The Global Development Financing Landscape - Who can contribute what?

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UNCTAD

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## The Global Development Financing Landscape

### Many actors; Diverse Interests

### The investment chain and key actors involved

<table>
<thead>
<tr>
<th>Principal institutions</th>
<th>Sources of capital</th>
<th>Asset pools (or primary intermediaries)</th>
<th>Markets</th>
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</thead>
<tbody>
<tr>
<td>Governments (e.g. ODA)</td>
<td>Governments (e.g. ODA)</td>
<td>Banks</td>
<td>Equity</td>
</tr>
<tr>
<td>Households/individuals, e.g.:</td>
<td>Households/individuals, e.g.:</td>
<td>Pension funds</td>
<td>Corporate debt</td>
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<tr>
<td>- Retail investors</td>
<td>- Retail investors</td>
<td>Insurance companies</td>
<td>Sovereign debt</td>
</tr>
<tr>
<td>- High-net-worth individuals</td>
<td>- High-net-worth individuals</td>
<td>Mutual funds</td>
<td>Other markets and financial instruments</td>
</tr>
<tr>
<td>- Pensions</td>
<td>- Pensions</td>
<td>Sovereign wealth funds</td>
<td></td>
</tr>
<tr>
<td>- Insurance premia</td>
<td>- Insurance premia</td>
<td>Endowment funds</td>
<td></td>
</tr>
<tr>
<td>Firms (e.g. reserves/retained earnings)</td>
<td>Firms (e.g. reserves/retained earnings)</td>
<td>Private equity</td>
<td></td>
</tr>
<tr>
<td>Philanthropic institutions or foundations</td>
<td>Philanthropic institutions or foundations</td>
<td>Venture capital</td>
<td></td>
</tr>
<tr>
<td>Other institutions with capital reserves (e.g. universities)</td>
<td>Other institutions with capital reserves (e.g. universities)</td>
<td>Impact investors</td>
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<td></td>
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<td>...</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Intermediaries</th>
<th>Investment banks and brokerage firms</th>
<th>Institutional asset managers</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Advisors</th>
<th>Financial advisors</th>
<th>Wealth managers</th>
<th>Investment consultants</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Rating agencies</td>
<td></td>
</tr>
</tbody>
</table>

### Users of capital for investment

- Governments
- International organizations and development banks
- Public and semi-public institutions
- Multinational and local firms entrepreneurs
- NGOs
- Impact investors
- ...

**Source:** UNCTAD.
The annual investment gap in SDG-relevant sectors is about \$2.5\ trillion in developing countries.

Reaching the SDGs requires a step-change in investment by both the public and private sectors.

In purely funding terms, this is achievable. For example, only a fraction of the worldwide assets of banks, pension funds, TNCs, SWFs, foundations are in SDG sectors.

Social partnerships between the public and private sectors are one way forward…

…not least because much of the investment required is in sensitive areas such as agriculture, water and sanitation and others of a public service area, such as health and education.

Developing countries need \$3.9 trillion annually between 2015-2030. The investment gap to achieve this is a huge \$2.5 trillion
<table>
<thead>
<tr>
<th>Sector</th>
<th>Description</th>
<th>Estimated current investment (latest available year) $ billion</th>
<th>2015-2030 Annualized $ billion</th>
<th>Total investment required</th>
<th>Investment Gap</th>
<th>Average private sector participation in current investment&lt;sup&gt;b&lt;/sup&gt;</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
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<td></td>
<td>Developing countries</td>
<td>Developed countries</td>
</tr>
<tr>
<td>Power</td>
<td>Investment in generation, transmission and distribution of electricity</td>
<td>~260</td>
<td>630–950</td>
<td>370–690</td>
<td>40–50</td>
<td>80–100</td>
<td></td>
</tr>
<tr>
<td>Telecommunications</td>
<td>Investment in infrastructure (fixed lines, mobile and internet)</td>
<td>~160</td>
<td>230–400</td>
<td>70–240</td>
<td>40–80</td>
<td>60–100</td>
<td></td>
</tr>
<tr>
<td>Water and sanitation</td>
<td>Provision of water and sanitation to industry and households</td>
<td>~150</td>
<td>~410</td>
<td>~260</td>
<td>0–20</td>
<td>20–80</td>
<td></td>
</tr>
<tr>
<td>Food security and agriculture</td>
<td>Investment in agriculture, research, rural development, safety nets, etc.</td>
<td>~220</td>
<td>~480</td>
<td>~260</td>
<td>~75</td>
<td>~90</td>
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</tr>
<tr>
<td>Climate change mitigation</td>
<td>Investment in relevant infrastructure, renewable energy generation, research and deployment of climate-friendly technologies, etc.</td>
<td>170</td>
<td>550–850</td>
<td>380–680</td>
<td>~40</td>
<td>~90</td>
<td></td>
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<tr>
<td>Climate change adaptation</td>
<td>Investment to cope with impact of climate change in agriculture, infrastructure, water management, coastal zones, etc.</td>
<td>~20</td>
<td>80–120</td>
<td>60–100</td>
<td>0–20</td>
<td>0–20</td>
<td></td>
</tr>
<tr>
<td>Ecosystems/biodiversity</td>
<td>Investment in conservation and safeguarding ecosystems, marine resource management, sustainable forestry, etc.</td>
<td>70–210&lt;sup&gt;d&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Health</td>
<td>Infrastructural investment, e.g. new hospitals</td>
<td>~70</td>
<td>~210</td>
<td>~140</td>
<td>~20</td>
<td>~40</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>Infrastructural investment, e.g. new schools</td>
<td>80</td>
<td>~330</td>
<td>~250</td>
<td>~15</td>
<td>0–20</td>
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</tbody>
</table>
However, if mobilized and channelled effectively available resources can bridge the gap.

Relative sizes of selected potential sources of investment, 2012
(Value of assets, stocks and loans in trillions of dollars)

- **Bank assets**: 121
- **Pension funds**: 34
- **Insurance companies**: 26
- **TNCs**: 25\(^a\)
- **SWFs**: 6.3\(^a\)


Note: This figure is not exhaustive but seeks to list some key players and sources of finance. The amounts for assets, stocks and loans indicated are not equivalent, in some cases, overlap, and cannot be added. 
\(^a\) 2014 figure
Low-income Countries Face Special Challenges

The Challenges

• Huge investment needs, but small and limited public budget

• Weak purchasing power

• High perceived risks of projects

• Limited investment, including from external sources, to development sectors

• Nascent domestic capabilities to manage private sector participation

Development partners should consider all options; and the private sector needs to play a greater role
Investing in the Sustainable Development Goals


- Mobilizing funds, channeling investment, having impact

- The necessity for public-private collaboration

Action Plan for Investment in the SDGs

1. New generation of investment promotion strategies and institutions
   - At national level:
     - New investment promotion strategies focusing on SDG sectors
     - New investment promotion institutions: SDG investment development agencies developing and marketing pipelines of bankable projects
   - New generation of IFIs:
     - Pro-active SDG investment promotion and facilitation
     - Safeguarding policy space for sustainable development

2. Reorientation of investment incentives
   - SDG-oriented investment incentives
     - Targeting SDG sectors
     - Conditional on sustainability contributions
   - SDG investment guarantees and insurance schemes

3. Regional SDG Investment Compacts
   - Regional/South-South economic cooperation focusing on:
     - Regional cross-border SDG infrastructure development
     - Regional SDG industrial clusters, including development of regional value chains
     - Regional industrial collaboration agreements

4. New forms of partnerships for SDG investment
   - Partnerships between outward investment agencies in home countries and IFIs in host countries
   - Online pools of bankable SDG projects
   - SDG-oriented linkages programmes
   - Multi-agency technical assistance consortia
   - SVE-TNC-MDG partnerships

5. Enabling innovative financing and a reorientation of financial markets
   - New SDG financing vehicles
   - SDG investment impact indicators
   - Investors’ SDG contribution rating
   - Integrated reporting and multi-stakeholder monitoring
   - Sustainable Stock Exchanges (SSEs)

6. Changing the global business mindset
   - Global Impact MBAs
   - Training programmes for SDG investment (e.g., fund management/financial market certifications)
   - Entrepreneurship programmes in schools

Guiding Principles

- Balancing liberalization and regulation
- Balancing the need for attractive risk-return rates with the need for accessible and affordable services for all
- Balancing a push for private funds with the push for public investment
- Balancing the global scope of the SDGs with the need to make a special effort in LDCs
Mobilizing funds for investment: key challenges and policy options

**Key challenges**

- Start-up and scaling issues for new financing solutions
- Failures in global capital markets
- Lack of transparency on sustainable corporate performance
- Misaligned investor rewards/pay structures

**Policy options**

**Create fertile soil for innovative SDG-financing approaches and corporate initiatives**

- Facilitation and support for SDG dedicated financial instruments and impact investing initiatives through incentives and other mechanisms
- Expansion or creation of funding mechanisms that use public sector resources to catalyze mobilization of private sector resources
- “Go-to-market” channels for SDG investment projects in financial markets: channels for SDG investment projects to reach fund managers, savers and investors in mature financial markets, ranging from securitization to crowd funding

**Build or improve pricing mechanisms for externalities**

- Internalization in investment decisions of externalities, e.g. carbon emissions, water use, social impacts

**Promote Sustainable Stock Exchanges**

- SDG listing requirements, indices for performance measurement and reporting for investors

**Introduce financial market reforms**

- Reform of pay, performance and reporting structures to favor long-term investment conducive to SDG realization
- Rating methodologies that reward long-term real investment in the SDGs

Source: UNCTAD.
Channelling investment into key sectors: key challenges and policy options

**Key challenges**

- Barriers to SDG investments
- Inadequate risk-return ratios for SDG investments
- Lack of information and effective packaging and promotion of SDG investment projects
- Lack of investor expertise in SDG sectors

**Policy options**

**Alleviate investment barriers, while safeguarding legitimate public interests**
- Creation of an enabling policy environment for investment in sustainable development (e.g. UNCTAD's IPFSD), and formulation of national strategies for attracting investment in the SDGs.

**Expand use of risk sharing and mitigation mechanisms for SDG investments**
- Wider use of PPPs for SDG projects to improve risk-return profiles and address market failures.
- Wider availability of investment guarantee and risk insurance facilities to specifically support and protect SDG investments.
- Public-sector and ODA leveraging and blended financing using public and donor funds as seed capital or junior debt, to share risks or improve risk-return profiles for private sector funders.
- Advance market commitments and other mechanisms to provide more stable/reliable markets for investors.

**Establish new incentives schemes and a new generation of investment promotion institutions**
- Transforming IPAs into SDG investment development agencies, focusing on the preparation and marketing of pipelines of bankable projects in the SDGs.
- Redesign of investment incentives, facilitating SDG investment projects, and supporting impact objectives of all investments.
- Regional SDG investment compacts: regional cooperation mechanisms to promote investment in SDGs, e.g. regional cross-border infrastructure, regional SDG clusters,…

**Build SDG investment partnerships**
- Partnerships between home- and host-country investment promotion agencies: home country partner to act as business development agency for investment in the SDGs in developing countries.
- SVE-TNC-MDB triangular partnerships: global companies and MDBs partner with LDCs, small vulnerable economies, focusing on a key SDG sector or a product key for economic development.

Source: UNCTAD.
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