OECD Development Policy Tools

FDI Qualities Guide for Development Co-operation

STRENGTHENING THE ROLE OF DEVELOPMENT CO-OPERATION FOR SUSTAINABLE INVESTMENT

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BETTER POLICIES FOR BETTER LIVES

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Foreword

The FDI Qualities Guide for Development Co-operation (the Guide) has been designed to support the implementation of the Recommendation on Foreign Direct Investment Qualities for Sustainable Development (the Recommendation), adopted by the OECD Council at Ministerial Level on 10 June 2022, and to complement the OECD FDI Qualities Policy Toolkit (the Policy Toolkit) which was developed by the Investment Committee (IC) and launched in June 2022. While the Recommendation and the Policy Toolkit are primarily addressed to national governments and their implementing agencies, setting out advice on how governments can enhance the impact of foreign direct investment (FDI) on sustainable development, particularly in the areas of productivity and innovation, job quality and skills, gender equality, and decarbonisation, the Guide provides specific guidance to donors and other development co-operation actors on strengthening the role of development co-operation in mobilising FDI and enhancing its positive impact in developing countries. The Guide reviews a broad range of financial and technical solutions that can enhance the impact of FDI on sustainable development. It outlines a structured approach to help donors more explicitly and systematically consider the impact of FDI in their strategies – as a key element of holistic sustainable development financing strategies in line with the Addis Ababa Action Agenda (AAAA) – and can support the design, implementation and monitoring of FDI-related assistance. The Guide can also provide a useful reference for developing countries willing to engage with donors to enhance the impact of FDI on sustainable development.

This Guide is a joint effort of the OECD Development Assistance Committee (DAC) and the IC. It was approved by both Committees in July 2022, and builds on a longstanding collaboration between them. The importance of a coordinated approach on FDI Qualities between investment and development co-operation actors was first stressed by the Chairs from both Committees at the 2019 Roundtable on Investment and Sustainable Development. As part of the development of the Policy Toolkit, the two Committees since organised a joint session, at the Roundtable on Investment and Sustainable Development in September 2020, on how investment policy makers and development partners could coordinate actions to boost investment and the qualities of investment during the COVID-19 recovery and beyond. A joint informal session of the two Committees discussed the preliminary version of the Guide.

The Guide was prepared under the overall guidance of (i) at the OECD Development Co-operation Directorate, Olivier Cattaneo, Head of Policy Analysis and Strategy Unit of the Financing for Sustainable Development Division, and supervised by Haje Schütte, Senior Counsellor and Head of the Financing for Sustainable Development Division, and (ii) at the OECD Directorate for Financial Affairs, Martin Wermelinger, Senior Economist and Head of Investment Qualities and Incentives Unit of the Investment Division, and supervised by Stephen Thomsen, Deputy Head of the Investment Division, and Ana Novik, Head of the Investment Division.

The Guide was prepared by Coralie Martin, Economist and Policy Analyst at the Development Co-operation Directorate, Takashi Yukizawa, former Policy Analyst at the OECD Investment Division, and Jieun Kim, Policy Analyst at the Development Co-operation Directorate. The Guide benefitted from substantive inputs and comments by Fares Al Hussami, Stratos Kamenis, Iris Mantovani, and Letizia Montinari, all from the Investment Division. The Guide has benefitted from comments by the DAC and IC, as well as consultations with stakeholders from international organisations, the private sector, civil society and academia. It includes a number of examples and good practices provided by DAC members. Eric Bensel, Counsellor at the OECD Development Co-operation Directorate, provided guidance and supported institutional coordination. Liv Gudmundson, Publication and Editorial Lead at the Directorate for Financial Affairs, prepared the Guide for publication and Robert Akam, Communications Officer, helped with communications. Henri-Bernard Solignac-Lecomte, Senior Communications Manager for Development provided continuous guidance and support throughout the publication process.

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Executive summary

Foreign Direct Investment (FDI) is one of the main sources of finance to developing countries for achieving the Sustainable Development Goals (SDGs). FDI represents one of the greatest sources of international capital flows to developing countries. It is a relatively stable source of private international investment, as compared to portfolio investment. FDI reflects long-term investment decisions of firms seeking to bolster existing – or to establish new – productive capacity in international markets. As such, it is often considered to be conducive to sustainable development. The Addis Ababa Action Agenda (AAAA), which provides a global framework for financing the 2030 Agenda, recognises that FDI flows and knowledge spill-overs from FDI, enabled through appropriate public policies, are key for achieving the SDGs.

Development co-operation is often essential to attract FDI in developing countries. Countries where the needs are the greatest often face a combination of barriers to investment and actual or perceived risks making it more difficult for the private sector to invest. Development co-operation can help lower these barriers, for example by offering access to de-risking instruments such as blended finance, including loans or guarantees offered at concessional or competitive terms to unlock private finance. Donors also play an important role in supporting governments' efforts to enhance the attractiveness of developing countries as investment destinations. In recent years, increased pressures on public finance and efforts to narrow the SDG financing gap have placed FDI and mobilisation of private sector resources at the centre of development co-operation efforts.

Beyond the quantities of FDI, its qualities also matter. FDI can play a crucial role in making progress toward the SDGs by advancing decarbonisation, increasing innovation, creating quality jobs, developing human capital, promoting gender equality. Realising the potential benefits of FDI, however, is not a foregone conclusion. Among FDI-receiving countries, some have benefited more than others and, within countries, some segments of the population have lagged behind. Efforts to mobilise investment should therefore be aligned with concerns on qualities and impacts of investment, including progress toward the SDGs. Enhanced collaboration between governments, private actors and the development co-operation community on FDI qualities can help mobilise FDI while aligning priorities, policy objectives and practices with the SDGs.

The Recommendation on Foreign Direct Investment Qualities for Sustainable Development (the Recommendation), together with the OECD FDI Qualities Policy Toolkit (the Policy Toolkit), as well as this FDI Qualities Guide for Development Co-operation (the Guide) – provide a framework to enhance the contribution of FDI to sustainable development, and strengthen collaboration between partner countries and the development co-operation community. The Policy Toolkit provides advice on how governments can enhance the impact of FDI on the SDGs, particularly in the areas of productivity and innovation; job quality and skills; gender equality; and decarbonisation. It outlines a structured process for reviewing policies and institutions underpinning FDI Qualities. With this Guide, the Recommendation and the Policy Toolkit will be complemented by a dedicated component providing guidance to development partners, which can serve as a framework for governments and development co-operation actors willing to collaborate in this agenda.

Development co-operation actors have various options at their disposal to leverage FDI for sustainable development. For example, they can work with partner countries to improve the enabling environment for sustainable investment through support for policy reforms and implementation; or, they can collaborate with businesses themselves – both foreign multinational enterprises (MNEs) and domestic firms – to incentivise investments in sectors and activities with high sustainable impact potential, or to influence the behaviour of investors. While donors have extensive experience providing support in each of these areas, FDI-related development co-operation programmes rarely integrate these different options into comprehensive strategies with a deliberate objective to improve the positive effects of FDI on sustainable development. Furthermore, in specific country contexts, coordination on the topic within the development co-operation community tends to be limited. As a result, development co-operation assistance on investment and sustainable development tends to be fragmented, with risks of duplication, loss of opportunities and misalignment with specific country needs.

A more systematic approach to leveraging FDI for sustainable development can make development co-operation efforts more effective and maximise the impact of investment on the SDGs. Identifying the different mechanisms through which development co-operation actors can enhance FDI impacts is an important starting point to define how tools and limited development co-operation resources can be used effectively. Donors and partners can also reinforce coordination with governments, stakeholders and the development co-operation community to ensure alignment with national priorities, as well as consistency and complementarity of development co-operation interventions. Mapping existing interventions can support greater coordination and help identify potential gaps and opportunities to replicate or scale up relevant interventions. Across and throughout interventions targeting the investment climate and spill-over effects, ensuring consultations and fostering partnerships with a broad range of stakeholders, including policy makers, the private sector, civil society and trade unions is essential at all stages of programmes and project cycles.

1 Rationale and objectives

This chapter provides an overview of the rationale and objectives of the Guide. It provides background on the origins of this work and explains how it supports implementation of the Recommendation on FDI Qualities and complements the FDI Qualities Policy Toolkit. It makes the case for strengthening the role of development co-operation to enhance the impact of foreign direct investment on sustainable development. It then lays out how this Guide could help further strengthen the positive impact of FDI in developing countries.

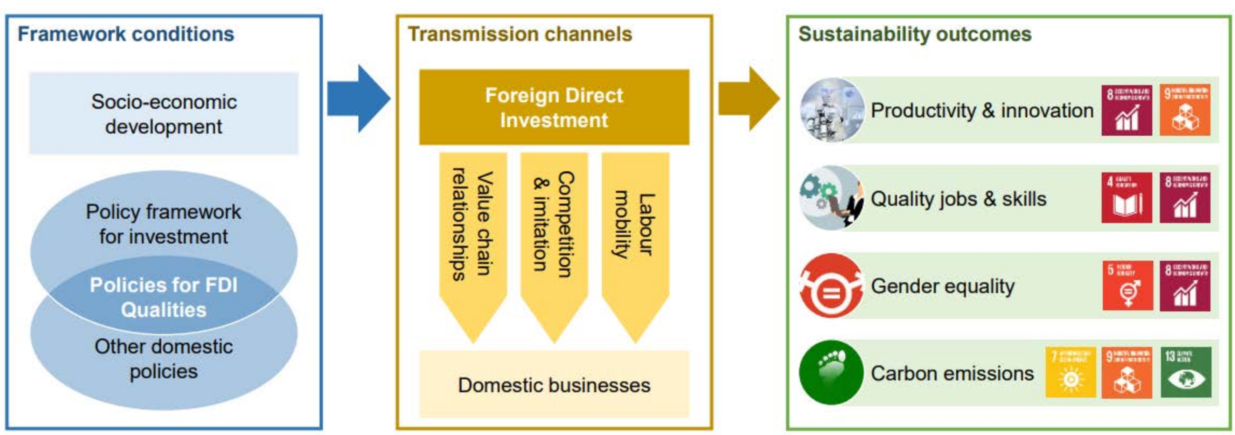
1.1. What is the FDI Qualities Guide for Development Co-operation?

Foreign Direct Investment (FDI) can play a crucial role in making progress toward the Sustainable Development Goals (SDGs). From the viewpoint of the host country, it can, for example, enhance growth and innovation, create quality jobs and develop human capital, including for women, and raise living standards and environmental sustainability. By linking domestic firms to multinational enterprises (MNEs), it serves as a conduit for domestic firms to access international markets and integrate in global value chains (GVCs).

Realising the potential benefits from FDI, however, is not a given: among countries receiving FDI, some have benefited more than others and, within countries, some segments of the population have been left behind. Efforts to mobilise investment should be aligned with concerns on qualities and impacts of investment, including progress toward the SDGs. To realise the potential benefits from investment, policies and institutional arrangements play a critical role.

The FDI Qualities Policy Toolkit (the Policy Toolkit) (OECD, 2022[1]), from which the substance of the Recommendation on FDI Qualities for Sustainable Development (the Recommendation) (OECD, 2022[2]) was drawn, and which supports its implementation, provides advice on how governments can enhance the contribution of FDI to meeting the SDGs. The Policy Toolkit complements the Policy Framework for Investment (PFI) (OECD, 2015[3]), a substantive tool to help governments improve their investment climate. The Policy Toolkit builds on the PFI to provide more specific directions on policy and institutional reforms to enhance the impact of FDI on sustainable development. The Policy Toolkit combines investment and related policies of the PFI with more specific policies in each of the following areas: productivity and innovation; job quality and skills; gender equality; and decarbonisation (Figure 1.1).

Figure 1.1. Conceptual Framework: FDI Qualities Policy Toolkit



Source: OECD (2022[1]), FDI Qualities Policy Toolkit, https://doi.org/10.1787/7ba74100-en

The Recommendation and the Policy Toolkit, like the PFI, have strong links with development co-operation and an embedded objective to foster partnerships with the donor community. The PFI has been recognised as an important tool for development co-operation programmes and policy dialogue with partner countries to foster investment and private sector development.[1] The work on FDI Qualities has been partly developed to reinforce engagement from the development co-operation community on investment and foster greater use of the PFI for development co-operation by integrating a specific focus on the SDGs.

The FDI Qualities Guide for Development Co-operation (the Guide) supports the implementation of the Recommendation adopted by the OECD Council at Ministerial Level on 10 June 2022, and complements the Policy Toolkit, which was developed by the Investment Committee (IC) and launched in June 2022, by supporting its objective to reinforce collaboration between governments and the development co-operation community on investment and sustainable development. The Recommendation includes five policy principles drawn from the substance of the Policy Toolkit and provide overarching guidance to Members and non-Members having adhered to it (the Adherents). The first four principles are addressed to governments. They constitute the backbone of the Recommendation, which tailors the principles to specific area of sustainable development (productivity and innovation, job quality and skills, gender equality; and decarbonisation). The fifth principle targets both governments and development co-operation actors. Practical details for its implementation are provided separately through this Guide. This Guide provides practical guidance aligned with the Policy Toolkit and the PFI to donors and development co-operation partners to tailor and co-ordinate their private sector development programmes. It also provides a common framework to foster collaboration between governments and the development co-operation community and align efforts on investment and sustainable development. Such collaboration is essential to ensure a successful implementation of the policy principles set in the Recommendation in developing countries.

Figure 1.2. Key policy principles of the Recommendation on FDI Qualities

	Principles	Areas covered
1	*Provide coherent strategic direction on investment and sustainable development and ensure policy continuity and effective implementation*	✓Coherent national strategies and plans ✓Cross-ministerial coordination ✓Public consultations ✓Comprehensive monitoring and evaluation frameworks
2	*Ensure that domestic regulation is aligned with international standards and supports positive impacts of investment on sustainable development*	✓International investment and trade agreements ✓International agreements and conventions ✓OECD Policy Framework for Investment principles ✓Domestic regulatory frameworks
3	*Financial and technical support should stimulate investment and build domestic capabilities to support sustainable development*	✓Addressing market failures that hamper sustainable development ✓Build productive capabilities of firms, entrepreneurs and workers that enhance FDI impacts
4	*Facilitate investment and sustainable development opportunities by addressing information failures and administrative barriers*	✓Awareness of impacts of investment on sustainable development ✓Corporate sustainability disclosure ✓Investment promotion and facilitation activities ✓Business linkages and labour mobility ✓Streamlining procedures and permits
5	*Strengthen the role of development cooperation for mobilising foreign direct investment and enhancing its positive impact in developing countries*	✓Identifying solutions to support principles 1-4 ✓Alignment with national priorities ✓Engagement with private sector and civil society

1.2. Why should the development co-operation community and governments collaborate on this agenda?

FDI is one of the main external sources of financing available to developing countries for achieving the SDGs. In 2018, FDI represented 30% of total international capital flows to developing countries, before remittances (26%), other investment (19%), Official Development Finance (15%), and portfolio investment (10%) (OECD, 2020[4]). FDI reflects long-term investment decisions of firms seeking to bolster existing – or to establish new – productive capacity in international markets (OECD, 2016[5]; 2020[6]). As such, FDI is often considered as one of the most “development-friendly” private resources (Box 1.1). The Addis Ababa Action Agenda (AAAA), which provides a global framework for financing the 2030 Agenda, recognises that FDI flows and the knowledge spill-overs from FDI, enabled through appropriate public policies, are key for achieving the SDGs.

Box 1.1. What is foreign direct investment and why does it matter for development?

Foreign direct investment (FDI) is a category of cross-border investment in which an investor resident in one economy establishes a lasting interest in and a significant degree of influence over an enterprise resident in another economy. Ownership of 10% or more of the voting power in an enterprise in one economy by an investor in another economy is evidence of such a relationship.

FDI may consist either in creating an entirely new enterprise (so-called “greenfield” investment) or, more typically, changing the ownership of existing enterprises (via mergers and acquisitions). Other types of financial transactions between related enterprises, like reinvesting the earnings of the FDI enterprise or other capital transfers, are also defined as foreign direct investment. In that sense, FDI differs from other forms of investment such as portfolio investment – which designates ownership of a stock, bond, or other financial asset, typically with the expectation that it will earn a return, grow in value over time, or both.

FDI is a key element in international economic integration because it creates stable and long-lasting links between economies. FDI is also an important channel for the transfer of technology between countries, promotes international trade through access to foreign markets, and can be an important vehicle for economic development. FDI can be crucial in helping countries make progress towards achieving the SDGs. For example, foreign firms often have a technological advantage over domestic firms and might invest in high value-added activities, which improves productivity outcomes at the economy-wide level. Foreign firms’ operations also have spill-over effects on domestic businesses arising from their value chain relationships with domestic firms; market interactions through competition and imitation effects; and labour mobility of workers between foreign and domestic firms. Conducive policies and institutions can help realise the sustainable development potential of FDI and maximise its impact on the SDGs.

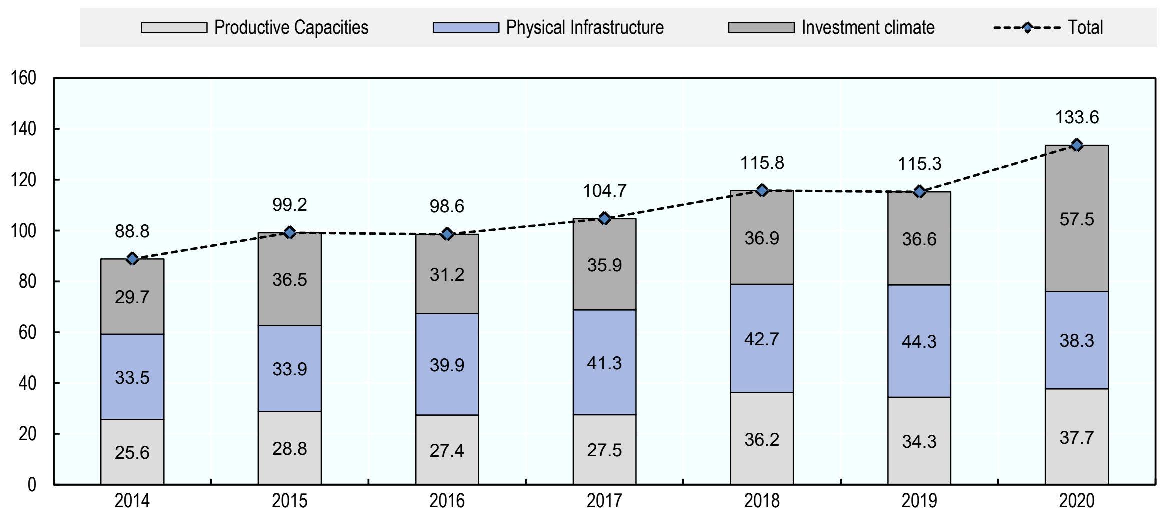
Source: OECD (2022[1]), *FDI Qualities Policy Toolkit*, https://doi.org/10.1787/7ba74100-en.

Development co-operation is often essential to attract FDI in developing countries. While FDI is crucial to build productive capacities and support economic and social transformation in developing countries, countries where the needs are the greatest sometimes struggle to attract FDI. For example, in 2020, FDI flows to LDCs accounted for only 2% of total FDI flows (UNCTAD, 2021[7]). This can be partially explained by a combination of barriers to investment and actual or perceived risks making it more difficult for the private sector to invest (OECD/UNCDF, 2020[8]). Development co-operation can help lower these barriers, for example by offering access to de--risking instruments such as blended finance, including loans or guarantees offered at concessional or competitive terms to unlock private finance. Donors also play an important role in supporting governments’ efforts to enhance the attractiveness of developing countries as investment destinations. Donors frequently provide support, for example for investment climate reforms and/or development of physical infrastructure. A 2016 study by the International Growth Centre identified that a 10% increase in aid to infrastructure would increase FDI by about 4.7 percentage points (IGC, 2016[9]).

In recent years, increased pressures on public finance and efforts to narrow the SDG financing gap have placed FDI and mobilisation of private sector resource mobilisation at the centre of development co-operation efforts. Donors, including DAC members, have developed various initiatives, tools and methods to increase private sector participation in development outcomes (OECD, 2021[10]). While precise figures on donors' support to FDI are unavailable, data on official development finance[2] (ODF) for private sector development (PSD) can provide an approximation of donors' efforts to improve the contribution of private investment to sustainable development, which has steadily increased in the last decade (average growth of 7% year between 2014 and 2020). Total DAC contributions to PSD amounted to USD 756 billion in disbursements over 2014-20, representing 43% of total official development finance (Figure 1.3).

Figure 1.3. Official development finance (ODF) to PSD has steadily grown over the period 2014-20

USD billion disbursements, 2020 prices



Source: Authors' calculations based on Creditor Reporting System OECD/CRS database (2021) https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

The focus has generally remained quantitative (e.g. number of jobs created, volume of exports) with limited attention to the qualities and impact of private sector resources mobilised (e.g. quality of jobs, domestic value-added). As shown by the FDI Qualities Indicators, these qualities are essential to move from resource mobilisation to SDG impact. Unlike public finance, private sector resources do not inherently serve public objectives, and alignment with the SDGs is neither systematic nor automatic (OECD, 2019[11]). For example, depending on the sector, the type of relations between lead and subsidiary firms, or the business model, the impact of FDI job creation, knowledge and technology transfers, or decarbonisation may vary. Furthermore, not all effects of FDI are positive: while FDI has the potential to create jobs, reduce poverty and improve well-being, it can also create or exacerbate risks and vulnerabilities, especially in the absence of a sound governance framework.

FDI mobilisation needs to be accompanied with SDG-alignment efforts to ensure that the ultimate impact of mobilised FDI is positive and maximised. The 2019 OECD Global Outlook on Financing for Sustainable Development (OECD, 2018[12]) stressed that in a context of limited fiscal space, ensuring that resources are channelled in a way that enables and maximises the positive contribution of FDI to sustainable development is more important than ever before to support a sustainable recovery (OECD, Forthcoming[13]). FDI-related development co-operation interventions rarely integrate such objectives, or adopt a deliberate and structured approach to enhancing the sustainability footprint of FDI. As a result, development co-operation activities related to investment and sustainable development tend to be fragmented, with risks of duplication, loss of opportunities and misalignment with specific country needs.

Enhancing FDI impacts requires systematic, comprehensive and coordinated efforts to create adequate conditions and incentives to influence investment decisions and business behaviour and to drive sustainability outcomes. Therefore, ensuring alignment between development co-operation actions, specific country needs, and government priorities is particularly essential to ensure meaningful and effective support. This Guide provides a framework to identify specific areas where development co-operation can have an added value to enhance the impact of FDI, and identify development co-operation options for mobilising and leveraging FDI for the SDGs. It is structured as an extension of the Policy Toolkit, and can provide a common framework for enhanced collaboration between governments, private actors and the development co-operation community to make the most of donor resources and align priorities, policy objectives and practices with the SDGs.

1.3. How to use this Guide?

This Guide is addressed to the development co-operation community, as well as developing countries willing to engage with donors and development co-operation actors to enhance the impact of FDI on sustainable development. The Guide can help Adherents as donors to more explicitly and systematically consider the qualities of FDI in overall strategies as well as the design, implementation and monitoring of FDI-related assistance. Developing countries can also use the Guide to inform their engagement with donors, and ensure the consistency and coherence of FDI-related donor efforts in partner countries. By providing a common framework for international development actors and local authorities in developing countries, the Guide can support effective collaboration on sustainable investment, which is key to further the implementation of the Recommendation on FDI Qualities. The Guide is designed to support the implementation of the fifth principle of the Recommendation on FDI qualities, focusing on development co-operation:

> ***V. RECOMMENDS that Adherents strengthen the role of development co-operation for mobilising foreign direct investment and enhancing its positive impact in developing countries. To this effect, Adherents should promote and foster co-operation across and between the broader donor community and partner countries to:***

- Identify ways that financial and technical assistance, such as blended finance, can support the implementation of the above four principles to enhance the impact of foreign direct investment on sustainable development.
- Promote alignment of donors' assistance with national priorities related to sustainable investment in accordance with relevant international standards, including through the mapping of such assistance, and the identification of potential support gaps or opportunities to replicate or scale-up existing assistance.
- Increase engagement with the private sector, trade unions and civil society, and promote effective multi-stakeholder partnerships aimed at enhancing the impacts of investment on sustainable development, including increased opportunities for women and youth in particular in relation to equal treatment and skills.

Chapter 2 of this Guide provides an overview of development co-operation options that can support efforts to enhance the impact of FDI on the SDGs. It aims to allow the identification of development co-operation options aligned with the Policy Toolkit and the PFI, supporting implementation of the four core principles of the Recommendation on FDI Qualities by implementing principle five focused on development co-operation. It also aims to provide a common language to support enhanced collaboration between partner countries and the development co-operation community. The identification and classification of various financial and technical assistance solutions relies on a comprehensive review of FDI-related development co-operation, some of which were provided by DAC members.

Chapter 2 is structured around four types of development co-operation assistance which can directly support the implementation of the policy principles of the Recommendation on FDI Qualities: i) development co-operation assistance to promote policy coherence on investment and sustainable development; ii) development co-operation assistance to promote alignment of domestic and international policy and legal frameworks with regard to investment and sustainable development objectives; iii) prioritisation of sustainable development objectives when providing financial and technical support to stimulate investment; and iv) development co-operation assistance to facilitate investment and sustainable development opportunities by addressing information failures and administrative barriers. The chapter provides detailed description of what these areas entail, why they matter and what development co-operation support can look like in practice for each category. Throughout Chapter 2, good practice examples are used to illustrate different ways in which development co-operation partners can engage in the promotion of sustainable investment.

Chapter 3 provides guidance to help prioritise, develop and implement development co-operation assistance tailored to specific country contexts. While Chapter 2 lays out options through which development co-operation assistance can support sustainable investment, Chapter 3 aims to support decision-making in the process of developing and implementing relevant assistance on investment and sustainable development. Chapter 3 is structured around six key areas of particular importance in this process:

1. Assessing and understanding the impact of FDI on sustainable development
2. Ensuring alignment with national priorities
3. Ensuring coordination and coherence among the development co-operation community
4. Identifying opportunities, trade-offs and managing the risks of development co-operation assistance for sustainable investment
5. Engaging with businesses, trade unions and civil society
6. Enhancing impact measurement and accountability in development co-operation projects

For each of these key areas, Chapter 3 provides a list of guiding questions to support governments and development co-operation actors in the review, development and implementation of development co-operation interventions aiming to mobilise and leverage FDI for the SDGs. It can be used to inform development co-operation strategies, programmes and projects, and can support collaboration between various actors in a specific country context. Chapter 3 includes guidance that can be used to map different operating channels of donors to enhance the qualities of FDI in a specific country context. Such a mapping can support alignment and coordination of efforts by multiple partners and stakeholders and help identify gaps and opportunities to replicate or scale up relevant interventions.

The three Annexes are important components of this Guide:

- Annex A provides guiding questions that could be used by the development co-operation community and partner countries to review, develop, implement and monitor strategies and projects with a specific objective to enhance the impact of FDI on sustainable development.
- Annex B takes the form of a case study on Jordan to provide an illustration of how this Guide could be used in practice. While this example does not intend to provide a comprehensive review of Jordan, it illustrates how the two chapters and guiding questions can be operationalised in a specific country context, and could facilitate the implementation of this Guide.
- Annex C provides a non-exhaustive list of projects reviewed in the context of this Guide and can serve as a repository of good practice for donors, other development co-operation partners, as well as governments willing to leverage development co-operation to enhance the impact of FDI on sustainable development.

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Notes

[1] See for example the 2015 OECD Council Recommendation on the PFI, which recommends that Adherents promote the PFI as a tool for development co-operation-.

[2] ODF includes Official Development Assistance (ODA) and Other Official Flows (OOF).

2 Compendium of options for development co-operation to enhance the impact of FDI on sustainable development

This chapter reviews options for development co-operation partners to mobilise foreign direct investment and enhance its impact on sustainable development, including through the implementation of the FDI Qualities for Sustainable Development. Good practice examples illustrate these options.

2.1. Overview of development co-operation options to enhance the impact of FDI on sustainable development

Development co-operation can complement and support government efforts to enhance the impact of FDI on sustainable development**.** This chapter builds on the Policy Toolkit to lay out what specific mechanisms can contribute to leveraging FDI for the SDGs. Based on a comprehensive review of FDI-related development co-operation assistance, it identifies and categorises options across the core policy principles of the Recommendation (OECD, 2022[1]):

1. governance and coherent strategic directions on investment and sustainable development
2. alignment of domestic and international policy and legal frameworks with regard to investment and sustainable development objectives
3. prioritisation of sustainable development objectives when providing financial and technical support to stimulate investment
4. facilitation of investment and sustainable development opportunities by addressing information failures and administrative barriers.

Table 2.1 identifies a non-exhaustive list of options that may be considered by development co-operation partners to support and complement partner country policy efforts along these four principles. Each option is then described in further detail and illustrated with good practice example in Section 2.2.

Table 2.1. Development co-operation options to strengthen sustainable investment in partner countries

Policy principles of the Recommendation	Development co-operation options
(1) Governance: Provide coherent strategic direction on fostering investment in support of sustainable development, and foster policy continuity and effective implementation of such policies	• Supporting governments in the design of coherent strategies and policies on investment and sustainable development • Sustaining engagement and providing budget support to ensure policy continuity and implementation of reforms to strengthen sustainable investment • Building the capacity of public institutions to ensure inclusive decision-making and inter-agency coordination in the design and implementation of policies related to sustainable investment • Supporting efforts to assess and monitor the impact of FDI, and related policies, on sustainable development
(2) Domestic and international regulation: Take steps to ensure that domestic policy, legal and regulatory frameworks support positive impacts of investment on sustainable development	• Supporting efforts to join major international agreements and conventions that promote sustainable development and foster responsible business conduct • Supporting alignment of national legislation with international sustainability standards • Supporting the negotiations and implementation of trade and investment agreements, including on sustainability-related provisions
(3) Financial and technical support: Prioritise sustainable development objectives when providing financial and technical support to stimulate investment	• Ensuring a robust impact management and monitoring strategy in the provision of de-risking instruments and scale up the use of blended finance in least developed countries • Adopting a targeted approach to catalysing FDI in activities and sectors with high impact potential • Providing support to build the domestic capabilities of firms, entrepreneurs and workers to foster decarbonisation, productivity and innovation, as well job qualities, skills and gender equality
(4) Information and facilitation: Facilitate investment and sustainable development opportunities by addressing information failures and administrative barriers	• Raising awareness and facilitating implementation of corporate sustainability standards, including RBC due diligence • Supporting government agencies in the delivery of services in support of investment and sustainable development • Developing, supporting or partaking in industry and / or multi-stakeholder initiatives to promote SDG alignment and supply chain linkages

Note: Policy principles on sustainable investment are based on the Recommendation (OECD, 2022[1]).

2.2. Supporting sustainable investment with development co-operation

This section describes how development co-operation can be channelled to support sustainable investment, along the principles of the Recommendation. It relies on a review of FDI-related assistance, including examples provided by DAC members.

2.2.1. Development co-operation assistance to promote policy coherence and continuity on investment and sustainable development

Ensuring policy coherence is key to enhance the positive impact of FDI on sustainable development. Investment and sustainable development touch on various policy areas, including growth, innovation, jobs, skills development, gender equality, and decarbonisation which may all be governed by different policies and strategies and managed by different institutions. Furthermore, the architecture of the institutional framework may differ from country to country. Policy coherence and effective institutional coordination are important to ensure sound policy design, efficiency and implementation. Development co-operation partners could help promote coherence between investment and sustainable development policies, for example through Development Policy Loans, technical assistance to design integrated policies, strategies and action plans, or building implementation capacity in institutions and agencies to ensure inter-agency coordination (Figure 2.1).

Figure 2.1. Promoting policy coherence, continuity and effective policy implementation

Governance

Development co-operation options to promote policy coherence and continuity:

- ✓ Supporting governments in the design of coherent strategies and policies on investment and sustainable development
- ✓ Sustaining engagement and providing budget support to ensure policy continuity and implementation of reforms to strengthen sustainable investment
- ✓ Building the capacity of public institutions to ensure inclusive decision-making and inter-agency co-ordination in the design and implementation of policies related to sustainable investment
- ✓ Supporting efforts to assess and monitor the impact of FDI, and related policies, on sustainable development

Supporting governments in the design of coherent strategies and policies on investment and sustainable development

Development co-operation actors have extensive experience supporting governments in designing sound frameworks for investment, which often include an overarching objective to ensure that FDI contributes to sustainable development. Because attracting and governing private sector investment requires a broad set of policies and incentives touching on a range of policy areas, this support often takes the form of comprehensive reviews of the investment climate. By either carrying out or providing financial support for such work, development partners provide access to independent expertise informed by country comparisons and anchored in international good practice. Beyond their value in providing substantive input, such processes, which typically rely on consultations and dialogues with government institutions and stakeholders, can contribute to enhancing policy coherence, coordination, and participation of stakeholders in policymaking.

Various methodologies and tools have been developed to help governments review and improve their investment framework. The World Bank Group, for example, provides support to the development of FDI Strategies and Investment Roadmaps, improvements of policy effectiveness, and helps promote good practice and strengthen investor confidence. In doing so, the World Bank seeks to maximise the positive spill-overs of FDI for the local economy, such as new technology and business practices (World Bank Group, 2022[2]). UNCTAD carries out reviews to provide strategic advice to countries on how to attract and benefit from FDI (UNCTAD, 2008[3]). The OECD is home to the Policy Framework for Investment (PFI), which has been used by over 30 countries to review and support improvements in the investment climate through Investment Policy Reviews (IPRs). The PFI aims to mobilise private investment that supports steady economic growth and sustainable development, and seeks to advance implementation of the SDGs (OECD, 2015[4]). Some donors such as Australia, Finland, Norway, Switzerland, and the European Commission (EC) have supported IPRs based on the PFI (Box 2.1).

Box 2.1. PFI-based Investment Policy Reviews

An OECD Investment Policy Review (IPR) is a country-specific report conducted by the OECD Secretariat in partnership with the government of the country under review. IPRs have been used by over 30 countries, at varying levels of development and across all continents, as a tool for assessing investment and business climates, and for designing reforms to improve them.

Since 2006, reviews have used the Policy Framework for Investment (PFI) which takes a comprehensive, whole-of-government approach to investment climate reform. The PFI was updated in 2015 and is the most comprehensive and systematic multilateral-backed approach for improving investment conditions ever developed. By fostering an enabling environment for foreign and domestic investment alike, the PFI also plays an important role in delivering on the 2030 Development Agenda and in achieving the SDGs.

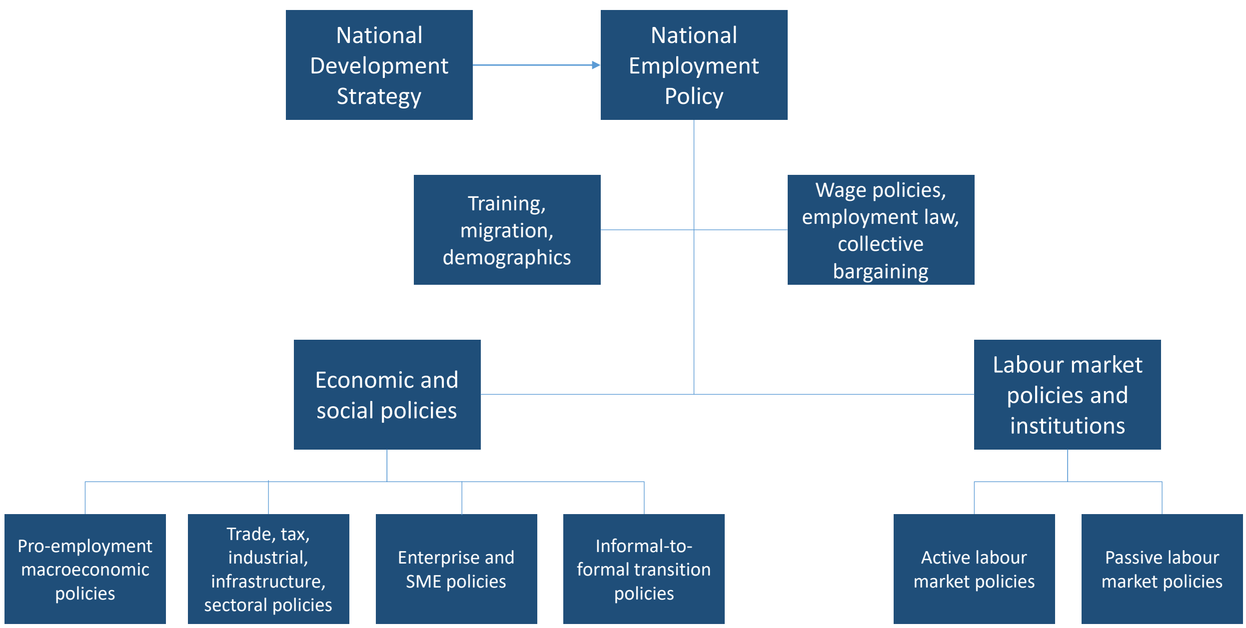
The PFI allows countries to evaluate their progress and to identify priorities for action in 12 policy areas: investment policy; investment promotion and facilitation; trade; competition; tax; corporate governance; promoting responsible business conduct; human resource development; infrastructure; financing investment; public governance; and investment in support of green growth. Three principles apply throughout the PFI: policy coherence, transparency in policy formulation and implementation, and regular evaluation of the impact of existing and proposed policies.

Source: OECD (2022[5]), OECD Investment Policy Reviews, https://www.oecd.org/investment/countryreviews.htm.

While such reviews can help create an enabling environment to attract sustainable investment, ensuring and increasing its impact on the SDGs requires tailored policies. For example, while respect for the rule of law and strong institutions are important conditions to attract investment that contributes to sustainable development, ensuring that FDI leads to improvements in gender equality, wages and carbon footprint, requires a specific set of policies and incentives that are typically not addressed in a detailed and quantifiable way through traditional investment policy support. Development co-operation actors have an opportunity to scale up their expertise and support on coupling mobilising with SDG-alignment efforts. In particular, the links between FDI and the SDGs could be further explored and included in diagnostics and policy recommendations. For example, the FDI qualities Policy Toolkit complements the PFI with additional guidance on how to improve the impact of FDI on sustainable development, and could be used to inform the design of coherent, SDG-aligned, investment policies. Development partners – including Finland, the Netherlands, the EC and Switzerland – have provided support to pilot the use and implementation of this Policy Toolkit, for example, as part of the EU-OECD Programme on Investment in the Mediterranean (OECD, 2021[6]) and the OECD Programme for Sustainable Investment in Africa.

Beyond reviews and diagnostics, development co-operation can help government institutions throughout the process of developing policies that can foster the positive impacts of FDI. This can include assistance to craft coherent and integrated national policies, strategies or action plans related to sustainable investment (e.g. investment, growth, innovation, jobs, skills development, gender equality, and decarbonisation). In addition to providing technical expertise in specific policy areas, development co-operation partners can help ensure an inclusive and consultative process, for example by supporting inter-ministerial dialogues and stakeholder consultations. The ILO, for example, provides technical support to governments in the design of National Employment Policies (NEPs), which aim to advance the SDGs and consider the complementarities between labour, sectoral, trade and investment policies (Figure 2.2). The development of NEPs also involves a comprehensive and intense process of tripartite social dialogue, making the process a tool to reinforce social dialogue institutions and mechanisms (ILO, 2015[7]).

Figure 2.2. ILO approach to design National Employment Policies (NEPs) taking complementary policies, including on investment, into account



Note: Investment policies are included under macroeconomic policies.
Source: Reproduced from ILO (2022[8]), National Employment Policies, https://www.ilo.org/global/topics/dw4sd/themes/n-e-policies/lang-en/index.htm.

Sustaining engagement and providing budget support to ensure policy continuity and implementation of reforms to strengthen sustainable investment

Development co-operation can help ensure that capacities are in place to carry out policy reforms and support policy continuity on investment and sustainable development. While time-bound reviews or technical expertise may provide useful policy recommendations to governments, important challenges often lie in the implementation of recommendations, policies and reforms, which require significant resources, technical expertise and capacity over a sustained period of time. Changes in governments and policy priorities may also add to the implementation challenges. Long-term planning and assistance to the implementation of reforms aligned with national priorities can be instrumental in helping partner countries move from recommendations to action. Donors can also have a positive influence on policy continuity by maintaining engagement in countries and acting as a neutral broker with government institutions.

Financial support to sector reforms can be effective in promoting implementation and continuity. For example, the European Union provides budget support as a means to deliver effective and durable results in support of EU partners' reform efforts and the SDGs. Such support involves dialogue with partner countries to agree on priorities; assessment of progress achieved; financial transfers to the treasury account of the partner country once those results have been achieved; and capacity-development support. The EU has provided budget support to various countries, including to upgrade business environments, promote sustainable industry, or enhance resilience to climate change (European Union, 2020[9]). Donors can also provide technical assistance and build the capacity of institutions to support reform processes. Examples include support provided by Germany's GIZ in the Dominican Republic to promote renewable energy, cut greenhouse gas emissions and support reforms in the energy sector (GIZ, 2022[10]).

A number of programmes or facilities have been developed to offer comprehensive policy reform and implementation support. For example, the African Development Bank (AfDB) Investment Climate Facility (ICF) supports both the design and implementation of reforms through legislative reviews, capacity building of key institutions, promotion of public-private sector dialogue, implementation of recommendations of the NEPAD APRM (African Peer Review Mechanism), research, and media work aimed at improving Africa's image as a place to do business (AfDB, 2022[11]). The MENA Transition Fund, sponsored among others by eight DAC members, uses a range of financing and technical assistance modalities to support MENA transition countries across inter-related thematic areas including investing in sustainable growth, inclusive development and job creation, enhancing economic governance, and competitiveness and integration (MENA Transition Fund, 2021[12]).

Building capacity of public institutions involved in the design and implementation of policies related to sustainable investment to ensure inclusive decision making and effective inter-agency coordination

Development co-operation can support efforts to build the capacity and facilitate coordination across institutions, which is essential to promote policy coherence, effectiveness and continuity. Investment and sustainable development policies are often managed by different institutions and agencies that belong to different policy communities. Ensuring coordination, alignment and adequate repartition of capacity and resources is important to ensure effective and sustained implementation of policies on investment and sustainable development. Development co-operation partners can help overcome these challenges as part of general investment climate reform support, which often involves dialogues with different government agencies, and can include the creation of inter-ministerial task forces to support the process. Development co-operation assistance can also take a more targeted approach, for example by delivering training, facilitating policy dialogues, or through the development of tools and guidance. For example, UN DESA, together with regional commissions, UNDP and other partners, and with funding from Switzerland, Sweden, and France, has developed and rolled out training toolkits to promote policy coherence and integrated policies for the SDGs, which include case studies linking investment and SDG planning (UNITAR, 2021[13]; 2019[14]).

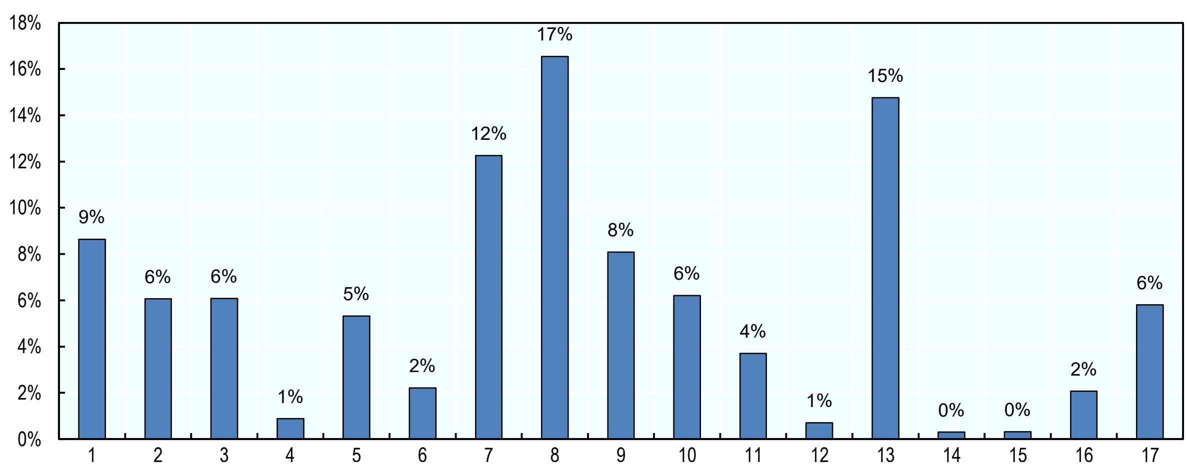
In addition to inter-agency coordination, development co-operation can also help encourage and facilitate engagement with stakeholders on the design and implementation of policies related to sustainable investment. This is particularly essential to understand how FDI affects stakeholders and ensure buy-in and sound policy design. Donors frequently provide support to private sector and stakeholder engagement in policy making, including as part of broader projects to support policy making and implementation. They can also provide ad hoc support to the organisation of events, dialogues, and support government institutions in the development of tools and processes facilitating stakeholder engagement. The FAO, for example, has provided support to the Egyptian Government in the development of agriculture investment strategies, including support to foster private sector participation in Egypt's agriculture, support to public-private dialogues, improved coordination with stakeholders and institutional capacity building (FAO, 2020[15]). The Open Government Partnership (OGP), for example, is a multi-stakeholder organisation supported by various donors (including the United States, France, United Kingdom, Sweden, the European Union) to facilitate stakeholder engagement in policy reform across a range of policy areas (OGP, 2022[16]).

Supporting efforts to assess and monitor the impact of FDI on sustainable development

Development co-operation can help measure and monitor the impact of FDI on the SDGs, which is crucial to ensure the effectiveness of government and development partners' investment-related actions. While the measurement and monitoring of FDI flows and stocks is well established, monitoring and evaluation systems related to the impact of FDI on the SDGs are nascent. Development co-operation partners have deployed important efforts to better capture the impact of private sector resources on the SDGs. For example, the OECD Development Assistance Committee (DAC) has made important progress on the development of statistical tools and measures for tracking SDG-relevant investments, including through the 'total official support for sustainable development' (TOSSD) methodology. This new measure sheds light on how financing for private sector development is intended to affect sustainable development, as TOSSD reporting allows for the indication of intent to target one or more SDGs[1] (Figure 2.3). Such advances are particularly important to allow the development of internationally comparable, unified and transparent data.

Figure 2.3. Private sector development support by SDG in 2020, using the TOSSD methodology

USD billion disbursements, 2020 prices



Note: Includes 93% of TOSSD (Pillars I and II) to PSD (e.g. coverage ratio).
Source: OECD (2022[17]), TOSSD database, https://tossd.online/

Development co-operation actors can draw from these advances and support partner countries in areas such as the development of metrics and indicators, data collection or establishment of a monitoring system. Initiatives such as UNIDO's Investment Monitoring Platform, for example, can support data collection and help governments in Africa access comparable data and better assess the effectiveness of their policies on FDI, and the influence of FDI on domestic firms (UNIDO, 2022[18]). Donors (the Netherlands and Switzerland) have also supported the OECD Investment Committee (IC) to develop indicators on the impact of FDI on specific areas of the SDGs (OECD, 2019[19]). Those FDI Qualities Indicators that have built the foundation of the OECD work on sustainable investment are now being updated (OECD, 2022[20]).

2.2.2. Development co-operation assistance to promote alignment between domestic regulation and international standards on investment and sustainable development

Alignment between domestic regulations and international standards on investment and sustainable development is a fundamental condition to ensure that FDI positively influences sustainable development objectives. Alignment with these standards is crucial to create an environment where both domestic and foreign businesses are encouraged to carry out their operations in a way that contributes to sustainable development, and at a minimum, does not undermine progress towards the SDGs. In addition to steering domestic and foreign business behaviour towards more sustainable practices, alignment with international standards sends a positive signal to investors and trading partners, and helps create a level playing field conducive to attracting sustainable investment. Development co-operation often plays an important role by collaborating in the promotion of these norms, facilitating their adoption and providing assistance to translate them into national regulatory frameworks.

Figure 2.4. Aligning domestic frameworks with international standards that support sustainable investment

Domestic policy and legal framework

Development co-operation options to support alignment between domestic frameworks and international standards that support sustainable investment:

- ✓ Supporting efforts to join major international agreements and conventions that promote sustainable development and foster responsible business conduct
- ✓ Supporting alignment of national legislations with international sustainability standards
- ✓ Supporting the negotiations and implementation of trade and investment agreements, including on sustainability-related provisions

Supporting efforts to join major international conventions and agreements promoting sustainable development

Development co-operation actors can encourage and support government efforts to join major international instruments, such as the Paris Agreement, core UN and ILO conventions, and main international instruments on responsible business conduct (RBC) including the OECD Guidelines for Multinational Enterprises (the MNE Guidelines) (OECD, 2011[21]) and UN Guiding Principles on Business and Human Rights (UN, 2011[22]; OECD, 2022[20]) (see Table 2.2).

Table 2.2. Key legal instruments by SDG area

	Legal Instruments	Year
Productivity & Innovation	OECD Guidelines for Multinational Enterprises	2011
Job quality & skills	ILO Freedom of Association and Protection of the Right to Organise Convention (No 87)	1948
	ILO Right to Organise and Collective Bargaining Convention (No 98)	1949
	ILO Forced Labour Convention (No 29)	1930
	ILO Abolition of Forced Labour Convention (No 105)	1957
	ILO Minimum Age Convention (No 138)	1973
	ILO Worst Forms of Child Labour Convention (No 182)	1999
	ILO Equal Remuneration Convention (No 100)	1951
	ILO Discrimination (Employment and Occupation) Convention (No 111)	1958
	ILO's Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy	2017
	UN International Convention on the Elimination of All Forms of Racial Discrimination	1965
	UN Convention on the right of the Child	1989
	International Convention on Protection of the Rights of All Migrant Workers and Members of Their Families	1990
	OECD Guidelines for Multinational Enterprises	2011
	OECD Due Diligence Guidance for Responsible Business Conduct	2018

	Legal Instruments	Year
	UN Guiding Principles on Business and Human Rights	2011
Gender equality	UN Charter	1945
	UN Convention on the Elimination of All Forms of Discrimination against Women (CEDAW)	1979
	ILO's Equal Remuneration Convention (n 100)	1951
	ILO's Discrimination (Employment and. Occupation) Convention (n 111)	1958
	ILO's Workers with Family Responsibilities Convention (n 156)	1981
	ILO's Maternity Protection Convention (n 183)	2000
Environment & Decarbonisation	Paris Agreement	2015
	Kyoto Protocol	1997
	Geneva Convention on Long-Range Transboundary Air Pollution (CLRTAP)	1979
	Espoo Convention on EIA	1991
	United Nations Framework Convention on Climate Change (UNFCCC)	1992
	United Nations Convention to Combat Desertification (UNCCD)	1994
	International Tropical Timber Agreement (ITTA)	1994
	Aarhus Convention on Access to Information	1998

Source: OECD (2022[20]), *FDI Qualities Policy Toolkit*, https://doi.org/10.1787/7ba74100-en.

Development co-operation actors can, for example, support dissemination of legal instruments or collaborate with partner countries to bring regulatory frameworks in line with international standards in specific areas of the SDGs. In Viet Nam, for example, the ILO, with support from the United States, has helped develop a New Industrial Relations Framework aligned with the ILO Declaration on Fundamental Principles and Rights at Work (ILO, 2022[23]). Reviews carried out by the OECD in the context of non-Member countries' adherence to the OECD Declaration on International Investment and Multinational Enterprises, for example, provide comprehensive advice on how to align national frameworks with the main elements of the Declaration, including the MNE Guidelines (OECD, 2011[24]).

Development co-operation can also support the implementation of commitments made. In the area of climate change, the World Bank has developed a Reference Guide to Climate Change Framework Legislation, to help policy makers legislate on climate change and meet Net-Zero Commitments. The World Bank has also provided support to countries in adopting climate change framework legislation (World Bank, 2020[25]). To support the implementation of international human rights standards, the Commission on Human Rights established the United Nations Voluntary Fund for Technical Co-operation in the Field of Human Rights, which provides financial support for technical assistance to build and strengthen national and regional institutions, legal frameworks and infrastructure that will have a positive long-term impact on human rights. The Fund receives voluntary contributions from Governments, organisations and individuals (OHCHR, 2021[26]). From 2017 to 2020, GIZ provided support to government institutions and agencies for the negotiations of investment contracts aligned and contributing to the SDGs in the extractive sector (Box 2.2).

Box 2.2. The CONNEX initiative support to fair and stable contracts for the extractive sector

The extractive sector is very important to the economies of many developing countries, with more than a fifth of gross domestic product generated through raw materials in many countries. Well-negotiated investment contracts, that can be professionally implemented, are a major success factor to ensure that the sector contributes to economic and social development. Investment contracts regulate the relationship between state and investor and clarify rights and responsibilities.

However, partner countries often lack the necessary information, capacities and specialist knowledge required to negotiate with investors on an equal footing. This can lead to loss of opportunities preventing the sector from realising its full development potential.

To address the issue, the CONNEX Initiative was established at the G7 summit in Brussels in 2014 to provide support in contract negotiations. The CONNEX Support Unit, co-funded by GIZ and the European Union, supports partner countries in complex contract negotiations, principally in the extractive sector, to facilitate the conclusion of stable investment contracts.

To achieve this goal, the CONNEX Support Unit makes independent experts available to developing and transition countries on request. The main focus here is on preparing and implementing specific contract negotiations. The CONNEX Support Unit has implemented support measures for complex contract negotiations in more than 12 countries worldwide, enabling them to mobilise additional resources from the extractive sector and increase this sector's contribution to sustainable development.

Source: GIZ (2019[27]), Fair and stable investment contracts for the extractive sector, https://www.giz.de/en/worldwide/79791.html; CONNEX Support Unit (2022[28]), CONNEX, https://www.connex-unit.org/en/downloads/,

Supporting the negotiations and implementation of international investment and trade agreements, including on sustainability-related provisions

Efforts to integrate sustainability considerations into trade and investment are increasingly reflected in investment and trade agreements. International investment and trade agreements establish the terms and conditions for private investments made by individuals and business entities from one sovereign State in another sovereign State. Recent OECD analysis identified an increasing tendency to integrate business responsibilities and sustainability considerations into investment treaties (Gaukrodger, 2021[29]). For example, Gordon and Pohl find that out of 1 623 international investment agreements (IIAs) – which represents approximately half of all IIAs – only 8.2% included express references to environmental concerns, but since the mid-1990s "the proportion of newly concluded IIAs that contain environmental language began to increase […]. In 2008, 89% of newly concluded treaties contained references to environmental concerns'" (Gordon and Pohl, 2011[30]).This trend is also reflected in preferential schemes such as the EU's Generalised Scheme of Preference (GSP), which removes import duties from products coming into the EU market and include conditions related to labour and human rights (EU, 2022[31]).

Developing countries face a number of constraints when it comes to building negotiating capacity in international investment and trade negotiations. For example, policy coherence and institutional coordination challenges can cause difficulties in defining national negotiating positions, or in arriving at common negotiating positions. The lack or insufficiency of human, financial, and technical resources to adequately prepare for negotiations can also affect the negotiating strength of developing countries. In many instances, these resource constraints hamper countries' ability (i) to conduct strategic development economics research and analyses as the bases for defining the national objectives for negotiations as well as developmental priorities; (ii) to conduct sector- or industry-specific research and analyses to identify the potential impacts of negotiating outcomes on domestic industries; and (iii) understand the negotiating context so as to be better able to define negotiating tactics and strategies (South Centre, Office of the Chairman of the G77, 2004[33]). Such challenges can be exacerbated by the rising complexity of investment and trade agreements covering a growing range of qualitative chapters related to sustainable development. In 2020, Mattoo et al. identified that the number of policy areas covered by Preferential Trade Agreements (PTAs) had increased over the last two decades, with most PTAs since the years 2000 covering between ten and 20 policy areas (Mattoo, 2020[33]).

Development co-operation partners can help developing countries in their efforts to negotiate and implement investment and trade agreements, including through support to embed and monitor the implementation of sustainability provisions. Developing country governments can seek technical assistance from development partners to assess the impacts of IIAs and other international agreements on sustainable development, to negotiate agreements to reflect the needs of governments to pursue sustainable development and to implement these rules. They may also seek financial and technical assistance to mitigate short-term adjustment costs that may arise as a result of greater trade integration. Box 2.3 provides examples of good case practices of development co-operation support to negotiate and implement investment and trade agreements for sustainable development. Beyond support that is targeting developing countries, development partners can also seek to embed sustainability considerations in policies, laws and agreements that relate to outbound investment in their own countries to foster positive impacts on partner countries.

Box 2.3. Examples of development co-operation support to negotiate and implement investment and trade agreements that are aligned with sustainable development objectives

Development co-operation partners can support developing countries in the negotiation and implementation of international investment and trade agreements through various approaches. Good practice examples include:

- Funding research that informs developing country governments about the potential impacts of international agreements on specific sectors or industries as well as the economy as a whole. Such an assessment can explicitly consider the sustainable development impacts of FDI. For example, the European Union has been supporting the African Continental Free Trade Area (AfCFTA) since its launch in 2018 by facilitating negotiation fora or providing technical studies upon African Union demand. The Asia-Pacific Research and Training Network on Trade (ARTNeT), an initiative by UN ESCAP funded by various donors, provides research support on trade and investment for sustainable development, including in the context of trade agreements.
- Building negotiating capacities of developing country officials by providing training in the form of technical seminars and workshops. Donors provide funding to the WTO Global Trust Fund to help developing countries and least-developed countries (LDCs) participate effectively in global trade negotiations by financing training and other capacity-building activities for government officials to help them better understand and implement WTO agreements and to enhance their negotiating skills. For example, the International Institute for Sustainable Development (IISD), together and with funding from UNEP, has developed a Sustainability Toolkit for Trade Negotiators to help build negotiating capacities on matters at the intersection of trade and the environment. The toolkit was rolled out through various workshops and training events (IISD, 2016[34]).

- Facilitating mutual learning among developing country governments and the building of alliances, which can be the basis for better negotiating strength. The RTA Exchange is a knowledge sharing platform jointly implemented by the International Centre for Trade and Sustainable Development and the Inter-American Development Bank. It allows to share experience and best practices on using regional trade agreements as valuable laboratories for new trade rules and approaches that can be harvested at the multilateral level, in order to contribute to a more inclusive global trade and investment system that delivers sustainable development for all (ICTSD/IDB, 2021[35]).
- Supporting the development of model agreements to facilitate investment treaty negotiations and support the development of specific investment treaties. Such model agreements can include sustainability-related provisions and considerations to the impacts of investment. For example, with funding from the EU and GIZ, the International Institute for Sustainable Development (IISD) supported the Southern African Development Community (SADC) in the development of a Model Bilateral Investment Treaty (BIT) Template. The Model BIT aims to promote harmonisation of SADC's member states investment policies and laws and can be used as a guide to support specific investment treaty negotiations. The model BIT includes provisions on a broad range of policy areas including environmental and social impact assessment, environmental management, human rights, environment and labour standards (IISD, 2012[36]).
- Providing technical assistance and capacity building to implement the sustainability provisions embedded in trade and investment agreements. For example, the EU-ILO-OECD Responsible Supply Chains in Asia programme, funded by the EU and implemented jointly by the three organisations, helps companies improve respect for human and labour rights and environmental standards across global supply chains and create an enabling environment for responsible business conduct. The project is carried out in partnership with six partner economies, including countries that have signed trade and investment agreements including sustainability provisions.

Supporting the development and implementation of legislation that aims to enhance the positive effects of investment

Ensuring that domestic regulations reinforce the possible benefits of FDI on sustainable investment is key to leverage investment for sustainable development. Open, transparent and non-discriminatory investment policies, combined with respect for the rule of law, integrity and quality regulations are important pre-requisites of an enabling environment for sustainable investment. In addition, ensuring improved impacts of FDI on sustainable development requires an additional focus on policies at the intersection of investment and sustainable development, including regulatory frameworks on innovation, skills, the labour market, gender equality and the environment.

Development co-operation can play an important role in helping countries develop and implement regulatory frameworks on sustainable development that align with objectives to use investment as a tool to support sustainable development. Development co-operation can, for example, help lower regulatory barriers that impede greater female entrepreneurship and economic opportunities. The World Bank's Women, Business and the Law project, for example, collects data and provides analysis on the laws and regulations that affect women's economic opportunity, with a view to supporting economic empowerment for all (World Bank, 2022[37]). Development co-operation assistance can also support the development of new laws, and help build the capacity of regulators and relevant institutions to reinforce regulations and compliance on sustainable investment. In 2020, the Climate Disclosure Standards Board (recently consolidated into the IFRS Foundation), together with the Sustainable Stock Exchange initiative (SSE), announced their intention to collaborate to deliver capacity building activities for stock exchanges and regulators, as a way to strengthen support for climate–related disclosures and green finance. The IFRS

Foundation and SSE carry out their activities with funding from both public and private donors (CDSB, 2020[38]).

Development co-operation can also support efforts to meet cross-border regulatory requirements of investment partner countries. In recent years, many countries have enacted legislation aiming at making investment and business activities more sustainable, which apply across borders. This includes a growing number of due diligence laws, which require that businesses report at home on the way they manage their environmental and social risks throughout their supply chains. Other examples include the development of taxonomies, which places an obligation on certain companies to disclose the proportion of their global investment that is aligned with environmentally sustainable activities. Without appropriate support, such requirements may be hard to meet for countries that may not have the resources and technical and institutional capacity to implement new standards. Development co-operation can help overcome the challenge, thereby achieving the dual objective of improving the impact of investment on the SDGs, and attracting sustainable finance and investment. The EU, for example, has developed a strategy to support the development of international sustainable finance initiatives and standards, and support low- and middle–income countries in scaling up investment flows towards environmentally sustainable activities (European Commission, 2021[39]).

2.2.3. Development co-operation assistance to incentivise and build capacity to mobilise and enhance the impact of FDI on sustainable development

Governments and development co-operation partners may use financial and technical support (such as subsidised loans or grants) to address market failures hampering sustainable development and thereby help attract sustainable investment and improve the capabilities of firms and skills of workers. Development partners can help governments in the design and implementation of financial support schemes (e.g. with technical assistance). They can also work directly with the private sector to incentivise investment for sustainable development in developing countries.

Figure 2.5. Incentivising investment and building domestic capabilities on sustainable investment

Financial and technical support	**Development co-operation options to incentivise and build domestic capabilities on sustainable investment:** ✓ Ensuring a robust impact management and monitoring strategy in the provision of de-risking instruments and scale up the use of blended finance in least developed countries ✓ Adopting a targeted approach to catalysing FDI in activities and sectors with high impact potential ✓ Providing support to build the domestic capabilities of firms, entrepreneurs and workers to foster decarbonisation, productivity and innovation, as well job qualities, skills and gender equality

Ensuring a robust impact management and monitoring strategy in the provision of de-risking instruments and scale up the use of blended finance in least developed countries

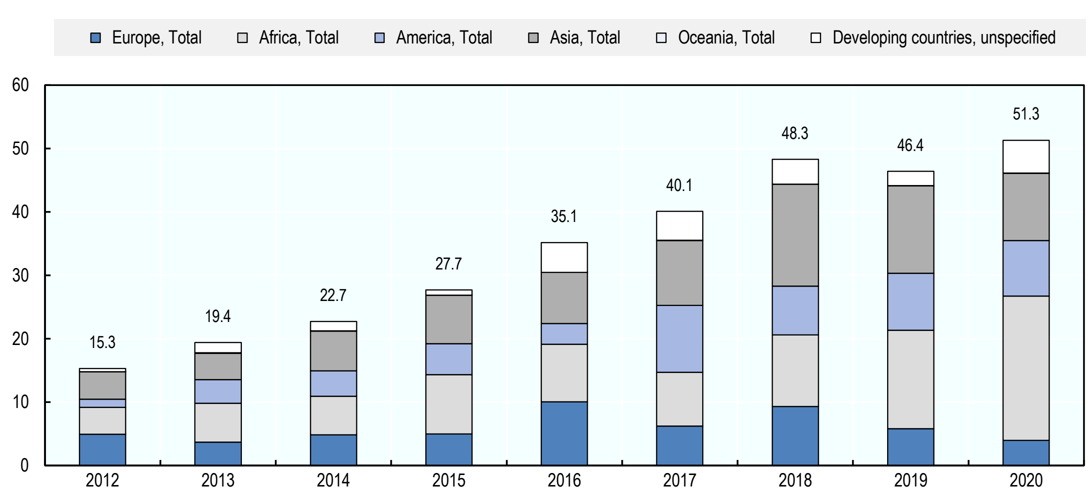
Development co-operation partners provide financial support to incentivise sustainable investment in specific sectors or regions. Development finance institutions (DFIs), for example, use public funds to invest in private sector operations with a dual objective to achieve financial returns while creating positive developmental impacts. DFIs employ various financial instruments to undertake their investments, including loans, guarantees and equity investment, to catalyse private investment and achieve development impacts (ODI, 2015[40]). While disparities in impact management and measurement frameworks present a challenge for the assessment of DFIs' developmental impact, such support can be crucial to attract investment in activities or locations where the risks would otherwise be deemed too high for private investors (OECD, 2022[41]). Multilateral development banks, for example, are large providers of political risk insurance which can be important to enable FDI in developing countries (IsDB/ICIEC, 2020[42]).

Due to their mandate and experience working with the private sector, DFIs are well placed to play an active role in enhancing the positive impacts of investment on the SDGs. However, recent research has found that DFIs have been slow to adapt their business models to growing calls for sustainability, and shift their focus from mobilisation to impact (ODI, 2021[43]). Harmonisation of impact management standards and greater integration of the transformational objectives of investment could bolster efforts to improve impacts of FDI in developing countries. Some DFIs have stepped up their efforts in that area. With its Sustainable Development Analysis and Opinion mechanism, AFD for example, has sought to better integrate inclusion of sustainable development concerns in AFD's financing operations (AFD, 2018[44]).

Blended finance, defined as the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries, has gained ground (OECD, 2018[38]). Through blended finance, development partners can enhance the risk-return profile for private investors by re-allocating the risk or cost of an investment from the private sector to the development co-operation partner. Between 2012 and 2020, USD 306 billion of private finance was mobilised by development finance. Amounts mobilised decreased between 2018 and 2019, but increased again in 2020 -(Figure 2.6); 17 members of the OECD DAC now engage in blending; and 167 facilities were launched between 2000-16 to pool finance for blending (OECD, 2020[39]). The OECD DAC Blended Finance Principles include a focus on ensuring that blended finance is anchored in a development rationale.

While private finance mobilised through blended finance approaches has grown rapidly in the last decade, the amounts contrast sharply with the estimated USD 3.7 trillion gap to finance the SDGs. There is scope to further scale up blended finance mechanisms, especially in LDCs. Of all the private finance mobilised by official development finance interventions between 2012 and 2017, only USD 9.3 billion, or 6%, went to LDCs, whereas over 70% went to middle–income countries (Figure 2.6) (OECD, 2020[46]). More transparency and harmonisation in impact management and measurement approaches could also contribute to making blended finance more impactful and effective. Greater project diversification, and a conscious effort to scale up support for companies, projects and regions that face the greatest difficulties accessing finance, can also contribute to increasing both investment mobilisation and impact.

Figure 2.6. Private finance mobilised by official development finance, across regions (2020 USD bn)



Source: OECD, Amounts mobilised from the private sector for development, http://www.oecd.org/development/stats/mobilisation.htm

Adopting a targeted approach to catalyse investment in high impact sectors and activities

Development co-operation partners can adopt a targeted approach to supporting FDI that contributes to specific SDG-related objectives. This can include investing in sectors that contribute to progress in productivity and innovation**.** Official development finance was transformational for many countries in their digital revolution. For example, the CDC Group, the UK's DFI, pioneered investments in Africa's mobile network, which spearheaded the technological transformation of the continent. The number of mobile phone users increased from almost none in the early 2000s to more than 400 million in 2017. (Runde, Bandura and Ramanujam, 2019[47]). In 2021, a consortium comprised of UK's Vodafone Group and CDC Group, Kenya's Safaricom, South Africa's Vodacom Group, USA's Development Finance Co-operation, and Japan's Sumitomo Corporation, obtained a telecoms operating licence, enabling a total planned investment of USD 8 billion, the single largest FDI to Ethiopia to date (Embassy of Ethiopia in the UK, 2021[48])

In the same spirit, development partners may also decide to allocate funding to support investment in clean energy projects (Box 2.4). According to the International Energy Agency (IEA), clean energy investment in emerging and developing economies needs to increase by more than seven times – from less than USD 150 billion last year to over USD 1 trillion by 2030 to put the world on track to reach net-zero emissions by 2050. The 2021 special report produced by the IEA in collaboration with the World Bank and World Economic Forum calls on governments to give international public finance institutions – including development and green banks as well as infrastructure and clean energy funds – a strong strategic mandate to finance clean energy transitions in the developing world. According to the IEA, enhanced provision of debt, equity and a range of blended finance instruments and structures will be important to help catalyse project development and attract higher levels of private capital in markets and sectors with persistent risks and barriers (IEA, 2021[49]). In line with this objective, multilateral development banks, in particular, have committed to aligning financial flows with the Paris Agreement at the 2017 One Planet Summit, by redirecting financial flows in support of low-emissions, climate–resilient development in developing countries and by developing processes and tools to put commitments into practice.

Box 2.4. Catalysing clean energy investment: the example of the AfDB and IFC's Redstone Concentrated Solar Project

The solar power project developed by the Saudi company ACWA Power, an investor and operator of power plants and water desalination plants, and financed by the African Development Bank and the International Finance Corporation, aims to balance South Africa's energy mix, which currently consists more than 80% of coal, and accelerate the transition to renewable energy. The project is expected to create more than 3 500 jobs over its life cycle. The financing conditions required that the project fulfils social development requirements for employees, Black Economic Empowerment, procurement from small and medium enterprises (SMEs), local content, and shareholding by local communities. The Redstone CSP project introduces a novel technology to store solar energy in a molten salt thermal energy storage system, which will enable the power plant to deliver a stable electricity supply to more than 200 000 South African homes during peak demand periods, even well after the sun has set. First introduced and tested in the US, this way of generating and storing energy is particularly prone to the desert environment in South Africa and other African countries.

Source: AfDB (2018[50]), South Africa – Redstone 100mw Concentrated Solar Power (Csp) Project – ESMP Summary, https://www.afdb.org/en/documents/document/south-africa-redstone-100mw-concentrated-solar-power-csp-project-esmp-summary-102590

Development co-operation partners increasingly embed gender equality objectives in their financing decisions. This may involve the provision of grants with the explicit objective of gender equality promotion, or the issuance of policy directives requesting that new investments address gender equality concerns. Initiatives such as the '2X Challenge', initiated in the G7 context, establish definitions and methodologies for gender-lens investing that provides women in developing country markets with improved access to support, leadership opportunities, finance, and products and services that enhance economic participation and access. In Latin America, IDB Invest, the private arm of the Inter-American Development Bank, offered a performance–based financial instrument based on gender outcomes, with funds from the Canadian Climate Fund. With this mechanism, projects meeting a pre-defined gender-related target, could obtain a reduction in the interest rate on the loan of up to 25 basis points (Oueda, 2018[51])

Development partners can also affect the impacts of FDI on sustainable development through screening criteria conditioning financial support to sustainability commitments and practices. Through the use of sustainability and other screening criteria to evaluate the sustainable development impact of projects, donors can ensure that sustainable development aspects are sufficiently integrated in investment decisions. For example, the Dutch Good Growth Fund (DGGF), provides financial support to businesses exporting or investing in developing countries, as well as domestic firms. To access funding from the DGGF, businesses must comply with a range of criteria, including international corporate social responsibility standards, and contributing to the country's sustainable development – i.e. to local employment, production capacity and/or knowledge transfer (DGGF, 2022[52]). The OECD UNDP Impact Standards for Financing Sustainable Development (IS-FSD), approved by the OECD DAC in March 2021, constitute a decision-making framework for all organisations with a desire to demonstrate public accountability regarding their measurement and management of impact (OECD/UNDP, 2021[53]). As such, they can be used by development co-operation partners to screen potential partners and assess their impact focus, including on cross-cutting themes such as gender, climate and the quality of jobs.

Providing support to build the domestic capabilities of firms to participate in value chains and foster decarbonisation, productivity and innovation, as well as job quality, skills and gender equality

The availability of skills in host countries can be an important factor for foreign investment decisions, therefore training a labour force that can be readily employed by foreign firms may be conducive to attracting more foreign firms. Development partners can help by providing skills matching and training that will help attract FDI and foster positive impacts. Many developing countries receive assistance from development co-operation partners for employment programmes linking the private sector with job seekers, equipping the latter with the skills sought after by potential employers. Vocational training programmes, for example, can help address the skills mismatch and attract FDI in activities and sectors with high impact potential (Box 2.5). Capacity building and training programmes can also be relevant to support re-skilling for sectors in transition, for example in the context of decarbonisation efforts.

Development partners can also help build the capabilities of domestic firms, entrepreneurs and workers, to foster decarbonisation, productivity and innovation, as well as job quality, skills and gender equality. Such support can take the form of grants or loans to help businesses invest in research and development (R&D), for example to adopt innovative low-carbon solutions. Donors and development actors may also engage with domestic firms to build their capacities to become partners and suppliers of foreign firms, through training or capacity building programmes. For instance, the IFC and Newmont Ghana Gold Ltd. jointly developed a local procurement and supplier development programme called the Ahafo Linkages Programme, which is focused on capacity building and integrating local businesses into the supply chain. This is done through the support and development of local SMEs using a technical and business skills mentoring approach to enable them to meet Newmont's procurement standards and stringent requirements (Simanye, 2014[54]).

Box 2.5. Building workers capacity to create jobs: SIDA and UNIDO's Heavy Duty Equipment and Commercial Vehicles Academy in Ethiopia

In Ethiopia, there is a growing need for skilled labour, and finding a trained workforce is a bottleneck for companies. Technical vocational education and training programmes do exist but are often based on theoretical training and are poorly aligned with the actual needs of the labour market and the private sector. SIDA's strategy includes creating improved opportunities for productive employment with decent work conditions – particularly for women and young people.

A Public Private Development Project was launched with SIDA, UNIDO and Volvo, to address both the private sector's need for a skilled workforce and the country's high unemployment rates. Volvo and its customers needed highly trained mechanics to secure sustainable maintenance of a large order of trucks. Meanwhile, the provision of modern and qualitative vocational training and job opportunities aligned well with Sweden's strategy for development co-operation with Ethiopia.

This resulted in Ethiopia's first state-of-the-art vocational training for heavy machinery being established at the Selam Technical and Vocational College, during the period 2012-19. Volvo contributed technical equipment, training material, trainings of teachers, ongoing curriculum development and apprenticeship opportunities for students. UNIDO has considerable experience with technical vocational training and is responsible for the overall project management. The training takes place at the Selam Vocational Training College, which also manages the administration of the academy, the recruitment of teachers and the selection of students.

Source: SIDA (2020[55]), SIDA's private sector collaboration, https://sidase-wp-files-prod.s3.eu-north-1.amazonaws.com/app/uploads/2020December 01161630/sidas-private-sector-collaboration-1.pdf.

2.2.4. Development co-operation assistance to facilitate sustainable development opportunities by addressing information failures and administrative barriers

The way businesses – both foreign and domestic – carry out their activities is a key determinant of the impact of FDI on sustainable development. Regardless of the sector or location, investment providers and recipients can take active steps to understand and manage their impacts on workers, communities, the environment and society as a whole. Social and cultural norms, as well as general awareness of standards of business conduct can be important factors influencing business behaviours. Development co-operation can be instrumental in raising awareness about impacts of FDI on sustainable development. Development co-operation partners can also provide training and build the capacity of firms to implement RBC standards, as a way to attract responsible investment and enhance the impact of FDI.

Figure 2.7. Facilitating sustainable investment opportunities

Information and facilitation

Development co-operation options to facilitate sustainable investment opportunities:

- ✓ Raising awareness and facilitating implementation of corporate sustainability standards, including RBC due diligence
- ✓ Supporting government agencies in the delivery of services in support of investment and sustainable development
- ✓ Developing, supporting or partaking in industry and / or multi-stakeholder initiatives to promote SDG alignment and supply chain linkages

Raising awareness and facilitating implementation of corporate sustainability standards, including RBC due diligence

Broad awareness of the links between FDI and sustainable development is important to create an environment where social and cultural norms are conducive to fostering positive impacts of investment. General public awareness can also support more efficient policy making, informed by stakeholder dialogue and allowing the identification of key challenges and opportunities to enhance FDI impact. Development co-operation actors can help raise public awareness of the links between FDI and sustainable development, notably through the development of tools, training, organisation of events and dialogue for businesses, policy makers and civil society.

Development co-operation can also be instrumental in raising awareness and facilitating implementation of standards that promote the positive impacts of foreign and domestic businesses. Implementation of international RBC standards including the MNE Guidelines, the UN Guiding Principles on Business and Human Rights, and the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, is essential to foster the positive impacts of FDI on sustainable development (OECD et al., 2020[56]). Development co-operation partners can support efforts to disseminate and promote a shared understanding of what expectations towards businesses embedded in international RBC standards entail. For example, in countries that have adhered or are in the process of adhering to the MNE Guidelines, development partners can support the establishment and help build the capacity of National Contact Points for RBC, which are agencies established by governments tasked with a mandate to promote the MNE Guidelines and related due diligence guidance, and to handle cases as a non-judicial grievance mechanism (OECD, 2022[57]). Such support can take different forms including funding for review and capacity building, but also active participation in pairing and peer learning activities.

Development partners can also finance or take part in projects involving businesses and relevant actors to build capacity and actively support practical implementation of sustainability standards. For example, through the Better Work programme, the ILO and the IFC with funding from official donors, work with governments, businesses and stakeholders, and provides training in factories on the implementation of labour standards to promote better working conditions and competitiveness. The programme has supported 1 700 factories across 12 countries (ILO/IFC, 2022[58]). Donors can also undertake awareness raising activities and building capacities to carry out risk-based due diligence – a process through which businesses identify and manage their environmental and social risks and impacts – in alignment with international RBC standards. In 2022 the OECD released an e–learning Academy to provide stakeholders with knowledge on RBC and OECD risk-based due diligence, thus supporting implementation of RBC standards (OECD, 2022[59]).

Development partners can also play an important role in promoting transparency and harmonisation of disclosure frameworks. While availability of non-financial information is crucial for both domestic and foreign firms to manage their impacts and integrate sustainability considerations in their investment decisions, disparities in disclosure frameworks and practices impede further uptake and implementation of RBC standards. Donors can help promote alignment and transparency, for example by supporting standard-setting initiatives, or engaging with governments, market regulators, stock exchanges. For example, the Australian Department of Foreign Affairs and Trade supports the Sustainable Trade and Investment in the Indo-Pacific programme, implemented by the Global Reporting Initiative (GRI) which aims to increase corporate transparency on social and environmental impacts to drive sustainable trade and investment in the Indo-Pacific region. Through this programme GRI supports the capacity of listed companies to disclose their sustainability impacts, and promotes a reporting environment conducive to transparency, by engaging market regulators and stock exchanges in the region (GRI, 2022[60])

Supporting government agencies in the delivery of services in support of sustainable development

Government agencies, in particular Investment Promotion Agencies (IPAs), are key players in bridging information gaps that may otherwise hinder the realisation of foreign investments and their potential sustainable development impacts. Their primary role is to create awareness of existing investment opportunities, attract investors, and facilitate their establishment and expansion in the economy, including by linking them to potential local partners. Most IPAs prioritise certain types of investments over others, by selecting priority sectors, countries or investment projects, and allocating resources accordingly. Development co-operation can help build the capacity and support institutions in effectively prioritising investment against sustainability criteria, and delivering services to businesses that positively influence their contribution to the SDGs. For example, the ILO and the World Association of Investment Promotion Agencies provide training to IPAs to strengthen their investment promotion and facilitation capacities, expand their after-care services and, more broadly, enhance the development impacts of FDI, particularly as regards the creation of more and better jobs (WAIPA, 2020[61]). GIZ has designed an IPA Toolbox, which provides practical guidance to support IPAs and includes advice to ensure that IPAs activities advance the SDGs (GIZ, 2020[62]).

Developing, supporting or partaking in industry and/or multi-stakeholder initiatives to promote SDG alignment and supply chain linkages

Collaborative initiatives, including industry and multi-stakeholder initiatives, can be effective ways to promote a shared understanding and implementation of sustainability standards while fostering value chain linkages**.** Active efforts to manage environmental and social impacts along the value chain are necessary to achieve and maximise the positive spill-over effects of FDI. While finance providers and foreign investors can embed sustainability criteria in their investment decisions and practices, positive impacts on the SDGs will be enhanced if investment recipients similarly engage in activities that contribute to job creation, well-being and gender equality, and adopt an SDG lens in their own practices and business decisions, including related to sourcing, contracting, and all forms of business relationships. Industry initiatives can go a long way in promoting common norms and practices in entire value chains, which in turn reinforces inter-firm linkages and investment attractiveness. In many cases, collaborative initiatives include trade unions, NGOs, and civil society members, which may contribute to finding common solutions to sustainability issues, improving industrial relations and promoting accountability.

Development partners support financially a number of collaborative initiatives and can also take an active role in convening and steering such initiatives. For example, the Extractive Industries Transparency Initiative (EITI), a global multi-stakeholder initiative which aims to establish a global standard in the management of oil, gas and mineral resources, is funded by adhering countries, but also receives support from various donors through its Extractives Global Programmatic Support (EGPS) multi-donor facility managed by the World Bank (EITI, 2022[63]). The Green Economy Coalition, which brings together trade unions, businesses, NGOs, UN agencies and citizen's groups to promote an equitable environmental transition, receives funding from the European Union. As part of the develoPPP.de programme of the German Federal Ministry for Economic Co-operation and Development (BMZ), GIZ has co-operated with BASF, Procter & Gamble and Cargill to assist farmers in the Philippines and Indonesia to secure certification for their produce according to the Sustainable Agriculture Network of the Rainforest Alliance (GIZ, 2021[64]). In addition to promoting sustainable practices, development co-operation partners can seek to convene or leverage multi-stakeholder partnerships to strengthen value chain linkages and thereby boost spill-over effects (Box 2.6).

Box 2.6. Boosting competitiveness and SDG impact: GIZ's Competitive Cashew Initiative

Launched in 2009, the Competitive Cashew initiative brings together more than 100 public and private partners, including the German Federal Ministry for Economic Co-operation and Development (BMZ), the Bill & Melinda Gates Foundation, the United States Agency for International Development (USAID), and private international companies such as Kraft Heinz Foods, Intersnack and Olam.

The initiative, which is coordinated by GIZ, works along the entire value chain, from production, processing and marketing right through to export. Experts give the producers advice about cashew farming and operational management. The initiative also channels investments from participating MNEs into local production and processing capacities. Moreover, while raising the productivity and sustainability of the regional cashew industry, the initiative helps to attract additional foreign investors.

Since 2009, more than 430 000 cashew farmers in five producer countries (Benin, Burkina Faso, Côte d'Ivoire, Ghana and Mozambique) have taken part in further training, enabling them to increase their total earnings by more than EUR 100 million. The farmers have also formed a cooperative in order to sell their harvests more efficiently and forge contacts with companies that process cashew nuts locally. By providing local processing companies with advice and support, the initiative has succeeded in raising processing capacity in the five countries from 9 000 tonnes to 250 000 tonnes in 2016. In addition, more than 440 000 new jobs have been created – 75% in production, 25% in trade and processing.

Source: GIZ (2022[65]), The Competitive Cashew Initiative, https://www.giz.de/en/workingwithgiz/8410.htm.

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Note

[1] TOSSD includes all cross-border resource flows (ODA, OOF and South-South co-operation) to eligible countries (the so-called Pillar I) plus all global and regional expenditures to finance international public goods (Pillar II). Private finance mobilised can also be considered as part of the TOSSD framework but is not shown in the current section because its SDG focus is not available.

3 Guidance for effective design and implementation of development co-operation assistance on sustainable investment

This chapter provides guidance to support decision making in the design, implementation and monitoring of development co-operation projects supporting investment for sustainable development. It provides examples of how development co-operation effectiveness principles can be applied and embedded into interventions focused on enhancing the qualities of FDI.

3.1. How to develop and implement effective interventions

While development co-operation partners can use a range of financial and technical assistance solutions to enhance sustainable investment, effective support requires prioritising interventions taking into account specific country contexts and objectives. Chapter 2 provided an overview of the various types of development co-operation mechanisms that can be considered to promote sustainable investment. This third chapter focuses on how to develop relevant interventions adapted to specific country contexts, and make decisions between different options that may each entail costs and benefits. Considerations for prioritising interventions include, for example, ensuring that support aligns with the national priorities of partner countries; ensuring that the support provided addresses a need and does not overlap with existing development co-operation interventions; and considering complementarities and trade-offs between different support modalities and objectives.

This chapter highlights good practice that development co-operation partners may consider to support decision-making on investment and sustainable development. It is structured around six key areas where enhanced engagement of governments, donors, businesses and stakeholders can strengthen the role of development co-operation to enhance the impacts of FDI on sustainable development:

1. Assessing and understanding the impact of FDI on sustainable development
2. Ensuring alignment with national priorities
3. Ensuring coordination and coherence among the development co-operation community
4. Identifying opportunities, trade-offs and managing the risks of development co-operation assistance for sustainable investment
5. Engaging with businesses, trade unions and civil society
6. Enhancing impact measurement and accountability in development co-operation projects

Annex A of this Guide provides a list of guiding questions along these six areas to support governments and development co-operation actors to review, develop and implement development co-operation interventions to mobilise and leverage FDI for the SDGs. While this list does not intend to be exhaustive, it provides a condensed summary of elements to consider throughout the project cycle. It can be used to inform development co-operation strategies, programmes and projects, and can support collaboration between various actors in a specific country context. Guiding questions drawn from Annex A are also presented at the end of each corresponding section below.

3.2. Assessing and understanding the impact of FDI on sustainable development

In order to effectively design and implement support measures to enhance sustainable investment, it is essential to examine the relationship between FDI and sustainable development in a specific country context. FDI can contribute to sustainable development through the activities of foreign firms (direct impact) and via knowledge and technology spill-overs that arise from market interactions with domestic firms (indirect impact). The impacts of FDI may not materialise automatically, and depend on a number of economic, market and firm-specific factors. These framework conditions underpin the channels through which FDI affects sustainable development and shape the magnitude and direction of spill-overs in the host economy.

The Policy Toolkit provides guidance on how to assess the performance of FDI for each of the four areas of the SDGs covered by the toolkit (productivity and innovation; employment, job quality and skills; gender equality; and decarbonisation). Such an assessment can shed light on the trends and complexities of the relationship between FDI and sustainable development, facilitating the identification of policy priorities and possible trade-offs.

Development co-operation actors may rely on analysis carried out by partner countries to inform their interventions on investment and sustainable development, or work with partner countries to undertake such an assessment**.** Guiding questions below provide a non-exhaustive list of questions that can help development co-operation actors gain a better understanding of the effects of FDI on the SDGs. Additional details and guidance tailored to each SDG area covered by the Policy Toolkit (productivity and innovation; employment and skills; gender equality; decarbonisation) and can provide a reference to examine the impact of FDI in a specific country context to any party interested in enhancing sustainable investment.

Effective support starts with adequate capacity and technical expertise. While development co-operation actors have developed extensive expertise on policies and incentives to mobilise FDI, FDI impacts and the specific ways in which FDI contributes to the SDGs is a relatively new field. Development co-operation actors willing to engage in that field should ensure adequate expertise and capacity to engage meaningfully and provide support to partner countries. Partner countries may also work with partner organisations to build their own capacity to engage with the development co-operation community.

Guiding questions to assess and understand the impact of FDI on the SDGs

- Has an assessment of the impacts of FDI on productivity and innovation, job quality and skills, gender equality, and carbon emissions been carried out in recent years? Is further analysis required to understand the relationship between FDI and sustainable development?
- What is the country's performance in terms of productivity and innovation; labour issues; gender equality; carbon and other GHG emissions?
- Which sectors are driving performance on each SDG area? Does concentration of economic activity in certain sectors present challenges when it comes to enhancing FDI impacts?
- What is the status of GVC integration (both through backward and forward linkages)? Which sectors are better integrated into GVCs? To what extent are SMEs integrated into GVCs?
- How does FDI generate positive effects on productivity and innovation; job qualities and skills; gender equality? What are the impacts resulting from foreign firms' direct operations in the country? From competition and imitation effects? From labour mobility of workers?
- How do foreign companies perform on different sustainability areas compared to domestic firms?
- Are there regional disparities in the performance of foreign and domestic firms on sustainable development?

3.3. Ensuring alignment with national priorities

Development co-operation interventions on investment and sustainable development should be informed and aligned with countries' national priorities**.** Various international instruments aiming to strengthen aid effectiveness recognise the importance of ensuring alignment with national priorities of partner countries. For example, the Paris Declaration on Aid Effectiveness (2005) includes a commitment to "*increasing alignment of aid with partner countries' priorities, systems and procedures and helping to strengthen their capacities*", echoed in the Busan Partnership for Effective Development Co-operation (2012), Nairobi Outcome Document (2016), and Kampala Principles on Effective Private Sector Engagement in Development Co-operation (hereafter: the Kampala Principles) (OECD, 2019[1]).

In considering financial and technical assistance solutions to enhance sustainable investment, development co-operation partners can apply these principles to guide decisions and foster effectiveness. This can mean, for example, considering whether development co-operation assistance aligns and supports existing national strategies and plans, ensuring broad consultations and engaging in a continued dialogue with national authorities.

A number of initiatives have been developed to support alignment of development co-operation assistance with national priorities. For example, the Integrated National Financing Frameworks (INFFs), introduced in the Addis Ababa Action Agenda, aim to strengthen the link between medium-term development plans and financing strategies that mobilise and align public and private finance with sustainable development. INFFs can help match investment supply with needs communicated by partner countries through INFFs (OECD, 2021[2]). The WEF-OECD Sustainable Development Investment Partnership (SDIP) provides a platform to create the conditions for capital to flow where it is most needed. The SDIP's country financing roadmaps, in particular, can help countries create and leverage government-led multi-stakeholder coalitions to design strategies and action plans to mobilise finance and investment towards the SDGs (SDIP, 2022[3]). Such mechanisms can facilitate national ownership of development co-operation assistance on investment and sustainable development. More broadly, donors and development co-operation actors can take active steps to ensure alignment and ownership of support provided. Questions listed below can help identify and ensure alignment with national priorities.

Guiding questions to identify and align with national priorities on investment and sustainable development

- What are the country priorities on productivity and innovation; job quality and skills; gender equality; and carbon emissions? Are they reflected and communicated in national strategies, policies and action plans?
- Have policy dialogues and consultations been organised with the government to discuss country priorities and plans on sustainable investment? Have all relevant institutions involved in investment and sustainable development been consulted?
- Have businesses and stakeholders been consulted on challenges and opportunities related to sustainable investment?
- How do national priorities compare to the assessment of the impact of FDI on sustainable development?

3.4. Ensuring coordination and coherence among the development co-operation community

Ensuring relevance and effectiveness of development co-operation assistance also implies ensuring that support does not duplicate existing projects, and adequately complements what is already in place. The importance of aid coordination is embedded in the 2015 Paris Declaration on Aid Effectiveness, where donors committed to "coordinat[e] aid at all levels in conjunction with other development resources in dialogue with donors […]" (OECD, 2015[4]). Several development co-operation actors may engage in private sector development in a given country context. Identifying what type of support is already available or planned, which SDGs are targeted, and drawing lessons from past interventions is key to ensure complementarity, coherence and continuity of support for investment and sustainable development.

Earlier studies have found that the development co-operation community often falls short when it comes to ensuring coordination, alignment and harmonisation of investment-related projects (OECD, 2006[5]). Often, use of different terminologies to designate similar or close realities may hamper efforts to link investment and sustainable development agendas. Limited dialogue and interactions between donors may lead to missed opportunities for synergies and continuity. Development co-operation partners may address these issues by identifying past, present and planned projects on areas of shared interest, and engaging in regular dialogue to coordinate interventions. They may also step up efforts to align terminologies and communicate widely about similarities and differences, if any, in terms used.

As part of efforts to better coordinate and maximise collective impact, development co-operation actors may wish to identify and map existing interventions. Such a mapping can also help assess alignment with national priorities on investment and sustainable development, identify potential gaps in the breadth of modalities used and areas of the SDGs targeted, and help identify opportunities to replicate or scale-up relevant interventions. Annex B of this Guide provides an example of how projects can be mapped to review and inform development co-operation projects.

Guiding questions to enhance coordination and coherence among the development co-operation community

- Are there or has there been an engagement from the development co-operation community on investment and sustainable development? What have been the outcomes of past projects?
- Are there ongoing projects that include a focus on enhancing the impact of investment on sustainable development? Do such projects target specific SDGs or SDG areas, including productivity and innovation, job quality and skills, gender equality, and / or carbon emissions?
- Based on the non-exhaustive list of development co-operation options provided in Chapter 2:
    - Are projects aiming to support policy coherence, continuity and implementation on investment and sustainable development part of the development co-operation community portfolio?
    - Are projects aiming to promote alignment between domestic regulation and international standards on investment and sustainable development part of the development co-operation community portfolio?
    - Are development co-operation actors involved in incentivising firms to mobilise and enhance the impact of FDI on sustainable development?
    - Are development co-operation actors providing support to facilitate sustainable investment opportunities?
- Do development co-operation actors involved in related topics engage in dialogues and coordinate through formal or informal mechanisms?
- Do development co-operation actors involved in investment and sustainable development seek alignment and complementarity in their projects' objectives, terminologies, and activities?

3.5. Identifying trade-offs, complementarities, and managing risks of development co-operation assistance for sustainable investment

As discussed in Chapter 2 of this Guide, development co-operation actors have a range of tools to enhance the impact of FDI on sustainable development. Reviewing the characteristics of FDI and engaging in a dialogue to understand and align with country priorities are important first steps to identify most pressing needs, prioritise between different support options, and provide adequate support.

Development actors should also consider potential trade-offs and complementarities that may exist between support modalities. For example, research carried out on 86 ODA recipient countries for the period 2003-14 found that ODA devoted to reducing carbon emissions was effective only when certain criteria of institutional qualities were in place. The study also found that in the absence of certain institutional qualities, ODA could be associated with the opposite effect on carbon emissions (Li, 2021[6]). Such results call for enhanced consideration to the institutional and development co-operation context to maximise the effectiveness of support provided.

Trade-offs and complementarities may also exist between SDGs: support provided to high-skill sectors but with low representation of women could potentially boost availability of quality jobs but lead to worse outcomes for gender equality. Conversely, support allocated to enhance sustainable investment in renewable energy may simultaneously contribute to productivity and innovation. Consideration to the impact of development co-operation across SDGs and potential complementarities and trade-offs is essential to ensure positive sustainability outcomes.

Development co-operation partners should also identify and manage any potential unintended consequences of interventions. Robust environmental and social impact assessment processes, before and throughout the project lifecycle, are essential to avoid any negative impacts of development co-operation support. Various tools developed by donors and development finance providers have been developed to support such processes (USAID, 2019[7]). In the case of FDI-related assistance, development co-operation actors should also ensure that the support provided does not crowd out domestic investment, creates undue advantage or harmful market distortions. Good practice on policy and financial incentives apply to development co-operation. Tools such as the Policy Toolkit and the PFI can help ensure alignment with international good practice in that field and support collaboration with national authorities.

Guiding questions to support identification of potential trade-offs, complementarities and managing risks of unintended consequences

- Based on the assessment of FDI impacts on sustainable development, national priorities, consultations, and mapping of existing projects, are there specific support gaps where development co-operation could support national priorities?
- Are there specific areas where support could complement, reinforce or enhance the impact of existing projects?
- Is the required expertise and capacity available to carry out the project? Are the conditions in place to ensure successful implementation and continuity?
- What will be the impact of the support provided on domestic and foreign businesses that are not targeted by the intervention? Is there any risk of creating harmful distortions?
- For what duration will the support be provided? How has this duration been defined? What would be the consequences of interrupting this support?
- What are the main risks to the environment, local communities, workers and other stakeholders, associated with the projects? How have these risks been identified? How will these risks be managed and addressed?
- Have all relevant stakeholder groups, including representatives from domestic and foreign businesses, workers and civil society been consulted in identifying risks and opportunities?
- Where could project beneficiaries, local communities or any party affected by future projects seek resolution if they have any complaint? Would formal or informal grievance mechanisms be made available?

3.6. Engaging with business, trade unions and civil society

Engagement with businesses and stakeholders is essential throughout the project cycle, to inform, implement and monitor development co-operation interventions to strengthen sustainable investment. Understanding the challenges businesses might be facing, for example to invest in sectors with high development impact potential, or to meet certain sustainability standards, is crucial to provide effective support, improve framework conditions under which they operate, and design effective development co-operation interventions. Businesses may also be involved as partners in the implementation of projects – a practice that has gained traction over the last years, as donors increasingly partner with private companies to facilitate the co-creation of innovative solutions to development challenges.

While greater engagement with the private sector can present benefits, ensuring appropriate processes and safeguards on the use of public resources is essential. While business and development co-operation interests may intersect, processes and practices, including when it comes to managing risks and impacts, may differ. Donors, development finance providers and other actors should take steps to ensure visibility, oversight and accountability when working with the private sector. The Kampala Principles provide a useful framework to engage effectively with the private sector (Figure 3.1). The Kampala Principles promote ownership of partnerships with the private sector by partner countries and seek to ensure the alignment of the resulting projects and programmes with national sustainable development priorities. They focus on realising sustainable development results and serve as a basis for inclusive dialogue and more effective partnerships, as well as on supporting greater transparency and accountability (GPEDC, 2019[8]).

Figure 3.1. Kampala Principles at glance

PRINCIPLE 1 — **INCLUSIVE COUNTRY OWNERSHIP**
Strengthening co-ordination, alignment and capacity building at country level

PRINCIPLE 2 — **RESULTS AND TARGETED IMPACT**
Realising sustainable development outcomes through mutual benefits

PRINCIPLE 3 — **INCLUSIVE PARTNERSHIP**
Fostering trust through inclusive dialogue and consultation

PRINCIPLE 4 — **TRANSPARENCY AND ACCOUNTABILITY**
Measuring and disseminating sustainable development results for learning and scaling up of success

PRINCIPLE 5 — **LEAVE NO ONE BEHIND**
Recognising, sharing and mitigating risks for all partners

Source: Reproduced from GPEDC (2017[9]), Kampala Principles for effective private sector engagement through development co-operation, https://www.effectivecooperation.org/content/kampala-principles-effective-private-sector-engagement-through-development-co-operation

Civil society representatives, such as NGOs and trade unions, are also important factors to consider and their views should be central to the design, implementation and monitoring and evaluation of development co-operation interventions. Civil society can also act as implementing partners, influence policies through dialogue and advocacy and play an important role in fostering transparency and accountability (OECD, 2020[10]). Similarly to businesses, high standards of quality should apply when working with non-governmental organisations. While not all projects should involve stakeholders by default, more could be done to strengthen inclusive partnerships. For example, results from a review of 919 private sector engagement projects carried out by the Global Partnership for Effective Development Co-operation (GPEDC) found that only 9% of reviewed projects listed civil society as partners, and even fewer listed business associations (5%) or trade unions (0%) (GPEDC, 2019[8]). While these projects may not systematically focus on sustainable investment, these results suggest that there is scope to reinforce engagement with different stakeholder groups in projects that include a private sector component, including on investment. Chapter 2 of this document provides various examples of projects funded by donors and implemented by businesses, stakeholders or multi-stakeholder initiatives to support sustainable investment. A number of development co-operation partners have also started developing strategies to strengthen collaboration with diverse actors. Japan, for example, has deployed efforts to strengthen collaboration between the country's development agency, JICA, and other agencies responsible for official funds, as well as businesses, international organisations, NGOs and academia (MOFA, 2016[11]).

Guiding questions to engaging with business, trade unions and civil society

- Have all relevant stakeholder groups been consulted as part of the project identification and definition phase?
- How could domestic and foreign firms be involved in the development, implementation and monitoring of future projects?
- How could civil society organisations, including local and national NGOs, trade unions, and local communities be involved in the development, implementation and monitoring of future projects?
- How do potential business and civil society partners manage their environmental and social risks? Has a proper due diligence process been carried out for all parties that may receive funding or be directly involved in project implementation?

3.7. Enhancing impact measurement and accountability

Ensuring adequate impact measurement, transparency and accountability is key to ensure that interventions achieve their intended objective and promote effectiveness and trust. As mentioned earlier significant advances have been made to enhance the monitoring and evaluation of private sector development projects. This includes new methodologies to measure amounts mobilised from the private sector for sustainable development, as well as efforts to better link private sector development assistance with the SDGs. Development co-operation actors should make use of resources available and ensure that their programmes and projects are regularly monitored and evaluated against indicators established in the design phase and that are agreed on by their reform programme partners.

There is significant scope to enhance capacity to assess the impact of interventions aimed at strengthening sustainable investment. When it comes to support provided to enhance the impact of FDI on the SDGs, an important shortfall lies with the absence of official definition of development co-operation support for FDI. As a result, this can only be measured through proxies, such as private sector development, for which definitions exist. Efforts to establish common definitions could help develop a common knowledge management system, and better measure and track results in that area.

Guiding questions to support effective monitoring and evaluation

- Are there existing indicators of performance and monitoring and evaluation frameworks that can be drawn up to assess the impact of the development co-operation assistance provided on investment and sustainable development?
- Do such frameworks include suitable metrics and indicators to measure the impact of assistance provided in terms of:
    - FDI mobilised through the development co-operation intervention
    - Impact of FDI supported on productivity and innovation; employment and skills; gender equality; decarbonisation
- How will data be collected and processed? Does the monitoring and evaluation framework recognise and address potential constraints related to data availability?
- Does the monitoring and evaluation framework include plans for ongoing and dynamic monitoring, and integration of results into decision-making and potential project improvements?
- Does the monitoring and evaluation framework include a process for managing the environmental and social risks associated with the project?
- How much capacity and resources will be required to ensure suitable monitoring and evaluation throughout the project lifecycle?
- What mechanisms and processes could ensure impartiality and independence of project evaluation? Will any oversight body be involved in the monitoring and evaluation process?
- Through which modalities would information about the project be made available to the public?

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Annex A. Guiding questions for donors and recipient country governments

The table below brings together the various guiding questions outlined within Chapter 3. This set of guiding questions can be used by the donor community and recipient country governments in specific developing country contexts.

Table A A.1. Guiding questions for FDI donors and recipient country governments

Assessing and understanding the impact of FDI on sustainable development	• Has an assessment of the impacts of FDI on productivity and innovation, job quality and skills, gender equality, and carbon emissions been carried out in recent years? Is further analysis required to understand the relationship between FDI and sustainable development? • What is the country's performance in terms of productivity and innovation; labour issues; gender equality; carbon and other GHG emissions? • Which sectors are driving performance on each SDG area? Does concentration of economic activity in certain sectors present challenges when it comes to enhancing FDI impacts? • What is the status of GVC integration (both through backward and forward linkages)? Which sectors are better integrated into GVCs? To what extent are SMEs integrated into GVCs? • How do foreign companies perform on different sustainability areas compared to domestic firms? • Are there regional disparities in the performance of foreign and domestic firms on sustainable development? • How does FDI generates positive effects on productivity and innovation; job qualities and skills; gender equality? What are the impacts resulting from foreign firms' direct operations in the country? From competition and imitation effects? From labour mobility of workers?
Identifying and aligning with national priorities on investment and sustainable development	• What are the country priorities on productivity and innovation; job quality and skills; gender equality; and carbon emissions, as reflected and communicated in national strategies, policies and action plans? • Have policy dialogues and consultations been organised with the government to discuss country priorities and plans on sustainable investment? Have all relevant institutions involved in investment and sustainable development been consulted? • Have businesses and stakeholders been consulted on challenges and opportunities related to sustainable investment? • How do national priorities compare to the assessment of the impact of FDI on sustainable development?

Ensuring co-ordination and coherence within the development co-operation community	• Are there or has there been an engagement from the development co-operation community on investment and sustainable development? What have been the outcomes of past projects?
	• Are there ongoing projects that include a focus on enhancing the impact of investment on sustainable development? Do such projects target specific SDGs or SDG areas, including productivity and innovation, job quality and skills, gender equality, and / or carbon emissions?
	• Based on the non-exhaustive list of development co-operation options provided in Chapter 2:
	  ○ Are projects aiming to support policy coherence, continuity and implementation on investment and sustainable development part of the development co-operation community portfolio?
	  ○ Are projects aiming to promote alignment between domestic regulation and international standards on investment and sustainable development part of the development co-operation community portfolio?
	  ○ Are development co-operation actors involved in incentivising firms to mobilise and enhance the impact of FDI on sustainable development?
	  ○ Are development co-operation actors providing support to raise awareness and build capacity to foster the positive effects of FDI on sustainable development?
	• Do development co-operation actors involved in related topics engage in dialogues and

	co-ordinate through formal or informal mechanisms? • Do development co-operation actors involved in investment and sustainable development seek alignment and complementarity in their projects' objectives, terminologies, and activities? • Is the development co-operation community's engagement aligned with the recipient country governments' reform needs and priorities? With the challenges and priorities communicated by businesses? By stakeholders?
Identifying opportunities, trade-offs and managing the risks of unintended consequences	• Based on the assessment of FDI impacts on sustainable development, national priorities, consultations, and mapping of existing projects, are there specific support gaps where development co-operation could support national priorities? • Are there specific areas where support could complement, reinforce or enhance the impact of existing projects? • Is the required expertise and capacity available to carry out the project? Are the institutional and framework conditions in place to ensure successful implementation and continuity? • What will be the impact of the support provided on domestic and foreign businesses that are not targeted by the intervention? Is there any risk of creating harmful distortions? • For what duration will the support be provided? How has this duration been defined? What will be the consequences of interrupting this support? • What are the main risks to the environment, local communities, workers and other stakeholders, associated with the projects? How have these risks been identified? • Have all relevant stakeholder groups been consulted in the identification of risks and opportunities? • Where could project beneficiaries, local communities or any party affected by future projects seek resolution if they have any complaint? Would formal or informal grievance mechanisms be made available?
Engaging with businesses, trade unions and civil society	• Have all relevant stakeholder groups been consulted as part of the project identification and definition phase? • How could domestic and foreign firms be involved in the development, implementation and monitoring of future projects? • How could civil society organisations, including local and national NGOs, trade unions, and local communities be involved in the development, implementation and monitoring of future projects? • How do potential business and civil society partners manage their environmental and social risks? Has a proper due diligence process been carried out for all parties that may receive funding or be directly involved in project implementation?

Enhancing impact measurement and accountability in development co-operation projects	• Are there existing indicators of performance and monitoring and evaluation frameworks that can be drawn up to assess the impact of the development co-operation assistance provided on investment and sustainable development?
	• Do such frameworks include suitable metrics and indicators to measure the impact of assistance provided in terms of:
	  ○ FDI mobilised through the development co-operation support
	  ○ Impact of FDI supported on productivity and innovation; employment and skills; gender equality; decarbonisation
	• How will data be collected and processed? Does the monitoring and evaluation framework recognises and addresses potential constraints related to data availability?
	• Does the monitoring and evaluation framework include plans for ongoing and dynamic monitoring, and integration of results into decision-making and potential project improvements?
	• How much capacity and resources will be required to ensure suitable monitoring and evaluation throughout the project lifecycle?
	• What mechanisms and processes could ensure impartiality and independence of project evaluation? Will any oversight body be involved in the monitoring and evaluation process?
	• Through which modalities would information about the project be made available to the public?

Annex B. Mapping interventions: Jordan case study

This case study aims to provide an illustration of how the Guide can be operationalised in a specific country context. It does not intend to provide a comprehensive review or establish recommendations for development co-operation in Jordan. Rather, it provides an example of how projects can be mapped to support the implementation of this Guide. It starts with an overview of the Jordanian context, which provides a short and non-exhaustive summary of findings from a recent FDI Qualities review of Jordan. This review, carried out by the OECD in the context of the EU-OECD Programme on Investment in the Mediterranean, was based on the FDI Qualities Policy Toolkit (OECD, 2022[1]). The case study then attempts to map development co-operation projects related to investment and sustainable development in Jordan, using the framework of this Guide. This mapping relies on a comprehensive review of development co-operation projects implemented in Jordan in 2018-19.

Understanding the impact of FDI on sustainable development in Jordan

FDI and integration into global value chains (GVCs) have contributed to economic growth in Jordan in the 2000s. Ambitious liberalisation reforms in the 1990s made Jordan one of the most successful countries in attracting FDI, leading to an FDI stock-to-GDP ratio exceeding 80% in 2020. However, persistent structural challenges and dependence on a few industries, combined with global shocks and regional instability, have also gradually eroded Jordan's FDI performance in the last 15 years. FDI inflows represented less than 2% of GDP in 2020, which is comparable to other countries in the region, but much lower than the country's average performance over the last decade.

While restoring and increasing FDI levels is important, there is also scope to enhance the impact of FDI on the SDGs. The sectors that attract the most FDI, such as construction and the energy sector (70% of greenfield FDI for the two sectors combined), do not contribute the most to productivity, green growth or the creation of quality jobs for women and men. FDI in manufacturing created many jobs in the early 2000s, including for women, but accounted for only 20% of total greenfield FDI. Furthermore, manufacturing FDI has been concentrated in low productivity and low skill-intensity sectors, such as the garment industry, and has been responsible for large shares of oil-based fuel consumption.

Foreign companies in Jordan perform better than domestic firms in several dimensions of sustainability, but their performance premium is small and weaker than in other peer countries. This suggests a strong potential for policy interventions that help FDI to achieve better sustainability outcomes. This potential is even higher when it comes to green business practices, an area in which foreign firms perform relatively poorly. While FDI typically also influences SDG outcomes indirectly through supply chain linkages, the potential for positive spill-overs is limited in Jordan due to relatively weak supply chain linkages between foreign and domestic firms. Furthermore, weak competition has created a large group of small business with low productivity levels that are vulnerable to foreign competitors. A more dynamic private sector could enable FDI to reallocate human capital to more productive activities and, in turn, support sustainable development.

Water, food and energy security are amongst the biggest challenges to achieving sustainable development in Jordan. Jordan is one of the world's most water-scarce countries – a challenge that could be exacerbated by climate change. Jordan's energy sector is overwhelmingly fossil fuelled, and has been subject to rising costs. Given its natural resource endowments, Jordan has a strong potential for the development of renewable energy technologies, especially in solar and wind energy. The country has already made important strides in that area, reaching its 10% renewable energy target for 2020 ahead of schedule, and is now aiming for as much as 30% of its electricity mix to come from renewable sources by 2022.

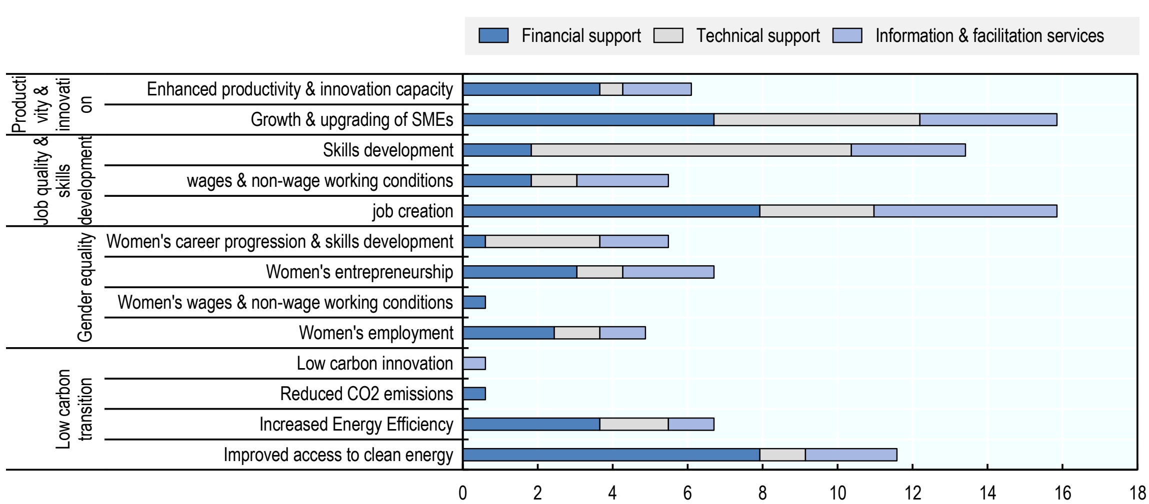
Jordan's growth and productivity potential largely lies in export activities and foreign investment inflows. The fiscal and balance of payment situation limits options to seek growth through fiscal stimulus or through an increase in private domestic demand for non-tradable goods. As a result, reigniting exports and FDI presents the most viable opportunity to drive growth while lowering the current account deficit. The immediate potential for inclusive and sustainable growth lies in services activities that are neither energy- nor water-intensive, such as information and communication technology (ICT) and other business services, transport and logistics, creative industries and tourism. The potential for inclusive growth in services is supported by the growing workforce with tertiary education, where women are also increasingly represented.

Identifying national priorities on investment and sustainable development

Jordan gives high priority to private investment as a driver for sustainable development. Jordan has a coherent framework of national strategies to support the SDGs with consistent references to the role of private (and foreign) investment. Jordan's vision 2025 and the Economic Growth Plan 2018-22 point to sectors with significant potential for investment, productivity, employment (including for women) and green growth. The emphasis is on the development of modern, ITC services and sustainable infrastructure (e.g. renewable energy or transport), in line with key challenges and opportunities identified above.

Figure A B.1. Policy instruments influencing the impact of FDI on sustainable development in Jordan

Policy instrument by sustainability cluster (% of total)



Note: Every policy instrument can influence several outcomes across and within the four sustainability dimensions.
Source: OECD (2022[1]), FD*I Qualities Review of Jordan: Strengthening Sustainable Investment*, https://doi.org/10.1787/736c77d2-en.

The policy mix reflects the country's most pressing priorities, as most policy instruments influence – directly or indirectly – the contribution of FDI to job creation and SME growth (see Figure A B.1). This emphasis is coherent with Jordan's daunting needs of absorbing a growing labour force through private sector development. Policy interventions that enable the benefits of FDI also focus on incentivising private investment in the clean energy sector and on equipping workers with the right skills, although often only for low-skilled jobs.

The FDI Qualities Review of Jordan identifies various policy considerations to enhance sustainable investment in Jordan. These policy areas have been identified through consultations with a wide range of stakeholders, including businesses, civil society, and policy makers. A selection of policy considerations highlighted by the review is summarised in Box A B.1.

Box A B.1. Selected policy considerations highlighted by the FDI Qualities Review of Jordan

- **Further consolidate the strategic framework for investment and sustainable development**. Jordan has a coherent framework of national strategies to support the SDGs with consistent references to the role of private (and foreign) investment. However, strategies are not always developed in a co-ordinated manner both within and across areas of sustainable development. Furthermore, while the importance of private investment is mentioned in all strategies, references are sometimes generic and not always linked to specific priority actions or projects.
- **Strengthen institutional co-ordination.** There are no mechanisms in Jordan dedicated to policy co-ordination in the area of investment and sustainable development. Other existing mechanisms could take a more prominent role, and co-ordination could be further strengthened by ensuring that public and private institutions from all pertinent policy areas and all stakeholder groups (including for example foreign investors) are represented in relevant committees, councils and boards of directors.
- **Enhance monitoring and evaluation, including through greater stakeholder engagement**: Currently, the practice of monitoring and evaluation depends on the discretion of policy implementing agencies. A key challenge is a lack of qualitative information received from investors, which could be addressed through stakeholder engagement to assess gaps between laws and their implementation and identify key challenges that policy beneficiaries (e.g. investors, SMEs and workers) may face on the ground.
- **Implement business climate reforms,** including to address FDI restrictions in areas where FDI has a high impact potential, reduce "behind-the-border" barriers, address regulatory obstacles that can hamper the positive effects of FDI, and lower the cost of doing business in Jordan.
- **Design policies that can promote FDI benefits on gender equality, reducing carbon emissions, boosting productivity in tradable services and creating better quality jobs**. Jordan's policy mix on sustainable investment reflects the country's most pressing priorities, such as job creation and SME growth. However, sustainability dimensions that are crucial to meeting emerging challenges are less prioritised. For example, few programmes focus on gender equality, reducing carbon emissions, boosting productivity in tradable services and creating better quality jobs.
- **Strengthen the capabilities of Jordan's National Contact Point (NCP) for RBC.** As an adherent to the OECD Declaration on International Investment and Multinational Enterprise, Jordan has established an NCP to promote and support implementation of RBC standards. This mechanism could be enhance by ensuring adequate human and financial resources to fulfil its mandate.

Source: OECD (2022[1]), FDI Qualities Review of Jordan: Strengthening Sustainable Investment, https://doi.org/10.1787/736c77d2-en.

Mapping development co-operation interventions in Jordan

A review of development co-operation projects related to sustainable investment in Jordan can help shed light on the allocation of support across SDGs and policy levers. Such a review is important to identify potential support gaps, as well as opportunities to scale up, complement or replicate interventions. It can also support co-ordination among development co-operation actors and help assess alignment with national priorities. Table A B.1 provides a “heat-map” of development co-operation interventions related to sustainable investment in Jordan over the period 2018--19. The colour density reflects comparative levels of amounts disbursed for each SDG area and development co-operation solution in 2018-19.

Table A B.1. Distribution of development co-operation projects in Jordan (2018-19 data)

Principles	Development Co-operation options	Estimated resource allocations			
		Productivity and innovation	Job quality and skills	Gender equality	Environment and decarbonisation
Governance	Supporting governments in the design of coherent strategies and policies on investment and sustainable development				
	Sustaining engagement and providing budget support to ensure policy continuity and implementation of reforms to strengthen sustainable investment				
	Building the capacity of public institutions to ensure inclusive decision-making and inter-agency co-ordination in the design and implementation of policies related to sustainable investment				
	Supporting efforts to assess and monitor the impact of FDI, and related policies, on sustainable development				
Domestic and international regulation	Supporting efforts to join major international agreements and conventions that promote sustainable development and foster responsible business conduct				
	Supporting alignment of national legislation with international sustainability standards				
	Supporting the negotiations and implementation of trade and investment agreements, including on sustainability-related provisions				
Financial and technical support	Ensuring a robust impact management and monitoring strategy in the provision of de--risking instruments and scale up the use of blended finance in least developed countries				
	Adopting a targeted approach to catalysing FDI in activities and sectors with high impact potential				
	Providing support to build the domestic capabilities of firms, entrepreneurs and workers to foster decarbonisation, productivity and innovation, as well job qualities, skills and gender equality				
Information and facilitation	Raising awareness and facilitating implementation of corporate sustainability standards, including RBC due diligence				
	Supporting government agencies in the delivery				

Principles	Development Co-operation options	Estimated resource allocations			
		Productivity and innovation	Job quality and skills	Gender equality	Environment and decarbonisation
	of services in support of investment and sustainable development				
	Developing, supporting or partaking in industry and / or multi-stakeholder initiatives to promote SDG alignment and supply chain linkages				

Source: Authors compilation based on the data from DAC CRS statistics.

Identifying potential opportunities and considerations for project design

The mapping reveals a relatively high level of alignment between recent interventions in Jordan and the government policy priorities identified through the FDI Qualities Review. In particular, the concentration of development co-operation interventions focused on employment and skills is coherent with Jordan's priority of absorbing a growing labour force through private sector development, and coincides with Jordan's policy mix on sustainable investment. The Jordanian Government also prioritises policy interventions that incentivise private investment in the clean energy sector, which appears to be prevalent in development co-operation interventions.

Sustainability areas that are less prioritised in Jordan's policy mix on sustainable investment receive very limited development co-operation support**.** While this reflects a high degree of alignment with national priorities, findings from the FDI Qualities review have identified several areas that are crucial to meet emerging challenges, such as gender equality, reducing carbon emissions and boosting productivity in tradable services. Projects do exist in all these areas. For example, the Jordan Valley Links programme, supported by Canada, aims to better integrate women and youth in food processing, tourism and clean technology value chains, including through training and capacity building (MEDA, 2016[2]). Development finance institutions, including the French Proparco and Finnish Finnfund, invest in renewable energy projects, for example the development of solar panels. However, the number of projects and breadth of intervention modalities tend to be relatively narrow compared to other SDG areas. While a few programmes aim to promote gender equality, funding allocations are limited, and interventions overwhelmingly focus on training and capacity building, leaving less emphasis to systemic challenges that may have to do with policies and regulations. When it comes to carbon reduction, allocations tend to be larger, but concentrated in interventions that take the form of loans or equity investment to finance renewable energy infrastructure.

Development co-operation actors provide significant support to investment climate reform and implementation, which largely focuses on economic growth and job creation. For example, the World Bank Group's Country Partnership Framework for Jordan 2017--22 aims to improve the conditions for inclusive, job creating growth, including by tackling labour market productivity issues (World Bank, 2022[3]). This type of support can help Jordan achieve its most pressing priorities, and provides solid foundations to support the design and implementation of reforms targeting a range of sustainability areas prioritised by the Jordanian Government going forward. In particular, existing engagement with the development co-operation community could be an asset to further engage on the design of policies that can promote FDI benefits on gender equality, reducing carbon emissions, boosting productivity in tradable services and creating better quality jobs. The focus of business climate reforms could also seek to assess and address challenges including behind the border barriers and regulatory obstacles to greater FDI impacts.

Institutional capacity and co-ordination, as well as monitoring and evaluation of FDI impacts may deserve further attention from the development co-operation community. While strengthening capacity and co-ordination across administrations involved in areas related to investment and sustainable development is often a key issue to promote sustainable investment, few projects and very limited resources have that objective. Exceptions include the support provided by the World Bank and European Bank for Reconstruction and Development (EBRD) to the National Centre for Innovation and private sector development (see Box A B.2). Similarly, building metrics and frameworks to monitor FDI impacts is crucial to ensure the effectiveness of both government and development co-operation interventions. Only very few projects include such a focus. The ILO, for example, provided support to develop Decent Work-related indicators mainstreamed in SDGs' national implementation strategy with enhanced institutional capacities in labour market information systems.

Box A B.2. EBRD and World Bank support to the National Centre for Innovation

The European Bank for Reconstruction and Development (EBRD) and the Word Bank implement development co-operation with the potential to address the issue of institutional capacities in the innovation ecosystem in Jordan. The banks work with the Higher Council for Science and Technology (HCST) to establish the National Centre for Innovation (NCI), which is expected to function as the national one--stop information and referral hub for all activities related to innovation and private sector development, including start-up activities. The project supports the HCST to define and develop the NCI's mandate, functions, procedures, tasks and capacity.

The NCI is to provide legal advocacy and advisory services to SMEs as well. The NCI co-ordinates with national and international administrative, financial and technical services to enhance and support innovation and private sector development. While supporting national innovation scenes, the NCI creates a feedback mechanism to the government to ensure best practice and transparency. The Centre accumulates all co-ordinating activities in the technology platform that combines existing data resources with the data to be collected in order to co-ordinate resource referrals, monitor and evaluate innovation activities and other key performance indicators reflecting the economic shifts towards innovation. After the official launch of the NCI in 2018, the Middle East and North Africa Transition Fund administered by the World Bank financially supported the first two years of the operation as well.

Source: Website of the EBRD https://www.ebrd.com/news/2018/jordans-national-centre-for-innovation-launches-at-ebrd-annual-meeting.html

Very few projects explicitly seek to enhance the impacts of FDI on sustainable development. While various projects seek to promote SDG-related objectives through engagement with the private sector, interventions do not typically have a direct or structured approach to increasing the qualities of investment. As a result, while such projects may yield results in specific SDG areas, they tend to be fragmented and may not maximise synergies and complementarities on investment and sustainable development.

Support to industry and / or multi-stakeholder initiatives presents some potential, especially in strategic sectors and SDG areas. Indeed, the development and strengthening of such initiatives could help reinforce supply chain linkages which are relatively weak in Jordan, while providing a platform to strengthen implementation of RBC and other international sustainability standards along the value chain. Examples such as the Better Work Programme, which is active in Jordan, could be replicated to other industries and sustainability areas. Support to strengthen the capabilities of the National Contact Point on RBC could also help raise awareness and implementation of sustainable practices among domestic and foreign businesses operating in Jordan, and enhance their impacts on sustainable development.

About 10% of funding for projects reviewed is channelled through private sector institutions or NGOs, which is significantly below the average of private sector development projects at global level (approximately 30%). While various modalities may exist to engage with businesses and stakeholders, which do not necessarily involve financial flows, this could be an indication of the prevalence of inclusive partnerships in interventions related to sustainable investment in Jordan. The share of resources channelled through the private sector or NGOs is down to 6% for projects focusing on jobs and skills, which is consistent with Jordan's current sustainable investment policy mix emphasising job creation and SME growth. Further engagement with the private sector could provide an avenue to enhance business practices and spill-over effects on the quality of jobs.

References

MEDA (2016), *Enterprise Development for Women and Youth in the Jordan Valley*, https://www.meda.org/projects/jvl/. [2]

OECD (2022), *FDI Qualities Review of Jordan: Strengthening Sustainable Investment*, OECD Publishing, Paris, https://doi.org/10.1787/736c77d2-en. [1]

World Bank (2022), *Country Partnership Framework for Hashemite Kingdom of Jordan for the Period FY17-FY22*, https://openknowledge.worldbank.org/handle/10986/24679?show=full. [3]

Annex C. List of development co-operation projects reviewed for this guide

In the process, the study investigated a variety of relevant project examples in development co-operation-. Table A C.1 provides a non-exhaustive list of projects reviewed, classified by SDG area. This list can provide a repository of good practice on investment and sustainable development.

Table A C.1. Examples of initiatives to enhance investment and sustainable development

Investment promotion
Investment Climate Facility for Africa This multi-donor and private sector funded facility was set up to boost Africa's growth by removing barriers to doing business in the continent. Its main goals were to build effective coalitions with businesses and governments to identify and implement priority projects; work to create a conducive legal, regulatory and administrative environment at all levels; and improve Africa's image as an investment destination. The ICF was established as a development organisation that implemented 73 separate projects with 21 African partner governments, with technical and financial support from the IFC and the ADB, Germany (KfW), the Republic of Ireland, the Netherlands, the Kingdom of Norway, the UK and the Republic of South Africa, as well as seven corporate donors (Anglo American, Celtel, Coca-Cola, Shell Foundation, SAB Miller, Sasol, Standard Bank and Unilever). Source: www.investmentclimatefacility.org/page/projects/
EU research support for the negotiation of AfCFTA The European Union (EU) has been supporting the African Continental Free Trade Area (AfCFTA) since its launch in 2018 by facilitating negotiation fora or providing technical studies upon African Union demand, as well as supporting AfCFTA advocacy via financing the United Nations Economic Commission for Africa (UNECA). The EU, in co-operation with the International Trade Center (ITC), also contributed to establishing the African Trade Observatory, which aims to provide an evidence-based- basis for conducting trade in Africa. The EU's supports identifying the potential impacts of international agreements on specific sectors or industries as well as the economy as a whole and informing them of governments concerned. Such an assessment can explicitly consider the quality aspects of FDI, consisting of the four sustainability areas outlined in the OECD FDI Qualities Initiative. Source: https://ec.europa.eu/commission/presscorner/detail/en/IP_19_890; https://ec.europa.eu/international-partnerships/system/files/aap-panafricanprogramme-annex8-c20187378-20181031_en.pdf;
European Commission support for investment in the MENA region As part of the EU-OECD Programme on Investment in the Mediterranean, the European Commission co-finances OECD work aiming to support investment climate reforms to advance sustainable growth and decent job creation in the Southern Mediterranean. Working together with governments and other partners in Algeria, Egypt, Jordan, Lebanon, Libya, Morocco, the Palestinian Authority, and Tunisia, the Programme: (i) provides targeted policy advice and capacity building on investment policy design and implementation; (ii) facilitates public-private dialogues on investment climate reforms in priority sectors; (iii) supports monitoring and evaluation of reforms to gauge success. One component of this programme uses the FDI Qualities Policy Toolkit to provide advice and engage in capacity building to help MENA countries improving the qualities of FDI. A first in-depth assessment is being conducted for Jordan. Source: https://www.oecd.org/mena/eu-oecd-mediterranean-investment/
Japan's support for investment promotion in Uzbekistan Uzbekistan and Japan are implementing technical co-operation project to strengthen the enabling environment for incoming foreign investment in Uzbekistan. Ministry of Investment and Foreign Trade (MIFT) partners with Japan International Co-operation Agency to execute study on local investment climate and capacity building for the newly established cross-ministerial organisation, Agency for Strategic Development, in the Government of Uzbekistan to secure an integrated discussion for improving the investment environment in the country. Source: https://www.jica.go.jp/activities/project_list/knowledge/ku57pq00002ntn6j-att/2020_763_uzb.pdf

OECD's Investment Policy Reviews

An OECD Investment Policy Review (IPR) is a country-specific report conducted by the OECD Secretariat in partnership with the government of the country under review. IPRs have been used by over 30 countries, at varying levels of development and across all continents, as a tool for assessing investment and business climates, and for designing reforms to improve them. Since 2006, reviews have used the Policy Framework for Investment (PFI) which takes a comprehensive, whole-of-government approach to investment climate reform. IPR evaluates the progress of political actions to enhance investment environment in 12 policy areas: investment policy; investment promotion and facilitation; trade; competition; tax; corporate governance; promoting responsible business conduct; human resource development; infrastructure; financing investment; public governance; and investment in support of green growth.

Source: https://www.oecd.org/investment/countryreviews.htm

Australia's Sustainable Trade and Investment in the Indo-Pacific (STIR) programme

The Australian Department of Foreign Affairs and Trade (DFAT) supports STIR programme implemented by the Global Reporting Initiative (GRI). The STIR programme aims to increase corporate transparency on social and environmental impacts to drive sustainable trade and investment in the Indo-Pacific region. Through this programme GRI supports the capacity of listed companies to disclose their sustainability impacts, and promotes a reporting environment conducive to transparency, by engaging market regulators and stock exchanges in the region.

Source:https://www.globalreporting.org/public-policy-partnerships/strategic-partners-programs/sustainable-trade-and-investment-in-the-indo-pacific/

Extractive Industries Transparency Initiative (EITI)

The EITI aims to implement a global standard to promote an open and accountable management of oil, gas and mineral resources. The initiative is supported by a coalition of government, companies, and civil society. In the Netherlands coalitions of businesses, stakeholders and government actors have been formed in several sectors (e.g. garment and textile, gold, banking, forestry, etc.) to promote sustainable practices. Some initiatives can also have a targeted SDG focus.

Source: https://eiti.org/About

Dutch Good Growth Fund (DGGF)'s financial support for the investments in developing countries

DGGF provides financial support to businesses exporting or investing in developing countries, as well as domestic firms. To access funding from the DGGF, businesses must comply with a range of criteria, including international corporate social responsibility standards, and contributing to the country's sustainable development – i.e. to local employment, production capacity and/or knowledge transfer.

Source: https://english.dggf.nl/finance-opportunities/dutch-entrepreneurs-exporting

EU's supports to facilitate AfCFTA negotiations

The EU has been supporting the African Continental Free Trade Area (AfCFTA) since its launch in 2018 by facilitating negotiation fora or providing technical studies upon African Union demand. The EU has also been supporting AfCFTA advocacy via financing the United Nations Economic Commission for Africa (UNECA). The EU, in co-operation with the International Trade Center (ITC), also contributed to establishing the African Trade Observatory, which aims to provide an evidence base for conducting trade in Africa. Funding research that informs developing country governments about the potential impacts of international agreements on specific sectors or industries as well as the economy as a whole. Such an assessment can explicitly consider the sustainable development impacts of FDI.

Source: https://www.eesc.europa.eu/sites/default/files/files/madame_synowiec_.pdf

WTO's support to LDCs for building negotiating capacity

Building negotiating capacities of developing country officials by providing training in the form of technical seminars and workshops. Donors provide funding to the WTO Global Trust Fund to help developing countries and least-developed countries (LDCs) participate effectively in global trade negotiations by financing training and other capacity-building activities for government officials to help them better understand and implement WTO agreements and to enhance their negotiating skills.

Source: https://www.un.org/ldcportal/content/trade-related-technical-assistance-and-capacity-building

RTA Exchange by ICTSD and IDB

Facilitating mutual learning among developing country governments and the building of alliances, which can be the basis for better negotiating strength. The regional trade agreements (RTA) Exchange is a knowledge sharing platform jointly implemented by the International Centre for Trade and Sustainable Development (ICTSD) and the Inter-American Development Bank (IDB). It allows to share experience and best practices on using regional trade agreements as valuable laboratories for new trade rules, and as testing grounds for approaches and provisions suitable to be harvested at the multilateral level.

Source: https://e15initiative.org/publications/rta-exchange-organizing-the-worlds-information-on-regional-trade-agreements/

Development and economic co-operation- work programme by PACER Plus

Pacific Agreement on Closer Economic Relations (PACER) Plus is a development focused free trade agreement between the Pacific and Australia and New Zealand. PACER Plus is associated with a USD 25 million Development and Economic Co-operation (DEC) Work Programme to help countries implement the agreement. This work programme will be delivered by a specialist unit being established in Apia, Samoa, and will draw on a Rapid Needs Assessment being delivered for all Pacific members. The development aspects of the PACER Plus have become increasing important as the agreement has been negotiated and entered into force.

Source: https://pacerplus.org/

Responsible Supply Chains in Asia programme by EU, ILO and OECD

Responsible Supply Chains in Asia programme, funded by the EU and implemented jointly by EU, ILO and OECD, helps companies improve respect for human and labour rights and environmental standards across global supply chains and create an enabling environment for responsible business conduct. The project is carried out in partnership with six partner economies, including countries that have signed trade and investment agreements including sustainability provisions.

Source: https://www.ilo.org/asia/projects/rsca/lang-en/index.htm

AfDB's support for African Peer Review Mechanism to improve Africa's image as a place to do business

The Investment Climate Facility (ICF) of the African Development Bank (AfDB) supports both the design and implementation of reforms through legislative reviews, capacity building of key institutions, promotion of public-private sector dialogue, implementation of recommendations of the African Peer Review Mechanism process of New Partnership for Africa's Development (NEPAD) and media work aimed at improving Africa's image as a place to do business.

Source: https://au.int/en/organs/aprm

Productivity and Innovation

IFC's local procurement and supplier development programme

The IFC and Newmont Ghana Gold Limited jointly developed a local procurement and supplier development programme called the Ahafo Linkages Programme, which is focused on capacity building and integrating local businesses into the supply chain. This is done through the support and development of local SMEs using a technical and business skills mentoring approach to enable them to meet Newmont's procurement standards and stringent requirements. The co-operation is expected to promote supplier development and local sourcing to allow local SMEs actively and successfully participate in the supply chain of a foreign firm, which indirectly also allows them to diversify their customer base.

Source: https://simanye.co.za/wp-content/uploads/2019/09/Supplier_Development.pdf

USAID's Digital Strategy

USAID launched the Digital Strategy in April 2020 to strengthen open, inclusive, and secure digital ecosystems by taking a systems-level approach to understanding and responding to the opportunities and risks of digital technology. As part of this strategy, USAID and DAI's Digital Frontiers project conducted four pilot Digital Ecosystem Country Assessments (DECAs) in Colombia, Kenya, Serbia, and Nepal, with two additional DECAs in Pakistan and Libya currently underway. The DECA assesses the digital landscape, identifies opportunities and risks, and provides specific recommendations to help decision-makers better utilise or contribute to the digital ecosystem. SAID/Colombia has used their DECA both strategically and practically by incorporating digital into their long-term plans and by adopting specific recommendations, such as pursuing projects that enable women entrepreneurs to harness digital tools, like the Start Path Empodera activity.

Source: https://voxeu.org/article/fdi-and-developing-nation-supply-chains-four-case-studies

Small Business Impact Fund (SBIF)

This multi-donor fund contributed by Italy, Japan, Korea, Luxembourg, Norway, Sweden, Switzerland, Chinese Taipei and the United States and managed by the EBRD, provides financing, advisory and policy dialogue activities to support small and medium-sized enterprises in EBRD's countries of operation. Funded projects of the EBRD including Women in Business programme, EBRD's Star Venture programme and Advice for Small Businesses programme, supports the quality enhancement of local SMEs and start-ups, which is one of the important elements to attract the quality FDIs.

Source: https://www.ebrd.com/what-we-do/sectors-and-topics/donor-support-for-small-businesses.html

GIZ's technical co-operation- to foster SMEs in Morocco

the Government of Morocco sets an objective of advancing the reforms of own economic policies with a view to inclusive growth and job creation – Moroccan National Strategy for Sustainable Development 201730 and Industrial Acceleration Plan 201420. Especially the latter established by the Ministry of Industry and Commerce has the improvement of SMEs competitiveness as one of its three main pillars, as SMEs count 98% of the number of domestic private actors and contribute to 40% of national GDP. As enhancing employment is one of pillars of German development co-operation in Morocco, and also as it aligns with Morocco's Industrial Acceleration Plan, the GIZ has the project "Appui aux très petites, petites et moyennes entreprises (TAM). The project supports the recipient government to reinforce regulatory and economic framework for SMEs and improve the conditions of access to finance. The project is also developing networks bringing together companies or sectors of activity, services and training models adapted to SMEs aimed at supporting them in their efforts to grow and create jobs.

Source: https://www.giz.de/en/worldwide/31965.html

EBRD and World Bank's support for the National Centre for Innovation in Jordan

The European Bank for Reconstruction and Development (EBRD) and the Word Bank implement development co-operation to address the issue of institutional capacities in innovation ecosystem in Jordan. Two banks work with the Higher Council for Science and Technology (HCST) of Jordan to establish the National Centre for Innovation (NCI), which is expected to function as the national one-stop- information and referral hub for all activities related to innovation and private sector development, including start-up activities. The project supports the HCST to define and develop the NCI's mandate, functions, procedures, tasks and capacity. The NCI is to provide legal advocacy and advisory services to SMEs as well. The NCI co-ordinates with national and international administrative, financial and technical services to enhance and support innovation and private sector development. While supporting national innovation scenes, the NCI creates a feedback mechanism to the government to ensure best practice and transparency. The Centre accumulates all co-ordinating activities in the technology platform that combines existing data resources with the data to be collected in order to co-ordinate resource referrals, monitor and evaluate innovation activities and other key performance indicators reflecting the economic shifts towards innovation.

Source: https://www.ebrd.com/news/2018/jordans-national-centre-for-innovation-launches-at-ebrd-annual-meeting.html

Japan's support to improve intellectual property rights in Indonesia

Japan supports Indonesia's governmental efforts to improve intellectual property rights protection and legal consistency in view of enhancing business environment in Indonesia. Behind the formulation of this co-operation, there is a match of strategies of two governments. Indonesia's "Medium-Term National Development Plan (201014)" includes "Investment and business environment improvement" in one of 11 prioritised policies. Especially, the protection of intellectual property right is one of the issues in the business environment in Indonesia. The two governments' implements technical co-operation to the concerned institutions in Indonesia to fulfil the common objective.

Source: https://www.jica.go.jp/oda/project/1500598/index.html

Ahafo Linkages Programme by the IFC and Newmont Ghana Gold Limited

The IFC and Newmont Ghana Gold Limited jointly developed a local procurement and supplier development programme called the Ahafo Linkages Programme, which is focused on capacity building and integrating local businesses into the supply chain. This is done through the support and development of local SMEs using a technical and business skills mentoring approach to enable them to meet Newmont's procurement standards and stringent requirements.

Source: https://conferences.iaia.org/2009/pdf/tf/TF1-5_Brakoh_Ahafo_Linkages_Program.pdf

UNIDO's Investment Monitoring Platform

Initiatives such as UNIDO's Investment Monitoring Platform (IMP) supports data collection and help governments in Africa access comparable data and better assess the effectiveness of their policies on FDI, and the influence of FDI on domestic firms. The Investment Promotion Agency (IPA) Toolbox developed by the GIZ and the World Association of Investment Promotion Agencies provides practical guidance to IPAs in developing countries on a range of topics, including targeting investment that can support development objectives and generate spill-over effects, and designing of monitoring systems reflecting the strategic objectives, core tasks and processes of the IPA.

Source: https://www.unido.org/our-focus/advancing-economic-competitiveness/investing-technology-and-innovation/investment-and-technology/investment-monitoring-platform-imp

Job quality and skills

Denmark's support for ILO's Better Work Programme

Denmark is a major supporter of the Better Work programme, a partnership between the ILO and the IFC, which brings together governments, MNEs, local factories and unions and workers to improve working conditions in the garment industry. Based on assessments of factories that act as suppliers to MNEs, as well as training, advisory, advocacy and research, the programme works with 1 700 factories across eight countries: Bangladesh, Cambodia, Ethiopia, Haiti, Indonesia, Jordan, Nicaragua and Viet Nam. An independent impact assessment showed that Better Work has positively affected working conditions such as abusive practices, weekly pay, contracts and working hours. Such co-operation to improve the working conditions in specific contexts, in partnership with multinational companies and developing country governments can support companies to execute the sustainable employment practices and actions to improve them.

Source: https://www.ilo.org/wcmsp5/groups/public/@dgreports/@exrel/documents/publication/wcms_726219.pdf

ILO's support to establish national employment policies (NEP)

The ILO provides technical support to governments in the design of National Employment Policies NEPs), which aim to advance the SDGs and consider the complementarities between labour, sectoral, trade and investment policies (Figure 2.3). The development of NEPs also involves comprehensive and intense process of tripartite social dialogue, making the process a tool to reinforce social dialogue institutions and mechanisms.

Source: https://www.ilo.org/wcmsp5/groups/public/--dgreports/--integration/documents/genericdocument/wcms_561755.pdf

UK's Ethical Training Initiative

UK supports the Ethical Trading Initiative, an alliance of multinational companies, trade unions and NGOs which seeks to improve the lives of workers producing or growing consumer goods. Member companies commit to following and reporting against a code of conduct which protects workers' rights and integrates ethical trade into their business practices. This initiative is one of 14 responsible business initiatives (RBIs)[1] to help build corporate capability that will improve business practices and generate a positive impact on workers in their supply chains.

Source: https://www.ethicaltrade.org/sites/default/files/shared_resources/ETI%20Annual%20review%202018_19%20spreads_0.pdf

EU's support for OECD/ILO/EU programme on Responsible Supply Chains in Asia

EU's support for the Responsible Supply Chains in Asia programme, implemented by the OECD together with the International Labour Organization and the European Union, aims to help companies and governments across global supply chains and take action to create an enabling environment and respect for human and labour rights. The 3-year programme (2018-20) is carried out in partnership with Japan, an OECD member and the only country under the Programme that has adhered to the OECD Guidelines for Multinational Enterprises and has set up a National Contact Point for RBC, and five partner economies, namely China, Thailand, Viet Nam, Philippines, and Myanmar.

Source: https://mneguidelines.oecd.org/globalpartnerships/responsible-supply-chains-asia

GIZ's Competitive Cashew Initiative

Launched in 2009, the Competitive Cashew initiative brings together more than 100 public and private partners, including the German Federal Ministry for Economic Co-operation and Development (BMZ), the Bill & Melinda Gates Foundation, the United States Agency for International Development (USAID), and private international companies such as Kraft Heinz Foods, Intersnack and Olam. The initiative coordinated by GIZ, works along the entire value chain, from production, processing and marketing right through to export. Experts give the producers advice about cashew farming and operational management. The initiative also channels investments from participating MNEs into local production and processing capacities. Moreover, while raising the productivity and sustainability of the regional cashew industry, the initiative helps to attract additional foreign direct investors.

Source: https://www.giz.de/en/worldwide/19011.html

USAID's technical supports for local farmers in Madagascar

USAID supports farmers in Madagascar to receive Rainforest Alliance Certification (RAC) in collaboration with private sector partners, McCormick & Company and Ramanandraibe Exportation (RAMEX). The project helps farmers in north-eastern Madagascar to reduce the negative environmental impacts of vanilla production, while simultaneously improving farmer's incomes and lives, through training the beneficiaries to comply with the standards necessary to obtain the RAC. RAMEX is a local company specialised in exporting local Vanilla products, therefore their local expertise helped the USAID to implement the project in Madagascar. USAID and RAMEX mapped and conducted inspections of farmers' vanilla fields and made support for farmers to fulfil numerous standards to get RAC including biodiversity conservation, improved livelihoods and human well-being, natural resource management, and effective planning and farm management systems. The internationally recognised certification not only increases the incomes of the local food producers through the premium price on their products, but also further appeals to the international investors who appreciate the production process fulfilling the high-quality sustainability standards.

Source: https://www.usaid.gov/madagascar/news/madagascar-vanilla-co-operatives-awarded-rainforest-alliance-certification

SIDA and UNIDO's Heavy Duty Equipment and Commercial Vehicles Academy in Ethiopia

In Ethiopia, there is a growing need for skilled labour, and finding a trained workforce is a bottleneck for companies. Technical vocational education and training programmes do exist but are often based on theoretical training and are poorly aligned with the actual needs of the labour market and the private sector. SIDA's strategy includes creating improved opportunities for productive employment with decent work conditions – particularly for women and young people. A Public Private Development Project was launched with SIDA, UNIDO and Volvo, to address both the private sector's need for a skilled workforce and the country's high unemployment rates. Volvo and its customers needed highly trained mechanics to secure sustainable maintenance of a large order of trucks. Meanwhile, the provision of modern and qualitative vocational training and job opportunities aligned well with Sweden's strategy for development co-operation with Ethiopia.

Source: https://www.unido.org/news/unido-volvo-and-partners-support-vocational-training-morocco

Gender equality

ILO's Women in STEM Workforce Readiness and Development Programme in Indonesia

The ILO's Women in Science, Technology, Engineering and Mathematics (STEM) Programme aims to empower, connect and support career development of women. In Indonesia, female workers are employed predominantly in jobs requiring low STEM skills, which are at risk of disappearance because of technological advances including automation and robotics. The project identifies the skills gap between industry specific skills and occupational needs and establish action plans for skills development. In addition, the project builds and enhances the professional capacity of female worker through vocational trainings and mentoring programmes. With this intervention, female workers enhance their professional skills, which will further be a robust base for incoming innovative investment.

Source: https://www.ilo.org/jakarta/whatwedo/projects/WCMS_624553/lang-en/index.htm

ITC's SheTrades Initiative in Rwanda

The International Trade Centre (ITC) SheTrades Rwanda aims to increase the competitiveness and business-linkage opportunities of women owned businesses by improving the business support ecosystem. The programme offers in-depth capacity building activities to women owned businesses in the coffee and horticulture sectors and business generation activities in local and regional markets. Technical trainings are offered to both women owned businesses and women that are employed further upstream in farming households.

Source: https://www.shetrades.com/en/projects/shetrades-rwanda-call-application

Australia's support to integrate gender equality considerations in investment promotion efforts Pacific Trade Invest (PTI)

Australia develops and promotes businesses and people from the Pacific through trade, investment, tourism and labour mobility. PTI Australia is an agency of the Pacific Islands Forum Secretariat funded by Australia's Department of Foreign Affairs and Trade. Its mandate is driven by the Pacific Islands Forum Secretariat to support the 16 Pacific Island Forum Countries. PTI works closely with investment promotion agencies to identify and target priority sectors and investors suitable for partner countries. As part of these initiatives, PTI partnered with investment promotion agencies in Fiji and Samoa to develop promotional material to attract potential investors. In its efforts, PTI promotes and focuses on gender equality with the use of webinars and one-on-one meetings and facilitation with gender specialists to further expand knowledge and work on how to empower women led businesses through impact investment.

Source:https://www.dfat.gov.au/geo/pacific/development-assistance/economic-growth-and-private-sector-development; https://pacifictradeinvest.com/

Jordan Valley Links Programme by Canada

Jordan Valley Links programme, supported by Canada, aims to better integrate women and youth in food processing, tourism and clean technology value chains, through capacity building of local beneficiaries. Jordan valley is considered as the less affluent areas of Jordan despite its farming and tourist potential. The remoteness of some areas in the valley and the lack of affordable and accessible transportation options makes market access very challenging for the region particularly for women. The capacity building implemented by the programme develops their businesses and better integrate women and youth producers in three value chains: food processing, tourism and clean technologies.

Source: https://w05.international.gc.ca/projectbrowser-banqueprojets/project-projet/details/D002309001

UK and World Bank Group's support for FDI promotion in Armenia

The World Bank Group, in partnership with Good Governance Fund of the UK, is launching a new advisory programme in Armenia to help the government implement reforms, attract foreign direct investment (FDI), and foster female entrepreneurship to spur business growth and job creation. The programme, implemented by IFC, will work in two directions: it will advise the government on attracting FDI through targeted investment promotion and measures to improve investor confidence; and it will help improve the economic outcomes of women entrepreneurs by improving their business competencies and access to business networks. While supporting the growth of high-potential sectors, including through the identification of promising sectors for targeted FDI promotion, the project will help strengthen relevant legal and regulatory frameworks and help the government identify export potential for selected products. To ensure that women entrepreneurs can benefit from business environment reforms, the project will also help analyse key constraints for women in business and build capacity of women entrepreneurs.

Source: https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=18531

Performance--based financial instrument based on gender outcomes by Canadian Climate Fund and IDB

In Latin America, IDB Invest, the private arm of the Inter-American Development Bank, offered a performance--based financial instrument based on gender outcomes, with funds from the Canadian Climate Fund. With this mechanism, project meeting a pre-defined gender-related target, could obtain a reduction in the interest rate on the loan of up to 25 basis points. For example, the firm Tecnogroup in Uruguay obtained a loan to build six solar PV plants associated with targets to have at least 15% of women employees, and at least 15% of the working hours in each plant assigned to women.

Source: https://idbinvest.org/en/canadian-climate-fund

Carbon Emission
Green Climate Fund (GCF)'s Funding to green venture capital in Rwanda and Kenya GCF creates a new investment fund, KawiSafi, to drive off-grid solar power in East Africa and invest in 10-15 clean energy companies, initially in Rwanda and Kenya where 70 to 80% of population live off-grid. The project aims to drive a low-carbon paradigm shift and leapfrog fossil fuel grids to clean energy, using equity capital from GCF to leverage investment, and grant capital to set up a Technical Assistance Facility. Through this fund, each energy company is invested USD 2-10 million who are contributing to the quality of life of low-income population in developing countries. Such project might also be a good way to enlighten the local population toward low-carbon development and build the robust base for future FDI in low-carbon technologies. Source: https://www.greenclimate.fund/project/fp005
EU's education and awareness for a green path and sustainable development in Jordan This programme aims to raise awareness and knowledge and empower NGOs to advocate for green economy in Jordan in view of achieving its target for 2020. The programme includes implementing the International Eco-Schools Program as an incentive for sustainable development to raise awareness and knowledge about energy efficiency and energy conservation. Source: https://www.jreds.org/en-us/Projects-Management/ArticleID/89/Education-and-Awareness-for-a-Green-Path-and-Sustainable-Development-in-Jordan
Redstone Concentrated Solar Project by AfDB and IFC The solar power project, developed by the Saudi company, ACWA Power, an investor and operator of power plants and water desalination plants and financed by the African Development Bank (AfDB) and the International Finance Corporation (IFC), aims to balance South Africa's energy mix, which currently consists of more than 80% of coal, and accelerate the transition to renewable energy. The project is expected to create more than 3 500 jobs over its life cycle. The financing conditions required that the project fulfils social development requirements on citizens employed, Black Economic Empowerment, procurement from SMEs, local content, and shareholding by local communities. The Redstone CSP project introduces a novel technology to store solar energy in a molten salt thermal energy storage system, which will enable the power plant to deliver a stable electricity supply to more than 200 000 South African homes during peak demand periods, even well after the sun has set. First introduced and tested in the US, this way of generating and storing energy is particularly prone to the desert environment in South Africa and other African countries. Source: https://www.afdb.org/en/news-and-events/press-releases/south-africas-largest-renewable-energy-project-redstone-csp-achieves-first-debt-draw-down-49098
Switzerland's support for Eco-industrial Park in Viet Nam Financed with a grant from the Swiss State Secretariat for Economic Affairs (SECO), this initiative aims to improve the environmental, economic and social performance of industries in Viet Nam and will create a basis to improve policies and regulation concerning Eco-Industrial Parks, integrating the EIP model in the legal framework for environmental and industrial policies. The programme builds on previous efforts (201419) by the Vietnamese Ministry of Planning and Investment and UNIDO, that introduced the eco-industrial park model through pilot projects and led to the implementation of various solutions for resource efficient and cleaner production, resulting in an avoided annual demand of over 22 000 MWh of electricity, 600 000m^3 of freshwater, 140TJ of fossil fuel and 3 600 tons of chemicals and waste. These solutions also led to an avoided emission of 32kt of CO^2 every year. By improving the legal framework and developing information and technical database to connect businesses and to support implementation of solutions to transform industrial parks into EIPs, the project will help to replicate and implement the EIP model nationwide. Source: https://www.mdpi.com/2071-1050/11/17/4667/htm; https://vietnam.un.org/en/101985-eco-industrial-park-model-sustainableindustrial-development-government-viet-na
Public-Private Infrastructure Advisory Facility (PPIAF) in India PPIAF supports the State of Odisha in India to hire international consultants and develop its first comprehensive renewable -energy policy framework covering the period up to 2022. The framework clearly outlines the long-term vision and includes a road map with incentive structures needed to attract private sector- participation to develop solar parks according to international standards. PPIAF's technical assistance also supports to conduct land bank assessments to identify key sites. This was paramount in removing major barriers for private -sector participation and helping to expedite planning for largescale solar-park development in Odisha. Source: https://ppiaf.org/activity/india-renewable-energy-development-odisha-0
AFD's programme for sustainable timber harvesting in Gabon AFD has been supporting Gabon in defining and implementing its forestry policy. AFD participates in the financing of the Forest Management Control project, which relies on the creation of protected areas and introduction of sustainable harvesting practices for foreign and local timber companies. AFD together with the Institut de Recherche et de Développement transfers skills and technologies to the Agence Gabonaise d'Etudes et d'Observations Spatiales to allow satellite observation of Gabonese forests to ensure respect of protected areas and sustainable practices. Source: https://www.afd.fr/fr/carte-des-projets/controler-lamenagement-durable-de-la-foret-gabonaise

Notes: Above are based on the openly available sources.

[1] International Social and Environmental Accreditation and Labelling ISEAL Alliance (ISEAL), Fairtrade Foundation, Global Reporting Initiative (GRI), OECD Guidelines for Multinational Enterprises, British Academy, UN Global Compact (UNGC), B Lab, Humanity United, Ethical Trading Initiative (ETI), Shift, Share Action, World Benchmarking Alliance (WBA), B Lab SDG, Fourth Sector Group 2030 (FSG), Business Fights Poverty.

OECD Development Policy Tools

FDI Qualities Guide for Development Co-operation

STRENGTHENING THE ROLE OF DEVELOPMENT CO-OPERATION FOR SUSTAINABLE INVESTMENT

This guide provides a framework to strengthen the role of development co-operation for mobilising foreign direct investment (FDI) and enhancing its positive impact in developing countries. The guide reviews a broad range of financial and technical solutions for enhancing the impact of FDI on sustainable development, and outlines ways donors can consider the impact of FDI on their strategies, thus supporting the design, implementation and monitoring of FDI-related assistance.

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