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Coherence, coordination and cooperation in the context of financing for sustainable development and the post-2015 development agenda

Note by the Secretary-General*

Summary

The present note provides background information and suggests points for reflection to inform discussion on the following selected themes:

(a) World economic situation and prospects;

(b) Mobilization of financial resources and their effective use for sustainable development;

(c) Global partnership for sustainable development in the context of the post-2015 development agenda.

* The present note was prepared in consultation with the staff of the major institutional stakeholders involved in the financing for development process. Responsibility for its content, however, is solely that of the United Nations Secretariat.

I. World economic situation and prospects for 2014

Global growth prospects for 2014

1. Despite the turbulence experienced in financial markets at the beginning of 2014 as a number of emerging market economies suffered sell-offs in their equity markets and the depreciation of their currencies, the global economic outlook, as projected in the United Nations publication *World Economic Situation and Prospects 2014*, remains broadly positive. World gross product is expected to grow by 3.0 per cent in 2014, a measurable improvement compared with the preliminary estimate of subdued growth of 2.1 per cent for 2013.

2. The improved global prospects for 2014 are predicated primarily on two considerations: a strengthened recovery in major developed economies and the stabilization of growth in large emerging economies. With the euro area finally extricating itself from a protracted recession, all major developed economies are on the same upward trajectory for the first time since 2011. This will not only reinforce the recovery among developed economies, but also produce impetus for the growth of developing and emerging economies. Meanwhile, a few large emerging economies, such as those of China and India, have managed to halt the growth deceleration that they experienced over the past few years.

3. Nonetheless, the projected growth is still insufficient to narrow the output gap in the world economy in the aftermath of the global financial crisis. Risks remain, particularly with regard to the unwinding of unconventional monetary policies of developed countries. In addition, geopolitical risk remains, as does the risk of a further slowdown in some emerging market countries.

4. With respect to developed countries, it is estimated that the United States of America will experience growth of 2.5 per cent for 2014, compared with 1.9 per cent in 2013. A continued moderate improvement is expected in the housing sector as well as in employment. Despite the ongoing tapering of quantitative easing, the monetary policy stance remains accommodative, while the fiscal drag that weighed on growth during 2013 is expected to be alleviated, as an agreement has been reached to lift the fiscal sequester and the debt ceiling, at least for 2014.

5. After emerging from recession in the second quarter of 2013, the economic situation in Western Europe has continued to improve, with gross domestic product (GDP) expected to grow by 1.5 per cent in the region and 1.1 per cent in the euro area in 2014. The recovery, which was initially led by net exports, has increasingly been supported by domestic demand, particularly private and public consumption. Investment spending is expected to pick up moderately in 2014. Nonetheless, growth remains weak, owing to a number of factors: fiscal austerity programmes, while reduced in intensity, remain a drag; intraregional demand is still low; and lending conditions remain tight in some countries, particularly for small- and medium-sized enterprises. As a result, expected growth is expected to be too meagre to make a significant dent in the exceptionally high rates of unemployment across many countries in the region.

6. The economic situation in the new European Union members in Eastern Europe has improved since the second half of 2013, with business sentiment and household confidence strengthening in response to the return to growth in Western

Europe and less austere fiscal policies. It is forecast that GDP growth in the region will strengthen moderately, by 2.1 per cent, in 2014.

7. Growth in Japan has been boosted by a set of expansionary policy packages, including fiscal stimulus and large-scale purchases of assets by the central bank. Fixed investment has been a key driver of growth, as a number of public construction projects have been financed by the supplemental budget. However, the anticipated increase in the consumption tax rate over the next two years is expected to curb growth. It is forecast that GDP will grow by 1.5 per cent in 2014, moderating compared with the previous year.

8. Among developing countries, growth prospects in Africa remain relatively robust. It is projected that, after estimated growth of 4.0 per cent in 2013, GDP will accelerate to 4.7 per cent in 2014. Growth prospects are expected to be supported by improvements in the global economy and the regional business environment, relatively high and stable commodity prices, an increase in infrastructural investment, and increasing trade and investment ties with emerging economies. Other important factors for Africa's medium-term growth prospects include increasing domestic demand, especially from a growing class of new consumers associated with urbanization and rising incomes.

9. Economic growth in East Asia, after having moderated over the past few years, is expected to pick up slightly, increasing to 6.1 per cent, in 2014, driven mainly by a gradual recovery in export growth amid improving conditions in developed countries. In most East Asian economies, private consumption and investment will continue to expand at a solid pace, supported by stable labour market conditions, low inflation and fairly accommodative monetary policies. Fiscal policies will remain moderately expansionary and will continue to provide support for growth. China is expected to grow by 7.5 per cent in 2014. However, in some countries credit growth and real estate bubbles pose risks to financial stability.

10. It is forecast that growth in South Asia will pick up moderately, increasing to 4.6 per cent, in 2014, supported by a gradual recovery in domestic demand in India and an upturn in external demand. However, in most economies growth will likely remain well below the level seen prior to the global financial crisis. Private consumption and investment are held back by a wide range of factors, including energy and transport constraints, volatile security conditions and macroeconomic imbalances.

11. Growth in Western Asia is expected to accelerate to 4.3 per cent in 2014. While the member countries of the Gulf Cooperation Council have been on a stable recovery path, a number of other economies in the region continue to be affected by political instability, social unrest, security incidents and geopolitical tensions. For example, the crisis in the Syrian Arab Republic has been affecting the neighbouring countries in a multifaceted way. Meanwhile, Turkey continues to face financial pressures, with its currency depreciating and interbank interest rates rising as a result of the decline in international capital inflows.

12. It is projected that growth in Latin America and the Caribbean will improve to 3.6 per cent in 2014. Brazil is still growing at a subdued pace, curbed by weak external demand, volatility in international capital flows and tightening monetary policy. Growth in Mexico and Central America is expected to accelerate in 2014, supported by better performance on the part of manufacturing exports and stable

domestic demand, as well as structural adjustment. Growth in the Caribbean has been hampered by weak external demand, particularly in the tourism sector, as well as by weaker commodity prices, but is expected to strengthen.

13. With regard to economies in transition, growth in most economies of the Commonwealth of Independent States decelerated over the past year, curbed by weak exports and external financing constraints, supply-side bottlenecks and weak consumer and business confidence. The baseline forecast is for a modest strengthening in the region's growth in 2014, by 3.4 per cent. The unfolding geopolitical tensions associated with the situation in Ukraine have already worsened economic prospects and, if not promptly mitigated, could have more substantial consequences for the region, given the strong trade and remittance links of the Commonwealth countries with the Russian Federation.

14. It is projected that growth in South-Eastern Europe will accelerate to 2.6 per cent in 2014, but that will still be insufficient to address the region's long-standing needs for reindustrialization and excessively high unemployment rates. The external environment for those countries is expected to improve, including the terms of access to external finance. Given easing credit conditions, investment is expected to recover gradually.

Employment situation and inflation outlook

15. The global employment situation remains weak, as long-lasting effects of the financial crisis continue to weigh on labour markets in many countries and regions. Among developed economies, the euro area is facing the most challenging situation, with unemployment rates currently reaching 27 per cent and youth unemployment rates more than 50 per cent in Greece and Spain. The unemployment rate has declined in the United States but remains elevated.

16. Long-term unemployment remains a significant issue in many developed countries. In developing countries and economies in transition, the unemployment situation is mixed, with extremely high structural unemployment in North Africa and Western Asia, particularly among young people. By contrast, unemployment rates in Latin America and the Caribbean are at record lows. Still, high rates of informal employment and pronounced gender gaps in employment continue to characterize labour markets in many developing countries.

17. Inflation remains tame worldwide, reflecting, inter alia, excess capacity, high unemployment, fiscal austerity and a continued financial deleveraging in major developed economies. Among developed economies, deflationary concerns are rising in the euro area, while Japan has managed to end its decade-long deflation. Among developing countries and economies in transition, inflation rates are above 10 per cent in only about a dozen economies scattered across various regions, particularly in South Asia and Africa.

International trade and finance

18. The growth of world merchandise trade weakened further in 2013, dragged down by slow global growth. Sluggish demand in many developed countries and faltering growth in developing countries led to a decline in world export volume growth from 3.1 per cent in 2012 to only 2.3 per cent in 2013, well below the trend seen prior to the financial crisis. The prospects for world trade are expected to

improve, driven by a modest increase in demand in Europe, further recovery in the United States and a return to more dynamic trade in East Asia. It is projected that world exports will grow by 4.6 per cent in 2014. Trade in services, recovering faster than merchandise trade, is expected to continue growing during the forecast period.

19. Commodity prices displayed divergent trends over the course of 2013, with commodity prices expected to remain relatively flat on average. Food prices gradually declined, owing to better-than-expected harvests of major crops. Soft demand, ample supply and high stock levels all contributed to declines in base metals prices. Oil prices saw significant fluctuations over the course of the year as a result of geopolitical issues.

20. Private capital inflows to a number of developing countries and economies in transition declined in 2013 and early 2014, while volatility in the financial markets of emerging economies increased significantly, resulting in equity market sell-offs and the sharp depreciation of local currencies. This was triggered in part by the decision of the United States Federal Reserve to taper the amount of its monthly purchases of long-term assets. The risk of weak growth prospects for emerging economies has also played a role in triggering the decline of capital inflows. At the same time, developing countries reached a new record with respect to foreign direct investment (FDI) in 2013.[1]

21. Global imbalances, namely, the current-account imbalances across major economies, continued to narrow to a benign level in 2013. The current level is not considered to pose an imminent threat to the stability of the world economy, although efforts to strengthen international policy coordination should continue in order to prevent the imbalances from again widening to excessive levels in the longer run.

Uncertainties and downside risks

22. Uncertainties and risks for global economic growth and financial stability in the coming years are associated predominantly with the unwinding of the unconventional monetary policies adopted in major developed countries. Indeed, since May 2013, when the United States Federal Reserve signalled the possibility of a tapering in the size of its monthly purchases of long-term assets, the world economy has already encountered two waves of financial turmoil. The first occurred in mid-2013, when equity and bond markets worldwide experienced a sharp sell-off. While equity prices in developed countries recuperated shortly thereafter, bond yields remain elevated compared with the level seen before May 2013. The shocks were most pronounced in emerging markets, leading to substantial declines in capital inflows for the first time since 2009. Equity prices in emerging markets plummeted and risk premiums, as measured by the spreads of the bond yields, increased significantly.

23. Another wave of financial turbulence occurred in early 2014, when equity prices in developed markets declined by approximately 5 per cent, while emerging markets experienced more pronounced declines. Again, developed markets recuperated quickly shortly thereafter, but emerging markets failed to rebound. As a result, the divergence between developed and emerging markets in terms of equity

[1] See *Global Investment Trends Monitor*, No. 15 (United Nations Conference on Trade and Development (UNCTAD), January 2014).

prices has been widening. Since the beginning of 2011, equity prices in developed markets have risen by some 50 per cent, with prices in emerging markets falling by almost 20 per cent.

24. The currencies of emerging economies such as those of Brazil, India, Indonesia, South Africa and Turkey have substantially lost value vis-à-vis the United States dollar in the short period from mid-2013 to January 2014, although some of them have since partially rebounded. The currencies of Argentina and the Bolivarian Republic of Venezuela have also depreciated significantly, as has the currency of the Russian Federation, although this is also related to political events.

25. The vulnerability of many emerging economies to the tapering of quantitative easing and the subsequent decline in capital inflows is also associated with a number of country-specific risk factors. For example, in contrast with the financial deleveraging in major developed countries in the aftermath of the global financial crisis, bank credit in emerging economies has expanded rapidly over the past few years driven in part by the low interest rates in world capital markets associated with the quantitative easing adopted by major central banks. By certain measures, the ratio of bank credit to GDP in emerging economies has surpassed that in developed countries, indicating heightened risks of excessive and unsustainable credit expansion. Other country-specific factors include large current-account deficits, policy uncertainties, political risks and risks related to shadow banking, the housing sector and overcapacity.

Policy challenges

26. Macroeconomic policies worldwide should continue to focus on supporting a strong, balanced and sustainable recovery, particularly in terms of jobs. A number of countries are making concerted efforts to address both cyclical and structural unemployment challenges, aligning macroeconomic policies with domestic constraints and taking steps to promote productivity growth and innovation. However, further public investment in skills training and upgrading will be necessary to integrate the hitherto excluded working age population.

27. Policymakers in major developed countries should work to ensure a smooth process for the changes in quantitative easing coming over the next few years. A premature unwinding may risk choking off the economic recovery, but a delayed unwinding could risk creating financial bubbles. Efforts are needed to enhance the supervision, regulation and surveillance of financial markets in order to identify and mitigate financial risks and vulnerabilities. Central banks in major developed countries should develop clear communication strategies to articulate the timing and the targets of the policy action to be taken. In addition, some emerging market countries have called for greater consultations between developed and developing countries on these issues.

28. For developing countries and emerging economies, the challenge is to manage the ramifications of the unwinding of quantitative easing. These economies should monitor external and internal imbalances, build policy space and potentially use macroprudential measures and other capital account management mechanisms.

29. In addition, many countries, both developed and developing, have undertaken various institutional reforms, including with respect to social security, income distribution, the financial sector, taxation, energy, transportation, education and

health care. These reforms are crucial to the rebalancing of economic structures, the removal of supply-side constraints, the mobilization of resources for long-run investment and the improvement of macroeconomic management and financial regulation.

Suggested questions for discussion

1. **What type of macroeconomic policies worldwide can support a strong, balanced and sustainable recovery and help close the persistent output gap in the aftermath of the world financial and economic crisis?**

2. **How do we account for large differences in unemployment rates across regions and income groups? What policy measures can be used to reduce youth unemployment, increase formal employment and lower the gender gap in labour markets?**

3. **In addition to the cyclical downturn associated with the global financial and economic crisis, how have some structural factors, such as globalization and productivity, affected labour markets? What is the relationship between productivity growth and unemployment? What measures can countries take to increase employment while promoting greater productivity growth and innovation?**

4. **How can developing countries most effectively manage the ramifications of the unwinding of quantitative easing in developed countries?**

II. Mobilization of financial resources and their effective use for sustainable development

A comprehensive financing strategy for sustainable development

30. A broad and comprehensive post-2015 development agenda, with poverty eradication and sustainable development at its core, will require the creation of a comprehensive financing framework. To that end, the General Assembly established the Intergovernmental Committee of Experts on Sustainable Development Financing in follow-up to the United Nations Conference on Sustainable Development, to develop options for a sustainable development financing strategy.

31. Although the Committee is still in the process of formulating its report, to be issued in September 2014, some preliminary conclusions have already been reached. In particular, participants agreed that the Monterrey Consensus and the Doha Declaration on Financing for Development provide the basis for the financing framework, keeping in perspective lessons learned and emerging challenges. In that context, it was agreed that the domestic and international policy environments, including a fair multilateral trading system, external debt sustainability and good governance at the national and international levels, have a profound impact on the mobilization of finance for sustainable development. There is a consensus that the financing framework should emphasize complementarities and synergies across the economic, social and environmental dimensions of sustainability. Given the large financing needs, there is also a strong consensus that all types of flows will be necessary, including domestic, international, public and private.

32. In the past, different financing streams were often seen as substitutable, on the basis of the view that money is fungible. However, recent analysis, which has focused on underlying incentives, has emphasized that different financing streams have different goals and objectives and should be seen as complementary, rather than supplementary.[2] For example, private finance will be more efficient than public finance in many instances; however, the short-term nature of some private flows might add risks that make those flows inappropriate for certain investments. Therefore, public financing, along with an appropriate policy framework, will remain indispensable.

33. Although estimates of the financing needs for sustainable development are necessarily imprecise, studies conclude, without exception, that needs are very great. The investment requirements for an energy transition respecting agreed climate targets alone are on the order of trillions of United States dollars per year.[3] While part of the needed investment would flow automatically if energy prices were set to fully reflect supply costs and environmental damage, there would still be insufficient financing for many public goods, including the global commons. Similarly, there is insufficient long-term financing to meet critical infrastructure needs, not only in the environmental area, but also in the social area, and for various economic entities, such as small and medium-sized enterprises, which are important means of employment generation in many countries. An enabling environment and the rule of law, both of which were emphasized in the Monterrey Consensus, are critical for long-term investment. Nonetheless, there is currently a shortage of financing in critical areas, even in countries with relatively strong enabling environments.

34. Given the sheer magnitude of financing needs, it is clear that public resources alone will not be sufficient. At the same time, despite the existence of small (but growing) pockets of socially conscious investors, private capital remains driven by the profit motive. The private sector thus underinvests in public goals because returns on such investments are not generally competitive on a risk-adjusted basis. Nonetheless, estimated financing needs still represent a relatively small portion of global savings, which totalled approximately $17 trillion in 2012.[4] Thus, a strengthened financing framework that incentivizes a partial reallocation of savings to the financing of sustainable development could have an enormous impact.

35. In short, a strengthened financing framework would ask the question of how to create a global financial system — including its public, private, domestic and international components — that incentivizes investors and other stakeholders to act in the interest of global sustainable development.

Building on lessons from Monterrey

36. As recognized by the Intergovernmental Committee of Experts on Sustainable Development Financing, the Monterrey Consensus should form the basis for a sustainable development financing strategy. In addition, as noted in the Doha Declaration on Financing for Development, multiple financing for development challenges and opportunities have emerged since the Monterrey Conference,

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[2] See http://sustainabledevelopment.un.org/content/documents/2091Executive%20Summary-UNTT%20WG%20on%20SDF.pdf.

[3] Ibid.

[4] Ibid.

including the impact of the financial crisis, additional costs of climate change mitigation and adaptation and damage to the Earth's environment. There have also been changes to the development landscape with the growth of middle-income countries, as well as a greater focus on the role of the private sector. At the same time, the financial crisis has underscored limits and risks in private sector financing and the importance of the stability of financial markets to the real economy.

37. The underlying premise of the Monterrey Consensus is that each country has primary responsibility for its own economic and social development, while national development efforts need to be supported by an enabling international economic environment. Chapter II.A of the Monterrey Consensus, entitled "Mobilizing domestic financial resources for development", emphasizes the importance of national responsibility. The following sections on international private flows, foreign aid and external debt bring in the additional financing streams. Sections on trade and systemic issues (and, to some extent, external debt) are focused on the importance of providing a stable international environment conducive to growth.

38. Substantial progress has been made in all of these areas since the Monterrey agreement was forged. Nonetheless, the post-2015 development agenda provides a unique opportunity to redouble efforts in each of these areas, as well as to strengthen the financing strategy to address global development challenges.

Domestic resource mobilization

39. Domestic resources, including public and private investment, are the most important source of financing for development in most countries. The mobilization of public resources in developing countries has increased dramatically since the turn of the millennium. Government tax revenue in emerging markets and developing countries has increased more than fivefold since 2000, with tax revenues as a percentage of GDP increasing from approximately 13 per cent in 2000 to some 18 per cent in 2011 for emerging markets and developing countries overall and from 11 per cent to 15 per cent for low-income countries. However, with tax-to-GDP ratios averaging approximately 35.4 per cent in countries of the Organization for Economic Cooperation and Development (OECD),[5] there is still a significant gap between the capacity of developed and developing countries to raise public revenues, particularly for low-income countries.

40. Domestic resource mobilization needs to be viewed in the context of differing capacities of countries, and a challenge lies in designing policies to scale up tax revenues in the poorest countries. Ultimately, domestic resource mobilization is generated by sustained and equitable economic growth, so that macroeconomic policies play an important role.

41. Tackling illicit financial flows can also play an important role in mobilizing public sector resources. Illicit financial flows out of Africa, for example, have become a major concern because of their scale and their systematic adverse impact on the continent's development and governance agenda. The international community can contribute by more effectively combating tax avoidance and tax evasion through greater international tax cooperation, by supporting developing countries in enhancing their taxation capacities and strengthening anti-money-laundering measures, mutual legal assistance and the exchange of information between countries.

[5] Ibid.

42. Sustainable development financing will need to rely on domestic financial systems, and ultimately on domestic investors, to mobilize savings and channel them into productive investment and sustainable development. There has been significant growth in this area over the past 15 years, particularly with regard to the deepening of government bond markets. However, long-term financing for private borrowers in domestic markets remains subdued in many developing countries.

43. The structure of financial systems in most developing countries tends to be dominated by the banking system, whose financing is generally short-term in nature and therefore not well suited for covering firms' longer-term financing needs for investment projects. Deeper capital markets could provide a conduit for the long-term investment necessary for sustainable development. Thus, the development of local capital markets has been a priority on the global agenda, including in discussions in the Group of 20 (G20). Nonetheless, there is a risk that nascent markets will attract speculative capital, leading to short-term bubbles, which can collapse when global investor sentiment changes, causing shocks to the real economy. In addition to sound macroeconomic frameworks, it is therefore important that countries design a strong macroprudential regulatory framework, potentially in conjunction with capital-account management.[6]

44. A domestic institutional investor base, including domestic pension funds and insurance companies, could provide a more stable source of investment. Indeed, pension and insurance assets have grown dramatically in developing countries, reaching some $5.5 trillion, double pre-2008 levels[7] and more than 10 times the amounts estimated in 2002. However, the institutional investor base in developing countries is still significantly lower than that in high-income countries. Furthermore, even in developed countries long-term investment by institutional investors, particularly in sustainable development, is limited. Thus, there is a need to develop these areas in conjunction with regulatory structures that encourage such long-term investment.

45. The goal of the financial system is to intermediate credit, and there is a need to ensure access to credit, especially for small and medium-sized enterprises. Today, some 200 million enterprises in emerging markets lack adequate financing and financial services[8] and more than a third of the world's population is excluded from the formal financial system. However, there is evidence that finance for small and medium-sized enterprises is not necessarily correlated with deeper financial sectors, and, consequently, there exists a space for policy interventions aimed at increasing financial inclusion, even in countries with undeveloped markets.[9]

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[6] See *World Economic Situation and Prospects 2012* (United Nations publication, Sales No. E.12.II.C.2), chap. III; see also *World Economic Situation and Prospects 2013* (United Nations publication, Sales No. E.13.II.C.2), chap. III.

[7] See http://www.reuters.com/article/2014/03/14/emerging-investment-idUSL6N0MB18O20140314.

[8] See *The Global Competitiveness Report 2012-2013* (World Economic Forum, 2012).

[9] See "Challenges in raising private sector resources for financing sustainable development" (United Nations System Task Team on the Post-2015 United Nations Development Agenda Working Group on Sustainable Development Financing, 2013), available at http://sustainabledevelopment.un.org/content/documents/2106UNTT%20Chapter%20III.pdf.

Foreign direct investment and other private flows

46. There has also been a strong upward trend in international private capital flows to developing countries over the past decade. However, this trend has been subject to great volatility. Foreign direct investment (FDI) has exhibited the largest trend increase and has also shown greater stability. Flows of FDI to developing economies have increased more than fourfold since 2002, reaching $759 billion and accounting for 52 per cent of global foreign direct investment inflows in 2013.[1] Nonetheless, FDI to developing countries has been concentrated in a few countries and sectors, and has not been flowing sufficiently into sustainable development. The large majority of FDI to developing countries continues to be channelled to Asia and Latin America, while flows to Africa, while higher than a decade ago, remain limited and concentrated in the extractive sectors. There have been some signs of increased investment in the manufacturing and services sectors in recent years, however.

47. Portfolio flows and cross-border bank lending have tended to be extremely volatile. This includes portfolio flows from international institutional investors, which are estimated to hold between $75 trillion and $85 trillion in assets and have been looked to as a potential source of financing for sustainable development. To date, however, a large proportion of their assets remain in short-term liquid instruments, and these investors tend to invest with relatively short investment horizons. For example, direct investment in infrastructure globally represents less than 1 per cent of pension fund assets, with investments in clean infrastructure being considerably lower. There are several reasons for this shortfall, including regulatory uncertainty and weak legal frameworks and governance at the country level. Nevertheless, it is notable that investment in these areas is insufficient in both developed and developing countries, across a wide range of policy and regulatory regimes, albeit to differing extents. In this regard, there may be a need for policymakers to consider the impact of the regulatory structure, including potential alternatives such as mark-to-market accounting, on long-term investments, as well as other measures. At the same time, "bottom up" measures driven by the industry, pensioners and civil society can also encourage investors to ensure that their performance evaluation and compensation systems are consistent with sustainable finance.

48. Remittance inflows increased over the past decade to more than $400 billion in 2013. Remittances are private transfers to households in developing countries. They are likely to have important macroeconomic impacts through the multiplier effect in countries in which they represent a sizeable share of capital inflows, and to have a positive impact on lowering poverty. To date, however, evidence suggests that these private flows are generally channelled into consumption, rather than into development-oriented investments. The Monterrey Consensus emphasized the importance of reducing the transfer costs of migrant workers' remittances and creating opportunities for development-oriented investments. Despite recent efforts to address this concern, particularly through the reduction of costs, including in the G20, more needs to be done.

49. The official sector will need to play an important role in incentivizing private flows in favour of longer-term investment, including in infrastructure, in green economy activities and in low-income and least developed countries. This was recognized in the Monterrey Consensus, which stressed the need to support new public/private sector financing mechanisms, both debt and equity, for developing countries and countries with economies in transition, to benefit in particular small

entrepreneurs and small and medium-size enterprises and infrastructure. Since the International Conference on Financing for Development, the sophistication of these mechanisms has increased, as has the understanding of pitfalls, risks and benefits. Public-private partnerships, equity investments, guarantees and insurance have become increasingly looked to as mechanisms for using official resources to leverage private financing through risk-sharing between the public and private sectors. However, it is important that such mechanisms learn from success and failures of the past. In particular, it is crucial to engage in "fair" risk-sharing, in which taxpayers are fairly compensated for any risks they incur and are able to share in the potential upside where appropriate. A deeper understanding of these mechanisms, based on risks and underlying incentives, should provide a basis for the new financing strategy.

50. Overall, policies to facilitate investment need to take a multifaceted approach, including: (a) reducing risks by creating an enabling environment; (b) fair risk-sharing to leverage private resources with public funds; (c) addressing short-term investor incentives; and (d) balancing regulations to ensure financial sector stability with access to credit and financial services.

International financial and technical cooperation for development

51. After a significant decline in official development assistance (ODA) throughout the 1990s, donor apathy was reversed in the early years of the new millennium. Following the 2000 Millennium Summit of the United Nations and the 2002 International Conference on Financing for Development, net ODA flows from all OECD Development Assistance Committee donors increased significantly, from $84 billion in 2000 to a high of $137 billion in 2010.

52. The focus of the Millennium Development Goals on social development corresponded with a large increase in aid to social sectors, in particular the health sector. In addition, as concerns about environmental degradation and climate change have grown, aid targeting environmental sustainability has seen a particularly strong increase. Environmental aid now represents a quarter of all bilateral aid.[10]

53. However, since 2010 ODA has fallen for two consecutive years, by a total of 6 per cent in real terms, owing to fiscal pressures in donor countries in the aftermath of the financial crisis. It also falls far short of international commitments, and only a few donor countries meet the United Nations ODA target of 0.7 per cent of gross national income. Despite their high dependency on official financing flows, least developed countries were disproportionally affected by the overall decline in ODA, with their share in total ODA falling from 33 per cent in 2011 to 32 per cent in 2012.[11]

54. In addition to increasing the volume of aid flows, the international community has committed itself to increasing the effectiveness of aid through the 2005 Paris Declaration on Aid Effectiveness, the 2008 Accra Agenda for Action and the 2011 Busan Partnership for Effective Development Cooperation, on the basis of principles of country ownership, the alignment of donor support with national development strategies, the harmonization of donor arrangements and procedures,

[10] See *Development Cooperation Report 2012: Lessons in Linking Sustainability and Development* (OECD).

[11] See http://www.oecd.org/dac/stats/statisticsonresourceflowstodevelopingcountries.htm.

and a focus on results, mutual accountability, predictability and transparency. Progress has been made in all these areas, but it has been slow.[12]

55. The Monterrey Consensus also called for exploring innovative sources of financing. A significant number of such mechanisms have been implemented over the past decade, although the total contribution is still limited.[13] There are a number of proposals that both are technically feasible and have the potential to raise much larger revenues, including international taxes such as financial and currency transaction taxes or a carbon tax. Such mechanisms would be particularly well placed to provide international public financing for global public goods that is additional to traditional ODA. There has also been a large increase in South-South and triangular cooperation, as complementary to traditional development assistance.

International trade and external debt

56. After an impasse in multilateral trade negotiations, the participants in the recent Ministerial Conference of the World Trade Organization (WTO) adopted the "Bali package" in December 2013. The Agreement on Trade Facilitation marks the first multilateral trade agreement adopted since the establishment of WTO. It is aimed at simplifying and modernizing customs procedures and making them more transparent, thereby reducing transaction costs. It offers developing and least developed countries a wide range of flexibilities with regard to its implementation. The Bali package also includes reforms that would create new export opportunities for least developed country service providers in developed-country markets; improvements in preferential schemes that extend exemptions from tariffs and quotas to least developed country exports; and simplification of the accompanying rules of origin, which will improve the market access opportunities for least developed countries. Further negotiations are still needed to advance multilateral trade on core issues relating to agriculture, industrial goods and services. Furthermore, regional trade agreements continue to boom, with 379 already in force. There is some concern about the potential effects on developing countries that are not part of regional trade agreements, such as marginalization or impacts on their competitiveness.

57. Significant progress has been made through debt relief programmes for poor countries, including through the Highly Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative. As of April 2013, 35 of the 39 heavily indebted poor countries had increased poverty-reducing expenditures as their debt service payments declined. However, some developing as well as developed countries remain critically indebted and some small island developing States remain at significant risk of debt distress. Given the possibility of further potentially disruptive debt scenarios, the international community should make serious efforts to work towards a framework for the timely, orderly restructuring of sovereign debt.

Systemic issues

58. The international community has continued its efforts to improve the functioning, stability and resilience of the international monetary and financial system. More efforts are needed in key areas of, inter alia, macroeconomic policy coordination, financial regulation, multilateral surveillance, sovereign debt and the

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[12] See *Aid Effectiveness 2005-2010: Progress in Implementing the Paris Declaration* (OECD, 2011).

[13] See *World Economic and Social Survey 2012: In Search of New Development Finance* (United Nations publication, Sales No. E.12.II.C.1).

global financial safety net. For example, since the crisis significant reforms have been made to the regulatory structure of the international financial system through Basel III and recommendations of the Financial Accounting Standards Board, with important implications for global financial market stability as well as access to credit crucial for sustainable development. These developments would, however, benefit from greater representation of developing countries in the regulatory reform process. Similarly, there have been important steps towards the governance reform of multilateral institutions, although more needs to be done to ensure sufficient voice and representation.

Climate finance

59. Climate finance is a critical pillar of sustainable development. However, climate financing has evolved largely on a separate track from conventional development finance. The international community has responded to the existing scarcity of climate finance by pledging to raise $100 billion per year by 2020. While only 10 years ago climate finance was managed by a small number of large funds associated with the United Nations Framework Convention on Climate Change process, there has since been a proliferation of public, private, bilateral and multilateral sources. In addition, several international public funds have been established to support biodiversity conservation.

60. However, despite the proliferation of funds and mechanisms, almost all of them remain undercapitalized. At the same time, an unintended consequence of this fragmented financial landscape for sustainable development is a dramatic increase in complexity, which has become increasingly difficult to navigate and may have reduced the potential for synergies to be harnessed by the international community. Ultimately, the most effective way to reduce this increased fragmentation and complexity is to ensure adequate capitalization of existing funds.

61. At the same time, there has been a distinct increase in FDI, domestic investment and blended financing with respect to climate change projects in developing countries. It is estimated that these new sources of finance have constituted nearly half of climate finance flows over the past two years. Meanwhile, countries need to put in place the right enabling environment for private participation, such as a robust and predictable regulatory framework, as well as environmental policies such as standards and support for carbon pricing. It will be through these integrated solutions at the country level that existing public and multilateral climate funds can be best leveraged.

Suggested questions for discussion

1. **While private for-profit investors can meet many of the investment needs for sustainable development, some activities are best addressed by Governments, in many cases supported by official cooperation. What lessons can be drawn from the experiences gained and international discussions held thus far to boost cooperation effectiveness and strengthen confidence in the efficacy of increased development cooperation flows?**

2. **What kinds of policies would help incentivize greater private sector financing of sustainable development? How can public resources more effectively leverage private sector investments for sustainable development? What can be**

learned from past experiences, and what mechanisms would be most effective in different circumstances?

3. **There is great interest in corporate social responsibility. Will this be sufficient to fill financing needs, or are regulatory and other policy approaches also necessary?**

4. **What are the implications of a comprehensive post-2015 development agenda focused on poverty eradication and sustainable development for the**

III. Global partnership for sustainable development in the context of the post-2015 development agenda

Origins of the global partnership for development and financing for development

62. The concept of a global partnership for development as a set of commitments with regard to promoting development has a long history at the United Nations. That history includes the Monterrey Consensus, the Doha Declaration on Financing for Development and the Johannesburg Plan of Implementation, but goes back much further. As the international community moves towards the formulation of a post-2015 development agenda, which needs to be underpinned by a strengthened global partnership for sustainable development, important lessons can be drawn from past experience, in particular the emergence of the global partnership within the United Nations at the intergovernmental level, its role as a vehicle for the implementation of development goals and its relationship to broader strategies for means of implementation, such as the financing for development process.

63. Efforts to promote development through a global partnership are reflected in a long sequence of international declarations and intergovernmental agreements. They date back to the 1969 report of the Commission on International Development, which highlighted the need for commitments on the part of both developed and developing countries. In the 1980s and 1990s, the General Assembly promoted development partnerships through the adoption of international development strategies.[14]

64. The concept of a global partnership gained momentum in follow-up to the 2000 Millennium Declaration. Following its adoption, the Secretary-General led United Nations system-wide consultations with a wide range of institutional stakeholders and proposed a "Road map towards the implementation of the United Nations Millennium Declaration". The annex to that document contained a list of goals and targets, which became the Millennium Development Goals. Goals 1-7 reflected concrete development objectives, while Goal 8 spoke to their means of implementation and called on the international community to develop a global partnership for development.

65. The global partnership for development embodied in Millennium Development Goal 8 addresses key building blocks for a more effective system of international development cooperation in five areas: (a) official development assistance; (b) market access (trade); (c) external debt sustainability; (d) access to affordable essential medicines; and (e) new technologies, especially in the areas of information and

[14] See *The Global Partnership for Development: The Challenge We Face*, MDG Gap Task Force Report 2013 (United Nations publication, Sales No. E.13.I.5).

communications. In addition, it emphasized the special needs of least developed countries, landlocked developing countries and small island developing States.

66. Millennium Development Goal 8 played a critical role in the Millennium Development Goals framework, as it recognized the importance of an enabling external economic environment. However, it lacked specific targets to finance the Goals and development more broadly. Indeed, given the complexity of the international financial system, it would be difficult to circumscribe the wide set of actions required to develop a stable international financial system able to support development within a goal framework.

67. In this context, the preparations for the 2002 International Conference on Financing for Development in Monterrey, which had started three years earlier, provided a unique opportunity for the international community to spell out a broad financing for development framework, taking into account all sources of development financing and also addressing in a systematic manner the international financial architecture, financial stability and other systemic issues as key components of the global partnership for development.

68. The Monterrey Consensus contained a wide range of commitments by both developed and developing countries, including financial commitments, as well as commitments to policy action at the domestic and international levels. The preparatory process and the Conference itself were reflective of a broad and inclusive global partnership, as evidenced by the close engagement of major institutional stakeholders such as the World Bank, the International Monetary Fund (IMF), WTO, the United Nations Conference on Trade and Development (UNCTAD) and the United Nations Development Programme, as well as civil society and the business community.

69. The financing for development framework, embodied in both the 2002 Monterrey Consensus and the 2008 Doha Declaration, spelled out the means to arrive at an effective system of international development cooperation in a comprehensive manner. Similar to Millennium Development Goal 8, it included official development assistance, market access and debt sustainability as three of its key areas, but it also addressed domestic resource mobilization, private financing flows and systemic issues.

70. Since its formulation, the global partnership has inspired serious efforts and galvanized action by all stakeholders across a range of policy areas. As a result, the world has witnessed significant progress in meeting the Millennium Development Goals. However, progress has been uneven and unfinished business remains. In addition, new challenges have emerged or have become more urgent.

Progress in implementing the global partnership for development

71. As discussed above, after significant increases in ODA throughout the first decade of the new millennium, momentum in reaching the United Nations target of allocating 0.7 per cent of gross national income to development aid has stalled in recent years. In the area of trade, an increasing proportion of exports from least developed countries are entering developed-country markets on a preferential basis. Nonetheless, the global trading system today remains complex and fragmented. Aid for trade could be important in addressing the supply-side constraints faced by developing countries, especially least developed countries. The Heavily Indebted

Poor Countries Initiative and the Multilateral Debt Relief Initiative have successfully relieved the debt distress of many low-income countries, freeing up resources for efforts to achieve the Millennium Development Goals. However, these international initiatives have dealt with specific cases of debt relief, rather than setting up a framework for resolving debt distress. The global partnership could foster a dialogue on debt sustainability and on how to effectively deal with sovereign debt defaults and distress in a timely, equitable and less costly manner.

72. Despite significant improvements, there remains a need for greater access to affordable essential medicines to accelerate the progress being made on the achievement of the health-related Millennium Development Goals. Wider use of the trade-related provisions set out in the intellectual property rights regulations of WTO, together with greater use of innovative mechanisms to lower costs and increase access to essential medicines in low- and middle-income countries, could be pursued as part of the global efforts in this area.

73. There is still a need to increase access to and the affordability of the Internet. Technology transfer and access to green technologies and technologies for climate change mitigation and adaptation, disaster risk reduction and resilience are also needed. In this context, special attention should be given to strengthening the domestic capabilities and national innovation systems of developing countries.

74. In addition to fostering further progress in these critical areas, aimed at finishing the unfinished business of the Millennium Development Goals, a new global partnership for sustainable development will need to address new challenges and emerging issues, such as the impact of the financial crisis, additional costs of climate change mitigation and adaptation and damage to the environment, as well as changes to the international development landscape.

Towards a new global partnership for sustainable development

75. The post-2015 development agenda will have to be underpinned by a renewed and strengthened global partnership for sustainable development, grounded in the values of equity, solidarity and human rights, which builds on the strengths of the existing framework while taking on board the lessons learned, and going beyond when necessary to address new challenges.

76. In view of the major challenges the world is facing today, this global partnership for sustainable development will need to engage all relevant stakeholders, galvanizing action at the local, national and global levels. Only a joint effort, leveraging the strengths of all actors, including civil society, the private sector, local governments, national parliaments and others, will permit the realization of the shared vision embodied in a sustainable development agenda.

77. The new global partnership will be agreed by States Members of the United Nations. At its heart, then, it will define a compact of commitments to policy actions on the part of Member States. Its successful implementation, however, hinges on the engagement of all relevant stakeholders.

78. As new global concerns have arisen or have gained in urgency, these commitments to policy action will have to be broader than those reflected in Millennium Development Goal 8, addressing in an integrated manner the three dimensions of sustainable development. In order to be effective, the global

partnership will also require a strengthened, robust and inclusive monitoring and accountability mechanism, to monitor progress in the implementation of commitments.

79. At the same time, the global partnership for sustainable development needs to provide space and flexibility for engagement with a much broader range of actors. In the quest to achieve sustainable development goals, multi-stakeholder implementing partnerships can engage and bring to the table all relevant stakeholders for a specific purpose or goal, allowing them to leverage their comparative advantages and respective strengths.

80. Such partnerships have been in place for many years and have taken on an increasingly important role in the implementation of the Millennium Development Goals. They have raised significant resources, mobilized technical expertise and knowledge, contributed to efficiency gains in delivery, built momentum on the ground and helped build consensus around controversial issues. Initiatives such as Every Woman, Every Child; Global Education First; Sustainable Energy for All; and the Zero Hunger Challenge have also shown that multi-stakeholder partnerships can mobilize political and financial commitments and catalyse innovation. For these reasons, such partnerships can play a key role in the implementation of the post-2015 agenda, as a complement to intergovernmentally agreed commitments.

81. While non-State actors, including the private sector in particular, may at times be too fragmented and dispersed to make comprehensive and binding commitments that can be monitored in an intergovernmental forum, their contributions are indispensable for the achievement of sustainable development. The global partnership for sustainable development will thus rely on the renewed commitments of public stakeholders and on the flexibility to engage all stakeholders to draw on their respective strengths. To that end, it will need to be embedded in a broad and comprehensive financing framework for sustainable development.

82. Such a framework would contain renewed and strengthened commitments, while providing guidance to all relevant stakeholders in their efforts to contribute to sustainable development. As the financing and development landscape is increasingly characterized by many dispersed actors and a high level of complexity, its most important contribution may lie in setting the right incentives for this broad range of actors to facilitate sustainable development financing and investment.

83. A broad sustainable development financing framework would also address sustainable development in all its dimensions, in an integrated manner. It would speak to the sustainable development agenda as a whole, encompassing, but not being limited to, the set of sustainable development goals to be adopted by the international community in September 2015.

84. In order to do so effectively, it would draw on all sources of financing, including public and private, domestic and international sources, in a complementary manner and would outline policy actions at the local, national and international levels. Lastly, it would address systemic issues, including in particular the stability of the international financial system and the need for the participation of all relevant actors in global policymaking and dialogue.

85. In December 2013, the General Assembly decided, in its resolution 68/204, to convene a third international conference on financing for development to assess the progress made in the implementation of the Monterrey Consensus and the Doha Declaration, to reinvigorate and strengthen the financing for development follow-up

process, to identify obstacles and constraints encountered in the achievement of the goals and objectives agreed therein, as well as actions and initiatives to overcome these constraints, and to address new and emerging issues, including in the context of the recent multilateral efforts to promote international development cooperation, taking into account the current evolving development cooperation landscape, the interrelationship of all sources of development finance, the synergies between financing objectives across the three dimensions of sustainable development, as well as the need to support the United Nations development agenda beyond 2015.

86. The preparatory process for the conference will take into consideration the work and outputs of other relevant processes and events, such as the special high-level meeting of the Economic and Social Council with the World Bank, IMF, WTO and UNCTAD, the Intergovernmental Committee of Experts on Sustainable Development Financing and the Open Working Group of the General Assembly on Sustainable Development Goals.

Suggested questions for discussion

1. **What are the lessons learned from the current global partnership? Which are the most pressing new challenges and emerging issues that a renewed global partnership for development needs to address? What would it take to forge this renewed and strengthened global partnership?**

2. **How can the renewed global partnership for development be best integrated into the post-2015 development agenda? Should it be captured in a separate goal and/or linked to specific goals and targets? How should it be linked to the third international conference on financing for development, and what should its relationship be to a broader financing framework for sustainable development?**

3. **How can multi-stakeholder partnerships be most effectively used to contribute to sustainable development in the context of the post-2015 development agenda? How should they be integrated into the global partnership for development?**

4. **What should be the role of the Economic and Social Council in promoting a global partnership for sustainable development in the context of the follow-up to the Millennium Development Goals and the elaboration of the post-2015 development agenda?**