UN-OHRLLS Financing Policy Brief for FfD4

An International Investment Support Centre for the Least Developed Countries

Key messages

- Foreign direct investment is a key source of economic development and external finance, with a complementary and catalytic role vis-à-vis domestic resource mobilization and investment and development finance.
- For more than four decades, United Nations member states have consistently resolved to help least developed countries (LDCs) attract foreign direct investment (FDI) needed to achieve sustainable development. The importance placed on FDI and measures to secure its greater flow to LDCs are embodied in every LDC program of action (Paris, 1981; Paris, 1990; Brussels, 2001; Istanbul, 2011; Doha, 2022) and every agreement on financing for development (Monterey Consensus, Doha Declaration, Addis Ababa Action Agenda -AAAA).
- Yet, the LDCs have been largely unable to capitalize on the last thirty years of historically unrivaled growth in global FDI, with their share increasing only very modestly and at low absolute levels. In contrast, their financing needs to achieve the SDGs have steadily increased.
- As a follow-up to AAAA para. 46, member states requested in the Doha Programme of Action that a study be carried out to explore the feasibility of an international investment support centre for the LDCs (DPOA para 261).
- The mapping and gaps analysis phase of the requested feasibility study has determined that, despite a crowded field of technical assistance and capacity-building support for FDI cultivation, an international investment support centre for the LDCs could fill some key gaps in the existing landscape by focusing on unprecedented and high-value services and providing coordinated support without duplicating but complementing existing arrangements, to countries showing high levels of commitment to the reforms and practices needed to optimize FDI inflows and reap their fullest benefit.

Problem statement

With only six years to go before the 2030 deadline of the Sustainable Development Goals (SDGs), the development financing gap is now estimated at a staggering USD 4.2 trillion annually, almost double the levels before the COVID-19 pandemic. [1]

For the forty-five LDCs, progress towards the SDGs has been jeopardized by multiple global crises, the climate emergency, and a growing debt burden. Their gross domestic product (GDP) growth was about 3.4 percent in 2022 and 4.4 percent in 2023, and current projections have it at about 4.8 percent for 2024 –far less than the SDG target of 7 percent. With the share of total official development assistance

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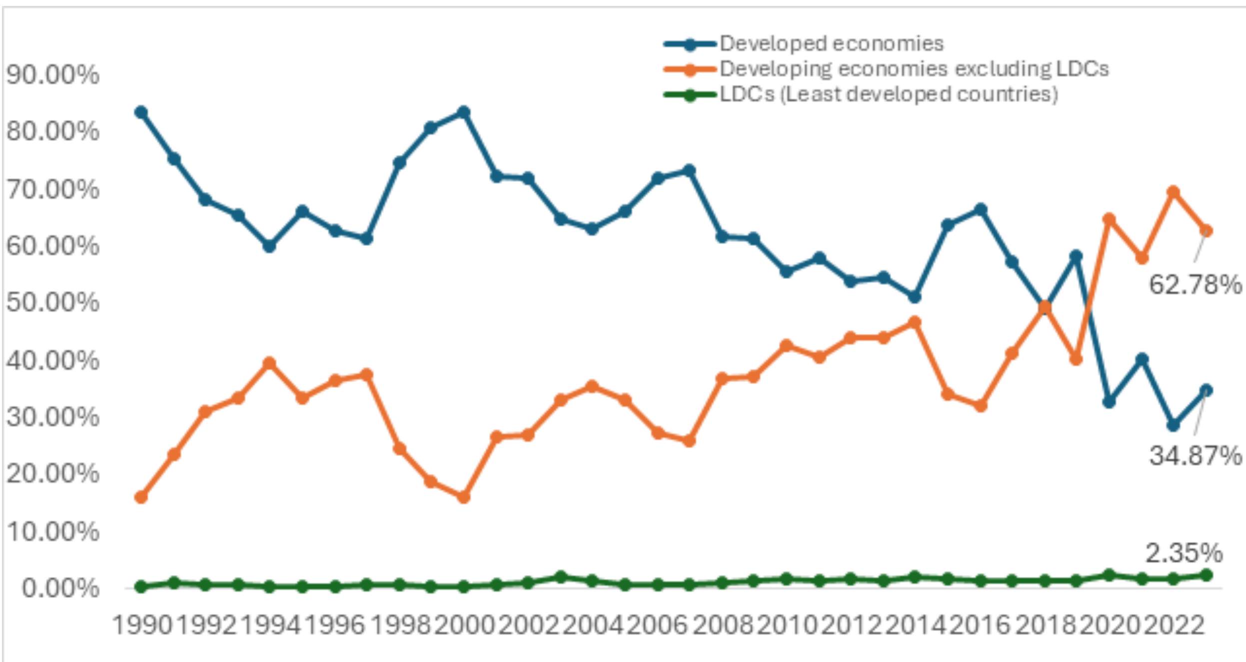
[1] DESA, Financing for Sustainable Development Report 2024: Financing for Development at a Crossroads, available at: https://desapublications.un.org/publications/financing-sustainable-development-report-2024

to LDCs reaching its lowest levels in over a decade[2], a shrinking fiscal space, high debt burdens, and continued dependency on volatile commodities, these countries require urgent and bold action from the international community to ensure better access to affordable financing.

The chart below shows that FDI inflows to the LDCs are very low, and for most of them, annual growth is flat. In absolute terms, in the eight years since adoption of the SDGs, annual FDI flows to LDCs as a group have fluctuated in a narrow band between $21 billion and $31 billion, with large outlier projects in individual countries often driving the group's growth in a given year, and with just five countries (Cambodia, Bangladesh, Ethiopia, Uganda, and Senegal) accounting for a majority of the LDC total of 2.35% of global flows in 2023.[3]

Chart: Shares of global FDI since 1990s



Although the generally flat growth of FDI in LDCs since 2015 appears to parallel the global trend, it arguably hides a worsening of the LDCs' relative position. The composition of global FDI is predominated by the service sector, which may grow in knowledge intensity with higher associated levels of technology, skills, and/or wages, while FDI to the LDCs continues to be drawn primarily to food and beverage manufacturing, advisory services, infrastructure and construction, garment manufacturing, extractive industries, and tourism.

This picture clearly manifests the inability of most of the LDCs to benefit from existing support measures in attracting sufficient FDI flows of the type that creates employment and decent work, promotes skills development and provides learning effects and demand for local firms.

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[2] United Nations Global Crisis Response Group, Aid Under Pressure: 3 accelerating shifts in official development assistance, 2024, available at: https://unctad.org/system/files/official-document/un-gcrg-oda-report_en.pdf

[3] UNCTAD, World Investment Report, available at: https://unctad.org/publication/world-investment-report-2024

Investment-related technical assistance and capacity building support is available to LDCs from over 50 UN agencies, international organizations, multilateral development banks and development partner agencies. However, in most cases, the assistance is supply-driven rather than demand-driven and is often not provided on the same medium to long term timescale that is needed to support the investment life-cycle. These are some of the fundamental obstacles and structural challenges that make it difficult for the assistance to be effectively absorbed by the countries themselves, and therefore incentivize sufficient FDI flows of the type that creates employment and decent work, promotes skills development, and provides learning effects and demand for local firms.

A radical step change is needed if a higher share of FDI flows is to benefit the LDCs, in a context of shrinking fiscal space, high debt burdens, low productive capacities and continued dependency on volatile commodities. As requested in the DPOA, a new international investment support centre could be the transformational measure that is needed. To justify such a centre, however, it would have to be more than just another body in an already crowded field with a more than three-decade history, more than 100 international and national expert bodies and well-established best practices. A successful centre would identify structural problems in the current global approach to FDI and one that can develop and implement innovative solutions to achieve unprecedented FDI outcomes for LDCs.

Policy solutions

The findings emerging from the feasibility study, as elaborated by the UN Secretary-General in its Report A/79/505[4], support establishing a transformative centre, that can realize unprecedented outcomes for the LDCs. If such centre is to achieve what has eluded the field's leading actors to date, it will do so by filling a small number of narrow, high-value gaps that structural impediments prevent other international partners from filling, and by providing coordinate support without duplicating but complementing existing arrangements.

A transformative centre should provide the following globally unprecedented and high-value services:

a. *Comprehensive, Long-Term National Level Capacity-Building Support and Guidance for individual LDCs that demand it and demonstrate commitment:*
   - The centre should provide national-level guidance to individual LDCs on the direct pursuit of targeted FDI and progressive capacity-building for the nine essential government functions[5]. Such guidance and capacity-building support should help individual LDCs systematically harness available TA within a comprehensive, national, strategic framework for FDI cultivation that directly contributes to the country's progress towards SDG achievement through effective monitoring and evaluation.

b. *First-of-a-kind databases and networks for commonly prioritized sectors and projects for all LDC governments, potential investors, and technical assistance providers operating in the country*:
   - These databases should be developed by local officials under the guidance and support of the centre experts for the purpose of enabling project due diligence, site selection, and financial partner matchmaking in LDCs, where the absence of information and internationally recognized networks have thus far precluded serious consideration of FDI.

[4] Report of the Secretary-General, document A/79/505
[5] Idem, for details on the nine government functions

A fully operational centre could provide long-term, country-specific guidance by assigning staff to serve as full-time national FDI managers to no more than a few countries each, for as long as the country and the centre remain engaged. In this way, the centre and the participating LDC government would take sustained, joint ownership of long-term planning, coordination and implementation of a national FDI plan, which would comprise measures for direct pursuit of FDI and government capacity-building, as follows:

(a) *Direct pursuit of FDI:* Generating FDI leads and converting them into actual FDI projects, in coordination with a dedicated staff member in the national investment promotion agency and a dedicated staff member in the relevant public office for each priority sector (e.g. Ministry of Agriculture for agro-processing);

(b) *Capacity-building for better cultivation of FDI and its benefits:* Continuously pursuing technical assistance and donor funds to fill gaps in the nine core government functions needed to cultivate FDI and its benefits: (i) policymaking, (ii) business regulation, (iii) sector/market research, (iv) promotion of purely private projects, (v) public-private partnerships, (vi) special economic zones, (vii) development finance, (viii) dispute resolution and (ix) international agreements. In addition, directly build capacity for the preparation of data needed by investors for location selection in LDCs.

Specific recommendations for FFD4

The FFD4 conference is being held at critical time when the share of total ODA to LDCs has reached its lowest levels in over a decade, debt burdens are on the rise and fiscal space is further shrinking. Member States should note with concern that despite having repeatedly resolved over the past decades to support the LDCs in this area still, their share of global FDI flows has remained around 2%. At FFD4, Member States must call for the operationalization of concrete innovative solutions to help LDCs better cultivate FDI towards sustainable development.

The FFD4 conference should therefore support the establishment of a transformative international investment support centre for the LDCs (as per DPOA para 261), one that can realize significantly improved FDI outcomes for these countries, by focusing on unprecedented and high-value services and providing coordinated support, without duplicating but complementing existing arrangements, to countries showing high levels of commitment to the reforms and practices needed to optimize FDI inflows and reap their fullest benefit.

Summary

The contribution of Foreign Direct Investment to the sustainable development of LDCs has yet to materialize, despite decades of commitments and a crowded field of investment-related technical assistance. A radical step change is needed. A transformational investment support centre should be established to realize unprecedented FDI outcomes for the 45 LDCs, by engaging them in long-term planning, coordination, implementation and monitoring and evaluation of a country's tailored strategic FDI plan, comprising measures for direct pursuit of FDI and government capacity-building for better, more effective cultivation of FDI and its benefits towards SDG achievement.