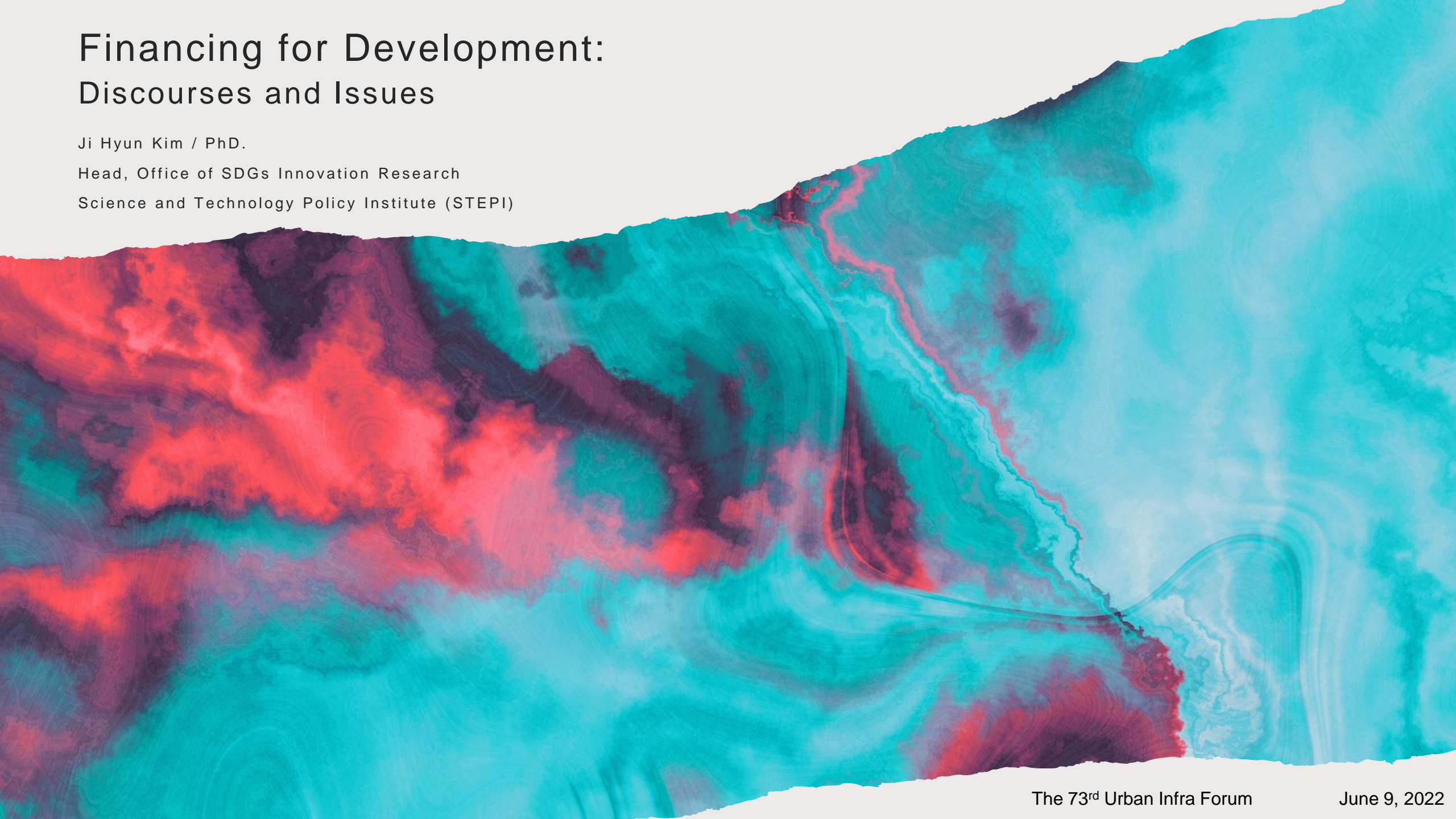


Financing for Development: Discourses and Issues

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WHERE WE VISIT

- BACKGROUND : WHY FIANCING FOR DEVELOPMENT?
- WHAT IS FfD?
- INTERNATIONAL COMMUNITY ON FfD
- TO UNDERSTAND WHAT IS GOING ON...
 - DOMESTIC RESOURCES MOBILIZATION (DRM)
 - ODA AND TOTAL OFFICIAL SUPPORT FOR SUSTAINABLE DEVELOPMENT (TOSSD)
 - PRIVATE SECTOR ENGAGEMENT (PSE)
 - REMITTANCE

Global Development Agendas in 2000s



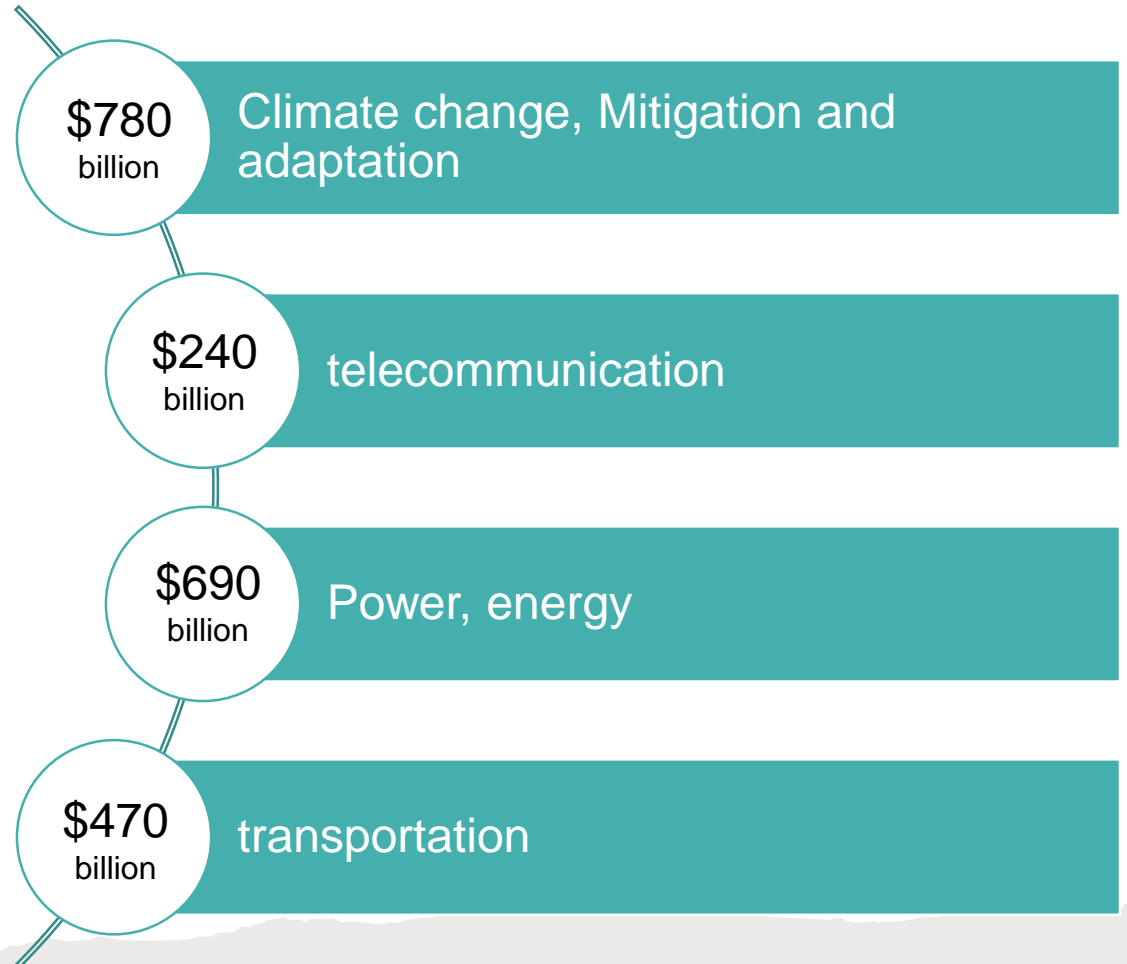
Lessons from the MDGs framework

- The original MDGs were articulated independently of a financing framework (Monterrey 2002)
 - The post 2015 agenda should be integrated with consideration of supporting financing
 - No quantity of financing can achieve the development goals without supporting policies and a credible commitment to combating poverty
- Good policies and credible institutions enhance the impact of available resources and leverage additional resources from both domestic and foreign sources

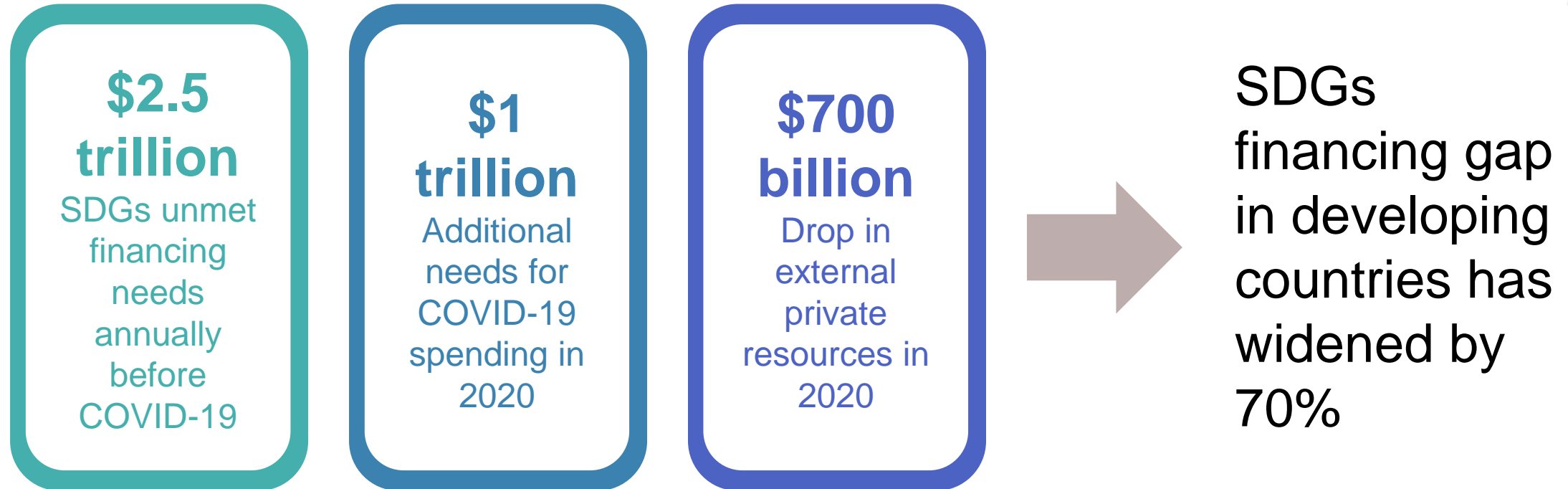
In 2015, we have calculated...

The needs exceed existing resources

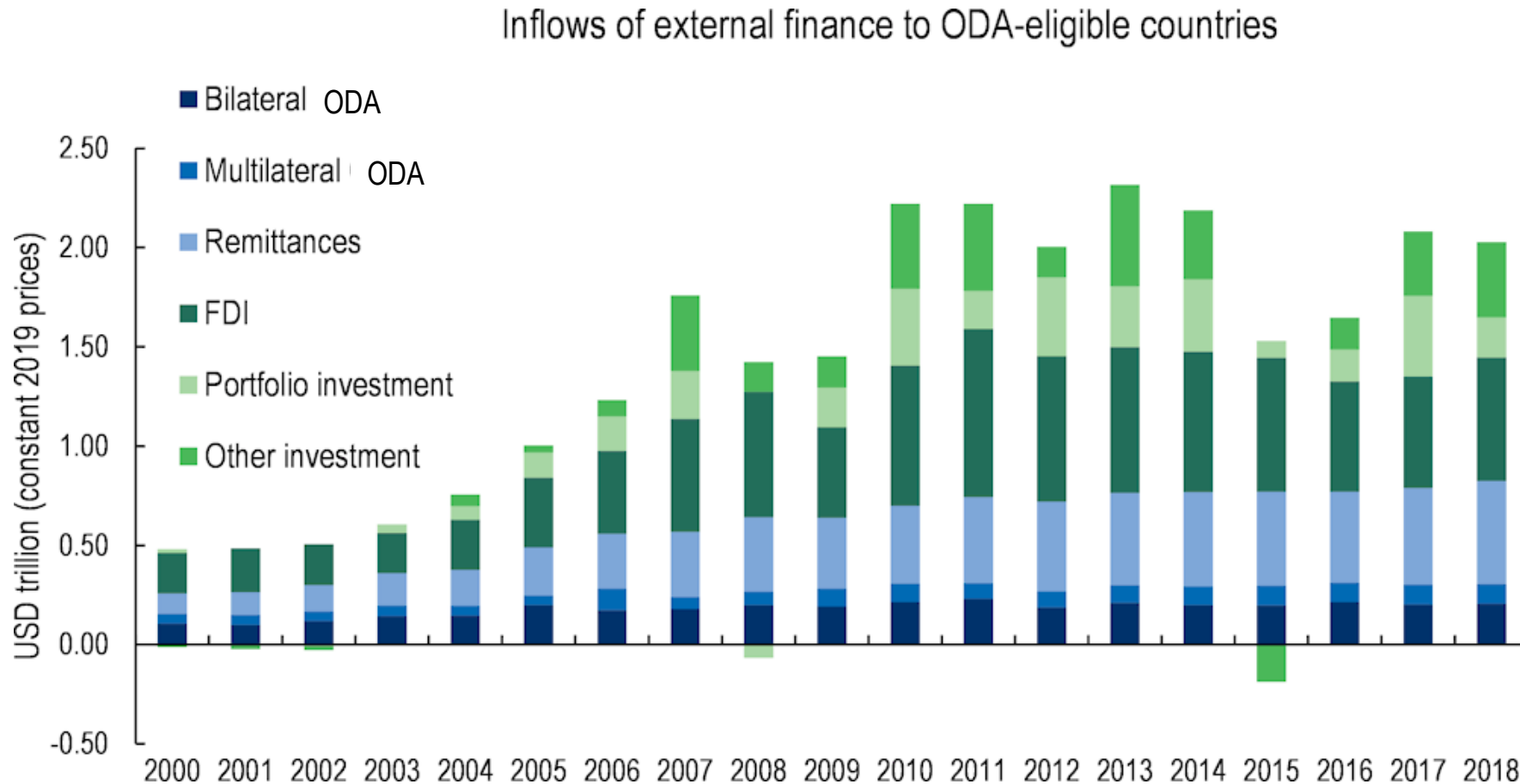
Between 2015 and 2030,
developing countries need an annual
investment of up to



After COVID-19...



Financing for Development



Understanding resources for development

	Public	Private
Domestic (in the country)	Tax revenue	Savings, domestic investment
Foreign (from the outside of the country)	Official Development Assistance Other Official Flows (OOF)	Foreign Direct Investment Remittance Philanthropy Trade

+ innovative development finance

+ Private sector engagement (PSE) / Private sector participation

Conferences on FfD



Monterrey Consensus

2002.03. Monterrey, Mexico

- Domestic financial resources
- FDI & Other private flows
- Trade
- ODA
- External Debt
- PCD & International System



Doha Declaration

2008.12. Doha, Qatar

- Domestic financial resources
- FDI & Other private flows
- Trade
- ODA
- External Debt
- PCD & International System
- Other emerging issues



Addis Ababa Agenda for Action (AAAA)

2015.07. Addis Ababa, Ethiopia

- Domestic public resources
- Domestic & International private business and finance
- International development cooperation
- Trade
- Debt and debt sustainability
- Systematic issues
- Science, Technology, Innovation & Capacity-building**

Monterrey Consensus (2002)

Doha Declaration on FfD (2008)



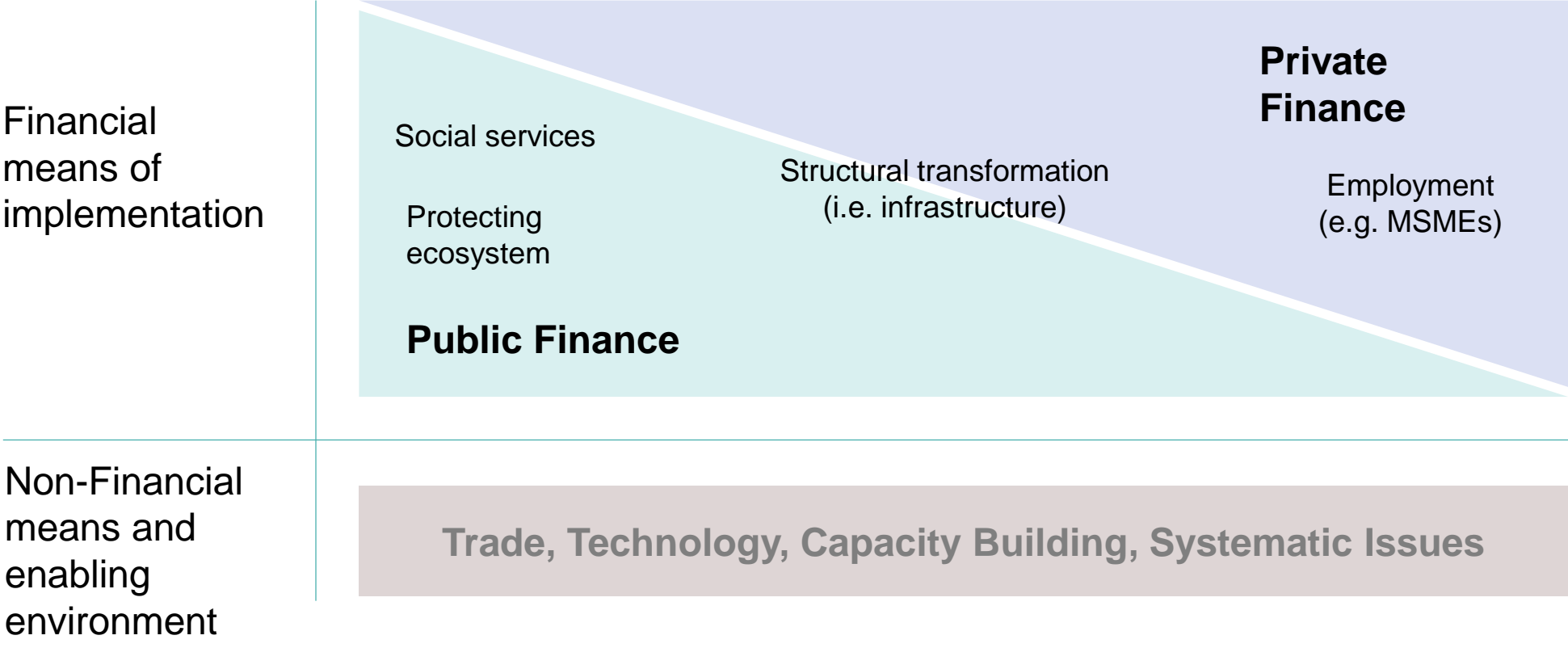
- Leading actions
 - **Mobilizing domestic financial resources for development:** tax, fighting corruption, capital flights, efficient public spending/investment, MSMEs and banking sector development
 - **Mobilizing international resources for development** (FDI and other private flows): enabling institutions and regulatory environments, public-private partnership
 - **International trade as an engine for development:** trade liberalization, non-discriminatory and equitable multilateral trading system
 - **Increasing international financial and technical cooperation for development:** 0.7% of GNP, 0.15~0.2% of GNP to least developed countries, aid effectiveness
 - **External debt:** external debt relief, HIPC Initiative
 - **Addressing systematic issues:** international organizations, voice of developing countries

Addis Ababa Action Agenda (2015)



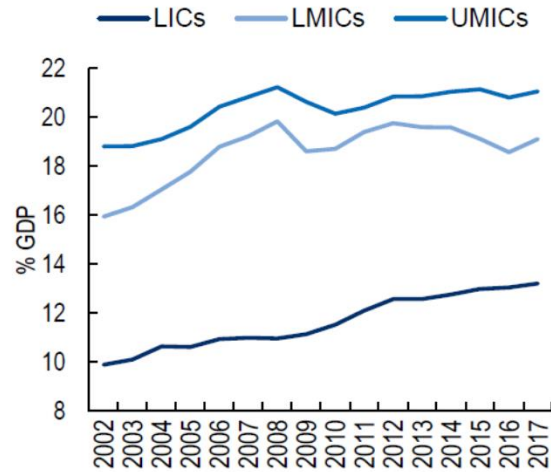
- FfD3 in Addis Ababa (2015) was broader in scope than previous conferences
 - Review of outcome Monterrey and Doha
 - Address challenges and ways to mobilize resources to finance the sustainable development goals
- Action areas of the Addis Agenda
 - Domestic public resources
 - Domestic and international private business and finance
 - International development cooperation
 - International trade as an engine for development
 - Debt and debt sustainability
 - Addressing systematic issues
 - Science, technology, innovation and capacity building

Continuum of the means for achieving SD in AAAA



Domestic recourse mobilization (DRM)

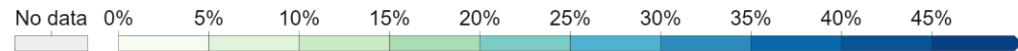
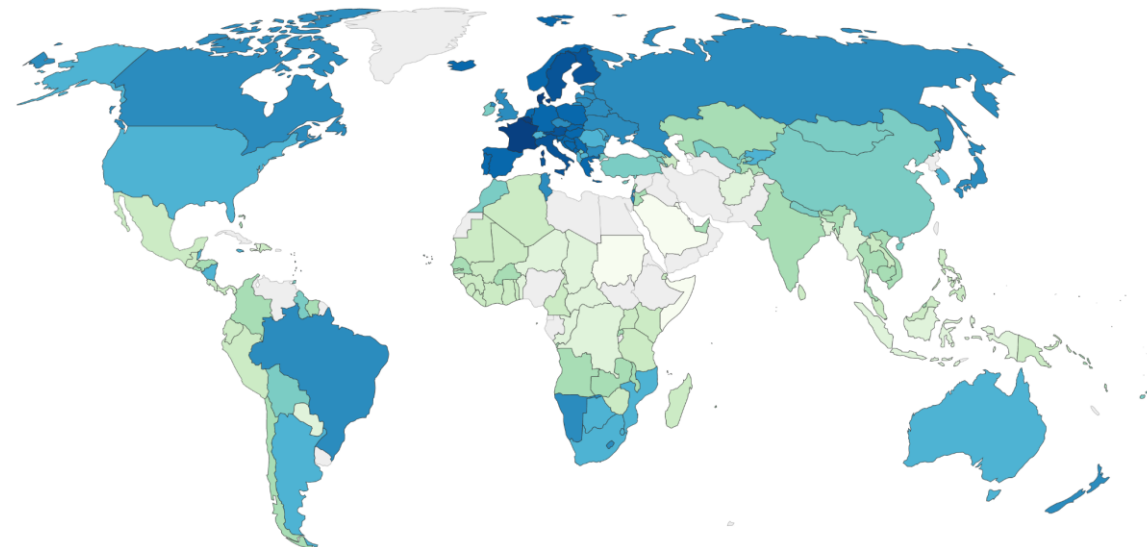
Average tax revenue across income groups, 2002-17



Source: OECD (2020), Global Outlook on Financing for Sustainable Development 2021: A New Way to Invest for People and Planet, OECD Publishing, Paris. P.19.

Total tax revenues, 2020

Total revenue from social contributions, direct and indirect taxes given as share of GDP.



Source: ICTD/UNU-WIDER Government Revenue Dataset, August 2021

OurWorldInData.org/taxation/ • CC BY

- Improve taxation capacity
- Harness sustainable streams of natural resource revenue
- Improve expenditure efficiency
- Curb illicit financial flows

Generate more domestic revenue



- Developing countries need to take lead in mobilizing the financing necessary for their development
 - DRM remains a challenge for many governments, particularly in low-income countries
 - Broadening the tax base, improving tax administration, and closing loopholes can make a significant difference in low-income countries
- Addis Tax Initiative, OECD DAC creditor reporting system (CRS) code 'DRM (15114, pilot in 2014)'

<https://www.addistaxinitiative.net/map>

Consequences of illicit financial flows

- Secrecy jurisdictions/tax havens, illicit financial flows/capital flight and challenges of inequality in the world (Shaxson 2010)
 - More than 50% of world trade through tax havens
 - 50% of all banking assets held in offshore accounts
 - More than 30% of all FDI through offshore accounts
 - Balance sheet of small island countries > \$18 trillion or about 1/3 of world GDP
 - IFF from the developing countries exceeds net legal capital inflow and many times ODA
- Lost financing for development, through profitable private and public investments
- Low savings and investment rates and high rates of resource extraction → capital outflows increasing (GFI 2014)
- Net effect of IFF on growth and poverty has been estimated to be of such magnitude that MDG1 could have been achieved for Sub-Saharan Africa as a whole (Nkurunziza 2014)

To understand the measurement of ODA

- **What is ODA?** ODA flows to the DAC List of ODA recipients
 - Official : Provided by official agencies, including state and local governments, or by their executive agencies
 - Development : administered with the promotion of the economic development and welfare of developing countries as its main objective
 - Assistance : concessional in character, provided in the form of grants or soft loans
- **What is NOT ODA?**
 - Primarily commercial objectives; Military aid and promotion of donor's security interests; Promotion of language or culture of the provider country; Religious objectives
 - Not sufficient for an activity to have a positive impact on development to qualify as ODA, it needs to have development as its primary objective

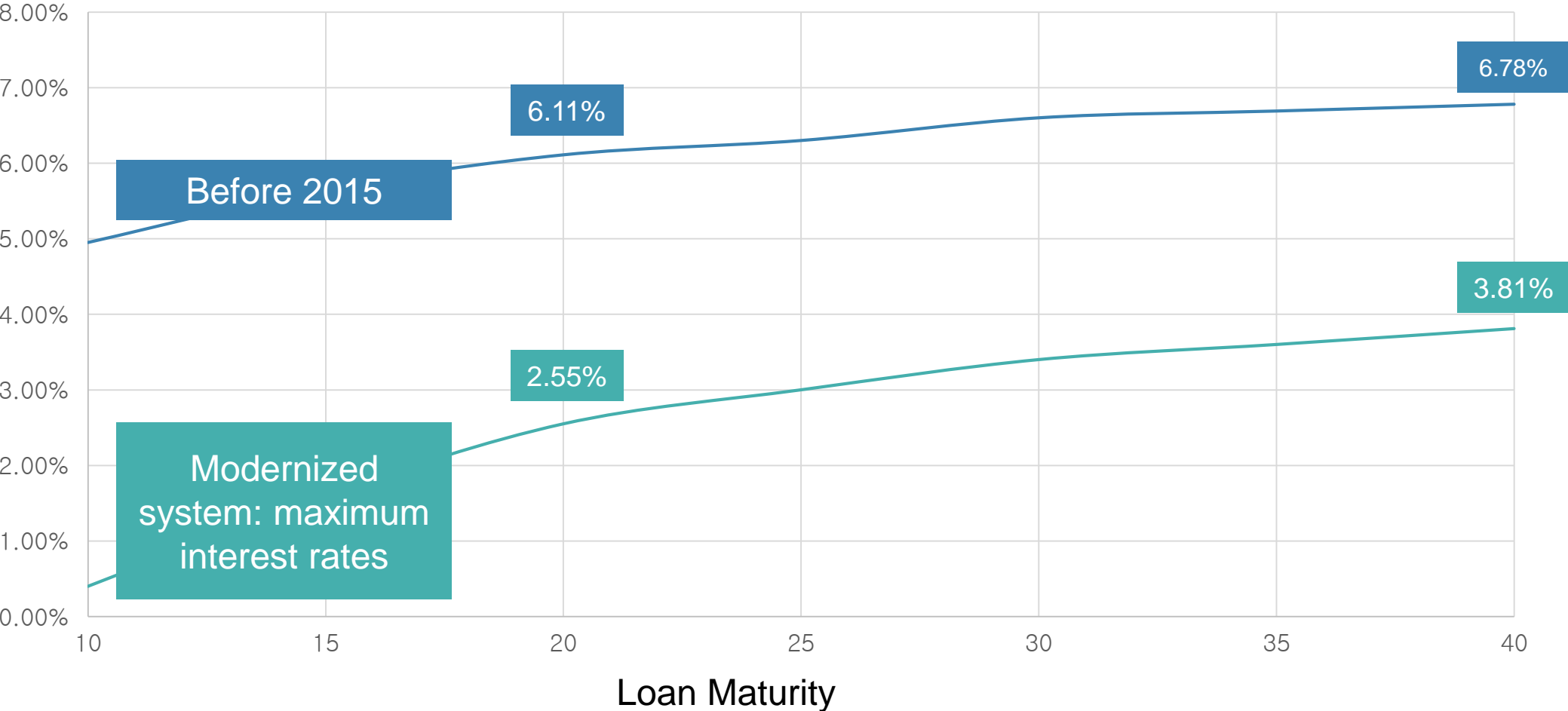
Modernizing ODA measure

- From historical decision to modernize the OECD DAC framework
- Main issue: concessionality and reporting on loans in ODA
 - New measurement system where only the grant equivalent of ODA loans (differentiation of discount rates and thresholds by income group)
 - Allows better comparison between loans and grants
 - A clear, quantifiable measure of concessionality, that is tighter than what existed before.
 - Ensures access to ODA loans on better terms and conditions than ever before as it incentivizes concessionality
 - Safeguards established to ensure ODA debt sustainability.

ODA loans: before and after

	Before Full Face Value	After Only the grant equivalent of a loan
Grant elements Thresholds	<ul style="list-style-type: none"> - 25% 	<ul style="list-style-type: none"> - 45% for LDCs and other LICs - 15% for LMICs - 10% for UMICs
Discount rates	<ul style="list-style-type: none"> - 10% - Used for assessing the concessionality of a loan 	<ul style="list-style-type: none"> - 5% base + adjustment factors of <ul style="list-style-type: none"> * 4% for LDCs and other LICs * 2% for LMICs * 1% for UMICs - Used for both assessing the concessionality of a loan and for calculating its ODA grant equivalent or the concessional portion of the loan
Measurement System	<ul style="list-style-type: none"> - (+) ODA when disbursed - (-) ODA when repaid 	<ul style="list-style-type: none"> - Grant equivalent of loan disbursements (grant element multiplied by amount disbursed) - Repayment of past loans is not subtracted from ODA but will continue to be collected and published

Better incentive system for ODA loans to LDCs and other LICs



Total Official Support for Sustainable Development (TOSSD)

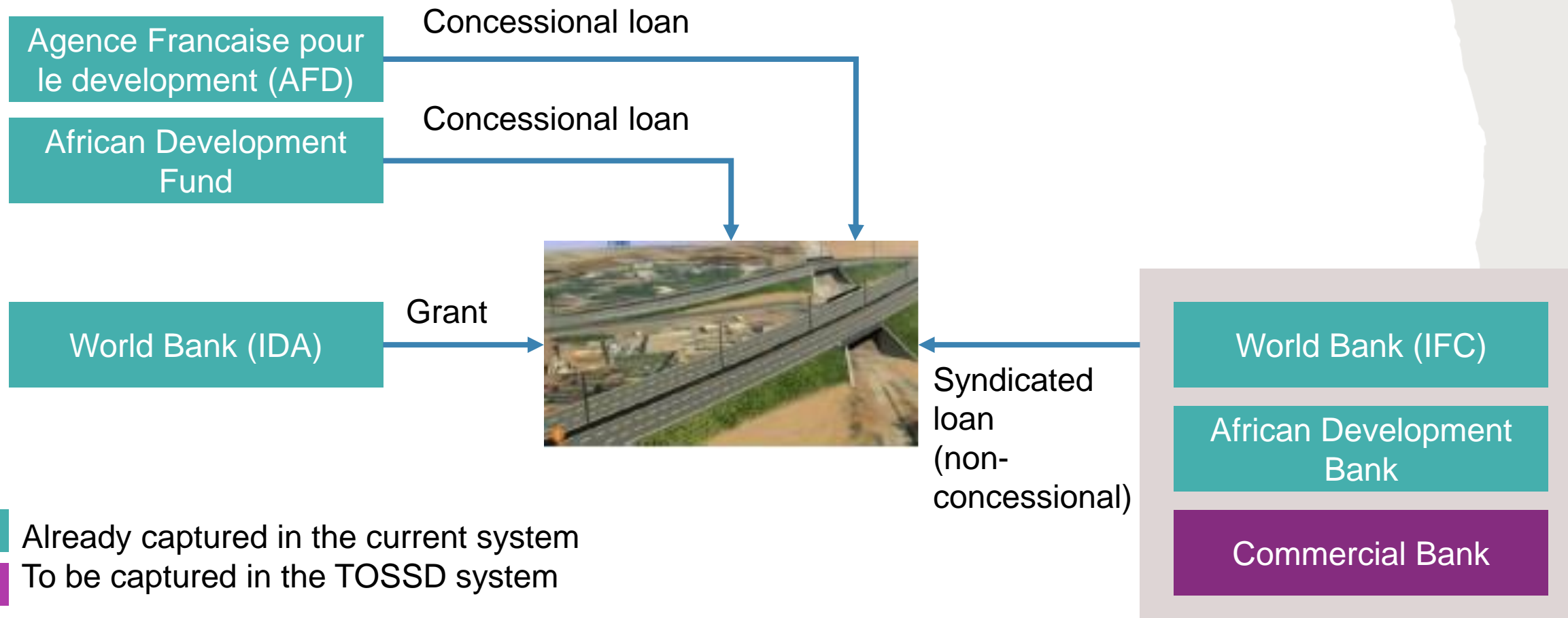
- A new comprehensive statistical measure that captures the diversity of resource flows in support of sustainable development
 - Complements – **and does not replace** – ODA and will include concessional and non-concessional financing and capture all financial instruments
 - Cover activities that promote sustainable development, including contributions to GPG
 - Capture international public finance and public schemes for mobilizing private investments
 - Relevant for any provider of development finance, including private actors that take part in blended investment schemes

ODA and TOSSD

	TOSSD	ODA
Objective of the measure	Measuring resources in support of sustainable development	Measuring donor efforts
Key eligibility criterion of the measure	Sustainable development	Economic development and welfare of developing countries
Main focus	Recipient	Provider
Scope of flows covered	Officially supported flows; official flows and private finance mobilized through official interventions	Official flows
	Concessional and non-concessional	Concessional
Measurement	Cash flow	Grant equivalent
Target countries	DAC List of ODA Recipients and other countries on an opt-in basis	DAC List of ODA Recipients

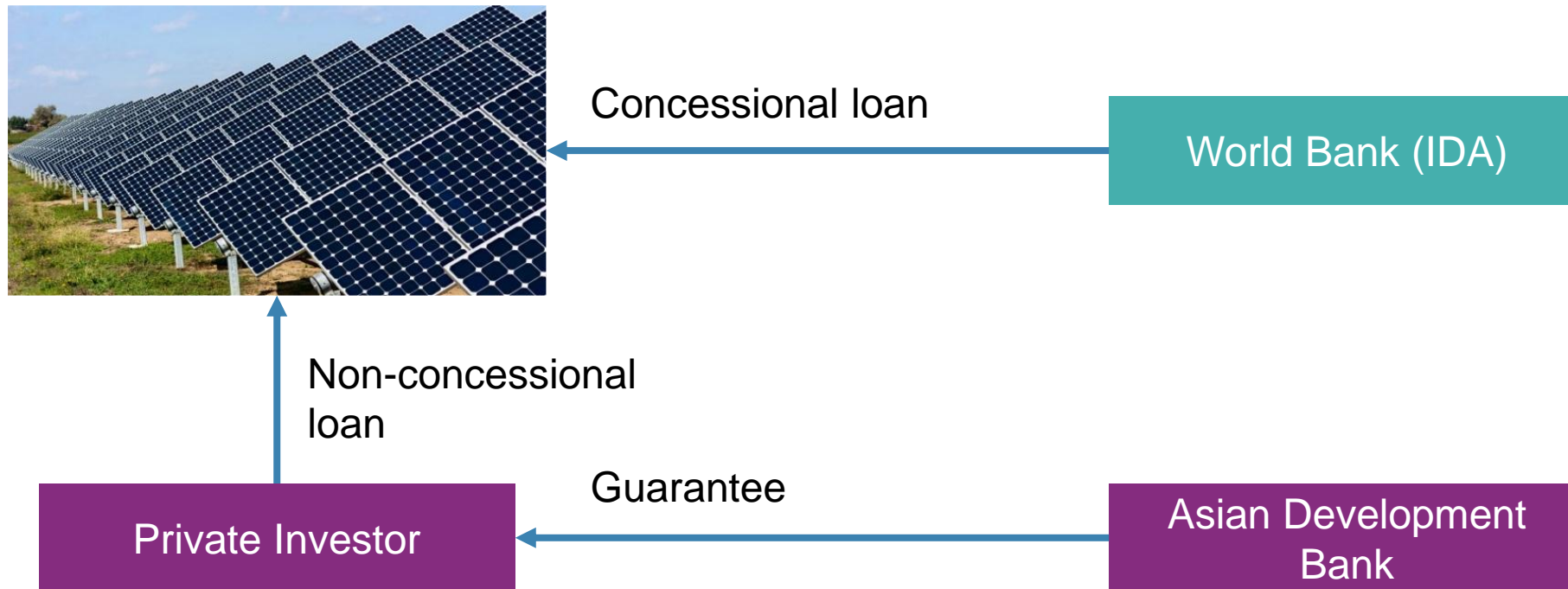
In the new TOSSD framework



Ex1. Highway project (Blended Finance)



In the new TOSSD framework

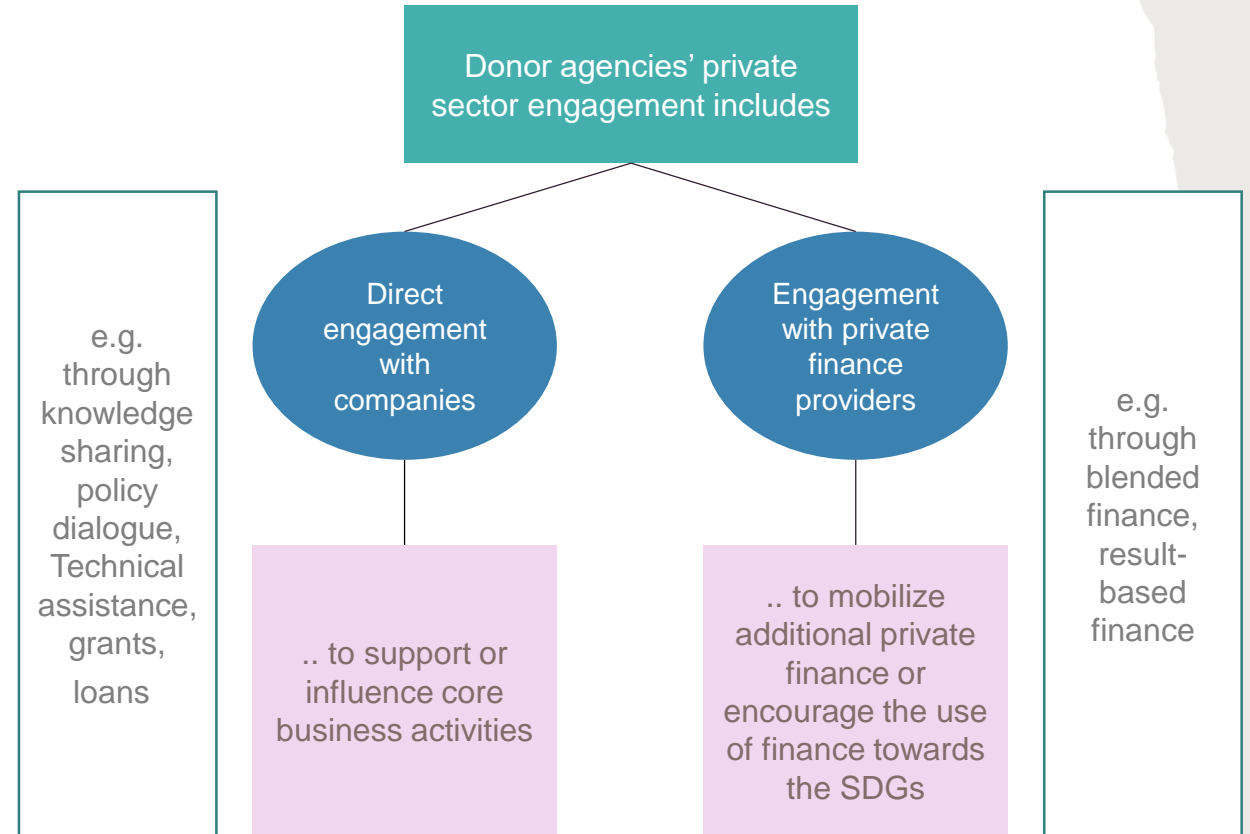
Ex2. Solar panel project (Blended Finance)



-  Already captured in the current system
-  To be captured in the TOSSD system

Private Sector Engagement (PSE)

- PSE refers to the interest of donors and others to work more strategically and systematically with business to meet the development goals
 - An activity that aims to engage the private sector for development results and involves active participation of the private sector (OECD 2016)



Source: Donor Committee for Enterprise Development (2022) Synthesis note p. 2

Engagement with private investors and finance providers



Blended Finance

Catalytic approaches used by development actors to mobilize additional private finance for development purposes using a wide range of instruments



Impact Investment

The practice of private investors of deploying private capital towards development outcomes, while (according to most definitions) generating a financial return



Result-based Finance

A set of instruments used by development actors to mobilize pre-financing for SDG-relevant projects by agreeing to repay or financially reward (impact) investors or implementers upon achievement of results

Engagement with companies' core business



Co-creation of innovative business ventures

Joint development (and potentially piloting) of new business ventures with SDG impact by donors, companies and possibly other partners



Challenge funds

Competitive mechanisms that invite business proposals and offer cost-sharing and/or technical assistance to innovative projects in developing countries

Supporting the development and/ or piloting of new SDG-oriented business ventures

CSV, Social business, BoP Businesses philanthropy



Sectoral Partnership

Partnerships with combined donor and private funding and an agreement of all funding and implementing partners on the sharing of tasks towards a common goal



Multi-stakeholder platforms

Dialogue processes with a knowledge-sharing or standard-setting purpose involving multi-stakeholder members, supporters and funders

Promoting more responsible and sustainable business conduct or sectoral supply chains

CSR, ESG Responsible businesses

Market System Development (MSD)

Case: Making Markets Work for the Poor (M4P)

- MSD Intro

<https://youtu.be/3sEOtVhsqX0>

- Case: M4P

<https://www.youtube.com/watch?v=kFYriacVFfs>

Remittance

- G8 Summit in 2003 identified migrant worker remittances as a major potential source of development finance
- Remittances constitute the 2nd largest capital flow to many developing and transition countries
- Almost 10% of the world's population are sending or receiving remittances
- SDG 10.c By 2030, reduce to less than 3% the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5%

Cost and Benefits of Remittance

- Linked to issues in labor migration: large outflows of economically active population may cause severe labor shortage in essential sectors
- Negative social impacts: reducing incentive to find jobs and work effort, increase the risk adversity of potential investors
- Relatively stable transfers from rich to developing countries over time (compared to FDI flows)
- No obligation to repayment and entailment to debt (due to largely intra-family transfers)
- Often flow to the poorest and most vulnerable households

Policy options to mobilize remittance

- Labor migration and remittance transfer yield net benefits for ‘exporting’ countries
- Three main options
 - Lowering transaction costs of international transfers
by global pact, agreement?
 - Lowering transactions costs and increasing the outreach of local transfers
by Fintech?
 - Channeling remittance income into local investment projects
by financial inclusion?

After all discussions...

- ODA = tiny little piece of the external financial inflows
 - what happened to 0.7% of ODA/GNI?
- Diversifying financing mechanisms does not mean the increase of the total amount of development finance.
 - Can blended finance fill the gap?
 - Can we monitor other financial resources in DC context?
 - PSE in LDCs? Blended financing to the most needed?
- Where are we heading to? And where should we head to?

END OF PRESENTATION