

Sustainable Development Finance

**The Biggest Business, Intellectual and
Professional Opportunity of Your Life Time**

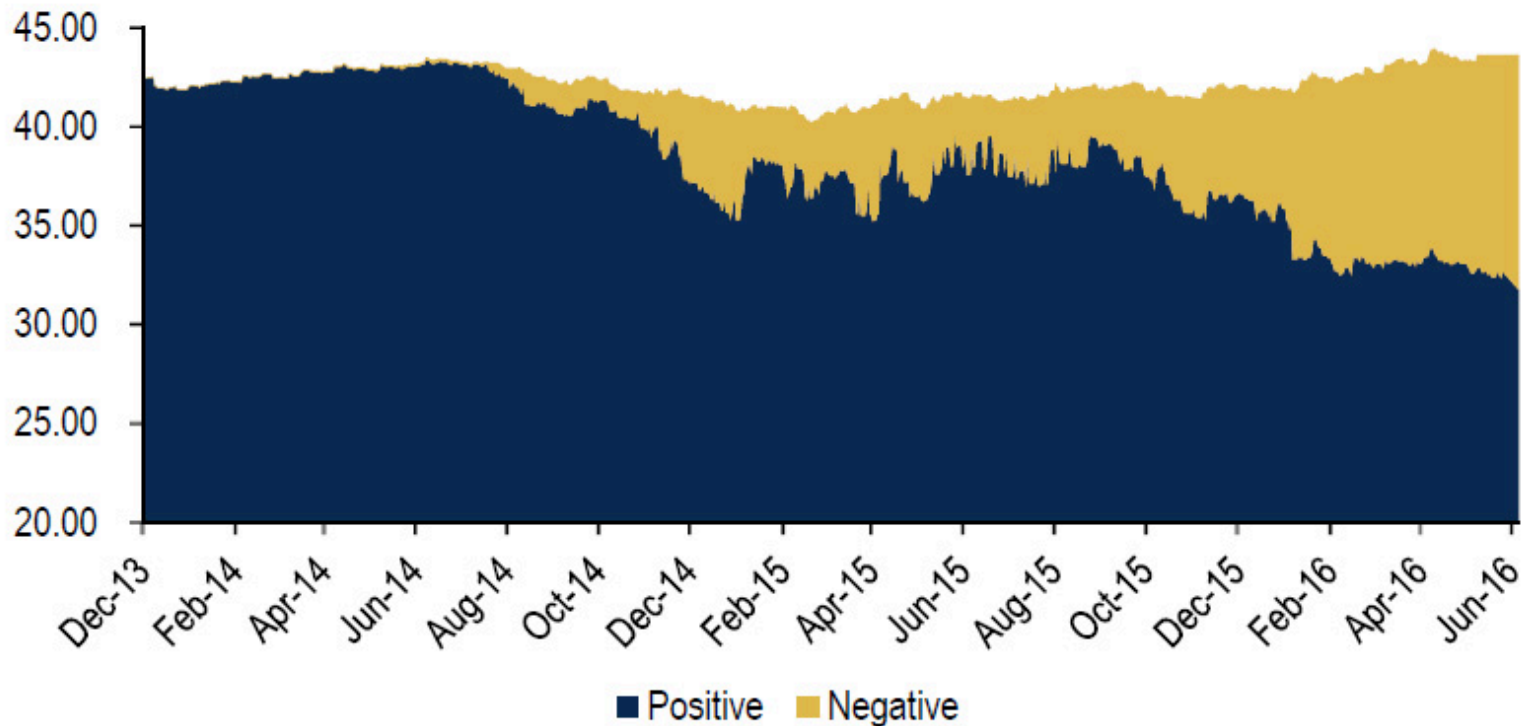
Aniket Shah

Agenda

1. Sources of Capital
2. Uses of Capital
3. Flow of Global Capital
4. Role of private sector
5. Key Challenges and Opportunities

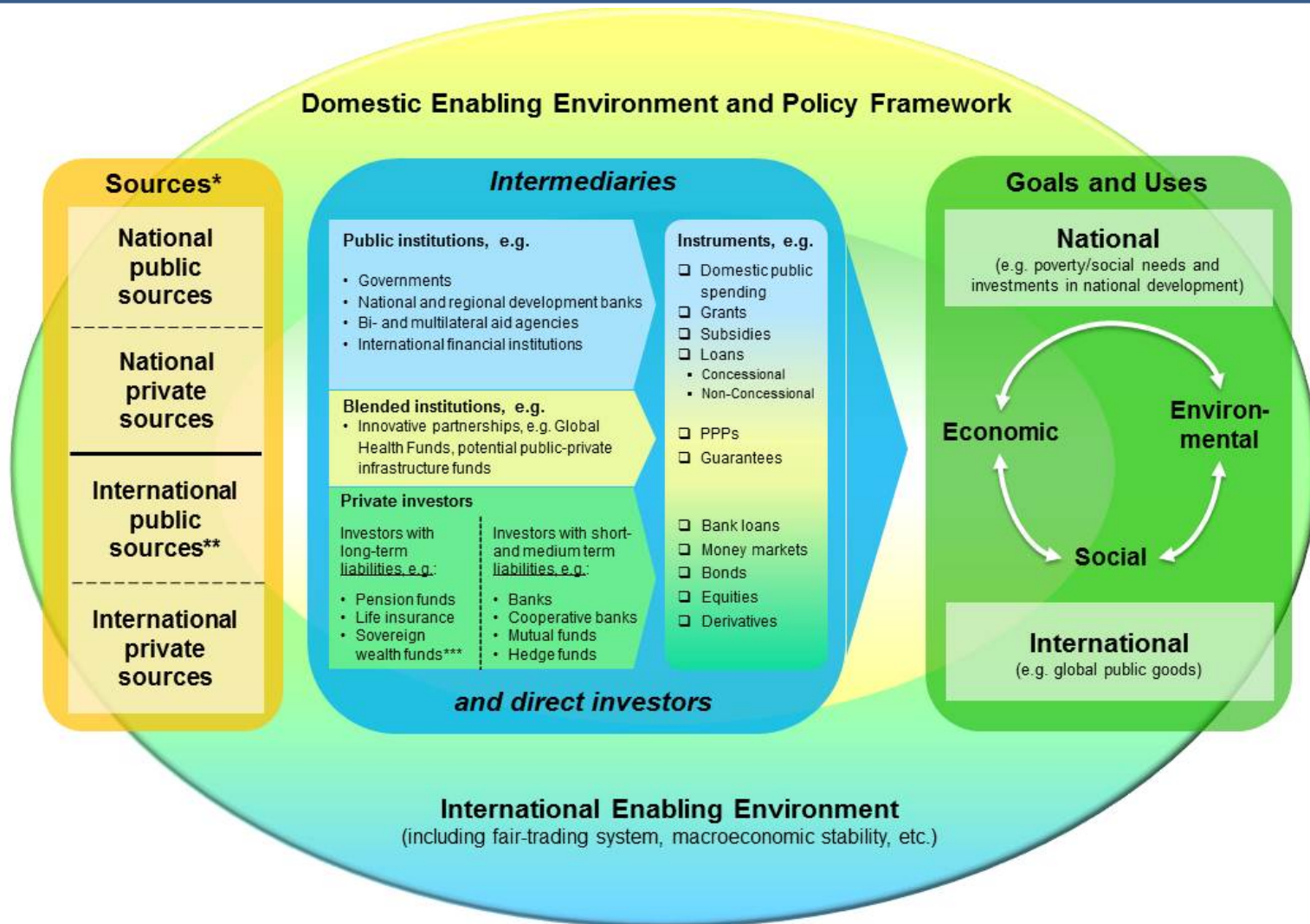
I. Sources of Capital for SD Finance

Global Fixed Income Market (\$ Trillion)



Source: GFIM bond index.

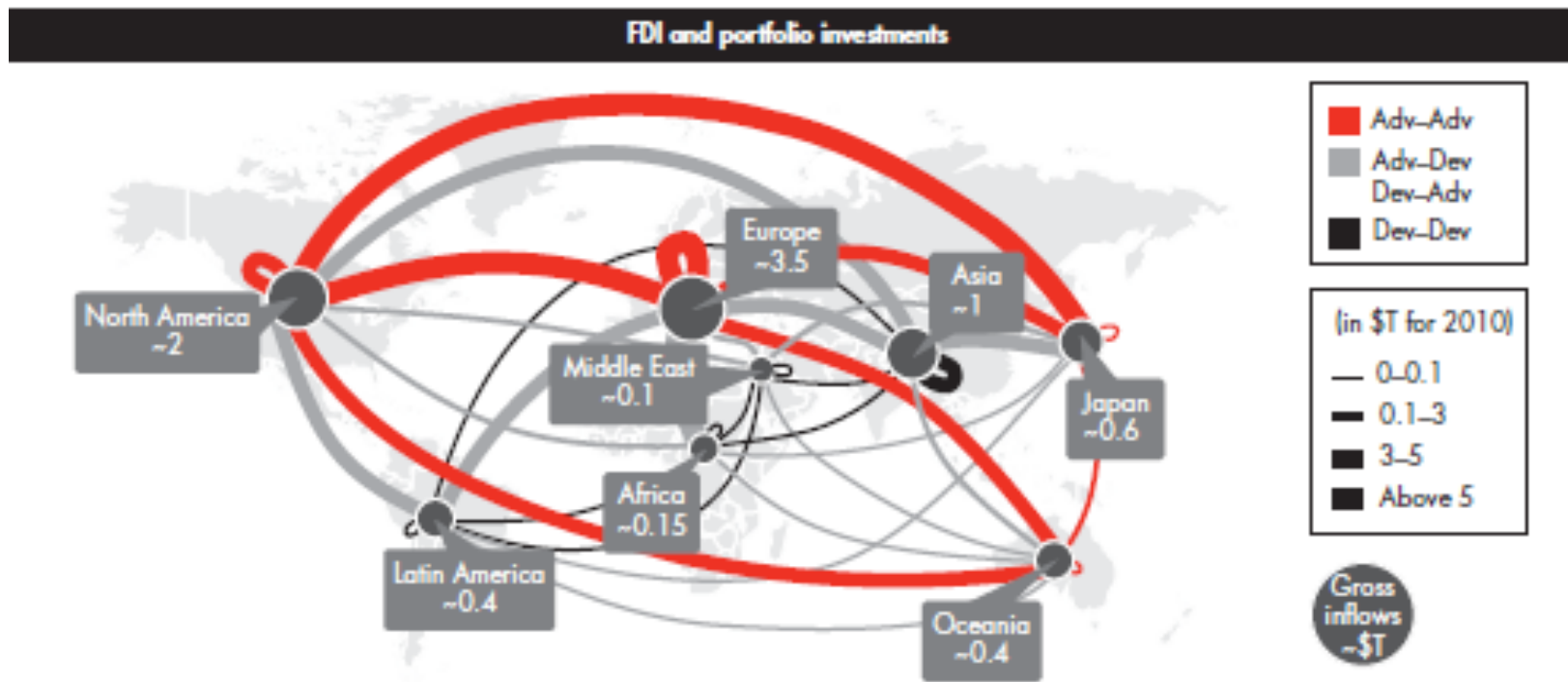
I. Sources of Capital for SD Finance



II. Uses of Incremental Capital for SD Finance

| Investment area | "Development" investment needs | Incremental climate mitigation and adaptation investment needs | Total investment needs | Private, commercial financing (%) | Private, commercial financing | Public financing |
|--|--------------------------------|--|------------------------|-----------------------------------|-------------------------------|------------------|
| Health | 68 - 87 | 1.0 - 1.4 | 69 - 89 | 0% | 0 | 69 - 89 |
| Education | 194 | 0 | 194 | 0% | 0 | 194 |
| Social protection | ? | ? | ? | ? | ? | ? |
| Agriculture and food security | [125] | [22] | [148] | [51%] | [76] | [72] |
| Access to modern energy | [265 - 289] | [55 - 57] | [321 - 347] | [49 - 50%] | [158 - 175] | [163 - 172] |
| <i>Access to electricity and clean cooking fuels</i> | 62 - 83 | 3 - 5 | 66 - 87 | [11 - 16%] | [7 - 14] | [59 - 73] |
| <i>Power infrastructure</i> | [203 - 207] | [52 - 53] | [255 - 259] | [59 - 62%] | [151 - 161] | [99 - 104] |
| Access to water and sanitation | [28] | [14 - 17] | [42 - 45] | [0 - 20%] | [0 - 9] | [36 - 42] |
| <i>Basic water supply & adequate sanitation</i> | 28 | 14 - 17 | 42 - 45 | [0 - 20%] | [0 - 9] | [36 - 42] |
| <i>Water and sanitation infrastructure</i> | ? | ? | ? | ? | ? | ? |
| Telecommunications infrastructure | [361] | [35] | [396] | [52 - 57%] | [205 - 228] | [169 - 192] |
| Transport infrastructure | [189] | [0] | [189] | [54 - 86%] | [102 - 163] | [26 - 87] |
| Ecosystems, incl. biodiversity | [11 - 28] | ? | [11 - 28] | [15%] | [2 - 4] | [9 - 24] |
| Data for the SDGs | 0.5 | 0 | 0.5 | 0% | 0 | 0.5 |
| Emergency response and humanitarian work* | [8 - 23] | ? | [8 - 23] | [0%] | [0] | [8 - 23] |
| All SDG investment areas** | [1251 - 1327] | [128 - 133] | [1378 - 1459] | [39 - 45%] | [543 - 654] | [805 - 836] |

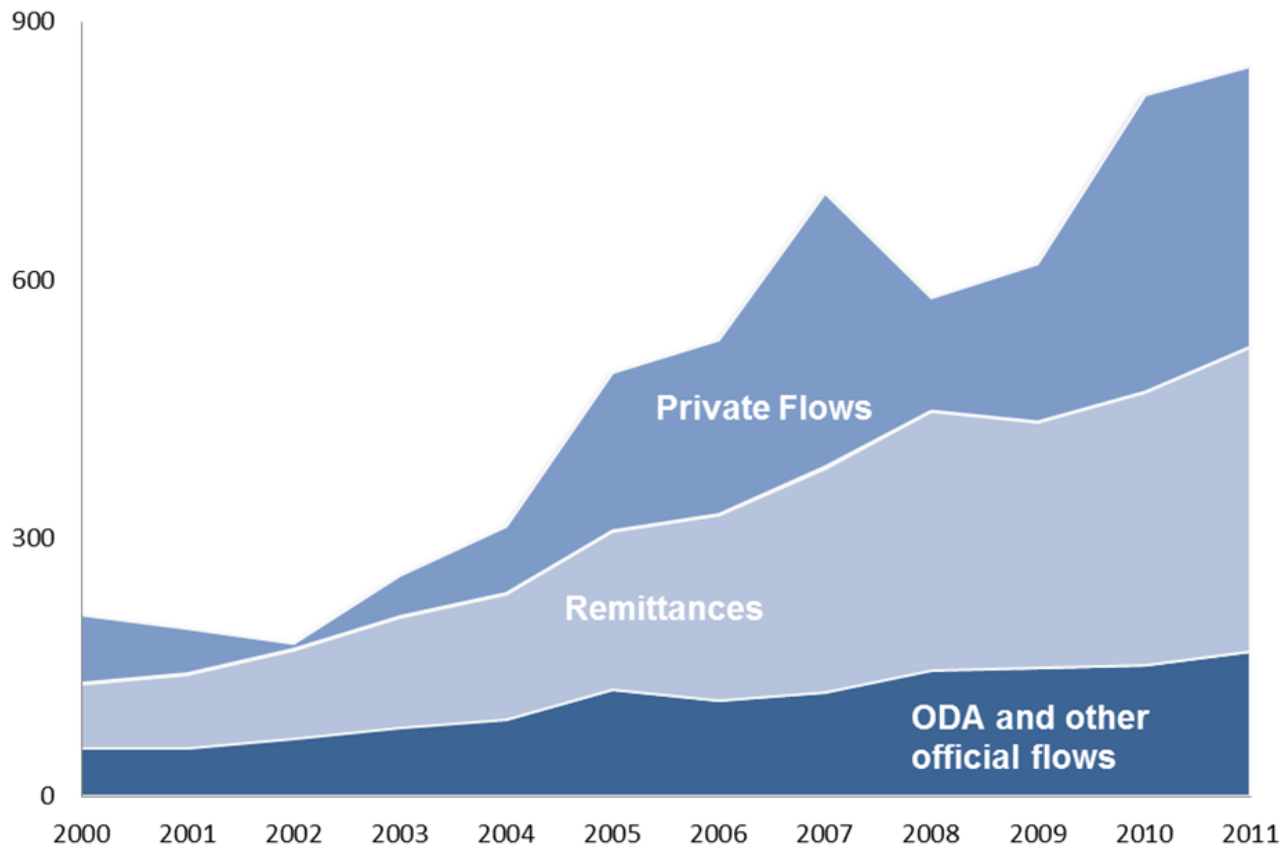
III. The movement of global capital remains biased towards developed world



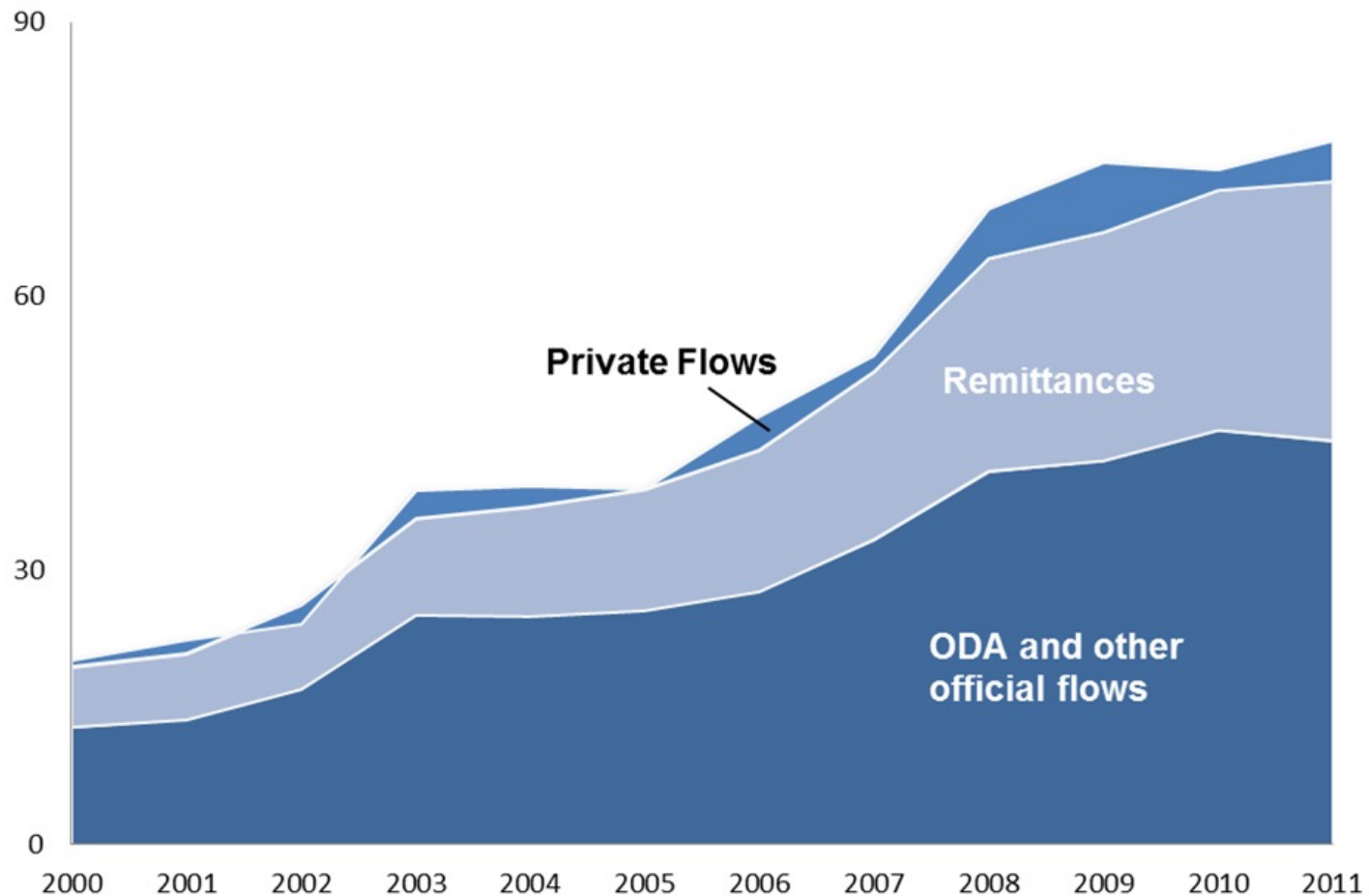
Note: Width of line depicts gross bidirectional absolute foreign direct flows and portfolio investments in 2010; circular represents intraregional flows, primarily occurring due to movement of funds to and from offshore financial centers and tax havens such as the Cayman Islands and Hong Kong
Sources: OECD; International Monetary Fund, literature search, Bain Macro Trends Group analysts, 2012

Only 7% of US Institutional Savings is allocated to Emerging Markets (EM), despite EM contributing 50% of world GDP, 30% of world equity markets and 20% of world debt markets

III. Capital Flows to Developing Countries



III. Capital Flows to Least Developing Countries

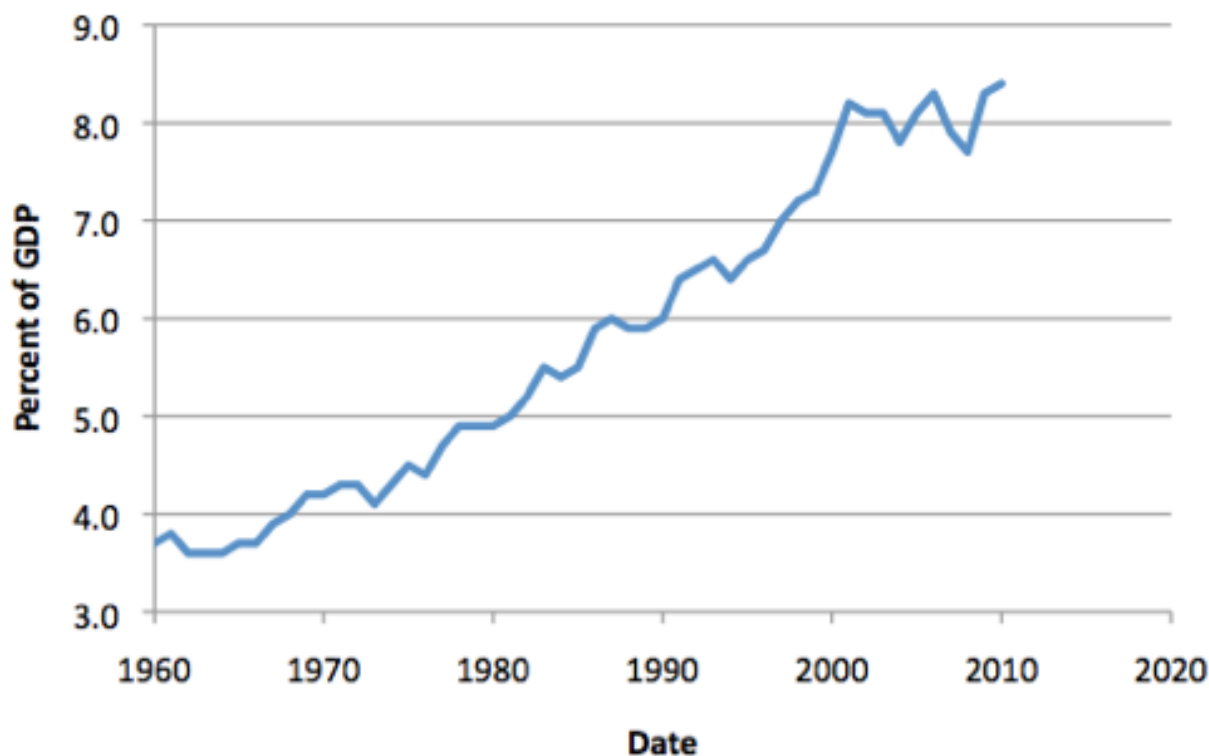


IV. Key Questions Around the Role of Private Sector in Sustainable Development

1. What is the purpose of business? Profit making or social responsibility?
2. What is the timescale of business decision making?
3. What sustainable development sectors should business focus on, and how?
4. How do businesses evolve with technology? How to deal with failure?

IV. What type of “private sector” is useful?

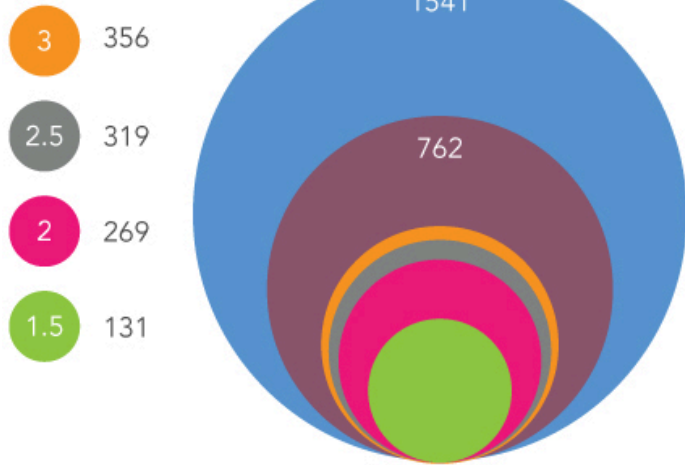
Finance and Insurance Value Added as a Share of GDP



IV. Wealth destruction?

Comparison of listed reserves to 50% probability pro-rata carbon budget

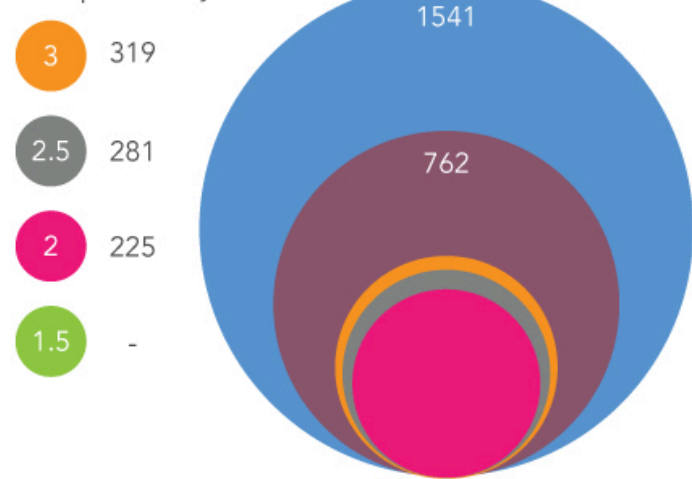
Peak warming (°C)
50% probability



● Potential listed reserves ● Current listed reserves

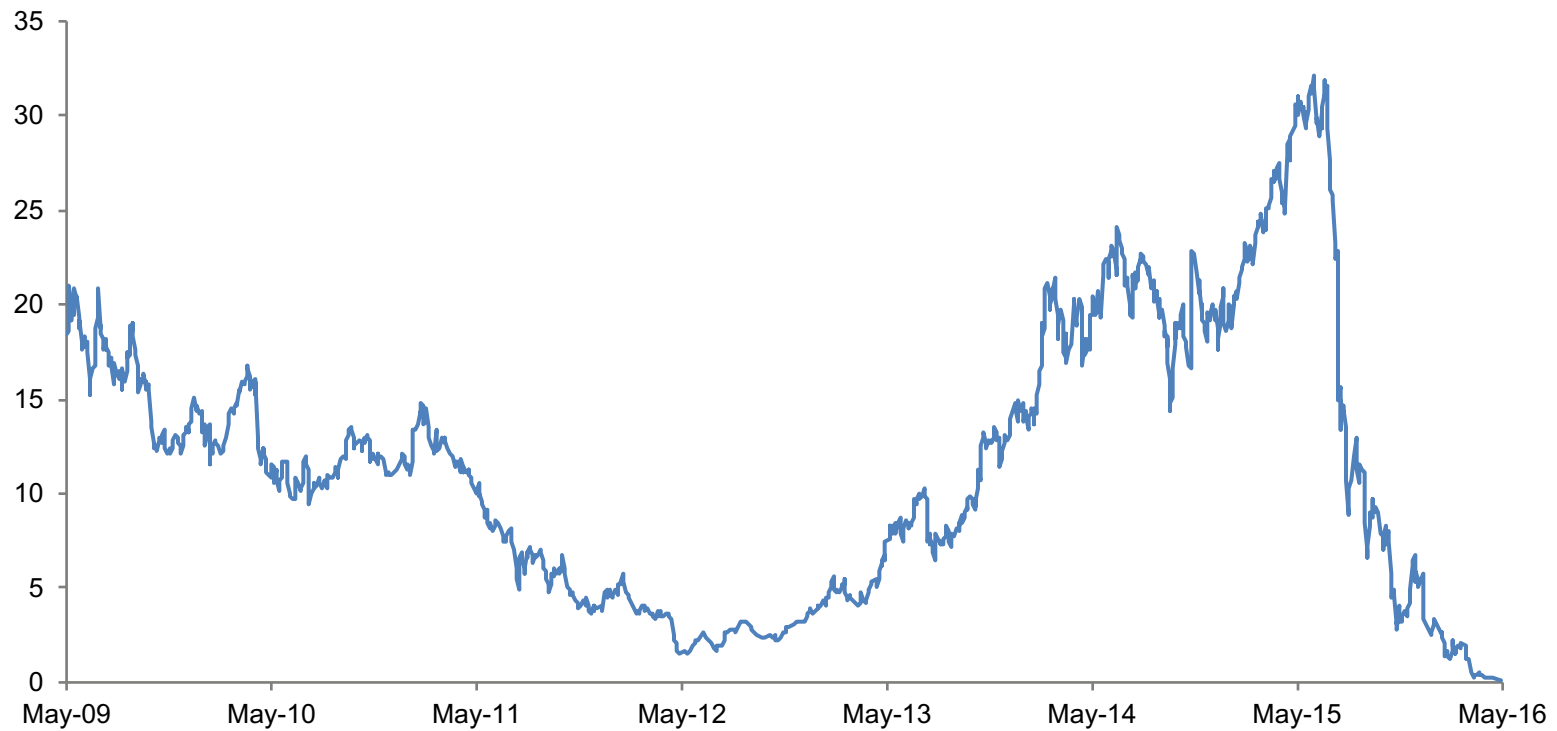
Comparison of listed reserves to 80% probability pro-rata carbon budget

Peak warming (°C)
80% probability



● Potential listed reserves ● Current listed reserves

IV. Wealth creation? Stock Price of SunEdison



V. The financial environment is challenging

1. Capital flow remains biased towards developing world
2. Within emerging markets, capital flows and FDI are very lumpy and focused on certain sectors (mainly extractives)
3. Capital market development is not linear – few generalizable trends between countries
4. There have been long periods of de-globalization
5. Trends in investment are increasingly short-term

V. Destination: High concentration of FDI and domestic financing in a few nations in Africa

Inward FDI to Africa

Foreign Investment in Africa



SOURCES:
data.worldbank.com
www.google.com/publicdata

MORE COOLNESS?
#ODMACT
infographic.tumblr.com

Infographic designed by
@lvanisawesome

Africa Fixed Income Market Development

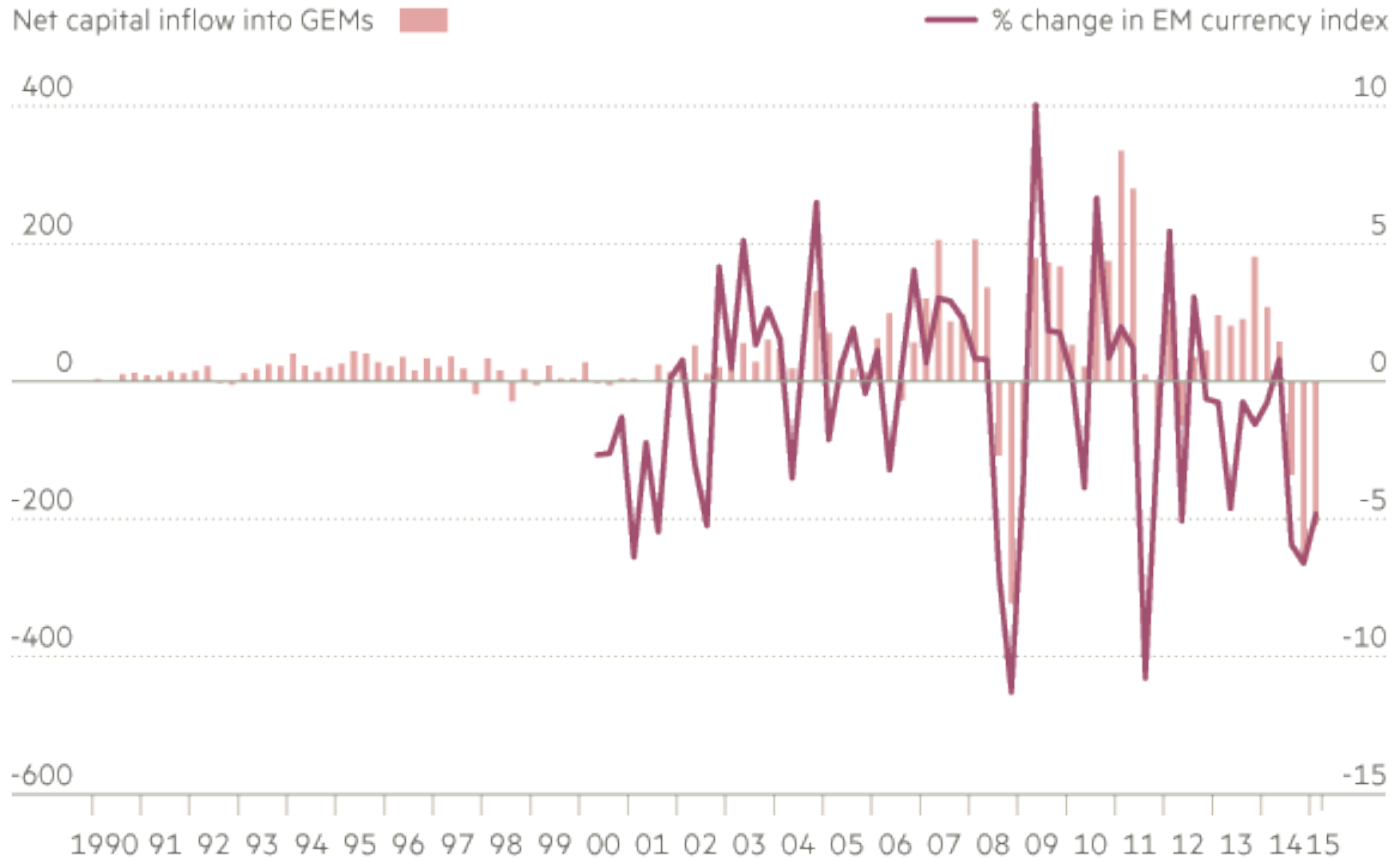


- Limited activity/not covered
- T-Bill markets
- Short dated LCU bonds
- Yield curve & liquidity building
- Eurodollar bonds
- Corporate bonds
- International access of LCU bonds



V. EM Capital Flows are highly volatile

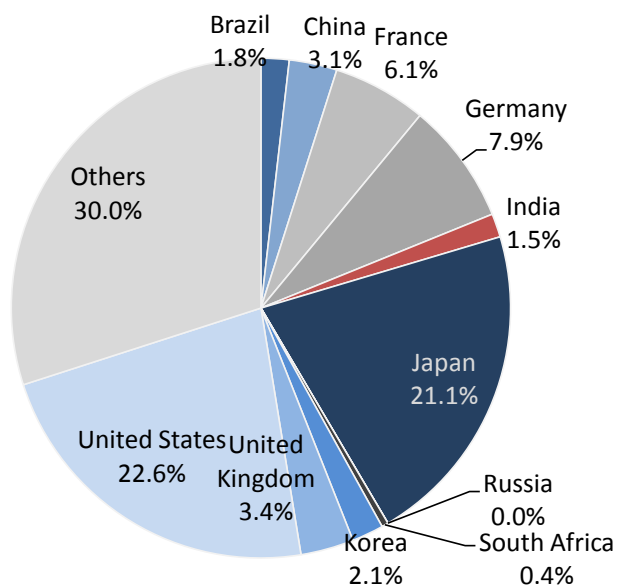
GEM capital flows & exchange rate movements



Source: NN Investment partners

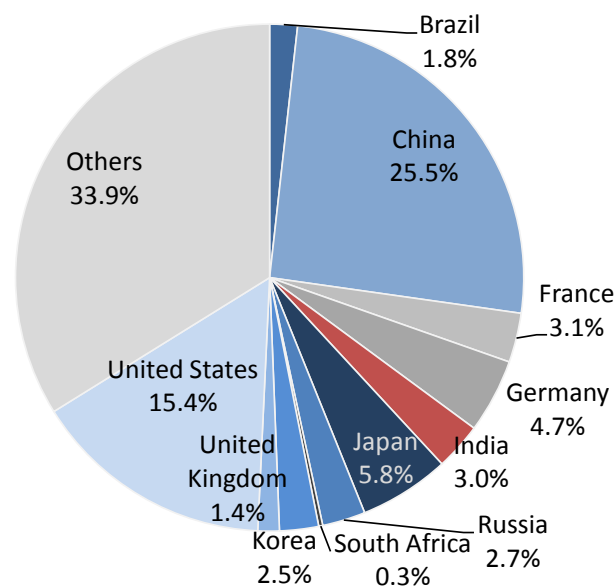
V. Where will local savings of developing world be invested?

Figure 7: Distribution of World's Savings across Countries in 1990



Source: International Monetary Fund, Deutsche Bank

Figure 8: Distribution of World's Savings across Countries in 2013



Source: International Monetary Fund, Deutsche Bank

V. Role of institutions

1. Do institutions matter?
2. Rule of law?
3. Financial institutions – stock markets, bond markets, banking regulation, development finance institutions
4. Institutions vs technology vs geography