INVESTMENT MONITOR

SDG focus: Putting FDI to work for jobs and the economy

SDG8 is based around sustainable economic growth and decent work for all. Covid-19 has set back progress on these targets, but FDI can assist in getting them back on track.

By Sofia Karadima 20 Apr 2021

FDI has helped to provide 'decent work' in developing countries, but Covid-19 has caused many investors to be less focused on ESG criteria. (Photo by Zoom Dosso/AFP via Getty Images)

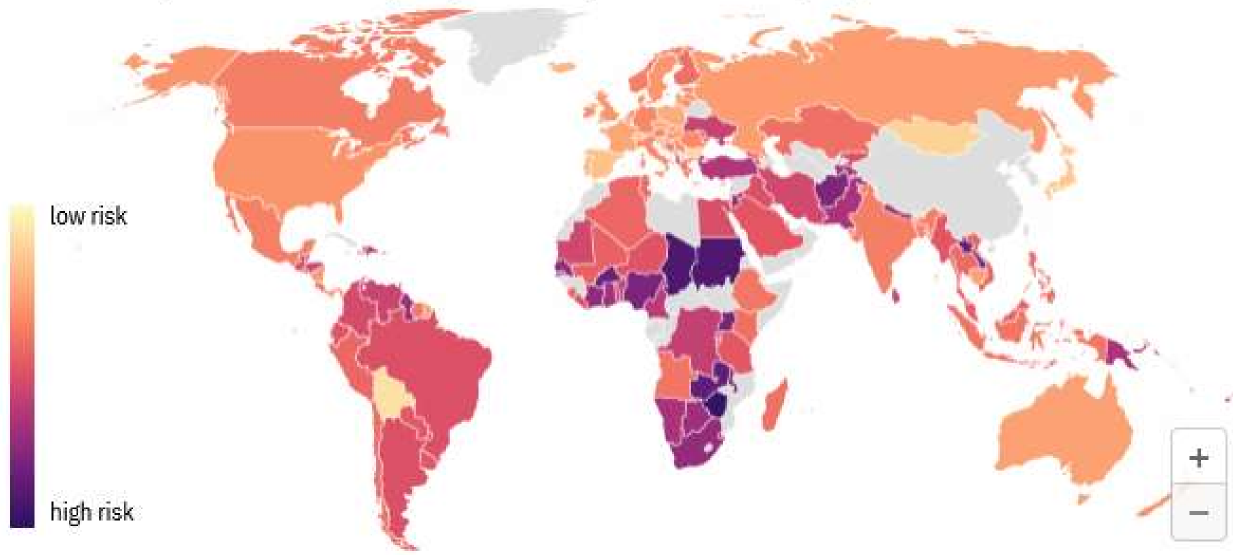
The outbreak of Covid-19 has triggered the biggest global economic slump since the Great Depression of the 1930s, causing economic shutdowns, widespread uncertainty, mass sicknesses and deaths, declines in corporate profits and disruptions to supply chains. This has led to major setbacks in efforts to promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all, which is the UN's eighth Sustainable Development Goal (SDG).

'Decent work' is considered to be the type of employment that is productive, pays a fair wage, is safe, provides social benefits for families, and better prospects for personal growth and socialisation, according to John Boyd, principal at location consultancy Boyd Company.

The Covid-19 pandemic has brought with it increases in unemployment and poverty in many countries, making achieving a goal based around securing decent work and economic growth all the more challenging. The World Bank forecasts that the pandemic could place as many as 150 million extra people in extreme poverty by the end of 2021. On top of that, the rise in unemployment has widened the gender gap. A study from consultancy McKinsey & Company has found that women's jobs are 1.8 times more vulnerable amid the crisis than those held by men.

Employment risk index 2021

Scores based on GDP per capita, real GDP growth, number of bank branches per 100,000 people and youth unemployment



Source: Investment Monitor based on UN Stat and World Bank INVESTMENT MONITOR

An analysis by *Investment Monitor* shows that developing countries are facing a higher employment risk compared with their developed peers. The Employment Risk Index 2021 reveals that Africa is the most at-risk region based on GDP per capita, real GDP growth, number of bank branches per 100,000 people and youth unemployment.

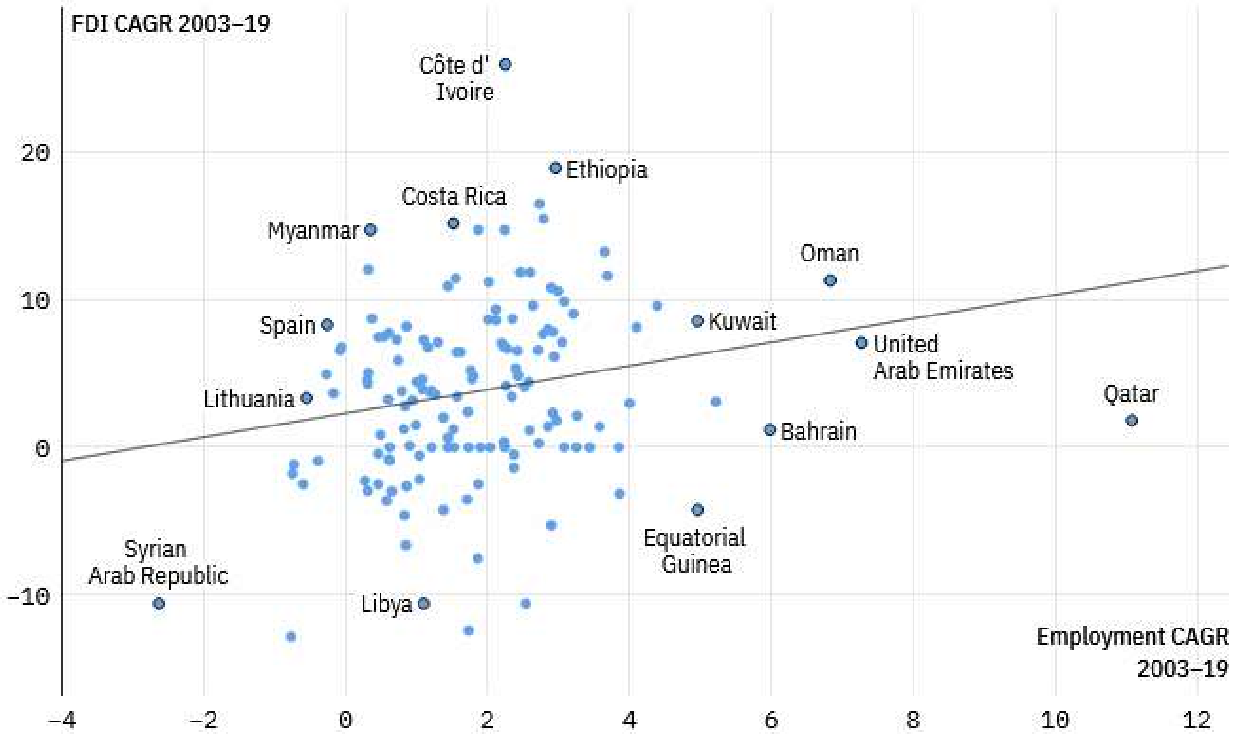
Can FDI ensure decent work and economic growth?

Foreign direct investment (FDI) can provide opportunities, and be used as a tool, for developing countries to achieve the SDG8 targets by the 2030 deadline. This comes through technology spillovers, the transfer of expertise, improvements in competitive business environments, and the creation of new jobs that often occur when a company invests in a developing country. This brings with it increases in employment and economic growth.

Indeed, analysis from *Investment Monitor* shows that countries that score well in employment rates tend to also receive a higher number of FDI projects.

Growth in FDI and employment

Compound average growth rate in number of people employed versus FDI projects, 2003–19



Hover over dots to see which countries are represented

Source: Investment Monitor based on Unctad/FT and GlobalData

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However, for this rise in employment and FDI to be sustainable, and to ensure the decent work and economic growth needed to meet SDG8 targets, it is key that investors promote corporate responsibility best practices in the host countries and maintain the same standards as they have in their domestic markets.

Ben Banerjee, president at the Swiss Impact Investment Association, says that there are several investment opportunities that can promote the achievement of SDG8. He recommends investments in agriculture and climate action, which are related to technology and services. These include investments that promote or support sustainable agriculture, local agriculture, new sources of plant-based protein, carbon absorption, renewable energy and more efficient supply chains.

Boyd agrees that there are huge opportunities for FDI to play a role in improving sustainable, inclusive and productive employment in all parts of the world. He identifies sectors such as electric vehicle production, composites for lightweight cars and aircraft, renewable energy (geothermal, hydropower and wind power), modular housing manufacturing and the emerging green 3D print manufacturing industry as particularly timely examples of such opportunities.

Has Covid-19 set back progress in economic sustainability?

"Prior to the Covid-19 pandemic, investors were actively engaging in conversations about promoting sustainability, embracing environmental, social and governance [ESG] criteria, but [they were] also coming up with a common language when it came to approaching responsible investing. However, this is not the case anymore," says Mounir Sada, founder of Eqwals.com, a start-up that focuses on leveraging data for societal change.

Sada adds that the negative impact of Covid-19 on the global economy and the business sector has caused a number of investors to solely focus on how to guarantee the continuity of their business by putting their efforts into generating profits, and as a result there is less focus on responsible investing and sustainable development.

Any such overlooking of responsible investing and sustainable development will make the SDG targets around decent work and economic growth all the harder to reach by 2030.

Boyd points to examples such as Amazon's treatment of warehouse workers in Birmingham, Alabama, where staff have complained about mandatory overtime, physically gruelling work, unreasonable deadlines and a lack of work-life balance, and have attempted to form a union as a result. "Make no mistake, this project, in the very place where the US's civil rights movement was born 60 years ago, will have dramatic implications throughout the global corporate community due to Amazon's wide reach and high profile," he says.

Boyd adds that the PRO ACT – a progressive piece of legislation currently being debated in the US Congress – will not only increase the federal minimum wage, but also outlaw anti-union right-to-work laws. It is, he says, perhaps the most sweeping US legislative reform in line with SDG8.

The introduction of legislation that is in line with the SDG8 targets can very much enhance how attractive a destination is to a foreign investor. This is particularly pertinent in the case of impact investors, who are rising in numbers and looking to generate higher profits while delivering societal impact. Such investors are much more likely to favour countries that promote reforms in line with SDG8. On the flip side of this, countries that do not work towards these targets are more likely to fall prey to investors whose ESG standards are less convincing. FDI can help with promoting sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all, but the destination country has to play its part too.

This is the eighth in Investment Monitor's *SDG Focus series.*