

Facilitating “Sustainable Investments” and the Linkages with Local Enterprise Development in China

by

**Philippe Bergeron
Director**

**Regional Institute of
Environmental Technology**

Sources of Development Finance in Developing Countries and LDCs



- ➔ **Official Development Assistance (ODA) annually:**
in DC US \$ 50 Billion / in LDC 12 Billion
- ➔ **Foreign Direct Investments (FDI) annually :**
in DC US \$ 200 Billion / in LDC 5 Billion
- ➔ **Net export earning (Trade) annually :**
in DC US \$ 1,500 Billion / in LDC 25 Billion

J. Cuddy Executive Secretary of recent UN Conference on LDCs

The limitation of Trade



Non trade impacts of multilateral trade policy are increasingly controversial and possibly incompatible with key universal “sustainability” principles. Examples:

- ✎ free trade adds pressure on the natural resources of weakly regulated DCs**
- ✎ PPMs rules are incompatible with global environmental issues**
- ✎ Trade liberalisation may be incompatible with the proximity and precautionary principles**

The Advantages of Investment



- **heartbeat of economic development**
- **enabling capacity building**
- **productivity advance and technology transfer**
- **employment generation**
- **fixed capital formation**
- **access to technology, expertise and markets**
- **enhancing socio-economic welfare**

**Countries with open investment regimes
tend to have higher rate of growth
and more rapidly decreasing poverty**

The main Types of Investments



- ⇒ **Local public and private investment (infrastructure, domestic industry and services)**
- ⇒ **Foreign direct investment (FDI) (export or domestic oriented in extracting, manufacturing or service industry)**
- ⇒ **Acquisition of participation in local companies**
- ⇒ **Portfolio investment in stock markets**

FDI tend to be a more stable source of finance for development compared to other forms of international capital flow

The Need for “Sustainable Investments (S.I.)”



- Meeting “essential” needs of people
- satisfying the triple bottom line
 - economic profitability
 - environmental sustainability
 - social equity
- sustaining socio-economic progress and alleviating poverty
- avoiding the tragedy of the commons
- reducing waste, inefficiency and risk

Defining S.I.



- ❑ **essentially a perpetually evolving multi-stakeholder process**
- ❑ **moving characteristics that depends on level of economic development, socio-cultural values and “sustainability” risks perceived by stakeholders**
- ❑ **preferably based on full risk assessment and monitoring integrating environmental, social and local community aspects and impacts**
- ❑ **need to engage stakeholders who share benefits and losses from investments**

The S.I. Market Sectors



Meeting “essential” Needs

- ➡ **healthy food**
- ➡ **clean water**
- ➡ **clean air**
- ➡ **bio-diversity**
- ➡ **mobility**
- ➡ **clean energy**
- ➡ **health care**
- ➡ **built environment**
- ➡ **closed-loop industry**
- ➡ **learning**
- ➡ **leisure**
- ➡ **communication**
- ➡ **etc.**

The Value of S.I.



Financial Domain

- **Good prospects of high future profitability**
- **excellent financial performance of S.I. funds**
- **rapid global growth of S.I. funds under management**

Market Domain

- **enhanced reputation and brand name with suppliers, consumers, clients and competitors**

Public Domain

- **improved licence to operate and attractiveness by local community, NGOs, media, pressure groups, employees, authorities etc.**

The Financing of S.I.



Private retail investors

- ♦ **caring professions**
- ♦ **long term investors**
- ♦ **professions with public scrutiny**
- ♦ **women**
- ♦ **family value people**
- ♦ **retirees**

and institutional investors

- ♦ **insurances**
- ♦ **pension funds**
- ♦ **SRI, ethical and green funds**
- ♦ **churches and charities**
- ♦ **foundations**
- ♦ **universities**
- ♦ **NGOs**
- ♦ **etc.**

Institutional investors under growing regulatory pressure to publicly document the “sustainability” compatibility of their investment policies

The Stake-Holders of S.I.



- **1) Public authorities, governmental development agencies, public investment and productivity boards, local government etc.**
- **2) Finance and investors, banks, funds and fund managers, export credit agencies etc.**
- **3) Industry, business, companies and contractors in manufacturing , production or services**
- **4) Civil society, NGOs, trade unions and elected civil representatives**
- **5) Research, academia in S&T, innovation centres, rating agencies etc.**

The Facilitation of S.I. - The Asia e³ INVEST Network



A new tool for government, business, research and civil society to foster dialogue and track knowledge about “sustainable Investments” (S.I.) in China

INVEST = International Network for Vibrant and Empowering Sustainable Transformation

e³ = Economically profitable
Ecologically sustainable
socially Equitable

Possible Asia e³ INVEST Activities



- ➔ **Forum for information and project exchange**
- ➔ **Think tank for S.I. criteria, risk assessment and innovative facilitating mechanisms**
- ➔ **Observatory of investments in China and Asia**
- ➔ **Training facility for S.I. development, management and governance best practices**
- ➔ **Support scheme for sectoral triple bottom line benchmarking**
- ➔ **Publisher of S.I. guide books and newsletters**

The Opportunity of an Asia e³ INVEST Network (1)



- **Leap-frogging economic development through more efficient domestic and foreign direct investments**
- **Tackling poverty and its related social sustainability issues**
- **Redressing past triple bottom line imbalance (economic profitability, environmental sustainability and social equity)**
- **Promoting multi-stakeholders dialogue and “border-crossing” knowledge exchange that are key to innovative “sustainability” solutions**

The Opportunity of an Asia e³ INVEST Network (2)



- **Mobilizing government, business, academia and civil society at the highest level of economic development policy**
- **Attracting intellectual leadership on key issues of economic development (innovation, productivity, entrepreneurship, risk, finance, governance, social responsibility, etc.)**
- **Nurturing intra-regional networking and strategic links toward sustainable trade and investment within China and with the rest of the world**
- **Enlisting international support from advanced countries to understand and manage diversity and complexity in a global knowledge economy**

The Value of an Asia e³ INVEST Network (1)



- ④ **Credible information that investors can interpret on the “sustainability” aspects of investments in China and Asia**
- ④ **better understanding of FDI risks, financial return and sustainability links**
- ④ **exploring new financing mechanisms for investment in China and the rest of Asia**
- ④ **networking of professionals on the supply and demand sides of S.I.**

The Value of an Asia e³ INVEST Network (2)



- ④ **Asian /Chinese S.I. promotion in the region and across the world**
- ④ **Sectoral triple bottom line benchmarking**
- ④ **Value adding “sustainability” branding for companies and corporations**
- ④ **Higher returns and lower risks for investors**
- ④ **Source of intellectual leadership for academics**
- ④ **Addressing the “economic development value” deficit of advocating NGOs**

The Links between Industrial Development and Private Sector



- ➔ **The resources link : technology, finance and management skills are most often in private hands**
- ➔ **the efficiency link : efficiency call for competition only possible with multiple private operators**
- ➔ **the entrepreneurial link : entrepreneurship means risk taking incompatible with governmental precautionary attitude**
- ➔ **the innovation link : innovation needs to reach beyond established customs and rules which define and limit governmental action**
- ➔ **the employment link : only private entrepreneurship can generate job opportunities which pay by themselves**

Industrial Development Objectives promoted by an Asia e³ INVEST Network



- **creating competitive pressure for industrial efficiency**
- **reducing the drain on government budget and economic inefficiency**
- **facilitating technological inflow and absorption**
- **encourage access to financial resources for Investment**
- **promoting entrepreneurship and innovation**
- **creating employment opportunities**

Institutional Infrastructure fertilised by an Asia e³ INVEST Network



- ④ information services : economic statistics, trade & investment data, export market information**
- ④ human resources : education, vocational training, management development**
- ④ marketing : distribution, promotion, warehousing, trading**
- ④ technological development : standards, quality control and testing, technology acquisition, information systems, R&D, innovation**
- ④ consulting services : engineering, marketing, maintenance, legal, auditing, taxation**
- ④ accounting : auditing standards**

Enterprise re-structuring Tasks helped by an Asia e³ INVEST Network



- **products and market re-orientation**
- **re-organisation and creation of profit and cost centres**
- **staff reduction and re-deployment**
- **management planning, information and control systems (effective decision making and accountability)**
- **enterprise autonomy**
- **management development and worker training**
- **incentive compensation schemes**
- **management contracts**
- **joint ventures, marketing arrangements and investments with foreign companies**

The Measures of Success of Industrial Development under e^3



Economic profitability

- export performance
- profitability
- rate of return on capital

Social equity

- tax contribution to government
- employment figures

Environmental sustainability

- factor productivity

THANK YOU

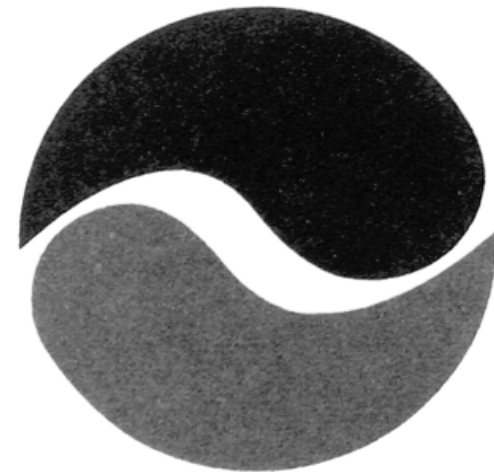


Homepage

<http://www.riet.org>

E-mail

bergeron@riet.org.sg



**REGIONAL
INSTITUTE OF
ENVIRONMENTAL
TECHNOLOGY**