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Sovereign Wealth Fund Round Table

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Excellencies,
Distinguished delegates,
Ladies and Gentlemen,

I am very pleased to welcome you to the second Sovereign Wealth Fund (SWF) Round Table dedicated to both the role of SWFs and public pension funds in financing sustainable development. In 2012, in Doha, we organized a SWF round table for the first time, in recognition of the increasing importance of sovereign and public investors in international investment. Since then, interest in the potential development impact of these funds has only grown and indeed UNCTAD's 2014 World Investment Report threw light on their potential contribution to the Sustainable Development Goals, or SDGs.

The international community is currently in the process of defining a set of SDGs for the period 2015 to 2030. They are intended to galvanize action by governments, the private sector and other stakeholders worldwide by providing direction and setting concrete targets in areas ranging from poverty reduction to food security, health, education, employment and climate change, among others.

The realization of these goals requires a major escalation in the financing effort for investment in broad-based economic transformation, in particular in developing and least developed countries.

To achieve the SDGs, the World Investment Report 2014 estimates that developing countries face an investment gap of about $2.5 trillion per year, mainly in key sectors targeted by SDGs, such as infrastructure, clean water and sanitation, renewable energy and agricultural production.

With their long-term and strategically-oriented investment outlook, there is significant potential for SWFs and public sector pension funds to become important contributors to sustainable development in developing and transition economies. Here are some reasons why:

- First, 80 per cent of SWF assets are owned by developing countries, where most of them are based. Increasingly, these SWFs are investing in domestic and regional markets where they can potentially contribute to economic development.
- Second, sovereign investors have already become active in several SDG sectors, albeit from a very low level. For example, 60 per cent of SWFs are invested in infrastructure assets. Their involvement in energy and agriculture is also increasing.
- Third, their finance is unleveraged, and being investors with long-term liabilities, SWFs and pension funds can privilege less liquid investment products, such as infrastructure.

Indeed, given the huge resources managed by sovereign and public pension funds, a small increase of their investment in SDGs in underdeveloped countries can make a big impact on their development.

However, this huge potential remains largely untapped. Until the end of 2013, accumulated FDI committed by SWFs amounted to $130 billion. That is less than 2 percent of their total assets, and underdeveloped countries are generally absent from their portfolios.

As highlighted in the World Investment Report 2014, a number of constraints prevent SWFs and public pension funds from committing more direct investment in SDG sectors in developing countries.

Some constraints are common for all investors, ranging from entry barriers to foreign investors, to inadequate risk-return ratios of investments in the SDGs; from a lack of information and effective packaging and promotion of projects, to a lack of investor experience in what are often unfamiliar markets.

Other barriers are peculiar to sovereign investors and public pension funds. For example, direct investment is still a relatively new area for most of these funds, and we only saw a pickup of their FDI flows in the second half of the last decade. Many of them lack the expertise and internal capacity to undertake direct investment. This is especially so if the host country cannot offer scalable projects or an attractive investment environment.

The 2014 World Investment Report proposed an *Action Plan for Private Investment in the SDGs* that specifically addresses many of these challenges and provides recommendations for investors, host countries and home countries. These include, for example, reducing entry barriers for investors in SDG sectors, expanding the use of risk-sharing tools for SDG investments, and building SDG investment partnerships. Many of the proposals in the Action Plan are relevant to SWFs, pension funds and other strategic investors, and envisage a greater role for them in promoting sustainable investment through long-term investment.

For SWFs and public pension funds, they need to restrategize their investment policy, committing more investment to pro-development projects, in particular in SDG sectors in developing countries, and put the necessary internal capacity in place.

Our discussion today will aim to shed more light on some of these critical issues and, at the same time, highlight where SWFs and public pension funds can both benefit from investment in SDG sectors and help meet the SDG targets. With this distinguished group, I am confident that our meeting today will be able to come up with concrete ideas to support and mobilize more investment for SDGs, in particular in low-income countries.

Thank you.