Statement by Pedro Manuel Moreno, Deputy Secretary-General of UNCTAD

World Investment Forum 2023: Sovereign and public investors dialogue

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Leveraging institutional investment for the energy transition

Distinguished delegates,

Ladies and gentlemen,

The energy transition is now a top priority across the world – for governments, businesses and communities. Just last week when I attended the Multinationals Summit in Qingdao, China, the energy transition and sustainability concerns were the focus of many discussions of top investors and officials.

Meeting the Paris Agreement goal of limiting global warming to 1.5°C above pre-industrial levels, will require colossal investment.

The problem is that we are far from mobilizing what is needed.

Similarly for the Sustainable Development Goals, the investment gap in developing countries is deep and has widened from $2.5 trillion per year at the eve of the adoption of the SDGs in 2015, to more than $4 trillion per year today. For the energy transition alone, the funding gap is around $2.2 trillion per year.

Investing in sustainable development requires a big push and a commitment of all players along the investment chain.

Sovereign wealth and public pension funds can play an important role in achieving the SDGs and sustainable energy for all.

With over $60 trillion of assets under management, they can contribute through two main channels: Reorienting their asset allocations towards sustainable development and using their active ownership to influence policies of companies they invest in through corporate governance mechanisms.

Many of these investors have already made significant efforts.

According to our research, among the world's 100 largest sovereign wealth and public pension funds that report on sustainable investment performance, 75 per cent have developed strategies or action plans to address climate change and CO2 emissions. And over two thirds have committed to achieving net-zero emissions by 2050, in alignment with the Paris Agreement.

As part of these endeavours, sovereign wealth and public pension funds have doubled their investment in renewable energy in the last five years.

In 2022, such investment reached almost $19 billion. At the same time, their investments in oil and gas projects more than halved from a peak of $16 billion in 2018 to less than $7 billion in 2022. We are investing in the right direction.

Yet, these investments remain small compared to the overall assets under their management. And our concern is that these investments have largely bypassed developing economies, in particular the least developed countries, despite substantial demand and potential. A lack of bankable projects, supportive policies, and perceived high risks are often cited as barriers for investing in these markets. And in some cases, investors face fiduciary constraints that prevent them from investing there.

The concerns are legitimate. But sustainability cannot be an afterthought.

Sustainability considerations should be incorporated in the investment decisions and mandates of sovereign and public investors. This will foster capitalization of investment opportunities associated with developing country markets and sectors relevant to the achievement of the SDGs. And in so doing, we will also reduce the risks associated with an unsustainable world.

And there are opportunities to do better.

Sovereign and public investors could do more in terms of integrating sustainability in their work.

First, it is important that more investors report on sustainability. Among the world's 100 largest public pension funds and sovereign wealth funds, about half do not report on sustainability.

And second, the scope should be broadened. Sustainability should be systematically integrated in all aspects of their operations, not only in investment allocation, but also in governance, risk management, and measurement and reporting.

Another challenge to tackle is the lack of widely accepted and comprehensive frameworks and guidelines on sustainability integration for institutional investors. This is also closely related to the lack of consistent regulatory requirements at the national level.

To better support institutional investors, UNCTAD and the UNEP Finance Initiative propose a framework for sustainability integration. In line with high-level principles on sustainability integration, such as the Principles for Responsible Investment and the Santiago Principles, the framework proposes guidelines and concrete actions in key areas. James Zhan, the Director of the Investment and Enterprise Division, will later introduce the key elements of that framework.

There is much that can be done and achieved. Today, we have a full house of sovereign and public investors from both developed and developing economies. And I look forward to hearing your perspectives on how to better leverage institutional investment to accelerate the energy transition and build a more sustainable world.

This is much needed for all.

I thank you for your attention.