Finance and Investment Gap

Moderator

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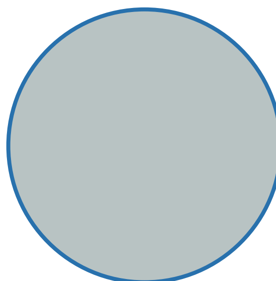

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Here's some background to our discussion of filling the Finance and Investment Gap:

There's a widening gap between the amount of finance and investments needed for sustainable development and the amount available. But paradoxically – right now – the funding for sustainable purposes is also increasing.

So it has become really challenging to understand what actions to prioritise, and what measures to take that would create impact.

There are a few issues within this paradox. A world that is increasingly indebted contributes to societies becoming more fragile, and lowers the ability and willingness of private organisations to provide the investments needed to fill this gap.

And there's the 'incumbent's curse' and the sticky issue of stranded assets: company leaders that are afflicted by this curse acknowledge the need for transition. They have to consider how to manage de-investing in profitable yet unsustainable practices at the same time as they invest in a more future-resilient business.

So are there new investment strategies in financial institutions to meet this challenge? Can progress be measured in a way that takes positive and negative externalities into account? And can we assess impact and make sure that short-term investment choices will not crowd out or postpone more radical investment for the long term?

So what should organisations do?

While we are debating the Finance and Investment Gap, we should bear in mind that:

- Between 2014–2023 (according to UNCTAD estimates), the size of the gap in SDG investments in developing countries grew from US$2.5 trillion per year to US$4 trillion per year after a one-third fall in foreign direct investment (FDI) flows to the relevant sectors in these countries. The increase in the financing gap since 2015 has been caused by multiple global challenges, including the Covid-19 pandemic, and was characterised by the World Economic Forum as the 'triple food, fuel and finance crises'.
- The Institute of International Finance's global debt monitor calculated that global borrowing by governments, businesses and households hit a record US$307 trillion in 2023.
- Income inequalities, income and debt gaps – combined with significant wealth accumulation inequalities – have become bigger than ever. Oxfam estimates that in 2023,

the richest 1 per cent of people appropriated nearly two-thirds of all new wealth created since 2020 – that's US$42 trillion, almost twice as much money as that owned by the bottom 99 per cent of the world's population. Since 2014, according to the same estimates, the richest 1 per cent had captured around 50 per cent of all new wealth. In 2023 the World Bank predicted that we are likely to see the biggest increase in global inequality and poverty since the Second World War.

- An increasing gap in SDG achievements between high-income and low-income countries is part of the Finance Gap. It means we risk losing a decade of global progress. According to the Sustainable Development Report 2023 and looking at current trends, there is a risk that this gap in SDG outcomes will be wider in 2030 than it was in 2015. Geopolitical crises will no doubt put more obstacles in front of us before 2030. None of the 17 SDGs is projected to be met at global level.
- The SDG agenda has prompted financial institutions to develop new investment practices for impact and value-based accounting models that can help redirect investments into more sustainable areas. A relevant initiative was started by Robeco. It uses the SDG performance of companies as a benchmark for more pro-active sustainable investment strategies. There are other initiatives such as true pricing that focus on transparent cost calculations and show stakeholders how negative externalities are actively being addressed – these initiatives can positively affect brand loyalty, particularly among conscious and responsible consumers. Using these kinds of monetising metrics from standardised information can help consumers compare the social and environmental performance of brands if adopted more widely. But monetising can also lead to underestimating the non-financial dimensions of transition processes.