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Perspectives on topical foreign direct investment issues

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Sustainable FDI: What more can host countries do to attract and enhance it?

by

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FDI can significantly propel global progress on sustainable development, by internationalizing the technologies, financing, operating models, and corporate mindsets that nurture environmentally-responsible and socially-inclusive economic growth. How fast this happens, however, depends on how fundamentally host countries incorporate sustainable development objectives into every aspect of investment attraction and facilitation, alongside investment policy.

To illustrate a current pattern, surveyed G20 investment promotion agencies (IPAs) emphasize their commitment to promoting sustainable FDI, that is, profitably-operating cross-border investment that actively protects the environment and advances social well-being and economic development. But only half of these agencies make any reference to "sustainable development", "sustainability" or an equivalent concept when pitching their locations to investors on their websites.

If FDI is to drive sustainable development, IPAs must put their energies where their mouths are: they must ensure that sustainable development considerations drive every aspect of their investment promotion mission. Judging from the G20 experience, five points of action are especially pressing in this context:

- *Ensure that sustainable development drives investment promotion and investor targeting.* To start with, host countries must strategically decide what short-term and long-term environmental, social and economic outcomes they most seek from FDI in the context of their nationally determined contributions—and target investors that can deliver on these.

As critical, IPAs must fundamentally incorporate these outcomes into their key performance indicators—and publicly measure and report how the FDI that they attract delivers on each.

- *Ensure that sustainable development drives investor messaging.* In tandem, host countries must clearly enunciate and communicate to target investors the environmental, social and economic goals they have set for FDI. These goals should drive their investment pitch to investors, by qualitatively and quantitatively detailing the commercial opportunities arising from each objective, and what specific advantages and support the host location would offer them in this context.

  Countries that do so (including Canada, France, Australia, the United Kingdom) are attracting investments that, for example, bring cutting-edge technologies, protect the environment, socio-economically empower local populations, and build global competitive advantages.

- *Target sustainability-minded investors in all sectors.* As importantly, host economies should not confine their push for sustainable FDI to new investors in "SDG sectors",[1] principally renewable energy. It is crucial that they also go after sustainability-minded firms in other sectors of importance to their economies. These target firms must be known for minimizing the negative socio-economic and environmental impacts of their operations and maximizing the positive ones. Identifying them will require detailed research and vetting. Existing investors, with a track record for sustainability, should also be targeted. Host countries can step up their contributions to environmental protection and social inclusivity, equality and empowerment through focused policy and support. Host country governments should especially encourage investors whose sustainable development contributions go beyond the requirements set by host country regulation.

- *Offer investors sustainability-focused services.* Host countries should systematically develop investor services that serve to enhance the sustainable development impacts of target and existing investors. For example, IPAs could offer to connect investors with environmental experts and sustainably-minded businesses when introducing them to local consultants, service providers and potential suppliers and partners. Or they could offer to support investors in planning for emissions reductions, materials reuse and conservation, technical skills development, and gender empowerment and equality. Moreover, aftercare for operating projects could incorporate assistance to further boost their environmental sustainability and positively impact local socio-economic empowerment. While some IPAs now offer these types of services to investors on an *ad hoc* basis, they need to be further developed, systematized and strategically marketed for maximal progress on sustainable development.

- *Evaluate and report the key sustainable development outcomes from FDI.* Finally, but as critically, host countries must devise the indicators they need to pinpoint and measure foreign direct investors' contribution to national sustainable development. (A valuable guide in this respect are the sustainable indicators proposed by international experts and the OECD). Using these indicators, host countries must then systematically evaluate investors' sustainable development contributions. They could do this by creating a national "investor relationship management" system that inventories all FDI projects locally and uses routinely collected administrative and regulatory data (at a minimum), to quantitatively or qualitatively track performance.

To conclude, host countries can significantly encourage FDI to drive sustainable development outcomes. They can do this by pursuing investors in SDG sectors and sustainability-minded firms in other sectors, publicly communicating core sustainability objectives, offering sustainability-enhancing services, and continually gauging resulting impacts and influencing investors to do better. The most critical is for sustainable development to become the "must do", instead of the "nice to do", of their entire investment promotion mission.

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[1] Identified by UNCTAD, these "SDG sectors" include food and agriculture, health, education, water and sanitation, energy, transport infrastructure, telecommunications, climate change mitigation, climate change adaptation, ecosystems, and biodiversity. Investment in these sectors contributes most directly to the SDGs.

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