



Investment, Infrastructure and Financing the Sustainable Development Goals

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**Aid For Trade and Infrastructure: Bridging the Financing Gap
WTO, 16 February 2015**

Investment in infrastructure is important

- Efficient infrastructure services are crucial for developing countries' competitiveness and economic growth. Good quality infrastructure is essential for international trade and integration into the world economy, including through GVCs as part of the trade-investment nexus
- Transport and communications infrastructure (road, ports, airports, rail, ICT) facilitate the efficient movement of goods and services, and industrial development especially in the context the connectivity of countries overall. Of particular importance is the connectivity of small island states (e.g. Vanuatu) and land-locked countries (e.g. Mali) to the global trading system.
- Access to affordable infrastructure services, such as energy and drinking water, is an important determinant of the living standards of a country's population. The development of infrastructure helps to eliminate poverty and contributes to attaining the sustainable development goals
- Developing countries, in particular low-income groups, face huge infrastructure investment needs, but lack the necessary capacity domestically to meet them

Infrastructure Investment Needs are Huge

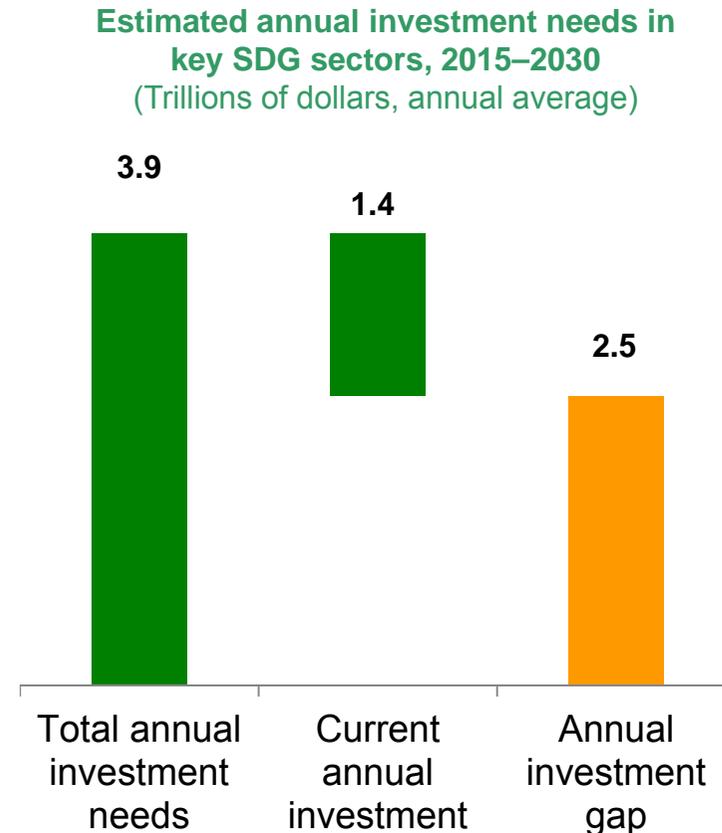
Developing countries **need** \$1.6-2.5 trillion annually between 2015-2030

The infrastructure investment **gap** is also huge at up to \$1.6 trillion

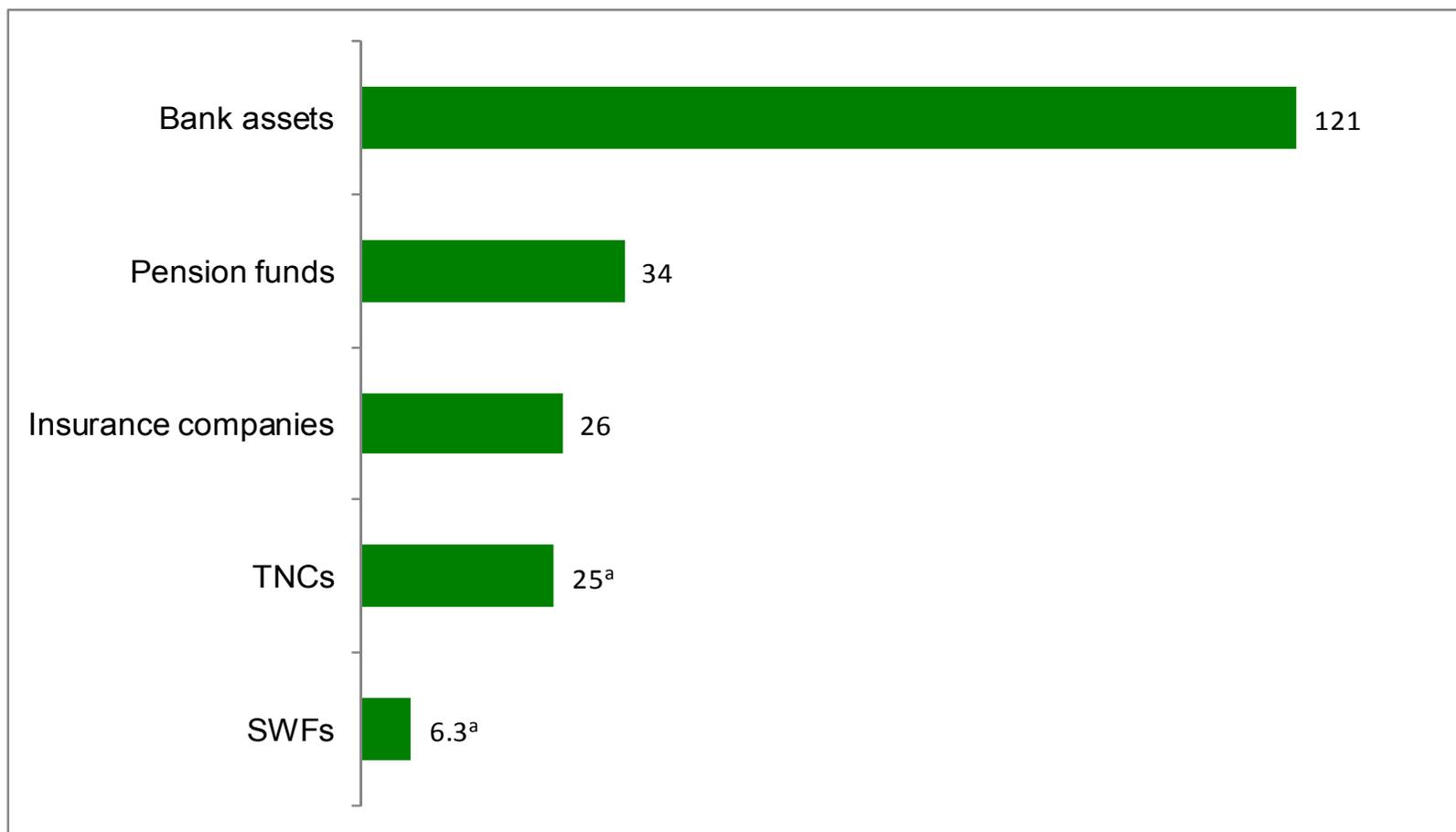
Current investment, investment needs and gaps and private sector participation in key SDG sectors in developing countries ^a						
Sector	Description	Estimated	2015-2030		Average private sector participation in current investment ^b	
		current investment (latest available year) \$ billion	Total investment required	Investment Gap	Developing countries	Developed countries
		A	B	C = B - A	Per cent	
Power ^c	Investment in generation, transmission and distribution of electricity	~260	630-950	370-690	40-50	80-100
Transport ^c	Investment in roads, airports, ports and rail	~300	350-770	50-470	30-40	60-80
Telecommunications ^c	Investment in infrastructure (fixed lines, mobile and internet)	~160	230-400	70-240	40-80	60-100
Water and sanitation ^c	Provision of water and sanitation to industry and households	~150	~410	~260	0-20	20-80

Financing Sustainable Development: Key Insights

- The annual investment gap in SDG-relevant sectors is of the order of \$2.5 trillion in developing countries, under credible assumptions
- Reaching the SDGs requires a step-change in investment by both the public and private sectors
- In purely funding terms, this is achievable. For example, only a fraction of the world-wide assets of banks, pension funds, TNCs, SWFs, foundations are in SDG sectors
- Social partnerships between the public and private sectors are one way...
- ...not least because much of the investment required is in sensitive areas such as agriculture, water and sanitation and others of a public service area, such as health and education.



Relative sizes of selected potential sources of investment, 2012
(Value of assets, stocks and loans in trillions of dollars)



Source : UNCTAD FDI-TNC-GVC Information System, IMF (2014); SWF Institute, fund rankings, consulted 13 May 2014, <http://www.swfinstitute.org/fund-rankings>; TheCityUK (2013).

Note : This figure is not exhaustive but seeks to list some key players and sources of finance. The amounts for assets, stocks and loans indicated are not equivalent, in some cases, overlap, and cannot be added.

^a 2014 figure

Low-income Countries Face Special Challenges

Development partners should consider all options; and the private sector needs to play a greater role

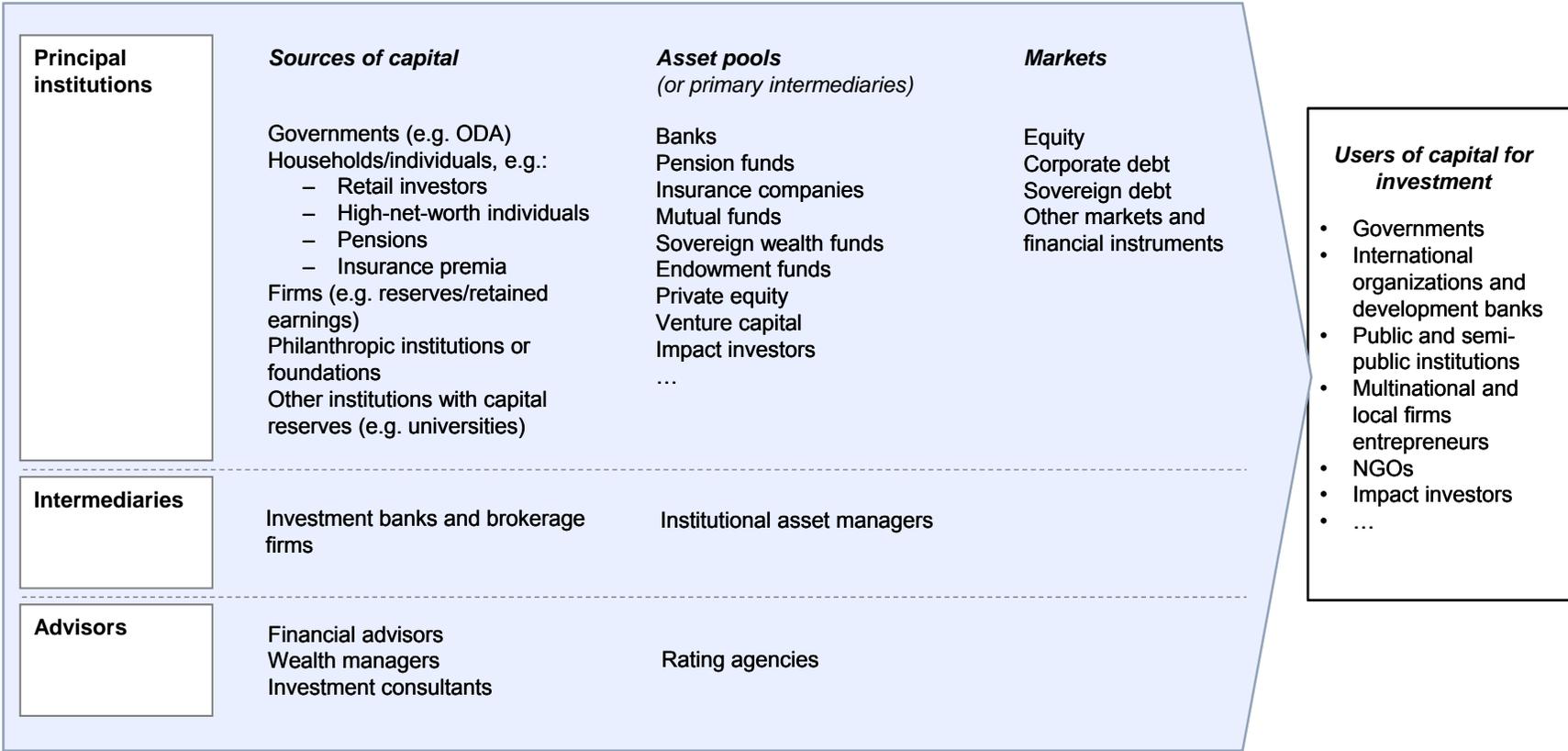
The Challenge

- Huge investment needs
- Weak purchasing power
- High perceived risks
- Limited investment, including from external sources
- Nascent domestic capabilities to manage private sector participation

Response required from partners

- ODA in/for infrastructure
 - Better use of available funds
 - Readiness to take risk
- More capacity-building
 - Evaluating options
 - Negotiations with private sector/TNCs
 - Role for the UN and other IOs
- Risk-mitigation targeted at low-income countries
- Support for regional projects
- Keep all options open

The investment chain and key actors involved



Source: UNCTAD.

The Universe of International Infrastructure Investors is Changing

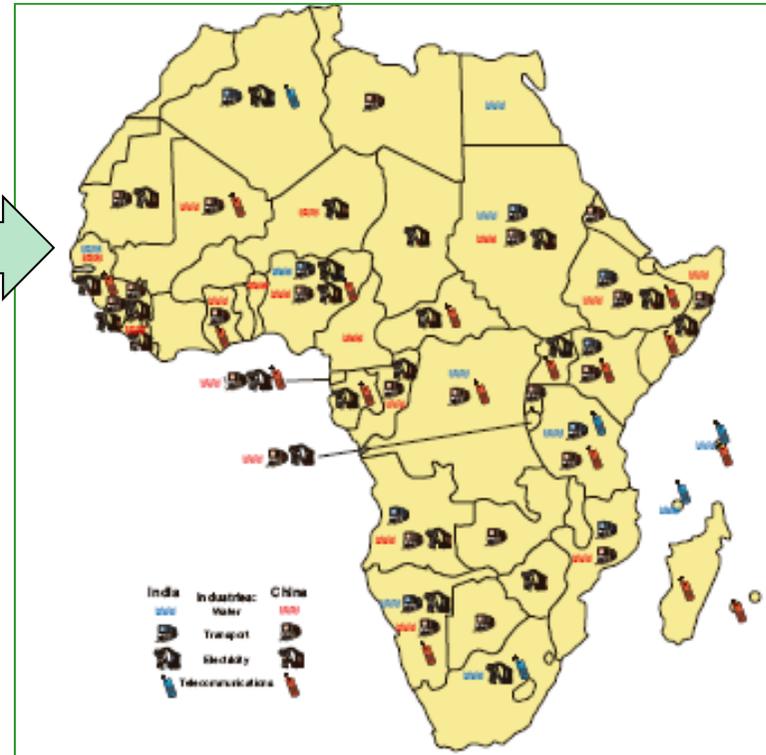
Rising number of private and state-owned TNCs

Rising role of TNCs from the South

- Especially in ports and telecommunications
- Significant in LDCs
- Sometimes complementary infrastructure and extractive industries investments

Rise of new financiers in infrastructure industries:

- Private equity firms
- Sovereign wealth funds



Rising Chinese and Indian investments in infrastructure in Africa

Selected Major TNCs in Infrastructure

(Companies from developing economies are in green)

Rank	Electricity	Natural gas	Telecommunications	Transport	Water and sewage	More than one infrastructure industry
1	Electricité de France	Gaz de France	Vodafone Group	Grupo Ferrovial	Veolia Environnement	Suez
2	E.On	Spectra Energy Corp.	Telefónica	Abertis	Grupo Agbar	Hutchison Whampoa
3	Endesa	Centrica	Deutsche Telekom	AP Moller-Maersk	Waste Management Inc	RWE Group
4	Vattenfall	Gas Natural	France Télécom	DP World	Shanks Group	Bouygues
5	National Grid	Transcanada Corp.	Vivendi Inc	China Ocean Shipping	Waste Services Inc	YTL Power
6	AES Corp.	Enbridge Inc	Liberty Global Inc	Canadian National Railways Co.	Stericycle Inc	Babcock & Brown Infrastructure
7	Fortum	Sempra Energy	TeliaSonera	Skanska	Hyflux Limited	Enka Insaat ve Sanayi
8	Duke Energy Corp.	El Paso Corp.	SingTel	PSA International	Clean Harbors Inc	NWS Holdings
9	EDP Energias de Portugal	Hunting Plc	Telenor	Hochtief	..	..
10	International Power Plc	Williams Companies	Nortel Networks	Vinci	..	..
11	CLP Holdings	Hong Kong & China Gas Co.	KPN	Macquarie Airports	..	..
12	Iberdrola	Distrigaz 'D'	BT Group	Deutsche Bahn	..	..
13	Unión Fenosa	Canadian Utilities Ltd.	Verizon Communications	Orient Overseas International	..	..
14	PPL Corp.	Iwatani International Corp.	SES	Grupo ACS	..	..
15	Atel - Aare Tessin	..	Telecom Italia	Obrascon Huarte Lain	..	..
16	Public Service Enterprise Group	..	América Móvil	Kansas City Southern	..	..
17	Keppel Corp.	..	Mobile Telecommunications Co.	Canadian Pacific Railway	..	..
18	Cofide-CIR Group	..	TDC A/S	First Group	..	..
19	Edison International	..	Portugal Telecom	BBA Aviation	..	..
20	Enel	..	Tele2	China Communications Construction Co.	..	..

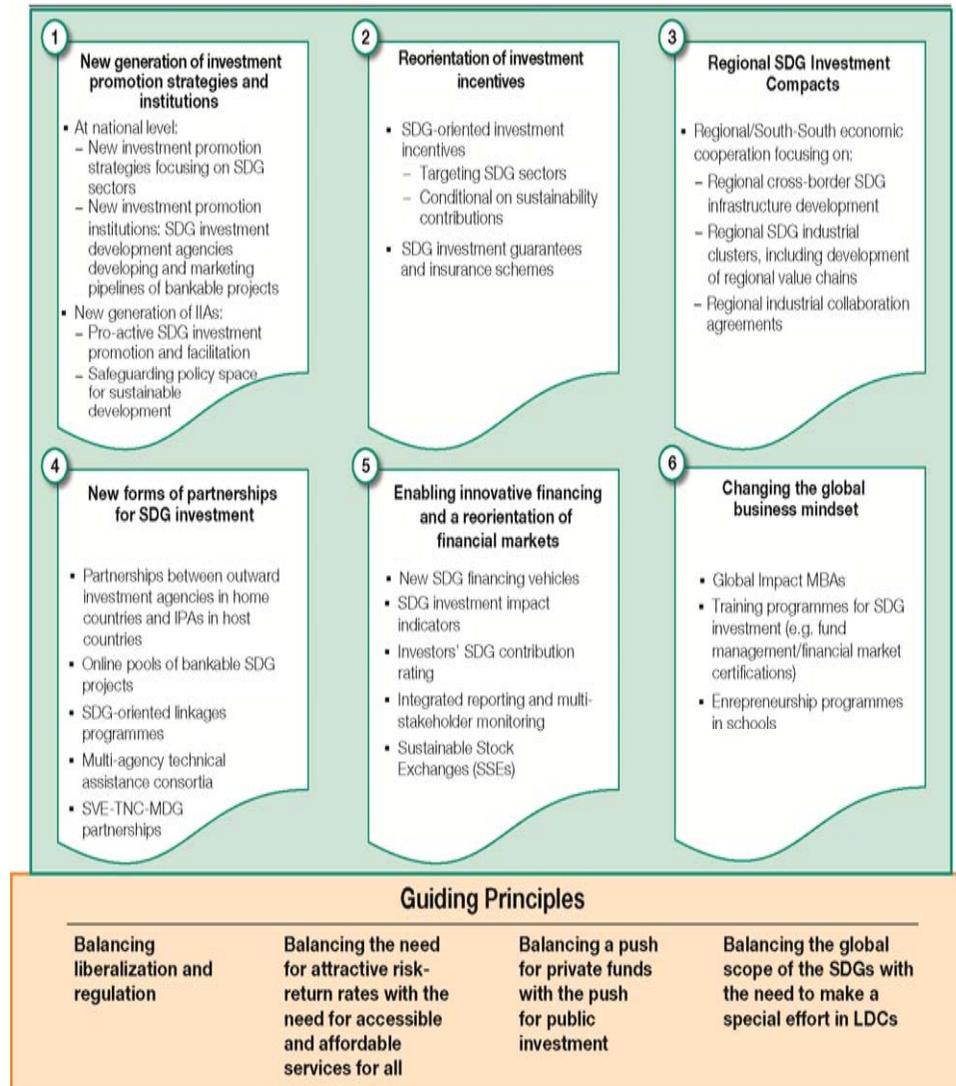
Investing in the Sustainable Development Goals

World Investment Report 2014: Investing in the SDGs: An Action Plan

- Mobilizing funds, channeling investment, having impact
- There is a large Investment Gap to achieve SDGs
- The necessity for public-private collaboration

Action Plan for Investment in SDGs:

1. New generation of investment promotion strategies and institutions
2. Re-orientation of investment incentives
3. Regional SDG Investment compacts
4. New forms of partnership for SDG investments
5. Enabling innovative financing and a re-orientation of financial markets
6. Changing the global business mind set



Mobilizing funds for investment: key challenges and policy options

Key challenges

- Start-up and scaling issues for new financing solutions
- Failures in global capital markets
- Lack of transparency on sustainable corporate performance
- Misaligned investor rewards/pay structures

Policy options

Create fertile soil for innovative SDG-financing approaches and corporate initiatives

- Facilitation and support for SDG dedicated financial instruments and impact investing initiatives through incentives and other mechanisms
- Expansion or creation of funding mechanisms that use public sector resources to catalyze mobilization of private sector resources
- "Go-to-market" channels for SDG investment projects in financial markets: channels for SDG investment projects to reach fund managers, savers and investors in mature financial markets, ranging from securitization to crowd funding

Build or improve pricing mechanisms for externalities

- Internalization in investment decisions of externalities, e.g. carbon emissions, water use, social impacts

Promote Sustainable Stock Exchanges

- SDG listing requirements, indices for performance measurement and reporting for investors

Introduce financial market reforms

- Reform of pay, performance and reporting structures to favor long-term investment conducive to SDG realization
- Rating methodologies that reward long-term real investment in the SDGs

Source: UNCTAD.

Channelling investment into key sectors: key challenges and policy options

Key challenges

- Barriers to SDG investments
- Inadequate risk-return ratios for SDG investments
- Lack of information and effective packaging and promotion of SDG investment projects
- Lack of investor expertise in SDG sectors

Policy options

Alleviate investment barriers, while safeguarding legitimate public interests

- Creation of an enabling policy environment for investment in sustainable development (e.g. UNCTAD's IPFSD), and formulation of national strategies for attracting investment in the SDGs.

Expand use of risk sharing and mitigation mechanisms for SDG investments

- Wider use of PPPs for SDG projects to improve risk-return profiles and address market failures.
- Wider availability of investment guarantee and risk insurance facilities to specifically support and protect SDG investments.
- Public-sector and ODA leveraging and blended financing using public and donor funds as seed capital or junior debt, to share risks or improve risk-return profiles for private sector funders.
- Advance market commitments and other mechanisms to provide more stable/reliable markets for investors.

Establish new incentives schemes and a new generation of investment promotion institutions

- Transforming IPAs into SDG investment development agencies, focusing on the preparation and marketing of pipelines of bankable projects in the SDGs.
- Redesign of investment incentives, facilitating SDG investment projects, and supporting impact objectives of all investments.
- Regional SDG investment compacts: regional cooperation mechanisms to promote investment in SDGs, e.g. regional cross-border infrastructure, regional SDG clusters,...

Build SDG investment partnerships

- Partnerships between home- and host-country investment promotion agencies: home country partner to act as business development agency for investment in the SDGs in developing countries.
- SVE-TNC-MDB triangular partnerships: global companies and MDBs partner with LDCs, small vulnerable economies, focusing on a key SDG sector or a product key for economic development.

Source: UNCTAD.

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