<u>DRAFT</u>

EU SPEAKING POINTS

High-Level Dialogue on Financing for Development

8 October 2013

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 sustainable development

Public finance as a catalyst

- The challenges the world faces are huge: we have to make the most out of the limited resources available to tackle them. All sources of financing – domestic/international, public/private, including innovative sources – need to be made to work together so that synergies between these different financial flows can be maximized. All have to play a part.

- Domestically, countries can work to better leverage the domestic private sector, which represents the bulk of available private finance. Good governance and an enabling environment are essential for effective mobilization of domestic financial resources. Besides, the consolidation of national fiscal systems in developing countries is fundamental to better mobilize public domestic resources.

- The private sector plays a crucial role in the development process. Enabling environments for investment can increase the attractiveness for and the inclusion of the private sector. Without businesses creating jobs, innovating and providing products that can transform the lives of poor people, we would not have witnessed this remarkable decline in global poverty over the last three decades. The private sector can make a direct contribution towards meeting global challenges. Companies can also contribute positively to global challenges if they take responsibility for their workers, communities and the environment and provided the right regulatory framework is in place and implemented. Finally, private actors have become relevant donors in financing for development through their contribution to innovative financing mechanisms for instance.

- International public finance can also help there, through support for good regulatory environments – though this ultimately depends to a large extent on the political will in-country. Commitments have been taken at the Busan High-Level Forum on Aid Effectiveness to ensure a sound policy and regulatory environment for private sector growth, and to explore ways of working with the private sector to advance both development and business outcomes so that they are mutually reinforcing.

- International public finance can also help in leveraging private resources – that in turn bring knowhow and technologies. I am talking here about innovative mechanisms such as blending.

Innovative finance

- Innovative financing mechanisms – both sources and instruments – hold a significant revenue generation potential. Moreover, some innovative financing instruments could provide a significant "double dividend" of increased revenues and improved market efficiency and stability.

- The EU and its Member States actively explore new financing approaches that can help to mobilise additional funding from new sources, partners and sectors which have considerably benefited from globalization. Examples explored by some Member States include the Financial Transaction Tax, receipts from carbon trading or bunker fuel taxes. We also believe that there is a need to support countries to increase their own resources and to ensure that aid is a complement to, and not a substitute for, their efforts

- Several EU Member States are today using innovative sources of development funding, although they accounted for only 2% of total EU ODA in 2010-12. Member States and Commission funds for innovative financial instruments increased from EUR 600 million a year in 2010- 11 to over EUR 2 billion in 2012.

Blending

- One innovative instrument that is particularly promising is blending. Blending involves combining grants with additional non-grant resources such as loans and equity to catalyse public and private investments in partner countries. It has the potential to increase the effectiveness and impact of grant money. By working with the private sector, it allows to maximise the development impact of private investments, and to channel more private capital into sectors that are crucial for development, such as agriculture, energy, and green innovation.

- The targeted use of grants can address market inefficiencies and can make projects with a high economic and social return but insufficient financial return possible. Grants can set incentives, address factors that hold back investment and send out positive signals to market actors.

- Through its EU Platform for blending in External Cooperation[1], the European Commission and a number of Member States have been scaling up the use of blending in response to investment needs in partner countries. In 2012 alone, EU grants of more than €400 million contributed to investment projects with a total project volume of €10 billion. Without blending the investments would not have happened, only at a later stage or at an unsustainable cost for the partner country.

- We should all stand ready to support actions that bring about results.

[1] The EU Platform for blending in External Cooperation consists of a Policy Group comprising the Commission, European External Action Service (EEAS), Member States and the European Parliament (as observer) and a Technical Group chaired by the Commission with the participation of Financial Institutions. It acts as a major forum to build on the successful experience so far in this area and look at how to improve the quality and efficiency of blending mechanisms.