Funding to Financing: an introduction.

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We are not on track to achieve SDG's by 2030.

With current trends we will have to wait until the second half of 22nd century to achieve the SDG's. If we continue with business as usual, then we should rename them the 2300 agenda. We only have one planet and it can't wait until 2300, so need to break trends. We know from the MDG's that this is possible.

Finance is one of the most powerful ways to break trends. Finance is how we prioritise. A key objective should be to align finance with Sustainable Development. There is currently no country in the world where finance is fully aligned with the SDG's. Every country is severely misaligned.

In terms of developing countries, for example, there is:

- A lack of finance for long term infrastructure projects since they are deemed too risky, for example, construction of ports, roads and hospitals.
- A gap in terms of financing small and medium sized enterprises. There is a financing gap of more than 250 billion dollars, yet SME's are key to create decent jobs.
- A lack of financial inclusion, with more than 2 billion people financially excluded.
- A lack of finance for critical social investment like education. The current cohort of youth is the largest cohort in history. They may prove to be largest development dividend or challenge depending on if we can educate them properly. Currently we are failing about 50%.

Therefore, we are not going to achieve the SDG's based on the current trajectory. A main reason for this is that finance is not aligned. This is the key gap. Anything else is tinkering at the margins. The challenge is aligning the needed 5 trillion a year towards sustainable development.

The UN has approximately 48 billion USD a year, which is approximately 1% of what's necessary. As the UN, we either need to be very smart or we will be irrelevant.

The idea behind funding to financing is to create and empower smart development entrepreneurs to break trends. This is the spirit of the new UNDAF guidelines.

The UNDAF guidelines recommend as an initial step the development of a good picture of all financing flows as part of the CCA element of the UNDAF cycle.

There are 4 main reasons why we need to start with this.

1. **Allocation**: to be smart investors. We can't duplicate what others are doing or could do for us. We need to figure out where larger financial flows are and where the big gaps are that we need to fill. We need to find the key pressure points.
2. **Accessing:** additional resources. When you are small you need to partner. There are plenty of new types of resources, for example social impact investment. There are investors who are willing to accept a lower rate of return. Some investment needed for Agenda 2030 is not profitable at the market rate. These investments have an economic return that's high, but a financial return that isn't so high. Social impact investors are looking for multiple development

dividends, social returns are acceptable, in addition to meeting financial returns that are approximately matched to inflation. We can also increasingly blend our resources. There are huge opportunities once we understand our financial ecosystem. There are opportunities for blending, sequencing and increasing our resources through partnering.

3. **Leveraging:** Even if we are very smart and we multiply our resources by a factor of 5 or 10, through coalitions for transformative change, we still won't reach the needed 5 trillion, therefore need to use funds in catalytic ways. How can we do this in the UN? In the UN, leveraging tends to be seen as how much money we can influence by changing the policy environment, for example, an aim of the SDG is changing the energy matrix of the world from high carbon energy sources to low carbon energy sources. We know that today low energy sources are highly competitive if an enabling environment is put in place. An enabling environment can include phasing out fossil fuel subsidies, streamlining the licensing process. It can also be local supply of skills. The UN mostly operates on leverage through transforming markets and the set of incentives that affect the risk reward profile of investments. The UN has a track record of being able to use $1 to leverage $10,000, the only problem is that the UN doesn't know it. We need to get better at recognizing and telling this success story.
4. **Incentives:** Money is not neutral. It's either a unifier or divider. If you don't speak about it, most likely it's a divider. Most of the financing mechanisms of the UN divide. A big incentive is the incentive that often gets you promoted, which is to mobilize for your agency. It doesn't matter if you cost $10 for the UNDS if you bring $1 for your agency. This should not be acceptable. The only way to make sure we address this issue is to create a minimum understanding within the UN system of what are the opportunities, key priorities, partnership options, instruments we could use and the incentives, including for cooperation, embedded in these instruments.

Is it really a priority? Yes if we care about the 2030 agenda, the relevance of the UN, being a smart investor and delivering as one.

How can we do it? We already have too much work, now you are bringing an additional task! What kind of support and help will be provided? Do we have capacity? These are all very valid points. With the new UNDAF guidance, there was agreement on the "why", but much discussion on "how". How much should be compulsory? How long will it take? It was decided with the UNDAF not to make a full financing strategy mandatory. The UNDAF will explain what success will look like in future and we hope to have pathfinder UNCT's that can start immediately and others that will follow. By 2025 we hope that all will be up to speed.