

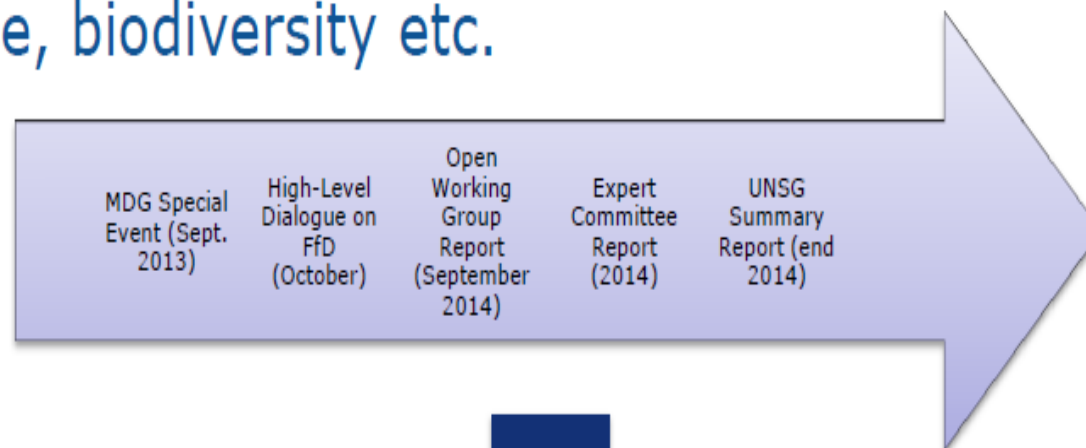
»» – Mobilization of Resources and Their Effective use

S.K. Ohme

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On-going UN processes:

- Open Working Group on Sustainable Development Goals
- Expert Committee on Sust. Dev. Finance
- Post-2015 work of UN, other intern. organisations, EU
- UN Financing for Development track
- Climate, biodiversity etc.





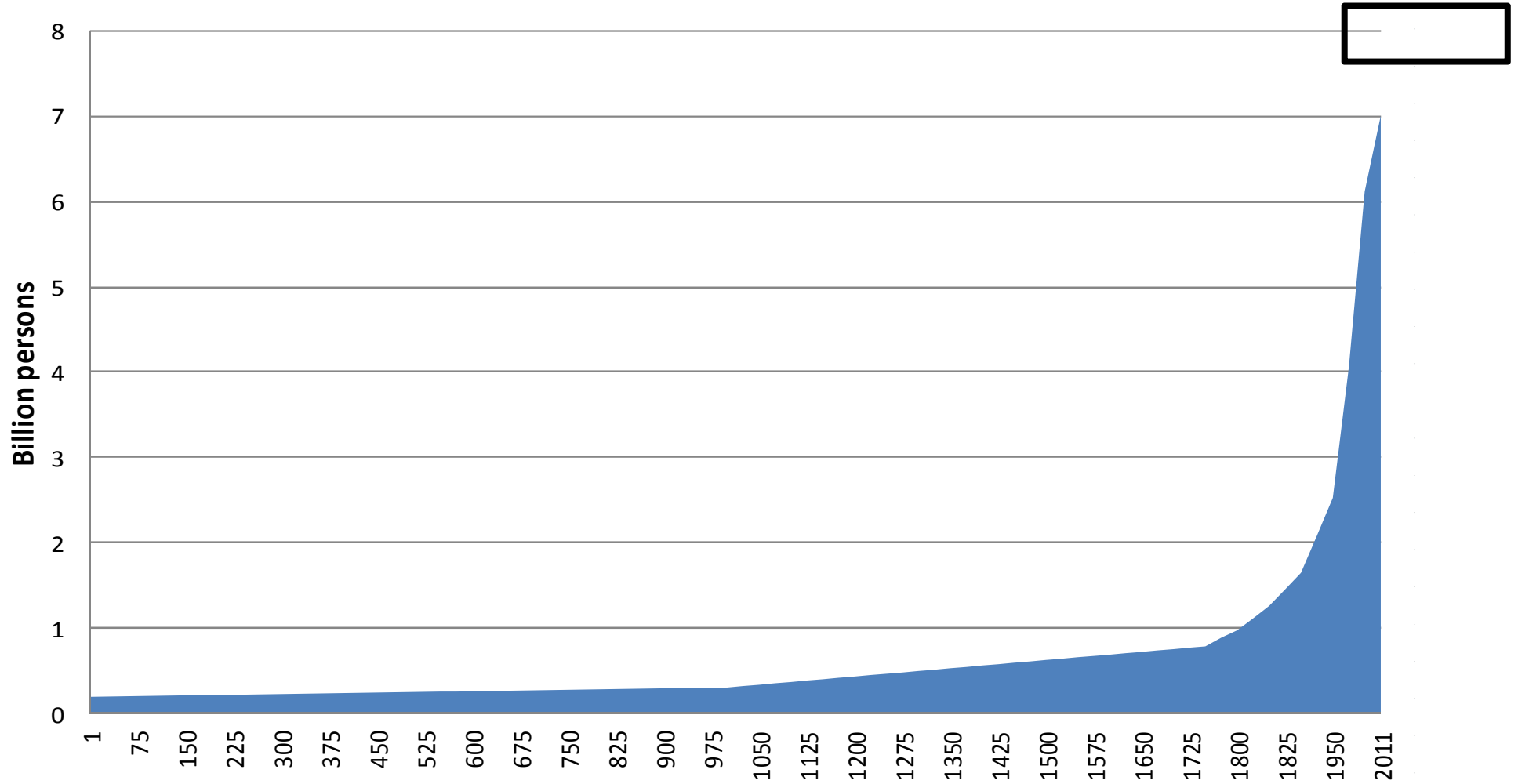
Where's the money?

Estimated EUR 7,129 billion of public and private finance available to developing countries in 2010

Finance available to developing countries (2010)	
Public domestic finance	€ 3,317 bn
Public international finance	€ 158 bn, of which 2/3 ODA
Private finance (domestic+international)	€ 3,652 bn
<i>Memo item: Total Reserves</i>	€ 4,074



World population growth, 1-2011



Source: Author and UN World Population Prospects: The 2008 Revision, online, 7 January 2011.

Sustainable development: The pillars

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Social Pillar

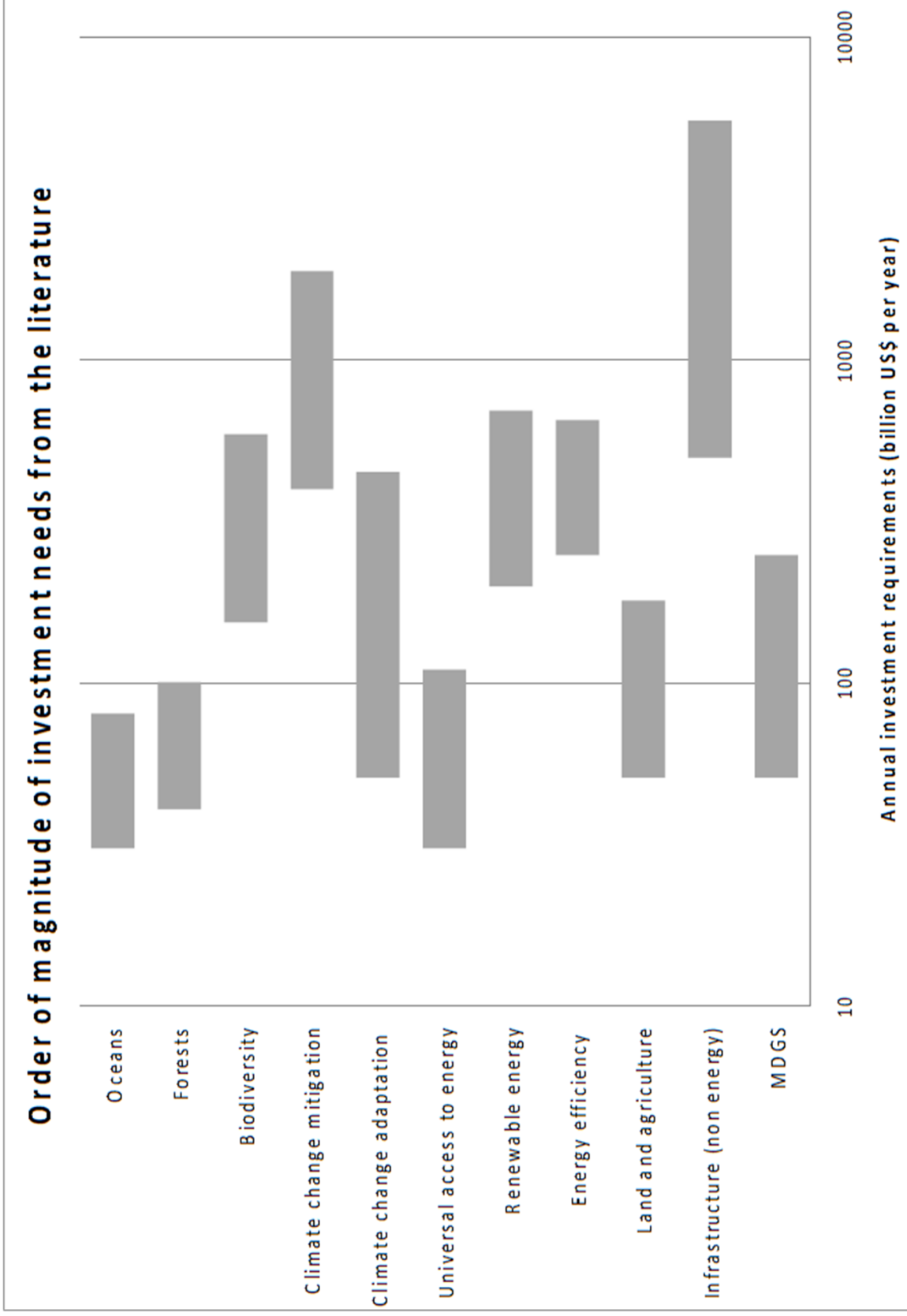
- Health
- Education
- Women
- Children
- Etc.

Economic pillar

- Consumption
- Production
- Investment
- Saving
- Trade
- Finance
- Macroeconomic framework
- Etc.

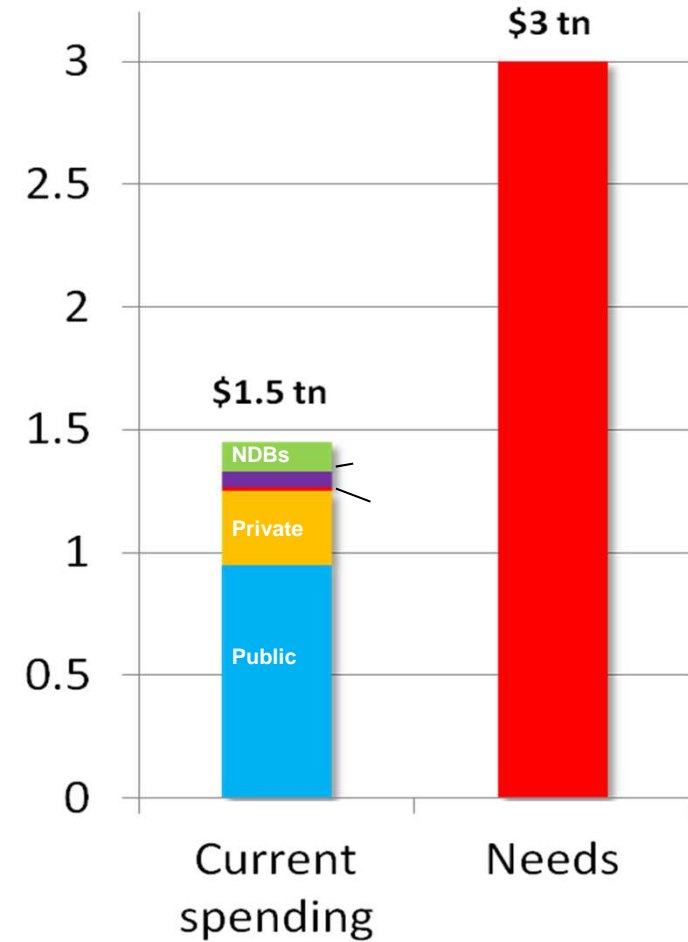
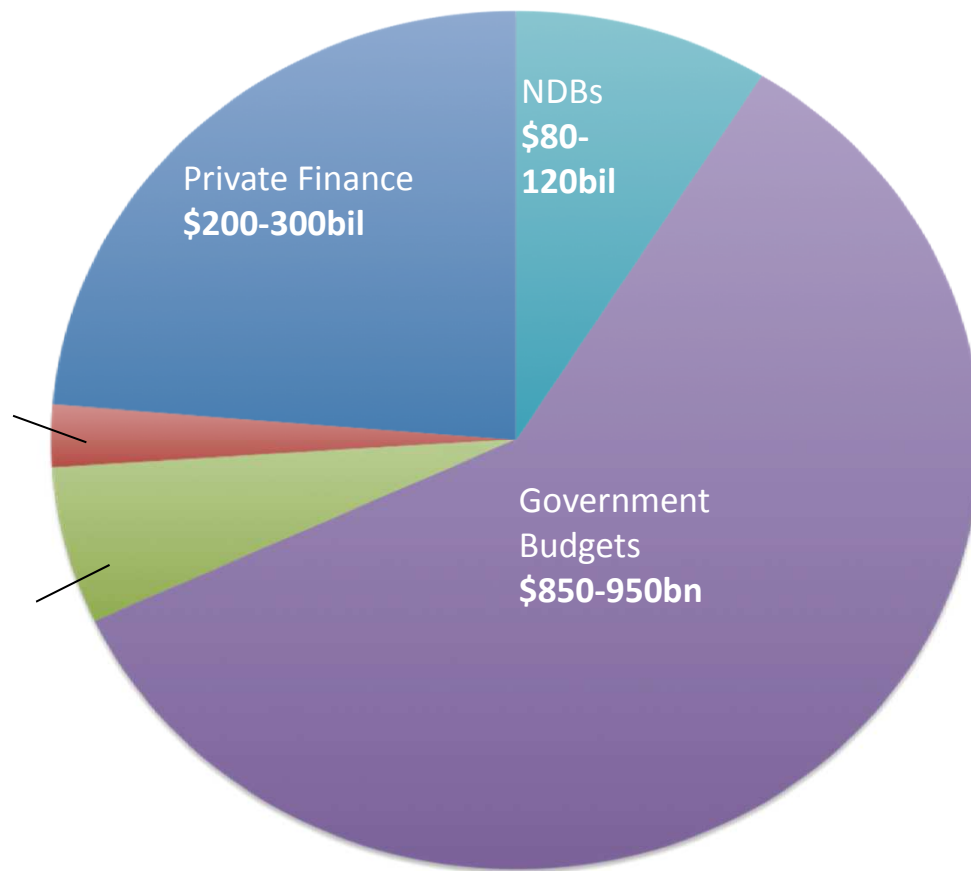
Environmental Pillar

- Climate
- Land
- Forests
- Water
- Etc.



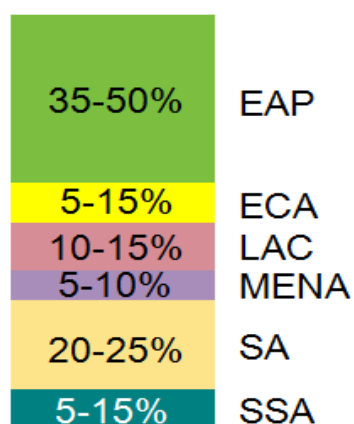
- »» Infrastructure deficits in EMDCs are inhibiting growth and development
- ❑ Globally, 1.4 billion have no access to electricity, 0.9 billion have no access to safe drinking water and 2.6 billion no access to basic sanitation
 - ❑ These deficits are **particularly high in South Asia and Sub-Saharan Africa**
 - ❑ Infrastructure is a growing constraint in most of the developing world. Evidence indicates that unless these needs are met, it is **unlikely countries will meet their aspirations for growth and development**

The existing infrastructure financing architecture does not meet the needs



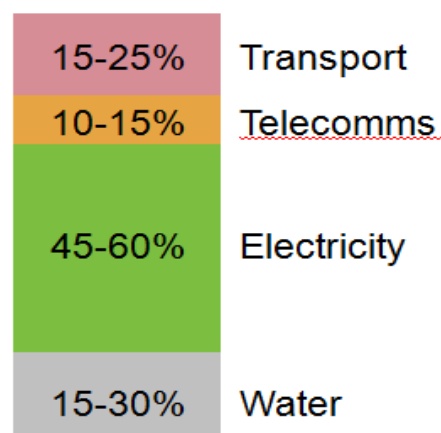
The need for investment across developing and emerging markets over the next decade is estimated to amount to \$3 trillion annually by 2030

Annual needs by region



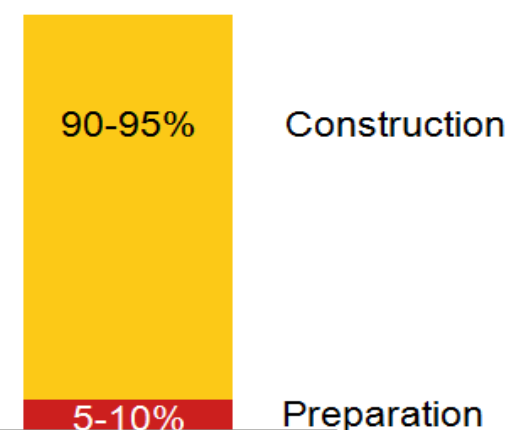
▶ East Asia (including China) will require the majority of investment
Relative to its GDP, Africa will constitute a substantial share

Annual needs by sector



▶ 45-60% of investment requirement will be in the electricity sector, including generation capacity, transmission and distribution networks

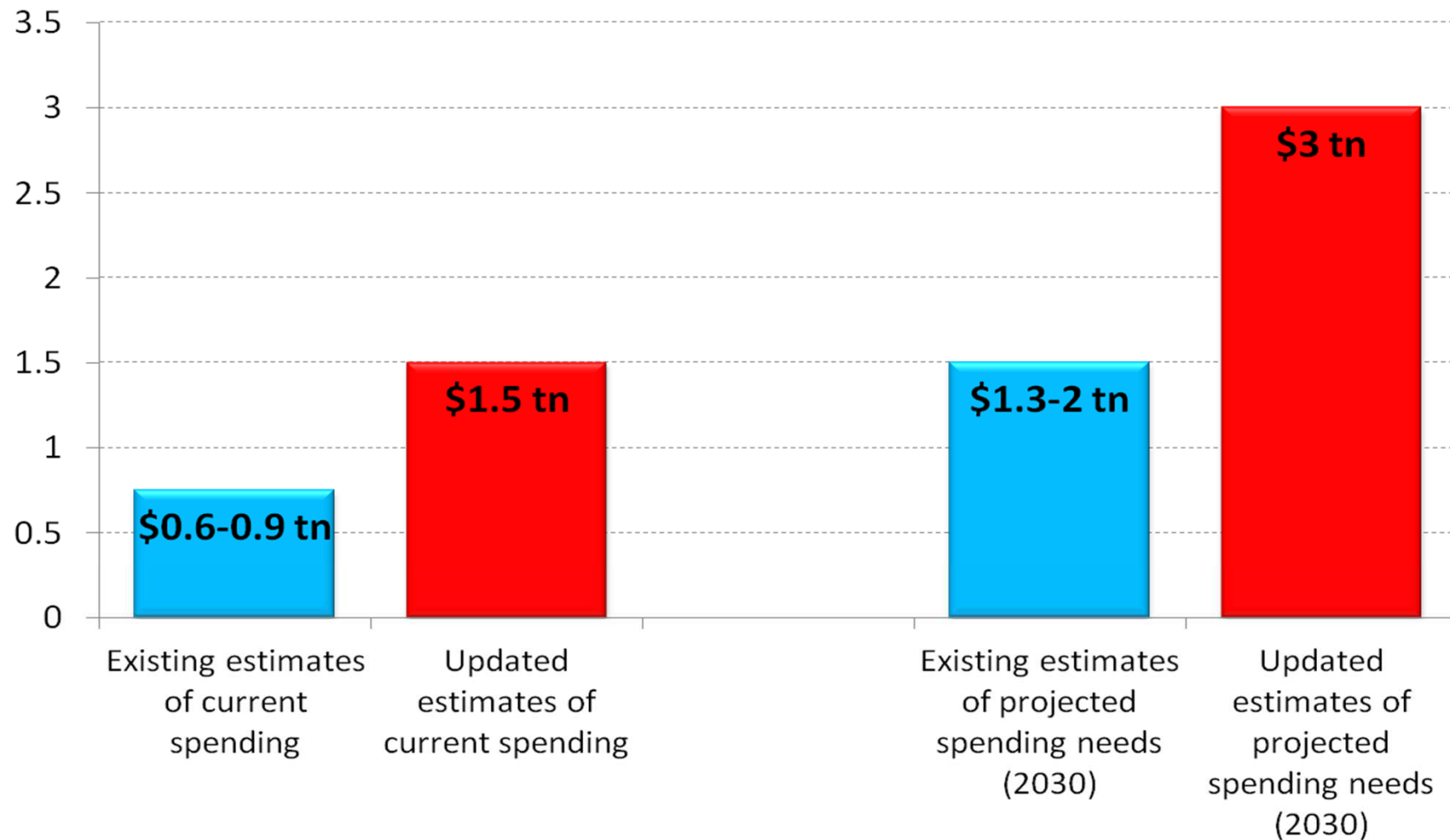
Annual needs by phase



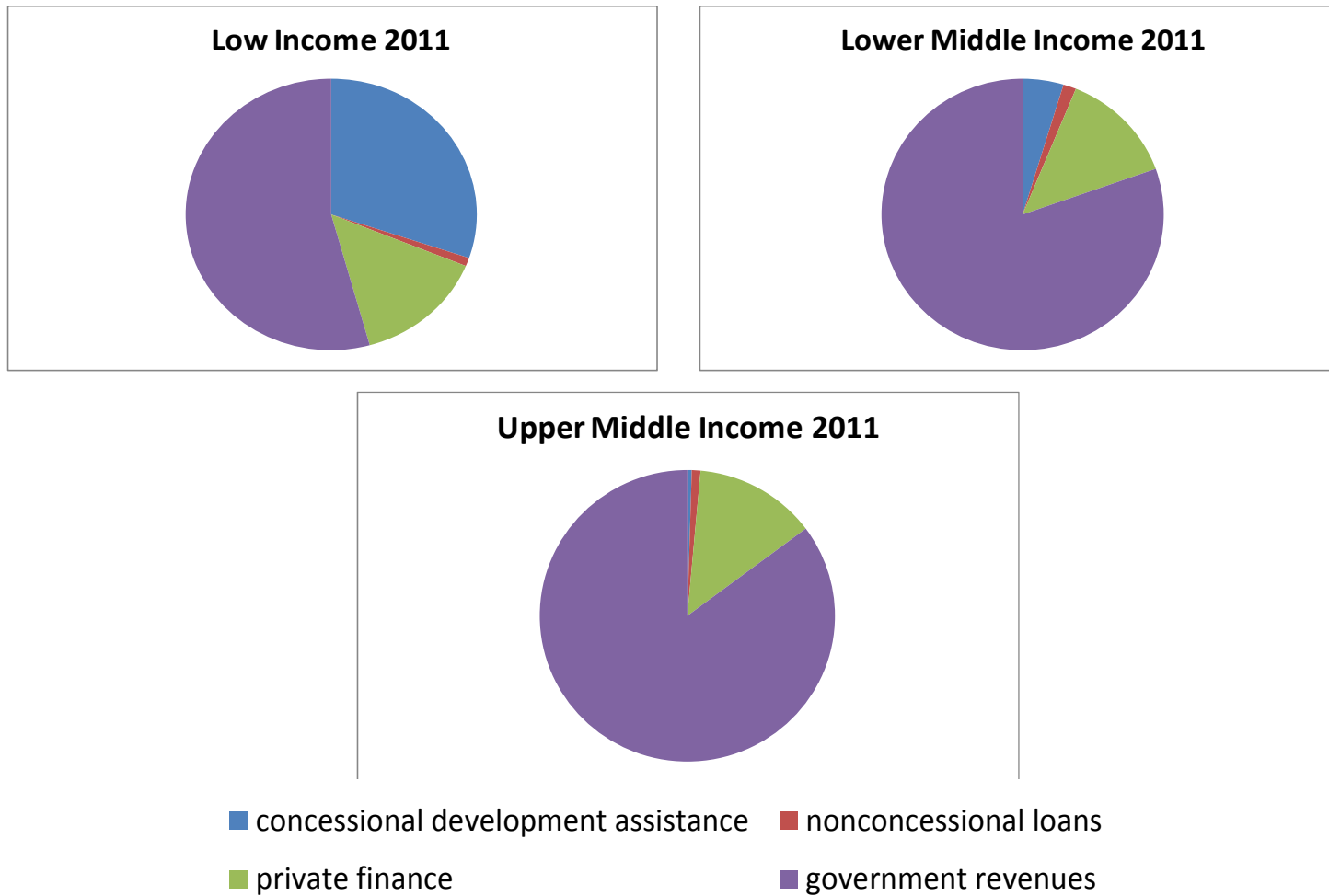
▶ Preparation costs, including costs of design and arranging financial support, can constitute up to 10% of overall costs

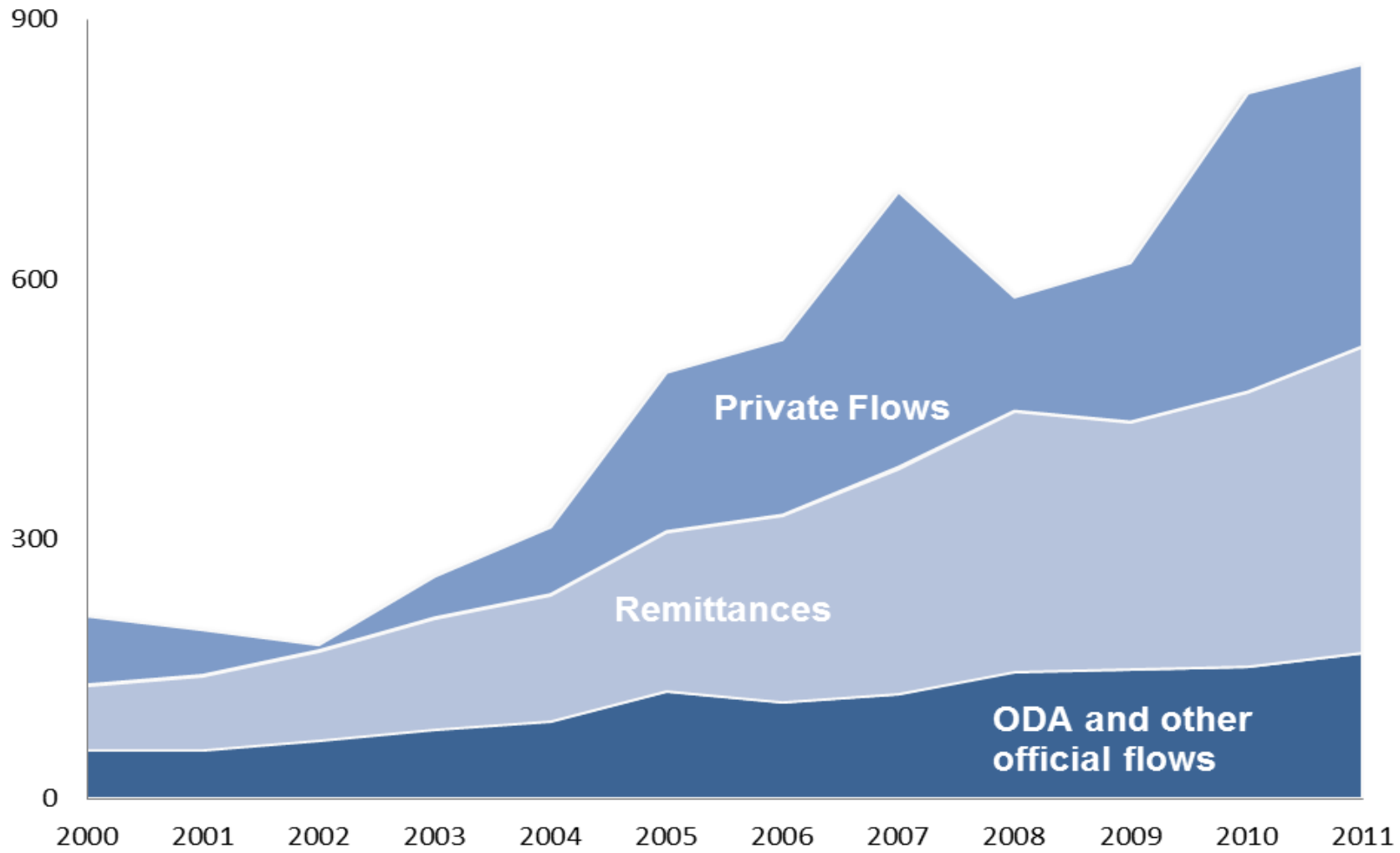
Note: \$ trillion per year, (2008 real prices), capital investments only (excl. operation and maintenance costs); this figure includes a conservatively estimated \$200-300 billion annual requirement for sustainability that is assumed split in the same ratio as the other investments across regions, sectors and phases

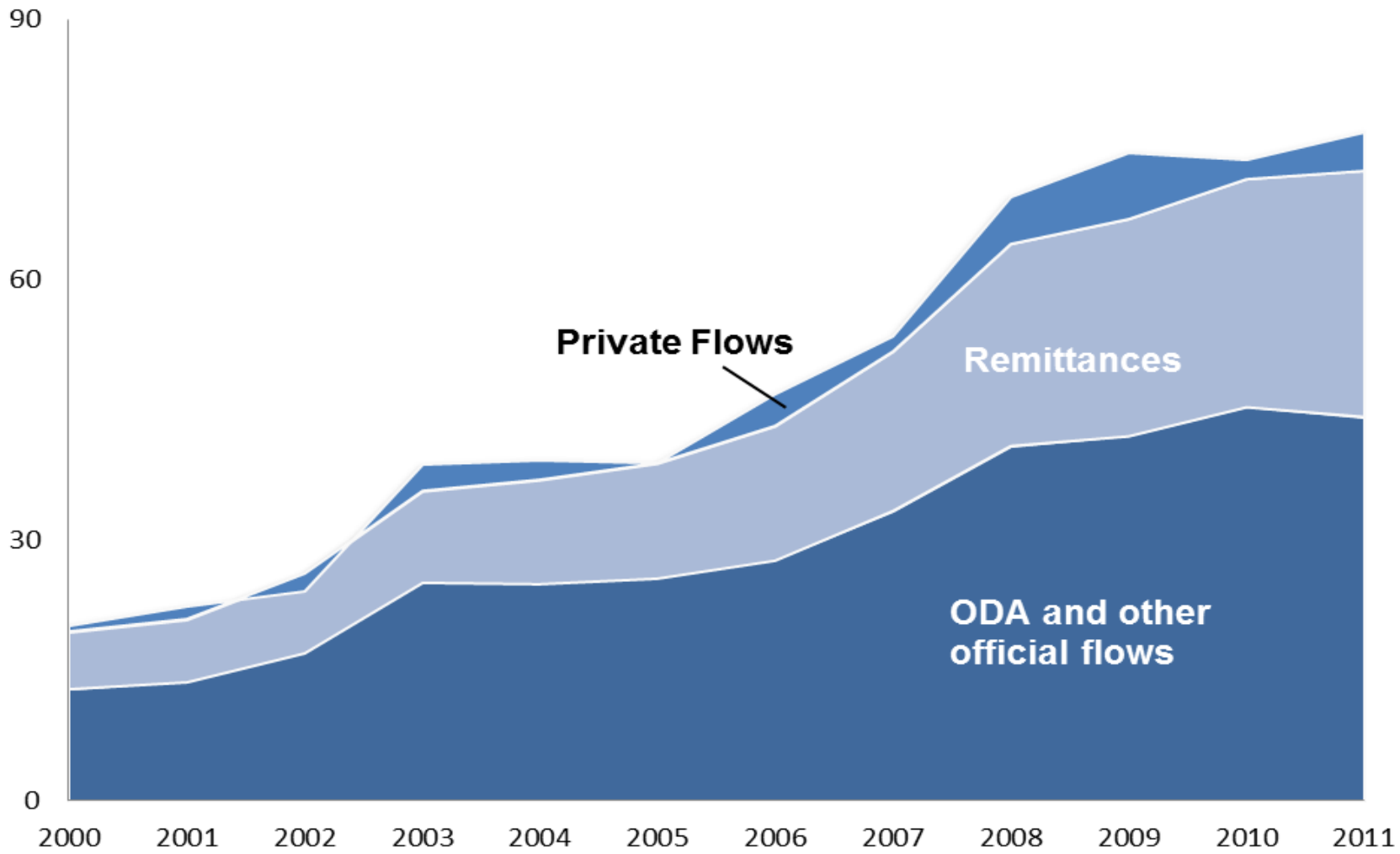
⇒ Existing estimates manifestly underestimate both current infrastructure spending and future spending needs



»»There is a consistent pattern in the changing financing structure as countries grow richer



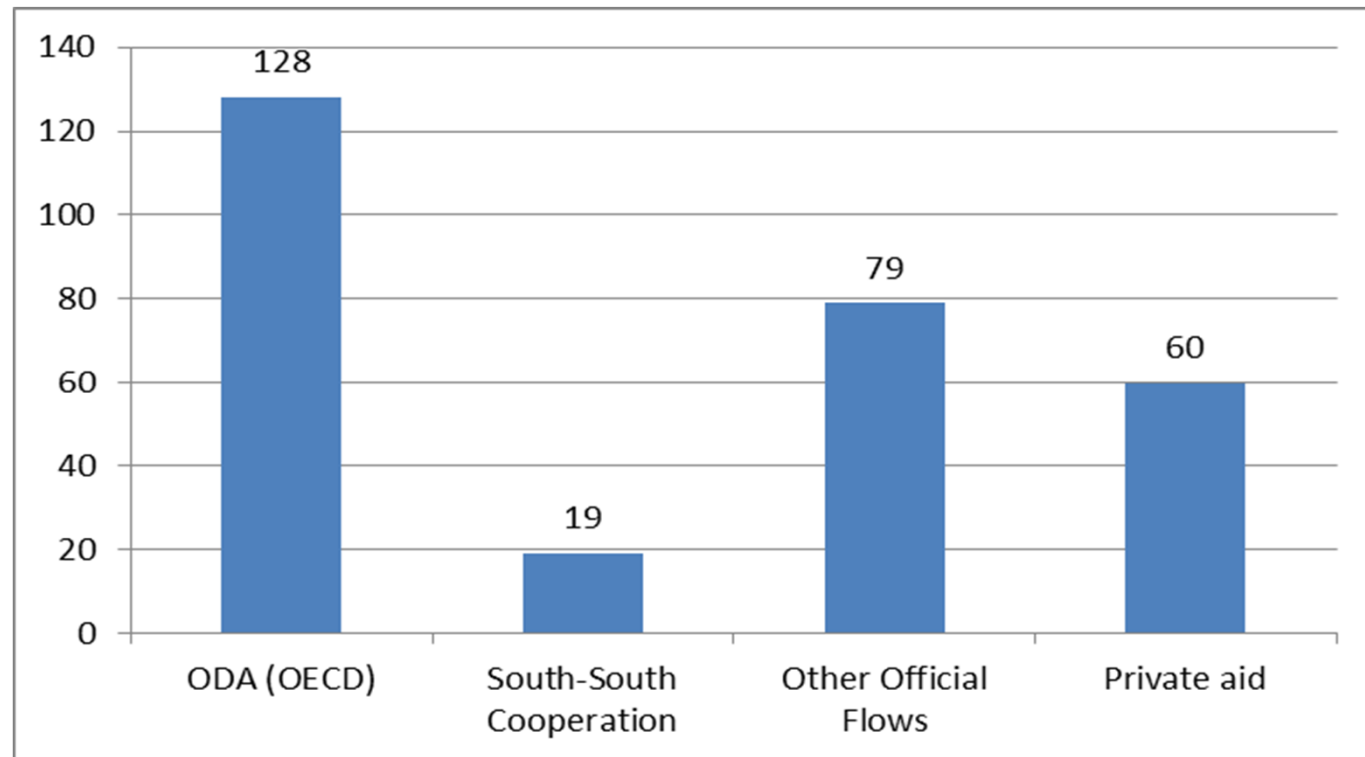






Aid flows have increased; recent downward pressure

Rise in aid from other 'non-traditional' providers (public and private)





Aid flows are poorly targeted; aid concentration has worsened over recent years

ODA to LDCs and fragile states has slowed; ODA to MICs has sped up

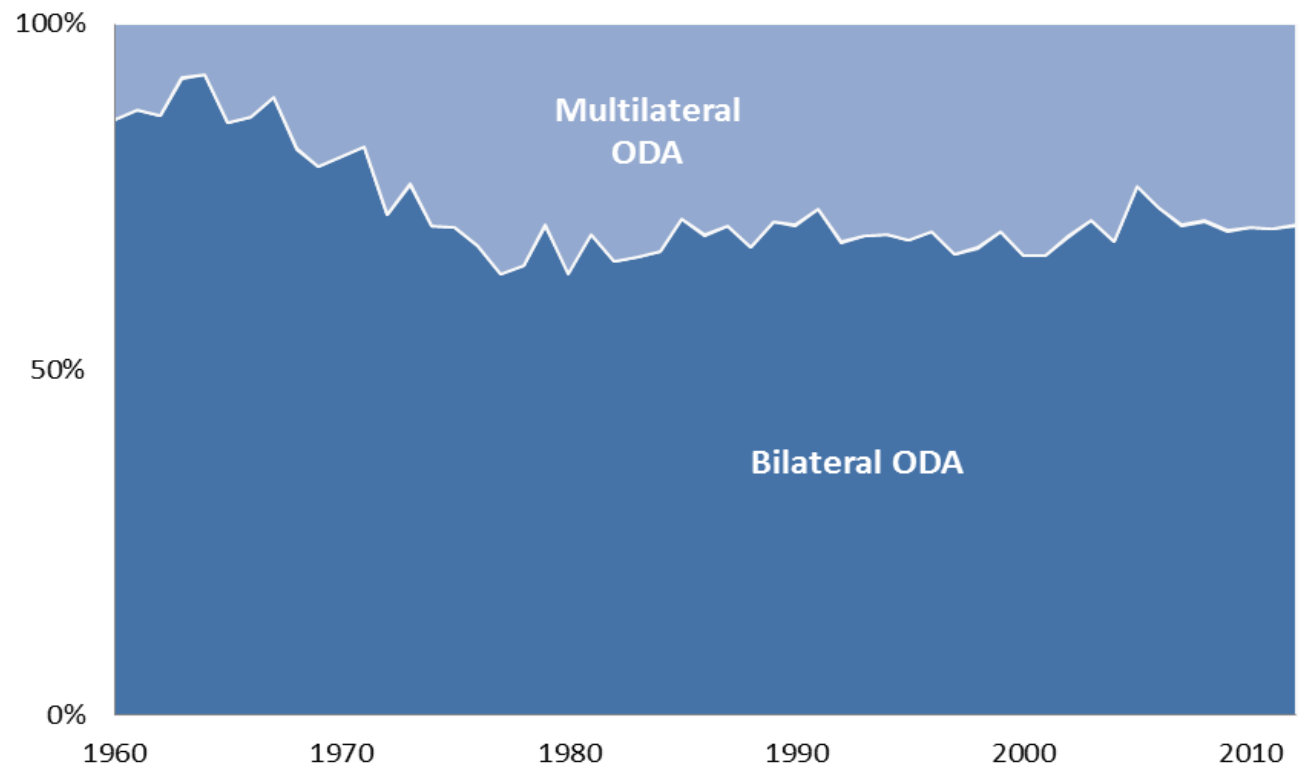
‘Graduation’ policies widely used to determine access to different forms of finance; current classification schemes focus on: income per capita; debt service burden; special conditions (e.g. post-conflict, small island)

	2011 ODA receipts	GNI per capita in 2011
Afghanistan	6384	470
Democratic Republic of the Congo	5216	190
Ethiopia	3364	370
Pakistan	3341	1120
Viet Nam	3268	1270
India	3014	1420
Kenya	2342	820
West Bank and Gaza	2301	/
United Republic of Tanzania	2294	540
Mozambique	1921	460
Iraq	1829	2640
Nigeria	1716	1280
Ghana	1713	1410
Haiti	1625	700
Uganda	1489	510
Bangladesh	1398	780
Cote d’Ivoire	1349	1090
South Africa	1214	6960
Mali	1196	610
Rwanda	1190	570
Top 10 in total	33,445	/
Share in total ODA (percentage)	38	/
Top 20 in total	48,164	/
Share in total ODA (percentage)	55	/



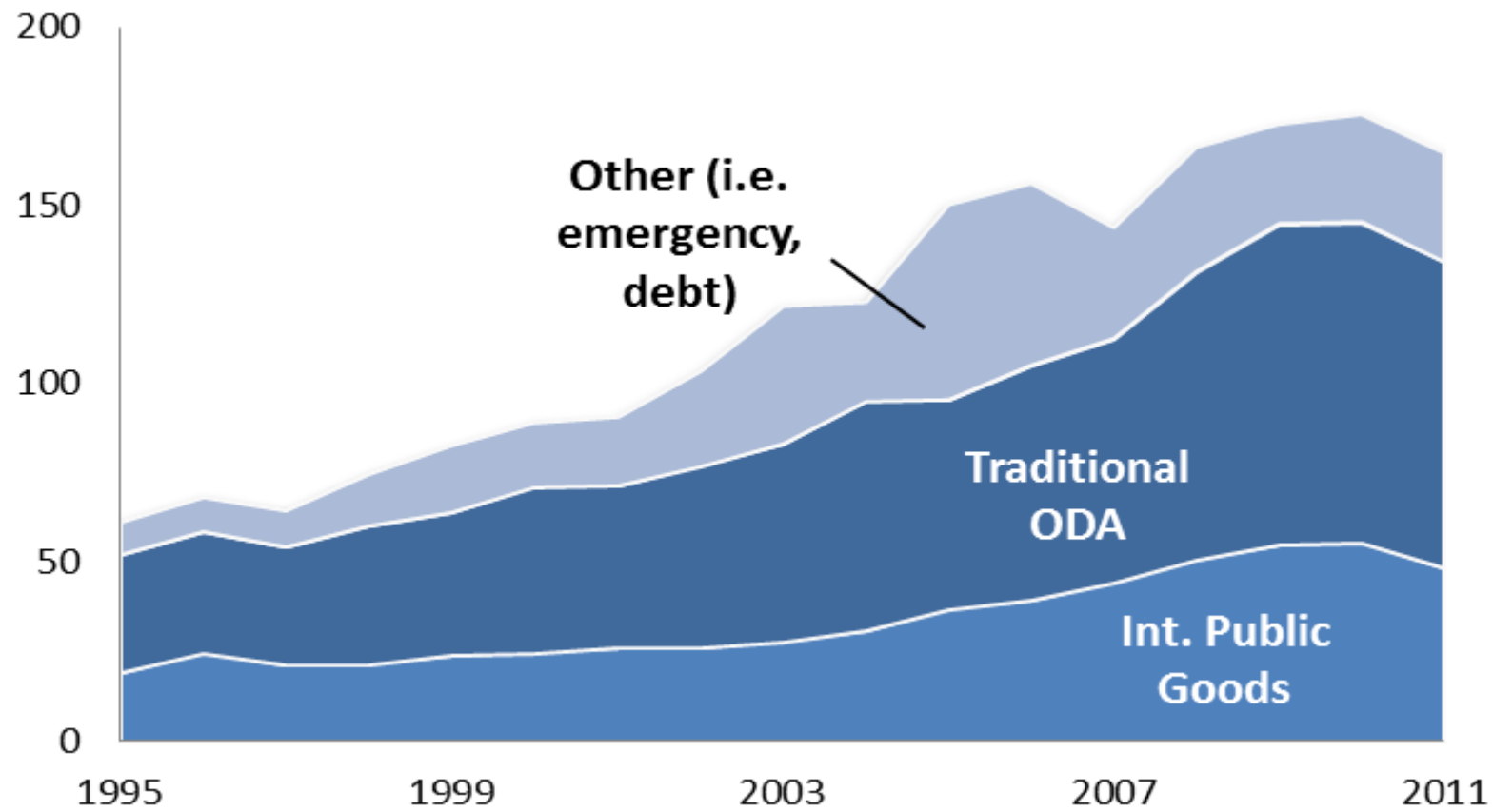
A new age of choice in the development financing landscape, but...

Increased complexity and fragmentation → inefficiencies

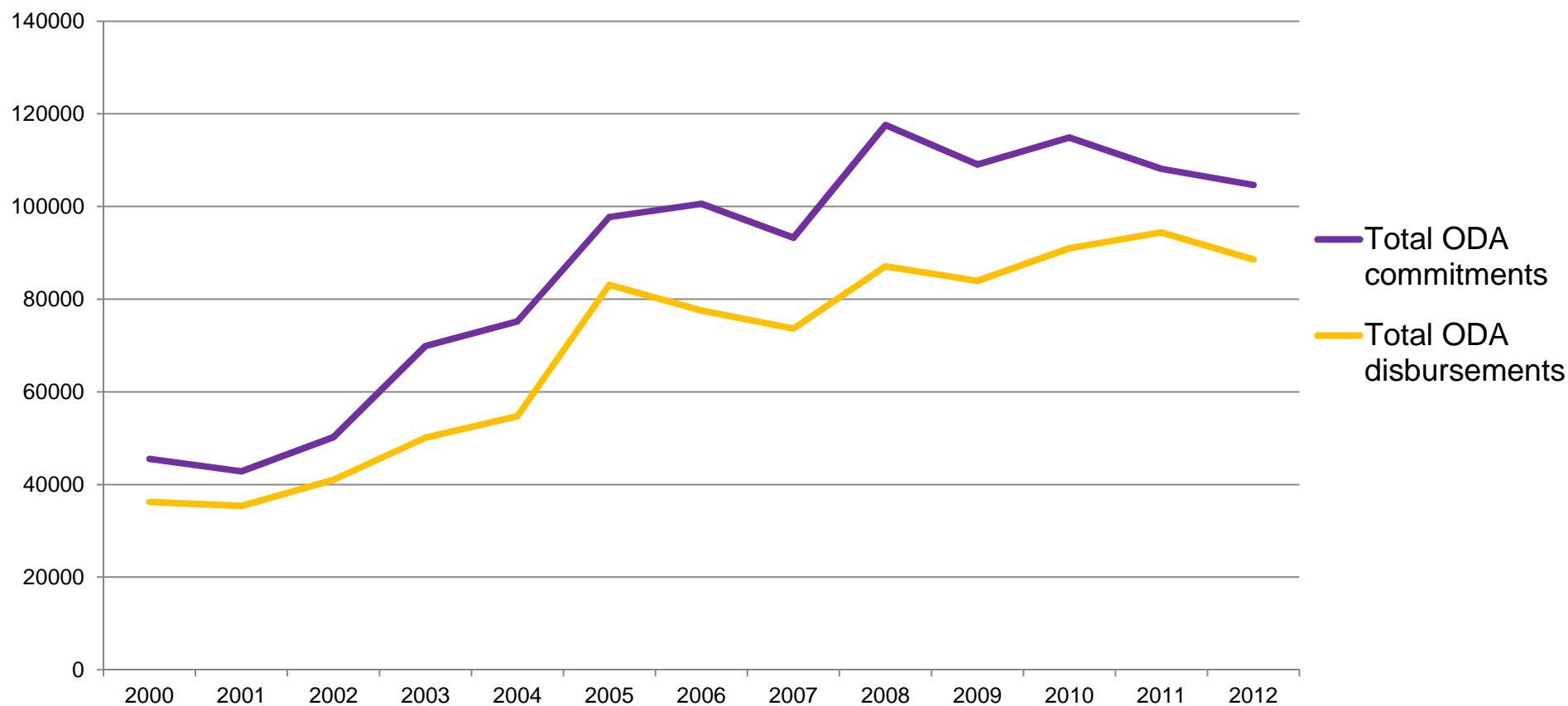




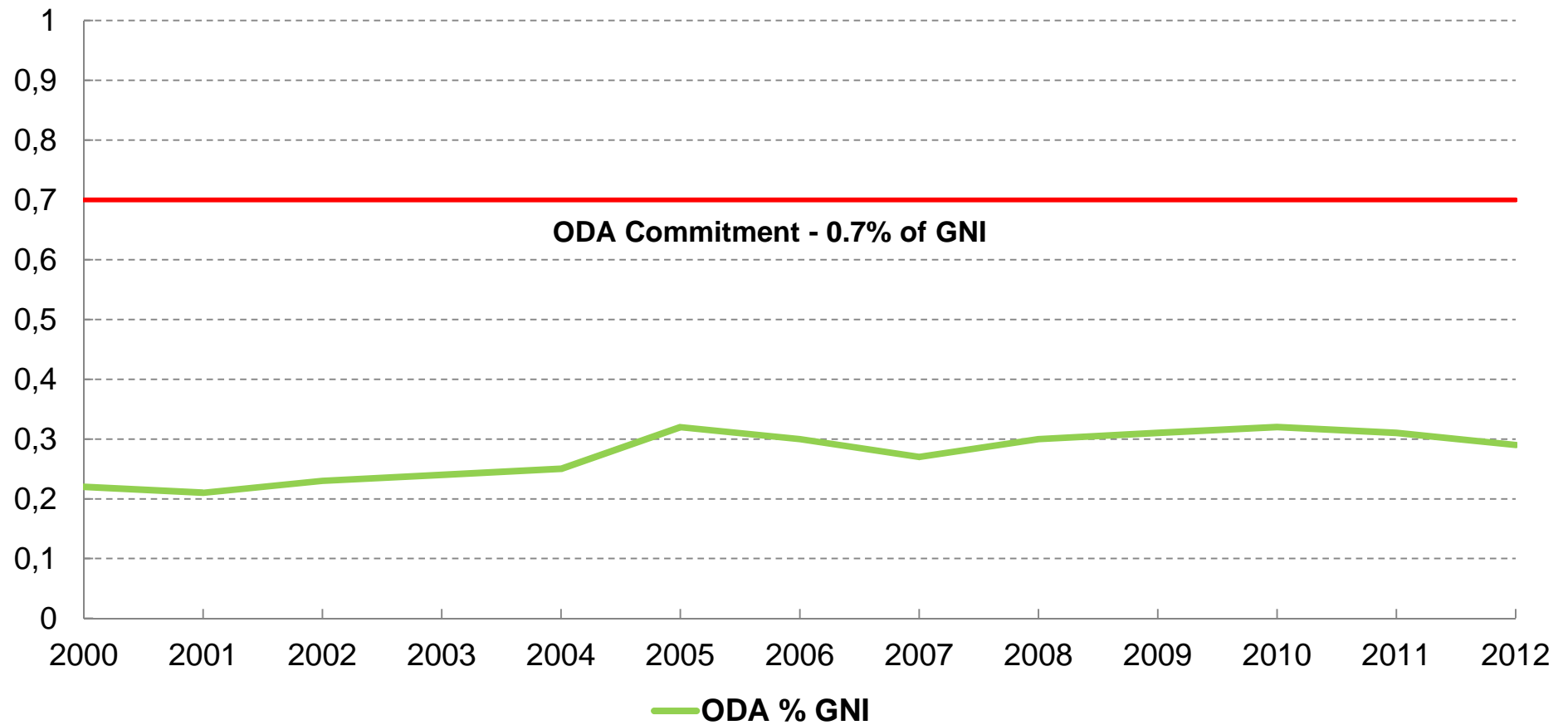
A steady proportion of aid allocated to GPGs



»» ODA has increased significantly since Monterrey, but has stagnated in recent years



»» ...and remains short of global targets

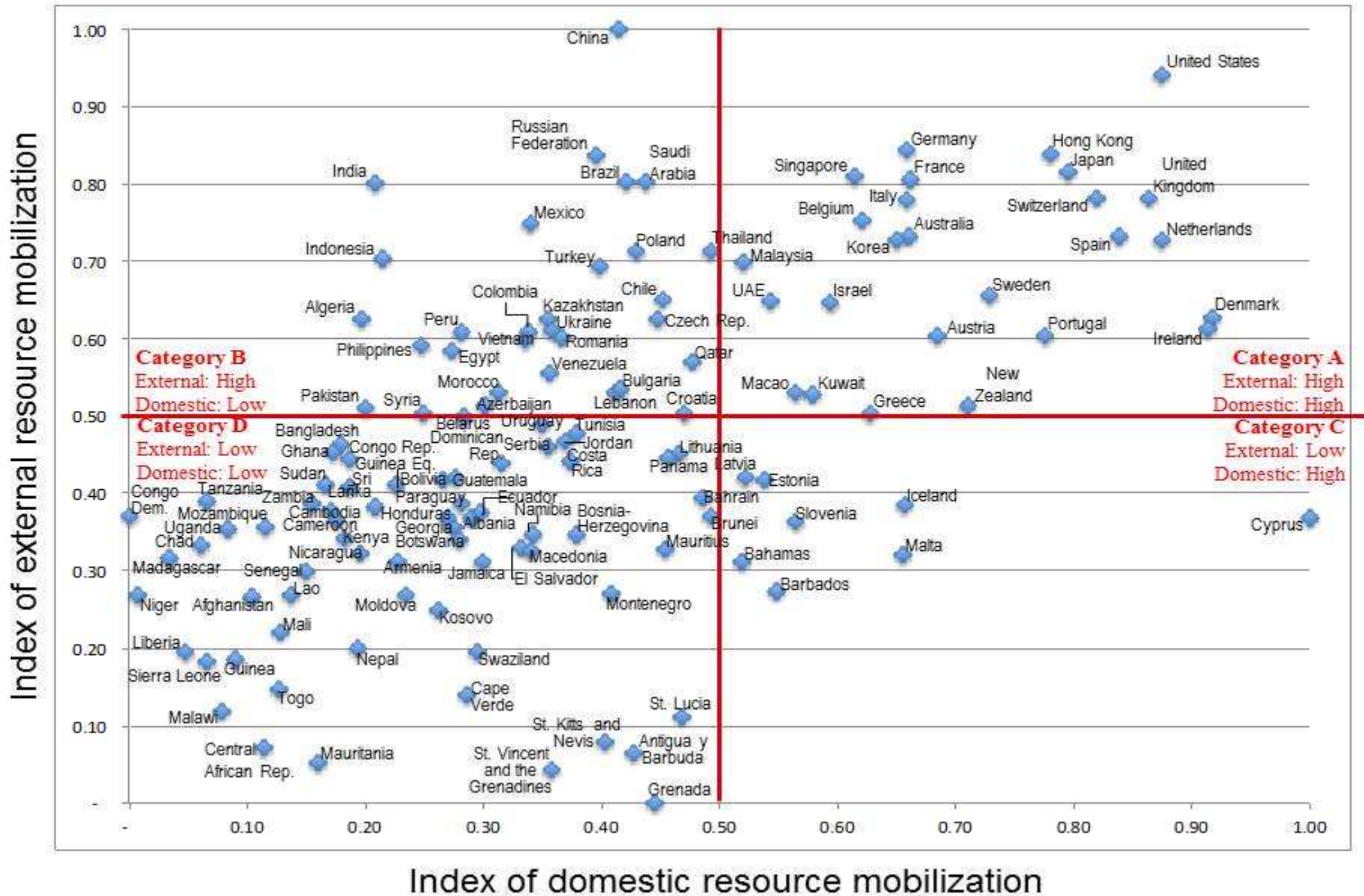


»» Progress since Monterrey

1. Domestic resource mobilization	<ul style="list-style-type: none">• A virtuous cycle of savings, investment, exports and growth in EMDCs has facilitated increased resource mobilization
2. Private international financing	<ul style="list-style-type: none">• FDI flows to EMDCs have steadily increased but overall private capital flows have been highly volatile
3. Trade	<ul style="list-style-type: none">• Steady growth in international trade with rising share of EMDCs, but failure to deliver on Doha development round
4. ODA	<ul style="list-style-type: none">• ODA has been augmented but falls short of commitments
5. External debt	<ul style="list-style-type: none">• The debt situation of EMDCs has improved significantly but pockets of vulnerability remain
6. Systemic considerations	<ul style="list-style-type: none">• Initiation of IFI reform, though more remains to be done. Limited progress on other systemic issues

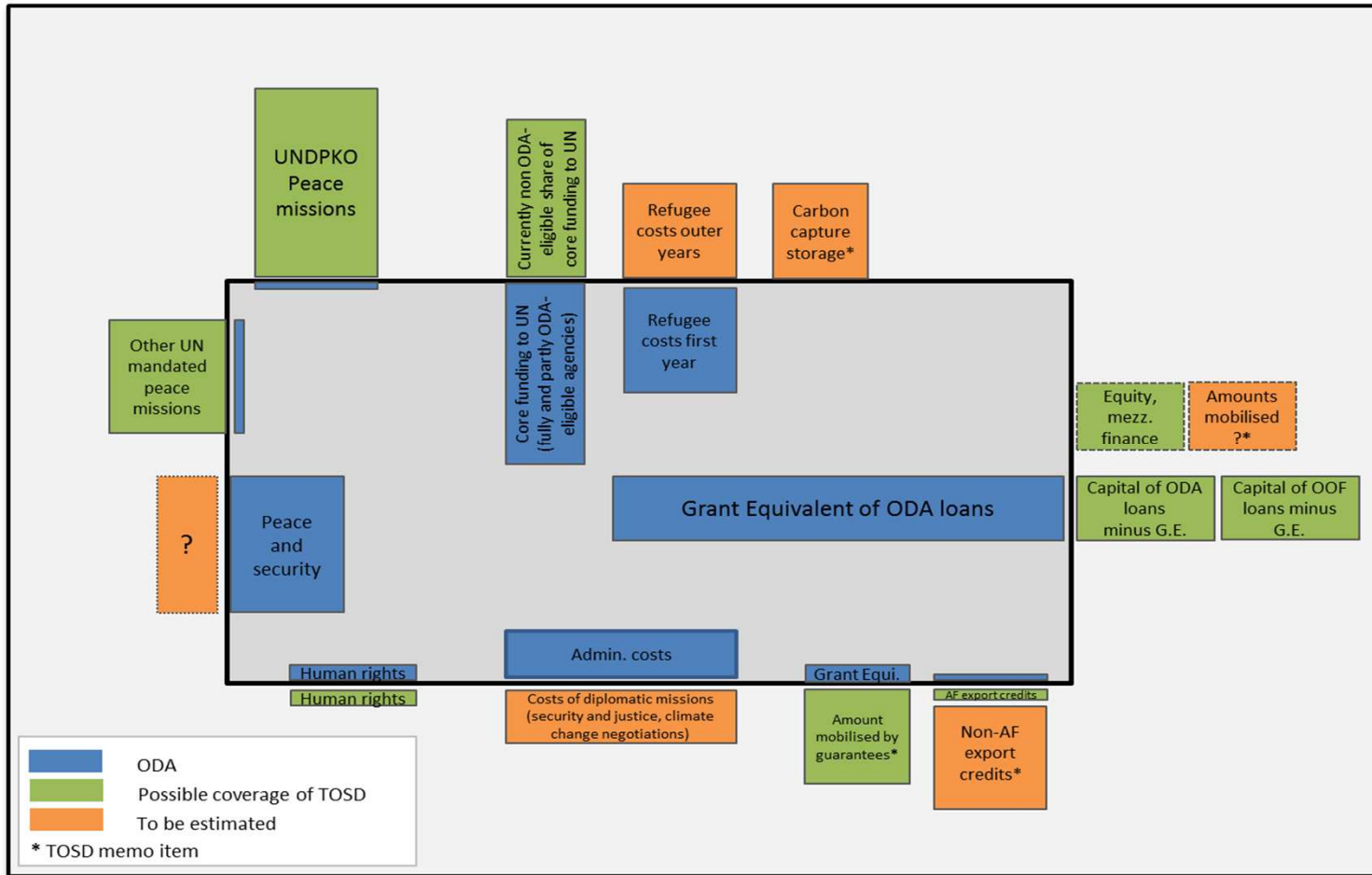
»» What challenges have evolved and what have been reinforced since Monterrey?

- ❑ The global economic landscape has shifted
 - We are now clearly in a multi-polar world, with higher and more solid EMDC growth, but unevenness persists and there are downsides to long-run growth
- ❑ Building on the MDGs
 - Poverty and human development remain persistent challenges
 - But there is also a need for focus on employment and inequality
- ❑ Sustainability is an enormous concern
 - Growth and stability in the medium- and long-term are at risk if sustainability including climate change is not addressed
- ❑ Need to revisit the financing framework
 - ODA remains crucial for many countries





Context: Post-2015 framework



»» ... and significant gaps exist

Public financing

- The majority of financing has been coming from the public sector
- While government budgets will remain significant, they will be constrained going forwards
- Adequate and sustainable domestic risk mobilization and an enabling regulatory environment will be crucial

Private financing

- Private financing is profoundly underutilized
- International private financing dropped off sharply following the crisis, with domestic banks playing a larger role
- New and better approaches to private-public partnerships are needed to intermediate intertemporal and policy risks

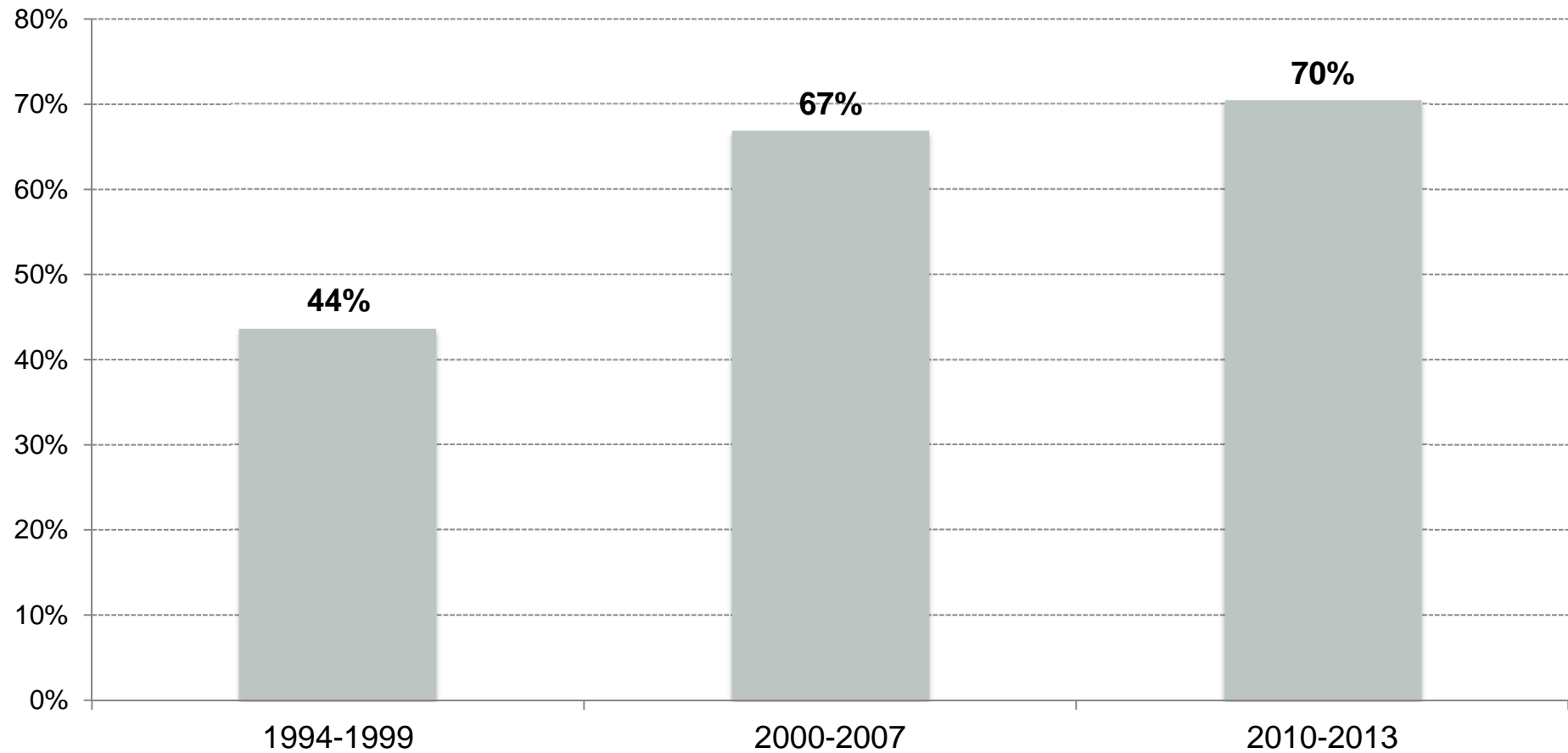
ODA

- The role of ODA in EMDC financing has been steadily declining
- However, it will continue to be important in a subset of countries

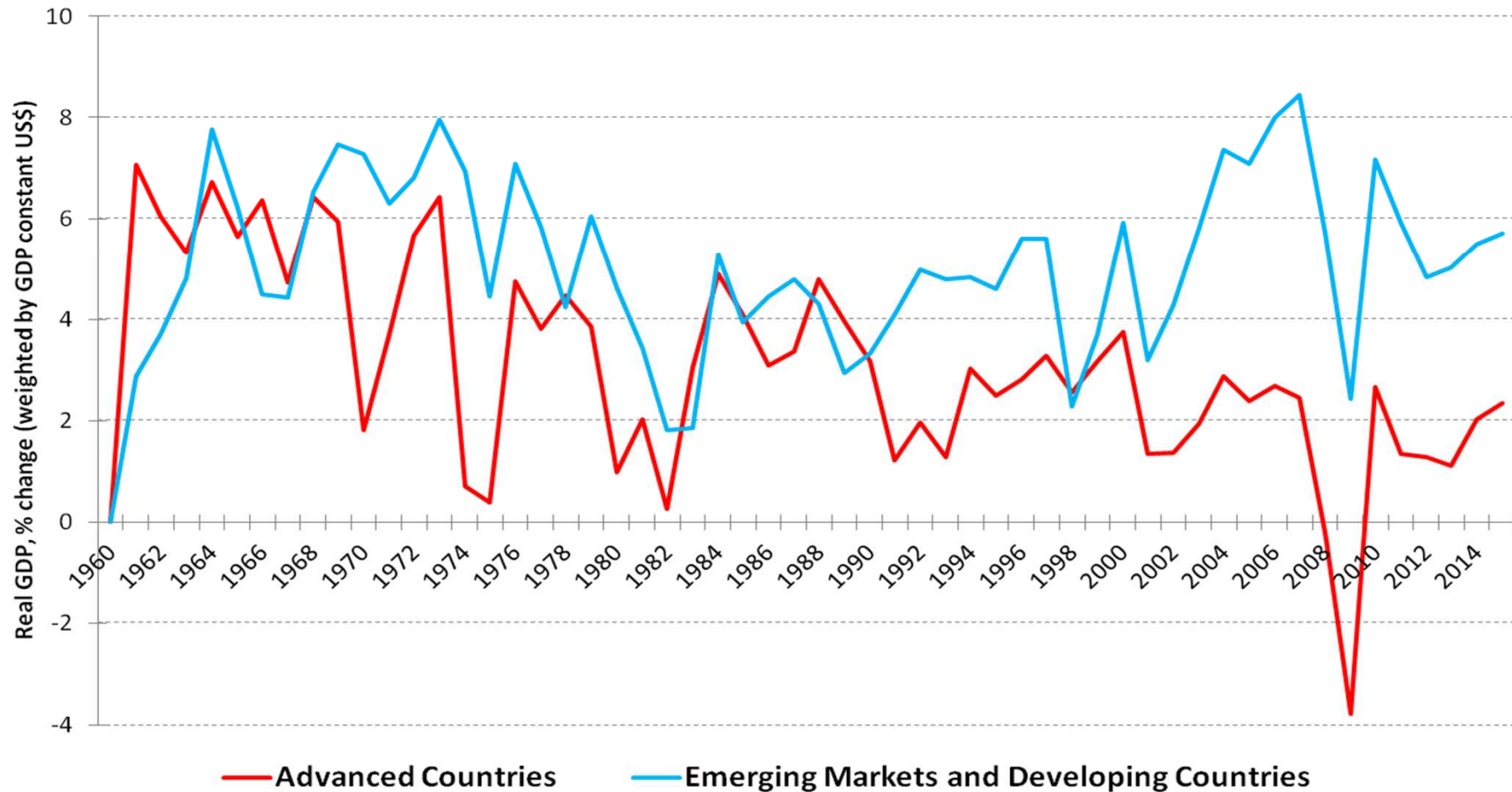
Development banking

- MDB financing remains modest and faces limitations
- National development banks provide significant financing in a limited number of countries
- Development banking has potential to provide risk intermediation and play a catalytic role in mobilizing long-term financing

»» EMDCs are now the primary drivers of global growth

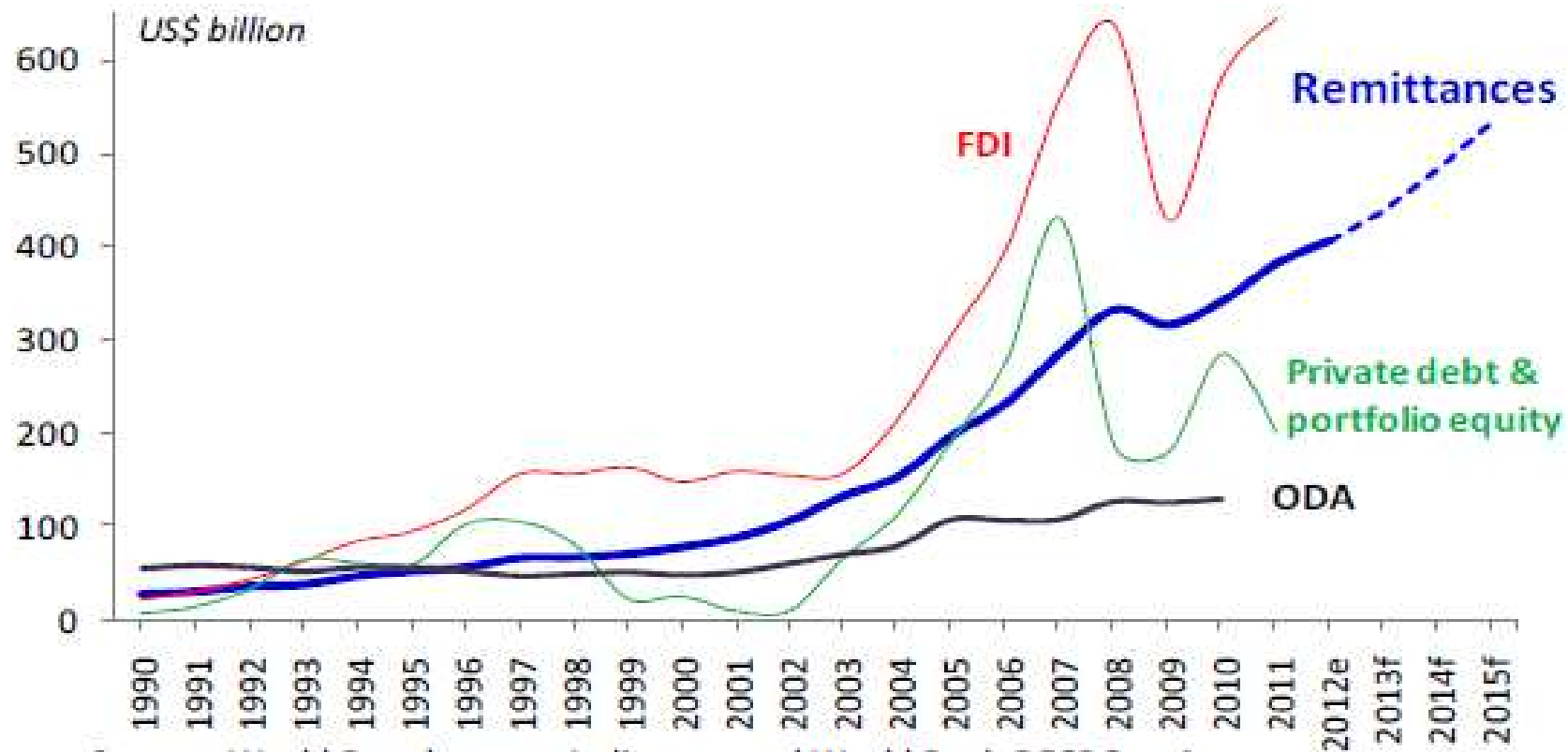


» Increased savings have helped drive strong EMDC growth



Source: G-24 calculations based on data from World Economic Outlook, IMF and World Development Indicators, World Bank

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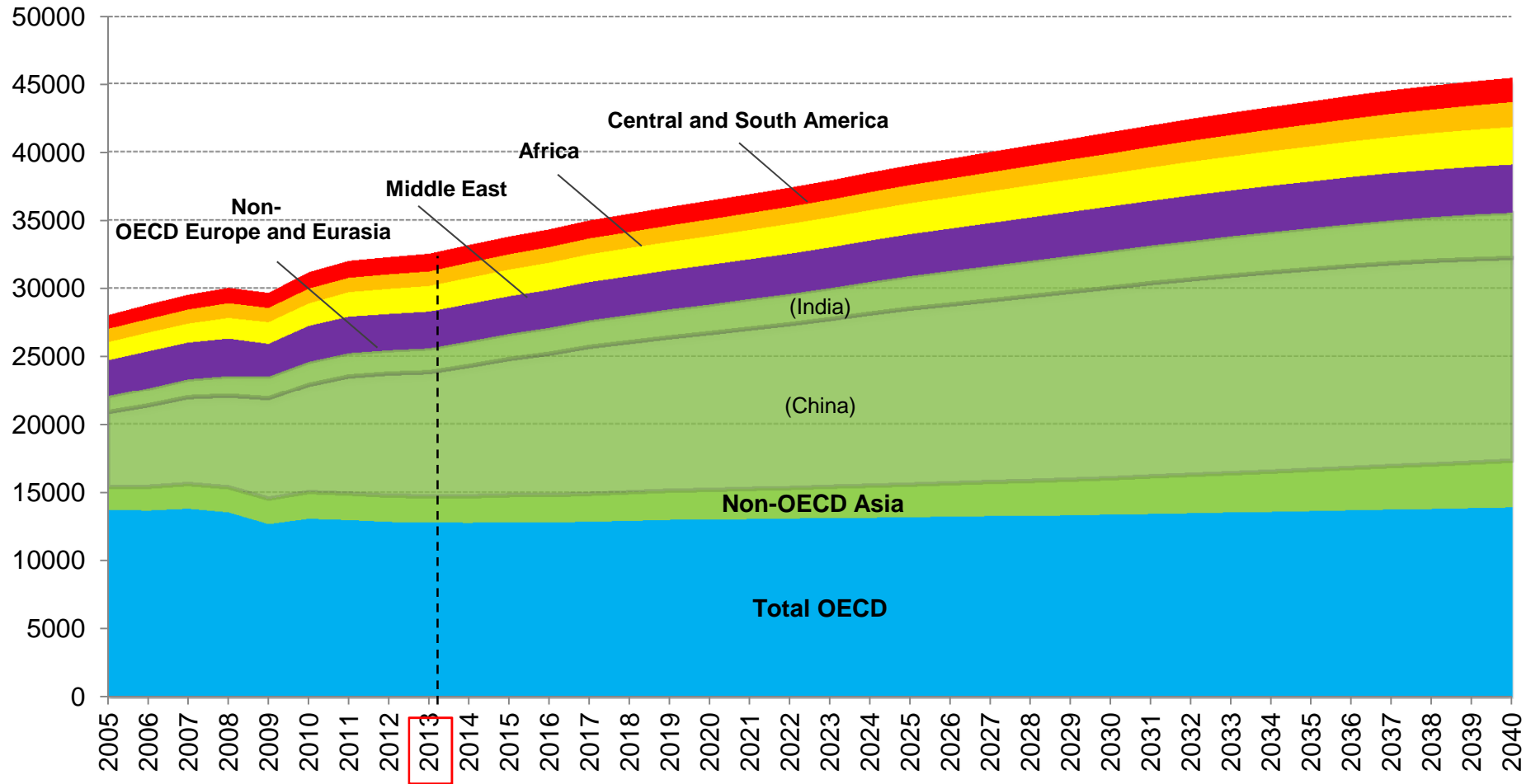


Sources: World Development Indicators and World Bank DECPG estimates



Sustainability is also an enormous concern

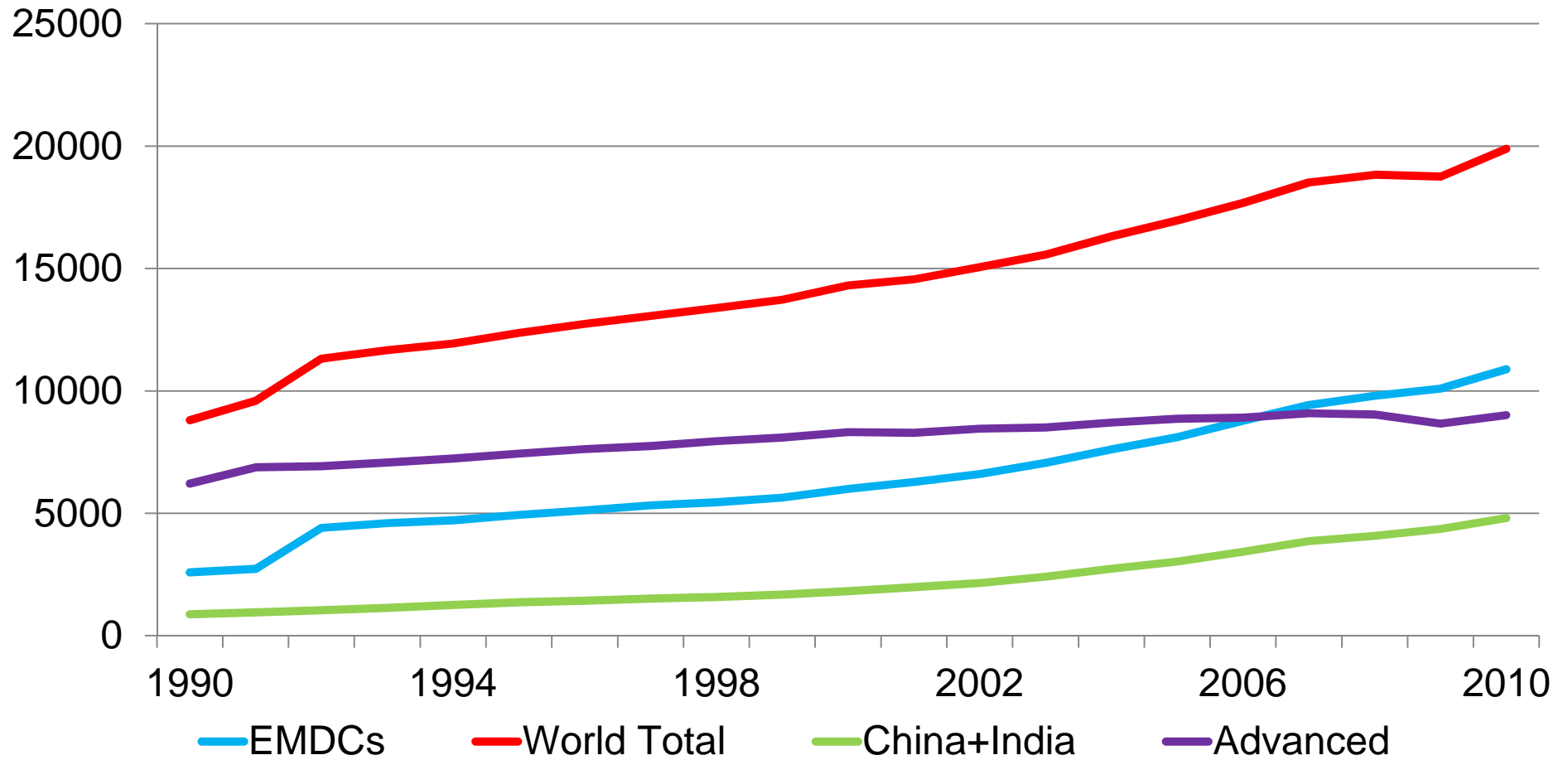
World Carbon Dioxide Emission (Millions Metric Tons Carbon Dioxide)



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Sustainability is also an enormous concern

World Electricity Generation (Billion Kilowatt-hours)



»» National Public Financing Sources

Thematic Scope

Financial Means of Implementation:

- › Tax systems and other public income (including environmental fiscal reforms)
- › Sustainable public budgets: Eco-social criteria for public expenditure/ investments
- › Sustainable public procurement
- › Subsidies (focusing on the phase-out of environmentally harmful subsidies)
- › Reserves
- › National development banks
- › Local financial and bond markets and inclusiveness of the financial sector/ access to responsible finance
- › Sustainable borrowing and lending/debt sustainability (incl. public debt management) and shock resistance
- › Role of the institutional/ regulatory environment, national policies and dev't strategies

»» National Public Financing Sources

Thematic Scope (continued)

Non-Financial Means of Implementation:

- › Tax cooperation, combating tax evasion and illicit capital flows at the national level
- › Good governance in tax matters (fair and transparent public finance systems, redistribution effects of public finance)
- › Investment and trade; science, technology transfer and innovation
- › Enhancing national policy coherence for development
- › Capacity building
- › Transparency initiatives (EITI, IATI etc.)
- › Accountability processes

Cross-Cutting Issues:

- › Transparency, measurement and accountability, including consistency and coherence of methodologies
- › Effect of the different financing needs

»» International Public Financing Sources

Thematic Scope

Scene setting (Context):

- › Mandate from Rio+20
- › Objectives of mobilization of financial resources
- › Systematic design and political Economy of framework for financing sustainable development

Financial Means of Implementation:

- › Official Development Assistance and other development finance
- › Coverage, coherence and consistency of international public financing frameworks for development, climate, biodiversity, land degradation, oceans, forests and chemicals
- › (Pooled) bilateral, multilateral and regional sources and development banks
- › Sovereign Wealth funds
- › Innovative international sources of financing
- › South-south cooperation, triangular cooperation



»» International Public Financing Sources

Thematic Scope (continued)

Non-Financial Means of Implementation/ Cross-Cutting Issues:

- › Key actions/policies to increase international public resources for SD objectives
- › Transparency Initiatives and Accountability Processes
- › Enhancing international policy coherence for development
- › Investment and trade; science, technology transfer and innovation

»» Principles for the mobilization of resources & their effective use

General intention and nature of the principles (1/2)

- › **Overarching universal principles** should build the basis of an effective future Post-2015 Framework for Sustainable Development Financing:
 - › **Ensure consistency and coherence** across all relevant types of financing as well as related to the relationship between them.
 - › Respond to the urgent **need of making funding more predictable, effective and efficient** as part of wider efforts to **mobilize additional resources** for sustainable development.
 - › Address both **financial and non-financial means** to motivate all actors to put their **resources to good use** in support of a Post-2015 Agenda for Sustainable Development.
 - › Provide the **right incentives** for an effective and efficient use of financing

»» Principles for the mobilization of resources & their effective use

General intention and nature of the principles (2/2)

› Build on the **three dimensions of sustainable development**:

- › **Economic sustainability**: Ensure an enabling economic environment for the promotion of sustainable growth, job creation and social inclusion. Strengthen public institutions and state regulatory capacities to promote well being and wealth creation/distribution;
- › **Social sustainability**: Focus on social inclusion and target the eradication of extreme poverty, systematize pro-poor policies and matching financing mechanisms, and target three situations: Extreme social vulnerability, safety nets and social economic inclusion;
- › **Environmental sustainability**: Ensure the sustainable management of (global) public goods and put in place strategic knowledge and capacity building mechanisms, which are essential to provide for sustainable development needs of developing countries, in particular LDCs.

»» Principles for the mobilization of resources & their effective use

Overview over all proposed principles (1/2)

- › **Building on existing principles and international agreements**, a Post-2015 Financing for Sustainable Development Framework should consider the following principles for the mobilization of resources and their effective use:

1

Employ the full range of financing sources and consider non-financial aspects

2

Incorporate sustainability into methods, instruments and approaches for financing

3

Ensure complementarity between action on the national and international level

4

Allocate financing for sustainable development based on diverse needs

5

Align interdependent sustainable development objectives & make use of existing synergies

»» Principles for the mobilization of resources & their effective use

Overview over all proposed principles (2/2)

6

Ensure transparency, harmonize and improve national and international accounting frameworks

7

Improve governance regimes

8

Support institutional building

9

Favor policy coherence

10

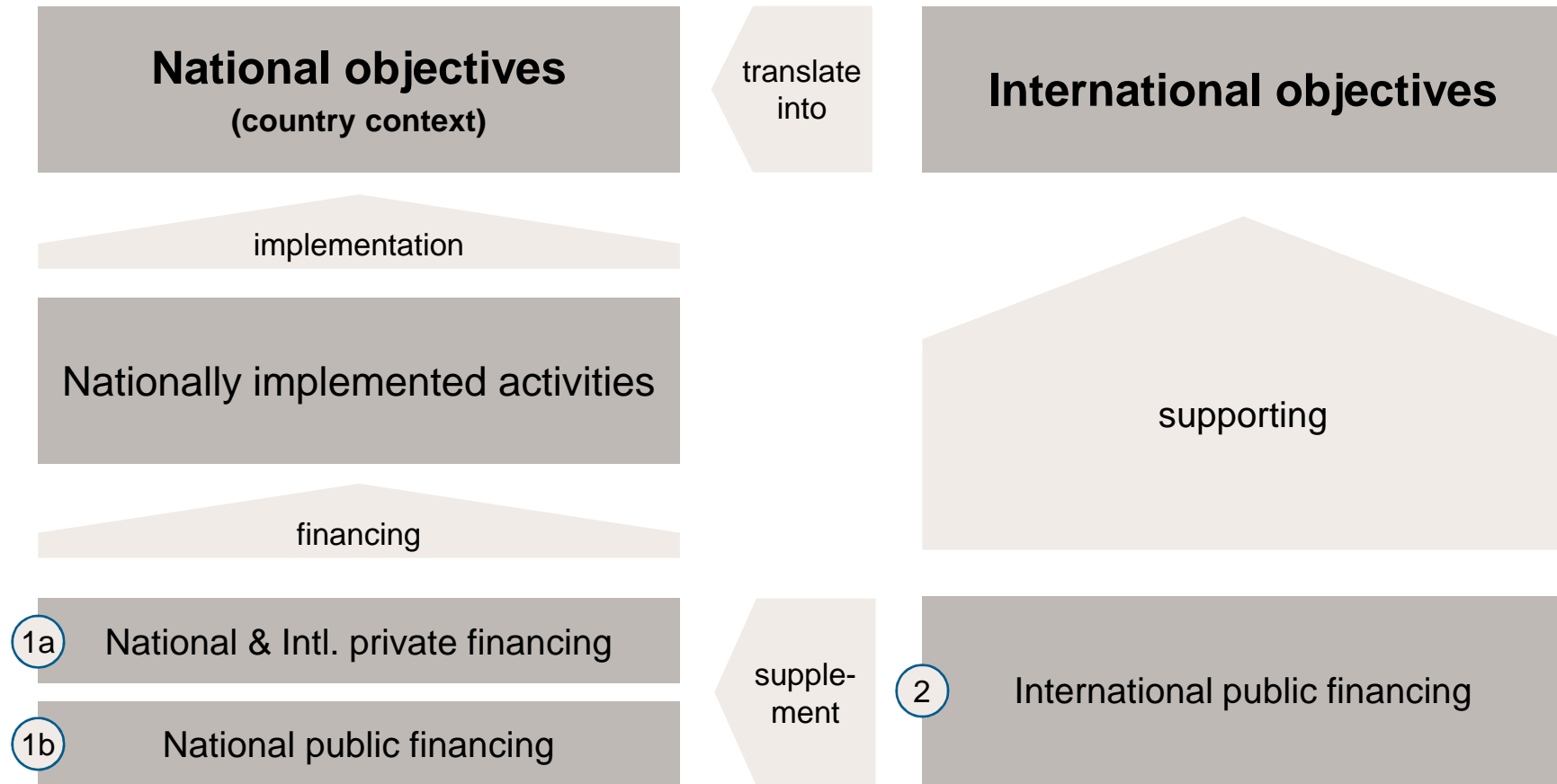
Invest in capacity development

11

Build on existing implementation channels and avoid further complexity

»» Principles for the mobilization of resources & their effective use

Principle of supplementary financing for sustainable development



»» Public financing sources (national)

2. Increase public revenues by fair burden sharing, efficient collection & prudent debt financing (3/3)

- › Other financing sources beyond taxes need to be considered: For instance, **sovereign wealth funds** or **national lotteries** can provide revenues for sustainable development.
- › **Debt financing** can provide another viable option to provide funding for public spending on sustainable development.
- › But debt needs to be kept **at sustainable levels** (prudent debt management) and the funds are not consumed but invested in activities with positive returns.
- › Increasing **sustainability in national production and consumption patterns** can help avoid long-term environmental and social costs related to unsustainable development.
- › **Reducing long-term costs** is an indirect source of financing for sustainable development.
- › **Intangible national revenues**, including eco-system services, i.e. benefits that people obtain from the environment (e.g. natural assets such as food, water, cultural, recreational and spiritual benefits) can provide an important financing source if they are linked with payments.

»» Private financing sources

General remarks

- › **Private sources represent the largest potential** for sustainable development. Even a marginal change in the size and direction of flow of funds from private sources in line with sustainable development objectives would go a long way **in closing the existing gaps**.
- › **Effective mobilization and use of domestic private resources catalyses** the inward flow and effective use of **international private resources** for sustainable development at national level.
- › The mobilization and effective use of private financing should focus on **four key areas of action**:

1 **Enable private households to contribute and participate in sustainable devt.**

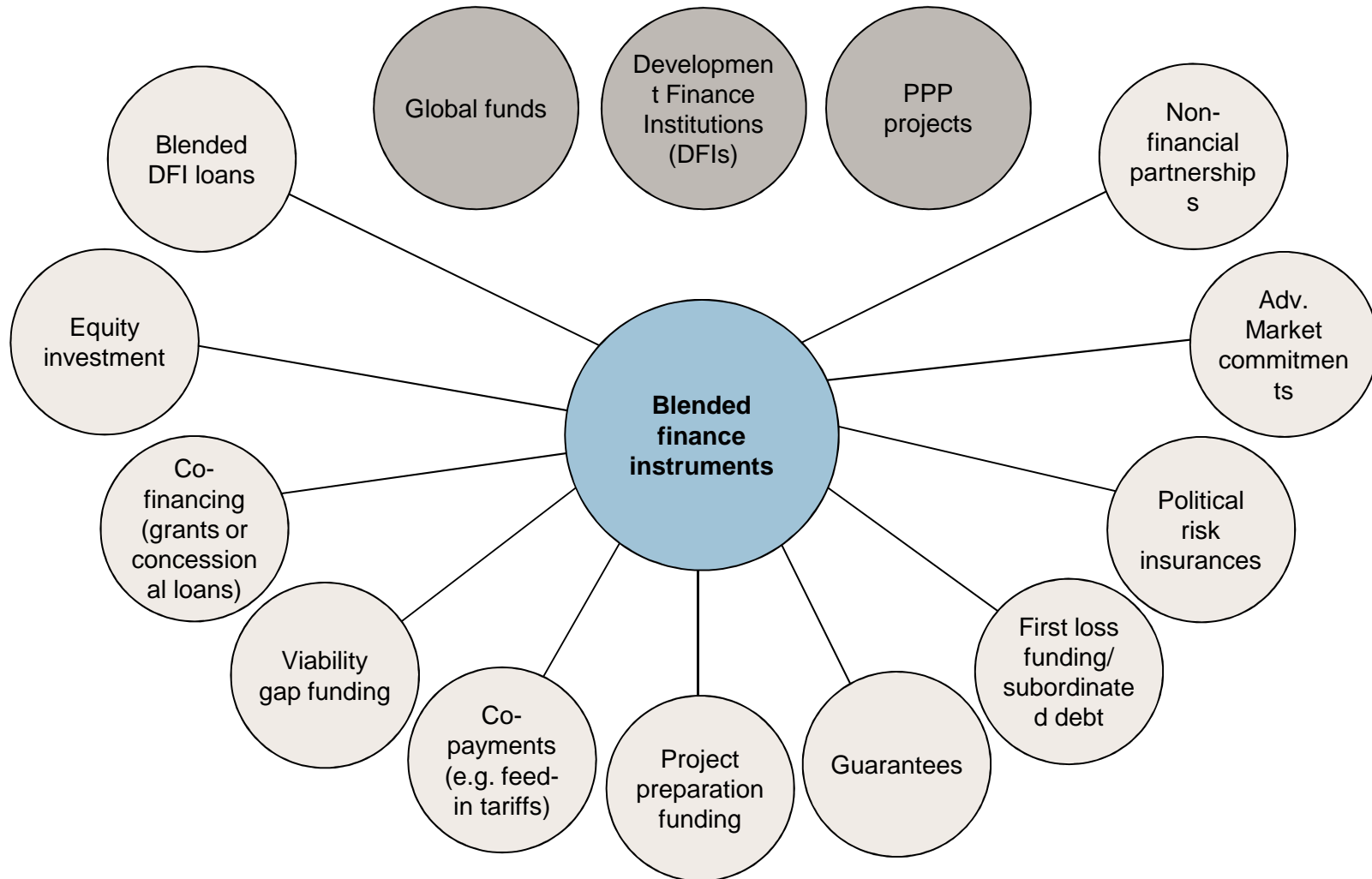
2 **Use investment from private enterprises to support sustainable development**

3 **Consider other private financing sources for sustainable development**

3 **Employ international cooperation to support private financing for sust. devt.**

»» Blended financing

Main facilities and instruments for blended financing



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Need to reduce complexity and inefficiencies in development financing landscape and ensure international public finance is better targeted and supports shared objectives → large-scale pooled financing mechanisms

A commitment to scaling-up – and using – large-scale pooled funds in key areas such as: climate change adaptation and mitigation, infrastructure development, science, research and new technologies, agriculture and nutrition, global public goods and other areas

Need for more representative institutional arrangements for international public finance

»» Thank you for your attention!