<u>Preparatory Process for the Third International Conference on Financing for Development</u>

Session 1: "The Global Context" (10 November 2014)
Informal Summary by the Secretariat

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.