

INTER-AGENCY TASK FORCE ON FINANCING FOR DEVELOPMENT

Concept Note - Draft Agenda

Session on Financial Sector Development

United Nations, New York, 31 October 2018 (9:00 to 13:00) - (Conference Room 9)

Introduction

In conjunction with the meeting on the thematic chapter of the Financing for Sustainable Development Report (FSDR) on 30 October, we are organizing a session that will drill down on domestic policies related to financial sector and capital market development, on the morning of 31 October. The output of the meeting will inform both the thematic chapter, as part of the overall national financing strategy, and the private chapter, which will explore these issues in more depth.

The Addis Ababa Action Agenda includes several commitments in this area - on financial breadth, depth, and stability - including:

- 1) encouraging and promoting “increased (affordable and stable) lending to micro, small and medium-sized enterprises,” through a range of institutions, including “microfinance institutions, development banks, agricultural banks, mobile network operators, agent networks, cooperatives, postal banks and savings banks as appropriate,” and encouraging “the use of innovative tools, including mobile banking, payment platforms and digitalized payments.”
- 2) working “towards developing domestic capital markets, particularly long-term bond and insurance markets... and strengthen[ing] supervision, clearing, settlement and risk management.”
- 3) enhancing “international support in developing domestic capital markets in developing countries.”
- 4) ensuring that policy and regulatory environments supports “financial market stability and promotes financial inclusion in a balanced manner...”
- 5) endeavouring “to design policies, including capital market regulations where appropriate, that promote incentives along the investment chain that are aligned with long-term performance and sustainability indicators, and that reduce excess volatility.”

Although these issues are too complex to fully explore in a half day discussion, the meeting aims to help the IATF identify and consider the trends in these areas and possible recommendations to be included in the 2019 FSDR. The meeting will also explore the relationship between financial sector development and SDG implementation - particularly SDG 8 on economic growth and decent work, and SDG 10 on inequality, which are two of the SDGs to be highlighted at the 2018 HLPF.

The meeting will build on the expertise and ongoing work of task-force members and selected experts.

Draft Agenda

9 – 9:45 a.m.

Introduction

The session will outline key issues related to financial and capital market development, including layout out the elements/building blocks, links to implementation of the SDGs, risks that need to be managed, and challenges with building sustainable systems. It will also introduce the work of different task force members in this area.

[Introduction from UN-DESA and tour de table]

9:45 – 11 a.m. Financial sector development

The session will review the breadth and depth of financial sectors in developing countries and the implications in terms of access, stability and sustainability. It will consider the role of different financial institutions (microfinance institutions, development banks, cooperatives, domestic commercial banks, international banks), the impact of innovative tools - such as mobile banking - and the role of regulatory frameworks. The session will also examine the linkages between financial sector development (including financial inclusion and financialization) with growth and inequality. (Please note that capital markets will be discussed in more depth in the next session)

Possible questions:

- *What are the trends in terms of financial deepening and access to financial services?*
- *What is the impact of innovative tools such as mobile banking? How to promote the use of financial services in a sustainable manner (going beyond account ownership)?*
- *How different financial institutions help provide the financing people and business need? How to facilitate access to credit and reduce the cost of financial services?*
- *What are the regulatory implications?*
- *How to develop a financial sector that support growth without creating excessive risks? How does financialization affect income distribution?*

Coffee Break

11:15 a.m. – 12:15 p.m. Capital market development

While presenting the latest trends, the session will look at the potential of domestic capital markets to meet longer-term financing needs. These markets remain relatively underdeveloped in many developing countries in terms of size, liquidity and maturity. To better understand their potential, the session will review lessons learnt from failure/success in emerging markets and consider elements that need to be in place (e.g. macroeconomic stability, domestic investor base and market infrastructure and regulation), as well as the links between capital market development and stability and sustainability. The session will also explore the possible sequencing approach to capital market development (e.g. sovereign, corporate bonds and equity), and the role of regional markets.

Possible questions:

- *What are the benefits and cost associated with local capital markets? To what extent they facilitate access to long-term capital in local currency?*
- *What are lessons learnt from capital market development in developing countries? How to explain the mixed success of government-led initiatives to develop local capital markets?*
- *How to ensure sufficient liquidity? Is there a minimum size required? What are the options for smaller economies? How to manage currency risks linked to international markets?*

- *What are the preconditions for effective capital market development? What are the possible undesirable consequences? Can capital markets alleviate financial constraints for smaller companies?*

12:15 p.m. – 1 p.m. National strategies for sustainable financial sector and capital market development

Based on the above discussions, the session will focus on the actions / regulatory frameworks countries should promote to support the development of financial sector that sustainably provides the financing people and business need - while taking into account stability implications (systemic risks, consumer protection and short-term capital flow volatility,). These policy actions should also aim at better aligning the financial systems with sustainable development objectives. To inform future national strategies, policy recommendations should consider the adequate timing for these actions as well as the local context of different countries.

Possible questions:

- *How to develop a roadmap for financial sector development? What are the main building blocks? What is the ideal sequencing? How does local circumstances (e.g. stage of development), and other reforms affect financial sector development?*
- *How to encompass in a financial sector roadmap the three pillars of sustainability: economic (e.g. serving the macro economy), social (e.g. reducing inequality and facilitating inclusion) and environmental (e.g. promoting environmentally friendly investments)?*