# *Financing the post-2015 sustainable development agenda?*

Shari Spiegel
Financing for Development Office
Department of Economics and Social Affairs
United Nations
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# The Monterrey Consensus and Doha Declaration provide a strong foundation for a financing for a post 2015-financing strategy

- Monterrey and Doha focused on
  - Domestic and international funds
  - Public and private sources
- But there's a need to build on Monterrey and Doha to incorporate:
  - New challenges and
  - the interrelationships between the *social, economic, and environmental* dimensions of sustainable development

# Financing needs for sustainable development are extremely large

- Difficult to measure, but all studies show that its in the order of trillions US$ per year.
- In particular, there are ‘gap sectors’, such as
  - Social needs
  - climate financing, the global commons (global public goods)
  - Long-term investment, including infrastructure
  - SME financing

# Yet *global savings* is sufficient

- $18 trillion annually
- Global financial assets are estimated to be around $218 trillion
- Challenge lies in promoting a financial system that incentivizes a reallocation of a small percentage of savings.

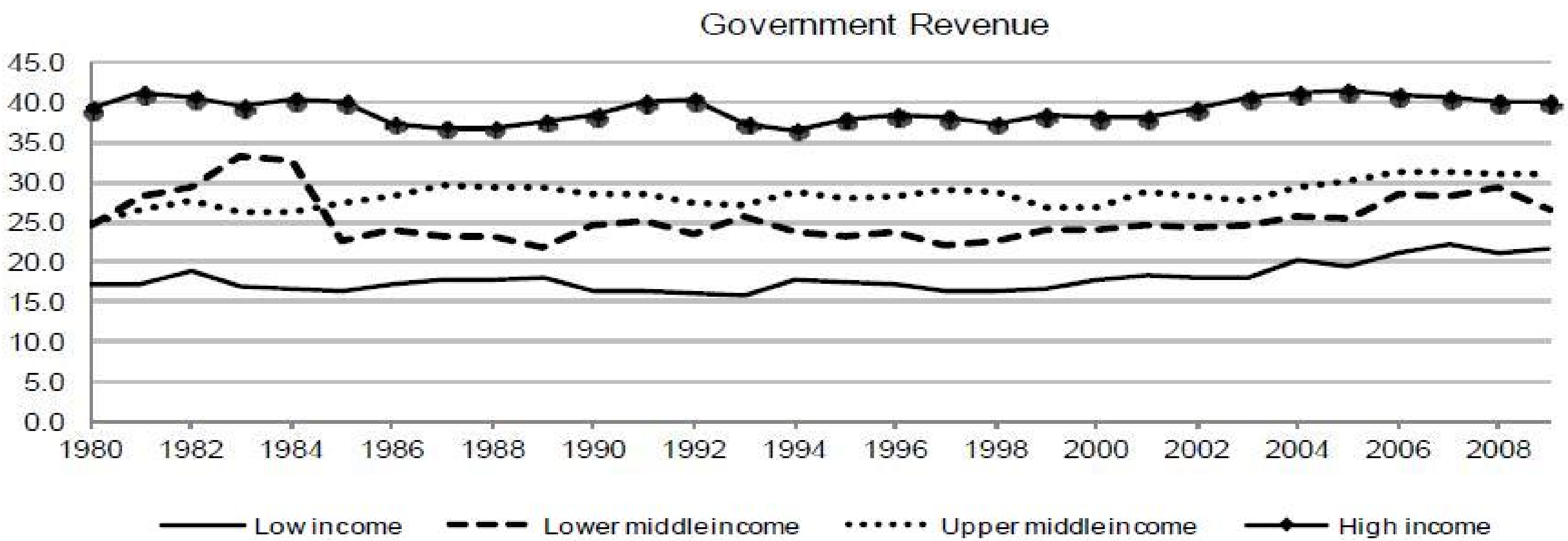
# Different sources are complements

- Need public, private, domestic, and international
- But these are complements, not substitutes
- For example, private sector is profit oriented
  - Unlikely to invest sufficiently in social needs, global public goods, etc., where risk adjusted returns are not high
- How to incentivize the private sector?

# Need to focus on underlying barriers and incentives

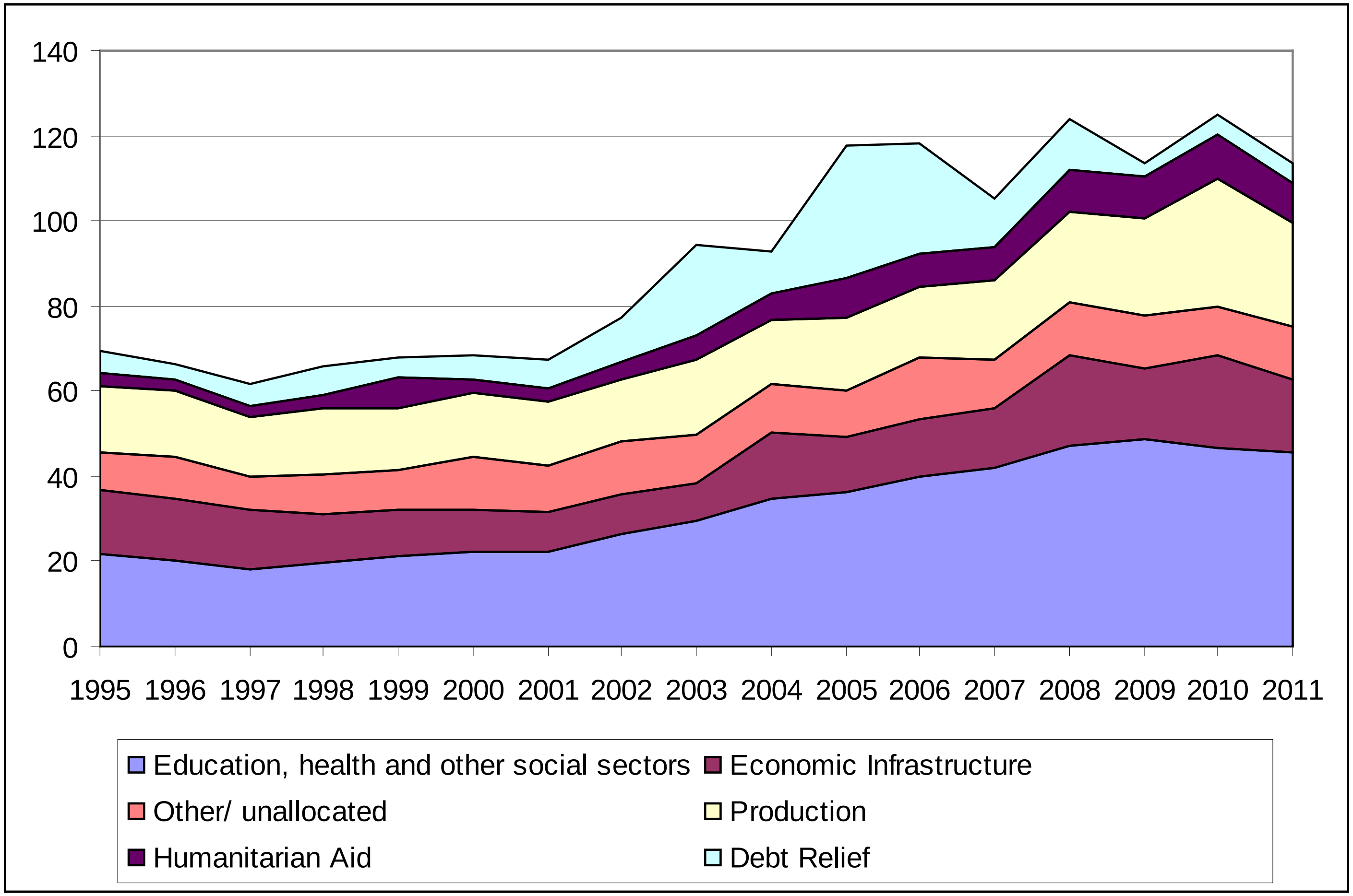
- Why is there an underinvestment in key areas?
  - Economic theory points to underinvestment in social issues and global public goods
  - But why is there an underinvestment in long-term investment and SMEs?
- And what is the role of the public sector?
  - Equity: reducing poverty
  - Leveraging private sector resources
- Public sector will remain the lynchpin of any financing strategy

# Domestic resource mobilization is important




Source: IMF

# YET ODA FALLING IN REAL TERMS
# Total bilateral aid by OECD-DAC members, in billions of US$




ODA falling in real terms
South-south rising, but not a substitute

Source: OECD International Development Statistics

# Private sector flows

- Expectation on institutional investors
  - 78-85 trillion USD in assets
  - Pension funds, SWF, insurance have long-term liabilities
- Long-term liabilities
- But <1% of assets in infrastructure
- Need good governance, institutions, rule of law, policy certainty, strong regulatory framework (i.e. reduce risks)
- *But insufficient financing even in developed, across a range of regulatory and policy structures*

# The private sector has become extremely short-term oriented

- Volatile international capital flows
- Turnover in stocks
  - In the United States, the average holding period for stocks fell from about *8 years* in the 1960s to about *6 months* in 2010
- Commodity price volatility

# Policies

- To date focused on increasing safety and soundness of banking system;
  - E.g. Basel III, FSB
  - Which is important
- But not enough focus on access to the main goal of the financial system:
  - Intermediating credit/access to credit

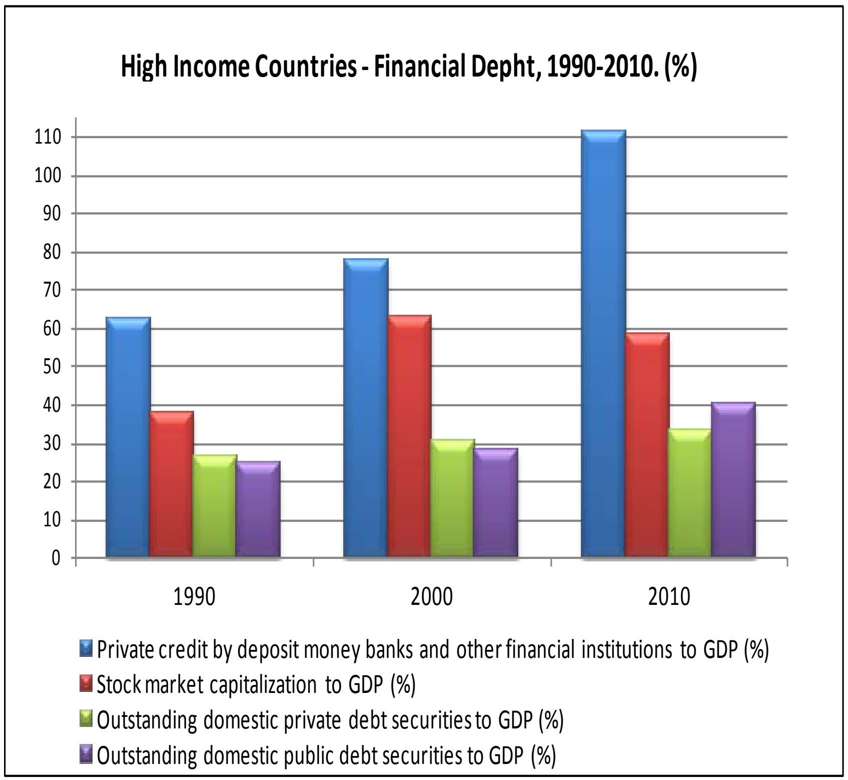
# Need for multi-faceted role for public policy

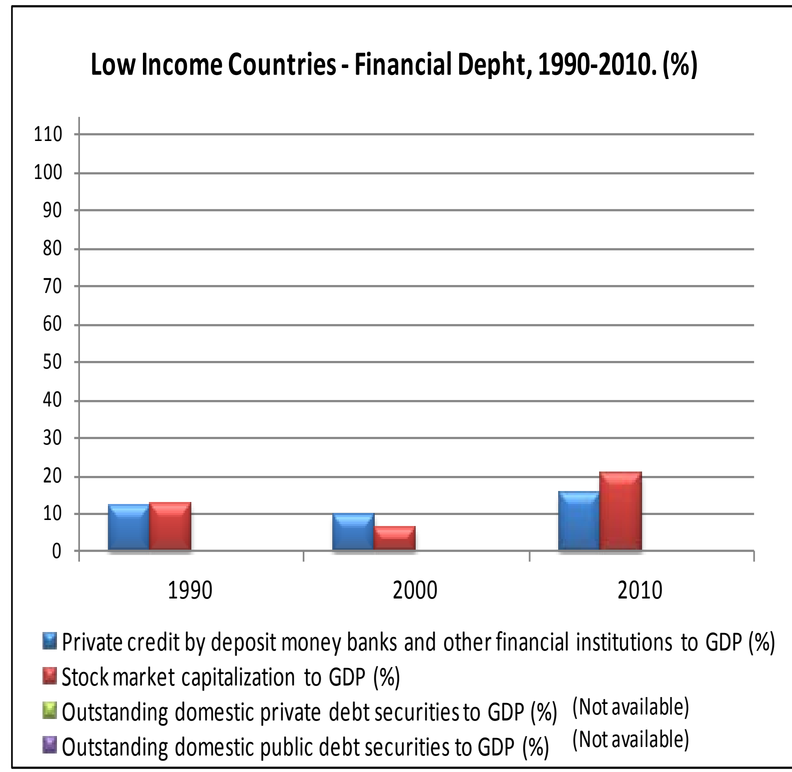
- Regulations
  - Balanced regulations for both stability and access to credit
- Need to focus on changing incentives:
  - Bottom up and top down
- Reduce risks:
  - improve enabling environment
  - Major institutional change for environmental investment
- Share risks
  - PPPs

# Risk sharing

- Some PPPs have been successful
  - But many have failed
- Risk sharing should not mean public sector does not mean risk transfer
- Need to share in upside as well as downside
- But getting it right is incredibly difficult
- Capacity development is crucial…

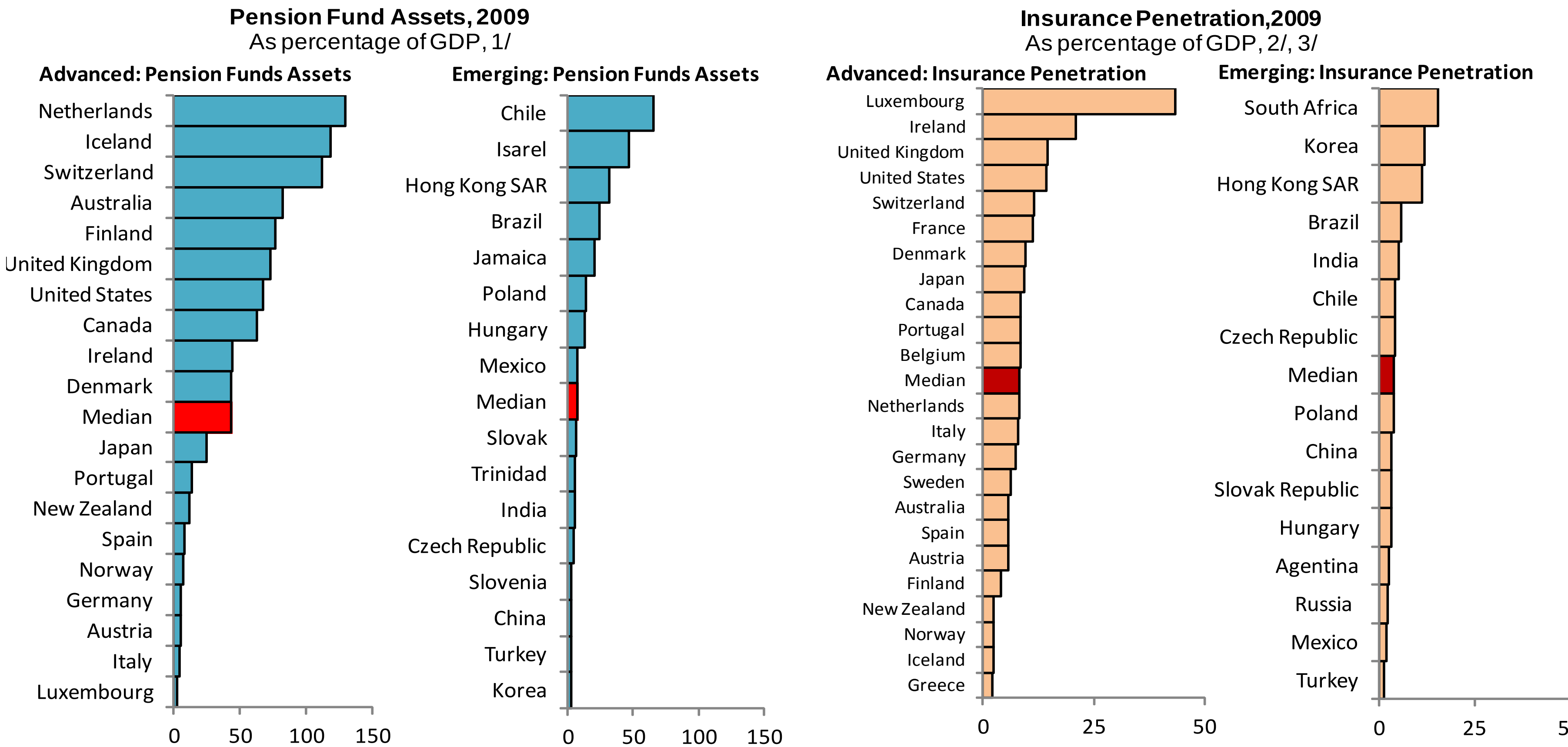
# Financial market development



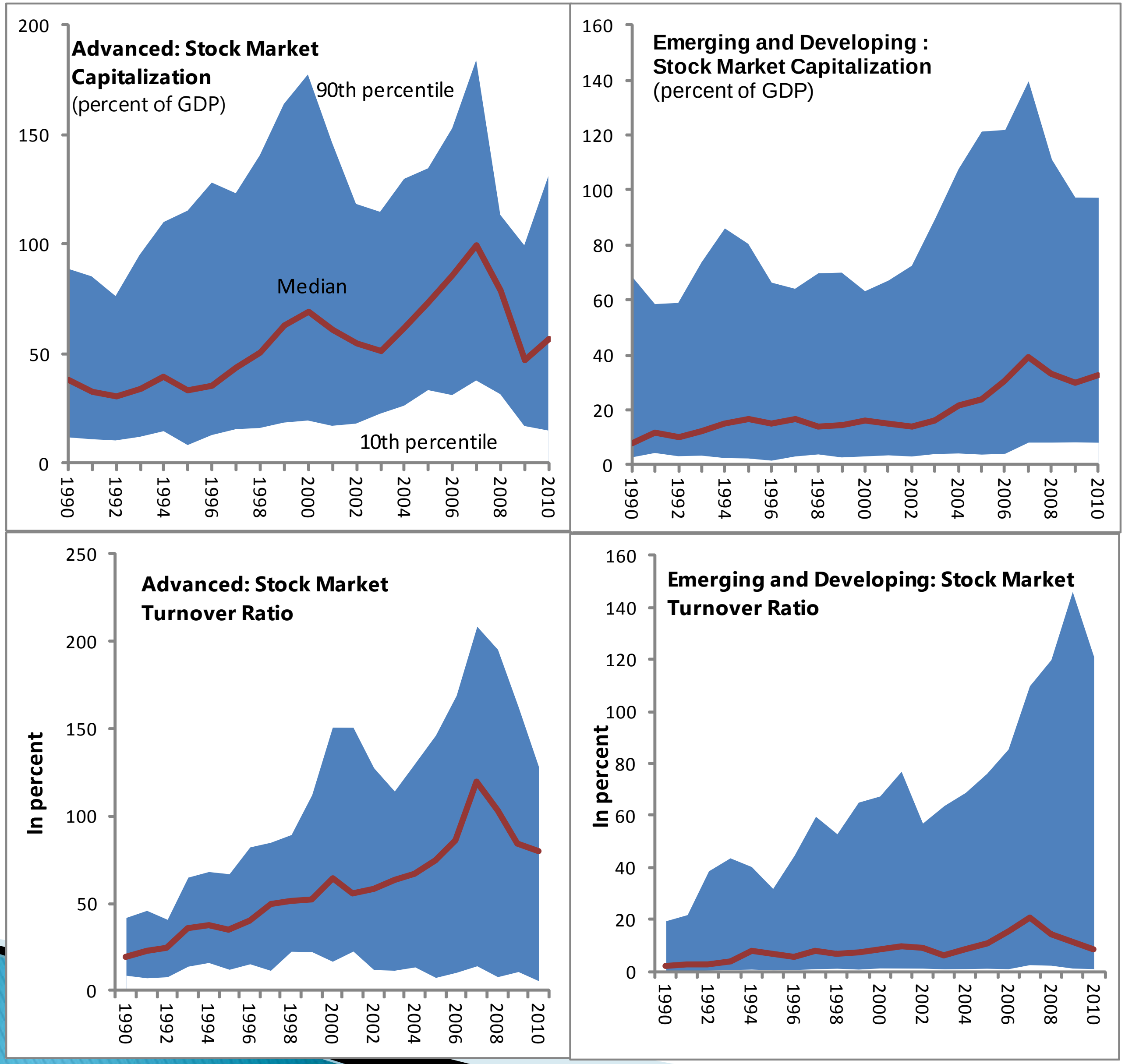

Source: ECLAC, Financing for Development Division on the basis of Global Financial Development Database, World Bank, April 2013.

# Need to develop institutional investor base… but with long-term incentives




Source: OECD Global Pe… and Insurance Statistics, country authorities, and IMF staff calculations.
1/ End-2007 data for India.
2/ Insurance penetration defined as total … rance premiums as percent of GDP.
3/ End-2008 data for Argentina, Austria, Denmark, … th Africa, and United Kingdom.
Note: Figures for Emerging also include Newly Industrialized…

# And a focus on stability



# Innovative sources of financing: *realizing the potential*