SDG INVESTMENT IS GROWING, BUT TOO SLOWLY
THE INVESTMENT GAP IS NOW $4 TRILLION, UP FROM $2.5 IN 2015

HIGHLIGHTS

- The number of international investment projects announced in developing countries in sectors relevant to the Sustainable Development Goals (SDGs) increased by 15% in 2022. However, the growth was unbalanced, with some SDG sectors showing only slow progress. It was also uneven, with negative trends in LDCs (-9%) and stagnation in many other developing countries. Preliminary data for 2023 H1 suggests that the number of projects in developing countries fell by 7% relative to 2022 H1.

- UNCTAD’s review at the midpoint of the 2030 agenda shows that the annual SDG investment gap in developing countries is now about $4 trillion. If the SDG investment needs to 2030 are to be met, some $30 trillion of additional investment must be found over the next eight years. More than half of the gap, or $2.2 trillion, relates to the energy transition alone.

- The current investment gap is 60% higher than the (already significant) gap of $2.5 trillion estimated by UNCTAD in 2014 on the eve of the adoption of the SDGs. The increase is the result of shortfalls in the years since 2015, combined with the effects of multiple global challenges, including the pandemic and the food, fuel and finance crises.

Figure 1. Midpoint review of the SDG investment gap

International investment projects in SDG sectors (greenfield and project finance deal numbers)

Note: This Monitor has been prepared ahead of the United Nations SDG Summit. Together with the coverage of SDG investment trends in UNCTAD’s annual World Investment Reports, it responds to the request of the United Nations General Assembly resolution on promoting investments in sustainable development (A/RES/75/L.15) for UNCTAD to monitor investment in the SDGs. UNCTAD will further convene stakeholders and partners working on SDG investment in the upcoming World Investment Forum https://worldinvestmentforum.unctad.org/
SDG investment up in 2022 but slow progress overall

The number of international investment projects announced in developing countries in sectors relevant to the Sustainable Development Goals (SDGs) increased by 15% in 2022. However, the growth was unbalanced, with some SDG sectors showing only slow progress. It was also highly uneven, with negative trends in LDCs (-9%) and stagnation in many other developing countries (table 1 and table 2).

<table>
<thead>
<tr>
<th>Table 1</th>
<th>SDG sectors: announced greenfield projects in developing economies, 2021–2023:H1 (Millions of dollars and per cent)</th>
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<tbody>
<tr>
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<td>Developing economies</td>
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<td>Food and agriculture</td>
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<td>Health</td>
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<td>Number of projects</td>
<td>190</td>
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</table>

Source: UNCTAD, based on the information from The Financial Times Ltd, ITM Markets (www.itmmarkets.com).
* Excluding renewable energy.
* Including information services activities.

Preliminary data for the first half of 2023 shows the number of projects fell by 7% compared with the half year average of 2022. The deteriorating financing conditions that marked 2022 continued in the first half of 2023 with a slowdown in high-value international project finance deals, normally the preferred financing option for large projects in infrastructure. The number of SDG-relevant international project finance deals declined by 34% in the first half of 2023 (-42% in value). In contrast, the number of SDG-relevant greenfield projects rose by 5% (20% in value).

International investment activity in SDG sectors in developing countries is still catching up after slow or negative growth in the early years after the adoption of the SDGs in 2015. The overall increase in investment since 2015, as measured by the number of greenfield projects and international project finance deals, is limited for most sectors; one sector (agrifood systems) even shows lower levels of investment activity in 2022 than in 2015. At the midpoint of the 2030 Agenda for Sustainable Development, the lack of progress in boosting international investment activity in SDG sectors is a major concern.
Table 2
SDG sectors: announced international project finance deals in developing economies, 2021–2023:H1
(Millions of dollars and per cent)

<table>
<thead>
<tr>
<th></th>
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<td>-42</td>
<td>51 189</td>
<td>15 828</td>
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<td>3</td>
<td>0</td>
<td>_</td>
<td>_</td>
</tr>
</tbody>
</table>

Source: UNCTAD, based on information from Refinitiv Eikon.

* Excluding renewable energy.

* Including information services activities.

In the first half of 2023, infrastructure (which comprises transport infrastructure, power generation and distribution and telecommunication) was the only SDG sector that saw an increase in projects numbers (+3%) and value (+4%). International investment project numbers fell in all other sectors: renewable energy (-15%), water, sanitation and hygiene (WASH) (-47%), agrifood systems (-11%) and health and education (-9%).

SDG investment in LDCs in the first half of 2023 continued its downward trend (-13%) since the pandemic (values rose significantly due to a single large greenfield project announced in March 2023 when an international consortium from the United Arab Emirates, Germany and Egypt signed an agreement with the Mauritania government for a $34 billion green hydrogen project). In 2022, LDCs received the smallest ever share of SDG-relevant investment projects within the overall developing countries group, dropping from 6.4 per cent in 2021 to 5.1 in 2022 (tables 1 and 2).
The annual SDG investment gap in developing countries is now $4 trillion; half in clean energy

UNCTAD’s meta-analysis of investment gap data from specialized agencies and research studies shows that the annual SDG investment gap for developing countries to 2030 is now about $4 trillion (figure 2). This estimate primarily refers to capital expenditure (or "capex").

Figure 2. Estimated annual investment gap in key SDG sectors, capital expenditure, developing countries (trillions of dollars)

![Image](image_url)

Source: UNCTAD elaboration based on various sources. Source listed by sector. Energy (IRENA, 2022; IEA, 2022; McKinsey & Co., 2022); Transportation (Rozenberg and Fay, 2019; Lefèvre et al., 2016; Global Infrastructure Hub, 2017; OECD, 2017); Telecommunication (Oughton et al., 2022; Global Infrastructure Hub, 2017; OECD, 2017); Water and sanitation (Strong et al., 2020; Hutton and Varughese, 2016); Food and Agriculture (FAO, IFAD and WFP, 2015; FAO, IFAD, UNICEF, WFP and WHO, 2022); Biodiversity (Deutz et al., 2020; UNEP, 2022; OECD, 2020); Health (Stenberg et al., 2017; Kurowski et al., 2021); Education (UNESCO, 2020). See (online) appendix 1 for further details.

Note: Figures are rounded at the first decimal ($100 billion). Investment refers to capital expenditure (capex). The range reflects the uncertainty about the size of the capex component in the total investment gap for two sectors (Health and Education) for which the operational expenditure (opex) component is substantial.

The aggregate gap figure at $4 trillion is obtained as the sum of the investment gaps derived for each SDG-sector individually. This study follows the taxonomy of SDG-sectors used in UNCTAD’s latest analyses of SDG investment trends (see for example UNCTAD, 2021a; and all recent WiReditions). This taxonomy has the advantage of building on categories that are mutually exclusive – to avoid overlap and double-counting – and collectively (nearly) exhaustive, i.e., together they cover the bulk of the capital investment needed to achieve the 17 Goals. Table 3 provides a summary overview of the scope of each SDG sector in the taxonomy.
For each SDG sector, the estimation of the investment gap is based on the most recent studies published by specialized agencies, institutions, and research entities in their respective areas of competence, using a meta-analytic approach (appendix 1).\(^1\)

While all SDG sectors are crucial to promote sustainable development, this analysis confirms the predominant importance of the Energy sector (WIR23). At $2.2 trillion, investment in energy makes up more than half of the total investment gap. This gap refers entirely to investment in “clean” energy – including renewables, energy efficiency and all other transition-related technologies and sources – covering not only SDG 7 (affordable and clean energy) but also SDG 13 (climate action). Climate action is also financed by investment in the other SDG-sectors, including most notably Water and Sanitation, Biodiversity and Food and Agriculture. However, investment in clean energy represents the lion’s share of climate financing (box 1).

With an estimated investment gap of half a trillion per year, the second most capital-thirsty SDG area is Water and Sanitation, addressing SDG 6 (“Clean water and sanitation”). It includes water sources (e.g., new water treatment plants, desalination plants), sanitation facilities, and waste-water management. Similar to Energy investments, Water and Sanitation is an area where the objectives to secure access (SDG 6) and to tackle climate change (SDG 17) are inextricably linked (Caretta et al., 2022). Combined, Energy and Water and Sanitation represent almost 70% of the total investment gap over the remaining years to 2030.

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1 The latest (2023) UNCTAD SDG Pulse focuses on SDG-costing (https://sdgpulse.unctad.org), providing estimates of the costs of achieving SDG transition pathways for selected SDG indicators. While sharing the objective to shed light on the financing requirements to achieve the SDGs, the SDG Investment Monitor and the SDG Pulse differ in the underlying scope and methodology. The Monitor aims at quantifying the investment gap to finance capital expenditures in all developing countries, while the SDG Pulse considers both operational and capital expenditures channelled by the government in selected countries. The estimates reported in this Monitor are estimates by SDG-sector, based on available studies in relevant areas. The cost estimates, first released in SDG Pulse for 21 developing economies, were calculated for SDG transition pathways based on official statistics on government expenditures and SDG indicators, and their coverage is currently being extended.
Investment in economic infrastructure (other than energy) mainly address SDG 9 “Industry, innovation and infrastructure”, including targets to “Develop sustainable, resilient and inclusive infrastructure” (9.1) and to secure “Universal access to information and communication technology” (9.8). The bulk of the financing need is in transportation and telecommunication infrastructure, for which the combined investment gap for developing countries amounts to $400 billion annually (approximately equally split between transportation and telecommunication).

Eliminating extreme poverty and hunger (SDG1 and SDG 2) will require an additional $300 billion per year in Food and Agriculture. Investment in Food and Agriculture is also highly instrumental to support SDG 13 on “Climate action”. It mainly involves capital investment in agricultural and agri-food systems, food processing, agricultural research and rural infrastructure.

The investment gap in Biodiversity is comparable in scale to that in Food and Agriculture, at about $300 billion. It covers mainly SDG 14 (“Life below water”) and SDG 15 (“Life on land”) but also SDG 13 on “Climate action”. Biodiversity encompasses a wide and heterogeneous range of investment needs in areas associated with environmental sustainability, including for example nature conservation, sustainable fishing practices, ocean pollution control and sustainable forestry.

Finally, progress in social infrastructure, notably in Health and Education, is a pre-requisite for effective sustainable development and a key enabler for the achievement of all SDGs. However, most of the financing needs in these areas are absorbed by operational costs (related for example to operating hospitals and schools), while the capital expenditure component is less substantial than for the other SDG-sectors. To reflect this specificity, a range is provided to reflect the uncertainty on the size of the capex component, resulting in a combined investment gap in Health and Education of between $100 billion and $600 billion.

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**Box 1. UNCTAD’s estimate of the SDG investment gap and SDG 13 on “Climate Action”**

Climate change is one of the greatest challenges for humanity. SDG 13 on “Climate Action” must be at the core of any SDG financing effort, across all sectors.

To reflect the pervasive nature of SDG 13, unlike in **WIR14**, the new UNCTAD estimate of the SDG investment gap does not separate climate-change investment from investment in the other SDG sectors. This approach is consistent with the work of other institutions (IEA, 2022; IRENA, 2022; UNEP, 2022; McKinsey, 2022) and it reduces risks of overlaps and double counting.

Investment in climate action can be classified into two main categories, investment in mitigation and investment in adaptation. Investment in mitigation is aimed at reducing greenhouse gas emission, while investment in adaptation focuses on moderating and managing the harmful impact of the climate crisis. From a capital expenditure perspective, investment in climate change mitigation is much more prominent than investment in adaptation. UNCTAD’s **WIR14** reports capital investment needs in climate change mitigation more than 5 times bigger than those for adaptation.

A more granular inspection of the main climate-related investment items (following the taxonomy in IPCC, 2022) allows an assessment of the overlap between the scope of SDG 13 and UNCTAD’s sectoral approach. More specifically, box table 1 reports the taxonomy of climate mitigation areas as framed by the IPCC with six main categories (first column), each with multiple areas of intervention (second column). For each category, the coverage in UNCTAD’s approach is reported based on the share of the number of areas included in the total number of areas (third column). The fourth column assigns a “weight” to UNCTAD’s coverage based on the IPCC estimate of the contribution of each area to the reduction of global emissions within the category. Overall, the UNCTAD estimates cover the bulk of the investment in climate mitigation. The same exercise for climate change adaptation – a much smaller component of climate investment – still shows an overall good coverage of UNCTAD’s estimate, however with some potential gaps in specific areas such as those related to migration and climate management and services.
### SDG Investment Trends Monitor

**Box table 1** UNCTAD coverage of investment in climate mitigation (SDG 13)

<table>
<thead>
<tr>
<th>Main categories</th>
<th>Areas of interventions</th>
<th>Number of areas included the estimate (share in total number of areas of intervention by category)</th>
<th>Contribution in reduction emissions of areas included in estimate (share in total reduction emissions of areas of interventions by category)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>Wind energy; Solar energy; Bioenergy; Hydropower; Geothermal energy; Nuclear power; Carbon capture and storage (CCS); Bioelectricity with CCS; Reduce emission from fossil fuels</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Agriculture, Forestry, and other Land Use</td>
<td>Carbon sequestration in agriculture; Reduce CH4 and N2O emission in agriculture; Reduced conversion of forest and other ecosystems; Ecosystem restoration, reforestation, afforestation; Improved sustainable forest management; Reduce food loss and food waste; Shift to balanced, sustainable healthy diets</td>
<td>80%</td>
<td>76%</td>
</tr>
<tr>
<td>Buildings</td>
<td>Avoid demand for energy services; Efficient lighting, appliances, and equipment; New buildings with high energy performance; Onsite renewable production and use; Improvement of existing building stock; Enhanced use of wood products</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Transport</td>
<td>Fuel-efficient light-duty vehicles; Electric light-duty vehicles; Shift to public transportation; Shift to bikes and e-bikes; fuel-efficient heavy-duty vehicles; Electric heavy-duty vehicles; incl. buses; Shipping - efficiency and optimization; Aviation - energy efficiency; Biofuels</td>
<td>70%</td>
<td>75%</td>
</tr>
<tr>
<td>Industry</td>
<td>Energy efficiency; Material efficiency; Enhanced recycling; Fuel switching (electricity, natural gas, bioenergy, H2); Feedstock decarbonization, process change; Carbon capture with utilization (CCU) and CCS; Cementitious material substitution; Reduction of non-CO2 emissions; Reduction of non-CO2 emissions</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Other</td>
<td>Reduce emission of fluorinated gas; Reduce emissions from solid waste; Reduce emissions from wastewater</td>
<td>33%</td>
<td>30%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>82%</strong></td>
<td><strong>80%</strong></td>
</tr>
</tbody>
</table>

Source: UNCTAD; IPCC (2022).

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**From $2.5 trillion at the start to $4 trillion at the midpoint of the 2030 Agenda**

When compared with the $2.5 trillion estimated in 2014 (WIR14), the aggregate annual gap in 2023 has increased by around 60% (figure 3). This increase is concentrated in the two SDG-sectors with the largest gap — Energy and Water and Sanitation — where the investment gap has grown by 100% and 70% respectively. Together these two sectors account for more than 85% of the $1.5 trillion increase in the investment gap. For the other SDG sectors, the aggregate funding gap has also increased, but more moderately.

The additional gap weighing on SDG financing is the result of two factors.

1. **Underinvestment**: Given the investment needed to achieve the SDGs, the pace of growth of SDG investment has been below the 2014 ambitions, with the Covid-19 pandemic playing a major role in slowing down progress. Looking at cross-border investment, a critical component of the SDG financing pool for developing countries, investment flows to SDG sectors were growing before the COVID-19 pandemic, although not at a sufficient rate. International SDG investment was then hit hard in the first year of the pandemic with double-digit declines across most sectors. A strong recovery in the last two years (2021 and 2022) is helping to bring SDG investment back on track, but only partially (UNCTAD, 2021; WIR various editions).

2. **Additional needs**: SDG investment needs have increased as a result of exogenous shocks, particularly the COVID-19 pandemic and food, fuel and finance crises. These economic shocks have hit developing countries and LDCs disproportionately. The climate change emergency is becoming more serious every year, with extreme weather events increasingly difficult to manage, especially for the most vulnerable populations exposed to acute food and water insecurity (WMO, 2022; IPCC, 2022).
The combined impact of investment shortages and exogeneous shocks is felt most in the countries in which SDG investment is most needed. Developing countries are more affected by systemic shocks because of financial constraints on public spending and difficulties in attracting international capital flows.

The relative contribution of (1) underinvestment and (2) additional needs to the $1.5 trillion additional gap accumulated since 2015 is difficult to assess based on available data. A simulation exercise by UNCTAD on the two most relevant SDG sectors from a financing perspective – Energy and Water and Sanitation, which account for more than 85% of the additional gap – suggests that both components are relevant, with underinvestment more prominent, accounting for about two thirds of the increase (figure 4).
Figure 4. Increase in investment gap in key SDG sectors, 2015 and 2023, developing countries (Per cent)

Source: UNCTAD.

Note: The additional investment generated in two sectors in the period 2015-2022 was calculated. The delta relative to the investment gap as of 2014 was attributed to “Underinvestment” expressed as a share of the investment gap in 2023. The remaining share was attributed to “Additional needs”.
Six action packages to accelerate investment towards the SDGs

To support the acceleration of SDG investment, UNCTAD has developed a comprehensive set of priority actions grouped in six areas (figure 5).

These include a concerted engagement by investment policymakers at national (package 1) and international levels (package 2), strengthened by focused partnerships for the SDGs (package 3), reinforced by regional and South-South cooperation (package 4), supported by innovative financing solutions and conducive financial markets (package 5), and geared towards resilience to future crises and shocks (package 6). These packages all represent key elements for the next big push of investment into the SDGs.

Figure 5. Six action packages and five guiding principles

G U I D I N G P R I N C I P L E S

1. Balancing liberalization and regulation
2. Balancing the need for attractive risk-return rates with the need for accessible and affordable utility services
3. Balancing the global scope of the SDGs with the need to make a special effort in LDCs
4. Balancing the push for private funds with the fundamental role of public investment
5. Balancing short-term emergency responses with long-term development goals


1. Re-orienting investment promotion strategies of host countries
2. Formulating a new generation of international investment treaties and guarantees
3. Establishing global partnerships for sustainable investment
4. Enhancing regional and South-South investment
5. Enabling innovative financing and re-orienting financial markets
6. Sustaining SDG investment in recurrent crisis

Source: UNCTAD.

Note: The action packages outlined in this issue of the SDG Investment Trends Monitor and elaborated below build on UNCTAD’s Investment Policy Framework for Sustainable Development, The Action Menu for Investment in the SDGs (various editions) and policy recommendations in recent issues of UNCTAD’s World Investment Report and other publications.

Each of the six packages contains a menu of priority actions to accelerate investment towards the SDGs (see figure 6 and online appendix 2 for further details). These actions draw on UNCTAD’s long-standing research and policy analysis and technical assistance activity at the forefront of investment in sustainable development (UNCTAD, 2015).
Figure 6. Priority actions to accelerate SDG investment

1. NATIONAL INVESTMENT POLICIES
   I. Review investment incentives: applicable to SDG-related projects; conditioned to SDG-related performance
   II. Mainstream SDG model zones
   III. Strengthen SDG impact of investment facilitation: targeting of SDG project pipelines; tracking and reporting on SDG project impact
   IV. Leverage digital tools to facilitate SDG-related investment

2. INTERNATIONAL INVESTMENT POLICIES
   I. Safeguard policy space for sustainable development: policy making
   II. Prohibit lowering of environmental and social standards as a means of competing for investment
   III. Mainstream SDGs as a core treaty objective
   IV. Facilitate SDG investment through guarantees and loans: conditional to SDG objectives and/or performance

3. GLOBAL PARTNERSHIPS
   I. Promote Global Alliances for Sustainable Investment: Promotion among relevant stakeholders (e.g. Global Alliance of SEZs)
   II. Set up a global One-stop-shop for Sustainable Investment Solutions: pooling knowledge resources on a single platform
   III. Share global online pools of bankable SDG projects, with built-in devices for access to finance and export mentoring
   IV. Promote MNEs-NGOs-IFC-IPAs partnership for national flagship investment projects with MSMEs linkage programs

4. REGIONAL AND SOUTH-SOUTH COOPERATION
   I. Support regional and sub-regional industrial clusters
   II. Support regional value chains, with particular focus on strategic and SDG-relevant sectors
   III. Leverage regional cooperation in cross-border SDG infrastructure development
   IV. Gear regional trade, investment, and industrial collaboration agreements towards SDG investment

5. FINANCING TOOLS AND FINANCIAL MARKETS
   I. Pool financing across types of investors: private and public (PPP), foreign and domestic, traditional and institutional investors
   II. Design blended financing instruments, particularly for lowest income, most vulnerable, and conflict-affected countries
   III. Leverage digital financing for the SDGs, with focus on digital financial inclusion for more vulnerable categories
   IV. Re-orient capital markets to SDGs: UN Sustainable Stock Exchanges Initiative; sustainability reporting initiatives

6. SDG INVESTMENT IN RECURRENT CRISSES
   I. Prioritize SDG financing towards more impactful and better targeted interventions
   II. Include investment in (national, regional, and global) resilience and preparedness as part of the overall SDG financing strategy
   III. Assess the opportunities and risks for SDG financing related to investment relocation and BVC restructuring
   IV. Factor future crises and uncertainties into SDG investment promotion and facilitation strategies, as well as investment guarantee systems

Source: UNCTAD. See (online) appendix 2 for further details.

Note: The action packages outlined in this issue of the SDG Investment Trends Monitor and elaborated below build on UNCTAD’s Investment Policy Framework for Sustainable Development. The Action Menu for Investment in the SDGs (various editions) and policy recommendations in recent issues of UNCTAD’s World Investment Report and other publications.
REFERENCES (including appendices)


Sustainable Stock Exchanges (SSE) Initiative (2019). 10 Years of Impact and Progress. UNCTAD, UN Global Compact, UNEP FI and PRI.


