SUPPORT PROGRAM FOR INVESTMENT REFORM AND INNOVATIVE TRANSFORMATION (SPIRIT)

Tools and Diagnostics for Expanding Cross-Border Investment and Maximizing its Impact for the Local Economy
**About: Investment Climate Unit of the Trade & Competitiveness Global Practice, World Bank Group**

The Investment Climate Unit helps governments implement reforms to improve their business environments and encourage and retain investment, thus fostering competitive markets, growth, and job creation. **For further information, please contact:**

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<td>Developing Countries</td>
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1 INTRODUCTION

1.1 HOW CAN FOREIGN DIRECT INVESTMENT HELP A COUNTRY DEVELOP?

Why are some countries rich and others poor? Academics, politicians, social scientists and economists have asked this question throughout history, and today we face a very interesting paradox. On one hand, the number of people in the world living in extreme poverty—that is, on less than $1.25 per day—has decreased dramatically in the past three decades. In 1981, on average half of the citizens in the developing world lived in extreme poverty. However, by 2010 that figure had decreased to 21 percent, despite a 59 percent increase in the developing world population. On the other hand, the gap between the richest and poorest countries in the world is increasing. In 1776, when Adam Smith wrote “The Wealth of Nations,” the richest country in the world was approximately four times wealthier than the poorest country. The richest country in the world is now more than 400 times richer than the poorest country. What separates them? Knowledge, diversification and the composition of exports are part of the answer—all areas in which foreign direct investment (FDI) has an important role to play.

History shows that countries grow because they produce new and better goods and services, or find better ways to produce those goods and services while retaining more of the value added from their exports. Throughout this process, the key is to connect the domestic economy with the international private sector, and FDI is an important vehicle to promote this connection.

FDI has the potential to be an important driver of economic growth and diversification. Shifting a country’s work force from lower to higher value added jobs depends on fostering a wider range of opportunities for private economic activity—and on the ability of local companies to integrate into global production value chains. FDI is the pathway to those global value chains, allowing developing countries to engage and benefit from the world economy. Foreign investors can create jobs, bring capital and new technologies, and create knowledge spillovers; but these benefits are not automatic. Some countries attract large quantities of foreign investment and never progress along the value chain. To maximize the development impacts of foreign investment, a suitable investment policy framework is needed.

Investment policy encompasses a huge range of issues, and for a state that hopes to reap the benefits of foreign investment, it can be difficult to know where to start. A common mistake is that countries create investment policies to react to the challenges posed by the type of investment they are already receiving. Instead, states should identify opportunities to receive greater benefits from existing investments, and consider what other types of investment the country needs to develop. Many developing country governments’ difficulties in investment policy formulation, coordination and implementation, can undermine competitiveness and compromise the ability to attract quality investment. Governments may lack the information and capacity to assess the quantity, quality and type of investment a country is receiving. Data on the quantity of FDI is often collected through multiple agencies using different sources, which creates data gaps and inconsistencies. Information on the quality of FDI—mapping its direct and indirect effect on the local economy—is notoriously difficult to estimate.

Investment policy is dynamic—there is no “one size fits all” solution. An approach that works within one country for one type of investment at one time may need to be continually revised, adapted and improved to account for changes in an economy, the transformation of businesses and other circumstances. Further, in an increasingly globalized world characterized by rising levels of international
production, trade, competition and interaction, the need to link international rulemaking, domestic reforms and development becomes increasingly evident.

Within this context, policy makers need a logical framework to “connect the dots” among the various variables impacting how developing countries insert themselves into the international economy and use investments to diversify exports, create more and better jobs—and thus improve the standards of living of citizens. The World Bank Group (WBG) has developed a logical framework that achieves three key steps in the complex process of investment policy making.

1. To assist governments to “connect the dots” among the variables that affecting how developing countries insert themselves into the international economy, and use different types of investments to diversify exports, create more and better jobs and thus improve the standards of living of citizens.

2. Within that broad vision, to enable policy makers to design and set priorities for a domestic reform agenda required to enable an improved external insertion of the domestic economy into international markets; and

3. To help translate the country’s investment vision and reform agenda into implementation of concrete actions framed within national political calendars the result of which can be objectively measured.

The process through which countries can apply the logical framework to achieve the three objectives referred to above is what it is called in this note the Investment Reform Map (IRM), which is based on three key ideas discussed in chapter two.

1.2 **Why is an investment vision important?**

While it is important for policymakers to understand the drivers of foreign firms’ decisions to invest in their country, it is also essential for them to appreciate what aspects of their country’s business environment motivate a firm’s decision to locate its investment there.

Motives for investment in specific geographic locations are known as host-country determinants and cover a set of economic, geographic, political, social and policy factors. The relative importance of each of these determinants and their successful combination will depend largely on the firm’s own drivers and strategic motives, whether it is a new investment or a re-investment, whether it is made in the form of greenfield investment or through strategic alliances with local businesses, and the sector(s) in which the investment is made.

While there are many factors in an investment decision that are outside the control of a host government, the investment policy framework of the host country can be an important factor in the type, size, and modes of foreign investment that a country receives.

Because of this, it is equally important for governments to understand the specific political, economic, social and environmental challenges affecting different types of FDI so that appropriate policy measures can be undertaken to ensure that FDI contributes to sustainable development of the host state’s economy.
2 FROM AN INVESTMENT VISION TO AN INVESTMENT LIFECYCLE

2.1 THREE KEY IDEAS FOR AN INVESTMENT POLICY FRAMEWORK

When defining a modern investment vision for development in the era of globalization, there are three fundamental propositions that policy makers should keep in mind and are illustrated in Figure 1 below. First investment policy and development is not about choosing to privilege foreign investment over domestic or vice-versa. It is about connecting them. Second, investments, and in particular foreign direct investment (FDI), are not homogenous phenomena. Different types of investment have different effects on socio-economic development and thus require different policies. A typology of FDI can be useful to distinguish among the different types of FDI and their development impacts. Third, investments are more than just transactions, they entail multi-staged relationships among different stakeholders. For instance, in the case of FDI, there are foreign investors, governments, domestic investors and civil society. Such relationships are multi-dimensional, but one way to visualize them is to follow a sequential approach. For FDI this approach entails covering the stage by which foreign investors are attracted to invest into the host country, the stage when such investment is materialized and then the stage when investment starts to be managed and operated. Once FDI is retained it hopefully begins to expand, creating linkages and thereby “rooting” the FDI with the domestic economy.

Figure 1: Three Ideas for an Investment Vision

Investment policy is not about choosing between foreign and domestic investment. It is about connecting them through global value chains; trade and investment are two sides of the same coin.

Foreign investment is not a transaction; it is a relationship. An investment policy strategy should not only pursue attraction, but also retention and linkages with the domestic productive sector (thereby maximizing benefits from investment).

Not all types of investment are the same. Different types of investment have different effects on socio-economic development and thus require different policies.

2.2 NOT ALL KINDS OF INVESTMENT ARE THE SAME, NOR HAVE THE SAME EFFECTS ON DEVELOPMENT: THE FDI TYPOLOGY

FDI has the potential to bring a wide range of benefits to a country—factors that are crucial to socio-economic development such as jobs, technology, skills and access to international markets. But some countries that receive large amounts of foreign investment fail to grow. Why? Because not all foreign investments have the same potential to provide these benefits, and because the benefits themselves are not guaranteed.
When considering investment policy reform, it is critical to acknowledge the factors that motivate, dissuade, and impact investors are vastly different depending on the business they are in, and the markets they intend to target. The basic motivations of an investor provide an insight into the socio-economic impacts that the firm may have in the host country. Countries often make the mistake of designing investment policies around the type of foreign investments that they already have, rather than tailoring policies to suit the type of investment that they want to grow. How can a country identify those types of investors that are more likely to make a positive contribution to the domestic economy? What differences should policy makers be aware of when designing an investment policy regime?

The *investment typology* can help a country to distinguish between the benefits, challenges and impacts of different types of investment. Multi-national enterprises (MNEs) typically enter or expand in foreign jurisdictions with one or more of the following objectives: seeking natural resources, accessing markets, looking for efficiency gains, and/or leveraging strategic assets (*Figure 2*). Each type of investment has a unique set of features and each merits a different policy response.

*Figure 2: The FDI Typology*

The first type of investment discussed is “natural resource-seeking” investment. This type of FDI occurs when an investor is lured into a country to have access to natural resources, such as oil and gas, mining and minerals, or water or land for agricultural production. As this type of FDI is attracted by the quality or quantity or the natural resources located in the territory of the host country, not all countries are equally attractive for this type of investment. To maximize the potential benefits of this type of FDI it is important governments enact adequate policies frameworks. Although the natural resource seeking type of FDI tends to be export-oriented and provide host countries with related advantages in terms of foreign exchange earnings, governments should pay attention to the following challenges.
First, given natural resources are part of the sovereign patrimony of a country, this type of investment raises the question of adequate distribution of gains and rents resulting from the exploitation of the natural resource. This is a delicate political issue which must be properly addressed at the national and subnational levels, as natural resources are often located in remote areas where local communities may be affected by the economic activity and expect to benefit from its exploitation. Second, as natural resource-seeking FDI tends to flow to resource rich countries, a typical challenge to properly maximize the potential benefits of this type of investment is to prevent the “natural resource course” or the tendencies for these activities to crowd out economic diversification. Third, to properly maximize the potential gains of this type of investment, governments must devise transparent and adequate wealth management schemes to ensure gains derived from the natural resource sector flow to the provision of public goods such as infrastructure and education that enable the country diversify its economy. In this regard, it is critical to develop linkages and prevent the exploitation of natural resources to become economic enclaves within the host country. Fourth, the very nature of the economic activity raises the need to address potential environmental degradation and the social impact the exploitation of the resources may entail.

Again, natural resource-seeking FDI requires a delicate policy mix to maximize its potential benefits. Several countries have experienced economic development spurred by this type of FDI based on smart policies that sufficiently address the challenges mentioned above. Strong institutions especially enabled these countries to properly administer the benefits of natural resources FDI. However, unfortunately, in the case of many developing countries lack such institutions, leading many economies to stagnate in underdevelopment despite receiving important amounts of this type of investment.

“Domestic Market-seeking” investment is driven by foreign investors’ interest to market its products or services to the domestic market of the host country. Thus, this type of FDI entails the establishment of production facilities to satisfy local demand. The size or the growth rate of the domestic market becomes the main magnet for this type of FDI. Countries with large markets or high growth rates leading to booming domestic demand will inherently generate more “pull” for this type of investment than countries with little markets or with decreasing growth rates.

This form of investment has a notable ability to improve competitiveness, especially in terms of technology transfer, know-how and enhancing existing market competition to provide better supply at lower costs. Thus, to maximize the benefits of this type of FDI, it is important to ensure this competition in the local market can take place. This type of FDI has been used by many policy makers to promote import-substitution policies, often with mix results. Notably, as this type of investment is geared towards the domestic market, it does not generate exports. It may even increase imports when production requires inputs for local production.

“Efficiency-seeking” investment refers to the type of investment where the investor chooses to establish operations in the host country to take advantage of some competitive factor that will enable the investment to export somewhere else. Such competitive factors may include efficient labor force—in terms of cost, knowledge or expertise—access to international markets, good infrastructure, etc. In other words, the motivating factor to attract this type of FDI is the level of competitiveness of the host country in international markets, and particularly how the country’s investment climate impacts the firm’s ability to participate in global value chains (GVCs).

For many reasons, this type of investment is the most desired by many governments. It is export-oriented, and thus generates foreign exchange and does not entail any risk of crowding out the local private sector. Efficiency seeking FDI also tends to be greenfield, establishing new facilities and thus
tending to be a net generator of jobs. Further, because it is oriented to competitive and sophisticated markets, evidence shows this type of FDI is a formidable vehicle to improve productivity of a nation’s workforce and position on the “value chain.”

The caveat with efficiency seeking FDI is that countries compete most fiercely to attract this type of FDI, making it the most difficult to attract. Further, whereas natural resource-seeking FDI and domestic market-seeking FDI can “pull” investors to a country based on natural endowments, efficiency-seeking FDI does not have any inherent “pull factors.” Countries must strive to be competitive and “push” this type of investment to locate within their borders.

Finally, “strategic asset-seeking” investment occurs when an investor seeks access to a firm-specific asset, such as a brand, distribution system, managerial practice or technology. For instance, in the airline business, routes and access to slots in busy airports are strategic assets. Thus, when one airline buys another, is frequently buying those strategic assets that will enable the firm to better compete in the market of its choice. In this regard, strategic asset seeking FDI always entail a merger or acquisition (M&A). Further, countries may have particular strategic assets, for instance, a beautiful natural location or a cultural or historic patrimony that may be key to generate a tourism cluster around that asset. In this regard, tourism often starts with a country-specific strategic asset that enables additional investments to flow into the country.

Today many countries receive the four types of FDI, some receive three, others only one. Further, one type of FDI may be key to enable a host country to receive another. For instance, in order to compete internationally and lure efficiency-seeking FDI, host countries often must have excellent infrastructure, telecommunication and financial services and logistics. Often world-class providers of these services may in fact be market-seeking investors who, although they are keen in serving the domestic market, are nevertheless key for efficiency-seeking investors looking to base its operations in the host country with international markets in mind.

Figure 3 below, summarizes the importance to differentiate between the different types of FDI.

**Figure 3: Characteristics of types of FDI**

<table>
<thead>
<tr>
<th>Type of FDI</th>
<th>Natural Resource Seeking</th>
<th>Domestic Market Seeking</th>
<th>Efficiency Seeking</th>
<th>Strategic Asset Seeking</th>
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<tr>
<td><strong>Fundamental Factors</strong></td>
<td>Location, quantity and quality of natural resources: oil, gas, minerals, land, water.</td>
<td>• Market dimensions and income per capita • Market growth • Consumers’ specific preferences • Kind of goods and services to be provided</td>
<td>• International production patterns • Level of systemic competitiveness of the host country vis-à-vis other potential host countries • Secure (or preferential) access to key export markets (see link with trade)</td>
<td>• Existence of strategic assets in firms located in the country • Natural beauty or Cultural patrimony for tourism</td>
</tr>
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</table>
### Key Features/Process
- Frequent point of departure for any investment policy program in DC’s
- Traditional vehicle for integration into the world economy
- Tends to be North-South, although increasing South-South
- Export efforts start in this sector (and policies tend to mirror this trend)
- As exports increase, FDI tends to increase (also efficiency-seeking FDI in related sectors)
- Tends to occur through M & A
- Traditionally it has been North-North, and then North-South, over the last two decades it is becoming South-South and South-North
- Vehicle for internationalization of SMEs in DCs
- Services FDI tends to concentrate in this type (although increasing in efficiency-seeking through outsourcing)
- Regional integration helps to promote this kind of FDI in smaller DC’s (to enlarge markets both for extra-regional and regional businesses).
- See, however, CU vs. FTA debate
- Export oriented
- Net generator of foreign exchange
- Generator of jobs
- Significant potential gains in terms of expansion and diversification of export supply of host economy and transfer of technology
- Can also lead to non-equity forms of FDI
- Tends to occur through M & A
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- Significant potential gains in terms of expansion and diversification of export supply of host economy and transfer of technology
- Can also lead to non-equity forms of FDI
- Generation of champion Co’s in DCs
- In many DCs, these champions are public investors (SOEs and SWEs)

### Political Economy/Challenges
- Distribution of rents. Fair distribution of gains derived from exploitation of resources
- Sovereignty over natural resources
- Dutch disease
- Rent-seeking political structures
- Strong pressures for corruption
- Labor rights and other social conditions of workforce (i.e. health)
- Environmental matters
- Real or perceived effects over:
  - Domestic production (crowding-out argument)
  - Reaction of domestic suppliers
  - Competition policy
  - National security
- Systemic competitiveness is difficult to achieve
- Competition among countries (incentives?)
- Importance of signals (vulnerability of smaller countries)
- Increasing controversy in home countries
- Rising economic protectionism
- More common South-North FDI
- Reaction against SOEs and SWFs (Public investors)

### Historical Perspective
- Oldest type of FDI
- Rooted in colonialism
- Some initial flows in developing
- Resulting of GATT’s impact on liberalization of
- Traditionally limited to North-North
<table>
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<tr>
<th>Origin of North-South divide</th>
<th>Currently growing because increased demand for raw materials and food supply</th>
<th>countries in the XIX century</th>
<th>Currently growing and become another way to service a market (in particular given the rise in trade in services, and the rise of BRICS)</th>
<th>Increasing emphasis on pre-establishment issues</th>
<th>trade in manufactures</th>
<th>FDI, in the last 20 years has started to become increasingly common in developing countries</th>
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<td>Relationship with Trade</td>
<td>Original vehicle for generation of trade</td>
<td>Protectionist policies (infant industry argument and currently protectionist stances in some BRICS)</td>
<td>Original perception that FDI substitutes trade (tariff jumping)</td>
<td>Currently close links with international patterns of production generated by international competition</td>
<td>Fosters intra-firm trade</td>
<td>Makes trade to grow exponentially</td>
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<td>Implications for policymaking/ How to integrate host country in value chain</td>
<td>FDI may not necessarily translate in benefits to local economy</td>
<td>Often strong resistance from local interest groups has to be overcome</td>
<td>Typical vehicle for SMEs from DCs to jump into international markets</td>
<td>Liberalization becomes the core topic around which the core</td>
<td>Given clarity of benefits, this is the kind of FDI that is more in demand</td>
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<td></td>
<td>Most difficult FDI to manage in order to minimize drawbacks and maximize potential benefits</td>
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<td>Systemic competitiveness becomes the core topic around which the core</td>
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When deciding which type of FDI a country should focus on it is important to bear in mind the types of jobs each creates. Different types of FDI generate different kinds of jobs and thus have a different impact on the development of the local economy. As Figure 4 below shows, Natural Resource Seeking Investment typically generates rather small-scale and low-skilled jobs. The more a country moves towards efficiency-seeking and strategic asset-seeking investments, the more knowledge-intensive and high-skilled jobs are created in the local economy.

Figure 4: Each type of investment generates different kinds of jobs and value
2.3 INVESTMENT IS A RELATIONSHIP, NOT A TRANSACTION: THE INVESTMENT LIFECYCLE

An international firm that chooses to invest abroad and the government that hosts that firm create an ongoing relationship. Too often, states focus only on promotion and attracting new investors to their country. Attraction is important, but it is only a small part of the story. The real benefits to the state come later in the FDI relationship as the foreign firm brings in capital, employs local staff, provides goods and services, generates exports, shares technology and know-how, sources from local suppliers, and helps diversify and upgrade the economy. If a country wants to ensure foreign investors come, stay, and contribute, what should the government do at each stage of the relationship? How can countries build long-lasting ties with investors and improve the quality of the impact of the foreign firm and the domestic economy? Crucially, how can the state ensure more investments get to the final stage of the cycle where they create the linkages and spillovers to move the country up the value chain?

The Investment Lifecycle is a framework that identifies the different stages of foreign investment, along with the particular policy challenges that arise at each stage.

Figure 5: The Investment Lifecycle

The lifecycle begins with the government’s vision and strategy for foreign investment, i.e. the policy decisions the country makes about how it will attract, regulate and engage with foreign investors. Next, investment attraction identifies how the country will market itself to potential investors and share information about the potential benefits of investing. Investment establishment is the phase when an investor has decided to establish an enterprise in the host country. It covers the practical and legal steps an investor must take to set up the business, including obtaining permissions or licenses, bringing in foreign personnel and capital and gaining access to industrial land and other utilities. To retain foreign investment, states must look closely at how they treat established investors and how they address grievances or disputes. With re-investment becoming more important as a source of foreign capital,
ensuring clear communication and a functional relationship between businesses and government is essential. Finally, the full benefits of investment are only achieved if a country can enhance the linkages and spillovers from foreign investment, including technology and skills transfer and forward and backward linkages with the domestic economy.

3 FROM THE INVESTMENT REFORM MAP TO REFORM ORIENTED RESULTS ON THE GROUND

3.1 WHAT IS THE IRM PROCESS?

The WBG works alongside governments to engage in “Investment Reform Mapping.” The details of this process vary depending on the circumstances and needs of each country, but its purpose remains the same: to help the government set priorities, assign responsibilities, identify opportunities for collaboration and define the intended impacts of investment policy reform. It is important to remember the IRM is not a single document or report, nor is it a static action plan. Instead, it is a process that allows a government to focus discussion, set priorities and agree on defined activities. As countries refine their Investment Vision and Strategy over time, the IRM will also be adjusted to the changing circumstances. Graphically, the IRM process is illustrated by Figure 4 below.

3.2 INVESTMENT COMPETITIVENESS FOR BUSINESS-LED GROWTH: THE INVESTMENT COMPETITIVENESS DIAGNOSIS

Through the IRM process, the WBG also helps client governments improve their investment competitiveness—which refers to the capability to attract, retain, and leverage foreign and domestic investment for private sector-led growth. The Investment Competitiveness Diagnostic (ICD) analyzes
investment climate constraints and opportunities in client countries. It relies on a combination of economic data analysis, legal and regulatory review and feedback from country stakeholders to identify specific investment climate barriers to private investment and business growth. The analysis and reform recommendations cover both domestic businesses and foreign direct investors along their business lifecycles.

Figure 7: Business lifecycles domestic and foreign investors

The ICD is composed of seven modules in three sections to allow for a customized and modular approach per country needs.

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<td>(2) Private Sector Performance</td>
<td>(3) Investment Sector Scan</td>
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<td>(4) Doing Business Reform Memo</td>
<td>(5) Business Environment Deep Dive</td>
<td>(6) Investment Reform Map</td>
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<td>(7) Subnational Benchmarking and Assessment</td>
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Data Analysis

Economic and Policy Context
Using economic data analysis, the country is benchmarked against peers on a broad set of investment climate factors to assess the country’s investment competitiveness. It leverages global datasets for analysis of cross-country trends over time. It touches on broad topics including exports, macroeconomic environment, infrastructure, and labor market, and concentrates on factors related to investment from the public-sector perspective. The focus on investment climate covers several key dimensions: access to information, efficiency of administrative procedures, predictability of regulatory processes, quality of legislation, effectiveness of institutions, and coherence of policies.

Private Sector Performance
Analysis of the private sector—both domestic businesses and foreign direct investments—focuses on performance along their respective business lifecycles. It uses macro-level data and analyzes firm dynamics to benchmark countries against peers and analyze trends over time.

Investment Sector Scan
The Investment Sector Scan is designed to help a country identify new sectors with strong potential for investment generation and job creation. It starts with a basic analysis of the country’s background and level of economic diversification to then make the most suitable selection from a menu of established sectors.
analytical methodologies. The approach is flexible enough to cover sector selection for a variety of purposes, ranging from short term investment promotion to more comprehensive long term reforms that enhance investment competitiveness. The scan can be applied at a broad, sectoral level or to identify subsectors or products with high potential within a broader industry.

4 TOOLKITS DEVELOPED BY THE WBG TARGETING INDIVIDUAL STAGES OF THE INVESTMENT LIFECYCLE

The WBG employs a specific tool for every stage of the Investment Lifecycle, addressing specific challenges and offering solutions which would increase the potential of maximizing the benefits of FDI for the local economy of a country.

4.1 INVESTMENT PROMOTION

4.1.1 Why does investment promotion matter?

The rise in the prominence of FDI has been matched by a global proliferation of public institutions mandated to pursue FDI. Nearly 200 investment-promoting institutions exist within national governments, while perhaps 2,000 operate as arms of subnational governments. The fierceness of this increased competition may be felt most strongly in years when FDI flows decline (e.g., 2008, 2009, 2012, 2014). However, even in times of growth, governments must compete for new FDI and to maintain established investors.

Critically, countries must highlight their comparative advantages. This requires countries to define their value propositions as attractive investment locations and proactively market investment opportunities to investors in sectors, subsectors, and even segments of interest. Clear strategies and effective marketing are particularly important for countries with little track record of attracting FDI or with reputations as difficult investment locations.

Research shows that where investment promotion activities are properly targeted, there are positive correlations between promotion and investment (see figure 8) (Wells and Wint, 1990, Austrade 1996,
Wells 1999, Morisset 2004, Jovorcik and Harding 2012). Efficient investment promotion activities include: servicing investors’ information needs, strengthening the host country’s value proposition and reputation, and facilitating the establishment and expansion process of the investor after establishment.

Figure 8: Correlation between FDI inflows and Targeted Investment Promotion Services

![Correlation between FDI inflows and Targeted Investment Promotion Services](image)


4.1.2 How does the WBG country diagnostics work?

Using the country diagnostic, the WBG examines what challenges governments face when trying to influence investors through investment promotion and what role Investment Promotion Agencies (IPAs) play in this context. The diagnostic uncovers the impact of government policies designed to attract FDI, identifying their positive impact or unintended consequences on the inflow of FDI. The WBG also analyses the role of the IPAs in this process—analyzing organizational structure and the scope of their activities targeted at supporting investors and translating investments into development benefits.

4.1.3 What are our activities?

The WBG provides client governments with support to improve the investment policy framework and maximize the effectiveness of investment promotion efforts by (i) advising IPA design or upgrading, (ii) helping a country develop a national FDI Vision and Strategy, an Investment Reform Map, and investment promotion strategies, (iii) enhancing and strengthening the design and implementation of services offered by IPAs to investors—such as marketing, information, assistance, aftercare and advocacy services.

4.1.4 How do we measure the impact?

The impact of WBG work can be measured by the success of a country’s IPA. The key impact indicators include: (i) implementation of investment promotion strategies and programs linked directly to impact
indicators, (ii) effective systems for measuring organizational and staff performance, and (iii) reporting to stakeholders and clients.

Figure 9: Diverse services take investors from concept to project success and development impact

Our Work in Action
- Attracting FDI to Brazil’s Frontier States: the team supported APEX, Brazil’s national IPI, to attract FDI to the poorer Northern regions of the country. We helped build the capacity of APEX and two state IPIs in Para and Pernambuco to plan and implement targeted investor outreach. This led to the attraction of over $1.3 billion of new investment to Brazil, of which some 70% went to the two frontier states in sectors such as renewable energy and agribusiness.
- Enhancing Sector Competitiveness for FDI in Rajasthan, India: the team supported the Government of Rajasthan to develop its investment competitiveness in four key sectors of the economy – automotive, IT enabled services, solar power manufacturing and tourism. Our support focused on defining Rajasthan’s competitive proposition for each sector, reforming the investment environment to make the sector more attractive to investors and undertaking targeted sector outreach. The project team subsequently facilitated site visits and meetings for investors with the Government of Rajasthan. As a result, investments of approximately $2 billion are currently in the pipeline in these sectors, with over $300 million of new investment having been achieved so far.

4.2 INVESTMENT ENTRY

4.2.1 Why does the reduction of investment entry barriers matter?

In today’s era of globalization and increasingly inter-related economies, both developing and developed countries have come to appreciate the significant benefits they can derive from greater flows of foreign investment, including job creation, capital infusion, increased access to foreign markets, access to more advanced technology and managerial practices, infrastructure development, and so on. Yet, countries still maintain, and even create, barriers to foreign investment entry.

In some cases, these barriers are imposed intentionally with certain policy objectives in mind. For instance, Figure 10 below shows commonly restricted sectors. Paradoxically, areas such as telecommunications and electricity, which are key sectors for attracting efficiency-seeking FDI are themselves restricted to foreign competitors.
Entry barriers also arise in the form of red tape without clear policy objectives. Although, even intentional barriers do not effectively serve the objectives for which they are designed. In fact, these requirements often generate additional costs for the host country.

Figure 11 below illustrates that despite a desire to grant access to a domestic economy, red tape such as administrative requirements to apply, enter, and establish in a country, very often adversely affects foreign investors. Although the number of procedures associated with the establishment of investments may not significantly vary, the time and associated cost of complying with establishment procedures vary substantially. Time and cost measurements can act as de facto barriers to potential FDI inflows.
In OECD countries, it takes an average of 14 days for a foreign company to establish. However, in other regions, it may take up to 70 days—or five times longer. This discrepancy indicates that, in many regions, there is a clear opportunity for the G20 to promote concrete actions facilitating the establishment of investments.

**What are Investment Entry Barriers?**

“Investment entry barriers” are restrictions, regulations, procedures, and/or practices which impose unreasonable, discriminatory burdens on foreign investors during investment entry. Investment entry barriers can be categorized into three broad groups: legal and regulatory barriers; procedural barriers; and de facto barriers.

Figure 12: Investment entry barriers

<table>
<thead>
<tr>
<th>Focus areas</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Legal and regulatory barriers</strong></td>
<td>• A country may prohibit FDI in the retail sector by regulating that only companies owned and controlled by nationals can own supermarkets or department stores</td>
</tr>
<tr>
<td>Prohibition of foreign investment in certain sectors</td>
<td>• A country may restrict the appointment of foreigners to the board of directors and/or to executive-level positions</td>
</tr>
<tr>
<td>Restrictions on top managerial personnel</td>
<td>• A foreign investor may be required to meet additional conditions in order to get a license to operate (in comparison to a domestic investor)</td>
</tr>
<tr>
<td>Discriminatory licensing requirements</td>
<td></td>
</tr>
<tr>
<td><strong>Procedural barriers</strong></td>
<td>• A country may require several different agencies to sign off on investment approval, causing increased time and costs</td>
</tr>
<tr>
<td>Obtaining investment approval</td>
<td>• Registration or notification requirements may require detailed, forward-looking information that is time-consuming to prepare</td>
</tr>
<tr>
<td>Registration or notification of investment</td>
<td></td>
</tr>
<tr>
<td>Obtaining a work permit or visa</td>
<td>• Work permits applications may be onerous and lengthy, and may impose restrictions on staff mobility</td>
</tr>
<tr>
<td>Opening a bank account in a foreign currency</td>
<td>• Documentation required to open a bank account may be costly to collect and slow to process</td>
</tr>
<tr>
<td>Having documents recognized (Hague Apostille Convention)</td>
<td>• A country may require that certain foreign documents be certified or notarized before they can be recognized for establishment</td>
</tr>
<tr>
<td><strong>De Facto barriers</strong></td>
<td>• Substantive laws and regulations of the country may be complex and difficult to access, and decision-making processes may be opaque</td>
</tr>
<tr>
<td>Lack of transparency</td>
<td>• Decision-makers may have significant discretion, allowing informal practices to creep into the system</td>
</tr>
<tr>
<td>Excessive discretion and lack of certainty</td>
<td></td>
</tr>
</tbody>
</table>

4.2.2 How do the WBG country diagnostics work?

To ensure host countries reap the potential benefits of foreign investment, policy makers must pay increasing attention to minimizing and rationalizing the existence of barriers to investment entry. The WBG works alongside country authorities and other advisers to set a reform agenda and identify solutions that are appropriate for the country context. Technical assistance is focused on helping countries (i) decrease and rationalize the use of legal and regulatory barriers, (ii) identify and remedy procedural barriers by streamlining processes, and (iii) discuss and address de facto regulatory barriers by promoting greater transparency, certainty, and improved governance in the investment entry regime.

4.2.3 What are our activities?

The diagnostic assessment is based on a three-step approach:

- **Step 1** focuses on investment entry laws and regulations and includes diagnostics, solution design and implementation
- **Step 2** focuses on procedural reforms, also setting out diagnostics, solution design, and implementation.
- **Step 3** focuses on the tools available to assist countries address de facto entry barriers by increasing transparency and reducing discretion.

### 4.2.4 How do we measure the impact?

The WBG measures the impact of its engagement by benchmarking available data, such as (i) flows of foreign investment in the country or within sectors using “investment generated” numbers, (ii) information on processes (agencies involved, permissions needed, and documentation required), (iii) the time and costs of process, and (iv) outcomes of the implemented processes (e.g. number of approvals/declines/withdrawals).

<table>
<thead>
<tr>
<th>Good Practices: Entry / Establishment of Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Avoid discriminatory treatment to FDI: negative lists complemented by standstill, ratchets and rollbacks.</td>
</tr>
<tr>
<td>• Eliminate mandatory performance requirements affecting the establishment of investments</td>
</tr>
<tr>
<td>• Measure the impact of potential liberalization</td>
</tr>
<tr>
<td>• Diminish red tape affecting entry/establishment of investment</td>
</tr>
<tr>
<td>• Diminish red tape affecting movement of investors and technical personnel</td>
</tr>
<tr>
<td>• Ensure existence of mechanisms to address barriers to market entry from incumbent</td>
</tr>
</tbody>
</table>

**Our Work in Action**

- In **Turkey**, reform of FDI policy and legislation led to the removal of minimum investment requirements and elimination of screening for FDI approvals. A simple registration system was established instead. Three years after the reform FDI inflows have increased by a factor of 10.
- In the **East African Community (EAC)**, a scorecard assessing compliance with regional obligations boosted national reform efforts. For example, in Tanzania it triggered the liberalization of regulations that had restricted the movement of capital.
- In **Tajikistan**, accession to the Hague Apostille Convention has streamlined documentary requirements for cross-border transactions benefitting investors, traders and citizens.

### 4.3 INVESTMENT INCENTIVES

#### 4.3.1 Why do FDI investment incentives matter?

FDI plays a critical role in enabling economies to join global value chains (GVCs) and thus upgrade domestic production. Governments compete fiercely to attract investments that link into GVCs or provide these upgrading benefits. In this context, *locational incentives*—incentives designed to influence firms’ locational decisions—play a prevalent role in governments’ policy mix to attract investment. And once investments are attracted, governments frequently rely on *behavioral incentives* to encourage behaviors, such as hiring local staff, investing in innovation, or using local suppliers to...
establish backward linkages.

Investment incentives are therefore widespread and used pervasively by governments across both the developed and developing world.

Figure 13: Types of Investment Incentives

<table>
<thead>
<tr>
<th>Investment Incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Measurable</strong> economic advantages that governments provide to <strong>specific enterprises or groups of enterprises</strong>, with the goal of <strong>steering investments into favored sectors or regions or of influencing the character of such investments</strong></td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Instrument</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tax Incentives</strong>: exemptions or reductions of government revenue otherwise due</td>
<td><strong>Locational Incentives</strong>: aimed at attracting investment into a country (targeting investor’s decision of where to locate)</td>
</tr>
<tr>
<td><strong>Financial incentives</strong>: direct transfer of funds or potential direct transfer of funds and liabilities; provision of goods and services, and payments-in-kind</td>
<td><strong>Behavioral Incentives</strong>: aimed at inducing investors to engage in certain activities or behaviors (e.g. fostering employment, forming linkages with local suppliers, adopting green technologies)</td>
</tr>
</tbody>
</table>

4.3.2 How does the WBG country diagnostics work?

The WBG promotes good practices in the design and implementation of incentives policies. This includes helping clients identify if and how investment incentives can contribute to promoting FDI inflows and other economic policy objectives such as employment generation and export promotion.

4.3.3 What are our activities?

Typical WBG assistance in rationalizing investment incentives consists of two stages. Stage 1 is an assessment of the country’s investment incentives, in which the team:

(i) prepares a comprehensive inventory of all tax and financial incentives available in the country,

(ii) assesses the cost of investment incentives by measuring tax expenditures for tax incentives and consolidating the cost of financial incentives,

(iii) conducts investor motivation surveys to assess the importance of investment incentives for investors’ decision,

(iv) assesses the potential market distortions generated by investment incentives through evaluation of granted incentives and identification of competition distortions stemming from the investment incentive framework,

(v) conducts a cost-benefit analysis of tax and financial incentives to measure the effectiveness of investment incentives, and

(vi) provides inputs and recommendations on a policy on tax and financial incentives.
Stage 2 is implementation support. The WBG delivers the report on incentive optimization to the client and starts consultations with key counterparts to identify specific reform areas for implementation. If the authorities are committed to accepting some of the key recommendations, the WBG then provides implementation support. This support could come in the form of drafting legal amendments and subsidiary legislation, implementing regulations, (re)designing processes and procedures, etc. Technical advice, guidelines and training to (re)design incentive schemes and reduce distortions on market competition would also be part of implementation support. The output of the phase is a report which presents recommendations on making the incentives regime more efficient, cost-effective and transparent.

4.3.4 How do we measure the impact?

The WBG uses several indicators to measure the success of investment incentives reforms, including: output indicators, outcome indicators and impact indicators.

- **Output indicators** measure World Bank Group delivery throughout the course of the investment incentives reforms (i.e. number of entities receiving advisory services, number of new laws/regulations drafted, number of reports and surveys completed, number of media appearances).
- **Outcome indicators** measure government’s response to recommendations and technical assistance provided by the World Bank Group project team, which contribute to the “reform count” (i.e. number of recommended laws and regulations adopted, average number of days and costs to comply with regulations and procedures, number of entities that implemented recommended changes).
- **Impact Indicators** and cost-effectiveness ratios of incentives interpret the costs and benefits of reforms, allowing governments to rationalize expenditures on incentives and improve the cost-effectiveness of incentives to achieve targeted policy objectives.
- **Impact Indicators – Compliance Cost Savings** - assesses whether an investment incentives reform is achieving its purpose in decreasing costs associated with incentives for foreign and domestic investors.

**GOOD PRACTICES: LOCATIONAL INCENTIVES**

- Make incentives transparent: prepare and publish an incentives inventory
- Adjudication process transparent and non-discretionary: map procedures
- Make them consistent with international obligations
- Ensure that incentives reach their purpose: cost/benefit optimization

**Our Work in Action**
• In Sri Lanka, we advised the government in streamlining and prioritizing the number of sectors that are eligible to receive incentives, while at the same time providing analytical support to implement more efficient incentive instruments.

• In Serbia, we conducted a detailed quantitative evaluation of a cash incentive program for investment promotion in order to assess its effectiveness and derive lessons learned for future program modalities.

• In Jordan, we helped the government publish a comprehensive and up to date inventory of incentives on the internet that provides investors and other stakeholders easy reference to available incentive programs and application requirements.

4.4 INVESTMENT PROTECTION AND EXPANSION

4.4.1 Why does Investment Protection and Expansion matter?

In today’s global economy, companies have a plethora of location options and governments must compete to attract the investment mix that yields suitable development benefits. As such, it is typically easier to achieve development benefits through established investments. Encouraging investment expansion by ensuring meaningful engagement of investors in the host country is therefore just as critical as attracting new investment.

In a significant number of economies, most total annual FDI inflows stem from investors already established in the host country—both in the form of reinvested earnings and new investments. Moreover, positive testimonials of established investors rank among the most effective tools to attract new FDI. Lastly, evidence shows that over time satisfied investors tend to diversify their operations, evolving from lower value-added towards higher value added activities.

Political risk impacts countries’ ability to retain investment. Investment decisions are influenced not just by the costs of regulatory compliance, but also by the risks generated in the investment climate, which may be actual or simply perceived. Perceptions of influence risk-return calculations and increase the “hurdle” rate of return for investors. Without risk mitigation, many commercially viable investments do not materialize. The risks considered by investors arise from any factor that may make the regulatory environment unpredictable. As shown by Figure 14, around 25% of all investment established in developing countries and economies in transition either stop expansion or totally withdraw from host countries due to political risks arising from the conduct of public agencies, especially agencies at the subnational or sector-specific level. These investment prohibitory risks stem from four main categories of government conduct: (i) arbitrary or adverse regulatory changes, (ii) breach of contract, (iii) expropriations and (iv) problems related to transfers and currency convertibility.
In this context, investor protection and investment retention and expansion are clearly linked. Without investor protections, retention and expansion is virtually impossible. Only few investors with very specific objectives will bear the costs of risks associated with malfunctioning political, regulatory and legislative systems. On the other hand, enhanced levels of investor protection boost investor confidence, leading to generation of new investment and encouraging already existing investors to not only stay, but also expand operations.

4.4.2 How does the WBG country diagnostics work?

Strong legal investor protection clauses are among the best indicators of a country’s commitment to respect investor rights. It is therefore important for a country’s legal framework to reflect not just the international obligations, but also standards of good practice. Investor protections are mostly found in the Investment Act/Code, Foreign Exchange Law, Property Law, Administrative Laws or Constitution. Accordingly, the WBG’s diagnostic assessment of these documents informs its reform proposals in this area. Benchmarking existing laws and regulations against international good practices will either confirm the laws and regulations are adequate, or identify areas of potential reform. Identified areas of improvement can then be prioritized as key investment climate reforms, which may include the introduction of additional guarantees, but also improved coherence, simplification, or clarification of existing legal instruments.
4.4.3 What are our activities?

1.1.1.1. Legal framework improvement

The WBG helps governments implement reforms that enhance investor protection policy frameworks and their implementation. We draw on a set of tools and activities that help assess the quality of the legal, regulatory and institutional framework and its application, objectives and impact on businesses. The offering includes (i) improving legal and regulatory framework on investor protection guarantees, (ii) streamlining regulatory procedures and (iii) strengthening implementation of legal and regulatory frameworks to help clients retain and expand FDI.

4.4.3.2. Ensuring of expansion of investment on the ground

The Systemic Investment Response Mechanism (SIRM) is an early warning and tracking mechanism to identify and resolve complaints/issues that arise from government conduct. It collects data on and identifies patterns of government-generated political risks affecting investments. The mechanism also quantifies investment retained, expanded or lost because of addressing or failure to addressing the identified political risks. The tool therefore ensures governments respond to investor grievances in a timely manner and in accordance with the country’s laws, regulations and international investment agreements.

Implementing SIRM requires the establishment or empowerment of a reform-oriented government agency tasked with influencing other agencies’ actions to effectively reduce political risk at its source. The agency alerts higher-levels of government to problems affecting investments to address risks before escalation. Operationally, the SIRM focuses on the following aspects: (i) identifying specific patterns and origin of government conduct generating political risks; (ii) measuring impacted investment as “evidence” to advocate for timely changes and issue resolution; and (iii) strengthening capacity in relevant institutions to minimize the recurrence of these events.
4.4.4 How do we measure the impact?

The WBG measures the impact of SIRM by considering:
1. Investment generated and compliance cost savings of an investment transaction
2. Investment retained, which captures the total value of assets of existing foreign and domestic investors facing severe investor-state grievances. Investment retained is equivalent to investment at risk before reform implementation less investment at risk at project completion.

Our Work in Action

- **In Bosnia and Herzegovina**, an investment climate program is helping the government harmonize investment laws at a subnational level and establish mechanisms to track and address investor grievances in a systematic and effective manner. This included setting up a technology tool to track investor grievances and capacity building to address grievances in an effective manner. The mechanism helped the government receive new investments and re-investments by existing investors, which have generated hundreds of new jobs.
- **In Dominican Republic**, an investment climate project is helping the government in designing and implementing a mechanism for tracking and addressing investor protection grievances in the manufacturing and tourism sectors.
4.5 FDI Linkages

4.5.1 Why do FDI linkages and positive spillovers into local economy matter?

Per UNCTAD, FDI flows to developing economies reached record levels at $681 billion in 2014, with a total FDI stock in developing countries exceeding $8.3 trillion. Governments aim to attract FDI and strengthen domestic value addition (DVA) to spur economic diversification and growth, generating needed employment and income improvements. Research shows FDI can trigger multiple direct and indirect benefits in a host country—most importantly the transfer of new technology, managerial capabilities and increased productivity. However, these benefits do not materialize automatically.

Targeted policies and hands-on support are required to facilitate FDI linkages. Understanding the specific contexts and transmission channels through which such benefits work is an essential precondition for effective policy-design. Potential for linkages depends on investment motivation, the type of value chain, and the capacity of local suppliers (e.g. technology intensity, absorptive capacity). To achieve economic and job growth, it is crucial Domestic Value-Added (DVA) is increased on a competitive basis. Rather, than increase import barriers or local content requirements, countries should enable local firms to upgrade and compete.

4.5.2 How does the WBG country diagnostics work?

Interventions by the WBG can positively contribute to local linkages and domestic value addition by (i) helping client countries ensure their investment climate framework indeed encourages and facilitates linkage development and spillovers wherever possible and by (ii) providing advice to client governments on developing a linkages strategy including tailored implementation solutions for linking high potential domestic firms to foreign investors and global value chains.

**GOOD PRACTICES: RETENTION/EXPANSION**

- Eliminate gaps between national and international commitments
- Ensure enforceability of international awards
- Promote regulatory transparency: notice, comment and right for reconsideration
- Set up mechanisms to measure investment retention, expansion and origins of regulatory risk (SIRMs)
- Evidence-based PPDs on systemic issues affecting investment and retention

4.5.3 What are our activities?

Before going on scoping mission, the WBG conducts an elaborate desk review concentrated on identifying a country’s (i) policy environment and priorities, (ii) economic background and rankings, (iii) institutional setup, (iv) tools and support programs used to favor linkages, (v) partners and relevant work already underway, and (vi) relevant literature and press reviews.
Following, the WBG prepares a template for *pre-mission diagnostics* of the country analyzing existing FDI activity, economy and trade, sectors and linkages as part of global value chains (GVC) dynamics.

*After a scoping mission, a more comprehensive demand-supply gap analysis* is completed, which is a survey to determine the scope and scale for increasing linkages between FDIs and domestic firms, assessing the gap between demand for inputs and local ability to meet this demand.

Figure 16: The IC Linkages Solution Package

How do we measure the impact? Interventions aim at generating new contracts between local firms and foreign investors measured. Accordingly, we consider the number and value of additional contracts, which should ultimately increase jobs and domestic value added and provide indirect spillover effects. If a targeted supplier development program is included in the intervention, increased local firm performance can be measured. Through the academic argument that a more capable supply base also lures new investment, impact on investment generated could be measured as well.
**GOOD PRACTICES: LINKAGES**

- Eliminate discriminatory performance requirements
- Ensure incentives regimes do not conspire against local sourcing nor deter investment
- Prepare sector specific potential suppliers directories (both national and subnational level) and make them easily accessible to investors
- Focus on concrete mechanisms to upgrade capacities of domestic suppliers to needs of investors using:
  A. Behavioral incentives (skills)
     - Make incentives transparent: prepare and publish an incentive inventory
     - Ensure adjudication processes are transparent and non-discretionary by mapping procedures
     - Make them consistent with international obligations
     - Ensure that incentives reach their purpose: cost/benefit optimization
  B. Non-equity modes of investment (NEMs)
     - Assess regulatory framework to ensure they are facilitated
     - Assess NEMs along the cycle

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**Our Work in Action**

**Guinea**: The WBG helped the government to develop a Domestic Value Addition Policy not relying on local content requirements. It is also working closely with the national investment promotion agency to, among others, build its capacity in developing and maintaining a state-of-the-art supplier database and in providing professional support services (matchmaking, targeted investment attraction, alignment of incentives, etc.) that will enhance linkages between MNEs and domestic firms.

**Vietnam**: As part of the government’s efforts to attract a “second generation of FDI”, it has requested WBG support in designing a strategy to better link local firms to existing FDI stocks and foster participation in regional value chains in sectors demonstrating a critical mass of FDI (e.g. apparel, electronics, automotive). The design of a tailored linkages, incentives and supplier development program forms the core of the WBG’s planned advisory support to Vietnam to help local firms improve their competitiveness and better link to MNEs in addition to investment policy interventions for improved market entry for investors and increased alignment of institutional roles and capacities.
5 INVESTMENT POLICY AND PROMOTION MONITORING AND EVALUATION (M&E)

As part of the World Bank Group impact and accountability framework, Investment Policy and Promotion reforms are measured and counted each year. The objective is two-fold: To ensure that the design and implementation of reforms meet certain minimum criteria that increase the chances of reaching their envisioned impacts, and to ensure that reporting on reforms is unified across the investment climate reform portfolio and balanced to the degree possible in terms of the effort and resources required to implement it.

The Investment Policy and Promotion team undertakes periodic reviews of its portfolio to assess progress of each project based on the targeted reforms set at project design and approval. Members of the team work closely with each project task leader to make sure that reforms are properly documented and timely reported.

The rule for counting reforms is one rule per topic, per year per project, except when the reforms under the same topic take place both at national and subnational levels. A specific outcome can be counted as a reform when it meets either the trigger or minimum threshold defined in the reform criteria (varies depending on reform topic/sub-topic) and when there is enough evidence into signs of benefits for existing or potential investors. To facilitate this exercise, there is a set of defined reform criteria and check-lists that help project leaders verify if all the necessary requirements have been fulfilled to validate a reform.

Frequent M&E not only helps WBG teams track progress of projects, but most importantly, allows governments to better time and benchmark their reform efforts against best practices and standards.

Figure 17. Theory of Change
**Figure 18: Detailed catalogue of Investment Policy and Promotion reforms**

<table>
<thead>
<tr>
<th>REFORM AREA</th>
<th>TYPE</th>
<th>SUBSTANTIVE REFORMS</th>
<th>ADMINISTRATIVE STREAMLINING</th>
<th>INSTITUTIONAL MODERNIZATION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment Vision and Strategy</strong></td>
<td></td>
<td><strong>Quality of governance</strong></td>
<td><strong>Services delivery efficiency</strong></td>
<td><strong>Effectiveness, capacity, coordination, and use of technology</strong></td>
</tr>
<tr>
<td><strong>Investment Reform Map</strong></td>
<td></td>
<td><strong>Investment Reform Map</strong></td>
<td><strong>Investment Reform Map</strong></td>
<td><strong>Investment Reform Map</strong></td>
</tr>
<tr>
<td><strong>Investment entry and establishment</strong></td>
<td></td>
<td><strong>Eliminating/reducing substantive barriers that discriminate and affect the entry and establishment of foreign investment.</strong></td>
<td><strong>Streamlining procedures associated with investment entry and establishment for foreign investment.</strong></td>
<td><strong>ICT tracking tool to identify investment lost in the process of entry and establishment.</strong></td>
</tr>
<tr>
<td><strong>Investment incentives</strong></td>
<td></td>
<td><strong>Rationalizing incentives for foreign and domestic investors by improving their:</strong> - Transparency - Governance, and - Effectiveness</td>
<td><strong>Streamlining procedures associated with investment incentives for foreign and domestic investors.</strong></td>
<td><strong>Improving coordination among agencies providing investment incentives.</strong></td>
</tr>
<tr>
<td><strong>Investment retention &amp; expansion</strong></td>
<td></td>
<td><strong>Strengthening the legal and regulatory framework for foreign investor protection.</strong></td>
<td><strong>Streamlining procedures associated with investment protection for foreign investment.</strong></td>
<td><strong>Enabling the retention and expansion of foreign and domestic investment by designing customized protocols for Systemic Response Investment Mechanisms (SIRM).</strong></td>
</tr>
<tr>
<td><strong>Investment promotion</strong></td>
<td></td>
<td><strong>Improving investor-focused services provided by AIPAs during the investment life cycle (attraction, entry, retention/expansion, and linkages), particularly in the following four key services categories: marketing, information, assistance, and advocacy.</strong></td>
<td><strong>Creating or strengthening investment-related agency/intermediary (IPA/IPI).</strong></td>
<td><strong>Improving coordination between agencies involved in investment promotion.</strong></td>
</tr>
<tr>
<td><strong>Investment linkages</strong></td>
<td></td>
<td><strong>Removing performance requirements and/or distortive incentives regimes.</strong></td>
<td><strong>Improving information services for promoting FDI linkages.</strong></td>
<td><strong>Improving coordination between agencies involved in promoting FDI linkages with domestic suppliers.</strong></td>
</tr>
</tbody>
</table>

**Quality criteria have been identified for each reform topic.**
The World Bank Group is currently assisting over 80 countries to frame their investment reform proposals and improve their investment competitiveness. Our clients range from resource-rich countries, to low income economies and fragile and conflict states. Governments across these complex contexts have found the World Bank Group’s investment policy framework a useful stepping stone to implement an effective investment policy agenda.

The benefits of FDI go well beyond providing additional capital, and include potential productivity improvements, export upgrading, knowledge generation, and wage increases. However, such benefits are not automatic. Countries should strengthen their investment competitiveness to maximize these potential spillovers. However, government must also bear in mind that different types of FDI can generate different economic and social impacts in the short and long-term. Investment policies are required to maximize potential FDI gains. Although, overall evidence makes a compelling case for tailored host country efforts aimed at attracting, enabling the entry of and retaining and linking FDI with the domestic economy.

This guide provided examples of the multidimensional complexity of investment policy, especially highlighting the different types of FDI requiring differentiated policy mixes to maximize potential benefits. Within this context, investment policy formulation requires a sophisticated framework that differentiates between the various kinds of FDI. However, this framework must also be simple enough to enable governments to clearly organize and prioritize the efforts to maximize the benefits of investment.

Moreover, this guide provided an overview of the logic of the investment policy and promotion framework developed by WBG to facilitate comprehensive, yet targeted, investment policy making. Again, this framework focuses on three key propositions:

(i) Investment policy should not aim to choose between, but rather connect domestic and foreign investors.
(ii) Investment policy should comprise the entire investment cycle, reaching beyond promotion.
(iii) Not all FDI is created equality, rather different types of FDI are driven by different investment motivations and hold different pathways to development impacts.

Concrete investment policy and promotion interventions must create measurable results, allowing governments to recognize the effectiveness of their policies, but also to demonstrate the benefits of FDI for citizens.


By leveraging a comprehensive approach that addresses the legal, regulatory, procedural and institutional barriers affecting all phases of the investment lifecycle, the Investment Policy and Promotion team at the World Bank Group helps countries establish a competitive investment climate that is favorable for attracting, retaining and leveraging investment for business-led growth.

Learn more at: