United Nations Development Programme

Perspectives on Finance for Development: A Blog Series

Empowered lives.
Resilient nations.

United Nations Development Programme
Bureau for Policy and Programme Support
One United Nations Plaza
New York, NY, 10017, USA

Cover photo illustration: Maureen Lynch

United Nations Development Programme

Empowered lives.
Resilient nations.

Perspectives on Finance for Development: A Blog Series

In this blog series, our experts share their thoughts and lessons learned on key financing for development issues, in the run-up to the UN's Third International Financing for Development Conference in July 2015.
http://www.undp.org/content/undp/en/home/

THIRD INTERNATIONAL CONFERENCE
FINANCING FOR DEVELOPMENT
13-16 JULY 2015 • ADDIS ABABA • ETHIOPIA
TIME FOR GLOBAL ACTION

Table of Contents

Page

3 **Innovative Public-private Partnerships Are Key to Post-2015 Success**
Neil Buhne, Director of Geneva Liaison Office, UNDP

4 **Eliminating Discrimination: A Way to Mobilize the Trillions Needed for the Post-2015 Agenda**
Pedro Conceição, Director of Strategic Policy Unit, UNDP

5 **Next Time Could Be Different: Towards Risk-informed Development Finance**
Pedro Conceição, Director of Strategic Policy Unit, UNDP, and Alex Warren, Independent Consultant

6 **Enhancing Risk Management And Resilience Thorough GDP-Linked Official Lending**
Pedro Conceição, Director of Strategic Policy Unit, UNDP and Alex Warren, Independent Consultant

8 **The Political Economy of Illicit Financial Flows**
Max Everest-Phillips, Director, Global Centre for Public Service Excellence, Singapore

9 **Financing for Development in Resource-rich Countries**
Degol Hailu, Senior Economic Adviser for Sustainable Development, UNDP

10 **The Macroeconomics of Development Financing**
Degol Hailu, Senior Economic Adviser for Sustainable Development, UNDP

11 **How to Finance the Post-2015 Development Agenda?**
Gail Hurley, Policy Specialist, UNDP

12 **Data Is Key to Successfully Implementing the SDGs**
Gail Hurley, Policy Specialist, UNDP, and Jos Verbeek, Advisor, Office of the President's Special Envoy, World Bank

14 **How Will Small Island States Finance our Ambitious Sustainable Development Goals?**
Gail Hurley, Policy Specialist, UNDP, and Stephen O'Malley, UN Resident Coordinator, UNDP

16 **Development at the Crossroads: Reflections from the Arab Region**
Kishan Khoday, Practice Leader for Environment and Energy, UNDP Regional Center in Cairo

17 **Costing Crises and Pricing Risk: Delivering on 'Sustainability'**
Jan Kellett, Independent Consultant on Climate Change and Disaster Risk Reduction

18 **Can Business Help Finance the Post-2015 Agenda? Yes, But…**
Paul Ladd, Senior Policy Adviser on Post-2015 Development Agenda, UNDP

19 **2015: Many Things Could Go Well!**
Magdy Martínez-Solimán, Assistant Administrator and Director, Bureau for Policy and Programme Support, UNDP

20 **Getting It Right in Addis Ababa: Sustainable Agriculture Key to Green Growth and Reducing Poverty**
Magdy Martínez-Solimán, Assistant Administrator and Director, Bureau for Policy and Programme Support, UNDP

21 **Infrastructure for Development: Show Me the Money!**
Magdy Martínez-Solimán, Assistant Administrator and Director, Bureau for Policy and Programme Support, UNDP

22 **What Role for the Private Sector in Financing the New Sustainable Development Agenda?**
Marcos Athias Neto, Team Manager, Private Sector and Foundations Team, UNDP, and Massimiliano Riva, Policy Specialist, UNDP

23 **The Paradox of Development Financing in Caribbean Small Island Developing States**
Stacy Richards-Kennedy, Assistant Resident Representative, UNDP Trinidad and Tobago

24 **Africa and Climate Finance: The State of the Debate**
Alice Ruhweza, Regional Team Leader for the Global Environment Finance Unit in Africa, UNDP

25 **"Impact Investing" Benefits Business, People and Planet**
Priscilla Sani-Chimwele, Programme Analyst, UNDP

26 **Five Things We Would Do if We Were Really Serious about Finance for Development**
Ben Slay, Senior Adviser at the Regional Hub for Europe and the CIS, UNDP

27 **South-South Cooperation: How Can We Maximize Its Impact on Sustainable Development?**
Grace Wang, Policy Adviser on South-South, UNDP

Innovative Public-private Partnerships Are Key to Post-2015 Success

By Neil Buhne, Director, UNDP Geneva Liaison Office

In a world where links between countries are greater and faster than ever, disasters that once might have had only local effects now increasingly have international ramifications. The effects from the tsunami/meltdown of Japan's Fukushima reactor, for example, had devastating local consequences, but also impacted communities and economies thousands of miles away. In such an interconnected world, with impacts that touch upon all of society, locally and internationally, we need equally all-embracing approaches.

While challenging, an increasingly interlinked world also provides unprecedented opportunities to reduce risk. Countries that might have once been at a dire disadvantage from a skills and knowledge perspective now have the ability to draw upon international resources. And the private sector—which operates in perhaps an even more hyper-connected environment than governments—can be called on to provide expertise.

Kazakhstan produces 343,000 tonnes of electronic waste each year. Through a public-private partnership the country is now making positive changes to their e-waste disposal. Photo: UNDP Kazakhstan

Our goal then, as we move into the post-2015 context, is to learn how to tap into these areas and to make use of innovative partnerships that draw on specific strengths and address identifiable gaps.

The **Get Airports Ready for Disasters** (GARD) programme, a joint venture between UNDP and Deutsche Post DHL (DPDHL), stands as an example of such innovation. The programme joins the logistics expertise of DPDHL with the governance and capacity building experience of UNDP. Leveraging local knowledge and skills, it helps targeted countries strengthen airport capacities to manage possible disasters. From expediting long visa delays for relief workers to storing temperature-controlled food and medicine, the partnership addresses obvious gaps in the relief supply chain. The result is better disaster preparedness that incorporates public and private expertise.

The benefits of GARD are manifold: For the country in question, capacity is built, with systems put in place that can help reduce the effects of disasters. UNDP's expertise is put to good use, and private sector partners have a chance to contribute to the general social good while deepening relationships with local partners and businesses.

Unfortunately, partnerships like GARD are not common—whether due to bureaucracy in the UN, hesitation from governments or hesitation from private sector partners who do not see the advantage.

There are positive signs, however. Already in Indonesia, the former Yugoslav Republic of Macedonia and Uzbekistan, UNDP has signed on with private companies and universities to develop mobile phone apps that instruct people on disasters. In other areas, we are exploring partnerships to enhance early warning and strengthen data collection.

As we prepare to establish a successor to the Hyogo Framework for Action, we would do well to look at programmes like GARD as examples of how comprehensive disaster risk reduction must be done. Disasters affect us all, and that means we all have to be involved in preparing for them. ■

Eliminating Discrimination: A Way to Mobilize the Trillions Needed for the Post-2015 Agenda

By Pedro Conceição, Director of Strategic Policy Unit, UNDP

While world leaders are focused on adopting a new set of sustainable development goals (SDGs) at the United Nations in September, a debate that has received far less attention is also raging: how to finance the new goals? A new paper by the World Bank, IMF and other multilateral development banks argues that the new global development agenda will cost trillions of dollars, not billions. How can these trillions of dollars be mobilized? The scale of the challenge calls on us to have a broader and more sophisticated approach to financing.

Labour force participation of women is lower than men almost everywhere. Photo: UNDP Honduras

One way to mobilize these trillions of dollars is by eliminating discrimination against women.

Yes, that's right, eliminating discrimination is not only a matter of social justice. Discrimination and inequality of opportunity is also wasteful because people are not enabled to contribute with their talent, creativity, and full potential to society and the economy.

Consider this concrete illustration. In the United States, 94 percent of lawyers and doctors working in 1960 were white males. By 2008, this was reduced to 62 percent. The progressive incorporation of women and non-white man in professions where they could fully utilize their talent represents 15 to 20 percent of the economic growth per worker in the United States over this period

A report released by UN Women recently shows the huge costs that gender inequality imposes on countries and the world. Much of the costs are manifested in economic growth rates lower than the potential of economies and societies, were they to fully utilize their labour force. For instance, labour force participation of women is lower than men almost everywhere. Closing this gap would increase economic growth rates and productivity.

UNDP research shows that in Africa alone, closing the effective labour force participation gap (that is, adjusting for differences in education and skills) would generate an additional US$255 billion a year. In sub-Saharan Africa alone, the annual benefits would be of $60 billion a year —more than the aid that flows annually to Africa. Extrapolating to other regions, with larger economies but often with similar, if not higher, gender gaps in labour markets—it is not difficult to see how eliminating gender inequality would bring about benefits in the trillions of dollars.

Labour force participation is only one of the manifestations of gender inequality— there is also the huge amount of unpaid work typically carried out by women, unacceptable differences in pay between men and women, lack of access to economic inputs and credit, and other barriers that limit women's participation in the economy.

Economic arguments are not the only reason to eliminate gender inequality— and they may not be the most important. It is intrinsically wrong and unjust to discriminate based on gender. But it also happens that eliminating gender inequality would take us a long way forward in finding the trillions needed for the new development agenda.

In July, the international community will gather in Addis Ababa, Ethiopia, at the Third International Conference on Financing for Development to develop a financing framework for the new sustainable development agenda. Concrete commitments to reduce and eliminate gender discrimination need to be part of the conversation. UNDP will be working hard to ensure a financing framework as ambitious as the goals themselves. ■

Next Time Could Be Different: Towards Risk-informed Development Finance

By Pedro Conceição, Director of Strategic Policy Unit, UNDP Bureau for Policy and Programme Support

History provides a stark reminder that sovereign debt crises have been and are a regular feature of international development and finance. This was captured, with a touch of irony, by Professors Carmen Reinhart and Kenneth Rogoff in their book: *This Time Is Different: Eight Centuries of Financial Folly.* They argued that with every debt crisis we naively behave as if we are confronting it for the first time, and pretend that we have drawn the lessons that will save us from the next crisis. Yet, centuries of continued financial volatility and recurrent debt crises prove to the contrary.

But is this the inevitable reality of international finance? Or can we think of new forms of risk-informed development finance? And can these contribute to reducing the risk of costly and socially taxing sovereign debt restructuring and defaults?

The last two decades have seen growing interest in the adoption of state-contingent finance—e.g., financing modalities where debt service payments are linked to a country's ability to pay. Informed by the 1980s sovereign debt literature (e.g., Krugman, 1988; Sachs, 1989), as well as by Robert Shiller's work on Macro Markets, proposals for state-contingent finance argue that these instruments can contribute to greater debt sustainability, by linking countries' debt service payments to their economic performance, as measured by GDP or export growth.

State-contingent financing can help countries manage risk and deal with shocks—as during the Ebola crisis in Sierra Leone— more effectively. Photo: UNDP Sierra Leone

State-contingent financing can be particularly beneficial for developing countries, whose economies tend to be overly exposed and vulnerable to the adverse effects of external shocks, such as those caused by sudden changes in commodity prices, extreme weather events, natural disasters or disease outbreaks—all outside the direct control of policy makers.

Typically, countries face a fixed schedule of payments as they service their debt, paying fixed interest and, depending on the debt contract, also amortizations of principal. When facing a slowdown in economic growth— or in an emergency situation—government revenues typically drop, while demand for social protection goes up, putting governments under fiscal pressure and making it difficult to make fixed debt service payments.

At the extreme, these dynamics may force countries to restructure (that is, lower the amount) or default on (temporarily not pay) their debt. Under a GDP-indexed type of debt instrument, debt service, including interest and potentially amortization payments, would be adjusted to take into account changes in GDP. As a result, debt service payment streams would be more closely aligned with a country's economic performance, contributing to make debt more sustainable.

In addition to its debt stabilization benefits, state-contingent financing can also make fiscal policy less pro-cyclical (that is, saving more in good times and spending more in bad times), a desirable feature of macroeconomic policy. Thus, by reducing debt payments in times of economic slowdown, this type of financing reduces the pressure to cut back on other budget expenditures, implicitly creating greater fiscal space for expansionary fiscal policies, including those in support of social programmes and anti-crisis measures.

More generally, state-contingent financing can help countries manage risk and deal with shocks more effectively. The importance of building resilience of this kind cannot be overstated, especially as the costs of dealing with protracted crises, such as the Ebola outbreak in 2014, mount. Adopting state-contingent financing debt instruments in developing countries could be a step in the right direction. ■

Enhancing Risk Management and Resilience Through GDP-Linked Official Lending

By Pedro Conceição, Director of Strategic Policy Unit, UNDP, and
Alex Warren, Independent Consultant

In a recent blog[1] we discussed the benefits that governments in developing countries can derive from using state-contingent financial instruments, such as GDP-linked sovereign bonds and warrants. As we argued then, these instruments can contribute to enhance debt sustainability and create greater fiscal space for counter-cyclical fiscal policies, while reducing the risks of costly sovereign debt defaults. So, why, if the benefits are such, aren't state-contingent financial instruments more common in today's international development finance landscape?

Several factors explain this. To start, producing reliable GDP figures (such as those needed for GDP-indexation purposes) is a complex task involving a significant amount of estimation, making it prone to all types of measurement problems. It can be a particularly challenging task in developing countries, which typically present large informal and subsistence-based sectors and where statistical capacities are often weak. Then there is the moral hazard problems attached to this type of financing, which can reduce their appeal to investors: debtor governments might be enticed to underreport their GDP, as a way of limiting GDP-indexed debt service payments to creditors. In the extreme, they might even be tempted to pursue growth dampening policies to reduce interest payments on their debt.

A main obstacle to the adoption of GDP-linked debt instruments is the absence of fully developed markets in which these securities can be traded, the so called missing markets problem. This reduces their liquidity, making these debt instruments riskier for potential investors. In this context, investors may end up attaching an additional risk premium, making these instruments a more expensive financing option for issuing governments. These dynamics ultimately undermine the full development of such markets, despite the known long-term, system-wide benefits that both issuers and investors can derive from adopting this type of financing. A related problem is that of pricing. Thus the absence of such markets impedes investors from pricing these securities, for example by comparing yields of different GDP-linked bond issuances.

Underlying these challenges lies the uncertainty surrounding the final debt service payouts associated with this type of financing. Individual creditors, on the one hand, fear earning less interest than with traditional fixed-income debt, if debtor countries' economies underperform. Debtor countries, on the other, may fear the political backlash of paying higher interest on their GDP-indexed debt during periods of high growth, despite their debt stabilization and macroeconomic management benefits.

[1] *See Next Time Could Be Different: Towards Risk-informed Development Finance, page 5*

Can GDP-indexation of official external public debt offer a way forward?

Extending the principles of GDP indexation to developing countries' public debt with official creditors may offer the best chances of making state-contingent financing a common feature of international development finance.

Official public debt typically involves two sovereign states, or a sovereign country and an international financial institution, in the case of multilateral lending. Consequently, it does not require the intermediation of financial markets, making the absence of markets in which to trade in GDP-linked securities irrelevant. It also involves a much smaller number of contractual parties which, as public entities, can operate with longer time horizons and are therefore able to recognize the long term and economy-wide benefits of adopting GDP debt-indexation. This makes it easier to overcome first-mover coordination problems typical of missing markets. It also makes it easier to come up and agree on contractual arrangements that provide a clearer picture of future payment streams for both debtors and creditors, while preserving the debt-management benefits of debt indexation to GDP.

A main obstacle to the adoption of GDP-linked debt instruments is the absence of fully developed markets in which these securities can be traded, the so called missing markets problem.

Focusing on external debt with official creditors makes particular sense in the case of developing economies, for which this type of debt constitutes one of the main sources of development finance. Thus, in 2013 concessional and non-concessional debt disbursements from official creditors to developing countries reached $105 billion, accounting, on average, for 36.2 percent of total external public debt disbursements to these countries—share rising to 53.4 percent for lower middle income countries and 84 per cent for low income economies. To put things in perspective, these disbursements were equivalent to 9.7 percent of developing countries' government revenue (excluding grants), 59.9 percent percent of net ODA disbursements and 51.23 percent of net FDI flowing into these same countries.

It is true that a large part of official debt going to developing countries is given for non-developmental purposes. However, this does not diminish the case of GDP-indexation of debt with official creditors. In a context in which government financial resources are fungible, benefits granted for a specific debt instrument going to a specific expenditure item automatically spillover to other areas of public finance. Moreover, the debt sustainability and macroeconomic management benefits derived from linking debt—whether developmental or not—to economic performance are of an economy-wide nature and therefore also affect a country's overall development prospects.

With preparations for the July 2015 Third International Conference on Financing for Development in Addis Ababa well underway, discussions are ongoing as to how to ensure that financial resources, both public and private, are available for sustainable human development and are supportive of the Post 2015 transformational agenda. Adopting GDP indexation of external public debt with official creditors can be an important contribution to this agenda. ■

The Political Economy of Illicit Financial Flows

By Max Everest-Phillips, Director, Global Centre for Public Service Excellence, Singapore

Tax evasion has often been the hallmark of the elites. In ancient Rome, the upper class viewed tax as 'the mark of bondage.' Two millennia later, Leona Helmsley, the wife of a real estate billionaire in New York, reportedly said: *Only little people pay taxes*.

Between 1980 and 2009, total illicit financial outflows from Africa grew by 11.9 percent per year. Photo: Carly Learson/UNDP Liberia

But the Roman Empire collapsed because the tax on land was largely passed on the poor, and later on the middle classes, while the elite carried less and less of the public financial burden.

Today, both developed and developing countries alike face similar problems. Illicit Financial Flows (IFFs)—such as tax avoidance and evasion, embezzlement of national resources, trade misinvoicing, and smuggling of goods and capital across borders—are widespread phenomena. These IFFs occur for a range of reasons, including theft, corruption, high political or economic instability in the originating country or higher returns on investment in the destination country.

Although these problems can affect all countries, it can be particularly prevalent (and harmful) in natural resource-rich states with weak governance such as Equatorial Guinea, Gabon and Nigeria. A 2010 study by the African Development Bank suggests that, between 1980 and 2009, total illicit financial outflows from Africa grew by 11.9 percent per year, outpacing official development assistance entering the region. The problem is not specific to Africa: in UNDP's 2011 report on illicit financial flows from the Least Developed Countries (LDCs), we found that the ratio of illicit financial flows to GDP averaged about 4.8 percent for LDCs as a whole.

Progress in tackling the problem has been slow, in part because IFFs often benefit powerful vested interests. Political capacity to act is constrained where counter-measures require the support of those same elites who are also significant beneficiaries of IFFs. Can this conundrum be solved?

Control of IFFs requires two conditions to apply: an effective state with the capability and determination to address the problem; and 'veto-holding' elites that will not block reform. One of the most successful examples in the last fifty years is the administrative state of the Republic of Singapore. Their concept of 'public service excellence' is the product of the elite's buy-in for the state to enforce public authority fairly, effectively and efficiently. The capacity to work in the collective interest, with elites as well as states constrained by political accountability and by the rule of law, leads to greater public trust in the institutions and strengthens their capacity to govern. Conversely, failings in governance lead to a 'vicious cycle' of IFFs, worsening public service and weakening public authority.

Tackling IFFs today is shaped by whether those with money, power and influence play by the same rule as everyone else. Elite 'free-riding' (through IFFs, tax evasion, avoidance and exemptions) can only be effectively addressed if and when elites share a political conviction in their own and the country's long-term future.

The Third International Conference on Financing for Development taking place in Addis Ababa in July 2015 provides an opportunity to make progress on this important agenda. Proposals tabled so far include policy innovations such as public country-by-country reporting by multinational enterprises, automatic exchanges of tax information between countries and creating an intergovernmental committee on tax cooperation. More effectively curtailing IFFs promises substantial sustainable development dividends. ■

Financing for Development in Resource-rich Countries

By Degol Hailu, Senior Economic Adviser for Sustainable Development, UNDP

For the past 10 years, prices of hydrocarbons, metals and minerals have been on the rise. Oil prices have risen from $50 per barrel in 2004 to $99 in 2007 and $115 in 2013. In the same period, the non-energy commodity-price-index increased by 112 percent. These price hikes were largely the result of rising global demand for natural resources.

High commodity prices meant resource-rich countries could invest in social services. For instance, between 2002 and 2012, average per capita public expenditure on health of the 25 countries with highest shares of oil, gas and mineral exports increased by 65 percent from $112 to $219. Similarly from 2000 to 2010, average public expenditure on education increased by 11.86 percent compared to the decade before.

However, the recent fall in commodity prices is threatening the availability of funds for development. Over the year ending in January 2015, The Economist commodity-price-index fell by 9.9 percent in dollar terms, with metal prices falling by 10.1 percent. Oil prices per barrel have fallen by 51.2 percent.

The decline in commodity prices is attributed to many factors among which are: slow growth in the global economy, the shale-gas boom in the US, anticipation of interest rate increases in major economies and the decision by OPEC not to collectively raise the price of oil.

So what should resource-rich countries do? Should they accept more aid? Securing more aid is improbable given the difficult fiscal positions many donors face.

Photo: UNDP Zimbabwe

Should they borrow instead? Many countries are fast reaching the debt sustainability threshold. Examples are Ghana and Gambia: two resource-rich economies with net debt-GDP ratios of 53 percent and 82 percent, respectively, in 2013. In 2000, these figures stood at 98 percent and 125 percent, respectively. Significant gains were made in debt reduction and accumulating more of it is not wise.

The promising option is capturing a bigger share of the profits generated from the exploitation of a country's natural resources. This requires capacity to negotiate good contracts and enforce them. A good contract contains fair concession and royalty as well as tax agreements. Enforcement is necessary to close loopholes that lead to illicit flow of funds.

For example, mining tax exemptions in Sierra Leone cost the government $598 million, equivalent to 58 percent of total domestic revenues collected or 140 percent of international aid receipts. Similarly, stronger safe guards against tax evasion in Zambia could have raised additional copper revenues equivalent to as much as 3.7 percent of GDP.

Governments are also in fear of "scaring away" the private sector. This has led to a 'race to the bottom:' a situation in which resource-rich countries harmfully compete to offer the most generous terms and conditions. This is the result of uncoordinated tax policies.

It is a well-known cycle that commodity prices will soon recover. Hence, when the development community gathers in Addis Ababa in July 2015, three actions important to consider are:

- supporting the development of contract negotiation and enforcement capacity;
- reaching an international agreement to curb tax evasion and avoidance; and
- assisting countries to formulate collective taxation regimes. ■

The Macroeconomics of Development Financing

By Degol Hailu, Senior Economic Adviser for Sustainable Development, UNDP

Consider this. During the summit on Financing for Development in Addis Ababa, the world community will agree to:

- Strengthen domestic resource mobilization capacity;
- Increase the availability of external funds such as official development assistance (ODA) and foreign direct investment (FDI);
- Reduce the cost of sending remittances; and
- Tackle illicit financial flows.

However, all of the above measures will be futile if the macroeconomic policies countries adopt that are not developmental.

When the development community meets in July 2015, they should go beyond simply pledging to increase financing and agreeing to change the rules that govern financial flows.

Let us examine the recent history of macroeconomic policies in ten selected low-income countries. They have had a very restrictive monetary policy with lending interest rate averaging 21.6 percent between 2007 and 2013. All of them had inflation targeting as a major policy objective. They kept their claims on the central government to less than one percent of GDP.

Now let's look at their macroeconomic performance. Yes, they did well when judged against the mantra of macroeconomic stability. Economic growth has been medium to high, averaging 5.4 percent between 2007 and 2013. During the same period, inflation remained below 8 percent and their fiscal deficit was 2.1 percent of GDP.

These ten countries implemented what is known as restrictive macroeconomic policies. However, their development outcome is not different from middle-income countries that implemented relaxed macroeconomic policies. These countries have had a lending interest rate averaging 8.6 percent between 2007 and 2013. They did not have inflation targeting as a major policy objective. They kept their claims on the central government to 21.5 percent of GDP.

Between 2007 and 2013, average economic growth for both groups of countries was approximately 5.4 percent. Both groups of countries showed improvements in Human Development Index scores at roughly the same rate. But mean years of schooling in countries employing more relaxed policies is 1.5 years higher than those which adopted more restrictive policies. Similarly, under-five mortality rate is three times higher in countries implementing restrictive policies. The difference in the unemployment rate between the two groups stood at less than one percentage point, as was the difference between net FDI inflows (percent of GDP).

However, the current account deficit for countries implementing relaxed policies is double that of countries with restrictive monetary policies. This is a direct result of a restrictive macroeconomic policy that typically encourages reserve accumulation.

Both historical and empirical evidence demonstrate that macroeconomic policy in low-income countries becomes developmental:

- When fiscal policies focus on scaling up public investments, especially unlocking supply bottlenecks such as poor infrastructure and low human capital;
- When monetary policy is relaxed and credit is targeted to incentivize the flourishing of small- and medium-enterprises, the policy instrument being the lending rate; and
- When exchange rate policies encourage export orientation and discourage short-term speculative capital flows.

When the development community meets in July 2015, they should go beyond simply pledging to increase financing and agreeing to change the rules that govern financial flows. They should go further and reach a consensus on the fact that macroeconomic policies in low-income economies need to also jettison the conventional wisdom of undue restrictiveness. ■

How to Finance the Post-2015 Development Agenda?

By Gail Hurley, Policy Specialist, UNDP

The Sustainable Development Goals (SDGs) are much more ambitious than their predecessor; the new framework will tackle not only 'MDG type' challenges such as poverty eradication, but also issues such as climate change and peace and security. Much more financing—public and private, domestic and external—will clearly need to be mobilized.

What's not clear is where these resources will come from. Most countries agree on the importance of improved domestic resource mobilization—and there has been significant progress over the last decade. But many also emphasize that development aid (ODA) will continue to play an important role post-2015. Donors should therefore honour their commitments.

In July 2015, Addis Ababa will host the UN's Third International Conference on Financing for Development (FfD). The conference will not just look at different sources of finance. It will also address 'systemic' issues such as the international monetary and financial system, debt sustainability, international tax rules and trade. These areas are important 'enablers' of development.

There's a lot on the table and the stakes are high; a robust outcome at the Addis Ababa conference will send an important signal of political support for the SDGs.

UNDP Administrator Helen Clark made a keynote address at the first preparatory session for the conference, emphasizing three main points:

1. ODA and international public finance will remain indispensable in the post-2015 period. However it is increasingly clear that international cooperations— beyond what we understand as 'development'—need to be funded. This includes: climate change adaptation and mitigation; environmental protection; communicable disease control and research; and science and new technologies. We need to think about how finance for these areas sits alongside traditional ODA.

2. The SDGs cannot be achieved through public finance alone. Much of the resources needed to finance the post-2015 agenda will come from the private sector. Voluntary actions and corporate social responsibility are important but we may also need to look at where changes in regulation are needed so that private investment does not undermine—and indeed supports—sustainable development. There could be a need, for instance, to strengthen social and environmental impact reporting by enterprises.

3. Shocks—whether they be economics, natural disasters, conflicts, or disease outbreaks—are occurring with greater frequency and cost billions of dollars. Financing the foundations of more peaceful societies and stepping up funding for climate change adaptation and mitigation can generate high returns on investment.

In some ways, there is still a long (and bumpy) road ahead; consensus needs to be reached on some difficult areas (e.g., on fossil fuel subsidy reform). But Member States are aware that good results in Addis Ababa are needed, and UNDP and partners are working together to help contribute to a successful outcome. ■

Photo: Benoit Almeras-Martino/ UNDP DRC

Data Is Key to Successfully Implementing the SDGs

By Gail Hurley, Policy Specialist, UNDP, and
Jos Verbeek, Advisor, Office of the President's Special Envoy, World Bank

At the start of 2016, the UN will launch a new set of Sustainable Development Goals, or SDGs, to drive development efforts around the globe. But one question still needs some thought: How will we finance these new goals?

Even more questions lie within this broader question on finance. Which countries need more resources? What types of resources are needed most? Where does international finance, both public and private, currently flow? Where does it not? Answers to all of these require reliable and easy-to-understand data on all international financial flows.

When governments convene in July in Addis Ababa, Ethiopia, to agree on a framework for financing the new sustainable development agenda, there will be a key window of opportunity to improve the existing, haphazard approach to data collection and reporting.

In one sense, we already have unprecedented data at our fingertips. Yet, for example, if you were to ask the heads of the UN, the International Monetary Fund (IMF) and the World Bank how much financing low-income countries receive in a given year and from which sources, you would receive a very different answer from each. This happens for a variety of reasons.

Defining the pool. First, none use the same definition of 'low-income countries.' The World Bank has 34, the IMF has 60, and the UN uses a different label entirely (least developed countries, of which there are currently 48).

Varying accuracy. Second, when it comes to reporting on international financial flows, the accuracy of the numbers of course depends on the capacity of the country in question to collect and report on them. Poor data can be especially problematic in low-income countries.

Method of counting. Third, each agency 'counts' (or doesn't) different flows, and counts them in different ways. Different methodologies, definitions, institutional mandates, sources, and overlap make comparisons difficult and confusing. For example, there is no common definition of foreign direct investment (FDI), which is basically the largest source of private foreign finance for developing countries.

The picture is equally difficult when it comes to development aid. There is only one definition of aid (official development assistance or ODA) used by OECD Development Assistance Committee (DAC) members; all other providers are free to define aid as they choose. Meanwhile, finance from non-OECD DAC countries (e.g., Brazil, China, or India) is not tracked or reported on in any systematic way. The term 'South-South cooperation' has emerged to describe a heterogeneous mix of aid-like and non-aid like interventions that bundle investment, trade, concessional and non-concessional finance as well as technical assistance under the same label. But there are no standardized definitions or methodologies to count or report on these flows, even where data is available. As the donor landscape expands further in the post-2015 period, these challenges will become all the more accentuated. To further complicate the picture, the World Bank collects external debt data on a loan-by-loan basis from recipient countries, excluding grants while the IMF collects balance of payments data.

Similarly, data on private aid (e.g., philanthropy) is partial. The International Aid Transparency Initiative (IATI) attempts to make information about public and private aid spending more available and easier to understand. But aid providers like governments and foundations report to IATI on a strictly voluntary basis. Some of this data—which has its own methodology again—also overlaps with that supplied by the OECD.

Evolving sophistication. Finally, financing instruments have become more sophisticated over recent years and there is currently no way, for instance, to count how much money is "leveraged" for development through public-private partnerships and other increasingly common financial instruments—many of which will expand further to support the SDGs. There is an effort ongoing within the OECD to develop a new measure of 'Total Official Support for Sustainable Development,' which aims to overcome some of these challenges. This will be useful, but non-DAC providers of official finance—who ultimately did not develop this definition—may or may not choose to report it.

To take an example, FDI for Afghanistan in 2010 is

Foreign direct investment in Burkina Faso in 2010 amounted to $888 million including technical cooperation, according to the OECD. UNDP supports adult literacy classes there. Photo: UNDP Burkina Faso

reported by the World Bank and the IMF to have equaled $75 million; UNCTAD has it at $211 million. In the case of Burkina Faso, the World Bank reports that in 2010 it received $763 million in grants, while the OECD has it at $888 million. This discrepancy can be resolved when you read the "small print." The first number excludes technical cooperation while the latter includes it. But reading small print should not be necessary and can easily lead to mistakes.

In sum, different definitions, methodologies, sources, and overlap make comparisons extremely difficult.

It's hard, if not impossible, to get a complete and accurate picture of international financial flows with the current institutional arrangements.

Now, we face the so-called data revolution. We have more opportunities than ever before to collect and produce high-quality data providing the right information on the right things at the right time, and in ways that are accessible to everyone.

To successfully implement the SDGs, we need the right kinds of (international) finance to reach the places where it is needed and at the right time. For this to happen, there is a clear need to harmonize data definitions, methodologies, and sources and to publish data in common, open, and electronic formats. Huge investments are likely to be toward the SDGs over the next 15 years, from a variety of public and private sources, as well as debt and non-debt-creating financial instruments. If we are to ensure that the development process is inclusive and sustainable (and that we do not sow the seeds of future debt crises), the international financial institutions and the UN need to act to make sure we can accurately count what international finance is going where.

The Third International Conference on Financing for Development provides an opportunity to emerge not only with solutions that can help fund the new development agenda, but with a commitment to harmonize data on international financial flows. If anything, this should be an easy agreement to reach in Addis Ababa—and to implement shortly thereafter. ■

How Will Small Island States Finance Our Ambitious Sustainable Development Goals?

By By Gail Hurley, Policy Specialist, UNDP and
Stephen O'Malley, UN Resident Coordinator, UNDP

"Our development has been wiped out," said Vanuatu's President as Cyclone Pam laid waste to pretty much the entire South Pacific nation. It is reported that over 90 percent of the capital's buildings have been damaged; disease outbreaks and food and water shortages are now a major concern. Millions, if not billions, will be needed to provide emergency assistance to affected communities and to rebuild the country's infrastructure.

For countries spread out over many islands, revenue collection may not be cost-effective, yet remote communities still require basic social services.

With major shocks such as these so common, how can small states—from Barbados to Cape Verde to Samoa—better plan for such emergencies? And will the international community make sure that adequate finance is made available?

Small states often have special challenges when it comes to raising resources. Most often rely on one or two key industries, in particular tourism, for the majority of their exports. For countries spread out over many islands, revenue collection may not be cost-effective, yet remote communities still require basic social services. Many small states have reduced poverty and improved key social indicators over recent years. For example, Barbados has invested heavily in education, and has achieved almost 100 percent literacy, and enviable secondary and tertiary education levels. Paradoxically, this means donors are less interested in providing development aid. As middle-income countries, most do not have access to cheap finance from the multilateral lenders and climate finance can be complex to access.

These challenges have led many governments to borrow heavily. In the Caribbean in particular, debt ratios are extremely high and place many governments under enormous fiscal pressure.

Concrete solutions to some of these challenges include proposals to reform eligibility criteria for access to concessional finance from international donors and lenders. We believe that criteria such as vulnerability to shocks and climate change should be taken into consideration when evaluating which countries need these resources. When it comes to climate finance we need a better balance between funds for adaptation and those for mitigation, and we also need to ensure that those countries that are most vulnerable to climate change (and least able to cope) are able to benefit from these resources. We could also develop innovative financial instruments to help reduce risk, and therefore vulnerability, such as GDP-linked bonds, which tie debt repayments to economic performance or counter-cyclical loans which allow debt service to fall, or become zero, when a major shock occurs. Debt swaps for climate-change adaptation could also help raise resources for expenditures on environmental priorities.

In our work in the Eastern Caribbean, UNDP sees every day the challenges that small island states face in attempting to build resilient societies under tight fiscal constraints. Whether it is maintaining and building on the social progress they have made, adapting to climate change, or attempting to reignite growth, the countries of the region are searching for new methods to create the fiscal space they need to reach their ambitious development goals.

2015 represents a key opportunity to reshape development, and small states have been making a strong push to make sure their unique needs are recognized. While many small states have begun to design development strategies that reduce risk and build resilience, it's also clear that they are deeply impacted by events beyond their control. The international community has a responsibility to design a financial architecture that is more responsive to small states' needs, and which better addresses their vulnerabilities. The SDGs will chart an ambitious and universal course for the world; let's be equally bold in finding ways to finance this journey. ■

Helen Manvoi and her children stand in front of what used to be their outdoor toilet in Port Vila, Vanuatu. Photo: Silke Von Brockhausen/UNDP

Development at the Crossroads: Reflections from the Arab Region

By Kishan Khoday, Practice Leader for Environment and Energy, UNDP Regional Center in Cairo

Recent years have seen dramatic changes in the Arab region and two aspects in particular are important for the region's relationship with issues of development finance.

The first aspect is the expanding role of the region itself as a provider of official development assistance (ODA), with the Arab Gulf countries providing more than $3 billion to countries around the world each year. Saudi Arabia alone provided over $100 billion to almost 90 countries since the 1970s.

While the volume of Arab ODA has attracted attention, important issues for the future will be a growing focus by Arab partners on development effectiveness, alignment with post-2015 priorities like sustainable access to energy and water, and applying social and environmental quality standards to manage risks in recipient countries.

Furthermore, while most Arab ODA has operated through bilateral cooperation channels and Arab multilateral platforms in the past, there are benefits to connectivity with other Southern donors. The centre of gravity in the global economy is shifting East at high speed, and this means shifting lines of development cooperation as well.

New partnerships across Asia, Africa and the Arab States could reconnect age-old routes of trade, cooperation and innovation, forging a 'new silk road' of development solutions.

Strategic alliances between Asian and Arab donors could be a powerful force for the common goal of supporting new development solutions in Africa, with both Arab and Asian donors expected to scale up support to Africa in the post-2015 era. New partnerships across these three regions could reconnect age-old routes of trade, cooperation and innovation, forging a 'new silk road' of development solutions.

Second is a focus in post-2015 debates on the need for aid to adapt to the drivers of change worldwide, such as the rise of middle-income countries (MICs) and the growing power of social movements, both issues of special relevance in the Arab region.

In recent decades the Arab region has experienced some of the world's fastest progress on development indicators such as health and education. However growing social and economic gaps have accompanied this process. Issues of social exclusion and inequality fuelled the wave of social movements that took shape in 2011. Such movements, in the region as well as globally, have become a new disruptive force in development, demanding a fundamental rethinking of our approaches.

Development finance in the region must go beyond engaging communities as mere recipients of charity, and civil society must be engaged as an agent of change, with greater transparency, accountability and participation in decision-making by national and international development partners.

Development institutions should help partners move beyond the linear, autocratic march to economic growth, to a more contextualized approach that engages, rather than side-steps, the social, historical and cultural forces that characterize the state of development in the post-2011 Arab region. ■

Costing Crises and Pricing Risk: Delivering on 'Sustainability'

By Jan Kellett, Independent Consultant on Climate Change and Disaster Risk Reduction

Earthquakes. Cyclones. Drought. Conflict. The Ebola outbreak. Oil price collapses.

Shocks and stresses of different kinds strain countries, communities and families, many of them seriously and have been shown to have set back development, sometimes for decades.

The cost to the Ebola-affected countries has been pitched at $1.6 billion, equivalent to 12 percent of their combined GDP. Photo: UNDP/ Sierra Leone

For the Financing for Development (FfD) negotiations, this issue is critical. Volatility is the world's new normal. We must consider the financing consequences in a world where shocks, crises and emergencies are commonplace. Disasters and economic collapse can, in some cases, lead to increasing and unsustainable debt. The particular vulnerabilities of Least Developed Countries and Small Island Developing States is well recognized.

We need a change of mindset to recognize that shocks and stresses are part and parcel of development processes in countries at all income levels. Therefore investments in risk and resilience need to be an integral part of the process.

Practically speaking we need to do two inter-related things: calculate the cost of crisis and price fully the reduction of risk.

For the first, we already have some figures. We know disasters have cost between $2 and $3 trillion dollars over 20 years, and that individual disasters impact countries massively, such as the $368 million loss incurred by Vanuatu following Cyclone Pam, the equivalent of nearly 50 percent of its GDP. The cost to the Ebola-affected countries has been pitched at $1.6 billion, equivalent to 12 percent of their combined GDP.

The opportunity costs alone of countries directly or indirectly involved in conflict in the Middle East was estimated to be a staggering $20 billion over 20 years. And yet this is dwarfed by the $284 billion estimated lost to conflict over 15 years in Africa, with armed conflict shrinking economies by at least 15 percent and, in the case of Burundi and Rwanda, more than 30 percent annually.

This brings us to the pricing of risk. Essentially, this means making sure that every investment made is insulated against risk by increasing its cost appropriately. This will not only help ensure losses are less likely, it will deliver on development. 'Risk-informed' development encourages growth, stimulating everyone from the household, to communities, to government to further innovate and invest.

The same principle can be extended to fragile and conflict-affected states, however challenging that may be. Shouldn't we put a price on the investments needed to reduce the risk of conflict and insecurity? What would it take? And what would its value be, if we stacked it up against the $20 billion of humanitarian aid that is largely spent in the same ten to 15 conflict-affected countries each and every year?

Simplistically but perhaps usefully, this is a matter of mathematics. If the costs of crises and the pricing of risk-informed development are taken into account in negotiations, we may see a realization of how a failure to address shocks and stresses means not only massive financial implications but also a failure to deliver sustainable development.

Let us remember that the issue is not about financing but about the whole of the post-2015 development agenda. ■

Can Business Help Finance the Post-2015 Agenda? Yes, But…

By Paul Ladd, Senior Policy Adviser on Post-2015 Development Agenda, UNDP

Diplomats and their governments are in the middle of a huge exercise to update the world's development agenda. Attention has now started to shift from the 'what' of the agenda to the 'how'—policy choices, capacities, institutions, and technology to name but a few. Yet where will the hard cash come from to fund these lofty aspirations?

Some of the poorest and will be looking for a clear commitment from richer countries that they will meet previous commitments on official development assistance (ODA), including the international benchmark of 0.7 percent of GNI.

But the economies of many rich countries are still struggling, and their governments are finding it difficult to justify to domestic taxpayers that their money is being spent abroad rather than at home.

At the other end of the spectrum, some governments have emphasized that the private sector will step in and shoulder the burden of financing the new goals and targets. The discussion on the validity or means of this claim has not been very deep. More cynically, some have suggested that focusing on the private sector's role is a deliberate tactic to steer the debate away from aid commitments.

A participant at the Latin America regional consultation on 'Engaging with the Private Sector' in Cartagena, Colombia. Photo: Spanish Agency for International Development Cooperation

But this critical question remains—can the private sector actually play a role in financing?

It's a difficult exercise to work out how much achieving a set of goals will cost. Initial financing estimates run into the trillions of dollars; much higher than the amount of ODA on the table.

If the agenda is to be financed at all, it is clear that these resources will mostly come from private sources. But this means going far beyond philanthropy and our existing understanding of Corporate Social Responsibility.

Incentives may be enough when business opportunities lead to an alignment with the development agenda. For example, many private operators are driving investment in the deployment of renewable energies. However, when incentives and voluntary actions are insufficient, changes in regulation will also be needed, including on environmental and social impact reporting. If all countries need to be disaster-resilient, then the construction industry needs to adhere to building codes so that buildings can withstand earthquakes.

After the new agenda is agreed, a first commitment from governments could be to review regulatory frameworks at all levels—national, regional and global—to see where they are SDG compatible or incompatible. Of equal importance, governments will need to consider how well regulatory environments fit together, in particular to prevent a regulatory race to the bottom.

For a successful post-2015 development agenda, regulations on private sector financing will be as much of a weapon in the armory of policy-makers as ODA has been for the MDGs. ■

2015: Many Things Could Go Well!

By Magdy Martínez-Solimán, Assistant Administrator and Director, Bureau for Policy and Programme Support, UNDP

This year is iconic, and has been branded as a year of opportunity. Like Y2K, it could be an *annus mirabilis* (year of miracles). UNDP can make a serious contribution: the Strategic Plan (2014-2017) is designed to chart the way forward in the major conferences ahead, and in the final definition of the Sustainable Development Goals (SDGs).

2015 is the European Year of Development, the UN's 70th Anniversary and the 20th Anniversary of Beijing (the platform to advance women's rights). In 2015, the African Union Summit will focus on Ebola and beyond,

The 3x6 approach in Burundi allows people, through an integrated approach, to control the development process themselves. Photo: UNDP Burundi

and the Turkish G20 Presidency priorities are focused on Inclusivity, Implementation and Investment for growth.

We are on the road to Sendai for the Third World Conference on Disaster Risk Reduction, to Addis Ababa for the Third World Conference on Financing for Development (FfD). The events complement each other leading to the General Assembly on Post-2015 and the CoP21 in Paris.

UNDP is ready for the challenge. It is strong, fit and cost-effective. It is state of the art in development thinking and is in the lead of the UN Development System. What will be our key messages?

I suggest the following five:

UNDP is ready to support the early implementation of the SDGs. We deliver the entire package, from policy advice to implementation, from resilience-building to crisis response and development recovery, from fragile states to middle-income countries.

A greater emphasis on risk-informed development, overcoming poor governance and reducing inequalities would go a long way—and be much cheaper than rebuilding after crises and managing the humanitarian costs.

UNDP's programmatic focus and internal reform has made it 'Fit for Purpose:' we are now a leaner, more action- and field-oriented, and more focused organization, aligned with the SDG agenda. We did it! The most significant restructuring of the organization in more than a decade has happened without external impact on our delivery.

UNDP is ready to fully play its role in matters of UN coordination, coherence and cohesion. We are 100 percent behind the Standard Operating Procedures that allow the UN Development System to go one step further in Delivering as One. We support the strengthening of existing institutions and their reform, and we have led by example.

The development agenda will be heavily influenced by the thinking on global security and humanitarian action. UNDP's analysis is that a greater emphasis on risk-informed development, overcoming poor governance and reducing inequalities would go a long way—and be much cheaper than rebuilding after crises and managing the humanitarian costs. Building the fence on the cliff is less costly than investing in the ambulances at the bottom of the cliff.

Protracted conflicts, unplanned urbanization, carbon-heavy economies, lack of social protection, youth radicalization, persistent gender inequality and natural resources greed are some of the severe obstacles to development.

Our strategic plan contains responses to these development challenges. We only need the means to deliver. ■

Getting It Right in Addis Ababa: Sustainable Agriculture Key to Green Growth and Reducing Poverty

By Magdy Martínez-Solimán, Assistant Administrator and Director, Bureau for Policy and Programme Support, UNDP

The Financing for Development summit in Addis Ababa next month is a decisive point in the process towards the post-2015 development agenda. World leaders, high-level policy makers, funders and finance ministers, among others, are expected to deliver the political will, policy reforms, and financial investments required to end extreme poverty by 2030.

Agriculture and nutrition is one of the four key focus areas at the summit, along with sustainable infrastructure, social protection and technology. Already at the core of much of what UNDP does every day across the globe, this reinforced agriculture as a key pillar of our poverty reduction efforts in over 170 countries.

The production of agricultural commodities, such as palm oil, beef, soy, coffee, and cocoa, plays a pivotal role in global efforts to improve livelihoods across the globe. Sadly, agriculture is also the main driver of deforestation today, and is threatening to devastate the very environment upon which we depend to survive.

UNDP is engaged in promoting sustainable agricultural practices to improve the lives of millions of farmers through its Green Commodities Programme (GCP).

If smallholder farmers, many of whom are women, are to be lifted out of poverty, we need to improve the economic, social, and environmental performance of our key agricultural commodity sectors. By 2020 UNDP's GCP aims to contribute to enabling eight million farmers, managing 20 million hectares, to improve the sustainability of their practices and as a result, their livelihoods.

Smallholder farmers mainly seek out a living by using outdated and poor production practices. Improving these production techniques will lead to increased efficiency, higher yields, and improved product quality. This in turn means increased household food security and higher household income, especially when money is saved through less fertilizer and pesticide use. There will also be a positive environmental knock-on effect.

The expansion of smallholder coffee farms in Peru—a direct result of low productivity and poverty—has contributed to deforestation and greenhouse gas emissions, especially in the highly sensitive Western Amazon. Indonesia's palm oil smallholders, who produce about 40 percent of the country's palm oil, are also suffering, plagued by bad production techniques. This perpetuates the deforestation cycle as farmers seek to boost productivity by carving out even more land from the pristine forests of the archipelago.

UNDP, through the GCP and its global network of country offices, is working with government, private sector, civil society, and the farmers themselves, to improve production practices, yields, and product quality while protecting the environment. In other words, all the stakeholders are working together to identify, understand, and really implement solutions to the major challenges. This will take time, as all long-term strategies that really want to have an impact on our planet must. But this type of collective action—that could catapult the development agenda into the post-2015 era— is what we need to see in Addis Ababa. ■

UNDP is working to improve the lives of coffee smallholders . Photo: UNDP Kenya

Infrastructure for Development: Show Me the Money!

By Magdy Martínez-Solimán, Assistant Administrator and Director, Bureau for Policy and Programme Support, UNDP

According to the Oxford University Said Business School, we are facing an unprecedented infrastructure mega-project investment era, amounting to $6-9 trillion annually, or 8 percent of the global GDP. Whether it involves revamping old infrastructure, developing new sources of energy, providing access to social services and utilities to more people (with the paradigm of universal access in sight) or developing our communications infrastructure, it is easy to be in favour of more, and better, infrastructural development.

The issue is not for poor countries alone to struggle with. President Obama wants to upgrade the US roads, bridges and ports by imposing new taxes on overseas earnings by American companies. Little can be said against infrastructure as a public good. The problem is how to interest private finance in that public good.

As the Secretary-General said in his post-2015 agenda Synthesis Report last December, "Urgent action is needed to mobilize, redirect, and unlock the transformative power of trillions of dollars of private resources to deliver on sustainable development objectives."

Infrastructure makes life better, economies more competitive, and while being built, offers jobs to the value chain. On the other side, however, infrastructure also massively consumes cement and increases emissions. It is one of the most gender-unequal labour markets. Infrastructure entails risks of non-prior or informed consent by the populations directly affected. It has had a consistently difficult relationship with taxation, transparency, and social and environmental safeguards and norms. Infrastructure, if not well managed, can generate unmanageable sovereign debt.

The Sustainable Development Goals will most probably have a goal on infrastructure, similar to Goal 9 in the Open Working Group Outcome Document, which requires our new infrastructure to be resilient, sustainable, of superior quality, and targeted at development, human wellbeing and access to better living standards. In particular, it calls for infrastructure development in poor and vulnerable countries.

Infrastructure reconstruction in countries affected by violent crises and extreme climate events needs to remain a vector of international solidarity—keeping the "building back better" mantra in mind.

Investments in energy, water, and infrastructure that allow producers to reach the market remain the highest priority, together with social, midsize infrastructure. We need long highways and IT infrastructure, but we still need rural schools in the villages and clinics in the suburbs of our megacities. ■

A renewable energy generation project, implemented by UNDP and funded by the OPEC Fund for International Development (OFID), installed solar panels in schools and maternity clinics in Gaza. Photo: UNDP/PAPP

What Role for the Private Sector in Financing the New Sustainable Development Agenda?

By Marcos Athias Neto, Team Manager, Private Sector and Foundations Team, UNDP, and
Massimiliano Riva, Policy Specialist, UNDP

Unmet investment needs in the Sustainable Development Goals (SDGs) are estimated in the range of $3-7 trillion a year in developing countries alone with an annual gap estimated at about $2.5 trillion. Not everyone agrees on costing the SDGs, but these numbers clearly point to the scale of the challenge.

Phasing out fossil fuels is one way to reduce investment in areas that can be harmful to the SDGs. Photo: UNDP Somalia

A large share of the resources needed to fund the new agenda will come from the private sector—businesses, foundations and investors. Governments will need to implement policies that align larger shares of private flows to the SDGs. The challenge for the private sector is to move towards inclusive and sustainable business models—thus going beyond the concept of philanthropy and voluntary corporate social responsibility—without undermining profitability. How to achieve this?

Within businesses themselves, solutions lie in innovation, new business models, and the right leadership. This needs to be combined with better regulatory frameworks, smart public incentives, and changes in consumer demand. What can be done to foster these changes?

First, the private sector can be supported to invest in sustainable development in sectors and countries where it is more difficult due to weak regulatory environments, perceived high risk or other factors.

At the same time, we need to reduce investments in areas that can be harmful to the SDGs (enforcing legislation in Environmental and Social Performance Standards and Assessments could support this aim), as well as phase out harmful subsidies in areas such as fossil fuels (prize to the most recent efforts of, India, Indonesia and Malaysia). Not all businesses are created equal, and policies need to be differentiated, of course, but they should demonstrate the viability of new business models.

Second, domestic public finance, Official Development Assistance, impact investment and new financial mechanisms can be used to provide incentives when social outcomes outperform profits but the business case is not sufficiently strong.

Last, the principles of sustainable development should be better internalized in market processes (either demand or supply) via endogenous changes in business models and via a shift in consumers' preferences.

The goods news is that we already see companies stepping up to the challenge.

The Cocoa Life initiative by Mondelez International aims to improve the economic, social and environmental conditions of around a million cocoa farmers and their communities in Ghana, India, South East Asia and the Caribbean. Mondolez has been working with UNDP's Green Commodity Program in other key commodities too.

The US-based food company Sambazon, meanwhile trains communities in the Amazon Estuary region on organic and environmentally responsible production and non-invasive harvesting of açaí fruit.

These examples demonstrate that companies can invest in the health of the supply chain to secure their current and future business. These are only two of many cases we have seen at UNDP that demonstrate that companies can pursue a business case while aligning their investment with development.

In Addis Ababa, when the Third International Conference on Financing for Development convenes, we hope a conversation on the evolution of business models combined with smart regulations and incentives can take place. ■

The Paradox of Development Financing in Caribbean Small Island Developing States

By Stacy Richards-Kennedy, Assistant Resident Representative, UNDP Trinidad and Tobago

Small Island Developing States in the Caribbean (Caribbean SIDS) are, for the most part, middle income countries and rank relatively high on the Human Development Index. In spite of this, however, Caribbean SIDS continue to experience social development challenges related to citizen security, public health, widening income gaps, retention of highly trained nationals, climate change and natural disasters. In order to address these challenges and advance a coherent and effective post-2015 development agenda, adequate levels of financing will be required. Yet, the possibility of accessing concessional financing is, in fact, quite limited for Caribbean SIDS.

A recent study commissioned by the UNDP on Financing for Development Challenges in Caribbean SIDS—through the Country Office for Trinidad and Tobago and prepared by Prof. Compton Bourne (former President of the Caribbean Development Bank)—highlights several paradoxes when it comes to the experience of Caribbean SIDS with development financing.

For instance, despite the achievement of reasonable domestic savings rates by Caribbean SIDS, there is a shortage of investible resources. While foreign direct investment is an important source of development finance, this has been on the decline in many Caribbean countries since 2009. Moreover, Caribbean small states have experienced less success in accessing ODA, particularly since the onset of the global economic crisis, and flows from traditional bilateral donors have decreased or fluctuated considerably. Many of the Caribbean SIDS have unsustainably high debt service ratios and this severely limits their fiscal capacity. Furthermore, given that few Caribbean SIDS satisfy the per capita income criteria to qualify as International Development Assistance (IDA) countries (under any of the IDA-Only, IDA-gap and IDA-blend categories), they have less access to IDA and World Bank funds.

What then are the benefits of graduating to middle income status? How are Caribbean SIDS to underwrite the costs of medium to long-term development projects without an enabling environment that is bolstered by concessional financing for productive investment?

Despite the achievement of reasonable domestic savings rates by Caribbean SIDS, there is a shortage of investible resources.

In preparation for the Third International Conference on Financing for Development in Addis Ababa (13-16 July 2015), the study outlines the experience of Caribbean SIDS and emphasizes the need for new approaches and measures which could improve the development finance prospects of Caribbean SIDS. These include:

- the abandonment of per capita national income as an eligibility criterion for concessional and non-concessional financing and the inclusion of economic vulnerability as a criterion;
- the introduction of eligibility categories based on vulnerability measures that reflect a gradual transition in access to development finance rather than an abrupt end that is interestingly or ironically termed 'graduation;'
- the establishment of special funds to address structural gaps, environmental and climate change adaptation investment needs as well as the strengthening of national statistical data capacity, debt relief for heavily indebted Caribbean SIDS; and
- in the event of major losses from natural disasters, diaspora funds, a return to international capital markets and greater domestic financial savings by Caribbean SIDS to contribute to widen their development financing options. ■

Africa and Climate Finance: The State of the Debate

By Alice Ruhweza, Regional Team Leader for the Global Environment Finance Unit in Africa, UNDP

Africa is the region that has contributed the least to global greenhouse gas emissions but, along with Small Island Developing Countries, is among the most vulnerable to climate change. It is estimated that the cost of Africa's adaptation to climate change will be between $10-30 billion a year by 2030. This will not only cost governments billions of dollars, but threatens the lives and livelihoods of hundreds of millions of people.

Climate finance to Africa has been growing considerably. Recent data indicates that $2.3 billion has been approved for 453 projects and programmes throughout sub-Saharan Africa since 2003. However, only 45 percent of approved funding is delivered for adaptation measures.

In the run-up to the UN's Third International Conference on Financing for Development (FfD), in Addis Ababa in July 2015, the UN's regional commissions organized consultations aiming at providing inputs from a regional perspective. Some participants questioned whether climate finance should be part of the discussions, given that the UNFCCC is already focused on this issue, and that this will be one of the main agenda items in December's climate negotiations in Paris. They stressed that climate finance should be additional to Official Development Aid (ODA)—and not included in the FfD—so it gets the attention it deserves.

However, other participants noted that climate finance and FfD are inextricably linked and should be discussed in the same fora. Climate change already threatens to reverse development gains. The future transformation agenda that Africa seeks to finance could also be undermined by climate change if we do not scale up financing for Africa to meet the costs of mitigation and adaptation to climate change. There is, therefore, a need to not only step up financing, but also ensure that these funds and investments go where they are needed, with a greater degree of transparency and predictability.

Furthermore, beyond ODA, we need to increase financing from domestic resources from both the public and private sector. At the OECD Global Forum on Financing for Development on 1 April 2015, Kenya and Zambia shared experiences of using infrastructure and sovereign bonds to raise domestic resources. Other participants highlighted the potential of reforming tax systems—as well as looking at other options, such as carbon taxes, remittances, pension funds, green bonds and other innovative financing mechanisms. The Green Climate Fund also offers the opportunity to attract new sources of financing to support developing countries' national financing strategies.

Participants concluded that policy coherence between the FfD and UNFCCC discussions is key for Africa. The FfD Conference in Addis Ababa should send a strong political signal of support for a successful outcome to COP21 in Paris in December 2015, including stressing the need to successfully address the additional climate financing needs of Africa in a meaningful and effective manner.

Climate change threatens the lives and livelihoods of hundreds of millions of people in Africa. Photo: Benjamin Larroquette/ UNDP Zambia

"Impact Investing" Benefits Business, People and Planet

By Priscilla Sani-Chimwele, Programme Analyst, Private Sector Development and Engagement

Business does not take place in a vacuum. It takes place in countries, within communities and amongst people.

Some say that the most critical aspect of a successful business is the customer. I would agree: A business that contributes to the wellbeing and affluence of its customers, by giving back, ensures that in the long run those clients are able to afford and continue to consume the goods and services that the business provides. Smart business sense.

While many business people have given back to communities through philanthropic ventures over the years, some investors rather only prefer to ensure that their investments are responsible, wherein they explicitly acknowledge the relevance of environmental, social and governance factors to their investment, without necessarily aiming to have a positive social or environmental return from their investments. Taking responsible investment a step further, impact investment is a concept which responds quite strongly to the driving force behind running a private corporation… the need to make a profit, and in addition to a financial return, ensures measurable positive social and environmental impacts from an investment.

Impact investing has been going on for decades, but the Rockefeller Foundation positioned itself as a leader when it coined the term in 2007 and proceeded to incubate what is now the Global Impact Investing Network (GIIN). Through the GIIN, select impact investors have been identified, with collective deal sizes valued at over $69 million. In addition, the 2015 GIIN and J.P. Morgan Impact Investor Survey shows 146 respondents managing a total of $60 billion in impact investments today. These figures shouldn't be surprising, as the critical role of the private sector in developing economies has been well documented.

A 2011 African Development Bank report goes so far as to state that the private sector is the engine of African economies, employing about 90 percent of the working-age population, accounting for over 80 percent of total production, two-thirds of total investment, and three-fourths of total credit to sub-Saharan African economies over the period 1996-2008. The role that the private sector has to play in advancing development is therefore not to be under-estimated.

In this regard, it is prudent for development institutions such as ours to identify key private sector partners and through impact investment, mobilize targeted resources for the implementation of the Sustainable Development Goals (SDGs) after 2015.

To do this, development institutions need to help address some of the possible challenges of impact investing, such as:

- The initial high cost of impact investing: Social and environmental impact ventures are usually done through small- and medium-sized enterprises (SMEs). Often, the risks are high and the profits low, with many of these SMEs in need of seed and growth capital injections. Development institutions like UNDP can support the identification, amplification and, where possible, the creation of business cases for ventures which have positive social, environmental and financial returns and respond to SDGs achievement.

- Measuring the social and environmental impacts of investments can be challenging, and development institutions can help modify various impact measurement tools created by the GIIN and other players in the field to measure impact on SDG related investments.

- Investment conditions, regulations and policies: Development partners can promote incentives for the private sector through, for instance, lobbying with governments to create conducive environments and put in place favourable regulations and policies for impact investing, e.g., reduced taxes, easier operational requirements, etc.

Some big players like Root Capital, the Bill and Melinda Gates Foundation and Acumen Fund are already ahead of the game, engaging heavily in various impact investment ventures in various parts of the globe.

These and other potential big players need to be harnessed for the next phase of financing for development, and the upcoming conference in Addis Ababa provides the perfect platform for governments and development partners to begin the conversation on how to bring the private sector to the table to support financing for the SDGs. ■

Five Things We Would Do if We Were Really Serious about Finance for Development

By Ben Slay, Senior Adviser at the Regional Hub for Europe and the CIS, UNDP

It is now widely agreed that finance for development discussions should not only be about more money for official development assistance or climate finance. They should be about aligning international and domestic trade and financial systems with the logic of sustainable development.

This raises the question: What would financial systems look like if we were really serious about sustainable development?

Reducing fossil fuel subsidies in favor of green energy. Photo: UNDP Croatia

Here are five things we would do:

1. Triple bottom line accounting. Governments would ensure that Wall Street and other leading capital markets could not trade companies that do not report transparently on the social and environmental (as well as financial) consequences of their activities.

2. Crackdown on tax havens. The world's leading governments would crack down on off-shore tax havens. At issue is not enforcing high tax regimes or even preventing tax competition. It is about preventing tax evasion and tax avoidance by multinational corporations and the wealthy who can best afford to make use of tax havens.

3. Financial transactions tax. We would admit that global financial markets work imperfectly, and that many global financial transactions carry with them external costs. Economics 101 teaches us that taxing activities with external costs increases efficiency and welfare. James Tobin and Joseph Stiglitz won Nobel Prizes for extending this logic to financial markets. All governments tax the sale of cigarettes, alcohol, and petrol, in part to correct for market distortions caused by underpricing their external costs. Why can't we do this with such financial transactions as derivatives trading?

4. Cutting fossil fuel subsidies. Governments in both developed and developing countries would be moving like gangbusters during this moment of low energy prices to remove—or at least reduce—fossil fuel subsidies.

5. Budgeting for sustainable development. Governments would be ambitiously promoting gender budgeting, green procurement systems, and other measures to better align "business as usual" fiscal practices with the logic of sustainable development.

Inadequate fiscal space is often presented as a constraint on national transitions to sustainable development. But of these five measures, three of them would actually increase fiscal space, either by increasing budget revenues (2 and 3), or by reducing subsidies for activities that are often environmentally unsustainable, as well as fiscally regressive (4). Measures 1 and 5 are fiscally neutral for the public sector. Measure 1 would impose costs on the private sector—at least initially.

On the other hand, if we are unwilling to impose some costs on the wealthy and on multinational corporations in order to move to world closer to sustainable development, then perhaps finance for development discussions truly are a dialog of the deaf. ■

South-South Cooperation: How Can We Maximize Its Impact on Sustainable Development?

By Grace Wang, UNDP, Lead Adviser on South-South and Triangular Cooperation

South-South Cooperation (SSC) is gaining new momentum as global political and economic realities change rapidly. It is also adding critical value to development. So how can we ensure that the larger potential of SSC is reflected in ongoing discussions on financing for development, while recognizing its differences from more traditional forms of 'North-South' development cooperation?

SSC encompasses elements of trade, investment and technology transfer as well as direct financial assistance between developing countries. In 2013, South-South trade in goods was valued at about $5 trillion. South-South grants, concessional loans, debt relief and technology transfer were estimated between $16 to $19 billion in 2011, and continue to rise. These figures undoubtedly underestimate the true scale of such flows since they are not reported in any systematic way. Much of it is also not directly quantifiable such as the amount of knowledge shared or technology transferred through SSC.

SSC made, and continues to make, an important contribution to development and to people's lives. It is also becoming more diverse. For example, while SSC continues to favour infrastructure investments (around 55 percent of its activities), it also supports the social sectors, agriculture and food security and, increasingly, social protection, as well as renewable energy. All these are important elements of sustainable development in the post-2015 period.

At UNDP, our work on SSC is based on the recognition of its growing potential and its positive impact on sustainable development. Our role is to broker knowledge exchanges, facilitate partnerships, and strengthen the capacities of countries to engage in South-South and Triangular cooperation.

For example, we supported Indonesia to share best practices with the Philippines in the recovery efforts related to Typhoon Haiyan. We have also facilitated knowledge transfer between Cuba and Jamaica on the issue of risk reduction. During the Ebola crisis, we partnered with the Government of South Africa in deploying autoclaves in Ebola-affected countries (Guinea, Liberia and Sierra Leone) to safely dispose medical waste. We assisted Mexico in consolidating its experiences as an SSC provider, and supported the Government of Iraq in establishing a SSC unit in the Prime Minister's Advisory Commission.

Triangular cooperation is also a valuable mechanism to help scale up the impact of SSC for sustainable development. With support from Denmark, we worked with the Government of China to support renewable energy in Ghana and Zambia.

In our discourse on development cooperation, it is time to recognize beauty in diversity. SSC is to be warmly welcomed while recognizing its distinct characteristics. It is not just about 'how much' financial assistance emerging economies provide. It is about how much knowledge and technology are transferred among all countries in the global South to address common challenges. It is about how we can maximize the sustainable development impact of SSC through its dynamic processes and various modalities. ■

Risk Reduction Management Centers, a successful initiative in hurricane-prone Cuba, are being scaled up across partnering Caribbean states. Photo: Carolina Azevedo/UNDP

Empowered lives.
Resilient nations.

United Nations Development Programme
Bureau for Policy and Programme Support
One United Nations Plaza
New York, NY 10017

www.undp.org

July 2015