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**Statement by Mr. Ján Kubiš
United Nations Under-Secretary-General
Executive Secretary of the United Nations
Economic Commission for Europe**

**at The Opening Ceremony of the China Beijing
International High-Tech Expo**

Beijing, China, 18 May 2011

Excellencies,
Ladies and Gentlemen,

It is a pleasure to be with you today at this prestigious international event. I am quite impressed with the enormous economic dynamism which is visible throughout your country. In a world economy that has recently been shaken by strong turbulences, China has remained an important island of economic and financial stability and a driving force of global economic growth. As member of the G-20 it has played an important role in creating the global cooperation that helped contain the worst financial crisis since the 1930s.

Finance is an extremely important topic. Financial disturbances and a malfunctioning of the international financial system were among the main causes of the recent global economic crisis. This has resulted in severe output contractions, especially in the wider-European region that I represent. Without the extraordinary interventions by public authorities much of the world would have been thrown into another great depression. In Western Europe and many of the transition economies national income has yet to return to its level prior to the crisis, and unemployment is expected to stay high for several more years. In addition the sovereign debt levels of many countries have increased substantially and the fiscal consolidation which must follow will have a detrimental effect on many useful governmental programs and activities for years to come. This includes overseas development assistance. As a result of the crisis, progress has been derailed in achieving the Millennium Development Goals, which are a set of international agreed-upon targets for reducing global poverty.

The crisis was rooted in the inadequate regulation of financial markets in the

advanced economies. Thus although a high proportion of financial transactions occurs solely in the private sector, the public sector has a very important role in establishing the regulatory institutional structure governing these activities. This task, which has always been difficult, was made even more complicated over the last decade by two developments – financial market innovation and globalization.

Innovation has been important in the financial sector for some time, but recently it seemed to create very complex and difficult-to-understand products that provided an illusory and distorted view of the real risks involved for market participants. This underscores a more general principle about innovation in that it can bring about enormous benefits to societies and contribute to their growing welfare, but their application often entails inherent risks which policy-makers cannot afford to neglect.

The second factor that made regulation difficult was globalization. Financial markets have become global but regulation remains primarily national. In addition, unilaterally strengthening national regulation often puts domestic firms at a competitive disadvantage. Thus, in order to keep these firms domestically, which was desired for numerous reasons including the high salaries they pay and the tax revenues they provide, countries sought to keep their regulations to a minimum. This led to a process of regulatory arbitrage, that being the lowering of regulations in order to attract or keep financial firms in a particular country.

These remain key problems in the current attempts to strengthen regulatory structures and create a more stable financial system. Global governance of the financial system remains inadequate and as a result reform efforts are focused on primarily national legislation where competitiveness considerations are limiting reform. The only real solution to this problem is more international cooperation. Innovation of financial instruments will continue and regulatory authorities must be forward looking and pre-emptive in their approach. Thus addressing innovation and globalization were keys to the crisis and remain the important challenges ahead in creating an efficient and stable financial system.

In addition to the role of governments and international bodies in creating the proper regulatory framework for the private financial sector, they also have a role in shaping investment patterns in areas where private sector finance is subject to some form of market failure. The United Nations system and its family of organizations including the Economic Commission for Europe are active in this area. Let me highlight a few of our activities and the problems they attempt to address.

In any economic system there are important economic functions that governments must perform. This includes the provision of public goods or those with significant economies of scale; this includes utilities, roads, national defense, police, and perhaps education and health care. Historically in market economies these activities were financed by governments through taxes or public debt and managed by some public agency. However, it has now been realized that in some cases these public services can be more efficiently financed and managed by the private sector if, and this is an important if, a

proper regulatory structure can be created for that activity that insures that the public interest is maintained.

This approach, known as a public-private partnership, attempts to combine the best aspects of the private sector with its emphasis on management and efficiency and the best aspects of the public sector with its emphasis on widespread access and equity. Creating this regulatory structure however, can be quite complex and the specifics can vary considerably depending on the type of activity involved or other circumstances. Therefore a real science has developed about how to create these partnerships and the UNECE has been at the forefront in developing this over the last decade. Given our expertise in this area, an International Centre of Excellence on Public-Private Partnerships is now being created in Geneva which will act as a hub for PPP specialist centres that will be hosted in a number of countries throughout the world; each centre will specialize in a given sector. For example here in Asia, a centre will be established in Manila which will specialize in the best practices in establishing PPPs in the health sector.

China has impressed the world in the creation of innovative mutually beneficial partnerships for infrastructure investment in the developing and developed world and its increasing appetite for international PPP investment. The challenge now is for them to introduce PPPs into their own country to improve efficiency and productivity in their own public infrastructure particularly social infrastructure; the UNECE international centre of excellence on PPP can help China identify the right models for its own internal PPP development.

It is widely recognized in Europe that the key to improving living standards involves the creation of dynamic and innovative economies. Yet for many of these countries, innovation remains a challenge; especially problematic has been the creation of entrepreneurial firms that are central to producing new products and ideas. One of the key factors that is limiting the creation of new innovative firms is their inability to obtain financing at their earliest stages when the financial viability of their products or ideas are still unproven and they have little collateral to offer. As a result the UNECE has established a program to help countries improve or even create a venture capital industry in these economies.

More generally, public intervention is required to attract private financing to this sector, overcoming market failures which otherwise would hold back a critical engine of economic growth and innovation. Public support can take multiple dimensions. Grants allow the exploration of opportunities that, once they show some promise, can grow to attract other forms of financing. Hybrid public-private funds can alter the balance of risk and rewards to entice private investors to finance innovative projects. Public initiatives can also contribute to overcome coordination problems and facilitate the flow of information, connecting potential sources of opportunities and different types of investors.

Finally let me turn to the issue of climate change. This is undoubtedly one of the greatest challenges facing mankind. Over the next several decades there will be substantial changes in global production and consumption patterns. This will require massive investments and technological innovation in many sectors.

Given the externalities involved, there is obviously a very important role for public policy in making these investments or influencing those of the private sector. Given the global nature of the problem, international organizations will have an important role in shaping this public policy.

The UNECE has established several programs whose objective is to promote the financing of activities that address some aspect of climate change as well as build capacity for climate change mitigation and adaptation and help define the international regulatory environment for tackling climate change. Increasing energy efficiency is one of the most effective methods of mitigating climate change. We have found that there are a number of energy-efficiency increasing investments which can save more in energy use than they cost to undertake. Nevertheless these investments are not being made because of the inability to create a bankable investment project. This may be due to the fact that the business or public authority wishing to make the investment, or the local bank, is unfamiliar with how to create a bankable loan for this type of investment.

Alternatively, country risk and the local legal or regulatory structure may not be conducive to making these types of investments. As a result the UNECE has developed a technical assistance program that shows these entities how to identify and develop a bankable investment project and we are in the process of establishing a dedicated energy efficiency investment fund. In addition we provide policy advice for local and national authorities in how to create the institutional and regulatory environment that will support these investment projects.

This ECE program which was established in 1991 is referred to as the Energy Efficiency 21 project and initially was focused on creating cost-effective investment projects in Eastern Europe. Energy efficiency in these economies is only about one-half that of those in Western Europe as measured by energy use per unit of GDP, and therefore there are a lot of opportunities for increasing efficiency in a cost effective manner. Given the success of this program the UNECE work was expanded in 2008 to scaling up the promotion of energy efficiency in all regions of the world through the other UN regional commissions, including ESCAP in Asia, and is referred to as the Global Energy Efficiency 21 programme. As for the UNECE effort in its region, the real challenge of energy efficiency market formation around the world is to tap into private (commercial) financing sources, which can provide amounts that are significantly higher than all others combined. The role of the state is seen mainly in creating a legislative and regulatory environment that would foster energy efficiency and renewable energy market formation, promote public-private partnerships (PPPs) and encourage private financing.

The UNECE has several other activities focused on financing climate change activities. For example, we are currently managing a project in the Central Asian region, which attempts to ease the take-up of technology for climate change adaptation and mitigation, often slowed by financial constraints. And, we are working with a wide group of stakeholders including the private sector, to identify how to move forward green infrastructure investment in its region.

At the most general level, the current failure of the international community to establish an adequate long-run regulatory framework involving carbon emissions and energy use has created excessive uncertainty about the future price of carbon; this has retarded both public and private sector investment in the sectors that will require significant adjustment. Therefore a priority is the need to establish a clear, transparent and forward-looking regulatory structure that will encourage firms to begin to make the necessary investments.

This Summit, which brings together both policy makers and corporate leaders from the financial sphere, provides an important platform to consider both the general issues involved in creating a stable global financial system as well as those in addressing specific market failures. I hope our experiences in the UNECE region can assist you in designing your own policies and perhaps this region with its surplus of savings may be able to assist our region with its financing needs.

With this I would like to wish you fruitful discussions and a successful outcome of this meeting.