Recommendation of the Council on Foreign Direct Investment Qualities for Sustainable Development

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Background Information

The Recommendation on Foreign Direct Investment Qualities for Sustainable Development was adopted by the OECD Council at Ministerial Level on 10 June 2022 on the proposal of the Investment Committee (IC). The Recommendation aims to support governments in maximising foreign direct investment's (FDI) contribution to sustainable development.

The OECD's work on FDI Qualities for Sustainable Development and rationale for the Recommendation

Achieving the Sustainable Development Goals (SDGs) and fulfilling the Paris Agreement climate change commitments requires substantial financing. Together with public and other private investments, FDI is an important source of finance for inclusive and sustainable development for OECD Members and non-OECD Members. Beyond the quantity of FDI, the qualities of FDI also matter. FDI facilitates progress toward the SDGs by increasing innovation, creating quality jobs, developing human capital, promoting gender equality and advancing decarbonisation. Yet the benefits of FDI do not always materialise, and impacts can differ across countries and regions and across areas of sustainable development. To realise the potential benefits from investment, policies and institutional arrangements play a critical role.

The FDI Qualities Policy Toolkit ("the Toolkit"), developed by the IC and launched in June 2022, aims to support governments in enhancing the impacts of FDI on sustainable development in the areas of productivity and innovation, job quality and skills, gender equality, and decarbonisation. It complements the OECD Policy Framework for Investment, providing broad policy directions for increasing the impact of FDI on sustainable development. The Recommendation embodies key high-level, action-oriented policy principles from the Toolkit, with a view to elevating these principles, drawing out the red thread that ties them together, and setting out a framework for implementation of the principles, use of the Toolkit, and for further developing the IC's work on FDI Qualities.

A comprehensive and consultative development process

The Toolkit, from which the substance of the Recommendation was drawn, was developed with extensive consultation with OECD Member countries, international organisations, and a wide range of relevant stakeholders.

Further to this, in developing the Recommendation the IC also consulted with the following OECD bodies: Committee on SMEs and Entrepreneurship; Committee on Financial Markets; Committee on Fiscal Affairs; Development Assistance Committee; Development Centre Governing Board; Public Governance Committee; Regulatory Policy Committee; Trade Committee and its Working Party on Export Credits and Credit Guarantees; and Working Party on Responsible Business Conduct. The IC also consulted BIAC, TUAC, and OECD Watch on the Recommendation.

Scope of the Recommendation

The Recommendation is structured around the following key high-level policy principles/directions:

- *Governance*: Provide coherent strategic direction on fostering investment in support of sustainable development, and foster policy continuity and effective implementation of such policies.
- *Domestic policy and legal frameworks*: Take steps to ensure that domestic policy and legal frameworks support positive impacts of investment on sustainable development.
- *Financial and technical support*: Prioritise sustainable development objectives when providing financial and technical support to stimulate investment.

- *Information and facilitation services*: Facilitate investment for sustainable development opportunities by addressing information failures and administrative barriers.
- *Development co-operation*: Strengthen the role of development co-operation for mobilising FDI and enhancing its positive impact in developing countries.

The Toolkit follows the same structure and provides detailed guidance for governments on enhancing the impacts of FDI in four areas of the SDGs, including productivity and innovation; job quality and skills; gender equality; and decarbonisation.

Next steps

Going forward, the Recommendation provides direction on the further development the FDI Qualities work. In this regard, the IC will serve as a forum for exchanging information on policies and experience with respect to the implementation of this Recommendation and for fostering dialogue with and among stakeholders, promote the use of the Toolkit for country and regional reviews, review and update the Toolkit over time, and continue monitoring the impacts of FDI by regularly updating the Indicators and possibly expanding them to other SDG areas.

The IC, in consultation with other relevant bodies, will report to the Council on the implementation of the Recommendation, its dissemination, and continued relevance in 2027.

For further information please consult: https://www.oecd.org/investment/sustainable-investment.

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THE COUNCIL,

HAVING REGARD to Article 5 b) of the Convention on the Organisation for Economic Co-operation and Development of 14 December 1960;

HAVING REGARD to the Declaration on International Investment and Multinational Enterprises [OECD/LEGAL/0144], including the Guidelines for Multinational Enterprises, which aims to achieve an open and transparent environment for international investment and promote responsible business conduct, and the Policy Framework for Investment (hereafter, the "PFI") [C/MIN(2015)5], which outlines a comprehensive and systematic approach for improving investment conditions;

HAVING REGARD to other standards developed by the OECD in the area of international investment, in particular relating to responsible business conduct and due diligence including for institutional investors, anti-corruption, corporate governance, sustainable finance and investing, quality and sustainable infrastructure, as well as in the areas of inclusive growth and sustainable development;

HAVING REGARD to the 2030 Agenda for Sustainable Development of September 2015 [A/RES/70/1], the 2015 Addis Ababa Action Agenda, the 1992 United Nations Framework Convention on Climate Change and the 2015 Paris Agreement on Climate Change (hereafter, the "Paris Agreement"), and the International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work;

RECOGNISING the need to accelerate investments for achieving the Sustainable Development Goals (SDGs) and fulfilling the commitments made in the Addis Ababa Action Agenda and the Paris Agreement;

RECOGNISING that private investment, including foreign direct investment (FDI), is a key source of finance for inclusive and sustainable development and that, beyond the quantity of FDI, the qualities of FDI also matter and efforts to attract and facilitate FDI should therefore focus on the impact of investment on sustainable development;

RECOGNISING the importance of responsible business conduct for international investment and sustainable development and the role of responsible business conduct standards in creating a level playing field across global markets;

RECOGNISING that sustainable development relates to all of the SDGs and the Paris Agreement, including productivity and innovation, job quality and skills, gender equality, and decarbonisation; and sustainable investment relates to any domestic and foreign investment that supports sustainable development;

RECOGNISING that the PFI updated in 2015 has been used extensively on a demand-driven basis to assist in improving investment climates and enhance the benefits of private investment to society and sustainable development;

HAVING REGARD to the FDI Qualities Policy Toolkit [C/MIN(2022)15/ADD1] that was developed by the Investment Committee - and may be modified as appropriate by it – to complement the PFI and support Members and non-Members having adhered to this Recommendation (hereafter, "Adherents") in implementing this Recommendation by providing detailed and tailored policy guidance and good practices for maximising FDI's contribution to sustainable development.

On the proposal of the Investment Committee:

I. RECOMMENDS that Adherents **provide coherent strategic direction on fostering investment in support of sustainable development, and foster policy continuity and effective implementation of such policies.** To this effect, Adherents should:

1. Promote investment-related strategies and plans, where they exist, that are coherent with sustainable development objectives.

2. Coordinate across ministries and different levels of government to support effective policy implementation and continuity of policy priorities in the area of sustainable investment.

3. Use stakeholder consultations and inclusive decision-making processes involving the private sector, trade unions, and civil society to build consensus on policy reforms on investment and sustainable development.

4. Seek to assess the impact of major investment projects in their country on sustainable development and of related policies to identify bottlenecks in policy implementation.

II. RECOMMENDS that Adherents **take steps to ensure that domestic policy, legal, and regulatory frameworks support positive impacts of investment on sustainable development**. To this effect, Adherents should:

1. Foster an investment climate based on open, transparent and non-discriminatory investment policies, the rule of law and integrity, the prevention of corruption, the promotion of responsible business conduct, and quality regulation, in line with relevant provisions of the PFI.

2. Align domestic legal and policy frameworks – including in areas of productivity and innovation, job quality and skills, gender equality, and decarbonisation – with sustainable investment objectives.

3. Align international investment and trade agreements with sustainable investment objectives, including by ensuring appropriate domestic policy space and social dialogue to achieve these objectives.

III. RECOMMENDS that Adherents **prioritise sustainable development objectives when providing financial and technical support to stimulate investment**. To this end, Adherents should:

1. Consider whether and to what extent financial and technical support can address market failures hampering sustainable development and thereby help attract sustainable investment and improve the capabilities of firms, job quality and skills of workers.

2. Take steps to ensure that financial and technical support is transparent and subject to regular reviews.

IV. RECOMMENDS that Adherents **facilitate and promote investment for sustainable development opportunities by addressing information failures and administrative barriers**. To this effect, Adherents should:

1. Raise public and stakeholder awareness on impacts of investment on sustainable development.

2. Improve the link between investment promotion and sustainable development objectives, where relevant, including in the areas of quality infrastructure, research, innovation and skills development, and regional development.

3. Improve the link between investment facilitation activities and sustainable development objectives, including by taking measures to make procedures for obtaining authorisations and permits transparent and ensure that they are efficiently managed, and by enhancing business linkages between foreign investors and domestic firms.

4. Promote responsible business conduct and due diligence in operations, supply chains, and other business relationships – in areas such as corporate governance, consumers, labour standards, the environment, human rights, gender equality and the prevention of corruption – including by taking steps to support enterprises to demonstrate their compliance with international standards on sustainable development.

5. In support of sustainable finance and investing, promote the importance of considering comparable sustainability-related factors in FDI decisions and monitoring.

V. RECOMMENDS that Adherents **strengthen the role of development cooperation for mobilising FDI and enhancing its positive impact in developing countries**. To this effect, Adherents should promote and foster co-operation across and between the broader donor community and partner countries to:

1. Identify ways that financial and technical assistance, such as blended finance, can support the implementation of the above four recommendations to enhance the impact of FDI on sustainable development.

2. Promote alignment of donors' assistance with national priorities related to sustainable investment in accordance with relevant international standards, including through the mapping of such assistance, and the identification of potential support gaps or opportunities to replicate or scale-up existing assistance.

3. Increase engagement with the private sector, trade unions and civil society, and promote effective multi-stakeholder partnerships aimed at enhancing the impacts of investment on sustainable development, including increased opportunities for women and youth in particular in relation to equal treatment and skills.

VI. ENCOURAGES Adherents and non-Adherents to use the FDI Qualities Policy Toolkit.

VII. INVITES the Secretary-General to disseminate this Recommendation.

VIII. INVITES Adherents to disseminate this Recommendation at all levels of government.

IX. INVITES non-Adherents to take due account of and adhere to this Recommendation.

X. INSTRUCTS the Investment Committee, in consultation with other relevant committees, to:

a) Serve as a forum for exchanging information on policies and experience with respect to the implementation of this Recommendation and for fostering dialogue with and among stakeholders;

b) Promote, discuss, and provide input to country-specific and regional Investment Policy Reviews and stand-alone FDI Qualities Reviews, including by using the FDI Qualities Policy Toolkit, with a view to supporting the implementation of this Recommendation;

c) Review and update the FDI Qualities Policy Toolkit over time – in consultation with other international organisations and stakeholders – to ensure it remains relevant, possibly expand it to other areas of sustainable development, and further develop the work on FDI Qualities as appropriate;

d) Continue monitoring the impacts of FDI by regularly updating the FDI Qualities Indicators and possibly expanding them to other areas of sustainable development; and

e) Report to the Council on the implementation, dissemination, and continued relevance of this Recommendation no later than five years following its adoption and at least every ten years thereafter.

About the OECD

The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

The OECD Member countries are: Australia, Austria, Belgium, Canada, Chile, Colombia, Costa Rica, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Türkiye, the United Kingdom and the United States. The European Union takes part in the work of the OECD.

OECD Legal Instruments

Since the creation of the OECD in 1961, around 460 substantive legal instruments have been developed within its framework. These include OECD Acts (i.e. the Decisions and Recommendations adopted by the OECD Council in accordance with the OECD Convention) and other legal instruments developed within the OECD framework (e.g. Declarations, international agreements).

All substantive OECD legal instruments, whether in force or abrogated, are listed in the online Compendium of OECD Legal Instruments. They are presented in five categories:

- **Decisions** are adopted by Council and are legally binding on all Members except those which abstain at the time of adoption. They set out specific rights and obligations and may contain monitoring mechanisms.

- **Recommendations** are adopted by Council and are not legally binding. They represent a political commitment to the principles they contain and entail an expectation that Adherents will do their best to implement them.

- **Substantive Outcome Documents** are adopted by the individual listed Adherents rather than by an OECD body, as the outcome of a ministerial, high-level or other meeting within the framework of the Organisation. They usually set general principles or long-term goals and have a solemn character.

- **International Agreements** are negotiated and concluded within the framework of the Organisation. They are legally binding on the Parties.

- **Arrangement, Understanding and Others**: several other types of substantive legal instruments have been developed within the OECD framework over time, such as the Arrangement on Officially Supported Export Credits, the International Understanding on Maritime Transport Principles and the Development Assistance Committee (DAC) Recommendations.