T20 Policy Brief

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Task Force 06
STRENGTHENING MULTILATERALISM AND GLOBAL GOVERNANCE

Financing the SDGs and Global Infrastructure Gap: The Role of Quasi State and Private Capital

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Abstract

There are many estimates circulating on the financing gap to achieve SDGs and build the climate resilient physical infrastructure needed to power the future of the global economy. The variations in these estimates depend on the time horizon (2030, 2040 or 2050), focus area (traditional infrastructure, SDGs, energy transitions), and other assumptions impacting the forecasts. However, one thing is certain: all of these estimates are in the trillions of dollars per year for the next decades. As a result, the global economy is facing a monumental task of financing its sustainable development agenda and infrastructure needs. Clearly, such enormous gaps are beyond the capacity of states, IFIs, and MDBs to address by themselves. Thus, there is a dire need for creative financing mechanisms from other sources.

Section I of this policy brief provides a brief examination of the SDG financing challenges. Building on this foundation, Section II argues that mobilizing quasi-state assets (managed by sovereign wealth funds and private and public pension funds), as well as private capital and foundations, is the only viable path forward to bridge this gap. Considering that more than 80% of the world's hundreds of trillions of dollars of quasi-state and private assets are distributed across the G20 economies and given that these economies have strong representations in IFIs and MDBs, section III of the brief demonstrates the central position G20 in mobilizing non-state capital for the global development agenda and highlights the important role of Brazilian presidency in this front. Section IV concludes the discussion.

Global SDG Financing Gap: An Overview

Estimates of global infrastructure investment needs vary due to the different target dates, types of infrastructure and needs in developing economies vs. the global economy. The 2023 World Investment Report published by the United Nations Conference on Trade and Development (UNCTAD) estimates the annual financing gap for achieving SDGs by 2030 to be around $3.8 to 4.3 trillion for developing countries, which includes traditional infrastructure such as transportation, water, sanitation, and telecommunication, as well as renewable energy. As seen in Figure 1 below, the energy sector, which includes access to affordable, reliable, sustainable, and modern forms of energy that are also climate conscious (SDG 7 and 13), is responsible for more than 50% of this gap, the equivalent to $2.2 trillion per year. It must be emphasized here that these estimates are simply focusing on SDGs and energy transition. Making the current and future infrastructure climate-resilient will substantially add to these estimates, pushing the UNCTAD's projected investment gaps in the upwards of $5 trillion per year until 2030.

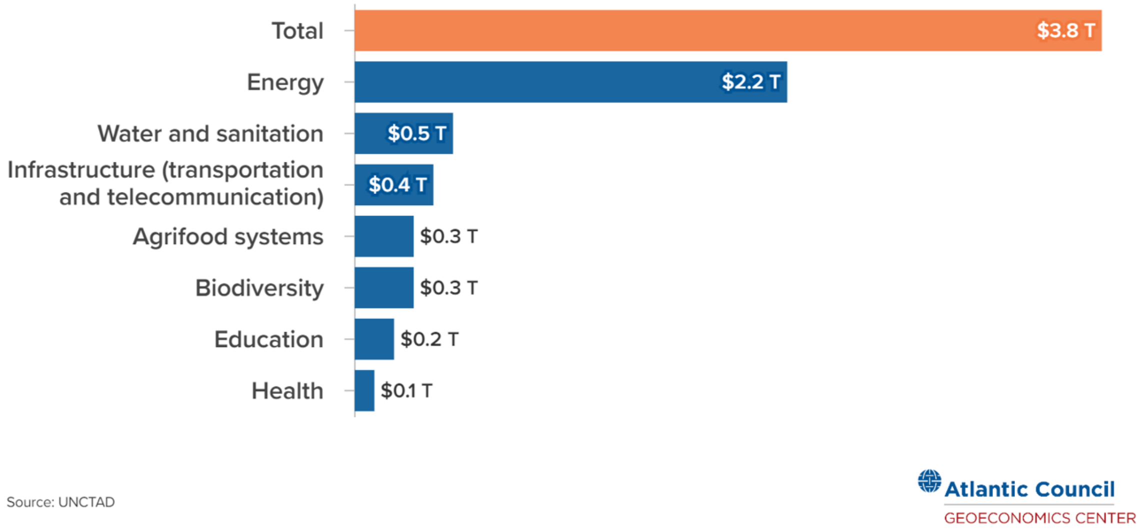

FIGURE 1. Estimated Annual Investment Gap in Developing Countries, Capital Expenditure, 2023–2030 (in USD trillion). *Source:* UNCTAD, 2023.

The bulk of these investments is required in low-income economies, where nearly 800 million individuals lack access to electricity and potable water, and approximately 1.8 billion lack basic sanitation services. Moreover, roughly 3.2 billion people globally remain unconnected to the internet, with only 16 out of 100 individuals having broadband subscriptions. In low-income nations, merely 21% of the population has internet connectivity, and only one in 200 has broadband access. As seen in Table 1, these deficiencies are most pronounced in Africa and South Asia, where about 3.5 billion people or nearly 45% of world's population reside.

TABLE 1. Access to Basic Infrastructure (Percentage of Population)

	Lack access to electricity	Lack access to safely managed drinking water services	Lack access to safely managed sanitation services	Lack access to internet services	Lack access to broadband
Africa	44	73	73	58	98
East Asia and Pacific	2	25	31	28	71
Europe and Central Asia	0	10	18	14	69
Latin America and Caribbean	1	30	53	24	83
Middle East	4	16	46	21	86
North America	0	2	3	8	62
South Asia	4	58	55	57	98
World	10	26	46	37	83

Source: Atlantic Council

Atlantic Council
GEOECONOMICS CENTER

Source: Atlantic Council, 2023.

Non-State Actors

The current estimates for infrastructure and SDG investment gap (which includes net-zero transition) range from \$5-6 trillion per year until 2030, and then around \$4 trillion until 2050. The tight fiscal space of governments, the rise of sovereign debt levels to historically unsustainable levels and limited financial capacity of IFIs and MDBs call for new players in the global sustainable development and energy transition agenda. With \$11.8 trillion and \$23.4 trillion of assets under management (AuM) (Global SWF 2018), sovereign wealth funds (SWFs) and public pension funds (PPFs), respectively, are well-positioned to bridge this gap. The quasi-state institutional investors typically have long-term investment horizons and low but secure return expectations, aligning them well with the characteristics of large-scale infrastructure projects. Moreover, as seen in Figure 2, their assets have been on the rise over the past 25 years, making them a viable candidate for global infrastructure and SDG investment.

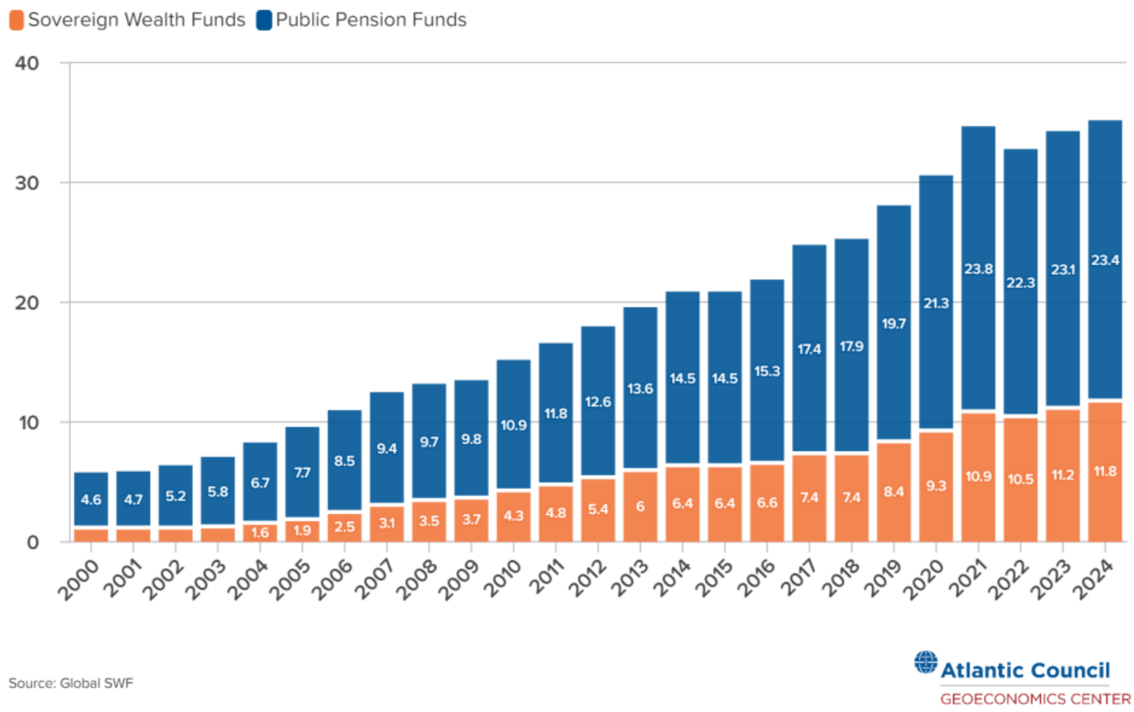

FIGURE 2. Assets of Global Sovereign Wealth Fund and Public Pension Funds (in USD Trillion). *Source*: Global SWF, 2024.

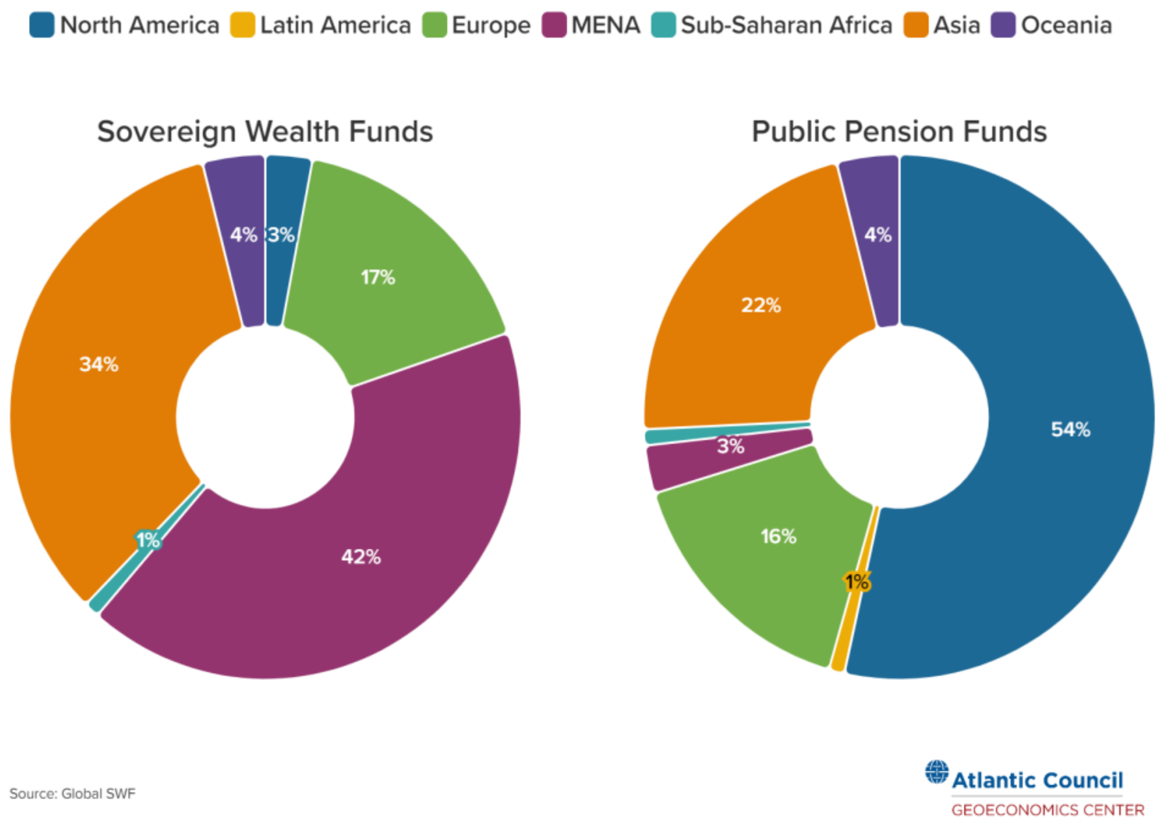

FIGURE 3. Regional Share of Sovereign Wealth Fund and Public Pension Funds (in Percentage). *Source*: Global SWF, 2024.

The private sector represents a largely untapped resource for reducing the SDG and infrastructure financing gap. Assets Under Management (AuM) of the top 500 asset managers totaled USD 113.7 trillion in 2022 (Thinking Ahead Institute 2023), the total market cap of top 10 Global banks companies reaches $1,879,696 million as of Mar 31, 2023, and non-profit growth reached US$ 276.72 billion in 2022 (MMR 2023), with over ten million nonprofit organizations reported globally. Within the private sector, the financial industry, including asset managers and banks, began to carve out investment strategies that target the SDGs through the creation of sustainable financing instruments, including green bonds, funds, and equities, and impact investing through direct investment and private equity vehicles. Shareholders and investors are increasing demand for ways to contribute to the global economy while making a positive impact.

Nonprofit missions, by default, contribute to helping countries meet the SDGs, connecting funding to thematic areas and providing reporting on progress and gaps on the ground.

Demand in SDG investing, specifically infrastructure, has been on the rise between 2018 and 2023, with private investment in the energy and environment sector totaling $1.1 trillion due to the global decarbonization agenda (BCG 2024). The transport and logistics sector accounted for $510 billion, and the digital infrastructure sector for up to $420 billion. The majority of private infrastructure investment activity in 2023 occurred in Europe and North America since 75% of the world's infrastructure portfolio companies are located there (BCG 2024). Not only does infrastructure as a growing asset class provide stability and long-term revenue, but it is also more resilient to geopolitical risks, inflation, and other business cycle volatilities. In addition, climate change, energy transition, technological progress, and regulatory demands have made the shift to sustainable infrastructure investing very attractive. Commercial lending is also transitioning to sustainability, with activity rising to $322 billion in 2021 (Walsh 2024), while real estate has carved out 8% of the sustainable finance market globally.

While most nonprofits focus on improving smaller scale infrastructure as these funds are often individual donor driven and targeted for local projects, many larger foundations and company giving vehicles have begun to increase their partnerships with governments to target larger scale infrastructure investing in developing countries. Through the Partnership for Global Infrastructure and Investment (PGI) launched at the 2022 G7 Summit, additional infrastructure investment projects were announced in 2023 by several G20 partners, leveraging new partnerships between governments and nonprofits (The White House 2023). One significant example is the launch of the Women in the Digital

Economy Fund, leveraging partnerships between the Bill & Melinda Gates Foundation, Microsoft and the U.S. Government with the objective to improve and increase women's participation and access to the digital economy. As a result, additional nonprofits have pledged funding to this initiative post launch.

Despite their significant assets, non-state investors – SWFs, pension funds, and private sector – currently contribute with less than 2% for infrastructure and SDG investment in developing economies due to the perceived risks of long-term investments in these regions. To address this challenge, new and innovative financing mechanisms are required to attract investments from institutional investors and the private sector. One notable effort is the establishment of the Global Infrastructure Facility (GIF) by the World Bank. Moreover, World Bank's MIGA is tasked with offering political risk insurance and credit enhancement services for private sector investors and lenders engaged in cross-border transactions. At the same time, IFC has been assisting national and municipal governments in developing countries to collaborate with the private sector through public-private partnerships (PPPs) (World Bank, n.d.), to enhance access to education, energy, transportation, healthcare, and sanitation. Hence, the World Bank and other MDBs can play a crucial role in encouraging investment in developing countries' infrastructure by providing guarantee and insurance mechanisms to reduce risks for quasi-state and private investors and increasing trust and transparency in infrastructure projects. However, due to rising geopolitical tensions between major members of Bretton Woods Institutions (BWIs), multilateralism is in decay and global economic governance is facing serious coordination and cooperation challenges. This is where G20 could play a central role. Leveraging its unique membership structure, G20 could promote global cooperation and coordination not only among states, but also among non-state actors on financing SDGs and global infrastructure.

Role of G20 and Brazil

G20 countries account for more than 80% of the world's quasi-state and private capital, and together they control more than two-thirds of the voting power at BWIs. Leveraging these facts, G20 can play a more active role in crowding in private financing for global development agenda. The G20 must multiply some of its recent efforts on this front, including the G20 Sustainable Finance Private Sector Roundtable held on April 27-28 in 2022, which provided a platform to advise the G20 Sustainable Finance Working Group on how the public sector can partner with the private sector on sustainability investing. Specifically, the G20 has focused on infrastructure through a variety of channels, including the creation of the Global Infrastructure Hub (GI Hub) in 2014, which pushed forward a framework on How Best to Leverage Private Sector Participation to Scale Up Sustainable Infrastructure Investment under the Indonesian G20 Presidency's 2022 Infrastructure Working Group (IWG). The IWG discusses infrastructure investments, specifically around creating an asset class for infrastructure, promoting quality infrastructure investments, and identifying innovative instruments for mobilizing financial resources for infrastructure investment. As part of the 2023 Infrastructure Agenda, issues such as establishing innovative financing models to scale up private sector investment to address the infrastructure financing gap for creating future cities and exploring the potential application of the Quality Infrastructure Investment indicators across infrastructure projects were addressed. Tangential to these efforts, the GI Hub partnered with the Roundtable of International Organizations, which included the IMF, the Asian Development Bank and the European Bank for Reconstruction and Development, to outline infrastructure taxonomies, including the role of infrastructure definitions and classifications in making better data driven decisions.

Brazil’s G20 Presidency this year offers a unique opportunity to champion investment in the SDGs, specifically infrastructure, and is already reflected in Brazilian President Lula’s domestic agenda. Efforts to align with the G20 GI Hub were made in 2021 through an 18-month engagement program to assist the Brazilian government in improving prospects for private sector investment into infrastructure. More recently, in August of 2023, President Lula introduced the Growth Acceleration Program, which allocated close to $200 billion for infrastructure, energy and transportation over the next four years. Projects would include physical infrastructure, such as highways and ports, in addition to energy efficiency and urbanization in slums and renewable energy transition, with a specific focus on Petrobras, the state-owned oil company. The government has also proposed a legislation to tax large technology companies to help eliminate the digital infrastructure gap for the close to 36 million Brazilians that currently do not have access to the internet (Mari 2024). Lula’s recent comments at the 2023 G20 Summit emphasized that its SDG priorities are incorporated in the “motto of the Brazilian presidency: ‘Building a Just World and a Sustainable Planet’” and will provide a necessary boost to increase global investing in sustainable infrastructure. Supporting the African Union case to join the G20, launching G20 Social, and Brazil’s emphasis to align G20 projects, including infrastructure investment strategies, with the SDGs to ensure that projects contribute to poverty reduction and social inclusion, are all important steps in this front.

Concluding Thoughts, Recommendations, and Scenarios

The lack of adequate financing and declining coordination and cooperation between G20's largest economies are undermining the effectiveness of the group's efforts. As an active member of BRICS and supported by its G20 presidency, Brazil should promote initiatives to bridge the growing geoeconomic and geopolitical gaps among G20 members that have diminished the G20's role in strengthening global economic governance. Reversing this dangerous trend must be a priority for the G20 agenda and the Brazilian presidency. With two-thirds of BWI's voting power concentrated in G20 economies, a more cohesive G20 group can play a central role in bridging the infrastructure financing and coordination gap with the proposed set of recommendations below.

The first would be to minimize the risks and bureaucracy in private sector investing in infrastructure in higher risk, less developed markets. The G20 countries should leverage their voting power and coordinate resources to implement World Bank president Ajay Banga's proposal to 1) expand the capacity and effectiveness in providing multilateral investment guarantees for MIGA by raising its capital levels from $6.8 billion to a minimum of $20 billion; 2) consolidate the entire World Bank's inventory of guaranteed mechanisms fully under MIGA and 3) and offer a "simple set of cafeteria menu style guarantees with transparent pricing" (Center for Global Development, 2024).

Secondly, the G20 should include the participation, input and decision-making of non-state actors in a formal framework, similar to the World Bank's Private Sector Investment Lab, for investing in SDGs, specifically in traditional and sustainable infrastructure. The contribution of private sector financing capacity, technical know how, and local, grassroots knowledge of issues (through NGOs and foundations) will improve transparency of real risks and results and increase expertise to assist BWIs and G20 nations in tailoring projects, targeting funding, and attracting additional private sector funding where its most needed. During its G20 presidency, Brazil should launch this framework in the 2024 Infrastructure Agenda by inviting private sector and other non- and quasi-state actors to the G20 Infrastructure Working Group. Potential outcomes and scenarios from private sector participation include:

· **Scenario 1:** The creation of a comprehensive and standardized toolkit for low income and lower-middle income economies that enables them to improve access to global markets and private sector financing by establishing a formal asset class for infrastructure and other sustainable development securities. With the bulk of infrastructure investing by and in G20 countries, non-state actors can serve as a template for the BWIs to establish the required conditions and risk mitigants for investments, while NGOs can provide micro-level data and resources to encourage subnational units to increase infrastructure projects that target both local and regional infrastructure development inequalities.

· **Scenario 2:** During its leadership, Brazil should create a Global Sustainable Development Investment Fund and promote the effective functioning of similar funds in other G20 economies. With the support of the upcoming presidencies, the fund would pull resources from public and private sectors, along with MDBs, to finance SDGs and global infrastructure projects. The G20 fund could operate as a multi-stakeholder platform to provide a centralized mechanism for sustainable investment, streamlining funding processes and reducing transaction costs, ultimately accelerating progress towards achieving the SDGs.

· **Scenario 3:** The establishment of a virtual innovation hub for sustainable infrastructure in collaboration with financial institutions and technology firms. This hub would provide an environment for experimenting and scaling innovative financial instruments while leveraging advanced data analytics to generate insights into market trends, ultimately contributing to achieving more informed decision-making processes in global investment practices.

Successfully implementing these recommendations and scenarios will depend on the commitment of the G20 members to ensure that not only the current but future G20 presidencies will continue to develop the common frameworks established. With South Africa serving in the G20 presidency in 2025, consecutive leadership from major democratic emerging market countries (India, Brazil, and South Africa) will ensure that underrepresented issues are raised. Incorporating quasi- and non-state actors, such as sovereign wealth funds (SWFs), the private sector, and NGOs, into the agenda can mitigate biases and disparities among countries. This approach facilitates a level playing field and establishes accurate benchmarks for targeting and reducing the infrastructure finance gap, thereby enhancing the effectiveness of on-the-ground projects.

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