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FINANCING THE SUSTAINABLE DEVELOPMENT GOALS THROUGH PRIVATE SECTOR PARTNERSHIP

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In September 2015, the United Nations unveiled a set of goals with an overall vision of eradicating extreme poverty in the context of sustainable development by 2030. Known as the Sustainable Development Goals (SDGs), the 17 goals and 169 associated targets define the post-2015 development agenda to lead the world toward a path of economic development, social inclusion and environmental sustainability.

These universal targets are intended to build on the gains under the Millennium Development Goals (MDGs). While significant achievements have been made on the MDG targets worldwide, about 800 million people still suffer from hunger and have no access to basic services. Hence, there is a need to keep the momentum of global efforts to tackle the SDGs. For a country like the Philippines with limited public sector funding capacity, working with the private sector and development partners is necessary to promote sustainable development.

Financing the SDGs

UNCTAD estimates that the amount of investment needed for key sectors related to the SDGs at the global level is approximately USD 5 to USD 7 trillion per year. In developing countries alone, investment estimates range between USD3.3 and USD4.5 trillion to cover the following sectors: basic infrastructure (roads, rail and ports; power stations; water and sanitation), food security (agriculture and rural development), climate change mitigation and adaptation, health and education. This means that developing countries have an annual funding shortfall of around USD2.5 trillion.

Addressing poverty in all its forms entails finance and other resources that would match the breadth and complexity of the development challenge. The problem is many countries do not have the adequate capacities and resources to implement the SDGs. Furthermore, low income countries cannot single-handedly rely on foreign aid given that many donor countries have not complied with their aid commitments. Thus, translating the universal goals into national plans and strategies can be a tough task for developing and least developed countries.

UN Member States came up with the Addis Ababa Action Agenda to serve as a guide in mobilizing financial resources to realize the SDGs. The Action Agenda stresses the principle that each country is primarily responsible for its own economic and social development, while acknowledging the importance of private international capital flows, particularly foreign direct investment (FDI), and a stable international financial system. Multilateral development banks also recognize that while majority of the development spending occurs at the national level in the form of public resources, the largest potential comes from private sector business, finance and investment. Although public investment and official development assistance (ODA) remain to be the fundamental sources of finance, increased private sector investment on SDG-related sectors can help bridge the financing gap.

New financing schemes

Recently, new schemes have emerged to capitalize on the synergy between the public sector, private sector and civil society. For instance, commercial financing has ventured into impact investing where large-scale private capital is utilized to address development challenges, particularly on social and environmental issues. A specific example of this new practice is Social Impact Bonds (SIBs). Under the common SIB model, independent commercial or philanthropic investors loan upfront capital to an identified social program through an intermediary. The government only makes payments if pre-agreed performance targets are met; and increase in payments is possible if the results exceed the targets as assessed by an independent evaluator.

The first SIB was launched in the United Kingdom in 2010. The program was a success as it reduced the number of repeat offenders among those released from prisons. In the United States, one of the first SIB programs was implemented in Chicago to improve educational outcomes and lifelong trajectories for children in disadvantaged communities. Developing countries are also catching up on the trend. The World Bank is establishing its first Development Impact Bond (DIB) in Palestine to tackle youth unemployment and skills development. Compared to SIBs in developed countries, DIBs use donors' money, sometimes with matching funds from government, in repaying investors. Mexico and Brazil have started exploring SIBs and the development of an impact bond market, respectively.

Another scheme deals with principle-based voluntary initiatives of agencies such as the UN Global Compact and UNEP Finance Initiative, which are borne of the private sector's resolve to advance broader societal goals such as the SDGs. Several companies and philanthropic organizations under the UN Global Compact have pledged their support for the SDGs, including Chinese e-commerce giant Alibaba Group, Bill & Melinda Gates Foundation, Facebook CEO Mark Zuckerberg, GlaxoSmithKline and LEGO Group. Likewise, the UNEP Finance Initiative coordinated investors to form the Portfolio Decarbonization Coalition, which aims to decarbonize USD100 billion of investments by withdrawing capital from particularly carbon-intensive activities and re-investing them in low-carbon activities. It also launched an inquiry into the design of a sustainable financial system to better align finance flows with the SDGs and mobilize trillions of dollars for green investments.

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The role of the private sector

On a global scale, private sector participation across all sectors associated with the SDGs is relatively low given some policy dilemmas. An UNCTAD study finds that only a fraction of invested assets of banks, pension funds, insurers, foundations and endowments, as well as multinational corporations, are in the SDG sectors, and even less in developing countries, particularly the poorest ones. One hurdle is the inadequate risk return profile of many investments in sectors considered as sensitive or of a public service nature such as health, education, basic infrastructure, and public utilities. Governments that intend to attract more investments in these sectors would have to put in place appropriate regulations and oversight mechanisms, as well as balance the interest of private firms for profit with the need to provide affordable services that are accessible to the public. Thus, governments have to think of creative and innovative approaches to encourage the private sector to invest in SDG sectors.

In meeting the MDG targets, the Philippine government has learned that financing and integrating global goals into the country's development plan are crucial in implementation. By linking programs such as the Pantawid Pamilyang Pilipino Program (4Ps) with the MDGs, the government made significant progress in attaining several MDG commitments, especially in eradicating extreme poverty and hunger, achieving universal primary education, promoting gender equality, reducing child mortality, and improving maternal health care. Some 4.4 million households or 22 million Filipinos have benefited from the 4Ps with an estimated budget of PhP 63 billion annually since 2014. While the scale of the 4Ps allowed the government to reach more poor Filipinos, the purported benefits come with a hefty price making the 4Ps difficult to sustain without foreign borrowing.

As the country transitions from MDGs to SDGs, private sector participation through public-private partnerships and corporate social responsibility can contribute to government efforts on achieving sustainable development. Low public expenditure, particularly on social services and poverty reduction programs, has been a concern for decades due to the government's tight fiscal position. Hence, the feasibility of tapping the private sector as partners in development programs is worth examining.

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