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Nine Priority Commitments to be Made at the UN's July 2015 Financing for Development Conference in Addis Ababa, Ethiopia

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Background

The United Nations will convene a major international conference on Financing for Development in Addis Ababa, Ethiopia from July 13 to 16, 2015, to discuss financing for the post-2015 agenda on sustainable development. This conference, the third of its kind, will hope to replicate the success of the Monterrey conference in 2002 that has been credited with providing the glue to bind countries to the pursuit of the Millennium Development Goals (MDGs).

The analogy is pertinent but should not be taken too far. The most visible part of the Monterrey Consensus was the commitment by rich countries to "make concrete efforts towards the target of 0.7 percent of gross national product" (paragraph 42) as official development assistance (ODA). This was anchored in a clear premise that "each country has primary responsibility for its own economic and social development," (paragraph 6) which includes support for market-oriented policies that encourage the private sector. While not all of the Monterrey targets have been met, there has been a considerable increase in resources flowing to developing countries, as a central plank of efforts to achieve the MDGs.

Today, aid issues remain pivotal for a significant number of countries, but they are less relevant for an even larger number of countries. The core principles of Monterrey need to be reaffirmed again in 2015, but if the world is to follow-through on a universal sustainable development agenda, it must address the multi-layered financing priorities spanning all countries. A simple "30-30-130" mnemonic helps to illustrate the point. There are 193 U.N. member states. Of these, only around 30 are still low-income countries (33 at the latest count). These are the economies that are, and will continue to be, the most heavily dependent on aid as the world looks to how it should implement the sustainable development goals (SDGs). Conversely, there are only around 30 "donor" countries (including 28 members of the OECD Development Assistance Committee, or DAC) that have made international commitments to provide more aid. For the remaining 130 or so emerging middle-income economies that have achieved higher levels of average prosperity, aid discussions risk forming a sideshow to the real issues that constrain their pursuit of sustainable development. The bottom line is that for most countries, the Financing for Development (FfD) conference should unlock finance from many different sources, including but not exclusively aid, to implement the SDGs.

There are other differences between Addis and Monterrey. Monterrey took place after agreement had been reached on the MDGs, while Addis will precede formal agreement on the SDGs by a few months. Monterrey was focused on a government-to-government agreement, while Addis should be relevant to a far larger number of stakeholders—including businesses, academics, civil society, scientists, and local authorities. Monterrey was held against a backdrop of general optimism about the global economy and widespread desire for intensified international collaboration following the terrorist events of September 11, 2001. Meanwhile, Addis will take place in the context of sluggish global growth, an upsurge in conflict, considerable strains in multilateral

political cooperation, and challenging ODA prospects in many countries. In addition, regulators are working to reduce risk-taking by large financial institutions, increasing the costs of providing long-term capital to developing countries.

Against this backdrop, an Intergovernmental Committee of Experts on Sustainable Development Finance (ICESDF) crafted a report for the United Nations on financing options for sustainable development.[1] The report provides an excellent overview of issues and the current state of global financing, and presents over 100 recommendations. But it falls short on prescribing the most important priorities and action steps on which leaders should focus at Addis.

This paper seeks to identify such a priority list of actions, with emphasis on the near-term deliverables that could instigate critical changes in trajectories towards 2030. At the same time, the paper does not aim to describe the full range of outcomes that need to be in place by roughly 2025 in order to achieve the SDGs by their likely deadline of 2030. Addis will be a critical forum to provide political momentum to a few of the many useful efforts already underway on improving global development finance. Time is short, so there is limited ability to introduce new topics or ideas or to build consensus where none already exists.

We identify three criteria for identifying top priorities for agreement in Addis:

- Priorities should draw from, and build on, on-going work—including the ICESDF report and the outputs of several other international workstreams on finance that are underway.
- Agreements should have significant consequences for successful implementation of the SDGs at the country, regional or global level.
- Recommendations should be clearly actionable, with next steps in implementation that are easy to understand and easy to confirm when completed.

It is not necessary (or desirable) that every important topic be resolved in Addis. In practical terms, negotiators face two groups of issues. First are those on which solutions can be negotiated in time for the July conference. Second are those for which the problems are too complex to be solved by July, but which are still crucial to be resolved over the coming year or two if the SDGs are to be achieved. For this second group of issues, the intergovernmental agreement can set specific timetables for resolving each problem at hand. There is some precedent for this, including in the 2005 U.N. World Summit, which included timetables for some commitments. What is most critical is that the moment be used to anchor and advance processes that will shift toward creating a global financing system for achieving sustainable development across all countries. Committing to timetables for action and building on reforms already undertaken could be important ways of enhancing the credibility of new agreements.

In this paper, we lay out nine areas where we believe important progress can be made. In each area, we start from identifying a gap or issue that could present an obstacle to the successful implementation of the SDGs if left unattended. In some cases the gaps will affect all countries, in other cases only a subset of countries. But we believe that the package of actions, taken as a whole, reflects a balance of opportunities, responsibilities and ben-

efits for all countries. We also believe that by making the discussion issue-focused, the needs for financing can be balanced with policy actions that will be required to make sure financing is effectively and efficiently deployed.

In addition to the nine areas listed below, there are other commitments already made which have not yet been met. We urge renewed efforts to meet these commitments, but also recognize that political and financial realities must be managed to make progress. Such commitments include meeting the Monterrey Consensus target to provide 0.7 percent of GNI in official development assistance (ODA), the May 2005 agreement of all EC-15 countries to reach that target by 2015, and bringing the Doha Development Round of trade talks to a successful conclusion. These remain important and relevant, but in this paper we choose to focus on new areas and fresh ideas so as to avoid treading over well-worn territory again.

Nine Global Priorities

Below is a list of nine concrete actions that could be addressed in the Addis Ababa Financing for Development Conference. The outcome document should mandate that all commitments be regularly assessed by an independent technical body that publishes reviews of both needs and status of implementation. For each priority, potential deadline years are suggested in square brackets. The indicated dates are based on reasoned consideration of each issue, while respecting that such decisions are fully the domain of intergovernmental negotiators.

1. Commit to address, by [2017], the financing gaps of lower middle-income countries, by launching a six-month timetable to review and recast the overall architecture for providing official bilateral and multilateral soft loans to these countries.

   Comment: lower middle-income countries are being graduated out of aid and have insufficient access to other official finance to meet their needs.

2. Commit to establish, by the end of [2016], new mechanisms for funding municipalities in developing countries, and bring [20] large municipalities to the international capital market by [2020].

   Comment: much of the investment in the SDGs will need to be done through sub-sovereign entities, but few development agencies provide support, and very few city authorities are able to access international (in some cases even domestic) capital markets.

3. Each DAC donor sets a concrete timetable, before the end of [2015], to provide at least 0.15 percent of their GNI in aid to Least Developed Countries (LDCs) as a centerpiece of their commitment to the 0.7 percent target.

   Comment: LDCs have faced the greatest challenges and made significant but still too slow progress towards meeting the MDGs. They need more stable and reliable funding to address the even greater challenges posed by the SDGs if they are to avoid falling further behind.

4. Commit to ensure, by [2025], that public spending targeted to individually consumed essential public services reaches at least [$300] per person per year in 2011 PPP terms,[ii] or [10 percent] of GNI, whichever is higher.

   Comment: all countries should commit to help the poorest by providing a package of basic services to every individual to make sure opportunities for advancement exist regardless of where or to whom a person is born.

5. All countries commit to programs to help Domestic Resource Mobilization reach, by [2025], at least [18 percent] of GDP in low-income countries, [20 percent] of GDP in lower-middle-income countries, and higher levels in upper-middle-income countries.

   Comment: the strengthening of a country's own resources is the surest way of operationalizing "country ownership" over its development program.

6. Commit to create, by the end of [2016], separate accounting protocols for climate adaptation and mitigation finance, respectively.

   Comment: climate adaptation finance must be considered along with other forms of development finance.

7. Commit to implement, by the end of [2016], synchronized global incentives to achieve, by 2020, $1 trillion per year in private investment towards low-cost, low-carbon infrastructure projects that are essential to support sustainable growth in all countries.

   Comment: the gap in infrastructure financing in developing countries must be bridged to permit progress towards sustainable development.

8. Establish, by the end of [2016], common regional standards and incentives to promote social impact investing worldwide, and agree on voluntary targets for foundations and philanthropies to allocate a common share of their balance sheets towards impact investments.

   Comment: impact investing offers the potential to orient significant amounts of private finance towards sustainable development goals.

9. Commit to establish, by the end of [2017], "generally accepted sustainable development accounting principles," with endorsement from the world's top 20 institutional investors, including sovereign wealth funds and pension funds.

   Comment: private businesses, especially multinational corporations, must have clear guidelines for holding themselves accountable for development impact in a transparent way.

Note that the list is deliberately short. One consequence is that many advocacy groups will not find their specific concerns reflected here. This is not in any way meant to discourage the necessary advocacy for those issues.

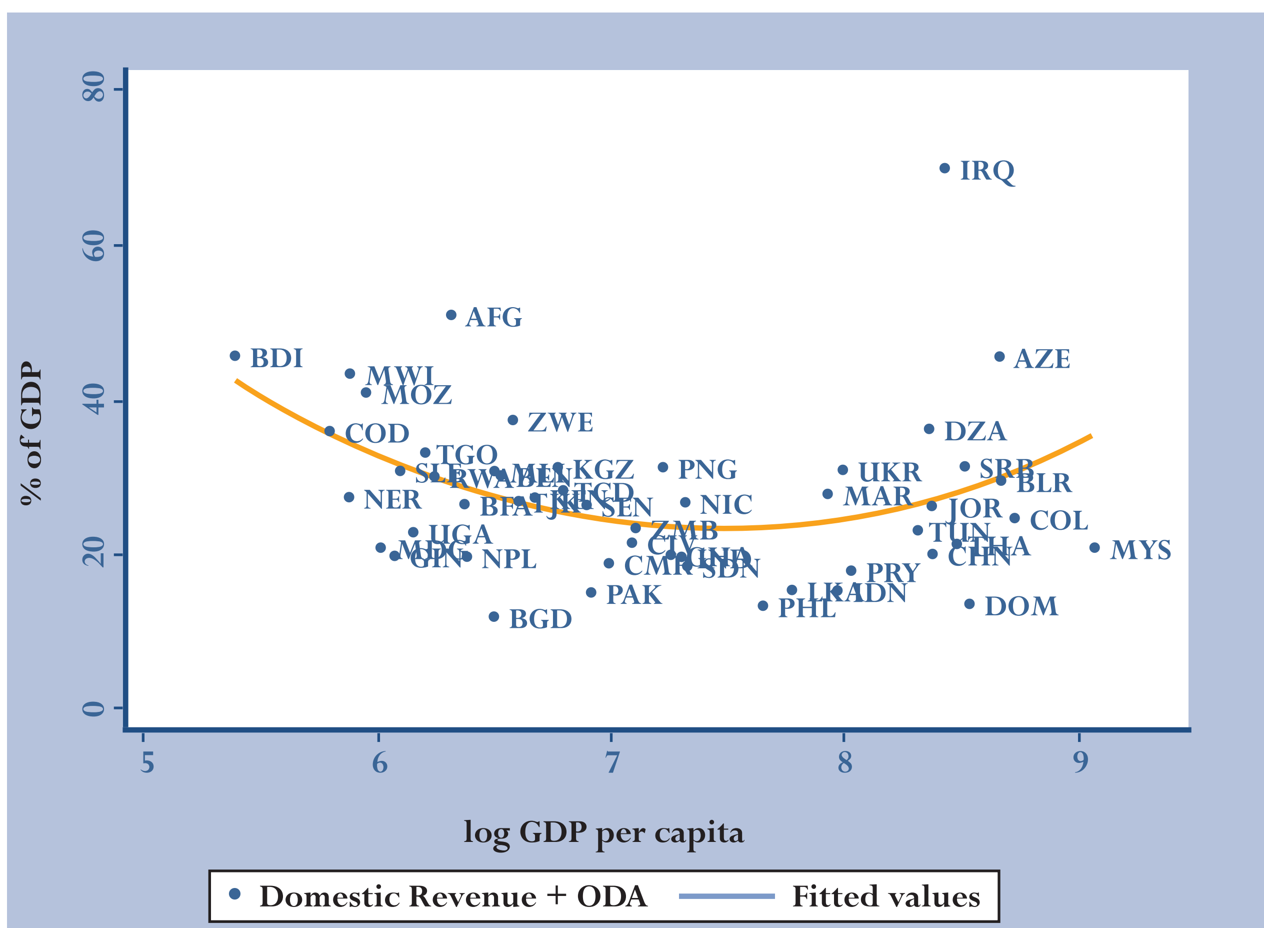
Rationale for Each Recommendation

Descriptions for each recommended commitment are described below.

1. **Commit to address, by [2017], the financing gaps of lower middle-income countries, by launching a six-month timetable to review and recast the overall architecture for providing official bilateral and multilateral soft loans to these countries.**

Lower middle-income countries have had the lowest long-term growth of any income grouping. They also tend to have less access to external finance to fund sustainable development. Donors have increasingly sought to re-allocate aid to low-income countries, where perceived needs are higher, and to graduate lower middle-income countries from aid. At the same time, lower middle-income countries have neither the diversified economic tax base nor the maturity of tax agencies to raise domestic revenues to compensate for aid shortfalls. In practice, the speed at which aid falls is faster than the speed at which domestic resource mobilization initially rises for lower middle-income countries. Thereafter, further reductions in aid are more than offset by higher domestic resources mobilization. This "lower middle-income trough" is presented in Figure 1.

Figure 1: Domestic Revenue plus ODA across Income Levels, 2010



Source: Authors' calculations based on World Development Indicators (2014) and International Centre for Tax and Development (2014)

As a consequence, there is typically a sharp fall in overall resources available to fund public expenditures in lower middle-income countries, and recent evidence suggests that this can lead to slowdowns in growth.[iii] The same issues arise across other types of external assistance. Lower middle-income countries lose access to grant spending at a faster rate than they gain access to soft loans from official bilateral or multilateral sources. Most of them do not have the institutional strength and historical track record to cheaply and readily access commercial capital markets, creating a financing vacuum that triggers cutbacks in spending. Unless lower middle-income countries gain access to substantially higher levels of soft loans from official bilateral and multilateral sources, they will not be able to finance the comprehensive investments needed to implement the SDG agenda.

There has been no systematic review of the adequacy of the non-aid global financial architecture, leading to a proliferation of new agencies and funding mechanisms. But it is clear that, over time, the system as a whole has transferred fewer resources in a more fragmented way. In 2013, total net disbursements from all public bilateral and multilateral financial institutions of non-concessional flows (what is called Other Official Finance by the DAC) amounted to only $22 billion.[iv] In addition, these flows, once envisaged as a transition bridge between ODA and private capital markets, do little to catalyze additional private financing. A DAC review found only $5 billion per year in the annual face value of official guarantees from 2009 to 2011.

The falling amount of what is known as "public non-concessional finance" is likely due to a combination of both low demand (as countries substitute unconditional market finance for more restrictive non-concessional public finance) and restricted supply (as existing international financial agencies run up against administrative or capital constraints). Given the very high demand for domestic development bank loans from agencies like the Brazilian Development Bank (BNDES) and the China Development Bank (CDB), plus the emergence of new multilateral development institutions like the Asian Infrastructure Investment Bank and the New Development Bank of the BRICS, it would appear that public development banking still has a prominent role to play, but that this demand is not being satisfied by existing institutions.

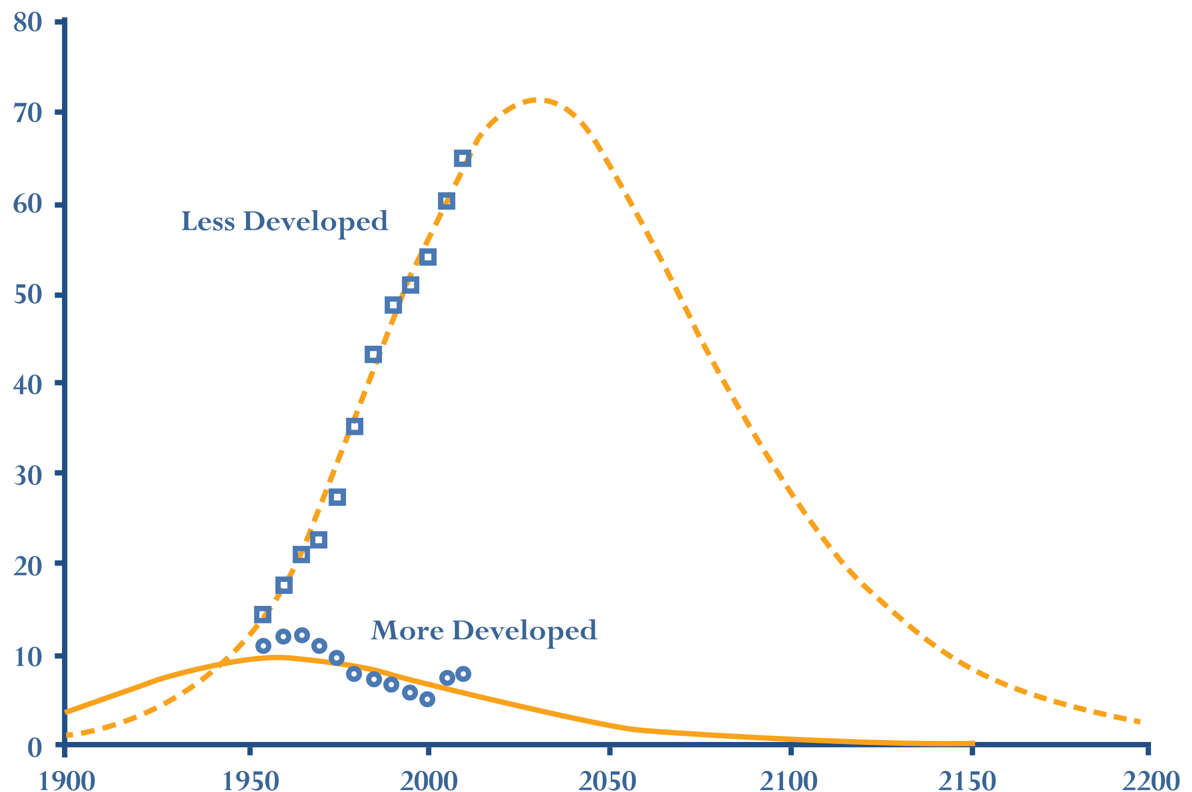
This issue is of sufficient complexity that it is highly unlikely to be resolved in time for Addis. However, the Addis outcome could still prioritize and establish a two-step process to resolve it in a timely manner. First, member states could commission an expert review panel to conduct a concrete and compelling gap analysis of the core issues within six months, by January 2016. This should address (1) what the overall system of international public financial development institutions should be delivering, in quantitative terms, in non-concessional support (including guarantees), and (2) how these institutions should work together, addressing the comparative advantage of the World Bank, regional development banks, vertical funds, and new development banks and facilities.

The second step would be for the boards of each relevant development institution to identify and agree, before the end of 2016, on how its own instruments and approaches can be augmented to meet the challenge. This could include determining what amounts, risk-bearing instruments, capital increases, partnerships and governance adjustments are required to be fit-for-purpose. Note that this does not simply imply a call for more capital. For example, the Asian Development Bank (ADB) is likely to soon double its ordinary capital resources through integration of the ADB and the Asian Development Fund resources. An independent international body could then assess and report regularly on whether non-aid, public official flows are providing the kind of long-term financial support needed for SDG implementation.

2. **Commit to establish, by the end of [2016], new mechanisms for funding municipalities in developing countries, and bring [20] large municipalities to the international capital market by [2020].**

Over the coming 15 years, considerable investment spending to implement the SDGs will be undertaken by sub-national government authorities, especially municipalities. This is significantly due to the fact that we are entering the historical peak window of human migration into cities, as shown in Figure 2. If cities are well planned, efficient, and prepared to use building codes, efficient energy systems, and other mechanisms, the possibilities for deep decarbonization of their future economies will expand. The High-Level Panel report on the post-2015 agenda argued that the battle for sustainable development would be won or lost in cities. The World Bank estimates that 80 percent of the annual global costs of climate adaptation are borne by cities.

Figure 2: Observed and Projected Number of New Urban Residents in More Developed and Less Developed Regions, 1900–2200



Source: Brandon Fuller and Paul Romer (2014), “Urbanization and Opportunity.”

Many advanced countries have promoted municipal financing through domestic public development banks, but there are few mechanisms or organizations to promote municipal financing on a cross-border basis. The European Investment Bank is one notable exception that has successfully blended its financing with structural grants from the European Union to fund municipal investments across the continent with limited credit risk.

But similar facilities do not exist for developing countries. A few bilateral and multilateral agencies have small pilot projects with selected municipalities, but these have not been scaled into a major program.

A Cities Climate Finance Leadership Alliance has already been formed to "remove obstacles and close the resource gap on investment into low-carbon and climate-resilient urban infrastructure." The Alliance currently consists of a grouping of major investors and city mayors who are committed to sharing knowledge and accelerating replication of successful investment strategies. Its efforts include research to promote access of cities to lower-cost capital by improving their creditworthiness, standardization of projects to reduce transaction costs, and building capacity to prepare bankable projects.

Addis could be an occasion to launch a major new global program to fill the gap in municipal financing with and without sovereign guarantees. Public international financial institutions could be tasked with leading the effort, with a delivery date of end-2016, perhaps in partnership with the Cities Climate Finance Leadership Alliance, to prepare indicative proposals for lending to local governments through 2030, for backstopping such lending with official development assistance or other instruments, and for building the creditworthiness of developing country cities over time. Individual major municipalities would be encouraged to subscribe in Addis to a voluntary program of reform with the specific objective of bringing them to investment-grade status, at the very latest by 2030. Credit rating agencies would be encouraged to share knowledge on what kinds of reforms would be needed to bring city governments to market (where the country legal framework so permits).

3. **Each DAC donor sets a concrete timetable, before the end of [2015], to provide at least 0.15 percent of their GNI in aid to Least Developed Countries (LDCs) as a centerpiece of their commitments to the 0.7 percent target.**

LDCs have faced many of the greatest challenges in making progress toward the MDGs. With limited trade and financial links to the rest of the world, they have not reaped substantial benefits from globalization yet are bearing many of the costs of global progress, such as climate change. Many LDCs have struggled with recurring cycles of conflict, in addition to corruption, weak administrative capacity and the intrusions of organized international crime networks. They are the source of substantial out-migration, and create pockets of instability that spillover in their neighborhoods and globally.

The SDGs aspire to reach a universal minimum standard for humanity in terms of consumption levels, schooling, health, water and access to financial services, modern energy services, and transport connectedness. This aspiration cannot be reached without dramatic gains in LDCs.

Aid can and does make a difference in LDCs. Since the launch of the MDGs, under-five child mortality (a good proxy for broader health systems) has seen an unprecedented rate of progress in these countries. The good news is that the gap is no longer widening between rich and poor countries and many more lives are being saved even in these difficult circumstances.[v] The World Bank also reports that the same share or more of its projects in LDCs are rated "satisfactory" or "better" compared to the rest of its portfolio. The g7+ has developed a new approach to the phasing and sequencing of development programs to improve effectiveness and sustainability. All of this suggests that the view that external funds and development projects cannot achieve good development outcomes in LDCs because of poor implementation capacity (or corruption) no longer holds true as a general proposition.

The broad commitment to a target of 0.15 to 0.20 percent of GNI was already made at Monterrey and many countries have moved to raise the share of aid received by LDCs. Table 1 demonstrates that, as of 2012, donor countries allocated an average of 0.10 percent of national income for aid to LDCs. What is needed now is an action plan for implementation and follow-up by DAC donors to cover the rest of the gap to a minimum level of 0.15 percent.

Table 1: ODA to LDCs from OECD DAC Members, 2010-2012 average

DAC Donor	Total ODA to LDCs (constant 2005 $Mns)	GNI (constant 2005 $Mns)	ODA to LDCs (% of GNI)
Australia	1,222	1,227,261	0.10%
Austria	299	352,407	0.08%
Belgium	988	440,247	0.22%
Canada	1,767	1,499,187	0.12%
Czech Republic	71	167,378	0.04%
Denmark	955	292,619	0.33%
Finland	417	224,211	0.19%
France	2,960	2,406,117	0.12%
Germany	3,389	3,116,403	0.11%
Greece	91	248,945	0.04%
Iceland	11	10,119	0.11%
Ireland	425	155,139	0.27%
Italy	1,136	1,845,204	0.06%
Japan	3,735	5,303,164	0.07%
Korea	436	971,046	0.04%
Luxembourg	137	35,764	0.38%
Netherlands	1,401	713,836	0.20%
New Zealand	115	133,679	0.09%
Norway	1,264	421,970	0.30%
Poland	109	421,174	0.03%
Portugal	255	195,490	0.13%
Slovak Republic	21	80,392	0.03%
Slovenia	14	41,594	0.03%
Spain	1,045	1,235,518	0.08%
Sweden	1,449	452,198	0.31%
Switzerland	607	565,666	0.11%
United Kingdom	4,362	2,143,264	0.20%
United States	9,947	13,776,558	0.07%
DAC Total	**38,630**	**38,486,548**	**0.10%**

Source: ODA and DAC donor GNI from OECD DAC online Statistics, accessed October 23, 2014. Note: ODA to LDCs includes both bilateral aid and an imputation for each donor of multilateral disbursements to LDCs. Each DAC donor is assigned a share of multilateral disbursements based on their share of contributions to multilateral agencies.

Some observers might ask why a longstanding and preexisting ODA target should be prioritized in Addis. Two points are worth stressing in this regard. First, there is an important asymmetry between the benefits and costs of achieving the outcome. From the LDC perspective, the benefit of fulfilling the jump from 0.10 to 0.15 percent of DAC income represents a rapid 50 percent boost in flows. It would amount to 5 incremental percentage points of LDCs' average GDP, which could be effectively absorbed in most cases. From the DAC perspective, the "cost" of fulfilling the existing pledge is very small. It could be achieved in the near term by prioritizing LDCs within existing ODA commitments. Otherwise, even if the gap were to be achieved solely through incremental commitments, it would require only a tiny 0.05 percent of extra GNI from DAC countries, an amount generally within many countries' near-term year-to-year variation of flows in any case.

Second, rapid achievement of the 0.15 target for LDCs could provide an essential boost in trust across the international development system. One of the foremost political challenges of the current Financing for Development (FfD) process is the fact that, between 2002 and 2005, so many DAC countries set high-profile timetables to achieve the 0.7 ODA target by 2015 but then, with the notable exception of the United Kingdom, failed to follow through. The 0.7 target has formed a core premise of global development deliberations since being universally affirmed in Monterrey, but in practical terms the combination of failed promises and challenging fiscal environments suggest that it will be difficult to progress beyond the current global stalemate of reaffirming 0.7 as a principle in 2015. An achievable near-term timetable for supporting LDCs could help break the stalemate by rebuilding intergovernmental confidence that time-bound commitments matter, emphasizing results in the countries with greatest need.

4. **Commit to ensure, by [2025], that public spending targeted to individually consumed essential public services reaches at least [$300] per person per year in 2011 purchasing power parity (PPP) terms, or [10 percent] of GNI, whichever is higher.**

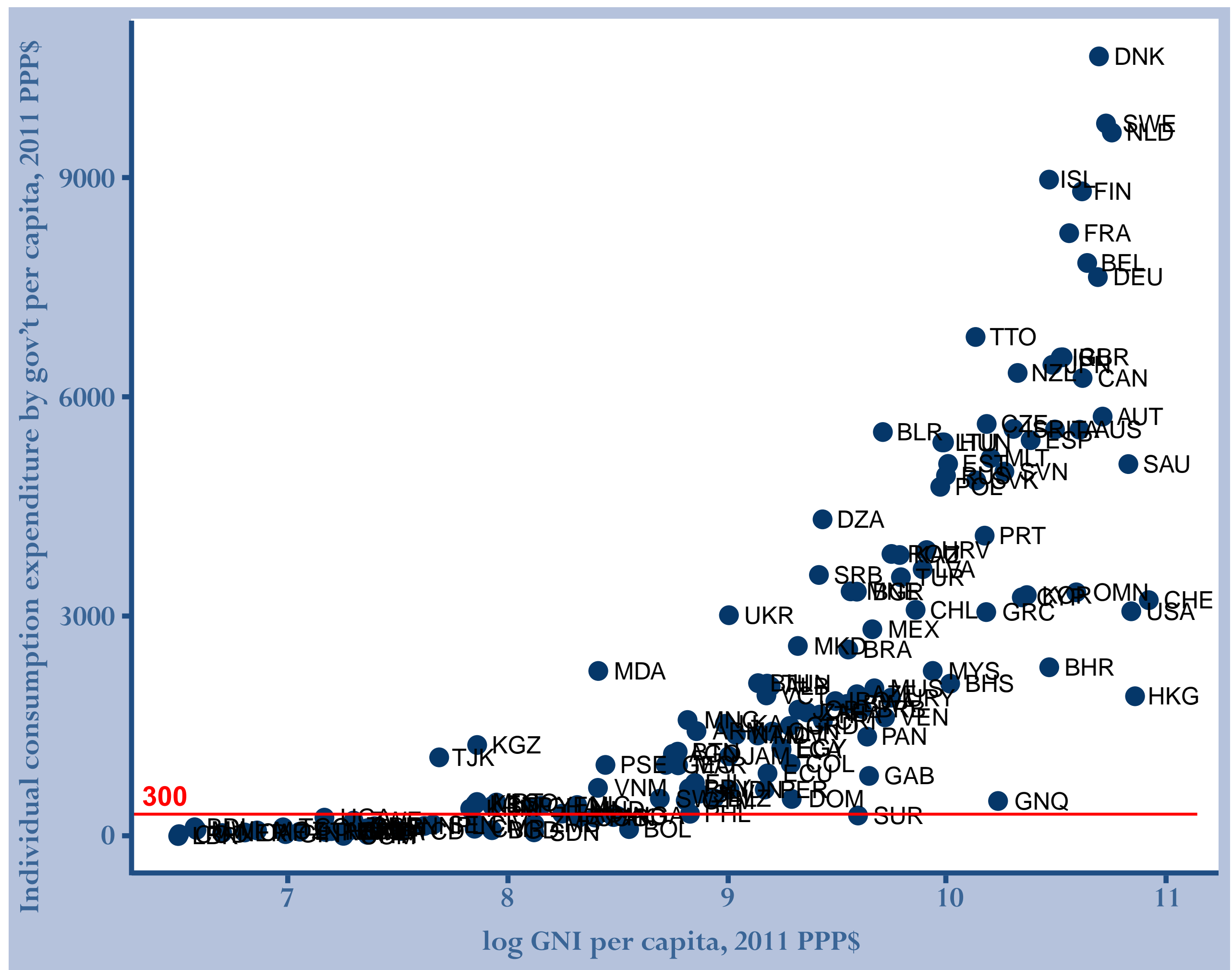
Public expenditure in every country is the instrument of choice to ensure that marginalized groups and people living in poverty still get a fair chance in life. Spending of this type permits children to go to school, mothers and families to get the health care they need, farmers to get extension services, and basic roads to transport goods to market. The ICESDF identified spending on basic needs to eradicate poverty and hunger, improving health and education, providing access to affordable energy and promoting gender equality as a major category of items requiring financing in the post-2015 agenda.

The International Comparison Program has worked with countries' national income accounts to derive a new database that permits cross-country comparisons on the amounts they spend on items that can be consumed individually by households. In high-income European countries like Denmark, Norway and Sweden, governments spend about $10,000 per person per year in 2011 PPP terms. The average for the OECD is about PPP $5,000 per person per year. We estimate PPP $300 per person per year as the approximate amount required to deliver a package of basic services of education, health and other services consistent with the global social floor being established through the SDGs. This is consistent with the U.N. Millennium Project's estimates a decade ago of $120-$140 per capita in nominal 2003 dollars for minimum service delivery to achieve the MDGs.[vi] The minimum necessary value will rise as economies grow into middle-income status and beyond. We therefore further estimate 10 percent of average per capita incomes as a minimum reference point for economies with GNI per capita of PPP $3,000 or above.

All countries and their development partners need to jointly commit to a spending target of this kind, linked to delivering a minimum package of essential services consistent with their own level of development. This will often require a mix of financing from domestic and external sources. Although unit costs will continue to evolve and the core aim is to measure results achieved rather than dollars spent, the world cannot shy away from the fact that there is a minimum budget required to ensure each person on the planet has access to essential services.

These budgets must be in place by no later than 2025 if the SDG ambition of eliminating extreme poverty is to be achieved by 2030. In some instances, the services may be provided through civil society channels, especially in areas where government capacity and reach is not strong, even if the funding comes from governments or private philanthropies and charities. Many middle-income countries now have the same real income levels that today's high-income countries previously had when introducing national safety net programs.[vii] In many countries, social programs aimed at reducing poverty are fragmented and inefficient and could be reorganized into national programs with greater coverage and impact with little additional cost.

Figure 3: Individual Consumption versus GNI per Capita, 2011



Source: International Comparison Program (2014)

To stress, the $300 PPP value is not intended as a blind spending objective. There is no merit to spending simply for the sake of spending. Moreover, the amounts in this category are not the sum of individual sector commitments made by governments at Dakar, Maputo, or other international gatherings, and should be considered as a minimum floor that most countries should surpass. The goal is simply to underscore the minimum level of targeted, outcome-oriented expenditures required as one necessary condition for tackling the basic services component of the SDGs.

A country-level perspective to per capita requirements can also help avoid aid orphans and inequalities of resource availability within country groups. Table 2 shows that at least 38 countries are currently estimated to be below the $300 PPP threshold, the majority of them in Africa. Aid can be used to "top up" domestic revenues to ensure minimum spending levels are met everywhere. As a matter of practice, roughly 45 cents of each dollar of country programmable aid go towards increasing publicly-provided individual consumption goods. A global minimum standard of PPP $300 per person per year would cost roughly an incremental $42 billion per year in nominal terms. This would need to be raised from higher levels or reallocations of domestic taxes and aid.

Table 2: Countries with Reported Individual Consumption Expenditure by Government below PPP $300, 2011

Country	Individual consumption expenditure by government (per capita, $2011 PPP)	Population (millions)
Liberia	6	4
Comoros	8	1
Haiti	22	10
Congo, Dem. Rep.	31	68
Guinea	32	10
Niger	47	16
Central African Republic	54	4
Sudan	57	42
Rwanda	62	11
Tanzania	63	46
Ethiopia	65	85
Burkino Faso	69	17
Guinea-Bissau	72	2
Madagascar	73	21
Sierra Leone	74	6
Chad	75	12
Mozambique	82	24
Bangladesh	85	150
Malawi	90	15
Bolivia	100	10
Cameroon	105	20

Mali	113	16
Burundi	125	9
Togo	125	6
Benin	138	9
Gambia, The	141	2
Nepal	143	26
Senegal	162	13
Côte d'Ivoire	164	20
Zambia	170	13
Djibouti	206	1
Zimbabwe	216	13
Congo, Rep.	256	4
Uganda	256	35
Pakistan	257	177
India	264	1216
Nigeria	281	162
Suriname	285	1

Source: International Comparison Program (2014)

5. **All countries commit to programs to help Domestic Resource Mobilization reach, by [2025], at least [18 percent] of GDP in low-income countries, [20 percent] of GDP in lower-middle-income countries, and higher levels in upper-middle-income countries.**

Effective states require effective tax systems to finance their operations. Since 2000, many developing countries have been successful in mobilizing their own domestic resources for development and it is domestic resources that have been the most rapidly growing component of development financing this decade. Without greater domestic resources, it will not be possible to achieve the SDGs. Fair and efficient domestic resources provide direct finance for investments and also help restore creditworthiness in those countries at risk of debt distress. The African Union has committed to improving domestic resource mobilization as a pillar of its post-2015 agenda.

Domestic resources, however, often cannot be easily raised without external assistance. Very little ODA is allocated for strengthening domestic revenue systems, despite a record of considerable success where it has been tried. On average, less than one percent of ODA goes towards tax improvements. This should be expanded in line with developing countries' needs to meet the target threshold for domestic revenues that might be agreed upon, focused on both efficient taxation and, where applicable, robust resource-royalty agreements.

Prospects for further increases in domestic resources are good, given rapid growth in some developing countries (with accompanying expansion in the tax base, especially of middle-class consumption) and significant likelihood of extractive industry revenues in other countries, including many in sub-Saharan Africa. Managing natural resource revenues well is fraught with difficulty, but a growing number of developing countries have put

in place institutional structures that provide stability and efficiency, and these experiences provide information that others can learn from.

Stepwise DRM targets should be linked to average incomes, since the poorest countries tend to see expanded opportunities for tax collection as they escape the worst circumstances of poverty and savings begin to grow. This is particularly important in cases where developed countries continue to rebase their national income estimates and see their classification jump from low to middle-income economies. As with the targets in #4 above, they must be achieved by no later than 2025 in order to achieve desired outcomes in 2030.

Considerable international cooperation efforts have already been pursued to strengthen domestic resources. Illicit financial flows and corruption deny many countries substantial revenues, as does tax evasion, base erosion, and profit shifting. To help address these, the OECD has developed a set of "principles for international engagement in supporting developing countries on revenue matters" and is piloting a capacity building and knowledge sharing activity through a program of Tax Inspectors Without Borders to be launched this year. The project has received strong endorsement from G-20 and G-8 leaders. OECD countries can also commit to implement the convention against bribery they have already adopted in principle. The IMF has developed a "Tax Administration Assessment Tool" to help countries identify core needs. These strands of work can be brought together by countries in a Coalition for Sustainably Resourced Public Service Delivery, already launched as an umbrella partnership in 2014, and potentially providing a basis for commitments in Addis.

6. **Commit to create, by the end of [2016], separate accounting protocols for climate adaptation and mitigation finance, respectively.**

One of the major sustainable development finance challenges since 2009 has been ongoing ambiguity regarding the composition of climate finance commitments first agreed at the Copenhagen U.N. Climate Change Conference. A "fast start" commitment of providing $30 billion for climate mitigation and adaptation over 2010 through 2012 is deemed to have been met. But Copenhagen's more prominent target of $100 billion in additional annual climate resources by 2020 has no agreement regarding how much of this would be public versus private, how much would be for adaptation versus mitigation, and how public allocations would relate to ODA budgets. Confusion over these composition questions for the $100 billion has led to a something of a worst case outcome, since it has focused debate on a spending level that is dramatically sub-scale in terms of addressing the climate challenge, especially in the infrastructure-linked mitigation efforts. The negotiations for climate finance will proceed on their own track, but in light of the deeply interwoven practicalities of climate and development finance, Addis could be an occasion to agree to relevant accounting protocols, with explicit distinction between adaptation and mitigation.

Specifically, mitigation finance should be additive and separate from ODA. This is for two reasons. First, the greatest quantitative needs for mitigation finance are in the fast-growing emerging middle-income economies that are on track to contribute the greatest increments in greenhouse gases. For example, India, Indonesia and Brazil have been the largest recipients of fast-start financing since they have the greatest scope for mitigation (Table 3). For these and other countries with similar financing challenges, mitigation finance could also come

through advantageous rates in non-concessional public lending, although ODA might be merited for supporting project preparation.

Table 3: Top 20 Recipients of Climate "Fast Start" Finance and of ODA

Climate Fast Start Finance				ODA		
		Total FSF 2010-2012	Share of total FSF (%)		ODA commitments (const 2012 USD) 2010-2012	Share of total ODA commitments (%)
1	**India**	5,610	17.6	**India**	21,011	4.8
2	**Indonesia**	2,696	8.5	Afghanistan	20,861	4.8
3	**Brazil**	1,611	5.1	**Vietnam**	15,452	3.6
4	**Vietnam**	1,042	3.3	**Pakistan**	12,835	3.0
5	Kenya	918	2.9	Congo, Dem. Rep.	12,163	2.8
6	**Peru**	509	1.6	Kenya	11,701	2.7
7	**Thailand**	469	1.5	Ethiopia	11,253	2.6
8	**Philippines**	402	1.3	Bangladesh	11,058	2.6
9	**Egypt**	386	1.2	**Turkey**	9,404	2.2
10	**Pakistan**	378	1.2	Tanzania	8,309	1.9
11	Malawi	376	1.2	Haiti	7,871	1.8
12	Bangladesh	357	1.1	**Morocco**	7,488	1.7
13	**South Africa**	295	0.9	**Indonesia**	6,818	1.6
14	Tanzania	260	0.8	**Jordan**	6,810	1.6
15	**China**	244	0.8	**Egypt**	6,781	1.6
16	**Uzbekistan**	239	0.8	**Nigeria**	6,646	1.5
17	Afghanistan	237	0.7	**West Bank & Gaza**	6,627	1.5
18	**Mexico**	233	0.7	Mozambique	6,065	1.4
19	Ethiopia	223	0.7	China	5,931	1.4
20	**Honduras**	202	0.6	Iraq	5,789	1.3

Source: Nakhooda et al. (2013 and OECD 2014). Middle-income countries (2014 classification) are indicated in bold.

Meanwhile, adaptation will in most cases be more naturally integrated with ODA. For example, low-income Sahelian countries in Africa face major climate challenges that can best be addressed through efforts to support irrigation and drought-resistant agricultural technologies. Grants to support such agricultural efforts should be counted as ODA and also, where appropriate, tagged as adaptation. A different adaptation priority is exemplified in the many parts of Asia that face enormous flood risks. These countries similarly deserve external support to expand, for instance, flood-resilient agriculture and urban infrastructure. But the middle-income countries in this region would receive the support through loans provided on advantageous terms, rather than grants.

As far as possible, adaptation grants could be targeted to low-income countries—LDCs and Small Island Developing States (SIDS) who are most in need of grant financing—while mitigation financing can be targeted to those countries where the greatest reductions in emissions are needed, countries that are often middle-income. High-income countries and development agencies could commit in Addis to provide mitigation finance through access to low-cost, publicly intermediated development credits, especially for middle-income countries with the capacity to repay credits. Innovation and the use of new technology will form an important component of climate mitigation, so investment credits could also be used to support these, in addition to grant finance for global research into decarbonization science.

Of course, substantial climate-related financing can also come from the elimination of unnecessary fossil fuel consumption and production subsidies, which amounted to $1.9 trillion per year in 2013, according to the IMF, when both direct and indirect subsidies are totaled.[viii] These funds cannot all be made directly available for development, and there remain issues with defining exactly what constitutes an indirect subsidy, but it is clear that rebalancing the playing field and changing incentives to reduce fossil fuel reliance would help unlock significant sources of finance.

7. **Commit to implement, by the end of [2016], synchronized global incentives to achieve, by 2020, $1 trillion per year in private investment towards low-cost, low-carbon infrastructure projects that are essential to support sustainable growth in all countries.**

Perhaps the foremost global SDG financing challenge is to ensure that the same energy systems needed to fuel long-term prosperity in emerging economies are also low-carbon energy systems. Under existing technology in most countries, the trade-off has been that low-cost energy tends to be high-carbon energy, and low-carbon energy tends to be high-cost. Public incentives are essential to remove that trade-off for private investors. Since most power plants have roughly a 30-year life span, it is imperative that such incentives be in place well before 2020 if the world is to decarbonize its energy systems by the necessary amounts by 2050.

The multilateral development banks have a special leadership role to play on this dimension, since they provide much of the financing leadership for infrastructure. In practical terms, they need to take on more risk; invest in project preparation and the development of bankable projects; help build teams on the ground in priority countries; and ensure projects are moving within timeframes consistent with SDG achievement by 2030. Safeguards, for example, still present major barriers to timely implementation. At the moment a hydro project can take seven years from concept to approval and then another seven years for construction. This would imply that new projects conceived in 2015 or 2016 would not even begin operating until the 2030 SDG deadline is reached.

To provide a sense of the needed scale, the number of large infrastructure projects in developing countries has risen dramatically in recent years. Over 20 projects worth at least $1 billion each are already being considered across developing countries, in addition to many smaller ones. McKinsey has estimated that the need for incremental infrastructure spending in developing and emerging economies could top $1 trillion per year on average between now and 2030. This figure has been confirmed in independent analyses by the World Bank, Swiss Re and the International Institute for Finance. Banks that do a good job at managing the specific informational

requirements of a project deal have traditionally provided about two-thirds of the needed project finance. But just at the time when needs in many developing countries are crystallizing and also growing in volume, banks are being forced by regulatory changes like Basel III to deleverage, reduce risk, and raise capital. These trends are already apparent in reduced participation of European banks in project finance in developing countries.

Given the findings that most mitigation projects result in national economic benefits as well as global benefits—for example in tourism, ecosystem services, water quality, air quality and health impacts—funding the global externality through grants may not be necessary. What is important is to ensure that these countries have sufficient access to capital at reasonably low cost to allow them to invest in low-carbon technologies. This can be achieved through the provision of low-interest public official finance (bilateral and multilateral) as well as through grant assistance.

The juxtaposition of significant liquidity in high-income countries, on the one hand, and massive demand for infrastructure investments in developing countries on the other hand, has prompted a search for more efficient mechanisms for intermediation, with considerable effort being expended by multilateral development banks, the G-20, investment houses, the Long-Term Investors Club, and independent expert groups like the G-30. Several initiatives have already been adopted, but it would be useful for Addis delegates also to identify what more can be done, given the dimensions of the problem. The key is affordability of a package of finance. To get to $1 trillion per year, it is clear that ODA will have to be more catalytic, and also that public non-concessional funding will be needed to complement private capital to ensure that debt levels and creditworthiness risks do not rise too far.

There is no consensus on what needs to be done, nor much credibility to the notion that a single silver-bullet idea will be sufficient. Broadly, there is a spectrum of views. At one end is the belief that sufficient finance exists, but that there is a shortage of bankable deal flows. The World Bank has introduced a Global Infrastructure Facility (GIF) with the specific objective of addressing this constraint by providing integrated technical and advisory assistance for project identification as well as for regulatory and institutional strengthening and market development. The GIF will explicitly seek to catalyze private financing by identifying risk-mitigating instruments that may be desirable and by identifying appropriate financing packages, but the facility does not seek to provide infrastructure financing itself.

At the other end of the spectrum is the view that access to long-term capital under suitable terms is necessary, particularly for the public side of public-private partnerships. This view starts with the recognition that the public sector provides the bulk of infrastructure finance, even in high-income countries, where the public funding ratio is typically between 50-65 percent of infrastructure financing. It then identifies constraints to public finance as the limiting factor. The emergence of the BRICS' New Development Bank, the announcement of an Asian Infrastructure Investment Bank, and other similar mechanisms are evidence of how to translate this thinking into concrete actions.

An important and useful contribution of the Addis conference is to acknowledge that all these innovations are useful steps forward; that the key issues are to ensure complementarity rather than competition between different infrastructure financing agencies; and to promote a better global environment for infrastructure finance, including through harmonized practices and streamlined safeguards to the extent possible. All countries could

indicate their willingness and desire to prepare National Infrastructure Plans, for example, to identify high-priority national investments as a signal to private investors and development banks. These could be directly linked to the national climate action plans that countries committed to present at the Lima climate conference in December 2014, with a deadline of March 2015.

Other forms of collaboration in improving the global market for infrastructure finance could also be signaled. For example, the International Accounting Standards Board and other standard-setting groups could be asked to assess how international financial reporting standards might work in the case of infrastructure investments. Transparent sharing of information between development banks could promote knowledge exchange and harmonization of environmental and social standards. Development banks could indicate implicit shadow prices to be used in cost-benefit analysis for low-carbon investments. They could leverage their resources through aggressive use of risk-mitigation instruments to crowd-in private finance, or by adopting explicit leverage targets to prompt management to work harder to pursue hybrid public-private financing structures. High-income countries could start to develop an asset class for infrastructure funds in their own countries in which pension funds and other long-term investors could invest and that could, in turn, provide benchmark pricing that would facilitate infrastructure investments in developing countries.

8. **Establish, by the end of [2016], common regional standards and incentives to promote social impact investing worldwide, and agree on voluntary targets for foundations and philanthropies to allocate a common share of their balance sheets towards impact investments.**

Social impact investing is a relatively new but rapidly growing phenomenon worldwide. Defined as investments that generate social and environmental returns as well as financial returns, impact investing is about harnessing the power of innovation and entrepreneurship to solve social problems. It lies in the continuum between private philanthropy and sustainable investment, where the latter refers to investments that also consider environmental, social and corporate governance issues, but without necessarily specifying specific outcome targets along these dimensions.

Already asset managers with control of more than $45 trillion in funds have signed onto the United Nations Principles for Responsible Investment, suggesting the potential size of this market, which could unleash a change in business-as-usual in both developed and developing countries. The issues tend to be regulatory rather than the provision of more capital. However, once social impact investing takes hold, it is probable that significant flows will be channeled to emerging and developing countries simply because the social and environmental returns available there tend to be large. An added attraction of social impact businesses is that they can be labor intensive. In some countries, 10 percent of jobs are already in the social enterprise sector.

Social impact investing has been maturing under the guidance of private business and philanthropies, but has now also received the attention of governments. The G-8 have endorsed a program of reforms in their own countries to scale up the sector. A synthesis report issued by the U.K. chair of the G-8 in September 2014 calls for three changes: (1) legal and regulatory reform; (2) provision of capacity-building grants and early stage seed capital to social impact businesses; and (3) broad use of outcome-based government commissioning. Each type of change can be usefully pursued in the international development sphere as well.

A Global Innovation Fund was launched in September 2014 by a partnership between the governments of the U.S., U.K., Sweden and Australia, in collaboration with the Omidyar network. The aim is to pilot social impact investing and to identify the role that public money can play in promoting such businesses. Lessons learned should help bring this and similar funds to scale.

At Addis, governments could commit to identifying and implementing legal and regulatory reforms to promote social impact investing, and review their procurement practices to identify opportunities for commissioning and rewarding businesses for successful achievement of quantifiable social outcomes. Rich country governments, in particular, could commit to review fiduciary responsibilities of asset managers to ensure that unintended barriers to social impact investing are not erected. Foundations and philanthropies could determine the merits of committing themselves to fixed targets for their funding allocations over time—in terms of both their balance sheet investments and their philanthropic disbursements—in order to guide the further development of the market and to encourage more social entrepreneurs. All of these steps could be taken before a deadline of end-2016.

9. **Commit to establish, by the end of [2017], "generally accepted sustainable development accounting principles," with endorsement from the world's top 20 institutional investors, including sovereign wealth funds and pension funds.**

While acknowledging the role that private finance must play in financing the SDGs, it is equally important to demonstrate that private enterprises, especially large multinational corporations and extractive industries, have clear guidelines for taking responsibility for their sustainable development impacts within their business lines and throughout their supply chains.

All development actors should have a code of conduct, or guiding principles, for which they are prepared to be held accountable. This should include common reporting standards for energy efficiency, workforce conditions, and environmental footprint. The DAC countries have a longstanding practice of identifying and updating best practices for effective provision of ODA. So-called South-South cooperation initiatives have their own set of guiding principles, based on respect for national sovereignty, mutual benefit, national ownership and non-conditionality, among others. Civil society organizations have developed the Istanbul principles for effective development cooperation. But businesses, in the form of the U.N. Global Compact, have focused more on voluntary "negative filters" of what they will not do (abuse human rights, discriminate, participate in extortion and bribery, etc.) than on quantifiable positive filters of what they are committed to do to promote sustainable development.

Many global multinational companies have already undertaken to voluntarily prepare some form of sustainability reporting as part of their ongoing business practices. The business community could be asked to develop a set of guiding principles on good business practices for sustainable development that any company could voluntarily pledge to abide by in Addis. One such good practice, for example, could be to establish a global partnership on anti-corruption investigations of large private corporations.

Moreover, business and government leaders could jointly commit, at Addis, to work with national accounting and regulatory bodies to develop standardized industry-level reporting practices by the end of 2017. These could be known as "GASDAP"—Generally Accepted Sustainable Development Accounting Principles—to update the traditional standards of "GAAP" (Generally Accepted Accounting Principles) and also the International Financial Reporting Standards that many countries have adopted in recent years. This would require buy-in from institutional investors like sovereign wealth funds and pension funds that sit at the top of the investor food chain.

Entities like the World Economic Forum or other business forums could serve an invaluable role by convening each of its industry groups to confirm industry-by-industry reporting standards by the end of 2016. Broadening the coverage to most major sectors and building momentum for large numbers of private businesses to voluntarily comply would be a significant accomplishment and a milestone in building trust between the business community and civil society around how to best achieve sustainable development objectives. The major accounting firms could jointly commit to produce standardized benchmarks for evaluating each industry, while competing on specific product lines and offerings of technical expertise. With the combination of industry standards, accounting standards, and regulatory standards all in place, a new norm of global corporate audits could have an implementation deadline for end-2017.

A new approach to corporate reporting could also build on initiatives like the Sustainability Accounting Standards Board and several industry associations that have been working to develop standards of responsible investing. There are some emerging norms for sustainable development of agricultural investment, sustainable palm oil, mining and mineral extraction, agricultural land purchases and the like. These can be encouraged over each business area linked to the SDGs.

For multinational enterprises, information contained in sustainability reporting should be disaggregated for each country of operation, rather than simply aggregating for the enterprise as a whole, in order to foster accountability at the country level. For example, it should be possible to identify taxes paid in each jurisdiction where the business operates. It would be especially useful if all G-20 countries would commit in Addis to tasking their multinational businesses (over a minimum size threshold to be determined) to report in a standardized way on their sustainable development impact.

What is the Process?

In order for the Addis conference to deliver, it will be necessary to have in place a process for arriving at consensus on the substance and language of agreements. There are many actors involved. The recommendations above highlight the need for action among governments, development agencies, private businesses, foundations, philanthropies and global professional bodies.

Time is short. Champions will be needed, both inside and outside of government. What is most important is a process that builds on the best ideas, that engages the necessary mix of influencers and decision-makers, that focuses on timetables, and that is transparent and consultative. All relevant actors should participate in Addis, including those that may not traditionally play a role in U.N. forums, such as municipalities. These actors should also be developing, in selected sub-groups, specific deliverables in each area, both for the financing commitments and the policy reforms that would unblock financing in their respective area.

Several important areas of finance have been left out of the preceding list because they do not meet the criteria laid out in the introductory section. Other creative solutions could potentially soon meet the criteria of being both immediately actionable and high-impact. For example:

- There might be targeted areas where **global institutional innovations** can jump from a general "proposal" status to an immediately "actionable" status. For example, there are growing calls for the Global Partnership for Education to be augmented into a goal-oriented Global Fund for Education. There have also been proposals for a Global Partnership for Agriculture. If key constituencies get behind these specific proposals, then they could rise to top-tier items for Addis agreement and launch.

- Another area that is ripe for innovation is the **financing of global public goods**, like ocean overfishing and biodiversity. All in the international development community seem to agree on the importance of addressing these issues, but there is systematic underfunding because of well-known free-rider problems. Yet something needs to be done. As an example, there are some new business models suggesting that protected areas can serve as fisheries generators with positive aggregate economic returns. Such models deserve risk capital to demonstrate their economic case and, if proven, merit scale-up through timetables that might be agreed in Addis, thus motivating specific protection targets within the SDGs themselves.

- **Financing to build resilience** and respond to the growing number of natural disasters is also central to the SDGs. However, much greater practical consensus is needed on what new and substantial actions need to be taken. The United Nations Central Emergency Response Fund has addressed the most pressing issues to provide immediate humanitarian relief. What remains is the hard work of trying to bridge and integrate the humanitarian and development communities, an important task but not easily actionable at a global conference.

- **Peacekeeping** is another area that is woefully underfunded, and not sufficiently integrated with development financing, despite the efforts of the Peacebuilding Commission following the 2005 U.N. World Summit, and even though it is likely to be central to achieving the SDGs. This, too, is politically complex territory on which consensus actions for Addis might not be easily agreed upon.

- There is scope for **regulatory coordination** on issues like lowering transactions costs for remittances, including through the use of mobile and digital currencies, while respecting the need to protect against money laundering and illicit flows. But finding the right balance remains elusive, and the impact of an agreement would be felt by a minority of countries.

It is no coincidence that almost half the nine key recommendations above involve private business in one form or another. Without the technology, resources, management effectiveness and innovation of private entrepreneurs, the call for a change away from business-as-usual in implementing the SDGs will be simply rhetorical. While national governments will be tasked with agreeing on the SDGs themselves, the private sector will be critical to implementation. Businesses and business groups should be given a prominent role in the lead-up to Addis to ensure their buy-in to the agenda.

Concluding Remarks

The Addis conference will consider a number of issues that together constitute the means of implementation for the SDGs. Policy reforms, financing, technology transfer, capacity building and systemic reforms are inter-related pillars of the means of implementation. This paper has focused exclusively on areas where there are large gaps in finance, which could be addressed in the near term, without intending to diminish the significance of the other issues. It also tries to package the recommendations on finance with policy changes that might be needed to ensure effective spending and a concerted approach to making progress on the identified sustainable development goals and targets.

Our intention here is to propose a select number of specific areas on which the international community can start to work immediately in order to deliver actionable agreements or voluntary commitments in Addis. With the likely expansion of the agenda from MDGs to SDGs, the scope of financing issues has also increased. It will need to be prioritized if progress is to be made. The intergovernmental committee of experts has delivered an outstanding report on the general contours of the global financing architecture, and has made multiple recommendations. This paper has tried to build on that work to develop an actionable menu of commitments that would achieve concrete steps forward on each of nine critical priorities. It will certainly not be the last word on this subject, but to the best of our knowledge it is among the first attempts to put on paper what the contours of a successful outcome at Addis in July 2015 might look like. We hope this paper fosters debate and helps to begin setting the agenda, but our purpose is not to offer, at this preliminary stage, balanced recommendations. That will come later in the intergovernmental negotiations.

Endnotes

i. Report of the Intergovernmental Committee of Experts on Sustainable Development Financing, A/69/315, 15 August 2014

ii. "Individually consumed goods" provided by the public sector is a category defined by the International Comparison Program in their report *Purchasing Power Parities and the Real Size of World Economies*, available at http://siteresources.worldbank.org/ICPEXT/Resources/ICP-2011-report.pdf. This categorization is broader than the specific targets of the SDGs, but is used here to represent an integrated funding envelope that would ensure that countries have the resources to achieve SDG targets. Of course, achievement of targets depends on public policies and the effectiveness of spending as well as on resources.

iii. Homi Kharas, Annalisa Prizzon and Andrew Rogerson, 2014, "Financing the Sustainable Development Goals: A Rough Roadmap," Overseas Development Institute.

iv. OECD DAC Table 2b "Other Official Flows, Net Disbursements" http://stats.oecd.org/Index.aspx?datasetcode=TABLE2B.

v. John W. McArthur, 2014, "Seven Million Lives Saved: Under-5 Mortality Since the Launch of the Millennium Development Goals." Brookings Global Economy and Development Working Paper 78.

vi. See chapter 17 of the U.N. Millennium Project's 2005 final report, *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals*. Available at www.unmillenniumproject.org.

vii. Raj Desai, "Social Policy and the Elimination of Extreme Poverty," in Homi Kharas et al. eds. (forthcoming) *The Last Mile in Ending Extreme Poverty*.

viii. IMF, 2013, "Energy Subsidy Reform—Lessons and Implications." Note these estimates pre-date the recent collapse in oil prices.