Side event

Financing for sustainable development: towards a twenty-first century sustainable financial system

Background

Financial and capital markets are a key source of finance for sustainable development. Yet today, despite an abundant stock of financial assets, there is insufficient investment in areas needed for long-term sustainable development, and aspects of these markets have become part of the problem. There is an urgent need to better align the financial system with sustainable development, and building on existing innovative practices can help to achieve this.

Such alignment can be a good way of facilitating access to the world’s abundant private financial capital, with current global annual savings of about $19 trillion augmenting the existing stock of financial assets of about $305 trillion. The extent low interest rates, and in some cases negative real returns on low-risk financial instruments, such as sovereign bonds, are additional incentives for private capital to finance the real investments needed to deliver sustainable development.

In a recent speech at the African Union Summit, the Executive Secretary of the Economic Commission for Africa pointed out that Africa’s 3,000 richest individuals hold assets worth $400 billion and that Africa’s central banks’ reserves amount to $600 billion.

Yet, investments are not happening. According to the United Nations Conference on Trade and Development, there is an unfunded annual gap of $2.5 trillion across the developing world. The Group of Thirty estimates that an additional $7 trillion a year until
2020 is needed across a selection of major economies, including Brazil, China, France, Germany, India, Japan, Mexico, the United Kingdom and the United States of America, for hard and soft infrastructure, including education and research and development.

To some extent, today’s financial system is part of the problem. Endemic short-termism means that capital is deployed in pursuit of quick returns, leaving profitable, longer-term investment opportunities unfunded, depressing economic growth and employment opportunities, and driving up inequality. As a result of this, adverse environmental effects of investments may be overlooked or encouraged through prevailing incentives.

The United Nations Environment Programme’s inquiry into the design of a sustainable financial system began in early 2014 to explore options for better aligning the financial system with sustainable development. Guided by a high-level group of central bankers, regulators and other financial sector expertise, the Programme is developing recommendations for financial and monetary policy, financial regulation and standards. It will deliver its final report in October 2015.

This session will provide an opportunity to explore the relevance of the inquiry’s findings for financing sustainable development. Drawing on the inquiry’s findings in over a dozen countries, including Bangladesh, Brazil, China, some European countries, India, Indonesia, Kenya, South Africa and the United States, the session will highlight innovative practices and emerging international perspectives. These will range from enhanced transparency and greening debt markets to sustainability-focused fiduciary approaches to pension fund governance and green and inclusive refinancing by central banks.

The work achieved by the Programme to date suggests that any country, whatever the development stage of its domestic financial and capital markets, can ensure better alignment of private financing to sustainable development needs. As a result, scarce domestic public finances and international concessionary funds can be used more effectively and efficiently, with a focus on areas where private capital simply cannot be deployed, or where partnership arrangements provide financing opportunities.

Structure of the session

The objective of the session is to explore options for better aligning financial sector development in Africa with sustainable development needs.

The session will last 90 minutes and be structured as follows:

1. Opening comments: Achim Steiner, Executive Director, United Nations Environment Programme (UNEP) (7 minutes)
2. Introductory remarks and overview of the African context: Carlos Lopes, Executive Secretary, Economic Commission for Africa (7 minutes) [to be confirmed]
3. Topic briefing: Amadou Mahtar Ba (10 minutes)
4. Panel and discussion (55 minutes):
3 – 4 panellists,

5. Participant discussion

6. Summary by the facilitator of the key points from the panel discussions

7. Closing reflections: Secretary General of the United Nations Conference on Trade and Development (10 minutes) [to be confirmed]