

▲ GUARANTEEING FINANCE FOR SUSTAINABLE INFRASTRUCTURE: A PROPOSAL

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Abstract: There is an urgent need to transform the world economy into one that raises living standards in a manner that is socially inclusive and environmentally sustainable. Perhaps the most effective way to trigger such a transformation is through scaling up investment into sustainable infrastructure. Paradoxically, the “supply of private capital” is not lacking for this task, given the rapid expansion of global liquidity that has swelled the balance sheets of pension funds and other institutional investors. However, due the numerous market and policy distortions in the world economy, financial markets are skewed away toward longer-term sustainable investment. A new financial architecture is needed that “connects the dots” better between private financial markets and global public needs—particularly in emerging and developing nations. Industrialized nations and Multi-Lateral Development Banks have begun to pledge billions of dollars toward meeting the climate challenge. Such funds are welcome but do not match the scale of the problem and seldom grant developing countries ‘ownership’ over projects and broader goals. In addition to earmarking finance for actual green projects, we propose a global guarantee fund that would allow emerging market and developing countries to finance the sustainable transition themselves.

Key words: infrastructure; sustainability; financing gaps; global guarantee fund.

Introduction

The international community is facing at least three simultaneous crises. The first is the fragile recovery of the global economy, in its seventh year after the great recession. A second crisis is the lack of structural transformation and job creation in the world economy that, in part, is responsible for the decline of opportunities particularly for youth and the poor. A third one is the climate crisis and the urgent need for a path toward lower carbon growth and development in developing and industrialized countries alike.

Investing in global infrastructure offers a rare opportunity to mitigate these crises and transform the global economy into one that is more sustainable and inclusive. Investing in infrastructure could help reverse the economic downturn in emerging market and developing countries. According to the International Monetary Fund (IMF) infrastructure spending has the highest multiplier impact during a downturn (IMF, 2014). Investment in infrastructure cannot be business as usual, however. If infrastructure finance is steered toward low carbon and inclusive development, the economic and employment benefits of infrastructure could also raise the standards of living of the world's poor and lay the foundation for a 21st Century economy. Such a transition is outlined in Table 1.

Table 1. Shifting to Sustainable Infrastructure

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<u>From business as usual outcomes</u>	<u>To sustainable and inclusive infrastructure outcomes</u>
Inadequate investments in sustainable infrastructure in most countries constraining growth and development	Scaled investment in sustainable infrastructure globally, leading to improved economic development and growth
Inadequate provision of affordable infrastructure for the poor , creating the risk of serious reversals in the fight for development and poverty reduction	Increased infrastructure access and affordability for the poor , leading to improved development outcomes
High proportion of high-carbon infrastructure investments and inefficient use of infrastructure, creating danger of lock-in and irreversible climate change	Increased preference for investments in low-carbon infrastructure , mitigating climate change risks and increasing probability of a 2 degree scenario
Low resilience infrastructure, creating vulnerability to risks of climate change (especially among the poor)	More resilient infrastructure that accounts for climate risks and protects

Source. Bhattacharya et al, 2015

There is great momentum toward meeting this demand, through the United Nations Sustainable Development Goals (SDGs) and the global climate talks. As shown in Table 2, at least five of the SDGs directly discuss this challenge:

Table 2. Sustainable Development Goals and 21st Century Infrastructure

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- Goal 6: Ensure access to water and sanitation for all
- Goal 7: Ensure access to affordable, reliable, sustainable and modern energy for all
- Goal 9: Build resilient infrastructure, promote sustainable industrialization and foster innovation
- Goal 11: Make cities inclusive, safe, resilient and sustainable
- Goal 13: Take urgent action to combat climate change and its impacts

Source. United Nations, 2015

In order to meet these goals the world needs to double its annual investment over the next 15 years to make this transition—an increase of \$2-3 trillion per year, \$ 1 trillion of which will have to be toward making infrastructure sustainable (Bhattacharya et al, 2015; IEA, 2012). Fortunately, though paradoxically, we are in a moment of excessive supply of capital, in the order of US\$ 70 trillion, in the balance institutional investors, such as pension funds, insurance companies and wealth management funds (OECD, 2014b; Della Croce et al, 2011) The problem is that even though these institutions need long-term assets that can match their long-term contingent assets, financial markets remained “locked in” short-term fixed income assets. A new green financing architecture can “connect the dots,” attracting potentially available private capital to green investment projects— particularly in emerging and developing nations.¹

¹ For any country, at any developmental stage, it is a huge challenge to fill the green investment gap by mobilizing private finance through the smart use of limited public finance. However for developing nations the challenge seems to be of a higher nature than for industrialized nations – for at least two reasons. First because fiscal resources in developing nations are often absorbed by “basic needs” – such as the development of basic social safety nets and social infrastructure. And if their public resources are relatively scarcer, the level of financial development lags in relation to industrialized nations.

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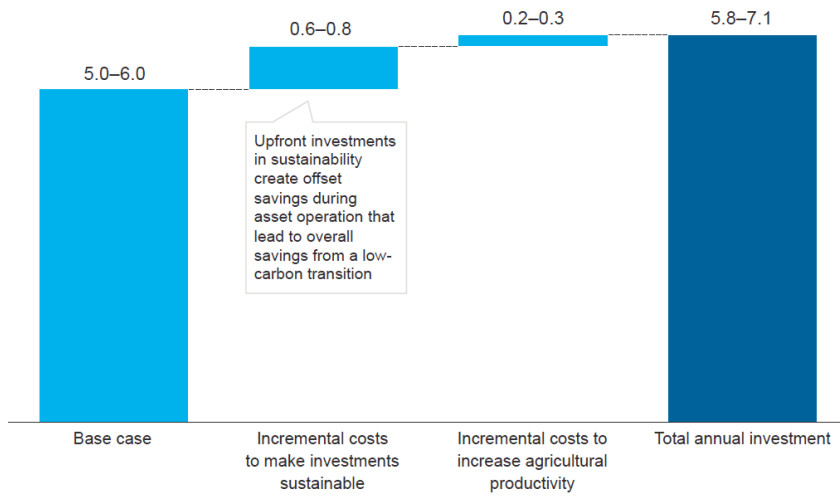
This short paper presents a preliminary proposal for a possible architecture. This could be anchored in the creation of a global green infrastructure fund, backed by the pledges of international donors, that would support direct and indirect lending, and the issuance of bonds, in both international and domestic markets issued, by multilateral and national development banks. The paper is organized as follows:

Section 1 presents the paradox that characterizes current financing for sustainable infrastructure; Section 2 provides an analytical framework that will guide the remaining of the paper; and Section 3 will present an overview of the opportunity that can be created by an architecture based on the implementation of a global guarantee fund for long-term green financing. The conclusion summarizes our findings.

1. The paradox

According to current UNPA projections, the global population will reach eight billion by 2024, and will likely reach around nine billion by 2037. In order to meet these goals the world needs to double its annual investment over the next 15 years in order to make this transition—an increase of \$2-3 trillion per year, \$ 1 trillion of which will have to be toward making infrastructure sustainable (Bhattarcharya et al, 2015; IEA, 2012).

Figure 1. Total estimated investment requirements under business as usual and estimated additional costs under a 2°C scenario.



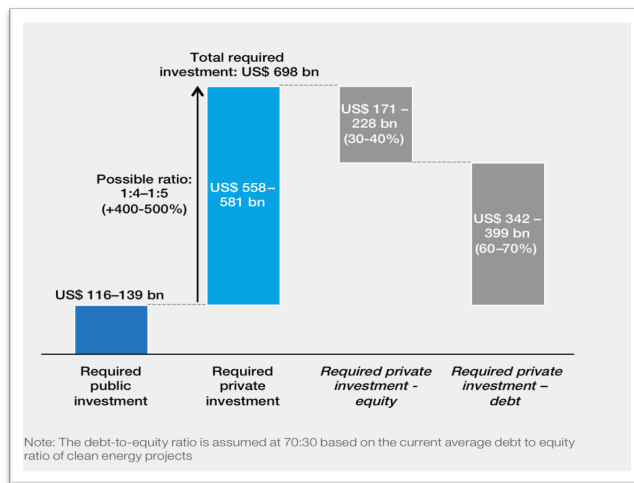
Source: Global Commission on the Economy and Climate, New Climate Economy report 2012

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Figure 2: Potential public-private finance mobilization to close the cost gap for climate-specific investment.



Source: World Economic Forum (2015:5).

For any country, at any developmental stage, filling the green investment gap by mobilizing private finance is a smart use of limited public finance. However for developing nations the challenge seems to be of a higher nature than for industrialized nations— for at least two reasons. First, because fiscal resources in developing nations are often absorbed by “basic needs”— such as the development of basic social safety nets and social infrastructure. And if their public resources are relatively scarcer, the level of financial development lags in relation to industrialized nations.

Potential supply of capital is nonetheless a problem. Indeed, institutional investors, which are often the main source of long-term funding, have accumulated balances of over US\$ 80 trillions (figure 3).

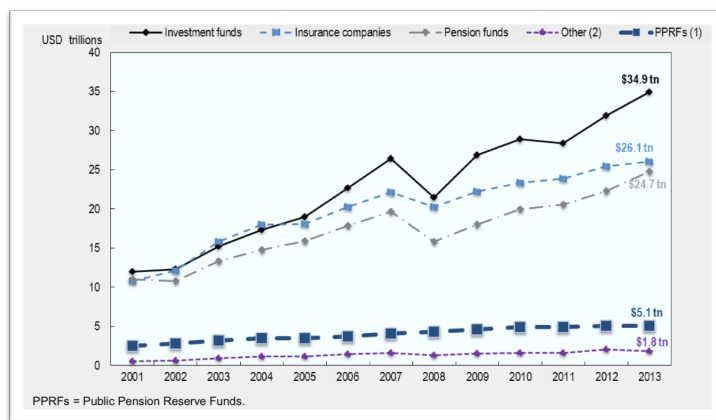
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Figure 3. Total assets by type of institutional investor in the OECD, 2001-2013.
In USD trillions.



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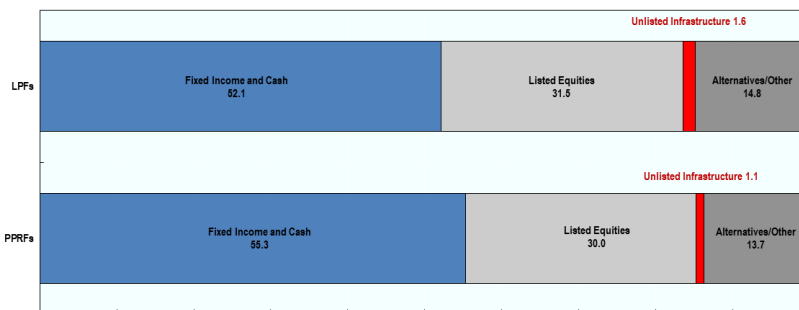
Source: OECD (2014a).

This significant increase in the value of the assets is directly associated with the “quantitative easings” around world, which boosted the prices of assets, particularly those purchased by central banks: government and corporate bonds.

This sudden growth of the value of these investors’ portfolios came with two interrelated undesirable and undesired consequences: on the one hand, they increased the participation of cash and fixed income assets

(figure 4) in the overall portfolio of institutions that, by their nature, need to keep most of holdings in the form of long-term assets. Second, because quantitative easing implied very low returns of (short and long-term) assets in the yield curve, the average return of institutional investors, and particularly, pension funds have fallen to unsustainable levels.

Figure 4: Average asset allocation of Large Pension Funds (LPFs) and Public Pension Reserve Funds (PPRFs), 2013 (1,2) (% of total assets).



Note: (1) The value is a simple average of the share invested in unlisted infrastructure investments for all LPFs (respectively PPRFs) for which actual asset allocation was available in 2013, independently of their size in terms of assets. Totals may not add to 100% due to rounding (2) Both OMERS and FUNCEF changed the way that their asset allocation is reported compared to previous years. OMERS moved to a factor-based asset allocation approach and reported traditional investments such as stocks and bonds in the "other" category. FUNCEF reported fixed income in the "other" category compared to previous years.

Source: OECD (2014b)

The bottom line, therefore, is that the modern international financial architecture lives a great paradox. On the one hand, there is significant appetite for long-term assets on the part of large institutional investors, which would recompose the match between assets held in their portfolios

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and their long-term contingent balance, and do so by maintaining a relative balance between “risk” and return. And on the other hand, there is a significant, and urgent need for long-term financing for investment in greening our economies, our productive sectors and our transport and energy matrixes.

Crowding-in private capital in order to pursue these transformations needed towards a low-carbon world growth and development will require a new architecture that “connects the dots” in a way necessary to overcome this paradox. This is what we will discuss in the next sections, starting with a brief theoretical discussion.

2. An analytical framework

In most market economies, both wealth and financial institutions are privately owned, investment financing can only occur if there is an alignment of the interest of wealth holders and private financial institutions with those that want to invest. This alignment is often difficult to achieve because portfolio allocations of the former are based on what is perceived to be a good balance between return and risk.

This alignment is even more difficult when it comes to those that are likely to introduced innovations— such as in the case of a number of green investments. In addition, long-term and/or transformational investments are often perceived as very risky undertakings. As described in WEF (2015a), private investment in green technologies faces a number of risks:

- *Political risks*, including changes in government that affect the legal system, and the risk of civil unrest; ▲▲
- *Macroeconomic risks*, such economic fluctuations, shifts in commodity prices, interest hikes and exchange rates volatility. ▲▲
- *Policy risks* entail regulatory changes, such as those to feed-in tariffs or fossil-fuel subsidies that can alter a project’s economic viability. ▲▲

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- *Technology and operational related risks*, ranging from performance-related risks, where revenues might be lower than expected, to risks resulting from the lack of or unreliable supporting infrastructure, such as electrical and water-grid networks. [▲] Moreover, many low carbon technologies are relatively new and there is a perceived risk about their transferability.
- *Capacity risks*, encompassing particularly capacity of institutions and governments to manage own or transferred resources (oversea development assistance, for instance) in order ensure funding is disbursed to projects and utilized. ^{▲▲}

Mobilizing private finance for green investments requires these risks be reduced to about the same levels as those faced by conventional, “brown” investments.² The fact that development finance institutions, multilateral development banks, and domestic governments often have to deal with these risks makes them important candidates to be crucial, catalytic actors towards this green financing architecture. In order to understand why, it is important to discuss why and how it is possible to share risks and de-risk green projects.

Risk-sharing and de-risking

Risk, which is the basic pillar of modern finance theory, is based on the projection of probability distribution functions obtained from the frequency of past events. In an overwhelming part of economic theory risk and projected return go hand-in-hand in the process of creating the resources needed to transfer resources from surplus economic agents (“savers”) to deficit ones (“investors”).

To a certain extent it makes sense to use this simplification to describe how financial intermediaries and markets work. After all, a reasonable track record of potential clients is essential to evaluate risks in providing credit

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² For example, in generating fossil fuel-based energy or environmentally sub-optimal infrastructure.

and negotiating equity positions. But one needs to be cautious of the limitations of such a conceptual framework: information tends to be unavailable in too many significant financial and productive investment decisions— either because (i) they are too costly to obtain or (ii) because they simply do not exist. The former applies more easily to problems and consequences of asymmetric information. The latter is the case of uncertainty, which paradoxically is the most common information problem in the development context and the seemingly least explored by mainstream literature.

Indeed uncertainty is not an uncommon problem, neither should it be associated with any stage of development or with transformative undertakings. Take the case of a startup in any market economy. Early stages of firm development are often more associated with relatively high levels of investment and higher events of “uncharted waters.” They are also associated with lack of track records of the owners, and sometimes with businesses represented by the startup.³ This is of particular concern with newer, low carbon technologies that do not have as long a track record in particular economies. Market unfamiliarity with low carbon technologies can create irrational risk aversion (World Bank, 2012).

In addition to the early stages of the life cycle of a company (i.e. startup) or a project (development and construction of a infrastructure investment), there are at least three cases where uncertainty prevails. First, when there is a significant timespan between the decision to undertake a project and their final operationalization (long term investments). Second, when new products are introduced fundamentally and have not been tested in existing current markets (innovation). And finally, when the project

³ Because of the uncertainty surrounding such investments, it is not a coincidence then that even in highly developed economies, access of finance to startups and MSMEs often comes from special institutions - such as business angels and venture capitalist. These use completely different parameters to assess potential performance of companies. Business angels and venture capitalists often develop investment strategies based on non-risk individual assessment. The variance (and thus the risk) is so significant, that investments are made in startups with significantly different sectors and activities.

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produces substantial sectorial or macro environments (transformational projects).

Uncertainty, as used here, should not be confused with another common information-related problem associated to credit rationing to MSMEs, particularly in informal/unregulated markets: poor quality of information caused by inappropriate accounting or governance systems. These shortcomings make the information provided of very little use to private financial intermediaries, or create an imperative search cost for private intermediaries.

Distinguishing these two types of uncertainties are crucial for policy reasons (as we shall see below). Certainly in the cases of asymmetric information, uncertainty and poor quality of information, government policies may have an important role in producing risk-sharing and even de-risking certain types of investments that are “perceived” as excessively risky by private investors; and national development (NDBs hereafter) may be crucial in implementing such policies.⁴

To understand better how risk sharing and de-risking can be produced, it is useful to have a framework about the relationship between information availability, market development, risk and uncertainty. This is summarized in the table below:

Table 1: Information problems, financial market development and financing consequences.

⁴ As a matter of fact, this role is often highlighted by reports on the financing of MSME, infrastructure and innovation in developed economies. For an interesting analysis of special public mechanisms to finance MSME and innovation, see respectively OECD (2013a), and Mazzucato (2013).

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	Complete information	Asymmetrical information	Uncertainty	Poor quality information
Highly developed financial systems	Markets provide full access to finance	Credit and equity rationing	Access to finance to high risk and/or long-term projects often limited to specialized private arrangements (e.g. angel investors and venture capital)	Rationing is determined by transaction cost in supplying/obtaining information
Partially developed financial systems	Credit rationing affecting mostly smaller and new clientele	Credit and equity rationing, often more acute for smaller and new clientele	Access to finance to "strategic" sectors and activities often provided by specialized public agencies	Overall poor access to finance
Poorly developed financial systems	Very selective access to finance	Credit rationing pervasive, particularly acute for smaller projects	Access to finance nonexistent	Credit rationing pervasive
Source: produced by the author.				

What the table above indicates is that a significant part of the information problems described are not states of nature. More likely they can be "resolved" with persistence and by using resources to produce, obtain and even create information.⁵

But for long-term green investments this table raises some difficult policy issues. For these investments often embed innovative technology and are transformative of social and productive structures. In such cases, the past and present can only be a very poor guide to the future, which makes conventional risk analysis ill suited to provide a guidance for allocation of capital and/or supply of loanable funds. For those you need policies that can both improve the risk-profile of investments, which can be achieved by different types of policies —which for lack of better generic terms, can be

⁵ This is important: Being scarce almost by definition, public resources can only be a small part of the financing required even for this seemingly small list of actors and activities. That is why, even in most developed economies NDBs have to be selective and often leverage private resources to complement their own (public) funds. In addition, because some information-related constraints to access private funds can be mitigated if enough time and resources are used, NDBs can develop mechanisms to leverage and even crowding-in private resources. This should be an essential part of their financial strategies, but the potential of doing so will depend on the level of development of domestic financial markets. More on this later.

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labeled “market-improving” and “market-enhancing.” This is what we discuss next.

Market improving and market-enhancing strategies

Many economists believe that all market activities need to thrive is a good business environment and sustained macroeconomic stability (low inflation and low growth volatility). These are indeed important necessary conditions, but they are not sufficient ones: most of the successful cases in industrialized and emerging economy nations have involved appropriate regulation and “strong doses” of public policies. These policies are basically of two types:

- Business environment, or market-improving policies - that create a safe and stable environment for the development of different types of instruments, financial institutions and markets. These policies range from the development of appropriate regulations and oversight mechanisms to sound low-interest-rate macroeconomic management.
- Market-enhancing policies⁶ - that stimulate the emergence of new instruments, institutions and markets specialized in specific types of risks. Since institutional investors are vital for the consolidation of such markets, these policies also have to offer incentives (regulatory and otherwise) that increase the attractiveness of the securities concerned. They also include promoting the negotiation of new types of assets and instruments.

There is a lot written, and a lot of advocacy for the need for market improving policies, but market-enhancing policies —which try to overcome different types of “market-failures” — need to be better understood.

⁶ For a discussing of market-enhancing policies in a much wider context than used here see Stiglitz (1994) Aoki, Murdock and Okuno-Fujiwara (1997) and Stiglitz and Uy (1996). Market enhancing policies are in a nutshell meant to create new information and make it possible for agents to organize themselves and plan for the future on the basis of optimizing behavior. More on this below.

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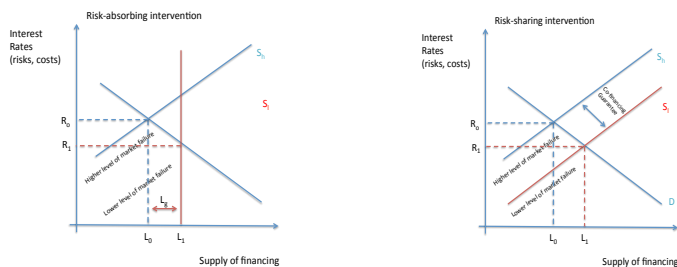
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Government interventions in order to address these failures are of three types: *risk-absorbing*, *risk-sharing* or *de-risking*. In the first case, the government overcomes existing failures in the private provisioning of finance by directly financing the whole investment or by fully guaranteeing against any risk surrounding the investment. In the second case, the government can be a subordinated partner or can offer partial guarantees to projects perceived as too risky by the private sector. In the third case, a series of government interventions are meant to *change the risk perception* by private investors, which makes it possible for crowding-in of private capital.

An analytical visualization of these three types of policy can be seen in the three graphs below in Figure 5:

Figure 5. Risk absorbing and risk-sharing interventions.



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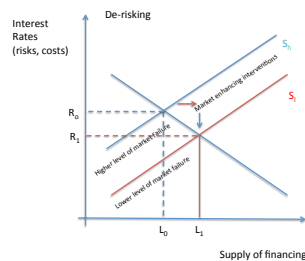
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In the first case, a credit offered by a public financial institution (L_g) reduces the financing gap created by the market failure. In the second case, a guarantee is offered to the private lender and allows the latter to be more likely to accept lending. If these interventions are a one-off situation, they do not correct the market failure because they do not change the risk as

perceived by the market, nor do they create a flow of information that allows reducing the problem of informational asymmetry.

A third type of policy requires acting simultaneously on the source of informational asymmetry, de-risking of investment projects and the creation of a new asset class. This can be visualized in graph below:

Figure 6. De-risking interventions.



For instance, if a public credit guarantee can be made conditional on the improvement of accounting practices by the participating borrowers. This will lead simultaneously in the creation of a track record of some investors and types of investments. In this case, an incentive is created for private lenders to finance these investments, while it opens an opportunity for the MDBs and NDBs to securitize their loans of these specific investors and sectors.

3. Towards a global guarantee fund and a new architecture to crowd-in private capital for sustainable infrastructure investments

The multilateral development banks and industrialized nations are 'pledging' to bring new climate finance to developing countries, aiming for \$100 billion for 2020. Such financing will be a welcome addition toward pressing global needs, but is limited for at least three reasons. First, such

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pledges seldom are met. Second, they are very small relative to the need; and third, they don't spur emerging market 'ownership' over the process because the multilateral development banks (MDBs) often dictate the terms and hold on to the expertise and technology.⁷

This arrangement is clearly not in the least sufficient to address the gaps discussion in section 2 above. That is why the recent OECD *Green Investment Report* includes two out of the four recommendations as meant to suggest a framework to crowd-in

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⁷ Worse, this could be just one more thing to bog down an already slow system—World Bank loans for instance take 14-16 month to deliver. *If we want the effort to be effective there is a desperate need to leverage current public resources by crowding-in private capital.*

private capital.⁸ We cite several here:

3. Effective policy pathways and the efficient deployment of public finance to green investment is well understood, tried and tested, and must now be scaled up. The G20 governments must accelerate the phasing-out of fossil-fuel subsidies, enact long-term carbon price signals, enable greater free trade in green technologies, and expand investment in climate adaptation. Investment-grade public policy is an important prerequisite to engage the private sector. Public financial institutions need to more actively engage private investors through scaling up deployment of proven instruments and mechanisms, while also designing new funds and tools to attract private finance for new investment opportunities. [...] 4. Private investors will need to take a new approach to benefit from green investment opportunities. Green infrastructure investment can provide attractive long-term, risk-adjusted returns. Private investors should not wait for perfect public policies to remove any reasonable risk. They can enhance comparative risk analysis of green investment by making greater use of investor forums and engagement with public finance agencies to advance new financing solutions that open up an attractive, sustainable market (OECD *Green Investment Report*).

The same report goes even further in detailing the possible bases for such architecture (ibid idem):

While leverage ratios are difficult to compare across projects, countries and instruments, ratios of 1:5 and above are not uncommon, and there are some cases of instruments—such as grants—delivering much higher ratios. There is strong potential for increased lending, advancing and rolling out de-risking instruments,

⁸ The other two are just references to urgency of dealing with the climate problem and the green investment gaps⁹ 1) Greening investment, and thereby the economy, is the only option. Building from the 2012 G20 Summit, G20 leaders should reaffirm that greening the economy is the only route to sustained growth and development. 2) The transition is financially viable. The incremental costs of greening growth are insignificant compared with the costs of inaction. To accelerate and guide the green growth transformation, governments, investors and international organizations must improve efforts to overcome barriers and improve global tracking, analysis and promotion of green investment.

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using carbon credit revenues, and targeting grant money combined with technical assistance to attract much greater private investment.

The green investment gap can be addressed through the use of such instruments. If public-sector investment can be increased to US\$ 130 billion and be more effectively targeted, it could mobilize private capital in the range of US\$ 570 billion. This would come close to achieving the US\$ 0.7 trillion of incremental investment required to move the world onto a green growth pathway. However, greening the remaining US\$ 5 trillion in infrastructure investment will remain a major challenge requiring policy reform and a stronger push toward investment-grade policy.

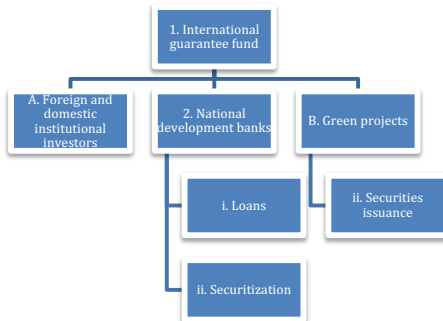
An architecture such as that requires at least four blocks: (i) a regulatory framework to allow climate assets (both loans and securities) to be held in the balance-sheets of any financial institution or investors - particularly of institutional investors such as pension funds; (ii) risk-sharing and de-risking mechanism; (iii) policies to promote the creation of new markets and instruments; and, (iv) specific policy instruments that can implement such policies.

In most of the cases, the emerging architecture involves the allocation of public resources (pledges) into different types of green funds that are managed through multilateral institutions (World Bank, Asian Development Bank, Inter-American Bank). In some case, national development banks have received donations that are earmarked for green investments. In addition to poor leveraging, this type of architecture seems to be inadequate in fostering risk-sharing and de-risking instruments that can produce sustained crowd-in of private capital.

An additional way to use the existing public resources— either in the form of pledges from donors or domestic dedicated funds—is to create architecture around a global green guarantee fund. This fund could be described though the following organogram:

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Figure 7: A preliminary view on architecture to crowd-in private capital for sustainable infrastructure financing



This architecture involves the use of public resources (pledges and voluntary contributions) to constitute an international green guarantee fund. Guarantees are used to mitigate the risks involved in infrastructure investments, and can include risks related to default, currency risk, technology performance, and more.

This fund could be administered by a set of (multilateral and national) development banks that adopt international methodologies defining sustainable infrastructure investment – such as that of the International Development Finance Club (IDFC).⁹

In addition to the membership of the national development bank in IDFC, the adherence to this fund should be conditioned to the governments of the recipient nations toward mitigating political (changes in government that affect the legal system, and the risk of civil unrest) and policy risks (entail regulatory changes, such as those to feed-in tariffs or fossil-fuel

⁹ As the name indicates, this is a “club” constituted by national development banks that dedicate part of the operations to green investments, and that have agreed upon an standard methodology to classify their own projects. See <https://www.idfc.org>. Using the IDFC as a governance platform for this type of arrangement would reduce significantly the governance problems often addressed by the funds managed by multilateral institutions, such as the World Bank. These “governance problems” emerge from the perception by developing nations of asymmetric voice and representation in these institutions, often reflected in the policy orientation of its senior and regular staff.

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subsidies that can alter a project's economic viability). Donors contributing to the fund could commit to untied technology and knowledge transfers that would mitigate *technology and operational related risks*, as defined above. In the same spirit, donors and recipient government should commit to providing both resources and technical assistance needed to reduce *capacity risks*, also as defined above.

Architecture of this type could have the advantage of promoting access to both domestic and international institutional investors, particularly of pension funds. And at the same time, it could promote a significant leveraging capacity for both national development banks through higher levels of lending and through securitization of their green portfolios; as well as for infrastructure investors, through the possibility of issuing green-infrastructure-backed securities directly to international and domestic markets. Moreover, it would allow emerging market and developing countries themselves to mobilize and monitor finance for sustainable development.

Conclusion

The world has ambitious goals to transform the world economy in a sustainable inclusive manner. Laying a foundation of sustainable infrastructure will be pivotal to achieving these goals. Paradoxically, while there is an abundant supply of finance that could be channeled toward meeting these goals, the current financial system rewards short-term finance over long-term sustainable finance. Development banks will play a crucial role in connecting the dots to match supply with demand—and many of the MDBs that have committed finance to this goal should be commended. We propose a global guarantee fund that would further channel finance into sustainable infrastructure, but on the terms of developing countries.

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Crowding-in private capital to help fill the investment gaps in a way that is consistent with a low-carbon growth path will require an architecture meant to reduce the perception of risk while maintaining long-term returns that are acceptable for wealth holders and financial institutions. This is technically possible, but it requires the creation of a whole new “green financing architecture” where public resources are used as risk-sharing and de-risking instruments

We propose a new green global finance architecture whereas, firstly, a hard-currencies-denominated green guarantee fund that can be used to guarantee loans and issuances of green bonds, both in domestic markets of developing nations and internationally. Second, this fund would have a stand-alone governance structure centered on the members of the International Development Finance Club.

This institutional setting allows for a unique platform to compare their actions towards a sustainable growth path. The global guarantee fund backed by commitment from industrialized and emerging economies could use IDFC standards as eligibility criteria, and it would be open to both domestic and international infrastructure consortia. Finally it could also include some incentive mechanisms for capacity building for developing nations, so much needed to produce green bankable projects to be financed/guaranteed by this new architecture; and also to stimulate technology transfers to make some of potential projects economically feasible.

Certainly an initiative like this requires both political will and innovative capacity. Whereas the latter seems to be abundant in the modern world of finance, the latter seems to be a much scarcer commodity. Nonetheless, in a moment when we all want quick solutions, but few are capable of expanding the use of their own public resources to deal with the climate change threat, it is worth it to analyze any propose that can crowd-in

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private capital that is nowadays sitting idle in the balance-sheets of multi-billionaire institutional investors, or at the service of destabilizing speculation.

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