Workshop on Aid for Trade and Infrastructure: Financing the Gap

WTO, 16 February 2015

"Investment, Infrastructure and Financing the Sustainable Development Goals"

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Distinguished Participants,
Ladies and Gentlemen,

I would like to thank the organizer for the invitation to this important workshop. It is an honour to be here this morning to speak on the topic *"Investment, Infrastructure and Financing the Sustainable Development Goals"*. This topic is actively discussed in the international arena, especially in the context of the preparation for the Financing for Development Conference in Ethiopia and on the SDGs by World Leaders in New York later this year.
The importance of infrastructure cannot be emphasized enough. It is crucial to build a country's competitiveness, facilitate economic growth, improve quality of life, reduce poverty and enhance connectivity. Good quality infrastructure is essential for international trade and integration into the world economy, including through global value chains (GVCs) as key manifestation of the trade-investment nexus.

For instance, the provision of reliable electricity does not only support factory operations but also lights up homes and extends the number of productive hours in a day. The provision of transport infrastructure − be it road, rail, ports or airports − can help boost tourism, facilitate efficient movement of goods, services and workers between and within countries. Similarly, quality communication infrastructure increases the connectivity of countries in the electronic age. These physical infrastructures play a key role in supporting industrial development and connecting countries. Of particular importance in the latter is the connectivity of small island states, such as Vanuatu, and land-locked countries, for example Mali, to the global trading system.

In addition, access to affordable infrastructure services, such as energy and drinking water, is an important determinant of people's living standards. The development of infrastructure helps eliminate poverty and contributes to achieving sustainable development.

Despite the importance of infrastructure for economic development, many developing countries struggle to build sufficient or reliable infrastructure. Developing countries, in particular low-income groups, face huge investment needs and infrastructure challenges.

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 current investment (latest available year) $ billion	2015-2030 Annualized $ billion (*constant price*)		Average private sector participation in current investment[b] Per cent	
			Total investment required	Investment Gap	Developing countries	Developed countries
		A	B	C = B - A		
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

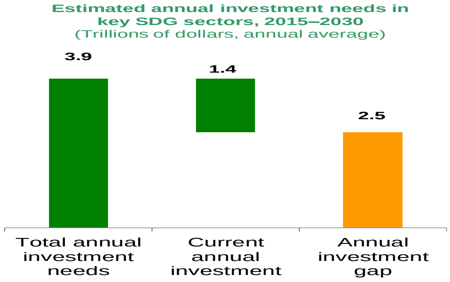
The infrastructure investment needs for developing countries are huge. It is estimated that some $1.6-2.5 trillion investment in power, transport, telecommunication and water and sanitation is needed annually by developing countries between 2015 and 2030.
Understandably, the public sector alone cannot meet such a huge annual infrastructure investment requirement. UNCTAD estimated that developing countries could face an annual

investment gap of $0.75-$1.6 trillion through to 2030. This gap is the difference between the huge investment need and estimated current infrastructure spend, which somehow has to be filled. The question is by who and how?

The private sector, of course, would need to play a greater role and increase their investment even beyond historically high levels. The average private sector participation in current infrastructure investment in developing countries is considerably lower than in developed countries. Clearly, there is a need to be effective in mobilizing and channeling investment into infrastructure in developing countries.

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.

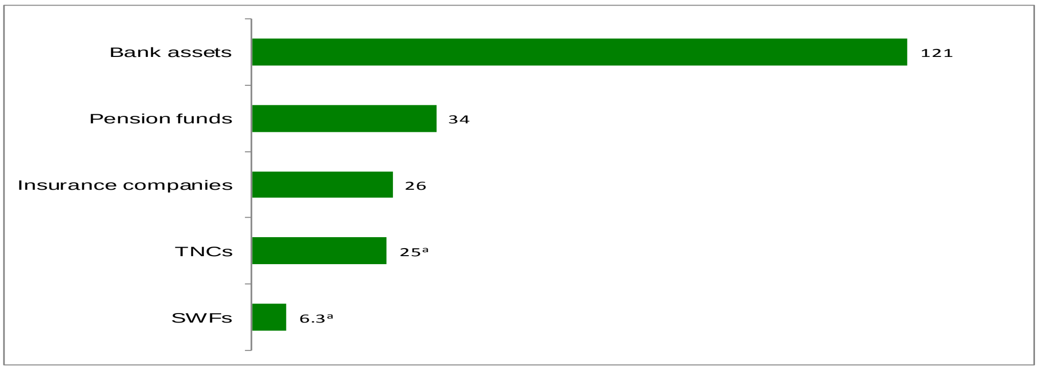


While the infrastructure investment needs are already enormous, the overall need to make progress with the SDGs, which include also social and environmental sectors, swells this number even more.

The annual investment gap in SDG-relevant sectors is estimated at some $2.5 trillion in developing countries. And achieving the SDGs would require a step change in investment by both the public and private sectors.

Purely in funding terms, this is achievable. This is because only a fraction of the worldwide assets of banks, pension funds, TNCs, SWFs and foundations are currently invested in SDG sectors. If the right conditions and partnerships are put in place, there is room to tap into these sources and direct them towards SDG-related sectors.

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

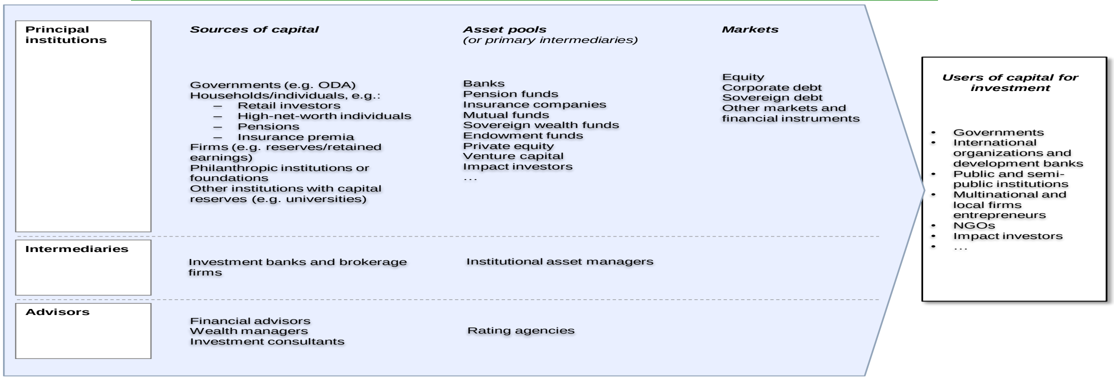


Source : UNCTAD FDI-TNC-GVC Information System, IMF (2014); SWF Institute, fund rankings, consulted 13 May 2014, http://www.swfinstitute.org/fund-rankings; TheCityUK (2013).
Note : This figure is not exhaustive but seeks to list some key players and sources of finance. The amounts for assets, stocks and loans indicated are not equivalent, in some cases, overlap, and cannot be added.
[a] 2014 figure

The relative sizes of selected potential sources of investment (illustrated in this slide) are significant. The numbers provide a glimpse of the possible key players in SDG financing, the sheer size of assets they each hold and why filling the SDG investment gap is achievable. The issue is not that there is not enough finance around for the SDGs. Rather, the important question is how these existing resources can be mobilized and channeled effectively towards meeting the SDG needs.

However, some developing countries, especially low-income groups, face special challenges to attract investment in infrastructure and other SDG sectors. Weak purchasing power, high perceived risks, limited investment, including from external sources, and nascent domestic capabilities to manage private sector participation constrain these countries' ability to attract infrastructure investment and leverage TNC participation.
In view of this limitation, development partners should consider all options to help developing countries deliver infrastructure development, including universal access to electricity and water. The private sector also needs to play a greater role to help bring this about.
Aside from fulfilling ODA commitments, development partners can assist with capacity-building; risk-mitigation strategies for low-income countries; and support regional projects, including by encouraging their local companies to invest in vulnerable developing countries. There is also a need for development partners to work together with developing countries to increase the involvement of the private sector in infrastructure investment.

The investment chain and key actors involved



Source: UNCTAD.

The number of actors that can contribute to realizing the SDGs is by no means small. The sources of capital could include governments, households, firms, philanthropic institutions and foundations. Many institutions such as banks, pension funds, insurance companies, SWFs, private equity and venture capital entities account for a huge pool of assets in the trillions of dollars. Markets are another avenue that can be considered to channel finance towards the SDGs.

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

The profile of infrastructure investment is changing. The rise of different types of players is contributing to a changing infrastructure investment landscape in developing countries. They include a growing number of private and state-owned TNCs, increased involvement of southern TNCs and the rise of new financiers such as private equity firms and SWFs in infrastructure industries. For example, Chinese, Indian and other Asian infrastructure companies have been actively investing in Africa, strengthening South-South cooperation.
FDI in infrastructure in developing countries, measured by BoP statistics, are on the rise. But FDI numbers do not necessarily give the full picture of TNCs' participation in infrastructure industries in developing countries. TNCs are also actively involved in the development and

construction of infrastructure projects through non-equity modalities such as contractual arrangements and concessions. If the latter is taken into account, then TNCs participation in infrastructure services in developing countries are even more significant than the FDI numbers revealed.

It is important that the international community addresses this statistical shortcoming so that a more complete picture can be gleaned and the contribution of TNCs as a player in infrastructure development be better understood.

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.**	..	..

TNCs from developing economies are now among the major global or regional infrastructure players spanning across different infrastructure industries. These companies include CLP Holding, Keppel Corporation in electricity services; Sing Tel, America Movil, and Mobile Telecommunications in telecommunication infrastructure. In transport infrastructure they include DP World, PSA International, China Communications Construction. There are also others such as MTN, Ooredoo, YTL, Power Assets and Turkcell that are emerging players in the industry they served.

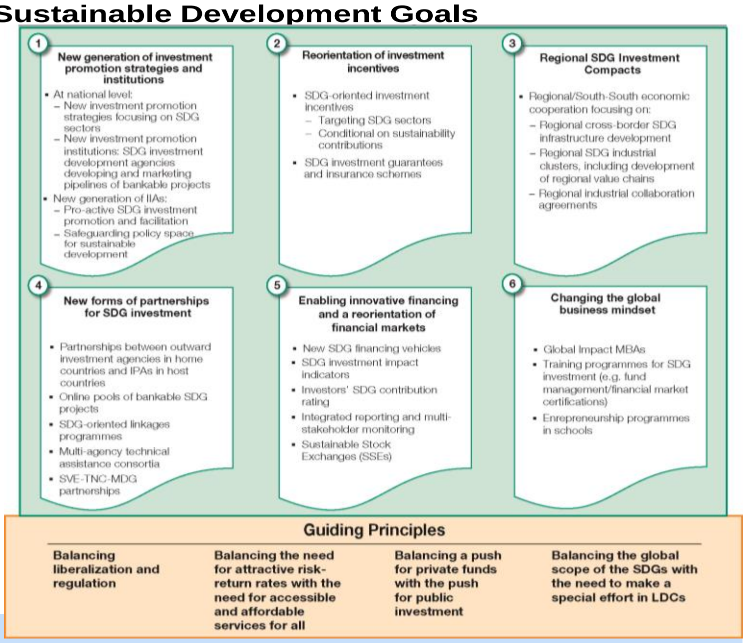
Investing in the Sustainable Development Goals

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

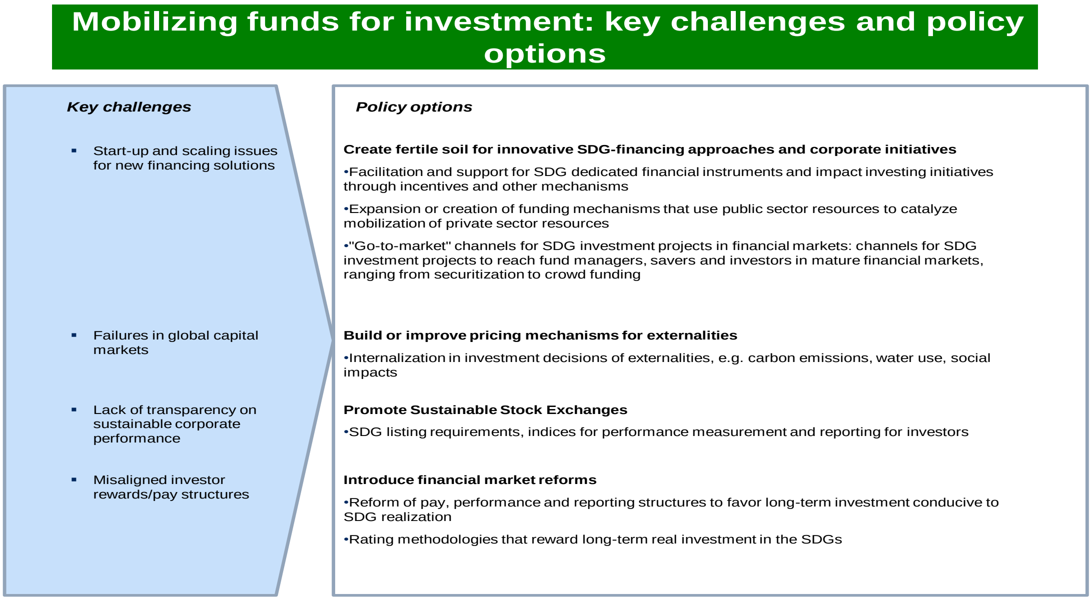
- Action Plan for Investment in SDGs:

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



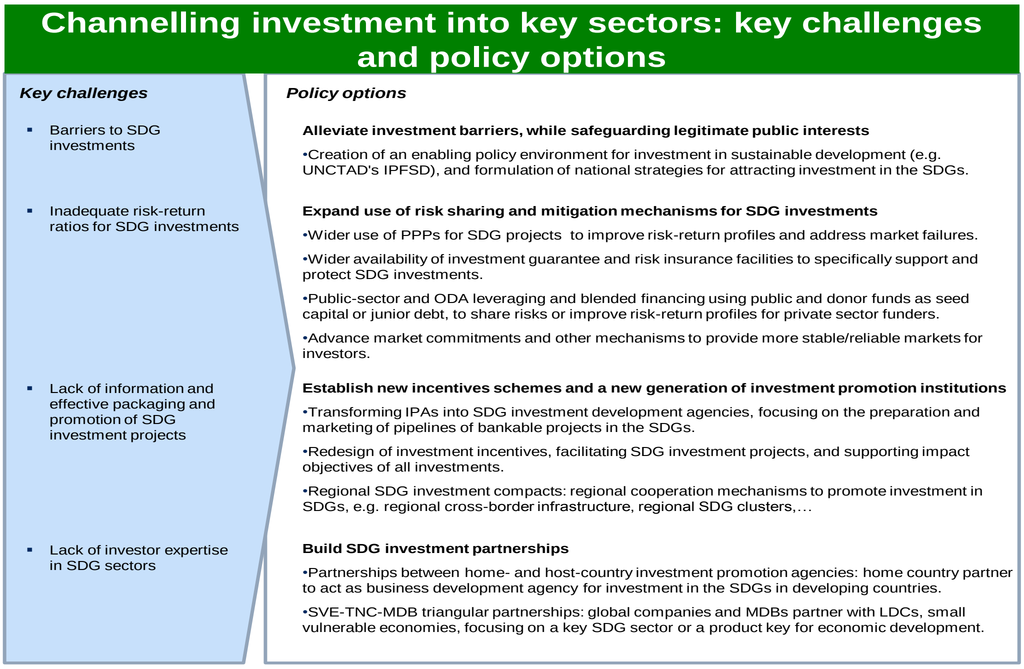
UNCTAD, through the World Investment Report 2014, proposed an action plan to mobilize and channel investment to the SDGs. It calls for a more active promotion and involvement of private investment in SDGs, including recognizing the necessity for public-private collaboration. The report proposes targeted strategies to mobilize and channel investment into the SDGs.

Some of the key elements of the action plan include (i) the development of a new generation of investment promotion strategies and institutions, including addressing inward and outward FDI holistically; (ii) a re-orientation of investment incentives; (iii) the development of regional SDG investment compacts; (iv) the establishment of new forms of partnership for SDG investments; (v) creating an enabling platform for innovative financing and a re-orientation of financial markets; and (vi) changing the global business mind set about SDG issues in business schools curricula.
In addition, UNCTAD has also organized a Ministerial Conference at the World Investment Forum, held in October last year in Geneva, to further identify specific actions and policy options to channel investment towards the SDGs.



Source: UNCTAD.

A number of specific policy options can be considered to mobilize funds for SDG investment. In particular, they can create fertile soil for innovative SDG-financing approaches and corporate initiatives; build or improve pricing mechanisms for externalities; promote sustainable stock exchanges; and introduce financial market reforms.



Source: UNCTAD.

To channel investment a number of specific policy options could be deployed. They include alleviating investment barriers while safeguarding legitimate public interests; expanding the use of risk-sharing and mitigation mechanisms for SDG investments; establishing new incentives schemes and a new generation of investment promotion institutions; and building SDG investment partnerships between different stakeholders.

Realizing the SGDs is not going to be easy but with all stakeholders working together and with some innovative approaches and ideas, the goals are achievable with private investment playing a greater role.

Thank you.