Report of the Intergovernmental Committee of Experts on

Sustainable Development Financing

Co-Chairs' Summary

United Nations

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In 2015, the international community will adopt a new development agenda, seeking to end poverty and ensure sustainable development globally and in every nation. This enormous challenge can only be overcome with sufficient financial means. We, the Intergovernmental Committee of Experts on Sustainable Development Financing, have been tasked to propose options for a financing strategy that would facilitate the mobilization of resources and their effective use in achieving sustainable development objectives.[4]

Our report makes a threefold contribution to meet this mandate: it develops a comprehensive analytical framework; it proposes a basket of over 115 policy options for policy makers to choose from; and it suggests areas for advancement of the global partnership for sustainable development, including in the areas of trade, taxation, financial market stability, debt and development cooperation, among others.

We recommend that all countries implement country-owned sustainable development financing strategies, complemented by enabling national and international policy environments. Such financing strategies should incorporate all sources of financing, including public and private, domestic and international, with each type having a unique role based on its specific characteristics. We find that with the necessary political will, the international community can meet the financing needs for a transformative sustainable development agenda. The challenge is huge, but with a joint effort, it is surmountable.

Financing needs

We began our analysis by assessing sustainable financing needs, existing financing flows and their effectiveness, as well as potential sources of financing. Since the adoption of the Millennium Declaration in 2000, many developing countries have experienced significant economic growth, and the availability of all types of finance has increased. Despite these achievements, there are differences between and within countries, and progress has been insufficient to realize all of the MDGs. Risks and vulnerabilities — including environmental degradation and climate change, as well as risks within the international financial system — have become more pronounced.

Against this backdrop, we provide order of magnitude estimates of financing requirements for sustainable development. We acknowledge that identifying financing needs is complex and necessarily imprecise, since estimates depend on a host of assumptions, including the macroeconomic and policy framework, and therefore vary widely. In addition, aggregating needs can be misleading because of synergies across sectors. Nonetheless, all studies show that needs are enormous. For example, the order of magnitude of additional investment requirements for

4 A/CONF.216/16, chapter I, resolution 1.

climate-compatible and sustainable development scenarios is estimated to be several trillion dollars per year, with additional financing for infrastructure more broadly estimated at between 5 and 7 trillion dollars annually.

While global savings — at around US$22 trillion a year — would be sufficient to meet these needs, resources are currently not allocated adequately. The challenge for policymakers lies in facilitating greater investment of disperse financing flows into areas of global need, and in improving the quality of present policies, approaches and instruments, addressing inefficient and harmful subsidies, corruption, tax evasion, illicit financial outflows, and inaction particularly in the environmental sector, where its costs often exceed the costs of corrective measures. Achieving this will not easy: it will take a transformative change to the way financing is done, in both public and private spheres.

Strategic approach

To achieve this transformation, the Committee developed a strategic approach, derived from a comprehensive flow of funds analysis from sources to uses, including the intermediaries that channel these flows. This framework builds on the Monterrey Consensus but adds new elements to address today's challenges: it incorporates new challenges, such as combatting climate change, into the substantive framework; it treats the economic, social and environmental dimensions of sustainable development in an integrated manner; and it sheds light on how to design new policies to incentivize investments by taking into consideration the complementary nature of different sources and by analyzing the underlying mandates and incentives of different intermediaries.

This analysis is elaborated in nine key precepts. First, each country is responsible for its own development, while the international community is responsible for an enabling environment and international support. This is critical because, as a second precept, effective government policies are the lynchpin of the sustainable development financing strategy. All actors, including the private sector, operate within a framework and enabling environment created by public policies. This underscores the importance of effective policymaking, including transparency and good governance.

Third, different types of finance must be used in a holistic way, as complements rather than substitutes. For example, while private finance is profit oriented and particularly well-suited for productive investment, expected returns on investments associated with sustainable development are often not as attractive as other opportunities, especially in the near term. Public financing is thus indispensable in many areas of social need and public goods. Sustainable development financing strategies need to be designed to maximize synergies across financing streams, taking into account the interplay of different financing sources, mechanisms and instruments and their strengths and limits for country-specific solutions.

Fourth, financing instruments must be matched to the most appropriate needs and uses. The quality of finance matters. For example, long-term sustainable development investments should be financed with long term funds, as short-term financing is often inappropriate for long-term projects. Fifth, international public finance remains crucial, particularly for those countries where needs are greatest and the capacity to raise resources is weakest. Its impact needs to be maximized.

Precepts of the Committee's Strategic Approach

Ensure country ownership and leadership in implementing national sustainable development strategies, along with a supportive international environment	1
Adopt effective government policies as the lynchpin of a sustainable development financing strategy	2
Make use of all financing flows in a holistic way	3
Match financing flows with appropriate needs and uses	4
Maximize the impact of international public finance	5
Mainstream sustainable development criteria in national financing strategies and budgets and private investment decisions	6
Exploit synergies across the economic, environmental, and social dimensions of sustainable development	7
Adopt a multi-stakeholder, people-centered and inclusive approach to achieve tangible results on the ground	8
Ensure transparency and accountability of financing at national, regional and international levels	9

The remaining precepts call for mainstreaming sustainable development criteria in financing strategies, including in public budgets and private investment decisions; exploiting synergies across the three dimensions of sustainable development; adopting a multi-stakeholder, people-centered and inclusive approach; and ensuring transparency and accountability of financing at all levels.

Options for an integrated sustainable development financing strategy

This strategic approach underpins over 115 concrete policy recommendations. The Committee found that there is no one simple policy solution. Instead, a basket of policy measures will be necessary. The report is not prescriptive, but provides a menu of options for countries to choose from. We find that, taken together, a package of policies can have a powerful impact by redirecting flows towards financing sustainable development.

These options are organized around the different financing streams of domestic public, domestic private, international public, international private finance, and finally blended finance. In each area, we first looked at the impediments to greater financing, and then identified solutions and recommendations to overcome these impediments, including recommendations to (i) raise new and additional resources, (ii) reallocate existing resources toward sustainable development investments and use them effectively, (iii) build on synergies across the three dimensions of sustainable development; (iv) devise appropriate rules and regulations that balance access to finance with financial market stability, (v) create enabling environments, and (vi) build capacity and platforms that encourage countries to share experiences.

Domestic public finance

- Raising domestic public finance is critical for financing sustainable development. The report emphasizes both domestic tax reform and deeper international cooperation. Tax systems should be fair, efficient and transparent. However, domestic efforts need to be complemented by international cooperation to address tax evasion and illicit flows. ODA can play an important role in building capacity for domestic resource mobilization. Platforms for dialogue can facilitate experience sharing.
- The report calls for good financial governance. Combatting corruption and transparency are crucial for effective fiscal management. Sustainable development criteria should be mainstreamed throughout the budgeting process, for example through sustainable procurement. Harmful subsidies should be ended while compensating the poor.
- In addition, the report calls for increased capacity building in debt management, and encourages policymakers to explore setting up national development banks to provide long term financing for sustainable development, as well as to leverage private finance.

Domestic private finance

- In the realm of domestic private finance, the report takes a bottom-up approach, addressing policies to facilitate inclusive finance and access to financing for households and SMEs, as well as capital market development. A wide range of financial institutions should play a role, from microfinance, postal, cooperative and development banks to the traditional banking system. The report recommends innovative approaches to SME financing, including through use of pooling and securitization that carefully monitors risks.

- At the same time, an enabling environment is crucial. Strengthening the domestic policy, legal, regulatory and institutional environment is an effective way for governments to encourage private investment. More generally, regulations and policies need to balance access to credit and financial services with managing risks and promoting financial market stability, as all regulations, even those aimed primarily at encouraging stability, affect incentives of investment decisions.
- The Committee also calls for fostering sustainable development considerations and criteria in domestic investment, suggesting that it may be necessary to go beyond existing, often voluntary, standards.

International public finance

- International public finance — including aid, climate finance, and other types of assistance — will remain central in financing sustainable development. Member States of the United Nations should honor their commitments in full and in a timely manner.
- In meeting these commitments, our report suggests that the level of concessionality of flows should be matched with the type of investment and level of development of a country. Basic public services would be sufficiently supported in those countries most in need, while assistance would still be available for infrastructure projects, climate financing, and other areas of need. The report underlines the importance of increasing the effectiveness of development cooperation, including for example by reducing the fragmentation of the aid landscape.
- The report explores the potential of innovative financing measures to contribute to sustainable development. It also explores South-South cooperation as a complement to traditional development financing.

International private finance

- There is an important role for international private finance**.** Policies are needed to overcome obstacles to private investment, including by long-term institutional investors such as pension funds and sovereign wealth funds, while addressing risks associated with some types of private flows.
- Private capital flows should be managed in a way that encourages long-term investment. Public policies could encourage this. The report stresses the importance of managing volatile capital flows as well as the need for greater international coordination to better manage global liquidity.
- The Committee calls for private financing to be channeled towards long-term investment in sustainable development. It also recommends that investors meet core labor standards of the International

Labour Organization, provide reporting on both economic and environmental, social and governance indicators, and include sustainable development criteria as essential elements in their strategies.

Blended Finance

- Neither the private nor the public sector will be able to fill all financing gaps alone. Blended finance pools public and private resources and expertise and can be used in conjunction with innovative partnerships. The report recognizes the great potential of partnerships, while acknowledging past experiences where the public sector has taken on the risks while the private sector has earned the returns. The report emphasizes the importance of appropriate design and use of mechanisms that share risk fairly.
- The Committee further suggests capacity building efforts to focus on building local skills, along with sharing of experiences of both successes and failures across countries.
- Among many other policy options, the report recommends innovative approaches to incentivize long-term investment, particularly in infrastructure, such as national and regional infrastructure funds and platforms that blend public and private resources and share risks. National development banks can also play an important role in this area.

The global partnership for sustainable development

As a third and equally important pillar, the report suggests areas for advancement of the global partnership for sustainable development and for addressing systemic issues. This pertains to actions in the areas of global economic governance, trade and investment regimes that are fair and more supportive of sustainable development, a stable international financial system, regulatory reform, enhanced international cooperation on taxes and the fight against illicit flows, strengthened sovereign debt crisis prevention and resolution, regional cooperation, harmonized monitoring and accounting and more effective development cooperation.

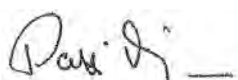
To strengthen systemic coherence and global economic governance, the United Nations can serve as the global forum to bring the specialized international institutions and authorities together without challenging their respective mandates and governance processes. There is also a need within the UN system to reinforce the coherence of financing frameworks that developed out of two major strands of development debate — the Post-Monterrey and the Post-Rio+20 means of implementation. More broadly, there is a need to strengthen the integration and harmonization of existing United Nations international mechanisms, frameworks and instruments.

The report calls for strengthened tax cooperation through automatic exchange of information, country-based reporting, transfer pricing regulations, lists of tax havens and standards for non-economic reporting. To this end, a participatory and broad based dialogue on international cooperation in tax matters should be strengthened. In the fight against illicit flows, both domestic actions aimed at minimizing the flow of funds to secrecy jurisdictions and international cooperation to increase financial transparency are called for.

Among other measures, the Committee also highlights the severe impact of sovereign debt crises on nations' efforts to finance sustainable development as well as on stability of the international financial system. It calls for effective debt management to prevent crises, and stresses the need for the international community to continue efforts to enhance the existing architecture for sovereign debt restructuring.

Way forward

We trust that the multitude of policy options presented in the following pages, the strategic approach that our work is based upon, and the recommendations for a strengthened global partnership for sustainable development will provide a basis for future discussions on financing sustainable development and will inform, together with the report of the Open Working Group, the intergovernmental negotiations for the post-2015 development agenda and the third International Conference on Financing for Development.



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