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Mobilizing Investment for Sustainable Development

Statement by

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Mr. Léon Raphaël Mokoko, Minister for Planning and Integration, the Congo
Mr. Mustafa Osman Ismail, Minister of Investment, the Sudan
Mr. George Wilfred Talbot, Ambassador and Permanent Representative, Permanent Mission of Guyana to the United Nations Office; Co-facilitator of Financing for Development Process (via video conference)
Mr. Negash Keberet Botora, Ambassador and Permanent Representative, Permanent Mission of Ethiopia to the United Nations Office and other international organizations in Switzerland
Mr. Ludwik Sobolewski, Chief Executive Officer, Bucharest Stock Exchange
Mr. Patrick Scheurle, Chief Operating Officer, Blue Orchard
Excellencies,
Ladies and gentlemen,

Good afternoon.

This meeting is timely and important for a number of reasons. In pursuit of effective policies for mobilizing investment for sustainable development, the session provides an opportunity for this Commission to offer inputs and specific suggestions to meet the challenge of the Post-2015 Development Agenda. These suggestions could be the basis of inputs to the forthcoming Third International Conference on Financing for Development in Addis Ababa in July, as well as later meetings related to the SDG process in New York and Paris. Further, it is a good occasion to reflect on UNCTAD's contribution towards investment in sustainable development, and the role that this organization can play in various facets of the Post-2015 development agenda. We need to work collectively to develop solutions.

As the Deputy Secretary-General mentioned this morning, the global community faces major challenges to ensure the realization of the Sustainable Development Goals currently being negotiated. I will now go into further detail on the nature of the challenges involved in "investing in the SDGs", in particular how to mobilize a greater share of available financial resources to fund projects which can contribute to the realization of the Post-2015 Development Agenda.

UNCTAD is active in many spheres which help to address the challenges of financing sustainable development. At the end of my remarks this afternoon, I will point to some key areas in which UNCTAD is contributing to the debate and providing solutions to the problems facing the international community.

Excellencies
Ladies and Gentlemen,

Estimates among international bodies and stakeholders vary regarding the necessary financing to shift the world onto a more sustainable trajectory of long-term growth and development. But we all agree on one aspect: there is a very large gap between current investment and what will be needed. UNCTAD, for instance, estimates that the annual investment needs in key SDG-relevant sectors *in developing countries alone* are of the order of \$3.9 trillion per year, with an annual investment gap of \$2.5 trillion through to 2030. While this investment gap may be huge, it can be met in principle. But the conditions to do so require appropriate leadership and policies on the part of governments at the national and international levels.

There are resources available from various sources of finance and investment that can be tapped. For instance, only a fraction of the worldwide assets of banks, pension funds, TNCs, sovereign wealth funds and foundations are currently invested in SDG sectors. The combined assets of only these categories of institutions are more than \$200 trillion. Under the right conditions and smart partnerships, some of these resources can be directed towards investing in SDG-related sectors. The important question is how to effectively mobilize and channel them towards meeting SDG needs. Achieving the SDGs also requires a step-change in investment by both the public and private sectors. The role of the private sector in this regard cannot be emphasized enough. They need to play a more active role in investing in sustainable development, including through public private partnership arrangements.

The essence of the challenge is that the levels of investment required for economic development, social impact and environmental sustainability objectives to be enshrined in the SDGs extend above and beyond domestic public resources in developing and transition economies. So while a vibrant national business sector and domestic investment are vital for economic growth, the shortage of domestic resources means developing and transition economies cannot go it alone. Other sources of finance are required and a wider range of investors, domestic and foreign, must play an increasing role over the next 15 years and beyond.

Countries must seek to mobilize and combine external (and domestic) sources of development finance, such as ODA, FDI, portfolio investment, bank lending and remittances. But what is the right level and mix of different sources of external finance? The right combination of resources can (and has) delivered good results in developing countries. But the ideal composition of external capital is country- and context- specific. Moreover, the global financial crisis of 2008 reaffirmed concerns about the stability of external finance and countries' vulnerability to sudden stops or reversals in capital flows. Commercial bank lending and portfolio investments in particular can fluctuate wildly during economic cycles. ODA is less prone to fluctuations, but has grown slowly. Remittances have been relatively stable but often do not translate into the expansion of productive capacity that countries need.

FDI has proved to be less volatile and more resilient to crises than other forms of external financing, and it remains a critical source of finance for developing countries. FDI flows continue to have important implications for a host country’s balance of payments, savings, investment, the export-import gap, and overall macroeconomic management. It is seen also as a principal channel for the transfer of technology to developing countries and, through technology spillovers and enhancement of production and export capacities, as a boost to economic growth. Despite this, FDI in recent years has become more volatile to a degree, primarily because of a shift in its components from equity to reinvested earnings and debt components such as intra-company loans which tend to be more fluid.

Accordingly, we need to consider what balance should be struck between the different sources of external finance.

Excellencies
Ladies and Gentleman,

Attracting new sources of external finance for development will involve a wide range of investors, institutions and actors which operate within the global financial system. This includes commercial banks, state-owned banks, pension funds, insurance companies, transnational corporations, sovereign wealth funds, foundations, endowments, family offices and venture capital funds, to name but a few. The extent to which development finance is available depends on the propensity of each source, and its comparative advantages for specific types of project. For example, pension funds have a longer-term investment horizon and could be attracted by commensurate opportunities, such as in infrastructure. Insurance companies have some incentive to support climate change mitigation and adaptation projects.

Nevertheless, policies are required to reorient the propensities of sources of finance and investment to be geared towards the needs of sustainable development. All institutions face obstacles and incentives, internal and external, which shape investment decisions and determine whether their choices contribute to or hinder attainment of the SDGs. Policy interventions can thus target specific links in the investment chain and/or specific types of institutions to ensure that financial markets and end users are better geared towards sustainable outcomes than is presently the case.

A financial system supportive of the Post-2015 Development Agenda investment must ensure that actors, first, receive the right stimuli through prices for investment instruments that internalize social costs and benefits; secondly, have access to information on the sustainability performance of investments so that they can make informed decisions; and, finally are rewarded through mechanisms that take into account responsible investment behavior. In this regard it is important to ask what specific policies are required to achieve this reorientation of the propensities and behavior of different sources of finance and investment.

Another critical means to raise external finance is to enhance partnerships with internal sources of finance. Partnerships between public, private and foreign investors have increasingly been recognized as an effective and appropriate mechanism for managing the complexity of the development challenges facing developing countries and for meeting the MDGs. This is also clearly articulated for all SDG sectors. Significant areas in which such partnerships might be most effective include promoting infrastructure development, mitigating climate change and increasing agriculture production. During our deliberations this afternoon, let us consider country experiences of partnerships for sustainable development. Some examples worth reflecting upon include using ODA as base capital to share risks or improve the risk-return profile; a wider use of public-private partnerships; advance market commitments to provide more stable markets to SDG sectors; and the use of public-development funds as seed capital or guarantee to raise further private resources in financial markets.

An important aspect of partnerships is that they *are not only about financing per se*; each partner has unique characteristics and attributes, including technological assets, managerial and professional skills, or knowledge of the relevant sector or project. How do we bring together such attributes together in a mutually feasible partnership?

Finally, mobilising on new sources of finance for development requires innovative financing solutions, including new financial instruments, investment funds and financing approaches. But to date they remain relatively small in scale and limited in scope, may operate on the margins of capital markets, and, where associated with discretionary donor budgets, sources of innovative finance are not always stable. To achieve scale and scope, existing and innovative financial instruments and funding mechanisms to raise resources for investment in SDGs need to be supported, adapted to purpose, and scaled up as appropriate. Examples which could be scaled up include: green bonds and development impact bonds; impact investing; vertical funds; matching funds; front-loading of aid; future-flow securitization; and crowd funding. Delegates are asked to share their experiences of different policies and mechanisms, including the most effective facilitation measures, incentives and means of implementation.

Despite the availability of resources, it must also be recognized that some developing countries may continue to face special challenges to attract investment in sustainable development sectors. Low income environments, high perceived risks, limited investment and nascent domestic capabilities to manage private sector participation constrain these countries' ability to attract investment and leverage TNC participation. Donors and development partners need to consider all options to support these countries in realizing the Post-2015 Development Agenda, including keeping to their ODA commitments.

Excellencies
Ladies and Gentlemen,

Finally, let me turn to the contribution of UNCTAD in the context of financing for development. Last year's World Investment Report focused on investing in the SDGs, and in the process provided an action agenda listing specific approaches and measures to mobilize and channel investment into sustainable development sectors.

We were able to do this by building on our considerable relevant analytical and regulatory policy work, including capacity building and technical cooperation activities. Throughout the years the organization has contributed to countries and regions in their efforts to attract investment to support development - keeping in mind the need to maximize the benefits while minimize the costs. Through its analytical work in investment, UNCTAD has highlighted challenges, salient issues and specific policy options for attracting investment in a number of areas pertinent to sustainable development. Specific work and initiatives UNCTAD is currently working on which are aimed at ensuring sustainable and responsible investment in support of the Post-2015 Development Process include:

- IPFSD, Entrepreneurship Framework
- CSR, Corporate Reporting, SSE
- ISAR
- FDI and Gender
- PRAI

Excellencies
Ladies and Gentlemen,

Let me hasten to say, my intention is not to trumpet our achievements, but rather to say we that UNCTAD is fully aligned with and focused on the Post-2015 Development Agenda. Nevertheless, UNCTAD recognizes that the tasks to meet the Post-2015 Development Agenda are truly Herculean, and we – the international community – have barely begun. In our deliberations and reflection this afternoon, I am sure delegates and experts we will throw out valuable ideas, suggestions and proposals on how to further spur the mobilization of investment for sustainable development. My colleagues and I will be attentive to your inputs on how UNCTAD can better support this process.