

# KEY MESSAGES

## GLOBAL FDI RETREATS, BUT NEW PROJECT ANNOUNCEMENTS SHOW BRIGHT SPOTS

Global foreign direct investment (FDI) declined by 12 per cent in 2022, to \$1.3 trillion. The decline was mainly a result of lower volumes of financial flows and transactions in developed countries. Real investment trends were more positive, with growth in new investment project announcements in most regions and sectors. FDI in developing countries increased marginally, although growth was concentrated in a few large emerging economies. Inflows in many smaller developing countries were stagnant, and FDI to the least developed countries (LDCs) declined.

Industry trends showed increasing project numbers in infrastructure and industries that face supply chain restructuring pressures, including electronics, automotive and machinery. Three of the five largest investment projects were announced in semiconductors, in response to global chip shortages. Investment in digital economy sectors slowed after the boom in 2020 and 2021.

Investment project numbers in energy remained stable, allaying, for now, fears of a reversal of the downward trend in fossil fuel investment due to the energy crisis. Oil majors are gradually selling fossil fuel assets to private equity firms and smaller operators with lower disclosure requirements, calling for new dealmaking models to ensure responsible asset management.

## THE SDG INVESTMENT GAP WIDENS DESPITE THE GROWTH OF SUSTAINABLE FINANCE

International investment in sectors relevant for the Sustainable Development Goals (SDGs) in developing countries increased in 2022. Infrastructure, energy, water and sanitation, agrifood systems, health and education all saw increased project numbers. However, compared to 2015 when the SDGs were adopted, progress is modest.

A review of investment needs at the midpoint of the 2030 Agenda for Sustainable Development shows that the investment gap across all SDG sectors has increased from \$2.5 trillion in 2015 to more than \$4 trillion per year today. The largest gaps are in energy, water, and transport infrastructure. The increase is the result of both underinvestment and additional needs.

The growing SDG investment gap in developing countries contrasts with positive sustainability trends in global capital markets. The value of the sustainable finance market reached \$5.8 trillion in 2022. Sustainable funds had positive net inflows while traditional funds experienced net outflows. Sustainable bond issuance also continues; it has grown five-fold over the past five years. Key priorities for the market are increasing exposure to developing countries and addressing greenwashing concerns.

## DEVELOPING COUNTRIES NEED VASTLY MORE SUPPORT TO ATTRACT ENERGY INVESTMENT

International investment in renewable energy has nearly tripled since the adoption of the Paris Agreement in 2015. However, much of this growth has been concentrated in developed countries. More than 30 developing countries have not yet registered a single utility-sized international investment project in renewables. The cost of capital is a key barrier for energy investment in developing countries. Bringing in international investors in partnership with the public sector and multilateral financial institutions significantly reduces the cost of capital.

Most developing countries have set targets for the energy transition in nationally determined contributions. Only about one third have translated those targets into investment requirements, and few have developed the asset specifications that are needed to design targeted promotion mechanisms and to market bankable projects. As a result, many developing countries use generic fiscal and financial incentive mechanisms that are less effective for the promotion of energy transition investment.

De-risking support to lower the cost of capital for energy transition investment in developing countries must be vastly expanded. More technical assistance should be available for investment planning and project preparation. International investment agreements need accelerated reform to expand policy space for climate action and to strengthen investment promotion and facilitation provisions. This report puts forward an Action Compact for Investment in Sustainable Energy for All with recommendations for national and international investment policies, global and regional partnerships, financing mechanisms and capital market involvement.

# EXECUTIVE SUMMARY

## INTERNATIONAL INVESTMENT TRENDS

After a steep drop in 2020 and a strong rebound in 2021, global foreign direct investment (FDI) declined by 12 per cent in 2022, to \$1.3 trillion. The slowdown was driven by the global polycrisis: the war in Ukraine, high food and energy prices, and debt pressures. International project finance and cross-border mergers and acquisitions (M&As) were especially affected by tighter financing conditions, rising interest rates and uncertainty in capital markets.

The global environment for international business and cross-border investment remains challenging in 2023. Although the economic headwinds shaping investment trends in 2022 have somewhat subsided, they have not disappeared. Geopolitical tensions are still high. Recent financial sector turmoil has added to investor uncertainty. UNCTAD expects downward pressure on global FDI to continue in 2023. Early indicators for Q1 2023 show weak trends in international project finance and M&As.

Greenfield investment trends provide a positive counterweight. The number of project announcements was up 15 per cent in 2022, and Q1 2023 data also shows resilience. Trends in international investment in real productive assets are therefore more positive than the headline FDI data suggests.

The 2022 decline in FDI flows was driven mostly by financial transactions of multinational enterprises (MNEs) in developed economies, where FDI fell by 37 per cent to \$378 billion. The number of actual greenfield and project finance announcements increased by 5 per cent.

In developing countries, FDI increased by 4 per cent to \$916 billion, or more than 70 per cent of global flows, a record share. The number of greenfield investment projects announced in developing countries increased by 37 per cent, and international project finance deals by 5 per cent. This is a positive sign for investment prospects in industry and in infrastructure.

The FDI increase in developing countries was unevenly shared. Much of the growth was concentrated in a few large emerging economies.

- FDI in *Africa* fell back to the 2019 level of \$45 billion after anomalously high levels in 2021 caused by a single financial transaction. Greenfield project announcements increased by 39 per cent, and international project finance deals by 15 per cent. The energy sector, both extractives and energy generation, saw the biggest increase.
- FDI inflows in *developing Asia* were flat at \$662 billion but still accounted for more than half of global FDI. India and ASEAN were the most buoyant recipients, with increases of 10 and 5 per cent, respectively, and strong growth in project announcements. China, the second largest FDI host country in the world, saw a 5 per cent increase. FDI in the Gulf region declined, but the number of project announcements increased by two thirds.
- Flows to *Latin America and the Caribbean* increased by 51 per cent, reaching \$208 billion, the highest level ever recorded. High commodity prices pushed up reinvested earnings of foreign affiliates in extractive industries. Project growth across the region was more modest, with 14 per cent more greenfield announcements and a decline in international project finance deals.



of global FDI goes to developing countries

- FDI flows to the *structurally weak and vulnerable economies* declined. Despite the increase in developing countries overall, FDI in the 46 least developed countries (LDCs) fell by 16 per cent to \$22 billion – less than 2 per cent of global FDI. Greenfield project announcements to LDCs recovered some ground after the 2020–2021 decline, but they remained well below their 10-year average. Landlocked developing countries (LLDCs) and small island developing States (SIDS) saw small increases in FDI.

*Industry trends showed increasing project numbers in infrastructure and global value chain (GVC)-intensive industries, stable numbers in energy and a slowdown in digital economy sectors.* GVC-intensive industries that face supply-chain restructuring pressures, including electronics, automotive and machinery, saw project numbers and values grow. Three of the five largest announced investment projects were in semiconductors, in response to global chip shortages.

*The degree of internationalization – the ratio of foreign over total assets, sales and employment – of the largest MNEs remained stable overall.* The trend documented in successive WIRs of overseas sales growing at a faster pace than assets and employment continued in 2022. Whereas in previous years this was driven by asset-light MNEs in the digital economy, in 2022 it was caused by high energy prices, which boosted revenues of companies in oil and gas, commodity trading and utilities. Overseas sales of the top 100 MNEs increased by more than 10 per cent, while the value of their overseas assets declined marginally.

*International investment in sectors relevant for the Sustainable Development Goals (SDGs) in developing countries increased in 2022.* Infrastructure, energy, water and sanitation, agrifood systems, health and education all saw higher project numbers. Yet the increase since 2015, when the SDGs were adopted, is relatively modest, due to weak growth in the early years and the sharp decline in investment during the pandemic. Investment activity in agrifood systems is even below the 2015 level.



A review of investment needs at the midpoint of the 2030 Agenda for Sustainable Development shows that the investment gap across all SDG sectors has increased from \$2.5 trillion – estimated in WIR2014, on the eve of the adoption of the SDGs – to more than \$4 trillion per year today. The largest gaps are in energy, water and transport infrastructure. The increase is the result of both underinvestment and additional needs.

*The growth of investment in renewable energy slowed down in 2022.* Greenfield investment announcements doubled but international project finance deals, which are usually larger, declined. Although total international investment in renewables has nearly tripled since 2015, in developing countries the growth rate has exceeded growth in gross domestic product (GDP) only marginally. In LDCs, the growth of renewables investment has substantially lagged GDP growth.

*International investment in the renewable energy supply chain is growing.* The number of new projects announced in critical minerals in 2021 and 2022 was more than double the average level of the last decade. Investment projects in solar and wind component manufacturing are also increasing, although from a low level. In 2022, the value of announced projects in battery manufacturing tripled, to more than \$100 billion. Most projects are in the United States and in European manufacturing hubs, but a few developing countries attracted sizeable investments.

*Energy companies in the ranking of the top 100 MNEs are divesting fossil fuel assets at a rate of about \$15 billion per year.* Buyers include mostly private equity funds, smaller operators within the sector and commodity traders. A key concern is that such private (non-listed) buyers often have lower or no emission-reduction goals and weaker climate reporting standards. This calls for a new model of climate-aligned dealmaking.

## INVESTMENT POLICY DEVELOPMENTS

*Investment policymaking activity surged in 2022, as many countries adopted measures to counter an expected economic downturn.* The number of measures favourable to investment reached 102, nearly doubling from the previous year and regaining their pre-pandemic share of total measures.

*The trend towards increased screening of FDI continued.* The number of countries conducting investment screening on national security grounds increased to 37. The introduction or tightening of national security regulations affecting FDI represented almost half of the policy measures less favourable to investment. Most of these measures were introduced by developed countries. In total, countries with FDI screening regimes accounted for 68 per cent of FDI stock in 2022. The number of M&A deals withdrawn because of regulatory or political concerns increased by a third.

*Investment facilitation measures featured prominently in both developed and developing countries.* Most measures adopted by developing countries focused on facilitation and the opening of new sectors or activities to FDI. For the first time since the pandemic, the number of measures favourable to investment also increased significantly in developed countries. Measures included investment facilitation initiatives and the introduction of incentives to promote renewable energy and other climate-related investments.

*Countries at different levels of development adopt different policy measures to promote renewable energy investment.* Developing countries, including LDCs, often use tax incentives that do not require initial expenditures of scarce public funds, whereas developed economies favour financial incentives as well as more sophisticated instruments such as feed-in tariffs. The use of auctions and tenders for renewable energy projects as common instruments to attract renewable energy investment has gained momentum across all country groups.

*Fossil fuel subsidies around the world amounted to \$1 trillion in 2022 – a record level, and eight times the value of subsidies provided to renewable energy.* Fossil fuel subsidies represent a disincentive to investment in the energy transition because they make it more challenging for renewable energy to compete, especially when it does not receive the same level of support. Although phasing them out is complex, particularly for developing countries, doing so would help encourage investment in renewable energy.

*The reform of the international investment agreement (IIA) regime continued in 2022.* Developments included the emergence of new types of investment-related agreements, the termination of bilateral investment treaties (BITs) and ongoing multilateral discussions on the reform of investor–State dispute settlement (ISDS) mechanisms. Negotiations were concluded on several international investment governance instruments with proactive investment facilitation features and an increased focus on sustainable investment.

*For the third consecutive year, the number of treaty terminations exceeded that of new IIAs.* In 2022, countries concluded 15 new IIAs and effectively terminated 58 IIAs. This brought the IIA universe to 3,265 treaties, of which 2,584 are in force. The network of IIAs is dominated by old-generation IIAs. They are characterized by overlapping commitments and inconsistencies with the global sustainability imperative. These entail risks for climate action and the energy transition and adds to the urgency of IIA reform.

*About 80 per cent of investor–State dispute cases in 2022 were brought under IIAs signed in the 1990s or earlier.* In 2022 claimants filed 46 new ISDS cases under IIAs, including 10 cases under the Energy Charter Treaty (ECT). To date, 132 countries and one economic grouping are known to have been respondents to one or more ISDS claims. The total count of known ISDS cases reached 1,257 in 2022.



## CAPITAL MARKETS AND SUSTAINABLE FINANCE

*Sustainability-themed investments remain resilient amid volatile capital markets.* The value of the overall sustainable finance market (bonds, funds and voluntary carbon markets) reached \$5.8 trillion in 2022, despite the turbulent economic environment, including high inflation, rising interest rates, poor market returns and the looming risk of a recession, which all affected financial markets.

*Sustainable funds continued to be more attractive to investors than traditional funds.* Despite a decline in the market value of the global sustainable fund market from its high of \$2.7 trillion in 2021 to \$2.5 trillion in 2022, net inflows to the market were positive, in contrast to traditional funds, which experienced net outflows.

*Sustainable funds make a significant contribution to the SDGs.* As of the end of 2022, more than half a trillion dollars, or 30 per cent of the holdings of UNCTAD-monitored funds, were committed to eight SDG-relevant sectors, up from 26 per cent in 2021. Health, renewable energy, agrifood systems, and water and sanitation remain the largest recipients of funding, accounting for 95 per cent of the assets committed to SDG sectors.

*Sustainable funds outperform their conventional peers on environmental, social and governance (ESG) criteria, but greenwashing persists.* The average ESG rating of more than 2,800 sustainable funds monitored by UNCTAD is significantly better than that of the benchmark MSCI global equity index. Nevertheless, at least a quarter of funds fail to live up to their sustainability credentials.

*The sustainable bond market continues to grow, although the issuance of new bonds declined by 11 per cent in 2022.* The outstanding, cumulative value of the sustainable bond market increased from \$2.5 trillion in 2021 to \$3.3 trillion in 2022. Annual issuance of sustainability-themed bonds has grown fivefold in the past five years. Green bond issuance remained relatively resilient in 2022, decreasing by just 3 per cent.

*The nascent voluntary carbon market holds great potential for the funding of sustainable investment in developing countries.* In contrast to most compliance carbon markets, they can channel investment capital across borders to finance emissions reduction or avoidance projects. The record prices for a ton of CO<sub>2</sub> equivalent in 2022 also raise hopes that more realistic emissions costs can help accelerate the energy transition.

*Institutional investors continue to make progress on sustainability performance and to finance investment in renewable energy.* In 2022, the top 100 sovereign wealth and public pension funds monitored by UNCTAD improved their disclosure of climate actions, including investment in sustainable energy and divestment from fossil fuels. Two thirds of reporting funds have now committed to achieving net zero in their investment portfolios by 2050. However, nearly half of the investors in UNCTAD's top 100 still fail to disclose or report on sustainability-related risks and are not moving quickly enough to reorient their portfolios.

*Stock exchanges continue to expand support for sustainable finance, with increases in the number of exchanges with written ESG disclosure guidance, mandatory ESG reporting, ESG training, and related bond and equity offerings.* In 2022, training on ESG topics became the most common sustainability activity of exchanges, fueled in part by the activities of the UN's Sustainable Stock Exchanges (SSE) initiative, which works with development partners and exchanges to train market participants. The SSE Academy was created in response to growing demand from stock exchanges for education and training on ESG disclosure standards and regulatory developments.

*Gender equality in corporate leadership makes modest gains in 2022.* Women hold 23 per cent of the board seats of listed companies on 22 major G20 stock exchanges. In seven G20 markets, policymakers have created mandatory rules regulating the minimum number of women required on boards of listed companies.

*Policy and regulatory developments show the importance that countries attach to the sustainable finance market and its role in achieving net zero.* In 2022, 22 of the 35 economies tracked by UNCTAD, which represent over 90 per cent of global GDP, introduced at least 50 measures dedicated to sustainable finance, including a number of measures adopted by the European Union at the regional level. Progress was made in taxonomy development, sustainability disclosure, sector- and product-specific measures, and carbon pricing, in both developed and developing economies.

*The European Union, China and the United States maintained their momentum in sustainable finance policymaking, with continued progress on disclosure requirements and standards-setting.* Broadly, the European Union has predominantly adopted a regulatory approach, prioritizing the establishment of a comprehensive framework for sustainable finance. China and the United States have so far pursued a hybrid approach, attaching importance to both regulation and the integration of climate and sustainable development dimensions in industrial policies. In 2022, the United States introduced the Inflation Reduction Act, with a focus on promoting green investment.

*Securities regulators and international standards-setting bodies made further progress in codifying sustainability reporting.* The International Sustainability Standards Board, with its forthcoming global sustainability standards on ESG and climate, aims to address the need for consistent, comparable and reliable standards for sustainability disclosure. Together with the standards of the Global Reporting Initiative, they form a comprehensive corporate reporting system for the disclosure of sustainability information.

*Despite its resilience and growth, the sustainable finance market continues to face a myriad of challenges.* It will need consistent and concerted global efforts to address those challenges in the years ahead.



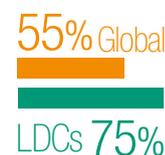
## INVESTMENT IN SUSTAINABLE ENERGY FOR ALL

The investment needs associated with the energy transition are enormous. *To stay close to the goal of limiting global warming to 1.5°C, the world needs about 1.5 times today's global GDP in investment between now and 2050.*

Investment needs are much higher in developing than in developed economies, relative to their existing asset bases. In developing countries, energy investment is needed not only for the transition, but also to ensure access to sustainable and affordable energy for all. *Installed capacity in renewable energy needs to increase by a factor of 2.5 in the most advanced economies, but by a factor closer to 25 in LDCs.*

*International investment in the renewable energy sector has nearly tripled since the adoption of the SDGs and the Paris Agreement in 2015.* However, this growth has been unbalanced, with much of it concentrated in developed countries. Also, while investment in renewables has grown, other sectors relevant for the transition, notably energy infrastructure, still see much lower involvement by international investors.

*Placing international investment in the context of total energy transition investment confirms that FDI plays a significant role.* In the renewable energy sector, international project finance accounts for 55 per cent of total project finance values. This share increases for developing countries, exceeding 75 per cent in LDCs.



31 developing countries with  
**zero**  
 international renewables projects  
 since 2015 

For the poorest countries, therefore, attracting international investment is a crucial prerequisite for a timely energy transition. This is a concern, because many of these countries continue to struggle to attract significant amounts of FDI beyond the extractives sector. *To date, 31 developing countries, including 11 LDCs, have not yet registered a single utility-sized international investment project in renewables or other energy transition sectors.*

Most of the drivers and determinants of energy investment decisions affect domestic and international investors equally, but a few are more important or more binding for international investors, explaining the role of FDI and the specific contributions it can make. *Critically, international investors can often access cheaper finance, lowering the cost of capital for projects.*

The cost of capital is a key determinant for energy transition investment, because of the high upfront investment cost of renewable energy installations. *The high cost of capital in developing countries, and especially countries in debt distress, constitutes a significant economic disincentive for the energy transition.*

The cost of capital in project finance varies depending on the stakeholders involved. In developing countries, on average, bringing in international investors lowers the spread on debt finance by 8 per cent; adding in multilateral development banks (MDBs) lowers it by 10 per cent. Combining international, MDB and government stakes in public-private partnerships reduces the spread by 40 per cent. *This shows the importance of promoting such partnerships and lends support to the shift in MDB lending priorities towards sustainable energy and infrastructure assets.*

Following the Paris Agreement, all countries formulate energy transition targets and strategies in nationally determined contributions (NDCs). Not all of them show the same level of detailed investment planning. *Of 147 NDCs submitted by developing countries, 48 provide information on investment requirements and 40 discuss prospective sources of investment.*

Detailed planning for energy transition investment entails translating targets for emission reductions into a transition path for the energy mix, implied asset requirements and infrastructure gaps, and assessments of energy demand, potential and locations, among other efforts. *Such planning details are crucial to provide investors with greater certainty on investment opportunities and to allow the construction and marketing of bankable projects.*

In developing countries, the policy measures adopted for the promotion of investment in the energy sector are often generic (mostly tax) incentives. More effective mechanisms to market renewable energy projects such as feed-in tariffs, quota-based instruments, electricity price guarantees and auctions depend on adequate demand projections, asset planning and regulatory preparation. *Jumping from high-level NDC target setting straight to investment policy measures thus precludes the use of the most effective tools for promoting energy transition investment.*

IAs, and especially old-generation ones, can hinder the implementation of policy measures needed for the transition. They also lack provisions that proactively support low-carbon energy investments. *UNCTAD proposes a reform toolbox with policy options in four areas: the promotion and facilitation of sustainable energy investment, technology transfer, the right to regulate for climate action and the energy transition, and corporate social responsibility.*

Global capital markets are the ultimate source for much of the investment needed for the energy transition. The growth rate of climate finance in those markets has slowed, and current financing levels remain inadequate. Moreover, the market for sustainable financial

147 developing countries with NDCs  
  
 only 40 specify finance sources & investment needs in energy transition investment plans

  
**IIA toolbox**  
 for sustainable energy investment

products needs continued surveillance to prevent greenwashing. *UNCTAD will continue to monitor the sustainable and climate finance market, including through its coordination of the UN Global Sustainable Finance Observatory and the UN SSE initiative.*

Although public markets and reporting standards play key roles in driving sustainability performance, there are growing concerns that companies may opt to stay in the private market to avoid disclosure obligations. *Policy actions are necessary to enhance transparency and disclosure requirements in the private market.* This becomes more urgent as fossil fuel assets are gradually offloaded by public energy companies to private equity firms and smaller unlisted operators.

Institutional investors, pension funds and sovereign wealth funds are ideally placed to help finance sustainable energy. However, they often lack access to investment opportunities in developing countries as they are prevented from investing in non-investment-grade projects. *Policy action is needed to transform non-fiduciary investment opportunities in developing economies into fiduciary investment assets through international support for de-risking activities.*

*This report proposes a Global Action Compact for Investment in Sustainable Energy for All.* It contains a set of guiding principles that considers all three objectives of the energy transition – meeting climate goals, providing affordable energy for all and ensuring energy security – and puts forward six action packages covering national and international investment policymaking; global, regional and South–South partnerships and cooperation; financing mechanisms and tools, and sustainable finance markets.

UNCTAD's *World Investment Forum*, which will take place immediately ahead of COP28 this year, in the same location, will be an opportunity for policymakers at the highest levels, and for the broadest possible constituency of investment-for-development stakeholders, to take forward the actions proposed in the Global Action Compact for Investment in Sustainable Energy for All.