Summary Report of the Lunch Event with Business Sector on Financing for Development

13 February 2018, UNHQ

Introduction

On 13 February 2018, H.E. Mr. Miroslav Lajčák, President of the 72nd General Assembly of the United Nations, in collaboration with the International Chamber of Commerce and UNCTAD, convened a luncheon with the business sector on financing for development. The event is part of the preparatory process leading to the President's event on financing for SDGs scheduled on June 11, 2018 at UNHQ.

The objective of this lunch event was to take stock of various initiatives taking place to identify modalities of private sector participation in, and enhance partnerships for, financing for development, share best practices and lessons learned in investing in SDG sectors in developing countries. Particularly, it intended to provide a platform for the private sector to elaborate on obstacles and challenges of financing for development and to explore transformative solutions.

The event brought together representatives from the private sector, Member States, UN entities and other international organizations.

The event started with opening remarks by H.E. Mr. Miroslav Lajčák, President of the General Assembly of the United Nations, H.E. Ms. Amina Mohammed, Deputy Secretary-General of the United Nations, and H.E. Mr. John Danilovich, Secretary General of the International Chamber of Commerce (ICC), followed by an interactive discussion moderated by Dr. James Zhan, Senior Director of Investment of UNCTAD.

Opening Segment

The luncheon was opened by the President of the General Assembly of the United Nations. He highlighted the enormous financing gap of $2.5 trillion annually for the achievement of the SDGs in developing countries alone and, pointing to the role of the private sector, stressed that availability of funds was not the issue but rather the need to invest them in SDG sectors. The shortfall in private sector financing for the SDGs would need to be addressed through overcoming the barriers that currently prevent private investment flowing into SDG sectors and developing countries, upscaling the many best practices of business champions for the SDGs, and spreading more widely the win-win proposition of investing in the SDGs. The UN would need to lead the charge in this effort, and his office would stand ready to spearhead its engagement with the private sector in this endeavour.

The Deputy Secretary-General of the United Nations expressed her appreciation of the partnership with ICC and UNCTAD in walking the talk on financing for development. UNCTAD's six pack of transformative action could show the way for take-away solutions). This would require close interaction between the private and the public sector, and the UN. The UN has the convening power, the expertise and the trust to deliver on the ground. It could connect with the local private sector, and operate at the nexus between humanitarian affairs, peace and development, as well as climate change. At the same time, the private sector could tap into the UN's expertise and networking capacity. She emphasized that no enterprise should take a free ride, as SDGs were universal responsibilities and an unsustainable future would affect us all.

The Secretary General of ICC stressed that there was an irrefutable relationship between the SDGs and Business Development Goals (BDGs), as business could only flourish in a safe and inhabitable planet. The commitment of the private sector towards the SDGs would thus be without doubt. Financing the SDGs was the lynchpin. Although this would appear to be less problematic in relation to global GDP, realizing it in developing countries continued to be difficult. What was needed was a reform of global financial regulations, and more effective global financial flows. The required transformation needed to be based on a deeper dialogue between the private and the public sector and international actors.

Interactive Discussion

In the moderated discussion that followed, participants stressed the need and the strong will for the private sector to engage in the financing of the SDGs. To enable this to the desirable scale and scope, concerted efforts by all stakeholders to address the challenges along the investment chain would be required.

In terms of **mobilizing private investment into the SDGs**, it was stressed that progress was too slow. Several actions were identified to address this shortfall.

Addressing the real obstacles on the ground and finding practical ways and means to surmount them would be key. The question would need to be tackled as to what hinders insurance companies and pension funds from investing in the SDGs, although their long-term liabilities would make them ideal candidates for long-term value creating investment.

It was also important to be aware of the reciprocal relationship between rule-making and business. For example, there was incompatibility of existing rules of global economic governance and the financing of the SDGs. Basel III rules with their emphasis of fiduciary responsibility would tend to encourage more short-termism instead of longer-term infrastructure investment in developing countries. Going forward would require raising awareness of the interconnectivity between these issues and for the private sector to be more vocal on its requirements.

To increase private investment in the SDGs would require overcoming the short-termism of private sector profit maximizing, and create responsibility concerns. This would involve revolutionizing existing incentive systems throughout the investment chain and de-incentivizing of investment in unsustainable activities, e.g. in fossil fuels.

One speaker pointed out that tapping into the roughly $309 trillion in liquid assets available would require new platforms and a "Silicon Valley" approach to innovate and design projects that could finance the SDGs and even allow Wall Street to end up saving the planet.

Though the business sector were enthusiastic about the SDGs and to become instrumental for change and development, the practical mindset of business required channeling and mapping of business opportunities, matching expertise of companies and the SDGs. It would be necessary to highlight and demystify sovereign bonds, sustainability bonds, green bonds, etc., and to learn from what was already being done by business around the globe. Capacity challenges should also be addressed in terms of public-private partnerships (PPPs) and blended and other new financial products, whilst fostering sustainable uses of traditional instruments.

For the financial sector to play its part, more long-term approaches to business models would be required, based on considerations for (1) financial infrastructure (e.g., pension systems); (2) economic infrastructure (hard and soft); (3) social infrastructure (involvement beyond financing); and (4) the need for climate information. Sustainable businesses were already reducing carbon and water use, but there would be few standards for doing so. The UN would have the power to convene and connect the private sector with the SDGs.

In a similar vein, at the level of foundations there was a disconnect between talk and walk. For example, grant making and portfolio management would be inconsistent, since asset allocation strategies would still not be SDG focused. What would be needed would be more product specificity in financial services. The UN could serve to showcase how pension funds could map SDGs in asset allocation, share their experiences and practical approaches, provide a platform for innovation, and engage in dissemination and communication.

Another possible way forward would be to raise capital from the Internet, e.g. Small and Medium Enterprises (SME) financing through online fundraising. The enormous growth potential of this source could be realized following lessons from the US and the UK in terms of the requirements for the enabling regulatory environment. These needed to be simple and sensible for start-ups and micro enterprises. For example, the UK offered tax break for early stage investments.

As regards the role of multilateral development banks in mobilising private sector investments, the EU's Juncker plan was pointed to as an example of overcoming the crisis-induced drop of private sector investment and heightened risk aversion to tackle the scaling up requirements of SDG financing needs. Based on the plan, the European Investment Bank (EIB) had provided guarantees to take more risk and crowd-in private sector capital, resulting in considerable leverage by reducing the cost of capital on the basis of risk-sharing schemes.

In a similar vein, the International Financial Cooperation's (IFC) managed co-lending facility was highlighted as an example for pooling private investment and creating platforms in emerging markets, de-risking investment and offering guarantees, for strengthening local capital markets and green finance. Key to maximizing financing into the SDGs would be policy reform, e.g. to allow for blended finance partnerships.

In terms of **channelling private sector investment into SDG sectors** in developing countries, the key question for governments would be how to create viable projects for the private sector to engage in, and to tackle the related financial, macro-economic and micro-economic issues.

While regulatory reform would be one of the ways forward, it could by itself proof insufficient. As the example of many African countries demonstrated, engaging in regulatory reform, creating bankable projects and even providing guarantees did not necessarily trigger sufficient private sector engagement. More international cooperation, including tapping into budget support funds or the creation of an international structural support fund (similarly to the EU's accession facility), could be warranted to provide leverage for the private sector, both domestic and foreign, to engage in development projects.

It was pointed out that the UNEP inquiry experience had highlighted that the due diligence requirement of large scale (infrastructure) investments often exceeded private sector capacity. Since the actual investments would be much smaller in scale, a translation of large scale public finance needed into smaller "retail" finance at the private sector level would be required. It was noted that entrepreneur financing was in its infancy in many developing countries around the world, and that development of entrepreneurial capacity was a key to overcoming this bottleneck. Preparation of bankable projects, their scaling up and the initial set-up of enterprises only happend in some countries, not in all, leading to a widening gap.

A related issue would arise from the lack of standardisation in terms of guarantee schemes, contracts and agreements that would prevent scalability. For example, the HSBC SDG financing, Multilateral Investment Guarantee Agency (MIGA) and European Bank for Reconstruction and Development (EBRD) guarantee schemes were all different, and cross-learning was required to make better global use of them (e.g. in terms of solar energy financing). The UN could be the incubator of ideas. At the same time, the private sector would require focus, as not all SDGs could be serviced at the same time. HSBC SDG bonds for example covers only 7 SDG sectors.

There would be a vested interest in the private sector for pushing for the SDG achievement. However, there would also be a need to connect skills with challenges, and tap into the expertise of data and technology that allowd impact. Building partnerships with other private sector players was part of that. For example, it would be beneficial to learn from the financial inclusion expertise of credit card providers.

In terms of **maximising impact on the ground**, the question would need to be tackled of what stands in the way of translating business responsibility into SDG financing, and the scaling up of the many encouraging examples of business engagement with the SDGs. It was stressed that the practical mindset of business required channeling and mapping of business opportunities, matching expertise of companies and the SDGs.

Finally, in relation to **promoting synergies and partnerships at the global, regional and national levels**, **and the role of UN in this regard,** there was a need to exploit synergies between the private sector and the UN's agenda, matching BDGs with SDGs.

Companies would require a framework and leadership to overcome short-termism. For this to succeed, a better match-up and a change in the overall narrative of financing would be required. For the UN, this would require better focus, exploiting the purpose of business and becoming an incubator of ideas (e.g. through a case studies approach). A related issue would be to better clarify the issue of UN ethics regulations for dealings with the private sector.

Recent initiatives on e-commerce had shown that commonality existed between private and public sector approaches, but that their rules and regulations would require clarification and standardization, both in the North and the South. At the same time, fear of regulation could hinder the built-up of momentum. Related ICC initiatives and its involvement in the B20 task forces and its recommendations could serve as an example of overcoming the challenge.

Concerning the conflicting impact of certain global economic governance rules, it was noted that the G20 and the G7 were engaged on these matters. Specifically, Argentina's G20 Presidency would focus on infrastructure and education.

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In the closing, the Deputy Secretary-General of the United Nations expressed her satisfaction with the meeting's clear call for action and the need to connect, teach governments, fill the connectivity gaps, and retrain and reprofile the UN to become fit for purpose. Pointing to the Belt and Road initiative led by the Chinese government, she stressed that plenty examples exist that would demonstrate what can be achieved with the right mindset and the right focus on development.

The President of the General Assembly of the United Nations stressed that the meeting had met his expectations. It underlined that there was a lot of goodwill and good examples that needed to be better communicated and shared, and that the UN, including through his convening power, would provide a perfect platform for such efforts. There was also a clear need for standardization of sustainable finance products, and the UN could lend its hand to prepare and elaborate on models in this regard. Finally, related rules and obstacles could be better shared through the UN's involvement.

Finally, it was stressed that the ideas emanating from this meeting would not be lost but summarized as an input to the 11 June high-level meeting on financing for SDGs that the President would convene, as well as to other UN events dedicated to financing for development.

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