Special High-level Meeting of ECOSOC with the BWIs, WTO and UNCTAD

(12–13 March 2012, UN Headquarters, New York)

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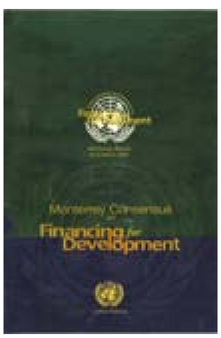

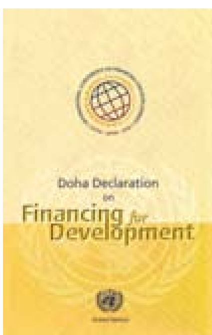

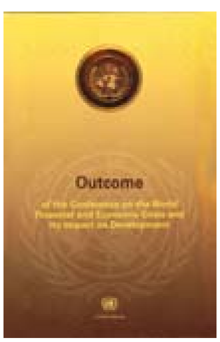

For further Information

Please refer to the Financing for Development Web site at www.un.org/esa/ffd/ecosoc/springmeetings/2012/index.htm.

Special High-level meeting of ECOSOC with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development

(12–13 March 2012, UN Headquarters, New York)

The Economic and Social Council will hold its Special High-level meeting with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development on 12–13 March 2012 at United Nations Headquarters, New York. The overall theme of the meeting will be *"Coherence, coordination and cooperation in the context of Financing for Development"*. The UN Secretary-General will address the meeting. Following a short opening plenary with brief statements by the President of ECOSOC and the heads of relevant intergovernmental bodies, the meeting will consist of informal thematic debates on the following topics:

1. *"Promoting sustained, inclusive and equitable economic growth, job creation, productive investment and trade"*;
2. *"Financing of sustainable development"*.

The thematic debates on the above topics will be held consecutively on each day in an informal plenary setting of the whole, in order to facilitate greater engagement of all participants and to promote an open exchange of views and experiences among all stakeholders, including civil society and the business sector. At the closing of the meeting, the President of ECOSOC will make concluding remarks. A full summary by the President of ECOSOC will be issued as an official document. More information is posted on the FfD website at www.un.org/esa/ffd/ecosoc/springmeetings/2012/index.htm.

The meeting will have before it a note by the Secretary-General on "Coherence, coordination and cooperation in the context of Financing for Development", which will provide background information and suggested points for reflection in order to inform discussion on the selected themes.

Theme 1: Promoting sustained, inclusive and equitable economic growth, job creation, productive investment and trade

The declining prospects for economic growth, especially in the developed countries, continue to threaten the fragile recovery from the world financial and economic crisis. At the same time, global labour markets showed little improvement in 2011. Whereas unemployment remained elevated in most developed economies in 2011, it has been particularly high in the countries facing debt distress and limited fiscal space. Youth unemployment rates are exceptionally high worldwide. Many workers in developing countries continue to face social challenges such as unemployment, poor pay, vulnerable job conditions and lack of access to any form of social security. Overall, according to ILO estimates, the world must create 600 million jobs over the next decade to compensate for jobs lost during the crisis and meet the needs of a larger global population

Domestic policy interventions are needed, especially in terms of short-term stimulus, debt resolution and orientation towards jobs creation. Timely and appropriate policy interventions and reformed regulatory frameworks can help support public and private investment in job creation. Public spending measures, both in the form of active and passive labour market policies, tailored to the country's specific socioeconomic context, can be very effective, including the extension of unemployment benefits and work sharing programmes, wage subsidies as well as enhancing public employment services, public works programmes and entrepreneurship incentives. Moreover, modernized, equitable and effective tax systems can help maximize government revenue for growth and employment promoting investment.

A well-functioning and effective **domestive private sector** is crucial for economic growth and job creation. Efforts to set in place an enabling legal and regulatory framework in developing countries should also be accompanied by equally critical measures to strengthen the availability of finance, especially to small and medium-sized enterprises (SMEs), to fund an effective physical infrastructure, and to more directly promote entrepreneurship through investing in education, skills and research in key sectors of the economy. Moreover, it is important that legal and regulatory reforms do not compromise the broader social and environmental goals of regulation, including the need to ensure adequate social protection for workers. Longer-term private investment from overseas, especially foreign direct investment (FDI), can also play an important role in furthering development. FDI can be a channel to diffusing skills, knowledge and technology through the creation of linkages between foreign affiliates and local firms.

Proper policy interventions can considerably enhance the potential for a **trade-employment nexus**. Depending on each country's circumstances, a balanced mix of economic, industrial, labour market, education and social policies can help maximize the contribution that trade can make to employment and growth. For example, developing countries should use available policy space to create dynamic comparative advantages, as well as invest in long-term support of science, technology and languages in formal and informal education, together with infrastructure development. Moreover, they should enhance their role in global value chains by generating incentives for technology transfer and assimilation, complementary productive capacity and infrastructure.

Likewise, developing countries should provide informal firms with business services and access to capital, as well as training and marketing support. They should pay attention to the potential trade-off between securing immediate commercial interests and losing policy space through regional and bilateral trade and investment agreements, in key areas such as intellectual property rights, capital account management and debt restructuring.

Stable, predictable and durable long-term **Official Development Assistance** remains crucial for sustainable growth and employment in many developing countries. There are shortfalls in meeting aid commitments and selectivity and volatility in aid delivery. In the current aid architecture, there is incoherence in policies and policy coordination across institutions and stakeholders because of the lack of focus on common goals. ODA should function as a catalyst for other financial flows in poor countries and specific areas for the "right" kind of development. Policy interventions that are not directly connected to poverty reduction can contribute to that objective by supporting productive capacity building. There is a growing tension between "results-based" delivery of resources and delivery based on "needs" assessments to support "national ownership" and "policy space". A complex and fragmented development finance architecture is emerging with a multitude of actors and new public-private partnerships setting up new delivery and monitoring approaches and conditions for delivery.

In this context, the Busan High-level Forum on Aid Effectiveness in November 2011 put a renewed emphasis on development effectiveness and the global partnership for development. Innovative sources of finance and South-South and triangular cooperation can play an important role in meeting development needs.

With regard to **external debt**, policy intervention could strengthen the nexus between external borrowing and capital formation and help avoid external borrowing to finance consumption booms and asset bubbles. An appropriate cost-benefit analysis of debt-financed growth-oriented projects may be the way forward for debt management and borrowing decisions. High levels of debt in relation to GDP and exports are to be avoided as they may decrease the net contribution of new borrowing to growth. Increasing attention needs to be given to the Principles of Responsible Borrowing and Lending, released by UNCTAD in May 2011 as part of global efforts to strengthen the nexus between debt, trade, investment and growth. Debt distress and defaults have a detrimental effect on growth and employment as borne out by the history of debt crises. It is reasonable to look for a balance among new resources, breathing space and debt restructuring through differing tools of crisis prevention and management. Countries need to agree on a set of principles for resolving debt crises that provide for a fair burden-sharing between public and private sectors and between debtors, creditors and investors.

Global economic growth and job creation continue to be hampered by shortcomings in the **international financial and monetary system**. Major steps in the continuing effort to strengthen international financial regulation have been the introduction of the Basel III framework and progress on the regulation of systemically important financial institutions and the shadow banking system. Moreover, in recent years, the question of how to manage volatile cross-border capital flows has received increased attention. Indeed, some countries recently introduced capital controls to contain the surge in short-term capital flows. Many developing countries rely on reserve accumulation of US dollars as a mechanism of self-insurance against liquidity crises. Therefore, there are proposals to gradually strengthen the role of SDRs as a reserve asset in combination with a range of nationally supplied reserve assets. Finally, there is a need to strengthen the framework of global economic governance in support of growth and employment. This includes enhanced coordination, cooperation and coherence across the UN system. Efforts should also be made to ensure that there continues to be adequate engagement between the UN and the G20 and complementarity of policy efforts between the UN, IMF, G20 and other multilateral stakeholders.

Some questions for discussion:

- What type of coordinated policy actions are needed to sustain the fragile global economic recovery and promote job creation?
- What policy interventions and regulatory frameworks could support public and private investment in job creation?
- What are effective ways to facilitate the flow of long-term foreign investment to developing countries?
- What are the possibilities for setting in place a system of industrial relations that serves to promote investment and productivity while also ensuring decent working conditions?
- What policy measures could strengthen the availability of finance, especially to SMEs, promote investment in infrastructure and foster entrepreneurship?
- How can the international community enhance the role of transnational corporations and global value chains in job creation and stability?
- What global technology policies could enhance the trade and employment nexus through transfer and capacity building?
- What steps are needed to reform the development architecture and strengthen international financial cooperation to better meet development challenges?
- How can the international community enhance policy coherence and coordination among institutional stakeholders?
- What measures can be taken to enhance the nexus between debt and growth at the national and international levels and keep debt sustainable?
- How can the international community promote a fair burden sharing in resolving debt crises and debt sustainability?
- What policy measures are critical at the systemic level to promote growth and employment? What should be the short-term and long-term priorities?

- How can the international community ensure complementarity of efforts among the United Nations, BWIs, G20 and other multilateral stakeholders?

Theme 2: Financing of sustainable development

Promoting sustainable development represents a key policy priority. The United Nations Conference on Sustainable Development (Rio+20), to be held on 20-22 June 2012, will focus on two themes: (a) a green economy in the context of sustainable development and poverty eradication; and (b) the institutional framework for sustainable development. The key objectives of the Conference are to secure renewed political commitment, assess progress and implementation gaps and address new and emerging challenges in the area of sustainable development

The **concept of greening the economy** is viewed as a means to achieve sustainable development. A green economy enables economic growth and investment while increasing environmental quality and social inclusiveness. The existing challenges in financing the transition to a green economy as well as the measures and policies that are needed to scale up financing are of central importance. Transitioning to a green economy requires major structural and technological changes in a number of key sectors such as infrastructure, industry, agriculture, housing, transportation and energy. A wide range of policy measures can be used by countries to encourage and support this move. Relevant public policies can go a long way to foster sustainable development. One important element is mobilizing sufficient financial resources, which may involve redirecting available resources as well as raising new and additional financing.

Some indications show that the bulk of **current financing for sustainable development** is from private sources. The public sector is estimated to provide a smaller yet indispensable part of sustainable development financing. Mixed sources of financing, such as sovereign wealth funds, are of increasing importance. In addition, innovative financing mechanisms and facilities supporting the implementation of multilateral environmental policies and agreements have been instrumental in providing funds for sustainable development purposes.

In the *World Economic and Social Survey 2011*, UN-DESA estimates the annual incremental **investment requirements** for achieving sustainable development objectives across a number of key sectors at about 3 per cent of World Gross Product (WGP) up to 2050 (equal to over $1.9 trillion in 2010). About at least $1.1 trillion will be needed per year for incremental investments in green technology in developing countries. Given the magnitude of financing requirements for a sustainable economy transition, financial resources need to be raised from the entire range of private, public and mixed sources, and through multiple channels and instruments. The key policy challenge is to create the necessary domestic and international conditions to unlock substantial amounts of new and additional financing.

The private sector is likely to provide the vast majority of **resources needed to move towards the green economy**. In order to support the three pillars of sustainable development, it remains important to implement major international commitments regarding financial flows to developing countries. The public sector will remain crucial to increase investments in sustainable development. A strategic approach would be to use public funds in part to steer and leverage private sector finance.

Government policies at the national level are important in scaling up financing of sustainable development. In general, "green technologies" need to become cost-competitive with established technologies. More broadly, the national innovation system (NIS) approach emphasizes the importance for an innovative economy that is based on interactive learning, information exchange, and coordination among firms, universities, research centres, policymakers and other actors. A green sustainability-oriented NIS (G-NIS) would integrate the public-goods nature of many green technologies into the NIS framework.

Green technologies should be treated as infant industries, with appropriate support, including public sector investments in infrastructure, subsidies and access to credit. Governments can help leverage private investments into green technology through targeted credit enhancement measures that help boost returns through subsidies, risk mitigating measures and other measures. Consumer-targeted measures, such as green stickers and labelling systems, can play an important complementary role to encourage demand for green technologies.

Institutional investors, particularly pension funds, could possibly generate significant benefits from investing part of their assets into green growth initiatives. Governments in general, and regulatory and supervisory authorities in particular, can promote green investments of pension funds through supportive policies and measures. Greater efforts should be made to provide stronger incentives for the **private sector involvement** into sustainable development activities. This can be achieved through a combination of taxation, emissions trading and regulation. These efforts need to be complemented by the public sector to provide effective risk-mitigation or revenue-enhancing instruments to attract private investment. In this respect, there is considerable scope for governments and multilateral institutions to use their own resources to leverage financial flows from the private sector.

Attention needs to be given to ways encouraging **foreign investment** that generates and disseminates technologies that mitigate greenhouse gas emissions. UNCTAD proposes a global partnership that will, among other things, galvanize low-carbon investment for sustainable growth and development. **Microfinance** could also be an avenue for raising private finance for sustainable development, with several institutions already extending loans for clean energy products. Considerable scaling up is nevertheless required with, among other things, significant investments in human capital and infrastructure. There is also a need to consider ways in which **public-private partnerships** can provide meaningful support to stimulating private financing in green economy projects at the national level.

Measures at the international level to scale up financing for sustainable development should facilitate the free or low cost access to technology. This includes global financial technology funds that create knowledge made available as a public good, public sector purchase of relevant technology also made freely available, technical assistance in building technology capabilities, and human capital formation.

The proliferation of **financing mechanisms** increases the challenges of coordinating and accessing finance. The establishment of the Green Climate Fund under the UNFCCC raises the question of consolidating some of the existing funds, including the Clean Investment Funds (CIFs). By some optimistic estimates, the volume of climate finance may already be as high as $96.9 billion per year. Prompt delivery of the pledged funds in 'fast start' finance for 2010-2012 is required in a way that generates momentum for actions on the ground.

A **mix of public finance, carbon market finance and private finance** would need to be leveraged by development banks, as well as innovative sources of finance. As a complement, public instruments can help to leverage private finance. In addition, a number of important sectors of the global economy are currently untaxed, despite the externalities they generate. One key sector in this regard is the international maritime and aviation sectors. Other promising ways forward to scale up financing could involve some form of intervention in the global financial sector, either a financial transaction tax, a currency transaction tax or an international financial facility.

Some questions for discussion:

- What are the main challenges in financing the transition to a green economy in various countries?
- How should the private and the public sector work together to mobilize the necessary resources for sustainable development?
- How can developing countries effectively mainstream green sustainability-oriented national innovation systems (G-NIS) into their national development strategies?
- What are the most effective government policies to "crowd in" private green investment?
- How can governments and multilateral organizations most effectively leverage private finance into climate change mitigation and adaptation activities?
- How can financing be scaled up while at the same time streamlining the financing architecture to maximize its impact?
- How can multilateral development banks and other development financing institutions play a catalyzing role in channelling funds from public and private sources into green investment?