



COVID-19 Impact Assessment:

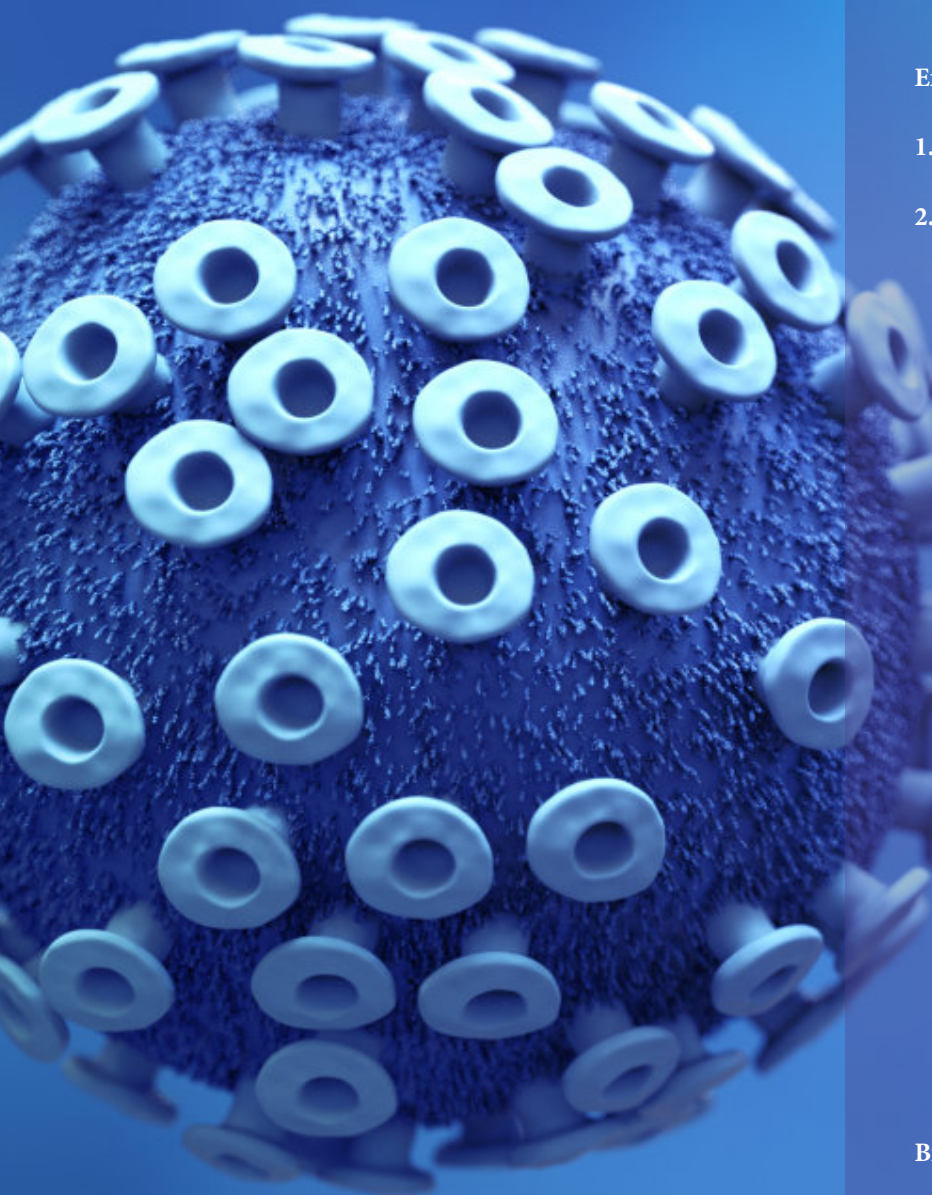
Will COVID-19 be a long-term catalyst for sustainable investment?

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Executive Summary

COVID-19 and its socio-economic impact significantly increased uncertainty for investment in Sustainable Development Goals (SDGs) related activities. International SDG-relevant investment flows to developing and transition economies fell by one third in 2020, when the pandemic first struck.¹ Although the global foreign direct investment (FDI) rebounded by 77% in 2021, flows to SDG-relevant investment projects in developing economies rose by only 11%. Worse still, investment project numbers in least developed countries (LDC) declined by a further 17%, making it a highly uneven recovery.²

As an effect of COVID-19, the annual SDG-financing gap faced by developing countries increased to USD 4.2 trillion.³ The pandemic highlighted the unequal distribution of financial resources, stressing existing vulnerabilities and fragilities and hindering economies' ability to recover sustainably.

In spite of this, the crisis also opened a window of opportunity for all stakeholders to rethink development priorities and paradigms. Investors, with their ability to innovate solutions and adapt to changing circumstances and needs, are key players to accelerate financing for the SDGs.

This report distils key results from a Rapid Impact Assessment Survey on the impact of COVID-19 on investors' portfolios and their future investment strategies, including identifying new sustainable investment opportunities

during the recovery. In total, 113 institutions were contacted and surveyed either directly or indirectly. While the survey and accompanying interviews were conducted between the end of 2020 and the beginning of 2021, many of the insights of the report remain relevant today. Investment worldwide and in China continues to be affected by the consequences of the pandemic. Since the beginning of 2021, the confidence of Chinese securities' investors has been on a downward trend, hitting its lowest level since December 2018 in April 2022.⁴ As such, a better understanding of how investors respond to crises, including their needs and requests for support, is more important than ever, as it can help develop better strategies to tap into capital markets for SDG attainment.



1. UNCTAD (2021, April). Progress since 2015 in promoting SDG investment in developing economies now at risk due to COVID-19. International SDG Investment Trends Monitor. Issue 3. <https://unctad.org/webflyer/progress-2015-promoting-sdg-investment-developing-economies-now-risk-due-covid-19>.

2. UNCTAD (2022). Global foreign direct investment rebounded strongly in 2021, but the recovery is highly uneven. <https://unctad.org/news/global-foreign-direct-investment-rebounded-strongly-2021-recovery-highly-uneven>.

3. OECD (2020). Global Outlook on Financing for Sustainable Development 2021: A New Way to Invest for People and Planet. <https://www.oecd.org/dac/global-outlook-on-financing-for-sustainable-development-2021-e3c30a9a-en.htm>.

4. China Securities Investor Protection Fund Corporation (2022). Monthly Securities Investor Confidence Survey Report (2022). Issue 4. No. 169. <https://www.sipf.com.cn/dcpj/xxzs/2022/05/14289.shtml>.

Key takeaways from this report are:

Most investors indicated concern about the impact of COVID-19 on their current and future portfolio. The risk of a recession, followed by the impact of lockdowns on business continuity and consumers were flagged as top concerns. Meanwhile, trade and supply chain disruptions were mentioned as prime risks for the investment outlook.

Despite the risks, respondents reported that the overall volume of investments in China did not decrease in 2020 and expectations for future investments remained stable.⁵ Rather than cancelling or postponing investment plans, **investors redirected funds towards COVID-19 recovery sectors**, adjusting their investment priorities for the upcoming two years.

Healthcare was the key priority, with a strong focus on biotechnological pharmaceuticals, technology and communications. Qualitative interviews have shown that health and its digital and innovative applications, such as telemedicine, medical data and artificial intelligence (AI), were particularly promising areas in the years to come.

In terms of SDGs-related investment opportunities, beyond health (SDG 3), surveyed investors focused on industry innovation and infrastructure (SDG 9), and affordable and clean energy (SDG 7). These display strong alignment with longstanding and new national priorities - high-quality development and climate - highlighting the influence of policy signals and guidance.

Overall, these results suggest a certain level of resilience and flexibility from investors when facing a crisis. However, respondents also **highlighted the key role of the government** in supporting and mitigating the risks. Liquidity facility, as well as a supportive tax regime, were among the top asks by investors. They also noted that to boost sustainable investment in the future, the public sector should also support innovative business models.

5. The data from the survey and interviews were collected during the last quarter of 2020, and the first quarter of 2021.

1. Background

Even before COVID-19, the world was not on track to fully achieve any of the Sustainable Development Goals (SDGs) by 2030. The pandemic has since erased years of development progress. Estimates show that developing countries face an additional financing shortfall of USD 1.7 trillion, on top of the pre-pandemic financing gap of USD 2.5 trillion, and thereby increasing the urgent need to bridge the gap to get back on track with the attainment of the 2030 Agenda.⁶

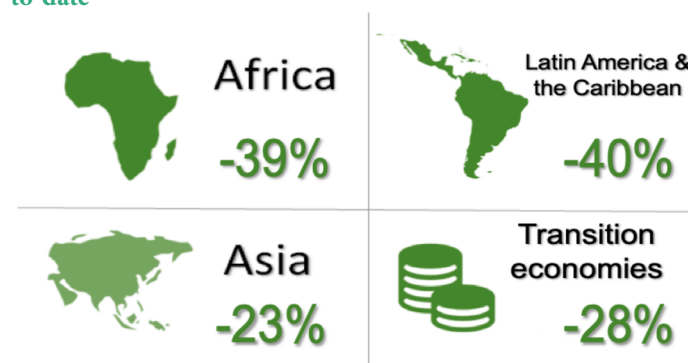
Decreasing financing flows are having a significant impact on the recovery path and SDG progress of developing countries as many of them rely on international investment flows for development. International private sector investment to sectors aligned to the SDGs in developing economies dropped by one-third in 2020.⁷ Greenfield project⁸ values in sectors such as food and agriculture, water and sanitation, health and education all shrank by more than 35% in 2020, and international project finance was down by 42% (Figure 1).

In addition, SDG-relevant investment declined more in developing economies than in developed countries. At the beginning of the pandemic, poorer regions were hit the hardest with investment falling 39% in Africa and 40% in Latin America and the Caribbean (Figure 2).

Figure 1. The impact of COVID-19 on investment in SDGs. Change of greenfield investment and project finance in selected SDG sectors, 2019-2020 (Per cent)⁹



Figure 2. The impact of COVID-19 on investment in the SDGs by region, 2020 year-to-date¹⁰



6. OECD (2020). Global Outlook on Financing for Sustainable Development 2021: A New Way to Invest for People and Planet. <https://www.oecd.org/dac/global-outlook-on-financing-for-sustainable-development-2021-e3c30a9a-en.htm>.

7. UNCTAD (2021, April). Progress since 2015 in promoting SDG investment in developing economies now at risk due to COVID-19. International SDG Investment Trends Monitor. Issue 3. <https://unctad.org/webflyer/progress-2015-promoting-sdg-investment-developing-economies-now-risk-due-covid-19>.

8. Greenfield investment is a type of FDI where a parent company creates a subsidiary in another country, building its operation from ground up.

9. UNCTAD (2021). World Investment Report 2021. <https://unctad.org/webflyer/world-investment-report-2021>.

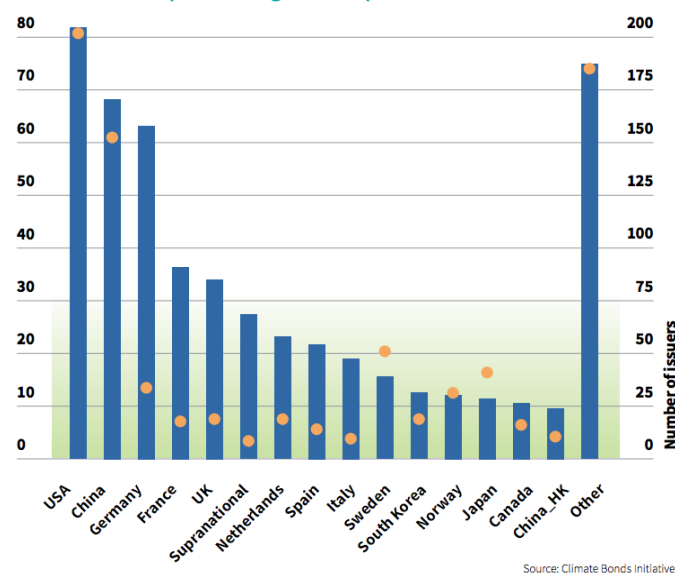
Project finance for infrastructure and renewable energy, greenfield investment for other sectors.

10. UNCTAD (2021, April). Progress since 2015 in promoting SDG investment in developing economies now at risk due to COVID-19. International SDG Investment Trends Monitor. Issue 3. <https://unctad.org/webflyer/progress-2015-promoting-sdg-investment-developing-economies-now-risk-due-covid-19>.

A silver lining has been the positive trends observed in sustainability-themed capital market products, particularly bonds. The total issuance of green, social and sustainability (GSS) debt instruments continued to increase in 2020 and 2021, reaching USD 1.1 trillion.¹¹ Sustainability themed bonds, in particular, experienced dramatic growth. Their issuance rose to USD 200 billion in 2021, up 23% from 2020.¹² Following a record 2020 (USD 255 billion) when issuance rose more than 10-fold year-on-year, issuance in the social bond market recorded a step back in 2021 (USD 223 billion).¹³

Most of these products concentrated in developed markets, with the exception of China. China maintains the top position as the largest contributor to climate-aligned debt in 2021 and the second largest source for green bonds (Figure 3).¹⁴

Figure 3. Green debt by sourcing country in 2021



In consideration of the SDG financing gap and the opportunities offered by financial markets' innovations, exemplified by the growing green bond market, UNDP has been working on a series of initiatives to promote and accelerate sustainable finance, as a key enabler to achieve the Sustainable Development Goals.

This assessment survey of the COVID-19 impact on sustainable investment markets is part of this effort. The project builds on the UNDP SDG Investor Map,¹⁵ an intelligence tool that translates country-specific SDG-needs and policy priorities into concrete investment opportunity areas. It aims to help gather data on changes in investment strategies, answering the question: How might COVID-19 impact the SDG investment landscape in China?

11. Climate Bonds Initiative (2022). Sustainable Debt: Global State of the Market 2021. https://www.climatebonds.net/files/reports/cbi_global_sotm_2021_02f.pdf.

12. Ibid.

13. Ibid.

14. Climate Bonds Initiative (2022). Sustainable Debt: Global State of the Market 2021. https://www.climatebonds.net/files/reports/cbi_global_sotm_2021_02f.pdf.

15. UNDP China (2021, February). SDG Investor Map in China: Summary Report. <https://www.cn.undp.org/content/china/en/home/library/poverty/sdg-investors-map-in-china.html>.

2. COVID-19 Impact Assessment Survey

2.1 COVID-19 Assessment Survey methodology

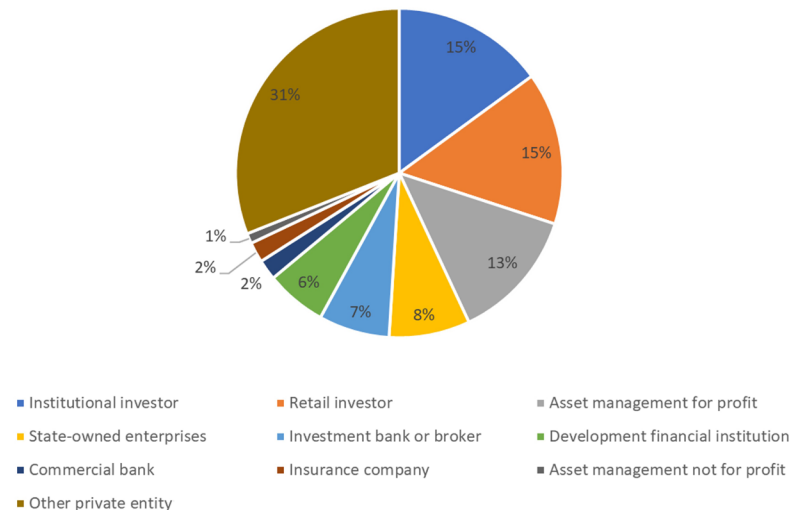
To better understand the impacts of COVID-19 on investor's portfolios and their future investment strategies, as well as to identify new sustainable investment opportunities after COVID-19, UNDP China initiated this assessment survey utilizing UNDP Headquarters' methodology on COVID-19 Rapid Assessment Survey.¹⁶ The survey questionnaire was developed by UNDP in partnership with PwC in 2020. It has been refined and adapted by the UNDP China Country Office with the help of Impact Intelligence, an impact and sustainability focused consultancy. Data collection was undertaken in the last quarter of 2020, and a total of 100 survey questionnaires have been conducted. These were complemented by 13 qualitative interviews with investors in January and February 2021. The analysis and findings were produced by UNDP China Country Office.

2.2 Investors' profile

2.2.1 Descriptive statistics of surveyed investors

A diversified sample of interviewees. Most of the investors participating in the survey are classified as "other private entity" (31%), a category that includes the investment department of enterprises and family offices. Institutional investors and retail investors accounted for 15% each, and profit-making asset management companies for 13% of the total (Figure 4). Other participants include state-owned enterprises (8%), investment banks or brokers (7%),

Figure 4. Please select the category that best describes your organization type:



development finance institutions (6%), commercial banks (2%), insurance companies (2%) and non-profit asset management institutions (1%).

Geographical focus and headquarter location. Respondents work for institutions that have mostly a multinational (46% of responses) or regional (14%) focus. 28% of the institutions have a national (China) focus, and 12% focused on local levels (specific regions within China). The vast majority of the respondent's companies are headquartered in Asia (76%). Other regions are all situated in developed countries, with 13% of them headquartered in Europe and 8% in North America.

16. The methodology of this report has been based on four stages: data collection, data review, analysis and findings.

Portfolios' size. In terms of global portfolio value, the respondents' institutions mostly held a value of more than 50 million USD (52%). The rest of the investors are equally split: 24% of the institutions held a portfolio between 5 and 50 million USD, while the remaining 24% had a portfolio of less than 5 million USD. A similar pattern is observed in their investment portfolio within China. 45% of respondents' institutions held a value of more than 50 million USD, 25% between 5 to 50 million USD, and 30% less than 5 million USD.

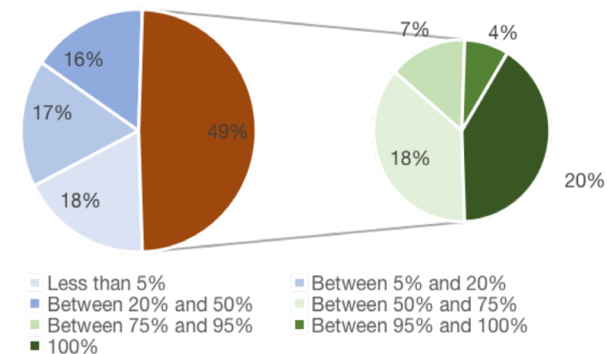
Priority sectors: Technology and healthcare. When asked what were their top priority sectors, most of the respondents chose technology and communications (39 respondents), healthcare (27), renewables and alternative energy (26) and consumer goods (26; Figure 5).

Figure 5. Which are the top priority sectors for your organization in terms of investments / business operation in China? (Please select up to 3)



Sustainable investment¹⁷ amounted for variable shares in investors' portfolios. 51% of respondents indicated that less than half of their organization's investment was directed to sustainable investment while 49% had more than half of their investment directed to sustainable investment. Among them, 20% indicated a 100% share of their organizations' investment portfolio to sustainable investments. These mostly include entities that have either an Asian or international focus or that are headquartered outside China.

Figure 6. Approximately, what percent of your organizations' investment portfolio / your business is allocated to sustainable investments?¹⁸



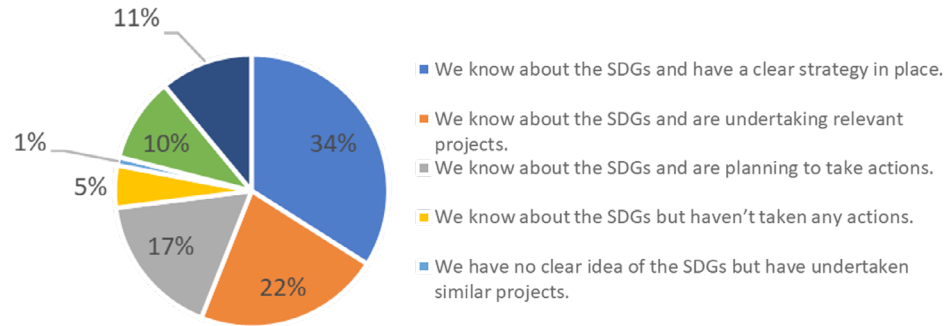
The majority of investors are familiar with the SDGs. 78% of all respondents indicated knowing about the SDGs.¹⁹ More than one third (34%) of the respondents indicated both being familiar with the SDGs and having a clear SDG strategy, while 22% indicated both being familiar with the SDGs and having undertaken relevant projects. On the contrary, 11% did not know about the SDGs and 11% indicated having no clear ideas of what SDGs were.

17. The survey does not provide a definition of "sustainable investment". This is left to the common understanding of respondents, possibly adding a bias to the survey's results.

18. For this question we understand Sustainable Investments as any investment made with the intention to generate positive, measurable social and environmental impact, and/or contribute to Sustainable Development Goals attainment alongside a financial return.

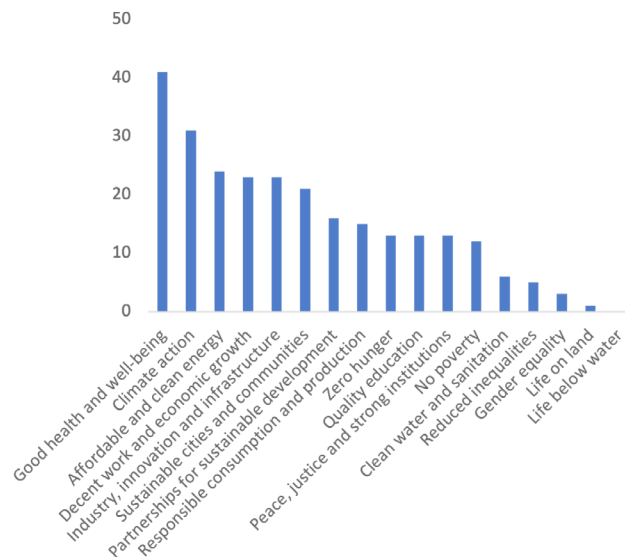
19. The investors surveyed may not be fully representative and results may be biased due to limitations in questionnaire distribution channels.

Figure 7. To what extent are you familiar with the Sustainable Development Goals and Agenda 2030?



In terms of SDG-aligned investment and focus, health (SDG 3), climate (SDG 13) and energy (SDG 7) represented the most relevant SDGs for the surveyed investors.

Figure 8. Which of the following SDG-aligned impact themes do your investments / business target? (Multiple choice question. Please select up to 3 choices.)



2.3 COVID-19 impact on investors' current portfolio

2.3.1 Level of concern regarding investment and COVID-19

82% of investors indicated concern, albeit at varying degrees, about the impact of COVID-19 on their current investment portfolios. 5% of the respondents indicated being extremely concerned, while a majority of respondents indicated being either moderately concerned (27%), somewhat concerned (25%) or slightly concerned (25%). Only 14% of respondents reported not being concerned by the impact of COVID-19.

Prospects for future investment are slightly better than for their current investment. The declared level of concern was slightly less for future investment, with 79% of the respondents indicating concern and 15% of them reporting not being concerned at all. One fifth of respondents appeared moderately concerned (19%) or extremely concerned (2%). Inversely, slightly concerned respondents for their future investment portfolio represented 32% (5 points more than for current investment portfolio) while the proportion of somewhat concerned investors was stable at 26% of the responses.

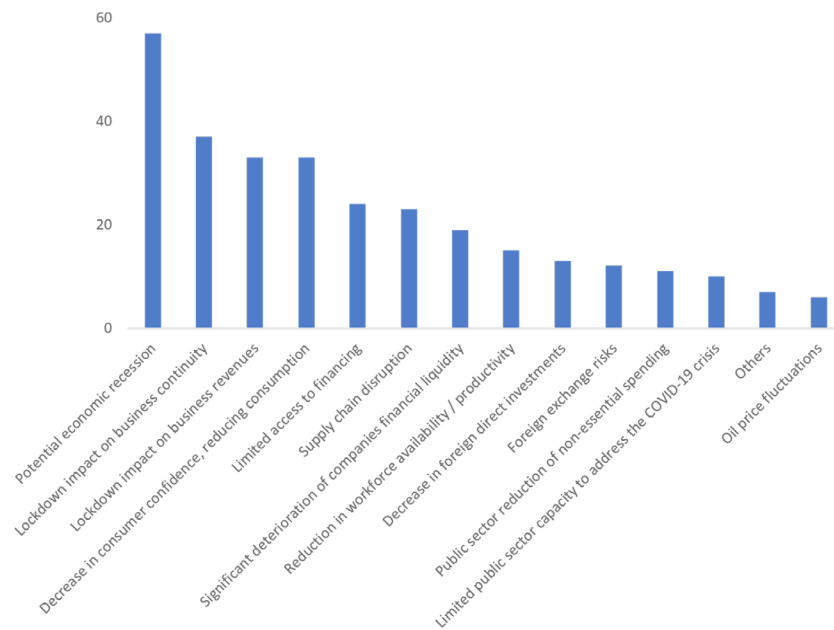
Figure 9. Considering the COVID-19 situation, what is the level of concern of your company in relation to the following statements?

Impact to investment portfolio (Row: current; Column: future)	Extremely concerned	Moderately concerned	Somewhat concerned	Slightly concerned	Not at all concerned	Not sure	Total (future impact)
Extremely concerned	0	2	1	1	0	1	5
Moderately concerned	2	13	8	3	1	0	27
Somewhat concerned	0	4	11	9	0	1	25
Slightly concerned	0	0	5	16	4	0	25
Not at all concerned	0	0	1	3	10	0	14
Not sure	0	0	0	0	0	4	4
Total (current impact)	2	19	26	32	15	6	100

2.3.2 Most important concerns for investors' portfolio

Potential economic downturn remains the primary concern of investors. The first concern for investment portfolios mentioned by respondents is by far a potential economic recession (57 answers). Other main concerns include lockdown impact on business continuity (37) and on business revenues (33), as well as a decrease in consumers' confidence coupled by a decrease in consumption (33).

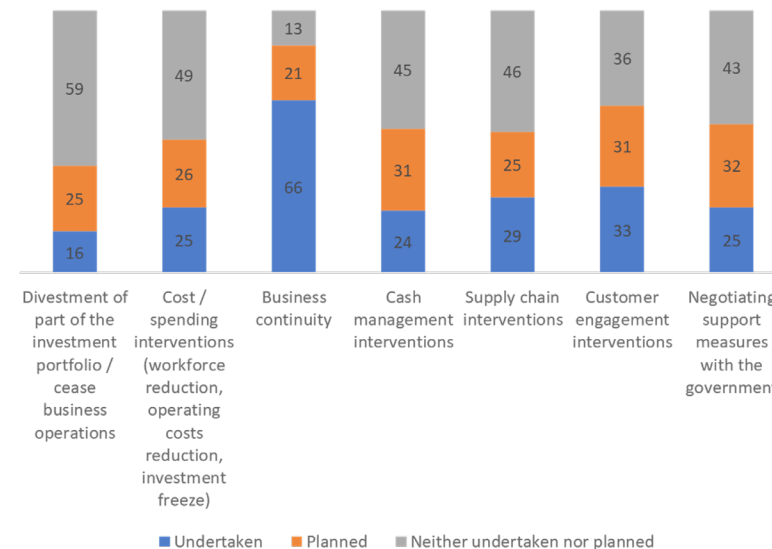
Figure 10. What are your top 3 concerns with respect to the worldwide impact of COVID-19 on your current portfolio? (Please select top 3)



2.3.3 Actions to respond to the COVID-19 outbreak

The most frequent measures taken by investors and business operators have been related to business continuity and customer engagement. 66% of respondents state they have already undertaken business continuity interventions, and 21% are planning to undertake similar measures in the future. Measures to buffer the impact of COVID-19 on customers, such as cancellation and rebooking policies, have also been undertaken by 33% of respondents, while another 31% are intending to undertake such actions.

Figure 11. Thinking about your current investment portfolio / business operations in China, which of the following actions have been undertaken or are planned by your organization in response to the COVID-19 outbreak?

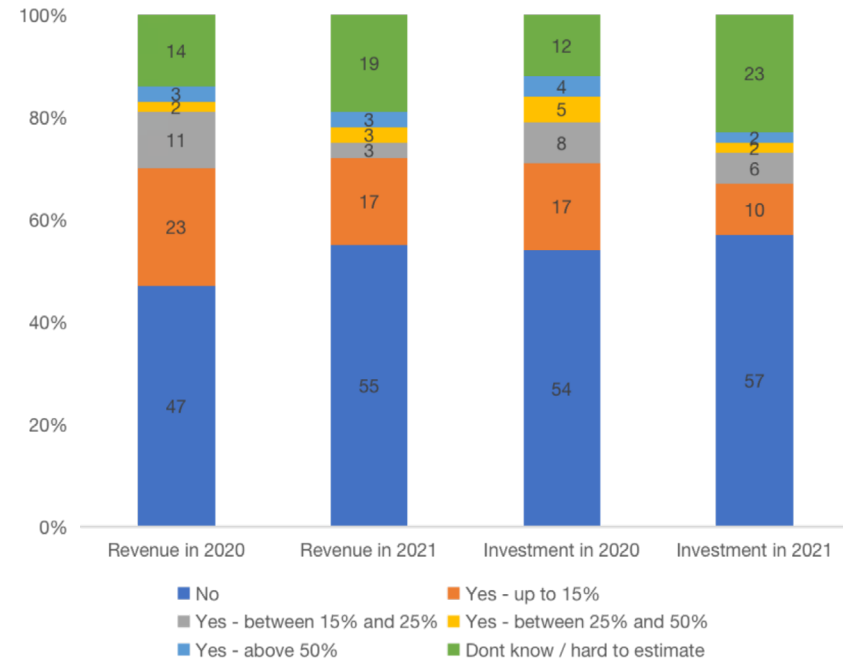


2.3.4 COVID-19 impact in 2020 and 2021 forecast on revenue and investment

Revenue loss was observed in 2020, but was expected to be less in 2021. 39% of the respondents experienced a drop in revenues, while 23% witnessed a 15% or less decrease. Investors' outlook for 2021 was more optimistic, only 26% of them expected a revenue loss and more than half (55%) of respondents were expecting no change in their revenue. Only 3% of respondents experienced a more than 50% decrease in revenues in 2020 and a similar number was also expecting a similar reduction in 2021.

No decrease of investment in 2020 and 2021 for the majority of investors was expected. In terms of investment, more than half (54%) of respondents indicated no decrease of their investment in 2020 when compared to 2019. For 2021, 57% of respondents reported no expected decrease in their investment when compared to 2020. 4% of respondents indicated having their investment level dropped by more than 50% in 2020, 2% were expecting a more than 50% drop in their investment level in 2021.

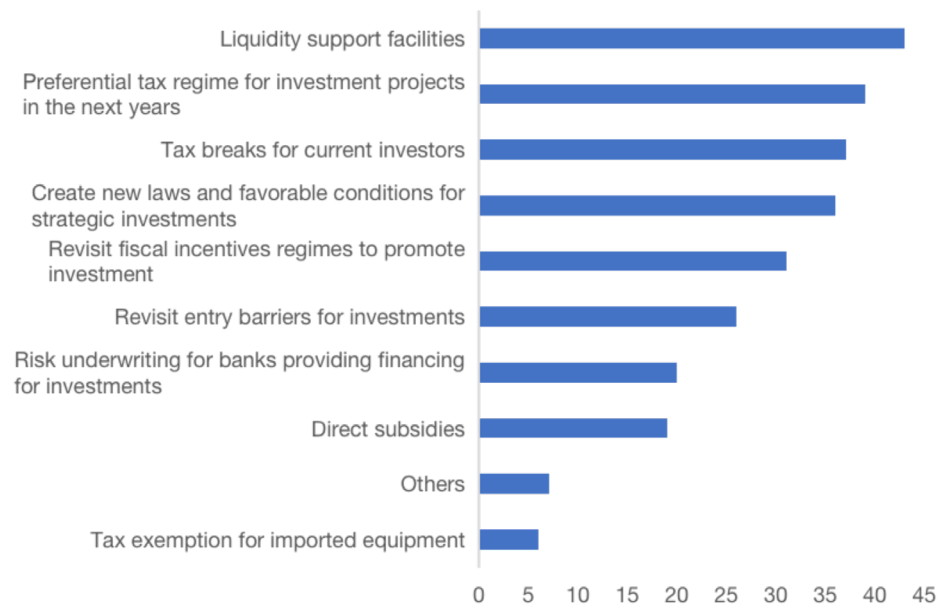
Figure 12. Did you see a drop in revenue and investment in 2020? Do you forecast a drop in revenue and investment for 2021? (year-on-year % change)



2.3.5 Recommended public response by investors to mitigate risks to their portfolio

Liquidity support facilities top the recommendations' list. According to investors, the most recommended actions to be taken by public authorities or Development Finance Institutions (DFIs) in response to COVID-19 were liquidity support facilities (43 responses; Figure 13), preferential tax regime for investment projects (39), tax breaks (37), and strengthening the environment for sustainable investment, through legal innovations and regulations (36).

Figure 13. Which actions can be taken by the public sector or Development Finance Institutions (DFIs) to mitigate risks for investors active in China? (Please select up to 3)

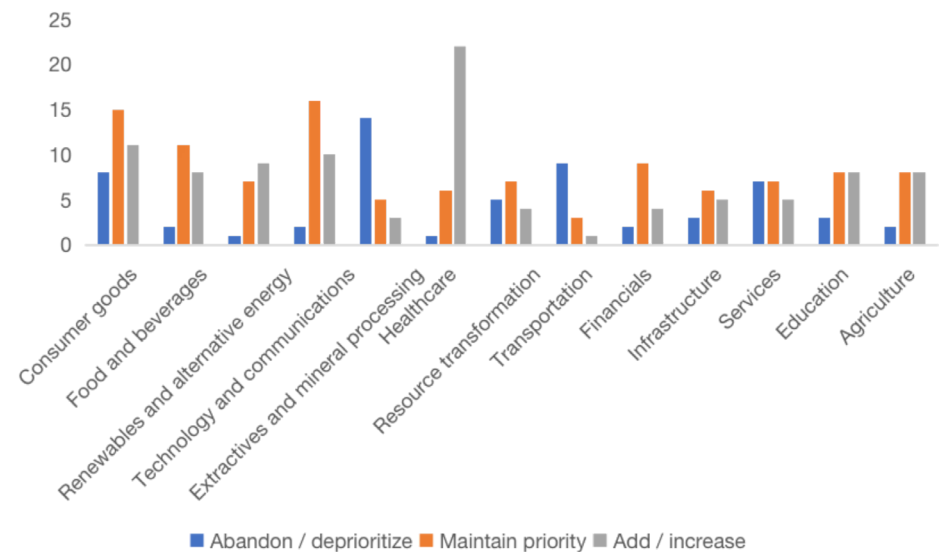


2.4 Current and expected change in investment trends

2.4.1 COVID-19 impact on investment patterns

Healthcare, consumer goods and technology are the sectors that have been benefiting the most from COVID-19 investment adjustments. Healthcare ranked first among the new priority areas (22 responses), followed by consumer goods (11) and technology and communication (10; Figure 14). Sectors that recorded a decreasing focus by investors were mining and mineral processing (22 responses), followed by transportation (9).

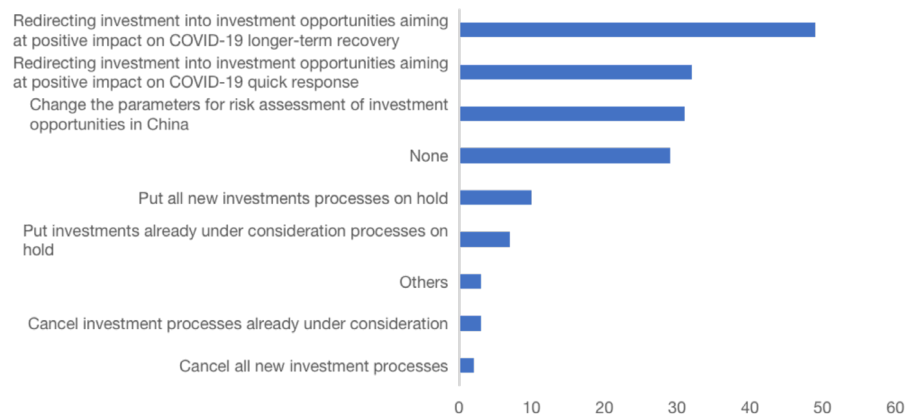
Figure 14. If you have adjusted your investment priorities due to COVID-19, in which areas do you plan to abandon / deprioritize and which to add / increase priority in the 3 years horizon (multiple choices allowed)?



2.4.2 Actions undertaken regarding planned investment in response to COVID-19

Redirecting of investments is the most important action taken in response to COVID-19 for future decision-making. Investors refocused on opportunities aimed at positive impact on both COVID-19 long-term recovery (49 respondents) and quick response (32 respondents). Many of the respondents (31) indicated having changed their risk assessment parameters for investment opportunities in China. On the other hand, 29 respondents indicated having taken none of the listed measures (Figure 15).

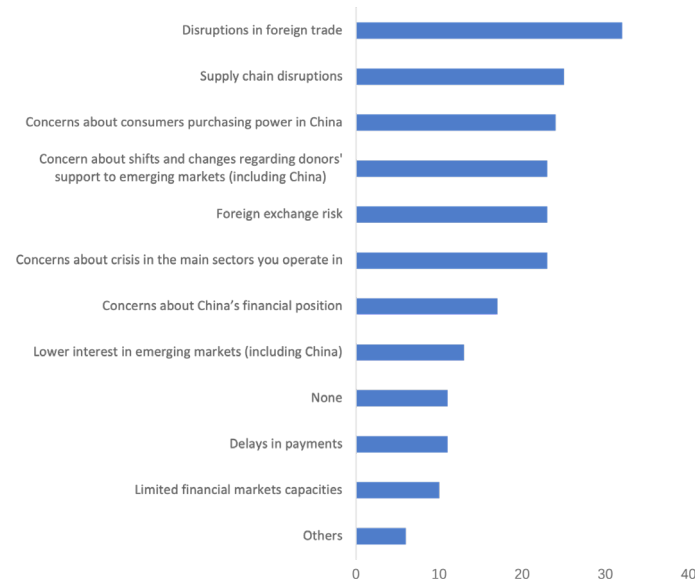
Figure 15. Which of the following actions have been undertaken in your organization in response to the COVID-19 outbreak regarding your planned investment in China? (Multiple selections)



2.4.3 Risks to planned investment

Disruptions in foreign trade and supply chains represent the biggest threats to investment. The most important threats to the investment outlook in China were disruptions in foreign trade (32 respondents) and in supply chains (25), concerns about consumer purchasing power in China (24), about changes regarding donors' support to emerging markets including China (23) and slowdown in relevant sectors (23) as well as foreign exchange risks (23).

Figure 16. Which do you think would be the biggest threats to your planned investment in China? (Please select up to 3)

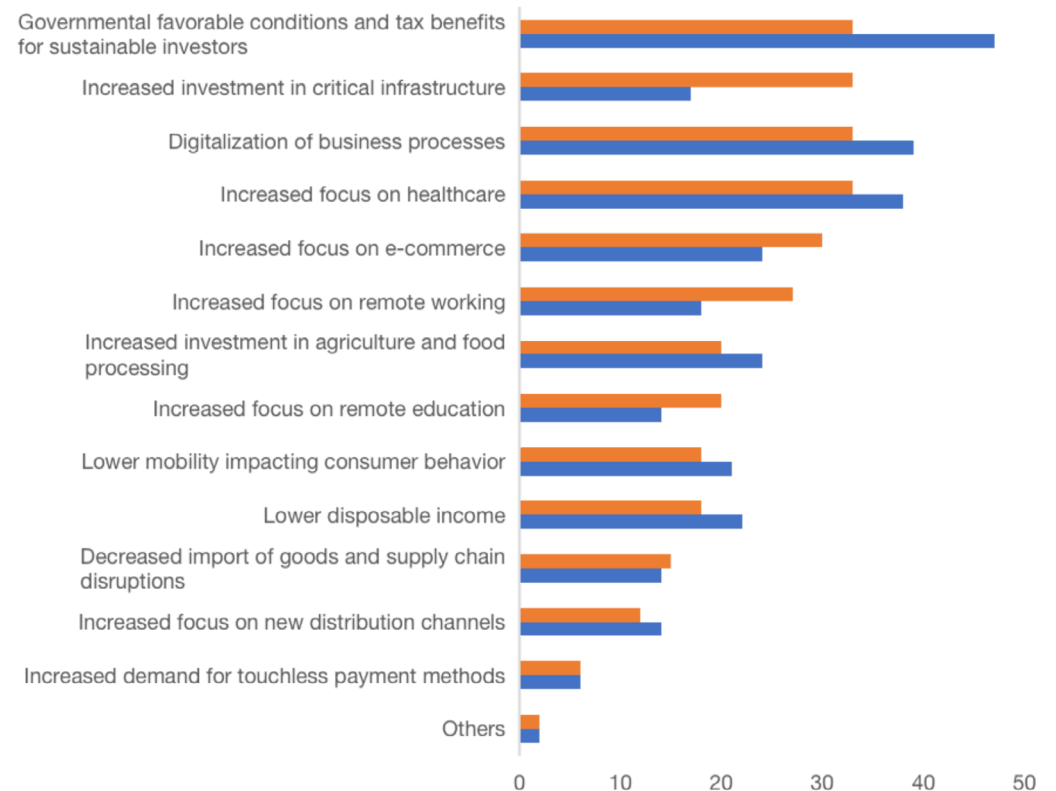


2.4.4 Supporting trends for planned investment and sustainable investment in China

As a result of COVID-19, favourable conditions by government (including tax benefits) for sustainable investors are considered as the most important signals, both for respondents' investment portfolios and for the overall sustainable investment landscape in China. Out of the five supporting trends quoted as the most important for their institutions' future investments, four were also perceived as the most important for the overall sustainable investment landscape in China. These were (i) favorable governmental conditions and tax benefits for sustainable investors; (ii) digitalization of business processes; (iii) increased focus on healthcare and (iv) e-commerce (Figure 17). In contrast, increased investment in critical infrastructure ranked as a key trend for investors' future investments (33 respondents), but only ranked 9th out of 14 available choices of key trends for the overall sustainable investment landscape in China.



Figure 17. Which of the following trends do you recognize as the most important for your organization's future investments? (Please select top 3; in red) As a result of COVID-19 outbreak, which of the following trends do you see as the most important for the sustainable investment landscape in China? (Please select top 3; in blue).

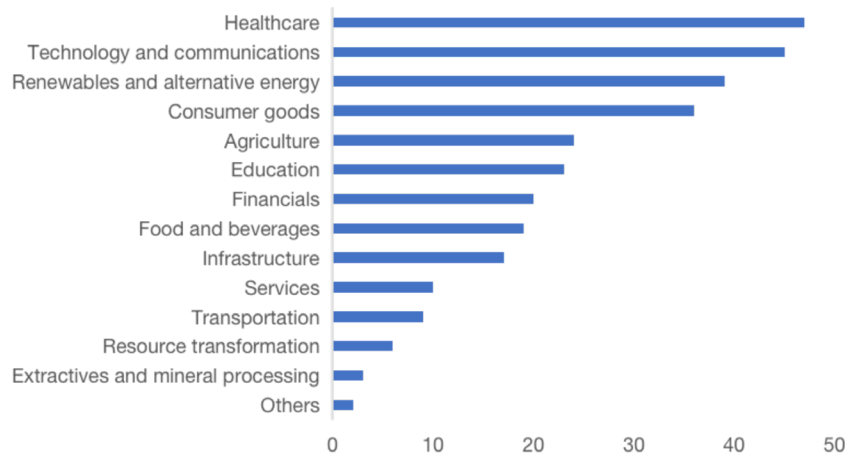


2.5 Outlook for investment opportunities

2.5.1 Main sectors for future sustainable investment

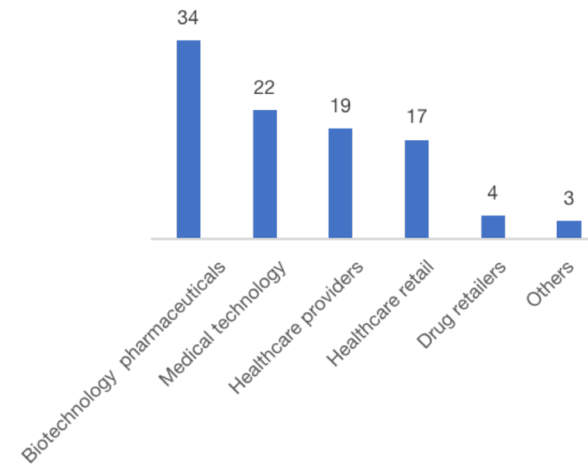
Healthcare and technology and communication represent the biggest opportunities for sustainable investment. With 47 respondents (Figure 18), the health sector ranks first in terms of opportunities for sustainable investment in 2021 and beyond, followed closely by technology and communication (45 respondents). Renewable Energy (39 respondents) and consumer goods (36) were also considered as the important sustainable investment opportunity areas. Other major sectors included agriculture and food (24), education (23), finance (20), and infrastructure (17). Services (9), transportation (6), and resource transformation and mining (3) were sectors perceived as offering the least opportunities.

Figure 18. Please select the top 3 sectors presenting opportunities for sustainable investing in the next 12 months to recover from the impacts of COVID-19 in China. From the 3 sectors you have identified above as the most needed, please select up to 3 most relevant sub-sectors and put the relevant numbers representing sub-sectors in the box separated by comma (for example 1, 3, 4).



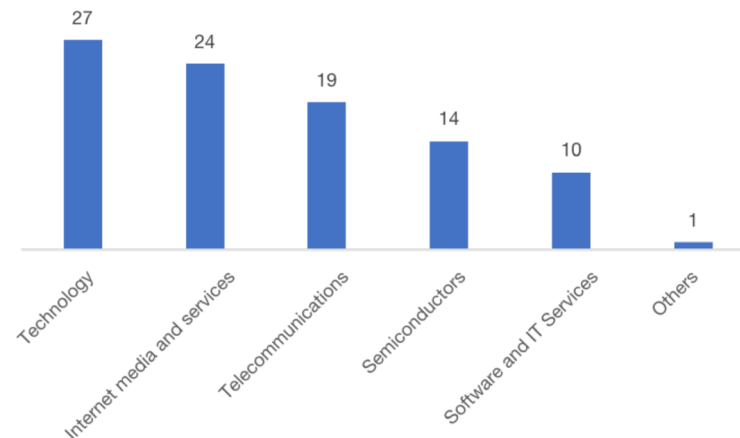
A sub-sector focus. Within the health sector, listed sub-sectors included biotechnology pharmaceuticals, medical technology, healthcare providers, and healthcare retail (Figure 19).

Figure 19. Healthcare sub-sectors focus



Within the technology sector, technology, internet media and services, as well as telecommunications represented the most important sub-sectors chosen by respondents (Figure 20).

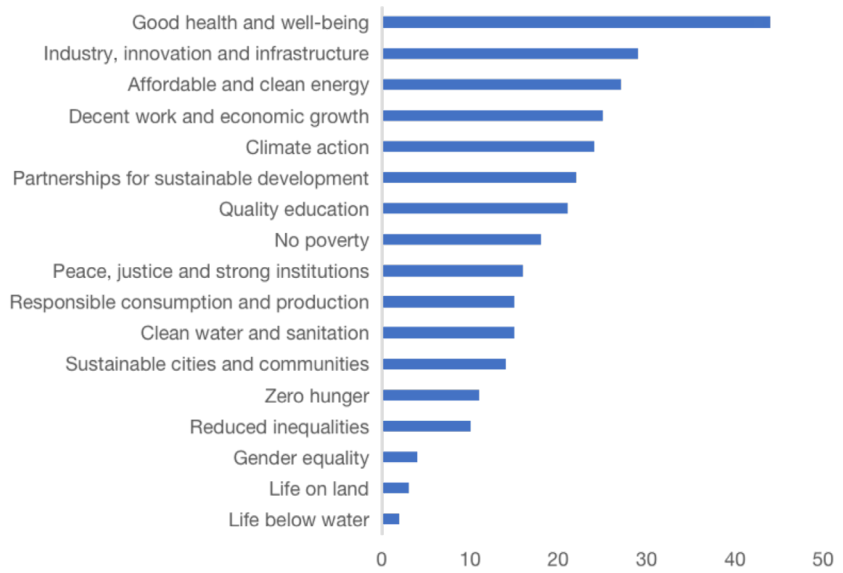
Figure 20. Technology and communications sub-sectors focus



2.5.2 Priority sectors alignment to the SDGs

SDG 3 - good health and well-being - ranked as the most relevant SDG for investment during the COVID-19 crisis (44 votes). Industry, innovation and infrastructure (SDG 9, 29 votes), energy (SDG 7, 27 votes), decent work and economic growth (SDG 8, 25 votes), and climate action (SDG 13, 24 votes) came next as top SDGs for investment opportunities (Figure 21).

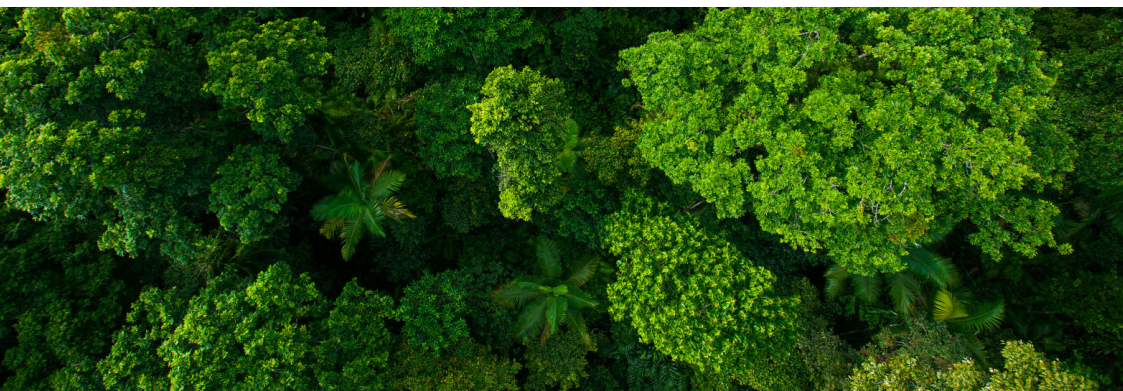
Figure 21. Which of the following SDGs do you think should be the top 3 priorities for investors for the COVID-19 response and recovery phases in China?



2.5.3. Most important risks to investment outlook

A crisis or downturn in the relevant invested sector is considered as the most important threat for the investment outlook (39 respondents). Other investment risks mentioned were supply chain disruptions (28), concerns about donor support in emerging countries including China (23) and consumers purchasing power (21; Figure 22). Foreign exchange risk, limited financial markets capacities, concerns about China's financial position, decreased interest in emerging markets and delays in payments were ranked as lower risks. A minority of investors (11) indicated perceiving no threat for investment.

Figure 22. Which do you think would be the biggest threats to the investment outlook? (Please select up to 3)?

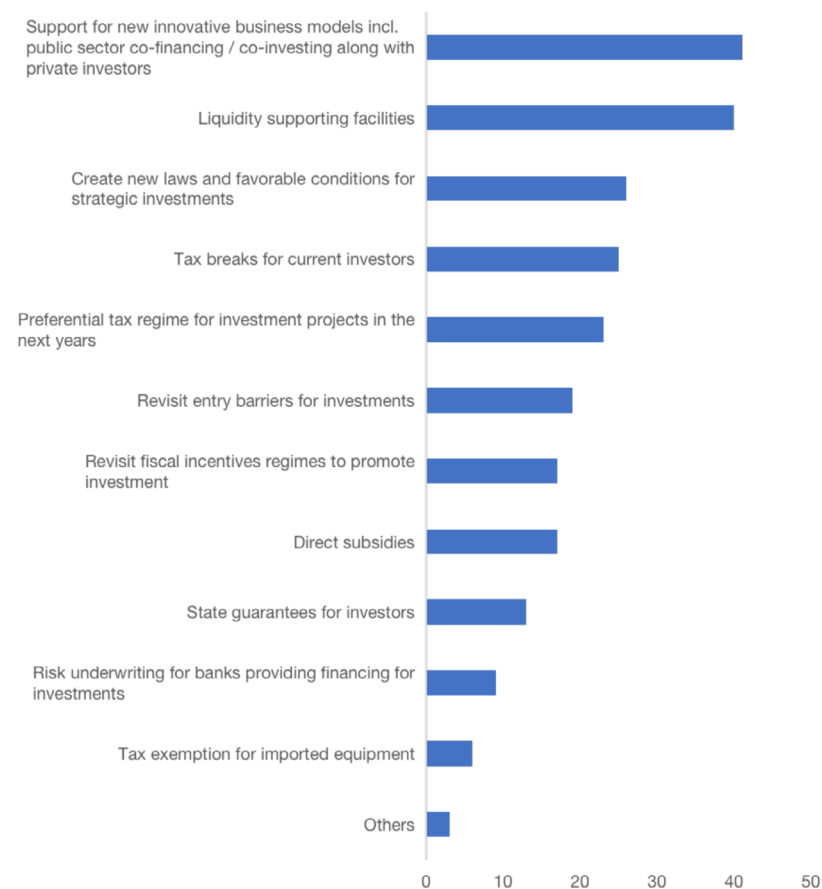


2.5.4 Recommendations to the public sector or Development Finance Institutions (DFIs)²⁰ to mitigate risks around investment outlook

Public authorities should support innovative business models as a priority to mitigate risks for investment. According to respondents, support for innovative business models to mitigate risks for sustainable investment was the preferred policy option (41; Figure 23), as well as liquidity support facilities (40 votes). Other suggested measures include new laws and favourable conditions for strategic investment (26), tax breaks for current investors (25), preferential tax regime for investment projects (23), easing entry barriers for investment (19), fiscal incentive regimes to promote investment (17), and direct subsidies (17). Other less-recommended actions include state guarantees for investors, risk underwriting for banks providing financing for investments, and tax exemptions for imported equipment.



Figure 23. Which actions can be taken by the public sector or Development Finance Institutions (DFIs) to mitigate those risks? (Please select up to 3)



20. "National and international development finance institutions (DFIs) are specialised development banks or subsidiaries set up to support private sector development in developing countries. They are usually majority-owned by national governments and source their capital from national or international development funds or benefit from government guarantees. This ensures their creditworthiness, which enables them to raise large amounts of money on international capital markets and provide financing on very competitive terms." OECD (n. d.). Development finance institutions and private sector development. <https://www.oecd.org/development/development-finance-institutions-private-sector-development.htm>.

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