategies in times of crisis?
- What types of macroeconomic policies in developed and developing countries promote foreign direct investment and other private capital flows for development? What are the benefits and concerns related to capital inflows to developing countries?
- What scope is there in the renewed effort to conclude the Doha Round for advancing a development agenda in world trade? How can progress in multilateral trade negotiations and in setting multilateral rules and regulations be reconciled with the need for sufficient space for national policies in support of structural change and growth in developing countries?

- What measures are needed to ensure the achievement of United Nations aid targets despite fiscal consolidation and fragile economic recovery in donor countries? What role can the United Nations play in strengthening international cooperation in this area?
- How can the debt crisis in the euro area be contained and its impact on emerging economy and developing countries be minimized? What can be done to help middle-income developing countries reduce their debt burden, including by providing additional relief and restructuring?
- How can the United Nations, the Bretton Woods institutions and the World Trade Organization more effectively coordinate their actions so as to increase the coherence and consistency of the international monetary, financial and trading systems in support of development?

Round table 1: “The reform of the international monetary and financial system and its implications for development”

The international community has taken measures to address systemic impediments to financing for development. Despite these reform efforts, some deficiencies of the international monetary and financial system continue to give rise to global instabilities and hamper resource mobilization and crisis resilience in developing countries. There is a need to further reform and strengthen the international monetary and financial system in support of development.

Key reform areas are financial regulation and supervision, multilateral surveillance and macroeconomic policy coordination, sovereign debt, global and regional financial safety nets and the international reserve system. Moreover, international financial institutions have taken steps to redress imbalances in terms of voice and representation of developing countries.

A major step in the process of reforming **financial regulation** is the introduction of the Basel III framework for bank capital and liquidity regulation. The new rules provide for higher minimum capital requirements, better risk capture, a stricter definition of eligible capital elements and larger liquidity buffers. Along with the traditional microprudential approaches focused on the level of the individual bank, Basel III also attempts to strengthen system-wide oversight and macroprudential policy framework. Given considerable scope and flexibility in the national implementation of the Basel III rules, the challenge lies in transforming the Basel III framework into a set of national regulations and practices, which are consistent across countries and which are not providing regulatory loopholes that might weaken the overall impact of the framework. Important international efforts are also under way regarding the oversight and regulation of systemically important financial institutions and the shadow banking system.

The recent crisis and the current financial turmoil have demonstrated that, in a highly interdependent world economy, external shocks are swiftly transmitted around the globe. Consequently, there is a need to strengthen **surveillance and early-warning mecha-**

nisms. In particular, more attention needs to be paid to financial sector issues and cross-border spillover effects. The IMF has taken steps to improve methods and coverage of its multilateral surveillance activities, including through new spillover reports for the world’s five largest economies, which stressed the importance of financial channels for transmitting global shocks.

Economic policy coordination within the G-20 during the financial crisis was instrumental in averting an even more serious downturn and in setting the stage for recovery. It is critical that **macroeconomic policy coordination** be sustained, strengthened and institutionalized on the multilateral agenda. The Action Plan for Growth and Jobs, adopted by the G-20 summit in Cannes in November 2011, contains a number of actions and indicators, including those on fiscal consolidation, aiming at strengthening international economic policy coordination. The G-20 as an informal grouping needs to forge stronger institutional linkages with non-member States and universal international bodies, in particular the United Nations. There is also a need to ensure complementarity of policy coordination efforts between the United Nations, IMF, G-20 and other multilateral stakeholders.

The debate on **capital flows** has focused on the question of how to respond to potentially destabilizing capital inflows and which policy instruments to choose. In designing policy responses, recipient countries have a range of tools at their disposal. Policy options include exchange rate, monetary, fiscal and macroprudential policies and other forms of capital account regulations, such as capital controls. Despite possible multilateral repercussions of such policy instruments, there is largely a lack of international rules or guidelines on this issue. G-20 leaders called on the Financial Stability Board, IMF and the Bank for International Settlements to do further work on tools to mitigate the impact of excessive capital flows. The IMF has started to work on a framework to help countries deal with large capital inflows.

Concerns related to developed country **sovereign debt** have become an important source of instability for the global financial system. Sovereign debt and banking risks, mostly in the euro area, have continued to rise further. There is a need to pursue fiscal consolidation in major advanced economies over the medium and long term. However, measures to ensure medium-term fiscal

sustainability should be internationally coordinated and well timed so as not to damage recovery prospects. Premature fiscal austerity measures in response to high levels of fiscal deficit and public debt weaken growth and job prospects and increase the risk of falling back into recession. To address sovereign debt crisis in Europe, assistance measures have been agreed on, complemented by IMF facilities. Increasing attention is also on strengthening fiscal integration in the euro zone. In addition, potential measures to strengthen the crisis resilience of the financial sector have received increased attention, including calls for recapitalizing banks and for increasing transparency and accountability of the banking sector. One factor compromising international financial stability is the absence of an international framework for sovereign debt restructuring. Such a mechanism is a critical element for the stability of the international financial system. However, thus far there has been no progress on this issue.

An effective **global financial safety net** is an important backstop for the prevention of economic and financial instability. Currently, countries rely on a hybrid system combining reserve accumulation, bilateral agreements, and regional and multilateral mechanisms. In 2010, the IMF enhanced its Flexible Credit Line and established a Precautionary Credit Line. In November 2011, the Fund announced a Precautionary and Liquidity Line to replace the Precautionary Credit Line to provide increased and more flexible short-term liquidity to countries with strong policies and fundamentals facing exogenous shocks. Resources available to IMF to carry out its lending activities increased significantly. There are proposals to set up a permanent multilateral mechanism to provide liquidity in systemic crises, in conjunction with bilateral and regional liquidity support arrangements. Indeed, there is a need for large liquidity buffers to deal with fast and sizeable capital market swings.

There are proposals to reform **the international reserve system** through a strengthened role for special drawing rights (SDRs). Recent SDR allocations helped to supplement international reserves in response to the world financial and economic crisis. A gradual move over the coming years towards a system that combines increased use of SDRs with a range of nationally supplied reserve assets is viewed as the most feasible scenario. Possible measures in this regard include broadening the composition of the SDR basket, regular issuances of SDRs, and the use of SDRs in private commercial or financial transactions and as a unit of account.

Both IMF and the World Bank have taken steps to redress **imbalances in governance** structures and to increase the voice and representation of developing countries. While recent measures represent important progress, there are calls to continue efforts to enhance the governance structure of the Bretton Woods institutions. There are also calls for a swift implementation of the 2010 quota and governance reform of the IMF. In addition, a comprehensive review of the current IMF quota formula is scheduled to be completed by January 2013. Many developing countries believe that any changes to the formula should lead to an increase in quota shares of emerging economies and developing countries.

Proposed questions:

- What steps should be taken to bolster both national and international supervision and regulation of financial markets? What should be the role of the United Nations system in this effort?
- How can the toolkit for multilateral surveillance and early warning be further improved?
- What should be the modalities of engagement between the United Nations and informal groups of limited composition, such as the G-20?
- How can capital-account policies and other policies affecting capital flows be made more effective in responding to capital surges and reversals? Should there be global “rules of the game” for cross-border capital flows? How can the adverse impact of the sovereign debt crisis on development be contained?
- How can multilateral funding for liquidity support and external adjustment be further enhanced?
- What path should the reform of the international reserve system take? Which alternative reserve currency arrangements have the greatest feasibility?
- What measures are needed to further enhance the voice and participation of developing countries and countries with economies in transition in international economic decision-making and norm-setting?

Round table 2: “The impact of the world financial and economic crisis on foreign direct investment and other private flows, external debt and international trade”

The severe impact of the world financial and economic crisis on developing countries took place through a sharp contraction in private capital flows and trade. Its effect was compounded by a resulting deterioration in external debt indicators. While the past couple of years have seen an improvement in these conditions, the legacy of the crisis continues to impact on private capital flows, trade and external debt and may pose serious consequences for development.

Net private capital flows to developing and emerging countries increased to about \$575 billion in 2011, up by about \$90 billion from 2010 levels. The recovery in capital inflows from their precipitous decline during the global financial crisis continued until the middle of 2011 but suffered a strong setback with the sharp deterioration in global financial markets in the third quarter of the year. This was owing to a sharp decline in short-term portfolio equity flows to developing countries, as a result of concerns over the sustainability of public finances in Europe which led to a general ‘flight to safety’.

Foreign direct investment (FDI) is a major component of private capital flows to developing countries. The crisis negatively impacted on FDI flows to developing countries through reducing the access to finance for investing firms, as well as by affecting investors’ confidence as a result of gloomy economic prospects and market conditions. In 2009-2010, FDI resumed growing, in line with improved economic prospects in developing markets. However, future investment to developing countries may be adversely affected in the event of a renewed slowdown in the global economy. Moreover, private capital flows to developing countries may be more footloose than in the past, given the growing proportion of short-term and volatile flows.

FDI from developing countries, including South-South FDI, has been less volatile than that from developed countries, and has indeed been more resilient during the global crisis. Companies from developing and transition economies, especially Brazil, China, India

and Russia, have been increasingly important investors. Their share in global FDI outflows rose from 15 per cent in 2007 to 28 per cent in 2010. Over 70 per cent of their investments are directed towards other developing and transition economies. Moreover, the scope for beneficial linkages and technology absorption arising from South-South FDI is increased by the fact that the technology and skills of developing-country TNCs are often closer to those used by firms in host countries. Greater consideration needs to be given by policymakers at all levels to exploring the possibilities for supporting South-South investment flows, particularly those with a positive development impact, including in the context of South-South cooperation and collaboration among developing-country institutions.

Both portfolio flows and cross-border bank lending underwent a recovery in the aftermath of crisis but are susceptible to a renewed downturn due to continuing problems with economic fundamentals in some leading economies. Net inflows of portfolio equity to developing countries declined sharply in 2011, by estimated 35 per cent from 2010 levels, in vivid proof of the high volatility these flows tend to be subjected to. This has, in turn, led to a sharp depreciation in most of the leading emerging market currencies. Portfolio bond flows to developing countries are also vulnerable to a sharp shift in sentiment. Cross-border bank flows to developing countries are also susceptible to significant downside risks, since the continued financial difficulties facing the financial sector make bank lending vulnerable to any renewed downturn in the global economy. In 2011, bank lending has recovered to only about 20 per cent of its pre-crisis level, as international banks headquartered in developed countries continued to struggle in the aftermath of the financial crisis.

The increasing volatility and vulnerability of private capital flows both during the crisis, and in its aftermath, has rendered important the adoption of measures to mitigate their potential destabilizing impact. In addition to appropriate prudential regulation and measures that restrict the impact of excessive capital inflows on the domestic economy, greater consideration should be given to the use of restrictions on international capital mobility, such as international taxes or national capital controls, as a means of reducing the risk of recurrent crises. Moreover, better designed exchange rate systems

based on the principle of constant and sustainable real exchange rates of all countries could further reduce the scope for speculative capital flows.

The world financial and economic crisis led to a sharp contraction in world trade. After declining steeply in 2009, world trade rebounded by almost 12 per cent in 2010 and is expected to grow by about 7 per cent in both 2011 and 2012. Developing countries have been leading the recovery, while trade by developed economies continues to teeter below pre-crisis levels. As a result, the share of developing countries in global trade increased from about one third to more than 40 per cent between 2008 and 2010. However, since mid-2010 world trade growth has lost steam and the short-term outlook is clouded by a number of significant risk factors, including rising prices for food, energy and other primary products, high levels of unemployment and debt crises in developed economies.

The global crisis has also distracted some of the attention of policymakers from the Doha Round of multilateral trade negotiation, which was launched almost a decade ago by the World Trade Organization (WTO). It remains imperative for countries to arrive at a successful and development-oriented conclusion to the Doha Round of multilateral trade negotiations. At the Cannes Summit, G-20 leaders reiterated support for the Doha Development Agenda mandate and stressed the need for fresh, credible approaches to furthering trade negotiations, including issues of concern for the Least Developed Countries.

The recovery in external debt indicators from the negative impact of the global economic and financial crisis has been uneven. The ratio of external debt to GDP decreased from 23.7 per cent in 2009 to 21.6 per cent in 2010. Estimates for the ratio of external debt service to exports of goods and services for 2010 also show a return to pre-crisis levels for all income groups, reaching 6.5 per cent in low-income countries, 19 per cent in lower-middle-income countries and 35 per cent in upper-middle-income countries. However, there is considerable divergence across regions and countries. Some countries have found it more difficult to emerge from the recession or are still coping with large fiscal deficits, especially given the additional shocks of higher food and energy prices. There also remain concerns about debt sustainability, which could be adversely affected by spill-over effects from the European debt crisis and other risk factors, such as volatile energy and food prices and exchange-rate instability. The effectiveness of debt sus-

tainability frameworks need to be re-examined through further work at the inter-agency level. Efforts are also needed to design instruments and institutional mechanisms to better deal with debt distress.

Proposed questions:

- What are effective ways to facilitate the flow of international private capital, particularly long-term investment, to developing countries?
- How can foreign direct investment policies be more successfully integrated in a coherent manner with policies on trade, domestic investment and other government policies to achieve development objectives?
- What national and international measures can be taken to increase the stability of private capital flows to middle-income countries and to mitigate the impact of financial volatility on their economies?
- How can the conclusion of the Doha Round of multilateral trade negotiations be expedited and the potential benefits of the Doha Development Agenda be realized?
- How can international cooperation ensure debt sustainability of developing countries and foster consideration of enhanced and fair approaches to sovereign debt restructuring mechanisms?
- What can be done to help middle-income developing countries reduce their debt burden, including by providing additional relief and restructuring?

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 development”

Aid remains an important source for financing development as a large number of developing countries cannot access other sources of finance. In 2010, the delivery of official development assistance (ODA) reached a record level of \$128.7 billion or 0.32 per cent of OECD/DAC members’ combined gross national income (GNI). However, global aid delivery remains far below the United Nations target of 0.7 per cent measured as net ODA/GNI ratio, with only five donor countries (Denmark, Luxembourg, the Netherlands, Norway and Sweden) meeting that target.

Moreover, ODA falls \$19 billion short of donor commitments pledged for 2010 at the 2005 Gleneagles G8 Summit. The shortfall in aid to Africa is even larger in percentage terms. Africa has so far received an additional \$11 billion, compared to the \$25 billion promised at Gleneagles. ODA to the least developed countries (LDCs) reached \$37 billion or 0.10 per cent of donors’ aggregate GNI. Again, this is still well below the United Nations target of 0.15-0.20 per cent.

Recognizing these critical shortfalls in ODA delivery, the September 2010 MDG Summit reiterated the importance of fulfilling all ODA commitments and encouraged donors to establish specific timetables. Likewise, the May 2011 Istanbul Programme of Action for LDCs called upon donor countries to implement at least their minimum ODA targets for LDCs by 2015. The 2011 DAC Recommendation on Good Pledging Practice, advised its members to ensure clarity by specifying all parameters relevant to the assessment of their pledges. Nevertheless, most donors plan to increase aid over the coming three years at a sharply reduced pace, given the fragile recovery in developed countries and the possibility of double-dip recession in Europe. The ongoing fiscal crises in Greece, Italy, Ireland and Spain have already translated into significant drops in their ODA. Aid to

Africa is likely to decline in per capita terms, since the projected increase in ODA (1 per cent per year in real terms) is lagging behind the population growth.

In 2009, the top ten ODA recipients received one fourths of all aid, as was the case in 2000. This trend suggests that aid concentration persists despite the fact that favoured aid recipients change over time. There is a case to be made for more equitable and needs based allocation of aid. The sectoral distribution of ODA has also been highly unbalanced. Over the past decade, the share of sector-allocable ODA from DAC donors devoted to social infrastructure and services has grown from 50 to 60 per cent, while the share directed towards economic infrastructure and services has gone down from 26 to 20 per cent. The agricultural sector received just 5.3 per cent of sector-allocable aid in 2009, although it is likely to increase in coming years. While aid is not the only source of funding productive investment, the contribution of aid-financed, productivity-enhancing public investment in developing countries continues to be essential, especially in LDCs.

Despite progress since Monterrey, the contribution of innovative financing mechanisms is still modest. Based on OECD classification, innovative financing mechanisms contributed \$ 5.5 billion during the period 2002-2010 to development finance for the health sector and \$31 billion for climate change and environment, the latter mostly from carbon emissions trading. Innovative financing should supplement and not be a substitute for traditional sources of financing. However, of the \$5.5 billion raised for the health sector \$5.3 billion were accounted as ODA and only \$0.2 billion were attributed to non-government contributions. Yet, even these non-ODA resources may be eventually reported as ODA when they are disbursed by DAC multilateral donors. These resources are pooled with other resources and delivered through three public-private partnerships: two vertical funds – the Global Alliance for Vaccination and Immunization (GAVI) and the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) – and one international drug-purchasing facility (UNITAID). For climate change and environment, most of the \$31 billion raised, represent private financial and investment flows, and are classified as non-ODA.

Innovative financing should be further explored and, where appropriate, expanded to complement tradi-

tional ODA. Delivery mechanisms and the allocation of aid flows need to be strengthened so that such resources can be provided on a stable, predictable and voluntary basis. Harmonization of fragmented monitoring and evaluation mechanisms is needed to reduce transaction costs. There is also a need for independent monitoring and evaluation at the international level to assess delivery, allocation and impact of innovative financing on development. In this context, South-South cooperation has helped to fill certain gaps in assistance provided by Northern donors, particularly in the area of infrastructure, and has been seen as relatively predictable, more flexible and responsive to national priorities.

There have been renewed calls for improving existing global monitoring and evaluation mechanisms and exploring new modalities, such as international peer reviews. The 2011 Survey on Monitoring the Paris Declaration on Aid Effectiveness showed substantial variation across donors and partner countries and confirmed that, for those indicators where the responsibility for change was primarily with developing country governments, progress had been significant. For example, significant improvements were made in the quality of planning, as well as financial and results management systems in a number of recipient countries. In the meantime, the lack of progress in some areas that depend largely on donors, such as untying aid and working with other donors, shows the need for sustained and accelerated efforts by donor countries.

The UN Results Report, submitted by UNDG to the Fourth High Level Dialogue on Aid Effectiveness in Busan, found that the existing indicator framework was ill-fitted to assess the contribution of multilateral organizations, such as the United Nations and development banks, and suggested that a new global monitoring framework could take the form of a global peer review mechanism on mutual accountability carried out in countries at regular intervals, facilitated by the United Nations by virtue of its extensive country presence.

The participants at Busan HLF-IV recognized that the progress since Monterrey had been uneven and neither fast nor fast reaching enough and reaffirmed their respective commitments and the implementation in full of the actions agreed in Monterrey. They noted the increasingly complex architecture for development co-operation and proposed a new global development partnership for effective development cooperation that would embrace diversity and recognize the distinct roles that all stakeholders can play to support development. It

was agreed to work towards selective and relevant set of indicators and targets through which to monitor progress on a rolling basis by June 2012.

The Busan outcome document recognized that South-South cooperation differed from North-South cooperation in its nature, modalities and responsibilities and countries providing South-South cooperation were a part of the development agenda in which they participated on the basis of common goals and shared principles. It was accepted that the Busan outcome document would be a point of reference for them on a voluntary basis.

Donors also committed themselves to the International Aid Transparency Initiative, adherence to which would allow development assistance to be compared across countries. They also pledged to reduce the proliferation of multilateral channels by the end of 2012, make greater use of country-led coordination by 2013 and to provide regular rolling three- to five-year indicative forward expenditure and implementation plans to developing countries.

The ECOSOC Development Cooperation Forum provides an important opportunity to review and address the issues of global partnership for development, including the coherence of national and international aid efforts.

Proposed questions:

- What additional actions need to be taken to ensure that the international community meets aid commitments and delivers stable, predictable, durable and more equitable aid flows?
- What does development effectiveness mean in practice? What steps need to be taken to ensure the allocation of aid to social and productive sectors and align them with national development strategies?
- What steps can be taken to realize the full potential of innovative financing and ensure that innovative sources of development finance are additional, stable, and predictable and aligned with national development strategies? How can innovative financing mechanisms be streamlined with the existing aid architecture?
- What are the next steps in improving mutual accountability for international development cooperation? What will be the new issues to be discussed in the ECOSOC Development Cooperation Forum to enhance development effectiveness?

Informal interactive dialogue

“The link between financing for development and achieving the internationally agreed development goals, including the Millennium Development Goals”

Achieving the internationally agreed development goals, including the Millennium Development Goals (MDGs), requires strengthening of the global partnership for development, as embodied in Goal 8 of the MDGs, the 2002 Monterrey Consensus, the 2002 Johannesburg Plan of Implementation and the 2005 World Summit Outcome. This compact between developing and developed countries, which stresses mutual responsibilities in the quest for development goals was reaffirmed in the 2008 Doha Declaration on Financing for Development and the 2010 MDG Summit Outcome.

Progress towards the achievement of the MDGs is monitored by the United Nations system through the Millennium Development Goals Report and the MDG Gap Task Force Report. Both have issued a mixed report card. The MDGs have helped to lift millions of people out of poverty, save lives and increase primary school enrollment. They have reduced maternal deaths, expanded opportunities for women, increased access to clean water and freed many people from deadly and debilitating disease. At the same time, the record shows slow progress in empowering women and girls, promoting sustainable development, and protecting the most vulnerable from the devastating effects of multiple crises, be they conflicts, natural disasters or volatility in prices for food and energy.

In terms of MDG 8, the international community falls short on three fronts. First, even as ODA reached record levels in 2010, donor Governments intend to increase spending more slowly during 2011-2013. It is unclear how this will accord with pledges to raise aid levels towards the United Nations target of 0.7 per cent of national income by 2015. Second, despite intense negotiations at the World Trade Organization to deliver on the Doha Development Agenda, the Round has not successfully concluded, even a decade after it began. Third, although there have been major efforts to increase access to medicines and information and communica-

tion technologies, their costs remain prohibitive in many developing countries. Both present a hindrance to development.

At the same time, new challenges have emerged over the last decade, which require concerted global action, including the impact of the world financial and economic crisis, additional costs of climate change mitigation and adaptation and damage to the Earth's environment, new forms of economic cooperation, price volatility in international markets of key commodities, expanding economic cooperation and the growing needs for reconstruction and development of post-conflict countries. The United Nations' *World Economic and Social Survey, 2011* estimates that incremental green investment of about 3 per cent of world gross product (about \$1.9 trillion in 2010) would be required to overcome poverty, increase food production and to eradicate hunger without degrading land and water resources, and avert the climate change catastrophe.

The upcoming Rio+20 Summit provides a unique opportunity to face some of these pressing challenges in a collaborative manner. With global population expected to reach 9 billion by 2050, the challenge lies in balancing productive economic expansion with human and natural capital that is its foundation. In the aftermath of the world financial and economic crisis, exacerbated by food and fuel price volatility and climate change needs, this challenge remains as daunting as ever. In this context, the UN Conference on Sustainable Development (Rio+20) will focus on two themes: a green economy in the context of sustainable development and poverty eradication and an institutional framework for sustainable development, with three primary objectives: to renew political commitment for sustainable development; assess progress and implementation gaps; and address new and emerging challenges.

The fulfillment of these objectives requires greater global coordination and collaboration. In this regard, the General Assembly recognized the need for inclusive, transparent and effective multilateral approaches to managing global challenges and reaffirmed the central role of the United Nations in ongoing efforts to find common solutions to such challenges. This would imply enhanced coordination, cooperation, coherence and effective policymaking across the entire United Nations

system, as called for in the report of the Secretary-General on “Global economic governance and development” (A/66/506).

The fourth High-Level Forum on Aid Effectiveness adopted the “Busan Partnership for Effective Development Cooperation”, which is rooted in shared principles to achieve common goals in development cooperation. The Forum outcome document calls for mutual accountability, and accountability to the intended beneficiaries of development cooperation, as well as to respective citizens, organizations, constituents and shareholders.

The implementation of internationally agreed development goals also calls for advancing the United Nations development agenda beyond 2015. The report of the Secretary-General (A/66/126) conveys four main messages. First, the discussion of the post-2015 development agenda should start with a thorough evaluation of the MDGs. This will assess what has worked and what needs improvement. Second, sustainable development must be at the centre of any post-2015 UN development agenda. Third, there are new development challenges that need further reflection: issues such as inequality, climate change, food and energy security, environmental degradation, demographic trends, peace and security, respect for human rights and good governance. Fourth, new challenges could be addressed by more fully by operationalizing the values and principles contained in the Millennium Declaration, which remain as relevant as ever.

Proposed questions:

- How can the international community, including the United Nations system, respond to new challenges and emerging issues in a more coordinated and effective manner?
- What is the interrelationship between the Rio+20-Summit and the Financing for Development process? What would help ensure that these two processes mutually reinforce each other?
- How can we ensure greater coherence among the noticeably disjointed multilateral architectures for environment, technology transfer, trade, aid and finance so as to facilitate green growth and environmental sustainability?
- How can the Financing for Development process help shape the post-2015 UN development agenda?
- What actions need to be taken to arrive at a more inclusive, transparent and effective global economic governance? How can the role of the United Nations be strengthened in global governance?