



General Assembly

Distr.
LIMITED

A/CONF.191/L.21
20 May 2001

Original: ENGLISH

Third United Nations Conference on the
Least Developed Countries
Brussels, Belgium, 14-20 May 2001

Interactive thematic session

**ENHANCING PRODUCTIVE CAPACITIES: THE ROLE OF
INVESTMENT AND ENTERPRISE DEVELOPMENT**

Summary prepared by the Conference secretariat

1. The interactive thematic session on Enhancing Productive Capacities: The Role of Investment and Enterprise Development focused on four areas: the importance of national enterprise development; the role of foreign direct investment (FDI); FDI potential in LDCs; and actions needed to realize this potential. The international community was urged to break the vicious cycle LDCs find themselves in.
2. It was noted that the prerequisite for enhancing the productive capacity of LDCs is through an enabling business environment. While this is a necessary condition it is not always sufficient. There are many additional barriers to overcome, such as the limited size of markets, poor social and physical infrastructures and an underdeveloped private sector.
3. It was also emphasized that investment issues should be discussed in the context of reducing poverty. The German Government recently launched the "Programme of Action for Poverty Reduction" in response to the Millennium Assembly in New York, which aims at meeting the

international development target of halving the proportion of people living in extreme poverty by 2015.

4. An environment conducive to private sector development, especially by fostering small and medium enterprises and increased private-sector investment, are essential for growth-induced poverty reduction.

5. The importance of private/public sector dialogue was also highlighted. Private/Public Partnerships (PPPs) should be further pursued by LDCs and donor countries as an effective way of mobilizing additional resources for development projects. Development policy should strive, whenever possible, to make markets and private economic activities contribute to sustainable development. PPP projects, when based on commercial principles, largely prove themselves sustainable.

Enterprise development

6. The prosperity of a country is a function of the competitiveness of its enterprises. However, in LDCs, the enterprise structure is skewed toward the large and the very small (micros), neglecting the small- and medium-sized enterprises (SMEs).

7. Experts discussed the many problems that LDC firms face to develop and compete in the global economy, as well as what must be done to ensure their survival. Many small enterprises fail because they lack business and management skills, access to markets, finance, information and technology. Their lack of access is rooted in the fact that they are small and isolated.

8. These handicaps have been overcome in a number of developing countries through business development service programmes such as UNCTAD's EMPRETEC Programme. UNCTAD and UNDP are now cooperating in order to spread best practice programmes in business development services to Africa.

9. SMEs should be offered a total package of business services. It is essential to combine business development services and financial services, since it is not effective to give finance to enterprises which cannot repay it. The success of the Enterprise Africa Programme in terms of sustainability is based on seven key principles: clear client focus; selectivity; total solution package; payment for services; local consultancy support; strategic alliances; and network of repeat clients, making sustainability a priority by having the right product mix and fee structure.

10. According to the experience of a woman entrepreneur from Ethiopia, accessing finance is particularly difficult without a proper business plan. She recently joined the EMPRETEC Programme which helped her organize her business in a systematic way. Enterprise Ethiopia assisted her in devising a business plan and provided training in financial management, business counselling and investment profile and linkages with larger companies. As a result of this

support, she was able to participate in the tender of a large corporation to provide underground storage equipment.

Foreign direct investment

11. Enhancing productive capacity and developing the private sector in LDCs is an absolute condition to reduce and combat poverty. Domestic efforts and resources must be supplemented with external resources. Official development assistance (ODA) is essential in this respect. However, while ODA still dominates capital flows to LDCs, its importance has declined in both absolute and relative terms: ODA inflows to LDCs were, in per capita terms, about US\$ 30 in 1990 but they declined to less than US\$ 20 in 1999.

12. Therefore, ODA needs to be complemented by others forms of external finance. FDI can be helpful by bringing much needed investment capital and other inputs necessary for development such as technology, skills and access to international markets. It can complement domestic investment and help, through linkages, and domestic enterprise development. FDI can also contribute to better integrating LDCs into the global economy. ODA can play an important role to improve the investment climate, through, for example, improving governance or infrastructure.

13. The contribution of FDI has not always been entirely positive. Job losses and crowding out the domestic private sector is one problem that needs to be recognized and dealt with. Other issues include labour and environmental standards and transfer of technology.

14. Considerable potential for investment exists in LDCs despite many constraints such as small markets, poor infrastructure or lack of skills. The strongest indication for this is a rapid increase of FDI flows into LDCs during the 1990s from some US\$ 0.5 billion in 1990 to over US\$ 5 billion in 1999.

15. However, LDCs only account for 0.5 per cent of total global FDI inflows, although their unrealized potential is much greater. This is particularly true in the export-oriented manufacturing and services sectors, including tourism, banking, telecommunications and power generation.

16. FDI opportunities often remain unrecognized by transnational corporations (TNCs). Executives of TNCs are influenced in their perceptions of LDCs by media reports dominated by accounts of civil unrest, disease or economic disorder. While such problems undoubtedly exist in many LDCs, a concerted effort must be made to change the perception that all LDCs are the same.

17. LDCs have made inroads in attracting FDI by introducing changes in their regulatory framework, making them attractive and more stable, transparent and reliable for foreign investors. They have also taken positive steps toward putting in place sound legal and regulatory

frameworks and establishing institutions to facilitate the investment process. In order to improve standards of treatment and protection, they have also signed a large number of bilateral investment and double-taxation treaties.

18. In spite of these efforts, more needs to be done by host LDCs, home countries, the international community and foreign investors to unleash the FDI potential. In particular, there is a need to further improve the national investment climate and the international investment environment. Regarding the institutional framework for FDI, a non-discriminatory policy should be adopted. The international investment regime should fully take into account national considerations and peculiarities that are relevant to development.

19. Actions are also needed to overcome constraints to FDI in LDCs. For example, the constraint of small markets can be dealt with through expanding the market access for LDCs not only through regional integration schemes but also through increasing market access for LDCs in developed country markets. Therefore, initiatives such as the European Union's recent decision to open up markets for LDCs to "Everything But Arms" (EBA) are particularly welcome.

20. Governments and the private sector should work together to tackle corruption, build social and physical infrastructure, upgrade the skills base and connect LDCs to global communications. A cooperative approach is needed between the private and public sectors to leverage concessional funds (development aid and debt aid) with private funds, in order to attract substantially greater inflows of FDI and benefit from them. Home countries should work more closely with host countries.

21. Successful experiences of foreign investors underline the need to focus on the long-term perspective and not take hospitality for granted. A give-and-take balance should be struck and mutual respect fostered.

22. For their part, TNCs can work to upgrade operations in host countries. There are successful examples of corporate social responsibility – companies building hospitals, training nurses and establishing schools. These initiatives should be widely emulated in LDCs.

23. Mutual partnerships work well when all parties agree to invest over the long term and to ensure real returns and benefits for the host country. TNCs should promote adequate and stable employment conditions and contribute to LDC exports.

24. Announced deliverables include, in the field of FDI, an international investment initiative for LDCs, aimed at assisting them in attracting and benefiting from FDI. Key actions include improving the regulatory and institutional framework for FDI and helping to disseminate information on investment opportunities in LDCs. These deliverables were developed in consultation with LDCs.

25. At the heart of the initiative is a multi-agency technical assistance project promoted by UNCTAD, MIGA and FIAS of the World Bank Group, and UNIDO. The deliverables include: investment policy reviews; capacity-building in investment promotion; investment guides (jointly with the ICC); an Investment Contract Aid Facility; an Internet platform for FDI information on the Development Gateway Portal maintained by UNCTAD, MIGA and FIAS; and, together with the ICC, an Investment Advisory Council for LDCs, comprising senior business executives of TNCs and political leaders of LDCs. Twenty-nine bilateral investment treaties involving LDCs were signed.

27. In the field of enterprise development, the Government of Uganda, EMPRETEC/UNCTAD and Enterprise Africa/UNDP announced the launching of the Enterprise Uganda Programme. In addition, a programme was announced aimed at promoting linkages between foreign affiliates and indigenous enterprises, paying special attention to women entrepreneurs.

28. These deliverables are supported by the Governments of Finland, Germany, Italy, Norway (via the Global Compact Trust Fund) and Sweden, as well as by UNDP, UNDP/Enterprise Africa, UNIDO, the UN Development Account, the UN Department for Economic and Social Affairs, ESCWA and the World Bank.
