Discussion Paper 01 – February 4, 2020

The Sustainable Investment Gap and How to Close It
Cities, Infrastructure and SDG Investment Gap

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Background

Agenda 2030 is now on its last decade and substantial finance is needed to achieve the Sustainable Development Goals (SDGs) on time. There is a global investment gap for both the SDGs and infrastructure. In emerging markets and developing countries, it has been reported that only about half of SDG investment needs are being covered. As many developing countries face tremendous fiscal constraints, it becomes a challenge for them to secure a stable source of funding, resulting in underinvestment of critical infrastructure.

While there is an investment gap for infrastructure and the SDGs, substantive financial resources are available. An evolving landscape of financing offers many opportunities to mobilise resources, including public, private, domestic, international and experimental schemes. New development partners, development finance institutions, public-private funds, philanthropic organisations and private impact investors have emerged or expanded their activities in recent years and now work alongside traditional donors. In the light of this, there is a need to i) determine the SDG and infrastructure investment gap until 2030, and ii) propose how this investment gap can be closed. For that reason, UN-Habitat has compiled this estimation first quantifying the total investment gap and then comparing it to the total public and private investor capacity.

Main points:

- There is a need to determine the SDG and infrastructure investment gap up until 2030
- There is a need to provide suggestions for how this investment gap can be closed

Methodology

This estimation on total investment gap and the total investor capacity was compiled from a multitude of sources with data from the G20 Global Infrastructure Outlook, McKinsey Global Institute, Sovereign Wealth Fund Institute, OECD, and IMF. The compiled numbers were rounded and adjusted to the period 2020–2030.

For the investment gap, the main data source is the Global Infrastructure Outlook, which builds on a top-down econometric approach using panel data to draw inferences on infrastructure investment.

This discussion paper was prepared by Marco Kamiya and Hannes Berggren. It was reviewed by the Knowledge & Innovation Branch Team.

The Global Infrastructure Outlook depends on two forecasts:

1. The current trend in infrastructure investment under the assumption that countries continue to invest in line with current trends, with growth occurring only in response to changes in each country's economic and demographic fundamentals.

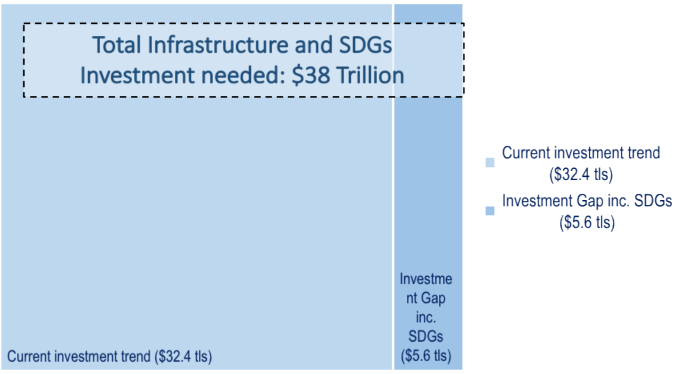
2. An investment need forecast to demonstrate the investment that would occur if countries were to match the performance of their best performing peers, after controlling for differences in the characteristics of each country.

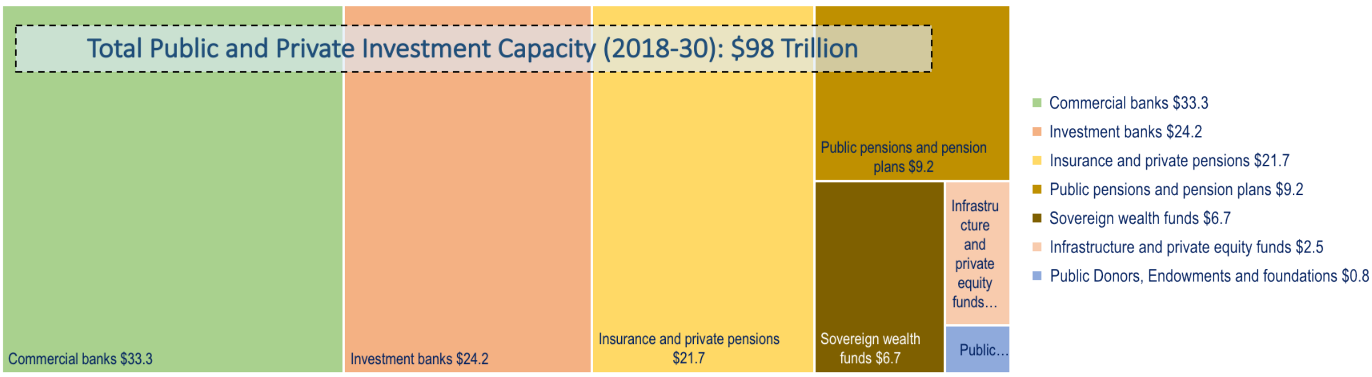
The global totals in the Global Infrastructure Outlook were estimated by scaling up results from a sample of 50 countries included in the study using GDP shares. Forecasts of the investment required to meet the SDGs connected to universal access to electricity, water and sanitation were calculated for low and middle income countries where access is currently less than 100 percent.

To add robustness to this UN-Habitat estimation, the Global Infrastructure Outlook results where then cross-referenced with data from the McKinsey Global Institute, United Nations Sustainable Development Solutions Network (UNSDSN) and UNCTAD to affirm the total investment gap.

As for the total investor capacity, several sources on the available private and public investment were compiled. Data on available public and private investment comes mainly from the McKinsey Global Institute and was adjusted to the years 2020-2030. This data was then supplemented with data from the Sovereign Wealth Fund Institute, the IMF and the OECD. This was then further complemented with data on available public financing, including donors and UN agencies, from the Dag Hammarskjöld Foundation and the OECD to estimate the total investor capacity.

Cities: Infrastructure and SDG Investment (2020-2030)



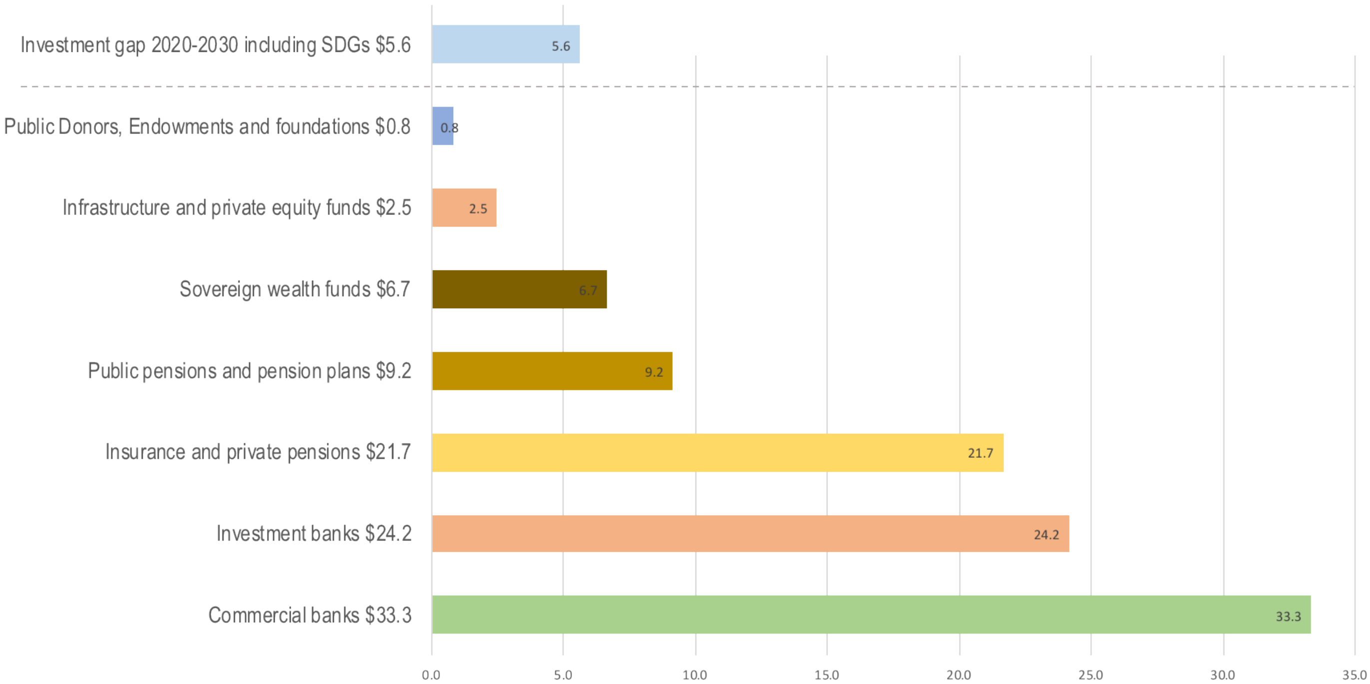


Results

Results from this UN-Habitat estimation show that while there is a large SDG and infrastructure investment gap, the total public and private investment capacity far surpasses the total investment gap.

As can be seen, the total investment gap for infrastructure and the SDGs is estimated at $38 trillions for the years 2020-2030. However, the total public and private investment capacity is significantly larger, totalling $98 trillion. Commercial banks have an investment capacity of more than $33 trillion, which is almost as large as the total investment gap for 2020-2030. Investment banks manage over $24 trillion, while insurance companies and private pensions manage almost $22 trillion. The world's 82 largest sovereign wealth funds jointly manage over $6.7 trillion and remain largely underutilised for realising sustainable development. An important conclusion to draw is that infrastructure & private equity funds, totalling at $2.5 trillions in managed assets, by themselves lack the capacity to close the infrastructure investment gap. Another important conclusion to draw is that while public donors, endowments and foundations do not make up no more than $0.8 trillion, institutional investors together manage assets that far exceed the total investment gap until 2030. Traditional financing is not enough to cover the investment gap, but combined institutional investor assets constitute a possibility to closing it completely. In other words; while funding indeed does exist, it is currently not flowing into the right areas to close the SDG and infrastructure investment gap. Redirecting even a part of these assets would make a significant difference.

Cities: Investment Gap and Total Investment Available (2020-2030)



Policy Recommendations

This estimation shows that institutional investors remain an underutilised source for financing infrastructure and sustainable development. While few institutional investors yet invest large shares of their portfolios in developing nations, they have characteristics appropriate for such investment. One such characteristic several of these funds have is maximisation of long-term return, preferring returns over liquidity, thus having a comparatively high risk-tolerance. Going forward, one of the most critical questions to answer is how to match these assets with infrastructure and SDG projects to close the current investment gap.

The economic argument for investing in achievement of the SDGs and adequate infrastructure for sustainable development is strong. Estimates have for example shown that achieving the SDGs could open market opportunities worth trillions of dollars and create hundreds of millions of new jobs by 2030. However, continued underinvestment in infrastructure could instead erode future growth potential and productivity, as well as leave people vulnerable all over the world. If the financing gap remains open, investment needs will grow over time due to a cumulative effect. Indeed, there are significant and rising opportunity costs in delaying investments into infrastructure and the SDGs. Putting off investments will lead to higher annual costs in the future, as shorter time to realise the SDGs will increase the amount of input required every year to meet the goals. Delays will also mount increased environmental, social and economic pressures, compounding this effect through higher mitigation costs to address more degraded environments and disrupted societies and economies. This is particularly true for developing countries, where needs are already high. We have reached the last decade for achieving the SDGs and the time to act is now - financing cannot wait.

Sources

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