Background

Countries in special situations face myriad challenges as they pursue achievement of the sustainable development goals. The Addis Ababa Action Agenda ‘recognized the importance of addressing the diverse needs and challenges faced by countries in special situations, in particular African countries, least developed countries, landlocked developing countries and small island developing States, as well as the specific challenges facing middle-income countries’.

However, the COVID-19 pandemic, constrained the fiscal space of the poorest countries as these countries have not been able to to finance massive fiscal stimulus packages to boost their economies. At the beginning of 2022, 3 in 5 of the poorest countries were at high risk of or already in debt distress, and 1 in 4 middle-income countries were at high risk of fiscal crisis.

The difficulties posed by the fallout of the pandemic have now been further compounded by the conflict in Ukraine, with rising energy and food prices putting additional pressures on fiscal and external balances of commodity importers, and tightening global financial conditions raising the risk of a systemic crisis.

The statistics speak for themselves. An additional 58 million non-poor Africans are estimated to fall into extreme poverty in 2022, adding to the 55 million Africans already been pushed into extreme poverty because of the pandemic.

54 developing economies are suffering greatly from severe debt problems, representing more than 3 percent of the global economy, 18 percent of the population, and accounting for more than 50 percent of people living in extreme poverty. 24 out of the 54 are from Sub-Saharan Africa.

Bridging the ‘Great Finance Divide’ is essential in order to regain lost ground and accelerate progress towards achieving the 2030 Agenda within the remaining decade of action.
Yet, developing countries are in no position to finance the necessary investment push for recovery. Funding conditions have deteriorated rapidly across developing economies and are likely to remain elevated as major market Central Banks (CBs) continue to raise interest rates (and shrink their balance sheets) to curb inflation, and other countries follow suit. The IMF has reported in August of 2022 that cumulative outflows from emerging markets have been very large at about $50 billion, a magnitude similar to the outflows witnessed back in March 2020. Investment in 2022 is expected to slow down markedly, reversing a strong (64%) rebound in global foreign direct investment (FDI) flows to $1.6 trillion in 2021.

It is imperative to increase access to affordable long-term financing and investment in Africa and countries with special needs and to use proceeds productively, particularly for higher public investment in economic and social infrastructure to boost employment, raise productivity, improve energy efficiency and reduce greenhouse-gas emissions.

This would entail a host of measures including; reducing risks to investments, providing access to additional long-term affordable international public finance, fulfillment of Official development assistance commitments, expansion of Multilateral development banks’ (MDBs) lending, improvement of developing countries’ borrowing terms in markets, enhancing efforts to resolve unsustainable debt situations and improving domestic resource mobilization.

The bleak financial outlook also have significant implications for efforts of developing countries, in particular in Africa and structurally weak economies, to attract investment in SDG sectors. Investment in the SDGs in LDCs is relatively low, even in a period where global sustainable investment has been rising. LDCs’ share of SDG investment to developing countries (measured by greenfield and international project finance values) fell from 19% in 2020 to just 15% in 2021. With declining global investment, efforts to attract FDI and specifically investment in SDG sectors will become much harder.

There are also other challenges that can have implications for attracting FDI. These include ongoing global supply chain disruptions, limited access to sustainable finance for most developing countries and lack of insurance and risk guarantees.

The international community, investors and financiers, should work with African and structurally weak economies to raise sustainable finance, develop bankable projects and increase capacity building for SDG-relevant investment promotion and facilitation.

**Questions for debate**
(i) Given that FDI outlook is bleak, how could we increase the effectiveness of the FDI in Africa and Countries with special needs?

(ii) How could we tap sustainable finance in global capital markets more effectively to increase investment in the SDGs in Africa and countries with special needs?

(iii) How instrumental would a UN Tax Convention be in mobilizing domestic resources for investment in the SDGs?

(iv) How do we address the need to keep global supply chain disruptions in essential goods functional in order to keep economies and people’s lives afloat?