



## CONNEX: Helping to Make Foreign Direct Investments More Sustainable



Foreign Direct Investment (FDI) is crucial for sustainable development, especially in developing countries and economies in transition. According to UNCTAD's World Investment Report 2014, global investment needs are in the order of \$5 trillion to \$7 trillion per year for each of the years between 2015-2030. The investment gap in developing countries alone is about \$2.5 trillion per year. The need for more, effective investments was reiterated in the Addis Ababa Action Agenda on Financing for Development endorsed by the UN General Assembly, which committed to "develop policies and, where appropriate, strengthen regulatory frameworks to better align private sector incentives with public goals, including incentivizing the private sector to adopt sustainable practices, and foster long-term quality investment." Given the current gaps in global investment and the commitment of the UN General Assembly, it is clear that the achievement of the 2030 Sustainable Development Goals requires not only a significant increase in the amount of foreign direct investment, but also the active engagement of the private sector.

### Effectiveness of Investments Matters

As indicated in the Addis Ababa Action Agenda, increases in foreign investment flows are not enough, these investments also need to be more effective if they are to contribute substantially to the achievement of the SDGs. However, improving the quality of investments cannot be left to host countries alone. At the global and national levels, policymakers need to find the right balance between creating a climate conducive to investment on the one hand and protecting the public interests of host countries on the other. Sustainable Development Goal 17 specifically calls for the creation of partnerships to "strengthen the means of implementation and revitalize the global partnership for sustainable development."

One clear way of increasing the effectiveness of foreign direct investment is to ensure that the terms of these investments are negotiated fairly to derive a maximum contribution to the economic, social and environmental development of the host countries, as well as taking place in the context of mechanisms for fair governance. The CONNEX Support Unit was created specifically to help host countries increase the benefits of investment through the provision of comprehensive, multidisciplinary support to host countries as they negotiate complex investment contracts—initially with a focus on extractive projects.

### Negotiating Mineral Contracts is Challenging, CONNEX Offers a Solution

Negotiating mineral contracts is complex and challenging. The host government needs to be able to assess the quantity and quality of its mineral deposits, while also deciding how it would ideally like to apply the special mix of fiscal tools available so that revenues can be maximized. Beyond the fiscal terms, the host government also needs to ensure—from the beginning—that the project is socially and environmentally sustainable. In addition to fielding a team with environmental, financial, and other experts; the host government also needs a legal team that will negotiate the terms of the contract.

Unfortunately, many developing and transitional economies do not have in-house teams with the required expertise—or the financial resources to assemble such a team. This leaves host governments at a significant disadvantage when negotiating with better resourced investors, and they ultimately lose out on maximizing the benefits and revenues needed to contribute to the Sustainable Development Goals. The CONNEX Support Unit offers a corrective to this, making sure that host governments have access to multidisciplinary teams whenever they need them to negotiate complex investment contracts.

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