U.S. DEPARTMENT OF THE TREASURY

Remarks by Treasury Assistant Secretary for International Trade and Development Alexia Latortue at the OECD Community of Practice on Private Finance for Sustainable Development Conference

January 31, 2023

Today, Assistant Secretary for International Trade and Development Alexia LaTortue delivered keynote remarks on behalf of the U.S. Treasury at the Organisation for Economic Co-operation and Development (OECD) Community of Practice on Private Finance for Sustainable Development Conference on “Stepping Up Private Finance for the Sustainable Development Goals (SDGs).”

As prepared for delivery:

Thank you to the Community of Practice on Private Finance for Sustainable Development for having me speak here today.

I was deeply involved with the negotiations of the Addis Ababa Action Agenda in 2015 – the message was clear then, and remains absolutely relevant, that we will not achieve the ambitions Sustainable Development Goals without deploying all three key sources of finance, official assistance, domestic resource mobilization, and private finance, with private finance being the most plentiful of all.

Unfortunately, the gap between ambition and reality remains significant.

I am just back from a three-country trip to Africa where infrastructure, climate and just energy transition were major themes so I will focus on these issues this morning.

The financing gap for the emerging market infrastructure needed to keep the 1.5 degrees Celsius goal within reach is measured in the trillions of dollars per year.

Public budgets alone won’t be able to fill that gap. Success will absolutely require the private sector as an essential player to achieve climate and broader development outcomes.

But the amount of private capital investors have mobilized for emerging market infrastructure has been stagnant for over 8 years, never rising above $175 billion annually. The macroeconomic challenges and interest rates of 2022 have not helped EMs either.

We must therefore redouble our efforts to channel finance toward sustainable infrastructure. Business as usual is not delivering. More is required to produce a necessary sea change in investment.

What can we do? Well, Governments, including mine the United States, should consider a more strategic use of public resources, including concessional resources, to fund investments that support achievement of the Sustainable Development Goals. To make the most of our limited funds, we must lean into innovative financing mechanisms such as blended finance structures that can increase the deployment of proven mechanisms, such as loan guarantees, credit enhancements, and political risk insurance.

There are promising examples on this front. For example, the Asian Development Bank's Energy Transition Mechanism is a bold and innovative blended finance solutions that seeks to make decommissioning coal plants a bankable investment – this shows great potential to help meet global climate targets.

Also, there is a sizeable universe of good projects that fall just below many private investors' desired rate of return. Well-targeted blended finance can help us realize a significant portion of these opportunities, too.

But, blended finance is not the only solution. Foundational issues like capacity-building, capital market development, and the building of essential financial market infrastructure are the essential building blocks to increasing accessibility and affordability of financing.

Here again, there is a clear role for governments to improve the enabling environment—this means the right policies, regulations, functioning courts—to catalyze private investment. Deepening green debt markets is a promising start—but these debt instruments must follow clear and stringent standards for social and environmental impact.

Treasury is advancing these discussions in a variety of fora, including as co-chair of the G20 Sustainable Finance Working Group, which seeks to support the scaling up of finance aligned with the objectives of the 2030 Agenda for Sustainable Development and the goals of the Paris Agreement. This year, the working group will continue its work on blended finance and de-risking and add on a new focus on unique financial structures that advance new and early-stage climate technologies. Indeed, investments in new green technologies will be a key part of the equation.

The United States, along with our G7 partners, also launched the Partnership for Global Infrastructure and Investment – or PGII – last year, with a focus on using public resources to mobilize private sector investment towards sustainable infrastructure across the developing world. Together, the G7 committed $600 billion dollars over five years.

To advance PGII, the United States seeks to align and pool resources and expertise with like-minded partners, the private sector, multilateral development banks, development finance institutions, and more to fund transformational projects that advance sustainable development.

Some of you may have heard of the Just Energy Transition Partnerships, or JETPs, with countries like South Africa, Indonesia, and Vietnam which are a novel and promising model of how the United States and other partners are pooling resources and leverage in support of high emitting developing countries' energy transitions, with a strong emphasis on a transition that is just for coal workers and affected communities.

This aggregation of finance will support countries in making politically difficult reforms that are critical to paving the way for the private sector to invest in renewable energy and energy efficiency at scale. Just to give you an example in Indonesia, the total initial package for five years was 10 billion from public donors and 10 billion from private institutions that are part of the GRANZ network.

The MDBs also have a critical role to play in mobilizing private capital. Helping them do it better is a key element in our efforts to evolve these institutions, starting with the World Bank, to better address global challenges like climate change, pandemics, and fragility.

Reforms like incentives for MDB staff to achieve mobilization rather than own-account financing, setting portfolio-wide mobilization targets, encouraging the use of guarantees that crowd in the private sector, and thorough assessments of MDB business and financing models for opportunities to enhance mobilization all need to be on the table as part of this effort.

Evolving the MDBs will take time and effort. But it is a necessity, given the interlinked and mutually reinforcing nature of working to reduce poverty, achieve the SDBs and address global challenges like climate change, pandemics and fragility.

But for MDB evolution to have maximum impact, governments, civil society, philanthropies, private investors, and organizations like the OECD must match that effort with supportive policies, strategies, and financing.

We collectively have much to do this year –exchanging best practices for investments that mobilize the private sector or implementing better principles for managing blended finance.

So, it’s crucial that we leverage the COP and to have a much more concrete and specific conversation here, among such notable experts, about how to step up private finance toward this all-important economic, social and environmental goals.