Committee: Economic and Financial Committee

Issue: Global partnerships towards bridging financial gaps in view of 2030 agenda for Sustainable Development

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INTRODUCTION

The advent of common global economic, social and environmental challenges unified the international community in the process of defining a set of goals, which were meant to mobilize action by governments, the private sector, international organizations and NGOs in areas ranging from poverty reduction to food security, health, education, equality and climate change among others. The Sustainable Development Goals (SDGs) represent a concerted initiative to shift the global economy of both developed and developing countries into long-term growth and development. As one can easily understand by the number and the content of the SDGs, there is no orientation to specific economic, social and environmental issues, rather than an effort to put into place policies, institutions and systems necessary to generate sustained investment and growth. Hence, SDGs require a major injection of financing for investment in broad-based economic transformation, in areas such as basic infrastructure, sanitation, renewable energy and agricultural production.

Although the agenda set by the UN aims at tackling issues of cardinal importance for the global community, the era in which we are living is not auspicious enough for the implementation of such goals. Many developed countries are trying to recover from long-lasting economic crises, while, even in the most resilient MEDC's, public sector finances are extremely unstable. Meanwhile, vulnerable economies such as the LEDC's, due to their reduced revenues and money liquidity, still over-rely on external sources of finance, including development assistance from richer countries, whose budgets, nevertheless, are under extreme pressure.

Given the current situation and despite the fact that the role of the public sector is fundamental, the contribution of the private sector is undeniable. Investment, which needs to be correlated with the SDGs, necessitate a radical change in both the public and private sector, especially in LEDCs. The combination of the huge investment needs of the SDGs and the pressured public budgets means that the role of the private sector is more than urgent. However, even if the private sector is associated with the least possible governmental intervention, private enterprises and complete freedom of investment in any field of the economy, private investment in the SDGs requires a strategic and comprehensive plan. This exact plan, as well as the great potential of the private sector, will be analysed in this study guide in an attempt to bridge the investment gap, which is necessary for the implementation of the 2030 agenda.

DEFINITION OF KEY TERMS

2030 Agenda:

"The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries - developed and developing - in a global partnership"[1]

Bridging Gaps:

"A funding (bridging) gap is the amount of money needed to fund the ongoing operations or future development of a business or project that is not currently funded with cash, equity, or debt. Funding gaps can be covered by investment from venture capital or angel investors, equity sales, or through debt offerings and bank loans."[2]

Private Sector:

"The private sector is the part of the economy that is run by individuals and companies for profit and is not state controlled."[3]

BACKGROUND INFORMATION

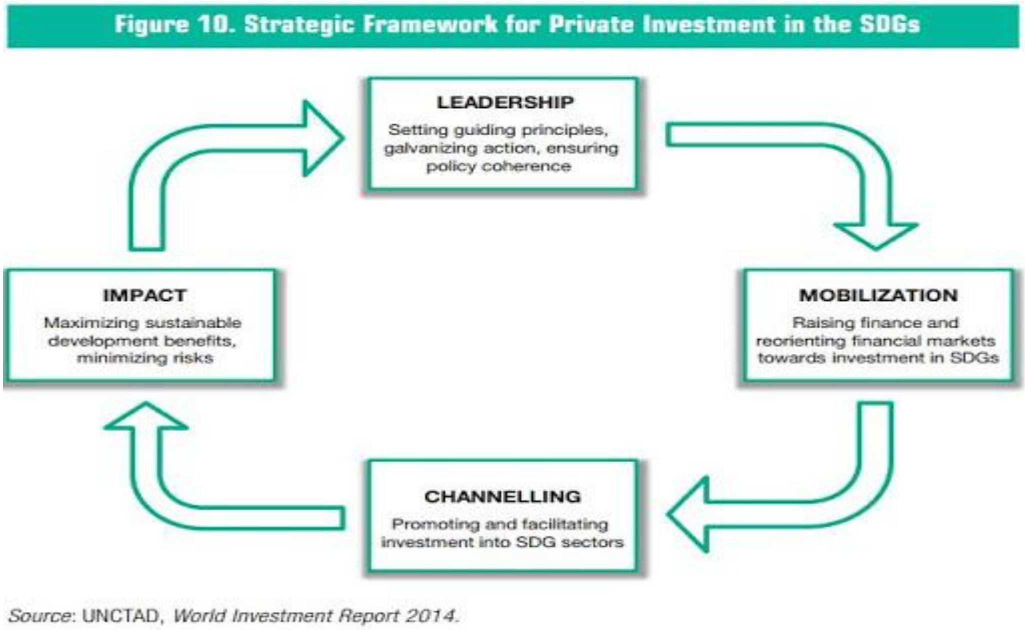
Since the drafting of the SDGs, numerous initiatives aiming at increasing financial flows to sustainable development projects in developing countries have been launched.

[1] https://sdgs.un.org/goals

[2] https://www.investopedia.com/terms/f/funding-gap.asp

[3] https://www.investopedia.com/terms/p/private-sector.asp

These initiatives distinguish themselves according to the source of finance, the area in which the investment takes place, public approval and several other criteria. If one could categorize the challenges, which such private investment faces, four common broad challenges can be spotted.



Call for leadership

Increasing the involvement of personal investors in SDG sectors, many of which are sensitive or involve public services, results in a variety of policy dilemmas. Public and private sector investments are no substitutes, but they will be complementary. Measures to extend private sector involvement in investment in sustainable development result in a number of policy dilemmas which require careful consideration.

• Increasing private investment is important. But the role of public investment remains fundamental. Increases in private sector investment to achieve the potential SDGs are necessary, but public sector investment remains vital and central. The two sectors do not seem to be substitutes; they are complementary. Moreover, the role of the public sector goes beyond investment as such, and includes all the conditions necessary to meet the SDG challenge.

• Attracting private investment into SDG sectors entails a conducive investment climate. At the same time, there are risks involved. Private sector engagement in a number of SDG sectors where a robust public sector responsibility exists has traditionally been a sensitive issue. Private sector service provision in healthcare and education, as examples, can have negative effects on standards unless strong governance and oversight is in situ, which subsequently requires capable institutions and technical competencies. Private sector involvement in essential infrastructure industries, like power or telecommunications, may be sensitive in countries where this means the transfer of public sector assets to the private sector, requiring appropriate safeguards against anticompetitive behavior and for consumer protection. Private sector operations in infrastructure like water and sanitation are particularly sensitive due to the basic needs nature of those sectors.

• Private sector investors require attractive risk-return rates. At the same time, basic-needs services must be accessible and affordable to all. The elemental hurdle for increased private sector contributions to investment in SDG sectors is the inadequate risk-return profile of the many such investments. Perceived risks will be high in the least levels, including country and political risks, risks associated with the market and operating environment, all the way down to project and financial risks. Projects within the poorest countries, particularly, are often easily dismissed by the private sector as "poor investments". Many mechanisms exist to share risks or otherwise improve the risk-return profile for private sector investors. Increasing investment returns, however, cannot cause the services provided by private investors to become inaccessible or unaffordable for the poorest in society. Allowing energy or water companies to supply only economically attractive urban areas while ignoring rural needs, or to raise prices of essential services, are not sustainable outcomes.

• The scope of the SDGs is global. But LDCs need a special effort to draw in more private investment. From the attitude of policymakers at the international level, the problems that the SDGs aim to handle are global issues, although specific targets may specialize in particularly acute problems in poor countries. While overall financing for development needs could also be defined globally, with regard to private sector financing contribution, special efforts are required for LDCs and other vulnerable economies. Without targeted policy intervention, these countries will not be ready to attract resources from investors which often regard operating conditions and risks in those economies as prohibitive.

<u>Mobilization of funds</u>

The global financial set-up, its institutions and actors, can mobilize capital for investment within the SDGs. The flow of funds from sources to users of capital is mediated along an investment chain with many actors (figure IV.7), including owners of capital, financial intermediaries, markets, and advisors. Constraints to the mobilizing of funds for SDG financing can be found both at the systemic level and the level of individual actors within the system and their interactions. Policy responses will therefore have to address each of those levels. Policy measures also are needed more widely to stimulate economic process so as to make supportive conditions for investment and capital mobilization. This needs a coherent economic and development strategy, addressing macroeconomic and systemic issues at world and national levels, feeding into a conducive investment climate. In return, if global and national leaders get their policies right, the resulting investment will boost growth and macroeconomic conditions, creating a virtuous cycle.

Channeling investments

Investment in SDG sectors is not solely a matter of availability and mobilization of capital, but also of the allocation of capital to sustainable development projects. Macroeconomic policies improving overall conditions for investment and growth, industrial policies establishing or refining a development strategy, and similar policies, can encourage investment, public or private, domestic or foreign, into SDG sectors or others. However, while they are necessary conditions for investment, they are not necessarily sufficient.

Key challenges in ensuring the sustainable development impact of investment in SDGs

Once investment has been mobilized and channeled towards SDG sectors, there remain still certain obstacles that must be overcome in order to ensure that the benefits for sustainable growth are maximized and the associated drawbacks mitigated. The key issues which most developing countries are facing are the following:

- Developing countries and in particular LEDCs often cannot fully absorb the benefits of an investment. This means essentially that the advantages created by a certain economic project fall to the investor and are not distributed equally to the local productivity factors. This lack of managerial capability prohibits local firms and workers from establishing links to foreign entrepreneurs, adopting new technologies and developing local skills and capacity.
- The intervention of the private sector, albeit beneficial for the implementation of the SDGs is often accompanied by certain risks. First and foremost, the social and environmental impact of private sector activity needs to be addressed urgently. The involvement of private investors with basic-needs sectors such as water and

sanitation, health care or education requires extremely delicate operations and the establishment of a clear framework within which private enterprises will be able to operate. Additionally, it is commonly known that efforts in attracting foreign investments often include fiscal modifications, such as tax-lowering or profits being shifted out of the country, which, at the end of the day, can lead to the disappearance of the positive impact of the investment. Last but not least, the implementation of regulatory policies by governments in an attempt to mitigate and protect their economies from the negative effects of private investments in SDGs can be restrained by international commitments that reduce policy space.

- Investors decide when and where they are going to carry out their projects influenced by multiple factors, one, and probably the most important of them, being the investment impact measurements. In brief, this index shows whether the investment is most likely to succeed and bring profit to the investor or has high chances of failure and money loss. Unfortunately, in many LEDCs, a lack of adequate investment impact measurement and reporting tools has been observed. But even if measurement tools exist at the project level, the prediction at the macroeconomic level, which refers to the long-term impacts of the investment in a particular sector, still misses. Thus investors are discouraged from mobilizing and channeling funds to SDG-related projects.

MAJOR COUNTRIES AND ORGANISATIONS INVOLVED

Country/Organization

Group of 77(G77)

The G77 coalition, being composed of developing countries and the majority of whom have suffered from a serious lack of infrastructure and resources, has always called for a common UN-led effort, which would assist them in their development plan. They support the creation of a more coherent, integrated, transparent and effective United Nations development system that will help them gradually attain sustainable development and better living conditions for their citizens. An important issue that has been raised by the majority of countries in this coalition is transparency and sovereignty rights; hence. all measures should be taken after full consultation and compliance with national governments through an open and inclusive dialogue between the host country and the development system.

European Union (EU)

The European Union, as a whole, has openly supported global partnerships in view of the 2030 sustainable development agenda. Acknowledging that resources needed to implement the 2030 Agenda are partly of a financial nature, the majority of EU countries have expressed their view that partnerships should leverage public and private money, unlock new financial flows and help to channel private funding into investment needed for sustainable development. Apart from the financial part, the EU has repeatedly highlighted the importance of the constant exchange of knowledge in the technological field between countries, while underscoring the innovation forces of the private sector in addressing development challenges.

African Countries

Africa is a characteristic example of a region that is in deep need of sustainability and whose future heavily depends on the implementation of the 2030 agenda. Thus, much focus must be given to projects in this particular area. UNDP's RSCA (Regional Service Centre for Africa) in partnership with the African Union has carried out - over the last few years- research to understand impact investment in Africa and explore potential opportunities for its mobilization in support of Agenda 2030 and SDG implementation. UNDP works with key regional stakeholders including interested African Governments, social entrepreneurs, institutional investors, Development Finance Institutions (DFIs) to operationalize a detailed action plan for the development of the impact investment sector in Africa.

TIMELINE OF EVENTS

Date	Description of Event
1972	Governments meet in Stockholm, Sweden for the United Nations Conference on the Human Environment, to consider the rights of the family to a healthy and productive environment
1983	Establishment of the World Commission on Environment and Development, which defined sustainable development as "meeting the needs of the present without compromising the ability of future generations to meet their own needs”
1992	First United Nations Conference on Environment and Development (UNCED) or Earth Summit is held in Rio de Janeiro, where the first agenda for Environment and Development, also known as Agenda 21, was developed and adopted.
2012	United Nations Conference on Sustainable Development (UNCSD), also known as Rio+20, is held as a 20-year follow up to UNCED
2013	In January 2013, the 30-member UN General Assembly Open Working Group on Sustainable Development Goals was established to identify specific goals for the SDGs.
2015	Ratification and adoption of 2030 Agenda and its 17 SDGs

UN INVOLVEMENT: RELEVANT RESOLUTIONS, TREATIES AND EVENTS

- http://undocs.org/en/A/73/326: In its resolution 70/224, the General Assembly outlines recommendations for enhanced cooperation between the United Nations and the private sector, recognizing that achieving the 2030 Agenda for Sustainable Development would require the greater engagement of business.
- https://undocs.org/JIU/REP/2017/8 : This document constitutes a joint declaration introduced to the UN, which thoroughly explains all the necessary prerequisites for private sector partnership arrangements and provides recommendations for a more-wide coherent collaboration system.

PREVIOUS ATTEMPTS TO SOLVE THE ISSUE

Unfortunately, the issue under discussion is relatively new and there has not been much progress. In general, the United Nations have always called for cooperation between the Member States, in order for the less economically states and developing countries to be lifted economically. As soon as the 2030 Sustainable Development Goal agenda was set, this general notion of mutual cooperation took a more tangible form and more specific and concrete guidelines for their implementation were set. Nevertheless, the bridging of the financial gap and the financial assistance required by the countries in need is an aspect that should be addressed separately and in detail. Other than the above-attached resolutions, there has not been much progress and, therefore, with the year 2030 approaching, it is of paramount importance that feasible and viable solutions on this issue be suggested and put into force.

POSSIBLE SOLUTIONS

As thoroughly explained in the background information section, achieving the goal of bridging the financial gap between member states requires a well-thought-out strategy, which can be divided into 4 major steps (Leadership, Channeling, Mobilization, Assessing the impact). In addition to this, one needs to understand that the private sector, unlike previous UN efforts, should play a key role in the whole process. It is a fact that the private sector, thanks to its empowerment and development in the last decades, has managed to lead the run in many fields of the global economy, with the most significant one being technology. Taking into consideration the fact that the implementation of new, reliable technologies are necessary for the fulfillment of the majority of the SDGs, it goes without saying that the mobilization of private enterprises is of cardinal importance. However, private funding should not be the one and only solution, since relying on one particular factor can be catastrophic in such cases. A multifaceted effort in bridging the gap should be put forward, in which every actor will contribute in their way. Last but certainly not least, the United Nations should supervise and coordinate at all times this complex venture to ensure transparency and maximum efficiency.

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