Mapping of Investment Promotion Agencies in OECD countries

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In collaboration with the Inter-American Development Bank

Foreword

Investment is central to growth and sustainable development. It expands an economy's productive capacity and drives job creation and income growth. Recognising this, governments around the world have established investment promotion agencies (IPAs) to create awareness of existing investment opportunities, attract investors that can foster job creation and productivity growth, and facilitate their establishment and expansion in the economy.

This report provides an inventory of existing practices among IPAs in 32 OECD countries. This mapping exercise covers a wide range of areas pertaining to investment promotion and facilitation with a view to enhancing peer-learning amongst practitioners. It will allow practitioners and policy makers to benchmark their IPAs against those of other countries and help them to better grasp the similarities and differences across agencies.

The report has been prepared in close consultation with IPAs and is based on an extensive survey designed and conducted in partnership with the Inter-American Development Bank (IDB). Using the same survey, the OECD and the IDB are preparing a further report covering countries in Latin America and the Caribbean.

This IPA mapping report paves the way for further analytical and evidence-based investment promotion work on topics of interest to OECD and non-OECD countries.

The report has been prepared by Alexandre de Crombrugghe, Peline Atamer and Monika Sztajerowska from the Investment Division of the OECD Directorate for Financial and Enterprise Affairs, under the supervision of Ana Novik, Head of the Investment Division, and Stephen Thomsen from the Investment Division. Comments were received from Christian Volpe Martincus from the IDB. The report was supported by financial contributions from the IPAs of the Netherlands, Chile, Ireland, Sweden and Germany.

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Acronyms and abbreviations

CEO	Chief Executive Officer
CRM	Customer Relationship Management
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDP	Gross Domestic Product
ICT	Information and Communications Technology
IDB	Inter-American Development Bank
IIA	International Investment Agreement
IPA	Investment Promotion Agency
KPI	Key Performance Indicator
LAC	Latin America and the Caribbean
M&A	Merger and Acquisition
MNE	Multinational Enterprise
OECD	Organisation for Economic Co-operation and Development
PFI	Policy Framework for Investment
PR	Public Relations
RBC	Responsible Business Conduct
R&D	Research and Development
SME	Small and Medium-sized Enterprise
TV	Television
USD	United States Dollars
WEF	World Economic Forum

Executive Summary

Recognising the positive effects of investment in supporting economic growth and sustainable development, governments around the world have established investment promotion agencies (IPAs) to create awareness of existing investment opportunities, attract investors that can foster job creation and productivity growth, and facilitate their establishment and expansion in the economy. One size does not fit all, however, and different activities, approaches and strategies are suitable for different countries, even in similar economic contexts. Based on an extensive survey of 32 national agencies, this report presents a comprehensive mapping of national IPAs in OECD countries. It addresses: *i)* IPAs' institutional choices and organisational characteristics, *ii)* their functions and activities; *iii)* their prioritisation strategies for investment attraction and generation; *iv)* their monitoring and evaluation processes and tools; and *v)* their approaches to co-operation and co-ordination with external partners.

The average OECD IPA was created 20 years ago and has experienced close to two organisational reforms in recent years, reflecting rapidly evolving policy environments and investment promotion dynamics. The majority of IPAs (60%) are autonomous public agencies while 31% are governmental (part of a ministry) and 6% are joint public-private agencies. Only one agency is fully privately owned. Just over half of IPAs have multiple reporting lines and the majority report to a minister. Over two thirds have a board – either supervisory or advisory – but both their role and composition vary greatly across agencies, often depending on their legal status. While IPAs are always created to promote inward foreign investment, all OECD agencies have at least one other mandate or a little less than six different mandates on average. The most common combination of mandates is for export promotion and innovation promotion, which are both included by 56% of IPAs. Other key mandates reflect the role of IPAs in promoting investments that support socio-economic objectives, including the promotion of regional development (50% of IPAs), green investment (44%) and domestic investment (41%).

Investment promotion budgets vary widely across IPAs – ranging from USD 0.26 million to USD 351 million in 2016 – reflecting the disparities in size and income levels among OECD countries but also potentially the priority given to investment promotion. Governments are the largest source of IPA budgets, providing on average 98% of investment promotion resources. Over 90% of staff has a high level of education and three quarters have private sector experience. While most agencies align their salaries on the civil servants' pay scale, less than a quarter – most of them autonomous IPAs – pay higher wages to attract employees with a private sector background. Disparities also exist in terms of secondary offices, as close to half have no other offices in the country while 15% have more than 10 sub-national offices. Similarly, the average OECD IPA has 19 investment promotion offices abroad, with 22% of reporting agencies having none and 6% over 50.

The average trend among OECD IPAs is to allocate the bulk of their resources to investment generation (46% of total budget) and investment facilitation and retention (30%), while image building (18%) and policy advocacy (6%) receive less resources. Most activities that fall under the image building and investment generation functions are carried out by a significant majority of IPAs. Conversely, agencies' activity portfolios in investment facilitation and retention and in policy advocacy vary greatly from one IPA to another. Agencies also tend to cover more investment facilitation activities (59% on average) than aftercare activities (36%). Overall, 6% of IPAs can be categorised as *Image builders*, as they devote a significantly higher share of their resources than the average to image building; 41% qualify as *Generators*, as they focus more on investment generation while performing less image building and investment retention activities; 25% are *Facilitators*, i.e. IPAs with large budgets with a wide investment facilitation and retention activity portfolio but that do not neglect the other three core functions; and 28% denote as *Balanced* IPAs, i.e. agencies that aim to have a relatively broad investment facilitation and retention portfolio but face trade-offs within core functions to achieve their goal as they have fewer resources than *Facilitators.*

In their promotion activities, IPAs may target some investments over others either because of their higher probability of being realised or due to the benefits they can bring to the host economy. All OECD agencies prioritise certain sectors and countries, two thirds prioritise specific investment projects and over one third specific investors. While some countries tend to prioritise only sector or countries – denoted as *Basic Prioritisers* (19% of all IPAs); others also prioritise specific investment projects (*Project-Centred Prioritisers*, 34%) or investors (*Investor-Centred Prioritisers*, 3%). 41% are *Super-Prioritisers*, i.e. they prioritise sectors and countries, projects and investors. Over three quarters of OECD IPAs take a project-centric view on prioritisation, on top of the priority sectors and countries, focusing on specific investment projects identified as "priority" projects; often also referred to as "high-quality" or "strategic" investment projects. Strong domestic capacity (64%), a strong competitive position vis-à-vis other countries (58%) and the potential to diversify the economy (58%) are the most frequently cited reasons for prioritising certain sectors. Access to high-technology is the most cited reason (58%) for targeting specific countries, followed by strong economic or political ties (42%). Around 70% of IPAs have pre-established criteria that a project needs to satisfy to qualify, particularly the impact on innovation (83%), priority sector (83%), job creation (79%) and the size of the investment (75%). IPAs that prioritise projects or investors have on average higher budgets than those that do not.

Close to two thirds of OECD IPAs have a dedicated evaluation unit and almost all use customer relationship management systems to track and monitor their activities. IPAs rely more on qualitative methodologies such as benchmarking (78% of IPAs), surveys (75%) and consultations (69%) than on quantitative methodologies such as cost-benefit analysis (22%) and econometric assessments (16%) to assess their performance. Their key performance indicators can be divided into output and outcome indicators, the former measuring the performance of the IPA's activities and the latter assessing the impact of their overall action on the economy. The most frequently used indicators are output indicators relating to investment projects (91%), investing firms (66%) and client satisfaction (66%) as well as outcome indicators relating to job creation (88%) and total amounts of FDI (81%). Agencies often face data availability challenges, which make it difficult to conduct impact assessments and calculate overall performance ratios.

OECD IPAs typically operate in a dense and complex network of public and private stakeholders, as they interact with 25 different organisations on average in the framework of their activities. The most strategic relationships for IPAs involve their sponsor minister, the ministry of foreign affairs and diplomatic missions abroad, sub-national agencies (affiliated or not to the IPA), and local authorities. Business associations are the only stakeholders outside the public sector that rank among IPAs' most important relationships. While more than three quarters of IPAs have a network of offices abroad affiliated to their headquarters, the great majority also rely on diplomatic missions to promote their country as an attractive investment destination. At the sub-national level, IPAs mostly co-operate with local government-related agencies to attract and retain foreign investors as well as to support their establishment. IPAs' co-operation with diplomatic missions and sub-national agencies need well-functioning processes and mechanisms such as shared customer relationship management systems, dedicated communication channels and tools, and clear and well-defined responsibilities.

Table 1 summarises some of the OECD IPAs' main institutional and strategic characteristics in a simple typology based on more detailed categorisations presented in subsequent chapters. It uses the following criteria:

- The columns classify IPAs according to their number of staff and mandates (see Chapter 1);
- The rows categorise IPAs according their strategic profile, in line with the main focus of their activity mix (see Chapter 2); and
- The asterisks represent the extent to which IPAs prioritise in their investment promotion activities (see Chapter 3).

Table 1. Summary typology of OECD agencies

Size, mandates, profiles and prioritisation of IPAs

	Large Specialist	Large Generalist	Small Specialist	Small Generalist
Promoters	France*** Sweden***	Estonia* Germany* Korea**	Austria** Chile* Iceland** Netherlands** New Zealand** Switzerland** United States**	Greece*** Poland** Slovak Republic* Slovenia***
Facilitators	Australia*** Ireland** United Kingdom***	Czech Republic* Japan* Norway***	Denmark**	Hungary***
Balanced	Spain***	Finland*** Latvia* Mexico*** Portugal*** Turkey**	Canada** Israel***	

Notes: (1) *Large*/*Small* IPAs include those with a higher/smaller number of staff than the median, while *Specialist*/*Generalist* include IPAs with a smaller/higher number of mandates than the median (see Table 1.3); (2) *Promoters* include IPAs focusing their activity mix on image building and targeting, *Facilitators* on investment facilitation and *Balanced* equally on all (see Table 2.4); (3) One asterisk include IPAs that prioritise sectors or countries only, two those that additionally prioritise investors or projects, and three those that prioritise sectors and countries, projects and investors (see Table 3.1).
Source: Authors based on OECD-IDB survey of Investment Promotion Agencies (2017).

Introduction

Virtually all governments worldwide seek to promote foreign direct investment (FDI) to support growth, welfare and prosperity. Decision-makers can adopt a wide array of policy instruments to attract multinational enterprises (MNEs) and have established dedicated organisations, mostly known as investment promotion agencies (IPAs). Before reviewing and comparing the different choices, approaches and strategies adopted by IPAs in OECD economies, it is worthwhile recalling the rationale for investment promotion. This introductory chapter starts by recalling the potential benefits of international investment on host economies and its role in OECD countries. It then seeks to explain the rationale for FDI promotion by briefly reviewing the drivers of firms' location decisions and highlighting the key role of the policy and institutional framework for investment. It then examines why IPAs have been created and what is their specific role in attracting FDI. It ends by explaining the purpose and methodology of the IPA mapping exercise presented in subsequent chapters.

The role of foreign direct investment in OECD countries

In market economies, private investment is central to economic growth and sustainable development. Domestic investments usually dominate, but FDI can provide additional advantages beyond the direct contribution to the capital stock. Under the right conditions, international investment can raise overall productivity in recipient countries and ultimately lead to an increase in its citizens' standard of living. These benefits do not necessarily occur automatically, but an adequate policy framework can maximise them as well as minimise any potential costs of FDI. Different channels exist through which these positive contributions can materialise:[1]

- Foreign investment often contributes to growth, beyond what domestic investment normally would, by raising both total factor productivity and the efficient use of resources in host economies;
- FDI can support host economies' global trade integration by providing them with improved access to international markets, developing local export capabilities and integrating them with global value chains;
- MNEs often bring new technologies in recipient economies and FDI can thus lead to local technology transfers and innovation spillovers, especially through the creation of local supplier linkages;
- FDI creates direct and indirect jobs (i.e. through backward and forward linkages with small and medium-sized domestic companies) and can enhance human capital through the dissemination of new skills, know-how and management techniques – which can benefit both MNE workers and local firms that act as suppliers to MNEs;
- International investment can also support greater competition in host markets and thus lead to productivity gains, lower prices and more efficient resource allocation;

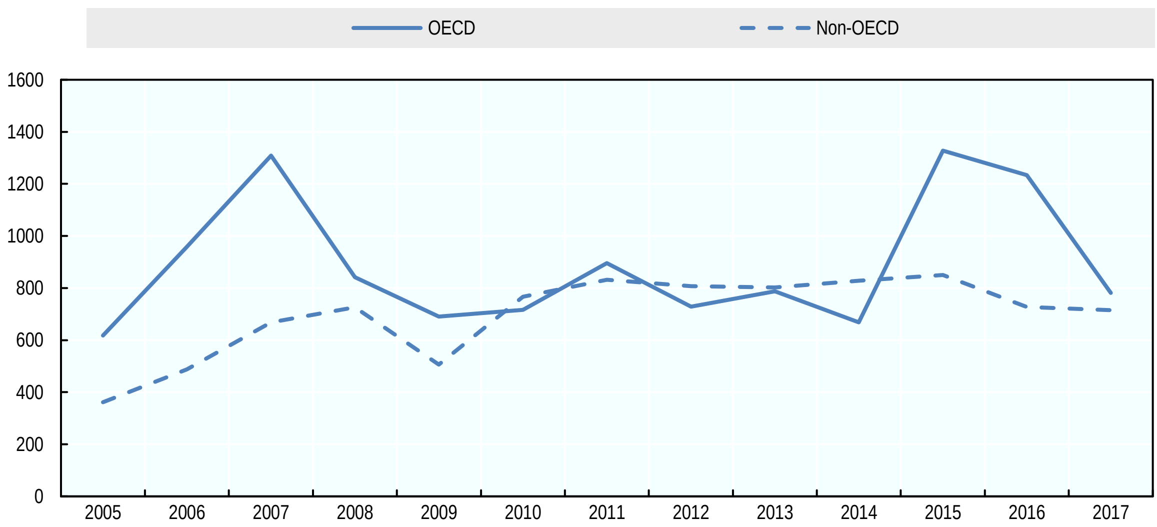
- Lastly, FDI has the potential to bring social and environmental benefits to host countries by disseminating good practices of responsible business conduct (RBC), as laid out in the OECD Guidelines for Multinational Enterprises.[2]

OECD countries have been actively attracting FDI to boost productivity, enhance overall competitiveness and support sustainable economic growth. The total stock of FDI in the OECD is equivalent to just under a third of the area's combined gross domestic product (GDP) (32.2% in 2016), reflecting the key role played by FDI in the overall economic development of the OECD area, as in most other countries (OECD, 2017).

OECD economies remain the main destination for FDI globally but face increasing competition from large emerging economies, notably China, Brazil and Russia, which have increasingly attracted the attention of international investors. In the aftermath of the global financial crisis, FDI flows to OECD economies have been evolving irregularly and their share of total flows has decreased over time to the benefit of emerging economies, particularly over 2008-14 (Figure 1). In recent years, the OECD share has recovered in 2015 and 2016, accounting for 61% and 63% of global FDI inflows respectively – up from 45% in 2014 – but fell back to 52% in 2017.

Figure 1. Global FDI inflows, 2005-2017

In USD billion



Source: OECD International Direct Investment Statistics (database).

What drives investors' location decisions?

To better apprehend the rationale for investment promotion, it is essential to first understand what drives international investment and MNE location decisions.[3] When a firm decides to locate overseas, it usually engages in a systematic comparison of potential investment destinations. A number of factors, which can be categorised under five main characteristics, can influence MNEs' decision to locate in a certain country over another (OECD, 2002):[4]

- *Market size and growth*: these economic determinants play a prominent role in MNEs' location decisions, as countries with a large market size and a high growth rate will provide more profitable investment opportunities;
- *Natural and human resource endowments*: the availability and cost of natural and human resources – including labour productivity and adequate skills – are another driving force behind FDI;
- *Physical, financial and technological infrastructure*: the quality and availability of backbone services are key elements of a sound investment climate and are key considerations to attract MNEs;
- *Openness to international trade and investment*: an open economy to international trade and investment provides investors with more business opportunities and will influence their decision-making accordingly; and
- *The policy and institutional framework*: a fair, transparent and predictable regulatory and administrative framework for investment with efficient institutions affects MNEs' decisions in both their initial investments and potential reinvestments or expansions.

While the first three characteristics are economic determinants, the latter two are more directly related to policy, regulatory and institutional considerations. Economic determinants will influence MNEs' motivations to invest depending on the type of FDI they are engaging in. Following an internationally recognised classification by Dunning (1993), MNE motivation factors include four categories: *i) resource-seeking* FDI, when MNEs locate in a country to take advantage of its natural resource endowments: *ii) efficiency-seeking* FDI, which is driven by the objective to maximise efficiency through lower costs or economies of scale; *iii) market-seeking* FDI, driven by the size and growth of the host market; and *iv) asset-seeking* FDI, driven by the access to specific assets in the host economy (e.g. technology, skills).

Policy settings, on the other hand, will affect FDI decisions horizontally, regardless of the economic motives. In their quest to attract FDI – and hence to influence MNEs' location choices – decision-makers in both OECD and non-OECD countries seek to create a favourable business environment and to continuously enhance their investment policy framework to allow the private sector, both domestic and international, to grow.

A broad range of policy actions can contribute to shaping the investment climate, including in the areas of investment policy, investment promotion and facilitation, tax policy, competition, trade, infrastructure, human skills and others covered in the *OECD Policy Framework for Investment* (PFI).[5] A sound investment policy framework is not only key to attract investment, but also to maximise their benefits to the host economy – as discussed in the previous section. Investment promotion activities thus need to take place within the context of, and not as a substitute for, sound investment policies.

The rationale for investment promotion and the role of IPAs

Governments are responsible for the welfare and prosperity of their citizens. Public policies in market-oriented economies are geared towards achieving national socio-economic objectives. Investment promotion is no exception and consists of government interventions to influence firms' location decisions to attract FDI that can meet public policy objectives (e.g. generate jobs, productivity growth, linkages with domestic companies and transfers of skills and know-how).

In this context, governments compete fiercely with one another for each investment decision with appealing location value propositions and this requires efficient and well-co-ordinated institutions. When establishing a formal structure to conduct investment promotion activities, most jurisdictions have chosen to establish an IPA. In the OECD area, all countries have established national or sub-national IPAs.[6] IPAs can help remedy market failures by carrying out a range of services aimed at marketing their country, its competitive business environment, industries and firms, and by simply facilitating business establishment and operations.

The rationale for investment promotion finds its roots in the need to correct or mitigate market imperfections, particularly to overcome information asymmetries (Wells and Wint, 2000; Loewendahl; 2001). International investors, who intend to invest in a foreign market, often lack specific information, including on operational costs, capital expenditures, business partners, competition, taxes, and legislation in potential locations (OECD, 2015c). Large MNEs typically have more resources and capacity to collect such information than small and medium-sized enterprises (SMEs).

The nature of – and need for – investment promotion undertaken by IPAs has changed over time, however. While in the 1980s and 1990s, IPAs were primarily engaged with disseminating information on their country's investment opportunities and business climate, the Internet has made a great amount of information directly available to investors and IPAs have had to engage in more sophisticated activities to gather business intelligence and attract MNEs (OECD, 2015c). IPAs currently offer a wide array of different services – that go far beyond information dissemination – to both potential and existing investors and are also often involved in business climate reforms.

While there is an overall consensus on the positive impact and effectiveness of investment promotion activities on host economies,[7] it remains an insufficiently explored discipline. One size does not fit all and different forms of IPAs, institutional settings, activities and strategies for investment promotion can match different government objectives, but also different target enterprises. Even in similar geographic and development contexts, large differences exist among IPAs in terms of strategic priorities, functions, tools, organisational characteristics and governance policy. Investment promotion practitioners need to adapt to changing industry developments, sector trends and investment policy reforms.

Purpose of the OECD IPA mapping report

The purpose of this mapping report is to complement existing research on investment promotion with a comprehensive inventory and comparative analysis of IPAs in OECD economies; their institutional environments, internal organisations, core activities, prioritisation strategies, evaluation methodologies and institutional co-ordination mechanisms.

This study intends to provide evidence-based analysis to practitioners and policymakers in OECD countries to allow them to benchmark their institutions against those from other countries as well as to help them better grasp the similarities and differences across agencies. It presents both aggregate and individual datasets and intends to lay out different profiles of IPAs and explain existing trends and practices. This mapping exercise also allows peer-learning among OECD IPAs and provides an opportunity to discuss good practices. It also highlights key considerations for practitioners and policymakers as well as ideas on where further evidence-based work could be conducted.

The data used in this report have been gathered through different means, the most important one being a comparative survey developed by the OECD and the Inter-American Development Bank (IDB) (Box 1). It draws on existing literature on FDI and investment promotion and is supplemented by desk research as consultations with senior IPA representatives, both individually and collectively.

Box 1. The OECD-IDB survey of IPAs

The OECD and the IDB have partnered to design a comprehensive survey of IPAs. The questionnaire provides detailed data that reflect the multiple recent policy developments as well as rich and comparable information on the work of IPAs in different countries. The survey was displayed and shared with IPA representatives from OECD and Latin America and Caribbean (LAC) countries in the form of an online questionnaire that was divided into nine parts:

- Basic profile;
- Budget;
- Personnel;
- Offices (home and abroad);
- Activities;
- Prioritisation;
- Monitoring and evaluation;
- Institutional interactions; and
- IPA perceptions on FDI.

National IPAs from 32 OECD countries participated in the OECD-IDB survey. The participating agencies are those from the following countries: Australia, Austria, Canada, Chile, Czech Republic, Denmark, Finland, France, Estonia, Germany, Greece, Hungary, Iceland, Ireland, Israel, Korea, Latvia, Japan, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

IPA respondents completed the questionnaire between May and September 2017. The preliminary results of the survey were presented and discussed at an OECD workshop on investment promotion and facilitation on 16 October 2017. The data and information gathered through this questionnaire serve as the basis for this mapping report.

The OECD-IDB survey of IPAs also serves as the main data source of a separate study prepared by the OECD and the IDB, which is mapping LAC IPAs and benchmarking them against those from the OECD. An additional 19 IPAs from LAC countries (outside the OECD area) participated in the survey: Argentina, Barbados, Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Paraguay, Peru, Trinidad and Tobago, Uruguay and Venezuela.

The mapping report is divided into five chapters, as follows:

1. Institutional choices and organisational characteristics of IPAs
2. IPA functions and activities
3. Prioritisation strategies for FDI attraction and generation
4. Monitoring, evaluation and impact
5. Institutional co-operation and co-ordination

The first chapter of this mapping report covers the IPAs' institutional settings and organisational characteristics, including their governance, scope and diversity of mandates, financial and human resources, and organisation of secondary offices. The second chapter addresses the IPAs' key functions and specific activities within each function. It identifies the most recurrent activities across IPAs and provides insights on their diverse choices in terms of resource allocation and strategic focus. Chapter 3 looks at how IPAs design and implement their prioritisation strategies to attract investment. Chapter 4 maps the different monitoring and evaluation tools used by IPAs to track and measure their performance. The fifth chapter examines how IPAs co-ordinate and collaborate with their institutional environment at three different geographical levels: international, national and sub-national. Finally, the last chapter of this report proposes some ideas for future analytical and evidence-based investment promotion work.

Chapter 1. Institutional choices and organisational characteristics

Different policy choices are available to governments seeking to attract and benefit from FDI. The way they organise their institutional framework for investment promotion and facilitation responds to their policy objectives and the priority they give to investment promotion can greatly influence their success in attracting investment in the most efficient and effective manner.

IPAs can be created as part of a ministry, as an autonomous public agency, as a joint public-private body or as a fully privately-owned organisation. While adequate financial and human resources are a prime concern of all IPAs, they can have very different mandates, governance mechanisms and organisational cultures. An increasing number of IPAs are merging their investment and trade promotion functions while others are becoming more specialised. Some have an extensive presence abroad while others rely on partner organisations to represent them overseas. Governments have also pushed through reforms to decentralise investment promotion and facilitation by delegating some functions of IPAs to the sub-national level.

This chapter provides a comparative analysis of institutional choices made in OECD countries on investment promotion and facilitation policies. It is divided into two sections: the first addresses the institutional environment of IPAs, including their legal status, governance models and formal mandates; and the second section looks at IPAs' resources and internal organisation, including their budget, personnel and secondary offices. It ends with a short summary providing a categorisation of OECD IPAs based on some of the chapter's main findings and is followed by an annex table providing a snapshot of the agencies' main organisational characteristics.

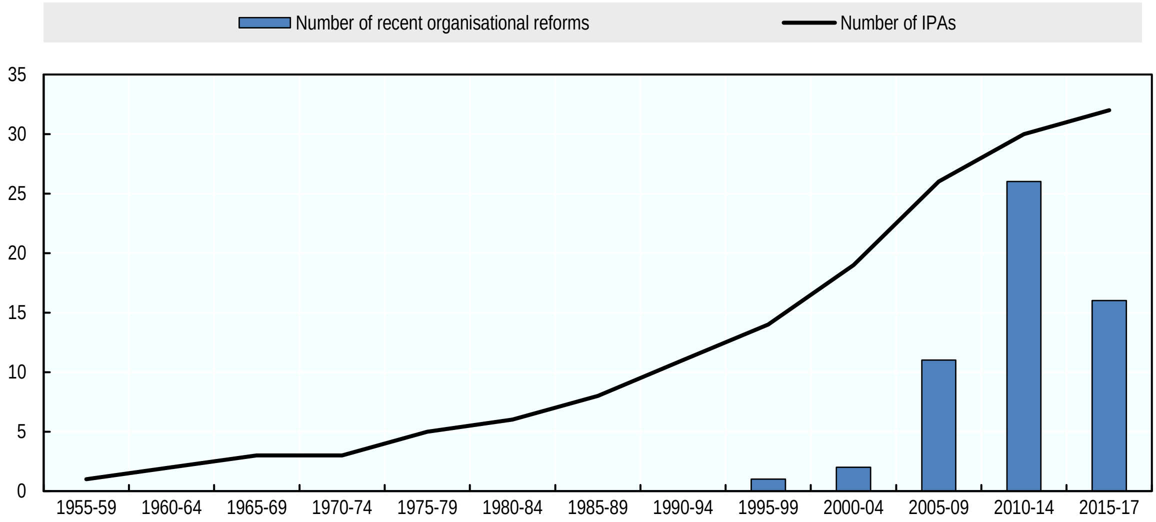
Institutional environment and governance of IPAs

IPAs evolve in their own historical and institutional contexts. They were established to respond to specific policy objectives and the way they are governed is often dictated by their institutional contexts and broader political choices. This section addresses how IPAs from OECD economies fit in the overall institutional framework for investment promotion and facilitation within their respective public administration and looks at: *i)* IPAs' establishment and recent reforms; *ii)* their legal status and reporting lines (including governance models and the role of the board); and *iii)* the scope and diversity of IPA formal mandates.

IPAs' establishment and recent reforms

While some OECD countries gradually institutionalised their investment promotion efforts after the Second World War, most started to establish their national IPAs from the 1970s and particularly in the 1990s and 2000s (Figure 1.1). Today, the average OECD IPA is about 20 years old. IPAs' organisational structures have evolved over time. As open trade and investment policies were progressively adopted in all OECD economies, IPAs were primarily tasked with disseminating information on the host country and its business climate. Investment promotion practitioners then had to engage in ever more sophisticated activities, as governments increasingly recognised their role in fulfilling national development objectives, notably by targeting companies in priority sectors and in high value-added activities.

Figure 1.1. Creation of IPAs and recent organisational reforms



Source: OECD-IDB survey of Investment Promotion Agencies (2017).

Several agencies were initially created, very early on, as trade promotion agencies, such as the Swiss agency (created in 1927), the Japanese agency (1958) and the Korean agency (1962), and included investment promotion decades later. Conversely, other countries have been pioneers at establishing fully-fledged IPAs specialised in investment promotion from their establishment, including Ireland in 1969, the Netherlands in 1978 and Austria in 1982.

In more recent years, many IPAs have experimented with new organisational reforms, suggesting that IPAs have been seeking to adapt to changing environments and emerging challenges. As reflected in Table 1.1, a majority of IPAs (81%) have restructured their organisation at least once in recent years and a quarter of them have experienced at least three reforms. While most recent IPA reforms consist in integrating new mandates within agencies (e.g. trade promotion, innovation promotion, tourism promotion, etc.), very few of them have involved dividing an agency or removing some of its responsibilities (the issue of mandates will be further examined below).

Table 1.1. Average number of organisational reforms in recent years

No reform	1 reform	2 reforms	3 reforms	4 or more reforms
19%	31%	25%	12%	13%

Source: OECD-IDB survey of Investment Promotion Agencies (2017).

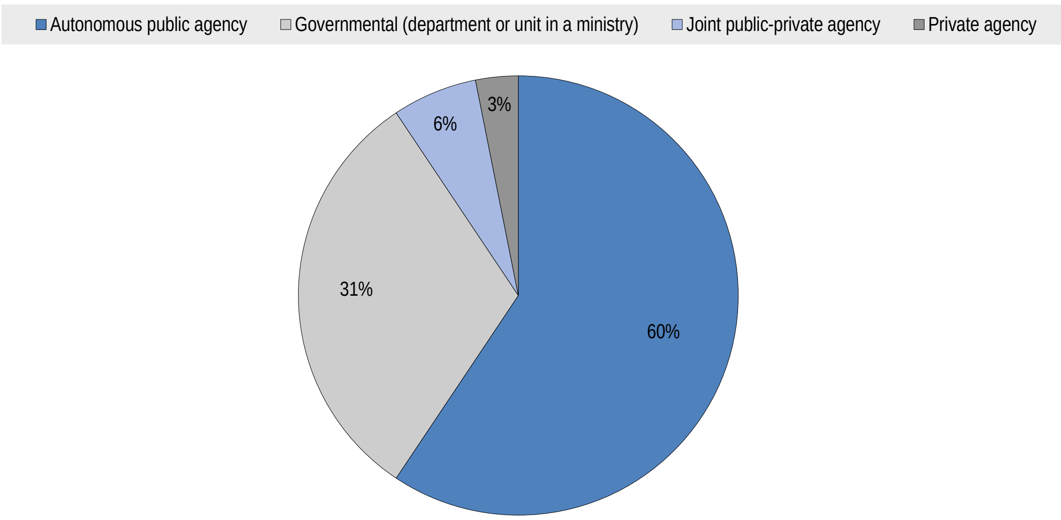
Legal status and reporting line

The governance of an IPA is related to the way it is supervised, guided, controlled and managed. When IPAs are established, their legal status – often formalised by law – will determine many organisational and functional aspects of the agency. It will have a particular incidence on the level of autonomy of the IPA vis-à-vis the government, particularly in terms of financial and human resources management. From the least to the most autonomous forms of IPA, the most common types of legal status are the following:

- governmental (often as a department or a unit within a ministry);
- autonomous public agency;
- joint public-private body; and
- fully privately-owned organisation.

Autonomous public agencies dominate the IPA landscape across OECD countries (60% of respondents), while close to one third are fully governmental and part of a ministry (Figure 1.2). Only one agency is fully private (Switzerland – which is yet publicly funded) and two are joint public-private entities (Iceland and Sweden).

Figure 1.2. IPAs' legal status

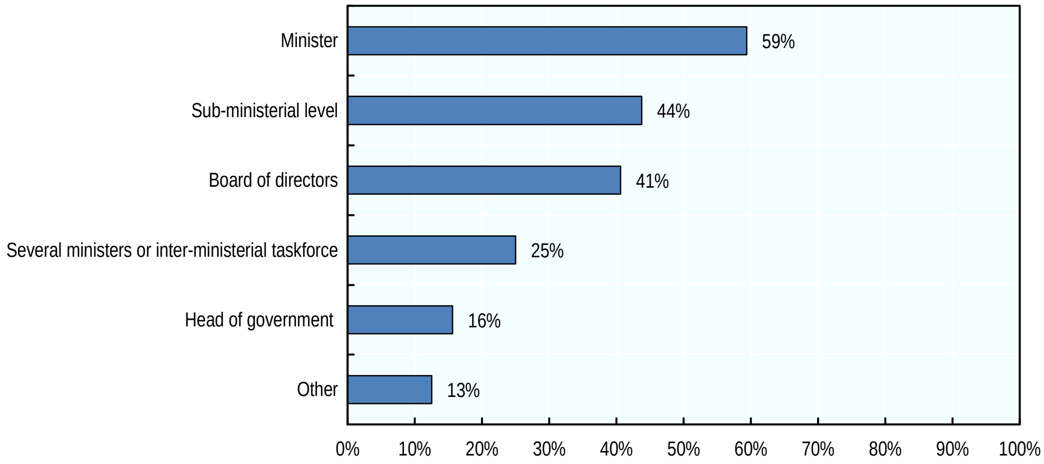


Source: OECD-IDB survey of Investment Promotion Agencies (2017).

IPAs can have different reporting lines, depending on their legal status and broader institutional environment. A majority of IPAs (56%) have multiple reporting lines and the most common ones are the line minister (59% of IPAs), followed by the sub-ministerial level (44%) and the board of directors (41%) (Figure 1.3). Line ministries are often those for trade or the economy, but some IPAs also report to foreign affairs ministries.

An important part of the governance of IPAs is the existence and role of a board. When an IPA is created, a board is sometimes established, which allows for an external entity to supervise or advise the work of the agency, or both. Boards can vary greatly from one organisation to another; they can be of advisory nature or with a high degree of decision-making power. They can be composed of public or private representatives, or both, and sometimes include representatives from research and academia, civil society or other parts of society.

Figure 1.3. IPAs' reporting lines

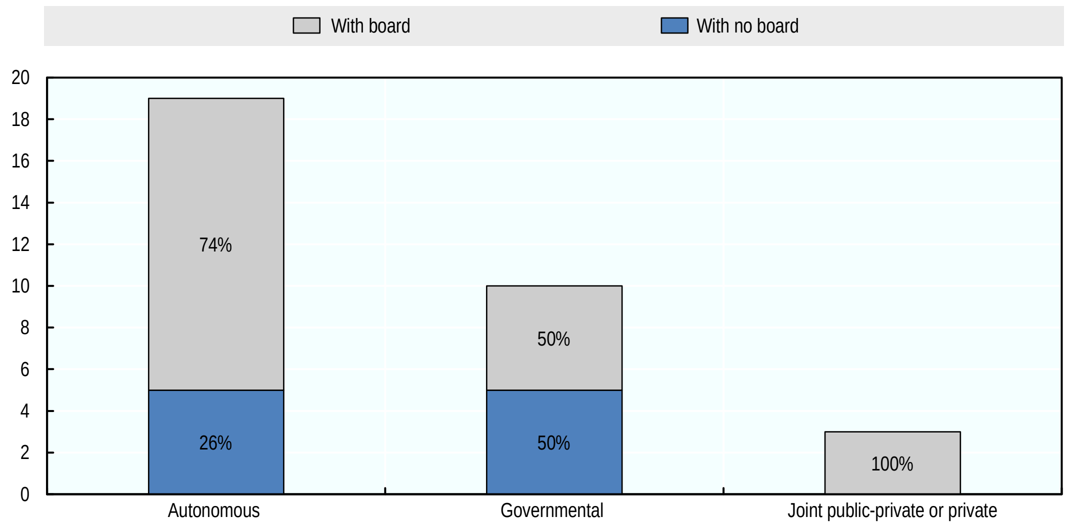


Source: OECD-IDB survey of Investment Promotion Agencies (2017).

In OECD economies, over two thirds of IPAs (69%) have a board, either supervisory or advisory. The discrepancy with the much lower share of IPAs that report to a board of directors (41% – see Figure 1.3) might be explained by the very nature of the board – as some are meant to oversee and approve the work of the IPA while others are only advisory and meant to guide and advise the IPA management.

The legal status of an IPA seems to have an influence on whether it has a board or not and on its nature. Those agencies with a higher degree of legal autonomy tend to be governed by a board. Figure 1.4 shows that all private or joint public-private agencies as well as nearly three quarters of autonomous public agencies do have a board. This is not a systematic trend, however, as half of governmental IPAs also have a board whereas, by definition, they are less autonomous – their boards tend to be of an advisory nature rather than a supervising board of directors to which IPAs have to report.

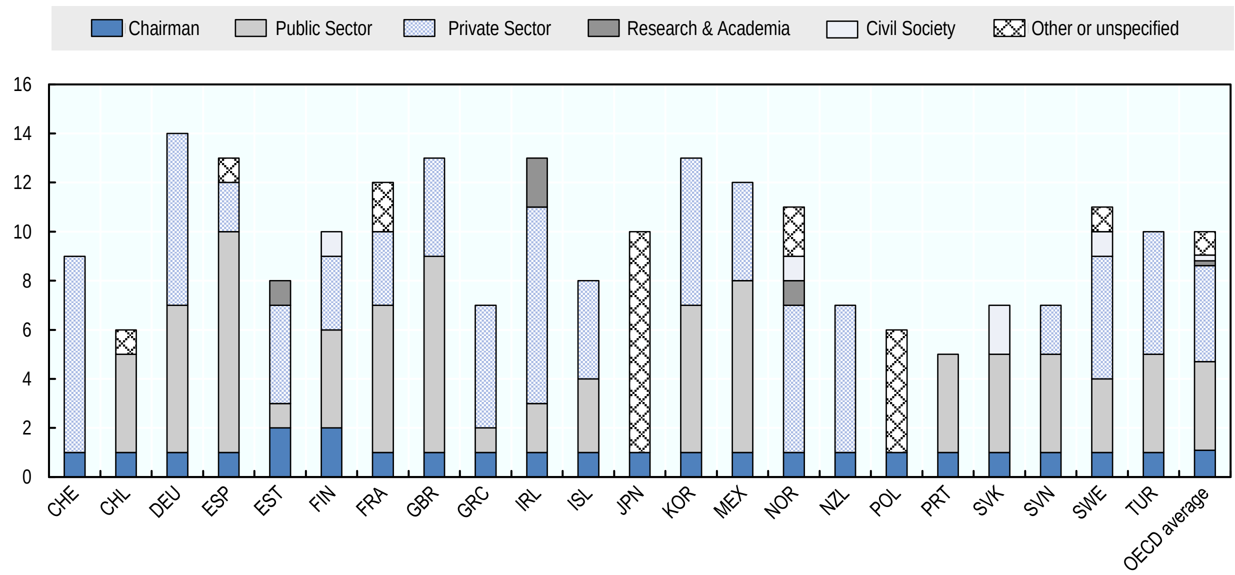
Figure 1.4. Share of IPAs with a board depending on their legal status



Source: OECD-IDB survey of Investment Promotion Agencies (2017).

All boards have a chairperson and are largely dominated by public and private sector representatives. They account, on average, for 37.6% and 40.5% of total board members respectively (excluding the chairman), but their distribution varies greatly from one country to another (Figure 1.5). Chairpersons are most often from the public sector but can also come from the private sector in some cases. Other categories, such as representatives from research and academia and from civil society, account for marginal shares of board members.

Figure 1.5. IPA board compositions



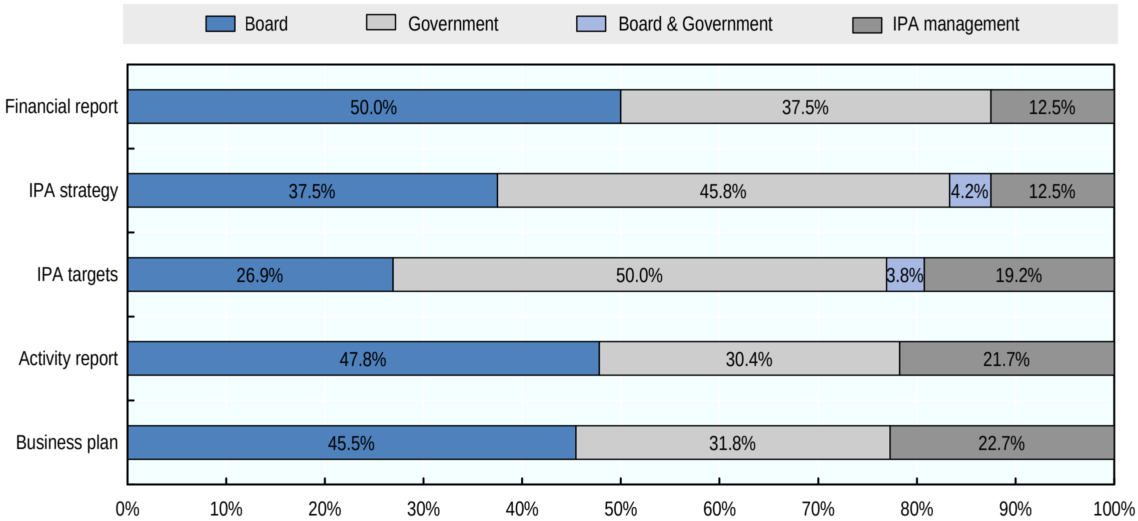
Source: OECD-IDB survey of Investment Promotion Agencies (2017).

The role of the board in managerial decisions also varies from an agency to another. For example, only 27% of IPAs that have a board appoint their Chief Executive Officer (CEO) or general manager, while almost all the remainder have their CEO appointed by the supervising minister. In IPAs with no board, it is also the line minister that, in the vast majority of cases, appoints the CEO. Similarly, an even smaller share (14% of IPAs with a board) appoint or hire their upper managerial staff through the board, while in other cases it is done by the CEO of the IPA or through the line ministry.

A final important aspect of IPA governance is their planning and reporting tools. Figure 1.6 shows that both the board and the government (typically the line ministry) are the main approval authorities of IPA planning and reporting tools. Their roles vary, however, according to the tools in question. Governments most often approve IPA strategy and targets, while boards are, on average, more often in charge of approving financial reports, activity reports and business plans. The IPA upper management has a more prominent role in approving business plans, activity reports and IPA targets.

When taking in consideration only those IPAs with a board, at least half of all planning and reporting documents are approved by the board. The highest shares are for the financial report (over 70%), the business plan (two thirds) and the activity report (about 65%). This demonstrates that IPA boards tend to take an active role in overseeing the use of IPAs' allocated resources and in guiding their strategic orientations.

Figure 1.6. Approval authorities of planning and reporting documents across IPAs



Note: These five planning and reporting tools are all used by the majority of reporting IPAs (at least 84% and up to 97% of them).
Source: OECD-IDB survey of Investment Promotion Agencies (2017).

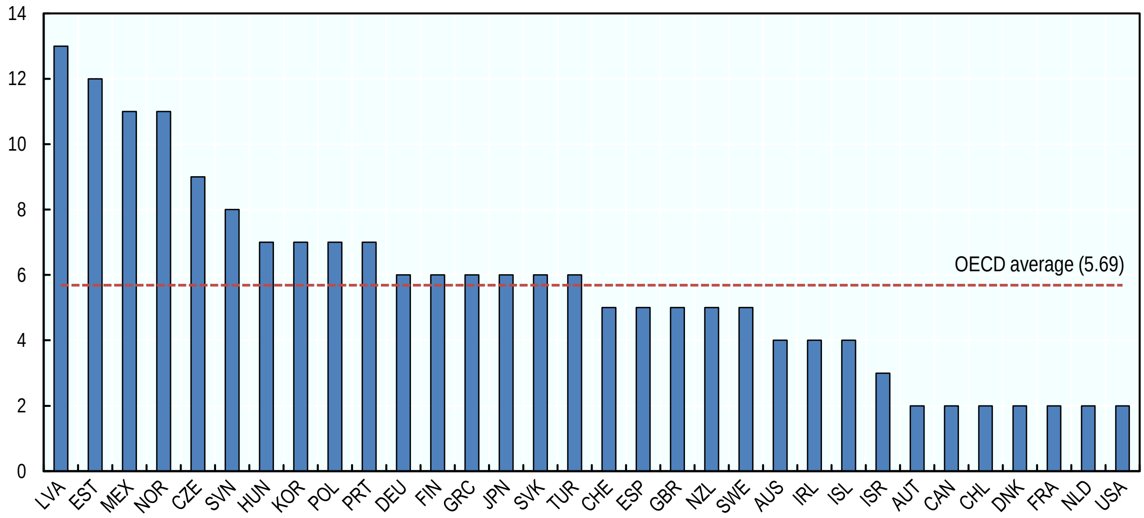
Scope and diversity of IPA mandates

All IPAs have been created with the core mandate to promote and attract inward foreign investment. Institutional environments differ from one country to another, however, and IPAs can thus be either fully dedicated to investment promotion or be part of a broader agency that includes additional mandates.

In the OECD area, large variations exist across the 32 responding IPAs with respect to the number of mandates, but all of them perform at least one other mandate beyond investment promotion (Figure 1.7). They range from 2 to 13 different mandates with an average of 5.7 mandates. Only seven IPAs fulfil only two mandates while four fulfil more than ten, which shows the relatively high integration of sometimes very different mandates into a single institution.

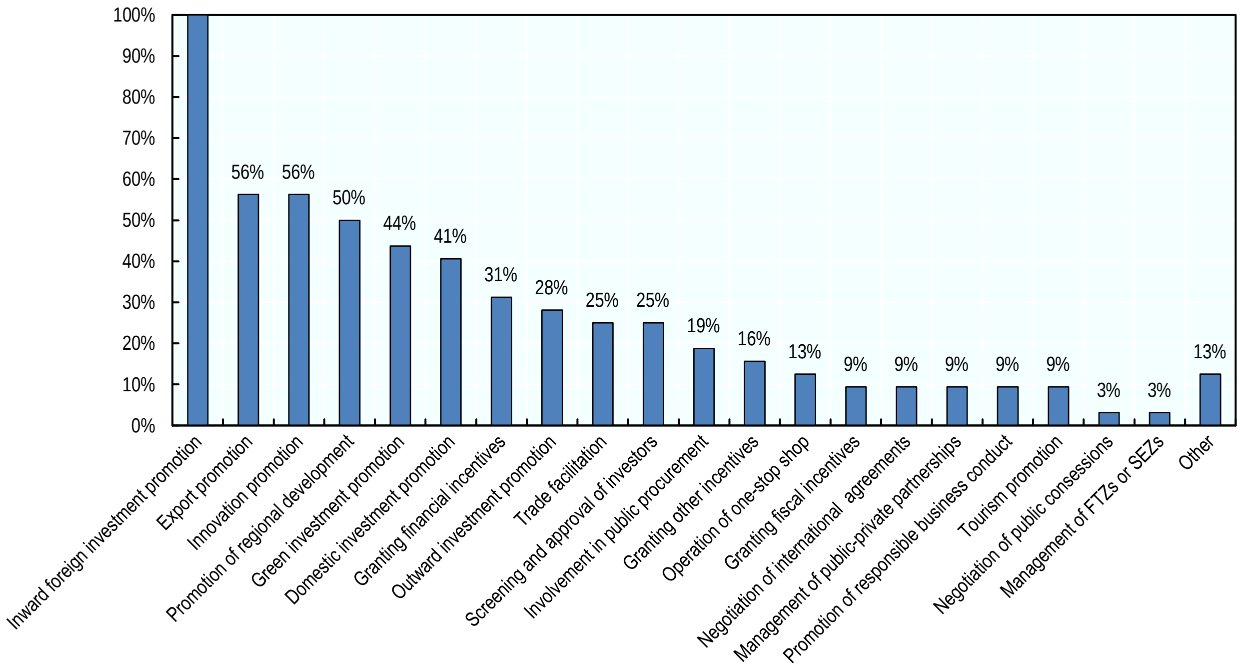
When looking more closely at the types of mandates that IPAs fulfil – beyond inward FDI promotion – the most common combinations are with export promotion and innovation promotion, accounting both for 56% of IPA mandates (Figure 1.8). The combination of trade and investment promotion into a single agency can be motivated by both the need to maximise synergies and the opportunity for economies of scale by grouping qualified foreign trade and foreign investment promotion staff under one roof. This is particularly true for those governments that are seeking to attract export-oriented investors, as similar industries and markets can be targeted. Governments that choose to keep separate agencies deem that the different skillsets and activities necessary to respond to the needs of their respective clients – foreign investors for IPAs and domestic companies for export promotion organisations – are too different to justify an institutional merger.

Figure 1.7. Number of mandates by agency



Source: OECD-IDB survey of Investment Promotion Agencies (2017).

Figure 1.8. Share of IPAs reporting the function as an official mandate



Source: OECD-IDB survey of Investment Promotion Agencies (2017).

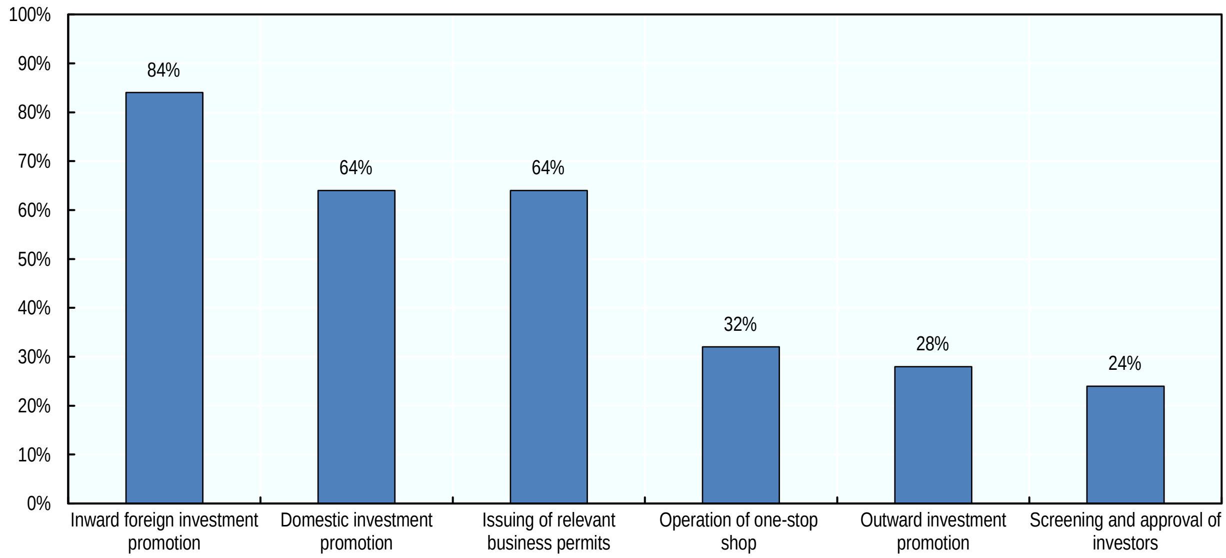
Merging export and inward investment promotion has become an increasingly adopted strategic choice by governments. While countries like Japan, Korea and the United Kingdom have been pioneers in merging their investment and export promotion functions into a single agency in the 1990s, a number of other agencies have followed a similar path in the past ten years. This includes Australia (2008), Switzerland (2008), Germany (2009)

Spain (2012), Sweden (2013), Greece (2014), France (2015), and Poland (2016-17). Only one IPA – Hungary – followed the opposite trend in 2014. Interestingly, the agencies which have merged export and investment promotion in the last decade are all private, public-private or public autonomous agencies, suggesting that this growing trend is mostly prominent across more autonomous forms of agencies as compared to fully governmental IPAs, which often do not include trade promotion. There are notable exceptions to this trend, however, such as IDA Ireland and CzechInvest.

Merging investment and innovation promotion within the same agency follows a rather different rationale, reflected by the fact that only a minority of IPAs (28%) perform, in addition to inward investment promotion, both innovation and export promotion. It can be a judicious choice when IPAs seek to attract high-tech and R&D driven MNEs that can invest in high value-added activities. Location determinants in high-technology industries include the availability of an innovation network, such as high-quality scientific infrastructure, skilled labour, technology clusters and public knowledge centres (OECD, 2011). In this context, merging FDI and innovation promotion can allow for synergies to attract innovation-oriented MNEs. In some cases, the agency in charge of innovation was established beforehand and created a specific investment promotion unit (e.g. Innovation Norway).

The role of IPAs in promoting investments that support economic development in the host country also emerges from the survey findings with half of OECD agencies reporting that they promote regional development and 41% domestic investment. As regards sustainable development objectives, 44% of IPAs include green investment promotion in their mandates (the fourth most reported mandate reflecting the interest to leverage FDI for fostering green growth), while less than 10% include the promotion of responsible business conduct.

Figure 1.9. Share of sub-national IPAs performing the following functions



Source: OECD-IDB survey of Investment Promotion Agencies (2017).

The diversity and scope of IPA mandates at the national level can also depend on the activities of sub-national agencies (Figure 1.9). In most of OECD reporting economies, sub-national IPAs (independent from national IPAs) perform the same core mandate (i.e. inward foreign investment promotion). In close to two thirds of them, they also promote domestic investment and issue business permits. As addressed in Chapter 5, national and sub-national IPAs mostly interact during the investor's establishment phase.

Resources and internal organisation

This second section focuses on some strategic aspects of IPAs' internal organisation, notably: *i*) the level, sources and use of budget, *ii*) their staff's skills and wage level; and *iii*) the organisation of their secondary offices. Adequate financial and human resources are essential success factors of any institution and IPAs are no exceptions. As illustrated by the perceptions' part of the OECD-IDB survey of IPAs, respondents consider that the two greatest challenges faced by their institutions in the mid- to long-term to fulfil their investment promotion and facilitation mandate are respectively inadequate resources and inadequate staff (Table 1.2).

Table 1.2. Challenges perceived by IPAs that can limit the ability of their agency to attract investment in the next 5-10 years

(Ranking from the most to the least important factor)

Ranking	Challenges
1	Inadequate Resources
2	Inadequate Staff
3	Wider Business Climate or Regulatory Framework
4	Inadequacy or Instability of the Mandate
5	Lack of Political Support for the IPA
6	Emergence of New Players in the Market

Note: A section of the OECD-IDB survey questionnaire includes questions on IPAs' perceptions. In this case, the question was the following: "What biggest challenges do you see that can limit the ability of your IPA to attract investment into your country in the next 5-10 years?"
Source: OECD-IDB survey of Investment Promotion Agencies (2017).

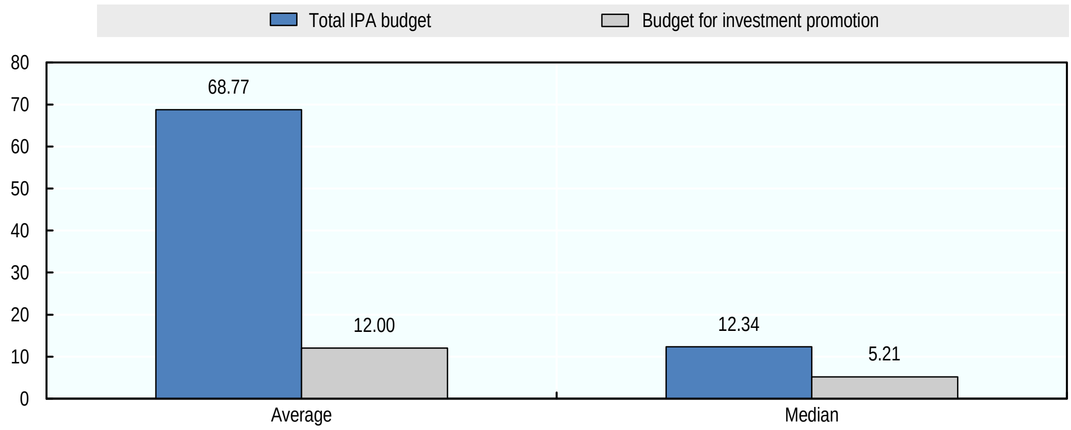
Financial resources: budget size, source and spending

An IPA's financial resources determine the scope of its activities, the quantity and quality of staff, the mechanisms to evaluate success, and other organisational aspects such as the number of overseas and domestic offices. For those agencies that have a high number of mandates, the difference between the total IPA budget and the one dedicated to investment promotion can be quite significant. As presented in Figure 1.10, the average of total IPA budgets (excluding incentives) accounted for USD 69 million in 2016 while the average budget for investment promotion represented USD 12 million – the difference reflecting the relative importance of other mandates.

Large variations exist across IPAs in terms of investment promotion budgets, with the maximum being just below USD 351 million and the minimum around USD 0.26 million – reflecting the disparities in terms of size and income level within the OECD area, but also potentially the varying priority given to investment promotion by their respective governments. As one could expect and as reflected on Figure 1.11, there is a rather clear correlation between the size of the economy and the budget given to the national IPA for investment promotion. Values above and below the trendline reflect IPAs with a respectively greater or smaller budget for investment promotion as compared to the size of their economy. Given the fact that the main source of IPA budgets is public sector budgetary allocation (see below), this could indicate the differences across OECD economies in the priority given by governments to investment promotion.

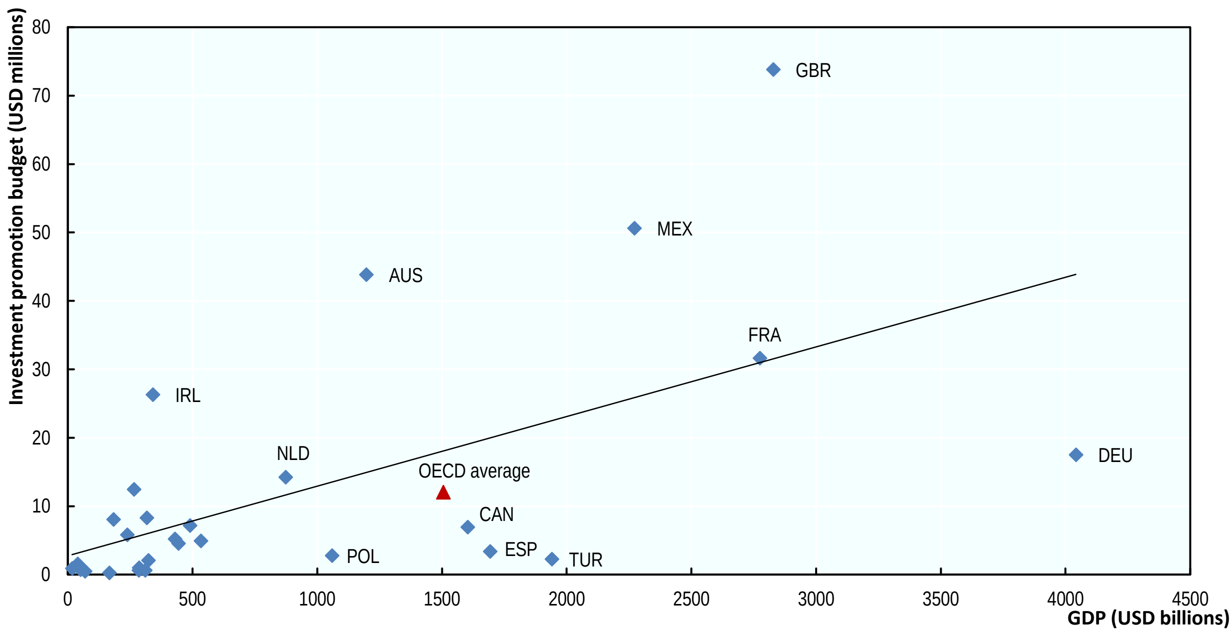
Figure 1.10. Average IPA budgets (excluding incentives), 2016

In USD million



Note: The average investment promotion budget does not include IPAs that only reported total budget.
Source: OECD-IDB survey of Investment Promotion Agencies (2017).

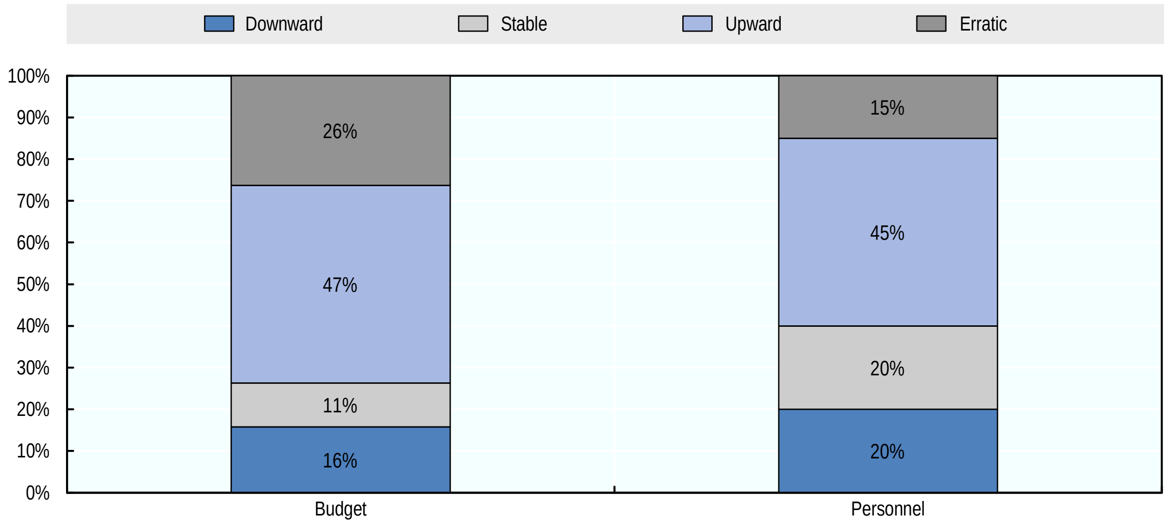
Figure 1.11. IPAs' investment promotion budgets in comparison to the size of their economies, 2016



Notes: This figure does not include IPAs that only reported total budget. It does not show the United States, as it is an outlier in terms of GDP, but the OECD average takes it into account. GDP values are expressed in USD billions, current prices and current purchasing power parities for 2016. GDP for Australia, New Zealand, Poland and Turkey are estimated values and GDP for France, Greece, Mexico, Netherlands, Portugal and Spain are provisional values.
Source: Authors based on OECD-IDB survey of Investment Promotion Agencies (2017) and OECD, Gross domestic product (GDP) (indicator).

IPA investment promotion budgets are subject to changing economic and political contexts and total budget sizes have evolved over the past years accordingly. The outlook remains overall positive, as only 16% of IPA respondents across the OECD area have seen their investment promotion budget reduced during the past five years while almost half of them have benefitted from a budget increase during the same period (Figure 1.12). The same goes for personnel, but to a lesser degree. While variations of personnel have been stable or increasing in a majority of cases – 20% and 45% respectively – over a third of IPAs have experienced either downward or erratic variations, which is not insignificant. Organisational reforms involving new mandates would have little impact on these figures as only investment promotion budgets and staff are considered here.

Figure 1.12. Evolution of IPA budget and personnel over the past five years



Note: These results are based on a smaller sample (N=20).
Source: OECD-IDB survey of Investment Promotion Agencies (2017).

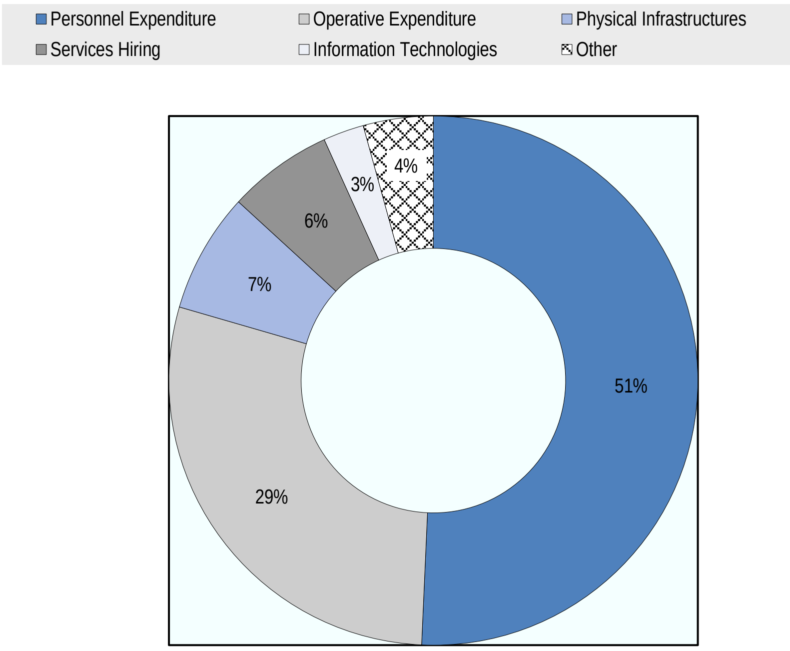
Governments provide the vast majority of total IPA budgets, with close to 90% of IPA budget sources on average being public sector budgetary allocations. Interest or other income from the agency’s own assets are just below 4%, private sector contributions (other than fees for services to firms) represent less than 3% and fees for services to firms account for 2.2% on average.

There are high discrepancies across agencies, however, as a few have adopted a more systematic approach to using fees from services to firms to finance their operations. Business France, for example, leads the way with approximately 44% of its budget financed by private sector contributions in 2016, but those exclusively concern export-related services. A majority (64% of respondents) are fully financed by public sector budgetary allocations. A number of agencies (Greece, Iceland, Korea, Poland, Portugal and Slovenia) also receive private sector contributions other than fees for specific services, which is justified by the fact that the IPA’s overall action has a bearing on businesses but it is also a good way to engage them in the IPA’s strategic thinking.

When looking at investment promotion only, public sector budgetary allocation is an even bigger share of total budget sources, with 98% of all reporting IPAs. This suggests that firms are mostly providing fees for services outside the scope of their inward foreign investment promotion activities, particularly for export promotion activities.

In terms of expenditures, over half of IPA expenditures in investment promotion on average are dedicated to personnel expenditures while operative expenditures account for 29% on average (Figure 1.13).

Figure 1.13. Average break-down of IPA investment promotion budget



Source: OECD-IDB survey of Investment Promotion Agencies (2017).

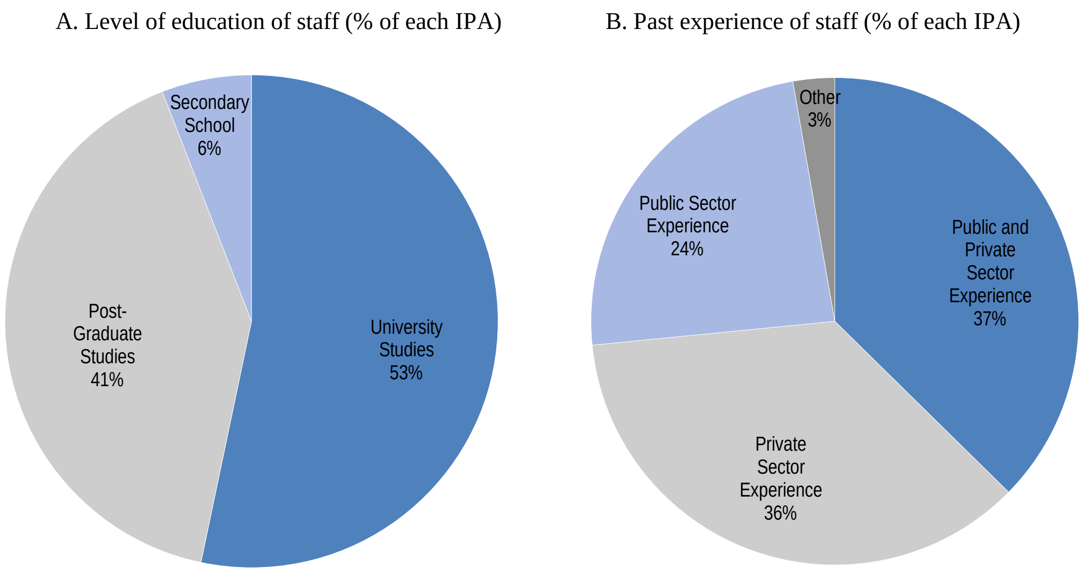
Human resources: skills and wages

Human resources are the most important asset of an IPA. As described above, they represent the highest share of OECD IPAs' budget expenditures and their quality and motivation are a prerequisite to the success of any IPA. Attracting adequately skilled staff will highly influence the ability of the IPA to attract investments in line with its targeted objectives. Quality skills are first and foremost determined by the combination of the level of education and previous experience of staff.

In OECD economies, most staff has a high level of education and both public and private sector experience. On average, over half of IPA employees have a university degree and an additional 40% have completed post-graduate studies. Close to three quarters have experience in the private sector – either exclusively or combined with public sector experience – while less than 24% have only public sector experience (Figure 1.14).

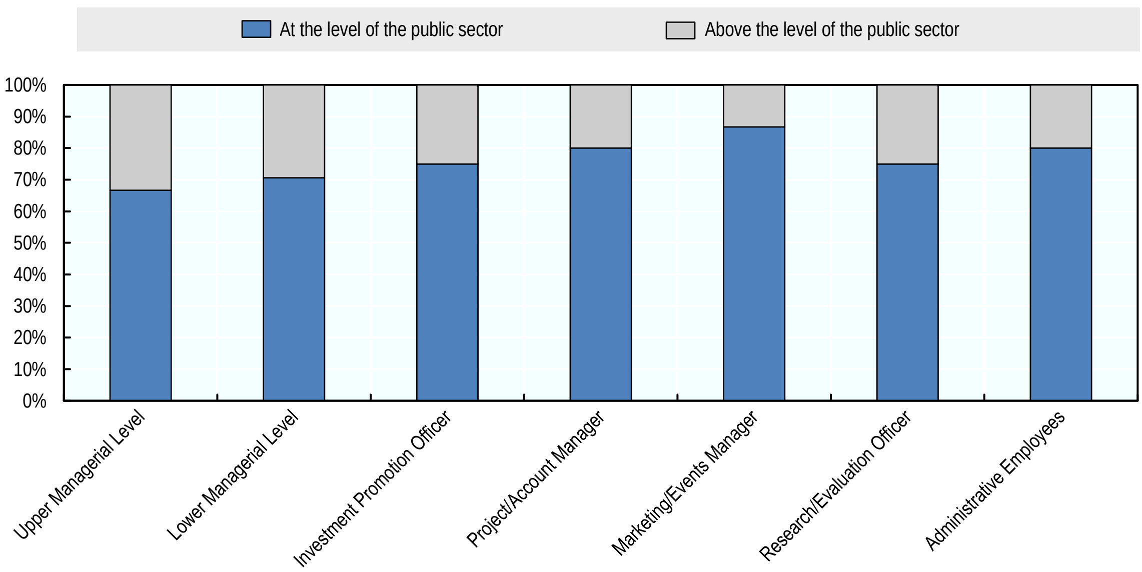
Attracting skilled human resources also depends on the level of wages provided by IPAs. While some agencies align their salaries on the civil servants' pay scale, others pay higher wages to attract employees with private sector experience. Figure 1.15 shows that it is mostly at the higher level of hierarchy (upper and lower managerial level) that wages are more often above the level of the public sector – in 33% and 29% of IPAs respectively. Conversely, marketing/events manager and project/account managers are better paid than in the public sector in 15% and 25% of responding agencies respectively. As one could expect, the majority of IPAs (83%) that provide most (or all) of their annual wages above the level of the public sector are autonomous public agencies, which reflects their higher degree of management flexibility vis-à-vis governmental IPAs.

Figure 1.14. Education and experience of IPA staff



Note: These results are based on a smaller sample (N=20 for Figure 1.14.A and N=19 for Figure 1.14.B).
Source: OECD-IDB survey of Investment Promotion Agencies (2017).

Figure 1.15. Level of average annual wage as compared to the public sector



Note: These results are based on a smaller sample (N=18).
Source: OECD-IDB survey of Investment Promotion Agencies (2017).

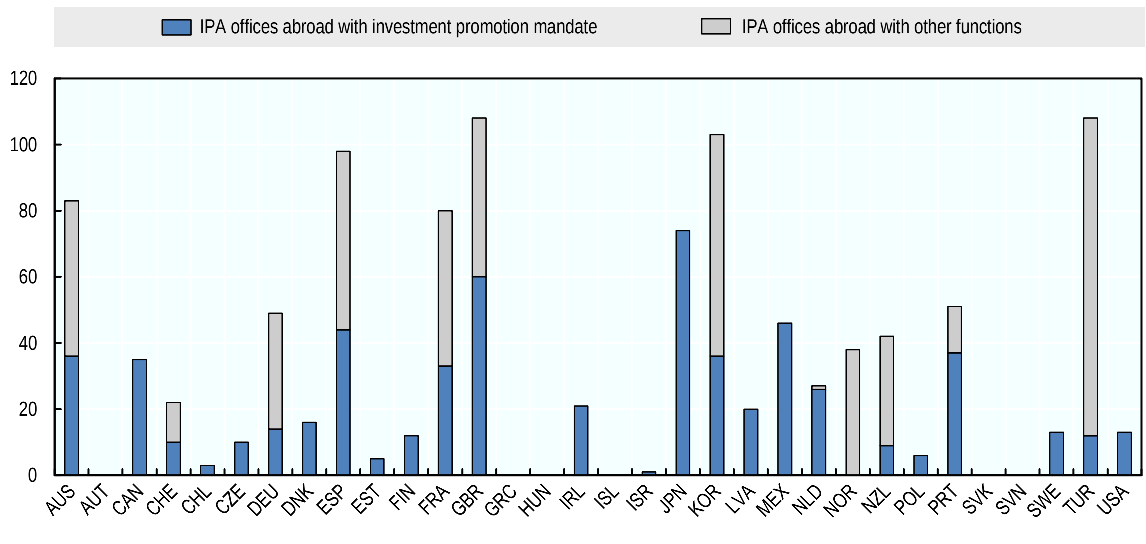
Network of secondary offices

A final important element of the internal organisations of IPAs is the network of offices, both within the country and abroad. Depending on the IPA's financial and human resources as well as its strategic orientations, different options are available as regards the number of secondary offices to establish and how to best strike a balance between headquarter vs. local presence and headquarters vs. overseas presence. While the way offices are structured and organised, both internally and overseas, is primarily a matter of institutional co-ordination and is addressed in Chapter 5, some interesting trends emerge on how IPAs structure their network of offices in the OECD area.

Close to half of reporting IPAs (47%) have no other offices within the country while just over 15% have more than 10 sub-national offices (Czech Republic, Japan, Latvia, Mexico and Spain). IPAs that do not have their own sub-national offices also often rely on local governments and institutions.

As regards overseas offices, 75% of OECD IPAs have their own offices abroad, meaning that they have personnel abroad, dedicated to investment promotion, on their payroll. The average OECD IPA has 34 offices abroad, a little more than half of which (19) conduct inward foreign investment promotion. There is an important dispersion across economies, however: the number of offices ranges from 1 (Israel) to 74 (Japan) while 40% of offices are defined as "regional hubs"[8]. While seven agencies (less than a quarter of all reporting IPAs) do not have an investment promotion office abroad, only two agencies – Japan and the United Kingdom – have over 50 offices abroad with an investment promotion mandate (Figure 1.16). As several IPAs are part of broader agencies covering other mandates, their overseas offices can respond to different needs and perform different functions (e.g. trade, investment and tourism promotion). As such, six additional agencies have over 50 overseas offices abroad but with different mandates than investment promotion.

Figure 1.16. Number of IPA offices abroad

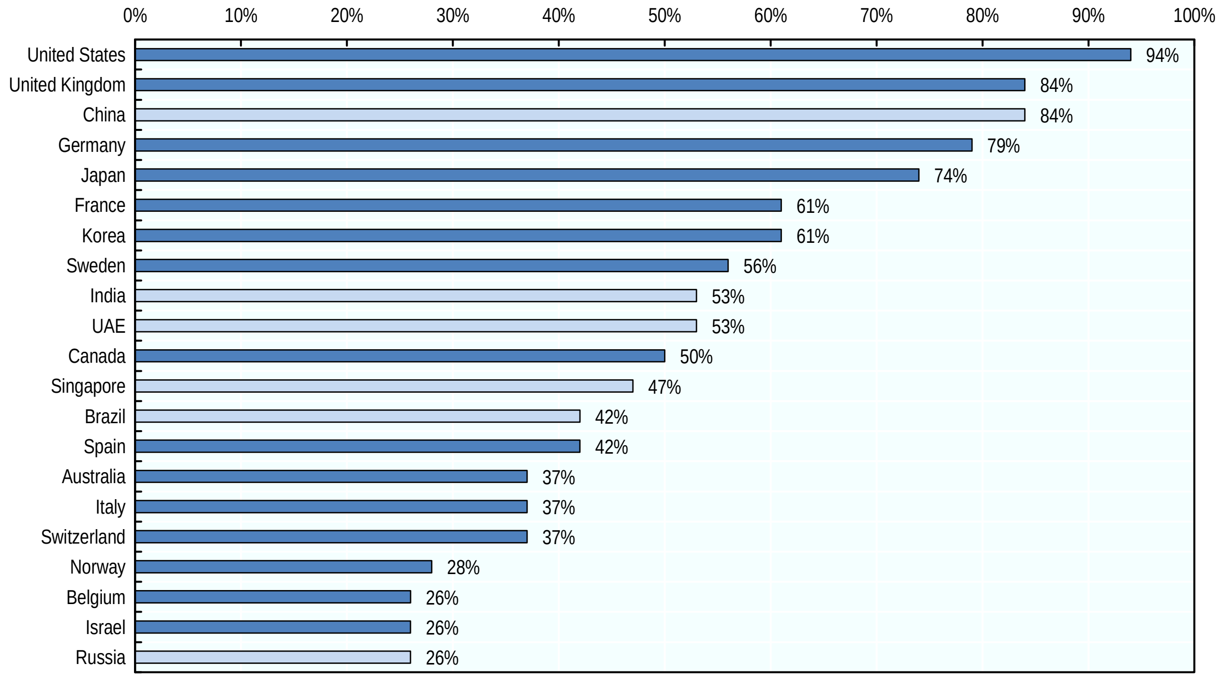


Source: OECD-IDB survey of Investment Promotion Agencies (2017).

There are some clear trends as to the geographic distribution of overseas offices with an investment promotion mandate. Most of them are located in other OECD countries, with most respondents having at least an investment promotion office in the United States (94%

of all IPA respondents), followed by the United Kingdom (84%), Germany (79%) and Japan (74%). France, Korea, Sweden and Canada are also popular locations to place an IPA office (Figure 1.17). Among non-OECD countries, China leads the way with 84% of respondents having at least one office located in one of its major cities. Other non-OECD countries with a high OECD IPA presence include large emerging markets such as India (53% of respondents) and Brazil (42%), but also the United Arab Emirates (53%).

Figure 1.17. Geographic distribution of IPA offices abroad



Note: These results are based on a smaller sample (N = 19).
Source: OECD-IDB survey of Investment Promotion Agencies (2017).

Large countries, such as the United States and China attract, in most cases, several IPA offices with an investment promotion mandate. For example, the Irish agency has located close to 60% of its overseas offices in three countries, respectively the United States (7 offices out of 21) China (3) and India (2) while the Dutch agency has located over three quarters of them in Asia, which in both cases reflects the IPA's market prioritisation strategy (see Chapter 3 on prioritisation strategies). Conversely, the Australian, Canadian, French, Portuguese and Swedish agencies, among others, have much more balanced geographic distributions of their overseas investment promotion offices around the world.

Summary

This summary attempts to use the information gathered in this chapter to reflect OECD IPA's organisational structures and characteristics in a simple typology. In Table 1.3, agencies are categorised according to: *i*) their size; *ii*) the extent to which they are specialised in a limited number of functions; and *iii*) their degree of autonomy vis-à-vis the government. While the table rows make the distinction between highly autonomous IPAs (i.e. joint public-private and private agencies), moderately autonomous IPAs (i.e. autonomous public agencies) and non-autonomous IPAs (i.e. governmental), the columns categorise the agencies according to their total number of staff and of mandates, as follows:

- Large Specialist: agency with over 135 total staff and a maximum of five mandates;[9]
- Large Generalist: agency with over 135 total staff and over five mandates;
- Small Specialist: agency with no more than 135 total staff and a maximum of five mandates; and
- Small Generalist: agency with no more than 135 total staff and over 5 mandates.

Table 1.3. Typology of OECD IPAs in terms of size, specialisation and autonomy

	Large Specialist	Large Generalist	Small Specialist	Small Generalist
Highly autonomous IPA	Sweden		Iceland Switzerland	
Moderately autonomous IPA	Australia Spain France Ireland	Czech Republic Estonia Finland Germany Latvia Norway Portugal Turkey	Austria Chile New Zealand	Greece Hungary Poland Slovenia
Non autonomous IPA	United Kingdom	Japan Korea Mexico	Canada Denmark Israel Netherlands United States	Slovak Republic

Source: Authors based on OECD-IDB survey of Investment Promotion Agencies (2017).

Annex 1.A. Snapshot of IPAs' main institutional characteristics

Annex Table 1.A.1. Snapshot of IPAs' main institutional characteristics

Country	Legal status	Board	Number of mandates	Staff		Number of investment promotion offices abroad
				Total agency staff	*Investment promotion staff*	
AUS	Autonomous Public Agency	No	4	1056	132	36
AUT	Autonomous Public Agency	No	2	23	23	0
CAN	Governmental	No	2	66	66	35
CHE	Private	Yes	5	104	5	10
CHL	Autonomous Public Agency	Yes	2	50	50	3
CZE	Autonomous Public Agency	Yes	9	147	93	10
DEU	Autonomous Public Agency	Yes	6	360	65	14
DNK	Governmental	No	2	50	50	16
ESP	Autonomous Public Agency	Yes	5	614	30	44
EST	Autonomous Public Agency	Yes	12	300	50	5
FIN	Autonomous Public Agency	Yes	6	299	40	12
FRA	Autonomous Public Agency	Yes	2	1480	150	33
GBR	Governmental	Yes	5	2315	420	60
GRC	Autonomous Public Agency	Yes	6	62	33	0
HUN	Autonomous Public Agency	No	7	129	84	0
IRL	Autonomous Public Agency	Yes	4	307	307	21
ISL	Joint Public-Private Agency	Yes	4	4	4	0
ISR	Governmental	No	3	25	25	1
JPN	Governmental	Yes	6	1773	n/a	74
KOR	Governmental	Yes	7	1043	n/a	36
LVA	Autonomous Public Agency	No	13	235	12	20
MEX	Governmental	Yes	11	576	288	46
NLD	Governmental	No	2	100	100	26
NOR	Autonomous Public Agency	No	11	689	3	0
NZL	Autonomous Public Agency	Yes	5	41	34	9
POL	Autonomous Public Agency	Yes	7	104	43	6
PRT	Autonomous Public Agency	Yes	7	447	23	37
SVK	Governmental	Yes	6	60	14	0
SVN	Autonomous Public Agency	Yes	8	47	5	0
SWE	Joint Public-Private Agency	Yes	5	474	32	13
TUR	Autonomous Public Agency	Yes	6	141	60	12
USA	Governmental	No	2	40	40	13

Note: The number of investment promotion staff for the Japanese and Korean agencies can hardly be dissociated from other staff according to the reporting agencies.
Source: OECD-IDB survey of Investment Promotion Agencies (2017).

Chapter 2. Functions and activities

To promote countries as attractive investment destinations, IPAs can carry out a large variety of marketing and servicing activities that are traditionally categorised into four core functions, following a first classification by Wells and Wint (2000): image building, investment generation, investment facilitation and retention, and policy advocacy. These activities range from e-marketing and investor targeting to administrative support and dedicated processes to enable the dialogue between investors and the government, either to solve problems or to influence policies. A wide range of skills can thus be necessary for IPAs to properly fulfil their mandate.

Each core function has a specific objective (Table 2.1). Image building activities aim at raising potential investors' awareness of the host country's strengths and branding it as an attractive investment destination. Investment generation involves directly reaching out to potential investors to generate leads and investment projects in the host economy. Investment facilitation and retention consist of services designed to accompany the investor in its project definition and during its establishment phase, provide additional assistance once the project is implemented and encourage expansions and reinvestments through aftercare. Policy advocacy can be qualified as a "horizontal" function as its purpose is to contribute to the creation and enhancement of an enabling national investment policy framework by using the feedback of investors.

Table 2.1. IPAs' four core functions

	Image building	Investment generation	Investment facilitation and retention	Policy advocacy
Main objective	Create awareness and generate positive feelings about a country as investment destination	Reach out to foreign investors and convince them to locate their investment in the host country	Facilitate the implementation of investment projects, maximise their economic benefits and generate follow-up investments	Monitor foreign investors' perception of the host country's investment climate and propose changes to improve the investment policy
Examples of activities	• Marketing plans • Media campaigns • Website • Brochures • General communications and public relations (PR) events	• Meetings with foreign investors • Reaching-out campaigns • Targeted communication and PR events (sector-specific or investor-specific)	• Provision of information • Site visits • Administrative support (including one-stop-shop services) • MNE-SME linkage programmes	• Global rankings • Surveys of foreign investors and industry associations • Policy impact assessment • Meetings with the government

This chapter analyses the specific activities that the 32 surveyed OECD IPAs carry out within the four core functions: it identifies the most frequent activities across IPAs and provides insights on their diverse choices in terms of resource allocation and strategic focus. The exact definitions and scope of IPA's four core functions can slightly vary from one organisation to another and are described in Annex 2.A.

This chapter shows that the average trend among OECD IPAs is to allocate the majority of their resources to investment generation and investment facilitation and retention. It also finds that while a large majority of OECD IPAs carry out all or most image building and investment generation activities, there are wide differences with regards to investment facilitation and retention and policy advocacy activity portfolios.

After first describing OECD IPAs' resource allocation patterns across the four core functions of investment promotion, the chapter looks at the activities performed within each of these functions. It then suggests an IPA classification into four strategic profiles according to their resource allocation patterns. *Image builders* tend to allocate more resources to image building and notably conduct more TV and print campaigns. *Generators* allocate more resources to investment generation and focus less on image building than the average. *Facilitators* are IPAs with large budgets that have a wide activity portfolio in the investment facilitation and retention core function while still carrying out many activities in the other three functions. *Balanced* IPAs pursue a similar strategy to *Facilitators* but with fewer resources, thus providing more facilitation and retention services while making activity trade-offs in each core function.

IPAs' resource allocation across the four core functions of investment promotion

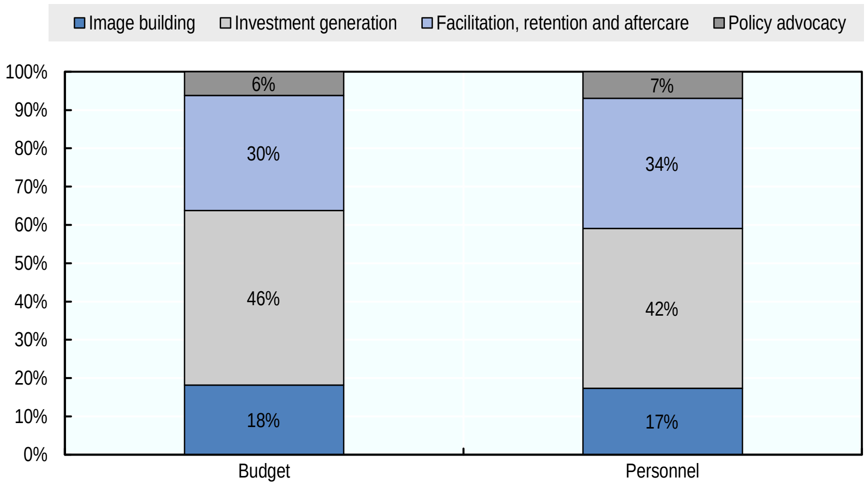
The way IPAs allocate their resources across the four core functions differs from one agency to another, and is driven by different factors. First, some functions can be more costly than others, as they are more personnel-intensive, for example. This is the case for investment generation and investment facilitation. Second, IPAs' objectives vary from one agency to another and some of them face lower expectations to deliver facilitation and retention activities than others. Lastly, IPAs' resource limitation in terms of budget and staff can have an impact on the way they choose to prioritise some activities over others to fulfil their mission.

The average OECD IPA dedicates the bulk of its financial resources to investment generation activities (46%), followed by investment facilitation and retention (30%), image building (18%), and at last policy advocacy (6%), as shown in Figure 2.1.[10] This average resource allocation pattern across IPAs' four core functions is relatively similar when human resources are considered. This result offers a slightly different picture than that of other research: in their 2004 study, Morisset and Andrews-Johnson found that on average IPAs spent a lower share of resources on investment generation (33%) and a higher share on image building (27%), which can be at least partially explained by the different IPA sample compositions.[11]

These averages hide differences across IPAs that cannot be explained solely by the total budget size. Some IPAs spend more resources on one particular core function over others, while others follow a more balanced approach. There is no direct correlation between budget size and the allocation of resources to a single function, however: the average trend demonstrates that an increase in the total budget will likely be spread across the different functions rather than allocated to a specific function. The correlation analysis shows weak positive correlations between an overall budget increase and a budget increase in investment facilitation (0.25) and a budget increase in investment generation (0.13) (Annex 2.B).

Figure 2.1. OECD IPAs' budget and personnel allocation across core functions

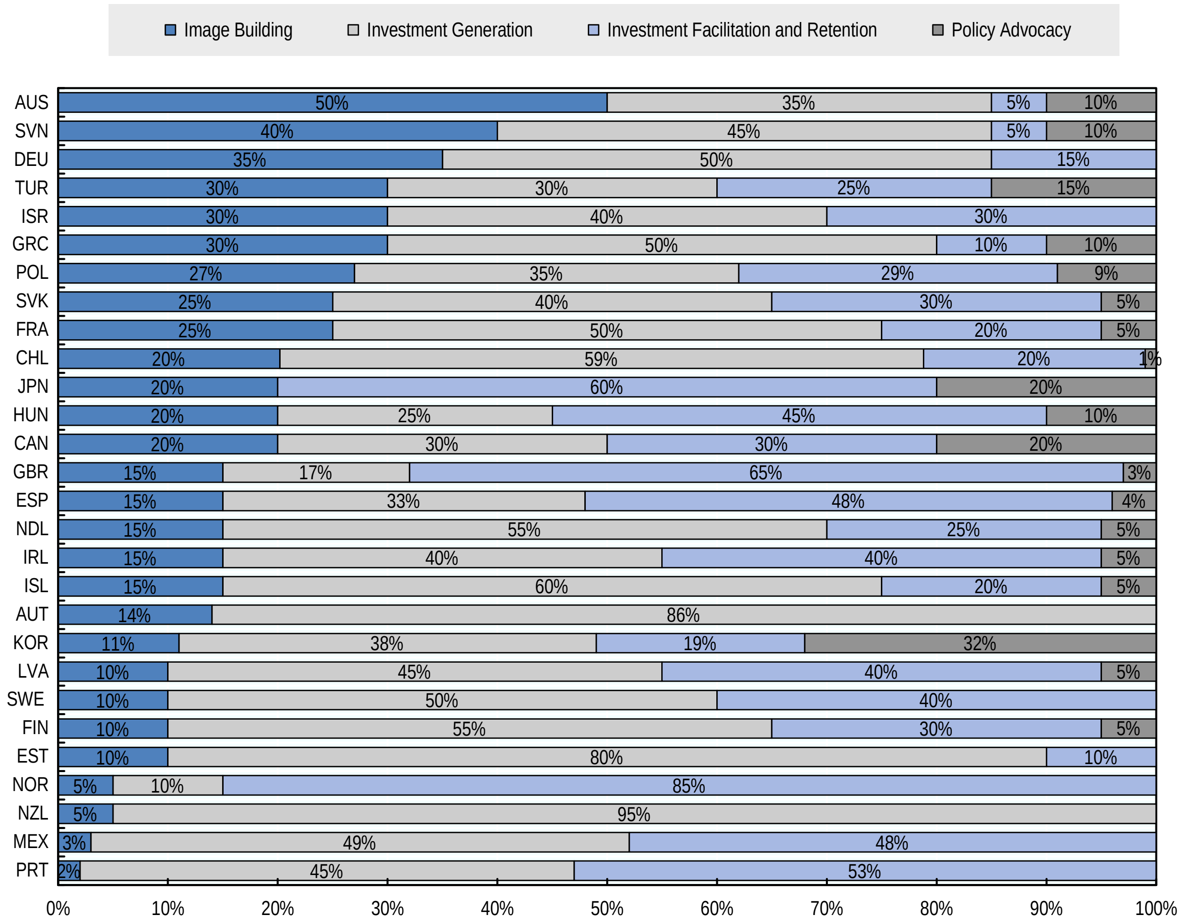
Average of 32 OECD IPAs, based on 2016 figures



Source: OECD-IDB Survey of Investment Promotion Agencies (2017).

Figure 2.2. Resource allocation across the four core functions, by country

In % of budget, 2016



Source: OECD-IDB Survey of Investment Promotion Agencies (2017).

Rather than budget size, the resource allocation pattern of an IPA seems to be tied to its mission statement and strategy, as illustrated by the resource allocation patterns by country (Figure 2.2.) For example, Germany Trade and Invest's primary goal as an IPA is to promote Germany as an attractive destination for investment and thus focuses its resources on image building and investment generation. Conversely, Japan's agency JETRO has been strengthening its approach to foster reinvestment among existing MNEs located in Japan and to provide support to projects with a strong R&D component, as part of a wider national policy. As a result, JETRO is one of the agencies with the highest shares of resources dedicated to investment facilitation and retention.

IPAs' activities within core functions

As explained in the introduction of this chapter, each core function entails a number of specific activities that jointly aim at fulfilling one of the four main objectives of an IPA: build the image of the host country as an attractive investment destination, attract investment projects, facilitate projects' implementation and re-investments, and advocate for investment-friendly policy reforms.

Regardless of their mission definition and resource focus, all IPAs perform at least one activity in each core function. A number of activities can qualify as core IPA activities as they are performed by 90% of IPAs or more, including having a website, organising site visits and tracking available rankings that can help monitor a country's investment climate and attractiveness (Table 2.2).

Two core functions stand out as being those with the most activities carried out by IPAs: almost all the image building and investment generation activities listed in the survey are performed by more than 80% of OECD IPAs. Conversely, there are wide disparities across investment facilitation and retention, and policy advocacy activities (see variation coefficients in Annex Table 2.B.1).

Image building activities

Image building, although representing only 18% of the average OECD IPA's total budget and 17% of its total staff, appears as a key area for a large majority of IPAs. Out of nine activities, seven are performed by at least 80% of agencies, including five that are carried out by 90% or more.

All IPAs in the OECD market their countries through websites and publish promotional materials such as brochures and investment guides (Figure 2.3). These two activities can thus be considered as the fundamentals of image building. Having a website is a cost-efficient way to offer centralised, available, up-to-date and key information for a large audience of potential foreign investors. The absence of a website could potentially send the wrong signal to investors about the investment climate on the ground. Investment guides and brochures are a more traditional marketing tool. They provide the advantage to be more tailored in terms of audience and contents and to remain cost-effective compared to TV and print advertising. IPAs often publish their brochures and investment guides on their websites.

Over 90% of IPAs organise or participate in public relations (PR) events abroad, i.e. general business fora, roadshows and fairs, and high-level missions involving their Prime Minister or President. A smaller share of IPAs, although still a majority of them (81%), organises or participates in domestic PR events. Media advertising such as TV, print or radio is less frequent among OECD IPAs (61% for both international and domestic media), probably because they are very costly activities and possibly because they are less targeted marketing tools for IPAs.

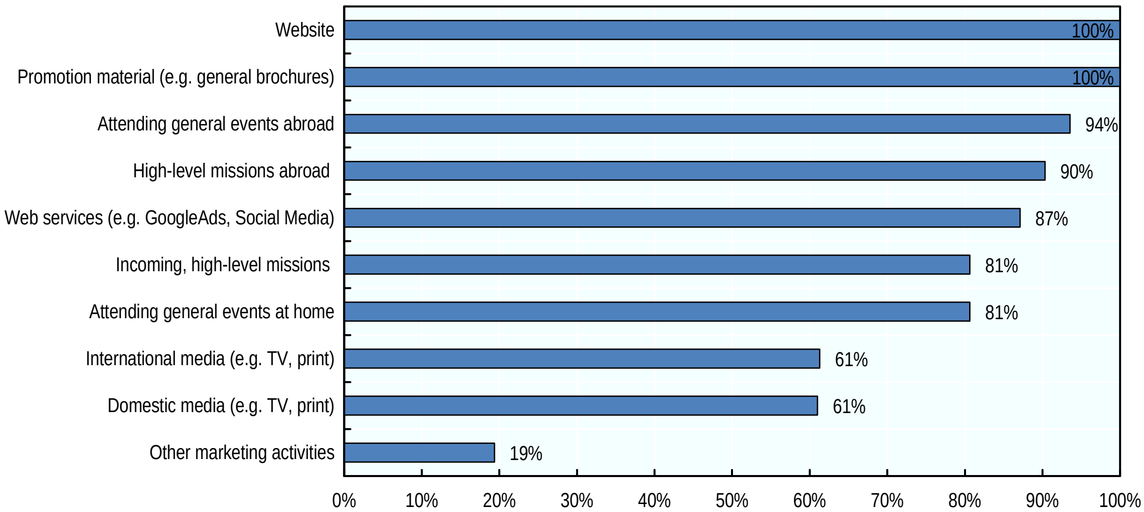
Table 2.2. Shares of IPAs that perform activities in each core function

	Performed by more than 80% of IPAs	Performed by 51% to 80% of IPAs	Performed by 25% to 50% of IPAs	Performed by less than 25% of IPAs
Image building (variation coefficient: 17%)	• **Website** • Web services • **Promotion materials** (e.g. brochures, investment guides) • **Attending general events* abroad** and at home • **Organising abroad** / hosting **high-level** general missions**	• International media • Domestic media		• Other marketing activities
Investment generation (variation coefficient: 4%)	• **Raw data analysis** • **Market studies** • **Handling inquiries / requests** • Holding pro-active campaigns • **Organising abroad** / hosting **sector- or investor-specific missions** • **Initiation one-to-one meetings with investors** • **Attending sector-specific events* abroad and at home**			
Investment facilitation and retention (variation coefficient: 35%)	• **Organising site visits** • **Organising and attending working meetings** (e.g. with Officials and/or potential suppliers) • **Providing information on local suppliers / clients** • Assistance with administrative procedures • Undertaking structured trouble-shooting with individual investors	• Airport pickups • Assistance in obtaining financing • Database of local suppliers • Matchmaking between investors and local firms	• Mitigation of conflicts (e.g. between investors and authorities) • Ombudsman • Cluster programmes • Capacity-building support for local firms • Assistance in recruiting local staff • Assistance with other business matters	• Training or educational programmes for local staff
Policy advocacy (variation coefficient: 34%)	• **Tracking of available rankings** (e.g. WEF) • **Meetings with the private sector or with associations** • **Meetings with the Prime Minister / President or other agencies** • **Participation in an intergovernmental taskforce / council on investment climate reform** • **Participation in periodic meetings with the private sector** • Production of reports or position papers • Consultations with foreign offices / Embassies / Consulates abroad	• Public awareness campaigns or events • Surveys of foreign investors	• Inputs on Regulatory Impact Assessment • Surveys of domestic firms investing at home / abroad	• Surveys of expats (including national employees of Multinational Enterprises)

Notes: Activities in bold are considered as “core” activities, i.e. activities performed by 90% of IPAs or more.
Source: OECD-IDB Survey of Investment Promotion Agencies (2017).

Figure 2.3. Shares of OECD IPAs performing image building activities

% of surveyed IPAs



Source: OECD-IDB Survey of Investment Promotion Agencies (2017).

Investment generation activities

Investment generation appears to be at the heart of investment promotion: all the activities falling under this function are carried out by 87% or more of OECD IPAs (Figure 2.4). As the mission to locate investment projects in the host country is in the core mandate of national IPAs, it can hardly be outsourced to other organisations. Image building and investment facilitation and retention can be devolved to other organisations. The image building function can be part of another organisation’s wider mandate to elaborate and execute a branding strategy, targeting not only foreign investors but also international workforce, tourists the diaspora and the general public. Investment facilitation can be de-centralised at sub-national level, shared across several administrative bodies, or just limited to a minimum level, especially if the process to establish a business has been streamlined.

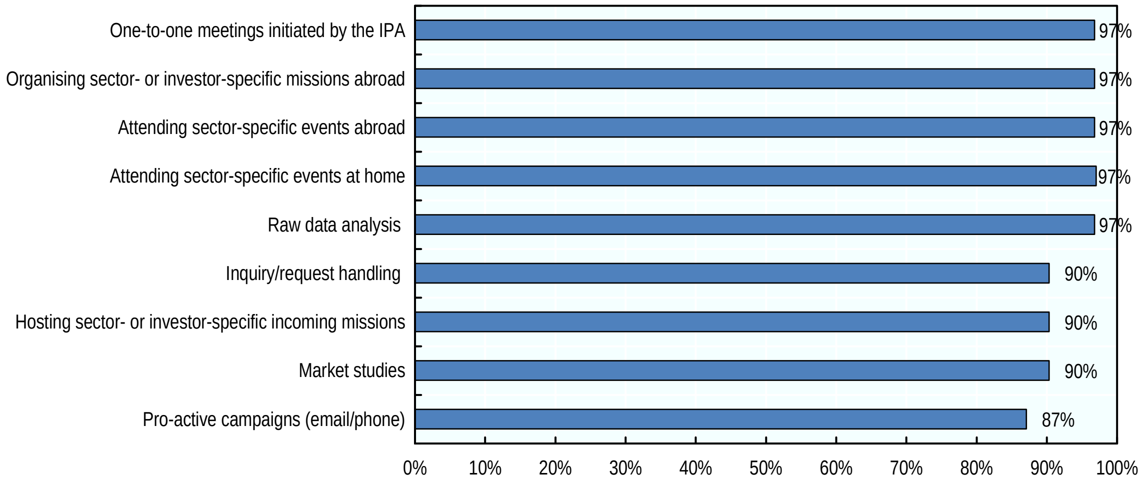
All the investment generation activities listed in the survey are widely carried out by OECD IPAs: intelligence gathering, sector-specific event organisation and attendance and direct contact with investors. Almost all (97%) OECD IPAs initiate one-to-one meetings, organise or participate in sector- or investor-specific high-level missions abroad, organise or attend sector-specific events abroad such as road-shows, business fora and fairs, and perform raw data analysis (e.g. analysis of press articles, proprietary data and company data).

Overall, 90% of responding IPAs handle enquiries and requests from foreign investors, meaning that 10% of IPAs surprisingly do not report doing so. Similarly, while almost all IPAs initiate one-to-one meetings with foreign investors, only 87% undertake pro-active emailing or phone campaigns.

All OECD IPAs elaborate prioritisation strategies in line with national development objectives to target specific sectors and activities, based on which they pursue their investment generation activities. This aspect of the investment generation function is explored in Chapter 3 of this report.

Figure 2.4. Shares of OECD IPAs performing investment generation activities

In % of surveyed IPAs



Source: OECD-IDB Survey of Investment Promotion Agencies (2017).

Investment facilitation and retention activities

Investment facilitation and retention, together with policy advocacy, is the most heterogeneous of the four core functions across OECD IPAs, as there are wide disparities from one national agency to another in the different activities covered under this function. This can often be explained by the fact that in some countries, such as France, facilitation and aftercare services are provided by local autonomous agencies such as local regional development agencies. In these cases, national IPAs and local agencies in charge of facilitation functions usually co-operate to ensure an end-to-end service to foreign investors (see Chapter 5). Thus, the fact that a national IPA does not provide facilitation and aftercare services is not so much an indication of the existence of such services in a country as it is a characteristic of its overarching institutional setting for investment promotion and facilitation.

The investment facilitation and retention function can be divided into: 1) facilitation services to support new investors' project implementation; and 2) aftercare or retention services that help established investors develop and expand their activity, with a view to trigger reinvestments (or at least maintain existing investments). Facilitation services include information provision, visits and meetings in the host country, as well as assistance with administrative procedures. Aftercare activities comprise solving problems encountered by businesses, and helping them expand their activities, including by anchoring them in the local economy. This categorisation somewhat simplifies the reality, as some of these activities can sometimes overlap with both the facilitation and aftercare sub-categories (e.g. an IPA can support an established business with immigration procedures).

In practice, OECD IPAs conduct more investment facilitation than aftercare activities. The average frequency of facilitation activities among surveyed agencies is 59%, while it is 36% for aftercare activities. IPAs that provide a high number of facilitation services often provide a high number of aftercare services, but this is not a systematic trend (Table 2.3). Among the eleven IPAs that provide at least ten different facilitation services, two (Denmark and the Netherlands) provide less than the average number of aftercare services (4.7). Conversely, some IPAs that provide a comparatively low number of facilitation services offer a high number of aftercare services than the average, as is the case of Innovation Norway. Overall, there is nonetheless some consistency between the number of facilitation services and the number of aftercare services carried out by an IPA.

Table 2.3. Number of facilitation and aftercare activities performed by OECD IPAs

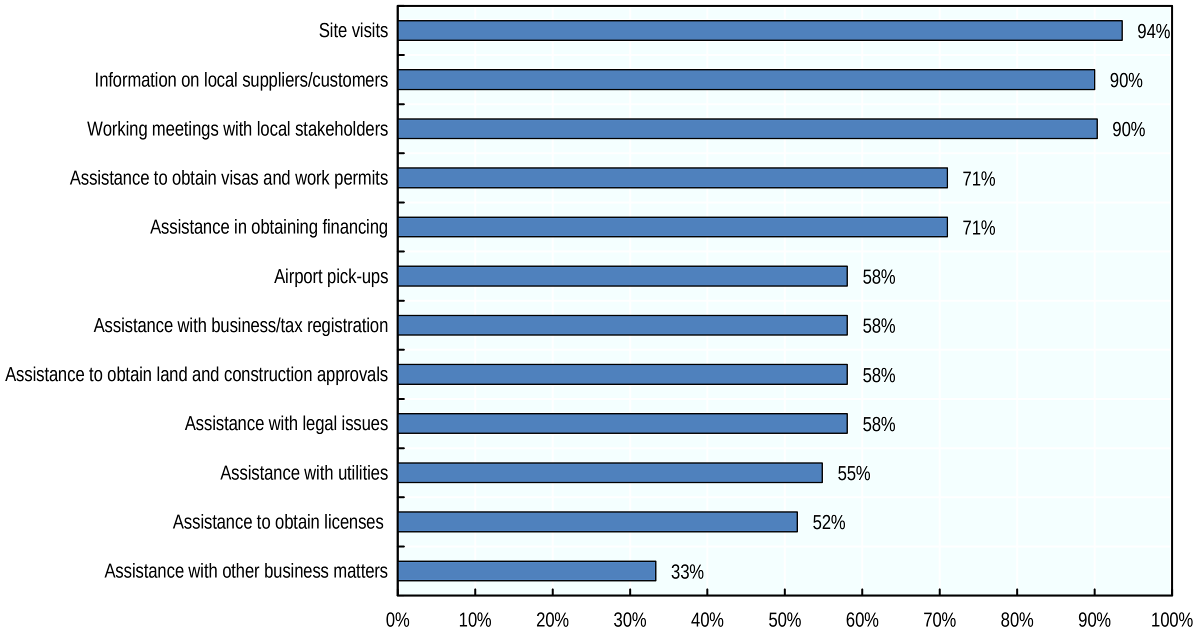
	Facilitation	Aftercare
TUR	14	10
HUN	13	8
LVA	12	8
DNK	11	2
EST	11	6
GRC	11	6
JPN	11	7
NLD	10	3
SVK	11	6
GBR	11	6
CZE	11	9
ISR	10	6
ESP	10	6
SWE	10	6
CHL	10	7
FIN	8	5
IRL	8	6
MEX	8	3
ISL	7	1
POL	7	3
PRT	7	5
SVN	7	4
FRA	6	2
KOR	6	3
AUS	5	1
CAN	5	2
NZL	5	2
NOR	5	5
DEU	3	3
CHE	1	0

Source: OECD-IDB Survey of Investment Promotion Agencies (2017).

Site visits (94%), information on local suppliers and customers (90%) and working meetings with local stakeholders such as local officials or local suppliers (90%) are the top three investment facilitation activities performed by OECD IPAs (Figure 2.5).

Figure 2.5. Shares of OECD IPAs performing investment facilitation activities

In % of surveyed IPAs



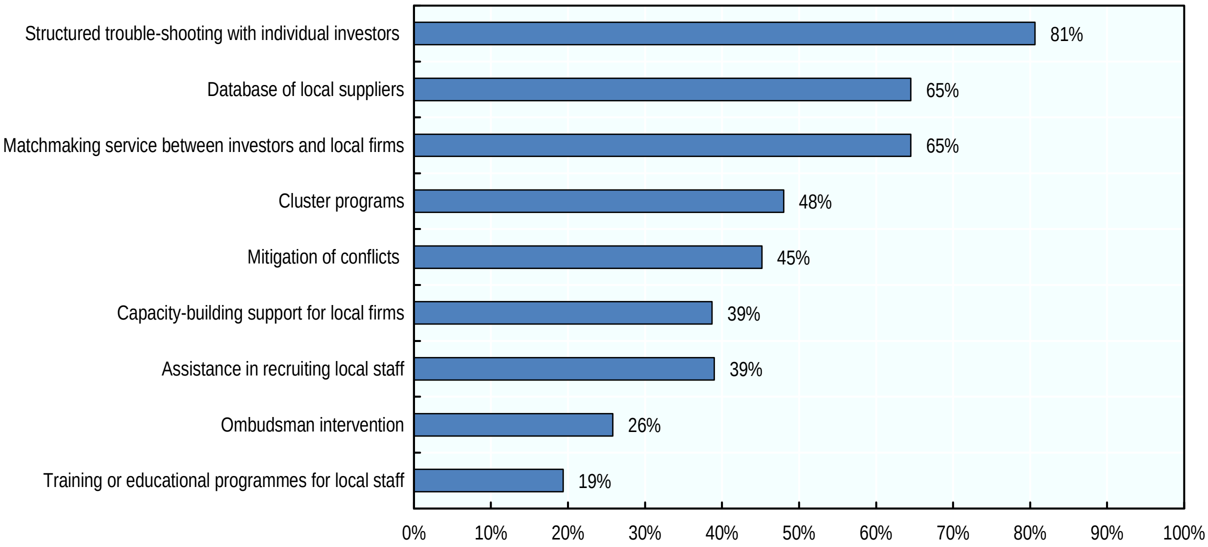
Source: OECD-IDB Survey of Investment Promotion Agencies (2017).

The most frequent administrative support services are assistance with visa and work permits and with obtaining financing (71%). Other types of assistance services such as support to obtain permits, business licenses, tax and business registration, are offered by 50% to 60% of IPAs. These results are lower than for other activities, which could be explained by the fact that there are different approaches as regards administrative support for foreign investors. In countries like Japan and Turkey, helping foreign investors navigate through the administrative procedures to establish a business is part of the IPA's mission. Sometimes, it leads to the creation of a 'one-stop-shop' within the agency, as is the case in Estonia, Israel, Korea and Latvia. In other countries like Canada, administrative support services are carried out at local level by sub-national agencies. In New Zealand, the procedures to establish a business have been simplified to make the process sufficiently lean and easy, and it is considered unnecessary for the national IPA to offer strong support services beside the provision of relevant information.

The most widely offered aftercare service is structured trouble-shooting with individual investors (81%) (Figure 2.6). This is the preferred mode to solve problems and issues as only 45% of surveyed IPAs engage in mitigation of conflicts and 26% offer an ombudsman service. In some cases, countries choose to locate conflict and dispute resolution mechanisms outside of their IPA. Locating such a service within the framework of investment promotion can be an efficient way to leverage it to improve the overarching policy framework through policy advocacy. Korea offers a good example of a well-functioning ombudsman service, which was established in the larger context of investment policy reform. The ombudsman not only handles specific investors' grievances but also contributes to enhancing the investment policy framework by providing inputs from his observations and field experience (OECD, 2013).

Figure 2.6. Shares of OECD IPAs performing aftercare activities

In % of surveyed IPAs



Source: OECD-IDB Survey of Investment Promotion Agencies (2017).

Business support services are another important component of aftercare services, an area in which IPAs are comparatively less active. Matchmaking with local suppliers and customers is the service that is the most often offered to foreign investors (65% of surveyed IPAs). Cluster programmes, capacity-building for local firms, assistance in recruiting and training programme for local staff are performed by a minority of OECD IPAs (48% or less). While training local staff and companies is often carried out by other government agencies, which can justify why IPAs do not do it often, it could be interesting to research whether other business support services and linkage programmes can affect the levels of FDI inflows and if IPAs should offer them more. There is a lack of research on the evidence of the potential benefits of business support services to established foreign companies on the levels of FDI inflows.

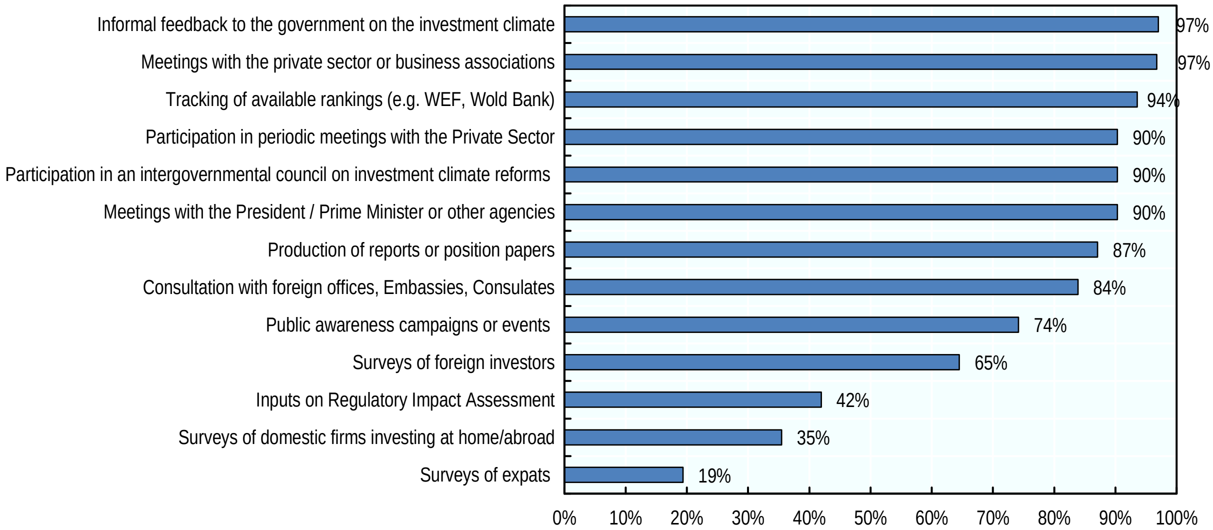
Policy advocacy activities

Although, on average, policy advocacy represents only 6% of IPAs' total budgets and 7% of their staff, seven activities out of twelve relating to policy advocacy are undertaken by more than 80% of agencies. The extent to which policy advocacy actions are frequent among OECD IPAs shows the importance of this function. Through their interactions with foreign investors, IPAs are best placed to understand their challenges and expectations, and can accordingly provide invaluable insights and feedback to enrich the policy-making process and contribute to enhancing the overall investment climate.

Five out of the six most widespread policy advocacy activities are about investment climate monitoring through consultations and feedback to the government (Figure 2.7). Almost all IPAs (97%) provide informal feedback to the government and meet with the private sector to gather their views on the national investment climate, and 90% of the surveyed IPAs participate in such meetings on a regular basis. To a lesser extent, but still high, OECD IPAs also consult with foreign offices, embassies and consulates to collect informal feedback on the ground (84% of surveyed IPAs). Formal feedback through meetings with the President, the Prime Minister or other agencies in charge of investment policy is also very widespread (90% of surveyed IPAs), and 90% of IPAs participate in an intergovernmental taskforce or council on investment climate reform.

Figure 2.7. Shares of OECD IPAs performing policy advocacy activities

In % of surveyed IPAs



Source: OECD-IDB Survey of Investment Promotion Agencies (2017).

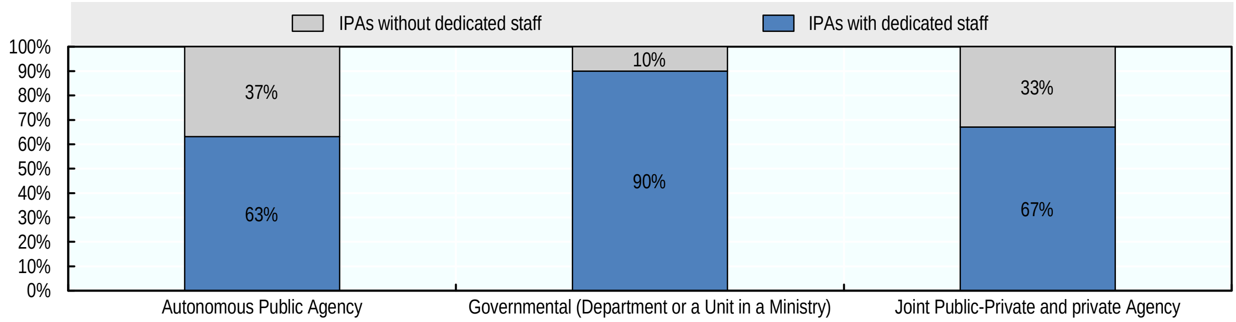
OECD IPAs' use of analytical tools to monitor the investment climate is less common than meetings and consultations. The vast majority of IPAs track available rankings such as the World Economic Forum (WEF) Global Competitiveness Index and the World Bank's Doing Business scores, but only 65% survey foreign investors, 42% provide inputs on regulatory impacts assessment, 35% survey domestic firms and 19% survey expatriate staff, which can be explained by the fact that these activities are resource-intensive and time-consuming.

There are 87% of IPAs that produce policy advocacy reports or position papers to provide inputs and influence policies that enhance the investment climate and foster reforms. Some IPAs have a very structured process, as in the case of Business France where a dedicated team of seven chief economists collects, from the aftercare and servicing teams, feedbacks and views from investors. Solutions and improvements are identified and analysed through impact assessments. An annual report with concrete suggestions is given to the government and subsequently discussed with CEOs from the private sector before reforms are envisaged and executed. According to Business France, over 200 propositions have been implemented.

Interestingly, the IPA's legal status seems to have a role in the decision to formally dedicate staff to the policy advocacy function. 90% of governmental IPAs dedicate staff to policy advocacy, while only 63% of autonomous public agencies do (Figure 2.8). On average, governmental IPAs allocate 10% of their financial resources to policy advocacy, versus 4% for autonomous agencies and 3% for joint public-private agencies.

Figure 2.8. Staff dedication to policy advocacy according to IPAs' legal status

In % of IPAs



Source: Authors based on OECD-IDB Survey of Investment Promotion Agencies (2017).

Categorising IPAs into strategic profiles to understand their activities

To understand better the different activity focus and choices of OECD IPAs, this section classifies them into four groups according to their resource allocation patterns across the four core functions. Examining the activity mix of IPAs in the light of these "strategic profiles" provides insights on how they differ in the way they define their missions and conduct their operations. To complement the activity mix analysis, this section looks into country and agency average characteristics by profile and provides interesting insights.

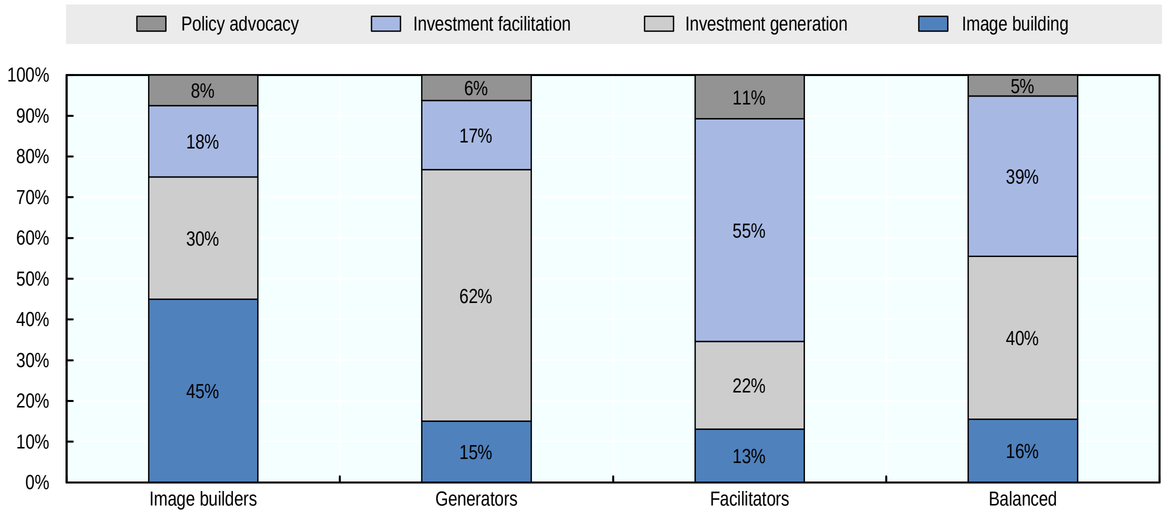
IPA classification into four strategic profiles

The resource allocation pattern of an IPA reflects the way it conceives its mission and conducts its activities. Such a classification can be used to define strategic profiles of IPAs. In this section, the categorisation is based on personnel allocation under the assumption that personnel break-down estimates are more reliable, as it is easier to identify who works on what than to break down a budget in a way that does not correspond to accountings systems. Following this logic, OECD IPAs have been classified into four groups of strategic profiles, which are reflected on Figure 2.9 and Table 2.4:

1. *Image builders*: IPAs that allocate 40% or more of their human resources to image building activities, and for which the second most important spending function is at least ten points below image building. This category entails only two IPAs, or 6% of the total sample.
2. *Generators*: IPAs that allocate 40% or more of their resources to investment generation, and for which the second most important spending function is at least ten points below investment generation. This category groups the majority of the sample: 41% of the total, i.e. 13 IPAs.
3. *Facilitators*: IPAs that allocate 40% or more of their resources to investment facilitation, and for which the next main spending function is at least ten points below investment facilitation. This category covers eight IPAs or 25% of the total sample.
4. *Balanced*: IPAs that have a resource allocation pattern close to the average picture. Most resources are equitably shared between investment generation and investment facilitation, and image building and policy advocacy are allocated lower levels of resources. Nine IPAs, or 28% of the total sample, are categorised as *Balanced*.

Figure 2.9. OECD IPA human resource allocation patterns

Average resource allocation across core functions in the four different categories, in % of employees (2016)



Source: OECD-IDB Survey of Investment Promotion Agencies (2017).

Table 2.4. List of countries within IPA categories

Image builders	Generators	Facilitators	Balanced
Slovenia Switzerland	Austria Chile Estonia France Germany* Greece Iceland Korea* Netherlands New Zealand Slovak Republic Sweden United States	Australia Czech Republic* Denmark Hungary Ireland Japan* Norway United Kingdom	Canada Finland Israel Latvia Mexico Poland Portugal Spain Turkey

Note: (*) These countries are not taken into account in the average budget as their data is not available.
Source: Authors based on OECD-IDB Survey of Investment Promotion Agencies (2017).

There is no single IPA characteristic that explains an IPA’s strategic profile, although a couple of considerations stand out.[12] First, *Facilitators* have the highest amounts of resources in absolute terms with an average investment promotion budget of 35 million compared to a total average of USD 14 million, and 162 staff vs. a total average of 78 (Table 2.5).[13] They also have more offices (domestic and foreign) than the other categories. *Facilitators* also have the highest average budget per head of all IPA profiles. *Generators*, on the other hand, have a lower average budget, less staff and fewer sub-national and foreign offices, which is likely the result of an institutional choice to rely on co-operation with external offices at sub-national level, rather than having a network of domestic affiliates.

Table 2.5. Key characteristics of IPAs by category

IPA strategic profile	Image builders	Generators	Facilitators	Balanced
Activity mix characteristics (summary)	Advertise more in TV and print media, carry out more pro-active campaigns	Focus more on investment generation activities than image building	Have the widest facilitation and aftercare service portfolio, but do not neglect the other three core functions	Have an overall balanced approach with a wider facilitation and aftercare offering than the average (yet narrower than Facilitators)
Average budget *(in million USD)*	5.3	7.7	34.9	9.0
Average staff *(in number of employees)*	N/A	46	162	65
Average budget / head *(in thousands USD)*	N/A	167.8	215.6	137.4
Average number of mandates of the overall agency	8	5	6	7
Average number of domestic offices doing investment promotion	0	0	10	4
Average number of foreign offices doing investment promotion	7	11	27	26

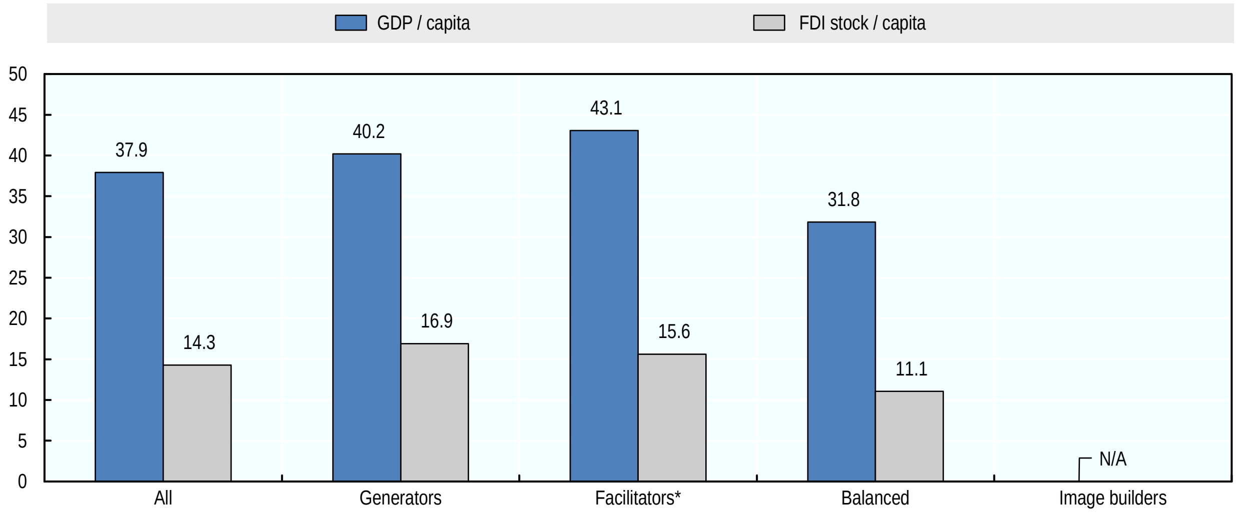
Note: The data for Image builders should be considered with caution as the sample is very small (only 2 IPAs).
Source: OECD-IDB Survey of Investment Promotion Agencies (2017).

No overall pattern emerges from the economic characteristics of IPAs' home countries according to their strategic profiles (Figure 2.10), but a couple of highlights can be made. *Facilitators* have a higher GDP per capita than the average (USD 43 079 vs. 37 921), whereas *Balanced* IPAs have a lower GDP per capita (31 250). *Generators*, on the other hand, have the highest FDI stock per capita (16 891).

In their 2000 edition of *"Marketing a Country"*, Wells and Wint suggest that the promotional technique choice of an IPA to adopt an "image building" or an "investment generation" focus follows a particular sequence of stages where image building precedes investment generation. As a result, countries needing to position or re-position their image as a result of a lack of awareness or a shift in the investor targeting strategy will adopt an "image builder approach". On the other hand, *Facilitators* and *Balanced* IPAs appear to share a common objective to offer more facilitation and aftercare services while still fulfilling the other three core functions. Their affiliated networks of offices suggest that it is in their mandate to offer a wide portfolio of facilitation and aftercare services. Their main difference is their budget size. The analysis thus suggests that *Balanced* IPAs are agencies that pursue a similar strategy to *Facilitators*, but with fewer resources.

Figure 2.10. GDP per capita and FDI stock / capita of the different IPA categories

In USD thousands



Notes: (*) The Facilitators sample does not take Ireland into account, the country being an outlier; data for Image builders is not displayed here as the category only comprises two countries; FDI stock / capita data is 2016, GDP / capita data is 2015.
Source: Authors based on OECD-IDB Survey of Investment Promotion Agencies (2017) and on OECD (2018), Gross domestic product (GDP) (indicator).

Annex 2.A. Core functions' definitions in the OECD-IDB IPA survey

- **Image building** comprises all general marketing activities (website and web services, TV, print, and promotion materials such as brochures), and general public relations events (road-shows and fora as well as general mission abroad and incoming missions).
- **Investment generation** encompasses intelligence gathering (raw data analyses and market studies), sector and investor-specific events (such as road-shows and missions abroad and incoming missions) and direct targeting of investors (one-to-one meetings, pro-active campaigns and inquiry and request handling).
- **Investment facilitation** and retention consists of assistance with project definition (information on local suppliers and clients, working meetings, site visits and airport pickups), assistance with administrative procedures (such as support to obtain visas, tax registration, etc.) and with obtaining financing, aftercare services (structured troubleshooting, ombudsman, intervention, and conflict mitigation), and specific business support programmes (linkage programmes including local supplier database, cluster programmes, and personnel recruitment programmes).
- **Policy advocacy** entails actions to monitor the investment climate (tracking of rankings, meetings with the private sector, consultation with offices, Embassies and Consulates abroad, investor and expat survey and inputs on Regulatory Impact Assessment), formal feedback to government on how to improve the investment climate (meetings, participation in taskforce or councils, and production of reports or position papers), and informal feedback to the government on how to improve the investment climate (participation in periodic meetings with the private sector and public awareness campaigns or events).

Annex 2.B. Correlation analysis between the size of budget and the share of core functions into total budget

Annex Table 2.B.1. Correlation analysis between the size of budget and the share of core functions into total budget

	Correlation index
Image building	-0.0324
Investment generation	0.1281
Facilitation and aftercare	0.2480
Policy advocacy	0.0783

Note: Correlations were run excluding Japan, JETRO being an outlier due to its high budget.
Source: Authors based on OECD-IDB Survey of Investment Promotion Agencies (2017).

Annex 2.C. Detailed activity mix analysis of OECD IPAs according to their strategic profiles

The detailed analysis of the four categories of IPAs' activity mixes offers insights on how they structure their portfolio of products and services to foreign investors according to their strategic profile (Table 2.C.1). This analysis compares the frequency of activities across IPAs according to their strategic profile versus the average for the whole sample. It relies on the number of activities performed but does not take into account the depth or extent to which activities are performed; but it provides some interesting highlights.

Image builders appear to make activity trade-offs within the core functions, including in image building.[14] They advertise more in international media (such as TV and print) and use more web services, which explains how their image building resources are spent. They focus less on general business home events and incoming high-level missions, however. In the investment generation and investment facilitation functions, they overall conduct fewer activities, with some exceptions such as pro-active campaigns and supplier databases. They tend to use more analytical methodologies for policy advocacy compared to the total OECD IPA population: reports and position papers, surveys and inputs to regulatory impact assessments. Compared to the full sample's average, *Generators* dedicate more resources to investment generation and less to image building and aftercare programmes. These IPAs perform less image building activities except having a website and producing promotion materials such as brochures and investment guides. They do not perform less facilitation services than the total average, but they clearly perform less aftercare services, particularly business support programmes such as matchmaking with local suppliers, capacity-building for local firms and local personnel training.

Facilitators' focus on facilitation, which allows them to have a wider facilitation and aftercare service portfolio than the average, does not come at the expense of the other three core functions. The larger offering in administrative support services and business support programmes appears very clearly. They provide more information, do more airport pickups and provide more administrative assistance than the average OECD IPA. They are also the IPAs with the wider aftercare programme. There are activities from the other three functions, however, that they perform more than the average. For example, they use more web services and domestic media such as TV and print for image building. They conduct more pro-active investment generation campaigns and produce more policy advocacy reports and position papers and conduct more public awareness campaign than the average. *Balanced* IPAs cover the four core functions of investment promotion and offer more facilitation and aftercare services than the average. To achieve this balance, they opt for activity trade-offs within each function. For example, their aftercare support programmes focus on capacity-building for local firms and on cluster programmes, but not on matchmaking and local personnel programmes. As regards facilitation services, they provide more information on local suppliers and customers, but they do less airport pickups than the average. They use more international media for image building, which is a costly choice, but they conduct less proactive reaching out campaigns and handle less systematically foreign investors' inquiries and requests. Like *Facilitators*, they conduct more policy advocacy public awareness campaigns, but less foreign investors' surveys.

Annex Table 2.C.1. Key differences among IPA categories in the performance of activities

List of activities that are more performed (by more than 10 points vs. average) or less performed (by less than 10 points vs. average) within each category

	Generators	Facilitators	Balanced	Image builders*
Image building	Perform less of all image building activities except website and promotion materials such as brochures (-12 to -18)	• Attend / organise more general business events at home (+19) • Use more web services (+13) • Use more domestic media (+17)	• Use more international media (+14)	• Use more international media (+39) • Use more web services (+13) • Attend / organise less high-level incoming missions (-47) • Attend / organise less general business events at home (-14)
Investment generation	Perform more of all investment generation activities except attending sector-specific events at home, but not by large (+1 to +10)	• Conduct more pro-active campaigns (+13)	• Conduct less proactive campaigns (-25) • Do less inquiry / request handling (-15)	• Conduct more pro-active campaigns (+13) • Do less inquiry / request handling (-15) • Do less market studies (-24) • Attend / organise less sector-specific events at home (-24)
Investment facilitation services	-	• Do more airport pickups (+29) • Provide more information on local suppliers / customers (+13) • Provide more administrative assistance (land and construction permits, utilities, legal issues and business licenses) (+11 to +20)	• Provide more information on local suppliers / customers (+13) • Provide more administrative assistance (visas and work permits, financing, business and tax registration and business licenses) (+11 to +29) • Do less airport pickups (-21)	• Provide less information on local suppliers (-20) • Provide less administrative assistance overall (-20 to -71)
Aftercare services	• Offer more ombudsman services (+11) • Offer less business support programmes (database and matchmaking with local supplier, capacity-building for local firms, cluster and local personnel training) (-18 to -21)	• Offer more business programmes (Matchmaking with local suppliers, capacity-building for local firms, assistance to recruit local staff and local personnel training (+13 to +16) • Offer less ombudsman services (-13)	• Do more conflict mitigation (+17) • Do more capacity-building for local firms (+24) • Offer more cluster programmes (+30)	• Offer more structured trouble-shooting services (+19) • Have more local suppliers databases (+39) • Offer less of all other business support programmes (-12 to -39) • Do less conflict mitigation (-12)
Policy advocacy	• Provide less inputs on regulatory impact assessment (-15)	• Consult more with foreign offices or Embassies / Consulates (+16) • Produce more reports / position papers (+13) • Conduct more public awareness campaigns or events (+13)	• Conduct more public awareness campaigns or events (+13) • Conduct less foreign investor surveys (-15)	• Produce more reports / position papers (+13) • Conduct more surveys of foreign investors (+35) and expats (+14) • Provide more inputs on regulatory impact assessment (+25) • Conduct less public awareness campaigns or events (-41) • Consult less with foreign offices or Embassies / Consulates (-17)

Notes: The figures in parentheses indicate the number of points above or below the average frequency of activity performance among all surveyed IPAs (average frequency being expressed in % of total IPAs); (*) the data for Image builders should be considered with caution as the sample is very small.
Source: OECD-IDB Survey of Investment Promotion Agencies (2017).

Chapter 3. Prioritisation strategies for FDI attraction and generation

As seen earlier, IPAs undertake a panoply of activities to attract, help establish, and retain investors in the economy. Through prioritisation, i.e. choosing to focus on certain types of sectors and countries, investment projects or individual investors – either because they have a higher probability of being realised or because they may bring unique benefits to the host economy – agencies can focus better their resources and tailor the services offered to investors considered as the most important. As such, prioritisation is an essential element of the toolkit of agencies faced with a potentially unlimited pool of investors to attract or service and only limited resources. It allows for a strategic use of those resources, focusing on activities where returns are the highest, for example in terms of the value or type of FDI, and can have far-reaching consequences on what the IPA does and how, as well as on its impact (in terms of investment assisted).

Prioritisation is a dominant practice among IPAs – as shown in this chapter, all agencies in the OECD area prioritise specific sectors or countries, and three quarters target specific investment projects. Over one third also prioritise individual investors, offering them certain tailor-made services. Overall, the logic behind prioritisation is to provide information and undertake specific activities to alleviate the existing information asymmetries and help identify and overcome potential barriers to investment where such barriers can be highest (existence of market failures) or can translate into highest positive impact (existence of externalities). The existing research finds that countries obtain higher levels of FDI in the sectors that their IPAs target. For example, Harding and Javorcik (2011) focus on FDI flows from the United States and analyse the impact of targeting efforts of 97 agencies worldwide. They find that sector prioritisation translates into higher FDI inflows: a dollar spent on investment promotion of a specific sector translates into USD 189 of FDI inflows.[15]

Prioritisation raises many methodological questions related to what to support (i.e. what sectors, projects and investors), why (i.e. using what criteria) and how (i.e. offering particular services or adopting a particular institutional or managerial approach) and poses a challenge to most IPAs. In addition, the choice regarding an optimal strategy resides not only in a decision on what to prioritise but also on what to exclude – either from pro-active prioritisation efforts or even the agency's re-active assistance to avoid a *de facto* crowding out of its resources by non-priority investments. The agencies, hence, face a difficult task of choosing what to support, on what basis, and how. While selectivity may allow for a more strategic approach and focus in the agency's work, it also involves risks. This dilemma is linked to a wider policy debate on whether the government can and should be "picking winners", and if so, how to do this in an effective manner. While this broad discussion lies outside of the scope of this report, it underlies the principles behind good practices on investment promotion in the *OECD Policy Framework for Investment*, outlined in Box 3.1. How to do this in practice is one of the key dilemmas – or an element of the art – of prioritisation by IPAs, and involves an intricate process of decisions-making.

Box 3.1. Prioritisation in investment promotion and facilitation and the OECD Policy Framework for Investment

Prioritisation in investment promotion and facilitation activities is an important consideration for investment policymakers and IPA professionals. As identified in the OECD review of good practices on investment policy over ten years ago (OECD, 2006), prioritisation of sectors, countries and activities is ubiquitous in investment promotion and involves a number of challenges. They relate among others to the appropriate understanding of location factors of firms as well as careful balancing between a strategic vision and flexibility as well as non-discriminatory approach to investment policy-making. As such, the OECD PFI asks several questions relating to prioritisation strategies in investment promotion and facilitation (OECD, 2015):

- Are specific sectors, markets and investors targeted as part of the government's investment promotion strategy and on what basis the specific sectors, markets or investors have been selected?
- How is flexibility ensured in the targeting strategy to respond and adapt to new market demands and opportunities? This stresses the importance of regular review of the strategy, basing the selection on market realities, and implementing regular assessments.
- Has the government considered the impact of its targeting strategy on other sectors, including sub-sectors that can potentially support the sectors targeted? The aim is to consider potential intended and unintended consequences – of positive and negative nature – on other domestic and foreign firms.
- In an attempt to broaden the scope of targeting from the sheer volume of FDI to more "quality FDI", are broader aspects considered in the targeting strategies, such as the potential investors' track record on RBC, including environmental and social issues in its activities?
- The PFI highlights throughout the need for evaluation of investment policies, including investment promotion, to ensure that their goals have been achieved in an efficient manner, did not have any unintended consequences, and can improve over time. The link between evaluation and prioritisation is critical to allow for a feedback loop necessary to achieve intended results.

These questions provide a set of broad principles to be considered by governments. They require, nevertheless, operationalisation to be implemented. This chapter provides insights on how the management of the agencies address some of these questions in practice.

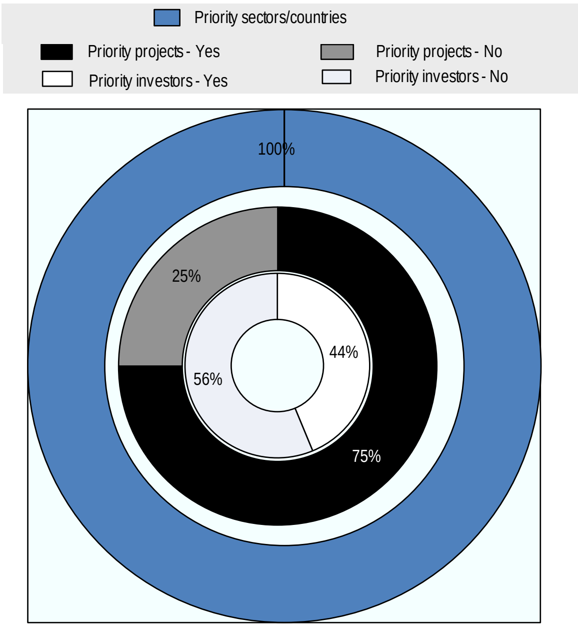
Meanwhile, despite the importance of prioritisation to the work of IPAs and its possible effects, thus-far little is known about the methods, criteria and tools used in this field. Previous mapping exercises have only considered whether prioritisation of sectors and countries is done[16], and have not provided further information on how this is done, or why. The following chapter aims to fill this gap by providing an overview of prioritisation strategies of IPAs and discussing what is prioritised and why – at the level of sectors, countries, projects and individual investors, and outlining the different methods for implementing prioritisation (e.g. institutional and managerial arrangements) and possible implication for the agencies activities and budgets.

What is prioritised and why?

Overview of strategies

All OECD agencies prioritise some investments over others. Indeed, all the respondents to the survey confirmed that they prioritise certain sectors and countries, three quarters prioritise specific investment projects and over one third specific investors (Figure 3.1). Prioritisation is, hence, a dominant practice in the world of surveyed IPAs. Besides pro-actively prioritising certain investments, i.e. activities and contacts with firms initiated by the agency, IPAs can also prioritise re-actively by excluding certain types of investment from their assistance when approached by investors, whereby exclusion may mean different things – for example, it may imply not assisting at all a particular investment or devoting fewer resources or activities, which may vary from agency to agency. In other words, agencies may prioritise by focusing on some investments and attending to others as time and resources permit, and they can specifically exclude certain investments. Both approaches aim to ensure that resources are spent where the return is highest and are not crowded out by investment that is not considered a priority. Over one third (34%) of OECD IPAs explicitly exclude certain countries and sectors and 42% specific investment projects. Only one agency reports to exclude specific investors (see Annex Table 3.A.1.)

Figure 3.1. Overview of prioritisation strategies of IPAs in OECD countries



Source: OECD-IDB survey of Investment Promotion Agencies (2017).

In practice, agencies use a combination of these various prioritisation strategies (Table 3.1 provides an overview). For example, while some countries tend to prioritise only sectors or countries – denoted as *Basic Prioritisers* (19% of all IPAs); others also prioritise additionally specific investment projects (*Project-Centred Prioritisers*, 34% of the total) or investors (*Investor-Centred Prioritisers*, 3%). 41% are *Super-Prioritisers* – i.e. they prioritise sectors and countries as well as projects and investors. The importance of prioritisation among IPAs highlights the relevance of considering further both the methods of choosing the priorities and their implementation (as well as evaluation). Overall, a project and investor-centric view on prioritisation means that, on top of choosing target sectors and countries, IPAs need to identify specific investment projects or firms considered to be "priority", "high-quality" or "strategic" in nature and developing actionable criteria in order to permit such prioritisation exercise.

Table 3.1. Typology of OECD IPAs based on prioritisation strategies

Panel A. Targeting Strategies

	Does not Target Investors	Target Investors
Does not Target Projects	*"Basic Prioritisers"* Chile Czech Republic Estonia Japan Latvia Slovak Republic	*"Investor-Centred Prioritisers"* Canada
Target Projects	*"Project-Centred Prioritisers"* Austria Denmark Iceland Ireland Korea Netherlands New Zealand Poland Switzerland Turkey United States	*"Super-Prioritisers"* Australia Greece Hungary Israel Finland France Mexico Norway Portugal Slovenia Spain Sweden United Kingdom

Panel B. Exclusion Strategies

	Does not Exclude Investors	Excludes Investors
Does not Exclude Projects	*"Sector/Country Excluders Only"* Canada Hungary Iceland Korea Latvia	*"Investor-Centred Excluders"*
Excludes Projects	*"Project-Centred Excluders"* Australia* Czech Republic* Denmark* Ireland Netherlands* New Zealand Norway Poland* Sweden Switzerland United Kingdom United States*	*"Super-Excluders"*

Note: The following agencies do not exclude countries or sectors, projects or investors (i.e. are Non-Excluders) and are hence not featured in the table above: Austria, Chile, Estonia, Finland, France, Germany, Greece, Israel, Japan, Portugal, Slovak Republic, Slovenia, Spain, Turkey. (*) Countries marked with an asterisk do not exclude any sectors or countries while excluding certain projects.
Source: Authors based on OECD-IDB survey of Investment Promotion Agencies (2017).

This approach is often mixed and interacts with what the agency decides to exclude. It is not entirely clear what form the exclusion takes in practice and it appears that agencies may be taking different approaches – for example, some may interpret exclusion as not proactively prioritising a specific sector, country, project or investor. Others may refer to outright exclusion from their assistance even when approached by the investor, such as investments by state-owned enterprises, for example. Bearing this caveat in mind, we find that the majority of IPAs (65%) do not exclude specific investment sector or countries while project-based exclusion is the most frequent type of exclusion strategy among IPAs (39% of the total or 67% of the excluding IPAs). Finally, about half of *Super-Prioritisers* are also *Project-Centred Excluders*, hence, strengthening the effect of their pro-active prioritisation strategy with a filtering strategy for reactive assistance.

As seen through the agencies' prioritisation profiles, agencies differ in the degree to which they either target or exclude investments and the overall depth of their prioritisation. The three levels of prioritisation – of countries and sectors, investment projects, and investors – that can involve both targeting and exclusion, are discussed in turn below, together with criteria used for their selection.

Priority sectors and countries

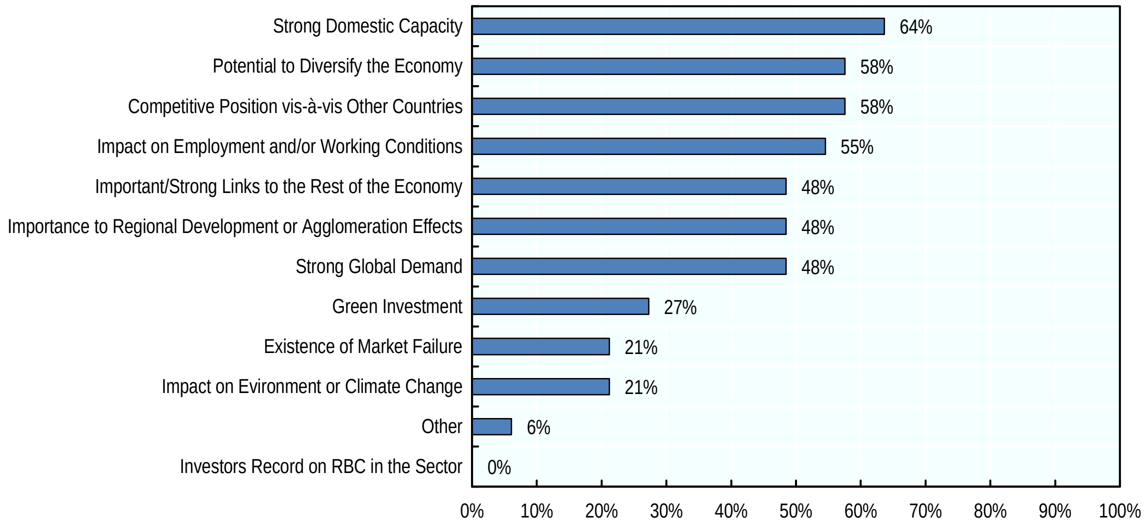
In terms of sector and country mix selection, IPAs tend to adopt different strategies. While the majority of IPAs uses a combination of priority sectors and countries – often tailoring the specific business proposition to a given country-sector market – some focus on priority sectors or countries only. For example, Select USA (the national IPA of the United States) has 32 priority countries but no sectoral priorities. Overall, OECD IPAs tend to prioritise similar types of sectors, in particular life sciences and healthcare services, information and communications technology (ICT) and business support services, transport and logistics, infrastructure, agri-business, bio-, green- and nanotechnologies, chemicals, engineering and other advanced manufacturing and high-tech services. The degree of specificity and the number of priority sectors differs from agency to agency, depending on the country's natural endowments, the process of setting priorities, and other factors. Overall, this choice of priority sectors appears consistent with the type of criteria used for their selection (Figure 3.2).

Most agencies aim to prioritise countries that can be a source of high technology (58% of IPAs) as well as sectors where they have a strong domestic capacity (64%) and competitive position vis-à-vis other countries (58%) or that help diversify the economy (58%). Meanwhile, the existence of international investment agreements (IIAs) between a pair of countries or a high-quality regulatory framework in general does not appear to play a role in the selection of priority countries; nor does the impact on environment and climate change or RBC-related considerations for targeting specific sectors by IPAs.

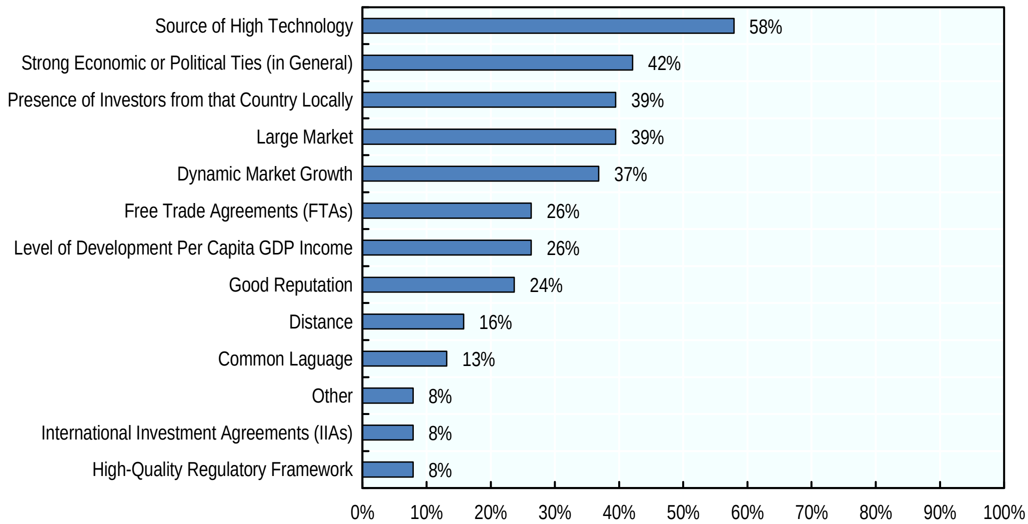
In terms of the type of sectors that are explicitly excluded by IPAs, the selection varies across countries. For example, some agencies exclude real estate and distribution sectors (e.g. Canada and Norway), tourism (e.g. Hungary and Canada), and agriculture and fisheries (e.g. Iceland and Hungary), among others. Some countries exclude specific countries with which the country does not sustain commercial relations. The criteria used for excluding particular sectors or countries from IPA's assistance also differ from those used for targeting. For example, a perceived lack of need for the IPA's intervention is the most cited reason for an exclusion of a particular sector (32%), followed by national security considerations (24%) and market maturity (12%). Exclusion of particular countries appear to be based on less well-established criteria whereby undefined factors are most important (21%), followed by reputational risks (11%) and poor political relations or a specific regulation (5% each) (Figure 3.3). Notably, lack of a market failure to correct is not mentioned by IPAs when deciding to exclude a sector or country. Interestingly, IPAs mention much more frequently the lack of need for IPA's intervention for the exclusion of particular sectors (32%) than countries (5%). It may be that market saturation is less systematically analysed by the origin country of an investor than by sector or that there may be a need not to exclude particular countries from assistance for political reasons, even when there is no clear need for IPA's assistance.

Figure 3.2. Criteria used to prioritise specific sectors and countries in OECD countries

Panel A. Sectors

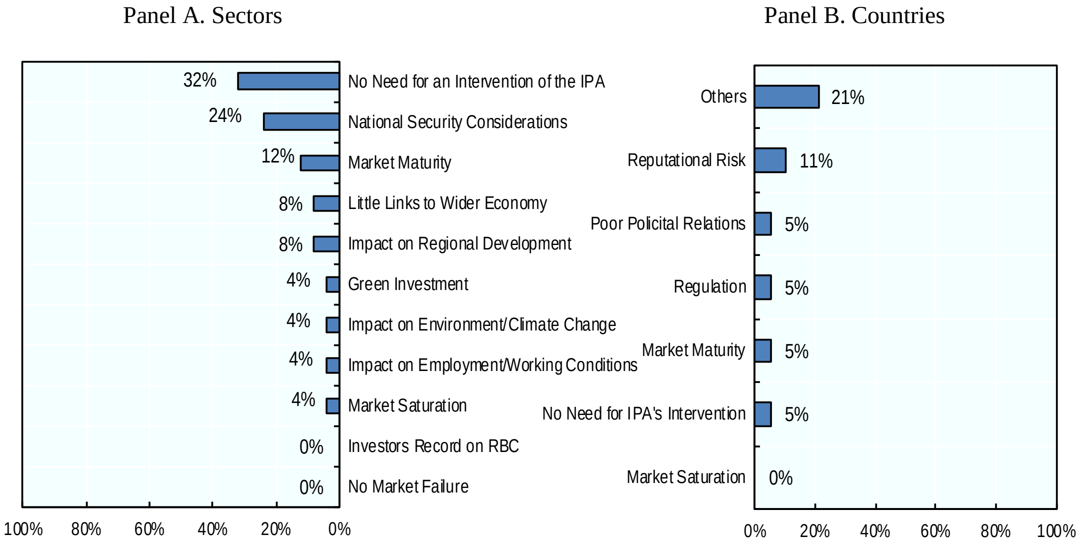


Panel B. Countries



Source: OECD-IDB survey of Investment Promotion Agencies (2017).

Figure 3.3. Criteria used for exclusion of countries and sectors by OECD IPAs

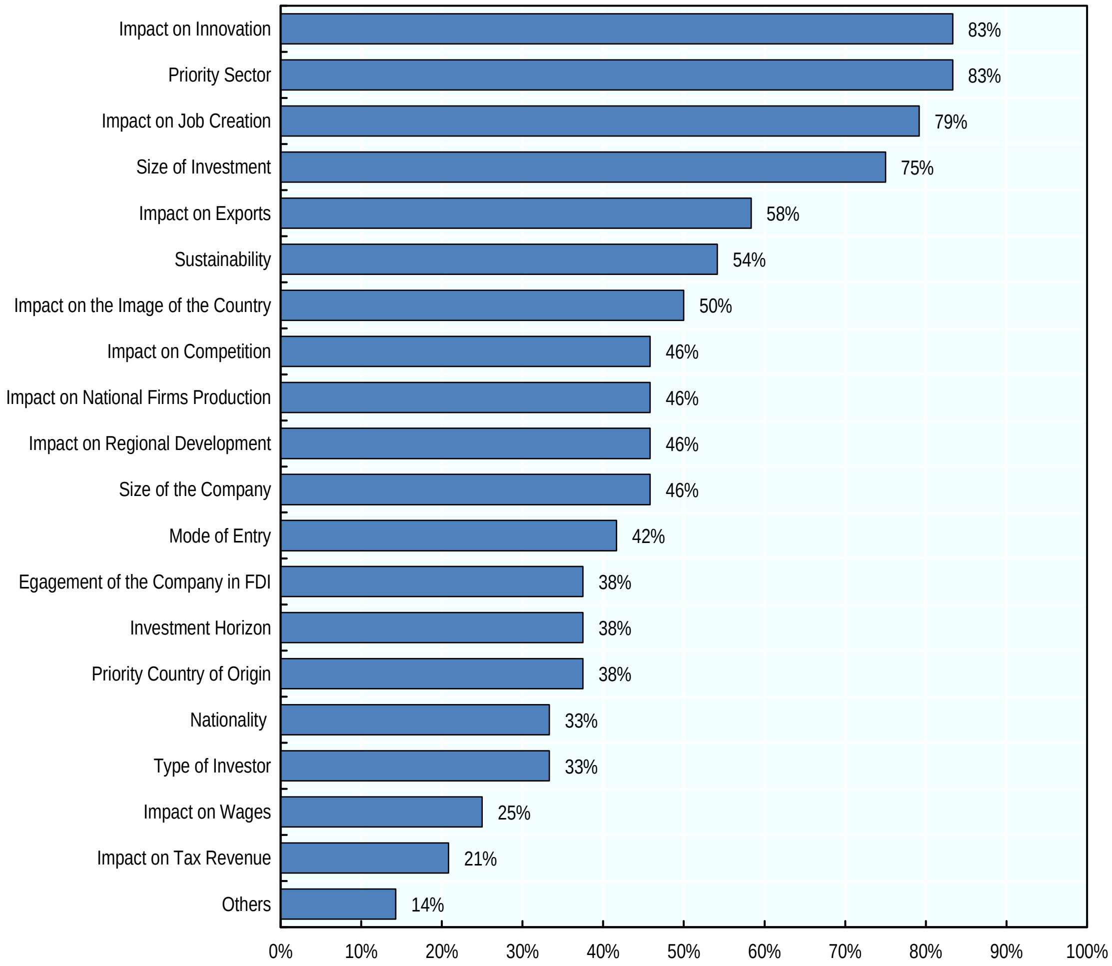


Source: OECD-IDB survey of Investment Promotion Agencies (2017).

Priority projects

Besides prioritising certain countries or sectors, most OECD IPAs (78%) also prioritise specific investment projects, referred to as "high-quality", "strategic" or "priority" projects. Most OECD IPAs (71%) have pre-established criteria that a project needs to satisfy in order to qualify (Figure 3.4), particularly the impact on innovation, (83%), priority sector (83%), job creation (79%) and the size of investment (75%), followed by the impact on exports, sustainability and the image of the country. Meanwhile, the impact on taxes or wages does appear to play an important role. Moreover, in many cases, agencies adopt specific thresholds relating to these criteria in order to classify or score projects – for example, supporting projects that create more than a pre-defined number of jobs, or particular types of jobs (e.g. above a certain salary), or involve an investment above a certain size.[17] Overall, IPAs differ in the type of criteria used as well as the thresholds that they consider meaningful. For example, in the area of jobs – a topic of common interest to IPAs as reflected in Chapter 4 on monitoring and evaluation – some look at the total job count, while others at specific types of jobs (e.g. R&D jobs) or jobs with a salary above a certain level; and some agencies consider the number of jobs created at the time of investment, while others 3-5 years after investment.

Figure 3.4. Criteria used for prioritisation of investment projects by OECD IPAs



Source: OECD-IDB survey of Investment Promotion Agencies (2017).

In general, these criteria appear broadly consistent with the criteria used to target specific countries or sectors, described earlier. For example, the interest in attracting investors from countries that can be a source of high technology and supporting sectors with a positive impact on employment corresponds to the top criteria used to prioritise projects, relating to impact on innovation and job creation. Most IPAs also support projects that belong to a priority sector (83%), making their prioritisation strategy consistent across different levels. It is also worth mentioning that while criteria for prioritisation of projects appear well-established, the criteria for exclusion of specific projects appear somewhat less well-defined. Only 25% of OECD IPAs that exclude investment projects (i.e. 39% of all IPAs – see start of the chapter) have pre-established criteria for exclusion. This may potentially be linked to *de facto* infrequency of such cases.[18]

Priority investors

The situation with priority investors appears somewhat more complex. Among the agencies that target specific investors (47% of total), the majority also do not have clear criteria to identify such clients; mostly relying on an *ad hoc* approach and judgment of their management.[19] Sometimes specific types of investors are also excluded – for example, state-owned firms or those that are in breach of the recognised legal commitments on human rights or codes of conduct on RBC – albeit this is the case in only 6% of IPAs. For example, Business Sweden follows the government's Action Plan for Business and Human Rights, and may decide not to assist certain investors in breach of the *UN Guiding Principles on Business and Human Rights*, the principles of the *UN Global Compact* or the *OECD Guidelines for Multinational Enterprises* in its activities (Government of Sweden, 2015). Most of the IPAs explain that they do not have pre-established criteria to exclude particular investors. As in case of excluded investment projects, a natural question relates to the relative share of projects that *de facto* are excluded.

Other elements

As illustrated above, prioritisation strategies can have different levels of depth achieved through explicit targeting or exclusion of countries and sectors, projects and investors. Within these priorities, additional factors can also play a role *de facto*. For example, nearly two thirds of agencies target greenfield FDI (i.e. new investment projects) and only few IPAs prioritise explicitly re-investments and expansions (e.g. United Kingdom, Portugal, France and Hungary). Meanwhile, none of the respondents target non-equity forms of FDI (e.g. contract manufacturing, franchising) or mergers and acquisitions (M&A). Still, as revealed during the discussions during the OECD workshop on investment promotion and facilitation, many agencies assist M&A deals in practice, even if not seeking such investments actively, recognising the importance of acquisitions within total FDI inflows. Only some M&A tend to be excluded, such as hostile takeovers of domestic targets. Considering that only 45% of agencies mention the mode of entry as a factor relevant to target specific projects, it appears that such criteria may be used in practice without being always explicitly embedded in the agencies prioritisation criteria.

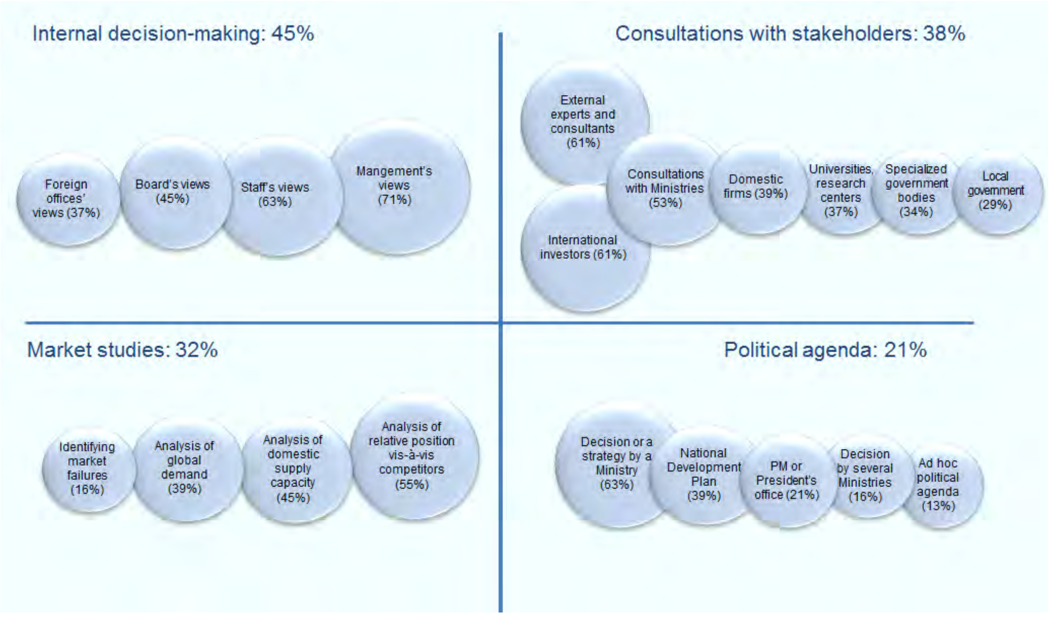
How does prioritisation work?

While all agencies prioritise activities in one way or another, so far little is known about how this is done in practice. Who decides about priorities and how? How do agencies use their resources to prioritise and what services do they offer? And, last but not least, how do agencies ensure that prioritisation is effective and achieves the intended results?

How is it decided?

The survey used in this report reveals that the process of deciding on the agency's priorities is relatively complex and involves a wide range of actors and sources of information (Figure 3.5). Besides the IPA's internal decision-making, and in particular the management views (identified by 71% of IPAs) and staff views (63%), the agencies rely on a decision or a strategy set by the lead ministry (63%), market studies of different type (e.g. on the country's relative position vis-à-vis its competitors 55%) as well as insights from international experts (61%) and international investors (61%). A series of different stakeholders is also consulted in the process, including different ministries (53%); domestic firms (39%); universities, technical institutes and research centres (37%); specialised government bodies (34%); and local governments (29%), among others. It is worth noting that various methods may be complementary and used interdependently by different agencies.[20] In addition, some categories may not easily fall into one category only.[21] While it appears that usually political considerations are translated into the IPAs' prioritisation strategies via a formal decision or a strategy set by a ministry or through the national development plan, *ad hoc* political considerations (13%) can also play a role. The identification of existing market failures is not an oft reported aspect (15%). Overall, methods used for prioritisation are complex and involve an art of balancing and compromise, whereby the views of the IPA's experts and information gathered via market studies and other sources are corroborated by consultations with, and inputs from, other stakeholders.

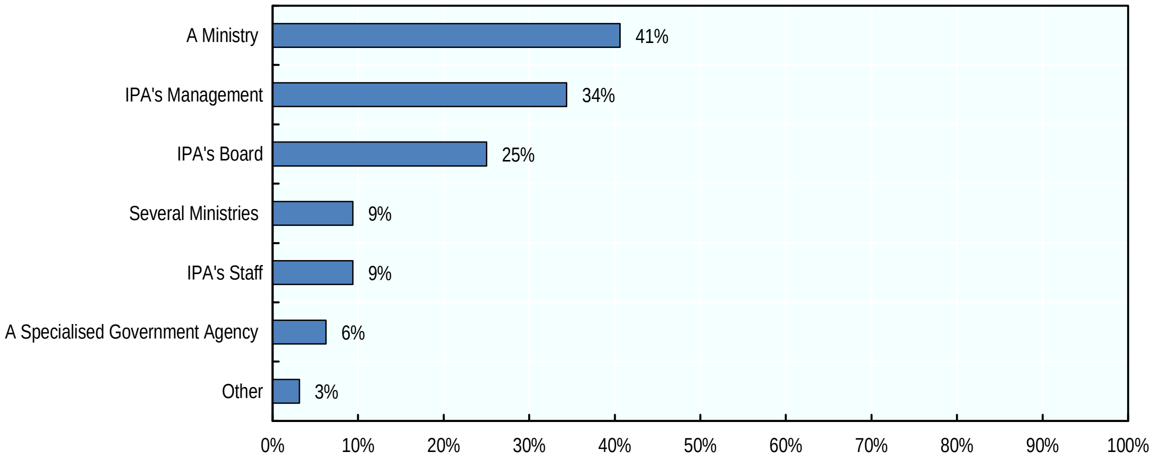
Figure 3.5. Elements of a process of selecting country and sector priorities by OECD IPAs



Note: The size of the bubble corresponds to the importance of the factor, i.e. the frequency with which it has been mentioned by the IPAs, as does the relative position vis-à-vis the central axis within each quadrant.
Source: Authors based on OECD-IDB survey of Investment Promotion Agencies (2017).

In terms of the formal decision-making, the lead ministry that oversees the agency plays a key role in setting the IPA's prioritisation strategy (Figure 3.6); 41% of respondents report that the ministry approves the sectoral and country targets of the agency, and in case of some agencies several ministries are involved (e.g. Australia, Israel, and Netherlands). The IPA's management is responsible for approval in 35% of cases and the board approves the targets of about one quarter of the OECD agencies. In terms of the legal basis, the IPA's prioritisation strategy is often enshrined in the overall IPA's strategy (63%) or the country's national development plan or other government-wide strategic document (50%).[22] For example, in the case of Australia, investment priority sectors are set and agreed by federal and state and territory ministers, and later embedded in the IPA's strategy. In the case of Ireland, the IPA's strategy builds on the Irish Government's *Enterprise 2025* strategy document outlining the country's strategic objectives for economic development and growth for 2015-2025.[23] Generally, 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.

Figure 3.6. Government bodies responsible for approval of the prioritisation strategy



Source: OECD-IDB survey of Investment Promotion Agencies (2017).

How is it implemented?

Besides the actual priorities and the process of their selection, agencies also differ in how they execute their targeting activities, i.e. how they allocate staff and resources and what services they offer as part of their prioritisation strategies. Some IPAs may choose to have formal organisational structures – e.g. dedicated units – or dedicated staff for target sectors, projects or clients; while others may rely on less formal approaches. Agencies may also allocate differently their budget or perform a different total number or type of activities in function of their prioritisation choices.

Table 3.2. Existence of a dedicated organisational unit for priority sectors/countries among OECD IPAs, by country

Formal unit	No formal unit
Australia	Austria
Canada	Finland
Chile	Iceland
Czech Republic	Latvia
Denmark	Netherlands
Estonia	New Zealand
France	Norway
Hungary	Poland
Ireland	Portugal
Israel	Slovak Republic
Japan	Slovenia
Korea	Spain
Mexico	Switzerland
Sweden	United States
Turkey	
United Kingdom	

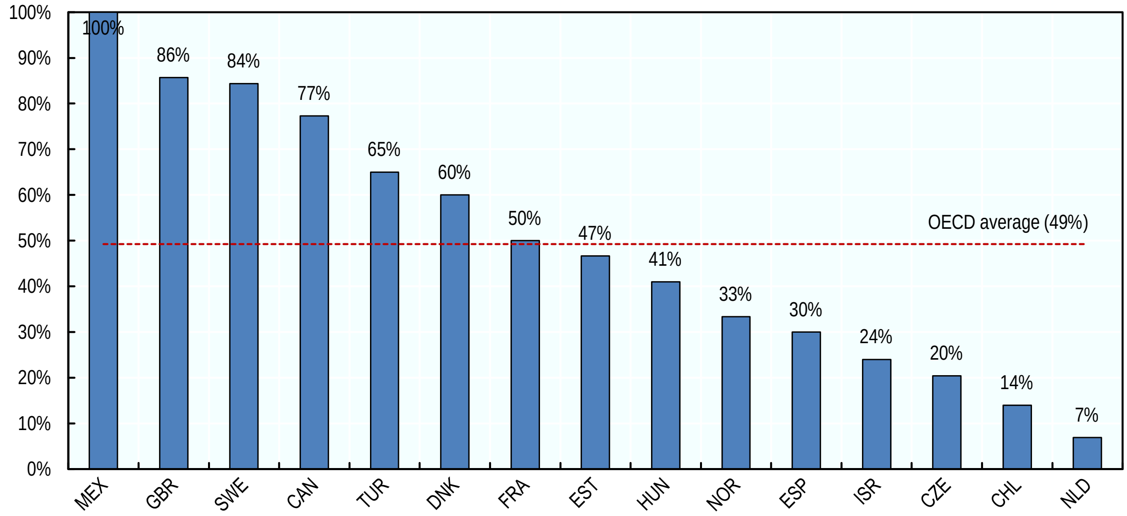
Source: OECD-IDB survey of Investment Promotion Agencies (2017).

The agencies differ in the formal approaches to prioritisation. For example, just over a half of OECD IPAs have formal organisational units devoted to targeted sectors and/or countries while other agencies rely on less formal approaches (Table 3.2). Some agencies shape their entire organigrams or internal reporting structures in function of the targeted sectors, hiring accordingly staff with the profile, network and capacities in the targeted sectors.

Similarly, large disparities exist among agencies in the share of investment promotion staff assigned to priority sectors and countries (Figure 3.7). Some agencies dedicate all or large proportion of their employees to priority sectors and countries (e.g. Mexico, United Kingdom, Sweden, Canada) while other agencies (e.g. France, Netherlands, Chile, Czech Republic) only small shares.[24] On average, 49% of IPAs staff is dedicated to priority sectors and 37% have prior experience in the targeted sectors.[25] The choice of priority sectors, therefore, affects heavily the profile of the agencies' staff; and could provide fertile ground for exchanges among IPA professionals.

Figure 3.7. Share of staff assigned to priority sectors by the OECD IPAs

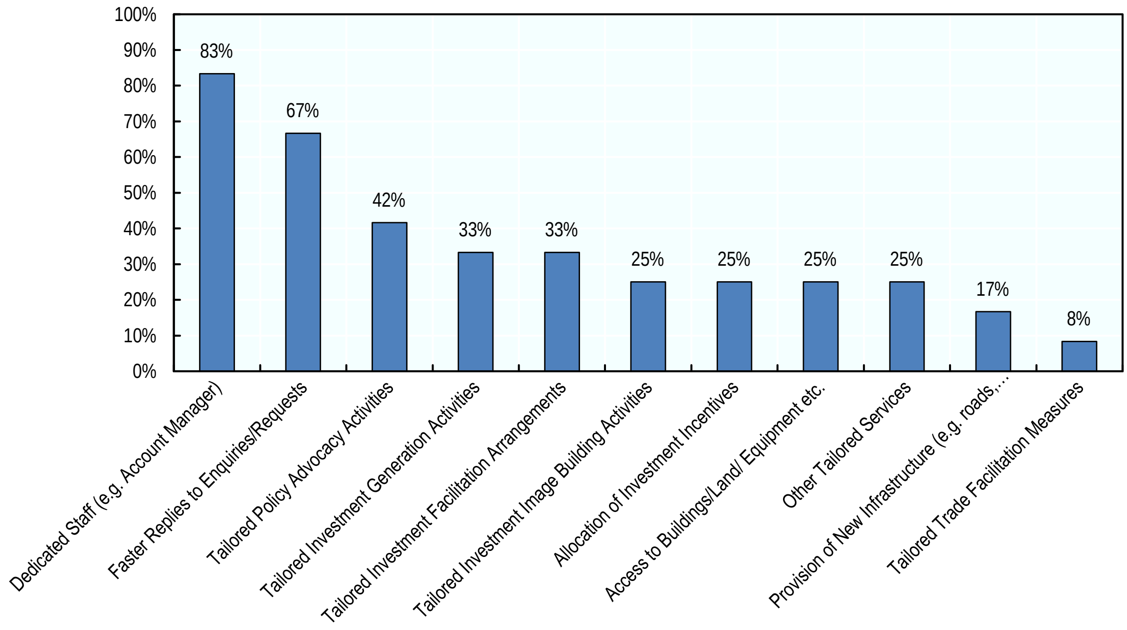
In %



Note: The average is calculated for the 15 IPAs shown in the graph that provided the detailed information.
Source: OECD-IDB survey of Investment Promotion Agencies (2017).

Some IPAs targeting specific investors (47% of all OECD IPAs) also offer specific tailored services to their priority clients (Figure 3.8). The most frequent type of service is dedicated staff (83%), e.g. in the form of account managers following a client. The account manager may at times be charged with follow-ups with the client to identify if any assistance is needed and learn about the experience of an investor and any future plans. Priority investors may also benefit from faster replies to enquires and requests (67%) as well as tailored policy advocacy activities (42%), which sometimes encompass fast-track programmes offered to priority investors. Some IPAs mention explicitly that they tend to contact the authorities or facilitate the resolution of problems on behalf of their priority clients, and some vary the level of access to the government facilitated by IPA in function of the importance of the investor (e.g. United Kingdom).

Figure 3.8. Type of services provided to priority investors by OECD IPAs

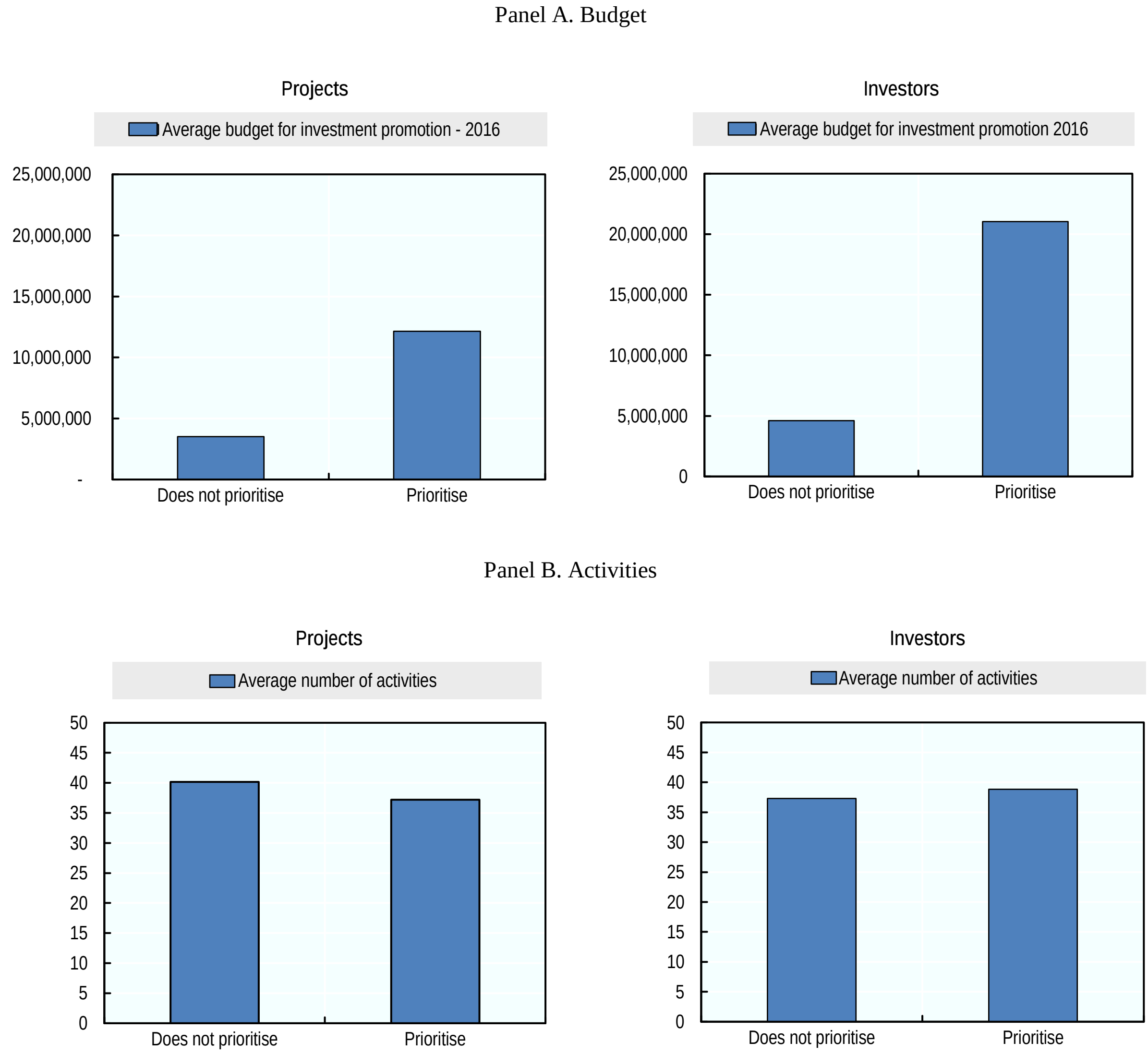


Source: OECD-IDB survey of Investment Promotion Agencies (2017).

Last but not least, prioritisation strategies can also influence agency budgets and activities. As explained in Chapter 2 on IPA functions and activities, providing information on targeted sectors as well as organising or attending sector-specific events at home and abroad is one of key activities that IPAs undertake. The sector-specific events alone account, on average, for one tenth of all activities undertaken by OECD IPAs. Unsurprisingly, sector-level information is also featured prominently on the IPAs' websites, often in the form of sector-specific brochures with key information on the sector and provision of contacts to the agency's sectoral experts.

In addition, agencies that prioritise specific projects or investors have on average higher budgets than those that do not (Figure 3.9). This may suggest that such targeting may be relatively budget-intensive to provide the specific assistance (e.g. because it requires highly specialised staff or resources) or that larger IPAs tend to perform such prioritisation more frequently. It is, hence, an open question whether the budget intensity of prioritisation efforts may be capturing the relative quality of the services provided. In turn, there are no immediately observable differences in the total number of activities undertaken by IPAs that prioritise projects and investors and those that do not. This suggests that prioritisation does not necessarily lead to a slimming-down of activities that the agency performs, i.e. there is a certain set of services that need to be provided to clients. What it may change, however, is the type of activity tailored to a particular client.

Figure 3.9. Budget and activities of OECD IPAs according to prioritisation



Source: OECD-IDB survey of Investment Promotion Agencies (2017).

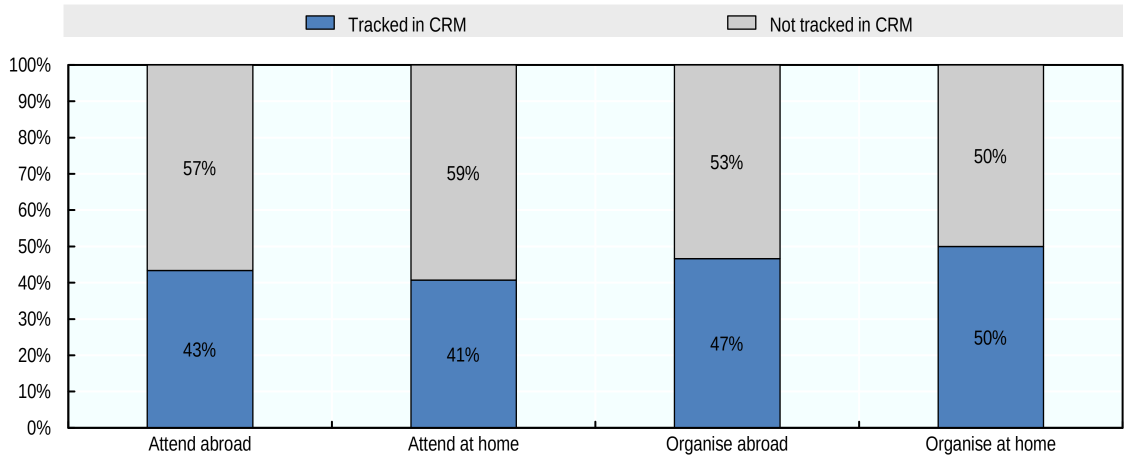
How is it evaluated?

Given the interest of surveyed IPAs in prioritising investments with particular impacts – notably on innovation and employment, it is worth considering whether the criteria used to prioritise projects correspond to the evaluation criteria used by the agencies, discussed in more detail in Chapter 4. In other words, do the agencies monitor if the projects that they target actually deliver the intended results? If that was the case, IPAs would have a consistent toolkit, allowing them to target what they care about, and evaluate the impact of its targeting effort, to then improve the targeting itself over time.

The first step towards evaluating the contribution of sector-, project- or client specific activities is their monitoring, including the rates of convergence into realised investment. Despite the importance of sector-specific activities and the prioritisation strategies more generally, it appears that their execution is not monitored systematically by agencies. For example, even though investment generation activities in general, including sector-specific activities, are one of the most monitored parts of the IPAs' business (see Chapter 4), the shares of Customer Relationship Management (CRM)-tracking for individual sector-specific activities still does not surpass 50% (Figure 3.10).

Figure 3.10. The share of sector-specific investment generation activities tracked in the CRM of the OECD IPAs

In %



Source: OECD-IDB survey of Investment Promotion Agencies (2017).

In addition, as discussed in Chapter 4, the criteria used for prioritisation and evaluation do not appear to correspond perfectly, which may complicate the task of IPAs wishing to verify whether their prioritisation efforts bring about the desired effects. While the number of projects and total FDI are the most commonly tracked metrics, the more specific indicators linked to the prioritisation criteria, e.g. on innovation, exports, regional development or wages, are less common and still pose a challenge to IPAs (see Chapter 4 for a detailed discussion of monitoring and evaluation tools and strategies employed by IPAs). Potentially as a result of the above, agencies may face challenges in controlling the impact of the investment that they assist, and using it to improve their prioritisation efforts over time. For example, as shown in Chapter 4, while 71% of the OECD IPAs take an action when their target is not achieved, slightly over one half do so when an investor does not deliver on a promise, revealing existing asymmetries.

Conclusion

Overall, tools and methods for targeting specific sectors, countries and clients by IPAs are varied and relatively complex. They involve a careful act of balancing between specialisation and flexibility, non-discrimination and a strategic allocation of resources, confidentiality and transparency, posing a dilemma to the IPAs' management and staff. The decision-making process is also layered, involving in part internal decisions, in part market studies and expert views, and in part the views of other stakeholders and political pressures that the IPAs need to manage – and it appears that agencies rely to varying degrees on these various tools. In addition, there are various ways of implementing prioritisation, whereby some agencies rely on formal institutional solutions and hire numerous specialised staff while others rely on less formal approaches. Some offer specialised services to targeted investors (e.g. dedicated staff or faster replies). Lastly, it appears that the choice of the agency's priorities, and its specific operationalisation, may affect the agency's organisation and internal resource allocation and, ultimately, the kind of investment that the agency assists and FDI that the country attracts. This chapter has provided a broad overview of the different methods, tools and outcomes of the prioritisation efforts of OECD IPAs. It also raises several questions that can be addressed in future analysis, notably pertaining to the methods used for selection of priority sectors and the impact that may have on the choice of the targets, operationalisation of strategies for pro-active and reactive prioritisation and exclusion, specific tools used for effective prioritisation by agencies and the impact of these strategies on IPAs' performance (see the last chapter of this report *The way forward*).

Annex 3.A. Overview of prioritisation and exclusion strategies by OECD IPAs

Annex Table 3.A.1. Overview of prioritisation strategies by IPAs in OECD countries

#	Country	Priority sectors	Priority projects	Priority investors
1	Australia	Yes	Yes	Yes
2	Austria	Yes	Yes	No
3	Canada	Yes	No	Yes
4	Chile	Yes	No	No
5	Czech Republic	Yes	No	No
6	Denmark	Yes	Yes	No
7	Estonia	Yes	No	No
8	Finland	Yes	Yes	Yes
9	France	Yes	Yes	Yes
10	Germany	Yes	No	No
11	Greece	Yes	Yes	Yes
12	Hungary	Yes	Yes	Yes
13	Iceland	Yes	Yes	No
14	Ireland	Yes	Yes	No
15	Israel	Yes	Yes	Yes
16	Japan	Yes	No	No
17	Korea	Yes	Yes	No
18	Latvia	Yes	No	No
19	Mexico	Yes	Yes	Yes
20	Netherlands	Yes	Yes	No
21	New Zealand	Yes	Yes	No
22	Norway	Yes	Yes	Yes
23	Poland	Yes	Yes	No
24	Portugal	Yes	Yes	Yes
25	Slovak Republic	Yes	No	No
26	Slovenia	Yes	Yes	Yes
27	Spain	Yes	Yes	Yes
28	Sweden	Yes	Yes	Yes
29	Switzerland	Yes	Yes	No
30	Turkey	Yes	Yes	No
31	United Kingdom	Yes	Yes	Yes
32	United States	Yes	Yes	No

Source: OECD-IDB survey of Investment Promotion Agencies (2017)

Annex Table 3.A.2. Overview of exclusion strategies by IPAs in OECD countries

#	Country	Exclude Sectors/Countries	Exclude Projects	Exclude Investors
1	Australia	No	Yes	No
2	Austria	No	No	No
3	Canada	Yes	No	No
4	Chile	No	No	No
5	Czech Republic	No	Yes	No
6	Denmark	No	Yes	No
7	Estonia	No	No	No
8	Finland	No	No	No
9	France	No	No	No
10	Germany	No	No	No
11	Greece	No	No	No
12	Hungary	Yes	No	No
13	Iceland	Yes	No	No
14	Ireland	Yes	Yes	No
15	Israel	No	No	No
16	Japan	No	No	No
17	Korea	Yes	No	No
18	Latvia	Yes	No	No
19	Mexico	No	No	No
20	Netherlands	No	Yes	No
21	New Zealand	Yes	Yes	No
22	Norway	Yes	Yes	No
23	Poland	No	Yes	No
24	Portugal	No	No	No
25	Slovak Republic	No	No	No
26	Slovenia	No	No	No
27	Spain	No	No	No
28	Sweden	Yes	Yes	No
29	Switzerland	Yes	Yes	No
30	Turkey	No	No	No
31	United Kingdom	Yes	Yes	No
32	United States	No	Yes	No

Source: OECD-IDB survey of Investment Promotion Agencies (2017)

Chapter 4. Monitoring and evaluation

Ensuring the efficiency of public action is a constant preoccupation of governments, and investment promotion is no exception. IPAs are expected to provide evidence and documented reports of their results and performance in attracting FDI and generating related economic benefits. According to some OECD IPAs, pressure to demonstrate success has been growing in the past few years, as a result of tighter budgets and increasing transparency expectations over public spending.

The purpose of monitoring and evaluating IPAs is two-fold. The first aim is to measure the outcomes of an IPA's action, that is to say assess its impact on the economy and whether the underlying policy objectives for investment promotion are met, and the second is to measure the outputs of an IPA, which means to assess the efficiency of an IPA in conducting its activities. The first aim is the most challenging. Data on annual FDI inflows and number of jobs created are easily accessible, but it is a complex task to demonstrate economic benefits such as green growth or skill improvement as a direct result of an IPA's actions; this requires relevant and reliable data that are usually unavailable. The second aim is more prosaic as it is common to most organisations, and it essentially requires adequate management tools and processes. Key performance indicators (KPIs) used to assess IPAs according to the two aims of monitoring and evaluation can be subsequently classified into outcome indicators (relating to the first aim) and output indicators (relating to the second).

Monitoring and evaluating are two complementary actions both relating to performance assessment and improvement. Monitoring consists in verifying that an ongoing activity or project's status is in line with its schedule and intermediary objectives, and proposing corrective measures if it is not. Evaluation, on the other hand, is an exercise consisting in rating an organisation, an activity or a project's performance against a set of criteria within a time frame. When performance is not in line with expectations, a feedback process is launched to remedy underlying causes.

This chapter shows that although OECD IPAs adopt different approaches to monitoring and evaluation, there are some overall trends and common practices. Close to two thirds of IPAs have a dedicated evaluation unit that reports to the IPA's head, board or management, and most use customer relationship management (CRM) systems to track and monitor their activities. Overall, they rely more on qualitative evaluation methodologies such as benchmarking, surveys and consultations than on quantitative methodologies such as econometric studies. Among OECD IPAs, the most widely used output indicators relate to investment projects, investing firms, assisted firms and client satisfaction, and the most widely used outcome indicators relate to jobs and FDI inflows. Conversely, only a minority of agencies calculate overall performance ratios.

This chapter starts by exploring the organisational setting, reporting and feedback processes and data tracking tools of the investment promotion monitoring and evaluation. It then describes the methodologies and indicators IPAs employ to effectively assess and evaluate their actions and rate their performance.

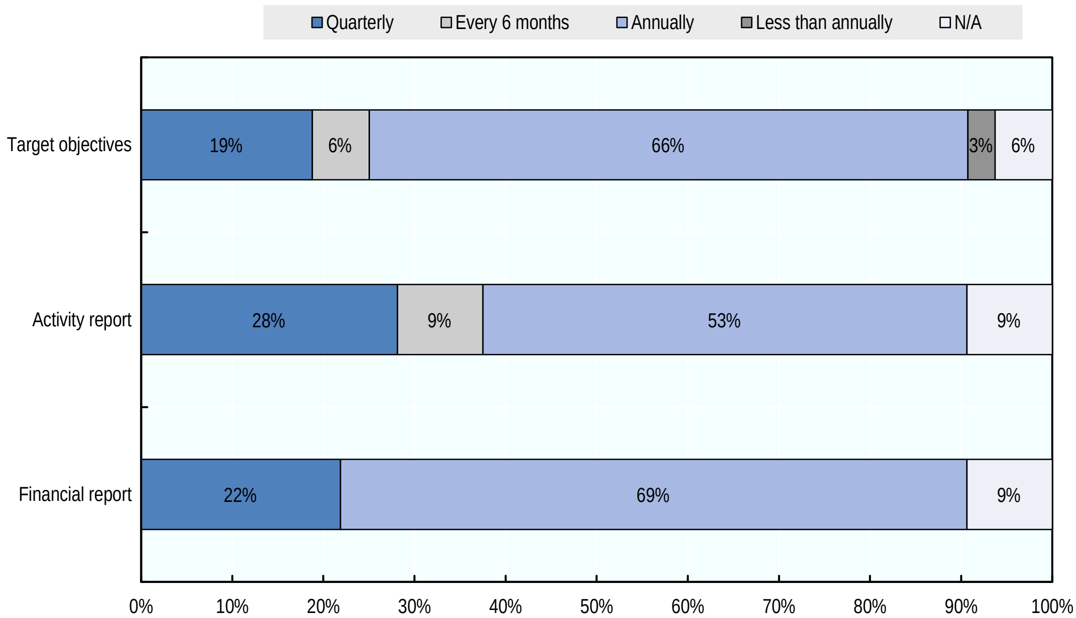
Organisational setting and reporting, data tracking tools and feedback processes

Investment promotion monitoring and evaluation relies on several organisational dimensions: how is the evaluation work organised? What tools are available to track and process the relevant data? How are results used to improve performance? Answering these questions allows a better understanding of how OECD IPAs organise the assessment and communication of their own performance.

Organisational setting and reporting processes

As discussed in Chapter 1, almost all IPAs (97%) work with target objectives, and a large majority produce financial (88%) and activity reports (88%) that are submitted to the board or to the government. The documents are most often published annually (between 53% and 69% of cases), sometimes quarterly (19% to 28% of cases) and in rare instances bi-annually or less than yearly (Figure 4.1). Close to half (47%) of IPAs publicly share their activity reports and 53% publicly share their financial reports. Whether these publicly available reports, which can be consulted on IPAs' websites, enable a true performance assessment of IPAs remains to be seen.

Figure 4.1. Frequency of objective-setting and report documents

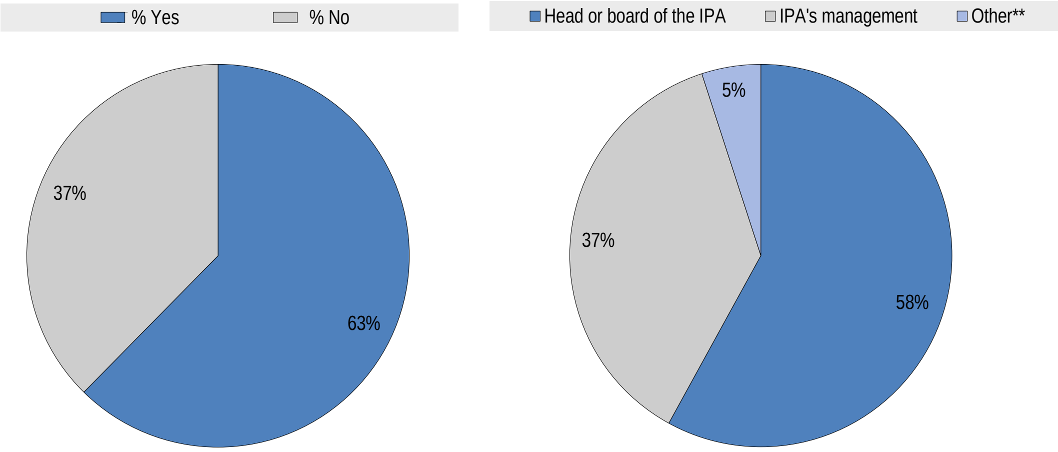


Source: OECD-IDB survey of Investment Promotion Agencies (2017).

Close to two thirds of OECD IPAs (63%) also have a dedicated internal evaluation unit (Figure 4.2). In most cases these evaluation units consist of one or two dedicated staff, with the notable exceptions of IPAs in the United Kingdom (12 staff), Ireland (7 staff) and Mexico (4 staff). In all surveyed IPAs, 50% or more of the dedicated evaluation staff holds a Masters or a Doctorate (which is higher than the 40% average for all staff as mentioned in Chapter 1). 58% of evaluation units report directly to the IPA's head or to its board, and another 37% more broadly report to the IPA's management. Contrarily to activity reports and financial reports, evaluation work from dedicated units does not appear to be directly reported to the government.

Figure 4.2. OECD IPAs' evaluation organisational setting

A. % of IPAs with a dedicated evaluation unit B. Reporting authority of dedicated evaluation units*



Notes: (*) Among the 20 IPAs that have a dedicated evaluation unit and specified its nature; (**) Ministerial department the IPA is part of.
Source: OECD-IDB survey of Investment Promotion Agencies (2017).

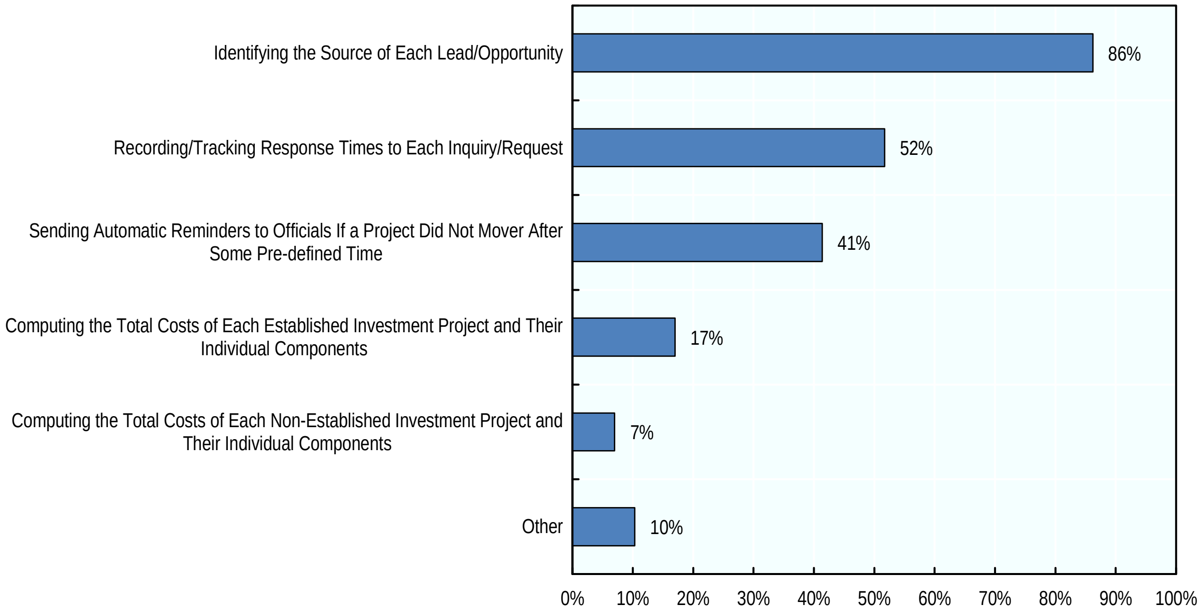
Data tracking and processing tool: CRM

Customer relationship management (CRM) systems are very popular among sales and marketing functions of public and private companies. This tool supports organisations in managing their relationships with prospects and customers and in collecting and analysing related data. These systems are also very useful to monitor and evaluate performance thanks to their data collection, processing and analysis functions. IPAs can use CRM systems to track their interactions with investors and ensure an end-to-end monitoring of each promising relationship.

According to the OECD-IDB survey, 94% of surveyed IPAs use CRM software. The main application of the CRM tool is by far the identification of the source of each project lead (86%). IPAs thus widely use CRM systems to monitor the effectiveness of their investment project channels and identify the most successful ones. To a lesser extent, IPAs use their CRM tool to track response times (52%) and to trigger follow-up actions in case the organisation has been slow to respond to an enquiry or a request (41%) (Figure 4.3). Only a minority of IPAs, however, use their CRM systems to calculate the total costs of successful projects (17%) or of lost and suspended projects (7%).

Figure 4.3. Possibilities offered by CRM systems

% of IPAs that have CRM systems

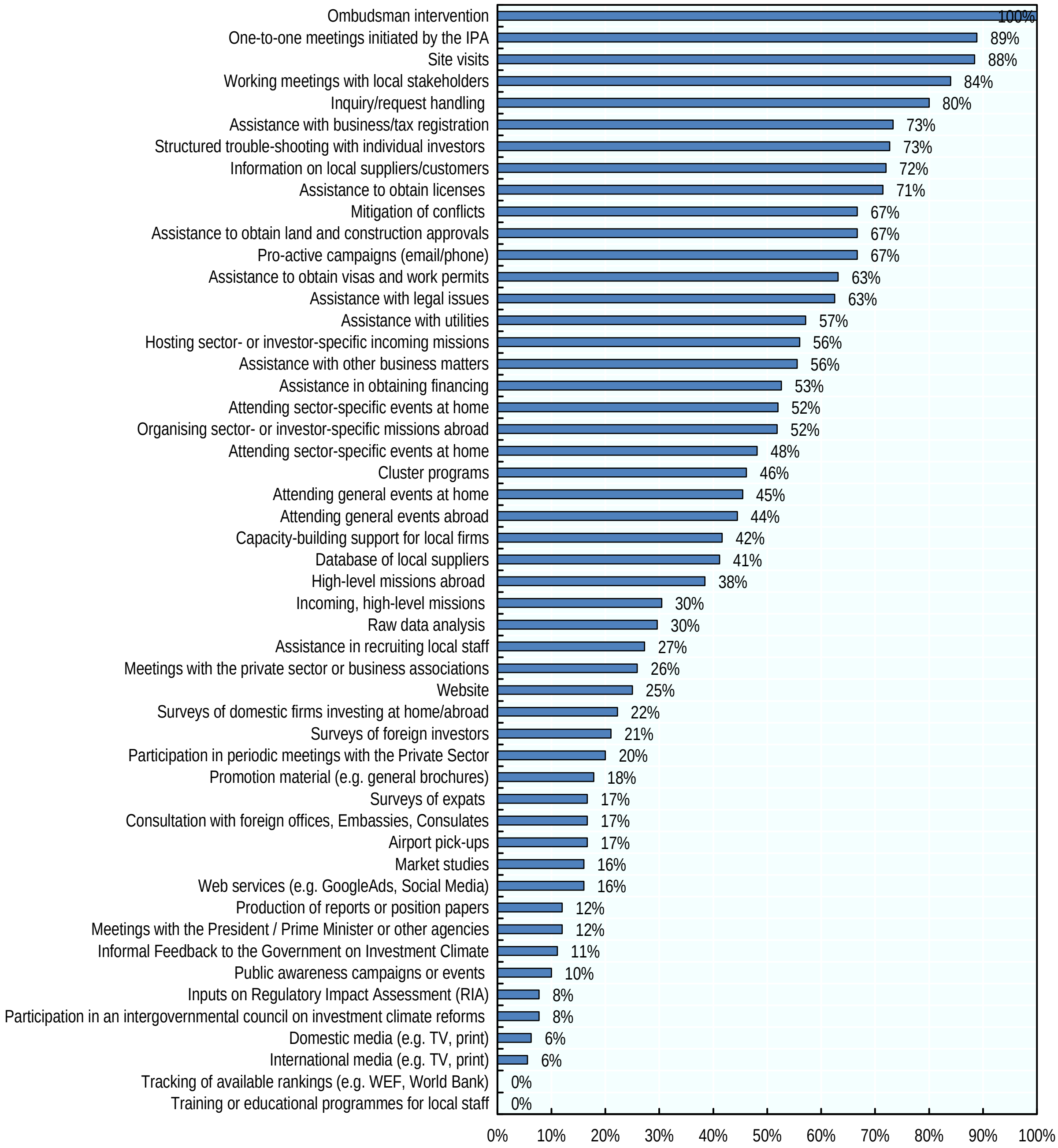


Note: "Other" category includes "details on investment interest" and "tracking activities between an IPA and an investor".
Source: OECD-IDB survey of Investment Promotion Agencies (2017).

Investment facilitation and investment generation are the two core functions that IPAs track and monitor the most via their CRM systems. Among IPAs that have CRM tools, 60% of investment facilitation and retention and 57% of investment generation activities are tracked on average, while respectively 25% and 18% of image building and policy advocacy activities are tracked. These results reflect that investment generation and investment facilitation are the functions that involve most direct interactions with investors. IPA services to support project definition and implementation, such as working meetings, site visits, administrative assistance and problem-solving, are the most tracked activities, along with request handling and direct marketing campaigns (Figure 4.4). Conversely, IPAs hardly use their CRM tools to monitor analytical work, consultations and meetings for policy advocacy purposes and media campaigns.

Figure 4.4. CRM-tracking of IPAs' activities

In % of IPAs having a CRM system and performing the activity*



Note: (*) Percentages are calculated on the basis of IPAs that have a CRM system and perform a specific activity. For example, among IPAs that have a CRM system and have established an ombudsman service, 100% track this activity in their CRM system.
Source: OECD-IDB survey of Investment Promotion Agencies (2017).

Feedback process

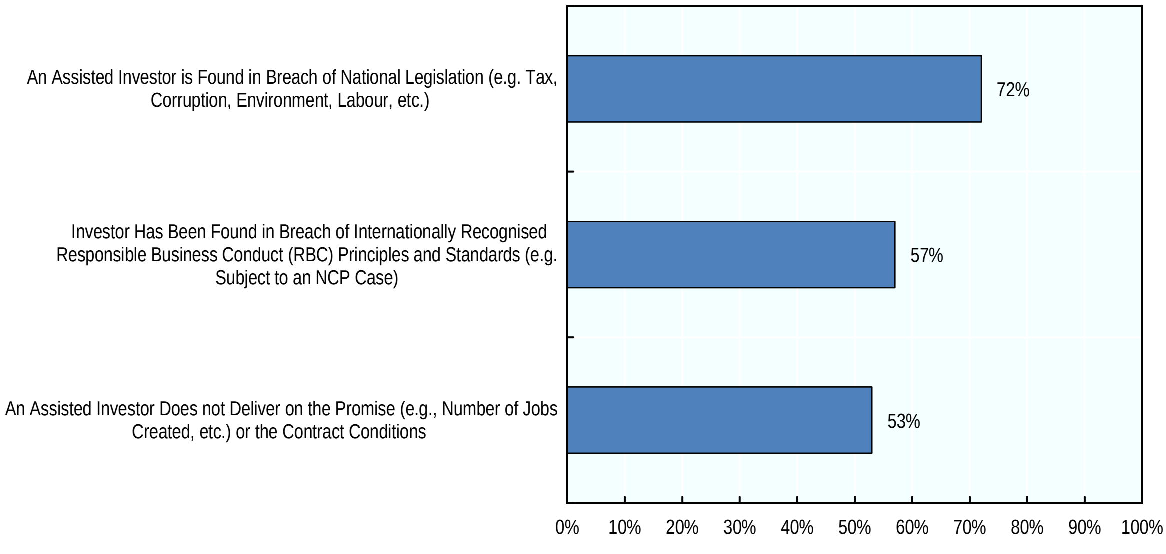
Generating and using feedback as a result of evaluation and monitoring is a critical process without which a monitoring and evaluation function is incomplete. A feedback process informs the management about identified problems and proposes corrective actions such as readjusting strategic objectives, re-allocating resources or increasing specific capabilities. Feedback processes also increase the overall institutional knowledge by formalising information about performance and the underlying causes of successes and failures, thus enabling learning curves. According to the OECD-IDB survey, a majority of IPAs use feedback processes and take action not only when their own targets are not reached, but also when they suspect irresponsible or problematic behaviours by investors.

The majority of OECD IPAs (71%) take action if their target objectives are not met. By deduction, 29% of IPAs do not take action if they miss their objectives, which can seem surprising. Corrective actions vary across IPAs that do take measures and according to the situation. In some instances, IPAs revise their strategy; in others, they review their internal operations and establish an improvement plan; they sometimes have to answer to their board or to the government for not meeting their targets. There can also be financial consequences: performance-tied bonuses can be affected, and sometimes governments can decide to reduce budgets.

IPAs' feedback processes are also designed to respond to problems originating from investors' behaviour (Figure 4.5): 72% of IPAs take action when investors are found in breach with legislation; 57% when investors do not comply with RBC principles; and another 53% when investors do not deliver on the terms and conditions of contracts and agreements in the framework of their investment project. In the first two cases, IPAs or relevant bodies usually undertake legal procedures and revoke their support to the incriminated investor. When investors do not deliver on the terms and agreements of their investment project, the most frequent consequences are grants and incentives withdrawal (if any), and consultations or reviews with the investor.

Figure 4.5. Events triggering corrective action

In % of IPAs



Source: OECD-IDB survey of Investment Promotion Agencies (2017).

Methodologies and indicators

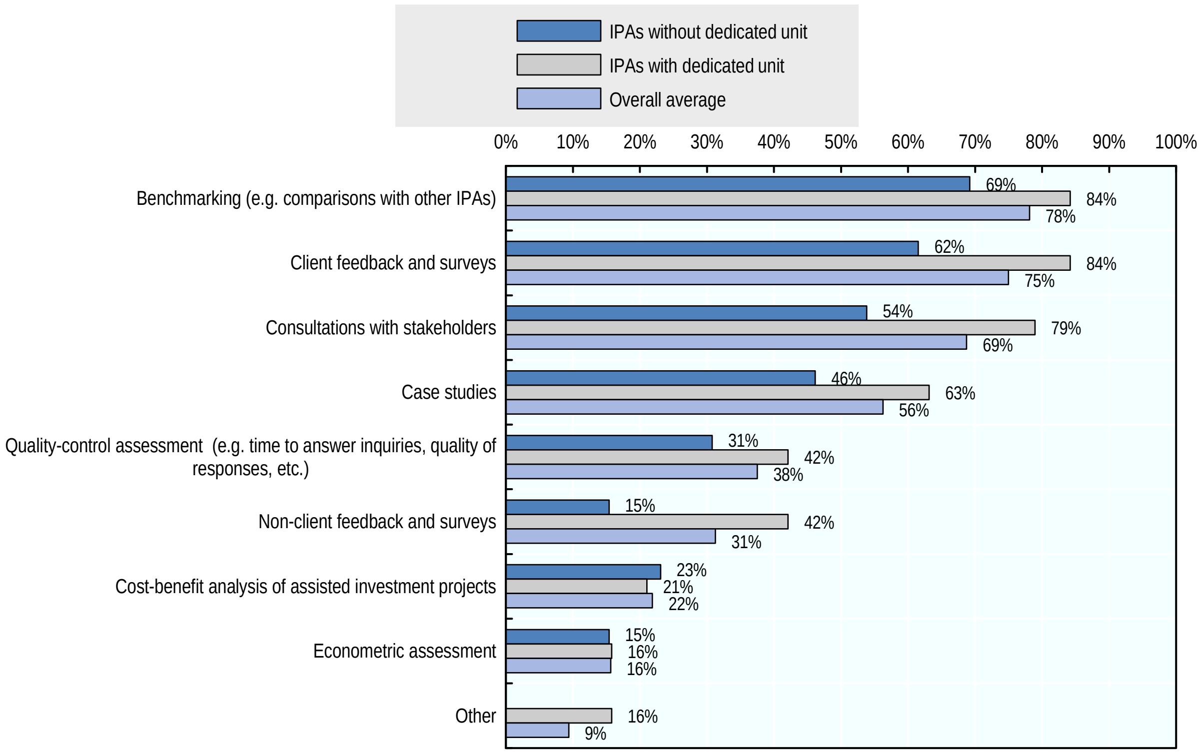
To assess their performance and impact in attracting inward FDI, IPAs can rely on an array of methodologies and indicators. While methodologies provide a comprehensive framework to analyse specific IPA activities or aspects of the investment promotion (from assisted investor satisfaction to economic impact assessment), indicators provide a measure of a specific achievement and allow for comparison with target objectives. Depending on the assessed activity or project, methodologies can be either quantitative or qualitative, rely on internal or on external data, and even on external or internal assessment. Most of the time, IPAs rely on different combinations of methodologies and indicators.

Evaluation methodologies

Overall, OECD IPAs appear to favour qualitative evaluation methodologies over quantitative ones. The most widespread methodologies employed are benchmark comparisons (78% of IPAs), client feedback and survey (75%), consultations with stakeholders (69%) and, to a lesser extent, case studies (56) (Figure 4.6). On the other hand, quantitative methodologies are less used, with only 38% of surveyed IPAs performing quality-control assessments, 22% cost-benefit analyses and 16% econometric assessments. Quality-control assessments could have been expected to be more widespread as almost all IPAs use CRM tools.

Figure 4.6. IPAs' evaluation methodologies

In % of respondents



Source: OECD-IDB survey of Investment Promotion Agencies (2017).

IPAs that have a dedicated monitoring and evaluation unit tend to use more frequently the different assessment methodologies than those that have no such unit. IPAs with dedicated evaluation units perform significantly more non-client feedback collection and surveys, consultations with stakeholders and client feedback and surveys. They conduct no more cost-benefit analyses and econometric assessments than their counterparts without a dedicated unit, however.

Behind the average figures, each methodology can be implemented in different ways. Benchmarking can be conducted either on an ad hoc basis (for example in Iceland and Canada), through informal discussions or formal peer exchanges during seminars and conferences, or as a periodic exercise involving intelligence gathering and data analysis (as in Australia). Benchmarks can cover IPAs' operations to identify best practices in promoting and attracting investment into the home economy, or they can consist in gathering economic and policy indicators to compare investment climates. Similarly, client feedback and surveys can be more or less formal, frequent and standardised. Some IPAs such as JETRO systematically collect investors' feedback after a project is implemented, some like Select USA run annual surveys and others like Austrade rely on *ad hoc* exchanges and meetings. The same goes for consultations with stakeholders, although formal meetings and consultations are much more widespread than informal ones.

These survey results on evaluation methodologies highlight one of the problems often reported by IPAs: the lack of reliable, consistent and quantitative information to comprehensively assess the relevance and performance of their actions. As useful as they are, competitor benchmarks and investors' surveys alone may not be the most adequate tools for regular and systematic evaluation. Thorough benchmarking requires access to reliable and comparable information that is often not public, if at all available. Such exercises are therefore often done with partial information and can provide incomplete or ambiguous results. Investor surveys also have their limitations. Samples can easily be biased, especially if IPAs rely on investors who already invested in their economy. Investors may also not be willing to participate on a regular basis in such surveys. Qualitative tools should thus ideally be complemented by more quantitative and systematic approaches, whenever possible.

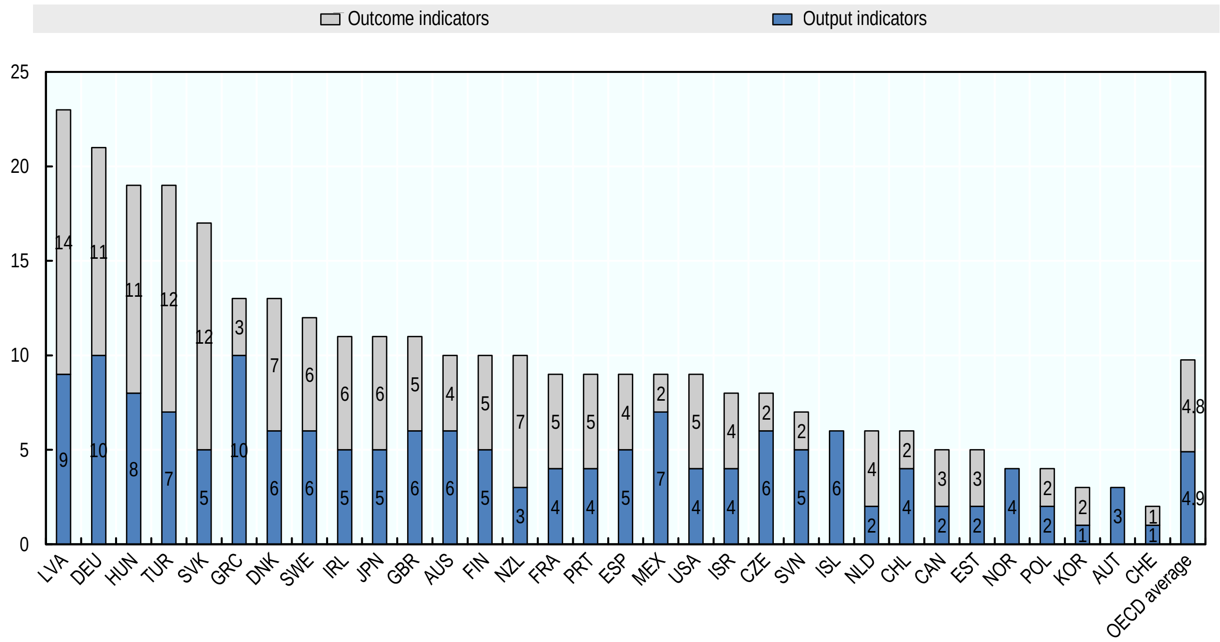
Monitoring and evaluation indicators

Monitoring and evaluation indicators – often referred to as key performance indicators (KPIs) – are metrics that measure organisational performance and success in reaching target objectives. They can measure performance at the level of an entire organisation, a unit, an activity or a project. To be relevant, they should be consistent with the target objectives of the organisation, unit, activity or project they relate to.

IPAs' performance indicators can be divided into two sets following their two broad monitoring and evaluation objectives. The first set of indicators, named output indicators, focuses on the agency itself, its inputs (such as number of campaigns launched), processes (such as time to respond) and results (such as number of assisted firms) and provides effectiveness and efficiency measures. The second category, named outcome indicators, focuses on the underlying policy objectives of investment promotion and measures the benefits of IPA actions in the economy.

OECD IPAs rely on 9.8 different indicators on average including 4.9 output indicators (such as number of investment projects, number of firms investing and time to respond to enquiries) and 4.8 outcome indicators (such as size of FDI and number of jobs created), but these figures hide wide disparities across IPAs (Figure 4.7). Five IPAs (from Latvia, Germany, Hungary, Turkey and Slovak Republic) use more than 15 different monitoring and evaluation indicators, while at the other end of the spectrum IPAs of Chile, Austria, Korea, Poland and Norway use fewer than five different indicators. The existence of a dedicated evaluation unit does not have an impact on the number of indicators used by IPAs: the average number of indicators used by IPAs with a dedicated unit (9.8) is the same as for IPAs without one.

Figure 4.7. Number of indicators used by IPAs

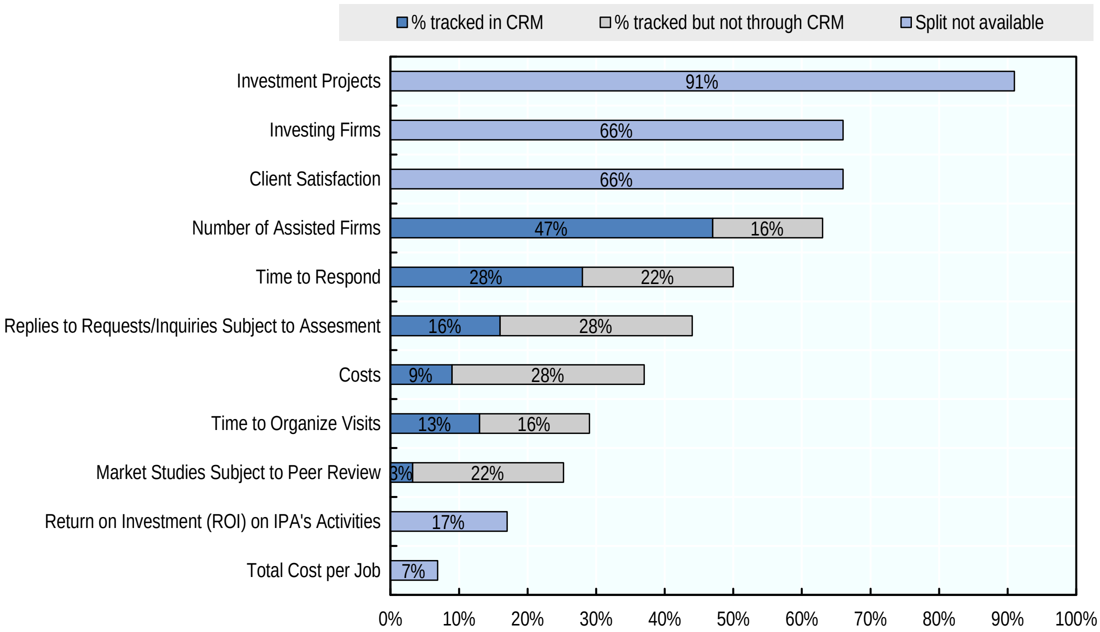


Source: OECD-IDB survey of Investment Promotion Agencies (2017).

According to the OECD-IDB survey, output indicators that OECD IPAs use the most relate to investment projects (91%), investing firms (66%), client satisfaction (66%) and number of assisted firms (63%) (Figure 4.8). Apart from the number of assisted firms, which is directly tracked in CRM systems most of the time, specific approaches to build these indicators can vary considerably. For example, IPAs can measure volume of investments (such as the number of projects), value (such as the total amount of investment in USD or in local currency), or both. The number of projects can take all facilitated projects into account including reinvestments or focus on new projects only. They can also measure specific projects according to priority criteria, such as greenfield investments. Some indicators measure project leads or number of launched projects, while others consider only those that are effectively implemented. A majority of IPAs rely on surveys and rating systems to measure client satisfaction, but these can vary considerably across IPAs.

Figure 4.8. Output indicators used by IPAs

In % of surveyed IPA



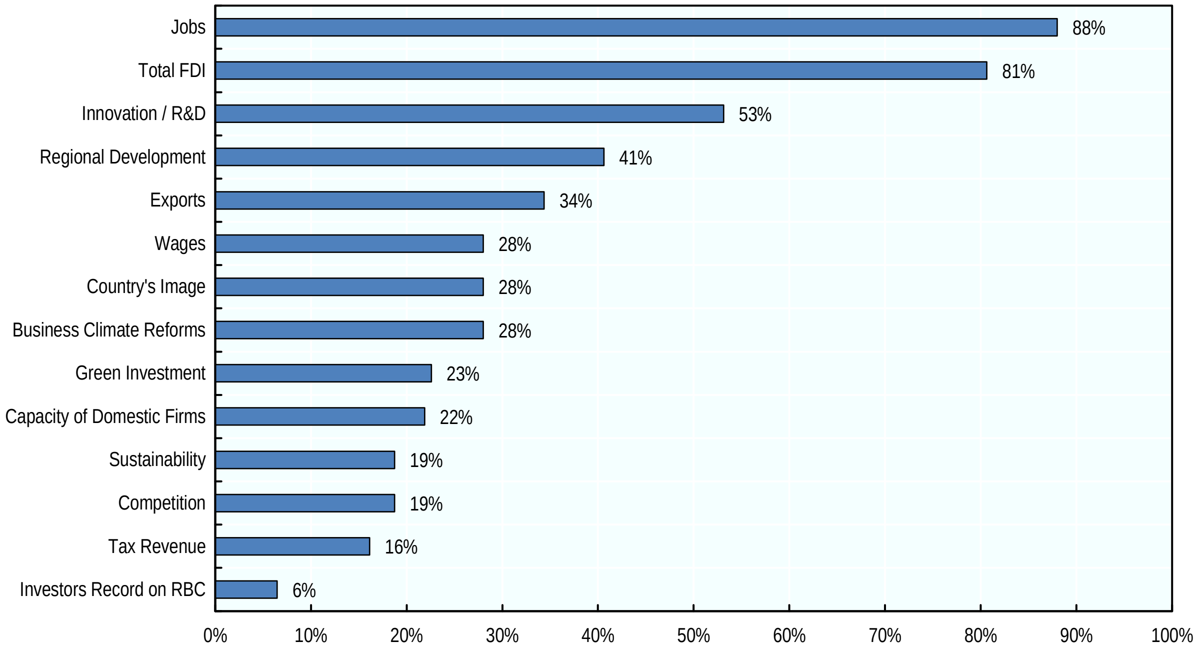
Source: OECD-IDB survey of Investment Promotion Agencies (2017).

Output indicators relating to internal process performance that measure IPAs' time to respond (50%) and quality and accuracy of responses to inquiries and requests (42%) are relatively widespread. To a lesser extent, IPAs also monitor their time to organise visits (26%). These three productivity indicators are monitored via CRM systems half of the time. Although just over one third of IPAs use indicators relating to costs (36%), only 14% calculate their activities' return on investment and 7% measure the total cost per job created.

Among outcome indicators, job- and FDI-related ones are by far the most favoured (by respectively 88% and 81% of IPAs). When comparing the shares of outcome indicator usage with the importance of prioritisation criteria discussed in Chapter 3 of this report, the gap between relatively simple FDI metrics (jobs and total FDI indicators), on the one hand, and all other indicators, on the other hand, appears disproportionately wide (Figure 4.9). For example, innovation and R&D related indicators are used by only 53% of IPAs despite their prevalence in many agencies' mandates (discussed in Chapter 1) and their importance in prioritisation efforts (in Chapter 3). The same goes for the other indicators relating to exports, wages, regional development, sustainability and RBC (or responsible investment in general) that are relatively less frequently used by IPAs.

Figure 4.9. Outcome indicators used by IPAs

In % of surveyed IPAs

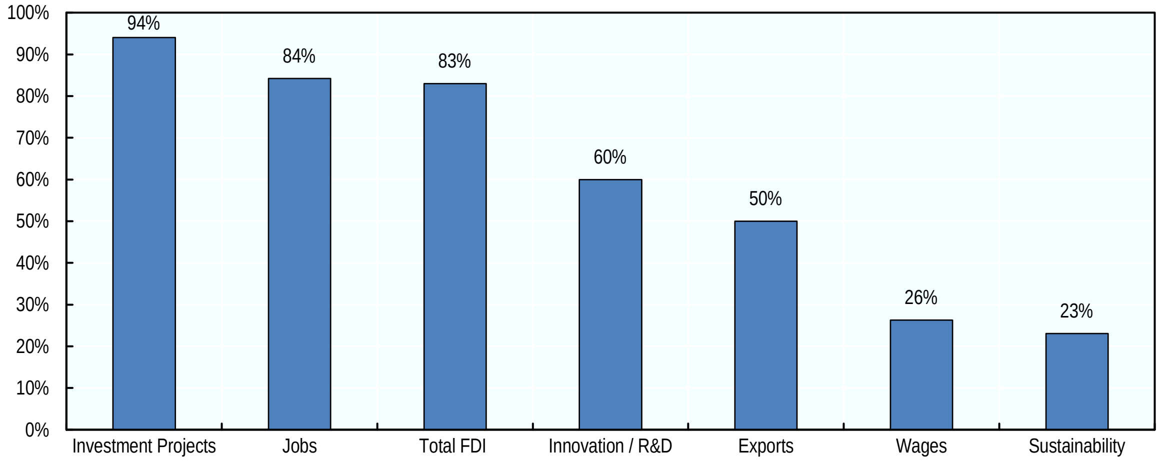


Source: OECD-IDB survey of Investment Promotion Agencies (2017).

This is most visible when comparing the criteria mentioned by agencies as important in their prioritisation efforts with the evaluation indicators outlined in this section. As argued in Chapter 3, one could expect IPAs to monitor and evaluate outcomes consistently with their prioritisation criteria. As shown in Figure 4.10, however, these two sets do not necessarily correspond, except for core FDI indicators. For example, while the majority of IPAs target innovation, only 60% of agencies prioritising innovation monitor innovation and R&D-related activities. Similarly, only half of agencies targeting exports monitor export performance of the assisted firms or related proxies and only one fifth of agencies that prioritise sustainable investment projects gather any information in this area. Meanwhile, 93% and 83% of IPAs that report to consider the size of investment look at the total number of projects and total FDI, respectively, which may be considered as proxies; similarly, 84% of agencies that report to prioritise job creation do indeed monitor the number of jobs created (while only 26% that claim to prioritise wages gather information on this aspect).

The observed gaps between economic prioritisation criteria and economic impact indicators can be explained by data availability, as IPAs consistently report that one of their main challenges for impact assessment is the lack of reliable and relevant statistics. A wide range of national statistics on employment and FDI are usually readily available whereas statistics on innovation and R&D can be scarcer and potentially more difficult to link with an IPA's actions to attract FDI. The same reasoning can be applied to indicators for regional development (used by 42% of IPAs), which require developing statistics at sub-national level, exports (35%) and other economic benefits from FDI such as green investment and capacity of domestic firms. There could be room to further develop national and local data that would enable IPAs and policy-makers to better monitor and evaluate the economic benefits of investment promotion.

Figure 4.10. Correspondence between project prioritisation and evaluation criteria used by OECD IPAs



Note: The figure shows the share of IPAs that report to track indicators relating to a particular prioritisation criterion, In particular, the graph shows the share of IPAs reporting to prioritise 1) the size of investment that use investment projects and total FDI evaluation indicators; 2) job creation and use jobs evaluation indicator(s); 3) innovation and use innovation and R&D evaluation indicator(s); 4) exports and use exports evaluation indicator(s); 5) wages and use wage evaluation indicator(s); and 6) sustainability and use sustainability evaluation indicator(s).
Source: OECD-IDB survey of Investment Promotion Agencies (2017).

To overcome data availability challenges, IPAs using innovation, export or regional development indicators rely on their project data. For example, IDA Ireland and Select USA calculate the R&D expenditures in investment projects that they facilitate. IDA Ireland also tracks the number or the amount of investment projects in the regions, while Select USA and the United Kingdom's Department for International Trade calculate the share of exports from foreign companies. Tracking these indicators requires adequate internal processes. There is also a risk that such indicators capture essentially short-term, direct effects while falling short of taking long-term and indirect ones into account. To avoid this, IDA Ireland monitors both short-term direct effects and long term indirect effects of FDI through surveys conducted by the agency's parent ministry.

Beside socio-economic impact, IPAs' actions can have additional benefits such as improving a country's image (tracked by 29% of IPAs) and influencing reforms to enhance the business climate (26%). These indicators can rely on qualitative assessments such as surveys, rankings and ratings and are a good way to assess the benefits of the image building and policy advocacy functions of an IPA. Such indicators are only used by a minority of IPAs however.

Chapter 5. Co-operation and co-ordination

Given the nature of their activity, IPAs operate in a dense and complex network of stakeholders – both public and non-public. They operate at the cross-roads of policy and business: they have a public sector-driven agenda to generate economic and social benefits, but they primarily serve private companies and that requires a good understanding of business models and firm-level motivations. Their activity is also very dependent on the overarching investment policy framework, which they contribute to design and improve. As examined in the second chapter of this report, their operations entail a wide range of activities that can often involve third parties.

This dense and complex stakeholder network requires strong co-operation and co-ordination skills and processes. In some instances, relationships are formalised, either through organisational links or through some form of agreement (such as a Memorandum of Understanding): their nature is thus considered here as "co-ordination". In other cases, IPAs need to interact with other stakeholders in the absence of any formal relationship definition: in such instances, the relationship is qualified as "co-operation". Relationships with sponsor authorities and with entities formally affiliated to the IPA typically involve co-ordination. In addition, co-ordination and co-operation can be needed with other public institutions as well as private sector representatives, civil society, academia and international organisations.

IPAs' institutional co-ordination requires operating at three different geographical levels: international, national and sub-national (Table 5.1). To reach out and interact with foreign investors, IPAs can rely on a network of overseas entities in charge of national representation abroad. At the national level, they need to align with the overarching investment policy agenda and co-ordinate or co-operate accordingly with other agencies involved in investment promotion. At the sub-national level, their mission often supplements regional development agencies' missions. They also sometimes need to co-operate with local governmental bodies and agencies, notably for investment facilitation activities.

This chapter shows that OECD IPAs' most strategic relationships involve institutional co-ordination with their sponsor minister, the ministry of foreign affairs and diplomatic missions abroad, sub-national agencies (affiliated or not to the IPA), and local authorities and governments. Industrial groups and associations are the only stakeholders from the private sector that rank among IPAs' most important relationships. Over three quarters of IPAs have a network of offices abroad, but the great majority also rely on diplomatic missions to promote their country as an attractive investment destination. At the sub-national level, the situation is different as IPAs mostly co-operate with local government-related agencies (only 38% of IPAs have some affiliated offices at sub-national level) to attract and retain foreign investors.

Table 5.1. General framework of IPA institutional co-operation and co-ordination

	Strategic alignment	Operational co-operation and co-ordination
International level (representation abroad)	• Strategic marketing alignment ("one voice" / clear messaging) with authorities abroad	• Investment promotion co-ordination with diplomatic missions and governmental missions abroad
National level (central government and other national agencies and administrations)	• Overarching national investment policy and other national economic policies (e.g. industrial development policies) • National branding strategy • Strategic reporting and planning to the Head of Government and Sponsor authorities	• Co-ordination with other national promotion agencies (e.g. innovation and export promotion agencies) and with industry-specific initiatives • Co-ordination with national administrative bodies for facilitation services • Co-operation and co-ordination for troubleshooting (can require strong interactions with different Ministries)
Sub-national level (sub-national authorities and agencies)	• Attraction and promotion strategy formulation / offering definition • Strategic marketing alignment ("one voice" / clear messaging)	• Investment promotion at sub-national level • Investment facilitation services (e.g. site visits) • Aftercare (e.g. local cluster programmes) • Local administrative procedures (e.g. for local incentives) • Troubleshooting at sub-national level

Source: OECD.

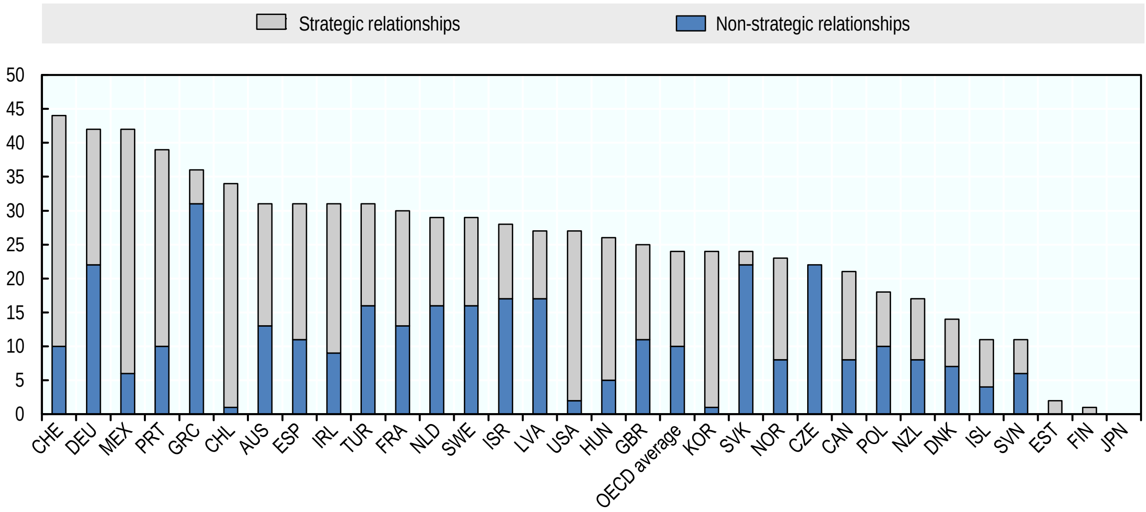
This chapter describes the networks of OECD IPAs and the hierarchy of their relationships, provides information and insights on how national IPAs structure their representations abroad and co-ordinate with overseas offices involved (including – but not limited to – their own) and looks into institutional co-operation dynamics at the sub-national level.

IPA's co-operation network

Overview of strategic partnerships

Figures from the OECD-IDB survey confirm the density of IPA networks: on average, an IPA interacts with 25 different organisations (Figure 5.1). There are variations among IPAs, but apart from three agencies (Japan, Finland and Estonia) they all interact with more than 10 organisations, and 10 IPAs interact with more than 30 organisations. On average IPAs qualify 13 organisations as "strategic partners", which is more than 50% of their total number of relationships.

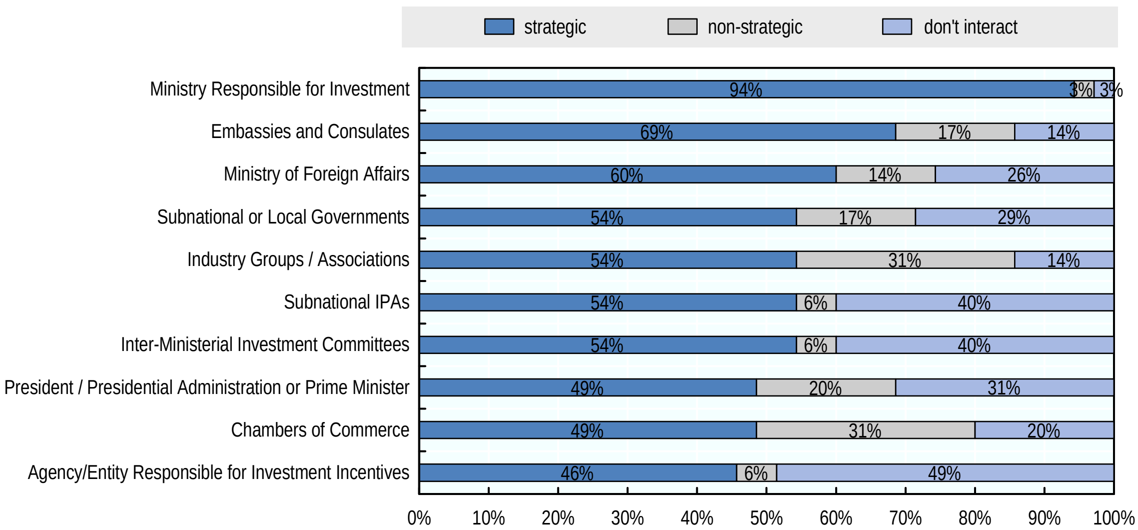
Figure 5.1. Number of organisations with which OECD IPAs interact, by country



Note: Data is not available for Austria.
Source: OECD-IDB Survey of Investment Promotion Agencies (2017).

Nine out of the ten IPA relationships considered as most strategic are with the public sector (national administration and public or semi-public organisations), which highlights the prominence of IPAs' co-ordination with their institutional environments (Figure 5.2).

Figure 5.2. OECD IPAs' ten most strategic relationships



Note: The figure shows the top ten out of 52 organisations. This ranking only takes into account institutions with which more than 25% of IPAs interact.
Source: OECD-IDB Survey of Investment Promotion Agencies (2017).

In this top ten ranking, the organisations with the highest shares of "non-strategic" responses are industry groups and associations and chambers of commerce, whereas the strategic nature of relationships with the other organisations – mostly governmental agencies – appears less disputed. This could be explained by the fact that IPAs, even if they share similar interests with the private sector, ultimately fulfil public policy objectives. Whether IPAs are public, joint public-private or private organisations does not have an impact on these results: the share of public organisations in IPAs' strategic relationships is the same (81%), regardless of their legal status.

Co-operation and co-ordination with IPAs' broader institutional framework

Relationships with the public sector are the most widespread and the most frequent: 74% of the relationships qualified as "strategic" by IPAs are relationships with public and semi-public organisations. This can be partly explained by the organic link between IPAs and governments as most of them are public organisations and depend on government funding, as detailed in Chapter 1. This result also seems in line with the very nature of IPA work, which makes them dependent on and integrated into their public institutional environment. This level of dependency stems from the systemic nature of economic policies, including investment, as well as their implementation, including their most practical aspects (such as permit delivery). As a result, a "whole-of-government" approach is considered as a good practice for effective policy design and implementation, but requires a high degree of co-ordination.

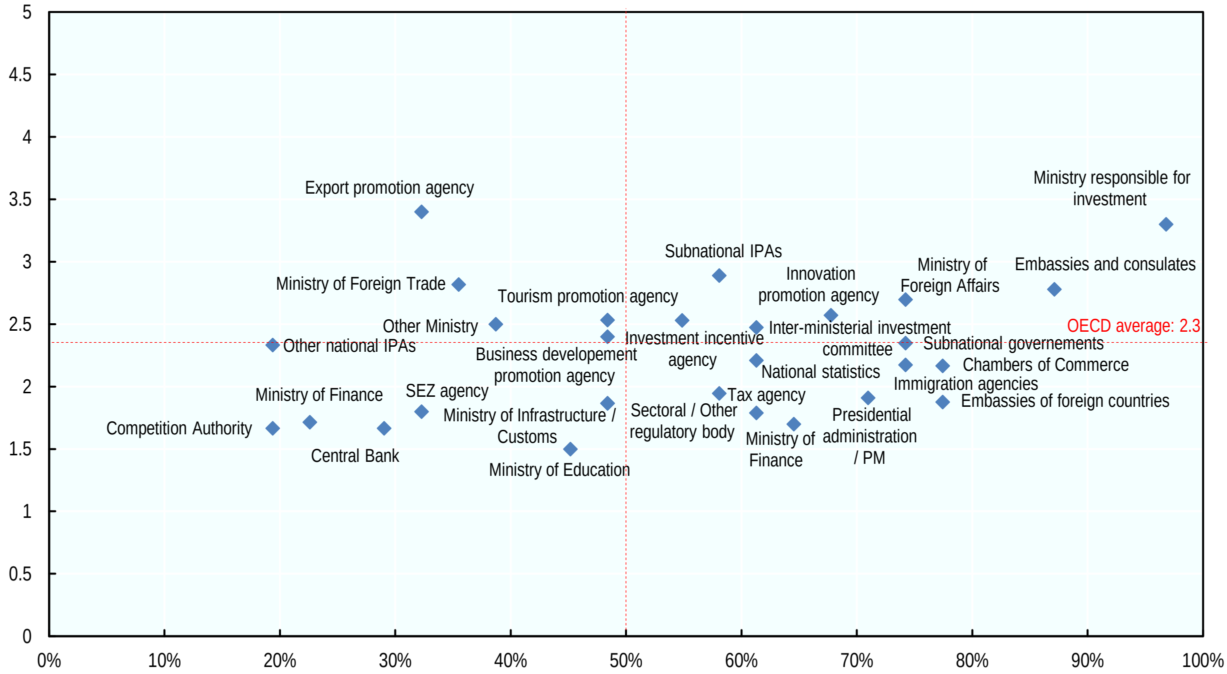
IPAs need to co-operate and co-ordinate with their institutional environment in three main areas: investment policy, investment promotion and investment facilitation. A number of public bodies are involved in investment policy formulation: the ministry in charge of investment and agencies in charge of FDI attraction are obvious but also other bodies such as those responsible for domestic investment, investment treaty negotiators, tax policies and special economic zones. Trade and industrial policies also affect investment policies (through trade and investment agreements, for example). Investment promotion requires consistency among the different spokespersons interacting with foreign investors, at international, national and sub-national levels. Investment facilitation requires a high level of co-ordination with administrative bodies to ensure a smooth investment process in the host country. All these interactions require that proper co-ordination and co-operation mechanisms are well established and formalised when necessary.

The mapping of IPA interactions with public and semi-public institutions highlights the importance of IPA relationships with their sponsor ministry, with the ministry of foreign affairs and with sub-national agencies and local authorities (Figure 5.3). The prominent positioning of these stakeholders on the upper right quarter of the figure reflects their high scores on the two variables on which the mapping is based: the share of OECD IPAs that interact with them and the frequency with which they interact.

The role of the ministry in charge of investment appears significant for OECD IPAs. For two thirds of them, a single ministry in charge of investment is the highest reporting authority, while 44% report directly to the minister. The minister is often in charge of the strategic oversight of the IPA and sometimes responsible for its budget (see Chapter 1). Many IPAs (for example in Estonia, Greece and Israel) highlight this supervisory role. In Iceland and Poland, the working relationship between the ministry and the IPA is defined in a contract. The most frequent types of outputs of the relationship with the minister mentioned by respondents are strategic plans and joint work plans as is the case of Austrade, IDA Ireland and the Netherlands Foreign Investment Agency. To a lesser extent, the relationship with an inter-ministerial taskforce or committee, reported by 61% of OECD IPAs, is of a strategic nature and leads to work plans or specific co-ordinated initiatives (e.g. "fast-track" programme for targeted investors in Greece). Such a task-force or committee nonetheless appears as a reporting entity for only 25% of respondents.

Figure 5.3. Mapping of IPA interactions with government, public and semi-public institutions

Share of interactions vs. frequency



Note: the x-axis represents the share of IPAs that interact with the organisation (in % of respondents) and the y-axis represents the average frequency of interactions on a scale from 1 (= very low) to 5 (= very high).
Source: Authors based on OECD-IDB Survey of Investment Promotion Agencies (2017).

As reflected in Figure 5.3 and examined in further detail in the next section of this report, relationships with embassies and consulates as well as with the ministry of foreign affairs also rank high in the mapping of interactions. These relationships are of critical importance as investment promotion requires maintaining very strong ties with economic diplomacy, including foreign trade policy. At ministerial level, relationships are first and foremost policy-oriented (including for policy advocacy purposes as examined in Chapter 2), whereas the co-operation is more operational at embassy and consulate level, consisting for example in local promotion activities. IDA Ireland, for example, shares local market plans and teams with embassies abroad. The co-operation can sometimes entail facilitation activities: ICEX-Invest in Spain collaborates with embassies not only for promotion but also for visa-related issues. While IPAs emphasise the importance of a strong co-ordination with embassies and consulates, they also underline the difficulties of such co-ordination, notably as the investment promotion mandate sometimes competes or overlaps with other foreign policy mandates such as foreign trade.

As also addressed further in this chapter, a large share of IPAs interact frequently with sub-national governments and agencies in charge of investment promotion and facilitation. These interactions can consist of strategic and operational co-ordination to take regional or local development into account when leading investment promotion actions at the national level. They could also entail co-operation in the framework of investment facilitation and aftercare services, especially for site visits and local incentives. Sub-national agencies can either be affiliated to the national IPA (and be one of its secondary offices), or they can be local agencies of various natures, such as regional development agencies, city promotion agencies or other local government-related agencies. Whatever the setting, IPAs emphasise that a clear distribution of roles and responsibilities is pivotal and that tools and processes such as a shared CRM tool, a "code of conduct" and other systematised communication processes can greatly facilitate exchanges.

According to the mapping presented on Figure 5.3, agencies responsible for investment incentives and agencies in charge of innovation promotion are the two types of national agencies with which IPAs interact the most and the most frequently. Co-ordination needs with the agency in charge of investment incentives are quite obvious. If a host country offers investment incentives, IPAs should be able to communicate the relevant information to foreign investors and be able to liaise with the agency in charge to facilitate the application and approval processes. The prominence of innovation agencies in the mapping is noteworthy and is evidence of the strong relationship between investment promotion and innovation, as already discussed in Chapter 1 on the different mandates of agencies and in Chapter 4 on prioritisation strategies. ICEX-Invest in Spain, for example, reports that co-operation with the national innovation agency primarily entails R&D investment incentives. In other countries such as Mexico, agencies collaborate on joint projects.

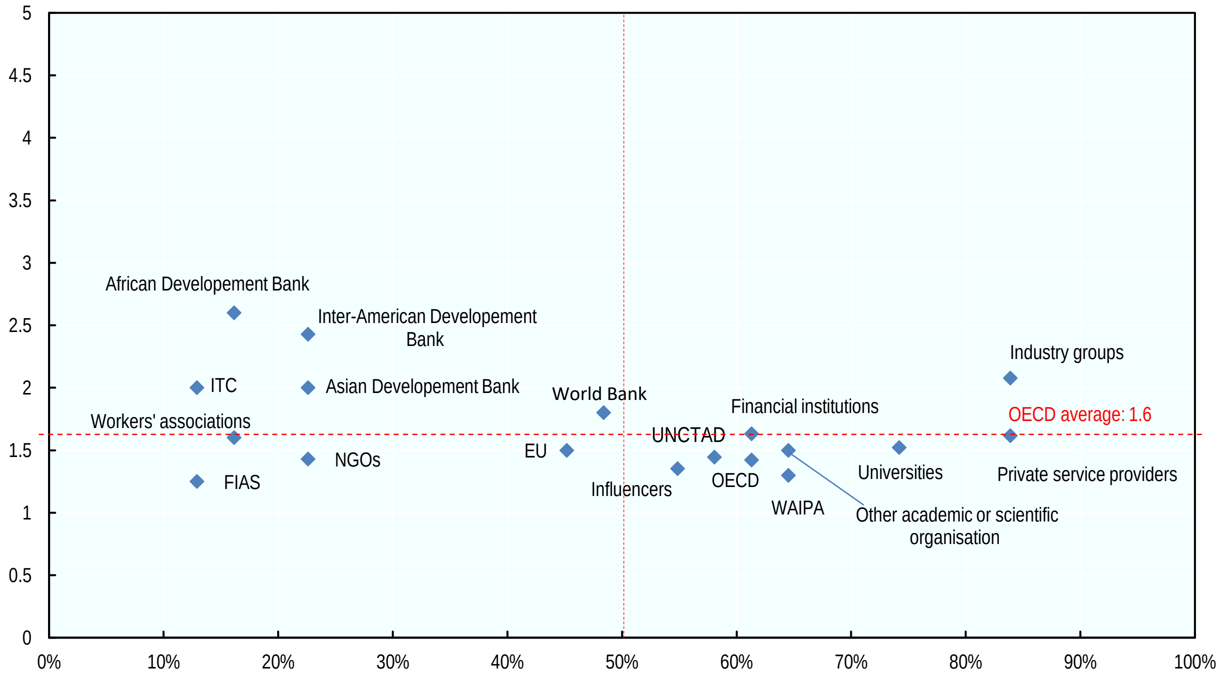
Some stakeholders that one could have expected to be strategic do not appear as such in the mapping. For example, only 35% of IPAs interact with the ministry of foreign trade, although for those that interact, the frequency of interaction is high. This relatively low figure comes as a surprise given the strong relationship between trade and investment policies, in a context where international trade and FDI are intertwined drivers of economic integration. Another example is education, as less than half of IPA respondents (45%) reported to interact with the ministry of education, and the frequency of these interactions is comparatively low (1.5 vs. an overall average of 2.3).[26] This can seem contradictory with the emphasis IPAs put on the importance of skills and the relationship between a qualified workforce and the ability to attract foreign investors, especially in innovative sectors.

Co-operation and co-ordination with the private sector, academia and international organisations

The network of OECD IPAs' partners across the private sector, academia and international organisations is not as dense as their public institutional environment. The average frequency of interactions with the civil society, academia and international organisations is rated at 1.6 as compared to 2.3 for government, public and semi-public institutions (Figure 5.4).[27] Only one type of organisation (industry associations) shows up in the top ten ranking of IPAs' strategic relationships. The mapping on Figure 5.4 also indicates that, overall, relationships with these organisations tend to be either both widespread and relatively occasional at the same time (lower right quarter), or limited to a few IPAs but with comparatively high frequencies of interactions (upper left quarter).

Figure 5.4. Mapping of IPA interactions with the private sector, academia and international organisations

Share of interactions vs. frequency



Note: the x-axis represents the share of IPAs that interact with the organisation (in % of respondents) and the y-axis represents the average frequency of interactions on a scale from 1 (= very low) to 5 (= very high).
Source: Authors based on OECD-IDB Survey of Investment Promotion Agencies (2017).

The most prominent relationship is the one with industry groups and associations, which is consistent with its ranking among the top ten most strategic relationships of OECD IPAs (Figure 5.2). Some IPAs, like Enterprise Greece and ICEX-Invest in Spain, consult with these associations to feed market research and strategic planning of investment promotion and generation, including when designing and launching promotion campaigns or initiatives in targeted industries. IPAs can also discuss with industry groups and associations to feed their policy advocacy reports and recommendations, as in the case of Invest in Iceland.

Overall, IPAs interact more with partners from the private sector and from academia than with international organisations. Half of OECD IPAs report that they work with organisations from the private sector and from universities, compared to 30% with international organisations.

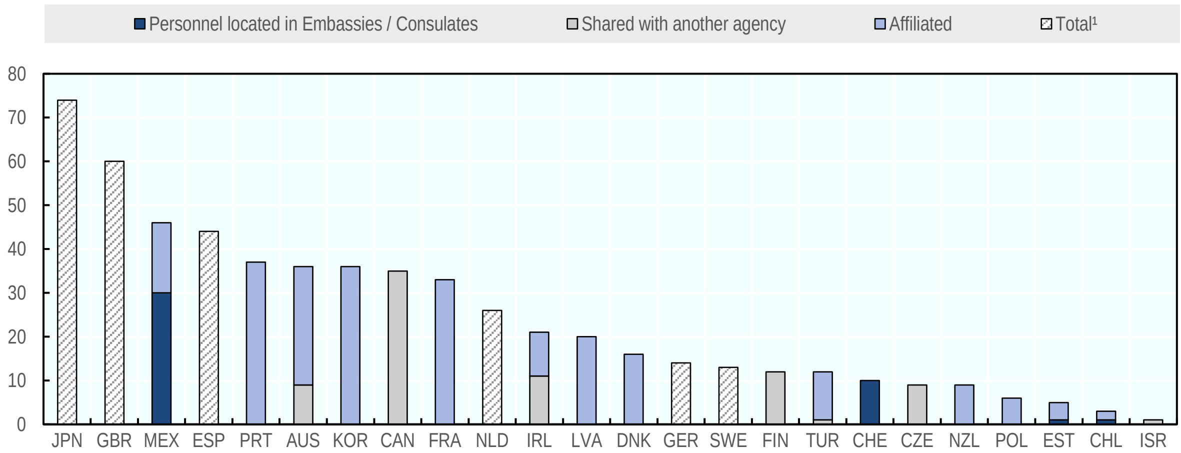
Co-operation and co-ordination with agencies and representations abroad

As discussed in Chapter 1 on institutional choices and organisational characteristics, representation abroad is very important for IPAs and for investment promotion in general because it spearheads the efforts of a country to promote itself and establish relationships in foreign countries. Co-ordination between an IPA's headquarters and investment promotion networks abroad can contribute to ensure consistency in the country brand messaging and information delivered. It also involves establishing the proper communication processes to enable follow-up on investment project leads or requests and collecting feedback for policy advocacy purposes.

Effective co-ordination will first and foremost depend on the different types of foreign office settings. The most widespread are affiliated offices to the agency (63% of all IPA foreign offices for which the data is available),[28] while other set-ups are shared offices with another agency (25%), personnel located in embassies and consulates (11%) and, to a much lesser extent, consultant contracts (1%). Several countries rely on a mix of different set-ups (Figure 5.5). 70% of IPA offices abroad have another mandate in addition to investment promotion, the most common being trade promotion. This is not only the case of shared offices but also of affiliated ones since IPAs are often part of agencies with multiple mandates, as detailed in the first chapter of this report.

Figure 5.5. OECD IPA offices abroad performing investment promotion

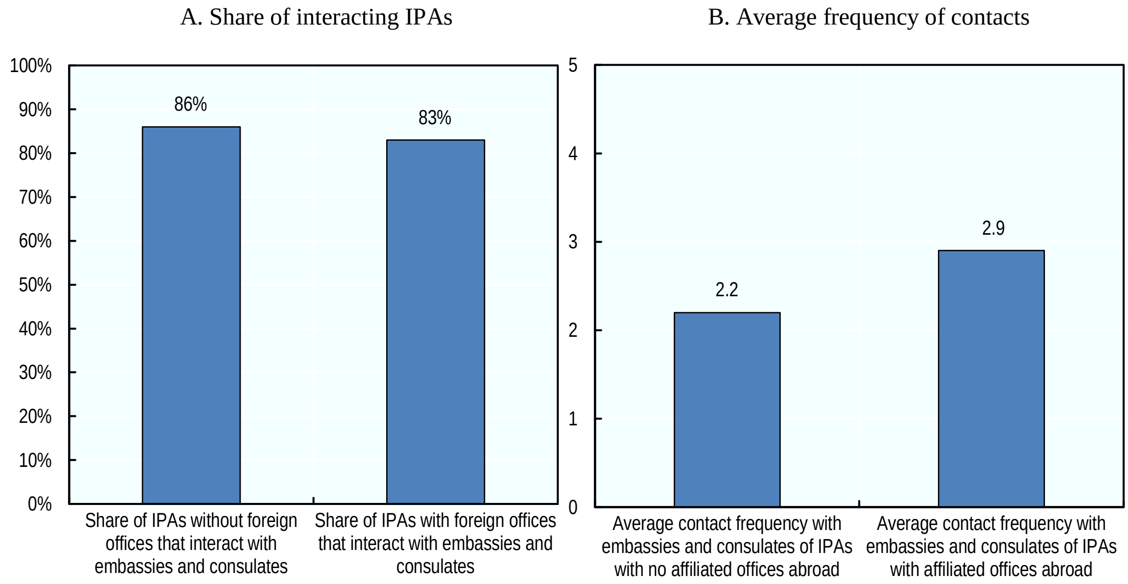
Total number, split by type of office



Note: (1) For countries where the split is not available.
Source: OECD-IDB Survey of Investment Promotion Agencies (2017).

Diplomatic missions in foreign countries play a key role in investment promotion abroad, whether national IPAs have overseas offices or not. Invest in Canada, for example, in addition to its network of 35 offices abroad, relies on some 140 diplomatic missions around the world with commercial programmes. Among them, 24 are located in strategic markets and are tasked to actively attract FDI, whereas other missions are given “reactive” mandates. Similarly, in addition to its single fully-fledged office located in New York, Invest in Israel can also count on 45 economic missions that conduct investment promotion, among other tasks. Co-ordination with missions abroad seems to be relatively widespread. Figure 5.6 shows that there are proportionally almost as many IPAs with offices abroad as IPAs without offices abroad that interact with embassies and consulates, and that the average frequency of interactions is slightly higher for the former than the latter. These results highlight the complementarity of the two networks for IPAs.

Figure 5.6. Interactions of IPAs with embassies and consulates depending on the presence of affiliated foreign offices abroad performing investment promotion



Note: Frequency of interactions is expressed on a scale from 0 (= none) to 5 (= very high).
Source: OECD-IDB Survey of Investment Promotion Agencies (2017).

The overall picture provided by the survey results suggests that international co-ordination can be complex for national IPAs as they often involve several networks or types of representation abroad. Investment promotion is rarely the sole mandate of these organisations, which can create a form of competition or overlap between investment promotion and other mandates, or a lack of adequate skills by the staff. Several IPAs report that although they have formal or informal tools to manage these networks, there remains room to clarify roles and responsibilities, improve stakeholder alignment and enhance efficiency in handling relationships with foreign investors abroad.

Co-operation and co-ordination with sub-national agencies

Co-ordinating and co-operating with sub-national entities is another important topic when considering interactions of IPAs with their broader environment. National IPAs can be formally charged with attracting and facilitating investment in regions. Even when it is not the case, they might have to address this topic when discussing potential investment project locations with foreign investors. OECD IPAs consider that the top three obstacles to direct FDI outside of their country's capital city or to different regions are the distance to suppliers and clients, the lack of local skilled workforce and poor infrastructure or connectivity to important hubs (Table 5.2). To address and overcome these challenges, national IPAs and sub-national agencies in charge of the local economic development ideally need to work hand in hand.

Table 5.2. Obstacles to the attraction of FDI in the regions according to IPAs

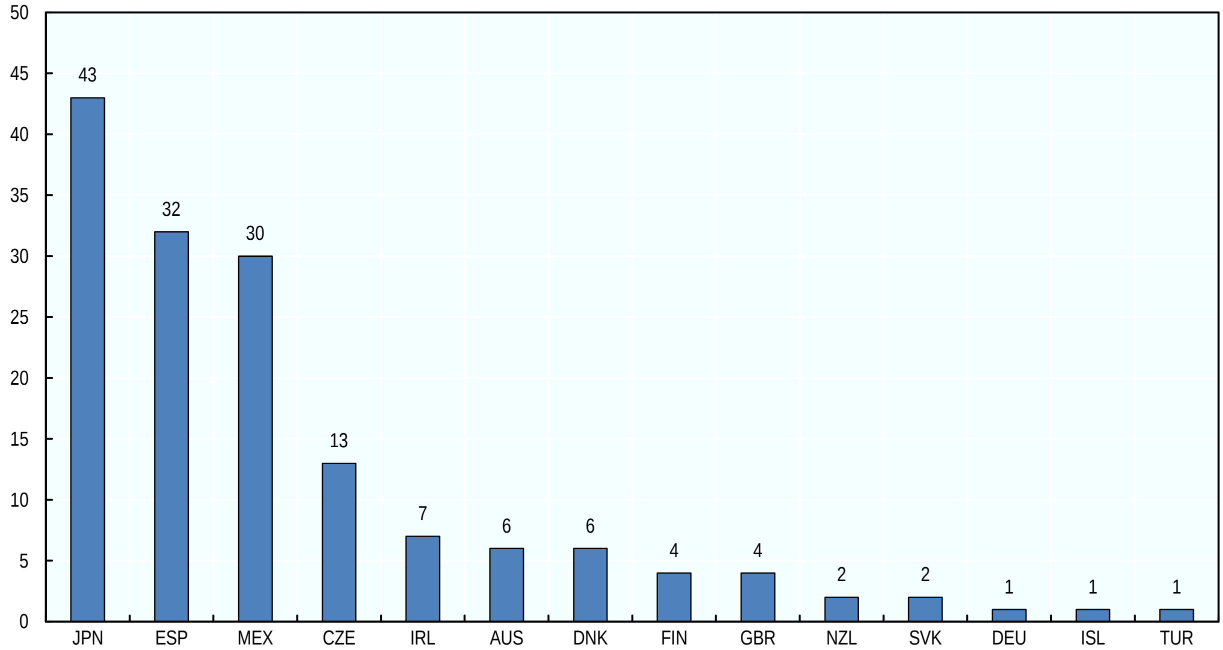
(Ranking from the most to the least important factor)

Ranking	Obstacles
1	Distance to suppliers and clients
2	Lack of adequately skilled labour or difficulty of attracting it into the region
3	Poor infrastructure or connectivity to important hubs
4	Image problems (e.g. security, lifestyle, etc.)
5	Difficulties in interacting with the local government
6	Lack of dedicated State support (e.g. special economic zones, etc.)

Note: IPAs responded to the following question: "What obstacles do you see as most important for attracting investors outside of the capital city / to the different regions?".
Source: OECD-IDB Survey of Investment Promotion Agencies (2017).

According to the OECD-IDB survey, IPA interactions with agencies at the sub-national level are overall very different from those with national representation abroad, first and foremost because in a majority of cases these agencies are external organisations. As illustrated in Figure 5.7, 14 OECD IPAs have sub-national offices that are affiliated to their headquarters, and 11 have more than one affiliated sub-national office (respectively 44% and 34% of the total sample). A majority of IPAs work with external local stakeholders such as regional development agencies, local chambers of commerce and other promotion agencies at various sub-national levels (e.g. regional or city level).

Figure 5.7. Number of IPAs' affiliated sub-national offices performing investment promotion

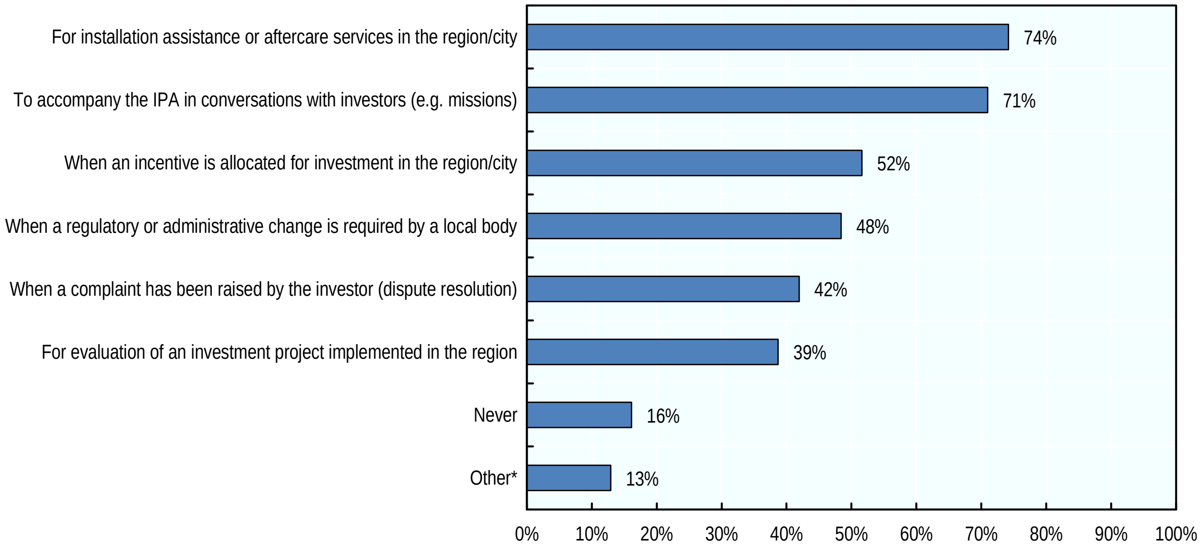


Source: OECD-IDB Survey of Investment Promotion Agencies (2017).

OECD IPAs' responses to the survey suggest that co-operation at sub-national level primarily focuses on the provision of facilitation and aftercare services for foreign investors (Figure 5.8). Austrade, for example, qualifies sub-national IPAs as "key partners in delivery of facilitation services". The same goes for Business France, which relies on a strong co-operation with regional development agencies for the delivery of investment facilitation services. Over half of OECD IPAs contact sub-national agencies or local authorities for assistance during investors' establishment phase or aftercare services in the region or city (74%), to organise co-ordinated discussions (including missions) with interested investors (71%) and when local investment incentives are allocated to a project (52%). To a lesser extent, they co-operate on regulatory changes (48%), dispute resolution (42%) and impact evaluation of investment projects (39%).

Figure 5.8. Reasons why IPAs contact sub-national agencies

In % of respondents



Note: (*) The category "Other" includes information sharing, investment promotion strategy / offering development, marketing and customer care.
Source: OECD-IDB Survey of Investment Promotion Agencies (2017).

In addition to purely transactional relationships, some IPAs also nurture strategic links with sub-national agencies. They consult them to integrate local economic development plans and objectives into their own national FDI attraction strategy (Chapter 4 explores how national IPAs take regional priorities into account in their prioritisation strategies). They can also carry out joint investment promotion activities such as Invest in Denmark, and Invest in Canada that follows this approach to promote specific sectors or to attract specific investors. Some IPAs also rely on local authorities to collect feedback from the field to feed their policy advocacy work. SelectUSA follows a very different approach as the IPA charges its services to economic development organisations, treating them as client organisations.

Co-operation with sub-national agencies brings a number of challenges. The network of sub-national agencies can be heterogeneous and composed of organisations with different levels of skills and competencies and various scopes of activities. Geographical zones themselves can have very different levels of attractiveness due to their economic wealth, sectoral competitiveness, workforce attributes and other local ecosystem characteristics. Interests are not always aligned. As inter-regional competition often exists, national IPAs can be deliberately excluded from locally identified opportunities or, on the contrary, become arbitrators and face difficult decisions: should they cater to the desires of foreign investors, make the case for the best location according to the agency's own criteria or focus on bringing investment in less endowed zones that need it the most? How to strike the right balance between having a single point of entry and decentralising power and initiative? How to make sure that relevant information reaches the national level?

Co-ordination tools help partly to overcome these challenges. In Sweden, a code of conduct agreement among the national IPA and the 15 regions was established to better communicate on opportunities and encourage exchange of information. The IPA also uses software that allows sharing information with external partners, which requires some upstream work to define a common information sharing framework (and decide who accesses what information). In Latvia, a system was designed to incentivise people at the local level to share information about potential investment projects. Business France has designed a formal information-sharing process to increase the efficiency of the collaboration with France's 13 regions. The agency created a "marketplace" of investment projects and shares information weekly with its regional partners. The aim is to organise joint efforts to respond efficiently to foreign investors' demands and needs, and to increase chances to win projects.

Chapter 6. The way forward

This report has provided a mapping of existing practices among IPAs in OECD countries and presents different profiles of agencies. It draws some conclusions on existing trends and highlights similarities and differences across agencies. While the report aims to complement existing research in the field of investment promotion, it also raises several key questions that remain to be answered by future research and paves the way for future OECD work. These questions are outlined below:

Examining the linkages between IPAs' institutional characteristics and their investment promotion strategies

The report adopts various approaches to categorise IPAs – based on their institutional settings, resource allocation and prioritisation strategies, among others – which highlight differences and similarities in practice. The results of these analyses and the extent to which they can explain different investment promotion patterns could be an interesting area for further research. For example, it has been found that IPAs that are part of the government (as opposed to more autonomous ones) appear to be more involved in policy advocacy and that their boards are less implicated in management and supervision than other agencies. Exploring further the impact of an IPA's legal status on their activity mixes could help shed light upon how and to what extent institutional choices drive operational execution of investment promotion. For example, is the scope of IPA activities affected by the number of mandates and to what extent can investment promotion operations benefit from synergies?

Similarly, internal organisational characteristics affect the way IPAs interact with other government agencies and stakeholders. Future analysis could explore the performance and mechanisms of vertical co-ordination with embassies abroad, on the one hand, and sub-national IPAs within the country, on the other hand. To what extent does it affect an IPA's tendency to focus on particular functions such as investment generation or investment facilitation? The aim would be to develop case studies and identify good practices. The typology of agencies suggested in Chapter 2 could also be further developed to enhance its relevance through discussions with practitioners and further analysis. Studying the extent to which these profiles lead to different approaches in the different aspects of investment promotion – not only activities but also prioritisation, monitoring and co-ordinating with other organisations – could help develop an IPA's taxonomy.

Exploring how to foster investment policy reforms through better linkages between investment promotion and investment policy making

There are different channels through which investment promotion practitioners and investment policy makers interact and complement each other's work. As discussed in this report, IPAs respond to a double objective: attracting and serving private investors' interests, on the one hand, and meeting public policy objectives, on the other hand. The latter include measures to maximise the benefits of investment, such as promoting quality jobs and green growth. IPAs can either undertake specific activities to influence the investment policy framework (e.g. policy advocacy and investment facilitation) or adopt measures that respond to the country's socio-economic objectives (e.g. prioritising specific investments, such as green and responsible ones). Investigating the relationship between investment promotion and such policy objectives could be an area for future work.

For example, as discussed in Chapter 2, IPAs undertake different approaches to policy advocacy and, thus far, little is known about the precise way in which IPAs undertake these activities and their relative effectiveness. There is room to identify different formal policy advocacy programmes as well as informal mechanisms and produce case studies to identify good practices in this area. The aim would be to provide trends and ideas of co-operation models that can reap the benefits of IPAs' direct access to potential investors and investment project successes and failures in feeding the policy-making process.

Investment facilitation is another area that touches upon the broader investment policy framework. Investment facilitation goes beyond attracting new investors and consists in supporting businesses when establishing in the country, embedding them in the local economy and encouraging reinvestments. It requires a whole-of-government approach to provide new and existing investors with a transparent, predictable and efficient policy and administrative framework for investment. The role of IPAs could be further explored, including the ground-level tools they provide to facilitate investment and its retention. What are the mechanisms and processes they use to ensure a whole-of-government approach in solving problems and in attracting investment projects in the host economy? The way IPAs are structured can also influence their role in investment policy decisions. For example, to what extent are IPAs' governance policies and characteristics influencing their role in investment climate reforms (e.g. are more autonomous agencies collaborating more closely with the private sector to identify policy bottlenecks)?

Going beyond investment climate reforms, it would also be interesting to explore the role of investment promotion in promoting socio-economic progress in society, notably by focusing on attracting green and responsible investments. As reflected in the OECD *Guidelines for Multinational Enterprises* and *Policy Framework for Investment*, the role of governments in promoting RBC and enabling businesses to act responsibly is a key element of a sound investment climate. While respecting social and environmental rules is mostly a regulatory aspect, IPAs can decide to systematically target investors that have strong RBC records and adapt their investment promotion strategy accordingly.

Reviewing and analysing IPAs' prioritisation methods and the choice of priorities

As shown in Chapter 3, the process of selecting priority sectors and countries is relatively complex. This aspect could be explored further, including the factors that determine the specificity, scope and nature of the sectors targeted and analysis of the different niches in which IPAs specialise. For example, do the methods used for selection of sectors play a role in determining the breadth or nature of the IPA's targets? Do IPAs using certain or more complex methodologies arrive at a shorter or more focused list of targets? How do these specific sub-sectors differ? More generally, a better understanding of what constitutes a solid basis for selection of targets, and which elements are crucial, could provide useful insights to IPAs in this area. For example, as relatively little attention appears to be paid to whether or not the agency is correcting for a particular market failure (15% of IPAs), there may be scope for considering possible methodologies to guide pro-active and re-active interventions of IPAs. Inspiration could be drawn from other public agencies that need to prioritise their efforts (e.g. border control or competition authorities).

Agencies also differ in the ways they operationalise their prioritisation efforts. For example, about half of OECD IPAs have dedicated organisational units for priority sectors and countries. Some agencies allocate high shares of their staff to priority sectors and recruit staff with experience in the priority sectors while others keep the staff profile more general. Some IPAs also offer tailored services to priority investors, in particular via dedicated staff as well as faster replies and assistance. There also appears to be a link between budget intensity and the level of prioritisation, whereby agencies that prioritise more appear to have larger budgets but do not necessarily undertake more or less activities. It could be explored whether the higher budgets of *Prioritisers* translate into higher quality of services provided or are associated with higher intensity of certain activities; and more generally, how prioritisation affects the type of activities offered and resource-allocation of IPAs. Last but not least, the link between different IPA's features and the effectiveness of prioritisation could be established. For example, do agencies locating their offices in priority countries attract more FDI from these countries or in prioritised sectors? Does the breadth or specificity of the sectors targeted influence the relative effectiveness of FDI attraction?

Exploring how IPAs can improve their monitoring and evaluation tools to measure both their activities and the impact of FDI

As shown in Chapter 4, monitoring and evaluation of investment promotion activities are an area that may merit further attention of IPAs. The first step to any evaluation effort is better monitoring. As such, agencies could consider how to better track their activities to assess the relative time and cost of different activities including their pronounced priorities – as in some areas the coverage in the CRM remains low – as well as their convergence into investment projects. If data collection is an obstacle, it could be explored how information could be procured from other government bodies or the IPAs' clients without undue burdens to the agency. Considering the necessity of a feedback loop to improve activities and prioritisation efforts over time, it could also be explored further how evaluation and prioritisation activities can be better aligned. For example, activities in priority areas (e.g. sectors, countries) could be tracked separately in the CRM systems. Progress in this area could help strengthen the toolkit of IPAs to improve the effectiveness of their prioritisation efforts and the relevance of their services over time.

The real litmus test of any promotion and prioritisation exercise is whether it brings the desired results. As such, future analysis could consider in greater detail the link between different IPA profiles and strategies as well as the effect in terms of the amount and type of FDI attracted or retained. For example, do agencies that have particular characteristics (e.g. a particular legal status, set of mandates or activities, or that prioritise more intensely) or fall into particular categories outlined in various chapters achieve better results? Which specific differences across IPAs affect their effectiveness most intensely, and why? Do agencies that prioritise relatively more intensely attract higher or different type of FDI? Do IPAs that allocate relatively more employees to specific activities or recruit more staff with relevant experience achieve better results? Does the composition of activities influence the amount or type of FDI attracted? What is the impact of the number and location of IPA offices abroad or of its co-operation with other public bodies on the activities of the IPA – and their success? The exploration of these and other questions may permit a better understanding of the impact of investment promotion on IPA effectiveness.

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Notes

[1] The following list of positive contributions of FDI draws on OECD (2002) – which also provides a summary of the relevant academic literature – and is supplemented by OECD (2015a) and OECD (2015b).

[2] The *Guidelines for Multinational Enterprises* are recommendations addressed by governments to multinational enterprises and include principles and standards for RBC in a global context consistent with applicable laws and internationally recognised standards. For further information, visit: http://mneguidelines.oecd.org.

[3] A wide literature exists on the reasons why firms may decide to extend their operations and locate abroad. Dunning (1993) has synthesised it in a comprehensive framework known as the OLI paradigm referring to the advantages of ownership, location and internalisation. Ownership advantages refer to the assets that allow MNEs to compete successfully in foreign markets (e.g. technology, know-how); location advantages include the benefits that firms can find in host economies; and internalisation advantages consist in the reduction or elimination of transaction costs, which can occur when a firm opts for FDI instead of export.

[4] The OECD is currently analysing the full range of cross-border corporate relationships in global value chains to provide new information on MNE decisions in a global production reality (OECD, forthcoming).

[5] The PFI is a comprehensive, systematic and multilaterally-backed approach for improving investment conditions. It was developed in 2006 and updated in 2015, and considers 12 policy areas affecting investment. It eschews one-size-fits-all solutions and encourages policy makers to ask appropriate questions about their economy, their institutions and their policy settings. The PFI recognises that a sound investment climate includes expectations that investors act responsibly and are enabled to do so. For further information, visit: http://www.oecd.org/investment/pfi.htm.

[6] All OECD countries have established a national IPA with the exception of Belgium, which has only sub-national IPAs.

[7] Several academic studies provide evidence suggesting that investment promotion is positively associated with higher FDI inflows. See for example Charlton and Davis (2006), Harding and Javorcik (2012), Hornberger et al. (2011) and Morisset (2003).

[8] Among the 363 offices for which the data is available.

[9] 135 staff and 5 mandates represent the median of each category and have been chosen for this reason in this typology.

[10] Resource allocation to policy advocacy activities could be slightly underestimated as this function may imply more informal conversations and exchanges as well as implication of the executive management level that can be difficult to quantify precisely.

[11] These discrepancies can be explained by the IPA different samples and timescales as the sample in the Morrisset and Andrew Johnson study contains 58 IPAs, including a high share of emerging, non-OECD countries. The data comes from a survey administered in 2002.

[12] Data are presented for *Image builders* but they are excluded from the discussion on the possible explanations and qualifications of strategic profiles as the sample is very small (2 IPAs) and key data are missing.

[13] The *Facilitators* category comprises IDA Ireland, the Department for International Trade of the United Kingdom and the Australian Trade and Investment Commission, which are all in the top five agencies with the highest budgets for investment promotion.

[14] The activity mix analysis should be considered with caution for *Image builders* as only two IPAs fit this strategic profile.

[15] The study uses information on sector prioritisation for 97-124 agencies, depending on the specification, and the data on outward FDI outflows from the United States.

[16] E.g. Morisset and Andrews-Johnson (2004) and UNCTAD (2001).

[17] For instance, Ireland has a system of choosing priority projects involving thresholds on about twelve criteria (e.g. minimum capital spending, number of jobs, salary, investment time horizon and several regional targets). Denmark, Hungary, Iceland, Netherlands, Portugal, Slovenia, Spain and the United Kingdom also report specific thresholds used to identify priority projects.

[18] It may also be that agencies are unwilling to share the criteria used. Among the factors mentioned are the propensity to invest or reinvest and a "strategic nature" of the investor. There are certain exceptions, e.g. Hungary reports to use specific thresholds relating to the size of employment (at least 1 000 employees), export performance and the investor's presence in the country to classify an investor as strategic and put in place support measures to encourage continuous investment. There are currently 76 strategic investors in Hungary, according to the IPA benefitting from dedicated IPA experts (account manager and/or team), the opportunity to meet high-level officials via working groups and participate in policy formulation processes.

[19] For example, some agencies use a combination of market studies consultations with clients (e.g. via surveys or feedback via the account managers). The decision of the lead ministry itself may be based on different factors, including studies, views of other government bodies and other stakeholders.

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[21] For example, consultations with other ministries may be a means of learning about studies undertaken by other governmental agencies and obtaining expert view and may also be a means of integrating political considerations.

[22] Some agencies that have government-wide strategic orientations do not have a dedicated IPA targeting strategy (e.g. Finland, Netherlands, New Zealand) while other agencies rely solely on the IPA's strategy for their targets (e.g. Denmark and Czech Republic).

[23] In one-fifth of cases of the OECD IPAs, the strategy is embedded in a law and sometimes a decree containing additional information is also passed (e.g. Korea, Iceland and Hungary).

[24] Some IPAs adopt general rules of thumb for the allocation of staff to the targeted sectors: e.g. Australia allocates on average 3-4 employees per sector in headquarters and 2-3 per sector per office abroad.

[25] Average calculated for the 14 OECD IPAs reported in Figure 3.8.

[26] Average frequency score calculated from the sample of responding IPAs on a scale from 1 (= very low interaction frequency) to 5 (=very high interaction frequency).

[27] Average frequency score calculated from the sample of responding IPAs on a scale from 1 (= very low interaction frequency) to 5 (very high interaction frequency).

[28] Out of a total of 363 offices for which the information is available.

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