



FDI FOR DECENT AND PRODUCTIVE JOBS

Key messages

- FDI can play a vital role in structural transformation and creation of jobs, lifting workers and their families out of poverty. However, getting the most development impacts out of FDI requires a deliberative and coordinated policy framework for decent work. The ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration) provides such a framework.
- To maximize productive job creation, incentives should be made conditional on the quantity and quality of jobs created. They should also encourage and support linkages to local suppliers, to encourage formalization and open opportunities for domestic producers to integrate into global and regional value chains.
- Diagnostics and ex-ante assessments are prerequisites for identifying those investments with potential for greater linkages with local suppliers, coupled with effective monitoring systems and sustainable methodologies for measuring their impact on job creation and decent work. More broadly, investment promotion strategies must be closely aligned with industrialization and employment policies to create a synergistic ecosystem for skills, employment and enterprise development.
- Host-country governments should foster dialogue across relevant ministries to ensure policy coherence; and include the social partners, to ensure inclusive economic growth and decent work. They should also engage multinational enterprises to identify areas of mutual interest where they could more actively contribute; and dialogue with home-country governments on areas of mutual interest.

Problem statement

FDI can play a critical role in supporting long term SDG financing, though often this potential remains unmet. Job-rich, human-centred transitions to more sustainable and inclusive economies require both quantity and pattern of investments. When done through the right framework, foreign firms creating new local affiliates have a distinct development role in structural transformation of

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ABOUT THIS SERIES

The Financing Policy Brief Series has been prepared by the Inter-agency Task Force on Financing for Development to inform the substantive preparations for the Fourth International Conference on Financing for Development (FfD4), to be held in Sevilla, Spain, from 30 June to 3 July 2025.

The Inter-agency Task Force on Financing for Development is comprised of more than 60 United Nations Agencies and international organizations. The policy briefs in this series were not subject to review by Task Force Members, and represent the views of the authoring organizations.

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economies, including development of local R&D, transfer of more advanced management practices and technology to local producers. Linkages with small and medium enterprises can be particularly beneficial as a channel of firm growth with more potential for job creation; and to help formalization of micro and other enterprises.

FDI also provides a critical link in enabling emerging markets to participate in global and regional value chains and thus generate positive financing spillovers. There is a strong positive correlation between GVC participation and the growth rate of economies. Global trade in goods and services strengthens and expands the manufacturing sector where labour productivity and job creation capacity is higher, enabling the shifting of labour and other productive resources away from agriculture towards industry, and later into services.

Many developing countries have put in place investment strategies and policies to increase the quantity and quality of jobs created locally. However, due to few linkages with domestic enterprises, the sustainable development contribution of FDI is often limited—in particular, the impact on SDG 8 on inclusive economic growth and decent work, which is vital for achieving poverty reduction, elimination of hunger, access to education, gender equality and many other SDGs.

Potential upstream indirect employment effects are often limited due to the inability of local firms to meet affiliates' higher standards on quality, timeliness of delivery, etc. for their core business. Linkages are limited to ancillary localized services which may contribute to increased formalization of enterprises but do not help advance economic development.

There is a lack of sufficient data and research on effective policies and mechanisms to enhance downwards transmission channels for skills and technology flows from foreign-owned firms to domestic suppliers, in particular SMEs. Capacity-building programmes tailored to the specific national context are needed to provide in-depth support over longer periods of time for governments to institutionalize methods for monitoring the impacts of FDI on decent work and inclusive economic growth which could then be used to revise their policies as needed; and to institutionalize coordination among ministries.

Many emerging market IPAs need in-depth capacity-building and longer-term operational support to fulfill their role in gathering data and information for policymaking; ensuring policy coherence; facilitating commercial linkages between affiliates and domestic enterprises; and promoting dialogue between affiliates and the host government and social partners to ensure that economic growth is inclusive. IPAs also are on the front-line in guiding investors who are seeking to align their operations with a wider range of national sustainable development priorities, such as just transition, youth employment promotion and increasing visibility of women-led enterprises.

Policy solutions

The national and local employment and training service ecosystems are an important factor in determining the job outcomes of investment projects. Local and national platforms connecting employment and training skills providers with investment promotion agencies, and more broadly platforms of dialogue between investors, authorities and service providers around education and skills, and employment services are key enabler which can be embedded in the governance and coordination structures of employment policies, at national or local level and with support from the ILO. The connection with global value chains also has the potential to create positive externalities (know-how, technology, etc.).

A better understanding of the sectors and sub-sectors with high formal job creation potential can be developed with a view to targeting investment accordingly (both public and private) and put in place complementary policies to enhance positive spill overs in terms of indirect and induced jobs. FDI can also play an important role in supporting formalization of enterprises, which policies could encourage. In addition, it is critical that public policies aiming at supporting private investment via direct financing, fiscal policies (tax breaks, etc) or other incentives are given due support in order to harness their employment potential.

The ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration) provides guidance to both governments and enterprises on how to maximize the positive impact of FDI



and GVC participation on decent work and local enterprise development in host/exporting countries and minimize and resolves potential difficulties of business operations. At the policy level, ILO Development cooperation programmes such as METI (Mainstreaming Employment into Trade and Investment in the Southern Mediterranean provides) support Member States in the MENA region in including employment considerations in their investment decisions. Assessing the Impact of FDI on Decent Work is a set of key performance indicators designed by ILO, in collaboration with the World Alliance of Investment Promotion Agencies (WAIPA), to help governments to strengthen alignment of FDI policies with decent work objectives; and to help IPAs to measure the impacts of those policies.

Social dialogue is the mechanism for optimizing design and delivery of policies and programmes for enterprise development. Social dialogue is also essential for maximizing the positive contribution of FDI in specific local contexts. Social dialogue as a continuous process between employers and workers enables gradual progression to advance decent work without hindering enterprise growth and economic development. National tripartite focal points to promote use of the MNE Declaration in enterprise development can play an important role in facilitating cooperation between government, employers' and workers' organizations and MNEs for the creation of decent work in emerging markets and other countries. With ILO technical assistance, these national focal points are helping to foster inter-ministerial cooperation to engage more effectively with MNEs to advance decent work in the country.

The ILO has experience in supporting host governments and social partners to develop appropriate FDI policies to achieve decent work, based on the guidance provided in the MNE Declaration. This work should be scaled up to support governments across a range of emerging markets, which could also help to enhance the knowledge base on what policies are most effective and under what conditions.

✿ Specific recommendations for FFD4

The Outcome document of FFD4 should:

Reaffirm that Foreign Direct Investment can play a transformative role in financing for full and productive employment and decent work for all. Foreign Direct

Investment is essential for structural transformation of economies. However, FDI must be sustainable and inclusive. Decent work is foundational for achieving numerous SDGs, including poverty reduction, elimination of hunger, access to education and health, and gender equality; as well as key element of others such as the role of just transition in climate action.

Promote the importance of policy coherence across all ministries and institutions dealing with labor markets, enterprise development, skills development, access of SMEs to finance, investment promotion, etc in consultation with social partners.

FDI impacts on creation of decent work are both direct and indirect through linkages with local enterprises. Commercial linkages also serve as channels for transmitting knowledge, skills and technology. However, direct and indirect employment will not happen unless governments ensure that workers have the requisite skills; and linkages will not occur unless they prepare enterprises to become suppliers to MNEs.

Call for strengthening the capacity of investment promotion agencies (IPAs).

They need to be equipped with tools and strategies to attract sustainable and SDG-aligned investment, facilitate linkages with local enterprises, and center decent work in the development of their own projects for investors seeking investment opportunities.

Encourage Member States to establish monitoring and data collection systems which can effectively track the impact of FDI on productive job creation.

This will also better inform transmission channels for skills and technology flows from foreign-owned firms to domestic suppliers, in particular SMEs.