**Keynote Address by His Excellency E. Courtenay Rattray,**

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**at the UN Global Compact Event: “Forum on Financial Innovation for the**

**SDGs”, held on 20th September 2017 at the Hilton Midtown Hotel New York**

Ladies and Gentlemen,

I am grateful for the opportunity to share some thoughts with you at this timely forum on financial innovation. From where I sit, it appears that the conversation around financing for development, within UN circles at least, has finally begun to crystalize.

For many years at the UN, the financing for development discussion was embedded within a North-South construct. This oppositional dynamic led to the subject being approached from a heavily politicized perspective, which discouraged collaborative approaches. In addition, non-government actors were rarely brought into the conversation.

The adoption in 2015 of the Addis Ababa Action Agenda and, a few months later, the 2030 Agenda for Sustainable Development and the Paris Agreement on Climate Change, laid bare the scale of the challenge confronting us in the economic, social and environmental realms. Faced with the reality that we needed to mobilise an enormous pool of capital, moving from billions to trillions, the UN recognised that its traditional approaches to financing development was insufficient for the task at hand.

It is estimated that the current financing gap to achieve the SDGs in low- and middle-income countries is between US$3 and $5 trillion dollars per year globally. This figure rises to $5 to $7 trillion dollars per year if we include the high income countries. US$5 to $7 trillion dollars per year to ensure peace and prosperity for our people and the preservation of our planet within a single generation! This is a staggering sum of money and begs the question: Where will the funds come from?

Traditionally at the UN, one of the first places low- and middle-income countries would look for financing their development was Official -Development Assistance (ODA), provided as grants or highly concessional loans by high-income countries. And while no one denies that ODA is and will remain a critical component for achieving the SDGs, particularly in the least-developed countries, it is nowhere near sufficient. Last year, bilateral net ODA reached US$142.6 billion dollars; a large sum to be sure. But as this includes humanitarian and disaster relief, technical assistance, cultural exchanges and other government related activities, the money that countries can actually spend on investments in their development is roughly half this headline figure. This means that the available investment resources would need to increase by a factor of 40 times to bridge the financing gap in low- and middle-income countries alone. Clearly, additional sources of capital will need to be sought.

Over the long-term, the most stable of the financing streams has been domestic resources mobilized through the collection of taxes and other public revenue sources. But here again, let us consider the numbers. According to a 2013 study by the World Bank, the total domestic resource mobilization in developing countries in 2012 amounted to US$7.7 trillion dollars. To achieve the SDGs, this figure would have to be increased substantially. The mobilization of such resources is clearly a worthwhile long-term objective, but not one likely to generate the funds needed to deal with the urgent and pressing challenges we are seeking to address by 2030. Moreover, low-income countries that are most reliant on tax revenues to deliver basic services and eradicate poverty often face serious capacity challenges in collecting taxes.

The conclusion one quickly draws from examining the various sources of capital is that domestic public funds and international public finance alone will not be sufficient to achieve the SDGs. This is not to negate the importance of these sources of funding. However, many Middle-Income Countries, such as my own country Jamaica, are deemed too well off to warrant ODA and have lost access to certain concessional financing windows, having ‘graduated’ from least-developed country status.

Domestic private finance is an important source of funding and one that could be better leveraged by financial inclusion, effective regulatory frameworks and financial innovation. These capital flows certainly could be more effectively directed towards SDG investments. However, for many developing countries this would require increased levels of domestic savings and the further development of their local capital markets.

Domestic financial systems in most developing countries and emerging economies, with notable exceptions such as Brazil, China, South Africa and Kenya, are relatively under-developed. Too often these markets are at best able to deliver basic banking services and undertake modest, rather illiquid capital market activities. This restricts their ability to mobilise domestic savings for investment in developing the long-term health of their economies and societies.

**Financial innovation**

Governments, businesses, and investors are all working towards a low-carbon, climate resilient economy. However, many of the measures underpinning this transition, including energy efficiency, renewable energy, sustainable transport, climate smart agriculture, and curbing deforestation, face specific barriers to attracting investment.

But this disadvantageous situation is evolving rapidly as digital finance takes hold. Just as developing countries have leapfrogged across landline telephones directly into mobile telephony, so too they can leapfrog generations of financial development by employing innovative financial approaches to help mobilise domestic savings for financing the SDGs.

Here are three innovative examples:

**Digital Finance in Kenya**

The first relates to digital finance in Kenya.

Kenya has utilised its mobile banking system platform to launch the world’s first infrastructure bond, financed exclusively through citizens’ purchases using a mobile money payment platform - their cell phones. This provides a new channel for small investors to lend to the government, instead of keeping money in the bank. The three-year bond will pay investors a tax-free interest of 10%, which will intensify competition for cash deposits between the government and banks.

**Digital Carbon Accounts**

The second example involves Digital Carbon Accounts**.**

One such innovation has been pioneered by Ant Financial, formerly known as Alipay, part of China’s Alibaba Group. Ant Financial is the most valuable fintech company in the world. It has developed an app named Ant Forest, which provides its users with a carbon account alongside their credit and saving accounts. Ant's 450 million users in China are now able to benchmark their carbon footprint, generated through algorithms of their financial transaction history, and to earn 'green energy' credits for reducing their carbon footprint. Ant Financial has integrated this into a social media experience, as well as developed a complementary, tree-planting carbon offset program. Once their users reduce their carbon footprint by a certain amount they earn enough credits to plant an actual tree in the desert. As of today, over 230 million users – 3% of the world’s population - are experiencing the app and 10 million trees have been planted.

**Green Bonds**

The third example relates to green bonds.

These were created to fund projects that have positive environmental and/or climate benefits. The majority of the green bonds issued are green “use of proceeds” or asset-linked bonds. Proceeds from these bonds are earmarked for green projects, but are backed by the issuer’s entire balance sheet. The green bond market has grown rapidly in recent years, with US$ 42 billion worth of bonds issued in 2015. This momentum has continued, with US$ 200 billion in green bonds currently outstanding. Green bonds issued in China last year made up about a third of the global market and the world’s most populous nation may well double their issuance again this year.

There are other financial instruments being used or explored as a means of mobilizing investment for SDG implementation, such as Debt-for-Nature swaps, blue bonds, Diaspora bonds, green fees and Debt-for-Climate change swaps. There is also an innovative parametric insurance scheme being used by Caribbean countries that mitigates the short-term cash flow problems small developing countries suffer after major natural disasters, such as by recent hurricane Irma and now Maria.

With all that said however, perhaps the most promising source of capital lies with external private funding, in particular institutional investors, which collectively hold around US$78 trillion of assets under management. Most of these institutions, by their very nature, hold liabilities with long-term time horizons. And, given the current historically low global interest rate environment and the fiduciary requirements under which they operate, much of their holdings are invested in under-performing, low risk, low yielding assets.

Naturally, asset managers make investment decisions based on estimates of risk adjusted returns. Sustainable investments in developing countries, particularly in infrastructure, are often perceived as more risky and are therefore more costly. In some cases, development finance institutions use their balance sheets to reduce these risks to private investors by transferring them to public sector balance sheets, which differs from genuine ‘de-risking’. This subsidization of private capital may be appropriate in some cases, but cannot be the long term, large scale solution.

I would point out that international financial market rules are also key determinants of capital costs, in that the cost of capital for long-term investments is made higher by the financial regulations introduced after the 2008 financial crisis.

Of course, channelling this pool of capital towards sustainable development, particularly in low- and middle-income countries, is no simple task. And it is certainly not an area that the UN has traditionally focussed on. But this is beginning to change.

The Secretary-General and Deputy Secretary-General are aware of the need for the UN to expand beyond its traditional comfort zone and begin engaging in discussion and partnerships with actors from a diversity of interests and areas.

Along with my colleague the Ambassador of Canada, we have formed a Group of Friends of SDG Financing which comprise 60 ambassadors to explore solution-oriented ideas to unlock the funds needed to finance the SDGs.

We have seen where heightened regulation can lead to unintended spill-over effects that influence the way in which capital is allocated. Enhanced regulations, such as stricter liquidity provisions, shape the understandings of fiduciary responsibilities and the methodologies of risk assessment. Introduced to strengthen the stability and security of the financial system in the wake of the 2008 financial crisis, they have exacerbated a deep-seated characteristic of private capital markets, corporate short-termism. The result has been a regulatory environment that encourages a limited focus on long-term capital allocation, such as value creating SDG investments.

To that can be added what the Managing Director of BlackRock’s Real Assets Group described to our Group as a lack of knowledge among some institutional fund managers about how to deploy capital and manage certain types of real assets, such as infrastructure, real estate or sustainable tourism.

For developing countries on the capital demand side, there are important issues relating to the need to enhance the domestic enabling environment, such as the need for greater transparency, rule of law, security of ownership rights, political risk, deficiencies in project preparation and project pipeline development, exchange rate risk and liquidity risk.

I believe that the UN has a distinct role to play in supporting the channelling of finance towards SDG implementation, both at the systemic level and through its various funds and programmes.

It is through innovative approaches to forging partnerships, and the re-imagining of the traditional role of multilateral institutions such as the United Nations that we will be able to finance and ultimately achieve the ambitious 2030 Agenda.

Thank you.