UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
UNCTAD

# FOREIGN DIRECT INVESTMENT IN LDCs

## INVESTMENT TRENDS AND POLICIES SINCE LDC IV AND THE WAY FORWARD

UNITED NATIONS

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# CONTEXT

The Programme of Action for the Least Developed Countries for the Decade 2011–2020, also known as the Istanbul Programme of Action (IPoA), was adopted at the Fourth United Nations Conference on the Least Developed Countries (LDC IV) in 2011. It emphasized the role of foreign direct investment (FDI) as a channel to mobilize financial resources for productive capacities and human and social development in LDCs. LDCs committed to promoting private sector development and improving investment conditions; development partners committed to supporting them in this endeavor (United Nations, 2011).

Despite significant policy reform efforts aimed at improving the investment climate, FDI inflows to LDCs as a group increased only marginally during the last decade. The pandemic has further undermined the attainment of the goals of the IPoA, as well as the sustainable development goals (SDGs). Nonetheless, FDI remains an important source of external finance for LDCs, crucial for their sustainable development and eventual graduation.

This report analyzes FDI as well as investment policy reform trends in LDCs since the LDC IV. Section A provides a brief overview of FDI trends, while section B summarizes national and international investment policy trends. Section C provides recommendations to revitalize investment flows to the countries that need them the most.

The discussion in this report brings together in a concise form the extensive analysis of investment and investment policy trends in LDCs contained in annual editions of UNCTAD's flagship *World Investment Report (WIR)*. The *WIR* contains dedicated sections and datasets for LDCs, as well as specific sections on trends in SDG-relevant investment projects in the poorest countries included at the request of the UN General Assembly. The policy guidance in this report synthesizes the recommendations relevant for LDCs and their development partners contained in a decade of *WIRs* and other relevant publications of UNCTAD's Investment and Enterprise Division, including the Investment Policy Reviews.

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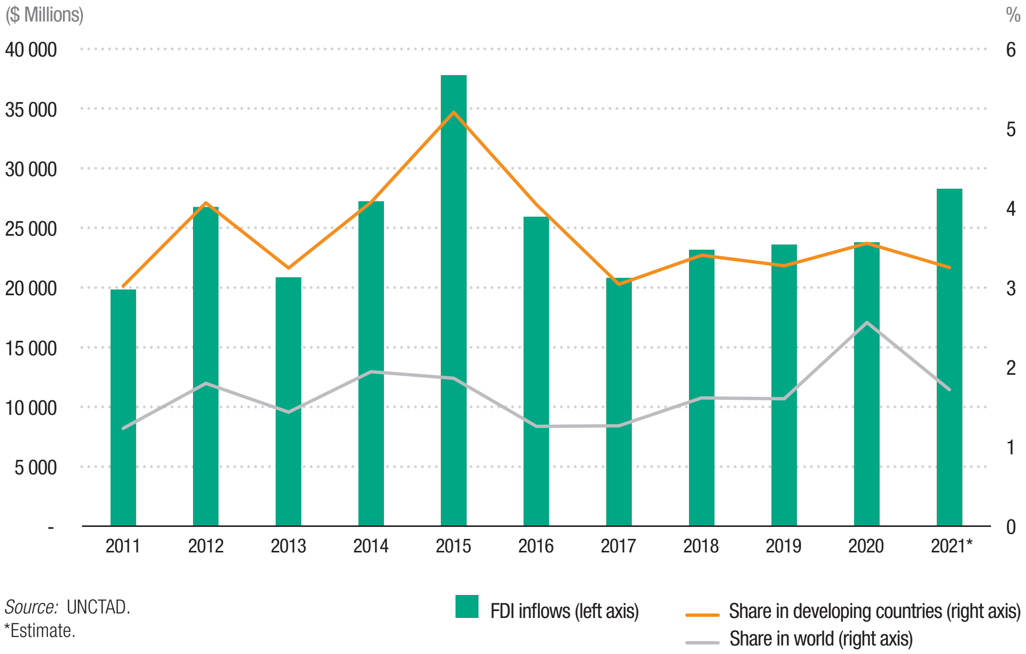
# A. FDI TRENDS

## Overall trends

FDI inflows to LDCs as a group have displayed only modest growth since LDC IV (figure 1). From $20 billion in 2011, they increased by 3 per cent annually to an estimated $28 billion in 2021. Their share in global FDI remains below 2 per cent and their share in developing country inflows below 4 per cent. In several LDCs, FDI inflows actually declined over the period. Furthermore, LDCs have not fully benefited from the strong recovery in FDI flows observed globally in 2021. UNCTAD's latest estimates[1] indicate that FDI flows to LDCs increased by 19 per cent, compared to 30 per cent in other developing economies.

**Figure 1.** **FDI inflows to the LDCs and their share in world inflows and developing-country inflows, 2011-2021** (Millions of dollars and per cent)

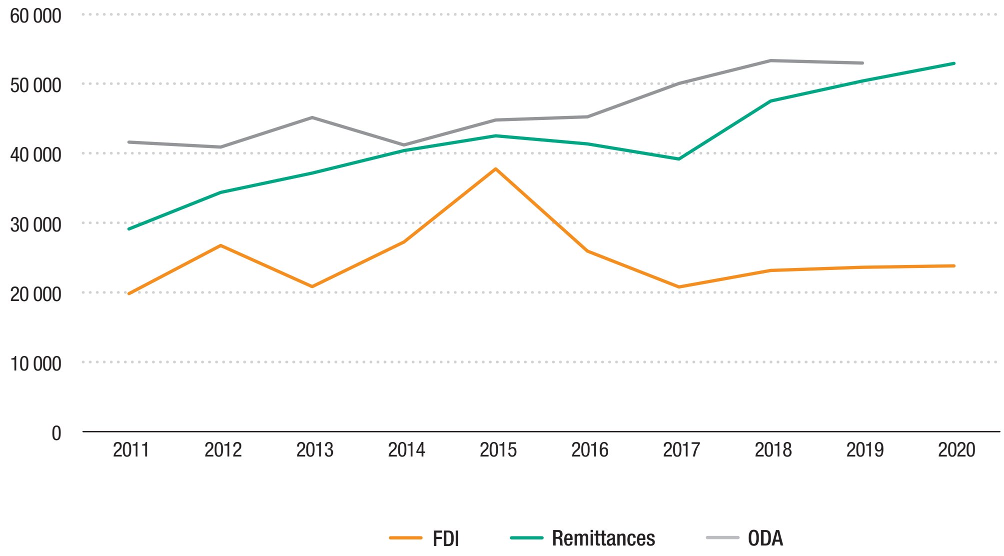



*Source:* UNCTAD.
*Estimate.

The growth of FDI in LDCs lagged that of other external sources of finance, including the (modest) growth of official development assistance (ODA) and the steady increase in remittances (figure 2). FDI flows remain nonetheless an important source of external finance for LDCs and can be complementary to ODA. Compared to portfolio investment flows to LDCs, FDI inflows were four times larger through most of the decade; portfolio flows to LDCs even turned negative in some years.

FDI trends for LDCs as a group mask significant variations by country. Over 2011-2019, FDI inflows to Asian LDCs increased steadily at an annual rate of 12 per cent. In contrast, FDI inflows to LDCs in Africa and Haiti declined by 2 per cent on average, and in island LDCs by 8 per cent. The COVID-19 pandemic also had different effects across the group. In 2020, the Asian LDCs saw a 6 per cent drop in FDI inflows, while African LDCs (and Haiti) even registered an increase (It should be noted that due to the overall low inflows across the group, a small number of relatively large investment projects can cause significant fluctuations).

**Figure 2.** **LDCs: FDI inflows, ODA and remittances, 2011–2020**
(Millions of dollars)




*Source:* UNCTAD, based on World Bank (for remittances), UNCTAD (for FDI) and OECD (for ODA).
*Note:* Remittances and ODA are approximated by flows to low-income countries, as grouped by the World Bank.

Due to these differences in FDI trends, the list of top FDI recipient countries among LDCs changed notably over the decade (table 1). Several Asian LDCs became more prominent, both as a result of relatively stronger neighbouring economies in Asia and because of a steady decline in FDI in extractive industries (especially oil and gas) that affected LDCs in Africa.

The list of top home countries of FDI in LDCs also changed over the decade. In 2011, the Netherlands, China, France, the United States and Norway made up the top-five home countries of FDI stock in LDCs, in that order. In 2020, China topped the list, followed by the Netherlands, France, Mauritius, and Thailand. China's FDI stock in the group more than tripled, from $13 to $46 billion. Compared to the list of top home countries in the previous decade, a new important home country is Mauritius, which includes significant amounts of capital originating from India. LDCs also continue to attract FDI from Thailand, Singapore, Republic of Korea, Hong Kong, China and South Africa.

**Table 1.** **Top 5 recipients among LDCs in 2011-2013 and 2018-2020**
(Millions of dollars)

| 2011-2013 average | | 2018-2020 average | |
|---|---|---|---|
| Mozambique | 5 121 | Cambodia | 5 121 |
| Congo, Dem. Rep. of | 2 366 | Bangladesh | 2 366 |
| Sudan | 1 911 | Ethiopia | 1 911 |
| Cambodia | 1 870 | Mozambique | 1 870 |
| United Republic of Tanzania | 1 705 | Myanmar | 1 705 |

*Source:* UNCTAD.

## By type and sector

The types of investment that contribute most to the development of productive capacities (as intended in the IPoA) and progress towards the achievement of the SDGs include greenfield investment projects, typically in industry, and international project finance, typically in infrastructure.

Before the COVID-19 pandemic, the value of new greenfield investment project announcements in LDCs increased by about 3 per cent per year on average, in line with the increase in FDI flows, from $28 billion in 2011 to $35 billion in 2019. Project numbers remained largely unchanged. In 2020, the pandemic led to a substantial drop in the value and number of announced greenfield projects, with both declining by more than 50 per cent. Estimates for 2021 point to an additional decline in the number of announced greenfield projects in LDCs by more than 20 per cent. In comparison, investment projects in other developing economies increased by 4 per cent.

The growth of international project finance activity over the period was equally hesitant. The number of new project announcements increased by 18 per cent over 2011-2019, but their value declined by 5 per cent to an estimated $68 billion in 2019. In 2020, the COVID-19 pandemic adversely affected both the value and number of deals; the number of new project announcements fell by more than a third. Estimates for 2021 show a further decline (-15 per cent).

LDCs continue to rely to a high degree on investment in extractive industries. The sector remained the top recipient for international project finance deals in 2019, despite the significant decline in values in oil and gas projects, which accounted for more than half of deal values in the first half of the decade but for less than 40 per cent after 2015. For greenfield investment, the share of announced projects in extractive industries (including processing) also remained high, although it shrank from over 40 per cent in value terms during 2010–2014 to about a quarter (27 per cent) of the total in 2015-2019. During the pandemic it fell further to 24 per cent following the initial drop in oil prices.

While this points to the continued dependence of LDCs on extractive industries and resource driven FDI (39 of the 46 LDCs are considered commodity-dependent), the last decade has seen some sectoral diversification of FDI in several LDCs. Non-resource-based manufacturing industries accounted for 31 per cent of project numbers in 2015-2019, up from about 26 per cent at the beginning of the decade. Food and beverages, garments and electronics were among the industries attracting more projects. In services, foreign investors targeted utilities, ICT and the financial sector.

Investment sectors relevant for the SDGs include infrastructure, renewable energy, water and sanitation, health and education, food and agriculture, and several others.[2] Over the period 2011-2019 an estimated total of $148 billion in greenfield investment projects were announced in LDCs across these sectors. Renewable energy, water and sanitation, and transport infrastructure received the lion's share. The renewable energy sector alone attracted $75 billion (51 per cent of the total), water and sanitation and transport infrastructure attracted $26 billion each. The pandemic hit SDG-relevant investment hard; after falling by 30 per cent in 2020, the number of SDG investment projects declined by a further 17 per cent in 2021, while their value dropped by two thirds.

Looking at investment trends through the lens of productive capacity development – considering the categories of UNCTAD's Productive Capacities Index – confirms the persistence of structural weaknesses in LDCs (table 2). Only investment in energy generation and distribution grew significantly during the decade (although not enough to meet SDG investment needs); investment in other infrastructure sectors and projects important for private sector development and structural change barely increased. Investment in several sectors critical for productive capacities almost completely dried up during the pandemic, making the starting point for the next programme of action for LDCs particularly difficult.

## Table 2. LDCs: investment in productive-capacity (announcements), 2011-2012 and 2019–2021 (Millions of dollars and per cent)

| Productive capacity-relevant sector | Greenfield projects 2011 | 2012 | 2019 | 2020 | 2021 | 2020–2021 growth rate (%) | International project finance deals 2011 | 2012 | 2019 | 2020 | 2021 | 2020–2021 growth rate (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total** | | | | | | | | | | | | |
| **Value** | **28 883** | **24 973** | **33 779** | **16 692** | **8 869** | **-47** | **94 913** | **113 610** | **58 803** | **30 997** | **49 450** | **60** |
| **Number of projects** | **493** | **559** | **421** | **206** | **146** | **-29** | **23** | **27** | **80** | **62** | **55** | **-11** |
| Energy | | | | | | | | | | | | |
| Value | 4 540 | 4 325 | 3 483 | 6 651 | 842 | -87 | 92 635 | 54 137 | 50 266 | 18 153 | 48 721 | 168 |
| Number of projects | 4 | 10 | 17 | 23 | 5 | -76 | 14 | 18 | 64 | 46 | 43 | -7 |
| Human Capital | | | | | | | | | | | | |
| Value | 177 | 438 | 201 | 40 | 156 | 294 | 387 | 250 | | 29 | 4 | -87 |
| Number of projects | 10 | 8 | 10 | 5 | 2 | -56 | 2 | 2 | 1 | 3 | 3 | 0 |
| ICT | | | | | | | | | | | | |
| Value | 1 120 | 771 | 337 | 2 033 | 1 867 | -8 | | | 2 114 | | 0 | .. |
| Number of projects | 27 | 41 | 19 | 31 | 32 | 2 | | | 3 | | 2 | .. |
| Natural capital | | | | | | | | | | | | |
| Value | 12 159 | 6 374 | 11 214 | 3 063 | 1 352 | -56 | | | 141 | | | .. |
| Number of projects | 44 | 22 | 19 | 10 | 7 | -35 | | | 1 | | | .. |
| Private sector development | | | | | | | | | | | | |
| Value | 2 322 | 3 128 | 1 377 | 839 | 443 | -47 | | | | | | .. |
| Number of projects | 147 | 178 | 108 | 45 | 25 | -44 | | | | | | .. |
| Structural change | | | | | | | | | | | | |
| Value | 8 488 | 9 259 | 14 754 | 4 067 | 3 600 | -11 | 1 042 | 1 112 | 50 | 311 | 51 | -84 |
| Number of projects | 256 | 289 | 232 | 92 | 71 | -23 | 4 | 2 | 3 | 5 | 3 | -40 |
| Transportion | | | | | | | | | | | | |
| Value | 77 | 678 | 2 413 | 0 | 610 | .. | 849 | 58 111 | 6 232 | 12 504 | 674 | -95 |
| Number of projects | 5 | 11 | 16 | 0 | 4 | .. | 3 | 5 | 8 | 8 | 4 | -50 |

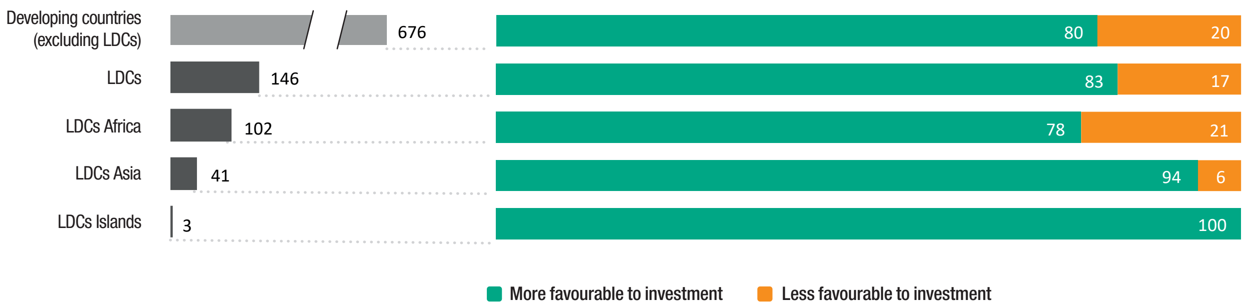
*Source*: UNCTAD, information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for announced greenfield FDI projects and Refinitiv SA for international project finance deals. For the methodology on investment in productive capacities, see the World Investment Report 2021, Chapter IV, and UNCTAD's Productive Capacities Index.

# B. POLICY TRENDS

LDCs have made significant reform efforts in the area of investment policy since the LDC IV Conference. Between 2011 and 2021, two thirds of all LDCs enacted at least one policy measure on investment, compared to 54 per cent of other developing countries. African LDCs have led the reform drive, with three quarters of the LDCs on the continent adopting reforms in the area of investment, compared to two thirds of LDCs in Asia and a quarter of island LDCs.

As for the direction of the policy measures, 83 per cent of all measures adopted by LDCs were more favourable to investment (when excluding policy measures of indeterminate nature), compared to 80 per cent for other developing countries. Noteworthy in this regard are the results for Asian LDCs and island LDCs, where 94 per cent and 100 per cent of the adopted measures, respectively, were more favourable to investment (figure 3).

**Figure 3.** **Investment policy measures by LDCs and other developing countries**
(Total and percentage of measures more and less favourable to investment*)




*Source:* UNCTAD IPM Database.
* The percentages refer to the total number of policy measures adopted, excluding those of neutral or indeterminate nature.

LDCs adopted a wide range of different investment policy measures. They were very active in the revision of investment laws. Measures aimed at introducing, reforming or replacing investment-specific legislation were adopted by 28 per cent of LDCs and 15 per cent of other developing countries. The reforms in this area focussed on opening of new sectors and activities to FDI, enhancing investment treatment and protection guarantees or creating investment promotion agencies and other investment support mechanisms.

In both LDCs and other developing countries, over one third of investment policy measures were related to investor entry and establishment. Entry-related measures were particularly frequent in Asian LDCs, representing 59 per cent of all investment policy measures enacted during the period. Among the entry-related measures, 23 resulted in the opening of new sectors to FDI and only 1 entailed the closure of sectors or activities to FDI. In addition, over 60 per cent of the measures related to FDI entry conditions adopted by LDCs during the period lifted previously existing requirements (e.g., minimum capital investment or joint ventures).

Investment promotion and facilitation measures represented about one third of all measures adopted by LDCs during the reporting period. Among these, the introduction of investment incentives was prominent among African LDCs (representing 48 per cent of all facilitation measures), while in Asian LDCs a large focus was given to the establishment of one-stop-shops and other measures to facilitate business permits (44 per cent).

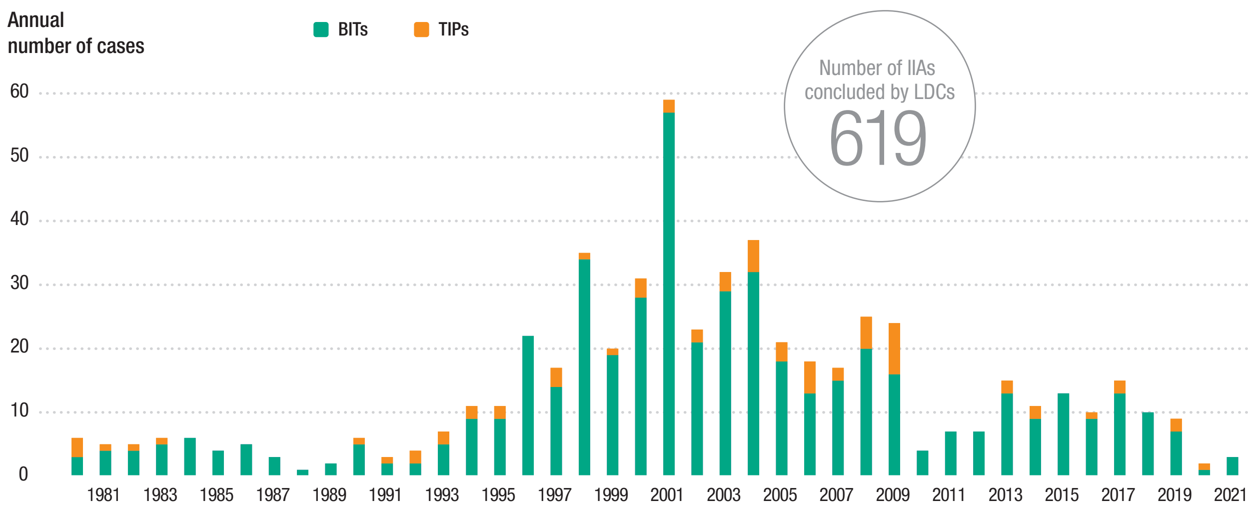
Around half of the investment policy measures in both LDCs and in other developing countries concerned specific sectors. In LDCs, extractive industries accounted for the lion's share of the sectoral measures (39 per cent of the total), due to the prominence of the sector for investment in Africa. Services followed (30 per cent of all sectoral measures). Measures to promote manufacturing (15 per cent of all sectoral measures) were prominent among Asian LDCs (44 per cent of the sectoral measures in the region), but only accounted for 5 per cent of the sectoral measures by African LDCs. Finally, policy measures affecting agriculture accounted for around 15 per cent of sectoral measures and their distribution across regions was more balanced.

LDCs were also active in international investment policymaking (figure 4). They concluded 92 bilateral investment treaties (BITs) and became party to 10 regional agreements with investment provisions since 2011. LDCs' international investment agreements exposure thus followed the global trend, with a shift away from bilateral towards regional investment rulemaking. Relevant treaties include recent megaregional IIAs such as the Regional Comprehensive Economic Partnership (2020);[3] the CARIFORUM-UK EPA (2019);[4] the ASEAN-Hong Kong, China SAR Investment Agreement (2017);[5] the Pacific Agreement on Closer Economic Relations Plus (2017)[6] as well as the African Continental Free Trade Area (AfCFTA) Investment Protocol currently under negotiation.[7]

At least 48 known investor-State dispute settlement (ISDS) cases were brought against LDCs based on IIAs. Most of these cases (71 percent) were launched after LDC IV and virtually all of them are based on treaties pre-dating 2011. A quarter of these cases resulted in damages awarded to investors (most from developed countries), with awards ranging up to $18.8 million.

Developed-country investors brought most of the cases against LDCs (35). Investors from the Netherlands (with 8 cases), the United Kingdom (7), Belgium (6) and the United States of America (5) were the most frequent claimants. Virtually all cases invoked old-generation IIAs signed before 2010 (except for one case based on a later IIA). Over half of the cases were based on IIAs originally signed in the 1990s or earlier.

**Figure 4. | Number of IIAs concluded by LDCs, 1980–2021**




*Source:* UNCTAD.
* Preliminary numbers.

# C. ASSESSMENT AND RECOMMENDATIONS

LDCs have made significant efforts to live up to their commitment to strengthen national policy and regulatory frameworks in order to stimulate foreign investment in productive sectors, as per paragraph 122, Istanbul Programme of Action for the LDCs for the Decade 2011-2020 (A/CONF.219/3/Rev.1). However, judging by their persistent lack of success in attracting higher volumes of FDI, as highlighted in this summary report, the reforms undertaken as well as the supporting commitments of development partners enshrined in the same document appear to have borne little fruit.

Further action and strengthened international and multilateral cooperation are needed to address the challenges affecting LDCs. This is even more urgent in light of the severe impact of the pandemic on structurally weak economies. The pandemic is exacerbating existing economic challenges in LDCs, including weak infrastructure, underdeveloped human capital, a narrow production and export base, and high dependence on primary commodities.  Unless investment in LDCs reaches levels that are sufficient to make a meaningful contribution to structural transformation, these countries will remain extremely vulnerable to socio-economic, health and environmental shocks.

In addition to continued efforts to create a conducive policy environment for investment in productive capacities and industrial diversification, policymakers need to prioritize further actions in several areas to realize the investment potential in LDCs, including modernizing investment promotion and facilitation and targeting SDG-relevant investment. These tasks cannot be achieved unless development partners cooperate with LDCs to tackle institutional and capacity constraints, by providing financial support and technical assistance. The private sector, including international investors, can also be encouraged to commit resources and contribute expertise to the effort, collaborating with relevant national government institutions in a spirit of shared responsibility.

Table 3 recommends priority actions for LDC Governments, development partners and international investors – as a possible guide for a new programme of action for 2021-2030. The structure of the table and several actions included in it build on the strategic appraisal and resulting plan of action for investment in LDCs, proposed by UNCTAD a decade ago.[8] It takes into account UNCTAD's Investment Policy Framework for Sustainable Development (IPFSD) and its Action Plan for investment in the SDGs.[9] It captures LDC-relevant recommendations from several World Investment Reports – including on special economic zones (SEZs), international taxation, industrial policy, and post-pandemic recovery – as well as other thematic research and technical assistance reports.

| Table 3. | LDC Priority Investment Measures | | |
|---|---|---|---|
| **Actions** | **LDC Governments** | **Development partners** | **International investors** |
| Modernize investment promotion and facilitation | • Strengthen investment and business facilitation processes to foster long-term quality investment<br>• Promote contract enforcement and property right protection<br>• Reform and modernize the IIA network<br>• Promote the use of eGovernment tools (e.g. investment portals and online single windows)<br>• Adjust investment policy in line with international tax reform<br>• Improve communication and sharing of information about investment opportunities, including by developing attractive project pipelines | • Strengthen technical support on regulatory issues and institutional development<br>• Support the adoption of eGovernment solutions<br>• Support LDCs in IIA reform and negotiation<br>• Enhance collaboration and synergies with all investment and government stakeholders<br>• Encourage and support IPA development | • Explore business opportunities in filling in gaps in essential service delivery<br>• Explore opportunities to collaborate with local stakeholders in institution building efforts |
| Foster local productive capacities and value chain development | • Strengthen entrepreneurship policies and initiatives, including for youth, women and minorities<br>• Encourage investment for the development of local/regional value chains<br>• Improve the balance between GVC investment and infrastructure investment (for productive capacity and SDGs)<br>• Improve SME access to finance and strengthen financial infrastructure<br>• Develop necessary policies and regulatory frameworks to promote private sector involvement in infrastructure development<br>• Promote business linkages between MNEs and local companies<br>• Increase the level of utilization of SEZs<br>• Integrate SEZs in local economies, value chains, and markets | • Support entrepreneurship development programmes and leverage additional sources of finance for MSMEs to facilitate their growth and development.<br>• Support investment for development opportunities in RTAs, including: RCEP (opportunities of diversification and catch up within members); implementation of the Sustainable Investment Protocol of the AfCFTA<br>• Provide technical and advisory support in the development of regional and local value chains<br>• Support resilience-seeking FDI and resilient supply chains | • Leverage investment opportunities in productive capacity development areas (e.g., energy, education, ICT, etc.)<br>• Leverage investment opportunities in more resilient supply chains and develop regional/local value chains.<br>• Strengthen the role of international project finance<br>• Leverage investment opportunities in infrastructure development, including partnerships for the development and operation of SEZs<br>• Leverage investment opportunities in SEZs<br>• Explore opportunities for business linkages with domestic suppliers of goods and services |
| Promote investment in SDG sectors | • Continue creating an enabling environment for private sector development and support its further alignment with the SDGs<br>• Develop pipelines of bankable SDG investment projects<br>• Incentivize investment in SDG and productive capacity sectors and better align private sector incentives with public goals<br>• Ensure that the private sector adopts sustainable practices<br>• Strengthen the role of international project finance<br>• Strengthen institutional and regulatory frameworks to encourage investment in SDG sectors, including in SDG model zones<br>• Establish SDG-impact indicators, in particular in SEZs | • Encourage and support investment in SDG sectors, in particular international project finance<br>• Strengthen capacity and partnerships to build an improved investment climate to accommodate SDG investment (entry, establishment, treatment and protection)<br>• Promote awareness and share best experiences in SDG investment in LDCs (including with respect to IPA functions and institutional set-up)<br>• Leverage ODA-SDG investment<br>• Boost investment in sustainable post-pandemic recovery, including investments in infrastructure, clean energy and healthcare<br>• Promote regional SDG investment compacts | • Explore investment opportunities in SDG sectors<br>• Create shared value by investing in initiatives that support SDGs and create positive externalities for investors<br>• Adopt sustainable business practices |

*Sources*: UNCTAD.

# NOTES

[1] See UNCTAD's Investment Trends Monitor, Issue 40, January 2022.

[2] See UNCTAD's SDG Investment Trends Monitors, as well as dedicated sections on SDG financing and investment in the annual World Investment Report.

[3] LDCs party to the Regional Comprehensive Economic Partnership: Myanmar, Lao People's Democratic Republic and Cambodia.

[4] LDCs party to the CARIFORUM-UK EPA: Haiti.

[5] LDCs party to the ASEAN - Hong Kong, China SAR Investment Agreement: Cambodia, Lao People's Democratic Republic and Myanmar.

[6] LDCs party to the Pacific Agreement on Closer Economic Relations Plus: Kiribati and Solomon Islands.

[7] LDCs party to the AfCFTA: Angola, Benin, Burkina Faso, Burundi, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Djibouti, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Somalia, South Sudan, Sudan, Togo, Uganda, United Republic of Tanzania and Zambia. See: ibid.

[8] See UNCTAD (2011), Foreign Direct Investment in LDCs: Lessons Learned from the Decade 2001–2010 and the Way Forward.

[9] See UNCTAD's Investment Policy Framework for Sustainable Development (IPFSD) and its Action Plan for Investment in the SDGs, first proposed in WIR2014 and subsequently updated in IPFSD and then in WIR2020. The action plan aimed at mobilizing finance, channelling it towards sustainable development and maximizing its positive impact. See also WIR2021 for investing in sustainable recovery.

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