UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Investment Promotion in LDCs: A Needs Assessment

Geneva | March 2023

United Nations

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Investment Promotion in LDCs: A Needs Assessment

Geneva | March 2023

United Nations

This publication has not been formally edited.

United Nations publication issued by the United Nations Conference on Trade and Development

UNCTAD/DIAE/PCB/2022/2
eISBN: 978-92-1-002481-5

Note

The report *Investment Promotion in LDCs: A Needs Assessment* was prepared as part of a technical assistance programme entitled “Capacity Development Programme for Investment Promotion Agencies of Least Developed Countries”. This programme was initiated by the United Nations Conference on Trade and Development (UNCTAD) and is financed by the Enhanced Integrated Framework (EIF) at the World Trade Organization (WTO). Implementing partners include the International Labour Organization (ILO), UNCTAD, the United Nations Industrial Development Organization (UNIDO), the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS) and the World Association of Investment Promotion Agencies (WAIPA).

The programme includes training by partner agencies for investment and trade promotion officials and surveys among investors and investment promotion agencies (IPAs) of least developed countries (LDCs). The surveys were conducted by UNCTAD from 21 May to 26 August 2022.

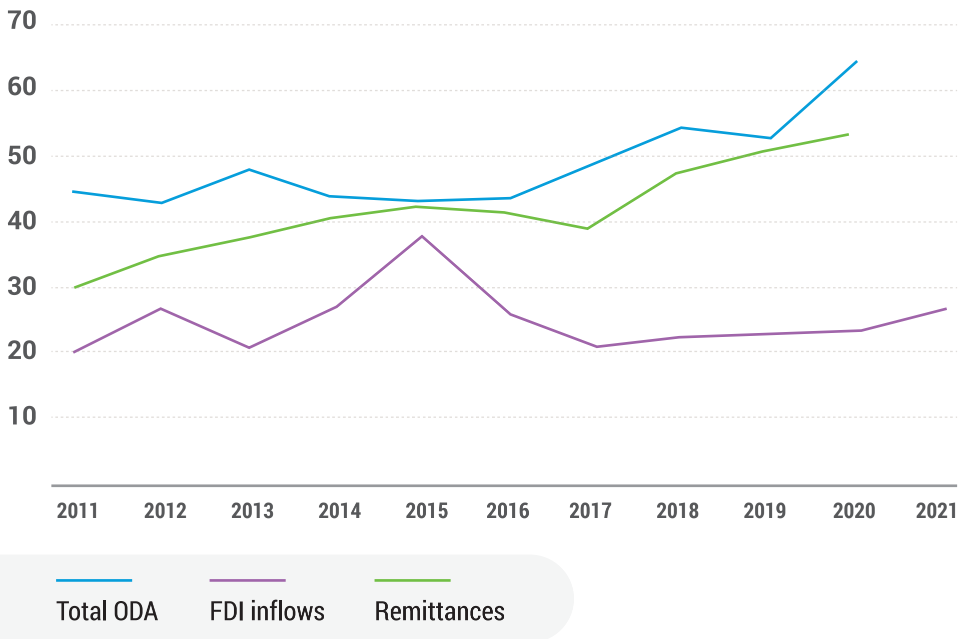
This report presents the findings of the surveys and provides insights on motivations of investors in these countries, challenges that they face, the SDG impact of investment projects, practices by IPAs in LDCs and how these institutions could improve their operations to maximize the impact of foreign investment on the achievement of the SDGs.

Contents

Introduction

In 2014, the investment gap to achieve the Sustainable Development Goals (SDGs) was projected by UNCTAD to be $2.5 trillion per year for developing countries alone.[1] **Since then, due to the effects of the COVID-19 pandemic, it is estimated that this investment gap has increased to $4.2 trillion annually.**[2] To achieve the SDGs, investment is needed in many diverse sectors including power, renewable energy, transport services, telecommunication, water, sanitation and hygiene, food and agriculture, health, and education.

Figure 1. Sources of external financing in LDCs, 2011-2021 (billions of USD)



Source: UNCTAD, 2022. *World Investment Report 2022: International Tax Reforms and Sustainable Investment.*

Although foreign direct investment (FDI) has long been the largest source of external financing for the developing world and generally exceeds remittances and ODA combined, among least developed countries (LDCs) FDI typically represents only around a fifth of total external financing, as shown in figure 1. An encouraging uptick in FDI in 2015, the year of adoption of the SDG framework, was followed by 5 years of decline and stagnation and one year of good but uneven growth in 2021. As a group, the 46 LDCs enjoyed 13 percent growth in FDI inflows in 2021,

[1] (UNCTAD, 2014). World Investment Report 2014, *Investing in the SDGs: An Action Plan.*

[2] (OECD, 2021). Global Outlook on Financing for Sustainable Development 2021.

but just 5 countries (Mozambique, Ethiopia, Cambodia, Bangladesh, and Senegal) accounted for 69 percent of that growth, and overall FDI in the SDG-critical sectors of food, agriculture, health, and education have continued to decline.[3]

As part of the United Nations 2030 Agenda for Sustainable Development, specific SDG targets deal with investment promotion in LDCs. The instrumental role of investments in 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). SDG#17 on *partnerships for the Goals* itself is about mobilizing the private sector and international partners and includes targets on mobilization of additional financial resources (target 17.3), on investment promotion regimes for LDCs (target 17.5), on public-private partnerships (target 17.17), and on international support for implementing effective and targeted capacity-building to implement the SDGs (target 17.9).[4]

The 2022 Doha Programme of Action (DPoA) for LDCs aims to adopt and implement investment promotion regimes for LDCs.[5] Previously, increased focus on investment promotion and attraction was also called for in the 2011 Istanbul Programme of Action for LDCs[6] and later confirmed in the 2015 Addis Ababa Action Agenda.[7] If the private sector is to be truly leveraged for socioeconomic transformation in the way envisioned by the SDGs, it will need to grow on a radically steeper trajectory. Charting the paths which make that possible in the many diverse LDCs and across the many diverse SDG-related sectors will also require an unprecedented depth of public-private collaboration and quality of public administration. Recognizing this challenge, United Nations (UN) member states and the international development community have emphasized the critical role of investment policy and promotion and sought to build LDC capacities for them.

As the main institutions typically mandated to carry out investment promotion in LDCs, investment promotion agencies (IPAs) are a primary counterpart for international technical assis-tance support in this area. In order to coherently leverage the range of technical assistance needed to address the many needs and

[3] (UNCTAD, 2022). World Investment Report 2022, *International Tax Reforms and Sustainable Investment*.

[4] The United Nations Sustainable Development Goals; https://sdgs.un.org/goals.

[5] Doha Programme of Action, Paragraphs 259, 260, 261.

[6] Istanbul Programme of Action | Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, IPoA, paragraph 122 (3)(b).

[7] Addis Ababa Action Agenda 2015, Paragraphs 45,46.

constraints of LDC IPAs, the United Nations System Chief Executives Board for Coordination has called for UN entities active in investment promotion for LDCs to work together and engage in capacity-building partnerships, including with regional comissions, and other international bodies, such as the International Chambers of Commerce and the World Association of Investment Promotion Agencies (WAIPA).

In implementing these declarations and recommendations, several UN agencies and their partners have come together to establish the first multi-agency programme which aims to provide LDC IPAs with tailored capacity building activities. The programme entitled, "Capacity Development Programme for Investment Promotion Agencies of Least Developed Countries," includes a training platform for LDC IPAs and surveys of these agencies and investors. This report presents the results of the surveys with an analysis that also benefitted from experiences gained in UNCTAD's technical assistance programme.

Section 1 provides a profile of investors in LDCs, focusing on the factors drawing them to these countries, the obstacles they have encountered, their interactions with government, the services they have received from IPAs, and their SDG considerations and impact. Section 2 provides a profile of IPAs in LDCs, focusing on their current priorities, their institutional readiness to promote FDI and contribute to the SDGs, and their capacity-building initiatives and needs. Section 3 provides recommendations based on survey findings including on investor views of opportunities and challenges in LDCs, particularly as they relate to the SDGs, as well as IPA readiness to capitalize on opportunities.

1. Investors in LDCs

UNCTAD invited foreign and domestic investors, chambers of commerce, and business associations in LDCs to complete a questionnaire about investor locations, motives, activities, SDG contributions, challenges, and opportunities. The analysis of the survey responses provides a snapshot of the investor experience in LDCs.

Profiles of LDC investor respondents

Survey respondents invest in 63 percent of all LDCs, covering all regions. Thirty-eight survey responses were received from 34 investors and 4 private sector associations. Collectively, responding investors (herein "the investors") had operations in 29 of the 46 LDCs,[8] including countries in Sub-Saharan Africa, Asia, the Pacific Islands, and the Caribbean.

Thirty percent of respondents were multinational enterprises (MNEs) from developing (non-LDC) and developed countries. Seventy percent were domestic companies. Foreign investors came primarily from Europe.[9] Three were non-LDC developing country investors, including a Jamaican mobile service provider investing in Haiti, a South African manufacturer with an affiliate in Lesotho and a Philippine investor with a global network of professional service providers and an affiliate in Mozambique. Domestic investors spanned LDCs across Africa and Asia.[10]

The majority of investor respondents had an annual revenue of $10 million or less. Only five investors, all of which were MNEs, had revenues in the higher range. Of these, 4 were in the $10 million to $1 billion range and work in different sectors notably: mining, telecommunications, agriculture and tax advisory. One investor had revenues above $1 billion and operates in the manufacturing and distribution sector.

[8] Responding investors had operations in these 29 of the 46 LDCs: Benin, Burkina Faso, Burundi, Cambodia, Djibouti, Democratic Republic of Congo, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Rwanda, Senegal, Sierra Leone, Somalia, South Sudan, Tanzania, Togo, and Zambia.

[9] Responding foreign investors' home countries were France, Germany, Ireland, Jamaica, Philippines, South Africa, Spain and the United Kingdom of Great Britain and Northern Ireland.

[10] Responding domestic investors came from Burundi, Cambodia, Gambia, Kiribati, Lesotho, Liberia, Madagascar, Mozambique, Somalia, Uganda, and Zambia.

Attractive sectors for investment in LDCs

According to survey respondents, the most attractive sectors for investment in LDCs were in services, followed by agribusiness. Fifty-three percent of all projects were in the services sector, including advisory services such as tax, and forestry, including primary production and processing. This conforms with the high GDP share in LDCs of agriculture, hunting, forestry, and fishing.[11] The remaining investments went towards garment manufacturing, (6 percent), beverage manufacturing and import (6 percent), and other manufacturing (3 percent). These are presented in figure 2.

Figure 2. Sectors of activity of surveyed investors in LDCs

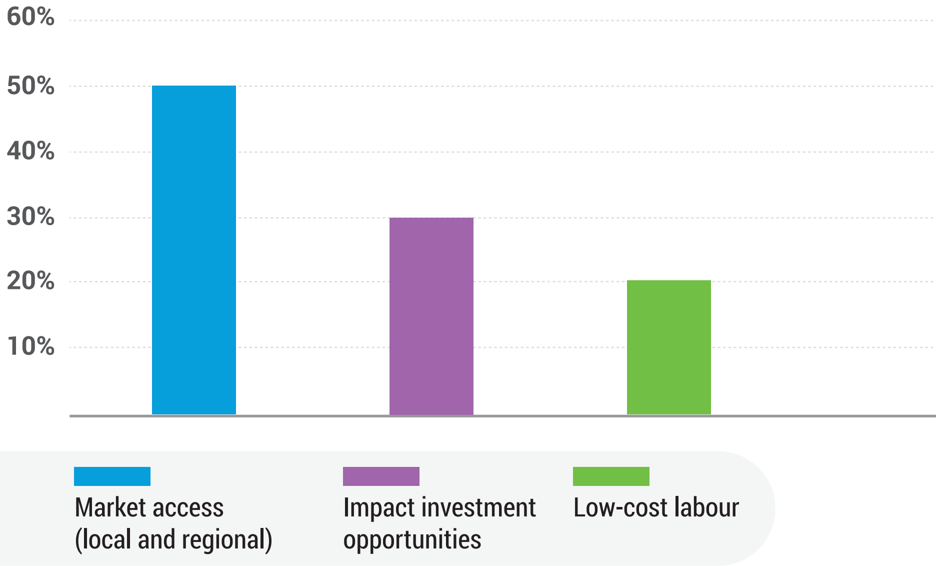
Source: UNCTAD

legal and accounting (15 percent), infrastructure and construction support services (12 percent), tourism (6 percent) and "other services" (20 percent). The latter included investment projects, in different sub-sector including logistics, business process outsourcing (BPO), digital health, printing, marine and maritime services, film production, and trading. Thirty-two percent of investors operated in agribusiness

Certain sectors involved only investors from LDCs, and others involved only investors from developed economies. In the survey sample, FDI from developed economies went towards projects in mining, beverages, BPO, and digital health, while domestic investment went towards projects in the tourism and agriculture sector.

[11] LDC Identification Criteria & Indicators | Department of Economic and Social Affairs (un.org).

Figure 3. Top 3 location motives for surveyed foreign investors (multiple motives could be selected)



Source: UNCTAD

Decision drivers in site selection

Markets were the strongest motivator behind project locations for foreign investors cited as a top location motive by half of the respondents (figure 3).[12] A desire to make impact investments (i.e., investments with social and/or environmental benefits) also scored high with 30 percent followed by availability of low-cost labour, cited by 20 percentofrespondents. This is in line with the sustainability imperative, which has transformed the global investment landscape in the last few years and is increasingly a key strategy for private firms. Other reasons cited included access to raw materials (10 percent), access to local suppliers and partners (10 percent), and a stable business environment (10 percent).

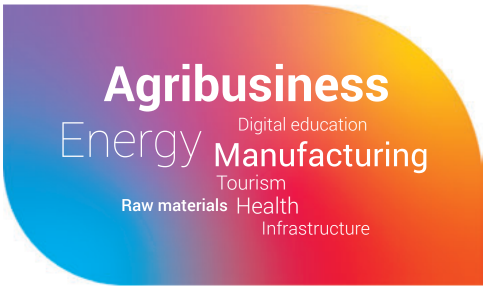
Emerging sectors of opportunity

Agribusiness, renewable energy, and local input-intensive manufacturing stood out as clear areas of opportunity (figure 4). Investors were asked about sectors of emerging opportunity in LDCs where they are currently operating. About half of respondents cited agribusiness, including agriculture and food processing, and energy, which in most cases referred specifically to renewables. Domestic investors included all aspects of

[12] Thirty investors gave their top location motives. They were allowed to give multiple answers, leading to 84 motives being cited. Figure 3 presents the three motives cited by 20 percent or more of all foreign investor respondents.

agribusiness, while foreign investors focused on food processing. One-third of respondents highlighted manufacturing sectors, often specifying those with a high intensity of local raw materials or labour. This included mention of labour-intensive textile manufacturing and the production of health beverages.

Figure 4. Times sectors were mentioned as emerging opportunities by surveyed investors in LDCs (larger = more mentions)



Source: UNCTAD

Challenges faced

Investor perceptions about business prospects are encouraging. Sixty percent of domestic investors and 40 percent of foreign investors were considering expansion. None of the respondents were considering divestment at the time of the survey.

Nonetheless, a majority of investors raised finance, taxation, access to skills and governance as top issues affecting their current investment operations in LDCs, followed by political instability. The most frequently cited issues by all respondents are presented in figure 5. There were some 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) against 30 percent for foreign investors. Conversely, taxes, including their administration, clarity about taxes and fiscal controls mattered much more to foreign investors. Seventy percent of foreign investors cited taxation as a top issue, compared to 29 percent of domestic investors.

Workforce skill development could provide LDC governments with an area of significant competitive advantage. Worker skills was not mentioned by any foreign investor as a motive for investing in a country, but it is one of their top three issues. That worker skills are perceived only as a problem and not as an advantage throughout LDCs bodes poorly for any such country to attract higher-skill, higher-wage, higher value-adding jobs and sectors. With low labour costs being a top-three motive, a government that can establish even a modest skill advantage may be able to achieve a meaningful competitive edge.

Accessing land, information about sector-specific regulations and applying for investment-related incentives and permits were issues cited exclusively by domestic investors. This suggests a need to strengthen investment facilitation services for all investors; including transparent, streamlined and digital administrative processes and registrations that help local firms as much as foreign investors.

Figure 5. Top 10 issues faced by surveyed investors in their current operations

Source: UNCTAD

A substantial percentage of foreign investors are eager to connect with domestic suppliers and partners, providing ready IPAs an opportunity to support them in this area and contribute to achieving the highly valued impact of domestic linkages. Overall, more than a third of respo dents cited "availability of local suppliers and partners" as an issue. This included forty percent of foreign investors for whom it was a top 5 issue. IPAs can have a role in connecting investors to actors in the local economy and forging supplier relationships as well as technical and financial partnerships.

SDG impact, realized and aspired to

A large majority of investors stated that they contribute to the SDGs. In fact, asked whether their investments contributed to the SDGs, 67 percent of investors said "yes." Table 1 presents the SDGs which respondents reported serving and those for which they would like IPA support.

Companies reported that they contribute to several SDGs… The top 5 SDGs that investors reported that they were contributing to are shown in table 1, led by SDG 8 - *decent work and economic growth* (45%), SDG 12 - *responsible consumption and production* (32%), and SDG 9 - *industry, innovation, and infrastructure* (27%). Interestingly, while many of the SDGs relate directly to economic sectors of activity, such as agriculture, renewable energy, fisheries, infrastructure, health, and education, none of these made the top 5 for all investors. Instead, cross-sectoral SDGs notably; SDG 5 – *gender equality* and SDG 11 – *sustainable cities and communities* rounded out the top 5.

...and would be interested in receiving assistance from IPAs in increasing the SDG impact of their investments. In addition to the SDGs 8, 9 and 12, investors also indicated that they would be interested in contributing to SDG 7 on *affordable and clean energy* with the assistance of IPAs. Fifteen percent would like to receive support related to all SDGs.

There is tremendous opportunity for IPAs to monitor and facilitate SDG contributions from investors. Sixty-three percent of investors said that they contributed to at least one SDG, and, among those who answered whether they wanted the IPA to better help serve SDGs, 80 percent said "yes." An IPA with standard tools (e.g., annual survey) and procedures for facilitating, measuring, and reporting on investor contributions to the SDGs would be a valuable resource to SDG-minded investors, better able to contribute documented results to the national effort to meet the Goals, and better able to show the public and its stakeholders the IPA's own contributions to development objectives. This is another key opportunity for LDC governments

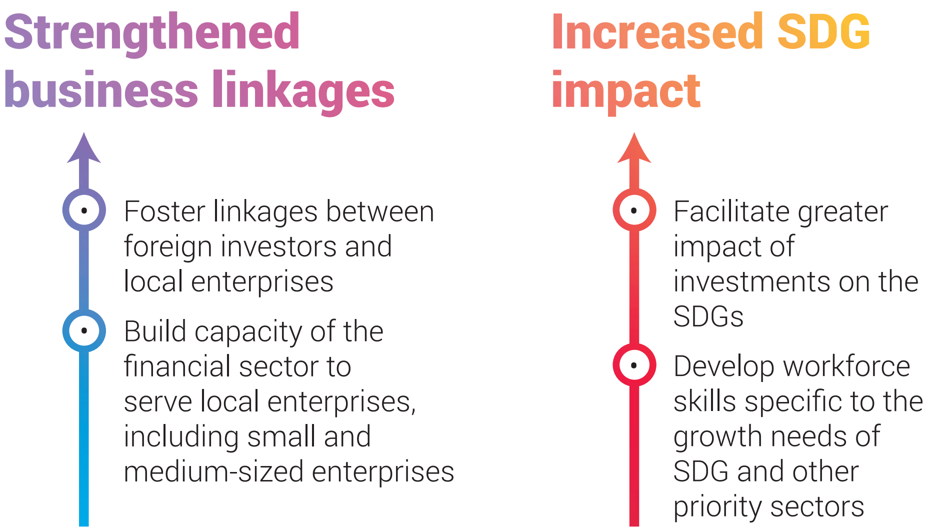
Table 1. Top SDGs targeted by surveyed investors

Top 5 SDGs served by investors (self-reported)		Top 5 SDGs for which investors would like to receive IPA support	
8 DECENT WORK AND ECONOMIC GROWTH	45%	8 DECENT WORK AND ECONOMIC GROWTH	25%
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	32%	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	20%
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	27%	7 AFFORDABLE AND CLEAN ENERGY	15%
5 GENDER EQUALITY	23%	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	15%
11 SUSTAINABLE CITIES AND COMMUNITIES	23%		15%

Source: UNCTAD

to work with investors in a way which both helps the investors overcome their challenges and allows the government to better leverage investment for development. Several opportunities highlighted by the survey outcomes are summarized in figure 6.

Figure 6. Opportunities highlighted by the investor survey



Source: UNCTAD

Government visibility and impact as a driver of investment

Much of a firm's success depends on market dynamics (e.g., consumer demand, competition, input markets) and the firms' own characteristics (e.g., capital expenditure, proprietary technology and know-how, quality of management). However, government action may also play a decisive role, whether by helping individual projects locate and flourish in the country, by supporting sectoral development, or by simplifying regulation. As the government agency typically tasked with leading a government's FDI promotion and facilitation, the IPA is generally the best positioned to guide investor site selection, start-up, and growth by providing them with information, assistance, and an advocate in government. For this reason, the investor survey sought to assess the visibility and effectiveness of LDC IPAs among investors.

A considerable percentage of responding investors were una-ware of the national IPA. Twenty-six percent of surveyed investors were not aware of the IPAs in the country (table 2). The sample of investors surve-yed were identified through UNCTAD's databases and contacts supplied by government counterparts, including IPAs. This survey's sample of the investor population is likely to have significantly higher awareness of the IPA than other parts of the business community. In some countries, investors are required to register with the IPA and, therefore, awareness of the agency would be high. This implies considerable room for awareness-building among investors of IPAs as helpful service providers.

A large majority of investors who had contact with the IPAs benefited from their services. Only half of investors contacted their respective IPAs, but almost 80 percent of those who did, felt they got value out of the contact. Of those, however, only 36 percent indicated that they had benefited from IPA services in the past years, since the beginning of the COVID-19 pandemic (table 2).

The impact of the IPA on the investors' choice of country was little to moderate, as rated by investors on a scale of 1 ("very little") to 5 ("crucial to [the] investment decision"), the average was just below 3. However, 2 IPAs were acknowledged for providing services which may have landed projects that would not have come otherwise.

Table 2. The various LDC investor experiences with IPAs (percentage of surveyed investors)

Investors that were aware of the IPA	74%
Investors that had contact with the IPA	51%
• *of those, percentage that benefited from the services of the IPA*	79%
• *of those who benefited from IPA services, percentage that did since the beginning of the COVID-19 pandemic*	36%

Source: UNCTAD

2. Investment Promotion Agencies in LDCs

The investor survey provided some insight into the types and motives of investors drawn to LDCs, as well as to the challenges and opportunities governments face in leveraging that investment for advancement of the SDGs. IPAs are crucial to that effort, as the institutions typically charged with leading the effort to attract and nurture investment. The survey provides a sense of how things are at LDC IPAs. Combined with documented best practices and UNCTAD's experience providing technical assistance, a number of recommendations are made in the next section.

Profile of LDC IPA respondents

Sixty-one percent of LDC IPAs responded to the survey. Of the world's 46 LDCs, 28 responded to the survey, covering all regions of Sub-Saharan Africa, South Asia, the Pacific Islands, and the Caribbean.

Of the surveyed LDC IPAs, 22 were stand-alone institutions , and 6 were sub-ministerial IPAs. None of the responding agencies were private. In analyzing the survey results, some useful distinctions can be made between sub-ministerial IPAs on the one hand and stand-alone IPAs on the other. The investment promotion literature has established a correlation between an IPA's level of autonomy and its effectiveness,[13] citing factors such as performance reporting and personnel rules of the civil service. This survey's results further show that stand-alone IPAs in LDCs are generally larger, by budget and staff, and tasked with more functions.

Analysis of IPA survey results should always be qualified with the acknowledgment that they can give us good pictures of IPA values but only general indications of their practices. A survey can ask about whether a sector is prioritized or whether a strategy exists, but how prioritization is manifested in practice or the extent to which the same strategy is implemented remain highly subjective questions. IPA surveys, therefore, may identify some high-level adherence to or departure from clear-cut best practices, but they cannot provide detailed assessments of actual performance. The following analysis, therefore, aims only to identify high-level objectives, areas of operational focus, general alignment to good practices, and how all these IPA characteristics fit with their pursuit of investors in LDCs today.

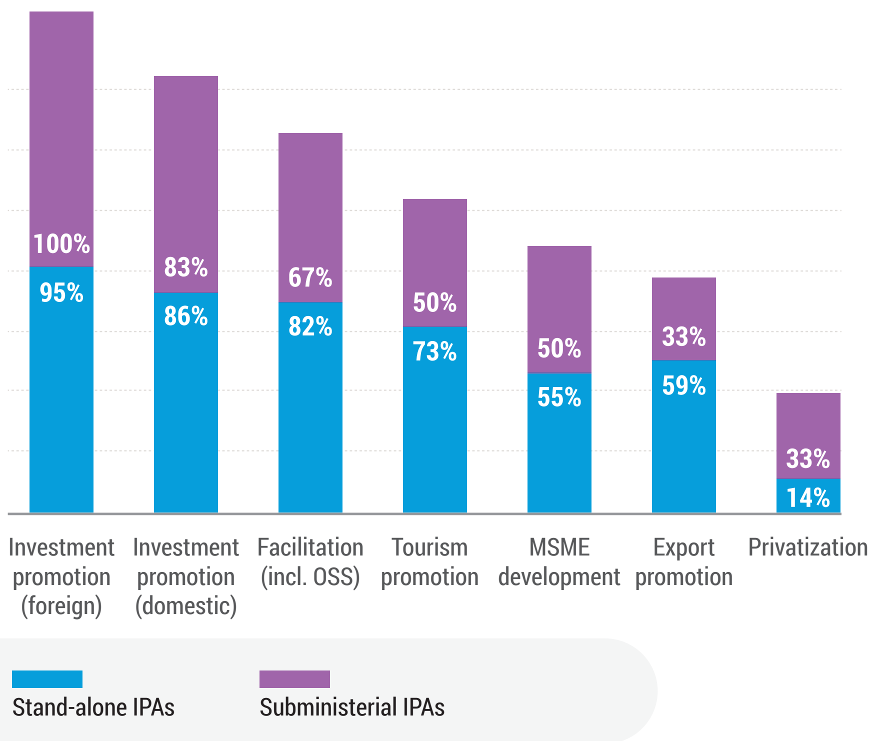
[13] Ecorys (2013). Exchange of Good Practice in Foreign Direct Investment Promotion. Rotterdam.

IPAs in LDCs today

LDC IPAs are generally quite new. 41 percent of surveyed IPAs were established in the last decade, and two-thirds were established in the last 2 decades. This is not to say that their countries did not have prior experience with investment promotion. In many cases, these "new" IPAs are replacements of preceding institutions, for example, when a government has merged an IPA, export promotion agency, and SME development agency into one institution, as with the Zambia Development Agency. However, institutional age does matter, as few IPAs, particularly when under-resourced, are able to develop within a few years the reservoir of knowledge, skills, and culture needed to succeed at investment promotion.

IPAs in LDCs today have broader mandates for many forms of private sector development than their counterparts in more developed countries. A majority of IPAs stated that their legal mandates included responsibility for 6 distinct promotional functions: FDI promotion, domestic investment promotion, investment facilitation, tourism promotion, export promotion, and micro, small and medium-sized enterprise (MSME) development, as shown in figure 7. FDI promotion, the promotion of domestic investment and investment facilitation, including one-stop-shops (OSS), were the top three legally mandated promotional functions of the responding IPAs.

Figure 7. Legally mandated promotional functions of surveyed LDC IPAs



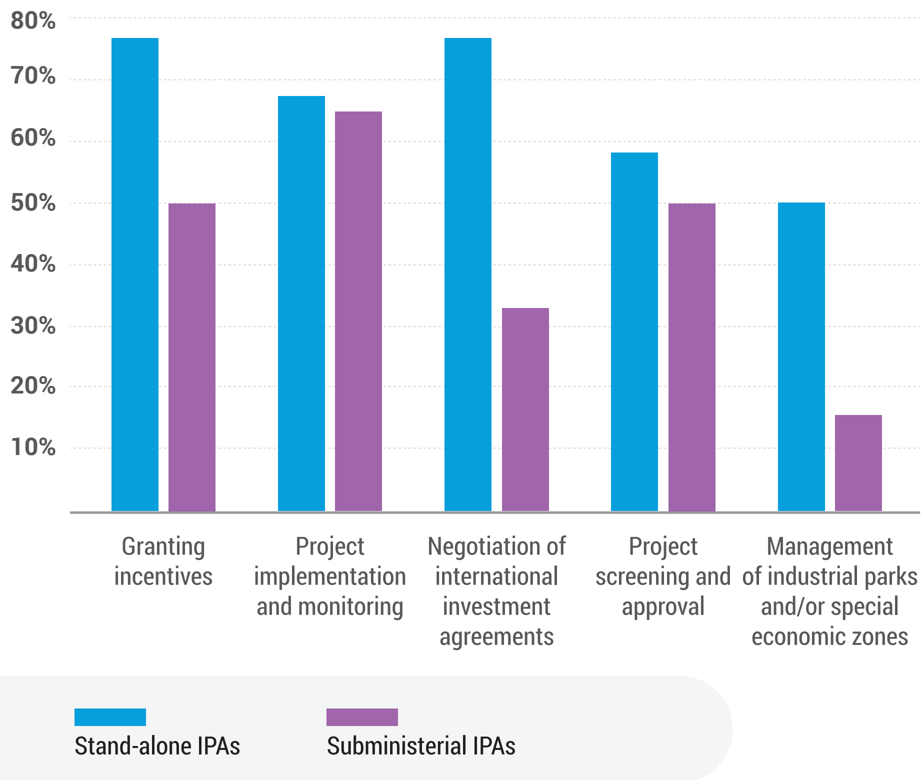
Source: UNCTAD

In general, sub-ministerial IPAs had fewer functions than stand-alone IPAs.

At least half of the responding IPAs reported that their legal mandates also put them in charge of regulatory and policy related functions. These include incentive administration, the negotiation of international investment agreements (IIAs), project implementation monitoring, and project screening and approval. As shown in figure 8, a considerable number of stand-alone IPAs indicated additional managerial functions with 50 percent tasked to manage special economic zones (SEZs), compared to only 17 percent of sub-ministerial IPAs.

The budget and staff allocated to these IPAs contrasts with their many mandates. Stand-alone IPAs, as a group, had a median annual budget of US$1.1 million and an average of US$2.2 million, while sub-ministerial IPAs had a US$120,000 median and an average of US$599,178. With a median professional staff size of 52 (average of 58), stand-alone IPAs had a number comparable to some high-performing IPAs in emerging and developed countries, but such IPAs are invariably much more narrowly focused than this survey's respondents. Sub-ministerial IPAs were smaller with a median of just 8 professional staff, although their average of 66 means some countries maintain much larger sub-ministerial IPAs.

Figure 8. Regulatory tasks of surveyed LDC IPAs



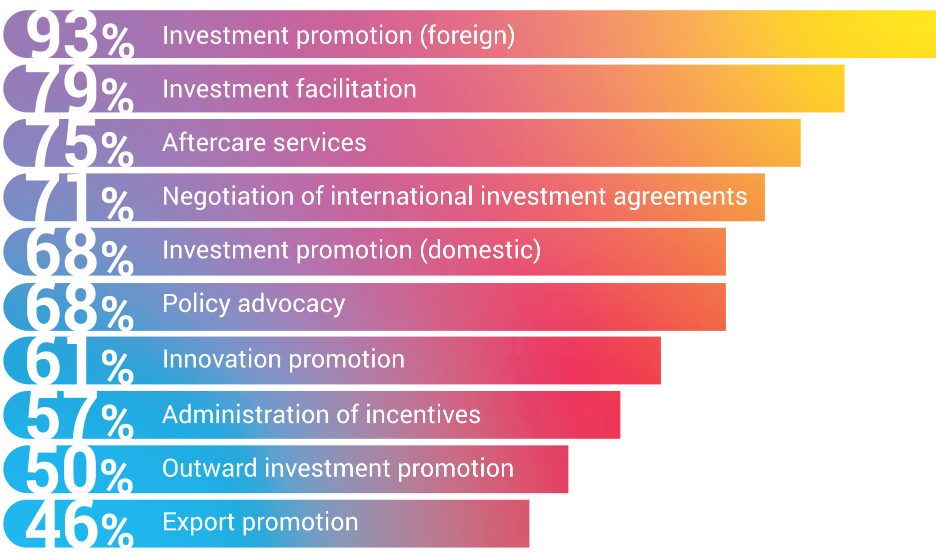
Source: UNCTAD

One possible consequence of large mandates and few resources is that many functions may go unperformed or under-performed. IPAs may officially have a range of functions but given limited resources, these are allocated where the most pressing needs exist. Demand-driven functions like applications for incentives may be the first, or even only, functions to be fulfilled. The notion that regulatory and managerial functions tend to win out over investment promotion and facilitation is borne out by the areas in which responding IPAs request for help. The top 3 areas, as shown in figure 9, are perhaps the 3 most fundamental functions of IPAs: FDI promotion, investment facilitation, and aftercare.

IPAs' challenges have been compounded by COVID-19 and include lack of resources for aftercare, government budget cuts, challenges related to the promotion of new sectors associated with the pandemic, and insufficient digital technology. Figure 10 presents the top challenges faced during the pandemic. All sub-ministerial IPAs reported experiencing budget cuts, against 64 percent of stand-alone IPAs. In addition, nearly all IPAs reported a lack of technical and financial resources for the pursuit of retention and expansion through investor aftercare. Two challenges stood out as being relatively more important for stand-alone IPAs notably, challenges related to the promotion of new sectors and insufficient digital technology.

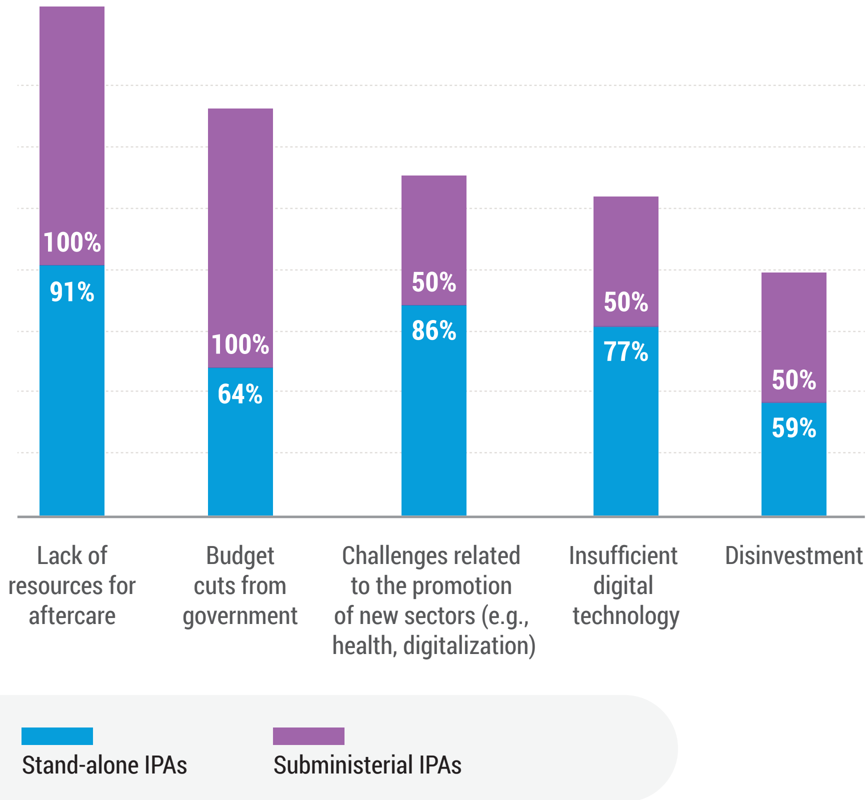
When asked what agencies needed to become more efficient and effective, strengthening human resources through capacity building was cited as the top response by 67 percent of agencies, followed by financial resources cited by 28 percent. Other responses named included the need for stronger

Figure 9. Top 10 areas in which surveyed LDC IPAs said they need the most help



Source: UNCTAD

Figure 10. Top pandemic-related challenges reported by surveyed LDC IPAs



Source: UNCTAD

institutional investment reforms and greater institutional coordination.

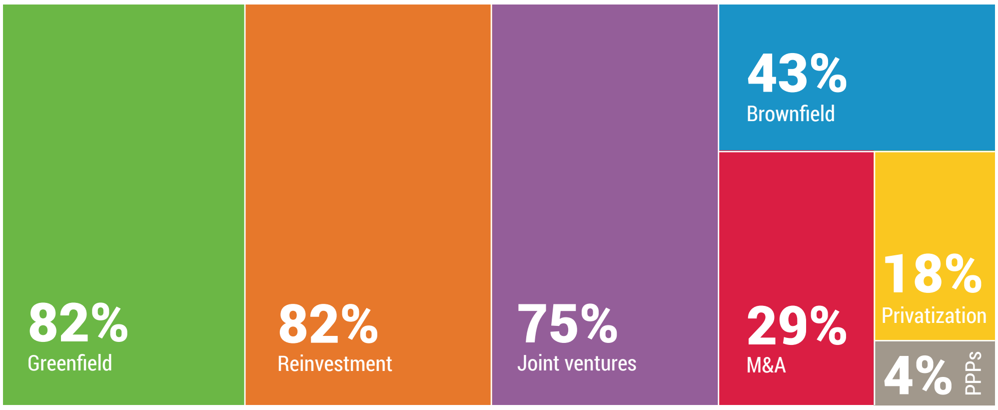
Target sectors and types of investment

IPAs focus their operations on greenfield investment, reinvestment and joint ventures (figure 11). In many locations, most FDI comes from reinvestments and aftercare is considered an important function of an IPA. Nearly all stand-alone IPAs (91 percent) reported to target reinvestment, while only 40 percent of sub-ministerial IPAs did. With smaller staffs and budgets and often a regulatory orientation, sub-ministerial IPAs may face more structural challenges in trying to build the relationships with established investors needed to effectively promote reinvestment.

Among their sectoral priorities, agribusiness was the strongest, emphasized by 89 percent of surveyed IPAs. Agribusiness was followed by manufacturing with 67 percent. A second tier of priorities consisted of energy and tourism each with 41 percent, infrastructure as well as information and communication technology (ICT) and information technology (IT)-enabled services with 30 percent, and mining with 20 percent. These are presented in figure 12.

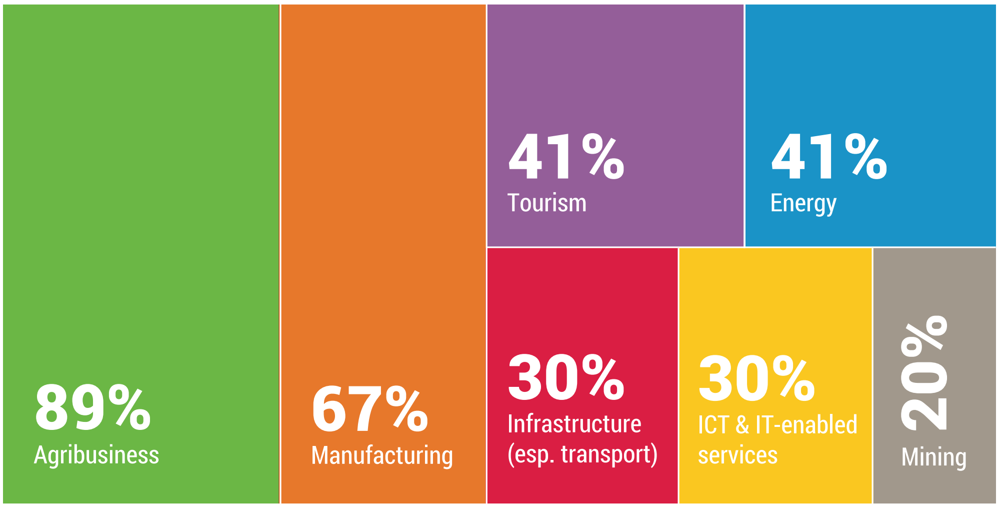
The IPAs' most-targeted modes of investment (greenfield, reinvestment, and joint venture) are

Figure 11. Most targeted modes of investment (percent of surveyed LDC IPAs citing each mode)



Source: UNCTAD

Figure 12. Sectoral priorities of IPAs (percent of surveyed IPAs citing each sector among their top 6 target sectors for investment)



Source: UNCTAD

best-suited to top priorities agribusiness, manufacturing, tourism, and the service and manufacturing aspects of ICT & IT-enabled services. IPAs targeting investment in energy, transportation and telecommunication infrastructure, and/or mining do not appear to be targeting the right investment mode. Ten IPAs highlighted infrastructure and/or mining, which generally involve one form or another of public-private partnership (PPP). However, only one (4 percent) of these 10 IPAs is targeting PPPs as a mode of investment, as shown in figure 11 above.

The strategic focus of LDC IPAs appears to be very broad. Investment projects are product-specific, as demonstrated by the projects of surveyed investors in processed cashews, leather goods, and a hotel. However, the priority sectors expressed by IPAs and the corresponding data used for promotion are generally of a much higher level, such as “agribusiness” or “manufacturing.” An IPA’s promotional information is much more persuasive to investors when it can provide internationally comparative data on a potential project’s markets, costs, productivity, logistics and risks. This requires a product- or subsector-specific focus, such as production of “crude edible oil” or “wet blue leather” rather than “agribusiness” or “manufacturing.” Four in 10 IPAs did mention at least one narrow subsector among their priorities. Cement, edible oils, garments, vegetables, pharmaceuticals, and a few other products were specified at a “promotable” level of focus, however these were generally exceptions to the rule of overly broad sector focuses.

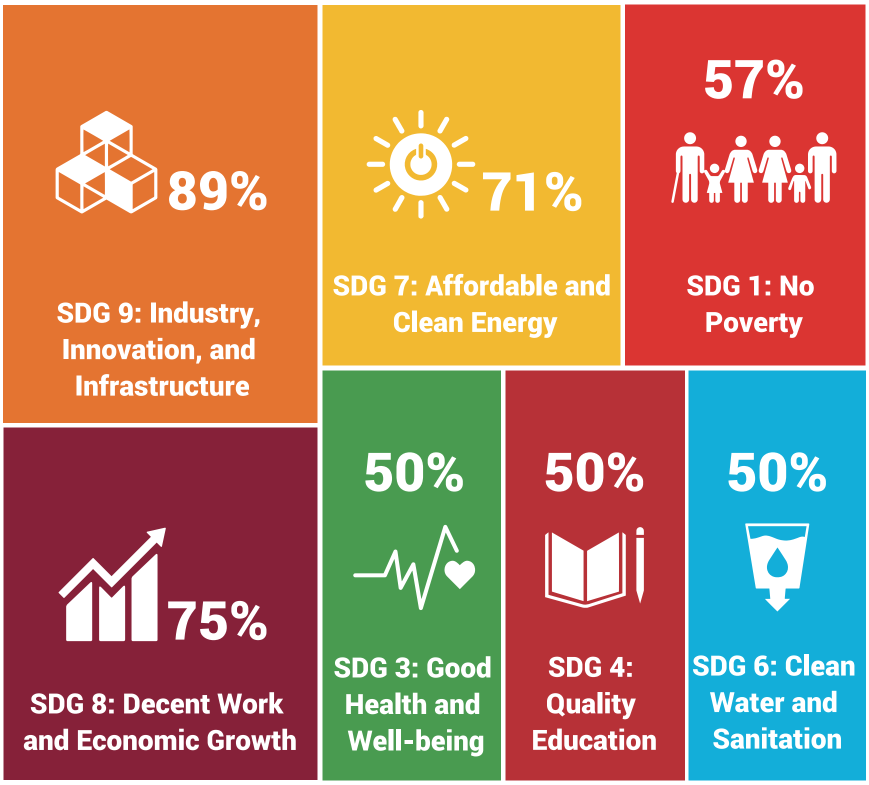
Achievement of SDGs has become an integral consideration for nearly all LDC IPAs. Nine in 10 report that they mainstream the SDGs in their strategic planning. Figure 13 presents the top priority SDGs for responding agencies, led by SDG 9 - *industry, innovation and infrastructure*, SDG 8 - *decent work and economic growth* and SDG 7 - *affordable and clean energy*.

However, there is a major discrepancy between the SDGs IPAs claim as their priorities and the sectors they are targeting. For example, while 50% of agencies responded that they prioritized SDG 3 *on good health and well-being* and SDG 4 on *quality education*, only 4 IPAs indicated health as a priority sector and only 1 cited education.

The discrepancy may reflect that the key performance indicators of IPAs are not well aligned to the SDGs. Figure 14 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.

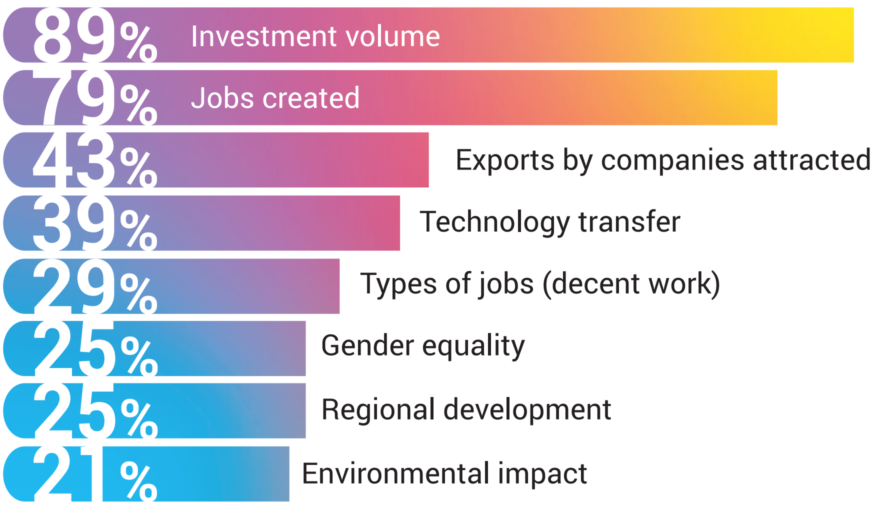
However, without targeting SDG-specific sectors, a significant percentage of responding IPAs do target SDG project outcomes. As shown in figure 14 sustainable economic development is targeted in many forms, such as technology transfer (39 percent), decent work (29 percent), gender equality (25 percent), regional development (25 percent) and “environmental impact (21 percent).

Figure 13. SDG priorities most cited by responding LDC IPAs



Source: UNCTAD

Figure 14. Impact indicators of surveyed LDC IPAs



Source: UNCTAD

3. Recommendations

New investment promotion and facilitation policies and practices in LDCs, and the revision of existing ones, should be guided by sustainable development priorities. Domestic private sector contributions to the SDGs in LDCs do often not fulfill governments' targets. In LDCs, FDI could also contribute more. Investment promotion policies for domestic and foreign investment should therefore pay special attention to SDG priority sectors. Systems to monitor the effectiveness of these policies should be in place, including through strengthened data collection and the use of digital tools.

The surveys of investors and IPAs identified key areas of technical assistance needs in investment promotion in LDCs, notably the integration of the SDGs in investment promotion strategies, and the enhancement of investment facilitation services. They are outlined in table 3.

Table 3. 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.

Source: UNCTAD

The United Nations, the World Bank Group and other international and regional organizations offer a wide range of technical assistance programmes and support that can help LDCs in the areas listed in table 3. Among those are the partners in the "Capacity Development Programme for IPAs in LDCs", notably, UNCTAD (Home | UNCTAD), EIF (Enhanced Integrated Framework (EIF) (enhancedif.org), ILO (International Labour Organization (ilo.org), UNIDO (UNIDO | United Nations Industrial Development Organization), UN-OHRLLS (Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States |, and WAIPA (Home - WAIPA | The Global Reference Point for FDI).

United Nations

Investment Promotion Section
Division on Investment and Enterprise
United Nations Conference
on Trade and Development
Palais des Nations
CH-1211 Geneva 10
Switzerland

Stay in touch:

sustainablefdi.org
ips@unctad.org
@unctadip4sdgs
Youtube UNCTAD investment

Printed at United Nations, Geneva – 2307341 **(E)** – May 2023 – 227 – **UNCTAD/DIAE/PCB/2022/2**