

Financing for Development

What should be the priorities for EMDCs?

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Overview

1. The importance of the financing for development agenda
2. What progress since Monterrey?
3. Framing the sustainable development challenge
4. Implications for financing
5. The critical importance of infrastructure

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The importance of the financing for development agenda

- ❑ Adequate, sustainable financing is crucial for our members to reach their growth and development aspirations
- ❑ Discussions are currently underway in the UN on the post-2015 development agenda
- ❑ The Group must explore its views on financing for development, in order to bring a cohesive, collective voice to the ongoing global discussions
 - The G-24 has long emphasized the crucial role of effective resource mobilization, as well as infrastructure financing
 - It will be important to explore members' views in order to develop a stance for the Group

The current post-2015 process

Intergovernmental Committee of Experts
on Sustainable Development Financing

Open Working Group on Sustainable
Development

UN General Assembly

Follow-Up Event on Financing for
Development

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The agenda on FFD emanates from the Monterrey Consensus

“Mobilizing and increasing the effective use of financial resources and achieving the national and international economic conditions needed to fulfill internationally agreed development goals...will be our first step to ensuring that the twenty-first century becomes the century of development for all”

The document outlined **six key areas** on which action was needed:

- ❑ Mobilizing domestic financial resources for development
- ❑ Mobilizing international resources for development: foreign direct investment and other private flows
- ❑ International trade as an engine for development
- ❑ Increasing international financial and technical cooperation for development
- ❑ External Debt
- ❑ Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development

Progress since Monterrey

1. Domestic resource mobilization

- A virtuous cycle of savings, investment, exports and growth in EMDCs has facilitated increased resource mobilization

2. Private international financing

- FDI flows to EMDCs have steadily increased but overall private capital flows have been highly volatile

3. Trade

- Steady growth in international trade with rising share of EMDCs, but failure to deliver on Doha development round

4. ODA

- ODA has been augmented but falls short of commitments

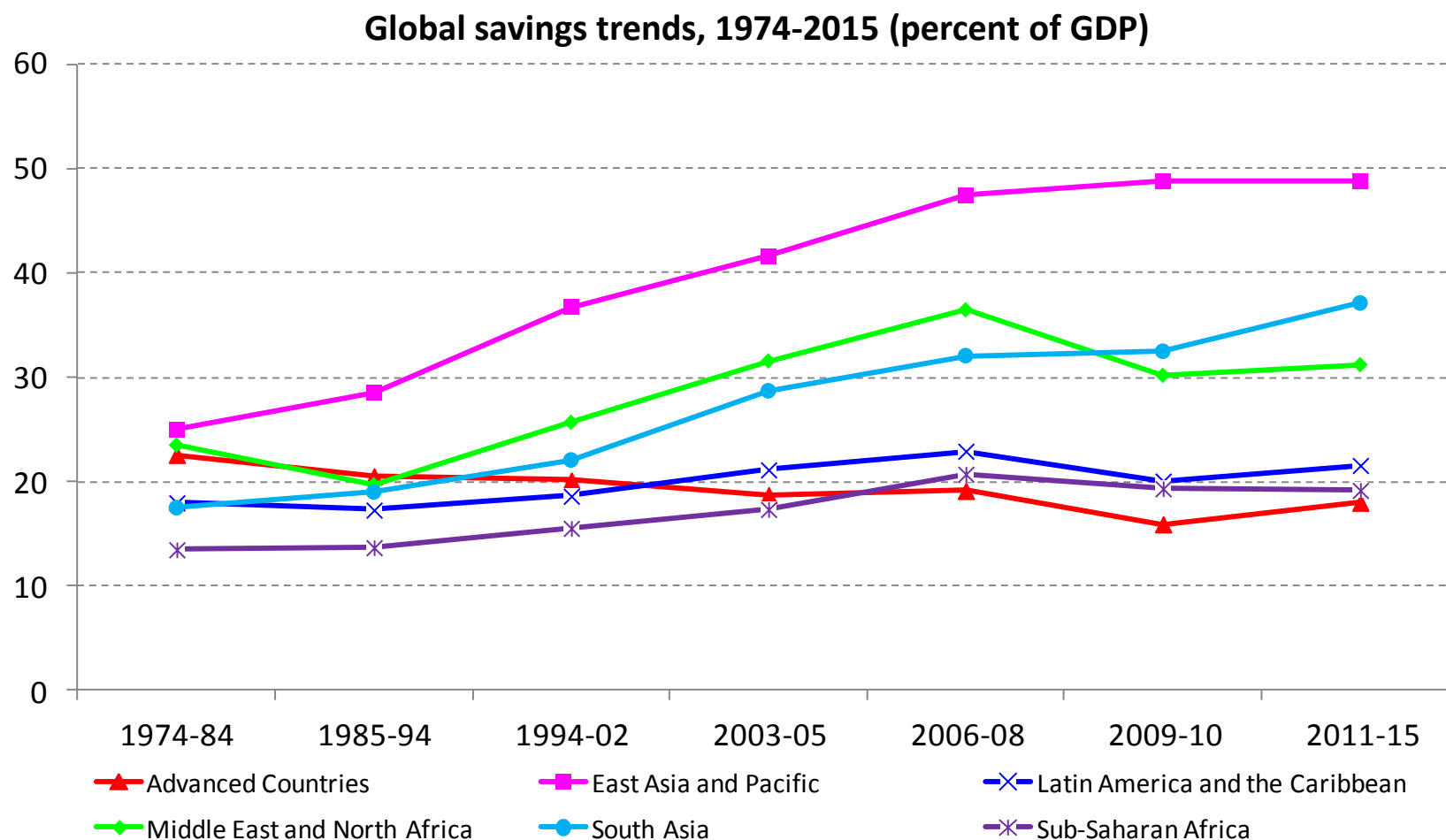
5. External debt

- The debt situation of EMDCs has improved significantly but pockets of vulnerability remain

6. Systemic considerations

- Initiation of IFI reform, though more remains to be done. Limited progress on other systemic issues

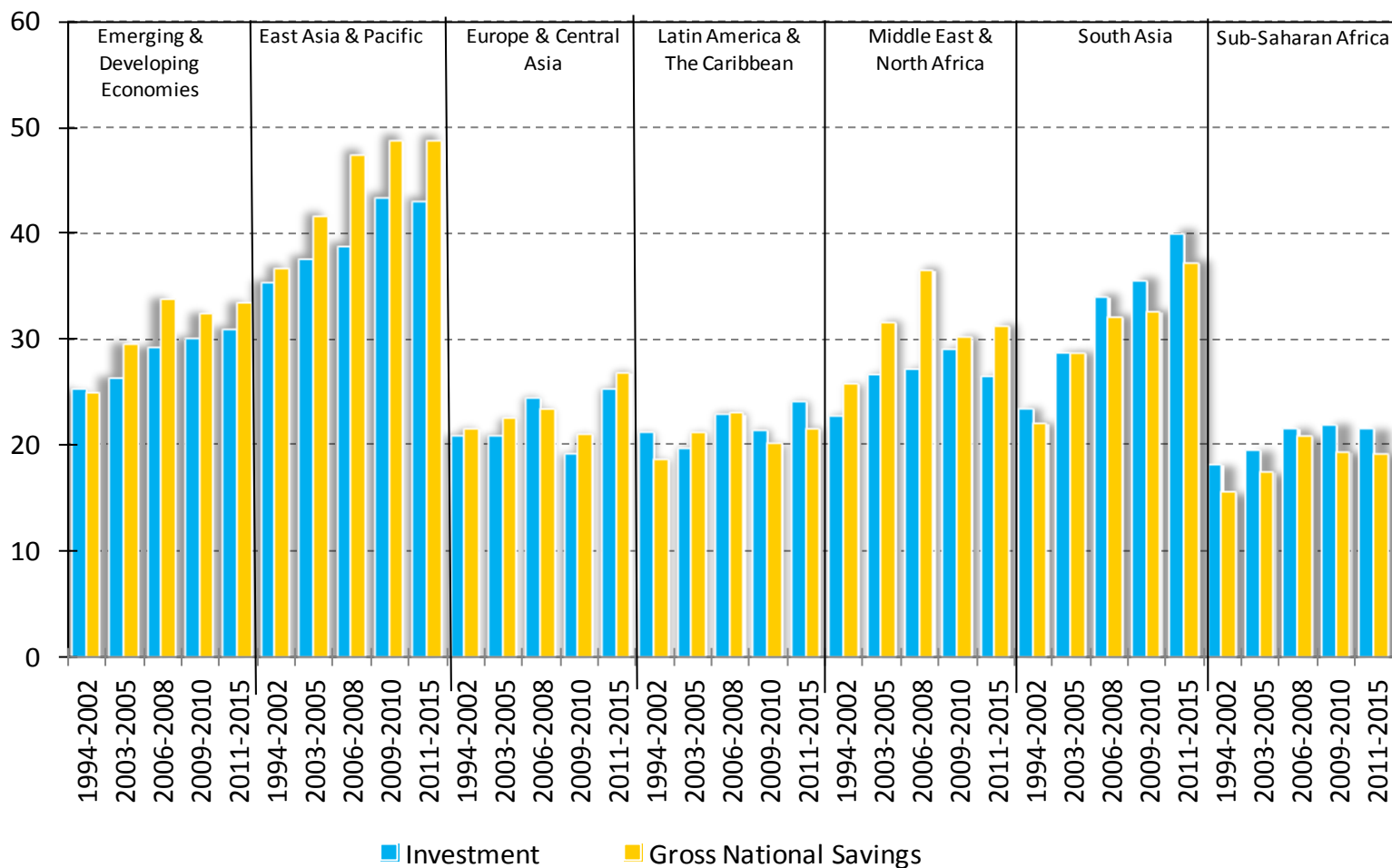
Long-term savings in EMDCs have been on a rising trend



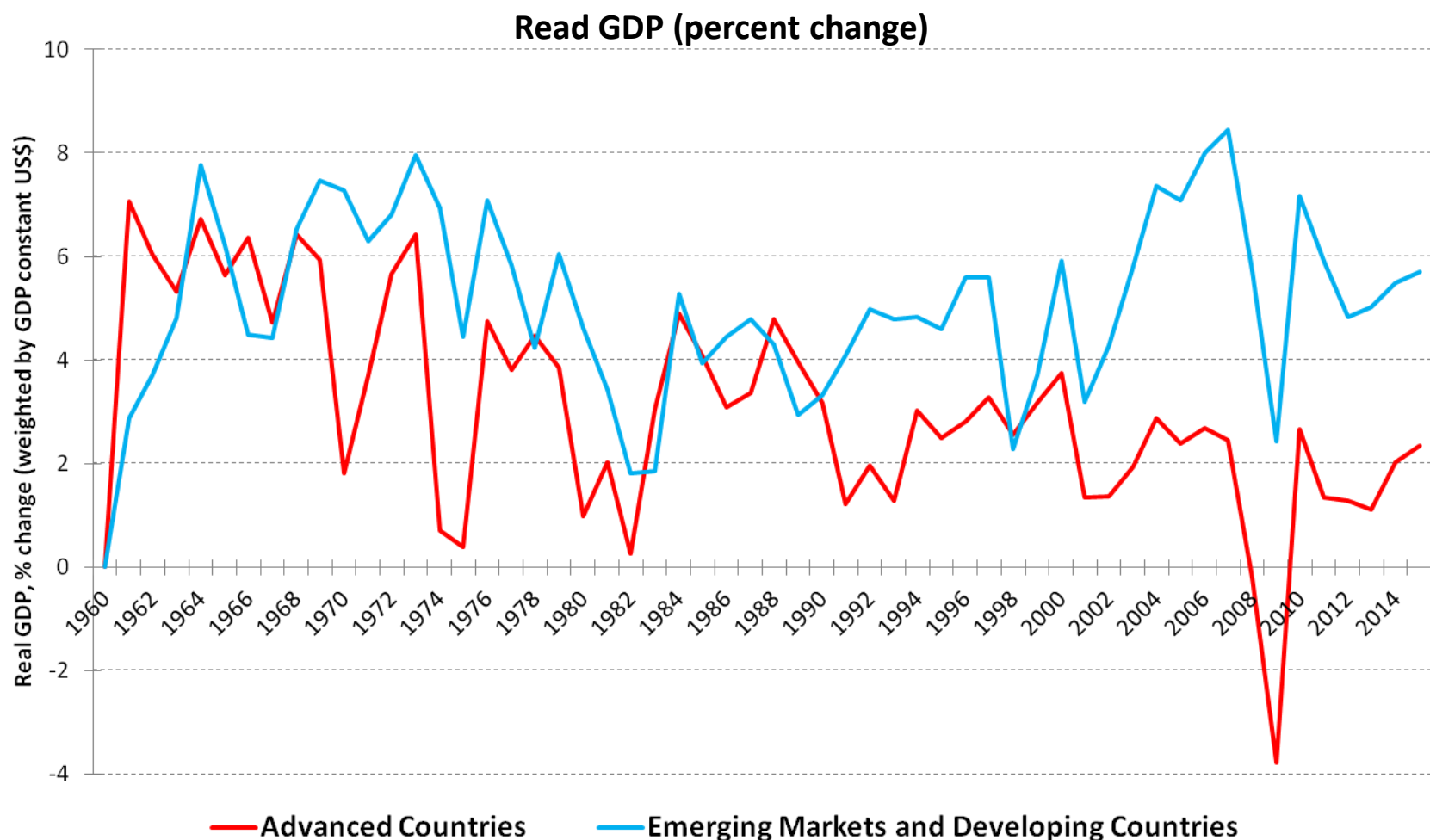
Source: G-24 calculations based on Loayza et al. (2000) World Economic Outlook, IMF and World Development Indicators, World Bank databases

This virtuous cycle is evident across all regions, though in some more than others

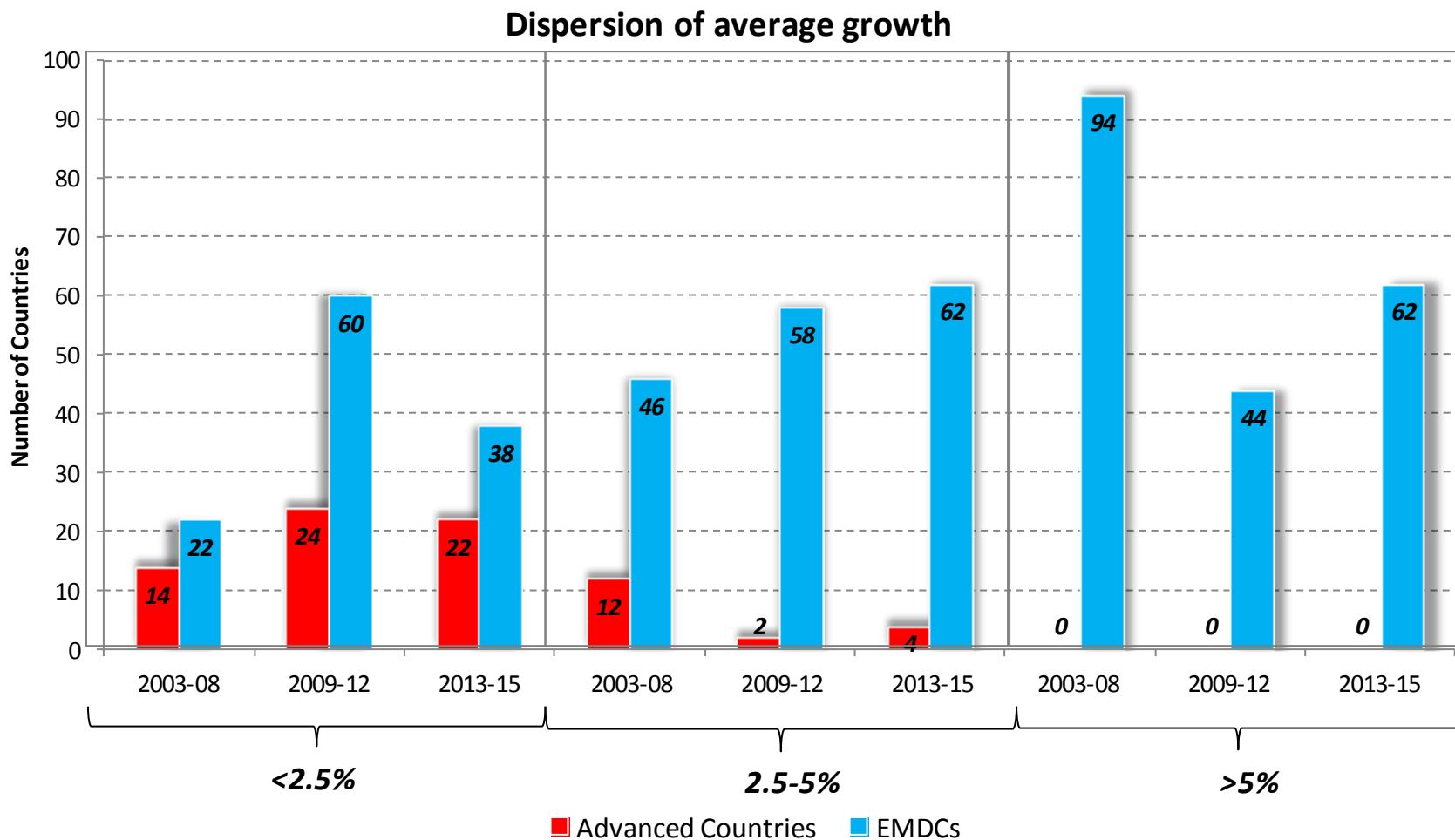
EMDC investment and savings trends, 1994-2015 (percent of GDP)



Increased savings have helped drive strong EMDC growth

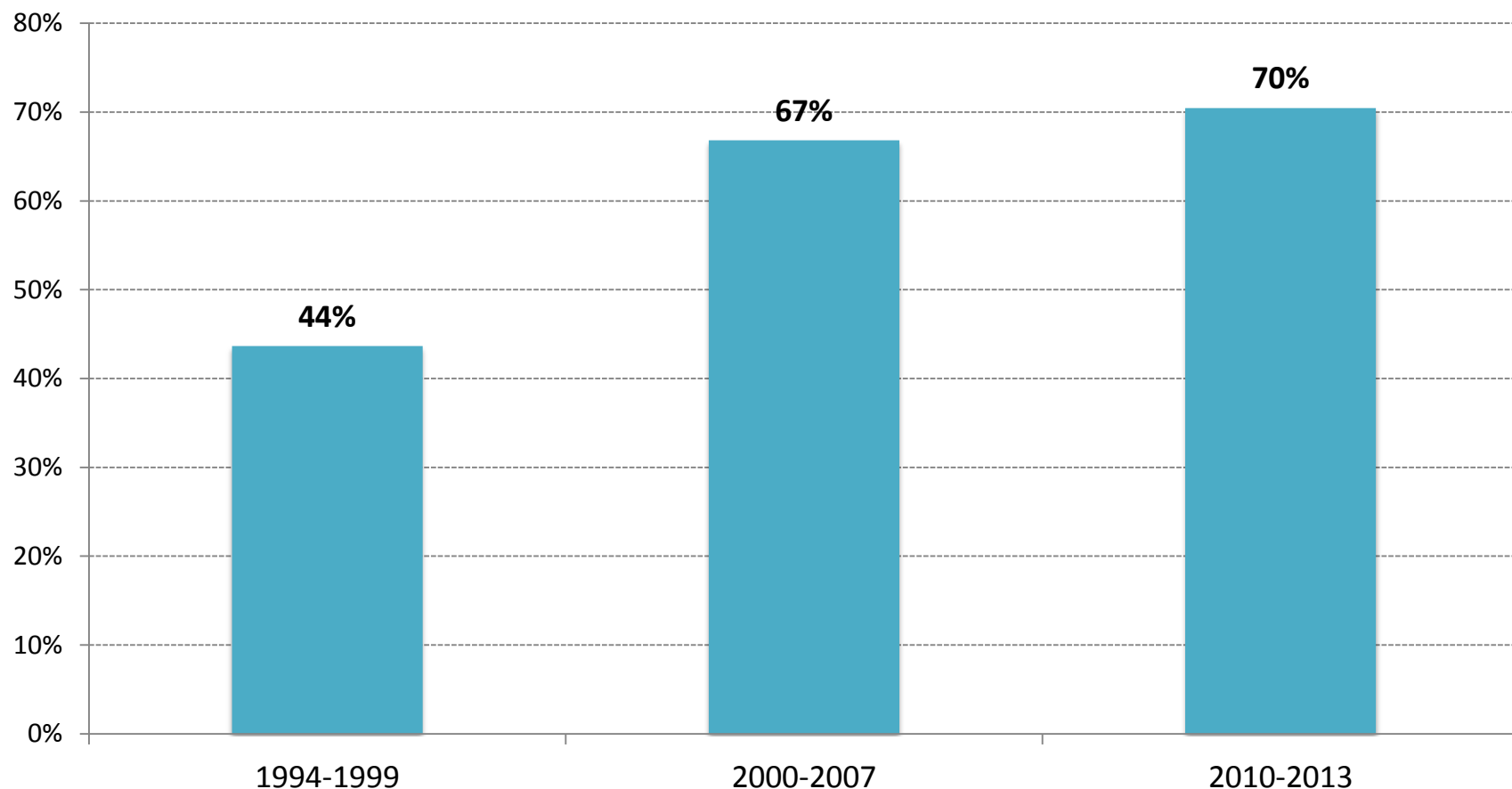


The improvement in growth performance of EMDCs has been broad-based



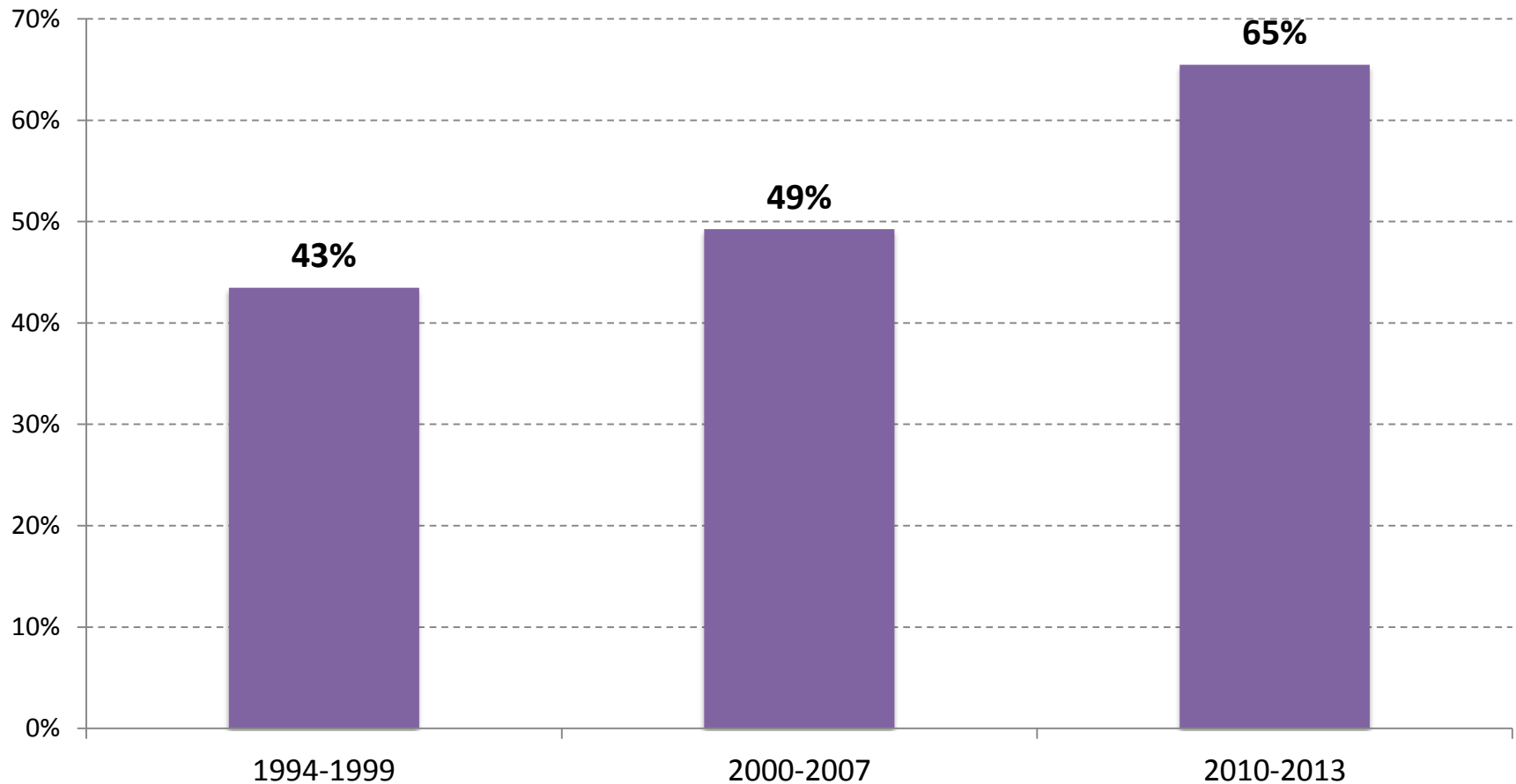
EMDCs are now the primary drivers of global growth

EMDCs' Contribution to World GDP Growth (PPP Terms)



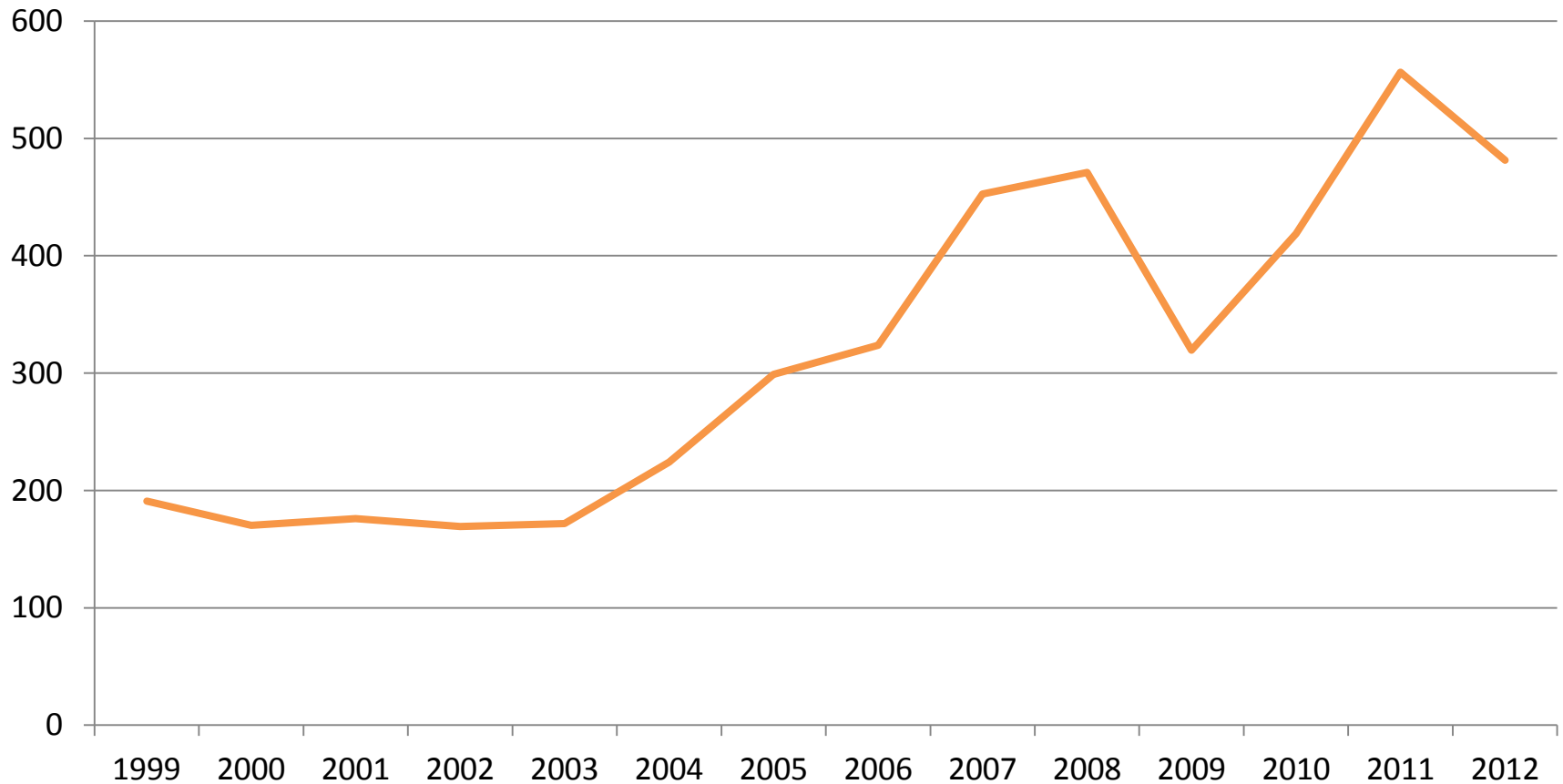
...and investment

EMDCs' Share of World Investment (PPP terms)



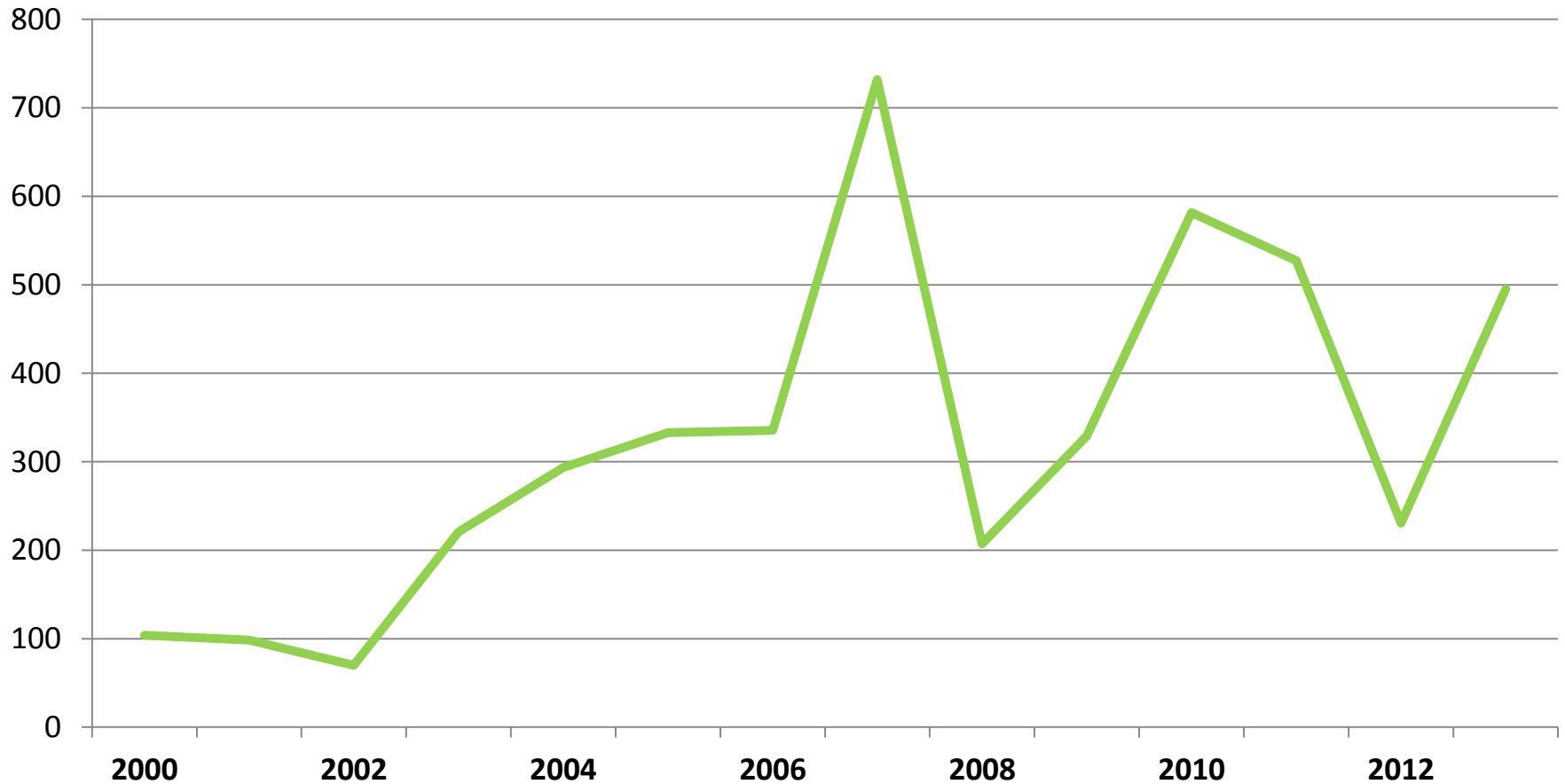
FDI flows have grown significantly and have been broadly resilient

Net FDI to EMDCs (USD Billion)



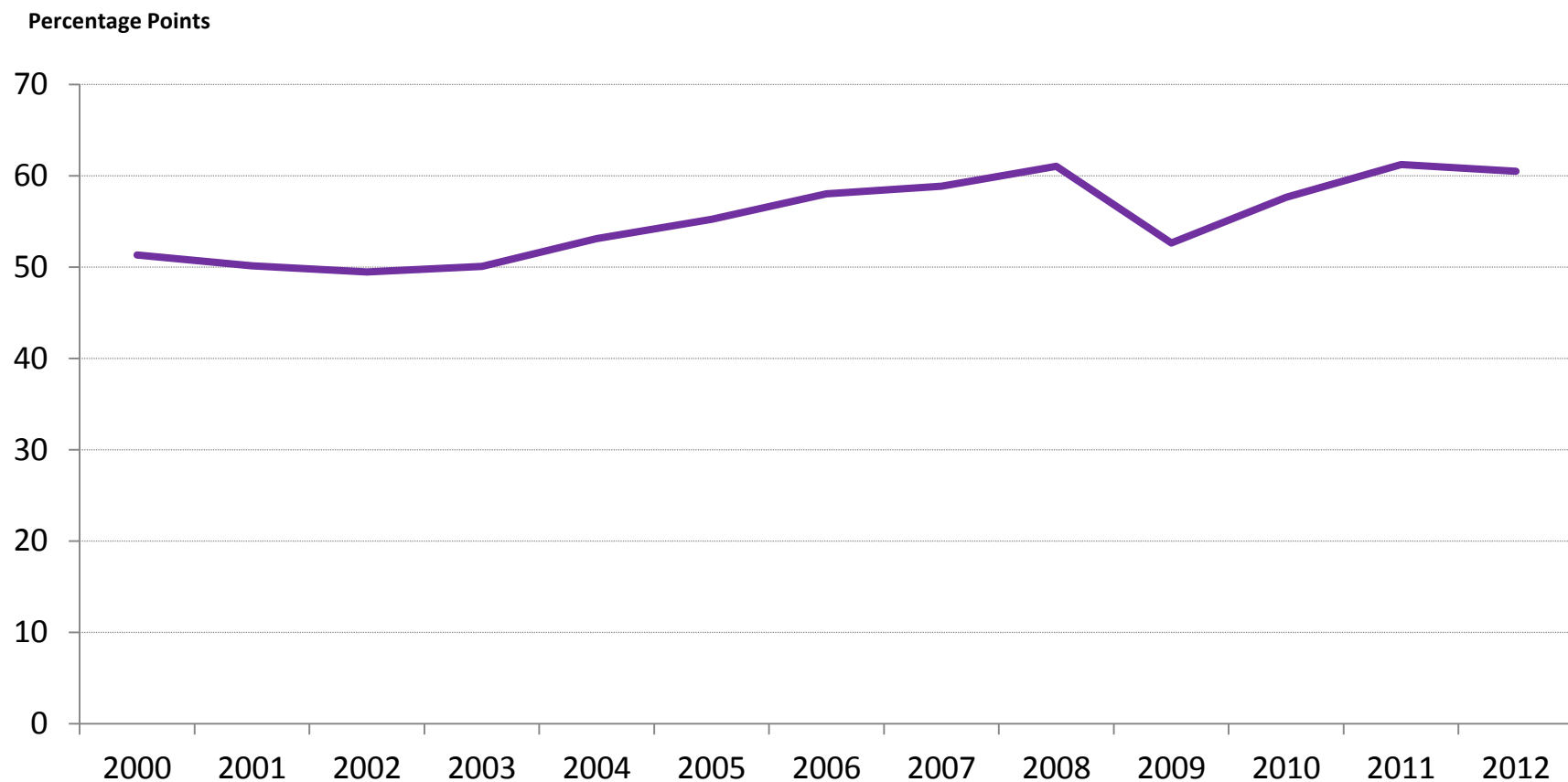
...but total net capital flows to EMEs have been highly volatile

Net private capital flows to EMDCs (USD Billion)



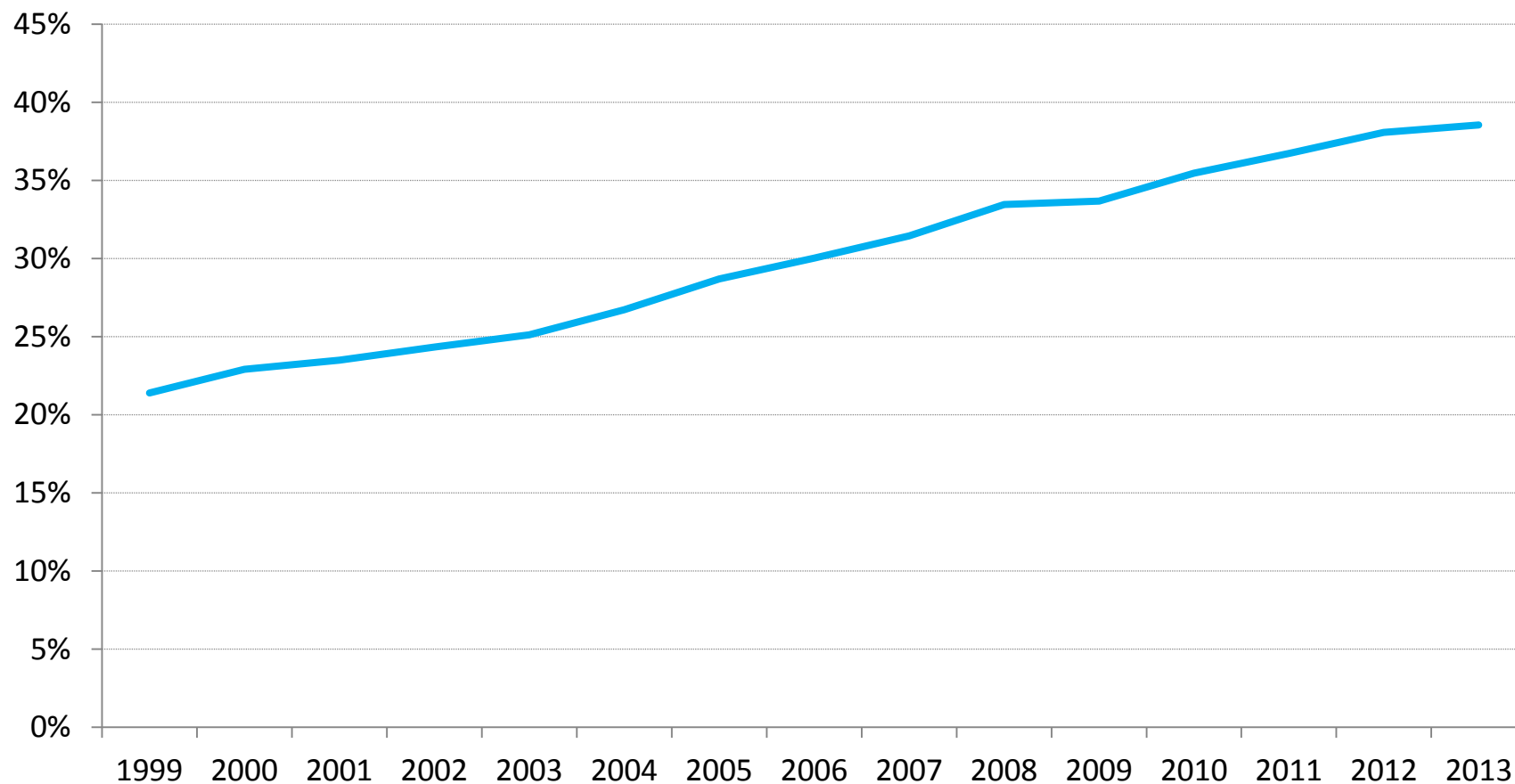
Global trade has expanded, though was interrupted by the crisis

World trade as a share of world GDP (%)



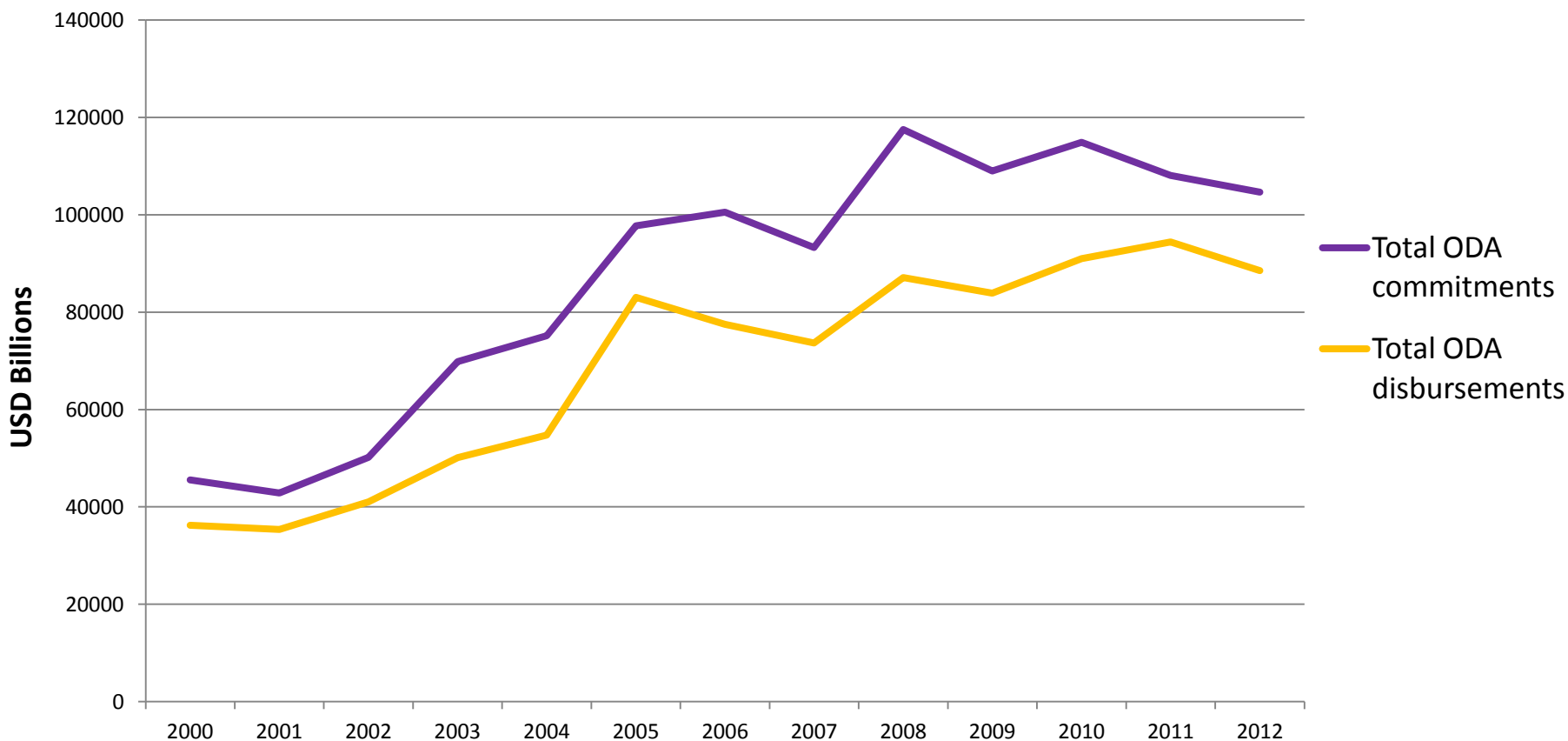
...And the share of EMDCs has been steadily increasing

Share of EMDCs in global trade



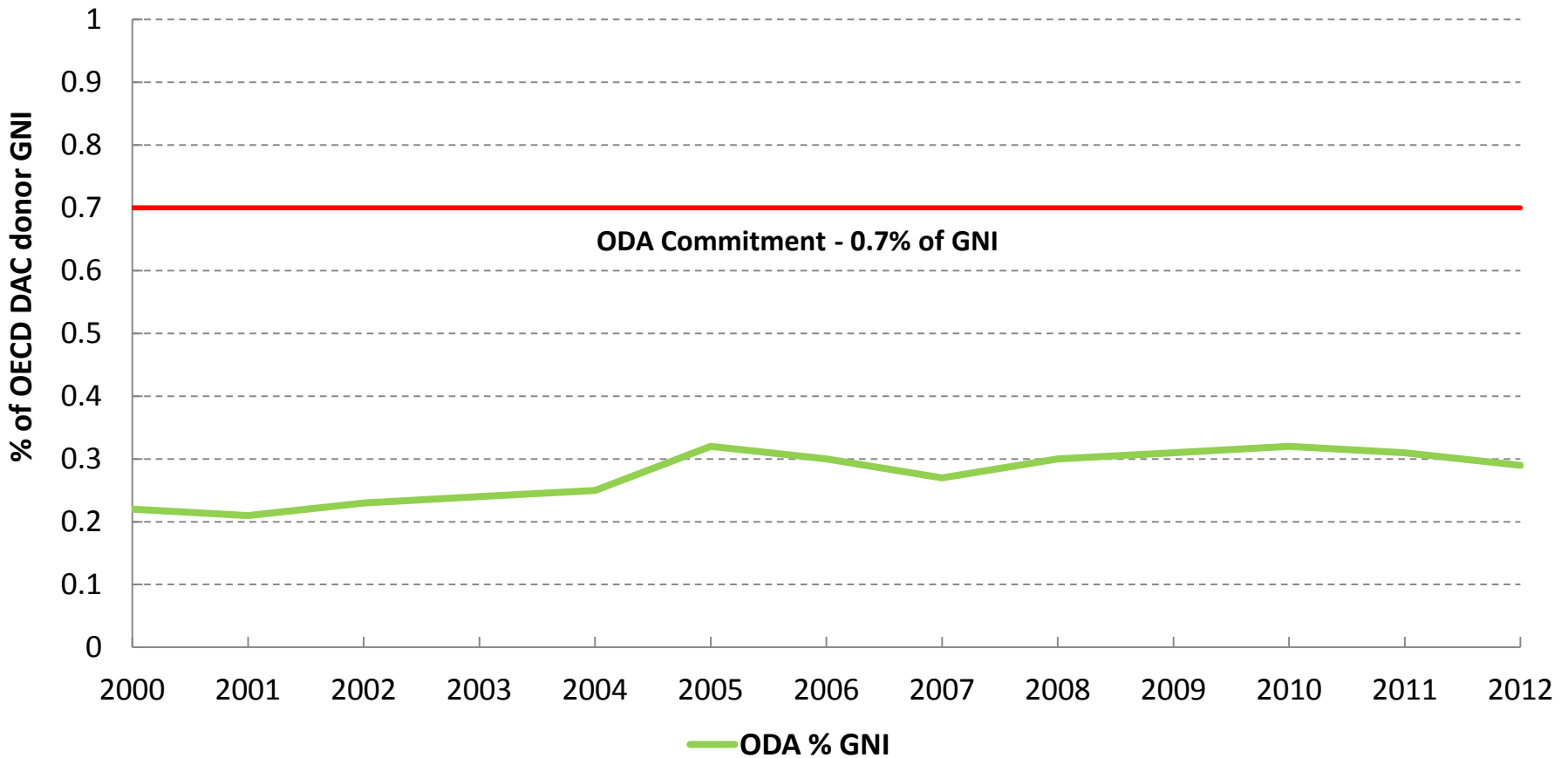
ODA has increased significantly since Monterrey, but has stagnated in recent years

Total ODA Commitments and disbursements, 2000-2012



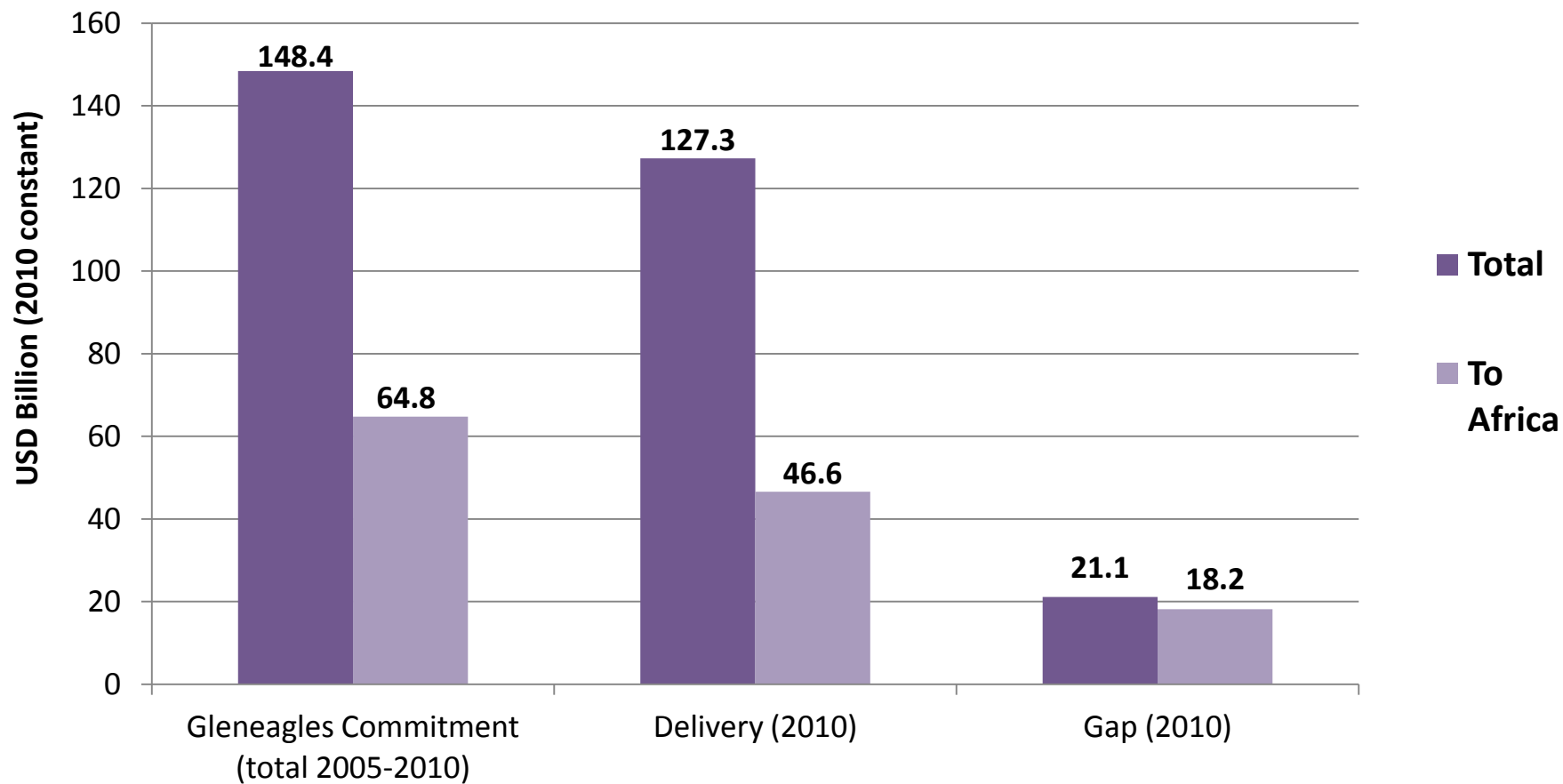
...and remains short of global targets

ODA Disbursements vs Commitments (% of donor GNI)

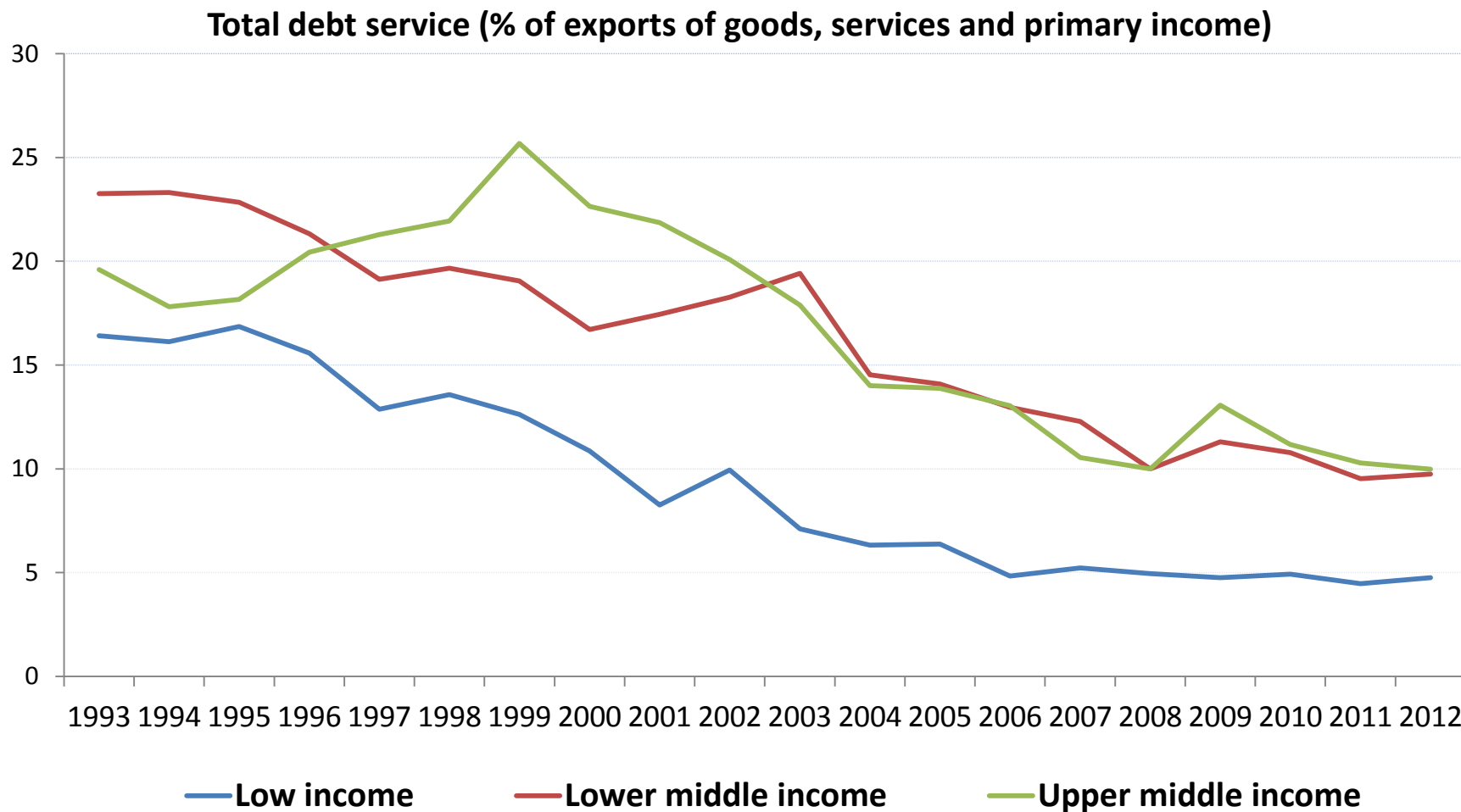


...and does not meet commitments made at Gleneagles

Gleneagles Commitments vs Delivery (USD Billion, 2010 constant)



Debt service burden has declined across EMDCs of all income levels



There has been progress in reform of the Bretton Woods Institutions, though much still needs to be done

- ❑ In the Monterrey Consensus, the international community agreed to “continue to enhance participation of all developing countries and countries with economies in transition in [the] decision-making [of the IMF and the World Bank]”
- ❑ The 2006-2010 voice and governance reforms in the IMF and the 2010 reform in the World Bank were instigated by this call
- ❑ Analysis of the G-24 has shown that progress has been made in some respects but much more is needed to address the large deficit in representation and the rapid structural change in the global economy
- ❑ There has been limited progress on other systemic issues, including on reforms in the international financial architecture

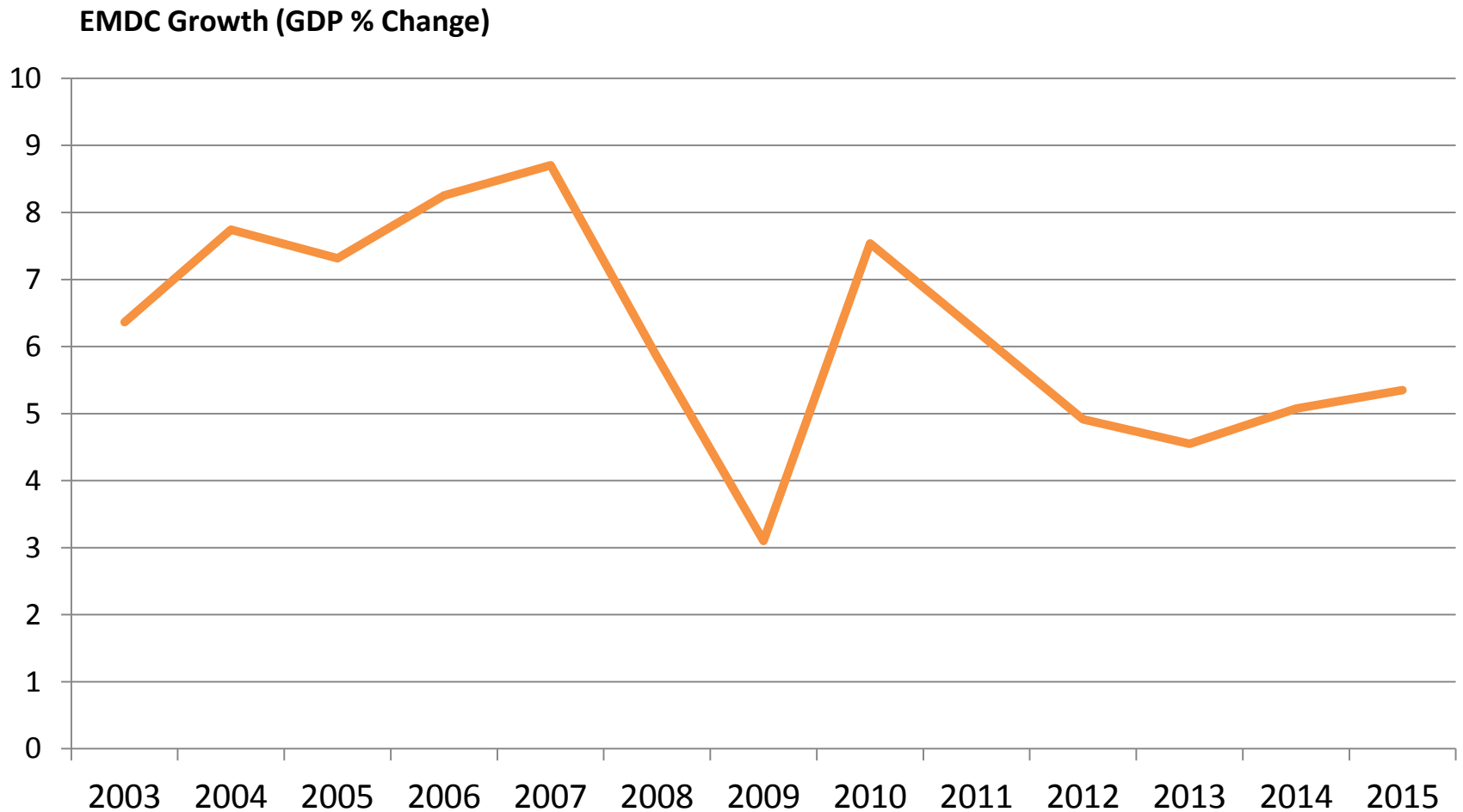
Overview

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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
 - But other pillars of financing warrant attention

EMDC growth has not returned to pre-crisis peaks and is facing new uncertainties



While this growth has helped achieve some of the MDGs, such as the poverty reduction target, many goals remain unmet

Improvement

- The proportion of people living in extreme poverty has been halved (**goal 1**)
- Death rates from malaria and TB have dramatically reduced (**goal 6**)
- The debt burden of developing countries has decreased significantly (**goal 8**)

Insufficient Progress

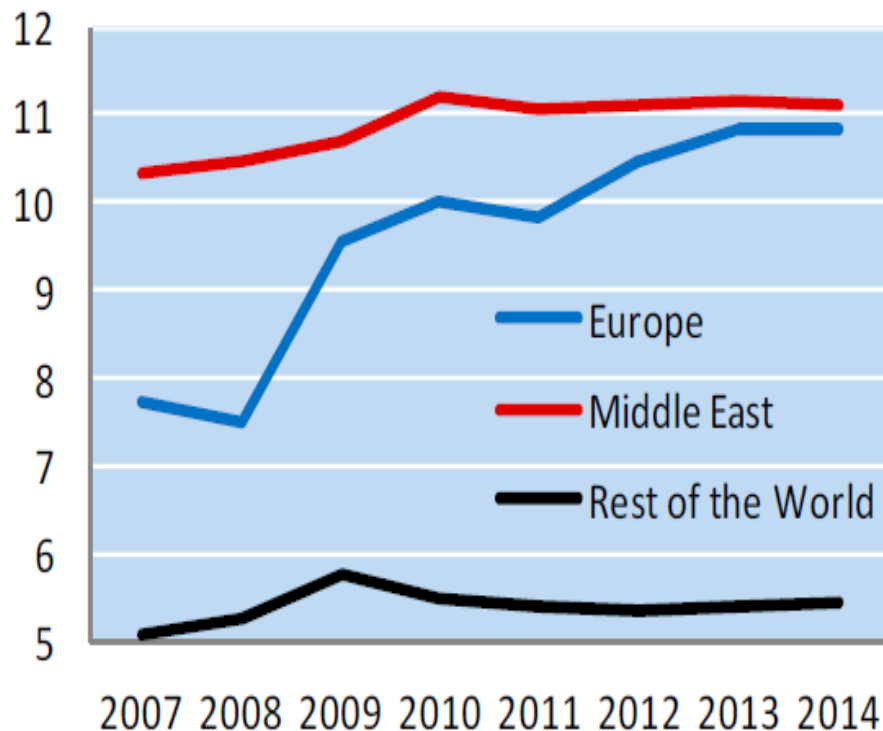
- While child mortality has reduced, we are not on track to meet the goal of a 2/3 reduction, especially amongst the youngest and in the poorest regions (**goal 4**)
- We are a long way from the maternal mortality target, despite most maternal deaths being preventable (**goal 5**)
- Environmental sustainability is under severe threat (**goal 7**)
- 2.5 billion people lack access to basic sanitation (**goal 7**)
- 1 in 8 people worldwide remain hungry (**goal 1**)

The jobs crisis continues, and employment is at its lowest level in two decades

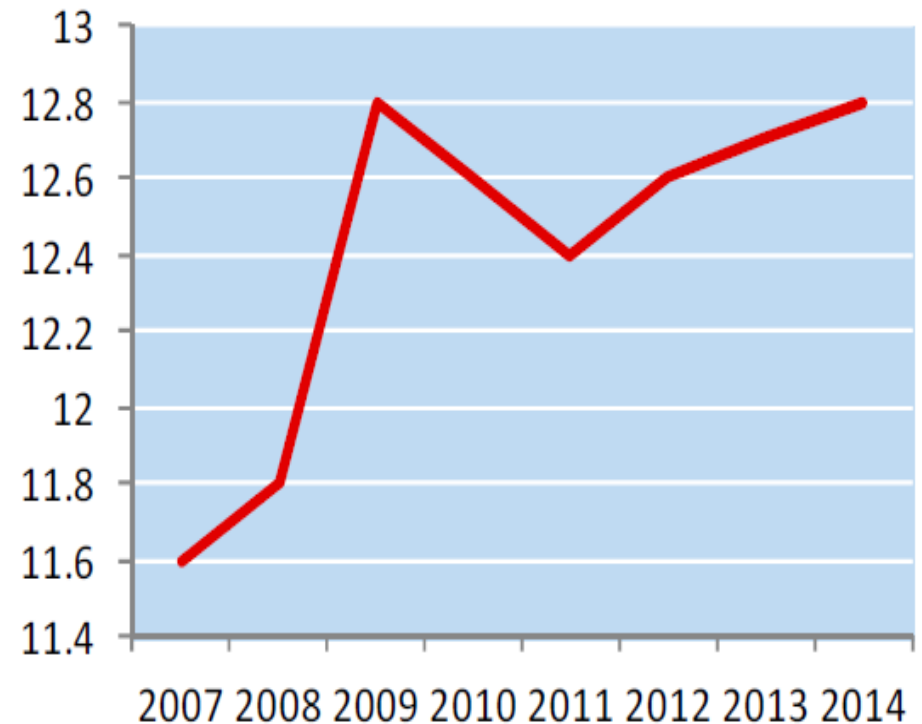


...and is particularly high in Europe and the Middle East, and amongst youth

**Global unemployment
(percent of labor force)**

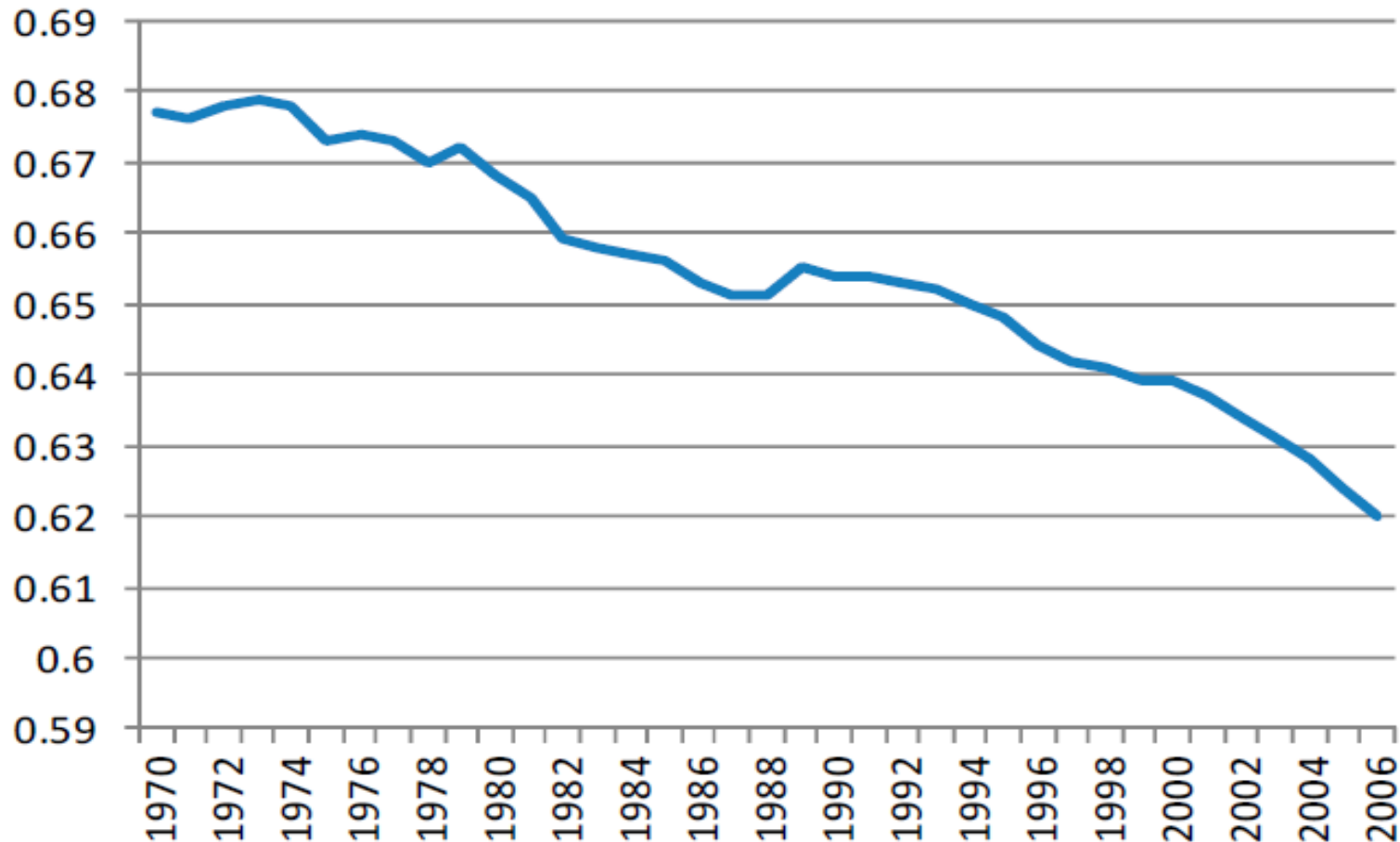


**Youth unemployment
(percent of youth labor force)**

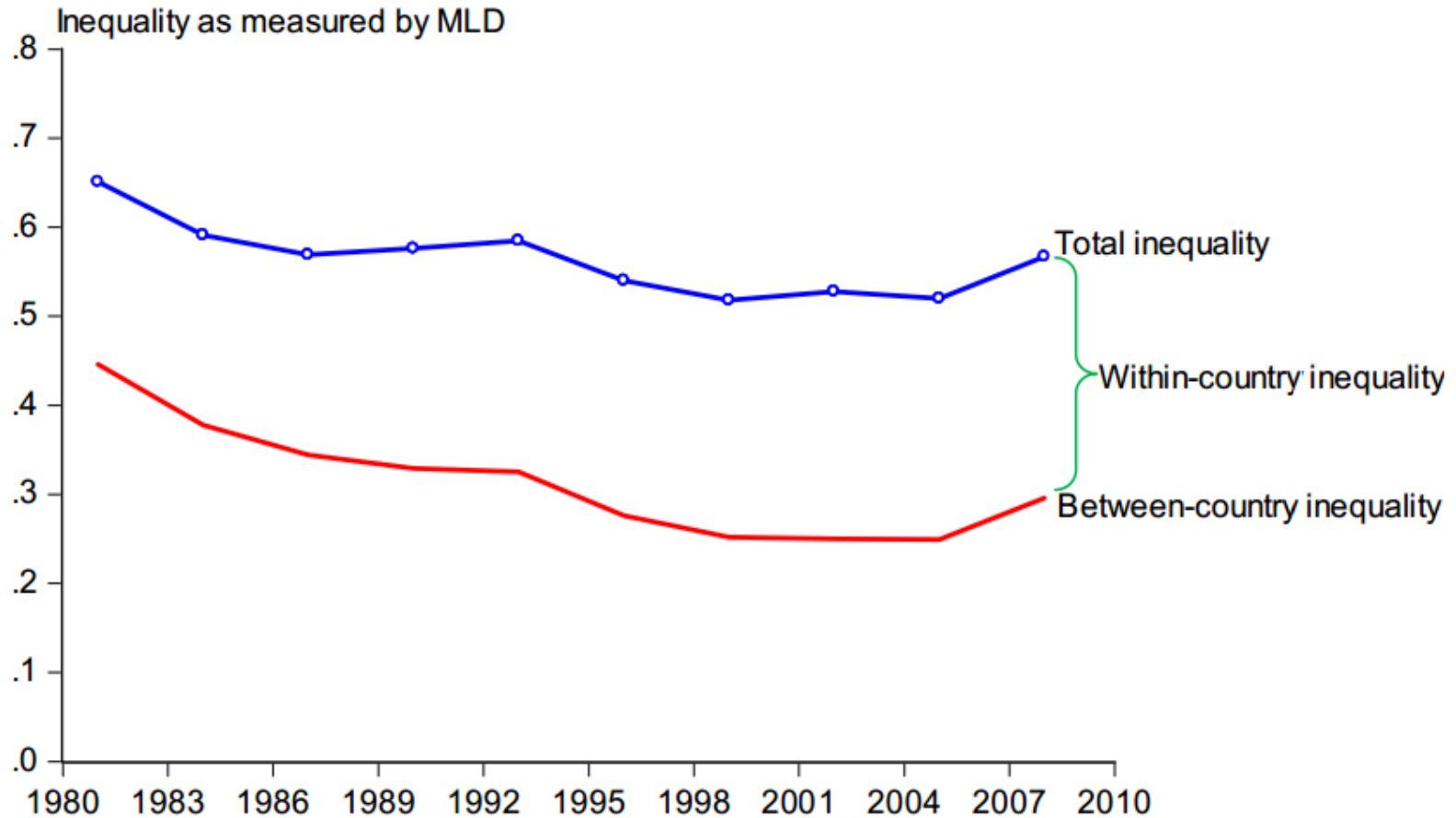


While global inequality has declined, due in part to growth in large, populous countries...

World Gini Coefficient, 1970-2006



...inequality within countries has steadily increased

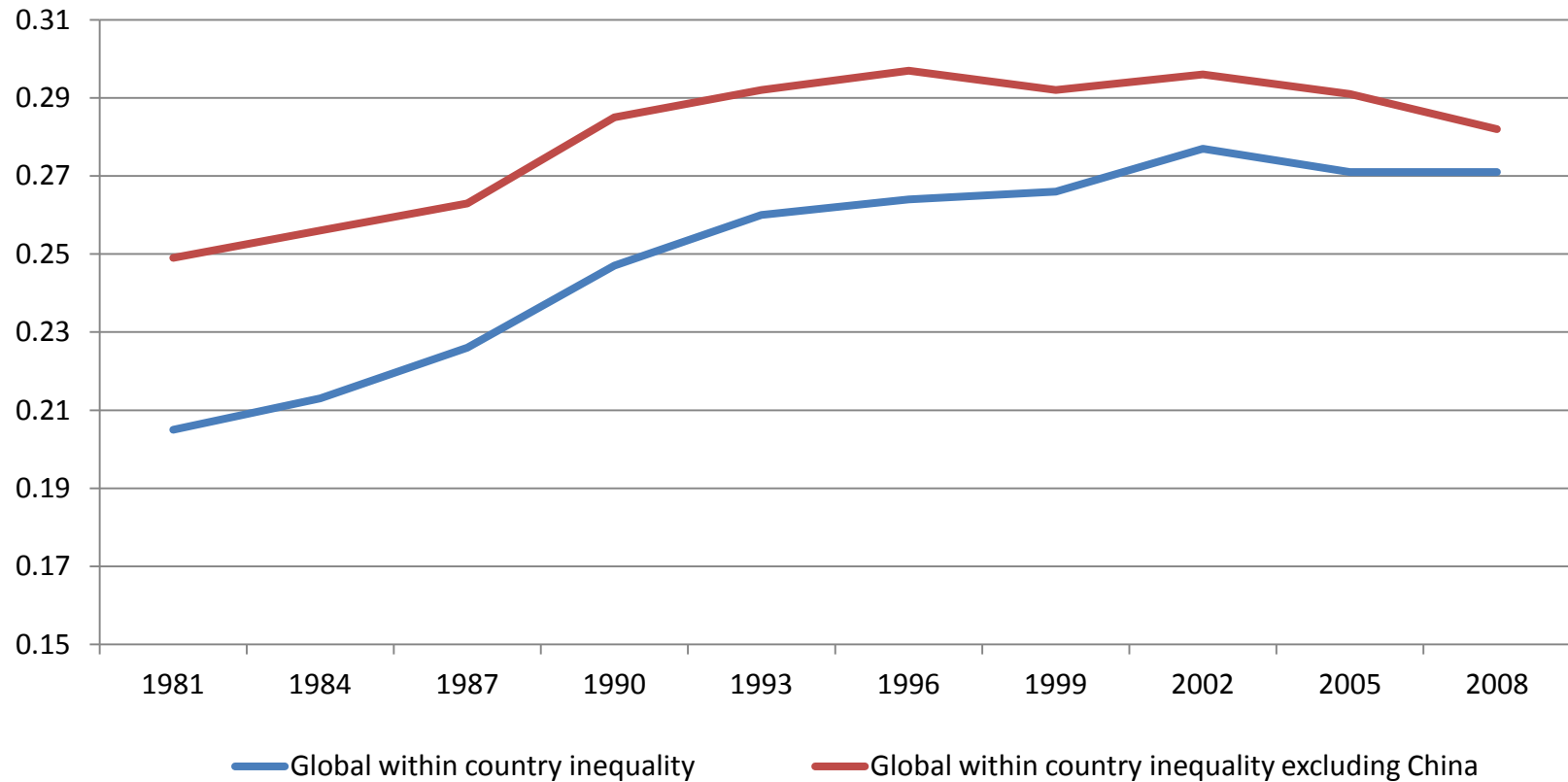


Source: Ravillion & Chen (2012), World Bank, based on PovcalNet data

Note: Inequality calculated by mean-log deviation (difference between the log of the group's mean consumption and the mean of the logs of all the consumptions within that group)

...inequality within countries has steadily increased

Inequality within countries by year

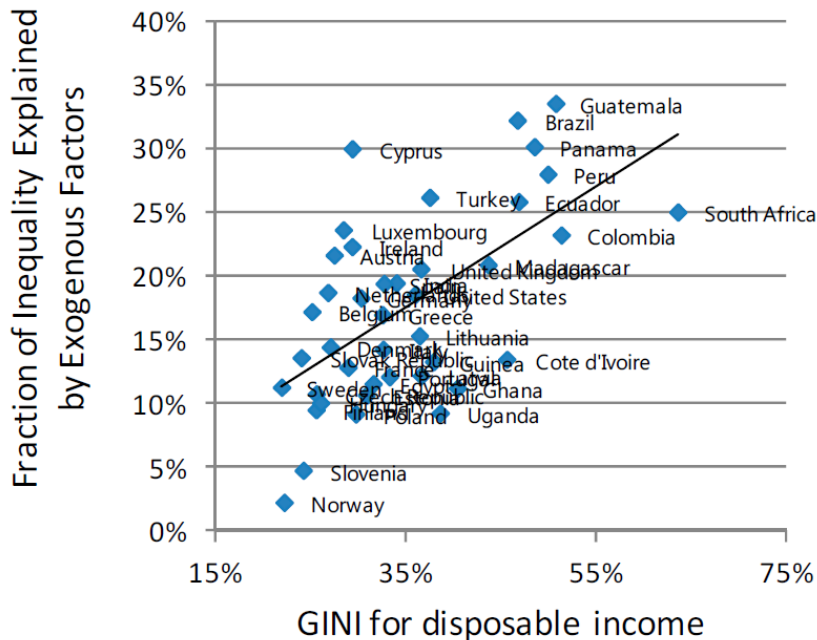


Source: Ravillion & Chen (2012), World Bank, based on PovcalNet data

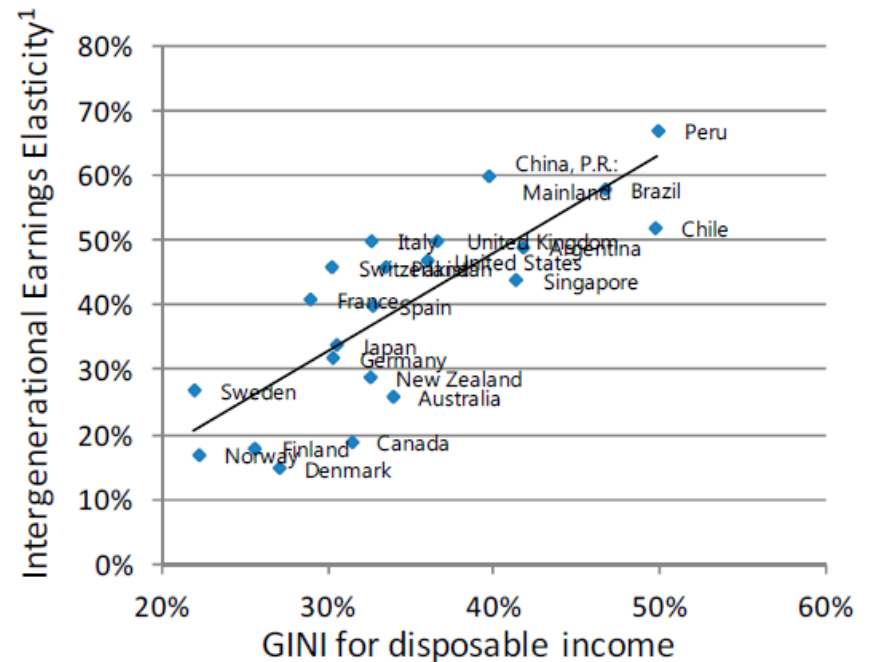
Note: Inequality calculated by mean-log deviation (difference between the log of the group's mean consumption and the mean of the logs of all the consumptions within that group)

...with impacts on social mobility, which can compromise long-term development

Income inequality and fraction of inequality explained by exogenous factors



Income inequality and intergenerational immobility

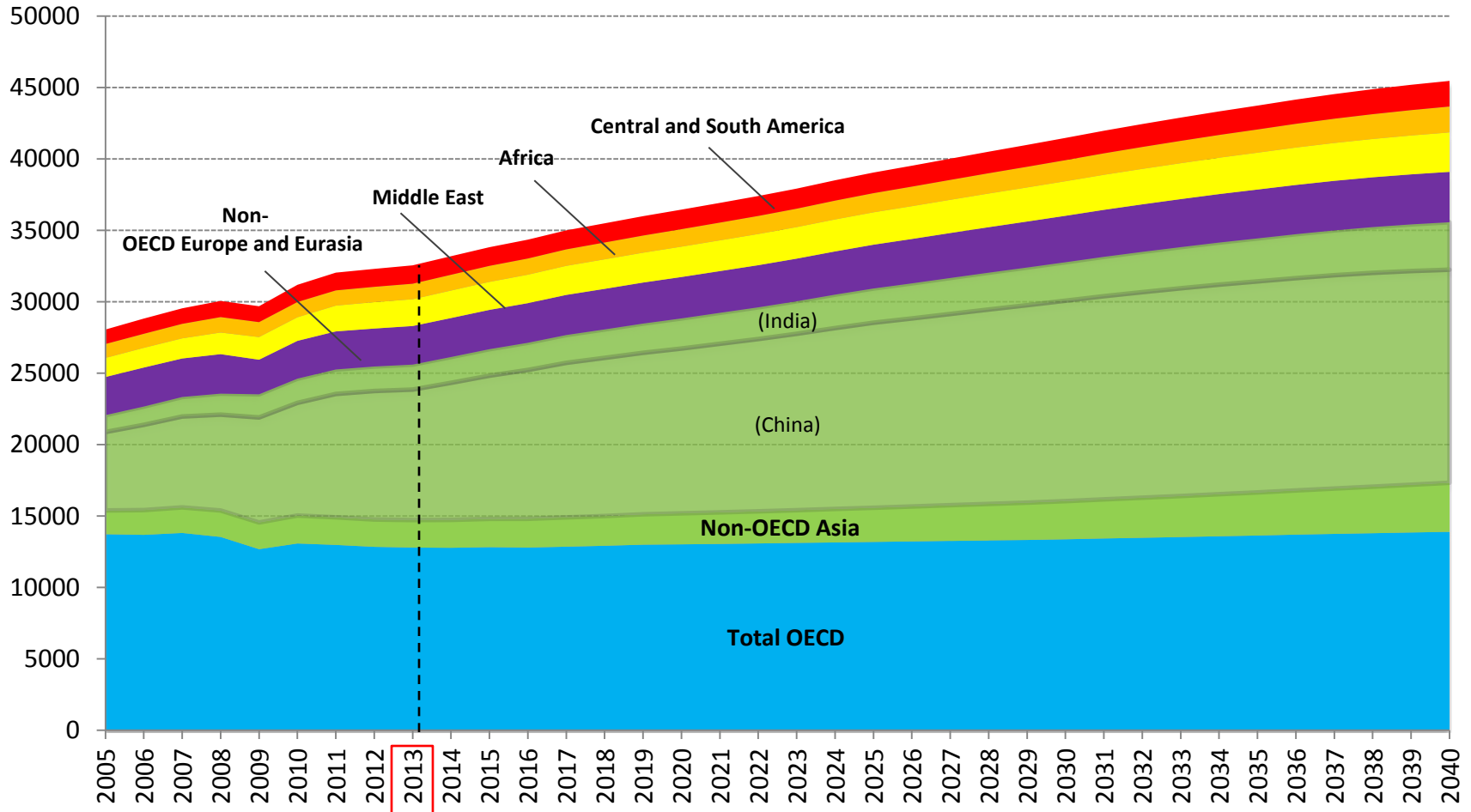


Source: IMF (2013), 'Jobs and Growth', based on Brunori, Ferreira and Peragine (2013), Corak (2012), Solt (2009)

Note (1): A high elasticity signifies a close relationship between the incomes of parents and children

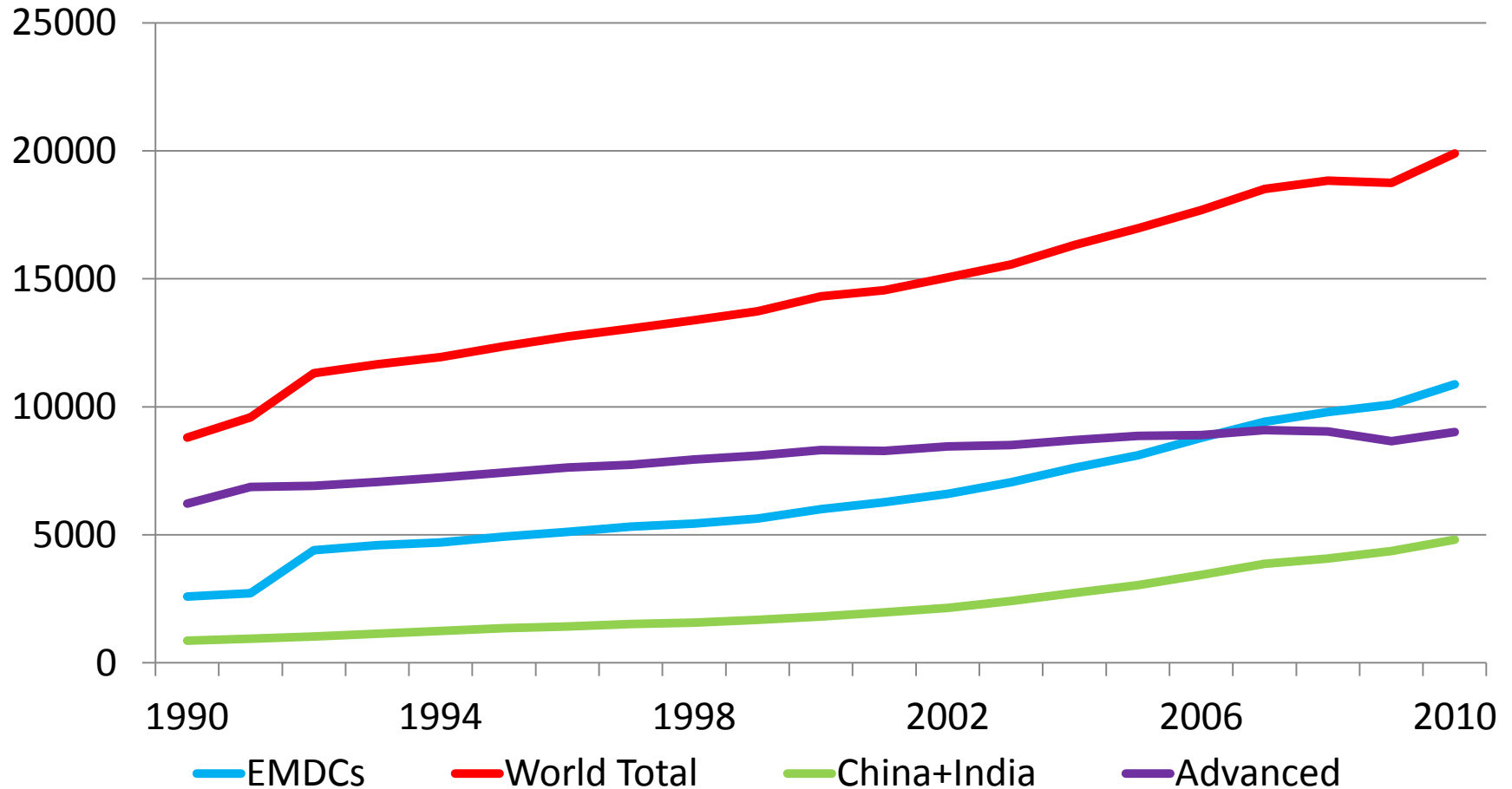
Sustainability is also an enormous concern

World Carbon Dioxide Emission (Millions Metric Tons Carbon Dioxide)



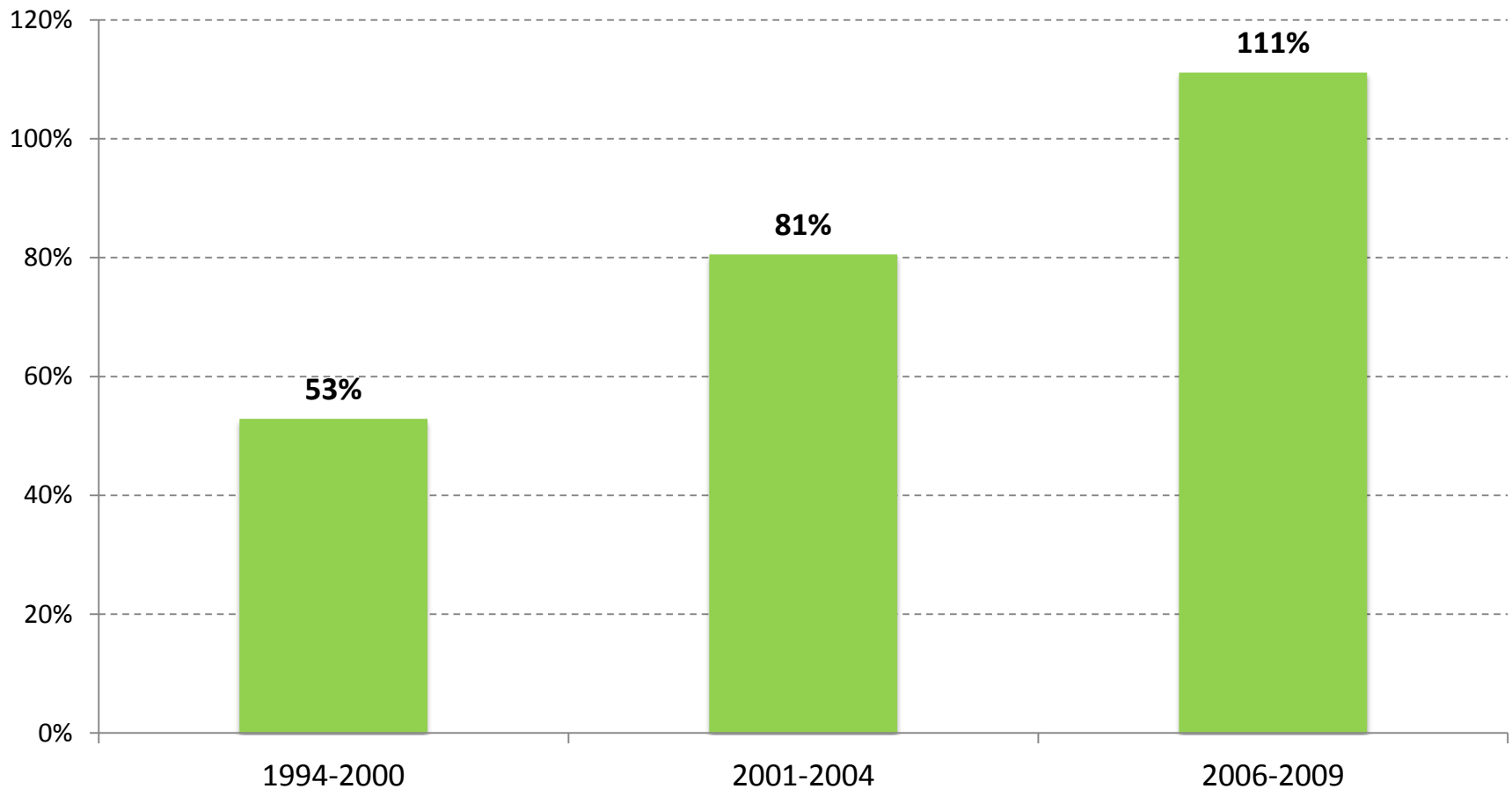
Sustainability is also an enormous concern

World Electricity Generation (Billion Kilowatt-hours)

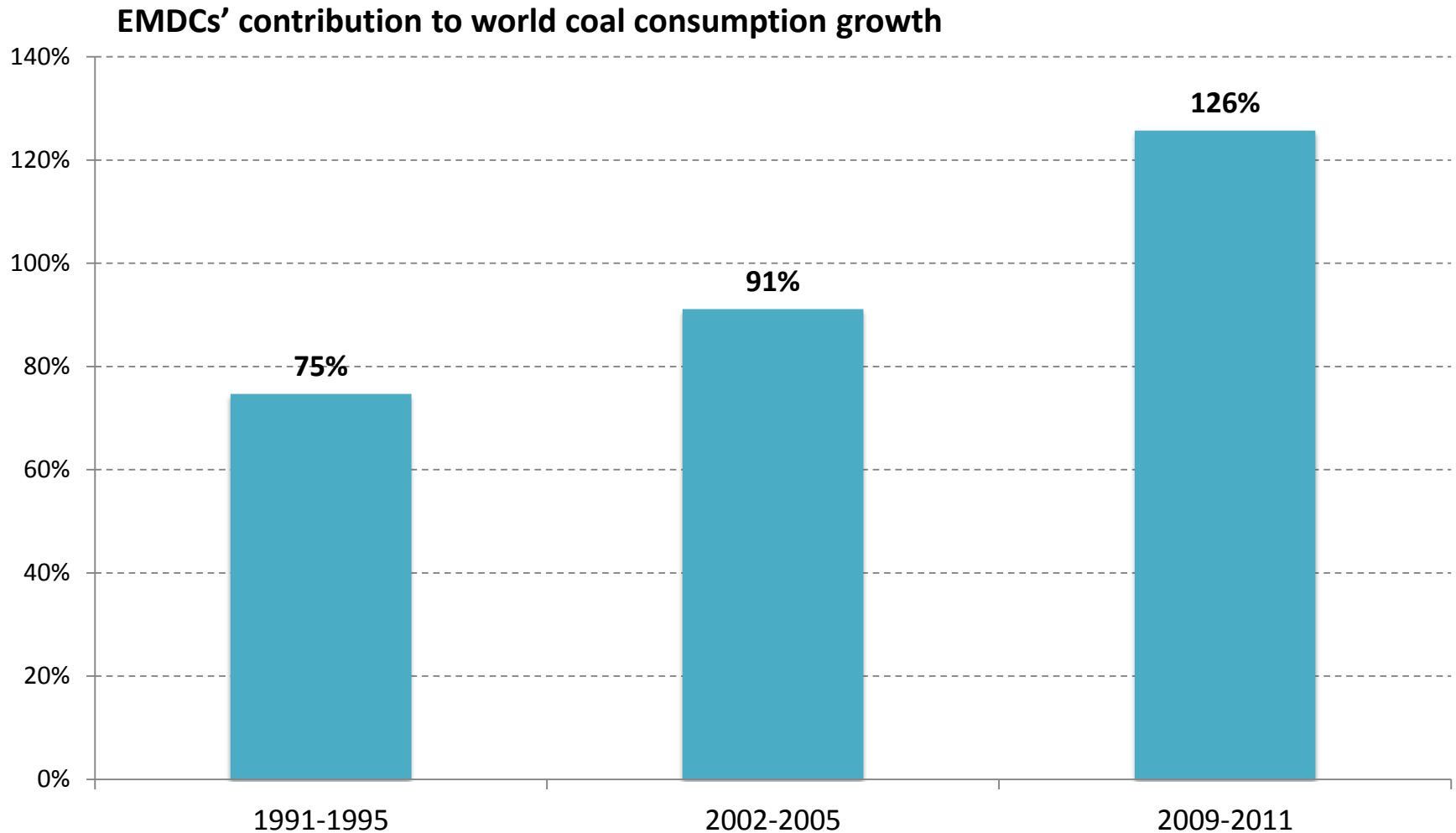


Sustainability is also an enormous concern

EMDCs' contribution to world electricity generation growth



Sustainability is also an enormous concern



Source: G-24 Secretariat, based on the U.S. Energy Information Administration (2013)

A wide array of issues are under discussion, but these will have to be narrowed down for the post-2015 development agenda

Focus areas identified by the UN Open Working Group on Sustainable Development

1. Poverty eradication
2. Food Security and Nutrition
3. Health and Population Dynamics
4. Education
5. Gender Equality and women's empowerment
6. Water and sanitation
7. Energy
8. Economic Growth
9. Industrialization
10. Infrastructure
11. Employment and decent work for all
12. Equality
13. Sustainable cities and human settlements
14. Sustainable consumption and production
15. Climate
16. Conservation of marine resources, oceans and seas
17. Ecosystems and biodiversity
18. Global partnership for sustainable development

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In order to ensure sustainable, adequate financing to meet development aspirations in EMDCs, attention should focus on three strategic channels

- ❑ Putting public finances on a sound and responsive footing
 - Public budgets will face growing constraints in the years ahead
 - It will be crucial to mobilize the necessary public resources to support essential services and meet priority investment needs
 - This will require greater efficiency of expenditures and improved tax efforts in many cases
- ❑ Tapping the potential and managing the risks of private finance
 - Substantial private resources are available for investment
 - It will be essential to develop instruments and approaches to utilize a wider pool of resources and minimize risks of financial instability
- ❑ Meeting the financing needs for sustainable infrastructure
 - Infrastructure has a fundamental role to play in meeting development goals, yet the gaps are enormous
 - In order to meet investment needs, it will be necessary to strengthen and adapt the entire infrastructure financing architecture

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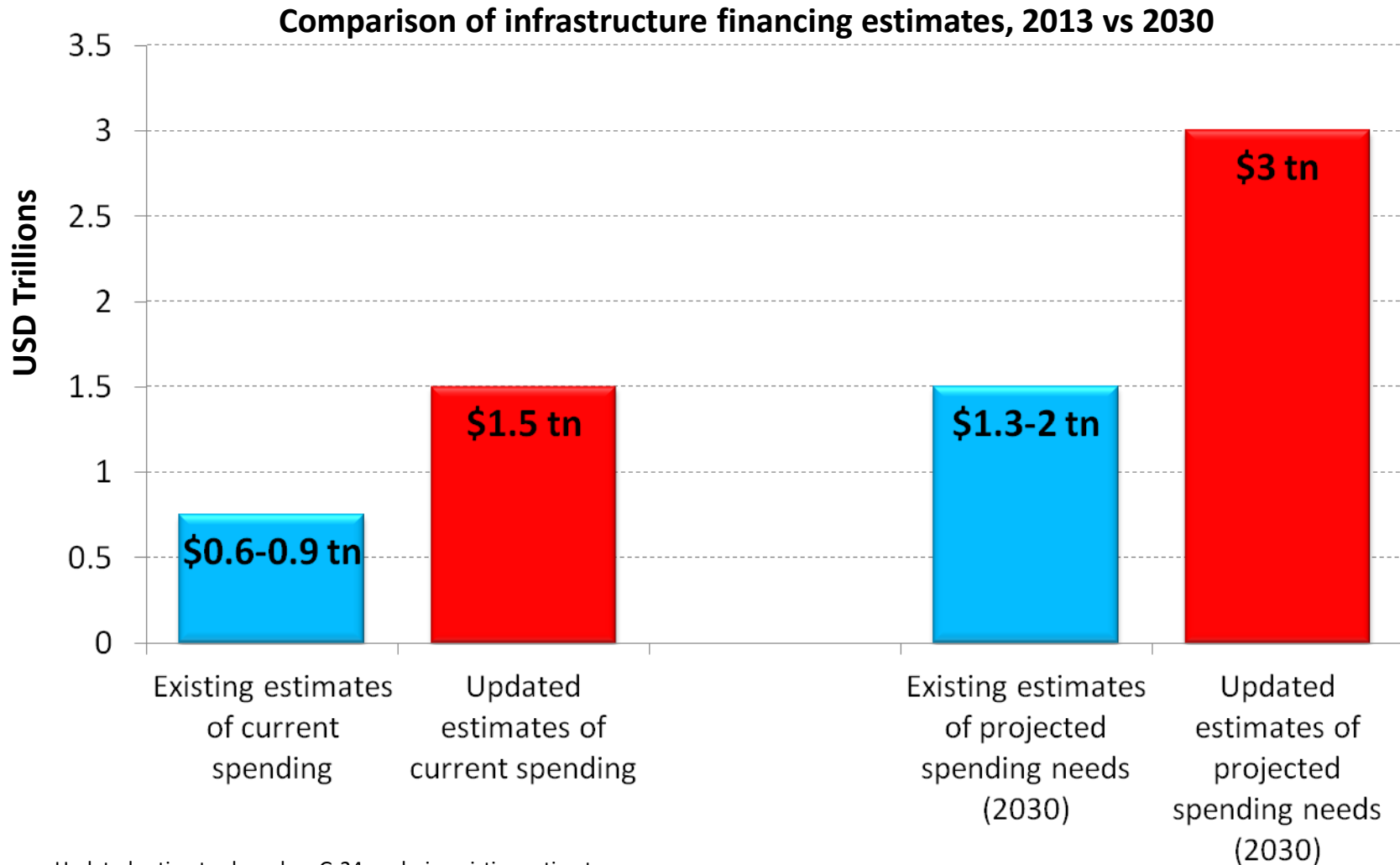
Infrastructure deficits in EMDCs are inhibiting growth and development

- ❑ 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
- ❑ Infrastructure needs vary across regions, but are **particularly high in South Asia and Sub-Saharan Africa**
 - Sub-Saharan Africa requires approximately \$100bn in annual infrastructure financing
 - Though the needs differ significantly across the region:
 - South Africa and oil-exporting countries could meet infrastructure requirements by investing 7-10% of their GDP every year
 - Lower-income countries (such as Ethiopia) need to invest +15% of GDP every year
- ❑ Evidence indicates that unless these needs are met, it is **unlikely countries will meet their aspirations for growth and development**

Infrastructure is of critical importance to sustainable growth for EMDCs

Driver of Need	Description
Growth	<ul style="list-style-type: none">• Emerging and developing countries (EMDCs) have high growth potential (~5-7% in non-OECD compared to 2% in OECD between 2010 and 2030)• Even adjusting for higher productivity, this period of rapid growth will have strong capital intensity, and hence infrastructure needs• Strong evidence shows that lack of infrastructure can be a significant constraint to economic growth
Structural change and urbanization	<ul style="list-style-type: none">• An increasing percentage of growth in EMDCs is coming from industry and services, requiring substantial new infrastructure• With 2 billion people moving to urban centres in the coming three decades, there is a rapidly growing need to expand and upgrade urban infrastructure
Inclusion	<ul style="list-style-type: none">• Existing deficits are large: 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• Infrastructure is essential for expanding access to basic services and a more inclusive pattern of growth
Sustainability and resilience	<ul style="list-style-type: none">• Ensuring the environmental sustainability and climate resilience is crucial for growth and development and requires new infrastructure and related networks

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

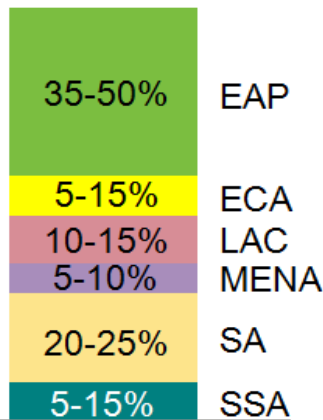


Source: Updated estimates based on G-24 analysis; existing estimates

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

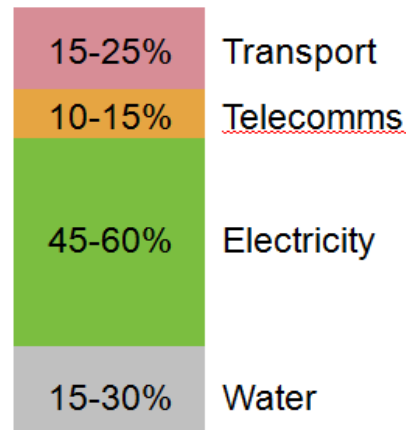
\$2.5-\$3.5 tr



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

Annual needs by sector

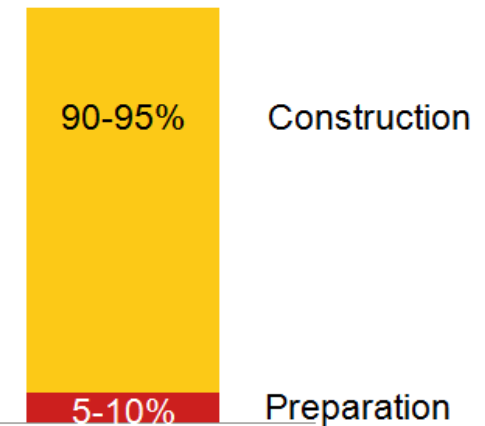
\$2.5-\$3.5 tr



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

Annual needs by phase

\$2.5-\$3.5 tr



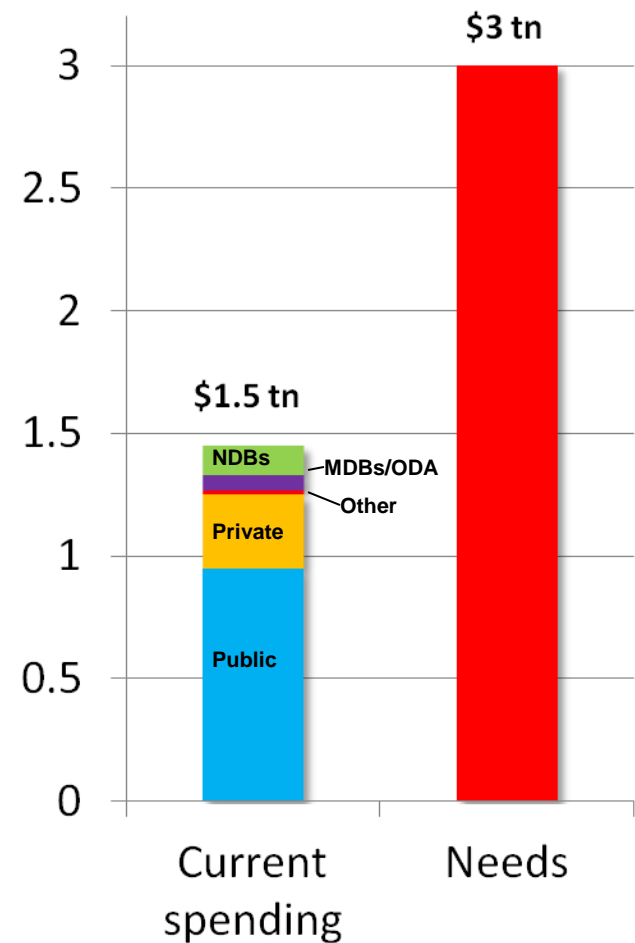
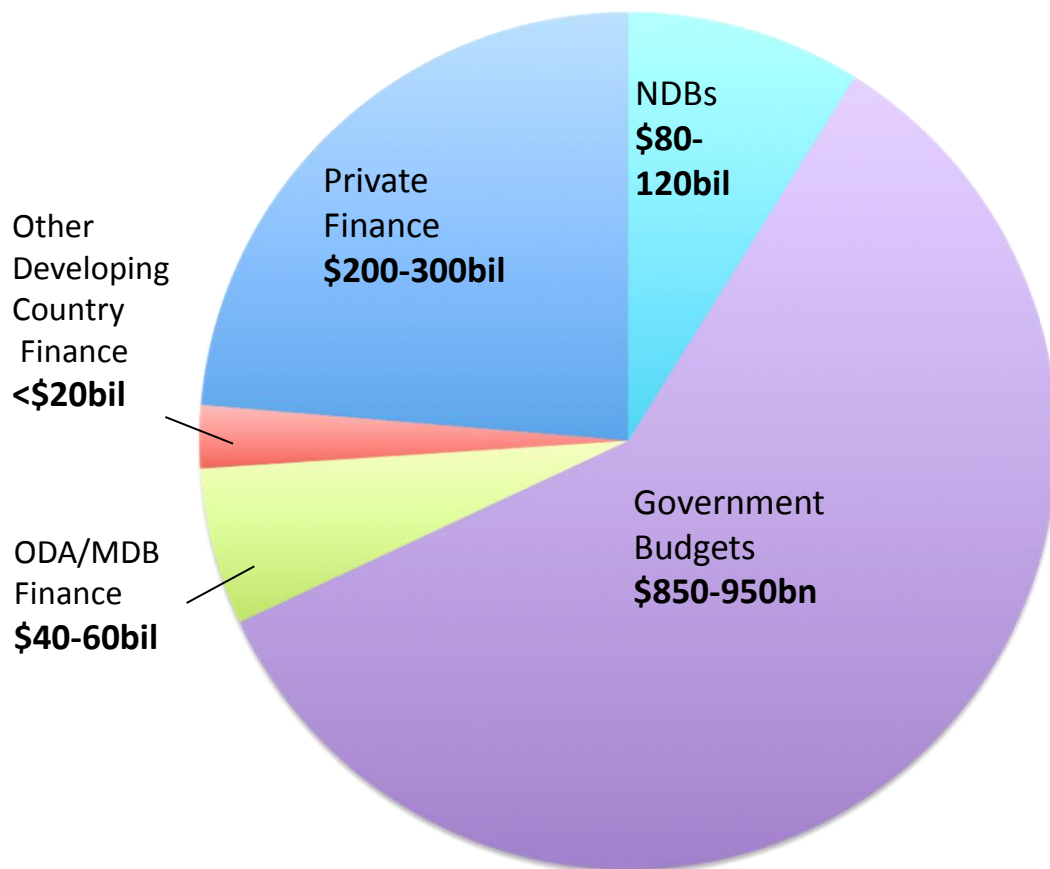
▶ Preparation costs, including costs of design and arranging financial support, can constitute up to 10% of overall costs

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

Source: G-24 & GGGI analysis, based in part on Fay et al (2010), MDB G20 working group on infrastructure (2012, 2013), and Foster and Briceño-Garmendia (2010)

The existing long-term development financing architecture does not meet the needs

Current Annual Infrastructure Spending
(approximately \$1.5 trillion)



Gaps in the existing long-term development financing architecture

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