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T20 Policy Brief

Task Force 04

TRADE AND INVESTMENT FOR SUSTAINABLE AND INCLUSIVE GROWTH

Investment Facilitation for Sustainable Development

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Abstract

Participation in international production networks and inward foreign investment generate important direct and indirect benefits for developing economies (Volpe Martincus and Sztajerowska 2019, UNCTAD 2020). However, several barriers inhibit developing countries from fully participating in multinational production. Information frictions can prevent countries from appearing on investor radars (Sztajerowska and Volpe Martincus 2021; UNCTAD 2024a), and poorly designed and implemented regulations and burdensome procedures raise the costs for firms to establish in a location. These information asymmetries, red tape, and associated fixed costs disproportionately affect smaller and financially constrained firms, frequently led by women. The most commonly identified barrier hindering streamlining and clarity, and thus FDI, is a lack of cooperation and coordination among investment-competent agencies (Berger et al. 2023).

Investment facilitation tools, designed to reduce obstacles for investors, are distinct from investment promotion of a location and may include enhanced information provision, reductions of unnecessary regulations and limits to procedural hurdles. As investment facilitation is government-wide, such instruments support domestic business development alongside foreign investment. As such, it can play a pivotal role not just in attracting investment but also in supporting the attainment of the Sustainable Development Goals. By creating a more transparent and accessible business environment, they can help small firms to move from the informal to the formal sector, enhancing domestic revenue mobilization. By removing barriers to investment and providing equal opportunities for all, investment facilitation can play a role in promoting more inclusive economic growth, enhancing the access of women and rural populations to economic activity.

Investment facilitation has been associated with the introduction of multiple digital government initiatives, including information portals and online single windows. Such initiatives currently represent a significant share of national investment policy measures monitored by UNCTAD (UNCTAD 2024b). In the same direction, modern international investment agreements increasingly encourage digitalization to implement commitments.

Keywords: investment facilitation, digital government, FDI, digital transformation, investment for sustainable development



Diagnosis of the issue

This Policy Brief emphasizes the critical role of investment facilitation within the 2024 G20 agenda outlined by Brazil. In an increasingly complex economic landscape, investment facilitation emerges as a pivotal factor in creating an environment conducive to attracting and sustaining foreign direct investment (FDI) flows to developing economies. The brief outlines the priorities for effectively implementing digital government strategies for investment facilitation and highlights how these efforts support broader good governance and contribute to general economic development.

Investment facilitation encompasses a spectrum of policies, measures, and practices aimed at reducing obstacles faced by investors. Key elements to facilitate widespread investment include enhancing transparency and access to information, streamlining administrative procedures, ensuring the predictability of the policy environment, and promoting accountability and efficiency of government officials. Distinct from investment promotion, which is focused on marketing a location as an investment destination, investment facilitation involves a government-wide approach, engaging multiple government agencies and, unlike trade facilitation, different jurisdictional levels (UNCTAD 2016, 2024b).

Empirical evidence suggests that a reduction in procedural complexity is associated, on average, with a 20 percent increase in FDI stock, highlighting the importance of streamlined administrative processes in attracting foreign investment (World Bank 2013). Furthermore, over 80 percent of investors consider transparency and predictability in public agencies as critical in choosing an investment location (World Bank Global Investment Competitiveness Survey). This sentiment is echoed in UNCTAD's annual investment promotion agency surveys (UNCTAD 2024b).


In recent years, facilitation has become a pillar of regional and bilateral trade and investment agreements, and national implementation efforts have proliferated. By 2023, more than a quarter of investment policy measures worldwide are related to facilitation mechanisms (UNCTAD 2024b).

In February 2024, around 120 members of the World Trade Organization (WTO) concluded the Investment Facilitation for Development (IFD) agreement (WTO 2024), whose early discussions on the state of play on countries' provision of digital information and services for businesses and investors was informed by UNCTAD's Global Enterprise Registration (GER) index.¹

The IFD agreement encourages the use of digitalization expressly through commitments related to the creation of single information portals for transparency; the acceptance of electronic applications, documents and payments for streamlining; and the establishment of local supplier databases to facilitate investment. In addition, digitalization can also ensure the effective implementation of other IFD commitments. These include avoiding multiple applications, establishing focal points for informational purposes and providing investors with the opportunity to comment on proposed measures. In short, digital platforms represent powerful tools for investment facilitation, as they provide easy access to crucial information for investors, bolstering confidence, and help significantly streamline investment processes.

Despite this, the lack of digitalization and automation are among the most-frequently mentioned barriers to investment, alongside barriers such as the lack of cooperation and

¹ To comprehensively evaluate the landscape of digital business and investment facilitation, UNCTAD introduced the Global Enterprise Registration (GER.co) online rating system and associated index in 2016.



coordination with government authorities, poor information flows for investors, and time-consuming, opaque, and inefficient processes (Berger et al. 2023). Although systematic research on the implementation of business and investment facilitation practices is limited, there is sufficient information to assess the advancement of digital services for businesses as part of the broader evolution of digital government. As the G20 has underscored digitalization improves the efficiency of public services, reduces bureaucratic hurdles, and corruption (G20 2020), enhancing the general business environment, long-identified as one of the three key factors influencing foreign investment, together with economic and policy determinants (UNCTAD 1998; Alfaro et al. 2008).

The evidence indicates that there is a positive relationship between the diffusion of information technology and FDI inflows (Máchová et al. 2018, Al-Sadiq 2021). Thus, for instance, *digital* government tools have been found to have a positive impact on FDI attraction; as illustrated in Figure 1 the higher levels of online services and specific eGovernment components that benefit businesses are correlated is positively correlated with both inward FDI and gross capital formation across developing countries.

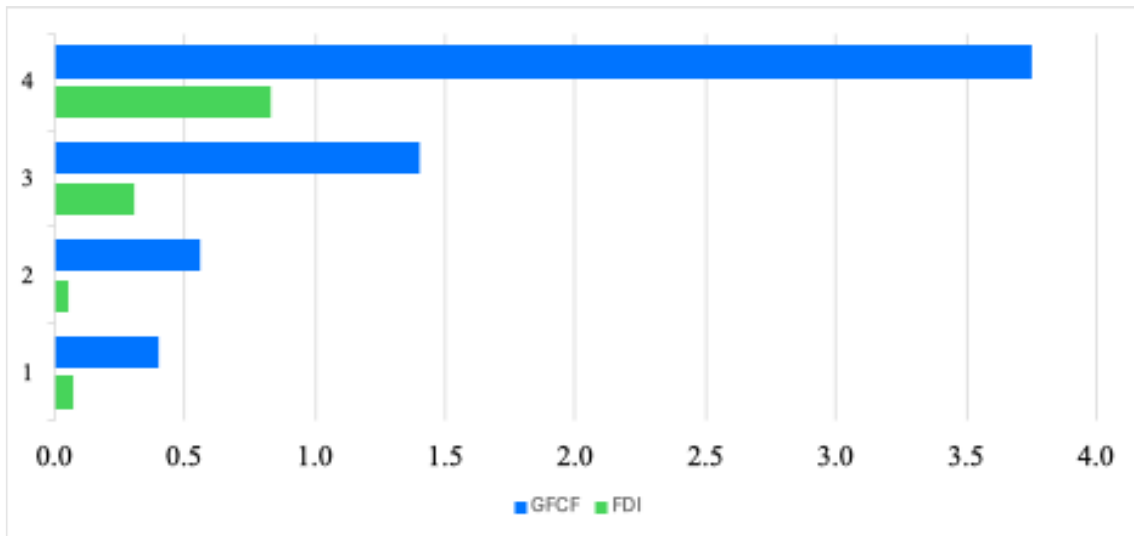


FIGURE 1. Foreign direct investment and gross fixed capital formation, by e-government development index quartiles Developing country averages, 2012–2022 (Millions of dollars per person)

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

Note: The figure shows FDI inflows and gross fixed capital formation in millions of dollars, divided by population, by quartile of DESA’s e-government index (EDGI), based on UNCTAD (2024a).

In addition, there is widespread recognition of the merits of investment facilitation for national policy formation. As investment-related regulations and procedures can differ at subnational levels, engaging in a wide-reaching and coherent streamlining process can significantly contribute to leveling the playfield, thereby reducing cross-national disparities. For example, as illustrated in Figure 2, the estimated economic impacts of the IFD agreement are substantial, amounting to global economic welfare gains of 1.7 percent or approximately \$811 billion (Balistreri and Olekseyuk 2024), with low- and middle-

income countries benefiting the most from the reduction in FDI barriers associated with the Agreement.

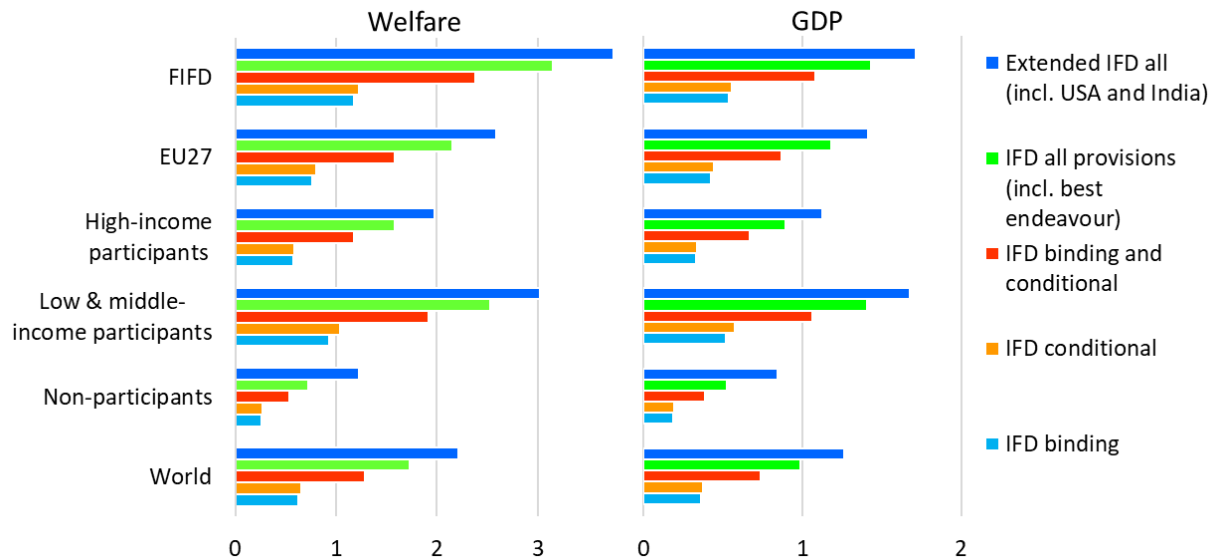


FIGURE 2. Aggregate regional welfare and GDP impact (percent)

Source: Balistreri and Olekseyuk (2024).

Note: FIFD (Friends of Investment Facilitation for Development) countries include Argentina, Brazil, Chile, China (incl. Hong Kong), Colombia, Kazakhstan, Republic of Korea, Mexico, Nigeria, Pakistan, Qatar, Uruguay.

The number of digital facilitation tools has significantly increased in recent years, and their quality has improved. UNCTAD’s data show that the number of national government information portals for business and investor registration in developing countries has increased from 87 in 2016 to 135 in 2024; and the number of online single windows – which allow for multiple procedures to be carried out online – increased from 17 to 67 in the same period. The quality of portals has also improved, with some in the LDCs surpassing those in developed countries, showing that leapfrogging opportunities exist

(UNCTAD 2024b). However, challenges remain in building, maintaining, and enhancing digital platforms.

Finally, focusing on the digitalization of investment processes can ensure business continuity during conflicts, pandemics, and other crises. Thus, ensuring adequate funding for investment facilitation initiatives and expanding the range of digital government initiatives promises to address various institutional challenges in developing countries in order to enhance good governance, promote economic growth, and encourage sustainable development.

Summing up, through strategic initiatives, international collaborations, and digital integration, countries can effectively leverage investment facilitation to navigate economic complexities and propel national development agendas, while aligning with the overarching objectives of the G20 agenda. Needless to say, as discussed below, this requires securing consistent funding over time.



Recommendations

To ensure efficient investment facilitation programmes, there is a need to engage all relevant public and private stakeholders, including government agencies, industry associations, and chambers of commerce, in the design of tools. At the national level, this implies involving subnational entities, integrating investment facilitation with other relevant measures, such as trade facilitation and investment promotion, into a consistent national investment plan. Designating a lead agency, focal point, or investment facilitator at the national level can help maintain coherence across areas. In some cases, it might be necessary to redefine and extend mandates and functions of national institutions to

enhance institutional cooperation. Digital tools can help in coordinating data and requirements across several agencies by reducing redundancy and clarifying procedures, but the first step is often a wide-reaching inter-agency cooperation. Typically, administrative procedures are more complex than the laws they are based on, often incorporating unnecessary conditions and delays. For this reason, only engaging all relevant stakeholders allow a significant simplification of procedures.

At the international level, there is a need to enhance international cooperation on investment facilitation and to complement investment facilitation by enhancing international cooperation on investment promotion with provisions in international investment agreements. At the regional level, capacity-building and experience-sharing among member States can advance implementation and regional cooperation, which can catalyze national measures and benefit all investors (UNCTAD 2024b).

Leverage digital technology to offer clear and transparent digital administrative processes, which deliver universal benefits to foreign and domestic investors, and small- and medium-sized enterprises alike. Digital investment tools have been shown to

help strengthen governance, increase transparency, and lead to more efficient administration, positively impacting foreign investment (UNCTAD 2024b). For example, a unified single digital window, consolidating essential services for an integrated investment application process, is crucial for investors.

The Investment Facilitation Index data illustrate the need for improved digital tools. Although 96 percent of 142 analyzed economies have a national investment website for information purposes, only 44 percent have a single-entry point that accepts submissions of investment-related applications and only 27 percent provide a proper single window service with processing of applications in an electronic format.² Moreover, a simultaneous submission of mandatory registrations (e.g., business registry, tax identification number, social security, or pension schemes) is available in only 36 percent of sampled economies, with only 28 percent of countries in the sample offering simultaneous registration through an online platform and only 36 percent of sampled economies allowing participants to pay all corresponding fees through the single window (Berger et al. 2024).

Digitalizing procedures allows investment facilitation tools to incorporate a wider set of administrative procedures, including procedures essential for both foreign and local businesses, such as business registration, tax and social security registration, licensing, and other key services. In doing so, the government supports an economic environment

² The Investment Facilitation Index (IFI) conceptualises investment facilitation along 117 measures, clustered in six policy areas (including electronic governance) and documents their current adoption for 86 countries. The index covers the full spectrum of investment facilitation measures for most of the WTO members participating in the WTO negotiations.

that is conducive to thriving business enterprises, reinforcing solid growth, efficiency, and transparency for all stakeholders.

Moreover, training and capacity-building in information and communication technologies (ICT) and in investment-related topics, financial support for ICT infrastructure as well as for digitalization and automatization should underpin the digitalization process (Appendix 1). Especially training of public employees can be crucial to improving the quality of the service. For example, in Bhutan, civil servants' involvement in the development of new online services expanded their skills and responsibilities and empowered them to design their own digital services.³ In Lesotho, staff using a digital business licensing system reported greater job satisfaction as their roles shifted from processing forms to advising clients (UNCTAD 2024b).

Safeguard funding for investment facilitation initiatives even during economic crises and fiscal retrenchments. A dedicated proportion of the budget should be ring-fenced to maintain and strengthen investment facilitation strategies. This commitment ensures that the momentum of economic recovery is sustained, long-term growth is fostered, and fiscal sustainability is not undermined.

Action Items for G20 agenda include creating a dedicated G20-supported fund (the G20 Investment Facilitation Fund: IFF) to support digital investment facilitation initiatives across member and developing nations. The fund could be managed by an international secretariat and offer grants and technical assistance for:

³ In 2021, the Government of Bhutan introduced an innovative government-to-business digital portal specifically tailored for cottage and small industries, using the customizable digital platform of UNCTAD. (UNCTAD 2024b).

- Digital Platforms Expansion: Develop or upgrade national investment information portals and single-window business platforms.
- ICT and Institutional Capacity Building: Enhance digital infrastructure and institutional capacity, particularly in low-income and developing countries.
- Best Practice Sharing and Partnerships: Facilitate the exchange of best practices and collaborative partnerships among G20 nations to overcome common barriers and disparities.

The IFF will ensure investment facilitation remains a priority, even in challenging economic times, to drive inclusive growth and sustainable development goals.



Scenario of outcomes

Scenario 1: Adoption of a whole-of government and multi-stakeholder approach to streamline and simplify investment measures. Under this scenario, all key private and public stakeholders, including investment and trade-related institutions participate in the discussions and are involved in the design of investment facilitation tools. Investment facilitation measures and related policy areas pertinent to the business environment are fully integrated into the national development strategy. This fosters both FDI and a thriving domestic economy that reinforces the attractiveness of the country for foreign investors.

Scenario 2: Comprehensive digital government integration. In this scenario, decisionmakers fully embrace the recommendations for a comprehensive digital government framework, spanning all government functions. Online single windows for businesses and investors are swiftly deployed, streamlining processes and reducing bureaucratic hurdles. This integration fosters synergies across government agencies, enhancing service delivery and reducing costs. Investment facilitation becomes seamlessly integrated into the digital government infrastructure, attracting both domestic and foreign investors. The focus on prioritizing high-return procedures and expanding services gradually ensures sustainable development and inclusive growth.

Scenario 3: Targeted investment facilitation initiatives. Decisionmakers prioritize targeted investment facilitation initiatives, following principles of cost-effectiveness and gradual expansion. Specific areas, such as business registration, licensing, and permit applications, are streamlined through online platforms. These initiatives quickly

demonstrate their value. The scope of digital government is gradually expanded to cover additional services and sectors. For example, at the bilateral level, UNCTAD has been advocating for the introduction of proactive investment promotion and facilitation provisions for sustainable investment in international investment agreements, based on the investment policy framework for sustainable development. In addition, UNCTAD has developed a set of policy options to enable governments to transform international investment agreements into tools to channel investment toward sustainable development and further national investment facilitation priorities (UNCTAD 2015). These initiatives are replicable, and the approach allows policymakers to address immediate investment challenges while laying the groundwork for broader digital government integration in the future.

Scenario 4: Collaborative approach with international organizations. Governments collaborate closely with international organizations, including UNCTAD, IDB, WTO and the G20, to conduct assessments (e.g., such as that produced in the framework of the recent collaboration between the IDB and the Government of Ecuador) and implement investment facilitation and digital government initiatives. Drawing upon the expertise and resources of these organizations, policymakers develop a tailored approach that aligns with global best practices and priorities, such as UNCTAD's Global Enterprise Registration.⁴ Joint initiatives are launched to pilot digital solutions for investment facilitation, leveraging economies of scale and knowledge sharing. This collaboration not

⁴ To comprehensively evaluate the landscape of digital business and investment facilitation, UNCTAD introduced the Global Enterprise Registration (GER.co) online rating system and associated index in 2016.

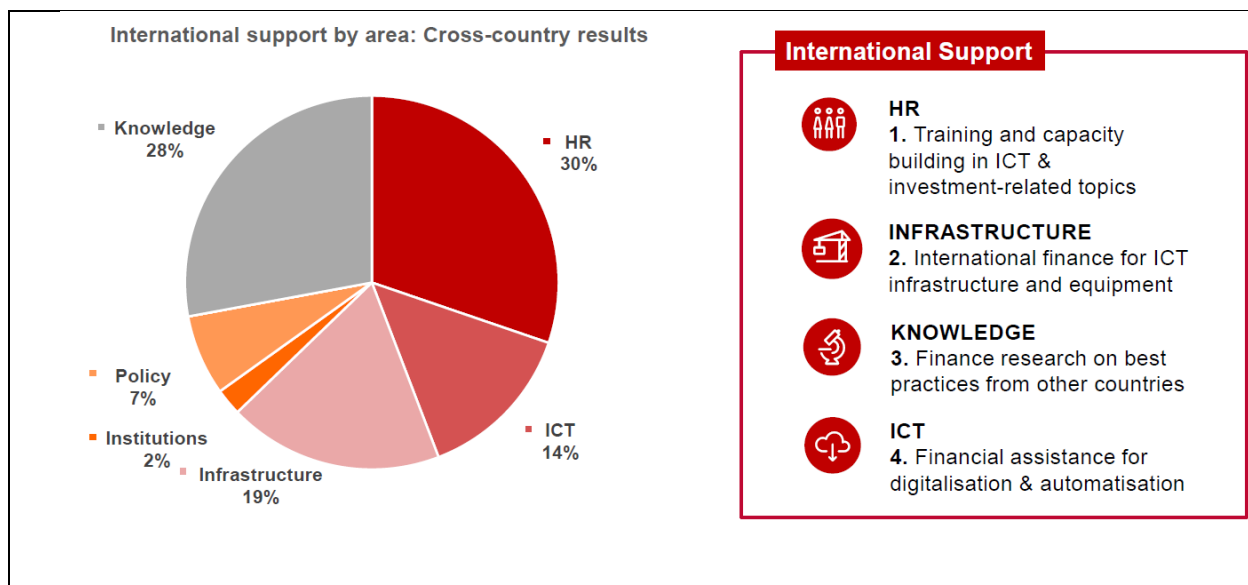


only accelerates the implementation process, but also enhances the effectiveness of digital government strategies. As a result, developing countries are better equipped to attract investment, improve governance, and promote sustainable development on a global scale.



Appendix

I. Identified international actions to support IFD implementation



Source: Berger et al. (2023)

Note: The international actions are ranked in descending order based on their frequency of occurrence.

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