INSME Insights

Investment in Sustainable Development and the role of SMEs

UNCTAD World Investment Report 2014

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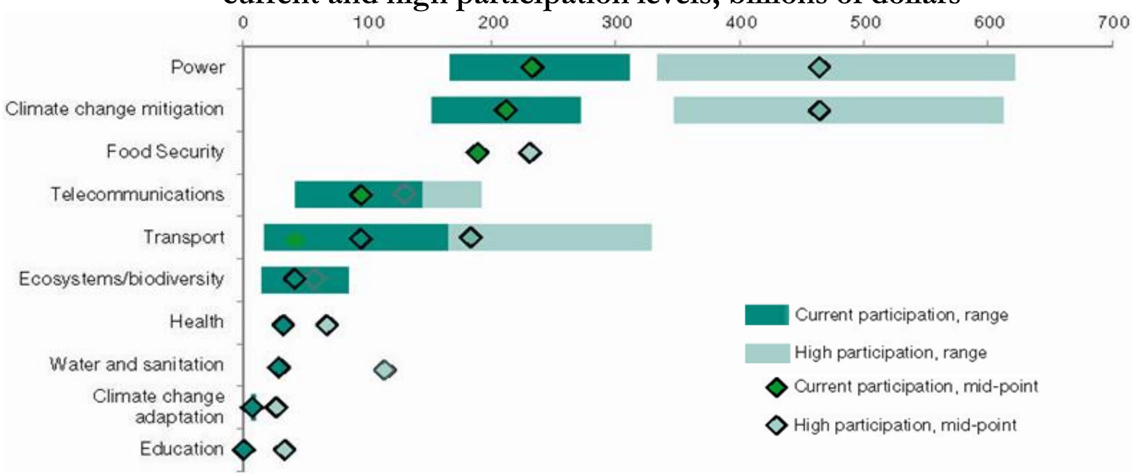
UNCTAD's **World Investment Report 2014**, which was launched on 24 June, presents an action plan for promoting private sector investment in the Sustainable Development Goals (SDGs).

The SDGs, which are currently being formulated by the United Nations and a wide range of stakeholders, are intended to galvanize action worldwide through concrete targets over the 2015–2030 period for poverty reduction, food security, human health and education, climate change mitigation, and a range of other objectives across the economic, social and environmental pillars.

Achieving these objectives will have significant resource implications across the developed and developing world. In developing countries alone, total investment needs could be up to $4.5 trillion per year. At current levels of investment in SDG-relevant sectors (infrastructure, renewable energy, water and sanitation, healthcare, etc.) developing countries face an annual gap of $2.5 trillion. Structurally weak economies, where investment needs are most acute and where financing capacity is lowest, will require additional efforts. In the least developed countries a doubling of the growth rate of private investment would be a desirable target.

Bridging such a gap may seem a daunting task, but it is achievable. The potential for increased private sector investment contributions is significant, especially in infrastructure (roads, rail and ports; power stations; water and sanitation), food security and climate change mitigation sectors, under the right conditions and with appropriate safeguards that should accompany a greater private sector role in often sensitive sectors. Other sectors, such as health and education or climate change adaptation, are likely to attract less private sector investment given their public service nature and greater complexity in the design of sufficiently attractive risk-return models (figure 1).

Figure 1. Potential private-sector contribution to investment gaps at current and high participation levels, billions of dollars



Source: UNCTAD, *World Investment Report 2014*

UNCTAD's *Action Plan for Private Investment in the SDGs* proposes a set of priority packages which can help shape a Big Push for private investment in sustainable development. These packages are aimed at resolving challenges (i) in mobilizing funds, (ii) in channeling them to SDG sectors, and (iii) in maximizing positive impacts. Although the plan addresses all stakeholders and all forms of businesses, there are specific implications for small and medium enterprises (SMEs).

i. *Mobilizing funds for sustainable development.* In the global picture, SMEs may themselves not become major sources of investment in SDG sectors. However, the emergence of new funds and institutions aimed at investment in SDG-related projects (e.g. impact investors, social impact bonds, blended finance) are an opportunity for SMEs in developed and developing countries alike to tap alternative sources of finance. Critical is the interface between SMEs, their projects and alternative investors, and their "route to market". Institutionalizing partnerships between outward investment agencies in mature markets and host country investment promotion agencies in developing countries could help connect SMEs to a wider range of financial sources.

ii. *Channeling funds into sustainable development projects.* Institutional investors at UNCTAD's last World Investment Forum (the next one will be in October in Geneva) pointed at two fundamental problems that are hampering the channeling of private sector investment towards SDG sectors: (a) the lack of bankable projects – i.e., projects that have been pre-approved by local authorities, that have been properly prepared (e.g. feasibility studies, environmental impact studies carried out) and that are appropriately packaged and marketed to target investors – and (b) the difficulty for institutional investors in finding partners and suppliers that operate in the local environment. SMEs, especially those operating in developing countries, could take a pro-active role in supporting governments and investment promotion agencies in creating concrete SDG-related project pipelines. By offering their technical expertise in developing financially viable projects they may create opportunities for themselves as key partners.

iii. *Maximizing impact.* One of the key challenges in managing the impact of private investment in SDG sectors is the weak absorptive capacity of many poorer host economies. SMEs are a key transfer mechanism of the economic, social and environmental benefits of investment in host countries, through the generation of employment and value added and also through their ability to adopt and adapt new technologies and skills. Policymakers need to promote and support the development of competitive local enterprises in key SGD-related sectors. As the table shows, this is not just about enterprise in social sectors but, very pragmatically, in construction, engineering and other technical disciplines.

As key actors in attaining sustainable and inclusive economic growth, SMEs should be given specific attention as part of any policy strategy to improve the contribution of the private sector to the SDGs. Policies for stimulating entrepreneurship, business linkages, and supplier development programmes with international investors, should be at the core of such strategies.

Table 1. Selected ways to raise absorptive capacity in SDG sectors

SDG sector	Examples of absorptive capacity elements
Infrastructure (50%)	Construction and engineering capabilities of local firms and workforce Project management expertise of local workforce Presence of local suppliers and contractors
Climate change and environment (27%)	Entrepreneurship skills, clusters of renewable energy firms R&D and science and technology parks for local carbon technology Presence of laboratories, research institutes, universities
Food security(12%)	Clusters of agribusiness processing firms Local suppliers of inputs, crops, fertilisers, replacement machinery Local workforce skilled in crop production and processing
Social sectors (11%)	Local skills in provision of services e.g. teaching, nursing Managerial capabilities to run schools, hospitals Local (social) entrepreneurship skills

Source: UNCTAD, *World Investment Report 2014*