

Report: How to ensure a positive development impact of a future Investment Facilitation for Development Agreement?

Session at the IISD Trade + Sustainability Hub Virtual Conference

The session on “How to ensure a positive development impact of a future Investment Facilitation for Development Agreement?”, organized by the International Trade Centre (ITC) and the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE) as part of the IISD Trade + Sustainability Hub Virtual Conference, took place on 3 December 2021, 16:30 to 17:45 Central European Time (CET). The webinar hosted 80 participants.

Global flows of foreign direct investment (FDI) have been declining for years, a negative trend that accelerated during the COVID-19 pandemic. In this context, more than 100 World Trade Organization (WTO) Members are negotiating an Investment Facilitation for Development (IFD) Agreement. The session focused on the implementation phase of the IFD Agreement and the challenges faced by developing country and least developed country (LDC) Members in this respect. The session was based partly on novel empirical research as well as insights from broad stakeholder consultations conducted in the framework of an ongoing ITC-DIE project on Investment Facilitation for Development.

The session was chaired by Rajesh Aggarwal, Director (oic), Division for Market Development, ITC, and included the following speakers: Valéria Mendes Costa, First Secretary, Ministry of Foreign Affairs, Brazil; Zoryana Olekseyuk, Senior Researcher, DIE; and Karl P. Sauvant, Resident Senior Fellow, Columbia University, CCSI. Concluding remarks were made by Axel Berger, Senior Researcher, DIE.

The webinar programme is annexed to this report.

Discussion highlights

The discussions during the webinar focused on the following points, which are further elaborated below.

- The current IFD Agreement draft includes a limited number of sustainable development-oriented provisions, and negotiators should aim to include more elements that will ensure the facilitation of sustainable FDI.
- Firm commitments for technical assistance and capacity building under the IFD Agreement are important for enabling developing countries and LDCs to fully benefit from the IFD Agreement. Gap analyses and need assessments for the implementation of investment

measures under the IFD Agreement are critical to facilitate the implementation process; they should start as soon as possible.

- The WTO Committee on Investment Facilitation could have two possible functions that include process and substantive tasks. Regarding both aspects, the Committee could promote a pro-development agenda by putting special emphasis on the implementation of measures that not only increase FDI flows but also strengthen the development impact of FDI.

I. Key development-related provisions in the current IFD Agreement draft

It was emphasised that having sustainable development-oriented provisions in the IFD Agreement is important and should be strengthened, as the current draft includes only a limited number in this respect. Negotiators should therefore include additional provisions that will ensure the facilitation of sustainable FDI.

The Preamble of the IFD Agreement draft contains direct references to sustainable development, which will possibly affect the interpretative frame of the future Agreement. In addition, the current draft has a section on sustainable investment that includes a provision on international responsible business conduct standards that aims to encourage multinational enterprises to include such principles in their operations. This section also signals the types of investment that WTO Members want to facilitate under the Agreement, and it is a reminder of the shared responsibility of investors and home countries.

Another relevant provision in the current draft is the establishment of domestic supplier databases, which would include information on domestic suppliers, with the aim of promoting linkages between foreign firms and domestic suppliers. This is an important tool to reduce information gaps and search costs for identifying local suppliers. The current draft also includes a special and differential treatment section, which acknowledges the need of developing country and LDC Members to implement the Agreement in phases and subject to technical assistance and capacity building. In this regard, it was emphasised that a firm and substantial technical assistance provision should be put in place to enable Members to implement the IFD Agreement.

There are also two proposals by WTO Members for sustainable FDI provisions. The first one suggests adding a provision on supplier development programmes to increase the number of local firms that could contract with foreign investors. The second proposal suggests including home state obligations. The concept is that home states should also play a role in facilitating the flow of sustainable FDI, for instance, by requiring impact assessments. Members should also share information on the operations of investors from their territories, including information about investors' track record with respect to responsible business conduct and sustainable FDI.

It was stated that additional investment facilitation measures could still be included in the IFD text, and some of the existing provisions could be more ambitious in order to strengthen the sustainability dimension of the Agreement. For example, Members could provide additional investment facilitation measures to "Recognized Sustainable Investors", to incentivize foreign investors to invest sustainably. Such foreign investors could, for instance, receive priority assistance or benefit from shortened timeframes for approvals if they meet specified sustainability

criteria. Such criteria could include records of compliance with local laws and regulations, appropriate supply chain management, engagement in community development, and skills enhancement. This scheme is similar to the WTO Trade Facilitation Agreement's (TFA) "Authorized Operators" framework.

II. The importance of gap analyses, need assessments and capacity building in implementing a future IFD Agreement

According to DIE's updated version of the Investment Facilitation Index mapping the adoption of over 100 investment facilitation measures in over 140 WTO Members, developing countries, on average, have adopted fewer investment facilitation measures compared to developed countries. The Index shows that there is a strong correlation between the level of adoption of investment facilitation measures and the development status of countries.

The IFD Agreement will include investment facilitation measures that require administrative capacity, political will and technical and financial resources for implementation. Consequently, developing countries and LDCs will need to undertake substantial reforms to implement the IFD Agreement. At the same time, they stand more to gain if they are able to implement the provisions of the Agreement effectively.

Given the data of the Investment Facilitation Index, firm and substantial capacity building and technical assistance provisions should be put in place to enable Members to implement the IFD Agreement. It was emphasised that the implementation of the IFD Agreement requires even more technical assistance and capacity building than the TFA, as it involves substantial behind-the-border reforms and regulatory changes; the participation of multiple national ministries, agencies and departments, as well as sub-national FDI-competent authorities; support for the entire life-cycle of an investment; support for investment promotion agencies and other FDI-competent authorities; and help in establishing national investment facilitation committees. Furthermore, it is important to have a clear understanding of the current level of implementation of investment facilitation measures, to estimate the size and shape of technical and financial assistance that is required. This process of gap analyses and need assessments should already start during the negotiation phase of the IFD Agreement.

III. How could a pro-development agenda of the WTO Committee on Investment Facilitation look like?

An agenda of the WTO Committee on Investment Facilitation should be guided by the provisions of the IFD Agreement that address the establishment of the Committee, with the overall goal to further the objectives of the IFD Agreement. In this regard it is important to distinguish between functions of the Committee that relate to process tasks and those that relate to substantive tasks.

Process tasks involve housekeeping matters such as rules of procedure, notification formats and periodic reviews. It also includes procedural questions, such as the coordination of technical assistance and capacity building and establishing guidelines for the implementation of the IFD Agreement. In this regard, the agenda of the Committee should put a special emphasis on the

implementation of measures that not only increase FDI flows, but increase the development impact of FDI.

With respect to substantive tasks, it was suggested that it is preferable to have a built-in agenda that would provide a mandate to continue negotiations at a later stage on measures that were not included in the consensus text of the IFD Agreement. These provisions may include general investment facilitation measures such as “silence is consent”, business obstacle alert mechanisms and risk management techniques. They could also include measures that directly contribute to sustainable development, such as supplier development programmes, a special category of a “Recognized Sustainable Investor”, *ex ante* sustainable development impact assessments for large investment projects, and the designation of a responsible business coordinator to facilitate investors relations with local stakeholders. Another set of issues that could be included as part of a built-in agenda are home country obligations that would increase the transparency of measures provided by home countries to support outward investors, focusing specifically on measures that contribute to development. Additional development-oriented measures that could be included as part of a built-in agenda are measures that promote green FDI, which are identified in the publication "[Green FDI: Encouraging carbon-neutral investment](#)", and additional measures that are identified in the ITC-DIE publication "[An Inventory of Concrete Measures to Facilitate the Flow of Sustainable FDI: What? Why? How? Second edition](#)".

The Committee should also be a source of knowledge and information sharing with respect to good practices relating to the implementation of the Agreement, gap analysis and the need assessment processes, and capacity building and technical assistance. It was also mentioned that the Committee should consider fostering an “epistemic community” that would include the private sector, leading experts, policy makers, and additional stakeholders (including civil society), to provide inputs on investment facilitation issues and on the implementation of the IFD Agreement.



Deutsches Institut für
Entwicklungspolitik



German Development
Institute

**Invitation: How to ensure a positive development impact of a future Investment
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Session at the IISD Trade + Sustainability Hub Virtual Conference

3 December 2021, 16:30 to 17:45 Central European Time (CET)

Dear Colleague,

On behalf of the International Trade Centre (ITC) and the German Development Institute/ Deutsches Institut für Entwicklungspolitik (DIE), and as part of the IISD Trade + Sustainability Hub Virtual Conference, we cordially invite you to a session on:

**How to ensure a positive development impact of a future Investment Facilitation for
Development Agreement?**

3 December 2021, 16:30 to 17:45 Central European Time (CET)

Global flows of foreign direct investment (FDI) have been declining for years, a negative trend that accelerated during the COVID-19 pandemic. Against this background, countries are searching for new ways to attract investment. In this context, a group of more than 100 World Trade Organization (WTO) Members are negotiating an Investment Facilitation for Development (IFD) Agreement. This session aims to think ahead towards the implementation phase and the challenges faced by developing and least developed country Members. A future IFD Agreement will only be beneficial for the Members if they are willing and able to implement the Agreement in a way that it contributes to sustainable development.

The session will discuss three key elements of such a forward-looking implementation strategy. First, it is necessary to take stock of the provisions that directly relate to sustainable development, to properly assess the potential impact of the Agreement. Second, there is a need to understand the potential implementation gaps to assess the requirements for technical and financial assistance, in particular for developing countries. Third, the session will discuss how a pro-sustainable development agenda of a future WTO investment facilitation committee could look like. In respect to these three aspects, this session will draw from novel empirical research as well as insights from broad stakeholder consultations conducted in the framework of an ongoing ITC/DIE project on Investment Facilitation for Development, the main results of which are contained [here](#).

Participation in the session is free of charge. However, it is necessary to register for the event (please [click here](#)), to receive the meeting link details.

The session will have the following agenda and speakers:

Welcome and introduction by the chair: Rajesh Aggarwal, Director (oic), Division for Market Development, ITC

Speakers:

Valéria Mendes Costa, First Secretary, Ministry of Foreign Affairs, Brazil – *“What are the key development-related provisions in the current IFD draft?”*

Zoryana Olekseyuk, Senior Researcher, German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE) – *“The role of gap analyses, need assessments and technical assistance/capacity building in implementing a future IFD Agreement”*

Karl P. Sauvant, Resident Senior Fellow, Columbia University, CCSI – *“How could a pro-development agenda of an investment facilitation committee look like?”*

Concluding remarks: Axel Berger, Senior Researcher, German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)

We look forward to welcoming you to the session!

With kind regards,

Rajesh Aggarwal, Director (oic), Division for Market Development, ITC

Axel Berger, Senior Researcher, DIE

Karl P. Sauvant, Resident Senior Fellow, Columbia University, CCSI

Background material

ITC-DIE project on [Investment Facilitation for Development](#)

Axel Berger and Karl P. Sauvant, eds., *Investment Facilitation for Development: A Toolkit for Policymakers* (Geneva: ITC, 2021), [available here](#).

Axel Berger, Ali Dadkhah and Zoryana Olekseyuk, *Quantifying Investment Facilitation at Country Level - Introducing a New Index* (Bonn: DIE, 2021), [available here](#).

Bios

Rajesh Aggarwal

Rajesh Aggarwal is Officer in Charge, Director, Division for Market Development, ITC, Geneva. He is leading a program of assisting the private sector in developing countries to be the change agent for trade policy reform and engage in business advocacy with their governments in design

and implementation of trade policies and negotiating positions that reflect the business interests. Before joining the ITC, he worked for the Indian Government and participated in WTO Doha Round of trade negotiations. He has published papers in the area of trade negotiations, including a paper titled “Dynamics of Agriculture Negotiations in WTO” in the Journal of World Trade.

Axel Berger

Axel Berger is a Senior Researcher at the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE). He works on the design, effects and diffusion patterns of international trade and investment agreements, with a focus on emerging markets and developing countries. Other areas of current research include the effects of an international investment facilitation framework, the impact of free trade agreements on upgrading within global value chains and the role of the G20 in global governance. He teaches international political economy at the University of Bonn and regularly advises developing countries, development agencies and international organisations on trade and investment matters.

Valéria Mendes Costa

Valéria Mendes Costa is a diplomat at the Brazilian Ministry of Foreign Affairs. She currently works in the Services and Industry Promotion Department, dealing with investment issues. Previously, she served in the Brazilian Mission to the WTO, where she was in charge of dispute settlement. She has a Bachelor's degree in law from the Catholic University of São Paulo, a Master Degree in Political Science from Sciences Po - Paris and a Master Degree in International Dispute Settlement from the Graduate Institute - Geneva.

Zoryana Olekseyuk

Zoryana Olekseyuk is a Senior Researcher at DIE. Her work focuses on economic integration/disintegration, trade, FDI, and investment facilitation, mainly with respect to developing and emerging economies. Being an experienced computable general equilibrium (CGE) modeler, she developed many innovative CGE models, e.g., incorporating data from heterogeneous firms and FDI in services. She has contributed to many international research projects and acts as a consultant for the World Bank. Her research is published in such journals as World Economy, Empirica, Review of Development Economics, Economic Modeling, and the Journal of International Trade and Economic Development.

Karl P. Sauvant

Karl P. Sauvant introduced the idea of an International Support Program for Sustainable Investment Facilitation in the E15 Task Force on Investment Policy in 2015. From there, the proposal was taken forward in the WTO. He has written extensively on this subject (see <https://ssrn.com/author=2461782>), participated in various events relating to it and currently assists the ITC and DIE on a project on Investment Facilitation for Development. He retired in 2005 as Director of UNCTAD's Investment Division and established, in 2006, what is now the Columbia Center on Sustainable Investment (CCSI). He stepped down as the Center's Executive Director in 2012, to focus his work, as a CCSI Resident Senior Fellow, on teaching, research and writing.