The Financing for Development Agenda

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Topics

- Context
- Comments
- Are significant increases in financing for long-term projects in developing countries possible without sufficient progress in systemic issues?

Context

- Severely limited public financing availability (willingness) on the part of developed countries for sustainable development
- To be replaced by (1) international private sector financing and (2) domestic resource mobilization
- What is required for mobilizing long-term international private sector financing? (Even SWFs only 1% on infrastructure – WB)
- What is required for revival/restoration of domestic resource mobilization?
- At end of day – measure is fixed capital formation

3

Do We Need Bubbles to Stimulate Private Investment?

Rapid financial growth but stagnant fixed investment, 1970-2008

International financial flows

World fixed investment rate
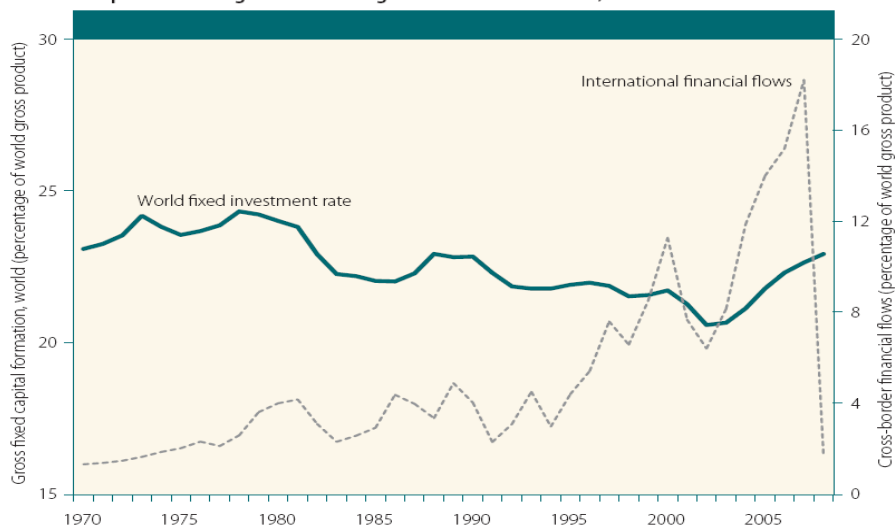
UNDESA 2010

4

Investment rates differ by country, by region – private flows instability plus weak DRM

Fixed investment rates, Africa, 1971-2007

UNDESA 2010

5

Investment rates differ by country, by region

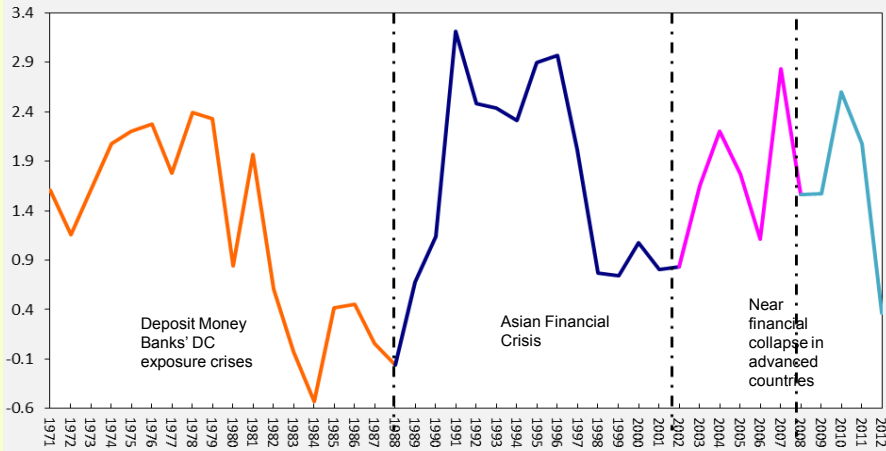**Fixed investment rates, world and Asia and the Pacific, 1971-2007**

UNDESA 2010

6

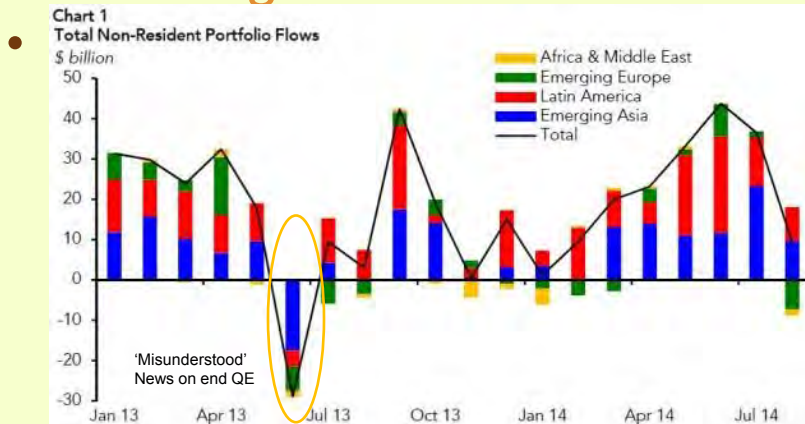# Episodic Patterns of Global Private Financing

Net private capital flows to developing countries (per cent of GDP)

Deposit Money Banks' DC exposure crises

Asian Financial Crisis

Near financial collapse in advanced countries

EM debt portfolio flows grind to a halt

Chart 1
Total Non-Resident Portfolio Flows
$ billion

- Africa & Middle East
- Emerging Europe
- Latin America
- Emerging Asia
- Total

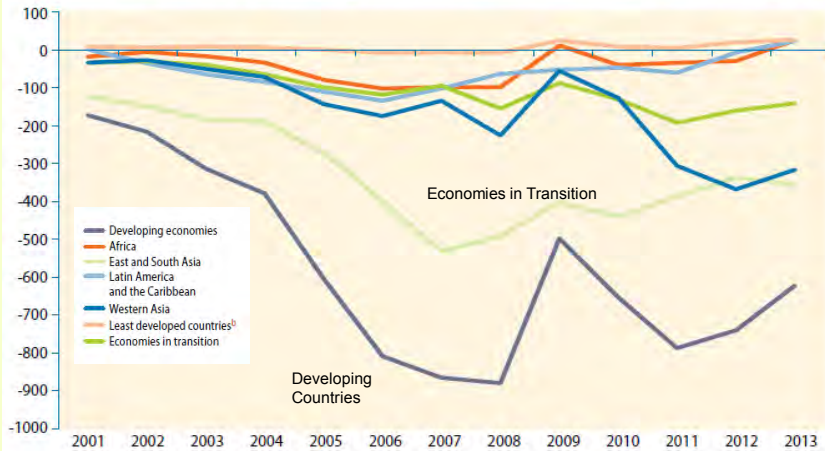'Misunderstood' News on end QE

FT 27 Aug 2014

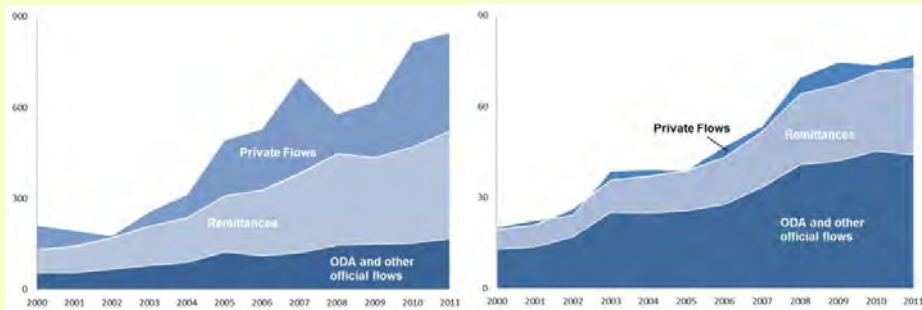# Net Financial Transfer in Favor of Developed Countries

Net transfer of resources to developing economies and economies in transition, 2001-2013[a]

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9

Will Private Sector Invest in LDCs?

Developing Countries

LDCs

ICESDF 2014

10

Intentions

- <u>SG High Level Panel</u>: Implement reforms to ensure stability of the global financial system and encourage stable, long-term private foreign investment
- ICESDF: Channel international funds towards long-term investment in sustainable development
  - Increase due diligence capacities
  - lengthen investment horizons, such as through a reduction of the use of mark-to-market accounting for long-term investments
- ICESDF: Manage volatility of risk associated with short-term cross-border capital flows
- ICESDF : "Blended finance" with caution
  - (How much of cost due to private uncertainty from open capital accounts?)

11

Institutional Challenges – Beyond IMF Voting Weights

- Rules-based, equitable, and comprehensive sovereign debt restructuring process
- Development banking and financial development in developing countries (role of state)
- Capital account re-regulation in developing countries
- Payment system's over-reliance on national currencies (ICESDF did not touch)
- Disciplines on reserve issuing countries (ICESDF did not touch)
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12

Thank you

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