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The Future of FDI: Achieving the Sustainable Development Goals 2030 through Impact Investment

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Special Section Article

Abstract

Publicized as a global call for action in 2015, the United Nations General Assembly passed a resolution on the Sustainable Development Goals 2030 (SDGs). Before issuing the SDGs in 2015, the United Nations Conference on Trade and Development (UNCTAD) has already identified in 2014, as part of their World Investment Report, that especially developing countries are facing an estimated USD 2.5 trillion funding gap annually in the efforts to achieve the SDGs. Yet, the investment opportunities and challenges for investors, when contributing to the closure of this funding gap while benefiting from its economic potential have not been widely discussed. Despite that Foreign Direct Investments (FDI) are a key driver to sustainable economic growth and prosperity of a nation, policies and a holistic framework linking the 2030 Agenda to actionable investment opportunities for private investors are missing. Furthermore, a global platform capturing, channeling and promoting investment projects aiming to achieve the SDGs through impact investment has not been established. Utilizing global financial resources more effectively while developing new approaches and tools to promote impact investments, which demonstrate the benefits for investors to tap into the funding gap of the 2030 Agenda, will have the potential to significantly shape and influence the future of FDI.

A global paradigm change has happened since the 2030 Agenda for Sustainable Development by the United Nations came into effect. The 17 Sustainable Development Goals (SDGs) detailed through 169 precise targets how to achieve those goals were a trigger for academia, governments and corporations worldwide to not only consider their individual contribution to achieve the SDGs, but also to determine how to transform strategic decision-making, business processes and operations to benefit from this global sustainability agenda (Hill, 2011).

Macro-economic planning and micro-economic attempts to quantify the economic potential of the SDGs on the one hand (Sauvant and Ortino, 2013) and a new and innovative way to determine what is an impactful and sustainable return of a project or an investment on the other hand. In light of the theory of change, considering the economic value of impact enabled through the SDGs, sustainability has become a relevant strategic business factor, especially for foreign direct investments (FDIs). Away from a purely profit and return oriented decision-making, investors tend towards innovative models measuring the impact of investments and the financial value creation through contributing to achieving the SDGs. Especially in developing countries and emerging markets the potential for those impact investments is significant (OECD, 2016).

The question is, however, how leading investment destinations in the world such as Singapore, London or Dubai establish ways to facilitate and channel impact investments, individually using their unique value propositions. While

developing countries are lacking of global recognition in the investor community and individual investment potential is difficult to determine, leading investment destinations would have the capability and knowledge to establish ways of channeling funds into countries, which the 2030 Agenda is aiming for. Much more than a middleman those locations could not only act as an economic powerhouse to influence investors, but also commit themselves to being a trigger for investors to target the right sectors. This also includes the enforcement of transparency on existing investment projects, tackling the ambitious targets of the 2030 Agenda and promoting them. Following a classic fund-raising philosophy, investments could be targeted to those in need, while substantial impact would be achieved, driving the fulfilment of the 2030 Agenda. Not only horizontal FDI, but also forward and backward vertical FDI would be considerable from a strategic perspective.

Policies and a holistic framework

Overall, internationalization approaches are often driven by start-ups or young innovative companies looking for ways to invest and expand. Determinants of FDI location decision-making is mostly influenced not only by profit expectations but also by economic factors such as local re-investment potential, financial stability and economic impact. The area of determinants of foreign investment decisions has widely been researched in the academic world, however the connectedness between FDI and investment decision factors

such as sustainability and impact is still widely untapped. International trade, economic growth and investments are critical factors for any business environment. International policy makers have incorporated sustainable development in their efforts to drive investments, specifically addressing policy gaps, political developments and challenges in the global supply chain. Country-specific concepts have been developed to domestically drive the growth in specific sectors under sustainability considerations. A globally applicable, overarching framework of the correlation between foreign direct investments and the Sustainable Development Agenda by the United Nations has, however, not yet been developed.

Sustainable investment is an area, which has been touched early on by research and academia (Young, 1992). Especially emerging markets were in the focus. In terms of Foreign Direct Investment (FDI), the sustainability aspect, however, has been focused on the environment (Lee, 2013). Other elements of sustainable impact were ultimately articulated through the Sustainable Development Goals but not yet set in relation to FDI yet. Besides environmental considerations of sustainability such as a circular economy, from a macro-perspective, there are also social and economic factors to be incorporated. The 2030 Agenda is encompassing all three areas, and they all have the potential to be translated into specific investment opportunities creating sustainable impact.

Impact investment

Classic investment promotion activities and the facilitation of foreign investments tend more and more to become a matter of strategic investment development. This means, that incentives for investors and site selectors are no longer limited to the current prospects of an investment destination and its readiness to facilitate investments, instead investors are conducting their due diligence based on the potential of a specific market, sector or investment destination to complement the return on investment with the potential to achieve sustainable impact, that triggers and enables further investment opportunities. Policy practitioners are urged to respond to these circumstances by developing frameworks to determine the potential of any investment to contribute to the achievement of the SDGs while at the same time translating this potential into financial return and economic benefits for the investor. These impact investments can then become a tool for closing the annual funding gap, which was described by UNCTAD. Usually investment promotion activities are coordinated by public sector entities in the respective countries. Therefore, regulators have to respond to the 2030 Agenda by introducing smart and attractive ways to facilitate investments reducing the bureaucratic burden to a minimum.

Leading investment destinations have a pioneering role in this regard. Their influence on the global investor community is a trigger for investment destinations in the least developed countries (LDCs) to utilize this ability and put

their nations in the forefront of being an attractive destination for impact investments. Specifically, nations in Africa, Middle America and South-East Asia can benefit from the economic potential of their neighboring countries. With an unprecedented market potential, investors will have the ability to leverage leading investment destinations as a channel for impact investments into LDCs, while the profits of these investments go to the investor and the impact of these investments remain in the respective countries, driving sustainable economic growth. Furthermore, the channeling countries themselves can nurture the investment potential of LDCs and harness the investment opportunities and annual funding gap, while contributing to the achievement of the SDGs. Those investment destinations, which take responsibility and ownership for being a platform for impact investments will ultimately become a center for SDG-related investments enhancing their own attractiveness and reputation as a leading investment destination.

Conclusions

Shaping the future of FDI, impact investments and SDG-related investment portfolios have the potential to become an attractive alternative for investors to divert from the pure profit-oriented thinking to a more impact-oriented approach. Global investment banks and private wealth funds can play a major role in the closing of the annual funding gap, when a holistic impact investment framework is being presented, a platform for impact investments is being formed and impact investment projects, products and derivatives are being developed. Leading investment destinations can be a channel, patron and enabler for those investments, through partnerships or innovative ways of presented SDG-related investment projects to the global investor community.

Technology is another tool to reduce the bureaucratic burden of financial transactions into countries with rudimentary or non-existing financial and banking sectors. However, to translate sustainable impact into financial return and revealing the potential and opportunities of impact investments to the investor will be the priority for policy makers and investment development agencies. New ways of investment facilitation will be required to achieve the 2030 Agenda and harness the investment opportunities the agenda provides. The investor journey should no longer end with the closure of a project and aftercare activities, instead, new forms of investment and subsequent investment opportunities arising from the initial investment should be explored.

Developing LDCs is not only a momentary investment opportunity but transforming countries into stable and sustainable economies will create a long-term investment potential, which goes beyond the 2030 agenda. Keeping this in mind, the effect and economic potential of impact investments is even greater than the current annual funding gap. The ability to develop and promote impact investment projects, based on a holistic framework, will, therefore, significantly influence and ultimately shape the future of FDI.

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Juri Suehrer is a part-time doctoral researcher at the Institute for Trade and Innovation (IFTI) at Offenburg University and doctoral candidate at Northumbria University. His research elaborates how foreign direct investments (FDIs) can contribute to achieve the Sustainable Development Goals (SDGs) by the United Nations. He is also a Senior Strategist at the Dubai Investment Development Agency (Dubai FDI).