



UNTT Working Group on Sustainable Development Financing

Main messages from the background papers produced for the Committee

Macroeconomic challenges to development policies
post-2015: lessons from recent country experiences

DESA DPAD EGM, 5-6 December, New York

UNTT WG background papers



- Paper #1: Review of investment requirement estimates published over the last decade for 9 sectors/areas
- Paper #2: Stock-taking of national, regional and international public sources for sustainable development finance
- Paper #3: Challenges in raising private sector resources for financing sustainable development
- Paper #4: Challenges and opportunities of public support to private investment for sustainable development

Public and private sources of Sustainable Development Finance - Overview



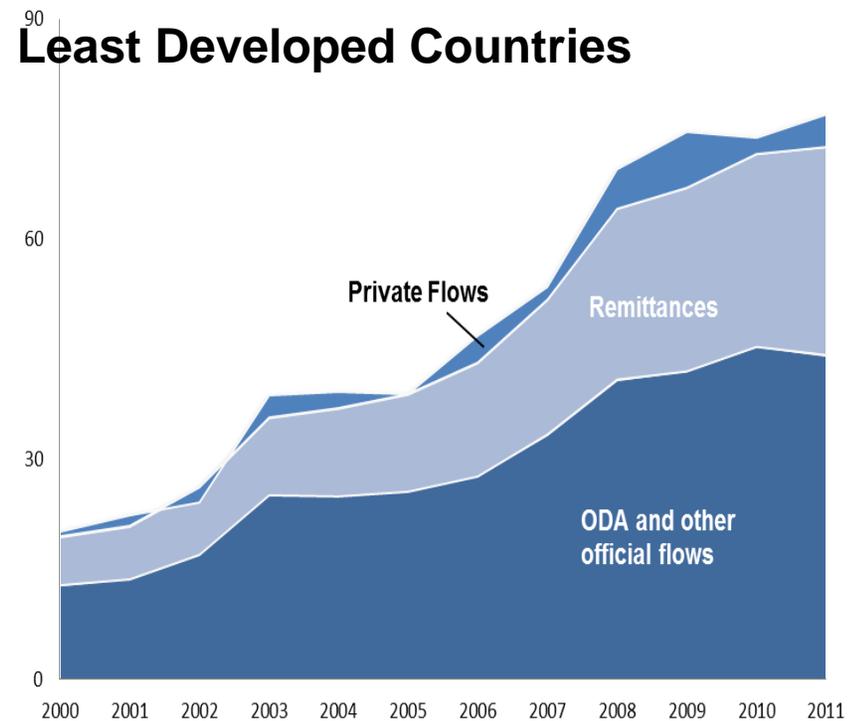
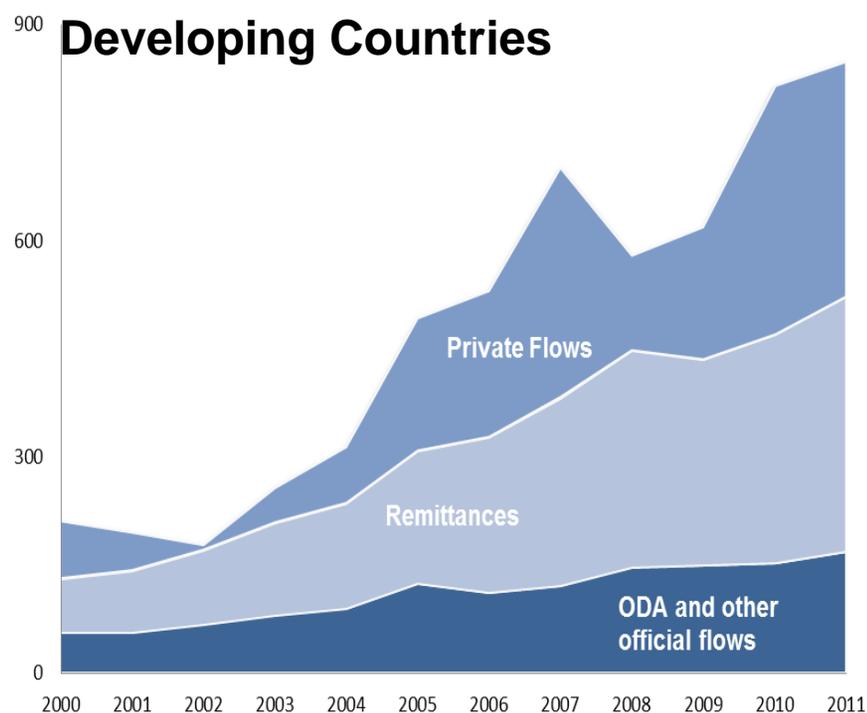
- While financing needs are extremely large, global savings are sufficient
 - *Annual savings of US\$ 18 trillion; global financial assets are estimated to be around US\$ 218 trillion*
 - *Yet not currently adequately allocated to sustainable development*
- Challenge lies in promoting a financial system that incentivizes a reallocation of a small percentage of global public and private savings towards sustainable development needs
- Public, private, domestic, and international financing will be needed
 - *As complements, not substitutes, as each has unique objectives*

Public and private sources of Sustainable Development Finance – Overview (cont.)



- Private financing key component, however:
 - *Even with pockets of socially responsible investment, private sector remains primarily profit oriented*
 - *Unlikely to invest adequately in areas of public need on its own*
- Public sector -- both policies and financing -- will thus remain the lynchpin of any financing strategy, in particular for:
 - *Poverty reduction and social needs*
 - *Providing global public goods, and other areas where private financing is insufficient*

Public and private financing flows to developing countries



- *Both public and private financing flows to developing countries have grown over the last decade*
- *Yet, private flows largely bypass the poorest countries, and ODA plays a much more important role in LDCs*

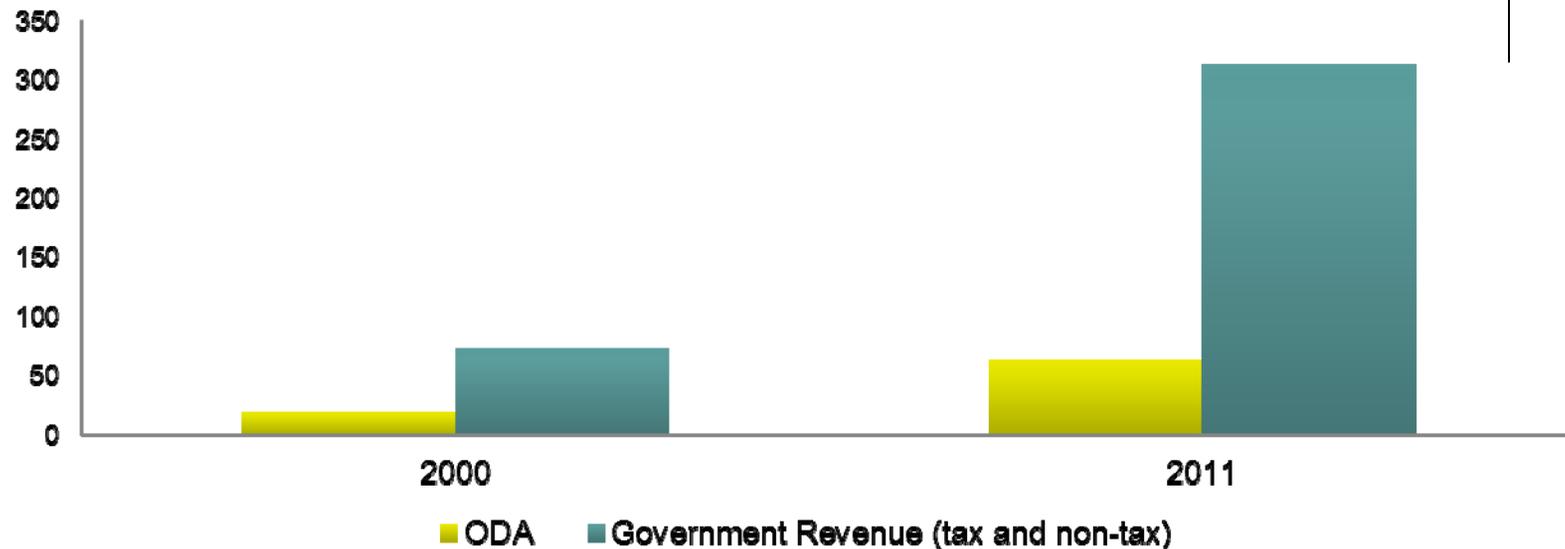
Public Sources of Sustainable Development Finance



- Domestic resource mobilization
 - *Most important financing source in a majority of countries*
 - *Improvements in many developing countries, but significant gaps remain*
 - *Further broadening of tax base, improvements of tax administration - specific solutions will vary between countries*
 - *Improving international tax cooperation, addressing illicit flows*
- International public finance
 - *ODA remains critical, particularly for vulnerable countries such as LDCs and sectors that do not attract other financial flows*
 - *But... fell for two consecutive years - commitments must be met*
 - *Concern that it will be increasingly used to financing global public goods*
 - *Innovative mechanisms have the potential to raise complementary resources, but should be additional to traditional ODA*



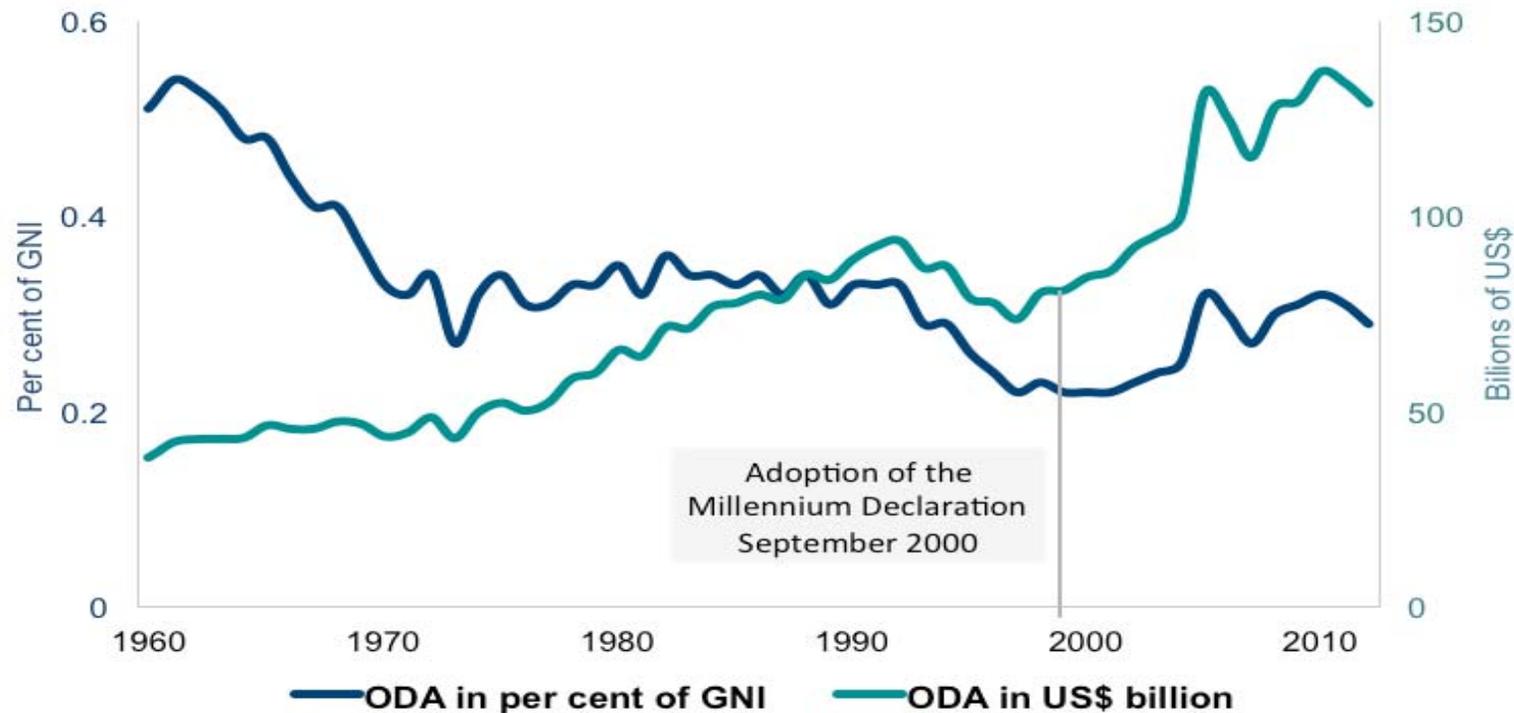
ODA and DRM in Low Income Countries (LICs) in US\$ billions



- *Domestic resource mobilization most important source in most countries*
- *Increased substantially – in LICs, DRM increased from US\$73 billion to US\$313 billion in 2011*
- *However, ODA remains significant, at around 20 per cent of government revenue*



Long term ODA trends



- *ODA increased following adoption of the Millennium Declaration and Monterrey Consensus*
- *Since 2010 ODA has fallen in real terms*
- *Most donor countries fall short of ODA commitments*

Private sector resources for financing sustainable development



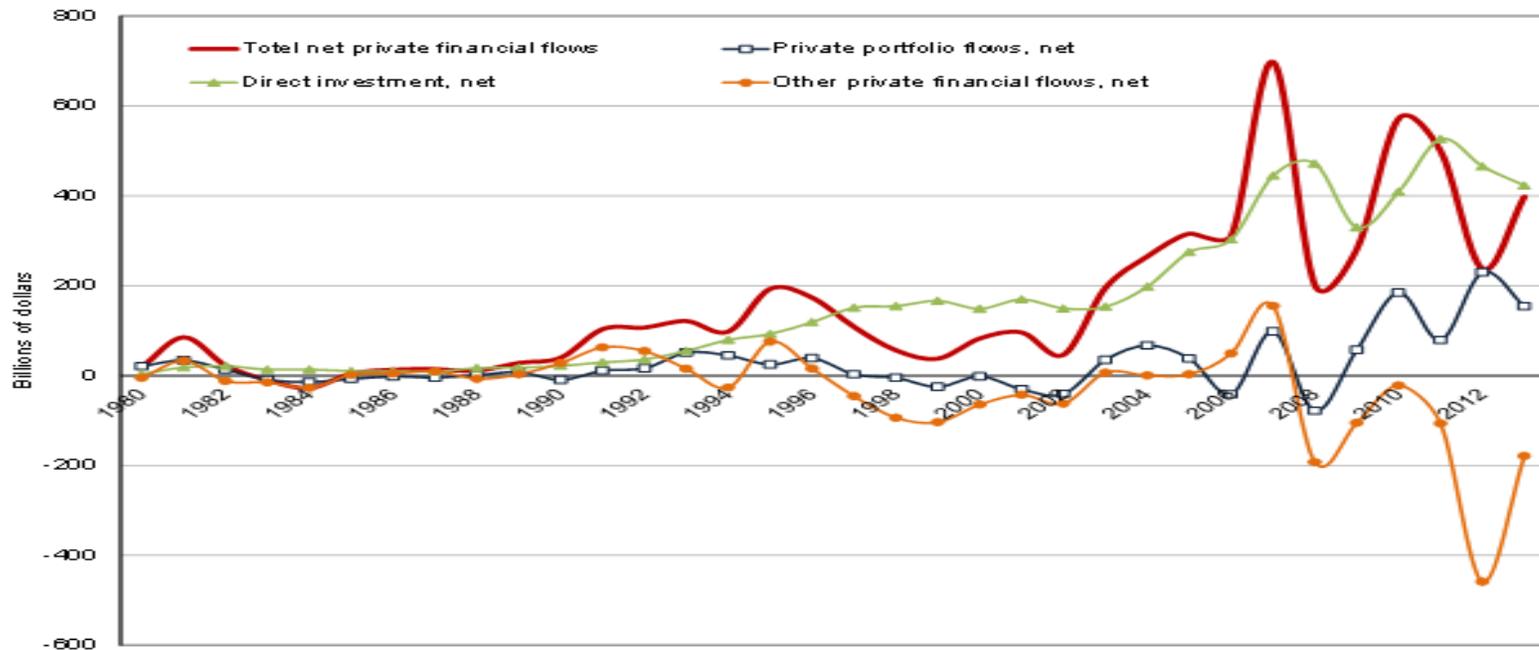
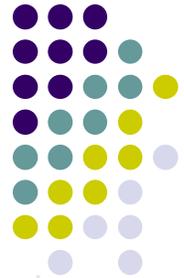
- Direct investment: fallen since crisis
 - *Decline is greatest in developing countries*
 - *Increasingly financialized*
- Bank financing: declined as well
- Expectation to tap institutional investors
 - *78-85 trillion USD in assets, but to date, even those with long duration liabilities not investing long-term sufficiently, less than 1% of assets in infrastructure*
 - *Cross border investments volatile*
 - *Many developing countries lack domestic institutional investor base*
- Under-investment in sustainable development
 - *Due to regulatory uncertainty, weak institutional frameworks, poor governance within countries*
 - *But also capital market failures (misaligned short-term incentives and time horizons of investors) across countries*

To incentivize private SD investment, public policies and financing mechanisms could:



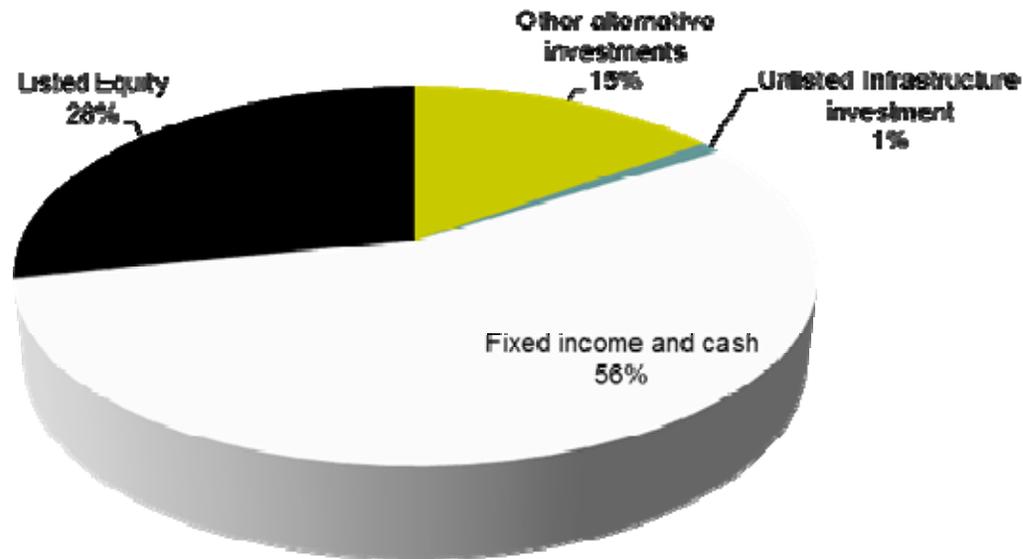
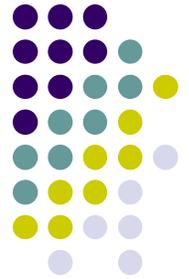
- Reduce risks
 - *improving enabling environment, good governance*
- Share risks
 - *Such as public-private partnerships, but should not mean risk transfer at the expense of taxpayers*
- Increase returns compared to existing alternatives
 - *Review, reform of subsidy measures*
- Change incentives
 - *Both bottom-up industry initiatives and top-down regulatory approaches*

Net private financial flows to developing countries, in US\$ billions



- *Net private flows peaked prior to the financial crisis in 2007, at US\$ 698 billion, fell to US\$237 billion in 2012*
- *Portfolio flows and bank loans subject to great volatility*
- *FDI flows: most stable and long-term source, but mostly to MICs*

Asset allocation of large pension funds, 2013



- *Institutional investors have US\$ 75-90 billion in assets*
- *Primary intermediaries such as pension funds, insurance, SWFs have long duration liabilities – suitable for funding long-term investment*
- *However, much of their investment is in liquid portfolios, less than 1% in infrastructure*



Domestic financial systems

- Sustainable development financing ultimately relies on
 - *Domestic financial systems*
 - *Domestic investors*
- Local market development
 - *Develop institutional investor base, but with an emphasis on incentivizing long-term investments*
 - *Public policy to develop capital markets – but with protection vs. short-term speculation*
- Balanced focus on stability and access to credit in regulatory and policy approaches
- Inclusive finance and financial services for all