Sovereign Wealth and Pension Funds Dialogue

Leveraging Institutional Investment for the Post-Pandemic Recovery

Statement by

James Zhan, Director, Investment and Enterprise Division, UNCTAD

9:30-11:00 CET, Tuesday, 19 October 2021

Distinguished delegates,
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 along the whole investment chain, from financial asset owners to companies creating jobs on the ground. The main focus now is on the recovery process from the pandemic. But the issue is not only about reigniting the economy, it is about making the recovery more sustainable and more resilient to future shocks.

At the upstream end of the investment chain are asset owners and asset managers, the vast majority of which are institutional investors. The size of the assets managed by institutional investors puts them in a strong position to effect change on sustainability issues. They can do so primarily through their asset allocation, and also through active ownership – where they can influence the policies of the companies they invest in through corporate governance mechanisms.

The potential influence of pension funds and sovereign wealth funds (SWFs) on sustainability is enormous. Pension funds and SWFs managed reported global assets of $52 trillion and $9.2 trillion, respectively, in 2021. More than 40 per cent of their assets are invested in publicly listed equities, making them the biggest shareholders in companies across a wide range of sectors and markets.

Given their long-term obligations, these institutional investors are in a better position to assess long-term risks to their portfolios, and the intergenerational nature of their business model tends to make them more responsive to ESG- and SDG-related issues. Consequently, there has been a realization on the part of these large institutional investors that ESG factors constitute material risks.

Sustainability issues not only represent a material risk to investors, but a potential systemic risk to the global financial market and ultimately to society at large, as demonstrated by the dire consequences of the COVID-19 pandemic. And this wider systemic risk is of greater concern to long-term investors who weigh its consequences more acutely.

Measuring and rating sustainability performance have therefore become increasingly important and have expanded from company disclosure to an emphasis on asset managers and asset owners, such as pension funds. Much of this trend has been voluntary and market-driven, demanded by investors and supported by international initiatives.

However, public pension funds and SWFs could do more to promote sustainability and report on it. According to an UNCTAD report, among the world's 50 largest public pension funds and 30 largest SWFs, only 16 public pension funds and 4 SWFs published a sustainable or responsible investment report in 2019. More fundamentally, public pension fund portfolios largely bypass developing-country markets, limiting their contribution to sustainable development there.

Developing host countries need to consider reducing entry barriers for institutional investors while safeguarding public interests. They can use risk-sharing tools, such as public-private partnerships, investment insurance and blended financing, to help improve the risk-return profile of SDG investment projects and make bankable projects readily available for institutional investors, while taking measures to maximize development benefits.

Institutional investors, like sovereign wealth and pension funds, are therefore in a critically important position not just to influence the direction of the post-pandemic recovery but also to support the transformation of capital markets and products more generally, and to help channel more investment to developing countries and SDG sectors.

I look forward to the insights of our speakers on how to better leverage institutional investment for sustainable development in the post-pandemic era.