Financing the Post-2015 Development Framework

A Draft to be Submitted to the Bali High Level Panel of Eminent Persons: Post-2015 Consultation and Outreach

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

Lessons from the existing MDGs framework

- The original MDGs were articulated **independently** of a **financing** framework (Monterrey 2002).
- In a context of fiscal consolidation, discussion of post-2015 goals must be **integrated** with consideration of **supporting financing**.
- No quantity of financing, whether grant, concessional, or non-concessional, can achieve the development goals without **supporting policies** and a **credible commitment** to combating poverty.
- **Costing** MDGs requires **too many assumptions** (WDR 2004), and is **not the objective** of this exercise.

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

Good policies and credible institutions to:

Increase impact of available resources

Leverage additional resources

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

Parameters to consider in the post-2015 financing framework

What can developing countries do?

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

What can the international community do?

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

What can developing countries do?

DESIGN targeted, evidence-based policies and SUPPORT effective institutions

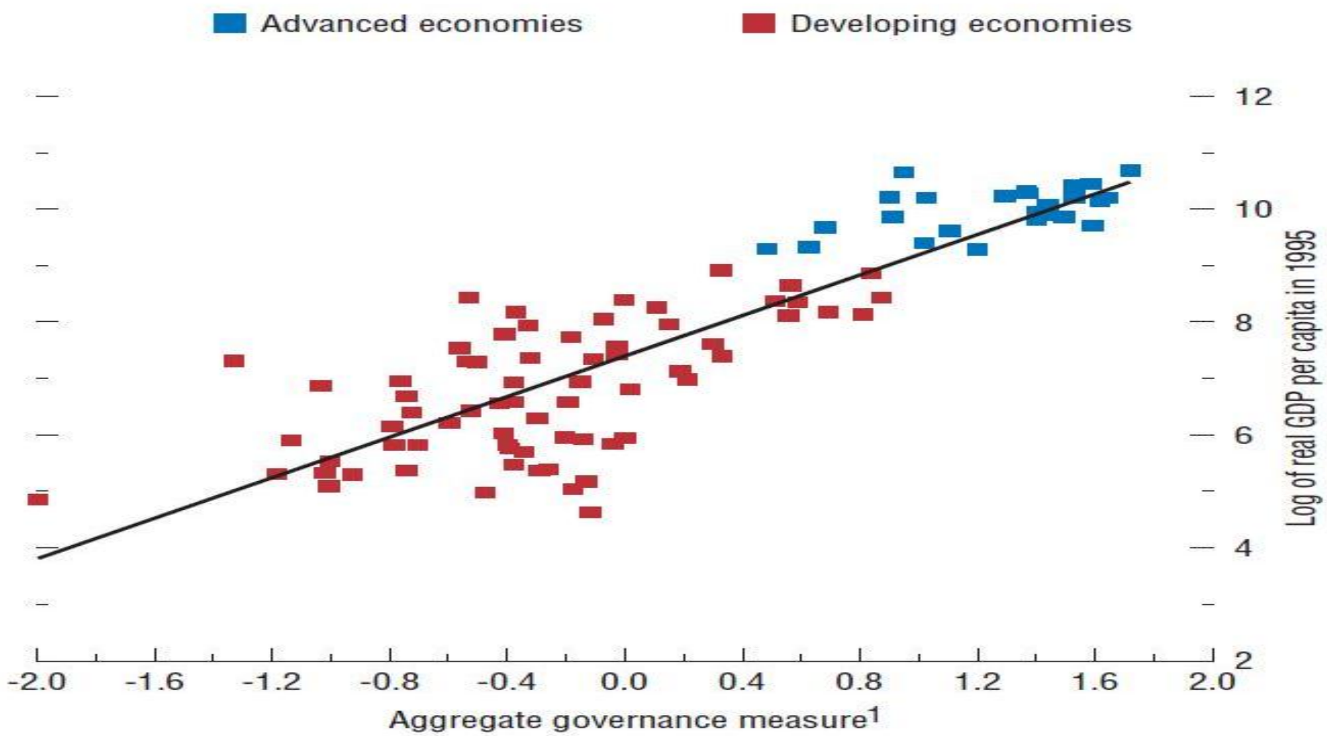
GENERATE more revenues

ENSURE efficient public spending

PROMOTE financial deepening and inclusion

Design targeted, evidence-based policies and support effective institutions

Real income per capita is closely correlated with institutional quality

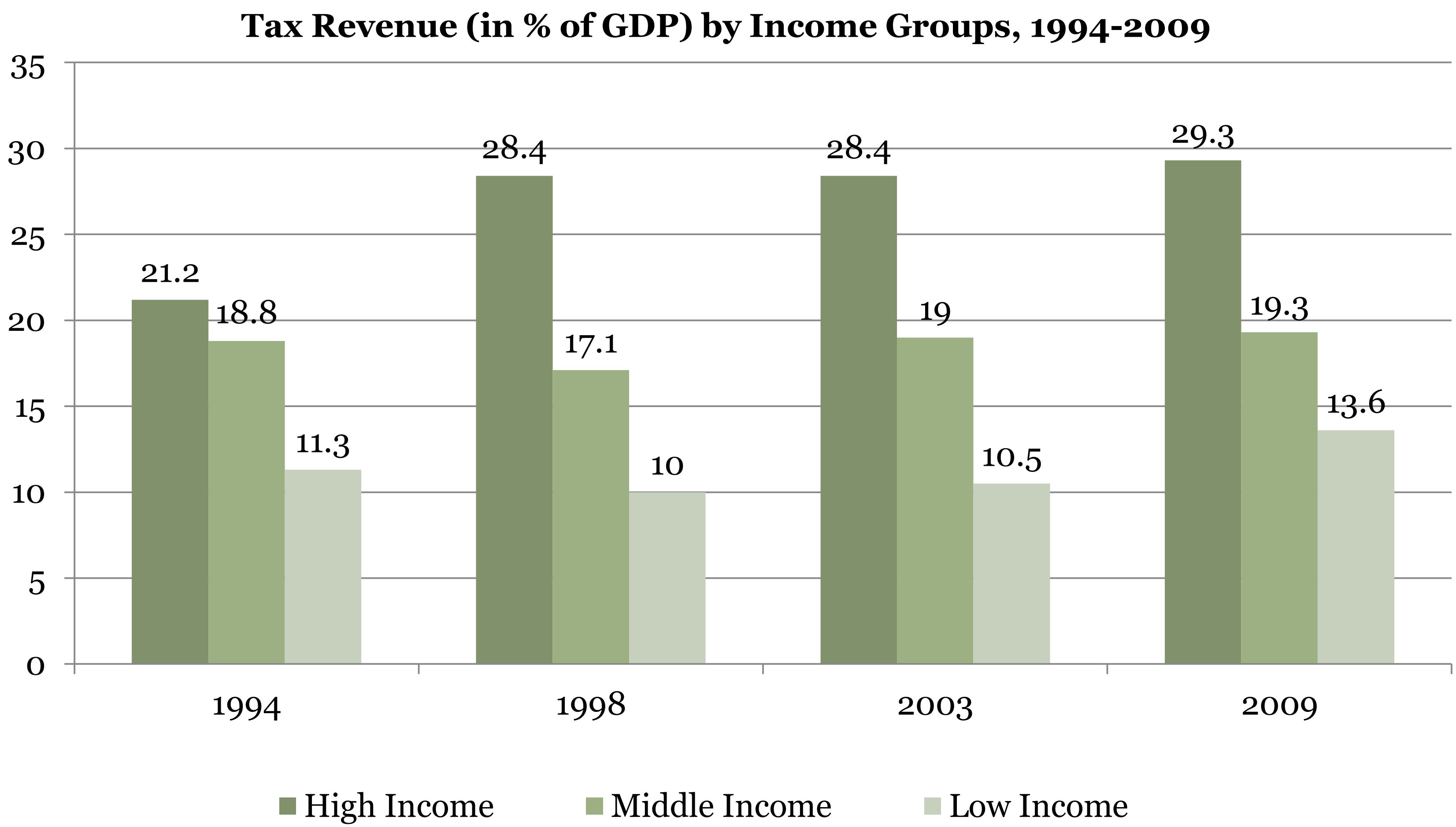


This index measures the overall quality of governance, including the degree of corruption, political rights, public sector efficiency, and regulatory burdens.

Source: World Economic Outlook, IMF, April 2003

Generate more revenues

Taxation capacity improving in MICs, progress needed in LICs



Source: World Development Indicators

Generate more revenues

Taxation capacity improving in MICs, progress needed in LICs

	Tax Revenue as % of GDP 2004-2011	Average Tax Effort (1994-2001)	Average Tax Effort (2002-2009)	Tax effort difference
LIC: Negative Tax Effort				
Congo, Republic of	9.3	0.47	0.45	-0.02
Ethiopia	9.4	1.05	0.87	-0.18
Uganda	10.6	0.89	0.87	-0.02
Zambia	18.0	1.11	1.07	-0.04
Bangladesh	7.6	0.83	0.8	-0.03
Pakistan	12.3	1.31	1.03	-0.28
Sri-Lanka	16.0	1.13	0.98	-0.15
MIC: Positive Tax Effort				
Colombia	11.0	0.73	0.79	0.06
Bulgaria	26.7	0.91	1.04	0.13
Vietnam	24.9	1.26	1.44	0.18
South Africa	21.8	1.47	1.57	0.1
Ukraine	--	0.8	1.02	0.22

Tax effort indicates how well a country is doing in terms of tax collection, relative to what could be reasonably expected given its economic potential. It is calculated by dividing actual tax share by an estimate of how much tax the country should be able to collect given the structural characteristics of its economy.

Source: World Development Indicators

Generate more revenues

Raising revenues from natural resources: potential and challenges of resource-for-infrastructure deals in fragile states

- RfI deals can help overcome obstacles related to limited capital market access and limited domestic capacity to implement large infrastructure projects
- Significant potential as a financing source, but carries considerable risks and challenges both on the private sector and government sides

Private sector perspective

- Investments add to the high initial sunk costs involved in mine and offshore oil field development (frequently running into the billions of dollars)

- Future revenue streams backing these investments subject to political, market, geological and other types of risk

- On infrastructure side, risks of cost overruns

Government perspective

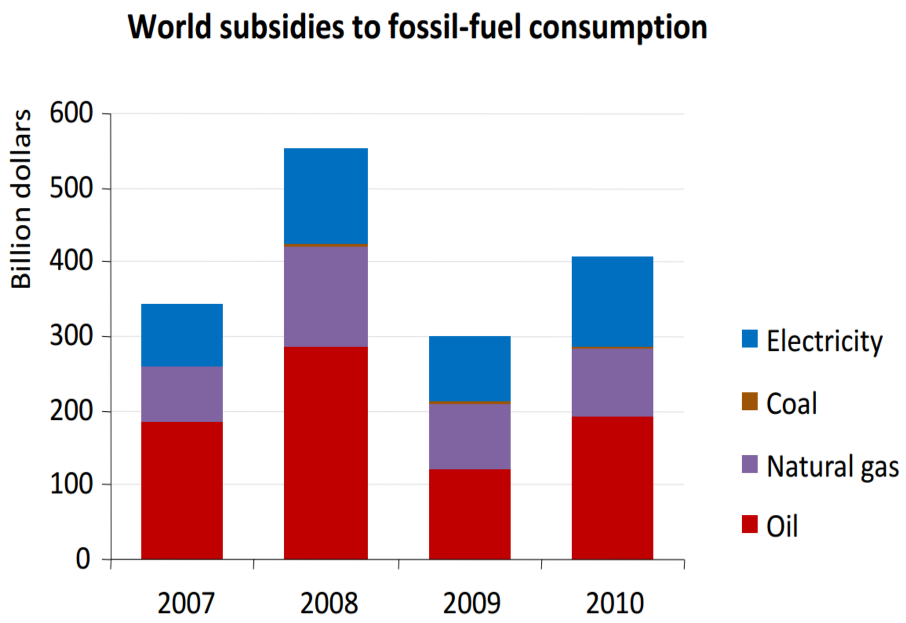
- Without appropriate valuation both on mining and infrastructure side, country risks forgoing significant share of potential benefits from the extractive project

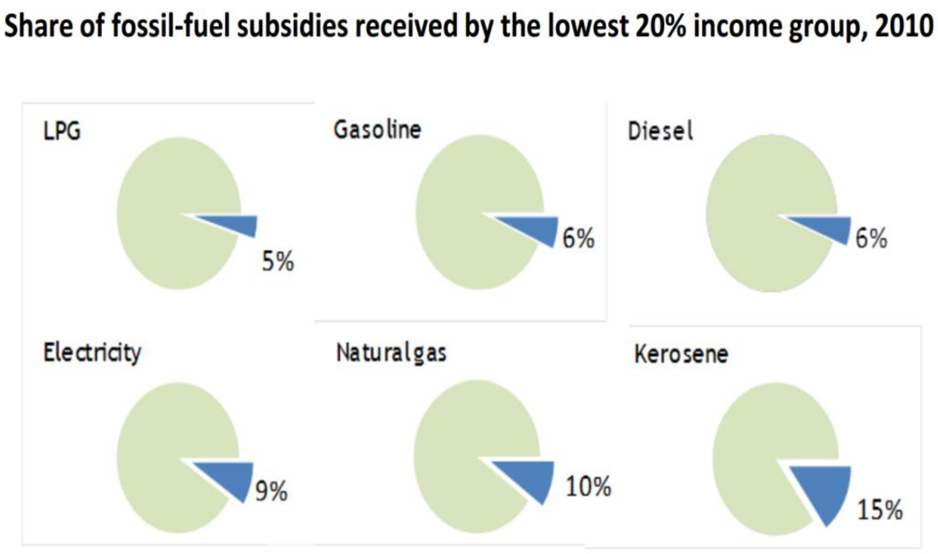
- Assuming that appropriate valuation is undertaken, still risks arising from uncertainty of future commodity prices and of geological estimates of oil and mineral reserves

- Essential that financing commitments be complemented by appropriate extractives tax and royalty regimes

Ensure efficient public spending

Fossil fuel subsidies *do not* target the poor





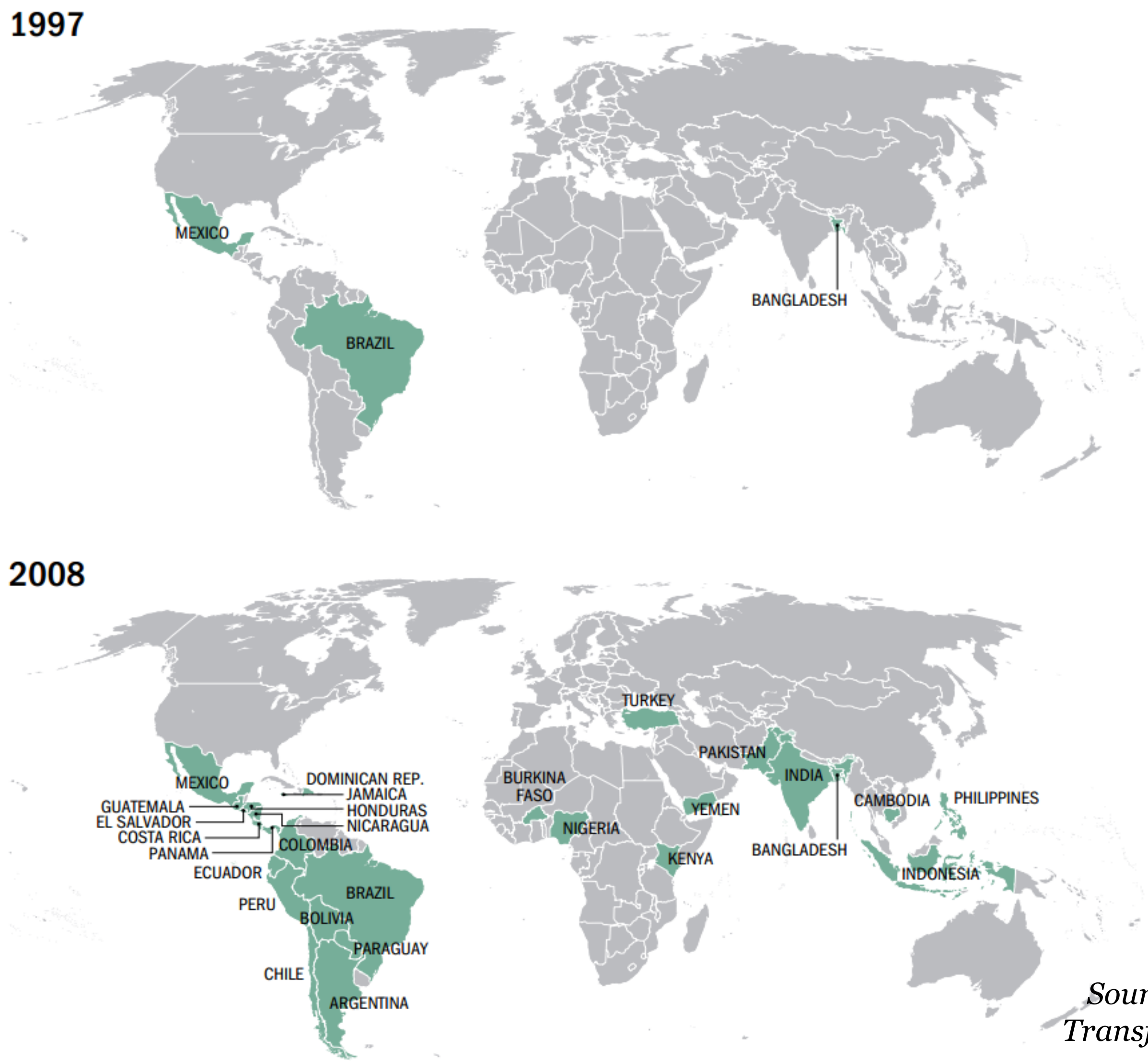
Subsidies are an inefficient means of assisting the poor: only **8%** of the **$409 billion** spent on fossil-fuel subsidies in 2010 went to the poorest 20% of the population.

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

Source: World Energy Outlook, IEA, 2011

Ensure efficient public spending

Conditional cash transfers *do* target the poor



Source: Conditional Cash Transfers, World Bank, 2009

Financial sector development for growth

A thriving private sector creates opportunities for entrepreneurship and job creation

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

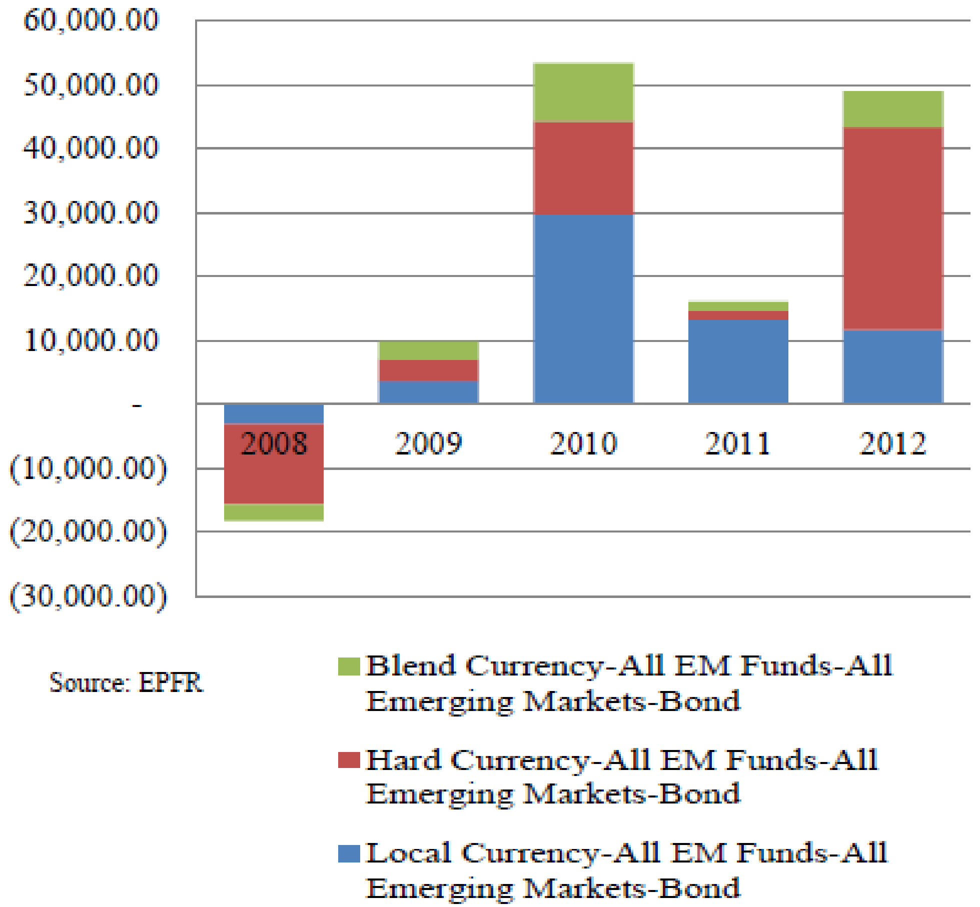
Lower the cost of financial and nonfinancial **transactions**

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

Financial Deepening

Using local currency bond markets to develop the domestic investor base and mobilize domestic savings to support investment in productive assets

Emerging market fixed income fund inflows by hard and local currency



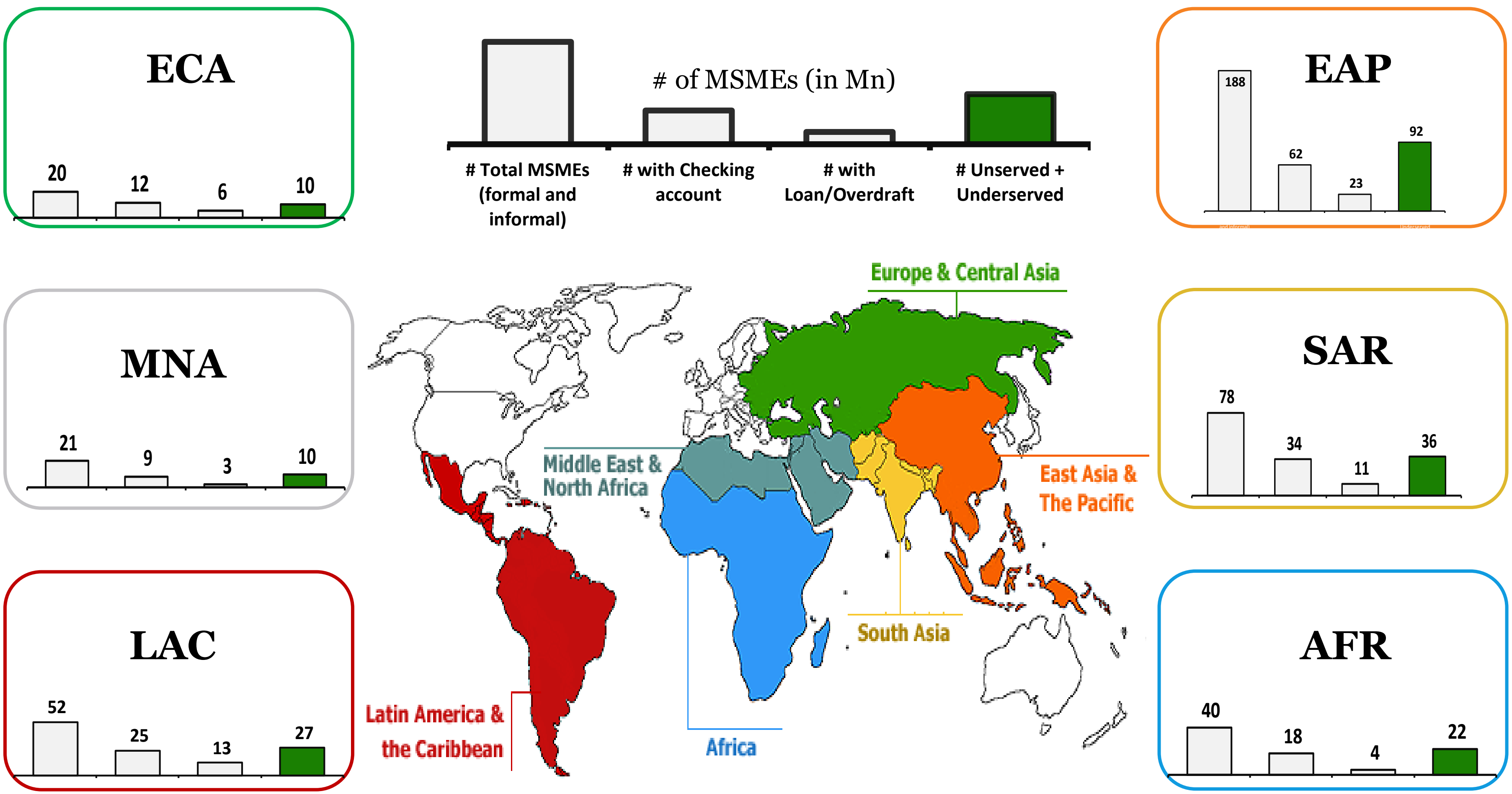
Source: EPFR

LCBMs foster financial sector development by:

- Providing pricing benchmarks for private sector instruments
- Reducing risk management through greater asset liability matching
- Enabling diversification from bank financing
- Providing safer, more liquid savings vehicles for individuals and institutions

Financial Inclusion

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



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

What can the **international community** do?

MAXIMIZE the impact of ODA

COLLABORATE with new development partners

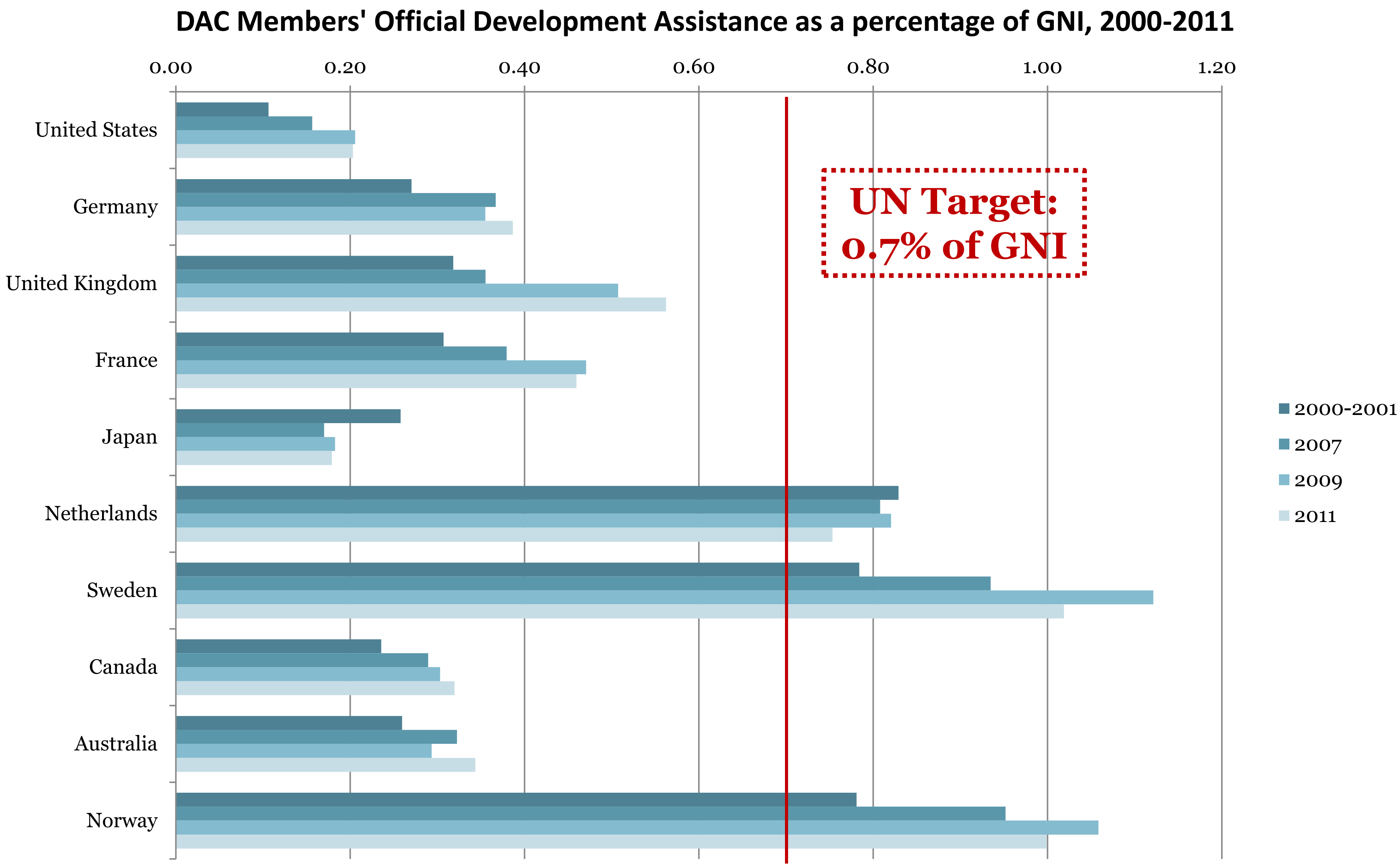
LEVERAGE the private sector

TAP INTO new sources of finance

DELIVER global public goods

Maximize the impact of ODA

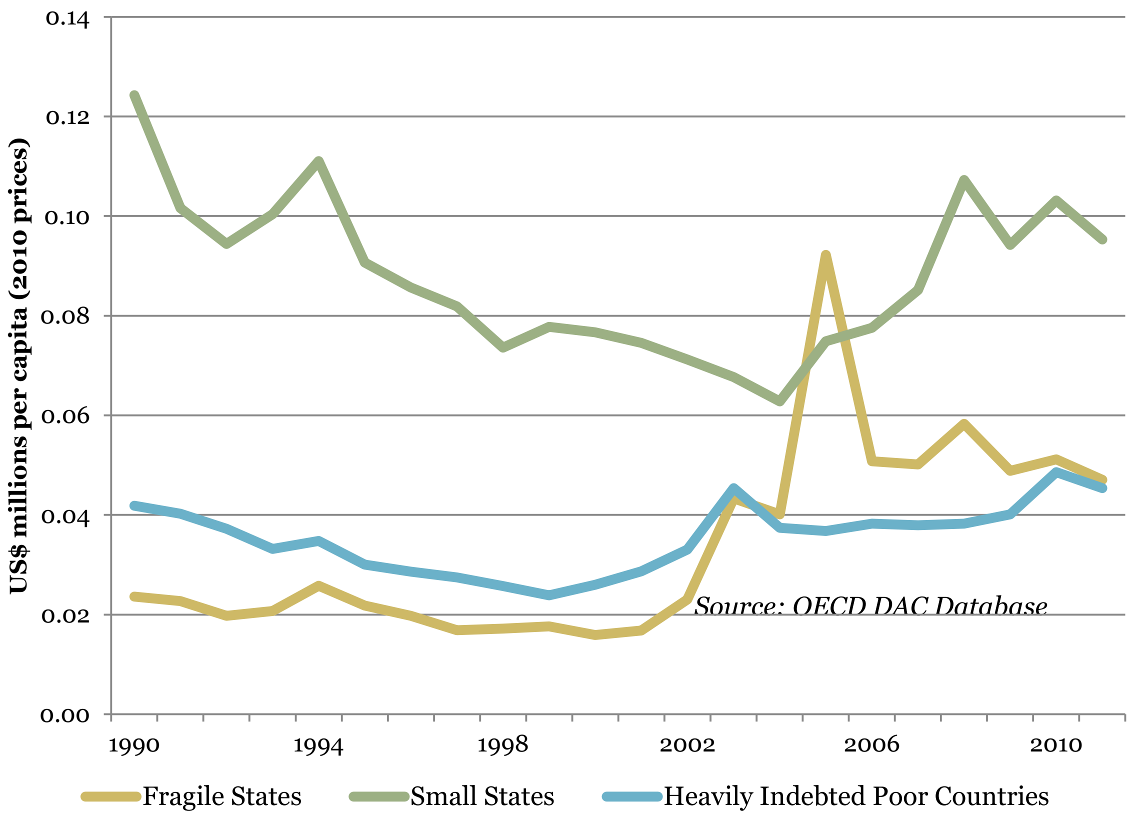
Total ODA increased over the period 2000-2010, but is still falling short of Monterrey targets…



Source: MDG Gap Taskforce Report, 2012

Maximize the impact of ODA

ODA is a critical tool to leverage other sources of financing



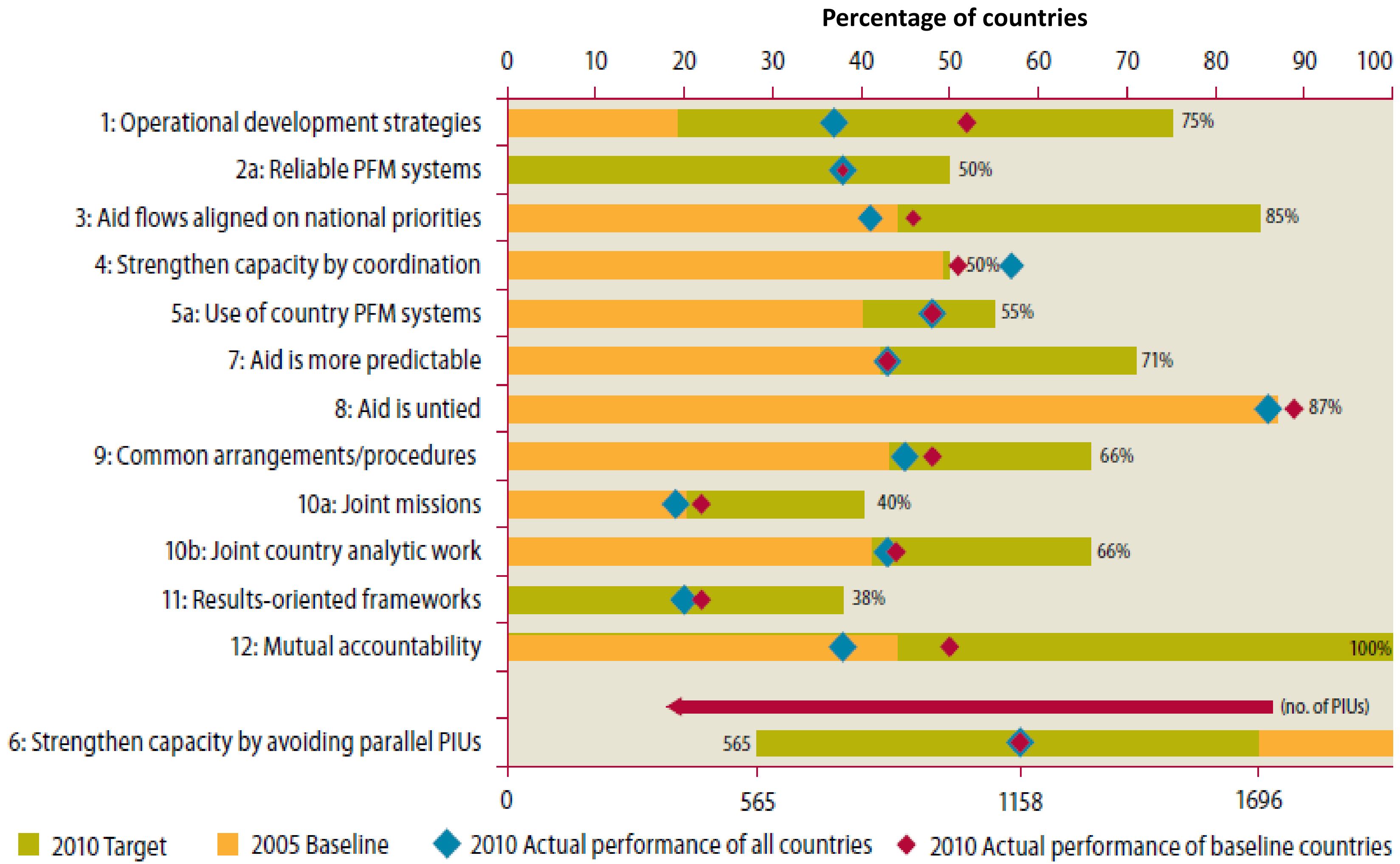
"Official development assistance (ODA) plays an essential role as a complement to other sources of financing for development, especially in those countries with the least capacity to attract private direct investment… For many countries in Africa, least developed countries, small island developing States and landlocked developing countries, ODA is still the largest source of external financing and is critical to the achievement of the development goals and targets of the Millennium Declaration and other internationally agreed development targets."

Monterrey Declaration, 2002

Maximize the impact of ODA

Limited progress on certain aid modalities but improvement still needed on most indicators

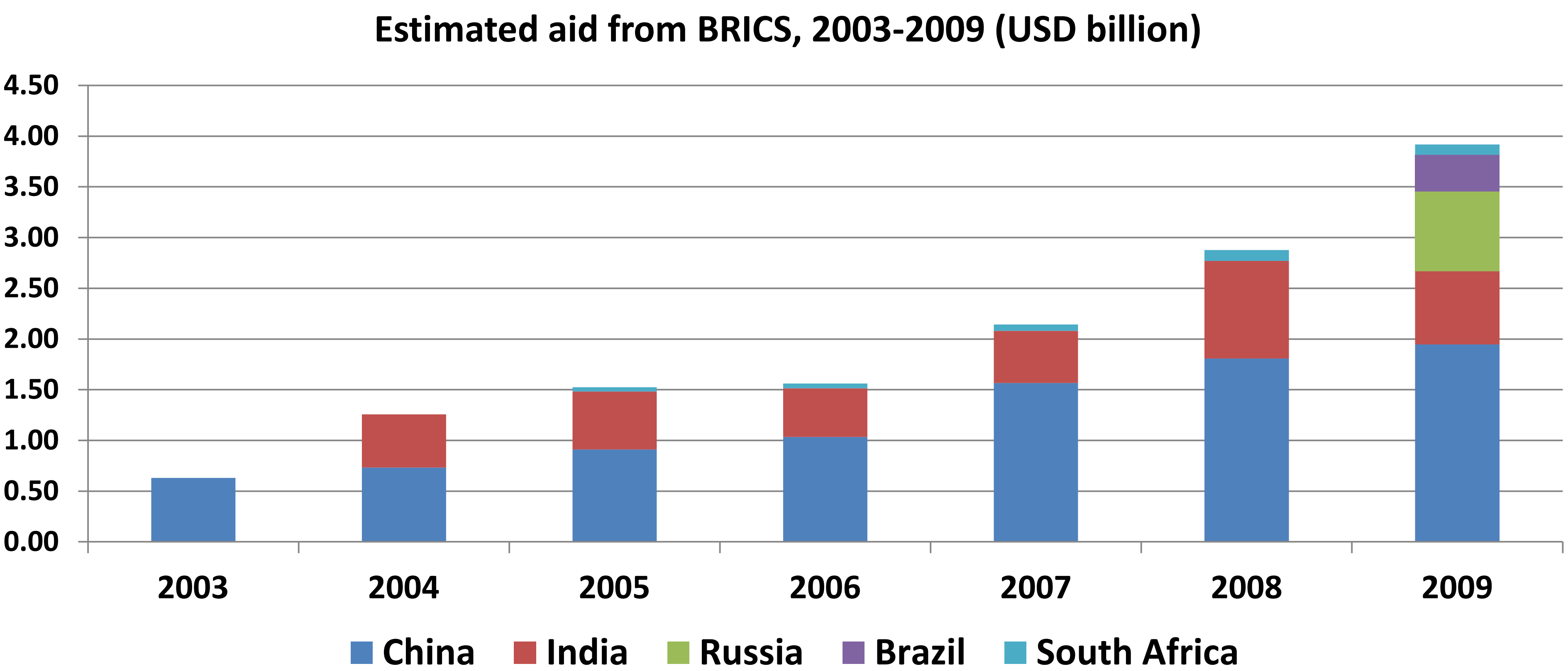
Progress in Implementing the Paris Declaration



Source: MDG Gap Taskforce Report, 2012

Collaborate with new development partners

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



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

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

Collaborate with new development partners

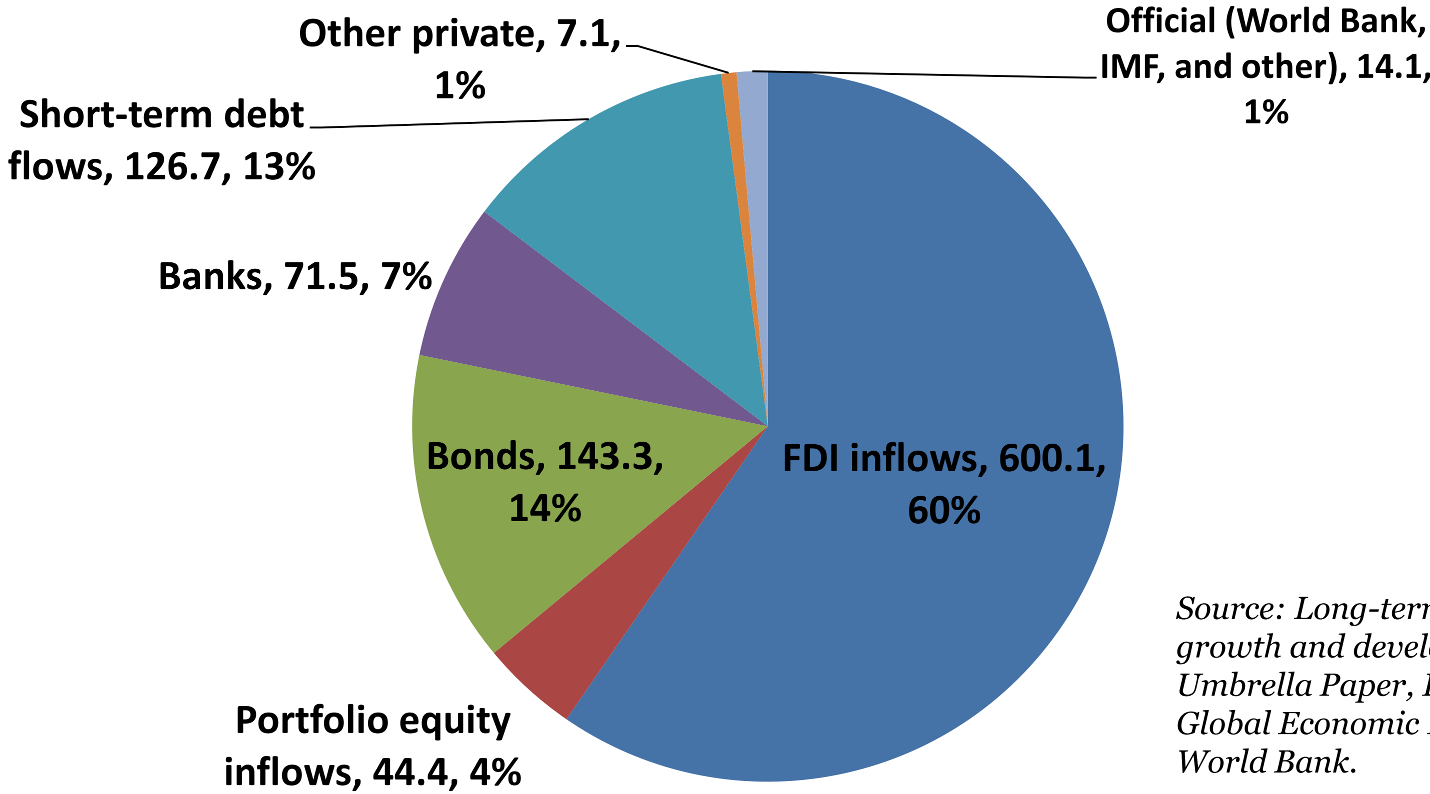
Private philanthropy is growing in importance and playing a complementary role

- Global funds: trust funds that pool resources for specific issues of global importance
  - Global Partnership for Education
  - GAVI Alliance (formerly the Global Alliance for Vaccine and Immunization)
  - Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM)
  - Global Environment Fund (GEF)
- Scattered data – available estimates for private aid to developing countries in 2009 range from USD 22 billion to USD 53 billion
- Low estimate is equivalent to 16 percent of ODA from all donors in the same year, and up from 2005 (12 percent of ODA)
- Private philanthropy to fragile states increasing in recent years
- South-South philanthropy also on the rise, especially in the Arab world
- Philanthropic giving highly sensitive to factors such as media coverage, timing, geopolitical considerations

International flows to developing countries

International capital flows to developing countries dominated by foreign direct investment

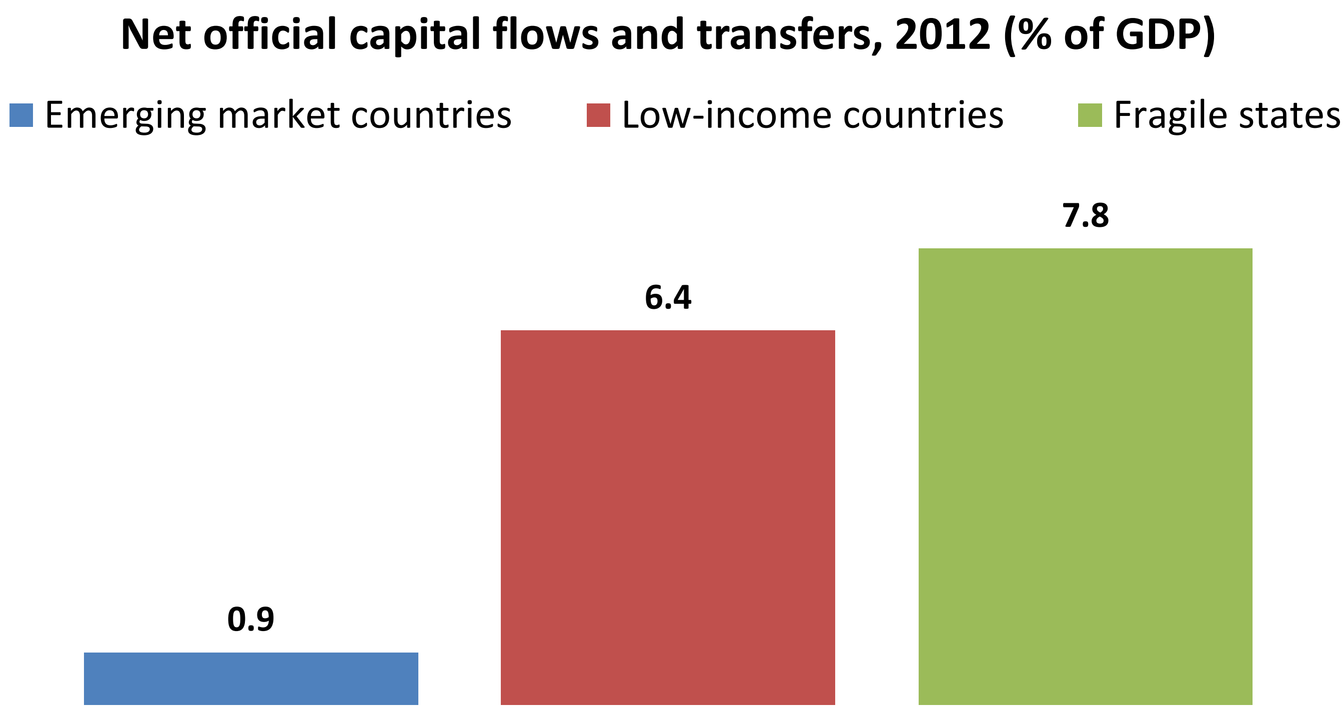
Total capital inflows in 2012: USD 1,007 billion



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

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

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

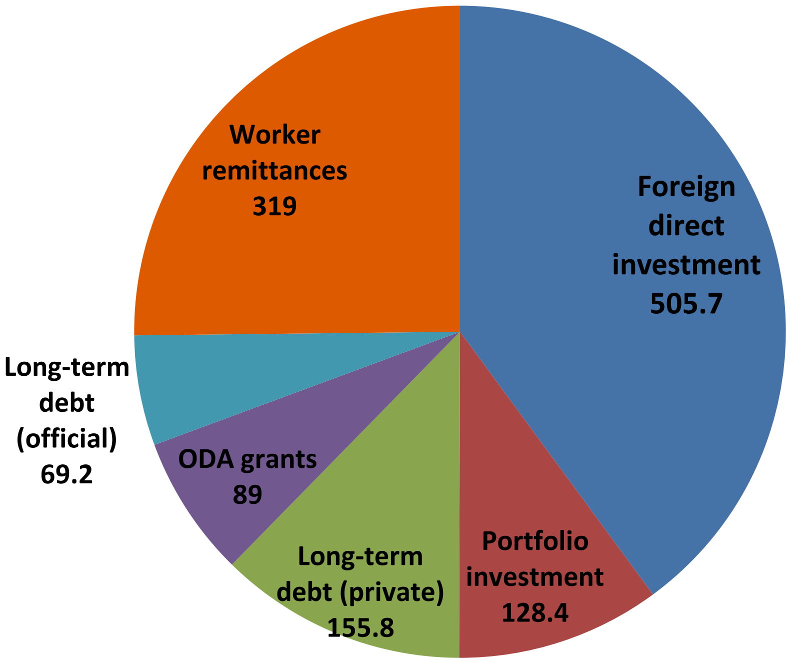


Source: Global Monitoring Report 2013, World Bank

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

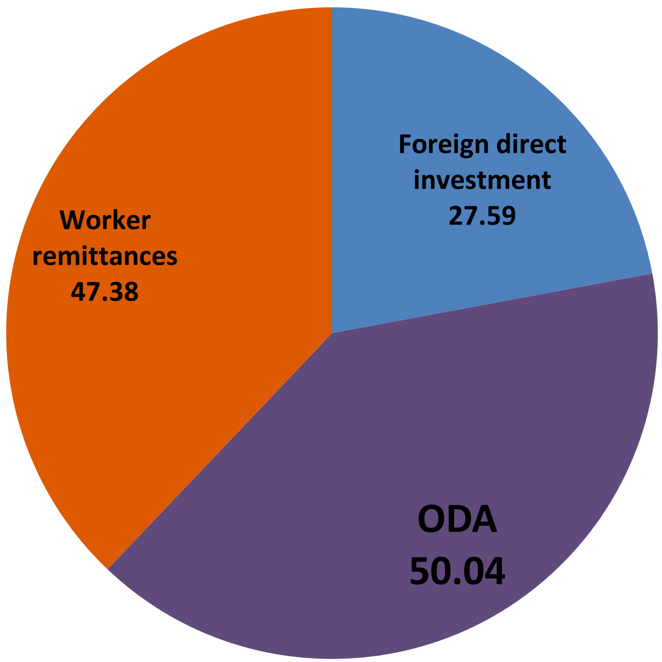
ODA and remittances are especially critical for fragile states

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

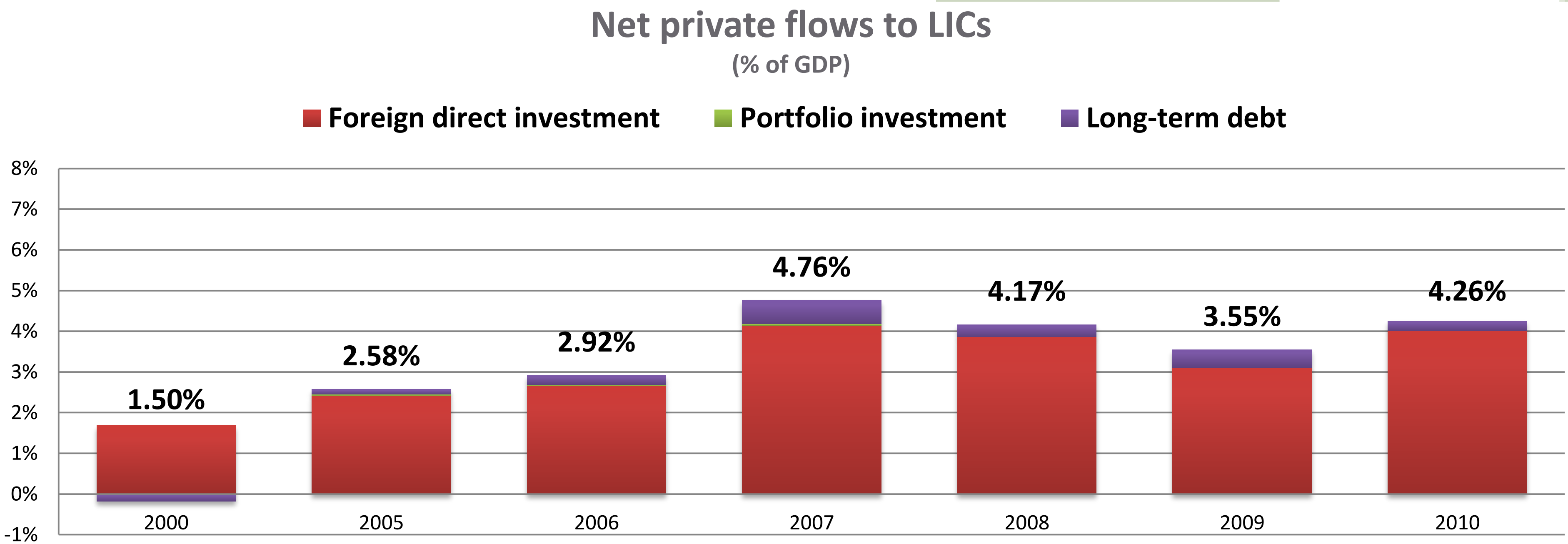


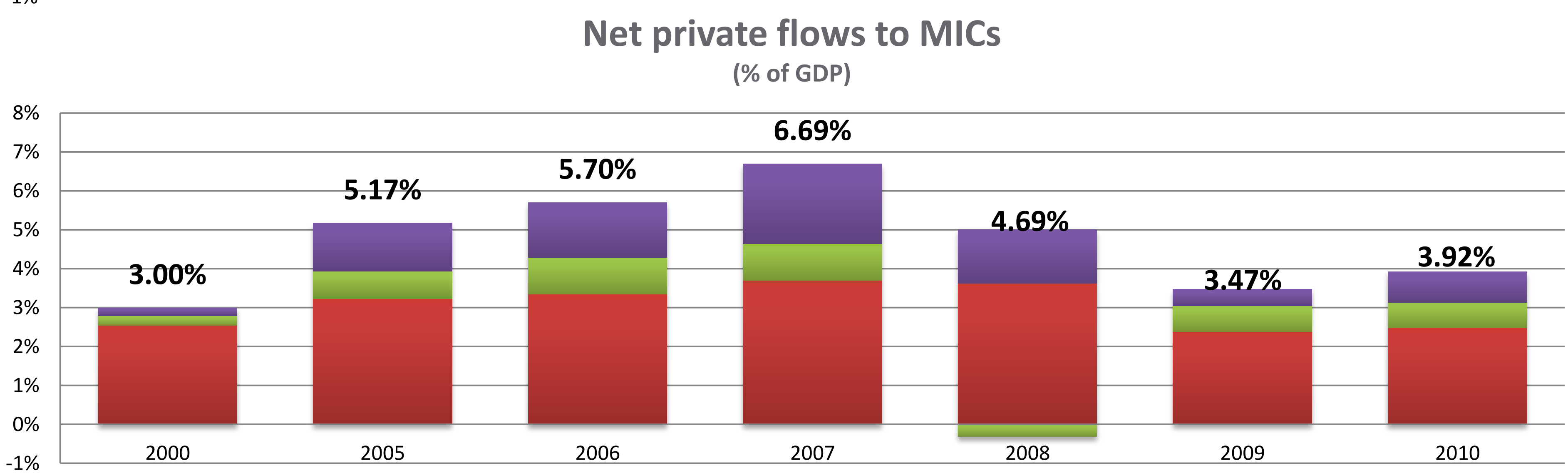
Source: World Bank CFP Working Paper No. 8, Finance for Development

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



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





Source: Finance for Development - Trends and Opportunities in a Changing Landscape, CFP, 2011 and WDI

Leverage the private sector: partnerships

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

Maharashtra & Tamil Nadu, India

CLIFF COMMUNITY SANITATION PROJECT

Total initial investment: $7.2 million

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

Kenya

PRIVATE SECTOR POWER GENERATION PROJECT

Total initial investment: $623 million

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

Emerging Partnerships

Sao Paulo, Brazil

METRO LINE 4

Total initial investment: $450 million

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

Lake Kivu, Rwanda

KIVU WATT

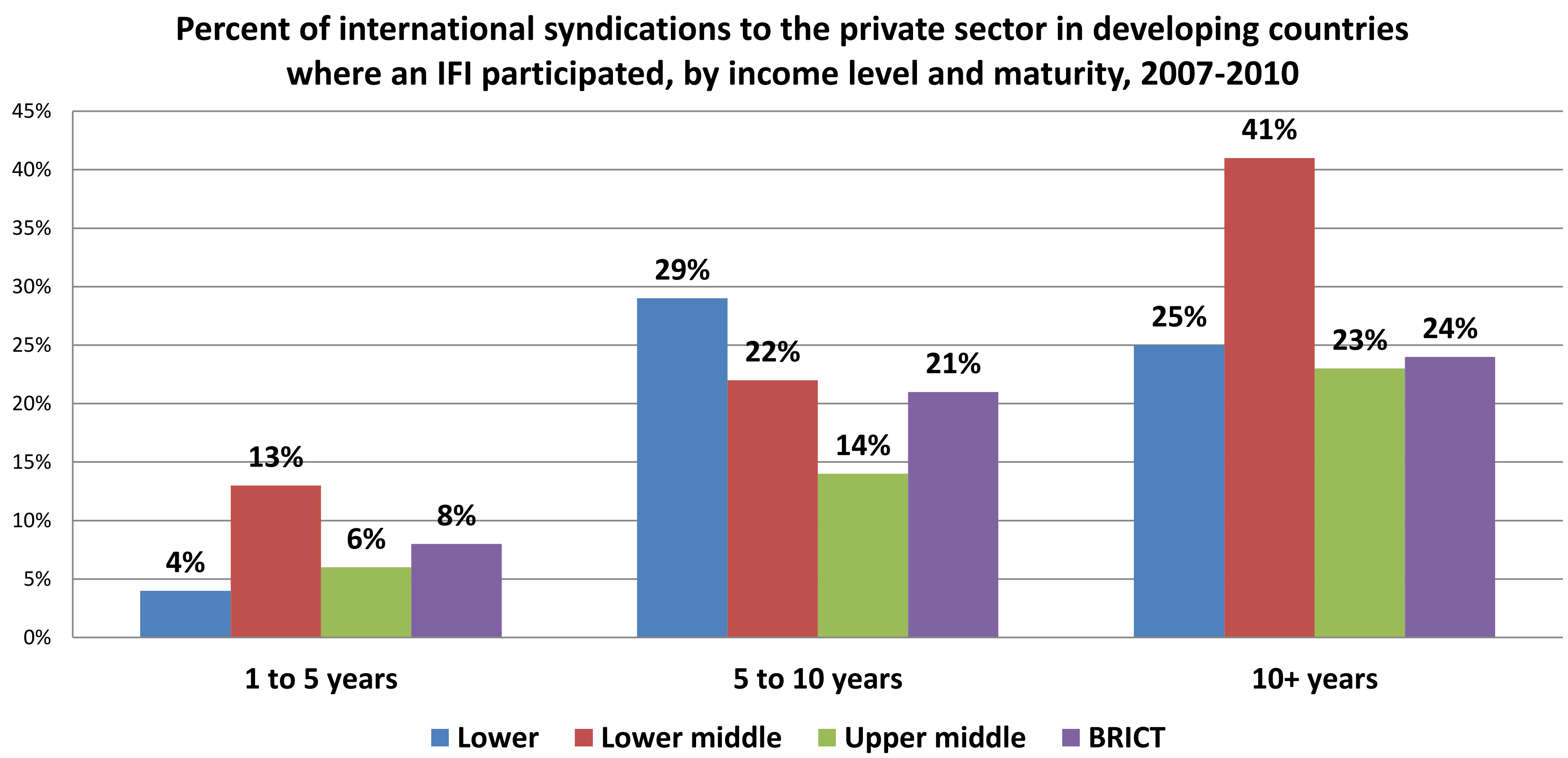
Total initial investment: $142.25 million

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

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

Leverage the private sector: syndications

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



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

Leverage the private sector: guarantees

Using MDB status and financial structures to help investors obtain funding sources on more advantageous terms and conditions

TYPES OF POLITICAL RISK ELIGIBLE FOR MDB INSURANCE

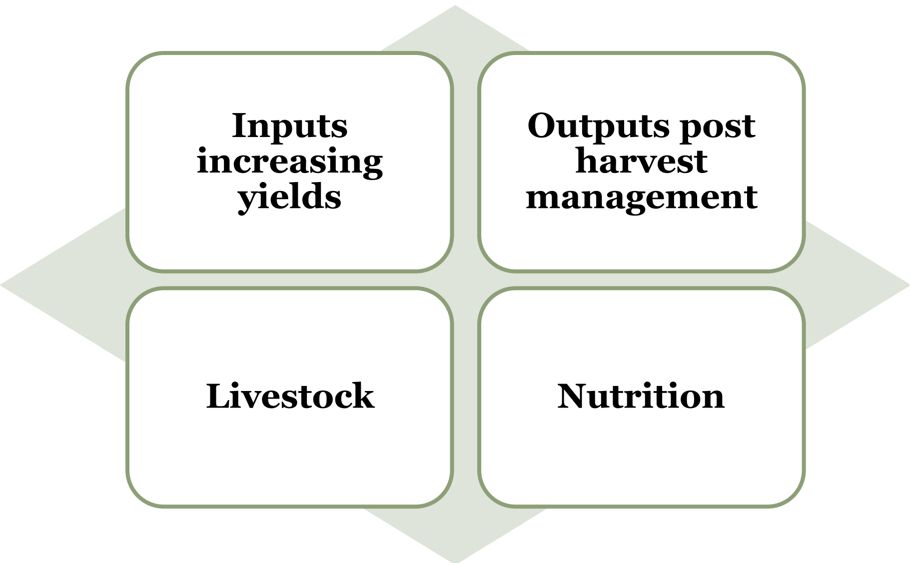
- **Currency inconvertibility and transfer restriction**
- **Expropriation**
- **War, terrorism, and civil disturbance**
- **Breach of contract**
- **Non-honoring of sovereign financial obligations**

- Official status and financial structures enables MDBs to absorb more default and political interference risk
- Particularly useful in early stages of deals
- Draw private capital into long-term projects in destinations where the market perceives high risks (inexperienced institutions, regulatory and judicial weakness)
- Provide coverage to financially and economically viable projects that would be challenging without protection against non-commercial risks
- Enables investors to obtain access to funding sources on more advantageous terms and conditions.

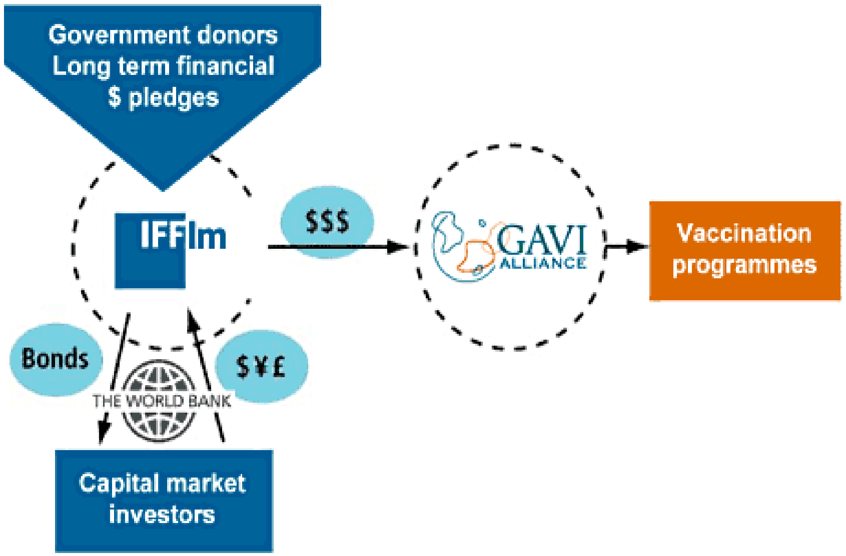
Leverage the private sector: advance market commitments

Innovative, results-based mechanisms can contribute to addressing market failures

AgResults Initiative



International Finance Facility for Immunization (IFFIm)

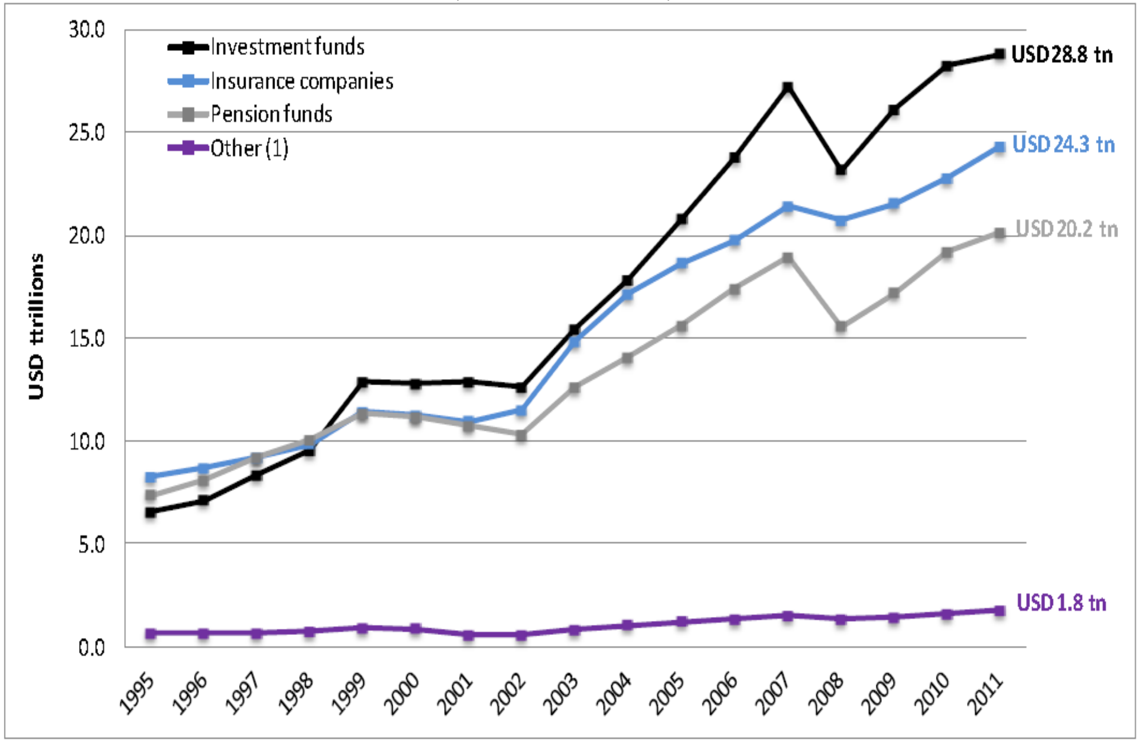


*Linking **spending** to actual development **outcomes***

Tap into new sources of finance

Attracting even a fraction of institutional investor resources can scale up development finance

Total assets by type of institutional investors in the OECD, 1995-2011
(USD trillions)



Source: OECD Global Pension Statistics, Global Insurance Statistics and Institutional Investors databases, OECD estimates.

1. Other forms of institutional savings include foundations and endowment funds, non-pension fund money managed by banks, private investment partnership and other forms of institutional investors.

Tap into new sources of finance

Harnessing diasporas for development: lowering transfer costs and issuing diaspora bonds to mobilize resources

The Potential for Diaspora Savings in African Countries, 2009

	Emigrant stock (millions)	Potential migrants' savings (US$ billions)	Potential migrants' savings (% of GDP)
Morocco	3.0	9.6	10.5
Egypt, Arab Rep.	3.7	6.0	3.2
Algeria	1.2	4.2	3.0
South Africa	0.9	3.8	1.3
Nigeria	1.0	3.5	2.0
Tunisia	0.7	2.0	5.1
Ghana	0.8	2.0	7.5
Ethiopia	0.6	1.9	6.5
Kenya	0.5	1.8	6.1
Somalia	0.8	1.8	—
Zimbabwe	1.3	1.6	34.4
Sudan	1.0	1.3	2.3
Congo, Dem. Rep.	0.9	1.1	10.5
Senegal	0.6	0.9	7.0
Angola	0.5	0.9	1.1
Cameroon	0.3	0.8	3.8
Uganda	0.8	0.6	4.0
Mauritius	0.1	0.6	7.2
Liberia	0.4	0.6	66.8
Côte d'Ivoire	1.2	0.6	2.6
Others	10.2	7.1	2.5
Total	**30.5**	**52.7**	**3.6**
Memo			
North Africa	8.7	22.3	4.3
Sub-Saharan Africa	21.8	30.4	3.2

Source: Ratha and Mohapatra 2011.
Note: — = not available.

Beyond country-level financing: global public goods

TRADE for growth and development

DATA and statistical capacity-building

Global public goods

- Global public goods lie at the intersection of **national development priorities** and **global interests**

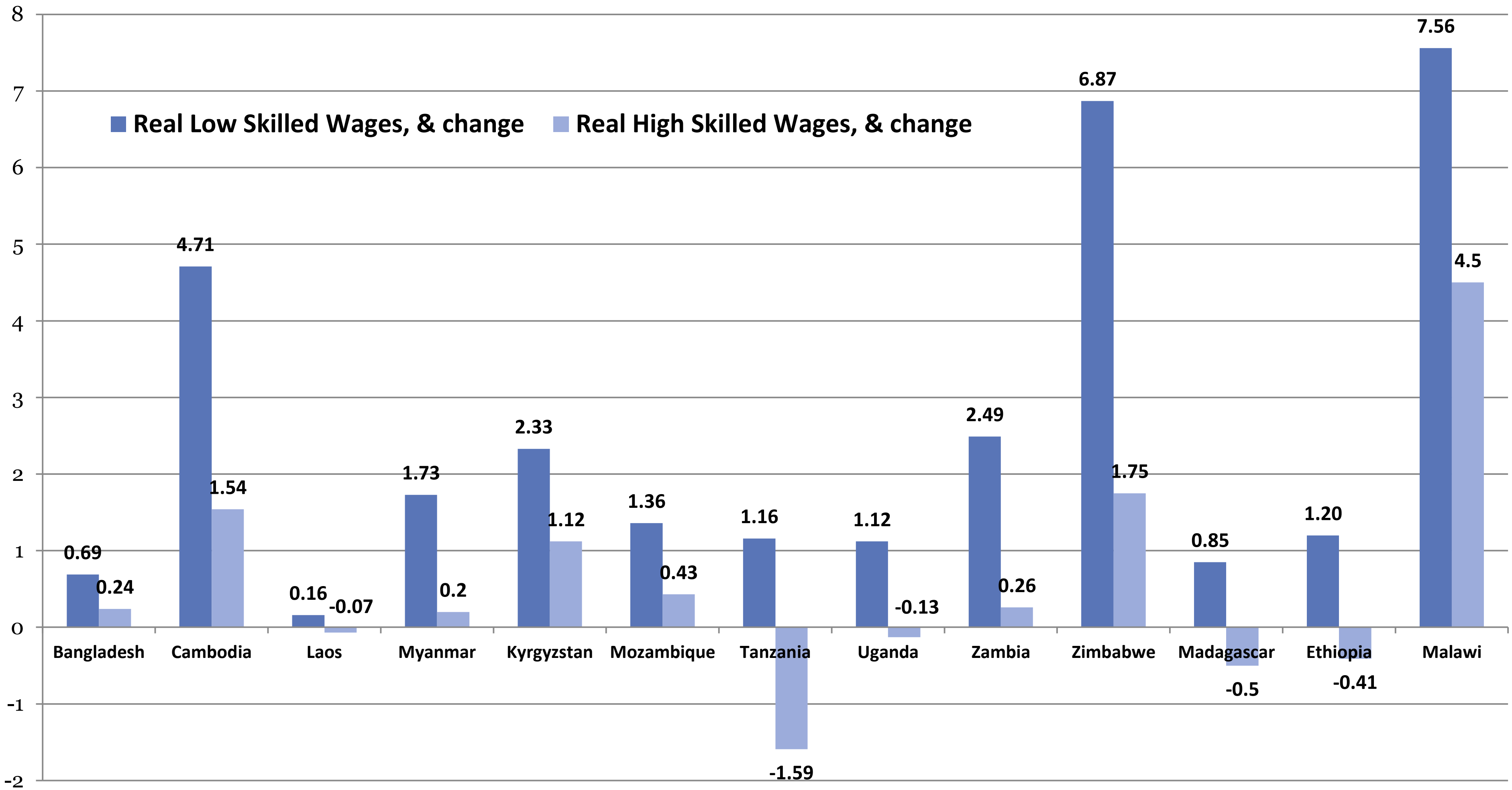
- The under-provision of GPGs **disproportionately affects the poor**

- GPGs are at the center of the post-2015 agenda:
  - International financial architecture
  - **Trade**
  - Peace and security
  - Environmental commons
  - Communicable diseases
  - Knowledge for development
  - **Statistical capacity-building**

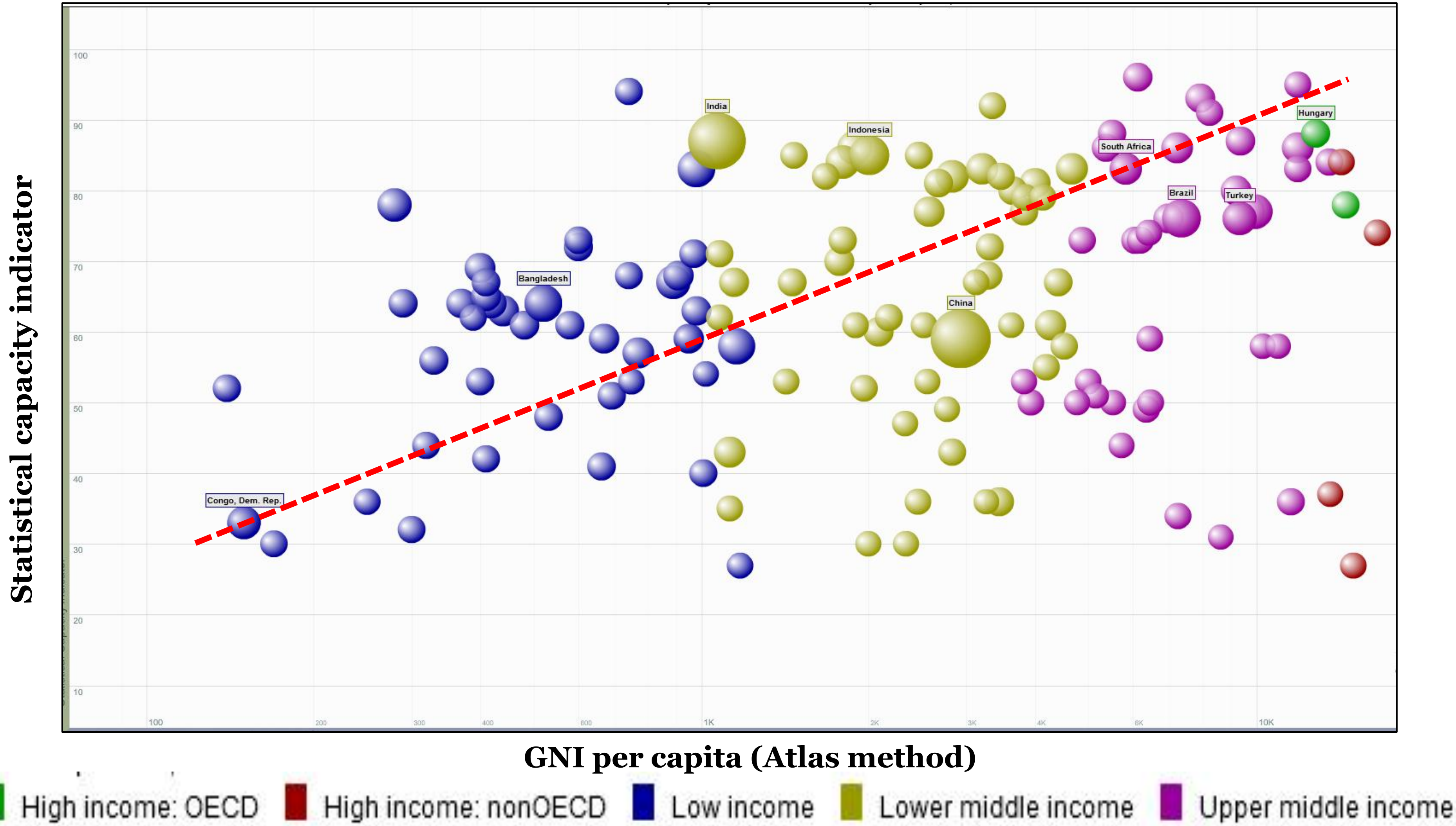
Trade for growth and development

Full duty-free quota-free access could increase national incomes in LICs by 0.5% of GDP. These income gains could rise to 1% of GDP if a DFQF initiative is complemented by transparent, simple rules of origin.

Source: Opening Markets for the Poorest Countries: Assessing the Effects of Duty-free Quota-free Access to the G20, World Bank, 2011



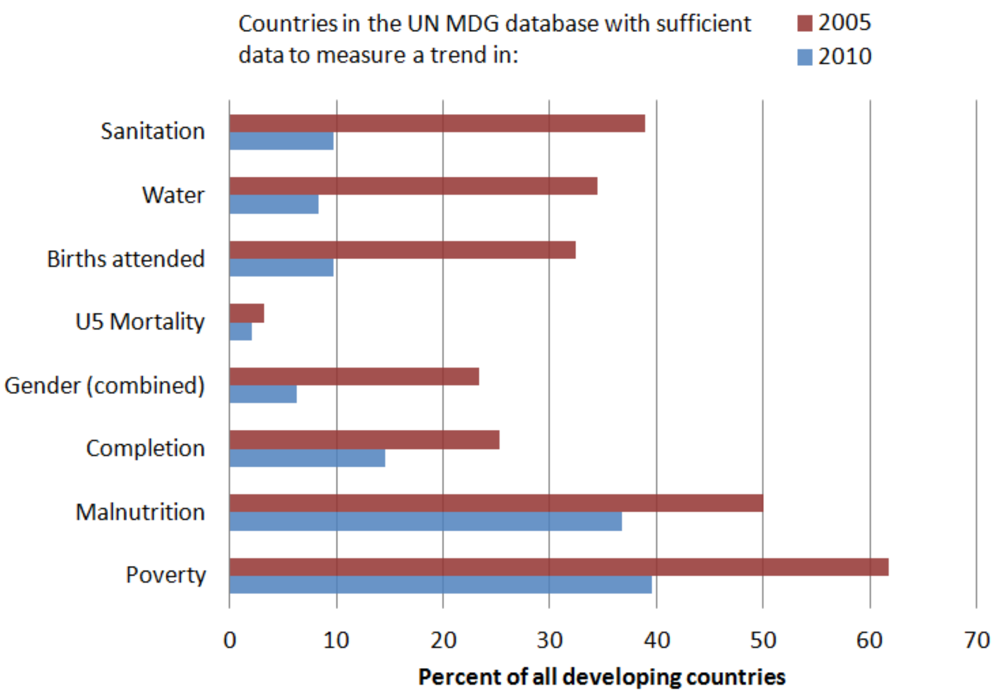
Data gaps as obstacles to development



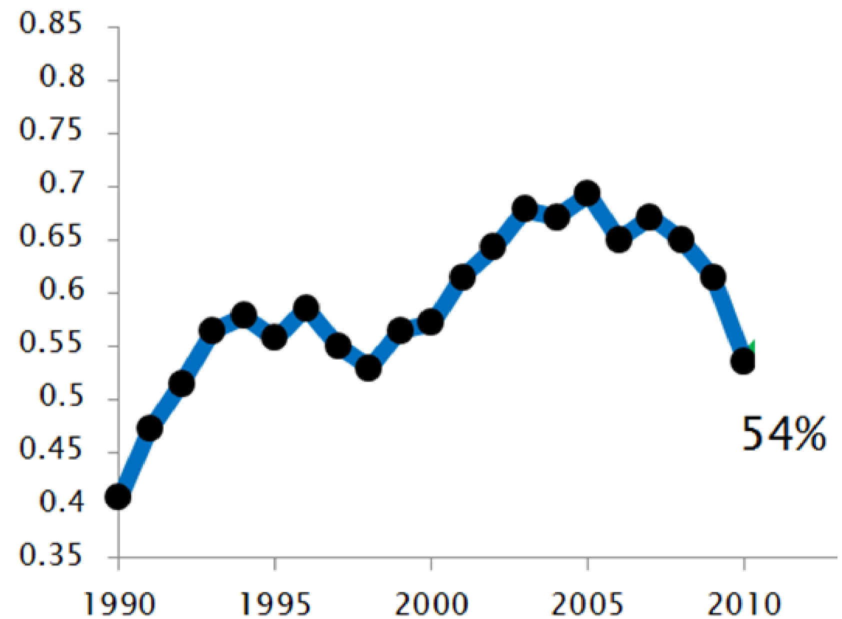
Source: Statistical Development and Partnership Team, DEC, World Bank

Data gaps as obstacles to development

For MDG indicators, there have been improvements, but some way to go



For Poverty, data is less up-to-date



Low/middle income countries with poverty estimate < 5 years old (%)

What will it take to improve statistics?

- Identification of high priority indicators and design of statistical development plans
- Funding of the above
- Collaboration between statistical agencies and policy makers
- Open data, and innovative sources and IT solutions
- Stronger international inter-agency collaboration

Key Messages

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

Thank you for your attention

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