

The Global Development Financing Landscape - Who can contribute what?

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Hearing on Financing for Development

Committee on Development, European Parliament

Brussels, 24 February 2015

The Global Development Financing Landscape

Many actors; Diverse Interests

The investment chain and key actors involved

Principal institutions

Sources of capital

Governments (e.g. ODA)
 Households/individuals, e.g.:
 – Retail investors
 – High-net-worth individuals
 – Pensions
 – Insurance premia
 Firms (e.g. reserves/retained earnings)
 Philanthropic institutions or foundations
 Other institutions with capital reserves (e.g. universities)

Asset pools (or primary intermediaries)

Banks
 Pension funds
 Insurance companies
 Mutual funds
 Sovereign wealth funds
 Endowment funds
 Private equity
 Venture capital
 Impact investors
 ...

Markets

Equity
 Corporate debt
 Sovereign debt
 Other markets and financial instruments

Users of capital for investment

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

Intermediaries

Investment banks and brokerage firms

Institutional asset managers

Advisors

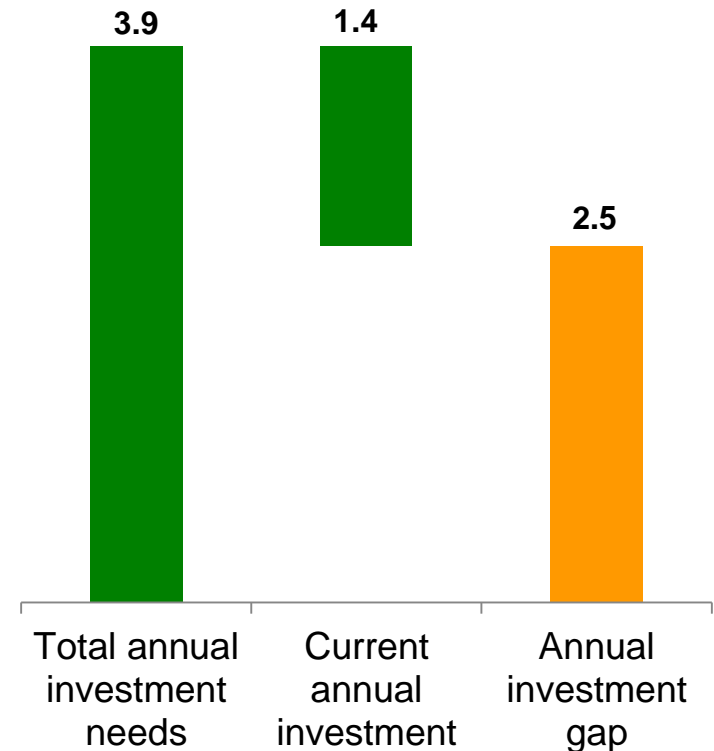
Financial advisors
 Wealth managers
 Investment consultants

Rating agencies

SDGs Investment Needs are Vast

- 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 world-wide 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.

Estimated annual investment needs in key SDG sectors, 2015–2030 (Trillions of dollars, annual average)



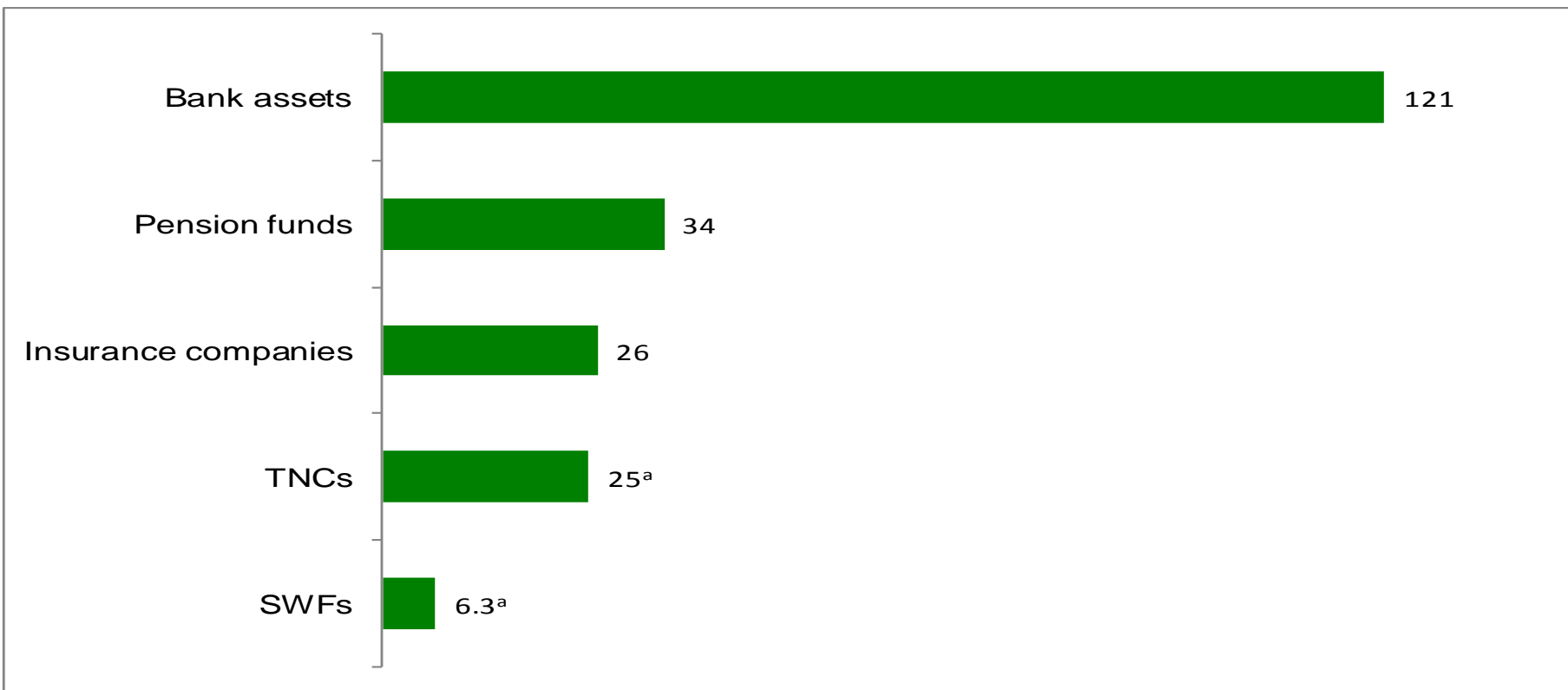
**Developing countries need \$3.9 trillion annually between 2015-2030.
The investment gap to achieve this is a huge \$2.5 trillion**

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	
		A	Total investment required B	Investment Gap C = B - A	Per cent	
					Developing countries	Developed countries
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

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.

^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

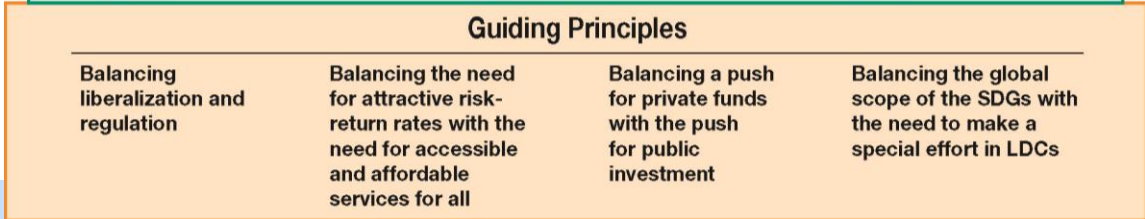
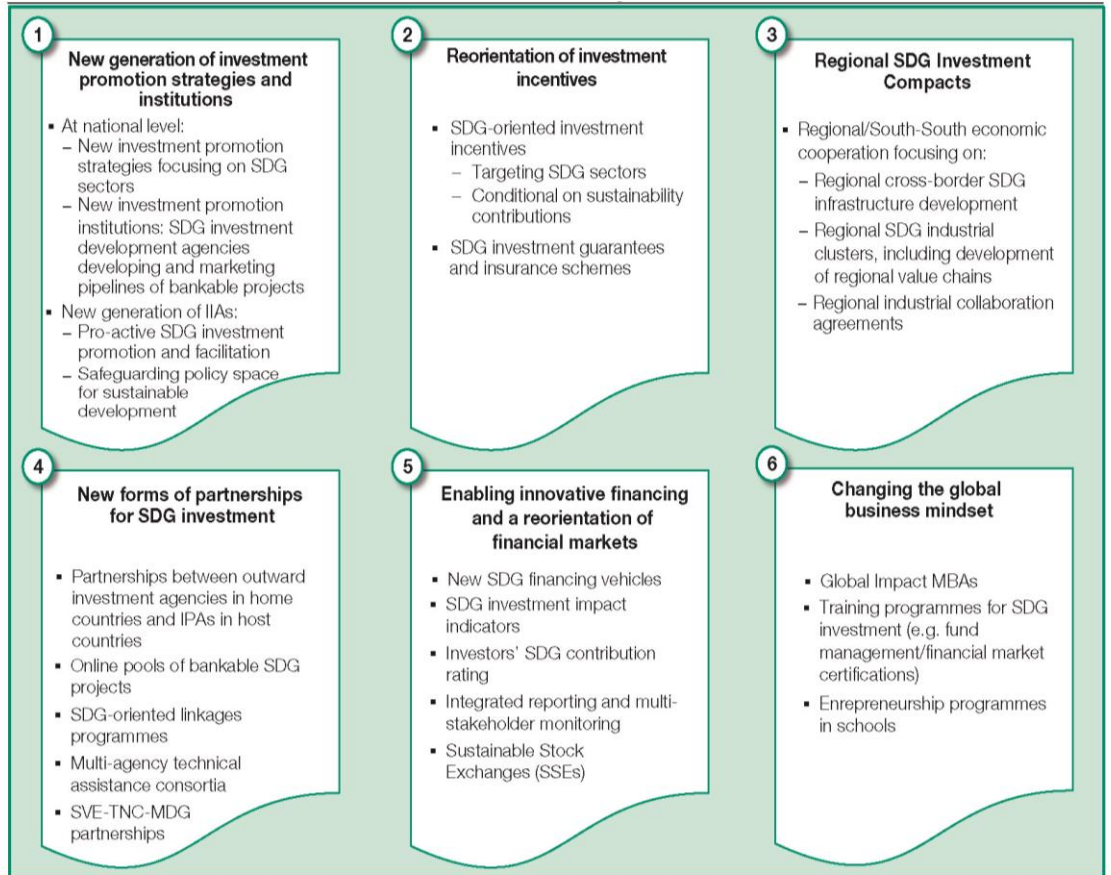
Development partners should consider all options; and the private sector needs to play a greater role

Investing in the Sustainable Development Goals

Action Plan for Investment in the SDGs

World Investment Report 2014: Investing in the SDGs: An Action Plan

- Mobilizing funds, channeling investment, having impact
- The necessity for public-private collaboration



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

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.

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