INVESTMENT MONITOR

SDG focus: FDI's role in breaking down inequalities

The UN's tenth sustainable development goal, to reduce inequality within and among countries, has been badly affected by Covid-19, but FDI has a role to play in getting it back on track.

By Sofia Karadima 25 Jun 2021

The poverty and inequality that is rife in Puerto Rico provides an opportunity for US investors to help achieve the aims of SDG10. (Photo by Ricardo Arduengo/AFP via Getty Images)

The outbreak of Covid-19 has set back efforts to reduce inequality across the world. The pandemic has not only highlighted inequalities within countries and when comparing them, it has also widened these equalities, leading to concerns that the tenth UN Sustainable Development Goal (SDG10) – to reduce inequality within and among countries – will not be achieved by its 2030 target.

According to the UN's website: "Covid-19 has deepened existing inequalities, hitting the poorest and most vulnerable communities the hardest. It has put a spotlight on economic inequalities and fragile social safety nets that leave vulnerable communities to bear the brunt of the crisis. At the same time, social, political and economic inequalities have amplified the impacts of the pandemic. On the economic front, the Covid-19 pandemic has significantly increased global unemployment and dramatically slashed workers' incomes."

If the SDG10 targets are to be hit, multinational corporations and the public sector will have to focus on addressing inequality across several areas, such as income growth, age, gender, disabilities, and ethnic and socio-economic background. They will also have to promote inclusion, ensure well-planned migration policies, end discrimination, and encourage development assistance and investment in the least-developed countries.

Analysis by *Investment Monitor* shows that both the least-developed and developing countries have a long way to go in terms of reducing inequalities. In fact, the Equality Risk Index 2021 reveals that Africa is the region facing the highest risks based on national income per capita, political rights, official development assistance and aid.

Searching for opportunities in Africa

Africa received comparatively low foreign direct investment (FDI) inflows in 2019 and 2020, according to data from the UN Conference on Trade and Development (UNCTAD).

Its World Investment Report 2021 shows that although FDI in Africa is expected to increase by 5% in 2021, it will remain 15% below the 2019 level. The report states that "although commodity prices have largely recovered following a drop in 2020, projected growth in the region is muted. Fiscal and monetary buffers are limited in most countries, and vaccines are in short supply. Over the medium term, the region's high potential and investment needs will accelerate FDI inflows, especially if the investment climate continues to improve".

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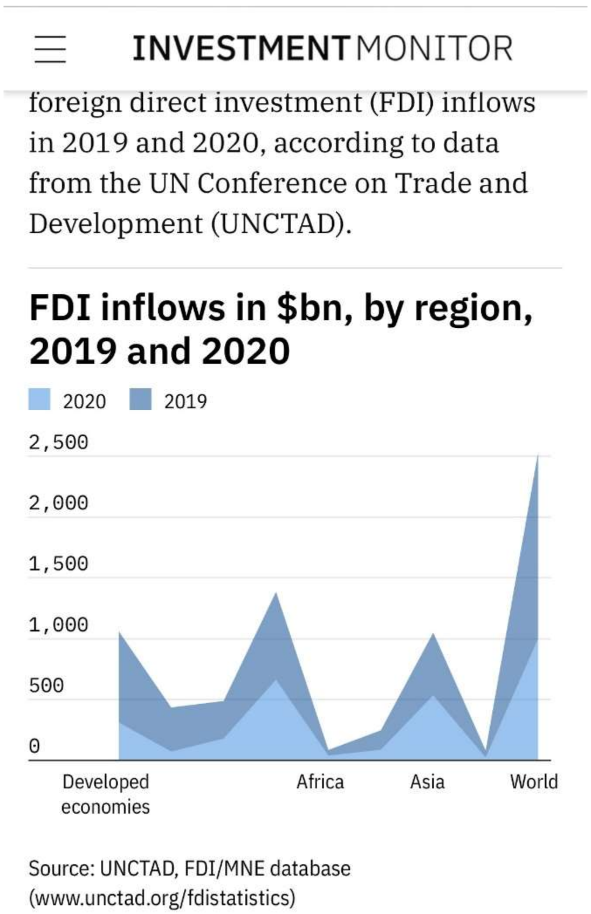
Accelerating FDI inflows in Africa is key to improving the economic growth of local economies, employment rates and the transfer of technology. On top of that, the expected increase in FDI inflows highlights that investors have the region on their radars, particularly when it comes to opportunities in sectors related to infrastructure and finance.

John Boyd, principal at location consultancy Boyd Company, expects to see the international banking community become a major force when it comes to increasing FDI flows into Africa. "Our banking clients, such as JP Morgan Chase and BNP Paribas, among others, have major operations in Africa along with Citibank, Morgan Stanley, Deutsche Bank and Goldman Sachs," he says. "All of these financial powerhouses have strong social impact agendas and view reducing income inequality as a key element of their business plans to expand their services to a broader and more diverse consumer base around the globe."

He adds that there is a big opportunity for broadband infrastructure investments, an area supported by major banks as a fundamental right as well as being a catalyst for job and wealth creation in Africa. Boyd says that Africa currently has more than 120 million mobile money accounts, which creates huge opportunities for data sharing, gaming, video streaming and other mobile app development.

On top of this, Boyd adds: “We are seeing increasing requests for our data from major corporations planning cost-effective manufacturing and distribution operations in Africa – especially companies in logistics, food and beverage processing, and consumer electronics.”



Can the European Green Deal help on inequality?

Rafal Fabianowicz, research fellow at the European Democracy Lab, says that Covid-19 has impacted SDG10 by bringing the “just transition” to a hold.

> ***The European Green Deal aims to [make Europe] the first climate-neutral continent by 2050.*** **Rafal Fabianowicz, European Democracy Lab**

“Just transition, a main pillar of the European Green Deal, shares the same goal as SDG10: leaving no one behind," he says. "The European Green Deal aims to [make Europe] the first climate-neutral continent by 2050. Central and eastern European countries, which heavily rely on fossil fuels, [lag behind] more developed countries in western Europe. Following public discussions, we recognise a growing worry about the rising social and economic gap between western Europe and eastern Europe, which [is reminiscent of] the early 1990s.”

Fabianowicz explains that the European Green Deal will help to fulfil the targets of the SDGs; however, he admits that there is a the risk that some people will still be left behind, despite the deal's good intentions. It is here where FDI has a key role to play in helping countries that are struggling to be climate neutral by 2030, and thus meet the targets of SDG10.

The shift towards green energy and renewables presents a challenge for countries whose economies depend heavily on fossil fuels, both in Europe and across the rest of the world. These countries face having to go through a transition period and change the type of investments they would typically attract, towards those that are more environmentally friendly such as renewable energy.

The UNCTAD report states: “Greenfield announcements in energy generation and distribution decreased by 13% to $99bn [in 2020], as foreign investors continued to invest more in renewable energy power projects than in projects based on fossil fuels. Projects in renewable energy, which hit a record high in terms of both value and number in 2019, were not immune from the global economic shock but showed resilience. Greenfield investment in renewables declined by only 5% in value, to $88bn, across 507 projects. All but one of the ten highest-value energy projects announced by foreign investors in 2020 were in the renewable energy industry.”

How FDI can make an impact upon SDG10

As investors search for lower-cost countries in which to launch or relocate operations, this presents an opportunity for FDI to play a big role in meeting the targets of SDG10. The investments allow destination countries to grow and diversify their economies, while benefitting from the know-how of the investing company, while the company itself can gain an advantage from working in a environment that can offer different skills, tax regimes, and opportunities to meet environmental, social and governance targets.

Puerto Rico’s high poverty rate... provides a huge platform for companies to make a difference in SDG10 and help reduce income inequality. **John Boyd**

Boyd says that because of the new federal tax increases and business regulations in the US, low-cost and low-tax nations within easy reach of the country, especially Mexico, Colombia, Costa Rica, Panama and Trinidad and Tobago, will be presented with a number of opportunities to move further towards meeting SDG10 targets.

“We also see Puerto Rico as poised to attract a number of FDI projects in the life sciences sector given its recent infrastructure upgrades, favourable tax climate, low business costs and proximity to the US, which allows for efficient cold storage transport," adds Boyd. "Puerto Rico’s high poverty rate, along with goodwill from its influential trading partner in the US – namely the state of Florida – provides a huge platform for companies to make a difference in SDG10 and help reduce income inequality.”

Reducing inequality is easier said than done, especially in a post-Covid world. However, FDI can make a difference, as well as helping countries to diversify their economies by attracting new type of investments, experience sustainable economic growth, and enjoy equitable development.