How the G20 can advance sustainable and digital investment

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The Group of Twenty (G20) can embrace a positive agenda to address the collapse of investment following the COVID-19 pandemic, drive digital transformation, and help achieve sustainable development goals. We thus propose to:

1. establish a G20 Investment Facility and Fund to facilitate private–public collaboration and provide resources for technical assistance,
2. endorse a Sustainable Investment Framework to advance such collaboration, through aligning and coordinating efforts,
3. adopt specific investment policies and measures to support sustainable development, prioritizing the linkages between foreign and domestic firms,
4. adopt specific policies and measures to facilitate investment in the digital economy, accelerating productive transformation while building resilience to future shocks, and
5. develop industry-based coalitions as a mechanism to operationalize these efforts.

Challenge

At the start of a new decade, the world is facing the twin challenges of increasing both the quantity and quality of investment flows.

In terms of quantity, the COVID-19 pandemic may lead to a fall of 30 to 40 percent (UNCTAD 2020) in foreign direct investment (FDI) flows, as much economic activity plummets and a world recession looms close. At the same time, digitization is offering channels of adaptation and new modalities of delivering goods and services.

In terms of quality, both policymakers and firms increasingly embrace a double-bottom line approach to investment, whereby profits are generated responsibly and sustainably, although it is not yet clear how best to do so. At the same time, there is political will across governments and firms to develop and implement frameworks in support of sustainable investment (Berger et al. 2019).

The challenge, therefore, is to restart investment flows in a way that helps firms and societies adapt to the downturn, seizing opportunities of digitization to transform ways of doing business, while establishing frameworks to ensure that investment flows make the maximum contribution to sustainable development.

This is no easy task for a number of reasons.
On the one hand, there is confusion over what constitutes sustainable investment and, more importantly, over the policies and measures available for governments to attract, encourage, and stimulate such investment. This is because, given the importance of leveraging investment for development, there has been a proliferation of recent independent initiatives: an action plan to invest in the Sustainable Development Goals (SDGs) (UNCTAD 2014), the identification of the main characteristics of sustainable FDI to permit better targeting (Sauvant and Mann 2017), the development of new funding mechanisms (WBG 2018), and new FDI quality indicators (OECD 2019). This is a challenge to aligning efforts and optimizing resources.

On the other hand, attracting and facilitating investment in the digital economy may require specific policies and measures to create an enabling environment, that is, a “digital friendly” investment climate. This is because there are important differences between firms in traditional industries and firms in highly digitalized industries in terms of their investment decision-making and footprint (Casella and Formenti 2018). In addition, investment in the digital economy is one of the areas of geo-economic tension, as economies increasingly use industrial policy and strategic investment to contest the Fourth Industrial Revolution (Chen et al. 2019; Ciuriak 2019).

Proposal

1. A Group of Twenty (G20) Investment Facility and Fund to facilitate public–private collaboration on investment reforms that increase both the quantity and quality of investment flows, while providing technical assistance to developing economies to help overcome capacity constraints.

2. A Sustainable Investment Framework to advance such collaboration through a common language and understanding of the different levers available to advance sustainable investment reforms. This is important to help align and coordinate public and private initiatives.

3. Concrete, actionable investment policies and measures to advance sustainable development; foremost are measures to support the linkages between foreign and domestic firms.

4. Concrete, actionable investment policies and measures to advance digital development, including through supporting investment in digital infrastructure, in digital firms, and in digital adoption by traditionally non-digital sectors.

5. Industry-based coalitions as a mechanism to operationalize the above, sharing their insights with the G20 to cope with the COVID-19 crisis, while accelerating and deepening investment’s effect on development and digitization.

Each of these five elements are described in the following sections.

I. G20 Investment Facility and Fund

The G20 should create an International Investment Support Program, consisting of a G20 Investment Facility and Fund to boost both the quantity and quality of investment flows\(^1\). Such a support program is especially important because global FDI flows may reduce by 50 percent in 2020, compared with 2019. Recovering from the impending global recession, especially in the case of developing countries, will be accelerated if international investment flows could be ramped up as soon as possible.

The Facility would develop an overall strategic approach and provide coordination in the currently fragmented and under-resourced investment-support landscape. The Fund would provide resources for targeted technical assistance to governments that could tackle specific bottlenecks identified by governments and firms.

The Program should support the entire range of activities geared toward substantially increasing the quantity and quality of FDI flows to beneficiaries. The beneficiaries should be developing countries (including economies in transition), especially the least developed among them. It should focus on the comparative advantage of each intergovernmental institution providing technical assistance in the FDI space, especially the United Nations Conference on Trade and Development (UNCTAD), the World Bank Group (WBG), the United Nations Industrial Development Organization (UNIDO), and the Organisation for Economic Co-operation and Development (OECD). Moreover, this support program should encourage these institutions to work with non-governmental organizations undertaking practical work in the FDI area, such as the World Economic Forum (WEF)\(^2\). Thus, it could help facilitate public–private collaboration to identify specific investment bottlenecks and blockages, as well as potential solutions, including throughly establishing a Global Alliance for Sustainable Investment Facilitation (GASIF) modelled after the Global Alliance for Trade Facilitation (GATF). The Program—to be located in an appropriate organization—could be implemented by a small secretariat and financed by governments interested in improving the ecosystem for FDI flows.
2. Sustainable Investment Framework

The work of the International Investment Support Program can be facilitated through a framework that can help align efforts among different actors. In other words, policymakers and firms need a clear picture of the different channels to pursue sustainable investment and the different tools at their disposal before those channels and tools can be coordinated through the Facility and Fund.

To this end, the G20 can endorse a framework wherein sustainable investment comprises five complementary and mutually reinforcing dimensions (WEF 2019a).

Note: It is difficult to distinguish between investment promotion and investment facilitation, which is why in the figure, they are presented as a continuum with the same color-scheme; nevertheless, they are kept as two dimensions in the framework to make it clearer and more easily actionable.

- **Sustainable investment policies** are key to creating the underlying framework for investment to take place in alignment with environmental, social, economic, and governance principles. Concretely, these can include human and labor rights, health and safety standards, and social and environmental protection. An example of a tool is the use of environmental and social impact assessments[^3]. Policies are also important to keep economies open to investment flows, resisting protectionist developments regarding investment...
such as those taking place in trade as a response to the COVID-19 pandemic.

- **Sustainable finance mobilization** entails a framework for increasing the flow of capital and, especially, the flow of capital to sustainable activities. This requires stakeholders to have information regarding the sustainability behavior of different firms. Thus, policymakers, regulators, investors, media, and civil society can reward sustainable behavior and condemn unsustainable behavior, which aligns market mechanisms with development goals. An example of a tool is environmental and social reporting by firms or reporting requirements to be listed on stock exchanges (see section III). (1)

- **Sustainable investment promotion** can drive sustainable investment by (a) targeting investors in sectors that are particularly conducive to the SDGs, (b) targeting investors with a sustainability mission, and (c) creating a pipeline of sustainable bankable projects. An example of a tool is investment incentives made conditional on the sustainability behavior of firms (see section III) (Sauvant and Gabor 2019).

- **Sustainable investment facilitation** can drive sustainable investment by providing greater facilitation services and support to investment that is aligned with the development goals of the economy. An example of a tool is the use of guarantees or insurance to support and protect sustainable investment (MIGA 2013).

- **Sustainable development impact** involves measures to maximize the positive development impact—and minimize any potential negative impacts—from investment. This can take place through increasing absorptive capacity, indicators to monitor and measure impact, and stakeholder engagement. An example of a tool is supplier development programs to create linkages between foreign and domestic firms (see section III) (WBG n.d.).

Through a clear understanding of these different dimensions, cooperation among G20 economies and within G20 economies on sustainable investment—as well as with non-G20 economies—can be furthered. More detail on the five dimensions— including elements, tools, and actors across each—is laid out in the Appendix.

3. Sustainable Investment Policies and Measures

Within the framework, there are a number of investment policies and measures that can advance sustainable development goals. This section will present six specific measures that could be prioritized by the work of the G20 facility or G20 policymakers, as the evidence indicates that these measures may be amongst the most impactful regarding advancing investment for sustainable development. Five measures will be briefly outlined in subsection A, and then a sixth, support for linkages, described in more detail in subsection B, given its critical importance. These measures can be adopted by governments at the national level, but they can also be the subject of cooperation efforts among governments at the international level; therefore, G20 cooperation can help with their adoption and implementation.

A. Measures to Advance Sustainable Development Goals for Investment

- Include internationally accepted standards and guidelines in domestic frameworks (EU 2017) and international investment agreements (IIAs). The best known and most important among these standards are the UN Guiding Principles on Business and Human Rights (UN 2011), the International Labour Organization Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (ILO 2017), and the OECD Guidelines for Multinational Enterprises (OECD 2011). In addition, there are sector specific supply chain standards that have also been developed, such as for mining (OECD 2016b) or agriculture (OECD-FAO 2016). G20 economies have already started to integrate these into domestic frameworks (EU 2017; US SEC 2012). What is new is that IIAs are starting to include these standards and guidelines as well, with application to firms in both the host and home economies. In 2018, four IIAs included such a reference (UNCTAD 2019).

- Make corporate social responsibility (CSR) programs a requirement for firms above a certain size operating in G20 economies. One way to quickly operationalize international standards at a microeconomic level is for G20 policymakers to require firms operating in or from their jurisdiction to adopt CSR programs, including a requirement to publicize if these programs include international standards. India has made CSR programs a requirement for firms investing in its economy, although it has stopped short of requiring such programs of foreign affiliates of Indian firms invested abroad (Government of India n.d.). South Africa has included CSR programs as one of 12 principles in the voluntary guidelines for its firms investing in other African economies, but has stopped short of making this a requirement (Government of South Africa Department of Trade and Industry 2016).

- Adopt sustainability reporting requirements for firms operating in G20 economies. Reporting is essential for stakeholders to allocate capital according to societal values, with firms that score well being rewarded with greater investment and tax breaks, for example. The
Increase the competitiveness of multiple industries at once through modest intervention and support. Lightform should be distinguished from “heavy-form,” in that it does not focus vertically on a specific domestic industry; rather, it seeks to backward linkages as deep as possible into the host economy (Moran, Görg, and Seric 2016; Buzdugan and Heinz Tuselmann 2018). Country governments may deploy some of the following light-form industrial policy options to hitch FDI to development goals and generate support the creation of inter-firm linkages integrate complementary elements directed to foreign investors and domestic firms. Thus, host link with local firms. Governments may also decide to implement additional targeted measures to enhance linkages. Effective policies to industrial policies. A healthy investment climate can by itself help to create an environment that is propitious for foreign firms to invest and.

The first step to supporting the creation of linkages are measures to improve the overall investment climate, complemented by “light-form” industrial policies. A healthy investment climate can by itself help to create an environment that is propitious for foreign firms to invest and link with local firms. Governments may also decide to implement additional targeted measures to enhance linkages. Effective policies to support the creation of inter-firm linkages integrate complementary elements directed to foreign investors and domestic firms. Thus, host country governments may deploy some of the following light-form industrial policy options to hitch FDI to development goals and generate backward linkages as deep as possible into the host economy (Moran, Görg, and Seric 2017). Lightform should be distinguished from “heavy-form,” in that it does not focus vertically on a specific domestic industry; rather, it seeks to increase the competitiveness of multiple industries at once through modest intervention and support.

Establish hard and soft infrastructure required by investors, which includes transport facilities (roads, airport, and ports), adequate and reliable supply of energy, provision of an adequately skilled workforce (including vocational training of specialized workers, ideally designed in cooperation with the investors). Providing such infrastructure is a challenge and may be beyond the reach of developing and least-developed economies by themselves; this argues for the need of development finance and development partners to help provide the building blocks of such infrastructure. The Asian Infrastructure Investment Bank is a good example of such targeted intervention.

Establish a supportive mechanism to help local firms overcome supply-side constraints. In particular, two types of measures can be fruitful in the long term in this respect—both for developing linkages between local and foreign firms, as well as to strengthen the local industrial structure: the development of a system of quality certification (both at the product and process level) that is often required to operate with foreign firms, and the improvement of the digital infrastructure that allows firms to operate remotely along global production chains and in reaching out to foreign markets (see section IV).

Set up a supplier development program to support the match-making process between foreign firms and local suppliers. To strengthen
Set up a supplier development program to support the match-making process between foreign firms and local suppliers. To strengthen the capacity of the domestic economy, the program may offer finance to indigenous suppliers for required investment based on purchase contracts from foreign buyers (a good example is provided by the Local Industry Upgrading Program of Singapore), or reimburse the salary of a manager in a foreign plant acting as a talent scout among domestic suppliers (as practiced by Singapore’s Economic Development Board) (APEC-UN 2010).

- Shape Export Processing Zones (EPZs) in a way that they spearhead into the domestic economy. Avoid EPZ regulations discriminating against the creation of local supplier relationships. Establish a second industrial zone for local suppliers, for instance, through a site geographically adjacent to the official EPZ to facilitate inputs, or through targeted efforts at supporting domestic linkages to foreign firms in the EPZ.

4. Digital Investment Policies and Measures

Attracting inward FDI in the digital economy is one way to increase digital competitiveness in a rapidly digitalizing world (Ciuriak and Ptashkina 2019). Prior estimates suggest that by 2022, over 60 percent of global GDP would be digitized; yet, coping with COVID-19 will only accelerate and deepen this trend (IDC 2018). At the same time, 50 percent of the world’s population does not participate in the digital economy (WEF 2019b) and, by 2040, there will be a funding shortfall of nearly $1 trillion for information and communications technology infrastructure. Yet, attracting FDI in the digital economy requires specific policies and measures. Digital firms have business models that vary from traditional bricks-and-mortar businesses. Digital firms rely heavily on data and technology, involve platform economies, and leverage non-traditional assets. Building on a conceptual framework laid out by UNCTAD, enabling policies, regulations, and measures may be thought of as falling under three areas (UNCTAD 2017):

- Enabling investment in digital firms—for instance, policies and measures that encourage investment in ridesharing apps, such as the billions being invested in Gojek and Grab as they compete for the ridesharing and delivery market in Southeast Asia (Lee 2020; Lunden 2019).
- Enabling digital adoption by traditionally non-digital firms—for instance, policies and measures that encourage investment in, such as Walmart’s investment in India’s Flipkart to provide online sales (Walmart 2018).
- Enabling investment in digital infrastructure—for instance, policies and measures that encourage investment in payment processors, such as Visa’s investment in Nigeria’s Interswitch, a payment switch and processing company, which made Interswitch a unicorn overnight (Bright 2019).

Within each of these three areas, there are specific policies, regulations, and measures that affect a potential investor’s decision to commit capital and other resources. The question then arises: what is important to an investor’s decision-making? For example, do data localization requirements affect investment in digital firms and activities? Do taxes on digital goods and services affect digital adoption in traditionally nondigital sectors? Does the use of international standards affect investment in digital infrastructure?

A new Digital FDI initiative seeks to identify the relative priority and importance of different policies and measures, with a survey of executives in 310 leading technology firms as the first step. This can help governments prioritize and sequence policies and measures as well as prioritize areas of dialogue and potential cooperation among economies with different regulatory visions. The survey revealed the top elements that investors care about across the following three areas:

- When considering investing in digital firms: (a) data security regulations, (b) copyright laws to protect intellectual property, and (c) data privacy regulations
- When considering investing in digital adoption: (a) availability of e-payment services, (b) support for starting digital businesses, and (c) support for local digital skills development
- When considering investing in digital infrastructure: (a) ease of receiving licenses, (b) availability of skilled local engineers and other workers, and two elements tied for third place, (c) use of international standards, and (d) regional coordination for infrastructure investment

Full findings will be presented in an upcoming white paper, which could help inform G20 initiatives and cooperation in this area. These findings may be especially important in the context of economic downturn, where facilitating digital investment may be one of the ladders to
5. Create Industry-Based Coalitions

Creating industry-based coalitions can be a useful mechanism to enact rapid, transformative change in pursuit of sustainable and digital investment. Such coalitions would bring together policymakers, firms, and experts with specialized knowledge and the interest to drive positive change. Such specialized groups are effective because they have a better understanding of the operational challenges—and potential solutions—facing each industry. Thus, they can shape and advise on, inter alia, industry standards, cooperation opportunities, and trade and investment policies. They can also identify and implement specific development goals in their industry, in support of the SDGs.

The World Economic Forum has recently created 20 industry-based groups of leading CEOs. These groups are critical to supporting the functioning and resilience of industries during the COVID-19 crisis and especially, to coordinate efforts to mitigate the effect of a global recession and speed up recovery. The insights of these industry-based groups should be conveyed to the G20 Trade and Investment Working Group, so that policymakers can draw from the insights of industry leaders regarding measures to address the immediate economic crisis as well as long-term economic recovery.

Industry-based coalitions can, where relevant, also suggest needed product and services-based policies. With increasing specialization of firms that plug into complex global value chains, policies that target specific products and services may accelerate and deepen their contribution to development and digitization. For instance, standards at the industry level that do not consider the standards at the product level may fail to adequately facilitate trade and investment flows related to that product. This could forego some of the potential benefits of investment to help achieve sustainable development.

Conclusion

FDI is expected to fall by up to 50 percent because of the COVID-19 pandemic. This decline is alarming, as the world needs such investment not only for economic recovery, but also for long-term sustainable growth. This brief presents five actionable steps the G20 can take to help restart investment flow.

- First, establish an International Investment Support Program in the form of a G20 Investment Facility and Fund. This would help create both the structure and the resources needed to restart investment flows. In particular, the Facility can support public–private collaboration to tackle investment bottlenecks and limiting factors.
- Second, ensure that the work of the Facility is made easier through a Sustainable Investment Framework, which will help facilitate collaboration and alignment among the efforts of different actors.
- Third, adopt specific investment policies and measures to advance sustainable development, especially through linkages between foreign and domestic firms—which is a key mechanism for investment to contribute to sustainable development.
- Fourth, adopt specific investment policies and measures to advance digital development, including through supporting investment in digital infrastructure, digital firms, and digital adoption by traditionally non-digital actors.
- Fifth, use industry-based coalitions as a mechanism to operationalize the above, tapping into the specificities and needs of different industries.

Together, the above five actions can increase investment flows sustainably. Finally, it is worth noting that, while the G20 can play a leadership—and catalytic—role in these five steps, the outcomes of these steps can benefit all economies; in fact, the larger the number of economies included, the broader are the benefits of this agenda for G20 and non-G20 economies alike.

Disclaimer

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Appendix

[1] For a further development of this proposal, see Sauvant (2020).

[2] The World Economic Forum is currently carrying out sustainable investment projects in Cambodia, Ghana, India, and Kenya, where it is working with policymakers, firms, and experts to identify and implement sustainable investment reforms and measures.

[3] According to a 2019 World Bank-World Association of Investment Promotion Agencies survey, 54 percent of Investment Promotion Agencies surveyed evaluated investors for environmental and/or social impact before providing support—whether services or approval of grants (WET-WAIPA 2019).

[4] Most notably, export controls, especially of medical supplies, but also being considered for food; see Global Trade Alert (2020) and Glauber et al. (2020).

[5] For a discussion of the challenges to mobilizing private finance to achieve the SDGs, see OECD (2016a).
Existing Initiatives & Analysis


[10] For the Global Infrastructure Outlook, see https://www.gihub.org/sectors/communications/

[11] For the WEF's Digital FDI initiative, see https://weforum.box.com/s/sytr3cmogn2q0omk6wq6f6cm43moqls3