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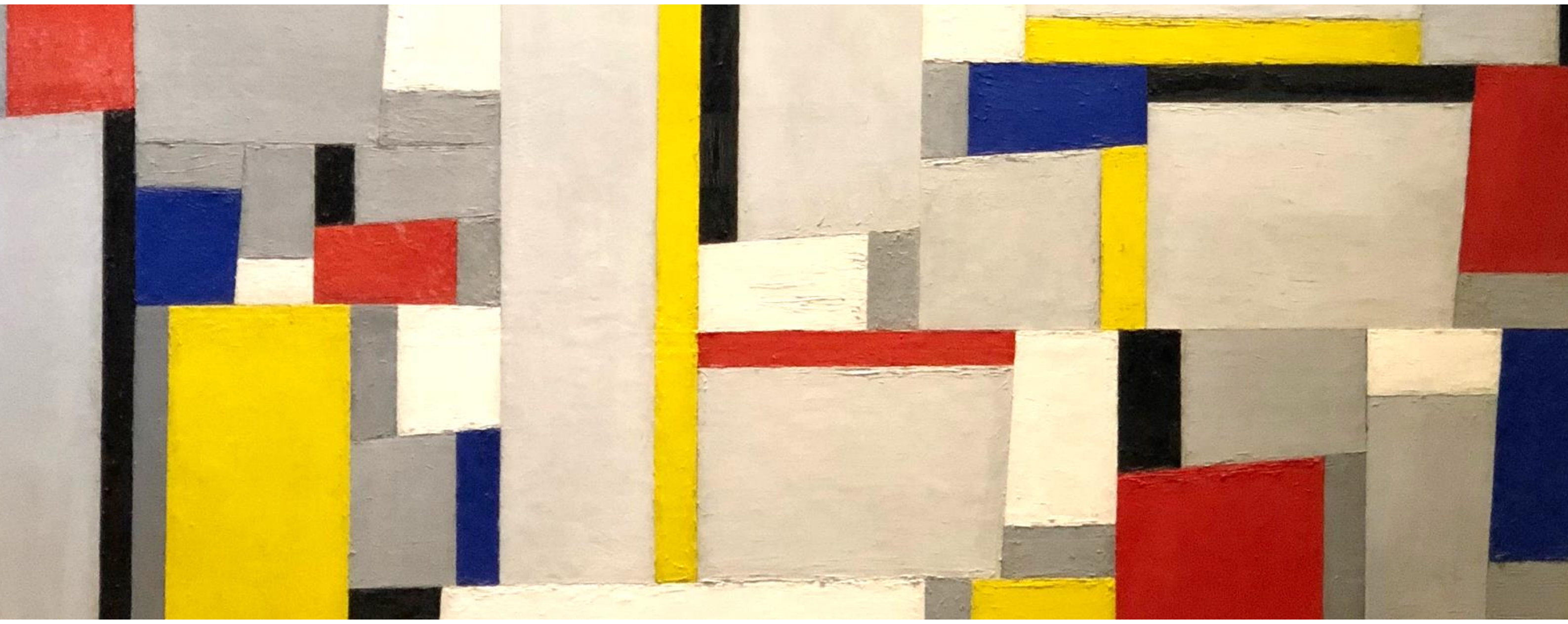
ENCOURAGING SUSTAINABLE FOREIGN INVESTMENT TO THE LDCs: OPTIONS FOR SUPPORT



United Nations Office of the High Representative
for the Least Developed Countries,
Landlocked Developing Countries and
Small Island Developing States

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NOTE

The purpose of this occasional policy papers series, published by the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS), is to analyse policy issues relating to the development of the least developed countries (LDCs), stimulate discussions and promote international cooperation. In keeping with this objective, the authors are encouraged to express their own views, which do not necessarily reflect the views of the United Nations or its member States.

The series is prepared under the general guidance of the Under Secretary-General and High Representative and the overall supervision of the Director of the UN-OHRLLS.

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Introduction

There is a shared understanding in the international community that "[p]rivate business activity, investment and innovation are major drivers of productivity, inclusive economic growth and job creation."[2] This is coupled with a recognition that "many least developed countries continue to be largely sidelined by foreign direct investment that could help to diversify their economies, despite improvements in their investment climates."[3] Indeed, foreign direct investment (FDI) flows to Least Developed Countries (LDCs) still only account for about 2 per cent of world FDI, and declining since 2014, despite their combined population of one billion people or 13 percent of world's total.[4] In addition, FDI to LDCs remains mainly resource seeking, especially in the extractive sectors, with investment in manufacturing and services often hampered by structural bottlenecks, including the small size of local economies, limited access to regional or global markets and modest availability of skilled human resources. This situation is not new and the objective of increasing FDI to the LDCs has been laid out in many UN documents dedicated to the LDCs, including the action plans for the decade 2001-2010[5] and again for the decade 2011-2020.[6] In particular, the latter, the 2011 Istanbul Programme of Action (IPoA) calls for policies and measures to attract and retain FDI, with the aim of diversifying the LDCs' production base and enhancing their productive capacity. For that purpose, the IPoA, on the one hand, encourages the LDCs to reinforce their "national policy and regulatory framework … by, inter alia, removing barriers to investment, securing contract enforcement and promoting respect for property rights, [as well as] strengthening equitable and

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[2] United Nations (UN), Addis Ababa Action Agenda of the Third International Conference on Financing for Development (Addis Ababa Action Agenda), General Assembly resolution 69/313 of 27 July 2015, paragraph 35.
[3] Id., paragraph 46.
[4] See UNCTAD, *World Investment Report 2017*, p. 79 et seq. UN-OHRLLS, *State of the LDCs 2017*, p. 40.
[5] See UN, Programme of Action for the Least Developed Countries, adopted by the Third United Nations Conference on the Least Developed Countries held in Brussels on 20 May 2001, UN doc. A/CONF.191/11, paragraph 88: "Long-term foreign private capital flows have a complementary and catalytic role to play in building domestic supply capacity as they lead to tangible and intangible benefits, including export growth, technology and skills transfer, employment generation and poverty eradication".
[6] UN, Programme of Action for the Least Developed Countries for the Decade 2011-2020, UN doc. A/CONF.219/3/Rev.1 (23 May 2011).

efficient taxation systems."[7] And, on the other hand, it calls on the LDCs' development partners[8] to set up initiatives to support investment in LDCs, such as insurance, guarantees, preferential financing programmes, capacity-building and business development services.[9]

Subsequently in the 2015 Addis Ababa Action Agenda (AAAA) and in the Political Declaration adopted at the 2016 mid-term review of the IPoA, world leaders pledged to "adopt and implement investment promotion regimes for LDCs" and also offered financial and technical support for project preparation, access to information on investment facilities, and risk insurance guarantees.[10] More broadly the instrumental role of FDI for the realization of the Sustainable Development Goals and UN Agenda 2030 is set out in target 10b, which calls for additional FDI in the LDCs in order to reduce inequality within and among countries.[11]

This paper focuses on what the development partners of LDCs can do to help those countries get more 'sustainable' foreign investment[12] - investment that contributes to their sustainable development - and indicates some options for support that need to be further explored. It addresses the investment attraction measures that LDCs themselves can take only in as far these can be supported by development partners. Thus, the paper reviews outward investment promotion and facilitation measures that can be undertaken by foreign investors' home countries to foster foreign investment flows into the LDCs, as well as the support that development partners can provide to LDCs' inward promotion and facilitation activities that seek to attract foreign investment into the LDCs.

Indeed, the commitment set out in the AAAA to establish "investment promotion regimes for the LDCs" indicate the objective of tackling the problem of the insufficient foreign investment flows towards these countries in a structured fashion and not through sporadic and fragmented actions.[13] This commitment - read in conjunction with the IPoA's broad objectives to attract and retain foreign investment to the LDCs - indicates the willingness of the international

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[7] Id., paragraph 122 (2) (a).

[8] Essentially developed countries, emerging economies, multilateral development agencies and other stakeholders in civil society and the private sector. However, for the purpose of this paper development partners is understood, restrictively, to mean capital-exporting countries, including developed countries and increasingly emerging economies, as well as the European Union (EU), which is a particularly important partner for the LDCs.

[9] UN, Programme of Action for the Least Developed Countries for the Decade 2011-2020, paragraph 122 (3).

[10] Addis Ababa Action Agenda, paragraph 46; United Nations, 'Comprehensive High-Level Midterm Review of the Implementation of the Istanbul Programme of Action for the Least Developed Countries for the Decade 2011-2020, UN doc. A/CONF.228/L.1 (13 July 2016), paragraph 67.

[11] UN, "Transforming our world: the 2030 Agenda for Sustainable Development", General Assembly resolution 70/1 of 25 September 2015. Target 10B reads in relevant part; "Encourage ... financial flows, including foreign direct investment, to States where the need is greatest, in particular least developed countries …". (See also target 17.5, which reads: "Adopt and implement investment promotion regimes for least developed countries.")

[12] The concept of 'sustainable investment' is not easily defined also because it shares the complexity surrounding the notion of 'sustainable development' (see for instance A. Zampetti, "Entrenching Sustainable Human Development in the Design of the Global Agenda after 2015", in Denver Journal of International Law and Policy, 2015, Vol. 43 (3), pp. 277-310). At a very general level 'sustainable investment' can be defined as investment which makes a specific, material contribution to the realization of sustainable development in one or more of the areas covered by the latter (for instance in one of more of the Sustainable Development Goals (SDGs) or their related targets), while causing no detrimental effect to the realization of sustainable development in any areas.

[13] The literature on international regimes is vast including different definitions. Young defines regimes as "set of rules, decision-making procedures and/or programs that give rise to social practices, assign roles to the participants in these practices and govern their interactions." Establishing a "regime" for investment promotion seems to imply the desire to at least agree on and set out respective roles and expected actions of the various stakeholders, including both development partners and LDCs, in the pursuit of an objective -enhanced foreign investment to the LDCs- that would elude individual national efforts, see O. Young, *Governance in World Affairs*, 1999, page 5.

community to deploy a broad array of instruments that may encourage investments to the world's poorest countries.

The paper is structured as follows: the first section frames the notions of investment promotion and investment facilitation for the benefit of the LDCs; the second section parses the measures that are frequently undertaken by capital exporting countries within their own jurisdictions to directly support outward investments, and the feasibility of using them with the aim of fostering foreign investment to the LDCs (by way of illustration the Annex provides the description of several existing measures and schemes); the third section reviews the measures that development partners of the LDCs can take to support the promotion and facilitations activities implemented by and in the LDCs with the aim to foster additional inward FDI. The fourth section of the paper looks at promising instruments and measures that can be deployed to increase the flows of investment to the LDCs, in particular foreign investment that makes a positive contribution to the realization of sustainable development, also with a view to fulfilling the objectives and commitments included in the IPoA, Agenda 2030 and the AAAA.

1. Framing Investment Promotion and Facilitation Measures for the LDCs

Foreign investments take place in many ways. FDI occurs when the investor establishes or acquires an enterprise abroad in which it has a lasting interest evidenced by the direct investor's equity ownership that entails at least 10% of the voting power of the direct investment enterprise.[14] However this is not by far the only route for foreign investment. As UNCTAD noted:

> "In the past, TNCs [trans-national corporations] primarily built their international production networks through FDI (equity holdings), creating an internalized system of affiliates in host countries owned and managed by the parent firm. Over time, TNCs have also externalized activities throughout their global value chains. They have built interdependent networks of operations involving both their affiliates and partner firms in home and host countries. Depending on their overall objectives and strategy, the industry in which they operate, and the specific circumstances of individual markets, TNCs increasingly control and coordinate the operations of independent or, rather, loosely dependent partner firms, through various mechanisms. These mechanisms or levers of control range from partial ownership or joint ventures, through various contractual forms, to control based on bargaining power arising from TNCs' strategic assets such as technology, market access and standards."[15]

[14] For a technical definition of direct investment see International Monetary Fund, Balance of Payments and International Investment Position Manual, Washington, D.C., 2009, chapter 6B and OECD Benchmark Definition of Foreign Direct Investment: Fourth Edition, Paris, 2008 (the glossary entry for FDI at page 234 states that FDI "is a category of investment that reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor. The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the enterprise. The direct or indirect ownership of 10% or more of the voting power of an enterprise resident in one economy by an investor resident in another economy is evidence of such a relationship").

[15] See UNCTAD, *World Investment Report 2011: Non-Equity Modes of International Production and Development*, Geneva, 2011, page 124. See also C. Oman, *New Forms of Investment in Developing Country Industries: Mining. Petrochemicals, Automobiles, Textiles, Food*, Paris, 1989.

Thus foreign investors use a large variety of equity and non-equity investment modalities (such as subcontracting, licensing, strategic alliances, co-production and marketing, co-research and development, contract design and manufacturing, franchising, management contracts, turnkey projects, contract farming and licensing). It is clearly in the interest of the LDCs that both equity and non-equity modes of investment are promoted and facilitated, provided the expected benefits for the host economy can be ensured.

Investment promotion and facilitation encompass a vast array of measures (especially if both equity and non-equity modes of investment are considered) and are not easily distinguishable categories. UNCTAD considers that investment promotion is aimed at "promoting a location as an investment destination (and is therefore often country-specific and competitive in nature), while [investment facilitation] is about making it easy for investors to establish or expand their investments, as well as to conduct their day-to-day business in host countries."[16]

The confine between the two categories is often blurry as most of the investment promotion activities involve some provision of information and services to the prospective investors that clearly lead to an enhanced ease of doing business. Conversely, most investment facilitation initiatives can also be used as powerful attraction and promotional tools as they aim to improve the business climate and build the country image. As a result, this paper will not attempt to distinguish between the two categories but focus on investment support measures that development partners may use to encourage investment flows to the LDCs.

Investment promotion and facilitation measures are commonly undertaken by prospective host countries, which seek to attract inward investment. Some investment promotion and facilitation measures are also used by home countries with the objective of fostering outward investments of their companies in certain foreign markets. Ultimately investment promotion and facilitation measures seek to influence investment location decisions by companies: foreign companies in the case of inward investment support measures and domestic companies in the case of outward investment support measures.[17]

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[16] Global Action Menu for Investment Facilitation, UNCTAD doc. TD/B/63/CRP.2. According to Wells and Wint, investment promotion includes marketing activities such as advertising, investment seminars and missions, participation in trade shows and exhibitions, preparation of visits of prospective investors, matching prospective investors with local partners, acquiring permits and approvals from various government departments, preparing project proposals, conducting feasibility studies, and providing services to the investor after projects have become operational. Promotion in principle does not include the granting of incentives to foreign investors, the screening of foreign investment, and negotiation with foreign investors, even though many investment promotion organizations may also conduct these other activities (see L. Wells and A. Wint, "Marketing a Country: Promotion as a Tool for Attracting Foreign Investment", Foreign Investment Advisory Service Occasional Paper, International Finance Corporation, Washington, D.C., 2000, page 8). On the other hand, investment facilitation may cover a broader set of issues. UNCTAD notes in its Global Action Menu that investment facilitation initiatives aim to tackle ground-level obstacles to investment. They can include improvements in transparency and information available to investors; they can work towards efficient administrative procedures for investors; they can enhance the predictability of the policy environment for investors through consultation procedures; they can increase accountability and effectiveness of government officials and mitigate investment disputes; they can include cross-border coordination and collaboration initiatives such as links between outward and inward investment promotion agencies; and they can include technical cooperation and other support mechanisms for investment.

[17] In some case, for instance for support activities provided by EU member States, eligibility is extended to enterprises headquartered in the European Economic Area (including the EU, Norway, Liechtenstein and Iceland) and Switzerland. Development cooperation agencies are also active in the mobilization of private capital especially for infrastructure projects and their support, often in cooperation with multilateral development institutions, is generally not constrained by the nationality of the investors (see for instance the partnership between the International Financial Corporation and the Swedish International Development Cooperation Agency (SIDA) described in G20, "Principles of MDBs' strategy for crowding-in Private Sector Finance for growth and sustainable development", April 2017, available at: http://www.bundesfinanzministerium.de/Content/DE/Downloads/G20-

The advantages of increasing inward investment are well-established. Foreign investment has the potential to lead to capital accumulation, technology and know-how transfer, expanded productive capacity, economic diversification, access to foreign markets, additional employment and the development of local human capital.[18] The benefits of promoting outward investments to certain locations are more contingent and sector- and country-specific. Leaving aside political motivations,[19] countries may pursue a variety of objectives when deciding to assist their firms in investing abroad, ranging from promoting the growth of small and medium-sized enterprises (SMEs), to acquiring strategic assets and natural resources, from increasing business opportunities and accessing new markets, to enhancing firms' innovation capacity and competitiveness.[20] These benefits need to be balanced against the growing preoccupations related to the delocalization of production and the related loss of employment in the home economy.[21] Support for outward investment also poses the typical concerns related to subsidization, which may lead to inefficiencies, moral hazard, large administrative costs and distortions of competition.[22] However, from a global economic perspective, support to outward investment can be justified and deemed beneficial, inter alia, as a way of: a) correcting for market failures (for instance the difficulties SMEs face in securing adequate financing to invest abroad), b) addressing structural constraints of certain investment locations (due to the significantly higher transportation, communication and business costs and higher risks), or c) offsetting information limitations on, and image problems of, certain destinations. These considerations are of particular salience in case of investment to the LDCs.

As noted in the introduction, the international community has also recognized the potential advantages of enhanced foreign investment to the LDCs and the need for international support to foster these flows. As part of their development cooperation efforts development partners of the LDCs can use some of the tools, which are available to support outward investment of their companies, with the specific objective of promoting investments to LDCs, or can focus their

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Dokumente/principles-on-crowding-in-private-sector-finance-april-20.pdf?__blob=publicationFile&v=2). These initiatives are not the focus of this paper.

[18] Similarly well-known are the potential risks of foreign investment, including balance of payment problems, crowding-out of domestic businesses, enclave production with no positive spill-over effects on the national economy, loss of public revenues and tax avoidance, corruption, interference in domestic policy- and rule-making, resource and environmental degradation and depletion, safety hazards and protests by local communities.

[19] Among the objectives which are partly political, partly developmental and humanitarian is the preoccupation to address the specific socioeconomic root causes of migration, which have gained increased urgency in recent years.

[20] See T. Moran, *Harnessing Foreign Direct Investment: Policies for Developed and Developing Countries*, Washington, D.C., 2006; J. Knoerich, "How does outward foreign direct investment contribute to economic development in less advanced home countries?", Oxford Development Studies, 2017, 45:4, pp. 443-459; World Bank, *Global Investment Competitiveness Report 2017/2018: Foreign Investor Perspectives and Policy Implications*, Washington, D.C., 2018, pp. 4-5.

[21] See for instance C.E. Boehm, A. Flaaen and N. Pandalai-Nayar, "Multinationals, Offshoring, and the Decline of U.S. Manufacturing", U.S. Census Bureau, Center for Economic Studies, July 2017.

[22] Support both for outward and inward FDI may affect what is referred to as "competitive neutrality" across investors, with the recipient of support being in a more advantageous position than other (prospective or actual) foreign investors, as well as domestic competitors. This often engenders a race between countries in providing ever more generous support to prospective inward investors or their own outward investors (or both in the case of many developed and emerging economies). On the concept of competitive neutrality, which has its main application in a domestic context and relates to the need to maintain a "level playing field" between public and private providers of goods and services, see OECD, *Competitive Neutrality*, Paris, 2012 and OECD, National Practices concerning competitive neutrality, 2012. On the application of the concept to the foreign investment issue area, see K. Sauvant, P. Economou, K. Gal, S. Lim and W. Wilinski, "Trends in FDI, Home Country Measures and Competitive Neutrality", in A. Bjorklund, ed., *Yearbook on International Investment Law & Policy 2012-2013*, Oxford, 2014, and P. Sauvé and M. Soprana, "Disciplining Investment Incentives: A Lost Cause?", E15 Initiative, Geneva, 2016.

development finance instruments and organizations to promote new investments in the LDCs. They can also support the LDCs in their own efforts to attract FDI. In both cases development partners can seek to steer new investment activities towards ensuring sustainable investment.[23] For the purpose of this paper we thus distinguish between direct and indirect support of outward investment to the LDCs by their development partners.[24] We consider under 'direct support', those measures that are implemented within the jurisdictions of the development partners to support outward investment,[25] and under 'indirect support' those assistance actions by development partners (including their development agencies) that are implemented within the jurisdictions of the respective LDCs to attract and support inward foreign investment. Direct support measures for outward investment thus 'directly' target domestic companies with the aim of encouraging them to invest in the LDCs. As such they aim to achieve this important development cooperation objective, while at the same time remaining beneficial to the domestic economy and companies concerned. Indirect support measures on the other hand aim at assisting LDCs government in their own promotion and facilitation efforts for inward foreign investment, which - ultimately - may also be beneficial to development partners' companies but are geared to attract any prospective foreign investor. In a nutshell, the paper aims to review viable options and instruments that development partners can employ to "push" their companies to invest more in LDCs, as well as to support that LDCs in activities they undertake to "pull" foreign companies to invest in their economies. In both cases these initiatives have budgetary implications for development partners.

2. Development Partners' Direct Support to Outward Foreign Investment

This section examines the different tools that development partners use to support outward investment. These measures are implemented within the development partner's own jurisdiction. As noted the majority of capital exporting countries undertake various combinations of incentive measures (see also Annex for illustrative examples) to promote outward investments for a variety of domestic economic policy reasons. Some of these measures can also be employed to specifically stimulate investments into the LDCs, thus fulfilling an important development cooperation objective.

In general foreign investment incentives may be defined as any measurable advantages accorded to domestic enterprises[26] by (or at the direction of) a Government, in order to encourage them to behave in a certain manner. They include measures specifically designed either to increase the rate of return of a particular investment project, or to reduce (or

[23] Home countries can do so as a result of their development cooperation priorities, but also because promoting "sustainable investment" may reduce the possibility of conflicts between national investors and the host State as well as local communities, since sustainable investment takes into account economic, environmental, social and governance considerations and objectives including to better manage risk and generate sustainable, long-term returns.

[24] The paper focus on support to direct investors, as project sponsors of greenfield or brownfield ventures, not portfolio investors, such as long-term institutional investors, including pension funds, life insurance, endowments and sovereign wealth funds, or lenders to foreign investors.

[25] Thus the paper does not deal with action taken by capital exporting countries at the international level to protect investment abroad through the conclusion of Bilateral Investment Treaties or other investment related agreements, which aim at protecting investment in the host country and may have the effect of encouraging outward investment.

[26] Or categories of enterprises depending on firm size, sector or destination of investment. In some cases incentives may only be available for state-owned enterprises.

redistribute) its costs or risks.[27] The advantage generally comes through financial measures, tax measures, political risk insurance, or information and advisory services.

A considerable benefit and encouragement to invest may also come from measures, such as 'blending', that development partners use to arrange the financing of investment projects that are too risky for the private sector to undertake.[28] The focus of the paper is however on measures aimed at influencing locational decisions of firms and does not extend to a specific examination of the broad fields of development finance or project finance as tools to alleviate risks, secure complete and viable financial packages for investment projects, especially infrastructure projects, and thus crowd-in additional commercial financing.[29]

Outward investment assistance measures are provided by many developed and emerging economies through different institutional set-ups, which generally fall within three main categories of public actors: a) finance and development cooperation institutions, including both development finance institutions (DFIs),[30] with the mandate to mobilize private capital for investment in developing countries and transition economies (by providing financial resources in the form of loans, equity and grants), and entities dedicated to supporting the internationalization of domestic enterprises often with an emphasis on support for SMEs;[31] b)

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[27] They do not include broader non-discriminatory policies such as infrastructure, the general legal and fiscal regimes for business operations, free repatriation of profits or national treatment of foreign investors. While these policies certainly bear on the locational decision of transnational corporations (TNCs), they are not investment incentives per se. UNCTAD, *Handbook on Outward Investment Agencies and Institutions*, Geneva, 1999; UNCTAD, The Investment Promotion Agency (IPA) Observer, No 4 - Outward Investment Agencies: partners in promoting sustainable development, Geneva, 2015.

[28] The OECD definition of blended finance is "the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries', with 'additional finance' referring primarily to commercial finance." (See OECD DAC Blended Finance Principles for Unlocking Commercial Finance for the Sustainable Development Goals, Paris, 2018, page 4).

[29] Public-private partnerships are another important business and financing structure that can create opportunities in sectors and industries that are important for the LDCs, such as energy and infrastructure. Infrastructure concessions have been limited in LDCs over the past decades. Where concessions have occurred, they were mostly concentrated in the power sector and to a smaller extent in transportation. UNCTAD, *Foreign Direct Investment in LDCs: Lessons Learned from the Decade 2001-2010 and the Way Forward*, Geneva, 2011, page 20.

[30] DFIs are specialised development banks that are usually majority owned by national governments. DFIs invest in private sector projects in low and middle-income countries to promote job creation and sustainable economic growth. They apply stringent investment criteria aimed at safeguarding financial sustainability, transparency, and environmental and social accountability. DFIs source their capital from national or international development funds or benefit from government guarantees which ensure their credit-worthiness. The financial support they bring to relatively high-risk projects helps mobilising the involvement of private capital, bringing in such diverse actors as commercial banks, investment funds or private businesses and companies (see https://www.edfi.eu/).
The main national DFIs include: OeEB (Austria), BIO (Belgium), BMI-SBI (Belgium), IFU (Denmark), Finnfund (Finland), AFD/Proparco (France), KfW/DEG (Germany), SIMEST (Italy), Japan Bank for International Cooperation (JBIC), FMO (Netherlands), Norfund (Norway), SOFID (Portugal), COFIDES (Spain), Swedfund (Sweden), SIFEM (Switzerland), CDC Group (United Kingdom) and OPIC (United States).

[31] For instance the Dutch Good Growth Fund (DGGF) which provides customised finance to Dutch SMEs doing business in developing countries and emerging markets. Some of the DFIs have a mandate that is composite (for instance COFIDES states that "as a financial institution, [it] has a dual mission: Promoting the internationalisation of the economy and Spanish companies; Contributing to the host countries development." (see http://www.cofides.es/ficheros/Folletos/Folleto_COFIDES_corporativo_ingles_octubre_2017.pdf), and sometime quite oriented towards the internationalization and competitiveness of domestic firms (for instance in the case of SIMEST and JBIC). Some programs have quite a distinct development orientation, such as the "develoPPP.de", established by Germany's Federal Ministry for Economic Cooperation and Development (BMZ) to help private innovative projects in developing countries and emerging markets with the potential to generate long-term benefits for the local population, or the Business Partnership Programme of the Austrian Development Cooperation for enterprises wishing to engage in developing and transition countries in an economically and socially responsible manner.

investment insurance providers,[32] with the task mainly to insure non-commercial risks abroad and provide other investment guarantees, and c) outward investment promotion institutions,[33] with the mission to help domestic enterprises to develop business links abroad and to pursue overseas business opportunities (through e.g. investment missions, the provision of information on political and economic conditions, laws and regulations affecting investment, investment opportunities abroad and available financing schemes). Tax measures are made available through specific provisions of tax legislation. Tax advantages may in some cases be claimed automatically or may require approval by a designated public authority.

When providing support for outward investment home countries often make it conditional to the investor's compliance with certain criteria of 'sustainable investment'.[34] These criteria may relate to different sustainable development dimensions, including among others economic aspects (e.g. job creation, transfer of technology and skills, promotion of local entrepreneurship), environmental aspects (e.g. sustainable use of natural resources, climate protection), social aspects (e.g. assurance of safe working conditions, respect of human rights), and governance aspects (e.g. transparency and corruption).[35] In many instances home countries make use of existing international principles and standards.[36]

The outward investment measures commonly used by capital exporting countries (both developed and emerging economies) do not appear to have any specific and preferential focus on promoting foreign investment to the LDCs.

Financial Measures

Financial measures can include a broad range of instruments, such as grants, loans, credit enhancement, co-financing, equity participation, and venture capital for investment projects. The focus of this paper is on measures that may be used to influence investment location decisions by domestic firms. In this respect, financial support could be generic or more frequently targeted to certain activities (e.g. pre-investment and establishment and post-

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[32] In several capital exporting countries, Export Credit Agencies also provide investment insurance (e.g. CESCE Credit Insurance, Spain; Companhia de Seguro de Créditos, SA (COSEC), Portugal; Export Development Canada (EDC); Denmark's Export Credit Agency (EKF); Norwegian Export Credit Guarantee Agency (GIEK); Korea Trade Insurance Corporation (K-sure); Nippon Export and Investment Insurance (NEXI), Japan; Servizi Assicurativi del Commercio Estero (SACE), Italy; China Export & Credit Insurance Corporation (SINOSURE); UK Export Finance (United Kingdom).

[33] In many cases these functions are discharged by Investment Promotion Agencies or Investment and Trade Promotion Agencies or by Ministries or other entities within the executive branch of government. Agencies at sub-national level of government are also active in promoting outward investment, and so are private entities, such as chambers of commerce and trade associations.

[34] We noted that at a very general level 'sustainable investment' can be defined as investment which makes a specific, material contribution to the realization of sustainable development in one or more of the areas it covers (for instance in one of more of the SDGs or their related targets), while causing no detrimental effect to the realization of sustainable development in any areas. Once the areas where the expected contribution from foreign investment are defined, specific criteria or benchmarks can be set out (both to evaluate the positive contribution as well as the absence of detrimental effects), including with the aim to determine eligibility for public support.

[35] For instance the United States' Overseas Private Investment Corporation (OPIC) has been strengthening its focus on projects in developing countries most in need of increased investment and transfer of technology (see https://www.opic.gov/doing-business-us/applicant-screener/finance-eligibility-checklist); in Japan, the JBIC conducts a review of environmental and social conditions when deciding on funding and monitoring and follow-up thereafter (see http://www.jbic.go.jp/wp-content/uploads/page/2016/12/53107/jbic-brochure-english.pdf).

[36] For instance in order to support a project OPIC requires that it meets the worker's right standards of the International Labour Organization 'OPIC - Environmental and Social Policy Statement', 2010 (see http://www.opic.gov/sites/default/files/consolidated_esps.pdf).

establishment activities). It can be tailored to specific sectors (e.g. infrastructure), companies, such as SMEs, or type of venture, such as those undertaken jointly with local business partners.[37]

a) Grants

Grants to encourage outward investment are typically directed to cover business costs before the investment is made, such as feasibility studies, market research and business missions, or after establishment, such as offices set-up and training of personnel costs.[38] Grants awarded for pre-investment activities generally aim to help overcome information-related market failures, usually through feasibility studies. A feasibility study is an essential step in the investment process, as it aims to ascertain whether a project is technically viable, economically profitable and it is a pre-requisite for the drafting of a business plan. Most support measures for feasibility studies are 'fully financed' and there is no need to repay the funds. Some are 'pre-financed', requiring that the funds are repaid to the government if the project is viable.[39]

LDCs, in particular those with weak investment promotion agencies, stand to significantly benefit from the correction of information failures. Grants to encourage SMEs from developed partners could significantly increase the number of potential investors to LDCs, as these enterprises usually lack the resources to collect the information necessary to consider investment locations in LDCs.

Grants can also provide financial support to companies to cover establishment and post-establishment expenses, such as costs of setting up overseas offices, salary for overseas staff, training costs for expatriate staff,[40] and related travel and accommodation expenses. By giving financial support for the costs involved in setting up and staffing overseas offices, grants help to reduce initial barriers to market entry faced by investors and can be of particular use to SMEs, which may otherwise be deterred by high upfront investment costs.[41]

b) Loans and Financial Guarantees

Loans are one of the most prevalent financing mechanisms used by home countries to foster outward investment.[42] Loans can be either concessional or non-concessional, denominated in either domestic or foreign currency. Loans are provided directly by home country agencies, especially national DFIs, or by commercial lenders or international development finance institutions through risk-sharing arrangements with the home country's agencies. Other related instruments are structured finance and risk-sharing agreements.

[37] P. Sarmah, *Home Country Measures and FDI: Implications for Host Country Development,* Centre for Competition, Investment & Economic Regulation (CUTS), 2003, page 14.

[38] Eligible expenses typically include companies own expenses (e.g. travelling, accommodation) and third-party expenses like fees paid to consultants, investment bankers and lawyers, see Sauvant and others, op. cit., page 48.

[39] UNCTAD, *Handbook on Outward Investment Agencies and Institutions*, Geneva, 1999, page 3.

[40] Training programs include immersion programs in a foreign country, foreign language classes and executive programs to help employees and managers to cope with cultural differences in a professional context. Sauvant and others, op. cit., pp. 51–52.

[41] Unlike TNCs that usually have sophisticated human resource policies in place, supporting the development of an international human resource strategy can make a substantial difference to smaller businesses. On their own, SMEs will be less willing to retain external expertise to develop human resource strategies as the benefits may not be immediately ascertainable and the expenses incurred may be significant relative to the size of the business. Sauvant and others, op. cit., page 53.

[42] Ibid.

Concessional loans[43] or credits made available by bilateral development cooperation agencies, can be an important element in structuring a project finance package whereby a project sponsor (often a foreign investor) can alleviate risk and secure financing for the project at a favourable rate. In addition, the very presence of a development cooperation agency in the financing of a project may reduce the perceived political risk (and hence cost) of an investment. Countries such as China, Denmark, Italy, Germany, Japan, the Netherlands and the Republic of Korea offer this type of soft loans.

Non-concessional loans are loans provided on market terms. Even if loan conditions are identical to those offered from commercial lenders, some domestic firms may still derive a significant advantage from the availability of these loans, as sometimes private financial institutions are reluctant to lend particularly to SMEs or unable to lend, for instance in times of economic crisis.[44] Non-concessional loans are provided notably by Belgium, Germany and the United States. Some countries, such as Belgium, Spain, Singapore and the US, also make use of more sophisticate lending instruments, such as structured finance.[45]

Home countries DFIs may also seek to share credit risk linked to the financing of outward investment by co-financing loans with multilateral development finance institutions[46] or private financial institutions through syndication. In this way, a government make use of international development funds or private capital to support outward investment.

Alternatively, governments may issue a financial guarantee, which is a contractual promise to repay principal and interest owed by the borrower (i.e. the outward investor) in case of the borrower's default (generally regardless of the cause of default, thus covering both political and commercial risks). By bearing a portion of the lender's risk the government makes it more likely that financial institutions will provide credit especially to SMEs and results it improves the debt terms for the borrower (i.e. longer maturity and reduced interest rate costs).[47]

While loans and financial guarantees are often extended by DFIs there does not appear to be a preferential focus on supporting outward investment towards LDCs.[48]

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[43] Concessional loans are those extended on terms substantially more generous than commercial loans, namely below market interest rates and/or long grace periods. See International Monetary Fund, *External Debt Statistics: Guide for Compilers and Users*, Washington, D.C., 2003, pp. 249-250, available at: http://www.imf.org/external/pubs/ft/eds/Eng/Guide/file6.pdf.

[44] Sauvant and others, op. cit., page 56.

[45] Structured finance encompasses all advanced private and public financial arrangements that serve to efficiently refinance and hedge any profitable economic activity beyond the scope of conventional forms of on-balance sheet securities (debt, bonds, equity) in the effort to lower cost of capital and to mitigate agency costs of market impediments on liquidity, see A. Jobst, "A Primer on Structured Finance", Journal of Derivatives and Hedge Funds, Vol. 13, No. 3, 2007, pp. 199-213.

[46] Multilateral DFIs are private sector arms of the international financial institutions (IFIs) with the mandate of financing private sector projects mainly through equity investments, long-term loans and guarantees.

[47] Sauvant, op. cit. page 59.

[48] Regulation (EU) 2017/1601 of the European Parliament and of the Council of 26 September 2017 establishing the European Fund for Sustainable Development (EFSD), the EFSD Guarantee and the EFSD Guarantee Fund, OJEU L 249. Article 3 (Purpose) states: "1. The purpose of the EFSD as an integrated financial package, supplying financing capacity in the form of grants, guarantees and other financial instruments to eligible counterparts, shall be to support investments and increased access to financing …". The regulation sets out at art. 9(2) that "the EFSD Guarantee shall support financing and investment operations which address market failures or sub-optimal investment situations and which: … (d) are economically and financially viable, with due regard to the possible support from, and co-financing by, private and public partners to the project, while taking into account the specific operating environment and capacities of countries identified as experiencing fragility or conflict, LDCs and heavily

c) Equity Participation

Governments also support outward investment, often through their DFIs, by becoming investment partners through equity participation in a domestic enterprise intending to invest abroad or in the foreign affiliate which is established as a result the foreign investment project. A special fund can be created with the aim of supporting private sector development in developing countries by making available public funding for specific investments, for instance in SMEs in the beneficiary countries, while also seeking the participation of the domestic private sector in these ventures.[49]

Tax Measures

Tax incentives can be defined as "any incentives that reduce the tax burden of enterprises in order to induce them to invest in particular projects or sectors."[50] Thus, tax incentives to outward investment aim to provide a reduction in the overall tax burden of home country' enterprises investing abroad. The way the incentives are structured depends in part on whether the home country employs a territorial or a worldwide method to taxing foreign affiliates. In general, under the territorial method, income earned abroad by foreign affiliates is wholly or partially exempted from home country taxes with no credit for foreign taxes. Under the worldwide method, income earned abroad by foreign affiliates is subject to taxation by the home country with a credit for income taxes paid abroad.[51]

The large majority of OECD member countries have adopted territorial tax systems (29 of the 35 OECD member countries), with 21 countries providing for full corporate income tax exemption[52] and 8 countries exempting between 95% and 97% of qualifying foreign dividends received from affiliates abroad.[53] However, some OECD member countries with territorial tax systems, limit the exemption to affiliates resident in countries with which they have a double taxation treaty in force or that have robust income tax systems. Where the exemption system is not applicable, countries with territorial tax systems generally tax foreign subsidiary income upon repatriation with a credit for foreign income taxes.

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indebted poor countries where *more concessional terms can be given*; …" (emphasis added). In addition, the EU scheme is focused on Africa (as well as the European southern and eastern neighbours), see art. 1(1).

[49] This type of funds is used by the US and described as follows: "A U.S. government–funded enterprise fund is an organization that is designed to promote the expansion of the private sector in developing and transitioning countries by providing financing and technical assistance to locally owned small and medium-sized enterprises. The U.S. government provides initial capital to an enterprise fund through a grant; the fund may then seek additional capital from the private sector to invest alongside the enterprise fund. Enterprise funds are modeled on investment management in the venture capital industry, in which venture capital is invested primarily in small companies during early stages of their development with the investors monitoring, advising, and following up on operational results." (See *Enterprise Funds*, United States Government Accountability Office, 2015, available at: https://www.gao.gov/assets/670/668245.pdf)

[50] UNCTAD, *Handbook on Outward Investment Agencies and Institutions*, 1999, page 4.

[51] See PriceWaterhouseCoopers (PwC), Evolution of Territorial Tax Systems in the OECD, 2013, page 1 (at: http://www.techceocouncil.org/clientuploads/reports/Report%20on%20Territorial%20Tax%20Systems_20130402b.pdf).

[52] Australia, Austria, Canada, Czech Republic, Denmark, Estonia, Finland, Greece, Hungary, Iceland, Latvia, Luxembourg, Netherlands, New Zealand, Poland, Portugal, Slovakia, Spain, Sweden, Turkey, and United Kingdom.

[53] Belgium, France, Germany, Italy, Japan, Norway, Slovenia, and Switzerland.

Six OECD countries and several emerging economies currently use a worldwide tax system.[54] In countries with worldwide tax method, two main financial mechanisms are used to reduce the tax burden on outward investment: tax deferrals and tax credits. A tax deferral allows that income from foreign subsidiaries only when the controlling shareholders in the home country receive dividends or other income distribution from their foreign stocks. A foreign tax credit generally permits domestic taxpayers to credit foreign taxes they pay against domestic taxes they would otherwise owe, with certain limitations.
Countries using both taxation systems also employ various deductions for qualifying expenses or losses to encourage certain behaviour by investors. For example, they may allow full (or even more than that, e.g. double) deductions for training, R&D, or market development and pre-investment expenses. They may also allow start-up losses from foreign operations to offset domestic income, thus reducing the tax liability of the foreign investor. These types of deductions may be of particular interest for outward investment purposes.

Political Risk Insurance

Foreign investment projects involve a larger variety of risks than domestic projects, and clearly certain investment locations, especially in LDCs, are particularly exposed to risks. While most of risks are country, industry, project and firm specific, they can be clustered into two broad categories: commercial and non-commercial risks.

Commercial risks include financial, business and operating risks. The capacity to manage a venture and the related risks, and make a profit, is at the core of any entrepreneurial project. Investors may use many different strategies to manage and reduce risks, including, among many others, business insurance, contractor performance bonds, forward purchase contracts for inputs and credit risks hedging. Ultimately, however, many commercial risks cannot be avoided and need to be borne by the investor. It is only through the investor's entrepreneurial capacity that these risks can be effectively mitigated and managed.

There is also a set on non-commercial risks, which are essentially beyond the control of investors. Some non-commercial risks cannot be mitigated. For instance, risks associated with financial and economic crisis caused by external shocks or global events are essentially uninsurable. Others, in particular natural risk events, such as floods, drought, mudslides, which are quite frequent in LDCs, are among the most common risks covered by the insurance industry, even though premiums are on the rise because of the increased frequency of such events, in part due to the effects of climate change. 'Political risk' is another type of non-commercial risk. Political risks can be defined as threats to the investment's profitability that are the result of forces external to the industry or firm and which involve some governmental action or inaction.[55] Unless mitigated, they can deter foreign investment.

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[54] Namely Chile, Ireland, Israel, Republic of Korea, Mexico and the United States, see PriceWaterhouseCoopers (PwC), op. cit., at page 11.

[55] T. Moran, "The Changing Nature of Political Risks", and L. Wells, "God and Fair Competition: Does the Foreign Direct Investor Face Still Other Risks in Emerging Markets", both in T. Moran, ed., *Managing International Political Risk*, 1998, Malden, MA, pp. 6-43. A definition used in the PRI industry, according to the glossary available on the website of MIGA, reads: "Political risks are associated with government actions which deny or restrict the right of an investor/owner (i) to use or benefit from his/her assets; or (ii) which reduce the value of the firm. Political risks include war, revolutions, government seizure of property and actions to restrict the movement of profits or other revenues from within a country." (available at: https://www.miga.org/Documents/Glossary_of_Terms_Used_in_the_Political_Risk_Insurance_Industry.pdf)

Some investment locations present large political risks to potential investors, which can make the investment project unfeasible, if not sufficiently insured against.[56] Political risks include currency inconvertibility and funds transfer restrictions, confiscation, expropriation and nationalization,[57] war and civil disturbance and host government's breach or repudiation of contract. These types of risks are quite prevalent in LDCs due to their structural weaknesses, which make the availability of political risk insurance (PRI), also referred to as investment insurance, of particular interest to them as an instrument to foster additional investment flows.

The confines between commercial and political risks are often blurred, which makes risk mitigation challenging. Political actions and policy changes or failures can affect the economic environment of an industry and the economic prospect of foreign investors. The desire to assert control over foreign investors or to provide a favourable treatment to local competitors may lead to governmental actions (or inactions) which may be covered only to a limited extent under PRI policies. Damaging actions (or inactions) may also be taken at the subnational levels of government. Similarly, business environment risks linked to the structural weaknesses of the host country's legal and financial systems, limited infrastructure and business services, as well as (even non-discriminatory) changes in policies and regulations (e.g. in taxation, interest rate and credit, trade and exchange rate), may give rise to risk events that are not generally covered under investment insurance policies. Determining whether an insured event has occurred[58] and the amount of related damage can also be challenging. In addition, insurance policies are subject to ceilings, monetary limits and percentage risk sharing[59] that leave a significant share of the risk for investors to bear. Scope, conditions and exclusions also reduce coverage, while annual premiums remain significant.

Despite these limitations the provision by national agencies of risk-mitigation in the form of PRI is often a crucial form of public support for outward investment. PRI has been available for several decades[60] in most of the OECD countries and more recently in several emerging economies.

PRI is provided by national export credit agencies, investment insurers, as well as private insurance companies.[61] Most OECD countries have national agencies that provide domestic

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[56] Surveys of foreign investors' views on the major constraints for foreign investment generally rank political risks among the top constraints, see, for instance, Multilateral Investment Guarantee Agency (MIGA), *World Investment and Political Risk*, 2014, Washington, D.C. (available at: https://www.miga.org/documents/WIPR13.pdf).

[57] Coverage usually applies to outright confiscation of property or funds, but also extends to losses arising from governmental actions that cause a reduction or elimination of ownership of, control over, or rights to, the insured investment. On trends in expropriation, see C. Hajzler, "Expropriation of Foreign Direct Investments: Sectoral Patterns from 1993 to 2006", Review of World Economics, 2012, Vol. 148 (1), pp. 119–49.

[58] For instance an unduly long delay in the issuing of a permit may lead to contract frustration, but not necessarily to a breach of contract covered by investment insurance.

[59] For instance, OPIC can insure up to 90 percent of an eligible investment and requires that the investor bear at least 10 percent of the risk of loss (see https://www.opic.gov/what-we-offer/political-risk-insurance/details-cost).

[60] PRI finds its origin in the Marshall Plan for the reconstruction of Europe after World War II, when the U.S. government began a program of issuing long-term political risk guaranties to encourage U.S. business to invest in Europe. In the political climate prevailing in many parts of Europe at the time investors feared currency controls, political violence and expropriation. Coverage of those risks started in the 1950s. For a brief account of the evolution of the industry, see Multilateral Investment Guarantee Agency (MIGA), World Investment and Political Risk, 2009, pp. 54-55.

[61] PRI is also provided by multilateral insurers, such as the World Bank Group's MIGA. However, the activities of international PRI providers are beyond the scope of this paper, which focuses on measures that development partners of the LDCs can directly take within their jurisdictions and the actions they can undertake to indirectly support the investment promotion efforts of the LDCs themselves.

companies with export credit and PRI,[62] a phenomenon that started in the late 1950s, when the Federal Republic of Germany, Japan and the United States, started offering insurance programs to foreign investors against non-commercial risks.[63] The largest among these agencies include UK Export Finance, EDC (Canada), EFIC (Australia), NEXI (Japan), ONDD (Belgium), OPIC (U.S.), SACE (Italy), SERV (Switzerland) and SINOSURE (China).[64] Some countries have delegated the management of their investment guarantees scheme to private companies. That is the case of Germany, which has appointed a consortium formed by PwC and Euler Hermes Aktiengesellschaft[65] and France, which uses COFACE, a private company providing insurance coverage on behalf of the French government.

As noted investment insurance is also provided by private insurance companies on a commercial basis.[66] While prospective foreign investors thus have the choice between public and private offering of PRI, the availability of the public option provides significant benefits for potential investors in support of national policy objectives.[67] PRI is a line of business with high transaction costs (due to the unpredictability of losses and the difficulty to use statistical model to assess risks), the potential for catastrophic losses (due to single events that may wipe out years of profit). This requires large capital set aside, and leads to high contracting, monitoring and claim management costs, with policies that need to be tailored to the individual client and often give rise to disputes on the applicability of the coverage to particular events. Private providers thus tend to avoid certain segment of the market or to serve them at high prices. On the other hand, public providers are mandated to take larger risks in line with the public policy objectives they serve. In some cases public insurers are designated as 'insurer of last resort' explicitly filling the gaps in market coverage, namely the high-risk markets that private insurers are unwilling to cover. Public providers are also able to commit to coverage with longer tenor than the 10 years common in the private sector. The support function of public

[62] Many public providers of investment insurance are Export Credit Agencies which came to the business of political risk insurance as an outgrowth of the provision of insurance for equipment exports as well as construction and operation of facilities abroad.

[63] Antonio R. Parra, *The History of ICSID*, Oxford, 2012, pp. 12–13.

[64] The large majority of these agencies are members of the "Berne Union", an association of the export credit and investment insurance industry established in 1934, which now includes 85 members, both public and private companies (see http://www.berneunion.org/about-the-berne-union/berne-union-members/). For a review of national agencies see K, Gordon, "Investment Guarantees and Political Risk Insurance: Institutions, Incentives and Development", OECD Investment Policy Perspectives 2008, page 91 et seq.; T. Matsukawa and O. Habeck, *Review of Risk Mitigation Instruments for Infrastructure Financing and Recent Trends and Developments. Trends and Policy Options*, Washington, D.C., 2007, Appendix B2; see also K. Hobér and J. Fellenbaum, 'Political Risk Insurance and Financing of Foreign Direct Investment', in M. Bungenberg and others, eds., *International Investment Law: A Handbook*, Baden-Baden, 2015, pp. 1540–1541.

[65] PricewaterhouseCoopers, Investment Guarantees of the Federal Republic of Germany, available at: http://www.pwc.de/en/offentliche-unternehmen/investitionsgarantien-des-bundes.html

[66] The private political risk market has developed strongly since the mid-1970s spearheaded by several underwriting syndicates at Lloyd's of London and the American International Group (AIG), and now includes several major providers of PRI, such as several syndicates of Lloyd's, Ace, AIG, Arthur J. Gallagher & Co, Chubb, FCIA, Sovereign, XL Catlin and Zurich.

[67] The broad objective of enhancing the home country economic performance is the most common aim set out in the national agencies' mission statements, see Gordon, op. cit., page 96. OPIC is the outlier with the stated objective "to mobilize and facilitate the participation of United States private capital and skills in the economic and social development of less developed countries and areas, and countries in transition from non-market to market economies …" (see Section 231 of The Foreign Assistance Act of 1961, as amended (Public Law 87–195)) which results in an operational focus on low-income countries. UK Export Finance (the agency providing political risk cover to UK investors) requires that any support it might provide for investments in poor and indebted countries (namely countries that normally borrow external funds on concessional terms from the International Development Agency (IDA) of the World Bank Group) will contribute to the economic and social development of the country (see at https://www.gov.uk/government/publications/sustainable-lending-questionnaire).

insures for outward investment is also evident in their ability to interact with the host country governments and deterring adverse events or securing a favourable treatment in case such events take place.

Information and Advisory Services

Systematic gathering of information and the in-depth assessment of foreign investment destinations is an expensive and time-consuming activity that may be beyond the reach of many enterprises, in particular SMEs. This can be remedied through the provision of advisory services, which provide information and analysis on the macroeconomic situation, legal framework, political environment, business opportunities and industry outlooks in prospective host countries. Indeed, advisory services are among the most widespread support measures that developed countries provide in order to encourage their companies to invest in developing countries.[68] This type of support includes the provision of:

1. General information on geographic, economic and legal conditions of host countries;
2. Sectoral studies and information on specific investment opportunities;
3. Meetings, conferences, investment missions and other proactive information programmes designed to bring information on investment opportunities to potential investors, whereby, for example, executives from industrial countries go to developing countries, or vice versa;
4. "Matchmaking", by bringing information about investment opportunities to the attention of potential domestic investors;
5. Feasibility studies and project development for identified investment opportunities.[69]

The organization of seminars, conferences and other training events can be targeted towards specific destinations deemed of particular interest by the outward investment agencies. The organization of missions to potential host countries is an important service for potential outward investors aimed at establishing and maintaining contacts with governments and entrepreneurs in host countries where business opportunities may exist. Matchmaking services typically include the identification of potential partners, screening and carrying our due diligence, the initial approach of such partners and the establishment of contacts between investors and the local companies. Facilitating business contacts or sponsoring matching programs are particularly important for SMEs who lack the resources to conduct wide searches of unconventional FDI locations.[70] Other advisory and project development services to encourage outward investment include support for location screening, for the preparation of investment and market entry strategies, feasibility studies and business plans and assistance in the search for funding.

The most common providers of information services to promote outward investment are the agencies tasked with promoting trade and inward investment, namely trade promotion agencies or investment promotion agencies or similar entities.[71] Information and advisory services may be provided on a grant basis or may involve fees for the potential investors.

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[68] OECD and WTO, *Aid for Trade at a Glance 2015*, Paris, 2015, Figure 8.4., page 230, available at: http://www.oecd-ilibrary.org/development/aid-for-trade-at-a-glance-2015_aid_glance-2015-en.
[69] UNCTAD, *Handbook on Outward Investment Agencies and Institutions*, Geneva, 1999, page 4-5.
[70] UNCTAD, *Home Country Measures*, Geneva, 2001, pp. 9, 22, 26.
[71] Sometime embassies and consulates abroad are also tasked with the collection of general information of use to potential outward investors.

Feasibility of Direct Support to Outward Foreign Investment to the LDCs

As noted, there appear to be no specific focus on the LDCs or low-income countries in existing programs of direct support for outward investment that development partners have in place. The orientation of the DFIs is typically on developing countries in general with some limited geographical focus. This is also reflected in the lack of specific reporting focused on the LDCs.[72] However, a more aggressive use of these tools in order to promote investment to the LDCs is feasible.

At a time when many development partners have budgetary constraints and development budgets are under pressure, and foreign investment as an agent of globalization is under increased scrutiny, in particular with respect to the loss of jobs caused by delocalization of production, the policy feasibility of support programs directed to encourage foreign investment in LDCs is challenging. It will largely depend on whether development partner governments are able to justify the use of preferential instruments in favour of investment directed to the LDCs (e.g. in terms of development cooperation objectives, strategic concerns for the economic development of geographically close countries, addressing the economic causes of migration, ethical grounds, etc.), vis-à-vis investment support schemes targeting locations with clear returns for support recipients and the domestic economy at large (e.g. in terms of companies growth, SMEs internationalization, acquisition of valuable assets, expansion of strategic industries, access to new markets, etc.). An important positive factor to muster domestic political support may lie in focusing the support on outward *sustainable* investment.[73]

From a legal perspective, support programs directed to encourage outward investment towards the LDCs (or any other country) need to be designed so as to respect existing WTO rules, in particular of the Agreement on Subsidies and Countervailing Measures (SCM Agreement).[74] Under Art. 1.1. of the SCM Agreement, subsidies are financial contributions by a government or any public body conferring a benefit. Article 2 further defines as "specific" those subsidies which are available, de jure or de facto, only to an enterprise, industry, group of enterprises, or group of industries.[75] Many of the home country measures reviewed in this paper could be

[72] One of the few exceptions is the Belgian Investment Company for Developing Countries (BIO), which reports on the partner countries of the Belgian Development Cooperation. BIO reports that Africa is the largest beneficiary of its funding operations and accounts for 34% of the total portfolio (see http://www.bio-invest.be/en/what-we-do/countries.html) (with 43 projects that have received debt support, 20 equity support, 3 debt and equity, and 11 subsidies). This include the support of investment projects in LDCs countries like Benin, Burkina Faso, Burundi, Cameroon, Democratic Republic of Congo, Mali, Mozambique, Niger, Rwanda, Sao Tomé and Principe, Senegal, Uganda, and Tanzania. As for Asia the majority of support goes to investment in developing countries that are not LDCs. From 36 projects reported, only ten are in LDCs, five in Cambodia (4 loans and 1 equity), two in Bangladesh (loans), and one in Laos, Myanmar, and Nepal, respectively (all of them loans), see http://www.bio-invest.be/en/portfolio.html.

[73] In this respect it could be useful if the public resources used for the support of investment activities towards the LDCs could be counted as part of the "total official support for sustainable development" (TOSSD). However, since the direct support measures reviewed in this paper are provided to domestic firms, it is unclear whether such expenditures could fall within the meaning of TOSSD, even if the promoted investment contributes to the realization of the SDGs or related sustainable development strategies. It would need to be clarified whether these expenditures could be defined as "in-donor costs". See OECD, TOSSD Compendium, 2016.

[74] See in general P. Mavroidis, *The Regulation of International Trade: The WTO Agreements on trade in goods*, Cambridge, MA, 2016; M. Matsushita, T. Schoenbaum, P. Mavroidis and M. Hahn, *The World Trade Organization. Law, Practice, and Policy*, Third Edition, 2015. M. Trebilcock, R. Howse, A. Eliason, *The Regulation of International Trade*, London, 2013.

[75] It is to be noted that "the issue of specificity concerns the limitation of access to a subsidy. The specificity requirement is not about the existence of a subsidy, … that is, a financial contribution that confers a benefit … [It seeks to establish whether] the granting authority, or the legislation pursuant to which the granting authority operates, explicitly limits access to that subsidy to eligible enterprises or industries. This is referred to as de jure

deemed as subsidies, as they imply financial contributions, understood as direct transfer of funds (e.g. grants, loans and equity participations), potential transfer of funds (e.g. loan guarantees, political risk insurance), foregone government revenue (e.g. tax incentives), or provision by a government of services (e.g. technical assistance and advisory services). These forms of support can be provided directly by the government or public bodies, through specially created funding mechanisms or private bodies entrusted or directed by the government to carry out such functions. Yet, many incentives to outward investment are either available to all domestic companies or reserved to SMEs and hence should not be deemed "specific" under the SCM and as a result these incentives do not appear to be actionable.[76]

Regardless of any non-discriminatory application subsidies that require recipients to meet certain export performance targets, or to use domestic goods instead of imported goods are *per se* prohibited. However, outward investment incentive measures do not appear to be granted depending on export performance (i.e. export subsidies)[77] or to the use domestic goods (i.e. import substitution/local content subsidies) and hence they are unlikely to be deemed as "prohibited subsidies". However, outward investment incentive measures (which fulfil the SCM definition of subsidy and specificity) could still be actionable under WTO law, if they cause "adverse effects" on the interest of another WTO Member.

The notion of "adverse effects" has three meanings according to art 5 of the SCM Agreement: first, it means injury to a domestic industry caused by subsidized imports in the territory of the complaining Member. Outward investment support is not directed to subsidizing production of goods for exports (from the subsidizing home State to the host State), hence it is difficult to imagine such instance of adverse effect materializing. Second, it refers to nullification or impairment of benefits, typically when the improved market access expected to flow from a

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specificity, i.e. the limitation of access to a subsidy is explicitly set forth in the particular legal instrument pursuant to which the granting authority operates. … [However, there are] … certain indicia that an investigating authority may evaluate in determining whether, despite not being de jure specific, a subsidy is specific in fact … [such as] … the "use of a subsidy programme by a limited number of certain enterprises". The focus under the first factor of Article 2.1(c) is on a quantitative assessment of the entities that actually use a subsidy programme and, in particular, on whether such use is shared by a "limited number of certain enterprises"." (footnotes omitted) See United States – Anti-Dumping and Countervailing Measures on Certain Coated Paper from Indonesia Report of the Panel, WTO doc. WT/DS491/R of 6 December 2017, paragraphs 7.142 et seq.

[76] SCM Agreement Art 2 (Specificity), section 1(b) reads: "Where the granting authority, or the legislation pursuant to which the granting authority operates, establishes objective criteria or conditions[(2)] governing the eligibility for, and the amount of, a subsidy, specificity shall not exist, provided that the eligibility is automatic and that such criteria and conditions are strictly adhered to. The criteria or conditions must be clearly spelled out in law, regulation, or other official document, so as to be capable of verification." Footnote (2) defines the "objective criteria or conditions" as those "which are neutral, which do not favour certain enterprises over others, and which are economic in nature and horizontal in application, such as number of employees or size of enterprise." Incentive eligibility criteria targeting SMEs appear to fit this definition.

[77] Foreign investments however often give rise to additional exports from the home to the host country, and the home country incentive can be construed as a de facto export subsidy. Consider the following hypothetical: Firm F produces cloth in country A. Country A provides outward investment incentives (not contingent upon exports) and firm F receives one such incentive to establish a cutting and sawing operation in country B. As a result, firm F start exporting cloth to country B. Since these new sales are intra-company transactions firm F may be selling its cloth at cost or possibly below cost. The incentive received by firm F may be deemed as an export subsidy. However, country B is an LDC that seeks additional investment, so it is unlikely that it would complain about the alleged illegal export subsidy granted by country A. A complaint nonetheless could possibly be lodged by country C against country A, in case the latter can prove "serious prejudice" (as per art. 5 and 6) due to the undercutting suffered in country B because of the subsidized exports by firm F from country A or due to the displacement of its exports in countries X, Y, Z as a result of the exports from country B by subsidized firm F.

bound tariff reduction is undercut by subsequent subsidization.[78] In the case of outward investment incentives the financial contribution received by the foreign investor would need to give rise to a competitive advantage of the host State of the investment (as a result of the production of the foreign investor operation established in the host State) such that a third country wishing to export to the host State could complain of the undercutting suffered at the hand, not of the host State, but of the subsidizing home State of the investor. However, since the host State (which has made the tariff reduction) is not responsible for the subsidization, it appears unlikely that an action could be brought against the host State. The third meaning of "adverse effect" is "serious prejudice" to the interest of another WTO Member. Serious prejudice may arise if the subsidy causes export displacement or significant price undercutting or price suppression (art. 6.3(b) and (c)). The outward investment incentive in this case would need to produce a competitive advantage of the subsidized foreign investor operation in the host State where it is established, or in another market to which it exports, so that another WTO Member could see its (like) product being undercut or exports displaced and thus suffer serious prejudice. In practice the aggrieved Member could complain about the subsidy of another Member in case this subsidy has caused the foreign investor to monopolize the market where it has established, or the subsidized investor has used the foreign location as an export platform driving competitors out of third country export markets.[79] This would seem to be the only instance in which the SCM Agreement could be used to discipline an outward investment incentive, although the level and nature of support generally employed by home States may rarely be sufficient to cause the serious prejudice that is necessary to justify a remedy under WTO law.[80]

Outward investment incentive measures could also run afoul of domestic and regional competition laws, in particular state aid regulations. The most far reaching discipline of state aids is to be found in European Union law. According to the Treaty on the Functioning of the European Union, in particular Art. 107, state aid is defined as an advantage in any form whatsoever (e.g. grants, interest and tax reliefs, guarantees, government holdings of all or part of a company, or providing goods and services on preferential terms, etc.) conferred on a selective basis to undertakings, for example to specific companies or industry sectors, by national public authorities or through State resources, which distorts competition and affects trade between Member States of the European Union.

Support to outward investment may thus fall within the scope of state aid as it may affect competition and trade on the EU market. The European Commission when reviewing instances of state aid for outward investment has acknowledged the importance of this type of support for the internationalization of the European industry, but it has also clarified that by strengthening the position of the state aid beneficiary relative to competitors on the EU market, this may lead to a distortion of competition. [81] However, outward investment incentive measures

[78] Country A commits to a tariff binding but then undercuts it by subsidizing the local production of like products, so that country B see the tariff binding nullified or impaired.
[79] A complaint can also be lodged in case the displacement *might* occur and, as a result, there is a 'threat' of injury.
[80] The General Agreement on Trade in Services has very limited provisions on subsidies related to trade in services in art XV. Members that consider themselves adversely affected by subsidies granted by another Member may request consultations to which "sympathetic consideration" shall be accorded.
[81] See G. Da Costa, "Facing the challenges of globalisation: aid to outward foreign direct investment projects (cases Cordex, Orfama and Djebel)", Competition Policy Newsletter, No. 3, 2007, pp. 94-96. See for instance European Commission Decision of 7 March 2007 on State aid C 41/2004 Portugal Investment aid to ORFAMA, Organização Fabril de Malhas S.A., in Official Journal of the European Union, L 183/46 of 13 July 2007, page 47, paragraph 16, where the Commission notes that in assessing aid to companies for foreign direct investment projects it "normally weighs the benefits of the measure, in terms of its contribution to the international competitiveness of

may be acceptable if they contribute to the realization of EU objectives, such as by assisting the development of the SMEs, "the adjustment of economies in transition or economic development in the 'Third World'" and a number of national measures have been approved on that basis.[82] In conclusion, there appears to be no insurmountable legal barriers to the use of outward investment support measures geared to increasing investment to the LDCs, in particular for support extended to SMEs.

3. Development Partners' Support to Foreign Investment Promotion Activities by Host Countries

Development partners can also indirectly encourage foreign investment flows towards the LDCs by supporting promotion and facilitation measures implemented by the host LDCs themselves. This type of support mainly includes assistance to improve the investment climate, develop the private sector and strengthen investment promotion agencies.

It can be delivered though bilateral assistance programs or by contributing to programs and activities of regional or multilateral organizations.[83] These activities may ultimately be in the interest of the potential investors from the development partner supporting them, as they may facilitate investment, reduce costs and make available new investment opportunities. However, this form of support typically responds to bilateral and multilateral development cooperation objectives and is not linked to domestic economic policy objectives.

Investment Climate and Private Sector Development

Promotion of foreign investment flows (especially in non-extractive industries) to the LDCs can be achieved by means of improving the framework conditions for business operation, which include political stability as well as policies and rules that affect the macroeconomic fundamentals, taxation, factor costs, productive infrastructure and more. [84] Enhancing good governance in the host country, promoting the rule of law, reducing corruption, increasing coherence and transparency in investment regulations and policies and their predictable implementation, specifically contribute to improving the so-called "investment climate". In particular, improving transparency and information available to investors regarding the relevant investment conditions and procedures is a basic feature of any investment-friendly policy

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the EU industry concerned, against possible negative effects in the Community, such as the risks of relocation and any adverse impact on employment. The Commission also takes into account the necessity of the aid by reference to the risks associated with the project in the country concerned as well as to the deficiencies of the company, such as those faced by SMEs."

[82] M. Sánchez Rydelski, ed., *The EC State Aid Regime: Distortive Effects of State Aid on Competition and Trade,* London, 2006, page 792.

[83] For instance, the new European Consensus for the Development states: "The EU and its Member States will take action to boost investment by combining funding for sustainable development, technical assistance to develop sustainable projects and attract investors, and measures to help improve economic governance and business environments, fight corruption and engage with the private sector." (see New European Consensus on Development - 'Our world, our dignity, our future', Joint statement by the Council and the representatives of the governments of the Member States meeting within the Council, the European Parliament and the Commission, in Official Journal of the European Union, C 210, of 30 June 2017).

[84] International trade policies play a complementary role. Openness to trade may help LDCs attract export-oriented investment and become export platforms (thus making full use of preferential market access granted by development partners, such as the European Union's Everything-But-Arms and United States' African Growth and Opportunity Act initiatives).

framework at the domestic level.[85] The transparency principle encompasses not only clearer rules and policies, but also extends to how these are implemented, leading to more efficient administrative procedures and enhanced predictability of the policy environment. Transparency also applies to the manner in which policies, rules and procedures are developed, and the necessary consultation of relevant stakeholders.[86]

Another specific tool of investment promotion lies in liberalizing or reforming the rules governing entry, protection and treatment of foreign investment.[87] Improving the legal and regulatory framework of host countries can also be achieved through targeted initiatives aimed at reducing 'red tape' and simplifying administrative procedures for investment admission and establishment, as well as for obtaining licenses, approvals, visas and working permits for business persons, among others.[88] Another important element of the regulatory regime relates to taxation, including tax and other incentives that are often extended to foreign investors, such as tax and tariff exemptions or rebates.[89]

International and national development agencies already provide various forms of support to assess and improve the investment climate in developing countries and their ability to attract foreign investment. One common form of support is technical assistance and capacity building, involving efforts to improve the enabling environment for business through policy development and reform, knowledge transfer and business development initiatives.[90]

Among the framework condition that positively affect investment location decisions there is also the availability of efficient local suppliers and service providers that may lessen the need for the foreign investor to internalize certain activities or procure necessary goods and services from abroad.[91] While being an important factor in the investment location decision, the linkages that foreign investors establish with the local private sector are also beneficial for the local economy, in terms of job creation, knowledge and skills transfer and production efficiency and quality gains.[92] For foreign investors which are particularly concerned about environmental, social and governance (ESG) impacts the existence of local businesses that meet international or industry standards in these areas may also be a positive factor. Similarly, the presence of local firms that may become customers of the foreign investor operation may increase the appeal of an investment destination.

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[85] These elements are recognized by the G20 in their Guiding Principles for Global Investment Policymaking, Principle II, and in a trade context in article 1 of the WTO Trade Facilitation Agreement.

[86] See Principle IV of the G20 Principles, and Article 2 and 5 of the WTO Trade Facilitation Agreement.

[87] This include domestic rules, as well as domestic legislation enacted as a result of international obligations set out in bilateral, regional and multilateral agreements, as well as self-executing international obligations.

[88] Economisti Associati, *Evaluation of the World Bank Group's Investment Climate Programs: Focus on Impact and Sustainability,* Washington, D. C., 2014 (at : https://openknowledge.worldbank.org/handle/10986/21963). See also, OECD, 'Policy Framework for Investment, 2015 Edition', Paris, page 19.

[89] See G-20 Development Working Group and others, 'Options for Low Income Countries' Effective and Efficient Use of Tax Incentives for Investment', 2015, available at: https://www.oecd.org/tax/tax-global/options-for-low-income-countries-effective-and-efficient-use-of-tax-incentives-for-investment.pdf

[90] OECD and WTO, op. cit., page 26 and pp, 31-33.

[91] One of the main findings of the Global Competitiveness Survey is that "Investors strongly value the existing capacity and skills of local suppliers .... With foreign investors sourcing about 43 percent of their production inputs locally, supplier contracts and linkages with local businesses have the potential to create significant benefits for the local private sector." (see World Bank, 2018, *Global Investment Competitiveness Report 2017/2018*, op. cit. supra note 20, page 20).

[92] See for instance S. Kurtishi-Kastrati, "The Effects of Foreign Direct Investments for Host Country's Economy", European Journal of Interdisciplinary Studies, 2013, vol. 5(1), pp. 26-38.

Fostering a vibrant private sector in LDCs is thus an important potential investment attraction instrument. At present much development cooperation (both bilateral and multilateral) deals with private sector development[93] encompassing a wide variety of interventions, ranging from broad policy reforms to improve the business environment, to specific actions to improve labour and managerial skills, from the provision of risk mitigation facilities, to initiatives that increase access to capital.[94] However, the diverse needs for assistance of the LDCs do not appear to be appropriately covered.

Investment Promotion Agencies

Competition for mobile investment has become more intensive worldwide. Improving the business climate and providing a transparent regulatory environment are necessary, but often not sufficient conditions to attract sustainable foreign investment. Information failures pose serious obstacles to increasing FDI and other foreign business ventures in LDCs, including often inaccurate and unjustifiably high-risk assessments. Potential investors frequently lack information, time and capacity to consider the existing opportunities in LDCs.

Without specific targeted efforts by LDCs to market themselves to potential investors and more importantly to market promising business opportunities, they rarely make it to the "short list" of viable sites for new investment projects. Targeted information dissemination is crucial to attract both large transnational corporations but also internationally-minded SMEs with limited capacity to gather business intelligence and market information in more remote and less well-known investment locations. Effective investment promotion agencies (IPAs) can help close the information gap encountered by potential investors.[95] As such they receive some support especially in the context of interventions geared towards improving the investment climate.

IPAs (or similar bodies) need to provide relevant, accurate and timely information to potential investors. On that basis more elaborate investment promotion programs (also based on the competitiveness of specific sectors/subsectors) aimed at increasing the benefits of FDI can also be established. These may encompass a larger set of services and activities, including targeting specific investors, undertaking after-investment services, promoting backward and forward linkages and embarking on policy advocacy.

Many LDCs have established IPAs for promoting and facilitating inward investment, while some countries have entrusted the task to boards of investment or specific ministries or

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[93] OECD and WTO, Aid for Trade at a Glance 2015, Paris, 2015, Chapter 8; International Finance Corporation, International Finance Institutions and Development through the Private Sector. A joint report of 31 multilateral and bilateral development finance institutions, Washington, D.C., 2011.

[94] For instance the European Commission in 2003 put forward an operational definition that listed the key elements found in private sector support project and programmes, including: support for micro and SMEs; support for private sector representative organisations; fostering partnerships and knowledge/technology transfer between enterprises to improve enterprise competitiveness; improvement of labour skills; increasing investment flows; supporting institutional and regulatory reform and legal/task frameworks, to enhance the business environment; support for access to finance for enterprises and the fostering of a reliable banking system; aid for restructuring and privatisation of firms (see European Commission, Guidelines for European Commission Support to Private Sector Development, 2003, p. 11).

[95] IPAs, together with economic development boards, industrial development agencies, and other similar institutions belong to the broad category of investment promotion intermediaries, which compete globally for critical foreign investment and the development benefits it brings, see C. Ortega and C. Griffin, "Investment promotion essentials: what sets the world's best investment facilitators apart from the rest", Washington, D.C., 2009.

government departments. Currently over thirty LDCs have such agencies or other institutions.[96] However, several LDCs do not have IPAs, and many of the existing ones do not provide the level of information and services that is required to promote and retain foreign investment.[97]

Feasibility of Development Partners' Support to Foreign Investment Promotion by the LDCs

In recent years the attention paid by bilateral development agencies to supporting regulatory reforms, improving the business and investment environment and fostering the private sector has grown substantially. There is no constraint, except budgetary ones, for development partners of the LDCs to further target existing initiatives, or devise new ones, for the specific benefit of the LDCs, with the aim to support them in their investment promotion and facilitation efforts.[98]

4. Possible Action Lines to Encourage Foreign Investment to the LDCs

As reviewed in sections 2 and 3 development partners of the LDCs employ a variety of instruments to encourage outward investment. Few such instruments have a specific focus on the LDCs or low-income countries *per se* (as also documented in Annex). However, a more systematic preferential treatment for LDCs in this policy area appears possible. The approach would mean designing special and preferential support instruments for outward investment to the LDCs (or special and preferential features to be integrated into the existing support instruments for outward investment, while increasing their scale and use), so that home companies of development partners can be offered more effective and targeted incentives to invest in the LDCs. In addition to providing a stronger "push" to outward investment, development partners can also help LDCs to deliver a more robust "pull" to foreign investment, by helping them with various initiatives that facilitate and promote inward investment into their economies.

Financial Measures

In the case of *grants*, existing schemes can be used to finance investment feasibility studies. Such schemes provide for percentage ceilings for eligible costs that can be subsidized and overall ceilings for each grant. A possible option could be to modify these ceilings in case of feasibility studies to assess the technical and commercial profitability of a foreign investment in an LDC. Assuming for instance that the existing instrument provides for a maximum of 50 percent of eligible costs that can be subsidized, with a maximum of €100,000 per grant,[99] a preferential window for the LDCs could be established allowing a maximum of 75 percent of eligible costs that can be subsidized, and a maximum of €150,000 per grant. To generalize, an option could be to increase by 50 percent the existing ceilings related to cost eligibility and cash amount per grant, in case of grants aimed at promoting investment to the LDCs. Additional requirements, for instance the need to prove a sufficient positive effect on the home state economy or eligibility restricted to domestic SMEs could also be waived.

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[96] Nineteen of them are currently members of the World Association of Investment Promotion Agencies (WAIPA).
[97] For instance, information provided is often incomplete, not updated, or only available in local language. See World Bank, *Global investment promotion benchmarking 2009: Summary report, 2009,* Washington, D.C.
[98] Since programs in these areas often touch on complex issues of domestic regulation, assistance channelled through multilateral actors may be preferable, at least in some cases.
[99] This is the case of the Dutch scheme DHI (see https://english.rvo.nl/subsidies-programmes/dhi and http://www.advanceconsulting.nl/finance/grants-subsidies/1423/2017/12/dhi).

In the case of *loans* existing schemes can be used to finance different expenditures (for instance the costs of personnel, travel, lodging and advisory services incurred to train operating personnel abroad).[100] They provide for advantageous interest rates (often a fraction of a reference interest rate), loan terms and grace periods, with ceilings for the total financeable amount. A possible option would be to modify these terms in case of loans extended to investors to the LDCs by enlarging the scope of the financeable costs, reducing the applicable interest rate (thus increasing the subsidy element), lengthening the loan term and grace-period and increasing the total amount of loans. Similarly, in case of *financial guarantees* modifications of the terms could be envisaged to provide a preferential element when these are extended in connection with outward investment towards the LDCs. In both instances additional requirements and eligibility restrictions (such as those allowing support only for SMEs) could be waived.[101]

In the case of *equity participation* existing measures generally provide for ceilings in terms of the stake in the foreign company which is created through the (greenfield) investment project, or acquired abroad, and of the cash amount of the participation. Equity participation facilities typically also provide for time limitation to the participations and clearly defined exit strategies, require voting rights and seats on the Board of Directors of the participated company and other conditions for risk management.[102] There can also be complementary interest rate subsidies as a financial support on the cost of a loan granted to the investor for the purchase of its stake in the foreign company.[103] Again, all of the relevant terms could be improved for the benefit of companies willing to invest in the LDCs.

In addition, for all financial measures, currently applied sustainability criteria and benchmarks can be reviewed to better address the needs and sustainable development priorities of the LDCs.

Tax Measures

Tax incentive measures aimed at inducing companies to invest abroad may be designed to reduce the tax liability of prospective foreign investors in the pre-establishment (when location decisions are made) or in the - often challenging - investment start-up phase. Existing measures allow businesses wishing to invest abroad to claim full or more than full tax deductions for eligible expenditures incurred on a range of investment development activities, up to certain levels and within certain maximum amounts.[104] This type of tax deductions and tax credits could be specifically geared to support outward investment in LDCs also by providing for

[100] This is the case of soft loans provided by SIMEST, (see http://en.simest.it/products-and-services/soft-loans/technical-assistance-programmes/technical-assistance-programmes.kl)

[101] An example of a scheme focused on SMEs is the Dutch Good Growth Fund (DGGF) that supports Dutch SMEs doing business in developing countries and emerging markets. This and similar schemes could be enlarged to cover potential investors beyond the SMEs.

[102] This is the case of for instance equity participation available from the German Investment and Development Corporation (DEG), see https://www.oecd.org/dac/peer-reviews/DEG-Financing-Opportunities.pdf.

[103] This is the case of SIMEST, see http://en.simest.it/Products-And-Services/Equity-Investments/Investment-In-Non-EU-Companies-And-Interest-Rate-Subsidies/Investment-In-Non-EU-Companies.kl

[104] This is for instance the case of Singapore whose Income Tax Act provides for tax deduction on eligible expenses for supported market expansion and investment development activities. In particular, businesses can automatically claim 200% tax deduction per year of assessment on the first S$100,000 of eligible expenses for activities, such as overseas business development trips and missions, overseas investment study trips and missions and overseas trade fair. Expenditure exceeding S$100,000 requires approval by International Enterprise Singapore (see https://www.iras.gov.sg/irashome/Schemes/Businesses/Double-Tax-Deduction-for-Internationalisation-Scheme/).

preferential terms and a larger set of qualifying expenditures for investors in LDCs. For instance, the purchasing of political risk insurance could be included as a qualifying expenditure.

The foreign investment start-up phase is generally characterized by significant risks. These could be reduced if investors can be allowed to write off losses, "as incurred, against profits earned elsewhere, including at home."[105] This form of tax relief could be specifically targeted to encourage sustainable investment in the LDCs.

Political Risk Insurance

PRI coverage remains a key component in efforts to support foreign investment, especially in countries with structural fragilities, such as the LDCs. All PRI providers customize in many respects their policies to the risks faced by the individual customers. However, national insurers could consider some specific preferential measures aimed at making PRI coverage even more attractive to prospective investors to the LDCs, thus further encouraging investment flows towards these countries.

Existing PRI policies often restrict the available cover up to a maximum ceiling (often 90 percent of the loss), exclude certain risks (such as currency devaluation risk, inflation risk (considered commercial risks), exclude losses due to violence not undertaken for political purposes,[106] to lawful (non-discriminatory) regulation or taxation), to 'partial' expropriation, impose eligibility requirements (such as the conclusion of a Bilateral Investment Treaty with the host country) or prohibitions (preventing coverage for investment that may displace home country employment), and provide for compensation of loss limited to the 'book value' of the insured investment (thus excluding compensation for future income lost).[107] These and similar limitations could be modified in order to provide larger and more attractive PRI coverage for foreign investors in the LDCs. For instance, higher than 90 percent coverage or compensation based on the discounted cash flow method instead of the book value could be considered. Similarly, lower or subsidized premium costs for investors to the LDCs could be envisaged as an incentive element towards investing in these countries.

The development of specialty private risk insurance products tailored to investors' specific requirements in LDCs could allow further encouragement in sectors or areas deemed too risky for firms to invest without an appropriate PRI coverage. Home countries could encourage this market development by, for instance, providing a preferential tax treatment for profits generated by the sale of these products to investors to the LDCs or by directing public PRI providers to act as co-insurers with private providers, thus reducing their risks and potentially reducing policy costs.

Information and Advisory Services

Existing measures offered by many public institutions include gathering information and analysis on global, regional and national markets, researching investment related laws and regulations by region and country, organizing business missions, providing assistance with

[105] See L, Wells, "Marketing Sub-Saharan Africa As a Location for Foreign Investment", in *Economic Perspectives: an Electronic Journal of the U.S. Information Agency,* August 4, 1999, page 22.
[106] For instance, violence due to economic grievances.
[107] These are all limitations that OPIC applies, see OPIC Handbook available at: https://www.opic.gov/sites/default/files/docs/OPIC_Handbook.pdf

finding partners, preparing industry and market reports, and providing consulting services. Tools may vary from dedicated websites for potential investors about foreign markets (and support opportunities from national and international entities), to call centres for rapid information gathering and advice, from customized consultations (including specific market, regulatory and legal research and advise), to the establishment of business support centres in target countries for in situ assistance and advise related to the establishment, development and management of overseas business projects. Some of these services may not be free of charge, and fees vary.[108]

As noted, information and advisory services are particularly important for prospective investors in LDCs as a result of the information gaps and regulatory complexities and uncertainties that still affect many LDCs markets. A preferential approach would ensure that services targeted to prospective investors to the LDCs are specifically customized to their needs, are provided free of charge, or that grants or soft loans are made available to buy such services in the marketplace.

Investment Climate and Private Sector Development

A business-friendly investment environment is among the most important factors in investment location decisions and is also a key element in good governance reform. As such many LDCs governments have been placing increasing attention and resources in these areas,[109] often with the support of development partners, both development cooperation agencies and multilateral organizations. Technical assistance appears to be the most frequently used tool. A preferential approach geared towards encouraging foreign investment in the LDCs would require that specific resources and additional customization and deepening of technical assistance is envisaged to more effectively address the regulatory deficiencies that still affect the LDCs. There are many possible avenues for action, ranging from simple assistance directed at improving transparency by making comprehensive information easily available (online) to foreign investors,[110] to institutional building, bringing together public sector expertise from development partners and beneficiary countries with the aim of achieving concrete operational results through peer-to-peer activities.[111]

Many policy areas deserve attention, especially if looked at from the perspective of facilitating foreign investment. These range from rules and procedures applicable to investment approvals and permits, to those regulating foreign equity ownership, from visa and work permits for expatriate staff, to land ownership and leasing rules. One further and crucial area relates to the

[108] All these services are for instance offered by the Republic of Korea's KOTRA (Korea Trade-Investment Agency). See KOTRA's Overseas Investment Support Services for SME's, APEC, 2008/SMEWG26/021; A. Kuźmińska-Haberla, "Promotion of outward foreign direct investments in emerging markets – the example of South Korea", Ekonomia Economics, Vol. 3(20), 2012, page 89.

[109] Some noteworthy results have been achieved. For instance, many LDCs have made important progress in reforming the legal framework, promoting transparency, and reducing red tape (see UN-OHRLLS, *State of the LDCs 2017*, p. 43). As a result for instance the cost of starting a business has declined by more than 80 per cent on average since 2002 (see UN, *Financing for Development: Progress and Prospects. 2018 Report of the Inter-agency Task Force on Financing for Development*, New York, 2018, page 64). However, only 4 LDCs Rwanda (41st), Bhutan (75th), Zambia (85th) and Vanuatu (90th) figured among the top 100 in the 2018 overall ranking of the Doing Business indicators compiled by the World Bank (see http://www.doingbusiness.org/).

[110] This should include not only the domestic legal framework, but also relevant international agreements.

[111] The European Union "twinning" instrument for institutional cooperation between Public Administrations of EU Member States and partner countries (which include countries covered by the European Neighbourhood Policy, such as Algeria, Egypt, Jordan, Lebanon, Morocco, State of Palestine and Tunisia) may provide useful lessons (see https://ec.europa.eu/neighbourhood-enlargement/tenders/twinning_en).

provision of tax incentives.[112] While in many cases are not decisive in investment location decisions, they retain a significant importance.[113] While competing for capital, LDCs often provide quite generous incentive schemes, including duty free imports and tax holidays, as well as special incentive packages to encourage foreign investments in Free Zones.[114] Due to the limited resources and financial constraints of LDCs, development partners could provide specific assistance, inter alia, on the design of well-targeted and efficient incentive schemes, based on a detailed evaluation of the costs and benefits of new or existing incentive schemes.[115]

In addition, as an essential element for investment policy-making, development partners could assist LDC governments and other stakeholders in assessing the economic, environmental, social, human rights and governance impacts of foreign investments.[116] Establishing the parameters of desirable and sustainable inward investment may also allow development partners to better design and focus their own activities geared to promoting sustainable investment towards LDCs locations.[117] Development partners can then link outward investment promotion and facilitation measures for the LDCs to investors' compliance with certain criteria

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[112] A database of best practices in investment law and policies could allow the LDCs to have easy access and knowledge of 'smart' regulation that encourages investment and safeguards the national interest.

[113] See World Bank, *Global Investment Competitiveness Report 2017/2018*, op. cit. supra note 20, pp. 28-30.

[114] Z. Z. Douglas, "Special Economic Zones: Lessons from the Global Experience", PEDL Synthesis Paper Series, No. 1, 2016.

[115] Incentives can also increase corruption and have adverse effects on efforts to improve the investment climate. OECD, 'Policy Framework for Investment, 2015 Edition', Paris, pp. 57-64.

[116] This analytical work could be done preferably through multilateral initiatives in order to minimize the risk, or appearance, of bilateral meddling. Relevant criteria to consider include, among others, economic aspects (e.g. local job creation, linkages with local economic actors, skill and technology transfer), environmental aspects (e.g. sustainable use of natural resources, climate protection), social aspects (e.g. assurance of safe working conditions, respect of human, gender and indigenous rights), and governance aspects (e.g. transparency, stakeholder engagement and anti-corruption measures).

[117] For instance, the Guiding Principles on Business and Human Rights provide that home States should take additional steps "to protect against human rights abuses by business enterprises that are owned or controlled by the State, or that receive substantial support and services from State agencies such as export credit agencies and official investment insurance or guarantee agencies, including, where appropriate, by requiring human rights due diligence." (See UN Human Rights Council, Guiding Principles on Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy' Framework, endorsed by the United Nations Human Rights Council with resolution 17/4 of 16 June 2011). Home countries are also in a position to determine the outward investment conduct of their own State-Owned Enterprises, and which criteria of sustainable investment they should follow.

of sustainable investment[118] that are internationally agreed[119] or widely recognized[120] and deemed important by (a significant cross-section of) the LDCs to promote their own sustainable development priorities.[121] The focus would thus decisively shift from just promoting additional investment to fostering "sustainable investment."

Finally, in keeping with the increasing emphasis on supporting the private sector as a crucial development actor, development partners can allocate specific resources to supporting local firms which have the potential to strike beneficial linkages with foreign investors and at the same time provide cost advantages to such investors.

A preferential approach to supporting investment flows to the LDCs may involve dedicating specific resources to vocational training and skills upgrading programs for local suppliers, equipment financing schemes and other access to credit facilitation measures, while taking into account the specific needs of prospective foreign investors. In addition, LDCs companies can be supported in providing transparency around ESG issues so as to increase their potential to be integrated in global value chains. Promoting the use of corporate sustainability reporting can be an additional tool to improve competitiveness of the private sector in LDCs.[122]

Investment Promotion Agencies

The services of IPAs are generally valued by prospective investors, even though much improvement can still be achieved.[123] For instance, many web sites of LDCs' IPAs are

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[118] The inclusion of sustainable development elements as pre-requisites to grant investment support measures is already widespread. For example, OPIC requires that supported projects are environmentally and socially sustainable, respect human rights, including workers' rights and encourage positive host country development effects (see OPIC, Environmental and Social Policy Statement, available at https:// www.opic.gov/sites/default/files/consolidated_esps. pdf); In Japan, the JBIC conducts a review of environmental and social conditions when deciding on funding and monitoring afterwards (see JBIC, Guidelines for Confirmation of Environmental and Social Considerations, available at: https://www.jbic.go.jp/wp-content/uploads/page/ 2013/08/36442/Environemtal_Guidelines2015.pdf and JBIC Profile, Role and Function, available at: http://www.jbic.go.jp/wp-content/uploads/page/2016/12/53107/jbic-brochure-english.pdf); the CDC (the DFI of the UK) requires that businesses in which it invests must adhere to its Code of Responsible Investing, which stipulates environmental, social and governance standards that are often above those required by local law (see the Code at: http://www.cdcgroup.com/Documents/Code%20of%20Responsible%20Investing%20March%202017.pdf).

[119] Instruments setting out relevant criteria to identify sustainable investment include the UN Guiding Principles on Business and Human Rights, the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy and the OECD Guidelines for Multinational Enterprises from the Organisation for Economic Co-operation and Development.

[120] For a review of sustainable investment characteristics and the emerging convergence in their use across intergovernmental, national and corporate instruments, and consensus across stakeholders, see K. Sauvant and H. Mann, "Towards an Indicative List of FDI Sustainability Characteristics", E15 Initiative, Geneva, 2017.

[121] LDCs may decide to make certain sustainable investment criteria mandatory in domestic law (and necessary to gain investment admission) or seek to enshrine them in international obligations, for instance in new BITs and other investment-related agreements, or through amendments or supplementary protocols to existing agreements. In light of their limited leverage over capital exporting countries and foreign investors, an approach based on policy dialogue with development partners and their outward investment agencies, the private sector and other stakeholders seems more likely to produce positive results in terms of increasing sustainable investment flows.

[122] Consumers and civil society increasingly hold TNCs accountable for the impacts occurring in their own production cycles and in their supply chain. A key means for TNCs to mitigate these risks is to request sustainability information from their suppliers, which is done by a growing number of TNCs, such as Nestlé, Walmart, Unilever or Microsoft. Hence, transparency, for example through sustainability reporting, can be a central tool for enterprises in LDCs to improve their competitiveness and market access possibilities, avoiding the risk of being left behind in global markets and value chains.

[123] See World Bank, *Global Investment Competitiveness Report 2017/2018*, op. cit. supra note 20, pp. 36-38.

characterized by a passive use of internet facilities and options. Development partners can support LDCs in developing more advanced web-based tools to provide online access to detailed and up-to-date information on their country or region (including analyses of key economic data, recent investment trends, existing competitive advantages, high potential sectors and associated factor costs, the domestic business environment, investment and commercial laws, regulations and procedures, investment incentives) and to show-case specific investment opportunities.

Beyond improving their information gathering and sharing capacity, LDCs' IPAs need to be assisted to provide a larger set of services, including projects preparation and feasibility studies, investor targeting, after-investment services, promotion of backward and forward linkages and policy advocacy, geared toward both FDI and non-equity modes of investment. IPA aftercare services[124] are particularly important as they have the potential to forge long-term strategic partnerships with existing foreign investors to advance local value chain development, skills development and to open up new conduits for technology transfers between foreign investors and local enterprises.

Equally, IPAs can be a conduit of important information to policy makers on areas of particular concern to foreign investors. They can help to make the business case to governments why adequate legislation addressing areas such as labour rights, environmental protection and property rights - and fair and effective law enforcement mechanisms including labour and environmental inspections - are important for attracting investment. IPAs can also contribute to improving the regulatory framework for investment, identifying and eliminating unintended barriers to sustainable investment, facilitating private-public partnerships, and the prevention and management of conflicts between investors and host countries. IPAs can thus become focal points for broader regulatory reforms and investment facilitation activities.

Development partners can support LDC IPAs to adopt a more targeted stance that seeks to identify and promote investment that can make the largest contribution to the sustainable development of the country (in line with the country's overall sustainable development strategy),[125] as well as a regional approach to investment promotion providing information (infrastructure framework, time-to-market, time-to-export, transaction costs, customs procedures, etc.) about specific regions, industrial corridors, industrial parks or export processing zones rather than providing generic information about the overall host country.[126] This approach allows to move away from investment promotion as a competitive, zero-sum game, and move towards investment promotion as cooperative enterprise, where LDCs IPAs can collaborate (in particular on a regional basis) on how to attract investment that is beneficial not only to the country where the project is located, but also to other countries in the relevant region. Development partners can also support LDC IPAs to become important actors in the creation of a conducive climate for sustainable investment.

A preferential approach to encourage foreign investment to the LDCs can focus on providing specific support to the IPAs of the LDCs, as well as to other organizations active on inward

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[124] This includes assistance in handling investors' grievances with public authorities.

[125] See H. Loewendahl, C. Kollinsky and D. van den Berghe, "Sustainable Development and FDI: Towards a Practical Framework to Implement the Principle of Sustainable Development into Investment Promotion Strategy", WAVTEQ Special Report Series with Investment Consulting Associates. 2017 (available at: http://ic-associates.com/wp-content/ uploads/2017/03/FDI-and-Sustainable-DevelopmentWorking-Paper-by-ICA-and-Wavteq.pdf)

[126] World Bank, *Global Investment Promotion Best Practices 2012*, Washington, D.C., 2012, chapters 1 and 2 (available at: https://openknowledge.worldbank.org/handle/10986/20423).

investment promotion and facilitation, such as chamber of commerce and industry associations, in the areas noted above. In addition, strengthened IPAs can enter effective collaboration mechanisms with development partners' outward investment agencies with the aim to identify potential investors, increase the information on investment opportunities in LDCs and exchange expertise.

5. Conclusion and Work Ahead

The review conducted in this paper shows that there is a panoply of instruments that can be deployed to support outward investments, and these can be upgraded and customized to provide preferential assistance to prospective investors to the LDCs. Each of the action lines set out in section 4 requires further reflection and technical examination, with a view to establishing a list of actionable proposals that development partners may consider with a view to enhancing their support to investment to the LDCs in a more structured fashion, and in line with their international commitments, while also catalysing new business opportunities for domestic investors.

Annex: Illustrative List of Direct Support Measures[1]

Grants

Pre-Investment Activities

Germany's Development Programs and Business Support (DEG), funded by the Federal Ministry for Economic Cooperation and Development (BMZ), and part of the Kreditanstalt für Wiederaufbau (KfW) group, co-finances feasibility studies of German and other European SMEs (annual turnover of up to EUR 500 million), aimed at laying the ground for developmentally sound investments that are viable in terms of successful implementation and profitability. DEG provides a maximum of 50% of the costs for each feasibility study, but in any case, not more than EUR 200,000. The feasibility study must be completed within 12 months and the costs are reimbursed in two tranches according to performance.[2]

DEG also implements a fund directed to support public-private partnership projects by European companies that invest in developing and emerging countries (including LDCs) with development effects ('develoPPP.de').[3] Established in 1999, the program provides up to EUR 200.000 and maximum 50% of the project cost out of public funds and may last up to a maximum of three years. The company has to bear at least 50% of the project cost and is responsible for the realization of the project in terms of finance, content and manpower. DEG assists the company in all phases of the project with country-specific advice. In addition, projects that have the potential to achieve outstanding development benefits may receive special funding as so-called Strategic Development Partnerships (SDPs). These projects are to be conducted with a partner company in one or several developing or emerging-market countries, and with a project's total volume (including public and private contributions) of at least EUR 750,000 (public contribution must amount to at least EUR 200,000, but no more than 50% of the overall project cost).[4] Several investment projects undertaken by German companies in LDCs have benefitted of this scheme, mostly in agro-business (with two projects in Ethiopia, and one in Madagascar, Burkina Faso, Mali, Uganda, and the Democratic Republic of Congo). Other supported areas have been energy (in Mozambique and Senegal), and leather goods industry (in Bangladesh). The large majority of supported projects take place in non-LDCs developing countries.[5]

Malaysia and **Singapore** have partnered to provide HCMs, and created the Third Country Business Development Fund (TCBDF), funded by International Enterprise Singapore (IE Singapore) and the Malaysian Industrial Development Authority (MIDA), which provides grants for pre-investment activities in third countries, including feasibility studies, market research and business missions, jointly undertaken by Malaysian and Singaporean companies:[6]

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[1] Prepared by Rodrigo Polanco Lazo. The author would like to thank Ms. Azernoosh Bazrafkan for her invaluable assistance in this research. Table 1 offers a tabular depiction showing the extensive use of support measures for outward investment in several developed and emerging economies and Table 2 provides useful websites for readers interested in further information on such measures.

[2] DEG - Deutsche Investitions- und Entwicklungsgesellschaft, 'Financing of Feasibilty Studies' (2016) <https://www.deginvest.de/International-financing/DEG/Unsere-L%C3%B6sungen/Machbarkeitsstudien/index.html>.

[3] DEG is in charge of implementing this special programme of the Federal German Ministry for Economic Co-operation and Development (BMZ).

[4] German and other European companies eligible for develoPPP.de projects must meet the following minimum requirements: annual turnover of at least EUR 1 million, ten employees, and three years of business operations. DEG - Deutsche Investitions- und Entwicklungsgesellschaft, 'DeveloPPP.De' <https://www.deginvest.de/International-financing/DEG/Unsere-L%C3%B6sungen/develoPPP.de/>.

[5] Federal Ministry for Economic Cooperation and Development, 'Projekte' (*develoPPP.de*, 15 February 2013) <http://developpp.de/en/content/projekte>.

[6] International Enterprise Singapore, 'Malaysia-Singapore Third Country Business Development Fund. Specific Guidelines for Joint Feasibility Studies' (10 January 2009) <https://www.iesingapore.gov.sg/-/media/IE-

- Joint feasibility studies include both due diligence studies (when applicants have a specific company or project which they would like to invest in) and pro-active searches (when applicants have no specific target). Both types of studies are co-funded up to 50% of the eligible expenses of the studies, subject to a maximum of RM200,000 (for due diligence) and RM100,000 (for pro-active searches).
- Joint market research can only be undertaken if there is an official request by at least one business association in Malaysia and one in Singapore.[7] These studies are aimed to analyse and/or determine the business environment, potential market entry strategies and/or business opportunities for a specific market and industry, and can include analysis of market opportunities, business climate, regulations, distribution channels, market size, growth, competition, demographics, etc. The TCBDF will cover up to 50% of the eligible expenses of the research, with a maximum of RM100,000.
- Joint business missions to third countries to identify potential business projects can also be funded, if organized by at least two business associations or a group of a minimum number of five companies incorporated in Malaysia and Singapore. The fund reimburses up to 50% of the eligible expenses subject to a maximum of RM200,000. The total number of participants from either Malaysia or Singapore should not exceed the ratio of 2:3. However, some flexibility can be given, provided that it does not undermine the need to ensure a balanced participation from both countries.

In **Canada**, the Global Opportunities for Associations (GOA) provides non-repayable contributions to support Canadian associations undertaking new or expanded international business development activities for the benefit of an entire industry, in strategic markets and sectors. GOA provides matching funds of up to 50% of the eligible expenses, with an overall annual funding ranging from a minimum of CAN$20,000 to a maximum of CAN$250,000.[8]

Belgium provides grants in a pre-establishment phase through the Belgian Investment Company for Developing countries (BIO), which has the mission to support the private sector in developing and/or emerging countries to promote growth and sustainable development within the framework of the Sustainable Development Goals. Investments can be supported through grants to co-finance feasibility studies and technical assistance programmes, under the 'MSME Support Fund'. Grants for feasibility studies are provided up to a maximum of 50% of their total cost and capped at EUR 100.000 per project. These grants are non-refundable.[9]

China provides direct subsidies to cover upfront costs of Chinese enterprises 'going global'. This support covers the expenses related to obtaining licenses for overseas investment and signing contract/agreements in the host countries. These include legal, technical and business consultancy costs; survey and investigation costs (including project inspection fees, planning fees and resources exploratory fees); project feasibility studies and safety assessment reports; expenditures for compiling project proposals, pre-feasibility study reports, feasibility studies and project safety assessment reports by qualified professional bodies; purchase of specifications and tender documents and other information; and normative documents and tender translation. Upfront costs are supported when they are less than the investment from the Chinese partner, and a project can only enjoy support for upfront costs once. [10]

Singapore/Files/Malaysia-Singapore-Third-Country-Business-Development-Fund/MalaysiaSingapore-Third-Country-Business-Development-Fund.ashx?la=en>.

[7] For this purpose, business associations in Malaysia should have at least 51% of its members are Malaysian owned companies. For Singapore, the business association must be local association with at least 30% of its members are Singapore owned companies. Malaysian owned companies refer to a locally incorporated company in Malaysia which has at least 51% equity owned by citizens of Malaysia, whereas Singapore owned companies refer to a locally incorporated company in Singapore which has at least 30% equity owned by nationals or permanent residents of Singapore.

[8] Government of Canada, 'Global Opportunities for Associations (Formerly PEMD-A)' (*The Canadian Trade Commissioner Service*, 10 January 2017) <http://tradecommissioner.gc.ca/funding-financement/goa-oma/index.aspx?lang=eng>.

[9] Belgian Investment Company for Developing countries (BIO), 'Products' <http://www.bio-invest.be/en/what-we-do/products.html>.

[10] N. Bernasconi-Osterwalder, L, Johnson and J, Zhang, eds., 'Notice of Application of the 2011 Special Funds of Foreign Economic and Technology Cooperation (MOF & MOFCOM, April 2011)', *Chinese Outward Investment:*

Establishment and Post-Establishment Activities

Germany's DEG offers a complete Business Support Service (BSS), a non-repayable co-financing to support projects that have a significant development / sustainability impact. However, the BSS is not exclusively focused on sustainable investment in developing countries and can also support companies aiming to their performance or growth, irrespective of their investment abroad. Types of support include environmental and social management, resource and energy efficiency as well as training of staff or suppliers. The related costs can be co-funded up to 50% (with a maximum contribution of EUR 193,000) for project duration of up to 2 years.[11]

Through the Global Company Partnership (GCP), **Singapore** grant funds to cover establishment and training costs abroad for companies that have their global headquarters based in Singapore (with global management control and decision-making functions), with annual sales turnover of at least SGP$500,000 and a minimum paid-up capital of SGP$50,000. Special provisions are envisaged for SMEs, defined as companies whose turnover is not exceeding SGP$100 million.[12]

GCP grants help companies to cover expenses while entry into new markets up to 70% in the case of SMEs and 50% for non-SMEs (in both cases to a maximum of SGD$100,000 a year). Supportable activities include the establishment of overseas market presence, rental costs of a physical space for up to 12 months, basic salary of up to two business development staff based in the new market for 6 to 12 months, and registration fees covered for new set-ups and IP, fees for appointing new exporters and distributors, product listing and testing, and in-market certification.[13]

Singapore also co-funds the costs of an international human resources (HR) strategy and related third-party consultancy fees. Some of these activities include HR research and HR compliance for market entry (on topics such as host country labour laws, in-market skill sets and in-market compensation and benefits), and cross-border HR management (including employees' international deployment and repatriation, aligning global business strategy with global HR strategies, and the development of a global talent management strategy and develop a global reward strategy). There is not a specific cap for the financial support provided, but for SMEs the support can extend up to 70% of costs incurred in engaging an established third-party HR consultancy firm for strategic international manpower projects, and for non-SMEs up to 50% of the same costs.

Under the International Business Fellowship (IBF) Executive Program, Singapore supports local companies investing abroad by offering short-term executive training programs, allowing middle and senior management to gain market knowledge and build business networks through various programs organized by top training institutes in markets relevant for Singapore, such as China, India, Indonesia, Iran, Vietnam, some Northern European countries and Myanmar among the LDCs. The GCP grants cover up to 70% of the course fees for nominated Singaporean employees, for all types of companies.[14] IE Singapore maintains a flexible approach to allowing companies to select customized training programs in

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An emerging policy framework, International Institute for Sustainable Development, 2013, page 110 (see http://www.iisd.org/pdf/2012/chinese_outward_investment.pdf.

11 DEG - Deutsche Investitions- und Entwicklungsgesellschaft, 'Business Support Services' (2016) <https://www.deginvest.de/International-financing/DEG/Unsere-L%C3%B6sungen/Begleitma%C3%9Fnahmen/>.

12 International Enterprise Singapore, 'Global Company Partnership' (2017) <https://www.iesingapore.gov.sg/Assistance/Global-Company-Partnership>.

13 International Enterprise Singapore, 'Enter New Markets - IE Singapore's Assistance for Local Companies' (2017) <https://www.iesingapore.gov.sg/Assistance/Global-Company-Partnership/Market-Access/Enter-New-Markets>.

14 International Enterprise Singapore, 'International Business Fellowship Executive Programme' (2017) <https://www.iesingapore.gov.sg/Assistance/Global-Company-Partnership/Manpower-Development/International-Business-Fellowship-Executive-Programme>.

order to cater to their specific needs. If proposals are approved by IE Singapore, GCP grants allow co-sharing the costs of training between both the company and IE Singapore.[15]

Singapore also funds Overseas Market Attachments (OMA), through sending of Singaporean staff for overseas learning and Development activities to develop their knowledge on the FDI host country, and prepare them for future postings (pre-posting inductions) or acquire business capabilities or a technical knowledge, for a total period up to 6 months. OMAs must include at least one experienced in-market mentor (either from internal or external sources) who can guide staff throughout the attachment. The GCPs grants cover transportation costs, basic salary and pre-departure training, including non-mother tongue language classes or country etiquette courses.[16]

In **Belgium**, BIO can also support technical assistance programs upon request of BIO investee companies in order to improve their performance, increase competitiveness and strengthen the impact on sustainable development through training, advice and skill transfers. Grants for technical assistance programs are provided up to a maximum of 50% of their total cost and capped at EUR 100.000 per project. These grants are non-refundable.[17]

China has supported measures that cover the costs of adaptive training of Chinese workers overseas, through subsidies that will not exceed CNY 500 per person. The support can also include subsidies to cover personal accident insurance costs for employees in overseas economic technology cooperation enterprises. The maximum insured amount per person will not exceed CNY 500,000, and the support ratio will not exceed 50% of the actual insurance expenses. Support also cover 'overseas emergencies', including threat, injury or death of employees in overseas economic technology cooperation enterprises caused by unpreventable events such as terror, war, natural disasters and other force majeure situations.[18] Chinese companies also get indirect establishment support associated with aid programmes, as most infrastructure construction projects offered under the government's programmes of official development assistance require Chinese firms as construction contractors and/or equipment and material suppliers.[19]

Loans

Concessional Loans

In **Germany**, DEG provides long-term funding (non-concessional loans) to businesses in developing countries. Certain sectors are specially preferred, like infrastructure projects (28% of commitments in 2011), and climate friendly technologies,[20] including renewable and efficient energy for developing countries). Few outward investment projects in LDCs have benefited of this funding.[21]

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[15] Sauvant and others, "Trends in FDI, Home Country Measures and Competitive Neutrality" in Yearbook on International Investment Law & Policy 2012-2013, Oxford, 2014, page 52.

[16] International Enterprise Singapore, 'Overseas Market Attachment' (2017) <https://www.iesingapore.gov.sg/Assistance/Global-Company-Partnership/Manpower-Development/Market-Attachment-Programme>.

[17] Belgian Investment Company for Developing countries (BIO), 'Capacity Building' (2010) <http://www.bio-invest.be/en/what-we-do/capacity-building.html>.

[18] N. Bernasconi-Osterwalder, et al., op. cit., page 111.

[19] OECD, *China: Encouraging Responsible Business Conduct*, Paris, 2008. page 91.

[20] Program "Climate Partnerships with the Private Sector" of the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) operated by DEG.

[21] The large majority of loans reported by DEG, have benefitted project in developing countries that are not LDCs, or in the case of LDCs, to local companies in the host country (directly support domestic investment, not foreign investment). One of the few exceptions reported by DEG are projects in Uganda (Arpe Ltd, an energy joint venture between a German and an Italian company) and in Mozambique (GK Ancuabe Graphite Mine where a German graphite refining company is the majority shareholder).DEG - Deutsche Investitions- und Entwicklungsgesellschaft, 'Investment-Related Information' (2016) <https://www.deginvest.de/International-financing/DEG/%C3%9Cber-uns/Verantwortung/Investment-related-information/>.

The Investment Fund for Developing Countries (IFU) is a financial institution established by **Denmark** in 1967 as a self-governing Fund. IFU can co-finance investment projects for manufacturing or service companies, in developing countries with a per capita income below USD 6,138 (in 2012). More importantly for LDCs, 50% of IFU's yearly investment must be made in countries with a per capital income below USD 3.180. IFU can offer loans in convertible currencies, up to 5-7 years and with a grace period of 1-2 years, and can also offer loans with equity features or subordinated loans. IFU can also issue guarantees for loans to the projects offered by others, including local financial institutions.[22]

Chinese enterprises on the priority list can benefit from the government's financial support in the form of access to below market rate loans. China Development Bank (CDB) and China Export and Import Bank (Exim Bank), are the two major providers of these financial incentives.[23] China also provides for loan discounts, to loans applied from Chinese banks with a credit period of one year or more for Chinese enterprises engaged in overseas investment, overseas agriculture, forestry, fisheries, mining cooperation, overseas project contracting, design and consultation. The RMB discounted loan rate shall not exceed the benchmark interest rate set by the People's Bank of China. If the real interest rate is below the benchmark rate, the discounted loan rate shall not exceed the real interest rate. The annual discounted rate of foreign currency loans shall not exceed 3%; if the real interest rate is below 3%, the discounted loan rate should not exceed the real interest rate. Loan discounts will not be provided to those projects which have enjoyed the special funds for a total of three years.[24]

Japan provides overseas investment loans, overseas project loans, and untied loans granted by the Japan Bank for International Cooperation (JBIC)[25] and the Japan Finance Corporation (JFC). Some of these instruments are relevant for outward investment in LDCs. JBIC's overseas investment loans are extended to Japanese corporations for overseas investment activities and projects. They can also be provided to overseas Japanese affiliates (including joint ventures), and to foreign governments or financial institutions that have equity participations in or provide loans to such overseas affiliates. These direct loans to Japanese companies are intended for mid-tier enterprises and SME, as well as to projects aimed at developing or securing interests in overseas resources that are strategically important to Japan, and projects that support merger and acquisition (M&A) activities (these projects include those of large companies). Moreover, JBIC provides two-step loans (TSL) to support the overseas business deployment of Japanese companies, including mid-tier enterprises and SMEs, as well as TSL intended to support M&A activities by Japanese companies. JBIC is also able to provide short-term loans for overseas business operations when bridge loans are required to fill the financing gaps before that offers long-term loans.[26]

JBIC also offers untied loans – credits intended to finance projects in developing countries that are not linked to the procurement of goods and services from Japan, but are restricted to the specific purposes designated for each loan for high-priority projects and economic restructuring programs in developing countries. These untied loans are extended to foreign governments, foreign governmental institutions, foreign financial institutions (including multilateral development banks), and foreign corporations.[27] Among other objectives, capital procured from untied loans is used to promote business activities of Japanese companies, maintain and expand trade and direct investment from Japan and finance projects having significant effects on global environmental preservation.[28]

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[22] 'IFU – Investeringsfonden for Udviklingslande' (*Investment Fund for Developing Countries*, 2017) <https://www.ifu.dk/en/frontpage-english/>.
[23] OECD, *China*, op. cit., page 90.
[24] Nathalie Bernasconi-Osterwalder, Lise Johnson and Jianping Zhang (n 28) 111.
[25] JBIC is a governmental institution that encourages exports, secures access to energy resources, promotes direct overseas investments and improves Japan's external imbalances through financial assistance to the trade and investment activities of Japanese companies. It was created in October 1999 as a result of a merger of the Export-Import Bank of Japan (JEXIM) and the Overseas Economic Cooperation Fund (OECF).
[26] Japan Bank for International Cooperation (JBIC), 'Japan Bank for International Cooperation Annual Report 2016' 58 <https://www.jbic.go.jp/wp-content/uploads/page/2016/12/53051/2016E_00_full.pdf>.
[27] 'Export.Gov' (*Japan - Project Financing*, 28 June 2016) <https://www.export.gov/apex/article2?id=Japan-Project-Financing>.
[28] Japan Bank for International Cooperation (JBIC) (n 51) 59.

JFC’s SME Unit, also provides loans for overseas investment, to support the internationalization of Japanese small and medium enterprises. The JFC also offers support for local currency denominated fundraising by SMEs' overseas subsidiaries and branches through the Standby Letter of Credit Program, as well as management consulting services and holding business network meetings abroad.[29]

In the case of **Korea**, the Export-Import Bank of Korea (Korea Eximbank) offers loans to Korean companies planning to invest overseas under its Overseas Business-Related Loans Program. This considers four different types of loans:[30]

- Overseas Investment Loans (OIL), where the Bank provides financing necessary for Korean companies to invest in foreign companies in the form of share capital and/or shareholder loan.
- Overseas Project Loans (OPL), are provided to Korean companies engaged in business outside Korea without establishing an overseas subsidiary.
- Overseas Business Loans (OBL), are extended directly to foreign companies, in which a Korean company has an equity share.
- Overseas Business Facilitation Loans (OBFL), are provided to entities that contribute to the overseas business (including overseas investment) activities of Korean Companies.

While it is not clear whether the interest rate on these loans is more favourable than what is offered by private financial institutions,[31] the maximum repayment term is 30 years, with periodic instalments of at least once a year with a maximum three-year grace period (5 years for repayment terms of 7 years or above, 7 years for repayment terms of 10 years or above). Except in the OILs, the maximum repayment of working capital is up to 3 years. All these credits cover up to 80% of the funds required for a foreign investment (90% if the applicant is a Korean SME or for OBFL, and 100% for natural resource development projects and inter-banks OBFLs).[32] To qualify for these loans, a company must have more than three years of experience in that field of business, without restrictions to any particular industries. [33]

In 2009, the Korea Eximbank started an additional loan program aiming to nurture promising and innovative small firms, over a period of ten years, to turn them into “hidden champions” by closely linking the subprojects to each other. Under this program, companies can obtain overseas investment credits at further preferred interest rates, credit allowances that are up to 10% higher, unsecured loans, customized financing services, streamlined processes for loan approvals, revolving credit facilities specially tailored to their needs, and an “integrated yearly revolving credit line”.[34]

The project is now divided in two categories: The World Class 300 & Global Industry Leader Project and the Global Hidden Champion Project. For 2017, a total of 70 companies are to be selected in the World Class 300 Project: applicants are companies that recorded between USD$40 billion to one trillion won in sales in 2015 and those whose sales for 2016 are estimated to be within that range. In addition, applicants have to satisfy requirements with regard to export ratio, research and development (R&D) investment ratio and export volume. Those selected are allowed to participate in global R&D and marketing projects in which up to USD$1.5 billion won is provided a year (for two to five years) and up to USD$ 75 million won is provided a year for up to five years, respectively. On the other hand, 120 companies are scheduled to be picked out in the Global Hidden Champion Project: applicants are companies with sales between USD$10 billion to 100 billion. Those selected can be provided with assistance for four years in terms of R&D, global marketing, and intellectual property management. Up to USD$300 million won is given a

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[29] Japan Finance Corporation, "Loan Programs", at: <https://www.jfc.go.jp/n/english/sme/loan_finance.html>.
[30] Korea Eximbank, "Overseas Business-Related Loans" <https://www.koreaexim.go.kr/site/homepage/menu/viewMenu?menuid=002003001003001>.
[31] Sauvant and others, op. cit., page 55.
[32] Korea Eximbank, supra note 30.
[33] Sauvant and others, op. cit., page 55.
[34] Ibid.

year for two years in R&D cost and up to USD$100 million won is offered per year for four years in overseas marketing cost.[35]

In **Italy**, the ‘soft loans’ program of SIMEST (Società italiana per le imprese all'estero – Italian Society for Companies Abroad), offers concessional loans to Italian firms supporting their international growth by financing feasibility studies for the evaluation of investment opportunities (including consultants’ fees and salaries for in-house employees), programs for entering new markets (non-EU) with a commercial presence (including costs for establishing an office, showroom, shop or corner and related marketing), as well as technical support programs to train personnel employed in branches located abroad (including all costs from training, travel and other expenses associated with an FDI project).[36] These loans terms are for 4.5 years including an 18-month grace period, and are capped at € 100,000 for studies on commercial investments, € 200,000 for studies on investments in production and € 300,000 for technical assistance.[37] In the case of programs to enter non-EU markets, the loan term is for 6 years, including a 2-year grace period, and the amount finances is up to 25% of the average turnover over the previous three years, capped at € 2.5 million. The interest rate on all the above-mentioned loans is subsidized and fixed at just 10% of the EU reference rate.[38]

Non-concessional Loans

The Overseas Private Investment Corporation (OPIC), the **United States** development finance institution, is an example of a state agency offering loans without concessionary terms. OPIC supports US companies in developing countries and emerging markets by providing medium-to long-term debt financing loans to eligible investments. The majority of OPIC’s financing is used to cover the capital costs—such as design/engineering services, facility construction or leasehold improvements, and equipment—associated with the establishment or expansion of the foreign investment. OPIC does not consider financing requests that are solely for the purpose of making an acquisition, though limited acquisition costs may be financeable if additional capital will be expended to expand or rehabilitate the investment. OPIC provide loans for a wide variety of industries such as information technology, health care, education, infrastructure, telecommunications, financial services, housing, and agribusiness. The loan sizes range from $500,000 to $250 million with an average loan size of $5 million to $50 million. The loan period is usually between 5 and 20 years, with a maximum of 30 years, depending upon the type of project and its debt servicing capability.[39] As OPIC loans are non-concessional, interest and fees will vary depending upon the project, according to the market. However, it is common to allow a “grace” period on principal repayment at the beginning of the term to allow for project completion, however, each transaction will be evaluated on a case-by-case basis.[40]

OPIC’s non-concessional loans have been granted to companies investing in LDCs. One example relates to a US energy company investing in Togo. In 2006, Togo’s demand for electricity was nearly twice as high as production and the shortage of domestic energy was exacerbated by growing demand for electricity in the rest of West Africa, which reduced the country’s traditional reliance on imports of hydropower from some neighbouring countries (like Côte d'Ivoire and Ghana). In addition, this left its energy supply vulnerable to drought. The country was forced to ration power with daily rolling blackouts. Frequent power outages in 2006 resulted in an estimated $150 million to $190 million in private sector losses, about half of the annual revenue of the government of Togo. OPIC provided $209 million in loans and political risk insurance to New York-based ContourGlobal to build a 100 MW “tri-fuel” power plant. The project, the

[35] Lee Song-hoon, ‘S. Korean Government to Nurture Selected Small Yet Promising Companies’ (*BusinessKorea*, 5 January 2017) <http://www.businesskorea.co.kr/english/news/smestartups/16952-korean-hidden-champions-s-korean-government-nurture-selected-small-yet>.
[36] SIMEST, "Soft Loans" <http://en.simest.it/Products-And-Services/Soft-Loans/Soft-Loans.kl>.
[37] Sauvant and others, op. cit., page 56.
[38] SIMEST, supra note 36.
[39] Overseas Private Investment Corporation, ‘Debt Financing’ <https://www.opic.gov/what-we-offer/financial-products>.
[40] ibid.

largest energy investment ever made in the Republic of Togo, increased Togo's electricity capacity, reducing blackouts and diversifying fuel sources.[41]

In **Belgium**, BIO offers a wide range of direct medium- and long-term loans at both fixed and variable rates. Their term can vary between 3 and 10 years, with a maximum grace period of 3 years. BIO can finance projects in local currency in order to reduce the risks linked to exchange rates and interest rates for its clients, on a case by case basis. Using non-concessional loans, BIO has financed several investment projects in LDCs, notably in Africa.[42]

Structured Finance

In **Spain**, the Instituto de Crédito Oficial (ICO - Official Credit Institute) supports overseas investments by Spanish companies by granting long-term loans under its Structured Finance Programme with more than 15 million euros for projects developed in Spain and 20 million for projects carried out abroad.[43] The program finances projects in productive investment in the sectors of: Environment, energy, gas, electricity, transport infrastructure and telecommunications. This financing is aimed at Spanish private companies with a turnover of over 50 million euros and total assets of more than 43 million euros and subsidiaries, including project finance companies. The processing of the operations is done directly in the Direct Financing Branch of the ICO. The minimum amount of loans requested to ICO is approximately 12.5 million euros or its counter value in foreign currency.[44]

In **Belgium**, besides providing long-term loans, the Belgian Corporation for International Investment (SBI) also offers financial products that seek to link repayment to the success of an investment: subordinated loans may incorporate a variable component to the interest rate; or through an option to convert the loan into shares. Loans are always denominated in euro.[45]

Financial Guarantees

In **Italy**, the export credit agency – SACE (Servizi Assicurativi del Commercio Estero – Foreign Trade Insurance Services), a joint-stock company wholly owned by CDP[46] – provides guarantees of a loan to Banks in Italy funding Italian SMEs or foreign associates for investment activities abroad (joint ventures, mergers or acquisitions, capital increases in foreign companies, construction of production facilities), including project finance based, for strategic projects (renewable energy, strategic infrastructures, research and development, etc.).[47] This guarantee is provided at no additional cost to the SME, as SACE covers the risk of non-repayment for the guaranteed portion of the loan provided.

Similarly, in the case of **Canada**, the Export Guarantee Program of the Export Development Canada (EDC) guarantees up to 100% of loans provided by financial institutions where Canadian companies are making direct investments abroad or are looking to set up an operating line of credit for their foreign subsidiary.[48]

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[41] Overseas Private Investment Corporation, 'Lomé Thermal Power Plant: Tripling Energy Production in One of Africa's Least-Developed Nations' <https://www.opic.gov/opic-action/featured-projects/sub-saharan-africa/lom%C3%A9-thermal-power-plant-tripling-energy-production-one-africa%E2%80%99s-least-develope>.
[42] Belgian Investment Company for Developing countries (BIO), 'Products', supra note 9.
[43] Sauvant and others, op. cit., pp. 57–58.
[44] Instituto de Crédito Oficial (ICO), 'Financiación Estructurada' <http://www.ico.es/web/ico/financiacion-estructurada>.
[45] Belgian Corporation for International Investment (SBI), 'Products' (2009) <http://www.bmi-sbi.be/en/produits.html>.
[46] The Cassa depositi e prestiti (CDP) is an Italian investment bank. Around 80% of its share capital is owned by the Italian Ministry of Economy and Finance.
[47] SACE, 'Guarantee for Internationalisation of SMEs: Grow Abroad' <http://www.sace.it/en/products-and-services/products/guarantee-for-the-internationalisation-of-smes>.
[48] Export Development Canada (EDC), 'Export Guarantee Program' <http://www.edc.ca/EN/Our-Solutions/Financing/Documents/brochure-export-guarantee-program.pdf>.

In **Singapore**, an Internationalization Finance Scheme (IFS) is designed to facilitate companies' access to financing for their overseas ventures through the co-sharing of default risks between IE Singapore and Participating Financial Institutions (PFIs).[49]

Equity Participation

In **Denmark**, IFU may participate in the financing of projects with equity and quasi equity-instruments for investments in manufacturing or service companies. IFU's part of the share capital participation shall always be smaller than that of the Danish partner. IFU can normally co-finance up to 30% of the total project investment including working capital. For small projects the financing from IFU may go up to 50% of the total investment. The maximum amount invested in a single project is DKK 100m for IFU. It is a condition for IFU's financial participation in a project that there is a private Danish co-investor. IFU normally has a seat in the board of directors in the project companies. IFU's policy is to withdraw from a project when it has become self-sustaining, typically 5-7 years after start-up. When IFU withdraws, the shares are normally offered to the other partners. IFU also provides advisory services, and companies also gain access to the Funds' experience as global investors, their global network of advisers.[50]

China has been successful in taking a minority share in specific projects through its China-Africa Development Fund to increase the FDI flows into Africa. The focus is to solve the three major bottlenecks confronting African economies, i.e. underdeveloped infrastructure and human resource and funding shortages. Investment projects are selected according to "strategic necessity of investment, financial balance of projects and sustainability of corporate development" as the fundamental principles, with priority given to the construction of the "three major networks" (i.e. high-speed rail, motorway and regional aviation) in Africa, industrialization, production capacity cooperation between China and Africa, Chinese equipment manufacturers entering African markets, agricultural projects related to people's livelihood, resource development and industrial (economic and trade) parks. [51]

In the **United Kingdom, t**he Commonwealth Development Corporation provides both loan and equity financing for projects in developing countries, sometimes by taking minority equity positions, focused in SMEs.

In **Belgium**, new companies or those who wish to expand their activities or strengthen their financial base can benefit from BIO's support in the form of an equity stake. BIO always takes a minority stake, generally tied to a seat on the Board of Directors, intended to be ceded to other shareholders, third parties or on the financial market once the company has reached a sustainable maturity level. BIO also uses quasi-equity (mezzanine capital, subordinated loans, convertible loans, etc.) to strengthen the financial resources of up-and-coming companies, without diluting the position of its shareholders.[52]

In the **United States**, OPIC provides support for the creation of privately-owned and managed investment funds in developing countries with a shortfall of private equity capital. OPIC is one of the largest private equity fund sponsors in developing nations and is one of the first fund sponsors to enter an unproven market. These funds make direct equity and equity-related investments in new, expanding or privatizing emerging market companies. Since 1987, OPIC has committed $4.1 billion to 62 private equity funds in emerging markets. These funds in turn have invested $5.6 billion in more than 570 privately-owned and managed companies across 65 countries, several of them in LDCs (11 funds for African countries, mostly

[49] International Enterprise Singapore, 'Internationalisation Finance Scheme (IFS)' <https://www.iesingapore.gov.sg/Assistance/Global-Company-Partnership/Access-to-Financing/Internationalisation-Finance-Scheme>.

[50] 'IFU – Investeringsfonden for Udviklingslande', supra note 22.

[51] China Development Bank, "China Development Bank Annual Report 2015" <http://www.cdb.com.cn/English/gykh_512/ndbg_jx/ndbg2015/>.

[52] Belgian Investment Company for Developing countries (BIO), 'Products', supra note 9.

from Sub-Saharan region).[53] OPIC stresses that its funding has helped emerging economies access long-term growth capital, management skills, and financial expertise, all of which are important factors in expanding economic development and creating new opportunities for people in low-income and developing nations.[54]

In **Singapore**, recently it was announced that a SGP$600 million in government capital will be co-invested with Singapore-based enterprises in a new International Partnership Fund (IPF) to help them scale up and internationalize. The amount will be managed by Heliconia Capital Management, a subsidiary of state investment company Temasek Holdings. With a focus on Asian countries and emerging countries, the joint investment would enable local firms to partner other Asian companies to either extend product lines, brands or value chains, or to gain access to markets, channels and technologies. To qualify, Singapore-based firms must be headquartered in the country, and record annual revenues of no higher than S$800 million.[55]

In **Norway**, the Norwegian Investment Fund for Developing Countries (Norfund), gives priority to equity investments because it is the scarcest type of capital in most developing countries. Equity investments are normally from USD 4 million and above, and Norfund takes maximum 35% ownership share. Norfund also offers loan to selected companies (normally those in which the fund already has an equity position). Norfund's priority region is Africa, with main focus on Sub-Saharan Africa (but selected countries in Central America and South-East Asia might also be supported). The Fund's priority sectors are clean energy, financial institutions, food and agribusiness.[56]

<u>Private Enterprise Funds</u>

In the **United States**, private enterprise funds were considered an experimental way of delivering aid to the private sectors in Central and Eastern European countries making the transition from centrally planned to market-oriented economies, after the fall of the Berlin Wall in 1989 and the collapse of the Soviet Union in 1991. The United States Congress authorized nearly $1.2 billion through the U.S. Agency for International Development (USAID) to establish ten investment funds, covering 19 countries in Central and Eastern Europe and the Former Soviet Union. The enterprise funds are private U.S. corporations authorized by Congress and staffed by experienced business managers. For each fund, USAID identified and the White House designated an independent Board of Directors, to serve on a pro bono basis, to guide the Fund's strategy and provide supervisory oversight. Although many challenges were encountered, including slow starts and organizational difficulties, after 20 years of operations throughout the Europe and Eurasia region, it has been reported that these private enterprise funds have been successful both in accomplishing their original economic development objectives, as well as achieving substantial financial returns, although there has been significant variation in the performance in individual funds.[57]

A similar scheme has been recently used by USAID, together with CrossBoundary Energy to provide businesses with a new model for energy services in Sub-Saharan Africa. The "CrossBoundary Energy Partnership" finances solar installations that serve enterprises in that region, increasing access to electricity and driving adoption of renewable energy technology – under the "Power Africa" initiative. USAID's Office of Private Capital and Microenterprise (PCM), with support from Power Africa, created an investment structure whereby $1.3 million in grant funding was contributed to the CrossBoundary Energy fund as subordinated capital. Power Africa's funding was used to attract $7.5 million in private sector equity as well as up to $10 million in debt. Once fund investors are paid back their principal investment in

[53] Overseas Private Investment Corporation (OPIC), 'Investment Funds Program - Current List of Investment Funds' (as of 30 September 2016) <https://www.opic.gov/sites/default/files/files/IFD_FundList_fy2016.pdf>.
[54] OPIC , 'Support for Private Equity Funds', 2017. <https://www.opic.gov/what-we-offer/investment-funds>.
[55] Vivien Shiao, 'New Co-Investment Fund to Help Businesses Go Overseas' *The Business Times* (21 February 2017) <http://www.businesstimes.com.sg/government-economy/singapore-budget-2017/new-co-investment-fund-to-help-businesses-go-overseas>.
[56] Norfund, 'What We Do' <https://www.norfund.no/produkter_2/>.
[57] USAID, 'The Enterprise Funds in Europe and Eurasia: Successes and Lessons Learned' (12 September 2013) 3 <https://www.usaid.gov/sites/default/files/documents/1863/EE_Enterprise_Funds-LessonsLearned.pdf>.

the fund, the US government will receive the entire amount of the grant back plus a capped return. The CrossBoundary project catalysed investment from six U.S.-based investors and has already produced results, as recently completed the largest solar “energy as a service” installation in Sub-Saharan Africa, powering a mixed commercial and residential development in Nairobi.[58]

Fiscal Incentives

In 2010 **Singapore** implemented a scheme providing a capped stamp duty relief for qualifying mergers and acquisitions (M&As) completed between April 1, 2010 and March 31, 2015, together with a M&A allowance calculated on the basis of percentage of the qualifying share acquisition. In 2012, the M&A scheme was enhanced to provide a further double tax deduction on transaction costs incurred in respect of the qualifying share acquisition. In 2015, the M&A scheme was extended specially to support SMEs grow via strategic acquisitions. According to the most recent regulations, an acquiring company that makes a qualifying ordinary share acquisition in a target company during the period from 1 April 2015 to 31 March 2020 will be granted an M&A allowance of 25% of the cost of the qualifying share acquisition (with a cap of SGP$20 million), a stamp duty relief for the qualifying share acquisition (capped at SGP$40,000) and double tax deduction on transaction costs incurred in respect of the qualifying share acquisition (capped at SGP$100,000 on such transaction costs).[59] In 2016, the scheme was enhanced to support more M&As, taking effect for qualifying acquisitions made from 1 April 2016 to 31 March 2020, augmenting the cap for the tax allowance of 25% for up to SGP$40 million, and for the stamp duty relief SGP$80,000. These schemes are not directed to especially promote or facilitate investment in LDCs.[60]

In 2011, the Republic of **Korea** eased in 2011 its regulation of indirect tax credits for dividends allowing Korean parent companies to claim foreign tax credits for underlying taxes paid by qualifying foreign affiliates, regardless the level of development of the host State.

[58] USAID, ‘The CrossBoundary Energy Partnership’ (2013) <https://www.usaid.gov/sites/default/files/documents/1865/PCM_CrossBoundary_9_19_2016.pdf>.

[59] Ministry of Finance - Singapore, ‘Mergers and Acquisitions’ (13 February 2017) <http://www.mof.gov.sg/Policies/Tax-Policies/Corporate-Income-Tax/Mergers-and-Acquisitions>.

[60] In order to qualify for the M&A scheme, the acquiring company must merely acquire ordinary shares in a target company, whether directly or indirectly, that results in the acquiring company holding at least 20% ordinary shareholding in the target company (if the acquiring company’s original shareholding in the target company was less than 20%); or more than 50% ordinary shareholding in the target company (if the acquiring company’s original shareholding in the target company was 50% or less). Inland Revenue Authority of Singapore, ‘IRAS E-Tax Guide. Income Tax and Stamp Duty: Mergers and Acquisitions Scheme’ (30 June 2016) <https://www.iras.gov.sg/irashome/uploadedFiles/IRASHome/e-Tax_Guides/etaxguides_CIT_mergers_and_acquisitions_scheme.pdf>.

Table 1: Usage of support measures for outward investment

Country	Direct Support												Indirect Support			
	Pre-establishment grants	Establishment grants	Concessional loans	Non-concessional loans	Structured finance	Risk sharing	Financial guarantees	Equity participation	Private enterprise funds	Fiscal incentives	Political risk insurance	Project-business development and information services	Promoting sustainable investment	Support for improving investment climate	Support for strengthening Investment Promotion Agencies	Support for private sector in the host country
Argentina		X	X	X		X	X			X		X	X			
Australia		X					X				X	X	X	X		X
Austria	X	X	X	X		X	X				X	X	X			X
Belgium	X	X		X	X		X	X			X	X	X			X
Brazil		X	X		X		X	X			X		X			
Canada	X	X		X	X	X	X	X			X	X	X	X		
Chile				X								X	X			
China	X	X	X					X	X	X	X		X			
Czech Republic	X	X		X			X				X	X	X	X		X
Denmark	X	X	X	X			X	X				X	X	X		
European Union	X	X	X	X		X		X	X			X	X	X		X
Estonia				X			X		X		X		X	X		
Finland	X	X	X	X	X	X	X	X			X	X	X	X		X
France			X	X			X	X			X	X	X	X		X
Germany	X	X		X		X	X	X			X	X	X			
Greece	X	X	X	X	X	X	X	X			X	X	X			
Hungary			X	X			X				X		X			X
Iceland	X	X	X	X				X		X		X	X			X
India	X		X	X				X			X					X
Indonesia				X			X	X			X	X	X	X		X
Ireland	X		X									X	X	X		X

Country	Direct Support												Indirect Support			
	Pre-establishment grants	Establishment grants	Concessional loans	Non-concessional loans	Structured finance	Risk sharing	Financial guarantees	Equity participation	Private enterprise funds	Fiscal incentives	Political risk insurance	Project-business development and information services	Promoting sustainable and responsible investment	Support for improving investment climate	Support for strengthening LDC's Investment Promotion Agencies	Support for private sector in the host country
Italy	X	X	X			X	X	X			X	X	X	X		X
Japan		X	X		X		X	X			X	X	X	X		X
Republic of Korea			X	X		X	X	X			X	X	X			X
Latvia		X	X	X				X			X	X		X		
Luxembourg	X	X		X							X	X	X			X
Mexico				X	X	X	X		X		X	X	X			
Netherlands	X		X	X		X	X	X	X	X		X	X			X
New Zealand	X	X			X	X					X	X	X	X		X
Norway		X	X	X		X		X	X	X	X	X	X			X
Poland	X	X	X	X		X	X	X			X	X	X	X		X
Portugal		X	X	X	X	X	X	X	X		X	X	X	X		X
Saudi Arabia			X	X			X			X	X	X	X			X
Slovakia				X			X		X		X	X				X
Slovenia	X	X	X	X			X		X		X		X	X		
South Africa	X	X									X	X	X	X		X
Spain	X	X	X		X		X	X			X	X	X			
Sweden	X	X	X	X		X	X	X	X		X	X	X	X		X
Switzerland		X		X	X	X	X				X	X	X	X		X
Turkey	X	X		X			X				X	X				X
United Kindgdom	X			X	X	X	X	X	X		X	X	X	X		X
United States	X	X		X	X		X	X	X		X	X	X	X		X

Table 2: Useful websites

Argentina	http://cancilleria.gov.ar/ http://www.bice.com.ar/
Australia	https://www.efic.gov.au/ https://www.austrade.gov.au/
Austria	https://www.aws.at/ http://www.oekb.at/ http://www.entwicklung.at/
Belgium	http://www.bio-invest.be/ http://www.abh-ace.be/
Brazil	http://www.abgf.gov.br/ http://www.mdic.gov.br/
Canada	http://www.international.gc.ca/ https://www.edc.ca/
Chile	http://www.prochile.gob.cl/
China	http://qwgzyj.gqb.gov.cn/ http://www.sinosure.com.cn/ http://www.chinagoabroad.com/ http://www.cipa.gov.cn/
Czech Republic	http://www.businessinfo.cz/
Denmark	https://www.ifu.dk/ https://www.ndf.fi/
European Union	https://ec.europa.eu/europeaid/general_en http://trade.ec.europa.eu/ https://ec.europa.eu/commission/eu-external-investment-plan_en
Estonia	http://kredex.ee/ http://vm.ee/
Finland	https://www.suomi.fi/ https://www.finnvera.fi/ http://formin.finland.fi/ https://www.tekes.fi/ https://www.finnfund.fi/ http://www.finnpartnership.fi/ https://www.ndf.fi/
France	http://www.businessfrance.fr/ http://www.proparco.fr/ http://www.cirad.fr/ http://www.bpifrance.fr/ http://www.afd.fr/
Germany	https://www.developpp.de/ https://www.deginvest.de/ http://www.gtai.de/ https://www.kfw-entwicklungsbank.de/
Greece	http://www.enterprisegreece.gov.gr/ http://agora.mfa.gr/ http://www.aidfunding.mfa.gr/ http://hellenicaid.mfa.gr/ http://www.ibg.gr/ http://www.sev.org.gr/
Hungary	http://www.segelyszervezet.hu/ https://www.exim.hu/
Iceland	http://www.iceida.is/ http://www.islandsstofa.is/ https://en.rannis.is/ https://www.landsbankinn.com/ http://framtakssjodur.is/

India	https://www.eximbankindia.in/ https://www.itecgoi.in/ http://commerce.nic.in/ https://www.ecgc.in/ https://www.sbi.co.in/ http://www.projectexports.com/
Indonesia	http://www.indonesiaeximbank.go.id/ http://isdb-indonesia.org/
Ireland	https://www.enterprise-ireland.com/ https://www.irishaid.ie/ http://sbci.gov.ie/
Italy	http://en.simest.it/ http://www.ice.gov.it/ http://www.mise.gov.it/ http://www.sace.it/ http://www.aics.gov.it/
Japan	http://www.jbic.go.jp/ http://www.nexi.go.jp/ https://www.jetro.go.jp/ http://www.mofa.go.jp/
Republic of Korea	https://www.koreaexim.go.kr/ https://www.edcfkorea.go.kr/ http://www.koica.go.kr/ https://www.odakorea.go.kr/
Latvia	http://www.liaa.gov.lv/ https://www.altum.lv/ http://www.mfa.gov.lv/
Luxembourg	http://www.snci.lu/ http://www.guichet.public.lu/ http://www.ducroire.lu/ https://luxdev.lu/ http://www.cooperation.lu/ http://www.cc.lu/
Mexico	http://www.promexico.gob.mx/ http://www.bancomext.com/ http://www.fondodefondos.com.mx/ https://www.gob.mx/
Netherlands	http://english.rvo.nl/ https://www.fmo.nl/ https://atradius.nl/
New Zealand	https://www.callaghaninnovation.govt.nz/ http://www.regionalbusinesspartners.co.nz/ https://www.business.govt.nz/ https://www.nzte.govt.nz/ http://www.nzeco.govt.nz/ https://www.mfat.govt.nz/
Norway	https://www.norfund.no/ https://giek.no/ http://www.innovasjonnorge.no/ https://www.norad.no/ https://www.regjeringen.no/
Poland	http://www.paih.gov.pl/ http://www.goafrica.gov.pl/ https://www.trade.gov.pl/ http://www.kuke.com.pl/ https://www.bgk.pl/ https://www.polskapomoc.gov.pl/
Portugal	http://www.cosec.pt/ http://www.portugalglobal.pt http://www.imvf.org/

	http://www.oikos.pt/
Saudi Arabia	http://mci.gov.sa/ http://www.sep.gov.sa/ https://www.saib.com.sa/
Slovakia	http://www.sario.sk/ https://www.eximbanka.sk/ http://www.sbagency.sk/ http://www.nhfond.sk/ http://www.slovakaid.sk/ http://www.finance.gov.sk/
Slovenia	http://www.mgrt.gov.si/ http://www.mzz.gov.si/ http://www.podjetniskisklad.si/ http://www.sid.si/
South Africa	http://www.thedti.gov.za/ http://www.ecic.co.za/ http://www.dirco.gov.za/
Spain	http://www.ico.es/ http://www.icex.es/ http://inglaterra.cesce.es/
Sweden	https://tillvaxtverket.se/ http://www.sida.se/ http://www.almi.se/ https://nopef.com/ http://www.nefco.org/ https://www.swedfund.se/ http://www.ekn.se/ http://www.business-sweden.se/ https://enterpriseeurope.se/ https://www.verksamt.se/
Switzerland	http://www.serv-ch.com/ https://www.seco.admin.ch/ https://www.s-ge.com/ http://www.secostartupfund.ch/ http://www.technologyfund.ch/ https://www.sbfi.admin.ch/ https://www.eda.admin.ch/
Turkey	https://www.igeme.com.tr/ http://www.ekonomi.gov.tr/ http://www.eximbank.gov.tr/ http://www.tika.gov.tr/
United Kingdom	http://www.cdcgroup.com/ http://pedl.cepr.org/ https://www.gov.uk/
United States	https://www.opic.gov/ http://www.exim.gov/ https://www.fas.usda.gov/ http://2016.export.gov/ https://energy.gov/ https://www.mbda.gov/ https://www.mcc.gov/

The 47 Least Developed Countries (LDCs) are Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Comoros, Dem. Rep of the Congo, Djibouti, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Dem. Republic, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, South Sudan, Sudan, Timor-Leste, Togo, Tuvalu, Uganda, United Rep. of Tanzania, Vanuatu, Yemen and Zambia.

The United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and the Small Island Developing States (UN-OHRLLS) was established by the United Nations General Assembly in 2001. The Office advocates in favour of the LDCs and mobilizes international support for the implementation of the Programme of Action for the Decade 2011-2020 for the LDCs.