Preparatory Process for the Third International Conference

Ms. Fonacier shared the lessons of the financial inclusion strategy in the Philippines. The challenges were enormous with 37 per cent of cities and municipalities without access to a banking office and services concentrated in high income areas. She stressed the need for an enabling environment and regulation. Inclusion could be a goal of the central bank alongside stability. Technological innovation was a key ingredient, since it made it possible to serve more people in real time with lower costs. In that context, the bank had followed a test-and-learn approach and had identified 27 banks and 5 non-banks that could deal with e-money. E-money was used for retail, but also government payments (conditional cash transfers and government pensions), as well as for disaster relief payments. Ms. Fonacier emphasized the need to regulate and supervise small financial institutions and e-money providers, in particular their capital adequacy, licensing procedures, governance and risk management. However, she highlighted the need to apply a proportionate approach to ensure that the required measures will be commensurate to the level of operations. She emphasized that it was possible to balance inclusion, stability, integrity and protection of consumers. Stable financial systems

Eriksson, Chief Investment Officer, AP4 (Swedish Pension Fund); Mr. Sachin Rudra, Chief Investment Officer, Acumen; and Mr. Jesse Griffiths, Executive Director, EURODAD.

The moderator, Ms. Spiegel, began by pointing out that, despite large financing needs, insufficient funds are flowing to areas pertinent to sustainable development, such as infrastructure, small and medium enterprises (SMEs) and innovation. This panel would assess the impediments to long-term private investment into these sectors.

The first panelist, Mr. James Zahn, provided an overview of trends in foreign direct investment (FDI) flows, and assessed their contribution to fulfilling investment needs for sustainable development. While developing countries' share of FDI has been increasing and recently reached 54 per cent of global FDI flows, it remains concentrated in a few countries. Moreover, FDI to least developed countries (LDCs), small island developing states (SIDS) and landlocked developing countries (LLDCs) remain at low levels. Mr. Zahn argued that there is significant potential for greater investment, not least due to the large cash holdings that have been accumulated by multinational corporations. Stressing the need to link foreign investments more closely with the development strategies of recipient countries, the speaker proposed a number of transformative actions to ensure that FDI flows to areas where they are profitable but also have a positive sustainable development impact. These included establishing investment promotion agencies that focus to a greater degree on sustainable development and ensuring a well-prepared pipeline of projects. Mr. Zahn also called for better policy coherence across a range of areas including those pertaining to trade, investment and competition.

Mr. Magnus Errikson stressed that markets have become highly focused on short-term returns, but that in contrast to many investors who tend to be short-term oriented, the Swedish Pension Fund is able to take a longer-term approach and operates with a 40 year horizon (with their managers evaluated over a 5 year period). This emanates from the mandate set by the Board, which is to contribute to the stability of the national pension system through managing Fund capital with the aim of generating the best possible return over the long term, as defined by the duration of the liabilities of the pension system. As a result of this longer-term horizon, AP4 has been able to take into consideration factors, such as sustainability, while at the same time having a commercial approach and working in the interest of pensioners. Nonetheless,

disclosure, preparing bankable sustainable projects. He mentioned that there are many initiatives under way that require companies to make disclosures, but there is an insufficient degree of standardization.

Mr. Steve Waygood explained that in his view the current structure of the financial system undermines sustainable development, and that there is a need to change this through encouraging the integration of ESG issues into investment criteria. He suggested that there are a number of ways to do this. First, there is a need to change price signals to ensure that externalities are internalized to improve the readiness of investors to integrate sustainability issues. In addition, there is a need to change incentives within the system to make shorter-term time horizons less rewarding for investors. He suggested that capital markets incentivize short-term behavior. In this regard, he described the flow of funds through a chain of financial intermediaries, and explained the short-term incentive structures throughout the chain.