OECD-ASEAN Training on Investment Policy Making

Module 3
Investment Promotion & Facilitation

12-14 June 2013, Da Nang
• Why private investment?
  – Economy grows through capital, technology, know-how, innovation – private investment key ingredient
• Different phases of investment promotion
  – Liberalisation measures
  – Promotion
  – Investor targeting
  – After-care services, policy advocacy

Policy Framework
Benefits of private investment

- Increase exports
- Increase tax revenue – broad tax base
- Increase capital
- Increase competition
- Diversify the economy (incl. the export basket)
- Technology and know-how

Interfirm Linkages
Primary Determinants of Investment

- Infrastructure
- Labour – *quality and availability*;
- Clear regulations, laws, enforcement – *good regulatory framework for investment; clear tax system*;
- Market size – *domestic / regional*;
- Ease of trade - *domestic, cross-border*;
- Local partners – *suppliers (large or SMEs), training institutes*;
- Level playing field – *competition*;
- Financial market – *financing, transfer of capital, macro-economic stability*. 
Role of policy

- Investment promotion depends on quality of policies
- Private sector feature prominently in government’s objectives (Development plans, MPs...)? Implemented?
- Targets for investment? Measurements?
- M&E; KPIs
- Role of consultations and clear guidelines
  - How is information gathered?
  - Is there are clearly defined policy formulation process? Stakeholder involvement? Voice of the private sector? Cross-government mechanisms?
Investment promotion: why & how?

- Can only promote investment if policies are sound and clear;

- **Promotion** vs Facilitation;

- Use foreign representations (Embassies, trade missions...);

- National vs State-level;

- Keep material up-to-date, reliable, credible and simple.
Institutional structure
Streamlining procedures = Effective and efficient promotion & facilitation

Investors

Investment Promotion Agency

Ministries

Agencies

1 stop shop
Investment promotion cycle

Good policies → Promotion → Facilitation: Establishment and post-establishment → After-care services

Policy Advocacy

Investor feedback to policies: surveys, public-private committees for business climate reforms...
10 Great Reasons to do Business in Manitoba

What do you look for when you are comparing sites for starting, expanding or relocating your business in Canada?

As a successful business leader your wish list would include the following 10 points:

1. A well-educated, highly skilled workforce.
2. A strategic mid-continent location that provides an open door to the United States.
3. A central time location is a major advantage for service-sector businesses.
4. A significant advantage over other possible sites in comparative business costs (KPMG Study).
5. A diverse, modern economy with leading edge transportation and communication networks.
6. One of the best R & D climates in Canada.
7. An affordable cost of living, competitive levels of taxation and excellent recreational and cultural amenities.
8. Low employee turnover.
9. A “business friendly” attitude at all levels of government.
10. Published hydroelectric rates that are among the lowest in North America.

Business linkages

- Channel for technology and knowledge transfer;
- Strong supplier base is an important investment decision factor: reduces transaction costs, adds to reliability, product quality;
- Backward and forward linkages;
- MNE-SME, Large local-SME, SME-SME.

- Role of policy?

Investment promotion – SME promotion
  Investor targeting
  Match-making
  Tailored training
    General
    Specific
  Exchange networks
Backward linkages: technology & knowledge transfer

Technology, know-how, management and product standards

Lead Company

1st tier supplier A

2nd tier supplier 1

3rd tier supplier 1a

1st tier supplier B

2nd tier supplier 2

3rd tier supplier 2a

1st tier supplier C

2nd tier supplier 1

3rd tier supplier 1a

Role of policy: SME policy, financing, training

Domestic market, Export, GVC

TECH & KNOWLEDGE TRANSFER
Lessons from East Asia

- Subsidised credit for SMEs in supplier relationships with larger companies
- Regulations that motivate commercial banks, especially state-owned banks, to have a specific percentage of credits extended to SMEs (for e.g. some banks extended up to 30% of their credits to SMEs in Korea in the 1970s)
- Careful selection of promising SMEs and entrepreneurs in public linkages and SME promotion programmes
- Establishing credit worthiness of SMEs participating in public programmes
- Extensive training and advisory services made available and affordable to SMEs
- Efficient government programmes with limited “red tape” to motivate SMEs to use them
Challenges in linkages training

Industry specific – company driven, IP issues, branding

Management → Accounting → ISO & other certifications
Private investors look for:

- A predictable and non-discriminatory regulatory environment, no administrative impediments;
- A stable macroeconomic environment;
- Sufficient and accessible resources;
- Tax incentives, financial subsidies and regulatory exemptions are **no substitute for a good investment climate**.

- “*Measures designed to influence the size, location or industry of a FDI investment project...*”

- Include tax breaks & holidays, preferential tariffs Financial and non-financial;
Do incentives work?... Are they effective?

• Yes and No
  – Mauritius, Costa Rica, Ireland and Malaysia – success stories in attracting investment by offering tax incentives
  – And then... there is everybody else... For example:
    • Disappointing experience of transitional economies (South East Europe countries, OECD).
    • IFC/World Bank study on eight UEMOA and six CEMAC countries – tax incentives not effective in attracting investment
    • In fact, poorly performing countries that offer numerous tax incentives see an adverse effect on FDI flows.
Why they work in some cases...

• What’s missing from the discussion of effective tax incentive programs?
  – Framework conditions and market characteristics that these countries offer in addition to tax breaks and generous incentives regimes.
  – In fact, the tax incentives didn’t work until the macro- and enabling-conditions were in place.
If incentives are used...

- They must fill a gap in investment climate (e.g., infrastructure);
- Cost-benefit analysis and regular review – including through open consultations; impact on domestic firms;
- Clear authority within government with adequate capacity to manage incentive programmes;
- Government should have a plan to phase them out – fixed duration;
- Inappropriate to encourage investment by lowering health, safety or environmental standards or relaxing core labour standards.
Issues for discussion

• Which agency is in charge of investment promotion?

• Examples of linkages?

• Which agency could develop such policies?

• Who sets incentives? How are they designed (cross-government consultations?)