Sustainable Infrastructure Investment

Concept Note

To achieve the Sustainable Development Goals (SDGs) by 2030 and net zero carbon emissions by2050 requires a global transformation in infrastructure – energy, transport, housing, communications, industrial and agricultural production – to a sustainable model. Investment of US$l00-120 trillion in sustainable infrastructure will be needed to reach the target of zero emissions by 2050[1]. According to UNCTAD, of the current annual funding gap of at least US$2.5trillion for achieving the SDGs,[2] two-thirds is in developing countries. Infrastructure investment in developing countries declined by US$50 billion in 2020.[3]

2. Public finance remains critical for infrastructure investment. Globally 83% of infrastructure investment has been publicly funded.

3. However, the vast majority of developing countries do not have the public resources to finance infrastructure investments, nor the capacity to borrow at the low interest rates available to the advanced economies. It is evident that, due to the scale of the investment needed, both advanced economies and especially developing countries will have to find ways to mobilize public as well as private finance to meet these goals.

4. There are a number of sectors (.e.g. roads, electricity grids, sanitation systems, digital infrastructure) where governments will need to generate public finance for sustainable infrastructure, including through domestic resources mobilization, building their capital markets etc. However, to meet the required scale of investment in such national and social service infrastructure, the developing countries will need significantly expanded external financing.

5. In their response to the COVID-19 pandemic, most advanced countries have injected fiscal stimulus packages amounting toUS$17

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[1] *International Energy Agency, "World Energy Outlook 2020," and Intergovernmental Panel on Climate Change (IPCC), "Global warming of 1.5°C," 2019.*
[2] *UNCTAD World Investment Report 2014.*
[3] *UNCTAD World Investment Report 2020.*

trillion. They are clearly in a position to provide such fiscal support to the developing countries. The creation of US$650 billion in new SDRs indicates one avenue for mobilization of public finance, especially if the unused SDR of developed countries are lent to developing countries to create avenues for investing in the SDG and Paris goals.

6. There is also substantial private money available which can be deployed for investment in sustainable infrastructure. Global wealth in 2019 rose to US$399 trillion, of which US$50 trillion was held by retirement and pension funds. As Mark Carney, former BOE Governor proposed, we need a financial system that "turns billions of dollars of public money into trillions of private investments."

7. Private asset holders have remained reluctant to invest in infrastructure where projects are long term and complex, with lumpy up-front costs and uncertain returns. The limited private investment in infrastructure has been mostly in the downstream stages of projects, once public investment has underwritten the early-stage risks, and mostly in the form of loans rather than equity.

8. Most developing countries have been unable to secure private infrastructure investment for multiple reasons: weak capacity to identify, prepare, structure, and negotiate complex infrastructure projects; a shortage of public money to undertake the risky, early-stage project development; high country and currency risk; the high costs of capital (with market interest rates ranging from 5-15%); an insufficiently attractive and/or stable investment environment (e.g., deficient regulatory frameworks, the absence of bankruptcy laws and "workout" mechanisms); policy uncertainty and little or no direct interaction with private investors, asset managers, credit rating agencies, and other market players.

9. In recent years, several mechanisms have been established to generate sustainable infrastructure investment in developing countries. Examples are the World Bank's Global Infrastructure Facility and the G20's Global Infrastructure Forum and Hub. There is also considerable demand from the public and by asset owners on companies and asset managers to allocate to sustainable projects.

10. The results are quite modest so far. Investment in sustainable development is a tiny fraction of total global investment. For example, only 1% of assets under management in Europe, North America and

Australia are deployed in “sustainable” investments. The Green Bond market is only around US$13 billion, i.e., 2.5% of sustainable development investment since 2009.

Mobilizing Finance

11. A possible solution is to utilize the credit worthiness (triple A rating) and expertise of the Multilateral and Regional Development Banks to channel larger private and public money into sustainable infrastructure investment in developing countries. At present, the MDBs and RDBs provide only around $100 billion annually in infrastructure investment in developing countries. The operations of MDBs/RDBs should be redesigned and scaled upto to crowd in private investment in sustainable infrastructure to the targeted level of $1 trillion per year.

12. To this end, several steps have been suggested:

(a) Recapitalization of the MDBs and RDBs directly by its shareholders (as was done after the 2008 financial crisis);

(b) Allocation/lending of unutilized SDRs as loans to the MDBs/RDBs;

Enabling the MDBs/RDBs to “crowd in” private investment by de-risking projects e.g. through first loss guarantees.

(c) Co-investments by the MDBs/RDBs in sustainable infrastructure with recipient country governments and/or with loans/equity investments from “donor” governments and/or private asset managers.

13. To enable the MDBs and RDBs to play this role, the Basel rules on reserve ratios may need to be changed or applied more flexibly to the MDBs/RDBs.

14. A part of the capital made available to the MDBs/RDBs could be channeled into sustainable infrastructure projects through National Development Banks or national investment vehicles which may have greater access to projects and could agglomerate smaller projects to enable the MDBs/RDBs to encourage private lending through debt or equity at the scale required to the concerned developing country.

15. Besides their triple A creditworthiness and ability to borrow from the market at low interest rates, the MDBs/RDBs (and NDBs) would also utilize their expertise and experience in assessing sustainable infrastructure projects which are complex, and structure these appropriately to ensure their viability and attractiveness for private sector investors.

16. In addition to the role of MDBs/RDBs/NDBs in mobilizing and facilitating sustainable infrastructure investment several market mechanisms – blended finance, the securitization" of loans, loan guarantees, "first loss" guarantees, insurance – could be utilized to enlarge the volume of financing for sustainable infrastructure projects and secure greater access to private finance.

Project Pipeline

17. Apart from access to large pools of public and private finance, the other major impediment to enlarging sustainable infrastructure investment is the absence of a sufficiently large pipeline of projects in the developing countries. Various existing and new mechanisms could be utilized to build such a pipeline of sustainable infrastructure projects:

(i) The several entities/facilities established by the World Bank, the G-20, China's Belt and Road Initiative, the AIIB, the African Development Bank, the GEF and others could accelerate identification, preparation and presentation of projects.

(ii) The 200 plus country offices of the UN system and the MDBs/RDBs could assist host/recipient countries and their national development institutions to identify and prepare such a pipeline of projects e.g. the UN Investment Fair will be operated on a year-round and offer projects to the GISD Alliance and other investors;

(iii) As mentioned above, National Development Banks and/or national investment vehicles could identify, propose and present such projects to the MDBs, RDBs and private investors;

18. To offer public and private investors with a sufficiently large number of projects to enable the issuance of “bonds”, “securitize” loans or lend at scale, projects could be grouped under an investment “themes” e.g. health, education, renewable energy etc., or on a regional or sub-regional basis e.g. projects for the Lake Victoria Basin or for a group of smaller countries e.g. PSIDs, Caricom etc.

19. The UNDP’s Investor Platform could list all identified projects on a unified data base available to GISD members, MDBs/RDBs and private investors as well as donor development entities.

20. While different standards have been developed e.g. by the OECD-UNDP for “sustainable” investment, further work is required to align such standards with the targets and objectives of the SDGs.

Capacity Building

21. Capacity building is essential inmost developing countries to build a large pipeline of sustainable infrastructure projects secure financing and ensure execution and management. The UN system and MDBs/RDBs can assist developing countries through their country and regional offices and programmes to build the capacity to:

(i) Identify, prepare and negotiate projects (as mentioned above);

(ii) Build the regulatory and incentives structures to attract public and private investments;

(iii) Build technical and management skills required and enhance “absorptive capacity”; and

(iv) Strengthen or establish national development banks or investment vehicles and funds as needed.

22. The immediate actions needed to advance the strategy outlined above are:

(a) Political decisions to further capitalize MDBs/RDBs and enlarge their ability to crowd in private capital and promote investments at the scale required to install sustainable infrastructure and achieve the SDGs and Paris goals; and

(b) A decision to initiate a multi-stakeholder dialogue – with the participation of donor and developing countries, development institutions, asset managers and investors, like the GISD members – to agree on the steps to be taken on the above-mentioned issues.

25. The United Nations, with its universal membership, convening power, system-wide sectoral expertise and relationships, including with the IFIs, is well placed to promote the political decisions and convene the structured multi-stakeholder dialogue. The UN Secretary-General should convene such a dialogue.

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