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DEVELOPMENT FINANCING

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Abstract

Thisarticle tries to explain the background, objective and sources of development financing. In recent years, development finance has emerged as an increasingly important tool to fight global poverty and reduce income inequality. Eradicating poverty is the greatest global challenge facing the world today and an indispensable requirement for sustainable development. The global economic and financial crisis revealed risks within the international and external financial system, and adversely impacting their capacity to mobilize resources for development. Without a stable financial system the development agenda risks being derailed by a sudden regional or global financial crisis. The usefulness and applicability of financing instruments and approaches will depend on the SDGs established for the country and on the financing strategy it adopts. Policymakers have recently shown considerable interest on a class of development financing opportunities called "blended finance" That pool public and private resources and expertise. Blended finance encompasses a large portfolio of potential instruments, including instruments provided by DFIs to leverage private finance (e.g., loans, equity investments, guarantees, etc.), as well as traditional public private partnerships (PPPs).

Keywords:

Development finance; Global poverty; Income inequality; Sustainable development; financial crisis; Blended finance

Introduction

In recent years, development finance has emerged as an increasingly important tool to fight global poverty and reduce income inequality. In many cases, it has become an important complement to ODA (official development assistance) and integral to achieving the SDGs It's a loan granted for the development or refurbishment of residential, commercial or mixed use properties. Development finance institutions use direct loans, loan guarantees, equity investments, and a variety of other products to support and enable these investments—and to mitigate political and commercial risk. Development financing basically stresses on domestic and foreign investment, resource mobilization, international trade, external debt, systematic issues of global governance and internationally agreed development goals. Conventionally, it was planning and allocation of issues –direct process but at present it has become development issues–private and market-oriented paradigm.

Background

The first UN International Conference on Development Financing (that took place in Monterrey, Mexico in March 2002) resulted embracing main areas for DF including mobilizing domestic and international financial resources; international trade; increasing international financial and technical cooperation; external debt and addressing issues to enhance the coherence of the international monetary financial and trading system. The Doha follow-up International Conference on Development Financing to reveal the Implementation of the Monterrey Consensus that declared to eradicate poverty, achieve sustainable development advancing to a fully inclusive and equitable global economic system. (Doha, Qatar on November 29-December 2, 2008) "Mobilizing financial resources for development and the effective use of all those resources are central to the global partnership for sustainable development, including the MDG" The overall theme of the UNSG, included the Bretton Woods institutions, WTO and UNCTAD was "Coherence, Coordination and Cooperation on Development Financing".(March 10-11, 2011 New York) The thematic issues discussed was "Financial Support for Development Efforts of LDCs development, finance, including innovative mechanisms, aid for trade and debt".

The third International Conference on Financing for Development setting out for financing post 2015 sustainable development agenda. (Addis Ababa, Ethiopia between 13 and 16 July 2015.) Government of Nepal also participated in this conference. At the conference, a discussion was opened on how to mobilize the unprecedented amounts of financial resources that will be required to achieve the SDGs, and an agreement. The agreement icludes a series of bold measures to overhaul global finance practices and generate investments for tackling a range of economic, social and environmental challenges.The outcomes of the Conference provided a strong foundation for countries to finance and adopt the sustainable development agenda with the UN member states and the contribution of international organizations, including the OECD, private sector actors and civil society groups.

Objectives

- to Reduce global poverty,
- to reallocate the resources globally,
- to achieve Sustainable development.

Financing Sources for Sustainable Development

The Intergovernmental Committee of Experts on Sustainable Development Financing has suggested an appropriate policy framework, structured in terms of funding sources:

The national public sector, The national private sector, The international public sector, The international private sector and combined financing.

These sources are transformed into instruments by intermediaries and direct investors with the purpose of achieving Economic, Social and Environmental goals.

Financing Sources of Nepal

1. Government revenue.
   a. Tax revenue.
   b. Non-tax revenue.
2. Official development assistance.
3. Global concessional funds.
4. Other official flows.
5. Government borrowing.
6. Private sector investments and credit.
7. Venture/capital funds.
8. Foreign direct investment.
9. Public-private partnerships.
10. International NGOs.
11. Remittances.
12. Illicit financial flows.

Analysis

According to the Business and Sustainable Development Commission reports to achieve the sustainable development goals (SDGs) by 2030 is required around $2.4 trillion a year of additional investment. It also estimates that achieving those goals could open up as much as $12 trillion of market investment opportunities in four categories: food and agriculture, sustainable cities, energy and materials and health and well-being. With regard to social needs, a rough estimate of the cost of a global safety net to eradicate extreme poverty in all countries (measured as increasing incomes of the poorest to the $1.25-a-day standard) is about $66 billion annually. Large investment requirements are also identified in addressing Hunger, health, and education needs. Estimates of annual investment requirements in infrastructure—water, agriculture, telecoms, power, transport, buildings, industrial and forestry sectors—amount to $5 trillion to $7 trillion globally. There are also vast financing needs for the provision of global public goods that estimated several trillion dollars per year. All four types of finance—public and private, domestic and international—

have increased since 2002. Domestic finance has grown rapidly in recent years, representing by far the greatest share of financing sources for most countries. In many developing countries, particularly in least developed countries, public international finance remains crucial.

Public domestic finance in developing countries more than doubled between 2002 and 2011, increasing from $838 billion to $1.86 trillion. Although it remains insufficient to meet sustainable development needs. Tax revenues account for about 10-14 percent of GDP in low-income countries, which is about one third less than in middle-income countries, and significantly less than in high-income countries, which achieve tax to GDP ratios of 20-30 per cent. In some developing countries national pension funds have also been investing directly in national or regional infrastructure, including in South Africa, Ghana, Chile, Mexico, Peru and Nepal. Least developed countries receive only a small fraction (less than 2 per cent) of Gross flows of foreign direct investment. Since the adoption of the Millennium Declaration in 2000, many developing countries have experienced significantly faster economic growth than developed economies. For example, between 2005 and 2012, gross domestic product (GDP) grew by 1.2 percent annually in developed countries, and 6.1 percent in developing countries (at constant prices), with the gap between GDP percapita of developed and developing countries narrowing. In this context, global poverty decreased significantly, and the world reached the poverty reduction target of the Millennium Development Goal. Several other Millennium Development Goal targets have also been met ahead of time, including access to improved drinking water, Gender parity in primary education and Political participation of women. While some others are on track to be met, such as the Targets on fighting malaria and tuberculosis Tax generation from income taxes remains low compared to other countries in the region and can be increased further.

In Nepal, Less than 1 percent of the population pays income tax, which is among the lowest in the SAARC region and far below the "global average". Non-filers are estimated to be almost half of the eligible taxpayers for income tax. Non-tax revenues are dominated by concessional grants in the form of ODA from multilateral and bilateral sources. The real value of grants "on budget" has declined over the years. External finance in the form of ODA (Official development assistance) for financing public expenditure has declined over the years. This indicates that the Government of Nepal has significant potential to raise more finance from ODA grants; first, by increasing the capacity in utilizing grants offered (commitments) and second, by accessing other and new concessional arrangements from other sources such as global programs/global funds. Nepal has the potential to attract additional ODA funding at a level closer to other countries in the same income bracket. The analysis shows that Nepal is overcrowded with small projects scattered among various implementing agencies. Among others, there were more than 440 projects and development partners engaged with up to eight line ministries on average. Nepal is a mountainous low-density country with significant challenges to reach out with national infrastructure. Access to infrastructure services is also among the main challenges reported in business climate surveys (in addition to access to finance). The trend in disbursements from global concessional funds such as the Global Alliance for Vaccines and Immunization (GAVI), the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), the Global Partnership for Education and the Global Environment Facility has been increasing over the years, with the GFATM and GAVI as the major sources for funding health sector interventions. However, compared to other countries with similar GDP per capita levels, the finance from global concessional funds is low. Funding from global funds constitutes only on average 3.9 percent of total ODA disbursements. Funding from global funds constitutes on average 70 percent more of total ODA disbursements in other countries at the same per capita income level where this funding on average constitutes 6.5 percent of ODA disbursements. As Nepal is a low-income country it will be given specific priority in allocation of funding from global development funds/programs. The 27 global multilateral and bilateral climate funds it monitors have approved a total of $4.2 billion for 459 projects and programs in the Asia region. Nepal is a destination for other official flows (OOF) from non-OECD (Organization for Economic Co-operation and Development) countries such as China and India. In total, OOF has added another 6 to 10 percent over and above ODA contributions during the last decade. The credit market in Nepal is dominated by the commercial banks. The contribution of foreign direct investment to sustainable development is not uniform. The government of Nepal has introduced a number of laws to attract domestic and foreign investment in the country, in recent years. Despite political stability, the political climate has not been supportive enough for foreign investors. According to Nepal Rastra Bank, the FDI inflow decreased in the fiscal year 2018-19 to $115.5 Nepal aims to become a middle-income country and achieve the Sustainable Development Goals by 2030. According to a World Bank report, Nepal's investment to Gross Domestic Product (GDP) ratio for 2001-2016 stood at 21 percent, which needs to increase by more than 10 percentage points to achieve the goal. The Government of Nepal introduced the Public-Private Partnership (PPP) Policy in October 2016. PPP contracts will be awarded through a competitive bidding process and if the projects are worth more than

1 billion NPR, it will be a global bidding process to encourage more FDI as well.

According to OECD/DAC data, approximately 18 percent of total ODA to Nepal was disbursed for NGO program interventions. The NGO share of total ODA was higher in 2015 than the global average for countries at the same income level. I.e. NGOs as a proportion of total ODA is higher even if the total ODA percapita managed by NGOs is not significantly higher in Nepal compared to its peers. Remittances are nearly 10 times higher than foreign aid and 2.5 times larger than the foreign exchange earnings of exports of goods and services. IFFs (Illicit financial flows) have been higher than net ODA received, in some years up to 60 percent more. The major reasons for IFFs in Nepal include: Decade-long internal conflict followed by political instability and Prevalence of corruption in the bureaucracy as well as in the business community.

Conclusion

Financing needs also differ across countries and regions. Sustainable development depends on the effective use of resources. Eradicating poverty is the greatest global challenge facing the world today and an indispensable requirement for sustainable development. Without a stable financial system the development agenda risks being derailed by a sudden regional or global financial crisis. Nepal faces a financing gap of Rs 585 billion per year to meet the sustainable development goals. This resource gap is going to be a major challenge to achieve. Although the opportunities and financing for investment are present in Nepal, public investment has been low and the country has been unable to crowd in potential private investment. Productivity growth in some developing and emerging economies remains too slow to significantly reduce the gap with developed countries. The public and private sectors are working together much more than before, and in more creative ways. The usefulness and applicability of financing instruments and approaches will depend on the SDGs established for the country and on the financing strategy it adopts. There should be room for a strategy to include maximization of private finance in countries. Policymakers have recently shown considerable interest in a class of development financing opportunities called "blended finance" that pool public and private resources and expertise. Blended finance is the latest reincarnation of development finance which aims to use development finance, including philanthropic resources, to align additional finance towards meeting the SDGs.

Finally, the fundamental questions are: who should receive the financing, and for what kind of development? Furthermore, can poverty be erased if power and wealth are increasingly concentrated in the global economic system? How does utilize development finance to mitigate the new global challenges of Climate Change, Food Crisis, Gender and Human Rights.

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