Launch of the 2019 Financing for Sustainable Development Report

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Bangkok, Thailand
10 April 2019

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http://developmentfinance.un.org
Selected Messages from the 2019 FSDR Chapters

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Main Messages from the 2019 FSDR

1. **Global risks are rising.**
   - Global growth is estimated to have peaked at 3%
   - Debt risks are rising, with around 30 LDCs and other low-income countries at high risk of or in debt distress
   - Capital flows remain volatile
   - Greenhouse gas emissions are rising again, by 1.3 per cent in 2017.

2. Rather than retreating from multilateralism, the international community must strengthen collective action to address global challenges.

3. **The multilateral system is under strain, but this difficulty can present opportunity.**
   The global community is revisiting arrangements in:
   - Trade, debt, tax cooperation and other areas; in a rapidly changing global environment
   - The global community must use this opportunity to ensure these are supportive of sustainable development.
Main Messages from the 2019 FSDR

4. Global approaches need to be complemented by national actions.
   • Governments should initiate **integrated national financing frameworks**
   • The report provides steps for how countries can operationalize financing frameworks and strategies

5. **Achieving sustainable development and combatting climate change requires a long-term perspective.**
   • Yet, both public and private incentives are short-term oriented
   • The report lays out concrete proposals to align public and private incentives with the long-term horizons necessary for sustainable development

6. We must **harness the potential of innovation** to strengthen development finance.
   • Half a billion people gained access to financial services since 2014
   • But innovations do not eliminate financial and sustainability risks
   • The report calls for **rethinking of the focus of regulation to highlight underlying risks, including from fintech, rather than by institutional type**
Thematic chapter: Integrated national financing frameworks for sustainable development

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Thematic chapter: Integrated national financing frameworks for sustainable development

- A majority of national development plans do not provide details on how they will be financed

- Integrated national financing frameworks help countries
  
  - Manage a complex financing landscape
  
  - Align financing with long-term priorities
  
  - Strengthen the coherence of financing policies across Addis action areas and overcome silos
  
  - Translate priorities into strategic action

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Thematic chapter: Integrated national financing frameworks for sustainable development

- There are 4 main building blocks to operationalize financing frameworks:
  - Assessments and diagnostics of needs, flows, risks and binding constraints
  - A financing strategy that matches resources with needs
  - Mechanisms for monitoring, review and accountability to facilitate informed policy making
  - Governance and coordination mechanisms to provide political backing and ownership

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Thematic chapter: Integrated national financing frameworks for sustainable development

- Countries do not have to start from scratch.
  - All countries have financing policies in place – but these have developed over time, often in an ad hoc fashion. I
  - Integrated national financing frameworks are a tool to identify and implement targeted policies and reforms

- They focus policy makers’ attention on binding constraints to mobilize resources:
  - No more than a few major reform efforts can be completed at any one time
  - Financing frameworks facilitate sequencing of reform, by taking capacity constraints into account, and identifying bottlenecks through diagnostic tools
Domestic public resources

- Median tax revenue is growing in most regions and countries
  - Almost 80 developing countries increased their tax-to-GDP ratios from 2016 to 2017

- Medium-term revenue strategies (MTRS) can help countries see tax reforms through political cycles

- Effective and progressive tax systems and expenditures can help governments achieve inequality goals

- Environmental taxation can help transition the world to a cleaner, low-carbon economy
  - Carbon taxes could bring in revenue of almost 1.5% of GDP in developed countries and almost 3% in G20 developing countries

- Tackling illicit financial flows necessitates strengthened international cooperation

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Private business and finance

- Incorporating environmental and social risks into investment strategies should lead to greater financial performance in the long run, but:
  - Short-termism in capital markets impedes the incorporation of these risks
  - Increased interest for these strategies has not led to enough changes in corporate behaviours
  - The impact on development remains unclear as we cannot yet measure it properly

- Governments should further strengthen the business environment by assessing bottlenecks to investment

- FDI flows to developing countries increased in 2018, but remain unevenly distributed, largely bypassing countries most in needs

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Private business and finance

- Gaps persist in the financial sector despite improvements...
  - 1.2 billion adults obtained a bank account since 2011, but 1.7 billion remain unbanked
  - Development-oriented financial institutions, such as savings banks, as well as fintech can be helpful complements to commercial banks

  1.7 billion adults unbanked, 56% of whom are women

  $5.2 trillion is the estimated financing gap for micro, small and medium-sized enterprises

- Financial sector development, including capital markets, is key to growth and poverty reduction, but it has its own limits

  - Overly developed financial sector can lead, for instance, to funds allocated to speculative bubbles instead of productive assets
  - High quality regulation can help broaden access to finance without jeopardizing stability
International development cooperation

- ODA providers must meet their commitments
  - While close to all time-highs, ODA in 2017 amounted to only 0.31% of donor GNI, with ODA to LDCs at 0.09%, far short of UN targets
- South-South cooperation continues to expand
- Climate finance flows increased
  - Public and private flows from developed to developing countries rose 17% between 2013-14 and 2015-16
- Development cooperation can reduce disaster risk and lessen disaster impact and must be aligned with national priorities
  - 61 million people were affected by weather-related or seismic events in 2018
- Blended finance is growing. To ensure development impact:
  - Blended finance providers should engage with host countries at the strategic level to ensure project portfolios are aligned with national priorities
- Development cooperation must be aligned with national priorities
International trade as an engine for development

- The multilateral trading system is facing serious challenges,
  - *but this presents an opportunity to make it work better and adapted to new economic realities*
  - *Trade-restrictive measures amounts to US$ 588.3 billion—more than seven times larger than that recorded a year ago*

- Trade and investment agreements should leverage synergies between trade, investment and socio-economic and environmental policy

- Digital platforms and fintech can help strengthen trade financing for MSMEs
  - *The global trade finance gap is $1.5 trillion, particularly affecting SMEs*
  - *Technology has facilitated the transformation in trade financing away from paper-intensive products*

- Improving trade facilitation, including the efficiency in customs revenue collection, presents potential in reducing trade cost and increasing pubic revenue

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Debt and debt sustainability

- Debt vulnerabilities are on the rise
  - 37% of LDC and other low-income countries are at high risk of or already in debt distress
  - Public debt of all developing countries rose from 36 to 51% of GDP in the last 5 years
  - Variable interest rate debt accounts for 1/3 of external debt of LDCs

- Rising debt threatens developing countries’ ability to invest in the SDGs
  - Both creditors and debtors should differentiate how debt financing is used, and prioritize borrowing for productive investments that can create fiscal space

- Debt transparency and data need to improve
- Debt sustainability is a shared responsibility
- Innovative debt instruments can be deployed to share risks between creditors and debtors

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Addressing systemic issues

- Volatility of cross border capital flows to developing countries is high
  - Aggregate net capital outflows of over $200 billion are estimated for 2018
  - Domestic policy choices in advanced economies effect the volatility of private capital flows to developing countries
  - Incentivizing long-term investment in sustainable development can also contribute to reducing volatility

- Agreed regulatory reforms, while important, are not enough to create stable and sustainable financial systems
  - Regulations need to look at the underlying risks associated across all areas of financial activity

Less than 47% of international bank loans to borrowers in developing countries are for terms longer than 1 year.

30% of global financial assets are managed by non-bank financial institutions with lower levels of regulation, far surpassing pre-2008-crisis levels.

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Addressing systemic issues

- Financial regulation, which is designed to address financial stability, does not incorporate environmental, social and governance risks
- Well-run national development banks (NDBs) can help countries develop financing options for SDG-related investments
  - NDBs bring international resources together with local market knowledge to enhance SDG-related finance
  - Regulatory frameworks should protect financial sustainability while maintaining their sustainable development mandate
- International economic and financial policies should be coherent with tax, investment frameworks, and competition policies
- Across these areas, more work is needed to strengthen the voice of developing countries

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Science, technology, innovation and capacity-building

- New technologies contribute to SDG achievement
  - New technologies (from big data and AI to robotics) contribute to SDG achievement
  - But access gaps persist within and between countries

- Automation could have large impacts on jobs, so countries should take steps now to be prepared:
  - encourage job-creating innovation
  - revisit social protection mechanisms
  - modernize and adapt education systems

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Fintech has great potential to increase access to financial services

- More than half a billion people gained access to financial services since 2014
- Digital lending in some cases brought down time-to-cash for SMEs from 3 months to less than 24 hours

But fintech also raises new risks and challenges, e.g.

- Fraud was high in some mobile money markets
- Crypto-assets have been fertile ground for financial crimes
- Disintermediation in the financial sector may endanger financial stability in the long run

Regulatory approaches ..

- Need to address risks without stifling innovation
- Regulation needs to shift toward specific activities rather than institutions
- Dialogue between regulators, new fintech and traditional financial services providers is key

Closing technology gaps will require international cooperation

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Data

- The implementation of the 2030 Agenda requires the collection, processing, analysis and dissemination of an unprecedented amount of data.

  Governments should strengthen traditional data sources such as surveys and administrative records

  While also embracing new sources of data and continuing to strengthen gender data

- Big data can complement traditional sources of statistical information but raises new challenges and risks.

  ✓ It can support the monitoring of SDG achievement; and strengthen evidence-based policymaking for SDG implementation

  ✓ But many developing countries lack the required capacities and resources to transform big data into accurate, coherent and comparable statistics

  ✓ As challenges rise around privacy, data security, ownership, access and inequality, new standards and legislation will have to be developed
Thank you!

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