Changing Landscape of Development Finance

Opportunities for a Green Economy

The fundamental purpose of the global financial system is to serve the real economy by providing a range of core services for households, enterprises and public authorities. The transition to sustainable development reframes this historic relationship, inserting new parameters around inclusive prosperity, poverty elimination and respect for planetary boundaries. Finance is the linchpin without which progress cannot be made and there is thus a need to re-design the financial system to meet the Sustainable Development Goals (SDG) by 2030.

The current state of development funding shows a significant gap in global development financing to achieve the Sustainable Development Goals. The United Nations Conference on Trade and Development (UNCTAD) in 2015 estimated an annual investment gap for developing countries of USD 2.5 trillion which is more than 3% of the global GDP.

Trends in Development Finance

Traditionally, a crucial part of the funding for international development has been official development assistance (ODA). However, only a few countries could achieve the UN target to use 0.7 percent of their gross national income for ODA. Until the mid-1990s, even India increasingly relied on ODA from OECD countries, at one point even becoming the world's largest aid recipient. After having survived on international aid for decades, India upgraded its profile to join the ranks of donors and is increasingly extending economic and development assistance to countries in South Asia, Africa, Central Asia, Latin America and the Caribbean.

It was also well recognized that to bridge the gap in global development finance, a significant part of the required resources will need to be raised globally in a spirit of common but differentiated responsibility. Thus, the South-South Cooperation (SSC) emerged as a parallel mechanism. This appeared as an important pillar even for India, then, sharing its expertise and development experience with other developing countries in the bilateral, regional or multilateral framework. However, in the last decade, major emerging economies such as China and Brazil are surfacing as major international investors. Some of these investments constitute large-scale, high impact projects requiring access to and management of natural resources. Others comprise small and medium size projects developed by private small-medium enterprises (SMEs). These two countries have found to display unique characteristics in their approach towards environmental and social sustainability by creating opportunities for both the investing and host countries and in managing risks of increasing outward FDI.

Development Finance Institutions like the World Bank and Asian Development Bank (ADB) have been the foundation for various major development projects. The demand for WB Group financing rose to nearly USD 64 billion in fiscal year 2018 with a historic USD 13 billion capital increase. The ADB's operations in 2018 totaled USD 35.82 billion which rose by approximately USD 7 billion from the previous financial year. Also, the Asian Infrastructure Investment Bank (AIIB), one of the youngest multilateral development banks (MDBs), unlike most major ones is majority owned by developing countries with China as its largest shareholder making it more attuned to the interests of developing countries. By end of 2018, it approved over USD 7.5 billion for projects in 13 members, covering various infrastructure sectors such as transportation, energy, telecommunications and urban development. AIIB now has 40 percent stand-alone projects and 60 percent in cooperation with other MDBs. It priced its first global bond in May 2019, a five-year bond raising USD 2.5 billion which will drive AIIB's priorities of investing in sustainable infrastructure, developing cross-border connectivity in Emerging Asia.

Emerging Green Finance Market for transitioning towards a Green Economy

Green finance is a broad term that can refer to financial investments flowing into sustainable development projects and initiatives, environmental products, creating jobs and policies that encourage the development of a more sustainable economy.

In January 2014, UNEP launched an Inquiry into policy options for guiding the global financial system to invest in the transition to a green economy. Therefore, almost six years ago, discussions began and the need to support green actions was sensed by identifying best practices, exploring financial market policy and regulatory innovations, those that would support the development of a green financial system. Since then, these measures have globally led to substantial growth in sustainable investment products such as green bonds, social-impact bonds, renewable energy investments and sustainable funds encouraging market participants to incorporate and disclose ESG risks.

Emerging markets are increasingly driving growth and innovation through a range of green financing initiatives, for example

- Mexico has led the way in green finance, with the issuance of the first Latin American bond to gain Climate Bond Certification by the Climate Bonds Standard Board in 2015.
- Brazil in 2017, established the Laboratory of Financial Innovation (LAB) to bring public and private entities together to create and develop financial instruments and initiatives focused on sustainable development.
- Argentina and Chile have both sought to improve the standard of non-financial reporting with the introduction of “comply or explain” models for sustainability related disclosures.
- China remains one of the most active jurisdictions in Asia for sustainable finance. It is also the world’s second largest green bond market.
- India is among the top issuers of green bonds, total issuances in 2017 stood at USD 6 billion which a fraction of what is needed.

More needs to be done

Development Finance has played a crucial role in achieving sustainable development objectives by facilitating the mobilization of resources and their effective use. With emerging evidence and recognition that green and inclusive economies are the need of the hour, the financial sector has started to respond to the need of greening the high impact sectors. **It is critical to identify sectors and scales of economies that will provide decent jobs within planetary boundaries to support the transition towards green economy.** Some high impact sectors emerging in the Indian economy include energy, micro and small enterprises, agriculture, construction and transport amongst others. More needs to be done to attract finance to bridge the finance gap required to meet our development targets. Many groups reference the transformative power and scale of the private sector as the answer for filling global development investment gaps. With *technology* costs on the decline, India’s *growth needs* on the rise and *climate concerns* not going away, the task ahead for green finance is to step up the pace. Through this ***trialogue* 2047,** we would like to initiate the discussion on:

1. With the nature of shifts in Official Development Assistance, what role can India play in its effectiveness for sustainable use of finance within and outside the country?
2. What are the ways by which the financial markets in India can respond to risks and uncertainties due to environment and social factors?
3. How can Green micro and small enterprises avail the opportunity of accessing from larger pools of development finance?