Economic and Financial Review

Volume 53
Number 4 *Proceedings of the seminar on "Financing Government Programmes in Economic Downturn -The Role of Central Bank of Nigeria?", for CBN Executive Staff at Golden Tulip Hotel, Lagos, September 5th – 8th, 2016*

Article 11

12-2015

Governments' options for financing the Sustainable Development Goals (SDGs) in a period of economic downturn

Robert C. Asogwa
United Nations Development Programme (UNDP), Asokoro, Abuja

Governments' Options for Financing the Sustainable Development Goals (SDGs) in a Period of Economic Downturn

Robert C. Asogwa *

I. Introduction

The onset of low oil and other commodity prices in 2014, compounded by the slowdown in China and other Asian economies have generated economic challenges for commodity dependent economies. Prior to this, Africa and indeed, other commodity-exporting countries, benefitted largely, from the global commodity price boom which peaked during 2001/2. At this period, Africa seemed to outperform the world with an average growth of over 6.0 per cent per annum. By end-2014, there was a dramatic turn as decreasing global demand, in the face of growing supplies, led to massive fall in the prices of primary commodities, especially crude oil, iron ore and copper (UNDP, 2015)[5]. This recent downturn in commodity prices has presented serious consequences for several of these commodity-dependent African economies - a continent that had endured nearly 30 years of slow growth and started enjoying the benefits of recent growth recovery. The impact of this downturn on government expenditures, financial and foreign exchange markets as well as sovereign credit ratings for Africa's major economies including Nigeria are well known and even extensively discussed in literature (IMF, 2015; UNDP, 2016; Bloomberg Finance, 2015; among others).

A new challenge that now confronts these commodity-dependent economies (including Nigeria) is how to mobilise resources through old and new financing instruments to create opportunities for quick domestic economic recovery, finance the global Sustainable Development Goals (SDGs), as well as, Africa Agenda 2030. Recent estimates of financing requirements for African countries to achieve the SDGs indicated an amount between US$614.0 billion to US$638.0 billion per year as incremental financing needs (Schmidt-Traub, 2015). A funding gap of approximately US$130.0 billion – US$160.0 billion is estimated. How can this financing gap be closed given the challenges of growth, external financing and even retaining domestic savings

* Dr. Robert C. Asogwa is the Head, Inclusive Growth and Economic Policy Unit, United Notions Development Programme (UNDP), Asokoro, Abuja. The usual disclaimer applies.

[5] The decline in prices of gold, silver and platinum was less. Similarly, agricultural commodity prices including cotton, soybeans, sugar , cocoa and coffee also declined during this period but not as much as crude oil and iron.

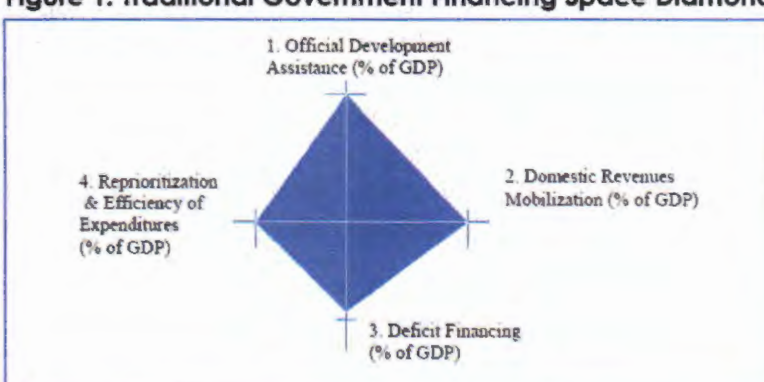
in Africa? According to UNCTAD (2016), increasing domestic resource mobilisation alone is also not a panacea for financing Africa's development. Even with the repatriation of so called stolen assets, improved tax efficiency and the curtailing of illicit financial flows, there may still be challenges of financing the SDGs. Rather, what African countries need is a mix of development finance initiatives, including debt and blended financing options with a corresponding formulation of policies aimed at financial deepening and inclusion. As a matter of fact, both Africa Agenda 2063 and the Addis Ababa Action Agenda recognised the importance of augmenting capacities for domestic resource mobilisation to finance Africa's development.

This paper reviews the strategies for strengthening the existing sources of traditional finance in Nigeria and also, introduces new sources of innovative finance that will be suitable for funding government development programmes, as well as, the SDGs Agenda 2030. Furthermore, the possible role of the central bank vis a-vis the government fiscal authorities in the management of some sophisticated financial instruments which is increasingly gaining momentum as part of innovative development finance is discussed.

II. The Old Financing Model for Government Programmes

In Nigeria, funding of government programmes, including the Millennium Development Goals (MDGs) has been through the traditional model based on the well-known Fiscal Space Diamond (Heller, 2005; see figure 1). The key instruments are Domestic Revenue mobilisation (oil and non-oil) deficit financing (domestic and external borrowing) Official Development Assistance (through aid and debt relief) and expenditure efficiency.

Figure 1: Traditional Government Financing Space Diamond



Source: UNDP (2016)

The Nigeria MDGs-ER (2015) reported that financing of the MDGs, unfortunately, relied more heavily on budgetary allocations and the Debt Relief Gains (DRG) with the latter accounting for much of the execution of MDGs programmes and projects. Eventhough some Nigerian entrepreneurs and humanitarian groups were noted to have contributed in no small measure to the fight to eradicate polio sometimes through resources mobilised from other private sources, the funds were still minimal. There were huge challenges of raising tax revenue to augment natural resource revenue flows. For the period 2000-2013, the average non-oil tax effort was 6.62 per cent of GDP, indicating a fairly low tax effort, while the revenue-GDP ratio was even lower at 4.8 per cent (UNDP, 2016).

With the mobilisation of domestic resources disappointing and limited deficit financing options, an annual funding gap of ₦1.0 trillion existed for funding the MDGs in Nigeria. This might have explained why MDGs implementation in Nigeria remained an unfinished business, partly because of the poor financial outlay. Given the fact that more funds are needed if domestic and international development goals, including the SDGs Agenda 2030 and the Africa Agenda 2063 are to be met in Nigeria, especially in the context of the present economic downturn, potential and innovative financing mechanisms and sources needed to complement the traditional financing instruments. This will be useful to reduce the current pressures on government budgets in Nigeria.

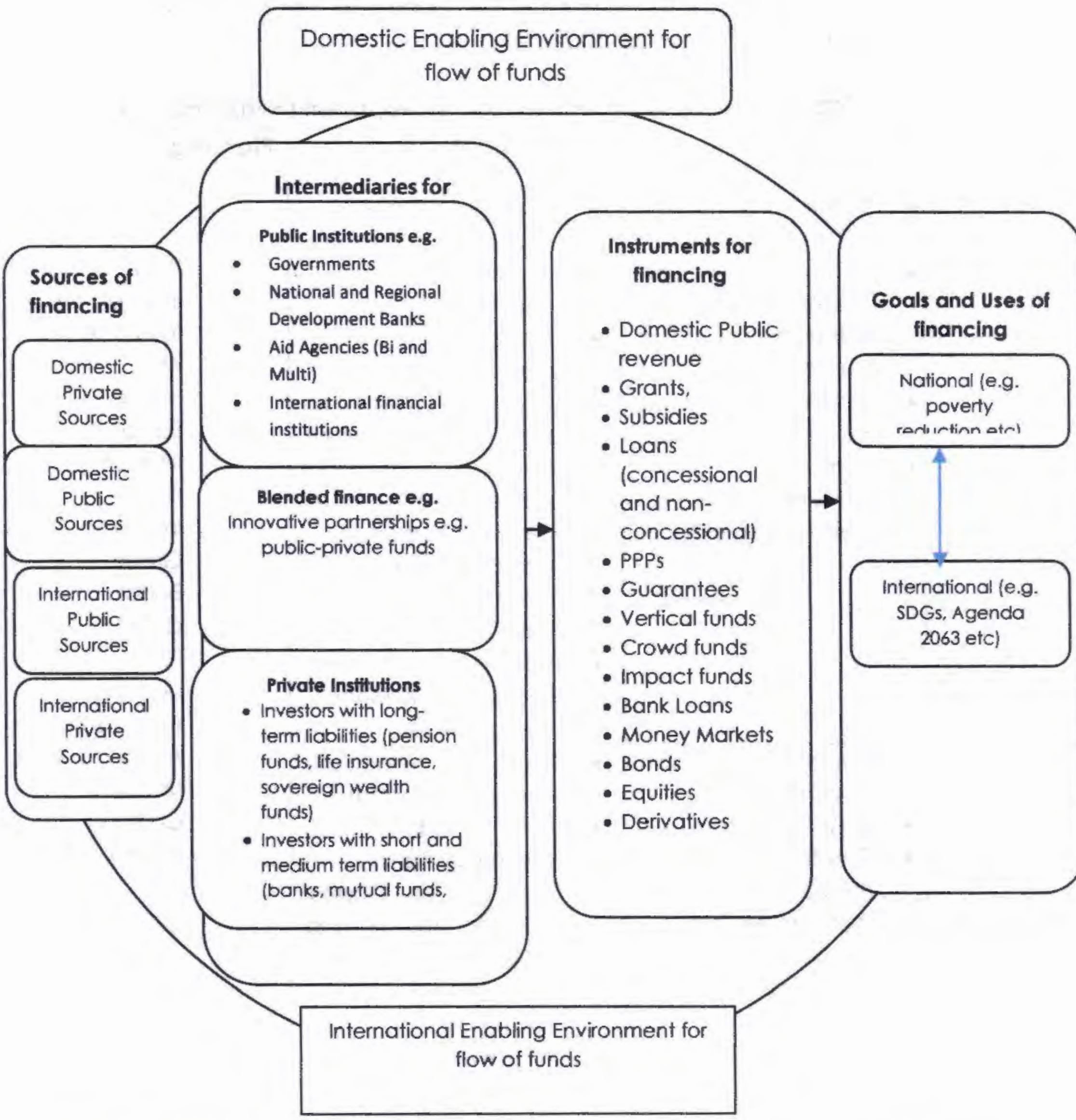
III. Financing Government Programmes: A New Conceptual View

Ever since the first international conference on financing for development (Monterrey, 2002), the conceptual thinking for financing government programmes has widened and the term innovative and new development financing has become popular. Subsequent International Conferences on Financing for Development (Doha Declaration, 2008 and Addis Ababa Agenda for Action- AAAA- 2015) all recognised the need for innovative sources of development financing. Even though there is no internationally agreed definition of innovative financing for development, several international agencies have offered various interpretations of the term and scope (World Bank, 2009). Innovative financing' according to the OECD (2009), comprised mechanisms of raising funds in support of development that go beyond the traditional approaches by either the official or private sector. This include new approaches for pooling private and public revenue streams to scale-up activities, new revenue streams for development activities or new incentives to scale-up ongoing government activities. It highlights the opportunities for individual countries to mobilise financing needed to support the implementation of government programmes and the sustainable development goals.

Early estimates of the amount of resources raised so far through innovative financing instruments vary significantly according to the definition which is used. The World Bank estimates that innovative fund raising generated US$57.1 billion in official flows between 2000 and 2008 (World Bank, 2009). The leading group (2011) with focus on a narrower definition of innovative financing estimated that a total of over US$5.5 billion has been raised for health through schemes such as the airline ticket tax and the international finance facility for immunisation. Similarly, the United Nations (2012) report based on the OECD definition of innovative finance, indicated that US$31.3 billion has been raised between 2002 and 2011 for climate and environment, a significant proportion of which was through carbon emissions trading.

In 2014, the United Nations Intergovernmental Committee of Experts on Sustainable Development Financing developed an innovative financing model that can help governments finance national development plans as well as international development commitments (such as SDGs and Africa Agenda 2063). Figure 2 shows the new model of development finance.

Figure 2: Flow of funds from International and National Sources to Government Programmes, SDGs and Agenda 2063



Source: Adapted and modified from the Report of the Intergovernmental Committee of Experts on Sustainable Development Financing (2012).

The new model of development finance recognises the importance of all four sources of finance (domestic-public, domestic-private, international-public and international-private). In addition, there is a blending of the sources to obtain strong financial packages and instruments. It is clear that each of the financing source is influenced by national policy frameworks, but complemented by the international financial architecture. The belief is that implementing these innovative financing mechanisms coupled with curtailing illicit financial flows will help several African countries achieve key goals of Agenda 2030 and the Africa Agenda 2063.

Table 1: The New Financing for Development (NFfD) Toolbox

	Domestic	**International**	**Blended**
Public	• Taxation (PIT, VAT, CIT, property etc • Taxation new (air-ticket, carbon taxes , tourism tax, GSM tax etc) • -Natural Resource Revenues (oil, etc) • -National Development Banks • Debt (Bonds etc)	• Multilateral/Bilateral agencies • South-South Cooperation • Triangular Cooperation • Sovereign Wealth (in some cases owned by national governments) • Debt conversion or swap (debt for education, debt for health etc) • Vertical funds (Global funds, GAVI Alliance and UNITAID)	- PPPs - Impact Investment - Funds - Social Impact Funds including Green Bonds - Crowd funds - Guarantees (eg Advance Market Commitments)
Private	• Household Income and Savings • Banking Sector • Private sector (large, medium and small scale enterprises) • Private agents (domestic philanthropic, NGOs, Religious groups) • CSR law	• Diaspora (especially remittances bond) • International (overseas) Banks • International Capital Markets (bonds and other instruments) • Multinational companies • Private actors (philanthropists, NGOs religious institutions)	

Source: Adapted and modified based on Hurley (2016)

III.1 Domestic Public Financing

Both Agenda 2063 and the Addis Ababa Action Agenda (AAAA) recognise the importance of augmenting capacities for domestic public finance mobilisation. The main mechanisms in this category are (a) taxes and levies, including income taxes, value added/consumption, property taxes (b) revenues from commodities. There are also other forms of innovative taxes such as tax on activities which have negative impacts on the environment (carbon taxes, taxes on maritime and aviation transportation), but may require international agreements. The tax on airline tickets is coordinated internationally, but implemented nationally, while the financial transactions tax can be implemented nationally or internationally.

Box 1: How the Airline Ticket Tax works

The tax on airline tickets is paid by individual air passengers when they purchase their ticket and the airlines are responsible for collecting and declaring the levy and the resources are channeled into key development challenges such as treatment and care of those affected by HIV/AIDS, tuberculosis and malaria. As at 2011, countries such as Cameroon, Chile, Congo, France, Madagascar, Mali, Mauritius, Niger and Republic of Korea were implementing airline ticket tax to fund development programmes (UNDP, 2012).

In Belise, a tourism tax has been introduced and about US$3.75 is paid by a visitor at the point of departure. Also, a 20.0 per cent commission from cruise ship passenger is charged. UNDP (2016) suggested that a GSM fee can be introduced in Nigeria which can be as low as 1kobo per minute of phone calls and data usage. As Musgrave (1959) observed, resource mobilisation through taxes depends, however, on the size of the tax base, a country capacity to collect and administer taxes, tax elasticity, the volatility of sectors being taxed and commodity prices. This often limits the volume of taxes collected as is the case in Nigeria. The issuance of government debt instruments to finance sustainable development has been a long utilised option, but as Mavorots (2008) and UNCTAD (2016) noted, there should be a corresponding development of domestic debt instruments so as to bring the risk-return profiles of domestic instruments close to those of regional and international financial institutions. This will ensure that domestic savings are retained within domestic borders rather than letting them leak out of national borders.

The establishment of national development banks to finance small and medium sized enterprises, infrastructure and innovations is increasingly gaining momentum across the developing world. According to the UN (2014), national development banks in some countries finance their activities through the issuance of bonds that allocate funds raised towards a particular use such as green infrastructure. The advantage of national development banks is that they have deep knowledge of the domestic markets and can, therefore, provide relevant capacity development and assistance in project management but, the challenge is to ensure that the banks do not undertake activities that the private sector will competitively provide.

III.2 Domestic Private Finance

The mobilisation of private finance for sustainable development has always been a challenge not because of lack of interest but because private capital is always seeking good investment opportunities. In most cases, the private sector only commits to such prospects that meet its appetite for risk and reward. In Nigeria, despite the large and growing private sector (Banks, Oil companies etc.), their contributions to the achievement of the Millennium Development Goals was completely not available except for few private philanthropic donations in some health related goals. Sustainable Development Goal 7 (ensure access to affordable, reliable, sustainable modern energy for all), Goal 8 (promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, and Goal 9 (build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation) are key areas among other goals that the private sector in Nigeria can provide the leod.

Ensuring an increased understanding by the private sector that their commercial interests and such public policy goals as SDGs or Africa Agenda 2063 are compatible and can be realised at the same time is important and herein lies the responsibility of key governmental private sector regulatory agencies in Nigeria such as the Central Bank, the Nigerian National Petroleum Corporation, among others. Due to a variety of reasons, many opportunities for funding key development goals are often perceived by the private sector as overly risky or uncertain. It is thus, necessary for governments and other public institutions to develop policies and programmes that will help incentivise the private sector into committing a large share of their investments into sustainable development goals. Bensoussan et al., (2013) suggested that if a government institution or a multilateral institution can offer to guarantee portions of loans made for such sustainable development goals investments, it could help the private sector to rebalance their assessments of the risk and reward and may help subsequently unlock considerable capital into development goals.

One good way that private finance can contribute to sustainable development is by stimulating the growth of small and medium scale enterprises (SMES) which are often underfunded because they are too small for commercial lending, but considered too large for microcredit financing. Even when there is ample liquidity in the banking sector as is the case in Nigeria, lending to SMEs remain low and often considered high risk. Even when the central bank adopts the 'lend to distribute' banking for MSME funds, the challenge of access from either deposit money banks or specialised banks (Bank of Industry, Bank of Agriculture). An innovative way of creating a set of instruments to serve this segment is, therefore, critical for the Sustainable Development Goals. A second important way that private finance can contribute to the sustainable development goal 1, 2 and 3 is by expanding the scope and scale of financial services offered to the poor, older persons, women, persons with disabilities and other key vulnerable populations. Recent experiences of donor agencies in the North East of Nigeria, showed that there are still large numbers of people that are completely unbanked. The mobilisation of household and corporate savings is only possible if affordable and appropriate financial services are available at reasonable proximity.

Private voluntary or philanthropic contributions played key roles in Nigeria during the MDGs, especially for health related goals (polio, tuberculosis etc.). The recent Presidential Initiative on the North East has also mobilised significant amounts of private sector financial support. An innovative way to increase philanthropic support for the SDGs according to Bensoussan et al., (2013) is for governments to establish national-challenge funds which can match commitments from corporations and individuals up to pre-specified limit. With this commitment, corporations, in addition to contributing their own funds, could employ innovative means to raise funds from their employees and customers. Alternatively, governments could identify priority development projects and select eligible private sector recipients for challenge fund proceeds.

In Mauritius, a Corporate Social Responsibility (CSR) law has been introduced which requires all companies to either spend 2.0 per cent of their profits on CSR activities or transfer the amount not spent to government. The law provides that every company shall use its CSR fund to implement an approved programme, or a programme under the National Empowerment Foundation. The companies may implement these projects on their own or in partnership with civil society organisations.

III.3 International Public Finance

The most popular and important source of the international public finance is Official Development Assistance (ODA) which comprises traditional bi-lateral donor country and multilateral official outlays to developing countries often in the form of grants, concessional loans and technical cooperation. In 2002, as part of their commitments under the Monterrey Consensus of the International Conference on Financing of Development, donors agreed to significantly increase ODA in an effort to raise resources to finance the Millennium Development Goals. Following these commitments, ODA flows increased in the early 2000s, but still remained below the UN target of 0.7 per cent of donor GNI and averaged at about 0.3 per cent of GNI in 2013. Besides, ODA is currently not seen as a reliable means of financing development for many countries because it is believed to be more volatile than other capital flows (Markandya, Ponczek and Soonhwa, 2010), sometimes two to four times more volatile than domestic tax revenues (Vargas-Hill 2005) and about five times more volatile than the growth of gross domestic product (Kharas, 2008).

In Nigeria, ODA has always been insignificant, compared with the gross domestic product, but played key role in the achievement of many targets of the Millennium Development Goals (MDGs), especially in the health sector. Currently, there are huge outlays of ODA which is financing early recovery and social welfare programmes in the North East of Nigeria, especially for internally displaced persons. Interest in ODA for financing the sustainable development goals in Nigeria may increase given the present economic downturn, but may also be coming at a time the volume of ODA as provided by donors are on the decline globally.

Recent discussions on innovative international public financing (using tax payers' funds to finance development in other countries) focus on: South-South cooperation; triangular cooperation; and debt conversion swaps. There are, however, new proposals for an IMF issuance of special drawing rights (SDRs) for financing development.

South-South cooperation as a complement to North-South cooperation is now emerging as a strong source of financing the SDGs and there are two types often discussed in the literature: emerging economy to developing economy cooperation and developing economy to developing economy cooperation. The relationship between China and Africa or between Brazil and Africa falls with the first category of South-South cooperation (SSC) which has been growing tremendously in recent times. According to the European Commission Report 'The European Union, Africa and New Donors: Moving Towards New Partnerships (2015), China is the largest provider of flows to Africa, representing about 76.0 per cent of total commitments from SSC providers over the period 2003-2012, followed by India and Kuwait, representing 6.0 per cent of commitments. Saudi Arabia, the United Arab Emirates, Turkey and Brazil together account for 5.0 per cent of total commitments. The second variant of SSC, which is being heavily promoted, is when a developing country initiative is being supported by another developing country, especially Africa to Africa cooperation. Nigeria's Technical Aid Corps (TAC) is a good example of the second variant of SSC.

Triangular Cooperation (TRc) is another emerging complement which is a partnership between traditional donor countries (e.g. Japan, Germany, USA) and emerging pivotal economy (Brazil, Thailand or South Africa) and a developing economy (e.g. Ghana, Mozambique, Malawi). One of the most cited possible benefits of SSC/TRc is the implementation of Agenda 2030 and Agenda 2063, especially SDGs 9 (Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation) SDGs 8 (Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all) and SDGs 13 (Take urgent action to combat climate change and its impacts).

Debt swaps convert existing debts of developing countries into increased expenditures on important development programmes. Under the debt swap agreements, creditors agree to forgo a portion of their claims on the condition that the debtor country spends an agreed amount on approved social or environmental programmes. Historically, there have been debt-for-nature swaps, debt-for-health swaps, debt for education swaps. Nigeria benefited from a debt-for-MDGs implementation swap in 2004 which enabled the government establish the MDGs office and embark on several programmes to achieve the MDGs, including the conditional grant scheme. The Global Fund (2010) reports that in 2011, about four debt-to-health agreements had been reached involving Germany and Austria as creditor countries, with Indonesia, Pakistan and Cote d'Ivoire as beneficiaries. Under the debt-to-health agreements, the creditor agrees to forgo payment of a portion of interest and principal on the condition that the beneficiary invests and agreed amount in health via the global fund (UNDP, 2012).

There are also vertical funds such as Global Fund, GAVI Alliance and UNITAID. The Global Fund to fight AIDS, Tuberculosis and Malaria is a global health partnership that finances country-level programmes for the prevention, treatment and care of the three diseases, while the GAVI Alliance is a global partnership on immunisation which funds vaccines for children in the 70 poorest countries, with benefiting countries receiving support for the introduction of new vaccines. The UNITAID is a drug purchasing facility that seeks to supply affordable medicines for HIV/AIDS, Malaria and Tuberculosis to low income countries using its purchasing power to lower market prices of drugs and to create sufficient demand for niche products with large public health benefits (UN 2012).

III.4 International Private Finance

Innovative international private financing frequently discussed include diaspora bond, conventional bonds issued at the international capital markets, multinational corporations, international banks, as well as, international philanthropic individuals and agencies.

Diaspora bonds, specifically targeted at a country's emigrant population are a time tested, but still underused way to raise money for development. The pioneers of diaspora bonds, Israel and India, have leveraged them over time to raise more than US$25 billion and US$11 billion, respectively (Ketkar and Ratha, 2009). The World Bank estimated that for sub-Sahara Africa, diaspora bonds could raise as much as US$5 billion to US$10 billion annually, but so far, their potential has been almost completely untapped. According to UNCTAD (2016), the early African countries to explore issuing of diaspora bonds include, Ethiopia, Ghana, Kenya and Zimbabwe. For instance, in 2007, the Government of Ghana issued a US$50.0 million Golden Jubilee savings bond targeted at Ghanaians both at home and abroad. In 2011, Ethiopia also issued its second diaspora bond, the 'Renaissance Dam Bond', the proceeds of which were used to fund the construction of the 'Grand Renaissance Dam' at an estimated cost of US$4.8 billion. Nigeria and Rwanda have also experimented some form of diaspora bonds, but given the former's huge migrant population, it should be mobilising the highest volume of finance from such bonds if the perception of risks is at manageable levels.

International foundations and philanthropic organisations have also been identified as key to financing the SDGs. In Nigeria, the presence of the Bill and Melinda Gates Foundation, Clinton Health Initiative, among others, were helpful in pursuing health and environment based goals during the MDGs era. In addition to finance, international foundations and philanthropy often provides huge technical expertise, especially given their diverse background and global outreach.

III.5 Blended Finance

The most recent innovation in development financing is the use of blended finance instruments which are either provided by development finance institutions to leverage private finance or provided by government institutions to leverage private finance (eg through loans, equity investments etc). It can also involve a partnership between many stakeholders (civil society, philanthropic institutions, development banks and private for profit institutions). Blended finance is believed to be an innovative and strategic option to contribute towards the large financing gap for the full attainment of the SDGs and the Africa Agenda 2063. This is because the role of the private sector in supporting development is increasingly being realised. The IMF (2014) reported that since 2005, Africa has attracted more investment than aid and in 2013 alone, up to US$8.0 billion of total volume of impact capital reported by the Global Impact Investing Network was directed to Africa.

The key characteristics of blended finance is that risks and rewards are shared and that there is attractive benefit for the public sector (usually in terms of development objective) after the private sector is fully compensated (UNDP, 2012). Innovative types of blended finance include; impact investments, impact bonds, public-private partnerships, crowd funding and advance market commitments.

Impact investing refers to investments made into organisations, government and foundations with the intention to generate a measurable, socially beneficial or an environmental impact alongside a financial return. The term impact investment was coined in 2007 at the Rockefeller Foundation Centre and today, it primarily takes place through mechanisms open to institutional investors, mission investors but in few cases, individual investors. The investments are usually done through private equity, debt or fixed income securities, sometimes with a minimum of US$1000. With impact investing, many foundations, development banks are mobilising large pools of private capital from new sources to address the world's most critical problems. Since 2007, the growth of impact investments has been very huge and successful, partly attributed to the criticisms of traditional forms of philanthropy and international development which have been characterised as unsustainable and driven largely by the goals and whims of the corresponding donors. Big organisations participating in impact investing in Africa include the: Commonwealth Development Corporations (which is supporting the building of businesses throughout Africa and South Asia), Norwegian Investment Fund for Developing Countries (investing in the establishment and development of profitable and sustainable enterprises in developing countries), and Tony Elumelu Foundation (promoting innovating African businesses that create positive financial, social and environmental impact in key development sectors.

Closely related to impact investments are social impact bonds and green bonds. The social impact bond (SIB) is also a form of multi-stakeholder participation intended to leverage private capital for scaling-up solutions to social problems. In the SIB, philanthropic funders and impact investors will usually take on the financial risk of expanding proven social programmes. Most times, nongovernment organisations deliver the social programme to more people in need, while the government pays only if the programmes succeed. It is thus, a contingent contract with an investor for repayment on delivery of impact based results.

Crowdfunding is a practice of funding a project or venture by raising monetary contributions from a large number of people, often performed today via internet. It is a form of alternative finance which has emerged outside of the traditional financial system. The crowdfunding model is based on three types of actors: the project initiator who proposes the idea and/or project to be funded, the individuals or groups who support the idea and a moderating organisation called the platform (usually development organisations) that brings parties together to launch the idea. Even though average amounts raised are usually not too significant, it is estimated that in 2013 alone, over US$5.1 billion was raised via crowdfunding worldwide, which increased to US$16.0 billion in 2014 and was estimated at over US$34.0 billion in 2015. Crowdfunding can be of three types; rewards crowdfunding (where entrepreneurs pre-sell a product or service to launch a business concept without incurring debt or sacrificing equity/shares); equity crowdfunding (where the backer receives shares of a company, usually in the early stages, in exchange of money pledged) and debt-based crowdfunding (which is like a market place lending where the investors make money from interest on the unsecured loans; the system operators make money by taking a percentage of the loan and a loan servicing fee.

Advanced market commitments (AMC) has guaranteed future donor co-payments for vaccines against diseases that primarily affect low-income countries. The guaranteed demand provides an incentive for drug companies to engage in research, production and distribution of the relevant vaccines. A well-known AMC is that of pneumococcal vaccines launched in 2007 by

Canada, Italy, Norway, Russia, the United Kingdom and the Bill and Melina Gates Foundation which was aimed to accelerate the development and availability of the vaccine. According to UNDP (2012), currently, the donors have committed about US$1.25 billion to guarantee the pharmaceutical companies the price of vaccines and this in turn, has provided incentives for several manufacturers to now develop products that might otherwise not be commercially viable.

Public-private partnership is also a popular blended finance instrument in Africa even though its utilisation is still low. According to UNCTAD (2016), the magnitude of PPPs is lowest in Africa, compared with Latin America, Caribbean, East Asia and the Pacific. Five countries (Nigeria, Morroco, South Africa, Egypt and Algeria) account for almost two thirds of African investments in PPP. In terms of sectoral distribution of PPPs in Africa, telecommunication ranks first (68.0 per cent), energy is second (21.0 per cent), transport is third (10.0 per cent) while water and sanitation ranks fourth with 1.0 per cent only a piece. What is required now is incentivising PPPs so as to alter the balance of sectoral distribution in favour of other key SDGs related goals.

IV. Possible Role of the Central Bank in the New Financing Model

In section 3, we reviewed key innovative development financing initiatives that exist and others that are still emerging across the world but are now being discussed in policy and academic literature. Several African countries are also in the process of developing their own innovative financial products with local peculiarities. A critical issue is what should be the role of the Central Bank and possibly by extension the fiscal authorities in developing innovative financing options for the SDGs and the Agenda 2063 in Nigeria. It is clear that rather than creating and duplicating institutional structures to manage innovative financing mechanisms, the existing monetary and fiscal authorities can be strengthened to oversee the evolution, implementation and monitoring of innovative development financing options for supporting government programmes and achieving the SDGs. In this section, we discussed possible roles the Central Bank of Nigeria can play in this regard.

IV.1 Country Ownership and Integration into the National Financial System Strategy and the National Development Roadmap

While there is an urgent need to increase the quantity and quality of financial resources (both traditional and innovative options) available for funding government programmes and the SDGs, it is also important that there is country ownership early enough and such financing options are carefully mainstreamed into national financial system strategy and of course, the national development roadmap. As UNDP (2012: 40) noted, country ownership involves much more than country devised financing proposals.

Rather, it involves meaningful participation and inclusion in the governance structure of innovative finance initiatives. It also involves alignment behind countries nationally devised financial system and long-term development strategies, including if possible, greater use of direct budget and/or sector-wide support.

IV.2 Strengthening the legal and regulatory requirements for innovative development financing

Since governments control policy and determine the regulatory conditions that govern the space that investors are accorded, they can create the enabling environment for the acceleration of innovative development financing instruments. The legal and policy environment need to be right in order to accelerate institutional investments. Given the role of the private sector in this new model of financing, the ease of doing business should be addressed. Recent World Bank Ease of Doing Business ranking (2015) shows that out of 189 countries with 1 as being the best, Botswana ranked at 72 was the highest and best for Africa, while South Africa was 73, Kenya was 108, Ghana was 114 and Nigeria, 169. This discourages impact investors. The key constraints usually relate to infrastructure, including energy, political instability, macroeconomic instability, as well as, policy uncertainty.

In addition, a sound regulatory environment will help safeguard against possible financial crisis arising from innovative financing mechanisms given that the Basel III capital rules, especially the capital requirement directives did not consider these innovative financing instruments. Erten and Ocampo (2012) also noted that as part of international capital flows, significant inflow of some innovating financing into a country may lead to currency appreciation and the widening of current account deficits in the recipient country, which could increase the risk of financial crisis.

IV.3 Ensuring Predictability

A critical question is 'if oil and other traditional financing mechanisms are not predictable, can the new innovative financing mechanisms be predictable?. One major criticism of the traditional ODA is its unpredictability which has led many low income countries not to rely on it for development planning purposes. Sometimes, there are instruments that generate more revenues in good times than in bad times i.e. being pro-cyclical which can introduce shocks frequently to the system. The design and choice of innovative financing instruments which could deliver resources in a countercyclical manner should be a clear priority.

IV.4 Dealing with new sets of financial intermediaries

Innovative development financing mechanisms may sometimes entail multiple forms of financial intermediaries such as development banks, aid agencies, NGOs, financial institutions, government entity and other special purpose vehicles. The microeconomic theory of financial intermediation may not have anticipated this diverse group playing roles as financial intermediaries. How do we deal with the agency conflicts, incentive incompatibility issues without increasing transactions costs which can itself be detrimental to the achievement of the SDGs. This is a key responsibility which the CBN should be positioned to undertake.

References

Africa Union (2015). Agenda 2063: The Africa We Want, Third Edition, Popular Version, Addis Ababa.

Bensoussan. E, R. Ruparell and Talineto, L., (2013) 'Innovative Development Financing' in Mckinsey and Company Global Institute Report.

Bloomberg Finance (2015) JP Morgan Emerging Market Bond Index. (http://www.brookings.edu/africa-in-focus/posts)

Erten, B. and Ocampo, J., (2012). Super-Cycles of Commodity Prices Since the Mid-Nineteenth Century. United Nations Department of Economic and Social Affairs (DESA) Working Paper No. 110.

Heller, P. S. (2005). Understanding Fiscal Space, IMF Policy Discussion Paper, Fiscal Affairs Department 05/4.

Hurley G. (2016) 'Financing the 2030 Agenda' Paper Presented at the SDGs Learning, Training and Practice, 11, July, NewYork.

IMF (2015) Primary Commodity Price System.

Ketkar, S. and Ratha, D., (2009). Innovative Financing for Development, World Bank Publications, the World Bank, Number 6549, September.

Kharas, H. (2008). Measuring the Cost of Aid Volatility. Working Paper 3, Wolfensohn Center for Development, Brookings Institution, Washington, DC

Leading Group on Innovative Financing for Development (2011). Bamako Declaration, www.leadnggroup.org/article890htm.

Markandya, A., Ponczek V., and Soonhwa, Y., (2010). What Are the Links Between Aid Volatility and Growth?. Policy Research Working Paper; No. 5201. World Bank, Washington, DC.

Mavorotos G., ed. (2008) Domestic Resource Mobilisation and Financial Development. Palgrave Macmillan in association with the United Nations University, WIDER, New York.

Musgrave, R. (1959). Theory of Public Finance: A Study in Public Economy. New York, McGraw-Hill

Sandor, E., Scott, S. and Benn, J., (2009). Innovative Financing to Fund Development: Progress and Prospects. Paris: OECD.

Schmidt-Traub, G. (2015). 'Investment Needs to Achieve The Sustainable Development Goals- Understanding the billions and Trillions. Sustainable Development Solutions Network, Working Paper, version 2.

Suhas Kektar and Ratha, D. eds (2009). Innovative Financing for Development, World Bank (openknowledge.worldbank.org).

UNCTAD (2016). 'Debt Dynamics and Development Finance in Africa', Economic Development in Africa Report, 2016.

UNCTAD (2016). Economic Development in Africa: Debt Dynamics and Development Finance in Africa. UNCTAD/ALDC/AFRICA/2016.

United Nations (2012) 'In Search of New Development Finance' World Economic and Social Survey 2012, Department of Economic and Social Affairs.

United Nations (2012) 'Report of the Intergovernmental Committee of Experts on Sustainable Development Financing'.

UNDP(2012). Innovative Financing for Development: A New Model for Development Finance?. Discussion Paper, United Nations Develoment programme, January, pp. 11.

UNDP(2015). Millennium Development Goals End-Point Report, Office of the Senior Special Assistant to the President on Millennium Development Goals (MDGs), http://www.ng.undp.org/content/dam/nigeria/docs/MDGs/Nigeria_MDG_Report%202015%20Full%20Report.pdf

UNDP (2015). 'Primary Commodity Booms and Busts: Emerging Lessons from Sub-Sahara Africa' Regional Bureau of Africa, New York.

UNDP (2016). 'Fiscal Space and the Sustainable Development Goals' Forthcoming, Nigeria, Abuja.

Vargas-Hill, R. (2005). Assessing Rhetoric and Reality in the Predictability of Aid. UNDP Human Development Report Office Occasional paper 2005/25.

World Bank (2009). 'Innovative Finance for Development Solutions', www.tinyurl.com/798h85e

World Bank (2013) Financing for Development Post -2015.