Report of the High Level Political Forum on Sustainable Development side event: Financing the SDGs in the Least Developed Countries: Diversifying the Financing Toolbox and Managing Vulnerability

Co-organized by AFD, French Mission to the United Nations and UNDP
New York- 11 July 2016 (6:15- 7:30 PM, UNHQ, Conference Room 8)

Overview:

UNDP and Agence Français de Développement (AFD) prepared a report, which examines a variety of financial instruments and explores the extent to which they can be used in the LDCs to finance sustainable development and manage risks. UNDP Administrator launched this report at the Mid-term Review of the Istanbul Programme of Action for the LDCs, which took place in Turkey in late May 2016.

This side event, co-organized by UNDP, AFD and the French Mission to the UN, was an opportunity to hear a presentation of some of the report's key findings and to learn more about how this work may be relevant to SDG achievement.

The Director of UNDP's Bureau for Policy and Programme Support delivered the opening statement and moderated the panel discussion.

Ambassador François Delattre, France

France believes that helping the most vulnerable countries, like the LDCs and SIDS, is an absolute priority. Furthermore, it is a priority of the 2030 Agenda and the Paris Climate Agreement, which recognizes developing countries are the first victims of climate change.

Developed countries must help the LDCs and SIDs finance for development by helping them access markets. Even though many vulnerable countries have made development progress—many still rely on ODA. The Ambassador underscored the quality and relevance of the work done by UNDP and AFD. Stating he deeply believes that the report is exceptional, convincing, compelling and precise. Noting that the financial toolbox presented and all the instruments highlighted in the report have the potential to be a game changer. UNDP was praised for actively supporting the 2030 Agenda and its implementation, and for being a key partner in the implementation of the Paris Climate Agreement.

Magdy Martínez-Solimán, Assistant Secretary General and Director of BPPS

The implementation of the 2030 Agenda will require much more than business as usual if the ambition to leave no one behind is to be realized, new partnerships will need to be forged, innovations must be tried and tested, more data gathered and perhaps most importantly citizens must be enabled and empowered to hold their leaders to account. The 2030 Agenda also demands that countries of all income levels are able to harness and make effective use of a broad suite of financing instruments to fund their national development strategies. Financial instruments such as blended finance, green bond financing, diaspora financing, local currency financing, performance-based financing and impact investing have emerged and grown in prominence—these developments are all positive but this new age of choice does not necessarily mean that everyone is able to benefit.

It was emphasized that notwithstanding the opportunities presented by a more diverse development financing landscape, these opportunities do not diminish the importance of continued efforts by LDCs to strengthen domestic revenue mobilization (and to use these resources more effectively) or efforts by aid donors to meet their commitment to allocate between 0.15 and 0.2 percent of GNI to the LDCs as ODA. The report recognizes it can be difficult for LDCs to harness the opportunities presented by a more diverse and sophisticated development financing landscape; a lack of capacity on LDCs side and perceived higher risk on financial providers' sides are just two reasons why.

Gail Hurley, Policy Specialist, Development Finance, UNDP

This presentation focused on the main findings of the joint UNDP-AFD report. It was noted that LDCs need both private and public financing; and that development aid can be used through blending financing, guarantees, green bonds for example. These financial instruments have potential to strengthen local development actors, namely the local private sector and can be used to reduce vulnerability and shocks. The report looks at three innovations of lending that can help LDCs manage stresses: 1) GDP linked lending (where debt services rises and falls depending on the GDP); 2) counter cyclical loans- if a major shock occurs, it is agreed ex ante that debt service is allowed to fall or become zero for a certain period---pioneered by the AFD and 7 LDCs have used this instrument; 3) hurricane or catastrophe causes in bond lending which can be helpful to LDCs, in particular SIDS.

The report finds risk mitigation instruments are not just a nice complement, but also an absolute necessity. Risk - perceived and actual- is a key constraint for LDCs and increases cost of development in LDC. Public interventions can help reduce risk; this is explored in the report. It was also remarked that capacity development is a need that characterizes DLCs and critical to make use of the financing toolbox. These tools are most effective when they are a part of broader efforts to increase local capacities. Debt sustainability must remain at the forefront. Not all debt is bad, but especially in the LDCs. Debt must always be carefully managed. Notwithstanding the opportunities available, inclusive economic growth still matter. Furthermore, sustained economic growth is precondition for LDCS to reach development gains and make use of the diverse financing landscape.

Thomas Barrett, Director and Chief Representative of the European Investment Bank and Minister of the European Union Delegation to the United States

Complements UNDP and AFD on an exceptional report that is both readable and accessible, noting this is a relatively rare achievement when discussing issues related to development financing. The report highlights many of the innovative and promising new instruments that have been used by LDCs. Notes it is imperative for LDCs to mobilize finance for development, and this joint report mentions the different sensible ways of mobilizing additional finance. The report highlights well that mobilizing finance is not enough, and in fact, mobilizing does not mean anything unless you make finance available to the real economy and real beneficiaries, which allows you to cover a span of activities like improving the quality of projects for example.

EIB lends approximately or invests approximately 100 billion USD per annum materially larger than that of the WB, reflecting a policy commitment to use public finance for the purpose of economic development. Additionally, concepts of inclusive growth, sustainability and environmentally friendly economies are a big part of EIBs work. The UNDP-AFD report looks like a multilateral banks internal notes, that is the degree of convergence, which has come about between all the major players. The Sustainable Development Goals have harmonized development objectives globally, which in return has simplified the tasks of multilateral development banks. What multilateral banks worry about is implementation.

One of the sensible narratives that will tell you the scale of the challenge is that a short paper for the Financing for Development Forum in Addis Ababa that discussed how we need to move billions to trillions to achieve the 2030 Agenda. This recognition that banks can account for 5 to 10% of the aggregate requirements of low and middle income countries tells us that we need to look to different means to crows in other public and private investors. EIB as an institution puts more focus on crowding in private investors. Green bonds for example are an additional source of capital coming from the private sector. Risk is a key factor in how we address the question of capital markets, people have difficulty in understanding what the capital markets are looking for—they're looking for their money back, an assured outcome. And how you get a sure outcome is by investing in solid projects in countries that have a strong legal/regulatory structure. So from a public policy viewpoint there is a potential alignment of interest between development banks and this concept of utilizing the capital markets.

Mobilizing finance; making sure finance gets access; and finally building the type of regulatory structure and organization capacity that means ownership of the policy remains with the countries of origin, not with the multilateral development banks or international players, the domestic country owns the solution we are there to deliver the solution.

Marianne Mensah, Advisor, Innovative Financing for Development, AFD

Highlights two examples that underline the partnership approach AFD uses that aims to strengthen capacities of local actors and the innovative approaches AFD would like adopted for LDCS.

SUNREF (Sustainable Use of Natural Resources and Energy Finance) is a hybrid mechanism that combines loans and grants to finance for technical assistance. It is a program that is part of a local policy to protect against climate change, which rests on the policy inhibition of local actors. AFD grants loans and credit lines to local banks, which in turn finance local companies. So this partnership has been implemented in about 50 countries, representing about 2 bill euros of loans. SUNRED is a good example example of how to use public financing in a catalytic way to mobilize resources that already exist locally for the SDGs. Gender mainstreaming is also very important for AFD programmes. As reflected in the report, these instruments have shown success and have the potential for scale up.