Hearing on Financing for Development

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The Global Development Financing Landscape - Who can contribute what?

By

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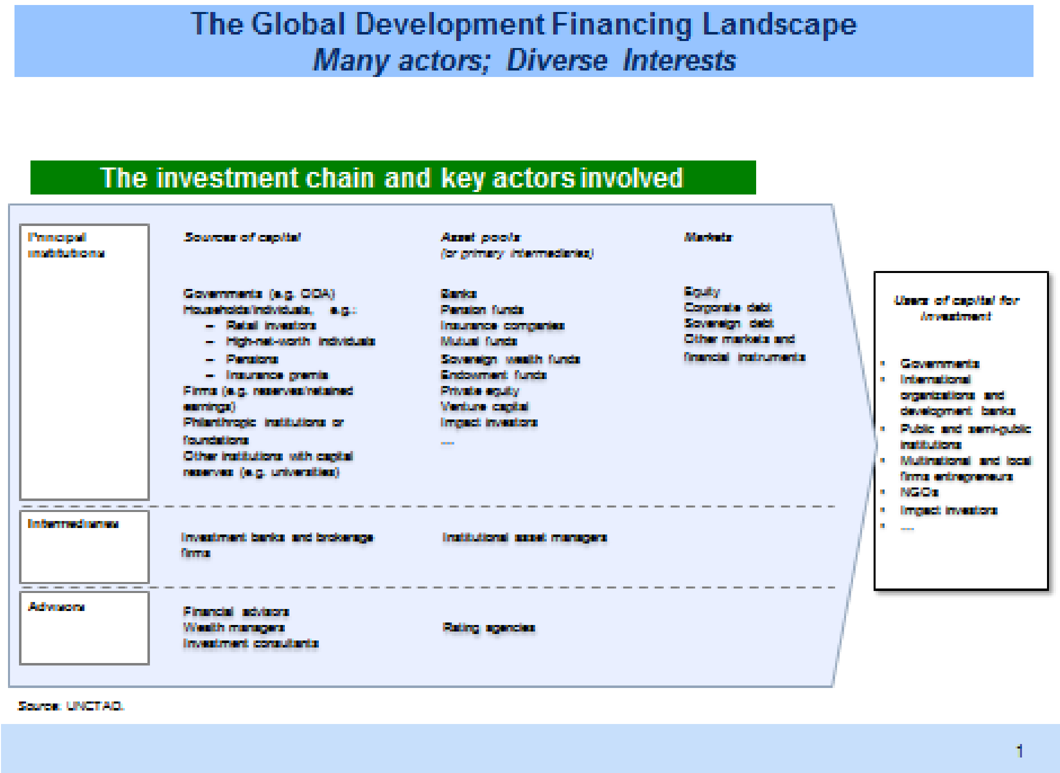
Excellences,
Distinguished Members of the Committee on Development,

Ladies and Gentlemen,

I wish to thank the European Parliament Committee on Development for inviting me to make a presentation on "*The Global Development Financing Landscape - Who can contribute what?*" at this important hearing.

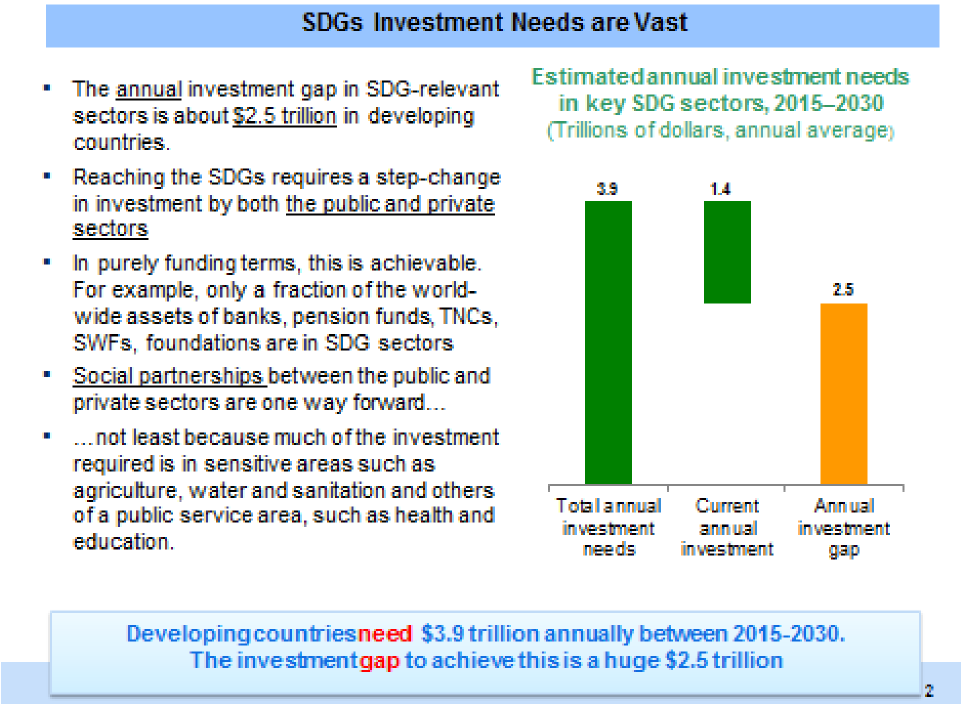
This topic is at the heart of an extensive debate by development stakeholders in various international forums, including those preparatory processes for the forthcoming Financing for Development (FfD) Conference in Ethiopia this summer.



The global development financing landscape is made up of many different actors or contributors with a diverse range of interests. They potentially contribute at different stages of the financing and investment chain; from sources of capital, asset holders or primary intermediaries to financial market players and users of capital for investment. These actors range from governments and households through private sector firms to philanthropic institutions to foundations. Institutions such as banks, pension funds, insurance companies, sovereign wealth funds (SWFs), private equity and venture capitals that hold a considerable pool of assets are potentially important providers of capital for addressing the SDGs.

Huge investment needs and gaps

UNCTAD estimates that the annual investment needs in developing countries in key SDG sectors between 2015 and 2030 will be vast. The total amount will be in the magnitude of some $3.9 trillion, with an annual investment gap of about $2.5 trillion. To meet this investment gap, an unprecedented partnership between all actors, public and private is a pre-requisite. The public sector has to take the lead, particularly in sensitive areas such as water and sanitation.



The biggest financing and investment needs will be in infrastructure sectors such as power, transport, telecommunication and water and sanitation, as well as in climate change related projects. However, though harder to estimate, investment in areas such as education, health and the environment more generally, will also be needed; and will be sizeable.

Current investment, investment needs and gaps and private sector participation in key SDG sectors in developing countries[a]

Sector	Description	Estimated current investment (latest available year) $ billion	2015-2030 Annualized $ billion (constant price)		Average private sector participation in current investment[b]	
			Total investment required	Investment Gap	Developing countries	Developed countries
		A	B	C = B - A	Per cent	
Power[c]	Investment in generation, transmission and distribution of electricity	~260	630–950	370-690	40–50	80–100
Transport[c]	Investment in roads, airports, ports and rail	~300	350–770	50-470	30–40	60–80
Telecommunications[c]	Investment in infrastructure (fixed lines, mobile and internet)	~160	230–400	70-240	40–80	60–100
Water and sanitation[c]	Provision of water and sanitation to industry and households	~150	~410	~260	0–20	20–80
Food security and agriculture	Investment in agriculture, research, rural development, safety nets, etc.	~220	~480	~260	~75	~90
Climate change mitigation	Investment in relevant infrastructure, renewable energy generation, research and deployment of climate-friendly technologies, etc.	170	550–850	380–680	~40	~90
Climate change adaptation	Investment to cope with impact of climate change in agriculture, infrastructure, water management, coastal zones, etc.	~20	80–120	60–100	0–20	0–20
Ecosystems / biodiversity	Investment in conservation and safeguarding ecosystems, marine resource management, sustainable forestry, etc.		70–210[d]			
Health	Infrastructural investment, e.g. new hospitals	~70	~210	~140	~20	~40
Education	Infrastructural investment, e.g. new schools	80	~330	~250	~15	0–20

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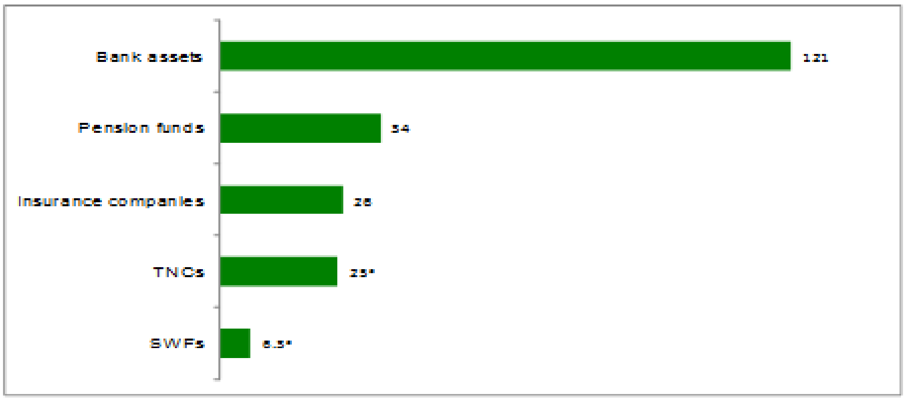
Who can contribute what?

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)



Source: UNCTAD FDI-TNC-GVC Information System, IMF (2014); SWF Institute, fund rankings, consulted 13 May 2014, http://www.swfinstitute.org/fund-rankings; TheCityUK (2013).
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.
* 2014 figure

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Achieving the SDGs and meeting the investment needs is possible here, though the route to this goal is highly challenging. The necessary financial and other resources are available, but reaching the SDGs requires a transformation in investment by both the public and private sectors. For example, only a fraction of the world-wide assets of banks, insurance companies, pension funds, TNCs, SWFs and foundations are in SDG sectors. These selected institutions held an estimated combined $210 trillion of assets and loans in 2012. Under the right condition and partnerships, there is room to tap these sources and direct them to sustainable development goals.

In addition, by way of comparison, developing and transition economies in 2013 received some $2.4 trillion of external development finance comprising FDI, portfolio investment, ODA, remittances and other investment. This number is not small relative to the estimated annual SDG investment needs through to 2030, and indicative of what is achievable.

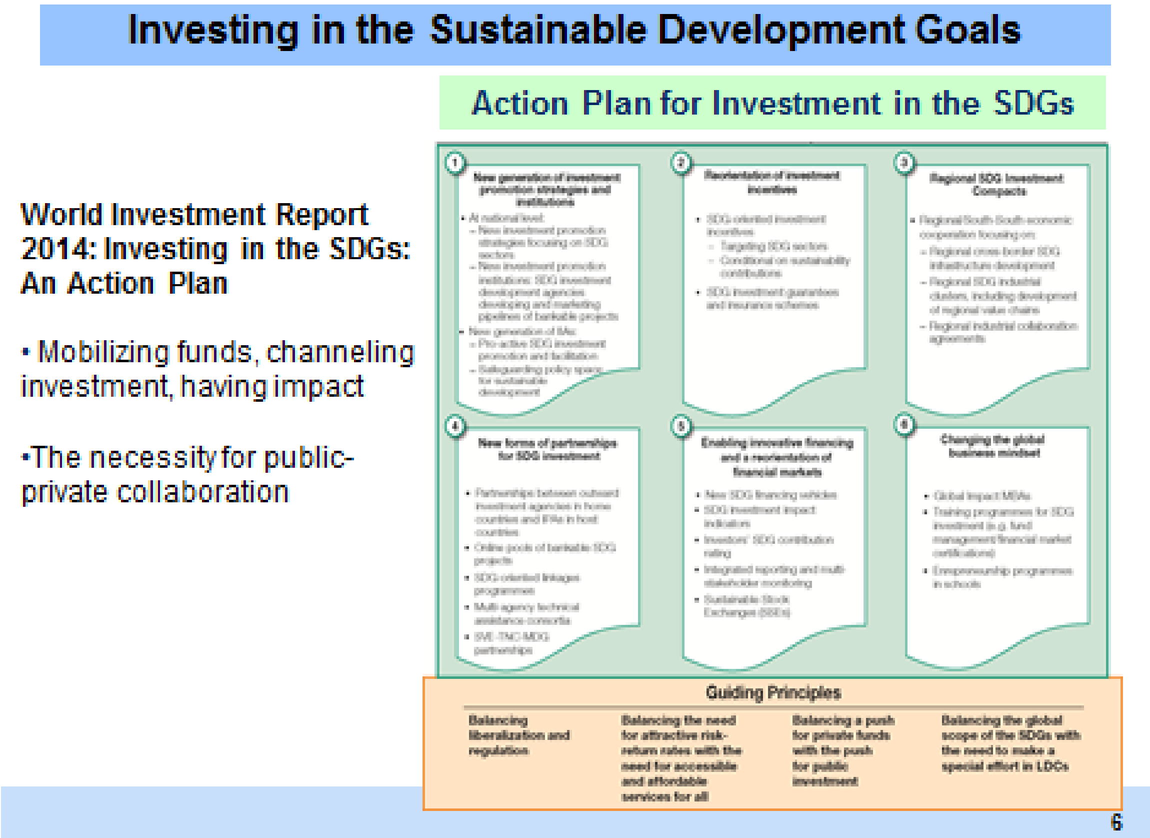
The issue is not that there is not enough finance around for SDGs. Rather, the important question is how can the available and potential resources from different stakeholders be mobilized and channeled effectively for SDG needs.

Low-income countries face special challenges

However, having said this, while there are ample resources for investment in SDGs, not all developing countries will be able to easily access or attract them. Low-income countries in particular face special challenges in attracting investment in infrastructure and other SDG sectors. Weak purchasing power, high perceived risks for projects, and a lack of domestic capabilities to develop and manage mega projects limit the ability of these countries in accessing the necessary financing and investment, including in leveraging TNC participation. In this connection, development partners need to consider all options to help these countries achieve SDGs in the economic, social and environmental sectors, as well as efforts in ensuring universal access to electricity and water.

Apart from fulfilling ODA commitments, development partners can also assist in capacity-building, risk-mitigation strategies targeted at low-income countries, support for regional projects and encouraging their own companies to invest in vulnerable developing countries. Most importantly, there is also a need for development partners to work together with developing countries to increase the involvement of the private sector in SDG sectors.

Investment in SDGs: An Action Plan



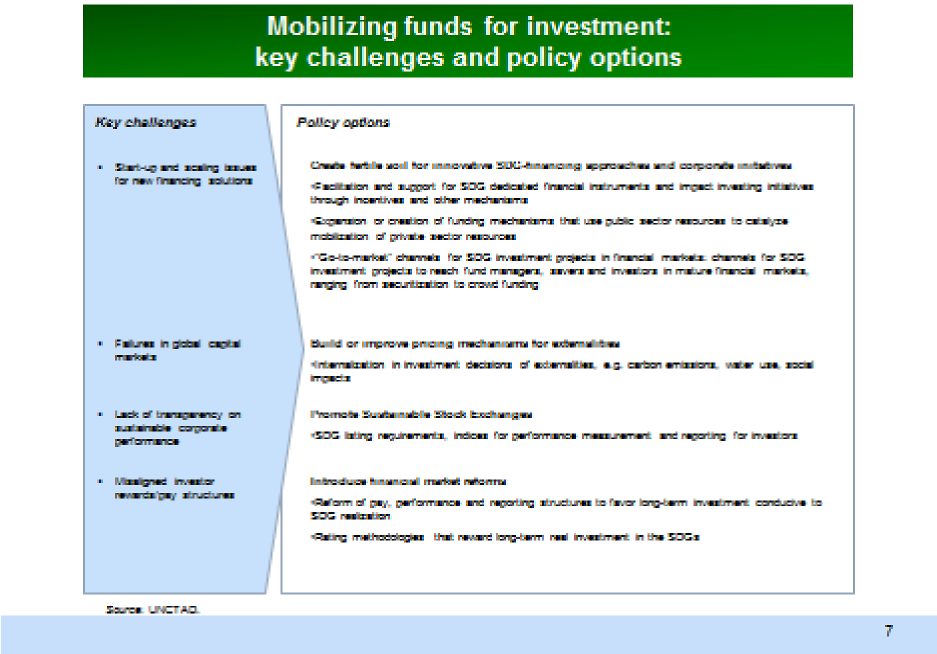
UNCTAD, through the World Investment Report 2014, has proposed an action plan of six action packages to mobilize and channel investment and funds for SDGs. This includes a more active promotion and involvement of private investment in SDGs, recognizing and emphasizing the necessity public-private collaboration in this process. The Report proposed specific approaches to mobilize and channel investment into the SDGs, which include the following:

- Consideration to develop a new generation of investment promotion strategies, institutions and international investment agreements.
- The re-orientation of investment incentives to focus on SDG-oriented investment incentives, rather than on existing locational basis, alongside the use of SDG investment guarantees and insurance schemes.
- Development of regional SDG investment compacts to cover cross-border regional infrastructure, regional value chains and regional industrial collaboration agreements.
- Establishment of new forms of partnership for SDG investments which include partnership between outward investment agencies in home countries and IPAs in host countries, and SDG-oriented linkages programme.

- Enabling innovative financing and a re-orientation of financial markets, which could include new SDG financing vehicles and Sustainable Stock Exchanges.
- Changing the global business mind-set involving SDG issues in business schools' curriculum.

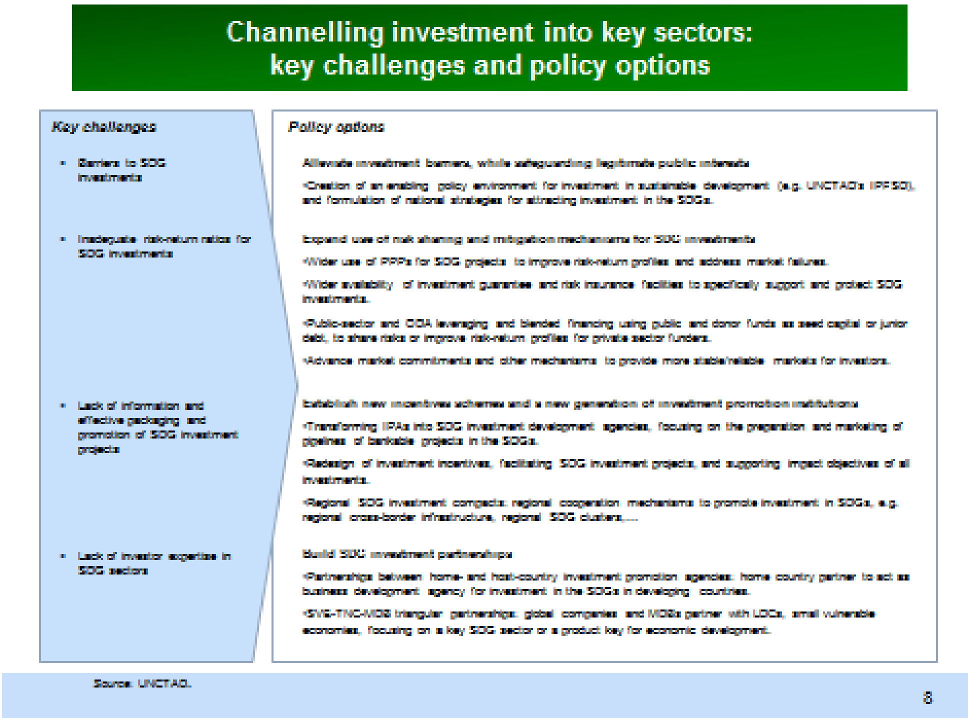
Mobilizing and channeling funds for SDG investment

A number of specific policy options can be considered to mobilize funds for SDG investment. In particular, they can include:



- Actions to create fertile soil for innovative SDG-financing approaches and corporate initiatives;
- Build or improve pricing mechanisms for externalities such as for carbon emissions, water use and social impacts;
- Promote sustainable stock exchanges through SDG listing requirements, indices for performance measurement and reporting for investors. It is heartening to stress that an increasing number of stock exchanges in the world have signed on to be members of the global network of Sustainable Stock Exchanges. They include, for instance, the London, New York, NASDAQ, Johannesburg, Mexico, Nigeria, India and Bangkok Stock Exchanges.
- Finally, mobilization of funds can also take the form of financial market reforms, which can cover reform of pay, performance and reporting structures to favor long-term investment conducive to SDGs realization; and rating methodologies that reward long-term real investment in the SDGs.

Mobilizing funds is not enough. They need to be translated into capital and channeled effectively into SDGs in developing countries, always ensuring that beneficial outcomes outweigh any negatives.



Specifically on channeling funds into investment, a number of specific policy options can be considered. These include:

- Reducing investment barriers, while safeguarding legitimate public interests;
- Expanding the use of risk sharing and mitigation mechanisms for SDG investments;
- Establishing new incentives schemes;
- Building SDG investment partnerships between different stakeholders. In addition to the market, social partnerships between the public and private sectors are important channel to channel funds to investment in sensitive areas such as agriculture, water and sanitation and other public service areas such as health and education.

Realizing the SGDs is not going to be easy but with all stakeholders working together and with some innovative approaches and ideas, the goals are achievable with private investment playing a greater role.

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