

CHAPTER V

# INVESTING IN THE SDGs



# INTRODUCTION

UNCTAD first estimated investment requirements for achieving the Sustainable Development Goals (SDGs) in its *2014 World Investment Report (WIR14)*, as an input to their formulation. UNCTAD assessed total investment needs and projected the annual investment gap for developing countries at \$2.5 trillion between 2015 and 2030 for 10 sectors that, together, encompass all 17 SDGs. The SDG-relevant investment sectors covered basic infrastructure (roads, rail and ports; power stations; telecommunication; water and sanitation), food security (agriculture and rural development), climate change mitigation and adaptation, health and education. The report highlighted the need for private investment, including international investment, to supplement public and domestic investment in order to bridge the financing gap. In the report, UNCTAD also proposed a package of transformative actions to mobilize and channel private investment towards the SDGs and ensure their positive impact on sustainable development.

In September 2019, five years after its initial assessment, UNCTAD launched the *SDG Investment Trends Monitor* to provide an overview of trends in financing and investment performance in each of the 10 SDG sectors. The monitor responds to the Addis Ababa Action Agenda calling for high-quality disaggregated data and monitoring as inputs for evidence-based decision-making to support the SDGs.

After deliberating the findings of the SDG Investment Trends Monitor, the General Assembly in December 2019 adopted a resolution on “Promoting investments for sustainable development” (A/RES/74/199), requesting that UNCTAD inform its next session “on the gaps and challenges faced and the progress made in promoting investments for sustainable development as well as concrete recommendations for the advancement of investment for the implementation of the 2030 Agenda” (para 31). This chapter of the WIR responds to this call, including an appraisal of the impact of the COVID-19 pandemic.

Section A reviews investment trends in developing countries in 10 key SDG sectors, including FDI and project finance. Section B provides an overview of global sustainability finance. Section C presents trends in environmental, social and governance (ESG) and SDG integration, and an analysis of gender reporting and policies in the world’s 5,000 largest companies, an important aspect of ESG integration. Section D presents the key findings of the first-ever global overview of the state of national and international investment policies in relation to the SDGs. The concluding section proposes a set of policy actions aimed at spurring further private sector investment in the SDGs at the dawn of the “decade of action and delivery”.

# A. TRENDS IN SDG INVESTMENT IN DEVELOPING ECONOMIES

*Global SDG investment shows some progress but remains far from the target to meet the \$2.5 trillion annual financing gap for developing countries. Signs of progress in SDG investment are evident in six sectors: transport infrastructure, telecommunication, food and agriculture, climate change mitigation, ecosystems and biodiversity, and health. Investment appears stagnant in education and in water and sanitation. Across the board, growth falls short of the level required to make a significant dent in the investment gap.*



















## a. Highlights of SDG investment trends

On the basis of multiple sources and types of finance, the *SDG Investment Trends Monitor 2019* portrayed a mixed picture of both investment trends and monitoring capacities across the 10 SDG-relevant sectors in developing economies between 2014 and 2019 (table V.1). Signs of increasing investment are evident across six sectors – transport infrastructure, telecommunication, food and agriculture, climate change mitigation, ecosystems and biodiversity, and health. Whereas in some sectors – for example, power as well as food and agriculture – this increase is underpinned by elevated levels of private investment, public financing is the main driver in other sectors, for example transport infrastructure and health.

However, irrespective of whether public and private sources are leading to higher investment levels, growth in investment is falling short of the requirements originally projected in *WIR14* across almost all sectors. Even in sectors where new investment initiatives and innovative financing mechanisms appear to be ascending (e.g. climate change mitigation and health), the order of magnitude is not yet in the range that would make a significant dent in the estimated investment gaps. In contrast to those that are benefiting from increased investment levels, other important sectors including education and water and sanitation have registered declining or at best stagnant levels of investment. Although the education sector has benefited from new sources of financing, such as impact investment and private philanthropy, the volume of investment from these sources has been insufficient to offset downward pressures elsewhere. Progress in the least developed countries (LDCs) has been slow, and their investment needs remain high across all SDG sectors.

Limited data availability and poor data quality significantly inhibit the ability to assess developing-economy investment trends in all SDG sectors. Although some sectors such as power and telecommunication have comparatively strong data sets, all sectors would benefit from more high-quality, disaggregated and robust investment monitoring. The *SDG Investment Trends Monitor 2019* also identified additional priority sectors for investment monitoring going forward, such as gender equality and affordable housing. Overall, the current trends confirm that the transition towards sustainable-development-oriented investment in developing economies is so far not happening at the necessary scale and pace. Addressing these challenges demands transformative initiatives and a big push to mobilize and channel investment towards the SDGs.

**Table V.1. Summary of SDG investment gaps and directional trends**

Main investment requirements	Most relevant SDGs	UNCTAD estimated annual investment gaps (Billion of dollars)	Overall SDG investment trends	International private sector investment trends
<b>POWER</b> (excl. renewables) Investment in generation, transmission and distribution of electricity		370–690		
<b>TRANSPORT INFRASTRUCTURE</b> Investment in roads, airports, ports and rail	 	50–470		
<b>TELECOMMUNICATIONS</b> Investment in infrastructure (fixed lines, mobile and internet)		70–240		
<b>WATER, SANITATION AND HYGIENE (WASH)</b> Provision of water and sanitation to industry and households		260		
<b>FOOD AND AGRICULTURE</b> Investment in agriculture, research, rural development, etc.		260		
<b>CLIMATE CHANGE MITIGATION</b> Investment in relevant infrastructure, renewable energy generation, research and deployment of climate-friendly technologies, etc.		380–680		
<b>CLIMATE CHANGE ADAPTATION</b> Investment to cope with impact of climate change in agriculture, infrastructure, water management, coastal zones, etc.		60–100		N.D.
<b>ECOSYSTEMS AND BIODIVERSITY</b> Investment in conservation and safeguarding ecosystems, marine resource management, sustainable forestry, etc.	 	N.D.		N.D.
<b>HEALTH</b> Investment in infrastructure, e.g. new hospitals, and R&D on vaccines and medicines		140		
<b>EDUCATION</b> Infrastructural investment, e.g. new schools		250		

Source: UNCTAD.

Notes: The estimated investment gaps are based on *World Investment Report 2014*. The overall trend assessments for the SDG investment areas are from UNCTAD's *SDG Investment Trends Monitor 2019* and based on available data covering all types of investment and financing, including domestic and cross-border, public and private, and finance mobilization (in addition to capital expenditures). The assessment based on FDI, greenfield and project finance is a specific feature of WIR using the latest data generated for this year's report. For data sources see chapters I and II and the annexes to the report.

## **b. Greenfield investment, FDI and project finance in SDG-relevant sectors**

In addition to the results on the full spectrum of SDG investment as reported in the *SDG Investment Trends Monitor*, this report provides an update specifically on international private sector sources of investment in SDG sectors, based on FDI, greenfield projects and project finance data. Although there are variations across the different data sources, the overarching trend shows stagnant or declining private sector investment in the SDGs (table V.1). The power, renewable energy and transport infrastructure sectors draw the majority of investment in developing economies, often led by a few large economies. Overall, the levels of SDG investment are insufficient to close the investment gap, even in countries and sectors with improving trends. Although the full range of sources of finance for investment in SDGs (domestic and international, public and private) is significantly broader than what is reported here, the downward or at the very least tepid trends in foreign private investment is a significant cause for concern.

### **(i) Greenfield foreign investment**

Capital spending announcements for greenfield FDI project in eight sectors for which data are available amounted to \$134 billion on average annually during 2015-2019, marking an increase of 18 per cent from 2010-2014 (table V.2). However, this increase was due largely to heightened investment levels in the first two years of the SDG framework (2015 and 2016). In the subsequent three years, foreign investment in greenfield projects has stagnated at pre-SDG levels (figure V.1). LDCs accounted for approximately one-tenth of announced investment – an increase of 30 per cent, to almost \$15 billion, in the 2015-2019 period, spread across all sectors but telecommunication and health.

Overall, the increase in the value of announced projects was driven by robust growth in the traditional power sector (85 per cent) and in renewable energy projects (70 per cent). The number of renewable energy projects almost doubled over the period. Using the announced investment in renewable energy projects as a proxy for investment in climate change mitigation (table V.2), an encouraging indicator is that in the 2015-2019 period, there were almost three new renewable energy projects for each new project in the traditional power sector.

In contrast to the power sector, the value of announced projects in telecommunication dropped by approximately 50 per cent in 2015-2019 from the preceding five-year average. The sharp drop in telecommunication greenfield projects was largely due to saturation in profitable global markets, with major spending on new networks already having been completed in the 2010-2014 period. However, greenfield investment in telecommunication is expected to increase in the medium term due to the dissemination of 5G technology across both developed and developing economies. There are also growing numbers of ambitious private initiatives by major technology companies for global internet connectivity through the use of satellites, drones and other emerging technologies, the scaling-up of which may increase levels of investment.

Greenfield project announcements in transport services decreased by 5 per cent to an average of \$22.2 billion annually in 2015-2019 (figure V.1). Although overall levels of investment in transport services are significantly higher, the value of announced greenfield projects is comparatively lower because this sector continues to rely largely on public investment.

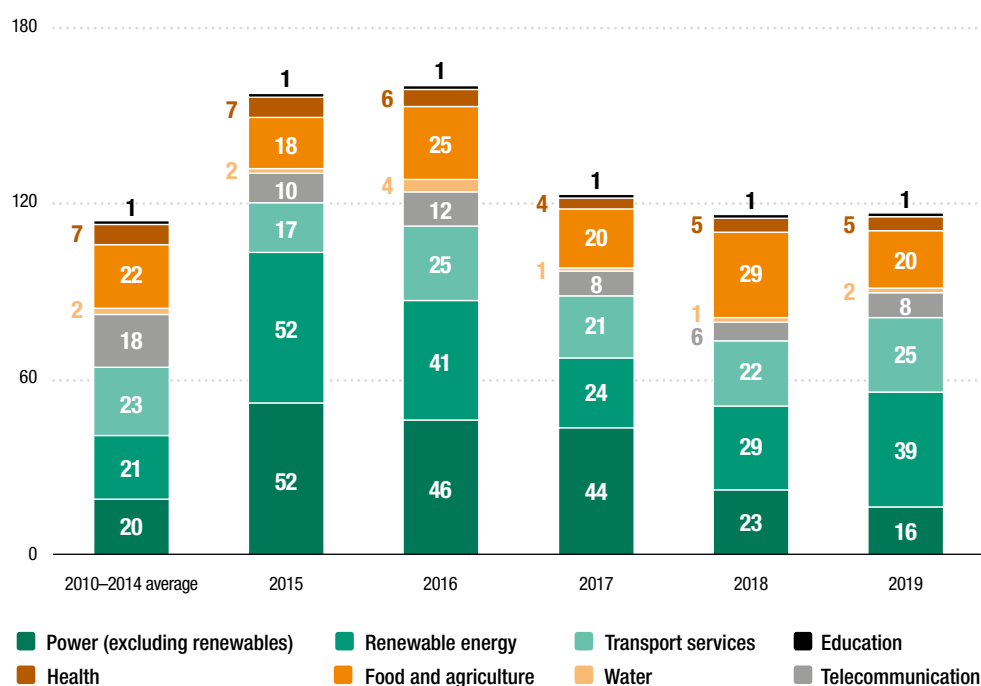
Average annual greenfield project announcements in food and agriculture remained almost unchanged in the 2015-2019 period, close to \$22 billion. Similarly, announcements for projects in water and sanitation stayed almost unchanged, at \$2 billion. In contrast, greenfield

Table V.2.

**Value and number of announced greenfield projects in SDG sectors, five-year average, 2010–2019** (Billion of dollars and per cent)

	Developing economies			Of which: LDCs		
	Average (\$ billions)		Change (%)	Average (\$ billions)		Change (%)
	2010–2014	2015–2019		2010–2014	2015–2019	
<b>Total</b>	<b>113.9</b>	<b>134.4</b>	<b>18</b>	<b>11.5</b>	<b>14.9</b>	<b>30</b>
<b>Number of projects</b>	<b>1 313.2</b>	<b>1 251.6</b>	<b>-5</b>	<b>111.2</b>	<b>108.8</b>	<b>-2</b>
Power (excluding renewables)	19.5	36.2	85	4.8	5.4	12
<i>Number of projects</i>	<i>58.0</i>	<i>54.6</i>	<i>-6</i>	<i>6.0</i>	<i>8.0</i>	<i>33</i>
Transport services	23.3	22.2	-5	1.6	2.2	41
<i>Number of projects</i>	<i>305.2</i>	<i>254.2</i>	<i>-17</i>	<i>26.0</i>	<i>27.4</i>	<i>5</i>
Telecommunications	17.8	8.9	-50	1.3	0.9	-31
<i>Number of projects</i>	<i>165.6</i>	<i>103.2</i>	<i>-38</i>	<i>23.0</i>	<i>11.8</i>	<i>-49</i>
Water, sanitation and hygiene	2.1	2.0	-7	0.0	0.0	162
<i>Number of projects</i>	<i>14.4</i>	<i>14.8</i>	<i>3</i>	<i>0.6</i>	<i>0.6</i>	<i>0</i>
Food and agriculture	22.1	22.3	1	1.5	3.7	146
<i>Number of projects</i>	<i>410.8</i>	<i>398.4</i>	<i>-3</i>	<i>37.4</i>	<i>34.4</i>	<i>-8</i>
Climate change mitigation	21.5	36.9	72	1.9	2.3	22
<i>Number of projects</i>	<i>100.2</i>	<i>182.0</i>	<i>82</i>	<i>6.0</i>	<i>11.6</i>	<i>93</i>
Climate change adaptation	..	..	..	..	..	..
Ecosystem and biodiversity	..	..	..	..	..	..
Health	6.6	5.2	-22	0.4	0.4	-1
<i>Number of projects</i>	<i>188.0</i>	<i>180.2</i>	<i>-4</i>	<i>9.8</i>	<i>9.8</i>	<i>0</i>
Education	1.0	0.8	-16	0.0	0.1	126
<i>Number of projects</i>	<i>71.0</i>	<i>64.2</i>	<i>-10</i>	<i>2.4</i>	<i>5.2</i>	<i>117</i>

Source: UNCTAD, based on Financial Times Ltd, fDi Markets ([www.fdimarkets.com](http://www.fdimarkets.com)). The database covers 138 economies (including 45 LDCs).

**Figure V.1. Announced greenfield FDI projects in developing economies, estimated capital spending by SDG sector** (Billions of dollars)


Source: UNCTAD based on Financial Times Ltd, fDi Markets ([www.fDiMarkets.com](http://www.fDiMarkets.com)).

project announcements in education decreased by about 18 per cent, from \$1 billion to \$0.8 billion, in the period. The low value of greenfield projects in education is explained by the fact that investment in this sector largely comes from other sources of cross-border financing, mainly official development assistance rather than private investment. A possible source of concern is the 22 per cent decrease in the value of announced greenfield projects in the health sector – from an annual average of nearly \$7 billion in the 2010-2014 period to \$5 billion in 2015-2019.

### (ii) Foreign direct investment

The trends in FDI inflows in developing economies based on balance-of-payments data largely mirrors the assessment from the greenfield project data. The largest increase in FDI in absolute terms was in the power sector, akin to trends observed in greenfield investment (table V.3). However, the overall level of growth in realized FDI in 2015-2018 (5 per cent, to \$71 billion) is comparatively modest relative to that in announced greenfield investment. Declining FDI in the health care sector corroborates the trend observed in greenfield project data. However, in some regions, such as in ASEAN countries, private sector flows in health care are growing and becoming increasingly important for different segments of the healthcare value chain (*AIR 2019*). Moreover, considering that public investment is still the major source of financing in the health sector and the likely increase in both national and international flows due to the COVID-19 pandemic, it is expected that higher investment will be realized at least in the next few years. In LDCs, despite the increase in FDI across sectors, the values are still a fraction of investment needs and insufficient for meaningful progress towards the SDGs.

### (iii) Project finance

Project finance, i.e. funding in the form of non-recourse or limited-recourse financial structures for permanent infrastructure or public services projects, is also an important indicator for investment in sustainable development. Project finance entails both national and cross-border funding for public and private projects as well those implemented through public-private partnerships (PPPs). Total project finance in SDG-related sectors in developing economies in the last five years amounted to an annual average of \$418 billion, down by 32 per cent from the period 2010-2014. The number of projects nevertheless grew by more than 40 per cent, from 478 to 676 (table V.4), of which more than one-third were financed or started. This translated into 230 projects under implementation, with a

**Table V.3. FDI in SDG sectors, five-year average, 2010–2018** (Billion of dollars and per cent)

	Developing economies				Of which: LDCs			
	Number of economies	Average (\$ billions)		Change (%)	Number of economies	Average (\$ billions)		Change (%)
		2010–2014	2015–2018			2010–2014	2015–2018	
Power	39	14.1	21.3	51	6	0.8	0.8	4
Transport services	36	17.8	17.8	0.04	7	0.4	1.3	217
Telecommunication	16	9.1	12.0	32	1	0.3	0.4	20
Water, sanitation and hygiene	10	0.3	0.7	113	-	-	-	
Food and agriculture	38	22.7	16.3	-28	7	0.5	0.8	42
Climate change mitigation	..	..	..		..	..	..	
Climate change adaptation	..	..	..		..	..	..	
Ecosystem and biodiversity	..	..	..		..	..	..	
Health	21	2.5	2.0	-20	3	0.002	0.006	140
Education	14	0.8	0.7	-13	2	0.002	0.005	191

Source: UNCTAD.

Note: The latest year available is 2018. The number of economies represent those making full or partial data available for both periods.

Table V.4.

### Value and number of project finance in SDG sectors, five-year average, 2010–2019 (Billion of dollars and per cent)

	Developing economies			Of which: LDCs		
	Announced projects, average (\$ billions)		Change (%)	Announced projects, average (\$ billions)		Change (%)
	2010–2014	2015–2019		2010–2014	2015–2019	
<b>Total</b>	<b>616.1</b>	<b>417.7</b>	<b>-32</b>	<b>41.7</b>	<b>33.5</b>	<b>-20</b>
<i>Number of projects</i>	<b>478</b>	<b>676</b>	<b>42</b>	<b>40</b>	<b>79</b>	<b>99</b>
Power (excluding renewable energy)	162.8	73.4	-55	6.7	9.5	41
<i>Number of projects</i>	144	117	-19	13	18	37
Climate change mitigation	117.3	125.7	7	11.5	13.0	13
<i>Number of projects</i>	80	334	318	15	39	170
Transport services	310.2	191.6	-38	23.0	9.9	-57
<i>Number of projects</i>	209	178	-15	10	18	88
Telecommunication	8.0	4.0	-50	0.3	0.5	85
<i>Number of projects</i>	10	8	-22	1	1	-29
Water and sewerage	17.8	23.0	29	0.2	0.6	142
<i>Number of projects</i>	35	41	17	1	2	200

Source: UNCTAD. See Chapter I for full data description.

Note: Includes both cross-border and domestic projects, and all public or all private projects. For further details, see Chapter I. Climate change mitigation is estimated with data from the renewable energy sector.

value of \$148 billion. The share of projects announced in LDCs rose from 8 per cent to 12 per cent during 2015-2019, but the value of financed or started projects targeting LDCs remained negligible.

Across sectors, investment in financed or started projects retreated substantially, except in renewable energy, where the number of projects grew by a third (table V.4). Transport infrastructure remained the sector with the largest investment (\$61 billion in the 2015-2019 period, 40 per cent lower than in the 2010-2014 period). Although the number of projects announced in water, sanitation and hygiene increased by 17 per cent, the number of projects financed or started dropped by 3 per cent, leading to a 44 per cent fall in the value of investment. In LDCs, investment in started or financed projects increased markedly in traditional power.

\* \* \*

The COVID-19 pandemic not only may entail a temporary shock but could have a substantial impact on SDG investment given the reduction in cross-border capital flows to developing countries. Fragile health care systems in developing countries could come under additional stress due to the pandemic, considering the indications of declining investment in the years leading up to this crisis. There is a risk that progress made in SDG investment in the last few years could be undone.

Despite the observed trends, investment in sectors such as public health and digital infrastructure could be boosted in the immediate and mid-term future. The higher expected levels of spending and investment are likely to come from both national and international, as well as public and private sources. For example, the European Investment Bank recently announced a partnership with the World Health Organization (WHO) to reinforce support for immediate pandemic-response needs. The initiative will also develop targeted financing to enhance health investment and help in building resilient health systems and primary health care services in low- and middle-income countries around the world. Similarly, the WHO's Access to COVID-19 Tools (ACT) Accelerator Global Response Framework raised \$8 billion for the collaborative development and universal deployment of diagnostics, treatments and vaccines against the coronavirus. UNCTAD will work with partners and Member States to assess financing needs deriving from the pandemic as the global crisis abates and exit options become clearer.



# B. SUSTAINABLE FINANCE

## 1. Sustainability-dedicated financial products

*Capital markets that are aligned with sustainable development can be instrumental in filling the financing gap for the SDGs. The past decade has witnessed a surge of sustainability-themed financial products in variety, number and assets. The current global efforts to fight the pandemic are boosting the growth of sustainability financing, particularly in social and sustainability bonds. UNCTAD estimates that the total value of private sustainability-oriented bonds and funds is now between \$1.2 trillion and \$1.3 trillion. Greater integration of sustainability into the global capital market is being supported by the proliferation of sustainability-themed indices.*

Sustainable investment has a long-standing provenance, the scope of which can cover everything from socially responsible investing to the more recent integration of ESG criteria in investment decisions. The strategies adopted by the investment industry also vary in the extent to which they embrace sustainability and responsible investment criteria (GSIA, 2018). The lack of consistent definitions makes it difficult to estimate the global asset size of sustainability-aligned investment. According to the IMF's 2019 Global Financial Sustainability Report, estimates of the global assets of sustainability investment as of 2018 range from \$3 trillion (JP Morgan, 2019) to \$30.7 trillion (GSIA, 2018).

For the analytical purpose of this report, UNCTAD groups the variety of sustainable investments into two groups according to the ways and means of their contributions to sustainable development, i.e. sustainability-dedicated investment and responsible investment (figure V.2).

Sustainability-dedicated investment refers to investment funds targeting ESG or SDG-related themes or sectors, such as clean energy, clean technology, sustainable agriculture and food security. UNCTAD estimates that sustainability-dedicated investment today could be in the range of \$1.2-1.3 trillion. It consists mainly of green bonds (nearly \$260 billion), sustainability-themed equity funds (about \$900 billion) and social bonds (\$50 billion), plus COVID-19 response bonds (\$55 billion). Impact investing also falls into this category. However, because of the large overlap between impact investing and sustainability-themed bonds and funds (green bonds and a large part of sustainable funds are also categorized as impact investing), the value of impact investing is not added to the value of sustainability-dedicated investment so as to avoid double-counting. Given that more than 90 per cent of sustainability funds are concentrated in developed countries (see discussion later), sustainability financing largely bypasses developing countries, in particular the LDCs.

Responsible investment refers to general investment funds that behave responsibly in their investing strategies and operations, through due diligence such as negative/exclusionary screening, ESG integration, norms-based screening, best-in-class screening, and corporate engagement and shareholder actions. This type of investment is expected to be conducted in a sustainable-development-responsible manner, but not directly targeting ESG and SDG-related areas. The total amount of such funds could be of the magnitude of \$29 trillion.<sup>1</sup>

**Figure V.2. Sustainability investing**

	Sustainability-dedicated investment		Responsible investment			
	Impact investing	Sustainability themed	Positive or best-in-class screening	Norms-based screening	ESG integration & engagement	Negative screening
Key features	Investment with an intention to generate positive, measurable social and environmental impact alongside a financial return	Investment in themes or assets constructed around the SDGs (e.g. green bonds, sustainability-themed funds)	Selecting best performing companies across industries in terms of sustainability performance	Screening against minimum standards of business practice based on international norms (e.g. UN, ILO)	Integrating ESG factors in investment decisions to better manage risk and enhance financial returns	Excluding activities or industries with clearly defined negative impacts from an investment portfolio
Return expectations	Social return & submarket/market financial return	Financial market rate & social, environmental impact	Financial market rate focused			
Market size	\$1.2 - \$1.3 trillion		\$29 trillion			

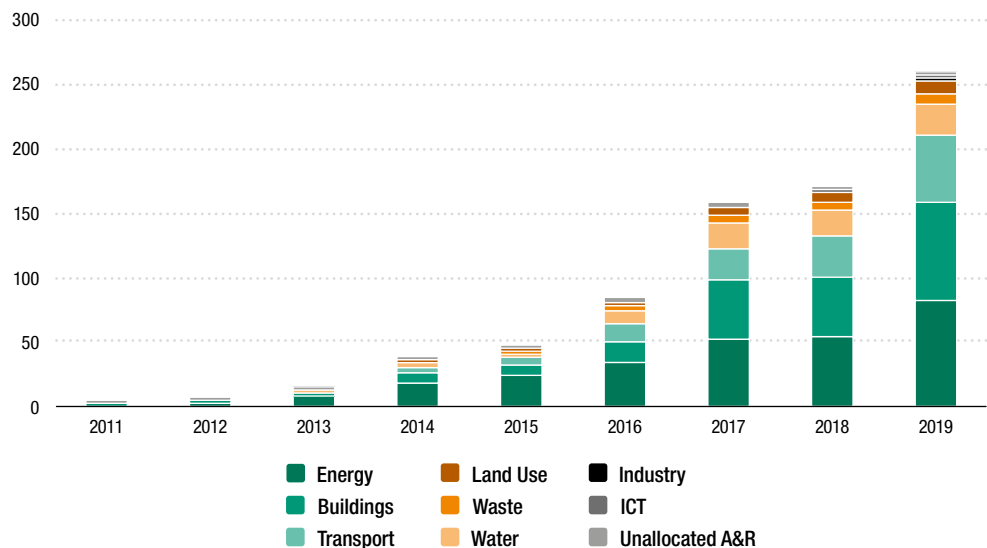
Source: UNCTAD, adapted from *Financing for Sustainable Development Report 2020*.

Note: Market size data are UNCTAD's calculation based on Morningstar, the Climate Bonds Initiative and GSIA.

### a. Green bonds

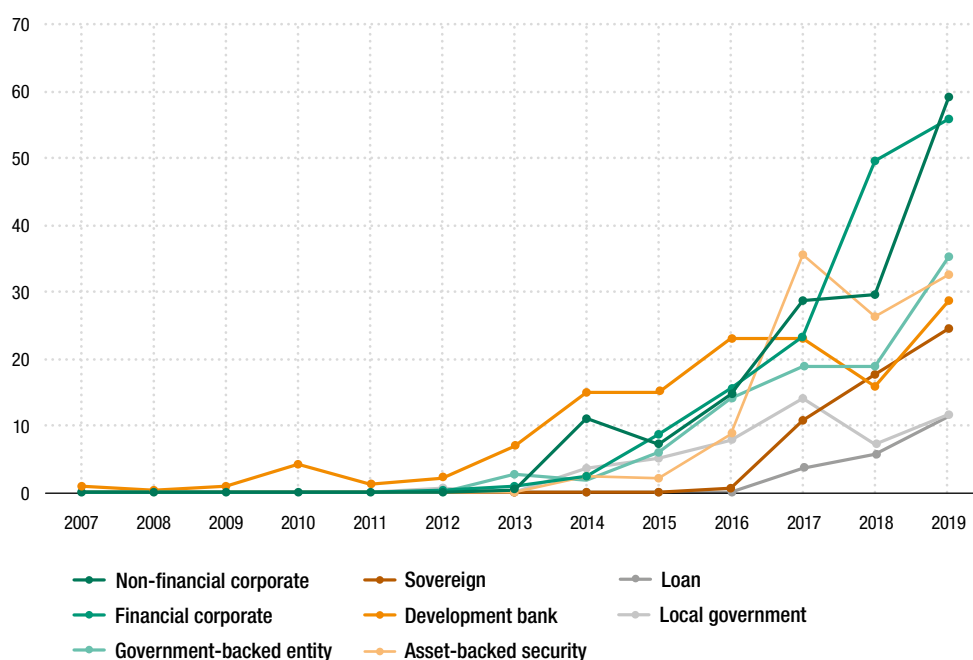
Green bonds are meant to promote investment in climate action (SDG 13), affordable and clean energy (SDG 7), and sustainable cities and communities (SDG 11). The global green bond market saw rapid growth in 2019, to nearly \$260 billion, a 51 per cent year-on-year increase. The proceeds of green bonds are primarily used in three sectors (energy, buildings and transport), all of them also seeing significant year-on-year growth (figure V.3).

**Figure V.3. Green bond market size and industries financed, 2014–2018**  
(Billions of dollars)



Source: Climate Bonds Initiative.

**Figure V.4. Green bond market by type of issuer** (Billions of dollars)



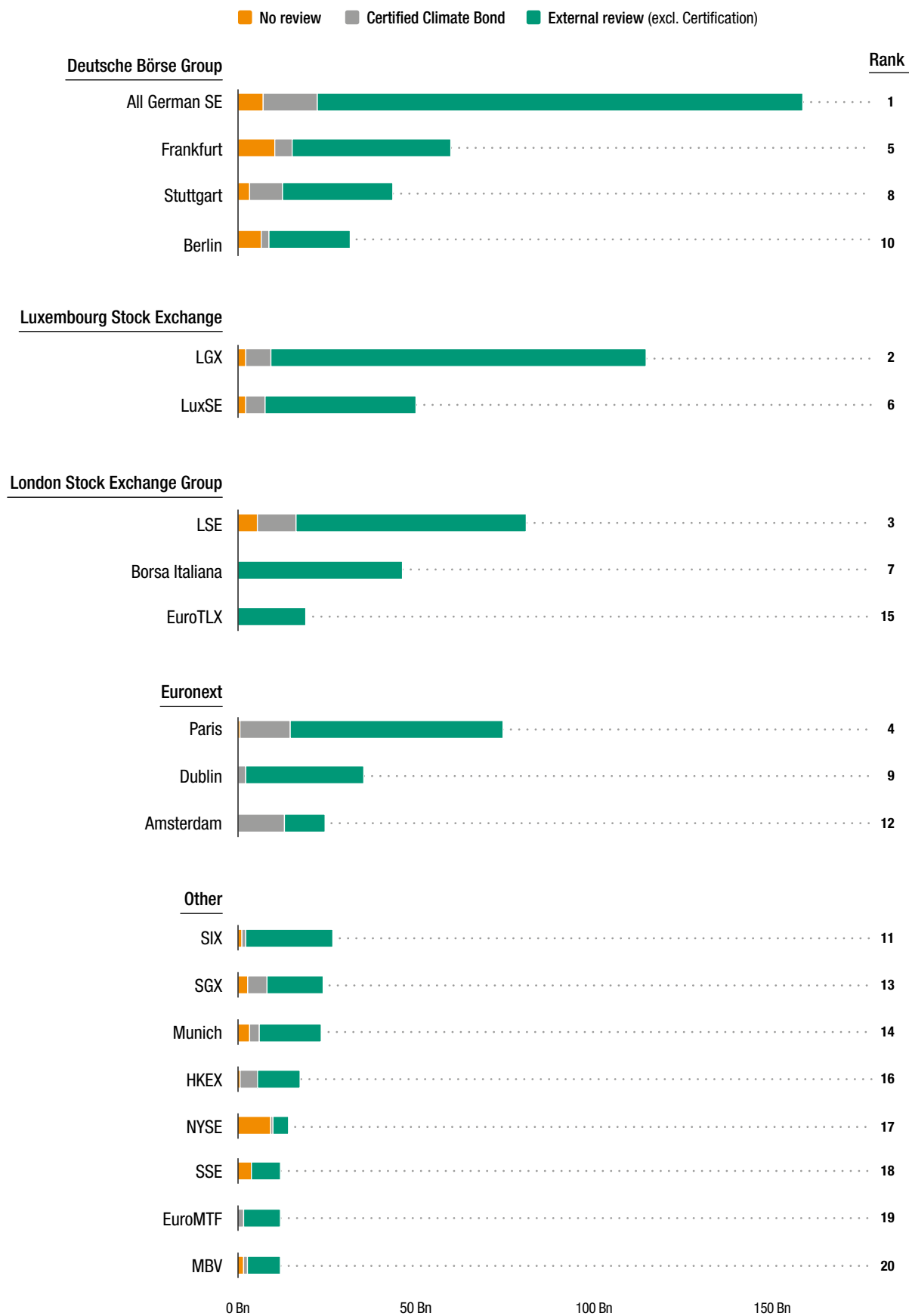
Source: Climate Bonds Initiative.

Financial and non-financial corporates are the dominant issuers of green bonds, with particularly rapid growth in the value of green bonds issued by non-financial corporates in the last year (figure V.4). Together they issued nearly \$115 billion in green bonds in 2019, compared with the total of \$100 billion issued by public sector entities. Development banks were early adopters of green bonds, issuing nearly \$29 billion of them in 2019, although government-backed entities were the largest single type of public sector issuer in 2019, with \$35 billion in green bonds.

Stock exchanges continue to be active in facilitating and promoting trade in green bonds (figure V.5). European exchanges have taken the lead in this area, with the All German Exchange being the largest platform for trading green bonds in 2019. It was followed by the Luxembourg Green Exchange and exchanges in France and the United Kingdom; exchanges in China and Singapore also feature in the top 20 largest exchanges for green bonds. An important way for stock exchanges to support green bond markets is through dedicated green bond segments, which increase product visibility for investors.

Dedicated green bond segments first appeared in 2015, with the stock exchanges of London, Luxembourg, Oslo and Stockholm being early adopters. These green bond segments have proven popular: the number of exchanges offering specific green bond segments has more than doubled over the last two years.<sup>2</sup> Although not all exchanges that list green bonds have specific segments, research from the Climate Bonds Initiative (2020) suggests that green bond segments help support the visibility, integrity and perception of green bonds, and facilitate investor access to credible green bonds. Exchanges in every region now offer green bond segments; however, they are particularly prevalent in Europe and in Central and South America. Recent growth has concentrated outside of these regions, with the Shenzhen, Bombay and Indonesia stock exchanges all launching green bond segments in the last two years.

**Figure V.5. | Green Bond Trading Venue League Table, 2015–2019** (Top 20 stock exchanges and platforms)



Source: Climate Bonds Initiative.

## b. Sustainable funds

A notable development of responsible investing is the rapid expansion of sustainable funds – mutual funds and exchange-traded funds (ETFs) that use ESG criteria as a key part of their security selection and portfolio construction process and/or indicate that they pursue a sustainability-related theme or seek a measurable positive impact alongside financial returns. A large part of sustainable funds can be categorized as sustainability-dedicated investments (including impact investment). Such funds offer institutional and retail investors an important mass market vehicle for investing in sustainability, driving responsible business behaviour. Meanwhile, they tend to offer market-level, if not better, returns and demonstrate lower downside risks (Morgan Stanley, 2019), which explains the rapid rise of sustainable funds in recent years.

According to UNCTAD's estimates, there are close to 3,100 sustainable funds worldwide, with assets under management amounting to about \$900 billion at the end of 2019 (figure V.6). As developed countries represent a larger investor base, it is not surprising that more than 90 per cent of such funds are established there.

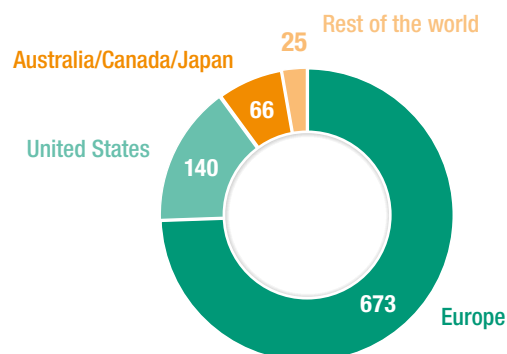
From 2010 to 2019, the number of sustainable funds in Europe and the United States, the two largest markets for sustainable investment, rose from 1,304 to 2,708, with assets under management growing from \$195 billion to \$813 billion (figure V.7). Net flows to sustainable funds in the two markets surged from \$8 billion in 2010 to \$141 billion in 2019.<sup>3</sup> A similar trend can be observed in Australia, Canada and Japan, but their market size remains relatively small, with 189 ESG funds altogether as of 2019.

Europe is the largest market for sustainable funds, in terms of both number and assets under management, reflecting the growing number of investors who prioritize sustainability themes in their investment strategies (Invesco, 2019). European institutional investors, particularly public pension funds, sovereign wealth funds and insurance funds, increasingly pursue an investment strategy that is in line with their sustainability mandates (Morningstar, 2018). Meanwhile, several European countries, such as France and the Netherlands, have tightened their financial regulations following the introduction of the European Union's (EU's) Markets in Financial Instruments Directive II in January 2018 and other new EU-wide initiatives and policy measures. These rules impose greater disclosure requirements related to sustainable investments and sustainability risks, as well as mandatory climate-related reporting that has promoted greater transparency and forced many investors to pay closer attention to sustainability topics in their investment decisions.

Sustainable funds in developing economies remain a relatively new phenomenon. In China, the largest developing-economy host, there are 95 sustainable funds, with assets under management of nearly \$7 billion as of 2019. Most of them were created in the last five years.<sup>4</sup> ESG funds also have become more attractive in developing markets such as Brazil, Singapore and South Africa in recent years, albeit from a relatively low level.

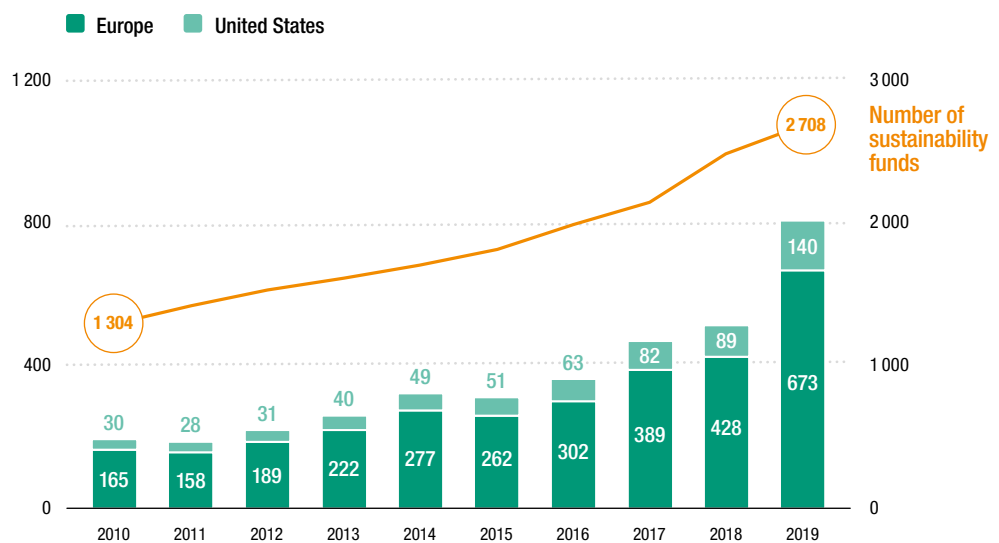
The surge of sustainable funds reflects the accelerated adoption of sustainability by the investment community. Many investors increasingly view the adherence of investment vehicles to sustainability criteria as a must-have rather than a nice-to-have (BNP Paribas,

**Figure V.6.** Regional distribution of sustainable funds by assets under management (Billions of dollars)



Source: UNCTAD, based on Morningstar and national responsible investment associations.

**Figure V.7. Sustainable funds: number and assets under management, Europe and the United States** (Number of funds and billions of dollars)



Source: UNCTAD based on Morningstar.

2019). A broader investor base has started focusing on a wider range of long-term risks, giving rise to increased awareness about sustainable investing (Morningstar, 2018). These trends have been supported by index and fund providers responding to the rising level of demand for sustainable investing. The proliferation of these indices prompted the development of ESG mutual funds and ETFs by providing indispensable benchmarks or references.

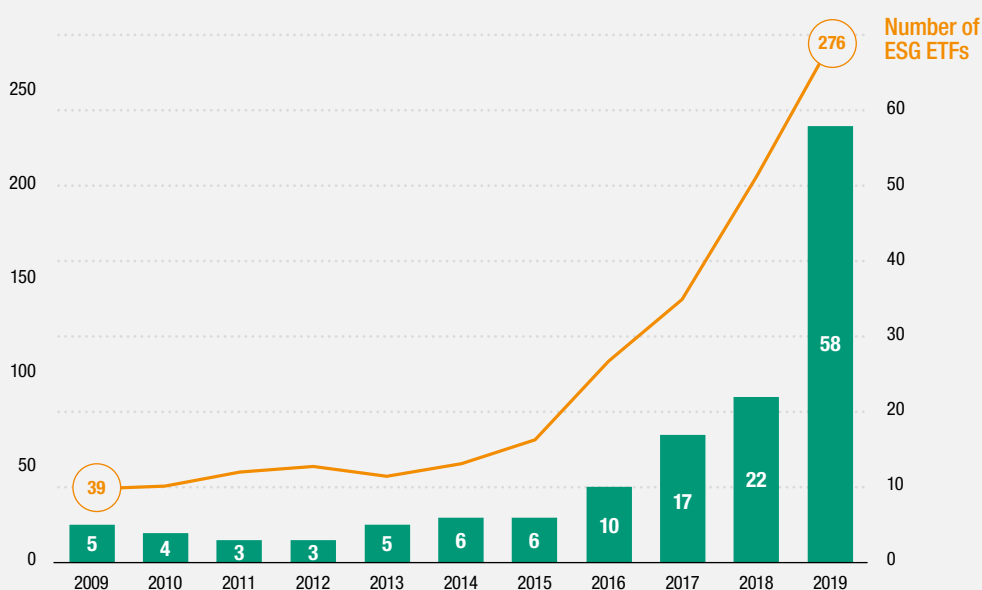
In addition to having a responsible investment dimension, sustainable funds can also be adapted for SDG-oriented investment, with some funds specifically dedicated to the SDGs. For example, all the ESG ETFs (see box V.1) with a thematic strategy in 2019 (54 in total, about 20 per cent of all ESG ETFs) target a specific SDG, with the majority focusing on climate action (SDG 13), gender equality (SDG 5), and affordable and clean energy (SDG 7).<sup>5</sup> These funds have channelled much-needed investment into a wide range of sectors that are critical for the achievement of the SDGs.

Despite their growth in recent years, the share of ESG funds in the public fund market remains small, at less than 2 per cent in terms of assets under management.<sup>6</sup> Both supply and demand need to rise in order for sustainable funds to achieve their full potential as a tool for sustainable investing. In this aspect, institutional investors such as pension funds and sovereign wealth funds, that by nature are long-term investors (with long-term liabilities), can play a leading role.

An important development in sustainable funds in recent years is the rapid rise of exchange-traded funds (ETFs) based on ESG criteria, reflecting the accelerating move from active to passive investment strategies. The number of ESG ETFs has increased from 39 in 2009 to 276 at the end of 2019 (box figure V.1.1). Their growth has accelerated since 2015, with a net increase of 211 ESG ETFs in four years (corresponding to 76 per cent of all ESG ETFs).

Similarly, the assets under management of ESG ETFs have grown significantly. From 2015 to 2019, they increased by nearly 10-fold, from \$6 billion to \$58 billion. This can be mainly explained by large positive net inflows during those years – a trend that has held since 2014 and is especially dominant in Europe. Net inflows reached a record high of \$22 billion in 2019. Europe and the United States accounted for 56 per cent and 41 per cent of total assets under management of ESG ETFs respectively; such funds are largely absent in developing economies. Despite the impressive growth in recent years, ESG ETFs account for only 5 per cent of the ETF universe in number and 1.2 per cent in assets under management.<sup>a</sup>

**Box figure V.1.1.** ESG ETFs: number and assets under management, 2009–2019 (Number of funds and billions of dollars)



Source: UNCTAD, based on ETFGI.

In terms of the mechanism by which their underlying assets are chosen, the ESG integration strategies of ESG ETFs have moved from simple exclusionary approaches in the early years to more sophisticated ones. These include general integration of ESG criteria, as well as best-in-class (often characterized by positive screening of assets) and thematic investments. Their sustainability also tends to improve along with increased sophistication, from exclusion to thematic investment (UNCTAD, 2020f). ESG ETFs with a thematic strategy are usually dedicated to specific SDGs such as climate change, gender equality and clean energy.

Source: UNCTAD.

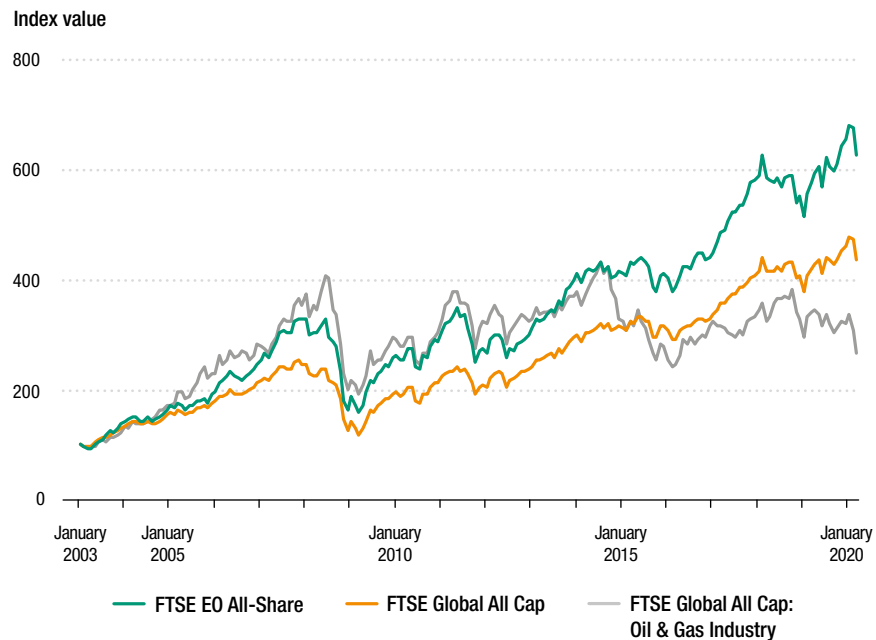
<sup>a</sup> UNCTAD's calculation, based on TrackInsight data.

### c. Sustainability equity indices

ESG-themed equity indices are another tool for promoting investment in the SDGs. Investment services firms such as Dow Jones, FTSE Russell, MSCI, Standard & Poor's, Stoxx and Thomson Reuters have created indices to facilitate investment in companies that demonstrate good ESG practices that contribute to the achievement of the SDGs. Sustainability equity index data are also reinforcing the view of many investors that sustainability issues are material to the performance of industries in the long run.

An example is FTSE Russell's Environmental Opportunities index, which measures the performance of global companies that have significant involvement (at least 20 per cent of their business) in environmental business activities, including renewable and alternative energy, energy efficiency, water technology, and waste and pollution control. Since its inception nearly 20 years ago, the index has consistently outperformed its benchmark global all-companies index (figure V.8). Since the launch of the SDGs in 2015, the environmental opportunities index has significantly outperformed not only its benchmark global all-companies index, but especially the fossil fuels index. The index's consistent outperformance indicates that investors are recognizing the materiality of sustainability in the new policy context established by the SDGs. Investors also appear to be leaning away from oil and gas equities amid fears of stranded assets, as the global policy landscape on climate change demands a reduction in the use of fossil fuels.

**Figure V.8.** FTSE funds performance: Environmental Opportunities versus others, 2003–2020 (Billions of dollars)



Source: FTSE-Russell.



## 2. Financial market response to the COVID-19 crisis

*The global effort to fight the pandemic is boosting the growth of sustainable finance, particularly in social and sustainability bonds. COVID-19 response bonds have been rapidly deployed to fund crisis relief and recovery; the value of such bonds issued in the first quarter 2020 already exceeds the total value of social and sustainability bonds issued in all of 2019. Stock exchanges are facilitating the fast-growing market in COVID-19 response bonds by waiving listing fees and are assisting listed companies, especially small and medium enterprises (SMEs), by providing fee relief and introducing flexibility in rules.*

### a. The emergence of COVID-19 response bonds

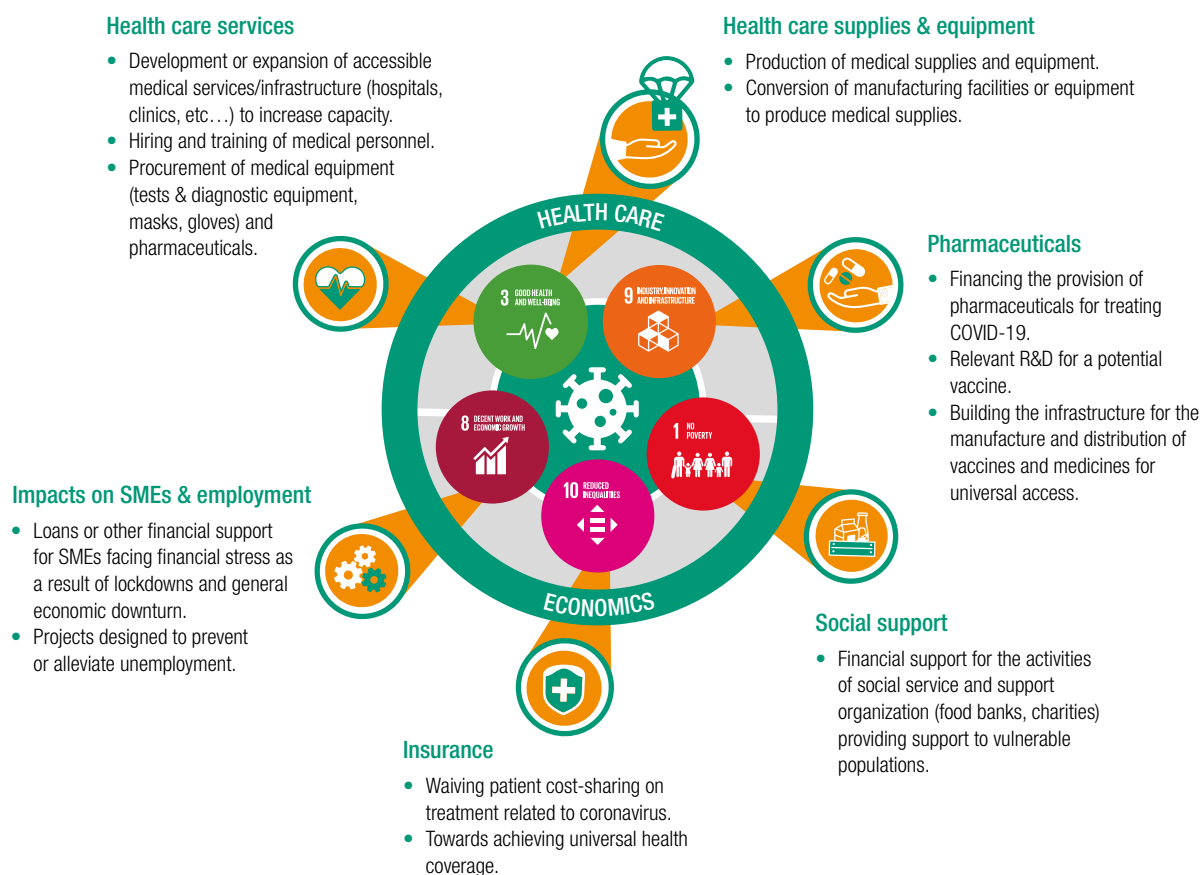
The pandemic has expedited the issuance of bonds focused on relief issues and SDG 3 (Good health and wellbeing) as well as other SDGs (figure V.9), reaching a total value of \$55 billion by mid-April 2020 – already surpassing the value of all social bonds issued in 2019. These COVID-19 response bonds fund a range of activities, from supporting the transition of production lines to health care materials, to providing bridging finance for SMEs struggling with the effects of national lockdowns, to raising money for the development and distribution of a COVID-19 vaccine, along the lines of the “vaccine bond” first issued in 2006 by the International Financing Facility for Immunization.

COVID-19 response bonds include two of the largest dollar-denominated social bond transactions in international capital markets to date: the issuances of a \$3 billion African Development Bank bond and an \$8 billion World Bank bond. The Inter-American Development Bank’s sustainable development bond, issued in April 2020 – its largest-ever public bond issuance – aims to raise awareness about SDG 3, with the proceeds being used to tackle the unemployment effects of the pandemic through mechanisms such as SME financing and microfinance.

In Europe, COVID-19 response bonds have been proposed in various formats to help countries keep borrowing costs low during the crisis, including reframing green bonds to ensure the post-pandemic economic reconstruction in Europe supports the carbon neutrality targets of the EU’s Green Deal. A number of the supranational banks covering Europe, including the European Investment Bank, Nordic Investment Bank and Council of Europe Development Bank, have issued social or sustainability bonds to contribute specifically to the immediate mitigation of the virus’s impacts. National development banks in Europe have also been active; for instance Caisse de France issuing a \$1.1 billion bond. It is the first social bond issuance in Europe to dedicate its proceeds exclusively to financing public hospitals. The COVID-19-related bonds are proving popular with investors: the \$1.1 billion social inclusion bond sale by the Council of Europe Development Bank in March 2020 was four times oversubscribed, for example.

In Asia, Kookmin Bank issued the first Korean COVID-19 response bond (a \$500 million social bond) in April 2020. Companies in China have issued more than \$2 billion in virus-control bonds, with a third of the funds going towards mitigating the effects of the pandemic.<sup>7</sup> Chinese regulators have fast-tracked the approval process for these bonds, and the proceeds are generally used to produce and sell items that help combat the virus, such as medical supplies, medicines or disinfectants.

**Figure V.9. | COVID-19 pandemic response bonds (use of proceeds)**



Source: UNCTAD, based on Sustainalytics and IFC.

## b. Frameworks underpinning COVID-19 response bonds

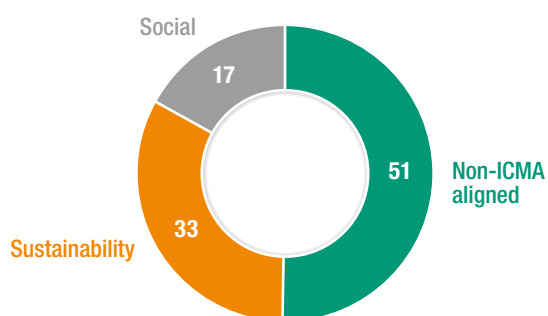
The response to the pandemic by the bond market has been remarkably rapid, a feat which can be attributed to the well-established market for sustainable debt. The three major sustainable debt products available are green, social and sustainable bonds (table V.5), each of which is based on a set of principles or guidelines issued by the International Capital Market Association (ICMA).

Bond type	For investment in	ICMA instruments	2019 market size (\$ billions)
<b>Green</b>	Projects with environmental benefits, such as tackling climate change through renewable energy	Green Bond Principles	257
<b>Social</b>	Projects with positive social outcomes such as health, wellbeing and poverty reduction	Social Bond Principles	13
<b>Sustainable</b>	Projects that combine financing for both green and social outcomes	Sustainability Bond Guidelines	40

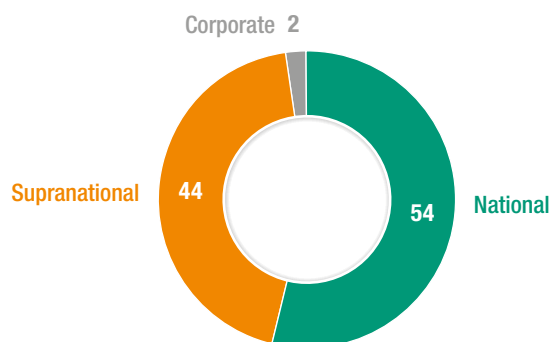
Source: UNCTAD.

**Figure V.10. | COVID-19 response bonds by ICMA instrument and issuer (Per cent)**

**a. By ICMA instrument**



**b. By issuer type**



Source: UNCTAD.

As the pandemic unfolded, the ICMA made clear that existing guidance for social and sustainability bonds was immediately applicable to COVID-19 response bonds. The International Finance Corporation<sup>8</sup> and the ICMA<sup>9</sup> have both issued guidelines for appropriate use of proceeds of COVID-19 response bonds, with the ICMA underscoring that bond proceeds should try to target specifically vulnerable groups affected by the pandemic, but can also be aimed at general medical research, investment in medical equipment and schemes to mitigate the growing unemployment that the crisis has triggered.

**c. COVID-19 response bonds by type and issuer**

By May 2020, national and supranational organizations and corporates had issued 27 COVID-19 response bonds valued at more than \$55 billion (figure V.10). About half of the bonds issued to date are aligned with an ICMA instrument (either social or sustainability bonds); given the urgency of raising capital, some issuers did not follow the necessary procedure for the bond to be considered a social or sustainability bond under ICMA rules.

**d. Stock exchange responses to the pandemic**

• **Waiving fees for COVID-19 response bonds**

Stock exchanges have supported and encouraged the rapid roll-out of many of the newly issued COVID-19 response bonds by waiving listing fees for these instruments. The London, Luxembourg and Nasdaq Nordic stock exchanges have all waived fees for bonds for which the use of proceeds aligns with mitigating the effects of the pandemic. On the London Stock Exchange, fees are waived for bonds that fund essential services such as health care and sanitation, support employment or are linked with relevant SDGs. The bonds must also meet the eligibility criteria for the sustainable bond segment of the exchange. The Luxembourg Stock Exchange is waiving the listing fees for social and sustainable debt instruments that are identified as COVID-19 response bonds, whereas eligible bonds listed on the Nasdaq Nordic exchanges must explicitly and exclusively finance projects that alleviate the negative economic and health effects of the pandemic.

### • Providing fee relief and rule flexibility for listed companies

Recognizing the disruption and costs that the pandemic and associated lockdowns have imposed on companies, many stock exchanges have also provided relief and loosened rules for their listed companies. As companies face disrupted supply chains, restricted workforces and other challenges amid the pandemic, stock exchanges have also extended deadlines for normal processes such as submission of annual reports and other documents.

\* \* \*

The incorporation of ESG factors into capital market activities and financial instruments has become a mainstream practice in recent years and is playing an important role in contributing to the achievement of the SDGs. ESG products are expanding in both size and scope. The use of social and sustainability bonds in response to the COVID-19 crisis has increased focus on the potential applications of these financial instruments and has elevated their status and scale closer to that of green bonds. When the pandemic subsides, the remarkable momentum that has built up behind social bonds and the lessons learned regarding their issuance and use of proceeds should be channelled to focus on financing other SDGs.

Meanwhile, the surge in sustainable funds, including mutual funds and ETFs, is making the equity market more aligned with sustainable development. Over the next 10 years, the “decade of delivery” for the SDGs, capital markets can be expected to further develop and strengthen their sustainability-related activities. It would not be surprising if global funds for financing sustainable development doubled their value by 2030. Nevertheless, the challenges for financing sustainable development go well beyond the mobilization of the funds. The key is how to effectively use the funds for SDGs, including channelling the funds to the SDG sectors and generating impact on the ground to alleviate poverty in low-income countries. In this respect, identifying innovative ways and means for the development and promotion of SDG pipeline projects and improving the quality and credibility of sustainability-themed financial products are essential.

The pandemic once again proves that failure to act on sustainability can be costly in every aspect, and the prompt response of the capital markets to the urgent need to fight the pandemic has demonstrated the importance of sustainability financing in addressing global challenges. Therefore, any plan to recover from the pandemic should take sustainability into full account – sustainability is not only the solution, but also offers opportunities for investment and growth. This is true for both governments and the private sector.

# C. SUSTAINABLE STOCK EXCHANGES AND ESG INTEGRATION

*Progress on investing in the SDGs is not just about mobilizing funds and channelling them to priority sectors in developing countries, especially the LDCs. It is also about integrating good environmental, social and governance (ESG) practices in business operations to ensure positive investment impact. Stock exchanges provide a platform for sustainable finance and guidance for corporate governance. Companies and institutional investors acknowledge the need to align investment and business decisions with positive SDG outcomes. The SDGs are increasingly becoming a focus of investor interest and company reporting for impact, including with respect to gender equality. A key challenge is the quality of disclosure and harmonization of reporting standards.*

## 1. The role of stock exchanges and regulators

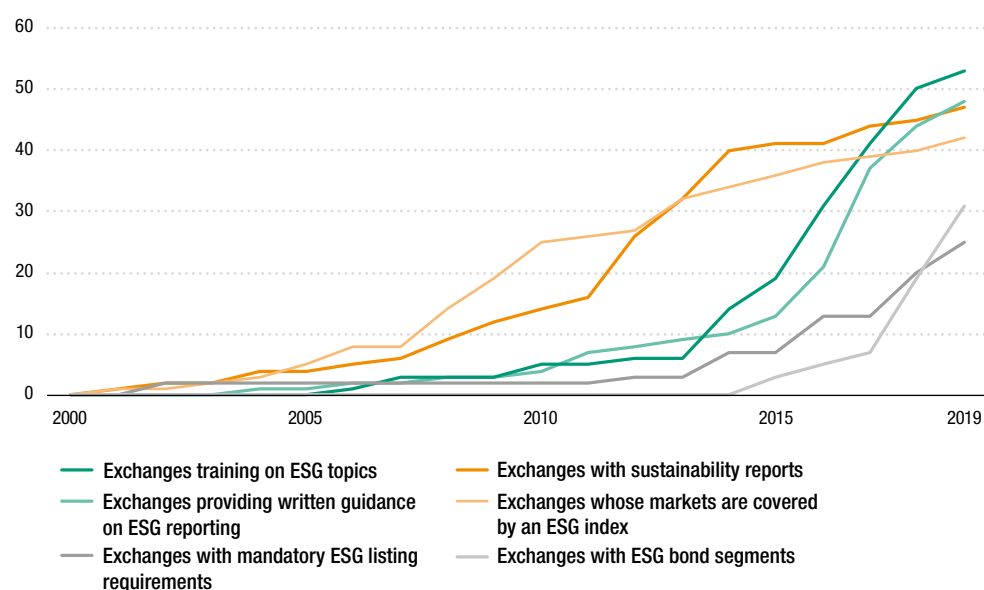
Stock exchanges and securities regulators play an important role shaping the ESG practices of many of the world's largest MNEs and aligning capital markets with sustainable development considerations. For the first time, more than half the world's exchanges (54) now provide guidance to issuers on sustainability reporting, and a third now offer green bond trading segments, up by 12 from last year. The International Organization of Securities Commissions (IOSCO) has stepped up its efforts to lead the global endeavour to address issues of sustainable finance.

### a. Sustainable stock exchanges

Stock exchanges have an important role to play in promoting sustainability in the capital market. According to the United Nations Sustainable Stock Exchanges (SSE) initiative, which maintains a database of the sustainability activities and mechanisms of 102 stock exchanges around the world, the last decade has witnessed a sharp increase across a range of sustainability mechanisms undertaken by exchanges, covering sustainability reporting, training and regulations as well as the development of relevant tools and platforms for the development and transaction of sustainability-themed financial products (figure V.11).

Training on ESG remains the most popular activity, with over half of the stock exchanges offering at least one training course or workshop. Exchanges also promote ESG disclosure (SDG 12.6); half of the SSE's member exchanges (48) had published guidance on disclosing ESG information as of the end of 2019. The most dramatic increase is in the number of stock exchanges that have dedicated sustainability bond segments, primarily green bond segments (SDG 13); 12 exchanges opened such segments in 2019, taking the total to 31. The number of exchanges covered by mandatory rules on ESG disclosure (SDG 12.6), currently 24, has more than doubled in the past five years.

**Figure V.11. | Stock exchange trends** (Number of exchanges)



Source: UNCTAD, SSE database.

Stock exchanges are increasingly realizing that promoting investment in the SDGs within their markets requires integrating ESG factors into their own operations (box V.2). More and more exchanges are leading by example on SDG 12.6 by publishing annual sustainability reports: 47 stock exchanges produced a report in 2019, more than triple the number that did so in 2010.

In an effort to contribute to the mainstream adoption of sustainability reporting (SDG 12.6) and in line with increasing demand from investors and securities regulators, stock exchanges also provide capacity-building on sustainability reporting issues. The SSE has supported exchanges in developing ESG disclosure guidance since 2015, when only 13 exchanges provided any form of ESG guidance. This number had quadrupled to 54 in early 2020, with 82 per cent of the newly published guidance referencing the SSE and half explicitly mentioning the SSE Model Guidance as a template.

## b. Securities regulators

Securities regulators and their associations are also gearing up regulations and guidance on ESG integration. The work is critical in contributing to SDG 12.6, which calls for all large companies to report on sustainability issues. In early 2020, the International Organization of Securities Commissions established the Board-level Task Force on Sustainable Finance to issue official recommendations on sustainability-related disclosures by issuers, asset managers and rating agencies, and to tackle the lack of consistency and comparability on this topic between securities markets.

Comparability and transparency are also promoted by the recently launched SSE interactive Securities Regulators Database, which provides examples of how securities regulators are already contributing to the SDGs. These examples can be filtered by the 10 action areas found in the SSE's Action Plan for securities regulators which is the central guidance of the SSE publication, *How securities regulators can support the Sustainable Development Goals*.

In response to a demand from exchanges for additional guidance on embedding sustainability, the SSE partnered with the World Federation of Exchanges (WFE) to help exchanges manage the inward-facing aspects of sustainability. The resulting guidance aims to help exchanges support their outward-facing efforts while also building resilience in the context of their business operations. The guidance, *How exchanges can embed sustainability into their business operations*, was launched in September 2019 at the SSE 10-year anniversary event. It provides stock exchange leaders with a blueprint for action, including four focus action areas and four fundamental considerations. Its creation benefitted from the inputs of an advisory group of more than 50 experts, including representatives from stock exchanges, investors, standards setters and technical experts.

The four focus actions areas:

- *ESG impact*: Manage the impacts of exchange operations by setting priorities, developing management systems and monitoring progress.
- *Business strategy*: Integrate sustainability into an exchange's core strategic planning by identifying relevant sustainability trends and evaluating their impacts.
- *Dedicated resources*: Dedicate resources or a team to manage the exchange's sustainability work through integrating sustainability across exchange functions and building a culture of sustainability awareness.
- *Governance and risk management*: Reflect sustainability in governance and risk management with demonstrated commitment from the top and structures and practices enabling the integration of sustainability.

They are supported by the four fundamental considerations: *materiality, stakeholder engagement, capacity-building and reporting*.

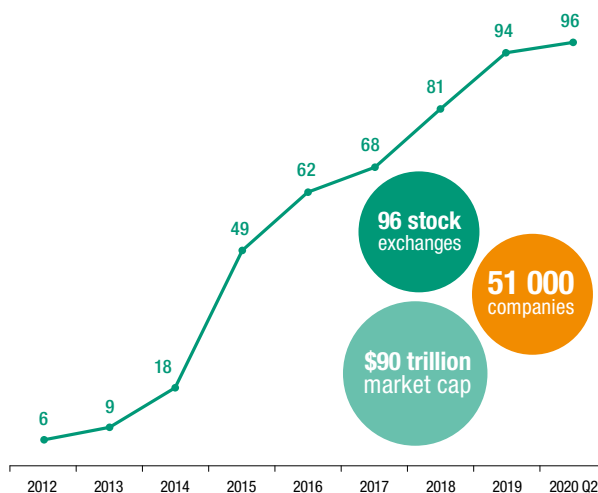
Source: UNCTAD.

### c. Sustainable Stock Exchanges initiative

The United Nations SSE is a UN Partnership Programme that works with stock exchanges around the world to promote the SDGs. In particular the SSE focuses its activities on gender equality (SDG 5.5), SME financing (SDG 8.3), security market regulation (SDG 10.5), sustainability reporting (SDG 12.6), green finance (SDG 13.3) and partnerships for sustainable capital markets (SDG 17). The SSE counts 96 stock exchanges as members as of Q1 2020. The membership is diverse, including all of the world's major exchanges and many smaller exchanges from developing countries. Together these exchanges list more than 51,500 companies, representing a combined market capitalization of nearly \$90 trillion (figure V.12).

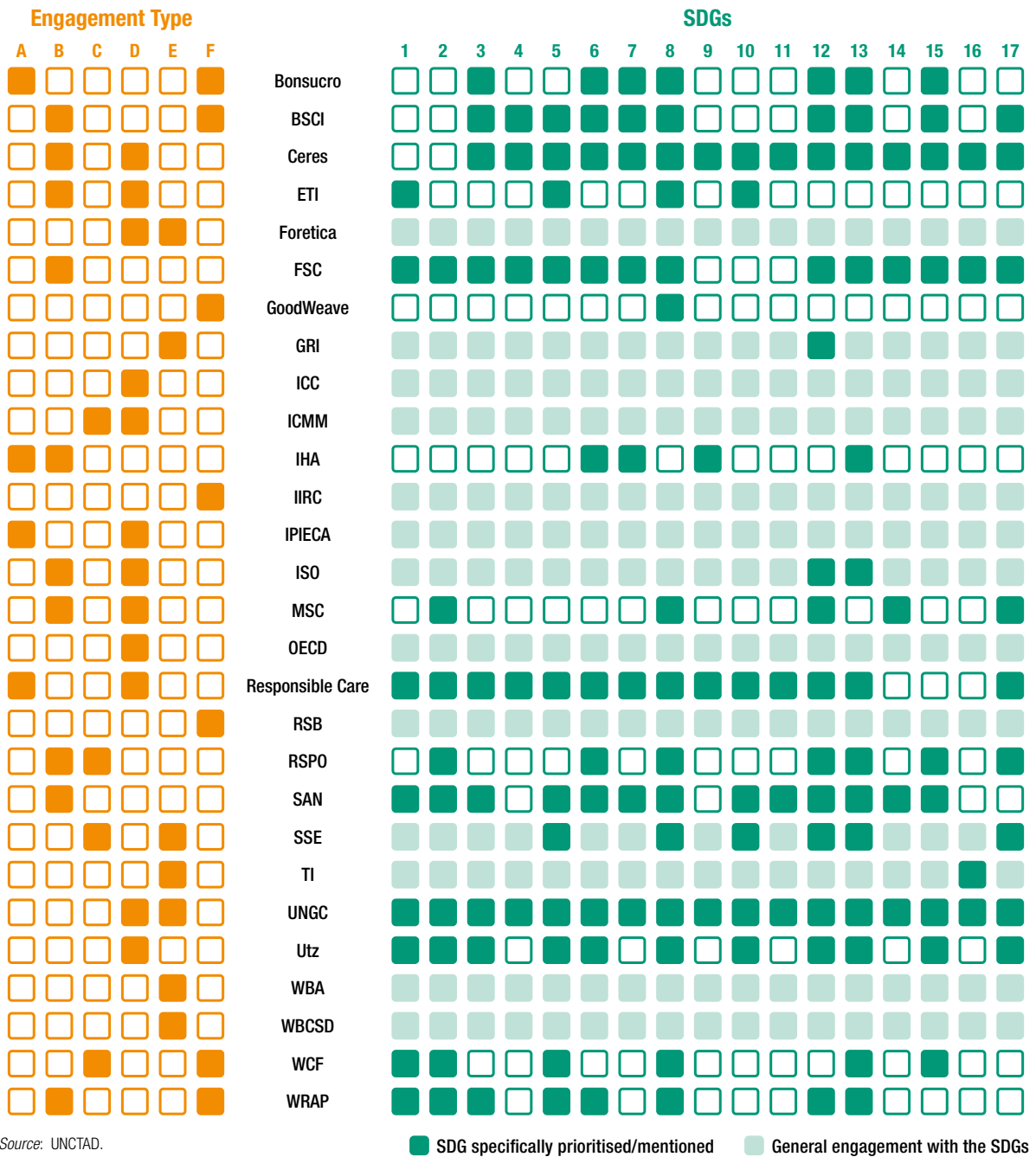
In 2019 the SSE celebrated its tenth anniversary, as part of which it released an impact report looking at the progress made over the past decade. The result of this work is the transformation of sustainable finance in capital markets from niche to mainstream, with practices such as sustainability reporting and training on ESG now considered the norm. The past decade has seen sustainable finance incorporated by two of the most important international organizations for stock exchanges and securities regulators: the WFE (which set up its Sustainability Working Group in 2014) and IOSCO (which set up its Sustainable Finance Network in 2019). During this time, stock exchanges have made significant advances in several areas relating to the promotion of investment in the SDGs.

Figure V.12. SSE initiative members, 2012-2020 Q2 (Number of stock exchanges)



Source: UNCTAD, SSE database.

**Figure V.13. | Types of engagement with SDGs by CSR initiatives and SDGs prioritized**



- Key**
- A Mapping to industry
  - B Mapping to road map/pathway
  - C SDGs framing vision and/or impacts
  - D Report/study on SDGs
  - E Specialized tools or services
  - F Referenced on website

- Acronyms**
- |   |  |
|---|--|
| <b>BSCI</b> Business and Social Compliance Initiative                                 | <b>OECD</b> Organisation for Economic Co-operation and Development |
| <b>ETI</b> Ethical Trading Initiative   | <b>RSB</b> Roundtable on Sustainable Biomaterials                  |
| <b>FSC</b> Forest Stewardship Council   | <b>RSP0</b> Roundtable on Sustainable Palm Oil                     |
| <b>GRI</b> Global Reporting Initiative  | <b>SAN</b> Sustainable Agriculture Network                         |
| <b>ICC</b> International Chamber of Commerce  | <b>SSE</b> UN Sustainable Stock Exchanges initiative               |
| <b>ICMM</b> International Council of Metals and Mining                                | <b>TI</b> Transparency International                               |
| <b>IHA</b> International Hydropower Association                                       | <b>UNGC</b> United Nations Global Compact                          |
| <b>IIRC</b> International Integrated Reporting Council                                | <b>WBA</b> World Benchmarking Alliance                             |
| <b>IPIECA</b> International Petroleum Industry Environmental Conservation Association | <b>WBCSD</b> World Business Council for Sustainable Development    |
| <b>ISO</b> International Organisation for Standardization                             | <b>WCF</b> World Cocoa Foundation                                  |
| <b>MSC</b> Marine Stewardship Council   | <b>WRAP</b> Worldwide Responsible Accredited Production            |



## 2. SDG integration in CSR initiatives

*The SDGs have become the universally accepted benchmark for sustainability impact and are increasingly integrated into corporate sustainability policies and reporting.*

Corporate social responsibility (CSR) initiatives in the private and public sector have overwhelmingly aligned with the SDGs as the universally accepted vision for sustainable development by mapping and integrating them. This is a testament to the strength of the SDGs to shape the global discourse on corporate sustainability, but as the world enters the decade of delivery these initiatives are at a critical inflection point for action. They must now ramp up the implementation and measurement of contributions to the SDGs, which must be supported by comprehensive reporting (figure V.13).

### • Mapping the SDGs

Mapping of the SDGs to the work of an organization is one of the most popular ways in which the SDGs have been integrated into CSR initiatives and shows how effective they have been at aligning CSR initiatives in a common vision. The SDGs have been mapped across industry value chains by organizations such as Bonsucro, an international not-for-profit, multi-stakeholder governance group established in 2008, and the International Petroleum Industry Environmental Conservation Association, an association of the oil and gas industry. They have also been mapped onto initiatives' road maps, pathways and codes of conduct, such as the Ethical Trading Initiative's base code.<sup>10</sup> Initiatives such as Transparency International have identified one SDG or target that specifically pertains to their work. Others, such as the World Cocoa Foundation, have used all or selected SDGs to frame their visions and missions.<sup>11</sup>

### • Core offerings

Another approach for CSR initiatives has been to adapt or reframe their core offerings around the SDGs. The World Business Council for Sustainable Development and the Organization for Economic Cooperation and Development MNE Guidelines both created programme areas focused on the SDGs, and the World Benchmarking Alliance created SDG benchmarks to encourage a race to the top in sustainable corporate behaviour.<sup>12</sup> Initiatives such as the Forest and Marine Stewardship Councils position the certifications they provide as a key tool to achieve the SDGs.<sup>13</sup> The International Organisation for Standardisation (ISO) has integrated the SDGs by assessing how the ISO 26000 standard (social responsibility) contributes to the goals.<sup>14</sup> The UN Global Compact (UNGC) is supporting the SDGs with a portfolio of Action Platforms, built on the 10 Principles of the UNGC, to help companies navigate the various ways they can contribute to the SDGs.

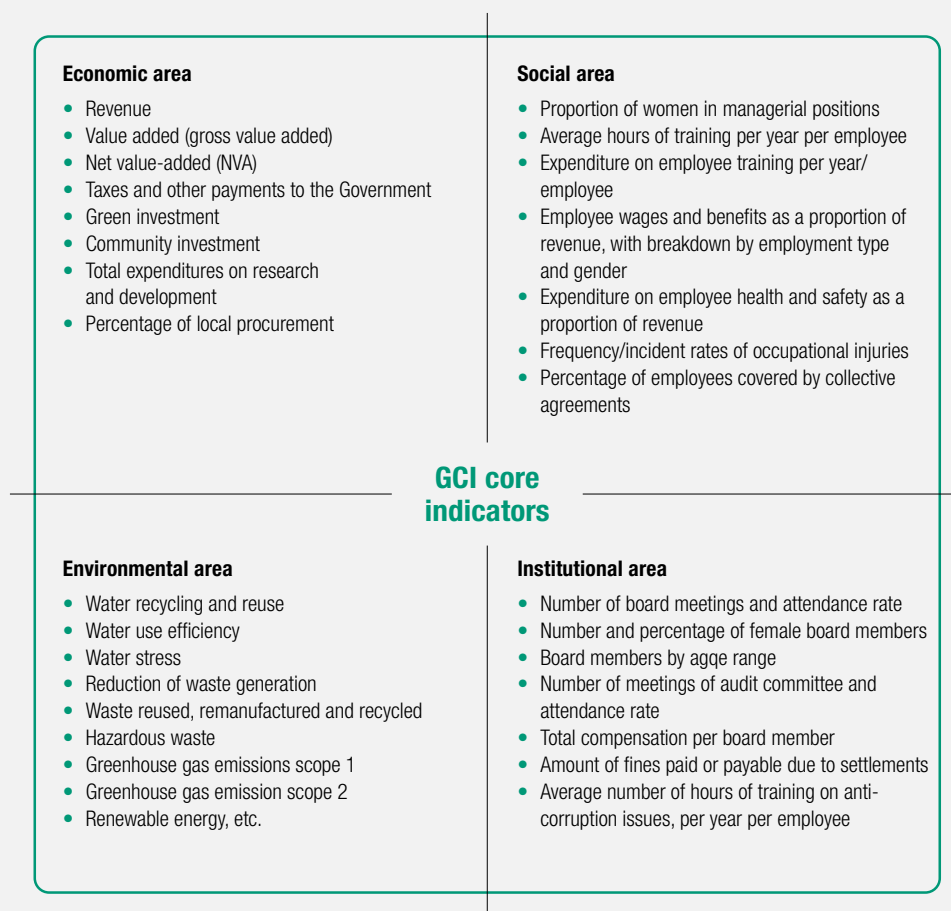
### • Corporate sustainability reporting standards

To take private sector contribution to the SDGs to the next level of implementation and delivery will require enhanced measurement and reporting by MNEs. The Global Reporting Initiative, producer of the world's most widely adopted sustainability reporting standard, mapped the SDGs to its reporting standard in the SDG Compass, as well as providing an inventory that maps business indicators to SDG targets.<sup>15</sup> It has also published three SDG reporting tools to help companies incorporate SDG reporting into their practices, as well as recommendations for national policymakers on using corporate reporting to strengthen the SDGs.<sup>16</sup> In 2019, UNCTAD published the Guidance on Core Indicators (box V.3) as a framework for corporate reporting on their contribution towards the attainment of the SDGs.

## Guidance on Core Indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals

UNCTAD's Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting issued Guidance on Core Indicators (GCI) for entity reporting on the contribution towards the attainment of the SDGs (UNCTAD, 2019b) in June 2019. The objective is to facilitate harmonization of reporting by enterprises on their contributions towards achievement of the SDGs by providing practical information on how the Core Indicators could be measured in a consistent manner and in alignment with countries' needs. The 33 indicators in the GCI cover economic, environmental, social, and institutional aspects of the performance of reporting entities (box figure V.3.1).

### Box figure V.3.1. Key areas addressed by the Core Indicators in the Guidance



Source: UNCTAD.

To validate the approach, in 2019, UNCTAD conducted selected case studies on the application of the GCI for companies in multiple countries, representing different regions and industries. The case studies revealed that sustainability and the SDG reporting issues are still a very new area for companies and highlighted a variety of challenges. Many case studies underscored an urgent need for training, including to explain the importance and benefits of the required SDGs disclosures. Particular challenges were mentioned with regard to the data collection process of environmental indicators. To facilitate the GCI implementation, UNCTAD developed a training manual in 2019.

In promoting the quality, comparability and usefulness of SDGs reporting by companies, UNCTAD has continued fostering partnerships with key players in the sustainability reporting area, including the International Integrated Reporting Council, the WBCSD, the Sustainability Accounting Standards Board, the Global Reporting Initiative and other UN entities such as UNDESA, UNEP and the UNGC. Recently, the Family Business Network selected the GCI as a basis for its companies to report on their contribution to the SDGs.

Source: UNCTAD.

### 3. Reporting on gender by MNEs

Globally, 70 per cent of the world's largest MNEs report on gender equality. More than 80 per cent of these MNEs report having a diversity policy. However, women's representation remains unequal at every level. Although regulation and investor pressure have supported better representation, implementation of gender equality policies remains weak. The analysis also reveals that the largest MNEs still have some way to go to improve reporting on gender, better facilitate the integration of women in the workplace and increase gender equality.

A key objective of integrating ESG considerations in financial markets and products is to influence companies to improve their ESG performance. One important ESG aspect is gender equality, an important SDG goal. Looking at the adoption of good gender practices among firms is an important measure of success and focusing on MNEs has the added benefit of gauging the effect on international investment, as they are the vehicles for FDI.

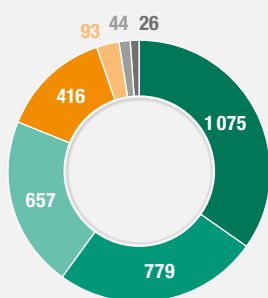
This section looks at how gender issues are integrated and reported by the 5,000 largest companies (box V.4), focusing on two areas. First, diversity: companies' gender equality performance in terms of the share of women employees, women managers, and women on the board. Second, opportunity: what policies are in place to support workers on issues of work-life balance, including flexible working arrangements and childcare services, which are particularly important to ensure equal opportunity in the workplace.

#### Box V.4 Reporting on gender: data and methodology

The data set used in this section is a sample of the 5,000 largest global MNEs by revenue in 2018, prepared by UNCTAD and based on data from Refinitiv. To avoid overlaps in reporting and policies, any affiliates of the those MNEs that were also large enough to be included in the sample were removed, leaving a set of 4,439 companies. Of these, 1,336 companies did not report on gender, leaving a final sample of reporting companies of 3,103 MNEs (box figure V.4.1). ESG data refer to MNEs' 2018 CSR data because companies' fiscal year-ends vary across countries, and many companies still take more than 12 months after their fiscal year-end to disclose their sustainability data.

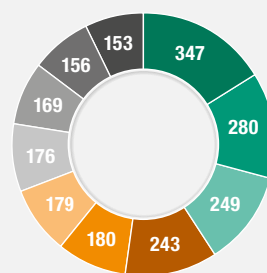
**Box figure V.4.1** | Composition of the sample (Number of companies)

#### a. Region



- North America
- Europe
- Developing Asia
- Other developed economies
- Latin America and the Caribbean
- Africa
- Transition economies

#### b. Industry

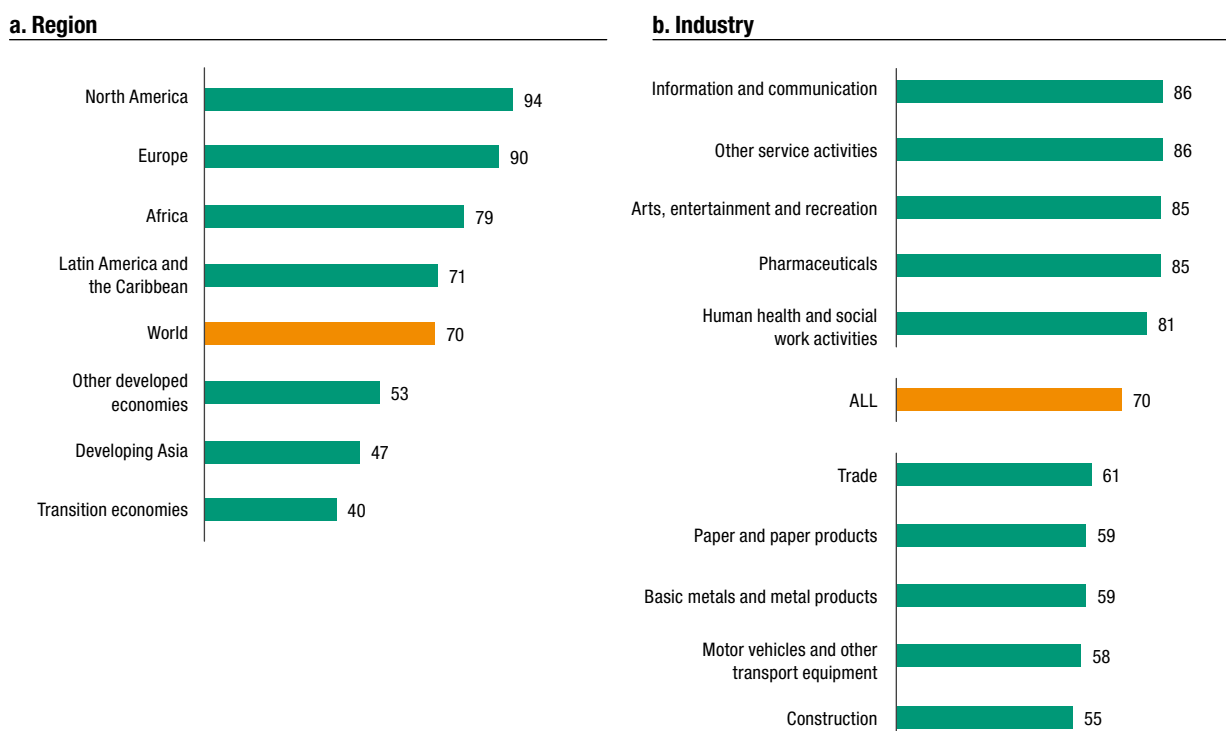


- Trade
- Information and communication
- Computer, electronic, optical products and electrical equipment
- Other manufacturing
- Food, beverages and tobacco
- Electricity, gas, water and waste management
- Machinery and equipment
- Transportation and storage
- Other services
- Coke and refined petroleum products

Source: UNCTAD.

Note: The top 10 industries of the total number of reporting companies (n = 3,103) represent 69 per cent of all companies in the sample. Other services activities include Life Sciences, Tools & Services, Commercial Services & Supplies, Marine and Diversified Consumer Services. Other manufacturing includes Building Products, Construction Materials, Containers & Packaging, Household Durables, Household Products, Personal Products, Biotechnology and Industrial Conglomerates.

**Figure V.14. | Gender reporting rates, by region and top five and bottom five industries, 2018 (Per cent)**



Source: UNCTAD.

Note: Share of companies reporting on gender (n = 3,103) out of all companies in data set (n = 4,439).

### a. Reporting on gender by the largest MNEs

As of 2018, 70 per cent of the largest global MNEs report on gender, with wide differences by region and industry (figure V.14). Reporting rates are influenced by culture and local attention to gender issues, by the visibility and size of companies, by the importance of gender issues for investors and other stakeholders, and by disclosure requirements imposed by stock markets. Although reporting on gender and other ESG metrics is more advanced in developed economies, Africa stands out in this regard, with almost four out of five firms in the sample reporting on gender.<sup>17</sup> Similarly, among developed countries Japanese firms have until recently been less active in reporting on gender (*WIR18*). The top five industries with the highest rates of reporting on gender include ICT, pharmaceuticals and several services industries. The bottom five industries reflect traditional areas of male-dominated work, such as construction, and certain areas of manufacturing.

### b. Representation of women at different levels of MNEs

At the global level, the reported share of women employees in the largest multinational firms is 17 per cent, with 9 per cent at the managerial level, and a larger share (18 per cent) at the board level (table V.6). There are significant differences across regions, reflecting cultural differences and differences in industry weights. Differences between industries typically reflect the nature of their activity, for example, the level of interaction with customers (female voices are preferred for call centres) or historical gender roles (women in care work). Industries with the highest share of women employees tend to reflect this relationship, with services industries and light manufacturing at the top of the list (table V.7). These industries also tend to have larger shares of women managers and women on the board.

At the board level, women's representation is higher in Europe, North America and Africa, all above 20 per cent. This is largely the result of regulations, such as in the EU and South Africa, as well as company policies and investor pressure in those regions. For the top 100 MNEs, earlier UNCTAD research revealed that at the end of 2017 women held an average of 22 per cent of board seats and five of the top 100 corporations had a female CEO. Globally, only 3 to 4 per cent of all CEOs are women. Regulations on the presence of women on company boards explain the lower variance across industries for this last ratio.

At the industry level, women's representation reflects the employment structure of MNEs in those industries: for example, textiles, clothing and leather; human health and social work; and accommodation and food service activities have the highest shares of women employees, together with business activities.

Table V.6.

**Women's representation at different levels of MNEs, by region, 2018 (Per cent)**

Region	Women employees	Women managers	Women on board
<b>World</b>	<b>17</b>	<b>9</b>	<b>18</b>
Europe	28	18	28
North America	10	6	21
Other developed economies	15	8	10
Developing Asia	15	6	9
Latin America and the Caribbean	19	11	7
Africa	28	20	21
Transition economies	32	12	11

Source: UNCTAD.

Table V.7.

**Women's representation at different levels of MNEs, by top 5/bottom 5 industries, 2018 (Per cent)**

Industry	Women employees	Women managers	Women on board
<b>ALL</b>	<b>17</b>	<b>9</b>	<b>18</b>
<b>Top 5</b>			
Textiles, clothing and leather	38	18	24
Business activities	30	15	27
Human health and social work activities	28	16	24
Accommodation and food service activities	28	17	25
Pharmaceuticals, medicinal chemicals and botanical products	27	16	20
<b>Bottom 5</b>			
Paper and paper products	12	8	15
Construction	11	6	16
Motor vehicles and other transport equipment	10	6	16
Basic metals and metal products	10	6	16
Machinery and equipment	8	4	16

Source: UNCTAD.

## c. Company policies on diversity and gender

Globally, roughly four out of five reporting companies have published a diversity policy (table V.8). However, the existence of a policy on diversity does not imply that it is implemented effectively, nor that it brings any positive benefit. A possible proxy for the degree of implementation of policies on diversity is the presence of flexible working arrangements and the provision of childcare services, which might positively benefit women, facilitate their integration in the labour market and reduce inequalities. At the global level, the shares of companies reporting policies on flexible work and childcare are far lower than the shares of those with diversity policies, suggesting that implementation of gender equality policies is weak. However, the implementation of policies on flexible work and the provision of childcare are economically costly, which may explain differences across regions. For example, only 5 per cent of companies in the sample from Africa have annual revenues over \$10 billion (compared with 26 per cent in Europe), which can explain their lower implementation rate.

Variations in the implementation of flexible working hours across industries reflect the different nature of work, with services companies showing more adaptability to changing schedules (table V.9). In contrast, the offer of childcare services is likely related to the size of the main office/establishment and the number of female employees.

**Table V.8. Policies on diversity, flexible work and childcare services, by region, 2018 (Per cent)**

Region	Diversity policy	Flexible working	Childcare services
<b>World</b>	<b>82</b>	<b>34</b>	<b>22</b>
Europe	92	47	23
North America	86	22	13
Other developed economies	83	71	44
Developing Asia	63	17	24
Latin America and the Caribbean	73	23	16
Africa	84	16	7
Transition economies	85	12	15

Source: UNCTAD.

**Table V.9. Policies on diversity, flexible work and childcare, by industry, 2018 (Per cent)**

Industry	Diversity policy	Flexible working	Childcare services
<b>ALL</b>	<b>82</b>	<b>34</b>	<b>22</b>
<b>Top 5</b>			
Financial and insurance activities	100	33	33
Accommodation and food service activities	89	40	21
Human health and social work activities	88	38	31
Business activities	86	45	5
Other service activities	86	24	13
<b>Bottom 5</b>			
Manufacture of chemicals and chemical products	78	25	22
Motor vehicles and other transport equipment	77	33	19
Information and communication	75	22	14
Coke and refined petroleum products	73	30	12
Machinery and equipment	59	24	10

Source: UNCTAD.

\* \* \*

The challenges for sustainability financing go beyond the mobilization of funds. The key is to reorient more funds towards the SDGs. This also requires the integration of good ESG practices in business operations. Although the SDGs have become the universally accepted benchmark for sustainability impact and are now integrated into the world's largest CSR initiatives, more work is required on standards and criteria, including reporting standards, to bring more transparency and coherence to sustainability.

This work includes reporting and benchmarking on gender and diversity more broadly, so that policymakers, investors and other stakeholders can have a more comprehensive picture of company policies and performance on gender equality, and can measure progress towards the achievement of SDG 5. Improved reporting also has an effect on investor decisions, especially institutional investors such as pension funds, which are increasingly taking into consideration ESG performance, including on gender, at every stage of their portfolio and project selection.<sup>18</sup> However, there is still a long way to go to achieve gender equality in the world's largest MNEs and to implement policies that can support this task.

Regulation has been important in driving changes in women's employment and integration in labour markets and MNEs. Even though no legislative requirement is established for the private sector, capital market authorities are increasingly encouraging corporates to implement gender equality policies.<sup>19</sup> Of equal importance has been the influence of companies and their shareholders, who demand change in the governance of MNEs and their employment and gender policies along the entirety of their supply and production chains, as well as by other routes for corporate governance spillovers (box V.5). More efforts will be needed to implement regulations and company policies on gender equality, including flexible work, childcare services and parental leave, as well as in other areas such as equal pay and promotional opportunities. In these ways, MNEs can be drivers of policy change on gender equality (UNCTAD, forthcoming) and lead global efforts to improve women's employment opportunities and representation, supporting the integration of women in the global economy.

#### Box V.5

#### The international transmission of gender policies and practices: the role of MNEs

Foreign investment is an important conduit for promoting gender equality in host countries. UNCTAD's forthcoming policy report, *The International Transmission of Gender Policies and Practices: the Role of Multinational Enterprises*, presents policy recommendations backed by micro-evidence on the ability of MNEs to foster the empowerment of women.<sup>a</sup> A well-established literature documents the knowledge and productivity spillovers of FDI. But the report is the first to conceptualize and analyse possible mechanisms for transferring gender practices. The work presents evidence for Brazil, Costa Rica, Bangladesh, Viet Nam and South Africa, throwing light on the role of international production networks in shaping host countries' gender-related norms and values across developing countries.

The report analyses several channels for the transmission of gender policies and practices to host economies, including these:

- *Supply chain relations*: MNEs can impose labour standards on their suppliers, including gender equality goals, that go beyond their own foreign affiliates' gender policies, akin to industrial standards.
- *Staff mobility*: Women workers learn their value while employed at MNEs and then transfer this knowledge, the acquired skills, as well as their wage and professional position as they transition from multinationals to domestic firms.
- *Technology*: Upgrades introduced by MNEs can generate welfare gains in terms of skill upgrading and job opportunities for women. Technology is associated with a shift towards cognitive tasks and away from manual tasks, and this impact is reinforced with increases in foreign investment. Moreover, in technologically advanced areas or industries, an increase in FDI might lead to employment opportunities for women.

However, as in the case of general productivity spillovers, transfers of social and cultural norms do not happen automatically and need to be facilitated by host countries. Policies have a role to play in ensuring that investment can act as a catalyst for women's empowerment through employment and non-discriminatory practices.

Source: UNCTAD.

<sup>a</sup> The report will be launched at the World Investment Forum in Abu Dhabi in December 2020. In parallel, a Special Issue of *Transnational Corporations on multinational firms and gender equality* will be published in December 2020.

# D. GLOBAL INVESTMENT POLICY DEVELOPMENTS RELATED TO THE SDGs

This section is divided into three subsections. The first presents the findings of an analysis of 128 national SDG development strategies, plans and programmes (as presented in countries' Voluntary National Reviews) and the degree to which they contain an investment dimension. The second provides an overview of investment policy instruments at the national and international levels and the degree to which they contain an SDG dimension, including a first-ever global review of close to 180 laws and regulations in UNCTAD's database of national investment laws and regulations. These two data sets represent the "stock" of the regulatory framework for SDG investments. The third subsection reports specifically on investment policy developments since the adoption of the SDGs in 2015, representing the "flow" of new investment policy measures enacted as a result of the ascendancy of the SDGs as a political commitment.

## 1. National strategies for promoting the SDGs

*National sustainable development strategies often highlight the need for additional financial resources and a lack of domestic capacity to meet the SDGs. However, concrete action plans for attracting more investment in the SDGs are mostly absent.*

Most countries around the globe have adopted new or revised existing national strategies on how to promote and implement the SDGs and on what priorities to set in this process. These strategies often take the form of a national development plan into which the SDGs are integrated.

In voluntary national reviews (box V.6) conducted since 2016 concerning their national road maps towards the SDGs, UN Member States have elaborated on their SDG strategies and – besides presenting past achievements and setting future policy priorities – identified major challenges for achieving the Goals.<sup>20</sup>

### Box V.6 Voluntary national reviews and SDG strategies

The 2030 Agenda for Sustainable Development encourages UN Member States to conduct regular and inclusive reviews of progress relating to achieving the SDGs through a mechanism called voluntary national reviews. They facilitate experience sharing; inform on successes, challenges and lessons learned; and report on major national-level actions. During 2016-2019, more than 150 UN Member States have filed voluntary national reviews. UNCTAD has reviewed 128 of them.

For several reasons, the results from the voluntary national reviews need to be interpreted with caution. First, they do not all have the same scope. Whereas some reviews cover all SDGs, others pick up only some of them and remain silent on the rest. Second, the reviews differ substantially in content. Whereas some reviews provide detailed information about individual SDGs, others provide only a short overview about the main issues. Third, differences also exist concerning potential future policy actions. Whereas several reviews describe specific steps for realizing the SDGs, others are limited to some general observations.

*Source:* UNCTAD, based on UN DESA, Compilation of executive summaries concerning voluntary national reviews 2017-2019.



Although national SDG strategies clearly recognize capital needs, insufficient domestic capacities and missing partnerships as major policy challenges, many remain vague or completely silent on how to promote investment into SDG sectors. To the extent that SDG strategies deal with the issue at all, they tend to refer in relatively general terms to the need to attract more investment, mobilize capital or seek innovative financing (box V.7). A *comprehensive investment action plan* that would cover all aspects of investment promotion for the SDGs, including an assessment of the amount of required capital and an identification of the policy instruments chosen for promoting investment in the SDGs is absent from all the strategies that were examined for this report. An exception is the EU Commission, which has presented a specific investment plan as part of its Green Deal, being discussed in 2020 by EU member States.<sup>21</sup>

### Box V.7

### Elements of investment promotion plans in national SDG strategies (examples)

Several countries address investment-related policy issues in their national sustainable development strategies and highlight various challenges:

#### Improving the business climate

- Improve the regulatory and legal framework for FDI.
- Simplify procedures to obtain business licenses and permits

#### Strengthening domestic resource mobilization

- Improve domestic capacity for collection of tax and other revenues.
- Encourage remittances and contributions of diaspora in providing resources for sustainable development.
- Prepare for a decline in official development assistance due to attainment of middle-income status or expected graduation to middle-income status.

#### Improving SDG-related financing

- Advance financial market reform. Expand access to finance, including for MSMEs.
- Promote innovative instruments, such as green and social bonds, for financing the SDGs. Enhance the mobilization of resources for “climate-smart” investment.
- Support start-ups and entrepreneurship through business development services and funding, especially for youth.

#### Promoting partnerships, including PPPs

- Create a conducive environment for partnerships, from the development of legal and institutional instruments to relevant awareness raising and domestic capacity-building activities. Start partnership campaigns, forums and meetings. Strengthen the transparency and efficiency of PPP legal frameworks. Develop guidelines for multi-stakeholder partnerships to implement the SDGs.
- Promote SDG-related partnerships, which pool valuable knowledge, expertise, technology and financial resources from partners. Establish domestic PPP cells to foster partnerships across central and local governments and private participants. Partner with universities and other learning institutions to support the SDGs. Promote partnerships with the UNGC and promote CSR therein.
- Form partnerships in line with national priorities. Encourage PPPs in diverse SDG-related sectors, such as renewable energy, housing, infrastructure, agriculture and technology.
- Ensure that partnerships are efficient and have impact at the community level. Ensure long-term stakeholder commitments, sustained funding, ongoing resourcing and consistency of personnel. Monitor and evaluate the effectiveness of partnerships.

#### Promoting innovation and technology transfer

- Improve domestic science, technology, engineering and mathematics skills. Promote investment in research and development and create centres (e.g. techno-parks, science parks) for the development of advanced science and technology, cultivating entrepreneurship and increasing employment opportunities.
- Promote transformative technological innovations to further the SDGs. Adapt existing technologies to the national and regional realities.
- Promote concerted actions to accelerate international transfer of technology. Improve knowledge-sharing on mutually agreed terms and the distribution of environmentally friendly technologies. Adhere to the global Technology Facilitation Mechanism to enhance scientific cooperation and reduce the technology gap between developed and developing economies.

#### Fostering CSR

- Encourage private sector commitments to doing business sustainably and responsibly. Promote sustainability reporting guidelines and frameworks. Establish CEO advisory groups on the SDGs.
- Incite business to take the lead in creating SDG-related initiatives and to take CSR to the next level.
- Certify good business practices against gender discrimination, safety and health at work, and other concerns.
- Implement the UN Guiding Principles on Business and Human Rights.

Source: UNCTAD, based on voluntary national reviews of UN Member States concerning SDG achievements.

The UN is working towards helping countries to mainstream SDGs in their national development strategies, identify financing needs associated with achieving the SDGs and pinpoint possible sources of finance, through the Integrated National Finance Framework (INFF) process, including by promoting an active participation of the private sector in the implementation of the 2030 Agenda (box V.8).

#### Box V.8

#### UN system-wide efforts to promote investments in SDGs

To be better able to support member States in meeting the SDGs, the UN undertook system-wide reforms at the global, regional and national levels to improve its institutional set-up, adopt new tools to mobilize financing for development and promote active participation by the private sector in supporting the 2030 Agenda and financing the SDGs.

Institutionally, at the global level the organization revamped the United Nations Development System to guide strategic, policy-related and operational decision-making in a whole-of-system response. It also created the Inter-Agency Task Force on Financing for Development which regroups over 60 UN entities and international organizations to monitor progress on the Addis Ababa Action Agenda (AAAA)<sup>a</sup> and, coordinated by the Department of Economic and Social Affairs (DESA), advises governments on financing for sustainable development. At the regional level, it is in the process of revamping its regional structures and working mechanisms to tackle multi-country, transboundary, subregional and regional challenges by integrating policy advice, normative support and technical capacity, including from non-resident agencies. At the country level, it created a new generation of UN country teams to coordinate resident and non-resident agencies, and to support the mobilization of strategic finance.

Among the new tools, at the request of member States, the UN supported the adoption of integrated national financing frameworks (INFFs) by countries and the establishment of the Joint Fund for the 2030 Agenda (the Joint SDG Fund). INFFs aim to accelerate and support efforts to mobilize and align financial and non-financial resources with national sustainable development strategies.<sup>b</sup> Their operationalization builds on a needs assessment, design of a financing strategy, establishment of instruments to monitor and evaluate results, and adoption of mechanisms to improve governance and coordination. Several countries have pioneered the implementation of the INFFs (e.g. Cabo Verde, Kyrgyzstan, Sierra Leone and Solomon Islands).

The Joint SDG Fund supports sustainable development activities by promoting a whole-of-government approach and fostering collaboration among all UN agencies and other development partners.<sup>c</sup> The fund integrates economic, social and environment policies and tailors activities to country-specific contexts, with the first set of projects focused on enhancing social protection systems.<sup>d</sup> The new set of projects being prepared by UNCTs since the beginning of 2020 aim at catalyzing strategic investments and at creating the right conditions and capacities to align public and private capital to the SDGs.

Since 2015, the UN has also enhanced its engagement with the private sector. The Global Investors for Sustainable Development Alliance, established with the support of the UN Secretary-General, aims to identify and take forward solutions for scaling long-term private investments in the SDGs. Through the World Investment Forum, UNCTAD provides a biennial global platform for engagement and dialogue, including with the private sector, on emerging and key issues related to investing for sustainable development. Several other initiatives have been taken to ensure that investors, including institutional investors, impact investors and family businesses, have a better understanding of the 2030 Agenda and the potential it represents in terms of investment opportunities.<sup>e</sup> The UN also plays an instrumental role in bringing more coherence, consistency and transparency to CSR, which is required to orient financing towards sustainable development. The initiatives undertaken embrace issues related to principles for responsible investment and for women's empowerment, as well as standards of accounting and reporting.

The first cycle of the implementation and review of the SDGs came to a close in 2019. The voluntary national reviews showed that although governments had prioritized the integration of the SDGs into their national plans and policies, many of them faced significant challenges in doing so and in financing implementation. In his progress report, the UN Secretary-General stressed that the required level of sustainable development financing from the public and private sectors was not yet available.<sup>f</sup>

In order to further enhance the UN's role in supporting and accelerating finance for sustainable development, the Secretary-General of the United Nations released his Strategy for Financing the 2030 Agenda for Sustainable Development in September 2018 (box table V.8.1).<sup>g</sup> In 2019, the Secretary-General proposed a three-year Roadmap for Financing the 2030 Agenda for Sustainable Development, which highlighted the priority action areas and suggested a range of options and initiative to mobilize investment and support for financing the 2030 Agenda.

/...

## Box figure V.8.1.

## Objectives and specific actions of the Secretary-General's Financing Strategy

<b>Objectives</b>	①	Aligning global economic policies and financial systems with the 2030 Agenda					
	②	Enhancing sustainable financing strategies and investments at regional and country levels					
	③	Seizing the potential of financial innovations, new technologies and digitalization to provide equitable access to finance					
<b>Actions across six areas</b>	<b>Advocacy</b>	<input checked="" type="checkbox"/>	<b>Integrate the SDGs and Paris Agreement into economic and financial policies and practice</b>	<input checked="" type="checkbox"/>	<b>Scale up project finance</b>	<input checked="" type="checkbox"/>	<b>Highlight the needs of LDCs and SIDS</b>
			Advocate with global leaders to embed the principles of the 2030 Agenda in economic and financial policies and regulations.		Urge countries to meet the commitment of US \$100 billion/year by 2020 from public and private sources, including through the 2019 Climate Action Summit.		Encourage collaboration between public and private actors to unlock all sources of finance and financial innovation, notably for climate action and resilience.
			Call on the financial industry to set strategies and targets that progressively align financial portfolios with the SDGs and the Paris Agreement, and to report on progress.		Call on governments to create an enabling investment environment for green, climate-resilient development.		Urge the international development community to develop a package of incentives to further the development progress of graduating LDCs.
	<b>Engagement</b>	<input checked="" type="checkbox"/>	<b>Establish global platforms</b>	<input checked="" type="checkbox"/>	<b>Strengthen partnerships with IFIs</b>	<input checked="" type="checkbox"/>	<b>Accelerate the work of the UN System</b>
			CEO Alliance of Global Investors for Sustainable Development to increase long-term private investments in the SDGs.		Joint framework of collaboration with multilateral development banks to strengthen regional and country-level synergies, including specific attention to middle income countries.		Leverage the UN development system reform to increase support to countries on strategic financing for the SDGs, including to catalyze new sources of finance and leverage financial technologies.
			Task Force on Digital Financing of the SDGs to catalyze game-changing action that harnesses the potential and mitigates the risks related to financial technologies and the SDGs.		Strengthen engagement with IFIs to improve debt sustainability in developing countries, notably for investment in disaster risk reduction and resilience.		Create a shared understanding of sustainable investing practices, and improve the quality and availability of SDG-related investment data in developing countries.

<sup>a</sup> The AAAA was the outcome of the 2015 Third International Conference on Financing for Development, held in Addis Ababa, Ethiopia. Adopted by Heads of State and government of 193 United Nations Member States, the agreement is a follow-up action to the 2002 Monterrey Consensus and the 2008 Doha Declaration on Financing for Development.

<sup>b</sup> See <https://developmentfinance.un.org/2019-integrated-national-financing-frameworks-sustainable-development>.

<sup>c</sup> The Joint SDG Fund was created in 2018 to replace the Sustainable Development Goals Fund, which had been established in 2014. It was inspired by the broader principles of the Millennium Development Goals Achievement Fund. For details, see <https://www.jointsdgfund.org/sites/default/files/2019-05/20181127-TORs-JF-for-2030-Agenda.pdf>.

<sup>d</sup> Activities were financed for 36 countries. In Madagascar for example, the objective of the joint proposal was to support the Government in strengthening its social protection system and making it more sensitive to the needs of extremely poor households (representing 52 per cent of the population) with a special focus on persons living with disabilities. For additional information, see <https://jointsdgfund.org/where-we-work>.

<sup>e</sup> Examples include the Climate Finance Leadership Initiative, the Global Compact Principles, the Principles for Responsible Investment, the Principles for Sustainable Insurance, the SSE Initiative and the Istanbul International Centre for Private Sector in Development.

<sup>f</sup> *Progress towards the Sustainable Development Goals*, Report of the Secretary-General, 8 May 2019. United Nations, New York.

<sup>g</sup> See [https://www.un.org/sustainabledevelopment/wp-content/uploads/2019/07/EXEC.SUM\\_SG-Roadmap-Financing-SDGs-July-2019.pdf](https://www.un.org/sustainabledevelopment/wp-content/uploads/2019/07/EXEC.SUM_SG-Roadmap-Financing-SDGs-July-2019.pdf).

## 2. Investment policy tools related to the SDGs

UNCTAD's global review of national investment policy regimes shows that investment in SDG sectors benefits from incentive schemes and outward investment through State guarantees and loans. However, these investment promotion instruments are limited and follow a piecemeal approach. Not all SDG sectors benefit equally. Moreover, it is not just promotion and facilitation measures that apply to SDG sectors; the same holds for investment restrictions and regulations.

A variety of investment policy instruments in both host and home economies apply to SDG sectors. These instruments include in particular, investment incentives, investment facilitation and outward investment promotion. Other policy tools regulate or restrict the entry of investment in any sector judged potentially harmful to sustainable development. Entry rules may also limit access for foreign investors to certain SDG sectors or subject them to a national security-related screening mechanism. In addition to policies taken at the national level, there is also a role for international investment agreements (IIAs) (table V.10).

### a. Promotion schemes for inward or outward investment in SDG sectors

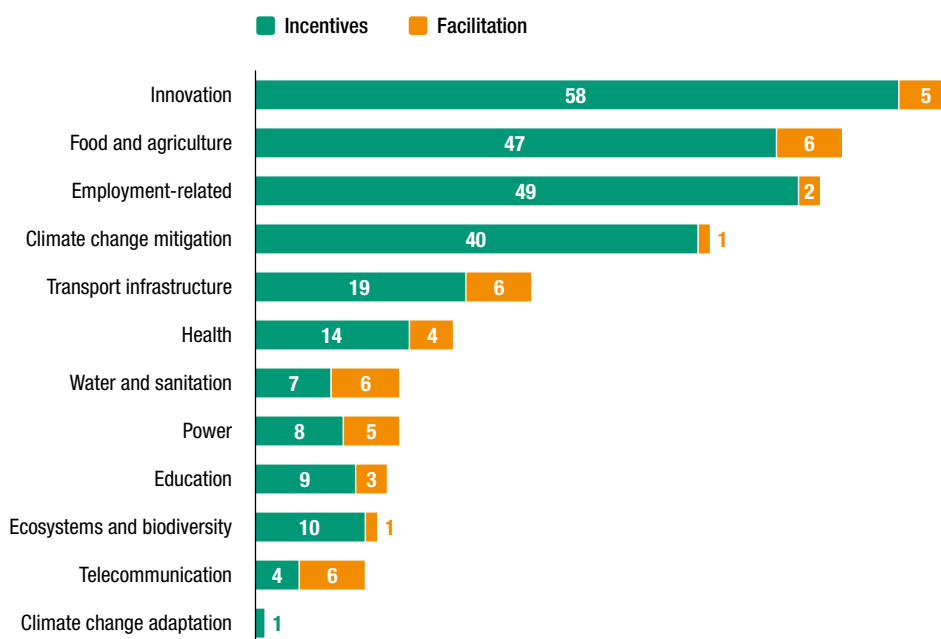
A recent review by UNCTAD of investment laws and policies as well as investment promotion agency (IPA) programmes around the globe shows that 97 economies, constituting less than half of UN Member States, have put in place specific promotion regimes that target investment in areas that are relevant to the SDGs, including SDG sectors – such as infrastructure, water and sanitation, and health – and other objectives that are relevant to specific SDGs, such as innovation (SDG 9) and employment (SDG 8) (figure V.15). In addition, most economies maintain general investment promotion schemes of a broad nature that are not particularly linked to the SDGs. These programmes are not covered in this overview.

**Table V.10. Policy instruments concerning investment in the SDGs, selected examples**

<b>National policies for promoting investment in SDG sectors</b>	
Investment incentives of host countries	<ul style="list-style-type: none"> <li>• Incentives to attract SDG-related projects</li> <li>• Conditioning incentives on SDG-related investor performances</li> <li>• SEZs focusing on SDGs</li> </ul>
Investment targeting, facilitation and aftercare	<ul style="list-style-type: none"> <li>• Specific targeting of SDG-related investment</li> <li>• Preparation of SDG project pipelines</li> <li>• Image-building (advertising host economy as an SDG champion)</li> <li>• Priority treatment by local IPAs in the establishment process of SDG investment</li> <li>• Aftercare services after establishment of SDG investors</li> </ul>
Investment guarantees and loans for outward investments related to the SDGs	<ul style="list-style-type: none"> <li>• Conditioning investment guarantees and loans to prior environmental and social impact assessment</li> <li>• Linking guarantees and loans to SDG-related investor performance</li> <li>• Providing guarantees and loans exclusively for investments in SDG sectors</li> </ul>
<b>National policies for regulating the entry of investment for SDG purposes or in SDG sectors</b>	
Rules regarding entry and admission of foreign investment	<ul style="list-style-type: none"> <li>• SDG-related approval requirements for investment</li> <li>• Full or partial entry restrictions in SDG-relevant sectors</li> <li>• National security-related FDI screening mechanism covering SDG-relevant sectors</li> </ul>
<b>International investment agreements</b>	
Promotes and protects foreign investment	<ul style="list-style-type: none"> <li>• Flag SDGs as a core treaty objective</li> <li>• Confirm contracting parties' right to regulate</li> <li>• Prohibit lowering of environmental and social standards as a means for attracting investment</li> </ul>

Source: UNCTAD.

**Figure V.15. Specific investment promotion programmes relevant to the SDGs (Number)**



Source: UNCTAD.

The highest share of investment promotion schemes – more than 20 per cent – is directed towards innovation activities linked to SDG 9 that promotes industrialization, technological upgrading, research and development with industrial diversification.<sup>22</sup> This is followed by programmes in food and agriculture (17 per cent) and employment-related promotion schemes (16 per cent). A significant number of promotion schemes also apply to climate change mitigation projects (13 per cent).

Other sectors that are important from a sustainable development perspective – including health, water and sanitation, education, ecosystems and biodiversity, and climate change adaptation – are covered less well by existing investment promotion schemes, at less than 18 per cent of the total investment promotion regimes in all SDG sectors.

#### • Incentive schemes for inward investment

Most investment incentives relevant to SDG sectors take the form of fiscal incentives. They are either granted for investments in specific SDG sectors or require certain SDG-related performance in the operation of the investment, independent of the sector (box V.9).

Special economic zones (SEZs) and the incentives offered therein are another means to attract investment relevant to the SDGs. Recent years have witnessed the emergence of so-called eco-industrial parks. Existing SEZs are also becoming more sustainable-development-friendly (box V.10). Nonetheless, most SEZs are not yet promoting sustainability-related business features significantly (UN, 2015).

#### • Facilitation of inward investment

Investment facilitation schemes focus on the simplification of administrative procedures for investors, the role of IPAs in the targeting of investors and the subsequent aftercare.<sup>23</sup> Only few economies (11) have SDG-specific facilitation programmes in place (box V.11). This reflects the fact that unlike investment promotion, investment facilitation usually applies equally across sectors.

**Box V.9****Investment incentives relevant to SDG-related sectors** (examples)

Several countries have established specific incentives schemes for investing in individual SDG-related sectors. For example,

- In *Argentina*, sustainable development of the aquaculture sector is promoted through fiscal benefits and financing options.
- In *Kazakhstan*, the list of priority activities for the implementation of investment projects includes collection, treatment and distribution of water as well as collection, treatment and disposal of waste.
- *The Republic of Korea* has in place a value added tax exemption scheme for companies involved in energy distribution to remote islands.
- In *Oman*, the income of investors engaged in education, pre-school childcare and training as well as in medical care by establishing private hospitals, is exempted from taxation.
- In *Rwanda*, a preferential tax rate is accorded to investors that undertake the generation, transmission and distribution of peat, solar, geothermal, hydro, biomass, methane and wind energy.
- The Critical Infrastructure Programme in *South Africa* provides cash-grant incentives for investments to improve critical infrastructure, including telecommunication networks and transport systems, such as roads and railways.
- *Thailand* grants incentives for agricultural investment, if the value added of a project is at least 10 per cent of revenues, modern production processes are implemented and new machinery is utilized.

Source: UNCTAD.

**Box V.10****Eco-industrial parks** (examples)

Some countries have started to align the infrastructure in SEZs with the SDGs. Some examples:

- In 2016, *Ethiopia* inaugurated its flagship project: the Hawassa Industrial Park. It is designed for the textile and apparel industry and is powered mostly by hydroelectricity. A dedicated zero-liquid-discharge facility, enabling the recycling of 90 per cent of sewerage, was constructed on its premises.
- *Viet Nam*, in cooperation with UNIDO, introduced in 2014 the Eco-Industrial Park Initiative. It aims at increasing deployment of clean and low-carbon technologies, minimizing greenhouse gas emissions, improving water efficiency and introducing chemical waste management.
- Founded in 2016, Green Park in *Costa Rica* is the first industrial park and free trade zone in Latin America with Leadership in Energy and Environment Design certification. It aims to provide investors with an infrastructure and processes that comply with sustainable practices and seeks to minimize the environmental impact of manufacturing operations in the zone.

Source: UNCTAD.

**Box V.11****Investment facilitation in SDG-related sectors** (examples)

Specific facilitation of investment in SDG-related sectors is rare. A few examples:

- The Law on Strategic Investment in *Albania* provides for special benefits for investment in specific sectors, including urban waste management, transport, electronic communications infrastructure and large-scale farms. They include special and assisted procedures, assistive infrastructure and preferential access to land.
- Under the Law on Investment Promotion, SEZs in the *Lao People's Democratic Republic* are established with a specific administrative mechanism to create favourable conditions to attract investment that uses innovation in the production of agricultural products to save natural resources and energy.
- *Mongolia* provides certain investors with tax stabilization certificates that set tax rates for a defined period. These certificates are issued for investment that introduces high-tech and other technologies and creates stable workplaces, and for which an environmental impact assessment has been carried out, among other criteria.

Source: UNCTAD.

Both national agencies and international organisations may link their outward investment promotion schemes to the SDGs. For example:

Under the German investment guarantee scheme, an investment needs to fulfil certain conditions in order to be eligible. One condition is that it has positive effects on the host country. These can be manifested by, for example, the substitution of imports, the creation of jobs with high social standards or the implementation of modern, environmentally friendly technologies. Another essential aspect of the eligibility is the legal impact of environmental, social and human rights regulations on the project.

Proparco, the private sector financing arm of Agence Française de Développement, supports development in Southern countries. Its aims to promote the emergence of a dynamic, innovative and responsible private sector in developing and emerging countries which contributes to sustainable economic growth, job creation, the provision of essential goods and services and, more generally, to poverty reduction and the fight against climate change.

The World Bank's Multilateral Investment Guarantee Agency (MIGA) provides investors with insurance against political risks in host member countries. Proposed projects that are determined to have moderate to high levels of environmental and/or social risk, or the potential for adverse environmental and/or social impacts, are carried out in accordance with the requirements of certain performance standards: Assessment and Management of Environmental and Social Risks and Impacts; Labour and Working Conditions; Resource Efficiency and Pollution Prevention; Community Health, Safety, and Security; Land Acquisition and Involuntary Resettlement Performance; Biodiversity Conservation and Sustainable Management of Living Natural Resources Indigenous Peoples Performance Standard; and Cultural Heritage.

For private sector financing, the Asian Development Bank conducts due diligence on projects and reviews the overall economic, financial, and commercial viability of the project business plan, costs, financing and implementation plans; the legal and regulatory framework; and the feasibility and environmental and social assessment studies as well as environmental and social management plans, including resettlement plans and Indigenous Peoples plans, to address impacts on people and the environment.

*Source:* UNCTAD, based on websites of Proparco, MIGA and ADB and [www.investitionsgarantien.de](http://www.investitionsgarantien.de).

### • Promoting SDG-related outward investment through State guarantees and loans

Numerous capital-exporting countries offer their domestic investors insurance against political risks in the host economy or provide loans to fill a financing gap. Some condition the investor's eligibility to the requirement that the planned investment does not jeopardize sustainable development or is not detrimental to it. Eligibility may also depend on whether the investment is likely to positively affect sustainable development in the host economy. If negative effects occur or positive outcomes do not materialize, the home country may be entitled to revoke the investment guarantee or loan.

In addition, various international development banks and institutions, such as the World Bank, its Multilateral Investment Guarantee Agency (MIGA), IDB, the International Finance Corporation (IFC), the Asian Development Bank and the European Bank of Reconstruction and Development, also subject the granting of investment guarantees or financial support to an environmental and social impact assessment of the investment project (box V.12).<sup>24</sup>

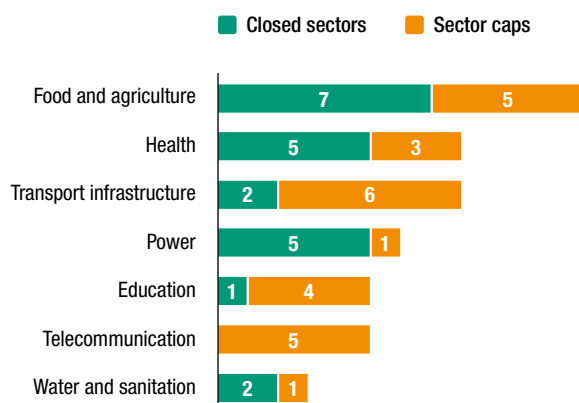
## b. Entry restrictions for investment that apply to SDG sectors

Certain investment regulations bar individual investments considered as harmful for sustainable development or restrict access to sectors with a public services nature. Such regulations usually subject investment to an approval requirement, sometimes in the form of an investment screening mechanism. Another option are investment limitations that fully or partially exclude foreign companies from investing in certain SDG sectors.

Investment restrictions affect numerous SDG sectors, above all food and agriculture, transport infrastructure and health. Investments in climate change mitigation and adaptation or in ecosystems and biodiversity are not affected by restrictions (figure V.16).



**Figure V.16.** Specific investment restrictions in SDG-related sectors  
(Number of restrictions by sectors)



Source: UNCTAD.

### • Banning investment potentially harmful for the SDGs

Many host economies subject the approval of an investment to an evaluation of its likely impact on the environment. Their legislation contains either environmental safeguards specifying that an investment detrimental to the environment shall be restricted or listing environmental-related conditions that need to be fulfilled to obtain investment approval. In other instances, assessing the impact of an investment project on specific sustainable development aspects is part of investment screening procedures related to national security. In addition to common criteria relating to national security or public interest, certain countries also evaluate the socioeconomic impact of foreign investment.<sup>25</sup>

### • Restricting foreign investment in SDG sectors

According to UNCTAD's survey, at least 17 countries maintain approximately 50 investment restrictions in SDG-related sectors. Most of them exist in developing economies. These restrictions take the form of prohibitions of foreign investment in specified sectors or – more frequently – foreign ownership caps, including joint venture requirements (box V.13).

In some economies, SDG-related sectors – particularly those relating to the provision of basic utilities such as water, electricity or heating – are designed as public monopolies. In these cases, neither domestic nor foreign private investment is possible.

The investment laws usually do not explain the reasons for these various investment restrictions. It appears that they are mostly motivated by the wish to keep certain industries and infrastructure considered as being critical for development under domestic control. None of the examined laws mentions SDG-related considerations as a reason for the restrictive policy.

#### Box V.13 Investment restrictions in SDG sectors (country examples)

Several countries restrict foreign investment in specific SDG-related sectors. Several examples:

- In *China* Decree No. 25 [2019] on Issuing the Special Management Measures (Negative List) for Foreign Investment Access specifies that foreign investment in medical institutions is limited to joint ventures and cooperation.
- In *Cuba*, the Foreign Investment Act stipulates that foreign investment may be authorized in all sectors, except for education and health.
- In *Indonesia*, according to the negative investment list of 2016, the foreign ownership ceiling in hospitals as well as in basic and special medical clinics is set at 67 per cent.
- In *Iceland*, under Act No 34/1991 on Investment by Non-residents in Business Enterprises, foreign investors are barred from engaging in fishing operations or processing.
- In *Myanmar*, Notification No. 15/2017 specifies that investment activities in the two SDG sectors are authorized to be carried out only by the State: administration of electric power systems and management of natural forests and forest areas.
- In the *Philippines*, as per the 11<sup>th</sup> Regular Foreign Investment Negative List (Executive Order No. 65 of 2018), only up to 40 per cent of foreign equity is permissible in educational institutions.

Source: UNCTAD.



Rather than restricting all investments in specific SDG sectors, several countries have opted for examining individual foreign investment projects in the framework of their national security-related screening procedures. They apply to foreign engagements in various SDG sectors, such as infrastructure development, energy distribution, utilities – including water management, telecommunication, transport, health services, agriculture and food, innovative technologies and high-tech industries.

### **c. SDG considerations are making their way into IIAs**

Since the adoption of the SDGs, 190 international investment agreements (IIAs) have been concluded. Of those, over 30 per cent include provisions addressing the SDGs directly and 59 per cent include a reference to sustainable development in their preamble (e.g. Islamic Republic of Iran–Slovakia BIT of 2016). Others provide for a definition of investment that includes a contribution to the sustainable development of the host country (e.g. Morocco–Nigeria BIT of 2016).

Two-thirds of the 58 IIAs that include SDG-related provisions envisage a public policy exception allowing the host economy to take measures to protect public policy objectives such as health and the environment (e.g. Canada–Mongolia BIT of 2016). About half stipulate that labour and environmental standards should not be relaxed to attract foreign investment (e.g. Colombia–United Arab Emirates BIT of 2017). Some contain specific provisions promoting the sustainable development compliance of foreign investors (e.g. European Union–Singapore FTA (2019)). In addition, several countries are reformulating their treaty models in line with UNCTAD's Reform Package for the IIA regime. However, looking at the IIA universe in its entirety (close to 3,300 IIAs), the overwhelming majority of treaties in force do not include provisions directly addressing sustainable development objectives.

## **3. Investment policy measures enacted since the adoption of the SDGs**

Where the previous subsection presented the overall policy framework as applicable to investment in the SDGs, this section shows trends in policymaking from the adoption of the 2030 Agenda for Sustainable Development on 25 September 2015 until the end of April 2020. According to UNCTAD's count, 55 countries have adopted policy measures that specifically apply to investment in 10 SDG sectors or activities. Most of these policy changes were implemented in developing countries (60 per cent), with developing Asia alone having adopted about 42 per cent of them. Approximately three-fourths of the 198 measures adopted aimed at liberalizing or promoting investment in one or several SDG sectors (78 liberalization measures, 73 investment promotion or facilitation policies). The greatest number of policy changes affected transportation (27), followed by innovation (25) and food and agriculture (24) (figure V.17, box V.14).

In quantitative terms, liberalization is predominant in transportation, food and agriculture, and telecommunication, while investment promotion or facilitation policies were adopted mostly in innovation, health, and food and agriculture.

Since the adoption of the SDGs, several countries have liberalized or promoted foreign investment in specific SDG sectors. For instance:

#### Power

- In August 2017, a new law on the gas market opened the shipment, transport and storage of natural gas to private investors in *Egypt*.
- In April 2019, *Uzbekistan* launched a privatization programme that specifies 64 public enterprises, including in power sectors.

#### Transportation

- In August 2018, *Cuba* allowed foreign operators to manage its railway systems.
- In September 2018, *Viet Nam* relaxed conditions on operations in inland waterway transportation, including operators as well as businesses engaged in construction and maintenance of inland water ships.

#### Telecommunication

- In June 2019, *Ethiopia* adopted the Communication Service Proclamation, specifying that telecommunication services are open without limitation to foreign and domestic private investors.
- In November 2017, *Qatar* provided special allowances for investors in the communication sector.

#### Water, sanitation and hygiene

- In July 2016, *Bahrain* allowed full foreign ownership in several sectors, including water supply.
- In January 2020, the Law on Strategic Investment was promulgated in *North Macedonia*, introducing a strategic investment category entitled to special and preferential treatment. This category is awarded only to investment in listed sectors, including water and waste management.

#### Food and agriculture

- In January 2016, the Law on Strategic Investment entered into force in *Albania*. It applies to investments in certain industries meeting defined minimum capital requirements, among them agriculture and fisheries. Covered investments benefit from e.g. facilitated administrative procedures, priority handling and access to public land.
- In April 2017, the *Lao People's Democratic Republic* promulgated a new Investment Promotion Law that provides for special incentives in promoted sectors, including clean and organic agriculture.

#### Climate change mitigation

- In October 2018, *Burkina Faso* adopted a new Investment Code that lowers the performance obligations for investors in green and renewable energy sectors.
- In July 2019, the *United Arab Emirates* liberalized its foreign investment regime by allowing full foreign ownership in 122 economic activities, including projects concentrating on renewable energy.

#### Health

- In July 2017, *Liberia* published a new list of sectors, including health services, qualifying for special tax incentives.
- In June 2018, the *United Republic of Tanzania* lowered the income tax rate for new investors in the pharmaceutical industry from 30 per cent to 20 per cent.

#### Education

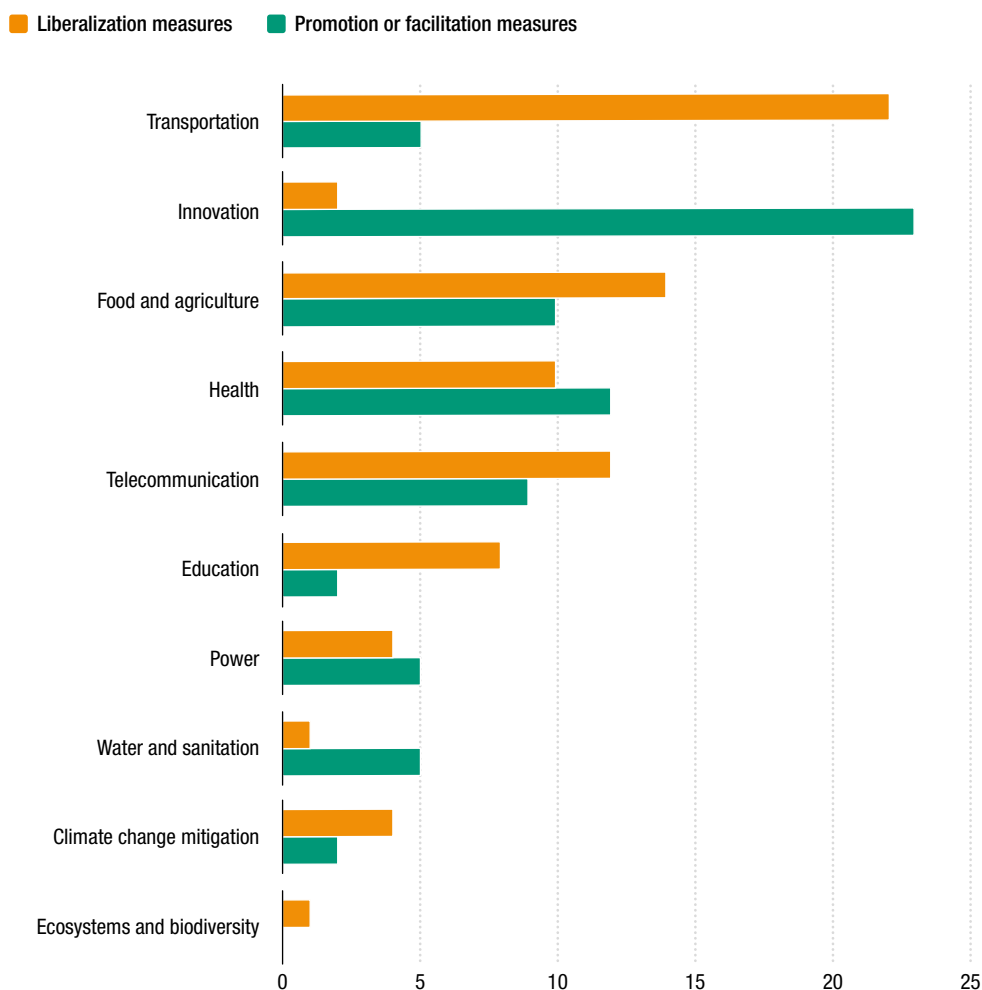
- In April 2018, *Myanmar* decided to allow foreign investors to fully own and operate private schools.
- In November 2018, the *Philippines* amended its negative list of restricted sectors by allowing 100 per cent foreign ownership e.g. in training centres and teaching at the higher education level.

#### Innovation

- In June 2019, *Argentina* enacted a regime for the Promotion of the Knowledge Economy. It envisages a reduced income tax and an exemption of income tax and value added tax in certain sectors, including computer and digital software, bioinformatics, neurotechnology, nanotechnology and nanoscience, space technologies and manufacturing of automation solutions.
- In December 2019, *Israel* launched the "Innovation Visas for foreign entrepreneurs" programme, which eases immigration rules for foreign start-up initiators and provides certain incentives.

Source: UNCTAD.

**Figure V.17.** Investment policy measures in SDG-related sectors, by type and total number (26 September 2015 – 30 April 2020)



Source: UNCTAD.

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Despite commitments to the SDGs by all countries at the highest level, not enough has been done so far to promote investment in SDG sectors. Although many countries have adopted sustainable development strategies and related national development plans emphasizing the need to attract more capital into SDG sectors and activities, comprehensive action plans on how to promote investment and how to maximize its impact on sustainable development are to a large extent absent. The UN is assisting developing countries in this regard through the INFF process.

Investment promotion schemes in most countries are not specifically targeted at attracting investment in SDG-relevant sectors. To the extent that incentives or other promotional measures that focus on specific SDG sectors are in place, they often leave out core SDG sectors, such as health, education, ecosystems and biodiversity, water and sanitation, and climate change adaptation. Recent years have also witnessed some investment liberalization measures in SDG sectors. The persistent and significant investment gap calls for more systematic efforts to mainstream the SDGs into the overall investment policy framework of countries and to embed SDG strategies into investment promotion schemes.

# E. THE WAY FORWARD

*A new set of global actions to facilitate a “Big Push” in private sector investment in the SDGs is urgently needed. The proposed set of actions serves as an implementation framework for the UN Secretary-General’s Strategy for Financing the 2030 Agenda for Sustainable Development and constitutes UNCTAD’s response to the call by the General Assembly for “concrete recommendations for the advancement of investment for the implementation of the 2030 Agenda” (Resolution on Promoting investments for sustainable development).*

## 1. A “Big Push”

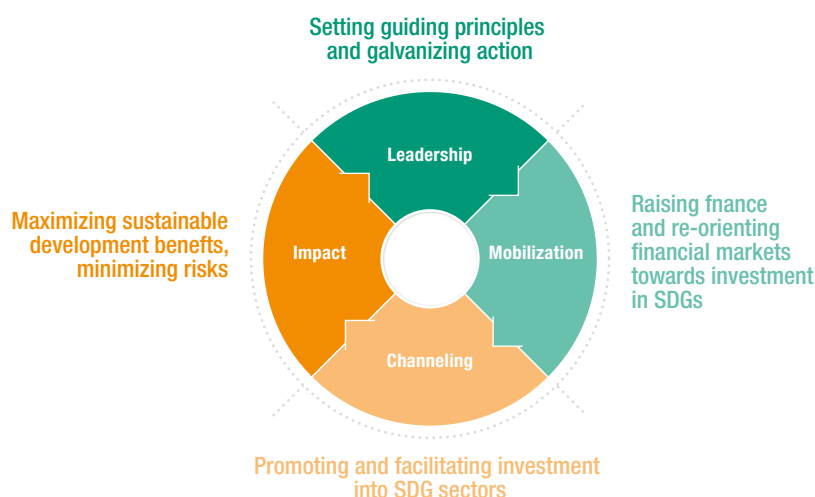
A new set of global actions to facilitate a “Big Push” in private sector investment in the SDGs is urgently needed. Current investment in SDG sectors, especially in developing countries, is too low (section A), sustainability financing largely bypasses developing countries (section B) and SDG-specific policies are not being rolled out fast enough (sections C and D). Furthermore, this situation has been compounded by the impact of the COVID-19 crisis, which risks subordinating progress on the SDGs to the priority of economic recovery. A Big Push for private investment in the SDGs can build on the six areas of transformative action proposed in UNCTAD’s Investment Policy Framework for Sustainable Development (IPFSD),<sup>26</sup> taking into account the progress made since then by UNCTAD and others.

This set of six policy action areas can serve as an implementation framework for the UN Secretary-General’s Strategy and Roadmap for Financing the 2030 Agenda for Sustainable Development. Together, these can make a decisive contribution to increasing financing for the SDGs, enhancing policies to support SDG impact, and tackling the channelling and impact challenges in developing countries.

## 2. A balanced approach

The holistic strategic framework of the IPFSD Action Plan, namely providing guidance, mobilizing funds, channelling them into SDG sectors and maximizing their impact, remains a valid point of departure (figure V.18). The four guiding principles for private sector investment in the SDGs proposed by the IPFSD, namely (a) balancing liberalization with regulation, (b) ensuring both attractive risk-return profiles and accessible and affordable goods and services, (c) aligning measures to attract private funds with the fundamental role of the State and (d) differentiating between the global scope of the SDGs and special efforts for LDCs and other vulnerable economies, must remain the overriding considerations in any policy agenda for boosting investment in the SDGs.

**Figure V.18. | Strategic framework for corporate investment in the SDGs**



Source: UNCTAD.

- *Balancing liberalization with regulation.* SDG sectors often, by their nature, provide public goods and frontline services; private sector involvement requires careful balancing of market access considerations with appropriate public regulations and oversight.
- *Balancing the need for attractive risk-return rates with the need for accessible and affordable services for all.* The risks undertaken by corporate actors and their expected returns need to be weighed against the requirement to ensure the accessibility and affordability of goods and services.
- *Balancing a push for private investment with public investment.* Private sector involvement is not a panacea for solving the SDG financing problem but can play an important role in complementing and supporting public sector engagement. Mobilizing private and public funding must go hand in hand.
- *Balancing the global scope of the SDGs with the need to make a special effort in LDCs and other vulnerable economies.* Although the SDGs provide a global framework, their attainment is particularly important in the most vulnerable economies. Their special situation therefore requires national and international measures tailored to their specific contexts.

### 3. A set of transformative actions

The Action Plan presents a range of policy tools to respond to the investment mobilization, channelling and impact challenges faced especially by developing countries, including (1) mainstreaming SDGs into the national investment policy framework and international investment treaty regime, (2) re-orienting national investment promotion and facilitation strategies towards SDGs investment, (3) establishing regional SDG Investment Compacts, (4) fostering new forms of partnerships for SDG investment with investment-development stakeholders, (5) deepening the integration of ESG in financial markets, and (6) changing the global business mindset.

Against this background, *WIR20* updates UNCTAD's set of six transformative actions for a "Big Push" in private sector investment in the SDGs (figure V.19). It includes policy tools that have been elaborated and put into practice by UNCTAD and others since the adoption of the SDGs, such as the Global Action Menu for Investment Facilitation, the IIA Reform Package, the Entrepreneurship Policy Framework, and the Accounting Development Tool.

**Figure V.19. | A big push for action: six policy packages**



Source: UNCTAD, based on IPFSD 2015.

It also takes into account several other UN initiatives aimed at engaging investors and capital markets, including stock exchanges, institutional investors, impact investors and family businesses, in the pursuit of the 2030 Agenda. This includes the work of the UN's Inter-agency Task Force on Financing for Development, and specifically its Financing for Sustainable Development Reports.<sup>27</sup> Lastly, the set of actions also reflects some of the relevant policy findings and recommendations of recent *World Investment Reports*.

Specifically, the new set includes these six transformative actions:

*1. Mainstreaming SDGs into the national investment policy framework and international investment treaty regime on the basis of UNCTAD's Guiding Principles*

At the national level, a coherent and comprehensive road map for attracting investment into SDG sectors and ensuring it contributes to sustainable development should be an integral part of national strategies and development plans based on the IPFSD. This includes reviewing, updating and possibly lifting investment restrictions in line with national security and other public concerns. At the international level, the SDGs should be a core objective when negotiating new IIAs and modernizing "old-generation" treaties, based on UNCTAD's IIA Reform Package<sup>28</sup> and the forthcoming IIA Accelerator.

*2. Reorienting national investment promotion and facilitation strategies towards SDGs investment*

New investment promotion and facilitation policies and the revision of existing ones should be guided by sustainable development priorities based on UNCTAD's Global Action Menu for Investment Facilitation.<sup>29</sup> Promotion policies should pay specific attention to those SDG sectors where individual countries see the biggest need for investment, and efficient monitoring systems should be in place to regularly assess the effectiveness of existing investment promotion schemes for sustainable development. National, bilateral, regional and international investment guarantees and insurance schemes should incorporate sustainable development priorities.

*3. Establishing regional SDG Investment Compacts through various regional integration schemes*

Regional SDG investment compacts should be further pursued, based on the IPFSD's core principles for investment policymaking, which have provided the foundation for the G20 Guiding Principles for Global Investment Policymaking,<sup>30</sup> the joint UNCTAD-ACP Guiding Principles for Investment Policymaking,<sup>31</sup> and the joint D8 Organization for Economic Cooperation-UNCTAD Guiding Principles for Investment Policymaking,<sup>32</sup> setting regional investment cooperation on an SDG-oriented path. Regional and South-South economic cooperation should pay special attention to regional industrial policies (*WIR18*) and regional SDG SEZs (*WIR19*).

*4. New forms of partnerships for SDG investment with investment-development stakeholders*

Bilateral, regional and multilateral investment promotion partnerships should emphasize the development of investment-ready and ESG-aligned financial products and investment projects in developing countries, including through online pools of bankable SDG projects. SDG projects should include SDG-oriented linkages programmes with local suppliers. Global initiatives such as the *Family Business for Sustainable Development Initiative* (FBSD) jointly developed by UNCTAD and The Family Business Network, should further mobilize firms to embed sustainability into their business strategies and serve as a model for galvanizing business uptake of support for the SDGs.<sup>33</sup>

#### 5. Deepening the integration of ESG in financial markets by establishing a global monitoring mechanism with a harmonized approach to disclosure

The deepening of ESG integration in financial markets should be boosted by the widespread adoption of the Guidelines for Corporate SDG Contribution Indicators,<sup>34</sup> and the Accounting Development Tool,<sup>35</sup> by further enlarging the UN's SSE Initiative,<sup>36</sup> and by establishing a global monitoring mechanism with a harmonized approach to disclosure, tasked with the development of sustainability assessment standards and reliable data to strengthen the credibility of sustainable financial products. Sustainability should be fully integrated along the entire investment chain and across public and private markets, and more sustainability-themed capital market products dedicated to the SDGs should be developed.

#### 6. Changing the global business mindset

The UN Secretary-General's Global Investors Initiative should be fully embraced by all MNEs and should accelerate its work on changing the global business mindset in line with the Secretary-General's strategy and road map for SDG financing. Training programmes for SDG investment should be developed and widely adopted by institutions of higher learning (e.g. fund management/financial market certification). Entrepreneurship training programmes based on UNCTAD's Entrepreneurship Policy Framework should be extended to reach vulnerable groups, such as migrants, women and youth.<sup>37</sup> Corporate reporting and benchmarking on gender and diversity should be improved.

The new and updated set of global actions for a "Big Push" in private sector investment in the SDGs can be operationalized through UNCTAD's and the UN's technical assistance and capacity-building tools (e.g. the INFFs, Investment Policy Reviews, business facilitation and entrepreneurship training). It is conceived as a "living document" that can be regularly updated and adapted in light of the General Assembly's annual guidance on the matter, as provided for in its resolution on "Promoting investment in sustainable development" (A/RES/74/199).

## 4. Recommendations to the General Assembly

This chapter responds to the request of the General Assembly resolution on "Promoting investment for sustainable development" to "inform the General Assembly at its seventy-fifth session of the implementation of the present resolution, based on their ongoing research, through a dedicated section of the *World Investment Report*, with a special focus on the gaps and challenges faced and the progress made in promoting investments for sustainable development" (paragraph 31).<sup>38</sup>

The chapter presented a global overview of SDG-related investment flow and policies trends. It did not assess the impact of those investments and investment policies. For this, efficient monitoring systems are needed to regularly assess the effectiveness of policies and promotion schemes for increasing investment in sustainable development, at both the national and the global levels. At the national level, policy impact evaluation is a core element of the UN's INFFs, and their operationalization at the country level should prioritize the establishment of instruments to monitor and evaluate results. At the global level, UNCTAD will continue its regular monitoring of global SDG investment trends and policies through its well-established mechanisms, e.g. the *Global SDG Investment Trends Monitor*, the *Global SDG Investment Policy Monitor* and the *World Investment Report*. UNCTAD will also continue to promote investment in the SDGs through global platforms such as the World Investment Forum (box V.15), in partnership with all key investment-development stakeholders.



The General Assembly resolution also calls for providing “concrete recommendations for the advancement of investment for the implementation of the 2030 Agenda” (Ibid.). The updated set of transformative actions proposed in this report is UNCTAD’s answer to this call.

In line with the General Assembly resolution, UNCTAD stands ready to support the “continuing consideration of these issues” (Ibid.) in the General Assembly and its biennial World Investment Forum (box V.15). This provides the high-level global platform for multi-stakeholder dialogues and actions on key and emerging investment-development challenges and opportunities, with a particular emphasis on SDGs. The outcomes of these deliberations can be shared with the General Assembly.

#### **Box V.15    The World Investment Forum**

Established in 2008, the UNCTAD World Investment Forum is a high-level, biennial, multi-stakeholder gathering designed to facilitate dialogue and action on the world’s key and emerging investment-development challenges. Bringing together all actors in the investment chain, including MNEs, family businesses and SMEs, and ranging from upstream actors such as stock exchanges, capital markets regulators, private equity funds and sovereign wealth funds to downstream actors such as IPAs, PPP units and project developers, it strives to fill a gap in the global economic governance architecture by establishing a global platform for engaging on investment-development issues and overcoming the SDG financing challenge.

With its sixth edition held in Geneva in November 2018, attended by more than 6,600 participants, including 11 Heads of State and government, 55 ministers, 45 leaders of international organizations and over 1,700 private sector senior executives, the Forum is now recognized by governments and business leaders as the most important investment-development event for the international community..

# NOTES

- <sup>1</sup> UNCTAD's estimate based on GSIA (2018).
- <sup>2</sup> SSE database.
- <sup>3</sup> The data were provided by Morningstar. The data do not include funds that employ limited exclusionary screens without a broader emphasis on ESG, nor do they include the growing number of funds that now formally consider ESG factors in a non-determinative way in their security selection.
- <sup>4</sup> China Social Investment Forum (2019), "China Sustainable Investment Review 2019", Beijing.
- <sup>5</sup> UNCTAD's calculation based on TrackInsight data as of March 2020.
- <sup>6</sup> According to the quarterly statistics of the European Fund and Asset Management Association, assets of regulated, open-ended fund assets worldwide were about \$58 trillion at the end of the fourth quarter of 2019.
- <sup>7</sup> "Chinese companies tap 'virus bonds' to raise billions quickly," Reuters, 13 February 2020.
- <sup>8</sup> IFC (2020), "Social bonds for COVID-19 illustrative case study", <https://www.ifc.org/wps/wcm/connect/3d1ccd21-ad12-4468-b03d-251cd6421bc5/SB-COVID-Case-Study-Final-30Mar2020-310320.pdf?MOD=AJPERES&CVID=n4RsBEk>.
- <sup>9</sup> ICMA (2020), "Q&A for social bonds related to Covid-19", <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Social-Bonds-Covid-QA310320.pdf>.
- <sup>10</sup> IPIECA (2017), "Mapping the oil and gas industry to the Sustainable Development Goals: An Atlas", Ethical Trading Initiative (2017), "Realise the potential of your ethical trade program".
- <sup>11</sup> Transparency International (2017), "No sustainable development with tackling corruption: the importance of tracking SDG 16".
- <sup>12</sup> OECD, "Responsible Business Conduct and the Sustainable Development Goals".
- <sup>13</sup> Forest Stewardship Council (2019), "FSC: A tool to implement the SDGs", Marine Stewardship Council, "The MSC and the United Nations Sustainable Development Goals".
- <sup>14</sup> International Organisation for Standardisation (2018), "ISO 26000 and the SDGs".
- <sup>15</sup> Global Reporting Initiative, "SDG Compass: Linking the SDGs and GRI", "Inventory of Business Indicators".
- <sup>16</sup> Global Reporting Initiative (2018), "Using corporate reporting to strengthen Sustainable Development Goals".
- <sup>17</sup> The number of firms from Africa is relatively small (56) and is overweighted by firms from South Africa listed in the Johannesburg Stock Exchange, which requires that listed companies report annually on ESG factors. The exchange is also a founding member of the integrated reporting committee of South Africa and provides listed companies with written guidance on ESG reporting.
- <sup>18</sup> UNCTAD (forthcoming), "ESG integration in public pension and sovereign wealth funds".
- <sup>19</sup> See, for example, Sustainable Stock Exchanges Initiative (2018), "How stock exchanges can advance gender equality". <https://sseinitiative.org/wp-content/uploads/2019/12/How-stock-exchanges-can-advance-gender-equality.pdf>.
- <sup>20</sup> UN DESA, compilation of executive summaries concerning voluntary national reviews during 2017-2019.
- <sup>21</sup> [https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal\\_en](https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en).
- <sup>22</sup> This includes a large number of fiscal incentives that are the subject of international reform efforts to combat tax avoidance by MNEs.
- <sup>23</sup> [https://unctad.org/en/PublicationsLibrary/diaepcb2018d4\\_en.pdf](https://unctad.org/en/PublicationsLibrary/diaepcb2018d4_en.pdf).
- <sup>24</sup> <https://www.iadb.org/en/projects/environmental-and-social-impact-assessments-eias>; <https://www.ebrd.com/work-with-us/project-financ/e/environmental-and-social-impact-assessments.html>; <http://documents.worldbank.org/curated/en/843201521089993123/Environmental-and-social-impact-assessments>.

- <sup>25</sup> Examples are the Republic of Korea, Lithuania, Poland, Portugal and Spain.
- <sup>26</sup> See <https://investmentpolicy.unctad.org/investment-policy-framework>.
- <sup>27</sup> See <https://developmentfinance.un.org/>.
- <sup>28</sup> See <https://investmentpolicy.unctad.org/publications/1190/unctad-s-reform-package-for-the-international-investment-regime-2018-edition->.
- <sup>29</sup> See <https://investmentpolicy.unctad.org/publications/148/unctad-global-action-menu-for-investment-facilitation>.
- <sup>30</sup> See <http://e15initiative.org/wp-content/uploads/2015/09/E15-Investment-Zhan-Final-1.pdf>.
- <sup>31</sup> See <http://www.acp.int/content/joint-acp-unctad-guiding-principles-investment-policy-making-approved>.
- <sup>32</sup> See <https://investmentpolicy.unctad.org/publications/1221/joint-d-8-organization-for-economic-cooperation---unctad-guiding-principles-for-investment-policy-making>.
- <sup>33</sup> See <https://fbsd.unctad.org/>.
- <sup>34</sup> See <https://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=2469>.
- <sup>35</sup> See <https://isar.unctad.org/accounting-development-tool/>.
- <sup>36</sup> See <https://sseinitiative.org/>.
- <sup>37</sup> See <https://unctad.org/en/Pages/DIAE/Entrepreneurship/Entrepreneurship-Policy-Framework-and-Implementation-Guidance.aspx>.
- <sup>38</sup> See <https://undocs.org/en/A/RES/74/199>.

