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Investment Promotion in LDCs: A Needs Assessment

The global poly-crisis context has disproportionately affected investment flows towards critical sectors that contribute to the Sustainable Development Goals (SDGs) in the most vulnerable countries. As the SDG investment gap continues to widen - now estimated at $4.2 trillion per year for developing countries alone - foreign direct investment flows (FDI) in sectors including food, agriculture, health and education in least developed countries (LDCs) have continued to decline.[1] In 2021, LDCs received only 15 percent of the total amount of SDG investment that went to developing countries – down from 19 percent the previous year.[2]

In the past decade, the share of global FDI flows towards LDCs as a group remained below 2 percent and their share of flows going to developing countries below 4 percent.[3] These trends contrast sharpy with concerted efforts made by many governments across LDCs over the years to strengthen their regulatory frameworks for investment - often with the technical support from development partners. More needs to be done, as these efforts have been undermined by the effects of the pandemic, the war in Ukraine, food and energy prices, financial turmoil, debt pressures and natural disasters related to climate change.

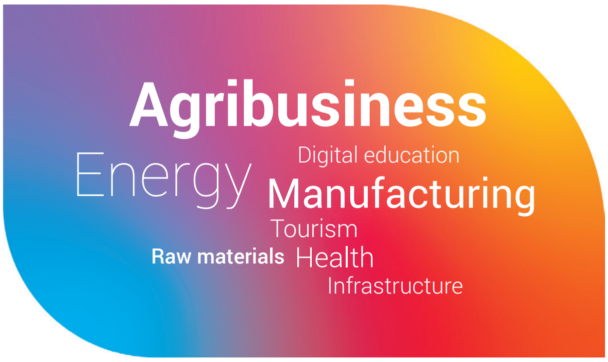
Specific targets related to investment promotion in LDCs are included in the UN 2030 Agenda for Sustainable Development and the Doha Programme of Action (DPoA) for LDCs. The instrumental role of investment in achieving the SDGs is recognized in SDG 10 on *reducing inequalities* and its related target on encouraging official financial assistance and financial flows, including FDI, to States where the need is greatest, in particular LDCs (target 10.B). Target 17.5 of SDG 17 on *partnerships for the Goals* and the DPoA both call for the implementation of investment promotion regimes for LDCs.[4]

To re-channel investment to the LDCs, governments need support to prepare, promote and facilitate shovel-ready projects related to sustainable development. Existing investors in the LDCs see investment opportunities in agribusiness, energy (esp. renewable) and manufacturing, according to a recent UNCTAD survey of investors in LDCs (figure 1).[5] Other sectors mentioned included digital education, health,

[1] UNCTAD (2022). World Investment Report 2022: *International tax reforms and sustainable investment.*
[2] UNCTAD (2022).
[3] UNCTAD (2021). The Least Developed Countries Report 2021: *The least developed countries in the post-COVID world: Learning from 50 years of experience*.

[4] Doha Programme of Action. Paragraphs 259, 260, 261.
[5] UNCTAD (2023). *Investment Promotion in LDCs: A needs assessment*. The survey included 38 survey responses from 34 investors and 4 private sector organizations operating in 29 of the 46 LDCs. 70 percent of respondents were domestic investors and 30 percent were foreign investors.

Figure 1. Top sectors mentioned as emerging opportunities by surveyed investors in LDCs (larger = more mentions)



Source: UNCTAD

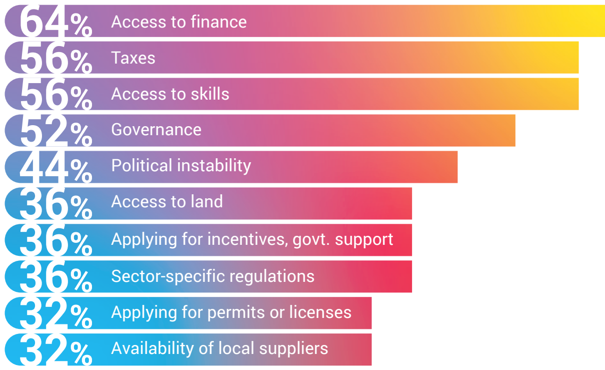
infrastructure, raw materials, and tourism. While it is encouraging to note that responding investors see new opportunities for investment across a variety of sectors, a considerable percentage of them (26 percent) are unaware of the national investment promotion agency (IPA) in the host country meaning that they are also unaware of any investment projects promoted by the IPA. This calls for agencies to extend their outreach to established investors.

Finance, taxation, access to skills, governance and political instability are the top five challenges cited by surveyed investors in LDCs (figure 2). There were significant differences between the issues raised by domestic and foreign investors. For example, access to finance was the overwhelming issue for domestic investors (87 percent) compared to foreign investors (30 percent). Conversely, taxes, including their administration, clarity about taxes and fiscal controls mattered much more to foreign investors.

More than a third of surveyed LDC investors faced challenges related to investment facilitation, including accessing land, obtaining information about sector-specific regulations, and applying for incentives. These challenges were predominantly faced by domestic investors. This suggests a need to strengthen investment facilitation services through the streamlining and digitalization of administrative processes, making them transparent and accessible to all investors.

Investors are eager to connect with domestic suppliers and partners, providing IPAs an opportunity to support them in this area. Nearly a third of respondents cited "availability of local suppliers and partners" as an issue. IPAs can have a role in connecting investors to actors in the local economy and forge supplier relationships or technical and financial partnerships.

Figure 2. Top 10 issues faced by surveyed investors in their current operations in LDCs



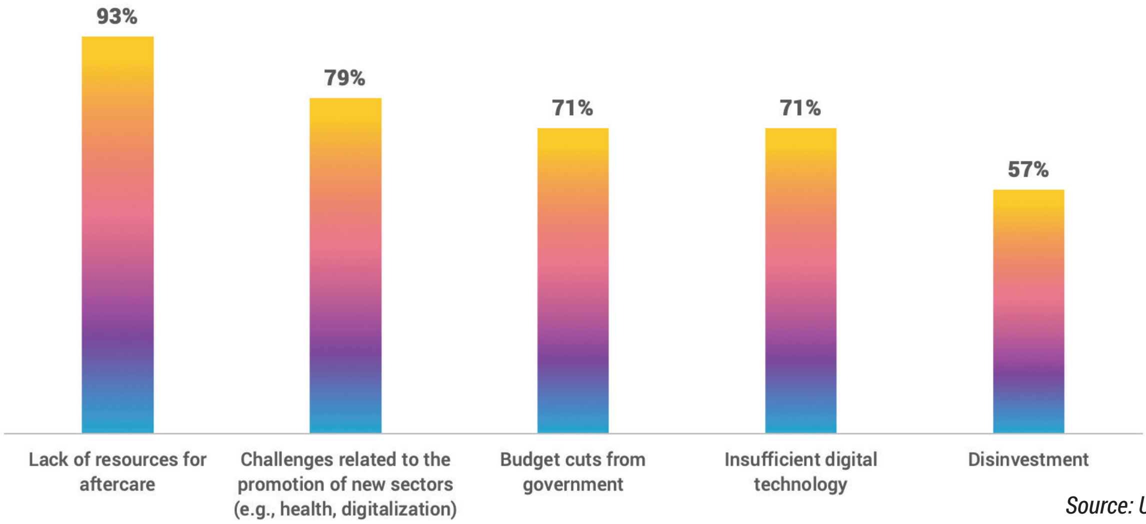
Source: UNCTAD

The challenges faced by IPAs in LDCs have been compounded by the COVID-19 pandemic. They include lack of resources for aftercare services, challenges related to the promotion of new sectors post-pandemic, government budget cuts, and insufficient digital technology (figure 3), according to a recent UNCTAD needs-assessment survey of agencies in LDCs.[6] Of the IPAs surveyed, 93 percent stated that they require capacity-building support in investment promotion and 79 percent in investment facilitation.

Working towards the achievement of the SDGs has become an integral consideration for nearly all LDC IPAs, but there is a discrepancy between the SDGs that agencies claim as their priorities and the sectors they are targeting. Nine out of 10 surveyed IPAs report that they mainstream the SDGs in their strategic planning. Figure 4 presents the top priority SDGs for responding agencies. In comparison, their top sectors

[6] UNCTAD (2023). *Investment Promotion in LDCs: A needs assessment*. The survey included 28 national IPAs from LDCs covering all regions of sub-Saharan Africa, South Asia, the Pacific Islands and the Caribbean.

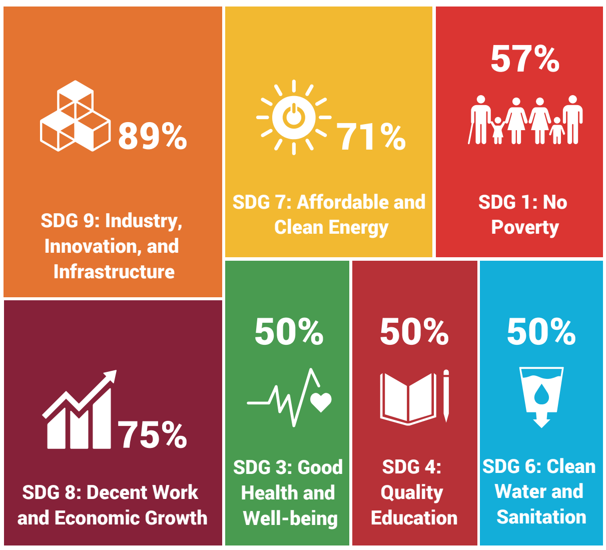
Figure 3. Top pandemic-related challenges reported by the surveyed LDC IPAs



Source: UNCTAD

targeted for investment included agribusiness, manufacturing, tourism, energy, infrastructure, and ICT and IT-enabled services. While half of the IPAs responded that they prioritized SDG 3 on *good health and well-being* and SDG 7 on *quality education*, these were not amongst their priority sectors to attract investment.

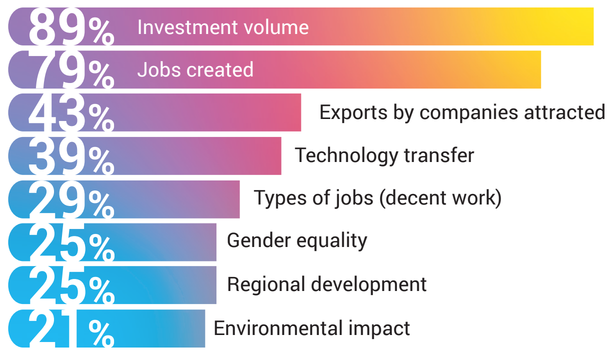
Figure 4. SDG priorities most cited by surveyed LDC IPAs



Source: UNCTAD

This may reflect that the performance indicators of IPAs are not well aligned to the SDGs. Figure 5 presents a selection of the impact indicators used by IPAs. While the majority are linked to SDG objectives, the top impact indicators selected still reflect a traditional focus on investment volume and number of jobs created. Encouragingly, a significant percentage do target SDG project outcomes such as technology transfer, decent work, gender equality, regional development and environmental impact.

Figure 5. Impact indicators of surveyed LDC IPAs



Source: UNCTAD

Channeling transformative investment towards untapped opportunities in LDCs will require enhanced support from the international community, including in capacity-building in investment promotion and facilitation. Through a multi-agency programme, UNCTAD and its partners (the WTO's Enhanced Integrated Framework, UN agencies including ILO, UN-OHRLLS and UNIDO, and the World Association of Investment Promotion Agencies), are building the capacity of officials in 20 LDCs in investment promotion and facilitation for greater sustainable development impact. As part of the programme, agencies established the *Executive IPA College* — a digital platform, hosted by the International Training Centre of the ILO, where partners deliver tailored trainings based on the needs of investors and LDC IPAs. Beyond capacity building, more technical assistance in key areas is needed to enhance the capacity in LDCs to promote investment for the SDGs. They are outlined in the annex.

Annex. Technical assistance to enhance capacities in LDCs to promote investment for the SDGs

1. Integration of the SDGs in Investment Promotion Strategies

- Identify new investment opportunities in line with renewed national SDG priorities (food and agriculture, health and tech sectors) and conduct a reassessment of traditional investment promotion sectors.
- Develop investment promotion measures, including incentives linked to SDG performance and SDG sectors.
- Generate increased awareness of IPA services, including those that are SDG-related.
- Increase the use of digital tools for investment promotion as well as digital outreach platforms, including social media.
- Report on SDG activities and impact, including by establishing key performance indicators for measuring the SDG impact of investments.

2. Enhancement of Investment Facilitation Services

- Focus limited IPA resources on investment facilitation services that have a high development impact.
- Digitalization of investment facilitation services and functions.
- Strengthen aftercare systems and services and policy advocacy functions in post-COVID and SDG related priority sectors including health and digitalization.
- Strengthen capacity and partnerships to build an improved investment climate to accommodate SDG investment.
- Engage the private sector in dialogue to encourage entrepreneurship development to foster business linkages and help improve workforce skills needed for value addition and sector development.

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