Financing of Sustainable Infrastructure

13 July, 2015
Harrar Grill, Hilton Hotel
Addis Ababa, Ethiopia

Summary

On July 13, 2015, the Government of Ethiopia, together with the G-24 and the Brookings Institution hosted a high-level meeting on 'Financing of Sustainable Infrastructure' on the sidelines of the Third International Conference on Financing for Development in Addis Ababa, Ethiopia.

The event was chaired by African Development Bank President Donald Kaberuka, with opening remarks provided by Minister Sufian Ahmed and an introductory presentation by Lord Nicholas Stern. A panel of eminent persons initiated the discussion, including Ambassador Geir Pedersen, Deputy Prime Minister Ali Babacan, Minister Jayant Sinha, Professor Joseph Stiglitz, Dr. Ngozi-Okonjo Iweala, Managing Director Bertrand Badré, and CEO Thierry Deau. Representatives from national governments, the United Nations, multilateral development banks, academic institutions, the private sector, and civil society came together for a constructive and lively exchange on this important topic.

Key Takeaways

The importance of sustainable infrastructure

- **Sustainable infrastructure is a central priority of the Addis Ababa Action Agenda**. There was also broad-based consensus that it must be a central deliverable of the post-2015 development agenda. The achievement of the forthcoming sustainable development goals (SDGs) will require an ambitious program of action to scale up global investments in sustainable infrastructure.
- **In addition to being an essential deliverable of the SDGs, sustainable infrastructure is a vital means of achieving these goals.** A scarcity of infrastructure undermines the global economy, inhibits demand and productivity and constrains progress on human development. At the same time, infrastructure designed and operated in the absence of sustainability considerations can be tremendously environmentally damaging to the environment. A sustainable future for the planet and a healthy, productive life for its people relies on the ability of countries and the international community to get infrastructure development 'right' in the coming decades.
- **A major expansion of investment in modern, clean and efficient infrastructure will be essential to attaining the growth and sustainable development objectives the world is setting for itself.** The world is not investing what is needed to bridge the infrastructure gap and the investments that are being made are often not sustainable. The magnitude, quality, and nature of infrastructure investment must undergo a transformation in order to meet the demands of growth, urbanization, trade, development, and climate mitigation and adaptation. Investment quantity must increase by

unprecedented amounts – around $90 trillion over fifteen years – and investment quality must manifestly improve.

- **We are at a unique historical moment: the next fifteen years will be a critical period for delivering on the quantity and type of infrastructure that is needed.** Sustainable infrastructure represents a driving, transformative force for global economic growth, inclusion, development and sustainability aspirations. Failing to prioritize and invest in the kind of infrastructure that the world requires could have profound implications that extend over generations.

The need to address challenges across all pillars

- **Scaling up sustainable infrastructure is an enormous and complex challenge.** Increasing infrastructure investments and shifting the patterns of production and consumption of infrastructure services – such as of energy – will be a difficult task, and the business-as-usual approach will not be sufficient. Achieving this goal will require addressing the key impediments that have led to underinvestment in infrastructure, both with regards to policy and institutional weaknesses and also the provision of financing.
- **The role and actions of governments will be the foundation for delivering on the sustainable infrastructure agenda.** Public resources continue to constitute a large and essential proportion of infrastructure financing; at the same time, the very long time horizons of infrastructure investments make them dependent on and susceptible to government actions, necessitating continuity and credibility of policy. Governments also need adequate fiscal space to play their role. To this end, domestic resource mobilization will be vital**.** Many countries will need to scale up and improve efforts to mobilize resources through increased taxation and better management of public expenditures. However, it will be necessary to understand what it will take to mobilize these resources. Detailed, country-specific analysis of constraints and opportunities could be valuable in this regard.
- **PPPs have enormous potential but need to be managed carefully and adapted based on insights and lessons from past experience.** Both across and within countries, PPP experiences have been mixed. Turkey, for example, has greatly expanded its use of PPPs with generally positive results. While India has undergone a shift in the last fifteen years from predominantly public financing to increased utilization of PPPs, outcomes have been mixed and the country is now recalibrating its approach in order to be able to manage public and private risks. It is clear that good governance and careful management is critical, and there was broad consensus that the wealth of PPP experience in many countries presents an opportunity for dissemination of actual experience via improved South-South learning. Exploring this further was seen as constructive.
- **Achieving the magnitude and quantity of investment required will not be possible without a significant increase in private resources.** In particular, it will be essential to tap the pool of global private savings, especially of institutional investors. Increasing the deployment of private capital to infrastructure projects will require a strong enabling framework to improve financial intermediation and channel long-term funds to productive, long-term investments.
- **Improving risk mitigation and intermediation is a sine qua non condition of increased private financing of infrastructure**. Unpacking and matching the investment risks with absorption capacity is

an essential step towards enabling more and better private investment. While the private sector can bear some risks, in many circumstances, the public sector and multilateral institutions have the capacity and incentives to mitigate or share these, especially where public goods are involved. However, excessive risk bearing by the public sector can also create perverse incentives. Institutional development, good governance, and capacity building can help to address this, especially in the case of PPPS. Benchmarks will also be valuable to help private companies better understand and price risks. Accountability and transparency on the part of all parties – both public and private – will remain vital.

- **Development banking can make a vital contribution to scaling up infrastructure investment.** Multilateral development banks (MDBs), both old and new, can play a central role in scaling up sustainable infrastructure financing by tackling country level impediments through project preparation, standard setting, the pricing of externalities, knowledge provision, technical assistance, and enhanced support for domestic resource mobilization. They can also contribute to enhancing and augmenting the global financing architecture, including by helping to absorb and mitigate risks, particularly those that the private sector is unable to bear.

The path forward

- **Better infrastructure is transformational for development, climate and the economy, and there is clear support for making this a reality.** There was widespread consensus on pursuing a program of action to scale up investments in sustainable infrastructure going forward. Such program will draw on a wide range of stakeholders.
- **There was a shared view that countries need to articulate their development strategies on sustainable infrastructure**. These strategies will need to be underpinned by an institutional capacity and the ability to raise the necessary resources to finance these plans. One important priority will be tackling distortions in fossil fuel pricing and addressing the absence of a carbon price corridor.
- **There is broad recognition of support for global collective action to tackle impediments to infrastructure investment and to support an augmented financing architecture.** The G20 is making an important contribution in this regard through its work and focus on knowledge sharing, leading practices, improved securitization, and data dissemination under its Global Infrastructure Initiative. The Global Infrastructure Forum proposed in the Addis Ababa Action Agenda represents an indispensable opportunity to establish a broader global platform for discussion and action.
- **MDBs can play a potentially powerful role in supporting the scaling up of sustainable infrastructure.** To fulfill this role effectively, they will need to optimize the use of their balance sheets, augment capital as needed, reform instruments and business practices, and address longstanding governance deficiencies.