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Editor-in-Chief: Karl P. Sauvant (Karl.Sauvant@law.columbia.edu)

Managing Editor: Riccardo Loschi (Riccardo.Loschi@columbia.edu)

Mobilizing FDI for sustainable infrastructure investment*

by

Munir Akram**

Achieving the Sustainable Development Goals (SDGs) by 2030 and net zero carbon emissions by 2050 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. According to UNCTAD, of the current annual funding gap of at least US$2.5 trillion, two-thirds is in developing countries, where infrastructure investment declined by US$50 billion in 2020.

In 2017, 83% of infrastructure investment was publicly funded. China's Belt and Road projects and Europe's Green Deal are funded mostly from public sources.

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 access private money—and that means primarily FDI for the developing countries—to meet these goals.

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."[1]

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 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.

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); and little or no direct interaction with private investors, asset managers, credit rating agencies, and other market players.

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 public pressure on companies and asset managers to allocate to sustainable projects.

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.[2] The Green Bond market is only around US$13 billion, i.e., 2.5% of sustainable development investment since 2009.

On the one hand, private investors complain about the absence of a large enough pipeline of sustainable investment projects and opportunities. On the other hand, some development institutions caution against the "green washing" of investments in the absence of clear criteria regarding "sustainability".

Clearly, a comprehensive and in-depth analysis and discussion, involving all stakeholders—private asset managers, development institutions, donors, and developing country governments—is needed to determine what it takes to dramatically scale up private sector investment in sustainable infrastructure. The United Nations, given its universal membership, convening power and its country offices in almost all countries, is well placed to lead such an effort.

A multi-stakeholder policy dialogue, under UN auspices, could, inter alia, develop a template for national and international frameworks to incentivize private investment in sustainable development projects, especially in developing countries; propose and develop measures to de-risk sustainable infrastructure investment (e.g., through blended finance, green bonds, sovereign guarantees, insurance schemes, or "first loss" mechanisms); and enlarge the capability of developing countries to access public finance (e.g., from international financial institutions, the Global Environment Facility and other existing and new facilities). It could also develop agreed criteria to determine the sustainable nature of projects.

By coherently utilizing the nearly 200 country offices of the UN system, the World Bank Group and regional development banks, a multi-stakeholder mechanism (e.g., the Financing for Development Forum's Investment Fair) could help developing countries to acquire the capacity to identify, prepare and structure sustainable infrastructure projects, thus building a sizable pipeline of such projects; build the regulatory and equitable incentive structures to attract private and public investment; and accelerate the early-stage preparation of projects. Such a multi stakeholder mechanism could also develop a database of sustainable infrastructure projects and connect existing platforms (e.g., World Bank, G20, Africa) with each other, to ensure the real-time exchange of information among stakeholders, to accelerate decisions.

Such an inclusive global approach offers the best prospect of mobilizing sizable private sector investment to realize the SDGs and transition to a global green economy.

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** Munir Akram (akram_munir@yahoo.com) is Permanent Representative of Pakistan to the United Nations. The author wishes to thank Michael Likosky, Justin Lin and Lou T. Wells for their helpful peer reviews.

[1] Mark Carney, "A chance to reboot globalisation", *Financial Times*, March 19, 2021.

[2] WRI, UNEP-FI and 2nd Investing Initiative, "Climate strategies and metrics: Exploring options for institutional Investors," Discussion Paper, (2020), p. 13.

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