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Report of the Intergovernmental Group of Experts on Financing for Development on its first session

Held at the Palais des Nations, Geneva, from 8 to 10 November 2017

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Introduction

The first session of the Intergovernmental Group of Experts on Financing for Development was held at the Palais des Nations in Geneva from 8 to 10 November 2017.

I. Action by the Intergovernmental Group of Experts on Financing for Development

A. Financing for development: Issues in domestic public resource mobilization and international development cooperation

Agreed policy recommendations

The Intergovernmental Group of Experts on Financing for Development,

Recalling General Assembly resolution 70/1, “Transforming our world: the 2030 Agenda for Sustainable Development”, of 25 September 2015,

Recalling also General Assembly resolutions 68/204, 68/279, 69/208, 70/192 and 71/217, on the follow-up to and implementation of the outcomes of the International Conferences on Financing for Development, and General Assembly resolution 70/299 on the follow-up and review of the 2030 Agenda for Sustainable Development at the global level,

Reaffirming General Assembly resolution 69/313 of 27 July 2015 on the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, which is an integral part of the 2030 Agenda for Sustainable Development, supports and complements it, helps to contextualize its means of implementation targets with concrete policies and actions, and reaffirms the strong political commitment to address the challenge of financing and creating an enabling environment at all levels for sustainable development in the spirit of global partnership and solidarity,

Recalling the Nairobi Maafikiano,[*] where member States reiterated their will to strengthen the role of the United Nations Conference on Trade and Development (UNCTAD), in implementation of financing for development and the 2030 Agenda for Sustainable Development, as the focal point within the United Nations system for the integrated treatment of trade and development and interrelated issues in the areas of finance, technology, investment and sustainable development,

Recalling also paragraph 100(r) of the Nairobi Maafikiano, which called for the establishment of an intergovernmental group of experts on financing for development,

1. *Recognizes* the need to continue the important work of UNCTAD on financing for development, so as to enhance its ability to support developing countries;

2. *Recalls* that the United Nations, on the basis of its universal membership and legitimacy, provides a unique and key forum for discussing international economic issues and their impact on development, and reaffirms that the United Nations is well positioned to participate in various reform processes aimed at improving and strengthening the effective functioning of the international financial system and architecture, while recognizing that the United Nations and the international financial institutions have complementary mandates that make the coordination of their actions crucial;

[*] TD/519/Add.2.

3. *Reiterates* that effective taxation is critical in the mobilization of resources for the implementation of the Sustainable Development Goals and overall economic advancement of developing countries, including addressing tax avoidance, illicit financial flows and the activities that underlie their occurrence, such as tax evasion, illegal exploitation of natural resources, corruption, embezzlement and fraud;

4. *Recognizes* that illicit financial flows are estimated to amount to several times global official development assistance (ODA) and have a harmful effect on development and that measures to enhance the regulation of and transparency in the shadow and regular financial systems must therefore include steps to curb illicit financial flows, and the activities that underlie their occurrence, and ensure the return of illicit funds to the legitimate country of origin;

5. *Recognizes* the challenges of illicit financial flows have increased in scope and complexity, and underscores the need to harness the full potential of the existing institutional and policy frameworks as transformative instruments for the achievement of the Sustainable Development Goals;

6. *Stresses* the need for redoubling of efforts to substantially reduce illicit financial flows by 2030, eliminating them, including by combating tax evasion and corruption through strengthened national regulation and increased international cooperation, to reduce opportunities for tax avoidance and considering inserting anti-abuse clauses in all tax treaties, to enhance disclosure practices and transparency in both source and destination countries, including by seeking to ensure transparency in all financial transactions between Governments and companies, with respect to relevant tax authorities, and to make sure that all companies, including multinationals, pay taxes to the Governments of the countries where economic activity occurs and value is created, in accordance with national and international laws and policies;

7. *Recognizes* that the range of issues related to illicit financial flows**,** and the activities that underlie their occurrence including among others, crime-, corruption- and tax-related practices and their interrelatedness, makes illicit financial flows a complex subject, and stresses therefore the need for transparent and comprehensive statistical indicators to estimate and typify illicit financial flows;

8. *Welcomes*, in this regard, the important work by UNCTAD, in cooperation with the United Nations Office on Drugs and Crime and other institutions, to develop a methodology to produce relevant indicators and estimates;

9. *Emphasizes* also the importance of continued efforts to ensure effective country-by-country reporting of relevant data, and takes note of the new Organization for Economic Cooperation and Development standards and related work in this regard, as well as the illicit financial flow vulnerability measures developed by the High-level Panel on Illicit Financial Flows from Africa;

10. *Recognizes* that, while each country is responsible for its tax system, it is important to support efforts towards strengthening technical assistance and enhancing international cooperation and participation in addressing international tax matters, including in the area of double taxation;

11. *Recognizes* the need for the strengthening of international tax cooperation through inclusive, participatory, broad-based and enhanced dialogue among national tax authorities and greater coordination of the work of the multilateral bodies and relevant regional organizations concerned, giving special attention to the needs of developing countries and countries with economies in transition;

12. *Reiterates* that current initiatives to enhance tax cooperation and combat illicit financial flows, and the activities that underlie their occurrence, should be inclusive with regard to the participation of developing countries;

13. *Recommends* to countries to increase external support to build capacity in the area of tax matters, including through ODA and the Addis Tax Initiative, as called for in the Addis Ababa Action Agenda;

14. *Requests* UNCTAD to continue its work on illicit financial flows, including the activities that underlie their occurrence, and taxation issues, with a view to facilitating more equal participation for developing countries in the design of tax cooperation rules;

15. *Notes* the role that well-functioning national and regional development banks can play in financing sustainable development, particularly in credit market segments in which commercial banks are not fully engaged and where large financing gaps exist, based on sound lending frameworks and compliance with appropriate social and environmental safeguards;

16. *Reiterates* the invitation to multilateral development banks and other international development banks to continue providing both concessional and non-concessional stable, long-term development finance by leveraging contributions and capital and by mobilizing resources from capital markets, and stresses that development banks should make optimal use of their resources and balance sheets, consistent with maintaining their financial integrity, and should update and develop their policies in support of the 2030 Agenda for Sustainable Development, including the Sustainable Development Goals, as appropriate;

17. *Urges* multilateral donors, and invites international financial institutions and regional development banks, to review and implement policies that support national efforts to ensure that a higher proportion of resources reaches women and girls, in particular in rural and remote areas;

18. *Welcomes* the establishment of new multilateral and regional development banks in the global development finance architecture, and encourages enhanced regional and subregional cooperation, including through regional and subregional development banks, commercial and reserve currency arrangements and other regional and subregional initiatives;

19. *Recognizes further* that international public finance plays an important role in complementing the efforts of countries to mobilize public resources domestically, especially in the poorest and most vulnerable countries with limited domestic resources, and that both public and private investment have key roles to play in development financing including through development banks, development finance institutions and tools and mechanisms such as public–private partnerships and blended finance;

20. *Stresses* that the fulfilment of all ODA commitments remains crucial; ODA providers have reaffirmed their respective ODA commitments, including the commitment by many developed countries to achieve the target of 0.7 per cent of gross national income for ODA (ODA/GNI) and 0.15 to 0.20 per cent of ODA/GNI to least developed countries, and urges all others to step up efforts to increase their ODA and to make additional concrete efforts towards the ODA targets;

21. *Emphasizes* in particular the need for clear and separate accounting of the longer-term costs and benefits of different types of financial flows and financing instruments, and of their true developmental impact, in any modernized ODA measurement;

22. *Stresses* that, while blended finance instruments can serve to lower investment specific risks and incentivize additional private sector finance across key development sectors led by regional, national and subnational government policies and priorities for sustainable development, careful consideration should be given to the appropriate structure and use of blended finance instruments to ensure that projects involving blended finance, including public–private partnerships, should share risks and rewards fairly, include clear accountability mechanisms and meet social and environmental standards;

23. *Emphasizes* the need for a common understanding of blended finance to serve as a basis for a transparent and clear reporting system, and calls on UNCTAD and other organizations working on development finance to provide, within available resources, more substantial analyses of the effectiveness of blended finance tools in mobilizing private capital for long-term productive investment in developing countries;

24. *Emphasizes* the need to foster effective interaction between UNCTAD and other agencies, international organizations, intergovernmental groups, processes and arrangements addressing development finance, development cooperation, global economic governance and other systemic issues;

25. *Recommends* that the outcome of the work of this Intergovernmental Group of Experts be presented, through the Trade and Development Board, as a regular input to the Economic and Social Council forum on financing for development follow-up.

Closing plenary meeting
10 November 2017

B. Other action taken by the Intergovernmental Group of Experts on Financing for Development

Agreed policy recommendations

1. At the closing plenary meeting of the Intergovernmental Group of Experts on Financing for Development, on 10 November 2017, adopted the agreed policy recommendations that were prepared drawing from discussions at the session, in accordance with its terms of reference,[1] for the consideration of the Trade and Development Board (see chapter I, section A, above).

Topics and guiding questions

2. Also at its closing plenary meeting, taking into account the report of the Inter-Agency Task Force on Financing for Development and guided by the deliberations of the Economic and Social Council forum on financing for development follow-up, the Intergovernmental Group of Experts adopted the topics and guiding questions for its second session (see annex I).

II. Chair’s summary

A. Opening plenary

3. In her opening remarks, the Deputy Secretary-General of UNCTAD recalled the vision of member States agreed for UNCTAD on implementation of the Addis Ababa

[1] TD/B(S-XXXI)/2.

Action Agenda and the 2030 Agenda for Sustainable Development following the fourteenth session of the United Nations Conference on Trade and Development. The financing for development process was a core part of the United Nations development pillar, reaffirmed at Addis Ababa in 2015, but with its roots in the 2002 Monterrey Consensus and the 2008 Doha Declaration. Thus, the Intergovernmental Group of Experts on Financing for Development was a direct response by member States to the call in paragraph 88 of the Addis Ababa Action Agenda to strengthen the role of UNCTAD as the focal point within the United Nations for the integrated treatment of trade and development and the interrelated issues of finance, technology investment and sustainable development. The session was timely in the context of the challenges in establishing the multilateral approach needed to deliver effective development finances for implementation of the Sustainable Development Goals. Though the global economic outlook appeared more positive since the start of 2017, the global macroeconomic environment remained unfavourable to efforts to scale up development finance and questions remained about the longer-term sustainability of growth.

4. In that context, developing countries faced challenges such as a net outflow of capital, low commodity prices and external shocks threatening the sustainability of recent borrowing (and thus the ability to mobilize domestic resources for long-term development goals), given their recent integration into volatile financial markets. Improving external debt sustainability and preventing financial crises were fundamental to the Addis Ababa Action Agenda, as was the need to improve the quality and availability of data and methodological issues related to data on areas such as illicit financial flows and blended financing instruments. The Intergovernmental Group of Experts on Financing for Development was ideally situated to embed the UNCTAD intergovernmental machinery in the financing for development process of the United Nations system, thus strengthening multilateral cooperation. Tackling systemic issues such as global economic fragilities, environmental challenges, especially during the twenty-third Conference of the Parties to the United Nations Framework Convention on Climate Change, and global economic governance reforms required enhanced policy coordination between developing countries and between developed and developing countries. As one of the five major institutional stakeholders in the financing for development follow-up and review process, for UNCTAD the session was an opportunity for increased cooperation between stakeholders and member States that allowed for an expert perspective on a range of development finance issues.

5. The Director of the UNCTAD Division on Globalization and Development Strategies noted that the Addis Ababa Action Agenda reflected that the world economy was facing serious challenges in the post-financial crisis period. In implicitly recognizing that the current growth model was unstable and unfair, it made clear that there needed to be discussion on reviving multilateralism and going beyond business as usual, with the aim of agreeing on and adopting policies for reaching a sustainable and inclusive growth path.

6. Though estimates of financial needs for achieving the Sustainable Development Goals varied greatly, there was broad consensus that the figure exceeded the funds currently available. While adequate and reliable financing was crucial for supporting development efforts and combating poverty, the procyclical bias of financial markets and unregulated financial flows had created an economic environment that was unstable and characterized by boom-and-bust cycles. Unchecked financial markets currently drove the real economy.

7. He noted that the current situation was not compatible with creating an enabling environment for achieving the Sustainable Development Goals, underscoring the urgency of continuing multilateral negotiations for promoting the creation of a stable and predictable financial system. Under current circumstances, developing countries found it difficult to create polices for building long-term productive capacities, as their growth

opportunities were presently too dependent on the macroeconomic policies of developed countries. The idea of decoupling between developed and emerging markets had never been convincing, and it was clear that either the whole world would grow together or the entire global economy would stagnate. Therefore, there needed to be greater coordination among policies at a global level, and international measures needed to be designed in a way that permitted achievement of national objectives for development.

8. Furthermore, to achieve an equitable international system that would benefit all, there needed to be greater input from developing countries to international discussions on economic policies, and the structure of representation and decision-making practices needed to be more reflective of the role played by developing countries in the global economy. UNCTAD had continuously made proposals to address those imbalances.

9. The representatives of some regional groups and some participants stated that, in that context, the establishment of the Intergovernmental Group of Experts on Financing for Development was one of the most important outcomes of the fourteenth session of the United Nations Conference on Trade and Development, as it strengthened the link between intergovernmental work in Geneva and New York.

10. The representative of one multilateral body explained that the annual report of the Inter-Agency Task Force on Financing for Development was the main substantive input to deliberations of the Economic and Social Council forum on financing for development follow-up. The five major institutional stakeholders of the financing for development process had a leading role in the preparation of the document, coordinated by the United Nations Department of Economic and Social Affairs. In addition, 50 United Nations agencies and other bodies were active members of the Inter-Agency Task Force. The 2017 annual report found that, while there was progress in all seven areas of the Addis Ababa Action Agenda, the global economic environment remained challenging, posing risks for future advancement.

11. One delegate noted that, under the current financial system, firms were incentivized to seek short-term profits rather than focus on long-term investments.

12. The representative of one regional group and the Chair noted that climate change adaptation represented a heavy fiscal burden for developing countries, and international solutions needed to be found to address those problems.

13. The representative of one regional group expressed support for UNCTAD work with the United Nations Office on Drugs and Crime on creating a better methodology for measuring illegal financial flows. It was recognized that the phenomenon was a significant threat for achieving the Sustainable Development Goals. The representative of one multilateral body noted that, by undercutting the national tax base, government revenues were consistently below their potential levels, thus undermining sovereign capacity to undertake national projects aimed at achieving the Sustainable Development Goals. Public finance was essential for achieving national development goals, and to achieve that, national tax systems needed to be strengthened and tax loopholes, closed. The representative of another regional group and the Chair acknowledged that fostering domestic resources and strengthening domestic capacity to fight tax evasion was important for achieving the Sustainable Development Goals, though it was equally important to expand international tax cooperation and coordinate the fight against illegal financial flows. The United Nations was an excellent venue for addressing those matters. The representative of one multilateral body noted that the Platform for Collaboration on Tax, comprised of the International Monetary Fund, the Organization for Economic Cooperation and Development, the United Nations and the World Bank Group, would hold its first global conference on taxation and the Sustainable Development Goals in February 2018.

14. The Chair pointed out that Latin America and Caribbean had seen an important increase in remittances over the last two decades, and that those private flows were supportive of social policies in Latin America. However, the United Nations should study the flows to provide a better understanding of the interrelationship between private and public financial flows in achieving the Sustainable Development Goals.

B. Financing for development: Issues in domestic public resource mobilization and international development cooperation

(Agenda item 3)

15. Under the agenda item, the Intergovernmental Group of Experts on Financing for Development held five panel discussions. The agreed policy recommendations were drawn from the discussions.

Development finance in the twenty-first century: Challenges and opportunities

16. During the first panel discussion, the five panellists set out the major challenges of financing for development, vis-à-vis the Sustainable Development Goals and the global economic and political context, which were to be examined further in subsequent discussions. Some panellists outlined policy strategies and prescriptions for developing countries and the international community, more generally, to address the most pressing challenges.

17. Panellists agreed broadly on the key challenge, in the face of sluggish global growth, of finding ways to stimulate demand in a sustained and sustainable manner and on the scale of the financing challenge to achieve the Sustainable Development Goals.

18. In terms of domestic resource mobilization, one panellist noted that there were several possible policies available to countries to increase demand, whether from exports, government spending (in particular through investing in green technologies), financial bubbles or income redistribution. Those possible policies, though, carried downside risks: export-led growth was not feasible simultaneously for all countries, government-led growth in turn led to increased public debt and potential balance of payments problems, financial bubbles eventually collapsed creating boom-and-bust cycles and income redistribution was a one-off policy that could not be used repeatedly over time.

19. Some panellists highlighted the need to balance export-led growth pragmatically with creating domestic demand and financing mechanisms. One panellist stressed the role of active fiscal policy over reliance on financial instruments only, particularly in relation to climate change considerations and public investments in clean energy. Use of financing instruments, such as the experience of Brazil with private–public partnerships, had had mixed results. They tended to work well in low-scale brownfield projects, such as maintenance of public facilities, but had not been successful in promoting large-scale greenfield investments which required higher demand certainty over a multi-year period and exchange rate stability.

20. Most panellists agreed that, for many developing countries, erosion of the fiscal base arising from profit-shifting by multinational corporations, combined with poor tax collection and poor law enforcement, significantly hampered using active fiscal policies to achieve the Sustainable Development Goals. Some panellists supported the establishment of a global financial register to track financial assets, measures in support of automatic tax information sharing, as well as renewed discussion on introducing a financial transaction tax. Those types of initiatives and other tax measures to improve equality could strongly stimulate growth, as it had been widely demonstrated that high levels of inequality hindered growth.

21. One panellist suggested there was a need for a United Nations panel on the impact of systemic financial risks on the real economy, in the same way that the Intergovernmental Panel on Climate Change had been created to address risks and vulnerabilities linked to climate change. Another panellist emphasized the need for developing countries to invest in their own monetary and financial systems and institutions to allow for stronger abilities for self-financing of demand and less reliance on foreign demand. The question also arose of whether a multipolar world could foster multiple independent "Marshall Plans".

22. On international development cooperation, one panellist insisted that a broad roll-back in global financial regulation and inward-looking policies were a threat to global growth and stability. The international community needed to address the "fortress mentality" by supporting and promoting multilateralism.

23. While there was broad agreement among panellists on the need to deliver on longstanding ODA commitments, one panellist noted that an important concern is the artificial inflation of ODA, for example, due to a surge in funds for settling refugees in donor countries. According to accounting rules for ODA, funds spent for settling refugees during the first 12 months after their arrival at a receiving country could be reported as development assistance, though most of those funds were spent domestically in the countries that hosted newly arrived refugees.

24. Another panellist drew attention to estimates that developing countries accounted for two thirds of the global infrastructure investment needed. Thus, bridging the infrastructure financing gap was critical to achieving the Sustainable Development Goals, as well as for combating the effects of climate change. Multilateral development banks needed to be further strengthened financially, while also adjusting methodologies used by international credit ratings agencies to better reflect the solid track record of multilateral development bank lending. Nonetheless, concessional finance would continue to play an instrumental role in a number of developing countries.

Illicit financial flows from developing countries

25. During the panel discussion, five panellists spoke on key issues raised by the illicit financial flows discourse, namely lack of an agreed definition, different kinds of illicit financial flows, questions of measurement and ways to operationalize target 16.4 under the 2030 Agenda for Sustainable Development. Introducing the topic, the moderator stressed the need to distinguish between relevant activities of multinational companies and criminal activities such as drug trafficking and arms dealing. While both sets of activities shifted financial resources away from public authorities, multinational company activities were still predominantly within the realm of what could be construed as legal. This, however, restricted countries' fiscal space and undermined their capacity to effectively implement the Sustainable Development Goal mandate.

26. While recognizing the problem of corruption and abuse of public office, panellists highlighted that the nature of illicit financial flows, especially as they related to the Sustainable Development Goals, was broader in scope and should include all forms of illicit flows that resulted from market/regulatory abuses, tax abuses, abuses of power (including theft of State funds and assets) and proceeds of crime. Despite the fact that market/regulatory abuse by multinational companies was the most frequent form of illicit financial flows (through the use of monopoly positions, location of intellectual property and transfer pricing), it was the least discussed within the illicit financial flow discourse. This was due to the widespread notion that the term "illicit" should refer to illegal activities per se. As a result, illicit financial flows were mostly considered to be illegal movements of money and capital from one country or another. The scale and scope of illicit financial flows through multinational company activities, though, were so large that they should comprise an integral part of discussions on illicit financial flows under the financing for

development umbrella, if the international community was to devise systemic and effective solutions to the problem. A better way to define illicit financial flows would be to take on board all hidden actions that resulted in socially unacceptable outcomes.

27. Panellists identified specific areas that were important to further the debate on illicit financial flows and their impact on developing countries. First, all multinational company activities should be included within the scope of discussions on target 16.4, given that tax avoidance and profit shifting were key reasons for revenue losses. Second, though illicit financial flows were also associated with illegal activities of transnational organized crime or State actions, it was difficult to narrow down channels that could be traced back to a specific kind of illicit financial flow. Third, there was a need for systematic data, especially on the different types of flows, and their differentiated impacts on countries. Finally, there was a need to promote systemic solutions to the issue of illicit financial flows, linked to increased influence of the private sector on the public realm, in all its dimensions, and to diminished policy space at the national level. Systemic solutions were important to ensure that developing countries did not lose critical revenues that should be mobilized domestically to finance development options.

28. Panellists suggested specific measures that could be adopted to tackle illicit financial flows. Among those measures were tax transparency (automatic exchange of financial information); country-by-country reporting by multinational companies (as required by the Organization for Economic Cooperation and Development) of their financial operations to avoid profit shifting; a requirement for tax havens to provide a public registry of all corporations, trusts and foundations present in their territory; a requirement for banks to register the information of corporations and individuals engaging in transactions with tax havens; and efforts to build the capacity of member States to effectively enforce financial and tax regulations at the national and international levels. Some representatives of civil society concurred on the massive scale of profit shifting by multinational companies that should form part of the discourse on illicit financial flows. They called for the adoption of measures at the regional level, on transparency and tax cooperation among other issues, and elimination of tax havens.

29. One delegate stressed that illicit financial flows and asset recovery were twin challenges that needed to be addressed to harness domestic resources for sustainable development and that illicit financial flows were a global problem that required global solutions. He highlighted ongoing national efforts in his country and through cooperation with like-minded countries to keep the issue on the international agenda. Another delegate noted the timeliness of and need for the discussion on illicit financial flows in the context of financing for development, which was particularly necessary to ensure the effective implementation of the Sustainable Development Goals. He called for enhancing existing estimates on illicit financial flows to highlight the magnitude of the problem at the global level and emphasized the need for global action. Another delegate compared the current situation and the environment created by the Bretton Woods institutions, stressing the need to adopt joint policies to tackle the issue. The delegates called for joint action to strengthen capacity for tax collection, information sharing, capacity-building and reporting and repatriation measures aimed at promoting asset recovery of illicit assets in tax havens.

30. One representative of civil society called for upgrading the Committee of Experts on International Cooperation in Tax Matters to the level of intergovernmental subsidiary body of the Economic and Social Council of the United Nations. Another participant called for progress on creating a methodology for target 16.4. Panellists and many participants agreed widely on the need to hasten efforts on methodological definitions and data collection to strengthen State capacity against illicit financial flows and on a call for the establishment of a United Nations body to effectively coordinate efforts at the global level to tackle illicit financial flows.

Domestic taxation frameworks and international tax cooperation

31. At the third panel discussion, panellists discussed elements of the domestic fiscal and international tax frameworks that constrain national revenue collection and financing for development. For example, employment creation was also essential in improving domestic fiscal space as economies with high or full employment generated higher revenues than economies facing significant structural unemployment. By contrast, tax holidays and policies to reduce corporate taxation were not conducive to growth and development since the predominant constraint on global growth, insufficient aggregate demand, was typically aggravated by contractionary fiscal policies, including fiscal austerity.

32. Panellists considered sectoral transformation of production structure one of the main vehicles for promoting both employment and fiscal revenue generation and agreed generally agreement that structural transformation had to be State-led. Governments, however, faced a range of constraints on the use of expansionary fiscal policies. While panellists differed on the nature of those constraints, they agreed generally that: greater fiscal space was dependent on coordinated policies for macroeconomic management of international capital flows to reduce volatility; more effective international tax cooperation was a core determinant of effective policies to reduce tax evasion at the national level; and international tax competition resulted in a damaging race to the bottom, further reducing the fiscal space of developing countries. Some delegates emphasized that domestic tax policies could have only partial impact given a context in which international entities, such as international corporations, and migrant workers were factors.

33. Some panellists and delegates raised concerns regarding the negative impact that long-term downward trends of prices of many commodities had on public revenues in developing countries. One panellist added that some advances were made between 2010 and 2015, with regard to increasing ratios of gross domestic product (GDP) to revenue, thanks to hard-won domestic reforms, particularly in Latin America. One delegate emphasized the need to capture value from real estate and urban development. At the domestic level, the formal sector was seen as the area of major tax evasion, with the informal sector, though significant, playing a secondary role. Panellists mentioned that there remained excessive reliance on indirect taxes, which were distributionally regressive, particularly as direct taxation remained very weak, and increases in effective direct taxation at national levels were frequently met with shifts in corporate tax strategies that allowed for continued evasion.

34. Several panellists and delegates emphasized that, while greater transparency created trust between citizens and their Governments, global policy frameworks and multilateral institutions were needed to ensure effective responses to corporate tax evasion strategies, for example through bilateral tax treaties. Tax competition in the form of such treaties led to revenue loss for all countries as a whole and that required a collective global-level response. In addition to reducing corporate tax evasion, international frameworks were also needed to address contractionary bias in existing adjustment mechanisms of balance of payments by promoting countercyclical fiscal policy measures.

35. One panellist regretted the shift in multilateral financing arrangements from the focus in the 1960s on grants to the current emphasis on loans, which had had significant consequences for State finances in many developing economies. Private transfers created stocks of debt that required repayment, and interest on loans should be repaid with hard currency earned by exports. The shift had altered the way countries pursued development, mainly by allowing private sector transfers to shape sectoral production and employment priorities.

36. Some delegates emphasized that the ability of countries to act in isolation was limited. Active exchange of information was vital to protect a country's own tax base.

37. Panellists and some delegates saw South–South cooperation as a key institutional arrangement for increasing overall tax coverage. Some delegates referred to the eleventh session of the United Nations Conference on Trade and Development and the Addis Ababa Action Agenda as examples of important existing institutional efforts that could be further developed to increase cooperation and improve tax coverage.

38. One delegate raised the question of how best to coordinate efforts throughout the United Nations system to strengthen international oversight and monitoring of tax issues. The UNCTAD secretariat highlighted its role as focal point for South–South statistics, while several delegates and panellists stressed that it was important to resist squeezing South–South cooperation into existing Organization for Economic Cooperation and Development frameworks.

The role of development banks in improving domestic public resource mobilization and international development cooperation

39. During the panel discussion, panellists highlighted the important and catalytic roles of national development banks in the mobilization of domestic public resources for sustainable development of developing countries, usually by directly filling financing gaps avoided by private financial institutions, such as those involving large-scale infrastructure projects with long maturation periods that required long-term finance. National development banks also played the role of brokers between Government and the private sector, taking risks and investing in areas where the private sector was unwilling to undertake investment projects alone.

40. Panellists also noted that, given the long-term horizon of their investments, national development banks were well placed to provide financing instruments that improved longer-term risk sharing between creditors and borrowers at lower rates than the market as they benefited from some government subsidies. One delegate mentioned the role of national development banks in providing countercyclical support and funding support to distressed businesses in times of economic downturn. Examples of other benefits of national development banks were their contribution to investment in fixed capital and job creation in developing countries. Another delegate pointed out that national development banks were capable of mobilizing domestic "patient capital" (long-term capital) and achieving economies of scale by bundling together loans to fund large, viable projects for delivery of public goods.

41. Panellists also discussed some challenges that national development banks faced, and core success factors, based on the experiences of China, India, Nigeria and South Africa. They noted the importance of getting the governance structure right as a critical factor in the success of national development banks, in addition to strong political support and aligning their mandates with the development strategies of their countries. The success of national development banks could also be constrained by weaknesses in development policies. Some participants were concerned about risks of financial compliance and high leverage, as national development banks were not subject to the same regulations and supervision as commercial banks. Some participants also expressed concerns regarding impacts on the environment and sustainable development if loans from national development banks did not follow the same international environmental standards. One delegate suggested that national development banks could learn lessons from multilateral development banks.

42. Some panellists said that the scale of financing needs to support achievement of the Sustainable Development Goals were considerable and development banks, both national

and multilateral development banks, could thus be key players in development by providing long-term financing directly from their funding sources, tapping into new sources and leveraging additional resources, including private, through co-financing of projects with other partners. The national development banks of China and South Africa were given as examples of the wider mandate and collaboration of national development banks, at the regional and multilateral levels, with other regional or multilateral development banks. National development banks could help fill financing gaps at the regional level and help fund economic development in other countries as part of a broader South–South development cooperation strategy. One delegate mentioned that national and multilateral development banks could play the role of a knowledge hub in helping developing countries to build capacity in long-term planning and development strategies.

43. Some panellists and participants noted that, though multilateral development banks could play a critical role in helping to address the need in low-income countries to access loans for financing long-term projects at subsidized rates, existing resources for concessional financing for development were insufficient to help countries achieve the ambitious Sustainable Development Goals and, therefore, there was an urgent need for new development finance sources and reforms of the governance structures of multilateral development banks that would allow for increases in their capital bases as well as for lower limits on lending capacities relative to existing capital bases. Recent developments, such as the New Development Bank and the Asian Infrastructure Investment Bank, were welcome steps in that direction. One panellist mentioned that the ownership structure of multilateral development banks had implications for, and influence on, the policy space of their member countries. Therefore, the governance structure of existing and new multilateral development banks should be inclusive and supportive of all developing countries.

Modernization of official development assistance and the role of blended financing instruments

44. Discussing recent trends and latest developments in ODA frameworks, panellists and many participants stressed that the landscape for financing for sustainable development was changing, including the unprecedented financing requirements. Panellists said that that called for a fresh approach with the right policy mix to finance sustainable development. Some panellists emphasized that ODA continued to play important roles in financing for development, in particular for the least developed countries that were more dependent on ODA as a source of financing for development and where tax bases were limited and public revenues fell far short of financing requirements. Thirty-seven least developed countries had ODA that made up more than 10 per cent of their gross domestic product. While it was recognized that resources had to be scaled up to address the development agenda and achieve the Sustainable Development Goals, the current level of ODA from donors remained far below the promised target of 0.7 per cent of GNI.

45. On problems and limitations of existing approaches to ODA measurement and ways to modernize those approaches, one panellist noted that, for example, a considerable part of ODA was currently spent in donor countries, such as in the form of donor costs (refugee-related), which accounted for 11 per cent of ODA in 2016. Double counting and additionality of climate finance with regard to existing ODA definitions were problem areas. One participant explained the Organization for Economic Cooperation and Development approach to modernization of ODA components, such as concessional loans, private sector instruments, peace and security, and donor costs, under the total official support for sustainable development framework. The aim was to take into account a more complete picture of resource flows to promote sustainable development in developing countries. Resource flows for South–South cooperation and development were important, but were not being well reflected to date. He proposed that UNCTAD take on the work, as its mandate positioned it well to work on South–South cooperation. One delegate raised the

issue of reconsidering existing eligibility criteria for middle-income countries to access concessional financing, such as ODA, in order to mitigate or avoid the so-called middle-income trap. Another participant suggested that ODA flows should receive the same treatment as fiscal transfers.

46. One panellist highlighted the role of blended financing instruments to help bridge the evident financing gap to achieve the Sustainable Development Goals. As mentioned in the Addis Ababa Action Agenda, blended finance was a mechanism that combined concessional public finance, including ODA, with non-concessional finance from either public or private sources to incentivize or leverage additional finance for development. Some panellists emphasized limitations of the approach, arguing that that implied use of public international finance to subsidize private investments. It was unclear whether that represented the best use of limited concessional financial resources such as ODA.

47. One panellist emphasized specific challenges on estimating the impact of blended finance on effective financial resource mobilization for development, such as the lack of a common definition of blended finance and a common methodology to measure the development impact of blended financing instruments. Another panellist raised similar concerns regarding total official support for sustainable development, and ODA modernization and additionality, with a view to ensuring consensus-building on a transparent measurement framework based on clear and separate accounting of the longer-term costs and benefits of different types of financial flows and financing instruments, and their true development impact. Continued additionality of conventional ODA and the potential risk of donor countries downsizing their aid allocations, by replacing ODA with other forms of financing under the total official support for sustainable development framework, could thereby further undermine compliance with the United Nations target of 0.7 per cent of GNI for ODA. One panellist noted that, apart from limited empirical evidence on and independent evaluation of blended finance projects, related concerns were the limits of a clear and substantial understanding of leveraging, both with regard to its financial as well as wider development roles and effectiveness. Overall, there was limited evidence that blending consistently leveraged additional finance. There was a risk that blended finance might create intended or unintended incentives that could steer blended finance in a given direction or divert public resources, such as ODA, from the intended core uses.

48. Panellists made recommendations to improve the use of blended financing instruments for development, among them, aiming for a common definition of blending to avoid confusion, possibly building on the five principles of blended finance of the Organization for Economic Cooperation and Development; improving reporting systems to avoid double counting in relation to ODA and blended finance; continuing efforts to develop a transparent and effective methodological framework to account for different types of financial flows for development; and ensuring independent evaluation and evidence on the development impact of blended finance.

49. Panellists and some participants agreed on and called for improved transparency on blended finance projects to better manage hidden contingent liabilities for both debtors and creditors. Some panellists highlighted that the terms of blended finance projects were often negotiated opaquely, under cover of existing contractual agreements, and were subject to confidentiality clauses. One delegate added that procedures for blended finance projects remained complex, acting as a barrier to accessing earmarked funds, while one panellist called for open and transparent contracting, stating that greater caution was needed in promoting public–private partnerships, to allow for proper assessments of the true costs of partnerships over their contractual lifetime.

50. Some panellist and participants raised the issue of ownership of the development agenda and questioned the complementarity of private sector interests with national

development priorities, reiterating concerns over donor-driven assistance. One participant mentioned the further complication of an observed historical shortening of loan maturities accompanied by higher debt servicing costs often not fully reflected in contractual arrangements. Some participants also expressed concern about the macroeconomic impacts of scaling up financing for development, including leveraging private investment finance, on the future of debt sustainability in developing countries. One participant noted that debt sustainability limits were complex to assess. Hidden contingent liabilities could not always be foreseen, and debt composition had become riskier when tied to private loans. One panellist mentioned the lack of an international debt restructuring mechanism when countries were in debt crises. The UNCTAD principles for promoting responsible sovereign lending and borrowing positioned UNCTAD well to take on that work.

III. Organizational matters

A. Election of officers

(Agenda item 1)

51. At its opening plenary meeting, on 8 November 2017, the Intergovernmental Group of Experts on Financing for Development elected Mr. Jaime Miranda (El Salvador) as its Chair and Mr. Mezgebu Amha Terefe (Ethiopia) as its Vice-Chair-cum-Rapporteur.

B. Adoption of the agenda and organization of work

(Agenda item 2)

52. Also at its opening plenary meeting, the Intergovernmental Group of Experts adopted the provisional agenda as contained in document TD/B/EFD/1/1. The agenda was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Financing for development: Issues in domestic public resource mobilization and international development cooperation
4. Adoption of the report of the meeting.

53. The representatives of some regional groups expressed concern that the agenda and the proposed programme for the first session of the Intergovernmental Group of Experts on Financing for Development should not prevent taking into due consideration the suggestions of experts in the preparation of the policy recommendations, in line with the Nairobi Maafikiano and the terms of reference. The representative of another regional group underscored the strengths of UNCTAD as the United Nations focal point for the integrated treatment of trade and development and interrelated issues, and noted that the terms of reference were very broad and other issues in them would be addressed at future sessions.

C. Adoption of the report of the meeting

(Agenda item 4)

54. Also at its closing plenary, the Intergovernmental Group of Experts authorized the Vice-Chair-cum-Rapporteur, under the authority of the Chair, to finalize the report on its first session after the conclusion of the session.

Annex I

Topic and guiding questions for the second session of the Intergovernmental Group of Experts on Financing for Development

1. Topic:

Debt and debt sustainability and interrelated systemic issues*

2. Guiding questions:

(a) How can current debt vulnerabilities in developing countries be mitigated and developing country sovereign debt and financial crises be prevented?

(b) How can sovereign debt financing, both external and domestic, be leveraged successfully for sustainable development in the future?

(c) What institutional, policy and regulatory changes are required at the international level to ensure that global economic governance structures better support the use of responsible debt financing, by borrowers and lenders, for sustainable development?

(d) How can existing frameworks and tools be improved to ensure effective, fair and transparent sovereign debt crisis resolutions?

* Action areas E and F of the Addis Ababa Action Agenda (see General Assembly resolution 69/313, annex, chapter II, *sections* E and F).

Annex II

Attendance*

1. Representatives of the following States members of UNCTAD attended the session:

Algeria	Kenya
Argentina	Kuwait
Austria	Lesotho
Bahamas	Madagascar
Bangladesh	Mexico
Belgium	Mongolia
Brazil	Montenegro
Bulgaria	Morocco
Canada	Namibia
China	Nepal
Czechia	Nigeria
Côte d'Ivoire	Panama
Djibouti	Philippines
Ecuador	Poland
Egypt	Russian Federation
El Salvador	Saudi Arabia
Estonia	South Africa
Ethiopia	Spain
France	Sudan
Georgia	Swaziland
Germany	Sweden
Guatemala	Thailand
Haiti	Trinidad and Tobago
India	Tunisia
Indonesia	United Kingdom of Great Britain and Northern Ireland
Iran (Islamic Republic of)	United Republic of Tanzania
Ireland	United States of America
Japan	Zambia
Jordan	Zimbabwe

2. Representatives of the following member of the Conference attended the session:

Holy See

3. Representatives of the following non-member observer State attended the session:

State of Palestine

4. The following intergovernmental organizations were represented at the session:

African, Caribbean and Pacific States
Common Market for Eastern and Southern Africa
Cooperation Council for the Arab States of the Gulf
European Union
Organization for Economic Cooperation and Development
Organization of Islamic Cooperation
South Centre

* This attendance list contains registered participants. For the list of participants, see TD/B/EFD/1/INF.1.

4. The following United Nations organs, bodies and programmes were represented at the session:

Department of Economic and Social Affairs
Economic Commission for Europe
Economic Commission for Latin America and the Caribbean
Economic and Social Commission for Asia and the Pacific
United Nations Institute for Training and Research
United Nations Office on Drugs and Crime

5. The following specialized agencies and related organizations were represented at the session:

International Labour Organization
International Telecommunication Union
World Bank Group
World Health Organization
World Tourism Organization

6. The following non-governmental organizations were represented at the session:

General category:

European Network on Debt and Development
International Centre for Trade and Sustainable Development
Oxfam International