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Investment facilitation for sustainable development

Business and investment facilitation: Stepping stones to digital government

Note by the UNCTAD secretariat

Summary

Business and investment facilitation have become central to both private sector development and the foreign direct investment attraction efforts of Governments in developing countries. At the core are information provision, the transparency of rules and regulations and the streamlining of administrative procedures. These elements are information- and procedures-based, and digitalization is therefore central to effective implementation, leading to a wave of digital government initiatives, including information portals and online single windows. UNCTAD tools for this purpose are among the most successful, used across business, investment and trade facilitation.

Digital government features have the potential to address many institutional challenges faced in developing countries, helping to strengthen governance, reduce costs, improve services and address corruption. For this reason, international organizations, including the United Nations, the Organisation for Economic Co-operation and Development and the World Bank, have developed programmes and policy advice on the implementation of digital government. The approach, in all cases, is based on a whole-of-government, all-encompassing, system integration process, making the implementation of digital government lengthy, complex and often too costly for developing countries to embark on.

Online single windows for businesses and investors have been shown to cheaply and quickly add value for a particular objective, after which they can be gradually expanded to cover other areas of government and other services to the public. Business and investment facilitation can thereby become stepping stones to effective digital government. Conversely, surveys of investors and investment promotion agencies consistently show that governance-related and institutional weaknesses are among the most important challenges in attracting investment for sustainable development. Digital government and the promotion of investment for sustainable development are thus closely intertwined.

I. Introduction

1. Investment facilitation encompasses policies, measures and practices aimed at minimizing or eliminating obstacles faced by investors in a country. Key elements include enhancing transparency and access to information for investors, streamlining administrative procedures, ensuring the predictability of the policy environment and promoting the accountability and efficiency of government officials. It can also include initiatives focused on preventing or resolving investment disputes.¹ Distinct from investment promotion, which is focused on marketing a location as an investment destination, investment facilitation involves a government-wide approach, engaging multiple agencies and levels of government.

2. Business, investment and trade facilitation are closely intertwined, each crucial in creating a streamlined and barrier-free economic environment. Business facilitation aims to create a favourable environment for all firms, whether large or small, foreign or domestic, to start, operate and grow businesses. Investment facilitation extends this, adding mechanisms and initiatives aimed at easing procedures particular to foreign investors. Trade facilitation complements these efforts by focusing on reducing complexities in cross-border commerce.

3. The critical role of investment in promoting growth and sustainable development has long been recognized. For decades, both developed and developing countries have deployed significant policy efforts to improve investment climates, to promote both domestic and foreign investment, to generate economic growth, employment and innovation and to support sustainable development. The adoption of the 2030 Agenda for Sustainable Development further heightened the need to facilitate investment for sustainable development.

4. Business and investment facilitation can play a pivotal role not only in attracting investment but also in supporting the achievement of the Sustainable Development Goals. By creating a more transparent and accessible investment environment, business and investment facilitation can encourage small businesses to move from the informal to the formal sector, a vital step in enhancing domestic revenue mobilization. In addition, by removing barriers to investment and providing equal opportunities for all, facilitation can play a role in promoting more inclusive economic growth, enhancing access to economic activity for women, young people and rural populations.

5. UNCTAD has been instrumental in supporting progress on investment facilitation. Since 1999, UNCTAD investment policy reviews have provided comprehensive advice to nearly 60 countries and regions on a wide array of investment facilitation policies. UNCTAD offers advisory services on investment facilitation to investment promotion agencies and special economic zones. Its digital government platforms, including information portals and single windows for business, investment and trade facilitation, have been deployed in over 60 countries, and its digital investment guides provide investors with essential information to evaluate investment opportunities in particular countries and regions. UNCTAD has also been a catalyst for international debate on investment facilitation. The global action menu on investment facilitation, considered by investment stakeholders at the World Investment Forum in 2016, outlined the main elements of investment facilitation at the start of international discussions in this area (box 1). The Trade and Development Board noted the report of the ninth session of the Investment, Enterprise and Development Commission, at which the Commission requested the secretariat to continue its support for capacity-building on strategies, policies, tools and practices to promote investment in the Sustainable Development Goals, including through

¹ See “Global action menu for investment facilitation” at <https://unctad.org/meeting/world-investment-forum-2023>).

Notes: All websites referred to in this report were accessed on 29 January 2024.

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the UNCTAD global action menu for investment facilitation.² In addition, in 2016, UNCTAD launched the global enterprise registration index, which provides an objective rating of digital information provision and services in countries for businesses and investors, and which was used as a baseline to evaluate the state of play of these instruments during the early stages of discussions on a possible agreement on investment facilitation for development.

Box 1

UNCTAD global action menu for investment facilitation

The global action menu for investment facilitation consists of 10 action lines, as follows, each with a series of options for policymakers:

1. Promote accessibility and transparency in investment policies and regulations and procedures relevant to investors.
2. Enhance predictability and consistency in the application of investment policies.
3. Improve the efficiency of investment administrative procedures.
4. Build constructive stakeholder relationships in investment policy practice.
5. Designate a lead agency, focal point or investment facilitator.
6. Establish monitoring and review mechanisms for investment facilitation.
7. Enhance international cooperation on investment facilitation.
8. Strengthen investment facilitation efforts in developing country partners.
9. Enhance investment policy and proactive investment attraction in developing country partners, through capacity-building.
10. Complement investment facilitation by enhancing international cooperation for investment promotion for development, including through provisions in international investment agreements.

Source: UNCTAD.

6. At the regional level, in 2022, UNCTAD assisted the members of the Association of Southeast Asian Nations (ASEAN) in reviewing the implementation of the Investment Facilitation Framework adopted in 2021.³ UNCTAD was part of a task force assisting countries in Africa during negotiations on the Protocol on Investment to the African Continental Free Trade Area Agreement, which includes a chapter on investment facilitation. At the bilateral level, UNCTAD has been advocating for the introduction of proactive investment promotion and facilitation provisions for sustainable investment in international investment agreements, based on the investment policy framework for sustainable development.⁴ In addition, UNCTAD has developed a set of policy options to enable Governments to transform international investment agreements into tools to channel investment towards sustainable development and further national investment facilitation priorities.⁵

7. Notwithstanding diverse positions in debates on investment facilitation at the international level, the need for robust investment facilitation practices at the national level is recognized. Good investment facilitation practices have implications that go beyond merely providing business promotion and are instrumental in strengthening institutions, streamlining regulations and procedures and fostering good governance. The focus, then,

² TD/B/EX(66)/2.

³ See <https://asean.org/book/asean-investment-report-2022/>.

⁴ See <https://unctad.org/publication/investment-policy-framework-sustainable-development-2015-edition>.

⁵ See <https://unctad.org/publication/investment-facilitation-international-investment-agreements-trends-and-policy-options>.

shifts to the most effective implementation strategies for investment facilitation initiatives. UNCTAD data shows that most countries, including those not in negotiations, recognize the importance of investment facilitation in reviving cross-border investment in industry, absorbing a global drive for investment in sustainability and infrastructure and remaining competitive if international tax reforms reduce the scope of fiscal incentives.⁶

8. The aim of this note is to explore priorities, challenges and opportunities in the effective implementation of investment facilitation and, in particular, to illustrate how digital business and investment facilitation are not only integral to effective digital government strategies but can also be the foundation of such strategies. Such digital tools and strategies lay the groundwork for a more transparent, efficient and investor-friendly environment, contributing to the broader goals of economic development and institutional robustness.

II. State of progress on investment facilitation worldwide

9. It is challenging to assess the state of progress in the implementation of investment facilitation worldwide in a systematic manner, not only with regard to digital aspects but in general. Research by the World Bank and the Doing Business indicators were among the more systematic efforts, before investment facilitation was clearly defined. Investment policy reviews by UNCTAD and the Organisation for Economic Co-operation and Development include many elements of investment facilitation assessments. The lack of updated systematic information across countries was one of the reasons for the development of a self-assessment tool in the context of the discussions on investment facilitation for development. UNCTAD contributed to the development of this tool with inputs on sections dealing with transparency and the streamlining of administrative procedures, single windows and technical cooperation.

10. The number of investment facilitation measures implemented worldwide is on the rise. The types of tools employed, their degree of sophistication and the stage of implementation or level of services provided vary considerably. With the use of digital technology and platforms, investment facilitation measures have become increasingly sophisticated and are evolving.

11. To comprehensively evaluate the landscape of digital business and investment facilitation, UNCTAD introduced the Global Enterprise Registration portal in 2016, developed in collaboration with the United States of America Department of State and the Global Entrepreneurship Network of the Ewing Marion Kauffman Foundation. The primary objective was to assess the digital information portals of United Nations Member States, gauging transparency regarding mandatory registrations for businesses, including foreign investors. Through the platform, government digital single windows may be evaluated, and their effectiveness in enabling businesses and investors to complete mandatory registrations online may be measured. The assessment employs a ten-point scale, calculated based on objective criteria. This method ensures a standardized and transparent evaluation process. Continuously updated, the portal provides an interactive interface, allowing stakeholders in each country to submit revised ratings, helping to ensure that the platform remains current and reflective of the evolving digital landscape in different countries.

12. The data from the Global Enterprise Registration portal shows a clear trend in the development of digital tools to streamline business registration processes and enhance the appeal for foreign direct investment (FDI). The growth trajectory is evident, with the utilization of investment portals in developing countries increasing from 87 economies in 2016, when the global action menu was launched, to 121 in 2021. The number of developing economies with digital single windows rose from 17 to 55 in the same period. Developing countries, on average, achieved a higher rating of 6.8 on the Global Enterprise Registration index for digital single windows, surpassing the rating of 6.1 for developed countries. Notably, several developing countries feature among the providers of the world's best information portals and single windows. This leapfrogging phenomenon may be due to

⁶ See <https://unctad.org/webflyer/investment-policy-monitor-special-issue-no-6>.

the fact that developed country Governments are generally considered to have greater regulatory transparency and more sophisticated public services, reducing the incentive to develop comprehensive online portals. Critically, many of the developing countries leading in the adoption of such digital tools have received technical assistance, often from UNCTAD. This underscores the importance of international cooperation in facilitating the digital transformation of business and investment processes, ensuring that developing countries can harness the full potential of such tools to drive economic growth and attract investment.

13. The biennial electronic government (e-government) survey of the Department of Economic and Social Affairs provides an assessment of the digital government landscape across 193 Member States. The survey employs the e-government development index to rank countries, shedding light on online services and particular e-government components that hold significant benefits for businesses. In the latest edition of the survey report, online services that are particularly advantageous to businesses are examined, including critical functions such as business registrations, business licence applications, business tax filing and payments, land title registration applications, environmental permit applications and access to and modification of the data of a business.⁷ Survey findings underscore the role of business facilitation and that it is one of the foremost priorities in digital government. Survey findings also highlight a global trend in using online services, particularly in new business registration, which is now the most common online service worldwide; the number of countries offering this service grew from 162 in 2020 to 177 in 2022. In the same period, there was notable growth in the number of countries offering other online services, such as online business licence applications, from 151 to 167 countries, and online value added tax payment options, from 130 to 142 countries. The survey mostly assesses the presence of some form of e-government service (rather than substance or comprehensiveness) and does not focus solely on business and investment facilitation services; there are therefore some differences compared with the data from the Global Enterprise Registration portal. E-government survey findings indicate that Europe and North America led in e-government development with, out of a score of 1, the average score exceeding 0.80, followed by Asia (0.65), Latin America (0.64), Oceania (0.51) and Africa (0.41). Despite significant progress in Africa, the average score remains below the global average of 0.61, highlighting the persistence of a digital divide.

14. The new business ready index of the World Bank, which replaces the Doing Business reports, also places significant weight on the provision of digital government services, including single windows and information portals. The initiatives of both the Department of Economic and Social Affairs and the World Bank underscore a global trend, whereby countries are increasingly leveraging digital technologies to streamline information provision and administrative procedures, to enhance efforts to facilitate investment.

15. Efforts to measure progress on investment facilitation also take place at the regional level. In South-East Asia, the ASEAN investment facilitation digital monitor, developed jointly by UNCTAD and the ASEAN secretariat in 2022, measures progress in the implementation of the ASEAN Investment Facilitation Framework. The monitor considers 10 categories of investment facilitation measures, with two focused on digital tools.⁸ The first review of the implementation of the Investment Facilitation Framework was conducted as part of *ASEAN Investment Report 2022*. Results show that ASEAN member States have already put in place, on average, eight out of ten measures, with varying degrees of sophistication.⁹

⁷ See <https://publicadministration.un.org/egovkb/en-us/Reports/UN-E-Government-Survey-2022>.

⁸ The 10 categories are: transparency and provision of information; streamlining and speeding up of administrative procedures and requirements; use of digital and Internet technologies; single digital platform; assistance and advisory services to investors; independence of competent authorities; temporary entry and stay for businesspersons for investment purposes; facilitation of investment-supporting factors; consultative mechanisms for investment policies; and cooperation.

⁹ See <https://asean.org/book/asean-investment-report-2022/>.

16. In 2023, UNCTAD assisted member countries of the Southern African Customs Union in the development of an investment facilitation digital monitor, to benchmark the online information portals and single windows for investment of countries in the region, with the objective of fostering peer learning and best practices. Also in 2023, UNCTAD conducted a regional investment policy review for the West African Economic and Monetary Union, covering a wide spectrum of investment facilitation aspects. The next phase will be the development of a digital monitoring tool.

17. Despite the global increase in investment facilitation, the least developed countries still face considerable challenges in consolidating relevant administrative procedures into a unified platform or window. Key difficulties include those related to costs, gaps in skills and know-how, higher levels of divergence in the way regulations are translated into administrative procedures across agencies and subnational bodies and frictions in coordination among the many different agencies involved in facilitating businesses and investments. The pandemic served to accelerate the implementation of digital investment facilitation measures in many countries, due to the heightened reliance on digital forms and facilities and the increased need to support businesses. For example, in the ASEAN region, most countries responded by streamlining investment procedures, adopting online or e-application systems, reinforcing one-stop centres, expediting business licence approvals, and providing additional support to investors.

III. Investment facilitation in national and international investment policies

A. National policies

18. Until the second half of the 2010s, investment facilitation measures played a lesser role in investment policy reforms. Efforts to facilitate investment by increasing the efficiency and transparency of regulatory regimes were overshadowed by narrower types of investment promotion initiatives, such as the provision of incentives.¹⁰ Over the last decade, investment liberalization measures, which were dominant among the measures more favourable to investment from the 1990s until the early 2010s, have progressively given way to investment facilitation measures.¹¹ In 2013, liberalization measures accounted for 44 per cent of policy measures favourable to investment globally; they dropped to about 10 per cent in 2023. In contrast, facilitation measures saw a significant increase, rising from 25 per cent in 2013 to almost 60 per cent in 2023. The remaining set of favourable measures, mainly investment-related incentives, experienced fluctuations during this period, influenced by various factors such as economic cycles and recovery efforts. Investment facilitation measures were prevalent across all regions in 2013–2023. In Africa and Asia, they were particularly significant, constituting half of all policy measures beneficial to investment. In all other regions, they represented around 40 per cent of these measures.

19. Among the investment facilitation measures adopted globally in 2013–2023, the streamlining of investment procedures represented the largest share, at 38 per cent, including efforts to reduce complexity and processing time in business registration and licensing, achieved either through legislative reforms or the implementation of both physical and virtual one-stop shops; and comprising initiatives to expedite investment screening-related processes or establish mechanisms that accelerate procedures for strategically important projects. Measures aimed at enhancing the transparency of investment-related laws and procedures represented the next largest share, at 19 per cent; key among these are the following: introduction of investment laws or policies that

¹⁰ See footnote 1.

¹¹ The analysis in this section is based on the UNCTAD investment policy monitor database and refers to measures adopted by countries worldwide in the period 1 January 2013–30 September 2023. When a policy measure concerns several aspects (e.g. investment incentives and facilitation), its classification into a specific category is determined based on the dominant objective and the prevailing content.

consolidate investment-related provisions in a single document; adoption of investment information portals; introduction of stakeholder consultation mechanisms involving the private sector in discussions of investment-related legislative reforms; and publication of guidelines to clarify certain aspects of investment legislation and assist investors in navigating the investment environment (e.g. screening review process). The introduction of special economic zones and establishment of investment promotion agencies with investment facilitation objectives and/or functions represented 19 and 11 per cent, respectively. Administrative streamlining and facilitation are an integral part of the offering of most zones,¹² and the changing global environment, including in the context of the introduction of a global minimum tax, are likely to lead special economic zones to move away from overgenerous fiscal incentives and focus more on the quality of facilitation services and infrastructure.¹³ Digital investment facilitation services, which have traditionally featured in the offerings of most investment promotion agencies, became more prominent after the pandemic, which pushed many agencies to establish new online services.¹⁴ Other measures frequently adopted include visa facilitation for investors and foreign professionals, dispute resolution mechanisms (e.g. arbitration, ombudspersons, complaints committees) and the easing of foreign exchange-related procedures; together, they accounted for the remaining share of investment facilitation measures (13 per cent).

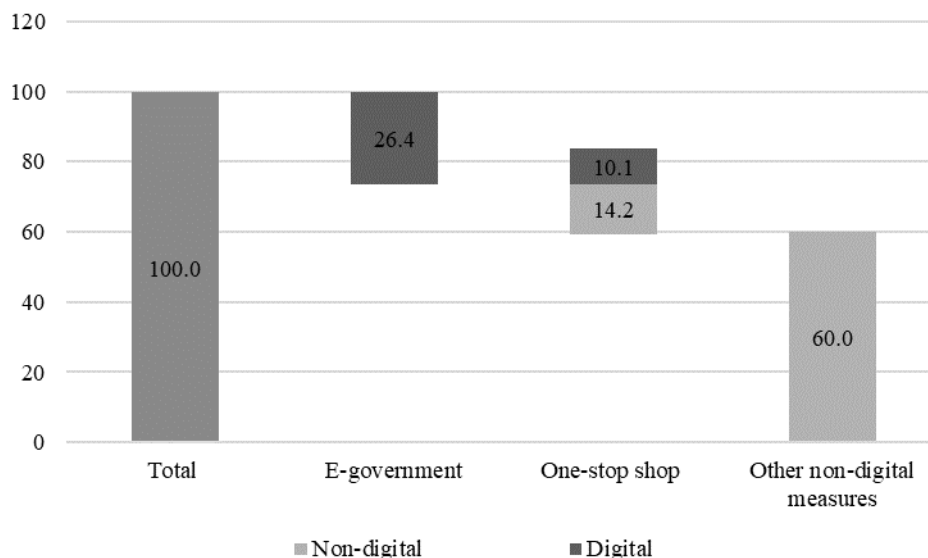
20. As highlighted in chapter II, digital investment facilitation tools, such as digital information portals and single windows, are acknowledged for their efficiency and effectiveness in increasing transparency and streamlining administrative processes. Over the past five years, there has been an improvement in the coverage and quality of these tools. Despite important advancements, digital government measures, including the digitalization of processes such as licensing, forms and the establishment of one-stop shops and single windows, constituted 26 per cent of the measures intended for process streamlining (figure 1). In addition, a majority of new policies related to the establishment of one-stop shops still focus on physical rather than virtual facilities. These trends underscore the need for the increased adoption and effective utilization of digital facilitation tools, to fully harness their benefits in the investment landscape.

¹² UNCTAD, 2019, *World Investment Report 2019: Special Economic Zones* (United Nations publication, Sales No. E.19.II.D.12, Geneva).

¹³ UNCTAD, 2022, *World Investment Report 2022: International Tax Reforms and Sustainable Investment* (United Nations publication, Sales No. E.22.II.D.20, Geneva); UNCTAD, 2023, *The Impact of International Tax Reforms on Special Economic Zones* (Geneva).

¹⁴ UNCTAD 2020, Investment Policy Monitor No. 23, available at https://unctad.org/system/files/official-document/diaepcbinf2020d1_en.pdf.

Figure 1
Measures to streamline investment procedures, by category, 2013–2023
 (Percentage)



Source: UNCTAD investment policy monitor database.
 Note: Preliminary data up to 30 September 2023.

B. International investment agreements

21. New-generation international investment agreements increasingly embrace investment facilitation features, which are becoming more common, more diverse and more specific, with prominent examples in all regions. Over half of all recent international investment agreements contain transparency requirements for investment measures, and the share of other investment facilitation provisions related to a host country's regulatory environment is also increasing.

22. At the regional level, several investment agreements include investment facilitation provisions, such as the Protocol on Investment to the African Continental Free Trade Area Agreement, the ASEAN Investment Facilitation Framework and the Protocol of Cooperation and Facilitation of Intra-MERCOSUR [Southern Common Market] Investments, 2017. At the bilateral level, examples include the Angola–European Union Sustainable Investment Facilitation Agreement (to be proposed for adoption by Angola and the European Union),¹⁵ the Australia–Singapore Green Economy Agreement (2022) and the Brazil Cooperation and Facilitation Investment Agreement model.

23. Provisions on transparency and the streamlining of investment-related administrative procedures are among the key components of investment facilitation that recent international investment agreements have begun to incorporate. The provisions vary in depth, yet usually aim to render investment-related measures easily accessible, eliminate redundant bureaucratic steps, reduce costs and generally clarify the administrative framework. They often provide a reasonable time frame and cost for permit applications, and they commonly encourage digitalization, including through measures that have proved effective on the ground, such as single information portals and single windows or commitments to accept the submission of electronic applications, documents or payments (e.g. under the Protocol on Investment to the African Continental Free Trade Area Agreement, the Angola–European Union Sustainable Investment Facilitation Agreement and the ASEAN Investment Facilitation Framework). Some international investment agreements complement such commitments with encouragement for the set-up of digital business matching tools, such as local supplier databases (e.g. under the Angola–European

¹⁵ See https://ec.europa.eu/commission/presscorner/detail/en/ip_22_6136.

Union Sustainable Investment Facilitation Agreement and the ASEAN Investment Facilitation Framework).

24. However, more remains to be done to gear facilitation measures towards sustainable investment and to encourage the necessary technical assistance for developing countries. UNCTAD is implementing a project funded by the European Union to support investment facilitation in six member countries of the Organization of African, Caribbean and Pacific States, namely, Angola, the Gambia, Nigeria, Suriname, Vanuatu and Zimbabwe. Building on best practices, UNCTAD has developed a toolbox that offers a set of policy options and ground-level actions, spanning all key categories of facilitation features in international investment agreements, as follows: improving the regulatory environment in the host country; providing mechanisms for stakeholder engagement; setting up frameworks for cooperation between treaty parties; and incorporating proactive promotion and facilitation commitments targeted at priority sustainable investment.¹⁶ Some of these options are directly relevant to digitalization and e-government initiatives.

25. International investment agreements can play a key role by including provisions on technical assistance for digitalization and by providing a framework for continued cooperation on investment facilitation measures in priority areas, including digitalization. For example, if a country wishes to facilitate investment into defined Sustainable Development Goals-related priority sectors, this could mean cooperating on digitalization that helps to eliminate bureaucratic barriers to the operation of investors in these sectors (e.g. covering all relevant general and sector-specific procedures) and to set up matching platforms with local suppliers relevant to the sectors. If a country aims at broader formalization of the economy, this could mean prioritizing the streamlining and digitalization of procedures such as company registration and ensuring that they cover both foreign and local investors.

26. Discussions on investment facilitation were at the centre of the eighth UNCTAD World Investment Forum. Notably, during the ministerial round table on investment, the critical roles of investment facilitation and digital tools were emphasized, in addressing key challenges arising from various global crises, spanning issues such as food security, health systems, climate change, supply chain resilience and the growth of productive capacity in the least developed countries. In addition, a dedicated track on investment facilitation underscored the commitment of the Forum to advancing discussions on this critical aspect of economic development (box 2).

Box 2

UNCTAD World Investment Forum 2023: Investment facilitation

The eighth World Investment Forum was held in Abu Dhabi, United Arab Emirates, from 16 to 20 October 2023. The Forum included a dedicated track on investment facilitation, including the following sessions:

International policy developments. Key actors in investment facilitation policymaking at the international level discussed UNCTAD work on facilitation features in international investment agreements and welcomed the related toolbox on investment facilitation. The session included experts from Governments and regional and international organizations active in investment facilitation policymaking, including Brazil, Saudi Arabia, the African Continental Free Trade Area, ASEAN, the Caribbean Community and the co-coordinators of the investment facilitation for development discussions in the context of the World Trade Organization, as well as private sector and civil society representatives. The session highlighted the importance of aligning investment facilitation provisions in international investment agreements, to promote sustainable development and ensure technical assistance for developing countries.

National success stories. The session presented trends in national investment facilitation policies and best practices in the streamlining and digitalization of investment facilitation

¹⁶ See <https://unctad.org/publication/investment-facilitation-international-investment-agreements-trends-and-policy-options>.

procedures. Showcased practices were presented by Government representatives from Burundi, Colombia, El Salvador, Mali and Mexico.

How digital government tools can accelerate implementation. The session addressed how to create a digital government service using a user-friendly, no-code platform that does not require information technology skills. Speakers were from Argentina, Bhutan, Iraq, the State of Palestine and Togo.

Investment facilitation and trade facilitation: Two sides of the same coin. The session presented the linkages between investment facilitation and trade facilitation and brought together leaders with practical experience in the field. Speakers were from Kazakhstan, the Republic of Korea, Syria and the World Trade Organization.

Digital government awards. Prizes were awarded for the world's best digital information portals, digital single windows and digital trade portals and to digital single windows facilitating investment in the local production and distribution of pharmaceuticals and in climate change mitigation.

Source: UNCTAD.

IV. The impact of investment facilitation

27. Systematic research on the impact of investment facilitation on FDI is both scarce and difficult to conduct because of the interlinked nature of relevant measures with other policies and the interdependencies of effects with other factors that affect FDI flows. Impact estimates can be constructed based on the effect of investment facilitation measures on these factors, also referred to as FDI determinants. Investment facilitation is an important component of a conducive business environment, one of the three key areas of FDI determinants, together with economic determinants and policy determinants.¹⁷ It links directly to dimensions of the business environment related to procedural effectiveness and the transparency of cross-border investment practices (e.g. ease of doing business, ease of investing across borders, quality of investment institutions). It links indirectly to further institutional factors that are key elements of the business environment determinant (e.g. political stability, corruption, rule of law, quality of governance). Unlike other FDI determinants, investment facilitation measures often do not require direct policy intervention (such as for policy determinants) and do not rely on given economic conditions (such as for economic determinants).

28. The relevant empirical literature on FDI determinants substantially supports the use of investment facilitation measures as a policy tool for attracting FDI. Empirical studies show a broad consensus on the fact that countries with better business environments are more likely to attract greater FDI flows. The impact of investment facilitation measures is therefore likely to be economically sizeable. A simulation by UNCTAD based on a World Bank study analysing the relationship between FDI and the number of procedures required to start a foreign business suggests that an alignment of developing countries with the median (i.e. a reduction in procedural complexity in countries with many procedures above the number in the median country in the ranking) is associated with an average 20 per cent increase in FDI stock. Older studies corroborate the finding, whereby a unit increase in the Doing Business rankings increases FDI inflows by \$300 million and a 1 percentage point difference in the distance to the frontier indicator increases FDI by a range of \$250 million to \$500 million.¹⁸

¹⁷ See Alfaro L, Kalemli-Özcan S and Volosovych V, 2008, Why doesn't capital flow from rich to poor countries? An empirical investigation, *Review of Economics and Statistics*, 90(2):347–368.

¹⁸ World Bank, 2013, Does Doing Business matter for FDI? Doing Business Case Study No. 80647.

29. Investment facilitation measures contribute to inclusive and sustainable development. They may be expected to benefit small and resource-poor economies and, in general, countries that have few other levers for attracting FDI. Investment facilitation measures also positively affect manufacturing and services FDI more than primary sector FDI, contributing to economic diversification and the mitigation of commodity dependence. Finally, they have a relatively greater impact on FDI by small and medium-sized enterprises, which tend to be significantly affected by administrative barriers.

30. Digital business and investment facilitation, in particular, can positively influence the investment climate in a country.¹⁹ Studies show a positive correlation between information technology diffusion and FDI inflows, emphasizing the impact of digital readiness.²⁰ Other research shows a robust positive connection between e-government services and FDI inflows, stemming from streamlined procedures, improved information access, heightened government efficiency, reduced corruption and cost-saving mechanisms made possible through the consolidation of services on a single platform.²¹

31. Countries ranking in the highest quartile of the Department of Economic and Social Affairs e-government index receive over 10 times the average inward FDI flows compared with those in the first quartile (figure 2). Similar trends are observed in investment overall, including domestic investment. Considering gross fixed capital formation, countries in the highest quartile exhibit approximately 10 times the investment per capita level of those in the first quartile. This is largely explained by the development status of different economies, with mainly high middle-income countries in the highest quartile of the e-government survey and low-income countries typically in the lower two quartiles. As noted, investment facilitation assumes a heightened significance for small and medium-sized enterprises, given their inherent challenges in navigating the complexities of internationalization with limited resources. In contrast to larger multinational enterprises, small and medium-sized enterprises often deal with constrained capacities and expertise, making it more difficult for them to conduct comprehensive research on the promotional benefits offered by host countries and to diligently pursue investment applications.

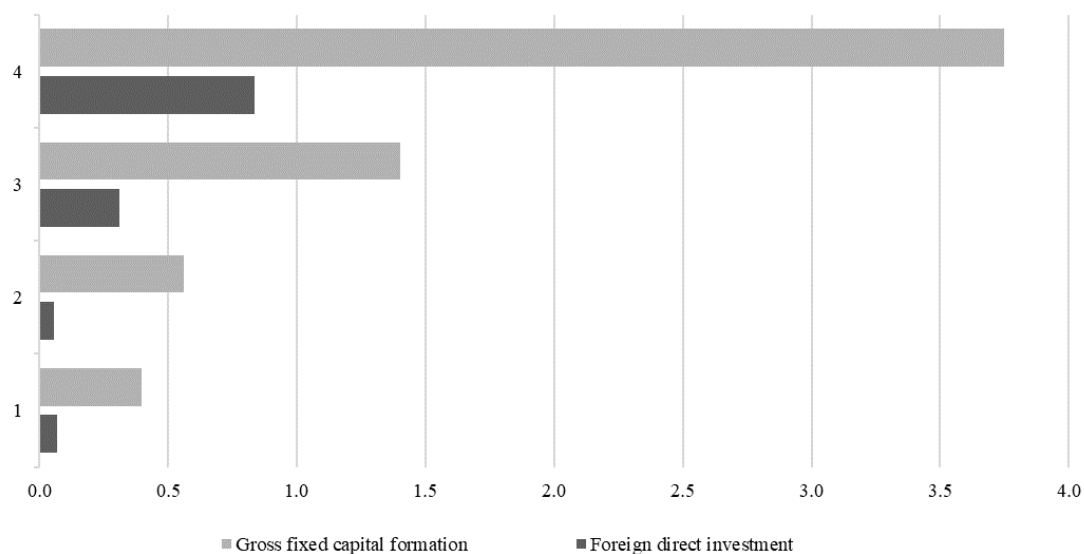
¹⁹ Al-Sadiq A, 2021, The role of e-government in promoting FDI inflows, Working Paper No. 8, International Monetary Fund.

²⁰ Ibid; Máchová R, Volejníková J and Lněnička M, 2018, Impact of e-government development on the level of corruption: Measuring the effects of related indices in time and dimensions, *Review of Economic Perspectives*, 18(2), 99–121.

²¹ Lögün A, 2020, FDI, exports and economic growth: Panel autoregressive distributed lag model and causality analysis for emerging seven countries [Brazil, China, India, Indonesia, Mexico, Russian Federation and Türkiye], *Journal of Academic Research in Economics*, 12(1):7–17.

Figure 2
Foreign direct investment and gross fixed capital formation by e-government development index quartiles, developing countries, averages, 2012–2022

(Dollars per person)



Source: UNCTAD secretariat calculations, based on data from UNCTAD, the Department of Economic and Social Affairs and the International Monetary Fund.

Note: The figure shows FDI inflows and gross fixed capital formation in millions of dollars, divided by population, with the quartiles as follows, in accordance with the e-government survey index: 1, lowest, to 4, highest (1=less than 0.33, 2=33–43, 3=44–58 and 4≥0.59).

32. The impact of investment facilitation is often most pronounced within the domestic business sector, with local small and medium-sized enterprises reaping substantial benefits (box 3). Insights from post-implementation interviews conducted by UNCTAD with registry staff in Benin, Bhutan and Lesotho underscore that the ability to register online represents a critical step since it eliminates a significant barrier to formalization and alleviates the need for small and medium-sized enterprises to journey to central government offices, helping to enhance predictability and reduce the risks associated with corruption. Beyond streamlining administrative processes, online registration serves as a significant incentive, facilitating essential activities such as opening business bank accounts, obtaining licences and permits, hiring qualified staff in the formal sector and engaging in the import and/or export of goods and services. Investment facilitation thereby emerges as a catalyst for transformative change, empowering small and medium-sized enterprises to overcome barriers and thrive in an increasingly interconnected global landscape. Governments also reported the following benefits:²²

(a) Higher rates of formalization of local businesses, and more businesses (local and foreign) created overall;

(b) Reduced time, costs, forms and documents required for creating and operating a business;

(c) Positive impact on women, young people and rural populations that previously faced greater obstacles with traditional, paper-based and urban-based business registration procedures;

(d) Increased tax, social security and other government revenues, with the cost of single windows paying for themselves in two–three years from additional fee generation alone;

(e) Greater formal sector employment opportunities;

²² See <https://unctad.org/webflyer/investment-policy-monitor-special-issue-no-6>.

- (f) Better data on the business sector, enabling more targeted and inclusive policies, particularly if cross-referenced with tax and social security data;
- (g) A more client-friendly approach in government administration.

Box 3

UNCTAD digital investment facilitation tools: Selected development impacts

Results from the implementation of UNCTAD information portals and online single windows show how the development benefits of investment facilitation extend beyond the attractiveness of an economy for FDI, to include local business and inclusiveness objectives, as follows:

Impact on women

- (a) In Benin, one third of business owners registering online are women;
- (b) In Bhutan, 52 per cent of those applying to register their companies are women;
- (c) In El Salvador, 56 per cent of business owners registering online are women;
- (d) In Lesotho, before online registration was possible, 26 per cent of business permits were held by women; following the introduction of online registration, the share of business permits held by women increased to 34 per cent.

Impact on young people

- (a) In Benin, registration by young people (18–30 years of age) increased by 181 per cent in the first two years of operation;
- (b) In Mali, the corresponding figure was 263 per cent.

Source: UNCTAD.

33. Despite the significant development benefits associated with investment facilitation, particularly digital facilitation services, targeting specific sustainable development benefits through investment facilitation can be a challenge. Investment promotion mechanisms and incentives can be targeted to particular investors or made conditional on investor behaviours or performance indicators, yet such steps are not straightforward in order to achieve investment facilitation. Transparency and the streamlining of administrative procedures, by definition, benefit all investors. The benefits associated with the implementation of most types of investment facilitation measures extend to all investors, whether local or international, wherever they intend to operate in the host country and regardless of the size or type of investment. Most businesses in any country are locally owned; this is one reason why local investors often benefit the most from the implementation of investment facilitation measures.

V. Principles of effective investment facilitation implementation

34. UNCTAD has been assisting countries for over two decades in implementing investment facilitation measures, and has been working in digital investment facilitation for over ten years. During this time, various challenges faced by Governments have been identified and UNCTAD has developed tools and principles to help address them.

35. Political, managerial and financial limitations make it challenging for Governments to simultaneously address various aspects of investment facilitation. Policymakers may also encounter challenges in fully understanding the benefits of embracing a digital system, with concerns about potential fraud arising from the use of digital tools that allow document uploads. Initiatives such as preparatory legal or regulatory reviews may strain already scarce legal resources and Government time, causing delays. Digitalization efforts can face barriers as information technology departments may prioritize discussions on

interoperability, data management, privacy and digital signatures, diverting attention from online services creation. The complexity of business establishment procedures involving multiple government agencies means that decision makers may not be aware of the full scope of areas that need to be facilitated. Institutional competition may emerge due to conflicting mandates or a lack of trust between different layers of government. Past difficulties in establishing physical one-stop shops, which required the secondment of decision-making staff to a dedicated facility, can further complicate matters. Finally, internal resistance may arise from concerns about job cuts, reduced responsibilities or the elimination of discretionary powers. Proactive measures are essential in order to address such challenges and effectively support Governments in implementing digital systems.

36. In this regard, first, UNCTAD encourages Governments to focus limited resources on elements that are consistently relevant, not only during exceptional circumstances, prioritizing those delivering universal benefits to all investors. Transparent, streamlined and digital administrative processes are important, and benefit foreign investors, local firms, and small and medium-sized enterprises alike. In contrast, investment facilitation elements such as focal points or dispute prevention mechanisms are relevant occasionally and for foreign investors only. Second, a comprehensive approach is recommended, avoiding dedicated processes solely for investment authorizations. Instead, Governments should progressively incorporate all or most procedures and services required by both foreign and local businesses, such as business registration, tax and social security registration, licensing and other essential services. Embracing a holistic approach enables Governments to harness the full potential of digitalization, creating a business environment conducive to growth, efficiency and transparency for all stakeholders. This approach forms the basis of the UNCTAD project to support investment facilitation in six member countries of the Organization of African, Caribbean and Pacific States.

37. These two core principles help ensure that economies of scale and scope may be captured from the implementation of digital platforms. Once a platform is introduced to streamline one procedure, it can then be used to add others. A platform serving international investors is inefficient if local businesses face similar business registration procedures. Conducting legal and information technology reviews prior to implementation has also proved mostly unnecessary. UNCTAD experience in implementing digital single windows shows that most investment facilitation measures can be implemented within existing laws and regulations since these tend to be agnostic about the medium through which applications are made and processed.

38. UNCTAD has taken significant steps in helping to equip developing countries and other countries with digital tools to efficiently enact investment facilitation commitments, including the tools available through the UNCTAD digital government platform for business and investment facilitation. Noted by the Donor Committee for Enterprise Development as examples of good practices,²³ these tools have garnered widespread attention, and were accessed 6.2 million times in 2023. Crafted to address persistent technological challenges often articulated by Governments, such tools are designed to address a spectrum of issues, and include the following:

(a) Digital information portals. Such portals show the steps necessary to obtain all mandatory registrations in order for foreign and local investors to legally operate a company, including incorporating at the business registry, obtaining tax and social security numbers and receiving relevant sectoral and municipal clearances and licences;

(b) Digital single windows. Through such windows, using a drag-and-drop interface, civil servants can quickly move simple or complex procedures online, without the need to involve information technology staff. Approval processes can be combined, to obtain mandatory registration, and investors need to fill in a single online form, upload one set of documents and make a single online payment through a simple user interface. This

²³ Reichel M, 2023, World Trade Organization Investment Facilitation for Development Agreement: An Overview of Reform Measures, Good Practice and Potential Donor Support (Donor Committee for Enterprise Development).

reduces the need for investors to travel to meet with government officials, wait in lines and return several times at various stages of the process;

(c) Regional investment facilitation monitors. Such monitors track the development of information portals and digital single windows by members of a regional economic community, in line with the requirements of the relevant regional investment facilitation agreement or framework.

39. Such tools offer several advantages. They enable Governments to integrate all agencies involved in a particular procedure, reflecting the actual user journey. Since they operate virtually, decision-making staff from different agencies can review business and investment applications from their own devices, thereby removing the need to second staff to a physical one-stop shop. Such a virtual approach can also help ensure business continuity during conflicts or pandemics. Payment platforms can help transparently distribute fees to different agencies, addressing trust issues. Digital procedures can be incrementally developed, starting with agencies that are early adopters. Front-line staff familiar with administrative processes can lead the online transition without needing to rely on a central information technology office.

40. Effective communications on the positive impact of investment facilitation, particularly digital investment facilitation, can help overcome resistance. For example, in Benin, the tripling of business creation also tripled fee income, generating more jobs for government workers; in Bhutan, government staff involvement in the development of new online services expanded their skills and responsibilities, providing additional motivation; and in Lesotho, staff using a digital business licensing system reported greater satisfaction as their roles shifted from processing forms to advising clients.²⁴ Digital tools, by better capturing data on business creation, including user demographics, enable policymakers to understand the impact of investment facilitation, measure effects on communities and ensure inclusivity.

41. Concerns about the authenticity of document uploads should be approached within a risk-based strategy that assumes most users operate in good faith (such a strategy aims to ensure that more extensive controls focus only on critical aspects of procedures). The impact of different investment facilitation measures on investment decisions varies. Providing relevant information in multiple languages and simplifying investment requirements has the greatest impact. With the increasing use of digitalization, countries should consider leveraging digital technology to disseminate information. A single digital window combining essential services for an integrated investment application process can be crucial for investors.

42. In building a competitive investment facilitation environment, Governments should also incorporate measures beyond foreign investment procedures. Investment facilitation measures should cover business registration, approvals, licences, administrative requirements and tax-related and social security procedures. Establishing an efficient administrative process, from obtaining investment permits to business registration and operation, is important and, to this end, synergies between investment promotion agencies, business registries and other authorities are critical.

43. Finally, investment facilitation programmes should involve various stakeholders, including government agencies, industry associations and chambers of commerce. At the regional level, capacity-building and experience-sharing among member States can advance implementation. Regional cooperation on investment facilitation can catalyse national measures and benefit all investors.

²⁴ UNCTAD, based on data provided by the Benin Investment and Export Promotion Agency and on post-implementation interviews. See <https://unctad.org/news/how-bhutans-civil-servants-are-building-digital-government-system>.

VI. Digital business and investment facilitation as stepping stones to digital government

44. The digital government tools that are central to the effective and efficient implementation of investment facilitation initiatives serve as a foundation for the broader adoption of digital government, symbolizing a significant step towards modernizing governance-related and administrative processes. There is evidence that good governance, transparent rules and regulations and efficient administrative procedures have a positive impact on FDI.²⁵ Surveys of investors and investment promotion agencies consistently show that governance-related and institutional weaknesses are among the most important challenges in attracting investment for sustainable development.²⁶

45. As noted, digital investment tools have been shown to help strengthen governance, increase transparency and lead to more efficient administration. Their application more generally across digital government services can help further improve the attractiveness of countries to both foreign and local investors, given that investors are not helped by smooth investment approval processes if subsequent general procedures to expand business operations remain inefficient. The return on investment for Governments from setting up a digital platform for investment facilitation is maximized when more procedures are covered, including those relevant to domestic businesses. Governments could also consider broadening the scope of investment facilitation tools to include a wider set of administrative procedures relevant to the establishment of a business. Once a digital business registry is established and entities such as small and medium-sized enterprises, limited liability companies and foreign-owned branches have verifiable online identities, Governments can more easily extend online services with regard to licences (trading, sectoral, import, export), permits (construction, environmental), taxes (registration, filing, payment), social security (employer and employee registration, filing and payment), land transactions, health and pharmaceuticals and carbon registries.

46. In this context, the digital tools developed by UNCTAD for business and investment facilitation, in particular single windows, can also be extended to other government areas. From a technical point of view, the cloud-based approach means there is no need for systems integration, that new databases can be created within the same digital government system and that application programming interfaces can connect to existing databases. New online services can be created, with civil servants progressively training colleagues in other agencies to use the system or accessing training through the Digital Government Academy of UNCTAD and the United Nations Institute for Training and Research. The system can be reconfigured to dispatch the relevant data, document uploads and fees to each agency as necessary.

47. UNCTAD has begun to develop digital single windows, at the request of Governments, that go beyond business creation, to support business operations with a particular focus on the Sustainable Development Goals. This has included the following: in Colombia, the registration and calculation of carbon emissions to assess nationally determined contributions and to certify carbon credits and debits (following the methodology of the Intergovernmental Panel on Climate Change); in El Salvador, tax and social security filings; in Mali, tools to facilitate the licensing of the import, distribution and local production of pharmaceuticals (in accordance with World Health Organization standards); and in Rwanda, the digitalization of extended producer responsibility. In all instances, UNCTAD follows a bottom-up approach, moving one process at a time and integrating front-line staff in the design process.

²⁵ Hossain S and Rahman Z, 2017, Does governance facilitate FDI in developing countries? *International Journal of Economics and Financial Issues*, 7(1).

²⁶ The World Bank global investment competitiveness survey in 2018 showed that over 80 per cent of surveyed investors considered transparency and predictability in public agencies as critical in choosing an investment location. Annual investment promotion agency surveys by UNCTAD show similar figures.

48. The principles of effective investment facilitation developed by UNCTAD are therefore also valuable to the wider implementation of digital government. This includes taking a bottom-up approach that emphasizes a limited initial project scope and digitalizing one process at a time. This helps to build momentum for broader digital transformation at a low monetary cost. It is an approach that encourages agencies with innovative mindsets to take the first step, with others joining as the advantages of digitalization become clear and fee income accrues.

49. This differs from the prevailing guidance on digital government implementation that has until now favoured a top-down approach. For example, the Organisation for Economic Co-operation and Development recommends the prior development of a digital government strategy and its alignment with other sectoral strategies, government-wide coordination mechanisms, the development of digital skills, job profiles, technologies, contracts and inter-agency agreements and the review of legal and regulatory frameworks.²⁷ The Department of Economic and Social Affairs e-government survey measures factors such as the presence of legal and institutional frameworks.²⁸

50. Developing countries are at a particular advantage in establishing digital government systems. They may have fewer ministry-specific legacy systems to integrate and can leapfrog to the latest cloud-based solutions. The existence of a smaller number of institutions and key decision-makers can also support faster implementation.

51. As highlighted, UNCTAD has created an action menu for investment facilitation and is actively delivering technical assistance in this field to member States, with the potential for expansion, to include more countries. UNCTAD has successfully developed user-friendly digital tools for investment and trade facilitation and other government procedures, currently operational in over 60 countries in diverse regions, as part of its digital government platform. These tools help empower Governments to enhance transparency through digital information portals, streamline and digitalize procedures through digital single windows and facilitate regional benchmarking through regional investment facilitation monitors.

52. UNCTAD will continue to support developing countries in the implementation of digital government tools for business, investment and trade facilitation, and to collaboratively engage with other international organizations in monitoring global and regional investment facilitation development.

VII. Questions for discussion

53. Governance-related and institutional weaknesses have consistently featured in the results of research and investor surveys as key challenges in the attraction of investment for sustainable development. E-government solutions can make a significant contribution to good governance and the strengthening of institutions. The provision of digital government solutions in the areas of business and investment facilitation has proved a good starting point for the broader implementation of e-government. Information portals and digital single windows for businesses and investors allow Governments to start with procedures such as business registration and expand to other services such as licensing and permits, tax registration, social security and other procedures. This bottom-up approach contrasts with the top-down approach to the implementation of digital government that is often too complex and costly for developing countries to embark on. UNCTAD views digital business and investment (and trade) facilitation as key steps in developing broader digital government services and, indirectly, as key pillars of the promotion of investment in sustainable development. Against this background, delegates at the fourteenth session of the Investment, Enterprise and Development Commission may wish to consider a policy dialogue that revolves around effectively leveraging business and investment facilitation to

²⁷ See <https://www.oecd.org/gov/digital-government/recommendation-on-digital-government-strategies.htm>.

²⁸ See <https://publicadministration.un.org/egovkb/en-us/Reports/UN-E-Government-Survey-2022>.

contribute to the achievement of the Sustainable Development Goals, as well as the following questions:

(a) What are the key priorities in the implementation of business and investment facilitation in support of sustainable development?

(b) How central is digitalization in the effective implementation of business and investment facilitation and what are the best practices for Governments in adopting digital tools?

(c) How can Governments use digital business and investment facilitation tools to develop wider digital government practices and how can international organizations, including UNCTAD, support this process?
