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**Research Report**

## A G20 Facility to rekindle FDI flows

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## **Columbia FDI Perspectives**

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### **A G20 Facility to rekindle FDI flows**\*

by

Karl P. Sauvant\*\*

The G20 has committed itself “to spare no effort”<sup>1</sup> to support the global economy during and after the COVID-19 pandemic. Encouragingly, moreover, the G20 supports “a time-bound suspension of debt service payments for the poorest countries that request forbearance”<sup>2</sup>—but this suspension is temporary. Countries will need long-term FDI inflows as a sustainable basis to meet debt obligations and help economic recovery.

Hence, the decline of FDI flows to developing countries—which may well halve in 2020, to US\$350 billion—needs reversal.

Accordingly, and as part of its efforts, the G20 should consider, at its ministerial meeting in July 2020, to establish a Facility to rekindle FDI flows, in the framework of a compact for recovery and growth.

Attracting more—and sustainable—FDI demands that the regulatory framework of host countries be as enabling as possible, and investment facilitation be efficient. Yet, many developing countries—and especially the low-income countries among them—lag behind in improving their regulatory frameworks, strengthening their investment promotion activities and reducing investment risks.<sup>3</sup>

Fortunately, many intergovernmental organizations assist developing countries in improving their FDI ecosystems, including UNCTAD, the World Bank Group, UNIDO, the ITC, and the OECD. But their current assistance is not sufficient to help significantly in reviving FDI flows, and they need stable funding.

The shortfall in assistance can be alleviated if the G20 creates a well-endowed FDI Facility to boost the quantity and quality of investment flows. The objective should be, first, to support the

recovery of FDI flows to developing countries to the 2019 level of US\$700 billion, and then to triple it by 2030, to US\$2 trillion. Reaching this goal will become easier over time because developing countries are becoming more attractive investment destinations as their infrastructure, technological base, human resources, and market size improve. Success breeds success.

Based on country-specific needs assessments, the Facility could develop an overall strategic approach to scaling up FDI flows and, consistent with G20 objectives, “support enhanced policy and operational coordination across all relevant International Organizations (IOs), at multilateral, regional and country levels.”<sup>4</sup> For that purpose, it should provide resources for targeted technical assistance to tackle specific bottlenecks identified by the Facility.

Establishing such a Facility requires agreement on a number of issues:

- *Beneficiaries.* Beneficiaries should be developing countries, focused on low-income countries. Many of them are in dire need of investment, especially in light of the pandemic and, more generally, the challenges they face in advancing sustainable development.
- *Scope.* A Facility should back the entire range of technical activities aimed at increasing the quantity and quality of FDI flows to beneficiaries. It should map the activities of the principal intergovernmental institutions providing FDI technical assistance, identify overlaps and gaps, and help scale up activities where institutions have special expertise. The Facility’s efforts should be focused on strengthening domestic capacity (especially of investment promotion agencies) and improving the investment ecosystem. Special attention should be given to efforts aimed at facilitating sustainable FDI flows and increasing the developmental benefits of these flows. Moreover, the Facility should encourage intergovernmental institutions to team up with non-governmental organizations, especially business organizations, undertaking practical work in the FDI area.
- *Governance.* A governing board comprising representatives of (G20 and non-G20) governments supporting this effort could oversee the Facility, advised by an advisory committee consisting of representatives of business and other stakeholders, and assisted by a small coordination unit. Such a unit could be located in a country that makes a substantial financial contribution to the Facility. Alternatively, the Aid-for-Trade initiative provides a readily available framework that could be expanded to cover investment, turning it into an Aid-for-Trade-and-Investment initiative.<sup>5</sup> Or a coordination mechanism could be created within the UN. Regardless, a public-private sector mechanism should help mobilize resources and experience from the private sector. Regular reports to donors about progress made should be based on clear benchmarks in terms of whether reforms work, have developmental impact and show donors value for their money.

- *Financing.* Governments committed to improving the FDI ecosystem and in a position to do so should be interested in contributing to such a Facility. Similarly, governments should be interested in strengthening and scaling up the FDI-supporting activities of the intergovernmental organizations mentioned earlier.

A G20 decision to create a G20 Facility to rekindle FDI flows would be part of a timely spare-no-effort response to the economic impact of the COVID-19 crisis. It would provide stable funding to organizations providing FDI-related technical assistance. With a view toward helping accelerate flows of FDI for sustainable development, it would focus on those countries most in need of them, especially low-income countries. Governments should see such a Facility as an integral part of efforts to relaunch the world economy and restart economic growth.

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<sup>1</sup> [G20 Finance Ministers and Central Bank Governors, “Communiqué”, Apr. 15, 2020, p. 1.](#)

<sup>2</sup> Ibid.

<sup>3</sup> [Axel Berger, “Investment facilitation for sustainable development: index maps; adoption at domestic level” \(Bonn: DIE, Dec. 2019\).](#)

<sup>4</sup> G20, op. cit., p. 7.

<sup>5</sup> This approach would also recognize that trade and investment are closely intertwined.

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