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Perspectives on topical foreign direct investment issues

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Developing country and industry materiality assessments to increase sustainable FDI

by

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This *Perspective* suggests the creation of country and industry materiality assessments to promote sustainable FDI through an environmental, social and governance (ESG) lens. National-level ESG indicators that correspond to industry specific materiality assessment framework indicators are bound to increase sustainable FDI. "Materiality" is a principle that corporate and sustainability leaders use to prioritize their ESG topics. "Materiality assessments" are formal exercises aimed at engaging stakeholders to address pertinent ESG issues.. MNEs are more likely to engage in sustainable FDI if their own ESG priorities are aligned with a host country's ESG focus.

Host countries benefit from developing, refining and sharing the ESG topics they determine are critical for them by, for example, creating specific industry incentives that assist in the countries' national ESG growth strategies. By creating a common and shared ESG language, materiality assessments help countries focus on their ESG issues that matter most to them and provide a stronger foundation for analyzing investment risks and opportunities. For example, a country might have prioritized such ESG issues as water conservation, gender equity, cyber security, or conflict minerals. These issues, and any opportunities to improve upon them, can have strong long-term FDI consequences. Countries that focus on increasing their FDI inflows through a sustainability approach can benefit from adopting a materiality assessment approach to attract new sustainable FDI into their respective economies.

Host countries can create materiality assessments in the following ways:

- *Coordination across departments*. Investment promotion agencies (IPAs) should set up their own task force to develop a policy, process and assessment approach regarding materiality assessments, coordinating across governmental departments. The intention is to define key ESG topics that are relevant to sustainable development, identify and analyze current and potential investment risks and opportunities and then determining how to promote FDI at a national and/or industry level. The OECD FDI Qualities indicators and the UN SDGs, for example, can be used to define and measure FDI-specific sustainable development impacts in host countries.

- *Determine stakeholders.* The IPA task force should be responsible for identifying and selecting key stakeholders. In addition to coordinating across governmental departments, it should also bring together other organizations that have a sustainable development agenda. These include the private sector, NGOs, trade unions, and other members of civil society. Stakeholder partnerships, as referenced in SDG17, are important for diversity, equity and inclusivity purposes.

- *Materiality assessment setup process.* Although there are many guidance documents aimed at supporting organizations undertaking a materiality assessment process, many highlight that materiality is company-specific. This is also true for each host country conducting its own materiality process. There are likely to be varying degrees of focus on prioritization, audience, framing, boundaries, scope, and characteristics of materiality. These differences extend to the methodologies to collect, score, measure, analyze, and validate data on materiality. Several industries have aligned their sustainability standards of materiality and disclosure with those developed by the International Sustainability Standards Board and the Global Reporting Initiative. The materiality assessment process requires discussion and consensus and must ensure that the information disclosed is specific and concise for the intended MNE audiences.

- *Analysis of insights.* Stakeholders should review results collectively, based on the IPA task force agreed scoring, ratings, rankings, and indicators. To do so, the IPA task force must aggregate the data in a way that helps stakeholders understand, visualize and discuss commonalities. Key country and industry ESG topics can include human rights, social conditions, climate change, energy, and water. Once these ESG issues have been scored and rated, they can be understood through a series of matrix graphs illustrating key ESG trends and priorities. For example, the graph's X axis could represent "Country specific economic, environmental and social impacts" and the Y axis "Importance to stakeholders".

MNEs rely significantly on the health of host countries' ESG indicators and policies, and the systems around them. Changes or disruptions, from disease outbreaks, climate change, biodiversity loss, to human/child labor violations, can deeply affect the short-to-medium-term economic and social performance of a host country and consequentially affect long-term FDI from MNEs.

Country and industry specific materiality assessments provide accurate insights into ESG priorities, helping to guide both host countries' FDI policy and targeted investments from MNEs whose ESG priorities align. The outcome of these assessments can also lead to the development of new national ESG projects that further attract FDI. Consensus with multi-stakeholder partnerships (across government, the private sector, NGOs, trade unions, other members of civil society) on ESG priorities creates a stronger and more enabling environment for MNEs.

Ultimately, an alignment between country led ESG indicators and industry materiality assessments topics that coincide with MNEs' specific ESG-related indicators drive impactful, sustainable FDI.

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