Preparatory Process for the Third International Conference on Financing for Development

First round of Substantive Informal Sessions (10 – 13 November 2014)
Informal Summary by the Secretariat

In preparation of the Third International Conference on Financing for Development (Addis Ababa, Ethiopia, 13-16 July 2015), the General Assembly held, from 10 to 13 November 2014, three and half days of substantive informal sessions. Based on the roadmap for the preparatory process for the Conference prepared by the co-facilitators of the process, H.E. Mr. George Wilfred Talbot (Guyana) and H.E. Mr. Geir O. Pedersen (Norway), the meetings focused on the global context and the mobilization and effective use of resources for sustainable development, including domestic and international public finance, and private and blended finance.

The sessions drew significant interest of Member States, with a high level of participation from capitals, in particular from ministries of finance and development cooperation of both developed and developing countries of all regions. The major institutional stakeholders of the Financing for Development process, including the World Bank, IMF, UNCTAD and UNDP, were fully engaged and prominently represented in the meetings. Civil society organizations and the business community also contributed to all substantive discussions. The sessions were chaired by the co-facilitators of the preparatory process. Panellists included senior representatives from Governments, multilateral institutions, academia, civil society and the private sector.

This report provides a consolidated day-to-day summary of the first set of substantive informal sessions. The summaries of these discussions will serve as inputs to the drafting sessions on the outcome document of the Conference. The next round of substantive informal sessions will be held from 9 to 12 December 2014, and will focus on the enabling environment, systemic issues, the follow-up process and partnerships.

Session 1: "The Global Context" (10 November 2014)

The first session featured a panel on the global context, focused on the impact of the global context on financing for the post-2015 development agenda, as well as changes to the global context over the past 12 years since the Monterrey Consensus. The session was opened by the co-facilitators, who underlined the importance of the informal sessions in identifying the relevant issues for the Conference in 2015. The Co-facilitators encouraged inclusive discussions among all stakeholders.

Ms. Helen Clark, Administrator, UNDP, delivered the opening keynote address. Following this, there was a panel session moderated by Mr. Alex Trepelkov, Director, Financing for Development Office, DESA. Panellists were divided into two smaller sessions. In the first, Mr. Maged Abdelaziz, Under-Secretary-General and Special Adviser on Africa, and Mr. Pablo Fonseca, Secretary for Economic Monitoring, Ministry of Finance, Brazil, gave country perspectives on financing for the post-2015 development agenda. In the second, Mr. Seán Nolan, Deputy Director Strategy, Policy & Review Department, IMF, Dr. James Manyika, Director (Senior Partner), McKinsey Global Institute, and Vice Chair, President's Global Development Council, USA, and Ms. Shari Spiegel, Chief, Policy Development and Analysis

Branch, Financing for Development Office, UN-DESA, presented data on financing flows and the global economic outlook and discussed changes in the global economy.

In her keynote address, Ms. Helen Clark highlighted the progress that has been achieved on the MDGs, especially in poverty reduction, education and health. She suggested that the SDGs should be broader and transformational, and should focus on the eradication of poverty, respect for environmental limits, and peaceful societies under the rule of law. Based on the guidance of the report of the Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF), financing for development should be thought of as 'Monterrey Plus'. This should include a review of the progress under the Monterrey Consensus and measures to address newly emerged challenges, particularly in the areas of official development finance and international public finance; the mobilisation of private finance; and the mobilisation of finance for resilience through improved risk management, especially in the context of climate change and conflict, violence and insecurity.

In his introductory remarks to the panel discussion, Mr. Alexander Trepelkov introduced the major changes in the global context that would be relevant for a future financing framework in the post-2015 context, including changes in economic strength among countries, the recognition of the impact of climate change on global prosperity, subdued growth as a result of the global economic and financial crisis, and rising inequalities in and between many countries.

The first panellist, Mr. Maged Abdelaziz, highlighted the progress on the MDGs in Africa - such as in primary education, gender equality and the containment of HIV/AIDS - based on sound macroeconomic policies and economic growth. In contrast, unfinished business, particularly in the areas of poverty eradication and health, still have to be addressed, as do the significant financing gaps in infrastructure and climate finance. A stronger enabling environment would be needed for economic growth and investment, while the capacities for domestic resource mobilisation, the management of natural resources, and data processing needed to be strengthened. The potential of trade would have to be harnessed, ODA commitments need to be fulfilled and innovative finance instruments further explored.

Next, Mr. Pablo Fonseca focused on the opportunities and challenges of infrastructure financing, using the example of a successful public-private partnership in Brazil. Due to tougher regulatory requirements, banks have been facing constraints on infrastructure financing. As a result, capital markets have been targeted for financing. This has imposed challenges to risk management. Mr. Fonseca noted that public-private investments could contribute to long-term growth while addressing inequality, a specific challenge to middle income countries, and that the Brazilian example could be a basis for other similar projects. However, he argued that understanding the conditions and different country contexts was essential to identifying the circumstances under which a project would or would not work. The required capacity for feasibility studies and the complex and time consuming preparation of such projects was an issue, especially in countries with weak institutional environments, implying that this type of structure is not relevant in such circumstances. In addition to planning, adequate regulation would be needed.

Mr. Seán Nolan presented data from the World Economic Outlook on the global economy, which illustrated some of the changes to the global context since 2002. India and China have experienced very strong economic growth rates, while some low-income countries also grew significantly. At the same time, growth rates in high-income countries have been low, especially since the financial crisis in 2008. Global economic integration has advanced and private flows to developing countries have risen considerably, despite the dip during the financial crisis. Debt to GDP ratios have fallen, while government revenues have increased. Developing countries, and especially emerging markets, can access private capital markets at better rates than 15 years ago. However, in the short run, a return to high growth rates is unlikely, even though the outlook is not as clouded for low-income countries. For the IMF, the implications would be to continue to give high priority to the prevention of potential crises and to strengthen the underpinnings of international financial stability, to support resilience including in management of capital flows and debt, and to support capacity development for domestic resource mobilisation and local capital market development.

Dr. James Manyika discussed major global trends in technology and innovation. Prosperity is rising and more than 2 billion are expected to join the consuming class by 2025, in conjunction with the spread of technology, such as IT. The contribution of the internet to GDP is already larger than many other sectors, e.g. agriculture, even though a big gap remains between developed and emerging economies. In parallel to the spread of technology there will be a shift of economic strength from the west to east and south, as well as increasing urbanisation. Global flows of goods, services and finance would at least double by 2025. Knowledge-intensive flows are gaining importance relative to labour- and capital-intensive flows. The challenges would be to ensure inclusive growth and job creation, as well as managing the pressure on resources. Deleveraging will continue and infrastructure development will be crucial especially in rapidly developing countries to cope with rapid growth.

Ms. Shari Spiegel presented trends in financial flows since 2002. She began with an explanation of the conceptual framework developed by the ICESDF, based on the Monterrey Consensus but incorporating the three dimensions of sustainability (economic, social, environmental), and highlighting the importance of financial intermediaries and an understanding of incentive structures. Ms. Spiegel then presented the work of UN DESA on global financial flows, based on a database of databases, and also highlighted the fragmentation of financing data. Overall, there has been significant progress since the Monterrey Consensus. All flows (national, international, public, private) have increased. However, ODA to LDCs has been falling. Private flows are not allocated to the countries and sectors most in need. Many private flows have been highly volatile and short-term oriented. In particular, institutional investors, who are often looked to as a solution for financing long-term investments, generally invest through financial intermediaries with short-term incentives. Government policies are necessary to incentivize long-term investment. Blending of private and public sources of finance can be a part of the solution in some countries and sectors, but countries most in need frequently lack the capacity to successfully build and manage these partnerships.

The panel discussion was followed by statements from Member States and other stakeholders. The key points from these were as follows:

- Member States emphasised the importance of the Third International Conference on Financing for Development and committed to making the Conference a success. They noted that the outcome document of the Conference should build on Monterrey, Doha, and Rio+20 and provide the financing framework for the post-2015 development agenda. The need for an updated financing framework that reflects changes in the global and regional context, such as the shift of economic strength, was recognised. Sustainability in its three dimensions was seen as an integral part of a new framework. Several Member States voiced their support for the ICESDF report as an important input to the Conference. However, there were divergent views among Member States on the issues of climate change and technology in the Conference and on the concept of global public goods.

- Poverty eradication was seen as the central objective of the Conference. The critical role of ODA and other international public finance in this regard, in particular for LDCs, was highlighted. Donor countries were urged to fulfil existing commitments. Some Member States emphasised that South-South-Cooperation should be seen as a complement, but not a substitute, to North-South-Cooperation.

- Since the sustainable development agenda is expected to be broader than the MDGs, some Member States suggested that LDCs would need additional resources. Suggestions included the allocation of 50 per cent of ODA to LDCs and duty free and quota free access to markets. Some Member States suggested a specific focus on climate change resilience.

- Multiple Member States raised the point of reforms to the international financial system and governance. This included stronger participation of developing countries, the introduction of a debt restructuring mechanism and debt relief. Further, there was a call for stronger international policy coherence.

- A number of Member States pointed out the key role of domestic resource mobilisation and the need for further strengthening. Several Member States underlined the importance of innovation, data and technology to make the use of different sources of finance more effective for sustainable development. However, capacity building would be needed in many developing countries.

- Civil society representatives listed the key challenges as raising resources for a broad sustainable development agenda, targeting the consequences of the financial crisis, and addressing inequality. Issues of insufficient income from taxes, unfulfilled ODA commitments, and challenges with blending public and private finance were emphasised. There were also calls to address governance questions in the international financial system, to establish a legal debt framework and an inclusive tax forum.

- Private sector representatives supported the idea of building on Monterrey and Doha. The need for specific financing mechanisms for the municipal level and cities, and a review of institutional and regulatory frameworks for improved risk mitigation, were emphasised. In addition, the transformational role of technology was highlighted.

Session 2: "Domestic Public Finance" (11 November 2013)

Morning Session: Raising domestic resources for sustainable development

The second session discussed raising domestic resources for sustainable development. The morning session began with a scene setting presentation by Professor Atul Kohli of Princeton University on the role of states in economic development. This was followed by a roundtable discussion on country experiences with revenue mobilization. The panelists included: Benedict Clements, Division Chief, Fiscal Affairs Department, IMF; Luis Maria Capellano, Undersecretary for Public Revenue, Ministry of Economy and Finance, Argentina; and Pekka Ruuhonen, Director-General of Tax Administration, Finland. Mr. Alvin Mosioma, Director, Tax Justice Network Africa, served as a discussant.

In the scene-setting presentation, Professor Atul Kohli emphasized that while a favorable global setting was important, development was mostly a national challenge. He supported this point with several observations and empirical data. He argued that from a historical point of view, no country has ever industrialized or developed without an active role of the State, or by relying primarily on foreign resources. He used the development trajectories of Asian countries to illustrate his points, including (1) higher domestic savings rates; (2) lower levels of external debt; (3) more diverse FDI; (4) more diversified economies with higher exports of manufactured goods; and (5) lower inequality. He emphasized that no one model fits all countries, but that countries must be strategic and selectively integrate with the global economy. In concluding, Prof. Kohli said successful development requires an effective State that primarily relies on domestic resources, including mobilizing public and private savings, setting political priorities and building bureaucratic capacities in priority areas.

The first speaker of the roundtable, Mr. Benedict Clements, presented recent trends and experiences with revenue mobilization. He reported that tax revenue as a share of GDP had overall increased in low- and middle-income countries in the last two decades, but was still substantially lower than in high-income countries. Developing country revenues from value-added taxes had increased more than revenues from corporate and personal income taxes, while revenues from trade taxes had declined. In addition, he emphasized that developing countries faced significant challenges in protecting their corporate tax base from erosion and profit shifting. He discussed which taxes, including property taxes and corporate and personal income taxes, had proved to be effective in raising revenues and meeting equity objectives. When thinking about the distributional implications he stressed that tax and spending measures need to be thought of together. He also identified priorities for raising domestic resources for sustainable development, including: 1) strengthening tax administrations; 2) building effective real estate and personal income taxes; 3) addressing international avoidance opportunities and scaling back wasteful tax incentives; 4) building effective extractive industry tax regimes; 5) pricing energy to reflect damage to the environment; and 6) deepening experience sharing and cooperation.

Mr. Luis Maria Capellano shared Argentina's experience in mobilizing domestic resources. At the outset, he noted the critical role played by the Government and the challenges faced in raising resources, as well as in making efficient use of them. He underlined the importance of tax instruments to support multiple objectives equally - economic growth, sustainable development and equitable redistribution of resources. He also provided several examples of tax measures implemented in Argentina, which had been effective, including exemptions and reduced tax rates on essential goods and services and progressive rates for personal income and property taxes, as well as special measures aimed at promoting investments, research and employment. He noted that Argentina was strongly committed to fighting international tax avoidance and explained that his country, as a member of the G20, was actively participating in the G20-OECD Project on Base Erosion and Profit Shifting (BEPS), as well as in the Global Forum on Transparency and Exchange of Information for Tax Purposes. Finally, he highlighted the importance of international cooperation, as well as of investments in information technology and human resources, in strengthening the capacity of the national tax administrations.

Mr. Pekka Ruuhonen outlined Finland's experience in collecting tax revenues, with a focus on the role played by the national tax administration in achieving high compliance. He stressed that uncollected taxes (the tax gap) could be as high as 45% of expected tax revenue without efforts by administrations to ensure compliance, but that it is possible for the tax gap to be reduced to as little as 3% - 5%, as it is in Finland. He reported that Finland had achieved a high tax-compliance rate over time because of the trust placed by taxpayers in the tax administration. He emphasized that this trust had been built by improving the efficiency of tax administration, digitalizing of tax services, increasing the accessibility of taxpayer services and other forms of support, including pre-filled-out tax returns.

Mr. Alvin Mosioma, in commenting on the previous presentations, noted that there was a wide consensus that taxation was the most important and reliable source of finance for sustainable development. He argued that in implementing tax reforms to increase domestic public resources for development and mitigate inequality, the distributional implications should be analyzed and monitored very carefully, especially with respect to consumption taxes, which could have detrimental regressive effects. He noted the importance of broadening the tax base and tackling base erosion and profit shifting and the need for enhanced tax transparency, both at national and international level. He also suggested an overall reconsideration of tax incentives, which may have little real benefit. He called for increased international tax cooperation and the establishment, under the aegis of the United Nations, of a new intergovernmental body responsible for leading an inclusive process of reform of international tax rules.

Points made in the subsequent interactive discussion included the following:

- A key theme was around effective bureaucracies and efficient tax administration and the role that capacity building might play in this regard. There was a debate about how much emphasis should be placed on trying to build trust through effective communication and the aura of compliance, versus simple reforms and administrative efficiency and compliance. However all agreed that the investment of a larger share of ODA into tax administration capacity building would be useful.

- There was a suggestion that redistributive policies aimed at reducing inequality should be the foundation of any development-led tax reform. The efficiency of accomplishing this through different types of exemptions or taxes would depend on each country's unique situation. While some speakers favored consumption taxes, other interventions indicated that consumption taxes were problematic because of the regressive impacts. There was also discussion about how taxation can affect women's rights and gender equality.

- Speakers also emphasized the need to address harmful tax competition. Interventions emphasized the lack of efficacy of tax holidays and incentives in terms of attracting foreign investment. Other speakers said evidence on the effectiveness of tax incentives is mixed and that good governance is a pre-requisite to bringing additional investment through tax incentives. Some suggested minimum corporate tax floors and regional cooperation on setting tax rates. The IMF is doing a study on tax incentives and avoiding a race to the bottom.

- Addressing illicit financial flows was also a major theme, with a focus on commercial tax evasion and avoidance through base erosion and profit shifting. Some expressed that enhanced tax transparency and exchange of information mechanisms should be top priorities for developing countries to prevent losses of tax revenues. Enhanced international tax cooperation was also thought to be critical to support inclusive and participatory processes aimed at implementing more development-oriented approaches. There was also a desire to make greater progress on the return of stolen assets. In this area the upgrading of the UN Tax Committee was mentioned by a number of speakers, including some Member States and civil society organisations.

- For countries in special situations, such as SIDS, domestic resource mobilization was considered by some interventions to be insufficient for delivery of their national priorities due to economic factors such as limited resource base, increasing costs associated with the adverse impacts of climate change, sea level rise and frequent natural disasters. Accordingly, for such countries, it is expressed that they should be provided with increased and more effective, ODA, as well as with better market access and improved access to finance.

- It was also emphasized that there are other forms of resource mobilization than taxation and that raising non-taxable domestic resources by Governments is important. Additionally, efforts to mobilizing household savings would be important, for example, through creation of national savings institutions and a variety of other programmes.

Afternoon session: Domestic Public Finance - Mainstreaming sustainable development criteria and effective use of public finance

The afternoon session heard perspectives on six areas related to incorporating sustainable development criteria into fiscal policies. The session was moderated by Mansur Muhtar, Co-chair of the United Nations Intergovernmental Committee of Experts on Sustainable Development Financing. The speakers included: Mr. Benedict Clements, Division Chief, Fiscal Affairs Department, IMF; Mr. Vinicius Pinheiro, Deputy Director, ILO; Mr. William Dorotinsky, acting Director, Governance and public sector management, World Bank; Mr. Yoganath Sharma Poudel, Undersecretary, Ministry of Finance, Nepal; Mr. Rainer Kattel, Professor of Innovation Policy, Tallinn University of Technology; and Ms. Claire Schouten, International Budget Partnership.

Mr. Benedict Clements spoke on energy subsidy reform. The IMF study he presented found that energy subsidies are worth approximately $2 trillion worldwide, with approximately $500 billion of this in explicit pre-tax subsidies. He identified the ingredients for successful subsidy reform from 22 country case studies, including: (1) a comprehensive reform plan with clear long-term objectives; (2) a far-reaching communications strategy; (3) appropriate phasing and sequencing of reforms; (4) improvements in the efficiency of state-owned enterprises including improved collection of energy bills; (5) targeted mitigating measures to protect the poor, with a preference for targeted cash transfers; and (6) depoliticizing price setting.

Mr. Vinicius Pinheiro spoke about the financing of social protection, which he characterized as at the core of the post-2015 agenda. He said that the financial crisis showed that the positive counter-cyclical impact of social protection is enormous because it supports aggregate demand and recovery. He also argued that these programmes pay for themselves because expenditure has high multiplier effects. The main constraint was political will. He stressed that there were no magic bullets for financing and gave five options: (1) domestic resource mobilization; (2) reorienting existing expenditure; (3) efficiencies savings; (4) international resources; and (5) debt relief and debt restructuring.

Mr. William Dorotinsky presented the positive correlation between good governance and growth; as well as the pernicious effect of corruption on service delivery and private investment. He explained that there are technical tools and interventions that facilitate improvements in governance, but these are not necessarily sustainable over the long-run. The World Bank is focusing not just on the technical interventions, but also tackling governance and corruptions at a broader level with a more open approach, that looks at the systems involved and engages citizens, private enterprise and governments in tackling corruption. He gave examples of successful improvements in service delivery including using participation and transparency. He also stressed the importance of the political landscape and governance at the highest levels.

Mr. Yoganath Sharma Poudel focused on gender-responsive budgeting in Nepal. He pointed out that underinvestment in women and girls is costly in terms of human development outcomes and growth. He mentioned that in Nepal there were targeted policies and programmes for gender equality and women’s empowerment and other initiatives included enhancing the representation of women in school management and the recruitment of women as primary health care workers. Looking ahead, opportunities will arise from a gender responsive new constitution and aid effectiveness agenda that incorporates financing for gender equality. He said the way forward should include evaluating past work on gender responsive budgeting and he pointed out that the government has prioritized gender equality in its development cooperation policy. There is also the need to implement social protection measures that target women and to address the disproportionately low economic participation of women.

Mr. Rainer Kattel spoke on public procurement as development finance. He began by emphasizing the importance of public funding for development via innovation. In that regard, procurement is an important source of funding for the private sector as well as a way of diffusing technologies. He explained that thinking on procurement was shifting from a focus sole on the efficient use of resources and stopping corruption, to also considering innovation and new technology. He mentioned that there were two types of procuring innovations. Type A entailed creating new technological solutions and markets for these solutions. This includes procuring mission critical technological solutions (such as the internet, semi-conductors, fighter jets) and procuring R&D intensive solutions. Type B entailed diffusing new and existing technological solutions that serve to enhance markets and competitiveness. Either way he stressed that governments need to build capacity and skills in procurement including by utilizing skilled staff such as engineers or other professionals in order to plan and evaluate procurement.

Ms. Claire Schouten discussed budget transparency and citizen participation. She made three recommendations: (1) guaranteeing full transparency on government revenues, aid and spending targeted to each of the development goals; (2) governments should create appropriate mechanisms for public participation in budgeting; and (3) monitoring government spending on each sustainable development goal as part of the ‘means of implementation’. This will require defining a process for global and national level monitoring of government spending targeted towards each goal.

Points made during the interactive discussion included the following:

- A key theme was around targeting of spending, including on vulnerable people such as those with disabilities. Interventions discussed the use of databases and registries to track citizens that can be helpful in targeting. Connecting together policies and information on cash transfers, education, food and health care can help. Use of technology can help with this.

- Interventions also focused on the need to strengthen the capacity of the state to spend wisely – this includes technical assistance, as well as information exchange at international level. This can include sharing of fiscal and technical solutions and best practices across countries.

- Subsidies other than fossil fuel subsidies were also discussed. Speakers stressed a practical approach with a general preference for targeted subsidies, and focusing resources on access to basic services rather than on other types of subsidies. One speaker suggested that rather than subsidies, governments can become employers of last resort and that social employment programmes in some countries, such as India, have met with success.

- Corruption was a recurring topic, with a number of interventions discussing how the leakage of funds through corruption can undermine effective spending. It was highlighted that corruption and lack of transparency can sometimes be an issue with procurement, but that care needed to be taken to not exclude domestic businesses due to too onerous bidding requirements related to interventions to tackle corruption. Electoral campaign finance can also prove an interrelated problem.

- Further discussion on social protection floors included mention of the possibility to use corporate compliance with social security contributions as a condition of bidding in government procurement tenders. There was also a proposal that all governments could commit to a minimum spending package for social services that would be adapted to their country income level. It was noted that the ICESDF had deliberated exhaustively on this topic and it encouraged fiscal policies to provide social services to the poor to reduce inequality and boost productivity.

- Another point of discussion was the importance of national governance and transparency through strengthening oversight and supreme audit institutions. Another suggestion was that all firms be required in their financial disclosures to list all payments to government. It was also suggested that the governments should publish documents they already have, like budget data and procurement contracts, to improve transparency and accountability.

Session 3: "International Public Finance, including Official Development Assistance (ODA)" (12 November 2014)

Morning Session: ODA and Aid Effectiveness

The session was moderated by Mr. Amar Bhattacharya, Senior Fellow at the Brookings Institution. The panel comprised Mr. Erik Solheim, Chair of the OECD Development Assistance Committee (DAC); Ms. Harpinder Collacott, Director of Engagement and Impact at Development Initiatives; Mr. David Roodman, Public Policy Consultant; Mrs. Dorothy Mwanyika, Deputy Permanent Secretary in the Ministry of Finance of Tanzania; Mr. Vitalice Meja, Coordinator of the Reality of Aid Africa Network; and Ms. Smita Nakhooda, from the Overseas Development Institute.

The moderator of the session, Mr. Amar Bhattacharya, noted the great progress that had been made since Monterrey in the realm of international public finance, but stressed that the context had changed significantly. On the supply side, fiscal pressures in donor countries impacted the supply of Official Development Assistance (ODA), while other resources had become more important. On the demand side, 80 per cent of the overall population of developing countries lived in middle income countries, implying new demands on ODA. In this light, he suggested that discussions addressed how ODA commitments could be met, and how ODA should be allocated in a post-2015 agenda.

The first panellist, Mr. Erik Solheim highlighted the significant development successes of recent decades. He also pointed out that resources were sufficient to meet financing needs. Nonetheless, he noted that ODA would continue to play an important role. Specifically, he mentioned four areas where the Addis Ababa Conference could make real progress: increases in ODA and a particular focus on ODA for the Least Developed Countries; support to domestic resource mobilization, both through targeted ODA and through addressing illicit flows; greater incentives for private investment in developing countries; and a smarter and more effective use of ODA. Mr. Solheim also reported on ongoing efforts to modernize the definition of ODA in the OECD DAC, stressing both the transparency of the process and the commitment to not artificially increase ODA figures.

Ms. Harpinder Collacott stressed the critical importance of ODA in eradicating poverty. She noted that 83 per cent of the absolute poor live in countries that have both very limited capacities to raise domestic public resources and that have comparatively low growth projections going forward. For this reason, she argued that ODA should be targeted where the poorest live. While ODA does currently target poverty better than other flows, this could and should be further improved, e.g. by giving development cooperation agencies an explicit mandate in targeting poverty reduction.

Mr. David Roodman first highlighted that in a more multipolar world, the main challenge would be to jointly resolve global challenges, which highlighted the importance of seeing aid in the broader context of trade, migration, and other policies that affect development. He also underlined certain types of aid that had proven to be effective, such as health aid and direct giving. Such demonstrable successes would be critical to create and maintain political support for ODA.

Mrs. Dorothy Mwanyika, Deputy Permanent Secretary in the Ministry of Finance of Tanzania, noted the large role that ODA played in her country, in particular in financing the development budget. In terms of its modalities, Tanzania preferred budget support, which facilitated its use in line with national priorities and under the supervision of parliament. For this reason, she regretted the decreasing appetite among donors for budget support. To further increase ODA effectiveness, she also called for greater predictability of aid flows, the use of national systems, and mutual accountability mechanisms, to ensure a genuine partnership between donor and recipient countries.

Mr. Vitalice Meja, Coordinator of the Reality of Aid Africa Network, emphasized the importance for developed countries to meet the target of 0.7 per cent of GNI for ODA, and called for a binding mechanism to achieve this goal. He also noted that while many developing countries now had middle income status, they still rely on ODA to finance some of their needs. With respect to aid effectiveness, he underlined the importance of the Busan principles, and in particular democratic ownership and the participation of all stakeholders. Inclusive fora such as the United Nations Development Cooperation Forum have the ability to bring all stakeholders together in an inclusive manner.

Ms. Smita Nakhooda, from the Overseas Development Institute, explained that development progress was being threatened by new challenges such as climate change, with the poorest people concentrated in countries that are most vulnerable to climate change. To address these challenges, developing countries required international public finance, in line with existing commitments under the United Nations Framework Convention on Climate Change (UNFCCC). However, these resources drew from the same pool that provided development finance. There was a substantial role for ODA in the delivery of Fast Start Finance, and climate-related ODA has grown rapidly. While these overlaps were to be expected, they had implications on allocation, with climate-related ODA more targeted toward middle income countries and towards the Asia and Pacific region.

Points made in the subsequent interactive discussion included the following:

- Many delegations emphasized that existing ODA commitments had to be met, and some called for clear and concrete timetables. Additional ODA was needed also in view of increasing international public finance flows dedicated to climate change mitigation and adaptation in developing countries, which largely count as ODA. There were also calls to increase the effectiveness of ODA, for example by increasing its predictability and flexibility, by untying aid and by making greater use of budget support as an aid modality.

- Different perspectives were raised with regard to the most desirable allocation of ODA. There was broad agreement that poverty should be the priority concern for ODA flows. Some also called for ODA to increase capacity for domestic resource mobilization, while others noted that the potential to raise revenue from taxation would remain severely limited in many countries.

- Many speakers endorsed a greater focus of ODA on LDCs and other vulnerable countries, and there was agreement that the trend of declining ODA for LDCs should be reversed. Suggestions were made to allocate 50 per cent of all ODA to LDCs. Others voiced their concern that classifications and allocations based on income per capita only would neglect other factors, such as structural vulnerabilities, and emphasized the continued need for ODA for many middle income countries as well. In addition, some speakers noted that financing for climate change mitigation is generally counted as ODA, which risks diverting ODA from LDCs.

- Several questions were raised with regard to OECD DAC efforts to modernize the ODA concept. Speakers voiced their concern over how concessionality is currently being calculated, and also noted that proposals to take country risks into consideration in a renewed measurement could incentivize higher lending to countries at risk of debt distress. Mr. Solheim noted that there was agreement within the DAC that the current measurement of concessionality needed to be changed to address some of the concerns raised. However, he assured the meeting that ODA would remain the main instrument to measure donor effort, while a new and additional measure, “Total Official Support for Development” (TOSD), would allow monitoring broader financing flows for development. In response to calls to discuss changes to the ODA concept in an open and transparent manner at the United Nations, he assured the meeting of the OECD DAC’s commitment to absolute transparency.

Afternoon Session: Additional sources of international public finance: concessional lending, innovative sources of financing and South-South and triangular cooperation

The afternoon session featured two panels. The first panel was on the theme of “Harnessing additional sources of international public finance”. The second panel focused on “South-South and triangular cooperation”.

Panel 1: Harnessing additional sources of international public finance

The first panel of the afternoon session discussed international public financing flows that are not counted as ODA. The panel was moderated by Mr. Amar Bhattacharya, Senior Fellow at the Brookings Institution. The panellists were Mr. Joachim von Amsberg, Vice President for Development Finance, World Bank; Ms. Gargee Ghosh, Director of Development Policy and Finance, Bill and Melinda Gates Foundation; and Mr. Rodney Schmidt, Policy and Evaluation Consultant.

The moderator of the panel, Mr. Amar Bhattacharya, pointed to the significant potential for mobilizing additional resources and leverage financing through the multilateral development bank system.

Mr. Joachim von Amsberg underlined the role of multilateral development banks in using public resources to leverage large amounts of private resources to facilitate investments needed for sustainable development. In addition, they were also able to leverage their knowledge and experience. He further noted that the most concessional resources should be concentrated with a view to achieving efficiency and equity, by using the most concessional resources in the poorest countries, and by investing in public goods. He also spoke of plans to further increase the impact of World Bank lending, including through increased financial leverage, and by leveraging concessional finance windows.

Ms. Gargee Ghosh suggested that significant additional resources could be unlocked for development by implementing a number of specific innovations. They include a targeting of ODA grants to the poorest countries for basic human development; targeted support and access to concessional finance for lower middle income countries; assistance to developing countries to attain tax to GDP ratios of 20 per cent; more support to private finance, and philanthropic and concessional finance to fill remaining gaps; and lastly funding for investments in research and development at scale.

Mr. Rodney Schmidt spoke about the potential of ‘innovative development financing’ mechanisms, such as a financial transaction tax (FTT) to raise resources for sustainable development. The FTT as implemented from 2016 in eleven European countries is estimated to generate US$ 45 billion annually, and could raise US$ 75 billion if implemented across the

European Union. However, there is currently no decision to allocate these resources to development. Finally, he noted that a carbon tax would be an alternative idea to raise significant new resources for sustainable development.

During the subsequent interactive discussion, the following points were raised:

- Delegations noted efforts by the Leading Group on Innovative Financing for Development to mobilize resources complementary to ODA, and highlighted the willingness of the Leading Group to contribute constructively to the elaboration of the post-2015 development agenda.

- Some concerns were raised that concessional lending could contribute to debt crises. The point was made that it was critical to emphasize prevention of debt crises and that the World Bank's International Development Association had adopted a policy to make only grants available for countries in high debt distress.

Panel 2: South-South and triangular cooperation

The panel was moderated by Mr. Navid Hanif, Director of the Office for ECOSOC Support and Coordination, UN DESA. Panellists included Dr. Sachin Chaturvedi, Director-General at the Research and Information System for Developing Countries, New Delhi, India; H.E. Mr. Hazem Fahmy, Secretary General, Egyptian Agency of Partnership for Development; Mr. Admasu Nebebe, Director, UN Agencies and Regional Economic Cooperation, Ministry of Finance, Ethiopia; and Mr. Cosmas Gitta, Assistant Director in the United Nations Office for South-South Cooperation.

Mr. Navid Hanif introduced the topic and noted that South-South cooperation (SSC) – loans, grants, and technical cooperation – was estimated to amount to US$16 to 19 billion in 2011. Its key features were that it was demand driven, predictable, and fast.

Mr. Sachin Chaturvedi, reported on new institutions that Southern countries were setting up to address their priorities. They include the BRICS Bank, the Asia Infrastructure Development Bank, or reserve funds such as the Chiang Mai Initiative. These regional efforts allow safeguarding the economic interests of Southern countries. He also noted that South-South cooperation was demand driven, so that these efforts would support a post-2015 agenda in those cases where specific country demands align with the agenda.

Mr. Admasu Nebebe reported on the significant impact that SSC had had in Ethiopia to date, in particular in the area of infrastructure investment. ODA had a critical role in helping achieve the MDGs, but tends to focus less on domestic resource mobilization, trade and investment. SSC then is a successful complement to North-South cooperation. He also noted the critical role SSC was playing in knowledge and technology transfer.

Mr. Hazem Fahmy briefed the meeting on Egyptian development cooperation. Egypt had two technical cooperation funds historically, and has recently established an Agency of Partnership for Development. He mentioned several concrete examples of partnership, including in the area of education and health, including through scholarships and training activities, as well as research on innovation.

Mr. Cosmos Gitta highlighted the role of the UN system in facilitating SSC. This includes the sharing of knowledge and experiences, supporting regional cooperation initiatives, and support for new and hybrid forms of financing, mobilizing the private sector and philanthropic actors.

The following interactive discussion included the below points:

- In the discussion, several delegations highlighted their positive experiences with SSC and triangular cooperation programmes and shared concrete success stories. There was also agreement that SSC is a complement to, rather than a substitute for, North-South development cooperation. Many also saw a role for traditional donors in supporting SSC, for example in the areas of knowledge and technology transfer, and through resources that support knowledge transfer within the South.

- In response to a question on the effectiveness of SSC, Mr. Nebebe noted that Ethiopia had in place an effective monitoring and evaluation system, with indicators in line with development plans. Speakers also called for a strengthened response of the UN system to SSC, and for its mainstreaming within the UN.

- In conclusion, the moderator identified four key messages – that there was large potential of SSC; that innovations were happening at a rapid pace on the ground, but that it will take time to translate them into policies; that while the modalities and motivations of SSC and North-South cooperation will remain distinct, there is a convergence of objectives, namely on poverty eradication; and that SSC was a large tent, where all donors are welcome to join.

Session 4: "Private and Blended Finance" (13 November 2014)

Morning Session: "Exploring the Nexus between Financial Sector Development, Financial Inclusion and Financial Stability"

The panel was moderated by Ms. Marilou Uy, Executive Director, G24 Secretariat, and featured presentations by Ms. Leora Klapper, Lead Economist in the Finance and Private Sector Research Team of the Development Research Group, World Bank; Ms. Claire Walsh, Senior Policy Analyst, J-PAL, MIT; Ms. Chuchi Fonacier, Managing Director, Bangko Sentral ng Pilipinas; Mr. Peter Graves, Senior Vice President, World Council of Credit Union; Mr. Dilip Ratha, Lead Economist, Migration and Remittances, World Bank; and Mr. Henri Dommel, Director Inclusive Finance Practice Area, UNCDF.

In her introductory remarks, the moderator, Ms. Marilou Uy, highlighted the need for the financial sector to contribute to the real economy. She encouraged speakers to explore the distinct dimensions of financial sector development as well as their interconnectedness.

Ms. Klapper highlighted four objectives financial sector development should pursue, namely financial depth, access to financial services, greater efficiency in credit intermediation and financial stability. While financial depth, measured as private credit to GDP, had been linked to economic growth, the state had an important role in providing consumer protections and enforcing a regulatory environment in support of financial stability. Likewise, as regards financial inclusion, the government and regulators should help promote access to financial services to underserved communities. Indeed, recent data gathered by the World Bank had shown that 2.5 billion people remained unbanked with women disproportionately affected. She emphasized the potential for innovative technologies to promote financial inclusion. In that context, regulators should nurture innovation and allow for competition from providers in alternative sectors, like mobile banking. Moreover, in addition to a sound legal and regulatory framework, government policies that promoted trust, competition and education were key for a more inclusive financial sector.

Ms. Walsh shared the outcome of randomized controlled trials on financial inclusion, and in particular microcredit and microsavings, in several countries. Based on the outcome of eight evaluations in seven countries, microcredit had shown no significant impacts on income and only minor positive impacts on business investment. However, microcredit had helped borrowers to smooth consumption and cope with risks and shocks. At the same time, it had a positive impact on nutrition and gender empowerment, as well as subjective wellbeing. On the other hand, microsavings products had a positive effect on wealth assets and income, although the positive findings were driven by a small proportion of active users, while the rest of the poor were still constrained. Overall, product design and diversity were important. Technological innovation mattered a great deal, For example, greater electronic payments in India had led to lower leakage of social transfers, faster payments, and promoted women empowerment.

Ms. Fonacier shared the lessons of the financial inclusion strategy in the Philippines. The challenges were enormous with 37 per cent of cities and municipalities without access to a banking office and services concentrated in high income areas. She stressed the need for an enabling environment and regulation. Inclusion could be a goal of the central bank alongside stability. Technological innovation was a key ingredient, since it made it possible to serve more people in real time with lower costs. In that context, the bank had followed a test-and-learn approach and had identified 27 banks and 5 non-banks that could deal with e-money. E-money was used for retail, but also government payments (conditional cash transfers and government pensions), as well as for disaster relief payments. Ms. Fonacier emphasized the need to regulate and supervise small financial institutions and e-money providers, in particular their capital adequacy, licensing procedures, governance and risk management. However, she highlighted the need to apply a proportionate approach to ensure that the required measures will be commensurate to the level of operations. She emphasized that it was possible to balance inclusion, stability, integrity and protection of consumers. Stable financial systems were only meaningful if they managed to serve the majority of people.

Mr. Graves highlighted that his organizations represented 208 million members of credit unions in 103 countries, as well as US$2 trillion in assets. While the number of credit unions in Africa, Middle East and Asia were smaller in terms of members and assets than other regions, Asia and Africa had a large numbers of very small credit unions. Credit unions were non-profit, democratically controlled organizations. Their non-profit nature would lead to cost savings on loans and better interest rates. While the focus was mostly on individuals/households, the challenge was to extend the loan portfolio to small and medium sized enterprises. Looking ahead, the speaker called for a comprehensive plan for financial inclusion, which should include credit union as successful institutions. There was a need for proper regulatory supervision and examination requirements, including accounting to constrain governance problems. New innovations like field agent banking, which promoted personalised financial management, should be further explored.

Mr. Ratha highlighted that remittances had reached US$413 billion last year. Remittances were more stable than FDI and could act as insurance for poor people. Remittances were linked to reduced school drop-outs rates, poverty declines and higher birth weights. The major challenge was to reduce the lending costs which had remained exorbitantly high (8 per cent costs on average at the global level, 12 per cent on average for Sub-Saharan Africa, and 30 per cent on average within Sub-Saharan Africa). The speaker recommended to relax global anti-money laundering (AML) and counter-terrorist financing (CFT) rules for remittances smaller than $1000, as well as to abolish exclusive partnerships with post offices – since this collaboration was stifling competition and served as a tax on poor people. Moreover, the creation of non-profit remittance platforms could disrupt the market and force change. Improvements in data collection and linking remittances to micro-health and micro-saving insurance were also crucial.

Mr. Dommel highlighted that UNCDF was one of the few UN agencies with capital – grants, loans, and equity investments. He emphasized that in most countries where UNCDF was present, national financial inclusion strategies were sound, but countries were lacking diagnostics and data. There was a need to work across ministries and with other stakeholders and to engage the private sector. The agency used its resources to help mobilise access on domestic savings products, which were more important than access to credit. Moreover, since its budget was relatively low, UNCDF was trying to use its limited resources in a catalytic way with the objective to leverage access to domestic commercial lending. For example, UNCDF managed to crowd in more than $100 million for its MicroLead Expansion programme that targeted market leaders in microfinance in underserved countries. UNCDF also promoted SSC to bring equity investment into micro-savings institutions.

The subsequent interactive discussions included the following key points:

- Several participants emphasized that remittances are private economic transactions and conceptually very different from other sources of investment. It is misleading to refer to them as aid and they should not be seen as a substitute for aid.

- A large number of speakers underlined the need to reduce remittance costs. One representative noted his country had published the different costs of remittances online. This created competition and lowered remittance costs to 6 per cent.

- It was noted that Third International Conference on Financing for Development commitments could galvanize momentum for comprehensive financial inclusion strategies. Governments could lead the way by switching to digital financial payments. Such a move would increase transparency, reduce leakages and contribute to women's economic empowerment, since digitalized payments could help target women.

- With regards to randomized controlled trials, it was emphasized that the evaluation had focused on the impact of microcredit to households and was not focussed on micro manufacturing. Investments in small manufacturing might be much more effective because they could increase employment.

- Several participants emphasized the need to address gender disparities in the discussion on financial inclusion. Mobile payments could help where women could not access traditional banking institutions. Good disaggregated data on gender access and usage was seen as important. Moreover, balanced gender representation in the governance structures of financial institutions was important to influence their policies.

- There were calls for people-centred financial sector development. Financial sector policies should respond to social needs rather than corporate concerns and profitability. Moreover, appropriate regulations are needed to limit systemic risks and to ensure consumer protection without compromising financial inclusion.

Afternoon Session: Long-term Finance for Sustainable Development

The afternoon session featured two panels relating to mobilizing long-term finance for sustainable development. The first panel was on "International capital flows, long term investment and blended finance," and the second on "The potential of ESG initiatives to increase long-term investments into sustainable development". The session was moderated by Ms. Shari Spiegel, Chief, Policy Analysis and Development Branch, Financing for Development Office, UN DESA.

<u>Panel 1: International capital flows, long term investment, and blended finance</u>

The panelists were Mr. James Zhan, Director of the Investment and Enterprise Division, UNCTAD; Mr. Gavin Anderson, Executive Counsellor, Banking, EBRD; Mr. Magnus Eriksson, Chief Investment Officer, AP4 (Swedish Pension Fund); Mr. Sachin Rudra, Chief Investment Officer, Acumen; and Mr. Jesse Griffiths, Executive Director, EURODAD.

The moderator, Ms. Spiegel, began by pointing out that, despite large financing needs, insufficient funds are flowing to areas pertinent to sustainable development, such as infrastructure, small and medium enterprises (SMEs) and innovation. This panel would assess the impediments to long-term private investment into these sectors.

The first panelist, Mr. James Zahn, provided an overview of trends in foreign direct investment (FDI) flows, and assessed their contribution to fulfilling investment needs for sustainable development. While developing countries' share of FDI has been increasing and recently reached 54 per cent of global FDI flows, it remains concentrated in a few countries. Moreover, FDI to least developed countries (LDCs), small island developing states (SIDS) and landlocked developing countries (LLDCs) remain at low levels. Mr. Zahn argued that there is significant potential for greater investment, not least due to the large cash holdings that have been accumulated by multinational corporations. Stressing the need to link foreign investments more closely with the development strategies of recipient countries, the speaker proposed a number of transformative actions to ensure that FDI flows to areas where they are profitable but also have a positive sustainable development impact. These included establishing investment promotion agencies that focus to a greater degree on sustainable development and ensuring a well-prepared pipeline of projects. Mr. Zahn also called for better policy coherence across a range of areas including those pertaining to trade, investment and competition.

Mr. Magnus Errikson stressed that markets have become highly focused on short-term returns, but that in contrast to many investors who tend to be short-term oriented, the Swedish Pension Fund is able to take a longer-term approach and operates with a 40 year horizon (with their managers evaluated over a 5 year period). This emanates from the mandate set by the Board, which is to contribute to the stability of the national pension system through managing Fund capital with the aim of generating the best possible return over the long term, as defined by the duration of the liabilities of the pension system. As a result of this longer-term horizon, AP4 has been able to take into consideration factors, such as sustainability, while at the same time having a commercial approach and working in the interest of pensioners. Nonetheless, AP4 is legally allowed to only allocate 5 per cent of their investments in unlisted equities. This allocation to 'illiquid' investments is primarily invested in real estate, which has made it difficult for AP4 to invest directly in other illiquid long-term assets, such as in infrastructure. They have also not been set up to undertake direct investments in emerging markets. Mr. Errikson noted that they would be interested in investing in long-term instruments (including equity and debt) that support investments by institutions and development banks, such as the facility described by Mr. Gavin Anderson from the EBRD, if structured in line with AP4's investment requirements.

Mr. Sachin Rudra explained that Acumen is an 'impact investor'. He stated that impact investing attempts to achieve both a financial return as well as social good. Thus, in contrast to most private sector firms, which focus solely on the financial return, Acumen provides patient capital that blends social and financial returns to achieve a long-term social impact. It tries to support social entrepreneurs by addressing the funding gap in early stage private enterprises. Many of their investments combine philanthropy with for profit investment. He cited the example of Acumen's investment in an enterprise in Bihar, India called 'Husk Power Systems' which took agricultural waste, rice husks otherwise left to rot, and converted it into gas that powers a turbine to generate electricity. The initial funding for 'Husk Power Systems' came from foundations, with additional financing from Acumen and more traditional venture funds. Thus, while the process began with grant financing, as the company became more sustainable, more traditional finance was attracted. The company now has 84 plants in operation across Bihar, serving 300 villages and 225,000 people. He argued that while Acumen's size may be limited, their model of financing is scalable. However, he pointed out that while there is the possibility for innovative models that combine different aspects of finance in some areas, other activities only lend themselves to public finance.

Mr. Gavin Anderson emphasized that blending has been an important part of the EBRD's financing model, and the bank never takes a stake larger than 35 per cent in any of its investments. Blended financing has been used in a range of sectors where financing for sustainable development has been constrained, such as sustainable energy, infrastructure and SMEs. In addition to financing, the EBRD also work with donors and governments to help create conducive business environments. In terms of fund raising, the EBRD has worked with commercial banks and institutional investors, including pension funds and insurers, for investment in projects. Mr. Anderson also pointed out that while some blended finance projects may have been financed anyway by the private sector, the point to bear in mind is that the inclusion of public financing may have paved the way for different and more sustainable activities by the private sector.

Mr. Jesse Griffith emphasized that private investment cannot substitute for public investment, and that the focus on attracting private investment should be based on quality not quantity. He stated that the agenda of using public finance to leverage private capital needs a fundamental rethink. He emphasized that 80 percent of infrastructure spending in developing countries has been publicly financed. In order to continue to finance infrastructure, it is important to increase tax revenues through tackling tax evasion, tax avoidance and tax competition. In that regard, he pointed out that there is a need for a UN intergovernmental committee on international tax cooperation. Mr. Griffith also called for systemic reform of the international financial system that would enable developing countries to free up the resources that they currently use to build up international reserves for self-insurance and also reduce the likelihood of costly debt crises. He pointed out that private investments remain low in low-income countries and that FDI inflows have been volatile and concentrated in the extractive sectors. Mr. Griffiths emphasized that development finance institutions have been dominated by high-income countries and there is a need to focus on national development banks as an instrument for mobilizing finance for sustainable development. In general, he stressed that it is not appropriate to use ODA for leveraging private finance and that PPPs have by far been the most expensive form of financing.

A number of points were made during the interactive discussions, including the following:

- It was emphasized that it is important to define what blended financing means. Some participants suggested that PPPs often end up being a debt instrument where the only revenue stream flows from governments to the private investor. It was stressed that PPPs should be structured to ensure that the government does not take most of the risks, while the private sector retains the returns. There was also a discussion of the added value of blended finance projects, with a speaker arguing that even if these projects would have happened anyway, they would have happened differently in the absence of public/private cooperation. The key is to differentiate between effective and ineffective blending.

- A participant stated that the targeted use of ODA can serve to effectively leverage private investments, though others warned against the use of ODA for this purpose. It was suggested that ODA can also leverage private finance indirectly through enhancing project preparation and capacity building.

- There was some discussion of the volatility and impact of FDI flows. It was argued that while a large amount of FDI earnings flow out as repatriated earnings, a significant amount still remains in the host countries and is reinvested.

- A delegation pointed out that a fraction of the investments made by sovereign wealth funds could, if channeled to sustainable development, have a significant impact. On the other hand, it was mentioned that sovereign wealth funds are generally profit oriented, and are not channeled to areas where the risk/return profile is not favorable.

It was pointed out that very few sovereign wealth funds invest directly in long-term investments. For a start, their managers lack the expertise to undertake longer-term investments. It was also noted that the majority of sovereign wealth funds are hosted in developing countries. Some participants suggested that sovereign wealth fund investments are to a greater degree undertaken in the framework of South-South cooperation.

Panel 2: "The potential of ESG initiatives to increase long-term investments into sustainable development"

The panelists were Mr. Georg Kell, Executive Director of the UN Global Compact; Mr. Elliot Harris, Director, New York Office United Nations Environment Programme and Head of Secretariat, UN Environment Management Group; Mr. Steve Waygood, Chief Responsible Investment Officer, Aviva; and Mr. Magnus Eriksson, Chief Investment Officer, AP4 (Swedish Pension Fund).

Mr. Georg Kell asserted that there was a quiet revolution happening in the business community. In particular, the business world is changing due to an increase in transparency, with markets increasingly taking a longer-term horizon on investments that underpin future growth rates. The speaker emphasized the importance of voluntary initiatives by companies to integrate sustainability criteria into business decisions, but pointed that more needed to be done in this respect and that the Global Compact has excluded many companies for not disclosing their activities sufficiently. On a positive note, he stressed the importance of the Principles for Responsible Investment initiative,[1] which has been signed on by institutional investors managing 45 trillion dollars. Mr. Kell underscored the importance of incorporating ESG criteria into companies' investment decisions. He pointed out that the transformation of decision-making along these lines is not yet at a tipping point but that it is a matter of time before this movement becomes more important.

Mr. Elliott Harris stated that the UNEP Finance Initiative (UNEP-FI) is a partnership between UNEP and institutional investors, which aim to see how ESG can impact financial decisions, and how financial sector participants can contribute to sustainable development. Over 200 institutions, including banks, insurers and fund managers, work with UNEP to understand the impacts of environmental and social considerations on financial performance. He mentioned that UNEP-FI had a training program for institutional investors on ESG. They have also engaged with financial regulators to see how their regulations affect sustainable development. Mr. Harris also pointed out that governments have an important role to play in setting incentives (shifting the balance between non-sustainable and sustainable activities), requiring disclosure, preparing bankable sustainable projects. He mentioned that there are many initiatives under way that require companies to make disclosures, but there is an insufficient degree of standardization.

Mr. Steve Waygood explained that in his view the current structure of the financial system undermines sustainable development, and that there is a need to change this through encouraging the integration of ESG issues into investment criteria. He suggested that there are a number of ways to do this. First, there is a need to change price signals to ensure that externalities are internalized to improve the readiness of investors to integrate sustainability issues. In addition, there is a need to change incentives within the system to make shorter-term time horizons less rewarding for investors. He suggested that capital markets incentivize

[1] This is an international network of investors working together to put six principles for responsible investment into practice. The initiative was formed in partnership with the UNEP Finance Initiative and the UN Global Compact.

short-term behavior. In this regard, he described the flow of funds through a chain of financial intermediaries, and explained the short-term incentive structures throughout the chain. Changing this could involve reshaping the structure of financial sector remuneration. The speaker also stressed that transparency needs to be increased across the different categories of intermediaries, including through integrated reporting by companies, investment banks, stock exchanges, asset managers, investment consultants and asset owners. Mr. Waygood also called for measures to enhance financial literacy, and for all Governments to develop national capital raising plans detailing how they intend to finance the SDGs. These plans could be coordinated at the international level by the UN and the World Bank.

Mr. Magnus Eriksson emphasized that long-term investors, such as AP4, are better placed to take sustainability into account. Mr. Erikkson cited climate change as a long-term threat to the environment and economy, which served to undermine pension funds' returns. He pointed out that AP4 has initiated a CO2 project, through which it has developed and invested in a low carbon strategy with a long investment horizon. As part of this strategy it evaluates stocks of S&P500 companies by their carbon footprint and, based on this criteria, has excluded 100 companies. He emphasized that the performance of its low carbon fund has been very positive and that it has earned excess returns since its inception. Although the reason for the out-performance is unclear, Mr. Eriksson suggested that it might be due to better management more generally in firms with low carbon footprints. He urged other investors to adopt similar low carbon investment strategies. A number of salient points were raised in the interactive discussion, including the following:

- It was suggested that the panel highlighted the potential for change in behavior of private sector investors, as well as the challenges in doing so, particularly on a large scale, without supportive government policies.
- The question of what measures can ensure that private investment contributes better to sustainable development was raised. One issue cited was the better integration of ESG issues into companies' reporting and decision-making processes. In addition, it was pointed out that the incentives favoring short-term time horizons by businesses and investors need to be altered. This can be achieved through, among other things, pricing and performance criteria throughout the investment chain. For example, the remuneration committees of stock exchanges could consider how well they have done in incentivizing sustainable behavior.
- There were also calls for an accountability framework that monitors the impact of FDI on marginalized groups and for ways of incorporating human rights into the investment considerations of foreign investors. At the same time, given that the private finance often does not serve to further development, the importance of having adequate and effective ODA flows to developing countries was asserted.
- There was discussion of the particular challenges faced by LDCs, with questions raised regarding ways to attract sustainable investments to these countries. It was argued that ESG-focused investment could be appropriate for LDCs and that appropriate engagement of all stakeholders at the local level would be critical to ensure that proper benefits accrue.
- Reference was made to the framework on business and human rights proposed by former UN Special Representative John Ruggie ("Protect, Respect and Remedy) which rests on three pillars. These are the state duty to protect against human rights abuses by third parties, including business; the corporate responsibility to respect

human rights; and greater access by victims to effective remedy, both judicial and non-judicial. The UN Human Rights Council unanimously approved the framework in 2008. It was proposed that public performance benchmarks should report publicly on how well they are doing on the Ruggie framework and that such rankings should be public.

Conclusion

The co-facilitators of the preparatory process for the Third International Conference on Financing for Development thanked all the participants for the rich array of analysis and viewpoints that were conveyed during the thematic sessions. These would be duly noted and statements posted on the Financing for Development Office's website. The co-facilitators looked forward to a similarly engaging set of discussions during the forthcoming substantive informal sessions due to take place on 9-12 December 2014.

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