

SOLUTIONS PAPER,
MARCH 2026

**Strengthening
coherence between
investment agreements
and environmental,
social and
economic objectives**

1. CONTEXT AND PROBLEM

Foreign direct investment (FDI) is critical for economic security and supply chain resilience, competitiveness and technological leadership, green industrial transformation as well as labour market opportunities. However, current investment governance faces three interconnected challenges:

- **Geographically concentrated flows leaving strategic opportunities untapped.** FDI flows remain concentrated in advanced economies and select emerging markets, limiting their contribution to closing financing gaps in low- and middle-income countries (LMICs), particularly in Africa.
- **Misaligned investment treaties that create uncertainty and risks for host states.** Most international investment agreements (IIAs) prioritize investor protection over development commitments. Unreformed, old-generation treaties with vague descriptions of substantial obligations create ambiguity and often constrain host countries' regulatory space to pursue climate action, environmental protection, and social objectives, leading to unpredictable disputes. Under most treaties, investor-state dispute settlement (ISDS) mechanisms can thus expose governments to significant financial liabilities and exorbitant damages for legitimate public policy measures.
- **Limited G7 leadership results in fragmentation and inefficiencies.** While the G7 has made commitments¹ to mobilize FDI flows to LMICs and improve enabling environments for investment, recent summits have not advanced ambitious proposals to align investment instruments with environmentally and socially sensitive economic development. The absence of coordinated G7 leadership has led to inconsistent investment frameworks, increasing transaction costs for investors and creating regulatory uncertainty that also affects the competitive position of FDI home states.

These challenges coincide with increasing fragmentation in investment governance. Countries are experimenting with investment facilitation frameworks, sectoral partnerships, and plurilateral approaches outside traditional bilateral IIA models, creating both opportunities and risks of incoherence.

2. STRATEGIC OPPORTUNITIES

Several reform initiatives and emerging good practices offer pathways to better align investment governance with the economic and regulatory interests of the G7:

Ongoing international reform processes

- The OECD's programme to modernize IIAs seeks to clarify the scope of substantive obligations to ensure certainty about host states' regulatory space and thus allow for legitimate regulation to promote positive impacts on environmental and social development.

¹ The terms "investment treaties" or "investment agreements" are occasionally mentioned in older G7 or G8 documents though. There is only one recent reference to IIAs, namely in the G7 Trade Ministers Statement, 29 October 2023, focusing on SOE provisions. See: <https://g7g20-documents.org/>

- UNCITRAL's efforts to review ISDS mechanisms aims to address legitimacy concerns through procedural reforms, appellate mechanisms, and alternatives to traditional arbitration.
- The Investment Facilitation for Development Agreement (IFDA) at the WTO represents a shift toward transparency, streamlined procedures, and development-oriented provisions, with 128 WTO members having agreed on an agreement text. Incorporation into the WTO legal framework would provide institutional backing and dispute settlement mechanisms.

Innovative bilateral and sectoral instruments

- Clean Trade and Investment Partnerships (CTIPs), pioneered by the EU (e.g. with South Africa), offer flexible, sector-specific frameworks focused on renewable energy, critical minerals, and green technologies. These partnerships support local value creation, technology transfer, and low carbon industrialization, creating competitive advantages for first movers.
- Climate Finance Agreements (CFAs) and other specialized instruments link investment promotion to binding environmental and labour standards, providing certainty for investors and leveling the playing field.
- Investment facilitation models emphasize transparency, administrative efficiency, and capacity building rather than traditional investor protection, reducing barriers for SMEs and green investments.

Regional leadership in Africa and Latin America

The African Investment Protocol under the African Continental Free Trade Area (AfCFTA) provides a model for investment governance aligned with regional development priorities. Latin American countries have also developed innovative approaches to investment treaties – be it the use of investment facilitation provisions or chapters on gender, digital issues and SMEs – that prioritize regulatory policy space and sustainable development.

3. POLICY RECOMMENDATIONS

To leverage these opportunities, the G7 should adopt a comprehensive, action-oriented strategy centered on four pillars:

Strengthen the international investment framework

- **Reaffirm commitment to reforming the current international investment framework** by actively engaging in OECD and UNCITRAL processes, and renegotiating or withdrawing from international investment agreements where needed to ensure that investment frameworks support all public policy objectives.
- **Ensure that investment facilitation agreements, such as the IFDA among WTO members or bilateral agreements of the EU and Brazil, promote and facilitate FDI flows to LMICs**, including by streamlining administrative barriers strengthening the positive impact on their development.
- **Provide adequate and predictable technical and financial assistance to LMICs** to support the implementation of investment facilitation initiatives, including for digitalization,

capacity building for institutional development, regulatory alignment, and participation in regional initiatives such as the African Investment Protocol under AfCFTA.

Broaden the investment governance toolkit

- **Expand investment instruments beyond traditional IIAs** to include innovative treaty formats, sectoral partnerships (such as CTIPs and CFAs), domestic legislation, and more transparent and balanced investment contracts as channels for promoting responsible investment.
- **Collaborate with partner countries to identify priority sectors and supply chains** (i.e. renewable energy, critical raw materials, electric vehicles, and clean aviation fuels) and provide targeted investment facilitation, capacity building, and support for local value creation.
- **Integrate sustainability considerations into investment promotion strategies**, ensuring that sectoral partnerships support green industrialization and resilient global value chains.

Enhance implementation and enabling conditions

- **Support de-risking mechanisms and blended public-private financing structures** that promote responsible FDI, particularly in early-stage and climate-vulnerable sectors, while avoiding a “race to the bottom” in regulatory or fiscal incentives.
- **Encourage host countries to align investment frameworks with** environmental protection, labour rights, and public health objectives.
- **Develop monitoring and evaluation frameworks** to assess the development impact of investment instruments and ensure accountability to environmental, social and economic resilience commitments.

Strengthen G7 partnerships and peer learning

- **Establish structured peer-learning platforms** to share knowledge on innovative investment instruments, drawing on experiences from Africa, Latin America, and other non-G7 contexts to inform G7 policy development.
- **Prioritize bilateral and plurilateral engagement with LMICs**, leveraging upcoming initiatives such as the Africa Forward Summit in Kenya (May 2026) to showcase practical examples of investment cooperation and build momentum for reform.
- **Integrate sustainability considerations across trade and investment cooperation frameworks** while emphasizing economic security, supply chain diversification, and local industrial development in partner countries.

CONCLUSION

The French G7 presidency presents a strategic opportunity to catalyse investment flows that are both economically productive and aligned with integrated environmental, social and economic objectives. By operationalizing these recommendations G7 countries can demonstrate leadership in reforming investment governance to enhance economic resilience, social concern and environmental frameworks.

These measures are actionable, politically feasible, and designed to support inclusive and resilient development in LMICs, particularly in Africa, while simultaneously reinforcing G7 economic security, competitiveness, and value chain diversification. Success will require sustained commitment,

adequate financing for capacity building, and a willingness to move beyond traditional approaches to a pragmatic, results-oriented investment governance.

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The T7 Secretariat and the authors would like to sincerely thank the external reviewers for their insightful comments and valuable feedback, which greatly contributed to improving this paper.

Think 7 (T7) is the official G7 engagement group bringing together leading think tanks and research centres to provide practical, evidence-based recommendations to G7 decision-makers. In 2026, IDDRI and the European Council on Foreign Relations (ECFR) jointly coordinate the T7 process for the French G7 Presidency.

More information about the T7: <https://www.iddri.org/en/reseau/think-7>

With the financial support of the French Ministry for Europe and Foreign Affairs

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