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Financing the UN Development System

Opening Doors

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Executive summary

Three years have passed since the adoption of the 2030 Agenda for Sustainable Development and financing has become a key element in the discussion on how to achieve its goals. The importance of financing was already clear at the time of the Addis Ababa Action Agenda, but there is now perhaps a better understanding of what is at stake.

At the beginning of this report, we refer to the appearance of simplicity of the United Nations development system (UNDS) financing model: the UNDS receives grants which are spent on the purposes identified and agreed. The process and the measurement of the results used to be relatively straightforward. However, the financing of the 2030 Agenda requires a radical transformation of both process and measurement. The UNDS by and large remains in the grant business, but the context requires grant resources to impact other much larger financial flows. A critical indicator is not what disbursing grants achieve on their own but how these grant resources can have an impact that goes to scale. Measuring this impact raises complex issues. Today's world of grant financing is much more challenging than one dominated by a disbursement culture. It is the impact of our grant disbursements on others' spending patterns that is critical today. The positioning of Official Development Assistance (ODA) in the architecture of international financial flows requires new ways of thinking and measuring.

The need for new thinking and radical reform is reflected in the important dialogue that has been led by UN Member States and the Secretary-General on the repositioning of the UNDS. The adoption of the repositioning of the UNDS resolution[1] will undoubtedly have a significant impact on the relevance and effectiveness of the system as a whole. While it is premature to draw any assessments of the full impact of the reforms, the box on 'UN reform and the financing of the UNDS' at the end of Part One, Chapter Three provides a summary of the financing-related provisions of the reform proposals.

Scope of the report

The new reality we face provides the background to this fourth edition of *Financing the UN Development System*.

As in previous years, the report is divided into two parts. The first part relates to updating the data on the financing of the UNDS. This Part One consists of three chapters: revenue; expenditures; and a deep dive into challenges relating to the consistency and accuracy of UN financial data. Part Two explores different dimensions of the rapidly changing universe of development finance against the backdrop of the 2030 Agenda with guest contributions from outside and inside the UN system. With these contributions, organised into four chapters, the report seeks to stimulate fresh thinking around financing reform in the UN.

Key findings Part One: Overview of United Nations resource flows

Chapter One: Revenue

The first chapter of Part One provides different perspectives on revenue sources. The UN system total revenue for 2016 was just under US$ 50 billion. This represents an increase of over US$ 1 billion compared to the year before and of US$ 7 billion compared to 2012. Table 2 provides an overview of total revenue by UN entity and financing instrument.

Supplementary tables in the report provide more detailed information on trends with respect to assessed as well as earmarked contributions. Growth in earmarked funding continues to outpace that in core funding. In 2016, more than half of the total revenue was earmarked contributions (54%), while the more flexible assessed and voluntary core contributions represented 28% and 10% respectively. The character of the functions performed by different entities goes a long way to explaining the balance in type of financing that characterises their revenue source. For example, UN standard setting entities, such as the World Meteorological Organization (WMO), that perform highly specialised and demarked functions are greatly dependent on assessed contributions. Meanwhile, the largest UN operational entities: the United Nations Development Programme (UNDP), United Nations High Commissioner for Refugees

Total revenue of the UN system by entity and by financing instrument, 2016 (in million US$)
(Table 2 from Part One, Chapter One):

Entity	Assessed	Voluntary core	Earmarked	Other revenue/ fees	Total 2016
UN Secretariat	2,549	0	2,063	535	5,147
DPKO	8,282	0	392	52	8,726
FAO	487	0	770	39	1,296
IAEA	371	0	252	9	632
ICAO	78	0	101	19	198
IFAD	0	418	109	0	527
ILO	399	0	252	19	670
IMO	37	0	5	17	59
IOM	46	3	1,462	105	1,616
ITC	37	9	18	3	67
ITU	120	0	5	47	172
PAHO	102	0	600	683	1,385
UNAIDS	0	178	44	7	229
UNDP	0	664	4,122	317	5,103
UN Environment	190	0	499	32	721
UNESCO	323	0	246	46	615
UNFPA	0	353	486	57	895
UN-Habitat	14	2	208	2	227
UNHCR	37	714	3,208	15	3,974
UNICEF	0	1,186	3,571	126	4,884
UNIDO	71	0	228	5	305
UNITAR	0	0	23	0	24
UNODC	30	4	297	11	342
UNOPS	0	0	0	790	790
UNRWA	0	609	601	65	1,275
UNU	0	0	50	17	66
UN Women	8	140	180	7	335
UNWTO	14	0	5	4	24
UPU	35	0	20	24	79
WFP	0	663	5,108	138	5,909
WHO	468	113	1,726	57	2,364
WIPO	17	0	10	351	378
WMO	67	4	5	5	80
WTO	191	0	19	11	222
Total	13,972	5,061	26,684	3,616	49,333

Source: see page 25

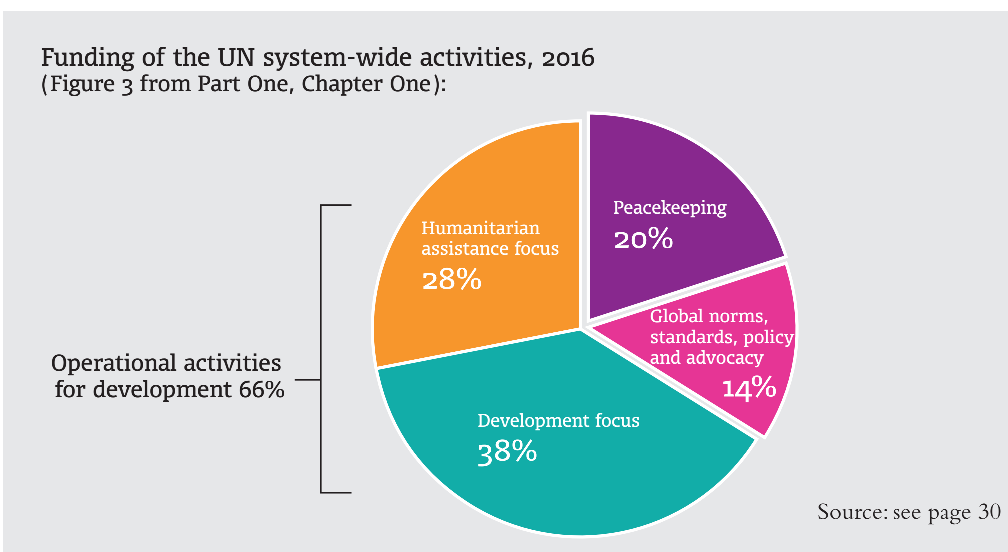
(UNHCR), United Nations Children's Fund(UNICEF), World Food Programme (WFP) and World Health Organization (WHO) are highly dependent on earmarked funding with each receiving between 73 and 86% of their total revenue through earmarked contributions in 2016. It is also the case that the growth in humanitarian financing flows has outpaced development financing flows, which is again linked to the strong performance of earmarked funding.

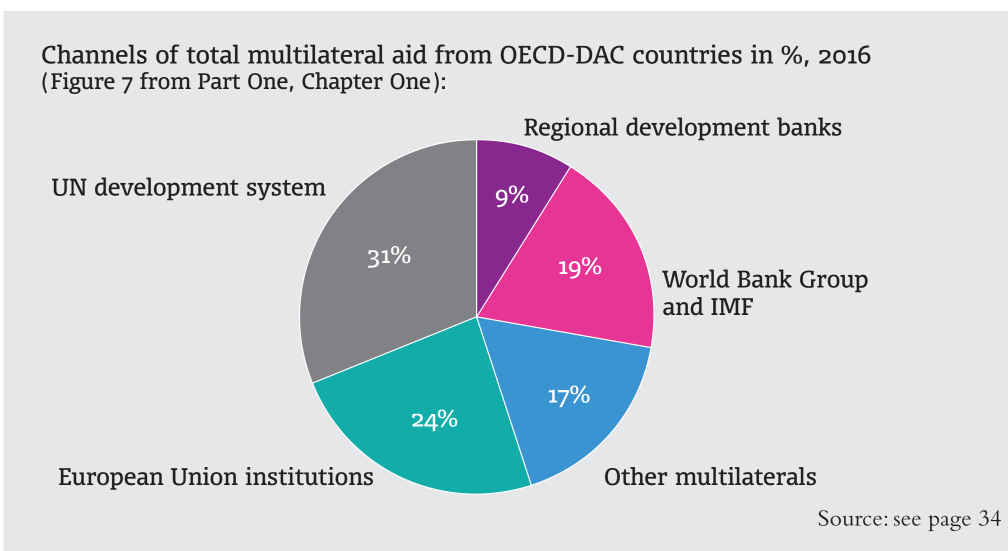
If we then look at the funding of the UN system by function (Figure 3), we see that operational activities for development (OAD) represent 66%, while 14% is allocated to global norms, standards, policy and advocacy.

The background to why data relating to operational activities has been given priority attention is most likely related to the link between operational activities and the definition of Official Development Assistance (ODA). The definition of ODA has by and large excluded global normative and standard setting activities. It is clear that the 2030 Agenda cannot afford to make the measurement of norms a second-class business, indeed, quite the contrary. This deficiency has spawned the development of a new concept – Total Official Support for Sustainable Development (TOSSD). This is intended to capture the totality of financial flows supporting the 2030 Agenda and to go beyond the definition encompassed by ODA. A box clarifying this concept has been included in the report, provided by the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD-DAC) secretariat.

If we examine the funding position of the UNDS among the main multilateral actors, we see it retains a significant presence within the multilateral community, accounting for 31% of total multilateral aid (Figure 7). However, what is also made clear in the report is that the UNDS is the only one of the major players whose resource base is dominated by earmarked resources.

Another interesting presentation is Figure 10 which provides data on the sources of Official Development Assistance within the 12 largest OECD-DAC donors

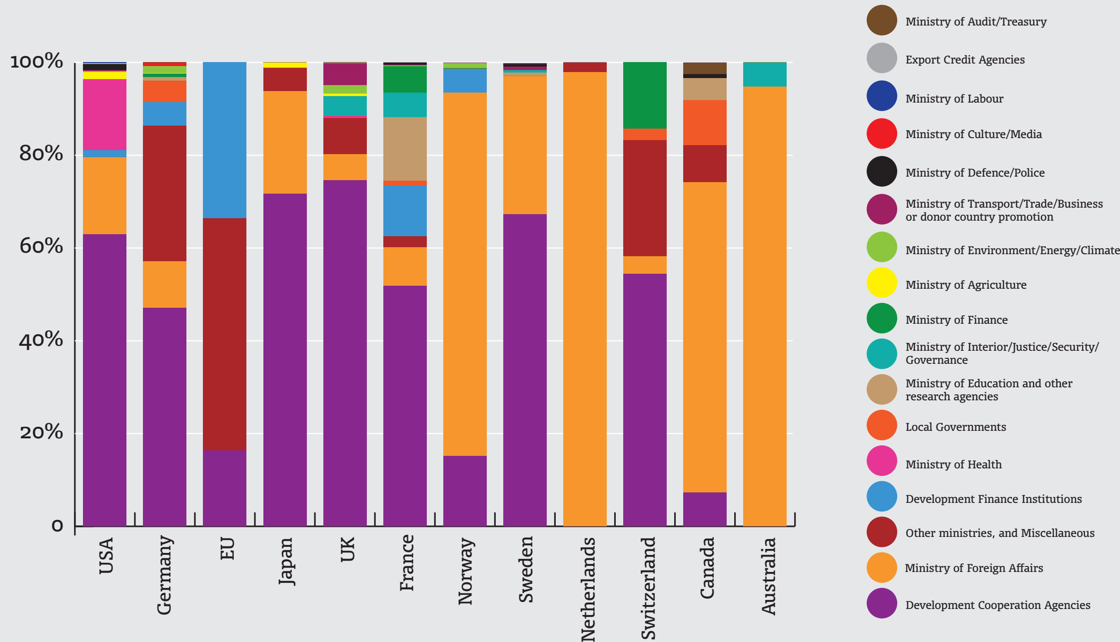




to the UN. This table is based on data provided by OECD-DAC and will likely grow in importance as the ‘whole of government approach’ embraced by the 2030 Agenda places more burden sharing on governments. Global public goods (GPG) increasingly can not only be seen as in the domain of foreign affairs ministries. Within governments the responsibility for reaching the Sustainable Development Goals (SDGs) targets will involve more ministries.

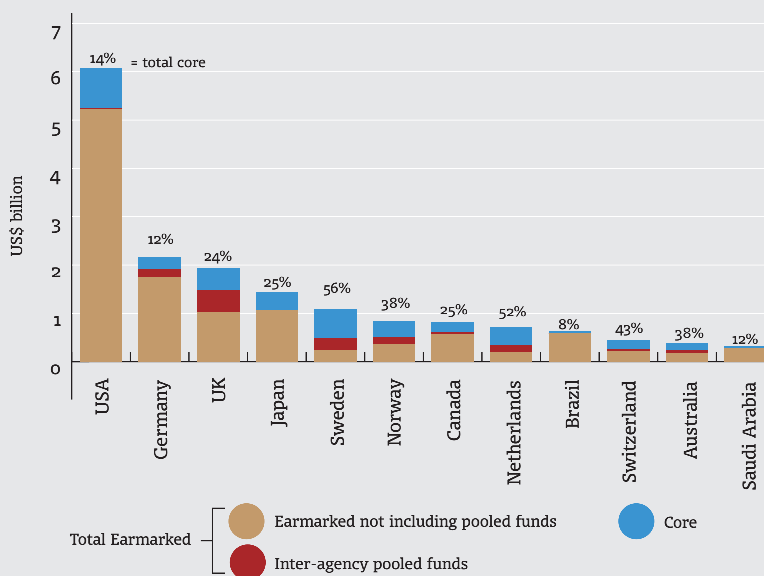
Finally, figure 11 focuses attention on core, pooled and earmarked contributions of the top 12 countries to UN operational activities in 2016. It shows the different funding mixes adopted by different donors. It points to the need for entity-level approaches, within the UN system, to devise successful resource mobilisation strategies.

Sources of ODA within 12 largest OECD-DAC countries as proportion of total, 2016
(Figure 10 from Part One, Chapter One):



Source: see page 36

Core, pooled funds and other earmarked contributions of top 12 countries to UN operational activities, 2016 (Figure 11 from Part One, Chapter One):



Source: see page 37

Chapter Two: Expenditure

The second chapter of Part One provides an overview of UN expenditures. In particular, it provides historical data by entity, as well as expenditures by region and by income status. It shows that among UN entities the growth in overall expenditures over the past 11 years has been heavily concentrated within the UN Secretariat that is, for example, hosting the UNOCHA, and the main UN humanitarian entities such as the IOM, WFP, UNHCR, UNRWA and UNICEF (for full names see page 136). Meanwhile, in 2016 Africa continued to be the region with the proportionally highest UN expenditures (34%), followed by Western Asia (22%), Asia and the Pacific (13%), Latin America (10%) and Europe (3%).

With regards to UN expenditure by income status, we see highest expenditures in low-income countries, while the largest increase, on average US$ 25 million per country, was in lower middle-income countries, compared to the previous year. UN spending in upper middle-income countries has instead dropped slightly.

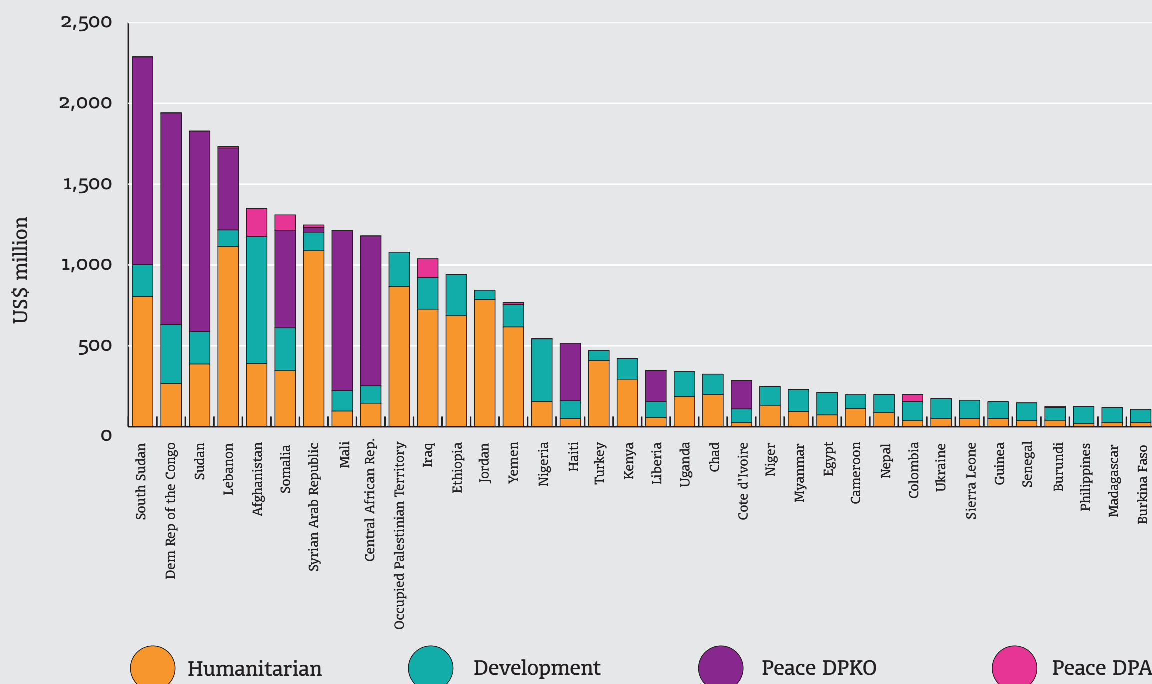
Figure 19 provides an interesting comparison between expenditures on development, humanitarian and peace- and security-related operations in 36 crisis-affected countries. Concentrating on the first ten countries, which represent close to 60% of the total expenditure, only 16% goes towards development activities, compared to 37% towards humanitarian and 47% towards peace- and security-related activities.

Chapter Three: Exploring data quality

The third chapter of Part One provides a deep dive into the world of data. The new finance architecture requires a far stronger level of commitment to fact-based policy-making. In the words of the famous physician and public-educator Hans Rosling, we must fully embrace a new culture of 'factfulness'[3]. Factfulness could be interpreted as the guiding spirit of the Paris Climate Declaration with its emphasis on self-reporting, and is equally the lode star of this report. The commitment to flood the first half of the report with data is a conscious effort to make policymakers more aware of the basic numbers. This report, as it has done in previous editions, points to the inconsistencies in the data being used, which has an important impact on policy-making. There is notably a serious credibility gap in reporting on normative activities, a centrepiece of the 2030 Agenda.

Each chapter of Part Two of the report also raises data related issues. Chapter One addresses the issue of estimating the current allocation of global finance to the Sustainable Development Goals. Chapter Two raises issues, among many others, of how to calculate China's development finance. The voice of civil society in promoting transparency and accountability is also raised in a

Expenditure by country on UN operational and peace- and security-related activities, 2016
(Figure 19 from Part One, Chapter Two):



Source: see page 44

number of papers. Estimating the net impact of different instruments such as blended finance is a constant theme of Chapter Three. Chapter Four, finally, includes a number of data challenges directly relevant to the UN. In short, factfulness represents a core dimension of financing for the 2030 Agenda.

Key findings Part Two: Financing flows impacting the Sustainable Development Goals

The second part of the report explores different dimensions of the rapidly changing universe of development finance against the backdrop of the 2030 Agenda. Contributions have been organised into four chapters.

Chapter One: Big picture

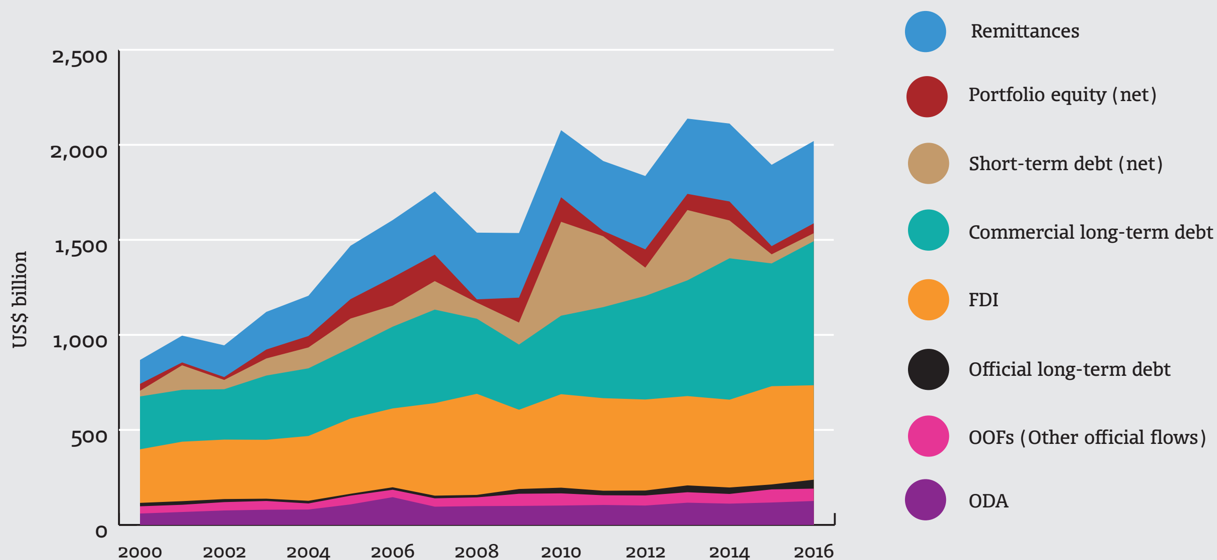
Graphs provided by Development Initiatives give an overview of total international financial flows to developing countries. A global snapshot is provided in Figure 1 below, with disaggregated graphs provided in the full report. While commercial long-term debt and Foreign Direct Investment (FDI) are dominant overall for 'developing countries', ODA remains a major source for the Least Developed Countries (LDCs) as well as fragile states. Homi Kharas focuses on the challenge of identifying the volume and types of finance that could be reasonably ascribed to supporting the SDGs. The figure on the following page shows, under a broad classification, where international development contributions totalling US$ 576 billion (cross-border flows to emerging market and developing economies) stem from. Kharas argues that five key issues will define the direction of development finance over the next decade.

Meanwhile, Canadian Ambassador to the UN, Marc-André Blanchard, maintains that private capital, particularly institutional capital, is the one source both large enough and with the potential to reach the scale of financing required by the 2030 Agenda. To this end, in 2016, he launched the Group of Friends of SDG financing in New York where he seeks to contribute to a broader paradigm shift where sustainability considerations are brought to the centre of how the private sector operates. Finally, Johannes F. Linn outlines recent experience with multilateral resource mobilisation and points to some of the key challenges ahead.

Chapter Two: Broadening perspectives

This chapter gives voice to a number of actors that undoubtedly have significant roles to play in the emerging financial architecture. David Dollar and Sachin Chaturvedi provide overviews, respectively, of China's and India's expanding development cooperation. In particular China has already become a major source of development finance for the developing world, currently providing for example one third of the external

Resource inflows for all developing countries, 2000-2016
(Figure 1 from Part Two, Chapter One, from Development Initiatives):



Source: see page 55

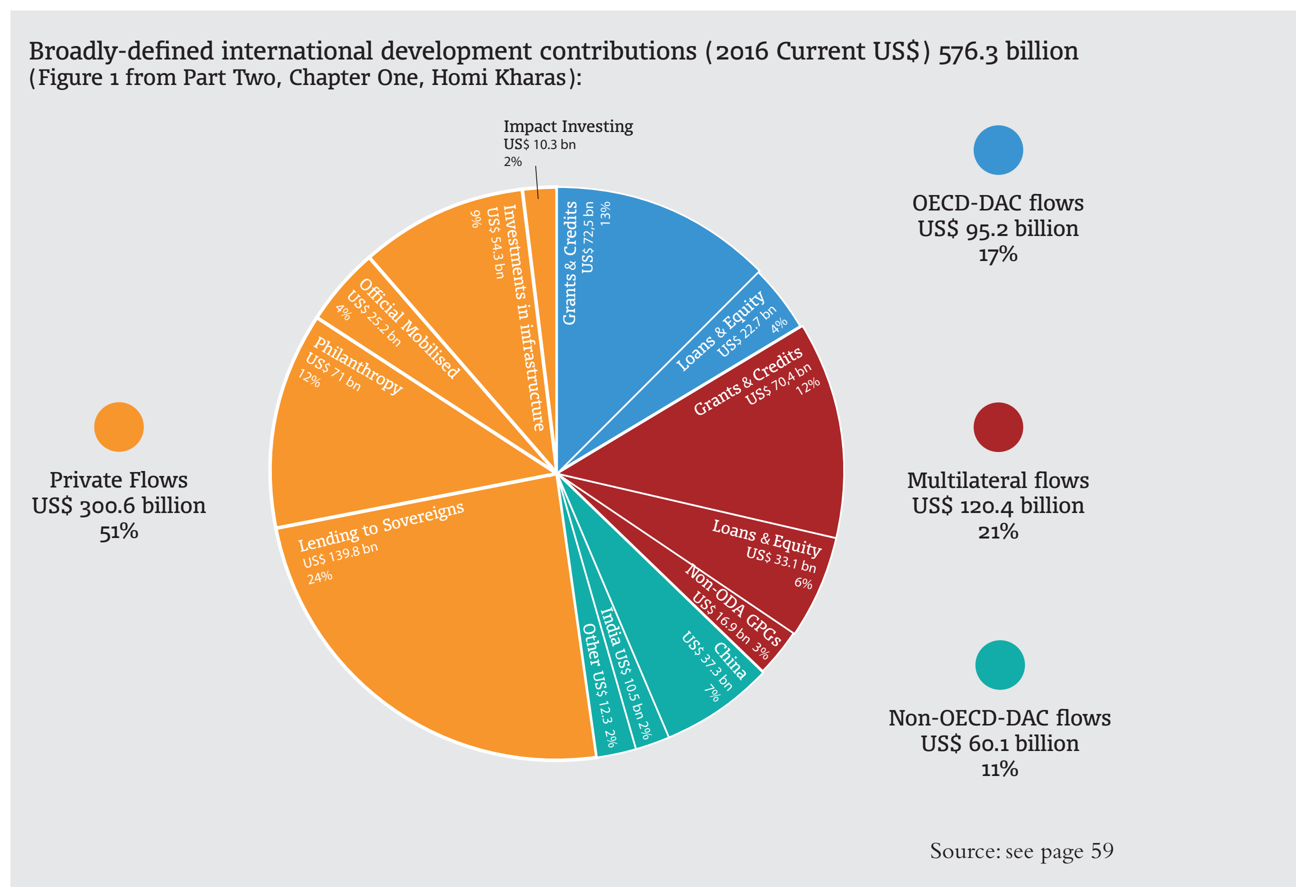
financing for infrastructure in Africa. Debapriya Bhattacharya provides important insights from a southern perspective and observes a serious mismatch between the global discourse on financing for development and the realities on the ground, as well as a serious lack of political energy. Lindsay Coates identifies two specific areas receiving increased attention from civil society: the need for greater domestic resource mobilisation to support equitable and inclusive development, and the need to lead on innovative financing for development. Meanwhile, Jorge Chediek underlines the importance of South-South cooperation and reports on the preparation underway for the high-level UN conference on South-South cooperation to take place in March 2019.

Chapter Three: Game changers

There are a number of important instruments, 'game changers' if you will, that will be essential if we are to attain the vision of the 2030 Agenda. Pedro Conceição contends that development cooperation has been too focused on the transfer of financial resources and that it is only by leveraging science and technology that there will be any chance of engaging in the transformative changes that are required. He makes the case for a deeper and more systematic engagement between policy makers and scientific communities around the world. Heike Reichelt and Colleen Keenan tackle the challenge of building sustainable capital markets. Green bond issuance nearly doubled from US$ 90 billion in 2016 to US$ 160 billion a year later, and they underscore that the market for labelled green, social and sustainable bonds needs to grow and play a vital role in building sustainable capital markets. Simon Zadek shares the experience of the UN Environment's Inquiry initiative which has made a significant contribution to a better understanding of the underlying workings of the global financial system if the trillions of dollars needed are to be unlocked. Careen Abb's paper on UN Environment's finance initiative and positive impact finance builds on last year's paper and makes the case for positive impact ecosystems. Finally, Jeremy Oppenheim and Katherine Stodulka's paper focuses on one of the most discussed financing instruments: blended finance. They recommend using the broader framing of mobilisation of private capital for the SDGs as the ultimate end, to better address barriers across the entire investment system which hinder the flow of investment to the SDGs.

The transformation required by the 2030 Agenda needs almost a new language to capture what is at stake. Leveraging (which we explored in last year's report), blended finance, sustainable capital markets, positive impact ecosystems – these are just some of the constructs that are evolving to describe a new type of financial architecture. It is of utmost urgency that those involved in the disbursement of grants understand and embrace the instruments

Broadly-defined international development contributions (2016 Current US$) 576.3 billion
(Figure 1 from Part Two, Chapter One, Homi Kharas):



Source: see page 59

that are being developed to finance the 2030 Agenda. This is the spirit that underlies the papers in this chapter.

Chapter Four:
Innovations in multilateral instruments for the 2030 Agenda
Significant innovations in multilateral financial instruments are required for the 2030 Agenda to succeed. The need for a strengthened country-level capacity to push forward the innovative finance agenda is particularly important. Yannick Glemarec builds on the recommendation in the Secretary-General's December 2017 report and calls for an innovative financing platform at the UN that could build the knowledge, capacities and resource base of the UNDS for innovative finance. Björn Gillsäter and Veronica Piatkov report on the World Bank Group SDG Partnership Fund, which aims to nimbly support catalytic initiatives at the global or regional level for the achievement of the SDGs through the lens of Goal 17, which is about strengthening the 'Means of Implementation'.

Exploring the role of the UN in financing at country level, Richard Bailey and Lisa Orrenius share the findings of a recent study which captures best practice and identifies key issues that need to be addressed if the UN is to be of support to countries striving to unlock new sources of financing. Establishing tailored financing capacity as well as more flexible regulations are two key issues. John Morris also reflects on the challenges faced by the UNDS in this sphere of innovative finance and recommends that the UN transitions its many strengths into investor opportunities. Magdi M. Amin and Martin C. Spicer showcase early but encouraging results, where the Private Sector Window allows the International Finance Cooperation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) to pursue risk-prohibitive, yet impactful projects that would otherwise not be viable. Complementary to this, Samuel Choritz looks at the challenges and ongoing efforts of making blended finance work in risky contexts from a United Nations Capital Development Fund (UNCDF) perspective. Simon Zadek and Fiona Bayat-Renoux argue that the digitalisation of finance includes the core transition pathways towards sustainable development and looks at the UN's increasingly active role here. Finally, Stephan Klingebiel and Silke Weinlich complete this chapter with reflections on how the 2030 Agenda is impacting on development cooperation, in particular bearing in mind difficult geopolitical conditions.

Footnotes

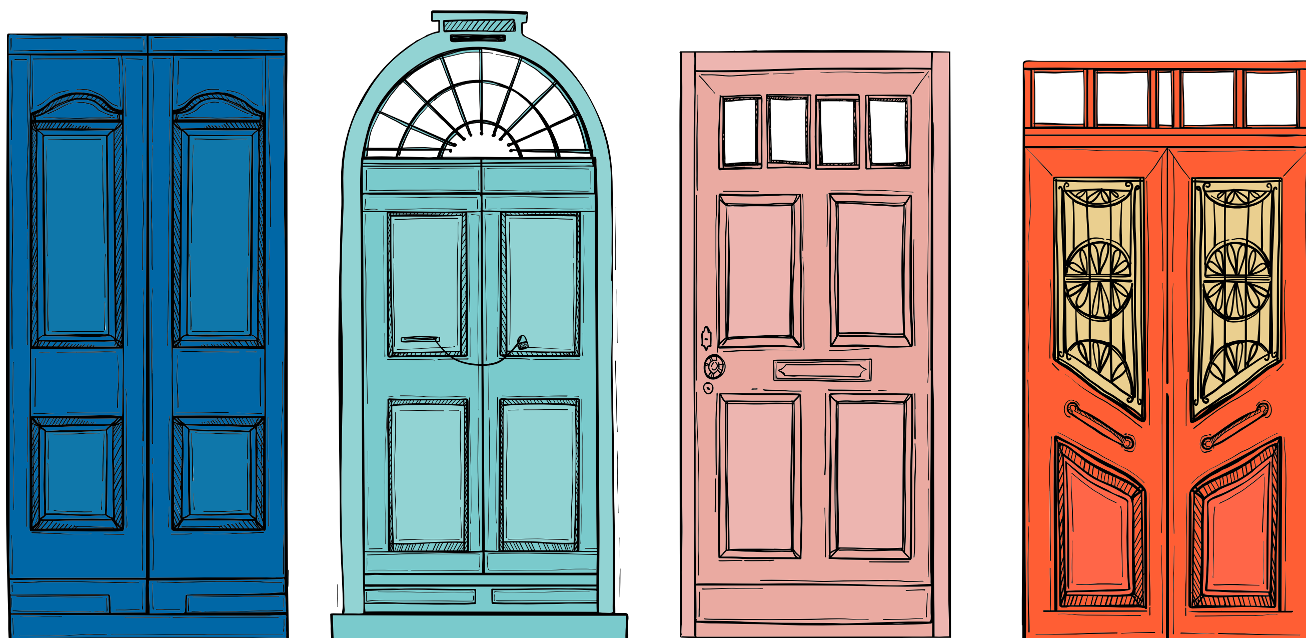
[1] United Nations General Assembly (UNGA), 'Resolution adopted by the General Assembly on 31 May 2018, Repositioning of the United Nations development system in the context of the quadrennial comprehensive policy review of operational activities for development of the United Nations system', (General Assembly Resolution, A/RES/72/279, UNGA, 1 June 2018).
https://undocs.org/A/RES/72/279

[2] Note that the data source of this figure is United Nations Department for Economic and Social Affairs (UNDESA). The numbers are based on UNDESA's definition of the UN entities that are part of the UN system and do not take into account IAEA (International Atomic Energy Agency) and IOM (International Organization for Migration), UNU (United Nations University) and WTO (World Trade Organization). UNOPS (United Nations Operations Office for Project Services) is only partially included. Moreover, the percentages reflect the shares in overall UN 2016 expenditures.

[3] Hans Rosling, Anna Rosling and Ola Rosling, defines factfulness as 'the stress-reducing habit of only carrying opinions for which you have strong supporting facts.' Hans Rosling, Anna Rosling and Ola Rosling, *Factfulness* (New York: Flatiron Books, 2018).

Financing the UN Development System

Opening Doors



Introduction

Opening Doors is the subtitle of this year's report, with both physical and mental doors in mind. It is a hopeful title – and indeed report – aiming to showcase the richness of opportunities that exist for Sustainable Development Goal (SDG) financing if new roads are tested and mindsets opened up.

Three years after the adoption of the 2030 Agenda for Sustainable Development and 12 years to go to deadline, the discussions around implementation are increasingly focusing on financing aspects. The exact numbers on the aggregate annual financing needs for achieving the 17 goals vary depending on calculations but are all in the several of trillions. Whichever trillion number you choose, an obvious realisation is that traditional aid, consisting of mainly Official Development Assistance (ODA), will be far from enough. Currently at around US$ 140 billion annually, ODA is a mere 3 to 4% of the total need.

This does not signal that the era of ODA is over, nor does it diminish its importance. It does, however, reinforce the urgency of putting ODA to smarter use as an instrument of leverage for all sources of finance – public and private, domestic and international – for SDG achievement. Succeeding in this task will require new approaches, partnerships, mechanisms and mindsets, placing new demands on all development actors, and perhaps particularly on the United Nations, which has a long history of operating in a purely grant receiving and giving space. In the current 2030 Agenda era, change is not optional as the SDGs will not be achieved without serious financing reform. Some new doors are being opened, but many more still need to be unlocked.

Fortunately, financing is currently a hot topic in the UN, much discussed and debated, and a cornerstone of the Secretary-General's development reform push. His July 2017 report[1] 'Repositioning the United Nations development system to deliver on the 2030 Agenda: ensuring a better future for all' emphasised that the financing needs for the SDGs call for a comprehensive overhaul of the UN development system's approach to financing. Following the July report, the Secretary-General provided more detailed proposals for realising his vision of a repositioned UN development system in his December 2017 report.[2] This report proposed a funding compact between the UN development system and its member states, around a set of mutual commitments. A General Assembly resolution[3], adopted in May 2018 welcomed a funding compact and the proposal to engage in a funding dialogue in 2018 with the view to finalise a compact. While in rhetoric the appetite for financing reform in the UN appears sizable, in practice it remains to be seen how Member States would agree on the details and priorities of such reform.

If we avert our attention from processes and politics in New York and instead look at what is happening in countries, we can see promising financing activity in every region. In practice, faced with a changed financing context and increased requests from host governments to support efforts to tap into non-ODA financing flows for national SDG achievements, UN country teams are beginning to explore and test innovative approaches and partnerships. This report presents a number of these initiatives in Part Two, Chapter Four. It should however be noted upfront that the UN will need a serious step change – doing more, better and faster – to not risk falling behind.

This is the fourth annual report of *Financing the UN Development System*. This edition maintains the basic structure from previous reports. Part One of the report provides basic UN funding data on revenue and expenditures, which we believe is important to understand for current and future financing reform discussions. As these reports have grown in ambition over the four years of production, so has our attention to the underlying data and current definitions. While there is a wealth of statistics to draw from, there are a number of challenges with data quality, making in-depth analysis at times difficult. Thus, we are this year devoting more space to issues related to UN definitions and data. This new chapter gets into a more granular level of details about definitions and data with the ambition to provide increased clarity on where the challenges lie and what needs to be addressed to ensure better, cleaner data.

In Part Two some 20 prominent guest authors from outside and inside the UN system present their thoughts, ideas and initiatives in short, concise essays on a range of issues linked to the overall theme of financing trends impacting the SDGs. Despite some unavoidable overlap of the issues covered in the papers, these have been clustered into four chapters:

1. The big picture
2. Broadening perspectives
3. Game changers
4. Innovations in multilateral instruments for Agenda 2030

The 2030 Agenda requires a deepening of our understanding of the challenges that the financing of the SDGs represent. We believe that Part Two of this report will make a useful contribution to the current, critically important debate. The introductory section to Part Two will provide further insight to this collection of essays, as well as highlight some of the key findings in the papers.

Our overall ambition of this report, which is the result of a collaborative partnership between the Dag Hammarskjöld Foundation and the UN Multi-Partner Trust Fund Office, is to contribute to – and push forward – current and future discussions related to the UN's role in financing development. Armed with the latest statistics and with a broad menu of ideas for change, we hope to do just that.

Footnotes

[1] United Nations Secretary-General, 'Repositioning the United Nations development system to deliver on the 2030 Agenda: ensuring a Better Future for All', (Report of the Secretary-General, A/72/124–E/2018/3, United Nations General Assembly Economic and Social Council, 11 July 2017).

[2] United Nations Secretary-General, 'Repositioning the United Nations development system to deliver on the 2030 Agenda: our promise for dignity, prosperity and peace on a healthy planet', (Report of the Secretary General, A/72/684–E/2018/7, United Nations General Assembly Economic and Social Council, 21 December 2017).

[3] United Nations General Assembly, 'Resolution adopted by the General Assembly on 31 May 2018, Repositioning of the United Nations development system in the context of the quadrennial comprehensive policy review of operational activities for development of the United Nations system', (General Assembly Resolution, A/RES/72/279, UNGA, 1 June 2018).

PART ONE

Overview of United Nations' resource flows

The financing of the United Nations is, on the surface, quite simple. Grant contributions flow into the UN system and a large family of entities use these resources for a wide range of interventions, which again take the form of grants as spending.[1] Underlying this surface, however, is a much more complex reality. An array of UN financing instruments are used to fund UN system activities and these instruments are combined in different ways by individual UN entities to achieve their respective mandates and to support the achievement of the Sustainable Development Goals (SDGs). It is important to unpack and understand a number of financing trends and dynamics, such as overall resource inflows increasing over time, evolving purposes for contributions made and uneven growth of resources in the system with some entities seeing rapid financial growth and others experiencing relative or absolute financial decline.

The first part of this report takes a closer look at the financing picture of the UN and sheds light on the complexity behind the numbers. In short, Part One is divided into three chapters, firstly providing an overview of the resources coming into the UN as revenue (Chapter One), followed by the resources going out of the UN as expenditure (Chapter Two), and lastly, we point to the strengths and weaknesses in the numbers used, aiming to improve our collective understanding of how the UN is financed (Chapter Three).

Revenue

Total revenue of the UN system

The channels through which the UN system generates its revenue and finances its operations can broadly be divided into five different financing instruments:

1. Assessed contributions
2. Voluntary core contributions
3. Negotiated pledges
4. Earmarked contributions
5. Fees

The instruments are defined by the terms of the contributions. Table 1 provides an overview of the five instruments and their characteristics.[2]

Table 1: The spectrum of UN financing instruments

	Assessed contributions	Voluntary core contributions	Negotiated pledges	Earmarked contributions	Fees
Definition	Fixed amounts, calculated based on agreed formula that Member States undertake to pay when signing a treaty	Voluntary untied contributions	Legally binding contribution agreements made by Member States	Voluntary contributions that are designated for a specific purpose	Payments for services
What is the central characteristic of financing	A price of a membership	Voluntary, usually annual contributions (no earmarking)	Member States negotiate and agree on the contribution each will make	Funding is earmarked to theme, country or project	Collection of separate knowledge, management and product fees from both state and non-state actors
How is burden shared?	Price is based on an agreed formula	Contributions are purely voluntary	The amount to be paid is negotiated and legally binding	No institutionalised formula, contributions are purely voluntary	Flat or negotiated fees
How are resources allocated?	Established in recipient's budget	Established in recipient's budget	Established in recipient's budget	Agreed, case-by-case, between contributor and UN recipient	Various
Who takes allocation decision?	UN membership	UN Member States	Recipient UN entity and UN Member States	Specific parties concerned	Various

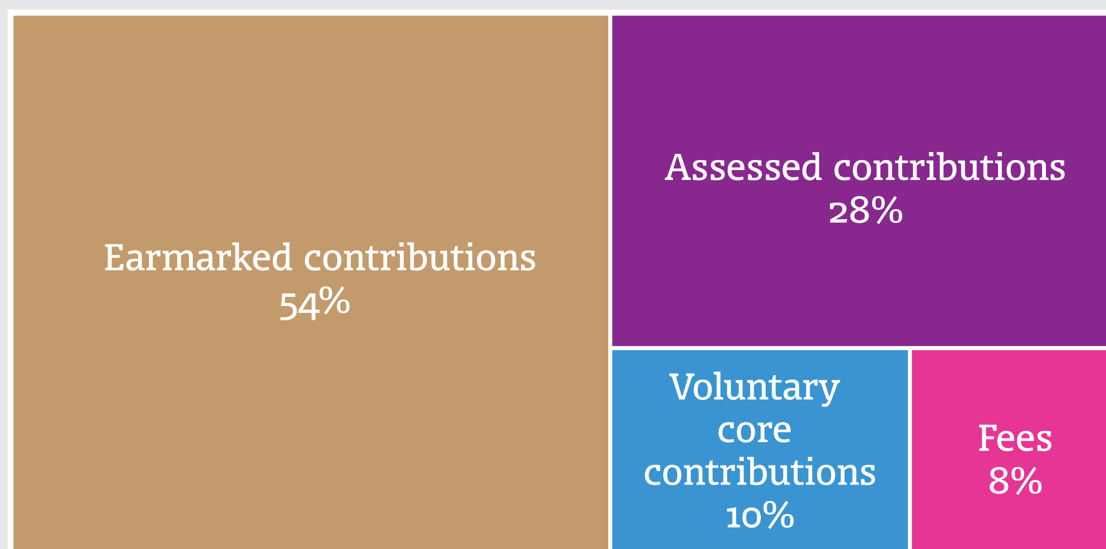
Assessed contributions refer to the payments countries make in order to be a member of the UN or a specific UN entity. For the UN, the General Assembly determines these fixed payments, usually for three years at a time. The assessments are calculated based on an agreed formula, built on the Member States' capacities to pay. *Voluntary core contributions*, sometimes referred to as 'regular resources' or 'voluntary non-specified resources', are fully flexible, non-earmarked funds. *Negotiated pledges* is a financing instrument that is currently not used within the UN development system, but the World Bank's International Development Association (IDA) provides an example of its use. Negotiated pledges are legally binding to those contributors that agree to a particular scale for making the contributions in question. *Earmarked contributions*, also called 'non-core resources' or 'extra budgetary resources', are voluntary in nature but more or less inflexible, tied to a certain use. The earmarking can be for a specific theme, region, country or project. Finally, the UN receives revenue in the form of *fees*, which are linked to the provision of knowledge, management and product services. More details and a further breakdown of the UN's financial instruments are provided in Annex 1 (page139).

Having outlined the characteristics of the UN's different financial instruments, the next question is how much each makes up of the financing pie? Figure 1 shows this by providing an overview of the total revenue of the UN system by financial instrument in 2016, the most recent year for which consolidated UN financial data is available. It shows that earmarked contributions amount to 54% of the total contributions, while the more flexible assessed and voluntary core contributions represent 28% and 10% respectively. Fees and other revenue stand at US$ 3.6 billion, which is equal to 8% of the total revenue and an increase of 1% (and US$ 0.6 billion) compared to 2014.

Table 2 shows a more detailed breakdown of the 2016 total revenue by UN entity and of the mix of financing instruments used by each individual UN entity, with Table 2a giving a preview of the 2017 total revenue figures for six UN entities. Both the World Food Programme (WFP) and the United Nations Children's Fund (UNICEF) in 2017 passed the US$ 6 billion mark in terms of total 2017 revenue, with UNICEF recording the highest percentage increase in overall revenue. Of the six agencies, the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) was the only one that saw a drop in overall revenue.

Overall UN 2016 revenue stands at US$ 49.3 billion, an increase of over US$ 1.3 billion compared to the year before and of US$ 7 billion compared to 2012. This overall number reflects the sum of the total revenue of the individual UN entities; it does not compensate for the estimated US$ 1-2 billion in double counting that occurs when one UN entity becomes a contributor to another UN entity. Over the past five years, the share of core contributions (the combination of assessed and voluntary core) in overall revenue has declined, though absolute amounts have remained fairly constant. At the same time, the growth in overall revenue has been accompanied by an increasing share of the other two financing instruments. Earmarked contributions alone grew from US$ 20.8 billion in 2012, or 49% of total revenue, to US$ 26.7 billion, or 54%, in 2016.

Figure 1: Overview of the total revenue of the UN system by financing instrument in %, 2016



Source: Chief Executives Board (CEB) data, 2016. *For notes - see page 144.*

Table 2: Total revenue of the UN system by entity and by financing instrument, 2016 (in million US$)

Entity	Assessed	Voluntary core	Earmarked	Other revenue/ fees	Total 2016
UN Secretariat	2,549	0	2,063	535	5,147
DPKO	8,282	0	392	52	8,726
FAO	487	0	770	39	1,296
IAEA	371	0	252	9	632
ICAO	78	0	101	19	198
IFAD	0	418	109	0	527
ILO	399	0	252	19	670
IMO	37	0	5	17	59
IOM	46	3	1,462	105	1,616
ITC	37	9	18	3	67
ITU	120	0	5	47	172
PAHO	102	0	600	683	1,385
UNAIDS	0	178	44	7	229
UNDP	0	664	4,122	317	5,103
UN Environment	190	0	499	32	721
UNESCO	323	0	246	46	615
UNFPA	0	353	486	57	895
UN-Habitat	14	2	208	2	227
UNHCR	37	714	3,208	15	3,974
UNICEF	0	1,186	3,571	126	4,884
UNIDO	71	0	228	5	305
UNITAR	0	0	23	0	24
UNODC	30	4	297	11	342
UNOPS	0	0	0	790	790
UNRWA	0	609	601	65	1,275
UNU	0	0	50	17	66
UN Women	8	140	180	7	335
UNWTO	14	0	5	4	24
UPU	35	0	20	24	79
WFP	0	663	5,108	138	5,909
WHO	468	113	1,726	57	2,364
WIPO	17	0	10	351	378
WMO	67	4	5	5	80
WTO	191	0	19	11	222
Total	13,972	5,061	26,684	3,616	49,333

Source: Chief Executives Board (CEB) data, 2016.
For notes - see page 146.

Table 2a: Total revenue of six UN entities, 2017 (US$ million)

Entity	Total revenue 2017	Change compared to 2016 CEB data
UNDP	5,236	3%
UNHCR	4,227	6%
UNICEF	6,577	35%
UNRWA	1,239	-3%
WFP	6,431	9 %
WHO	2,755	17 %

Source: Chief Executives Board (CEB), preliminary data, 2017

Table 3 provides an overview of assessed contributions to the UN system since 1975. The smaller UN standard-setting entities, such as the International Maritime Organization (IMO) and the World Meteorological Organization (WMO), are the most dependent on assessed contributions to finance their highly specialised and demarked functions. The total assessed contributions, including assessed contributions for peacekeeping missions, decreased by close to 4% in nominal terms between 2015 and 2016, with many UN entities being affected. The UN Secretariat and the Department of Peacekeeping Operations (DPKO) saw the largest absolute reductions, US$ 222 million each. Since then, assessed contributions to DPKO have continued to drop: the total contributions decreased to US$ 7.9 billion in 2017, while the approved DPKO budget for the 2017/2018 period stands at US$ 7.3 billion. An important factor explaining this reduction in DPKO's assessed contributions in recent years is the drawdown and closure of the three peacekeeping missions in Cote d'Ivoire (ended in 2016), Haiti (ended in 2017) and Liberia (ended in 2018).

Earmarked contributions to the UN system continue to grow, in nominal terms as well as a percentage of the total UN revenue. Table 4 shows that the total increase was almost US$ 1.3 billion compared to 2015. Further, dependency on earmarked contributions is high among the largest UN operational entities: the United Nations Development Programme (UNDP), the United Nations High Commissioner for Refugees (UNHCR), UNICEF, WFP and the World Health Organization (WHO) each received between 73 and 86% of their total revenue through earmarked contributions. Four other UN entities, the International Organization for Migration (IOM), the United Nations Human Settlements Programme (UN-Habitat), the United Nations Office on Drugs and Crime (UNODC) and the United Nations Institute for Training and Research (UNITAR) had even higher levels of dependency on earmarked contributions, with UNITAR having the highest rate of all UN entities with 96% of its overall revenue derived from earmarked contributions.

Table 3: Assessed contributions to the UN system by entity, 1975-2016 (US$ million)

Entity	1975	1985	1995	2005	2010	2015	2016	% assessed of total revenue 2016
UN Secretariat	268	618	1,135	1,828	2,167	2,771	2,549	50%
DPKO	153	141	3,364	4,394	7,963	8,504	8,282	95%
FAO	54	211	311	377	507	497	487	38%
IAEA	32	95	203	278	392	377	371	59%
ICAO	14	31	49	59	77	68	78	39%
ILO	48	127	233	265	409	401	399	60%
IMO	3	12	27	36	43	45	37	63%
IOM			29	32	38	43	46	3%
ITC				26	35	37	37	55%
ITU	21	53	107	98	135	128	120	70%
PAHO				92	98	106	102	7%
UN Environment			44	62	87	223	190	26%
UNESCO	89	187	224	305	377	341	323	53%
UN-Habitat				9	11	17	14	6%
UNHCR	6	15	25	39	39	49	37	1%
UNIDO		40	123	91	103	78	71	23%
UNODC				21	44	29	30	9%
UN Women						8	8	2%
UNWTO				11	16	15	14	58%
UPU	4	11	28	27	37	36	35	44%
WHO	119	260	408	429	473	467	468	20%
WIPO	2	10	19	13	18	18	17	4%
WMO	9	19	41	48	66	66	67	84%
WTO				128	202	198	191	86%
Total	822	1,830	6,370	8,668	13,337	14,522	13,973	47%

Sources: Chief Executive Board (CEB) data, 2016;
Michael Renner, Peacekeeping Operations Expenditures: 1947-2005;
General Assembly financial report (A/72/5 Vol.II), 2006;
General Assembly financial report (A/72/5 Vol.II), 2011.
For notes - see page 146.

Table 4: Earmarked contributions to the UN system by entity, 2005-2016

Entity	2005	2010	2015	2016	% earmarked of total revenue 2016
UN Secretariat	848	1,361	2,094	2,063	40%
DPKO	23	33	195	392	5%
FAO	364	891	744	770	59%
IAEA	124	202	236	252	40%
ICAO	154	129	93	101	51%
IFAD	39	80	106	109	21%
ILO	179	248	225	252	38%
IMO	14	11	8	5	8%
IOM	962	1,051	1,397	1,462	90%
ITC	32	40	25	18	27%
ITU	16	12	6	5	3%
PAHO	65	741	651	600	43%
UNAIDS	26	34	23	44	19%
UNDP	3,609	4,311	3,726	4,122	81%
UN Environment	79	174	432	499	69%
UNESCO	349	323	351	246	40%
UNFPA	199	357	581	486	54%
UN-Habitat	125	166	156	208	92%
UNHCR	1,089	1,521	2,779	3,208	81%
UNICEF	1,921	2,718	3,836	3,571	73%
UNIDO	157	229	250	228	75%
UNITAR	16	19	24	23	96%
UNODC	124	238	234	297	87%
UNOPS			0	0	0%
UNRWA	528	13	611	601	47%
UNU	20	37	61	50	76%
UN Women			171	180	54%
UNWTO	3	8	3	5	21%
UPU	6		21	20	25%
WFP	2,963	3,845	4,469	5,108	86%
WHO	1,117	1,442	1,857	1,726	73%
WIPO	5	10	10	10	3%
WMO	19	25	5	5	6%
WTO	21	31	21	19	9%
Total	15,196	20,298	25,403	26,685	54%

Source: Chief Executives Board (CEB) data, 2016.

For notes - see page 146.

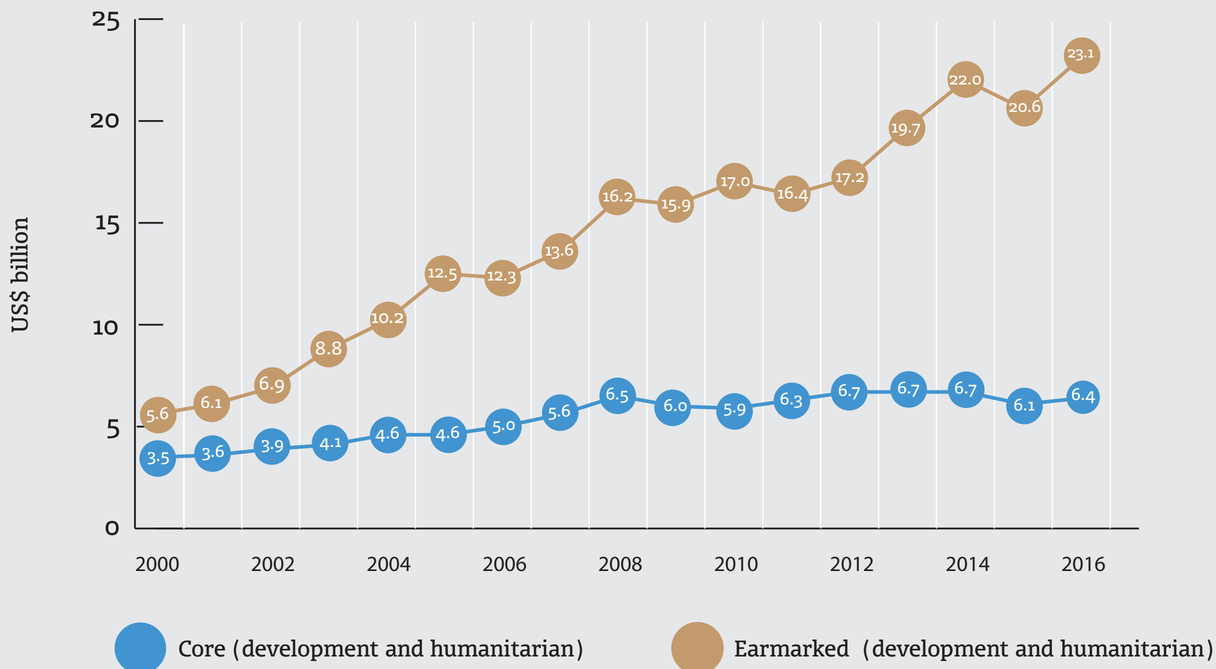
Trends in financing for UN operational activities for development

We have so far focused mainly on the UN system in its entirety and its different financing instruments, using the data sets consolidated by the UN's Chief Executives Board (CEB) which are produced after their annual data collection exercise. We will now narrow our focus and zoom in on the UN's operational activities for development (UN-OAD) and the financing of the UN development system (UNDS). For this we will use the UN Department of Economic and Social Affairs (UNDESA) datasets, which specifically focus on the UN-OAD. The UN-OAD data is further broken down into its two components, humanitarian assistance and development-related activities.[3]

Figure 2 provides an overview of growth in core and earmarked contributions for the UN-OAD since 2000. The 2016 numbers for earmarked contributions are the highest ever and follow a steady upward trend that goes back to the 1990s. Core contributions on the other hand have, for almost a decade, had no growth in nominal terms. In combination, the two trends show the increased difficulty for individual UN entities and their respective governing bodies to set a strategic agenda, based on a funding mix with decreasing fully flexible, unearmarked resources. The shifting balance between core and earmarked resources has given rise to a variety of efforts to improve the quality of non-core funding by favouring less-tightly earmarked resources, such as earmarking at the outcome or thematic level. Thus, the recent Secretary-General's report on repositioning the UNDS[4] includes specific proposals for a doubling of more flexible non-core resources, either those provided at the level of the UN development system as inter-agency pooled funds or at the level of an individual UN entity as entity specific thematic funds.

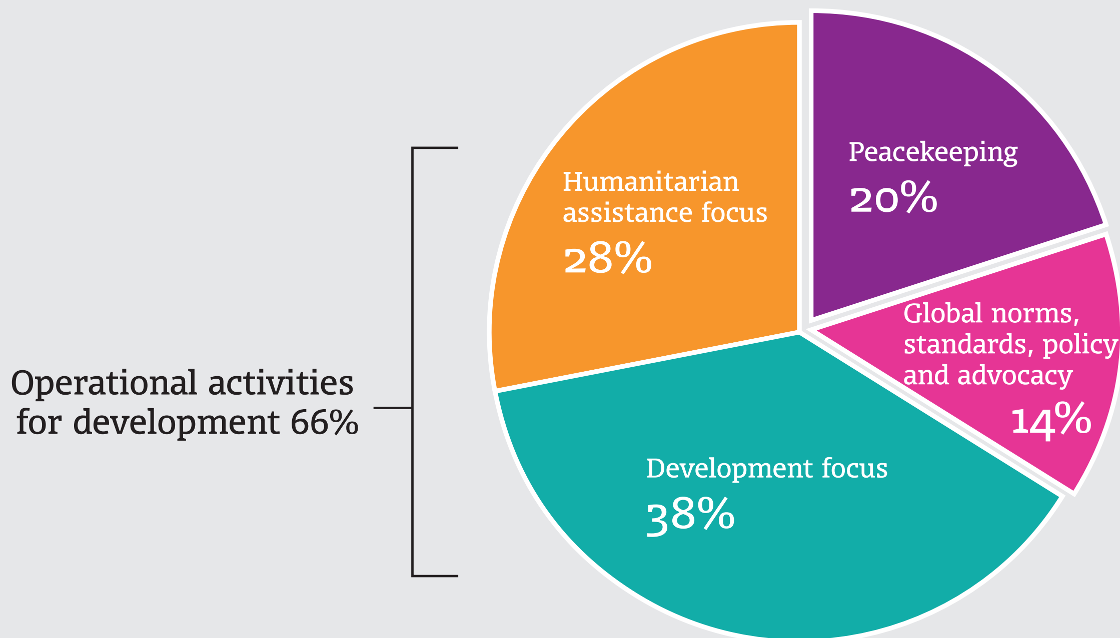
Figure 3 shows the four main functions for which the UN system uses its resources, and the shares of financing flows (in this case 2016 expenditures) for each of these four categories. Two of the categories, humanitarian and development assistance, together make up UN-OAD. The share of UN-OAD stands at 66%, an increase from 60% in 2015, while the 20% share for peacekeeping operations was unchanged from the previous year; the remainder, classified under global norms, standards, policy and advocacy, has dropped from 20% in 2015 to 14%. This drop is not necessarily a sign of the UN shifting its focus away from norms and standards, but rather points to an underlying problem of data quality. We elaborate on the ongoing work toward improving the data and better defining the functions of the UN system in Chapter Three.

Figure 2:
Trend of total core and earmarked contributions for UN operational activities, 2000-2016



Source: Report of the Secretary-General (A/73/63 - E/2018/8).
For notes - see page 144.

Figure 3: Funding of the UN system-wide activities, 2016



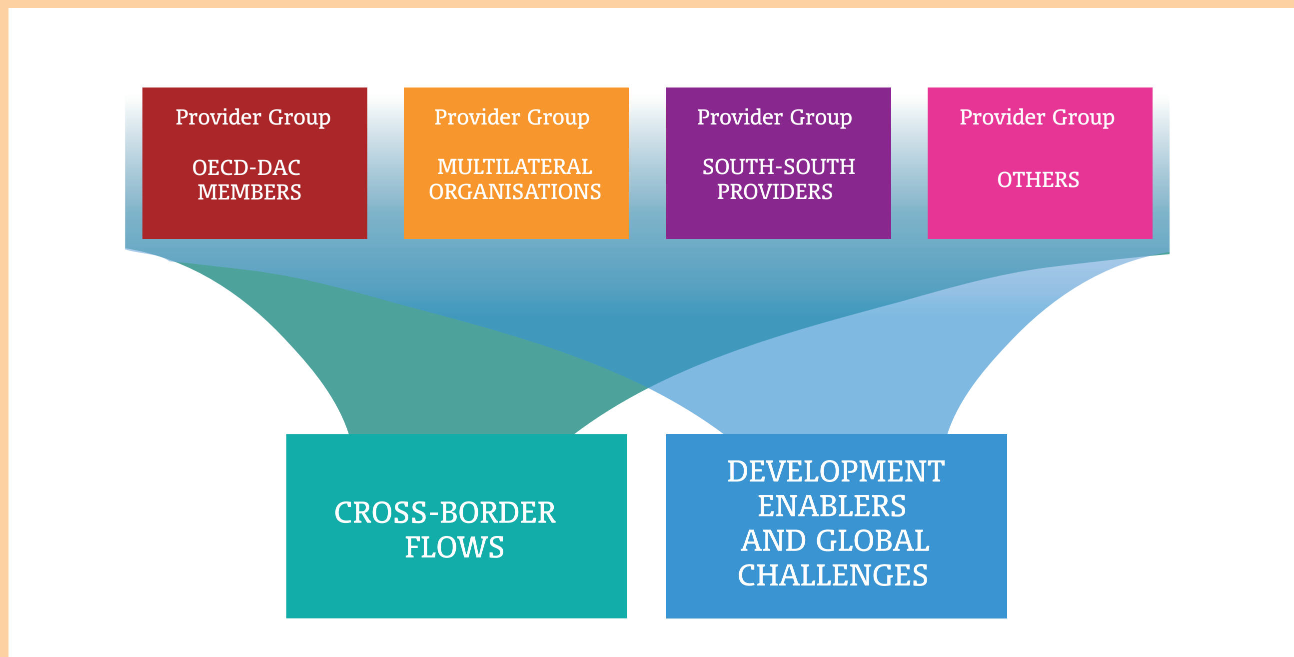
Source: Report of the Secretary-General (A/73/63 - E/2018/8).
For notes - see page 144.

As mentioned in previous *Financing the UN Development System* reports, the concept of UN-OAD is closely tied to the definition of Official Development Assistance (ODA), the term used by the Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC) for measuring the financial contributions of its Member States towards agreed ODA targets. However, UN-OAD funded humanitarian and development assistance are not the only contribution that the UN is making to the achievement of the 2030 Agenda. The revenue that funds the UN's interventions in peacekeeping and global norms is equally important. In that context the ongoing work on the TOSSD concept, the Total Official Support for Sustainable Development (see box page 31), is highly relevant. TOSSD may provide a way to better reflect the UN's overall support to the SDG agenda, financed through ODA and non-ODA revenue streams.

Figure 4 gives another picture of the shifting UN-OAD financing pattern, showing the different trends between humanitarian and development financing. Overall contributions for humanitarian and development activities continue to grow, although humanitarian assistance-related contributions have grown at a faster pace in the past five years than development-related contributions. This corresponds with a marked increase of overall funding for the UN's main humanitarian agencies, such as WFP, UNHCR and UNRWA, as well as for UNICEF that in 2016 had an almost equal balance between its development and humanitarian revenue streams.[5]

Figure 5 provides a long-term view on the relative growth rate of funding for the UN's operational activities compared to overall ODA. Both have had very similar patterns of growth, with UN-OAD growing somewhat faster than overall ODA in recent years. This result can be fully attributed to the growth in the UN's overall humanitarian funding, an area where the international community has well recognised the UN's capacity to deliver critical short term, life-saving support.

ODA and TOSSD: What gets measured gets done



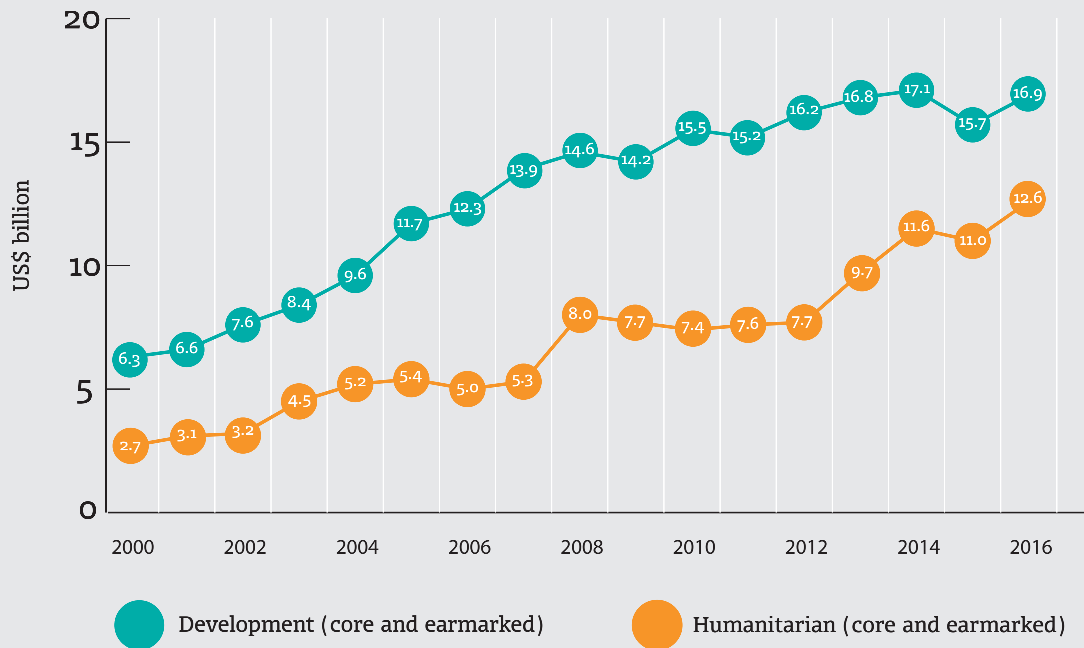
The primary objective of the new TOSSD statistical measure is greater transparency about the full array of officially-supported resources provided by both emerging and traditional provider countries and multilateral institutions in support of the 2030 Agenda for Sustainable Development. TOSSD is a two-pillar framework that tracks i) cross-border financial flows to developing countries and ii) finance for development enablers and global challenges at regional and global levels. Discussions on the TOSSD framework are highly relevant for the UN system, the first pillar in relation to UN operational activities for development (both longer-term development and shorter-term humanitarian assistance), and the second pillar in relation to UN peacekeeping, standard setting and other functions. The TOSSD measure will capture UN system-wide activities for sustainable development.

A special International TOSSD Task Force has been established to elaborate the statistical features of TOSSD and prepare a first set of Reporting Instructions. These draft guidelines will be presented for feedback by a variety of international bodies and groupings, and refined as appropriate. The aim is to finalise them early 2019. First TOSSD data will be collected through country pilots in 2018 and 2019. The current draft Reporting Instructions define sustainable development in the context of TOSSD as per the Brundtland Report – 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs'. In more concrete terms, an activity reported as TOSSD needs to directly contribute to an SDG target or goal, and thereby be well-aligned to the 2030 Agenda. TOSSD is different from ODA in that it will include both concessional and non-concessional resources from a larger group of provider countries and institutions. It will also measure resource flows to countries that are no longer ODA recipients but that have requested to become TOSSD recipients because they still face important vulnerabilities impeding development.

The TOSSD statistical framework is well suited for reporting on financing and activities of the UN development system. The cross-border flows pillar will provide comprehensive data on the UN system's total contribution to SDG implementation in developing countries, among others, by including data on activities funded through both core and non-core resources including trust and pooled funds. The development enablers and global challenges pillar will collect data on activities linked to norms and the standard setting functions of the UN which are currently not visible in internationally comparable statistics on development cooperation.

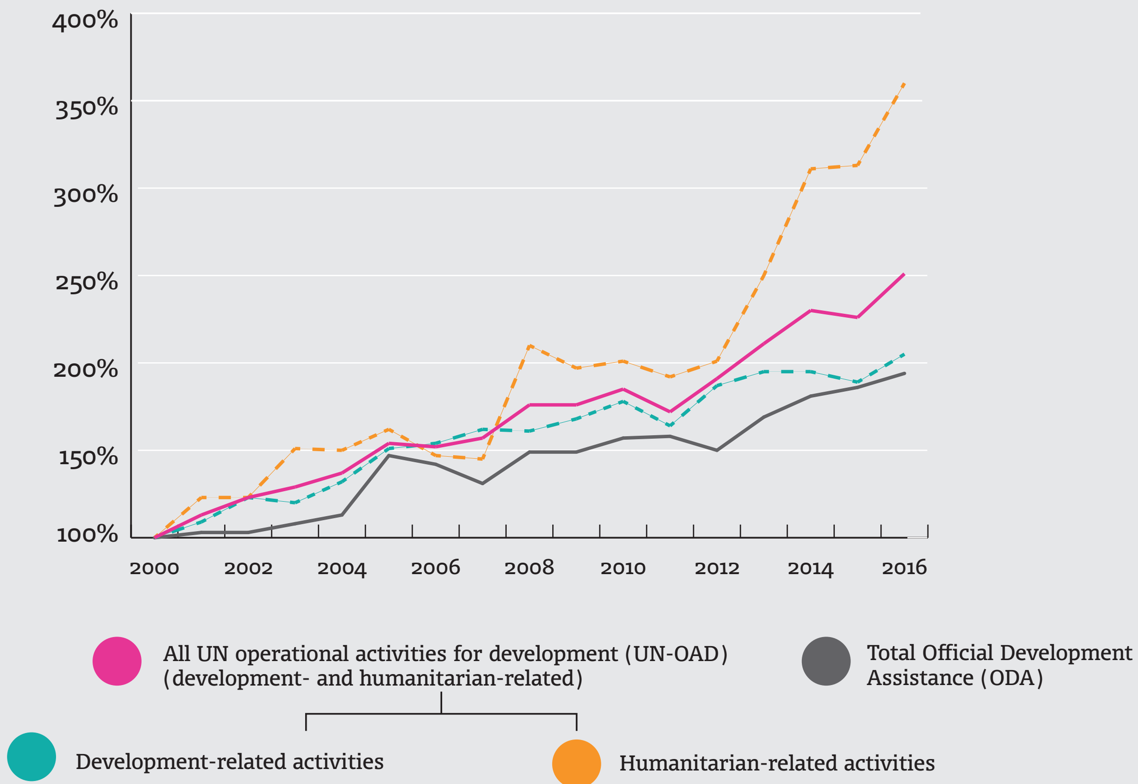
Finally, the direct link of TOSSD to SDG targets and goals supports the implementation of the 2030 Agenda – what gets measured gets done. TOSSD has the ambition to be integrated in the SDG indicator framework in the general review that will take place in 2020 and serve UN Member States in the monitoring of the means of implementation of the 2030 Agenda for Sustainable Development.

Figure 4: Trend of total contributions for development- and humanitarian-related UN operational activities, 2000-2016



Source: Report of the Secretary-General (A/73/63 – E/2018/8). *For notes - see page 144.*

Figure 5: Growth of ODA and funding for UN operational activities, 2000-2016



Source: Report of the Secretary-General (A/73/63 – E/2018/8). *For notes - see page 144.*

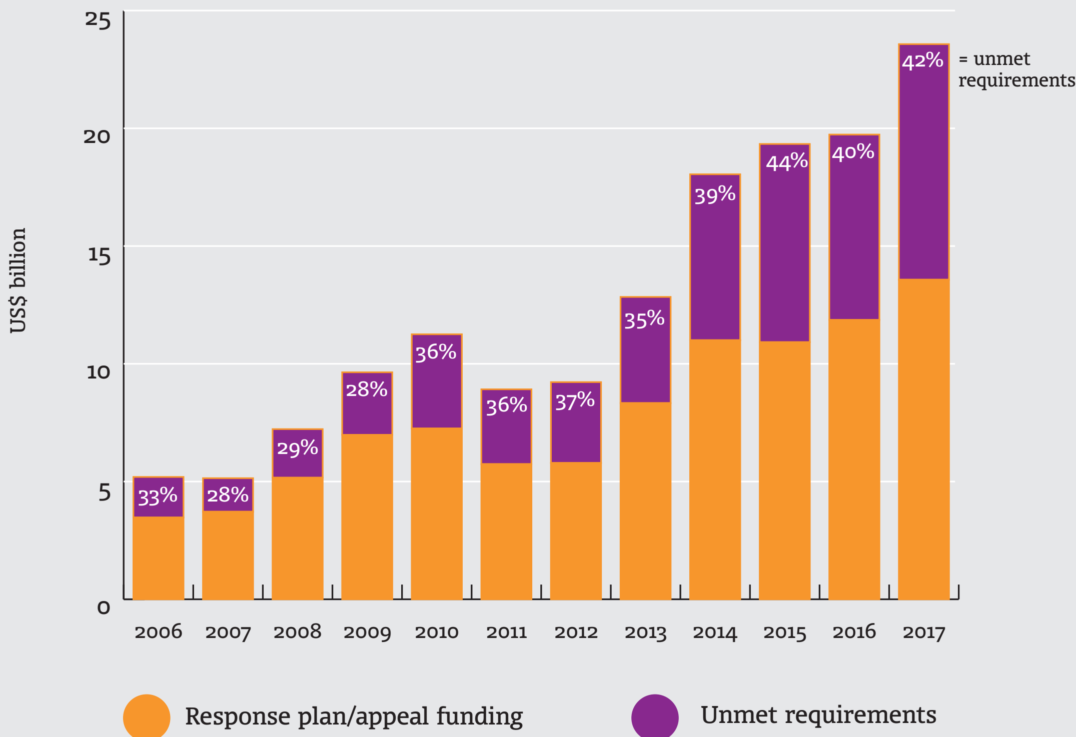
Despite this rapid growth in humanitarian funding, a staggering 42% of the 2017 humanitarian funding needs as expressed in humanitarian response plans went unmet, up from the gap of 40% reported in 2016. Figure 6 shows the constantly increasing appeals as well as unmet humanitarian needs worldwide in the last 11 years. The continued high share of unmet demand gives rise to concerns for the current funding of humanitarian response, but also poses questions as to alternative ways in which future humanitarian needs could be defined and financed. A more granular way of looking at overall UN financing for crisis-affected countries is displayed in Figure 19 in Chapter Two (page 44), which provides an overview of humanitarian expenditure compared to development and peace- and security-related expenditure in crisis-affected countries.

Sources of revenue to fund the UN's operational activities

The UN is just one of the multiple channels used by OECD-DAC governments to channel their multilateral aid. So, where does the rest of the multilateral ODA go to? Figures 7 and 8 provide more information on the aid contributions of OECD-DAC governments channelled through the UN as compared to the use of other multilateral channels. They are based on the numbers and definitions used by OECD-DAC. The UN continues to stand for the largest share with 31% in overall multilateral aid. Interesting to note is that the UNDS is by far the most heavily dependent on earmarked resources of the multilateral channels (Figure 8). The 69% of the ODA resources channelled through the UNDS as earmarked contributions stands in stark contrast with the 7 to 23% share of earmarked resources in the funds channelled through other multilaterals, including the European Union (EU), and the World Bank Group. One interesting trend is that, as of 2016, earmarked resources make up a significant portion of overall aid of all multilateral channels, even for the EU who until 2015 received only 2% of its resources in the form of earmarked contributions but in 2016 received close to 7% in earmarked resources.

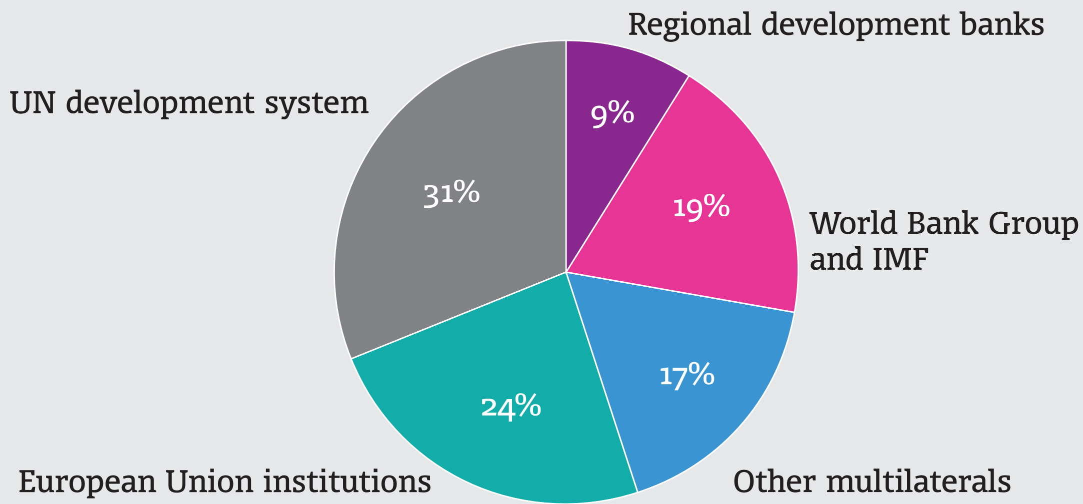
Revenue

Figure 6: Global humanitarian aid flows, 2006-2017



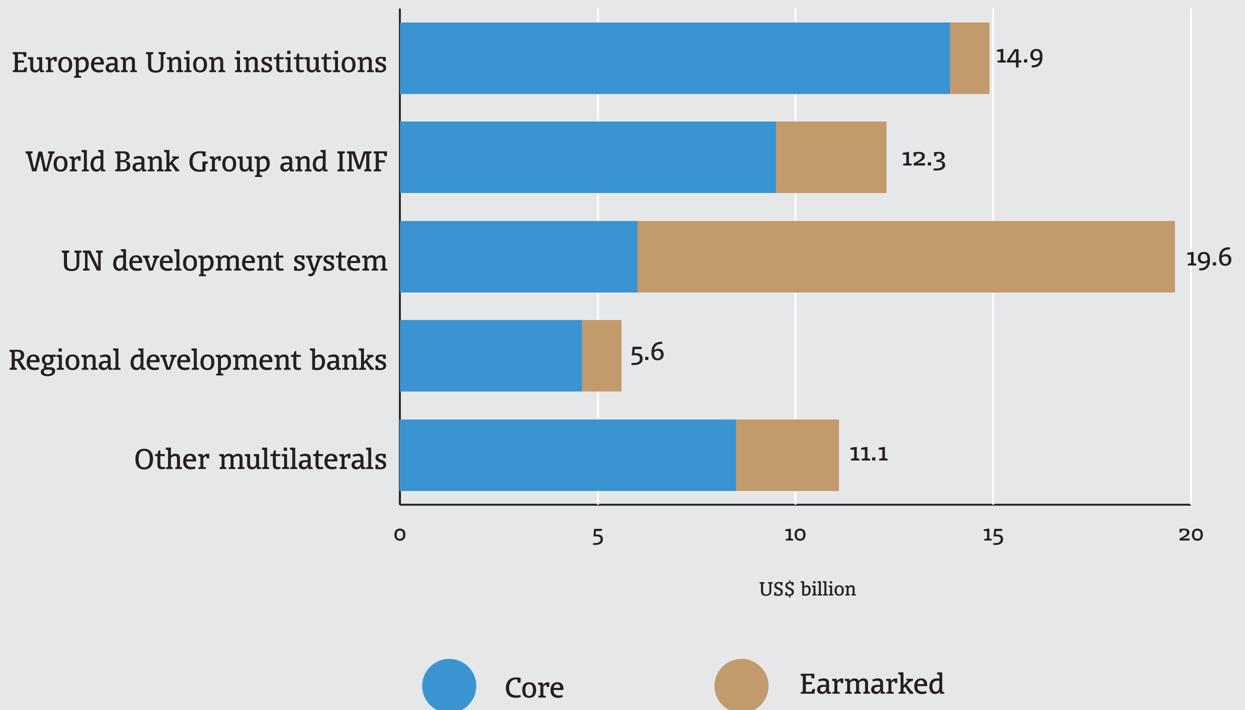
Source: UNOCHA database, 2017. *For notes - see page 144.*

Figure 7: Channels of total multilateral aid from OECD-DAC countries in %, 2016



Source: OECD Statistics Database, 2018.
For notes - see page 144.

Figure 8: Channels of total multilateral aid from OECD-DAC countries, core and earmarked, 2016

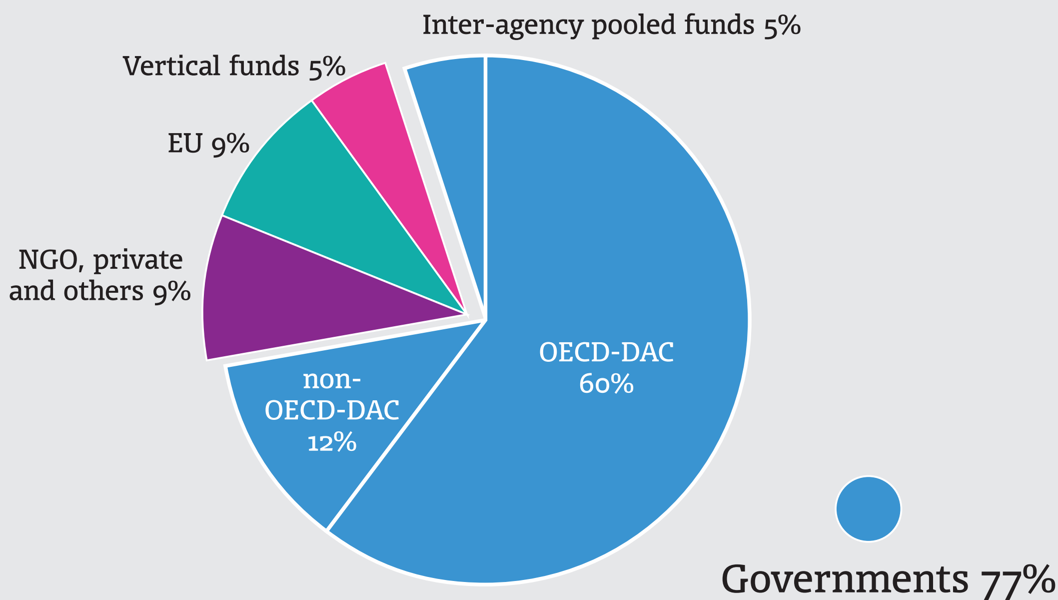


Source: OECD Statistics Database, 2018.
For notes - see page 144.

The sources from which the UN development system receives funding for its operational activities are many. As Figure 9 shows, the most common sources are government contributors (which fund individual UN entities directly or through UN pooled funds), non-state contributors and multilateral channels such as the EU and the vertical funds (eg the Global Environmental Facility). The UN funding base is gradually becoming less dependent on individual OECD-DAC members; at the same time the EU countries are channelling more and more resources to the UN through the EU, whose share in the overall contributions to UN-OAD grew from 6% in 2015 to 9% in 2016. The increasing importance of individual non-OECD-DAC countries, together responsible for 12% of overall revenue, is further analysed in Part Two. Revenue from non-state actors such as non-governmental organisations (NGOs), private and other contributors remained at 9%. About 90% of the UN's total revenue in this category is generated by five UN entities, ie UNICEF, WHO, UNHCR, WFP and UNDP. Details and analysis of the actual non-state contributors to these five entities were included in the 2017 report of *Financing the UN Development System*.

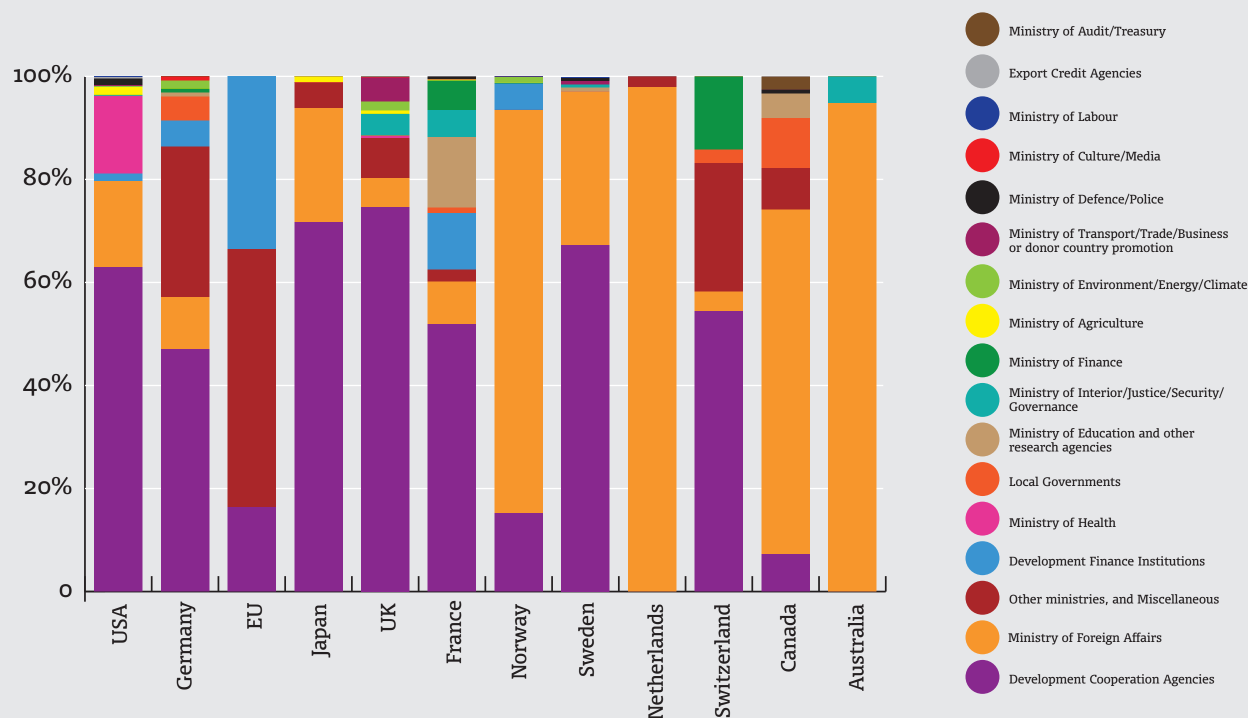
An interesting picture emerges from unpacking further from where within OECD-DAC member governments their contributions stem. As the colourful Figure 10 shows, the sources are many and vary a great deal between OECD-DAC members. 67% of the ODA contributions from the 12 largest OECD-DAC donors displayed in the figure comes from foreign ministries and development agencies (or similar). The remaining 33% originates from widely different sources, such as banks, local governments and different line ministries.
It is worth noting that some donors only use a few government entities to deliver their development aid, such as Australia, the Netherlands and Japan, while contributions from other countries such as France, Sweden, Germany, United Kingdom (UK) and the United States of America (US), come from more than ten different entities. These countries, the latter three countries also being the top three contributors to the UN system overall, have invested in building a diversified internal capacity for delivering ODA. In certain countries the ODA flows from specific line ministries are significant enough to be clearly visible in this figure, such as the US support for the health sector or the French support for education.

Figure 9: Funding sources for UN operational activities, 2016



Source: Report of the Secretary-General (A/73/63 - E/2018/8).
For notes - see page 144.

Figure 10: Sources of ODA within 12 largest OECD-DAC countries as proportion of total, 2016



Source: OECD Statistics Database, 2018.
Note: See detailed numbers in Annex 2, pages 140-141 and notes on page 144.

The financing mix of individual contributors

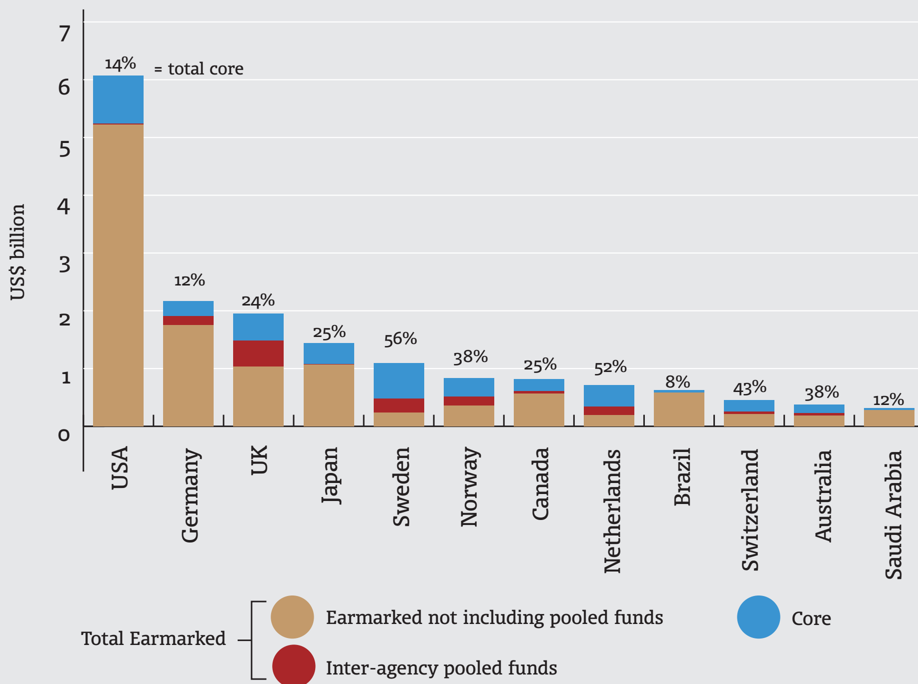
Figure 11 displays the total contributions by the top 12 contributing countries to UN-OAD, split between core and earmarked funding. It also visualises the part of the earmarked contributions that was channelled through UN inter-agency pooled funds.

The overall burden sharing is uneven, with these top 12 countries accounting for 57% of the overall funding for UN-OAD, and about 60% of core and 56% of earmarked contributions. It is noteworthy that the top five donors (US, Germany, UK, Japan and Sweden) represent 43% of total financing for the UN operational activities. The most notable change since 2015 in terms of volume changes is that Germany almost doubled its overall contributions to UN-OAD. It is now the second biggest contributor of core and earmarked resources to UN operational activities after the US, followed by the UK and Japan. The shift in ranking (from fourth largest contributor in 2015) is reflective of the major growth in the overall ODA provided by Germany. Its ODA increased from 0.52% of Gross National Income (GNI) in 2015 to 0.7% of GNI in 2016, thus reaching the UN's ODA target for the first time. This increase in contributions by Germany was entirely in pooled funds and other earmarked contributions, which both more than doubled, while the amount in core contributions increased by less than 2%.

In terms of financing mixes, only two of the top 12 contributing countries to UN-OAD, Sweden and Netherlands, contributed more than 50% in the form of core.[6] Three other countries, Norway, Switzerland and Australia, channelled between 38 and 43% of their overall support to UN-OAD in the form of core.

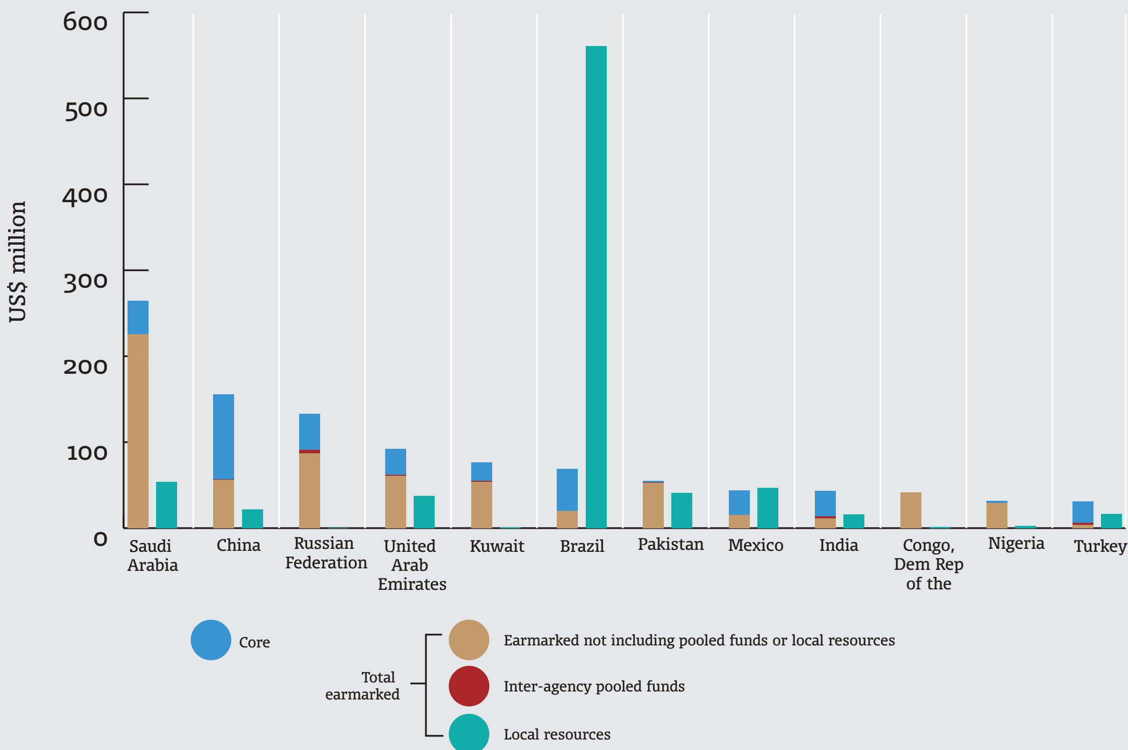
Figure 12 shows the financing mixes used by the top 12 non-OECD-DAC contributing countries, ranked based on their total contributions to UN-OAD excluding local resources. Together, these 12 countries provided 6% of the overall UN-OAD funding. Three countries, China, India and Turkey, channelled more than 50% of their total contributions in the form of core, and two others, Russia and Mexico, channelled close to one third of their overall support to UN-OAD in the form of core. The large variety in financing patterns of the individual UN Member States shows also the need for a differentiated approach if the UN wants to achieve the target proposed by the Secretary-General of bringing core resources for UN-OAD to at least a 30% level in the next five years.

Figure 11: Core, pooled funds and other earmarked contributions of top 12 countries to UN operational activities, 2016



Source: Report of the Secretary-General (A/73/63 - E/2018/8) and UN Pooled Fund database 2016.
For notes - see page 144.

Figure 12: Core, pooled funds, local resources and other earmarked contributions of top 12 non-OECD-DAC countries to UN operational activities as proportion of total, 2016



Source: Report of the Secretary-General (A/73/63 - E/2018/8) and UN Pooled Fund database 2016.
For notes - see page 144.

Revenue

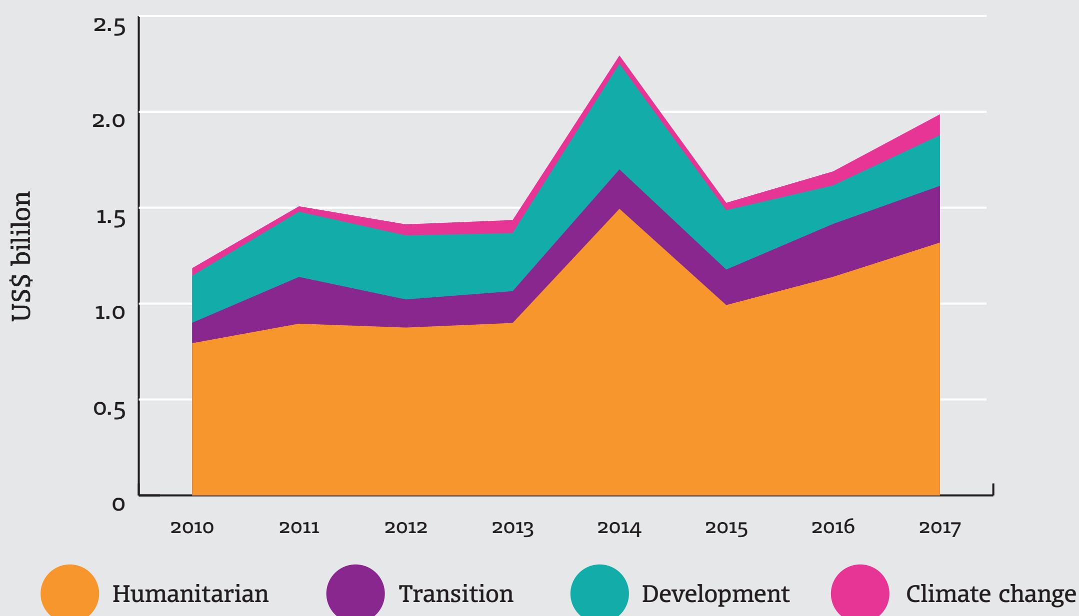
Pooled Funds: The UN's system-wide 'core' funding

As mentioned, in 2016, 5% of the total contributions for UN operational activities came through UN inter-agency pooled funds. UN pooled funds are a financing mechanism that provide the UN system with more flexible and predictable earmarked funding for jointly-agreed UN priority programmes. Contributions received are co-mingled (hence the term 'pooled funds'), not allocated to a specific UN agency and held in trust by a UN fund administrator. Fund allocation is made by a UN-led steering committee, and only once a fund allocation decision is made, is the money passed through to the entities responsible for implementing a specific programme. Since pooled funds contribute to the UN system as a whole, they serve as enablers for more collective UN action and have even be labelled as the closest that the UN has in terms of 'UN system-wide core'. Other advantages of pooled funds include improved risk management as well as broadening the group of contributors. The Secretary-General's December 2017 report on repositioning the UN development system proposed shifts in the funding mix of the UNDS, including a call to make earmarked resources more core-like. One of the areas of focus was UN inter-agency pooled funds, with a proposal for a doubling of contributions to pooled funds as a portion of the UN development system's overall earmarked resources.

The call for increased levels of contributions for pooled funds seems to be matched by the trend in the actual figures. Figure 13 shows the overall contributions received for UN pooled funds since 2010, broken down by theme. Based on provisional figures for 2017, UN inter-agency pooled funds mobilised an estimated US$ 2.0 billion, an increase of 18% compared to the US$ 1.7 billion received in UN pooled fund contributions in 2016. Contributions increased across the board for all themes, with climate change-focused pooled funds showing the strongest performance on record, and development-focused pooled funds bouncing back from a particularly low level of capitalisation in 2016. Transition and humanitarian pooled funding both grew as well, with the latter showing a strong performance and maintaining its lead as the most important UN theme for which contributors pool their resources.

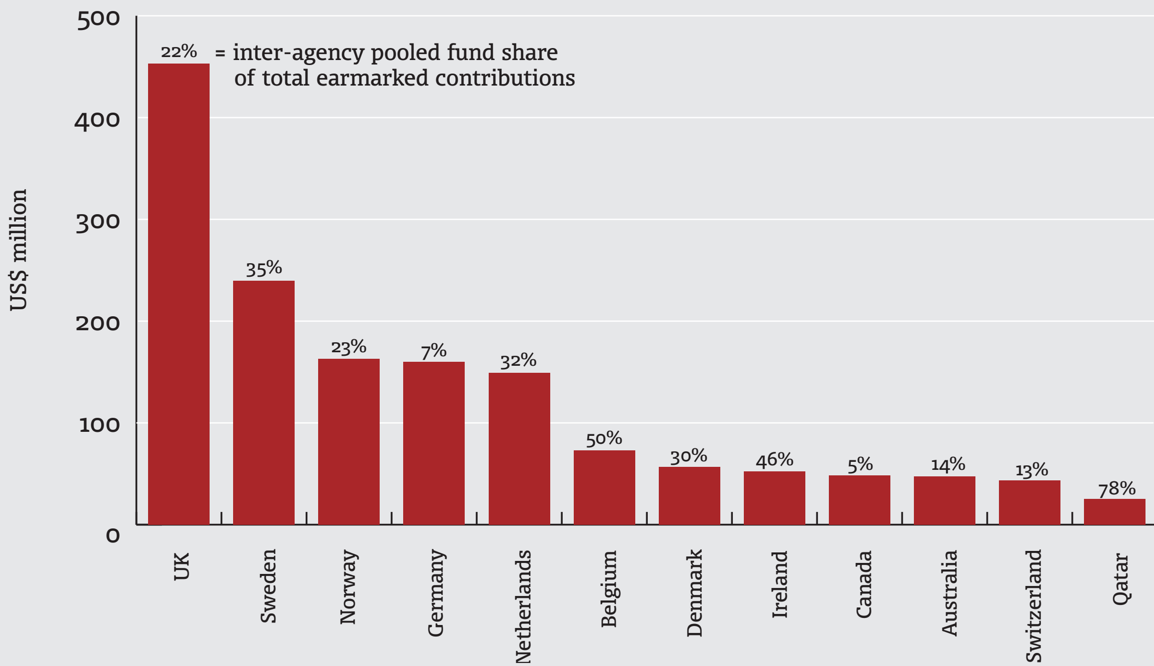
The next two figures (14 and 15), attempt to enhance the visibility of individual contributors that channel their earmarked resources through UN pooled funds. The first one shows the absolute value of the 2016 deposits of the top 12 contributors to UN inter-agency pooled funds, with the corresponding share of their total earmarked contributions channelled through pooled funds. The UK continued its long-established role as the champion in pooled fund contributions. It dedicated 22% of its earmarked contributions to pooled funds in 2016, a similar share to the one provided by Norway. Countries such as Sweden, Belgium, Ireland and Qatar provide smaller amounts in US$ terms but are greater users of the pooled fund instrument in their funding mix, with all four channelling more than one third of their earmarked funding to pooled funds.

Figure 13: Deposits to UN inter-agency pooled funds, 2010-2017



Source: UN Pooled Fund Database 2016 and estimates for 2017. *For notes - see page 145.*

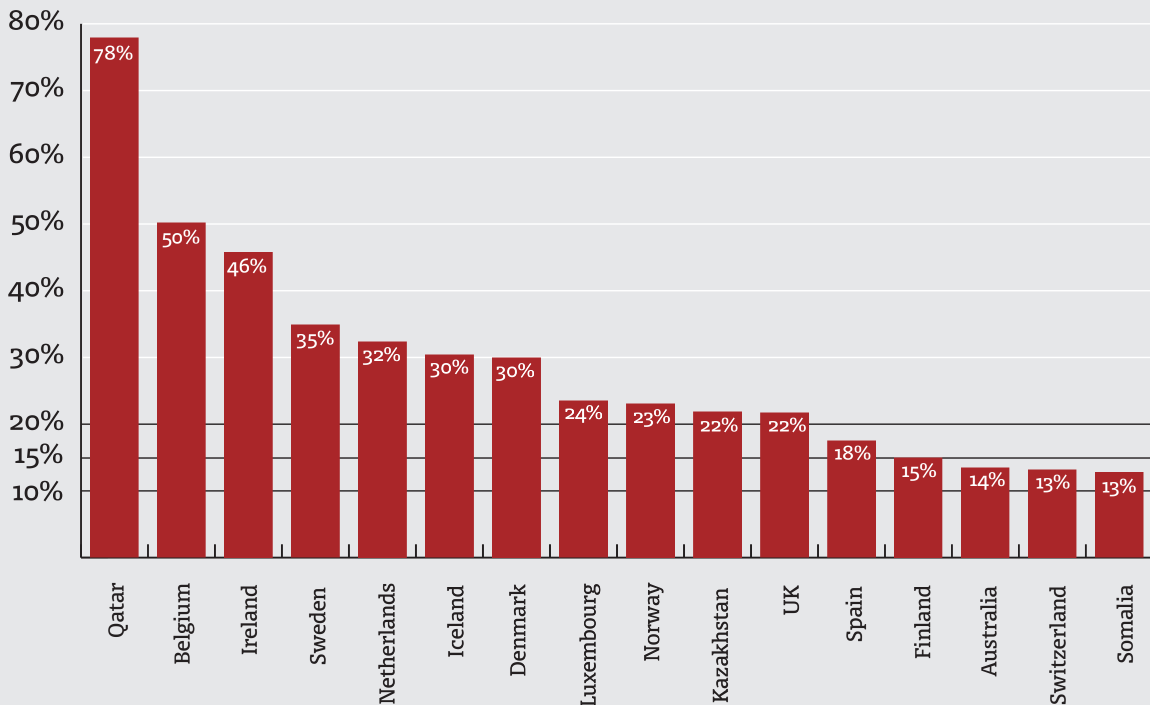
Figure 14: Deposits to UN inter-agency pooled funds from the 12 largest contributors, and as share of their total earmarked contributions to the UN, 2016



Source: Chief Executives Board (CEB) data, 2016 and UN Pooled Fund database 2016

For notes - see page 145.

Figure 15: Countries contributing more than 10,15 or 20% of their total earmarked funding to the UN through UN inter-agency pooled funds, 2016



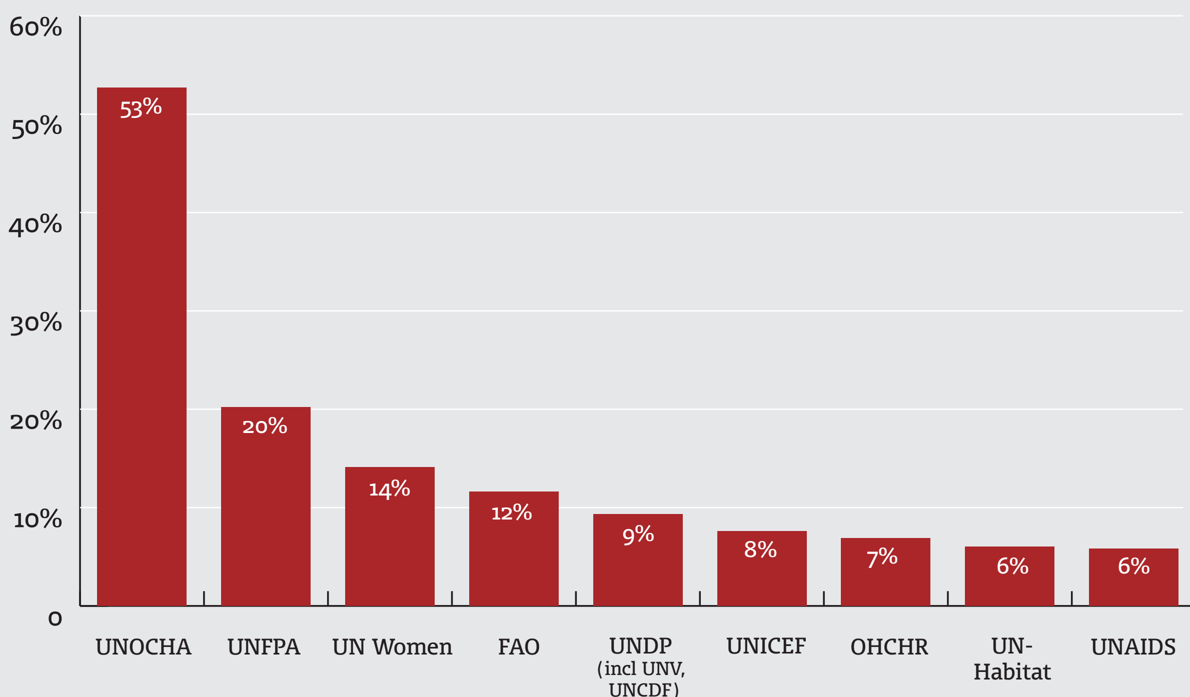
Source: Chief Executives Board (CEB) data, 2016 and UN Pooled Fund database 2016

For notes - see page 145.

Figure 15 focuses on the relative share of pooled funding within the earmarked contributions and provides the names of the countries that scored against the Quadrennial Comprehensive Policy Review (QCPR) indicator in terms of channelling more than 10, 15 or 20% of their non-core through pooled funds.[7] This list is an interesting one, as it is led by Qatar and concludes with Somalia, showing that thinking about and the analysis of the preferred UN funding mix is an issue of importance to all Member States.

As a partnership instrument, UN inter-agency pooled funds are often the initiative of UN entities that want to work together around a common theme or issue through joint activities. Figure 16 provides an overview of UN organisations performance against another QCPR indicator. Given that only four entities are receiving more than 10% of their non-core through pooled funds, the figure also includes those entities that scored between 5% and 10% on this particular indicator. When compared with the proposal that UN entities should commit at least 15% of their non-core resources to joint activities, it is clear that many UN organisations have a lot to do in order to reach the targeted level.

Figure 16: UN entities that receive more than 5% of their earmarked revenue from UN inter-agency pooled funds, 2016



Source: Report of the Secretary-General (A/73/63 - E/2018/8) and UN Pooled Fund database 2016.
For notes - see page 145.

Expenditure

Having reviewed the inflow side of the UN's funding, we now turn to the outflows. How much is the UN system spending and where and to what does the money go?

Being solely funded through grants provides a predictability to the UN expenditure pattern in that expenditures in a given year are by and large limited to the actual grants received that year as well as balances left from previous years. The medium- to long-term expenditure trends thus automatically mirror the revenue trends.

Table 5 shows the total expenditure per UN entity over the last 11 years, a period that coincides with a rapid increase of overall funding for the UN's humanitarian mandates. The growth in overall expenditures has been heavily concentrated within the UN Secretariat that is hosting the UN Office for the Coordination of Humanitarian Affairs (UNOCHA), and the main UN humanitarian entities such as IOM, WFP, UNHCR, UNRWA and UNICEF. In addition, other UN organisations, notably those with a strong health focus (WHO, Pan American Health Organization (PAHO), United Nations Population Fund (UNFPA)), have grown rapidly, both in a response to the vertically-focused predecessor to the Agenda 2030, the Millennium Development Goals agenda, and vertical health funds, and also as part of the humanitarian response.

Figure 17 shows the regional breakdown of UN operational expenditures. Africa continues to be the region with the proportionally highest UN expenditures, followed by Western Asia, Asia and the Pacific, Latin America and Europe. Expenditure on global/inter-regional, programme support, management & administration was at 18% in 2016. The biggest changes from previous years were seen in Western Asia and Americas which increased by 3% and 2% respectively, while Africa and Asia and the Pacific decreased by 3% each. Overall, since 2012 the share of Western Asia in the overall UN expenditures has almost tripled, from 9% in 2012 to 22% in 2016. The continued and severe ongoing crises in the Western Asia region explain this trend of increased spending, while the increase in the numbers for the Americas can be explained by an improved classification of PAHO's expenditures.

Figure 18 displays UN expenditure in countries by income status. Here we see highest expenditures in low-income countries, while the largest increase, with on average US$ 25 million per country, was in lower middle-income countries, compared to the previous year. UN spending in upper middle-income countries has instead dropped slightly. In common for all income categories is that the expenditures are predominantly funded from earmarked resources. The bottom bar for crisis-affected countries, which span all four income status categories, shows that UN expenditure is the highest in this sub-group of countries.

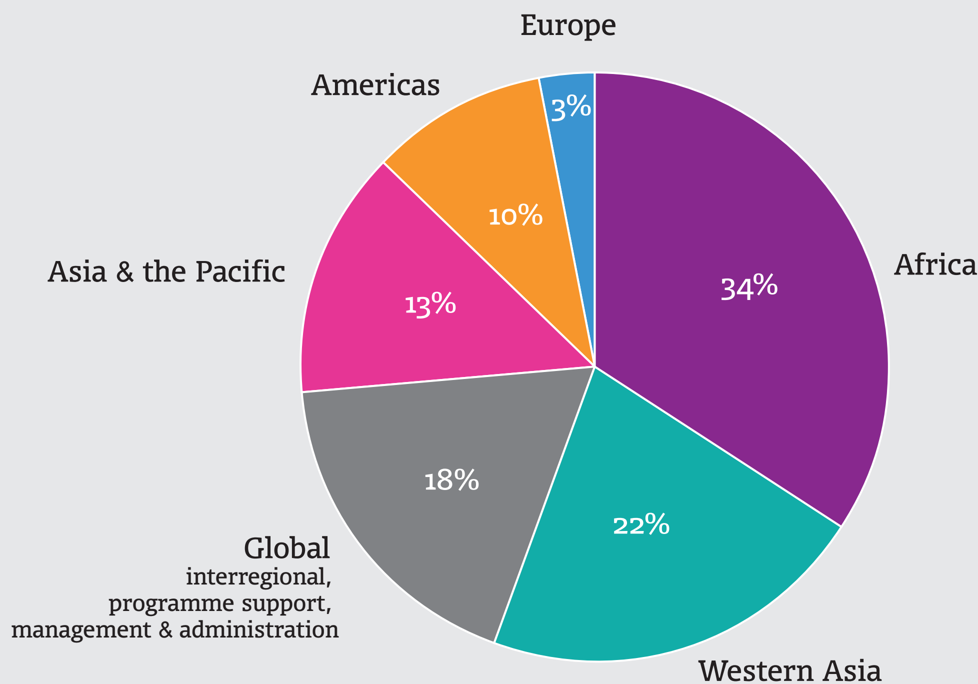
Expenditure

Table 5: Total expenditure by UN entity, 2005-2016 (US$ million)

Entity	2005	2010	2015	2016
UN Secretariat	2,659	3,953	5,613	5,713
DPKO	*	7,616	8,759	8,876
FAO	771	1,415	1,219	1,202
IAEA	433	585	570	550
ICAO	185	235	194	192
IFAD	115	784	168	170
ILO	454	587	659	675
IMO	55	68	68	58
IOM	952	1,359	1,594	1,602
ITC	56	71	102	91
ITU	140	193	191	184
PAHO	165	927	1,379	1,363
UN-Habitat	*	201	167	186
UNAIDS	157	284	293	182
UNDP	4,573	5,750	5,057	4,660
UN Environment	*	449	559	561
UNESCO	687	797	762	664
UNFPA	523	824	977	923
UNHCR	1,141	1,878	3,278	3,847
UNICEF	2,191	3,631	5,077	5,427
UNIDO	209	225	244	236
UNITAR	12	20	23	24
UNODC	94	211	278	242
UNOPS	*	654	671	770
UNRWA	470	555	1,333	1,317
UNU	*	60	74	90
UN Women	*	*	314	340
UNWTO	15	22	27	23
UPU	26	50	79	77
WFP	3,104	4,315	4,893	5,355
WHO	1,541	2,078	2,738	2,471
WIPO	198	324	351	347
WMO	73	88	102	98
WTO	*	226	247	249
Total Expenditure	20,999	40,436	48,076	48,765

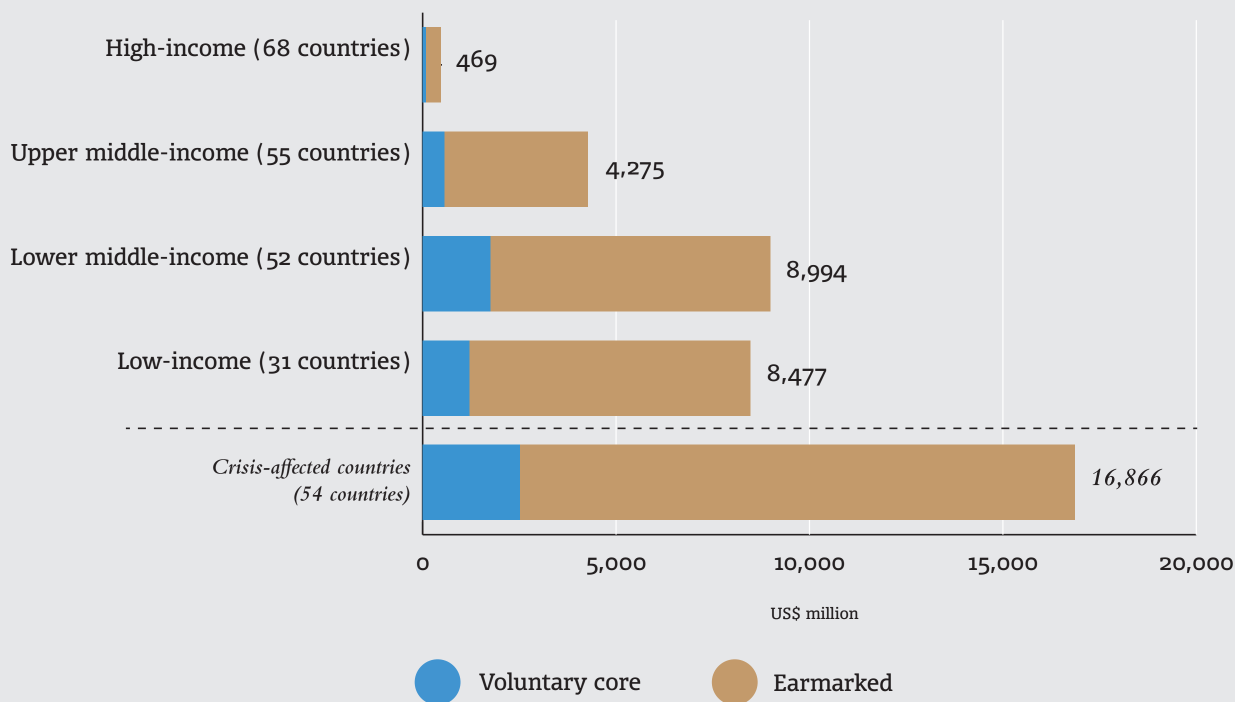
Source: Chief Executives Board (CEB) data, 2016, and Budgetary report note by Secretary-General (A/61/203), 2006.
For notes - see page 146.

Figure 17: Expenditure on UN operational activities by region, 2016



Source: Report of the Secretary-General (A/73/63 - E/2018/8). *For notes - see page 145.*

Figure 18: Expenditure on UN operational activities by countries' income status, 2016

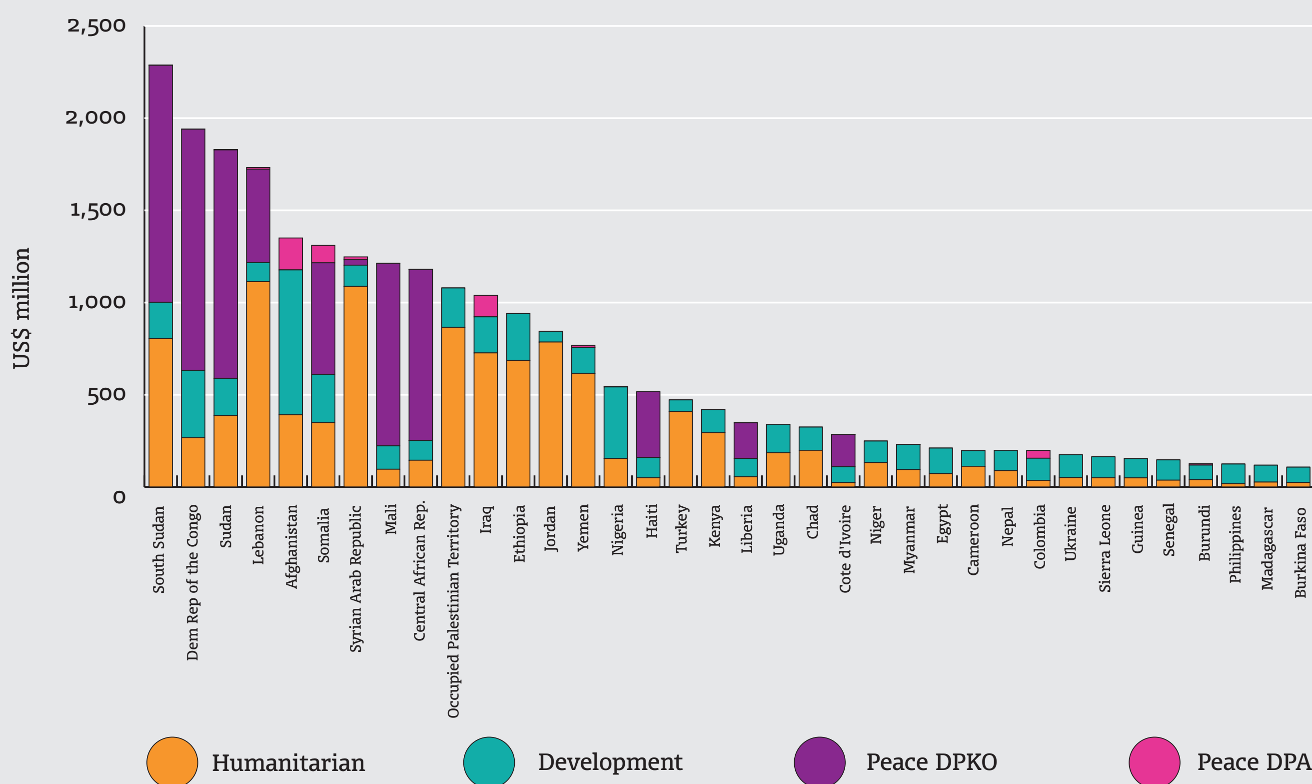


Source: Report of the Secretary-General (A/73/63 - E/2018/8).
For notes - see page 145.

Figure 19 provides a closer look at the country-level UN expenditures in crisis-affected countries. These are countries that (a) had expenditures financed through dedicated UN peace- and security-related financing instruments DPKO and/or Department for Political Affairs (DPA) or the Peacebuilding Fund and/or (b) had humanitarian appeals in both 2015 and 2016. The expenditures have been broken down into humanitarian, development and peace- and security-related (defined as DPKO and DPA expenditure). For presentation purposes, 18 countries with less than US$ 100 million in overall expenditures have been removed from the graph and are listed in the notes. The figure shows that South Sudan has now the highest country-level UN expenditures, US$ 2.3 billion, and that the Democratic Republic of the Congo has moved to the second place, at US$ 1.9 billion. They are followed by Sudan, Lebanon and Afghanistan who round out the top five in terms of country-level UN expenditures.

Overall, for this group of crisis-affected countries, 25% of expenditures are dedicated to development activities, 33% to peace- and security-related activities and 42% to humanitarian activities. Concentrating on the first ten countries, which represent close to 60% of the total expenditure, only 16% goes towards development activities, 37% towards humanitarian and 47% towards peace- and security-related activities. Though the financing mix in the group of crisis-affected countries looks vastly different between countries, there are clusters of similarities such as in the three peacekeeping mission draw-down countries, Haiti, Liberia and Cote d'Ivoire. They all have similar expenditure patterns with high peace- and security-related expenditures, a small portion of development expenditures and only a marginal amount on humanitarian activities. With DPKO missions closed by the time this report is published, the place of these three countries in the overall expenditure ranking will shift significantly in future reports.

Figure 19: Expenditure by country on UN operational and peace- and security-related activities, 2016



Sources: Report of the Secretary-General (A/73/63 - E/2018/8); UN pooled funds database 2016;
Budget in Report of the Secretary-General (A/72/371), 2017; General Assembly financial report (A/72/5 Vol.II), 2017.
For notes - see page 145.

Exploring data quality

So far, we have presented the financial numbers in pretty graphs and tables, as if the UN data is clean and devoid from problems. Inspired by Hans Rosling and his concept of 'factfulness'[8], we will now explore a number of questions that all centre around one main point: how strong our supporting facts are.

The interest in UN system-wide financial data has been growing every year since the Multi-Partner Trust Fund Office (MPTFO) and Dag Hammarskjöld Foundation started the series of annual reports *Financing the UN Development System*. Our joint commitment to supporting the generation of interesting insights into the UN system-wide data has resulted in some gradual advances and new understandings. However, our data analysis has also run into problems, many of which are linked to the limitations of the two existing UN system-wide data sets used as our main data sources in Part One. Our data mainly comes from the annual financial statistics produced by the CEB, based on the financial data submissions received from UN organisations (the CEB data) and the statistical annex produced by UNDESA for the annual Report of the Secretary-General on the Implementation of the Quadrennial Comprehensive Policy Review[9] (the UNDESA data). Though these two parts of the UN system work closely together, they do not share a common, overarching system of data governance. As a result, definitions may differ and common rules for aggregating and analysing data are absent. This is a fundamental challenge when attempting to understand and analyse the data relating to the UN development system.

This new chapter gets into a more granular level of detail about definitions and data with the ambition to provide increased clarity on where the challenges lie and what needs to be addressed to ensure better, cleaner data, thereby increasing the UN's level of 'factfulness'. We review the comprehensiveness, consistency and comparability of the UN's system-wide data, and look at what the UN is doing to improve its data governance and the quality of its system-wide financial data.

Getting the terminology right

a. Who is part of the UN system?

The first quality check, to ensure the financial data on the UN system is comprehensive, is a simple one: do we have the financial data of all organisations that are part of the UN system? The short answer is: probably not. As of now there is no agreed definition of the organisations and entities that together constitute the UN system. The broadest 'definition' that we are aware of can be found on the UN's organisational chart[10], which is produced 'for informational purposes only'. The best 'definition' in terms of comprehensiveness of UN financial data is the list of entities that were included in the 2016 CEB financial data collection exercise (and hence in the tables in Part One, Chapters One and Two). For the 2017 CEB data collection, this list has been further expanded by six more, relatively small UN entities.[11] A third definition is the one used by UNDESA for the most recent QCPR report; this definition uses the same list of entities as the CEB, apart from four organisations which are not counted as being part of the UN development system.[12]

b. What is the difference between the UN system and the UNDS?

The problem of comprehensiveness of the UN is even more acute when looking at the definition of the organisations that are part of the UNDS. Just as there is no common definition of the entities that constitute the UN system, neither is there a commonly agreed definition of the UNDS. The best-known definition is the one adopted by UNDESA, ie UN entities that receive funding for operational activities for development. In preparing the latest QCPR report UNDESA lists a total of 44 entities; ie 32 UN bodies and 12 UN Secretariat departments that receive funding for operational activities for development, and therefore are considered part of the UNDS. The UN entities and UN Secretariat departments that are not on that UNDESA list are hence not considered to be part of the UNDS.[13]

c. What is the difference between the UNDS and UN-OAD?

The term UNDS talks about 'Who': it is the list of 44 UN entities and UN Secretariat departments mentioned above. The term UN-OAD talks about 'What': it refers to a part of the total activities carried out by the UNDS, namely those activities that are classified as development and humanitarian that are funded by contributions that are ODA-like. For some of these 44 UN entities, everything that they do counts as UN-OAD; for others, only some of their activities are considered UN-OAD.

d. What is the relationship between UN-OAD and the concept of ODA?

UNDESA makes a direct link between UN-OAD and ODA[14], and defines only 'activities linked to contributions in line with the definition of official development assistance provided by OECD' as UN-OAD. UNDESA also adopts the OECD system of ODA coefficients for each UN entity's revenue streams to calculate what portion of a UN entity's revenues counts towards ODA, and therefore UN-OAD. In 2016, the coefficients ranged from 3% for the World Intellectual Property Organization (WIPO) to 100% for all UN Funds and Programmes.

e. What is the relationship between UN-OAD, ODA and the concept of TOSSD?

UN-OAD relates to only two of the four domains in which the UN-system is active, namely humanitarian and development-related activities. TOSSD includes ODA and all other officially supported financial flows that contribute to the achievement of sustainable development. It thus encompasses all domains in which the UN system is active: development, humanitarian, peacekeeping and all that is captured under the header of 'normative'. However, it may not include those activities of the UN system that are funded by 'non-official' revenue streams, such as private donations.

f. How does the difference in definitions impact the overall UN financial data?

There are two broad consequences of the differences in definitions within the UN system. First, data integration, the combining of data from different sources into one analysis, becomes difficult if the two data sources that are being put together do not use the same definitions. Second, different definitions for the same terms can also mean different numbers. One example is the total size of the UN's 2016 revenue: the CEB cites US$ 49.3 billion based on the CEB definition of who is part of the UN system; the UNDESA figure for the UN-system is US$ 45.8 billion and is based on the UNDESA definition of who is part of the UN development system. This is a large discrepancy.

g. Do we know what share of total UN expenditure is for the UN's normative role?

Yes, but here we have as well two different figures, ie a CEB figure and a UNDESA figure. Moreover, these figures reflect different messages about the trend of the UN's normative expenditures. As we mentioned above, Figure 3 based on UNDESA data shows a 6% decline between 2015 and 2016 in the UN's normative expenditures, from 20% to 14%. For the same year, the CEB figures show only a 1% decline in the share of normative expenditures. The actual amounts reported by UN organisations to the CEB for normative expenditures were roughly the same in 2015 and 2016.

h. Why are there different figures for UN humanitarian and development expenditures?

The largest problem with comparability and consistency of the two data sets arises when data users compare the data and definitions used to arrive at the 2016 numbers for humanitarian and development expenditures. The UNDESA figures reflected in Figure 3 in Chapter One show a US$ 17.6 billion total for 2016 development expenditures and US$ 12.8 billion total for humanitarian. Meanwhile, the CEB figures available on their website show a reverse picture with 2016 total development expenditures at US$ 11.8 billion, while total humanitarian expenditures are reflected at US$ 16.4 billion. Again, major differences.

There are several reasons why these two key UN data sources come to such different results in 2016. First, as noted above, CEB and UNDESA have different definitions for who is part of the UN system. As a result, IOM humanitarian and development expenditure was included in the CEB data, but absent from the UNDESA data set. Second, CEB and UNDESA do not use the same definitions for humanitarian and development. The CEB data reflect what UN entities themselves classified as development and humanitarian expenditures in their reporting, while UNDESA uses a definition that makes a direct link to the OECD-DAC definition of ODA. Third, UNDESA uses its own method for collecting and analysing data on the UN-OAD expenditures of the UN Secretariat. And finally, UNDESA relies on a longstanding method of classifying all but two UN operational entities as either a development entity or a humanitarian entity, even though many more UN entities are now active in both domains.

What is the UN doing to improve the UN system-wide financial data?

Confronted with these facts, the UN inter-agency machinery has also realised that it is time to improve the UN's system-wide financial data. Led by a broad-based, inter-agency ad-hoc team on 'the UN's future data cube' the UN has embarked on a major initiative that should respond to the QCPR's request for 'the publication of timely, reliable, verifiable and comparable system-wide and entity-level data, definitions and classifications', aligned to the SDGs. It should also meet the demands of a wide variety of UN data users, such as Member States, UN senior managers in various locations and users external to the UN, for good quality UN system-wide data.

The key deliverables of the group include a set of UN system-wide data standards covering five different dimensions, expected to be approved in 2018, alongside a roadmap for achieving these data standards. This should, over time, ensure that the CEB and UNDESA have a joined-up data set that starts from a common understanding of the organisations that make up the UN system (the 'Who' dimension) and will have similar figures on the UN's expenditure on humanitarian, development and normative work (the 'What' dimension). The development of data standards for geographical breakdown (the 'Where' dimension) and the UN's financing instruments (the 'How' dimension) are also planned. The team has also made a priority of developing a data standard to show how the UN system is using its financial resources to support the SDGs (the 'Why' dimension).

What data standard is the UN developing to take the SDGs into account?

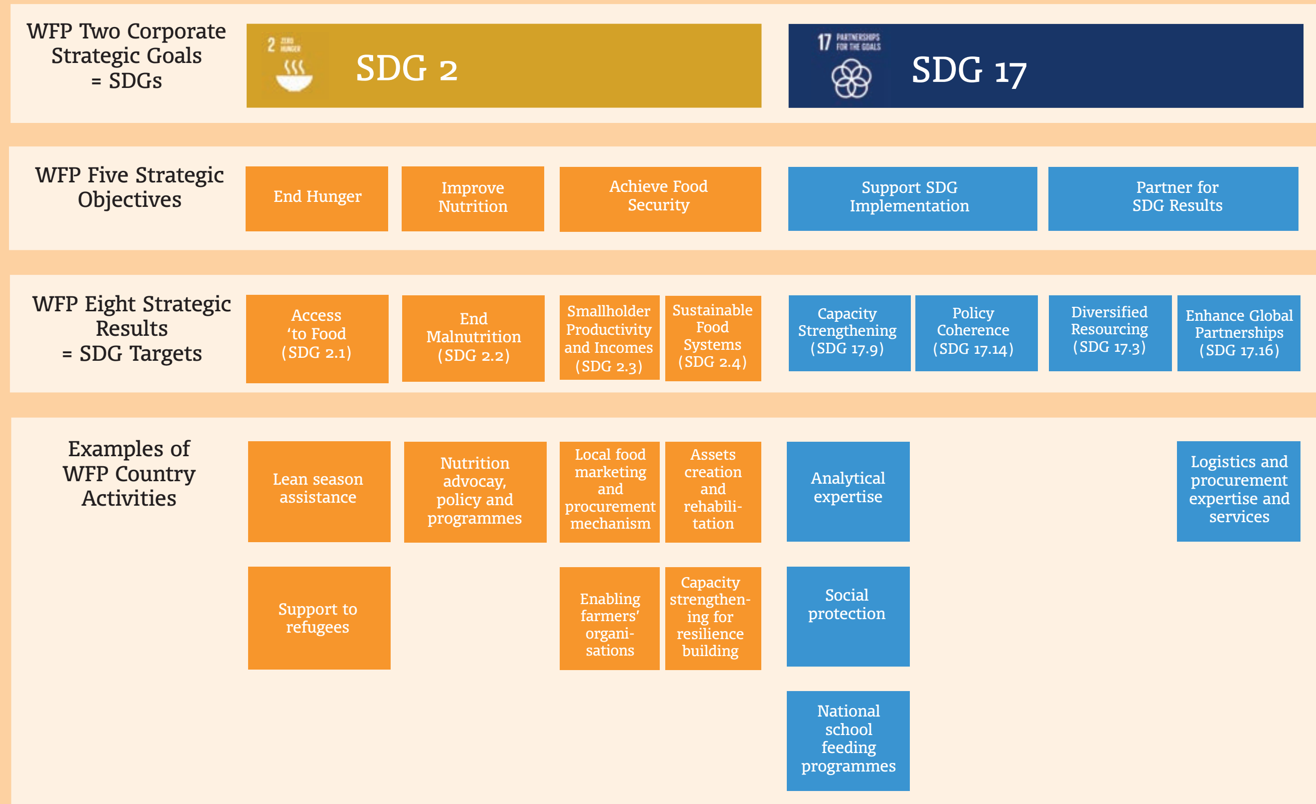
The 2015 adoption of a common global agenda has created a common data challenge for organisations across the UN system: how to align both results frameworks and finances to the new set of 17 Goals and 169 targets? Many UN organisations are looking at the options they have:

- Should budgets be linked to specific SDGs at the level of the goals, or should the level be more granular and focus on knowing how much is spent on each of the SDG targets?

- Given that the agenda is integrated, should individual projects be linked to multiple SDG targets or should a more straightforward method of linking one project to one target be chosen?

With many options open, the UN is prioritising the development of a UN data standard to link its financial flows to the SDGs. To inform its thinking, the UN has looked at the models that individual UN organisations have chosen so far, as well as SDG standards developed by the International Aid Transparency Initiative (IATI), and the proposals for an SDG focus field for the OECD's reporting system. One agency that has moved far in its approach to link its financial data to the SDGs is the WFP (see box on next page). In future reports we will surely come back to this topic to see if the high expectations that we now have for a steady and focused improvement in the UN system's financial data have been met.

WFP's 'Integrated Road Map' to measure its contribution to the SDGs



In November 2016, World Food Programme adopted its Integrated Road Map (IRM)[15] which included a systematic approach for linking WFP's 2017-2021 Strategic Plan and Corporate Results Framework to the SDGs. It also forms the basis for WFP's results-based management approach at the country level. The IRM enables WFP to integrate both country-level performance management as well as budgeting processes with the overall WFP Strategic Plan. This has strengthened WFP's capability to manage for results and focus on the effectiveness, efficiency, and economy of implementation.

How does the IRM system work? WFP's overall programme results framework is based on the Strategic Plan. At the highest level it starts with two corporate strategic goals that are directly linked to the SDGs, namely End Hunger (SDG 2) and Revitalizing Global Partnerships for Implementation of the SDGs (SDG17). From there, the results chain continues and cascades down until it reaches the activity level. The support to the two SDG goals (and the five WFP strategic objectives) is broken down into contributions to eight strategic results linked to SDGs targets, four under Goal 2 and four under Goal 17. Progress against these results are measured by a set of output and outcome indicators that form the minimum standards for corporate reporting requirements. Additional indicators may be set at country level to address national priorities and SDG targets, as well as UN system commitments to support Agenda 2030. Support to SDG targets other than the eight can be captured as well.

WFP country-level financial flows are directly linked to the WFP results chain and thereby to the SDG goals and targets, with each activity linked to only one SDG target. The country portfolio budget structure was introduced in the WFP corporate Enterprise Resource Planning system, to mirror the country-level results frameworks. This budget structure captures all financial transactions at the activity level and allows for aggregation of numbers along the result chain. The system has been built such that budgets and expenditures can be monitored in real time, from single activities at country level all the way up to the WFP's global support to the SDGs. The budgets are also linked to output and outcome indicators.

Overall, the implementation of the WFP's IRM will result in efficiency gains and ensure clear communication to management and stakeholders of WFP's achievement of strategic objectives contributing to the SDGs. As of mid-2018, the new system had been rolled out to over 60% of WFP country offices. It is expected that by the end of 2019 all WFP country offices will be using the new system.

How does the UN fund UN-OAD and other, non-OAD activities?

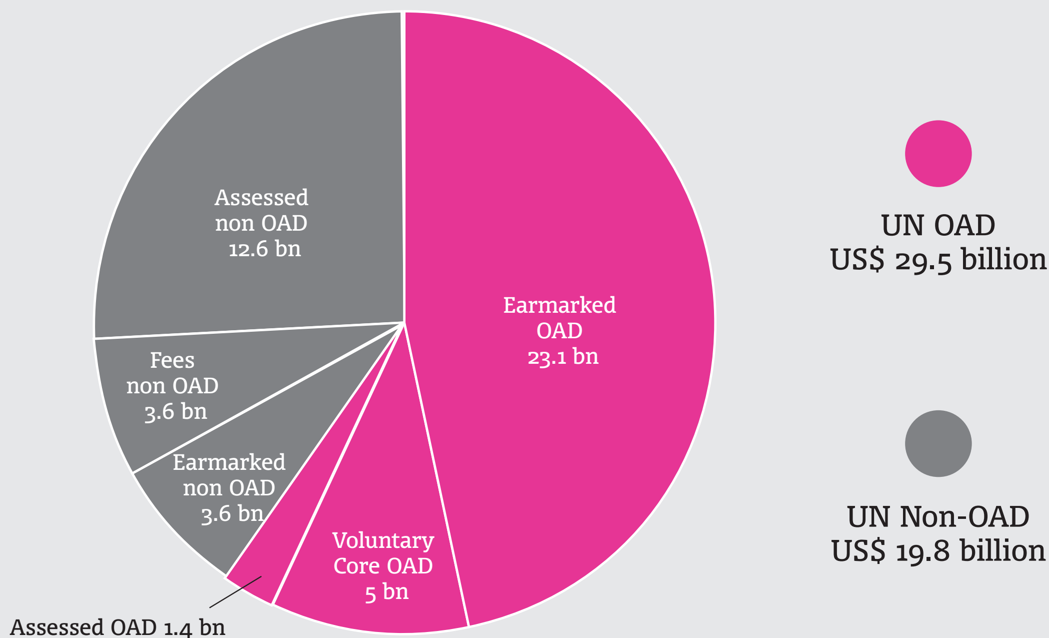
Within the limitations posed by the data quality of the existing data sets, we have been able to carry out some further analysis on the link between UN financing instruments and broad spheres of UN interventions. We could do this only, because the CEB and UNDESA are fairly consistent in the way they currently define the UN financing instruments.[16] This enabled us to combine their two data sets and compare the ways in which UN-OAD activities and all other UN-system activities, what we call here 'non UN-OAD' are funded.[17] The result of this data analysis is reflected in Figure 20, which divides the total revenue streams of the UN-system using the overall CEB number of US$ 49.3 billion in a UN-OAD and a non-UN-OAD part. The figure shows that the financing mixes for both spheres of UN interventions are very distinct in terms of overall level of earmarking:

- The US$ 29.5 billion in UN-OAD consists largely of earmarked contributions, at 78.3% (US$ 23.1 billion) of the total. Core contributions make up the rest at 21.7% (US$ 6.4 billion), with voluntary core at 17.0% and assessed contributions at 4.7%. The figure of 21.7% also featured in the proposal for a Funding Compact, discussed below, with a target of bringing core resources for UN-OAD to at least a 30% level in the next five years.

- The US$ 19.8 billion received by the UN in non-UN-OAD has assessed contributions as its main financing source. The assessed contributions accounts for 64% of the overall non UN-OAD revenue, of which wUS$ 8.3 billion is for peacekeeping. The remainder is equally split between earmarked contributions and other revenues/fees, each at 18%.[18]

As the UN progresses in addressing the data quality issues that we have explored in this chapter, we will be able to use the existing data sets with far more confidence to carry out further data analysis and thereby enhance our understanding of the financing of the UNDS.

Figure 20: Overview of UN operational activities' share of total revenue of the UN system by financing instrument, 2016 (total US$ 49.3 billion)



Sources: Chief Executives Board (CEB) data, 2016 and Report of the Secretary-General (A/73/63 - E/2018/8).
For notes - see page 145.

UN reform and the financing of the UNDS – an update

The need for new thinking and radical reform is reflected in the important dialogue that has been led by Member States and the Secretary General on the repositioning of UNDS. The adoption on 31 May 2018 of resolution A/RES/72/279[19] will undoubtedly have a significant impact on the relevance and effectiveness of the system as a whole. This resolution approves a broad reform programme relating to the UNDS. Of particular interest to readers of this report are the provisions approved regarding the financing of the UNDS.

Below is a brief summary of the five clusters of proposals:

1. The resolution recognises that the commitment to wide ranging reform is an essential component of a Funding Compact and in this spirit requests the UNDS to follow up and implement a number of agreed actions (see paragraph 28).

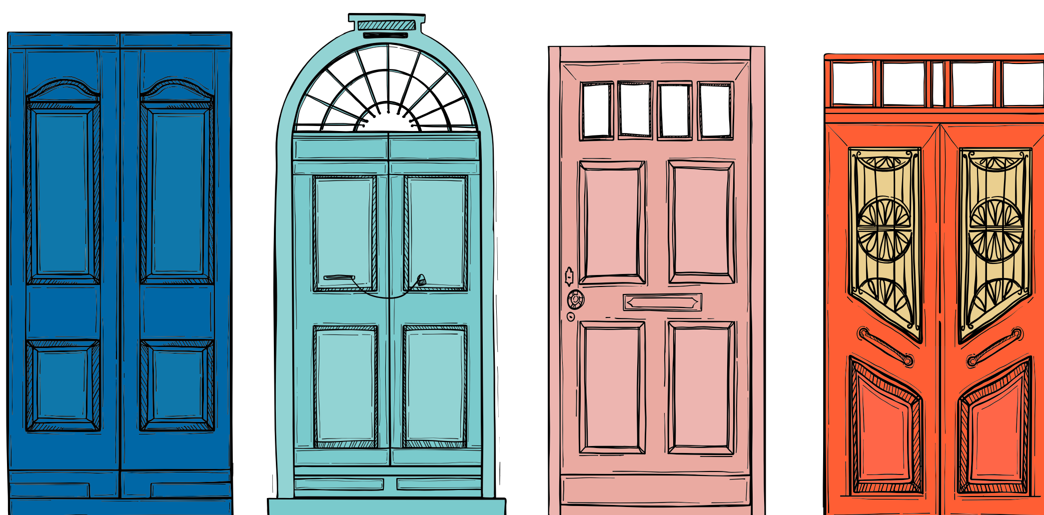
2. The resolution welcomes the Secretary-General's proposal to launch a Funding Dialogue in 2018 with the view to finalising a Funding Compact in the form of a commitment between the UNDS and Member States (see paragraph 29).

3. The resolution recognises the need to address the imbalance between core and non-core resources and takes note of the Secretary-General's proposals to bring core resources to at least a 30% level in the next five years, double both inter-agency pooled funds to a total of US$ 3.4 billion and entity-specific thematic funds to a total of US$ 800 million by 2023 (see paragraph 25).

4. The resolution invites Member States to provide voluntary contributions in the amount of US$ 35 million to the Resident Coordinator system, in support of system-wide activities on the ground associated with the implementation of the United Nations Development Assistance Framework; and further invites Member States to contribute on a voluntary basis to the capitalisation of the United Nations Joint Fund for the 2030 Agenda at US$ 290 million per annum (see paragraphs 26 and 27).

5. The resolution emphasises that adequate, predictable and sustainable funding of the Resident Coordinator system is essential to deliver a coherent, effective, efficient and accountable response in accordance with national needs and priorities, and, in this regard, decides, to provide sufficient funding in line with the report of the Secretary-General annually from 1 January 2019 through:
- a one percent coordination levy on tightly earmarked third party non-core contributions to UN development-related activities, to be paid at source;
- doubling the current UN Development Group (UNDG) cost-sharing arrangement among UN development system entities;
- voluntary, predictable, multiyear contributions to a dedicated Trust Fund to support the inception period (paragraph 10)

It is premature to make an assessment of the success with which these proposals will be implemented. It is important that the dialogue and the compact lead to tangible benefits for all parties. It is not yet clear to what extent resources will be successfully raised for the three trust funds that have been established. It can already be suggested that the instrument of a one per cent levy has the potential for establishing an important new instrument in the UNDS financial architecture.



PART TWO

Financing flows impacting the Sustainable Development Goals

Chapter One:

The big picture

Chapter Two:

Broadening perspectives

Chapter Three:

Game changers

Chapter Four:

Innovations in multilateral instruments for Agenda 2030

Introduction

The report's second part explores different dimensions of the rapidly changing universe of development finance against the backdrop of the 2030 Agenda. Contributions from a number of guest authors have been organised into four chapters:

Chapter One focuses on the 'big picture'. Graphs provided by Development Initiatives give an overview of international financial flows to developing countries. While commercial long-term debt and Foreign Direct Investment (FDI) are dominant overall for the totality of 'developing countries', Official Development Assistance (ODA) remains a major source for the Least Developed Countries (LDCs) as well as fragile states as groups. The box at the end of this introduction provides information on upcoming research by Development Initiatives on Sustainable Development Goal (SDG) financing. Homi Kharas focuses on the challenge of identifying the volume and types of finance that could be reasonably ascribed to supporting the SDGs. He shows, under a broad classification, where international development contributions totalling US$ 576 billion (cross-border flows to emerging market and developing economies) stem from. Kharas argues that five key issues will define the direction of development finance over the next decade.

Meanwhile, Canadian Ambassador to the UN, Marc-André Blanchard, maintains that private capital, particularly institutional capital, is the one source both large enough and with the potential to reach the scale of financing required by the 2030 Agenda. To this end he launched in 2016 the Group of Friends of SDG financing in New York where he seeks to contribute to a broader paradigm shift where sustainability considerations are brought to the centre of how the private sector operates. Finally, Johannes F. Linn outlines recent experience with multilateral resources mobilisation and points to some of the key challenges ahead.

Chapter Two gives voice to a number of actors that undoubtedly have significant roles to play in the emerging financial architecture. David Dollar and Sachin Chaturvedi provide overviews, respectively, of China's and India's expanding development cooperation. In particular China has undeniably already become a major source of development finance for the developing world, currently providing for example one third of the external financing for infrastructure in Africa. Debapriya Bhattacharya provides important insights from a southern perspective and observes a serious mismatch between the global discourse on financing for development and the realities on the ground. Lindsay Coates identifies two specific areas receiving increased attention from civil society: the need for greater domestic resource mobilisation to support equitable and inclusive development and the need to lead on innovative finance for development. Meanwhile, Jorge Chediek underlines the importance of South-South cooperation and reports on the preparations underway for the High-level UN conference on South-South cooperation to take place in March 2019.

Chapter Three identifies a number of important instruments, 'game changers' if you will, that will be essential if we are to attain the vision of the 2030 Agenda. Pedro Conceição contends that development cooperation has been too focused on the transfer of financial resources and that it is only by leveraging science and technology that there will be any chance of engaging in the transformative changes that are required. He makes the case for a deeper and more systematic engagement between policy makers and scientific communities around the world. Heike Reichelt and Colleen Keenan tackle the challenge of building sustainable capital markets. Green bond issuance nearly doubled from US$ 90 billion in

2016 to US$ 160 billion a year later, and they underscore that the market for labelled green, social and sustainable bonds needs to grow further and play a vital role in building sustainable capital markets. Simon Zadek shares the experience of UN Environment's Inquiry initiative which has made a significant contribution to a better understanding of the underlying workings of the global financial system if the trillions of dollars needed are to be unlocked. Careen Abb's paper on UN Environment's finance initiative and positive impact finance builds on last year's paper and makes the case for positive impact ecosystems. In the last paper of this chapter, Jeremy Oppenheim and Katherine Stodulka focus on one of the most discussed financing instruments, blended finance. They recommend using the broader framing of mobilisation of private capital for the SDGs as the ultimate end, to better address barriers across the entire investment system which hinder the flow of investment to the SDGs.

Chapter Four focuses on innovations in multilateral instruments for the 2030 Agenda. The need for a strengthened country-level capacity to push forward the innovative finance agenda is recognised. Yannick Glemarec builds on the recommendation in the Secretary General's December 2017 report to develop an innovative financing platform that helps build the knowledge, capacities and resource base of the UN development system (UNDS) for innovative finance. Björn Gillsäter and Veronica Piatkov report on the World Bank Group SDG Partnership Fund, which aims to nimbly support catalytic initiatives at the global or regional level for achievement of the SDGs through the lens of Goal 17, which is about strengthening the *Means of Implementation*.

Exploring the role of the UN in financing at country level, Richard Bailey and Lisa Orrenius share the findings of a recent study which captures best practice and identifies key issues that need to be addressed if the UN is to be of support to countries striving to unlock new sources of financing. Establishing tailored financing capacity as well as more flexible and agile regulations are two key issues here. John Morris also reflects on the challenges faced by the UNDS in this sphere of innovative finance and recommends that the UN transitions its many strengths into investor opportunities. Magdi M. Amin and Martin C. Spicer showcase early but encouraging results, where the private sector window allows the International Finance Cooperation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) to pursue risk-prohibitive, yet impactful projects that would otherwise not be viable. Complementary to this, Samuel Choritz looks at the challenges and ongoing efforts of making blended finance work in risky contexts from of the United Nations Capital Development Fund's (UNCDF) perspective. Simon Zadek and Fiona Bayat-Renoux argue that the digitalisation of finance includes the core transition pathways towards sustainable development and looks at the UN's increasingly active role here. Finally, Stephan Klingebiel and Silke Weinlich complete this cluster with reflections on how Agenda 2030 is impacting on development cooperation, in particular bearing in mind difficult geopolitical conditions.

How to strengthen the role of ODA to leave no one behind

Forthcoming research by Development Initiatives will address the current lack of consolidated evidence of what investments are being made where, through which instruments and in which sectors - including those considered to have high impact on poverty alleviation. In so doing it will provide a valuable resource for development partners, such as the UN system, who are looking to improve their positioning in SDG financing, within the broad and evolving development financing landscape.

This research, presented in Development Initiatives' upcoming 'Investments to End Poverty' report, will provide data-driven and policy-relevant analysis to evidence how we need to improve the targeting of ODA in terms of modality, instruments, sectors and geography. By looking at who and where the poorest and most vulnerable people are and the distribution of wider sources of financing, it will present evidence to support a re-focus of ODA according to where its highest value add will be in the run up to 2030.

PART TWO
Chapter One

The big picture

International financing flows to developing countries

Cross-border financing flows impacting the Sustainable Development Goals

by Homi Kharas

Personal reflections - institutional investors and financing sustainable development: The need for better alignment

by Marc-André Blanchard

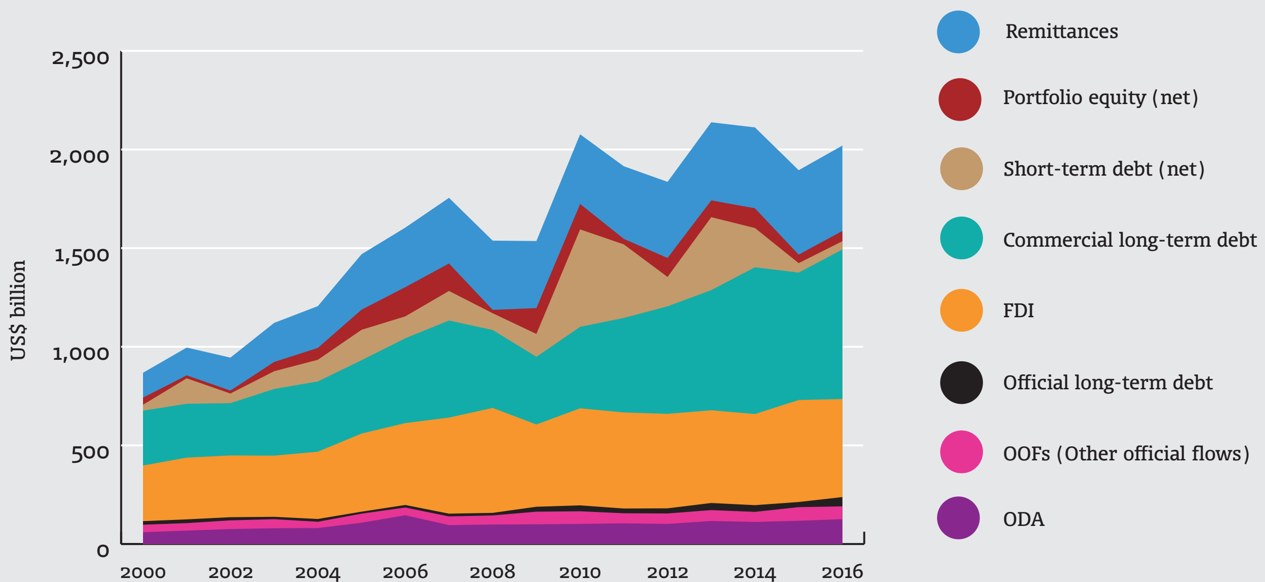
Recent multilateral resource mobilisation and the challenges ahead

by Johannes F. Linn

International financing flows to developing countries

Graphs provided by Development Initiatives give an overview of international financial flows to developing countries. A global snapshot is provided in Figure 1 below, with disaggregated graphs provided in the subsequent graphs (Figures 2-5), presenting the trends for Least Developed Countries (LDCs) vs. non-LDCs, and fragile vs. non-fragile countries respectively. While commercial long-term debt and Foreign Direct Investment (FDI) are dominant overall for the totality of 'developing countries', Official Development Assistance (ODA) remains a major source for the LDCs as well as fragile states as groups. Furthermore, the overall international financing flows are unevenly divided: LDCs – which housed about 15% of the developing countries' population in 2016 and 7.6% of those living in poverty – received less than 10% of the total flows to all developing countries. Further, fragile developing countries accounted for less than 15% of the total inflows.

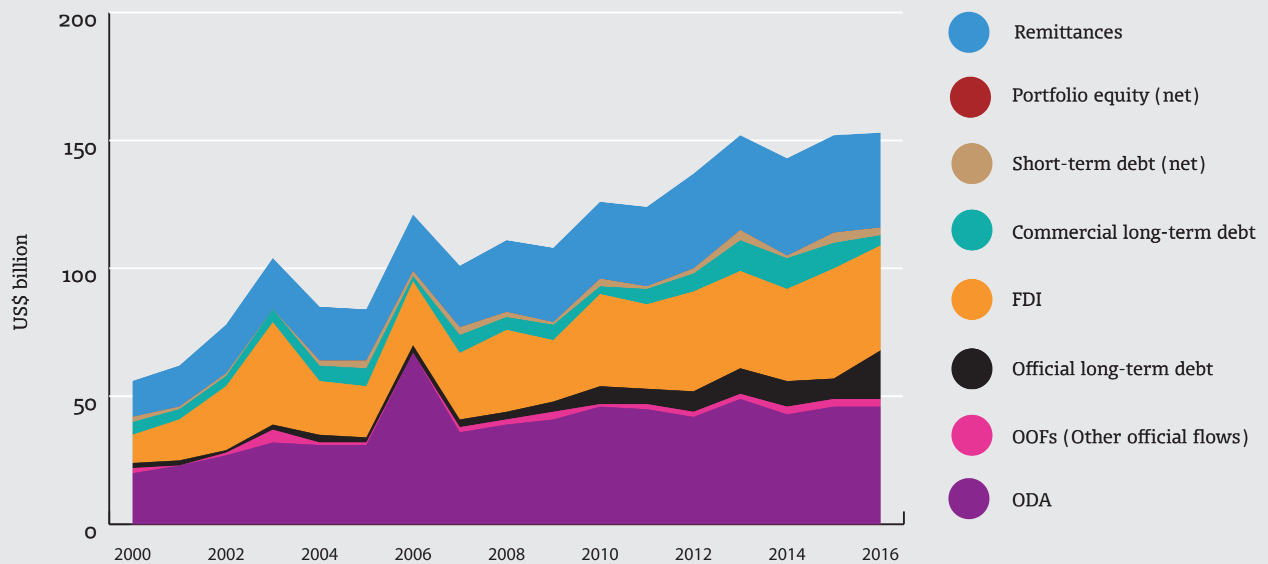
Figure 1: Resource inflows for all developing countries, 2000-2016



Source: Development Initiatives, based on various sources. For methodology and sources see: http://data.devinit.org/methodology

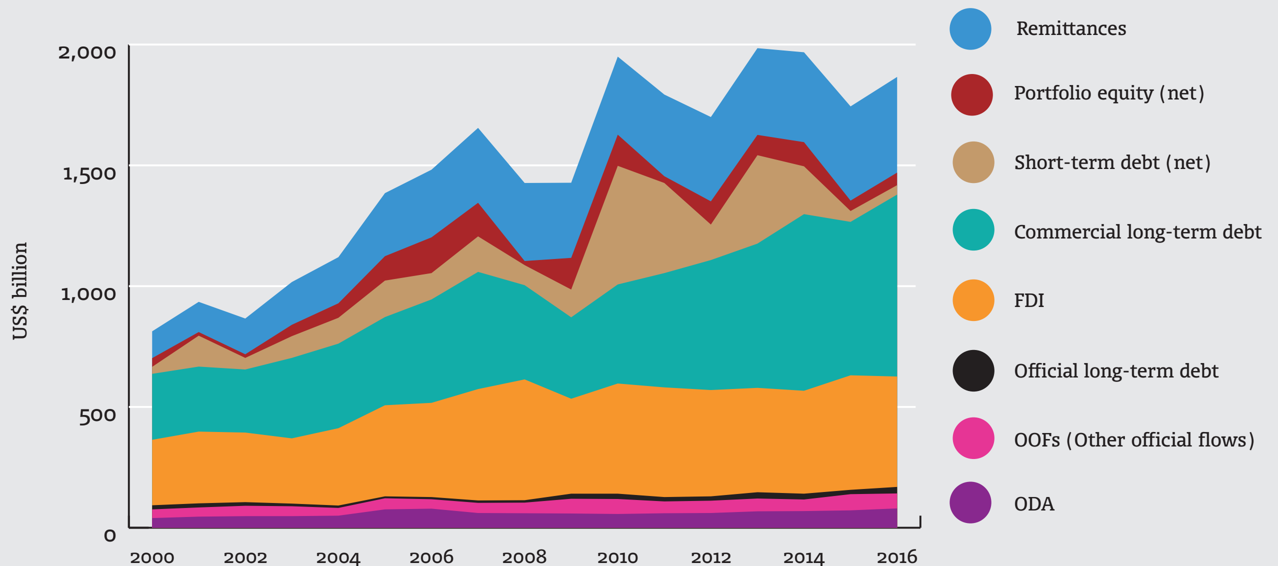
Note: In constant 2015 US$. Developing countries are those included in the OECD list of ODA eligible countries available here: OECD, 'DAC List of ODA Recipient', (official list, OECD, 2017).
http://www.oecd.org/dac/stats/documentupload/DAC%20List%20of%20ODA%20Recipients%202014%20final.pdf
OOFs (other official flows) are defined as 'official sector transactions that do not meet official development assistance (ODA) criteria'. FDI (foreign direct investment) is 'the category of international investment that reflects the objective of a resident entity in one economy to obtain a lasting interest in an enterprise resident in another economy'. See: OECD, 'Glossary of Statistical Terms', (website glossary, OECD, 2018).
https://stats.oecd.org/glossary/

Figure 2: Resource inflows for Least Developed Countries (LDCs), 2000-2016



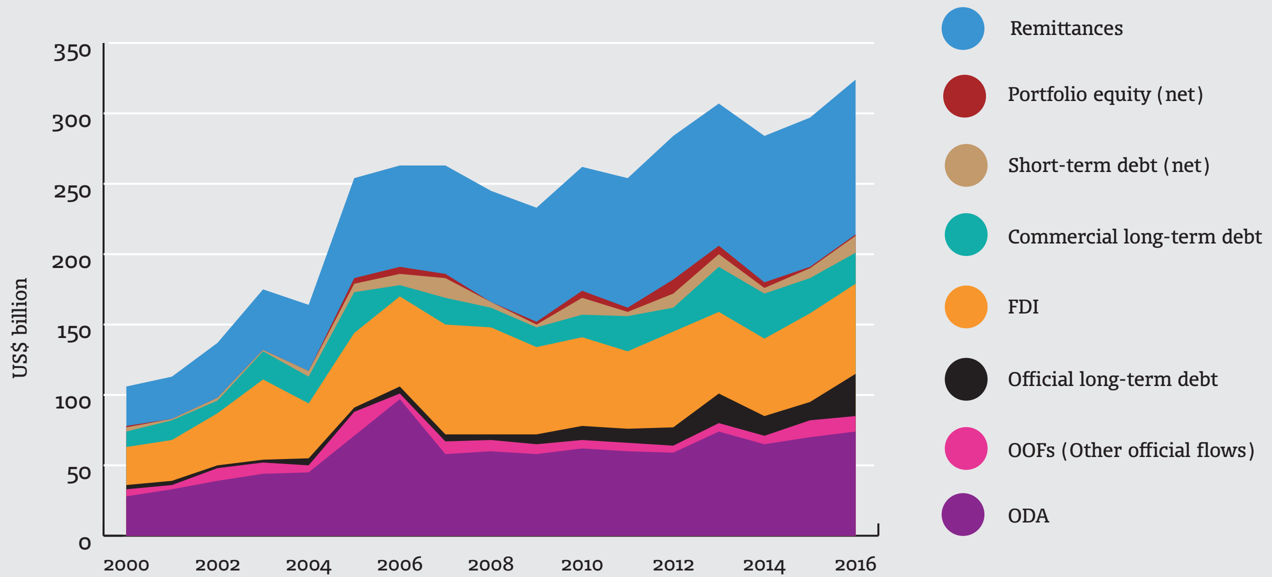
Source: Development Initiatives, based on various sources. For methodology and sources see: Development Initiatives, 'Methodology: Data Sources', (website, Development Initiatives, 2018). http://data.devinit.org/methodology
Note: In constant 2015 US$. Income groups based on World Bank categorisation: World Bank, 'World Bank Country and Lending Groups', (website, WB, 2018). https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups

Figure 3: Resource inflows for non-LDC developing countries, 2000-2016



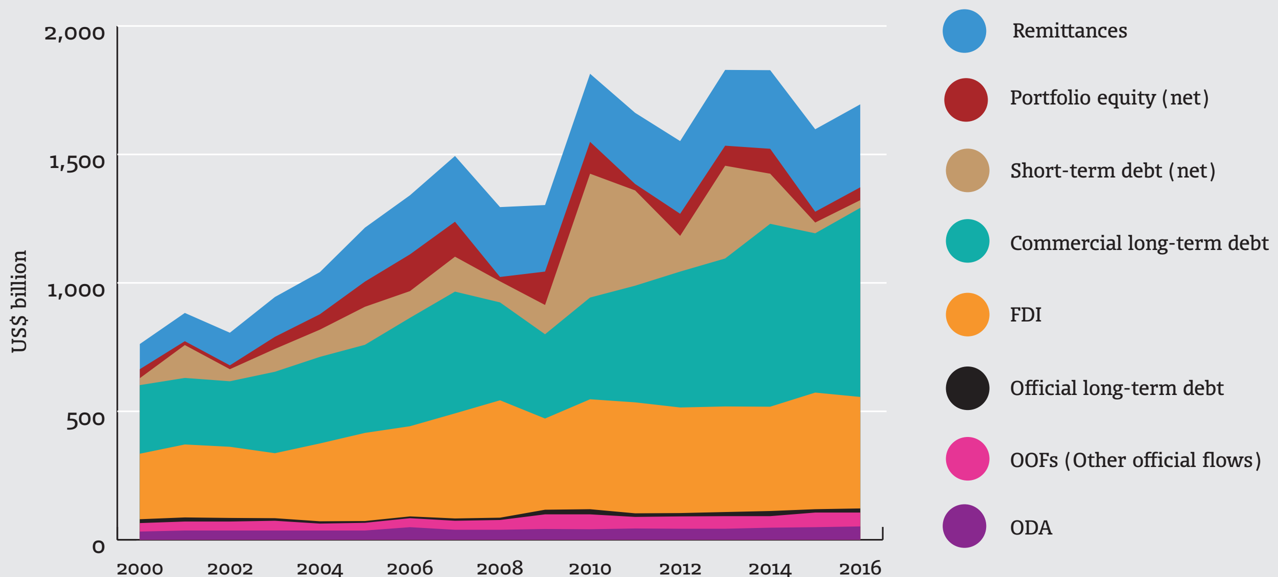
Source: Development Initiatives, based on various sources. For methodology and sources see: Development Initiatives, 'Methodology: Data Sources', (website, Development Initiatives, 2018). http://data.devinit.org/methodology
Note: In constant 2015 US$. Income groups based on World Bank categorisation. See: World Bank, 'World Bank Country and Lending Groups', (website, WB, 2018). https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups

Figure 4: Resource inflows for fragile developing countries, 2000-2016



Source: Development Initiatives, based on various sources. For methodology and sources see: Development Initiatives, 'Methodology: Data Sources', (website, Development Initiatives, 2018). http://data.devinit.org/methodology
Note: In constant 2015 US$. The 'fragile' grouping contains countries classified as either 'fragile' or 'extremely fragile' by the OECD. OECD, 'States of Fragility 2016: Understanding Violence', (report, OECD Publishing, 2016). https://read.oecd-ilibrary.org/development/states-of-fragility-2016_9789264267213-en#page25

Figure 5: Resource inflows for non-fragile developing countries, 2000-2016



Source: Development Initiatives, based on various sources. For methodology and sources see: Development Initiatives, 'Methodology: Data Sources', (website, Development Initiatives, 2018). http://data.devinit.org/methodology
Note: In constant 2015 US$. The 'fragile' grouping contains countries classified as either 'fragile' or 'extremely fragile' by the OECD. OECD, 'States of Fragility 2016: Understanding Violence', (report, OECD Publishing, 2016). https://read.oecd-ilibrary.org/development/states-of-fragility-2016_9789264267213-en#page25

Cross-border financing flows impacting the Sustainable Development Goals

By Homi Kharas

Homi Kharas is Interim Vice President and Director at the Brookings Institution, which is a non-profit public policy organisation that brings together more than 300 leading experts in government and academia from all over the world. Homi Kharas studies policies and trends influencing developing countries, including aid to poor countries, the emergence of the middle class, global governance and the G20.

This paper discusses trends in cross-border financing of investments that impact the Sustainable Development Goals (SDG). We presage this discussion with one stark observation: choices on the level and quality of physical and human capital investment in the next decade will shape development trajectories for years to come. Once in place, these investments cannot be easily undone. The window for putting in place sustainable infrastructure is rapidly closing. More infrastructure will be built over the next 15 years than the entire stock of today's infrastructure. If it is not low carbon, a climate-friendly development pathway is not feasible. Also, more people are moving to cities than ever before. If transport, land-use and public service delivery are not made more accessible, inequality cannot be addressed. Last, there is a demographic bulge in Africa. If these children are not kept healthy and skilled, they will be left behind.

SDG-related investments (including humanitarian assistance to keep people alive and partially protect their assets) are largely funded through domestic resources, but are buttressed in significant ways with cross-border flows. In 2016, under a broad classification, about US$ 580 billion in cross-border flows to emerging market and developing economies might have been oriented towards achievement of the SDGs (Figure 1). In defining investments that are SDG-linked, we look at:

1. all cross-border investments made by national governments, or by official providers of development finance;

2. all private investments that are mobilised within such projects or that are oriented toward infrastructure, given the prominence of infrastructure in achievement of the SDGs[1]; and

3. all private capital flows to fund public investments in developing countries; all philanthropic flows and private impact investments; and

4. all flows to finance UN peacekeeping and work towards global norms and standards, on the grounds that these are integral to achievement of the SDGs, even if they are not considered as Official Development Assistance (ODA) because they do not uniquely benefit developing countries.

There are many other investments that could also contribute to the SDGs, for example foreign direct investment (FDI) in the food system could help alleviate hunger, but there are no good data that would allow us to disaggregate FDI into SDG-related and other investments so we are limited to only including private investments in infrastructure where data do exist.

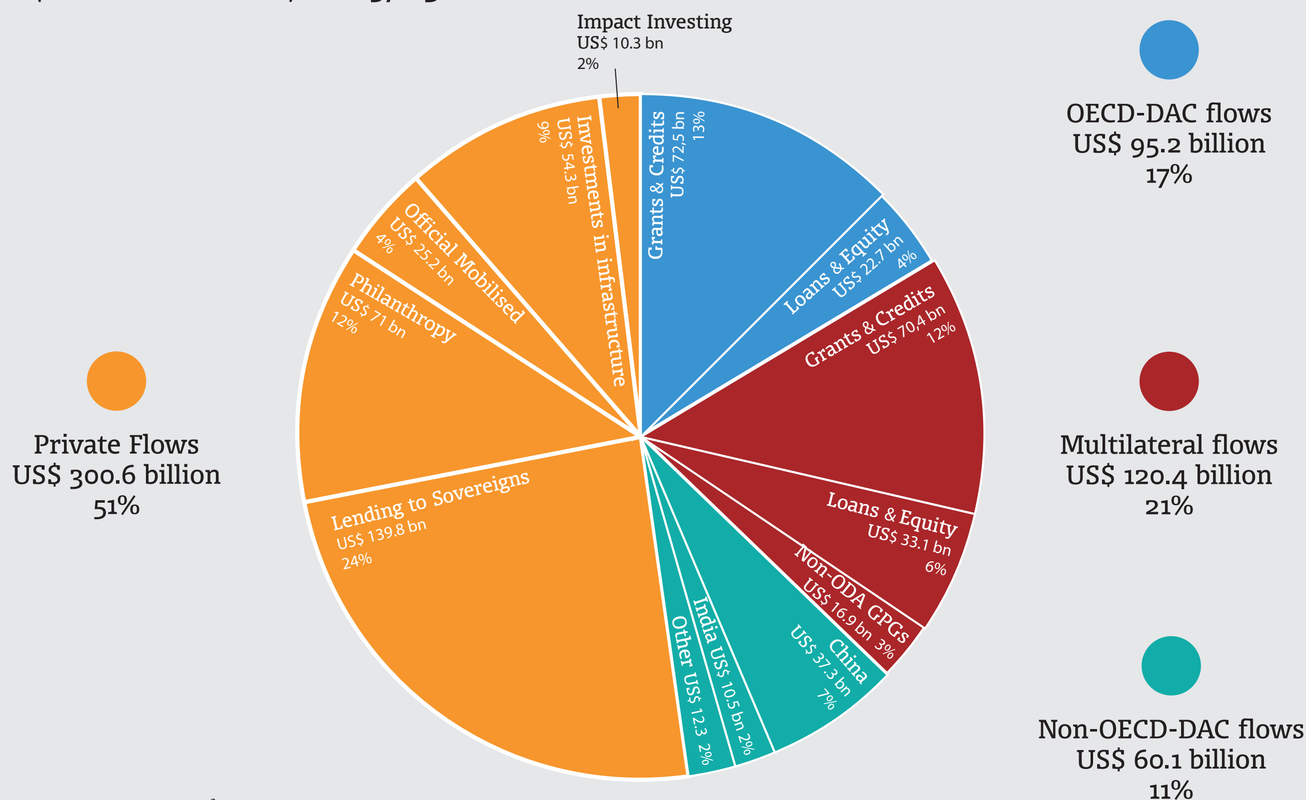
In this paper, we look at flows of grants, credits, loans and equity from the public and private sectors, in cash and in kind.[2] In-kind flows are measured by the monetary value of, for example, donated medicines by private companies, technical assistance provided by official organisations or volunteer time of private philanthropies. Different valuation methodologies could alter the amounts associated with these items, but the aggregate should reasonably proxy the order of magnitude of the flow.

Development finance trends in 2016

A few key findings emerge from this snapshot of development finance in 2016:

• Private finance is the largest source of development finance in 2016, certainly in the aggregate with around US$ 300 billion flowing to developing countries. It seems to be increasingly significant in many low- and

Figure 1: Broadly-defined international development contributions (2016 Current US$) US$ 576.3 billion



Sources and notes:[3]

- OECD-DAC CPA table, Table 2A;
- World Development Indicators: Net financial flows (DT.NFL.BLAT.CD), Net flows on external debt, public and publicly guaranteed (PPG) (DT.NFL.DPPG.CD), accessed April 2018;
- UNSCEB: Total Expenditure by Category Peacekeeping Operations + Normative, Treaty-Related and Knowledge Creation Activities, accessed April 2018;
- AidData Chinese Global Official Finance Dataset Version 1.0 Official Finance recommended for research; 'Dynamic of India's Development Cooperation under the Framework of "Development Compact"';
- Sachin Chaturvedi (2018) RIS for Developing Countries;
- Hudson Institute The Index Of Global Philanthropy And Remittances 2016 Private Philanthropy, Giving USA 2016 and 2017 reports on US philanthropy nominal growth, own calculations;
- Amounts Mobilised from the Private Sector by Official Development Finance Interventions: Guarantees, syndicated loans, shares in collective investment vehicles, direct investment in companies, credit lines, Benn, C. Sangare, and Hos (2017), own calculations;
- Private Participation in Infrastructure Database, as of January 9, 2018, own calculations;
- The GIIN Annual Impact Investor Survey 2017, Billions focused on Emerging Markets in 2016.

lower middle-income countries. In fact, 12 out of 31 low-income countries and 80 middle-income countries have a credit rating from one of the four major rating agencies, suggesting they are actively borrowing from, or considering borrowing from, international capital markets.

• Aid, or what the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD-DAC) terms Country Programmable Aid (CPA) plus humanitarian assistance, regional assistance and debt relief, is a sizeable 29% of total development finance flows, taking bilateral and multilateral aid together.

• Most developing countries do not use the same concept of development assistance as the OECD-DAC, and so do not necessarily differentiate between aid and other forms of development cooperation, but South-South cooperation was at least US$ 60 billion in 2016. This includes both aid and lending, but there is considerable uncertainty about the data. For example, China has two major banks engaged in development cooperation, the China Development Bank and the China Export-Import Bank, and these had perhaps US$ 675 billion in loans to developing countries in 2016.
The gross flows from just these two institutions could potentially be up to US$ 70 billion per year; we have instead chosen to use a far more conservative figure of

US$ 37 billion in Chinese lending, based on projects identified earlier through press reports and verified by AidData. For India, flows of $10 billion per year are estimated, but these are largely export credits that may not be fully oriented towards SDG-related projects.

• Even using conservative numbers of about US$ 37 billion for China's development cooperation finance, China's development cooperation finance would be significantly larger than US$ 30 billion provided by the United States. The US funds are almost entirely grants implemented through its own bilateral agencies or through multilateral agencies. Chinese funds are mostly loans.

• Private philanthropy is substantial, accounting for US$ 81 billion or 15% of total flows, when impact investments are added in.

• Amounts spent on peacekeeping and norms and global public goods (GPG) are estimated at US$ 17 billion or 3% of total flows. Development is still largely something pursued in developing countries, and not in UN or other multilateral headquarters.

• Development finance from OECD countries is still far more oriented toward aid than toward loans and equity. The latter account for only 10% of total flows, or US$ 55 billion, even taking into account loans from multilateral institutions dominated by OECD countries.

• Private finance mobilised through projects with components of official finance are small, only around US$ 25 billion or 5% of total flows.

• Private finance in infrastructure projects without any official financing component (for example in energy generation) are twice that size – US$ 54 billion or 10% of total flows.

The picture that emerges is one of multiple sources of development finance. Given the complexity and scope of the SDGs, and the desirability of engaging governments, official agencies, business and civil society in the implementation, the diversity of funding sources is something to be welcomed.

The picture of trends in development finance, however, is much more sobering. When the aggregate 2016 financing data is compared against an identical exercise done for 2014, there is a substantial decline of over US$ 100 billion in the total annual flow. This is entirely due to a steep fall in private financial flows. Lending to sovereign states fell by US$ 55 billion, probably linked to growing concerns over indebtedness that is starting to affect some countries.[4] Infrastructure investments also plummeted by more than half – a decline of US$ 70 billion that may be attributable in part to regulatory changes like the implementation of Basel 3 and Solvency 2 risk capital weightings.[5] Private provision of infrastructure has been concentrated in a few countries, including Turkey, Brazil and the Philippines, and each has had idiosyncratic reasons for a decline.

The trend data illustrate two important issues with private financing for SDG-related investments: its volatility from year-to-year and the concentration of some components in just a few countries. Officially mobilised private finance can mitigate these risks to a degree, but the amounts remain small.

In other areas, official finance, both bilateral and multilateral, has remained roughly constant, with small shifts in composition from grants to loans. Non-OECD-DAC aid, however, has fallen steeply; oil price declines have put pressure on the budgets of oil-producers who have traditionally been among the most generous donors in the world.

Five defining issues for development finance

Looking forward, we believe that five key issues will define the next twelve years in development finance:
1) development finance flows from emerging markets, primarily from China
2) mobilisation of private capital, especially in infrastructure
3) aid to fragile states most in need of assistance to escape vicious cycles of poverty and insecurity
4) the balance between bilateral and multilateral institutional channels for delivering development finance
5) models for funding global public goods and norms and standards.

1) Emerging market development finance

There is agreement that development finance from China is massive but because it is not transparent it is hard to characterise it. China's main policy banks, the China Development Bank (CDB) and the China Exim Bank, reported an overall portfolio of US$ 675 billion of loans at end-2016. This has risen rapidly but unevenly over time. Estimating the flows by taking the difference of the value of the outstanding portfolio at end-2015 and end-2016 yields a total lending of around US$ 13 billion. But China's former Central Bank Governor, Zhou Xiaochuan, has reported that China Exim alone lent US$ 150 billion between 2014-2017, or an average of US$ 50 billion per year.[6] A detailed examination of project lending by China's policy banks contained in AidData's October 2017 release suggests that US$ 37 billion was lent to developing countries in 2014.

China's signature initiative for development finance is the Belt and Road Initiative (BRI), currently accounting for about one-third of its aid. The scale and scope of the plan is enormous with financing gaps of over US$ 100 billion per year just in participating countries. China alone will not fill these funding gaps, but the BRI offers some insight that lack of demand will not be the key constraint on China's development finance.

Beyond the BRI, China has invested significantly in sub-Saharan Africa, as well as in Latin America. There is considerable debate as to the quality and impact of these investments. On the negative side, arguments run from complaints that Chinese foreign investments are motivated more by a need to off-load slack in its domestic construction industry abroad through overseas infrastructure projects rather than to meet developmental purposes, to the lack of attention to environmental, social and governance (ESG) standards and maintenance in the use of the assets being built, to the dangers posed by high debt levels linked to Chinese finance. On the positive side, analysts point to the fact that workers in China-sponsored projects are largely African, the loans extended to governments are not predatory loans and there is little evidence of land grabs.[7] Some countries like Ethiopia have also used Chinese investments to sharply increase public investment and generate favourable growth dynamics. It is too early to tell which of these narratives is closer to reality.

China also provides considerable development finance from its budgetary resources. Kitano[8] estimates its ODA-like support is around US$ 5.8 billion per year, an amount that would make it the fifth largest OECD-DAC donor in the world, just above France.[9] Chinese aid is provided through a number of ministries. To improve coordination and effectiveness, China recently announced it would establish a specific International Development Cooperation Agency.[10] Hopefully, this will also result in greater transparency on aid volumes.

India has also emerged as a major provider of international development finance, with a reported 224 lines of credits extended to 63 developing countries, totalling over US$ 21 billion by 2017. Lines of credit are the dominant financial instrument for India, and these have been rapidly growing, with new loans of US$ 8 billion extended in 2016 alone. India's development cooperation policy, known as its 'Development Compact' eschews conditionalities to focus more on mutual gain and collective growth. As such, concessional trade access, technology transfer and capacity building are also important components of Indian development cooperation.

Other emerging market and developing countries have adopted OECD-DAC standards for data reporting and cumulatively account for over US$ 12 billion per year in ODA on average since 2010. Countries like Saudi Arabia, Turkey, and the United Arab Emirates routinely invest US$ 3 to US$ 7 billion in developing countries. These investments usually go to neighbouring countries and reflect historical relationships and the recognition of growing regional spillovers that need to be tackled.

2) Mobilisation of private capital for development

Despite much talk of mobilising private capital to move from billions to trillions to close the financing gap to achieve the SDGs, the reality is that mobilised private capital is small. In its survey of mobilisation from official development finance interventions, the OECD found US$ 26.8 billion in 2015, composed mainly of guarantees and syndicated loans.[11] While small compared to total flows for development, this is, however, a basis for growth. The largest mobiliser of private capital is the International Finance Cooperation (IFC) whose activities can now expand thanks to an agreement in principle reached in 2018 to increase its paid-in capital by US$ 5.5 billion. Initiatives such as the Blended Finance Taskforce[12] are also working to create easier and cheaper pathways for mobilising private capital.

Infrastructure, the main avenue for introducing partnerships with the private sector, remains heavily underfunded. The Private Participation in Infrastructure (PPI) database estimates that private investment commitments in energy, transport, information and communication technology (ICT) backbone and water infrastructure in low- and middle-income countries totalled US$ 68.4 billion in 2016, down from 2015 levels by nearly 40% and down by 60% from its peak in 2012. However, 2017 levels have risen already, totalling US$ 93.3 billion, so it seems clear that there are both cyclical and structural trends at play.[13]

3) Aid to fragile states

Poverty is increasingly concentrated in fragile states, where the development challenges are compounded by security and governance challenges. There is no consensus on which countries should be included as 'fragile', but regardless of the definition, as the Figure below shows, there has been very little increase in aid to these countries over the last decade in real terms. The key trade-off remains: fragile states have high need, but are perceived to be places where the impact and effectiveness of aid-financed projects is limited and where absorptive capacity is low.

The OECD in its 2016 State of Fragility report has moved away from the concept of a 'fragile state', so it is no longer able to track how much ODA goes to fragile countries. Instead, it uses metrics of political, social,

economic, environmental and security aspects of fragility to help its members understand the context within which development cooperation must work. Using the previous OECD list of 56 countries, however, shows that they received close to US$ 70 billion of ODA from all donors, with a further US$ 9 billion in loans and equity.

The World Bank classifies countries as fragile if they have an average Country Policy and Institutional Assessment Country Rating of 3.2 or less, or have a presence of a UN or regional peacekeeping mission.[14] There were 36 such countries in 2016. They received just under US$ 41 billion in ODA gross disbursements, and US$ 2.4 billion in loans and guarantees.

Gertz and Kharas use an outcome-based definition, calling for more attention to countries where the trajectory for extreme poverty would still result in head-count rates in excess of 20% by 2030. They identify 31 'Severely Off Track Countries' (SOTCs).[15] These countries received US$ 27 billion in ODA in 2016, as well as a further US$ 1.2 billion in other financing.

Regardless of country definition, the pattern is clear. Countries in need of most support from the international community are not receiving significantly increased levels of development finance.

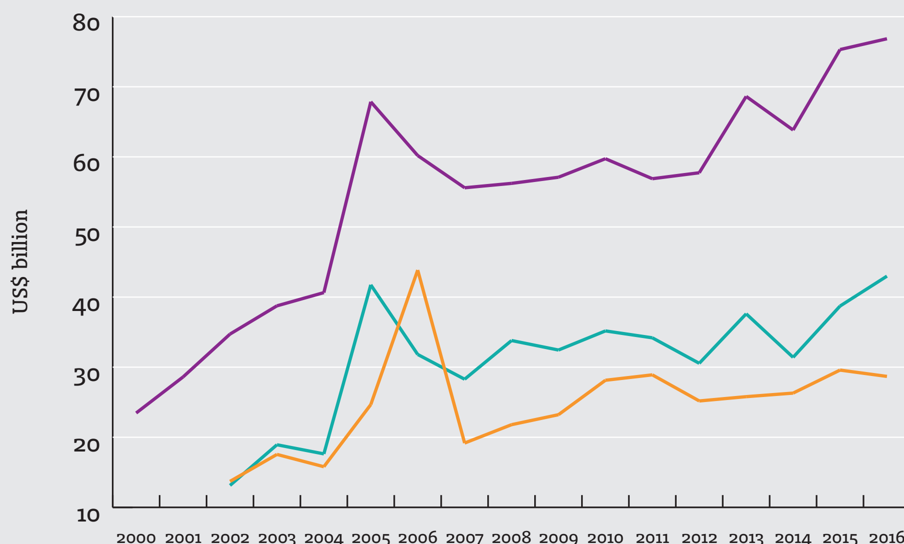
There remains the question of absorptive capacity. Here, there is some evidence that more could be accomplished. Schmidt-Traub[16] looks at country proposals to the Global Fund and finds no difference in technical quality between proposals prepared by fragile states and others. Nnadi et al. show that vaccination campaigns can be effective even in conflict situations. Gertz and Kharas report[18] on World Bank evaluation findings showing roughly similar project success rates in severely off-track and other countries.

4) The balance between bilateral and multilateral channels

Multilateral institutions have a unique comparative advantage to contribute to the SDGs. Their value proposition rests on a strong country presence that permits them to offer tailored solutions. They can potentially provide large volumes of finance on attractive terms, thanks to a capital structure that is the most efficient way of leveraging shareholder funds. They can combine finance with knowledge, policy advice, institutional strengthening and technical assistance and capacity building.[19]

There is no indication that multilaterals have increased their share of development finance. During the period of implementation of the Millennium Development Goals, there was an increase in the share of multilaterals thanks to new vertical funds like Gavi, the Vaccine Alliance, and the Global Fund. A large number of climate related funds were also established. However, today, due to concerns over aid fragmentation, the appetite for new multilateral funds has waned, and existing institutions have not been

Figure 2: Official Development Assistance and other official flows gross disbursements



Sources: OECD DAC Table 2A; Creditor Reporting System, April 2018 update; World Bank FY18 List of Fragile Situations; Leave No Country Behind - Ending Poverty In The Toughest Places, Gertz and Kharas (2018)

able to sharply expand their operations. The multilateral share of ODA has remained roughly constant at between 25% and 30% of total ODA during the last decade, while the multilateral share of total public development finance from OECD-DAC donors has oscillated between 30% and 35% in recent years (Figure 3).

What is missing today is a strong signal from shareholders to support Multilateral Development Banks (MDBs) in scaling up the system. Aid itself is unlikely to be scalable, given budget constraints in most countries. But the leverage opportunities of MDBs offer considerable potential for scaling. The G20 Finance Ministers established an Eminent Persons Group in 2017 to consider the optimal role of international financial institutions and their report is expected in October 2018.[20] Recent capital increases for the International Bank for Reconstruction and Development (IBRD) and IFC are moves in the right direction, as well as the approval for the International Development Association (IDA) of the World Bank to leverage its assets with commercial borrowing. The same principles could be applied to other development finance institutions such as the International Fund for Agricultural Development and the African Development Bank and Fund.

5) Limited funding towards norms and standards
Despite the complexity of the SDGs and the need for new tools to plan and implement sustainable pathways, there is no apparent increase in spending on knowledge creation and norm-setting activities. As shown in the figure below, funding for these activities[21] has only shown modest growth, with a decline in the most recent period. Norms and standards are crucial to SDG 17 in particular, the goal for global partnerships. This goal underscored the point that the SDGs will only succeed if efforts to build local capacity, improve technical cooperation and improve partnerships are properly funded, while preserving focus on the effectiveness of development interventions.

The UN relies heavily on contributions to fund its work on norms and standards. Most of this effort comes from the UN itself. For example, there are awareness raising activities such as the UN Department of Economic and Social Affairs (UNDESA) conference on the occasion of World Ocean Day that directly targeted SDG 14. The High Level Political Forum is another major event that provides momentum and accountability to SDG activities. The Economic and Social Council (ECOSOC) now organises the financing for development forum annually; this year's focus was on contributions of the private sector. Other major agencies, like the World Health Organization, have developed toolkits for monitoring disease in fragile situations. Their Early Warning, Alert and Response System can limit the magnitude and speed at which disease spreads, and thereby also sharply reduce the cost of pandemic response.

Figure 3: Trends in multilateral shares of total ODA and OOF

Sources: OECD DAC Table 2A; Table 2B; Own calculations

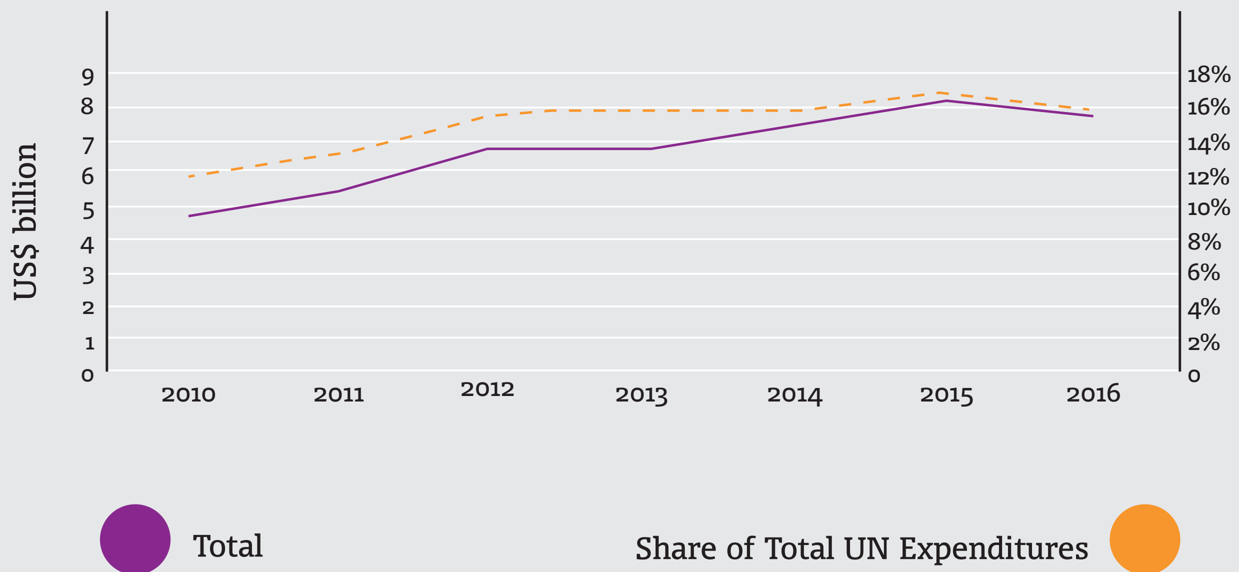
Concluding remarks

The UN is actively engaged in each of these five areas. The UN has an office on South-South Cooperation (SSC) and the United Nations Industrial Development Organization (UNIDO) among others is promoting SSC and triangular cooperation through platforms, networks and global convening. It has a smaller direct role in private financing, but indirectly the United Nations Environment Programme - Financial Inquiry (UNEP-FI) has launched an important initiative to re-align all financial flows towards sustainable development by championing the incorporation of sustainability into the agenda of financial regulators, and encouraging the emergence of financial innovations like green bonds and digital finance.

In fragile states, there is a movement for the UN resident coordinators to take on new roles and functions that will apply different, more tailored, solutions to these situations. With extensive activities in security, humanitarian and development areas, the resident coordinator is uniquely positioned to improve effectiveness at the country level.

The UN will, however, face pressure, as will all multilateral agencies, in competing with bilateral organisations for donor funds and attention. As highlighted below, the US has taken the most radical approach, zeroing out contributions to specific organisations like the International Fund for Agricultural Development (IFAD) and the Global Environment Facility (GEF), while supporting others. But other donors have also been reluctant to take up the mantle of global leadership, preferring to channel their funds through domestic bilateral organisations where accountability and control are more direct.

Figure 4: Norms, treaty-related and knowledge creation activities



Source(s): United Nations System Chief Executive Board for Coordination: Total Expenditure by Category, Accessed April 2018; Own calculations

Footnotes

[1] 'Mobilised' private financing refers to financing that is associated with a specific project supported by a public investor. It can include sovereign borrowing that, on the margin, can be attributed to financing SDG-related activities

[2] Net flows are smaller than gross flows as they subtract repayments on previous credits and loans. Gross flows are the more relevant concept for financing new investments. Net flows are more relevant for measuring the budgetary contribution or effort of donors. Developing countries repay official development financial institutions about US$35 billion each year on non-concessional loans.

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Personal reflections - institutional investors and financing sustainable development:

The need for better alignment

by Marc-André Blanchard

Marc-André Blanchard is Permanent Representative of Canada to the United Nations, and Co-Chair of the Group of Friends of Sustainable Development Goal (SDG) Financing in New York.

I arrived in New York in early 2016 to take on my new responsibility as Canada's Permanent Representative to the United Nations. During my introductory meeting with former Secretary-General Ban Ki-moon, I asked him for advice about which area I, as Canada's new Ambassador, could focus on that would have the biggest impact. His answer surprised me.

He told me that my background in the private sector made me peculiar among the New York Ambassadorial corps – prior to being named Canada's Permanent Representative, I spent most of my professional career in the legal services industry, including serving as Chair and CEO of one of Canada's national law firms, McCarthy Tétrault, from 2010 to 2016. He urged me to leverage this past experience to help move forward one of the most vexing issues confronting the United Nations – how to finance the 2030 Agenda for Sustainable Development.

I agreed and have made this one of my signature priorities ever since. The experience thus far has been both humbling and inspiring. It has been humbling in the sense that it laid bare how much I still had to learn about the subject. And it has been inspiring to work on a subject that, if we get right, holds the potential to transform the lives of billions.

The power of the 2030 Agenda

One of the first things I had to learn was what exactly the 2030 Agenda and its 17 related Sustainable Development Goals (SDGs) are. I will admit that, before coming to New York, I had barely heard of the SDGs and even after my first couple of briefings was pretty sceptical. But I have since come to see the power of the 2030 Agenda's narrative of leaving no one behind as an antidote to the growing sense of cynicism and mistrust increasingly infecting our national politics, stoked by the unease of widening inequalities and a sense that economic opportunities were becoming the domain of the privileged few.

I have also come to recognise the sustainable development imperative for advancing the 2030 Agenda. Take the example of global levels of carbon dioxide emissions which increased by about 2% last year, after having remained flat between 2013 and 2016, dashing hopes that emissions had peaked and would enter a period of steady decline. If we do not reverse this trend, and quickly, by 2050 climate change-related environmental disruptions could displace up to 200 million people – something that would represent a tremendous shock to global stability.

Meanwhile, 767 million people still live below the international poverty line of US$ 1.90 a day and 793 million people are undernourished, 900 million people currently lack access to safe water and 1.06 billion people, predominantly rural dwellers, still live without electricity, about half in sub-Saharan Africa. At the same time, advances in technology, especially automation, are thought to put at risk of becoming obsolete up to 60% of all existing jobs. The 2030 Agenda represents our collective best opportunity to overcome these challenges and help ensure peace and prosperity for our people and the preservation of our planet.

SDG financing challenge: No one silver bullet

Convinced of the merits of the agenda itself, I then began delving deeper into the question of how we are going to finance it. We all know the numbers. They are huge. Financing the SDGs will require about US$ 5 to US$ 7 trillion in new investments each year until 2030. Where will the funds come from?

Official Development Assistance (ODA) will remain an important part of the solution, especially for addressing the immediate needs of the poorest and most vulnerable.

But ODA will clearly not be enough. In 2017, total global bilateral ODA reached US$ 146.6 billion; a huge sum to be sure, but one that would need to increase by a factor of 21 to 35 times to bridge the financing gap in low- and middle-income countries alone. Clearly additional sources will need to be sought.

Over the long term, the most important source of financing for nearly all developing countries will be the domestic resources mobilised through developing their own domestic capital markets as well as through the collection of taxes and other sources of public revenue. But relying on domestically mobilised resources will be insufficient to meet the urgent and pressing challenges we seek to address by 2030. There are limits to what governments can do. Even a developed country like Canada is increasingly looking to attract non-government sources of financing to bridge its own infrastructure gap and to free up scarce public funds to provide essential social services such as social housing, public transit, disaster mitigation and women's shelters.

Though there will not be any one silver bullet that solves the SDG financing challenge, private capital is the one source both large enough and with the potential to reach the scale required by 2030. Total global financial assets have exceeded US$ 300 trillion since at least 2014. Of this, of particular interest is the US$ 78 trillion share held by institutional investors with long-term liability structures and horizons such as pension funds, life insurance funds and sovereign wealth funds. Infrastructure investment in particular, which represents the largest single component of the overall SDG financing gap, should be especially attractive to these investors because of its lower risk and stable real return profile, which matches their real liabilities.

Finding ways of channelling a greater percentage of this pool of institutional capital towards achieving the SDGs has thus become a personal obsession of mine. It is not easy – if it was, it would already be happening and we would not be having these conversations. But it is my hope that through some of our collective efforts, we are on the verge of making significant progress.

The Group of Friends of SDG Financing

Following this initial period of research and reflection, one of the first actions I took was to team up with Courtenay Rattray, the Permanent Representative of Jamaica to the United Nations, and launch in December 2016 the Group of Friends of SDG Financing in New York. The immediate aim was threefold.

First, to provide a venue where our fellow Ambassadors in New York could engage in regular discussions with leaders from the private and public sectors as well as academia to explore potential solutions to the SDG financing question and to increase their own awareness and understanding of the issue. By increasing the level of understanding, the nature of the financing discourse itself at the United Nations would change and by so doing make the United Nations become more relevant. Second, to promote the uptake of reforms by the United Nations to help make it better suited to engage with partnerships with the private sector. For the UN development system to fulfil its role of supporting national implementation of the 2030 Agenda, it must develop means of accessing the resources of the private sector. But with its cumbersome bureaucracy and labyrinthine decision-making processes, it has thus far been largely unable to be an efficient and attractive partner for the private sector. This must change quickly. And third, to help efforts to ensure that private capital is more aligned with sustainable development and that it flows at much greater scale into emerging and frontier markets.

I believe these efforts are beginning to enjoy some success. While the 2015 Addis Ababa Action Agenda, the overarching framework for financing the SDGs, does discuss private sources of financing, the state of the overall financing discussion at the United Nations as recently as 2016 was still dominated by a fixation on ODA – harking back to the early 1990s when ODA still represented one if not the largest streams of development financing in many countries. The world underwent many profound changes since that time, but the conversation on development financing largely remained the same. Efforts to discuss mobilising private sources of financing for development ends remained contested, couched in suspicion and relegated to the back row. But over the last year and a half, there has been a marked change. We see this in the ministerial declarations of the 2017 and 2018 Forums on Financing for Development where the conversation on mobilising private sources of financing for development have become far more sophisticated and of equal stature with the more traditional areas of discussion, like international public cooperation and domestic resource mobilisation. And we see this in the increasing number of initiatives being launched by the UN Secretary-General, the Presidents of the General Assembly and by the UN Financing for Development Office related to mobilising private sources of finance for the SDGs. It is my hope, indeed my belief, that these new initiatives will help enable the ultimate objective of the Group of Friends of SDG Financing; catalysing actual financing deals that put shovels in the ground.

Role of institutional investors

Back at home, I have been working with Prime Minister Justin Trudeau to help give these efforts a boost through Canada's presidency of the G7 in 2018. For example, for the first time there will be a joint meeting of G7 Ministers of Finance and Ministers of International Development where the issue of mobilising private sources of finance for development will be at the top of the agenda. I have also been working with Canada's largest pension funds to leverage our G7 leadership to launch a global discussion among institutional investors with a view to increase the share of their investments that go into projects that will support the achievement of the SDGs while enhancing the sustainability of their existing portfolio. Three specific initiatives will be launched as part of this initiative: one on increasing gender diversity in global capital markets; one on strengthening North-South networks and emerging market expertise in sustainable infrastructure; and one on moving forward in climate-related financial disclosures.

These initiatives are a first instalment in a series of global conversations about the role institutional investors can play in supporting our universal efforts to promote sustainability and help ensure that we leave no one behind. Such discussions can help foster relationships and partnerships that can overcome the information and expertise gaps that exist between global investors and emerging and frontier markets as well as showcase the tremendous opportunities that exist for institutional investors in emerging and frontier markets where investment risks are usually overestimated. The latest research by Moody's Investor Service shows how the credit performance of project loans in emerging market and developing economies' debt is not substantially different from that of comparable debt in advanced economies; this however does not appear to be the current working assumptions of most institutional investors.

These global conversations can also help us reconsider how we perceive and calculate risk in general, including the risk of inaction and of failing to make the necessary investments in the sustainable development of our planet that will mitigate the impacts of severe climate change while avoiding widespread unemployment. In market economies, institutional investors manage significantly more capital than their respective governments – there must therefore be a recognition that with their wealth comes a responsibility to act taking into consideration the global public good.

Yes, pension funds and other institutional investors owe their beneficiaries specific fiduciary obligations. But are they truly fulfilling those duties under a business-as-usual approach that does not seriously address climate change or global stability? Not to mention the risk to the value of their existing assets if we enter a period of protracted political and ecological instability.

Such efforts in my opinion are at the forefront of a broader paradigm shift we are on the cusp of, that will see sustainability considerations brought to the centre of how the private sector operates. This transformation will stand as one of the 2030 Agenda's major legacies and will result in the world being a more inclusive, happier and safer place.

Recent multilateral resource mobilisation and the challenges ahead

By Johannes F. Linn

Johannes F. Linn is a non-resident Senior Fellow at the Brookings Institution, a Distinguished Resident Scholar at the Emerging Markets Forum in Washington, DC and a Senior Fellow at the Results for Development Institute. In 2011, 2014 and 2017 he served as the chair for the 9th, 10th and 11th Replenishment Consultation of the International Fund for Agricultural Development. From 2005-2010 he was Director of the Wolfensohn Center for Development at Brookings. Prior to joining Brookings in 2003, he worked for three decades at the World Bank, including as the Bank's Vice President for Financial Policy and Resource Mobilization and Vice President for Europe and Central Asia. Linn has published extensively on development and global governance issues. He holds a bachelor's degree from Oxford University and a doctorate in economics from Cornell University.

Over the last 18 months a number of multilateral resource mobilisation efforts were completed. The consultations among the member countries that precede agreements on the replenishment of multilateral concessional funds and on capital increases for multilateral development banks represent important opportunities for members to set the strategic directions, policies and operational modalities for these institutions, and to ensure that they remain appropriately funded to deliver on their development mandates.

Recent efforts include the replenishment of resources for the International Development Association (IDA) and of the African Development Fund (AfDF), both of which were finalised in December 2018. The replenishment consultations of the International Fund for Agricultural Development (IFAD) and of the Global Partnership for Education (GPE) were concluded in February 2018, and those for the Global Environment Facility (GEF) in April 2018. Negotiations about a possible capital increase of the resources of the World Bank's International Bank for Reconstruction (IBRD) and International Finance Corporation (IFC) were successfully concluded in April 2018 for expected ratification during the International Monetary Fund (IMF)/World Bank annual meetings in October 2018. The experience with these efforts to raise resources for multilateral development institutions and funds yields the following observations.

Resources mobilised

Here the picture is mixed. IDA, AfDF and GEF saw a decline in pledges in dollar terms relative to previous replenishment rounds, mostly due to the strong dollar, which meant that other donor pledges, although generally constant in domestic currency terms, declined in dollar value. IFAD's replenishment target saw an increase over the actual contributions during the prior replenishment cycle, but a decline relative to the previous target. And the GPE replenishment fell short of its very ambitious target, although it represented an increase on the previous round. In terms of donor participation, middle-income countries generally pledged increased amounts, but the new US Administration reduced its contribution to IDA and AfDF from the December 2018 pledge by 15%, did not pledge in the IFAD replenishment and halved its pledge in GEF compared to the previous round. The US support for a substantial increase in the capital of the World Bank Group came as a welcome surprise, albeit with conditions attached that may reduce the Bank's ability to lend to upper middle-income countries in the longer term. Overall, the risk of a significant reduction in the US support, and its possible ripple effect on other donors, is clearly the biggest threat at this time to the continued financial viability of the multilateral development finance system.

Financial leverage

In 2015 the Asian Development Bank (ADB) merged the balance sheets of its concessional and non-concessional windows. Previously, the equity accumulated over decades in the non-concessional window (the Asian Development Fund, or AsDF) had not been used as a basis for borrowing in the international capital markets, but after the merger in balance sheets this in effect could be done and significantly expanded the capacity of ADB

to lend to its clients. Drawing on this experience, IDA, AfDF and IFAD started to leverage their equity – in the case of IDA with market borrowing and concessional loans from its members, with concessional member loans in the case of AfDF, and with concessional and non-concessional member loans in the case of IFAD (which is also exploring the possibility of accessing the capital markets). This allowed these three multilateral development funds to increase the financing of development programmes to their client countries, even as they faced constraints in the grant contributions from their donor members.

Domestic resource mobilisation

In line with the agreements reached at the Addis Ababa Financing for Development Conference in 2015, replenishment consultations placed increased stress on domestic resource mobilisation in developing countries, including participation by the private sector. In the case of IDA this is reflected in the World Bank's Maximizing Finance for Development initiative, which gives priority to mobilising private project finance; for IFAD in the greater focus on domestic co-financing; for GPE in the explicit education budget pledges by recipient countries; and for the GEF a co-financing target was agreed.

Graduation

All multilateral development finance institutions face pressure from their donor members to speed up the graduation of recipient countries from the more concessional funding windows as their per capita incomes increase and IBRD and IFAD are under pressure to substantially reduce or even cease their lending to upper middle-income countries. The current US administration has been especially vocal in this regard. This risks reversing the increased participation of middle-income countries in the replenishment processes and undermines the multilateral nature of these institutions.

Other challenges

Recent resource mobilisation initiatives reveal three additional policy, process and structural challenges:

• ***Increased levels of conditionality:*** Over the last decade, donors have imposed an increasing number of detailed conditions on the multilateral development institutions that diminish the strategic focus of the replenishment consultations and risk undermining the role of the executive boards of these institutions. The recent initiative by the UK to insist on separate performance agreements with each institution, with 30% of its pledge tied to the achievement of specified results, further risks undermining the multilateral nature of the replenishment process.

• ***Continuous engagement of donors:*** While replenishment processes were designed to engage donors intermittently (usually at three to four year intervals), leaving the managements and boards of the institutions to implement programmes in the meantime, IDA in recent years started a continuous process of engagement by donors, a practice that is increasingly also followed by others. While this raises the visibility of multilateral organisations in the donor capitals and allows for the development of shared longer-term strategic perspectives among donors, it is a burdensome practice for the institutions and for donor ministries and further blurs the dividing line between donor and executive board responsibility.

• ***Fragmentation of financial channels:*** Increasing fragmentation of donor resource channels is happening in three areas: first, all multilateral development finance institutions have experienced over recent decades an increased donor reliance on earmarked trust funds at the expense of general 'core' resources; this is especially problematic for UN institutions, such as United Nations Development Programme (UNDP). Second, even for core resources, there is a tendency to earmark portions for specific purposes; this is most advanced in the case of IDA, where substantial amounts of the replenishment pledges are dedicated to a fragile states window, a private sector window and a window for regional cooperation. Finally, donors continue to increase the number of funding platforms with overlapping and duplicative functions, such as the Green Climate Fund, which overlaps with the GEF; the Global Agriculture and Food Security Program (GAFSP), which duplicates IFAD; and the new Education Cannot Wait Fund for refugee children, which overlaps with the GPE. And all these funds, old and new, overlap with the activities of the long-established multilateral development banks.

The recent experience with multilateral replenishments and capital increases shows that they represent important opportunities (including refreshed development strategies, increased engagement by middle income countries and enhanced financial leverage), but also serious tensions (including increased conditionality, complexity of consultations and fragmentation). And there are serious questions about whether the US will continue its past leadership role in ensuring an effective multilateral development system. However, overall, the recent resource mobilisation processes also confirm that regular multi-year replenishments and intermittent capital increases are important opportunities for member countries to assure appropriate accountability, strategic directions and resourcing for the multilateral development institutions. Many UN organisations rely on annual resource drives. They might wish to consider whether to adopt multi-year replenishments as an alternative.

PART TWO
Chapter Two

Broadening perspectives

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China’s expanding development cooperation

By David Dollar

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China has become a major source of development finance for the developing world. Its highest profile effort is the Belt and Road Initiative (BRI) – Xi Jinping’s vision of providing infrastructure and connectivity along the ancient Silk Road as well as along a so-called ‘maritime route’ that goes South from China, past Southeast Asia and South Asia, and on to Europe through the Suez Canal. But China’s effort goes well beyond this one project.

China’s development finance (CDF) consists of a mix of grants, concessional loans and non-concessional loans to developing countries primarily for infrastructure but also including agriculture, health, education and industrial development. The grants have mostly been administered by the Ministries of Commerce and Foreign Affairs. Concessional loans generally come from the Export-Import Bank of China (EXIM Bank) with the subsidies coming from the Ministry of Finance. China Development Bank and China EXIM Bank’s non-concessional lending are based on their borrowing on domestic and international capital markets, with a spread added, so that they expect this business to be financially self-sufficient. Because of the large number of agencies involved and the risks of coordination problems, the National People’s Congress in 2018 established an International Development Cooperation Office under the State Council, whose goal is to ‘enhance strategic planning and co-ordination of foreign aid, and better serve the country’s overall diplomatic layout and the Belt and Road Initiative’. The motivation for China is partly economic: the economy has excess savings and under-employed construction companies and heavy industry. Also, if infrastructure is improved in neighbouring countries, China benefits indirectly as trade expands. There is also strategic motivation as China gains friends and influence through these projects.

Chinese development finance volumes

The policy banks do not report detailed lending to individual countries. They reported that their overall portfolio of overseas lending was US$ 675 billion at end-2016. At the Belt and Road Forum, in May 2017, they announced that as of end-2016 about one-third of their lending had gone to BRI countries.

A data-set on China’s development finance has been compiled by Dreher et al. under the title AidData.[1] This dataset contains project-level information on Chinese official development finance to Africa, Asia, Europe and Latin America from 2000-14. According to AidData, China’s development finance was quite modest up until the Global Financial Crisis, after which it increased significantly. It was about US$ 50 billion per year during 2012-14. About half has gone to BRI countries in the most recent years, which is a bit higher than the aggregate figures reported by the policy banks. The data-set also has a breakdown of projects by sector. By far the two biggest areas are transport (39% of total financing) and power generation (32%).

Less than 3% of the lending is in Chinese Renminbi and most of the lending is in dollars at variable interest rates. However, many developing countries would not be able

to borrow from any other source at such attractive rates, so it is a benefit to those countries, even if only about one-quarter of the finance meets the concessionality standard for foreign aid. The attraction for borrowing countries is that they get access to a large amount of financing in order to meet their serious infrastructure gaps. The projects are generally carried out by Chinese construction companies, who often bring many of their workers with them. The fact that three-quarters of China's development finance is non-concessional and aimed at infrastructure fits with China's philosophy that
(1) growth is the key to development and poverty reduction;
(2) infrastructure is a critical input into growth; and
(3) infrastructure should largely pay for itself through user fees and faster growth of the economy.

In terms of where China's finance is going, according to AidData, 37% of China's financing in the 2012-14 period went to Africa; 25% to maritime Asia; 14% to Latin America; and only 14% to landlocked Asia. Additional insight can be gained by focusing on the top 20 recipients of Chinese development finance, 2012-14. The list includes some Asian economies that are along the Belt and Road, but it also includes eight African countries and three Latin American ones. Looking at the top 20 recipients, several have rule of law that is above the mean for developing countries, according to the World Governance Indicators: Indonesia, Sri Lanka, Kazakhstan, Ethiopia, Kenya, South Africa and Tanzania; but others are rated very poorly on rule of law: Venezuela, Ecuador, Angola, Nigeria, Sudan, Iran and Pakistan.

This means that significant amounts of Chinese finance are going to risky environments. The fact that there is no geographic pattern to China's development finance suggests that it is more demand-driven, by which countries are willing to borrow, than supply-driven by a Chinese master plan.

Debt sustainability of borrowers

China's growing development finance raises several issues of global governance, one of which is debt sustainability. Developing countries have suffered severe external debt crises from time to time: Latin America in the 1980s, East Asia in the 1990s and Russia in 1998 are just some of the examples. External debt is different from domestic debt in that it has to be serviced ultimately through exports. Capital flows to developing countries go through cycles: at times, in the search for yield, global investors are willing to lend a lot at relatively low interest rates. It is attractive then to borrow externally in order to fund infrastructure. There is always a risk, however, of capital flow reversal and increases in interest rates. Chinese banks are secretive about their lending terms, but most of these loans are in US$ at flexible, commercial rates. For the non-concessional lending, as interest rates rise in New York and London, the cost of servicing loans from China will rise. Some, but not all, of the countries that have borrowed heavily from China in recent years are at risk of debt distress. The World Development Indicators include recent data on external debt relative to gross national income (GNI) for most of the countries included in the database on CDF, including all of the top 20 borrowers. For these 20 countries, debt to GNI increased from 35% in 2008 to 50% in 2015. For the other 77 developing countries, there was a modest increase in external debt, from an average of 45% of GNI in 2008 to an average of 48% in 2015. The average level of debt for the major borrowers from China is not alarming. But the rapid increase is something of a concern. More importantly, the average disguises large variation at the country level. In the last couple of years large increases in debt, taking countries to risky levels, were experienced by Angola, Belarus, Cote d'Ivoire, Ethiopia, Kenya, South Africa, Ukraine, Venezuela and Tanzania.

On the issue of debt sustainability, a balanced assessment is that most of the developing countries taking advantage of Chinese finance for infrastructure are in sound fiscal condition. A few have taken on excessive amounts of debt, and mostly they have turned to the IMF for the traditional medicine of adjustment policies and emergency finance.

A new type of bank

China's support to development finance also includes the launching of the Asian Infrastructure Investment Bank (AIIB). Around the time of the global financial crisis an international commission under the chairmanship of Ernesto Zedillo examined the performance of the World Bank and the other Multilateral Development Banks (MDBs) and made recommendations for modernising them.[2] This commission had good representation from the developing world (including Zhou Xiaochuan from China) and made a series of practical recommendations: increase the voting shares of developing countries to reflect their growing weight in the world economy; abolish the resident board as an expensive anachronism given modern technology; increase the lending capacity to meet growing developing world needs; re-establish the focus on infrastructure and growth; and streamline the implementation of environmental and social safeguards in order to speed up project implementation.

China generally shared these criticisms of the World Bank, and its sister institutions such as the Asian Development Bank. In the wake of the Zedillo report, however, there was no meaningful reform. This frustration with lack of reform in the World Bank, combined with a general dissatisfaction with the US-led global financial system, influenced China to launch the AIIB.

Alex He noted in 2016, 'Indeed, China and other emerging powers have criticised the World Bank and the IMF for their inefficient and over-supervised processes of granting loans. The current gap between the demands for infrastructure investment and available investment from existing international financing organisations in developing countries creates an opportunity for emerging economies to establish a new type of bank with a directed focus in this area.'[3] The new bank is also a way for China to put its excess savings to use through a multilateral format, to complement (and perhaps provide some competition with) its bilateral efforts.

The charter of the AIIB follows very much in the spirit of the charters of the World Bank and Asian Development Bank, but it also incorporates virtually all of the Zedillo report recommendations: majority ownership by the developing world, no resident board, authority to lend more from a given capital base, a focus on infrastructure and growth and environmental and social guidelines that should be implemented 'in proportion to the risk' (per AIIB website).

AIIB's leadership hopes that the bank can meet international standards but be more timely and cost-effective. This is largely a matter of implementation and it will take time and experience on the ground to see if the effort is a success. In its first two years of operation, AIIB lent US$ 4.4 billion, with two-thirds of its projects co-financed with the World Bank or regional development banks. It will take time for AIIB to build up a portfolio of projects that it developed on its own, but if AIIB can meet environmental standards more efficiently, that would be a very positive innovation. More importantly, if AIIB's activities can put pressure on the World Bank and the regional development banks to streamline their procedures and speed up their infrastructure projects, then this would be a positive change to the global system that emanated from China.

Footnotes

[1] Axel Dreher, Andreas Fuchs, Bradley Parks, Austin M. Strange and Michael J. Tierney, 'Aid, China and Growth: Evidence from a New Global Development Finance Dataset', (Working Paper 46, AidData, 2017). http://docs.aiddata.org/ad4/pdfs/WPS46_Aid_China_and_Growth.pdf

[2] Robert B. Zoellick, 'Letter to Ernesto Zedillo, Yale Center for the Study of Globalization', (letter, The World Bank, October 2009). http://siteresources.worldbank.org/NEWS/Resources/WB-GovernanceCOMMISSIONREPORT.pdf

[3] Alex He, 'China in the International Financial System: A study of the NDB and the AIIB', (Papers No. 106, CIGI, 2016). https://www.cigionline.org/sites/default/files/cigi_paper_no.106.pdf

Dynamics of India's development cooperation under the framework of 'Development Compact'

By Sachin Chaturvedi[1]

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India's development cooperation policy is the reflection of the broad principles followed by the Indian foreign policy of sovereign equality and a belief in friendly relations with all countries. In particular this means a new emphasis on the 'Neighbourhood First' approach by Prime Minister Modi's administration, which in last four years has seen more of the lines of credit (LoC) (concessional financing) in the neighbourhood than ever before.

Commitment to promotion of human freedom, opposition to colonialism and creation of equitable conditions for peaceful and harmonious development of nations serves as the guiding principle for Indian foreign policy. India has advocated global peace, disarmament and development through a variety of the fora of the developing countries, like the Non-Aligned Movement (NAM), the Group of 77 and the Group of 15. However, as Gandhi said, 'the juxtaposition of peace and prosperity is not a contrivance for stating moral precepts' but the two are indissolubly linked. Thus, pragmatism is evident in the genesis and evolution of the Indian development cooperation policy.

Even prior to Independence, India had realised the importance of the capacity development through human-resource training programmes. It was in view of this conviction that right from 1946, capacity-building programme was initiated as the plank for overall development cooperation, and the strategy was organised more systematically in the form of the Indian Technical and Economic Cooperation (ITEC) programme in 1964. Similarly, other pillars of the present Indian development cooperation strategy, including trade and investment development, finance and grants, and cooperation in science and technology, could be developed over years. Many of these policy approaches were drawn from the conventional development philosophy, particularly the structuralist approach, while some were from the demand-driven requirement of the Southern countries. These features of the Indian development cooperation policy are part of the overarching strategy and the central pillar of India's development cooperation policy, known as 'Development Compact'.

In this paper we explore some of the broad trends in allocations along with policy priorities. Section II brings out the idea of Development Compact; section III gives analysis of the current trends in India's development cooperation and the last section presents broad concluding remarks.

Modalities of engagement and Development Compact

In the last decade, many of the developing countries have themselves emerged as the major providers of development assistance, giving a new context to the very idea of Development Compact. In our view, the new Development Compact is among the actors from the South, unlike a North-South exchange, as was perceived earlier. It is no more of imposing of any kind

of conditionalities on the recipient countries.[2] In fact, it is based more on the principles that govern the South-South Cooperation (SSC); like mutual gain, non-interference, non-conditionality and collective growth opportunities.

The concept of the Development Compact is through five different modalities viz. capacity building; technology transfer, concessional (duty free quota free) trade, lines of credit and grants. The lines of credit and grants can be pooled under financing mechanisms.

The engagement of the emerging economies with the other southern countries has provided a major pull factor for wider engagement across the five above-mentioned elements. This emphasises a comprehensive support for economic development. Of course, there are many caveats attached as we enter a practical world; for instance, in the trade category if there are complementarities, there are also possibilities of competition. In some Southern economies, with weak economic structures, limited capacity for import and export or in Hicksian term highly constrained 'tradeables', and in some cases similarities in production patterns and similar technological base may pose a major challenge for trade. That may call for trade liberalisation to be linked with the foreign direct investment for overcoming supply-side constraints, leading to industrial cooperation, followed by market access and regional trade arrangements. General commitment among the partner countries is also an important factor for the success of the Development Compact. Partner countries would have public policies for promoting innovations, in particular, and science and technology and enabling factors like education, research and development (R&D) and commitment for nurturing related and other institutions.

Emerging trends in India's engagements

The scope and reach of India's development cooperation has seen considerable expansion in the past few years. India's development partnership is based on the needs of the partner countries as are and is geared towards accommodating as many requests received from the countries as technically and financially feasible.

India's total development cooperation was US$ 3.67 billion in 2014-15. With the new approach of extending LoCs in the neighbourhood and a US$ 5 billion LoC to Bangladesh, this figure increased to US$ 10.47 billion in 2016-17 (Table 1). Out of total US$ 10.47 billion, almost 95% was spent at the bilateral level in 2016-17.

A) Capacity building (Table 2)

India established scholarships to foster cultural and educational relations with Africa and its neighbouring countries in Asia with three broad mechanisms viz. providing training in India; sending teams of experts to partner countries; and providing equipment for project sites. The programme within which it is managed is called Indian Technical & Economic Cooperation Programme,[3] launched in 1964. During 2016-17, 12,500 civilian training slots were allocated under the ITEC/Special Commonwealth Assistance for Africa (SCAAP) programme which expanded in a major way from 9,932 slots in 2014-15. The programme covers 161 developing countries with an annual expenditure of around US$ 36.88 million. Initially ITEC even included providing consultancy for industrial policy development and setting of industrial parks. At the 2015 India-Africa Forum Summit (IAFS) it was proposed to set up special units with partner countries, on their request, for capacity building for evolving viable projects which may get concessional financing.

Table 1: Norms, treaty-related and knowledge creation activities

Year	Bilateral (1)				Multilateral (2)	Total (1+2)
	Grants (A)	Capacity building (B)	Lines of credit (C)	Total (A+B+C)		
2014-15	919	33	2,382	3,334	338	3,672
2015-16	1,890	35	3,360	5,285	398	5,684
2016-17	2,173	37	7,985	10,195	274	10,469
Average (2014-15 to 2016-17)	1,661	35	4,576	6,272	336	6,608

Source: Research and Information System for Developing Countries (RIS) database (based on annual reports of Ministry of External Affairs (MEA) (various years) and budget documents of various years, Ministry of Finance, Government of India (GoI))

Table 2: India's development cooperation: Capacity building (ITEC/SCAAP/TCS)

Programme	2014-15		2015-16		2016 -17		Average (2014-15 to 2016-17)	Average (2014-15 to 2016-17)
	US$ million	Slots	US$ million	Slots	US$ million	Slots	US$ million	Slots
ITEC-Programme	26.63	8,300	28.06	8,360	30.15	10,469	28.28	9,043
SCAAP Programme	4.93	1,632	5.46	1,640	5.28	2,031	5.22	1,768
Technical Coopera-tion Scheme (TCS)[4] of Colombo Plan	1.47	500	1.34	500	1.45	500	1.42	500
Total	**33.03**	**10,432**	**34.86**	**10,500**	**36.88**	**13,000**	**34.92**	**11,311**

Source: RIS database (based on annual reports of MEA (various years) and budget documents of various years, Ministry of Finance, GoI)

B) Bilateral grants

Extending grants is an old-established mechanism at bilateral and multilateral level. It was way back in 1952 when India established India Aid Mission in Nepal. Later in 1966 its name was changed to India Cooperation Mission suggesting that India does not give aid but it extends cooperation. It was with this spirit that India in 2012 established Development Cooperation Administration for administrating all modalities of development cooperation except trade, which is with the Ministry of Commerce.

In terms of grants, in the last three years (see Table 1), there has been a significant expansion in India's development cooperation in a multi-faceted manner for a number of developing countries. The main focus of the development assistance has been for the neighbourhood countries, South East Asia and Africa. India is expanding the reach of its development assistance to distant areas such as the Caribbean, Latin America, Mongolia, Pacific Island Countries, etc.

C) Lines of credit

Since the late 1940s, lines of credit have been provided to other developing countries; the first such support was extended to Burma (now Myanmar) in 1950.[5] The Government of India in 2003-04 had formulated an India Development Initiative (IDI), which allows India's Export-Import Bank to extend LoCs to friendly foreign countries at the behest of Government of India. Until October 2017, EXIM bank granted 224 LoCs to 63 countries in Africa, Asia, America, CIS and Oceania with the credit commitments of over US$ 21.36 billion.

D) Multilateral flows

India's budgetary allocation to multilateral institutions was US$ 274.16 million in 2016-17. Its contribution to international institutions was US$ 124.71 billion in 2016-17; accounting for 45.48% of the total. The grant to multilateral institution was almost 5% of the total flow in 2016-17 (Table 3).

Table 3: India's contribution to multilateral institutions, US$ million

	2014-15	2015-16	2016-17	Average (2014-15 to 2016-17)
International Institutions	137	155	125	139
UN Agencies	33	43	34	36
Regional Institutions	18	16	13	16
Others	151	185	102	146
Total	**339**	**399**	**274**	**337**

Source: RIS database (based on annual reports of MEA (various years) and budget documents of various years, Ministry of Finance, GoI)

Concluding remarks

Partnership for development occupies a paramount place in India's foreign policy. The development cooperation is based on the two main pillars - first, the idea of partnership, to work for mutual benefit and the second, that priorities for engagement are determined by the partners themselves. Development cooperation within the emerging institutional architecture in a way would meet India's foreign policy goals. The establishment of the Development Cooperation Administration may be a useful mechanism in addressing challenges faced by India's development cooperation; however, its effectiveness would depend upon on how well it is able to override constraints. Evaluation and impact assessment would play a key role in improving SSC projects through subsequent institution building, within India as well as elsewhere. With academia and civil society, the Ministry of External Affairs has also established Forum for Indian Development Cooperation (FIDC).

With new, emerging institutions in India itself, and learning from experience there would be a need to manage SSC more judiciously from the experience and in that way help strengthen institutions in place. Mainly for this reason, regular and systematic performance reviews of the external assistance programmes would need to be introduced into the system. There is also a need to assess full implications of India's development cooperation to harness available opportunities. In this context, introduction of a new programme called *Pragati* (progress), at the level of the Prime Minister is worth mentioning here. Though it is largely for domestic programme assessment, at times foreign programmes are also being reviewed. The External Affairs Minister has periodically started reviewing these programmes. It was in one of such meetings that huge delays in Salma Dam were pointed out and within weeks it was finished and inaugurated by the Prime Minister himself in Afghanistan.

The Salma Dam is located in Chisti-e-Sharif district of Afghanistan. The project was initially proposed in 1957. India stepped in the year 2002, but was constantly gripped by constraints; inter alia, difficult terrain, security issues, cost overruns and budgetary constraints. However, Indian Prime Minister Narendra Modi seized the opportunity directly and ensured that the work was completed in four weeks to provide water for irrigation and to generate electricity in Afghan province of Herat.
The Salma Dam constructed at a cost of Rs. 1400 crore (US$ 2.15 billion) was inaugurated in 2016. Built on the river Hira in the Herat Province of Afghanistan, the dam is designed to produce 42 MW of hydro power and irrigate 80,000 hectares of land. There has been a considerable cost overrun – the initial estimate made in 2004 put the project expenses at Rs 351.87 crore (US$ 500 million) – due to several factors, including deteriorating law and order situation during the intervening period, difficult geographical terrain, objections from neighbouring countries, etc.

Another matter that requires attention is the coordination at multilateral and trilateral fora. There is a growing need to improve trilateral cooperation through the fora such as India, Brazil, South Africa initiative or the Brazil, Russia, India, China, South Africa grouping (BRICS). Institutional innovations are also being considered necessary for the future performance.

Footnotes

[1] The author would like to thank Dr Sushil Kumar for excellent research support.

[2] Sachin Chaturvedi, *The Logic of Sharing: Indian Approach to South-South Cooperation*,
(New Delhi: Cambridge University Press, 2016).

[3] For more information on the Indian Technical & Economic Cooperation Programme see:
https://www.itecgoi.in/index.php

[4] Since 1950, India is extending technical cooperation and assistance to participants from Asian countries of the Colombo Plan countries under the TCS of Colombo Plan.

[5] Sachin Chaturvedi, 'India's development partnership: Key policy shifts and institutional evolution',
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Sustainable Development Goal financing in the developing countries: Like clouds and wind without rain

By Debapriya Bhattacharya

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One of the derived wisdoms from the experience of implementing the Millennium Development Goals (MDG) suggests that the absence of an apriori understanding on the financing possibilities of the global agenda did affect its delivery. Thus, widespread satisfaction was expressed when the third Financing for Development (FfD) conference was held in Addis Ababa in July 2015, ie before the adoption of the Sustainable Development Goals (SDG). As the SDGs are rolled out at the country level over the next three years, it may be observed that the state of financing of the SDGs, particularly in the developing countries remains problematic—like clouds and wind without rain.

An aggregate view

Before delving into specific countries' experiences, let us have a brief look at the aggregate picture concerning the flow of development finance. A glance at the latest available annual data (2016) from the Organisation for Economic Co-operation and Development (OECD) indicates that gross official development assistance flow (ODA) (in current prices) to developing countries marginally increased from US$ 105.54 bn in 2015 to 115.52 bn in 2016, while gross other official flows (OOF) decreased during the same period from US$ 53.12 bn to US$ 51.82 bn.[1] However, the total of ODA and OOF in net terms (in current prices) depicts a fall to US$ 106.90 bn from a comparable figure of US$ 115.97 bn in 2015 and US$ 123.63 bn in 2010. Net flow of non-concessional loans (in current prices) indicates a similar picture as it stagnated at US$ 5.11 bn (2016) as against US$ 4.38 bn (2015). During 2016, net foreign direct investment (FDI) and remittance flows (in current prices) to developing countries experienced a decline as well. Net FDI fell from US$ 643.43 bn (2015) to US$ 571.54 bn, while remittance flow (net) fell from US$ 334.64 bn to US$ 323.15 bn. We observe that the total stock of external debts in the developing countries reached US$ 6,876.98 bn in 2016 compared to US$ 6,604.49 bn in the previous year. As a result, the share of total external debt stock rose to 25.19% of total gross domestic product (GDP) of the developing countries in 2016 compared to 24.28%[2] in 2015. At the same time, country-level experience shows (based on panel data on 44 developing countries derived from World Bank) that the revenue collection (without grants) as a share of GDP in the developing countries has stagnated during the first year of the post-2015 period—24.8% (2015) and 24.10% (2016). While it is not advisable to judge a trend based on a one-year observation, it may be said that signs of a strong take-off in financing of SDGs in the developing countries is yet to be seen.

Indeed, from OECD Development Assistance Committee (OECD-DAC) countries, core support to international NGOs including developing country-based non-governmental organisations (NGOs) also experienced a decline from US$ 1 bn (2015) to 0.82 bn (2016). These figures correspond to 0.76% and 0.57% of total ODA flow from OECD-DAC.

Resource flow from non-OECD-DAC countries to other developing countries, as per OECD data set, also projects a less than encouraging picture (in current prices). Gross ODA from these sources fell from US$ 17.7 bn (2015) to US$ 14.07 bn and the comparable figures for OOF were US$ 3.97 bn and US$ 1.09 bn respectively.

Broadening perspectives

As a result, the total official flow from non-OECD-DAC developing countries to other developing countries between 2015 and 2016 registered a fall from US$ 21.67 bn to US$ 15.16 bn. The concerned net figures are more on the downside.

Figures relating to disbursements of loans and grants by regional development banks also provide a number of interesting changes. Between 2015 and 2016, flow from the Asian Development Bank (ADB) (2016)[3] and the Inter-American Development Bank (IADB) (2017)[4] stagnated at US$ 12.2 bn and US$ 10.0 bn respectively; the comparable figures for the African Development Bank (AfDB) (2017)[5] almost doubled from US$ 1.62 bn to US$ 3.22 bn. Interestingly, while the total disbursement from IADB stagnated between 2015 and 2016, one may very well notice a redirection of the flows in favour of the upper middle-income countries (eg Argentina, Brazil, Columbia and Mexico). In contrast, lower middle-income countries, such as El Salvador, Nigeria and Ecuador experienced reduced flow. A similar review of the AfDB data reveals that, notwithstanding the overall surge in disbursement, a number of the low-income countries including Burkina Faso, Democratic Republic of Congo, Mali, Mozambique and Togo received lower disbursement in 2016 in comparison to 2015. It may be noted that almost all of these African nations are conflict countries.

Movements at country level

Most of the developing countries hit the ground running when it comes to their efforts to implement the SDGs. As the first step towards this, a large number of developing countries took specific measures to align their national plans, policies and programmes with the 2030 Agenda. Even a country like China went on to produce a national plan on the implementation of the 2030 Agenda.[6]
A number of countries undertook data assessment exercises to ascertain how equipped are they to undertake a review and follow-up exercise of SDG implementation. Many developing countries have also put in place institutional structures to provide inter-ministerial oversight to the SDG delivery process. Indeed, certain countries (eg Bangladesh) are going ahead with trying to relate performance of the concerned ministries and officials to their contribution to the implementation of the SDGs.

A follow-up step observed in the developing countries had been attempts to measure the financial costs involved in implementing the SDGs in the country context. Given the nature of the 2030 Agenda, this was a challenging business as this involved a lot of assumptions in terms of what exactly is being costed (eg full or additional), period covered, possible changes in domestic prices, movement in exchange rates, modes of financing of the SDGs, synergies and trade-offs between and among goals etc. Nonetheless, these assessments included not only cost estimates by a specific SDG or development area, but also indicated expected financial flow by source. The lack of fiscal space of the developing countries (particularly due to rising recurrent costs) for sustaining SDG implementation is evidenced by these financial need assessments. These cost estimates also went on to assess the financial deficit that the countries may experience in this regard.

Cost estimates for implementing SDGs, prepared by the developing countries indicate the difficulty in establishing their comparability. Yet, a review of the concerned figures, gives us an idea regarding the magnitude of the financing demands. For example, the estimated cost for key priority areas and other development areas in Malawi for the period 2018–2022 amounted to US$ 7.37 bn.[7] In case of Tanzania, total costing for the period 2016–2021 amounted to US$ 47.07 bn.[8] Bangladesh came up with a figure 'additional unsynchronised cost' of US$ 1,162.69 bn for the period 2017–2030 ; for India, the concerned figure is US$ 14,411 bn for the period 2016–2030.[9-11] Colombia, interestingly, provided a goal-wise amounting US$ 13.66 bn, which was provided by the national budget for 2015.[12] As may be noted, these numbers vary largely due to varying population size of the countries as well as due to diverging estimation methodology deployed. If we standardise the abovementioned figures on per capita basis, we find the financing requirements range from US$ 74 (Malawi), US$ 131 (Tanzania), US$ 283 (Colombia), US$ 461 (Bangladesh) and US$ 675 (India). Review of another set of country-level estimates provide a measure of the financing gaps per year, eg 24.5% (Nepal), 59% (India), 62.5% (Nigeria) and 78% (Bangladesh).[13]

An analysis of the structure of the SDG costings in the developing countries also gives interesting insights. It seems, SDG 9 (Industry, Innovation and Infrastructures) stands out as the single most important financing item in the following countries, India (13.18%), Colombia (19.86%), Bangladesh (21.52%), Malawi (24.92%) and Tanzania (35.80%). But in most cases, SDG 3 (Good Health and Well-being) and SDG 4 (Quality Education) invariably figure among the top five big ticket items. Nonetheless, one may observe that the financing priorities are often dictated by contextual circumstances. For Colombia, SDG 16 (Peace, Justice and Strong Institutions) and SDG 10 (Reduced Inequalities) were among the top five financing items, given that it is a post-conflict country with a high incidence of income inequality. In the same vein, SDG 13 (Climate Action) was one of the major financing concerns for Bangladesh as the country remains greatly vulnerable to adverse effects of climate change. For relatively low-income countries, SDG 2 (Zero Hunger) and SDG 8 (Decent Work and Economic Growth) figured quite prominently within the top five.

In the context of apparently no significant changes in the developing countries regarding a higher flow of financial resources towards SDG implementation, one wonders to what extent the international development community had been active on the ground. While numerous meetings and conferences are continuously taking place strategising on implementation of different SDGs, there are very few cases where the international development partners got together at the country level to express their commitments towards financing SDGs. Even if such a meeting happened, it was largely a case of business as usual and did not involve pledging. For example, a regular session of the Bangladesh Development Forum (BDF)—a joint platform of the government and the development partners—was held in January 2018 which was essentially a high-level dialogue on wide-ranging policy issues. Only the United Nations specifically mentioned at the BDF that it will provide US$ 1.2 bn towards implementation of the SDGs in Bangladesh.[14] It may be noted that such platforms of development partners are usually co-chaired by the World Bank, not the United Nations, along with the national government.[15]

A review of the SDG-aligned national planning documents reveals that the developing countries explicitly recognise that the primary responsibility of delivering the SDGs lies with the government. Voluntary National Reviews (VNRs) presented at the High Level Political Forum (HLPF) of 2016 and 2017 indicate that the developing countries are motivated to enhance the domestic resource mobilisation efforts. The countries also point out that such mobilisation efforts have to go beyond traditional sources of development finance and seek out innovation finance.[16] For example, Bangladesh[17], Nepal[18] and India[19] were among the countries that asserted the need for donor countries to uphold their commitment of providing 0.7% of GNI as ODA. The developing countries aspiring to join the high-income group, in the VNR, have emphasised their desire to improve the efficiency of their tax system.

The developing countries (eg Philippines[20] in 2016 and Bangladesh[21], Jordan[22] and Thailand[23] in 2017) are also expecting that private remittance inflows will also contribute to achieving SDGs by improving household level consumptions as well as by underwriting investments in small and medium enterprises.

The VNRs also show that the developing countries understand that the private sector has to play a substantive role in bridging the financing gap concerning SDG delivery in their respective country (eg Philippines[24] and Georgia[25] in 2016 and Bangladesh[26], Ethiopia[27] and Nepal[28] in 2017). In this regard, the role of foreign direct investment (FDI) has also been highlighted. A number of countries mention projects are to be prepared and delivered under public private partnership (PPP) (eg Egypt[29] and Uganda[30] in 2016 and Bangladesh[31], Maldives[32] and Nepal[33] in 2017). Curiously, apart from Denmark[34] and Jordan[35] none of VNRs (2016 and 2017) refer to use of Blended Finance as an innovative mechanism to leverage in private investment with foreign concessional finance. Whatsoever, it transpires, based on the review of the VNRs, that the developing countries are facing the challenge of finding new modalities for influencing private investment, towards achievement of certain SDGs, by going beyond corporate social responsibility.

The need to finance climate change induced costs have also been mentioned on a number of occasions by the developing countries while presenting their VNRs. A number of countries recognised the imperative to improve their business enabling policy and institutional environment to encourage private investment. In this connection, the need to maintain macro-economic stability has been underscored by the reporting countries to the HLPF (2016 and 2017) (eg Philippines[36] in 2016 and Azerbaijan[37], Nepal[38] and Togo[39] in 2017).

Curiously, very few developing countries raised global systemic concerns in connection with facilitating greater resource flow towards achieving SDGs. India in its VNR (2017) maintained that 'subjective assessments of the Indian policy and regulatory environment by global financial institutions and rating agencies raise the costs of private flows to India… This particularly affects long term finance for infrastructure and other investments that are crucial for achieving the SDGs.' [40]

The numbers and observations presented above validate the proposition that no discernible upturn is yet to emerge in the scenario relating to development finance as well to overall financial flows to developing countries in the context of SDG delivery. Indeed, one may observe a serious mismatch between the global discourse on financing for development and the realities on the ground. It often appears that the local offices of the bilateral and multilateral agencies are not adequately interfaced with their respective counterparts regarding the commitments made by the latter. On the other hand, the developing countries having done the policy alignment and cost estimation for implementing SDGs, have reached a plateau. These countries are yet to strategically position themselves for accessing greater volume of finance resources for underwriting their financial needs for achieving the SDGs. The emerging global economic environment is not helping in this regard and there seems to be a serious lack of political energy. Thus, it seems, financing of SDGs in the developing countries currently looks like clouds and wind without rain…

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Transparency and financing for the Sustainable Development Goals: The power of non-governmental organisation voices

By Lindsay Coates

Lindsay Coates is recently appointed as managing director of the BRAC Ultra Poor Graduation Initiative. BRAC is a global leader in creating opportunities for the world's poor and one of the world's largest non-governmental development organisations. Coates has non-profit executive experience and a legal background in civil rights which bring together her passion for human rights, the social sector and global development. Before joining BRAC, she served as the president of InterAction, where she oversaw management and institutional outreach to InterAction members and partners. Lindsay Coates has also served on the steering committee of the World Bank Global Partnership for Social Accountability, the executive committee for Modernizing Foreign Assistance Network, and the boards of Episcopal Relief and Development, United States Global Leadership Coalition and Development Gateway. She also served on the Obama administration's Task Force on Global Poverty. Prior to her work in the non-profit sector, she practiced civil rights law in various capacities.

Civil society is committed to channelling individual voices and perspectives toward an improved present and better future through the Sustainable Development Goals (SDGs). Unlike the Millennium Development Goals (MDGs), civil society voices in the SDG agenda drove innovative and multi-sectoral approaches that are grounded in transparency and accountability of governments, thus living out the Busan principle that non-governmental organisations (NGOs) and civil society are 'development actors in their own right'.[1]

As we move toward financing and implementation of the SDGs, NGOs and civil society organisations (CSOs) are no longer limited to being programme implementers and outside agitators, their traditional avenues. Instead, broader engagement has become a springboard for NGOs to serve as advocates working both inside and outside government-led systems, as well as partners in the innovative approaches to an ambitious agenda that leaves no one behind.

This paper briefly presents two important examples of how NGOs are engaging in new ways. First, building on calls by better informed publics for greater transparency and accountability in local and national governance – a key element of citizen engagement – activists using models like the Open Government Partnership are working for better service delivery and domestic resource mobilisation (DRM) for equitable and inclusive development. Second, civil society stakeholders have also led on innovative finance for development both through new business models and as financiers. Both DRM and innovative financing for development are vital for financing for the SDGs.

Transparency and domestic resource mobilisation driving financing for the SDGs

Improved transparency and accountability in national governance enables different stakeholders to better coordinate in achieving the SDGs. With increasingly open and accessible information available to a broader group of development stakeholders, citizens are becoming more informed and able to hold institutions accountable for outcomes. The Addis Tax Initiative, established during the 2015 United Nations Financing for Development conference in Addis Ababa, Ethiopia, is emblematic of the role of transparency in achieving the SDGs.[2] Countries subscribing to the initiative commit to increased DRM through improvement of 'fair, transparent, efficient and effective' tax systems.

The ultimate objective is to leverage increased DRM to better meet the SDGs and decrease the reliance on international donors. Transparency in DRM provides accountability for a country's own development agenda and offers better coordination with other development actors, like NGOs, through increased sharing and availability of relevant data. Finally, this may lead to less reliance on donor governments and NGOs for funds and programming for basic social protection. DRM also provides greater opportunity for a country's public to have a voice in how government funds are spent.

With increased DRM, NGOs are well positioned to draw on their expertise to help advise and provide technical assistance to governments that are increasing development programming, which encourages the drive towards localisation. Multi-stakeholder initiatives, such as the Open Government Partnership (OGP), offer additional avenues for CSOs to advocate in non-traditional ways and for northern and out of country NGOs to operate in solidarity with local groups.[3] OGP secures domestic commitments, through National Action Plans, towards promoting more transparent and accountable government institutions. The commitments in the National Action Plans by some countries include efforts specifically surrounding DRM and transparency. Through their participation in OGP, NGOs help the platform gain civil society resonance and co-create solutions with governments and their people.

In sum, NGOs have adjusted to, and support, a shifting paradigm. The SDGs promote DRM as key towards achieving Agenda 2030. Increased transparency imbedded in DRM empowers individuals to expect and advocate for effective implementation of financing by their governments.

Innovative financing for the SDGs

Transparency can also support reduced risk for investment, allowing for greater co-ordination of aid flows and more creative financing mechanisms for the SDGs.

In recent years NGOs have diversified their funding sources and used their capital in new ways to increase development impact and effectiveness. Beginning in 2014, the Vatican, with support from the Catholic Charitable agencies, has sponsored a biennial multi-day global conference on impact investing, the Vatican Impact Investing Conference.[4] The Conference at the Vatican demonstrates that even some of the most traditional and established NGOs see the potential in innovative financing.

From impact investing to Development Impact Bonds, NGOs are increasingly seeking alternatives to traditional finance instruments to fund and deliver development programmes. As InterAction's recent Innovative Finance for Development Landscape Report shows, almost half of international NGOs are currently using a broad range of innovative finance instruments and the majority of international NGOs are exploring this space even if they have not entered it yet.[5]

The rise of innovative finance for development is addressing one of the key issues of the SDGs: how to rapidly scale up funding. This is good news for SDG financing, as private sector organisations are also using innovative financing instruments to leverage new sources of capital for development. As private sector stakeholders increase their investments around the SDGs, it is important that they work with NGOs, as these organisations

NGO Advocacy for Transparency

NGO advocacy is traditionally perceived by outside audiences as focused on maintaining development aid from the Global North, supporting the development of local civil society or advancing human rights. That perception is now more nuanced. NGOs now play a large role in advocating for transparency and accountability in how the aid is implemented both by donor institutions and recipient countries. The International Aid Transparency Initiative and Publish What You Fund are leaders in advancing this agenda. Both efforts rest on NGO and government participation and have increased collective knowledge. Vehicles like universal data standards and creating a culture where data transparency is a norm make all stakeholders (donors, recipients and civil society) more accountable to each other. NGO advocacy and coordination have supported legislation that codified goals into law, such as the 2016 US Foreign Aid Transparency and Accountability Act, or international commitments, such as the increasingly thorough reporting from the Development Assistance Committee of the Organisation for Economic Co-operation and Development. NGOs, as key stakeholders in assisting nations to achieve the SDGs, are well positioned to advocate for transparency and accountability from a perspective of effective partnership for results and cannot be dismissed as gadflies. NGOs also offer institutional stability for advancing transparency and accountability, coordinating initiatives outside of governments, which are at risk to waver in their commitment and prioritisation of transparency based on internal politics. The combination of scale in government participation in transparency and accountability and the consistency in NGO engagement creates both the resources and ecosystem for innovation in how transparency can be measured – increasing its scope and the ability of other stakeholders to engage.

bring greater knowledge and experience in achieving development outcomes than private stakeholders.

NGOs have decades of experience in the countries and communities where investors are now seeking to make investments in development impact. Many of the organisations, including Mercy Corps, Lutheran World Relief, The Nature Conservancy and many others, are ahead of the curve in creating unique financial models to help their work achieve greater impact and scale. NGOs' knowledge of local culture and markets gives them a unique perspective on how to foster inclusive economic growth in the development context, and their years of work on these issues have established a deeper level of trust in communities than most other outside stakeholders. More collaboration between non-and for-profit organisations on innovative finance for development will help all partners effectively deploy resources and ensure all parties achieve outcomes that truly benefit the people they are meant to serve.

One example of NGOs working on innovative finance for development is Mercy Corps' Social Venture Fund and its investment in the Indonesian agricultural company Vasham.[6] This impact investment is one of the flagship ventures supported by Mercy Corps that addresses several SDGs in a country that recently created an Innovative Finance Lab, with support from the UN Development Programme, for the SDGs. The Lab's mission is to develop new methods for financing the SDGs, including the use of impact investing and blended finance. Both Mercy Corps and the Lab elevate citizen engagement as a priority and are good models for financing the SDGs. The Innovative Finance Lab provides mechanisms for Indonesian citizens to contribute to development efforts through local NGOs such as the organisation, Zakat.

Conclusion

NGOs play a central role in expressing the public will towards assisting the vulnerable and needy in both donor and recipient countries. As the MDGs and then SDGs have provided new frameworks for multi-party collaboration in achieving development outcomes, while promoting greater local leadership, NGOs must evolve their business models and tactics. As DRM has moved up the agenda, NGOs have both helped in promoting it as well as creating a conducive environment. Transparency in national governance has also created favourable conditions that draw in new private development capital. This new capital allows for more citizen and locally driven efforts and more space for innovation due to decreased risks. Advocacy for transparency and holding stakeholders to account provide an avenue for NGOs to continue influencing financing for the SDGs toward human wellbeing and leaving no one behind.

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[6] For more information on Mercy Corps' Social Venture Fund and the organisation Vasham see https://www.mercycorps.org/innovations/social-venture-fund and http://vasham.co.id/

Towards Buenos Aires Plan of Action+40:

Leveraging South-South cooperation toward achieving sustainable development

By Jorge Chediek

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The evolving global landscape requires the international community to work together at all levels to leverage our unique and diverse advantages toward achieving sustainable development goals. South-South cooperation, whereby developing countries work together in the spirit of solidarity, mutual respect and collaboration, is a key modality for success.

Bandung Spirit

Delegates from 29 Asian and African countries gathered in Bandung, Indonesia, in 1955 to decide their own future and destiny following decades of colonialism. That conference gave birth to the 'Bandung Spirit', calling for solidarity, friendship and cooperation, seeking common ground while shelving differences, and pursuing common development, beyond the dynamics of the Cold War.

Since then we have witnessed the creation of the Group of 77 (G77) in the United Nations, the adoption of the landmark Buenos Aires Plan of Action for Promoting and Implementing Technical Cooperation among Developing Countries (BAPA) and numerous international summits and conferences, all of which have contributed to South-South cooperation becoming recognised as a real instrument for development. Indeed, the world has experienced dramatic changes over the past few decades, but the 'Bandung Spirit' – which upholds the value of strong alliances across the developing world and principles of solidarity – is more relevant than ever.

Driving the current surge of interest shown in South-South cooperation are Southern success stories – solutions that have emerged from developing countries that are reducing poverty, creating jobs and improving living conditions for millions of people. The phenomenal rise of the South this century has also contributed to a new sense of urgency placed upon the United Nations to harness Southern human, technological and financial resources with new tools, policies, strategies and strong institutional arrangements. It has also ensured that the South-South cooperation modality has been recognised as central to the achievement of internationally agreed development goals, including the recently adopted Agenda 2030, noting that it serves as an important complement to, not a replacement for, traditional development assistance.

South-South today

South-South and triangular cooperation have increased in terms of strategic importance and volume to the point that the most recent estimates of the value of annual South-South cooperation for development have reached US$ 20 billion.[1] The scope of South-South cooperation has also expanded well beyond technical cooperation and exchange of knowledge to include trade, investment, infrastructure, policy coordination and connectivity.

For example, new multilateral institutions are devoted to South–South cooperation, especially the financing of related activities. This is reflected in the establishment of new multilateral financial institutions, including the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank. Both are significant avenues for South-South cooperation, prioritising sustainability and inclusive growth in their respective agendas. AIIB is projected to provide loans of US$ 10 billion to US$ 15 billion annually over the next 15 years. Those investments will focus on the development of infrastructure and other productive sectors in Asia. The New Development Bank is estimated to have the ability to lend an average of US$ 3.4 billion by 2020 and almost US$ 9 billion by 2034.[2]

The Islamic Development Bank Group (IDB), the only multilateral development bank whose membership is drawn entirely from the South, has introduced 'Reverse Linkage' – a South-South cooperation mechanism whereby IDB plays the role of a connector and a catalyst. IDB matches the specific capacity needs of

its member countries with capacities available in other member countries, and supports them in their aspirations to learn from one another in a mutually beneficial, results-oriented and programme-based arrangement.

Meanwhile, the Belt and Road Initiative championed by China aims to improve trading and transport links between China and the world, mostly through infrastructure investments. Over 100 countries have expressed interest in this partnership, which is providing new opportunities for international collaboration, including through South-South cooperation. In addition, India has substantially increased its support to capacity development in Africa and new initiatives, such as Make in India[3], Digital India and smart cities, offer opportunities for the country to broaden its cooperation with partner countries.

During the 2017 United Nations Pledging Conference for Development Activities, India also announced its decision to significantly scale up its contribution to the India-UN Development Partnership Fund, managed by United Nations Office for South-South Cooperation (UNOSSC), through a multiyear contribution of US$ 100 million. The first Fund project, a 'Climate Early Warning System in Pacific Island Countries', was executed in partnership with seven island nations. Now, one year later, 23 projects are being funded in 27 countries. In April, during the Commonwealth Heads of Government Meeting 2018, India also announced the launch of a US$ 50 million Commonwealth window to the India-UN Development Partnership Fund, thereby increasing India's multi-year contribution to US$ 150 million. Projects in Grenada, Tuvalu and Vanuatu are already in the pipeline under this newly created mechanism.[4]

Another important recent trend is that triangular cooperation – through which traditional donors and institutional partners, such as international organisations, engage side by side with Southern providers in benefit of a third country – is being leveraged to achieve the SDGs in innovative and collaborative ways. A large number of providers of South-South cooperation are also engaging in triangular cooperation, particularly with countries in their own region. For example, in Africa, Egypt, Kenya, Morocco, South Africa and Tunisia regularly share their knowledge with other developing countries through triangular arrangements. In Asia, pivotal countries include India, Malaysia, the Philippines, Singapore, Sri Lanka, Thailand and Vietnam. In Eastern Europe, examples include Russia and new European Union members. In Latin America, virtually all countries are providers of South-South cooperation, and some of the most active in triangular cooperation are Argentina, Brazil, Chile, Colombia and Mexico.

The United Nations system is also strengthening its institutional support for South-South collaboration. United Nations agencies – including the Food and Agriculture Organization of the United Nations (FAO), the International Fund for Agricultural Development (IFAD), the International Labor Organization (ILO), the United Nations Development Programme (UNDP), the United Nations Population Fund (UNFPA), the Joint United Nations Programme on HIV/AIDS (UNAIDS), the United Nations Education, Scientific and Cultural Organization (UNESCO), the United Nations Children's Fund (UNICEF), the United Nations Industrial Development Organization (UNIDO), the World Food Programme (WFP), the World Health Organization (WHO) and the World Intellectual Property Organization (WIPO) – have taken measures to mainstream South-South cooperation and triangular cooperation into their policy frameworks and corporate strategies towards the implementation of the 2030 Agenda.

Towards BAPA+40

'South-South and triangular cooperation offer a path to balancing growth and equity and leaving no one behind.'
– UN Deputy Secretary-General Amina Mohammed

In its resolution 71/244 of 19 December 2016, the General Assembly decided to convene a High-level United Nations Conference on South-South Cooperation to mark the fortieth anniversary of the adoption of BAPA. BAPA+40 will be hosted by the Government of Argentina in Buenos Aires in March 2019. This Second United Nations High-level Conference on South-South Cooperation builds on the Buenos Aires Plan of Action and the 2009 Nairobi Outcome to enable the international community to consolidate its approach to the role of South-South cooperation in the implementation of Agenda 2030 and other internationally agreed development goals.

The United Nations Office for South-South Cooperation has been designated the secretariat of the BAPA+40 preparation process. We are eager to have an inclusive and open debate with different stakeholders on the value and contribution of South-South and triangular cooperation in achieving the 2030 Agenda and other internationally agreed development goals. At the United Nations level, an important preparatory step has already been taken as the Secretary-General's background note on the overarching theme, and sub-themes of the Conference, has been approved by the General Assembly.[5]

The overarching theme of the Conference is: 'The role of South-South cooperation and the implementation of the 2030 Agenda for Sustainable Development: challenges and opportunities'.[6]

Participants at BAPA+40 will also discuss establishing metrics reporting the impact of South-South and triangular cooperation. Improved reporting on South-South and triangular cooperation will represent a significant contribution to the mapping, documentation and sharing of best experiences and development solutions.

Moving forward, UNOSSC is supporting the preparatory work to ensure a successful outcome. Intergovernmental negotiations will be convened as necessary; thematic discussions among UN agencies, funds or programmes will be held; and regional discussions with Member States and Regional Commissions will take place. Documentation for BAPA+40 will include the Comprehensive Report of the Secretary-General consistent with the overarching theme and subthemes of the Conference[7]; the Secretary-General's Report on State of South-South Cooperation; a UNOSSC Independent Annual Comprehensive South-South Cooperation Report[8]; the draft BAPA+40 Outcome Document; and relevant white papers and other policy papers, among others.

UNOSSC is seeking inputs from all stakeholders[9] to this preparatory process to ensure a strong foundation for the Conference that ensures we leverage South-South cooperation's enormous potential for development.

Footnotes

[1] United Nations Secretary-General, 'International financial system and development', (Report of the Secretary-General, A/70/311, 2015, UNGA, 11 August 2015), paragraph 9. http://undocs.org/A/70/311

[2] United Nations Secretary-General, 'State of South-South Cooperation', (Report of the Secretary-General, A/72/297, UNGA, 7 August 2017). http://undocs.org/A/72/297

[3] For more information on Make in India see: www.makeinindia.com/home

[4] For more information on the India-UN Development Partnership Fund see: https://www.unsouthsouth.org/partner-with-us/india-un-fund/

[5] United Nations General Assembly, 'Theme and sub-themes of the second High-level United Nations Conference on South-South Cooperation', (Uganda: draft decision, A/72/L.47, UNGA, 6 April 2018). http://undocs.org/A/72/L.47

[6] Other relevant information on BAPA+40, including the sub-themes, is available on the Conference webpage: www.unsouthsouth.org/bapa40/

[7] United Nations General Assembly, 'Resolution adopted by the General Assembly on 28 August 2017, Second High-level United Nations Conference on South-South Cooperation', (resolution, A/RES/71/318, UNGA, 30 August 2017). http://undocs.org/A/RES/71/318

[8] United Nations Secretary-General, 'State of South-South Cooperation', (Report of the Secretary-General, A/72/297, UNGA, 7 August 2017). http://undocs.org/A/72/297

[9] United Nations General Assembly, 'Resolution adopted by the General Assembly on 28 August 2017, Second High-level United Nations Conference on South-South Cooperation', (resolution, A/RES/71/318, UNGA, 30 August 2017). http://undocs.org/A/RES/71/318

PART TWO
Chapter Three

Game changers

Creating money out of thin air?
The role of science, technology and innovation in making the Sustainable Development Goals affordable

by Pedro Conceição

Beyond green: building sustainable capital markets

by Heike Reichelt and Colleen Keenan

Making waves – aligning the financial system with sustainable development

by Simon Zadek

Creating an ecosystem to deliver positive impact finance and meet the Sustainable Development Goals

by Careen Abb

Moving to mobilisation

by Jeremy Oppenheim and Katherine Stodulka

Creating money out of thin air?
The role of science, technology and innovation in making the Sustainable Development Goals affordable

By Pedro Conceição

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When economists try to dig deep into what is perhaps the most fundamental question in economics (why do some countries develop and prosper, while others struggle and are even left behind?) the answer is always the same. It is not the accumulation of capital, which eventually hits decreasing returns. It is not even human capital, important though that is. The answer, short of staying clear from catastrophic events like war, is the accumulation of knowledge: ranging from institutional arrangements that foster economic growth and inclusion, to new methods of production.

Yet, we have had a development cooperation system that for long has been centred on the premise that its main function is to transfer finance from where it is abundant in developed countries, to where it is scarcer in developing countries. With the adoption of the Millennium Declaration at the turn of the century, and the enthusiasm of the international community around the Millennium Development Goals (MDGs), there was a renewed sense of urgency to meet the challenge of mobilising financing for development. The United Nations convened a first international conference on this topic in Monterrey in 2002, under a background of concern with 'dramatic shortfalls in resources required to achieve the internationally agreed development goals, including those contained in the United Nations Millennium Declaration.'[1]

It took until the 3rd International Conference on Finance for Development, held in Addis Abba in July of 2015, to explicitly recognise what is not only an insight from economics, but also what many of us working in development know all too well: that the transfer of capital and finance is unlikely to ever have been development cooperation's main contribution. Perhaps much more important has been the role of the UN system and international financial institutions in sharing knowledge. The outcome of the Addis conference, foreshadowing the adoption of the 2030 Agenda for Sustainable Development in September 2015, recognises that 'harnessing the potential of science, technology and innovation, closing technology gaps and scaling up capacity-building at all levels are essential for the shift towards sustainable development and poverty eradication.'[2]

Leveraging science and technology for the Sustainable Development Goals (SDGs)

The Addis outcome devotes a full and new chapter to science, technology, innovation and capacity building. The motivation for including this chapter is less about a general recognition of the importance of knowledge for development, and more the realisation that the implementation of the ambitious 2030 Agenda depends not only on getting the financing right, but also on leveraging science and technology. In fact, it may even be argued that the transformations called for by the 2030 Agenda are so fundamental, and expected to unfold over such a short period of time, that they may not even be feasible without significant scientific and technological breakthroughs.

One aspect of the contributions to feasibility intersects with financing, in that science and technological innovations can both make some interventions affordable or contribute to unlocking financing. The interplay between technological advances and finance becomes starkly clear when one considers the impact of innovations on lowering costs for interventions or policies – which ultimately determine financing needs.

Just to give an illustration, the transition towards renewable energy – crucial to meeting SDGs ranging from climate change, to electricity access, to improving food security, to move towards sustainable patterns of production and consumption – will depend on further advances in wind, solar, and battery technologies. To stay with the example of energy, just a few years ago solar energy production was seen as unaffordable and unable to compete with more traditional power sources, most of which are dependent on burning fossil fuels. Achieving (at least some) of the SDGs under those assumptions could appear like a very expensive proposition indeed. Yet, in March of 2016, the price for unsubsidised solar energy hit a historical minimum of 3.6 cents per kilowatt-hour (kWh) – the average retail price for residential electricity in the United States is 12 cents/kWh. In October 2017, a bid for a solar plant in Saudi Arabia hit 1.79 cents/kWh, which is the 'cheapest unsubsidised electricity ever, anywhere, by any technology'.[3]

As an aside, this rapid technological evolution speaks to the fallibility of 'funding gaps' estimates of what it takes to achieve the SDGs. While much of the narrative of the financing needs to meet the SDGs is driven by the 'funding gap' story – reminiscent of the motivations that drove the Monterrey conference at the outset of the SDGs – the potential impact of science and innovation to drive down the costs of SDG-compatible interventions is significantly underplayed. To conclude this point, it is worth emphasising that as a result of technological advances in solar and other renewable energy technologies, 'renewable energies are expected to capture three-fourths of the US$ 10 trillion the world will invest in new power generation through 2040'.[4]

Interlinkages between science, policy and economic gains

Science can also help to illuminate interlinkages in policy interventions that not only generate co-benefits across different sectors, but can generate significant economic savings. One example is the enhanced understanding of the systemic interactions between food, climate, and health systems. For many governments, these issues are handled by separate ministries, which each make claims on national public resources to fund interventions that advance their sectoral policy priorities. Yet, food systems are responsible for one quarter of all greenhouse gas emissions. And diets are an increasingly important determinant of health outcomes, as non-communicable diseases like type-II diabetes and hypertension, are increasingly important determinants of morbidity and premature mortality around the world.

A recent study found that changing diets so that they comply with standard dietary guidelines could reduce global mortality by up to 10% and food-related greenhouse gas emissions by as much as 70%, compared with a reference scenario, in 2050. The economic benefits of this change in diets could reach US$ 31 trillion by 2050.[5] A systematic understanding of these types of interlinkages, for which science is essential, could not only help to mobilise joint action across sectors/ministers, but to unlock economic gains that translate into more available financing.

There is, however, a 'darker side' to the discussion on the potential positive impacts of science and technological change on the 2030 Agenda.[6] The technologies of the third industrial revolution (the digitalisation of information and the use of computers and the Internet) are creating unprecedented opportunities, but also appear to be changing our economies in very fundamental ways. For instance, there has been a decrease, both in developed and developing countries, in the labour share of income. In developed economies, the downward trend started in the late 1980s, and reached its lowest level of the past half century just prior to the global financial and economic crisis of 2008. It has remained at those low levels ever since. In developing economies there is more heterogeneity, but an average downward trend is also noticeable. Recent analysis has established that, in advanced economies, the erosion of demand for routine-based occupations – linked to technological change – can account for more than half of the overall decline in the labour share of income.[7] The decline in the relative price of investment goods, driven primarily by technological change, especially in information and communication technologies has incentivised the replacement of labour by capital. Middle-skilled workers – the mainstay of the middle classes – have suffered a particularly negative impact.

These dynamics go a long way in accounting for high or rising income inequality in many countries. There is concern that disruptions will only increase as the technologies of the 'fourth industrial revolution' – artificial intelligence and automation – take hold. Given, especially, progress on artificial intelligence, - 'superintelligence' in particular, which has been so quick and staggering that is now approaching the replication of at least some (though far from all) cognitive abilities.

Some estimates peg the share of jobs at risk of automation to numbers as high as two-thirds of all jobs in developing countries, even though some of these projections may be exaggerated, given that they rely on extreme assumptions.[8] An objective reality is that many people are being left behind (especially those at the middle of the skill/income distribution), and that this is generating anger and sentiments of alienation. All of this builds into a sense of insecurity and of not being in control of one's own destiny.

Navigating on a tightrope

Thus, harnessing science, technology and innovation for the SDGs, as called for the Addis Action Agenda, will have to happen as our societies chart their pathways as if on a tightrope. On the one hand, many of the transformations called for by the SDGs may not even be feasible without technological innovations, and surely science and technology can make a broader set of interventions progressively more affordable. On the other hand, technology is changing so dramatically and so quickly, that it is changing our economies and societies in quite fundamental ways – which has the potential for disruptions that can leave many behind.

Navigating along this tightrope implies the need for a deeper and more systematic engagement between policymakers, on the one hand, and the scientific communities around the world. Science, technology and innovation are more than a 'flow' to be managed and transferred from one place to another. Knowledge can only be systematically harnessed for development if it is constantly being nurtured, created and challenged. Playing a catalyst and connector role could in this regard be a fitting evolution for actors in development cooperation as the world strives to make progress towards the SDGs. It may even get us close to creating money out of thin air.

Footnotes

[1] United Nations, 'Financing for Development, Monterrey Consensus of the International Conference on Financing for Development: The final text of agreements and commitments adopted at the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002', (agreement, United Nations, 2003), paragraph 2.
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[2] United Nations Third International Conference on Financing for Development, 'Addis Ababa Action Agenda of the Third International Conference on Financing for Development, (Addis Ababa Action Agenda): The final text of the outcome document adopted at the Third International Conference on Financing for Development, (Addis Ababa, 13-16 July 2015) and endorsed by the General Assembly in its resolution 69/313 of 27 July 2015', (outcome document, United Nations, 2015), paragraph 5.
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[3] Joe Romm, 'Solar power crushes its own record for cheapest electricity "ever, anywhere, by any technology": The lowest price for solar power last year is the highest price now.' (article, Think Progress, 20 October 2017).
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[4] Joe Romm, 'Forget coal, solar will soon be cheaper than natural gas power: Renewables to capture three-fourths of the $10 trillion the world will invest in new generation through 2040.' (article, Think Progress, 15 June 2017).
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[5] Marco Springmann, H. Charles J. Godfray, Mike Rayner, and Peter Scarborough, 'Analysis and valuation of the health and climate change co-benefits of dietary change', Proceedings of the National Academy of Sciences, Apr 2016, 113(15): 4146–4151, (academic article, National Academy of Sciences, 2016). http://www.pnas.org/content/113/15/4146

[6] These two paragraphs draw from: Pedro Conceição, 'Fear & Loathing of Technological Progress? Leveraging Science & Innovation for the Implementation of the 2030 Agenda for Sustainable Development.' (forthcoming publication).

[7] International Monetary Fund, 'World Economic Outlook October 2017, Seeking Sustainable Growth: Short Term Recovery, Long-Term Challenges', (report, International Monetary Fund, 2017).
https://www.imf.org/en/Publications/WEO/Issues/2017/09/19/world-economic-outlook-october-2017

[8] World Bank Group, 'World Development Report 2016: Digital Dividends', (report, the World Bank, 2016), page 23, Figure O.18.
http://www.worldbank.org/en/publication/wdr2016

Beyond green: Building sustainable capital markets

By Heike Reichelt and Colleen Keenan

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The opinions expressed here are the authors' and do not necessarily reflect those of the World Bank or its stakeholders. The authors would like to thank Alexandra Klopfer for her comments.

It will take an estimated US$6 trillion annually from now until 2030 to meet the Sustainable Development Goals (SDGs).[1] Green bonds, and more generally, bonds that focus on investing for purpose are making an important contribution towards meeting the goals – not just by raising funding for investment towards the SDGs, but by changing the way issuers and investors behave. This is why we must look beyond green bonds towards building sustainable capital markets.

Starting with green

The growth of the green bond market offers valuable lessons for how a relatively straightforward product enables issuers and investors to manage climate and social risks, and support and communicate their values and priorities. It has catalysed a change in issuer behaviour towards more disclosure and highlights the social and environmental purpose of the issuer's funding. For investors, green bonds have spurred more awareness of the climate and social risks that they can address through their investments.

Green bond issuance nearly doubled from US$ 90 billion in 2016 to more than US$ 160 billion in 2017 – reflecting a growing awareness of the need to tackle climate change. While this is significant, the labelled green bond market remains small in terms of the overall bond market (less than 0.1%). But the importance of this market goes beyond its name – it creates momentum for sustainable fixed income markets and promotes greater transparency from issuers and a focus on impact. Green bonds and reporting frameworks around them have paved the way for other labelled (eg social bonds, sustainable/sustainability bonds) and non-labelled purpose-driven fixed income instruments that allow the investor to connect with the purpose of the projects and programmes their money is supporting, without taking project risk.

For the sustainable fixed income market to grow, it needs both labelled and non-labelled types of fixed income instruments. As they participate in these bonds – labelled or not – investors are seeking information that may come in the form of an impact report to see their investments at work. And with environmental, social and governance (ESG) investing taking root among a broader group of bond investors, many will be seeking greater opportunities for investment and impact that go beyond green bonds. Sustainable capital markets will be an important pathway for achieving the SDGs.

Supranational issuers like the World Bank (International Bank for Reconstruction and Development, IBRD) were pioneers in the early days of the green bond market. The World Bank is one of the largest issuers of green bonds, raising funding for climate finance from a wide variety of institutional and retail investors globally. Since the World Bank's inaugural issue of green bonds in 2008, IBRD has issued over US$ 11 billion equivalent in green bonds through 145 transactions in 19 different

currencies. With World Bank green bonds, many first-time investors were introduced to green bonds and the broader space of sustainable investing.

The World Bank has also played an instrumental role in defining market best practice for transparency and reporting; by engaging with investors and issuers on the process of green bond issuance; and as a founding member of the Executive Committee of the Green Bond Principles, coordinated by the International Capital Markets Association (ICMA).

Today, green bond issuers are increasingly diverse. Starting around 2013, more corporates, energy/utility companies and government agency issuers began issuing green bonds. In 2016 and 2017, sovereign issuers like Poland, France, Fiji and Nigeria, began to make headlines. In 2018, Belgium, Indonesia and Lithuania joined these leagues.

Building a sustainable bond market

Green bonds are a catalyst for building sustainable capital markets. With their simple structure and story, they give investors a straightforward and financially compelling way to change the way they invest. They remain a key entry point to establishing an investment process that integrates ESG aspects into the investment process and, in addition, supports a socially-minded approach to fixed income investing. For example, investors who in the past selected World Bank bonds for their credit quality and preferences around currency, maturity and coupon are now purposefully investing in World Bank bonds because of our careful project finance process and development impact mandate. This change is transforming the capital markets.

Investors can look to multilateral development banks (MDBs) again as they seek to expand their palette from green to a broader range of sustainable fixed income investments, which include labelled social and sustainable bonds and other structures that have a sustainable purpose. The Social Bond Principles and Sustainability Bond Guidelines[2] – also coordinated by ICMA with input from a group of over 200 investors, underwriters, issuers (including MDBs) and observers are providing useful frameworks for investors and issuers alike to move beyond green bonds to a broader range of sustainable fixed income investments.

Including green bonds, the World Bank, issues about US$ 50 billion annually in sustainable development bonds – bonds whose proceeds finance lending for sustainable development programmes. The projects and programmes financed through bond proceeds range from sustainable infrastructure, jobs, health and well-being to education, energy efficiency, agriculture and a variety of other sectors.

First World Bank Green Bond

The World Bank issued its first green bond in November 2008, designed in partnership with the Swedish bank SEB and Cicero, a climate research think tank associated with the University of Oslo, for Swedish investors.

Green bonds connect

Green bonds are ‘connectors’ connecting:

- investors with the social and environmental purpose of their investment;
- climate policy makers and non-governmental organisations (NGOs) with financial markets;
- bankers, issuers, and investors around a single topic and social challenge;
- sustainable and responsible investors with mainstream investors, which has encouraged mainstream investors to pursue ESG investing more systematically; and
- different issuer departments and various agencies or ministries in governments with each other.

A partnership on ESG for fixed income investing

Japan's Government Pension Investment Fund and the World Bank Group have partnered to identify and address the challenges in greater ESG integration (eg insufficient data and disparate standards) with the broader goal of directing more capital towards sustainable investments. As a first step, on April 19, 2018, the partners published a research report[3] to explore practical solutions for integrating ESG into fixed income portfolios. The report includes a study of existing research, the results of interviews with investors and ESG data providers, and feedback from investors.[4]

From impact investing to sustainable finance

ESG factors are becoming increasingly important in investment decision processes for mainstream fixed income. This is driven by growing evidence that these factors influence credit risk and must be part of risk mitigation. Importantly, reporting on ESG and/or investment impact is becoming more common.

In general, labels for bonds are helpful in setting expectations, creating familiarity and establishing standards. At the same time, the sustainable nature or impact credentials of the broader universe of sustainable investment opportunities can be overlooked if they do not come with an explicit label drawing attention to and mapping out their sustainability or social merits.

Having labels for some and not all bonds from an issuer can create the unintended consequence of investors incorrectly assuming that only labelled bonds carry environmental and/or social benefits. For many issuers – especially MDBs and government issuers and agencies – non-labelled, traditional bonds also finance projects with measurable social benefits that are financed for the sole purpose of achieving a positive impact. The transparency and disclosure around use of proceeds from the bonds and clear impact reporting are key for issuers to explain and investors to understand the investment opportunities.

Framing investments around Sustainable Development Goals

For some investors, the SDGs are providing a useful and comprehensive framework for designing, implementing and/or measuring the impact of sustainable investment strategies. These frameworks are serving as a blueprint for investors to choose how they want to allocate their money for investment. For example, some investors are selecting specific SDGs to support and choosing investments that match these goals or target impact areas. Asset managers are increasingly seeking ways to report on how their portfolios align with the SDGs based on increasing client demand for this kind of impact information. Investors welcome bonds issued by MDBs like the World Bank with an entire mandate dedicated to achieving the SDGs, as well as others who are carving out part of their activities to link them to the SDGs. Corporate issuers and MDBs are issuing social bonds, health bonds and/or sustainable bonds to raise awareness for and contribute to the achievement of the SDGs.

The World Bank has been issuing bonds that raise awareness for specific themes in response to investor requests, like gender[5] and other SDGs[6], in addition to other specialised products. For example, the World Bank's SDG equity index linked bonds issued first in March 2017 together with BNP Paribas as part of the SDGs Everyone[7] initiative, have returns linked to the performance of an equity index developed by Solactive and Vigeo Eiris[8] composed of 50 companies with products and services that are in line with the SDGs. Companies included in the Solactive Sustainable Development Goals World Index dedicate at least one-fifth of their activities to sustainable products or are recognised as leaders in their industry in social and environmental sustainability.

Looking ahead

The market for labelled green, social and sustainable bonds will continue to grow and play a vital role in building sustainable capital markets. Technology will help capital markets evolve into a market where investors have greater information about the social value of their investments. With or without a label, investors must assess what 'green', 'social' and 'sustainable' mean for every investment they make to figure out whether the investment and issuer meets their expectations or those of their stakeholders.

For every investment decision investors should be asking: 'What will my investment be used for?' and 'What is the expected social and environmental impact of my investment?' In the future when investors are given a choice, the market is likely to tilt increasingly to those seeking investments that provide both a social and financial return.

Footnotes

[1] Figure based on estimates from UN Environment Finance Initiative (UNEP-FI). 'How investable are the Sustainable Development Goals?', (article, Climate Action, 20 March 2018). http://www.climateactionprogramme.org/news/how-investable-are-the-sustainable-development-goals

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Vigeo Eiris is a provider of environmental, social and governance research to investors and public and private corporates. For more information see: http://www.vigeo-eiris.com/

Making waves: aligning the financial system with sustainable development

By Simon Zadek

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This article draws from the Inquiry's fourth and final global report, 'Making Waves: Aligning the Financial System with Sustainable Development', (report, 2018)[1]

Aligning global finance with sustainable development[1]

The UN Environment Inquiry into the Design of a Sustainable Financial System was launched in January 2014 with a mandate to advance options for improving the financial system's effectiveness in mobilising capital towards a green and inclusive economy. In its early stages, there was some disbelief that it was possible to systematically insert sustainable development as a design criterion into the heartland of the US$ 300 trillion global financial system. A typical view came from one seasoned climate finance negotiator, who when hearing of the Inquiry's ambition exclaimed, 'surely you cannot touch the financial system: it's sacred'.

Focus on the system level was novel for many stake-holders, including most of those promoting what has variously been called ethical, green, socially responsible and sustainable finance. Our starting hypothesis was that many of the solutions to mobilise the trillions for sustainable development lay in the workings of the global financial system itself, and so could not be resolved at the necessary scale through action down-stream in specific mobilisation initiatives. The focus was on the 'rules of the game' and the task was to stimulate practices in advancing such rule change, by identifying good practice, through direct engagement and by weav-ing a narrative that might stimulate ambitious action at the nexus of financial rules and sustainable development.

Over the first phase, the Inquiry reviewed innovative actions across dozens of countries, exploring the practice of advancing aspects of sustainable development in financial market development. Key was extensive and intensive engagement with financial policy-makers, regulators and standard-setters, as well as market-based rule-setters such as stock exchanges and rating agencies, and of course financial market stakeholders themselves. The Inquiry's Advisory Board played an especially important role in this outreach, comprising in the main a high-level group of financial policy-makers, regulators and market stakeholders.

Quiet revolution

From the beginning, there was a particular focus on the practices of developing countries, not least because of their lead in advancing innovative approaches to financial inclusion, but also because of their stronger presumption, as compared to their developed country counterparts, of the need for finance to serve national development priorities, or what the then-Governor of the Bangla-desh Bank referred to as 'development central banking'. Moreover, there was a focus on two particular countries, China and the UK, seeking to learn from and harness their respective leadership in (very different) aspects of sustainable finance, and so also build on the prior experience of the Inquiry's co-Directors.

Throughout this period, the conventional wisdom, despite the experience of the recent financial crisis, was that substantive policies, such as those advancing industrial and economic strategies, and financial rule-making, such as those focused on the stability of financial markets and inflation rates, were better kept apart. Through this perceived norm, born in the 1970s and prevalent throughout the Organisation for Economic Co-operation and Development (OECD), sustainable development was then a matter for 'real economy' policy which if done smartly would lead to the right enabling environment for private capital to be mobilised through robust, deep and efficient financial markets, and also supporting the wise use of public finance.

Yet, what the Inquiry found was that many parts of the world were not organised according to such convention.

Particularly in developing countries from South Africa to Indonesia and Bangladesh, and from China to Peru, we found a 'quiet revolution' in progress in shaping financial market according to diverse policy priorities, from financial inclusion, to air pollution, to black economic empowerment and to climate.

Such interventions were being justified mainly by reference to four specific circumstances:
1. *Pricing externalities:* Action justified where financial markets systematically mis-price the impact of pursuing financial returns on social and environmental externalities.
2. *Promoting innovation:* Action justified to stimulate 'missing markets', generating positive spillovers, for example, through common standards that improve liquidity in embryonic areas.
3. *Ensuring financial stability:* Action justified where the stability of parts of the financial system may be affected by environmental impacts, or by associated policy, technological and social responses.
4. *Ensuring policy coherence:* Action justified to ensure that the rules governing the financial system are consistent with wider government policies.

Actions to improve the working of the financial system used one or more of these rationales, each seeking to advance aspects of sustainable development. The Inquiry's work also surfaced instances where 'second-best' actions were argued to be justified, notably in developing countries, where action in the real economy, such as environmental regulation, was too weak. In such circumstances, second-best solutions enacted through financial system interventions were seen as helpful ways to move forward, and indeed as ways to trigger first best solutions.

Birth of a new narrative

Less than two years later, on 8 October 2015, the Inquiry launched its first global report, 'The Financial System We Need: Aligning the Financial System with Sustainable Development', at the International Monetary Fund/World Bank Group Annual Meetings in Lima, Peru. It was the first time that the UN, let alone the UN agency responsible for environmental issues, had chaired a panel of central bank governors not to talk about the environment, but the future of the financial system.

When the curtain on the one-hour event came down, it was evident that we had crossed an invisible threshold. A new, or perhaps revived, narrative was being established making the matter of environment, climate and sustainable development the business of financial policy-makers and regulators. Reinforcing this was the announcement by China during this pivotal discussion not only that it would take the topic of green finance into the G20 finance track during its Presidency in 2016, co-Chaired with the United Kingdom, but that it was asking the UN Environment to manage this work stream on its behalf.

A noisier revolution

Today, less than two and a half years later, it would be hard for any central bank governor to dismiss the relevance to his or her work of sustainable development. Such a shift in so short a time period is remarkable in itself, and a testimony to the work of many and the early impacts of the universal embrace of the 2030 Agenda and the Paris Agreement on climate. And although there is much to be done in translating this movement into tangible, ambitious action, we also see a growing proportion of bankers, investors, stock exchanges and insurance firms making commitments to align their operations with climate change and broader sustainable development objectives. Citizens and civil society organisations have also moved into the financial system arena, stimulating incumbents to look afresh at their purpose and practice.

Figure 1: The Inquiry's four global reports

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Considering market practice, for example, there has been a fourteen-fold increase in labelled green bond annual issuance from just US$ 11 billion in issuance in 2013 to US$ 155 billion in 2017, including emblematic cases such as Nigeria's issuance of the world's first, fully certified, sovereign green bond. Yet, such progress needs to be set against the scale of the global bond market of around US$ 100 trillion. Similarly, there has been an increase in the divestments in carbon-intensive assets to an estimated US$ 5 trillion in 2016, but this equally needs to be set this against investments in coal, oil and gas over the same period of around US$ 710 billion.

National action is critical, and there are a growing number of examples of ambitious roadmaps in development and implementation, many of which the Inquiry has supported, with notable examples including:

• *China:* Agreed by China's State Council in August 2016, the 'Guidelines for Establishing a Green Financial System' is the world's most comprehensive set of national commitments, covering a range of priorities across banking, capital markets and insurance. This built on the work of the China Green Finance Task Force co-convened by the People's Bank of China and the Inquiry on behalf of UN Environment.

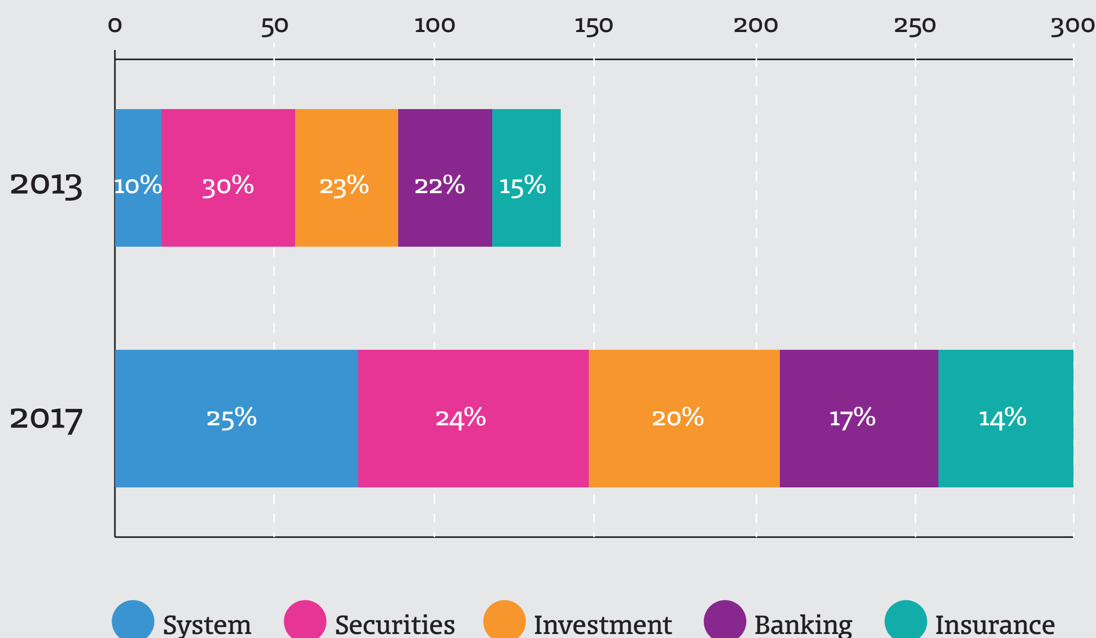
• *European Union:* Building on developments across a number of member states, in 2016, the European Union set up the High-Level Expert Group on Sustainable Finance (HLEG) to map out options for community-wide action. This has laid the foundations for a comprehensive action plan on sustainable finance proposed by the European Commission released in early 2018.

The Inquiry has tracked the global number and range of policy measures to advance aspects of sustainable finance. At the end of 2013, 139 subnational, national-level and international policy and regulatory measures were in place across 44 jurisdictions. Most of these were first-generation efforts to improve disclosure in securities markets and by pension funds. Four years on, the number of measures has not only doubled – to 300 in 54 jurisdictions – but the pattern of activity has changed fundamentally, with a substantial rise in system-level initiatives, which now account for a quarter of the total (see Figure 2). These include the growth in national-level roadmaps for green and sustainable finance in countries, across such diverse cases as Indonesia, Italy, Morocco and Singapore. Specialised sustainable finance regulations and guidelines have also been developed. Bangladesh, China, Vietnam, and Pakistan have developed guidance for banks to include environmental and social factors into risk management.

Momentum to transformation

Despite the impressive momentum achieved, progress remains insufficient to deliver the financing required for the 2030 Agenda or the Paris Agreement. Indeed,

Figure 2: The doubling in policy and regulatory measures for sustainable finance, 2013-2017



Source: Illustration based on original downloadable at:
http://unepinquiry.org/wp-content/uploads/2018/04/Greening_the_Rules_of_the_Game.pdf

the vital signs of sustainable development give strong reasons to be highly concerned, whether in terms of ecosystem decline, widening social fractures due to high carbon trapped economic development and unrealised economic potential. Finance is not the only factor at work, but is a keystone in shaping tomorrow's economy and its impacts.

Progress to date should not discourage more transformative ambition to reshape finance, given the challenges we face and the opportunities that this finance could realise. There is certainly a need for more of both to get to where we need to be. While the job is clearly not done, many stakeholders can and will take the agenda of sustainable finance forward, within national governments, civil society, international organisations, financial institutions and across the UN system.

Aligning the financial system with the 2030 Agenda is not just a matter of more of the same, but of harnessing major change opportunities, given the complexity and dynamism of this system, rather than seeking to blueprint solutions as one might in designing, say, a car. For example:

- Financial crises offer major opportunities to reshape aspects of the financial system, as has the recent one, albeit with mixed results.

- International political agreements offer opportunities to shape systemic outcomes, such as the Paris Agreement which has helped system-level initiatives to advance climate considerations across the financial system.

- Digitalisation will transform the financial system, and its relationship with the real economy, creating many new opportunities for advancing financing for sustainable development.

- Major investment programmes such as China's Belt and Road initiative, provide opportunities to influence the alignment of major investment flows.

The opportunity is to harness such transformational waves. The Inquiry, although having completed its 50-month journey, has spawned and supported the emergence of many on going initiatives, including:
• ***Sustainable Finance at the G20:*** UN Environment will continue to advance sustainable finance under the Argentinian G20 Presidency, notably the Sustainable Finance Study Group
• ***Coalitions for Action:*** three coalitions have been established, each involving UN Environment, to advance aspects of our work:

1. Network of Financial Centres for Sustainability:
Launched in Casablanca in September 2017, the network gathers financial centres committed to harness their financial expertise to drive action on climate change and sustainable development.[2]

2. Sustainable Digital Finance Alliance:
Co-founded by UN Environment and Ant Financial Services, and established as a Swiss-based, non-profit, public-private partnership, its goal is to catalyse the more effective harnessing of the digitalisation of finance in meeting the financing needs of sustainable development.[3]

3. Sustainable Insurance Forum: A network of leading insurance supervisors and regulators seeking to strengthen their understanding of and responses to sustainability issues for the business of insurance, it is a global platform for knowledge-sharing, research and collective action.[4]

• Roadmaps for Sustainable Finance: a growing number of organisations are now stepping in to support countries and regions in developing roadmaps, such as the International Finance Corporation's (IFC) Sustainable Banking Network. Further development work is, however, still required in the development of tools, ways to link these roadmaps to other planning processes such as green economy planning and climate-related National Development Contributions.

UN Environment's Inquiry as catalyst

The Inquiry's value added, beyond being in the right place at the right time, was to uncover the many relevant innovative initiatives created by extraordinary champions from around the world, connect these initiatives through the exchange of experience across its partners, and to shape an overarching narrative that validated the ambition to align global finance with sustainable development.

The Inquiry has been a catalyst for change, not an underlying driver. Its work leveraged three, historic drivers:
• The aftermath of the financial crisis, which created an opening for fresh thinking about the role of the financial system, and strengthened the resolve for policy action on finance.
• The growing importance of developing countries with new ideas about how finance and development should work together.
• The global negotiation and agreement of the Sustainable Development Goals and the Paris Agreement on climate change.

In addition, especially in its latter phase, the Inquiry has increasingly emphasised the potential to harness the digitalisation of finance in realising the 2030 Agenda and the Paris Agreement goals. This is work in progress, and currently includes active engagement on the topic through Argentina's G20 Presidency, and the decision by the UN Secretary-General to champion a Task Force on Digital Finance and the SDGs.

Finally, and with the benefit of hindsight, we have distilled the Inquiry's approach down to ten key features, set out below. All of these are quite straightforward, but in combination have proved to be a quite powerful approach to encouraging systemic change. An open question to conclude on is whether there may be lessons from the Inquiry for catalysing other aspects of sustainable development.

Inquiry's 10 Aspects to Catalysing Change

1. A historic window to advance changes in the financial system.

2. A pronounced sensitivity to, and respect for, existing innovations, especially by developing countries, focused on specific national priorities and contexts.

3. The linking together of these innovations across countries to understand patterns in the evolution of sustainable finance and build a community of interest between practitioners in different parts of the world.

4. Highlighting the broader systemic relevance of such innovations in anchoring the entire overall narrative. This required demonstrating – and also catalysing – the strong network effects of specific innovations, which in turn required constant refinement through on-going engagement, publication, critique and amplification.

5. Work with a growing number of 'policy entrepreneurs' who saw the value of the system approach and were open to explore the case for action and, on the basis of fresh insights, to extend the coverage of financial policy and regulation to include sustainability factors.

6. Engagement at the country level to systematise needs and innovations into roadmaps for aligning domestic financial systems with broader sustainability interests and national priorities, rapidly cross-fertilising between collaborations, and feeding the results into international dialogue and debate.

7. Promote active collaboration between public and private actors, recognising that smart policy interventions would depend on sound advice from, and support by, the market, and that effective roadmaps would rely on rapid feedback to allow for learning and the evolution of approaches in as near to real time as possible.

8. Crowd in an armada of policy and market analysis, innovations and recommendations, connecting to international agendas such as the SDGs and the Paris Agreement, and seeking unexpected synergies from literally hundreds of actors, rather than working to identify singular, 'best' options.

9. Engage with a small number of ambitious actors who wished to influence the system as a whole, both in their home markets and on the international stage, opening up important avenues for informing and influencing key public and private actors.

10. Work with others to establish a limited number of new forums for sustainable finance dialogue and decision, notably in the G20, around insurance supervision, with financial centres and in the area of digital finance.

Source: adapted from 'Making Waves: Aligning the Financial System with Sustainable Development', UN Environment Inquiry 4th Global Report, UN Environment, Geneva

Footnotes

[1] UN Environment, 'Making Waves: Aligning the Financial System with Sustainable Development', (report, UN Environment, 2018). http://unepinquiry.org/making-waves/
The Inquiry's complete knowledge base of over 120 reports can be downloaded at: http://unepinquiry.org/

[2] Jeremy McDaniels and Nick Robins, 'Accelerating Financial Centre Action on Sustainable Development', (report, UN Environment Inquiry, 2017). http://unepinquiry.org/publication/accelerating-financial-centre-action-on-sustainable-development/

[3] For more information on the Sustainable Digital Finance Alliance see: https://www.sustainabledigitalfinance.org/

[4] For more information on the Sustainable Insurance Forum see: https://www.sustainableinsuranceforum.org/

Creating an ecosystem to deliver positive impact finance and meet the Sustainable Development Goals

By Careen Abb

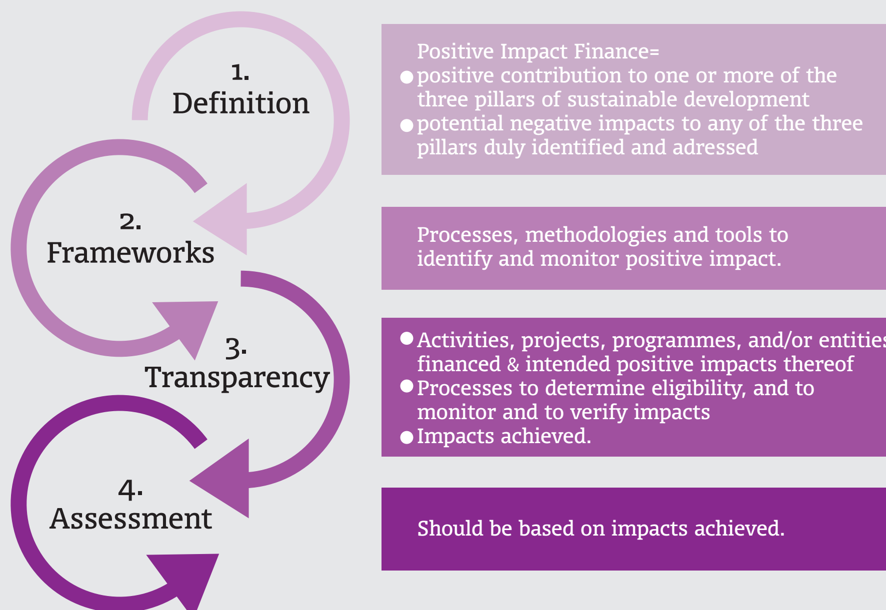
Careen Abb is a Programme Lead for Positive Impact Finance at United Nations Environment Programme - Finance Initiative (UNEP-FI). UNEP FI is a partnership between UN Environment and the global financial sector created in the context of the 1992 Earth Summit with a mission to promote sustainable finance. Over 200 financial institutions, including banks, insurers and investors, work with UN Environment to understand today's environmental challenges, why they matter to finance and how to actively participate in addressing them.

These are the personal views of the author and do not necessarily reflect the views of the United Nations.

In the 2017 edition of this report, we reflected on the UN's role in engaging mainstream finance on sustainability issues, building on 25 years of the United Nations Environment Programme – Finance Initiative's (UNEP FI) work with more than 200 financial institutions globally. We underscored that the global finance sector has a distinct role to play in the achievement of the shared goals of the international community, as enshrined by the Paris Climate Accords, the Sustainable Development Goals (SDGs) and many other policy frameworks.

Indeed, ensuring that finance and investment support impactful activities and avoid supporting destructive activities is now an increasingly recognised lever for achieving social, environmental and developmental objectives. Recent developments, such as the release of the EU Action Plan on Sustainable Finance by the European Commission[1], the emergence of Green or Sustainable Financial Centres[2] globally and the on-going work of the G20 Study Group on Green Finance[3], attest to this. It has become clear that the decisions of financial institutions, how they operate, screen investments and engage their clients and investees are critical factors to achieving global sustainability goals.

Figure 1: The principles for Positive Impact Finance



This remains a work in progress. There is greater awareness of the need to seek and promote positive impact, however this tends to remain a circumscribed or even niche part of business as figures attest. Themed bonds constitute a small portion of the overall bond market (green bonds, the biggest pool of themed bonds, are by the more generous estimates at best 0.5% of global bond markets), and other steadily growing approaches such as impact investing added a small (but growing) US$ 22 billion in 2016.

Mainstreaming impact analysis in financial institutions

To be more relevant, financial institutions need to set the ambition that impact becomes a core part of their business strategy, as opposed to a niche interest. It is with this in mind that UNEP-FI has developed the four Principles for Positive Impact Finance (see Figure 1).[4]

The Principles' first ambition is to increase both the amount of positive impact financial products and the amount of finance made available under current business models. As the Principles simultaneously consider the three dimensions of sustainability (social, environmental and developmental), they ensure that a larger pool of assets can be financed. An example of a finance initiative seeking to take this holistic approach is Société Générale, which has issued positive impact notes and bonds (see Figure 2).

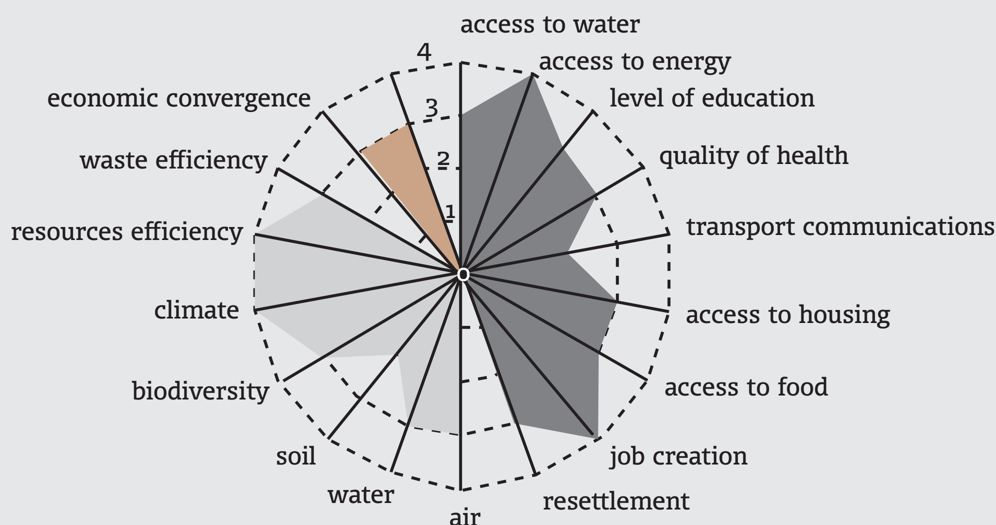
Société Générale developed a Positive Impact Assessment Framework for its corporate and investment banking portfolio. It has issued two € 500 million Positive impact bonds[5] in 2015 and 2016 using this Framework to screen deals. The impact rating grid below shows the final evaluation of a hypothetical deal. Only assets with positive impacts and either no negative impacts or well managed negative impacts qualify, (ie positive impacts do not compensate for negative impacts). The numbers (0-4) indicate the level of anticipated positive impact. The impact areas are colour-coded according to their overall focus (dark grey for social impacts, light grey for environmental impacts and beige for developmental impacts - as per the three pillars of sustainable development).

The second objective of the Principles is to foster and create new impact-based models by engaging with clients and investees. This may sound abstract but is in many ways the more critical aim, and there are two central components to it: i) identifying and developing impact value chains ii) conducting holistic impact assessment to identify value-generating impacts.

Identifying and integrating impact value chains

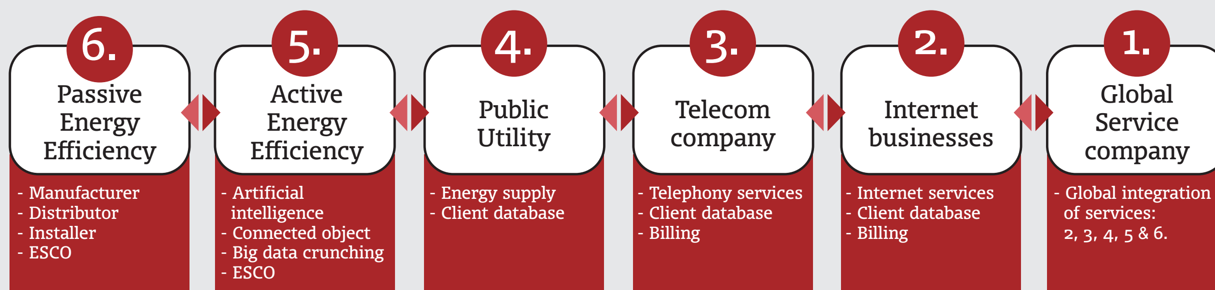
In some instances, impacts and economic sectors are neatly aligned, like renewable energy and climate change mitigation. In many more instances though, there are no such alignments, and achieving social, environmental and economic impacts is dependent on multiple sectors. Energy efficiency would be one such example. So are most social issues. This spread translates into a high cost of impact, because no single economic entity is focused on achieving this impact. This suggests that reducing the cost of impact is therefore a powerful way to bridge the SDG financing gap.

Figure 2: Société Générale impact rating grid



Source: Illustration is based on an original by Société Générale: https://goo.gl/4RCAVL

Figure 3: Impact value chains - energy efficiency



Source: Author

To do this, impact value chains – the collection of economic actors who contribute to achieve a given impact, such as energy efficiency, mobility, health, etc need to be well understood. Finding ways to integrate them – so that one of the participants in the value chain becomes a service provider with a strategic stake in the targeted impact – can result in a substantial reduction of cost-to-impact ratios. Figure 3 provides an illustration of an impact value chain, where the different participants are identified and placed along the chain based on how close they are to end-beneficiaries and their hypothetical ability to integrate the whole.

Having impact frameworks in place and developing in-house capacity to understand impact, help financial institutions engage with clients and investees. The frameworks clarify the investees' position in these value chains and thereby allow for more relevant and specific advice. Key here is the strategic use of technologies brought by the fourth industrial revolution - the digital revolution that has been occurring since the middle of the last century. Businesses that leverage these technologies to help clients manage their costs will be in a position to open and serve large new markets by delivering impact.

Conducting holistic impact assessment to identify value-generating impacts

Relatedly, a holistic understanding and appraisal of a business or project's impacts can help identify revenue-generating opportunities, scaling up the delivery of those impacts that drive revenues and pinpointing other 'piggy-backing' impacts. Case in point: urban infrastructure and the old-fashioned lamp post. Taken alone, a lamp post delivers limited although important impacts such as public lightening and street safety. It generates no revenue. But it can be much more: for instance, through the installation of data collection devices (eg air quality, traffic monitoring), or electric charging facilities, the lamp post can become 'smart' and generate revenues, as well as additional impacts.

This illustration again shows how financial institutions can, out of enlightened self-interest, take a proactive role in delivering impacts (and the SDGs), by becoming partners and advisors to clients and investees in encouraging these approaches to business lines and business models.

Positive impact ecosystem

Integrating impact requires significant changes in the way financial institutions think about their business and how they develop their teams. But more than this, an ecosystem of players and mechanisms needs to emerge (see Figure 4).

Critically, governments at the national and local levels can accelerate the emergence of this impact-based economy. Often the main guarantor of the positive impacts embodied by the SDGs today, the public sector, can use its public planning processes to crowd in private finance right from the project design stages. They can issue request for proposals that apply our concept of holistic impact analysis at the root of programmes and investment.

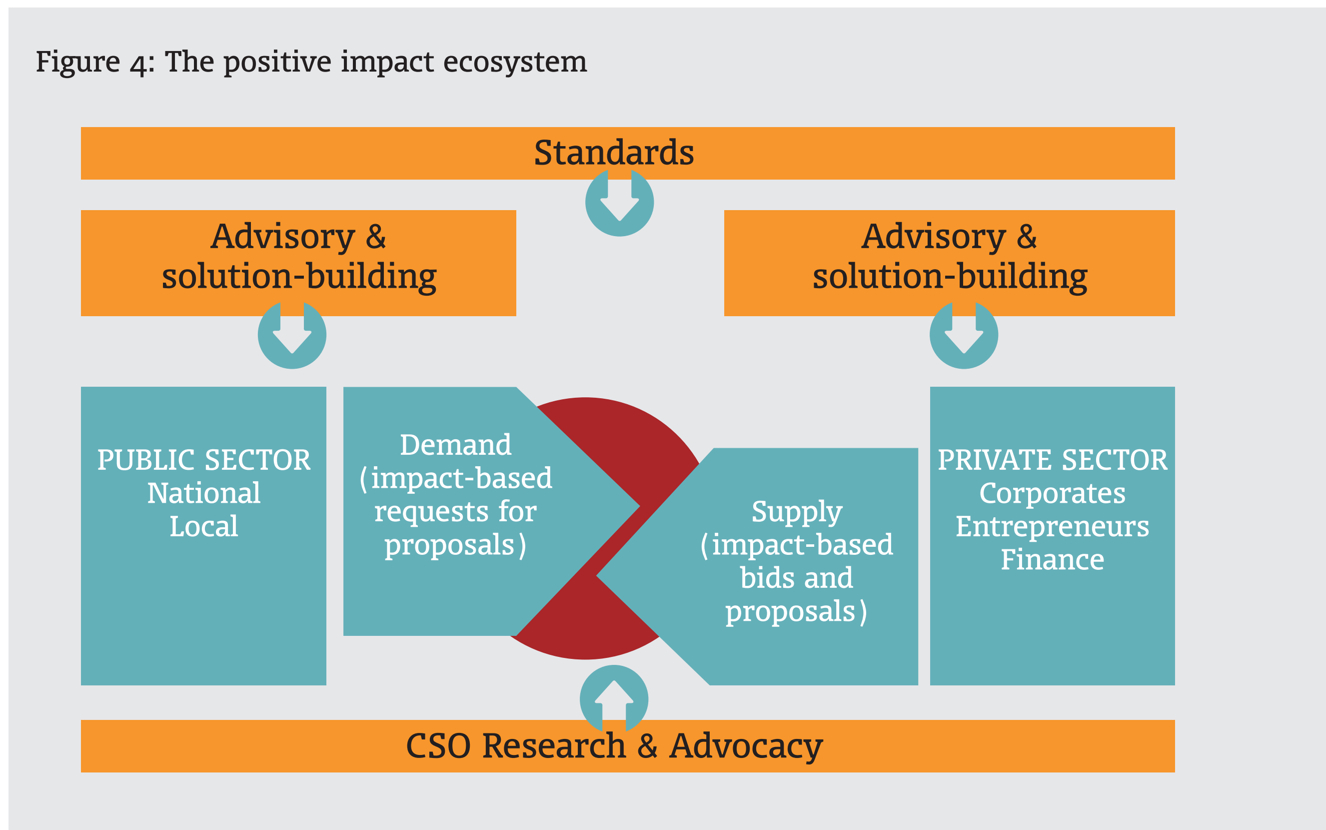
Ratings and league tables for positive impact financial products provide an additional lever for this economy to grow.

As of spring 2018, UNEP-FI's Positive Impact initiative is working on the development of an impact categorisation tool and product-specific guidance notes. The categorisation tool will help make the link between impact goals and business models. The guidance notes will help with applying an impact-based approach across different types of financing instruments, such as bonds or notes.

Conclusion

In sum, private financial institutions have a key role and a strategic business interest in achieving global sustainability goals. For them to do so the understanding of impact needs to be mainstreamed in their decision-making processes. This needs to cover the three pillars

Figure 4: The positive impact ecosystem



of sustainable development (economic, environmental and social), and requires coverage of both positive and negative impacts. A broader 'impact ecosystem' is needed however, namely to shape and re-express the needs and demands of national and local governments in this same impact language, so that the power of the private sector and private finance can be fully harnessed for the SDGs.

The United Nations can play an instrumental role in bringing about the full positive impact ecosystem. The UN has a unique brand and legitimacy conferred by its neutrality and reach, which puts it in an ideal position to convene, mediate and scale good practices not only among countries but also between the public and private sectors.

To quote the UN's Secretary-General in his report on Repositioning the UN development system to deliver on the 2030 Agenda: 'Previous sector-focused policy-making or a goal-by-goal approach will not achieve the 2030 Agenda for Sustainable Development or its SDGs. Stronger integrated planning, strategic thinking and policy integration will be crucial for Governments to define the best SDG implementation mix at the local level.' [6]

Footnotes

[1] 'Commission action plan on financing sustainable growth', (report, Financial Stability, Financial Services and Capital Markets Union, 2018). https://ec.europa.eu/info/publications/180308-action-plan-sustainable-growth_en

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Moving to mobilisation

By Jeremy Oppenheim
and Katherine Stodulka

Jeremy Oppenheim is the Co-Founder and Managing Partner of SYSTEMIQ – a company which seeks to accelerate the system-changes needed to achieve the SDGs. Jeremy is the Programme Director for the Blended Finance Taskforce, the Energy Transitions Commission and the Food & Land Use Coalition. Building on 25 years at McKinsey, Jeremy continues to serve the world's leading companies in the finance, consumer goods, technology, healthcare and energy sectors, and works extensively with multilateral development banks, governments and NGOs in both developed and developing countries.

Katherine Stodulka is the Project Manager for the Blended Finance Taskforce. Katherine is a qualified lawyer (First Class Hons). Before joining SYSTEMIQ, Katherine worked on renewable energy project finance deals in London, and M&A for energy and infrastructure projects in Australia.

Over the past 18 months, we have seen an explosion of initiatives focused on driving more and better 'blended finance'[1] – a game-changer in terms of funding the UN Sustainable Development Goals (SDGs).

Despite excitement around development finance's newest 'silver bullet', it grossly oversimplifies things if we say that more blended finance is the end goal.

Instead, we should be focused on mobilisation – how to crowd-in more private capital for the SDGs using tools like blended finance, but also by deepening local capital markets, addressing regulatory disincentives and strengthening regional policy. Using this framing allows us to better address barriers across the entire investment system which can hinder the flow of investment to the SDGs and developing countries.

What is blended finance

In layman's terms, 'blending' is the use of public money to mobilise private investment for SDG-related assets – like climate-resilient, sustainable infrastructure in emerging markets.

Blended finance instruments which have mobilised large amounts of private capital include guarantees, insurance, currency hedging, technical assistance grants and first loss capital. These instruments all involve the use of public money to mitigate certain risks associated with investing in projects that have high development impact.

The risk capital in a 'blended' structure can be provided by institutions like national development agencies or multi-donor climate funds. However, the majority is channelled through multilateral development banks (MDBs) and bilateral development finance institutions (DFIs).

There are already some good examples of blended finance at work, which have managed to attract institutional investment to sectors like renewable energy, healthcare, resilient cities and sustainable land-use projects (all of which are largely under-capitalised, especially in developing countries).

We need to see investment in these assets grow dramatically if we are going to narrow the annual multi-trillion-dollar SDG-funding gap (estimated at roughly US$ 1.5 trillion a year for the private sector).

The good news is that the SDGs should make business sense for investors, with an estimated US$ 12 trillion economic opportunity for the private sector over the next 10-15 years.[2]

With the power to 'tip the scales' and make SDG-related assets or markets more 'investable', it is no wonder that a dramatic scale up of the blended finance market is now seen as an urgent priority.

The prize

The prize is huge. Sustainable infrastructure is arguably the single best way to deliver the SDGs – especially for

climate, but we know that institutional investors invest less than 1% of their US$ 100 trillion assets under management globally into infrastructure. Critically, only a fraction of this investment is going into emerging markets or being used for 'sustainable' infrastructure projects. A dramatic increase in investor allocations to sustainable infrastructure could facilitate an additional US$ 0.5 trillion a year of commercial capital flows for this asset class. That could address roughly one third of the estimated US$ 1.5 trillion private sector funding gap for the SDGs.

Barriers to investment

Blending is certainly one of the most powerful tools we have to shift large pools of commercial capital to SDG-related asset classes – especially capital sitting with pension funds and insurers looking for yield, diversification and which can take a long-term investment outlook.

But despite growing momentum, there are barriers which prevent the blended finance market from scaling. These barriers combine to limit flows of private investment for SDG-related assets, especially into developing countries.

a. Development banks do not have strong enough incentives or business models to maximise the amount of private capital invested in the projects they support. MDBs currently mobilise less than one dollar of private capital for every development dollar they invest across their total portfolios. The bilateral DFIs also need to increase mobilisation ratios, as do developed countries, who need to crowd in more private capital for every donor dollar of official development assistance (ODA).

b. Investors are hampered by regulatory restrictions and face a range of asset-specific risks on infrastructure asset exposure. They also lack reliable data on the performance of such assets in emerging markets to guide their investment decisions.

c. Developing country governments often lack the policy and institutional mechanisms to attract long-term capital and develop bankable project pipelines. In particular, they need to develop blended finance platforms or institutions which can link policies to sectoral strategies, investment plans and sustainability standards.

In other words, the system is not set up to meet the scale of the SDG opportunity and the development challenge.

System change not silver bullet

Ramping up the use of blended finance alone will not be able to address all these challenges and tackling just one part of the financial system or one set of actors will not turn the billions of development capital into trillions of commercial investment flows.

No amount of blended finance can make up for a weak enabling environment. Having transparent political leadership, a stable legal framework and policies which

Table 1: Analysis of MDB private mobilisation compared to their overall activities (including reporting on infrastructure and climate finance – 2016)

Total MDB mobilisation (FY2016)	Direct MDB mobilisation (US$ m)[1)]	Indirect MDB mobilisation (US$ m)[1)]	Total MDB co-financing (US$ m)[1)]	Total infra. co-financing (US$ m)[1)]	Climate co-financing incl. public (US$ m)[2)]	MDB own account (US$ m)[2)]	Direct mobilisation vs. MDB own account	Total co-financing vs. MDB own operations
ADB	460	8,536	8,995	8,576	5,164	17,624	0.0	0.5
AfDB	1,088	821	1,909	1,909	633	10,640	0.1	0.2
EBRD	1,480	8,471	9,950	3,530	5,036	10,394	0.1	1.0
EIB [3)]	36,503	53,854	90,357	31,650	-	88,096	0.4	1.0
IADB	703	953	1,656	1,202	4,560	11,619	0.1	0.1
WBG	8,706	29,607	38,313	14,649	9,322	61,275	0.1	0.6
Total MDB	49,885	113,747	163,632	68,676		199,648	0.2	0.8
Total MDB (excl. EIB)	13,382	59,893	73,275	37,026		111,552	0.1	0.7

1) Joint 2016 MDB Mobilisation report cover: ADB, AfDB, AIIB (US$ 5m co-financing), EBRD, EIB, IADB, IsDB, WBG (incl. IFC and MIGA)
2) Joint 2016 MDB Climate finance report cover 6 institutions: ADB, AfDB, EBRD, EIB, IDBG, WBG (incl. IFC and MIGA)
3) EIB report for non EU-12 activity only in Joint Climate finance report, EIB's own account figures therefore retrieved from EIB directly.

make it easier for the private sector to do business will ultimately provide the biggest multiplier in terms of attracting private capital to invest in sustainable infrastructure in developing countries.

Of course, strengthening the enabling environment takes time. Blending will therefore play an outsized role in mobilising private investors for the SDGs. Nevertheless, it is important not to present blended finance as a panacea to SDG financing in isolation without considering all the other factors including the policy and the local regulatory regime.

What we need is a coordinated programme of action – one which profoundly integrates the voice of the investor alongside the development community, and one which is grounded in solving for the right end goal – that is the facilitation of major shifts in capital to sustainable infrastructure and other SDGs.

Coordinated programme of action

The Blended Finance Taskforce has identified eight key initiatives to accelerate the mobilisation of large-scale private capital for the SDGs across the whole investment system.[3]

1. *Mobilisation targets:* Set ambitious MDB/DFI mobilisation targets in line with the requirements of the Paris Agreement and the SDGs.

2. *Investor club:* Form a high ambition club of investors to commit to sustainable infrastructure targets in emerging markets.

3. *Regulatory disincentives:* Launch a standardised development guarantee and accelerate amendment to financial regulations (eg Solvency II and Basel III) which currently disincentivise investment in emerging markets and infrastructure.

4. *Infrastructure data:* Drive greater access to data on infrastructure performance (including historical MDB/DFI data) as a public good, to help build infrastructure as an asset class.

5. *Blended finance vehicles/instruments:* Double capacity for long-term foreign currency hedging instruments to support deepening of local capital markets; profile existing blended finance vehicles to support scale up.

Table 2: Analysis of MDB private mobilisation compared to their private sector activities (2016)

MDB private sector window mobilisation (FY16)	MDB annual private only operations estimate (US$bn)(1)	Private operations share of total estimate (%)(2)	Direct mobilisation (US$bn)(3)	Indirect mobilisation (US$bn)(3)	Co-financing (US$bn) (direct + indirect)	Direct private mobilisation ratio	Total private co-financing ratio
IFC (WB)	11.3	100%	4.1	16.0	20.1	0.4	1.8
MIGA (WB)	4.3	100%	4.0	3.2	7.2	0.9	1.7
EBRD	7.4	70-80%	1.5	8.5	10.0	0.2	1.3
EIB(3)	8.8	na	3.7	5.4	9.0	0.4	1.0
IADB (IDB Invest)	2.2	20%	0.7	1.0	1.7	0.3	0.8
ADB	2.5	15%	0.5	8.5	9.0	0.2	3.6
AfDB	2.7	25%	1.1	0.8	1.9	0.4	0.7
AIIB	0.02	1%	0.0	0.005	0.0	0.0	0.3
Total	39.2		15.5	43.4	58.9	0.4	1.5
WB (other sovereign)	0.0	0%	0.6	10.4	11.0	na	na
Total (incl. WB other)(4)	39.2	37%	16.1	53.8	69.9	0.4	1.8

(1) Source: Informal EDFI estimate (note not all figures fully comparable, foreign exchange EUR/US$ rate 1.1). Assumes 10% of EIB outside EU (FY16 10% commitments non-EU)

(2) Source: Approximations from various MDB Annual Reports FY16 (not all information available)

(3) Source: MDB Joint reporting 2016. Assumes 10% of EIB mobilisation/operations outside EU (FY2016 10% commitments non-EU)

(4) Total including other World Bank Group sovereign operations

6. Private intermediaries and incubators for pipeline: Seed new blended finance intermediaries to drive project pipeline and ensure innovation as well as scale, especially in frontier markets.

7. Investment for priority sectors: Dramatically scale private investment for resilient cities, sustainable land-use and ocean plastic by developing blended finance strategies for high-impact priority sectors.

8. Blended finance capacity in developing countries: Create a network of blended finance funds and initiatives to share knowledge and build capacity to drive sustainable growth and deliver the Paris Agreement and the SDGs.

Mobilisation targets

Perhaps the most important of these initiatives is for development banks to set ambitious mobilisation targets for external private financing alongside their own activities.

As the main blenders of capital, development banks are indispensable actors in the mobilisation agenda. They are central to making the system work: driving policy and institutional reforms on ground, strengthening the supply and design of investible projects, and shifting investor risk perceptions by deploying specific products and through their on-ground expertise.

Overall, the MDBs provide around US$ 200 billion per year from their own account, which mobilised around US$ 160 billion of external private capital in 2016. This is significant when compared to something like annual ODA flows of US$ 143 billion in 2016.

Nevertheless, at best, current estimates suggest that overall MDB financing in 2016 achieved a mobilisation ratio of 0.8:1 (ie only 80c of private capital was mobilised for every US$ 1 of MDB financing). See Table 1.

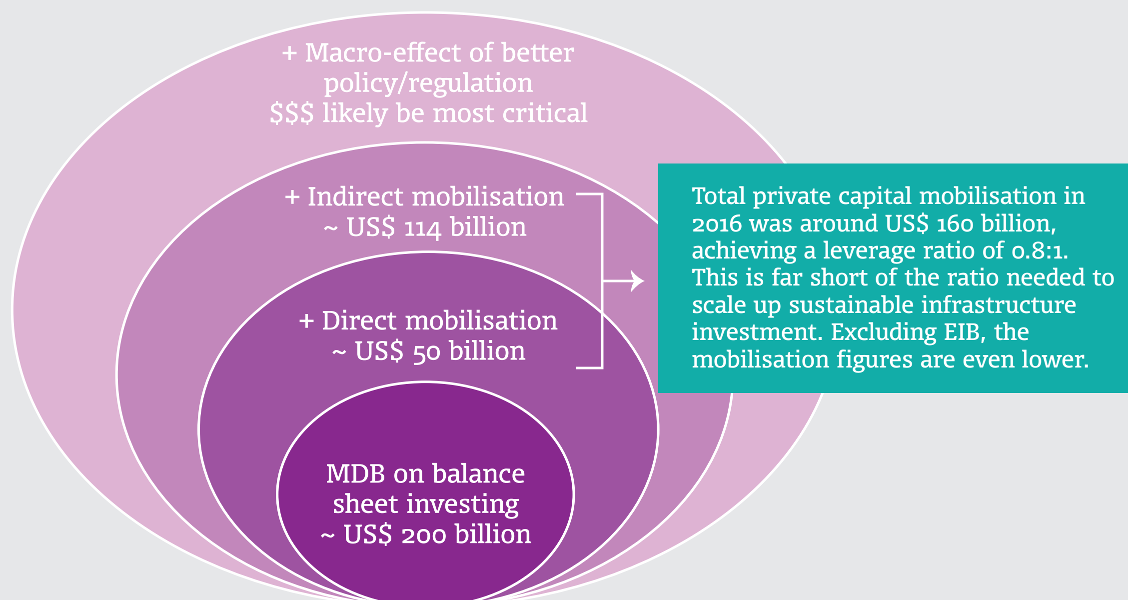
This ratio includes both direct and indirect mobilisation against overall MDB operations. If we consider only direct mobilisation, the amount of private capital 'crowded in' by the MDBs is about US$ 50 billion, and if you exclude European Investment Bank (EIB) (which skews the numbers due to its large volume), then the amount mobilised drops to around $13 billion (meaning a ratio of around 0.12:1). See Table 1 and Figure 1.

These ratios need to increase significantly, and would need to more than double over the next decade to get anywhere close to the trillion+ dollar target to meet the private sector SDG funding gap.

How to increase mobilisation ratios

Achieving higher mobilisation ratios will require the MDBs to sharply increase the share of private sector

Figure 3: MDB overall direct and indirect mobilisation (2016)



activities which currently account for only around 30% of MDB activities. They will also need to ramp up the mobilisation ratios of the MDB private sector arms from just below 2:1 to closer to 4:1 (or more). See Table 2.

Investing a higher share in clean energy and climate-resilient infrastructure can also help, with higher mobilisation ratios seen in MDB climate finance portfolios.

Setting ambitious mobilisation targets will also require development banks to improve their interface with private investors (eg by streamlining processes, standardising products and pooling/recycling assets), provided that they are accompanied by reinforcing shifts in incentives and capabilities.

Setting targets and measuring mobilisation
Setting targets does not mean advocating for development banks to become machines which are simply set up to maximise finance; the safeguards and principles around additionality and market distortion will always be paramount.

Setting specific mobilisation targets will require comprehensive analysis and the development of frameworks with differentiated ratios (eg depending on country or sector) to ensure that targets are not adopted at the expense of the broader development agenda.

Of course, measuring mobilisation ratios can be more of an art than a science – the data is scarce, and the exact numbers depend on a lot of assumptions. However, the important thing is not the precise starting point, but its order of magnitude and the scale and direction of the change required.

Ultimately, without setting ambitious targets – we will not see a real shift in mobilising the trillions of dollars needed in SDG investment.

Calling all leaders

Developed country governments have a major role to play in driving the mobilisation agenda, both as shareholders of the MDBs and bilateral DFIs as well as in how they mobilise private capital for their own ODA.

But the mobilisation agenda requires leadership across the entire investment ecosystem – not only from development banks and their shareholders, but also from investors, regulators and developing country governments.

Importantly, this leadership agenda needs to be framed holistically to increase mobilisation, not only on 'scaling up the use of blended finance'. This broader mobilisation goal will ensure that we can target solutions for system-level change to see a dramatic increase for SDG-financing and a greater participation of commercial capital in high-impact sectors and geographies.

Footnotes

[1] eg Coalitions like the multi-stakeholder 'Blended Finance Taskforce'; incubators like CPI's 'Climate Finance Lab'; technical workstreams within the OECD and the UN; institutional working groups like the DFI working group for blended concessional finance; deal platforms and design funding programmes like those run by Convergence; regional investment hubs like the WEF's Sustainable Development Investment Partnership; knowledge sharing and thought leadership through roundtables hosted by Milken, the Centre for Global Development and the GIIN; and international conferences focused on blended finance like the Tri Hita Karana Forum for Sustainable Development which will be held at the Bali World Bank / IMF Annual Meetings in October 2018.

[2] Business & Sustainable Development Commission, 'Better Business, Better World', (report, Business & Sustainable Development World, 2017). http://report.businesscommission.org/uploads/BetterBiz-BetterWorld_170215_012417.pdf

[3] Blended Finance, 'Action Programme', (website, Blended Finance, 2018). https://www.blendedfinance.earth/action-programme-placeholder/

PART TWO
Chapter Four

Innovations in multilateral instruments for Agenda 2030

Innovative finance platform for United Nations development system country-level support

by Yannick Glemarec

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- a trust fund to support the means of implementation for the goals

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by Magdi M. Amin and Martin C. Spicer

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by Samuel Choritz

Harnessing digital finance for sustainable development

by Simon Zadek and Fiona Bayat-Renoux

Catalyst restrained by adverse conditions: how does the 2030 Agenda impact development cooperation?

by Stephan Klingebiel and Silke Weinlich

Innovative finance platform for United Nations development system country-level support

By Yannick Glemarec

Yannick Glemarec is Assistant Secretary-General and Deputy Executive Director for Policy and Programme in UN Women. Previously, he was the Executive Coordinator of the UN Multi-Partner Trust Fund Office from 2013 to 2015 and UN Development Programme (UNDP) Director for Environmental Finance from 2007 to 2012. Earlier, he served with UNDP in Vietnam, China and Bangladesh. He holds a PhD from the University of Paris in Environment Sciences, and two Master Degrees in Hydrology and in Business Administration. He has authored several publications in the field of sustainable development, renewable energy, climate finance, and co-benefits between gender equality and climate action.

At the turn of this century, Innovative Financing for Development (IFD) emerged as a financing discipline that played a substantial role in the attainment of specific Millennium Development Goal targets such as Immunisation, AIDS, TB and Malaria. Over the next 15 years the 2030 Agenda for Sustainable Development is expected to further leverage innovative financing to supplement existing public and private flows.

IFD could prove especially important for middle income countries that are graduating from international aid support (bi- or multilateral donors as well as global funding instruments such as the Global Alliance for Vaccines and Immunization (Gavi) and the Global Fund), while their domestic economies are still fragile. As countries prepare to be more economically effective and self-sustainable and less eligible for Official Development Assistance (ODA) – identifying new and more innovative financing will most likely become a priority at the local and national levels.

Potential of innovative financing

Several definitions of innovative financing exist.[1] At its core, innovative financing involves a wide range of mechanisms to: (i) access new sources of finance (innovative sourcing); or (ii) use existing resources in innovative ways to increase development impact (innovative spending). The mechanisms include but are not limited to taxes and solidarity levies; loans guarantees, advance market commitments for new and underused vaccines and medications; impact loans for micro-, small- and medium-sized enterprises (MSMEs) to access financing and create jobs; green bonds, green asset-backed securities and carbon pricing mechanisms for environmental protection; debt swaps and buydowns; auctions, awards and prizes; digital giving (cash or computer time for crypto-currency mining); and innovative insurance schemes such as weather indexes or insurance pools to better prevent, respond and recover from disaster risks.

Green bonds are the fastest growing innovative mechanism. In 2017, the issuance was almost US$ 157 billion against US$ 11 billion in 2011. The growth potential of green bonds is theoretically immense, as it still accounts for a minute share of the US$ 83 trillion bond market. Rapid development in digital finance is also likely to open new opportunities for innovative finance. A practical example is Ant Financial, known for its mobile payment platform, who developed an app called Ant Forest that encourages Ant users to voluntarily reduce their carbon footprint by for example walking to work and adopting clean energy technologies. As users accumulate enough points virtually, a real tree is planted. The app was launched in August 2016 and had about 300 million users by April 2018. If Ant Forest's 300 million users continue to accumulate 'energy' points through green behaviours over the next five years, Ant Forest will plant 500 million trees covering 400,000 hectares.

On 15-18 December 2015, the government of Georgia hosted the 2015 Tbilisi International Solidarity and Innovative Financing Forum (TISIFF 2015). The main purposes of the TISIFF 2015 forum was to share experiences with innovative finance and assess its potential to finance the 2030 Agenda for Sustainable Development. It identified a wide range of instruments to finance each Sustainable Development Goal. However, the

Forum warned that most of these mechanisms have high start-up costs and low immediate returns. Building the business case for the Pneumococcal Advanced Market Commitment, for example, required an investment of more than US$ 30 million.[2] Since designing and implementing innovative instruments can be costly, complex, time consuming and fraught with political risks, the Forum stressed the importance of knowledge sharing mechanisms to identify and scale up instruments that will not unduly burden developing countries.

UN system advisory role

The UN system has played a key role in the design and implementation of some of these innovative financing instruments and is likely to be increasingly approached for support by Member States.[3] To fully leverage the potential of innovative mechanisms such as green bonds to finance sustainable development, government support will be required to kickstart the market and build investor confidence, typically in the form of establishing a conducive policy environment or initial liquidity and trading volume from government backed issuance. The UN system and international financial institutions (IFIs) might be called to support the development of a regulatory framework to facilitate the issuance of national and subnational green bonds. Similarly, UN agencies might play a key role in advising on how to leverage digital finance for sustainable development.

This expanded advisory role on innovative finance is anticipated in the 2016 UN Quadrennial Comprehensive Policy Review (QCPR), which 'Urges the entities of the United Nations development system to further explore innovative funding approaches to catalyse additional resources, and encourages in this regard the entities of the United Nations development system to share knowledge and best practices on innovative funding, taking into account the experiences of other multilateral institutions, and to include this information in their regular financial reporting'.[4]

As a first step to achieve this aim, the UN Development Operations Coordination Office (DOCO) in 2017 conducted a preliminary survey of existing UN support to Member States on innovative finance. The objectives of this survey were to: (i) identify promising practices across the UN development system with a strong replication potential; and (ii) assess staff capacity development needs. The survey identified 21 examples for possible replication and revealed a rich diversity of experience. However, it also showed that the actual revenue raised to date from these innovative sources remained very small. Despite the increased interest in innovative financing mechanisms, the survey concluded that the capacity of the UN in this area remained fragmented and siloed. Different agencies are individually innovating in this space, but there is a significant risk of failure to scale through fragmentation, duplication and competition. There is currently no central UN knowledge repository to share experience and expertise.

UN platform on innovative financing

Given the findings of the DOCO survey, the 2017 Report of the Secretary-General on 'Repositioning the United Nations development system to deliver on the 2030 Agenda' recommends: 'the development of an innovative financing platform that helps build the knowledge, capacities, expertise and resource base of the United Nations development system for innovative finance should be a priority'.[5]

Should this proposal be welcomed by Member States, the proposed Platform could:

- Share knowledge on innovative finance across UN agencies, to ensure that their efforts are coordinated and complementary;
- Assess risks and benefits of innovative financing instruments and prioritise UN engagement in this field;
- Serve as a community of practice to link UN agencies and public and private innovative finance practitioners worldwide;
- Provide technical expertise to support Member States and UN Country Teams in designing and implementing innovative financing instruments as part of the financing strategies of the new United Nations Development Assistance Frameworks (UNDAFs);
- Create joint UN initiatives to pool expertise and reduce risks to design new innovative financing mechanism and/or replicate and scale up promising experiences;
- Provide catalytic financing to country based work through possibly the Joint Fund[6];
- Facilitate cooperation with IFIs and the private sector who would not have the capacity or inclination to deal separately with each UN agency.

Footnotes

[1] Julia Benn and Marianba Mirabile, 'Innovating to Finance Development' in 'Deveopment Co-Operation Report 2014', (report, OECD, 2014, Chapter 15, page 177). http://dx.doi.org/10.1787/dcr-2014-en

[2] An Advanced Market Commitment (AMC) is an innovative spending mechanism. The Pneumococcal Advanced Market Commitment (Pneumococcal AMC) helped accelerate the development and commercialisation of pneumococcal vaccines (PVCs) for developing countries. Donors committed funds to guarantee the price of vaccines and provide incentives to manufacturers to invest in vaccine research and development (see gavi.org). In exchange for this reduced market uncertainty, the vaccine manufacturers agreed to sell the PVCs to developing countries at a price 90% lower than in industrial countries. Sam Lampert, 'Innovative Financing for Development: Scalable business models that produce economic, social and environmental outcomes', (report, Dalberg Global Development Advisors, 2014). http://leadinggroup.org/IMG/pdf/20140618_Innovative_Financing_for_Development_vF.pdf

[3] World Bank, 2013.

[4] United Nations General Assembly, 'Resolution adopted by the General Assembly Resolution on 21 December 2016, Quadrennial comprehensive policy review of operational activities for development of the United Nations system, of the United Nations development system in the context of the quadrennial comprehensive policy review of operational activities for development of the United Nations system' (General Assembly Resolution, A/RES/71/243, United Nations General Assembly, 21 December 2016). http://undocs.org/A/RES/71/243

[5] Secretary-General, 'Repositioning the United Nations development system to deliver on the 2030 Agenda: our promise for dignity, prosperity and peace on a healthy planet', (Report of the Secretary General, A/72/684–E/2018/7, United Nations General Assembly Economic and Social Council, 21 December 2017). https://undocs.org/A/72/684

[6] For more information see: https://undg.org/joint-fund/

The World Bank Group Sustainable Development Goals Fund
– a trust fund to support the means of implementation for the goals

By Jaehyang So, Björn Gillsäter and Veronica Piatkov

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The Sustainable Development Goals (SDGs) are a universal call to action to achieve a comprehensive agenda for the future, including ending poverty, protecting the planet and ensuring that all people enjoy peace and prosperity. The high ambition set by the SDGs requires a strong implementation framework through financing, data, new technology and partnerships. While financing is needed for large and path-changing investments in sustainable development projects at the country level, smaller and catalytic initiatives that can create critical windows of opportunity for the achievement of the SDGs are also important. Such initiatives help with early investment in larger projects, help exchange knowledge across countries and organisations, nurture innovation and provide access to new data or new analysis. Often, such targeted and strategic initiatives are not always eligible other forms of traditional development finance.

In response, the World Bank Group is in the process of establishing a Partnership Fund for the Sustainable Development Goals (the SDG Partnership Fund), which aims to support catalytic initiatives at the global or regional level that drive toward achievement of the SDGs through the lens of Goal 17: strengthening the Means of Implementation. This includes building effective multi-stakeholder partnerships, promoting access to and quality of data, strengthening the development and dissemination of new technologies, building capacity through peer-to-peer knowledge sharing and helping promote further mobilisation of finance. This multi-donor trust fund will promote these pillars of implementation at a global and regional level, and encourage World Bank Group staff to invest in collaborative partnerships with the UN, the private sector, foundations, civil society and other stakeholders.

One of the core objectives for the World Bank Group SDG Fund is to invite innovative ideas and best-practice models, including research and knowledge-sharing, data and statistics, and advocacy-related initiatives focused on SDG17. It will encourage multi-sectoral strategies that link global tools and methods in support of peer-to-peer learning. Its focus on global and regional initiatives will give voice to new ideas that can be customised and scaled for country-level use around the world. Initiatives could include examples like the SDG Data Atlas, which aims to consolidate and present key data analysis on the goals and targets; the SDG-linked Bonds, which promote investments linked to an SDG-related index; or the SDGs&Her initiative, an online competition platform that aims to recognise women entrepreneurs' efforts in achieving the SDGs.

The Fund is being developed by the World Bank Group with key donor partners, and is expected to be operational by mid-2018, with the first allocations to follow.

Local insights, global ambition
– what's needed to allow the United Nations to advance its financing role in countries?

By Richard Bailey and Lisa Orrenius

Richard Bailey is currently working in UN Development Operations Coordination Office (DOCO) on Funding and Financing, with a particular focus on establishing the Joint Sustainable Development Goal (SDG) Fund, which is aiming to support governments accelerate progress towards the SDGs. Previous to this Richard was the Head of the Resident Coordinators Office in Malawi. He has also served in Burkina Faso and Zambia.

Lisa Orrenius is Programme Manager at the Dag Hammarskjöld Foundation. Prior to that, Lisa worked for over a decade for several UN organisations, such as the United Nations Development Programme (UNDP), UN Women, and the Office of the High Commissioner for Human Rights (OHCHR). Lisa holds a Master of Law from the University of Lund.

Perspective shift: UN embracing financing

The Secretary-General's June 2017 report about repositioning the UN development system (UNDS) to deliver on the 2030 Agenda calls for a comprehensive overhaul of the UNDS approach to financing. This includes making the United Nations Country Teams (UNCTs) better equipped to support governments and national partners unlock broader, non-traditional financing for development.

This paper highlights key findings from a United Nations Development Operations Coordination Office (UN DOCO) and the Dag Hammarskjöld Foundation study on progress and challenges in selected countries where the UN are pursuing innovative financing.[1] The study draws on the experiences from three such 'front-runner' countries, Kenya, Indonesia and Armenia, as well as Colombia, a country showcasing ambitious plans but at an earlier stage of implementing a new approach to financing.

The aim of the study is to share these experiences, highlight challenges and bottlenecks and by doing so hopefully assist other countries with similar ambitions. But first, a brief look into some of the different initiatives in these countries.

Armenia: impact investing

Financing initiatives in Armenia have followed two major trends since 2015: the emergence of social enterprises and a shift from traditional philanthropic activities towards venture philanthropy and impact investing. The UN in Armenia has established a Country Platform for SDG Implementation. Aligned with national reform and SDG efforts, the Platform is providing a collaborative space for the UN, development partners and civil society to strengthen and develop relationships with International Financial Institutions, donors and philanthropists. An SDG Innovation Team was established within the UNCT, comprised of specialists with a background in finance and the private sector.

The Platform builds on two specific financing initiatives, where the UN plays a critical connecting role:

1. The Kolba Social Innovation Lab. Launched by UN Development Programme in 2013[2], the Lab addresses social challenges by gathering ideas from citizens and providing a space where institutions can respond to and support ideas. So far, the Kolba Lab has reviewed 580 ideas and incubated 40 start-ups within the government, public and private sectors.

2. The ImpactAim Venture Accelerator[3]. The UNCT found that new start-ups and social enterprises needed more support following the incubation phase in order to grow and access new markets, increase visibility to investors and secure capital. To meet this demand, the ImpactAim Accelerator was created to provide tailored mentorship and a specially designed curriculum for ventures to strengthen their market presence, scale impact and increase their investment absorption capacity.

Indonesia: Islamic financing

The UNCT in Indonesia has implemented a range of activities and experimented with new forms of finance to support SDG achievement. The UNCT has inter alia turned to crowdfunding campaigns as a new mode of financing that can accelerate SDG progress. Furthermore, the growing social entrepreneurship system in Indonesia has the potential to positively disrupt numerous sectors. Tapping into this field, the UN in Indonesia is helping young social enterprises access funds by collaborating with ANGIN[4]: the first and largest Indonesian angel investor network with more than 70 investors. A similar initiative the UNCT is supporting is Connector.Id, an online matchmaking fund connecting investors with entrepreneurs from around the country.

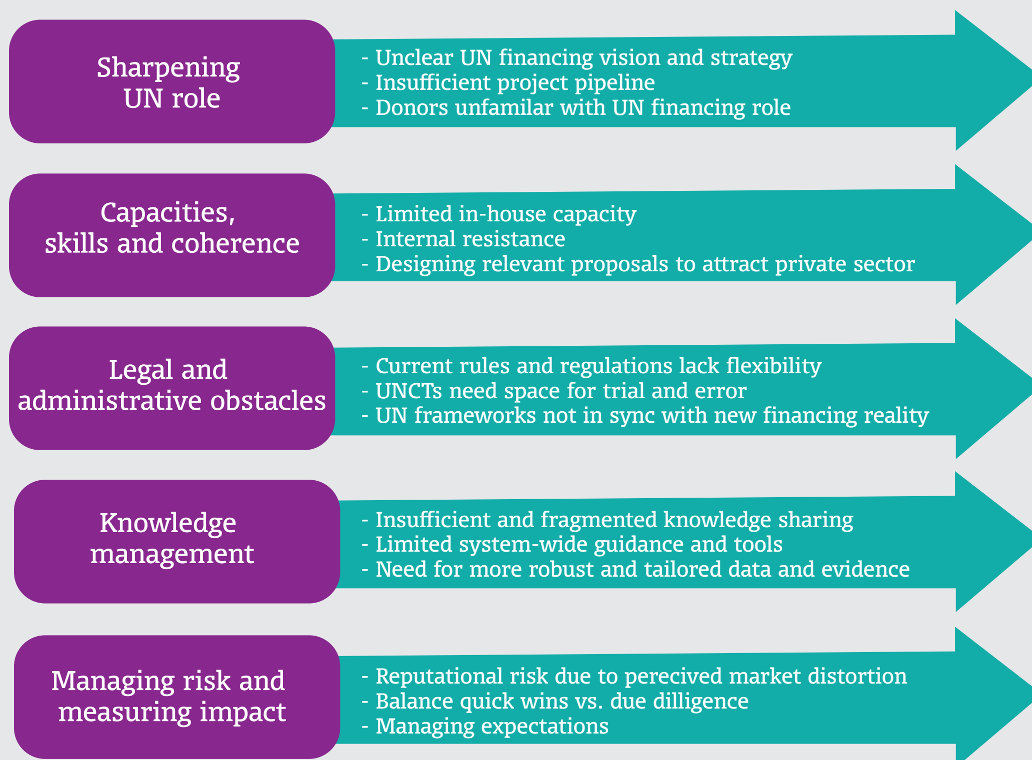
Recognising the enormous potential of Islamic financing for SDG achievement, the UNCT has begun to explore and test different approaches. In April 2017, UNDP concluded several agreements on aligning and channelling zakat charitable funds to SDG achievement, such as supporting a micro-hydro energy project in rural Sumatra and improved access to water, renewable energy and livelihoods in remote parts of Indonesia. Other religious funds, such as Waqf (Islamic assets or cash endowments), have been tapped: UNDP and the national Waqf board of Indonesia recently joined forces to develop a digital Waqf platform through blockchain technology. The platform will be used to fundraise for the SDGs and sustainable, long-term Waqf modes of financing. In addition, in February 2018, UNDP technical assistance helped the government issue the country's first green Sukuk bond[5], designed to comply with Islamic law, and with proceeds allocated to climate or environment-related projects.

Kenya: Financing health care

The Private Sector Health Partnership Kenya (PSHP)[6], launched in September 2015, is a joint venture between the Government, the UN and a number of major corporations. PSHP complements on-going efforts to improve maternal health in the six counties that account for 50% of all maternal deaths. PSHP commitments from private partners total US$ 3 million. As a result of this initiative, a number of public-private partnership initiatives have taken off, inspiring partners to develop models that offer the best of both public and private sector with the potential for scaling-up health care delivery for vulnerable and poor populations in low-resource settings.

Similarly, the SDG Philanthropy Platform in Kenya[7], launched in November 2014 and run by a team with experience from the private sector, maps and supports coordination in the philanthropy sector and outlines

Figure 1: The most common challenges encountered across the country case studies fall into the following five categories:



pathways for individuals to work with the UNCT and use the United Nations Development Assistance Framework (UNDAF) to engage in mainstream development dialogues. The UN and its partners further launched the Kenya SDG Partnership Platform, (a multi-partner trust fund).

What's stopping us? Common challenges

As the UN aims to support governments in effectively harnessing the potential of innovative financing, it is important to analyse some of the challenges UNCTs are facing as they explore and adopt new methods of financing. Some challenges can be addressed at country level while others require corporate attention. The most common challenges encountered across the country case studies fall into five categories, see Figure 1.

Key recommendations based on the study

Although the UN has a crucial role to play in redirecting capital towards the SDGs – and experience from these early adopters has shown what possibilities exist – it can only be done if meaningful partnerships are developed and if the UN adopts new avenues of financing. Some reforms highlighted require time to be instituted, but since change tends to be incremental in the UN, one recommendation to other UNCTs is daring to adopt a 'just do it' approach, within certain more clearly identified and corporately communicated red-line limits.

Capitalise on financing opportunities

The SDGs are more than just an aspirational framework for governments -they are a roadmap for business opportunities and pave the way to securing trillions in financing. The corporate and financing worlds are slowly but surely turning their focus to sustainable development and exploring how they fit in. In addition to increasing public-private partnerships, there are various other financial opportunities still waiting to be unlocked and explored.

Official development finance interventions mobilised US$ 36.4 billion from the private sector between 2012 and 2014 in the form of guarantees, syndicated loans and shares in collective investment vehicles (development-related investment funds).[8] Socially responsible investing has exceeded US$ 6 trillion per year, growing more than 76% since 2012.[9] Impact investors and development finance institutions have been leading the way in creating a new impact investing asset class that is projected to grow from US$ 51 billion in 2014 to US$ 400 billion in 2025. This figure is likely to grow by 20% each year.[10]

Ultimately, the type of financial opportunities used by the UN will depend on national and regional contexts. UNCTs can attract early investors and secure funds that are used for larger investments in sectors identified by a government. A successful approach to attracting initial funds is contingent on getting potential investors excited about an idea and possible outcomes rather than simply asking for money. Allowing different stakeholders to play their value-added roles is critical.

Embracing the latest tech innovations can turn unattractive investment areas into 'bankable propositions'. In addition, blended finance engineering and risk lowering tools can mitigate risks of investing in less attractive areas, as seen in Indonesia.

Seek new partnership opportunities

The UN has an opportunity to build better and smarter partnerships with the financial and private sectors to channel funds to where they are needed most; however, for this to happen the UN needs to embrace a win-win-win approach. The UN can usefully act as a bridge between the government and private sector to stimulate growth and social entrepreneurship by scaling up mechanisms for SDG implementation.

The potential with Islamic financing is enormous. The partnership between UNDP Indonesia and Baznas is ground-breaking because it is the first time a zakat organisation has committed to supporting the SDGs anywhere in the world. Similarly, Kenya built domestic partnerships to raise awareness at regional and international levels. Kenya is home to a booming entrepreneurial sector with many international companies and organisations based in Nairobi and the UNCT has taken the opportunity to engage with large corporations to increase the scope of country initiatives, expand private sector networks and raise their profile outside of Kenya.

Make financing part of your core strategy

Experience in Indonesia shows that crowdfunding and Islamic financing are not just new funding methods, they are powerful advocacy mechanisms that engage communities and create new business models and technologies for tackling social problems. For new approaches like these to work, innovative financing has to be integrated into central UN strategies and operations in-country (Armenia and Kenya have placed innovative financing at the core of the UNDAF).

Improve internal and external capacities, skills and coherence

Identify what capacities and skills are needed and ensure they are in place from the outset. In Indonesia, the UNDP office set up a separate unit to work on Islamic financing, carefully selecting staff with relevant skills.

Also critical is establishing, nurturing and retaining the right capacities. UNCTs need to be able to create, build and maintain a strong platform to engage with public and private stakeholders, harness political support, and

secure expertise and innovations. The UN in Armenia hired a full-time Impact Advisor and invested in long-term global partnerships. Making a conscious choice of when to strengthen and train current personnel vs. hiring external experts is important since improving existing capacities can result in retaining knowledge within the UN system.

Reinforce system architecture to overcome legal and administrative obstacles
A number of issues need to be addressed by the UN internally and at a corporate level to enable needed progress in financing: how to make available sufficient resources and seed money and shift the UN towards a corporate culture that values innovation and experimentation through risk-taking and trial and error. This calls for reforms and the adjustment of several legal and administrative provisions and processes so UNCTs can react faster and with more credibility, especially when engaging with the private sector. New financial engagement formats currently under consideration by UNDP HQ for approval include income contingent payment clauses, making Impact Accelerators around the world more sustainable, and performance-based payment agreements that lay the groundwork for social (development) impact bonds projects.

Strong knowledge and brand management
The UN's strong brand management and its ability to work with multiple government institutions are important comparative advantages. In Indonesia, local authorities decided to partner with the UNCT on Islamic financing because of its 'great reputation and neutral position'. This is worth noting since the primary challenge of using religious funds in Indonesia was the trust deficit between existing collection institutions and people donating money. The UNCT, in its role as broker, connected individual donors with beneficiaries to increase donations and ensure funds were used to generate higher social return – all while increasing visibility and accountability.

It is equally important to address gaps in knowledge and expertise across the UNDS and within UNCTs by modifying the use of existing tools (eg knowledge sharing groups on public platforms like Yammer, Twitter or Facebook). This may be done by creating a network of early, and more advanced, innovators so UN colleagues and external experts can share knowledge and expertise.

In tandem with updating and modifying tools, also important is prioritising data collection and management for monitoring and evaluating progress and finding ways to support data and artificial intelligence applications that help reach SDG targets.

Managing risk and measuring impact
Approaches to de-risking vary from country to country. The size of the Armenian economy, for example, makes it challenging to attract international private equity or debt funds. As a response, the UNCT has explored regional solutions, such as funds focused on the Caucasus/Black Sea region or in building Armenia into a regional hub. Such approaches could allow for risk diversification between different economies and expand the investment pipeline to other countries.

To protect against the risk that the UN negatively impacts the market or being less neutral, UNCTs can consider working in sectors where there is market failure and bringing resources to areas where there are none. A good example is the 'missing middle', enterprises too big to qualify for micro-financing and too small to qualify for bank loans. Another possibility is to provide proof of concept for initiatives, which often incentivises the private sector to adopt SDG aligned investments. If national legislation makes it difficult to set up initiatives (eg impact funds in Indonesia) UNCTs can explore how pilot projects can assist governments in modifying regulatory hurdles or enable SDG aligned investments through effective policy changes.

Lastly, at the end of the day, it is important to keep in mind that 'not all money is good money'. Attracting more capital is not the only goal, it has to be the right kind of capital.

What's next?

The findings from the study will be taken forward in the various mechanisms of the UNSDG with the overall objective of informing and supporting UNCTs as they make progress in the field of innovative financing.
The intent is that some of the best practices from the countries will constitute the pipeline of initiatives that the recently established Joint SDG Fund will be able to support. The Joint SDG Fund will facilitate SDG financing with public and private sector partners by unblocking policy-related bottlenecks, de-risking investments by testing project feasibility, and connecting partners to investments that can be taken to scale.

Footnotes

[1] The full study including detailed country studies is available online at www.daghammarskjold.se

[2] For more information on the Kolba Social Innovation Lab see: http://kolba.am/en/

[3] For more information on the ImpactAim Venture Accelerator see: http://impactaim.com/

[4] For more information on ANGIN see: http://angin.id/

[5] Sukuk are financial certificates that are 'sharia compliant' bonds.

[6] For more information on the Private Sector Health Partnership Kenya see: www.pshpkenya.org

[7] See: https://www.sdgphilanthropy.org/Kenya

[8] 8 Julia Benni, Cécile Sangaréi, Tomáš Hosi and Giovanni Maria Semeraroi, OECD, 'Amounts Mobilised from the Private Sector by Official Development Finance Interventions: Guarantees, syndicated loans and shares in collective investment vehicles', (working paper, OECD Development Cooperation, 2016). https://doi.org/10.1787/5jm3xh459n37-en

[9] USSIF, 'The Impact of Sustainable and Responsible Investment', (report, USSIF, 2016). https://www.ussif.org/files/Publications/USSIF_ImpactofS-RI_FINAL.pdf

[10] USSIF, 'Report on US Sustainable, Responsible and Impact Investing Trends 2014', (report, USSIF, 2014). https://www.ussif.org/store_category.asp?id=4

Letting in light:
The United Nations' powerful role in opening the doors to blended finance

By John Morris

John Morris is Managing Partner of Intentional Media, parent company of SOCAP (Social Capital Markets), Conscious Company Media, Good Capital Project, and other aligned brands. Previously, John co-founded Snowden Lane Advisors, a wealth management firm currently with US$ 3.5 billion in assets. He also co-founded Clearbrook Global Advisors, an institutional asset management advisory firm that grew assets to over US$ 20 billion in Assets Under Administration (AUAs). Earlier, John spent 23 years at Merrill Lynch, 15 years working with clients in London and Dubai, then New York where he was Chairman of Latin America and Head of International Product and Marketing.

In early April, the Dag Hammarskjöld Foundation brought together financing experts and leadership from five UN Country Teams (UNCTs) to brainstorm some of the best practices and innovations emerging from all UN Country Teams. The question raised was how these best practices might drive further innovation towards financing the United Nations' 2030 Sustainable Development Goals (SDGs). In a broader context, the Dag Hammarskjöld Foundation has a committed programme focused on UN renewal; the idea that since the world at large has experienced significant change, the UN development system must embrace more dynamic approaches.

In his opening comments, Executive Director Henrik Hammargren began the conversation with a quote from poet and songwriter Leonard Cohen 'there's a crack in everything, that's how the light gets in.' This thinking perfectly points out the opportunity that the UN has to reinvent itself from its initial role of rebuilding nations to instead forging the pathway for social, political and economic sustainability. By helping establish the SDGs in September 2015, the UN set the bold agenda to engage private sector capital to address our world's most pressing social needs.

Historically, private capital and social development have been two disparate worlds, and therefore this new direction will require deep dedication from investors, governments and intermediaries alike, as well as a roadmap to follow moving forward. The possibilities for collaboration are not only groundbreaking, they also offer an enormous opportunity.

To catalyse this progress, the SDGs have given the world a framework and understanding around which it can rally, strategise, give and invest to achieve social impact. By driving the creation of the SDGs, the UN has taken the crucial first step towards redefining social impact, and it must now find the tools to advance to the next stage.

We argue that the most critical tool to advance the SDGs is indeed through attracting private capital, specifically through the use of 'SDG-Blended Finance', which combines concessionary capital to both de-risk and incentivise private and return-focused SDG investments. Development and concessionary capital, while critical, is not sufficient to achieve the SDGs. However, SDG-Blended Finance allows for a pathway to continue and scale social progress by attracting commercial investments at market rate return to supplement aid capital. Most importantly, SDG-Blended Finance allows for the development community, governments, and the financial sector to blend concessionary, non-concessionary, or mixed capital to achieve the SDGs.

Prior to the SDGs, increased competition and increased donor dependence were creating cracks in the UN's long-term value proposition. However, the SDGs are truly historic, and have developed into the most collaborative and effective framework in the history of development. The SDGs have been the light to fill those cracks, and they have found the seeds of SDG-Blended Finance to help us grow a more sustainable world ahead.

Understanding the economic and social landscape

To engage with the catalytic nature of Blended Finance and the different forms of funding that it offers, the UN must first analyse today's private sector landscape.

2018 brings the world a uniquely shared economy, with multiple forms of shared assets and the increasing importance to connect to the end consumer. In the private sector world, certain corporations are emphasising social partnerships. From models like AirBnB, Amazon and Lyft, to a company such as Unilever that is reinventing itself to more impactful operating principles, the private sector's goals and mentality are drastically evolving. It is becoming more design-centric and agile, which opens the doors to deeper, unexplored partnerships with foundations, governments and institutions.

It is a fact that the marketplace has dramatically changed in recent years, and certain players have recognised that so too must their business models. But this reinvention is not unique to corporations; all of these elements of growth are well within the reach of the UN.

We believe that the UN has a number of distinct strengths that, if enhanced, would allow investors to understand and engage with SDG-Blended Finance.

1. The UN has a vast network of human capital, who bring deep empathy for their regions of focus, as well as commitment to social impact in their areas of expertise. This empathy and in-depth, local knowledge is hugely beneficial to investors.

2. The UN is accumulating data that can be used to address issues ranging from health to agriculture and infrastructure. If put into real-time dashboards, this data can provide much needed investor research and understanding.

3. UN Country Teams offer powerful insights into the status of SDGs on the ground. Their regional and technical knowledge provides a valuable feedback system for investors, which in turn de-risks investments into the SDGs.

4. The UN has a long history of being a multi-party forum to negotiate and resolve cross-border resolutions. The UN is not only independent, but also uniquely able to bring government policies together when capital comes to the table (and enable discussions through its negotiating power). This can be a critical investor advantage.

5. As an independent institution and powerful global network, the UN holds the ability to convene public and private stakeholders. This is a tremendous advantage to help attract and facilitate new investors.

Our recommendations

We recommend that the UN transitions its above strengths into investor opportunities. By aggregating data, convening investors, and maximising human capital and team insights, the UN can shift from promoting the SDG framework to realising it.

This process should start with leadership at the UNCT level, and be defined within the UN Development Assistance Framework (UNDAF) policy. These teams would implement SDG-Blended Finance training and frameworks, with the goal of identifying the following:

- The priority SDGs within each country.
- Approximate amount of funding needed to achieve each SDG.
- What form of funding would be most practical.
- Target providers of capital.
- Determine key stakeholders.
- Clear articulation of the SDG Country Opportunity.

Implementing SDG-based Blended Finance as a systemic practice between the UN and investors will provide UN personnel with the financial literacy, and the ability to stimulate the monetisation of SDG investments.

To move forward with the discoveries resulting from the above training, the UN must also foster internal renewal, with each team asking itself a set of questions:

- How can we be a catalyst for SDG financing?
- Are we willing or able to push internal and external change?
- How much do we want to accelerate our impact?
- What skills are needed in our team to achieve our objectives?
- Do we have a plan to develop those skills?

Increasing self-awareness within UN Country Teams will develop confidence and a sense of ownership. This accountability would also enable each Country Team to communicate its conclusions and its competitive advantages to its stakeholders, as well as to the UN leadership at both agency and secretariat levels. We then suggest creating a UN-wide network to implement best practices and utilise joint resources. One such example of this resource sharing is the 2030 Agenda Joint Fund, an inter-agency pooled fund that is meant to provide support and resources for UNCTs to engage with SDG financing.

By creating a UN SDG-Blended Finance network, the entire UN system could work more strategically to affect laws and policies, develop needed training, provide local readiness and technical assistance, and develop structures that accelerate SDG investments. In doing this, we can begin to mutually let in the light, and form a roadmap to better understand where and how the UN can stand as a global catalyst in mobilising sustainable investment.

It is not too ambitious to say that, by embracing SDG-Blended Finance training and prioritisation from within, the UN could harness the transformational potential of the global capital markets to both reach and exceed the 2030 SDGs.

Catalysing private investment in risky places

By Magdi M. Amin and Martin C. Spicer

For decades, the challenge of bringing private investment to bear in fragile and low-income states has been a focus in development discourse. Despite a need for the jobs, services and revenues that the private sector can provide, the risks of investment have been prohibitive.[1] New World Bank Group financing instruments offer the promise to mitigate risks and, alongside reforms, can help realise the potential of private investment in risky places.

In early 2013, development expert Paul Collier released a working paper arguing that international development assistance needed to focus on small, isolated economies that were unlikely to eliminate poverty in a generation. To support these economies, development agencies needed to subsidise the first movers in a sector. These pioneer investors provided a critical price discovery function, the gains from which would accrue to subsequent investors. As a positive externality, this would be undersupplied by markets and justified public support.[2]

Later that same year Nigel Twose of the World Bank Group's private sector arm, the International Finance Corporation (IFC), took a first step in this direction. He proposed that the World Bank's fund for the poorest countries - the International Development Association (IDA) - include a Private Sector Window (PSW) of at least US$ 1.5 billion to focus on private investment in the 30 fragile states among the 81 IDA-eligible countries. This proposal was not supported. Then three years later IDA Deputies endorsed the creation of a US$ 2.5 billion PSW as part of the next IDA replenishment (IDA18). What changed between 2013 and 2016?

A key difference was the 2015 Addis Ababa Action Agenda at the Third International Conference on Financing for Development, which noted that 'An important use of international public finance, including ODA, is to catalyze additional resource mobilization from other sources, public and private. It can … be used to unlock additional finance through blended or pooled financing and risk mitigation, notably for infrastructure and other investments that support private sector development.' International organisations responded. IFC, for example, committed to expanding support to fragile and conflict-affected states to 7-9% of its portfolio by 2019. IFC also released its new strategy in 2016 where it committed to creating markets in the poorest and most difficult countries. These commitments were predicated on risk mitigation; made possible through IDA's recent PSW.

Magdi M. Amin is an Investment Partner at Omidyar Network, on leave from the International Finance Corporation (IFC), where he was the Manager of Corporate Strategy. His team supported IFC's strategy initiatives aimed at putting the private sector at the centre of development solutions and achieving the Sustainable Development Goals. This included IFC's long-term strategy, IFC 3.0, annual strategy processes at the World Bank Group and corporate level, engagement with Multilateral Development Banks/International Financial Institutions (MDBs/IFIs), Sector Deep Dives, and IFC's Economic Advisory Board. Since joining the World Bank Group in 1998, Magdi has held positions in East Asia and the Pacific, Africa and the Middle East and North Africa (MENA), in both the World Bank and IFC, including managing or leading private sector development programmes in Thailand, Ethiopia, Sudan and South Sudan.

Martin C. Spicer is the Director of Blended Finance at the IFC, where he manages a team of investment professionals responsible for co-investments originating from US$ 1 billion of blended finance facilities across sectors, including climate, agribusiness, and small and medium enterprises. He also oversees the IDA18 Private Sector Window, a US$ 2.5 billion multifacility blended finance initiative focused on the poorest, most fragile and conflict-affected countries. Martin has previously led investment teams in IFC's manufacturing, agribusiness and services business in Latin America; telecommunications, media and technology business in Asia, Europe and the MENA; and infrastructure and natural resources in Europe.

IDA18 IFC-MIGA Private Sector Window

The PSW enables IDA to make strategic use of public resources to catalyse private investments in challenging markets. Operated by IFC and the Multilateral Investment Guarantee Agency (MIGA), the political risk insurance arm of the World Bank Group, it leverages the business models and client relationships of both organisations, and complements IDA's existing support for policy and business climate reforms. Indeed, if investments are well-coordinated and sequenced with policy reforms that propel governments to develop regulations, develop business and consumer markets, and generate externalities that overcome market failures they can help reduce investor risk perceptions in fragile and low-income countries and open them up to more domestic and foreign capital.

The PSW also allows risks to be addressed more directly. Through the PSW, IDA bears a portion of the risk in individual transactions, allowing private sector participants, including IFC and MIGA, to pursue risk-prohibitive, yet impactful, projects that would otherwise not be viable. For example, infrastructure investments are a development priority, but face numerous constraints including a lack of long-term local currency financing, high construction and completion risks, the affordability of cost-recovery tariffs, and uncertainty as to the creditworthiness of offtakers, such as public utilities, who must meet payment obligations for services for the life of a project. Further, infrastructure projects often take significant time and cost to develop, which can be a high hurdle for private developers given the uncertainty of project financial close. Through the PSW, IDA can guarantee specific risks, such as a portion of the government's payment obligations, or exchange rate risk, stimulating private investment in critical sectors such as infrastructure, small- and medium-sized enterprises (SMEs), agribusiness, health, education and technology. It also allows IDA to rapidly deploy flexible solutions to meet the needs of the private sector while relying on the deep origination and structuring capabilities of IFC and MIGA.

The PSW includes four facilities:

1. The US$ 400 million Local Currency Facility which will support IFC's provision of long-term local currency investments where capital markets are not developed, and market solutions are not sufficiently available;

2. US$ 1 billion Risk Mitigation Facility which will provide project-based guarantees without sovereign indemnity to crowd-in private investment in large infrastructure projects and public private partnerships supported by IFC;

3. The US$ 600 million Blended Finance Facility, which will blend IDA PSW funding support with pioneering IFC investments including small- and medium-enterprises (SMEs), agribusiness, health, education, affordable housing, infrastructure, climate mitigation and adaptation, among others; and

4. The US$ 500 million MIGA Guarantee Facility, to expand coverage of MIGA guarantees through shared first loss and risk participation, akin to reinsurance.

Early, but encouraging results

The early experience is promising. As of June 2018, nine projects using the support of the Private Sector Window have been approved by IFC's Board. The total IDA exposure for these projects is US$ 132 million, supporting US$ 713 million of private investment, including co-investors. An additional 12 projects are under review, and the pipeline of potential projects using the PSW is robust.

The first project under the PSW, Caisse Régionale de Refinancement Hypothécaire de l'UEMOA (CRRH)[3], is helping to develop the mortgage market in West Africa. Housing is a major development challenge in the countries of the West Africa Economic and Monetary Union, which face a housing shortage of 3.5 million units. Fewer than 7% of households in the region can afford to buy their own home. Through the purchase of local currency bonds issued by CRRH, IFC's US$ 9 million equivalent investment aims to expand the availability of housing finance by US$ 500 million in eight west African countries over the next four years, while at the same time extending the yield curve in the local bond market.

The PSW's Local Currency Facility provided IFC with access to CFA Francs[4] for the amount, tenor, and pricing needed for the transaction. Without the PSW, IFC would not have had adequate local currency to purchase the CRRH bonds. The use of the PSW provides IFC protection against currency fluctuations and provides the support necessary to make the project happen.

In a more recent example, the Blended Finance Facility is being used to expand the reach of IFC's SME Ventures programme - unlocking gateway investments for the development of private equity ecosystems for SMEs in francophone West Africa and the Kyrgyz Republic. This includes the Africa Regional SME Fund, covering 13 countries, as well as the first SME private equity funding in the Kyrgyz Republic. Finally, PSW is being used to support the Small Loan Guarantee Programme, in which IDA will take a first loss on a portfolio basis, and IFC a second loss, to encourage banks to lend to SMEs.

With these instruments in place, IFC is expected to increase its own-account business in eligible countries from approximately US$ 1.0 billion to US$ 2.0 billion by FY2020. But it is far too early to declare victory in the decades-long effort to bring private investment to low-income and fragile environments. It is clear from the early experience that truly leveraging the power of this financing instrument requires a change in organisational culture at the World Bank Group. The PSW requires that IDA, IFC and MIGA work together to a far greater degree.

Second, the instrument requires staff in all three institutions to be more comfortable with using public resources to support private investment. Staff across the World Bank Group are working to ensure that the PSW is applied carefully to avoid distorting commercial markets or undermining demonstration effects. Mechanisms are also in place to verify PSW funds are only applied to impactful projects that fulfil development objectives and help scarce public funds go further. Like all innovations, there will be a learning process before more rapid adoption. This learning process is well underway.

Footnotes

[1] McKinsey estimated that between 2007 and 2012, 94% of annual infrastructure spending went on high-income and upper middle-income countries, and less than 1% to low-income Countries. Aaron Bielenberg, Mike Kerlin, Jeremy Oppenheim, and Melissa Roberts, 'Financing change: How to mobilize private sector financing for sustainable infrastructure', (report, McKinsey Center for Business and Environment, January 2016). https://goo.gl/epj1XU

[2] Collier specifically argued that World Bank country strategies for SIEs could incorporate the stimulus of pioneering private investments into the budgets for spending International Development Association (IDA) allocations. The practical channels for spending IDA in this way would be subsidies to the International Finance Cooperation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) for support of pioneering investments country-by-country.
Paul Collier, 'Aid as catalyst for pioneer investment', (Working Paper No. 2013/004, United Nations University-World Institute for Development Economics Research, 2013).
https://www.wider.unu.edu/sites/default/files/wp2013-004.pdf

[3] For more information on the CRRH project see:
http://www.worldbank.org/en/about/partners/brief/west-african-economic-monetary-union-taking-care-of-housing-needs

[4] Communauté Financière d'Afrique (CFA) Francs, also known as West African CFA Francs.

Making blended finance work in risky contexts

By Samuel Choritz

Samuel Choritz is a Policy Adviser at the United Nations Capital Development Fund (UNCDF). Prior to this appointment, he was the Senior Policy Adviser to the UN Resident Coordinator/Humanitarian Coordinator in Ethiopia and Head of the Resident Coordinator's Office. Previously, he worked for nearly four years as a speechwriter and policy specialist in the Executive Office of the United Nations Development Programme (UNDP) Administrator, and before that as an adviser in the Executive Office of the Secretary-General. He started working with UNDP in the Evaluation Office and has also served with the UNDP Yemen Country Office and also supported UN coordination efforts following natural disasters. Sam is from South Africa. He holds a Master's degree in international relations from Johns Hopkins University, and a Bachelor's degree (honours) in politics, philosophy and economics from Oxford University.

The views expressed in this piece are those of the author and do not necessarily represent those of the United Nations, including UNCDF or UN Member States.

Three years after the adoption of the Addis Ababa Action Agenda and the 2030 Agenda, there is a growing focus on how to ensure that development cooperation – especially Official Development Assistance (ODA) – accelerates economic growth and helps mobilise additional resources for sustainable development. New approaches are changing the development finance landscape and creating opportunities to scale up the contributions of all sources of financing towards the Sustainable Development Goals (SDGs), both public and private, domestic and international as called for in the Addis Agenda. As this happens, it is important that providers more fully engage with, tailor operations to, and harmonise their interventions in countries and sectors typically excluded from financing innovations.

For its part, blended finance is now receiving increasing attention both from donors and developing countries for its potential to use public concessional finance to attract private or commercial capital that would otherwise not be available for investment in the SDGs. This in turn has led to calls for blended finance providers to target their activities more effectively to a wider range of development issues (looking at issues around oceans, say, or land degradation) and excluded geographies (such as Least Developed Countries).[1]

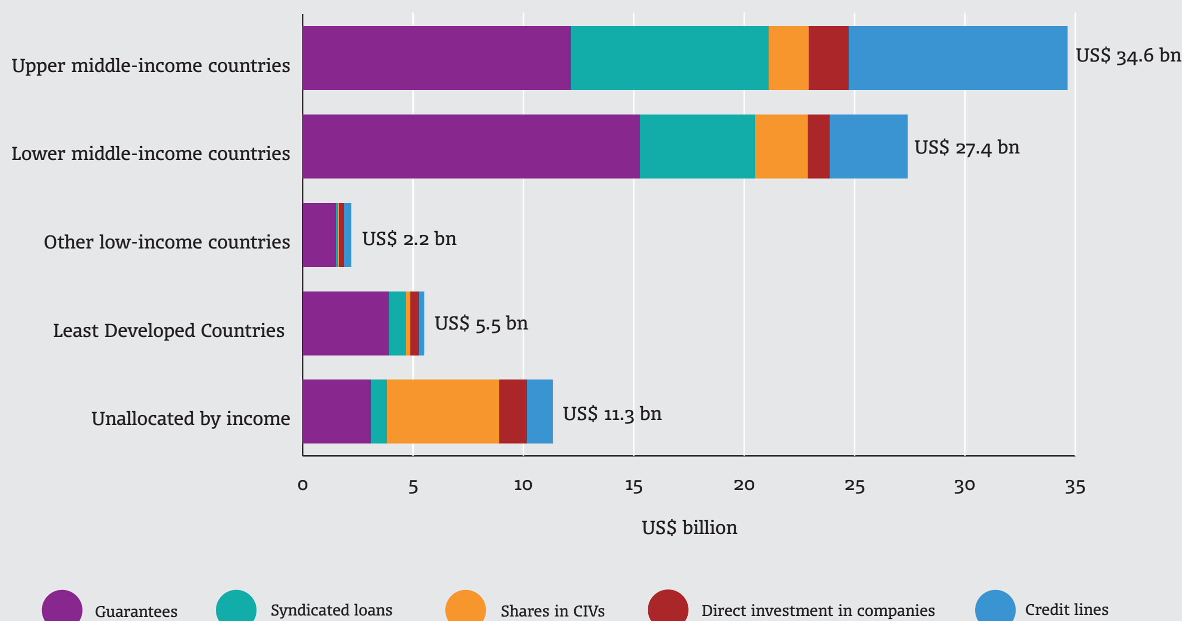
Blended finance flows

Currently, blended finance is mainly directed to middle-income countries and targets a few sectors such as infrastructure, energy and financial services – those more prone to generating revenues and hence more likely to be attractive to private capital. According to the OECD, of the US$ 81 billion in private resources mobilised by official development finance between 2012-15, only 7% – or some US$ 5.5 billion – was in Least Developed Countries (LDCs), with the vast majority (77%) being mobilised in middle income countries, and the rest targeting global or regional efforts.

If blended finance becomes an increasingly important modality of development cooperation and the current trend continues, more development finance, including concessional resources, could flow to middle-income countries. Providers will then need to take steps to ensure that LDCs and other vulnerable countries do not see a fall in their overall share of development finance.[2] After all, many LDCs are already facing difficulties in mobilising additional external resources for development.

At the same time, it is important to explore how to deploy blending more effectively in challenging contexts, including LDCs and, within countries, in otherwise excluded sectors and localities. At UN Capital Development Fund (UNCDF, we are exploring when and under what conditions blended finance can work in LDCs, focusing on the unique context and risk factors.[3] Indeed, the evidence on the effectiveness of blended finance is still quite limited. For example, many blending projects have not monitored development impacts and evaluations are not routinely made publicly available.[4] Evidence for and impact of blending in LDCs is even more limited, and it is now critical to fill these data gaps.

Figure 1: Private Finance mobilised by official development finance instruments, US$ billion, 2012-2015



Source: Benn, J., C. Sangaré and T. Hos (2017), 'Amounts Mobilised from the Private Sector by Official Development Finance Interventions: Guarantees, syndicated loans, shares in collective investment vehicles, direct investment in companies, credit lines', OECD Development Co-operation Working Papers, No. 36, OECD Publishing, Paris, http://dx.doi.org/10.1787/8135abde-en

Adapting blended finance to Least Developed Countries

Development projects in LDCs typically face more difficulties than projects in other settings in attracting private capital. This is partly because of investor concerns around enabling environment issues such as rule of law and corporate governance, and partly because of project-specific barriers, such the transactions costs relative to the small ticket size. This speaks to the potential of concessional finance to crowd-in much needed private investment where it otherwise would not go.

In such contexts, blended finance can share risks and make projects commercially investable, offering the opportunity to investors to achieve returns in line with risks. As part of our research into blended finance in LDCs we are examining five case studies in-depth, covering a range of instruments (such as equity, loans and grants) and sectors (small- and medium-sized enterprises development, agro-processing, currency hedging, solar energy and water) in five different countries.

Especially when it comes to using scarce concessional resources, it is important that blended transactions minimise any potential negative side effects of blended transactions, such as the crowding out of private finance and the over-subsidisation of the private sector. Blended transactions should also be aligned with national development priorities and other development effectiveness principles. Blended finance can be a particularly useful tool when it supports not only individual projects, as important as they are, but – through demonstration effects – commercial replicability, the development of local markets and capacities, and improved policy and regulatory frameworks.

Value of 'pre blend' work

Another issue is how donors can ensure that their various interventions and tools - in support of enabling environments[5], capacity development, blended finance, and developing a pipeline of investable projects aligned with the SDGs - can better work together to attract long-term private finance that supports sustainable development. If we look at 'pre blend' work around pipeline development, for instance, our experience suggests that this is expensive and time-consuming, but – done right – is essential if we want to deepen local markets and enable projects to attract private finance. This is part of the gap UNCDF is working to fill - supporting specific projects of a smaller scale (the so-called 'missing middle')

for which there is very limited early stage finance in riskier settings, but which can grow into viable business opportunities with the right support at the right time. If adequately resourced, this type of work can be scaled up significantly.

Need for more innovation

When it comes to mobilising private finance for sustainable development, there is a need for providers to take more risks and to engage more and differently in countries most in need, and in investment areas critical to leaving no one behind. If we can get blended finance right in such contexts, and ensure that complementary interventions are in line with national priorities, better funded, and work together more seamlessly to support the development of the private sector, we can help more countries and sectors benefit from important financing for development innovations.

Footnotes

[1] OECD, 'Making Blended Finance Work for the Sustainable Development Goals', (report, OECD Publishing, 2018). http://dx.doi.org/10.1787/9789264288768-en

[2] United Nations, 'Financing for Development: Progress and Prospects, 2018', (Report of the Inter-agency Task Force on Financing for Development, United Nations, 2018). https://developmentfinance.un.org/sites/developmentfinance.un.org/files/Report_IATF_2018.pdf

[3] Our findings will be published in a report due out towards the end of 2018, (forthcoming report, United Nations Capital Development Fund, 2018).

[4] OECD, 'Making Blended Finance Work for the Sustainable Development Goals', (report, OECD Publishing, 2018). http://dx.doi.org/10.1787/9789264288768-en

[5] Interestingly, non-LDC middle-income countries (MICS) also receive most enabling environment ODA, as well as benefiting most from blended finance. For more information see: Cecilia Caio, 'The enabling environment for private sector development: donor spending and links to other catalytic uses of aid', (discussion paper, Development Initiatives, 14 March 2018). http://devinit.org/post/enabling-environment-private-sector-development/

Harnessing Digital Finance for Sustainable Development

By Simon Zadek and Fiona Bayat-Renoux

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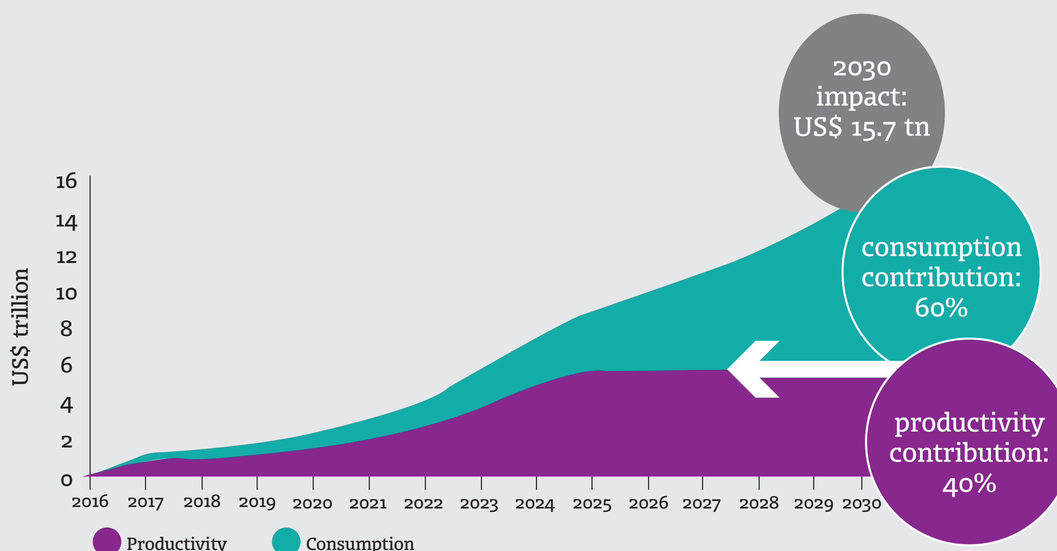
The digitalisation of finance will transform the global financial system and its interface with the real economy. There is both opportunity and need to harness this disruptive dynamic in financing the 2030 Agenda and meeting the Paris agreement commitments on climate.

Digital finance includes big data, artificial intelligence, mobile platforms, blockchain, the Internet of things (IoT) and virtual or crypto currencies and it will impact not just how we deliver finance and financial services, but the core transition pathways that must take us towards sustainable development. At the same time, technology advancements have not benefitted all equally, and the unintended consequences must be understood and managed to mitigate any negative environmental and development impacts.

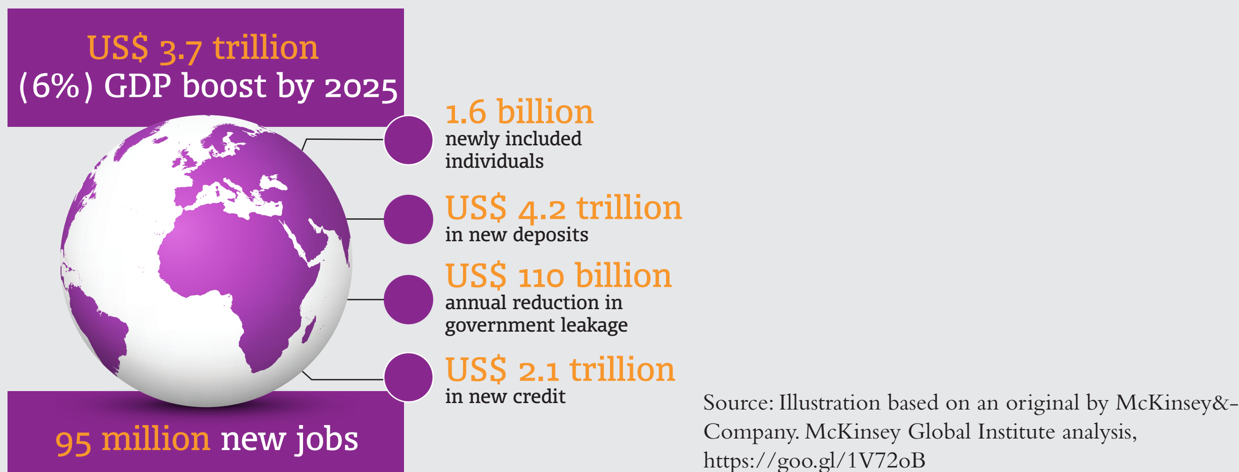
At its core, digital finance increases efficiency and accuracy, makes more data available more quickly at lower costs, and promotes greater inclusion and innovation. The digitalisation and automation of back-end processes offer large scale reductions in costs and improved accuracy of back-end tasks. Similarly, the power of digital finance to make more data available more cheaply, more quickly and more accurately, reduces search costs for information related to sustainability impacts and financial risks, improves tracking of sustainable investments, and facilitates regulatory compliance. This helps overcome

Figure 1: Global Gross Domestic Product (GDP) uplift due to artificial intelligence



Source: PwC's Global Artificial Intelligence Study 2017

Figure 2: Digital finance in the developing world could have a great impact



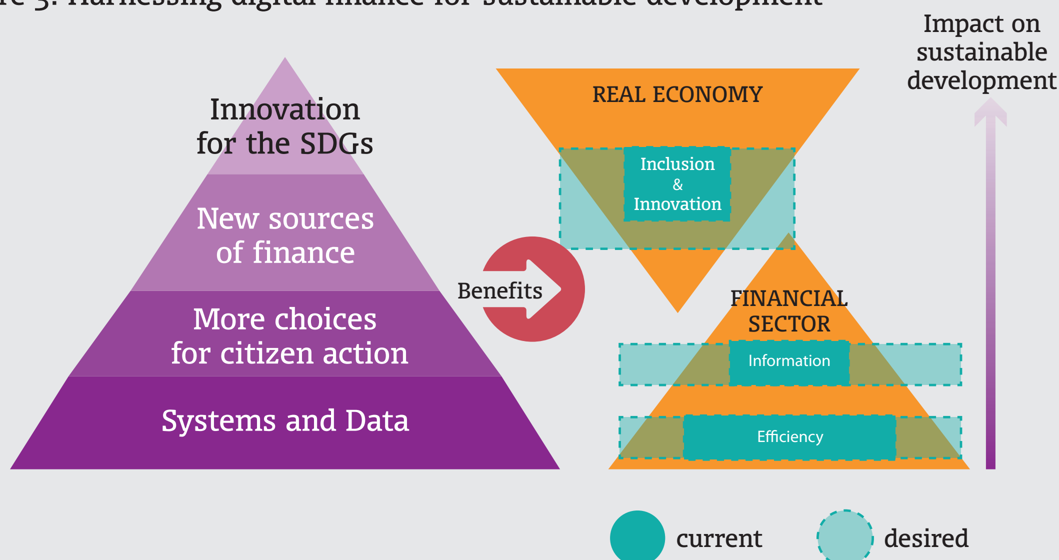
Source: Illustration based on an original by McKinsey&-Company. McKinsey Global Institute analysis, https://goo.gl/1V72oB

key barriers to mobilising and deploying sustainable finance in capital, private equity and venture capital markets.

Whilst the financial system has been at the forefront of adopting new technologies, its application of digital finance to sustainable finance has, to date, been limited, excepting in the more mature area of financial inclusion. There is a need to accelerate the broader deployment of digital finance for sustainable development, through market innovation and international cooperation.

The UN is increasingly active at the nexus between sustainable development and digital finance. UN Development Programme is advancing a Task Force on Digital Finance and the Sustainable Development Goals (SDGs) on behalf of the Secretary-General. UN Environment, in partnership with Ant Financial Services, has created a public-private partnership, the Sustainable Digital Finance Alliance, which is working with the G20 under the Argentine Presidency on policy options for advancing digital approaches to financing the 2030 Agenda. A number of agencies are also operationalising digital finance in their work, including the UN Capital Development Fund (UNCDF) and UN Women. For example, UNCDF uses mobile payment platforms to progress financial inclusion by linking informal savings to formal institutions, and leveraging pay-as-you go models to enable a broad range of SDG linked basic services. UN Women is exploring blockchain-based solutions for women in humanitarian contexts to build an economic identity, and transfer digital assets.

Figure 3: Harnessing digital finance for sustainable development



Source: Illustration based on an original by the Sustainable Digital Finance Alliance (forthcoming, 2018). Digital applications for sustainable finance. An input paper for the G20 Sustainable Finance Study Group.

Catalyst restrained by adverse conditions:

How does the 2030 Agenda impact development cooperation?

By Stephan Klingebiel and Silke Weinlich

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When talking about how to implement the Agenda 2030 for Sustainable Development and the Sustainable Development Goals (SDGs), a strong emphasis is often placed on private flows and partnerships – and rightly so. Not only are the financing needs massive, the Agenda is also about a transformation towards sustainable development that needs to take place worldwide, domestically and at the international level, in the public and in the private sphere. However, development cooperation — offical development assistance (ODA) and South-South cooperation (SSC) — has a crucial role to play.

Development cooperation is of course important when it comes to supporting poor countries in their implementation efforts, in particular those countries that have trouble attracting other forms of finance. But development stakeholders also need to credibly champion the 2030 Agenda and win over stakeholders from other policy fields and the private sphere, without whom the Agenda's transformative aspirations cannot be realised. For this, they arguably need to demonstrate that the Agenda gains traction concerning their own activities. They need to adjust their strategies and operations to respond to the 2030 Agenda's universal character and principle of leave no one behind, as well as its integration of the three dimensions of sustainable development.

The development community has begun some of this work and the SDGs have become a key point of reference for both the OECD's approach to ODA and non-OECD's countries outlook on SSC. At the same time, we can observe two trends that run counter to a more fundamental alignment with the Agenda's principles. First, the Agenda provides little concrete guidance on how to reorient overall operations and thereby creates little pressure for change. Which activities should ODA and SSC providers engage in to a greater or lesser extent, and how should they work differently? Second, the overall political environment has grown more adverse towards the goals of the 2030 Agenda. Instead, migration, security and trade are rated at the top amongst newly pronounced strategic interests of a significant number of OECD members. As a result, aid decreasingly seems to address the priorities and needs of partner countries and global development concerns and instead tackles the more narrowly defined national interests of the providers. Against this background, it is crucial that the momentum for change towards implementing the SDGs is maintained, if not regenerated, and change within the development community and its work takes place.

Lack of specificity, innovation and guidance

The Agenda 2030 expresses a bold aspiration to transform the world with its plan of action for people, planet and prosperity. It is also a political compromise that bridges the heterogeneous interest of 193 governments. While it addresses the role of wealthier countries in greater detail than the Millennium Development Goals (MDGs), their commitments still lack specificity – and

innovation. Countries are encouraged to mobilise increased ODA volumes and renew the commitment to provide 0.7% of gross national income (GNI) as ODA to developing countries. However, beyond this time-honoured target, the SDGs provide little explicit guidance for changes in development cooperation. The MDGs lead to a clear focus on social sectors where health and to lesser extent education became top priorities. The SDGs in turn cover a much larger scope and do not prioritise one sector over another. They mirror a comprehensive understanding of development that is rights-based, comprises the social, ecological and economic dimension of sustainable development and includes aspects such as peace, democracy and the rule of law. The downside to this is that nearly every priority by development contributors can be justified under this broad umbrella of goals and targets.

Furthermore, the Agenda 2030 does not provide guidance on the 'how' of development cooperation. While the role of development cooperation is mentioned frequently across the SDGs in the means of implementation section, there is no specification of which types of aid modalities and instruments to use in order to provide the most effective support. There are even less provisions with regard to SSC. Only the request that ODA mobilisation should more effectively target the group of Least Developed Countries creates some sort of specificity, albeit rather a re-emphasis of previous international debates.

These omissions can be explained by the Agenda's origins in intergovernmental negotiations. They are also part of its very nature as a global framework that applies to all countries, and orients action in policy fields well beyond the traditional fields of development and environment. Governments are responsible for the implementation of the SDGs, and strong national implementation plans need to define the parameters of where and how development cooperation comes in.

Putting narrow self-interests first

A number of changes in the rationales and strategies for development cooperation of several OECD countries are underway that do not relate to nor align well with the 2030 Agenda. While aid has always been a tool of foreign policy, development cooperation is increasingly being used explicitly in the pursuit of more short-term and narrow self-interests.

The USA as the main bilateral donor has announced on multiple occasions their aid allocation decisions will be tied to the level of political support received from recipient countries in organisations such as the United Nations. US Ambassador to the UN Nikki Haley said in a press release in April 2018: 'The American people pay 22% of the UN budget …In spite of this generosity, the rest of the UN voted with us only 31% of the time, a lower rate than in 2016. … this is not an acceptable return on our investment.'[1] In addition, the US government is questioning the very rational of development cooperation as such, putting domestic challenges far ahead of the development needs of other countries or of collective action to address global problems. Meanwhile, other donors are expressing interest in linking ODA to their respective trade interests. Countries like the Netherlands, New Zealand and the United Kingdom use aid programmes increasingly as stimulus for their exports.

The migration challenge has been a major point of adjustment for development cooperation since 2014/2015, especially for European ODA providers. Member states of the European Union (EU) and EU institutions now allocate significant development cooperation resources in line with their own migration interests. For example, countries providing a significant number of migrants or transit countries on the route to Europe are at the centre of important financial support schemes, such as the EU's Emergency Trust Fund for Africa which is worth over €3.4 billion. In a similar way, the challenge of job creation for young people in African countries is now much higher on the agenda compared to the situation five years ago.

Taking the 2030 Agenda seriously: how to strengthen ODA contributions

We are still at the beginning of the SDG's implementation phase. Yet, policy change takes time and it is vital to set a new course soon that helps strike a balance between socio-economic progress, sustaining the planet's resources and ecosystems and combatting climate change. Development stakeholders should play a crucial role here. They should be role models for other policy sectors and work towards the Agenda's implementation not 'only' in developing countries but also by addressing global problems of sustainability. But distractions that pull away from collective action towards common goals are strong. Most importantly, little concrete pressure for change follows from the Agenda, and geopolitical developments are pushing towards the resurgence of more narrow and short-time national interests in many countries.

Whether development cooperation/aid can become a catalyst for realising the transformative ambitions of the Agenda will therefore not only be decided by the question of whether it can leverage private funds for sustainable development. Equally important will be if and how development stakeholders adjust their operations and how they position themselves with regard to the funding of global public goods and the principle of universality.

An important step of adjustment could consist in the agreement by all providers of development cooperation to use national SDG implementation plans as the main guiding document for support. This would align well with the principles of the aid effectiveness agenda which has lost momentum but clearly not relevance, the more so in the light of the integrated nature of sustainable development. Direct support to partner countries for certain parts of the plans, modelled on programme-based approaches, could make the contributions of development cooperation more effective. Several donors have created thematic budget lines in support of issues such as climate change mitigation and adaptation measures and migration management, allowing for a stronger focus on the provision of respective global public goods. The World Bank recently set aside US$ 100 million for projects with global co-benefits as part of its Global Public Goods Agenda. These encouraging steps need to be intensified.

The SDGs make a shift away from a 'North-South' lens for global progress, and instead embody an agenda that is relevant to countries at all levels of development. While ensuring that there remains a focus on the specific needs of developing countries, the question is whether development stakeholders will also aim to become transformative agents that push for implementing the Agenda, nationally and globally and worldwide. It will be important that the transformation in economically richer countries is not left unaddressed. The United Nations has a particularly crucial role to play. It can facilitate processes of mutual learning in different regions, as well as across countries of all levels of income, while raising awareness and mobilising support for the Agenda everywhere on the globe.

Footnote

[1] US Ambassador to the UN Nikki Haley, 'Press Release: Ambassador Haley on the Release of the U.S. Report on UN Voting Practices, (press release, US Mission to the UN, 26 April 2018). https://usun.state.gov/remarks/8411

Conclusion

This report has attempted to provide fresh insights into the funding of the UN development system and into the positioning of that funding within the larger financing dynamics of the 2030 Agenda for Sustainable Development. On one level, we have described the system as a relatively simple one dominated by grant receipts and grant disbursements for agreed purposes. While this is indeed true on the surface, the deeper analytical dive of the report has shown that an increasingly complex and diverse financing context for the Sustainable Development Goals (SDGs) requires that the grant resources of the UN development system (UNDS) will need to be positioned ever more strategically to impact much greater and more diverse financing flows.

A number of headline messages and themes have emerged from this work. Getting to more impactful funding and financing arrangements and moving away from the dominant 'disbursement culture' presents several real challenges ahead for the UNDS' traditionally grant-based actors. It will require a significantly different approach to defining, monitoring and measuring impact of SDG investments as the papers in the report have highlighted.

There is an uphill stretch of road ahead for such a new approach to take hold. It will need to be underpinned by a more robust capacity, skill-set, expertise, data and language at its foundation. New and different technical capacity available in UN headquarters and in country-based settings for understanding smart investment arrangements and partnerships for impact, a fluency in the language of finance rather than spending, and robust and system-wide financial data required for ongoing, real-time and sound analytics.

In addition, the new finance architecture and approach will require a strong new level of commitment to fact-based policy making. As highlighted in the report in the words of Hans Rosling, we must fully embrace a new culture of 'factfulness'. Factfulness could be interpreted as the guiding spirit of the Paris Climate Declaration with its emphasis on self-reporting, and has been a lode star of this report. The commitment to flood the first half of the report with data is a conscious effort to make policy makers more aware of the basic numbers, and where we have found them lacking. This report, as it has done in previous editions, points to the inconsistencies in the data being used that has an important impact on policy.

There is important work still to be done in advancing new thinking and new approaches to partnerships for financing Agenda 2030. The landscape of influential actors and partnerships is radically different from that which dominated the landscape when the Millennium Development Goals (MDGs) were adopted. As the report has highlighted, it is not about new public and private actors per se, but about the positioning and the role they expect to and can play which has shifted significantly. There is a clear evolution in the positioning of different elements of civil society. Overall there is a fundamental rethinking needed for the future of the relationship between public and private actors and financial flows – domestic and international – for greatest impact on SDG achievement.

The Secretary-General's reform agenda adopted by Member States in 2018 is designed with intent - to clear a path ahead that will reposition the UNDS for relevant and impactful support to countries in their achievement of the SDGs. The new and complex financing elements of this transformational reform vision will be essential, not optional, drivers of overall success.

Acronyms & Abbreviations

ADB	Asian Development Bank
AfDB	African Development Bank
AfDF	African Development Fund
AIIB	Asian Infrastructure Investment Bank
AMC	Advanced Market Commitment
ANGIN	Angel Investment Network Indonesia
AsDF	Asian Development Fund
AUAs	Assets Under Administration
BAPA	Buenos Aires Plan of Action for Promoting and Implementing Technical Cooperation amongst Developing Countries
BDF	Bangladesh Development Fund
BRI	Belt and Road Initiative
BRICS	Brazil, Russia, India, China and South Africa
CDB	China Development Bank
CDF	China's development finance
CEB	Chief Executives Board
CEO	Chief Executive Officer
CPA	Country Programmable Aid
CRRH	Caisse Régionale de Refinancement Hypothécaire de l'UEMOA
CRS	Creditor Reporting System
CSO	civil society organisation
CTBTO	Comprehensive Nuclear-Test-Ban Treaty Organization
DPA	Department for Political Affairs
DPKO	Department for Peacekeeping Operations
DRM	Domestic Resource Mobilisation
EBRD	European Bank for Reconstruction and Development
ECOSOC	Economic and Social Council
EIB	European Investment Bank
ESCO	Energy Service Company
ESG	environmental, social and governance
EU	European Union
EXIM Bank	Export-Import Bank of China
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
FfD	Financing for Development
FIDC	Forum for Indian Development Cooperation
FY18	Fiscal year 2018
G20	Group of 20 major economies
G77	Group of 77 developing countries
Gavi	Global Alliance for Vaccines and Immunization
GDP	Gross Domestic Product
GEF	Global Environment Facility
GPE	Global Partnership for Education
GIIN	Global Impact Investment Network
GNI	Gross National Income

GPG	global public good
HLEG	High-Level Expert Group on Sustainable Finance
HLPF	High Level Political Forum
IADB	Inter-American Development Bank
IAEA	International Atomic Energy Agency
IAFS	India-Africa Forum Summit
IATI	International Aid Transparency Initiative
IBRD	International Bank for Reconstruction and Development
ICAO	International Civil Aviation Organization
ICMA	International Capital Markets Association
ICT	Information and Communication Technology
IDA	International Development Association of the World Bank
IDB	Islamic Development Bank
IDBG	Islamic Development Bank Group
IDI	India Development Initiative
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFI	International Financial Institutions
ILO	International Labor Organization
IMF	International Monetary Fund
IMO	International Maritime Organization
INGO	international non-governmental organisation
IOM	International Organization for Migration
IoT	Internet of Things
IRM	Integrated Road Map
ISA	International Seabed Authority
IsDB	Islamic Development Bank
ITC	
ITEC	Indian Technical and Economic Development Programme
ITLOS	International Tribunal for the Law of the Sea
ITU	International Telecommunication Union
IUCN	International Union for Conservation of Nature
JICA	Japan International Cooperation Agency
JNU	Jawaharlal Nehru University
LDC	Least Developed Countries
LDC IV Monitor	Independent Partnership for the Monitoring of the Outcome of the Fourth United Nations Conference on the Least Developed Countries
LoC	Lines of Credit
M&A	Mergers and Acquisitions
MDB	Multilateral Development Bank
MDG	Millenium Development Goal
MEA	Ministry of External Affairs
MIGA	Multilateral Investment Guarantee Agency
MPTFO	Multi-Partner Trust Fund Office
MSME	micro-, small- and medium-enterprise
NAM	Non-Aligned Movement
NDB	New Development Bank
NGO	Non-Governmental Organisation
OAD	operational activities for development
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OECD-DAC	Organisation for Economic Co-operation and Development's Development Assistance Committee
OGP	Open Government Partnership
OHCHR	Office of the United Nations High Commissioner for Human Rights
OOF	other official flows
OPCW	Organisation for the Prohibition of Chemical Weapons
PAHO	Pan American Health Organization
PPG	Public and Publicly Guaranteed
PPI	Private Participation in Infrastructure
PSHP	Private Sector Health Partnership Kenya
PVC	Pneumococcal Vaccine
PSW	Private Sector Window
QCPR	Quadrennial Comprehensive Policy Review
RIS	Research and Information System for Developing Countries

R&D	Research and Development
SCAAP	Special Commonwealth Assistance for Africa
SDG	Sustainable Development Goal
SMEs	small- and medium-sized enterprises
SOCAP	Social Capital Markets
SOTCs	Severely Off Track Countries
SSC	South-South Cooperation
TCS	Technical Cooperation Scheme
TISIFF	Tbilisi International Solidarity and Innovative Financing Forum
TOSSD	Total Official Support for Sustainable Development
UK	United Kingdom
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNCDF	United Nations Capital Development Fund
UNCT	United Nations Country Teams
UNDAF	United Nations Development Assistance Framework
UNDESA	United Nations Department of Economic and Social Affairs
UN DOCO	United Nations Development Operations Coordination Office
UNDP	United Nations Development Programme
UNDS	United Nations development system
UN Environment	United Nations Environment Programme / UN Environment
UNEP FI	United Nations Environment Programme - Finance Initiative
UN-ESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFCCC	United Nations Framework Convention on Climate Change
UNFPA	United Nations Population Fund
UNGA	United Nations General Assembly
UN-Habitat	United Nations Human Settlements Programme
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
UNITAR	United Nations Institute for Training and Research
UNOCHA	United Nations Office for the Coordination of Humanitarian Affairs
UN-OAD	United Nations' Operational Activities for Development
UNODC	United Nations Office on Drugs and Crime
UNOPS	United Nations Office for Project Services
UNOSSC	United Nations Office for South-South Cooperation
UNRISD	United Nations Research Institute For Social Development
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
UNSCEB	United Nations System Chief Executives Board for Coordination
UNSC	United Nations Security Council
UNSSC	United Nations System Staff College
UNU	United Nations University
UNV	United Nations Volunteers
UN Women	United Nations Entity for Gender Equality and the Empowerment of Women
UNWTO	United Nations World Tourism Organization
UPU	Universal Postal Union of the United Nations
US	United States of America
VNR	Voluntary National Reviews
WB	World Bank
WBG	World Bank Group
WFP	World Food Programme
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WMO	
WTO	World Trade Organization

Annexes

Annex 1: UN grant instruments for receiving revenue

UN grant instruments for receiving revenue	
Assessed contributions	
Assessment to UN entities (non-peacekeeping)	Fixed amount contributions, calculated based on agreed formula that UN Member States undertake to pay when signing a treaty.
Assessment for peacekeeping	
Voluntary core contributions	
Voluntary core contributions	Voluntary untied contributions.
Earmarked contributions	
UN Inter-agency pooled funds	Co-mingled contributions to multi-entity funding mechanism, not earmarked for specific UN entity; funds are held by UN fund administrator and fund allocations are made by UN-led governance mechanism.
Single-agency thematic funds	Co-mingled contributions to single-entity funding mechanism designed to support high-level outcomes within strategic plan; single UN entity is fund administrator and takes the decisions on fund allocations.
Revenue from global vertical funds	Contributions from 'vertically' focused funds with specific themes; funds are not directly administered by a UN entity and do not have a UN lead role in fund allocations.
Local resources	Contributions from programme countries financed from government resources for use in support of their own development framework.
Project/programme specific contributions	Grants earmarked by the contributor to a specific programme or project.
Other revenue	
Revenue from other activities	Revenue linked to UN entity's other activities that is not considered a 'contribution' under the organisation's accounting policies.

Annex 2: Sources of ODA within 12 largest OECD-DAC donors as proportion of total ODA, 2016 (Figure 10 in Part 1 of the report, see page 36)

	United States	Germany	European Union	Japan
Development Cooperation Agencies	18 669 859 717	10 610 342 879	3 319 830 478	9 635 415 643
Ministry of Foreign Affairs	4 959 798 606	2 277 822 868		2 973 028 790
Other ministries and Miscellaneous		6 588 000 438	10 173 372 365	672 028 641
Development Finance Institutions	431 795 915	1 133 180 519	6 820 331 080	
Ministry of Health	4 490 260 393	10 326 500		
Local governments		1 041 152 026		3 451 314
Ministry of Education and other research agencies		159 059 980		
Ministry of Interior/Justice/Security/Governance	54 872 726	14 555 482		
Ministry of Finance		166 059 905		
Ministry of Agriculture	441 246 323	31 416 787		155 529 398
Ministry of Environment/Energy/Climate	69 081 742	323 338 934		
Ministry of Transport/Trade/Business or donor country promotion	43 390 901	424 967		
Ministry of Defence/Police	384 277 498	144 272		
Ministry of Culture/Media		179 263 213		
Ministry of Labour	81 704 422	4 826 937		
Export Credit Agencies		4 250 707		
Ministry of Audit/Treasury	44 270 166			
Total ODA 2016 as reported to OECD-DAC	29 670 558 409	22 544 166 415	20 313 533 923	13 439 453 787

United Kingdom	France	Norway	Sweden	Netherlands	Switzerland	Canada	Australia	Total
8 709 174 883	4 391 286 572	556 195 904	2 402 186 825		1 561 852 772	201 777 234		60 057 922 908
649 264 795	702 070 134	2 866 568 382	1 062 711 982	3 266 294 795	110 296 570	1 855 574 924	2 538 776 466	23 262 208 312
909 993 979	199 797 440		2 962 308	70 332 815	716 074 010	220 799 930		19 553 361 927
	924 197 028	186 847 809	2 617 612					9 498 969 963
45 435 365								4 546 022 258
17 385 477	89 882 725				73 508 621	270 150 949		1 495 531 114
	1 161 648 572		26 235 235			131 989 715		1 478 933 501
485 332 478	441 549 202		18 082 174				140 351 411	1 154 743 473
	486 994 831	5 419 140			409 205 551			1 067 679 427
71 171 327	11 419 272							710 783 108
204 078 219		42 004 229	3 459 355					641 962 479
544 126 457	16 011 282	178 567	26 019 123					630 151 296
6 897 143	38 206 355		21 789 887			23 664 608		474 979 763
1 445 125	2 630 766							183 339 103
21 312 800								107 844 159
3 034 890						69 639 420		76 925 017
		3 766 686	5 351 502					53 388 355
11 668 652 938	8 465 694 179	3 660 980 718	3 571 416 003	3 336 627 610	2 870 937 525	2 773 596 780	2 679 127 877	124 994 746 164

Endnotes for Part One

[1] The Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC) defines standard grants as follows: 'Grants are transfers in cash or in kind for which no legal debt is incurred by the recipient.'

Source: Development Co-operation Committee, 'Converged Statistical Reporting Directives for the Creditor Reporting System (CRS) and the Annual DAC Questionnaire' (Reporting Directive and questionnaire, DCD/DAC(2016)3/FINAL, OECD-DAC, 8 April 2016), page 13.
https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/DCDDAC(2016)3FINAL.pdf

[2] Income from loans could be considered as a 6th instrument, however as it only is a very small proportion of the UN's overall revenue it is excluded. The International Fund for Agricultural Development (IFAD) is the only UN agency that uses loans as a main financial instrument.

[3] More information on definitions and an analysis of the differences between the CEB and UNDESA data sets can be found in Part One, Chapter Three, which also provides further details on the relationship between three frequently used terms: UN system, UNDS and UN-OAD.

[4] United Nations Secretary-General, 'Repositioning the United Nations development system to deliver on the 2030 Agenda: our promise for dignity, prosperity and peace on a healthy planet', (Report of the Secretary General, A/72/684–E/2018/7, United Nations General Assembly Economic and Social Council, 21 December 2017). https://undocs.org/A/72/684

[5] Due to issues with data collection, the overall numbers in Figure 4 do as of now not show the growing humanitarian portfolio of some other UN organisations best known for their development activities (see also Part One, Chapter Three).

[6] Denmark (13th place) and France (15th place) reached the same high standard.

[7] This indicator is one of the agreed UN indicators incorporated in the Report of the Secretary-General (A/73/63 - E/2018/8) to monitor UN performance in implementing the 2016 QCPR decision in terms of funding.

Source: United Nations Secretary-General, 'Implementation of General Assembly resolution 71/243 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system, 2018', (Report of the Secretary-General, A/73/63 - E/2018/8, United Nations General Assembly Economic and Social Council, 19 January 2018).
https://undocs.org/A/73/63

[8] Hans Rosling, Anna Rosling and Ola Rosling defines factfulness as follows: 'the stress-reducing habit of only carrying opinions for which you have strong supporting facts'.

Source: Hans Rosling, Anna Rosling and Ola Rosling, Factfulness (New York: Flatiron Books, 2018)

[9] Report of the Secretary-General, A/73/63 - E/2018/8, UNGA ECOSOC, 19 January 2018. https://undocs.org/A/73/63

[10] United Nations, 'United Nations Systems Chart', (chart, United Nations, 2017).
http://www.un.org/en/aboutun/structure/pdfs/UN%20System%20Chart_ENG_FINAL_MARCH13_2017.pdf

[11] The six are: the Comprehensive Nuclear-Test-Ban Treaty Organization (CTBTO), the International Criminal Court (ICC), the UN Capital Development Fund (UNCDF), the United Nations Framework Convention on Climate Change (UNFCCC), United Nations Research Institute for Social Development (UNRISD) and the United Nations System Staff College (UNSSC). Three more UN entities: the International Seabed Authority (ISA), the International Tribunal for the Law of the Sea (ITLOS) and the Organisation for the Prohibition of Chemical Weapons (OPCW) will be invited to start reporting to the CEB in 2019. The Bretton Woods institutions, ie the World Bank Group and International Monetary Fund, are reflected on the UN's organisational chart as being part of the UN system. (See above footnote 12 for the UN systems chart.) However, neither the CEB nor UNDESA include them in their respective UN financial data sets. IFAD has a business model that more closely resembles that of the World Bank.
To ensure, to the extent possible, uniformity with other UN entities, the IFAD reporting to the CEB does not include the IFAD loan portfolio.

[12] These four are: the International Atomic Energy Agency (IAEA), IOM, United Nations University (UNU) and the World Trade Organization (WTO).

[13] Report of the Secretary-General, A/73/63 - E/2018/8, UNGA ECOSOC, 19 January 2018. https://undocs.org/A/73/63 paragraphs 9 and 10.

[14] OECD defines ODA as follows: 'government aid designed to promote the economic development and welfare of developing countries.'

Source: OECD Data, 'Net ODA', (website, OECD, 2018). https://data.oecd.org/oda/net-oda.htm

[15] The IRM is composed of the: Strategic Plan 2017-2021, Policy on Country Strategic Plans, Corporate Results Framework 2017-2021, and the Financial Framework Review.

[16] For an overview of the UN financing instruments, see Annex 1.

[17] For the non-UN-OAD part, we have used the financial data of those entities reporting to the CEB.
Source: CEB, 'The CEB Financial Statistics database', (database, UNSCEB, 2016)
https://www.unsceb.org/content/un-system-financial-statistics

[18] Figure 20 ignores US$ 0.04 billion in core resources revenue for non-UN-OAD.

[19] United Nations General Assembly, 'Resolution adopted by the General Assembly on 31 May 2018, Repositioning of the United Nations development system in the context of the quadrennial comprehensive policy review of operational activities for development of the United Nations system', (General Assembly Resolution, A/RES/72/279, UNGA, 1 June 2018).
https://undocs.org/A/RES/72/279

Notes to figures and tables in Part One

FIGURES

Figure 1: Chief Executives Board (CEB) figures are based on official data of its United Nations system member organisations' audited financial statements.
Source: CEB, 'The CEB Financial Statistics database', (database, UNSCEB, 2016),
https://www.unsceb.org/content/un-system-financial-statistics
Note that 'Chief Executives Board (CEB) data, 2016' will appear on the figures and tables that follow Figure 1, as the shorter CEB reference for (figures 14, 15, 20 and tables 2, 2a, 3, 4, 5)

Figure 2: Values are nominal. Core contributions for UN-OAD include amounts of assessed contributions that, in the sourced report, are considered ODA.
Source: United Nations Secretary-General, Statistical annex on funding data to 'Implementation of General Assembly resolution 71/243 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system, 2018', (Statistical Annex in Report of the Secretary-General, A/73/63 - E/2018/8, United Nations General Assembly Economic and Social Council, 19 January 2018).
https://undocs.org/A/73/63
Note that 'Report of the Secretary-General (A/73/63 - E/2018/8)' will appear on the figures and tables that follow figure 2, as the shorter reference for this report's statistical annex on funding data (figures 3, 4, 5, 9, 11, 12, 16, 17, 18, 19 and 20).

Figure 3: The numbers, as calculated in this report, are based on United Nations Department for Economic and Social Affairs (UNDESA)'s data and definition of the UN entities that are part of the UN system and do not take into account IAEA (International Atomic Energy Agency), and IOM (International Organization for Migration), UNU (United Nations University) and WTO (World Trade Organisation). UNOPS (United Nations Operations Office for Project Services) is only partially included. Moreover, the percentages reflect the shares in overall UN 2016 expenditures.
Source: Statistical Annex in Report of the Secretary-General (A/73/63 - E/2018/8), UNGA ECOSOC, 19 January 2018.
https://undocs.org/A/73/63

Figure 4: Values are nominal. Core contributions for UN-OAD include amounts of assessed contributions, in the sourced report, that are considered ODA.
Source: Statistical Annex in Report of the Secretary-General (A/73/63 - E/2018/8), UNGA ECOSOC, 19 January 2018.
https://undocs.org/A/73/63

Figure 5: Growth in real terms (2000 = 100%).
Source: Statistical Annex in Report of the Secretary-General (A/73/63 - E/2018/8), UNGA ECOSOC, 19 January 2018.
https://undocs.org/A/73/63

Figure 6: Values are nominal. Data was downloaded in January 2018.
Source: Financial Tracking Service, 'Summary' and 'Data' of 'Appeals and response plans 2017', (UNOCHA database, 2017)
https://fts.unocha.org/appeals/overview/2017

Figures 7-8: IMF has been included in the WBG category and WTO has been included in the UN development system category. The OECD database datasets cover the total use of the multilateral system ie both their multilateral aid ('Core contributions to') and bilateral aid channelled through ('Contributions through') multilateral organisations. The data originate from reporting at item-level in the Creditor Reporting System (CRS). Data was downloaded in June 2018.
Source: OECD, 'Theme: Development: Flows based on individual projects: Creditor Reporting System (CRS)', (database, OECD, 2018). https://stats.oecd.org/
Note that 'OECD Statistics Database, 2018' will appear on the figures 7, 8, and 10, as the shorter reference for this data source.

Figure 9: Source: Statistical Annex in Report of the Secretary-General (A/73/63 - E/2018/8), UNGA ECOSOC, 19 January 2018. https://undocs.org/A/73/63

Figure 10: Data was downloaded from OECD database, February 2018. The data originate from reporting at item-level in the CRS. Categories have been modified for the purpose of this report.
Source: OECD, 'Theme: Development: Flows based on individual projects: Creditor Reporting System (CRS)', (database, OECD, 2018). https://stats.oecd.org/

Figures 11-12: The data of the UN Pooled Fund database 2016 is published to the International Aid Transparency Initiative (IATI) available at the IATI's website: www.iatistandard.org
Sources:
- Statistical Annex in Report of the Secretary-General (A/73/63 - E/2018/8), UNGA ECOSOC, 19 January 2018. https://undocs.org/A/73/63
- United Nations, 'UN Pooled Fund database 2016', (United Nations, 2016).

Note that 'UN Pooled Fund database 2016' will appear on the figures 11-16 as the shorter reference for this data source.

Figure 13: See notes for Figures 11-12 on data and its availability.
Source: United Nations, 'UN Pooled Fund database 2016 and preliminary data for 2017', (United Nations, 2016-17).

Figures 14-15: See notes for Figures 1 and 11-12 on data and its availability.
Sources:
- CEB, 'The CEB Financial Statistics database', (database, UN-SCEB, 2016), https://www.unsceb.org/content/un-system-financial-statistics
- United Nations, 'UN Pooled Fund database 2016', (United Nations, 2016).

Figure 16: The figure does not include IOM since it is not part of UNDESA's QCPR reporting. IOM received 5.7% of their earmarked revenue from inter-agency pooled funds in 2016, which is based on the numbers of voluntary specified revenue for IOM reported to the CEB and the UN Pooled Fund database. CEB figures are based on official data of its United Nations system member organisations' audited financial statements.
Sources:
- Statistical Annex in Report of the Secretary-General (A/73/63 - E/2018/8), UNGA ECOSOC, 19 January 2018. https://undocs.org/A/73/63
- United Nations, 'UN Pooled Fund database 2016', (United Nations, 2016).

Figure 17:
Source: Statistical Annex in Report of the Secretary-General (A/73/63 - E/2018/8), UNGA ECOSOC, 19 January 2018. https://undocs.org/A/73/63

Figure 18: The 54 crisis-affected countries are drawn from the other country categories.
Source: Statistical Annex in Report of the Secretary-General (A/73/63 - E/2018/8), UNGA ECOSOC, 19 January 2018. https://undocs.org/A/73/63

Figure 19: The figure does not display crisis-affected countries with less than US$ 100 million in expenditure: Libyan Arab Jamahiriya, Guatemala, Honduras, Guinea-Bissau, Mauritania, Iran, Sri Lanka, PNG, Kosovo (SC resolution 1244), Western Sahara (SC resolution 690), Tajikistan, Democratic People's Republic of Korea, Bosnia-Herzegovina, Kyrgyzstan, Djibouti, Eritrea, Comoros and Solomon Islands. The figure does not display countries that are not ODA recipients (Israel and Cyprus).

Data does not include country expenses from UNDESA, IFAD, IMO, ITC, UNCTAD, UNEP, UNESCO, UNWTO, WIPO, WMO, ECA, ECE, ECLAC, ESCAO, ESCWA.

Data for Special Political Missions and special envoys are based on budget's 'Estimated Expenditure' divided by 2 in Report of Secretary-General, A/72/371.

Data on UN Peacekeeping missions' expenditures are from July 2016 to June 2017, in General Assembly financial report A/72/5 (Vol. II).

Transfers to NGOs through UNOCHA as a Managing Agent under UN pooled funds has been added to the humanitarian expenditure.
Sources: Statistical Annex in Report of the Secretary-General (A/73/63 - E/2018/8), UNGA ECOSOC, 19 January 2018. https://undocs.org/A/73/63
- United Nations, 'UN Pooled Fund database 2016', (United Nations, 2016).
- Secretary-General, 'Budget performance for 2016–2017' in 'Estimates in respect of special political missions, good offices and other political initiatives authorized by the General Assembly and/or the Security Council, Report of the Secretary-General', (budget in Report of Secretary-General, A/72/371, 16 October 2017), page 27, table 4, http://undocs.org/A/72/371
Note that 'Report of the Secretary-General (A/72/371), 2017' appears on the figure 19, as the shorter reference for this source.
- General Assembly, 'Financial reports and audited financial statements for the 12 month period from 1 July 2016 to 30 June 2017 and Report of the Board of Auditors Volume II', (Financial report, A/72/5 (Vol. II), United Nations, 2018), page 185, table V, http://undocs.org/en/A/72/5(VOL.II)
Note that 'General Assembly financial report (A/72/5 Vol.II), 2017' appears on the figure 19, as the shorter reference for this source.

Figure 20: Voluntary Core contributions to non-OAD are below US$ 1 billion and do not show in the figure but are included in the total. Core contributions for UN-OAD, as calculated in the Report of the Secretary-General (A/73/63 - E/2018/8), include amounts of assessed contributions that are considered ODA.
Sources:
- CEB, 'The CEB Financial Statistics database', (database, UN-SCEB, 2016), https://www.unsceb.org/content/un-system-financial-statistics
- Statistical Annex in Report of the Secretary-General (A/73/63 - E/2018/8), UNGA ECOSOC, 19 January 2018. https://undocs.org/A/73/63

Table 2: Figures have been rounded up. In case of core funding for ITU, UNITAR and WIPO and other revenue/fees for UNITAR the amounts are below US$ 1 million and shows as 0 in the table. The amounts are however included in the total. The total reflects the sum of the total revenue on the individual UN entities; it does not compensate for the estimated 1-2 billion US$ in double counting that occurs when one UN entity becomes a contributor to another UN entity. After reporting to the CEB on 2016, UNICEF restated its 2016 revenue to US$ 5,153 million to reflect change in accounting policy for comparison with 2017.
Source: CEB, 'The CEB Financial Statistics database', (database, UNSCEB, 2016),
https://www.unsceb.org/content/un-system-financial-statistics

Table 2a:
Source: CEB, 'The CEB Financial Statistics database', (database, UNSCEB, 2016),
https://www.unsceb.org/content/un-system-financial-statistics

Table 3: Values are nominal. DPKO figures for 1975, 1985 and 1995 are expenditures. Assessed contributions for a larger set of years can be found in previous Financing the UN Development System reports. OECD-DAC changed the ODA coefficient for assessed contributions for peacekeeping operations from 7 % in 2015 to 15% in 2016; the related amount representing ODA for peacekeeping changed from US$ 481 million in 2015 to US$ 857 million in 2016.

For more information see:
http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/ODA-Coefficient-for-UN-Peacekeeping-Operations.pdf

Sources:
CEB, 'The CEB Financial Statistics database', (database, UNSCEB, 2016), https://www.unsceb.org/content/un-system-financial-statistics

Michael Renner, 'Peacekeeping Operations Expenditures: 1947-2005', (Table, Global Policy Forum)
https://www.globalpolicy.org/component/content/article/133-tables-and-charts/27448-peacekeeping-operations-expenditures.html

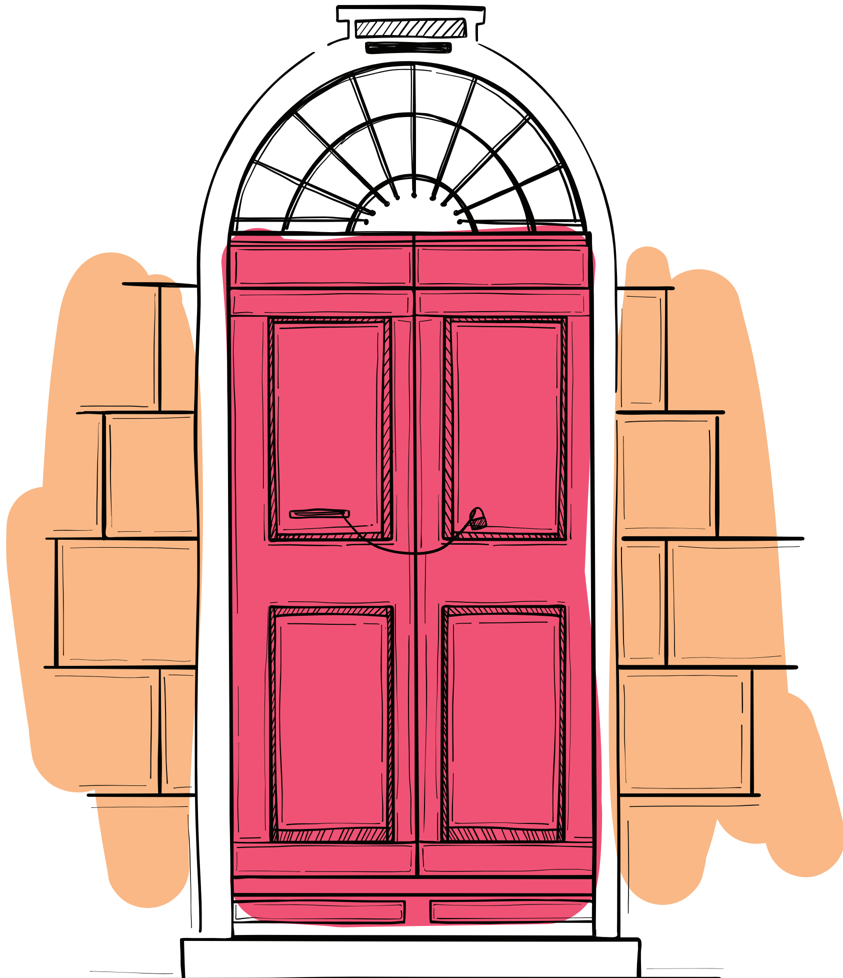
General Assembly, 'Financial report and audited financial statements for the 12-month period from 1 July 2004 to 30 June 2005 and Report of the Board of Auditors: Volume II', (Financial report, A/72/5 (Vol. II), United Nations, 2006),
http://undocs.org/en/A/60/5(VOL.II)(SUPP)
Note that 'General Assembly financial report (A/72/5 Vol.II), 2006' appears on table 3, as the shorter reference for this source.

General Assembly, 'Financial report and audited financial statements for the 12-month period 1 July 2009 to 30 June 2010 (for year 2010)', (Financial report, A/72/5 (Vol. II), United Nations, 2011), http://undocs.org/en/A/65/5(VOL.II)
Note that 'General Assembly financial report (A/72/5 Vol.II), 2011' appears on table 3, as the shorter reference for this source.

Table 4: Values are nominal. Earmarked contributions from a larger set of years can be found in previous Financing the UN Development System reports.
Source: CEB, 'The CEB Financial Statistics database', (database, UNSCEB, 2016),
https://www.unsceb.org/content/un-system-financial-statistics

Table 5: Values are nominal.
* indicates that numbers are not available.
Sources:
- CEB, 'The CEB Financial Statistics database', (database, UNSCEB, 2016),
https://www.unsceb.org/content/un-system-financial-statistics
- Secretary-General, 'Budgetary and financial situation of organizations of the United Nations system, Note by the Secretary-General transmitting the statistical report of the United Nations System Chief Executives Board for Coordination on the budgetary and financial situation of the organizations of the United Nations system (decisions 47/449, 53/459, 57/557 and 57/558)', (Budgetary report, A/61/203, UNGA, 28 July 2006),
http://undocs.org/A/61/203

Note that 'Budgetary report note by Secretary-General (A/61/203), 2006' appears on table 5, as the shorter reference for this source.



Three years have passed since the adoption of the 2030 Agenda for Sustainable Development and financing has become a key element in the discussions on how to achieve its 17 goals. A few years into its implementation, there is now, perhaps, a better understanding of what is at stake.

This fourth annual report of *Financing the United Nations Development System* attempts to provide fresh insights into the funding of the UN development system and into the positioning of that funding within the larger financing dynamics of the 2030 Agenda. On one level, we describe the system as a relatively simple one dominated by grant receipts and grant disbursements for agreed purposes. While this is true on the surface, the deeper analytical dive of the report shows that an increasingly complex and diverse financing context for the Sustainable Development Goals requires the UN grant resources to be positioned more strategically to impact much greater and more diverse financing flows.

The overall ambition of this report is to contribute to – and push forward – current and future discussions related to the UN's role in financing development. Armed with the latest statistics and with a broad menu of ideas for change, we hope to do just that.

Dag Hammarskjöld Foundation

Dag Hammarskjöld Foundation

The Dag Hammarskjöld Foundation is a non-governmental organisation established in memory of the second Secretary-General of the United Nations. The foundation spurs dialogue and action on global development and multilateral cooperation.

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