

FINANCING FOR DEVELOPMENT

The challenge of implementing SDGs



Spring 2015

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The challenge of implementing SDGs

Development Policy Forum (DPF) Roundtable

Spring 2015
Brussels

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INTRODUCTION

Development financing should become more varied in the future, moving beyond aid from governments to include private investment and innovative financing, panellists told a Development Policy Forum roundtable on 5 March.

“The European Union should play its full part when it comes to ODA (Official Development Assistance),” said [Neven Mimica](#), European Commissioner for International Cooperation & Development. “At the same time, we want to be a leading voice in raising the global level of ambition – and encourage others to step up their contributions. Emerging economies and upper-middle income countries are increasingly supporting development through South-South cooperation.”

The roundtable, “Financing for Development”, came in a crucial year for international development. The third International Conference on Financing for Development, in Addis Ababa, Ethiopia, aims in July to produce an intergovernmental agreement on the future of development and how to finance it. Later this year, a new set of United Nations Sustainable Development Goals (SDGs) are set to be agreed.

“Emerging economies and upper-middle income countries are increasingly supporting development through South-South cooperation.”

[Neven Mimica](#), European Commissioner for International Cooperation & Development



These decisions take place amid a shift in economic power between donors and aid receivers, as many donor countries – such as Japan and the EU states – struggle with slow growth and pressures on national budgets. Meanwhile, some emerging economies can now contribute to development themselves, and money flows to developing countries have increased dramatically from private sources.

“ODA should act as a catalyst to mobilise various financial resources and knowledge,” said [Kunio Okamura](#), Senior Special Adviser at the Japan International Cooperation Agency (JICA) – “from inventing innovative financial instruments and creating enabling environments, to establishing a platform for global partnership among various actors.”

ODA is an essential source of funding for developing countries. For the least developed, it accounts for 70% of all funding coming in, as well as a third of all funding for public expenditure that is available to governments, said Haje Schütte, Head of the Development Finance Division at the Organisation for Economic Cooperation and Development (OECD). “ODA is also at a historic high,” he said: members of the OECD’s Development Assistance Committee (DAC) provided 120 bn euros in ODA in 2013.

“ODA should act as a catalyst to mobilise various financial resources and knowledge.”



[Kunio Okamura](#), Senior Special Adviser, Japan International Cooperation Agency (JICA)



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Despite their budgetary constraints, the EU and its member states increased their contribution to 0.43% of gross national income (GNI) in 2013, or about 57 billion euros, according to Mimica. He said the latest Eurobarometer report, in January, showed 67% of respondents in favour of an increase in EU aid to developing countries. “I am very encouraged by the strong support of EU citizens to our objectives,” said Mimica. “EU development assistance costs just 4 cents per day for each EU citizen.”

However, this still falls short of the commitment – made by at the 1970 UN General Assembly, and since reaffirmed by the EU – to give 0.7% of their GNI in aid. “At the best of times, when these countries were growing at phenomenal rates, they still did not make a move towards reaching this target,” said [Mxolisi Sizo Nkosi](#), South African Ambassador to the EU. “Increasingly there is a great deal of concern from developing countries that developed countries are abdicating their responsibilities.”

“Increasingly there is a great deal of concern from developing countries that developed countries are abdicating their responsibilities.”



[Mxolisi Sizo Nkosi](#), South African Ambassador to the EU

Added to budget pressures comes fatigue in rich countries. “Crises come and go and media attention changes,” said [Shada Islam](#), Director of Policy at Friends of Europe. “And with that, I have to say with some dismay, policymakers attention also is diverted.”

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also is diverted.”

[Shada Islam](#), Director of Policy
at Friends of Europe



[Pedro Silva Pereira](#), a Portuguese Member of the European Parliament and its Rapporteur on Financing for Development, said that the European Commission should lead by example in the world, and set out a timetable for achieving the 0.7% target. “The real problem is within the Council and the lack of commitment of a number of member states,” he said. “Name and shame is not the traditional way the Commission works. But at least it could confront member states with a proposal of a timetable and the monetary mechanisms.”

“The real problem is within the
Council and the lack of
commitment of a number
of member states.”

[Pedro Silva Pereira](#), Member of the European
Parliament Committee on Development and
Rapporteur on Financing for Development





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NEW EMPHASIS ON SUSTAINABILITY

Despite money shortages, ambitions for development have grown. The Sustainable Development Goals (SDGs), expected to be adopted by UN members later this year, will follow the Millennium Development Goals (MDGs) agreed in 2000, and will continue the MDGs' core aim of reducing poverty and its impacts. But the 17 SDGs will also emphasise broader aspects of economic development, such as human rights, gender equality and the environment.

"Quality of growth is fundamentally important," said Okamura of JICA. "Growth can widen disparities in a country, and one of the biggest threats is environmental destruction at global level."

Japan has been emphasising the importance of robust growth – in particular preparedness for natural and other disasters. "The experience of disaster-prone countries shows us that any achievements reached through international development cooperation can vanish in vain in a matter of moments," said [Keiichi Katakami](#), Ambassador of Japan to the EU.

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▲
Keiichi Katakami, Ambassador of Japan to the EU

The link between traditional development and the new goals can be seen in West Africa, where the Ebola outbreak highlighted the lack of healthcare infrastructure. Once Sierra Leone defeats Ebola, it will have get back to rebuilding a country damaged by more than a decade of civil war, said [Samura Kamara](#), the country's Minister for Foreign Affairs and International Cooperation. "You are transiting from a humanitarian emergency requirement, and you are now entering a normal development phase – the hardware of development: building roads, building sustainable energy."

Kamara said that all the new targets in the SDGs are essentially linked to the aim of ending poverty. "Goal number one is ending poverty," he said. "gender inequality, climate change, capacity development – all of these have to do with this goal number one."



From left to right: Heike Rüttgers, European Investment Bank (EIB); Tove Maria Ryding, EURODAD; Samura Kamara, Foreign Minister, Republic of Sierra Leone; Shada Islam, Friends of Europe

One reason to welcome the SDGs is that they apply to the planet as a whole. “The MDGs were related more to developing countries,” he said. “With the SDGs, we are saying all of us are part of the football team. So let us work as a team.”

The greater breadth of the new goals will also mean greater cost. [Yves Guicquéro](#), Head of the Aid Agenda and International Partners Division of the Agence Française de Développement (AFD), put the total cost of the SDGs at around \$1,500 bn per year. “This is 10 or 15 times the amount of available ODA,” he said.

This growing demand will exacerbate the problem of financing aid, said [Tove Maria Ryding](#), Policy and Advocacy Manager at the European Network on Debt and Development (EURODAD). “If you look at the SDGs, this is no longer only about ending poverty,” she said. “Suddenly we are also halting biodiversity loss and we’re combating climate change. Are you telling me that the 0.7% can cover all of this?”

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[Tove Maria Ryding](#), Policy and Advocacy Manager at the European Network on Debt and Development (EURODAD)



However, Guicquéro said that projects do not have exclusive goals, and the plan is not to take money from ODA and give it to climate change. Instead, the idea is to finance development projects that contribute to the climate. “There are not climate projects as such,” he said. “You have sustainable development projects that also bring benefits to the climate – investment in public transportation, energy efficiency, housing, energy distribution, waste management and so on. This investment leads to a reduction in greenhouse gas emissions.”

Some goals do not even involve money, said [Aiichiro Yamamoto](#), JICA's Representative to the EU, based at Friends of Europe. "There are some SDGs that really require something beyond financing," he said. "They are about values – universal rights, human rights, dignity, justice, gender, democracy. ODA has done relatively well at promoting visible public goods, such as health and education infrastructure. But these are invisible issues that we need to tackle in the post-2015 agenda."

It is also time to change the idea of "graduation" from ODA, said South African Ambassador Nkosi. Traditionally, this has been done by measuring a country's GDP per person. "It's just number crunching exercise," he said. "GDP growth does not translate into economic development. It does not translate into holistic development."

Some African countries have experienced fast economic growth, but are now going back to the International Monetary Fund and World Bank to ask for loans, Nkosi said. "We insist that the measure used should be the human development index, which is a combination of GDP plus social indicators such as access to education, health and sanitation."

"There are some SDGs that really require something beyond financing. They are about values – universal rights, human rights, dignity, justice, gender, democracy."



[Aiichiro Yamamoto](#), JICA's Representative to the EU



JICA's Initiatives

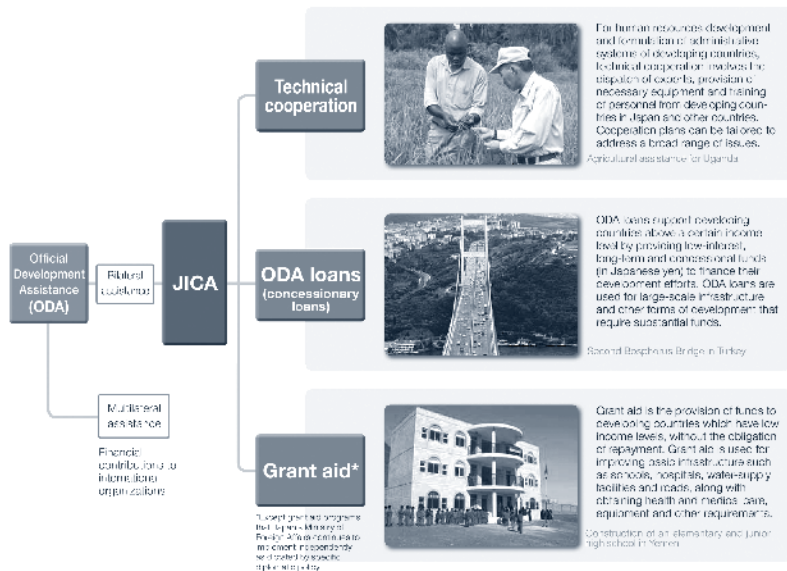
A Bridge Linking Japan with Developing Countries

JICA assists and supports developing countries as the executing agency of Japanese ODA. In accordance with its vision of "Inclusive and Dynamic Development," JICA supports the resolution of issues of developing countries by using the most suitable tools of various assistance methods and a combined regional-, country- and issue-oriented approach.

ODA and JICA

Since joining the Colombo Plan in 1954, Japan has been providing financial and technical assistance to developing countries through ODA, aiming to contribute to the peace and development of the international community and thereby help ensure Japan's own security and prosperity.

JICA is in charge of administering all ODA such as technical cooperation, ODA loans and grant aid in an integrated manner, except contributions to international organizations. JICA, the world's largest bilateral aid agency, works in over 150 countries and regions and has some 100 overseas offices.



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BLENDING

One way to maximise the effects of limited ODA is to use it as a lever – “blending” it with other forms of finance, or using it to catalyse further economic activity. Japan’s new Development Cooperation Charter lays out a more diverse development cooperation strategy, which aims to take advantage of synergy between ODA and non-ODA finance. In particular, it envisions a greater role for public-private partnerships, as well as roles for local government, universities and research institutions.

“Development challenges are becoming more diverse, complex and widespread,” said Keiichi Katakami, Ambassador of Japan to the European Union. “Japan has made it clear that it will promote a more diverse development cooperation strategy in order to contribute more proactively to the peace, stability and prosperity of the international community.”



Europe too wants to engage a greater range of actors to finance the new ambitions for development. “To implement such a broad agenda, ODA alone is obviously not enough,” said Commissioner Mimica. “We will also need to put greater focus on innovative financing instruments that can help to deliver assistance more effectively, raise more resources and leverage more private sector engagement. And we need to strengthen the capacity of developing countries so that they can rely increasingly on their own domestic resources.” The European Union has unlocked investments with an estimated volume of 40 billion euros in partner countries by combining grants with public and private financing, he said.

One example of leveraging is a new scheme run by the AFD in Jordan. Under SUNREF – Sustainable Use of Natural Resources and Energy Finance – the AFD gives loans at low rates through local banks for businesses and individuals to invest in renewables and buy energy-efficient equipment. The investments can reduce energy bills by 40%, said Guicquéro. The AFD sends experts to give advice, and the EU gives back 5% of the loan upon payment completion.

“ODA is scarce, so the challenge is to be able to target it in order to unlock investment decisions,” said Guicquéro – “and to catalyse other sorts of financing – whether that’s international, domestic, public, private, ODA or not-ODA.”

“ODA is scarce, so the challenge is to be able to target it in order to unlock investment decisions.”



Yves Guicquero, Head of Division, Aid Agenda and International Partners, Agence Française de Développement (AFD)

In other examples, European grants are triggering AFD concessional loans, which are complemented by loans made by domestic banks. “It is a self-financing investment,” said Guicquéro. “At the end of this mechanism, you have a 1.5 mn euro grant from the EU, a \$50 mn concessional loan from the AFD and 130 mn euros investment. This shows that you have this leverage effect, this catalysing effect, which is very important.”

From 2006 to 2013, the European Commission mobilised 1.5 bn euros in grants within these lending facilities. This leveraged 13 bn euros provided by institutions such as AFD, the German development bank KfW and the European Investment Bank (EIB). This helped finance 40 bn euros of investment.

The EIB mobilised 25 mn euros from the EU-Africa Infrastructure Trust Fund to help finance a new, 300 megawatt wind farm at Lake Turkana in Kenya – one of the biggest wind farms ever constructed. “That is not just a grant which we provided,” said Heike Rüttgers, Head of Division, Portfolio Management and Policy ACP at the European Investment Bank (EIB). “It is really managed by the EIB as a trustee. It is private sector compatible: it is not just putting grant money on the table. I think that’s the role of us as development finance institutions – to find new ways to make such projects happen.”

“I think that’s the role of us as development finance institutions – to find new ways to make such projects happen.”



Heike Rüttgers, Head of the Portfolio Management and Policy Division (ACP Department), European Investment Bank (EIB)

Kamara pointed out that such projects are all the more attractive now that growth in some parts of Africa has created economic opportunities. “You would be amazed at the revenue generation from bridge construction,” he said. “The attractiveness of Africa today is very positive. Africa is moving, and we have a lot of intra-African investment. It’s a win-win situation.”

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Samura Kamara, Minister for Foreign Affairs and International Cooperation, Sierra Leone



Private companies are increasingly making investments that go beyond their immediate needs. Beverage maker SABMiller now works with other users of water near its operations to conserve and regulate supply. “In the past we probably focussed more on what we can do within the confines of our operations,” said Elaine McCrimmon, Head of Public Affairs, Europe at SABMiller. “We’re going much further within the supply chain and the impact that we have.”

Such efforts come amid a realisation that it’s in the company’s interests to see societies prosper where it operates. As a result, SABMiller is working more closely with small farmers, who provide ingredients, and retailers, who sell the products – many of whom are very poor in some countries. “Our ability to be a successful and profitable company is inextricably linked to the health and prosperity of those countries and communities that we are part of,” McCrimmon said.

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Elaine McCrimmon, Head of Public Affairs, Europe, SABMiller





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The United Nations (UN) Team in Brussels brings together different UN entities spanning the wide spectrum of the UN's work in development cooperation, humanitarian aid, human rights, and peace and security. A core mandate of the UN team is to foster its partnership with the European Union (EU), thereby upholding the spirit of both the UN Charter (1945) and the Treaty of Lisbon (2009). These, together with the Millennium Declaration (2000) and its associated Millennium Development Goals (MDGs), provide an overarching frame work for the UN-EU partnership.

Over the past decade, the UN and the EU have been working together in over 110 developing and transition countries to help them protect human rights for all, reduce hunger and malnutrition, prevent and overcome crises, build democratic and inclusive societies, deliver essential services, promote green growth and decent jobs, and ensure the sustainable management of natural resources.

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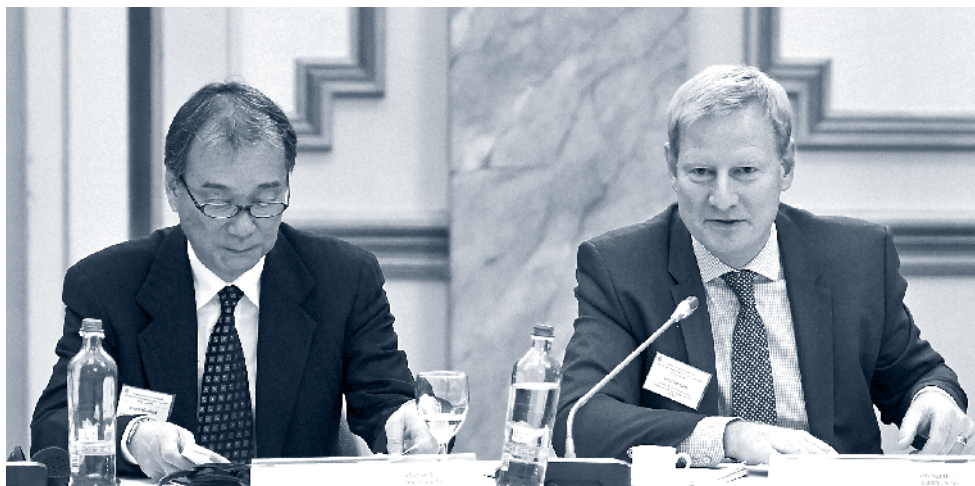
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To reflect the new financial mechanisms, the OECD is developing a measure of total official support for development (TOSD), which would capture such development finance mechanisms that go beyond ODA and are not yet reported on in a systematic and consistent way across members.

“The idea of TOSD is to get a more holistic view – not only to talk about ODA, but also other official flows and specifically funding that comes from private sources,” said Schütte of the OECD. “We hope this will lead not only to these efforts being accounted for, but, more importantly incentivise the stronger use of private finance in development cooperation.”

Nkosi of South Africa cautioned that new forms of financing should not be used as a way for donor countries to continue to avoid fulfilling their promises on ODA. “Alternative financing should be regarded as complementary funding and resources.”

“The idea of TOSD is to get a more holistic view – not only to talk about ODA, but also other official flows and specifically funding that comes from private sources.”



Haje Schütte, Head of the Development Finance Division
at the Organisation for Economic Cooperation and Development (OECD)

But Massimiliano Paolucci, the World Bank's Special Representative in Brussels, said that, given the lack of willingness to increase ODA, alternative financing is essential. "We need ODA, but we also need to mix instruments."

Mixing private finance with aid might also lead to higher debts in developing countries, said Ryding of EURODAD. She said the debt stock in developing countries is higher than ever, and that the new tools would increase the risk and burden of debt in those countries.

"We need ODA, but we also need to mix instruments."



Massimiliano Paolucci, World Bank's Special Representative to the EU Institutions, Belgium and Luxembourg



"The place you go to get profit is your business," she said. "It is a legitimate exercise, but it is not the same exercise as ending poverty. So we're mixing everything together." Blending different types of finance could also help donors cover up their failure to keep their ODA commitments, she said.

Guicquéro said that the lending for the AFD's project in Jordan was done directly to banks, without the guarantee of the Jordanian government. "It does not affect the debt situation of the government of Jordan," he said. Moreover, there is a risk assessment, and the decision to lend comes only after ensuring that the bank in question is strong enough.

SOUTH-SOUTH

Another source of funds for the developing world is the developing world itself.

One aspect is development support from emerging and upper-middle income economies, in so-called South-South cooperation. China, for example, is the world's largest developing country, but has already provided help to some other developing countries in the South-South cooperation framework, said Rong Ji, Deputy Director of the Press and Communication Department of the Chinese Mission to the EU. "We have lots of development cooperation with African countries, so China will continue to share its development experiences and promote common development." Still, she added, such cooperation should play a complementary role: "The focus should still be South-North cooperation, which is the main channel."

"We have lots of development cooperation with African countries, so China will continue to share its development experiences and promote common development."

Rong Ji, Deputy Director of the Press and Communication Department of the Chinese Mission to the EU



Also important is more effective mobilisation of domestic resources in developing countries. Poor people in developing countries tend to rely on natural capital provided by their forests, said Tomonori Sudo, a Senior Research Fellow at the JICA Research Institute. But the forest area is now decreasing – sometimes due to disasters and sometimes because of illegal logging. "That is a reduction of chances and opportunities for the poorest people to live in there," he said. "We need to reconsider the importance of natural capital."

Sudo said that the overall international financial flow to developing countries is around \$1 tn a year – 10 times the level of ODA. Domestic resource mobilisation in developing countries – which, he said, should also be counted as development finance – is 10 tn dollars. “So the amount of ODA is very limited compared to other financial flows to or within developing countries,” he said.

Nkosi said that one step could be to reduce taxation on remittances from developing-country nationals who are working in developed countries and sending money back home. “This would stimulate domestic funding, as these remittances are often subjected to heavy taxes,” he said.

“So the amount of ODA is very limited compared to other financial flows to or within developing countries.”



▲
Tomonori Sudo, Senior Research Fellow, Japan International Cooperation Agency (JICA) Research Institute

More Productive Jobs for Africa's Youth Are Vital for the Region's Economic Progress

Youth Employment in Sub-Saharan Africa

High fertility and declining mortality rates have led to a very young population in most Sub-Saharan African countries. The region's labor force is expected to increase by 11 million people per year over the next 10 years. While the younger generation is better educated than their parents, they often lack the means to translate that education into productive employment. Today, most work is in nonwage jobs on farms and in household enterprises. Even if greater economic activity were to create the conditions for robust growth and economic transformation, the private modern wage sector in low- and lower-middle-income countries could not absorb all the applicants.

Youth Employment in Sub-Saharan Africa notes that many youth employment challenges are problems of employment in general. The report:

- **brings** together original analysis of household and labor force survey
- **reviews** the experience of a number of promising interventions across the continent
- **draws** from quantitative and qualitative studies in several countries; and it surveys the most up-to-date evidence from rigorous evaluations of policies and programs
- **focuses** on how to improve the quality of all jobs and to meet the aspirations of youth
- **emphasizes** that building a strong foundation for human capital development can play an important role in boosting earnings
- **argues** that a balanced approach focused on building skills, raising productivity, and increasing the demand for labor is necessary
- **provides guidance** to policy makers on how to intervene along two dimensions—human capital and the business environment—and in three priority areas—agriculture, household enterprises, and the modern wage sector.



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TAX EVASION

A clampdown on tax evasion and tax havens would free up more funds for development, said MEP Pereira. “When we discuss domestic resources, we all know that they are only available if we have efficient tax systems,” he said. “This of course requires a fight against tax evasion and tax avoidance and against tax havens, and this is only possible with international tax cooperation.”

The OECD is currently working on an initiative to prevent big companies from shifting revenues to avoid taxes, Schütte said. But Ryding of EURODAD said that this initiative was biased in favour of the interests of the OECD’s rich members. She pointed out that poorer countries had proposed a UN negotiation about a global tax system that would benefit everyone. “We hope that this time the EU will not say ‘no’ to having a UN negotiation about fixing the global tax system,” she said.

Beyond all these considerations, donors should stop thinking they know better than aid receivers about development needs, said Sibongile Mkhabela, Chief Executive Officer of the Nelson Mandela Children’s Fund. “I think the donor community over the last few years has grown not only to be big but also to be arrogant, as they believe they understand better,” she said in a video message to the roundtable. “That arrogance, coupled with the amount of money that the donor agencies control, gives them the kind of power that allows some agencies to feel they not accountable to any government, they are not accountable to the NGOs that they serve. They are accountable to themselves. So they have extraordinary power and they need to give up some of that power.”

“The donor community over the last few years has grown not only to be big but also to be arrogant, as they believe they understand better.”



Sibongile Mkhabela, Chief Executive Officer of the Nelson Mandela Children's Fund



ANNEX I – Programme

Welcoming remarks by **Keiichi Katakami**, Ambassador of Japan to the EU

Special address by **Neven Mimica**, EU Commissioner for International Cooperation and Development

Keynote address by **Kunio Okamura**, Senior Special Adviser Japan International Cooperation Agency (JICA)

SESSION I

Official Development Assistance: The new role of ODA in the post-2015 era

Official Development Assistance (ODA) is expected to remain critical in achieving the new Sustainable Development Goals (SDGs). Aid has been essential in helping low-income countries accelerate economic growth and lift people from extreme poverty over the last few decades. But financing a truly transformative post-2015 development agenda will require that ODA is used more effectively and strategically and backed up by a quest for additional financing from official and private sectors. Ahead of the first international summit on Financing for Development to be held in Addis Ababa, Ethiopia, in July 2015, several important questions need to be answered: is ODA still playing a valuable role in promoting growth and development? Or has it made some countries overly-dependent on “hand-outs”? What is being done to improve the effectiveness of aid? Does the public sector still have a catalytic role in attracting private sector financing, such as for scaling up infrastructure investments? Is public opinion in traditional Western donor countries still supportive of ODA?

Yves Guicquéro

Head of Division, Aid Agenda and International Partners,
Agence Française de Développement (AFD)

Haje Schütte

Head of the Development Finance Division,
Development Assistance Committee, Organisation for
Economic Co-operation and Development (OECD)

Pedro Silva Pereira MEP

Member of the European Parliament Committee on
Development and Rapporteur on Financing for
Development

Moderated by **Shada Islam**, Director of Policy at Friends of Europe

SESSION II

Innovative financing: New actors, new flows

The ability to adequately finance a post-2015 development framework will require a mix of policies and actions which spotlight public-private partnerships, the blending of grants with loans and equity, the role of foreign direct investments (FDI), the importance of domestic resource mobilisation while also ensuring a more coherent use of remittances and philanthropy. Meanwhile, China, India, Brazil and Turkey have emerged as important development partners for many developing countries. Are governments in emerging nations doing enough on effective tax collection and hammering out well-designed and progressive fiscal policies? What can be done to improve efforts to eliminate illicit financial flows and tax havens? Is the fight against corruption gaining momentum? Are the new development actors working with traditional donors and forging a common view and stance in their policies and operations?

Keynote address by [Samura Kamara](#), Minister for Foreign Affairs and International Cooperation, Republic of Sierra Leone

[Elaine McCrimmon](#)

Head of Public Affairs, Europe, SABMiller

[Heike Rüttgers](#)

Head of the Portfolio Management and Policy Division (ACP Department), European Investment Bank (EIB)

[Tove Maria Ryding](#)

Policy and Advocacy Manager, Tax Justice, EURODAD

[Tomonori Sudo](#)

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ANNEX II – List of participants

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