



MOBILISING EUROPEAN RESEARCH
FOR DEVELOPMENT POLICIES



EUROPEAN REPORT
ON **DEVELOPMENT**

European Report on Development 2014

“Financing and other means of
implementation in the post-2015 context”

Emerging issues

Brussels , 30 Sept. 2014



European Centre for Development
Policy Management
ecdpm

d·i·e

Deutsches Institut für
Entwicklungspolitik



German Development
Institute



HELLENIC REPUBLIC
National and Kapodistrian
University of Athens



Southern Voice
2015 On Post-MDG International Development Goals

ERD 2014 - in a nutshell

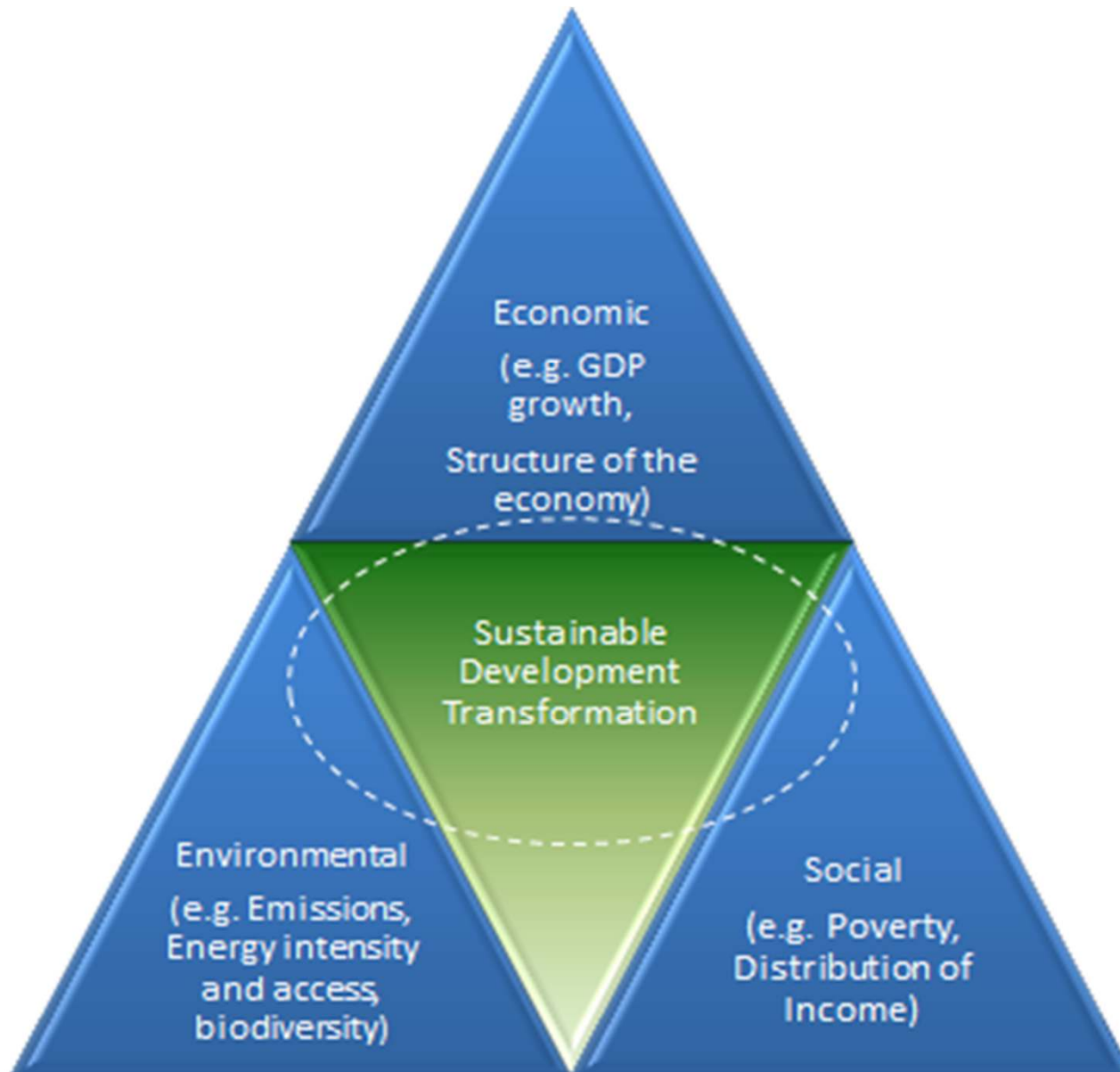
An unprecedented challenge is coming . . .

But means of implementation (finance and other) are not fit for purpose

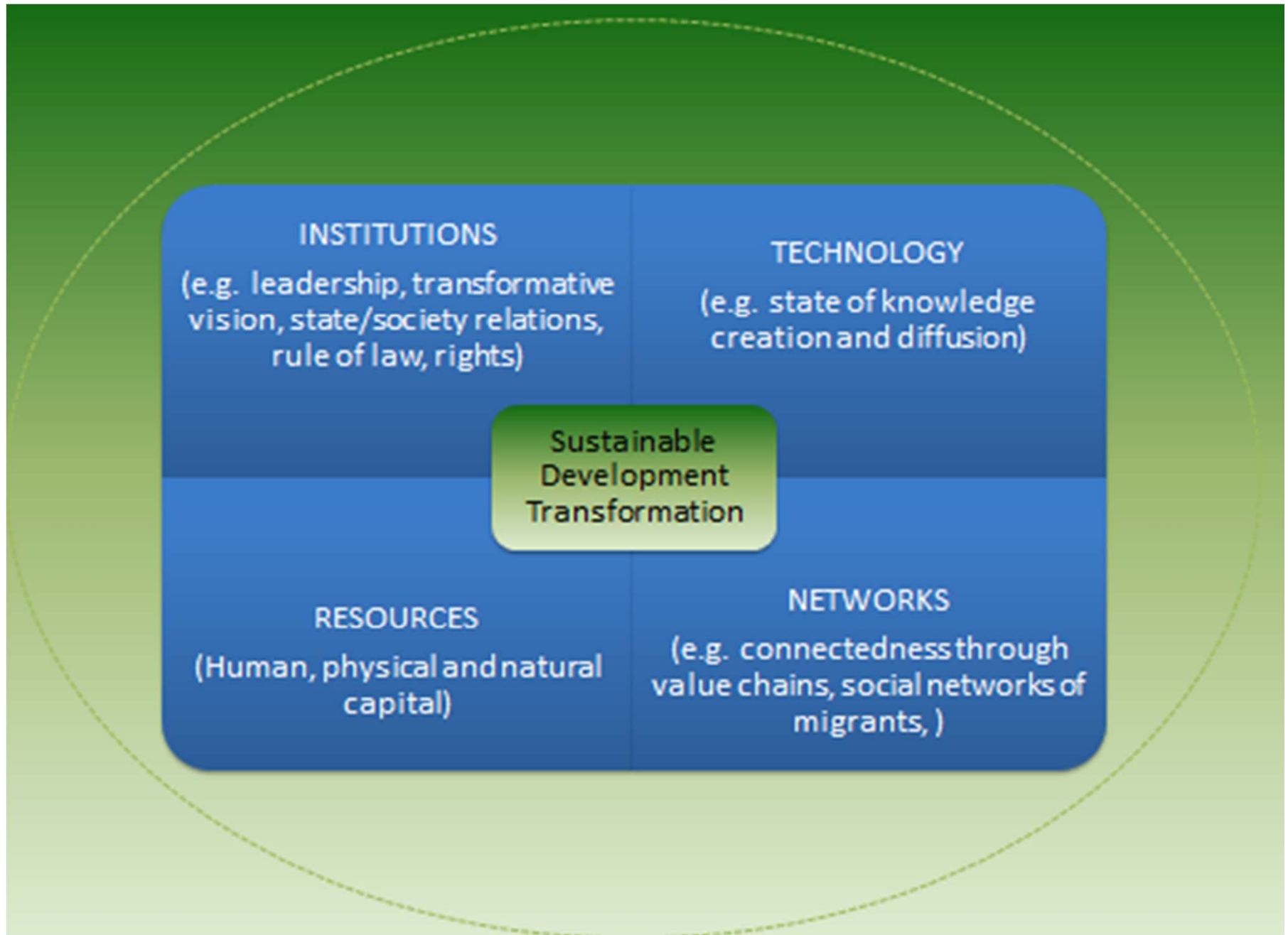
So:

1. Recognise the aim of sustainable development transformation
2. Focus on the enablers, not just outcomes
3. Note that complementary policies are important
4. Recognise complex interactions as part of the Financing for Development Process

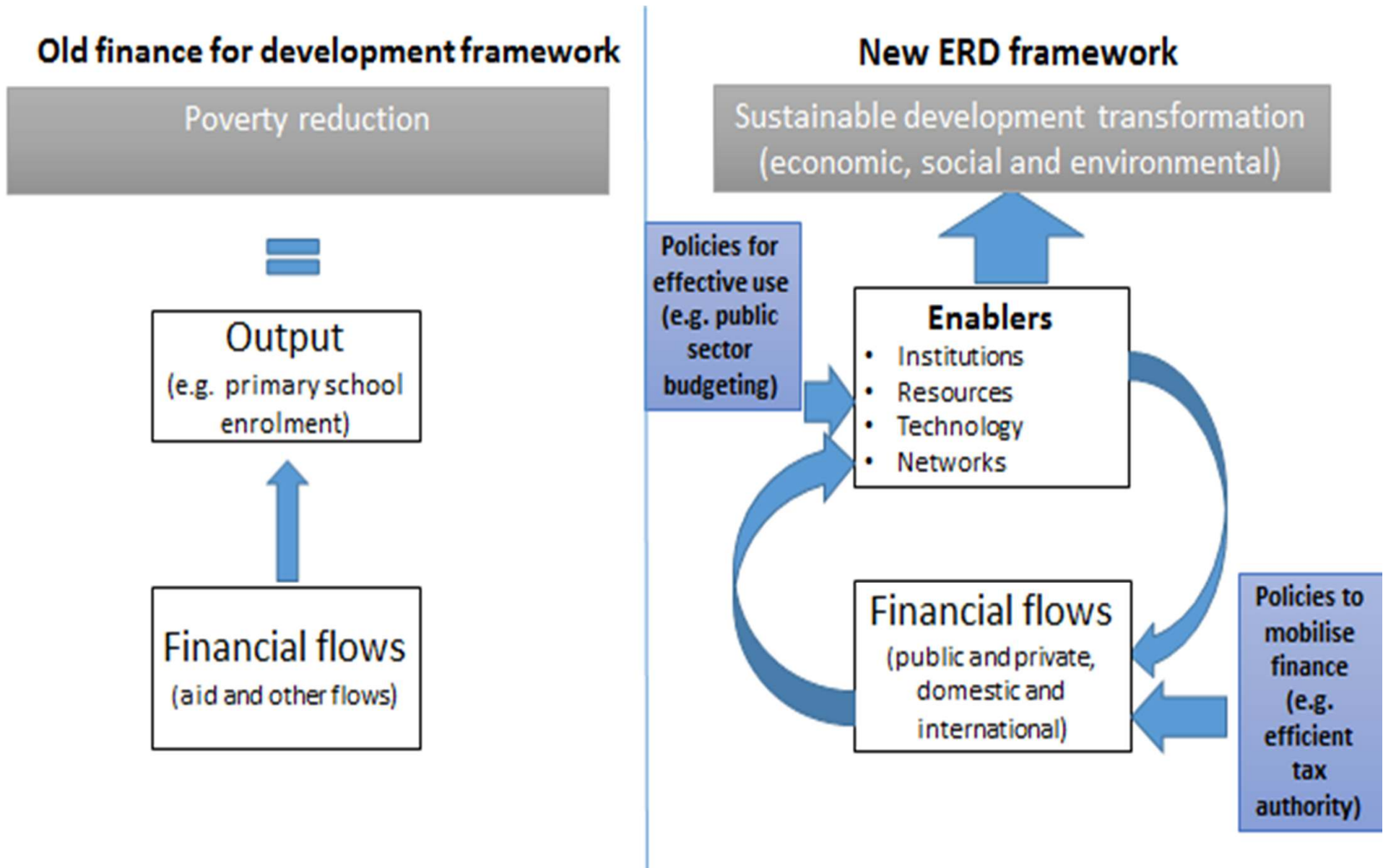
Sustainable development transformation



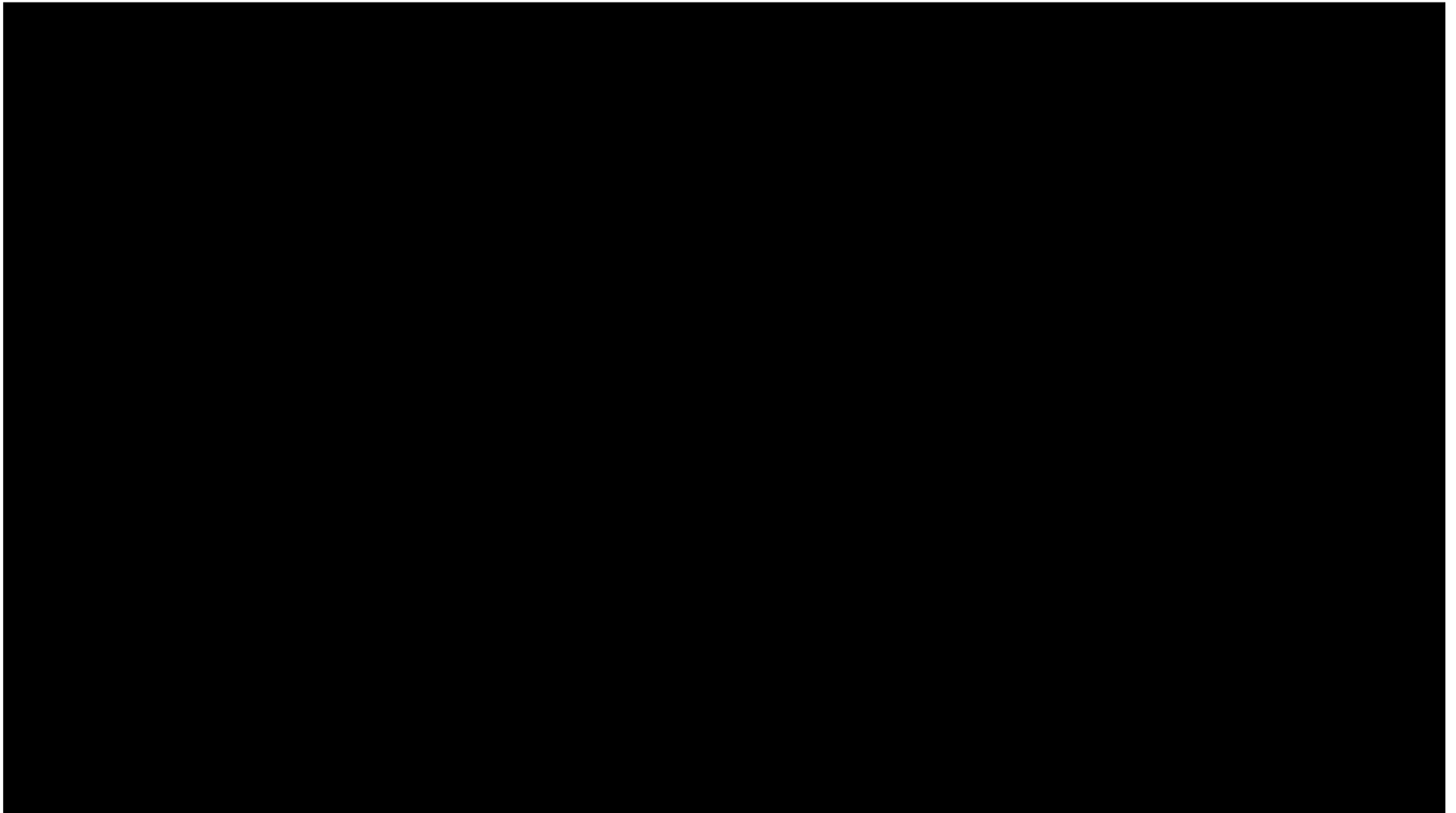
With a focus on change enablers



And policy matters for effective use and mobilisation of finance



You don't just have to take our
word for it...





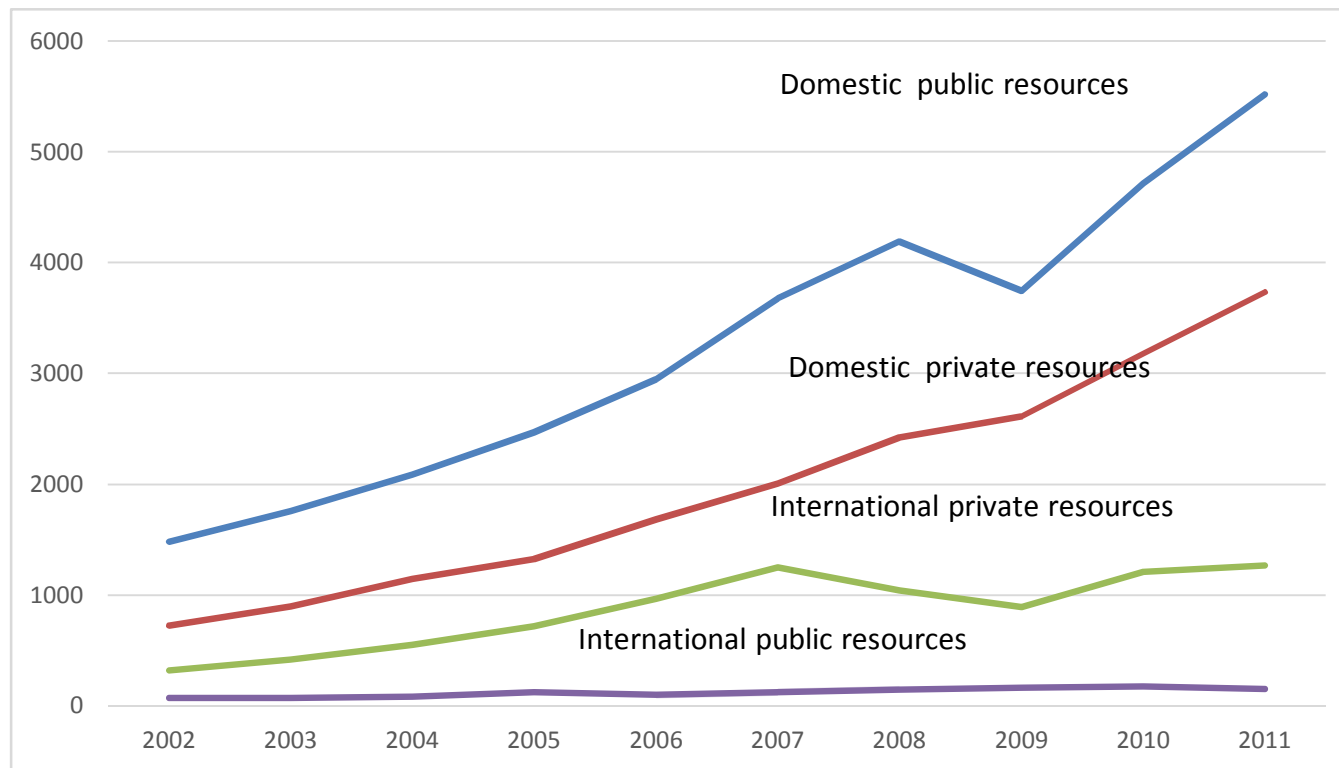
Transformation in Mauritius is an ongoing challenge

- From sugar to other sectors
- From sugar to sugar related products

▣ **aid played catalytic role**

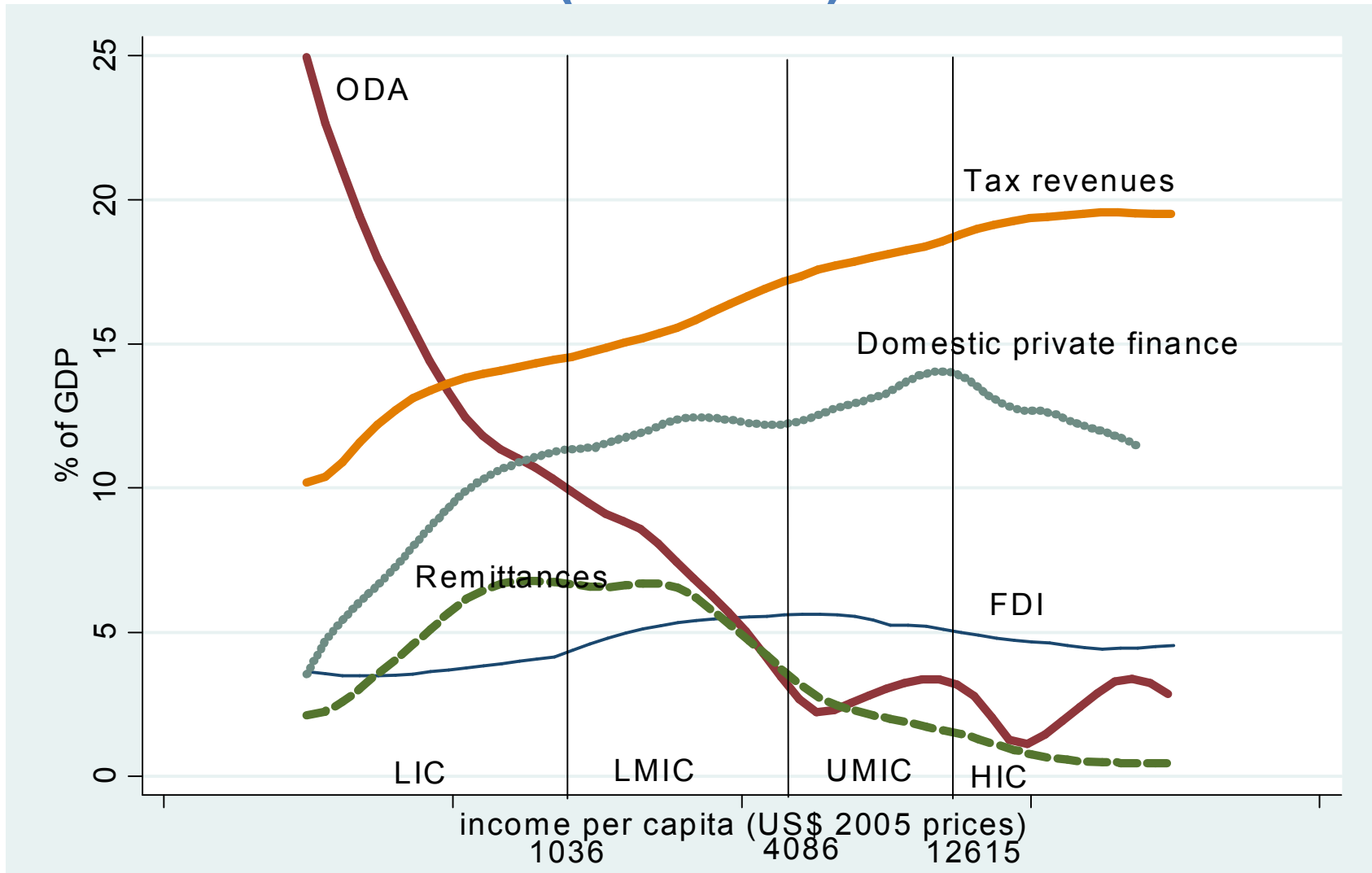
Global finance trends to developing countries

(\$ billion, 2011 prices), 2002–2011



Sources: See report: IMF, OECD, WDI, etc

Finance flows by level of income (%GDP)



--> Cis are experiencing distinctive transitions (e.g. Indonesia, Bangladesh, Mauritius)

Source: WDI all countries from 1980-2012

Infrastructure

Finance and other MOI (policies)

Finance:

- Domestic public finance important in all CIs
- Development Finance Institutions (DFIs) : LT finance to fill finance gaps, pool resources, mitigate risks through blending/ insurance / guarantees, TA, and using new strategic actors (e.g. pension funds)
- Capital markets: domestic bond markets, e.g. diaspora bonds, and PPPs at higher levels of incomes

Complementary policies for effective use and mobilisation:

- Bankable projects and legal / technical expertise
- international benchmarks for procurement
- Quality and standards of public expenditure, planning frameworks
- Special Economic Zones or growth corridors

Green technology

Finance and other MOI (policies)

Finance:

- Mix of public and private finance for renewable energy
- Lack of international public finance (although many schemes at pilot stage)
- Fossil fuel subsidies: Perverse incentives for private investment

Complementary policies for effective use and mobilisation:

- Technology transfer and adaptation (e.g. Climate innovation centres)
- Public procurement standards
- Competition policy and protection of intellectual property rights
- Patent pools and innovation banks
- Fossil fuel subsidy reform
- Development of a greener financial sector

Domestic policy matters in financing green technology

Tanzania vs Kenya

- Private sector interest in financing renewable energy in Tanzania, supported by project preparation
- Whilst investment climate overall appears permissive, specific policy barriers hinder investment (differences Kenya vs Tanzania)
- DFIs can catalyse action (e.g. hydropower & jobs in Uganda)



Human capital

Finance and other MOI (policies)

Finance:

- Enhancing human capital is financed most effectively long term through domestic tax revenues
- ODA: used as supplement in poorer countries (LICs) or as catalyst in countries developing DRM capacity (LMICs) or protecting against shocks
- Traditionally household private finance important in both education and health but does not ensure universal coverage
- Scope for commercial private finance in insurance but with public finance

Complementary policies for effective use and mobilisation:

- Establishing supportive political settlements that allow adequate taxation and redistributive policies essential
- Policies that mobilise and support the use of public resources
 - Building tax capacity, expanding tax and social insurance base, reducing waste and inefficiency, better inter-ministerial co-ordination

Domestic public finance for enhancing human capital *Ecuador example*

Improved education, health and social protection:

- Finance package predominantly internal tax revenue though also oil rents and contract renegotiations (oil and mobile telecom)
- Modernised Revenue Service and extended tax base
- Political settlement and leadership
- ‘Buen Vivir’ social transformation strategy improved access for all:
 - Education up to 10th grade
 - Universal health care system
 - Social insurance and safety nets for disadvantaged groups

Conclusions

All countries need to adopt a different and more radical mind-set that recognises that different types of public, private, domestic and international finance interact with policies to develop enablers (institutions, resources, technology and networks) for a *transformative* post-2015 agenda.

- How? Next steps?

Embed new thinking in FFD process

- **Domestic policy matters, e.g.**
 - tax reform (Tanzania, Bangladesh)
 - financial sector development and competition (SSA)
 - complementary policy matters (e.g. Tanzania vs Kenya)
- **Designing international public finance that works for sustainable development**
 - catalytic use of aid for tax and institutions, for vulnerable groups (e.g. Mauritius), DFIs for mobilising other finance (e.g. Uganda),
- **Designing a global system and policy environment that is fit for purpose**
 - Climate, trade, financial and tax rules (e.g. transfer pricing and Kenya; SSA tax modelling results)
 - Incentives for and co-ordination of financial institutions

Thank you!

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