MAKING FINANCE FLOWS FOR NDCs

Albert Touna-Mama (IMF - Ghana office)

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CONTEXT
PARIS AGREEMENT (2015)

- Transform development trajectories
  - to set the world towards sustainable development, limiting warming to 1.5 to 2 degrees C above pre-industrial levels.

- Increase adaptability to adverse impacts of climate change & foster climate resilience
  - and low greenhouse gas emissions development without threatening food production

- Work towards making finance flows
  - consistent with low greenhouse gas emissions and climate-resilient development.

- What are the climate investment opportunities in SSA?
PARIS AGREEMENT (2015), CONT’D

- Source: IFC

- Climate investment opportunity estimated at USD$1.5 trillion by 2030

- Estimate for sub-Saharan Africa

- Especially in cities as climate change-induced urbanization is putting pressure on infrastructure (or lack thereof)
  - Falling agricultural yields in regions causing migration to urban

- Commensurate with stage of development and infrastructure gaps

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### Estimated Climate Investment Opportunity in Sub-Saharan (2018–2030)

<table>
<thead>
<tr>
<th></th>
<th>$1.5T</th>
<th>Green Target Penetration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waste</td>
<td>$13B</td>
<td>48%</td>
</tr>
<tr>
<td>Renewable energy</td>
<td>$89B</td>
<td>34%</td>
</tr>
<tr>
<td>Climate-smart water</td>
<td>$101B</td>
<td>65%</td>
</tr>
<tr>
<td>Public transport</td>
<td>$159B</td>
<td>N/A</td>
</tr>
<tr>
<td>Electric vehicles</td>
<td>$344B</td>
<td>30%</td>
</tr>
<tr>
<td>Green buildings</td>
<td>$768B</td>
<td>22%</td>
</tr>
</tbody>
</table>
E V O L U T I O N  O F  F I N A N C I A L  F L O W S
**Sharp Increase in Financial Flows to SSA**


(in USD billion and percent of GDP)

Source: IMF, World Economic Outlook database.
Notes: Statistics for 2017 are provisional. Negative values indicate outflows. Flows exclude reserve asset and official other investment flows. Net financial flows in percent of GDP is the sum of financial flows to the region in percent of regional GDP.


(in percent of GDP)

Source: IMF, World Economic Outlook database, and IMF staff calculations.
**Increasing Nonresident Flows**

(in USD billion and percent of GDP)

Source: IMF, World Economic Outlook database.  
Notes: Statistics for 2017 are provisional. Negative values indicate outflows. Flows exclude reserve asset and official other investment flows. Net financial flows in percent of GDP is the sum of financial flows to the region in percent of regional GDP.

**Sub-Saharan Africa: Liability Flows Before and After the Global Financial Crisis, 2000-17** (in percent of GDP)

Source: IMF, World Economic Outlook database.  
Notes: Statistics for 2017 are provisional. Negative values indicate outflows. Flows are cumulative values in percent of 2017 GDP. Flows exclude official other investment. Mauritius and Equatorial Guinea are plotted on a different scale because of the large size of their liability flows.
**SHIFTING PATTERNS**

- Share of non-resource intensive, mostly low-income countries is increasing...


**By Commodity Group**

- Oil exporters
- Other resource intensive
- Non-resource intensive


- Oil exporters
- Other resource intensive
- Non-resource intensive

- Middle income countries
- Low income countries
Drivers of Financial Flows
WHAT FACTORS MATTER FOR SSA?

- **Push factors:** US interest rate and commodity prices
  - A 100 bps decline in the US government bond yield ⇒ liability flows by 0.3-0.4 percent of GDP
- **Pull factors:** Institutional quality, real GDP growth, trade openness, external debt ratio
- Importance of factors, however, tends to differ by the type of flow
  - US interest rates/commodity prices have a stronger effect on FDI
  - Global market volatility strongly affects foreign portfolio flows

**Sub-Saharan Africa: Impact of External Factors on Direct and Portfolio Investment Liability Flows (in percent of GDP)**

1) Foreign Direct Investment

![Bar chart showing the impact of U.S. interest rates, commodity prices, and S&P500 index volatility on foreign direct investment]

2) Foreign Portfolio Investment

![Bar chart showing the impact of U.S. interest rates, commodity prices, and S&P500 index volatility on foreign portfolio investment]
Achieve macroeconomic stability under the IMF-supported program

- **Growth** has reached 6.3 percent in 2018 and is expected to remain high over the medium term (around 8 percent in 2019).
- **Inflation** came down from over 16 percent in 2016 into single digit.
- Achieved sustained **fiscal consolidation** with primary surpluses, excluding financial sector costs, since 2017.
- Entrenched **fiscal discipline**, the government has introduced fiscal rules and a fiscal council, improved public finance management, launched a review of tax exemptions, and enhanced the oversight of state-owned enterprises.
- Addressed weaknesses in the **banking sector** with the resolution of nine banks, the issuance of new regulatory directives on governance and capital requirements, and the completion of the increased statutory capital for banks.
**KEY TAKEAWAYS**

- Climate investment opportunities mirror the developmental needs and infrastructure gaps in SSA.

- Financial flows to SSA have more than doubled since the GFC, though they are highly sensitive to *global factors*.

- But some *domestic factors* also matter …
  - *Macroeconomic stability* (prudent fiscal management), growth, and strong institutional quality
Thank you