

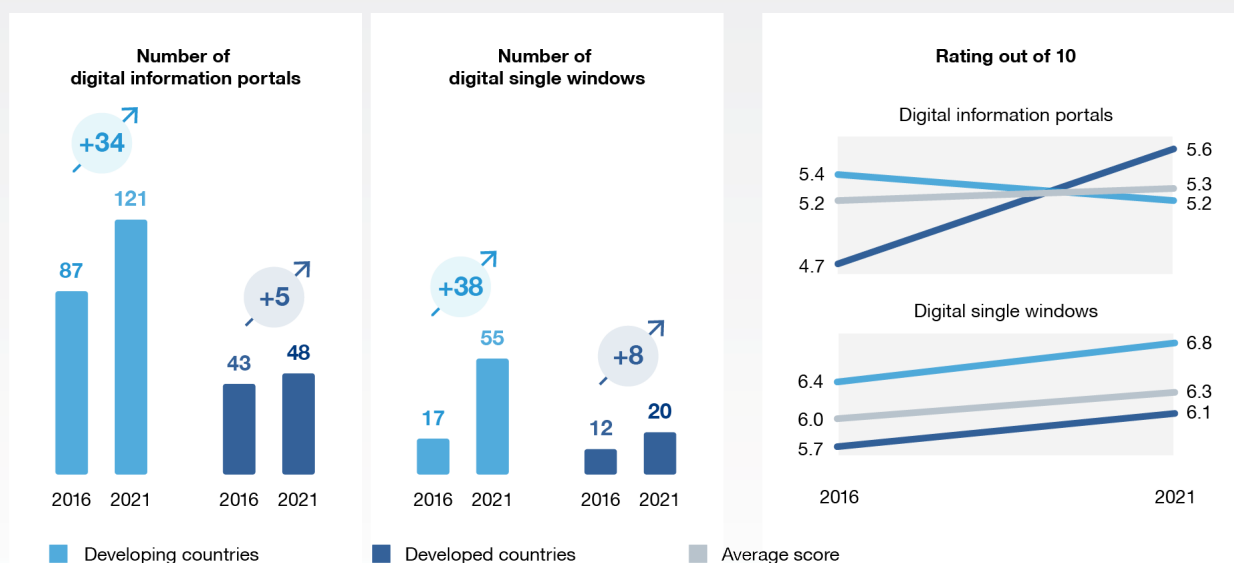
INVESTMENT POLICY MONITOR



INVESTMENT FACILITATION: PROGRESS ON THE GROUND

H I G H L I G H T S

- Investment facilitation is becoming increasingly important for countries to attract international and local financing for sustainable development. As negotiations on a possible investment facilitation agreement progress in Geneva, UNCTAD’s monitoring shows that countries are already making progress on the ground.
- Progress has focused on information provision, regulatory transparency, and streamlining of administrative procedures for investors through digital information portals and single windows. These tools, which have increased in both coverage and quality over the past 5 years, represent the most impactful elements among the gamut of investment facilitation measures. Since 2016, the number of countries with digital information portals increased from 130 to 169 and those with digital single windows from 29 to 75.
- Developing countries are catching up. Their use of digital information portals and single windows has jumped. While on average their ratings are lower, several achieve top marks, often with technical assistance.
- UNCTAD’s data shows that most countries – including those outside the negotiations – recognize the importance of investment facilitation to revive stagnant cross-border investment in industry, absorb an expected global push for investment in sustainability and infrastructure, and remain competitive as international tax reforms reduce the scope of fiscal incentives.



Source: UNCTAD/GER.co

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Background

UNCTAD launched its Global Action Menu on Investment Facilitation in 2016, at a time when a group of developing and least-developed members were forming an informal dialogue in the margins of the WTO, aimed at developing a multilateral agreement on investment facilitation for development.¹

The UNCTAD Menu outlined the main elements of investment facilitation (making it easier for investors to establish themselves and operate) and crystallized the distinction between promotion and facilitation.² The Menu was debated among the multiple stakeholders at the World Investment Forum 2016 and subsequently endorsed by the UNCTAD Trade and Development Board.

The Menu noted the huge investment gap that must be filled to achieve the UN Sustainable Development Goals (SDGs) at a time when global cross-border investment flows had stagnated. It also noted that investment facilitation measures had until then received relatively scant attention in national investment laws, in international investment agreements and in industrial policies.

During the early stages of the talks at the WTO, UNCTAD shared its experience (see further below) in advising countries on investment policy reform and investment facilitation, supporting investment authorities and promotion agencies, and providing online investment guides,³ digital information portals and single windows.⁴ Its GER.co index (also established in 2016, see below), which provides an objective rating of countries' digital information provision and services for investors, was used as a baseline for the state of play on these instruments at the time.

Negotiations were formally launched at the WTO in 2020 under the aegis of a joint initiative. In December 2021 members of the initiative issued a statement "commending the substantial progress made in the negotiations" and noting tangible progress on "transparency of investment measures, streamlining and speeding-up administrative procedures," among other points.

Progress in investment facilitation must remain high on the agenda

Today, many of the arguments first put forward in the UNCTAD Global Action Menu on Investment Facilitation remain valid. The long-term stagnation of international investment in productive capacity continues while the SDG investment gap has widened, accentuated by the COVID-19 pandemic. However, the economic rebound from the early stage of the pandemic could provide an impulse to investment flows.⁵ Post-COVID infrastructure recovery packages and the mobilization of finance towards the SDGs and climate change could further boost productive investment.

It is therefore urgent for countries to be able to facilitate and rapidly absorb these potential flows of investment by optimizing regulatory frameworks and investment administrative processes.

At the same time, ongoing reforms of international taxation require governments to re-evaluate their fiscal tools and incentives which, until now, had formed a significant part of many countries' investment promotion toolboxes. This, along with increasing investor expectations when it comes to facilitation, mean that the relative importance of investment facilitation will increase.

Most of the benefits can be captured focusing on three areas

The significant efforts that countries are expending on improving information portals and online single windows, as evidenced by the new GER.co-data show that there is a broad consensus that (1) information provision, (2) regulatory transparency and (3) streamlining of administrative procedures for investment make the biggest difference for investors.

¹ https://www.wto.org/english/tratop_e/invfac_public_e/invfac_e.htm

² <https://investmentpolicy.unctad.org>

³ <http://www.theiguides.org>

⁴ <http://www.digitalgovernment.world>

⁵ <https://unctad.org/webflyer/global-investment-trend-monitor-no-40>

Of course, investment facilitation is broader than these three areas. It can include a host of investor services and aftercare programmes; UNCTAD's Action Menu, for example, puts forward 10 sets of actions. An analysis of proposals discussed at various stages of the ongoing negotiations on a possible future investment facilitation agreement shows extensive resources devoted to a range of areas, such as stakeholder engagement processes, dispute prevention mechanisms, and ways and means to ensure sustainable development impact.

While all of these are important, evidence appears to indicate that – in line with UNCTAD's "core beliefs" on investment facilitation – most countries prefer to focus scarce public resources on a select number of interventions that bring about the highest impact in terms of investment attraction, ideally without requiring legislative change.

UNCTAD's Core Beliefs on Investment Facilitation

Focus scarce public resources on the few interventions with the highest potential development return on investment. That means:

- **Always on:** Prioritize elements of investment facilitation that are needed all the time, not just under exceptional circumstances (e.g. when a dispute looms).
- **For all investors:** Transparent, streamlined and digital administrative processes and registrations help local firms as much as foreign investors, and MSMEs as much as (or more than) multinationals.
- **All encompassing:** Rather than putting in place dedicated processes and systems for investment authorizations only, capture economies of scope by gradually covering all or most procedures and services required by foreign and local businesses (e.g. business registration, tax/social security registration, licenses, etc.).

Finally, experience has shown that much of the required streamlining of administrative procedures can be done within existing legislative frameworks, i.e. without changing laws, which is important for rapid and obstacle-free implementation.

Source: UNCTAD.

Digital information portals and single windows are effective tools to implement these interventions.

Digital information portals describe the steps necessary to obtain all mandatory registrations to legally operate a company. This includes incorporating at the business registry, obtaining tax and social security numbers, and receiving relevant sectoral and municipal clearances and licenses. High-quality portals describe the process end-to-end, from the user's perspective, and seamlessly across multiple government agencies.

Digital single windows combine the approval processes to obtain mandatory registrations and place them online. They reduce the need for investors to travel to meet with government officials, wait in lines and return several times at various stages of the process. Online registration is substantially less expensive than paper-based processes. Online registration systems are best integrated within a broader digital government approach to allow multiple services to be provided on the same system and to foster collaboration across government entities.

GER.co: how it works

UNCTAD created GER.co (the first iteration was developed in 2016 together with the Kauffman Foundation's Global Entrepreneurship Network and the United States Department of State) to rate governments' digital information portals on the degree to which they provide transparency on mandatory registrations for businesses. Ger.co also rates governments' digital single windows on the degree to which they enable businesses and investors to obtain those registrations online. Both are rated according to a ten-point scale calculated on the basis of objective yes/no criteria. The site is updated continuously, is interactive and provides relevant stakeholders in each country with the possibility to submit revised ratings.

A good digital information portal (rated 10 out of 10 by GER.co) will explain what documents and forms to bring at each stage of a procedure, how much it costs, who is the decision-maker, which laws apply, how long the process takes and how to

appeal a negative decision. In addition to providing transparency for investors, information portals – or rather the process of creating them – also help governments understand where there is potential to simplify procedures, and allow within- and cross-country comparisons.

A good digital single window (rated 10 out of 10 by GER.co) allows an investor to fill in one online form, upload one set of documents and pay one fee, in exchange for which the investor receives digitally-verifiable certificates. The same window can also enable applications for a wide range of permits, such as building, sectoral and environmental licenses.

UNCTAD support on Investment Facilitation

Examples of knowledge development and consensus building initiatives:

- **Global Action Menu for Investment Facilitation:** Debated among global stakeholders at the 2016 World Investment Forum in Nairobi and endorsed at the intergovernmental level by UNCTAD's Trade and Development Board. Includes 10 sections, most of which are reflected in draft discussion texts for the agreement on investment facilitation pursued by more than 100 countries.
- **Global enterprise registration, GER.co:** Rates countries objectively on the quality of their information portals and online single windows for investor services, focusing on the mandatory requirements to register and operate a business. Used early in discussions among 'Friends of Investment Facilitation' as a baseline.
- **Global Alliance of Special Economic Zones (GASEZ):** Launched at the World Investment Forum 20-21. Facilitates trade and investment promotion, strengthens collective policy advocacy, and supports programmes for the exchange of best practices, modernization and SDG-alignment of zones.

Technical assistance for developing countries:

- **Information provision for investors:** Online investment guides ("iGuides" – implemented in 40 countries). Investment promotion agencies (IPAs) are trained to collect and publish comprehensive and up-to-date information on opportunities, business costs, basic procedures, laws, investment types, ESG obligations, investor experience and contacts (www.theiguide.org).
- **Transparency:** Step-by-step information portals ("eRegulations" – 55 countries). Mandatory procedures to register and operate a business are displayed online, step-by-step from start to finish, from a user's point of view. Verified information includes forms, contacts, costs, duration and legal bases (www.digitalgovernment.world).
- **Streamlined processes:** Online single windows ("eRegistrations" – 10 countries). Mandatory procedures to register and operate a business are placed online and automated. Integrated online forms, payment and document uploads even where multiple government departments are involved (www.digitalgovernment.world).
- **IPA advisory services on facilitation and aftercare:** Capacity building of investment promotion agencies through studies, training programmes, sharing practices in facilitation and aftercare. Support is also provided in collaboration with the World Association of Investment Promotion Agencies.
- **Policies:** Investment Policy Reviews evaluate countries' laws, regulations and institutions for FDI attraction, including those related to investment facilitation.
- **International Investment Agreements:** capacity building for negotiators and policymakers on investment facilitations provision in international investment agreements.
- **Sustainable development:** UNCTAD improves the capacity of investment promotion officials on policy measures, practices, and tools that can address obstacles to investment for sustainable development.

Source: UNCTAD.

Latest GER.co survey quality ratings

UNCTAD's GER.co, shows that – independent of discussions at the international level – most countries have made significant efforts domestically to adopt or improve on key investment facilitation measures.

The five-year GER.co stocktaking, conducted in November-December 2021, scanned 193 countries for digital information portals and digital single windows. It found that since 2016, the number of countries with online investment information portals increased from 130 to 169 and those with single windows from 29 to 75. Their quality also increased, albeit moderately.

For digital information portals:

- The global average rating increased from 5.2 to 5.3 (on the 10-point scale).
- The average developing country rating decreased from 5.4 to 5.2, caused by the entry of new – relatively rudimentary – portals. However, this average hides several contrasting and important trends. First, if only developing countries that already had information portals in 2016 are counted, the improvement in rating is from 5.4 to 5.7. Second, the average 2021 rating for developing countries that first created their information portals after 2016 is 3.7. Third, some developing countries are among the top scorers overall.
- The average developed country rating increased from 4.7 to 5.6.

For digital single windows:

- The global average rating increased from 6.0 to 6.3
- The average developing country rating increased from 5.7 to 6.1
- The average developed country rating increased from 6.4 to 6.8

Among the world's best information portals and single windows there are many developing countries. This leapfrogging can be explained by developed country governments perceiving their overall regulatory transparency to be higher and public services more sophisticated (even if dispersed and disconnected), providing them with less motivation to provide dedicated portals or windows for businesses and investors to access information or services in a single place. Many of the developing countries at the head of both tables requested and received technical assistance, often from UNCTAD.

Overall, the data underlines the encouraging progress that has been made on investment facilitation, as well as the broad-based consensus on the importance of these targeted investment facilitation interventions. However, the average ratings show that there is still significant scope for countries to improve, particularly by establishing good single windows.

Implementing and maintaining good information portals and single windows, ideally integrated together, requires concerted efforts and cross-government coordination. However, it also brings a number of direct financial and economic gains in addition to investment facilitation. UNCTAD estimates the initial cost of a good information portal at \$250,000 to \$500,000 and of a good single window at \$500,000 to \$1 million, depending on the scope, and excluding the cost of government resources dedicated to project implementation.

World's best information portals in 2021

Rank	Country	Rating	Status
1=	Armenia	10	Developing
1=	Benin	10	Developing
1=	Bhutan	10	Developing
1=	Burkina Faso	10	Developing
1=	Cameroon	10	Developing
1=	Comoros	10	Developing
1=	El Salvador	10	Developing
1=	Ethiopia	10	Developing
1=	Guatemala	10	Developing
1=	Guinea-Bissau	10	Developing
1=	Iraq	10	Developing
1=	Kenya	10	Developing
1=	Lesotho	10	Developing
1=	Libya	10	Developing
1=	Mali	10	Developing
1=	Montenegro	10	Developed
1=	Nicaragua	10	Developing
1=	Rwanda	10	Developing
1=	Solomon Islands	10	Developing
1=	Tanzania	10	Developing
1=	Togo	10	Developing
1=	Tuvalu	10	Developing

Countries with a rating of 10 out of 10 using the Ger.co methodology (see above)

World's best single windows in 2021

Rank	Country	Rating	Status
1=	Australia	10	Developed
1=	Benin	10	Developing
1=	Denmark	10	Developed
1=	Iraq	10	Developing
1=	Kenya	10	Developing
1=	Oman	10	Developing
1=	Sweden	10	Developed
1=	Togo	10	Developing
1=	Uzbekistan	10	Developing
10=	Armenia	9	Developing
10=	Azerbaijan	9	Developing
10=	Estonia	9	Developed
10=	New Zealand	9	Developed
10=	South Sudan	9	Developing
10=	Switzerland	9	Developed
10=	Uganda	9	Developing

Countries with ratings of 9 and 10 out of 10 using the Ger.co methodology (see above)

Additional development benefits

Focusing on the three core elements of investment facilitation also benefits micro, small and medium-sized enterprises (MSMEs), stimulates inclusive development, and contributes to progress on the SDGs. Governments that have implemented digital single windows have reported a wide range of benefits for their domestic business sectors. These include:

- Higher rates of formalization of local businesses and more businesses (local and foreign) created overall;
- reduced time, costs, forms and documents required for creating and operating a business;
- positive impact on women, young people and rural populations that previously faced greater obstacles with traditional, paper-based and urban-based business registration procedures;
- increased tax, social security and other government revenues, with the cost of single windows paying for themselves between 2 and 3 years from additional fee generation alone;
- greater formal sector employment opportunities;
- better data on the business sector enabling more targeted and inclusive policies, especially if cross-referenced with tax and social security data;
- a more client-friendly approach in government administration.

The evidence shows that digital services benefit MSMEs by making the process faster and more efficient, especially for entrepreneurs based outside main cities and those who cannot afford the services of professional services firms to obtain the necessary registrations and licenses.

The role of MSMEs in investment is becoming ever more important. They are also increasingly present in exploiting new internationalization opportunities in the context of regional integration, for example through new agreements such as the African Continental Free Trade Area (AfCFTA).

Example of impact: setting up a business in Benin

Before the digital single window

- Queue at the APIEx development agency, fill in 5 paper forms and hand in up to 12 documents, including prior notarized copies.
- Pay fee by cash after queuing at the bank.
- Collect certificates 5 days later from APIEx.
- 28,800 companies registered in 2019.

Today with monentreprise.bj

- Fill in an online form and scan 3 to 5 documents.
 - Pay the fee with mobile money or credit card.
 - Receive incorporation, tax and social security online certificates 2 hours later by email.
 - 55,000 companies registered in 2021. Within two years, \$500,000 setup costs covered by additional registration fees.
 - One third of companies owned by women, half by under 30s, half from outside the capital city.
-

Policy recommendations

Much remains to be done to improve investment facilitation on the ground in developing countries. The urgency has, if anything, increased since the topic gained prominence in international discussions. Stagnating productive investment trends, the widening SDG investment gap, increasingly demanding investors, and changes in the global rules for (fiscal) investment promotion all add to the continued need for countries to strengthen facilitation efforts. Three key recommendations were discussed in this briefing:

- Developing countries, especially the least developed countries (LDCs) with scarce resources should focus their efforts on initiatives with the highest return: information provision, regulatory transparency, and streamlining of administrative procedures for investors.
- Investment facilitation tools such as digital information portals and digital single windows offer economies of scope. Rather than narrowly focusing on specific foreign investment procedures, countries should extend benefits to domestic businesses and cover more types of procedures.
- The international community should make more technical assistance available to developing countries, as digital investment facilitation tools can be a means to leapfrog developed countries.

Investment facilitation is a key component of a policy environment that is conducive to mobilizing finance, channeling investment to lower-income countries, and maximizing sustainable development impact. As such it is an integral part of UNCTAD's Investment Policy Framework for Sustainable Development.⁶

⁶ <https://investmentpolicy.unctad.org/investment-policy-framework>



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