THE ROLE OF THE PUBLIC INVESTMENT POLICY IN THE FUNDING OF SUSTAINABLE DEVELOPMENT

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Abstract

Development strategies must include public investment policies that address all the objectives of sustainable development. Sustainable development is conditioned by the government's ability to promote, attract and direct those investments that meet the requirements of sustainable development objectives. The aim of the paper is to contribute to improving the relevance of public investment policies and to provide a deeper understanding of their importance as a source of funding for sustainable public projects. Despite the fact that public sector funding deficits, in key sectors, make the private sector desirable to grow, public sector investment remains fundamental and essential, including in terms of maintaining the quality of services at affordable levels and accessible to all. The authors argue that the public investment policy has a central role in managing the goals of sustainable development by providing adequate infrastructure, due to the fact that the public sector is the main investor in infrastructure and its investment decisions and institutional capacities directly affect the quantity and quality of infrastructure and the manner in which it supports growth, inclusiveness and sustainability.

Keywords: *public investments, sustainable development, funding, infrastructure*

Clasificare JEL:

1. Introduction

It is well known that the public sector and the private sector are the two complementary components that ensure the development and progress of society. In general, the public sector is characterized by government activity and state intervention in the economy. There is a vast literature that addresses the public sector, but more attention is paid to the fiscal and monetary policies of the State and to a lesser extent to the theory of public finances, which addresses the implications of financing alternatives on welfare, a limited number of theoretical works being written about the public sector as an investment agent. [1]

The present investment policy is of interest for this paper, which, in the current context, is in a new stage of development, trying to find appropriate and specific solutions for making investments beneficial to sustainable development, with challenges addressed at national and international level. Development strategies must include public investment policies that address all the objectives of sustainable development. The aim of the paper is to contribute to improving the relevance of public investment policies for sustainable development and to provide a deeper understanding of their importance as a source of funding for sustainable projects.

2. The Brief Presentation of Sustainable Development as Political Objective

Sustainable development has become a political goal of the European Union since 1997, with its inclusion in the Maastricht Treaty, further strengthened by the Treaty of Lisbon in 2009, which required the EU and all Member States to improve policy coherence impacting on development. [4] In 2001, the European Council meeting in Gothenburg, Sweden, adopted the European Union's Sustainable Development Strategy, to which an external dimension was added in Barcelona in 2002. Subsequently, ensuring continuity, the Europe 2020 Strategy for Inclusive Growth was adopted (with a high employment rate, poverty reduction), smart growth (based on education, research, innovation) and sustainable (based on greener and more competitive markets, reducing carbon emissions, renewable resources, energy efficiency).[13]

At the UN Summit in September 2015, world leaders adopted the 2030 Agenda following a lengthy international process, with the major goal of providing solutions to global problems through an "Action Plan for People, Planet and Prosperity", for poverty eradication and sustainable development. [15]

The responsibility for implementing the 2030 Agenda for Sustainable Development lies with the EU and its Member States, involving all institutional components at Community and national level. This leadership role has been assumed by the EU through internal and external policies formulated since the adoption of the 2030 Agenda.

Internally, the EU has set policy guidelines for 2020-2024 through the general communication entitled "Next Steps for a Sustainable European Future" and confirmed by the Strategic Plan 2020-2024 [12], which is embodied in four ambitious EU priorities that contribute to achieving SDGs:

- The European Green Pact
- An economy that works for people
- A Europe fit for a digital age
- A stronger Europe in the world.

Externally, the EU and its Member States adopted in 2017 the Joint Declaration on the New European Consensus on Development, which provides a new framework for a common EU-wide approach to development policies based on Sustainable Development Goals (SDGs), giving special attention to trade, finance, environment, food security, migration and security.

3. Principles of Action of the Public Investment Policy

It can be said that sustainable development is conditioned by the government's ability to promote, attract and direct those investments that meet the requirements of SDGs. There are studies that show that the governance process and institutional quality have affected the expected returns on public investment.

Rodriguez-Pose and Garcilazo pointed out that, beyond a certain threshold of investment in cohesion and regional development, the basic factor that determines the return on public investment is the quality of government. [10]

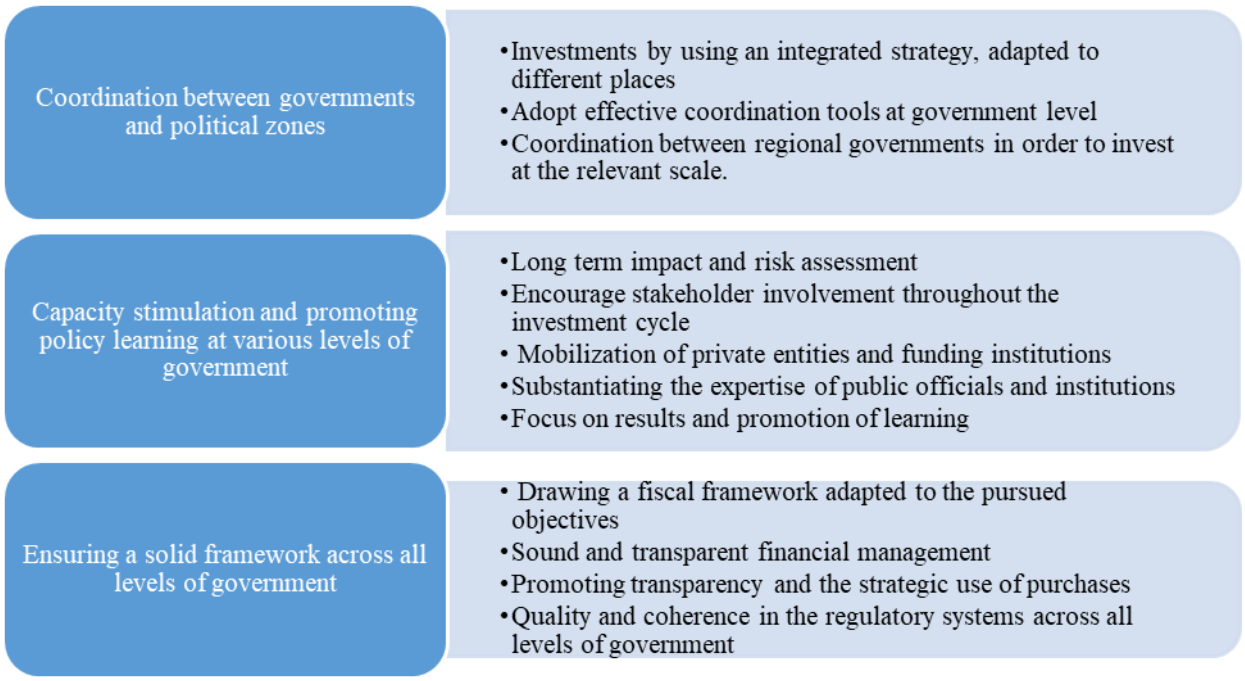
A country's investment effort can play a key role in increasing returns on public and private investment and ensuring that expanded investment generates the expected growth dividends while maintaining fiscal and debt sustainability. [2]

Infrastructure development is a major governance challenge, with governments responsible for integrating climate sustainability through important changes in the way infrastructure investments are developed, funded and implemented. The key roles that public policy must play can be summarized as follows:

- Providing coherent global strategies for sustainability, correlating infrastructure with the national objectives for growth and sustainable development;
- Reforming the political framework that governs the actions of investors and consumers;
- Improving the management of public sector investments;
- Mobilization - financing by consolidating public finances and promoting innovations in order to stimulate more private financing and reduce its costs. [9]

OECD has developed a set of principles comprising 12 recommendations, presented in Figure 1, grouped into three pillars representing systemic challenges for public investment, given that current levels of investment are not sufficient to meet the needs, especially for infrastructure. OECD recommends encouraging public investment after it has been affected by austerity measures and fiscal strategies since the 2008 global financial crisis.

Figure 1. Principles of action for the public investment policy



Source: OECD, Effective Public Investment Across Levels of Government: Implementing the Principles, 2019

A similar approach can be found in the investment policies created by UNCTAD, which provide instructions for the development and implementation necessary to achieve the objectives of sustainable development, addressing public investment:

- at strategic level - defining the role of public investments in strategic development;
- at normative level - elaboration of regulations that promote investments oriented towards sustainable development goals;
- at administrative level - the creation and implementation of institutional mechanisms that ensure the continuous relevance and effectiveness of the investment policy, as well as the measurement of these indicators, by setting priority objectives and deadlines. [17]

Both at European and international level, the drawing up of investment policies for sustainable development is based on the following principles, presented in Figure 2 [16]:

Figure 2. Basic principles in drawing up investment policies for SDGs

Zone	*Basic Principles*
1.Investments for sustainable development	• promoting investments for inclusion, growth and sustainable development
2.Coherent Policies	• based on the general strategy for each country's coherent and sinergical development, at national and international level
3.Public governance and institutions	• policy development with the involvement of all stakeholders and their incorporation into an institutional framework based on the rule of law, respecting high standards of public governance and ensuring predictable, efficient and transparent procedures for investors
4.Dynamic policy draw up	• regularly reviewing policies for effectiveness and relevance and adapting to changing development dynamics.
5.Balanced rights and liabilities	• balanced policies in establishing rights and obligations for countries and investors in the interest of development
6.The right to drawing regulations	• the sovereign right of each country to establish entry and operational conditions for publich investments, subject to international commitments, in the interest of the public good
7. Investment receptivity	• investment policies establishing stable and predictable entry conditions in line with each country's development strategy
8.Investment protection and strategy	• adequate investor protection and non-discriminatory treatment
9.Promoting and facilitating investments	• policies in line with the SDGs and designed to minimize the risk of harmful competition for investment
10.Corporate management and liability	• adopting and respecting the best international practices of social liability and good corporate management
11. International cooperation	• avoiding investment protectionism and cooperating to meet the challenges shared by investments for development, especially in the least developed countries

Source: UNCTAD, Investment Policy Framework for Sustainable Development, 2012

4. The Role of Public Investment Policy in Financing Sustainable Development

Necessary investments in developing economies need to be targeted at those sectors that are key to sustainable development prospects, but the public sector financing capacity is insufficient to meet the needs of these sectors. In this regard, according to IMF, ensuring a public investment management is a key factor in increasing their efficiency and productivity.

In order to become effective public investors and achieve SDGs, especially emerging countries must ensure the proper management of public investment, all the more when the private sector participation in the priority SDG-related sectors is relatively low. IMF has developed a framework for assessing the quality of public investment management practices, [5] starting from three key stages of the public investment decision-making process, detailed in Figure 3.

Figure 3. Public Investment Management



Source: IMF, Making public investment more efficient, Washington D.C., 2015

Investment planning, development and project management face greater challenges in the sense that climatic risk assessment and sustainability have systematically become mandatory. This requires the incorporation of environmental sustainability into government investment programs and policies as an integral part of them, by systematically capturing environmental externalities in project assessment and their proper assessment, and by applying environmental protection measures, such as those relating to carbon emissions and pollution or energy efficiency, in a coherent and consistent manner. [9]

The adoption of investment policies for sustainable development has become a central pawn in achieving public policy objectives for all governments, with investments being considered the main catalyst factor in achieving inclusive and sustainable economic growth. Throughout this transformation process, governments need to pay close attention to public investment, which supports the provision of key and vital public services and leads to an adequate standard of living.

According to OECD, about 60% of greenhouse gas emissions are generated by infrastructure. [6] There is a clear need for investment in sustainable infrastructure, and it is essential to continue making progress in developing appropriate strategies to mobilize public funds alongside private investment.

To meet the challenge, UNCTAD has identified the following priority areas for sustainable development:

Table 1. Priority sectors for sustainable development

Sector	*Description*
Energy	Investments in energy generation, transmission and distribution
Transport	Investments in roads, railways, harbours and airports
Telecommunications	Investments in infrastructure (fixed, mobile and internet lines)
Water and Sewage	Clean water and sewage supply to households and industry
Food Safety and Agriculture	Investments in agriculture, research, rural development, safety networks
Adapting to and Mitigating Climate Change	Investments in relevant infrastructure, investments to face the impact of climate change on agriculture, renewable energy generation, research and implementation of climate-friendly technologies
Ecosystems/ Biodiversity	Investments in the protection and conservation of ecosystems
Health and Education	Investments in infrastructure (e.g., new hospitals and schools)

Source: UNCTAD, Investment Policy Framework for Sustainable Development, 2015

Despite the fact that public sector funding deficits, in key sectors, make it desirable for the private sector to grow, public sector investment remains fundamental and essential, including in terms of maintaining the quality of services at affordable levels and accessible to all.

Globally, there is a distinction between policy makers promoting social investment as a reform strategy to increase the capacity of individuals and the national economy, yet, calling for a much more coherent framework that takes into account the dynamic and multidimensional nature of social problems and investments and that addresses social inequalities. [3]

At EU level, the current policy framework proposes measures to address new challenges by combining existing investment instruments with regulations that promote national reforms in order to increase the impact of EU strategies.

Member State governments are pursuing European cohesion policy through long-term programs, which ensure stability in the context of fiscal constraints and insufficient budgets. The main activities of sustainable development policy are focused on the distribution of EU funds, which significantly supports the financing of the government policy for sustainable development.

The EC published in April 2021 an analysis of the critical role that public administrations have in preparing and delivering future reforms that include real actions with long-term effects on economic, social and territorial cohesion, as well as on technological progress. According to it, local and regional authorities implement 70% of EU legislation, 70% of climate mitigation measures, 90% of climate adaptation measures and 65% of SDGs. These represent one third of public spending and two thirds of public investment, having a defining role in solving societal challenges. [14]

To counter the economic consequences of the pandemics and further support the premise of the transition to a sustainable future, the EU has launched the multiannual financial framework for the period 2021-2027, which provides an unprecedented budget estimated at EUR 672.5 billion for the new recovery package Next Generation EU.

In the context of the current pandemic crisis, at the Meeting of the High Level Political Forum for Sustainable Development held in July 2020 in New York, under the auspices of the Economic and Social Council and attended by 137 ministers and other high-level representatives, there was provided real policy guidance to policy makers and practitioners on the implementation of the 2030 Agenda and SDGs in the context of COVID-19. In this regard, the importance of

funding and increasing investment in public services were emphasized, including social protection, health systems, education, water, sanitation and digital connectivity, and the pursuit of a recovery that builds a more inclusive, gender-friendly and green economy. [18]

Given the high pressure on budgets, more attention is being paid to the efficiency and effectiveness of public spending. There is thus a general consensus that public investment policies must focus on performance and results, in order to optimize the impact and efficiency of public investment. [7]

5.Conclusions

Despite technological advances, governments remain the main providers of large and complex infrastructure projects, such as national railways and urban transport networks, mainly due to market conditions (e.g., pure monopolies) and private sector difficulties in financing large infrastructure projects (e.g., high fixed costs).

A widely recognized key factor in accelerating the transition to a more economically, socially and ecologically sustainable world is research and development, by stimulating investment that supports the creation of solutions to facilitate the transition from the linear to the circular economy. The role of public investment in research and development is essential in the future in funding innovations and new technologies for sustainable infrastructure, such as renewable energy and carbon attraction, a slow pace currently being set in this direction.

Therefore, the public investment policy plays a central role in managing SDGs by providing adequate infrastructure, due to the fact that the public sector is the main investor in infrastructure and its investment decisions and institutional capacities directly affect the quantity and quality of infrastructure and the manner it supports growth, inclusiveness and sustainability.

Current challenges such as globalization, digitalization, and population aging, environmental degradation influence tomorrow's living standards and well-being and call for public investment policies that lead to stronger, more inclusive and sustainable growth.

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