EUROPEAN REPORT ON DEVELOPMENT 2015

Combining Finance and Policies to Implement A Transformative Post-2015 Development Agenda

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The context and approach of ERD 5

- **A new and transformative post-2015 development agenda will be concluded at the UN General Assembly in September 2015**

- **The third International Conference on Financing for Development in Addis Ababa in July 2015 will discuss an ambitious agenda to underpin the post-2015 agenda**

- **An ambitious agenda which poses enormous policy challenges**

- Research question: **How can financial resources be effectively mobilised and channelled and how can they be combined with selected policies to enable a transformative post-2015 agenda?**

- **Evidence used in this report:**
  - Lessons from **implementing the MDGs**
  - Review of **all types of financial flows**
  - Practical analysis of six key **enablers** of transformative development (**starting from objectives**, not finance)
  - ERD **commissioned papers** (6 Country Illustrations, Background Papers, Modelling studies)

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Learning the lessons from implementing MDGs

1. Finance needs studies emphasised gaps to be filled with *aid*, but the finance context has changed (e.g. domestic resources have grown)

2. MDGs catalysed aid for social sectors, but it is important to consider long term *enablers* for a transformative context

3. MDG mindset often ignored role of *policy*, which is crucial

→ **We need a completely new approach towards finance for development**

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A different way of thinking about finance and policies

ERD identifies four aspects to this shift:

1. Consider all financial resources
2. Consider policy and finance together
3. Focus finance on the enablers of sustainable development
4. A transformative post-2015 development vision

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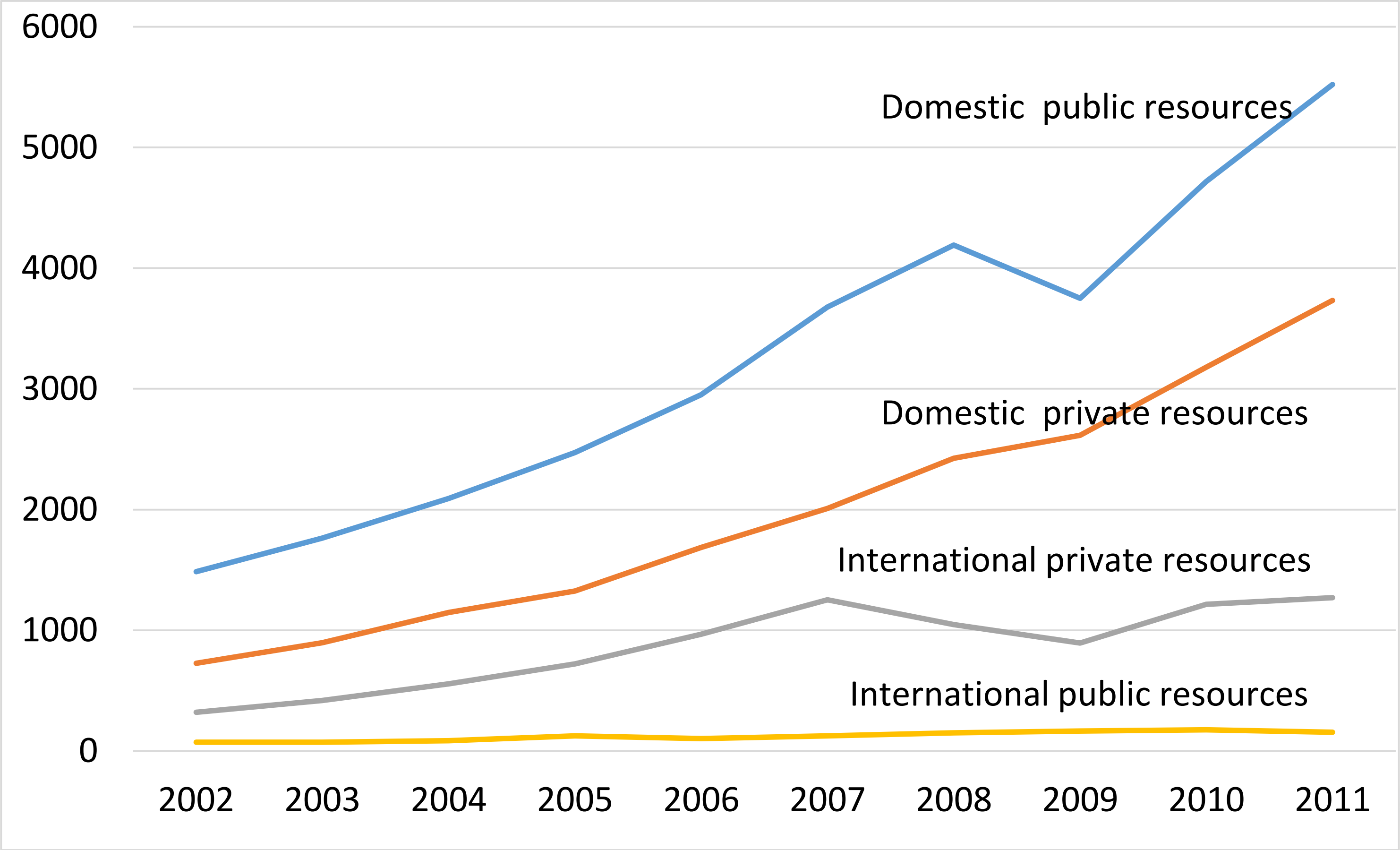
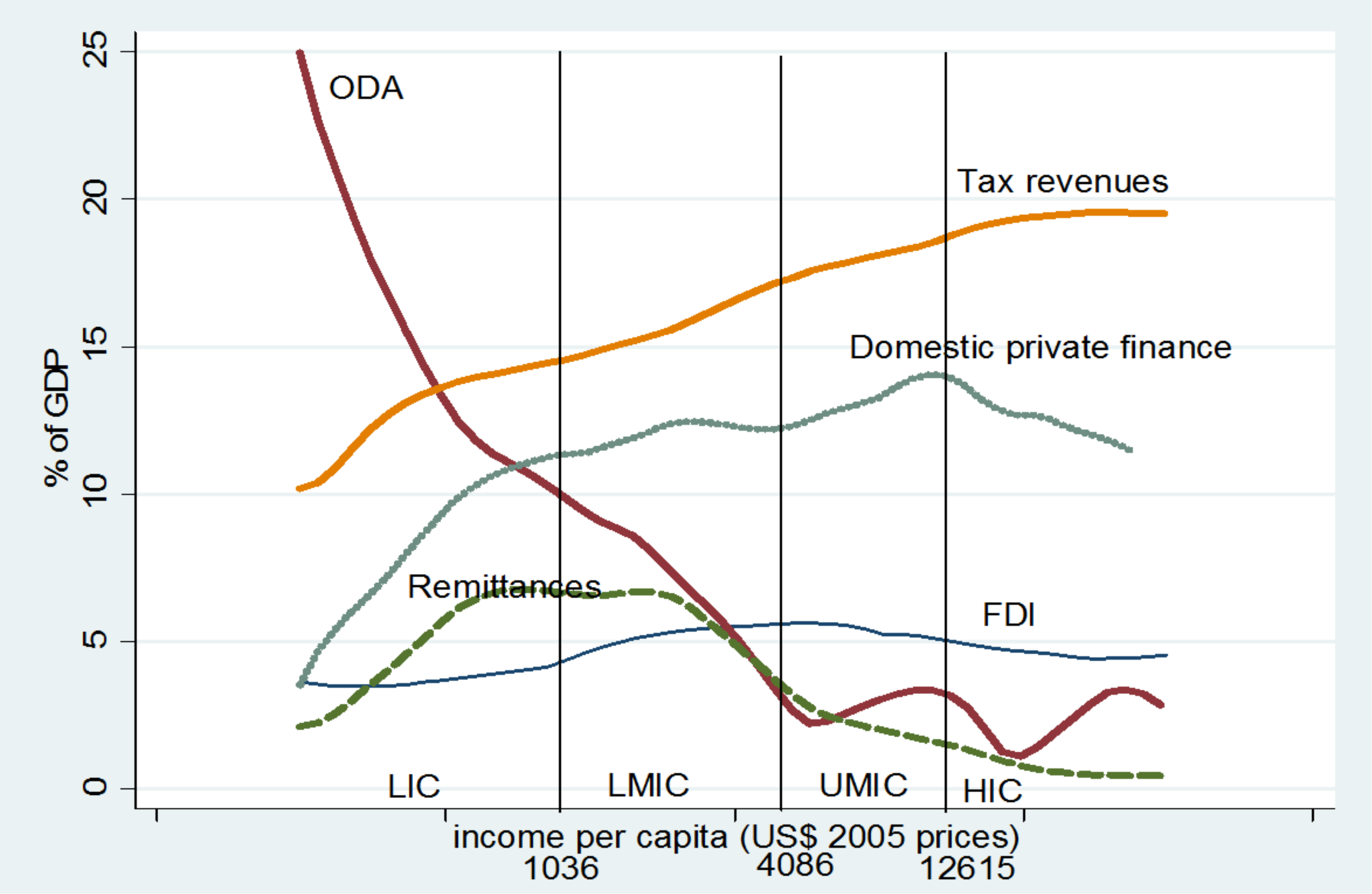
1. Consider all financial resources for sustainable development

Trends in finance to developing countries
($ billion, 2011 prices), 2002–2011



1. Consider all financial resources for sustainable development

…the composition of finance varies by level of income (% GDP)



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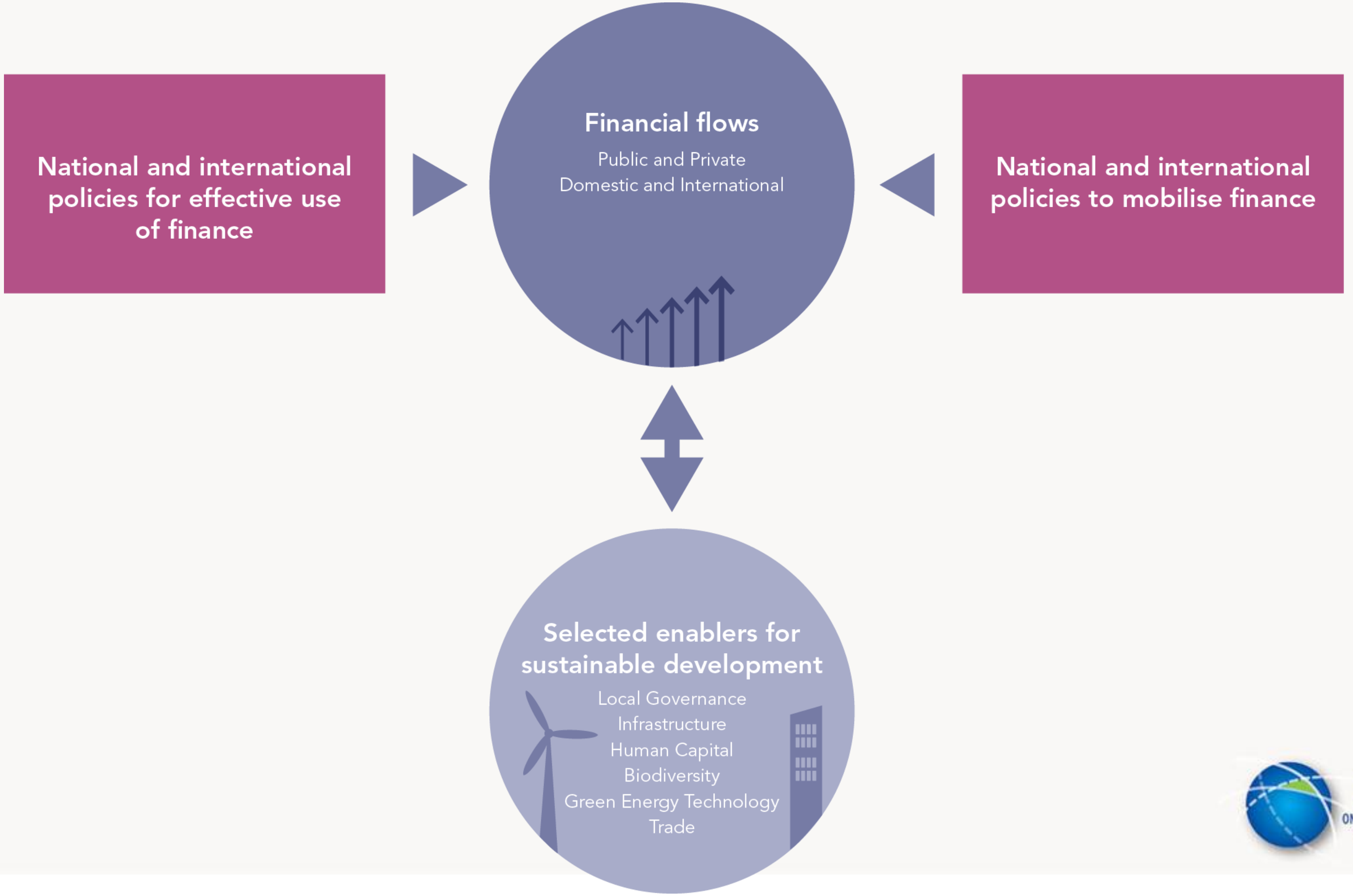
2. Consider policy and finance together



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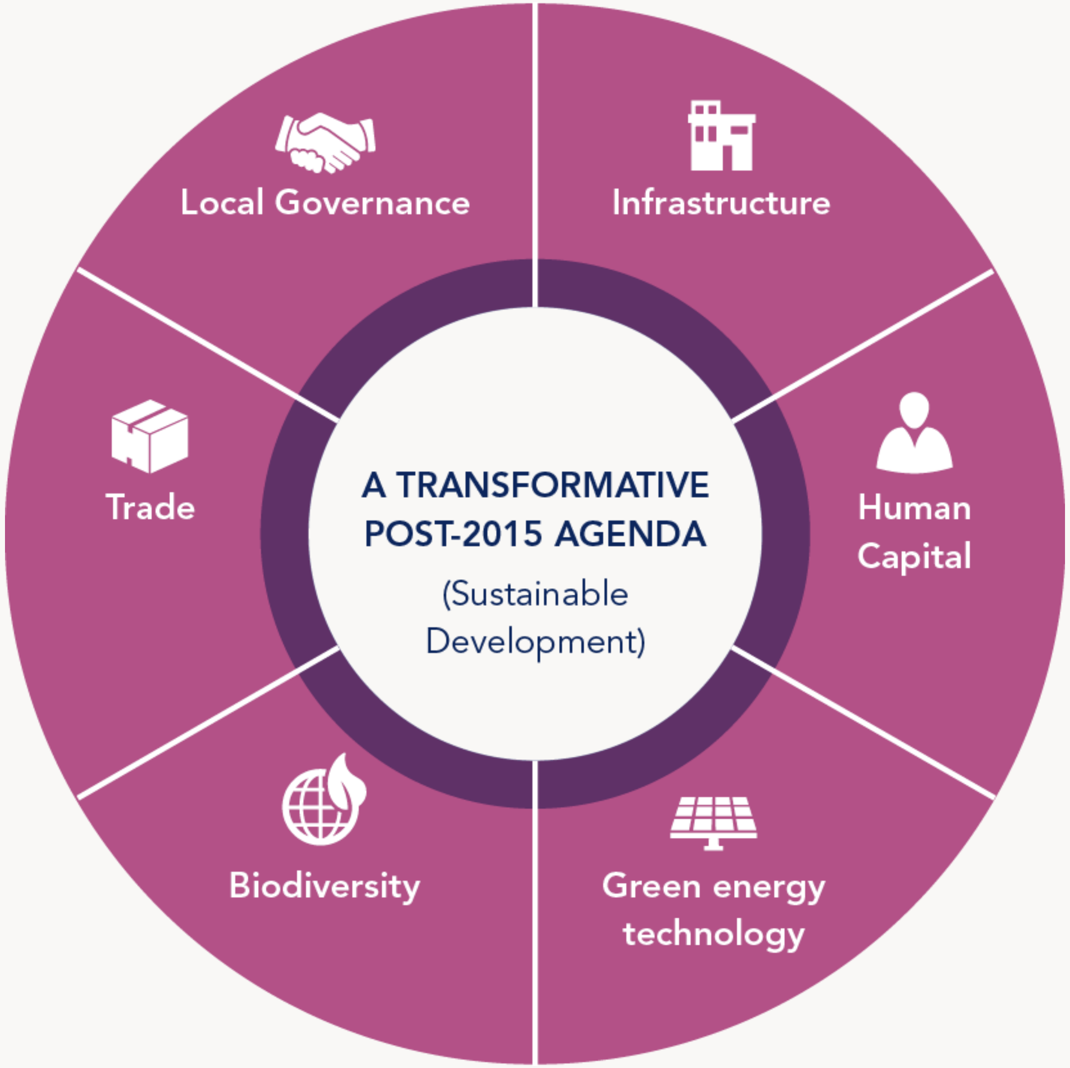
2. Appropriate policy can

- **Generate, attract and steer finance** (e.g. good policy framework *led* to more finance in Mauritius)
- **Unleash more public and private finance** (e.g. a compact for more and better tax in Ecuador, better and targeted investment climate needed for renewable energy investment in Tanzania)
- **Increase the level and stability of international private finance** (e.g. modelling shows that better global banking rules – Basel III – have high pay off)
- **Pull finance from less productive to more productive uses** (e.g. better rules on transfer pricing / tax avoidance)
- **Lead to more results with the same amount of finance** (e.g. better infrastructure project management)
- **Reduce the need for finance** (e.g. removing fossil fuel subsidies)

3. Focus finance on the enablers of sustainable development



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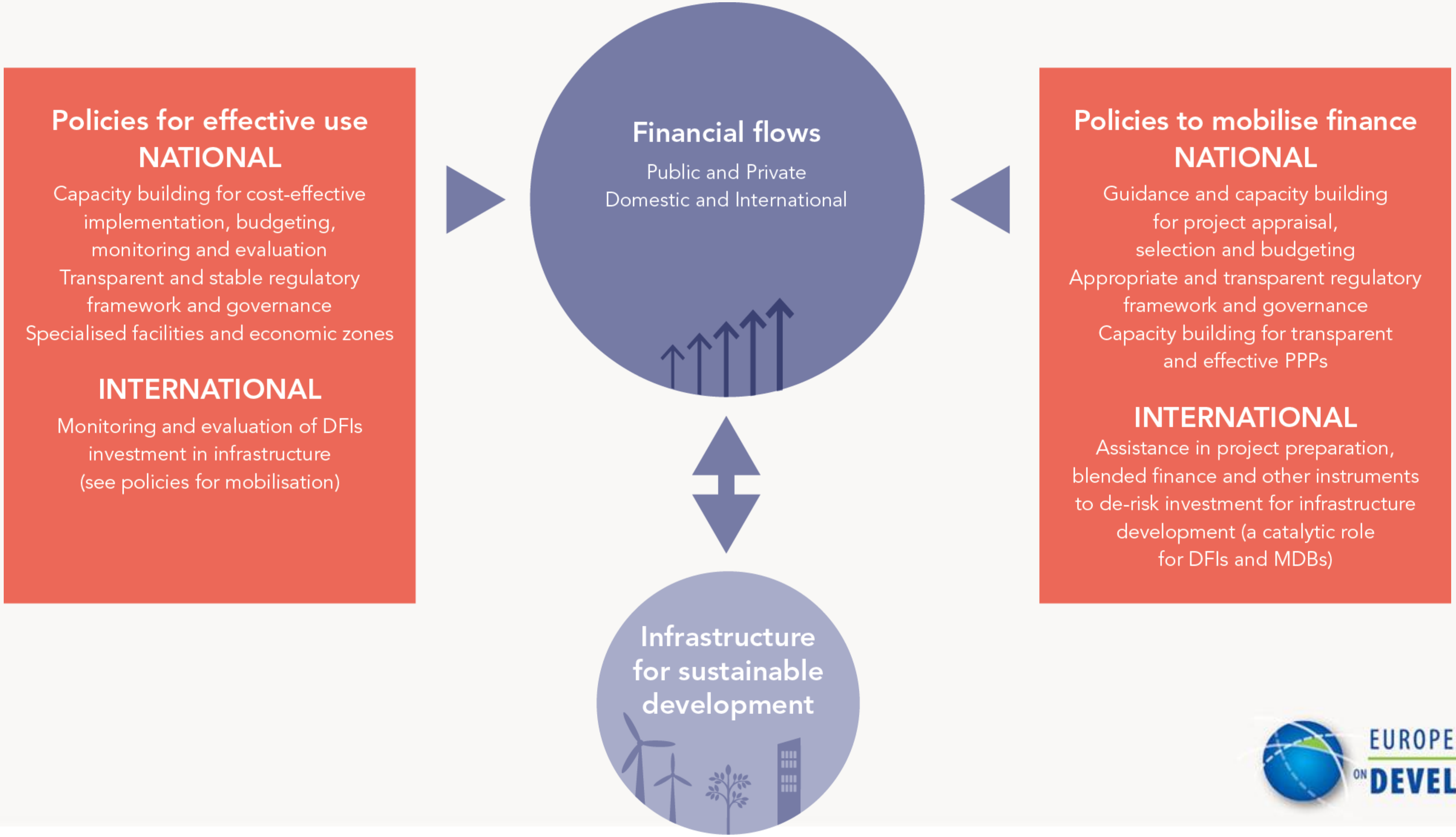
Infrastructure: Role of policy for mobilisation & effective use of finance



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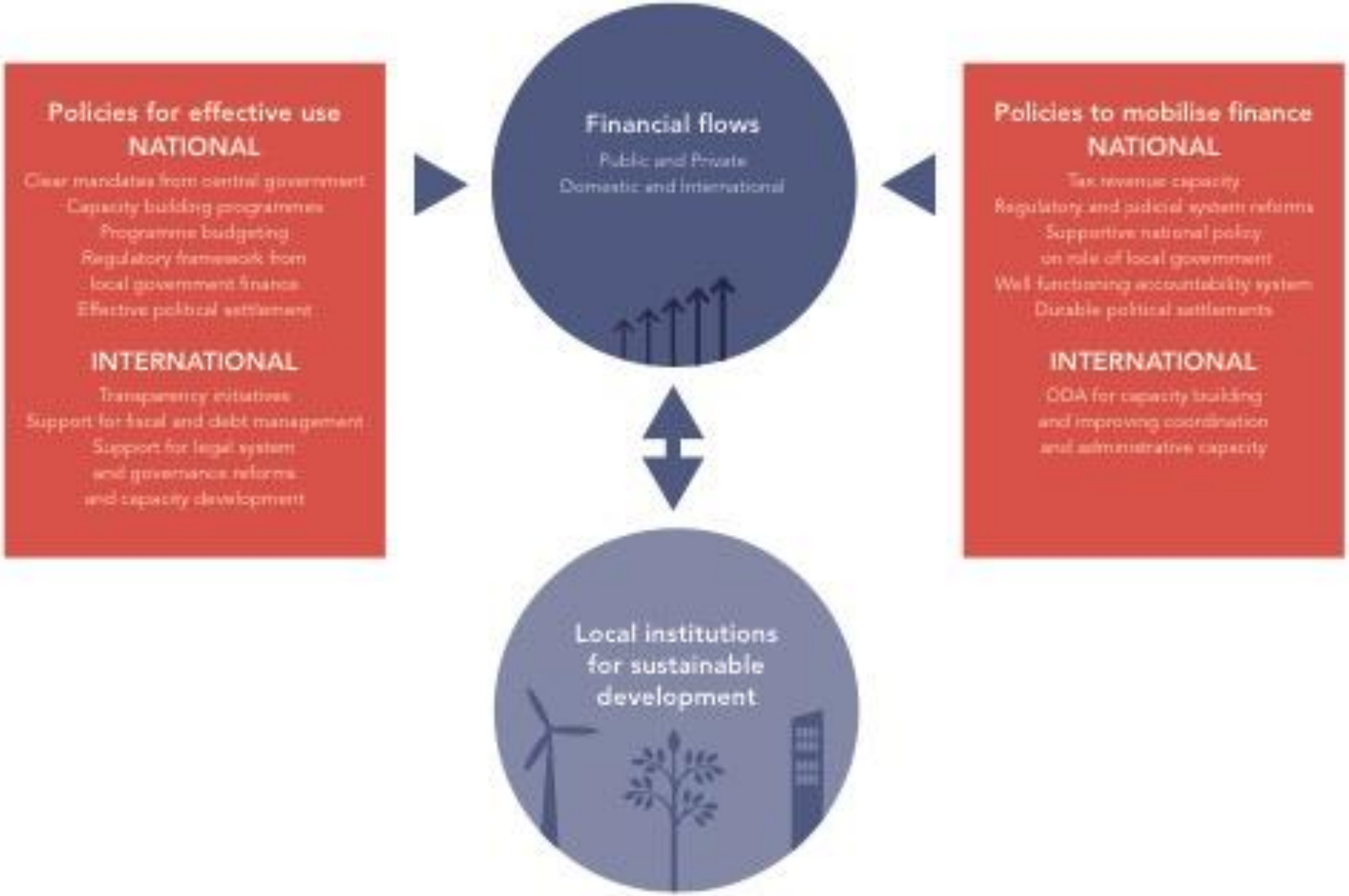
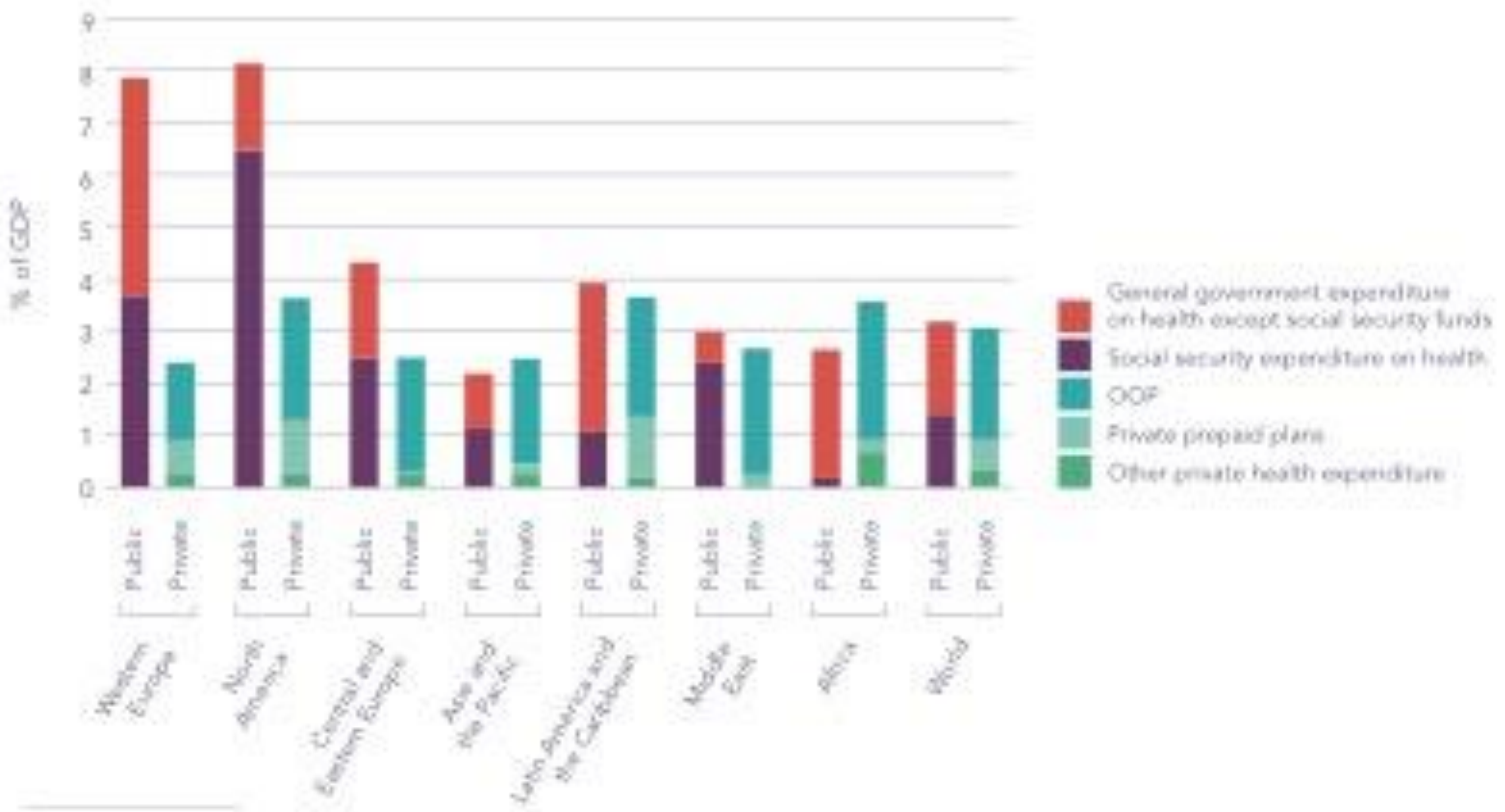
Local Governance: Role of policy for mobilisation & effective use of finance



Sources of funding of healthcare by region, 2011 (as % of GDP)



Source: ILO (2014).

Note: Regional averages weighted by total population.

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4. A transformative post-2015 development vision

Four steps towards a Global Partnership to achieve this vision should

1. See Financing for Development **as a process** which needs to be steered over time

2. Keep **core principles** in mind:
   - Universality – the Goals will apply to all and all contributions are important, and
   - Differentiation – given needs and capacities not all can contribute in same way or to same extent

3. Involve **multiple actors** – countries may sign agreements, but the contribution of many others are needed

4. Introduce and use a **monitoring and accountability** framework

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Country Illustrations

Bangladesh, Ecuador, Indonesia, Mauritius, Moldova & Tanzania

Evidence from the country illustrations

Six country illustrations - **Bangladesh, Ecuador, Indonesia, Mauritius, Moldova and Tanzania** were prepared to gather evidence on the role of finance and other means of implementation in unlocking economic, social and environmental transformations.

I. Transformative experiences

Key insights

- **Primacy of the economic transformations**, also needed for sustainability of other forms of transformation.
- **Decoupling** of social transformation from economic transformation.
- **Extra-national nature** of environmental transformation.

II. Financing Options

- **Countries experienced changes in**
  - **Mix** of different forms of finance (2000-2012**)** as well as
  - **Relative magnitude** of these forms of finance.

- It may be observed from the figure that **role of traditional international public finance (ODA and OOF) is declining,** while **all other forms of financial flows are on the rise.**

- **Domestic public finance** as well as **domestic private finance** are becoming increasingly **prominent.**

- **International private finance** is also **increasing** for the majority of the countries (with increasing income level).

- It seems that a **combination of domestic public and private finance OR domestic public finance and international private finance** is emerging as the **dominant mix** of financial flows.

II. Financing Options

…typical evolution in sources of finance sources

Bangladesh 2000-2012 ($):
- GDP up by 150%
- Aid up by 75%
- Tax revenues up by 280%

International public finance

Domestic public finance
International public finance

Domestic public finance
Domestic private finance
International private finance

Domestic private finance
International private finance
Domestic public finance

Domestic private finance
International private finance

Indonesia: oil revenues pre 1986.
After fall in oil price 1986:
- FDI in manufacturing / services
- From foreign to domestic debt

Evolving sources of finance

Level of income

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Source: ERD illustrations on Bangladesh, Ecuador, Indonesia, Mauritius, Moldova, and Tanzania

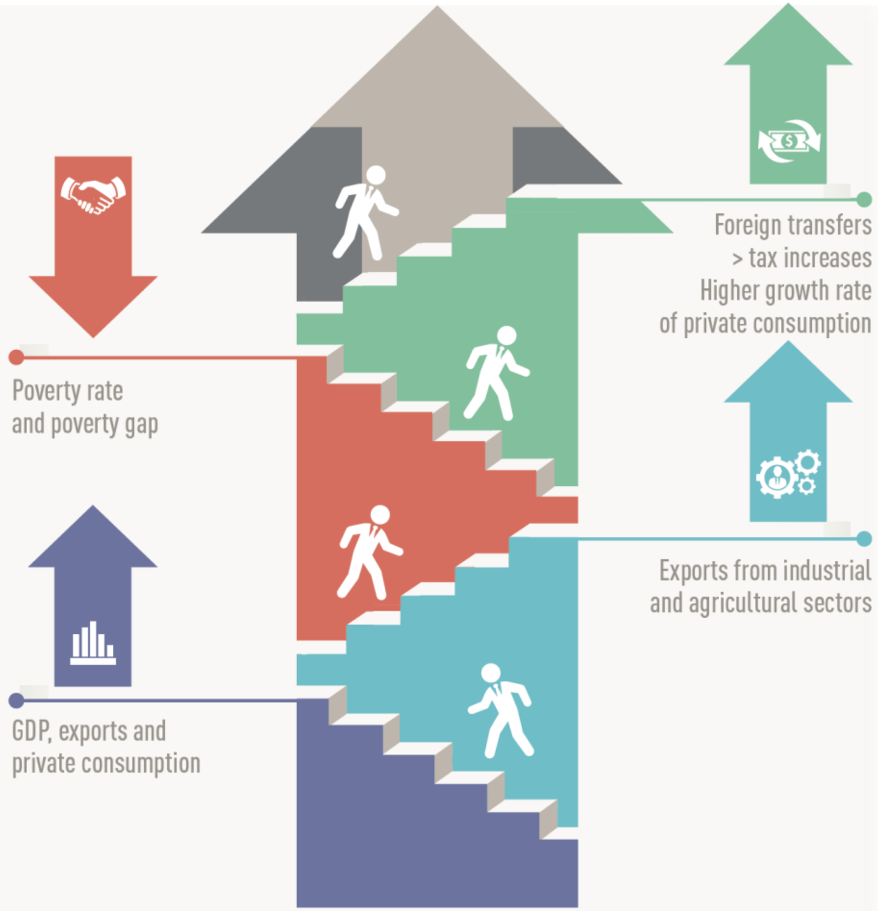
III. Country evidence on finance-policy interface

DRM:

Increasing tax revenue is particularly important to finance:

- Infrastructure, climate and social transformations

- **Mauritius – a UMIC –** has the highest tax-GDP ratio among 6 countries, which stood at around 19% (2012).
- **Moldova** – a LMIC – also had similar level of revenue mobilisation, i.e. 18.6% in the comparable period.
- **Tanzania** – an LDC – had much higher tax-GDP ratio (more than 16%) in comparison to another LDC, i.e. Bangladesh (10.5%).
- **The potentiality of DRM** depends a lot on
  - **Tax effort** exercised by the relevant institutions
  - **Institutional capacity** and
  - **Policy reforms**



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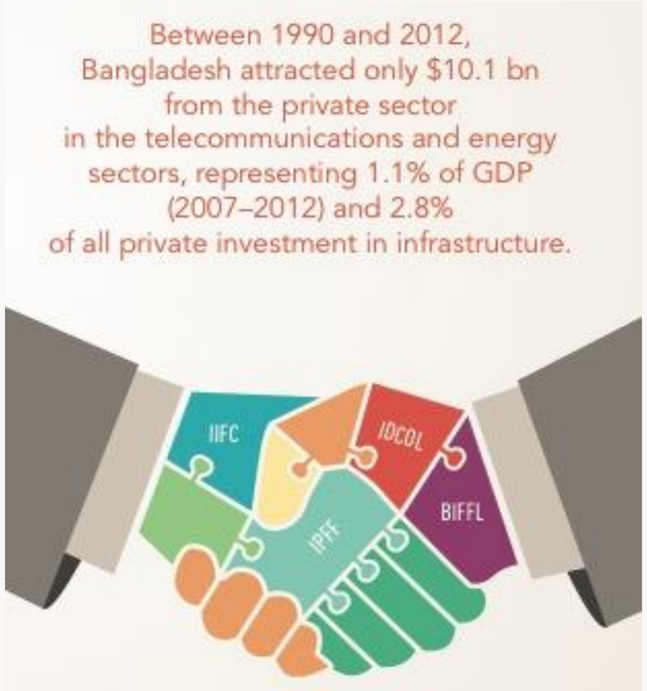
Bangladesh: Financing infrastructure



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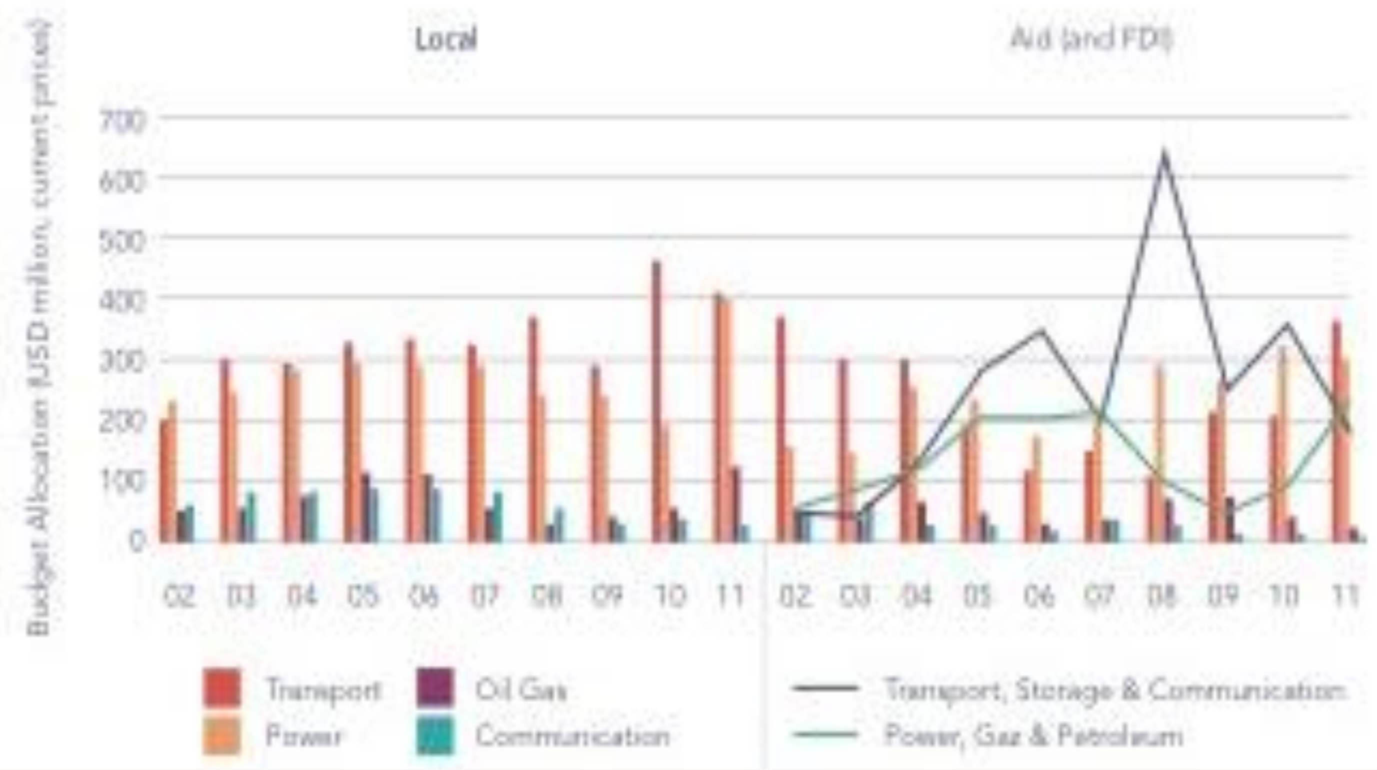
Bangladesh: Financing infrastructure

Figure 6.5B | Investment in infrastructure in Bangladesh ($ mn, current prices) from local, ODA and FDI sources 2002–2011



Source: Khatun (2015)

This has resulted in a rapid rise in government and public spending to meet demand. Four bodies have been created to finance and facilitate new infrastructure projects:

- The Infrastructure Investment Facilitation Centre (IIFC) identifies infrastructure projects and potential private investors
- The Infrastructure Investment Development Company Limited (IDCOL) bridges the financing gap for medium- to large-scale infrastructure (inc renewable energy) through equity financing
- The Bangladesh Infrastructure Finance Fund Limited (BIFFL) provides long-term financing for PPP projects
- The Investment Promotion and Financing Facility (IPFF), supported by the World Bank as a separate unit of the Bangladesh Bank, finances private sector infrastructure projects

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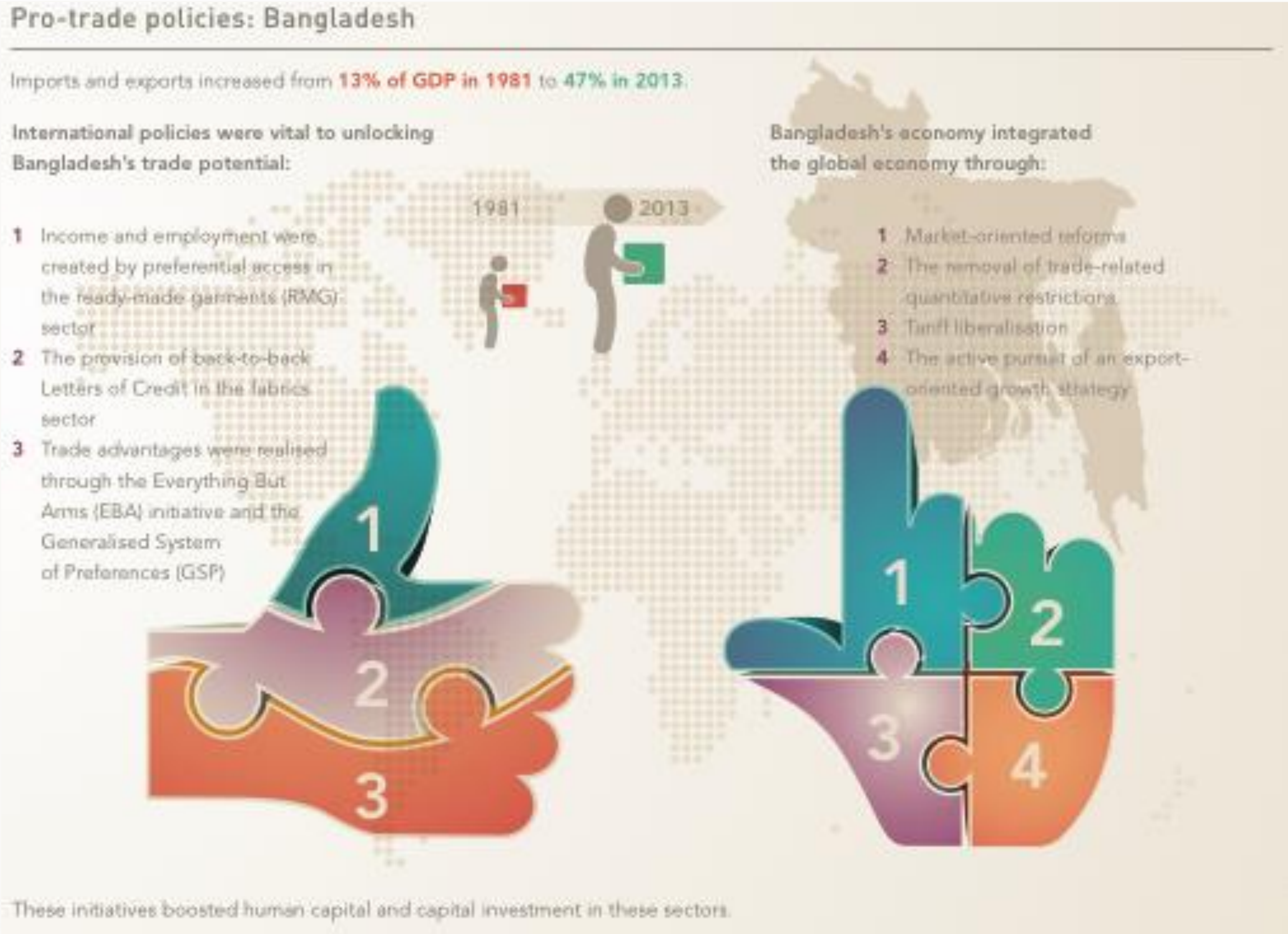
Bangladesh: Trade as an enabler



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Indonesia: Biodiversity financing

Concessions in Indonesia

In 2004 the Indonesian Ministry of Forestry delegated authority for conservation activities to non-state actors. Forestry concession holders could apply for permits to allow the production of non-traditional forest products and the transaction of ecosystem services.

The first ecosystem-restoration concession was issued in 2008 for the Harapan (Forest of Hope) Rainforest. The project run by the conservation company Restorasi Ekosistem Indonesia (REKI) founded by the NGOs: Burung Indonesia, the Royal Society for the Protection of Birds (RSPB) and Bird Life International.

Initial funding was from Danida and the German Climate Initiative. It is now mostly funded by the NGOs and a private trust fund.

Ecosystem-restoration concessions have attracted private investment in conservation in Indonesia.

Asian Pulp and Paper is investing in ecosystem-restoration activities. The company has received a 60-year concession covering 20 256 ha in Riau province (Sumatra). It is investing $7 mn in conservation activities and recently announced a zero-deforestation policy.

In Borneo, Infinite Earth, a Hong Kong-based carbon-trading company, runs a voluntary REDD+ project that uses an ecosystem-restoration concession. It has financial support from Gasprom and Shell and has sold voluntary carbon credits to the German insurer Allianz.

IV. Country Illustrations – Conclusions

For realising a transformative post-2015 development vision

1. **Enhanced flow and better quality of ODA** for more effective and targeted use for promoting specific enablers – both social and economic infrastructure and institutions.
2. **Greater use of blended finance** - leveraging access to financial resources (FDI and other private flows) by more targeted use of both international and domestic concessional finance.
3. **Enabling domestic environment** through strengthening national capacity, building institutions and accelerating domestic reforms particularly in financial sector, public expenditure system and in the area of rule of law – for greater mobilisation and more efficient use of financial resources.
4. **Securing international complementary policies** for ensuring global economic and financial stability, stopping (a) illicit financial out flows, (b) transfer pricing, (c) base erosion and profit shifting, (d) disclosure by banks etc.

Overall Conclusion: Three policy messages in ERD

Three overall main findings to be taken into account:

1. The **pattern of finance** for development evolves at difference levels of income.

2. **Policy matters**. Finance is not enough on its own and it is essential to adopt appropriate and coherent policy and finance measures together at the domestic and international level.
   - Domestic policy and financial frameworks
   - Conducive global system

3. We need **accountability and participation** to incentivise joined up thinking between finance and policies (finance and policy framework for development),

In other words we need joined up thinking on for instance:

- More tax revenues *and* better expenditure frameworks
- More access to finance *and* better terms of accessing finance
- Aid for Trade *and* more appropriate international trade rules

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Thank you for your attention!

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