World Urban Forum (WUF11)
UNOSD – UNDESA
Katowicze, Poland

Impact Investment in Cities: Innovations to Finance SDGs Implementation at Local Level

Prof. Raymond Saner; University of Basel
Director, CSEND, Geneva

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IMF Study 2019 (Vitor Gaspal et al.)

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Investments to achieve the SDGs are needed in education, health, roads, electricity, water and sanitation. For emerging market economies the average additional spending required represents about 4 % of GDP. Raising this amount is a considerable task, but in most cases these countries can rely on their own resources to finance the SDG targets.

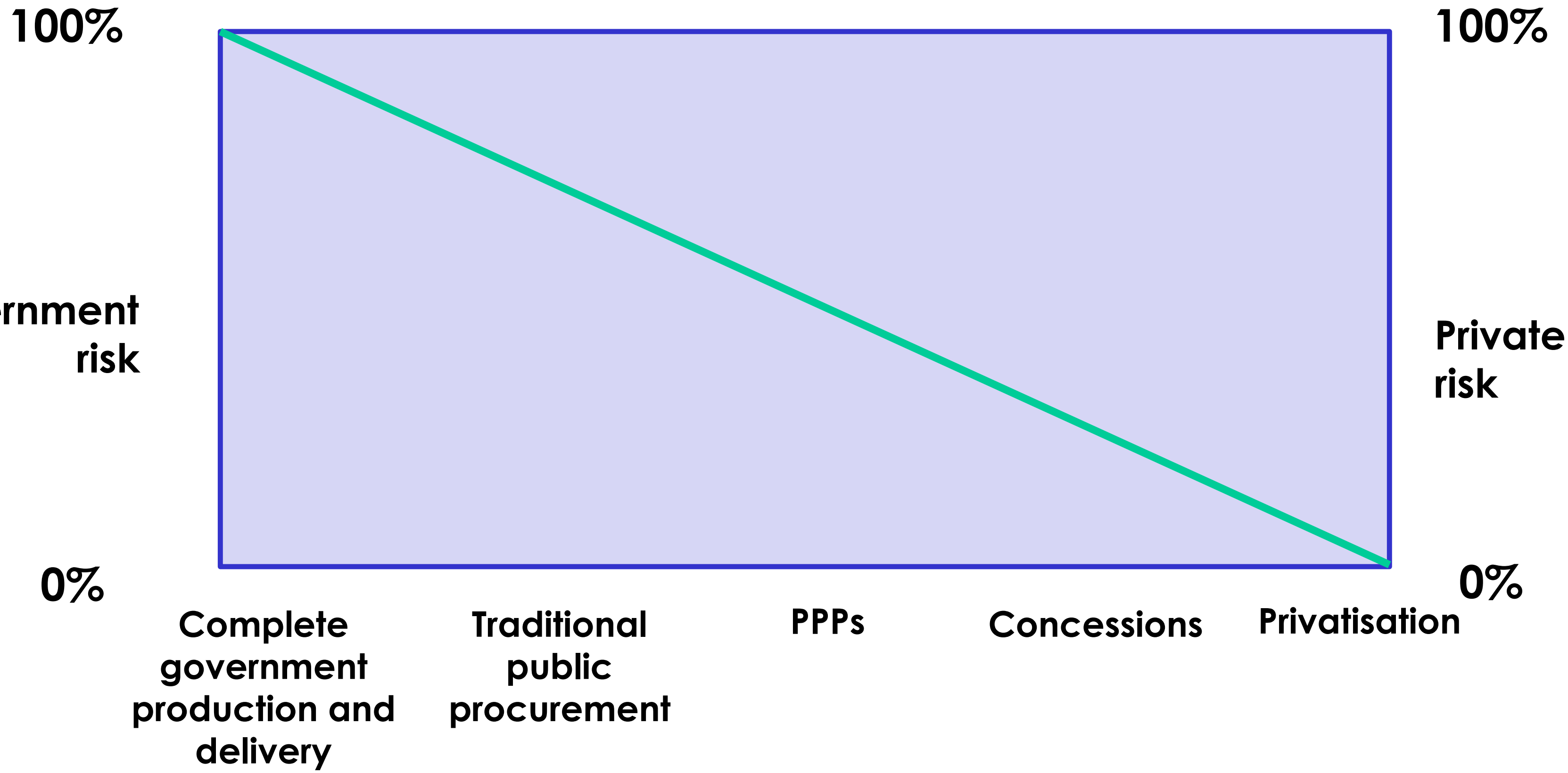
However, the challenge is much greater for low-income developing countries, where the average additional spending represents

15 % of their GDP !!!!!!!!!!!

AND THESE ESTIMATIONS ARE NOW MUCH HIGHER BECAUSE OF THE COVID-PANDEMIC

(Source: Fiscal Policy and Development: Human, Social, and Physical Investment for the SDGs, IMF. https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2019/01/18/Fiscal-Policy-and-Development-Human-Social-and-Physical-Investments-for-the-SDGs-46444 https://sdgs.un.org/goals/goal17)

Investment in Infrastructure: Public and private participation classified according to risk and mode of delivery



Source: OECD (2008), Public-Private Partnerships: In Pursuit of Risk Sharing and Value for Money, OECD Publishing, Paris. P.21.

Policy Choices

1. Government finances and implements (provided tax income is sufficient, regular and equitable)
2. Traditional Procurement- transparent, corruption free, professional
3. Is the local government competent in negotiating and managing private sector partners?
4. Privatisation- possibility as long as not creating privately owned monopolies coupled with corrupt pay-back arrangements- would be illicit and non-productive
5. If PPP- should move from "Value for Money" to "Value for Money AND society" and to "Value for the next generation "!

Financing – option PPPs.. ??
What kind of PPP? For what objective?

1. Build & transfer (BT)
2. Build-lease & transfer (BLT)
3. Build-operate-& transfer (BOT)
4. Build-own-& operate (BOO)
5. Build-transfer & operate (BTO)
6. Contract-add-&operate (CAO)
7. Develop-operate & transfer (DOT)
8. Rehabilitate-operate & transfer (ROT)
9. Rehabilitate-own-& operate (ROO)

Source: Make PPPs fit for SDGs, http://www.csend.org/images/articles/files/20210424-2021-19-04-making-ppps-fit-the-2030-agenda_20210415_fi_p90700.pdf

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Risks of PPPs for SDG financing

1. Who knows about PPPs in national and local governments?
2. Competence only with a few civil servants in Ministry of Finance? If so, risk of hording of information
3. How about line ministries which have to implement PPPs- any PPP experts present?
4. Make-or-Buy: hire expensive external PPP experts? What about after they have finished their job? Who picks up from them?
5. If locally made- capacity building needed + training + exposure to commercial sector often leading to job hopping- ROI or loss of investment

Source: Making PPPs fit for SDGs, http://www.csend.org/images/articles/files/20210424-2021-19-04-making-ppps-fit-the-2030-agenda_20210415_fi_p90700.pdf

Option: Co-Creation of Financing of PPPs.

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Target 17.17 Encourage and promote effective **public, public-private and civil society partnerships**, building on the experience and resourcing strategies of partnerships

CSEND: nothing prevents us from creating partnerships including private and public sector with cooperatives and civil society!!!

Policy Coordination and Consultation is crucial for SDG implementation:

1. Clarify role of Ministries (who leads-supports)???
2. improve credibility and competence of national and local government in holding dialogues with domestic and international stakeholders
3. design and manage consistent inter-ministerial SDG policy coordination based on policy coordination and consultation mechanisms
4. ensure effective SDG implementation of SDGs at national level with adequate monitoring for constant SDG policy updating and fine-tuning

Social Impact Investment

(James Chen, 2021.

https://www.investopedia.com/terms/i/impact-investing.asp

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- Impact investing is a general investment strategy that seeks to generate financial returns while also creating a positive social or environmental impact.
- Investors who follow impact investing consider a company's commitment to corporate social responsibility or the duty to positively serve society as a whole.
- Socially responsible (SRI) and environmental, social, & governance (ESG) investing are two approaches to impact investing.

ESG Investments now exceed 30 Trillion US$ (A. Hayek, 2021)

- Long-term investors, such as mutual funds, pension funds, insurance companies and sovereign wealth funds interested in sustainability
- Millennials are in part driving the growth in ESG investing
  - $30 trillion intergenerational wealth transfer
  - 84% of millennials interested in sustainable investing
- 49 stock exchanges and more than 350 large asset managers have committed to ESG principles
- 97 financial institutions in 37 countries have committed to the Equator principle

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History of ESG

Georg Kell, Jul 11, 2018, Forbes Magazine

The story of ESG investing began in January 2004 when former UN Secretary General Kofi Annan wrote to over 50 CEOs of major financial institutions, inviting them to participate in a joint initiative under the auspices of the UN Global Compact and with the support of the International Finance Corporation (IFC) and the Swiss Government. The goal of the initiative was to find ***ways to integrate ESG into capital markets.*** The report made the case that embedding environmental, social and governance factors in capital markets makes good business sense and leads to more sustainable markets and better outcomes for societies.

ESG Current Application

(CFA/PRI 2018)

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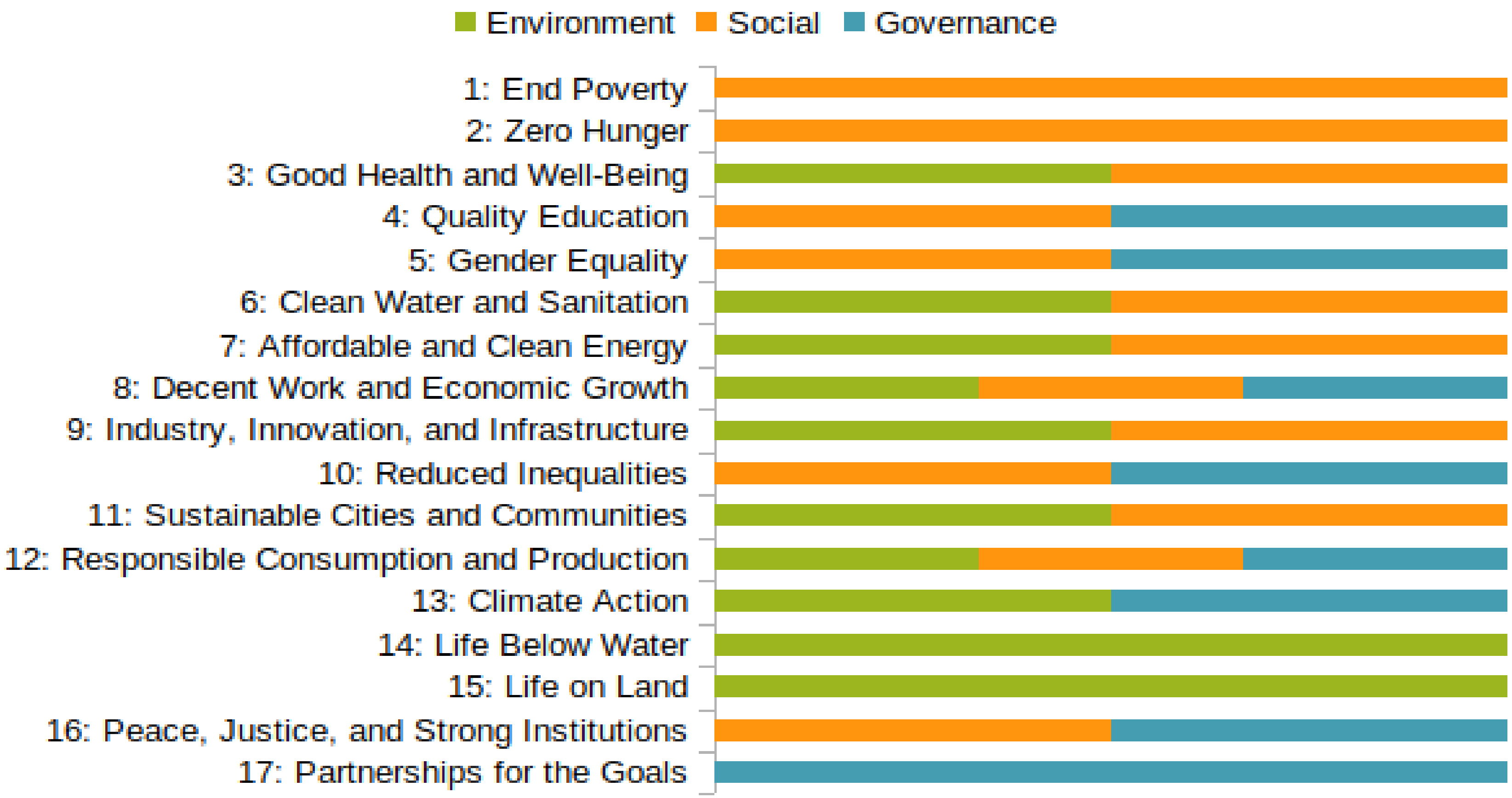
FINDINGS (survey, 1100+ financial experts)

- There is no "one best way" to do ESG integration and no "silver bullet" to ESG integration.
- Governance is the ESG factor most investors are integrating into their process.
- Environmental and social factors are gaining acceptance, but from a low base.
- ESG integration is farther along in the equity world than in fixed income.
- Portfolio managers and analysts are more frequently integrating ESG into the investment process, **but rarely adjusting their models based on ESG data.**

ESG to SDGs: Connected Paths to a Sustainable Future

https://sustainometric.com/esg-to-sdgs-connected-paths-to-a-sustainable-future/



Conclusions

Connecting SDG 11, 16 & 17

1. Investment in physical and social infrastructure projects are needed to implement the SDGs (2015 AAAA agreement on financing development).
2. SDG 11 (urban development) requires sustainable financing, sustainable governance and competent project management e.g. ISO 19081 (see presentation by Dr Lichia Yiu)
3. Implementing SDG 11 requires SDG target 16.6 (Develop effective, accountable and transparent institutions at all levels) and SDG target 16.7 (Ensure responsive, inclusive, participatory and representative decision-making at all levels).

Source: CSEND (2014), Monitoring of SDG Implementation Infrastructure and Methodology: Proposal for Action, http://www.csend.org/images/articles/files/Monitoring_SDG_Infrastructure__Methodology.pdf

Connecting SDG 11, 16 & 17 (2)

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- **4. Financing infrastructure can be done through governments' own means; public procurement; PPPs (SDG target 17.17); concessions or privatization of services.**
- **5. The choice of financing depends on a government's ability to collect taxes (individual and corporate taxes), VAT, PPPs or by borrowing from development banks and partner countries**
- **6. If financed through borrowing, the borrowed money has to be paid back. If by means of PPP- the next generation has to pay back the loan hence inter-generational justice has to be secured.**

Source: CSEND (2014), Monitoring of SDG Implementation Infrastructure and Methodology: Proposal for Action, http://www.csend.org/images/articles/files/Monitoring_SDG_Infrastructure__Methodology.pdf

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Thank You!