Remarks of Ambassador Courtenay Rattray

XVIIth International CIFA Forum:

How to Mobilise Private Finance Towards Funding the SDGs?

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1. The Heat is On

- I am grateful to the Convention of Independent Financial Advisors (CIFA) for inviting me to share some views on how to mobilise funding towards implementation of the SDGs.
- This subject preoccupies the thinking of UN Member States, not least developing countries like my own, which grapple with limited fiscal space to finance the public investments that are required to achieve our SDG commitments.
- For SIDS like Jamaica, a principal objective is to mobilise enough financial resources to undertake investments in two critical areas: 1) improve our ability to adapt to the increased impacts of climate change and; 2) strengthen our resilience to natural disasters.
- The authoritative IPCC Special Report published last October, which cited 6,000 scientific references, tells us that the window of opportunity for shifting the global trajectory away from a future of catastrophic climate change will only remain open for 12 more years.
- Ninety-one authors and review editors from forty countries prepared the report. It is in a way regrettable that one feels the need to cite the *bona fides* of a report issued by such an august body but, as is well-known, climate sceptics and deniers hold tenaciously to their unfounded opinions.
- For those of us on the frontlines of climate change, however, there is no debate: climate change and its more frequent and intense impacts pose an existential threat.
- For its part, the World Bank has said that due to the atmospheric buildup of Greenhouse Gases we are on course, in a “business-as-usual” scenario, for global warming of +4^{o} C as a result of Climate Change.
- The impacts of this current trajectory on economic growth will be profoundly disruptive for all countries and catastrophic for many.
- The Managing Director of the IMF told the World Economic Forum that “climate change is the greatest economic challenge of the 21st Century”.
- A failure to limit greenhouse gas emissions will turn our oceans into an acidic stew and kill our coral reefs, while causing long-lasting or irreversible changes to our ecosystem.

- A recent article in the journal *Science*, indicates that new global climate models developed separately in the UK, Canada, the US, and France all suggest that the warming effect of doubling atmospheric CO_2 concentration from the pre-industrial level is likely to be at least 5°C , which is 10% higher than previously projected.
- According to the IPCC we are already seeing the consequences of 1°C of global warming above the pre-industrial level through more extreme weather, rising sea levels and diminishing Arctic sea ice, among other changes. The point is that every iota of warming counts, especially above the 1.5°C threshold.

2. Climate Change will necessarily complicate the challenge achieving of sustainable development

- Climate change in combination with demographic and geopolitical challenges will complicate the challenge of achieving sustainable development.
- The "Bomb Cyclone" that hit the US Midwest last month, the terrible Typhoon Idai that smashed into Mozambique, and the serial droughts that struck Syria between 2000 and 2010 foreshadow things to come, and are likely to occur with their greater frequency and fury in the future.
- The UN Population Fund estimates that the world's population will increase by 2 billion people between now and 2050.
- Most of these new arrivals will be in urban areas of Africa and in East and South Asia, where the infrastructure needed to deliver basic human needs is not currently available or planned.
- 2018 saw more than 65 million displaced persons fleeing from their ancestral homes. If current trends continue, the streams of displaced persons that we saw last year will look like a mere trickle compared to the tsunami of refugees that are likely to flood across the borders of a warmer world.
- Indeed, if current trends in economic development and greenhouse gas emissions continue, a large fraction of all existing infrastructure and the financial instruments that support these real assets will be at risk.

3. A path is now open to Stable, Balanced, and Sustainable development.

- The good news is that the UN's Agenda 2030, the Sustainable Development Goals, and the Paris Climate Agreement illuminate a path forward to stable, balanced, and sustainable development.

- Diligently following that path will lead to greater equity in future development strategies and ensure that no one is left behind.
- However, achieving the objectives of these important international agreements will require a massive programme of sustained investment in real assets and sustainable infrastructure - a global “Marshall Plan” If you will.
- At issue, however, is the fact that the capital requirements for such an investment plan vastly outweigh the capital available for sustainable development investments in national treasuries.
- Making the required investments will therefore require that new partnerships are forged between the public and private financial sectors.

4. **Bold, transformative, structural reform of multilateral financial institutions is required** Bold, transformative, structural reform of the institutions that manage the global financial system will be required to redirect the orientation of financial markets toward the UN’s Agenda2030 and the Sustainable Development Goals.

- Gradual, incremental change will not match the growing scale and speed of the oncoming risks. Slow movement toward long-term goals will be comforting, but wholly insufficient to the challenge.
- Only by realigning the macroprudential regulatory institutions that set policy incentives in the global financial system can we mobilize capital and resources at the speed needed to bring resilience to national economies and at the scale required to avoid catastrophic systemic collapse in the wake of the next global financial crisis.
- To achieve the necessary transition, and put the global economy on track to achieve the UN’s Agenda 2030, we must engage the leaders of the World Bank Group, the IMF, the Basel Committee that manages the Basel III agreement, the European Commission entities responsible for the Process governing Solvency II, and the Task Force on Climate-Related Risk Disclosure.
- In fact, safeguarding the global economy and sustaining the conditions needed for normal international trade relations requires that we rethink the role and operational strategies of all development finance institutions.
- It is important, therefore, for multilateral development banks and national development banks to realign the distribution of their annual capital disbursements.

- In doing so they must move away from direct lending to sovereigns and toward a dramatic scale-up of investments in assurances, guarantees, first-loss facilities and other capital-efficient credit enhancements. This will increase the confidence of private investors willing to make development-oriented investments in developing countries and emerging markets.
- DFIs should allocate a higher proportion of their capital as direct or even indirect equity investments, as opposed to concessional or non-concessional debt financing. This will have a greater development impact by allowing them to engage more deeply in developing countries and emerging markets, while reducing the debt burdens and contingent liabilities constraining most developing country economies.
- There is a sound argument for moving towards long-term sustainable investing, and away from the focus on short-term high beta investing that characterizes US stock markets. My friend Nili Gilbert of Matarin Capital talks about a "patience premium". This refers to the higher risk adjusted return available to investors who target firms that adopt sustainable practices and integrate sustainability information into their reporting cycles. These investments are less volatile and can provide long-term, stable earnings and revenue growth over time.

5. A growing investment gap arises from a Continuing Market Failure

- By all estimates, a huge sum will be required to meet the need for investments in real assets and basic infrastructure that are envisaged by the SDGs. The Brookings Institution estimates this to be in the range of US$5 – US$7 trillion per year.
- Yet, even in the face of the urgent conditions posed by climate change and the increased threat of natural disasters, key "buyers" and "sellers" of capital are unable to find each other.
- Many developing countries have multiple high-priority, well-configured development-oriented projects, but are unable to find adequate capital for investment.
- At the same time, institutional investors and others seeking safe, stable, liquid, inflation-protected investments are unable to find "bankable" projects. They complain of a lack of deal flow in developing country markets.
- Admittedly, low-income developing countries face challenges attracting private capital and will need to maintain their reliance on domestic and international public finance, and at significantly increased levels.
- For middle-income countries like mine, however, it is imperative that greater levels of private investment are channeled to investable projects on the ground, much of which will be in the low-carbon, renewable energy sector.

- John McArthur and Homi Kharas of Brookings put it well in stating that the "*task of reorienting private finance does not imply 'directing' markets to do things inconsistent with long-term profit maximization. Instead, it means identifying instruments and incentives that help private investors consider a broader array of risks and opportunities that better reflect sustainable development priorities*."

6. **The UN Member States must now come together to *Drive Climate Finance to the Ground***

- Under these circumstances, we must create a new mechanism that is able to stimulate co-investment by private sector investors, working alongside governments, multilateral development banks, national development banks, and institutional investors. The mechanism must be designed to catalyze new coalitions of co-investors able to invest in real assets and sustainable infrastructure, especially in developing countries.
- The *Closing the Investment Gap Initiative* provides such a mechanism. It creates a UN-aligned investment platform that brings together public investment pipelines and private investors. The effort is supported by the UN Group of Friends of SDG Financing, which I co-chair with my colleague the ambassador of Canada. Other partners are the UN Development Programme, the Government of Denmark and the University of Maryland.
- The *Closing the Investment Gap Initiative* provides a practical platform for private sector engagement and a targeted capacity-building process.
- The mechanism will allow early investors, whose mandates and risk-return appetites allow them to do so, to take short-term or even first loss positions in the development and construction stages of infrastructure projects, secure in the knowledge that institutional investors are prepared to step in with long-term, "takeout" financing for these projects, once they are operational and can provide a reliable revenue stream.
- I urge you to engage with initiatives such as this so that we can together shift the trajectory of future greenhouse gas emissions, while promoting balanced, stable and sustainable development in which no one is left behind.

Thank you