UNTT Working Group on Sustainable Development Financing

Main messages from background papers produced for the Financing Committee

Expert Group meeting on “Macroeconomic challenges to development policies post-2015: lessons from recent country experiences”

New York, 5-6 December 2013

Review of investment requirement estimates

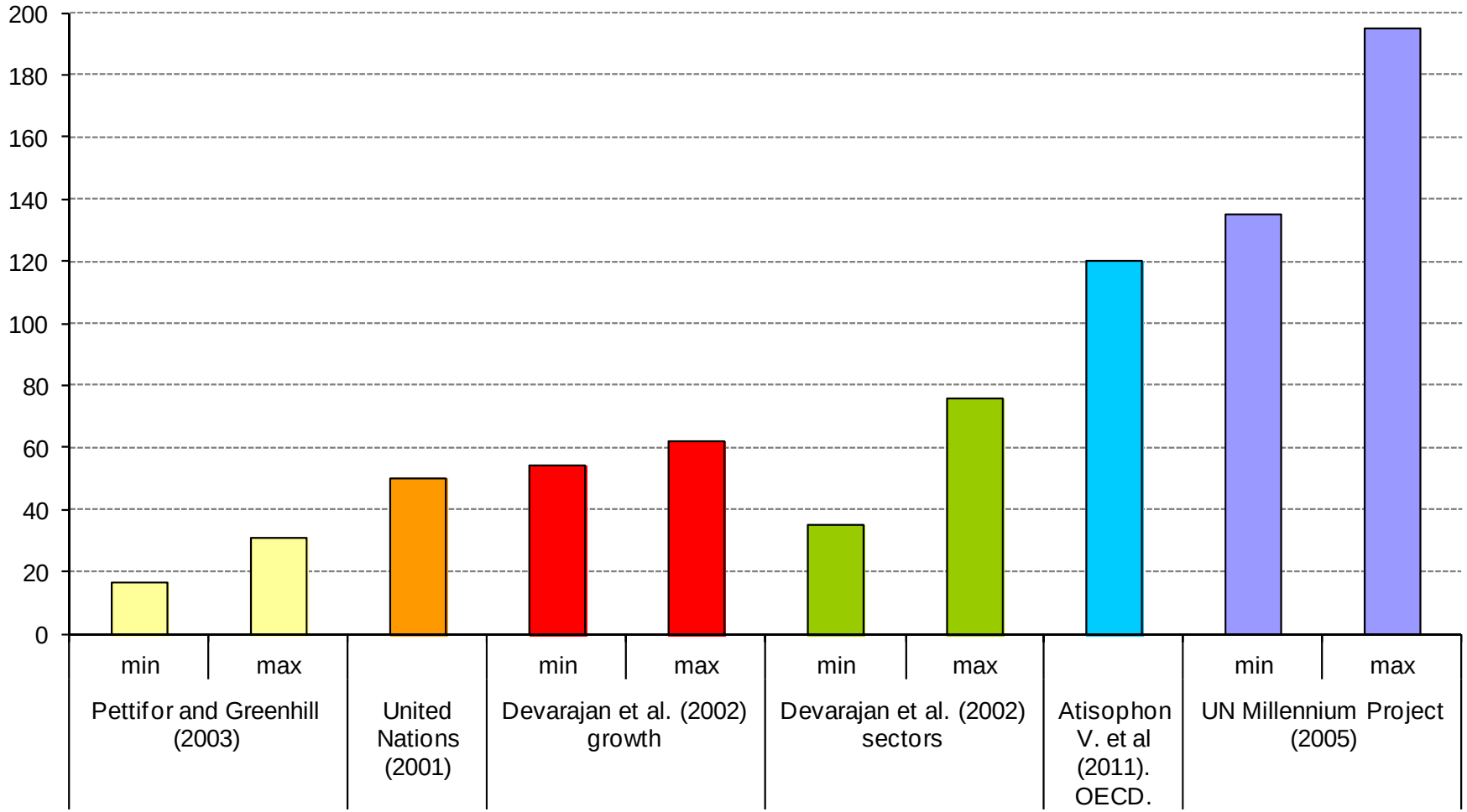
- Scope of financing for sustainable development very broad
- Three “overarching objectives and essential requirements” (JPOI, 2002)
  - Poverty eradication,
  - Changing consumption and production patterns,
  - Managing the natural resource base for economic and social development
- Direction and speed of transformation will largely be determined by private investment processes
  - Critical that private sector activities are supportive of agreed sustainability goals, norms and objectives.
- Within this framework, conceptual and practical challenges
  - To quantify “needs”, clear norms or normative targets have to be agreed upon
  - Different goals and targets and associated strategies entail different needs (hence, range of estimates)
  - Important to distinguish costs from investment requirements

Review of investment requirement estimates (cont'd)

- Clear understanding of baselines is critical to interpret estimates
- Interdependencies, synergies and trade-offs across sectors
  - E.g. Aichi targets
- Estimates from different sectors obtained in isolation cannot be added up
  - double counting, inconsistency, and cross-sector impacts
- To the extent possible, estimates of investment requirements or "needs" would have to be obtained from integrated models
  - coverage of existing models far from spanning all relevant areas
- Important areas not well covered by existing estimates
  - urban development,
  - peace and security
  - disaster risk management
  - In other clusters, existing picture partial at best (e.g. tourism, oceans)
- Other important dimensions not factored in most quantitative models
  - quality of investment (what technologies and services are invested in) as opposed to amounts, e.g. energy infrastructure, agriculture
  - Obstacles impacting access to financing, e.g. national policy environments, international rules, norms and standards, efficiency of development assistance

Additional financing needs to reach the MDGs

(In USD billion per year)



Variability across models

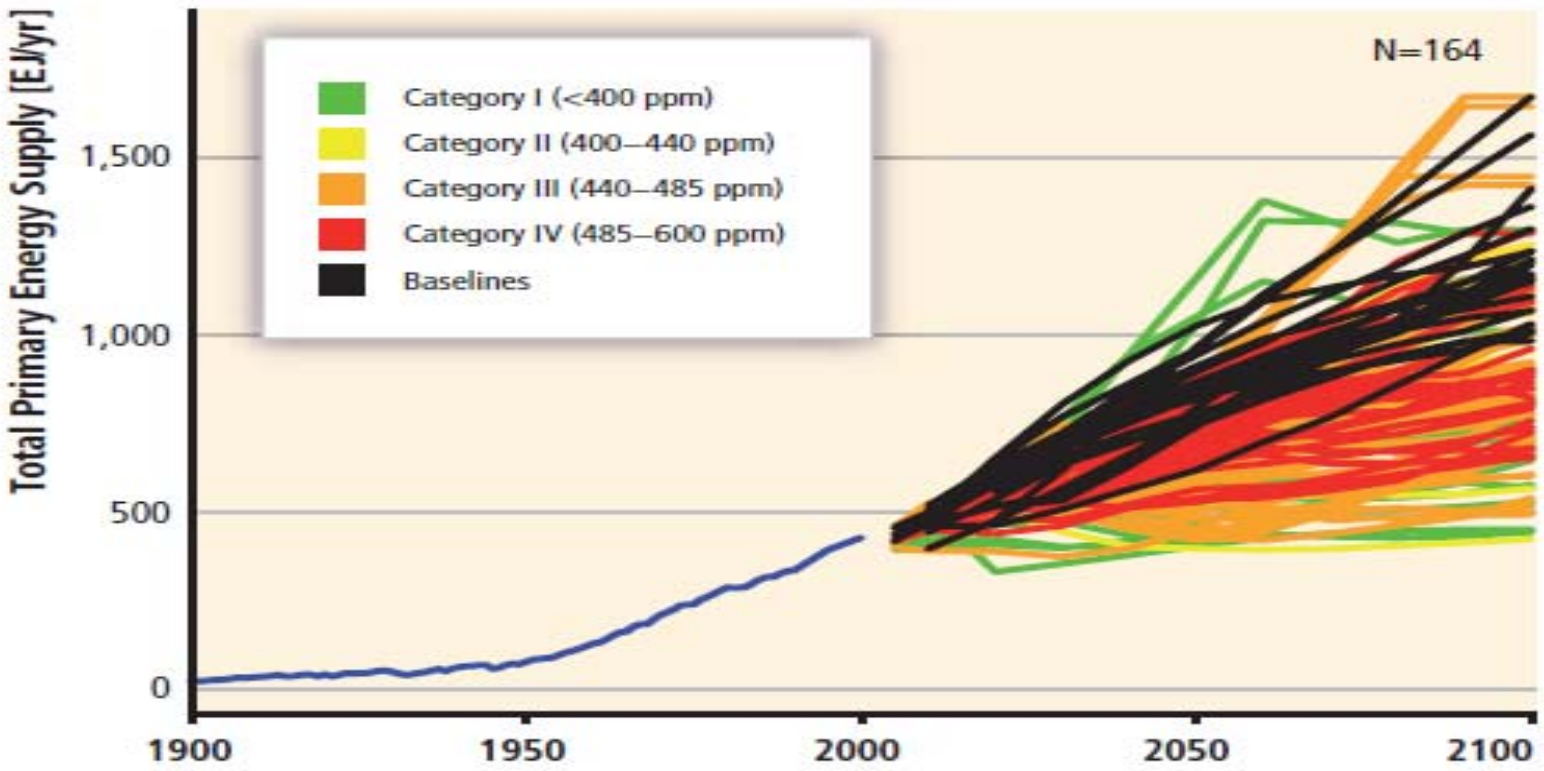
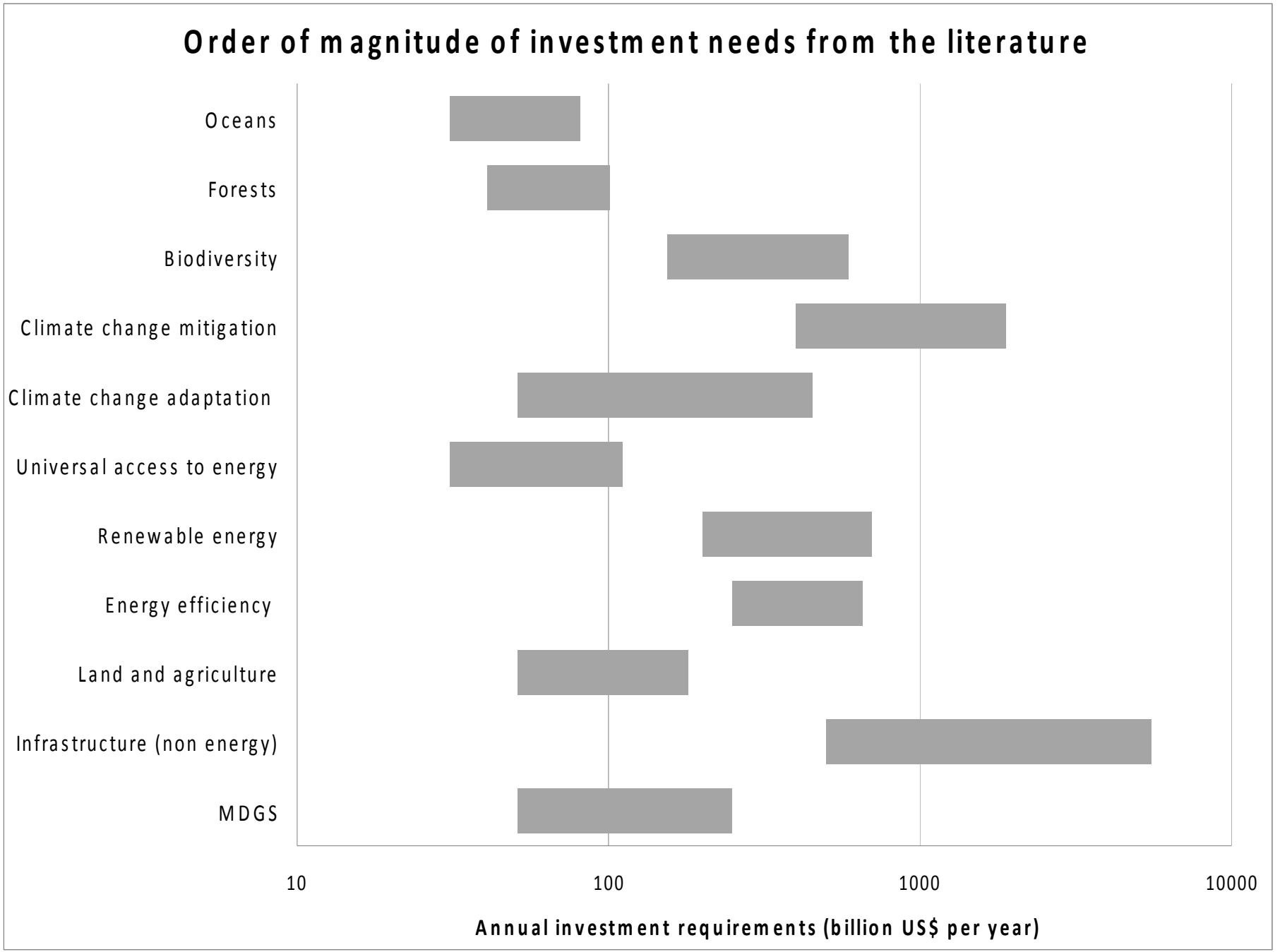


Figure 10.3 | Historic global total primary energy supply (direct equivalent) and projections from 164 long-term scenarios. Colour coding is based on categories of atmospheric CO_2 concentration level in 2100 (Fisher et al., 2007), with historic data from Grubler (2008). Figure and data adapted from Krey and Clarke (2011), modified to include two additional scenarios.

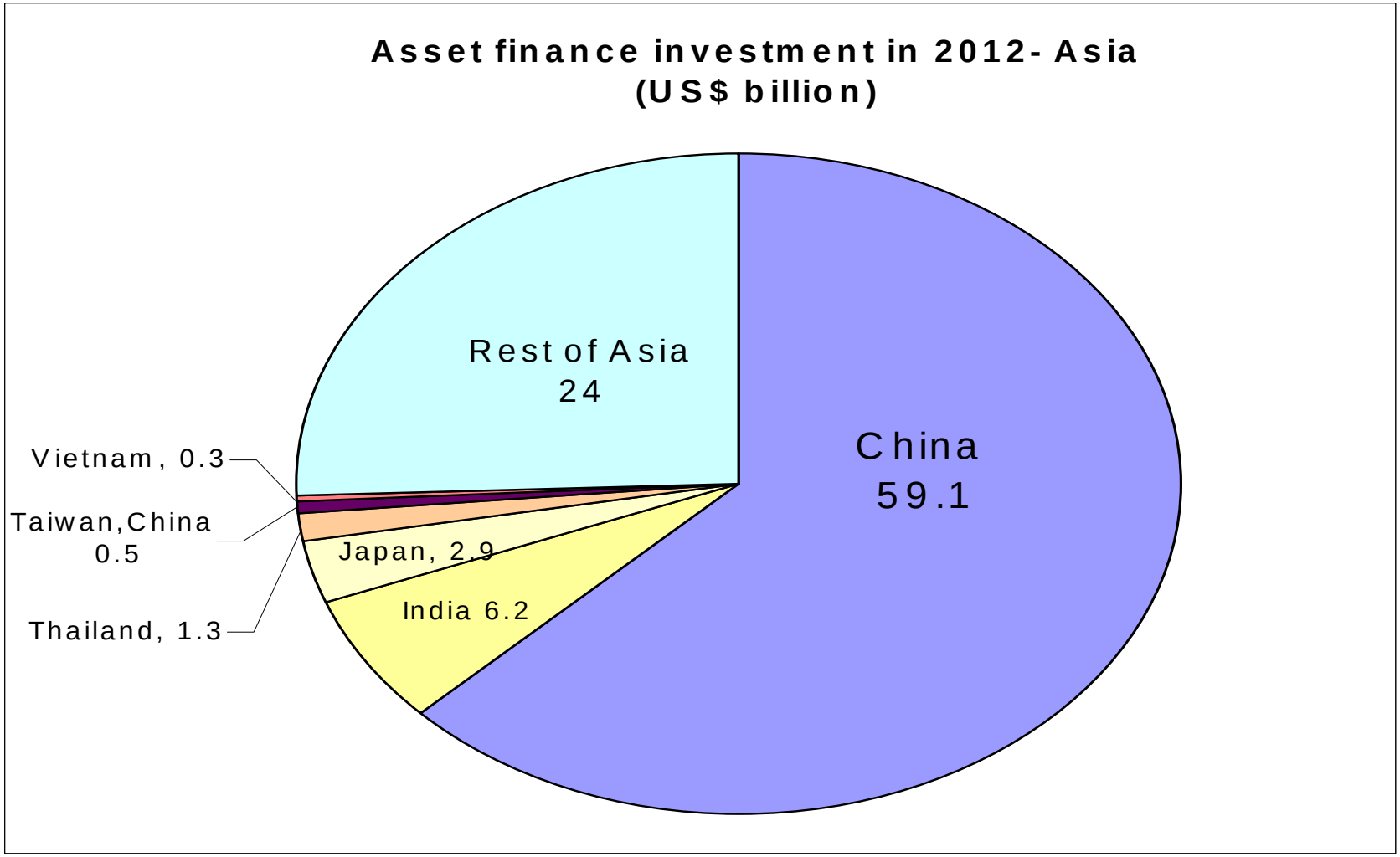
Source: Fideshick et al., 2010.


Order of magnitude of investment needs from the literature
Oceans
Forests
Biodiversity
Climate change mitigation
Climate change adaptation
Universal access to energy
Renewable energy
Energy efficiency
Land and agriculture
Infrastructure (non energy)
MDGS
10
100
1000
10000
Annual investment requirements (billion US$ per year)

Public support to private investment for SD

- SD transition will require the blending of public and private, domestic and international, capital and technical assistance finance
- Critical role of public sector in setting goals, building a regulatory environment including establishing clear incentives and price signals, and investing in public policy infrastructure
- So far, development impacts of projects financed with public support not well monitored
  - Reported lack of country ownership, financial additionality, development additionality, transparency
  - Geogrpahical distribution of private flows very uneven

Renewable energy: New asset finance by region, 2012



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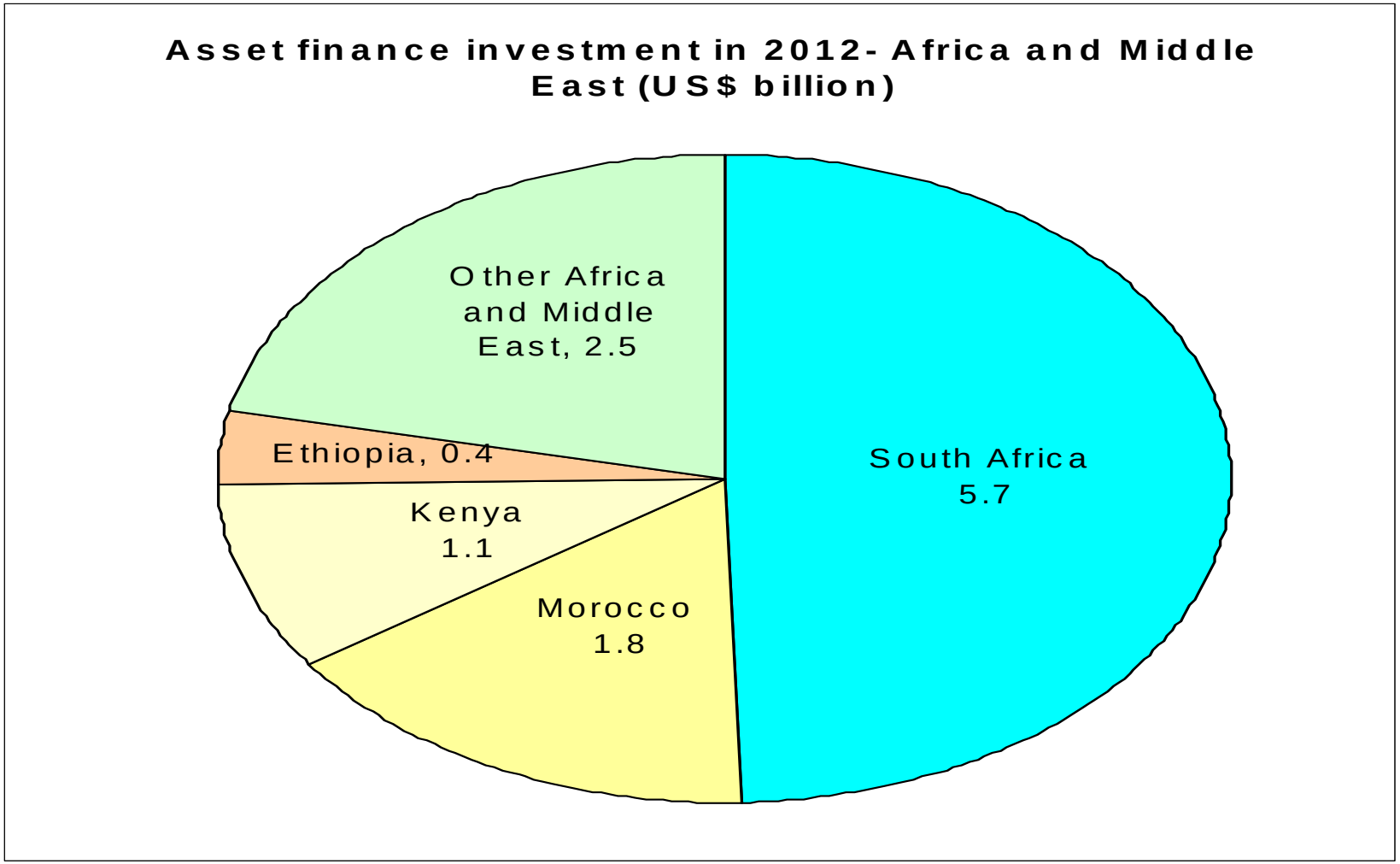
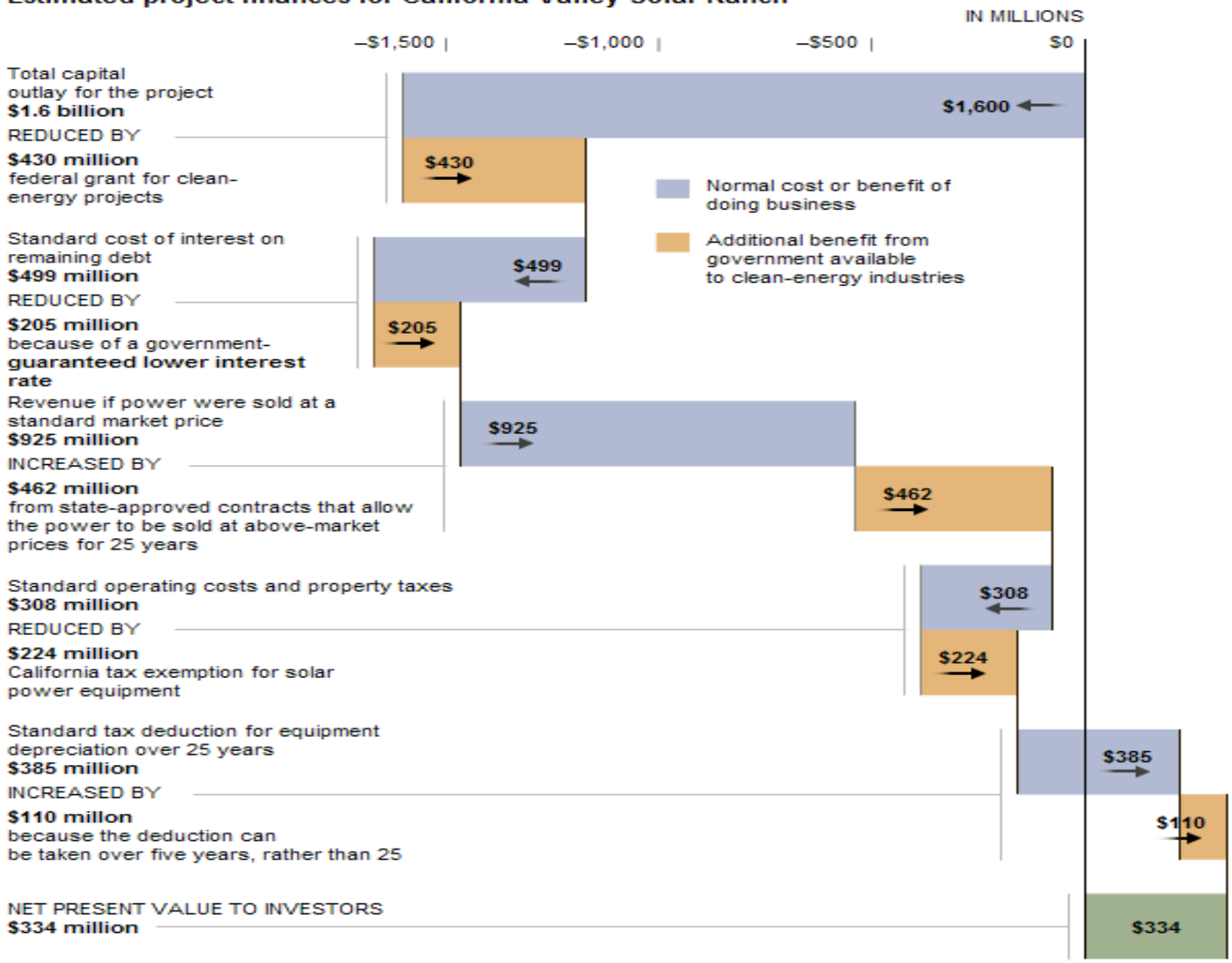


Public support to private investment for SD

- Wide range of public policy and financing mechanisms can be used create conditions for attractive investment risk/return profiles
  - reducing risks (through fostering long-term policy stability, streamlined licensing processes, local supply of expertise, etc.),
  - direct risk-sharing (through co-investment, guarantees and insurances, etc.)
  - increasing rewards (through premium prices, tax credits, etc.) compared to existing alternatives

- So far, international public funds mainly used to provide subsidies to private sector (e.g. concessional loans, grants, risk sharing mechanisms)
  - effective to demonstrate green technologies and encourage early entrants
  - not sustainable over the longer term, cannot promote investment at the required scale

Estimated project finances for California Valley Solar Ranch*



Public support to private investment for SD (cont'd)

- Proliferation of international public funds
  - Climate finance: more than 50 international public funds, 55 carbon pricing mechanisms, countless equity funds
  - Similar complexity of biodiversity finance
- Apparent abundance masks under-capitalization of most new funds
- Regional/ intra-regional imbalances in access to funds
- Increase in complexity for recipients
  - Green Climate Fund to manage a "significant share" of these resources: reduce fragmentation of international climate finance architecture?
  - Similar efforts attempted for other global commons (forests, oceans)
  - Despite these efforts, continued increase in complexity in coming years?

Public support to private investment for SD (cont'd)

- Sectors relevant to sustainable development are deeply interconnected
- Integrated solutions (i.e. in terms of public and private investment paths and related policies) can leverage synergies and substantially reduce financing needs
- "Silo" approaches still prevail
  - International agreements, targets and financial commitments organized by sector.
  - Institutional settings, budgets at the national level based on sectors
  - capacity for integrated planning and engineering at all levels remains limited.
- This leads to:
  - fragmentation of international, regional and national funding instruments, channels, agents and initiatives
  - unrealistic sector targets at all levels
  - missed cross-sector synergies
  - incompatible sector policies
  - inconsistent fund allocation across sectors

Public support to private investment for SD: Challenges going forward

- Use public resources in a truly catalytic and sustainable manner to unlock private investment
- Need to address shortcomings in current approaches and practices in blended finance w.r.t. development impact and effectiveness
  - Important to agree on criteria
- Rebalance external public finance towards countries and sectors most in need
  - notably LDCs and SIDS
  - sectors where the potential for private sector involvement is limited
- Consolidate international public financing landscape to reduce complexity
- Help recipient countries navigate this complexity
- Enhance capacities at the national level to use international public finance

Public support to private investment for SD: Challenges going forward (cont'd)

- Rebalance external public finance towards countries and sectors most in need
  - notably LDCs and SIDS
  - sectors where the potential for private sector involvement is limited
- Consolidate international public financing landscape to reduce complexity
- Help recipient countries navigate this complexity
  - increased focus on building and strengthening national systems to access and use international sustainable development finance effectively
  - national funding mechanisms that can pool traditional and non-traditional funding sources
- Enhance capacities at national level to use international public finance
  - integrated assessment of needs to use finance to its utmost potential
  - sectors/activities that contribute most to unsustainable trends and whose "greening" is cheapest addressed systematically
  - will require expanding or rebuilding national and sub-national capacity for long-term planning