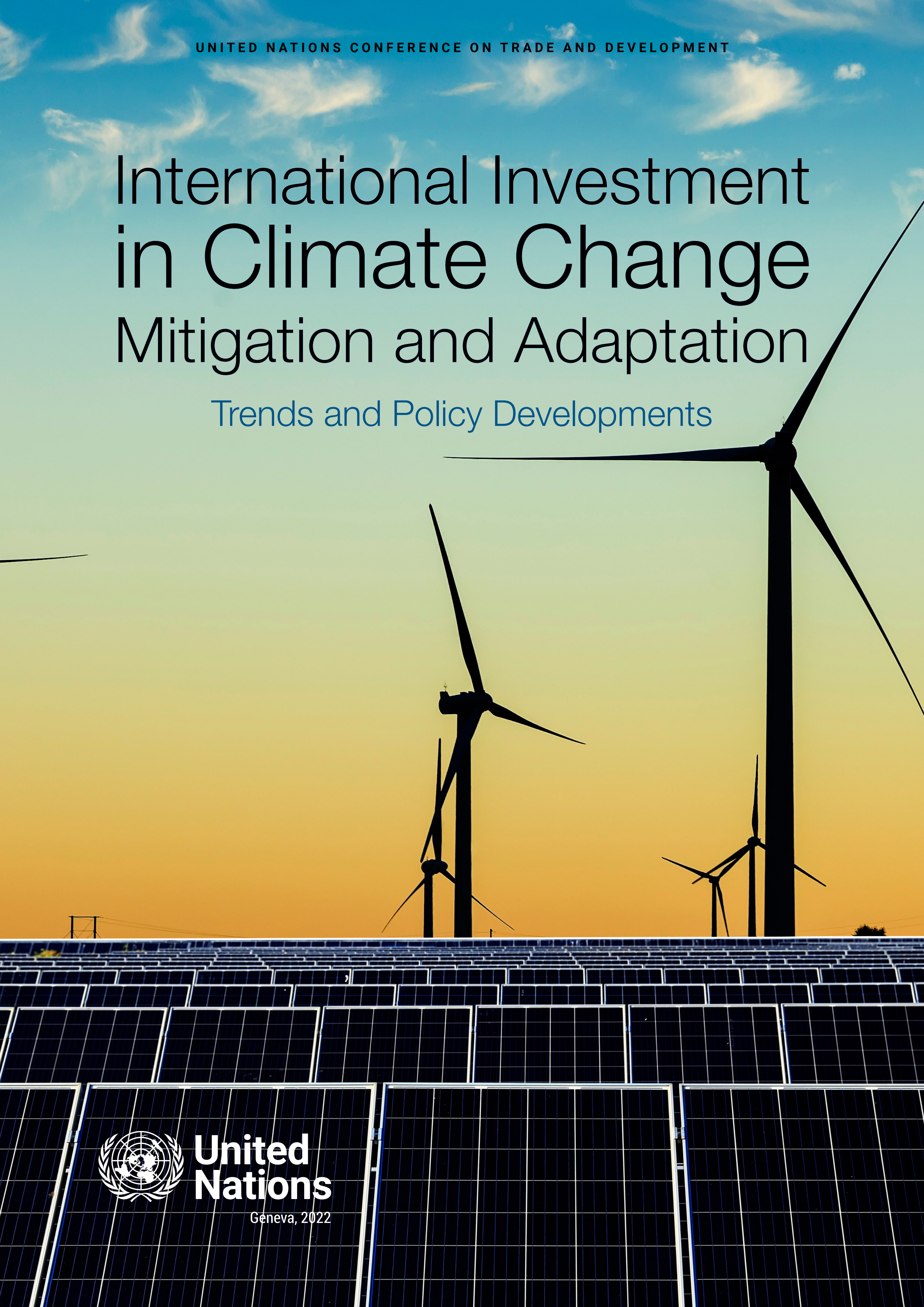
UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

International Investment in Climate Change Mitigation and Adaptation

Trends and Policy Developments



United Nations

Geneva, 2022

This publication has not been formally edited.

United Nations publication issued by the United Nations Conference on Trade and Development

UNCTAD/DIAE/INF/2022/2

This publication aims to inform the debate on climate finance at COP27. It presents the latest international climate change investment trends and policy developments.

The publication brings together the key findings of several recent monitors published by UNCTAD's Division on Investment and Enterprise, including a Special Issue of the Global Investment Trends Monitor (GITM no. 43) on climate change investment trends, a Special Issue of the Investment Policy Monitor (IPM no. 9) on national investment policy developments relevant to climate change, and two IIA Issues Notes on developments in the area of international investment agreements and investor-State dispute settlement.

The publication further incorporates key findings from the World Investment Report 2022, insights from the intergovernmental debate during UNCTAD's Multi-Year Expert Meeting on Investment and Climate Change held in October 2022, and elements from the G20 Compendium on Promoting Investment for Sustainable Development, prepared by UNCTAD under the guidance of the Indonesian presidency of the G20.

UNCTAD will continue to monitor global investment trends and prospects, as well as national and international policy developments, with a special focus on progress towards the SDGs and on climate change mitigation and adaptation.

EXECUTIVE SUMMARY

Investment in climate change mitigation and adaptation risks a temporary setback. Monthly investment data shows declining numbers of new project announcements after the first quarter of 2022. Worsening financial conditions and investor uncertainty caused by the war and the effects of the triple food, fuel and finance crises are putting downward pressure on all cross-border investment. Although the search for solutions to the energy crisis has raised hopes for a faster transition to green energy, the first signals are that climate change investment will not escape the short-term FDI slump.

In climate change mitigation sectors, the number of new project announcements in the first three quarters of 2022 was 7 per cent lower than in 2021. In adaptation sectors it was 12 per cent lower. Urgent action is needed for international investment to return to its growth path.

The longer-term trend in international (cross-border) investment in climate change mitigation and adaptation invites three critical observations: (i) although investment in climate change mitigation has seen significant growth after the adoption of the SDGs in 2015 and a strong acceleration after 2020, the rate of growth is not sufficient to meet even the pre-SDG needs assessment (UNCTAD, 2014); (ii) there are significant regional imbalances in the growth of climate change investment, and most is so far concentrated in developed countries (especially Europe); (iii) international investment in adaptation sectors lags far behind investment in mitigation, especially renewable energy.

Targeted policies for attracting FDI in climate change mitigation and adaptation sectors matter, probably even more than in other sectors. Recent national policy initiatives to promote international investment in climate change adaptation and mitigation focus primarily on the renewable energy and electricity sectors. These sectors account for 60 per cent of climate change investment measures adopted worldwide in the last decade. Other mitigation areas have not received equal policy attention, and policy measures to attract investment in climate change adaptation sectors still need to be developed and implemented in developing countries. In developed economies, three out of four policy measures in climate change sectors in recent years concerned the introduction or expansion of FDI screening mechanisms, reflecting a trend towards heightened national security concerns.

The need for climate action has added urgency to the reform of the international investment agreements (IIA) regime. The current IIA regime can constrain States when implementing measures to combat climate change. The risk of investor–State dispute settlement (ISDS) being used to challenge climate policies is a major concern. Two broad approaches to fast-track IIA reform can be considered: first, making individual IIAs climate-responsive by ensuring that only low-carbon and sustainable investments are covered and by safeguarding the right and duty of States to regulate in the public interest. This can be coupled with provisions aimed at promoting and facilitating sustainable investment. Second, exploring the possibilities to reconceptualize the scope, purpose and design of the IIA regime through engagement in comprehensive IIA reform actions at the multilateral, regional, bilateral and national levels.

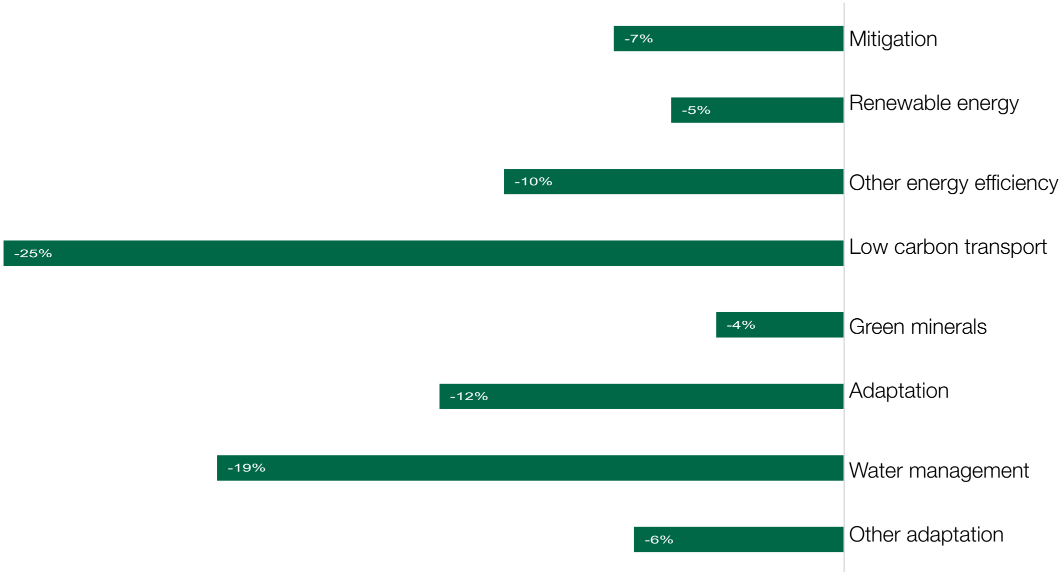
Innovative ways and means are needed to attract international private investment in climate change adaptation and mitigation. Enabling policy frameworks, public-private partnerships, pipelines of bankable and impactful projects, and initiatives to de-risk climate FDI are all important. The introduction of climate impact assessments of investment projects should be considered. Investment promotion agencies (IPAs) can develop "red carpet" services for climate FDI. Provisions related to climate FDI should be considered for inclusion in international investment agreements. Finally, capital exporting countries can include outward FDI policies as part of their climate strategies, for example, by linking outward FDI support to carbon content and standards, and by supporting climate-impact reporting requirements.

A. INVESTMENT TRENDS

Global foreign direct investment (FDI) flows in the second quarter of 2022 reached an estimated $357 billion, down 31 per cent from the first quarter and 7 per cent less than the quarterly average of 2021. The negative trend after the first quarter reflects a shift in investor sentiment due to the Ukraine war; the food, fuel and finance crises around the world; rising inflation and interest rates; and fears of a coming recession. Expectations for the full year are for a marked slowdown.

In line with the downshift in global investment, cross-border investment in climate change mitigation and adaptation is likely to decline in 2022. The number of new project announcements in the first 3 quarters of 2022 was 7 per cent lower than in 2021 in mitigation, and 12 per cent lower in adaptation sectors (Figure A.1).

Figure A.1. Climate change investment trend, Q1-Q3 2022 vs 2021, greenfield project announcements and international project finance deals
(project numbers)



Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for announced greenfield FDI projects and Refinitiv SA for international project finance deals.
Note: Numbers for 2022 are projected based on the first three quarters for international project finance deals and the first 8 months for greenfield projects.

Table A.1. Announced greenfield projects and international project finance deals in climate change sectors and fossil fuel energy, 2020–2021 and partial year data for 2022
(millions of dollars and number)

Climate change-relevant sector	Greenfield projects				International project finance deals			
	2020	2021	2022:Q1-Q3	2021–2022 Growth rate (%)	2020	2021	2022:Q1-Q3	2021–2022 Growth rate (%)
Renewable energy								
Value	96 750	97 584	169 078	160	189 153	413 374	199 653	-36
Number of projects	525	486	327	1	786	1 098	759	-8
Other energy efficiency								
Value	23 705	58 212	71 064	83	16 639	134 561	61 749	-39
Number of projects	197	486	294	-9	42	153	100	-13
Low carbon transport								
Value	250	156	500	379	20 214	11 047	3 196	-61
Number of projects	10	12	9	13	12	22	9	-45
Adaptation								
Value	**736**	**4 448**	**2 904**	**-2**	**3 834**	**10 035**	**8 128**	**8**
Number of projects	**25**	**68**	**35**	**-23**	**23**	**22**	**20**	**21**
Water management								
Value	613	4 039	2 574	-4	3 834	9 998	8 128	8
Number of projects	8	21	5	-64	23	21	20	27
Other adaptation								
Value	122.87	408.71	330	21	-	38	-	..
Number of projects	17	47	30	-4	-	1	-	..
Green minerals								
Value	**1 037**	**5 083**	**5 522**	**63**	**9 552**	**22 007**	**12 665**	**-23**
Number of projects	**11**	**38**	**28**	**11**	**17**	**32**	**19**	**-21**
Fossil fuel energy[a]								
Value	**47 550**	**16 234**	**52 197**	**382**	**84 371**	**179 761**	**49 136**	**-64**
Number of projects	**91**	**67**	**48**	**7**	**123**	**181**	**102**	**-25**

Source: UNCTAD, information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for announced greenfield FDI projects and Refinitiv SA for international project finance deals.
Note: Fossil fuel investments include power generation and extraction of oil, gas and coal.

Table A.2. Announced greenfield projects and international project finance deals in climate change mitigation, 2020–2021 and partial year data for 2022
(number)

	Greenfield projects				International project finance deals			
Region / economy	2020	2021	2022:Q1-Q3	2021–2022 Growth rate (%)	2020	2021	2022:Q1-Q3	2021–2022 Growth rate (%)
World	**732**	**984**	**630**	**-4**	**840**	**1 273**	**868**	**-9**
Developed economies	**483**	**724**	**449**	**- 7**	**549**	**865**	**592**	**-9**
Europe	343	514	305	-11	336	543	405	-1
European Union	275	410	215	-21	274	409	317	3
Other Europe	68	104	90	30	62	134	88	-12
North America	92	157	111	6	130	203	116	-24
Other developed economies	48	53	33	-7	83	119	71	-20
Developing economies	**249**	**260**	**181**	**4**	**291**	**408**	**276**	**-10**
Africa	40	48	46	44	43	44	47	42
North Africa	5	6	30	650	9	7	10	90
Other Africa	35	42	16	-43	34	37	37	33
Asia	99	138	93	1	108	187	120	-14
Central Asia	3	10	2	-70	8	9	3	-56
East Asia	25	42	19	-32	11	35	15	-43
South-East Asia	30	31	27	31	47	58	38	-13
South Asia	16	15	16	60	28	69	57	10
West Asia	25	40	29	9	14	16	7	-42
Latin America and the Caribbean	110	73	42	-14	139	175	109	-17
South America	82	59	25	-36	122	150	98	-13
Central America	25	13	15	73	13	15	5	-56
Caribbean	3	1	-	..	4	10	6	-20
Oceania	-	1	..	..	1	2	-	..

Source: UNCTAD, information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for announced greenfield FDI projects and Refinitiv SA for international project finance deals.

Climate change investment showed an upward trend after the adoption of the SDGs in 2015, and a strong acceleration in 2021, especially in renewable energy (Figure A.2). The boom was supported by post-COVID stimulus investment packages, particularly in Europe, and loose financing conditions for international project finance worldwide. Total project values in 2021 were twice the pre-pandemic level. This momentum, however, is now at risk.