All-member event blog

Maximising impact – sustainable investment in the global south

By Constance Johnson

Investing in the global south is essential to achieve the *United Nations'* sustainable development goals (SDGs), with significant opportunities tied to the energy transition – mobilising capital at scale to these regions will accelerate climate action, and support economic and social development

Our first all-member event of the new year opened the floor for our speakers to examine how the pace of the green transition in developing countries hinges on the scale and quality of the investments they receive. Echoing this sentiment, at last year's *PLSA* conference., Lord Alok Sharma emphasised how solving the climate crisis requires transformational investment in the global south.

Laasya Shekaran, Director at *Pensions for Purpose*, invited *Finance in Motion, Foreign, Commonwealth & Development Office, ILX Management BV and Ninety One* to discuss the importance of sustainable investing in Southern Hemisphere nations. *The United Nations* estimates there is a $4tn annual funding gap for developing nations to achieve the sustainable development goals (SDGs), with half of this shortfall tied to the energy transition.

For UK pension schemes, investing in the global south is vital as it drives significant economic growth, addresses major carbon emissions and offers substantial financial returns. Unlocking these opportunities is essential, not only for combatting climate change but also for fostering sustainable development and ensuring long-term resilience in global markets.

Importance of global south investment

Alan Siow, Co-head of Emerging Market Corporate Debt, *Ninety One*, highlighted that emerging markets represent over half of the world's gross domestic product (GDP) growth and are underfunded, with a significant shortfall for climate transition. This offers pensions funds a unique opportunity to invest in an economically-promising region, which is in need of capital for sustainable development.

However, a deterrent to investment in the developing world is the perception of risk associated with these markets. **Christoph Freytag**, Managing Director, *Finance in Motion*, argued climate change affects everyone and investing in the global south can enhance supply chain resilience for the UK. He suggested investment narratives should focus on the mutual benefits rather than charity, showcasing successful business cases instead.

Investment opportunities

Sophie Gioanni, Head of Investor Relations, *ILX Management BV*, outlined four opportunities open to institutional investors in the global south: energy access and clean energy projects, sustainable industry and infrastructure , inclusive finance, and food security initiatives. These sectors align with the *UN's* SDGs and promise adequate returns for the risks involved. The focus on renewable energy projects, exemplifies the potential for impactful investments.

Christoph discussed how UK pension schemes can measure their impact through SDG alignment and by using established metrics for impact reporting. He emphasised the value of working with experienced asset managers, who can provide reliable data and reporting standards. Sophie added financial returns must remain a priority for pension funds and aligning investments with development finance institutions can help mitigate risks while ensuring adequate returns.

Ashish Kumar, Adviser, *Pensions for Purpose*, explained explained how partnerships with local governments and development finance institutions are essential for facilitating successful investments in the global south. He gave examples of initiatives like *The GAIA Initiative*, and collaborations between *British International Investment (BII)* and *Mercer* aimed at moving private capital for climate-focused investments.

Adam Taylor, Head of Economics and Finance, *Foreign, Commonwealth & Development Office*, reinforced this view by discussing commitments made at COP29 to increase financial flows from developed to developing countries, highlighting the importance of blended finance to attract institutional investors.

Questions and answers

Q How can we address structural challenges preventing UK pension schemes from investing in emerging markets?

A Christoph suggested mobilising a small percentage of assets for impact investing without major shifts. Ashish mentioned innovations like secondary market opportunities for impact assets and long-term asset fund structures.

Watch the video of the event.

● ***Constance Johnson is an Intern at Pensions for Purpose***

Audience feedback

What do asset owners, managers & advisers need to be doing to invest into the global south?

Group one: the asset owner perspective

moderated by Rhian Campbell, Associate, *Cardano*

- Understanding procurer duty opened the discussion. Some asset owners focus totally on returns and others are unwilling to give up on impact. So, it's important to ensure they are not mutually exclusive.
- It was emphasised the Government ought to ensure asset owners feel confident about the risks associated with these investments.
- Finally, the conversation turned to fees, in particular their impact on investment outcomes and potential effect on the attractiveness of these opportunities.

Group two: the asset manager perspective

moderated by Pavan Bhardwaj, Trustee Director, Head of Investment, *IGG*

- The discussion began by looking at the importance of local partnerships and leveraging any local networks managers may be able to build.
- The group then reflected on how many of these economies have well-developed domestic investor bases, creating potential for information asymmetry; if the manager is in an office in London,they may be unable to access the best opportunities.
- A long-term perspective was seen as important along with viewing investing in the global south as an opportunity to provide institutional capital rather than purely development finance.

Group three: the adviser perspective

moderated by Bill Manahan, Director of Institutional Solutions, *Downing*

- 'Boots on the ground' knowledge was expressed as important, along with close local partnerships.
- The group agreed there needs to be work to dispel the harmful myths surrounding these investments.
- Compiling positive case studies and moving from a charitable position will help shift the narrative. Looking at these investments from a return perspective will improve confidence and attitudes.