

Update of the Policy Framework for Investment

**Draft chapter:
Investment promotion and
facilitation**



Context

Since the PFI was developed in 2006, new forces have reshaped the global investment landscape, including the global economic and financial crisis, which started in 2008 and from which many economies have still not recovered, and the emergence of new major outward investors within the G20, the spread of global value chains. Numerous lessons have also been learnt through the use of the PFI, particularly in developing and emerging economies. To reflect new global economic fundamentals, an update of the PFI was launched in 2013 and is due for completion in 2015.

Invitation to contribute

Experts, business and civil society representatives, international organisations, and the general public are invited to contribute comments on this draft chapter. Comments should be sent to investment@oecd.org by 31 December 2014.

A compilation of comments received will be published online at the end of the consultation period.

Contact

If you have any questions regarding the consultation, please email investment@oecd.org.

Find out more about the update of the PFI: www.oecd.org/investment/pfi-update.htm

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INVESTMENT PROMOTION AND FACILITATION

1. Investment promotion and facilitation can be powerful means to attract investment and maximise its contribution to development but their success depends on the quality of investment-related policies and on the overall investment climate. Successful promotion requires a careful calculation of how to employ resources most effectively guided by evaluations of costs and benefits; badly designed investment promotion and facilitation strategies can be costly and ineffective.

2. This chapter aims to provide key principles for effective investment promotion and facilitation, including co-ordinating and evaluating investment promotion activities, while providing options to strengthen the development impact of investment through local enterprise development. It provides avenues for achieving the twin objectives of attracting investment while fostering local development.

3. Promoting and facilitating investment are two very different activities. One is about promoting a country or a region as an investment destination, while the other is about making it easy for investors to establish or expand their existing investments. Effective investment promotion leverages the strong points of a country's investment environment, highlights profitable investment opportunities and helps to identify local partners. In terms of facilitation, effective one-stop-shops with single-point authority can be a critical element of implementation, especially if it cuts down transaction costs in the licensing procedure. A core mandate of investment facilitation includes filling an information gap created by incoherence or inaccuracies in existent policies that can provide investors with much needed clarity and security.

4. Governments can adopt a wide array of investment promotion and facilitation structures. If an investment promotion agency (IPA) is to be established, it can be part of a ministry or independent. It should have a clear mandate and its staff should have private sector experience. Its structure should be lean and efficient, and its board should consist of both public and private sector representatives. Yet, many functions of an IPA can be undertaken within existing structures without creating costly additional agencies. Most IPAs concentrate on attracting greenfield investment. Mergers and acquisitions are not proactively targeted but information services are often provided to facilitate these transactions where and when warranted.

5. One size does not fit all, and different approaches are suitable for different countries and different target enterprises (e.g. big and small firms, those in the formal and informal economies, those run by women and minority groups, etc.). Some countries have contracted out investment prospecting, with mixed results. For those with small budgets, the focus should be on investment facilitation, reducing the burden on investors. While many IPAs use fiscal incentives as an investment promotion tool, the *Policy Framework for Investment* addresses these in the Tax Policy chapter, given their impact on governments' efforts in mobilising domestic resources.

6. In terms of investment promotion instruments, experience has shown that targeted promotion missions abroad in carefully identified growth markets and sectors are more effective than expensive international marketing campaigns. Such missions should be carefully managed and co-ordinated with sub-national IPAs to avoid duplication. Countries should also make use of their international representations, such as the diplomatic corps. Some IPAs have even established key accounts for specific investments to be able to address policy and operational bottlenecks more efficiently.

7. After-care services for investors are vital, especially in retaining investors, just as after-sales functions within a private company aim to sustain customer loyalty. At the same time, after-care adds value to a service or product beyond the selling point – the decision to invest or reinvest. Many countries

have struggled to retain investors after an investment peak. This is particularly relevant in post-crisis investment promotion, when attracting new investors becomes more challenging and costly. Good after-care and policy advocacy, including feeding investors' feedback into policy making, can help address investment climate challenges. The most effective IPAs devote substantial resources to policy advocacy and to resolving investors' complaints.

8. Successful countries in attracting investment have mastered a whole-of-government approach to investment promotion and facilitation. Effective co-ordination among various authorities with investment promotion mandates, including at local government levels, and implementing agencies (be they in charge of investment promotion, export and trade promotion, special economic zones, business registration, or land allocation) is a daunting task. Many economies have pushed through reforms to decentralise investment promotion and facilitation. Delegating some functions of IPAs to the sub-national level may contribute to swifter management of investment applications. Their experience has been mixed, with significant challenges remaining in the co-ordination of the different agencies, while aiming to ensure consistency with the national and sub-national development plans.

9. Investment promotion can encourage countries' participation in the global economy. The attraction of export-oriented Foreign Direct Investment (FDI) has enabled countries to shift quickly towards a manufacturing-based economy in which economic growth is driven by rapidly expanding exports. The record from this export performance speaks for itself, but so too does the manifest failure in many cases to translate this export success based on FDI into broader and more durable impacts on host economies. Not only have exports been limited to a small number of products (usually intermediate ones) and sectors, but to varying degrees these export sectors have been virtual foreign enclaves within host countries. The latter have often been characterised by low value-addition and a poor record of technology transfer. This highlights the importance of embedding investment promotion activities within a larger economic development strategy that involves investments in people and skills, improving connectivity of firms and markets, and building an open business environment to help countries benefit from global value chains (GVCs). In this regard, opportunities also exist for regional and sub-regional investment promotion and facilitation, as multinational enterprises (MNEs) often organise their supply chains across different economies.

10. Anchoring investors through deep linkages with the local economy is an effective investment retention strategy and can usefully complement after-care measures. Investor targeting and after-care services can attract investors and help keep them satisfied, but it is the broader and more sophisticated, and hence more complex, efforts to strengthen the investment ecosystem that will determine a country or region's competitiveness. This includes providing investors with competitive local suppliers, facilitating linkages with local firms, developing the necessary hard and soft infrastructure, including institutional support, and keeping policy and macro-economic fundamentals in order.

11. Business linkages between MNEs and domestic companies, especially smaller suppliers, contribute significantly to local development. Linkages can be effective avenues for technology and knowledge transfer, depending on the appropriate policy setting and absorptive capacity of domestic suppliers. The importance of an enabling environment that is conducive to the growth and competitiveness of small and medium-sized enterprises (SMEs) in this regard is critical. This may involve SME promotion and support measures ranging from streamlining business regulations to targeted vocational training and business development services (see chapter on Human Resources Development).

12. MNEs do not necessarily engage in linkages with domestic suppliers automatically. Many MNEs are bound by international contracting arrangements that tie them to international suppliers, offsetting the effectiveness of public policies to promote linkages. Investors with a tradition of working with and supporting local suppliers in their efforts to upgrade should thus be targeted.

13. Committed long-term relationships between MNEs and SMEs usually involve a transfer of technology and proprietary knowledge. Unless MNEs are given safeguards against intellectual “piracy” and illicit diffusion of their know-how, they will be reluctant to share technology, making intellectual property protection an important part of policies aimed at fostering business linkages (see chapter on Investment Policy). At the same time, market-seeking investors are often more prone to develop linkages, including forward linkages and associated spillovers, than are resource-seeking or export-oriented investors. FDI in upstream activities has at times been linked to higher productivity in local manufacturing and to an increase in local sourcing, thereby boosting a country’s export competitiveness.

14. Many governments opt for special economic zones (SEZs) to attract investors, create jobs and increase export earnings. Common features include a geographically defined area, streamlined procedures – such as for customs, special regulations, tax holidays – which are often governed by a single administrative authority.

15. A zone-based strategy may be effective in attracting investors in the short-run by offering adequate infrastructure, services and duty-free access for capital goods and other inputs. Yet, such zones have often stagnated in terms of sustaining innovation and competitiveness, failing in technological upgrading and new firm creation. Economic activities within free trade zones, allowing for import and export cost reduction measures, tended to have weak linkages with the rest of the economy if not firmly embedded in a wider development agenda, including appropriate connectivity to the rest of the economy and reduced barriers to investment.

16. Several economies have followed a more elaborate and comprehensive strategy of cluster development. The existence of industry clusters at the local level represents an important location factor for many MNEs. Dynamic clusters rely on the smooth interaction of a number of pillars, combining public policies and initiatives at the firm-level. Clusters typically exhibit the following characteristics, critical for their generation of new technology, innovation, and firm creation:

- Strong role of government (federal or state) in promoting stability and basic infrastructure;
- An institutional environment that stimulates technological acquisition and transfer, including by protecting intellectual property rights;
- Global connectivity of clusters through value chains and markets;
- Competent intermediary organisations to promote horizontal connectivity and co-ordination among actors and stakeholders.

17. A skilled workforce catering to the needs of investors is a vital part of the investment ecosystem. Creating an integrated framework to enhance skills is challenging, as it often needs to address the specifics of a higher-skilled export sector, a medium-skilled domestic economy, and a low-skill informal economy. The role of the private sector in developing skills is widespread in many economies, as businesses know best what skills they need. The chapter on Human Resources Development looks at the various policy options for skills development in greater detail.

18. This chapter aims to provide key principles for effective investment promotion and facilitation, including co-ordinating and evaluating investment promotion activities, while providing options to strengthen the development impact of investment through local enterprise development.

Key questions

[Horizontal questions related to transparency, predictability, periodic review and public consultation are consolidated in an earlier chapter]

- 1. How does the government's investment promotion and facilitation strategy support the country's overall development goals?*
- 2. How are investment promotion and facilitation measures developed, implemented, co-ordinated and evaluated?*
- 3. What are the main measures and instruments to promote investment?*
- 4. In its efforts to facilitate investment, how does the government streamline administrative procedures to ease of doing business and reduce the cost of investing?*
- 5. To what extent does the government promote and maintain dialogue mechanisms with investors and policy advocacy to inform policy making?*
- 6. How does the government promote business linkages, including those between foreign and domestic enterprises?*
- 7. How does the government's investment promotion strategy contribute to the integration into global and regional value chains?*
- 8. Has the government used international and regional networks to promote investment?*

SUPPLEMENTAL QUESTIONS

<p>Role of investment in development strategy</p>	<ul style="list-style-type: none"> • Does investment and the benefits it can bring to the economy feature in national development plans and objectives? What is the specific expected role of FDI? • Does the government have a coherent inward investment promotion strategy in place that is in line with national economic development priorities? • How does the government address and assess the impact of private investments on the country's overall economic and development objectives? • Does the government have a strategy for developing a sound, broad-based business environment and within this strategy, what role is given to investment promotion and facilitation measures? • What methodology is used to capture investment inflows into the country? • How does the government ensure it has good data on investment generation and expansion decisions, to inform policy making?
<p>Implementation of investment promotion and facilitation</p>	<ul style="list-style-type: none"> • What agencies are mandated with promoting and facilitating investment? What is the institutional framework governing investment promotion and facilitation to ensure that the activities are well co-ordinated? • To what extent have their structures, functions, missions, and legal status been informed by and benchmarked against international good practices? • How are the investment promotion agencies structured and under which supervising ministries are they placed? • How are the various investment promotion and facilitation measures co-ordinated (national and subnational approaches, sectoral approaches)? • How are investment and trade promotion activities co-ordinated? • How does the government ensure coherence between investment promotion measures and other policy measures, e.g. trade policy, innovation and skills-development, infrastructural development? • How are the investment promotion agencies funded? • How does the government evaluate the efficiency and effectiveness of these agencies or programmes? • Does the government use international benchmarking of its performance in attracting investment?
<p>Investment promotion</p>	<ul style="list-style-type: none"> • What are the main objectives and core functions of the investment promotion agencies? • What instruments have been developed and used to promote investment? To what extent have these been informed by international good practices? • What evaluations have been undertaken to assess the relative effectiveness of different strategies and instruments? • Are specific sectors, markets and investors targeted as part of the investment promotion strategy? If yes, on what basis? • How does the government ensure flexibility in its targeting strategy to respond and adapt to new market demands and opportunities? • Has the government considered the impact of its targeting strategy on other sectors, including sub-sectors that can potentially support the sectors targeted?

	<ul style="list-style-type: none"> • Does the government make use of investment promotion missions abroad? • How is outward investment promoted and co-ordinated? • What mechanisms has the government established for the evaluation of the cost and benefits of investment incentives, their appropriate duration, and their transparency? See the Tax Policy chapter for a more detailed treatment of investment incentives.
Investment facilitation	<ul style="list-style-type: none"> • What recent efforts have been undertaken to streamline administrative procedures to reduce the cost of investing? What have been the recent efforts to simplify business registration procedures? • How does the government ensure effective communication with the private sector to resolve issues related to establishing a business, obtaining licenses etc.? • In an effort to retain investment and facilitate re-investment, how does the government or its dedicated agencies provide adequate after-care services based on international good practices? • Has the government established one-stop-shop mechanisms for investment? If yes, how is their efficiency monitored? • How do you benchmark your investment facilitation measures with competing countries? • Do you concentrate efforts in a few priority sectors or areas? If yes, based on what rationale?
Public-private sector dialogue	<ul style="list-style-type: none"> • What are the main public-private consultative platforms? What are the formal mechanisms and channels for the government-investor dialogue? • Are the investment promotion agencies involved in policy advocacy, and how does the government consult with them on matters having an impact on investment? • Does the government offer private sector ombudsman services? • How is the feedback from investors used in informing policy development, design and implementation?
Promoting business linkages	<ul style="list-style-type: none"> • What steps has the government taken to promote linkages between businesses, especially between foreign affiliates and local enterprises? • Does the government or a related agency organise match-making meetings and roundtables for investors and local firms that could act as suppliers (including SMEs)? Are databases of potential suppliers made available to foreign investors? What other activities and concrete measures does the government undertake to promote linkages? • What role is given to special economic zones (SEZs) in promoting investment and linkages? • How the government ensure that the frameworks governing SEZs do not lead to economic enclaves and support overall economic development objectives? • Has the government undertaken measures to support industry clusters? • To what extent are ties between the government, the private sector and SME support institutions, including technical and vocational training institutions, developed to promote business linkages? • What is the overall SME promotion strategy? What are the main public SME promotion initiatives and programmes? What are the main SME financing mechanisms and schemes?

	<ul style="list-style-type: none"> • Has the government promoted business development services (BDS) to support domestic investors in addressing specific challenges (training, access to market information and finance, information on business opportunities)? • What private sector driven linkages initiatives exist (training by companies for their suppliers, support to financing of suppliers' activities, etc.)?
Integration in global value chains	<ul style="list-style-type: none"> • Is the investment promotion and facilitation strategy aligned with the objectives of integrating in regional and global value chains (GVCs)? To what extent are investment generation activities conducted accordingly – notably to target the type of investors or activities identified as important? • Are foreign investors and large domestic enterprises involved in developing local firms, including SMEs, in view of strengthening the supply base in the economy and increasing local value addition in value chains? • How is the demand for skills from the private sector, including foreign investors, channelled to the tertiary, vocational and technical training systems to avoid skills shortages and mismatches? • How does the government support technology and knowledge transfer between companies (link to chapter on investment policy)? • How does the government identify obstacles to better integration of local firms into regional and global value chains? (see “Public-private sector dialogue” above for more questions) • Chapter on human resources development discusses links between higher education institutions and business, and training programmes.
International and regional networks to promote investment	<ul style="list-style-type: none"> • Does the government use its own, broader international network, such as its diplomatic representation, to promote investment? Are there dedicated trade and investment officers posted in key embassies? How is co-ordination with the capital ensured? • To what extent is investment promotion undertaken at the regional level? • Is the national investment promotion strategy implemented in partnership with sub-national entities (i.e. with provincial/regional/local IPAs) avoiding investor fatigue and costly duplication of efforts? • Has the government made use of international and regional initiatives aimed at building investment promotion expertise? Has the investment promotion agency joined regional and international networks?

ADDITIONAL RESOURCES

Web pages

www.waipa.org

www.publicprivatedialogue.org

www.smetoolkit.org

www.unido.org/spx

www.wbginvestmentclimate.org/toolkits/investment-generation-toolkit/

Tools, Guidance, Manuals

Loewendahl, H. (2001) “A Framework for FDI Promotion” in *Transnational Corporations*.

Millennium Cities Initiative and Vale Columbia Center (2009), *Handbook for Promoting Foreign Direct Investment in Medium-Size, Low Budget Cities in Emerging Markets*, New York.

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OECD-WTO-World Bank (2014), *Global Value Chains: Challenges, Opportunities and Implications for Policy*, Paris.

UNCTAD (2007), *Aftercare: A Core Function in Investment Promotion*, Geneva.

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Indicators

World Bank Doing Business Index

AT Kearney Global Services Location Index