

**Economic and Social Commission for Asia and the Pacific**

Committee on Trade, Investment, Enterprise and Business Innovation

First session

Bangkok and online, 22–24 February 2023

Item 4 of the provisional agenda*

Mobilizing impact investment and foreign direct investment for sustainable development**Mobilizing impact investment and foreign direct investment for sustainable development****Note by the secretariat***Summary*

Prior to the coronavirus disease (COVID-19) pandemic, it was estimated that developing countries in the Asia-Pacific region would need an additional annual investment of \$1.5 trillion to achieve the Sustainable Development Goals by 2030. In a post-pandemic world, this figure is likely to be significantly higher, and private sector investors are key to bridging this gap. However, mobilizing this investment will require a shift in investor practices from investing for profit to investing for impact.

The present document provides an overview of emerging policy options to promote impact investment, drawing on policies and practices implemented by States members of the Economic and Social Commission for Asia and the Pacific.

In particular, the present document is focused on foreign direct investment (FDI) for sustainable development, as FDI represents one of the most significant sources of financing to developing countries. FDI offers a promising, untapped potential for creating impact and helping countries to meet their sustainable development priorities. However, FDI in key sustainable development sectors has yet to rebound from the pandemic and remains insufficient to meet the financing needs of most developing countries in Asia and the Pacific. Encouraging firms to direct their cross-border investments into priority sustainable development sectors requires decisive policy action and measures from host countries in the region.

In addition, the present document provides an overview of the progress in FDI flows into three areas relevant for sustainable development: gender equality, the digital economy and climate change. It contains an outline of the key trends, opportunities and challenges for investment in each of these areas and then sets out the key actions that investment promotion agencies in the region can take to attract, promote and facilitate investment that has sustainable development impacts in these areas.

* ESCAP/CTIEBI(1)/1/Rev.1.

The Committee on Trade, Investment, Enterprise and Business Innovation may wish to share national experiences, including effective practices and lessons learned, in order to mobilize impact investment and FDI for sustainable development.

The Committee may also wish to indicate the support required from the secretariat to promote impact investment and FDI for inclusive and sustainable development; make recommendations to the secretariat to advance these agendas, both nationally and regionally; and identify new and priority policy issues related to these agendas that the secretariat could address in greater detail.

I. Introduction

1. Prior to the coronavirus disease (COVID-19) pandemic, it was estimated that developing countries in the Asia-Pacific region would need an additional annual investment of \$1.5 trillion to achieve the Sustainable Development Goals by 2030.¹ In a post-pandemic world, this figure is likely to be significantly higher, and private sector investors are key to bridging this gap. If even a fraction of the \$50 trillion in assets managed by the financial sector in the Asia-Pacific region were channelled towards enterprises that contribute to the Goals, their achievement by 2030 would be within reach.² However, mobilizing this investment will require a shift in investor practices from investing for profit to investing for impact.

2. The present document provides an overview of emerging policy options to promote impact investment, drawing on policies and practices implemented by States members of the Economic and Social Commission for Asia and the Pacific (ESCAP).

3. The present document is focused on foreign direct investment (FDI) for sustainable development, as FDI represents one of the most significant sources of financing to developing countries. FDI offers a promising, untapped potential for creating impact and helping countries to meet their sustainable development priorities. In addition, the present document provides an overview of the progress in FDI flows into three areas relevant for sustainable development: gender equality, the digital economy and climate change. It contains an outline of the key trends, opportunities and challenges for investment in each of these areas and then sets out the key actions that investment promotion agencies in the region can take to attract, promote and facilitate investment that has sustainable development impacts in these areas.

4. The document also contains some proposals for issues to be considered by the Committee on Trade, Investment, Enterprise and Business Innovation at its first session.

¹ *Economic and Social Survey of Asia and the Pacific 2019: Ambitions beyond Growth* (United Nations publication, 2019).

² ESCAP and Global Steering Group for Impact Investment, *Towards an Enabling Policy Environment for Impact Investment in Asia and the Pacific* (2020).

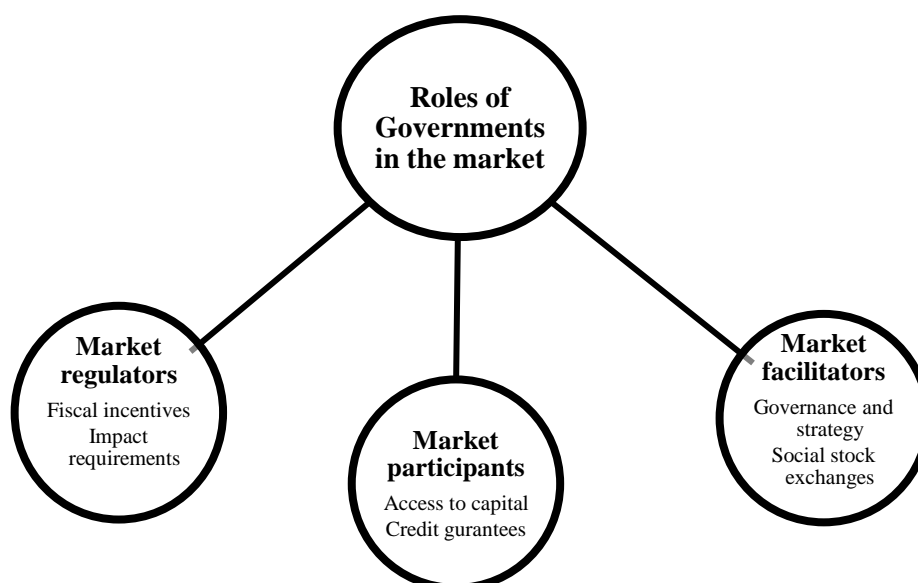
II. Emerging impact investment movement in the Asia-Pacific region

5. Impact investments can be defined as investments made into a company, organization or fund with the intention of having a social and/or environmental impact in addition to generating a financial return.³ This concept may represent an evolution in thought that could revolutionize the approach to achieving the Sustainable Development Goals.

6. In 2018, impact investments worldwide totalled \$502 billion. Of that total, \$170 billion were deployed in Asia.⁴ Government policy has played a key role in spearheading this movement in the region. In 2017, for the very first time, ESCAP member States committed themselves to supporting the development of enabling environments for impact investment.⁵ Building on that commitment, Governments in Asia and the Pacific have since implemented some innovative policies to catalyse impact investment.

7. Governments can create an enabling environment for impact investments by assuming the roles of market facilitators, regulators and participants (see figure I).

Figure I
Roles of Governments in enabling impact investment



Source: ESCAP, based on the framework developed in partnership with the Global Steering Group for Impact Investment.

³ Monitor Institute, *Investing for Social and Environmental Impact: A Design for Catalyzing an Emerging Industry* (New York, 2009).

⁴ Abhilash Mudaliar and Hannah Dithrich, *Sizing the Impact Investing Market* (New York, Global Impact Investing Network, 2019).

⁵ Regional road map for implementing the 2030 Agenda for Sustainable Development in Asia and the Pacific (E/ESCAP/73/31, annex II, para. 16 (a)).

8. As market facilitators, Governments can establish governance bodies, strategies and platforms to support the growth of impact investment markets. In Bangladesh, ESCAP has supported the establishment of the National Advisory Board for Impact Investment, which sets out the strategic direction for promoting impact investment in the country. Meanwhile, the Government of India is in the process of establishing a social stock exchange, a potentially ground-breaking initiative that aims to create an electronic platform to link impact investors to social enterprises looking to raise capital.⁶

9. Governments can affect such markets by introducing regulations and imposing requirements to incentivize more impactful investments. Over the past few years, ESCAP has been supporting the Government of Thailand to grow the social enterprise and impact investment ecosystem in the country. In 2016, the Royal Decree on Tax Exemption provided tax benefits to social enterprises, as well as to investors in such enterprises. Firms that invest in or donate to social enterprises will now be allowed a 100 per cent deduction on corporate income tax.⁷ Some Governments in the region have codes in place to support the measurement of impact investment: for example, the Cambodian Sustainable Finance Initiative includes mandated safeguards and standards for environmental and social impact created by private sector activity.⁸

10. Lastly, Governments can participate in markets by providing access to capital to invest alongside private investors. There are few government-backed impact investment funds, but one such example that ESCAP has been supporting is Start-up Bangladesh Limited,⁹ the flagship and only venture capital fund sponsored by the Government of Bangladesh. The fund has integrated inclusive and sustainable dimensions by promoting underrepresented technology groups and investing in start-ups that can support the achievement of the Sustainable Development Goals. The fund provides investment in the forms of equity, convertible debt and grants in pre-seed, seed and growth stage start-ups. It also invests through co-investments, as a fund of funds, and as an asset manager.

11. Social enterprises often find it challenging to gain access to conventional bank loans as they are unable to provide the kind of collateral required. Credit guarantee programmes have been implemented to address this issue, allowing social enterprises to gain access to loans under preferential conditions, with the funders providing guarantees to cover the default risk of the borrowers. For example, the Korea Inclusive Finance Agency provides guarantees for loans worth up to \$7 million for firms working on social issues.¹⁰

⁶ Securities and Exchange Board of India, “SEBI constitutes working group on ‘Social Stock Exchanges’”, 19 September 2019; “Report of the working group on Social Stock Exchange”, 1 June 2020; “Technical group report on Social Stock Exchange”, 6 May 2021.

⁷ Chatrudee Theparat, “Draft bill on social firms approved”, *Bangkok Post*, 11 July 2018. See also ESCAP/78/22, para. 22.

⁸ See www.abc.org.kh/CSFI/about-csfi. See also ESCAP/78/22, para. 27.

⁹ See www.startupbangladesh.vc/.

¹⁰ Korea Bizwire, “Gov’t to boost policy support for social impact investments”, 4 April 2018. See also ESCAP/78/22, para 31 (b).

III. Scaling up the impact investment movement in the Asia-Pacific region

12. First, Governments in the Asia-Pacific region have demonstrated global leadership by implementing innovative policies to build ecosystems for impact investment, even though policymaking in this area is still in its infancy. Governments should therefore prioritize evaluations of the impact of such pioneering initiatives to determine what works and, of equal importance, what does not and in which context. Continued policy innovation is also still needed in this emerging field.

13. Second, in order to bridge the Sustainable Development Goal funding gap, government policy needs to mobilize impact investment at scale. As one of the most significant sources of financing to developing countries, FDI offers a promising, untapped potential for creating impact and helping countries to meet their sustainable development priorities.

IV. Mobilizing foreign direct investment with sustainable development impacts

14. FDI can significantly contribute to the sustainable development of host countries in several important ways: by expanding production and access to markets, bringing in foreign exchange, contributing to skills development and human capital growth, encouraging technology transfer and increasing competition in local markets. It can also support industry upgrading and facilitate regional and global value chain integration, including of small and medium-sized enterprises, and can even trigger outward FDI by local enterprises.

15. The Asia-Pacific region has been the leading destination and source of FDI globally since 2020. While all other regions in the world witnessed double-digit drops in FDI during the COVID-19 pandemic, FDI flows to Asia and the Pacific were more resilient and dropped only slightly, by 4 per cent, highlighting the continued attractiveness of the region, even during a global crisis. However, quantity has not translated into quality. There is an urgent need for FDI that addresses the pressing sustainable development challenges that countries in Asia and the Pacific are facing. For instance, FDI with a sustainable development impact could contribute to promoting gender equality, improving access to health care and vaccines, building sustainable, climate-resilient infrastructure, bridging digital divides and supporting the transition to clean sources of energy.

16. At the policy level, Governments can influence FDI through the legislation and regulations they implement, as well as by offering certain financial and fiscal incentives to investors. Investment promotion agencies in host countries also play a significant role in attracting and facilitating FDI that will have sustainable development impacts because they are the first point of contact for potential and current investors.

17. For FDI to have a sustainable development impact, however, not only must the businesses undertaking FDI make sustainable development a priority in their foreign investments, but investment promotion agencies must transform themselves. While there are a number of global and regional initiatives engaging with the private sector to mainstream sustainable development into their operations, investment promotion agencies still require significant support to mainstream sustainable development into their investment attraction, promotion and facilitation work. For example, they

require support in transforming the way they undertake lead generation activities and project evaluations so that they prioritize attracting and working with foreign investors that will focus on key areas of sustainable development.

18. Investment promotion agencies in Asia and the Pacific need significant capacity-building support to mainstream sustainable development objectives into their work. Such support must help them to articulate the business opportunities for investing in sustainable development to investors in their countries and rethink the way in which they pitch their economies as investment destinations. For instance, they will need to focus not just on convincing investors to invest in a certain location but also on ensuring that their investments aim to contribute to national sustainable development. More broadly speaking, they will require support in packaging and promoting sustainable development projects in need of investment, getting feedback from investors, targeting foreign investors to bid for projects, developing communication material to advertise projects and evaluating the extent to which each foreign investment project will contribute to sustainable development in their economy. On the policy advocacy front, they will need to work more efficiently with policymakers in relevant line ministries to advocate for the development of investment incentives that are specifically geared towards promoting foreign investment in sustainable development sectors.

19. The COVID-19 pandemic has not only reversed progress on many of the Sustainable Development Goals but it has also contributed to increasing the financing gap needed to achieve them. With public coffers already squeezed, private sector investment is critical – and FDI, until now, has remained an underutilized resource for impact investment for sustainable development. According to the United Nations Conference on Trade and Development, more than 150 countries have adopted national strategies on sustainable development or revised existing development plans to reflect their commitment to achieving the Goals. However, only a few of those strategies contain concrete road maps for promoting investment in the Goals.¹¹

20. Recognizing this, the remainder of the present document is focused on the trends and opportunities for FDI in three specific areas relevant for sustainable development: gender equality, the digital economy and climate change. It also sets out recommendations on how investment promotion agencies can proactively attract and facilitate investment in those three areas and on the support that the ESCAP secretariat can offer.

V. Foreign direct investment to promote gender equality

21. As countries in Asia and the Pacific build back from the COVID-19 pandemic and respond to intensifying climate change hazards, they have a unique opportunity to empower women and advance gender equality by putting women at the heart of recovery and response processes. Indeed, progress has been slow on gender equality (Sustainable Development Goal 5) and women have been disproportionately affected by the pandemic and the effects of climate change. While FDI can play an important role in supporting efforts to achieve the targets of Goal 5, research into how that can be done has been limited and technical assistance for developing countries on the matter has been scarce.

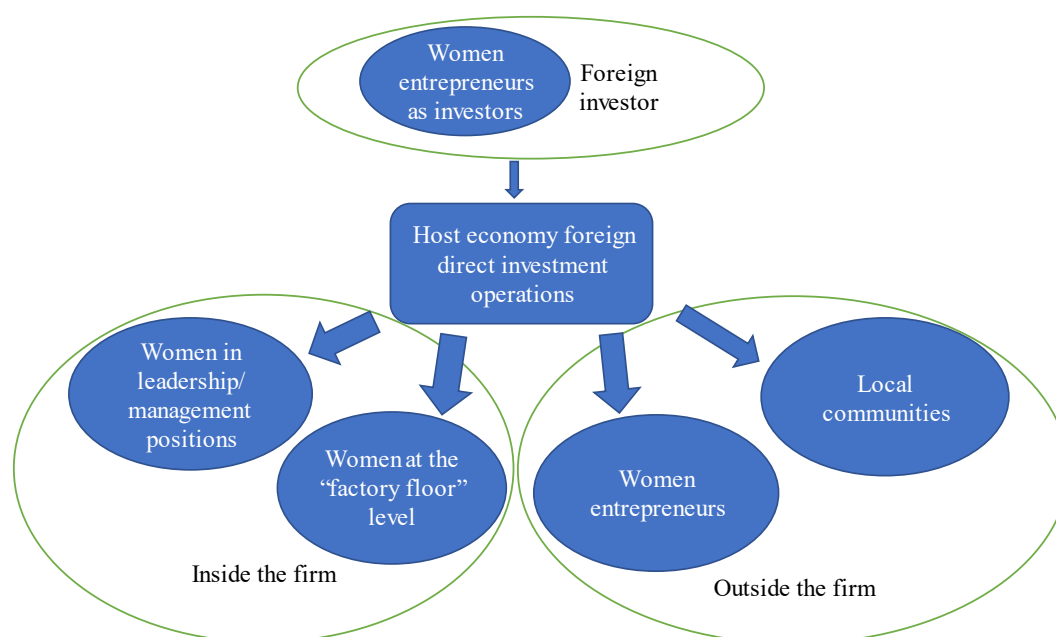
¹¹ *World Investment Report 2020: International Production Beyond the Pandemic* (United Nations publication, 2020).

22. FDI can have a positive impact on gender equality by increasing labour demand and technological spillovers and by promoting the integration of women-owned and women-led small and medium-sized enterprises into global value chains. Equity forms of FDI can help to provide increased access to much needed capital for women entrepreneurs. Joint ventures, another type of FDI, can also be valuable in helping women-owned and women-led firms to expand into new markets and distribution networks, build their capacity, share the risks and costs of expansion and, potentially, provide access to new knowledge and expertise.

23. Broadly speaking, the relationship between FDI and gender affects four areas of the host economy. There is the impact on gender in leadership and management, the impact on gender at the “factory floor” level, the impact on and the links to women entrepreneurs and the impact on promoting gender equality and women’s empowerment within the broader local community (see figure II). The first two both happen internally within the operations of the firm receiving FDI and the latter two happen externally to the operations, through contracts and activities in the wider community, for example. Additionally, women entrepreneurs who own or lead foreign firms can act as sources of FDI and have an impact on gender equality in host economies.¹²

Figure II

Relationship between foreign direct investment and gender



24. Within each of the above-mentioned areas in the host economy, foreign investors can take a number of measures and initiatives to promote gender equality. For instance, in addition to providing equal pay and opportunities to women at both the leadership and “factory floor” levels, they can provide benefits that are specifically geared towards supporting women, including targeted training programmes, childcare facilities and gender-specific

¹² For example, Zilingo, a technology and commerce platform that was founded by a woman entrepreneur in 2015, today is a source of FDI in the textile and logistics sectors across South Asia and South-East Asia.

equipment.¹³ For example, at its subsidiary in Bangladesh, Novo Nordisk¹⁴ (Denmark) has set up an internal forum for female staff that regularly meets to address and discuss concerns specifically related to gender, provides mandatory anti-harassment and unconscious bias in hiring training to employees and has developed a tool to measure staff engagement on gender and diversity issues both in Bangladesh and globally that is assessed against specific key performance indicators. Another example is Chevron (United States of America), which, through its foreign operations in Bangladesh, has set up a summer school programme to train young women in science, technology, engineering and mathematics. It has also established a programme to enhance women entrepreneurs' information and communications technology (ICT) and commercial skills.

25. A key issue in understanding the full impact that FDI can have on gender equality is the paucity of data on the issue. Little empirical research has been done on the topic and even fewer attempts have been made to systematically collect information on what and how foreign firms can do or are doing to promote gender equality within their operations and in host communities. Furthermore, for most countries in Asia and the Pacific, there is little, if any, sex-disaggregated information about jobs created through FDI, business ownership, performance and links to foreign investors. Obtaining such data is critical to improving gender equality and ensuring that FDI has a greater impact for women.

26. Investment promotion agencies too have an important role to play, both in closing gaps in data and in increasing the positive impact of FDI on women. Regarding the gaps in data, investment promotion agencies can, through their outreach and aftercare work, contribute to collecting data on gender equality initiatives by foreign firms. Together with other line agencies, such as ministries responsible for women and small and medium-sized enterprises, they can survey local and foreign businesses in their economies to establish more and better sex-disaggregated data. Support from international organizations on data collection and systemization is also critical.

27. To increase the impact of FDI on women, it is important to mainstream gender both within investment promotion agencies and their activities. These two things are mutually reinforcing: for an investment promotion agency to be able to proactively attract and facilitate FDI that contributes to promoting gender equality, it must walk the talk. This will both demonstrate the investment promotion agency's commitment and understanding of gender equality and boost its credibility with potential foreign investors when they pitch investment opportunities to them. A first step is to boost women's opportunities to fill leadership positions in investment promotion agencies in Asia and the Pacific. Currently, only 8 per cent of surveyed investment promotion agencies in ESCAP member States have a female chief executive officer and a mere 24 per cent have achieved gender parity in their senior management. By comparison, in Africa, 14 per cent of reporting investment

¹³ For example, a foreign-owned chemical or pharmaceutical manufacturing facility could provide gender-specific protective gear that fits both female and male employees.

¹⁴ Mention of any firm, product, service or licensed process does not imply endorsement or criticism by the United Nations.

promotion agencies were led by women and 50 per cent had achieved gender parity in their senior management compositions.¹⁵

28. Additional actions that investment promotion agencies can take to mainstream gender equality in their organizations include offering training on gender equality and women's empowerment; establishing gender focal points or a gender committee; conducting gender assessments to understand where their organization is with respect to gender equality; developing an action and implementation plan with key objectives and performance indicators on gender parity at all levels of the organization; and building partnerships with external organizations like chambers of commerce and women's organizations, associations and networks that have expertise in this area and can help to ensure that measurable and actionable objectives are identified and achieved.

29. Some investment promotion agencies are already leading the way in this area. For example, the Philippine Board of Investments has implemented a gender focal point system, drafted a gender and development agenda, incorporated gender and development guidelines into most core processes of the organization and offered seminars to staff on gender sensitivity, gender planning and gender budgeting.

30. In addition to prioritizing gender mainstreaming within their organizations, investment promotion agencies must begin to incorporate gender considerations in their efforts to attract, promote and facilitate investment. This can be done, for example, by:

- (a) Identifying investment opportunities that can have an impact on women and promote gender-responsive investments;
- (b) Ensuring that men and women have equal access to capacity- and supplier-development programmes and opportunities;
- (c) Supporting women entrepreneurs in understanding how to reach out to foreign investors and pitch to them;
- (d) Showcasing women entrepreneurs to foreign investors at both national and international investment fairs, as well as at road shows for foreign investors;
- (e) Working with finance ministries to develop special incentives to encourage foreign investors to make a contribution to women's empowerment when investing;
- (f) Developing promotional material and image-building activities that are gender inclusive and also reflect national strides and commitments on gender equality and women's empowerment;
- (g) Targeting women-owned and women-led firms as potential foreign investors;
- (h) Targeting foreign investors that have a track record of investing in gender equality;
- (i) Facilitating reskilling and upskilling training programmes for women by foreign investors.

31. Implementing even just a few of these activities could help to improve women's access to and use of services provided by investment promotion agencies. They could also improve the skills of women entrepreneurs to attract

¹⁵ Data based on survey samples collected by ESCAP from 25 investment promotion agencies in Asia and the Pacific and 20 investment promotion agencies in Africa.

investments, help women to build business networks and improve their opportunities in those sectors in which they are most commonly engaged.

32. Awareness in investment promotion agencies, however, must be raised to help them to understand that, in the current fiercely competitive environment for FDI, such activities could set them apart and bring huge gains if carried out with dedication and commitment as opposed to being seen as a burden or a hurdle.

33. The demand for ethical and sustainable products has risen and is projected to continue to grow, especially among the young and among women, whose consumer power is significant and rising. This presents an opportunity for businesses to boost sales through sustainably sourced certifications, marketing and reporting.¹⁶ Consequently, foreign investors are increasingly looking for investment opportunities that can support their diversity and inclusion targets and help them to demonstrate the sustainable development impact of their operations, including on gender equality and women's empowerment.¹⁷ Recognizing this, and also taking a page from the playbooks of socially responsible investment funds, foreign direct investors, especially from developed countries, are increasingly including public interest concerns in their cross-border investment decision-making processes.

34. Few investment promotion agencies in Asia and the Pacific have, however, begun to recognize these opportunities. Invest India stands out among them. It has recently established an entire team to work on attracting FDI that will contribute to gender equality.

35. A major reason why few investment promotion agencies prioritize gender in their activities is the simple lack of awareness of the linkages between gender equality and FDI and of how gender considerations can be mainstreamed in investment promotion activities and policies. Through the project entitled "Catalysing women's entrepreneurship", the ESCAP secretariat has been supporting Bangladesh and Fiji in developing tailored strategies to mainstream the promotion of gender equality and women's empowerment into their FDI attraction, promotion and facilitation activities. These strategies will include concrete initiatives that the two countries' investment promotion agencies can implement to encourage potential and future foreign investors to promote gender equality in their foreign operations. In addition, the secretariat has also started to work with several other ESCAP member States in Asia and the Pacific to develop sustainable small and medium-sized enterprise supplier databases. These databases will provide lead firms in value chains with filterable information on small and medium-sized enterprises that meet specific sustainability requirements, including on gender equality and women's empowerment. The benefit of such databases is that they can help to boost sustainable value chain-linked FDI by providing a platform to enable small and medium-sized enterprises in host economies to connect with lead firms in regional and global value chains.

¹⁶ This also presents opportunities for small and medium-sized enterprises to link into regional and global value chains with lead firms that are seeking out contractors in host countries that can meet certain sustainability criteria, including criteria related to gender equality and women's empowerment.

¹⁷ For instance, globally, 70 per cent of the largest 500 multinational enterprises by revenue report on gender equality and 80 per cent of these multinational enterprise groups have a diversity policy. See *World Investment Report 2021: Investing in Sustainable Recovery* (United Nations publication, 2021).

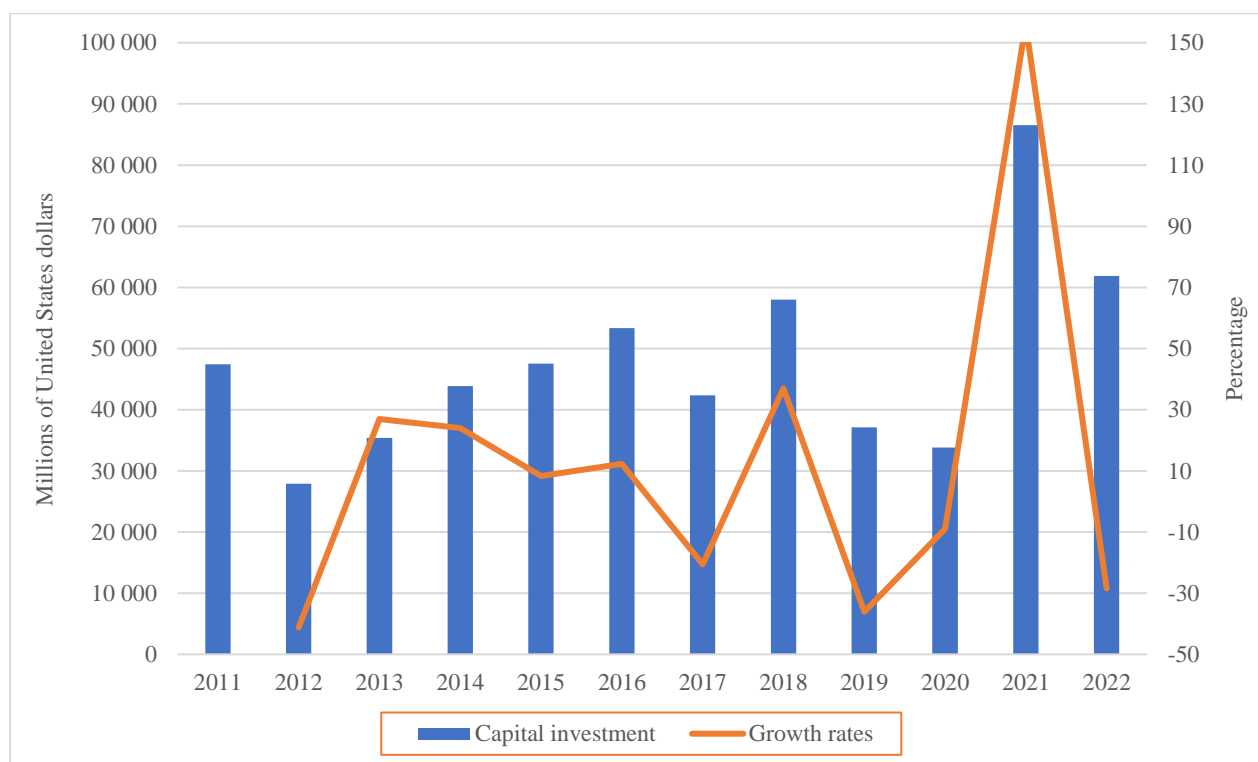
VI. Contribution of foreign direct investment to bridging digital divides

36. The COVID-19 pandemic has accelerated the digital transformation, especially in developing countries. Some of the measures enacted by Governments to contain the pandemic have propelled businesses towards digitalization and the provision of online operations and services. At the same time, the demand for digital services has grown exponentially.

37. Several countries in the Asia-Pacific region have been developing and even implementing national digital economy strategies and policies, but FDI has often been left out of these plans. Yet, developing robust digital infrastructure and improvements in and access to digital education and training systems requires substantial public and private sector investments, including FDI.

38. FDI in the digital economy has grown consistently in Asia and the Pacific over the past decade and has the potential to continue to significantly expand if appropriately targeted (figure III). Harnessing the potential of FDI to contribute to the digital transformation of countries in Asia and the Pacific requires that policymakers, particularly in ICT ministries, coordinate with national investment promotion agencies to design coherent digital investment strategies, incentives and regulatory frameworks that will encourage foreign investors to invest.

Figure III
Greenfield foreign direct investment flows into the digital economy in Asia and the Pacific, 2011–2022



Source: ESCAP calculations based on data from fDi Markets. Available at www.fdimarkets.com (accessed on 28 November 2022).

Note: Values for 2022 cover the period January–November.

39. There are three particular areas in which FDI has immense potential to contribute to host economies’ digital transformation: building the digital infrastructure, supporting the adoption of digital technologies and encouraging digital businesses. Definitions of what constitutes FDI in each of these areas, along with illustrative examples, are given below.

A. Foreign direct investment for building the digital infrastructure

40. FDI can help to build the physical infrastructure and consumer services of telecommunications providers and the Internet. Firms and investors operating in this area of the digital economy include firms that provide telecommunications infrastructure and connectivity and information technology companies that manufacture and sell connectivity devices and constituent components (digital hardware) and that develop the software for digital communications. Table 1 contains some examples of FDI for building the digital infrastructure in Asia and the Pacific.

Table 1
Examples of foreign direct investment for building the digital infrastructure in Asia and the Pacific

<i>Telecommunications networks/ services</i>	<i>Data storage/processing</i>	<i>Connectivity devices and components</i>	<i>Digital infrastructure software</i>
Huawei (China)	Equinix (United States)	Lenovo (China)	Apple (United States)
Launched a fourth-generation (4G) network in Azerbaijan to serve the residents of remote villages (2016)	Opened a data centre in Japan (2021)	Invested \$59 million in a smartphone manufacturing facility in Indonesia with the capacity to produce up to 150,000 devices every month (2015)	Invested \$3.9 million to open an academy in Indonesia to train local students in applications for development (2018)

Source: See www.fdimarkets.com (accessed on 28 November 2022).

B. Foreign direct investment for supporting the adoption of digital technologies

41. FDI can encourage local businesses to use digital technologies and services. Such investments typically target or are undertaken by more traditional (less digital) firms and enable them to adopt digital technologies in different areas of their work to boost efficiency, speed, global competitiveness and digital innovation. Such FDI supports digital adoption and upgrading by more traditional firms and can help to speed up digitalization in physical sectors of the economy.

42. Furthermore, FDI can help local firms to become more digitalized by enabling them to introduce cloud technologies, fourth industrial revolution technologies, big data and analytics and mixed digital platforms into their operations. For example, Adidas has used fourth industrial revolution technologies in its factories (greenfield FDI) in China, Indonesia, the United States and Viet Nam to simulate every aspect of production and optimize factory layout and production flow to ensure product quality and minimize costs. These technologies have enabled the firm to turn its overseas operations

into “speed factories” that manufacture sneakers in just a couple of days.¹⁸ In Brazil and Indonesia, Unilever has used big data and analytics to make its operations more environmentally sustainable. It is collaborating with Orbital Insight, a geospatial analytics business, to map palm crop movements from originating farms and mills to overseas factories. Unilever now has a real-time snapshot of which trucks come from deforested areas, so that it can stop sourcing from there or invest in reforestation.¹⁹

C. Foreign direct investment for encouraging digital businesses

43. FDI can harness the Internet to develop and deliver digital products and services to the broader economy. Digital businesses include purely digital firms, such as Internet platforms and providers of digital solutions that operate entirely in a digital environment, and mixed firms, such as e-commerce platforms and digital content providers that combine a prominent digital dimension with a physical one. Examples of purely digital businesses include Meta (the parent company of Facebook and other social media platforms) and PayPal, while examples of mixed digital firms include Uber and Netflix.

44. A growing number of global digital firms have been investing in the development of local digital firms in Asia and the Pacific.²⁰ For instance, Facebook recently invested in the telecommunications company Jio Platforms to expand into the Indian telecommunications sector and digital economy, as well as to take advantage of the growing demand in India for e-commerce platforms that sell essential goods. The arrangement between Reliance Retail, Jio Platforms and Facebook will offer consumers the ability to gain access to nearby grocery stores and a whole range of products and services that are then delivered to their homes.

45. Digital businesses also invest in data centres and content delivery networks to facilitate the hosting of content at locations that are closer to end users. Content hosted locally loads faster, which increases uptake by users who may not wait for slow or unresponsive downloads, while also lowering the cost of accessing content by avoiding expensive international links. Investment in data centres can foster a healthy content ecosystem in the host country.²¹ For instance, the Singapore-based firm Worldwide DC Solution recently obtained a licence that will enable it to invest \$70 million in the development of its 1Hub data centre in Saigon Hi-tech Park, Viet Nam.

46. Directing FDI into the digital economy can help host countries to cultivate their digital environments. It can help to bridge digital divides, facilitate the adoption of digital technologies, lead to innovations in production and distribution systems, contribute to the transfer of skills and technologies and promote a flourishing digital start-up environment. However, for such investment to take place, policymakers must create a favourable business, investment and governance environment and investment promotion agencies must take appropriate actions to attract, promote and facilitate FDI.

¹⁸ Marc Bain, “A German company built a ‘speed factory’ to produce sneakers in the most efficient way”.

¹⁹ Unilever, “How we’re using technology to help end deforestation”, 18 August 2020.

²⁰ *Digital Economy Report 2021: Cross-Border Data Flows and Development – For Whom the Data Flow* (United Nations publication, 2021).

²¹ Ibid.

47. As a first step, policymakers in relevant line agencies, especially ICT ministries, should work with investment promotion agencies to carry out an assessment of the investment needs and of the level of digital development. The assessment should identify the type of FDI that is most needed in a given country based on the level of development of the digital economy in that country and the country's competitive strengths. For example, least developing countries with low levels of digital connectivity might not have much success in targeting data processing centres, as the basic requirements for that type of FDI and the priorities of the firms undertaking it are not in place. Instead, such a country should consider first prioritizing FDI that focuses on building the physical infrastructure necessary for improving connectivity. By comparison, a country that already has a relatively good level of digital infrastructure in place, perhaps a middle-income country with good connectivity such as Thailand, and with a relatively high proportion of micro-, small and medium-sized enterprises that could benefit from adopting digital technology to better link into global and regional value chains, should focus on promoting FDI that supports the adoption of digital technologies. A country that has both good digital infrastructure and a high level of digital adoption – Singapore, for instance – might focus more on attracting FDI from digital businesses.

48. Countries can promote and facilitate FDI in more than one category at the same time. In other words, investor-targeting strategies and activities for each type of FDI in the digital economy are not mutually exclusive. Thailand, for instance, might try to attract FDI both for adopting digital technologies and for developing digital businesses at the same time, especially in its bigger cities, such as Bangkok and Chiang Mai, where the digital infrastructure is already very good and digital technologies are adopted more easily than in other parts of the country. The same could be true for a country like Singapore, which might focus on both promoting FDI in digital infrastructure, such as data centres, and in digital businesses.

49. After completing the investment needs and digital development assessment, policymakers and investment promotion agencies can undertake various actions and policy measures to better promote and facilitate FDI in each of the above-mentioned areas. Certain actions and measures are specific to each area, while others are broadly relevant to all three areas. Table 2 below provides a summary of policy recommendations for each digital economy area and table 3 provides an overview of the actions that investment promotion agencies should take. While specific policy recommendations are given in table 2, table 3 contains a set of broad measures, as the actions that investment promotion agencies can take for each area are similar.

Table 2
Recommendations addressed to policymakers

<i>Actions that policymakers can take to attract FDI</i>		
<i>To build the digital infrastructure</i>	<i>To support the adoption of digital technologies</i>	<i>To encourage digital businesses</i>
<ul style="list-style-type: none"> • Liberalize the regulation of the digital infrastructure • Implement targeted enhancements in the regulatory regime 	<ul style="list-style-type: none"> • Offer appropriately balanced fiscal and financial incentives • Create an enabling framework for FDI by helping businesses to digitalize • Digitalize industrial parks and special economic zones 	<ul style="list-style-type: none"> • Build digital skills • Enhance the regulatory framework for FDI in digital businesses • Liberalize rules on FDI in digital businesses • Test regulatory attractiveness to foreign investors • Improve cross-border working and venture capital flows by improving the ease of doing business in the host economy • Improve physical connectivity in the host country • Ensure the interoperability of the national customs and logistics systems • Offer appropriately balanced fiscal and financial incentives

Table 3

Recommendations addressed to investment promotion agencies

Actions that investment promotion agencies can take to attract, promote and facilitate digital foreign direct investment

- Ensure policy consistency and enhance the ease of doing business by developing online one-stop shops and technology ecosystems and by focusing promotion activities on technology
 - Hire staff with relevant digital expertise and experience
 - Target investors strategically
 - Develop a unique local value proposition
 - Undertake structured investor outreach and engagement activities at sector-specific or digital economy conferences
 - Proactively publish digital infrastructure opportunities on investment promotion agencies' websites and other platforms (for example, digital conference platforms and the Sustainable Development Goals investment platform)
 - Engage in networking opportunities, facilitate partnerships and collaborations with innovative start-ups and local partners, and develop city partnerships and alliances
 - Support the digital transformation of FDI projects through smart readiness assessments
 - Provide investment facilitation and aftercare services
 - Target home country internationalization programmes
-

50. To support member States in taking these policy actions and investment promotion measures, the ESCAP secretariat will launch a digital FDI guidebook at the Committee's first session. The guidebook contains best practices and examples from the Asia-Pacific region of FDI in each of the above-mentioned digital economy areas. It also contains more detailed information on the recommendations contained in tables 2 and 3. Additionally, also at the Committee session, the secretariat will launch a capacity-building programme for countries in special situations on digital FDI together with the World Association of Investment Promotion Agencies. Finally, the secretariat is currently in discussions with several investment promotion agencies in Asia and the Pacific to design and provide tailored technical assistance on targeting digital FDI investors.

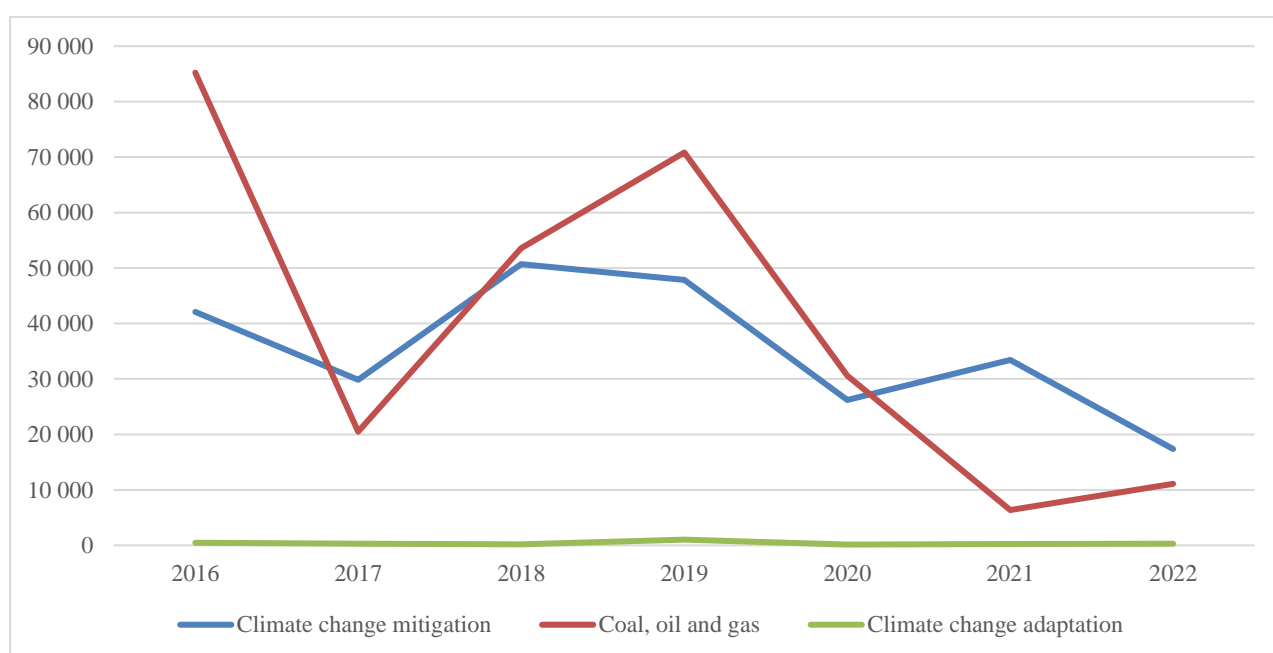
VII. Foreign direct investment to address climate change

51. FDI can play an important role in limiting climate change in several ways. Foreign investors can back projects that reduce emissions, use clean technology or support climate-friendly sectors such as renewable energy, water and waste management, and conservation and the efficient use of natural resources. Foreign investment can also contribute to decarbonizing the construction and infrastructure sectors, two of the largest carbon emitters globally, by, for instance, integrating digital technologies to manage and distribute resources more efficiently.

52. Despite ample opportunities for FDI to contribute to addressing climate change in Asia and the Pacific, greenfield investments in both climate change mitigation and adaptation have been declining during the past several years. Both the value and volume of climate change mitigation projects have been significantly larger than climate change adaptation projects. For example, there have been 1,218 climate change mitigation projects, worth \$247 billion,

compared to 83 climate change adaptation projects, worth \$2.7 billion. Alarming, there has been a pronounced loss of momentum in terms of FDI for climate change mitigation in 2022, which has been accompanied by growing investment in fossil fuels in the region (figure IV). Renewed investments in fossil fuels coincide with the current energy crisis and could further exacerbate climate change if they continue to grow.

Figure IV
Foreign direct investment into climate change mitigation and adaptation versus fossil fuels in Asia and the Pacific
 (Millions of United States dollars)

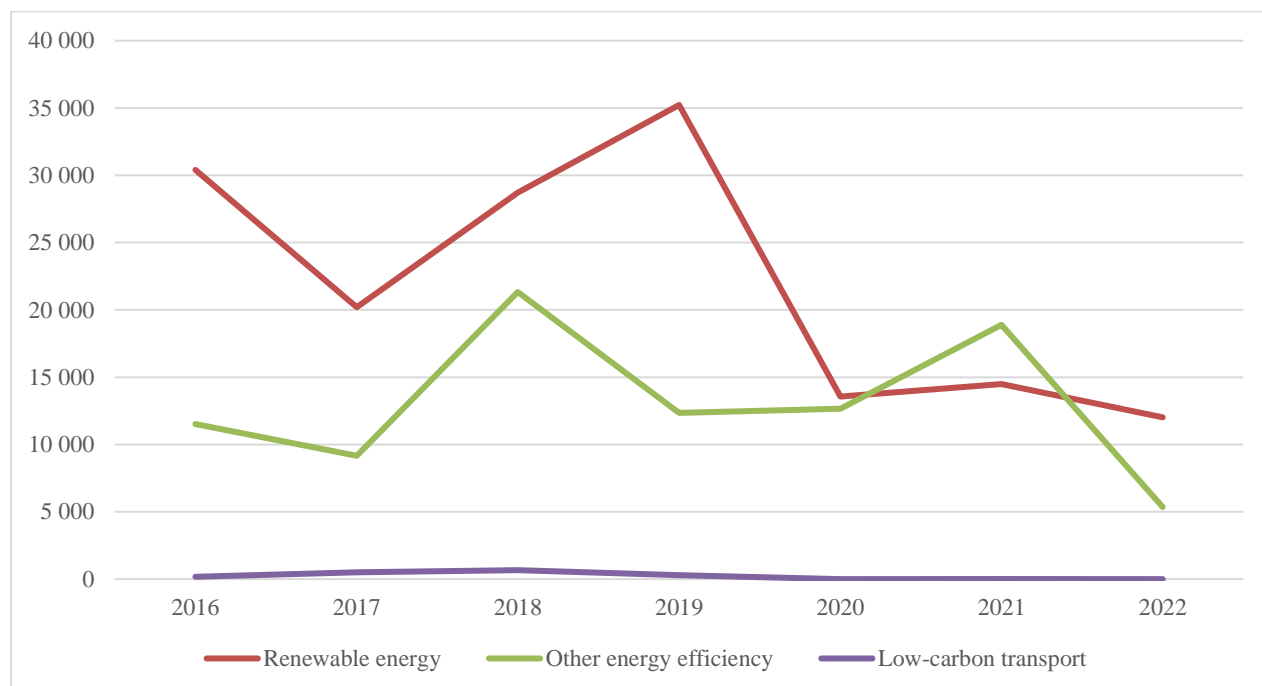


Source: ESCAP calculations based on data from fDi Markets. Available at www.fdimarkets.com (accessed on 28 November 2022).

Note: Values for 2022 cover the period January–November.

53. Most FDI in climate change mitigation in Asia and the Pacific has gone into renewable energy and other energy efficiency projects (see figure V). FDI in renewable energy has, however, been on a downward trend since 2019, and investment in other energy-efficient projects has dropped by 57 per cent compared to pre-pandemic levels. Meanwhile, investments in low-carbon transport have remained low and under \$500 million for the past six years. In terms of project numbers, since 2016 there have been 667 projects related to renewable energy, 518 to energy efficiency and a meagre 83 on low-carbon transport. Some examples of projects in the region include an investment of \$138 million in 2021 by EnviTec Biogas (Germany) in China to open a biogas production plant that will produce 37,000 normal cubic metres of biogas a day; an investment of \$166 million by Canadian Solar (Canada) in Japan to establish a 53.4 megawatt-hours solar power plant; and an investment of \$176 million by Amazon (United States) in India to establish three solar farms to produce 420 megawatts-hours of clean energy capacity.

Figure V
Foreign direct investment into climate change mitigation projects in Asia and the Pacific
 (Millions of United States dollars)



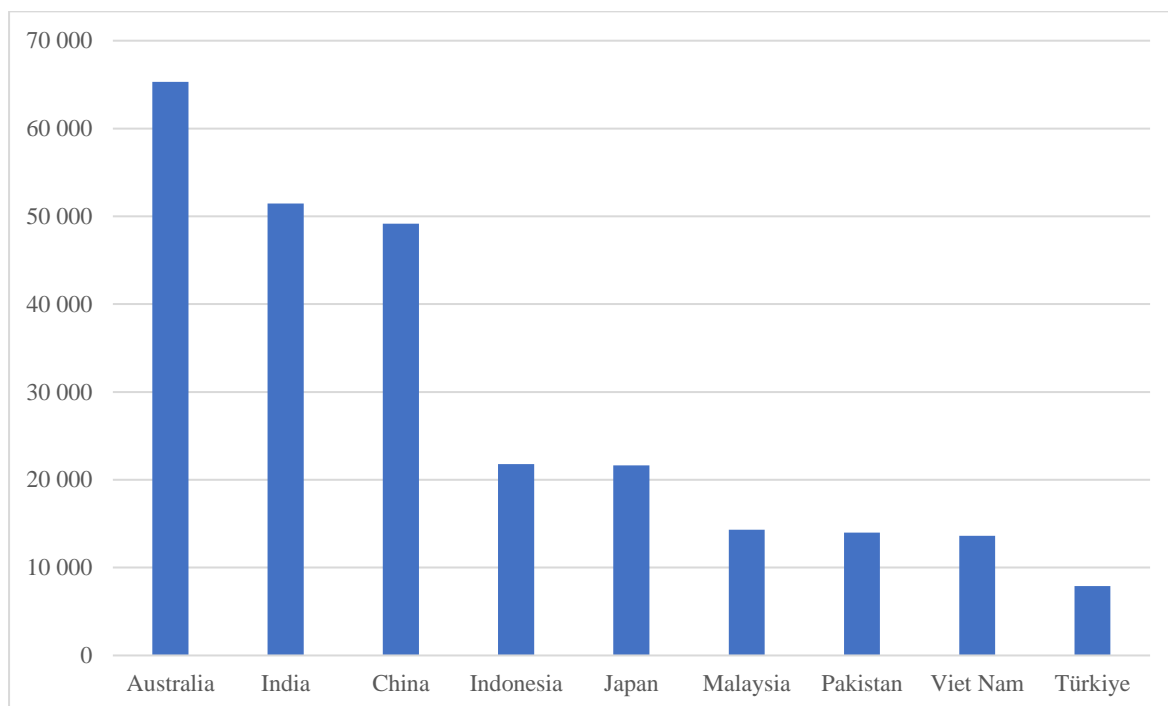
Source: ESCAP calculations based on data from fDi Markets. Available at www.fdimarkets.com (accessed on 28 November 2022).

Note: Values for 2022 cover the period January–November.

54. The value and volume of climate change adaptation projects have been low in the region, and largely focused on introducing clean technologies into foreign operations. For instance, in 2021 Teijin Polyester of Japan invested \$17.2 million and created 44 jobs in its Thai subsidiary to convert domestically produced plastic bottles into recycled polyester chips for the manufacture of high-quality polyester filament. The facility is expected to produce 7,000 tons of recycled polyester chips annually by 2025. Some examples from 2022 include an investment of \$27 million by Covestro (Germany) into China to set up a dedicated line of polycarbonate mechanical recycling and another investment by the same company in Thailand to repurpose and convert its existing compounding plant into a recycling facility.

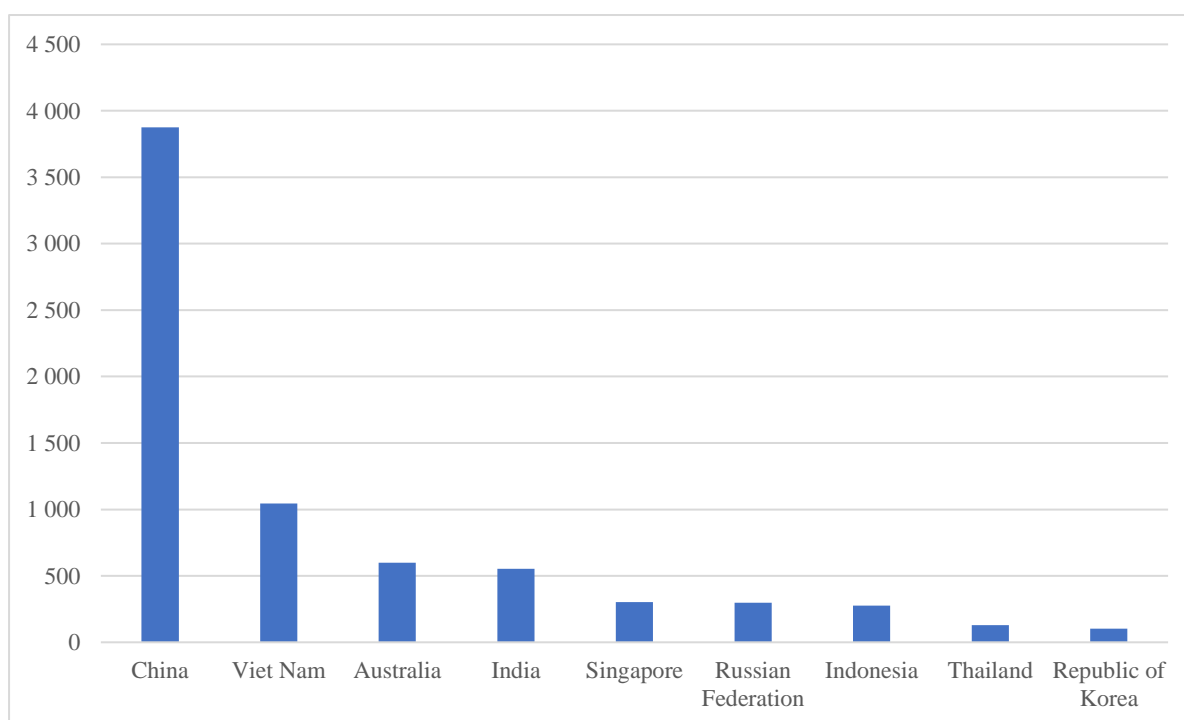
55. FDI in climate change mitigation and adaptation has been unevenly distributed across Asia and the Pacific, with developed countries and large developing countries in the region receiving the largest share of investments. For instance, Australia has been the top destination for climate change mitigation FDI since 2011, followed closely by India and China (see figure VI). China has been the top destination for climate change adaptation projects since 2011, with Viet Nam and Australia coming in a distant second and third (see figure VII). Notably, no least developed country or small island developing State – arguably two groups of countries urgently in need of climate FDI – has received such FDI since 2011.

Figure VI
Top 10 receivers of climate change mitigation greenfield foreign direct investment in Asia and the Pacific, 2011–2022
 (United States dollars)



Source: ESCAP calculations based on data from fDi Markets. Available at www.fdimarkets.com (accessed on 9 December 2022).

Figure VII
Top 10 receivers of climate change adaptation greenfield foreign direct investment in Asia and the Pacific, 2011–2022
 (United States dollars)



Source: ESCAP calculations based on data from fDi Markets. Available at www.fdimarkets.com (accessed on 9 December 2022).

56. The low level and uneven distribution of FDI to developing countries in the region underscores the urgent need to bring FDI into conversations about unlocking climate finance for developing countries. While FDI is an important type of private sector investment with immense potential to help developing countries to fill climate finance gaps, it has until now been left out of the discussions at forums on climate finance. For example, while the participants in the twenty-seventh session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, held in November 2022, focused on ways to increase climate finance to developing countries, FDI did not even make it on the main agenda. For example, while finance is a key theme of the Sharm el-Sheikh Implementation Plan, in that document it is merely noted that other sources are needed and that the priority should be to scale up public grants and funds from multilateral development banks. Furthermore, none of the decisions taken at the twenty-seventh session of the Conference of the Parties²² reference FDI as a potential source of climate finance. In fact, from an investment perspective, a key issue is that “climate finance” and “investment” were understood as referring only to funds from public sources and multilateral development banks. Only in the draft decision on matters relating to the Standing Committee on Finance was mention made of private sector direct investments, although it is not clear if those investments were domestic or foreign. However, it was recognized that FDI could serve as an additional and important source of funding to assist developing countries particularly vulnerable to the adverse effects of climate change”.²³

57. There is an urgent need to support developing countries, especially the least developed countries and small island developing States, and their investment promotion agencies in attracting and facilitating climate FDI. Most importantly, they need support in identifying the climate projects for which their countries would have a competitive advantage in attracting FDI, in targeting investors and generating leads, and in pitching investment opportunities to foreign investors. Regarding the latter, this includes support for presenting and developing material to pitch at relevant climate and sustainable development finance forums and to showcase through websites dedicated to sharing information on investment project opportunities. At the policy advocacy level, developing countries also need to build their capacity to articulate to relevant ministries the need for better incentives for climate FDI and to phase out fossil fuel subsidies and incentives.

58. Beyond this, investment promotion agencies should consider incorporating tailored indicators to assess, evaluate and measure the climate-relevant characteristics of investments. The ESCAP secretariat has developed sustainable FDI indicators that would enable investment promotion agencies to do precisely this.²⁴ The secretariat has worked with several countries in the Asia-Pacific region to incorporate the indicators into their investment monitoring and evaluation processes, including InvestBhutan and the Philippine Board of Investments.

59. Furthermore, recognizing the urgent need of investment promotion agencies in Asia and the Pacific to attract and facilitate climate FDI, the secretariat is developing a work programme to support them. This work programme will be aimed at providing technical assistance to investment

²² See <https://unfccc.int/cop27/auv>.

²³ See the text of the draft decision on funding arrangements for responding to loss and damage associated with the adverse effects of climate change, including a focus on addressing loss and damage. Available at <https://unfccc.int/documents/624440>.

²⁴ See <https://e-learning.unescap.org/thematicarea/detail?id=43>.

promotion agencies in developing countries to design and implement strategies to attract and facilitate climate FDI according to their countries' needs and nationally determined contributions to reduce national emissions and adapt to climate change. The secretariat looks forward to providing support to investment promotion agencies in developing member States in the near future in this area.

VIII. Issues for consideration by the Committee

60. The Committee may wish to share national experiences, including effective practices and lessons learned, in promoting impact investment and FDI for sustainable development.

61. The Committee may also wish to consider taking the following actions:

(a) Indicate the types of support, such as training and knowledge-sharing, tools, research and advisory services, that may be required from the secretariat to promote impact investment and FDI for sustainable development;

(b) Provide guidance to the secretariat on how impact investment and FDI for sustainable development can be more effectively promoted nationally and regionally;

(c) Identify new and priority policy issues related to impact investment and FDI for sustainable development that the secretariat should address in greater detail.
