In collaboration with
fDi Strategies

# Guidebook on Facilitating Climate FDI

WHITE PAPER

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# Contents

# Foreword

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Developing countries, while particularly vulnerable to the negative environmental and economic shocks of climate change, face an enormous climate finance gap. Climate-positive foreign direct investment – or climate FDI – can help narrow this gap. However, growing climate FDI will require concerted collaboration between public and private actors, a strong strategic vision within host countries and focused investment facilitation efforts by investment authorities.

Investment promotion agencies (IPAs) can act as powerful enablers of developing countries' net-zero transition by adopting targeted facilitation measures that promote and nurture climate FDI. Furthermore, by encouraging sustainable, climate-positive investments, IPAs can help local companies decarbonize faster, thereby enabling them to better compete in a green global economy.

This guidebook, with step-by-step guidance and best practices for four categories of facilitation measures, will help IPAs design a comprehensive strategy for climate FDI. IPAs could also benefit from engaging in peer learning to share knowledge and methodologies. A coalition of IPAs would provide a platform for such useful exchanges to happen.

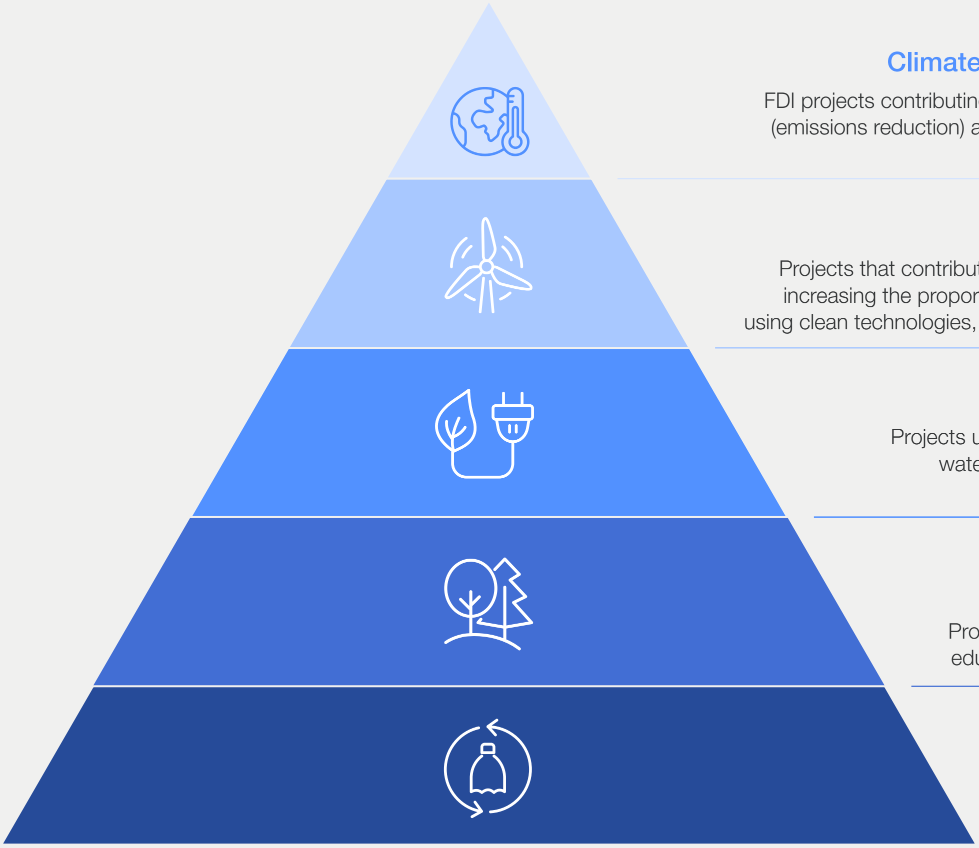
We hope that IPAs and allied government agencies can use the guidebook to accelerate decarbonization in their constituencies. The World Economic Forum, through its Climate Trade Zero initiative and its Investment Policy and Practice initiative, with support from fDi Intelligence, stands ready to work with IPAs interested in implementing climate FDI facilitation measures.

# Executive summary

Up to $6 trillion in investment is required annually to achieve national climate goals and decarbonization.[1] This paper outlines four categories of investment facilitation measures that investment promotion agencies (IPAs) and other authorities can adopt to increase climate-supportive investment.

"Climate FDI" refers to foreign direct investment (FDI) that contributes to countries' climate-aligned growth objectives. This may include investment projects that: are zero or low carbon in nature; aim to reduce the carbon footprint of economic activity; support the reduction of greenhouse gases (GHG) through emissions-reduction solutions and technologies; or are designed to improve the resilience of infrastructure to the effects of climate change. As such, climate FDI can take place across all sectors. Targeting "climate FDI" as a subcategory of "green FDI" can be a helpful distinction for policy-makers and stakeholders looking for targeted interventions to increase overall climate-supportive investment (see Figure 1).

FIGURE 1 **Conceptual framework to understand climate FDI**



**Climate FDI for mitigation and adaptation**

FDI projects contributing to climate objectives, e.g. climate mitigation (emissions reduction) and climate adaptation (improving resilience to climate change conditions)

**Climate FDI**

Projects that contribute to climate-aligned growth objectives by e.g. increasing the proportion of renewable energy in final consumption, using clean technologies, reducing emissions from industrial production

**Green FDI**

Projects using clean energy, sustainable materials, less water, recycling etc. that contribute to sustainable development and environmental objectives

**Sustainable FDI**

Projects contributing to any of the 17 SDGs (e.g. education, health, sustainable cities and climate)

**FDI**

Projects across all sectors and activities, regardless of sustainability characteristics

**Source:** Stephenson and Saran (2023)[2]

The world needs to grow climate FDI. The Intergovernmental Panel on Climate Change's (IPCC) Synthesis Report on climate change from March 2023[3] shows that humanity is still not on track to limit temperature increase to 1.5°C above pre-industrial levels. This guidebook provides practical steps on how to implement high-impact climate FDI facilitation measures; it offers a menu from which IPAs can choose while tailoring actions to their priorities and capabilities, rather than suggesting a one-size-fits-all approach. The guidebook particularly considers the needs of emerging and developing countries.

**Measure 1:** Align IPA strategies, KPIs, investment incentives and de-risking instruments to achieve climate goals.

**Measure 2:** Create a database of domestic suppliers with sustainability dimensions (SD2) and launch a supplier development programme to help domestic firms become more sustainable.

**Measure 3:** Map MNE climate commitments to investment opportunities in host economies and create a pipeline of endorsed and vetted climate-friendly investment projects that help MNEs deliver on their commitments.

**Measure 4:** Work with governments and stakeholders to potentially include climate FDI facilitation provisions in IIAs and strengthen national frameworks.[4]

IPAs play an integral role in identifying, attracting, facilitating and retaining climate FDI in their location. Implementing these measures, in collaboration with public and private actors, can drive the systemic change required to grow climate FDI projects and achieve the world's shared climate goals.

In addition, IPAs could consider creating a coalition to raise awareness, adopt targeted facilitation measures and share knowledge and best practices on climate FDI. Such a Coalition of IPAs for Climate (CIPAC) will provide further momentum to the growth of climate FDI and help close the climate finance gap in developing countries.

Finally, the successful conclusion of text-based negotiations on a World Trade Organization (WTO) Agreement on Investment Facilitation for Development (IFD) provides added impetus and support for this agenda. While the IFD Agreement can help create a baseline of good practices on investment facilitation broadly, climate FDI facilitation can complement this with targeted measures to grow investment aligned with climate goals.

# Introduction

## Facilitating climate-aligned FDI is essential to help deliver on the world's shared climate goals.

Trillions of dollars of investment are needed annually to decarbonize, make the required energy, production and consumption shifts, and adapt to climate change. Investment of the volume needed cannot solely be mobilized nationally; it requires capital and embedded technology to be brought in from abroad. This guidebook defines climate foreign direct investment (FDI) as that which contributes to countries' climate-aligned growth objectives.[5] This includes investment projects that: are zero or low carbon in nature; aim to reduce the carbon footprint of a firm; support the reduction of greenhouse gases (GHG) through more efficient energy technologies; or are designed to improve the resilience of infrastructure to adapt to the effects of climate change. As such, climate FDI can take place across all sectors.

Investment promotion agencies (IPAs) can play a crucial role in promoting and facilitating climate FDI projects. Their function is to promote, facilitate and retain FDI and work with both public and private stakeholders to create a business environment that is attractive for investors. IPAs therefore have a vital role in helping to achieve national and international targets for climate while also generating economic development benefits. The focus of this guidebook is to present four categories of investment facilitation measures that IPAs can adopt to increase climate FDI. The paper particularly aims to empower emerging- and developing-country IPAs where capital needs are significant and FDI flows are currently lower.

FDI facilitation has the potential to accelerate on various fronts. International guidelines and standards for sustainable suppliers exist, and sector-specific guidelines are in development at the international level. Multinational enterprises (MNEs) around the world have made climate-related commitments and pledges, and actively seek out investment project opportunities. Developments have been made in international legal frameworks for the inclusion of climate FDI provisions in international investment agreements (IIAs). Yet, as temperatures continue to rise worldwide, deeper and faster deployment of capital is needed.

Furthermore, it is crucial to consider domestic social objectives when evaluating the sustainability of a project. To illustrate, hydropower projects can displace residents through the creation of reservoirs, while biomass projects may occupy agricultural land, increasing the risk to food security, as was witnessed during the 2007–2008 global food crisis. Due consideration must be given to real-world trade-offs that communities may face when prioritizing climate-friendly investments to achieve long-term sustainability goals.

Public-private collaboration will be an integral part of this process. Drawing on the expertise and insights of the private sector will enable IPAs to improve regulatory and policy frameworks and deliver more attractive, viable and inclusive climate FDI projects. Beyond that, buy-in from key public and private actors, and adopting a joined-up approach to FDI facilitation, will enhance the effectiveness of these efforts.

Measure 1

# Align IPA strategies, KPIs, investment incentives and de-risking instruments to achieve climate goals

This measure aims to accelerate climate investments through integrated IPA strategy development and project de-risking.

IPAs can increase the appeal of climate-aligned investment projects by including climate FDI in their strategies and key performance indicators (KPIs), establishing relevant sector priorities and evaluating and coordinating incentives for investment in climate FDI projects. It is important to undertake these actions throughout the process of investor targeting, aftercare and policy advocacy.

Developing countries, particularly the least developed countries (LDCs), face the greatest threats related to the effects of climate change, but can struggle to attract and retain capital-intensive climate projects. This is often due to their higher risk profiles, relative lack of subsidies and more difficult project-financing conditions. FDI risks, including lower institutional quality, macroeconomic instability, poor sovereign credit ratings and inadequate infrastructure, are generally greater in developing countries and emerging markets.

For this reason, facilitating and de-risking capital for climate FDI projects should be a particular priority for IPAs, including identifying specific commercial, financial, technological and political risks that investors may face in a location, as well as mitigating these by deploying tailored incentives, insurance and guarantee instruments. In addition, IPAs can help to connect investors with sources of financing for their projects.

## Recommended approach

A recommended approach for the formulation of a climate FDI strategy is posited in Figure 2. This framework aligns with the Organisation for Economic Co-operation and Development (OECD)'s FDI Qualities Policy Toolkit, which describes specific principles and policies that governments can take to attract FDI that helps contribute to decarbonization.[6]

FIGURE 2 **Measure 1 actions**

**Measure 1**

**Step 1** — **Define climate FDI strategies in relation to climate goals**

**Define climate FDI** to inform how an FDI project shows a positive sum of climate-related benefits that contributes to climate objectives.

Prioritize **nationally determined contributions (NDCs)** and **national adaptation plans (NAPs)** related to climate.

**Step 2** — **Prioritize IPA sector targeting and activities**

Develop a **sector prioritization strategy to identify the target sectors** that contribute to economic development and climate objectives.

**Step 3** — **Align investment incentives**

**Review incentives and political risk insurance** that can be used as de-risking mechanisms to overcome market failures for climate-related projects with significant commercial and political risks, but important positive spillovers related to climate.

**Step 4** — **Develop an implementation plan**

A well-planned investment facilitation framework will require **clear key performance indicators (KPIs) to quantifiably measure climate FDI attraction successes.**

**Source:** fDi Strategies, from the Financial Times

### Step 1: Define climate FDI strategies in relation to climate goals

A location's definition of climate FDI will shape its climate investment attraction strategy and influence the selection of investment projects. Integrating climate goals into strategic plans for investment attraction is recommended. Countries' nationally determined contributions (NDCs) to the Paris Agreement offer a set of defined goals and existing metrics that can be used in a climate FDI strategy. The OECD's FDI Qualities Policy Toolkit lays out a framework for ensuring coherence across climate, sectoral and investment strategies.[7]

## **Step 2:** Prioritize IPA sector targeting and activities

IPAs should develop sector strategies (see Figure 3) to identify target sectors that contribute to both economic development and to climate objectives. IPAs should review the NDCs of their country to narrow down the target sectors and identify those in which FDI can have a major positive contribution, from economic and climate perspectives. For example, Invest India has prioritized 11 sectors in which FDI projects have been identified as strongly aligning with the United Nations Sustainable Development Goals (SDGs), including renewable energy. This has allowed Invest India to develop a target of facilitating investments in 40GW of the Ministry of New and Renewable Energy's total national target of 175GW of renewable energy production by 2022.[8]

FIGURE 3 **Sector prioritization strategy**

01

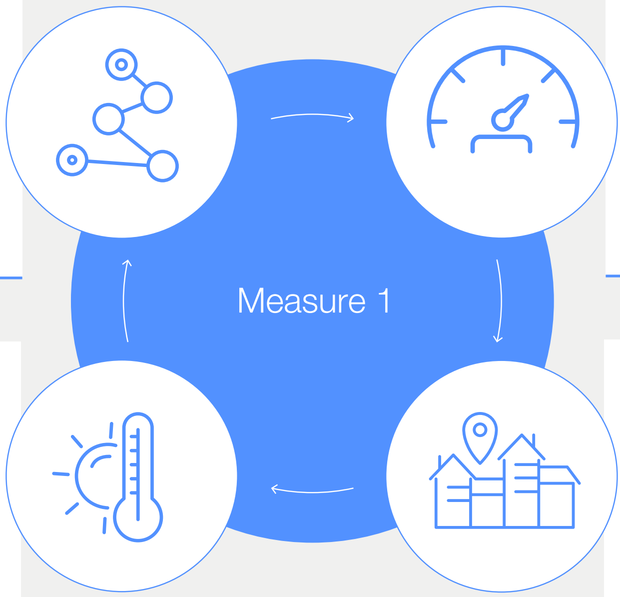
Align sectors with priority areas

Translate economic strengths and challenges into investment promotion by mapping existing and potential economic sectors and subsectors with the prioritized climate objectives.

02

Identify climate objectives relevant to a location

Analyse climate objectives and comparison with key climate indicators in a location to check if the location is on track to meet NDCs and NAPs.




03

Evaluate the importance of FDI to target sectors

Evaluate the importance of FDI for important climate-related sectors and subsectors identified.

04

Align target sectors with KPIs

Align IPAs' strategy to attract climate FDI by implementing targets for the volume of FDI needed, with annual progress evaluations in meeting climate objectives and the contribution of FDI.

**Source:** fDi Strategies, from the Financial Times

Sector prioritization can help with the selection and implementation of de-risking instruments, which can be specific to subsectors, and be applied depending on the relative levels of public-private participation in the project. Private-sector actors' decisions to invest in climate-supportive projects depend on several factors, including the presence of well-defined revenue models and an understanding of project and regulatory risks. The weight of these factors may vary across sectors, as shown in Figure 4. Due to a higher risk level and project implementation challenges, compounded by significant upfront capital costs,[9] almost 50% of climate-related projects in developing countries require some level of public participation (which rises to 72% for climate adaptation projects).[10]

Identifying public-private opportunities for participation in climate FDI projects by sector is crucial for attracting investments in projects that would not take place without public support. For example, Invest in Uzbekistan provides clear investment offer guidelines to foreign firms on its website. It particularly promotes public-private partnership (PPP) investment proposals, through a link to the Public-Private Partnership Development Agency, which has included capital-intensive renewable energy projects that align with the state programme for economic development and decarbonization.[11]

FIGURE 4 | **Ratio of public-private participation by climate sector**

| Ratio of public-private participation | Example sectors |
|---|---|
| Projects that are pure public goods | – Floodwalls<br>– Drainage systems<br>– Reforestation<br>– Mangrove protection |
| Projects that allow for PPP models or concessionary schemes | – Climate change-resilient infrastructure<br>– Green infrastructure<br>– Water management<br>– Public transport systems |
| Projects that can be privately financed but require government support, incentives or subsidies to cover the costs of making them climate-friendly or climate change-resilient | – Agricultural investments in resistant crops<br>– Weather monitoring systems<br>– Clean, carbon-neutral buildings<br>– Carbon capture and storage<br>– Clean technologies<br>– Renewable energy generation<br>– Electric vehicles<br>– Green mineral extraction |

**Source:** United Nations Conference on Trade and Development's (UNCTAD), "World Investment Report 2022"

**Step 3:** Align investment incentives

Both fiscal and non-fiscal incentives for climate investments need to be targeted and cost-effective. An increasing number of discretionary incentives are granted based on how a project's parameters align with climate objectives, and on evidence that climate investments would be hindered without them due to significant commercial risks.[12]

Short-term incentives – mainly fiscal incentives – can help encourage climate FDI. These should be complementary to a sound regulatory investment regime since incentives cannot compensate for regulatory risk by themselves. In addition, new tax rules associated with the OECD base erosion and profit shifting (BEPS) initiative will limit countries' scope to reduce corporate tax rates below 15%. However, within the band of allowable 15% fiscal incentives under the BEPS initiative, incentives can be an additional tool to help grow climate FDI. In addition, *financial* incentives (which are not covered by BEPS) may become increasingly important as a tool.

Non-fiscal and non-financial incentives also have an important role to play. They can reduce the administrative burden and time costs of an investment project. For instance, IPAs can work to streamline investment processes, provide revenue guarantees for strategic projects, form or facilitate joint ventures and support site visits. To illustrate, sourcing capital for many climate projects (e.g. renewable energy generation) will be dependent on the availability of offtake markets in a location, how companies engage with stakeholders and the speed of procuring permits that can help fast-track a project.[13] The OECD's FDI Qualities Policy Toolkit provides detailed guidance on the importance of providing financial support to stimulate low-carbon investment and carbon-pricing measures.[14] Figure 5 contains a non-exhaustive list of incentives that can be considered, drawing from what has been recommended under Principle 3 within Chapter 5 of the OECD's FDI Qualities Policy Toolkit.

FIGURE 5 | **Incentive categories**

| Non-fiscal/non-financial incentives | Fiscal/financial incentives |
| --- | --- |
| Regulatory incentives: derogations from certain national or subnational rules and regulations including "red-carpet services" meant to fast-track administrative, bureaucratic and legal processes for climate FDI projects. | Fiscal incentives: exemptions, tax holidays, deductions, accelerated depreciation, investment allowances and reduced tax rates (e.g. corporate tax, income tax, capital repatriation tax, real estate tax, land tax); many fiscal incentives are available in special economic zones.<br>Tax incentives can be used to encourage projects and activities with the greatest impact on environmental indicators (e.g. renewable energy projects), particularly affecting efficiency-seeking projects in competitive and cost-saving climate sectors. |
| Technical and business support incentives: advisory services provided to ease market entry or support the operations of firms, such as arranging site visits, recruitment and immigration services, market intelligence and strategic introductions to potential partners and clients. | Financial incentives: forms of financial support that are non-tax-based, including cash grants, government insurance, preferential loans to foreign investors and use of feed-in-tariffs and power purchasing agreements for renewable energy. |

**Source:** fDi Strategies, from the Financial Times

In addition to commercial risks, political risks – such as expropriation, breach of contract, currency inconvertibility, adverse regulatory changes, war and terrorism[15] – would affect an investment's profitability. To address such broad risks, which might hamper climate investment scale-up, IPAs can facilitate awareness of and access to political-risk insurance, provided by a body within the source (home) or destination (host) country, or multilaterally by the World Bank Group's Multilateral Investment Guarantee Agency (MIGA). The latter has supported commitments to the World Bank's Climate Change Action Plan 2021–2025 by providing political-risk insurance for projects in developing countries that include private capital. This approach consists of linking favourable insurance and investment guarantees (reduced premiums, longer coverage periods and higher coverage limits) to the climate-friendliness of investments. On the flip side, multilateral institutions could also require that carbon-intensive activities be subject to higher premiums and stricter conditions to access coverage.

As a further step, depending on capacity, IPAs can award incentives and insurance options to parties meeting criteria for a "climate-investor" status. For example, Karl P. Sauvant and Evan Gabor have outlined the Recognised Sustainable Investor (RSI) framework[16] as a means of increasing the level of FDI that is aligned with a country's developmental goals, including those related to climate.[17] This framework can be set up through three major steps:[18]

**1. Establish essential criteria that an investor should meet to be designated an RSI**

RSI designation could be awarded to FDI projects following general responsible business conduct (RBC) practices and meeting criteria to achieve climate objectives. The impact of a project on climate should be analysed on a case-by-case basis, with evidence of the investment's climate-friendly qualities being more important than a company's sustainability antecedents.

**2. Consider country-specific development goals, including those related to climate, that investors would commit to meet**

Investors make reasonable efforts to ensure that investments contribute to country-specific climate goals by undertaking actions to reduce the investment's carbon footprint. In other words, investors would first identify the country's climate goals, then ensure that their investment projects were aligned with those goals.

**3. If 1 and 2 are met, grant special incentives to climate FDI projects**

RSI designation entails receiving special incentives not available to general investment projects.[19] Examples could include "red-green-gold" services – that is, red-carpet treatment to accelerate permitting and approvals, green channel processes to facilitate customs clearances and gold status treatment for post-establishment aftercare.[20]

## BOX 1 Ghana Investment Promotion Centre (GIPC) – pioneering the development of sustainability-linked incentives

GIPC has worked with the World Economic Forum to develop an RSI framework and incorporate RSI designation into Ghana's investment code to encourage sustainable and climate-supporting investment. The RSI designation is awarded to investors observing responsible business conduct (RBC) guidelines and contributing to Ghana's sustainable development priorities. GIPC seeks to develop investments that are designated as climate-supportive through measuring the reduction in carbon emissions brought about, for example, from renewable energy. Stakeholder engagement has been key to implementing this, with both firms and public actors such as the Ministry of Environment, Science, Technology and Innovation, the Ministry of Energy and the Environmental Protection Agency, which carries out environmental impact assessments to measure carbon emissions for projects, which can then be directly tied to the awarding of incentives.

**Source:** Consultation with Ghana Investment Promotion Centre (March 2023)

### Step 4: Develop an implementation plan with KPIs and monitoring and evaluation

An IPA should identify links between NDCs and a climate FDI strategy, then take steps to enact this strategy. This can involve introducing time-bound targets for climate-related capital investment or monitoring the environmental performance of investment projects, by calculating carbon footprint, waste management and energy consumption, for example.[21] IPAs should ideally work with relevant governmental agencies to monitor climate-related performance. Monitoring and evaluating climate investment flows will further help a country assess its impact on NDCs and achieve the objectives of the climate FDI strategy.[22]

## BOX 2 Industrial Development Agency (IDA) Ireland – tracking sustainable investments

IDA Ireland[23] aims to attract 60 sustainable projects by 2024 and records the number of environmentally sustainable investments attracted annually. In 2021, out of 249 projects, 15 were classified as sustainable, including both greenfield and expansion investments, and were distinct from other investment projects.

**Source:** IDA Ireland, Annual Reports and Accounts (2021)

## BOX 3 Invest in Türkiye – capitalizing on SDG metrics to monitor priorities of the national FDI strategy

Invest in Türkiye defined "Quality FDI" for Türkiye in its national FDI Strategy in three dimensions (technological transformation, employment and current account balance), with seven different priority areas and four "horizontal axes" areas with which all investments should align. One of these four axes is the SDG compliance of each investment project, measured by a checklist of 47 relevant questions for all 17 SDGs. These questions are ranked in terms of importance, from 1–5, including questions related to SDG7 (clean energy for all) – e.g. is it an investment in renewable energy production? – and SDG 13 (climate action), e.g. is it an investment in technology, a product, service or infrastructure that will reduce carbon/GHG emissions? Is it an investment that adopts technologies that will enable it to reduce its carbon footprint in its own manufacturing facility? Does the investor have a policy document/target/commitment to reduce carbon emissions/footprints in the production processes and supply chain, and is it shared with the public? This has provided Invest in Türkiye with a series of easily answerable questions for use by its sectoral experts, which is relatively cost-effective and contributes to measuring the KPI of the national strategy to attract quality FDI, including alignment with climate goals.

**Source:** Consultation with Invest in Türkiye (March 2023)

## Implementation and key stakeholders

Key national and regional stakeholders that an IPA should consider engaging to align IPA strategies, KPIs, investment incentives and de-risking instruments to climate goals:

- **Existing foreign investors** to identify common challenges and bottlenecks to climate investments, which in turn should inform future policies regarding incentives and regulations
- **Government entities and authorities** that are responsible for regulatory changes, fast-tracking permitting and licensing and implementing incentives to ensure a whole-of-government approach at the domestic level (see Box 4 for best practices), environmental impact monitoring and standard-setting
- **High-level policy councils** that include working groups for climate-related investments and coordinate private and public actors in facilitating climate investments[24]
- **Multilateral institutions** that provide a range of de-risking measures and services for climate FDI, including political-risk insurance, investment guarantees, financing for climate projects and capacity-building/technical training programmes for IPAs

BOX 4

### Invest India – adopting a whole-of-government approach to attracting climate FDI

Invest India provides a one-stop shop for all FDI projects, working to facilitate investments in prioritized climate FDI subsectors, particularly renewable energy. It has fostered a strong whole-of-government approach with multiple agencies – including the Project Development Cell (PDC) within the Ministry of New and Renewable Energy, the Empowered Group of Secretaries (EGoS) and the Central Pollution Control Board (CPCB) within the Ministry of Environment, Forestry and Climate Change – which work with Invest India to identify and address bottlenecks for climate FDI projects, such as navigating the national approval system for environmental assessments and land acquisition for larger projects.

**Source:** Consultation with Invest India (March 2023)

TABLE 1

### Potential risks and mitigation strategies

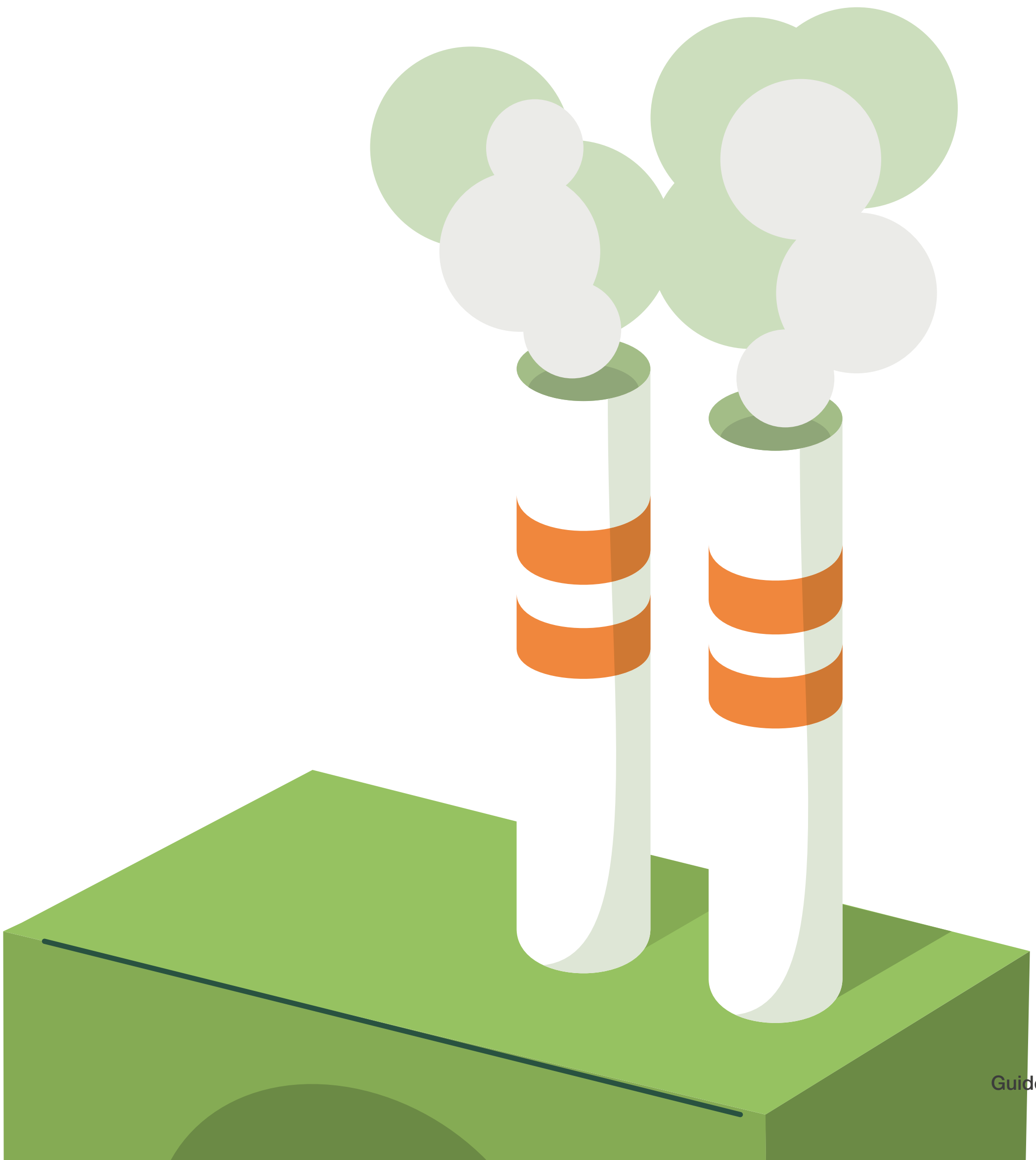
| No. | Risk | Suggested mitigation |
|---|---|---|
| 1 | **The IPA may not have a clear focus on sustainability or dedicated officer/team for climate FDI strategy formulation and execution** | Establish a clear mandate for the IPA to support climate FDI, preferably with a vision and mission statement affirming a dedication to sustainable investment<br><br>Appoint dedicated staff to execute on mandate |
| 2 | **Difficulty for the IPA in measuring prospective projects based on their climate impact due to expertise constraints** | Cooperate with government departments responsible for monitoring environmental permitting and licensing rather than undertaking the process completely independently |
| 3 | **Lack of public support for PPPs and concessions in strategic climate projects and lack of supporting regulations for key climate sectors** | Engage in policy advocacy and coordination with government stakeholders to identify sectors in which public and private investments can be directed towards and identify regulatory changes that can de-risk climate FDI projects |

**Source:** fDi Strategies, from the Financial Times

Measure 2

# Create a database of suppliers with sustainability dimensions (SD2) and launch a supplier development programme to help domestic firms become more sustainable

This measure sets out to increase the visibility of sustainable suppliers through online databases and develop programmes to help companies improve the sustainability of their operations.



Access to a reliable supplier database allows foreign and domestic firms to identify potential suppliers efficiently, thereby reducing transaction costs and accelerating market entry and operations. Additionally, supplier databases can help investors assess the quality and reliability of local suppliers, understand local market dynamics and supply-chain risks and access quality inputs into the production process. Supplier databases are also a promotional tool, making it more likely that an MNE will consider driving investments to a location, as they are able to gain an understanding of local sourcing opportunities.[25]

Supplier databases have been used by IPAs and other stakeholders for many decades to encourage trade and investment across priority sectors. Increasing demand from corporates for sustainable supply chains creates the need to include sustainability dimensions or sustainable criteria in these databases.

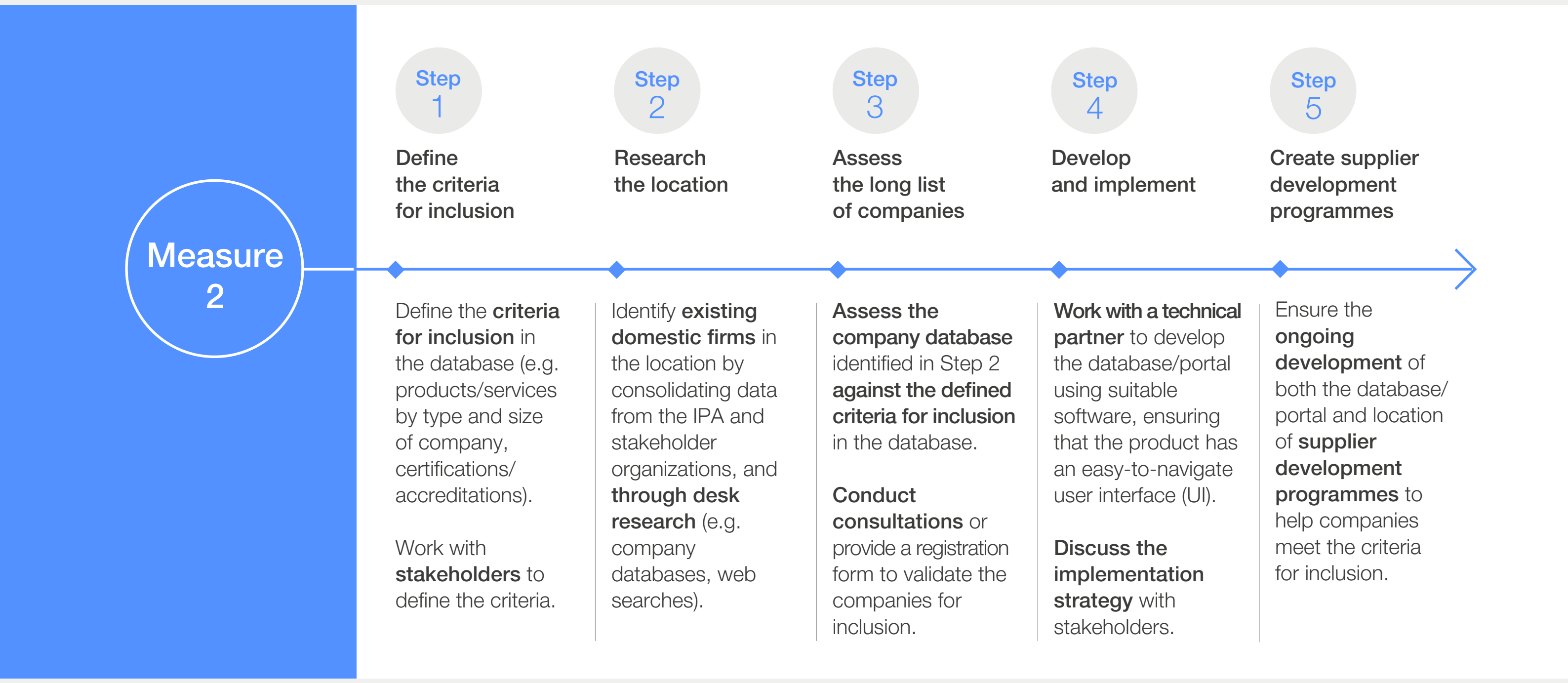
In May 2021, the Council for the Development of Cambodia (CDC), with support from the World Economic Forum, launched its Supplier Database with Sustainability Dimensions (SD2),[26] the first supplier database designed to include not only traditional information (e.g. sector, products, contact information, etc.) but also information on the degree to which local companies operated sustainably. The aim was both to attract foreign firms committed to investing sustainably and to encourage more Cambodian firms to shift to sustainable operations, in order to qualify for such capital and investor interest.

Complementary and integral to an effective supplier database is a supplier development programme to ensure that domestic firms have the right capacity in terms of quality, cost and scale, in addition to sustainability standards. Supplier development programmes have been used by public- and private-sector organizations with the aim of increasing the competitiveness and efficiency of domestic companies to integrate into global supply chains. Supplier development programmes often involve multiple stakeholders, including enterprise support agencies, technical consultancies, standards bodies and training and research institutions. An example is the global supply chain coordination support offered by the Malaysian Investment Development Authority (MIDA).[27]

## Recommended approach

Figure 6 provides an overview of the recommended approach an IPA can adopt to implement Measure 2.

FIGURE 6 **Measure 2 actions**




**Source:** fDi Strategies, from the Financial Times

**Step 1:** Define the criteria for inclusion

Explain the rationale behind developing a database of suppliers with sustainability dimensions (SD2) to relevant stakeholders and gather feedback on criteria or dimensions that could be used for including firms within the database. It is essential that major MNEs in the location are consulted, to understand both their supplier assessment criteria and what sustainability standards are currently used or are likely to be used to screen companies for inclusion in their supply chains.

Inclusion criteria for local companies in the supplier database should also be "reality-checked" with local firms and stakeholders. For example, access to internationally accredited certification is not always possible or feasible in many developing countries. Therefore, including this as a mandatory criterion might result in a very low number of eligible companies.

In addition, a supplier may be sustainable in one dimension but not in another, and governments may wish to include such firms in order to help them – gradually, over time, through the supplier development programme – increase the number of dimensions in which they are able to operate sustainably.

Figure 7 provides examples of potential sustainability criteria that locations may consider, based on what is feasible in that place and the requirements of MNEs.

FIGURE 7 **Examples of potential criteria for inclusion in a supplier database**

High-level criteria

- Company self-certification/identification as sustainable
- Company has detailed an emissions-reduction strategy
- Company has a sustainability/climate strategy in place
- Company has recognition/visibility in sustainability/climate action (awards, media, active participation, etc.)
- Sector accreditations (within specific industry), e.g. bluesign (textiles), Green Seal (household/building products)
- Company accreditations or certification within environmental, social and corporate governance (ESG), e.g. B Corp Certification, sustainability and climate risk certificate etc.
- Specific ESG or sustainable standards through the International Organization for Standardization (ISO) – e.g. ISO 14001 (environmental management systems)

Specific dimensions/ certifications

**Source:** fDi Strategies, from the Financial Times

To enhance the relevance of the database for corporates, it is crucial to incorporate globally recognized sustainable development standards that are specific to various sectors. For instance, in the textile industry, there are several different international sustainable development standards. A non-exhaustive list of these standards can be found in Table 2.

TABLE 2 **Examples of sustainable development standards and memberships for textile companies**

| Name of standard | Area of influence (environmental or social) | Validity of certificates | External, independent audits required? |
|---|---|---|---|
| **Textile Exchange Global Recycled Standard Version 3** | Environmental and social | 1 year | ✓ |
| **Global Organic Textile Standard, GOTS-NL, Version 4.0** | Environmental and social | 1 year | ✓ |
| **ISO 14001:2004, revised format: ISO 14001:2015** | Environmental | 3 years | ✓ |
| **Worldwide Responsible Accredited Production (WRAP)** | Environmental and social | 6 months to 2 years | ✓ |
| **Social Accountability International – SA8000** | Social | 3 years | ✓ |
| **Bluesign standard – sustainable textile production** | Environmental and social | 3 years | ✓ |
| **Better Work Initiative** | Social | 1 year (estimate) | ✓ |
| **Fair Labor Association** | Social | 1 year | ✓ |
| **Leather Working Group – promoting sustainable leather production** | Environmental and social | 1.5 to 2 years | ✓ |

**Source:** fDi Strategies, from the Financial Times; Kollinsky and Loewendahl (2018)[28]

**Step 2:** Research the location to identify a long list of local firms

IPAs and government authorities should identify local companies operating in the sectors that have the best potential for foreign–domestic collaboration and for increasing sustainability in local supply chains.

Where available, the IPA should use its own customer relationship management (CRM) system, along with the business registry data consolidated from other stakeholder agencies – such as the locations business registry office, chambers of commerce and sector associations – to develop a comprehensive picture of businesses registered within the location.

Additional supporting research can be conducted through online searches and third-party company databases where required; however, external company databases can be expensive.

**Step 3:** Assess the long list of companies to build a short list of local firms

Work with stakeholders and partners to assess companies against the defined criteria for inclusion to identify a short list of firms that should be engaged. These can include companies that already meet key criteria or companies that could potentially meet the criteria with the support of supplier development programmes. The criteria should be closely aligned with that used by MNEs in the location or wider region, to ensure the best probability of domestic companies plugging into global value chains (GVCs).

There are examples of countries that have chosen to leverage regional agreements for the development of a regional database. For instance, the Association of Southeast Asian Nations (ASEAN) has built the ASEAN Supporting Industry Database to increase awareness of supporting industries that exist in ASEAN member states;[29] private-sector databases, such as the East African database of suppliers for the oil and gas sector by the private sector company Achilles, have also been created.[30]

IPAs should contact the shortlisted firms to explain the purpose of the supplier database with sustainability dimensions (SD2), collect further information and let them know how to register. This can be done through face-to-face consultations or via an online registration form, depending on the number of companies to be covered and the IPA's capacity. Significant companies should be consulted face to face where possible.

**Step 4:** Develop and implement

Engage with third-party technical experts or software development companies to begin to develop a supplier database with sustainability dimensions (SD2).

IPAs should involve relevant stakeholders in conversation with the database developer to ensure that no information is missed in the development brief regarding functionality (e.g. by including a tagging system and search function to quickly identify firms by verified sustainability criteria).

While the selected developer is creating the supplier database, the IPA should begin discussions with stakeholders on implementation strategy, including where the database will be hosted, scheduling periodic reviews to identify areas for further development and discussing the marketing strategy for the system to ensure the tool is promoted.

It is essential that the supplier database is easy to use, and that the IPA can edit and add companies easily. Hosting of the database should be secure (as it will include company information and personal information on contacts in companies).

In addition, it is important that a long-term solution is provided so that, after the up-front costs, the IPA knows and agrees each year how much hosting, maintenance and technical support will cost. If a software as a service (SaaS) solution is available, this may be more sustainable, cheaper and quicker to implement. But if a custom-built system is the only option, the long-term viability of the database must be very carefully planned out for a number of years. In addition, the online application should be able to plug into, or be embedded within, the IPA's website and be fast and easy to use. Another consideration is whether suppliers should be allowed to register themselves on the online application and add and edit information on their company.

**Step 5:** Create supplier development programmes

IPAs and relevant stakeholders should launch a complementary supplier development programme to help local companies and small to medium-sized enterprises (SMEs) increase their capacity by achieving certain standards and certifications, including those related to ESG.

The IPA and partners should align any supplier development programmes with the criteria for inclusion defined for the supplier database to ensure that companies which fail to meet the inclusion criteria are aware of the opportunity to seek support to become eligible for inclusion. This would be valuable for small businesses that might not otherwise have access to MNE standards and would present an opportunity to boost their firms' general green competitiveness.

These support programmes can be delivered by various stakeholder or partner organizations, but it is important that existing MNEs are fully involved in the programme to align supplier development programmes with their supply-chain assessment criteria and, in many cases, to benefit from the technical support MNEs can provide. This is especially the case in developing countries, where many major MNEs have local supplier development programmes as part of their own commitment to corporate sustainability to help achieve the SDGs. Another option would be to include ESG modules in already existing supplier development programmes or SME accelerators to allow firms to take steps towards becoming more sustainable suppliers. These programmes can eventually develop into fully fledged sustainable supplier development programmes.

## Implementation and key stakeholders

The implementation of a supplier database with sustainability dimensions (SD2) should be conducted as a joint effort between the IPA and key stakeholders involved in the process.

**Key points IPAs should raise with relevant stakeholders include:**

– Discuss the proposed criteria for inclusion in the database, in addition to which sectors to focus on

– Research and assess companies to be included in the database, drawing on all sources of information

– Determine where the online database should be located – integrated into the IPA website/ stakeholder website or stand-alone on its own webpage (which would require a stronger marketing programme to get visibility of the webpage)

– Identify and engage in feedback during development with a chosen third-party software/ website developer with a strong long-term sustainability plan for hosting and maintaining the database for many years

– Devise a marketing and promotion strategy for the database to ensure both MNEs and local firms are aware of it and use it

– Enact periodic reviews of the live database and its performance through stakeholder feedback sessions

– Identify local supplier development programme opportunities, either provided in-house or from a third-party supplier/existing investor programmes

**Key national and regional stakeholders that an IPA should consider engaging to begin discussions on the proposed development of a supplier database include:**

– Enterprise development agencies

– Public-sector stakeholders, including ministries such as Trade, Energy and Environment

– Academia and educational institutions, including universities and business schools

– Trade associations

– International and national standards and accreditation bodies

– Sector and industry development organizations

– Public-private intermediaries and chambers of commerce

– Existing foreign investors, especially key investors in the economy and those with a clear focus on sustainable development

TABLE 3 | Potential risks and mitigation strategies

| No. | Risk | Suggested mitigation |
|---|---|---|
| 1 | **Misunderstanding definition of criteria for inclusion in a supplier database with sustainability dimensions (SD2)** | Define inclusion criteria based on what is most appropriate for location; this could be defined by accredited certifications in one location or by company self-certification in another |
| 2 | **Lack of stakeholder involvement in development and implementation of a supplier database with sustainability dimensions (SD2)** | Ensure stakeholder buy-in and support is established early in the supplier database life cycle through clear protocols and messaging |
| 3 | **Foreign investor perceptions of sustainability standards and accountability** | Include supporting information on the company's sustainability of operations. Investors from developed markets will also frequently be held to higher standards, so divergent standards of sustainability need to be considered |
| 4 | **Sustainability of software solution** | Set up a long-term sustainability plan so the IPAs can be certain that the database will be hosted and supported at a price they can afford for a number of years |
| 5 | **Supplier development programmes may not be fiscally viable, especially in LDCs** | Leverage international development partnerships to support the development of supplier development programmes |

**Source:** fDi Strategies, from the Financial Times

Measure 3

# Map MNE climate commitments to investment opportunities in host economies and create a pipeline of endorsed and vetted climate-friendly investment projects that help MNEs deliver on their commitments

Developing a rolling pipeline of bankable sustainable project opportunities for MNEs to invest in can help direct efforts to fulfil climate-related commitments, while advancing a country's SDGs.

Companies around the world are making bold commitments to address climate change. Net Zero Tracker's Net Zero Stocktake 2022 report showed an increase in net-zero targets in its database since December 2020, with 40.6% more Forbes 2000 companies committing to net-zero announcements in the course of 2021.[31] Pledges by governments and corporates have also proliferated, driven by the United Nations Framework Convention on Climate Change (UNFCCC)'s Race to Zero campaign.[32]

Many MNEs struggle to realize their commitments, however, because of obstacles around identifying relevant climate-friendly projects. MNEs account for more than one-fifth of global $CO_2$ emissions, with a significant percentage of this comprising Scope 3 emissions from their supply chains that have often been outsourced to emerging economies.[33]

Climate FDI has large information asymmetries, with a paucity of essential data about climate-friendly investment opportunities, especially in emerging markets. IPAs can play an important role in addressing this issue by developing and promoting investment projects ready to offer (IPROs) that provide a pathway to realizing MNE climate commitments and thus help realize national climate goals.

## Recommended approach

A recommended implementation approach for Measure 3 is outlined in Figure 8.

FIGURE 8 **Measure 3 actions**

**Measure 3**

**Step 1** – **Identify MNE commitments**

Develop a **holistic understanding of MNE climate commitments** to orient and frame the next steps.

Identify **new and existing investors** with climate commitments that align with country climate goals.

**Step 2** – **Set up pipeline**

Develop and implement a process to **develop a pipeline of project opportunities**, to include specific **MNE climate commitments as a screening criteria**.

**Step 3** – **Package and promote**

Develop **third-party vetted and government-endorsed** customized packaging and promotion materials for prioritized project opportunities.

**Step 4** – **Prioritize and match**

Perform a **matching exercise** between project opportunities and MNEs and **prioritize project opportunities** to package and promote.

**Source:** fDi Strategies, from the Financial Times

### Step 1: Identify MNE commitments

It is essential for IPAs to gain an understanding of MNE climate commitments, to inform the identification and packaging of project opportunities. Reviewing the climate commitments made by relevant MNEs allows IPAs to identify specific corporate targets, goals and focus areas, to inform criteria and screen potential project opportunities. The relevance of an MNE should be determined by its existing presence in the market or likelihood to invest (e.g. sector relevance or attractiveness). An IPA should conduct reviews of publicly available information on MNE climate commitments to identify potential new investors and existing investors that could expand further in the location. MNE climate commitments can include, for example:[34]

- **Carbon neutrality:** Reductions in GHG emissions and offsetting remaining emissions by investing in carbon-removal projects or buying carbon credits

- **Renewable energy:** Obtaining 100% of electricity from renewable resources or from suppliers that use renewable sources

- **Sustainable products:** Making products more sustainable by using recycled materials, reducing waste and minimizing the environmental impact of production processes
- **Supply-chain emissions:** Working with suppliers to improve their sustainability practices and reduce GHG emissions
- **Circular economy:** Adopting circular economy principles (minimizing waste and encouraging reuse of products)
- **Carbon removal:** Investing in carbon-removal technologies
- **Nature positive:** Stopping biodiversity loss and restoring natural ecosystems

MNE websites and social media, annual reports, sustainability reporting platforms and rankings and industry-specific initiatives should be reviewed to identify relevant climate commitments, as shown in Table 4.

TABLE 4 **Where do MNEs typically publish their climate commitments?**

| Where published | How it works | Advantages and disadvantages | Examples |
|---|---|---|---|
| **1.** Company websites and social media | MNEs may publish their climate commitments, corporate sustainability reports and progress reports on their own websites<br><br>This allows MNEs to showcase **sustainability efforts** and report on **progress made in achieving targets** to a wider audience<br><br>Platforms such as **LinkedIn and Twitter** can be used to publish progress reports and engage in conversations with stakeholders | **Direct engagement** with stakeholders and key interest groups<br><br>MNE is **accountable** to the wider public if climate commitments/pledges are published online<br><br>MNE **controls messaging** on its website<br><br>No requirement for commitments to be specific, or mandatory progress reporting to be published on websites | Nestlé published its commitment to achieving net-zero emissions by 2050,[35] using 100% renewables in its operation by 2025<br><br>American Airlines' ESG report laid out its action plan of reaching net-zero carbon emissions by 2020[36] |
| **2.** Sustainability and reporting platforms/ rankings | Several **third-party platforms** publish and report on MNE climate commitments to manage their environmental impacts<br><br>In most cases, this information is **self-reported, and in some cases, independently verified**<br><br>Key metrics that are collected and reported include: **GHG emissions, renewable electricity usage, supply-chain emissions, carbon reduction targets and the progress made in achieving them** | Publishing commitments on recognized third-party platforms can **increase the credibility** of a company's climate commitments<br><br>Publishing commitments on a third-party platform may **garner the MNE greater visibility** (beyond its own website/social media)<br><br>Several reporting platforms and rankings offer **benchmarking services** that will allow MNEs to compare their commitments and performance against peers or the industry standard<br><br>Participating in a third-party platform **may not always be free** (e.g. fee for participation, data collection, consultation) | SBTi[37]<br><br>CDP[38]<br><br>Ecovadis[39]<br><br>Sustainability Accounting Standards Board[40]<br><br>More than 300 businesses across 51 industries and 29 countries have signed up to the Climate Pledge (an initiative supported by Amazon and Global Optimism)[41] |
| **3.** Industry-specific initiatives | Some industries have their own **sustainability initiatives and platforms for industry players** to publish their climate commitments/pledges | Allows **comparison and comparability** of MNE commitments across the industry and can **promote collaboration** as companies share best practices in achieving climate commitments<br><br>May **promote a one-size-fits-all approach** to climate commitments, which may not be meaningful, depending on industry composition | First Movers Coalition[42] |

**Source:** fDi Strategies, from the Financial Times

It is important to note that this measure focuses primarily on IPAs gathering information on MNE climate commitments based on publicly announced statements and pledges, as opposed to MNE country reporting requirements (e.g. as required by the EU Corporate Sustainability Reporting Directive [CSRD]).[43]

### **Step 2:** Set up a pipeline of investment opportunities, using specific MNE climate commitments as a prioritization factor

IPROs can be challenging to identify and profile, and they require technical expertise to research, package, validate and promote effectively, especially when designed to be both financially viable and climate-friendly. IPROs are very closely linked to the regulatory and policy climate, land and site availability and infrastructure readiness.

IPAs will typically need to work closely with other government departments, especially ministries for Energy, Infrastructure and Land, to ensure a coordinated approach. Memoranda of understanding between the IPA and relevant ministries regarding the development and promotion of IPROs can help institutionalize this coordination to ensure strong and joined-up government support for attracting FDI in IPROs.

Reviewing national climate objectives is an important step early in the process. Climate goals specific to a location could include targets for reducing GHG emissions, increasing renewable energy in the national energy mix and improving energy efficiency.[44] Where there is strong policy commitment backed up by related regulatory procedures to enable and fast-track climate FDI, there is a much higher likelihood of attracting climate FDI into IPROs. Many climate projects, especially renewable energy, require large areas of land and suitable sites as well as access to the electricity grid, and these enabling factors are also very important to successfully promote IPROs. Based on location-specific objectives for decarbonization, MNEs can then be targeted by the IPA, according to the MNE climate commitments and the identification of suitable IPROs to be promoted to these MNEs, as shown in Figure 9.

FIGURE 9 **Setting up a pipeline for climate-friendly investment projects**

#### 1 Map the climate commitments of key MNEs

→ Identify and map out the climate commitments of key MNEs. These commitments will support the development of a project database

#### 2 Build a project database

→ Review and develop concepts with project sponsors based on e.g. project description, needs assessment and expected outcomes

#### 3 Select your shortlist criteria

→ Potential shortlisting criteria:
- Investor requirements
- Enabling environment
- Country climate agenda

#### 4 Shortlist high-potential projects

→ Reject project or reconsider at a later stage

#### 5 Identify project

→ Move to assessing bankability

**Source:** fDi Strategies, from the Financial Times

**Step 3:** Develop third-party-vetted and government-endorsed projects, along with customized packaging and promotion materials to present project opportunities

Engaging third-party organizations or consultants to conduct independent vetting and validation of project opportunities can support IPAs in adding credibility and security to a packaged project opportunity. This can involve contracting an internationally recognized third-party vetting body (e.g. Bureau Veritas or SGS) to audit project opportunities for climate-friendliness and to validate them. It is important to note that validating for climate-friendliness does not imply validating for investibility (otherwise known as "bankability"), in the sense of guaranteeing a certain return on investment.

Once project opportunities have been vetted and validated, and potential new and existing MNEs with climate commitments have been identified, an IPA can engage with them to explore opportunities for collaboration. This could involve sharing information on the country's climate goals and specific projects that provide a pathway for achieving the company's stated goals. Careful packaging and promotion of these opportunities is vital and may be performed by developing investment prospectuses, holding investor events and engaging with potential MNEs and investors to share information on the opportunities.

Ukraine Invest has placed IPROs at the centre of its FDI promotion strategy, with project opportunities developed for each target sector and prioritized for "socioeconomic effect". These IPROs are presented in just two pages (see Box 5), with a QR code for direct contact with the project's account manager and key project details, including estimated investment, form of ownerships, estimated payback period, information about the project developer and socioeconomic effect on the area.

## BOX 5 Ukraine Invest – climate adaptation IPRO summary from Ukraine Invest


**Source:** Ukraine Invest

**Step 4:** Perform matching exercises between packaged, vetted and validated project opportunities and MNEs

Combined with the potential MNE partners that have been identified, an IPA may then perform matching exercises to identify which MNEs are the best fit for each packaged, vetted and validated project opportunity. This could involve evaluating the MNE's priorities, its existing relationships in the region and its interest in the specific project opportunity.

## BOX 6 Ghana Investment Promotion Centre (GIPC) – using existing platforms to map sustainable investment opportunities

GIPC has worked with the United Nations Development Programme (UNDP) to create an SDG investor roadmap outlining investment opportunities in target SDG sectors in the country. Investors can view these proposals online, with relevant information including the expected impact, indicative return, timeframe and estimated market all easily available to view. These projects are based on development priorities and the investment potential of target sectors, with an emphasis on their expected SDG impact.

**Source:** Consultation with Ghana Investment Promotion Centre (March 2023)

An IPA can develop a project pipeline by promoting project opportunities and supporting government agencies and the private sector in screening for bankability potential. Identifying strategic climate-related projects requires the input of IPAs to highlight project risks, including challenges relating to land acquisition, environmental impact assessments, community stakeholder requirements and other economic and financial risks.

IPAs should take particular care in selecting and helping to develop project concepts, which will involve outlining the expected climate outcomes of a project by describing the sector, type of FDI, scale and project stage and carbon characteristics. Following this, the IPA should review stakeholder objectives in relation to the country's economic and climate goals, the market demand from prospective investors and the country's economic and political environment, to align these elements.

BOX 7

**Invest India – single digital platform for IPROs**

The India Investment Grid (IIG) initiative was developed by Invest India, the Department for Promotion of Industry and Internal Trade (DPIIT), the Ministry of Commerce and Industry and the government of India to showcase investment opportunities across the subcontinent's sectors and regions in one platform, directly connecting investors and developers with promoters. The IIG has identified more than 750 designated corporate social responsibility (CSR) projects in the pipeline, capitalizing on the fact that India is one of the first countries in the world to mandate these expenditures by corporations, and Invest India is well placed to match MNEs with high-impact CSR-related investments. The IIG also promotes and facilitates more than 15,000 projects under the National Infrastructure Pipeline (NIP), with 349 renewable energy projects totalling $230.91 billion worth of investments listed on its website.

**Source:** Consultation with Invest India (March 2023)

## Implementation and key stakeholders

Key national and regional stakeholders that an IPA should consider engaging include:

- **Public institutions, such as ministries and subnational government agencies**, which can assist with the technical, economic and environmental analysis of IPROS as they are identified and developed, including potentially the planning, programming and structuring of a project, designing the contract and tendering process, bidding out the transaction and managing the final contract.

- **Private-sector entities, such as project developers, investors, banks, corporations and domestic firms**, which can help in the design, planning and development of IPROs. The private sector can be a significant source of IPROs, and IPAs can engage in consultations with them to identify gaps in a value chain, highlight firms interested in vertical integration of production and provide market analysis of target sectors with the highest growth potential.

- **Dedicated public-private partnership units**, which can assist with promoting and facilitating infrastructure project development, including technical support for an IPRO's development and overseeing the management of PPP projects. IPAs may source projects from these stakeholders to identify a long list of potential projects and then develop a screening mechanism to prioritize them for climate-related investments.

- **Third-party organizations providing sustainability and reporting platforms**, which can also be engaged by IPAs in order to vet and validate projects for climate-friendliness. In tandem with this, IPAs can spearhead initiatives with **multilateral development organizations** to provide funding for these services, as well as technical training to build project pipelines.

TABLE 5 **Potential risks and mitigation strategies**

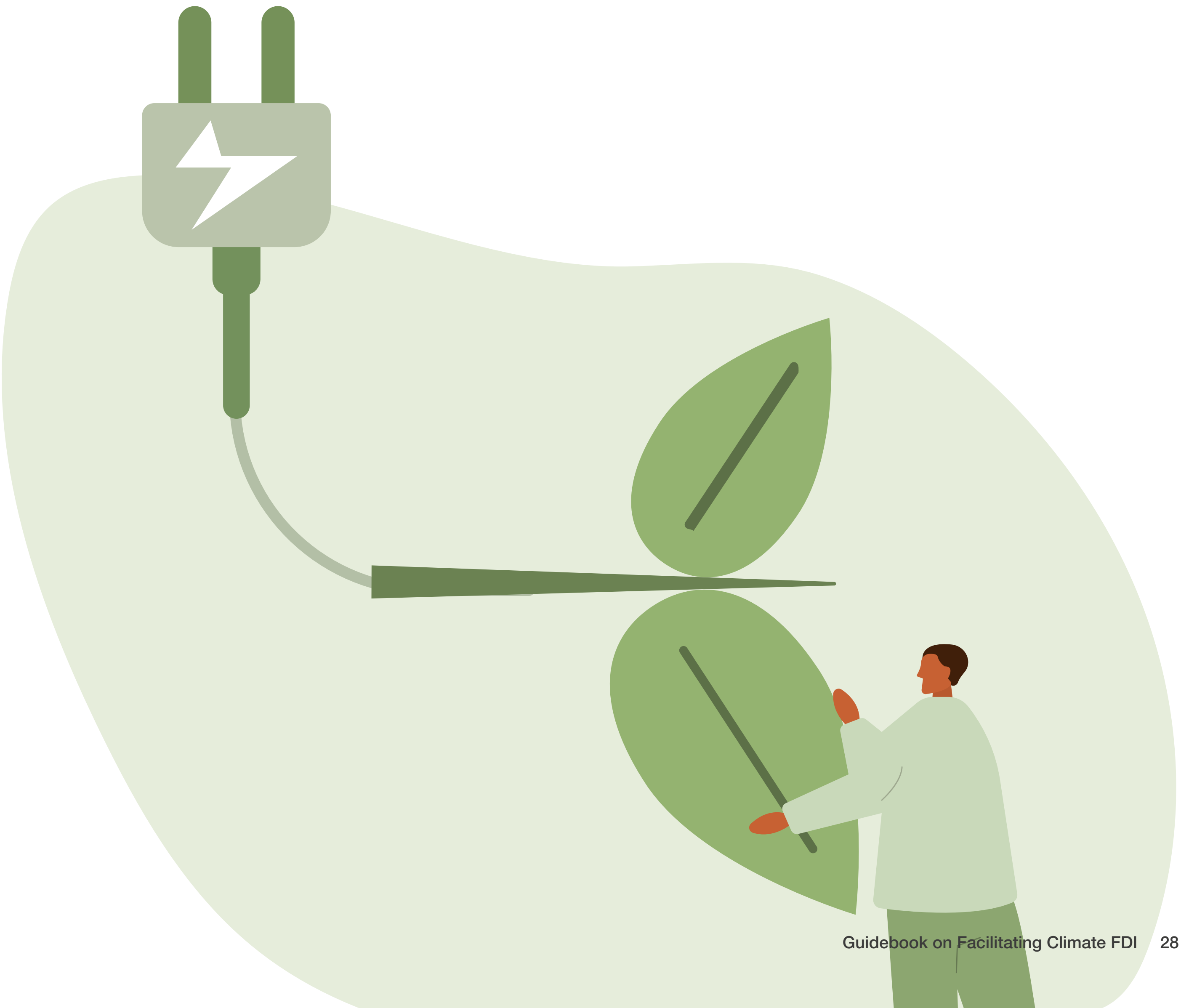
| No. | Risk | Suggested mitigation |
|---|---|---|
| 1 | **Lack of government support and stakeholder coordination for IPROs** | Obtain buy-in from major government ministries and spearhead this initiative to ensure a joined-up government approach is adopted. |
| 2 | **The cost of third-party vetting is high, and IPAs may find it difficult to allocate funds for this process in addition to their other priorities** | One possible solution is for donor institutions to assist in scoping out this process and provide funding for such initiatives. These costs may also be covered by supranational funding bodies. |
| 3 | **MNE climate commitments may be imprecise or broad statements that may not provide sufficient information for project opportunity development** | Rely on internationally recognized standards for MNE climate commitment reporting, such as science-based targets.<br><br>In addition, industry initiatives such as the World Economic Forum First Movers Coalition provide a breakdown of companies and their detailed climate commitments across various climate-related and decarbonization themes. |

**Source:** fDi Strategies, from the Financial Times

Measure 4

# Work with governments and stakeholders to potentially include climate FDI facilitation provisions in IIAs and strengthen national frameworks

Reviewing, reforming and developing IIAs with climate FDI provisions can help advance climate-aligned FDI.



Reconciling IIAs with sustainable development commitments has become more pertinent as the global investment landscape and urgent need for climate action have evolved. This has triggered a move towards reviewing and reforming IIAs to ensure they contribute to, and do not detract from, international climate action.

The IPCC's Climate Change 2022 report highlighted that "significant changes to investment patterns" will be needed to meet climate objectives and transition to a low-carbon economy.[45] IIAs represent a key aspect of the international legal regime and, if not reformed, could disincentivize climate-related FDI and hence affect investment patterns in disservice of climate goals.

A significant body of research suggests that the current IIA regime poses several challenges to international climate action. The IPCC Sixth Assessment Report on Climate Change Mitigation has noted that IIAs have tended to protect investor rights and constrain the latitude of host countries in adopting environmental policies.[46] Research suggests that IIAs may lead to a "regulatory chill", which could result in countries refraining from or delaying the adoption of mitigation policies, such as phasing out fossil fuels.[47] This is echoed in the OECD's FDI Qualities Policy Toolkit, which emphasizes the importance of preserving policy space to regulate on environmental matters within investment agreements.[48] The OECD suggests that statements about the societal benefits and costs of IIAs in general, as well as of certain design elements of IIAs, should be made with caution, as it is not yet possible to get a full grasp of the picture.[49]

For many of the reasons listed above, several initiatives have been implemented to accelerate the process of IIA review and reform. The United Nations Conference on Trade and Development (UNCTAD) has published a Road Map of IIA Reform within its Reform Package for the International Investment Regime,[50] building on its previous work around reform of investment dispute settlement and sustainable investment policy. This is currently under consideration as part of OECD's work on the future of investment treaties, and it will be reflected in future iterations of the FDI Qualities Policy Toolkit.[51] This has been echoed in the 2023 World Investment Report, where several notable developments regarding termination of bilateral investment treaties (BITs) were discussed.[52] Over the years, UNCTAD has released several helpful guidelines concerning the modernization and reform of IIAs, including the IIA Reform Accelerator.[53] Building on these reform processes, IPAs have a role to play in identifying what types of investment promotion and facilitation measures can helpfully be developed and potentially included in new-generation IIAs.

## Recommended approach

A recommended implementing framework for Measure 4 is represented in Figure 11.

FIGURE 10 **Measure 4 actions**

**Measure 4**

**Step 1 — Review IIAs and consider including climate FDI provisions**

Review IIAs to ensure they allow for sufficient domestic policy space to regulate for climate change.

Consider **including climate FDI provisions** for climate action.

**Step 2 — Leverage multilevel stakeholder support to drive implementation of IIA reform**

Where possible, **establish domestic working groups** to share good practices on incorporating climate FDI provisions into IIAs.

**Gather insight** from key stakeholders on how best to improve legal frameworks for climate FDI.

**Step 3 — Strengthen national frameworks and promote coherence**

Establish **clear principles for inter-operation and alignment** of the different elements of national and international regimes.

Develop laws and regulations that **level the playing field for climate FDI**.

**Source:** fDi Strategies, from the Financial Times

**Step 1:** Review IIAs and consider modernizing them by including climate FDI provisions, or look at including climate FDI provisions in future IIAs

The IIA regime comprises 2,500 treaties currently in force,[54] encompassing both BITs and other treaties with investment provisions (TIPs).[55] While modern IIAs (concluded in the 2010s) have shown greater regard for protecting a state's right to regulate and have integrated specific provisions on environmental protection and sustainable development, there is still significant room for modernization.

Substantive changes to international investment policy-making may create short-term uncertainty within the investment environment, especially for investors that prefer to see continuity in investment policy. However, it is important to ensure that the IIA regime can adapt to changes in societal values and priorities. Key areas for IIA reform should be prioritized depending on individual country circumstances and priorities. In Section 4 of its recent IIA Issue Note 3, UNCTAD presents a menu of reform options, with a non-exhaustive list presented in Table 6.[56]

TABLE 6 **Suggested areas for IIA review and example IIAs to consider**

| Suggested areas for review or action | Description | Example IIAs |
|---|---|---|
| Promotion and facilitation of sustainable investment clauses | IIAs may include clauses that emphasize the promotion and facilitation of sustainable investment and can be employed by contracting parties to promote climate and environmental goals.<br><br>In addition, clauses that encourage technology transfer of low-carbon and sustainable technologies may also be included in IIAs to promote these activities. | Australia–United Kingdom FTA (2021)<br><br>Japan–Mexico Economic Partnership Agreement (2012) |
| Preambular clauses reaffirming environmental protection and climate action | Preambles that reference climate action and sustainable development reaffirm the overall objective of the IIA and indicate how the agreement should be interpreted. | Myanmar–Singapore BIT (2019), Preamble<br><br>Belarus–Hungary BIT (2019), Article 2(7) |
| Investor obligations and responsibilities | Language that obliges investors to comply with requirements for sustainable investment (e.g. by requiring environmental impact assessments and maintenance of environmental management systems) provides an avenue to enforce these obligations. | Morocco–Nigeria BIT (2016), Article 14 |

**Source:** fDi Strategies, from the Financial Times, based on UNCTAD IIA Issue Note (2022), UNCTAD Policy Options for IIA Reform (2015), Investment Treaties and Climate Change OECD Public Consultation (2022)

When reviewing and reforming IIAs or developing new IIAs, it is important to ensure that the IIA text aligns with sustainability objectives and climate objectives, while also promoting and facilitating investments. One suggested aspect to consider is the inclusion of clauses that promote and facilitate climate FDI (or sustainable investment more broadly) as, prima facie, this would have upsides only and no downsides, in that it is likely to help support climate FDI flows.

### **Step 2:** Leverage multilevel support to drive implementation of IIA reform or development of future IIAs

Holistic reform of IIAs will need to be aligned at various levels of government, and with stakeholders, to determine their relative importance. For example, the development of a new or improved model treaty will be relevant at the national level, whereas reference to global standards and ensuring compatibility of treaties across countries will be relevant to global stakeholders.

The national-level implementation of investment promotion and facilitation provisions within international investment agreements is essential. Progressive examples of treaties that have incorporated such provisions are the draft EU–Angola Sustainable Investment Facilitation Agreement and AfCFTA Investment Protocol.

UNCTAD has developed a toolbox with a focus on four related action areas: the promotion and facilitation of sustainable energy investment; technology transfer; the right to regulate for climate action; and corporate social responsibility.[57]

In addition, governments should consult with businesses and relevant national-level actors to improve their knowledge of the impact of climate-related IIA reform, though it is important to do so with actors committed to science-based emissions-reduction targets.

Table 7 provides a brief overview of how various levels of government may be employed to implement the climate reform process, drawing on recommendations provided by UNCTAD in its Reform Package for the International Investment Regime.

TABLE 7 **Suggested approach for multilevel actions and outcomes**

| Level | Approach | Actions and outcomes |
|---|---|---|
| **1.** National level | Create an **action plan** on reform areas and sequencing of reform based on prioritized areas for improvement<br><br>**Negotiate strategy of reforming IIA** with relevant national-level actors | New model treaty<br><br>Termination of treaty<br><br>Capacity-building of institutions to improve knowledge of climate-related IIA reform |
| **2.** Regional level | Where possible, **engage in collective review of national-level action plans**. This could be performed by treaty networks if they exist<br><br>Discuss ways to collaborate and **leverage regional knowledge** on IIA reform focused specifically on climate FDI facilitation | Strengthening of regional-level IIA networks<br><br>Common model treaty<br><br>Sharing of good-practice clauses relevant for the region |
| **3.** Multilateral level | Obtain **multilateral consensus** on key international issues related to IIA reform. This will entail a **global review of the IIA regime**, and require taking stock of key gaps and opportunities for improvement in relation to climate action and climate FDI facilitation | Development of a multilateral action plan with clear steps on how to address existing and emerging issues around climate FDI facilitation and the present IIA regime<br><br>Development of instruments or multilateral institutions to facilitate reform |

**Source:** fDi Strategies, from the Financial Times, based on UNCTAD Reform Package for the International Investment Regime (2018)

Beyond providing valuable input and facilitating knowledge-sharing, the involvement of multilevel stakeholders in the process of IIA reform will promote transparency and accountability. It will also present opportunities for the development of guiding instruments and institutions that will be able to further facilitate the process of reform.

Several initiatives around IIA reform have been launched, led by UNCTAD, the United Nations Commission on International Trade Law (UNCITRAL), the OECD and the United Nations Industrial Development Organization (UNIDO), providing participants with a chance to share methodologies on IIA reform for climate action. In April 2023, the OECD held its 2023 Investment Treaty Conference, which focused on how to align investment treaties with the Paris Agreement and net-zero policies.[58] At the Eighth World Investment Forum, to be held in Abu Dhabi on 16–20 October 2023, UNCTAD will present concrete solutions for the reform of the IIA regime to increase investment in sustainable energy and tackle the global climate crisis. The forum will take place ahead of the annual climate summit (COP28) and, as such, will enable IIA policy-makers and other stakeholders to find solutions and reach consensus on priority issues that could feed into COP28 negotiations.

**Step 3:** Strengthen national frameworks and promote coherence between international and national frameworks

IIA reform should align with domestic regulatory frameworks, to promote coherence. Clear approaches for inter-operation and alignment of national frameworks with international legal frameworks will need to be developed. For example, UNCTAD has proposed that careful consideration should be given to tools such as “relationship management clauses” that can assist in guiding legal interaction between intersecting and overlapping instruments and establish clear precedence between national and international provisions.[59] Beyond that, coordination between domestic policy-makers on deciding the direction of IIA reform can be performed by setting up a ministerial taskforce to coordinate investment policy-related work.

TABLE 8 **Potential risks and mitigation strategies**

| No. | Risk | Suggested mitigation |
|---|---|---|
| 1 | **Poor management of the IIA reform process may create confusion for foreign investors and negatively affect a location’s reputation** | Clearly define the roles and responsibilities of institutions involved in reviewing and reforming IIAs. Where possible, policy-makers will need to make use of synergies between international and national frameworks. Guidance from UNCTAD, OECD and other international organizations will be instrumental in clarifying this process. |
| 2 | **IIA reform may result in less predictable and protective investment regimes** | To help mitigate potential unpredictability in the international investment regime, it is recommended that governments play a more active role in stating the policy direction of these reform efforts and in doubling-down on coordination promotion and facilitation as approaches to increase climate FDI. The need to reform the IIA space will probably result in short-term unpredictability but lead to long-term benefits, such as a more climate FDI-friendly regime. |

**Source:** fDi Strategies, from the Financial Times

# Conclusion

## There is an urgent need for IPAs to cooperate with stakeholders to develop specific policies and measures that will increase climate FDI.

IPAs should position climate investment strategy formation at the forefront of their agenda. Mission statements and organizational mandates and values should reflect this, and specific plans formulated that provide a real agenda for decarbonizing investments. Capacity-building is crucial. IPAs should engage in technical assistance programmes and cooperate with other IPAs and investment authorities to share best practices on: using climate-related indicators to track progress towards achieving climate goals; designing incentives for mitigation and adaptation projects; engaging in clear communication with investors and public organizations; and ensuring strategies are aligned across the spheres of business and government.

IPAs could also consider setting up a coalition to advance climate FDI. Such a Coalition of IPAs for Climate (CIPAC) will offer a formal platform to raise awareness, increase capacity-building and share experiences and good practices on climate FDI facilitation. Developing-country IPAs can particularly benefit from the peer-learning opportunities provided by such a coalition.

The creation of a supplier database with sustainability dimensions (SD2) requires a multistakeholder approach and a clear implementation plan. Defining the reasonable criteria for inclusion of domestic firms in such a database is critical to its successful implementation and use – the criteria should be informed by the supplier assessment criteria used by MNEs in the location and wider region and based on what is realistic for local companies to achieve, either themselves and/or through supportive supplier-development programmes.

Such a database is only as useful as it is visible, and IPAs should work together with stakeholders to ensure that a marketing and promotion plan is developed. IPAs should also work with stakeholders to deliver supplier-development programmes that support domestic firms in reaching certain standards and certifications, including those related to sustainability, and help them achieve inclusion in the supplier database. In addition, new firms should be given the opportunity to register online to be included in the database if they meet the criteria determined by the IPA.

IPROs are a critical tool for IPAs, providing projects that not only promote private investments in a location, but can be tailored to align with the climate goals of a country and matched with specific MNEs that have aligned climate commitments. IPAs should spearhead the identification, packaging, validation, vetting and promotion of IPROs to attract and facilitate climate FDI, which will be greatly eased when there is a strong policy commitment to the climate, supporting regulations and available and suitable lands, sites and infrastructure for investors.

Due to the technical challenge of identifying and packaging IPROs, and the necessity for a joined-up approach in government, IPAs need to work closely with relevant ministries and use third-party organizations to ensure that the validation and vetting of projects for climate friendliness is credible. Capacity-building is important for IPAs to successfully implement a strategy of IPRO development and promotion. Multilateral development organizations can significantly contribute to this by sharing best practices for IPRO sourcing, assessment and selection, institutional coordination and channelling funds into third-party technical support when preparing, packaging, validating and vetting IPROs.

There is also a pressing need to work collaboratively with stakeholders at the national, regional and multilateral levels to ensure a coherent investment regime is created that services climate action. This can take place by including provisions related to promoting and facilitating climate FDI in revised or new international investment agreements. National legal frameworks should be aligned with IIAs to promote coherence. Ultimately, the goal is to create a regulatory regime that is stable, predictable and supportive of climate FDI.

There is a window of opportunity for public-private collaboration to help implement these measures in practice in emerging and developing markets, to create a climate-friendly investment climate and thus grow climate FDI flows. There is no time to wait.

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# Endnotes


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