#28 ● OCTOBER 2024

UN trade & development

Investment Policy Monitor

Investment policy trends in LLDCs since the Vienna Programme of Action

HIGHLIGHTS

- The Vienna Programme of Action for Landlocked Developing Countries (LLDCs) for the Decade 2014-2024 aimed to address the development challenges faced by these countries by focusing on six priority areas. Three of those – infrastructure development (Priority 2), regional integration (Priority 4), and structural economic transformation (Priority 5) – encouraged LLDCs to adopt policies and regulatory frameworks to attract and diversify foreign direct investment (FDI).

- Since 2014, LLDCs have introduced at least 135 policy measures affecting foreign investors. Almost 9 in 10 of these measures aimed at promoting investment, and most focused on achieving the priorities of the Vienna Programme of Action:

  - Priority 2: Close to one third of all policy measures more favorable to investors adopted by LLDCs over the past decade focused on attracting FDI for infrastructure development, including privatizing State-owned assets, opening relevant sectors to FDI, and offering tax incentives. Additionally, 24 LLDCs implemented or updated public-private partnership (PPP) frameworks.
  - Priority 4: Over the past decade, LLDCs concluded 100 new International Investment Agreements, including significant regional initiatives like the Eurasian Economic Union, the African Continental Free Trade Area, and the Regional Comprehensive Economic Partnership.
  - Priority 5: Nearly half (44 per cent) of all policy measures focused on FDI diversification. These primarily targeted the service sectors and were based largely on tax incentives and Special Economic Zones.

- This policy effort has led to progress in some areas. PPP projects rose in number and value by over one third compared to the previous decade, and public-private investments nearly tripled between the first and second half of the last decade, though from very low levels. The power and transport sectors attracted most public-private investment, as well as most of the international project finance and greenfield projects. The information and communications technology infrastructure sector, however, experienced weak growth.

- The sectoral distribution of investment also signals some progress towards economic diversification with a reduction in the share of greenfield investment projects targeting extractive industries (from 32 to 20 per cent over the past decade) and a noticeable increase in services projects (from 27 to 47 per cent).
- However, total FDI inflows to LLDCs decreased by an average 2 per cent annually since 2014, heavily impacted by the overall decline in global FDI flows over the past decade and by the COVID-19 pandemic. LLDC's share of FDI inflows to developing countries shrunk from 4.3 per cent in 2014 to 2.8 per cent in 2023. FDI also remains concentrated in five LLDCs, which account for almost 60 per cent of total inflows.
- In this context LLDCs continue to perform poorly in cross-country rankings or benchmarks of productive capacities. This reflects the group's socioeconomic and geographic challenges, as well as insufficient economy-wide improvements in terms of productivity, value-added by domestic producers, and long-term structural transformation.
- The upcoming Third United Nations Conference on LLDCs presents a critical opportunity to reassess and reinforce the strategies laid out in the Vienna Programme of Action. This will require exploring new avenues to address the decline in FDI, by continuing to enhance the investment climate and facilitating investment in key sectors. It will also necessitate additional support from the international community, including through the promotion of innovative financing mechanisms and capacity-building for large-scale infrastructure projects.

Introduction

Lack of territorial access to the sea, geographical remoteness, and isolation from international markets significantly hinder the sustainable development prospects of the thirty-two landlocked developing countries (LLDCs),[1] especially the sixteen least developed countries (LDCs) within this group. The Vienna Programme of Action for Landlocked Developing Countries for the decade 2014-2024 (Vienna Programme of Action, box 1),[2] adopted at the Second United Nations Conference on Landlocked Developing Countries in 2014, aimed to tackle these obstacles.

The Vienna Programme of Action is organized around six priorities, three of which include provisions calling on LLDCs to take action in investment policymaking. Recognizing the critical role of foreign direct investment (FDI) in its implementation, the Vienna Programme of Action encourages LLDCs to develop policies and regulatory frameworks to attract FDI, particularly in transport, energy and information and communications technology (ICT) infrastructure (Priority 2), science, technology, and innovation (STI) sectors, and other high-value added sectors (Priority 5), and to promote regional integration and harmonization of investment frameworks (Priority 4) (see Annex 1).

In preparation for the Third United Nations Conference on LLDCs, scheduled to take place in the 4th quarter of 2024, this Investment Policy Monitor assesses the extent to which investment policy developments and FDI inflows in LLDCs over the past decade aligned with the FDI-related commitments and aspirations of the Vienna Programme of Action.

[1] Afghanistan, Armenia, Azerbaijan, Bhutan, Botswana, Burkina Faso, Burundi, Central African Republic, Chad, Eswatini, Ethiopia, Kazakhstan, Kyrgyzstan, Lao People's Democratic Republic, Lesotho, Malawi, Mali, Mongolia, Nepal, Niger, North Macedonia, Paraguay, Plurinational State of Bolivia, Republic of Moldova, Rwanda, South Sudan, Tajikistan, Turkmenistan, Uganda, Uzbekistan, Zambia, Zimbabwe. As of March 2021, North Macedonia and the Republic of Moldova were reclassified as developed countries following the decision to discontinue the use of "transition economies" category.

[2] Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014-2024. Resolution, adopted by the General Assembly on 12 December 2014, A/RES/69/137.

Box 1

Vienna Programme of Action for Landlocked Developing Countries

In November 2014, the United Nations Member States adopted the Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014-2024, to address the special development needs and challenges of LLDCs arising from their geographical constraints. With the overarching goal of enhancing sustainable growth to eradicate poverty, the Vienna Programme of Action focused on developing efficient transit systems and transport development, enhancing competitiveness, expanding trade, promoting structural transformation, and fostering regional cooperation.

The Vienna Programme of Action is built around six priorities for action:

Priority 1. Fundamental transit policy issues: Improving transit systems and policies to ensure smoother and more efficient transportation of goods across borders.

Priority 2. Infrastructure development and maintenance: Enhancing and maintaining infrastructure, including transport, energy, and information and communications technology, to support connectivity.

Priority 3. International trade and trade facilitation: Increasing LLDC's participation in international trade by simplifying and harmonizing trade procedures and reducing trade barriers.

Priority 4. Regional integration and cooperation: Promoting regional integration and cooperation to improve connectivity and economic ties among LLDCs and with other countries.

Priority 5. Structural economic transformation: Diversifying economies and enhancing productive capacities to reduce dependency on a limited range of commodities and improve economic resilience.

Priority 6. Means of implementation: Securing adequate domestic and external resources, including official development assistance (ODA) and FDI, but also technology transfer, and capacity-building support to implement the priorities of the Vienna Programme of Action effectively.

Source: UN Trade and Development, based on the Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014-2024.

Investment policy trends

The Vienna Programme of Action calls on LLDCs to focus on several aspects of investment policymaking. Under Priority 2, the Programme encourages LLDCs to develop policies and regulatory frameworks to attract FDI in infrastructure. Priority 4 emphasizes the importance of strengthening the participation of LLDCs in bilateral and regional integration frameworks related to investment. Finally, Priority 5 highlights the need for LLDCs to create a favorable environment to attract diversified FDI and investments in STI sectors, as well as other high value-added sectors (Annex 1). This section analyses policy measures related to FDI adopted by LLDCs in relation to the above priorities.

Since 2014, LLDCs have introduced at least 135 policy measures affecting foreign investors, as documented in the UN Trade and Development Investment Policy Monitor database.[3] Consistent with other developing countries, LLDCs have prioritized FDI attraction in their development strategy, with 88 per cent of the adopted measures being more favorable to investors (figure 1).

Figure 1

Most policy measures adopted by LLDCs promoted investment

Share of policy measures more favourable to investors in total measures (Percentage)

Source: UN Trade and Development, Investment Policy Monitor.

Priority 2: Infrastructure development and maintenance

Inadequate transport, ICT and energy infrastructure significantly hampers the global integration of LLDCs, resulting in high trading cost for goods and services. FDI is crucial for developing this infrastructure, and the Vienna Programme of Action urged LLDCs to establish the necessary policy and regulatory frameworks to create an environment conducive to attracting FDI to the sector (Paragraphs 30, 32g).

Investment policy measures related to Priority 2 constituted about 30 per cent of all policy measures more favorable to investors adopted by LLDCs over the past decade, compared to 15 per cent in other developing countries.[4] Most of these measures focused on liberalizing the transport, ICT, and energy sectors (35 per cent) or providing incentives to attract investment to these sectors (27 per cent). The remaining measures included investment facilitation and investment promotion initiatives (22 and 8 per cent respectively), or other regulatory reforms aiming to stimulate investment (8 per cent).

FDI liberalization measures encompassed the privatization of significant State-owned assets (54 per cent), such as airlines, airports, railway infrastructure, and telecommunication enterprises (e.g. in Armenia, Ethiopia, and Uzbekistan). They also included the opening of new sectors to FDI (46 per cent), including electricity generation and distribution, telecommunications, and transport services and logistics (e.g. in Ethiopia and Kazakhstan).

Incentives for investment in infrastructure included both tax incentives (e.g. Rwanda, Uzbekistan and Zambia in the transport, logistics, energy and electric mobility sectors), and investment subsidies (e.g. those relating to the financing of the construction of external engineering and communications networks in Uzbekistan).

Facilitation measures included initiatives aimed at improving access to investment services and streamlining administrative procedures. For example, Botswana established the Botswana One Stop Service Centre to provide streamlined administrative procedures for priority sectors such as ICT, transport, cargo, and logistics. Similarly, Nepal streamlined the entry of foreign investments in selected infrastructure sectors by granting automatic pre-approval through an online system.

3 UN Trade and Development, Investment Policy Monitor | Investment Policy Hub. For the methodology, please see UNCTAD (2024b).

4 Investment policy measures related to Priority 2 encompass those adopted by LLDCs in the transportation, telecommunications, and energy sectors. These also include non-industry-specific measures aimed at infrastructure development and the promotion of PPP schemes for infrastructure.

Other regulatory reforms aimed at promoting investment in infrastructure included the implementation of comprehensive regimes for FDI protection and promotion, which designated energy, transport, and telecommunication as strategic sectors (e.g. in North Macedonia, Rwanda, and Uzbekistan). This status provides investment in these sectors with special treatment and additional benefits on a case-by-case basis.

In addition, the Vienna Programme of Action calls for the promotion of PPPs for the development and maintenance of transport infrastructure in LLDCs, emphasizing the importance of leveraging the strengths and resources of both the public and private sectors to ensure sustainability and achieve long-term infrastructural goals (Paragraph 32h). In alignment with these commitments, the majority of LLDCs (24 in total) have adopted new or updated existing PPP frameworks.[5]

Priority 4: Regional integration and cooperation

For LLDCs, reaching international markets depends not only on their own policies and infrastructure but also on those of neighboring countries, making regional integration, including the harmonization of investment frameworks essential for improving transit transport connectivity and expanding regional markets. As per the Vienna Programme of Action, "in order to foster structural change and economic growth, LLDCs should strengthen their participation in bilateral and regional integration frameworks related to investment" (Paragraph 55).

From 2014 to 2023, LLDCs concluded at least 100 new international investment agreements (IIAs), including 71 bilateral investment treaties and 29 treaties with investment provisions. At least 58 of these new IIAs entered into force during this period. At least 14 IIAs were concluded between LLDCs or between LLDCs and neighboring countries, out of which five are still not in force.

Among the most prominent regional integration mechanisms adopted during this period are:

- *The Treaty on the Eurasian Economic Union:* Signed by Belarus, Kazakhstan, and the Russian Federation, and entered into force in 2015, this treaty aims to promote social and economic development and encourage investments among member States. To achieve these goals, the treaty establishes and maintains free (special) economic areas and free warehouses. These zones are designed to attract investments, develop production facilities using new technologies, and enhance transport infrastructure, tourism, and health resort sectors within member States.

- *The Intra-MERCOSUR Cooperation and Facilitation Investment Protocol:* Signed in 2017 by Argentina, Brazil, Paraguay, and Uruguay, this protocol aims to create a common space for trade and investment opportunities by integrating national economies into the international market. Additionally, in 2022, member States signed the MERCOSUR Agreement on the Prevention and Fight of Corruption in International Trade and Investment.

- *The Agreement Establishing the African Continental Free Trade Area (AfCFTA):* Signed in 2018 by Member States of the African Union, this Agreement, along with the AfCFTA Investment Protocol from 2023, creates a megaregional investment framework. It includes provisions to promote, facilitate, and protect intra-African investments that foster sustainable development.

- *The Economic Community of West African States (ECOWAS) Common Investment Code:* Signed by 15 Member States, including Burkina Faso, Mali, and Niger in July 2018, the Code seeks to enhance trade and investment among Member States through the liberalization of trade and investment within the region.

- *The Regional Comprehensive Economic Partnership:* Entered into force in January 2022, this partnership among Asia-Pacific countries includes Lao People's Democratic Republic. It aims to strengthen economic linkages, enhance trade and investment activities, and minimize development gaps among the parties.

These initiatives mark a significant advancement in regional cooperation among LLDCs and other developing countries, aimed at promoting and facilitating investment activities within their regions.

[5] UN Trade and Development, based on the World Bank's PPP legal resource center, PPP Laws and Concession Laws database, available at: https://ppp.worldbank.org/public-private-partnership/legal-framework.

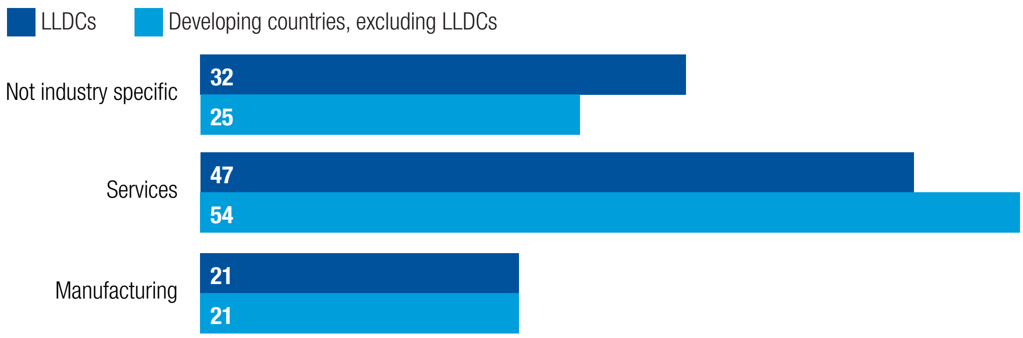
Priority 5: Structural economic transformation

The Vienna Programme of Action emphasized the need for effective national policies to attract diversified FDI with the aim of enhancing value addition, building productive capacities, promoting economic diversification, and improving access to STI, all of which are crucial for achieving structural economic transformation (Paragraphs 61 and 64d). In particular, the Vienna Programme of Action encouraged LLDCs to broaden their regulatory focus beyond a narrow range of export commodities and adopt comprehensive agenda to promote export diversification, enhance productivity and efficiency, and boost competitiveness across all sectors.

Nearly half (44 per cent) of all policy measures favorable to investors implemented by LLDCs over the past decade focused on achieving objectives related to Priority 5.[6] This is consistent with the trend in other developing countries, where these types of measures accounted for 46 per cent of the total. While one-third of the policy measures were horizontal in nature, aiming to improve the competitiveness of the entire economy, sector-specific policy measures adopted by LLDCs focused primarily on attracting FDI in the service sectors (47 per cent of all favorable measures related to Priority 5) (figure 2). This highlights the sector's growing importance in driving economic diversification and structural transformation within LLDCs and aligns with the broader trend of increasing prominence of services in investment policymaking, cross-border greenfield investment project announcements,[7] and trade.[8]

Policy measures in the services sector targeted primarily energy (28 per cent), followed by telecommunications (24), transportation (24), tourism (21), financial and banking activities (17), health (17), and education (10). The share of favorable measures targeting investment attraction in manufacturing (21 per cent) aligns with trends in other developing countries (figure 2).

Figure 2
Policy initiatives by LLDCs focus on services
Measures favourable to investors related to Priority 5 by sector, 2014-2023 (Percentage)



Source: UN Trade and Development, Investment Policy Monitor.

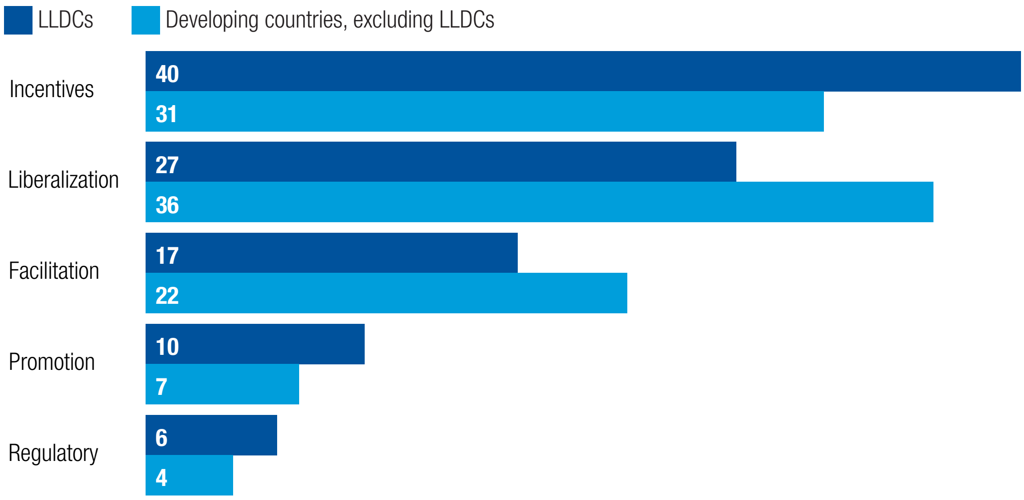
6 Investment policy measures related to Priority 5 encompass policy measures more favourable to investors adopted by LLDCs in the services and manufacturing sectors, as well as non-sector-specific measures aimed to enhance value addition, build productive capacities, promote economic diversification, and improve access to STI.

7 UNCTAD (2024a).

8 Baldwin, Freeman and Theodorakopoulos (2023).

Notable differences exist in the nature of the policy measures employed by LLDCs compared to other developing countries (figure 3). LLDCs prioritize incentives (40 per cent of the policy measures related to Priority 5 as opposed to 31 per cent in developing countries), while other developing countries focus more on liberalization and facilitation (36 and 22 per cent respectively in developing countries compared to 27 and 17 per cent in LLDCs).

Figure 3
Higher reliance on incentives in LLDCs
Share of policy measures for Priority 5 by economic grouping, 2014-2023 (Percentage)



Source: UN Trade and Development, Investment Policy Monitor.

Incentives included primarily tax and financial measures aimed at promoting foreign and domestic investments in specific sectors or underdeveloped regions. For instance, Burkina Faso's new Investment Code aims to enhance investment by reducing customs duties and VAT in the provision of services and support for production, processing and conservation. Malawi introduced tax holidays and duty-free imports to stimulate investment and boost local employment, energy generation and distribution. Rwanda's 2021 Investment Code offers tax incentives for priority sectors including transport, logistics, horticulture, high-value plant cultivation, creative arts, and skills development.

About 20 per cent of incentive measures were related to special economic zones. For instance, Azerbaijan granted special tax incentives for residents of high-tech parks. Lao People's Democratic Republic offered profit tax exemptions for ten years to businesses investing in less developed regions. Uganda provided income tax holidays and various incentives for investments in industrial parks, new factories, and facilities, focusing on industrialization, job creation, value addition, and export promotion.

Liberalization efforts included privatization campaigns and the opening of new sectors to foreign investors. They concerned a number of sectors, primarily services (61 per cent), including ICT, energy generation and transportation; and manufacturing (22 per cent). For example, Armenia announced the privatization of postal services, airport facilities, and numerous medical facilities. Similarly, Uzbekistan announced privatization initiatives in the banking and telecommunications sectors, information technology networks, the wine industry, food and alcohol production, and medical institutions, among others.

Several investment and business facilitation measures were introduced in support of FDI diversification. To enhance the transparency of the assessment process, for instance, Malawi issued new regulations that outline the qualifying criteria to operate in priority industries and thus gain access to incentive schemes. Similarly, Kazakhstan established the Astana International Financial Center Special Economic Zone, which provides visa facilitation services to foreign staff, investors and their families.

LLDCs also adopted several investment promotion initiatives in activities and sectors related to Priority 5.[9] Among them was the establishment of new institutions with an investment remit. For instance, the Plurinational State of Bolivia officially launched PROEXPORT, an agency for the promotion of tourism, exports and investment. Uzbekistan established the Council of Foreign Investors, that advises the Government on key areas of investment, industrial, technological, and innovative development.

The Vienna Programme of Action also called on LLDCs to adopt measures to facilitate and promote investments in innovation, technological learning and advancement (Paragraphs 61 and 64d). Since 2014, at least half of the LLDCs (16) have adopted new STI policies or regulations (figure 4). These policies included promotion schemes, such as the creation of innovation funds focused on tech-enabled SMEs, frameworks to manage and guide R&D funds, and incentives for cross-border collaboration. Additionally, they aimed to strengthen advisory services for strategic and cost-effective STI investments. For example, North Macedonia established the Fund for Innovation and Technological Development (FITD) to encourage the adoption of new technologies, enhance competitiveness, optimize costs, and add value within food sector and agriculture. Zambia's Technology Business Development Fund (TBDF) supports companies with innovative projects by providing seed funding and subsidies, which must be reimbursed if the project succeeds.

Finally, the Vienna Programme of Action urged LLDCs to develop industrial policies that improve private sector access to financial resources and promote investment in supportive economic infrastructure to further strengthen the private sector (Paragraphs 64h). Since 2014, at least 28 LLDCs have implemented new industrial policies (figure 4). In most of these policies, LLDCs encourage investment in key infrastructures through various initiatives. These include PPPs, public investment programs, fiscal and non-fiscal incentives, and loan guarantees for strategic investment projects. Zimbabwe's industrial policy, for instance, emphasizes the need to streamline access to finance, ensure the integrity and resilience of the financial system, and guarantee the variety, accessibility, and quality of financial instruments. The Made in Rwanda Policy aims to support commercial banks in becoming more familiar with emerging industrial sectors by making sector experts available to help banks assess the creditworthiness of unfamiliar loan requests. These programs are complemented by business advisory services to Rwandan SMEs to improve their financial literacy and the quality of their loan applications. In 2023, Zambia revised its PPP Act to enhance the institutional mandate, capacities, and performance of the country in structuring sustainable PPPs, in line with its policy of leveraging private sector investment for economic transformation and development.

Figure 4
Over half of the LLDCs adopted industrial and STI policies in the past decade

Number of LLDCs, 2014-2023

Source: UN Trade and Development, Investment Policy Monitor.

[9] Promotion measures include establishing Investment Promotion Agencies (IPAs) or other institutions dedicated to investment promotion, and adopting comprehensive investment promotion strategies and plans. Additionally, these policies support PPP initiatives, including auctions and concessions, and encompass outward FDI promotion initiatives to encourage domestic companies to invest abroad.

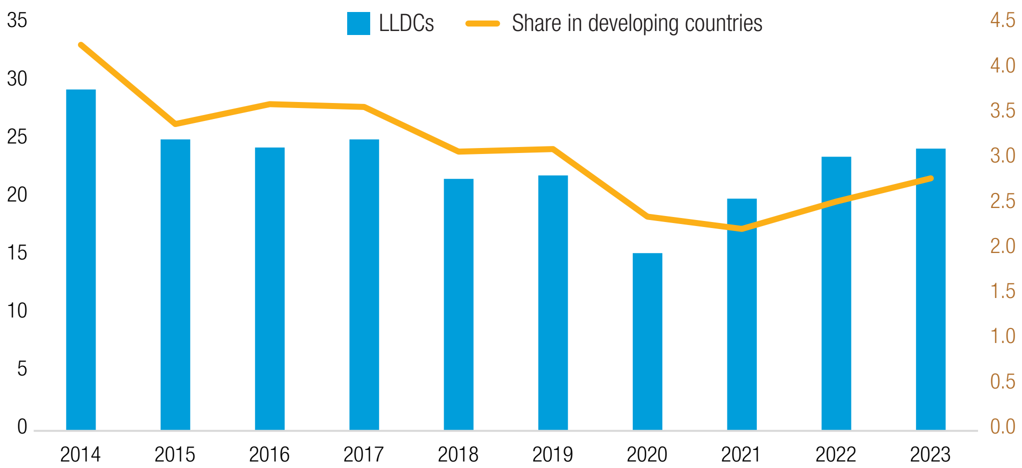
Investment trends

The Vienna Programme of Action called for a significant increase in FDI flows to LLDCs (Paragraph 72). Despite this, FDI inflows have declined by an average of 2 per cent annually since 2014, falling from $29 billion in 2014 to $24 billion in 2023 (figure 5). While global FDI flows have been affected by geopolitical tensions, global crises, and regional realignments (UNCTAD 2024a), the COVID-19 pandemic had a disproportionately severe impact on FDI inflows to LLDCs, compared to other developing countries. Although LLDCs have shown a strong post-pandemic recovery with an average annual growth rate of 17 per cent since 2020 —surpassing the 10 per cent growth rate of other developing countries — their share of FDI inflows to all developing countries remains below pre-pandemic levels, accounting for only 2.8 per cent in 2023 down from 4.3 per cent in 2014.

Figure 5

FDI inflows in LLDCs, and their share of developing countries' inflows have fallen

(Billions of dollars and percentage)

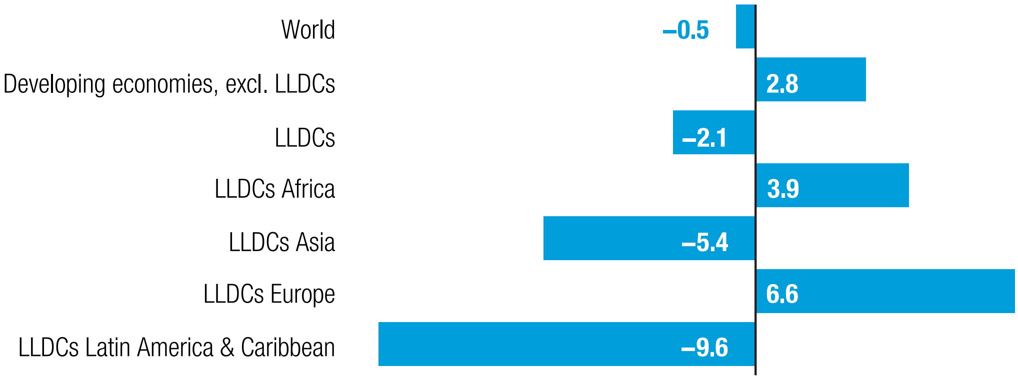


Source: UN Trade and Development, based on FDI database (https://unctad.org/fdistatistics).

Along with Official Development Assistance (ODA) and remittances, FDI flows remain a crucial source of external finance for LLDCs. However, FDI's share of these flows has dropped from nearly 50 per cent in 2014 to 26 per cent in 2022, an annual decrease of 2 per cent, while remittances and ODA have grown by 5 per cent and 3 per cent annually, respectively over the same period.

The overall decline in FDI to LLDCs masks significant regional disparities. In 2020, all four LLDC regions experienced sharp declines in FDI due to the pandemic. Yet, over the past decade, trends by region have varied significantly (figure 6). FDI to LLDCs in Asia and Latin America and the Caribbean fell by 5 per cent and 10 per cent annually, respectively. In contrast, FDI inflows in African and European LLDCs grew by 4 per cent and 7 per cent annually, respectively. As a result, Asian LLDCs, which received 62 per cent of total FDI to LLDCs from 2014 to 2020, saw their share drop to 46 per cent post-pandemic. Meanwhile, African LLDCs significantly increased their share, rising from 33 per cent of total FDI inflows from 2014 to 2020 to 46 per cent post-pandemic.

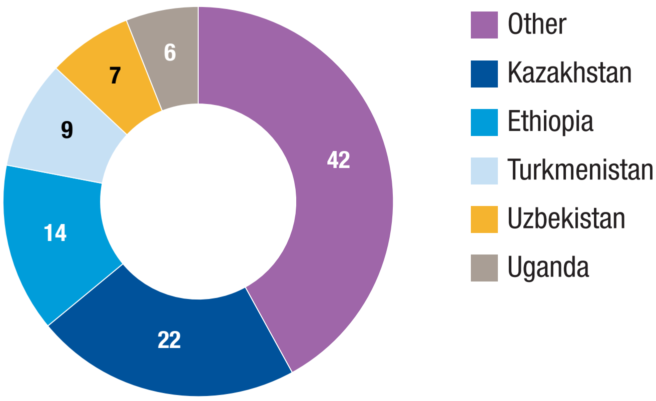
Figure 6
FDI to LLDCs in Asia and Latin America and the Caribbean experienced the most significant decreases over the last decade
FDI inflows compound annual growth rate, 2014-2023
(Percentage)



Source: UN Trade and Development, based on FDI database (https://unctad.org/fdistatistics).

In addition, FDI inflows to LLDCs remain heavily concentrated in a few countries. From 2014 to 2023, the top five recipient countries - Kazakhstan, Ethiopia, Turkmenistan, Uzbekistan, and Uganda - accounted for 58 per cent of the total FDI directed towards LLDCs (figure 7).

Figure 7
Top five recipients accounted for 58 per cent of total FDI to LLDCs
FDI inflows by country, 2014-2023
(Percentage of total FDI inflows in LLDCs)



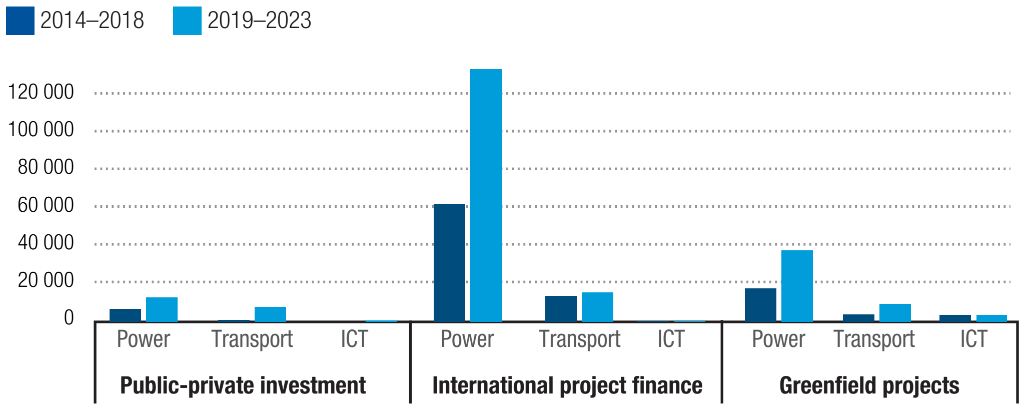
Source: UN Trade and Development, based on FDI database (https://unctad.org/fdistatistics).

Recognizing the critical role of PPPs in infrastructure development, the Vienna Programme of Action calls for the promotion of PPPs in LLDCs (see section 1, Priority 2). Over the past decade, LLDCs have significantly increased the number and value of PPP projects by 39 per cent and 36 per cent, respectively, compared to the period 2004-2013. Remarkably, despite the pandemic, LLDCs have nearly tripled their public-private investments between the first and second halves of the last decade. From 2019 to 2023, there was a substantial increase in transport infrastructure investments and nearly a doubling in power investments through PPPs, compared to 2014–2018. Despite these gains, transport infrastructure investment remains insufficient. In the past decade, only 15 transport PPP projects were implemented across the 32 LLDCs. In value terms, PPPs in transport represented 30 per cent of total PPP investments, as opposed to 50 per cent in other developing countries. ICT investments, in particular, were minimal, amounting to $803 million, or merely 3 per cent of total PPP investments in LLDCs (figure 8).

Figure 8

Investment in infrastructure concentrated in the power sector

PPP, IPF and announced greenfield projects
(Millions of dollars)



Source: UN Trade and Development, based on World Bank the Private Participation in Infrastructure (PPI) Project Database: Data on Private Participation in Infrastructure (PPI) - World Bank Group, The Financial Times, fDi Markets (www.fDiMarkets.com) and Refinitiv.

International project finance (IPF)[10] is particularly important for supporting infrastructure investment and Priority 2 of the Vienna Programme of Action. Over the past five years, IPF in LLDCs grew by 6 per cent compared to 2014–2018, while in other developing countries, it increased by 30 per cent. This discrepancy is due to the fact that in other developing countries, IPF increased across all sectors in the last 5 years. In contrast, in LLDCs, while IPF in infrastructure related to Priority 2 nearly doubled, IPF in the extractive industry and manufacturing sectors decreased by half. The significant increase in IPF for infrastructure is mainly concentrated in the energy sector. IPF in transport saw only a slight increase, maintaining a steady 7 per cent share of project finance across both periods, a similar share as other developing countries (8 per cent). IPF in telecommunications was extremely low, making up just 0.2 per cent of their total project finance, compared to 3.5 per cent in other developing countries. The power sector bucked the trend, and project finance in the sector, including renewable energy, more than doubled (+115 per cent) from the first to the second half of the last decade, accounting for nearly half of the total project finance in LLDCs during this period, compared to 39 per cent in other developing countries.

Greenfield project data confirm the low performance of ICT infrastructure investment with low values and no significant increase between the first and second halves of the decade. They also confirm the positive trend in the power and transport sectors, with the value of announced greenfield projects rising by 115 per cent in the former and 136 per cent in the latter.

As mentioned, Priority 5 of the Vienna Programme of Action underscores the critical need for economic diversification to reduce reliance on mineral resources and low-value agricultural products for their exports. Over the past five years, extractive industries have continued to play a prominent role in new announced greenfield projects and IPF in LLDCs. Mining remains a key category, comprising about 3 per cent of the number and 27 per cent of the value of announced projects over the last decade.

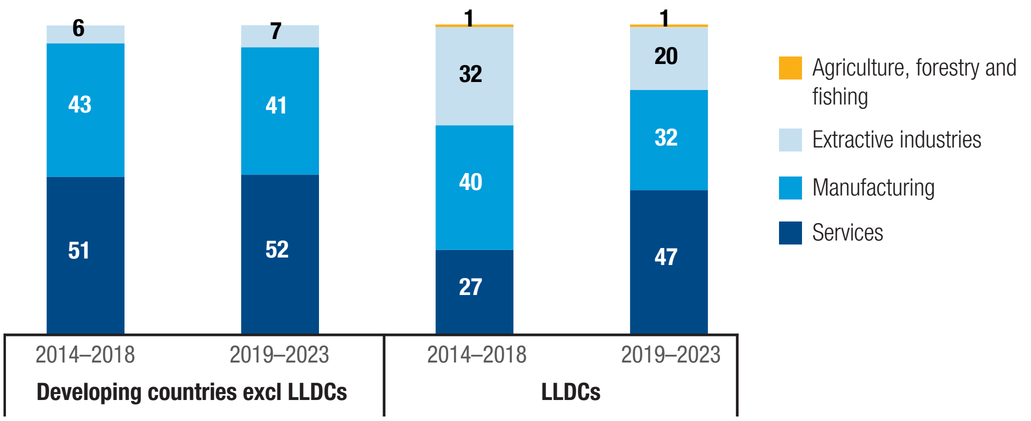
However, some diversification has taken place. The share of mining projects has declined from

[10] International project finance is the financing of large-scale, capital-intensive projects across borders, relying on the project's cash flows for loan repayment, typically structured through a special purpose vehicle (SPV).

32 per cent in 2014–2018 to 20 per cent in 2019-2023 in greenfield project value and from 27 per cent to 14 per cent in IPF. In contrast, in other developing countries, the mining sector's share has remained stable at approximately 7 per cent of greenfield projects and over 20 per cent of IPF projects. The share of greenfield manufacturing projects has slightly declined, but it was offset by an increase in the value of services projects, driven in part by projects in infrastructure services and also by growth in other service sectors (figure 9).

Priority 5 of the Vienna Programme of Action also emphasizes the need for enhancing productive

Figure 9
Some progress towards economic diversification in LLDCs
Value of announced greenfield projects
(Percentage)



Source: UN Trade and Development, based on The Financial Times, fDi Markets (www.fDimarkets.com).

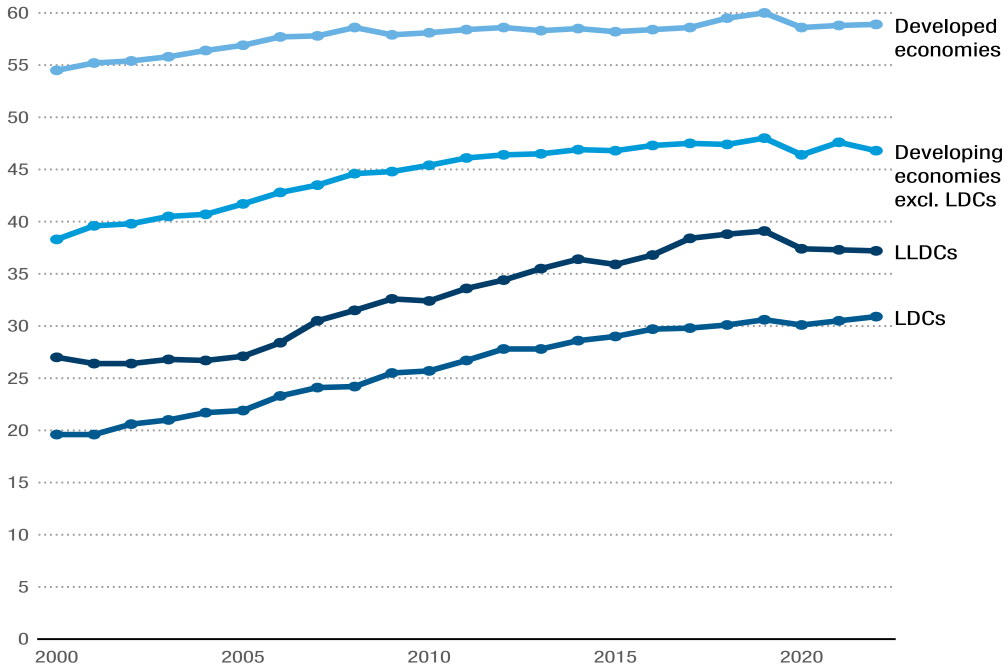
capacities in LLDCs. Despite some diversification in FDI in recent years, LLDCs continued to perform poorly on the multidimensional global Productive Capacities Index (PCI).[11] Their weak productive capacities are the causes and consequences of their systemic and persistent socioeconomic vulnerabilities to shocks. A component-by-component analysis of productive capacities shows that LLDCs significantly trail behind global medians in critical areas such as structural change, human capital, the private sector, institutions, transport, and ICTs. Natural capital, however, remains a notable exception, with 29 of 32 LLDCs scoring above the global median. Strong natural capital yet weak structural change reflects the high commodity dependence and low industrialization levels of many LLDCs.

[11] The PCI measures the level of productive capacities in 193 economies along eight categories that make up productive capacities: transport, energy, ICTs, human capital, natural capital, institutions, private sector, and structural change. The Index uses 42 indicators, and its overall scores range from a minimum of 0 to a maximum of 100 (boundaries not included). Core resources including detailed scores are available at: https://unctad.org/topic/least-developed-countries/productive-capacities-index or https://unctadstat.unctad.org/EN/Pci.html.

Figure 10

LLDCs perform poorly in cross-country rankings of productive capacities

Productive Capacities Index (PCI) by economic grouping, 2000-2022



Source: UN Trade and Development, Productive Capacities Index (PCI), 2023.

Conclusion

Since the implementation of the Vienna Programme of Action, LLDCs have made notable progress in aligning their investment policies with the priorities of the Vienna Programme of Action related to infrastructure development, regional integration, and structural economic transformation. Over the past decade, LLDCs have introduced several policy measures focused on liberalizing sectors such as transport, energy, and telecommunications, offering tax incentives to attract investment to the sectors, establishing PPP frameworks, and adopting industrial and STI policies geared towards economic diversification and innovation. Significant regional integration efforts have also been realized through 100 new IIAs, which include important initiatives like the African Continental Free Trade Area and the Eurasian Economic Union.

Despite these advancements, several challenges persist in attracting and sustaining FDI in LLDCs. Total FDI inflows to LLDCs have decreased by an average of 2 per cent annually since 2014. LLDCs have been heavily impacted by the overall decline in global FDI flows over the past decade and by the COVID-19 pandemic in particular. Their share of FDI inflows to developing countries has dropped from 4.3 per cent in 2014 to 2.8 per cent in 2023. FDI remains concentrated in a few LLDCs, with five countries receiving nearly 60 per cent of total inflows.

Although there have been some advancements in structuring PPPs and securing project finance in the power and transport sectors, investment in these sectors remains insufficient to meet the sustainable development goals and the needs of the population. In addition, productive capacities remain low and investment in critical sectors like ICT infrastructure has been minimal, highlighting a gap that needs to be addressed to promote economic diversification.

The upcoming Third United Nations Conference on LLDCs provides a critical platform to reassess and renew the strategies of the Vienna Programme of Action. Addressing the decline in FDI will require continuous efforts from both LLDCs and their development partners. Effective policymaking and targeted efforts to promote quality investments can create a competitive advantage for LLDCs in attracting FDI, especially in priority areas and in sectors relevant to the sustainable development goals. In this regard, countering the FDI decline in LLDCs will require:

- Adapting FDI attraction and retention strategies with the evolving investment landscape, affected by geopolitical tensions, global crises, and regional realignments.
- Continuing to improve the investment climate to fostering transparency and ensuring policy predictability, while maintaining adequate regulatory flexibility for governments to implement necessary measures in response to various challenges including climate change and other global crises such as the Covid-19 pandemic. The implementation of digital government tools can prove particularly effective in this regard, as highlighted in the World Investment Report 2024 (UNCTAD 2024b).
- Complementing efforts to enhance the overall quality of the investment environment with more targeted policy reforms as well as investment promotion and facilitation initiatives aimed at increasing investment in projects that can foster economic diversification and investment in SDG sectors. This involves policies aimed at leveraging FDI to build productive capacities, promoting linkages between local companies and foreign investors, fostering skills and technology transfer, and generating employment and export opportunities. It also includes developing pipelines of investment-ready projects, clearing regulatory hurdles around them and strengthening the institutions in charge of their promotion.

At the same time, development partners can support these efforts by:

- Increasing financial and strategic support to LLDCs to review their FDI strategies and enhance their attractiveness to foreign investors in key sectors relevant for sustainable development, including through technical assistance.
- Supporting LLDCs in the design of bankable investment projects in infrastructure, including cross-border projects, and the identification of innovative financing mechanisms, including through capacity-building and the promotion of de-risking instruments for outward investment, such as investment guarantees and financial support.
- Promoting outward investment in LLDCs, in particular in SDG-related projects and in projects that can enhance their technological capabilities, assist them overcome geographical constraints, foster innovation, and technology transfer, promote green transition and address the negative effects of climate change, thereby promoting sustainable development and economic resilience.

Amid growing uncertainty due to various challenges, collaboration between LLDCs, transit countries, international financial institutions, and the international community remains essential for advancing future development programs and integrating LLDCs into the global economy.

Annex 1

Investment-related commitments in the Vienna Programme of Action for Landlocked Developing Countries

Actions required by LLDCs, 2014-2024

Priorities under Vienna Programme of Action		Areas of investment commitments
Priority 2: Infrastructure development and maintenance	Paragraph 30	"The magnitude of the required resources to invest in infrastructure development and maintenance remains a major challenge. It requires forging international, regional, subregional and bilateral cooperation on infrastructure projects, allocating more from national budgets, effectively deploying international development assistance and multilateral financing in the development and maintenance of infrastructure and strengthening the role of the private sector. At the same time, it also requires a substantial investment in capacity-building and legal, regulatory and policy reform to create an environment supportive of greater public and private investments in infrastructure. It is important to help landlocked developing countries to develop the capacity to prepare bankable, large-scale infrastructure projects and to explore innovative financing mechanisms for those projects, including public-private partnerships, where appropriate."
	Paragraph 32 (g)	"To develop the necessary policies and regulatory frameworks to promote private sector involvement in infrastructure development and promote an enabling environment to attract foreign direct investment."
	Paragraph 32 (h)	"To promote public-private partnerships for the development and maintenance of transport infrastructure and their sustainability."
Priority 4: Regional integration and cooperation	Paragraph 55	"There is a need to promote meaningful regional integration to encompass cooperation among countries in a broader range of areas than just trade and trade facilitation, including investment, research and development and policies aimed at accelerating regional industrial development and regional connectivity."
Priority 5: Structural economic transformation	Paragraph 61	"Science, technology and innovation play a critical role in achieving structural economic transformation, productive capacity development and value addition. Conducive national policies, international support and foreign direct investment are necessary to facilitate access to science, technology and innovation, and landlocked developing countries should promote investment in science, technology and innovation for sustainable development."
	Paragraph 64 (d)	"To promote the attraction of more diversified foreign direct investment through the creation of a conducive environment, with the aim of enhancing value addition, productive capacity, transit transport infrastructure and completion of missing links connecting landlocked developing countries within the regional network."
	Paragraph 64 (h)	"To develop an industrial policy that takes into account the need for improved access to financial resources, development of appropriate human capacity and investment in supportive economic infrastructure as a way to further strengthen the private sector."

References

UNCTAD (2024a). Global Economic Fracturing and Shifting Investment Patterns. A Diagnostic of 10 FDI Trends and Their Development Implications (UNCTAD/DIAE/2024/1). Geneva.

UNCTAD (2024b). World Investment Report 2024: Investment facilitation and digital government (United Nations publication. Sales no. E.24.II.D.11. Geneva

Baldwin R, Freeman R, Theodorakopoulos A (2023). Deconstructing Deglobalization: The Future of Trade is in Intermediate Services. Available at: https://onlinelibrary.wiley.com/doi/10.1111/aepr.12440

Acknowledgements

This Investment Policy Monitor was prepared by Mathilde Closset and Anastasia Leskova under the supervision of Massimo Meloni and the general guidance of Nan Li Collins. It also benefited from contributions by Abraham Negash, Mussie Delelegn Arega and Changbum Son. Comments were provided by Hamed El Kady, Amelia U. Santos-Paulino, and Frida Youssef. Production of the report was supported by Beth Helfand.

Investment
Policy Monitor

Division on Investment and Enterprise

This document has not been formally edited -UNCTAD/DIAE/PCB/INF/2024/2