HLPF Opening Meeting
5 July 2022
Remarks by Professor Lord Nicholas Stern

It is a privilege for me to participate in the 2022 United Nations high-level political forum on sustainable development (HLPF) and ECOSOC on "Building back better from the coronavirus disease (COVID-19) while advancing the full implementation of the 2030 Agenda for Sustainable Development". UN leadership in fostering collective action has never been more important.

It is also a special privilege for me to be on the same panel as Deputy Secretary General Amina Mohammed who has been playing such a crucial leadership role. I also want to acknowledge my partnership with Mari Pangestu, Managing Director at the World Bank. Together with Ceyla Pazarbasioglu, we co-chair the High-Level Advisory Group on Sustainable and Inclusive Recovery and Growth. And many of the ideas that I am going to talk about have emerged from the work and deliberations of the group.

A critical time for development and climate

We are at a crossroads—a moment of great risk and great opportunity. One path leads to attractive growth and development, the other to great difficulties and indeed destruction.

Even before the COVID-19 pandemic, EMDEs were facing challenges of slowing growth, stagnant productivity, growing inequality and pressures on social cohesion. The pandemic and the global response have exacerbated underlying vulnerabilities and have imposed huge human and economic costs on developing countries. Inflationary pressures and financial conditions have worsened since the advent of the war in Ukraine, putting further strain on EMDEs. Fiscal space has been greatly reduced across EMDEs and many low-income countries are facing severe debt distress.

The present trajectory is one of slow growth, low investment and public spending, and rising debt service burdens in many, if not most, EMDEs. These economies are at a juncture where high debt and slow recoveries are tilting the balance towards so-called fiscal prudence with real risks of economic stagnation.

At the same time the urgency and opportunity of tackling climate change is becoming ever clearer. As each successive IPCC report shows, climate change is occurring at a faster pace than we anticipated, it is having ever more severe impacts than we thought and the time for remedial action is rapidly narrowing.

Our understanding of climate action has also changed. Acting on climate is not a cost as many have propounded but rather an opportunity to unlock new and better forms of growth. We have new technologies and rapidly falling costs, and a growing realization of the tremendous co-benefits that come with climate action: cities where we can live and breathe; fruitful ecosystems; and new waves of innovation and learning. Acting strongly will not just deliver on climate but on strong and inclusive growth and the attainment of the sustainable development goals. It is the growth and development story of the 21st century.

There is a real opportunity to make a breakthrough on both development goals and climate, building on the progress achieved by emerging markets and developing economies (EMDEs) and new technological options that can deliver improved results. EMDEs will account for the vast preponderance of new physical capital in the coming three decades. How these investments are undertaken will determine the success of reaching net-zero emissions by mid-century, achieving climate resilience, restoring natural capital and accelerating human capital development.

Seizing that opportunity will require a clear strategic direction, strong and purposive policies, a massive scaling up and shift in investment and the mobilization of the right finance at the right scale.

The investment imperative

All of this requires a ***major, rapid, and sustained investment push*** to drive a strong and sustainable recovery out of the COVID crisis and transform economic growth. We really can deliver on both development and poverty reduction and counter the growing threat of climate change and environmental degradation.

The immediate need is to ***assist poor and vulnerable countries to cope with the health and economic costs of the pandemic and the economic fallout from the Ukraine crisis***, which could according to the IMF amount to 2% of their GDP annually over the next two to three years. Beyond that there is a need to resuscitate investment in emerging markets and developing countries, which saw investment decline by 12–15% in 2020–21, following a decade of slowing investment growth. There is an urgent need to boost investment in all forms of capital – human, physical, social and natural – and benefit from the opportunities offered by a low-carbon future. Investment and innovation can drive new and better forms of growth and development. Everywhere there is an opportunity to ***'build back better', to replace aging and polluting capital with better capital and to build all new capital so that it is sustainable, inclusive and resilient***.

In a report that I prepared for the UK G7 Presidency, we concluded that "to both raise growth and accelerate the drive to a net-zero emissions and climate-resilient economy, global investment needs to be increased and sustained above pre-pandemic levels by around 2% of GDP p.a." over this decade and beyond. The scale of the challenge is even greater in EMDEs other than China, given the large deficits in human capital and infrastructure investments and prospective needs to support sustainable development, resilience, and structural change. Investments in sustainable infrastructure in the developing world will be particularly important in managing the key system transformations – in energy, transport, water, digital, urban, and food and land use.

A recent report prepared by colleagues at Brookings and LSE argues that EMDEs other than China will need to invest an additional $1.3 trillion by 2025 and an additional $3.5 trillion by 2030—in human capital, sustainable infrastructure, adaptation and resilience and natural capital—to deliver on development and climate goals. This scale of investment will be challenging but feasible in a world where investment is too low in relation to savings.

If delivered well these investments can unlock growth, create a better quality of life and ensure a sustainable future for people and the planet. If these investments are made on the same patterns as the past, then growth will become progressively unsustainable, indeed destructive.

The window for making these choices is uncomfortably narrow because of the dangers of technological lock-in and because the world is rapidly exhausting the global carbon budget. Infrastructure projects last for decades and fully 70 percent of the increase in emissions from developing countries are likely to be associated with the infrastructure to be constructed in the next three decades.

On the other hand, there are extraordinary opportunities to get things right. Most of the infrastructure that developing countries will need by 2050 has yet to be built, and there is tremendous opportunity to leapfrog and avoid the mistakes of the past.

The development of new and more cost-effective technologies from large-scale solar to mass transit and techniques to use energy much more efficiently are transforming opportunities to build more sustainable infrastructure. There is great potential to tap the dynamism of the private sector. And there is a large and growing pool of private savings looking for predictable returns.

Ramping up policies to unlock investment opportunities

The starting point for a big investment push must be strong country leadership and actions. All countries need to set out well-articulated investment programmes to stimulate recovery and transformation anchored in sound long-term strategies to deliver on development and climate goals. These programmes need to be translated into concrete pipelines of projects and supported by a favourable investment climate. Investment depends on expectations, and clarity and credibility over the medium term are crucial.

All countries need to build the institutional capacity that can shape and manage the long-lasting investments needed in sustainable infrastructure, reform policies that can ensure the quality and sustainability of the investments including carbon pricing and removal of distortionary subsidies, and supportive standards and regulations.

Country/sector platforms driven by countries that can bring together key stakeholders around a purposeful strategy, scaling up of investments, tackling binding constraints, ensuring a just transition and mobilization of finance especially private finance. The International Just Energy Transition Partnership between South Africa and France, Germany, the UK, US and EU, launched at COP26, provides an important pilot case that could be extended to other countries and to other priority sectors.

Meeting the financing challenge

The scale of the investments needed in EMDEs over the next five years and beyond will require a ***debt and financing strategy*** that tackles festering debt difficulties, especially those of poor and vulnerable countries, and leads to a major ***revamp in both domestic and international finance, public and private***.

About half the financing needed could come from domestic sources underlining the importance of bolstering public finances. This is challenging but a feasible and an essential foundation given the importance for recurrent spending and creditworthiness.

Official development assistance (ODA) and concessional climate finance must be scaled up substantially at this crucial moment. Beyond supporting the immediate needs of the COVID crisis, ODA will be key to the 'leave no one behind' agenda of the Sustainable Development Goals, and to supporting health and education investments in low- and lower middle-income countries. ODA is also needed to support global public goods, including the climate, nature and adaptation and resilience investments, specifically in poor and vulnerable countries. This is the moment to step forward. It is not only a matter of development and support for the SDGs but also of justice. ODA that helps reduce emissions is also in the self-interest of rich countries.

Multilateral development banks and development finance institutions also have a crucial role in supporting a big push investment strategy. Investment and its finance require the management of risk and confidence of revenue flows. In particular, MDBs can help countries to scale-up quality investment programmes and translate them into concrete project pipelines that can attract private investors. In addition to financing priority public investments, they need to greatly bolster the mobilisation of private finance through better platforms, instruments and incentives. If countries succeed in putting in place the scale of investment programmes needed for development and climate transformation, ***MDBs may need to triple their level of financing by 2025.*** All means must be explored to unlock this scale of financing, both by shareholders and by the institutions themselves.

There is great potential and need to increase ***private sector investment and finance*** given the constraints on fiscal space and the dynamism that the private sector can bring to the transformation agenda. A growing proportion of investments can now be undertaken by the private sector. However, the mobilisation of private finance today is far too low and will have to increase many times over. A number of private-sector led initiatives, several linked to the UN, have been launched over the past two years to mobilise finance for sustainable investments in EMDEs, including the Climate Finance Leadership Initiative, the Sustainable Markets Initiative, FAST-Infra, the Global Investors on Sustainable Development Alliance, and most recently the Glasgow Financial Alliance for Net Zero. They must work together and in partnership with the MDBs to unlock investment opportunities, reduce, manage and share risk, and bring down the cost of capital.

Given the scale of the investment challenge and the financing constraints, especially in low-income and vulnerable countries, we must ***pursue all promising and innovative options to mobilise low-cost finance*** including utilizing using the available firepower of the pool of unutilised Special Drawing Rights (SDRs), starting with the just established ***Resilience and Sustainability Trust***, tapping voluntary carbon markets for priorities such as the accelerated phase-out of coal and restoration of forests, peatlands, and degraded land and leveraging the growing flows of ***private philanthropy*** to foster partnerships and mobilise finance for priority goals such as the Global Energy Alliance for People and Planet (GEAPP).

All these ways to boost finance can help deliver finance at the right scale, of the right kind, and in the right timeframe. ***Powerful multipliers can emerge from using all sources of finance***, from collaboration across countries and institutions, from the instruments of the multilateral development banks and the international financial institutions, and from working with the private sector. There is now a great opportunity to join up public and private initiatives to deliver results country-by-country, supported by structured partnerships among key stakeholders. Pulling all these together, we really can as a world deliver on the scale that is necessary.

Ladies and gentlemen:

This is a critical moment for the world, with the global economy faltering, with heightened economic and social insecurity and the spirit of internationalism under threat. But, there really is, as I have tried to describe, an effective response in our hands.

Now is the moment for the international community to come together under the leadership of the UN in the wake of the COVID-9 pandemic, and in the context of conflict, to rekindle the spirit of multilateralism and cooperation that emerged after the Second World War.