Sustainable Investment Cases for Emerging Markets

Statement by

James Zhan, Director, Investment and Enterprise Division, UNCTAD

14:30-16:00 CET, Friday, 22 October 2021

Distinguished speakers,
Ladies and gentlemen,

A concerted global effort is needed to increase SDG investment leading up to 2030. This demands a renewed commitment and a big push for investment and financing in the SDGs, especially in developing countries. The COVID-19 crisis caused a dramatic fall in direct investment in 2020. Global FDI flows dropped by 35 per cent to $1 trillion, almost 20 per cent below the 2009 trough after the global financial crisis.

The main focus now is on the recovery process. But the issue is not only about reigniting the economy, it is about making the recovery more sustainable and more resilient to future shocks. In contrast to FDI flows, total net inflows to sustainable investment funds recovered to $164 billion despite massive outflows from global capital markets in March 2020, and UNCTAD estimates that full-year net inflows reached well over $300 billion.

Emerging markets, which are often referred to as developing and transition economies in the UN, increasingly offer huge sustainable investment opportunities. At the same time, emerging market economies often struggle to attract investment, through capital markets or direct investment, whether because of a perception of heightened risk, a lack of investment products, or other factors.

As a result, developing markets have been somewhat bypassed by the recent growth in sustainable investment and have yet to fully benefit from the exposure of global fund portfolios or indexes to their markets. Developing and transition economies host about 5 per cent of the world's sustainable funds by number and less than 3 per cent by assets, even though stock markets in developing and transition economies account for roughly 23 per cent of global market capitalization. This suggests that developing and transition economies have the potential to significantly grow their sustainable fund markets.

Developing countries also offer direct investment opportunities for institutional investors in a wide range of SDG sectors, such as infrastructure, food and agriculture, education, health and renewable energy. The challenge is how to develop innovative financial products to target institutional investment, and how to improve the risk-return profile of SDG investment projects and make bankable projects readily available for institutional investors. By working together, institutional investors and investment promotion agencies in developing countries have a critical role to play in addressing some of these issues.

UNCTAD has been working for more than a decade to promote the uptake of sustainability by capital markets and help developing and transition countries to attract long-term investment. Our discussions with stakeholders have contributed to our analysis and policy support to all countries, particularly in emerging markets.

Today's session will add to our understanding of the challenges and opportunities faced by investors in these markets. We will also hear about their experiences of aligning investments with ESG and SDG outcomes, which can further support the sustainable development of these countries.