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Groups of countries in special situations: follow-up to the Fourth United Nations Conference on the Least Developed Countries

Strengthening investment promotion regimes for foreign direct investment in the least developed countries

Report of the Secretary-General

Summary

The present report has been prepared in response to General Assembly resolution 67/220, in which, inter alia, the Assembly called for the preparation of a report focusing on national policies and regulatory frameworks for stimulating foreign direct investment in least developed countries and outlining options and modalities for investment promotion regimes for least developed countries.

* A/69/150.

I. Introduction

1. In the Programme of Action for the Least Developed Countries for the Decade 2011-2020,[1] participants stressed that policies to attract and retain foreign investment are essential components of national development strategies. The present report focuses on such policies by the least developed countries, home countries of foreign direct investment (FDI) and other stakeholders. It provides a brief overview of recent trends and patterns in FDI flows to least developed countries, takes stock of the policies, programmes and measures pursued by host and home countries and by international organizations to stimulate FDI flows to and increase their benefits for least developed countries and, finally, outlines some options for national and international action for strengthening such efforts. The emphasis is on policies and measures relating specifically to FDI, but it is important to remember that the broader policy framework of macroeconomic, trade, industrial, social and environmental policies of host countries can be important in determining the outcomes of efforts to stimulate and benefit from inward FDI. Similarly, well-crafted incentives and facilitatory measures by the home countries and other stakeholders can play a critical role in significantly increasing FDI flows to least developed countries and maximizing their developmental impact on the host country.

II. Foreign direct investment in least developed countries: an overview

Trends and relative importance

2. According to data by the United Nations Conference on Trade and Development (UNCTAD),[2] FDI flows to least developed countries as a group have risen steadily since the turn of the century. Average annual FDI flows to such countries amounted to $25 billion in the period 2011-2013, more than three times the average flows of $8 billion in 2001-2003 (see annex). That rate of increase was slightly lower than that in FDI flows to all developing countries, which rose from an average of $196 billion per year to $744 billion per year, but was higher than the average annual FDI flows worldwide, which rose to slightly more than double their value between the two periods. Reflecting the growth in inflows, the stock of FDI in least developed countries grew from $42 billion in 2001 to $211 billion in 2012.

3. Although the least developed countries accounted for just 1.7 per cent of the total world FDI inflows in the period 2011-2013, and 3.3 per cent of inflows of FDI to developing countries, FDI is more important relative to domestic investment in those countries than in developing countries as a group. In 2011-2013, FDI inflows as a percentage of gross fixed capital formation stood at 13 per cent in least developed countries, as compared with 9 per cent in all developing countries, 8 per cent in developed countries and 9 per cent in the world as a whole (see annex). The stock of FDI relative to gross domestic product (GDP) in 2012 was 23 per cent in least developed countries, as compared with 30 per cent in all developing countries, 33 per cent in developed countries and 32 per cent worldwide.

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[1] *Report of the Fourth United Nations Conference on the Least Developed Countries, Istanbul, Turkey, 9-13 May 2011* (A/CONF.219/7), chap. II.

[2] Available from http://unctadstat.unctad.org.

4. FDI flows are by far the largest private capital flows to least developed countries. In fact, in the period 2001-2010, private capital flows other than FDI, mainly portfolio investment and bank lending, were close to zero.[3] Furthermore, from 2006 onwards, FDI flows to those countries exceeded bilateral official development assistance (ODA), that is, ODA excluding that from multilateral organizations, and reached more than half of the amount of total ODA that they received. However, as sources of finance, the two cannot entirely be substituted for one another, since ODA is for development support, while FDI looks for profit-making opportunities. Yet despite the small size of FDI flows to least developed countries, the trends in and the relative importance of those flows signal that such countries are becoming more attractive investment destinations. This nascent dynamism is also reflected in the growth of outward FDI from least developed countries.

Geographic and sectoral distribution

5. The 34 African economies among the least developed countries accounted for some 79 per cent of the inward FDI flows of all least developed countries in 2010-2013, the 14 Asia-Pacific economies for 20 per cent, and the Caribbean island of Haiti for 1 per cent (see annex). More than four fifths of the flows in 2011-2013 went to the top 10 recipients, namely, Mozambique, the Sudan, the Democratic Republic of Congo, Myanmar, Equatorial Guinea, the United Republic of Tanzania, Zambia, Bangladesh, Cambodia and Uganda, in that order.

6. FDI in the least developed countries has traditionally been directed largely towards natural-resource extraction. However, there are signs that this may be changing. Although data are lacking on the sectoral distribution of FDI flows and stock, data on the estimated value of greenfield FDI projects, which account for the bulk of FDI in least developed countries, show major inter-sectoral changes. During 2003-2010, the shares of the primary, manufacturing and services sectors in the estimated value of greenfield FDI projects were 55 per cent, 28 per cent and 17 per cent, respectively. In 2011-2013, the shares stood at 21 per cent, 28 per cent and 51 per cent, respectively.[4] These shifts are associated with fledgling structural changes in some least developed countries.[5]

7. There are distinct signs that the geographical distribution of FDI in least developed countries by source country is also changing. Judging from a comparison of the value of FDI projects in those countries by source region in 2003 and 2010,[3] as measured by the value of net cross-border merger and acquisition sales plus that of greenfield projects, although FDI from Europe continued to account for the largest share, at 20-30 per cent, and that from developed countries as a group for over 50 per cent, the share of FDI from developing and transition economies had risen considerably, from around 25 per cent to over 40 per cent.

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[3] See United Nations Conference on Trade and Development (UNCTAD), *Foreign direct investment in least developed countries: lessons learned from the decade 2001-2010 and the way forward* (New York and Geneva, 2011).

[4] UNCTAD, *World Investment Report 2013: global value chains: investment and trade for development* (Geneva, 2013), and UNCTAD, *World Investment Report 2014: investing in the sustainable development goals: an action plan* (Geneva, 2014).

[5] Office of the United Nations High Representative for the least developed countries, landlocked developing countries and small island developing States, *The state of the least developed countries 2013* (New York, 2013).

8. While investment in the least developed countries from several emerging economies, including China, India, Malaysia and South Africa, is on the rise in both absolute and relative terms, the increase of FDI from China is particularly striking. Between 2003 and 2008, Chinese FDI flows to least developed countries rose from $45 million to $981 million, and, in 2008, 34 such countries received Chinese FDI.[3] In 2012, the Lao People's Democratic Republic, Cambodia and Angola were the top host economies among the 27 least developed countries to receive FDI from China,[6] reflecting the fact that, while extractive industries attract large amounts of Chinese FDI, other industries are important targets for it as well. Data for 2011-2013 show that developing economies accounted for 46 per cent of the estimated value of inward greenfield FDI projects in the least developed countries.[4]

9. In recent years, India has been the leader among developing countries in terms of greenfield FDI in least developed countries, with nearly $8 billion in announced greenfield investments in those countries in 2012-2013, followed by South Africa and Nigeria. China topped the list of countries, developing and developed, in terms of FDI through cross-border mergers and acquisitions in least developed countries, accounting for nearly $6 billion of cross-border mergers and acquisition sales in least developed countries in 2012-2013.[7]

Determinants of foreign direct investment

10. The location-specific factors motivating firms with the necessary ownership-specific and internalization advantages to engage in direct investment abroad have been classified as natural resource-seeking, market-seeking, efficiency-seeking and created asset-seeking.[8] Whether firms with such advantages and motivations choose one location or another for their FDI depends on the attractiveness of potential host countries in terms of the location-specific advantages sought by firms.

11. The least developed countries, with their relatively low GDP per capita and as-yet low degree of development of their human assets, can be considered to be at a relative disadvantage in attracting FDI, in the first stage of what has been called the investment-development path,[9] except perhaps when the resources sought are natural, as in the case of agriculture or mining. While the resource-seeking motivation, primarily in mining, quarrying and petroleum but also land, for example, in Cambodia, has indeed been the largest driver of FDI in least developed countries, the sectoral distribution of FDI shows that it is not the only one, and there are signs that its relative importance is diminishing. That indicates that those countries have other competitive advantages as locations for FDI, or can develop and strengthen such advantages, except for created assets that require strong technological capabilities.

12. The least developed countries, particularly those with large populations, can offer possibilities for market-seeking FDI in other manufacturing industries, such as the food, beverages and tobacco industry, which attracted $1 billion in greenfield

[6] See http://unctad.org/Sections/dite_fdistat/docs/webdiaeia2014d3_CHN.pdf.

[7] UNCTAD, *World Investment Report 2014: investing in the sustainable development goals: an action plan* (Geneva, 2014).

[8] J. Dunning and S. Lundan, *Multinational Enterprises and the Global Economy* (Cheltenham, 2008).

[9] R. Narula and J. Dunning, "Multinational enterprises, development and globalization: some clarifications and a research agenda", from *Oxford Development Studies*, Volume 38, No. 3 (September 2010).

FDI projects in their economies in 2011-2012. They can, moreover, attract FDI to services such as electricity, gas and water, transport, storage and communications, and financial services (especially banking), which attracted noticeable amounts of FDI through greenfield projects in the least developed countries in 2011-2013.[4] Judging from the data on FDI stock and annual flows, it seems that a substantial portion of announced infrastructure investments in the least developed countries in the period 2003-2013 did not generate FDI inflows, indicating that project shares could be shared among different types of sponsors and that a large part of foreign sponsors' investment commitments were financed with non-equity modes of investments by transnational corporations, debts, structured finance, or bilateral and multilateral donor funding. Finally, least developed countries can also obtain efficiency-seeking FDI in low-cost labour-intensive manufactures for export, as suggested by the experience of Bangladesh and Cambodia in the ready-made garment industry.[10]

Outward foreign direct investment from least developed countries

13. Traditionally, the attention of policymakers has been on inward FDI and its role in contributing to development, in particular by building internationally competitive domestic capacity. However, the international competitiveness of domestic firms can also be strengthened through outward FDI, which provides firms with better access to foreign markets to produce and, hence, deliver goods and services to those markets, including through trade-supporting outward FDI. Furthermore, outward FDI provides firms with better access to resources, such as know-how, technology and management experience, thereby helping to increase the competitiveness of parent firms. For these reasons, all developed countries, and a rising number of developing countries, support their firms seeking to invest abroad.

14. A number of least developed countries have also become home countries for outward FDI, with 24 of them having reported some outward FDI flows during 2010-2013 (see annex). This suggests that some of their domestic firms have built up competitive advantages for international production as well. In 2011-2013, average annual flows of FDI from least developed countries amounted to over $4 billion, nearly 19 times those in 2001-2003 (see annex). African least developed countries, led by Angola and Liberia, with 75 per cent of the total, accounted for most of the outflows. Although these outflows are very unevenly distributed, this is a phenomenon that deserves attention from policymakers.

III. Policies, programmes and measures to stimulate foreign direct investment flows to least developed countries and increase host-country benefits: a stocktaking

Host-country policies, programmes and measures

15. The least developed countries have been making strong efforts to attract increased FDI flows, including by liberalizing national policies with respect to

[10] See UNCTAD, *World Investment Report 2013: global value chains: investment and trade for development* (Geneva, 2013), and Julia Kubny and Hinrich Voss, *The impact of Chinese outward investment: evidence from Cambodia and Viet Nam* (German Development Institute, Discussion Paper 16/2010).

inward FDI, entering into bilateral, regional and other international investment agreements and double taxation treaties, establishing investment promotion agencies or similar other institutions, and improving the overall environment for business. As in several other developing countries, the dominant trend towards liberalizing and promoting investment has been accompanied by a move towards fostering a regulatory framework for investment in general and FDI more specifically that takes into account countries' particular development goals and concerns, generally through industry-specific incentives or conditions and targeted promotional efforts.

The national policy framework

16. Most of the least developed countries are now open to FDI in a wide range of activities, as indicated by their laws and regulations. Indeed, most least developed countries have adopted laws relating to FDI and some have revised their investment legislation. Those to do so most recently are the Lao People's Democratic Republic (through its Investment Promotion Law of 2009), South Sudan (through its Investment Promotion Act of 2009), Liberia (through its Investment Act of 2010), Timor-Leste (through its Private Investment Law of 2011), Malawi (through its Investment and Export Promotion Act of 2012), Myanmar (through its Foreign Investment Law of 2012 and rules of 2013) and the Sudan (through its Investment Act of 2013). However, there are a number of specific prohibitions and restrictions. For example, in the Sudan, there are restrictions on foreign investment in transportation, media and communications, electricity, and financial services. Some industries, such as railway freight transportation, airport operation and newspaper publishing, are closed to foreign participation. In Bangladesh, investors in natural resources and infrastructure, including power, mineral resources and telecommunications, must seek approval from the relevant government ministries. In South Sudan, companies with fewer than seven employees are reserved for national owners and medium-sized and large private companies are required to have at least 31 per cent national ownership. In Cambodia, all sectors are open to foreign investment and 100 per cent foreign ownership is permitted in most. In Haiti, foreign investors are permitted 100 per cent ownership of companies and can enter into joint ventures of any kind with Haitian citizens, but the sale and purchase of company shares are regulated by the State. Angola, since 2012, requires transnational oil corporations operating in the country to use local banks, including affiliates of foreign banks, to pay their taxes and make payments to foreign suppliers and subcontractors. The objective is to strengthen the development of the national banking system, which has already grown considerably, partly due to FDI in the industry. In several least developed countries, foreign enterprises receive treatment no less favourable to that provided to national domestic enterprises. Examples of countries providing national treatment include Afghanistan, Burkina Faso, Burundi, Mali, Mozambique, the Niger, Sao Tome and Principe, Senegal and Zambia. There are some exceptions, however, as in the case of land ownership. For example, in Benin, Equatorial Guinea, the Lao People's Democratic Republic, Myanmar and Rwanda, foreign investors are not permitted to own land, but they can lease it.

17. Fiscal and other incentives are provided to foreign investors in several least developed countries. Bangladesh, for example, offers foreign investors tax holidays and exemptions, reduced import duties on capital goods, machinery and spare parts and duty-free imports for 100 per cent exporters of ready-made garments. In Haiti, investment that provides added value of at least 35 per cent in the processing of

local or imported raw material is eligible for customs, tax and other advantages. The Sudan's new Investment Act of 2013 offers tax and customs privileges to investors in strategic industries.[11] Other examples of countries that have introduced tax incentives include Burundi, Malawi, Sao Tome and Principe and Zambia.[3]

International framework

18. Many least developed countries have entered into bilateral investment treaties, which generally provide for national treatment, most-favoured-nation treatment and fair and equitable treatment of investors, nationalization only under specific conditions, and unrestricted transfers of capital and earnings. As at June 2013, all but six of the least developed countries had signed one or more such treaties, with Bangladesh (29), Mozambique (24), Senegal (24), Ethiopia (29), the Sudan (27) and Yemen (37) having the largest number.[12]

19. Most of the least developed countries have also made provisions, typically through bilateral investment treaties, for the resolution of disputes with foreign investors. A majority (37) of them are members of the International Centre for Settlement of Investment Disputes. Several are open to dispute settlement under the United Nations Commission on International Trade Law, and several have adhered to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Some are members of other international dispute settlement mechanisms, such as the Organization for the Harmonization of African Business Law. Benin, for example, is a member of that organization and its Common Court of Justice and Arbitration, as well as of International Centre for Settlement of Investment Disputes.

20. Most least developed countries are parties to one or more regional economic agreements with FDI provisions. In the African region, such agreements include the Common Market for Eastern and Southern Africa, the Southern Africa Development Community, the Economic Community of West African States, and the West Africa Economic and Monetary Union. In Asia and the Pacific, regional agreements include the Comprehensive Investment Agreement of the Association of Southeast Asian Nations (ASEAN) and the ASEAN-China Investment Agreement. The South Asian Association for Regional Cooperation is in the process of finalizing the text of its draft agreement on promotion and protection of investment, for signature at its eighteenth summit, scheduled to be held in November 2014. Haiti is a member of the Caribbean Community, which brings together 15 states in the Caribbean into a single market and economy. At the interregional level, 40 least developed countries are members of the partnership agreement between the members of the African, Caribbean and Pacific States and the European Union, also known as the Cotonou Agreement. The Agreement provides, among others, for financial cooperation measures that the African, Caribbean and Pacific States and the European Community and its member States should put in place to promote investment and encourage the European Union private sector to invest and to provide specific assistance to its counterparts in the African, Caribbean and Pacific countries under mutual cooperation and partnerships. It calls for financial support to investors, investment guarantees and investment protection. The Agreement has also

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[11] UNCTAD, *World Investment Report 2013: global value chains: investment and trade for development* (Geneva, 2013).

[12] See http://unctad.org/en/Pages/DIAE/International%20Investment%20Agreements%20(IIA)/Country-specific-Lists-of-BITs.aspx.

established the Centre for the Development of Enterprise, with the objectives of assisting investment promotion and business cooperation between the European Union and African, Caribbean and Pacific enterprises.

21. At the multilateral level, many of the least developed countries are parties to the General Agreement on Trade in Services, which is relevant for FDI in services, and the agreements on trade-related investment measures and trade-related aspects of intellectual property rights. A majority of the countries are also members of the World Bank Multilateral Investment Guarantee Agency Nearly all are members of the International Labour Organization (ILO), meaning that they are in principle committed to respecting the principles and rights that are the subject of the ILO Declaration on Fundamental Principles and Rights at Work.

22. The least developed countries have also entered into double taxation treaties,[13] mainly with respect to taxes on income and capital. As at June 2011, Yemen (37), Bangladesh (27), the Sudan (27), the United Republic of Tanzania (17), Senegal (14) and Zambia (12) had the largest number of such treaties.

Investment promotion and facilitation

23. Many least developed countries have established investment promotion agencies for promoting and facilitating FDI, while some countries have entrusted the task to boards of investment or specific ministries or government departments. As at 2011, 31 least developed countries had such agencies or other institutions, and 29 of those national investment promotion bodies were members of the World Association of Investment Promotion Agencies.[3] In some cases, for example, in Afghanistan, Mali and Uganda, they serve as one-stop shops for investors.

24. Successful promotion of FDI also requires easily navigable rules, regulations and procedures for business and relatively low costs of doing business. In this respect, only a few of the least developed countries have made noticeable advances. According to *Doing Business* by the World Bank, Rwanda was the only least developed country in the top 50 economy rankings for 2014,[14] and only four others, namely, Samoa, the Solomon Islands, Vanuatu and Zambia, ranked among the top 100. The majority (26) of least developed countries were ranked between 154 and 179. Rwanda’s relatively high position in the 2014 ranking reflects the fact that the country has made more progress than any other on the *Doing Business* indicators since 2006, with its overall performance relative to the “frontier” of 100, indicating best performance, rising from 37 to 70.[15] Other least developed countries with considerable improvements relative to the overall performance frontier since 2006 include Burkina Faso, Liberia, Burundi, Mali and Sierra Leone.

25. Investment promotion has been found to have a positive impact on FDI flows to developing countries and to work better in places with higher information asymmetries and bureaucratic red tape. That suggests that investment promotion can play an important role in attracting FDI to the least developed countries, where lack of information can be a major constraint for foreign investors. In addition to establishing investment promotion agencies, some least developed countries are

[13] See http://unctad.org/en/Pages/DIAE/International%20Investment%20Agreements%20(IIA)/Country-specific-Lists-of-DTTs.aspx.
[14] Available from www.doingbusiness.org/rankings.
[15] See www.doingbusiness.org/data/distance%20to%20frontier.

participating in the development of online investment guides as part of a joint project by UNCTAD and the International Chamber of Commerce. As at 2014, such guides had been published for eight least developed countries.

Home-country policies, programmes and measures

26. All developed countries implement, to some degree, policies, programmes and measures to encourage outward FDI flows, and some developing countries and economies in transition have also begun to do so. Such home-country measures are often directed towards encouraging FDI flows to developing countries in general, and some of them are particularly relevant for stimulating FDI flows to, and increasing their benefits for, the least developed countries.

National policies and international arrangements with respect to outward foreign direct investment

27. Virtually all developed countries today allow their firms to invest freely abroad, with few restrictions relating mainly to political or national security considerations. Several developing countries and economies in transition have also liberalized their outward FDI policies, while others are gradually doing so.[16]

28. Virtually all developed countries and the majority of developing home countries have entered into bilateral investment treaties with least developed countries aimed at helping them attract FDI by protecting the investment of the respective home countries' firms in host countries and facilitating their operations there. As at 1 June 2013, the top 10 developed home countries in terms of total outward FDI flows in 2007-2011 had concluded 128 such treaties with least developed countries, while the top 10 developing and transition home economies had concluded 53 treaties with those countries.[17]

Measures to facilitate, support and promote outward foreign direct investment

29. The actual size of outward investment can be influenced considerably by home-country measures that directly assist outward investors. These measures are often intended to advance a home country's strategic economic interests and enhance the international competitiveness of its firms, but a part of the reason for such measures is also to encourage FDI flows to developing countries as a complement to their efforts to attract FDI. To the extent that such measures are applied to investment in least developed countries, they can increase FDI flows to and their benefits for those countries.

30. Home-country measures involve the granting of specific advantages by a home country government (or one or more of its public institutions) in connection with the establishment, acquisition or expansion of an investment by a home country firm in a foreign economy. All developed countries, as well as some developing economies and economies in transition, have established or designated institutions that implement such measures.[16] The most important direct measures used by home governments to facilitate, support and promote outward FDI are the following:

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[16] See K. Sauvant et al, "Trends in FDI, home country measures and competitive neutrality", in *Yearbook on International Investment Law and Policy 2012-2013*, Chapter 1 (New York, 2014).

[17] See http://unctad.org/en/Pages/DIAE/International%20Investment%20Agreements%20(IIA)/Country-specific-Lists-of-BITs.aspx.

(a) Information services. These include the provision of data on the economic and legal investment climate, the political environment and business opportunities in host countries; information on the benefits of internationalization and on the legal and economic aspects of international expansion; and the provision of relevant statistics. Other support services include advice and consulting; investment missions; match-making services, including contacts with governments and entrepreneurs in host countries and maintaining matchmaking data bases; and training and educational services related to outward FDI;

(b) Financial measures. These include grants for activities such as feasibility studies and other pre-investment activities; assisting with the costs of setting up overseas offices; training of staff for employment in foreign affiliates; executive programmes for managers; and customized training programmes. They also include loans (concessional and non-concessional), structured financing options, public-private/public-public risk-sharing arrangements, and development financing. Other financial measures include equity participation, direct or as development financing;

(c) Fiscal measures. These include tax exemptions of various kinds, for example, exemption from corporate income tax on certain incomes, and deductions for qualifying expenditures; corporate tax relief; tax deferral for incomes earned overseas; and tax credits for certain kinds of expenditure;

(d) Political-risk insurance. This includes a range of insurance products covering expropriation, war damage, political violence, conversion of local currency or its transfer out of the host country, the suspension of remittances and forced abandonment of assets abroad by home-country investors. It is intended to mitigate risks associated with investing abroad and generally requires the payment of a premium.

31. Direct assistance through the measures assumes greater importance for encouraging FDI in the least developed countries than in other countries, especially because information and knowledge gaps with respect to available opportunities and host-country conditions are likely to be greater in the case of the former, and the need for political risk insurance, as well as financial and fiscal measures, is more acute.

Eligibility conditions for direct support through home-country measures

32. In many countries, the measures for direct support described above are not offered uniformly to all outward investors. The factors described below, namely, the sector or industry in which an investment is made, the size of the investing firm, destination and the effects of outward FDI on host countries, are taken into account to determine whether an investor qualifies for assistance. Some of the conditions used can work to improve FDI flows to least developed countries. For example, preferential support to FDI in natural resources can increase flows to the least developed countries, in many of which extractive industries are the main attraction for FDI.

33. In terms of sector or industry, although there are no stringent sectoral or industrial limitations on support/assistance to outward investors from home country institutions, a number of them specify sectors and industries for support. They typically include natural resources, energy and infrastructure. The emphasis on assistance to outward FDI in natural resources is of relevance to stimulating FDI in

several least developed countries, while that on assistance to FDI in energy and infrastructure is important for those countries generally, as they are in particular need of such investment in order to improve production capacity and accelerate growth.

34. In terms of size, many home countries give additional preferential support to FDI by their small and medium-sized enterprises. Examples include the special financing lines and funds offered to those enterprises by the Spanish financing corporations COFIDES and the Instituto Credito Official and the preferential treatment offered to those enterprises in the United States of America by the Overseas Private Investment Corporation (OPIC) under certain conditions. Such support is likely to be of particular importance for promoting FDI in the least developed countries, which, given their relatively small markets and limited supply of skills and human capital, are more likely to attract FDI by small and medium-sized enterprises, except in natural resources where production is primarily for export.

35. In terms of destination, most home-country measures are available to firms regardless of the destination of their FDI. However, a number of them encourage investment in specific destinations. Many developed countries have specialized agencies to provide long-term financing for private-sector development in developing and transition economies by providing loan and equity financing for FDI projects in those countries, sometimes by taking minority equity positions.[18] The mission of OPIC, for example, is to mobilize and facilitate the participation of private capital and skills from the United States in the economic and social development of developing countries and economies in transition, to complement the development assistance objectives of the United States. In 2012, total commitments by OPIC to projects in low-income countries were $1 billion, while projects in sub-Saharan Africa totalled $907 million, out of a total portfolio of $16.4 billion. Germany's development finance agency, Deutsche Investitions und Entwicklungsgesellschaft mbh, is also placing growing emphasis on assisting investments in Africa, including in sub-Saharan Africa.

36. Some home-country measures cater specifically to FDI in certain geographic regions, in pursuit of national strategies. For example, the China-Africa Development Fund provides financial support for Chinese enterprises investing in Africa. Since its establishment, Chinese FDI in Africa has grown rapidly, rising from an average of $410 million per year in the period 2004-2006 to $3 billion per year in 2010-2012, with flows to sub-Saharan Africa comprising $2.6 billion.[6] In 2013, Japan pledged $6.5 billion support to help infrastructure in Africa and the State-run Japan Oil, Gas and Metals National Corp announced financial support worth $2 billion over the following five years to help Japanese firms with natural resource development projects in Africa.

37. In terms of the effects of outward FDI, home countries may also make their support to outward investment conditional on its effects on the home and/or host countries. It may require positive development impacts on the host country, in terms, for example, of job creation, infrastructure improvements and technology and knowledge transfer. According to its investor screener,[19] Eligibility for support from OPIC requires that a project meet the workers' rights standards of ILO, including the right to unionize, collective bargaining, minimum age requirements and a

[18] UNCTAD, *World Investment Report 2003: FDI policies for development: national and international perspectives* (Geneva, 2003).

[19] Available from www.opic.gov/doing-business-us/our-investor-screener.

prohibition on forced labour. Similarly, according to its guidelines for confirmation of environmental and social considerations,[20] the Japan Bank for International Cooperation conducts a review of environmental and social conditions when making a decision on funding and conducts monitoring and follow-up after the decision has been made. Such conditionality and follow-up have implications for improving host-country benefits from FDI in the least developed countries, where local capabilities for negotiating favourable conditions with foreign investors and monitoring the impacts of FDI are likely to be limited.

Indirect measures by home countries

38. Home countries may pursue measures that are not targeted specifically at outward FDI but nonetheless influence it. For example, official development assistance (ODA) for infrastructure projects in least developed countries may make the countries more attractive to FDI. Such ODA can also lead directly to FDI projects from the donor country, as is the case when donor governments provide finance tied to outward FDI by their firms.

39. Policy measures expanding access to a home country's markets may also indirectly encourage FDI flows from that country as well as others to the countries that enjoy improved access for their exports. One example is the Africa Growth and Opportunity Act of the United States, which, as at 2013, provides preferential access to the United States market for imports from 39 designated sub-Saharan countries. Duty-and quota-free treatment accorded to least developed countries by the European Union under its Everything but Arms arrangement, and similar treatment by some other countries to the exports of least developed countries, have played important roles in attracting FDI to those countries.

Schemes and programmes implemented by international organizations

40. Efforts by host and home countries to boost FDI flows to and the benefits of FDI for the least developed countries are supported and supplemented by schemes and programmes implemented by international and regional organizations, a snapshot of which is provided below.

41. UNCTAD undertakes activities directly dedicated to FDI in least developed countries. In particular, its Investment Advisory Council for those countries, created in 2001 in collaboration with the International Chamber of Commerce, provides senior business executives and senior government officials with an informal and flexible framework for discussing practical ways of attracting FDI and benefiting from it. This work relies partly on UNCTAD statistical work, especially FDI country profiles summarizing key FDI statistics for each least developed country.[3] Moreover, since 2011, the flagship UNCTAD publication, the *World Investment Report*, contains a special section analysing FDI trends in those countries. UNCTAD has been undertaking a project aimed at enhancing the capacity of government agencies as regards the compilation of data on FDI and transnational corporations. So far, it has organized a dozen national workshops in Burundi, Comoros, the Democratic Republic of the Congo, Djibouti, Ethiopia, Malawi, Myanmar, Rwanda, the Sudan, Uganda, the United Republic of Tanzania and Zambia.

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[20] Available from www.jbic.go.jp/wp-content/uploads/page/efforts/environment/confirm_en/pdf_01.pdf.

42. As at June 2014, 17 out of the 36 investment policy reviews prepared by UNCTAD had focused on least developed countries. The implementation of the recommendations in the reviews led, among other things, to the creation of an investment promotion agency in Burundi, the establishment of the Presidential Council on Investment in Burkina Faso and the adoption of a skills attraction and dissemination programme in Rwanda. This work is closely linked with UNCTAD advisory services relating to investment promotion, which include the dissemination of practical advice and case studies of best practices in investment promotion among investment promotion agencies in developing countries, including the least developed countries, and international organizations of investment promotion agencies, including the World Association of Investment Promotion Agencies, in which most of those countries are members.

43. Within the World Bank Group, one of the priorities of the Multilateral Investment Guarantee Agency is to encourage FDI into the world's poorest economies, namely, members of the International Development Association, by providing political risk insurance to investors, which is a foremost constraint to foreign investment in developing countries. Political risk, including risks relating to such factors as currency convertibility and fund transfer restrictions, expropriation and war, ranks high among the constraints to foreign investment in developing countries, including the least developed countries. Investment guarantees provided by the Multilateral Investment Guarantee Agency require compliance with a comprehensive set of environmental and social performance standards.[21] The Small Investment Programme of the Agency provides such insurance at discounted premiums, to facilitate investments into small and medium-sized enterprises that are particularly sensitive to political risk. This programme is of special relevance to least developed countries as FDI there, especially in manufacturing and services, is more likely to flow into smaller enterprises. The Agency's facility for conflict-affected and fragile economies covers 36 conflict-affected fragile countries, of which 26, at the start of 2014, were least developed countries. In addition to Agency guarantees, the facility uses donor contributions and guarantees to provide an initial loss layer to insure investment projects in fragile and conflict contexts.

44. Under its advisory services, the International Finance Corporation partners with local governments, justice ministries, lawyers associations, business organizations and donors to address the needs of the private sector in dispute resolution and to assist client countries to develop alternative dispute-settlement mechanisms, including in six least developed countries, namely, Bangladesh, Burkina Faso, Cambodia, the Solomon Islands, the Sudan and Vanuatu.

45. Assessing and improving the investment climate in developing countries, including the least developed countries, is another important activity of the World Bank Group. This includes its *Doing Business* project. The World Bank's Investment Climate Assessments complement this work by identifying key constraints to investment and growth in a country, as well as areas for reform. The facility for Investment Climate Advisory Services funds and supports advisory projects to improve the investment climate. The World Bank Group's Global Investment Promotion Benchmarking exercise gives policymakers a measure of the effectiveness with which a country's investment promotion intermediaries/agencies respond to potential investors and meet the latter's information needs.

[21] Available from www.miga.org/projects/index.cfm?stid=1828.

46. The World Bank has set up a number of trust funds to support countries with large extractive resources, such as the Extractive Industry Transparency Initiative and the Extractive Industry Technical Advisory Facility. The multi-donor trust fund of the Initiative provides resources to countries to implement the Initiative’s standards of transparency, while the trust fund of the Facility helps build capacity for governments to negotiate on their own behalf. As at May 2014, Initiative-compliant least developed countries included Burkina Faso, Cameroon, Côte d’Ivoire, Liberia, Mali, Mozambique, the Niger, Sierra Leone, the United Republic of Tanzania, Timor-Leste, Yemen and Zambia.

47. The World Bank launched a new fund in 2012 to help African countries negotiate best possible deals to develop their oil, gas and mineral resources, which is likely to benefit several least developed countries. The World Bank has constraints to finance actual negotiations directly through its trust funds. However, countries may be able to obtain recipient-executed loans or credits from the World Bank to hire their own negotiations support.

48. African countries can also apply for assistance from the African Legal Support Facility, part of the African Development Bank. The Facility provides assistance to African countries to strengthen their legal expertise and negotiating capacity in debt management and litigation, natural resources and extractive industries management and contracting, investment agreements, and related commercial and business transactions. The Facility has sovereign immunity and can negotiate on behalf of client countries.

49. ILO is responsible for the promotion and follow-up of the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy.[22] It provides technical assistance to its member States, especially least developed countries, on better harnessing the potential of FDI and the presence and operations of multinational enterprises for socioeconomic development and sustainable enterprise development. Since 2001, ILO has also been involved in a factory monitoring project, entitled “Better Factories Cambodia”, involving the Government of Cambodia, garment manufacturers and trade unions. Similar “Better Works” projects involving ILO are now operating in six other countries, including the least developed countries Haiti and Lesotho, and are planned to be expanded further, including through a project in Bangladesh announced in October 2013. ILO is providing technical assistance to least developed countries such as Angola, Mozambique and Zambia to strengthen sectoral dialogue, with the objective of enhancing the positive contribution of the extractive industries to broader job creation, skills development, economic diversification and local economic development.

50. UNIDO focuses much of its work on FDI in the least developed countries on the Africa Investment Promotion Agency Network. Now covering 38 States, many of which are least developed countries, it is a forum for African Governments to discuss investment promotion strategies. It includes an investment-monitoring platform, which is a tool for analysis of investment data, currently covering 19 African countries, including 14 least developed countries. UNIDO also works with countries to improve their regulatory environment to promote business and

[22] Available from www.ilo.org/empent/Publications/WCMS_101234/lang--en/index.htm.

investment and to strengthen the development impact of FDI, including through partnerships with transnational corporations.

IV. Towards an action plan for foreign direct investment in least developed countries

51. Notwithstanding the efforts of host and home countries and international agencies towards mobilizing FDI to least developed countries for their sustainable development, the least developed countries still receive limited FDI flows in a narrow range of industries. It is therefore important for them, as well as their development partners, including home countries, international and national development agencies, transnational corporations, domestic firms, civil society, to strengthen their ongoing efforts and pursue new and innovative initiatives to increase FDI flows to the least developed countries and enhance host-country benefits of these flows. This could usefully be done in the framework of an action plan for FDI in the least developed countries, such as a comprehensive and coherent aid-for-investment programme, that could contain the elements below.

Actions by the least developed countries

52. The least developed countries need to take further steps towards establishing better rules and regulations governing FDI entry, operations and treatment, so as to encourage larger beneficial FDI inflows to a wider group of industries, especially those that are of particular importance for their development process. They also need to strengthen their investment promotion efforts with respect to FDI in general, as well as with respect to sectors of particular importance to them. Besides focusing on developed home countries, they should also make stronger efforts to attract FDI from developing countries, given the latter's importance in world FDI as well as FDI in least developed countries. Furthermore, the expatriate communities of least developed countries constitute a potential reservoir of FDI. Finally, they should take further steps towards improving the rules, regulations and procedures involved in establishing and operating affiliates of foreign companies, as well as for business in general, drawing upon experiences of other countries and resources available from home countries, development agencies and international organizations.

53. In some industries, especially infrastructure, including electric power, telecommunications, transport and water, the costs are high and the returns uncertain and long-term. Moreover, host countries have an interest in retaining some control. Least developed countries need to consider further implementation of public-private partnerships open to FDI, with host-country financing for such projects drawing upon official development assistance and with ODA participation through a share in the project. More beneficial investment through FDI in traditional modes as well as public-private partnerships can be an important part of resolving the infrastructure and energy-related constraints of the least developed countries.

54. Least developed countries might also consider appointing a FDI ombudsperson in their respective economies, to address foreign investors' grievances and help prevent costly investor-state disputes. As a person respected by the government and the business community, the ombudsperson can serve as an after-care institution in the host economy and can help resolve grievances of foreign affiliates with respect to governments and vice versa, thereby preventing them from escalating into

investor-State disputes. Equally important, by pre-emptively addressing foreign investors' grievances through an ombudsperson, least developed countries can induce the reinvestment of earnings from FDI, which comprise a quarter or more of FDI in their economies.

55. To increase the benefits from FDI, least developed countries could consider launching and/or strengthening linkage programmes,[23] through which local firms become suppliers to foreign affiliates located in host countries. Such linkages are one of the most important mechanisms for domestic firms to acquire the tangible and intangible assets that foreign affiliates typically possess. Since foreign affiliates, especially when part of global value chains, need to produce at the frontier of international competitiveness, they may often be prepared, out of their own self-interest, to help local firms upgrade themselves. As the experience has shown, host-country governments need to help their own firms to become linkage-ready.

56. Another area for action and cooperation relates to the standards and practices host countries require of transnational corporations operating in their economies. Some least developed countries already require adherence to certain specific standards of corporate social responsibility on the part of those corporations operating in their economies.

57. Finally, most least developed countries are members of ILO, meaning that the ILO Declaration on Fundamental Principles and Rights at Work applies, in principle, to them, including as regards employees in foreign affiliates. Those countries could also consider adhering to the Guidelines for Multinational Enterprises of the Organization for Economic Cooperation and Development (OECD),[24] so as to minimize the possible negative outcomes of FDI in a range of areas as specified by the Guidelines.

Actions by home countries and other development partners

58. Individual home countries, especially developed ones, have established various measures aimed at helping their firms invest abroad. For virtually all of those measures, home countries should consider making them more attractive to firms that are prepared to invest in least developed countries. Moreover, consideration should be given to link the provision of home country measures to the adherence by the beneficiaries to a core set of social, labour and sustainable development standards. The Multilateral Investment Guarantee Agency criteria for investment guarantees[25] could be a partial model here. Adding to these criteria the requirement of making every reasonable effort to contribute as much as possible to the development of least developed countries would be emulating the best practices of some home countries. The resulting projects would thus acquire the characteristics of "sustainable FDI projects", that is, projects that contribute as much as possible to the economic, social and environmental development of host countries and take place in the context of fair governance mechanisms. The inclusion in international investment agreements of language that provides for countries to encourage firms to observe corporate social responsibility standards can help and is desirable. For example, the Canada-Republic of Korea Free Trade

[23] See UNCTAD, *World Investment Report 2001: promoting linkages* (Geneva, 2001).
[24] Available from http://www.oecd.org/investment/mne/48004323.pdf.
[25] Available from www.miga.org/projects/index.cfm?stid=1822.

Agreement[26] stipulates that each party should encourage enterprises operating within its territory or subject to its jurisdiction to voluntarily incorporate internationally recognized standards of corporate social responsibility in their practices and their internal policies, including statements of principle that are endorsed or supported by the Parties. These principles address issues such as labour, environment, human rights, community relations and anti-corruption.

59. The emerging developing countries, which now account for over 40 per cent of total FDI inflows to least developed countries, can help further enhance these flows and benefits therefrom by: (a) adopting dedicated investment promotion measures dedicated to such countries; (b) ensuring the transfer of technical and managerial skills as well as institutional support, especially in regard to infrastructure projects; and (c) promoting linkages with domestic sectors in least developed countries.

60. Individual home countries could also consider providing home-country equity assistance to small and medium-sized enterprises investing in least developed countries by arrangements similar to those in the Netherlands for such enterprises investing in State of Palestine, under which the Dutch Development Organization provides a part of the investment and provides for political-risk insurance.[27]

61. In addition, home countries and other development partners should consider pursuing further initiatives specifically aimed at promoting FDI in the least developed countries and enhancing its benefits for host economies. Examples of such initiatives are shown below.

Providing rapid-response negotiations support

62. Support to least developed countries in negotiating complex large-scale contracts with foreign investors can play a critical part in protecting both host country and investing company interests in a balanced manner. Many large FDI projects, especially those relating to the exploitation of natural resources, infrastructure, privatizations, and public-private partnerships, involve contracts between investors and host-country governments. Most governments of least developed countries do not have the world-class resources required to negotiate fair deals in these areas, and thus may lose the opportunity to maximize the benefits of major FDI projects for their countries, or restrict foreign participation out of fear of the potential negative outcomes from having limited negotiating capabilities. This is all the more important as such contracts typically concern major sources of income for least developed countries, for years to come, and hence can contribute significantly to a self-financed graduation from the status of least developed country. At the same time, unfair contracts are sooner or later likely to lead to a request for renegotiations on the part of host countries, with the risk of disruptions of production and the potential for conflicts. Host countries and transnational corporations therefore have an interest in establishing fair and stable contracts. Support for the least developed countries in contract negotiations, perhaps supported by a revolving fund created on the basis of an initial endowment, could help level the playing field between the least developed countries and transnational corporations with abundant access to negotiating expertise, thereby leading to more durable contracts. Negotiations support requested by least developed countries could

[26] Available from www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/korea-coree/08.aspx.

[27] See, for example, www.miga.org/projects/index.cfm?pid=1292.

encompass an information platform relating to the negotiation of contracts;[28] a referral service for negotiators representing least developed countries who want to obtain information about where they might be able to obtain specific information or assistance; and the capacity to field multi-disciplinary teams within weeks that could help least developed countries anywhere in the world in actual negotiations of complex, large-scale contract negotiations, regardless of the industries involved. Such support should of course leverage existing initiatives to the extent possible, but it should also fill gaps, especially by providing actual negotiations assistance.

63. It is encouraging in this respect that the Group of Seven, at its June 2014 summit, announced a new initiative on strengthening assistance for complex contract negotiations to provide developing country partners with extended and concrete expertise for negotiating complex commercial contracts, focusing initially on the extractives sector, and working with existing forums and facilities to avoid duplication. It also committed to establishing a steering committee led by the Group of Seven to lead the process of improving expert assistance for negotiation support, including identifying any gaps in existing assistance as a first step towards developing rapid response teams to provide contract negotiation assistance to developing countries as soon as it is needed. It would be highly desirable if this improvement of expert assistance could be done as soon as possible, and if priority could be given to negotiating assistance to the least developed countries.

64. At the same time, the least developed countries could commit themselves to a stronger enforcement of contracts signed between them and foreign investors, for example, by becoming signatories to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards, which obliges contracting States, including the 22 least developed countries that are signatories, to recognize and enforce arbitral awards.

Support for dispute resolution

65. As the least developed countries become hosts to growing FDI in a range of activities and, simultaneously, parties to more international investment agreements, the prospects for treaty-based investment disputes are likely to rise. In fact, as at June 2014, the least developed countries were respondents in 36 such investment disputes. Hence, it would be desirable for home countries to consider the creation of an advisory centre for treaty-based investment disputes, to assist those countries in the handling of such disputes. Such an advisory centre could be patterned on the World Trade Organization (WTO) Advisory Centre on WTO Law, which provides free legal advice to developing countries on WTO law and support in WTO dispute settlement proceedings at discounted rates. Such a centre would not only save costs for the least developed countries that are respondents in such disputes and help them to defend themselves against unjustified claims and the potentially high damages involved, but, by giving those countries a fair chance to benefit from the investor-State dispute settlement mechanism typically included in international investment agreements, it would also strengthen the legitimacy of the international investment law and policy regime, which is under criticism from various quarters. Such a mechanism could also reduce the likelihood of FDI being restricted in some sectors owing to the anticipation of disputes.

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[28] See, for example, www.negotiationsupport.org.

Support for Tax Inspectors without Borders

66. FDI and international production bring with them a range of issues relating to taxation that home as well as host countries need to address, and this applies even more to the least developed countries. Abusive transfer pricing and international tax planning by transnational corporations can lead to the erosion of the tax base and the shifting of profits that result in a loss of revenue for a host country as well as a distortion of investment decisions and unintended competitive advantages for those corporations over domestic businesses.[29] In this context, home countries and other development partners should support the Tax Inspectors Without Borders initiative of the OECD and mandate the organization to give priority to the least developed countries in this respect. The initiative aims at enabling the transfer of tax audit knowledge and skills to administrations in developing countries through a "learning by doing" approach, in which experts are deployed to work directly with local tax officials, in tax administrations seeking assistance, on current audits and audit-related issues concerning international tax matters, and to share knowledge of general audit practices. In addition to the transfer of knowledge and know-how, broader benefits from the initiative include the potential for more revenues, greater certainty for taxpayers and the encouragement of a culture of tax compliance through more effective enforcement.

Actions by transnational corporations, local industry and non-governmental organizations

67. The impact of FDI on sustainable development in host least developed countries depends also on the extent to which the foreign affiliates act as good corporate citizens with an interest in promoting sustainable development in their host countries. As noted, some home countries make help to outward investors dependent on meeting certain impact criteria. Similarly, transnational corporations receiving financial support from the International Finance Corporation need to meet its impact criteria for project finance. Those corporations should fully embrace these criteria and also consider observing them when not benefitting from home country measures or its support.

68. Furthermore, transnational corporations should fully commit to and observe, including for their value chains, the above-mentioned OECD Guidelines and the United Nations Guiding Principles on Business and Human Rights, as well as the various other international instruments that seek to encourage good corporate behaviour. The fact that, as at 2013, 8,000 companies had joined the Global Compact, committing to adopting a principles-based management and operations approach, suggests that there is considerable scope for the sharing of non-proprietary knowledge and expertise by foreign affiliates and their parent companies with domestic firms in the least developed countries.

69. At the individual company level, many individual transnational corporations have their own corporate social responsibility policies. It would be desirable if these policies were put on a firmer ground by dedicating a certain percentage of the earnings of parent firms to foreign affiliates in least developed countries, undertaking clearly defined corporate social responsibility activities in their host

[29] Organization for Economic Cooperation and Development (OECD), *Action plan on base erosion and profit shifting* (Paris, 2013).

(least developed) countries, creating in this manner the financial and corporate governance basis for sustainable FDI. Transnational corporations, local firms, business associations and non-governmental organizations in least developed countries need to cooperate in promoting further sharing of ideas, knowledge and expertise through information exchange, meetings and conferences, training programmes for local human resources and other direct actions.

Action by international organizations

70. Given the urgency of accelerating the development process of the least developed countries and helping them graduate from their group, there is a case for extending some of the initiatives already under way in developing countries in general to those countries, or, where these are already eligible, giving priority to them. Consideration should be given, among others, to the following:

(a) Giving priority to the least developed countries in implementing the new initiative of the Group of Seven to assist developing countries in negotiating large-scale complex contracts with foreign investors. Resource-rich least developed countries in all parts of the world are in particular need of such assistance, but so are least developed countries in general that negotiate the terms and conditions for the utilization of their scarce assets in order to get the best possible deal;

(b) Strengthening mechanisms to ensure that transnational corporations and their foreign affiliates operating in the mineral industries adhere to the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas,[30] which provides guidance to companies operating in or sourcing materials from conflict-affected and high-risk areas, many of which are LDCs, consistent with applicable laws and international standards;

(c) Extending risk insurance provided by the Multilateral Investment Guarantee Agency and national political risk insurers to global value chain affiliates outside an affected host country. For example, if political instability in a first country leads to a temporary suspension or severe restriction of production in a value-chain foreign affiliate in that country, this would immediately affect the ability of an affiliate in the same value chain in a second country that depends on inputs from its affiliate in the first country. Currently, only the affiliate in the first country would be potentially eligible to benefit from its insurance with the Agency, even though the affiliate belonging to the same supply chain in the second country has been affected. Given that political risk is seen to be high in least developed countries, providing such supply-chain insurance would help these countries to link up with global value chains, arrangements that are increasingly driving not only global investment but also trade. Perhaps consideration could also be given to extending insurance to value-chain interruptions on account of natural disasters;[31]

(d) Drawing the attention of investors in emerging markets to the political risk insurance services of the Multilateral Investment Guarantee Agency. While the Agency's services are well known to investors in developed countries, this is less so in other countries. Such awareness is particularly important because firms from countries not classified as developed by UNCTAD and headquartered in emerging markets

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[30] Available from www.oecd.org/investment/mne/GuidanceEdition2.pdf.

[31] See UNCTAD, *World Investment Report 2013: global value chains: investment and trade for development* (Geneva, 2013).

accounted for $550 billion in outward FDI flows in 2013, more than 10 times the global FDI flows during the first half of the 1980s. However, many investors in emerging markets are not aware of the Agency's political risk services, which could limit their inclinations to invest in the least developed countries;

(e) Extending to the least developed countries the International Finance Corporation investor grievance mechanism, in cooperation with host governments. This could help to avoid potentially costly arbitration and thereby contribute towards retaining existing investment, encouraging reinvestment and preventing investor-State disputes. The Corporation should consider making this facility available, on a priority basis, to the least developed countries requesting its implementation.

V. Conclusions and recommendations

71. The promising trends in FDI flows to the least developed countries in recent years and the nascent shifts in their sectoral distribution towards manufacturing and service activities suggest scope for further efforts by the least developed countries, home countries, the international community and others for promoting FDI flows that contribute to these countries' productive capacity-building. Even more importantly, it would be worthwhile for the international community to consider launching an action plan for promoting FDI in the least developed countries and strengthening host-country benefits along the lines noted above.

72. Greater coordination of such efforts can be achieved through a one-stop arrangement, such as an international investment support centre dedicated to the least developed countries. Such a facility, as recommended in the Cotonou Agenda for productive capacity-building in least developed countries,[32] could provide the following interrelated services:

(a) A common information depository containing all relevant information on regulatory, promotion and protection policies and measures by least developed countries, home countries and other stakeholders as relates to FDI in least developed countries;

(b) Contract preparation and negotiating support, in the form of rapid-response negotiations support to assist least developed countries in negotiating complex large-scale contracts with foreign investors;

(c) Advisory support in dispute resolution, in the form of technical support for treaty-based investment disputes to assist least developed countries in the handling of such disputes;

(d) Risk insurance, in the form of facilitating risk insurance and guarantees for investment in least developed countries in close collaboration with the Multilateral Investment Guarantee Agency and OECD.

73. Such a mechanism would aim to fill the institutional gaps in providing coordinated support to least developed countries in the above areas, without duplicating but complementing existing arrangements. It is recommended that the General Assembly considers the establishment of a voluntarily funded international investment support centre for least developed countries under the auspices of the United Nations and also the related institutional and other matters.

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[32] Available from http://unohrlls.org/custom-content/uploads/2014/08/Cotonou-Agenda_07_08_2014_.pdf.

Annex

Least developed countries: selected data on inward and outward foreign direct investment

	Average annual FDI inflows (US dollars, millions)		*Average annual FDI outflows (US dollars, millions)*		*FDI inflows as percentage of gross fixed capital formation*		*Inward FD stock (US dollars, millions)*		*Inward FD stock as percentage of GDP*	
	2001-2003	*2011-2013*	*2001-2003*	*2011-2013*	*2001-2003*	*2011-2013*	*2001*	*2013*	*2001*	*2013*
The least developed countries	**8 046**	**24 854**	**169**	**4 490**	**18.2**	**12.7**	**42 485**	**211 797**	**21.9**	**25.9**
Africa	**7 204**	**19 484**	**118**	**4 354**	**33.4**	**18.5**	**33 152**	**167 604**	**31.8**	**33.9**
North Africa	**879**	**2 758**	**0**	**391**	**33.0**	**20.0**	**1 972**	**29 148**	**12.5**	**41.6**
South Sudan		...		...		...		...		...
Sudan	879	2 758	0	391	33.0	20.0	1 972	29 148	12.5	41.6
West Africa	**625**	**5 603**	**110**	**1 451**	**11.4**	**30.8**	**5 093**	**33 600**	**21.7**	**43.4**
Benin	34	254	1.3	49	6.2	16.3	174	1 354	7.0	16.3
Burkina Faso	17	282	1.4	86	2.6	9.5	16	1 432	0.6	11.7
Gambia	31	29	...	...	14.9	10.6	221	754	32.1	88.7
Guinea	38	529	1.8	1.7	4.5	24.5	265	3 303	8.7	52.6
Guinea-Bissau	3	15	0.4	0.3	4.0	17.8	38	112	9.7	13.2
Liberia	128	851	95	808	319.8	437.2	3 255	6 267	623.5	324.2
Mali	166	455	7	10	25.7	23.5	210	3 432	7.0	31.0
Mauritania	82	1 042	-0.3	4	30.7	94.6	223	5 499	17.2	131.3
Niger	13	846	-1.8	1.6	3.9	35.2	61	4 940	3.3	67.1
Senegal	54	304	10	45	4.1	8.6	194	2 696	4.0	17.8
Sierra Leone	10	693	...	0	7.4	64.1	294	2 319	26.9	48.4
Togo	50	302	-4	445	22.3	43.3	141	1 494	10.6	34.3
Central Africa	**1 573**	**4 915**	**15**	**309**	**55.4**	**30.8**	**3 964**	**27 539**	**33.0**	**46.0**
Burundi	0.007	4	0.004	...	0.01	0.7	47	16	7.2	0.6
Central African Republic	7	36	...	...	8.9	11.3	109	620	11.7	40.3
Chad	699	388	...	...	73.5	15.1	1 036	4 758	60.6	35.5
Democratic Republic of the Congo	204	2 366	14	304	38.0	51.1	699	5 631	13.3	29.9
Equatorial Guinea	651	1 968	1.4	...	61.3	30.8	2 001	15 317	118.0	98.3
Rwanda	8	126	...	5	3.5	8.1	57	854	3.4	11.5
Sao Tome and Principe	3	28	...	0.3	13.9	41.2	14	345	20.0	111.9

	Average annual FDI inflows (US dollars, millions)		*Average annual FDI outflows (US dollars, millions)*		*FDI inflows as percentage of gross fixed capital formation*		*Inward FD stock (US dollars, millions)*		*Inward FD stock as percentage of GDP*	
	2001-2003	*2011-2013*	*2001-2003*	*2011-2013*	*2001-2003*	*2011-2013*	*2001*	*2013*	*2001*	*2013*
East Africa	**1 034**	**4 476**	**-0.04**	**-0.6**	**15.6**	**14.7**	**5 681**	**37 221**	**17.6**	**30.6**
Comoros	0.8	16	...	...	3.0	19.7	22	107	9.9	16.4
Djibouti	7	158	...	...	7.8	59.8	43	1 352	7.5	92.8
Eritrea	20	41	...	...	8.7	14.1	350	791	46.5	23.0
Ethiopia	356	619	...	...	17.9	5.0	1 291	6 064	16.2	12.6
Madagascar	83	820	-1.1	...	10.9	45.7	143	6 488	3.1	57.9
Somalia	-0.2	105	...	...	-0.08	43.4	4	883	0.3	67.6
Uganda	179	1 082	...	-0.6	13.8	21.0	962	8 821	15.2	38.3
United Republic of Tanzania	388	1 634	1.1	...	20.3	16.6	2 867	12 715	27.0	39.1
Southern Africa	**3 093**	**1 732**	**-7**	**2 203**	**77.8**	**6.4**	**16 442**	**40 097**	**78.9**	**24.2**
Angola	2 441	-4 736	-10	2 307	163.6	-27.1	10 123	2 348	106.9	1.9
Lesotho	34	49	0.02	20	13.2	7.0	358	1 237	50.6	54.3
Malawi	41	126	2	49	12.0	40.7	419	1 285	14.3	33.7
Mozambique	313	4 742	0.09	2	30.5	186.8	1 505	20 967	36.9	136.8
Zambia	264	1 550	...	-174	31.6	28.4	4 038	14 260	110.5	63.6
Asia and the Pacific	**838**	**5 040**	**52**	**130**	**3.9**	**5.7**	**9 234**	**33 679**	**10.7**	**10.7**
South-East Asia	**371**	**3 899**	**8**	**24**	**16.8**	**15.5**	**5 646**	**17 180**	**42.4**	**19.5**
Cambodia	126	1 219	8	36	17.0	50.1	1 729	9 399	43.3	60.0
Lao People’s Democratic Republic	16	297	0.1	-9	4.8	10.4	612	2 779	36.3	27.8
Myanmar	225	2 355	...	...	22.4	12.4	3 305	14 171	43.3	25.1
Timor-Leste	5	28	...	-3	4.0	3.6	0	230	...	3.7
South Asia	**393**	**1 535**	**10**	**33**	**2.3**	**2.7**	**2 341**	**13 910**	**3.8**	**6.0**
Afghanistan	36	82	...	...	6.8	2.6	18	1 638	0.5	7.9
Bangladesh	344	1 343	10	33	2.5	3.6	2 202	8 596	4.3	6.1
Bhutan	3	23	...	...	0.8	1.9	4	163	0.9	8.2
Nepal	10	87	...	...	0.8	2.3	116	514	2.0	2.7
West Africa	**60**	**-394**	**34**	**73**	**3.5**	**-7.5**	**998**	**3 675**	**8.9**	**9.4**
Yemen	60	-394	34	73	3.5	-7.5	998	3 675	8.9	9.4
Oceania	**13**	**176**	**-0.4**	**6**	**10.8**	**28.7**	**249**	**1 915**	**27.8**	**68.5**
Kiribati	0.2	4	0.1	-0.2	0.5	4.8	0.7	14	1.2	8.0

	Average annual FDI inflows (US dollars, millions)		*Average annual FDI outflows (US dollars, millions)*		*FDI inflows as percentage of gross fixed capital formation*		*Inward FD stock (US dollars, millions)*		*Inward FD stock as percentage of GDP*	
	2001-2003	*2011-2013*	*2001-2003*	*2011-2013*	*2001-2003*	*2011-2013*	*2001*	*2013*	*2001*	*2013*
Samoa[1]	0.5	22	-1.7	3	5.2	35.6	72	282	30.2	40.1
Solomon Islands	-5	107	0.6	3	-9.6	41.8	97	1 040	28.9	94.8
Tuvalu	...	...	...	...	...	...	...	...	...	...
Vanuatu	18	44	0.5	0.6	40.5	19.8	79	578	30.6	70.4
Caribbean	**8**	**155**	**...**	**...**	**2.0**	**13.7**	**100**	**1 114**	**3.1**	**13.2**
Haiti	8	155	...	...	2.0	13.7	100	1 114	3.1	13.2
Memorandum:										
Total, developing countries	**195 677**	**744 220**	**62 734**	**438 937**	**11.3**	**9.4**	**1 875 636**	**8 483 009**	**26.9**	**31.1**
Total, developed countries	**478 526**	**654 232**	**554 029**	**975 284**	**7.9**	**7.7**	**5 629 969**	**16 053 149**	**22.3**	**36.4**
Total, world	**687 780**	**1 494 107**	**622 542**	**1 489 673**	**8.8**	**8.8**	**7 589 721**	**25 464 173**	**23.3**	**34.3**

Source: World Investment Report 2014 (http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=937).

Notes: Three dots (...) indicate that data are not available or are not separately reported. A blank indicates that the item is not applicable.

[1] Samoa has graduated from LDC status on 1 January 2014.