EMERGING MARKETS FORUM

BACKGROUND PAPER

FOREIGN DIRECT INVESTMENT TRENDS IN GLOBAL EMERGING MARKETS : A FOCUS ON AFRICA

Emerging Markets Forum

Foreign Direct Investment Trends in Global Emerging Markets

A Focus on Africa

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Abbreviations

AEC	ASEAN Economic Community
AfCFTA	African Continental Free Trade Area
ASEAN	Association of Southeast Asian Nations
BEPS	Base Erosion and Profit Shifting
BICFIT	Baku Initiative for Climate Finance, Investment, and Trade
BIT	bilateral investment treaty
BRI	Belt and Road Initiative
CAGR	compound annual growth rate
CIT	corporate income tax
COP	Conference of the Parties of the UNFCCC
COVID-19	coronavirus disease 2019
ECI	Economic Complexity Index
EURIBOR	Euro Interbank Offered Rate
FDI	foreign direct investment
GDP	gross domestic product
GloBE	Global Anti-Base Erosion
GVC	global value chain
IBOR	interbank offered rate
IFI	international finance institution
IIA	international investment agreement
IMF	International Monetary Fund
IPA	investment promotion agency
IPFSD	investment policy framework for sustainable development
IT	information technology

LDC	least developed country
LLDC	landlocked developing country
MDB	multilateral development bank
MNE	multinational enterprise
MVI	Multidimensional Vulnerability Index
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
PPP	public-private partnership
SDGs	Sustainable Development Goals
SEZs	special economic zones
SMEs	small and medium-sized enterprises
SOFR	secured overnight financing rate
TFP	total factor productivity
UN	United Nations
UNCTAD	UN Trade and Development
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
WAEMU	West African Economic and Monetary Union
WASH	water and sanitation

TABLE OF CONTENTS

EXECUTIVE SUMMARY

This paper presents a detailed examination of Foreign Direct Investment (FDI) trends in global emerging markets, with a focus on Africa. It identifies the critical role that FDI plays in supporting economic growth, enhancing productive capacities, and contributing to the achievement of the Sustainable Development Goals (SDGs). Despite its vast potential, Africa continues to face significant barriers in attracting FDI, particularly in sectors essential for economic diversification and industrial development.

FDI flows into Africa have stagnated over the past decade, accounting for less than 5 per cent of global FDI inflows. The continent's investment landscape is heavily concentrated in a few resource-rich countries, which limits broader economic growth, diversification, and industrialization. Many African countries, particularly least developed countries (LDCs), continue to struggle with attracting investment in non-extractive sectors such as manufacturing and services—areas critical for building productive capacities, creating jobs, and achieving sustained growth.

The challenges hindering FDI in Africa are multifaceted. For many countries in the continent, poor infrastructure, political instability, and fragmented regulatory frameworks contribute to a higher-risk environment that deters investors. Global shifts in manufacturing and increased investment in asset-light - service-oriented sectors present additional challenges for African economies, which often lack the necessary infrastructure, skills, and institutions to compete effectively.

Despite these challenges, Africa presents significant investment opportunities, particularly in renewable energy, digital services, and infrastructure development. As global priorities shift toward sustainability, Africa is well-positioned to attract investment that supports the energy transition, particularly in countries rich in critical minerals such as cobalt and lithium. Moreover, several African countries have successfully implemented reforms to improve the business environment, demonstrating that strategic policies can enhance investment flows.

To further capitalize on these opportunities, the following policy recommendations are proposed.

1. **Fostering a robust enabling environment for investment**. To improve the investment climate and attract higher levels of FDI, African governments should prioritize the creation of a robust enabling environment. This includes strengthening political and economic stability, enhancing infrastructure and skills, and streamlining regulatory frameworks to lower the cost of doing business. Regional initiatives, such as the African Continental Free Trade Area (AfCFTA) Investment Protocol, provide an opportunity to harmonize investment policies and foster greater regional integration, which can enhance Africa's appeal to investors.

2. **Mitigating investment risks and high capital costs.** Mitigating investment risks is critical to reducing the high capital costs that often deter long-term investments in African countries. Risk mitigation strategies—such as investment guarantees, blended finance mechanisms, and partnerships with multilateral development banks—can help improve access to credit and attract private sector financing. Furthermore, reforming sovereign credit rating criteria to account for long-term development objectives would lower the cost of capital and facilitate investment in SDG-related sectors.

3. **Mobilizing investment for critical sectors**. Mobilizing private investment in critical sectors such as renewable energy, infrastructure, healthcare, and education will require targeted policy

frameworks and Public-Private Partnerships (PPPs). African countries should focus on enhancing the investment readiness of these sectors by developing clear regulatory frameworks, creating pipelines of bankable projects, and aligning incentives with the SDGs. In addition, they can maximize the benefits of FDI by strengthening local entrepreneurial ecosystems, manufacturing capacities as well as domestic and regional value chains linkages.

By addressing these key challenges and capitalizing on emerging opportunities, African countries can significantly enhance their attractiveness to foreign investors, promote sustainable development, and drive long-term economic growth.

While this paper focuses on FDI, other forms of private financial flows—such as international bank lending, bond financing, and portfolio equity—are also critical for driving growth. Unlocking these financing flows for foreign investment would require strengthening the financial institutional framework. This includes promoting transparent accounting and valuation standards, good governance, independent monetary oversight, and the creation of wealth-building institutions such as savings banks and pension funds, along with competitive regulatory regimes that fight corruption and fraud.

I. INTRODUCTION

Foreign Direct Investment (FDI) is a key source of external finance for developing economies. It can contribute to economic growth and generate export revenues and fiscal returns. It can also facilitate sustainable development, through technology transfer and job creation, including establishing linkages with local suppliers and small and medium-sized enterprises (SMEs). Additionally, investment in critical and social infrastructure sectors—like energy, transportation, telecommunications, agrifood systems, healthcare, and education—can contribute towards achieving the Sustainable Development Goals (SDGs).

Following the global financial crisis of 2007–2008, global FDI flows fell and have not regained their pre-crisis peak. What followed has been a prolonged period of subdued FDI inflows. A series of external shocks, including the Covid 19 pandemic, geopolitical events, as well as economic fragmentation, have further contributed to investment uncertainty in both developed and developing economies (UNCTAD, 2024a). Consequently, many developing economies, particularly Least Developed Countries (LDCs), are increasingly overlooked in favor of larger and lower risk markets, with lower perceived risks, exacerbating their economic vulnerability and risk perceptions. With fiscal situations in both developed and developing countries leaving little space to fund investments in SDGs and climate agendas, the pathway to growth will need to be supported through private investment.

FDI flows into Africa have stagnated over the past decade, with investments primarily concentrated in the extractive sectors and limited to a few, mostly large economies (UNCTAD, 2024b). Despite many advantages that may be attractive to foreign investment, such as plentiful natural resources and competitive cost of production, many African economies face challenges attracting FDI. Africa, home to 54 countries, including 33 LDCs and 16 landlocked developing countries (LLDCs) —13 of which are also LDCs— faces one of the highest risks of losses and reduced long-term development potential due to a combination of economic, environmental, and social vulnerabilities. In the recently adopted Multidimensional Vulnerability Index (MVI), 35 of Africa's 54 countries score above the global average (United Nations, 2024).

Some key obstacles include poor infrastructure, weak institutions, and fragmented policy and regulatory frameworks (African Development Bank, 2023; ECA, 2023; UNCTAD, 2023a). Additionally, investors often lack information about opportunities on the continent or balk at the cost of perceived political risks (OECD, 2022; Ndulu & O'Connell, 2021; IMF, 2023a; UNCTAD, 2024a). Financial intermediation costs, reflected in high lending rates, also deter FDI inflows (IMF, 2023a).

Attracting FDI into non-extractive sectors is essential for building productive capacities, creating jobs and generating export revenues. Yet, for several low-income African countries FDI is concentrated in natural resource sectors, which has in fact not contributed to industrialization and economic diversification. For Africa, this challenge is further complicated by the global slowdown in manufacturing, and a shift toward services, including asset-light investments.

The lack of investment in infrastructure, which is largely dependent on project finance, is affected by financial risks, currency risks and other macroeconomic factors, summarized in poor credit ratings. For instance, due to low credit rating scores, a large number of African countries borrow at interest rates above their GDP growth rates, worsening their debt-to-GDP ratios and increasing debt distress.

Addressing these problems, for example through blended finance mechanisms, guarantees, local debt issuances, and co-investments, are key for attracting the necessary investments for infrastructure development.

Moreover, total Factor Productivity (TFP) in Africa continues to face significant challenges, primarily due to weak productivity growth in key sectors, particularly in agriculture and services. According to the IMF, countries like Burkina Faso have seen minimal TFP contribution to cumulative GDP growth, with reliance on low-productivity sectors and slow structural transformation impeding broader economic development. Persistent structural issues, such as inadequate infrastructure, low public investment, and insufficient human capital, alongside political instability and limited access to finance, further hinder productivity growth across the continent (IMF, 2024).

This paper addresses the above challenges affecting Africa's ability to attract foreign investment in many African countries and proposes several strategies to overcome these barriers, improve the investment climate and foster sustainable development. By examining key trends in international investment in developing economies, it identifies best practices for attracting FDI in productive capacity and the SDG sectors, and in addressing investment risks. It also explores the role of Public-Private Partnerships (PPPs) in overcoming financing constraints, particularly in sustainable infrastructure, and offers policy recommendations to promote foreign investments.

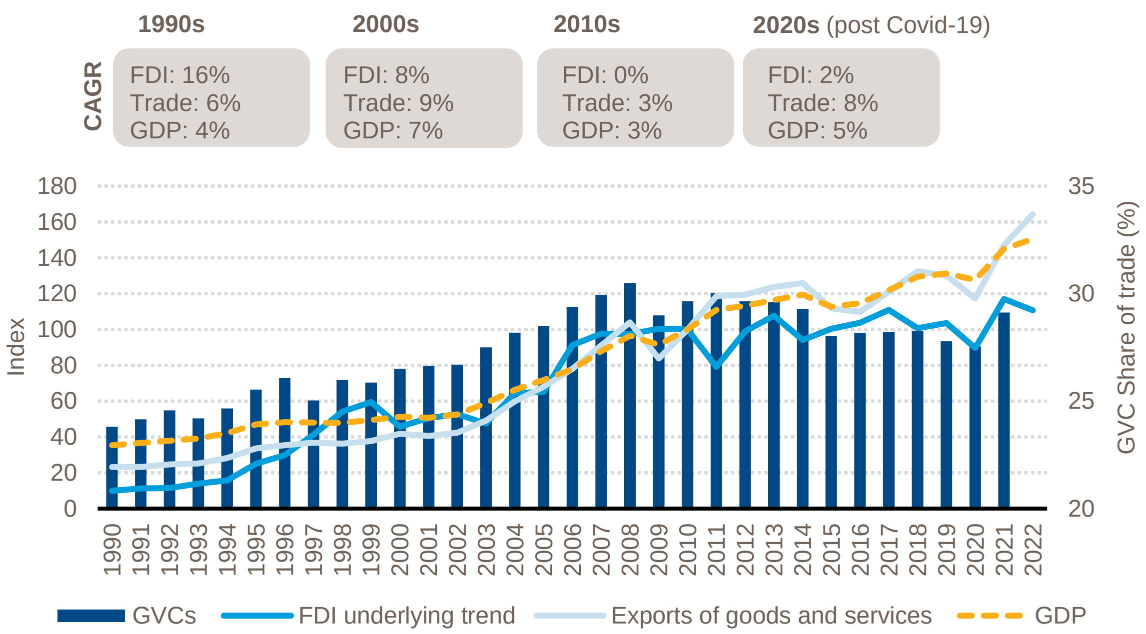
Section 2 reviews long-term trends in international investment, with a focus on Africa, and their contribution to enhancing productive capacities and achieving the SDGs. Section 3 explores investment policy trends; it highlights the increasing reliance on incentives in investment promotion and the shift toward new-generation international investment agreements (IIAs) that balance investor protection with sustainable development, as well as the role of the African Continental Free Trade Area (AfCFTA) Investment Protocol as a key driver of reforms. Section 4 identifies challenges and emerging opportunities for FDI in Africa and highlights successful strategies from countries that have attracted investment. The paper concludes with a set of policy recommendations to reduce investment risks and the cost of capital, as well as foster international partnerships that can improve the sustainable development impact of investment.

II. FDI TRENDS

A. Global FDI trends

FDI has undergone significant transformations over the past two decades due to technological advancements, geopolitical considerations, and sustainability demands that have reshaped globalization. The long-term trend in international investment indicates that a slowdown in global FDI began around 2010 (figure 1). Global FDI flows fell by 35 percent in 2020 due to the COVID-19 pandemic, reaching their lowest level since 2005 and nearly 20 percent lower than the nadir observed in 2009 following the global financial crisis (UNCTAD, 2021; 2024a; 2024b). This impact on FDI has also resulted in divergent patterns across host countries, particularly in strategic sectors critical for sustainable development.

Figure 1 FDI lost pace with trade and GDP growth
FDI, trade and GDP trends, indexed 2010 = 100

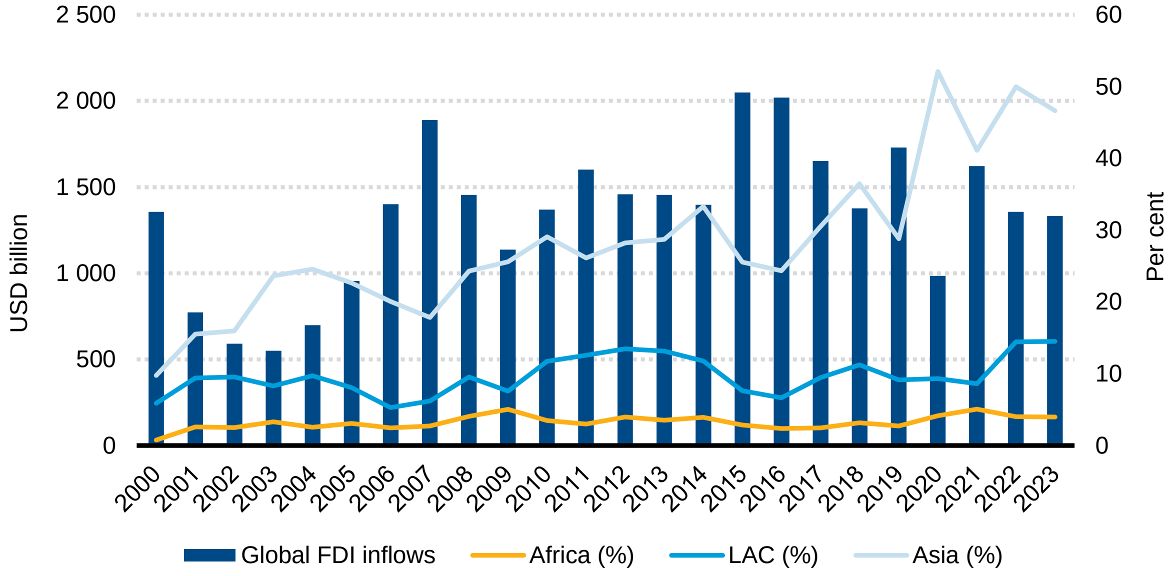


Source: UNCTAD.

Note: CAGR refers to “Compound Annual Growth Rate”.

FDI flows into Africa have stagnated over the past decade. Since 2010, inflows into Africa ranged between $40 and $60 billion annually, representing less than 5 per cent of global FDI flows. In contrast, FDI inflows into developing Asia continued to grow, nearly doubling since pre-financial crisis levels and accounting now for half of global inflows (figure 2). Since 2020, developing Asia accounted for half of the world's FDI flows, emerging as a major host and source of global investment. The region is a critical hub for global supply chains, encompassing a wide range of industries from low-tech and extractive sectors to advanced technology products and services (figure 2 and Annex figure 1). In ASEAN, for instance, robust investment in manufacturing and services in recent years has led to significant growth in FDI, exceeding $200 billion annually in 2021-2023, and the share of global FDI inflows has been rising since 2019, growing to 17 per cent in 2023 (ASEAN Secretariat, 2024).

Figure 2 FDI flows into Africa represents a marginal share of global FDI
Global FDI inflows, developing regions as share of world FDI
(Billions of dollars and per cent)



Source: UNCTAD.

These divergent regional trends underscore the development of distinct international production and supply chain networks, further widening the gap in development opportunities.

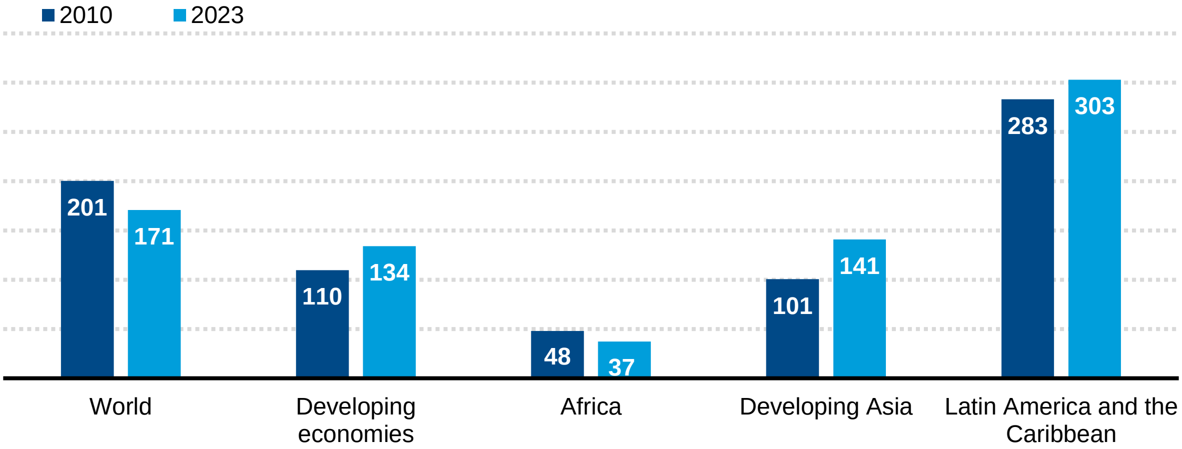
Africa's investment landscape is significantly shaped by its demographic and economic composition. The prevalence of LDCs and LLDCs, coupled with weak economic performance, limited regional integration, and inadequate infrastructure, constitutes a significant deterrent to FDI.1 Additionally, the continent faces ongoing armed conflicts, with 16 active engagements, including civil wars, insurgencies, and other forms of violence, particularly in countries and areas such as Sudan, Somalia, and the Sahel region. Further complicating the investment climate is the decline in Total Factor Productivity (TFP) in parts of Africa, reflecting low investments in human capital, technology, innovation, and resource efficiency (World Bank, 2020). Low economic performance, driven by these factors, significantly deters FDI in the region.2 Furthermore, Africa scores low on the measures of exports sophistication, as reflected by the Economic Complexity Index (ECI). For instance, countries such as Angola,

1 The 33 LDCs in Africa account for only a third of FDI inflows into Africa (Annex figure 2).
2 TFP in Africa is found to be significantly impacted by political instability, weak infrastructure, and inadequate investment in human capital. Collier and Gunning (1999) show that low economic performance, driven by these factors, acts as a substantial barrier to attracting FDI in the region. Similarly, Acemoglu and Robinson (2010) argue that institutional weaknesses are a major contributor to declining productivity in African economies, further underscoring the need for comprehensive reforms to stimulate both TFP and FDI.

Mozambique and Zambia have seen declines in their ECI scores, signaling a reduced capability to transition from primary commodity exports to more complex manufactured goods (Hausmann & Hidalgo, 2011; African Development Bank, 2024).

Despite notable policy initiatives and efforts, Africa continues to receive proportionally less FDI compared to the average for developing countries, both on a total and per capita basis (figure 3). For instance, FDI per capita in developing countries rose from $110 in 2010 to $134 in 2023, in Africa it declined from $48 (lowest per capita globally) to $37 over the same period.

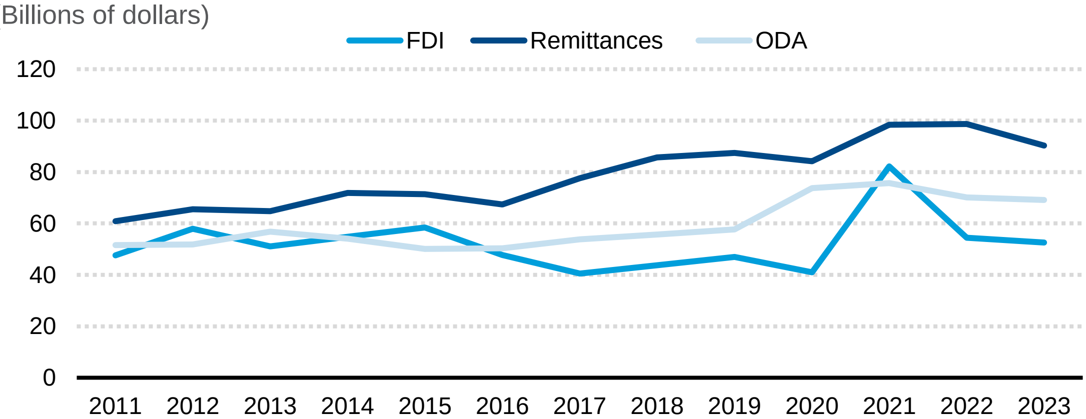
Figure 3 FDI inflows per capita diverge across developing regions
(US dollars per person)



Source: UNCTAD.

The growth of FDI in Africa has been subdued compared to other external sources of finance, such as the (modest) rise in official development assistance (ODA) and the steady increase in remittances (figure 4). Despite this slower pace, FDI remains a significant and reliable source of external financing for the continent, complementing other capital flows. On average, in developing countries, FDI accounts for over 40 percent of total financial inflows, outpacing remittances, ODA, and portfolio investments (UNCTAD, 2024b).

Figure 4 FDI remains an important source of finance in Africa
Africa: sources of external finance
(Billions of dollars)



Source: UNCTAD, based on World Bank (for remittances), UNCTAD (for FDI), IMF World Economic Dataset (for portfolio investment and other investment) and OECD (for ODA).
Note: In 2021 FDI to Southern Africa jumped to $42 billion due to a large corporate reconfiguration in South Africa – a share exchange between Naspers (South Africa) and its subsidiary Prosus (The Netherlands).

FDI in the region has historically been concentrated in resource-rich countries, with just fifteen economies accounting for over 80 per cent of total inflows to the continent. In contrast, FDI concentration in Africa remains relatively lower than in other developing regions, such as developing Asia and Latin America, where investment flows are heavily concentrated in major economies like China, India, Brazil, and Mexico. In those regions, a smaller number of countries tend to dominate the FDI landscape, highlighting a more significant disparity in investment distribution compared to Africa.

There has been a notable recent shift toward more diversified economies in West and East Africa, which are increasingly attracting FDI, particularly in renewable energy and digital services. Although the overall concentration of FDI remains similar to a decade ago, new entrants have emerged among the top recipients. This shift not only reflects the success of some countries implementing key reforms to improve governance, but also highlights the challenges that remain. While such reforms are essential, they are insufficient on their own to significantly boost FDI inflows. Fundamental factors —including macroeconomic and political stability, market size, income levels, labor costs, and infrastructure quality — remain critical for attracting investment (UNCTAD, 2024b).

New top receivers of FDI include Ethiopia, Senegal, Uganda, Namibia, Côte d’Ivoire, and Gabon (table 1). Ethiopia’s FDI rose almost threefold driven by government-led industrialization policies and sectoral growth in manufacturing, textiles, and pharmaceuticals. FDI into Uganda has also grown significantly, driven primarily by oil exploration and infrastructure investments. FDI in Ethiopia and Uganda is predominantly from China and other developing Asian countries. In Senegal and Namibia, significant FDI from European countries included investments in infrastructure—including renewable energy generation—as well as new flows into oil exploration and mining. Côte d'Ivoire and Gabon have also recorded notable FDI growth, primarily in agriculture, mining, and energy. In the case of Côte d'Ivoire and Senegal, a recent UNCTAD report (2024c) highlights positive developments in attracting FDI. Along with the discovery of new oil and gas reserves, the report emphasizes the importance of economic stability, significant infrastructure investments (including through PPPs), integration within the West African Economic and Monetary Union (WAEMU), and ongoing efforts to improve the business climate.

Table 1 FDI in Africa is concentrated in a few economies
FDI inflows in top 15 host economies, averages 2010-12 and 2021-23
(Billions of dollars)

	Average 2010 - 2012		Average 2021 - 2023
Nigeria	7.4	South Africa	18.2
South Africa	4.1	Egypt	8.8
Egypt	4.0	Ethiopia	3.7
Mozambique	3.9	Mozambique	3.4
Ghana	3.0	Senegal	2.7
Congo, Democratic Republic of	2.6	Uganda	2.5
Morocco	2.3	Nigeria	2.0
Algeria	2.1	Morocco	1.9
Kenya	2.1	Ghana	1.8
Sudan	2.0	Congo, Democratic Republic of	1.8
Equatorial Guinea	1.9	Côte d'Ivoire	1.6
United Republic of Tanzania	1.6	Kenya	1.5
Zambia	1.5	Namibia	1.4
Tunisia	1.4	United Republic of Tanzania	1.3
Libya	1.1	Gabon	1.3
Sum of top 15	41.2		53.9
Share of total FDI in Africa	80		85

Source: UNCTAD.
Note: The countries highlighted in yellow dropped out of the top 15 list for 2012-2023. The countries highlighted in blue were added to the top 15 in 2021-2023. For Libya, data is not available after 2013.

African countries that have experienced significant declines in FDI and dropped from the top host list—Algeria, Sudan, Equatorial Guinea, Zambia, Tunisia, and Libya—often faced challenges related to commodity price volatility, in addition to economic and political factors. Volatility in commodity prices is a common issue for resource-dependent economies. For instance, fluctuating prices in key sectors like energy and agriculture often lead to uncertainty in profitability. This not only limits new investments (i.e. demand) but also hampers the sustainability of ongoing projects, as investors seek more stable markets. Sudan's dependence on oil and agricultural exports makes its economic prospects vulnerable to volatile commodity markets, which negatively impact FDI. Similarly, Zambia, heavily dependent on its copper mining sector, also faced a substantial decline in FDI, driven by fluctuating copper prices, regulatory uncertainties, and growing debt concerns. Tunisia, following the 2011 Arab Spring, experienced a downturn in FDI, primarily due to political instability and slow economic recovery. Libya saw a significant drop in FDI after the 2011 civil war due to infrastructure damage and instability, ultimately leading to its exclusion from top FDI destinations.

B. Investment in Productive Capacities

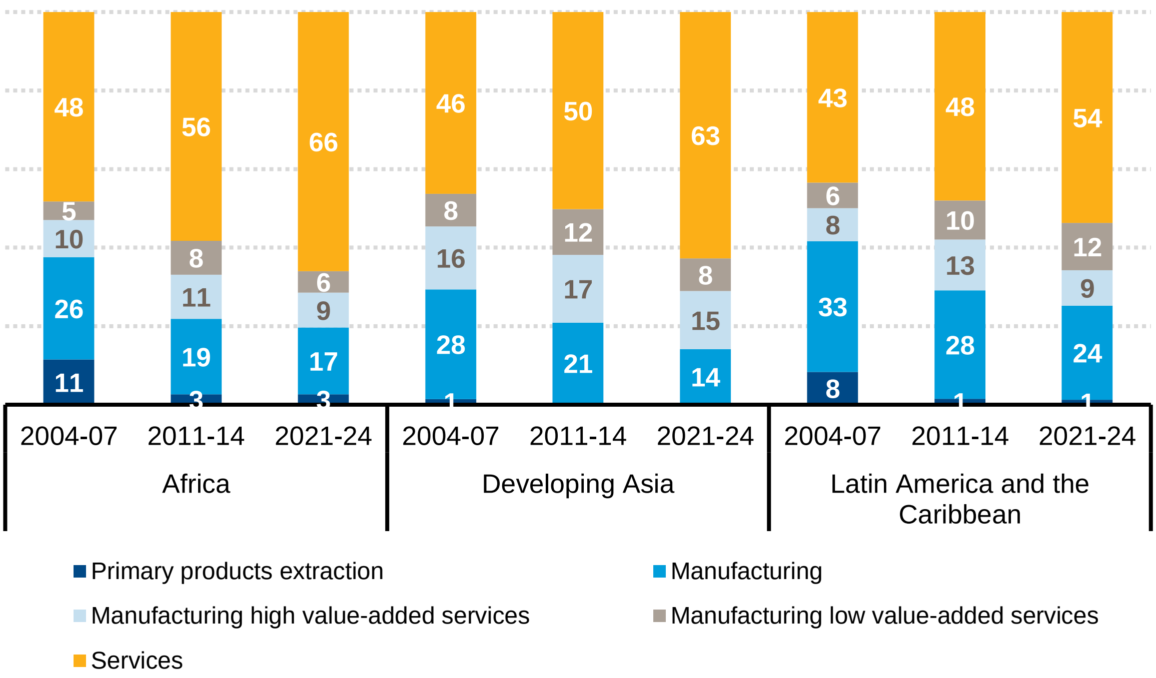
While the level of FDI is important, its composition is critical for sustainable development, particularly in Africa, where inward FDI has traditionally concentrated in extractive industries. Prioritizing investments to bolster productive capacity in manufacturing and infrastructure is essential for achieving the SDGs. Foreign investment in productive capacities can be particularly effective for developing economies as it encompasses both tangible and intangible assets such as know-how, technology, and access to networks, thereby enhancing the investment's overall impact (UNCTAD, 2021).

Manufacturing investment is especially relevant for enabling structural change in developing economies, but this is not guaranteed. For lower-income developing economies, which are typically relegated to lower value-added parts of the global value chains (GVCs), this fundamentally involves moving away from a reliance on natural resources —primarily raw exports with no value added through processing— requiring substantial upfront investments. To effectively expand investment in processing industries, African economies should adopt a multifaceted strategy that includes both policy initiatives and practical support mechanisms. For instance, countries such as Indonesia transitioned from dependence on raw material exports. The government prioritized infrastructure development to reduce operational costs and invested in vocational training programs to nurture a skilled workforce for processing sectors (ADB, 2022). Furthermore, improved access to finance for SMEs and participation in regional trade agreements have broadened market access for processed goods. Tax incentives and special economic zones (SEZs) complemented these initiatives and attracted significant investment. This integrated approach has enabled Indonesia to diversify its economy and shift toward sustainable manufacturing, providing a valuable framework for other developing countries (ADB, 2015).

Since the mid-2000s, the share of services in total greenfield projects has increased globally (figure 5). This includes investments not only in typical service industries (such as banking or consulting) but also in the service components of traditional manufacturing industries. This service-oriented component is rapidly expanding within (traditionally defined) manufacturing industries such as textiles, chemicals or automotives. Globally, over the past two decades, the share of investment in services activities within manufacturing industries has nearly doubled, now representing most projects (UNCTAD 2024c).[3]

[3] Sectoral analysis of FDI relies on project-level data related to greenfield investments. Greenfield FDI refers to investments made by a foreign firm to establish a new venture or subsidiary in another country. Since the announced project values may not always be available or fully realized, this analysis focuses on the number of announced projects. However, because announcements often reflect investor sentiment, analysis of such data provides valuable insights into how private actors perceive opportunities in Africa.

Figure 5 Manufacturing FDI is declining across regions
Sectoral distribution of cross-border greenfield projects, by developing region
(Per cent)



Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).
Note: The sectoral analysis is based on the industry of the investing company and the variable "Business Activity" from fDi Markets. "Services" include typical services activities including financial, professional, trade, information and communication, construction and electricity distribution. "Manufacturing high value-added services" include professional, management and strategy services, R&D, information and communication, marketing and recycling activities by parent companies primarily active in the manufacturing sector "Manufacturing low value-added services" include sales and after-sales services, logistics, shared and technical support services, maintenance and servicing activities of manufacturing companies.

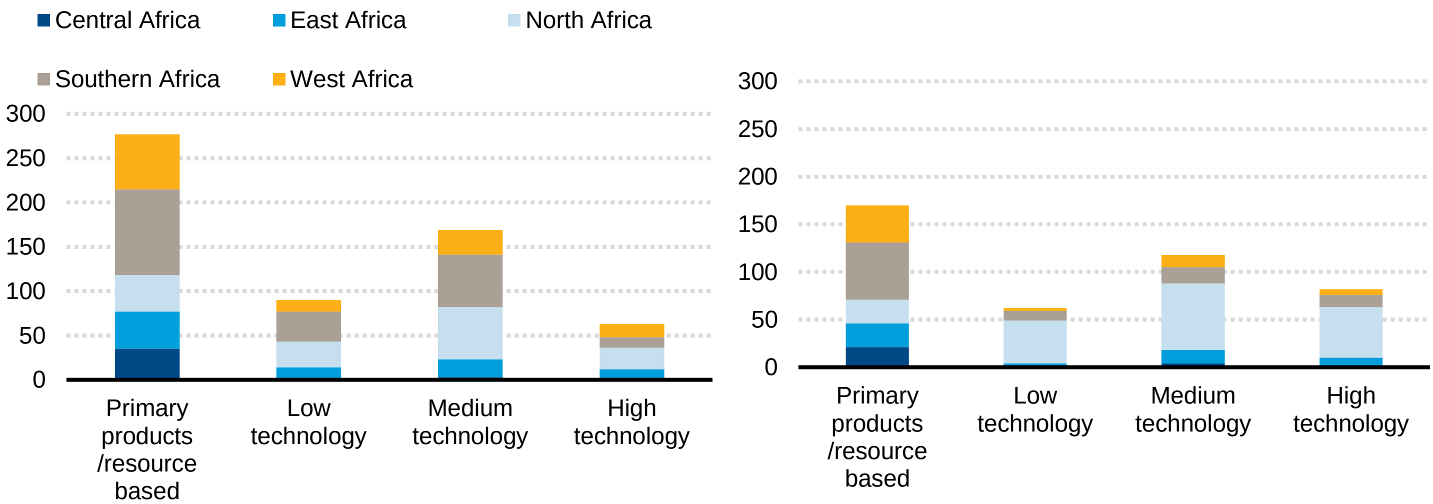
The servicification of FDI is evident in the decreasing share of manufacturing projects globally, and the particularly low shares in Africa, accounting to17 per cent of greenfield investment projects in the last 3 years. This shift towards services has significant development implications, potentially leading to a different path for industrialization.

The services component of traditional manufacturing industries aids foreign companies in developing operations within the host economy and encompasses a range of support activities—from low-value services like sales, logistics, customer relations, and repair services to high-value-added services such as professional, scientific (R&D), marketing, and managerial services. Particularly, high-value-added services can enhance the host economy's role in GVCs and are crucial for ascending the value-added chain. However, this trend also poses challenges for some African countries in attracting FDI for diversification and GVC integration, as the necessary prerequisites—such as technology, knowledge, skilled personnel, and digital infrastructure—are often lacking. This gap may partly explain the increased concentration of FDI in more developed regions, limiting opportunities for broader industrial diversification in Africa.

In comparison, the share of high-value-added services projects within manufacturing is highest in developing Asia, where Multinational Enterprises (MNEs) have established research offices to develop, design, and test new products. The rapid growth of the electronics industry in Asia has also attracted many electronics manufacturing services MNEs (software and IT) to operate close to customers and markets.

This trend indicates that FDI-based structural transformation—defined as a strategy aimed at attracting manufacturing investment to strengthen domestic productive capacity—is becoming increasingly challenging for structurally vulnerable economies. Moreover, the flow of manufacturing investment is declining across all regions except for North Africa, where it is increasingly concentrated in more advanced economies, particularly (figure 6). While investment in manufacturing projects has decreased, these economies have experienced a sustained increase in inflows, securing nearly two-thirds of manufacturing FDI in Africa, including in low-technology sectors.

Figure 6 Manufacturing FDI is increasingly concentrated
Cross-border manufacturing projects, by level of technology, 2011-2013 and 2021-2023
(Number)



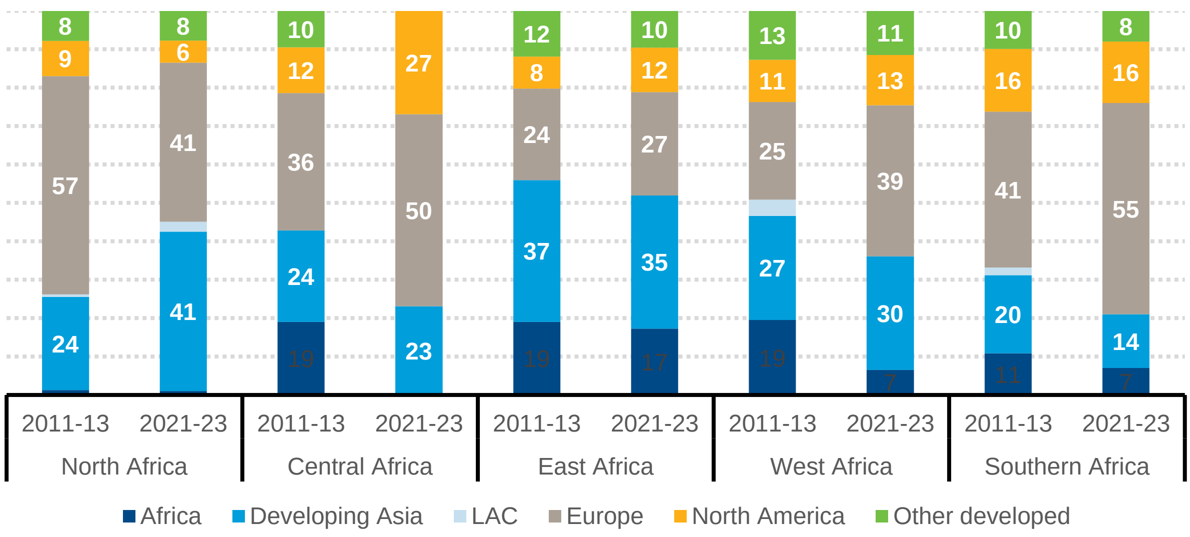
Source: UNCTAD, based on information from Financial Times Ltd, fDi Markets (www.fDimarkets.com).
Note: The classification of projects is based on Lall's technological classification (Lall, 2000).

To benefit from emerging trends in manufacturing, such as nearshoring, economies must meet specific prerequisites. These include proximity to major markets, well-developed infrastructure connections, and preferential access to those markets, which are critical for attracting nearshoring investment. North Africa and West Asia, for instance, are positioned as potential nearshoring locations for the European Union, thanks to their geographical advantages and improving infrastructure. This strategic location allows them to capitalize on shifts in global supply chains, making it more attractive for companies to relocate production closer to their consumer markets. In contrast, less developed economies that lack these essential conditions may find themselves at a disadvantage, unable to leverage the opportunities presented by the changing landscape of manufacturing investment.

Manufacturing FDI in Africa is increasingly driven by investors from developing Asian countries. While the share of manufacturing projects from MNEs from developing economies is constant at about 38 per cent over the past decade, the share of project accounted for by developing Asian companies grew from 25 per cent during 2011-2013 to 31 per cent in the last 3 years. Meanwhile, the share of intra-African manufacturing investments decreased from 12 per cent to 5 per cent over the same period.

North African economies have particularly benefitted from investments by Eastern and Western Asian MNEs, attracted by their integration with Middle Eastern and European markets (figure 7). Similarly, East African economies have experienced a steady inflow of manufacturing investments from both developing Asian and African countries. MNEs from West Asia have primarily focused on food processing, while Chinese companies, having relocated textile manufacturing over a decade ago, are now increasingly shifting other industries related to the automotive, building materials, and pharmaceutical supply chains. East Africa is the only subregion that maintains a significant share of intra-African manufacturing inflows, attracting investments from South Africa, other countries within the subregion, and North African economies.

Figure 7 Manufacturing FDI in Africa is increasingly driven by developing Asian economies
Cross-border manufacturing projects, by source region
(Per cent)



Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

In West Africa, manufacturing investment from China and India has increased, particularly in building materials, motorcycle manufacturing, and food processing. In the case of WAEMU countries, FDI has risen but still falls short of its potential and lags the levels observed in similar groups. Moreover, these investments are concentrated in only a few countries. At the same time, the private sector, although expanding, largely remains informal and centered on low-value-added activities (UNCTAD, 2024d). In Central and Southern Africa, Chinese MNEs have been investing in mineral refining, building materials, and food processing.

Across the African subregions, except East Africa, the relative importance of intra-African manufacturing inflows has decreased, partly because of the diminished investment from South African MNEs and challenges faced by some North African economies following the Arab Spring. Between 2021 and 2023, the most significant industries for intra-African manufacturing investment were building materials (30 per cent) and agrifood production—including agriculture, food processing, and fertilizer production (25 per cent). Compared to a decade ago, there are early signs of emerging regional value chains (RVCs) in manufacturing, with a few projects in electronics, industrial machinery, and automotive sectors, led by North African companies. Intra-African FDI is concentrated in the services sector, where market entry involves lower setup costs.

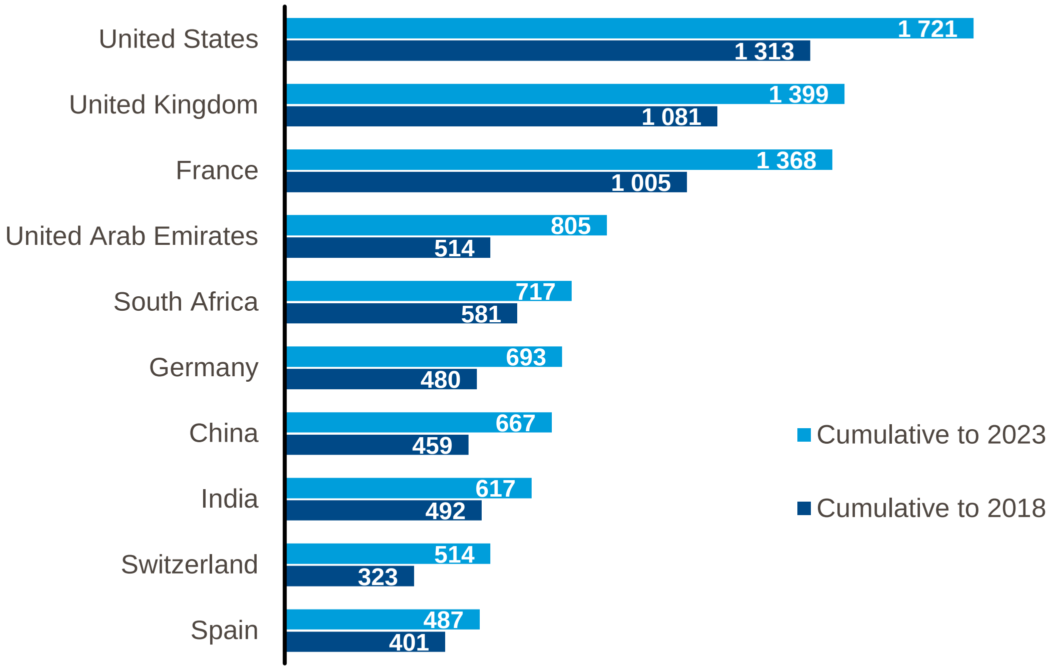
Although the share of intra-Africa services FDI in all services projects has decreased from 21 percent in 2011–2013 to 17 percent in recent years, the sector remains a key driver of investment flows.[4] In the past three years, the information and communication sector has become the largest recipient of intra-African investment, accounting for 33 per cent of all greenfield projects in the services sector. Although financial services remain significant, their share of services projects has declined sharply, dropping from nearly 45 percent in 2011–2013 to below 20 percent. Emerging industries for intra-African services investment now include professional and administrative services, as well as transport and warehousing, driven by MNEs from South Africa and Egypt.

Traditionally, South African companies have been especially active in the services sector, with business services, information and communication, financial services, and transport and warehousing comprising the largest portion of their outward FDI into the region. South Africa is also one of the few sources of African capital for metal ore mining in neighboring countries. In recent years, Kenyan and Nigerian MNEs have been expanding their presence across Africa, particularly in the services sector, with investments in finance, information and communication, and professional services. Mauritius is emerging as a hub for channeling FDI into the region, particularly in the information and communication sector. In contrast, South African MNEs have slowed their expansion within Africa, expanding their reach outside the region.

Traditionally, the leading sources of FDI in the region based on the cumulative number of greenfield projects, include advanced economies such as the United States, the United Kingdom, France, Germany, Switzerland, and Spain, as well as developing economies like the United Arab Emirates, South Africa, China, and India (figure 8). As mentioned above, other notable sources of intra-African investment include Kenya, ranked 12th, and Nigeria, ranked 15th.

[4] These statistics do not include FDI in the construction and electricity distribution industry.

Figure 8 Africa: Top 10 investor economies by number of greenfield projects
(Cumulative number of projects)



Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

Regionalization also plays a role in FDI attraction.[5] Regional integration impacts FDI flows as a result of the rationalization of production facilities by MNEs within a region, which benefits from lower costs of intraregional trade and opportunities to engage in regional production networks. That process can lead to increased FDI flows or to investment diversion when, for instance, reduced trade barriers allow firms to take advantage of economies of scale by concentrating activities nationally while serving broader regional markets.

ASEAN's regional integration, for example, has played an important role in attracting FDI. The ASEAN Economic Community (AEC) is transforming ASEAN into a single market and production base, increasing the efficiency for investing and doing business in the region. Aligning to the AEC objectives is the implementation of a set of regional agreements that contributed to an improving policy environment that facilitates and retains investment. Key initiatives include the implementation of the ASEAN Single Window system to streamline trade and the movement of goods, enhanced customs clearance efficiency, the ASEAN Investment Facilitation Framework to attract FDI, and the development of an integrated services market. Regional factors such as a rapidly growing middle-income consumer base, a competitive production hub, and an expanding services sector have contributed to ASEAN

[5] Under the framework of the AfCFTA, a number of trade and investment initiatives have been launched to between the United States and African countries. Since 2021, the U.S. government has sponsored over 800 trade and investment projects, amounting to $18 billion across 47 countries on the continent. These initiatives are designed to advance key priorities in areas such as sustainable energy, health systems, agribusiness, digital connectivity, infrastructure, and finance.

attracting record levels of investment, solidifying its position as the largest recipient of global FDI inflows among developing countries since 2021 (ASEAN Secretariat, 2024).

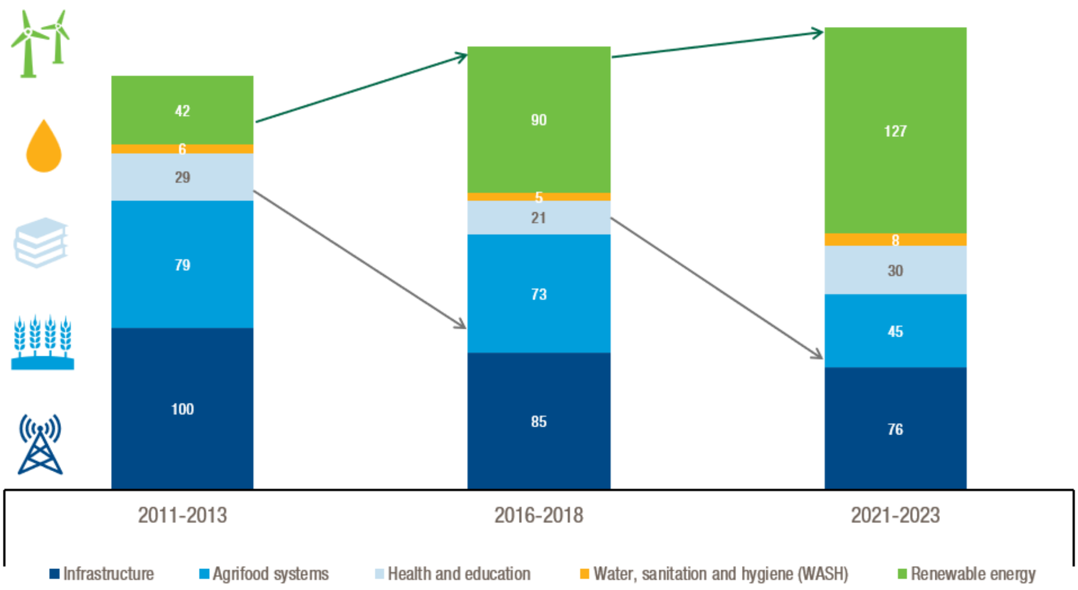
C. Investment in the Sustainable Development Goals

Infrastructure investment is also crucial for structural change. Both hard infrastructure (such as transport, power generation, and telecommunications) and social infrastructure (such as education, health and water and sanitation) are fundamental to achieving the SDGs and increasing Africa's attractiveness to foreign investors.

Developing countries continue to face significant challenges in attracting and directing international investment towards sectors critical for achieving the SDGs, such as infrastructure, healthcare, and water and sanitation (WASH). Over the past decade, international investment in SDG-related sectors stagnated, raising serious concerns about the likelihood of meeting UN 2030 targets. Except for renewable energy where the average number of international project finance deals, the main funding source for infrastructure industries, more than tripled, investment in the other sectors has remained unchanged or even declined since 2011. This indicates that the contribution of international private investment toward achieving SDG targets has fallen short of expectations.

In Africa, compared to the period before the launch of the SDGs, investments in agrifood systems fell by 43 per cent, while infrastructure investments declined by 24 per cent, mainly due to slowing non-renewable energy and telecommunications projects (figure 9).

Figure 9 Renewable energy projects are driving SDG investment in Africa
Africa: investment in sectors relevant to the Sustainable Development Goals
(Average number of projects)



Source: UNCTAD, based on information from The Financial Times, fDi Markets (www.fdimarkets.com) and LSEG Eikon.
Note: Infrastructure includes transport infrastructure, power generation and distribution (except renewables) and telecommunication. Agrifood systems include agricultural production and processes; fertilizers, pesticides and other chemicals; research and development and technology. Since infrastructure projects can be very large and take several years to be completed, the analysis focuses on the number of announced projects, this also ensures consistency with greenfield data.

Africa consistently received fewer international projects compared to other developing regions over the last decade (UNCTAD 2024e). This is hindered by structural challenges including exchange rates and currency risks, low expected returns and demand factors, high capital costs, uncertain regulatory frameworks, and often poorly designed PPP projects.[6]

A significant share of the investment in the SDGs is directed towards infrastructure development. Infrastructure investment is usually characterized by large upfront costs, long life cycles and extended maturity times. These large infrastructure projects are typically financed using a project finance structure that involves a multitude of investors, including PPPs.[7]

Investments in social infrastructure - including health, education, and WASH are typically domestic projects sponsored or initiated by national or local authorities. In particular, financing social infrastructure, such as healthcare, education, and public welfare services, is more challenging through private investment due to the lower profitability and higher risks associated with these sectors. Public funding or public-private partnerships are often necessary to address these gaps. In these sectors, international investors generally participate only in collaboration with domestic authorities.

Foreign private investors are attracted to hard infrastructure projects, especially in the renewable energy sector, where returns are more predictable through agreed tariffs or purchase agreements. Across developing regions, renewable energy has the highest participation from foreign and private investors. In LDCs, Africa, Latin America and the Caribbean, foreign private investors play a crucial role in renewable energy projects and, to a lesser extent, in broader infrastructure development. Their involvement is essential in these economies, where domestic investment capacity is often limited and in need of expansion (annex table 1).

Multilateral development banks (MDBs) (e.g., the World Bank, the Asian Development Bank, African Development Bank, or European Investment Bank) play a key role in attracting foreign private investment for infrastructure projects. They provide various forms of support, including concessional loans, grants, guarantees, technical guidance, and help in organizing financing syndicates. In developing economies, MDBs participate in about 12 per cent of international projects that are aligned with the SDGs.[8] Also, sub-regional development banks such as the Development Bank of Southern Africa (DBSA) and the West African Development Bank (BOAD) play a crucial role in financing large-scale infrastructure projects across Africa and can significantly contribute to closing the infrastructure funding gap on the continent. DBSA provides up to $2 billion annually to sectors like energy and transport, notably in renewable energy projects. Similarly, BOAD has mobilized over €5 billion to fund key infrastructure initiatives, particularly in West African countries, focusing on transportation, energy, and agriculture (African Development Bank, 2022).

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6 Poorly designed PPPs can result from inadequate risk assessment, lack of clarity in contract terms, insufficient stakeholder engagement, and failure to align public and private sector interests, leading to project delays and failures (World Bank, 2023).

7 Infrastructure investment analysis relies on project-level data related to project finance deals from LSEG Eikon. Since infrastructure projects can be very large and take several years to be completed, the analysis focuses on the number of announced projects, this also ensures consistency with greenfield data.

8 PPPs often see the involvement of multiple institutions alongside MDBs such as national development banks (e.g. Development Bank of Japan, North American Development Bank, China Development Bank), and Export-Import Banks (e.g. Export-Import Bank of the United States, Export-Import Bank of Korea, Export-Import Bank of China). Background analysis for this paper shows that out of 13,874 international project finance projects, 1,874 involve at least one of these institutions, or 13.5 per cent. Sometimes more than one institution is involved.

UNCTAD's analysis shows that investment partnerships lower the cost of finance for developing countries. Combining international investors, MDBs and government shareholders can reduce the spread on borrowing and reduce risks (UNCTAD, 2023a). It is therefore important to maximize the benefits of these partnerships, which requires establishing effective institutional frameworks and safeguards that align with broader developmental goals and support the common interest.

The majority of MDB interventions (over 75 per cent) occur in middle-income countries, while 18 per cent are focused on LDCs. However, despite the lower overall number of projects in weaker or riskier economies, MDBs represent a larger share of project financing in these regions, particularly in international projects (annex table 2). In LDCs, MDBs are involved in nearly a quarter of international human capital projects and around one-fifth of infrastructure and renewable energy initiatives—comparable to their participation levels in Africa. In contrast, MDB involvement is significantly lower in other regions, including developing Asia, where they contribute less than 10 per cent of projects.

Across regions, MDBs participation is relatively higher in international projects, where they help to mitigate risk perceptions and attract foreign investors, especially in LDCs. Support from MDBs and international finance institutions (IFIs) for projects in vulnerable economies remains insufficient and needs to be scaled up. A substantial share of domestic SDG projects in developing countries is linked to China's Belt and Road Initiative (BRI), launched in 2014. The BRI has become a key driver of SDG investments, not only in Asian countries but also in Africa and Latin America and the Caribbean. In Africa, for instance, BRI projects account for a third of all investments in social infrastructure sectors like healthcare, education, and water and sanitation (UNCTAD, 2024e). The BRI programme has recently expanded to focus on renewable energy projects, especially in Africa and LDCs. The majority of deals are debt or conditional commitments, which increase the risk of expanding debt to unsustainable levels for some countries (CUTS International, 2021; Gallagher et al, 2024).

III. INVESTMENT POLICY TRENDS

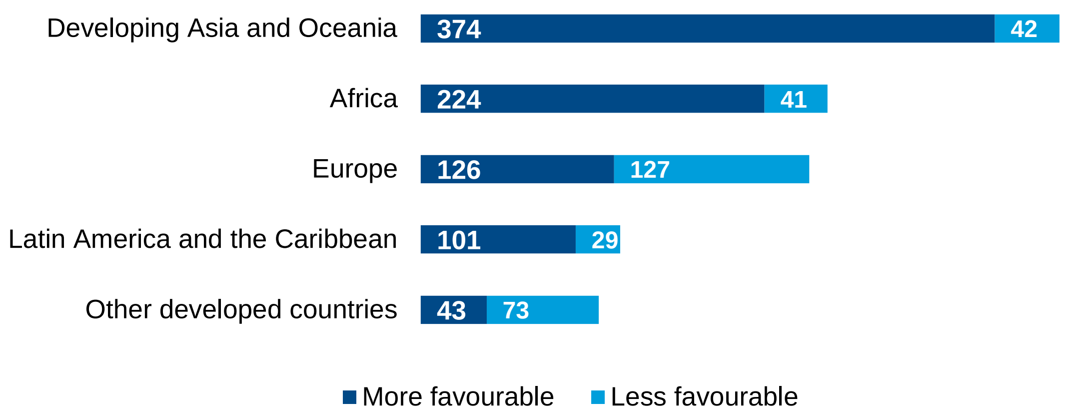
This section highlights key trends in investment policy measures adopted by developing countries, particularly in Africa, and briefly discusses home-country initiatives to promote outward investment flows to developing countries. It also analyzes trends in international investment agreements (IIAs) among African States, noting the shift towards new-generation treaties that aim to balance investment promotion and protection with sustainable development priorities, creating a conducive and predictable environment for FDI in SDG-related sectors. The AfCFTA Investment Protocol is also discussed as a key element in consolidating these reforms and further enhancing the investment climate in the region.

A. National policies

1. General trends

African countries have been particularly active in investment policymaking over the past decade, accounting for 22 per cent of the policy measures adopted worldwide from 2014 to 2023 — second to developing Asia and Oceania (figure 10).

Figure 10
Developing countries prioritize investment attraction
Investment policy measures by region and by nature, 2014-2023
(Number)



Source: UNCTAD, based on Investment Policy Monitor database.
Note: For details on the methodology used by UN Trade and Investment for the classification of investment policy measures, please see UNCTAD, 2024b.

Africa, developing Asia and Oceania also produced the highest share of policy measures more favourable to investors during the decade (85 and 90 per cent respectively), indicating that they continue to prioritize investment attraction as part of their economic development strategies. In African countries, the proportion of policies favourable to investors has been above 70 per cent since 2014, rising to about 90 per cent in 2022 and 2023. In contrast, developed countries saw a decline in such policies before the pandemic, reaching a low of 17 per cent in 2020, and stabilizing at about 40 per cent thereafter.

2. Policy measures by type

Over the last decade, the global investment policy landscape has evolved significantly, with noticeable shifts in the distribution between measures more and less favourable to investors and in their composition. Notably, the prominence of liberalization measures has diminished, especially after the pandemic. Conversely, the significance of investment incentives has increased markedly since then. Investment facilitation and promotion measures have also trended upward, complementing efforts to promote economic recovery and resilience (UNCTAD, 2024b).

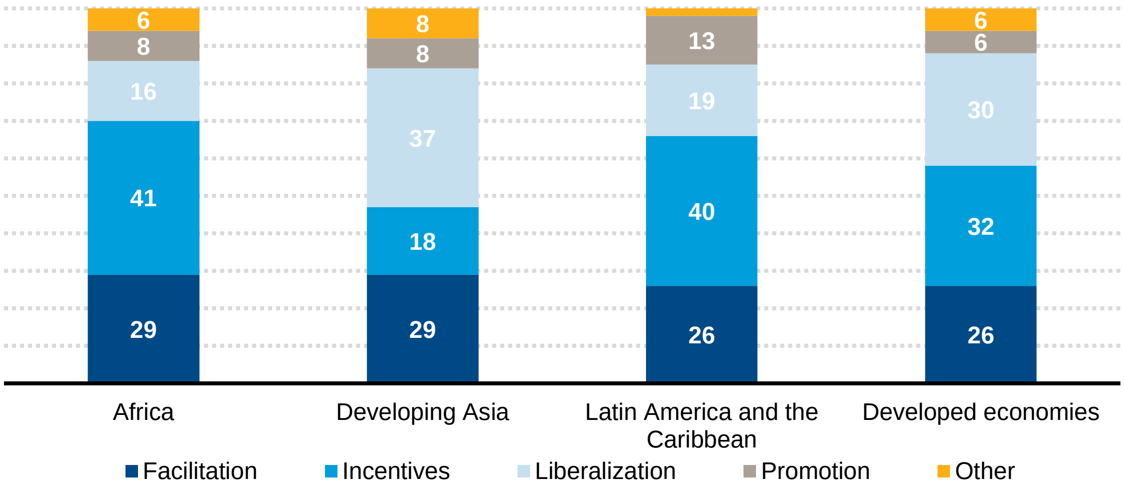
Regional differences emerge in the types of policy measures adopted (figure 11). In Africa and Latin America and the Caribbean, incentives were the most common initiative, accounting for approximately 40 per cent of all investment promotion measures. In developing Asia and Oceania, liberalization measures were favoured, constituting 39 per cent of the total.

Figure 11

Investment promotion policies vary across regions

Investment policy measures by region and by nature, 2014-2023

(Per cent of measures favourable to investors)



Source: UNCTAD, based on Investment Policy Monitor database.

The widespread use of incentives raises concerns. A recent review shows that 78 per cent of incentives between 2011 and 2021 were fiscal, and over one-third were profit-based, primarily in the form of tax holidays and reduced corporate income tax (CIT) (UNCTAD, 2022a; UNCTAD, 2022b). This represents a drop in the nominal rate of taxation, but the amount collected is also impacted by transfer pricing and base shifting. Profit-based incentives provide tax relief based on earnings rather than new investment, appealing to mobile FDI. They are also the type of incentives most likely to be affected by the implementation of the international tax reforms under the Global Anti-Base Erosion (GloBE) rules. In contrast, expenditure-based incentives, such as allowances or tax credits, tend to promote reinvestment and deeper integration into the local economy, often targeting activities aligned with sustainable development objectives, such as skills development and the low-carbon transition.

UNCTAD's analysis also shows that in only about 30 per cent of cases incentives are granted based on measurable criteria such as invested amount, employment generation or location, and the majority are not time-bound.

The emphasis on fiscal incentives is part of a long-term trend of increasing tax competition for investment leading to constant reductions in CIT rates globally since the 1980s. Between 1980 and 2021, the CIT rate in Africa dropped from 44 to 28 per cent. While middle-income and emerging economies managed this shift by moving from direct to indirect taxes, many of the poorest countries, especially LDCs in Africa, rely heavily on CIT due to institutional capacity issues and high informality. Analyses show that taxation capacity stagnated across Africa from 2012 to 2021, accompanied by a notable decline in revenue mobilization efficiency. In sub-Saharan Africa, corporate tax incentives led to an annual loss of 1.8 per cent of GDP, amounting to $46 billion in 2019 alone. This is significant in the context of Agenda 2063's aim to finance 70 to 90 per cent of its needs through domestic resource mobilization (Mo Ibrahim Foundation, 2023 and 2024).

Moreover, African countries, particularly LDCs, often rely on traditional incentive schemes to target investment in sectors that require dedicated policy and institutional frameworks, such as several SDG sectors. Existing policy frameworks for enhancing the energy transition are notably inadequate. Globally, two thirds of countries have renewable energy policies in place, but only half of the African countries do. In addition, while developed and emerging economies have integrated private investment promotion mechanisms into over 70 per cent of their renewable energy policies, this is true for only 31 per cent of policies in Africa.

When such mechanisms exist, they are often not tailored to country-specific situations. African countries tend to rely on generic promotion instruments, such as profit-based tax incentives, due to familiarity with those tools, lower complexity and the absence of upfront public expenditure. However, these instruments can be costly in the long run in terms of forgone revenues and are often ineffective in promoting renewable energy investment because they do not address key challenges for investors in the sector. Advanced and emerging economies typically use more complex and targeted mechanisms, such as feed-in tariffs and auctions, to promote investment in renewables and energy infrastructure (UNCTAD, 2023a).

3. Outward FDI policies

Outward FDI policies are crucial for channeling FDI into Africa. Traditionally, home countries of investment have used trade and investment policies to direct economic flows toward regions and activities that aligned with their strategic objectives. However, the Agenda 2030 and the Addis Ababa Action Agenda emphasize directing financial and investment flows to those most in need, highlighting the necessity for all countries to contribute to global development efforts.

Outward FDI promotion mechanisms are common among developed countries (present in 79 per cent of them) and increasingly being adopted by developing countries (14 per cent, mostly over the last decade). However, most schemes do not differentiate between destination countries (UNCTAD, 2024c). In addition, while the number of countries that include host country benefits and sustainability criteria as eligibility requirements is growing, these represent only a fraction of the available supporting tools. Only 38 per cent of countries with a scheme have at least one mechanism that includes host country benefits as a qualifying criterion, and only 28 per cent have at least one scheme with explicitly stated sustainability criteria.

In this context, it is crucial that outward FDI promotion policies, including concessional finance, direct equity participation or investment insurance schemes are not only aligned with national interests but also with broader global commitments to sustainable development and climate action. By doing so, home countries can play a pivotal role in fostering global economic stability and sustainability, ensuring that investments contribute to the achievement of the SDGs and climate goals, particularly in regions like Africa where such efforts are most needed.

B. International policies

Foreign investment in Africa is protected by a network of IIAs concluded between 1961 and 2023. Many of these IIAs were signed between the mid-1990s and early 2000s. These treaties include legally binding provisions protecting investors from discriminatory treatment and allow investors to bring claims in international tribunals to settle disputes with the host States. However, the broadly drafted provisions in these IIAs often result in limiting the policy space available to host States to regulate investment and increases the risk of investment disputes.

The AfCFTA Investment Protocol adopted in 2023 by 54 countries aims to harmonize investment policies across the continent. The Protocol builds on investment treaty reform objectives and best practices recognized by the African Union and the regional economic communities, as well as UNCTAD's investment policy framework for sustainable development (IPFSD). It provides a balanced approach to international investment governance and contributes to creating a favourable environment for sustainable investment. It includes proactive investment promotion and facilitation commitments, refined investment protection, a dedicated chapter on investment and sustainable development, enforceable investor obligations and firm commitments on technical assistance and capacity-building for contracting parties. The Protocol also establishes a Pan-African Trade and Investment Agency. Also, sub-regional policies, like those set by Regional Economic Communities (RECs), could offer valuable insights into existing investment frameworks and their role in regional integration and economic development.

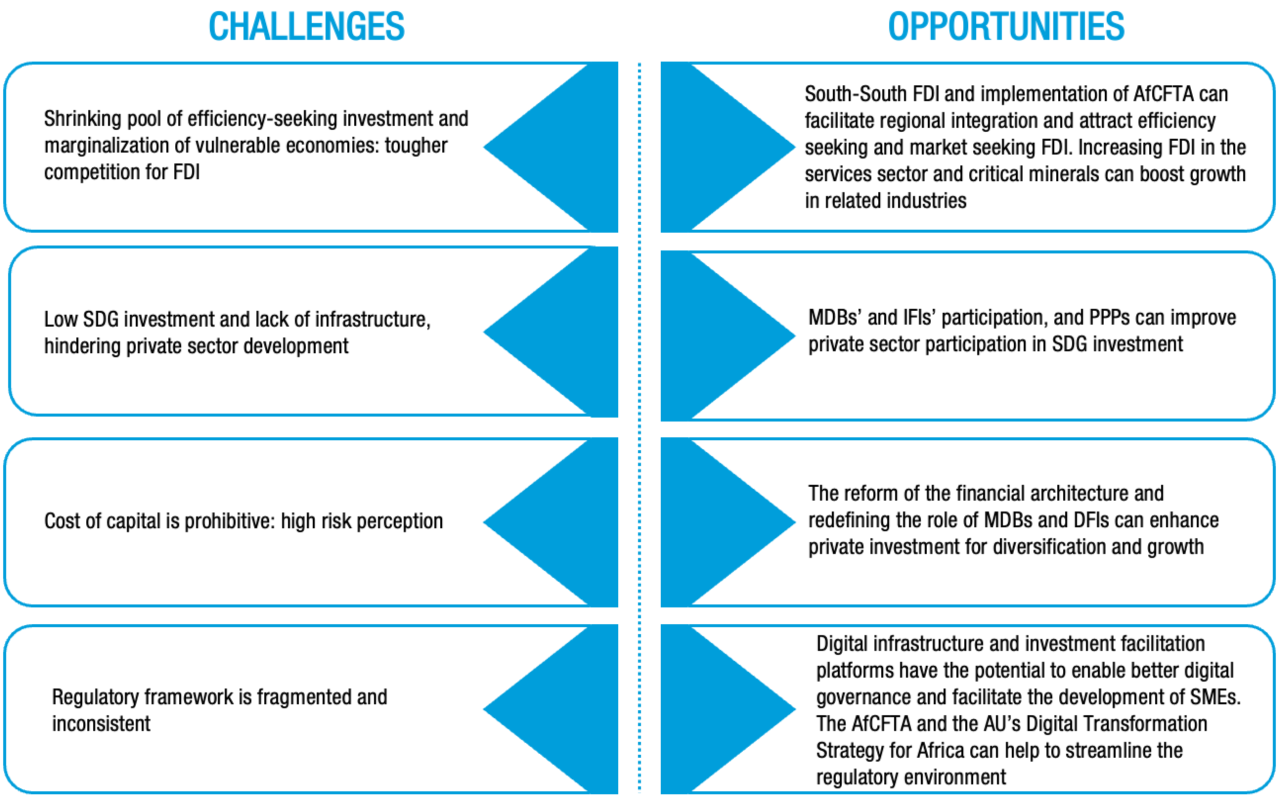
The Protocol will consolidate the IIA regime in Africa upon its entry into force. For example, existing intra-African BITs between contracting parties will be replaced under its terms. Moreover, regional economic organizations in Africa undertake to harmonize regional IIAs with the content of the Protocol. The Protocol also encourages African countries to engage with third-party States to revise and reform their outdated BITs, with the aim of benefiting both African and foreign investors.

The AfCFTA Investment Protocol presents African countries with a unique opportunity to create a single, coherent continental investment framework. It will pro-actively stimulate intra-African investments, which remain below their potential. But in order to do that and achieve its full potential, policymakers now need to work towards the implementation of its commitments to capitalize on its promises.

IV. ADDRESSING THE CHALLENGES AND CAPTURING THE OPPORTUNITIES

This section examines the key challenges of attracting foreign investment in Africa and opportunities to promote sustainable investment in the continent (figure 12). Major barriers to attracting investment in developing countries include inadequate infrastructure, low productive capacity, political instability, weak institutional frameworks, and macroeconomic volatility; these factors collectively deter potential investors (UNCTAD, 2023a). Despite favorable African policy efforts, the abovementioned structural challenges persist, significantly constraining FDI inflows below the region's full potential.

Figure 12 Key challenges and opportunities in attracting sustainable investment



Source: UNCTAD.

A. Challenges

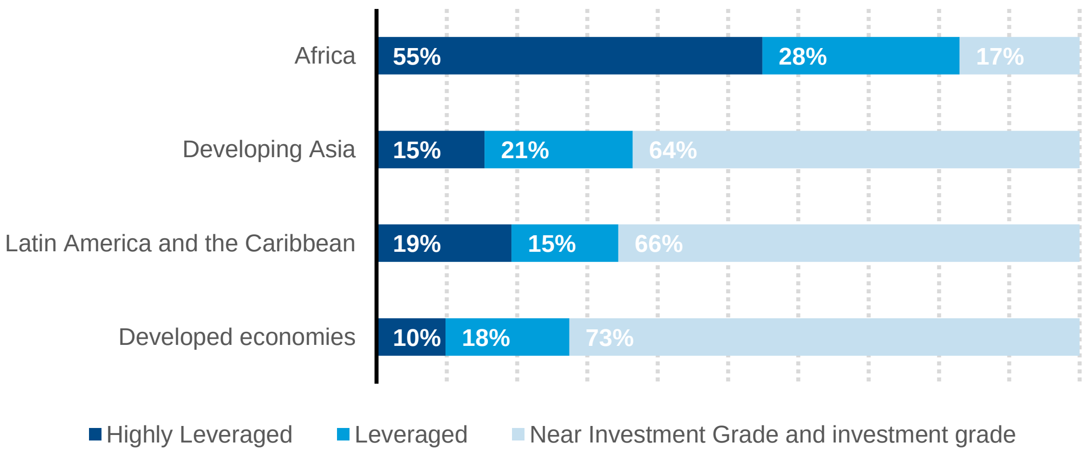
Many African economies face exacerbated risk factors that hinder FDI. Complex and inconsistent regulatory frameworks make it difficult for foreign companies to operate efficiently, with lengthy permit processes and unclear tax regulations creating significant hurdles (UNCTAD, 2023b). Furthermore, a lack of transparency in government processes and business dealings can undermine investor confidence. While Africa boasts a large population, many countries have small domestic markets and limited purchasing power, which can deter investment unless clear pathways to regional integration and access to larger markets are established. The following section will discuss the main challenges hindering FDI, focusing on the cost of capital, risk factors, and other critical obstacles. As discussed earlier, there are other factors inherent to the global financial system that also play a significant role in determining the cost of capital.

Investment risks and high capital costs

A key challenge to attracting FDI is the cost of capital. High capital costs and perceived investment risks hinder long-term investments, especially in LDCs. Investors often rely on traditional funding mechanisms that may not support economic diversification, stifling innovation and limiting the growth potential of emerging sectors. Interest rates for international infrastructure projects—particularly those related to the SDGs—are significantly higher in Africa due to various factors, including country-specific risk premiums, limited access to capital markets, and political instability (Hausmann et al., 2022; UNCTAD, 2024 forthcoming).

In Africa more than half of the loans that finance SDG projects pay interest rates that are at least 400 basis points higher than the underlying pricing benchmarks, as they are considered high risk (figure 13)[9]

Figure 13 Developing countries face higher cost of capital
Loan yield type of international SDG infrastructure projects, by region
(Per cent)

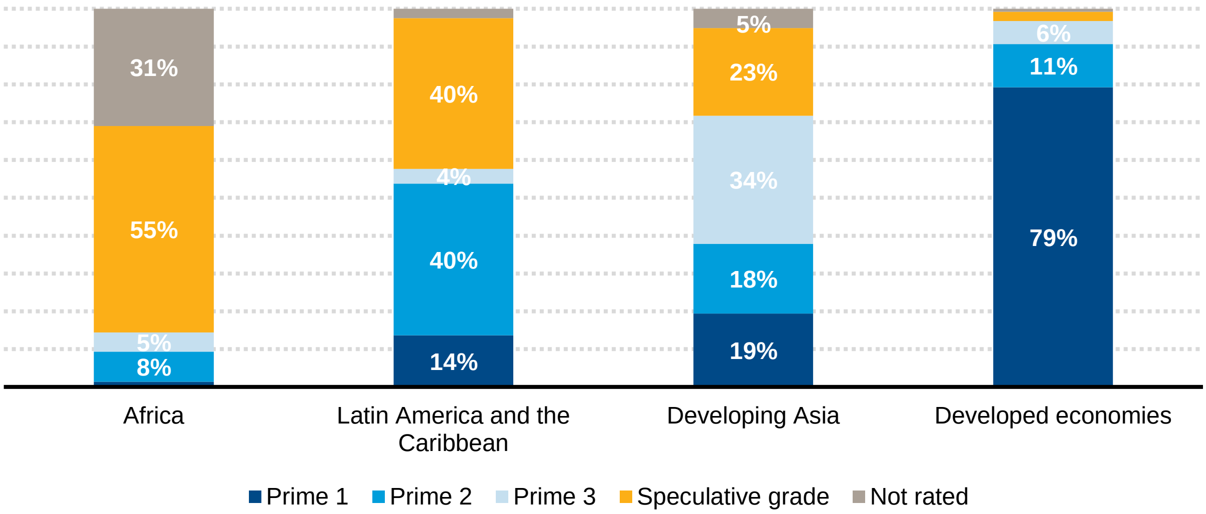


Source: UNCTAD based on information from LSEG Eikon.
Note: Yields on the loans from 2011 to July 2024 that can be related to international (i.e. where at least one sponsor is from a different nation than the project nation) SDG-related infrastructure projects (all sectors), i.e. Loan yield type is defined on the basis of the interest spread (in basis points – bps) over the underlying pricing: Investment Grade: 0 - 149bps (low risk), Near Investment Grade: 150 - 299bps, Leveraged: 300 - 399bps, and Highly Leveraged: >=400bps (high risk).

[9] The underlying pricing benchmarks are for example EURIBOR for euro denominated instruments, Secured Overnight Financing Rate (SOFR) for US dollar instruments or any other interbank offered rate (IBOR).

High borrowing costs are often related to the host country macroeconomic and political environment, which is reflected in sovereign credit ratings. Rating agencies use comparable score scales with 20 rungs from the highest (AAA) to the lowest (D), with the upper ten ratings (AAA to BBB-) being referred to as investment grade, and the lower half (starting from BB+) as non-investment grade, or speculative grade. However, 54 developing countries do not have credit ratings and around half of them are African economies (UNCTAD, forthcoming). Rating agencies such as Moody's do not provide a rating for all countries, which may be due to a lack of data, market demand or unfavorable cost-benefit relationships. Sovereign credit ratings in developing economies are typically low (measured at the time the projects are initiated), according to the credit rating agency Moody's. In Africa most projects were initiated in countries that had a sovereign credit rating classified as "speculative grade" or in countries that were not rated at that time (figure 14).[10]

Figure 14 Africa's credit ratings are lagging behind other developing economies
Share of international project finance projects by credit rating
(Per cent)



Source: UNCTAD based on information from LSEG Eikon datasets.
Note: In Moody's Rating Scale Prime 1-3 refers to the corresponding Short-term rating scale of the investment grade category. Prime 1 corresponds to Long-Term Rating Grades from AAA to A2. Prime 2 corresponds to Long-Term Rating Grades from A3 to Baa2 and Prime 3 corresponds to Long-Term Rating Grade Baa3.

The average rating in Africa is Ba3, non-investment grade.[11] In contrast, developing Asia average (Baa2) and Latin American and the Caribbean (Baa3) average sovereign credit ratings are investment grade. These ratings directly affect the cost of financing and the amount of financing available for projects. Most banks and institutional investors have internal or regulatory limits (according to Basel III) that restrict their non-recourse lending (lending to project finance deals) volumes to non-investment-grade countries.

The UN advocates for shifting from the current short-term risk assessment used to determine credit ratings to a medium- and long-term focus and to incorporate in the assessments the positive long-term

[10] An exception are some resource rich countries, which benefit from investment grade credit ratings, access to Eurobond markets, for example Francophone countries, and a pegged and common currency. Some countries such as Egypt, South Africa, Côte D'Ivoire, and Kenya have more advanced banking and capital markets systems in comparison to other countries in the region, allowing them to attract a broader pool of capital.
[11] In 2024, 28 out of 29 African countries with sovereign credit ratings have sub-investment grade ratings. 14 countries were assessed to have a significantly high risk of default (CCC+ or below).

effects of investments in the SDGs.[12] This approach would better recognize the importance of broader perspectives and development priorities, which will ultimately make these countries more attractive for investment (UN DESA 2022). In this context, technical assistance targeted at developing countries that currently do not have sovereign ratings is needed, to enhance their access to financial markets (UNCTAD, forthcoming).[13]

Addressing these financing challenges is crucial for attracting FDI in Africa. MDBs and IFIs can help to reduce the costs of capital or enable projects that otherwise would have been discarded by signaling creditworthiness, and thus reducing the risk of the respective projects (UNCTAD 2016; UNCTAD, 2023a).

Other challenges

In addition to financing challenges, a narrow focus on traditional sectors hinders economic diversification and the prospects of attracting investment to emerging industries (African Development Bank, 2018; UNCTAD, 2024a). Current sectoral shifts in FDI primarily benefit larger developing economies, which are better positioned to compete in the expanding high-tech services sector. In contrast, many African countries face declining manufacturing investment, limiting their ability to participate in GVCs. This is especially pronounced in structurally weak economies with uneven access to resources and investment opportunities. Servicification opportunities are typically in high skilled areas where most African countries may have significant deficits. Skills retention is also a significant challenge as many of these domestically developed skills become highly mobile internationally. Therefore, it is crucial to rethink approaches to leveraging FDI to promote industrial development, diversify economies, and enhance participation in international production networks.

To achieve these objectives, it is essential to move beyond traditional strategies of attracting FDI. Current strategies typically focus on fiscal incentives and creating a favorable investment climate. Common practices include tax breaks and exemptions to lower operational costs, establishing investment promotion agencies (IPAs) to market the country, and streamlining regulatory processes to simplify permits and licenses. Additionally, investing in infrastructure development, ensuring political stability, and implementing sound economic policies are fundamental for building investor confidence. While these approaches have historically proven effective in attracting FDI, they should be complemented by policies aimed at addressing broader goals related to inclusive and sustainable development.

B. Opportunities

Despite the substantial financing challenges, Africa offers numerous opportunities to catalyze international investment for sustainable development and economic growth. Successful examples from other regions, such as ASEAN and Latin America, along with notable cases from within Africa—

[12] The African Union is planning to establish its own credit rating agency to provide credit assessments tailored to the unique economic contexts of African nations (African Union, 2023).
[13] UNCTAD's analysis shows that the variability in bond yields, represented by their spreads, within existing ratings and between countries with the same ratings indicates that biases and other factors within global financial markets far exceed the impact of sovereign ratings or changes in those ratings. Efforts by countries to improve the quality and transparency of their data, debt management and other institutions significantly reduce the reliance of financial markets on credit ratings.

including Ethiopia, The Gambia, Ghana, Kenya, Nigeria, Rwanda, and South Africa—demonstrate that strategic policies can attract substantial FDI flows.

Some countries, like The Gambia, have enhanced their business environment through targeted incentives and streamlined regulatory processes, while Kenya has emerged as an investment hub by focusing on technology and renewable energy, supported by significant infrastructure investments. Rwanda's emphasis on improving the ease of doing business has further attracted investors. Ethiopia has successfully attracted FDI into manufacturing by establishing industrial parks and developing key infrastructure. Nigeria remains attractive due to its large economy and significant investments in telecommunications and agriculture, while Ghana has fostered political stability and implemented policies to promote mining sector-led economic diversification. Africa also features top-ranked business environments, with countries like Kenya, Mauritius, Morocco, and Rwanda standing out.

African countries can capitalize on two significant trends in FDI: increased flows toward critical minerals and a growing share of greenfield investments in the services sector. The rising demand for minerals essential for the global energy transition, such as cobalt, copper, and lithium, presents a crucial opportunity for Africa to push for more investment in value addition. By prioritizing local processing and refining of these critical minerals, African countries can try to develop segments in renewable energy value chains and thereby boost economic growth, job creation and revenues. This strategic drive for value addition will potentially enable African economies to capture a larger share of the economic benefits associated with the renewable energy supply chain and help foster sustainable development across the continent.

The global energy transition presents mineral-rich countries with an opportunity to strengthen and diversify their extractive sectors, as well as capture higher value activities in the renewables manufacturing and services value chain. However, there are concerns about foreign investors potentially exploiting these resources for strategic advantage without adding significant local value or considering long-term sustainable development needs. To achieve economic benefits, African countries rich in critical minerals must enforce sustainable and transparent mining contracts to bolster domestic industries and enable local firms to participate in the renewable energy value chain.

The addition of services to manufacturing FDI – referred to as "servicification" – also provides a valuable opportunity to enhance African economies' participation in GVCs and realize development gains. Approximately 60 per cent of global trade consists of intermediate goods and services that contribute to the production process of final goods (UNCTAD, 2013; UNCTAD, 2021). Exploiting Africa's service potential, for example, in the logistic industries and other high-end services such as in-sourcing of design and financial services, can offer significant opportunities for structural transformation (UNCTAD, 2023c). In addition, the African Union's Digital Transformation Strategy for Africa offers significant investment opportunities in sectors like ICT infrastructure, digital skills development, e-governance, and data security. The strategy aims to create a digitally integrated Africa, improving connectivity, fostering innovation, and enhancing economic inclusion. Investments in broadband networks, mobile technologies, and digital financial services are particularly promising as they align with the continent's growing digital economy and youthful population, positioning Africa as a future hub for digital innovation and entrepreneurship (African Union, 2020).

Investing in infrastructure—beyond renewable energy—is essential for Africa to meet its sustainable development goals and critical needs. These investments can boost economic activity, improve connectivity, and attract more businesses to the region. By leveraging local investments, and local expertise, collaborative initiatives can create resilient infrastructure and support an environment that encourages both public and private investment, in line with UNCTAD's and UN principles for sustainable development.

Moreover, the ongoing momentum for reforming the financial architecture and redefining the role of MDBs could help leverage private investment flows for sustainable development in Africa. MDBs and other development finance institutions can play a critical role in mitigating financial risks and lowering capital costs. Increased engagement of MDBs in the initial stages of project preparation and investment planning can further reduce investment risks, making Africa more attractive to foreign investors (UNCTAD, 2023a; UNCTAD, 2023d). MDBs and IFIs could also collaborate more effectively with the United Nations and other development partners to unlock greater volumes of affordable long-term resources to close the SDG financing gap.

Finally, regional integration is a significant determinant of FDI. Foreign investors continue to rationalize production facilities within the region, potentially benefiting from lower costs associated with intraregional trade. In this context, the implementation of the AfCFTA can attract greater market-seeking FDI and strengthen regional linkages with neighboring economies. However, preferential market access between countries in the region is the starting point. There is a need to implement complementary policies related to infrastructural connectivity, business facilitation, and harmonization of standards to ensure that development gains from AfCFTA are realized.

V. POLICY RECOMMENDATIONS

To attract FDI and maximize opportunities for sustainable development requires not only implementing effective policies but also adopting innovative strategies that align with global sustainability goals and the continent's unique economic landscape. The following recommendations outline key actions to tackle these challenges and unlock Africa's investment potential.

A. Fostering a robust enabling environment for investment

A supportive environment must be established before effectively marketing opportunities to foreign investors. Africa's FDI potential hinges on leaders improving the investment climate through sound policies, rule of law, reduced policy risks, and better infrastructure.[14] Strengthening the legal and institutional frameworks for investment should be complemented by digital facilitation initiatives that improve governance and mitigate risks (UNCTAD, 2024b). Effective digital investment facilitation can streamline processes, increase transparency, and enhance investment governance.

Improving political and economic stability is crucial but improving the business environment is equally important. Strengthening local entrepreneurial ecosystems can help African countries capture more benefits from FDI. For example, capitalizing on increased investor interest in critical minerals requires the strengthening of domestic and regional value chain linkages. Proactive industrial policies should aim to foster local value addition, job creation, and technology transfer.

National reforms aimed at facilitating investment can be reinforced by regional integration and initiatives that enhance transparency and simplify administrative procedures, particularly within the AfCFTA framework (UNCTAD, 2024c). Moreover, accelerating the reform of the IIA regime and minimizing investor-state dispute risks are also essential. By adopting global best practices and building on the AfCFTA Investment Protocol, African countries can retool investment treaties to attract investment and promote sustainable development.

B. Mitigating investment risks and high capital costs

The private sector plays a crucial role in bridging the investment gap for the SDGs; however, high perceived risks often deter investment in low-income countries. High country risk is a major barrier to attracting private investment in Africa. Risk mitigation mechanisms, such as investment guarantees, PPPs, enhanced currency hedging tools, concessional loans, and blended finance, can improve access to credit and lower financing costs for private investors. Addressing financing challenges requires stronger partnerships between governments, MDBs, IFIs, and the private sector.

In addition, institutional investors such as pension and sovereign wealth funds are ideally placed for financing projects in SDGs sectors. But they often lack access to investment opportunities in developing countries because they are prevented from financing non-investment grade projects. This especially affects funds from developing countries, which are often compelled to invest in developed-country

[14] This requires concerted efforts at national, regional, and international levels, alongside a more effective approach to investment promotion (Dupasquier & Osakwe, 2005).

assets instead of in assets in their own country. Concerted international support for de-risking activities and reforming how credit ratings are determined in vulnerable economies could increase available financing for SDG investment.

Home countries of investment can also play a crucial role in channeling investment to Africa. Expanding outward FDI programs to support the 2030 Agenda involves increasing the availability and range of risk insurance and embedding sustainability criteria in investment projects. Moreover, integrating export credit agencies into policy dialogues on investment for development is not only important for enhancing financial support but also for fostering a collaborative approach that aligns public and private sector interests toward sustainable growth.

C. Mobilizing private investment for critical sectors

To attract investment, efforts should focus not only on enhancing the investment and business environment but also on implementing policies that maximize development outcomes in critical sectors. African countries need to enhance the investment readiness of key sectors like renewable energy, infrastructure, agrifood systems, health and education, going beyond reductions in corporate income tax. International tax reforms under the Base Erosion and Profit Shifting (BEPS) – Pillar II initiative provide an opportunity to align incentives with sustainable development by linking them to the SDGs.

However, incentives alone are insufficient to attract investment in SDG sectors. Dedicated policy frameworks are needed to support investment and foster public-private partnerships. For instance, many African countries lack renewable energy policies or measures for climate change adaptation. Policy frameworks should address sector-specific barriers and introduce tailored mechanisms like project auctions and pipelines of bankable projects.

UNCTAD could facilitate the creation of subregional platforms that bring together IFIs, bilateral development partners, donors, host country governments, IPAs, and other relevant stakeholders to support project preparation. These platforms could help countries prepare a pipeline of bankable projects thereby supporting scalability to attract private investments, mainstreaming projects in development plans, while reducing the financial burden on the public sector. This could follow the model of the Bangladesh Climate and Development Platform (BCDP) launched at COP28 by the Government of Bangladesh and its partners IFIs, bilateral donors, and private sectors to leverage adaptation and mitigation investments that have high fiscal multipliers. Operating as project formulation facilities, such platforms can significantly increase FDI to low-income African countries and help them to overcome structural vulnerabilities and foster resilience.[15]

In addition, the Baku Initiative for Climate Finance, Investment, and Trade (BICFIT), a new initiative aimed at enhancing coherence between climate finance, investment, and trade will be launched at COP29. By supporting the creation of national and regional platforms, BICFIT will further bolster efforts to attract climate-positive investments and ensure they are integrated into national climate policies and development strategies. This initiative, co-led by UNCTAD and UNDP, aims to establish a collaborative

[15] The BCDP is a project preparation facility designed to secure public and private investments for climate adaptation and mitigation, following the IMF's Resilience and Sustainability Facility (RSF) arrangement (see: https://www.imf.org/en/News/Articles/2023/12/03/bangladesh-launch-climate-development-platform-to-leverage-adaptation-and-mitigation-investments).

platform for developing a comprehensive action plan on climate finance, investment, and trade nexus in support of the UNFCCC and the Paris Agreement.[16]

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FDI activity in Africa, particularly in LDCs, has been hindered not only by idiosyncratic challenges but also by a lack of corporate engagement and insufficient financing. By emphasizing governance reforms, mitigating investment risks, and enhancing access to finance African countries can enhance their attractiveness for FDI. MDBs and IFIs should spearhead efforts to reform the international financial architecture, strengthening regional cooperation, green investment, and digital infrastructure to drive long-term sustainable development and economic resilience.

Moreover, corporate investment decisions rely on access to various financial sources. To release funds, financial institutions— whose priorities often differ from those of corporations—require certain conditions such as transparent reporting and strong corporate governance.

While this paper focuses on FDI, other forms of private financial flows—such as international bank lending, debt financing, and portfolio investment—are also critical for driving investment in sustainable development. To unlock these financing flows for foreign investment, it is essential to strengthen the local financial ecosystem, including capital markets and regulators.

[16] https://cop29.az/en/news/cop29-presidency-and-unctad-sign-letter-of-intent-to-collaborate-on-the-bicfit-initiative.

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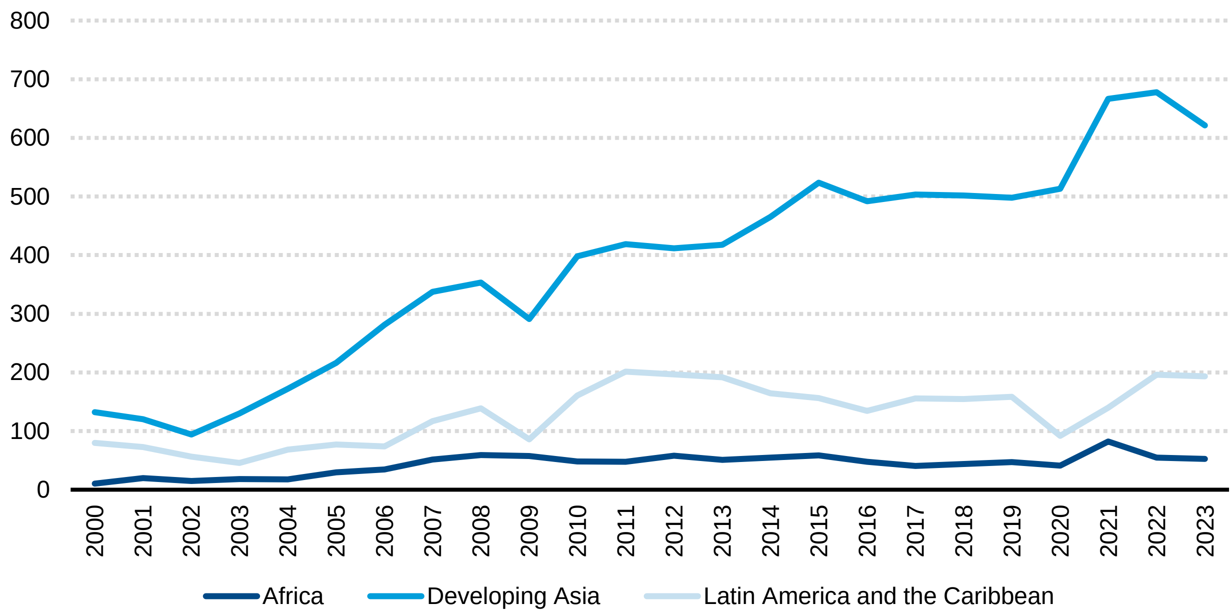
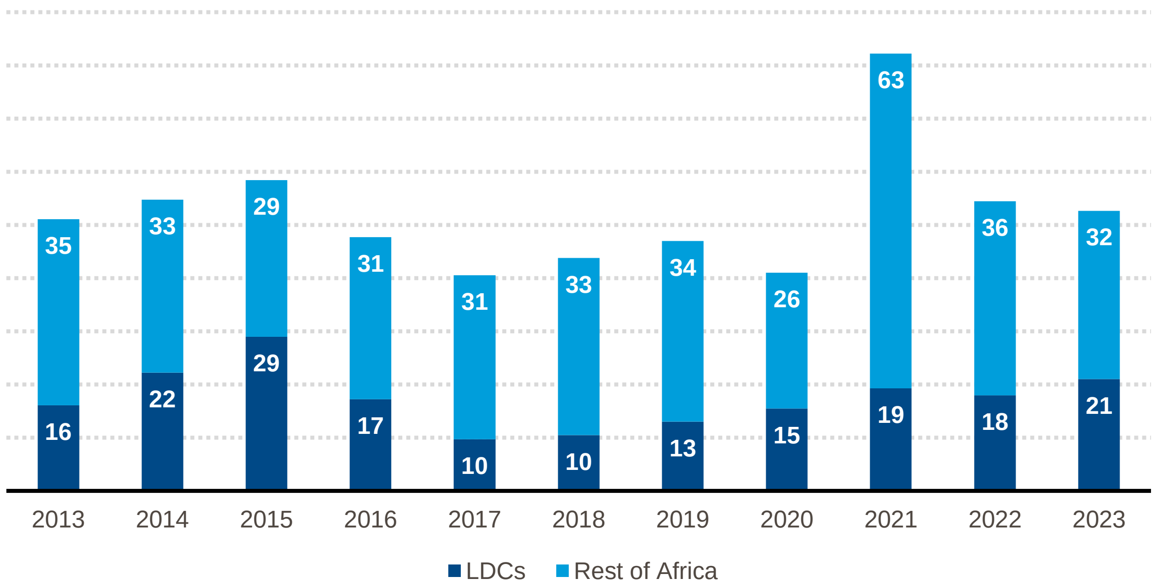
ANNEX

Annex figure 1 FDI flows into developing regions, 2000- 2023
(Billions of dollars)



Source: UNCTAD

Annex figure 2 FDI inflows in LDCs in Africa and rest of Africa
(Billions of dollars)



Source: UNCTAD, FDI/MNE database (https://unctad.org/fdistatistics).

Annex table 1

Share of project finance in SDG infrastructure, by investor type and region, 2011-2023
(Number and per cent)

	Social infrastructure		Infrastructure		Renewable energy	
	Domestic	International	Domestic	International	Domestic	International
Africa						
Number of projects	338	43	917	291	959	578
Public (share)	80	7	60	10	23	9
Private (share)	8	4	16	14	40	29
Developing Asia						
Number of projects	2 269	368	4 165	608	11 725	1 241
Public	72	11	66	5	17	2
Private	15	3	22	7	73	8
Latin America and the Caribbean						
Number of projects	233	71	743	478	1 757	1 369
Public	50	11	32	11	5	4
Private	23	12	29	28	51	40
Least developed countries						
Number of projects	124	24	381	211	529	320
Public	67	11	48	17	19	12
Private	17	5	17	19	44	26

Source: UNCTAD based on information from Refinitiv.
Note: International projects have at least one foreign sponsor. A project is considered public if the Government or local authorities have an equity stake (are among the sponsors) in the project company, either directly or through a state-owned enterprise. In international- public projects the consortium of sponsors includes both the domestic Government and a foreign company.

Annex table 2 Share of project finance involving MDBs, 2015-2023
(Total number and per cent)

	Social infrastructure		Infrastructure		Renewable energy	
	Share	Total	Share	Total	Share	Total
Africa						
Domestic	10	279	5	671	9	785
International	16	37	18	212	20	500
Developing Asia						
Domestic	3	1 452	4	2 645	1	9 620
International	4	170	9	465	9	1 108
Latin America and the Caribbean						
Domestic	18	163	10	555	5	1 527
International	12	52	13	350	11	1 179
Least developed countries						
Domestic	19	112	11	300	11	461
International	24	21	20	158	17	291

Source: UNCTAD based on information from Refinitiv.
Note: Multilateral development bank (MDB) does not include national development institution or Exim banks.

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