Methodology Development Narrative for indicator 17.5.1

November 2019

Indicator 17.5.1: Number of countries that adopt and implement investment promotion regimes for least developed countries

Target 17.5: Adopt and implement investment promotion regimes for least developed countries

1. Executive Summary

Target 17.5 aims to *adopt and implement investment promotion regimes for least developed countries (LDCs)*. Most developed countries have investment promotion regimes in place that encourage investment abroad, either independent of destination or for specific groups of countries. For the purpose of target 17.5, it would be necessary to find out how many countries have adopted such a regime and how many countries have implemented it so that LDCs have actually benefitted from it. Therefore, SDG indicator 17.5.1, *number of countries that adopt and implement investment promotion regimes for least developed countries*, was selected onto the indicator framework to assess the achievement of the 2030 Agenda. In October 2019, the indicator was submitted for refinement which was tentatively approved by the IAEG-SDG on 6 November 2019. The indicator was refined by added investment promotion regimes for developing countries onto the indicator as these may also support investment in LDCs. Only this approach ensures getting a full picture of outward investment promotion with LDCs as beneficiaries, which is better aligned with Target 17.5. To date, there has been no internationally agreed standard on the methodology to measure this indicator, and it has not been defined which measures are allocable to those that support LDCs directly or through measures intended for developing countries and should, thus, be measured.

This paper provides the methodology development narrative highlighting the objective and rationale of SDG indicator 17.5.1 and showcasing the steps taken to develop the methodology.

2. Introduction

Investment promotion regimes for LDCs can be defined as those policy instruments of capital-exporting countries that directly or through measures intended for developing countries in general aim at encouraging outward investment in LDCs.

Investment promotion is an important means to help these countries to attract foreign capital, technology and know how. It can also help them to get access to regional and global value chains, thereby integrating into the global economy and upgrading within.

These effects are directly linked to the SDGs. Foreign investment, if accompanied by the "right" policy framework, can contribute to reducing poverty and hunger, build and modernise infrastructure, or improve the health and education system, amongst others. In addition, promoting investment for LDCs through a partnership approach is an SDG in itself (Goal 17).

SDG indicator 17.5.1, *number of countries that adopt and implement investment promotion regimes for developing countries, including least developed countries*, is currently categorized as a Tier III indicator,

meaning that its methodology still needs to be developed and agreed upon. This submission argues that enough progress has been made in the development of a methodology so that the indicator can be reclassified as tier II.

UNCTAD has carried out coordinated actions to develop, review and test the possible concepts and methods to measure the number of countries that adopt and implement investment promotion regimes that support LDCs. Several inhouse consultations were held in 2018–2019 to explore the best way to measure investment promotion regimes for LDCs, and several countries were invited to carry out pilot studies in the course of 2019.

In-house discussions were guided by the following principles:

- The measurement methodology should be practical, applicable and useful for policy purposes, especially considering development issues in LDCs.
- The proposed definition, scope and typology should be suitable for statistical and operational purposes.
- The methodology and its implementation should follow the Fundamental Principles of Official Statistics and be based on existing data and capacities to the extent possible.

3. The scope of the indicator and its rationale

Countries use various means to promote foreign investment abroad. The most commonly used instruments are investment guarantees (i.e. insurance of foreign investment against political risks in the host country), financial or fiscal support for outward investors as well as the conclusion of investment promotion agreements between the home and the host country of the investor. Besides these legal instruments, countries often also provide information and other advisory services for their outward investors.

a. Target countries of outward investment promotion regimes

Two alternatives were explored. They include:

- Specific investment promotion regimes for LDCs only;
- Investment promotion regimes for developing countries in general, including LDCs.

It was concluded that the methodology should include all developing countries. Only this approach ensures getting a full picture of outward investment promotion with LDCs as beneficiaries, which is better aligned with Target 17.5. By contrast, limiting the research to specific promotion regimes for LDCs only would result in misleading information, because the number of LDCs that receive support through investment promotion regimes for all developing countries is likely to be much higher than the number of LDCs that benefit from LDC-specific promotion regimes. Therefore, indicator refinement was submitted in October 2019 and tentatively agreed by the IAEG-SDGs on 6 November 2019.

b. Types of outward investment promotion regimes

Discussions also included the issue of *what types* of investment promotion regimes to look at. Countries use various means to promote foreign investment abroad (see above). UNCTAD decided to focus on the legal investment instruments, since relevant information is – to various degrees - usually publicly available. This is less the case for informal and ad-hoc means of outward investment promotion, such as advisory services.

UNCTAD also discussed *how many* types of investment promotion regimes a home country would have to operate in order to be counted in. It was concluded that the existence of one type of promotion instrument (e.g. an investment guarantee scheme) would be sufficient.

Furthermore, the issue was raised whether – in addition to the existence of an outward investment promotion regime – it would also be feasible to examine as to what extent the regime was actually *implemented* (i.e. whether an LDC *actually benefitted* from it, e.g., by receiving a foreign investment promoted by an investment guarantee). It was concluded to focus the research on the *existence* of a promotion system as such (i.e. its *adoption)*. Information on the actual stage of implementation in individual countries is – in most cases – not publicly available. It would be very difficult to receive and could hardly provide a comprehensive and reliable picture of the actual situation.

c. Ways to collect information

As part of feasibility studies, UNCTAD identified the following data collection means:

- An in-depth pilot study where a limited number of countries that offer outward investment promotion were contacted and asked for detailed information (annex 1);
- A less detailed online questionnaire for all outward investment agencies and countries without such agency (annex 2 and 3);
- In-house Internet research;
- In-house database on international investment agreements (IIAs).

d. Coverage of home countries of outward investment promotion regimes

There is also a question of *which countries* should be included in the measure as home countries of outward investment promotion regimes. The indicator will not only include measures put in place by developed countries, but also by emerging economies, thus measuring South-South cooperation in this respect in addition.

4. Main steps taken in developing the methodology

Over the years, UNCTAD has developed an online Investment Policy Hub (https://investmentpolicy.unctad.org/). It went online in 2014. The Hub provides, inter alia, up-to-date information on national investment policies and international investment agreements of member states. The data include information about investment policy developments concerning LDCs. These data, in particular those on IIAs, will provide a starting point for compiling indicator 17.5.1.

UNCTAD has held consultations with stakeholders - governments, development partners, private sector and the UN system - to discuss measures of home countries to promote foreign direct investment flows to LDCs and consider what LDCs could do to attract investment. This includes the following consultations and actions carried out with stakeholders:

- Various UNCTAD bodies (UNCTAD Conferences, Trade and Development Board, Investment, Enterprise and Development Commission, expert meetings) have discussed measures to promote FDI flows to developing countries, including an action plan for a new generation of investment promotion for SDGs.
- At the 2016 World Investment Forum, organized together with the UNCTAD XIV Conference, the High-Level Tripartite Conference on Investment Promotion in SDGs had a session on Partnerships for Investment Promotion. It discussed partnerships between investment

promotion agencies (IPAs) and outward investment agencies (OIAs) in mobilizing investment in SDG sectors.

- From 2017 to 2018, UNCTAD had several regional seminars on the promotion of bankable SDG projects. In these seminars, participants discussed the potential for partnerships between OIAs and IPAs.
- A dedicated meeting was held in October 2018 at the biennial UNCTAD World Investment Forum – Investment for Sustainable Development in Geneva with government representatives (including presidents and prime ministers from LDCs), business executives, academia and NGOs to discuss the promotion of FDI to developing countries, including LDCs. The World Investment Forum also featured an LDC Ministerial and Business Executive Roundtable.
- UNCTAD surveyed OIAs and institutions for the preparation of a handbook which was published in 1999. UNCTAD updated its database of outward investment agencies and institions based on desktop research on these entities and programmes for the SDGs for the publication of a brief issues note in 2016 under the *IPA Observer* series. UNCTAD continues to maintain this database and provided updated analysis for a guide on Promoting Investment in the Sustainable Development Goals, published in 2019 under the *Investment Advisory Series*.

These consultations continued at the 11th session of the UNCTAD Investment, Enterprise and Development Commission from 11 to 15 November 2019, and particularly at the UNCTAD High-level Conference on International Investment Agreements on 13 November 2019.

UNCTAD has accumulated knowledge on investment promotion for LDCs and developing countries also in its analytical work, including:

- Since 2010, the UNCTAD World Investment Reports include a dedicated section on FDI in LDCs (here).
- The new UNCTAD SDG Pulse releases data and analysis on indicators for which UNCTAD is a custodian agency complemented with relevant indicators on trade and development issues (see https://sdgpulse.unctad.org/).
- The first issue of an Investment Monitor for LDCs came out in May 2017 (number 26 here).

UNCTAD has held several internal meetings of investment and statistics experts in 2018-2019 to develop the methodology to measure indicator 17.5.1. The objective has been to find the most suitable, practical and reliable methodology for measuring indicator 17.5.1.

After having agreed on the initial methodology outlined above, UNCTAD undertook the following consultations and pilot studies:

- In the context of a pilot study, six countries (Australia, Canada, France, Germany, Japan and the United Kingdom) were contacted, asking them for detailed information on their investment promotion regimes for developing countries, including LDCs. The requested information related to the type of promotion regime in place, the number of investments promoted under the regime and the number of LDCs that benefitted from it.
- The less detailed online questionnaire has been sent to 90 OIAs and institutions in 49 countries.
- UNCTAD also sent a questionnaire to the remaining countries where we are not aware of any OIAs and institutions, to confirm whether they still provide services or instruments to promote outward investment.

5. Findings and recommendations from expert consultations and pilot studies

SDG indicator 17.5.1 calls for the measurement of the *number of countries that adopt and implement investment promotion regimes for developing countries, including least developed countries*. The research untertaken up to now reveals a mixed picture about the practicability and reliability of this indicator. While UNCTAD is confident that it will be able to collect reliable information concerning the adoption of investment promotion regimes for LDCs, data on their benefit for LDCs would be more challenging to compile.

UNCTAD has a comprehensive database covering one element of investment promotion regimes – the existence of IIAs concluded with LDCs. Concerning other components of the regime (e.g. investment guarantees, financial or fiscal assistance for outward investors in LDCs), the above-mentioned pilot study and questionnaire as well as inhouse internet research and information from UNCTAD's Investment Policy Hub, should provide UNCTAD with the necessary information – although completeness cannot be guaranteed at the beginning. The release of the indicator can start when sufficient country coverage has been reached.

Data availability for the existence of these types of investment promotion regimes has been evidenced by the UNCTAD SDG Pulse - an online platform on SDGs (https://sdgpulse.unctad.org/investment/).

Preliminary results on the feasibility of the methodology are as follows:

- From the six contacted countries in the pilot study, only one country (Germany) responded so far (see annex 4). Although more replies may still arrive, it is unlikely that this approach will provide UNCTAD with a comprehensive data set.
- The less detailed questionnaire has been answered by 26 countries so far (situation as of 10 October 2019). Out of these, 17 countries have adopted investment promotion regimes for LDCs. These countries are Austria, Belgium, Brazil, Chile, China (Macao), Czech Republic, Denmark, Finland, Italy, Netherlands, Norway, Singapore, South Africa, Sweden, Switzerland, Turkey and the United States of America. The answers received vary considerably in length and detail (annex 5).
- Internet research is ongoing. The first results show that online data availivbilty differs considerably between countries.
- UNCTAD has a comprehensive database on IIAs concluded with LDCs with full data availability. This seems to be the most promising avenue for collecting the requested data; however, it is limited to only one element of investment promotion for LDCs and as such needs to be complemented with the above-mentioned survey.
- UNCTAD has a database of OIAs and institutions based on the desktop research.

Preliminary research also shows that it will be very challenging to collect data on the actual implementation of investment promotion regimes for LDCs. These data are not publicly available and therefore UNCTAD will not be in a position to provide a comprehensive and reliable overview of implementation of investment promotion measures for LDCs. This will need to be left on the research agenda to be considered in future work.

Against this background, UNCTAD recommends focusing indicator 17.5.1 on the adoption of investment promotion regimes for LDCs.

The existing difficulties in collecting information – in particular concerning the implementation of promotion systems – show the need to raise awareness in home countries of investors about existing gaps in their domestic data systems. It is recommended that they update and improve this system so that information finding becomes easier.

6. Conclusion

The discussions and activities conducted by UNCTAD have led to an agreed methodology for measuring the *number of countries that adopt and implement investment promotion regimes for developing countries, including least developed countries*.

The main results can be summarized as follows:

- It was concluded that all outward investment promotion regimes for developing countries – and not only those that specifically target LDCs – should be taken into account when measuring as to what extent target 17.5 has been achieved.
- It was concluded that for reasons of data availability, the focus of the research should be on the adoption of such regimes rather than on their actual implementation.
- It was concluded that the research should cover the following investment promotion instruments: investment guarantees, fiscal or financial support, and investment agreements signed with LDCs.
- It was concluded that the research should be mainly conducted through questionnaires addressed to home countries of investment, in-house internet research and UNCTAD's database on IIAs.

After extensive internal discussions and in light of the preliminary results of a pilot review of country practices and the availability of an in-house database, UNCTAD concluded that indicator 17.5.1 provides a promising measurement framework for a key part of investment promotion regimes that support LDCs directly or through measures intended for developing countries.

National statistical offices are not typically involved in the collection of data on investment promotion regimes by governments and hence they have had limited involvement, but could take the role of coordinating the compilation of data from different sources in a country. Depending on country, relevant data on government instruments for investment that supports LDCs directly or through measures intended for developing countries are held by national ministries and often also by Investment Promotion Agencies or Insurance Agencies, as well as by multilateral and bilateral development finance institutions. In addition, UNCTAD and some other international organisations, such as OECD, collect regularly data on different types of national and international investment promotion policies and measures.

While disaggregated data on these measures may not be currently available in all countries, the metadata for this indicator encourages countries to report on the aggregated SDG indicator 17.5.1 focusing on most prominent investment promotion measures that support LDCs directly or through measures intended for developing countries and using data that are available while building capacity to improve data collection and compilation. UNCTAD, jointly with partner organizations, stands ready to support countries in this regard in the ongoing and upcoming intergovernmental meetings and capacity building activities.

Data collection will continue and intensify in early 2020 and, pending a period of validation and accumulation of data to ensure sufficient country coverage, submission for a further reclassification to Tier I is foreseen.

ANNEX 1

Questionnaire to pilot countries

Dear colleagues,

The UN has initiated an internal review of progress towards achieving the UN SDGs by the year 2030. I am writing to you in connection with SDG Nr. 17, which calls for "strengthening the means of implementation and revitalizing the global partnership for sustainable development".

One of the targets in this context is to adopt and implement investment promotion regimes for least developed countries (target 17.5). To assess progress towards achieving this target, Indicator 17.5.1. refers to the "number of countries that adopt and implement investment promotion regimes for least developed countries".

Information on national investment promotion regimes that specifically support investment in LDCs is not publicly available. I therefore kindly ask for your support in collecting such information. Your cooperation would be an enormous help for us in our task to assess progress towards achieving SDG Nr. 17.

I would like to underline that it is not at all the purpose of this request to evaluate your country's individual contribution for meeting target 17.5. We will only make use of the aggregate information received from contacted countries. Likewise, UN documents on this subject will not make any reference to individual country data.

We are specifically looking for data on the following investment promotion instruments:

- Investment guarantees provided to investors from your country for investments in LDCs (total number and amount of guarantees; total amount of investment covered by the guarantees; industrial sectors that received the guarantees; names of LDCs where the investment was made).
- Government loans to investors from your country for investments in LDCs (total number and amount of loans; total amount of investment that benefitted from the loans; industrial sectors that received the loans; names of LDCs where the investment was made).
- Direct capital contribution (portfolio or direct investment) of your government to an investment from your country in LDCs (total number and amount of capital contributions; total amount of investment; industrial sectors that received the capital contribution; names of LDCs where the investment was made).
- Any other investment promotion instrument of your country for investments in LDCs (type of instrument; frequency of use; total amount of investment covered; industrial sectors that benefitted from the promotion instrument; names of LDCs where the investment was made).

The information should, if possible, cover the period from 2014 to June 2019.

For your convenience, I attach a list of LDCs to this letter.

If you any questions concerning this request, please do not hesitate to contact me.

I would appreciate it if I could receive your reply before the end of August 2019.

ANNEX 2

Questionnaire to outward investment agencies (OIAs)

Dear colleagues,

The United Nations is reviewing progress towards achieving the Sustainable Development Goals. We are specifically writing to you regarding data for indicator 17.5.1, which refers to the "number of countries that adopt and implement investment promotion regimes for least developed countries."

We would appreciate your support in collecting such information.

We would like to know whether your organization provides instruments or services specifically aimed at investments in least developed countries (LDCs).

For easy reference, the list of LDCs is provided below.

We would appreciate it if you could please respond by 25 September.

Please note that our intention is not to evaluate the contribution of an individual agency or country towards meeting Goal 17 or target 17.5. We will only make use of the aggregate information provided to us by contacted countries and entities.

If you have any questions concerning this request, please do not hesitate to contact me.

Best regards,

ANNEX 3

Questionnaire to countries without an outward investment agency

Dear colleagues,

The United Nations is reviewing progress towards achieving the Sustainable Development Goals. We are specifically writing to you regarding data for indicator 17.5.1, which refers to the "number of countries that adopt and implement investment promotion regimes for least developed countries."

We would appreciate your support in collecting such information.

We would like to know:

1. **Has your country set up – or is it currently setting up – an overseas investment promotion regime?**

2. **If yes, does it include instruments or services specifically aimed at investments in least developed countries (LDCs)?**

Examples of investment promotion regimes could include the provision of the following instruments or services to investors from your country for investments overseas:

- direct capital contributions;
- government loans;
- investment guarantees or insurance;
- advisory and information services; or
- technical assistance.

For easy reference, the list of LDCs is provided below.

We would appreciate it if you could please respond by 16 September.

Please note that our intention is not to evaluate an individual country's contribution towards meeting Goal 17 or target 17.5. We will only make use of the aggregate information provided to us by contacted countries.

If you have any questions concerning this request, please do not hesitate to contact me.

Best regards,

[Sender's name]

ANNEX 4

Preliminary results of questionnaire for pilot countries

(Reply from Germany)

Investment guarantees provided to investors from Germany for investments in LDCs

country	industrial sector	number of guarantees	amount of guarantees; amount of investment covered (EUR)
Ethiopia		7	6.930.417
	Agriculture, forestry and water management	6	6.371.743
	Leather and textile industry	1	558.674
Mali		2	10.012.974
	Energy industry	2	10.012.974
Mozambique		2	31.600.000
	Mechanical engineering	2	31.600.000
Senegal		1	100.007
	Tertiary sector	1	100.007
Tanzania		6	59.238.478
	Construction industry	6	59.238.478
Total		**18**	**107.881.876**

All numbers refer to Investment Guarantees assumed between 2014 and June 2019.

In the relevant cases guarantees were granted without cover for earnings. Therefore, the amount of guarantees (cover for invested capital and earnings) is equal to the amount of investment covered by the guarantees (cover for invested capital).

ANNEX 5

Preliminary results of OIPA survey

These are the preliminary results, as of 10 October 2019, of the online questionnaire UNCTAD has carried out regarding outward investment promotion regimes and least developed countries (LDCs).

Number of countries that were contacted	**Number of countries that answered our survey (partly or fully)** (% response)	**Number of countries that acknowledged reception of our email, but have not answered the questionnaire**
189[1]	26[2] (14%)	4[3]

Amongst the 26 countries that answered our email:

Number of countries that do not offer outward investment promotion services	**Number of countries that offer outward investment promotion services**
9	17

Amongst the 17 countries that provide outward investment promotion services:

Number of countries that offer outward investment promotion services specifically aimed at promoting investments in Developing Countries	**Number of countries that offer outward investment promotion services specifically aimed at promoting investments in LDCs**
9	2

[1] This figure represents all United Nations member States plus Palestine and the Holy See (195) minus the six previously contacted countries (namely: Australia, Canada, France, Germany, Japan and the United Kingdom of Great Britain and Northern Ireland).

[2] Austria, Bangladesh (via phone), Belgium, Brazil, Burundi, Chile, China (Macao), Costa Rica, Czechia, Denmark, Finland, Guyana, Italy, Latvia, the Republic of North Macedonia, Montenegro, Myanmar, Netherlands, Norway, Singapore, South Africa, Sweden, Switzerland, Trinidad and Tobago, Turkey and the United States of America.

[3] Benin, Ecuador, Jamaica and Saudi Arabia.