WITH AN ESTIMATED TOTAL SIZE OF $178 TRILLION, CAPITAL MARKETS AROUND THE WORLD ARE ONE OF THE MOST POWERFUL GLOBAL DRIVERS OF ECONOMIC GROWTH AND WEALTH CREATION. AT THE SAME TIME, INVESTORS’ INTEREST IN FINANCING SUSTAINABLE INVESTMENTS WITH DEVELOPMENT IMPACT IS GROWING. TOTAL SUSTAINABLE INVESTING ASSETS—INCLUDING ENVIRONMENTAL, SOCIAL AND GOVERNANCE-RELATED (ESG) INVESTMENTS, SUSTAINABLE BONDS, AND SOCIAL IMPACT INVESTMENTS—REACHED $30.7 TRILLION IN 2018, A 34 PERCENT INCREASE OVER 2016.

Yet, developing countries remain short of around $3 trillion in annual investments for infrastructure and climate action alone. If the unmet needs of small and medium enterprises (SMEs) are added, the financing gap in emerging markets grows to $8 trillion a year.1

- Commercial bank lending is not sufficient to close these gaps because many projects are too long-term, too risky, or have a pronounced public-policy aspect. Basel III requirements limit banks’ lending capacity.
- Governments in many countries are constrained by high public debt, especially foreign currency debt.2

Local capital markets can help to fill these gaps. But in many developing countries, they face significant challenges, such as an underdeveloped investor base, limited numbers of issuers and instruments, costly and inefficient infrastructure, and inadequate regulatory and institutional frameworks. Even those that are open to foreign investors often lack competitive local currency solutions. And while policymakers understand the importance of capital markets, they may need assistance to grow and sustain successful local capital markets.

Globally, there are significant pools of capital for sustainable finance... but sizeable investment gaps persist in developing countries.

Domestic capital markets can help fill these gaps, but face challenges.

Developing countries can address long-term financing needs through well-functioning and sustainable local capital markets that:

- provide a significant source of equity capital and/or debt financing to the domestic private sector
- offer a menu of investment opportunities and risk-diversification options to domestic investors
- help finance public and, more broadly, social investment projects without building up foreign-currency debt.

J-CAP is made possible because of the support of the governments of Australia, Germany, Japan, Luxembourg, Norway, and Switzerland.