TOGETHER OR APART: INVESTMENT PROMOTION AGENCIES' PRIORITISATION AND MONITORING AND EVALUATION FOR SUSTAINABLE INVESTMENT PROMOTION

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KEY FINDINGS

Changing demands on IPAs' prioritisation strategies

Sector prioritisation

► Most OECD IPAs prioritise business activities at a general or very general level. Only six OECD IPAs prioritise sectors at a highly disaggregated sector-level (such as satellite telecommunications in telecommunications): Costa Rica, Czech Republic, Finland, Iceland, Israel, Mexico.

► Nearly half of IPAs have changed their sectoral priorities in 2020-2021. Half of those have done so at least partially due to COVID-19 and one third has already reflected these changes in the submitted list of priority sectors between 2019 and 2020-21. Overall, IPAs see longer-term trends – such as the increased role of sustainability and digitalisation – as impacting their priorities more than the pandemic itself.

► Manufacturing remains the most frequently targeted sector by OECD IPAs, followed by information and communication technologies and professional, scientific, and technical activities. Within manufacturing, IPAs target most the manufacturing of basic pharmaceutical products and preparations, electrical equipment, and machinery.

Country prioritisation

► Country prioritisation is highly concentrated on the largest economies, with the United States, Germany, the United Kingdom, China and Japan being the top five markets. Nearly one fifth of all IPAs have altered their priority markets in light of the pandemic.

Investor prioritisation

► Besides country and sector targets, most IPAs rely on lists of priority investors created using firm-level data from private data providers and desk research. 'Big data' analytics are less common.

> **IPAs' monitoring & evaluation strategies**
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> ► Nearly three quarters of surveyed IPAs view monitoring and evaluation (M&E) as a key factor that influences their prioritisation strategy.
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> ► Sustainability is an important objective for IPAs when setting their prioritisation strategy with the median OECD IPA placing it at 7 on the scale from 0 to 10. Sustainable Development Goals (SDG) most frequently mentioned relate to promotion of economic growth and employment, building of resilient infrastructure, supporting industrialisation and innovation, and ensuring access to modern energy. Few IPAs track their contribution to SDGs through specific indicators.
>
> ► Sustainability- and inclusiveness-related Key Performance indicators (KPIs) help IPAs identify investments of higher "quality". The most often used KPIs of this kind are those relating to productivity and innovation, followed by those on jobs. Exports-related metrics and KPIs on low carbon transition are used by about half of IPAs, and other KPIs are rare.
>
> ► KPIs used by IPAs for prioritisation and those for M&E do not always correspond. For example, no IPA has reported using indicators related to low-carbon transition for their M&E although nearly half of IPAs use such indicators to prioritise their activities.

Introduction

Foreign direct investment (FDI) has fallen dramatically in light of the COVID-19 crisis (OECD, 2020a; OECD 2021b). Global FDI flows collapsed by 35% in 2020 compared to 2019; and advanced economies were most affected (Figure 1 and Figure A1 in Annex). Yet, even if subject to significant risks related to the ongoing health crisis, there are signs of a rebound – global GDP has reached its pre-pandemic level and is projected to grow by 5.6% in 2021 and 4.5% in 2022 (OECD, 2021a). FDI data also suggests a recovery: global FDI flows rebounded in the first half of 2021 to reach USD 870 billion, 43% above the pre-pandemic levels (OECD, 2021d).[1] Going forward, FDI could contribute to the economic recovery through their job-creation potential, linkages of multinational enterprises (MNEs) with supplying- and buying local firms, and their role in the health- and other sectors critical to resilience and sustainability, among others (OECD, 2020a).[2]

Figure 1 Inward FDI flows in the OECD and the world, 2005-2020

In bln USD
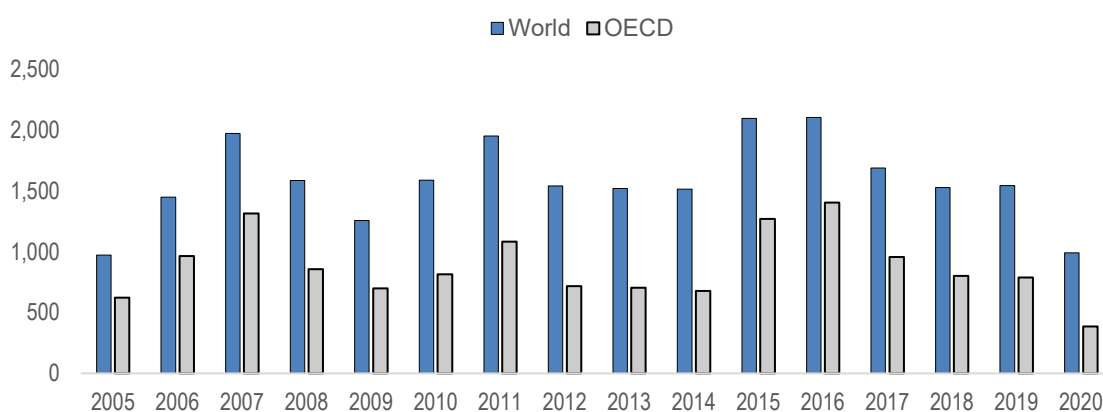
Source: OECD and IMF data, presented in FDI in Figures (October 2021)

Investment promotion agencies (IPAs) can play an important role in this context (OECD, 2020b). In particular, IPAs' prioritisation strategy – which can influence the kind of investment that is attracted into the local economy – can be a crucial element in the post-pandemic world. This is because it allows IPAs to align their activities with their countries' comparative advantage and contribute to sustainable development.

Most IPAs prioritise certain types of investments over others (OECD, 2018). This takes place through selection of priority sectors, countries and investment projects. The issues of sustainability, inclusiveness, and contribution to sustainable development goals (SDGs) have become increasingly important and have led some agencies to redefine their priorities and sharpen the methodologies and tools used for this purpose. The prerogatives of adapting to digitalisation, sustainability considerations and the possible risk of reconfigurations of global value chains have also been shaping OECD IPAs' long-term prioritisation strategies, and the COVID-19 pandemic is perceived by the agencies to have accentuated these trends. At the request of participating agencies, the OECD IPA Network and the OECD Secretariat have been working on the topic of IPA monitoring and evaluation (M&E) for several years, including through a partnership with the Inter-American Development Bank (IDB).[3] This year, the OECD IPA Network requested the OECD to focus on recent changes in M&E strategies by IPAs, and how they relate to prioritisation in general and prioritising sustainable investment in particular.

The findings presented in this note are based on the results of the *OECD survey on IPA monitoring & evaluation and prioritisation* (Box 1), received from 32 national IPAs across the OECD, and complemented by additional research and analysis. The note first discusses the IPAs' current approaches to prioritisation, and changes that took place in 2020-21 due to the COVID-19 pandemic and increased focus on sustainability (Section 2). It then explores what potential tools IPAs have at their disposal to monitor and evaluate their priorities (Section 3), including in relation to sustainable development. As such, it presents comparative evidence of practices and experiences across OECD countries. It was used as a background note for the OECD IPA Network Meeting on 14 October 2021 and benefitted from the discussions and comments from participating IPAs. In parallel, the IDB has recently completed impact evaluations of 12 agencies in Latin America and the Caribbean region, the insights from which are gathered in a forthcoming publication (Volpe Martincus, 2021).

Box 1. The OECD Survey on Prioritisation and Monitoring & Evaluation of IPAs

IPAs continuously reassess their priorities to maximise their effectiveness in attracting investment and to ensure its positive effects on the local economies. As part of these efforts, the contribution towards achieving the SDGs and attracting "high-quality" investments have been increasingly on the IPAs' agendas, especially in the aftermath of COVID-19. The OECD designed a survey to collect systematic information on current prioritisation and M&E strategies and tools to provide an up-to-date view of these efforts and provide a lens for building on these efforts going forward.

The survey was shared with IPA representatives from OECD countries in the form of an online questionnaire, which was completed between April and June 2021. The dataset includes national IPAs from the following 32 countries: Australia, Austria, Canada, Chile, Colombia, Costa Rica, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Latvia, Lithuania, Luxembourg, Japan, Mexico, the Netherlands, New Zealand, Poland, Portugal, Slovenia, Spain, Sweden, Switzerland, Turkey, and the United Kingdom. The data and information gathered through this survey served as the primary source for this policy note that also benefitted from the discussions and comments from IPAs obtained at the dedicated session at the annual OECD IPA Network meeting in October 2021.

1. Changing demands on IPAs' prioritisation strategies

## A. Overall approaches to IPA prioritisation

OECD IPAs tend to prioritise business activities at a general (50%) or very general level (30%) (Figure 2).[4] Only six OECD IPAs prioritise sectors at a detailed (4-digit ISIC) level (such as satellite communications in telecommunications): Costa Rica, Czech Republic, Finland, Iceland, Israel and Mexico (Table A1 in Annex).[5] IPAs with more detailed sectoral targeting strategies tend to be smaller, more independent, reform more frequently, and are also more specialised in terms of the allocation of their resources (Figure A2 in Annex), as measured by the IPA indices developed on the basis of the OECD-IDB IPA mapping (Volpe Martincus and Sztajerowska, 2019).

Figure 2 Level of sector prioritisation by OECD IPAs
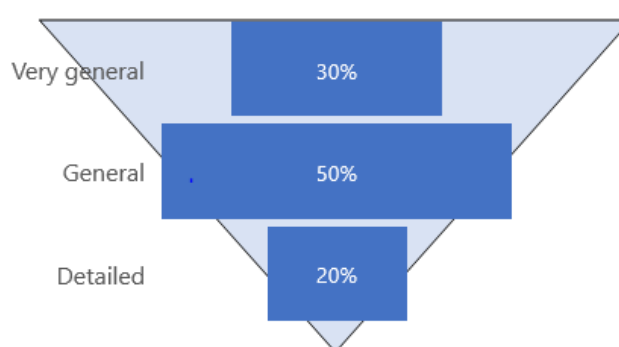
Note: Very general refers 1-digit-, general to 2-digit- and detailed to 4-digit level standard ISIC sector classification.
Source: OECD survey on IPA monitoring & evaluation and prioritisation, 2021.

### Figure 3 Sectors targeted by OECD IPAs, by level of detail

In %
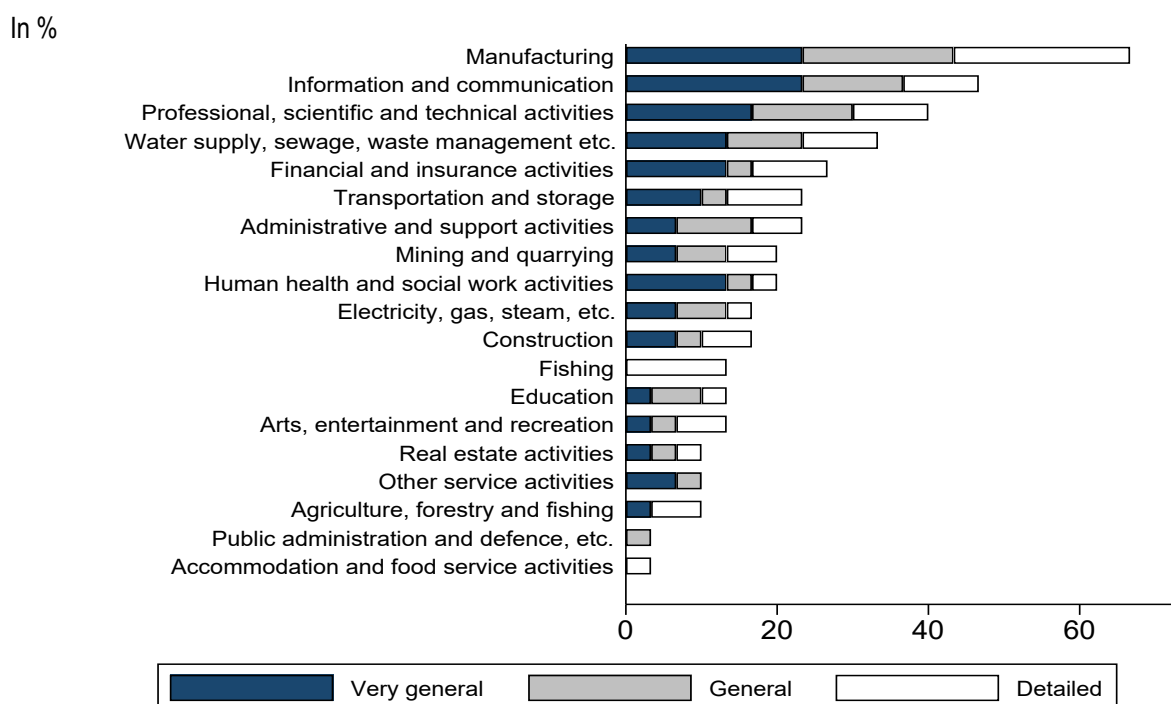
Note: IPAs responded at different levels of sectoral aggregation (4-. 2-, and 1-digit level) and responses were aggregated up to the common 1-digit level. The figure shows the share of IPAs targetting a given sector in the total number of OECD IPAs that reponded to the question (i.e., 30).
Source: Authors' calculations based on the OECD survey on IPA monitoring & evaluation and prioritisation, 2021.

Manufacturing remains the most frequently targeted general sector by OECD IPAs, followed by information and communication services and professional, scientific, and technical activities (Figure 3). Within manufacturing, for IPAs that prioritise at a detailed (2-digit) sector-level, the manufacturing of basic pharmaceutical products and preparations, electrical equipment, and machinery are the most popular sectors (Figure A3). Within the information and communication sector, computer consultancy and facilities management, in addition to information services and telecommunications, are most common. Within manufacturing, the manufacturing of measuring, testing, navigation or control equipment as well as medical instruments and supplies, and consumer electronics are the most often targeted sectors among IPAs that prioritise at a 4-digit level (Figure A4). Within the information and communication, the most frequent are computer programming activities, data processing, hosting and related activities.

Country prioritisation of OECD IPAs is highly concentrated and focuses on the largest economies (Figure 4), with the United States, Germany, the United Kingdom, China and Japan being the top five markets.

Figure 4 Countries targeted by OECD IPAs

In %
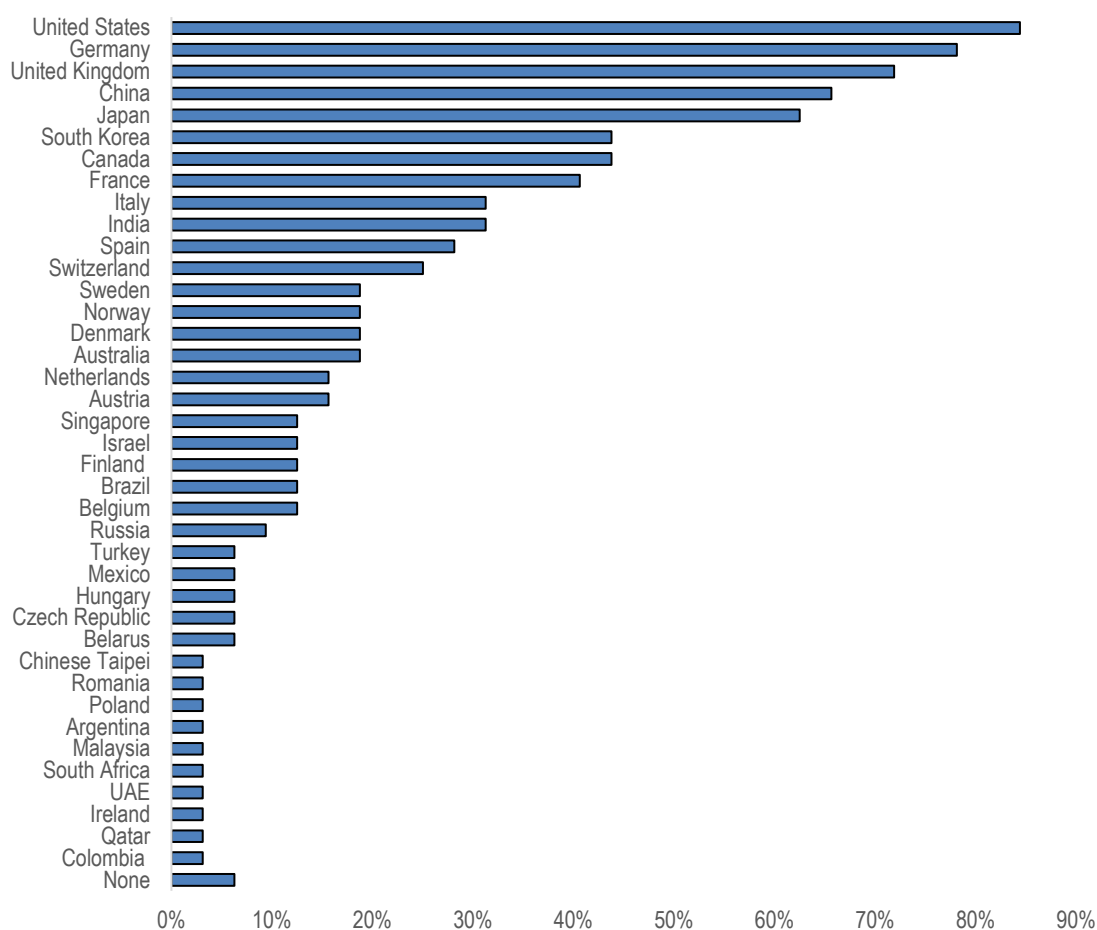
Note: The figure shows the share of OECD IPAs targeting a particular country.
Source: Authors' calculations based on the OECD survey on IPA monitoring & evaluation and prioritisation, 2021.

B. Changes to prioritisation due to COVID-19

COVID-19 has provoked a readjustment in OECD IPAs' sectoral priorities. 44% of IPAs reported to have changed their sectoral priorities in 2020-2021 and 50% of those have indicated to have done so exclusively or partially due to COVID-19. For 29% of these OECD IPAs that have reported to have altered their sectoral priorities, this is already reflected in changes in the submitted list of priority sectors used in 2020-21 (relative to 2019).[6] Health-related activities have been among some of the most frequently added sectors; while sectors affected by confinement policies, such as accommodation, food services or travel-related activities, have most frequently been dropped (see Table A2 in the Annex). IPAs readjustments, thus, reflect broader changes in the sectoral economic activity (see Figure A5 in Annex). As shown below, beyond the specific changes in priority sectors, many IPAs highlight that the emphasis has changed due to the increased role of sustainability, digitalisation, and resilience.

44% of OECD IPAs report to have changed sectoral priorities in 2020-21

Nearly one fifth of OECD IPAs have reported to have changed country priorities in 2020-21 relative to 2019, and one third of those have indicated to have done so exclusively or partially due to the pandemic. For 33% of the OECD IPAs that have reported to have altered their country priorities, this is already reflected in the list of priority countries used in 2020-21 relative to 2019 as reported to the OECD.[7] Generally, IPAs tended to adjust either their sectoral or geographic prioritisation in reaction to the pandemic. France and Mexico are the only two IPAs that have added or removed both priority sectors and countries. In normal times, the list of priority sectors is set every few years and nearly half of the agencies review their sectoral priorities annually and one-third every 2-3 years (OECD, 2018).

19% of OECD IPAs report to have changed country priorities in 2020-21

C. The role of sustainability in influencing IPA prioritisation

On a scale 0-10, median OECD IPA scores the importance of sustainability at 7

Sustainability is clearly an important objective for IPAs when setting their prioritisation strategy. On a scale from 0 to 10, the median OECD IPA assesses the importance of sustainability in its prioritisation efforts at 7, although there are differences across individual IPAs. The scores are ranging from 1 to 10 (Figure A6 in Annex). In this context, it is not surprising that IPAs increasingly see their role in contributing to SDGs that are a tool through which governments can measure progress in supporting sustainable development across different agencies.

The SDGs relating primarily to the promotion of economic growth and employment, building of resilient infrastructure, supporting industrialisation and innovation, and ensuring access to

modern energy are the most frequently mentioned by OECD IPAs (i.e., Goals 8, 9 and 7, in the order of importance, see Figure 5 and Table A3 in Annex). Goals relating to gender equality (5), poverty reduction (1) and supporting strong institutions (16) are less frequently mentioned.

Figure 5 SDGs to which IPAs contribute and track

In %
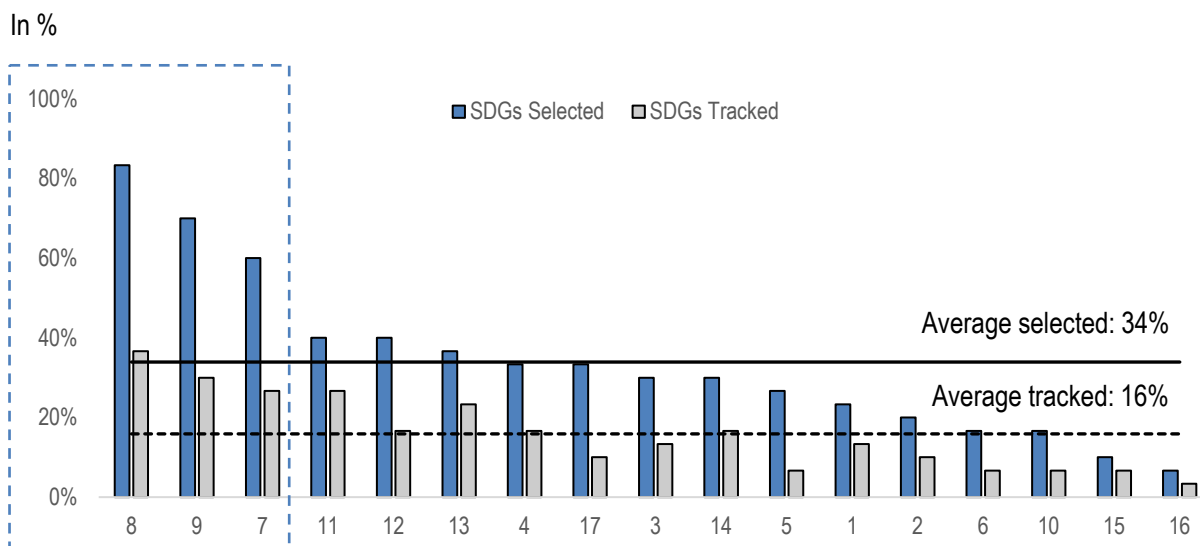
Source: OECD survey on IPA monitoring & evaluation and prioritisation, 2021.

IPAs have different ways of measuring their contribution to the SDGs. For example, some explain that the choice of their target sectors directly contributes to achieving the SDGs (e.g., renewable energy). This highlights the importance of sector prioritisation strategy, on the one hand, and understanding and tracking its contribution to the desired development outcomes, on the other. Some IPAs use a specific indicator to measure their contribution to SDGs, including the number and quality of jobs (Goal 8), number of R&D investment projects and R&D expenditure (Goal 9) and the number of projects realised in the renewable energy sector (Goal 7) (Table 1). Others have developed a specific scoring mechanism aiming to quantify investment projects' contribution to sustainable development. For example, New Zealand's IPA, *NZTE,* has an internal framework to assess regional and sustainability impact of investment projects (including on Maori communities) and decide about the agency's assistance. *Invest in Denmark* developed a sustainability evaluation in collaboration with Ernst & Young; *Business Finland* also uses an internal quality scoring to categorise firms; and *Germany Trade and Invest* has recently adopted a new sustainability scoring for this purpose. Meanwhile, *IDA Ireland* identified six sustainable activities based on the EU taxonomy on sustainable investment (Box 2).

Table 1 Examples of indicators used by OECD IPAs to measure contribution to SDGs

SDG	Examples of Indicators
Goal 7	Priority sector; New projects in renewable energy; FDI in innovation; Specific scoring; Number of investment projects.
Goal 8	No. of jobs (total, created and maintained); No. of full-time equivalents; Average salaries; Number of greenfield projects; Specific scoring; Total investment and breakdown by region; No. of investment projects
Goal 9	Priority sector; Investment in green technologies and projects with decarbonisation potential; Specific scoring; R&D investments won; R&D expenditure; No. of investment projects won; No. of jobs created

Source: OECD survey on IPA monitoring & evaluation and prioritisation, 2021.

The tracking of IPAs' contribution to SDGs remains a challenge, however. On average, only 16% of OECD IPAs track their contribution to SDGs through specific indicators (Figure 5). For example, while 83% of IPAs report to contribute to Goal 8, 37% report to use an indicator to track that contribution. There can be many reasons for low monitoring in this area and can include "translation" issues, i.e., linking a given SDG to the KPIs used and tracked by IPAs on a regular basis, such as the number of jobs. Other problems may involve data and measurement issues, including CRM system legacy difficulties, and reporting complexity for investment officers. There are also disparities in the degree of tracking across SDGs that may deserve further attention. For example, 37% of IPAs report to contribute to the SDG on climate change and 23% use an indicator to track progress in this regard; in case of gender equality, 27% of IPAs indicate that they contribute with their activities in this area but only 7% use an indicator.

IPAs rely predominantly on the data provided by clients to prioritise certain investors depending on their contribution to sustainability and inclusiveness. On the one hand, it highlights the ability to obtain firm-level data directly from clients (e.g., as part of investment declaration) on issues of interest, in particular where such information is otherwise lacking. This, in turn, suggests that such data could be tracked in a more systematic and consistent fashion to evaluate the IPAs' contribution to SDGs. On the other hand, it raises the issue of potential reliability of such data, as investors may overstate the positive effect on jobs or minimise negative environmental impact, for example. Meanwhile, only very few IPAs, such as *Business Finland* and *Invest Chile,* report to cross-check some data provided by investors with the official statistics.

IPAs' efforts to support the digital transformation of their economies can also be seen as part of the IPA's sustainability agenda (e.g., Goal 9). These various efforts – including specific programmes – are discussed at length in a dedicated OECD note on IPA investment promotion and digitalisation (de Crombrugghe and Moore, 2021), and are, hence, only briefly mentioned here. Namely, digital transformation does not only change the type of activities prioritised (e.g., software development, data centres etc.) and the mode of engaging with firms (e.g., through "light-touch" assistance via automated technologies). It can also help change the way prioritisation is conducted (e.g., firms being targeted as a result of machine-learning and AI-based applications) and evaluated (as granular information can more easily be generated and stored via digital means). Some of these issues will be touched on in this note.

2. IPA prioritisation meets monitoring & evaluation strategy

As shown above, IPAs have recently adapted their prioritisation strategies, including in the reaction to the COVID-19 crisis and the broader trend of the rising importance of sustainability. How important are M&E results in triggering these prioritisation strategy changes?

A. How important is M&E for priority selection?

Box 3. Relative Role of COVID-19

Example of Turkey

"(…) some trends (like digital transformation, sustainable FDI, transformation of global value chains etc.) have already started before COVID. Therefore, due to COVID we have *partially* re-evaluated our sector prioritisation methodology."

Source: Presidency of Republic of Turkey, Investment Office

Example of Poland

"*Thorough analysis* was done as part of a broader programme to direct the agency actions, not linked to COVID."

Source: Polish Investment and Trade Agency (PAIH)

When asked about top factors influencing their priorities, OECD IPAs systematically chose the results of previous M&E as the most important factor (selected by 66% of surveyed IPAs, see Figure 6). Digitalisation (50%) as well as sustainability and contributing to SDGs (44%) are also deemed important together with the overall political agenda (56%), which can underpin these different factors as well. Several IPAs, including *IDA Ireland,* the *Investment Office of the Presidency of Republic of Turkey,* and the *Polish Trade and Investment Agency (PAIH)*, highlighted that several important trends – i.e., increased role of sustainability, digitalisation, and potential restructuring of global value chains – have started re-shaping IPAs' priorities before the pandemic (Box 3). As such, COVID-19 may have changed the emphasis but not shifted entirely the priorities beyond other factors. This explains why only 9% of OECD IPAs see the pandemic itself as a key driver.

Meanwhile, a robust M&E system can capture the different relevant aspects – including the prerogative of sustainability and adapting to digitalisation – and guide strategic decisions (see the example of Poland in Box 3). It also begs the question of what specific M&E systems, indicators, and tools are being used and how to ensure that they can provide the critical inputs for prioritisation.

Figure 6 Top factors influencing IPA current prioritisation strategy

In %
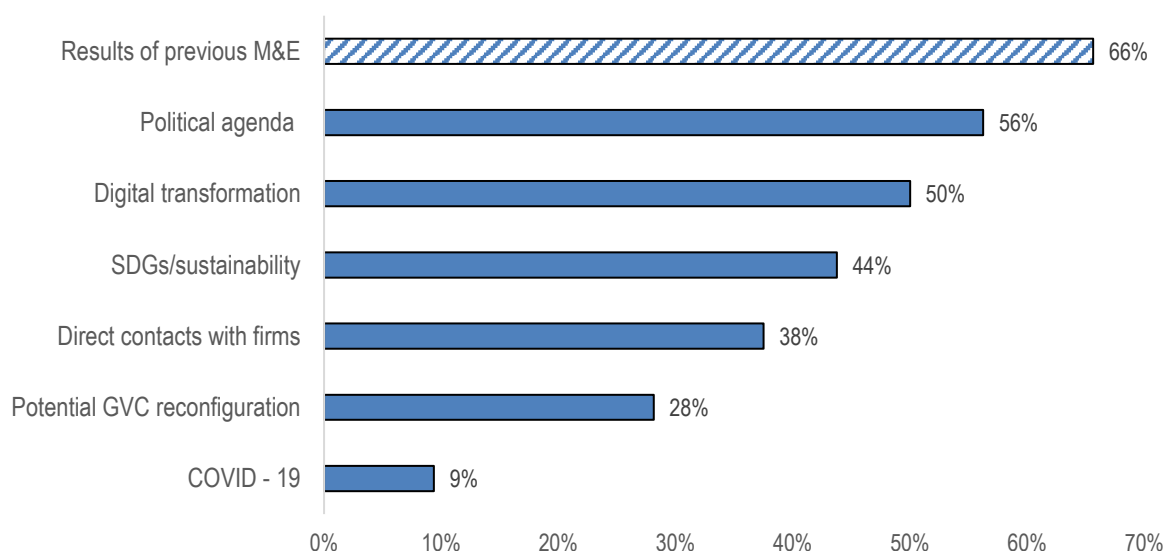
Source: OECD survey on IPA monitoring & evaluation and prioritisation, 2021.

B. What M&E tools are used to guide priority-selection?

First, while sector and country prioritisation serve as an important framework for IPAs' priorities, most IPAs rely on lists of priority firms as well (90%). These may be (or not) in priority sectors and countries, and often additional criteria apply. For example, *Invest in Denmark* explains that the process involves "analysis of companies with best fit for Danish strongholds". *Invest Chile* refers to "anchor enterprises and investors that commit with global chain of value". *Invest Slovenia* adds that the process involves "matching of potential investors with existing foreign and national companies, subject to the availability of relevant workforce", for example. Therefore, additional information on the companies themselves and the projects they are about to embark on in the economy – and the fit between the two – underpin the IPA's firm-specific prioritisation. What data is used for such granular targeting?

Most IPAs rely on the direct use of external resources (80%) and internal research as well as firm surveys and interviews (50%) for identification of priority investors (Figure 7). "Big data" analytics are meanwhile less frequently employed (34%). On average, OECD IPAs have access to at least two different firm-level data or market intelligence sources obtained from an array of private data providers (Figure 8). Among those most commonly used are: fDi Markets, ORBIS, Pitchbook and Gazelle (see Figure 9 and Table A4 in Annex for an overview by IPA). This landscape suggests that the IPAs have rich sources of data at their disposal that could be used in big data analytics and machine-learning models using several observable firm characteristics to more easily, and precisely, identify priority investments. Two OECD IPAs are working on a project with the IDB that aims to implement these types of strategies.[8]

To select priority firms and guide their decision on whether to assist a particular investment project IPAs rely on Key Performance Indicators (KPIs) related to outcomes. In particular, some KPIs aim to assess the contribution of a project to local development and sustainable growth. These can be grouped into several broad categories (Figure 10). The most used KPIs in this respect are those relating to productivity and innovation (92%), 32% of which refer specifically to indicators on research and development (R&D), followed by those on quantity and quality of jobs (87%). Export (or trade balance) related metrics and KPIs related to low carbon transition are also used by about half of IPAs. Other sustainability- and inclusiveness KPIs are less frequently mentioned: KPIs related to digital are reported to be used by 35% of IPAs and those on gender equality by 16% (albeit rarely concrete metrics are indicated). Table 2 provides examples of specific KPIs by type used by OECD IPAs. As mentioned earlier, several IPAs have also developed internal sustainability scoring systems (e.g., Denmark, Finland, Germany, Sweden) that encompass several relevant factors. For example, the investment assessment model of *Business Sweden* considers factors relating to investment size (jobs and capital); innovation, skills, and technology content, including R&D; export opportunities for Swedish companies; and other factors (e.g., brand recognition).

Figure 7 Criteria and tools used by OECD IPAs to guide their prioritisation strategies
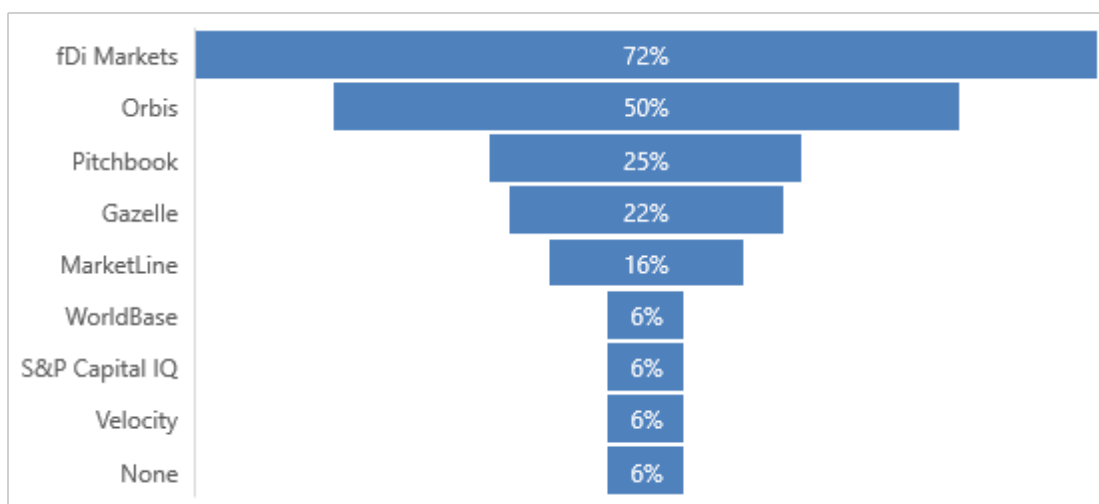
Panel A. Criteria

Panel B. Tools
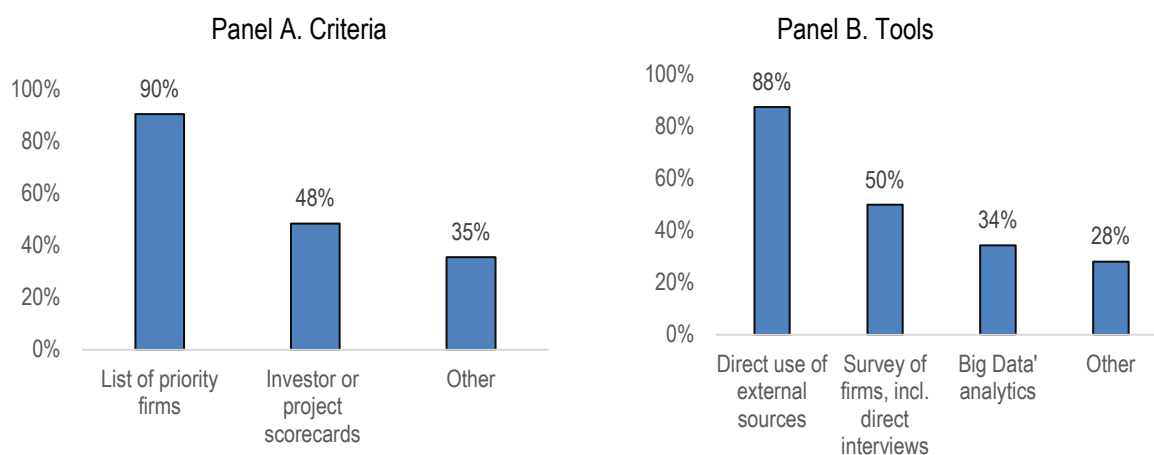
Source: OECD survey on IPA monitoring & evaluation and prioritisation, 2021.

Figure 8 Number of databases used by OECD IPAs as part of their prioritisation
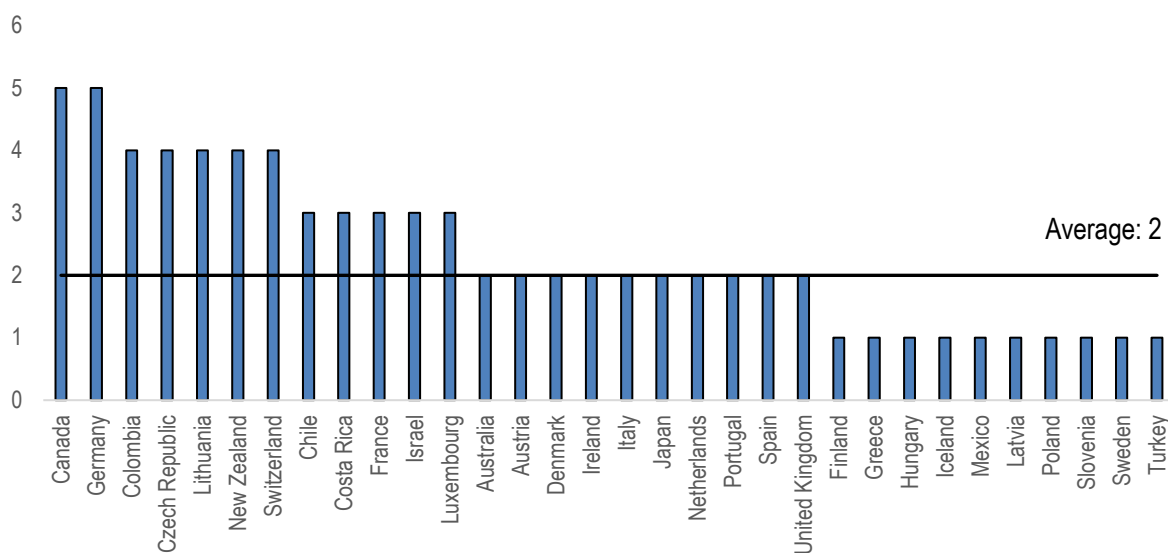
Source: OECD survey on IPA monitoring & evaluation and prioritisation, 2021.

Figure 9 Type of databases used by OECD IPAs as part of their prioritisation

Database	Percentage
fDi Markets	72%
Orbis	50%
Pitchbook	25%
Gazelle	22%
MarketLine	16%
WorldBase	6%
S&P Capital IQ	6%
Velocity	6%
None	6%

Note: Other sources mentioned by individual IPAs include Google/Google Alerts, LinkedIn/ LinkedIn Sales Navigator, Hoovers, Datafox, fDi Benchmark, Preqin, SPEEDA, Mergermarket.
Source: OECD survey on IPA monitoring & evaluation and prioritisation, 2021.

Figure 10 Types of Key Performance Indicators (KPIs) used for prioritisation by OECD IPAs
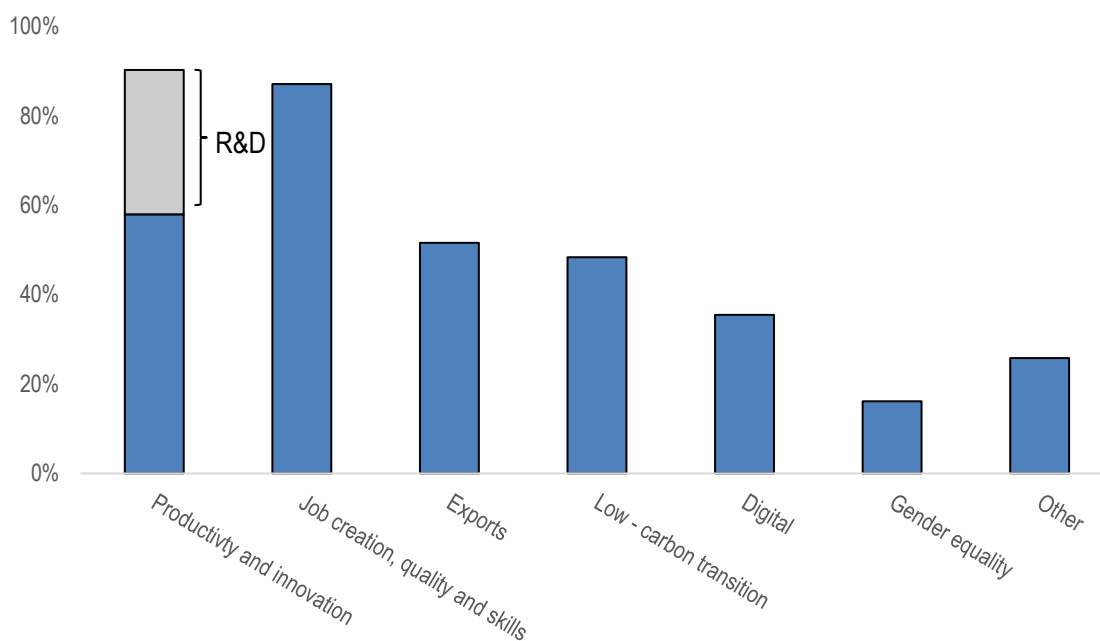
Note: "Other" includes IPAs internal composite scoring systems encompassing several factors.
Source: OECD survey on IPA monitoring & evaluation and prioritisation, 2021.

Table 2 Examples of sustainability KPIs used by OECD IPAs for prioritisation

Type of KPI	Example
Productivity and innovation (overall)	**Ireland:** support 130 training and upskilling investments, support 170 RD&I investments, support cumulative client RD&I investments of €3.8bn, and grow client training and upskilling investments to €100m.
Productivity and innovation (R&D)	**Lithuania:** Company has to create at least 5 FTEs if it is an R&D project or at least 20 FTEs if the project is not R&D
Job creation, quality and skills	**Poland:** Creation of set number of jobs (e.g., min. 5000 across all projects in 2020). This is a "global" KPI and is not company-based. There is a system to assign priority based on job creation of a given project, too.
Exports	**Portugal:** Net export sales above 65% of firm total sales
Low-carbon transition	**Turkey:** number of projects which are realized in specific areas (like recycling, renewable energy, development of energy-efficient components/ technologies etc.)
Digital	**Chile**: Portfolio percentage in sectors that promote digitalization (ICT, Data centres)
Gender equality	**Costa Rica:** Women in the headcount
Other	**Germany:** an integrated scoring model assessing qualitative and quantitative indicators for sustainability and resilience, among others

Source: OECD survey on IPA monitoring & evaluation and prioritisation, 2021.

C. How do IPAs monitor and evaluate their activities in relation to prioritisation?

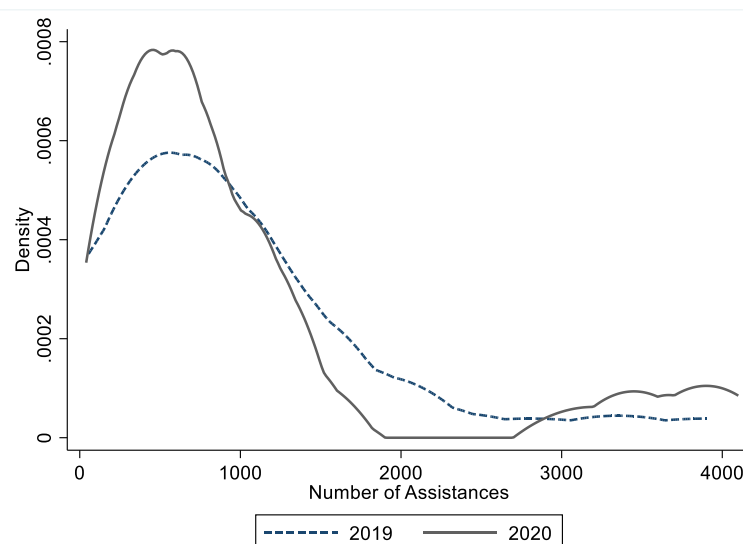### *Most IPAs track their assistance to priority investors separately*

Once firms operating in selected sectors or countries or having certain desired characteristics have been prioritised, the question is how IPA assistance of those firms is monitored (and later, evaluated). Most agencies systematically record information on assistance in their Customer Relationship Management (CRM) system. Some also earmark separately assistance provided to priority investors, thus being able to trace in a targeted way those investors' journeys.

The median OECD IPA has assisted 718 firms in 2020-21. It marks a small increase since 2019 (from 710) but masks stark differences across IPAs, whereby 54% of agencies have reduced the

Figure 11 Kernel density of number of assisted firms by IPAs

Source: Authors' calculations using the OECD survey on IPA monitoring & evaluation and prioritisation, 2021

number of investors that they assist. This increased polarisation in assistance across IPAs () may reflect different reactions to the crisis and support of the government, the type of engagement with clients and how it has been affected by the crisis. Most of the assistance provided was "light-touch", i.e., involving a less intense involvement of IPA staff, such as responding to queries via email or sending out invitations or documents. The median OECD IPA engaged in an in-depth assistance of about 280 firms in 2020-21 (and 250 in 2019).

Median OECD IPA assisted 718 firms in 2020-21, of which 450 were priority investors.

For a median OECD IPA reporting such data, 450 out of 718 assisted firms were "priority investors" in 2020-21.[9] This marks a drop from 49% in 2019. Those firms can also be provided with more, or less, in-depth assistance by IPA staff, depending on the stage of the investment decision-making process. While the share of "light-touch" assistance provided to investors has remained stable for the pool of all assisted investors, it has increased for priority firms from 49% in 2019 to 55% in 2020-2021. If this uptick has been driven by the new ways of working (i.e., remote work) that also affected IPA staff during the pandemic, this could indicate relative difficulties in honing closer relationships with priority clients during that time.

Tracking assistance over time across the relevant categories, such as priority investors, allows an IPA to gain insight into the implementation of its prioritisation strategy. For example, a useful measure to track is whether priority investors are indeed more likely to be assisted by an IPA than other firms.[10] To establish if this is the case IPAs require only the data from their own CRM (on assistance of all and priority investors) and firm-level data from external sources to which they already have access to, e.g., ORBIS. This analysis can be combined with further exploration, for example assessing the actual effects of IPA's assistance on the decision of a priority investor to establish in the economy and the effects

that such investors on local development (see Box 4 for an example of such an exercise undertaken by the IDB).

IPAs differ in the number and type of indicators used to monitor their prioritisation activities

OECD IPAs differ significantly in the total number of KPIs used for monitoring and evaluation as well as the extent to which such indicators are integrated in the CRM (Figure 12). A median OECD IPA uses five different KPIs to evaluate the effects of its assistance and traces all of them in the CRM, while the minimum number being 2 and maximum 12. The shares of M&E KPIs tracked in the CRM differs across IPAs; and as will be discussed later, it also differs by KPI type for individual IPAs.

Agencies also differ strongly in the type of KPIs used for monitoring and evaluation (Figure 13). While some agencies put more attention on sustainability-related KPIs – such as Germany, Ireland, Finland, Denmark (located to the left on the graph), other IPAs – such as Greece, Japan, Slovenia, or Colombia (located to the right) – tend to rely predominantly, or exclusively, on metrics relating to the number and value of investment projects. Some IPAs – such as Latvia, the United Kingdom, or Italy – in turn, use output indicators to a larger extent, relating primarily to IPAs' activities, including the number of meetings, participants, inquiries, and visits, rather than outcome KPIs. On average, 39% of KPIs used for monitoring and evaluation by OECD IPAs relate to the number of projects; 25% to sustainability and inclusiveness; 16% to activities and processes, and 8% to investment value. The deviation from these averages may reveal IPAs' preferences regarding specific aspects that they consider important.

Figure 12 Number KPIs used by OECD IPAs for monitoring & evaluation, by IPA
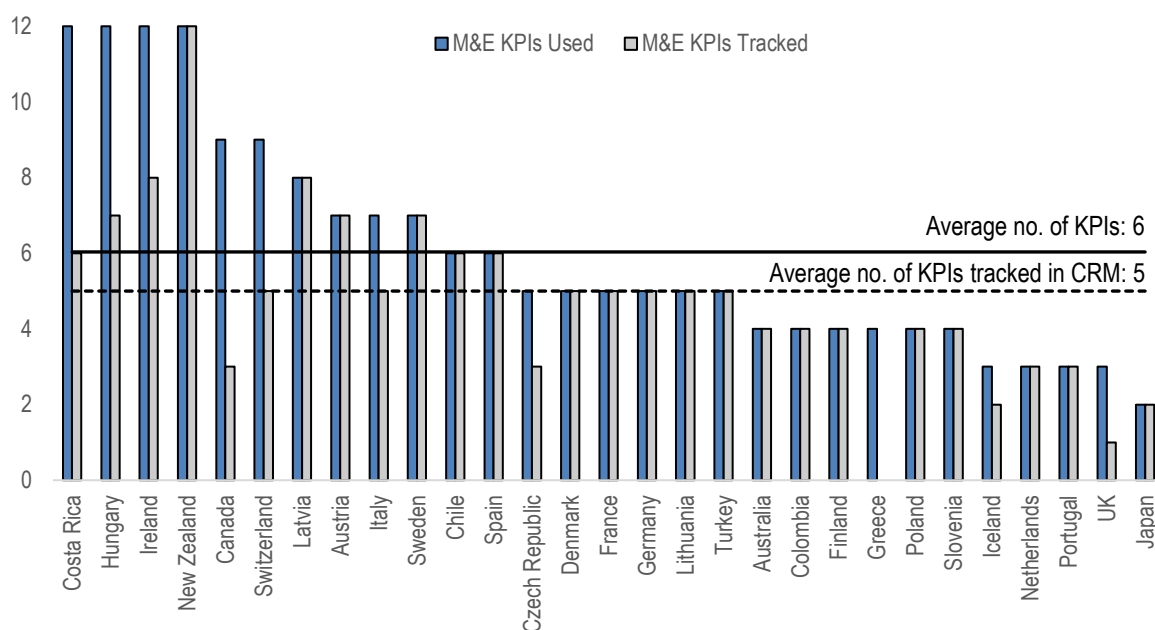
Source: OECD survey on IPA monitoring & evaluation and prioritisation, 2021

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Figure 13 KPIs used by OECD IPAs for monitoring & evaluation, by type
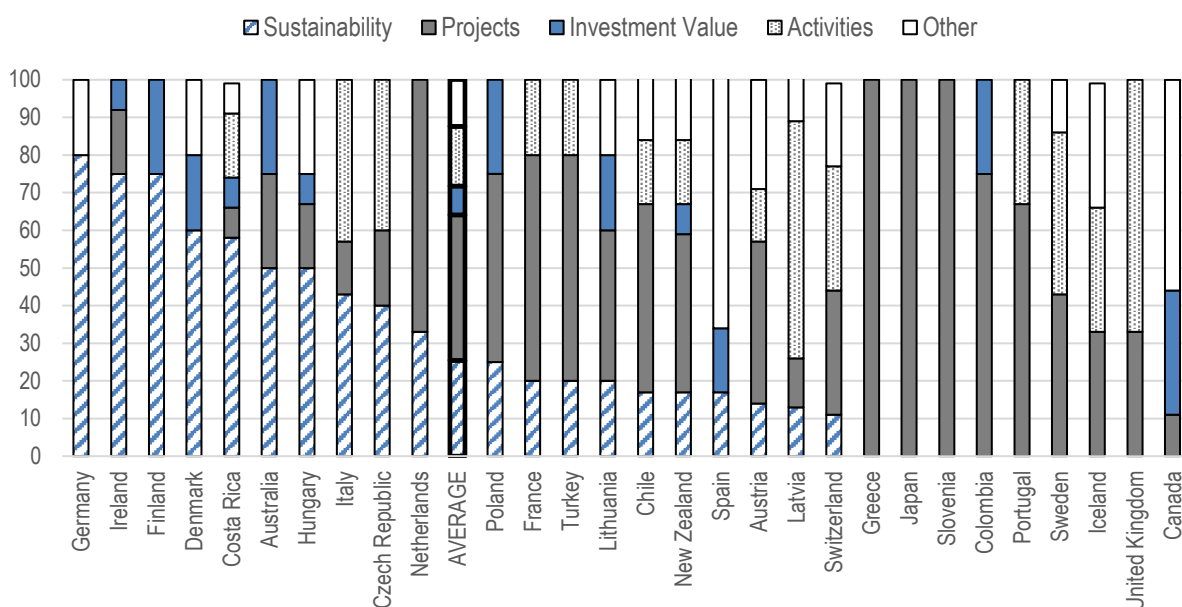
Note: "Sustainability" encompasses and scored any KPIs (if used) relating to the number and quality of jobs or full-time equivalents (total, created, maintained), R&D projects or R&D expenditure, exports or trade balance, regional development, projects related to green energy and indicators relating to gender, digital, diversification, and other sustainability related metrics (e.g., IPA sustainability scoring). "Projects" encompass KPIs relating to new projects, assisted projects, completed projects, won projects, greenfield or brownfield projects, and leads. "Investment Value" encompasses KPIs relating to investment value, CAPEX, FDI stock or other metric of the value of the investment project. "Activities" encompass KPIs relating to the number of meetings, inquiries, site visits, number of participants, campaigns, PR activities, roadshows, and other indicators relating to IPA's own activities. "Other" encompasses all other KPIs (e.g., customer satisfaction).
Source: OECD survey on IPA monitoring & evaluation and prioritisation, 2021

There are some gaps in KPIs used for monitoring and evaluating IPAs' prioritisation strategies

There appears to be a certain disconnect between the KPIs used for prioritisation and M&E by IPAs. When asked separately about these two types, IPAs tend to report different indicators. When the answers are directly compared, there is relatively little correspondence between the two (Table 3). For example, while 90% of IPAs reported to use KPIs on productivity and innovation to prioritise projects, and 32% of those KPIs refer to R&D, only 14% of OECD IPAs reported to use indicators on R&D to monitor and evaluate their activities. There are also important differences across KPI types. For example, most IPAs use job-related KPIs both for prioritisation and evaluation. Yet, no single IPA has reported to use indicators related to low-carbon transition for their M&E, even though 48% of IPAs indicated to use such indicators to prioritise their activities. One of the reasons for this may be lack of easy access of IPAs to the relevant data on sector-level emissions.[11]

There are also gaps in CRM tracking for some sustainability- and inclusiveness KPIs. As mentioned earlier, not all M&E KPIs of IPAs are recorded in the CRM; and this appears to be particularly the case for certain sustainability- and inclusiveness-related KPIs. For example, while all M&E KPIs relating to jobs are tracked in the CRM system, those relating to low carbon transition or gender equality have, thus-far, not been tracked by a single OECD IPA. There are several possible reasons for such gaps, which may help shed light on the challenges faced by IPAs when attempting to track in a systematic fashion sustainability-related aspects of assisted investment projects (e.g., measurement and data issues). IPAs have also highlighted that the decision to outsource their CRM design and implementation and having an in-house IT team familiar with the process can also affect their ability to make necessary changes.

IPAs rely entirely on inputs from clients for their sustainability- and inclusiveness M&E KPIs. As mentioned earlier, IPAs rely predominantly on the data provided by assisted firms – e.g., through

investor declarations – to feed into their prioritisation KPIs. For prioritisation, they do at times – albeit rarely – combine their internal data with other official sources at the level of sector, for example. Yet, for M&E, IPAs rely almost exclusively on the data provided by their clients or their own data in CRM, in particular for sustainability- and inclusiveness KPIs (Table 4). This makes the role of measurement critical and can make M&E KPIs potentially sensitive to inputs provided by firms, and their reliability.

Ideally, to be able to assess IPA's prioritisation in a simple fashion along different dimensions, IPAs would use the same KPIs for selecting priority firms and for evaluating the effectiveness of the agency. In other words, if an IPA indicates that supporting increased productivity and innovation is its strategic priority and it uses the R&D expenditure as a metric to decide whether to prioritise a particular investment project, the same metric could be used to monitor ex post the effectiveness of the IPA's prioritisation strategy and its work in general. Some agencies, e.g., *IDA Ireland,* have such a framework in place, with concrete measurable ex ante indicators used for prioritisation and evaluation that have been systematically recorded in the CRM over time. Yet, this is the case only for a minority of IPAs. This will typically require access to reliable data sources, such as administrative data, or establishing partnerships with relevant public organisations that manage the data and can undertake the analysis. For example, the IPA of Costa Rica, *CINDE*, entered in collaboration with the Central Bank and the Social Security Agency to undertake the evaluation of the effects of investors' activities on the local economy. In the next section, some possible ways of using external sources will be explored to help further bolster IPAs M&E frameworks and ensure their relevance for changing demands of prioritisation and investment attraction.

Table 3 Share of OECD IPAs using different sustainability and inclusiveness KPIs for prioritisation and monitoring & evaluation, by type

Type of KPI	Productivity and innovation	Job creation, quality and skills	Exports	Low-carbon transition	Digital	Gender equality
Prioritisation	90% (of which R&D: 32%)	87%	52%	48%	35%	16%
Monitoring and evaluation	21% (of which R&D: 17%)	59%	14%	0%	7%	3%
of which % tracked in CRM	*83% (of which R&D: 80%)*	*100%*	*25%*	*0%*	*100%*	*0%*

Source: OECD survey on IPA monitoring & evaluation and prioritisation, 2021

Table 4 Source of data for sustainability and inclusiveness KPIs of OECD IPAs, by type

Type of KPI	Level of information	Productivity and innovation	Job creation, quality and skills	Exports	Low - carbon transition	Digital	Gender equality
Prioritisation	Firm-level	69%	89%	56%	44%	60%	33%
	Sector-level	25%	5%	22%	56%	40%	33%
	Both	6%	5%	22%	0%	0%	33%
M&E	Firm-level	100%	100%	75%	0%	100%	0%
	Sector-level	0%	0%	25%	0%	0%	0%
	Country-level	0%	0%	0%	0%	0%	100%

Source: OECD survey on IPA monitoring & evaluation and prioritisation, 2021

Impact evaluations remain rare although several agencies are actively pursuing them

Most OECD IPAs have not undergone econometric impact evaluations. Until now 28% of OECD IPAs report to have undertaken econometric impact evaluations of their services, another 25% are currently in the process of preparing it or would like to undertake it in the future. This highlights the general interest in the subject as well as potential challenges, and has been confirmed during the discussions at the dedicated session on monitoring and evaluation at the annual OECD IPA Network meetings. For example, lacking resources are an oft-quoted reason for not having undertaken the

analysis thus-far. Entering external partnerships, meanwhile, can help IPAs overcome these challenges. Indeed, several IPAs that either have undertaken, or are planning to undertake, such evaluations have done so by forging critical partnerships, including with the administrative bodies providing additional rich data, academia or international organisations. This has also been the case for several OECD LAC IPAs collaborating with the IDB to conclude their impact evaluations (Box 4).

Box 4. Does IPA Sector and Country Prioritisation Matter for Firms?

Insights From IPAs' Firm-Level Data on Assistance

To what extent do firms perceive a difference in IPA behaviour depending on the prioritisation strategy that it chooses? Notably, are firms that fall into IPA priorities (by sector, country, or both) more likely to obtain IPAs' assistance? And does an IPA prioritisation strategy make a difference for the effectiveness of the agency to attract firms into the local economy? These types of questions can be addressed using firm-level IPA assistance data often available directly from the agencies' CRMs and other relevant firm-level data that agencies have access to (e.g., Orbis, D&B). The IDB has obtained such data from 12 national agencies from Latin America and the Caribbean as part of a series of impact evaluations of IPAs, the insights from which are collected in an IDB publication on the subject (Volpe Martinucus, 2021).

This data confirms that multinational firms from priority countries and that operated in priority sectors, especially country–sectors, were significantly more likely to be assisted by IPAs. Firms that were headquartered in priority home countries and were active in priority sectors were twice as likely to be supported than their counterparts in nonpriority countries and nonpriority sectors, and more than 2.7 times more likely to be supported when these dimensions were combined (Figure A7 in the Annex, Panel A).

The prioritisation strategies are also found to matter for IPAs' effectiveness. IPAs that are highly specialised and whose promotional strategies are highly targeted are the most effective at attracting new multinational firms to establish their affiliates locally. This is especially true for IPAs that assign relatively more resources to investment generation and facilitation. The prioritisation of countries and a combination of country and sector-prioritisation is associated with a higher impact of IPA's assistance on a multinational enterprise's entry into the economy (Figure A7 in the Annex, Panel B). In the case of prioritising sectors, the effect of IPA support is stronger when combined with the presence of an IPA's office in the home country of the MNE. The effect of IPAs' support is the strongest for investors from countries less familiar with the local economy and for which information is difficult to obtain; and for firms offering differentiated goods and services.

The way forward

To be most effective and adapt to the changing circumstances, IPA prioritisation and monitoring and evaluation strategies need to go hand in hand. Paradigm shifts – including the increased role of sustainability and digital transformation – are challenging IPAs to adapt both the "what" and "how" of prioritisation and M&E. The results of the survey and the discussions of IPAs at the monitoring and evaluation session at the OECD IPA Network Meeting in October 2021 have highlighted the IPAs unwavering interest in boosting their M&E capacities and numerous opportunities and challenges. Several tentative conclusions on the way forward emerge.

Move further from tracking quantity to monitoring and evaluating "quality":

- ► IPAs highlight the importance of sustainability in their investment attraction efforts. As such, several IPAs have introduced new scoring mechanisms to capture the investors' contribution to the local economy and its potential sustainability footprint; and these experiences are still fresh. Relatively few IPAs use sustainability related KPIs to both monitor and evaluate their activities.

Ensure consistency between IPA strategies:

► IPAs should be in a position to ascertain that firms considered priority investors – due to their sector, country of origin, or other characteristics – are indeed prioritised *de facto*. This should be reflected in a higher probability of being assisted by an IPA and potentially the intensity of service provided. Tracking assistance separately for priority and other projects can facilitate this process.

► Integrating tracking and evaluation tools and capacities in the existing and new prioritisation strategies requires inputs from multiple sources.

   o Several IPAs highlighted the need for, and the value of, communication between the client-facing operations officers, the planning and intelligence staff and external research collaborators, including international organisations such as OECD and IDB, when introducing new tracking and evaluation tools.

   o CRM is a critical tool allowing the integration of prioritisation and M&E. Its design and implementation requires a number of choices regarding possible outsourcing or internal IT design and management as well as capacity building.

► The same KPIs should ideally be used both for prioritisation and monitoring and evaluation, including from the sustainability point of view. There are ways to obtain the required data, e.g.:

   o The information at the level of the sector could be exploited further. For example, official data on sector characteristics (e.g., OECD/IEA data on CO_2 emissions, gender) and the OECD and IDB resources and expertise could be used to provide answers to such questions as: Does an IPA assist more frequently firms in sectors with low emissions, higher female share in management positions and total employment, etc.? Is the impact of IPA support larger in these sectors?

   o Using administrative data or entering partnerships with agencies that manage such data can allow IPAs to access and use more granular data, including on sustainability.

Consider using advanced analytics to prioritise firms

► IPAs already have access to the data that would permit advanced machine-learning applications that would optimise the identification of firms with the highest probability of entering the local economy and with the characteristics that the IPA considers in line with its strategic objectives.

► The results of such models could also provide practical tools to operations staff of the IPAs by generating a profile of a company to be targeted, and is implemented by some IPAs

► This approach can be used to feed into the "light-touch" strategy by optimising IPA's interventions

The OECD and IDB stand ready to support the agencies in the area.[12]

Annex A. Additional Tables and Figures

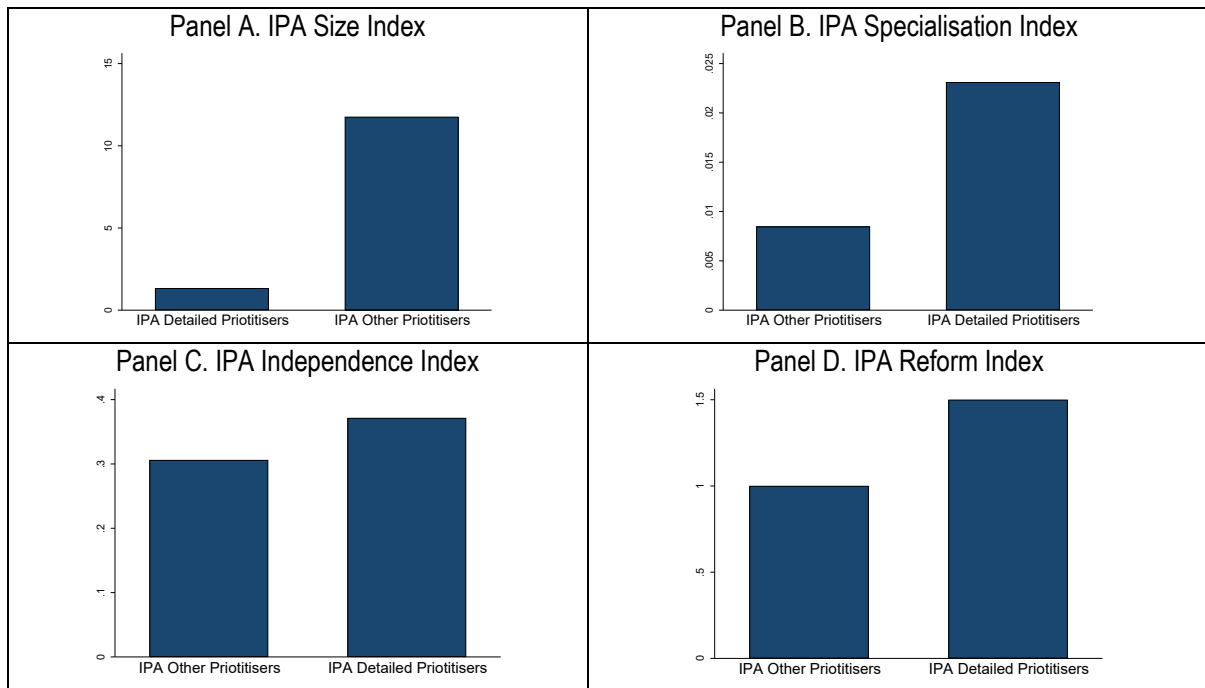## Figure A1 Year-on-year change in inward FDI flows by region
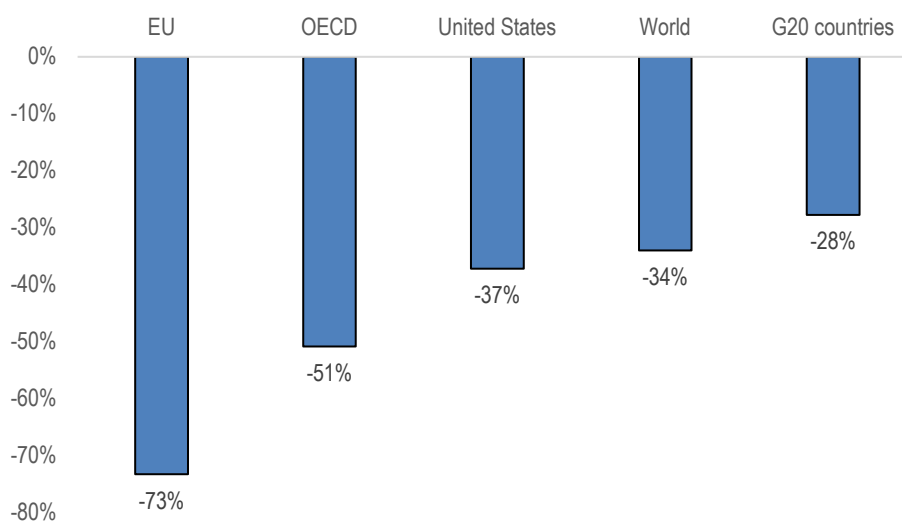
Source: OECD and IMF data, presented in FDI in Figures (April 2021)

Table A1 Level of sector prioritisation by OECD IPAs by agency

Very General (9)	General (15)	Detailed (6)
Australia	Chile	Costa Rica
Austria	Colombia	Czech Republic
France	Denmark	Finland
Germany	Greece	Iceland
Ireland	Hungary	Israel
Italy	Latvia	Mexico
Japan	Lithuania	
Luxembourg	New Zealand	
Portugal	Poland	
	Slovenia	
	Spain	
	Sweden	
	Switzerland	
	Turkey	
	United Kingdom	

Source: OECD survey on IPA monitoring & evaluation and prioritisation, 2021.

Figure A2 Relationship between the detail of sectoral targeting and selected IPA characteristics

Panel A. IPA Size Index

Panel B. IPA Specialisation Index

Panel C. IPA Independence Index

Panel D. IPA Reform Index

Note: For more information on the construction and calculation of Indices, see Volpe Martincus and Sztajerowska (2020)
Source: Authors' calculations based on the OECD survey on IPA monitoring & evaluation and prioritisation, 2021 and Volpe Martincus and Sztajerowska (2020)

Figure A3 Top 5 most frequently targeted sectors by OECD IPAs at a general level
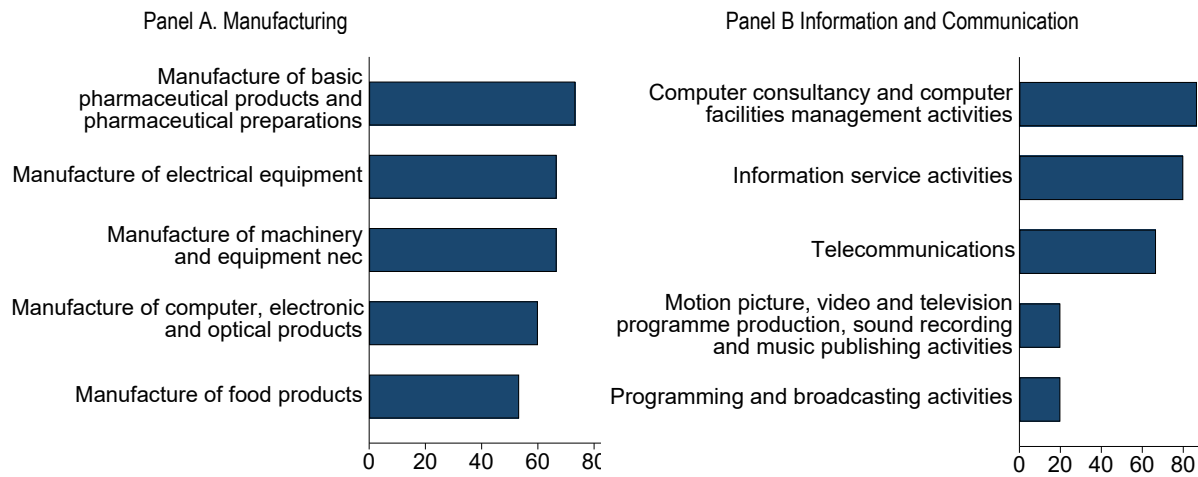
Panel A. Manufacturing

Panel B Information and Communication

Note: The share of IPAs is calculated using the total number of OECD that IPAs reponded to the question at a general 2-digit level (15).
Source: Authors' calculations based on the OECD survey on IPA monitoring & evaluation and prioritisation, 2021.

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Figure A4 Top 5 most frequently targeted sectors by OECD IPAs at a detailed level
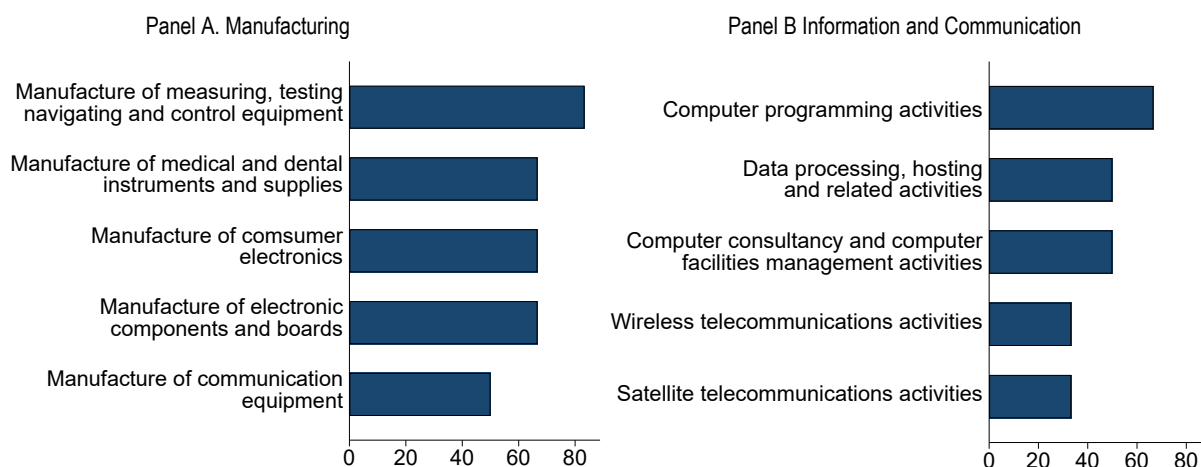
Panel A. Manufacturing

Panel B Information and Communication

Note: The share of IPAs is calculated using the total number of OECD that IPAs reponded to the question at a detailed 4-digit level (6).
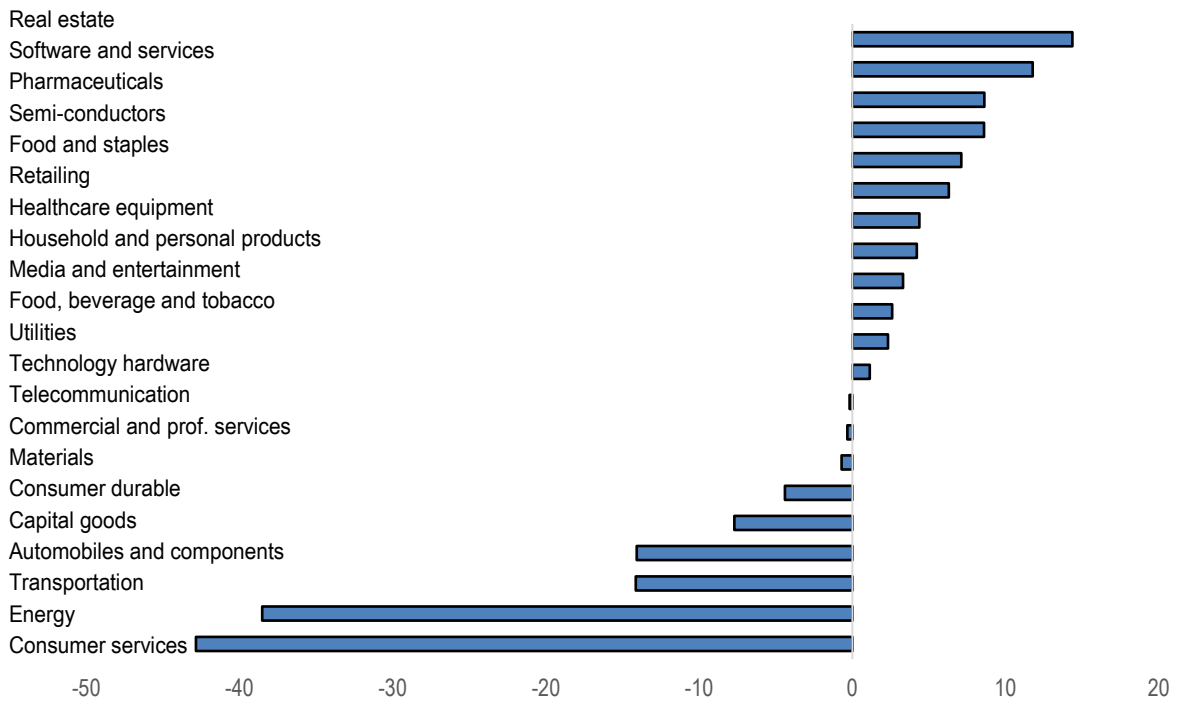Source: Authors' calculations based on the OECD survey on IPA monitoring & evaluation and prioritisation, 2021.

Table A2 Examples of priority sectors added and removed by OECD IPAs in 2020-21 relative to 2019 due to COVID-19

Priority sectors added	Priority sectors removed
Hospital activities	Accommodation and food services
Manufacture of pharmaceuticals, medicinal chemical and botanical products	Travel agency, tour operator, reservation service and related activities
Education: higher education	
Manufacture of medical and dental instruments and supplies	
Retail sale of pharmaceutical and medical goods, cosmetic and toilet articles in specialized stores	

Source: OECD survey on IPA monitoring & evaluation and prioritisation, 2021.
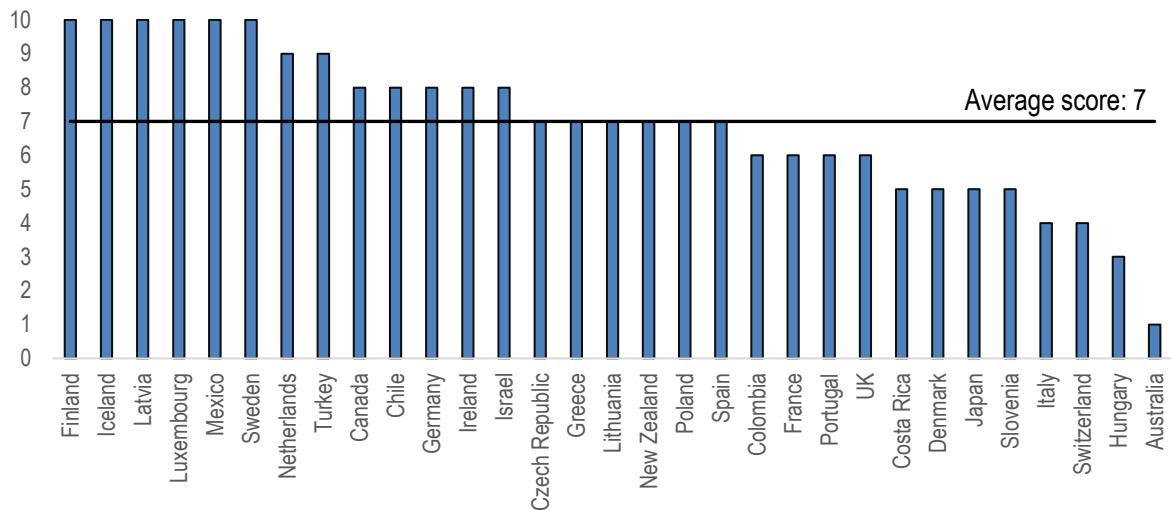
Figure A5 Firm revenues, by sector

Note: Figure shows year-on-year changes in profits for the median firm and weighted by the firm's asset size in 2019 between FY2019 and FY2020, by sector. Data using S&P Capital IQ and OECD calculations.
Source: OECD (2021b)

Figure A6 Importance of sustainability for OECD IPAs, by country

(0=least important; 10=most important)

Source: Authors' calculations based on the OECD survey on IPA monitoring & evaluation and prioritisation, 2021.

Table A3 List of priority Sustainable Development Goals in order of IPA priorities

Rank	Sustainable Development Goal
1	**Goal 8.** Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
2	**Goal 9.** Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
3	**Goal 7.** Ensure access to affordable, reliable, sustainable and modern energy for all
4	**Goal 11.** Make cities and human settlements inclusive, safe, resilient and sustainable
5	**Goal 12.** Ensure sustainable consumption and production patterns
6	**Goal 13.** Take urgent action to combat climate change and its impacts
7	**Goal 4.** Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
8	**Goal 17.** Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development
9	**Goal 3**. Ensure healthy lives and promote well-being for all at all ages
10	**Goal 14.** Conserve and sustainably use the oceans, seas and marine resources for sustainable development
11	**Goal 5.** Achieve gender equality and empower all women and girls
12	**Goal 1**. End poverty in all its forms everywhere
13	**Goal 2.** End hunger, achieve food security and improved nutrition and promote sustainable agriculture
14	**Goal 6.** Ensure availability and sustainable management of water and sanitation for all
15	**Goal 10.** Reduce inequality within and among countries
16	**Goal 15.** Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
17	**Goal 16.** Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

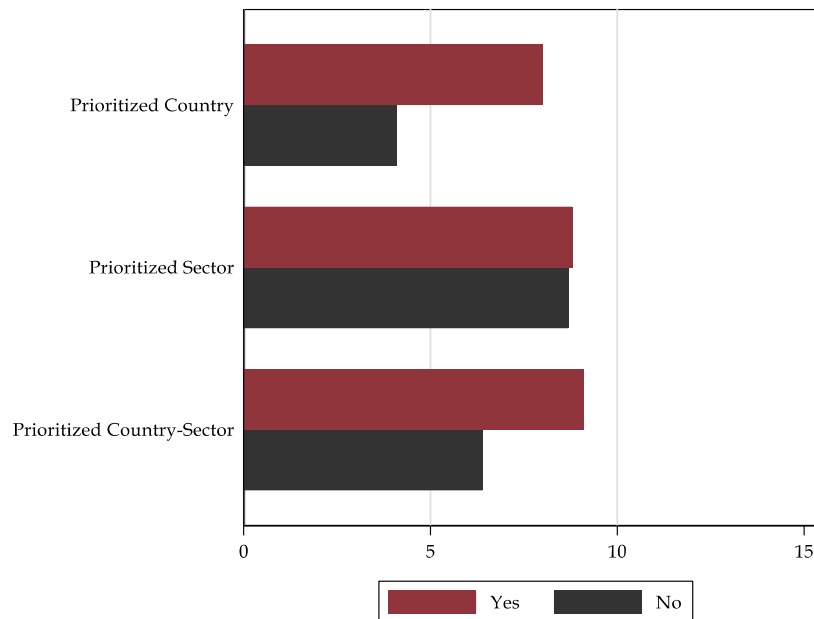Source: OECD survey on IPA monitoring & evaluation and prioritisation, 2021.

Figure A7 Insights from firm-level analysis of IPAs

Panel A. IPA Prioritization and Assistance to Multinational Firms. 2000–2017

Panel B. IPA Prioritization and their Impact on Multinational Firms' First Establishment

Note: Calculations based on firm-level data from the national IPAs of Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Honduras, Mexico, Nicaragua, Peru, and Uruguay as well as WorldBase. Each bar shows the probability that multinational firms in each category is assisted by the IPAs (figure on the left). The probability that multinational firms that operate in a nonpriority sector and from a nonpriority country are assisted by the IPAs is indexed to 1. Country prioritization takes the 1 one if the multinational parent firm is headquartered in a priority country and 0 otherwise. Sector prioritization takes the value 1 if the multinational parent firm operates in a priority sector and 0 otherwise. Country-sector prioritization takes the value one if the multinational parent firm is headquartered in a priority country and operate in a priority sector and 0 otherwise. The figure on the right reports the estimated impact of IPA's assistance on the probability of a multinational firm establishing its first affiliate in the host economy across countries, sectors and combinations of countries and sectors, depending on whether they are prioritised (or not).
Source: Volpe Martincus (2021)

Table A4 The use of firm-level databases by OECD IPAs

Database	fDi Markets	World-Base	Orbis	Gazelle	S&P Capital IQ	MarketLine	Pitchbook	Velocity	Other
Australia	✓		✓						
Austria							✓		✓
Canada	✓		✓	✓			✓		✓
Chile	✓			✓					✓
Colombia	✓		✓				✓	✓	
Costa Rica	✓			✓	✓				
Czech Republic	✓			✓		✓			✓
Denmark			✓			✓			
Finland			✓						
France	✓		✓						✓
Greece	✓								
Germany	✓	✓	✓	✓		✓			
Hungary			✓						
Iceland							✓		
Ireland	✓					✓		✓	
Israel	✓			✓		✓			
Italy	✓								✓
Japan	✓								✓
Mexico									✓
Latvia			✓						
Lithuania	✓		✓				✓		✓
Luxembourg	✓	✓	✓						
Netherlands	✓								✓
New Zealand	✓				✓		✓		✓
Poland							✓		
Portugal	✓		✓						
Slovenia			✓						
Spain	✓		✓						
Sweden	✓								
Switzerland	✓		✓	✓			✓		
Turkey	✓								
UK	✓		✓						
Total	**23**	**2**	**16**	**7**	**2**	**5**	**8**	**3**	**12**

Source: Authors' calculations based on the OECD survey on IPA monitoring & evaluation and prioritisation, 2021.

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Sztajerowska M. (2019), *Monitoring and Evaluation: A Brief Guide for Investment Promotion Agencies*, OECD Investment Insights, www.oecd.org/investment/Monitoring-and-evaluation-a-brief-guide-for-investment-promotion-agencies.pdf

Notes

[1] For more information on the latest OECD GDP projections, see www.oecd.org/economic-outlook. For more information and data on FDI, www.oecd.org/corporate/mne/statistics.htm

[2] For OECD work on FDI and sustainable development, including FDI Qualities, see www.oecd.org/investment/business-investment-sdgs.htm

[3] In 2018, a general mapping of the approaches to M&E was completed as part of the broader IPA mapping undertaken jointly by the OECD and the IDB. In 2019, a dedicated policy note outlined the overall approaches of OECD IPAs to M&E and explained a possible set-up required for impact evaluations and the associated data needs (Sztajerowska, 2019). The IPA Network has also gathered to discuss in detail different aspects of M&E strategies at dedicated sessions during its annual meetings in 2019-2021; as well as at several events organised by individual IPAs.

[4] General level refers to 2-digit level in a standard sector classification such as ISIC (e.g., telecommunications). Very general level refers to 1-digit level detail (e.g., information and communications) while detailed refers to 4-digit level detail (e.g., satellite telecommunications).

[5] If an agency reported to prioritise sectors at a detailed level in the survey but later did not provide information on specific sectors prioritised at 4-digit level, the response was treated as missing. This was the case for two agencies.

[6] This information is based on the information on the specific lists of priority sectors used by OECD IPAs as reported to the OECD, rather than a general statement about a change in sectoral prioritisation strategy.

7 This information is based on the information on the specific lists of priority countries used by OECD IPAs as reported to the OECD rather than a general statement about a change in country prioritisation strategy.

[8] IDB staff has developed a machine-learning model that generates a list of multinational firms most likely to establish an affiliate in a given country and that can be conditioned on sector and country priorities and investor characteristics.

[9] 61% of OECD IPAs have reported the information on the number of assisted priority investors in 2020-21.

[10] This verifies if the stated goals of prioritisation result in a higher probability that priority firms be assisted by the IPA. If this is not the case, the prioritisation may not be taking place in practice (for example, if the agency's staff's time is mostly consumed by reactive assistance of firms' queries).

[11] Another possibility for this apparent lack of use of low-carbon/green indicators for M&E by OECD IPAs may be the fact that some agencies take this aspect into account when doing their sustainability or "high-quality FDI" scoring of projects and have not reported this aspect separately.

[12] IPAs interested in the conduct of specific analysis on the topics outlined above are invited to contact the OECD or IDB Secretariats.

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