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Short-termism impedes progress of hundreds of millions of people, United Nations report says

Major report released in advance of the G20 and World Bank/IMF Spring Meetings

NEW YORK, 13 April 2018 – The prospects of around 800 million of the world's poorest people remain dire. The global economy is experiencing a moderate upturn, and momentum around sustainable investing is growing, the UN said today.

But the vast majority of investment is still short-term oriented and commitments by the international community to create sustainable economies are not being met.

There is an increasing interest in socially responsible investing, but that is no substitute for a broader transformation in the financial system. The report states that the current system rewards investors, financiers and project managers that prioritize short-term profits. Similarly, policy makers are excessively focused on short-term considerations. But there is a price to pay. Infrastructure projects are shelved in favour of short term priorities. Small businesses and women remain excluded from the financial system.

"The good economic news in some regions masks the very real risk that the poorest will be left behind," said LIU Zhenmin, Under-Secretary-General for the United Nations Department of Economic and Social Affairs. "There is no room for complacency."

"If we don't invest in infrastructure projects like bridges, roads and sewage systems, if the poorest and women are cut off from access to credit and other financial services, we have little prospect of achieving our global goals," he added.

Per capita growth remains negative or insignificant in many countries where the poverty rate is already high, entrenching inequality.

Overcoming the short-term outlook of many investors is a complex but urgent issue. according to "Financing for Development: Progress and Prospects," the 2018 comprehensive annual progress report on how to finance the Sustainable Development Goals.

Pension funds, insurance companies and other institutional investors hold around $80 trillion in assets. But the majority of their resources are invested in liquid assets, such as listed equities and bonds in developed countries. Investment in infrastructure still represents less than 3 per cent of pension fund assets, with investment in sustainable infrastructure in developing countries even lower.

The lack of long-term investment horizons also means that major risks, such as those from climate change, are not incorporated into decision-making.

According to the report, the solution lies in a multifaceted approach. It includes changing payment practices: the compensation of financial advisors and portfolio managers is too often linked to short term results. More transparency also helps: some countries now require all listed companies to disclose financial risks they face from climate change.

Short-sighted policies also result in a lack of access to finance for countries in urgent need. Support for countries affected by disasters is often too little, too late. Innovative financial instruments exist that provide quicker access to funding. Countries can set up insurance-like mechanisms, and the international community can support those that can't afford premiums. Loans can be set up to reduce repayments automatically during crises. But so far, major funders have not taken up these promising tools.

"We have to reach beyond the quick fix if we are going to create a world that can sustain all of us," said Navid Hanif, Director of Financing for Sustainable Development Office. "Political leadership and public policies are indispensable."

It takes leadership to overcome short-term political cycles, devise and enforce rules which have widespread benefits but may face resistance by powerful groups, for example tax reforms and stopping illicit financial flows, the report notes.

The report emphasizes that in donor countries, political leaders must do more to meet their commitment to provide financial assistance to the world's most vulnerable countries.

Beyond financing, the report highlights several cross-cutting areas that impact sustainable financing and that require policy makers attention. For example:

- New technologies present boundless opportunities. However, in analyzing the potential of new technologies, the report warns that the transformative power of technology raises complex ethical, socio-economic and human rights challenges and risks. In the short-term, technological change could lead to job losses and increased polarization in labour markets. The report argues for adopting a long-term perspective, and calls on governments to make complementary investments, strengthen social protection and urgently develop regulatory frameworks so that benefits of technological change are shared broadly, and risks to privacy and data protection, financial stability and integrity are addressed.
- Gender inequalities persist in access to finance, technology, public services, decent jobs, unpaid care and domestic work, participation in policy-making processes and many other areas. Bank account ownership among women is about 58 per cent, and for men, 65 per cent. In Asia, only 16 per cent of businesses are women owned. Such inequality threatens achievement of the 2030 Agenda, but also weakens inclusive growth prospects by denying women opportunities to fully participate in the economy.

In the foreword to the report, United Nations Secretary-General António Guterres said, "The world has the resources to deliver, but they are not allocated where they are needed most. The choices we make now on financing will be pivotal."

Download the report and access the comprehensive data annex to the report at: https://developmentfinance.un.org

This Task Force report is the main input to the ECOSOC Forum on Financing for Development which will be held on 23-26 April 2018. http://www.un.org/esa/ffd/ffdforum/

Background
The report is written by the Inter-agency Task Force on Financing for Development and issued under the auspices of the United Nations Department of Economic and Social Affairs, by mandate from the Addis Ababa Action Agenda. The major institutional stakeholders of financing for development process are: the World Bank Group, IMF, WTO, UNCTAD and UNDP, which take a central role in the Task Force. The Task Force includes almost 60 UN agencies and international organizations, including the OECD and the Financial Stability Board. The report sets the tone for the spring meetings of the World Bank and IMF in Washington, D.C. (18-22 April).

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