Turning Evidence Into Action

Financing the Post-2015 Agenda

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This presentation was prepared by the World Bank Group Post-2015 Working Group, with comments from UNDESA, IMF, Asian Development Bank, and Homi Kharas, Lead Author and Executive Secretary, HLP on Post-2015.

Lessons from the existing MDGs framework

- The original MDGs were articulated **independently** of a **financing** framework (Monterrey 2002).

- In a context of fiscal consolidation, discussion of post-2015 goals must be **integrated** with consideration of **supporting financing**.

- No quantity of financing, whether grant, concessional, or non-concessional, can achieve the development goals without **supporting policies** and a **credible commitment** to combating poverty.

- **Costing** MDGs requires **too many assumptions** (WDR 2004), and is **not the objective** of this exercise.

A two-pronged approach to supporting a post-2015 development framework

Good policies and credible institutions to:

Increase <u>impact</u> of available resources

Leverage <u>additional</u> resources

Good policies *and* ***credible institutions*** *enhance the* ***impact of available resources*** *and* ***leverage additional resources*** *from both domestic and foreign sources.*

Parameters to consider in the post-2015 financing framework

What can developing countries do?

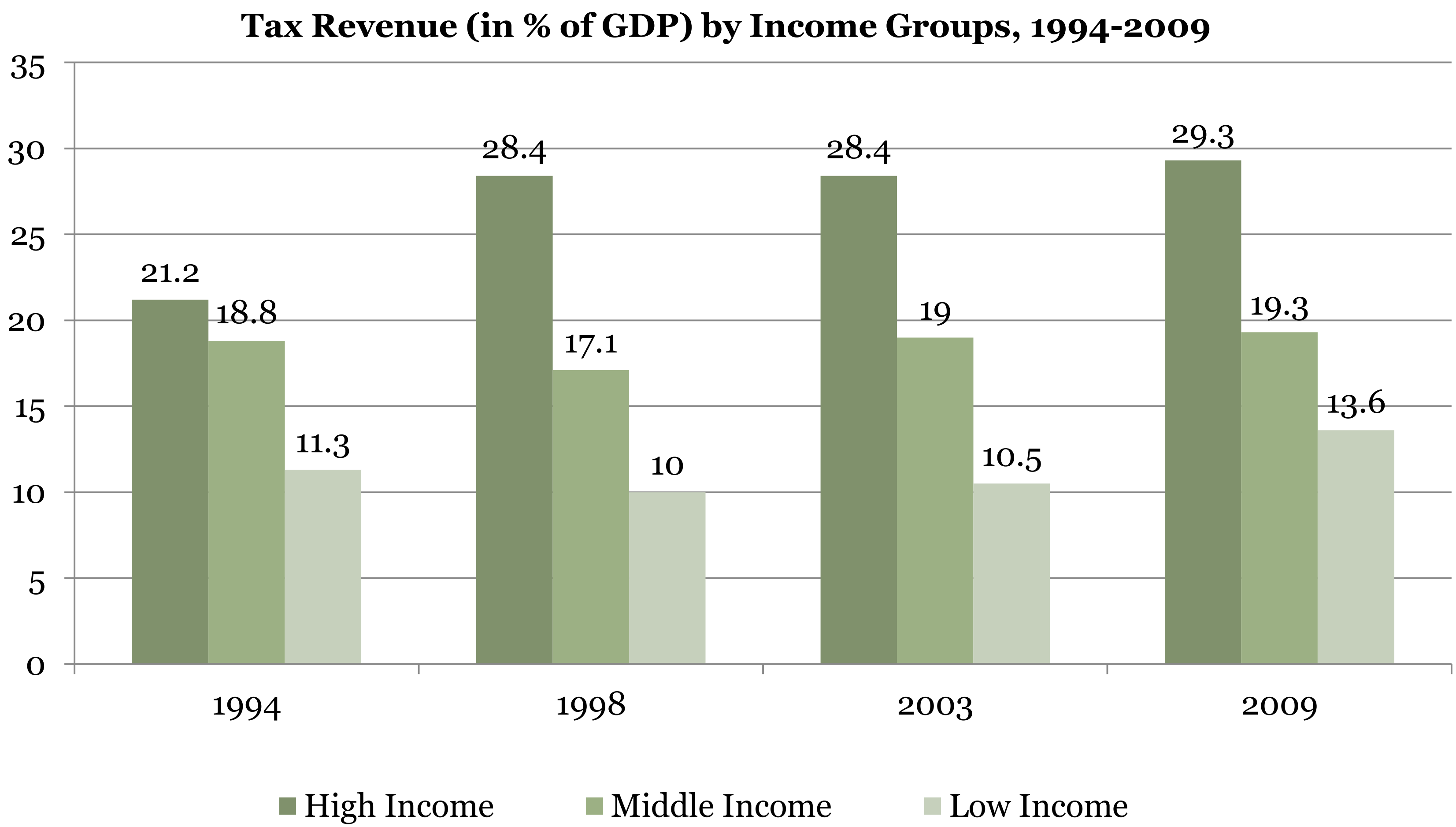
- Design targeted, evidence-based policies and support sound institutions
- Generate more revenues
- Ensure efficient public spending
- Promote financial deepening and inclusion

What can the international community do?

- Maximize the impact of ODA
- Support new development partners
- Leverage the private sector
- Tap into new sources of finance
- Deliver global public goods

Generate more revenues

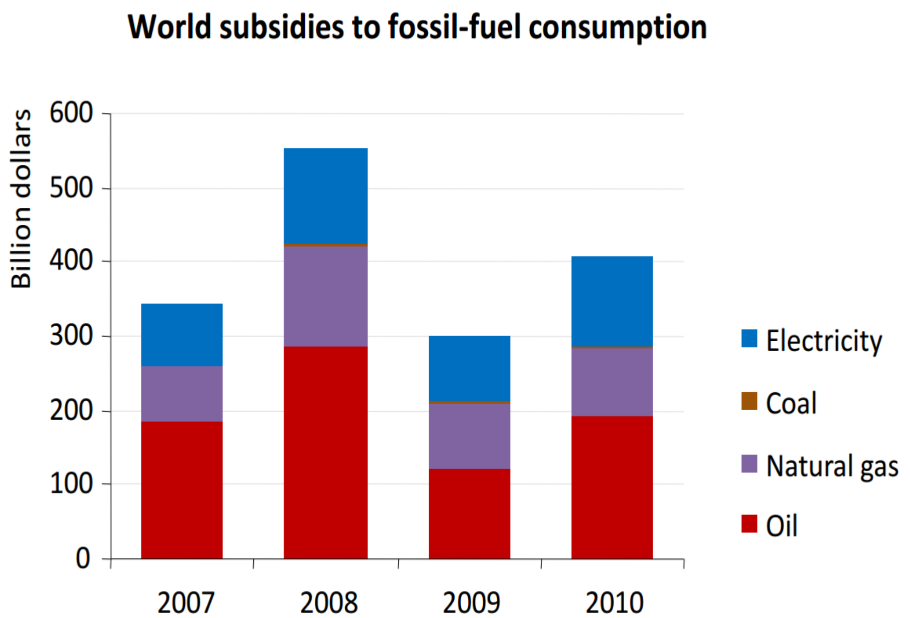
Taxation capacity improving in MICs, progress needed in LICs

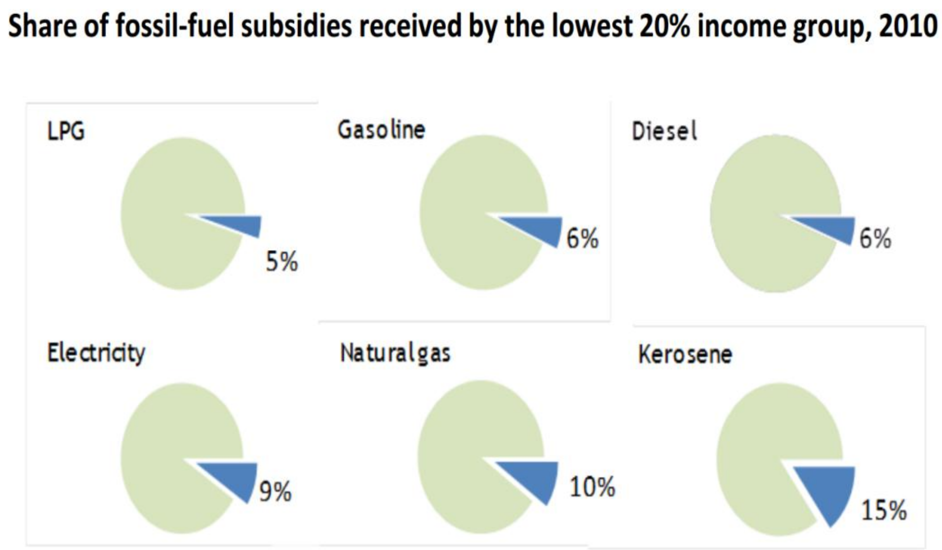


Source: World Development Indicators

Ensure efficient public spending

Fossil fuel subsidies *do not* target the poor





Subsidies are an inefficient means of assisting the poor: only **8%** of the **$409 billion** spent on fossil-fuel subsidies in 2010 went to the poorest 20% of the population.

Fossil fuel consumption subsidies measure what developing countries spend to provide below-cost fuel to their citizens. High-income countries offer support to energy production in the form of tax credits or loan guarantees, which are not included in these calculations since they are directed towards production rather than consumption of the fuel.

Source: World Energy Outlook, IEA, 2011

Financial sector development for growth

A thriving private sector creates opportunities for entrepreneurship and job creation

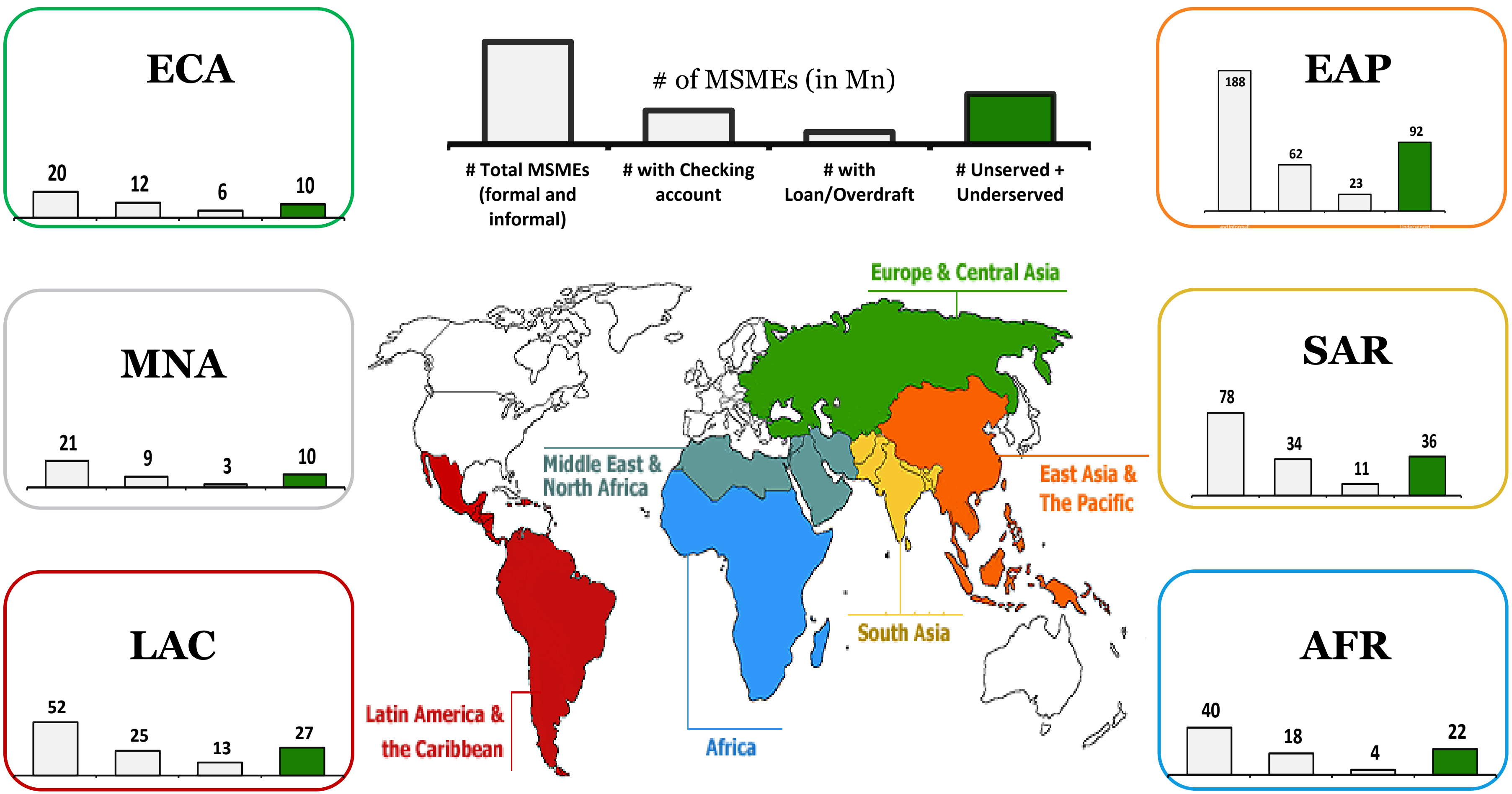
How do financial institutions contribute to **economic growth**?

Lower the cost of financial and nonfinancial **transactions**

Facilitate efforts to **reduce** and **trade risks**

Financial Inclusion

Access to finance is a major constraint to growth for entrepreneurs in LICs

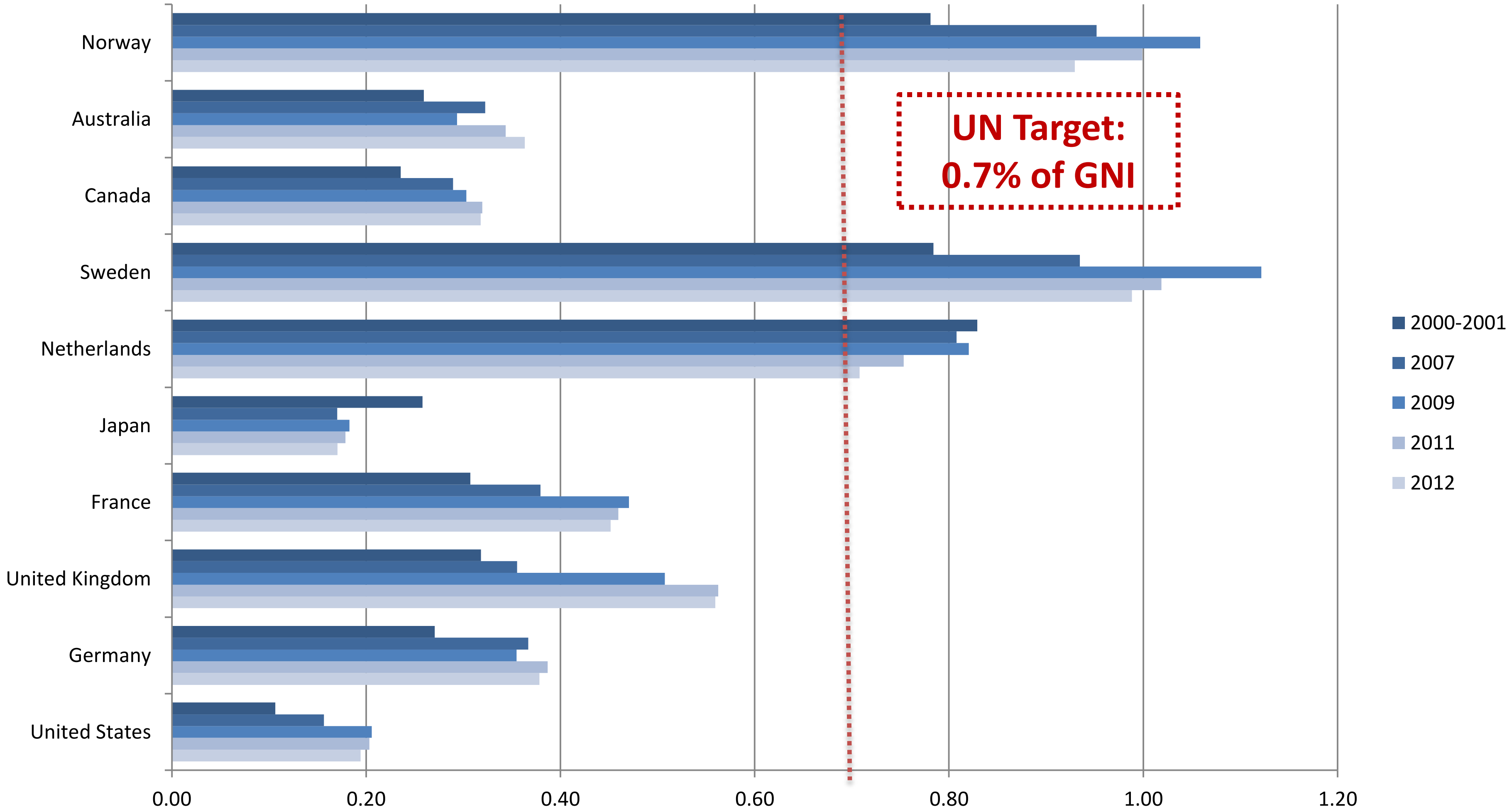


Source: Two trillion and counting, IFC & McKinsey, 2010

Maximize the impact of ODA

Total net ODA, already short of Monterrey targets, has declined by 4% in 2012

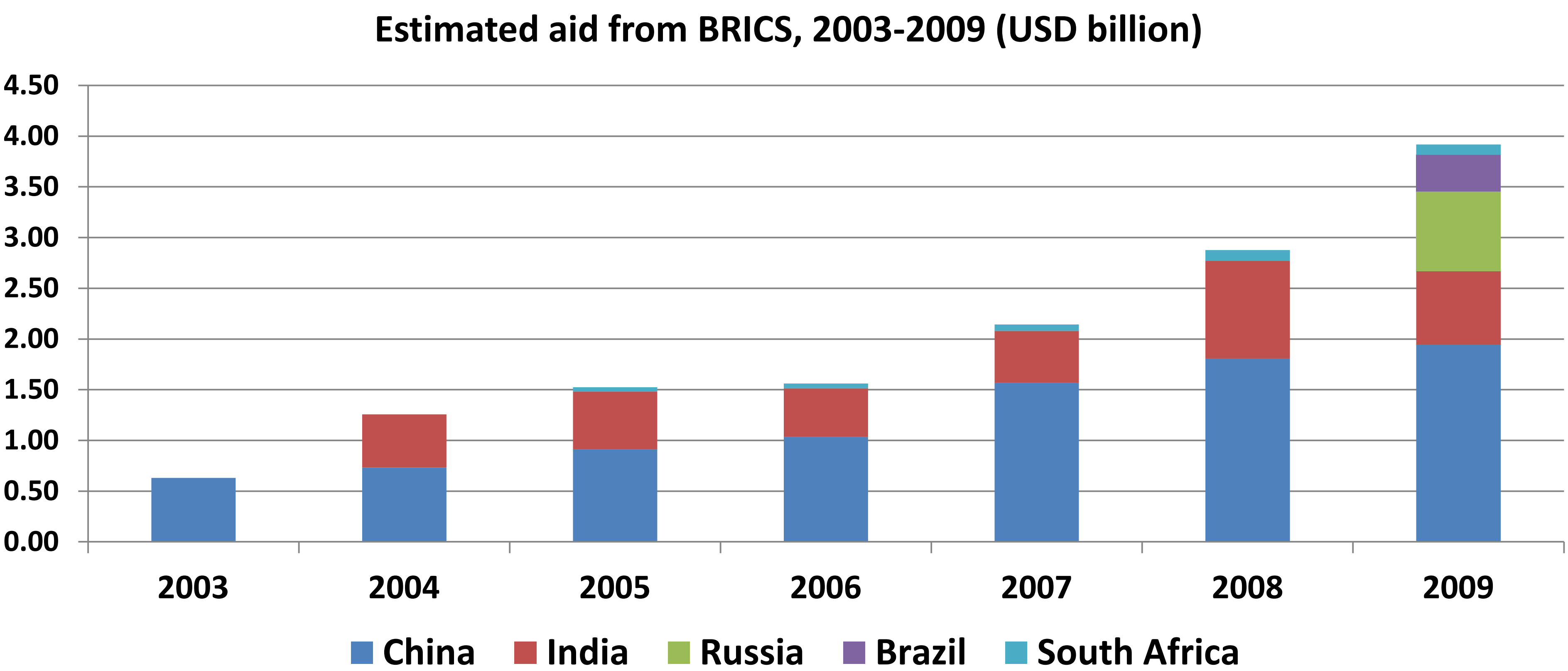
DAC Members' Official Development Assistance as a percentage of GNI, 2000-2012



Source: MDG Gap Taskforce Report, 2012 and OECD IDS 2012

Collaborate with new development partners

Emerging donors, led by China, provide relatively limited aid as defined by the OECD, but contribute to development through other external flows and in-kind assistance



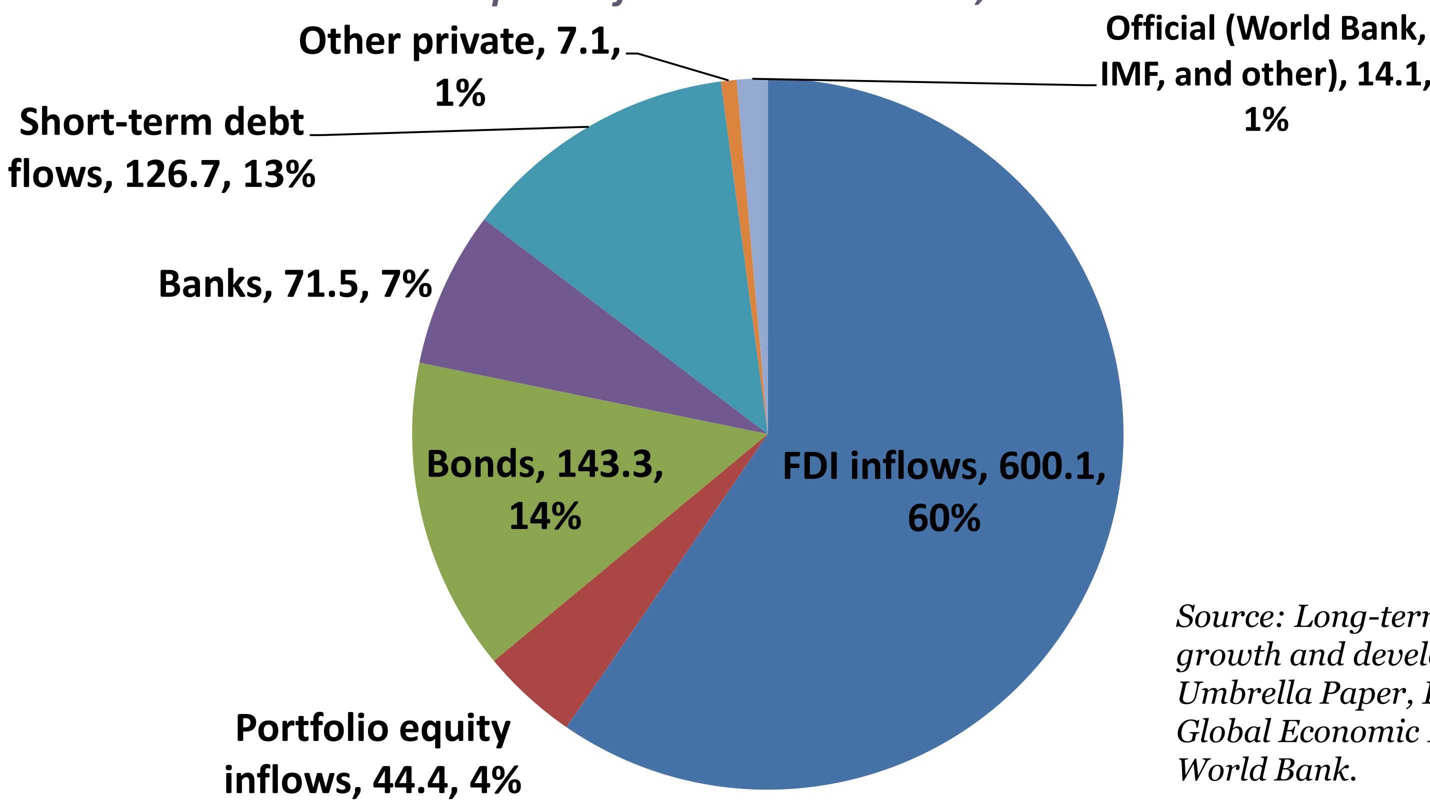
For the purpose of comparison, in 2009, **net ODA from DAC members** was **119.8 bn USD**.

Source: World Bank CFP Working Paper No. 8, Finance for Development

International flows to developing countries

International capital flows to developing countries dominated by foreign direct investment

Total capital inflows in 2012: USD 1,007 billion

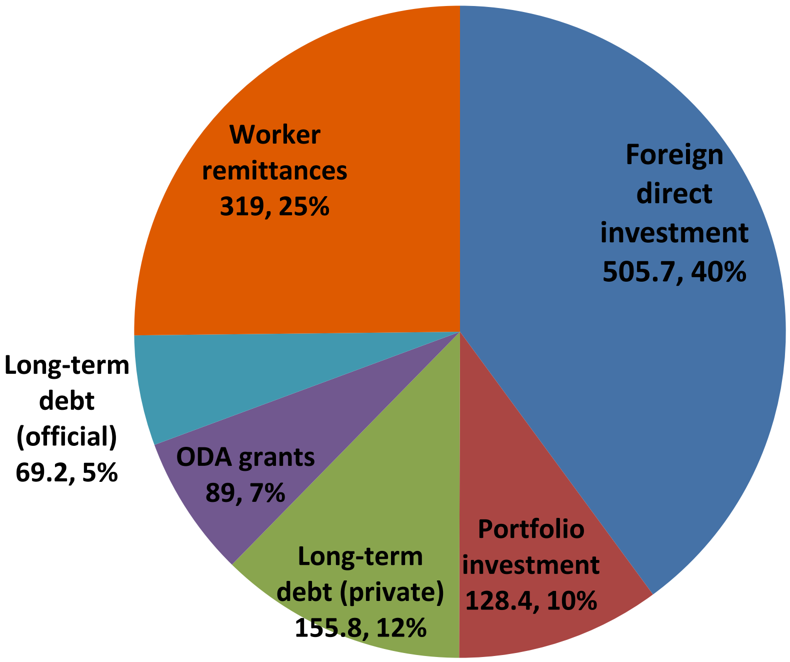


Source: Long-term financing for growth and development. G20 Umbrella Paper, Feb. 2013 and Global Economic Prospects 2013, World Bank.

Remittances, which are not part of capital inflows but are an important source of foreign currency for developing countries, were an estimated **USD 399 bn in 2012**.
Inflows refer to flows from non-residents to developing countries. FDI inflows are net of disinvestments by non-residents.
Debt inflows are debt disbursements net of repayments. Official flows include bilateral and multilateral lending and are not equivalent to ODA. Data on official capital inflows are "debt enhancing official assistance" and, thus, not the same as ODA, which is concessional in character with a grant element.

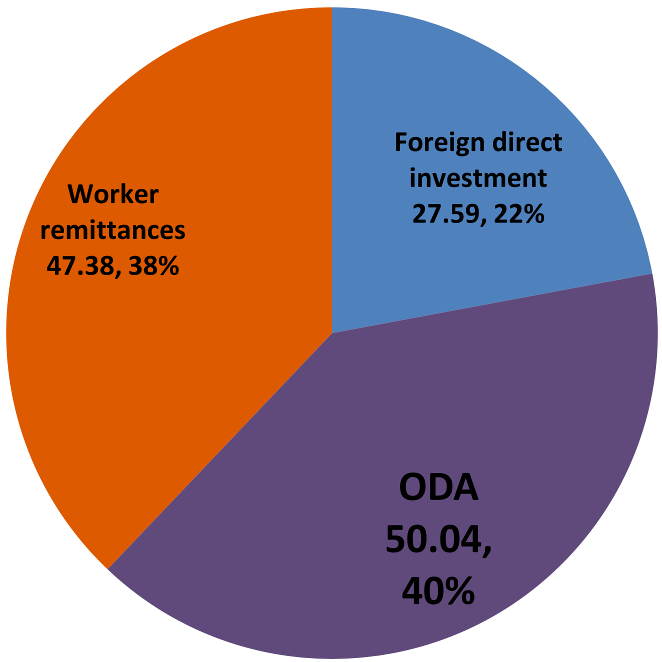
ODA and remittances are especially critical for fragile states

<u>Net</u> financial flows to developing countries, 2010
Total: USD 1,267 billion



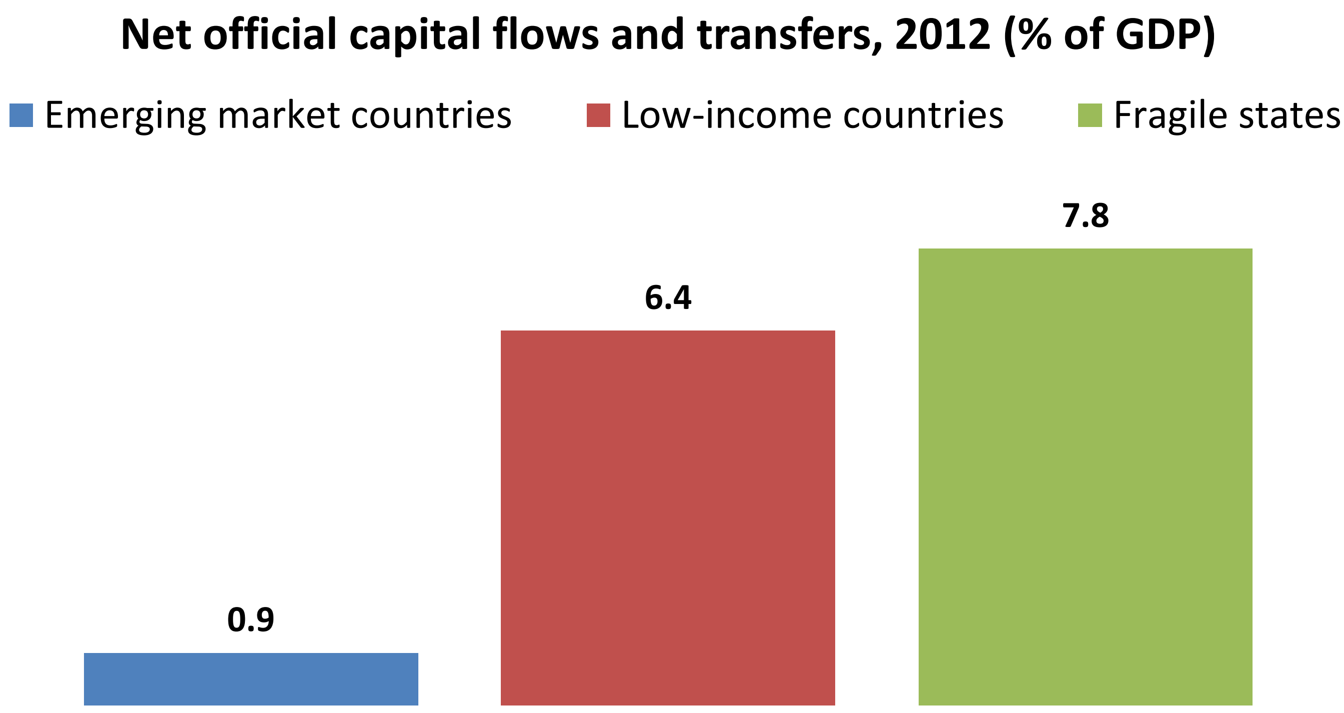
Source: World Bank CFP Working Paper No. 8, Finance for Development

<u>Gross</u> financial flows to fragile states, 2010
Total: USD 125 billion



Source: Fragile States 2013, OECD
NB: Based on OECD definition of fragile states

The official sector has a particularly important role to play in LICs and fragile states



Source: Global Monitoring Report 2013, World Bank

The classification of countries is the one used in the IMF's *World Economic Outlook*. Emerging market and developing countries are those countries that are not designated as advanced countries. Countries that are eligible for financial assistance under the IMF's *Poverty Reduction and Growth Trust* constitute a subset of emerging market and developing countries; these countries are denoted low-income countries although eligibility is based on other considerations in addition to income levels. Emerging market and developing countries that are not eligible for financial assistance under the *Poverty Reduction and Growth Trust* are designated as emerging market countries. Fragile states are countries included in the World Bank's list of Fragile and Conflict-Affected States as of early 2013.

Leverage the private sector: partnerships

Well-structured initiatives with a diverse range of partners help governments raise the large sums of capital required to meet infrastructure needs and consequently spur development

Maharashtra & Tamil Nadu, India

CLIFF COMMUNITY SANITATION PROJECT

Total initial investment: $7.2 million

- Homeless International
- SPARC (NGO in India)
- Community-based Organizations

Kenya

PRIVATE SECTOR POWER GENERATION PROJECT

Total initial investment: $623 million

- Kenya Power and Lighting Company
- IFC
- MIGA
- Commercial Banks

Emerging Partnerships

Sao Paulo, Brazil

METRO LINE 4

Total initial investment: $450 million

- Companhia do Metropolitano de Sao Paolo
- 5 Equity Sponsors
- IDB
- Commercial Banks

Lake Kivu, Rwanda

KIVU WATT

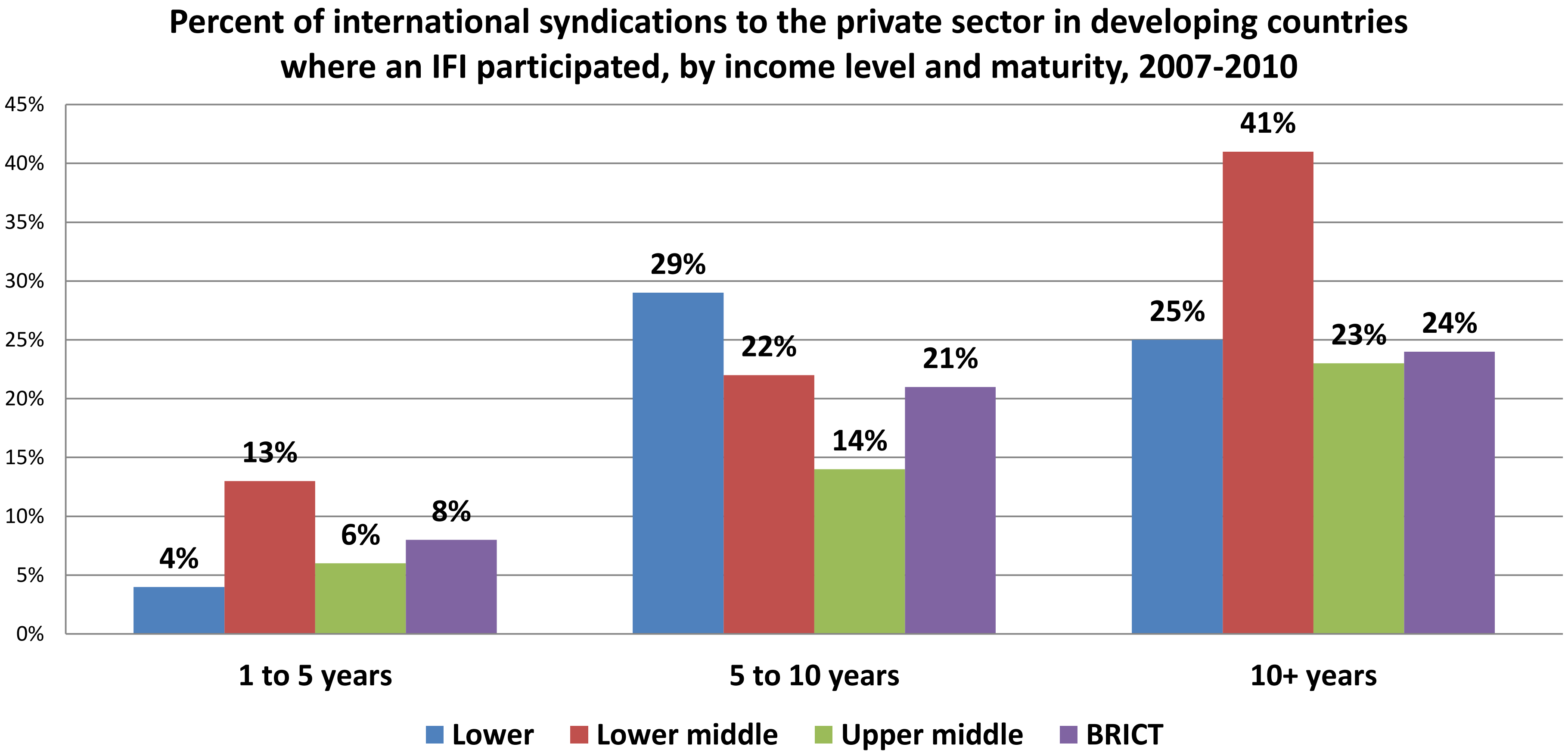
Total initial investment: $142.25 million

- ContourGlobal
- Energy Authority of Rwanda
- MIGA
- Emerging Africa Infrastructure Fund
- FMO
- AfDB
- Belgian Development Bank

Source: Emerging Partnerships, IFC, 2013 and World Bank, Africa Region.

Leverage the private sector: syndications

IFI participation in syndications contributes to extending maturities of private flows to developing countries and therefore financing long-term productive investments



Source: International Finance Institutions and Development through the Private Sector, IFC, 2011

Key Messages

- **Promote targeted policies and support accountable, efficient institutions**
- **Mobilize domestic resources for development through:**
  - **Broader tax coverage**
  - **Increased taxation capacity**
  - **Greater accountability**
  - **Efficient public spending**
  - **Natural resource revenue**
  - **Deeper domestic financial sector**
  - **A more vibrant private sector**
- **The international community must use ODA and other resources to:**
  - **Leverage more private resources**
  - **Deliver global public goods**
  - **Draw on emerging and innovative sources of finance**
- **Financial instruments have different properties and comparative advantages. Selecting the right combination of instruments to meet a given goal, in a given country context, might be one of the most important tasks ahead to enable full implementation of the next development framework post-2015.**

Thank you for your attention

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