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New York (7–8 October 2013)

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More than ve years after the global nancial and economic crisis, the international nancial system continues to be plagued by vulnerabilities. e sovereign debt crisis in Europe and the uneven global recovery have led to heightened risk aversion. Deleveraging of nancial institutions continues, particularly in Europe. Economic activity in developing countries has been adversely a eci(030)-2(cd,)1(ap)h p50 TJ0.18 Tw -0.005 -1.196 Td[(u)-13(n)15(c)-8(o)19(n)16(v)12(e)6(n)25(t)-11(i)

on Financing for Development

actions. However, it is not clear whether these actions will succeed in reducing imbalances, as many structural issues remain.

Financial market regulation

A major lesson from the financial crisis is the importance of comprehensive regulations aimed at reducing systemic risks, including in shadow banking. The international community has taken important steps to address vulnerabilities in the financial sector through regulatory reform. This reform has been primarily focused on ensuring the safety and soundness of the financial system, centred on the banking sector through Basel III. This has been supplemented by domestic policy stances and recommendations from the Financial Stability Board (FSB). However, one of the primary goals of an effective financial system that has not been fully incorporated into the regulatory and policy reform agenda is the importance of access to finance and financial services for all. Questions remain on how to encourage a financial system that ensures access — particularly to small and medium sized enterprises (SMEs), long-term finance, and other areas necessary for sustainable development — while still maintaining the safety and soundness of the system.

Even though Basel III is in the early stages of implementation, there have been some debates on the extent to which new requirements will raise funding costs and impact global growth. While there is no uniform view on the magnitude of the cost of implementing Basel III, a recent IMF paper indicates that interest rates will rise somewhat due to Basel III, but with only minimal effects on economic growth. However, concerns remain that as the tighter requirements are implemented, there could be a shift to lower cost assets, implying a reduction in the availability of financing of long-term and riskier assets. In other words, trade-offs with regard to access need to be considered. This could have a particularly negative impact on developing countries that have large infrastructure needs. The new rules also impact higher risk financing, such as for SMEs, and lending in areas without sufficient data on default histories, such as trade finance and green investments.

There are also concerns that tighter bank regulations, in conjunction with the complexity of the Basel III framework, might trigger a new wave of regulatory arbitrage. It is reported that new products are already being created to circumvent the rules. More generally, complex regulations can be difficult and costly to administer, which argues for broad-based simple rules that incorporate both balance sheet and off-balance sheet exposures, such as high capital ratios and low leverage ratios, with simple countercyclical rules built in. Nonetheless, there would still be a risk that activities that require higher capital would shift from the regulated banking system to shadow banking practices. This poses a major risk of regulatory arbitrage with a potential spill-over effect from the regulated banking sector and consequent dilution of regulation.

The value of shadow banking assets has risen from an estimated $26 trillion in 2002 to around $67 trillion, or 24 per cent of total assets in the global financial system. The FSB has formulated some principles for regulating shadow banking. Since most of these entities gain leverage through the formal banking system, the FSB recommendations focus on regulated banks' interactions with shadow banking entities as well as entities with shadow components. Another area that has received global attention is 'too big to fail' institutions. G20 leaders have agreed to strengthen the oversight and regulation of global systemically important financial institutions (G-SIFIs), focused on minimizing the adverse impacts their distress or failure might have on the financial sector as well as on the broader economy, though much remains to be done in this area. Progress on reform of the derivatives market has been slower than desirable, though improvements have been made.

Other regulatory initiatives under discussion include work on uniform global accounting standards, reduction in the reliance on credit rating agencies, reform of some compensation practices and the establishment of macro-prudential regulatory frameworks and countercyclical buffers. Taken together, these reforms represent important improvements that reduce risk in the financial system. However, implementation, supervision, and enforcement remain crucial. Furthermore, significant gaps remain, particularly in aligning incentives with long-term investment for sustainable development.

However, many of these steps are still considered insufficient. Furthermore, translation of international agreements and principles of financial regulation remain weak at the national level, with few exceptions. The development and adaptation of international financial regulation would also benefit from greater representation and participation of developing countries in the regulatory reform process. Despite some progress, formal representation in international financial regulatory bodies, such as the Bank for International Settlements, the Basel Committee and the FSB, is limited to advanced economies and some major emerging market economies.

- How does unconventional monetary policy in developed countries impact developing countries? What measures can be taken in both developed and developing countries to address these spillovers?
- What does the drop in global imbalances indicate, and should the international community still be concerned with the risks posed by such imbalances? What are the policy options?
- How can the regulatory and policy framework be designed to focus on stability and reducing systemic risks while still encouraging access to credit?
- Is the implementation of the Basel III Accord likely to impact lending to small and medium enterprises, long-term investment, and other higher risk areas that are critical for sustainable development?
- What country-specific circumstances should be taken into account when designing financial policies at national and international levels?

Although estimates of the financing needs for sustainable development are necessarily imprecise, studies conclude, without exception, that needs are extremely large. It is clear that financing needs far outpace public sector resources in many countries. Nonetheless, estimated financing needs still represent a relatively small portion of global savings of around $17 trillion in 2012. Although reallocating the pool of global financial assets would be challenging, redirecting a small percentage, say 3 to 5 per cent, of this investment toward the economic, social and environmental pillars of sustainable development could have an enormous impact.

The challenge lies in promoting a financial system that incentivizes such investment. Both private sources and public resources, domestically and internationally, will be necessary. Public and private resources should, however, not be necessarily seen as substitutes, as they have different investment objectives. Despite small (but growing) pockets of socially conscious investors, most private capital remains driven by the profit motive. As a result, the private sector will under-invest in public goals when the expected return underperforms other investment opportunities on a risk adjusted basis. Hence it is important to recognize upfront that public financing and public sector policies are the lynchpin of any development financing strategy.

Domestic resource mobilization and illicit financial flows

The bulk of public resources to promote basic economic and social infrastructure will come through domestic resource mobilization. It is estimated that achieving the MDGs alone may require low-income countries to raise their tax-GDP ratios by around 4 percentage points. Ultimately, domestic resource mobilization will be driven by inclusive and sustained economic growth, underscoring the importance of effective domestic macroeconomic policymaking. The scope for additional resource mobilization through taxation is significant in many developing countries, both at national and subnational levels. Yet, despite improvements in recent years, a significant gap between developed and developing countries persists in terms of their capacity to raise public revenues. The median tax-to-GDP ratio in low-income countries remains only about half of the median ratio in high-income countries.

Developing countries face a range of common challenges in raising resources, particularly pronounced in the most vulnerable countries, including: sectors that are ‘hard-to-tax’; weak and/or under-resourced revenue administrations, low taxpayer morale, and poor governance; heavy reliance on receipts from multinational enterprises, whose adroitness in tax planning poses increasing challenges; and pressures on revenue from trade liberalization, including regional integration, and from intensifying international tax competition.

Domestic resource mobilization is being severely undermined by illicit financial flows. Not only because those flows partially constitute taxes that are avoided or evaded domestically and shifted across borders to be hidden from tax administrations but also because of their wider impact on economic growth and inequality as well as a country’s governance system. Illicit financial flows have recently become a topic of high-level policy discussion, not least due to budgetary constraints in developed countries. However, the 2002 Monterrey

Consensus committed countries to strengthening international tax cooperation through enhanced dialogue among national tax authorities and greater coordination

resources to ful l development goals. In addition, ODA is increasingly considered as a means for leveraging private nance to meet sustainable development goals.

Aid e ectiveness

e quality of aid has long been recognised as a constraint on its developmental impact. Countries committed themselves to increasing the e ectiveness of aid in the 2005 Paris Declaration on Aid E ectiveness. However, the track record on the implementation of the Paris Declaration principles on more e ective aid is disappointing. At the global level, only one out of 13 adopted targets has been met, although progress has been made towards achieving many of the remaining targets, especially on indicators where responsibility lies primarily with developing countries.

Of particular importance is stability of aid disbursements, including its predictability for recipients' development planning. Indeed, the Paris Declaration committed donors to provide aid over a multi-year horizon and disburse it according to schedule, making use of partner countries' systems for planning as much as possible. e follow-up 2008 Accra Agenda for Action mandated immediate actions to improve the availability of information to support medium-term planning, including three to ve year forward expenditure and implementation plans. Yet, budget cuts in donor countries have also had a negative impact on aid predictability, and the commitment made at the Busan High Level Forum on Aid E ectiveness in 2011 to improve aid predictability is unlikely to be met by the target year of 2013.

South-South cooperation has become an increasingly important complementary source of development nancing. Most of the resources come in the form of bilateral programmes of project funding. A distinctive characteristic of South-South development cooperation is an integrated approach that packages commercial transactions in trade, investment and loans with unidirectional support, for example, in education, health and infrastructural aid programmes. Expanding South-South cooperation may help to cushion the fall in aid receipts from traditional donors, but should not be seen as a substitute for traditional aid ows.

e international aid system still lacks a global mutual accountability mechanism with universal membership and participation. However, a Global Partnership for E ective Development Cooperation was established in June 2012, in follow-up to the Busan meeting, to support e orts to eradicate poverty, achieve MDGs and implement a post-2015 development agenda. In the Busan outcome document, leaders further recognized the importance of complementary United Nations processes and invited the Development Cooperation Forum to play a role in consulting on the implementation of agreements reached in Busan.

Innovative sources of development nance

e need for more predictable international public nancing has intensi ed the search for new sources of development nancing, both for nancing social needs, particularly in LDCs, but also for climate nancing and other global concerns. e World Economic and Social Survey 2012 estimates that around $400 billion to (i)-8(mTdƥ4 as results orientation? What steps need to be taken to streamline and render more e ective the existing aid architecture, in particular in light of the formulation of a post-2015 sustainable development agenda?

- What could be the speci c contribution of South-South cooperation to development cooperation beyond 2015?
- Should the concept of ODA be modernized? How can innovative sources of development nance and climate and other environmental nancing ows be appropriately accounted for and delivered additionally to longstanding ODA commitments? How can guarantees and other measures to leverage private nance be accounted for?

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With only a little more than two years remaining before the 2015 target date, acceleration of MDGs is the top priority. To that extent, it is crucial that countries keep to their international commitments, including meeting the ODA objective of 0.7 per cent of gross national income. Acceleration of the MDGs will lay the ground for a strong post-2015 UN development agenda with sustainable development goals at its core.

is uni ed agenda will require a coherent nancing strategy for implementation. is nancing strategy should build on existing international agreements, as enshrined in the Monterrey Consensus and Doha Declaration. Its successful implementation will need to be supported by multi-stakeholder partnerships, which should include not only governments but also businesses, private philanthropic foundations, international organizations, civil society, parliaments, trade unions, research institutes and academia.

As a starting point, renewed and strengthened global partnerships should build on the present partnership for development under MDG 8, as well as on existing inter-governmental agreements, such as Monterrey Consensus and Doha Declaration on Financing for Development, the Johannesburg Plan of Implementation and the outcome of the 2010 MDG Summit. e new partnerships will, however, need to go beyond MDG 8 to include today's challenges, such as climate change, nancial stability, and tax evasion, which can only be tackled fully through global action. In order to respond to new and emerging challenges and opportunities, the renewed global partnerships will have to be dynamic and exible.

Arriving at such a framework will require at its most basic level coherence and consistency across various UN intergovernmental processes, including those relating to sustainable development, the post-2015 Development Agenda and nancing for development. As part of the follow-up to the United Nations Conference on Sustainable Development, an *Intergovernmental Committee of Experts on Sustainable Development Financing* has been established to develop a comprehensive strategy for nancing for sustainable development. Within the UN system, various aspects of a renewed global partnership for development and a nancing strategy are also being discussed in ECOSOC's biennial High-level Development Cooperation Forum, the Open Working Group as a means of implementation for potential sustainable development goals, and in the context of the Financing

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- What are the existing shortcomings and the most pressing new challenges that the global partnership for development needs to address?
- How can a global partnership for development be best streamlined into the post-2015 development agenda? Should it be captured in a separate goal or linked to speci c goals and targets?
- How can the nancing for development process help shape the post-2015 UN development agenda?
- How can three dimensions of sustainable development be integrated into one nancing framework?
- How do we achieve a more inclusive, exible and coherent system of global economic governance that would help to enhance the e ectiveness of a renewed global partnership for development?n

- Report of the Secretary-General on “A life of dignity for all: accelerating progress towards the Millennium Development Goals and advancing the United Nations development agenda beyond 2015” (A/68/202)
- Report of the Secretary-General on “Follow-up to and implementation of the Monterrey Consensus and Doha Declaration on Financing for Development” (A/68/357)
- Report of the Secretary-General on “International financial system and development” (A/68/221)
- Report of the Secretary-General on “External debt sustainability and development” (A/68/203)
- Report of the Secretary-General on “International trade and development” (A/68/205)
- Summary by the President of the Economic and Social Council of the special high-level meeting of the Council with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development (New York, 22 April 2013) (A/68/78–E/2013/66)
- Note by the Secretary-General on “Coherence, coordination and cooperation in the context of financing for sustainable development and the post-2015 development agenda” (E/2013/52)
- MDG Gap Task Force Report 2013 “The Global Partnership for Development: The Challenge We Face”
- World Economic Situation and Prospects 2013
- World Economic Situation and Prospects 2013: Update as of mid-2013

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- GA resolution on “Modalities for the sixth High-level Dialogue on Financing for Development” (A/RES/67/300)
- GA resolution 67/199 on “Follow-up to the International Conference on Financing for Development” (A/RES/67/199)
- GA resolution 67/197 on “International financial system and development” (A/RES/67/197)
- GA resolution 67/198 on “External debt sustainability and development” (A/RES/67/198)
- GA resolution 67/196 on “International trade and development” (A/RES/67/196)

Please refer to the Financing for Development Web site at www.un.org/esa/ﬀd/hld/HLD2013/index.htm.