



World Investment Report 2023: Investing in sustainable energy for all

DOI:

[10.1057/s42214-023-00178-9](https://doi.org/10.1057/s42214-023-00178-9)

Document Version

Accepted author manuscript

[Link to publication record in Manchester Research Explorer](#)

Citation for published version (APA):

Giroud, A. (2024). World Investment Report 2023: Investing in sustainable energy for all: United Nations Conference on Trade and Development, Geneva and New York, 2023, 205 pp. *Journal of International Business Policy*. Advance online publication. <https://doi.org/10.1057/s42214-023-00178-9>

Published in:

Journal of International Business Policy

Citing this paper

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Giroud Axèle (2024) World Investment Report 2023: Investing in Sustainable Energy for All – A Review. *Journal of International Business Policy*.

This year's World Investment Report (WIR) is the 33d edition of the United Nations Conference on Trade and Development's (UNCTAD) flagship publication. The report traditionally provides yearly updates on foreign direct investment (FDI) trends globally, the nature of multinational enterprises' (MNEs) global activities, and national and international investment policies; and increasingly focuses on MNE sustainable strategies, Sustainable Development Goals (SDG) investment needs, sustainable finance, and responsible investment themes.

The WIR 2023 includes three recurring Chapters on International Investment Trends (Chapter 1) Recent Policy Developments and Key Issues (Chapter 2) and Capital Markets and Sustainable Finance (Chapter 3), and one thematic Chapter on Investing in Sustainable Energy for All. This review first introduces latest trends from Chapters 1, 2 and 3, before presenting a critical evaluation of Chapter 4 that concentrates the main report theme on sustainable energy for all.

Chapter 1 shows global FDI flows declined by 12% in 2022 to \$1.3 trillion, from a high of \$1.58 trillion the year before. The decline results from continued geo-political uncertainties (including the war in Ukraine), unfavourable macro-economic factors (e.g., high food and energy prices and soaring public debt) and changes in firms' investment strategies. These fluctuations in FDI flows are uneven across regions. Developing countries – which account for over two thirds of global flows - saw a slight FDI increase by 4% in 2022; by contrast, flows to developed countries declined by 37%, partly explained by a drop in financial transactions of MNEs, such as investment through conduit economies, and one-off M&A transactions. Within developing countries, flows rose significantly in Latin America and the Caribbean (by 51% to reach a record \$208 billion as high commodity prices boosted reinvested earnings of foreign subsidiaries in extractive industries, UNCTAD 2023, p.5), moderately in selected Asian countries (e.g., in China, India and in the Association of Southeast Asian Nations), but declined sharply in Africa (by 44%, although investment in the energy sector, both extractives and energy generation, increased significantly, *ibid*, p.11), and in least developed countries (LDCs) (by 16% to \$22 billion, aggravating their small share in global FDI flows to less than 2%). Looking ahead, UNCTAD predicts a continued downward pressure on global FDI in 2023 (*ibid*, p.3).

The new sub-section on SDG investment (with regular updates published online in the SDG Investment Trends Monitor, UNCTAD 2023b) will be of particular interest to international business (IB) scholars and policy makers that aim to understand and promote sustainable investment. The report highlights several positive trends. New investment projects increased in SDG-related sectors, most significantly in infrastructure and water & sanitation, but also in , energy, agrifood systems, health & education (see Table 1.1.I, p.25). Investment in renewables has accelerated since 2015 (after the adoption of the SDGs and the Paris Agreement) prompted in part by stimulus packages (including packages that promote green infrastructure in solar and wind energy sectors, *ibid.*, p.34). Such progress is encouraging, yet insufficient. UNCTAD estimates that the investment gap across all SDG sectors is now \$4 trillion per year (up from an estimated \$2.5 trillion in 2014, see Box I.1, p.32), because of chronic underinvestment and increasing needs. Investments in some sectors lag behind (e.g., numbers of investment projects in agrifood stand below their 2015 level), or experience slower growth than needed (e.g., in renewable energy). There are fears of setbacks (e.g., renewed fossil fuel investments

due to the current energy crisis). And there is a large geographic disparity in sustainable investment, with SDG-related projects concentrated in developed economies. It is critical for the international community to speed up efforts to achieve the SDGs, to find novel ways to involve more developing countries (especially LDCs) in SDG-relevant global investment, and to design new business and dealmaking models in line with global sustainability imperatives.

Recent trends in national and international investment policies appear in Chapter 2. In 2022, the majority of new policies were investment facilitation measures, adopted to counter expected economic downturns and stimulate new investment in SDG-related sectors. 28% of new policy measures were restrictions (ibid, p.59), such as new investment screening measures on national security grounds or windfall profit taxes, mostly introduced by developed economies. Focusing on policies targeting the energy sector, the report shows numerous countries launched new investment facilitation initiatives and incentives to promote renewable energy and other climate-related investments, but types of policies vary by country and not all initiatives promote clean energy investment. By groups of countries, LDCs rely on traditional profit-based tax incentives that are not always most effective, while developed countries combine both financial *and* targeted, more complex, instruments such as feed-in-tariffs or green certificates (ibid, p. 80). The report details that fossil fuel subsidies continue to dominate; these reached \$1 trillion – or eight times higher than subsidies directed at renewable energy (ibid, p. 86). Phasing out fossil fuel subsidies is essential, but difficult (e.g., for countries that attract little or no investment). At the multilateral level, reforms in international investment governance instruments pay greater attention to investment facilitation features and climate change (ibid, p.71); still, newly signed international investment agreement (IIAs) remain weak in incorporating provisions of relevance to sustainable energy investment and the energy transition.

Chapter 3 describes recent trends in the complex world of sustainable finance. It shows ongoing progress to boost finance for the SDGs and strengthen sustainability disclosure standards, but a multitude of challenges remain. On the positive side, the value of the *overall sustainable finance market* (bonds, funds, and voluntary carbon markets) reached \$5.8 trillion in 2022 (ibid, p.100), despite financial markets affected by a turbulent economic environment. *Compliance and voluntary carbon trading markets* are growing rapidly, and *stock exchanges* continue to expand support for sustainable finance (e.g., with written ESG disclosure guidance, mandatory ESG reporting, ESG training, and related bond and equity offerings, ibid, p.121). Governments engage in *policy and regulatory developments*, for example, the European Union has prioritized the establishment of a comprehensive framework for sustainable finance (e.g., with the introduction of the Sustainable Finance Disclosure Regulation (SFDR) in 2021), whilst other countries such as China or the United States pursue a hybrid approach focusing on both regulation and the integration of climate and sustainable development dimensions in industrial policies. Yet, not all trends are positive, and much more must be done. For instance, the market value of the *global sustainable fund market* remained high at \$2.5 trillion, but it declined in 2022 (ibid, p.101). Within the *sustainable bond market*, annual issuance of sustainability-themed bonds declined. Greenwashing persists, and at least a quarter of funds fail to live up to their sustainability credentials. Progress amongst institutional investors is slow (e.g., many SWFs still fail to disclose or report on sustainability-related risks and do not reorient their portfolios fast enough, ibid, p.112). Advancement towards gender equality is slow (see figure III.28, p.125). Less than 3% of global sustainable funds' assets are domiciled in developing countries (ibid, p.102). Overall, capital markets and all stakeholders need to accelerate efforts and maintain the momentum of change towards the financing, regulation, and promotion of the SDGs.

The remainder of this review focuses on this year's thematic Chapter 4. The chapter investigates achievements to date to stimulate *international investment in sustainable energy for all*, how energy investors choose between sources of energy and between renewable technologies, how countries approach their decisions on how to finance the energy transition, and what more can be done to boost international investment in the energy transition and to maximize sustainable development impact (ibid, p.141). It adopts a broad taxonomy of relevant investment areas, spanning from renewables and energy infrastructure to clear and low-emission technologies. The topic is important because urgent action is needed to combat climate change (SDG13) and to ensure access to affordable, reliable, sustainable, and modern energy for all (SDG7). The dynamics behind investment in renewable energy are complex: countries must plan and support the transition from energy generated by fossil fuels to renewable energy, whilst at the same time ensure access to sustainable affordable energy for all; renewable energy investments tend to be large and involve multiple stakeholders (e.g., investment sources and actors are public, private, domestic and international); countries and companies face a multitude of sometimes conflicting challenges and priorities, which can divert attention away from or slow down sustainable efforts.

The challenge ahead is significant, annual investment needs for a successful energy transition by 2030 are estimated at \$5.7 trillion (ibid, p.144), with wide variation by country and region. For instance, "to meet growing local energy needs, installed renewable energy capacity would have to increase by a factor of 10 in the Middle East and Africa but only 2 in Europe" (ibid, p.146). The speed with which regions can attract international investment in renewables varies hugely. LDCs lack locational advantages to entice investment yet depend most on international project finance, mostly because of a lack of domestic finance, low levels of expertise or limited technologies and base infrastructure (ibid, p.147). Developing countries' priority is to ensure access to energy for all, which can compete with the demands of energy transition.

At the project level, the report highlights that international project finance is key in renewables, multi-stakeholder partnerships prevail in large projects, and drivers and determinants vary by investor type, projects, and location. Most of the investment in renewables is private-sector-driven; less than one fifth involves equity stakes by host-country governments – but these prevail in largest projects. The number of actors differ by project size. Projects conducted by individual MNEs tend to be smaller, whilst international projects (e.g., infrastructure and renewable energy installation projects necessitating high upfront investment) are larger and require multi-stakeholders' partnerships between private actors, governments, and/or multilateral development banks. Public-private partnerships (PPPs) or consortiums of sponsors can help reduce costs and uncertainty (especially in LDCs), ease debt financing (e.g., multilateral development banks' participation significantly lowers the cost of debt – see Figure IV.11, p.165), provide sponsor credibility, favourable financing conditions, risk mitigation and increase investor confidence in expected returns.

Drivers and determinants of energy transition investment vary by type of investors; the cost of capital is a key determinant; international investors often benefit from access to lower costs of capital, advanced technologies or guarantees that affect risk calculations, while local investors better assess local political and regulatory risks and anticipate changes in energy transition plans (ibid, p.153). Government equity participation is effective in reducing the cost of debt (e.g., through incentives, subsidiaries, loans, guarantees and price guarantees) and raising project returns; however, it increases complexity, lengthens negotiations and does not always improve risk perceptions among lenders (ibid, p.160). Overall, cost of capital, the types of partners, their financial solvency and credibility, local

knowledge and relationships, expertise and host-country experience are likely to incentivize foreign investment in large renewable energy projects.

The chapter investigates policies to achieve renewable energy for all. Typically, policies for energy transition involve Nationally Determined Contributions for climate change adaptation and mitigation (formulated at the national level since the Paris Agreement), energy transition investment plans (e.g., shift from traditional energy sources to sustainable and renewable sources), and energy transition investment policy measures (e.g., regulatory changes, incentives and investment promotion and facilitation initiatives). Many advanced economies tend to pave the way and established energy transition strategies to achieve the 2030 climate targets, with regional and international support to assist companies and countries in decarbonizing. Numerous developing countries still lack a precise energy transition plan and associated targets, and few indicate possible sources of finance for the transition, or have clear mechanisms and policy guidance to attract international investment in the energy transition. For instance, over 75% of developed countries use private investment promotion against 30% of LDCs. The report suggests that energy transition investment policy measures do not work in isolation (e.g., investment policies for energy transition encompass (i) regulation, (ii) private investment promotion, and (iii) public investment measures; the use of these differs by country), and a combination of both traditional fiscal incentives *and* multiple complex instruments (e.g., feed-in tariffs and auctions, renewable portfolio standards and guarantee schemes) may be more effective.

The report concludes it is imperative to enhance the role of FDI in energy transition in developing countries, to make investment policy more supportive of the energy transition, to make international investment treaties more conducive to the energy transition, and to maintain the momentum of sustainable finance and maximize its impact (ibid, p.178-184). It culminates with a proposed Global Action Compact for Investment in Sustainable Energy for All around a set of guiding principles of energy transition objectives to meeting climate goals, providing affordable energy for all and ensuring energy security.

For IB scholars, this year's thematic chapter serves as a reminder that their expertise and research can support the global community by refining knowledge on the unique relation that international investment has with global sustainability challenges, on the role of MNEs in the renewable energy transition, and on the boundary conditions that help move towards a more energy equitable world. Three main suggestions for future research arise from this review.

First, IB research can – and should – contribute more. IB scholarship traditionally explains location choices and informs practitioners on ways to overcome distinct challenges (such as institutional voids, or country risks) in host countries through entry mode choices and strategic actions. It further informs practitioners on drivers, outcomes, and the role of MNEs in specific countries or sectors – including for energy transition (Bass & Grøgaard, 2021; Patala et al., 2021). Recent contributions have started to investigate the social responsibility and environmental impact of international business activities (see for instance Kolk, 2016). There are numerous related avenues for future research on these concepts. For instance, how do MNEs contribute to and/or are affected by global energy transition efforts? What are renewable energy strategies adopted by firms within or across organisational or geographical boundaries? Do these differ by types of international investors, and home/host economies (e.g., in developed or developing countries)? To date, too few IB studies focus on the sustainable transition of firms in specific energy sectors (e.g., such as the oil and gas sector, Hartmann et al., 2021), examine the impact of climate change on firm- or country-specific advantages and how digital technologies can influence shifts in sustainable strategies (e.g., Kolk & Ciulli, 2022), or

investigate choices between MNEs' self-regulation or respond to external regulatory pressures when investing in green sectors and adopting greener policies across all their activities.

Second, IB scholars can add knowledge on cross-border multi-stakeholders partnerships (for a focus on public-private partnerships, see for instance Dykes & Uzuegbunam, 2023), on how various actors' motivations, advantages and strategies differ (e.g., governments, multilateral agencies, civil society) (see, Müllner & Dorobantu, 2023), on their role in achieving SDGs (van Tulder et al., 2021) and energy transition, or on how to navigate such partnerships to achieve renewable energy for all in an increasingly uncertain, volatile and risky global context.

Third, the *Journal of International Business Policy* is influential, it guides IB debates to inform policy. Future research should investigate the impact of evolving environmental regulations on firms' strategies and activities (see Nippa et al., 2021), comparing different types of investors (e.g., SWFs, Boubakri et al., 2023), explore how firms contribute to policy shifts, and explain institutional differences in policy measures, adoption, and effectiveness on private and public sector investment.

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