With the support of the Government of Japan

OECD-ASEAN Training on Investment Policy Making

Module 3

Investment Promotion & Facilitation

12-14 June 2013, Da Nang

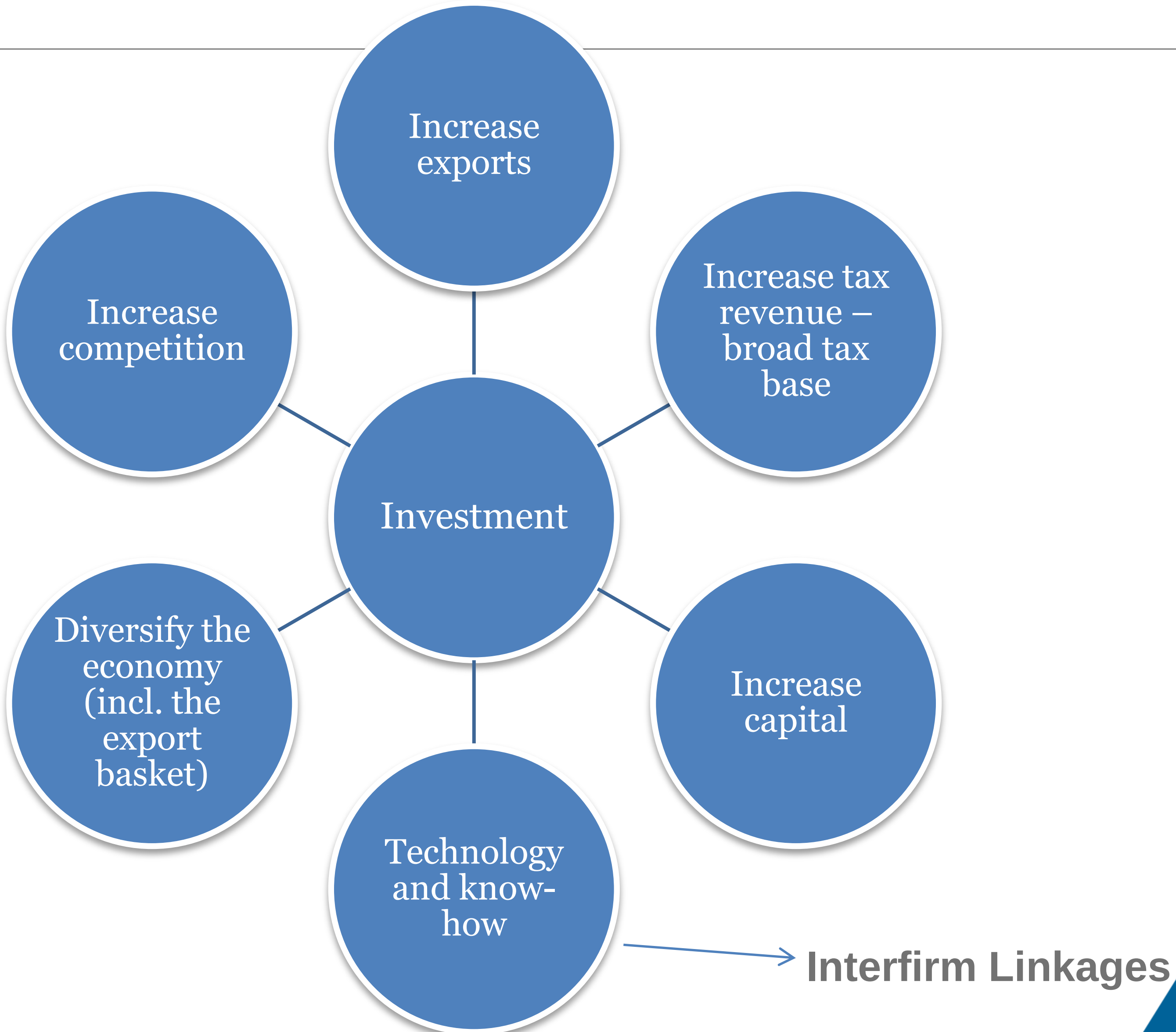
BETTER POLICIES FOR BETTER LIVES

Investment Promotion & Facilitation

- 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



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.*

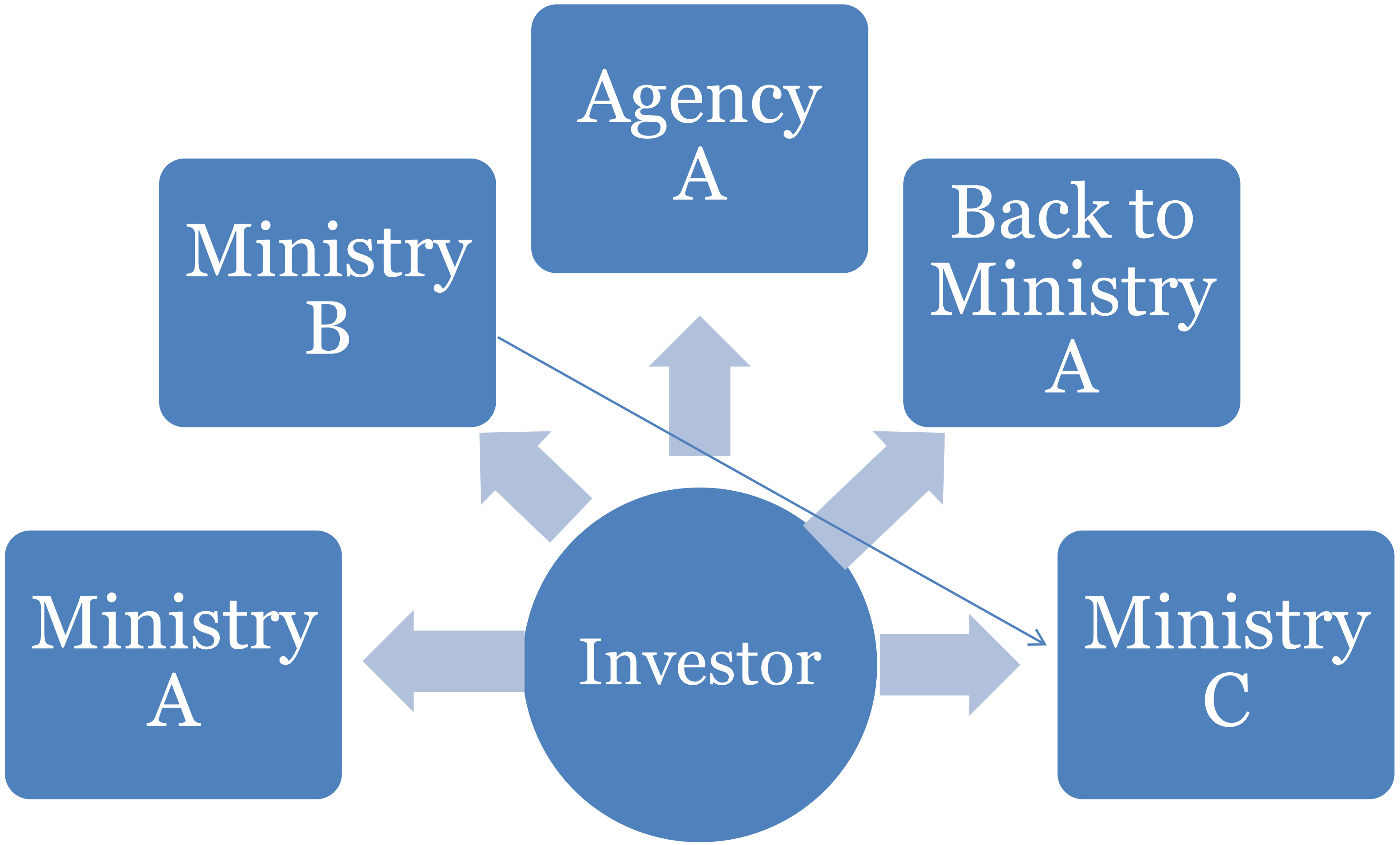
Role of policy

- 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?*

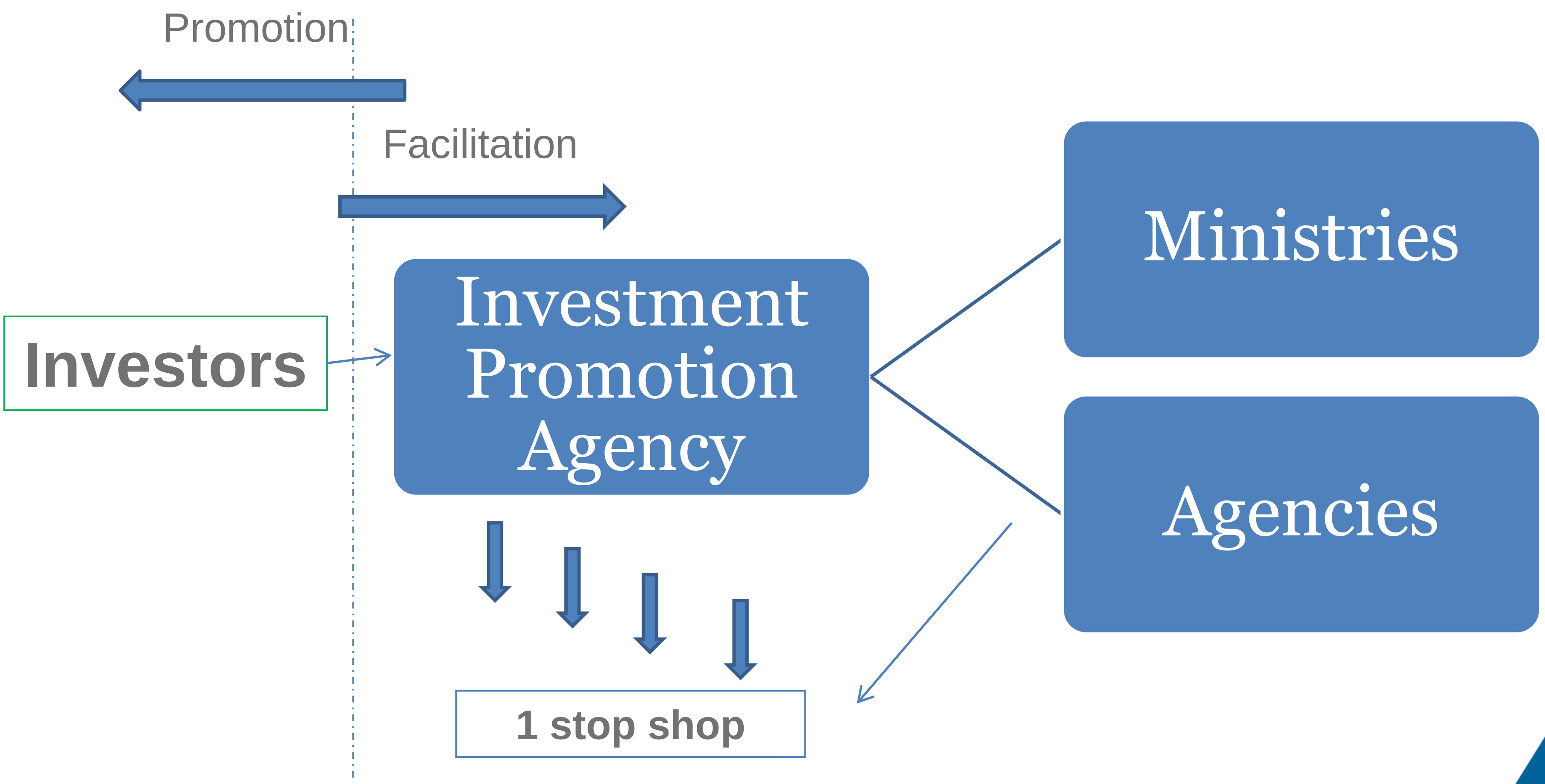
Investment promotion: why & how?

- 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.

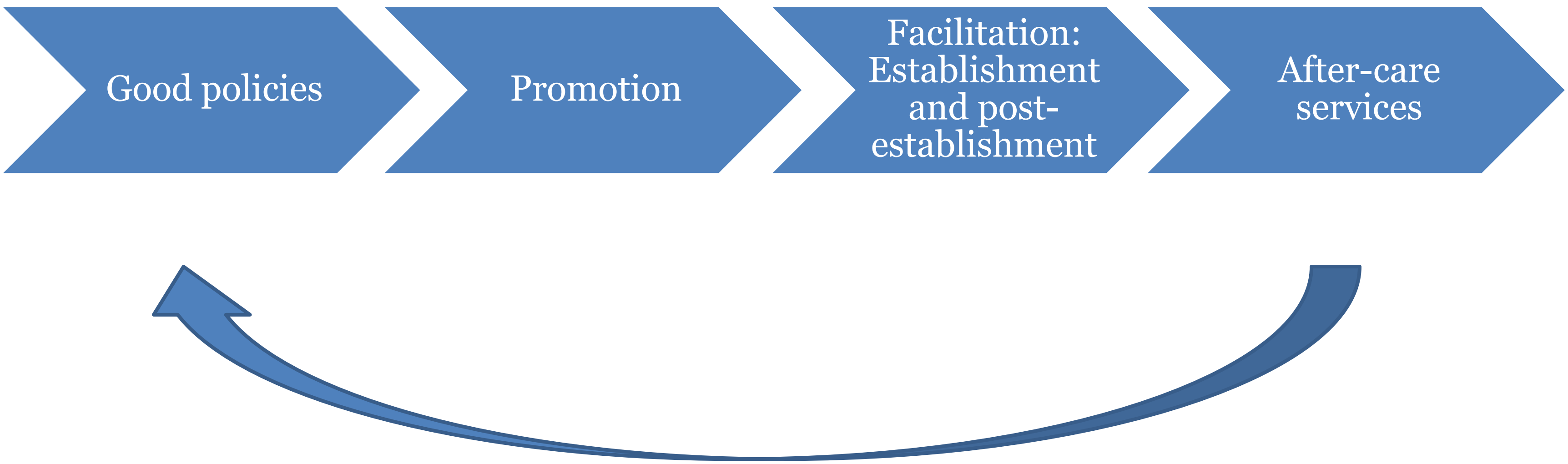
Institutional structure



Streamlining procedures = Effective and efficient promotion & facilitation



Investment promotion cycle



Policy Advocacy

investor feedback to policies: surveys, public-private committees for business climate reforms...

Strategic Business Advantages

- Business Development
- Education & Training
- Employment & Workforce Development
- Exporting & Trade
- Federal-Provincial & International Relations
- Investing in Manitoba
  - Strategic Business Advantages
  - Introduction
  - The Land
  - People
  - Economy
  - Business Costs
  - Market Access & Transportation
  - Infrastructure
  - Research & Development
  - Government
  - Quality of Life

- Community Web site links
- Tourism Winnipeg
- Economic Development Winnipeg
- Manitoba Tourism

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 busineses.
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

http://www.gov.mb.ca/ctt/invest/strategic/index.html

Business linkages

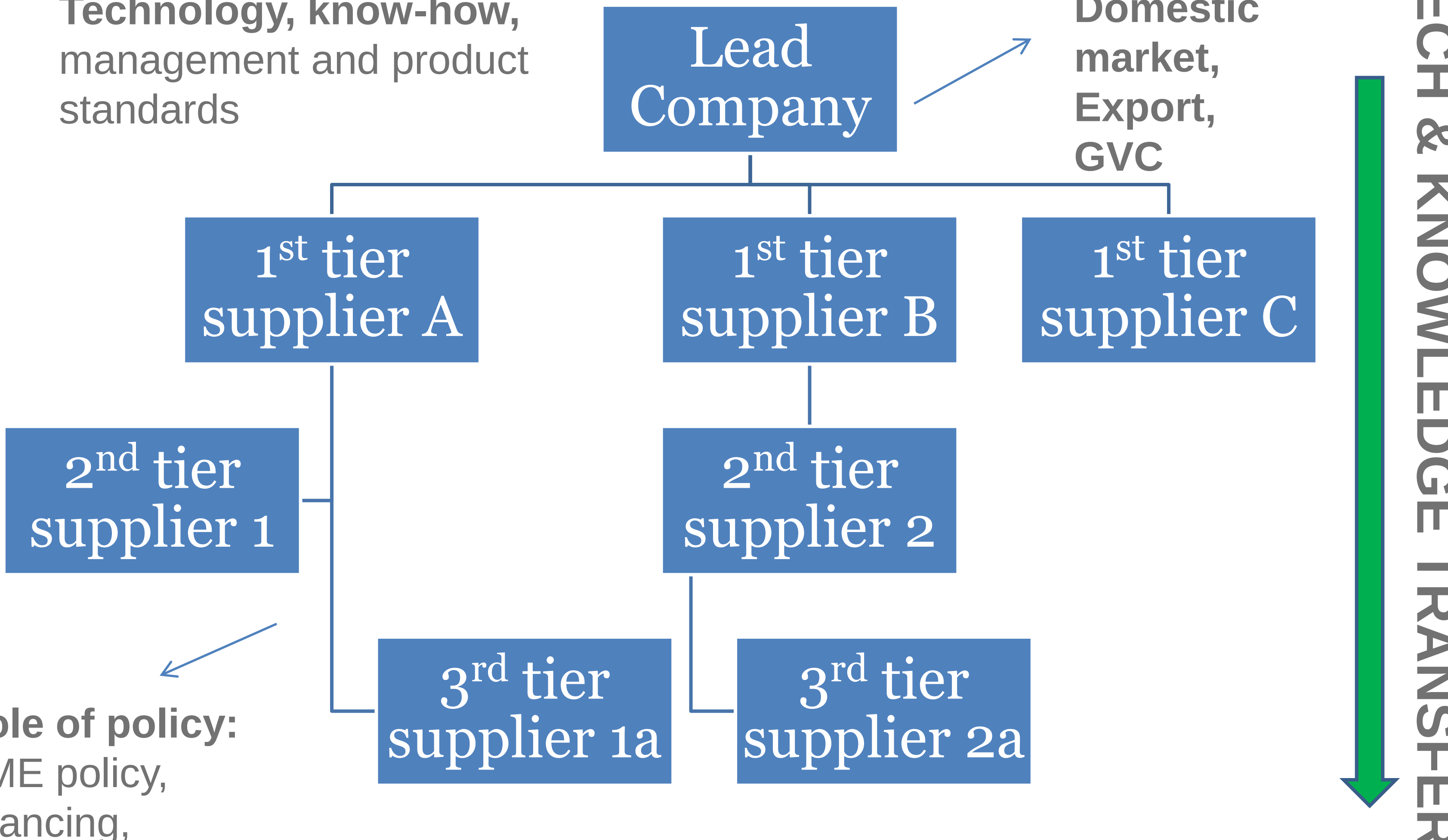
- Channel for technology and knowledge transfer;
- Strong supplier base is an important investment decision factor: reduces transaction costs, adds to reliability, product quality;
- Backward and forward linkages;
- MNE-SME, Large local-SME, SME-SME.

- 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



Domestic market, Export, GVC

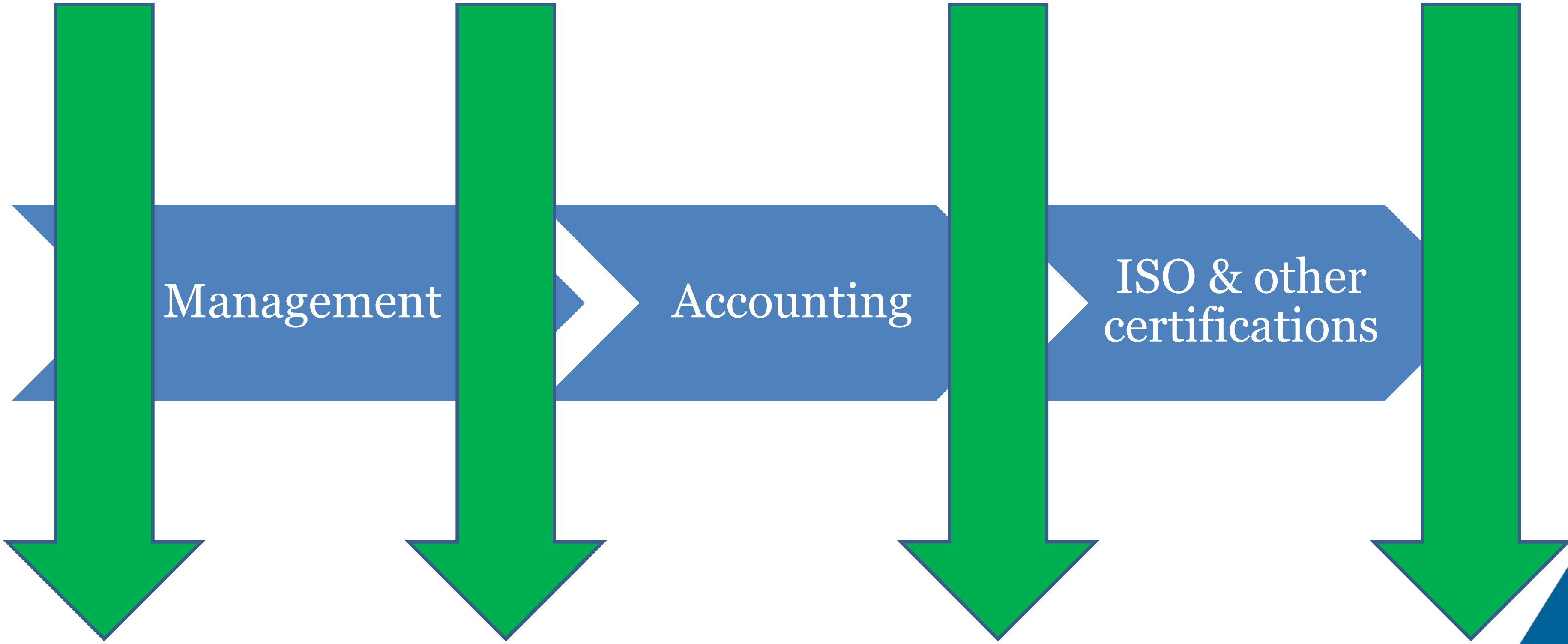
Role of policy: SME policy, financing, training

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



Investment incentives

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 (eg: 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?)