

TRADE AND DEVELOPMENT BOARD

61st Session

Agenda Item 9

***Investment for development:
Investing in the Sustainable Development Goals:
An Action Plan***

Geneva, 17 September 2014

Statement by

James Zhan

Director

Division on Investment and Enterprise

UNCTAD

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*Investing in the Sustainable Development Goals:
An Action Plan*

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Distinguished Delegates, Madam Chair,

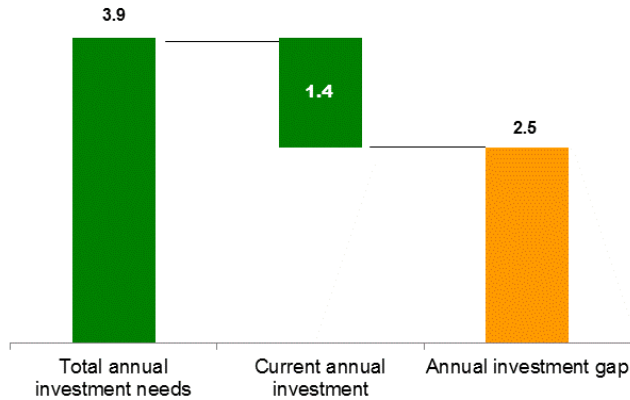
As the Secretary-General has mentioned, the global community faces major challenges to ensure the realization of the Sustainable Development Goals currently being negotiated. In my presentation, I will go into further detail on the scale and nature of the challenges involved in “investing in the SDGs” and how UNCTAD proposes to address them. In doing so, I will elaborate on the key findings of the World Investment Report 2014, in particular on our *Action Plan for Private Investment in the SDGs*. But first, I would like to put some numbers behind the scale of the challenges that we will all face in the years to come.

[Slide 1]



The United Nations Sustainable Development Goals (SDGs) will need to bridge a large investment gap

Estimated annual investment needs in key SDG sectors, 2015–2030
(Trillions of dollars, annual average)

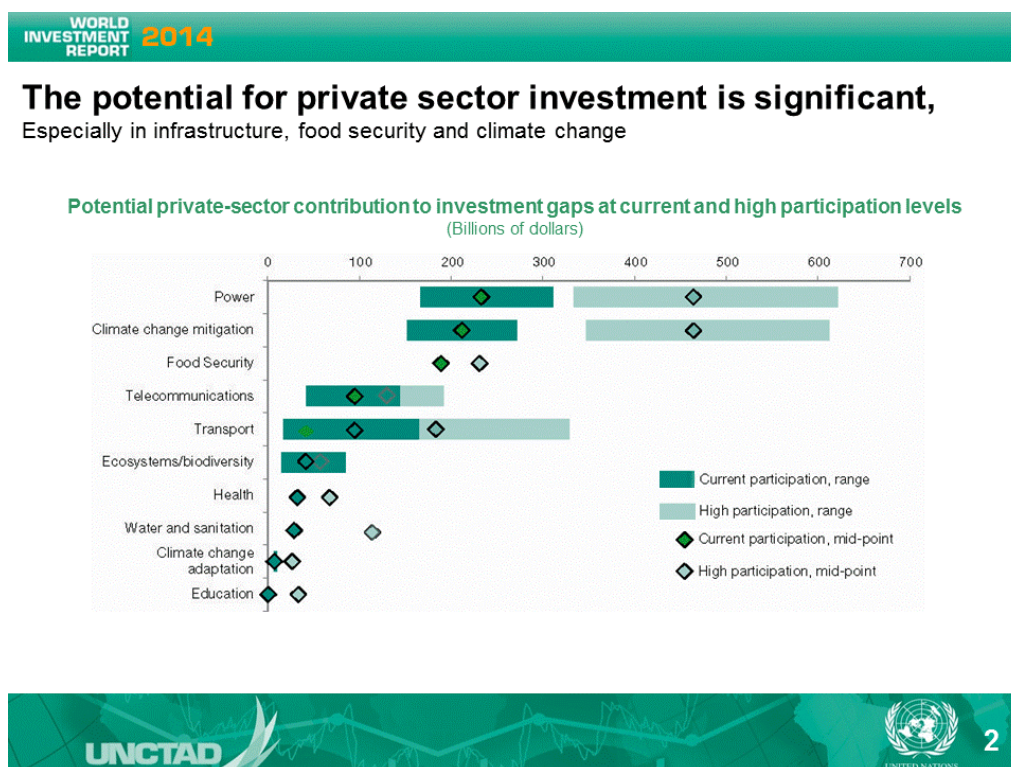


As the Secretary-General has mentioned, WIR14 focusses on identifying the investment gap needed to achieve the SDGs, in particular the private sector contribution. This requires first, assessing the primary sources from which these funds can be obtained, and how best to mobilize them; secondly, determining how best to channel them into “SDG sectors” such as roads, water and sanitation, electricity, agriculture, climate change mitigation, health and education; thirdly, how to maximize the positive impact of such investment while minimizing risks and drawbacks; and finally, developing a concrete, targeted "Action Plan for Promoting Private Sector Contributions."

Estimates among international bodies and stakeholders vary regarding the necessary financing to shift the world onto a more sustainable trajectory of long-term growth and development. But we all agree on one aspect: there is a very large gap between current investment and what will be needed. UNCTAD’s estimates for total investment needs in developing countries *alone* range from \$3.3 trillion to \$4.5 trillion per year, for basic infrastructure (roads, rail and ports; power stations; water and sanitation), food security (agriculture and rural development), climate change mitigation and adaptation, health, and education.

At today’s level of investment – public and private – in SDG-related sectors in developing countries, this implies an annual funding shortfall of some \$2.5 trillion. Bridging such a gap may seem a daunting task, but it is achievable. The potential for increased private sector investment contributions is significant, especially in infrastructure, food security and climate change mitigation sectors.

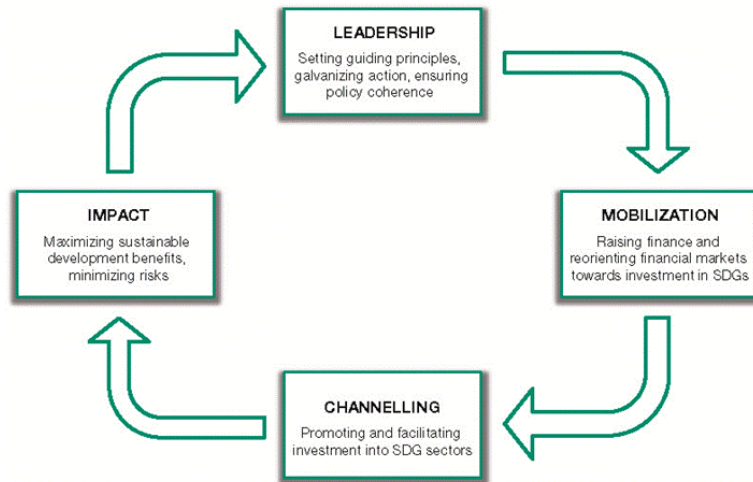
[Slide 2]



Structurally weak economies need special attention. UNCTAD estimates that a doubling of the *growth rate* of *private* investment from an annual 8 per cent increase to 15 per cent in the least developed countries (LDCs) is required to reduce pressure on *public* sector funding requirements in key SDG sectors.

The potential for increasing private sector participation is greater in some sectors than in others. Infrastructure sectors, such as power and renewable energy, transport and water and sanitation, are natural candidates for greater private sector participation, under the right conditions and with appropriate safeguards. Other SDG sectors are less likely to generate significantly higher amounts of private sector interest, e.g. because it is difficult to design risk-return models attractive to private investors (e.g. climate change adaptation), or because they are highly sensitive to private sector involvement (e.g. education and health care).

Strategic framework for private investment in the SDGs



UNCTAD's proposed Strategic Framework for Private Investment in the SDGs addresses key policy challenges and options in relation to:

- guiding principles and global *leadership* to galvanize action for private investment;
- the *mobilization* of funds for investment in sustainable development;
- the *channelling* of funds into investments in SDG sectors; and
- maximizing the sustainable development *impact* of private investment, while minimizing risks or drawbacks involved.

Policy options for each element of the framework

<p>1. Leadership</p> <ul style="list-style-type: none"> <input type="checkbox"/> Agree a set of guiding principles for SDG investment policymaking <input type="checkbox"/> Set SDG investment targets <input type="checkbox"/> Ensure policy coherence and synergies <input type="checkbox"/> Multi-stakeholder platform and multi-agency technical assistance facility 	<p>3. Channelling</p> <ul style="list-style-type: none"> <input type="checkbox"/> Alleviate entry barriers, while safeguarding legitimate public interests <input type="checkbox"/> Expand use of risk sharing and mitigation mechanisms for SDG investments <input type="checkbox"/> New incentives schemes, a new generation of investment promotion institutions <input type="checkbox"/> Build SDG investment partnerships
<p>2. Mobilization</p> <ul style="list-style-type: none"> <input type="checkbox"/> Create fertile soil for innovative SDG-financing approaches & corporate initiatives <input type="checkbox"/> Build or improve pricing mechanisms for externalities <input type="checkbox"/> Promote Sustainable Stock Exchanges <input type="checkbox"/> Introduce financial market reforms 	<p>4. Impact</p> <ul style="list-style-type: none"> <input type="checkbox"/> Build productive capacity, entrepreneurship, technology, skills, linkages <input type="checkbox"/> Establish effective regulatory frameworks and standards <input type="checkbox"/> Good governance, capable institutions, stakeholders engagement <input type="checkbox"/> Implement SDG impact assessment systems



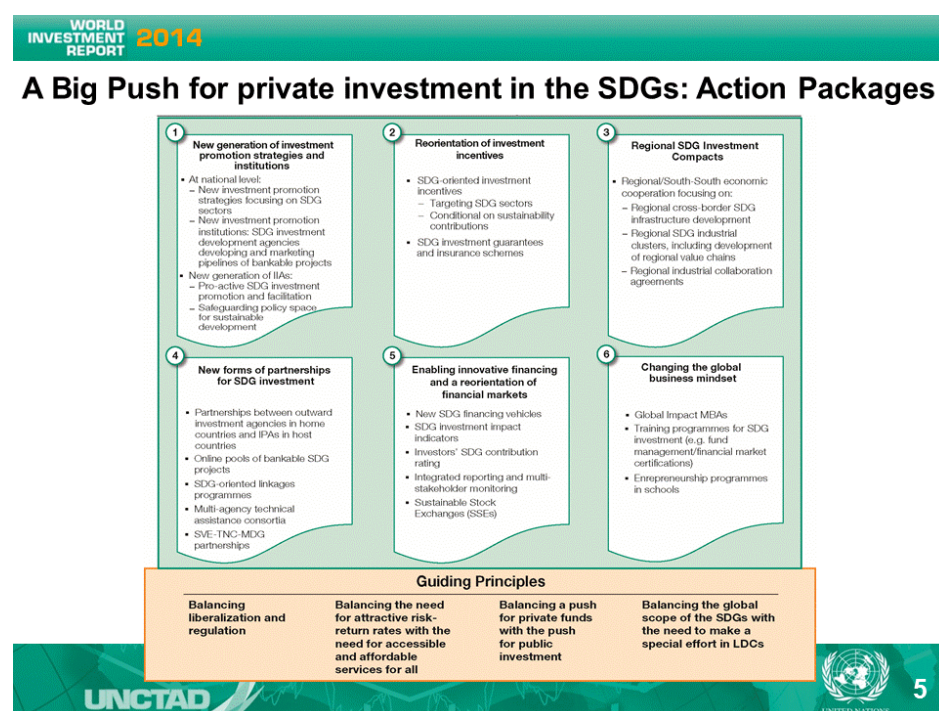
Each element of the framework requires policy options to galvanize and target investment effectively. **Leadership** necessitates establishing guiding principles for SDG investment policymaking, setting SDG investment targets, ensuring policy coherence at all levels and setting up multi-stakeholder platforms and a multi-agency technical assistance facility.

Mobilizing finance for investment requires putting in place a fertile environment for innovative SDG-financing approaches, building or improving pricing mechanisms for externalities, introduction of financial market reforms and specific measures and instruments, such as sustainable stock exchanges.

Channelling these funds to investment in SDG sectors involves an alleviation of bottlenecks (albeit putting safeguards in place); expansion of the use of risk sharing and mitigation mechanisms, the creation of public-private partnerships to direct investments to crucial areas; and innovative ways to encourage investment.

Finally, **maximizing** impact of investment implies putting a number of conditions in place: sufficient local capacity to establish linkages with investors and build on knowledge gained; an effective regulatory regime, as well as capable institutions; and ongoing monitoring of investment outcomes.

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UNCTAD’s Action Plan for Private Investment in the SDGs presents a range of policy options to respond to the mobilization, channelling and impact challenges. A focused set of concrete, action packages can help shape and create a dynamic for “a Big Push for private investment in sustainable development”. We propose six main sets of action packages:

- *First, creating a new generation of investment promotion and facilitation.* Sustainable development projects, whether in infrastructure, social housing or renewable energy, require intensified efforts for investment promotion and facilitation. The most frequent constraint faced by potential investors in sustainable development projects is the lack of concrete proposals of sizeable, impactful, and bankable projects. Establishing SDG investment development agencies to develop and market pipelines of bankable projects in SDG sectors and to actively facilitate such projects. This requires specialist expertise and should be supported by technical assistance. The international investment policy regime should also be reoriented towards proactive promotion of investment in SDGs.
- *Second, restructuring investment incentive schemes to orient them towards the SDGs.* Investment incentive schemes need to be altered specifically to facilitate sustainable development projects, e.g. as part of risk sharing solutions. In addition, investment incentives in general – independent of the economic sector for which they are granted – can incorporate sustainable development

considerations by encouraging corporate behaviour in line with SDGs. This calls for a transformation from purely “location-based” incentives, aiming to increase the competitiveness of a location and provided at the time of establishment, towards “SDG-based” incentives, aiming to promote investment in SDG sectors and conditional upon their sustainable development contribution.

- *Third, regional SDG Investment Compacts.* Launching regional and South-South initiatives towards the promotion of SDG investment, especially for cross-border infrastructure development and regional clusters of firms operating in SDG sectors (e.g. green zones) should be a priority. This could include joint investment promotion mechanisms, joint programmes to build absorptive capacity and new or adapted joint public-private partnership models.
- *Fourth, new forms of partnership for SDG investments.* Partnerships in many forms, and at different levels, including South-South, are crucial to the performance and success of SDG investments. For instance, cooperation between outward investment agencies in home countries and investment promotion agencies (IPAs) in host countries could be institutionalized for the purpose of marketing SDG investment opportunities in home countries, provision of investment incentives and facilitation services for SDG projects, and joint monitoring and impact assessment. Outward investment agencies could evolve into business development agencies for investments in SDG sectors in developing countries. Another part of this package could be a multi-agency technical assistance consortium (a "one-stop shop" for SDG investment solutions) to help to support LDCs in establishing appropriate institutions and schemes to encourage, channel and maximize the impact from the private sector.
- *Fifth, enabling innovative financing mechanisms and reorienting financial markets.* New and existing innovative financing mechanisms, such as green bonds and impact investing, would benefit from a more effective enabling environment, allowing them to be scaled up and targeted at relevant sources of capital and ultimate beneficiaries. Systematic support and effective inclusion would especially encourage the emergence, take-up and/or expansion of under-utilized catalytic instruments or go-to-market channels such as crowd funding. Beyond this, integrated reporting on the economic, social and environmental impact of private investors is a first step towards encouraging responsible behaviour by investors on the ground.
- *And, finally, changing the business mindset and developing SDG investment expertise.* The majority of the managers in the world's financial institutions and large multinational enterprises as well as most successful entrepreneurs tend to be influenced by models of business, management and investment that are taught at business schools. UNCTAD, in partnership with business school networks, teachers, students and corporates is running an initiative to develop an "impact curriculum" for business schools to raise awareness about investment opportunities in developing countries. This could also provide students with the skills and tools needed to operate successfully in developing country environments.

To overcome the challenges of private sector investment in sensitive sectors, UNCTAD proposes a set of principles to help governments manage the trade-offs they may face in attracting private investment in these sectors. These principles include:

- *Balancing liberalization and the right to regulate.* Greater private sector involvement in the SDGs may be necessary where public sector resources are insufficient, but this must be accompanied by appropriate regulations and government oversight.
- *Balancing the need for attractive risk-return rates with the need for accessible and affordable services.* This means placing clear obligations on investors and extracting firm commitments, while providing incentives to improve the risk-return profile of investment. And it implies making incentives or subsidies conditional on social inclusiveness.
- *Balancing a push for private investment with the push for public investment. Public and private investments are complements, not substitutes.* It is important for policymakers not to translate a push for private investment into a policy bias against public investment.
- *Balancing the global scope of the SDGs with the need to make a special effort in LDCs.* While overall financing for development needs may be defined globally, with respect to private sector financing contributions special efforts will need to be made for LDCs, because without targeted policy intervention these countries will not be able to attract the required resources from private investors. Dedicated private sector investment targets for the poorest countries, leveraging ODA

for additional private funds, and targeted technical assistance and capacity building to help attract private investment in LDCs are desirable.

[Slide 6]



Stakeholder engagement through UNCTAD's World Investment Forum and Investment Policy Hub



<http://unctad-worldinvestmentforum.org/>

<http://investmentpolicyhub.unctad.org/>



The *Action Plan for Private Investment in the SDGs* is meant to serve as a point of reference for policymakers at the national and international levels in their discussions on ways and means to implement the SDGs and the formulation of operational strategies for investing in the SDGs.

I wish to emphasize here that the framework and the six packages of transformative actions stand on their own merits, as a basis for promoting investment for sustainable development in general, even in the absence of the SDGs.

It has been designed as a “living document” and incorporates an online version that aims to establish an interactive, open dialogue, inviting the international community to exchange views, suggestions and experiences.

As such, I would like to reiterate the Secretary-General's invitation to the World Investment Forum from 13th to 16th of October which will be focussed on this theme. In addition we invite you to share your views online via UNCTAD's Investment Policy Hub. But for now, I look forward to hearing the insights from our distinguished panellists and delegates during our discussions this afternoon.

Madam Chair,
Thank you for your attention.

Thank You!

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