

February 11, 2015

Japan's comments on the elements paper for the 3rd International Conference on Financing for Development

[Process]

- A joint session of FfD and Post 2015 during the April session of the Post 2015 intergovernmental negotiations focusing on the Means of Implementation is a logical option to effectively use the limited time. Such effort to seek synergy between the two processes from a practical point of view should by no means imply the modification of the nature and the basic structure of the Monterrey Consensus and the Doha Declaration.

[Overview]

- The outcome should be a **compact document that is easy to communicate**. This is crucial in mobilizing various stakeholders, including the private sector.
- The outcome should firmly build on Monterrey and Doha, while reflecting the changing international landscape of development finance. In this respect, the outcome should fully take into account the report of ICESDF, which has been prepared on that premises.
- The following two key principles should guide our considerations on the deliverables.

1) Global Partnership

- This is essential in order to mobilize all available resources. All stakeholders including the private sector, practitioners of South-South cooperation and others should play their respective roles. Effective use of resources is also an important objective of pursuing the Global Partnership.

2) People-centered approach

- Both ICESDF report and the Secretary-General's synthesis report rightly emphasizes this concept as one of the key principles. Based on this concept, the key to financing for sustainable development is to promote quality growth, quality investment, quality infrastructure and quality institutions so that the resources are directed to where they are most needed.
- The outcome should therefore strengthen the Monterrey framework

by emphasizing the need to address inequality, disparity, and promote equity and shared prosperity in all countries. This means that, at the global level, more resources should be directed to the most vulnerable countries, including LDCs, LLDCs, SIDs as well as the countries recovering from conflict. It also means that, at the sub-national level, the protection and the empowerment of the most vulnerable people, including women, should be the focus in allocating the resources.

[Structure]

- The outcome should be **one single document with no annex or attachment**. The annex to the elements compiled by the Secretariat can be a reference for some potential ideas during the negotiations, but it cannot be treated as a document to be negotiated.
- We support bundling private financing from domestic and international sources.
- We fully support emphasis on data. Data is the prerequisite for effective implementation and monitoring of both FfD and Post 2015 Development Agenda.

[Chapters]

A. Domestic public finance

- We commend the high quality of the chapter on domestic public finance in the elements paper. In particular, we welcome the emphasis on the sustainable development needs, including not only in economic but also social and environmental aspects. **The zero draft should maintain the references to the need to reduce inequalities, environmental and gender-responsive budgeting, need to empower sub-national authorities.**
- On resource mobilization, sound policy should have a central place. It would be useful to **reconfirm more clearly the most important basic elements of sound public fiscal management** such as 1) broadening the tax base; 2) avoiding base erosion and profit shifting; 3) fighting illicit financial flows; and 4) combatting corruption, among others.
- International cooperation, including through ODA, has a very important catalytic role in filling the capacity deficit, but it is valid

only after the gaps have been clearly identified by each state under its ownership.

- We welcome references to the ongoing initiatives (G20 BEPS (Base Erosion and Profit Shifting Initiative), AEOI (Automatic Exchange of Information), Convention on mutual administrative assistance in tax matters, Global Forum on Taxation), with a view to further enhancing such initiatives and to make them more inclusive.
- In order to avoid duplication of efforts and ensure effective and efficient cooperation, ideas for launching new international initiatives should be carefully studied with these ongoing efforts in mind. Japan will not support creating new mechanisms or upgrading existing ones unless it is verified and clearly confirmed that the existing mechanisms cannot fill the gap.

B. Domestic and international private finance

- The section on private finance of the element paper is very well drafted with good focus on all the three dimensions of sustainable development, although the environmental pillar could be strengthened.
- **It is recommended that the zero draft arrange the paragraphs so that the challenges at the micro- and macro-levels will be separated and explained one by one for an easier comprehension.** Micro challenges, such as household and micro-enterprises, relates to financial inclusion. Macro challenges at national-level include the enabling environment for long-term domestic and foreign investment, infrastructure and enabling public policies including for PPP. Challenges related to SMEs may have both micro and macro aspects. By organizing the this chapter in such a way, as in the ICESDF report, it will facilitate better understanding of inter-related issues regarding private sector financing.
- The zero draft should also focus on where the largest financing gap for development financing exists, which is **infrastructure**. While resources do exist globally, the challenge is how to mobilize these resources and use them effectively for quality projects. A well-crafted “financing strategy to facilitate the mobilization of resources and their effective use” (Rio+20 Outcome para.255) with a view to developing “quality, reliable, sustainable and resilient infrastructure (Target 9.1 of the SDGs) is needed to promote an inclusive, resilient and sustainable growth. In this context, it is important to promote

quality infrastructure projects by addressing the following challenges:

- ① Effective resource mobilization including PPP (enabling environment, risk sharing modalities, capacity building, etc.)
- ② Prioritization and formulation of quality infrastructure by:
 - (a) ensuring coherence with economic/development strategies on the recipient side including through dialogue;
 - (b) addressing social/environmental impacts in accordance with relevant international practices/standards; and
 - (c) ensuring the quality of infrastructure projects from the point of view of their life-cycle costs, including their performance and durability, as well as the safety and resilience to natural disasters.

C. International public finance

- We believe the element paper over-emphasizes the role of ODA.
- There are other official flows from developed countries to developing countries that have significant impact on development. **Total official support to development should be grasped in its entirety. South-South and triangular cooperation** is gaining more significance as an effective mode of development cooperation. Only by capturing these non-ODA public flows and encouraging new donors to engage themselves in the international effort for sustainable development, the FfD outcome can add true value to Monterrey.
- With regard to ODA, the zero draft should clearly capture the issue of concessionality in more details. **Different types of ODA exist:** grants in cash; grants in the form of technical assistance; and loans with different levels of concessionality. The important point Addis should make is that **more *concessional* financing be directed to the poorest and most vulnerable countries**. At the same time, it should be recognized that middle income countries also have needs for ODA, but in a less concessional terms and in the form of technical assistance.
- This was the rationale for modernizing the definition and measurement of ODA agreed in OECD/DAC in December 2014. **This historic decision was intended to be a major contribution of OECD/DAC to Addis. It modernizes the definition and measurement in such a way to incentivize more concessional funds to be provided**

to the poorest and most vulnerable counties. The zero draft should, with the inputs from OECD/DAC secretariat if required, clearly capture this contribution so that the intention will be crystal clear to the member states.

D. Trade

- Our discussion on FfD should avoid duplicating or prejudging the ongoing debate at WTO. WTO has a clear mandate on trade negotiations and it should be fully respected.
- The trade part of the elements paper does not seem to be balanced on regional trade agreements, highlighting mainly the negative aspects of such agreements. As was recognized in the Doha Declaration, the zero draft should recognize that these agreements can facilitate long-term development and complement the multilateral trade regime.

E. Technology, innovation and capacity building

- Technology, innovation and capacity building are no doubt important basis of financing for development. **Japan agrees to all the elements under the technology section of the co-chairs' elements paper, including the importance of intellectual property regimes, rule of law, regulatory framework, improving adaptive capacity of human resources, among others.**
- Simply creating a new mechanism will not lead to dissemination of sustainable technologies and **it should not be seen as an objective in itself.** Instead, the **zero draft should be informed by the good practices of East and Southeast Asia**, where economic growth was attained by fostering the enabling environment to attract FDI that came with leading technology. In short to medium term, this is the most effective way. The details of such domestic environment should be discussed in the Chapter on private finance.
- It is also noted that the Chair's summary of the structured dialogue of technology transfer was not an agreed document and the concrete means to enhance technology dissemination need further discussion in the intergovernmental negotiations of post-2015 development agenda, as has been agreed in GA resolution 28/310.

F. Sovereign debt

- Sovereign borrowing/debt is an important and effective tool for

governments in promoting development. Following Monterrey and Doha, Addis should also emphasize debt sustainability and sound debt management so that it will be used in the most effective way. Monterrey also focused on outstanding indebtedness and gave a strong push to enhancing HIPC initiative and MDRI, which have seen major achievements.

- With regard to debt crisis, more emphasis should be placed on sound management and prevention. The discussion on sovereign debt restructuring has been ongoing in IMF with a view to strengthening the contractual approach, which is now a major accepted approach internationally. FfD process should encourage, and not counter such efforts by the experts.
- We do not agree with the view expressed in the elements paper, especially with regard to the existing mechanisms. The Paris Club and other arrangements have been achieving tangible results and are not “loose set of mechanisms” as described in the elements paper.

G. Systemic issues

- The Bretton Woods Institutions have their own independent decision-making processes separate from the UN system. It is not realistic to think that the UN-led process can directly change the IMF or the World Bank.
- Should the zero draft refer to the ongoing reforms in these institutions as well as the different mechanisms they manage, there should be appropriate interactions with these institutions for the “technical proofing” of the draft.

III Monitoring, Data and Follow-up

- The follow up of Monterrey and Doha have been done by GA and ECOSOC. Since the monitoring/follow-up mechanism of the post-2015 development agenda is under discussion, centering around HLPF, the follow-up of Addis should be considered fully in line with this discussion, rather than as a separate process. In doing so, existing frameworks at the country-, regional- and global-levels should be fully relied upon. Limited membership in these frameworks should not be the reason to prevent member states from making use of them.
- With respect to ODA, there is already an effective, rigorous and well-established monitoring mechanism under OECD/DAC. It is

transparent and inclusive with regard to non-OECD members, including the members of G77+China. OECD Secretariat is encouraged to reach out to the wider UN membership to explain the activities of OECD/DAC.

- The most important feature of the Monterrey process is the comprehensive and inclusive approach to capture all relevant resources for development, encompassing national efforts for domestic resource mobilization, private finance, both domestic and international, and international public resources, including ODA, South-South cooperation and other official flows. Monitoring and follow-up process should also be comprehensive and inclusive. We need to agree on a truly global partnership for sustainable development financing.

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