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OUTWARD INVESTMENT AGENCIES:
Partners in Promoting Sustainable Development

HIGHLIGHTS

- **Outward investment agencies (OIAs) promote and service investment abroad; they include outward investment promotion agencies, development finance institutions, and investment guarantee schemes.**
- **UNCTAD reviewed 101 OIAs and found that 45% indicate on their websites that they provide some level of services particularly for investing in the Sustainable Development Goals (SDGs).**
- **Nearly all regional and multilateral OIAs provide SDG-related services, against two out of five OIAs in developed economies and one out of five OIAs in developing and transition economies.**
- **UNCTAD's 2015 Investment Policy Framework for Sustainable Development defines a paradigm shift in investment policymaking and calls for action to prioritise investment promotion in SDGs.**
- **Partnerships between OIAs and investment promotion agencies can encourage and facilitate investment in SDGs through information sharing, technical cooperation, and marketing of SDG investment opportunities.**

The IPA Observer series is prepared by the Investment Promotion Section of UNCTAD's Division on Investment and Enterprise (DIAE). Its objective is to show examples of strategic and operational best practice in investment promotion from agencies worldwide to practitioners and governments in developing countries, with a view to share lessons that are practical and replicable for their investment promotion agencies (IPAs).

For decades, outward investment agencies (OIAs) have been catalysing foreign direct investment (FDI) to developing countries, often in challenging investment environments. Companies that have invested in these locations received various types of assistance from OIAs, including information services and technical assistance, financial support, and investment insurance and guarantees, reducing the costs and risks of investment projects. Many of these investments have contributed to the economic development of host locations.[i]

The Sustainable Development Goals (SDGs) defined this year by the international community to face the common global economic, social, and environmental challenges in the next 15 years will have large resource implications, especially for developing countries. According to UNCTAD estimates, current investment levels in key SDG sectors in developing countries are about US$2.5 trillion less than annually needed. Private investment, including FDI, could play an important role in filling this gap, but this requires concerted efforts by all stakeholders, including FDI home and host country governments, the private sector, and intermediaries. UNCTAD's 2015 Investment Policy Framework for Sustainable Development (IPFSD) defines 21st century policymaking at the national and international level and provides an Action Menu for investment promotion in SDG-related sectors.

This publication has not been formally edited.

This note examines to what extent OIAs are facilitating FDI into SDGs and how partnerships between OIAs and inward investment promotion agencies (IPAs) could be beneficial to both institutions in the promotion and facilitation of SDG investment projects. This paper includes case studies from OIAs in the Netherlands, South Africa, and the United States of America.

PROMOTION OF OUTWARD FDI

A large number of countries, especially in the OECD, provide assistance to domestic companies that want to invest abroad. Foreign exposure by these companies can increase enterprise competitiveness, provide access to foreign markets and resources, create new opportunities for exports, and generate profits. Furthermore, these investments can support international development efforts and climate change mitigation.

For host countries, FDI brings new capital, technology, management skills, jobs, and tax revenues. In order to increase the development impact of FDI to host countries, home countries could further steer part of FDI to SDG sectors such as power, transport, telecommunications, water and sanitation, agriculture, climate change mitigation and adaptation, biodiversity, health, and education, among others. OIAs are an instrument to do this and a significant number of governments have been using special OIA programmes to support FDI projects with an SDG dimension. IPAs in host countries could attract such projects by forging partnerships with OIAs.[1]

OIAs are institutions which carry out programmes to promote and service investment abroad. They come in different forms and shapes. In a prior study, UNCTAD surveyed 100 organizations, including outward investment promotion agencies, development finance institutions, and investment guarantee schemes, which were all providing services to outward investors.[2] Similarly, institutions covered in this note fall under these categories:

- **Outward investment promotion agencies** promote outward investment, often in combination with the promotion of inward investment and export.
- **Development finance institutions** are national, regional, or international organizations which have the dual role of investment banks and development institutions, providing loans, equity, and grants for projects in developing countries and regions and in transitional economies.
- **Investment guarantee schemes** insure non-commercial and/or commercial risks abroad to encourage foreign investment.

Through OIAs, governments and multilateral agencies offer a wide range of programmes to mitigate the risks and reduce costs associated with investing abroad and attempt to encourage overseas investments. These programmes can be aimed at specific policy objectives, such as promoting investments in less certain environments (e.g. risk insurance) or in sustainable sectors and activities (e.g. green funds). Additionally, many developed countries have implemented programmes specifically targeted at private sector investments in emerging and transition economies.

Incentive-based measures include tax reductions, loans, and funds for capital assistance. In addition to a variety of financial and advisory services, many OIAs assess projects based on social, environmental, or other considerations and develop or affirm related standards.

GLOBAL DISTRIBUTION OF OIAs

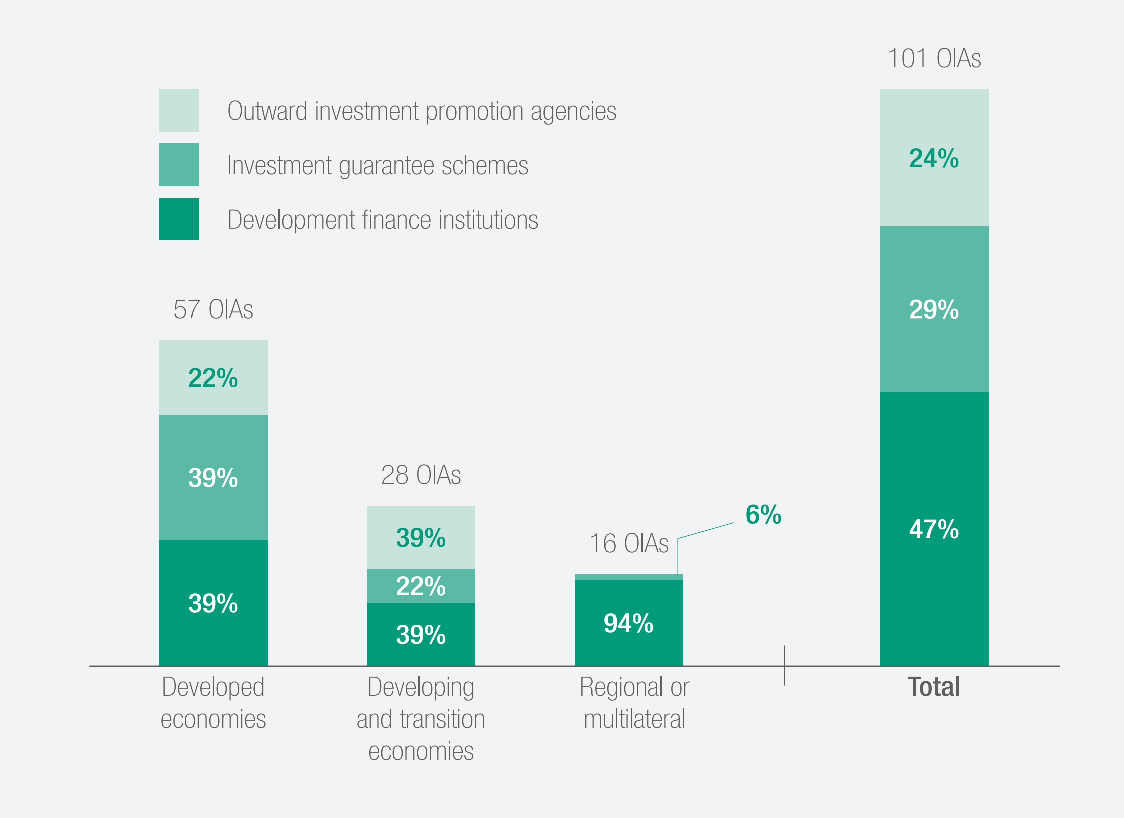
In 2015, UNCTAD reviewed the websites of 101 OIAs to examine if these institutions provide financing or services specifically designed to promote the SDGs. The review covered most major national and international institutions that promote and service investment abroad. The vast majority were national (85), however a significant number were regional, such as the African Development Bank, or multilateral, such as the International Finance Corporation and Multilateral Investment Guarantee Agency of the World Bank Group (figure 1).

In the sample, 57 OIAs were national institutions located in developed countries, particularly in Europe, where also many regional institutions are located such as the Black Sea Trade and Development Bank (Greece), the European Bank for Reconstruction and Development (EBRD, United Kingdom), the European Investment Bank (EIB, Luxembourg), and the Nordic Investment Bank (Finland). Fewer OIAs were identified in developing and transition economies (28), although the sample included multiple OIAs in BRICS countries.

[1] UNCTAD, 2014, World Investment Report 2014: Investing in the SDGs: An Action Plan.

[2] UNCTAD, 1999, Handbook on Outward Investment Agencies and Institutions.

Figure 1. OIAs reviewed by category and by country group and regional or multilateral institutions



Source: UNCTAD.

Nearly half of the OIAs reviewed were development finance institutions, including all but one of the regional or multilateral OIAs. In developed economies, the bulk of OIAs reviewed were development finance institutions or investment guarantee schemes, while in developing and transition economies, the majority of OIAs were development finance institutions or outward investment promotion agencies. Most of the investment guarantee schemes were in developed economies, while outward investment promotion agencies were about split evenly between developed economies and developing and transition economies.

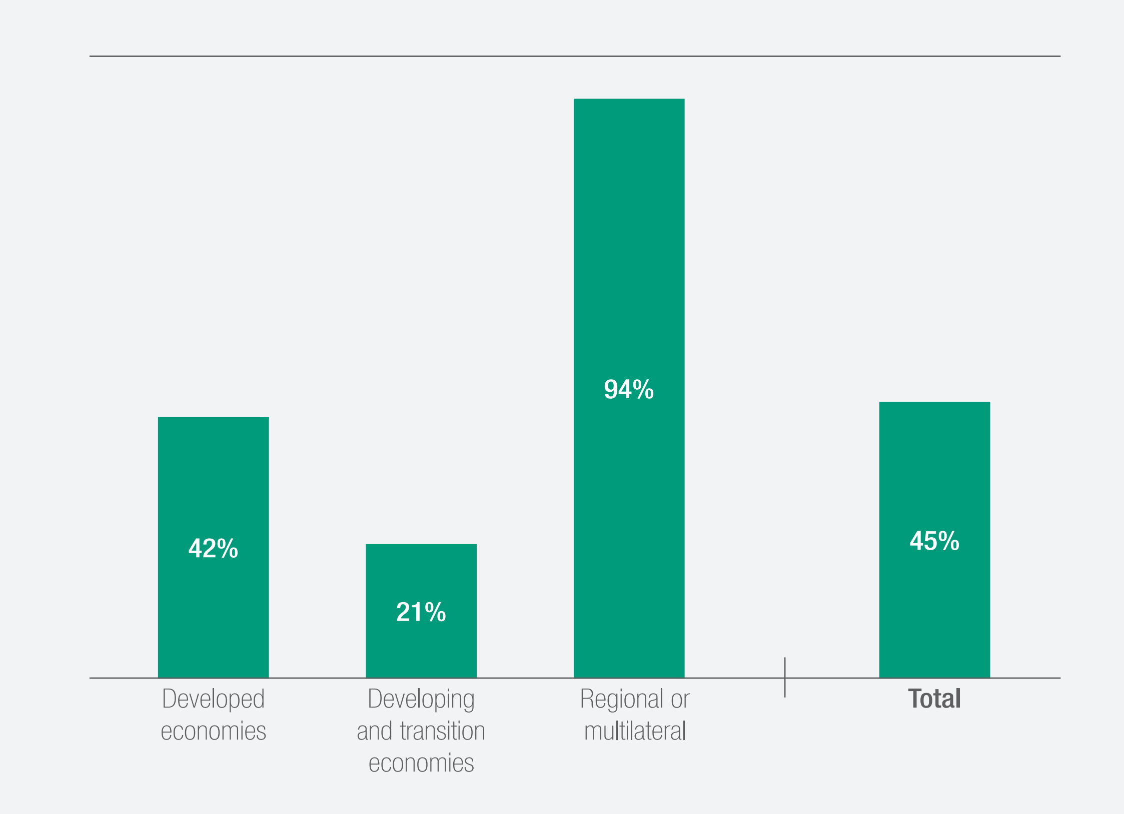
SERVICES SUPPORTING SUSTAINABLE INVESTMENTS

At the United Nations Sustainable Development Summit in September 2015, United Nations member States unanimously adopted the new 2030 Agenda on Sustainable Development, which includes 17 global SDGs for the period until 2030. These goals will foster collaboration in a range of areas such as education, employment, environment, equality, food security, health, infrastructure, and poverty reduction. SDG-related investment projects include investments in various types of soft and hard infrastructure, electricity generation and distribution, provision of water and sanitation, agriculture, education, and investments in climate change mitigation and adaptation.

Meeting the SDGs will require substantial investments, especially in developing countries, where UNCTAD estimates that an additional US$2.5 trillion above current annual investment levels will be needed. FDI can play a significant role in bridging the investment gap and achieving the SDGs. UNCTAD's 2015 IPFSD outlines a fundamental change in investment policymaking and provides an Action Menu for investment promotion in SDG-related sectors. OIAs can contribute substantially to these efforts.

Among the OIAs reviewed, nearly half indicate on their websites that they provide some level of services particularly for investing in the SDGs (figure 2), such as promoting business investment

Figure 2. Proportion of reviewed OIAs with SDG-related programmes or services featured on their institutional websites



Source: UNCTAD.

with positive economic and social impacts in higher-risk environments, promoting infrastructure investments and other specific SDG-sector investments, or promoting green FDI. This is the case for nearly all regional or multilateral OIAs (94%) as well as a sizeable portion of OIAs based in developed economies (42%). In developing and transition economies, 21% of the reviewed institutions indicated on their websites that they provide SDG related programmes and services. Most agencies which offer these programmes provide either investment financing or advisory services or both. Select examples of OIAs which run special programmes related to the SDGs are presented in table 1.

Regardless of whether they have SDG programmes or services, most OIAs reviewed have social or environmental standards in place or evaluate projects for sustainable impact. These standards are usually applied across the board, independent of services directed at SDGs.

CASE STUDIES

To gain further insight into some of the SDG-related programmes listed in table 1, services offered by the Development Bank of Southern Africa (DBSA), the Netherlands Enterprise Agency (RVO), and the Overseas Private Investment Corporation (OPIC) are further highlighted in this section.

Development Bank of Southern Africa

Established in 1983, DBSA aims to contribute to economic growth and regional integration, which in turn positively affects quality of life and reduces poverty and inequality. DBSA's strategy supports sustainable and fair socio-economic development and focuses on four key industries: water, energy, transport, and information and communications technologies. DBSA provides sustainable infrastructure project preparation, finance, and implementation support for South African as well as foreign investors in selected African markets.

DBSA's first investment projects outside South Africa were in small farmer development programmes in Lesotho, Mozambique, Namibia, and Swaziland, back in 1987. In 1998, DBSA's mandate was formally extended to include southern Africa and in 2002, DBSA established a unit to support the New Partnership for Africa's Development (NEPAD).[3] In 2014, the South African parliament expanded DBSA's mandate further, into selected African countries outside the South African Development Community (SADC).

DBSA's International Finance Division is responsible for investment operations outside South Africa. This division primarily finances infrastructure projects in energy, transport, and bulk water. DBSA has already supported a number of infrastructure projects in these and other sectors in the SADC.

In March 2014, DBSA and the European Union created the €100 million **Infrastructure Investment Programme for South Africa (IIPSA)**, which aims to enhance sustainable economic growth and the delivery of key services affecting development in South Africa and in the SADC region. Blending European Union grants and long-term financing from South African and European development finance institutions, IIPSA will provide grant funding in support of loans for the development of national and regional infrastructure projects. To qualify, projects must be either a South African project or a regional project which is a trans-border initiative involving two or more countries in the SADC region with a demonstrable regional impact on one or more countries.[4]

DBSA has also facilitated significant projects outside of infrastructure, including the first public-private partnership in the health sector in southern Africa other than South Africa. For years, Lesotho had experienced overcrowding at its Queen Elizabeth II Hospital, which had not been expanded since 1957, despite a growing population and high prevalence of tuberculosis

Table 1. Examples of OIAs which provide special programmes related to the SDGs

COUNTRY/ REGION	OIA	SDG-RELATED PROGRAMMES	OIA WEBSITE
Asia	Asian Development Bank (ADB)	Private Sector Operations Department Infrastructure Finance Divisions	www.adb.org
Brazil	Brazilian Development Bank (BNDES)	Amazon Fund	www.bndes.gov.br
Canada	Export Development Canada (EDC)	Green Bonds and EnviroExports	www.edc.ca
Denmark	Danish International Development Agency (DANIDA)	Danida Business Finance	um.dk/en/danida-en/
Japan	Japan Bank for International Cooperation (JBIC)	Global action for Reconciling Economic growth and ENvironmental preservation (GREEN)	www.jbic.go.jp
Netherlands	Netherlands Enterprise Agency (RVO)	Dutch Good Growth Fund (DGGF)	www.rvo.nl
Norway	Norwegian Agency for Development Cooperation (Norad)	Cooperation on Framework Conditions for Private Sector Development in the South	www.norad.no
Republic of Korea	Export-Import Bank of Korea (Korea Eximbank)	Environment-friendly Energy Industry Financing	www.koreaexim.go.kr
South Africa	Development Bank of Southern Africa (DBSA)	Infrastructure Investment Programme for South Africa	www.dbsa.org
United States	Overseas Private Investment Corporation (OPIC)	Green Guaranties	www.opic.gov

Source: UNCTAD.

[3] David Monyae, 2011, The role of South African DFIs in regional infrastructure development in Africa, Policy Brief No. 2, DBSA.

[4] DBSA, 2014, DBSA, EU Launched a multi-billion fund for Infrastructure Development, Press Release.

and HIV/AIDS. Because the hospital did not have the equipment required, some patients would travel to South Africa for specialized surgical procedures. DBSA was the lead arranger and underwriter for the design and construction of a new hospital in a medical village near Maseru and the refurbishment of three associated clinics. The public-private partnership consortium, Tsepong, was led by Netcare, a South African private hospital and healthcare group.[5]

Netherlands Enterprise Agency

The Netherlands Enterprise Agency (Rijksdienst voor Ondernemend Nederland, RVO) supports companies that do business in international, innovative, sustainable, and agrarian activities. RVO is not limited to Dutch companies doing business in the Netherlands but also fosters international private sector investment in developing and emerging markets with financial tools and technical support. Through its extensive global network, RVO gathers substantial knowledge and information on developing and emerging markets, governments, and trade and industry. A wide range of international public and private investors rely upon information from RVO.

RVO has offered several programmes in the past to foster sustainable investments in developing countries. In 2014, a new special fund was established: the **Dutch Good Growth Fund (DGGF)**, which consists of three entities managed by RVO, PricewaterhouseCoopers and Atradius. RVO is the fund manager of one DGGF element which aims to stimulate private investments by Dutch small and medium-sized enterprises (SMEs) in 68 emerging countries by providing loans, guarantees, and (indirect) participations up to €10 million (US$10.6 million).

Candidates for support by either of the DGGF elements should contribute to increasing local employment opportunities, expanding local production capacity, and promoting knowledge transfer.[6] The DGGF also requires that the results and impacts of investments be measurable. An

Overseas Private Investment Corporation

Established in 1971, the Overseas Private Investment Corporation (OPIC) is the development finance institution of the Government of the United States of America. The Corporation achieves its mission by providing investors with financing, political risk insurance, and support for private equity investment funds, when funding cannot be obtained elsewhere. Part of OPIC's review and selection includes a thorough assessment of human rights and corporate social responsibility. In addition to developing high standards that advance long-term sustainable development, OPIC undertakes thorough project monitoring and evaluation to ensure expected host country impacts.

In the sector of renewable energy, OPIC's annual commitments to clean energy projects are now up tenfold in the past five years alone, now comprising over US$1 billion per year in the past three years, or about a third of the Agency's overall annual commitments.

In 2012, OPIC financed a U.S. based enterprise with a loan of US$16.7 million to construct the first grid-connected renewable energy biomass plant powered by locally produced waste in Pakistan, a country which faces severe power cuts. In addition to increasing access to energy and creating jobs, the project boosted demand for the local agricultural sector and investment in education and healthcare.[8]

In September 2014, OPIC also issued its first **Green Guarantees**, which are U.S. government-guaranteed obligations adhering to the Green Bond Principles. These Principles recognize several categories of potential eligible projects, including renewable energy, energy efficiency, sustainable waste management, sustainable land use, biodiversity conservation, clean transportation, and clean water. To date, OPIC has issued US$167 million in Green Guarantees to support the construction and operation of five renewable energy projects around the world.