UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Technical and statistical report

Foreign direct investment trends in emerging markets

A focus on Africa

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Abbreviations

AEC	ASEAN Economic Community
AfCFTA	African Continental Free Trade Area
ASEAN	Association of Southeast Asian Nations
BEPS	Base Erosion and Profit Shifting
BICFIT	Baku Initiative for Climate Finance, Investment, and Trade
BIT	bilateral investment treaty
BRI	Belt and Road Initiative
CAGR	compound annual growth rate
CIT	corporate income tax
COP	Conference of the Parties of the UNFCCC
COVID-19	coronavirus disease 2019
ECI	Economic Complexity Index
EURIBOR	Euro Interbank Offered Rate
FDI	foreign direct investment
GDP	gross domestic product
GloBE	Global Anti-Base Erosion
GVC	global value chain
IBOR	interbank offered rate
IFI	international finance institution
IIA	international investment agreement
IMF	International Monetary Fund
IPA	investment promotion agency
IPFSD	investment policy framework for sustainable development
IT	information technology
LDC	least developed country
LLDC	landlocked developing country
MDB	multilateral development bank
MNE	multinational enterprise
MVI	Multidimensional Vulnerability Index
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
PPP	public-private partnership
SDGs	Sustainable Development Goals
SEZs	special economic zones
SMEs	small and medium-sized enterprises
SOFR	secured overnight financing rate
TFP	total factor productivity
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
WAEMU	West African Economic and Monetary Union
WASH	water and sanitation

Table of contents

Acknowledgements iii
Abbreviations iv

Executive summary vi
Introduction 1

Chapter I
Foreign direct investment trends 3

1.1 Global FDI trends 5
1.2 Investment in productive capacities 10
1.3 Investment in the sustainable development goals 18

Chapter 2
Investment policy trends 21

2.1 National policies 23
2.1.1 General trends 23
2.1.2 Policy measures by type 24
2.1.3 Outward FDI policies 26
2.2 International policies 27

Chapter 3
Addressing the challenges and capturing the opportunities 29

3.1 Challenges 31
3.2 Opportunities 34

Chapter 4
Policy recommendations 37

4.1 Fostering a robust enabling environment for investment 39
4.2 Mitigating investment risks and high capital costs 39
4.3 Mobilizing private investment for critical sectors 40

REFERENCES 42
ANNEX 44

Executive summary

This study presents a detailed examination of foreign direct investment (FDI) trends in global emerging markets, with a focus on Africa. It identifies the critical role that FDI plays in supporting economic growth, enhancing productive capacities, and contributing to the achievement of the Sustainable Development Goals (SDGs). Despite its vast potential, African economies continue to face significant barriers in attracting FDI, particularly in sectors essential for economic diversification and industrial development.

FDI flows into Africa have stagnated over the past decade, accounting for less than 5 per cent of global FDI inflows. The continent's investment landscape is heavily concentrated in a few resource-rich countries, which limits broader economic growth, diversification, and industrialization. Many African countries, particularly least developed countries (LDCs), continue to struggle with attracting investment in non-extractive sectors such as manufacturing and services—areas critical for building productive capacities, creating jobs, and achieving sustained growth.

The challenges hindering FDI in Africa are multifaceted. For many countries in the continent, poor infrastructure, political instability, and fragmented regulatory frameworks contribute to a higher-risk environment that deters investors. Global shifts in manufacturing and increased investment in asset-light - service-oriented sectors present additional challenges for African economies, which often lack the necessary infrastructure, skills, and institutions to compete effectively.

Despite these challenges, the continent presents significant investment opportunities, particularly in renewable energy, digital services, and infrastructure development. As global priorities shift toward sustainability, Africa is well-positioned to attract investment that supports the energy transition, particularly in countries rich in critical minerals such as cobalt and lithium. Moreover, several African countries have successfully implemented reforms to improve the business environment, demonstrating that strategic policies can enhance investment flows.

To further capitalize on these opportunities, the following policy recommendations are proposed.

1. **Fostering a robust enabling environment for investment.** To improve the investment climate and attract higher levels of FDI, governments should prioritize the creation of a robust enabling environment. This includes strengthening political and economic stability, enhancing infrastructure and skills, and streamlining regulatory frameworks to lower the cost of doing business. Regional initiatives, such as the African Continental Free Trade Area (AfCFTA) Investment Protocol, provide an opportunity to harmonize investment policies and foster greater regional integration, which can enhance Africa's appeal to investors.

2. **Mitigating investment risks and high capital costs.** Mitigating investment risks is critical to reducing the high capital costs that often deter long-term investments in African countries. Risk mitigation strategies—such as investment guarantees, blended finance mechanisms, and partnerships with multilateral development banks—can help improve access to credit and attract private sector financing. Furthermore, reforming sovereign credit rating criteria to account for long-term development objectives would lower the cost of capital and facilitate investment in SDG-related sectors.

3. **Mobilizing investment for critical sectors.** Mobilizing private investment in critical sectors such as renewable energy, infrastructure, healthcare, and education will require targeted policy frameworks and public-private partnerships (PPPs). African countries should focus on enhancing the investment readiness of these sectors by developing clear regulatory frameworks, creating pipelines of bankable projects, and aligning incentives with the SDGs. In addition, they can maximize the benefits of FDI by strengthening local entrepreneurial ecosystems, manufacturing capacities as well as domestic and regional value chains linkages.

By addressing these key challenges and capitalizing on emerging opportunities, African countries can significantly enhance their attractiveness to foreign investors, promote sustainable development, and drive long-term economic growth.

While this paper focuses on FDI, other forms of private financial flows—such as international bank lending, bond financing, and portfolio equity—are also critical for driving growth. Unlocking these financing flows for foreign investment would require strengthening the financial institutional framework. This includes promoting transparent accounting and valuation standards, good governance, independent monetary oversight, and the creation of wealth-building institutions such as savings banks and pension funds, along with competitive regulatory regimes that fight corruption and fraud.

Introduction

Foreign direct investment (FDI) is a key source of external finance for developing economies. It can contribute to economic growth and generate export revenues and fiscal returns. It can also facilitate sustainable development, through technology transfer and job creation, including establishing linkages with local suppliers and small and medium-sized enterprises (SMEs). Additionally, investment in critical and social infrastructure sectors like energy, transportation, telecommunications, agrifood systems, healthcare, and education can contribute towards achieving the Sustainable Development Goals (SDGs).

Following the global financial crisis of 2007–2008, global FDI flows declined and have yet to to return to their pre-crisis peak. What followed has been a prolonged period of subdued FDI inflows. A series of external shocks, including the Covid 19 pandemic, geopolitical events, economic fragmentation, as well as trade policy uncertainty have further contributed to investment uncertainty in both developed and developing economies (UNCTAD, 2024a, 2025d). Consequently, many developing economies, particularly least developed countries (LDCs), are increasingly overlooked in favor of larger and lower risk markets, with lower perceived risks, exacerbating their economic vulnerability and risk perceptions. With fiscal situations in both developed and developing countries leaving little space to fund investments in SDGs and climate agendas, the pathway to growth will need to be supported through private investment.

As this study shows, FDI flows into Africa have stagnated over the past decade, with investments primarily concentrated in the extractive sectors and limited to a few, mostly large economies. Despite many advantages that may be attractive to foreign investment, such as plentiful natural resources and competitive cost of production, many African economies face challenges attracting FDI. Africa, home to 54 countries, including 32 LDCs and 16 landlocked developing countries (LLDCs) —13 of which are also LDCs— face one of the highest risks of losses and reduced long-term development potential due to a combination of economic, environmental, and social vulnerabilities. In the recently adopted Multidimensional Vulnerability Index (MVI), 35 of Africa's 54 countries score above the global average (United Nations, 2024).

Some key hurdles include poor infrastructure, weak institutions, and fragmented policy and regulatory frameworks, slowdown of major economies and overdependency on certain key trading partners (African Development Bank, 2023; ECA, 2023; UNCTAD, 2023a; World Bank, 2025). Additionally, investors often lack information about opportunities on the continent or back at the cost of perceived political risks (OECD, 2022; Ndulu & O'Connell, 2021; IMF, 2023a; UNCTAD, 2023a). Financial intermediation costs, reflected in high lending rates, also deter FDI inflows (IMF, 2023a).

Attracting FDI into non-extractive sectors is essential for building productive capacities, creating jobs and generating export revenues. Yet, for several low-income African countries FDI is concentrated in natural resource sectors, which has in fact not contributed to industrialization and economic diversification. This challenge is further complicated by the global slowdown in manufacturing, and a shift toward services, including asset-light investments.

The lack of investment in infrastructure, which is largely dependent on project finance, is affected by financial risks, currency risks and other macroeconomic factors, summarized in poor credit ratings. For instance, due to low credit rating scores, a large number of African countries borrow at interest rates above their GDP growth rates, worsening their debt-to-GDP ratios and increasing debt distress. Addressing these challenges, for example through blended finance mechanisms, guarantees, local debt issuances, and co-investments, are key for attracting the necessary investments for infrastructure development.

Moreover, total factor productivity (TFP) in Africa remains constrained, primarily due to weak productivity growth in key sectors, particularly in agriculture and services. Countries like Burkina Faso have seen minimal TFP contribution to cumulative GDP growth, with reliance on low-productivity sectors and slow structural transformation impeding broader economic development. Persistent structural issues, such as inadequate infrastructure, low public investment, and insufficient human capital, alongside political instability and limited access to finance, further hinder productivity growth across the continent (IMF, 2024).

This study addresses the challenges that hinder foreign investment across the continent and outlines strategies to overcome these barriers, strengthen the investment environment, and support sustainable development in various national contexts. By examining key trends in international investment in developing economies, it identifies best practices for attracting FDI in productive capacity and the SDG sectors, and in addressing investment risks. It also explores the role of public-private partnerships (PPPs) in overcoming financing constraints, particularly in sustainable infrastructure, and offers policy recommendations to promote foreign investments.

Section 2 reviews long-term trends in international investment, with a focus on Africa, and their contribution to enhancing productive capacities and achieving the SDGs. Section 3 explores investment policy trends; it highlights the increasing reliance on incentives in investment promotion and the shift toward new-generation international investment agreements (IIAs) that balance investor protection with sustainable development, as well as the role of the African Continental Free Trade Area (AfCFTA) Investment Protocol as a key driver of reforms. Section 4 identifies challenges and emerging opportunities for FDI in Africa and highlights successful strategies from countries that have attracted investment. The paper concludes with a set of policy recommendations to reduce investment risks and the cost of capital, as well as foster international partnerships that can improve the sustainable development impact of investment.

Chapter I

Foreign direct investment trends

1.1 Global FDI trends

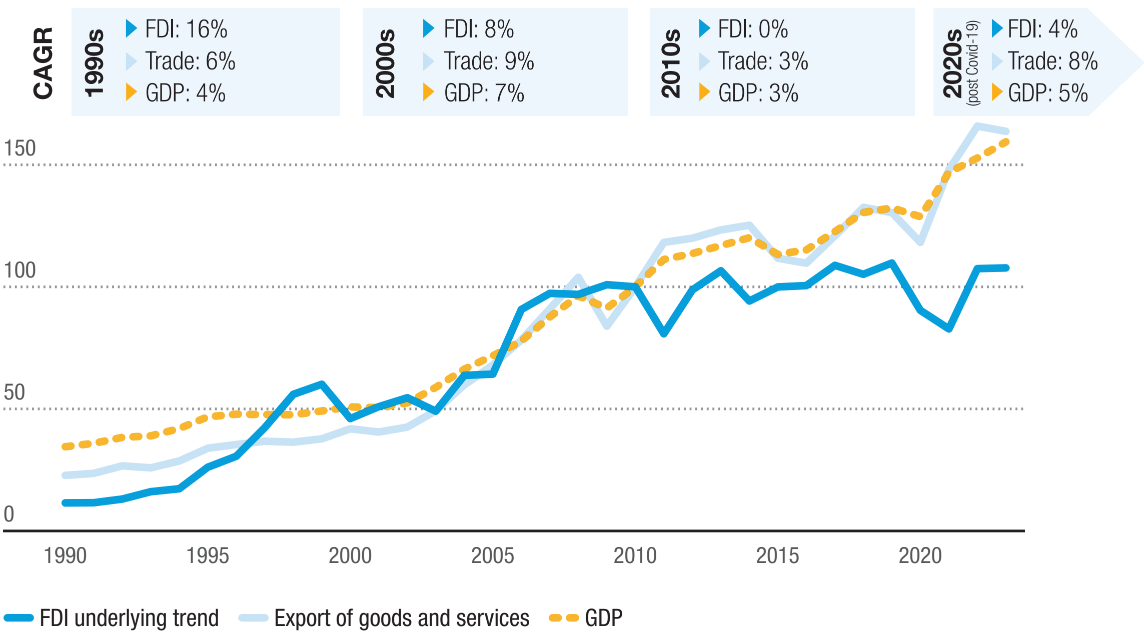
FDI has undergone significant transformations over the past two decades due to technological advancements, geopolitical considerations, and sustainability demands that have reshaped globalization. FDI project announcements declined sharply during the pandemic, reaching their lowest level since 2005—nearly 20 per cent below the trough recorded in 2009 following the global financial crisis (UNCTAD, 2021; 2024a; 2024b). The long-term trend in international investment indicates that a slowdown in global FDI began around 2010 (figure 1). While this reflects a significant disruption in investment intentions, it does not necessarily mirror the trajectory of actual FDI inflows, which are captured in balance of payments statistics and tend to respond with a lag. This impact on FDI has also resulted in divergent patterns across host countries, particularly in strategic sectors critical for sustainable development.

FDI flows into Africa have stagnated over the past decade. Since 2010, inflows into Africa ranged between $40 and $60 billion annually, representing less than 5 per cent of global FDI flows (figure 2 and Annex figure 1). Nevertheless, FDI to Africa showed resilience in 2024, rising by 75 per cent despite global uncertainties.[1] In developing Asia, FDI inflows nearly doubled from pre-financial crisis levels, now accounting for about 40 per cent of global flows, despite a slight post-pandemic decline in global share (figure 2 and annex figure 1). The region is becoming a critical hub for global supply chains, encompassing a wide range of industries from low-tech

Figure 1

FDI lost pace with trade and GDP growth

FDI, trade and GDP trends, indexed 2010 = 100



Source: UNCTAD.

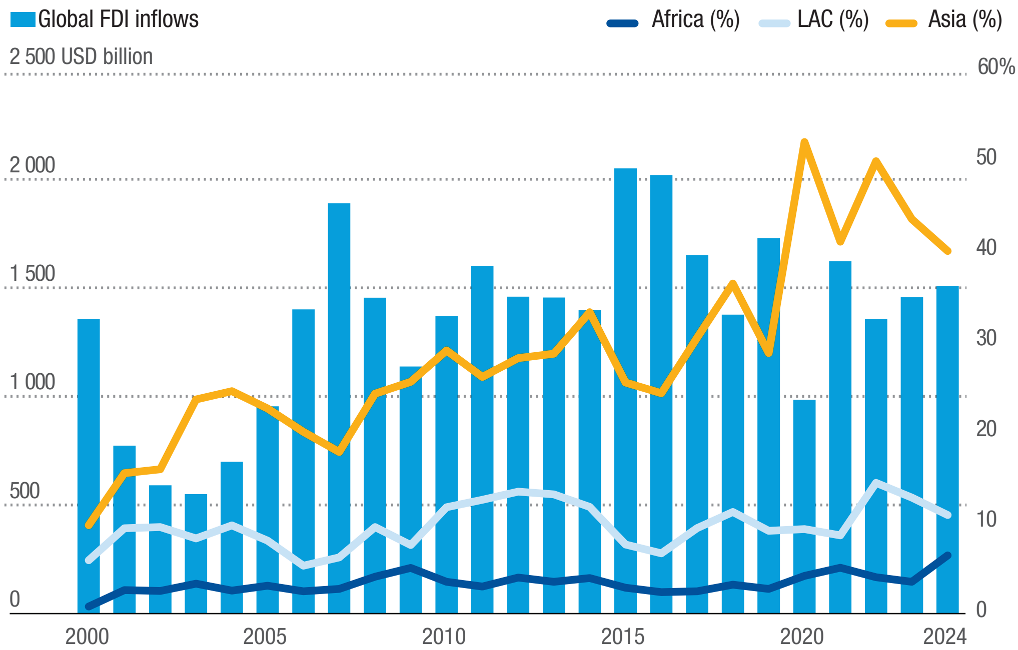
Note: CAGR refers to "Compound Annual Growth Rate".

[1] The increase was mainly due to a single large project in Egypt—the Ras El-Hekma peninsula development by ADQ, a UAE-based sovereign fund. Excluding this project, FDI to Africa still grew by 12 per cent (UNCTAD, 2025g).

Figure 2

FDI flows into Africa represents a marginal share of global FDI

Global FDI inflows, developing regions as share of world FDI
(Billions of dollars and percentage)



Source: UNCTAD.

and extractive sectors to advanced technology products and services.

A comparison between 2020–2024 and 2015–2019 indicates that manufacturing supply chains, renewable energy, and the digital economy have been the principal drivers of greenfield investment in the region. Among these sectors, the digital economy exhibited the highest growth, with a 146 per cent increase in greenfield project value over the past decade (UNCTAD, 2025g). Despite fluctuations, Latin America and the Caribbean (LAC) have consistently sustained a higher share of global FDI relative to Africa over the past decades, surpassing 10 per cent in recent years. These divergent regional trends underscore the emergence of distinct international production and supply chain structures, which may reinforce disparities in development opportunities and levels of integration into global value chains (GVCs).

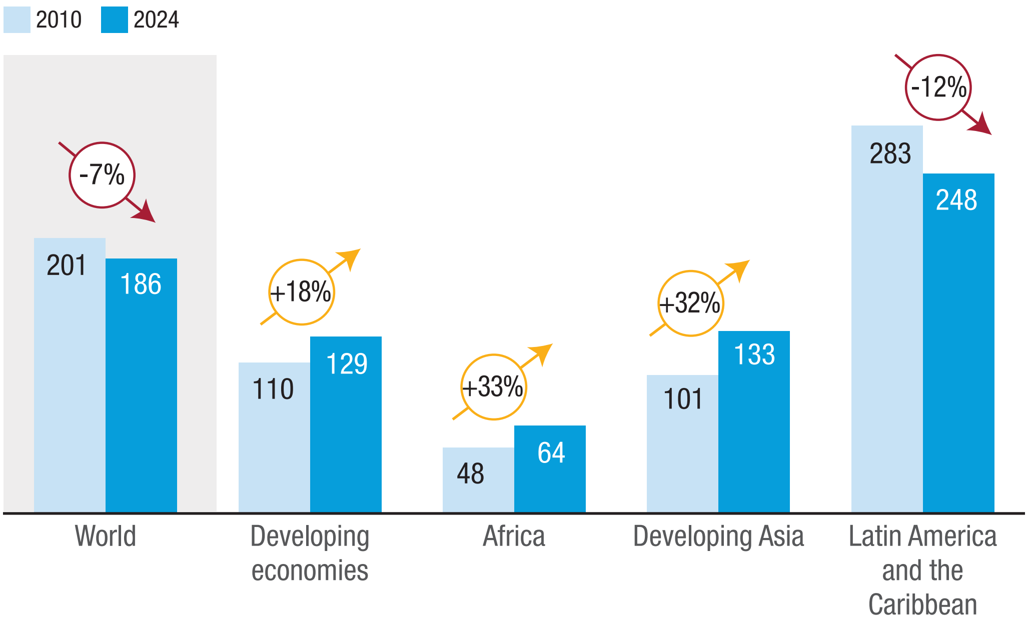
Africa's investment landscape is shaped by a complex interplay of demographic and economic factors. Structural challenges such as limited regional integration, underdeveloped infrastructure, and persistent economic vulnerabilities in several countries continue to hinder the ability to attract foreign investment to much of the continent.[2] Additionally, the continent faces ongoing armed conflicts, with 16 active engagements, including civil wars, insurgencies, and other forms of violence, particularly in countries and areas such as Sudan, Somalia, and the Sahel region. Further complicating the investment climate is the decline in TFP in parts of Africa, reflecting low investments in human capital, technology, innovation, and resource efficiency (World Bank, 2020).

[2] The 32 LDCs in Africa account for only 18 per cent of FDI inflows into Africa (Annex figure 2).

Figure 3

FDI inflows per capita diverge across developing regions

(US dollars per person)



Source: UNCTAD and World Bank (for population).

Low economic performance, driven by these factors, significantly deters FDI in the region.[3] Furthermore, Africa scores low on the measures of exports sophistication, as reflected by the Economic Complexity Index (ECI). For instance, countries such as Angola, Mozambique and Zambia have seen declines in their ECI scores, signaling a reduced capability to transition from primary commodity exports to more complex manufactured goods (Hausmann & Hidalgo, 2011; African Development Bank, 2024).

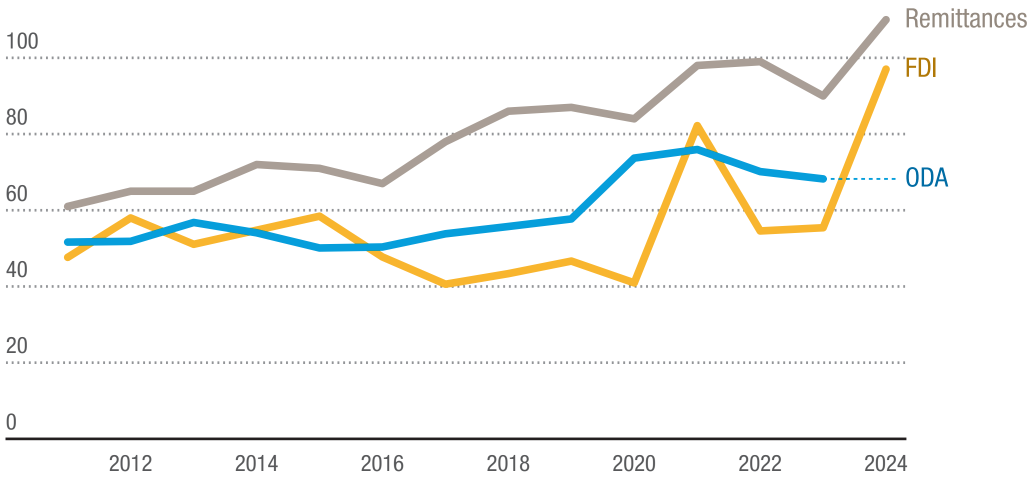
Despite notable policy initiatives and efforts, countries in Africa have consistently received less FDI compared to the average for developing countries, both on a total and per capita basis (figure 3). For instance, FDI per capita in developing countries rose from $110 in 2010 to $129 in 2024, while the average for African countries in 2024 was only about half that level. Although the African region recorded the fastest per capita FDI growth among developing regions, this was largely driven by the single mega-project mentioned above. When this project is excluded, per capita FDI inflows to African countries declined, continuing the downward trend observed in 2023. This highlights the region’s reliance on a limited number of large-scale, exceptional inflows rather than broad-based and sustained investment growth.

[3] TFP in Africa is found to be significantly impacted by political instability, weak infrastructure, and inadequate investment in human capital. Collier and Gunning (1999) show that low economic performance, driven by these factors, acts as a substantial barrier to attracting FDI in the region. Similarly, Acemoglu and Robinson (2010) argue that institutional weaknesses are a major contributor to declining productivity in African economies, further underscoring the need for comprehensive reforms to stimulate both TFP and FDI. Sectoral analysis of FDI relies on project-level data related to greenfield investments. Greenfield FDI refers to investments made by a foreign firm to establish a new venture or subsidiary in another country. Since the announced project values may not always be available or fully realized, this analysis focuses on the number of announced projects. However, because announcements often reflect investor sentiment, analysis of such data provides valuable insights into how private actors perceive opportunities in Africa.

Figure 4

FDI remains an important source of finance in Africa

Africa: sources of external finance
(Billions of dollars)



Source: UNCTAD, based on World Bank (for remittances), UNCTAD (for FDI), IMF World Economic Dataset (for portfolio investment and other investment) and OECD (for ODA).

Note: 2024 data for remittance is estimated.

FDI is gaining prominence as a reliable and growing source of external financing for the continent. This trend is accompanied by a steady rise in remittances and modest decrease in ODA following the pandemic (figure 4). Preliminary estimates suggest a decline in real terms, in both overall international aid and net bilateral ODA flows from DAC members to Africa relative to 2023 (OECD, 2025). Consistent with this trend, in developing economies, FDI accounts for over 40 percent of total financial inflows, outpacing remittances, ODA, and portfolio investments (UNCTAD, 2024a).

FDI in the region has historically been concentrated in resource-rich countries, with just fifteen economies accounting for over 81 per cent of total inflows to the continent, FDI concentration in Africa remains relatively lower than in other developing regions, such as developing Asia and Latin America, where investment flows are heavily concentrated in major economies like China, India, Brazil, and Mexico.

There has been a notable recent shift toward more diversified economies in West and East Africa, which are increasingly attracting FDI, particularly in renewable energy and digital services. Although the overall concentration of FDI remains similar to a decade ago, new entrants have emerged among the top recipients. This shift not only reflects the success of some countries implementing key reforms to improve governance but also highlights the challenges that remain. While such reforms are essential, they are insufficient on their own to significantly boost FDI inflows. Fundamental factors including macroeconomic and political stability, market size, income levels, labor costs, and infrastructure quality remain critical for attracting investment (UNCTAD, 2024a).

New top receivers of FDI include Ethiopia, Senegal, Uganda, Namibia, Côte d'Ivoire, and Mauritania (table 1). Ethiopia's FDI rose almost threefold driven by government-led industrialization policies and sectoral growth in manufacturing, textiles, and pharmaceuticals. FDI into Uganda has also grown significantly, driven primarily by oil exploration and infrastructure investments. FDI in Ethiopia and Uganda is predominantly from China and other developing Asian countries. In Senegal and Namibia, significant FDI from European countries included investments in infrastructure, including renewable energy generation as well as new flows into oil exploration and mining. Côte d'Ivoire has also recorded notable FDI growth, primarily in agriculture, mining, and energy. Mauritania is positioning itself as the regional energy hub driven by substantial FDI in renewable energies and natural gas. In the case of Côte d'Ivoire and Senegal, a recent UNCTAD report (2024c) highlights positive developments in enhancing their capacity to attract FDI. Along with the discovery of new oil and gas reserves, the report emphasizes the importance of economic stability, significant infrastructure investments (including through PPPs), integration within the West African Economic and Monetary Union (WAEMU), and ongoing efforts to improve the business climate.

Table 1

FDI in Africa is concentrated in a few economies

FDI inflows in top 15 host economies, averages 2010-12 and 2022-24
(Billions of dollars)

	Average 2010 - 2012
Nigeria	7.4
South Africa	4.1
Egypt	4.0
Mozambique	3.9
Ghana	3.0
Congo, Democratic Republic of	2.6
Morocco	2.3
Algeria	2.1
Kenya	2.1
Sudan	2.0
Equatorial Guinea	1.9
United Republic of Tanzania	1.6
Zambia	1.5
Tunisia	1.4
Libya	1.1
Sum top 15	**41.2**
Share of total FDI in Africa	**80**

	Average 2022 - 2024
Egypt	22.6
South Africa	5.1
Ethiopia	3.6
Senegal	3.2
Uganda	3.1
Mozambique	2.8
Côte d'Ivoire	2.6
Congo, Democratic Republic of	2.5
Namibia	1.8
Morocco	1.7
Kenya	1.5
United Republic of Tanzania	1.5
Ghana	1.5
Nigeria	1.3
Mauritania	1.3
Sum top 15	**56.2**
Share of total FDI in Africa	**81**

Source: UNCTAD.

Note: The countries highlighted in yellow dropped out of the top 15 list for 2022-2024. Countries highlighted in blue were new entrants to the top 15 rank in 2022–2024.

African countries that have experienced significant declines in FDI and dropped from the top host list—Algeria, Sudan, Equatorial Guinea, Zambia, Tunisia, and Libya—often faced challenges related to commodity price volatility, in addition to economic and political factors. Volatility in commodity prices is a common issue for resource-dependent economies. For instance, fluctuating prices in key sectors like energy and agriculture often lead to uncertainty in profitability. This not only limits new investments (i.e. demand) but also hampers the sustainability of ongoing projects, as investors seek more stable markets. Sudan is heavily reliant on oil and agricultural exports, and the armed conflict that began in 2023 increases the country's vulnerability to volatile commodity markets, which in turn reduces FDI. Similarly, Zambia, heavily dependent on its copper mining sector, also faced a substantial decline in FDI, driven by fluctuating copper prices, regulatory uncertainties, and growing debt concerns. Tunisia, following the 2011 Arab Spring, experienced a downturn in FDI, primarily due to political instability and slow economic recovery. Libya saw a significant drop in FDI after the 2011 civil war due to infrastructure damage and instability, ultimately leading to its exclusion from top FDI destinations.

1.2 Investment in productive capacities

While the level of FDI is important, its composition is critical for sustainable development, particularly in Africa, where inward FDI has traditionally concentrated in extractive industries. Prioritizing investments to bolster productive capacity in manufacturing and infrastructure is essential for achieving the SDGs. Foreign investment in productive capacities can be particularly effective for developing economies as it encompasses both tangible and intangible assets such as know-how, technology, and access to networks, thereby enhancing the investment's overall impact (UNCTAD, 2021).

Investment in manufacturing plays a critical role in enabling structural transformation in developing economies. However, its success is not guaranteed. For lower-income developing countries which are often confined to the lower value-added segments of GVCs, structural change requires a deliberate shift away from dependence on natural resources, particularly the export of raw materials with minimal or no value addition. Achieving this transition demands substantial upfront investment in advanced manufacturing-processing industries.

To effectively expand investment in these sectors, African economies should adopt a multifaceted strategy that combines policy initiatives with practical support mechanisms. A relevant example from Asia is Indonesia, which successfully transitioned from reliance on raw material exports. The Indonesian government prioritized infrastructure development to reduce operational costs and invested in vocational training to build a skilled workforce tailored to the needs of processing industries (ADB, 2022). Additionally, improved access to finance for SMEs and participation in regional trade agreements helped broaden market access for processed goods. These efforts were further supported by targeted tax incentives and the establishment of special economic zones (SEZs), which collectively attracted significant investment and facilitated economic diversification (ADB, 2015 ASEAN Secretariat, 2017).

In this context, African countries are also pursuing various strategies to diversify their export profiles, which remain heavily skewed toward unprocessed natural resources. Although SEZs were adopted relatively late in the region, they are increasingly recognized as critical tools for scaling up investment and fostering industrial development. According to UNCTAD (2019), SEZs in Africa have the potential to catalyze structural transformation by offering improved infrastructure, streamlined customs procedures, and favorable regulatory environments. When strategically aligned with national development goals and local resource endowments, SEZs can attract investment in downstream processing industries and promote value addition. For instance, Nigeria's Lagos Free Trade Zone is being developed as a multi-product and logistics hub for the West African subregion. It hosts a range of industries, including petroleum and petrochemical complexes, agri-commodity processing, and other manufacturing sectors. This integrated approach demonstrates how SEZs can anchor industrial ecosystems and stimulate broader economic development.

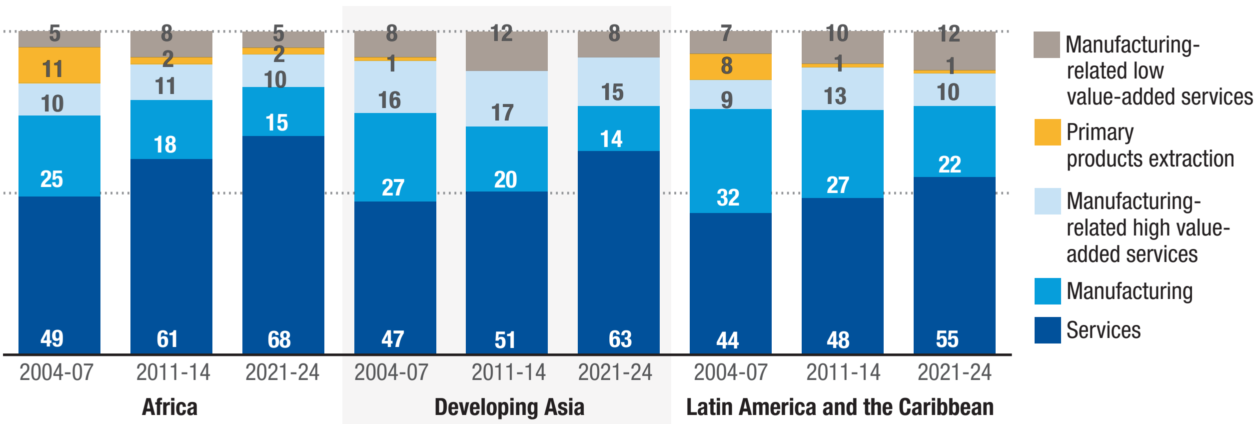
Moreover, SEZs can contribute not only to investment attraction but also to employment generation, skills development, and technology transfer. Their effectiveness, however, depends on being embedded within coherent policy frameworks and supported by strong institutions (UNCTAD, 2019, Rodríguez Pose et al, 2022). SEZs that are well-integrated into regional trade frameworks, such as the AfCFTA, can further enhance market access and competitiveness, making them more attractive to both domestic and international investors (UNCTAD, 2021b).

This evolving landscape of industrial investment is not limited to physical production alone. Since the mid-2000s, the share of services in total greenfield projects has increased globally (figure 5). This includes investments not only in typical service industries (such as banking or consulting) but also in the service components of traditional manufacturing industries. This service-oriented component is rapidly expanding within (traditionally defined) manufacturing industries such as textiles, chemicals or automotives. Globally, over the past two

Figure 5

Manufacturing FDI is declining across regions

Sectoral distribution of cross-border greenfield projects, by developing region (percentage)

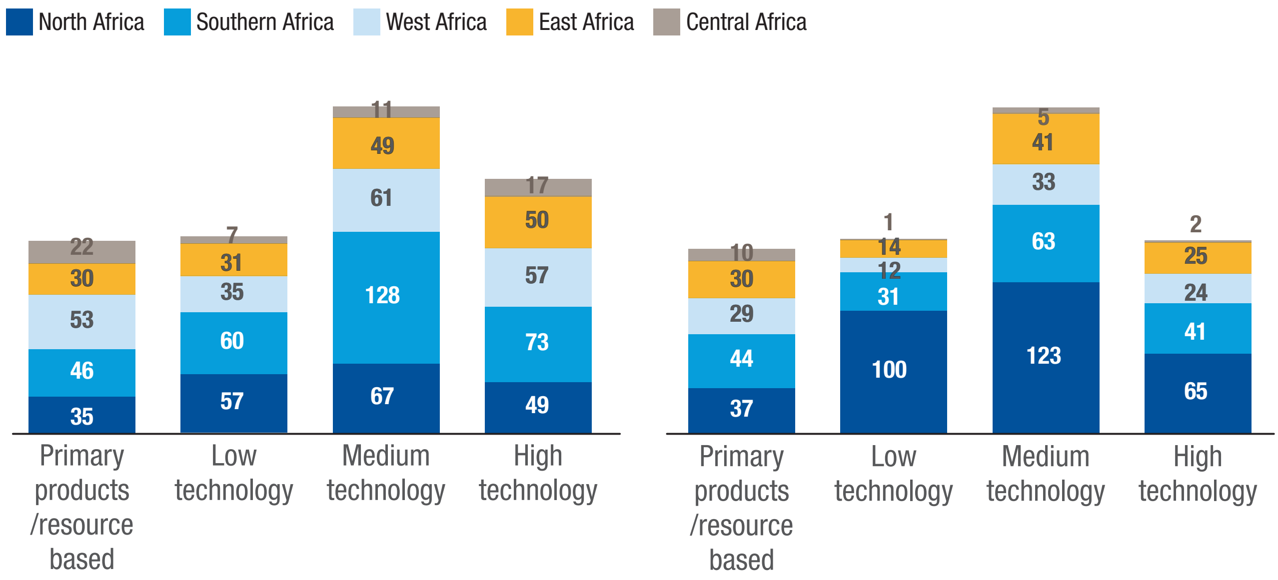


Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).
Note: The sectoral analysis is based on the industry of the investing company and the variable "Business Activity" from fDi Markets. "Services" include typical services activities including financial, professional, trade, information and communication, construction and electricity distribution. "Manufacturing-related high value-added services" include professional, management and strategy services, R&D, information and communication, marketing and recycling activities by parent companies primarily active in the manufacturing sector. "Manufacturing-related low value-added services" include sales and after-sales services, logistics, shared and technical support services, maintenance and servicing activities of manufacturing companies. "Manufacturing" includes core manufacturing activities.

Figure 6

Manufacturing FDI is increasingly concentrated

Cross-border manufacturing projects, by level of technology, 2012-2014 (left) and 2022-2024 (right)



Source: UNCTAD, based on information from Financial Times Ltd, fDi Markets (www.fDimarkets.com).
*Note:*The classification of projects is based on Lall's technological classification (Lall, 2000).

decades, the share of investment in services activities within manufacturing industries has nearly doubled, now representing most projects (UNCTAD 2024c).[4]

The servicification of FDI is evident in the decreasing share of manufacturing projects globally, and the particularly low shares in Africa, accounting for 15 per cent of greenfield investment projects in the last 4 years. This shift towards services has significant development implications, potentially leading to a different path for industrialization.

The services component of traditional manufacturing industries aids foreign companies in developing operations within the host economy and encompasses a range of support activities, from low-value services like sales, logistics, customer relations, and repair services to high-value-added services such as professional, scientific (R&D), marketing, and managerial services. In particular, high-value-added services can enhance the host economy's role in GVCs and are crucial for ascending the value-added chain. However, this trend also poses challenges for some African countries in attracting FDI for diversification and GVC integration, as the necessary prerequisites, such as technology, knowledge, skilled personnel, and digital infrastructure are often lacking. This gap may partly explain the increased concentration of FDI in more developed regions, limiting opportunities for broader industrial diversification in Africa.

In comparison, developing Asia holds the largest share of high-value-added services projects within the manufacturing sector,

[4] Sectoral analysis of FDI relies on project-level data related to greenfield investments. Greenfield FDI refers to investments made by a foreign firm to establish a new venture or subsidiary in another country. Since the announced project values may not always be available or fully realized, this analysis focuses on the number of announced projects. However, because announcements often reflect investor sentiment, analysis of such data provides valuable insights into how private actors perceive opportunities in Africa.

despite a decline in recent years. This is driven by the presence of MNEs that have established research offices in the region to develop, design, and test new products. The rapid growth of the electronics industry in Asia has also attracted many electronics manufacturing services MNEs (software and IT) to operate in proximity to customers and key markets.

This trend indicates that FDI-based structural transformation which is defined as a strategy aimed at attracting manufacturing investment to strengthen domestic productive capacity is becoming increasingly challenging for structurally vulnerable economies.

Moreover, the flow of manufacturing investment is declining across all African regions except for North Africa, where it is increasingly concentrated in more advanced economies, particularly Egypt and Morocco (figure 6). This reflects a broader global trend in greenfield announcements in the manufacturing sector, which, after a decade of decline, has seen an uptick over the past two years. The rebound is driven by MNEs seeking to diversify production locations to enhance supply chain resilience and respond to escalating trade policy tensions (UNCTAD 2025g). These dynamics have created new opportunities for countries such as Egypt and Morocco, as mentioned earlier, which together have attracted nearly 40 per cent of all manufacturing greenfield investment in Africa.

To capitalize on emerging manufacturing trends such as nearshoring, economies must first meet key initial conditions—particularly as shifting geopolitical dynamics continue to reshape global production and investment patterns. These include proximity to major markets, well-developed infrastructure connections, and preferential access to those markets, which are critical for attracting nearshoring investment. North Africa and West Asia, for instance, are positioned as potential nearshoring locations for the European Union, thanks to their geographical advantages and improving infrastructure. This strategic location allows them to capitalize on shifts in global supply chains, making it more attractive for companies to relocate production closer to their consumer markets. In contrast, less developed economies that lack these essential conditions may find themselves at a disadvantage, unable to leverage the opportunities presented by the changing landscape of manufacturing investment.

While the largest share of manufacturing greenfield investment in Africa originates from MNEs based in Western Europe, interest from investors from developing Asian countries has been steadily increasing. While the share of manufacturing projects from MNEs from developing economies increased from 36 to 41 per cent over the past decade, the share of projects accounted for by companies from developing Asia grew from 23 per cent during 2012-2014 to 34 per cent in the last 3 years. Meanwhile,

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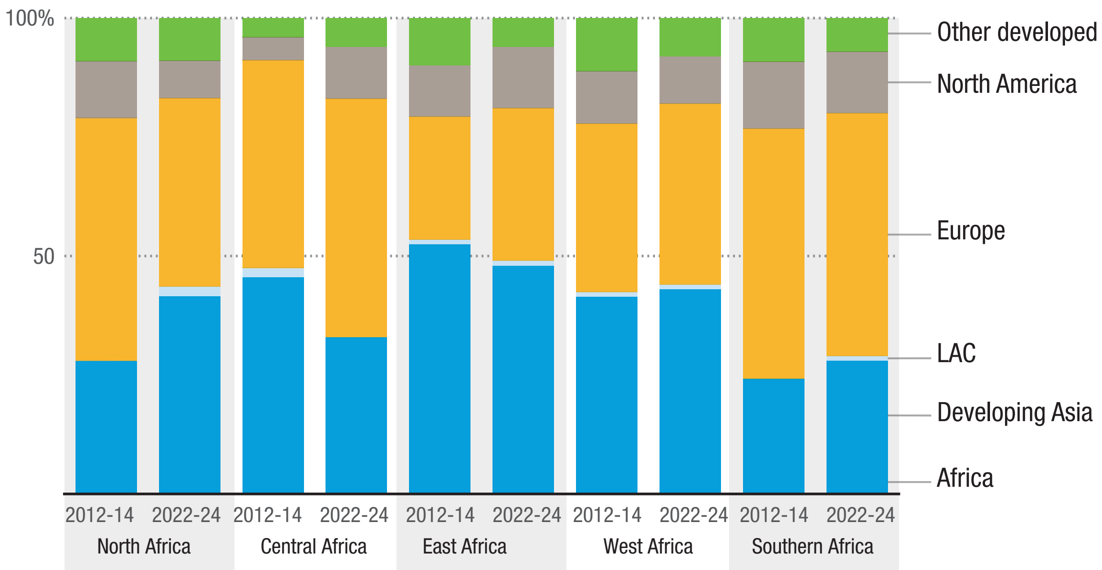
Figure 7

Manufacturing investment from Developing Asia is increasing across most African regions

Cross-border manufacturing projects, by investor region



Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

the share of intra-African manufacturing investments decreased from 12 per cent to 5 per cent over the same period.

North African economies have particularly benefitted from greenfield investments by Eastern and Western Asian MNEs, attracted by their integration with Middle Eastern and European markets (figure 7). Similarly, East African economies have experienced a steady inflow of manufacturing projects from African countries, while project announcements from companies from developing Asia, while still the largest investor in East Africa, have dropped by 30 per cent in the last years in comparison to the 2012-2014 period. MNEs from West Asia have primarily focused on food processing, while Chinese companies, having relocated textile manufacturing over a decade ago, are now increasingly shifting other industries related to the automotive, building materials, and pharmaceutical supply chains. East Africa is the only subregion that maintains a significant share of intra-African manufacturing inflows, attracting investments from South Africa, other countries within the subregion, and North African economies.

In West Africa, manufacturing investment from China has increased, particularly in building materials, vehicle manufacturing, and critical minerals processing. In the case of WAEMU countries, greenfield investment projects have increased but still fall short of their potential and remain below the levels observed in comparable country groups. Moreover, these investments are concentrated in only a few economies. At the same time, the private sector, although expanding, largely remains informal and centered on low-value-added activities (UNCTAD, 2024c). In Southern Africa, Chinese MNEs have been investing in mineral refining, building materials, and communication equipment manufacturing. In Central Africa, Indian investors have announced projects - albeit few - in motorcycle manufacturing and in food processing.

Across African subregions (except for East Africa) the relative importance of intra-African manufacturing investment inflows has declined, partly due to reduced investment from South African MNEs and ongoing challenges in some North African economies following the Arab Spring. Between 2022 and 2024, the most significant industries for intra-African manufacturing investment were building materials (57 per cent of the value), fertilizer production (9 per cent) and hydrocarbon processing (9 per cent).

Intra-African investment is concentrated in the services sector (79 cent of total), where market entry involves lower setup costs. Although the share of the number of intra-Africa services greenfield investment in all services projects has decreased from 28 percent in 2012–2014 to 20 percent in recent years, the sector remains a key driver of investment flows.[5] During the period 2020-2024, the business services sector has become the largest recipient of intra-African investment, accounting for 21 per cent of all greenfield projects in the services sector. Although financial services remain significant, their share of services projects has declined sharply, dropping from nearly 41 percent in 2012–2014 to 18 percent. Emerging industries for intra-African services investment now include professional and administrative services, as well as transport and warehousing, driven by MNEs from South Africa and Egypt.

Traditionally, South African companies have been especially active in the services sector, with business services, financial services, information and communication, and transport and warehousing comprising the largest share of their outward greenfield investment into the region. South Africa is also one of the few sources of African capital for metal ore mining in neighboring countries. In recent years, MNEs from Kenya and Nigeria have been expanding their presence across the region, particularly in the services sector, with investments in finance, information and communication, and professional services – MNEs from Nigeria accounted for 44 percent of investments in the continent Mauritius is emerging as a hub for channeling investment into the region, particularly in the information and communication sector. In contrast, South African MNEs have slowed their expansion within the continent, expanding their reach outside the region, especially in the renewable energy sector.

Traditionally, the leading sources of FDI in the region based on the cumulative number of greenfield projects, include

[5] These statistics do not include FDI in the construction and electricity distribution industries.

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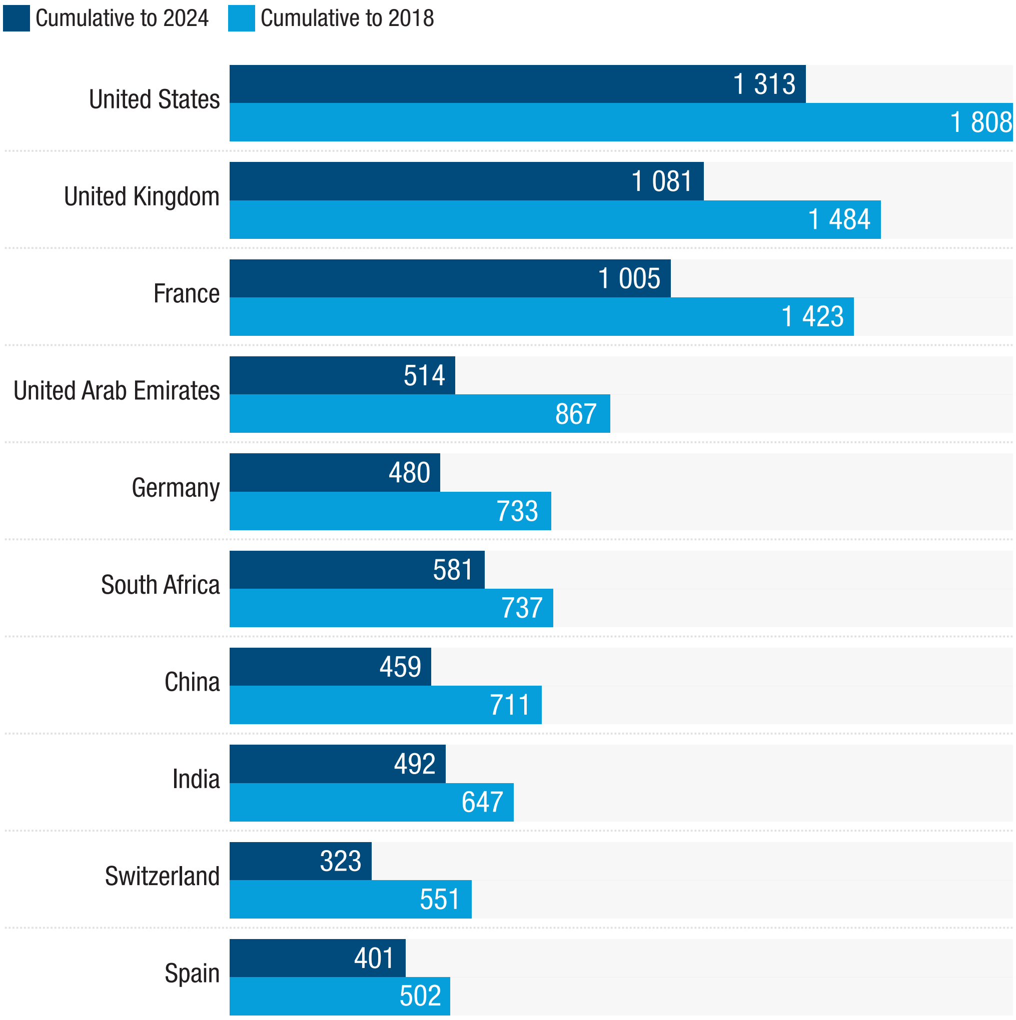
advanced economies such as the United States, the United Kingdom, France, Germany, Switzerland, and Spain, as well as developing economies like the United Arab Emirates, South Africa, China, and India (figure 8). As mentioned above, other notable sources of intra-African investment include Kenya, ranked 12th, and Nigeria, ranked 14th.

Regionalization also plays a role in FDI attraction.[6] Regional integration impacts FDI flows as a result of the rationalization of production facilities by MNEs within a region, which benefits from lower costs of intraregional trade and opportunities to engage in regional production networks. That process can lead to increased FDI flows or to investment diversion when, for instance, reduced trade barriers allow firms

Figure 8

Africa: Top 10 investor economies by number of greenfield projects

(Cumulative number of projects)



Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

6 Under the framework of the AfCFTA, a number of trade and investment initiatives have been launched to between the United States and African countries. Since 2021, the U.S. government has sponsored over 800 trade and investment projects, amounting to $18 billion across 47 countries on the continent. These initiatives are designed to advance key priorities in areas such as sustainable energy, health systems, agribusiness, digital connectivity, infrastructure, and finance.

to take advantage of economies of scale by concentrating activities nationally while serving broader regional markets.

ASEAN's regional integration, for example, has played an important role in attracting FDI. The ASEAN Economic Community (AEC) is transforming ASEAN into a single market and production base, increasing the efficiency for investing and doing business in the region. Aligning to the AEC objectives is the implementation of a set of regional agreements that contributed to an improving policy environment that facilitates and retains investment. Key initiatives include the implementation of the ASEAN Single Window system to streamline trade and the movement of goods, enhanced customs clearance efficiency, the ASEAN Investment Facilitation Framework to attract FDI, and the development of an integrated services market. Regional factors such as a rapidly growing middle-income consumer base, a competitive production hub, and an expanding services sector have contributed to ASEAN attracting record levels of investment, solidifying its position as the largest recipient of global FDI inflows among developing countries since 2021 (ASEAN Secretariat, 2024).

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1.3 Investment in the sustainable development goals

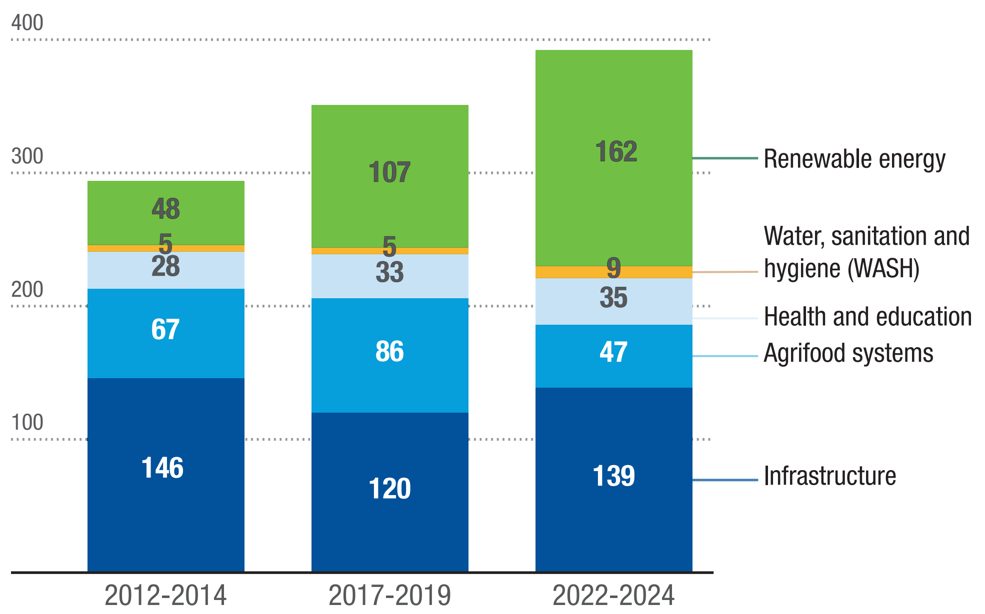
Developing countries continue to face significant challenges in attracting and directing international investment towards sectors critical for achieving the SDGs, such as infrastructure, healthcare, and water and sanitation (WASH). Over the past decade, international investment in SDG-related sectors stagnated, raising serious concerns about the likelihood of meeting UN 2030 targets. Except for renewable energy, where the average number of international project finance deals - the main funding source for infrastructure industries - more than tripled, investment in the other sectors has remained unchanged or even declined since 2011. This indicates that the contribution of international private investment toward achieving SDG targets has fallen short of expectations. Across African countries, investment in agrifood systems declined by 29 per cent compared to the period before the launch of the SDGs. Infrastructure investment also fell by 5 per cent, mainly due to a slowdown in non-renewable energy and telecommunications projects (figure 9).

Over the past decade, African countries have consistently attracted fewer international project finance deals than other developing regions (UNCTAD 2024e). This is hindered by structural challenges including exchange rates and currency risks, low expected returns and demand factors, high capital costs, uncertain regulatory

Figure 9

Renewable energy projects are driving SDG investment in Africa

Africa: investment in sectors relevant to the Sustainable Development Goals
(Average number of projects)



Source: UNCTAD, based on information from The Financial Times, fDi Markets (www.fdimarkets.com) and LSEG Data & Analytics.

Note: Infrastructure includes transport infrastructure, power generation and distribution (except renewables) and telecommunication. Agrifood systems include agricultural production and processes; fertilizers, pesticides and other chemicals; research and development and technology. Since infrastructure projects can be very large and take several years to be completed, the analysis focuses on the number of announced projects, this also ensures consistency with greenfield data.

frameworks, and often poorly designed PPP projects.[7]

Infrastructure investment is a cornerstone of structural transformation and sustainable development. Both hard infrastructure such as transport networks, power generation, and telecommunications, and social infrastructure—such as education, health, and water and sanitation—are essential for achieving the SDGs and enhancing the attractiveness of African economies to foreign investors.

A significant share of the investment in the SDGs is directed towards infrastructure development, which is usually characterized by large upfront costs, long life cycles and extended maturity periods. These large infrastructure projects are typically financed using a project finance structure that involves a multitude of investors, including PPPs.[8]

Investments in social infrastructure - including health, education, and WASH are typically domestic projects sponsored or initiated by national or local authorities. In particular, financing social infrastructure, such as healthcare, education, and public welfare services, is more challenging through private investment due to the lower profitability and higher risks associated with these sectors. Public funding or public-private partnerships are often necessary to address these gaps. In these sectors, international investors generally participate only in collaboration with domestic authorities.

Foreign private investors are attracted to hard infrastructure projects, especially in the renewable energy sector, where returns are more predictable through agreed tariffs or purchase agreements. Across developing regions, renewable energy has the highest participation from foreign and private investors. In LDCs, Africa, Latin America and the Caribbean, foreign private investors play a crucial role in renewable energy projects and, to a lesser extent, in broader infrastructure development. Their involvement is essential in these economies, where domestic investment capacity is often limited and in need of expansion (annex table 1).

Multilateral development banks (MDBs) (e.g., the World Bank, the Asian Development Bank, the African Development Bank, or the European Investment Bank) play a key role in attracting foreign private investment for infrastructure projects. They provide various forms of support, including concessional loans, grants, guarantees, technical guidance, and help in organizing financing syndicates. In developing economies, MDBs participate in about 12 per cent of international projects that are aligned with the SDGs.[9] Also, sub-regional development banks such as the Development Bank of Southern Africa (DBSA) and the West African Development Bank (BOAD) play a crucial role in financing large-scale infrastructure projects across Africa and can significantly contribute to closing the infrastructure funding gap on the continent. DBSA provides up to $2 billion annually to sectors like energy and transport, notably in renewable energy projects. Similarly, BOAD has mobilized over €5 billion to fund key infrastructure initiatives, particularly in West African countries, focusing on transportation,

7 Poorly designed PPPs can result from inadequate risk assessment, lack of clarity in contract terms, insufficient stakeholder engagement, and failure to align public and private sector interests, leading to project delays and failures (World Bank, 2023).

8 Infrastructure investment analysis relies on project-level data related to project finance deals from LSEG Data & Analytics. Since infrastructure projects can be very large and take several years to be completed, the analysis focuses on the number of announced projects, this also ensures consistency with greenfield data.

9 PPPs often see the involvement of multiple institutions alongside MDBs such as national development banks (e.g. Development Bank of Japan, North American Development Bank, China Development Bank), and Export-Import Banks (e.g. Export-Import Bank of the United States, Export-Import Bank of Korea, Export-Import Bank of China). Background analysis for this study shows that out of 13,874 international project finance projects, 1,874 involve at least one of these institutions, or 13.5 per cent. Sometimes more than one institution is involved.

energy, and agriculture (African Development Bank, 2022).

UNCTAD's analysis shows that investment partnerships lower the cost of finance for developing countries. Combining international investors, MDBs and government shareholders can reduce the spread on borrowing and reduce risks (UNCTAD, 2023a). It is therefore important to maximize the benefits of these partnerships, which requires establishing effective institutional frameworks and safeguards that align with broader developmental goals and support the common interest.

The majority of MDB interventions (over 75 per cent) occur in middle-income countries, while 18 per cent are focused on LDCs. However, despite the lower overall number of projects in weaker or riskier economies, MDBs represent a larger share of project financing in these regions, particularly in international projects (annex table 2). In LDCs, MDBs are involved in nearly a quarter of international human capital projects and around one-fifth of infrastructure and renewable energy initiatives—comparable to their engagement across the African region. In contrast, MDB involvement is significantly lower in other regions, including developing Asia, where they contribute less than 10 per cent of projects.

Across regions, MDBs participation is relatively higher in international projects, where they help to mitigate risk perceptions and attract foreign investors, especially in LDCs. Support from MDBs and international finance institutions (IFIs) for projects in vulnerable economies remains insufficient and needs to be scaled up. A substantial share of domestic SDG projects in developing countries is linked to China's Belt and Road Initiative (BRI), launched in 2014. The BRI has become a key driver of SDG investments, not only in Asian countries but also in Africa and Latin America and the Caribbean. In Africa, for instance, BRI projects account for a third of all investments in social infrastructure sectors like healthcare, education, and water and sanitation (UNCTAD, 2024d). The BRI programme has recently expanded to focus on renewable energy projects, especially in Africa and LDCs. The majority of deals are debt or conditional commitments, which increase the risk of expanding debt to unsustainable levels for some countries (CUTS International, 2021; Gallagher et al, 2024).

Chapter 2

Investment policy trends

This section highlights key trends in investment policy measures adopted by developing countries, particularly in Africa, and briefly discusses home-country initiatives to promote outward investment flows to developing countries. It also analyzes trends in international investment agreements (IIAs) among African States, noting the shift towards new-generation treaties that aim to balance investment promotion and protection with sustainable development priorities, creating a conducive and predictable environment for FDI in SDG-related sectors. The AfCFTA Investment Protocol is also discussed as a key element in consolidating these reforms and further enhancing the investment climate in the region.

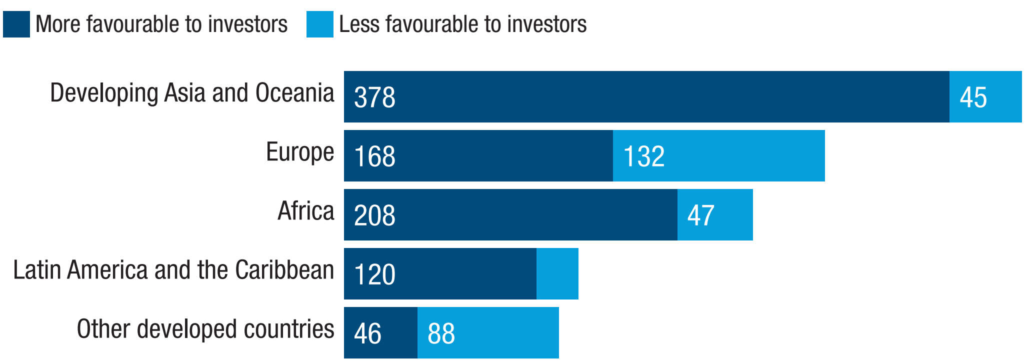
2.1 National policies

2.1.1 General trends

African countries have been highly active in investment policymaking over the past decade, accounting for 21 per cent of the policy measures adopted worldwide from 2015 to 2024. This places the region third worldwide, after developing Asia and Oceania and Europe (figure 10).

African countries also produced a high share of policy measures more favourable to investors during the past decade (82 per cent), indicating that they continue to prioritize investment attraction as part of their economic development strategies. This share has risen to about 90 per cent in 2024. In contrast, developed countries

Figure 10
Developing countries prioritize investment attraction
Investment policy measures by region and by nature, 2015-2024
(Number)



Source: UNCTAD, based on Investment Policy Monitor database.
Note: For details on the methodology used by UN Trade and Investment for the classification of investment policy measures, please see UNCTAD, 2024b.

saw a decline in such policies before the pandemic, reaching a low of 17 per cent in 2020. Policies more favourable to investors in developed countries only recently surpassed 50 per cent again, driven by new State aid schemes to promote investment, particularly in Europe.

2.1.2 Policy measures by type

Over the last decade, the global investment policy landscape has evolved significantly, with noticeable shifts in the distribution between measures more and less favourable to investors and in their composition. Notably, the prominence of liberalization measures has diminished, especially after the pandemic. Conversely, the significance of investment incentives has increased markedly since then. Investment facilitation and promotion measures have also trended upward, complementing efforts to promote economic recovery and resilience (UNCTAD, 2024b).

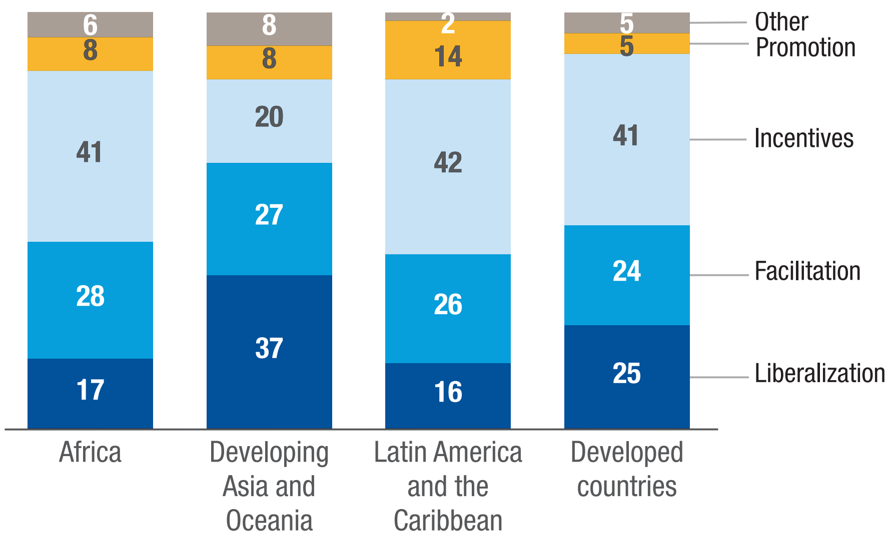
Regional differences emerge in the types of policy measures adopted (figure 11). In Africa and Latin America and the Caribbean, incentives were the most common initiative, accounting for approximately 40 per cent of all investment promotion measures. In developing Asia and Oceania, liberalization measures were favoured, constituting 37 per cent of the total.

The widespread use of incentives raises concerns. A recent review shows that 78 per cent of incentives between 2011 and 2021 were fiscal, and over one-third were profit-based, primarily in the form of tax holidays and reduced corporate income tax (CIT) (UNCTAD, 2022a; UNCTAD, 2022b). This represents a drop in the nominal rate of taxation, but the amount collected is also impacted by transfer pricing and base shifting. Profit-based incentives provide tax relief based on earnings rather than new investment, appealing to mobile FDI. They are also the type of incentives most likely to be affected by the implementation of the international tax reforms under the Global Anti-Base Erosion (GloBE) rules. In contrast,

Figure 11

Investment promotion policies vary across regions

Investment policy measures by region and by nature, 2015-2024
(Percentage of measures favourable to investors)



Source: UNCTAD, based on Investment Policy Monitor database.

expenditure-based incentives, such as allowances or tax credits, tend to promote reinvestment and deeper integration into the local economy, often targeting activities aligned with sustainable development objectives, such as skills development and the low-carbon transition.

UNCTAD's analysis also shows that in only about 30 per cent of cases incentives are granted based on measurable criteria such as invested amount, employment generation or location, and the majority are not time-bound.

The emphasis on fiscal incentives is part of a long-term trend of increasing tax competition for investment leading to constant reductions in CIT rates globally since the 1980s. Between 1980 and 2021, the CIT rate in Africa dropped from 44 to 28 per cent. While middle-income and emerging economies managed this shift by moving from direct to indirect taxes, many of the poorest countries, especially LDCs in Africa, rely heavily on CIT due to institutional capacity issues and high informality. Analyses show that taxation capacity stagnated across Africa from 2012 to 2021, accompanied by a notable decline in revenue mobilization efficiency. In sub-Saharan Africa, corporate tax incentives led to an annual loss of 1.8 per cent of GDP, amounting to $46 billion in 2019 alone. This is significant in the context of Agenda 2063's aim to finance 70 to 90 per cent of its needs through domestic resource mobilization (Mo Ibrahim Foundation, 2023 and 2024).

Moreover, African countries, particularly LDCs, often rely on traditional incentive schemes to target investment in sectors that require dedicated policy and institutional frameworks, such as several SDG sectors. Existing policy frameworks for enhancing the energy transition are notably inadequate. Globally, two thirds of countries have renewable energy policies in place, but only half of the African countries do. In addition, while developed and emerging economies have integrated private investment promotion mechanisms into over 70 per cent of their renewable energy policies, this is true for only 31 per cent of policies in Africa.

When such mechanisms exist, they are often not tailored to country-specific situations. African countries tend to rely on generic promotion instruments, such as profit-based tax incentives, due to familiarity with those tools, lower complexity and the absence of upfront public expenditure. However, these instruments can be costly in the long run in terms of forgone revenues and are often ineffective in promoting renewable energy investment because they do not address key challenges for investors in the sector. Advanced and emerging economies typically use more complex and targeted mechanisms, such as feed-in tariffs and auctions, to promote investment in renewables and energy infrastructure (UNCTAD, 2023a).

2.1.3 Outward FDI policies

Outward FDI policies are crucial for channeling FDI into Africa. Traditionally, home countries of investment have used trade and investment policies to direct economic flows toward regions and activities that aligned with their strategic objectives. However, the Agenda 2030 and the Addis Ababa Action Agenda emphasize directing financial and investment flows to those most in need, highlighting the necessity for all countries to contribute to global development efforts.

Outward FDI promotion mechanisms are common among developed countries (present in 71 per cent of them) and increasingly being adopted by developing countries (15 per cent, mostly over the last decade). However, most schemes do not differentiate between destination countries (UNCTAD, 2024b). In addition, while the number of countries that include host country benefits and sustainability criteria as eligibility requirements is growing, these represent only a fraction of the available supporting tools. Less than half of countries with a scheme have at least one mechanism that includes host country benefits as a qualifying criterion, and only 35 per cent have at least one scheme with explicitly stated sustainability criteria.

In this context, it is crucial that outward FDI promotion policies, including concessional finance, direct equity participation or investment insurance schemes are not only aligned with national interests but also with broader global commitments to sustainable development and climate action. By doing so, home countries can play a pivotal role in fostering global economic stability and sustainability, ensuring that investments contribute to the achievement of the SDGs and climate goals, particularly in regions like Africa where such efforts are most needed.

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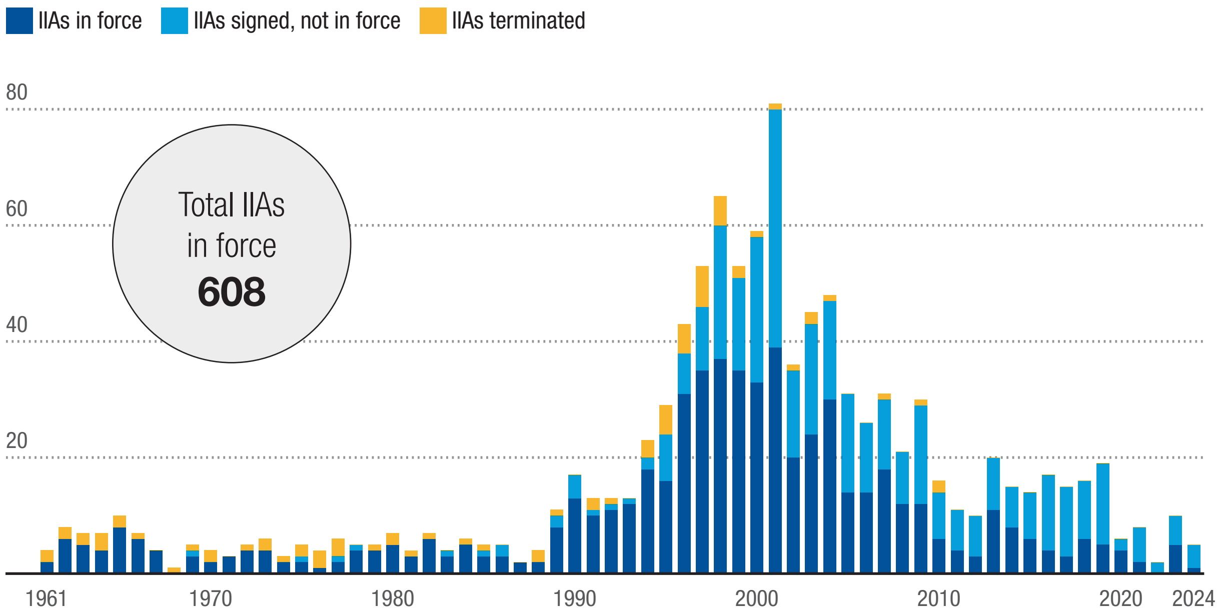
2.2 International policies

Foreign investment in Africa is covered by a network of International Investment Agreements (IIAs) concluded between 1961 and 2024 (See figure 12). By the end of 2024, African countries concluded 910 bilateral investment treaties (BITs) and 80 treaties with investment provisions (TIPs), of which 608 were in force. Many of these IIAs were signed between the mid-1990s and early 2000s. They include legally binding provisions protecting investors from discriminatory treatment and allow investors to bring claims in international tribunals to settle disputes with the host States. However, the broadly drafted provisions in these IIAs often result in limiting the policy space available to host States to regulate investment and increases the risk of costly investor-State disputes.

In addition to national efforts, the AfCFTA Investment Protocol adopted in 2023 by 54 countries aims to harmonize investment policies across the continent. The Protocol builds on investment treaty reform objectives and best practices recognized by the African Union and the regional economic communities, as well as UNCTAD's investment policy framework for sustainable development (IPFSD) (UNCTAD, 2015). It provides a balanced approach to international investment governance and contributes to creating a favourable environment for sustainable investment. It includes proactive investment promotion and facilitation commitments, refined investment protection, a dedicated chapter on investment and sustainable development, enforceable investor obligations and firm commitments on technical assistance and

Figure 12
African IIAs by year of signature (1961-2024)



Source: UNCTAD, IIA Navigator database, accessed 21 May 2025.

Note: The UNCTAD IIA Navigator is updated continuously as new IIA-related information becomes available.
Abbreviations: IIA = international investment agreement.

capacity-building for contracting parties. The Protocol also establishes a Pan-African Trade and Investment Agency. Also, sub-regional policies, like those set by Regional Economic Communities (RECs), could offer valuable insights into existing investment frameworks and their role in regional integration and economic development (Santos-Paulino et al, 2019).

The Protocol has the potential to consolidate the IIA regime in Africa upon its entry into force. For example, existing intra-African BITs between contracting parties have to be replaced under its terms. Moreover, regional economic organizations in Africa undertake to harmonize regional IIAs with the content of the Protocol. The Protocol also encourages African countries to engage with third-party States and reform their outdated BITs, with the aim of benefiting both African and foreign investors.

The AfCFTA Investment Protocol presents African countries with a unique opportunity to create a single, coherent continental investment framework. It can pro-actively stimulate intra-African investments, which remain below their potential. But in order to do that and achieve its full potential, policymakers now need to work towards the implementation of its commitments to capitalize on its promises.

Chapter 3

Addressing the challenges and capturing the opportunities

This section examines the key challenges of attracting foreign investment in Africa and opportunities to promote sustainable investment in the continent (figure 13). Major barriers to attracting investment in developing countries include inadequate infrastructure, low productive capacity, political instability, weak institutional frameworks, and macroeconomic volatility; these factors collectively deter potential investors (UNCTAD, 2023a). Despite favorable African policy efforts, the abovementioned structural challenges persist, significantly constraining FDI inflows below the region's full potential.

3.1 Challenges

Many African economies face exacerbated risk factors that hinder FDI. Complex and inconsistent regulatory frameworks make it difficult for foreign companies to operate efficiently, with lengthy permit processes and unclear tax regulations creating significant hurdles (UNCTAD, 2023b). Furthermore, a lack of transparency in government processes and business dealings can undermine investor confidence. While Africa boasts a large population, many countries have small domestic markets and limited purchasing power, which can deter investment unless clear pathways to regional integration and access to larger markets are established. The following section will discuss the main challenges hindering FDI, focusing on the cost of capital, risk factors, and other critical obstacles. As discussed earlier, there are other factors inherent to the global financial system that also play a significant role in determining the cost of capital.

Figure 13
Key challenges and opportunities in attracting sustainable investment

CHALLENGES	OPPORTUNITIES
Shrinking pool of efficiency-seeking investment and marginalization of vulnerable economies: tougher competition for FDI	South-South FDI and implementation of AfCFTA can facilitate regional integration and attract efficiency seeking and market seeking FDI. Increasing FDI in the services sector and critical minerals can boost growth in related industries
Low SDG investment and lack of infrastructure, hindering private sector development	MDBs' and IFIs' participation, and PPPs can improve private sector participation in SDG investment
Cost of capital is prohibitive: high risk perception	The reform of the financial architecture and redefining the role of MDBs and DFIs can enhance private investment for diversification and growth
Regulatory framework is fragmented and inconsistent	Digital infrastructure and investment facilitation platforms have the potential to enable better digital governance and facilitate the development of SMEs. The AfCFTA and the AU's Digital Transformation Strategy for Africa can help to streamline the regulatory environment

Source: UNCTAD.

Investment risks and high capital costs

A key challenge to attracting FDI is the cost of capital. High capital costs and perceived investment risks hinder long-term investments, especially in LDCs. Investors often rely on traditional funding mechanisms that may not support economic diversification, stifling innovation and limiting the growth potential of emerging sectors. Interest rates for international infrastructure projects—particularly those related to the SDGs—are significantly higher in Africa due to various factors, including country-specific risk premiums, limited access to capital markets, and political instability (Hausmann et al., 2022; UNCTAD, 2025e).

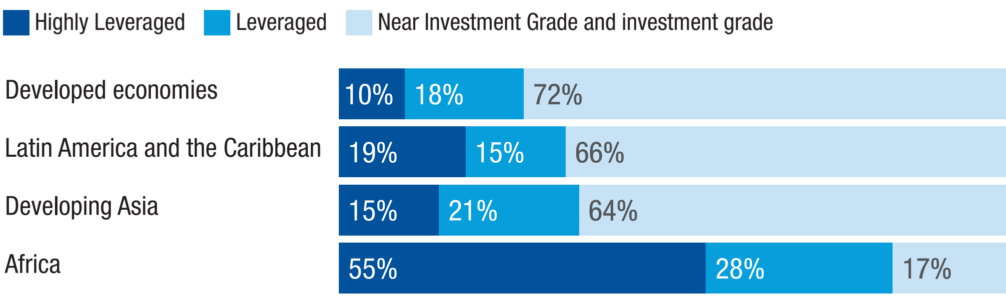
In Africa more than half of the loans that finance SDG projects pay interest rates that are at least 400 basis points higher than the underlying pricing benchmarks, as they are considered high risk (figure 14) [10]

High borrowing costs are often related to the host country macroeconomic and political environment, which is reflected in sovereign credit ratings. Rating agencies use comparable score scales with 20 rungs from the highest (AAA) to the lowest (D), with the upper ten ratings (AAA to BBB-) being referred to as investment grade, and the lower half (starting from BB+) as non-investment grade, or speculative grade. However, 54 developing countries do not have credit ratings and around half of them are African economies (UNCTAD, 2025b). Rating agencies such as Moody's do not provide a rating for all countries, which may be due to a lack of data, market demand or unfavorable cost-benefit relationships. Sovereign credit ratings in developing economies are typically low (measured at

Figure 14

Investment promotion policies vary across regions

Investment policy measures by region and by nature, 2015-2024
(Per cent of measures favourable to investors)



Source: UNCTAD based on information from LSEG Data & Analytics.

Note: Yields on the loans from 2011 to July 2024 that can be related to international (i.e. where at least one sponsor is from a different nation than the project nation) SDG-related infrastructure projects (all sectors), i.e. Loan yield type is defined on the basis of the interest spread (in basis points – bps) over the underlying pricing: Investment Grade: 0 - 149bps (low risk), Near Investment Grade: 150 - 299bps, Leveraged: 300 - 399bps, and Highly Leveraged: >=400bps (high risk).

[10] The underlying pricing benchmarks are for example EURIBOR for euro denominated instruments, Secured Overnight Financing Rate (SOFR) for US dollar instruments or any other interbank offered rate (IBOR).

the time the projects are initiated), according to the credit rating agency Moody's. In Africa most projects were initiated in countries that had a sovereign credit rating classified as "speculative grade" or in countries that were not rated at that time (figure 15).[11]

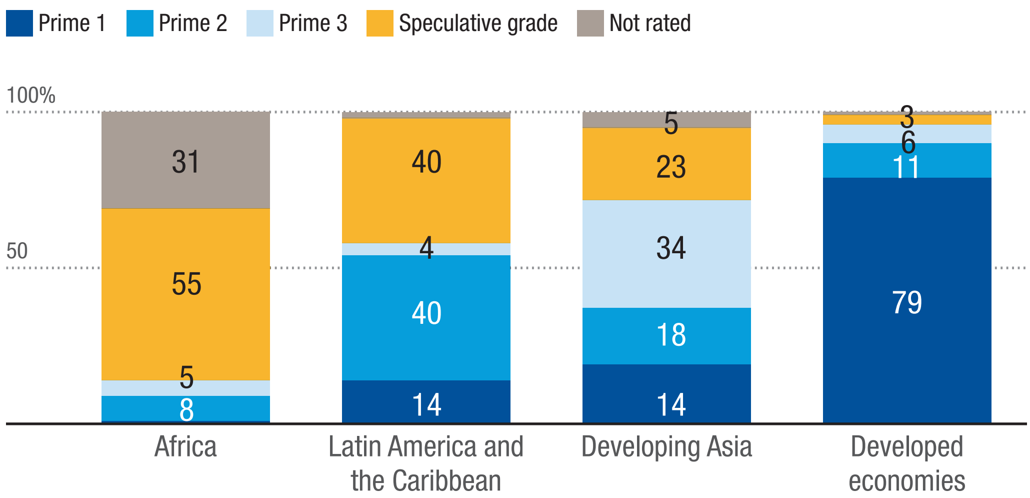
The average rating in Africa is Ba3, non-investment grade.[12] In contrast, developing Asia average (Baa2) and Latin American and the Caribbean (Baa3) average sovereign credit ratings are investment grade. These ratings directly affect the cost of financing and the amount of financing available for projects. Most banks and institutional investors have internal or regulatory limits (according to Basel III) that restrict their non-recourse lending (lending to project finance deals) volumes to non-investment-grade countries.

The UN advocates for shifting from the current short-term risk assessment used to determine credit ratings to a medium- and long-term focus and to incorporate in the assessments the positive long-term effects of investments in the SDGs.[13] This approach would better recognize the importance of broader perspectives and development priorities, which will ultimately make these countries more attractive for investment (UN DESA, 2022). In this context, technical assistance targeted at developing countries that currently do not have sovereign ratings

Figure 15

Africa's credit ratings lag other developing economies

Share of international project finance projects by credit rating
(Per cent)



Source: UNCTAD based on information from LSEG Data & Analytics.

Note: In Moody's Rating Scale Prime 1-3 refers to the corresponong short-term rating scale of the investment grade category. Prime 1 corresponds to Long-Term Rating Grades from AAA to A2. Prime 2 corresponds to Long-Term Rating Grades from A3 to Baa2 and Prime 3 corresponds to Long-Term Rating Grade Baa3.

[11] An exception are some resource rich countries, which benefit from investment grade credit ratings, access to Eurobond markets, for example Francophone countries, and a pegged and common currency. Some countries such as Egypt, South Africa, Côte D'Ivoire, and Kenya have more advanced banking and capital markets systems in comparison to other countries in the region, allowing them to attract a broader pool of capital.

[12] In 2024, 28 out of 29 African countries with sovereign credit ratings have sub-investment grade ratings. 14 countries were assessed to have a significantly high risk of default (CCC+ or below).

[13] The African Union is planning to establish its own credit rating agency to provide credit assessments tailored to the unique economic contexts of African nations (African Union, 2023).

is needed, to enhance their access to financial markets (UNCTAD, 2025c).[14]

Addressing these financing challenges is crucial for attracting FDI in Africa. MDBs and IFIs can help to reduce the costs of capital or enable projects that otherwise would have been discarded, by signaling creditworthiness thereby reducing the risk of the respective projects (UNCTAD 2016; UNCTAD, 2023a).

Other challenges

In addition to financing challenges, a narrow focus on traditional sectors hinders economic diversification and the prospects of attracting investment to emerging industries (African Development Bank, 2018; UNCTAD, 2024a). Current sectoral shifts in FDI primarily benefit larger developing economies, which are better positioned to compete in the expanding high-tech services sector. In contrast, many African countries face declining manufacturing investment, limiting their ability to participate in GVCs. This is especially pronounced in structurally weak economies with uneven access to resources and investment opportunities. Servicification opportunities are typically in high skilled areas where most African countries may have significant deficits. Skills retention is also a significant challenge as many of these domestically developed skills become highly mobile internationally. Therefore, it is crucial to rethink approaches to leveraging FDI to promote industrial development, diversify economies, and enhance participation in international production networks.

To achieve these objectives, it is essential to move beyond traditional strategies of attracting FDI. Current strategies typically focus on fiscal incentives and creating a favorable investment climate. Common practices include effective tax incentives to lower operational costs, establishing investment promotion agencies (IPAs) to market the country, and streamlining regulatory processes to simplify permits and licenses. Additionally, investing in infrastructure development, ensuring political stability, and implementing sound economic policies are fundamental for building investor confidence. While these approaches have historically proven effective in attracting FDI, they should be complemented by policies aimed at addressing broader goals related to inclusive and sustainable development.

3.2 Opportunities

Despite the substantial financing challenges, Africa offers numerous opportunities to catalyze international investment for sustainable development and economic growth. Successful examples from other regions, such as ASEAN and Latin America, along with notable cases from within Africa including Ethiopia, The Gambia, Ghana, Kenya, Nigeria, Rwanda, and South Africa demonstrate that strategic policies can attract substantial FDI flows.

Some countries, like The Gambia, have enhanced their business environment through targeted incentives and streamlined regulatory processes, while Kenya has emerged as an investment hub by focusing on technology and renewable energy, supported by significant infrastructure investments. Rwanda's emphasis on improving the ease of doing business has further attracted investors. Ethiopia has successfully attracted FDI into manufacturing by establishing industrial

[14] UNCTAD's analysis shows that the variability in bond yields, represented by their spreads, within existing ratings and between countries with the same ratings indicates that biases and other factors within global financial markets far exceed the impact of sovereign ratings or changes in those ratings. Efforts by countries to improve the quality and transparency of their data, debt management and other institutions significantly reduce the reliance of financial markets on credit ratings.

parks and developing key infrastructure. Nigeria remains attractive due to its large economy and significant investments in telecommunications and agriculture, while Ghana has fostered political stability and implemented policies to promote mining sector-led economic diversification. Africa also features top-ranked business environments, with countries like Kenya, Mauritius, Morocco, and Rwanda standing out.

African countries can capitalize on two significant trends in FDI: increased flows toward critical minerals and a growing share of greenfield investments in the services sector. The rising demand for minerals essential for the global energy transition, such as cobalt, copper, and lithium, presents a crucial opportunity for Africa to push for more investment in value addition. By prioritizing local processing and refining of these critical minerals, African countries can try to develop segments in renewable energy value chains and thereby boost economic growth, job creation and revenues. This strategic drive for value addition will potentially enable African economies to capture a larger share of the economic benefits associated with the renewable energy supply chain and help foster sustainable development across the continent.

The global energy transition presents mineral-rich countries with an opportunity to strengthen and diversify their extractive sectors, as well as capture higher value activities in the renewables manufacturing and services value chain. However, there are concerns about foreign investors potentially exploiting these resources for strategic advantage without adding significant local value or considering long-term sustainable development needs. To achieve economic benefits, African countries rich in critical minerals must enforce sustainable and transparent mining contracts to bolster domestic industries and enable local firms to participate in the renewable energy value chain.

The addition of services to manufacturing FDI which is referred to as "servicification" also provides a valuable opportunity to enhance African economies' participation in GVCs and realize development gains. Approximately 60 per cent of global trade consists of intermediate goods and services that contribute to the production process of final goods (UNCTAD, 2013; UNCTAD, 2021a). Exploiting Africa's service potential, for example, in the logistic industries and other high-end services such as in-sourcing of design and financial services, can offer significant opportunities for structural transformation (UNCTAD, 2023c). In addition, the African Union's Digital Transformation Strategy for Africa offers significant investment opportunities in sectors like ICT infrastructure, digital skills development, e-governance, and data security. The strategy aims to create a digitally integrated Africa, improving connectivity, fostering innovation, and enhancing economic inclusion. Investments in broadband networks, mobile technologies, and digital financial services are particularly promising as they align with the continent's growing digital economy and youthful population, positioning Africa as a future hub for digital innovation and entrepreneurship (African Union, 2020).

Investing in infrastructure, beyond renewable energy, is essential for Africa to meet its sustainable development goals and critical needs. These investments can boost economic activity, improve connectivity, and attract more businesses to the region. By leveraging local investments, and local expertise, collaborative initiatives can create resilient infrastructure and support an environment that encourages both public and private investment, in line with UNCTAD's and UN principles for sustainable development.

Moreover, the ongoing momentum for reforming the financial architecture and redefining the role of MDBs could help leverage private investment flows for sustainable development in Africa. MDBs and other development finance institutions can play a critical role in mitigating financial risks and lowering capital costs. Increased engagement of MDBs in the initial stages of project preparation and investment planning can further reduce investment risks, making Africa more attractive to foreign investors (UNCTAD, 2023a; UNCTAD, 2023d). MDBs and IFIs could also collaborate more effectively with the United Nations and other development partners to unlock greater volumes of affordable long-term resources to close the SDG financing gap.

Finally, regional integration is a significant determinant of FDI. Foreign investors continue to rationalize production facilities within the region, potentially benefiting from lower costs associated with intraregional trade. In this context, the implementation of the AfCFTA can attract greater market-seeking FDI and strengthen regional linkages with neighboring economies. However, preferential market access between countries in the region is the starting point. There is a need to implement complementary policies related to infrastructural connectivity, business facilitation, and harmonization of standards to ensure that development gains from AfCFTA are realized.

Chapter 4

Policy recommendations

Attracting FDI and maximizing its contributions for sustainable development requires not only implementing effective policies, but also adopting innovative strategies that align with global sustainability goals and the continent's unique economic landscape. The following recommendations outline key actions to tackle these challenges and unlock Africa's investment potential.

4.1 Fostering a robust enabling environment for investment

A supportive environment must be established before effectively marketing opportunities to foreign investors. Africa's FDI potential hinges on leaders improving the investment climate through sound policies, rule of law, reduced policy risks, and better infrastructure.[15] Strengthening the legal and institutional frameworks for investment should be complemented by digital facilitation initiatives that improve governance and mitigate risks (UNCTAD, 2024a). Effective digital investment facilitation can streamline processes, increase transparency, and enhance investment governance.

Improving political and economic stability is crucial but improving the business environment is equally important. Strengthening local entrepreneurial ecosystems can help African countries capture more benefits from FDI. For example, capitalizing on increased investor interest in critical minerals requires the strengthening of domestic and regional value chain linkages. Proactive industrial policies should aim to foster local value addition, job creation, and technology transfer.

National reforms aimed at facilitating investment can be reinforced by regional integration and initiatives that enhance transparency and simplify administrative procedures, particularly within the AfCFTA framework (UNCTAD, 2024b, c). Moreover, accelerating the reform of the IIA regime and minimizing investor-state dispute risks are also essential. By adopting global best practices and building on the AfCFTA Investment Protocol, African countries can retool investment treaties to attract investment and promote sustainable development.

4.2 Mitigating investment risks and high capital costs

The private sector plays a crucial role in bridging the investment gap for the SDGs; however, high perceived risks often deter investment in low-income countries. High country risk is a major barrier to attracting private investment in Africa. Risk mitigation mechanisms, such as investment guarantees, PPPs, enhanced currency hedging tools, concessional loans, and blended finance, can improve access to credit and lower financing costs for private investors. Addressing financing challenges requires stronger partnerships between governments, MDBs, IFIs, and the private sector.

In addition, institutional investors are ideally placed for financing projects in SDGs sectors. But they often lack access to investment opportunities in developing countries because they are prevented from financing non-investment grade projects. This especially affects funds from developing countries, which are often compelled to invest in developed-country assets instead of in assets in their own country. Concerted international support for de-risking activities and reforming how credit ratings

[15] This requires concerted efforts at national, regional, and international levels, alongside a more effective approach to investment promotion (Dupasquier & Osakwe, 2005).

are determined in vulnerable economies could increase available financing for SDG investment.

Home countries of investment can also play a crucial role in channeling investment to Africa. Expanding outward FDI programs to support the 2030 Agenda involves increasing the availability and range of risk insurance and embedding sustainability criteria in investment projects. Moreover, integrating export credit agencies into policy dialogues on investment for development is not only important for enhancing financial support but also for fostering a collaborative approach that aligns public and private sector interests toward sustainable growth (UNCTAD, 2025f).

4.3 Mobilizing private investment for critical sectors

To attract investment, efforts should focus not only on enhancing the investment and business environment but also on implementing policies that maximize development outcomes in critical sectors. African countries need to enhance the investment readiness of key sectors like renewable energy, infrastructure, agrifood systems, health and education, going beyond reductions in corporate income tax. International tax reforms could provide an impetus to align incentives with sustainable development by linking them to the SDGs.

However, incentives alone are insufficient to attract investment in SDG sectors. Dedicated policy frameworks are needed to support investment and foster public-private partnerships. For instance, many African countries lack renewable energy policies or measures for climate change adaptation. Policy frameworks should address sector-specific barriers and introduce tailored mechanisms like project auctions and pipelines of bankable projects.

UNCTAD could facilitate the creation of subregional platforms that bring together IFIs, bilateral development partners, donors, host country governments, IPAs, and other relevant stakeholders to support project preparation. These platforms could help countries prepare a pipeline of bankable projects thereby supporting scalability to attract private investments, mainstreaming projects in development plans, while reducing the financial burden on the public sector. This could follow the model of the Bangladesh Climate and Development Platform (BCDP) launched at COP28 by the Government of Bangladesh and its partners IFIs, bilateral donors, and private sectors to leverage adaptation and mitigation investments that have high fiscal multipliers. Operating as project formulation facilities, such platforms can significantly increase FDI to low-income African countries and help them to overcome structural vulnerabilities and foster resilience.[16]

In this context, the Baku Initiative for Climate Finance, Investment, and Trade (BICFIT), launched at COP29 in November 2024, aims to enhance coherence between climate finance, investment, and trade. It will serve as a key platform for advancing integrated climate and development strategies. By supporting the creation of national and regional platforms, BICFIT will further bolster efforts to attract climate-positive investments and ensure they are integrated into national climate policies and development strategies. This initiative, co-led by UNCTAD and UNDP, aims to establish a collaborative platform for developing a comprehensive action plan on climate finance, investment, and trade nexus in support of the UNFCCC and the Paris Agreement.[17]

[16] The BCDP is a project preparation facility designed to secure public and private investments for climate adaptation and mitigation, following the IMF's Resilience and Sustainability Facility (RSF) arrangement (see: https://www.imf.org/en/News/Articles/2023/12/03/bangladesh-launch-climate-development-platform-to-leverage-adaptation-and-mitigation-investments).

[17] https://cop29.az/en/news/cop29-presidency-and-unctad-sign-letter-of-intent-to-collaborate-on-the-bicfit-initiative.

FDI activity in Africa, particularly in LDCs, has been hindered not only by idiosyncratic challenges but also by institutional constraints and insufficient financing mechanisms. By emphasizing governance reforms, mitigating investment risks, and enhancing access to finance African countries can enhance their attractiveness for FDI. MDBs and IFIs should spearhead efforts to reform the international financial architecture, strengthening regional cooperation, green investment, and digital infrastructure to drive long-term sustainable development and economic resilience.

Corporate investment decisions are closely tied to the availability and accessibility of diverse financial instruments. However, unlocking these financial flows depends on meeting the requirements set by financial institutions, which often prioritize risk mitigation, transparency, and accountability. This highlights the need for robust corporate governance frameworks and high-quality, transparent reporting to align corporate strategies with financing conditions and unlock investment at scale. While this study focuses on FDI, other forms of private financial flows—such as international bank lending, debt financing, and portfolio investment—are also critical for mobilizing investment in sustainable development. Strengthening local financial ecosystems, with well-developed capital markets and effective financial market regulators, is essential to mobilize financing flows for foreign investment and sustainable development.

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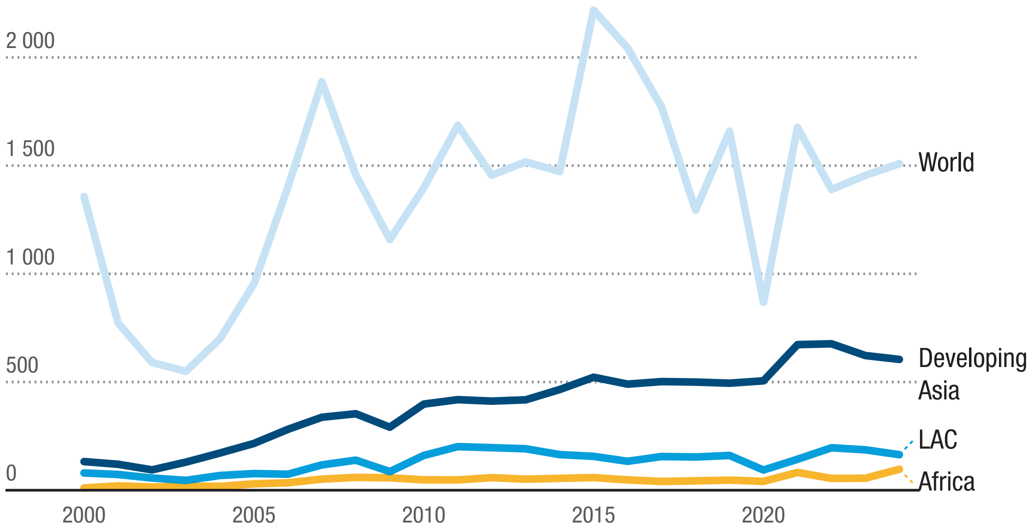
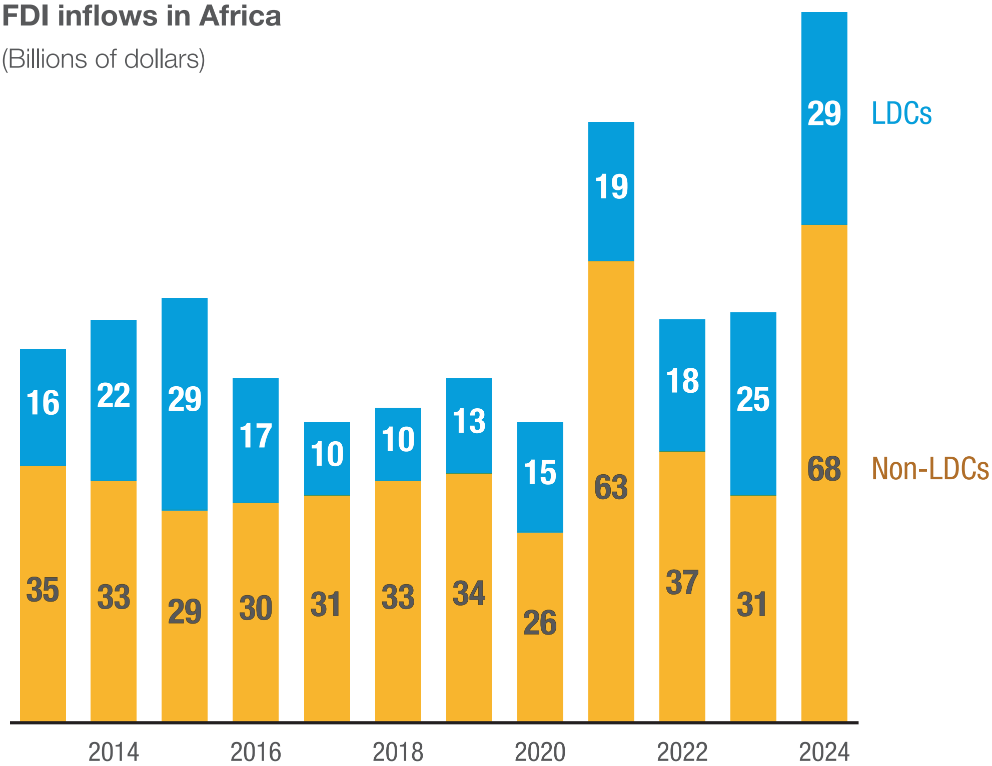
ANNEX

Annex figure 1
FDI flows into developing regions, 2000- 2024
(Billions of dollars)



Source: UNCTAD

Annex figure 2
FDI inflows in Africa
(Billions of dollars)



Source: UNCTAD

Annex table 1

Share of project finance in SDG infrastructure, by investor type and region, 2011-2023

(Number and per cent)

	Social infrastructure		Infrastructure		Renewable energy	
	Domestic	**International**	**Domestic**	**International**	**Domestic**	**International**
Africa						
Number of projects	**404**	**90**	**966**	**334**	**1208**	**756**
Public (share)	73	12	63	14	24	13
Private (share)	8	6	11	11	38	25
Developing Asia						
Number of projects	**2815**	**459**	**4458**	**728**	**18473**	**1585**
Public	67	10	67	7	21	2
Private	19	4	19	7	72	6
Latin America and the Caribbean						
Number of projects	**268**	**94**	**810**	**293**	**3002**	**1 623**
Public	55	14	38	16	7	8
Private	19	12	24	22	58	35
Least developed countries						
Number of projects	**149**	**47**	**393**	**235**	**649**	**366**
Public	67	15	50	23	22	15
Private	9	9	13	15	42	21

Source: UNCTAD, based on information from LSEG Data & Analytics.

Note: International projects have at least one foreign sponsor. A project is considered public if the Government or local authorities have an equity stake (are among the sponsors) in the project company, either directly or through a state-owned enterprise. In international- public projects the consortium of sponsors includes both the domestic Government and a foreign company. banks.

Annex table 1

Share of project finance involving MDBs, 2015-2024

(Per cent and total number)

	Social infrastructure		Infrastructure		Renewable energy	
	Share	**Total**	**Share**	**Total**	**Share**	**Total**
Africa						
Domestic	7	336	5	723	7	997
International	11	73	18	256	14	669
Developing Asia						
Domestic	2	1975	4	2947	1	14640
International	5	257	8	576	9	1436
Latin America and the Caribbean						
Domestic	15	197	10	630	1	14640
International	9	70	11	383	9	1436
Least developed countries						
Domestic	12	135	9	313	9	578
International	10	39	22	180	15	334

Source: UNCTAD, based on information from LSEG Data & Analytics.

Note: Multilateral development bank (MDB) does not include national development institution or Exim banks.

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