Financing of Sustainable Infrastructure

13 July, 2015
6:15p.m. to 7:45p.m.
Harrar Grill, Hilton Hotel
Addis Ababa, Ethiopia

Issues Note

A major expansion of investment in modern, clean and efficient infrastructure will be essential to attaining the growth and sustainable development objectives that the world is setting for itself. Over the coming fifteen years, around $90 trillion will need to be invested worldwide in sustainable infrastructure assets and their efficient use. Increasing not only the quantity but also quality of infrastructure investment, and doing so in an environmentally resilient way, represents an urgent global priority. This lies at the core of the post-2015 sustainable development agenda, and has emerged as a central element of the financing for development (FfD) framework to be agreed upon at the Third International Conference on Financing for Development in Addis Ababa.

However, mobilizing the resources required and ensuring they can be invested effectively and sustainably represents a complex and unprecedented challenge. Global savings, wealth and reserve assets are at record levels, while interest rates remain at all-time lows; yet, chronic infrastructure deficits persist and the investments that are being made are often not sustainable. In order to address this challenge, a fundamental transformation of the infrastructure development model is needed.

Achieving such a transformation will require concerted efforts by individual countries, as well as the international community, to address the systemic constraints that lead to underinvestment in infrastructure, including by strengthening all pillars of infrastructure finance:

- Public investment and financing frameworks must be strengthened, including institutional and planning capacity, the legal and regulatory environment and the ability to crowd-in other sources of finance. This must coincide with improvements in the capacity to engage the private sector. It will also be essential for national governments to clearly articulate their sustainable infrastructure strategies.
- The private sector will be crucial in driving investment forward and closing the infrastructure gap, particularly given the magnitude of available public resources. There is a need to ensure that the right conditions are in place to attract private sector financing into infrastructure, including from institutional investors. It will also be important to incorporate a greater focus on sustainability into private investments.
- Development banks are pivotal players in the investment chain, and have the potential to help mobilize the incremental investment capital that is needed through risk mitigation and crowding in affordable long-term financing. They also play an important role in project preparation, market development and standard setting. Yet, many development banks face broad challenges vis-à-vis capital, instruments, business practices and governance that constrain their ability to effectively fulfill these objectives, all of which must be addressed.
- Concessional financing, which is likely to remain modest in comparison to the scale of needs, will continue to play an important role in closing the financing gaps in the poorest countries, including by crowding in other sources of finance. Targeted climate finance can help improve the sustainability and resilience of infrastructure investments and the impact on climate.

By bringing together policymakers from across regions, private finance leaders, officials from development banks and multilaterals, as well as climate experts and civil society representatives, this event seeks to provide a forum for interactive dialogue on the broad global challenges associated with scaling up the financing of sustainable infrastructure and enhancing opportunities for integrating the development and climate agendas through a concerted focus on enhancing the quantity as well as the quality of infrastructure investment. The goal of this discussion is to help build consensus on a global platform for action to drive transformation of the infrastructure development model and ensure that we can deliver on growth, development and climate goals in the decades to come.

<u>Questions:</u>

a) What are the constraints to scaling up the financing of sustainable infrastructure and its financing at the country level? How can a new global compact alleviate these constraints?

b) What steps need to be taken to unlock the potential contribution of the private sector to closing the infrastructure investment and financing gap? In this regard, how can the large pools of institutional investor funds be mobilized? Is there a role for Central Banks and regulators in encouraging sustainable investments?

c) In what ways can multilateral development banks (old and new) contribute to the global efforts towards scaling up investments in sustainable infrastructure? What further steps do they need to take to enhance their role?

d) How can the Global Infrastructure Forum be operationalized? How can the G20 support the broader global efforts in bridging the infrastructure gap and in sharpening the focus on sustainability?