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5 Increasing the Development Impact of Investment Promotion Agencies

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Key Findings

- **Investment promotion agencies (IPAs) can help increase FDI inflows, attract higher quality FDI, and transform the economies of their home countries.** Estimates of the magnitude of these effects vary in the literature, including a preliminary cost-benefit analysis indicating that US$1 spent on investment promotion yields US$189 in FDI inflows and that spending a relatively modest US$78 in investment promotion creates one additional job in the promoted sectors.
- **The number of IPAs has proliferated over the past two decades—including at national and subnational levels—and evidence shows they can play a significant role in attracting, retaining, and growing investment.** The contributions of IPAs are more pronounced in developing countries, where investors may know less about the location, struggle to obtain reliable information, find the regulatory environments more challenging, and encounter further obstacles stemming from institutional and cultural differences between the investors' home and host markets.
- **Many IPAs are struggling to reach their full potential: they are not nimble enough to respond to new market realities; they lack strategic focus; and they do not adequately provide services most valued by investors, such as advocating for improvements in business climate.** Foreign investors appreciate IPA services offered across their investment life cycle—not just during the investment attraction and entry/establishment stages. For example, about two-thirds of surveyed investors consider IPA assistance with business operational issues to be "important" or "critically important."
- **IPAs can increase their impact by sharpening their strategic focus, building a coherent institutional framework, and strengthening their delivery of investor services.** Specifically, IPAs should (a) focus on a limited number of mandates and target segments; (b) adopt institutional features common to private companies; and (c) offer relevant and high-quality investor services across the investment life cycle. These elements should help IPAs to rapidly adapt to sudden changes in the FDI landscape, such as those presented by the COVID-19 pandemic, and to respond with relevant services to investors.
- **To maximize IPA's impact, policy makers should (a) provide high-level government support (from the president or prime minister); (b) foster strong strategic focus and alignment; (c) grant a clear, uncontested mandate for investment promotion and a high degree of autonomy; (d) facilitate collaboration with governments' other investment institutions; and (e) provide sufficient and sustained financial resources.**

Introduction

Investment promotion agencies (IPAs) are national or subnational institutions mandated to attract and grow investment—usually foreign direct investment (FDI).[1] IPAs (also known as investment promotion intermediaries, IPIs) can play a significant role in fostering economic development in their countries. They can generate larger FDI inflows, attract quality FDI, deepen integration into global value chains (GVCs), and even transform the economies of their home countries.

However, although IPAs have proliferated over the past two decades, their success stories are not as widespread and are especially scarce in developing countries.[2] Many IPAs are stretched across many mandates and target more sectors than they can properly handle, while not providing the key services that investors expect. At the same time, IPAs do not seem to be evolving as dynamically as needed to align with changes in the FDI landscape as well as more sophisticated investor requirements. The current literature, combined with additional research and more than 30 years of World Bank Group operational experience, suggests that IPAs can have much greater impact if they refine their strategic focus, adopt institutional features that prioritize the investor, and improve investor service delivery throughout the investment life cycle (box 5.1).

Given that IPAs are mostly financed by public funds, a reasonable question to ask is whether they provide a good return on such funds. Do they work for development? And if so, what can policy makers do to maximize their impact? Currently, research on IPAs and their impact—primarily considered in terms of FDI inflows generated and direct jobs created (see annex 5A)—is highly dispersed across different academic fields and has yielded few clear findings on the role of IPAs. It remains limited in addressing global trends and themes, particularly in the context of developing countries.

This chapter aims to advance research in the field of investment promotion by consolidating evidence and World Bank Group operational experience, presenting recent global data on IPA characteristics and on investor perceptions about their services, assessing the evolution of IPAs over more than a decade, and recommending new frameworks for these agencies to improve their development impact.

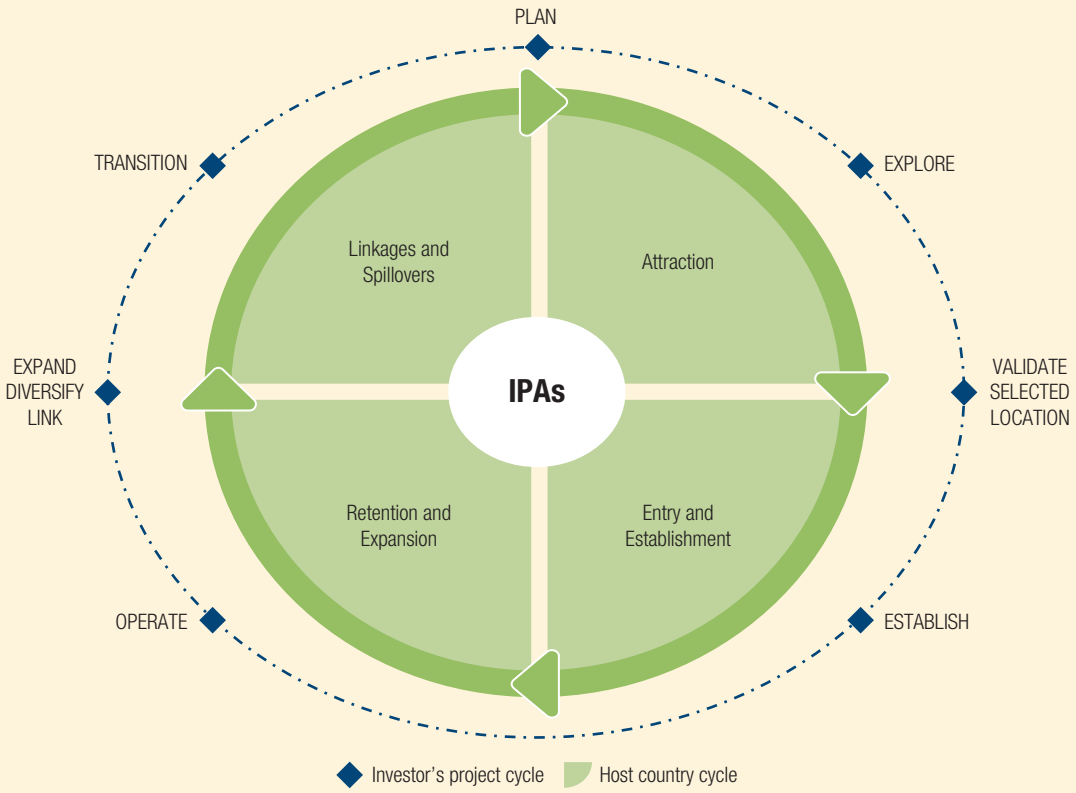
Bringing together different data sources and country experiences, the chapter addresses the role that IPAs can play in fostering FDI inflows and development impact, examines the challenges they face, and presents recommendations to improve their effectiveness. To do so, the sections are organized as follows: "Do IPAs Foster Development Impact?" draws on a literature review to discuss the potential contribution that IPAs can make to economic development and to identify agency characteristics that contribute best to achieving this impact. "Are IPAs Delivering Good Value to Investors? What Challenges Do They Face?" analyzes results from the 2019 Global Investment Competitiveness (GIC) Survey of multinational enterprises (MNEs) to discuss the investment landscape and what investors value from IPAs. The section then compares IPA characteristic surveys over time—from 2005 to 2017/18—to assess the extent to which IPAs have evolved in line with FDI trends and investor needs. "What Can Governments Do to Improve the Development Impact of Their IPAs?" consolidates key findings, insights from World Bank Group operational experience, and examples of country experiences to provide a framework and policy guidelines for governments to improve the impact of their IPAs, focusing on three core areas: strategic alignment and focus, coherent institutional framework, and strong delivery of investor services. "Conclusions and Future Research" summarizes high-level policies governments may consider to support their IPAs and increase their impact, and suggests areas for further research.

BOX 5.1

The Investment Life Cycle

The investment life cycle refers primarily to the investor's journey from project planning to site exploration and selection; investment entry and establishment; operation; expansion, diversification, and linkages; and finally to transition or exit. To successfully attract foreign direct investment (FDI) and foster its growth, the World Bank Group proposes that a host location and its investment promotion agency (IPA) mirror the cycle with a coherent investment policy and promotion offering that can be summarized across four key stages: attraction; entry and establishment; retention and expansion; and linkages and spillovers (figure B5.1.1).

FIGURE B5.1.1 The Investment Life Cycle from Investor and Host Country Perspectives



Source: World Bank.
Note: IPAs = investment promotion agencies.

Do IPAs Foster Development Impact?

Economists, researchers, economic development specialists, and policy makers started taking a stronger interest in the field of investment promotion around 20 years ago, when the World Bank Group's Foreign Investment Advisory Service (FIAS) published "Marketing a Country: Promotion as a Tool

for Attracting Foreign Investment" (Wells and Wint 2000).[3] IPAs have proliferated since then (Harding and Javorcik 2011). Between 2002 and 2018, the number of national and subnational IPAs registered in the World Association of Investment Promotion Agencies (WAIPA) grew from 112 to 170.[4]

The 2000 FIAS publication and other empirical evidence have shown that IPAs can help generate larger FDI inflows, attract quality FDI, deepen connections to GVCs, and transform economies.[5] Several studies indicate that IPAs increase FDI inflows to their home economies (Cho 2003; Crescenzi, Di Cataldo, and Giua 2019a; Morisset and Andrews-Johnson 2004; Pietersen and Bezuidenhout 2015).[6] Some estimate the magnitude of this FDI increase to be 29.7–45.3 percent (Morisset and Andrews-Johnson 2004; Wells and Wint 2000). Another study finds 155 percent higher FDI inflows and 68 percent greater employment in targeted sectors versus nontargeted sectors (Harding and Javorcik 2011). It also reveals a preliminary cost-benefit analysis: US$1 spent on investment promotion yields US$189 in FDI inflows and a relatively modest US$78 spent on investment promotion creates one additional job in the promoted sectors.

The contribution of IPAs is more pronounced in developing countries, where (a) investors may know less about the location and struggle to obtain good data (because of information asymmetries); (b) regulatory environments are more challenging (as reflected by poor ratings based on the World Bank Group's *Doing Business* indicators); and (c) cultural distance from the United States is greater (Harding and Javorcik 2011, 2012).[7]

IPAs can also bolster the quality of FDI that comes into their economies (Moran et al. 2018), including knowledge-intensive FDI (Crescenzi, Di Cataldo, and Giua 2019b; Monge-González and Tacsir 2014). For example, research points to the essential role of the Costa Rican Investment Promotion Agency (CINDE) in attracting Intel in 1996 and this firm's overwhelmingly positive impact on the country's economic development (MIGA 2006a; Nelson 1999, 2000, 2005, 2009; Spar 1998).[8] The attraction of Intel generated a strong signaling effect that helped boost FDI inflows, diversify exports from mostly fruit commodities to advanced manufacturing, encourage deeper integration into GVCs, and upgrade to higher-value activities.

IPAs can also foster economic transformation (Freund and Moran 2017) and help link economies to GVCs through FDI (World Bank 2020). Developing country examples include Costa Rica, Malaysia, and Morocco, where policies supporting macroeconomic stability, skills development, and strong IPAs contributed to attracting a few large, efficiency-seeking MNEs,[9] which in turn boosted the countries' revealed comparative advantage (Freund and Moran 2017) and their integration into GVCs.

Strategic Focus Matters

IPAs are more likely to succeed when they focus strategically on promoting specific sectors or business activities (Crescenzi, Di Cataldo, and Giua 2019a; ECORYS 2013; Loewendahl 2001; Miškinis and Byrka 2014). (See box 5.2.) One study focusing on OECD countries finds that IPAs targeting industries increased FDI inflows into those targeted industries by 41 percent (Charlton and Davis 2007). Good examples of countries engaging in targeted promotion are Brazil, Chile, and Costa Rica, which developed well-targeted, responsive, and sustained strategies that attracted nontraditional FDI (Nelson 2005). All IPAs that belong to member countries of the Organization for Economic Co-operation and Development (OECD), with the exception of France, prioritize sectors (OECD 2018).

Mandate clustering—adding or merging other policy or economic development functions to the IPA—is a controversial topic in the investment promotion literature. Some suggest that IPAs focus exclusively on investment promotion, while others recommend that economic development agencies pursue multiple mandates, including investment promotion. For example, merging investment and trade promotion may hinder promotion results if done only as a

budget-cutting measure. Some countries have achieved synergies by merging mandates under a GVC-focused strategy. Other areas that could be merged are administration, research, image building, and foreign offices (UNCTAD 2013). Recent research, however, finds a negative association between FDI results and combining mandates of investment promotion with trade or with outward investment (Lim 2018). Adding regulatory and other responsibilities to an IPA can prevent the agency from focusing on the already demanding role of catering to investors, as shown in figure 5.1 (Whyte, Ortega, and Griffin 2011).

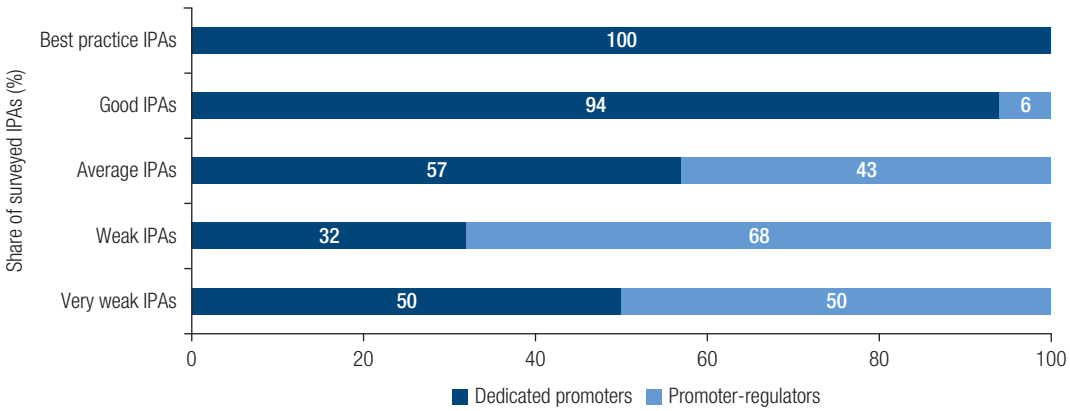
IPAs with Private Sector-Like Institutional Characteristics are More Successful

Most national IPAs are purely public bodies (around 80 percent, according to the 2017 World Bank Group Global IPA Survey).[10] While this may help with country branding and advocacy, public bodies may need to operate under civil service rules. Traditional civil service recruitment and pay policies typically hamper an IPA's potential to recruit qualified, specialized staff with the required private sector background, international exposure, language skills, and marketing and services skills (Nelson 2009). Without the right staff, IPAs underperform because of the highly competitive nature of attracting FDI—which differs significantly from the role of typical government agencies.

Certain institutional characteristics seem to be linked to better IPA performance, especially in the developing world:

- *Strong support from the topmost levels of government,* sometimes linked to a high institutional status, hierarchy, or attachment to upper ministry levels (Lim 2018; Morisset and Andrews-Johnson 2004; Volpe Martincus and Sztajerowska 2019)
- *Autonomy and operational independence* (ECORYS 2013; Lim 2018; Loewendahl 2001; Nelson 2009; UNCTAD 1997; Wells and Wint 2000), which allow IPAs to receive consistent support even during periods of political transition, attain better understanding of investor needs, and work more effectively alongside private sector actors (Bauerle Danzman and Gertz, forthcoming)[11]
- *Sufficient and sustained financial resources* over periods of three years or longer, given the long cycle of investment promotion (Morisset and Andrews-Johnson 2004; Volpe Martincus and Sztajerowska 2019)

FIGURE 5.1 The Best IPAs Tend to Be Dedicated Promoters



Source: Whyte, Ortega, and Griffin 2011.
Note: The level of investment promotion agency (IPA) performance was proxied by the score in the World Bank Group's "Global Investment Promotion Benchmarking 2009" report. A parallel internal World Bank Group survey of IPAs, deployed in 2009, provided the information as to whether an IPA was a dedicated promoter or promoter-regulator.

- *Management and staff with private sector experience* to develop investor-minded, service-oriented, and consultancy-like organizations (ECORYS 2013; Nelson 2009; UNCTAD 1997; Wells and Wint 2000) with a private sector culture (Ortega and Griffin 2009) and a transnational learning capacity that better understands the private sector and anticipates investor needs (Nelson 2009)[12]
- *Staff with international exposure and an egalitarian and democratic organizational culture* to foster transnational learning capacity (Nelson 2009)
- *Private sector board representatives* (ECORYS 2013; Miškinis and Byrka 2014)
- *Strong institutional collaboration* (Miškinis and Byrka 2014)
- *Longer IPA experience, more staff, and greater overseas presence* (Anderson and Sutherland 2015; Lim 2018; Volpe Martincus and Sztajerowska 2019)
- *Use of digitalization and emerging technologies* to reach target investors more efficiently (DCI 2017; WAIPA 2019).

Quality Services Are Linked to FDI Performance

The quality of IPA information delivery is linked to FDI performance. As shown in figure 5.2, an IPA's score in the World Bank Group's *Global Investment Promotion Best Practices (GIPB) 2012* report on information services (such as website information and inquiry handling) is positively correlated with FDI inflows, and a one-unit increase in the GIPB score is shown to be associated with a 1.5 percent increase in FDI inflows (Harding and Javorcik 2012).

IPA activities have been traditionally clustered under promotion, marketing, or targeting; facilitation; servicing; one-stop-shop (OSS); and aftercare programs (FIAS 2011; Loewendahl 2001; MIGA 2001; Ortega and Griffin 2009; UNCTAD 2007). However, many IPAs lack a service orientation or investor service continuity throughout the investment life cycle, given that most IPAs are staffed by government officials who tend to focus more on either carrying out investment events or providing a regulatory service, sometimes in an OSS. IPAs need staff with private sector experience, service skills, and deep business knowledge (including understanding of investor needs, motivations, challenges, and concerns but also sector terminology and trends) as well as internal systems such as customer relationship management (CRM) systems to improve service and FDI performance (Ortega and Griffin 2009).

For a long time, IPAs have been considered intermediaries between investors and policy makers (Crescenzi 2018), possessing firsthand investor feedback that can be extremely useful to influence policy making. While 76 percent of IPAs include policy advocacy as part of their mandates, 35 percent recognize that they fail to engage in that activity (WAIPA 2019). Moreover, according to the World Bank's 2017 GIC Survey,[13] IPA services were most appreciated by investors during the establishment, retention, and expansion stages, including hands-on assistance with issues during registration, setting up the business, and operation as well as advocacy to improve the business environment (World Bank 2018).

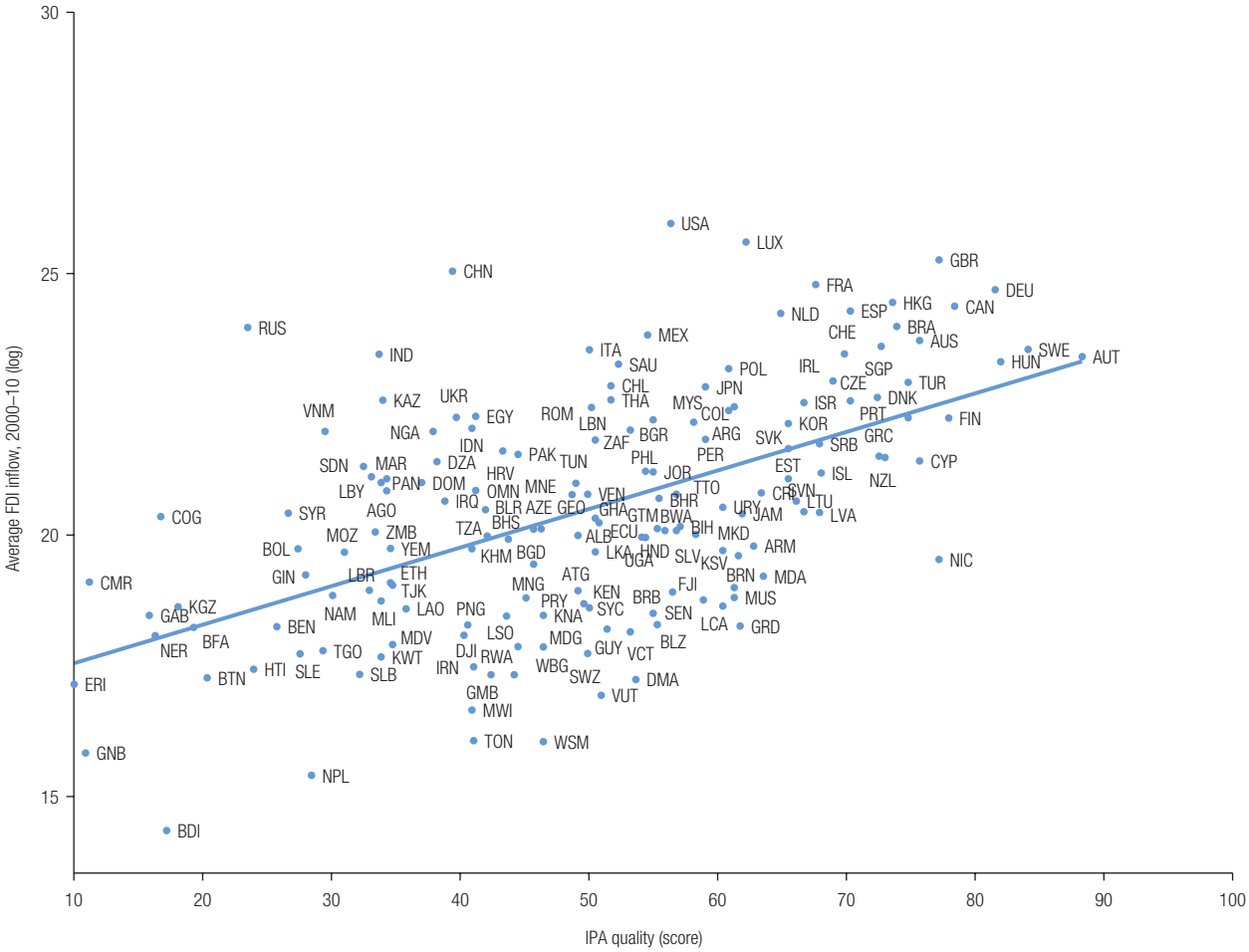
Are IPAs Delivering Good Value to Investors? What Challenges Do They Face?

Investors Value IPA Services across the Investment Life Cycle

Insight on which investment promotion activities matter most, and to whom, can be drawn from a review of investor responses from the 2019 GIC Survey.[14] The results reveal that MNEs generally find IPA services valuable. More than 60 percent of surveyed investors consider at least one IPA service to be "critically important" to their operations, and nearly 90 percent consider at least one service to be "important" or "critically important."

When looking more closely at the types of services valued, foreign investors

FIGURE 5.2 Better-Quality IPA Services Attract More FDI Inflows



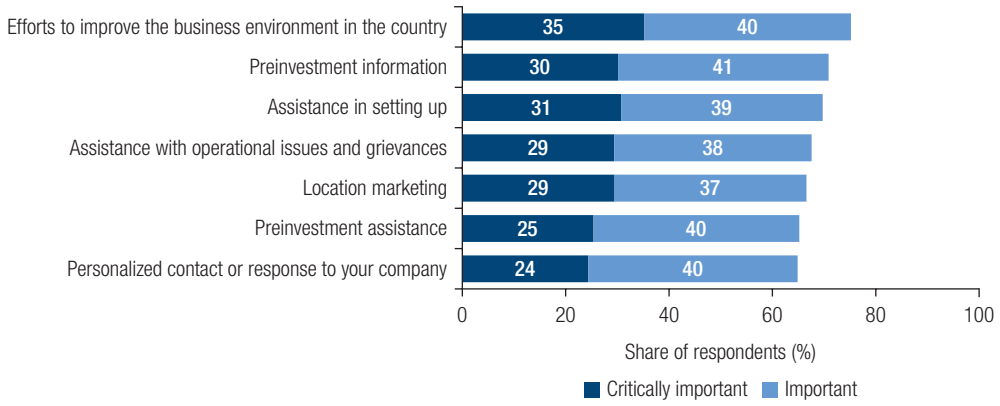
Source: Harding and Javorcik 2012.
Note: The dependent variable is the average FDI inflow received by each country during the 2000–10 period as reported in the IMF's *International Financial Statistics* and expressed in the log form. Investment promotion agency (IPA) service quality is measured based on ratings on a scale from 0 to 100 from "Global Investment Promotion Best Practices 2012" (World Bank 2012) which measured the quality of each IPA's inquiry handling and website. Country and economy labels are International Organization for Standardization (ISO) codes. FDI = foreign direct investment.

indicate that IPA services offered across the investment life cycle—not just during the investment attraction and establishment stages—are important to their business decisions (figure 5.3). About two-thirds or more of surveyed investors consider each IPA service (including postinvestment services such as assistance with operational issues) to be "important" or "critically important." The results also highlight the importance of IPAs' role in advocacy: 35 percent of the surveyed investors consider IPAs' efforts to improve countries' business environments to be "critically important," the highest percent of such responses among IPA services.

Certain groups of investors value IPA services more than others (figure 5.4). IPA services are considered more important to investors from developing countries. For example, about 33 percent of investors from developing countries report that preinvestment assistance (such as site visits and briefings) is "critically important," compared with 24 percent of investors from developed countries. Relative to investors from developed countries, investors from low- and middle-income countries may lack the financial

FIGURE 5.3 IPA Services across the Investment Life Cycle Are Important to Investors

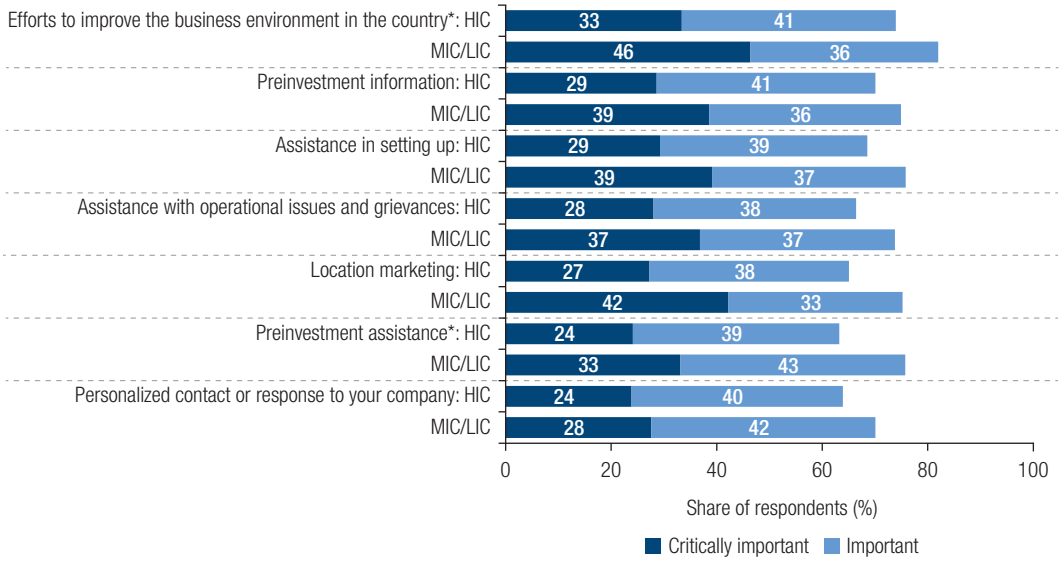
Question: How important are the following services offered by investment promotion agencies to your company in this country?



Source: Computation based on the 2019 GIC Survey.
Note: Affiliates of multinational enterprises were surveyed in 10 middle-income countries: Brazil, China, India, Indonesia, Malaysia, Mexico, Nigeria, Thailand, Turkey, and Vietnam. IPA = investment promotion agency.

FIGURE 5.4 Investors from Developing Countries Value IPA Services More than Those from High-Income Countries

Question: How important are the following services offered by investment promotion agencies (IPAs) to your company in this country?



Source: Computation based on the 2019 GIC Survey.
Note: Affiliates of multinational enterprises were surveyed in 10 middle-income countries: Brazil, China, India, Indonesia, Malaysia, Mexico, Nigeria, Thailand, Turkey, and Vietnam. All country income categories use World Bank-defined classifications; "developing" countries refers collectively to all low- and middle-income countries. HIC = high-income country; LIC = low-income country; MIC = middle-income country.
Statistical significance denoted by asterisk: $*p < .10$ in an ordered logistic regression incorporating controls for sector, a dummy variable for exports comprising over 50 percent of revenues, sector-export interactions, import share of inputs, sector-import interactions, source country income group, a dummy for employment over 250 employees, a dummy for investment stock over US$10 million, number of years in country, percentage foreign ownership, and country fixed effects.

capacity or connections to hire external consultants to help scope and select potential investment location sites. They are also less likely to have access to binational chambers of commerce in host countries. Thus, they are more likely to rely on IPAs for preinvestment assistance.

In addition, IPA services that focus on early stages of the investment life cycle are more important to new investors with less in-country experience. Of investors with 0–10 years of experience in surveyed middle-income countries, 27 percent consider preinvestment assistance such as site visits and briefings to be "critically important," versus 23 percent of investors with more than 30 years of experience in a market. Similarly, 35 percent of investors with less than 10 years of experience consider business setup assistance (such as help with entry permits) to be "critically important," compared with 30 percent of investors with more than 30 years of experience. In contrast, services like assistance with grievances and operational issues are valued by newer and older investors alike.

IPAs May Not Be Evolving as Dynamically as Needed

Despite important changes in the FDI landscape, IPAs have evolved surprisingly little over the past 12–13 years. Comparing IPA characteristics surveys from 2005 to 2017/18 (see annex 5B for summary of data sources and methodology), a few shifts are observed, but many IPA features remain the same (see annex 5B, table 5B.1). This suggests that IPAs may not be as dynamic or responsive as needed, especially in the context of a more challenging FDI climate and broader economic shifts such as a heavier reliance on automation, the growth in GVCs, and the rise of the services sector. Such limitations are particularly concerning in light of the serious and unprecedented challenges posed by the novel 2019 coronavirus disease (COVID-19) pandemic; IPAs need to be able to adapt and provide the necessary support to investors and other government agencies during crises.

IPAs are not advancing on several practices associated with better performance:

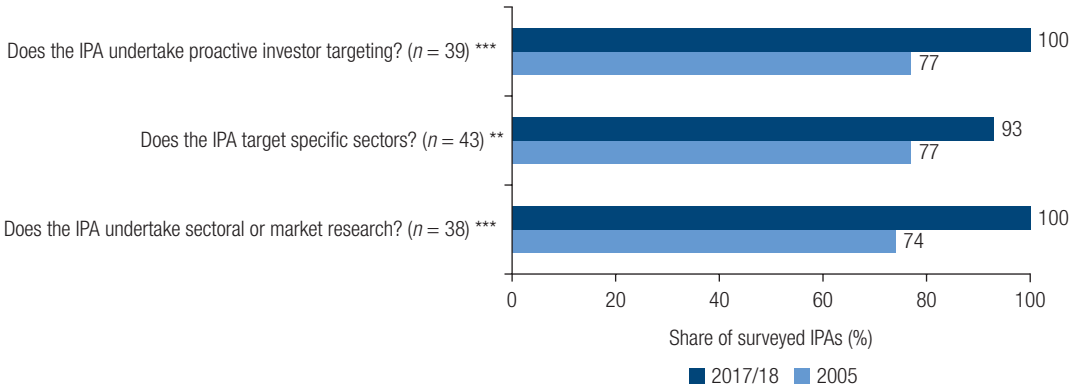
- Only 55 percent of IPAs in 2017/18 (compared with 53 percent in 2004) have an investor tracking system
- Only 64 percent of IPAs are targeting specific countries (compared with 61 percent in 2004)
- Few are reporting to higher levels of government (12 percent in 2005 versus 16 percent in 2017/18)
- Despite significant growth in the number of overall staff, the growth of staff engaged in investment promotion has not increased as notably (suggesting that staff are engaging in other mandates).

At the same time, IPAs are expanding, signaling their increasing prominence as public agencies. IPAs' FDI and investment promotion budgets have grown since 2005. In 2005, more than 50 percent of agencies had budgets up to US$500,000, whereas in 2018, most of them had budgets up to US$1 million.[15] Alongside the growth in budgets, the average number of agency staff increased from 208 in 2005 to 337 in 2017/18. The average number of offices abroad also increased from 11 to 18. Simultaneously, the role of subnational IPAs has also been growing, with larger budgets and expanded mandates.

Encouragingly, national IPAs are engaging in more proactive, research-based sector targeting (figure 5.5). When asked whether the agency engages in proactive investor targeting, all IPAs in 2017/18 responded affirmatively, compared with 77 percent in 2005. Similarly, all IPAs in 2017/18 reported undertaking sectoral or market research, compared with 74 percent in 2005. Nearly all IPAs (93 percent) reported targeting specific sectors in 2017/18, whereas only 77 percent did so in 2005.

However, IPAs are still targeting more-traditional economic sectors, mostly in the primary sector (raw materials) without reflecting the global FDI emergence in the tertiary sector (services). Comparing the global percentage growth in 2009–18 FDI projects to percentage point increases in sector

FIGURE 5.5 IPAs Are Becoming More Proactive and Focusing More on Sector Targeting



Sources: 2005 World Bank Group IPA Census and 2017 World Bank Group Global IPA Survey; 2017 and 2018 World Association of Investment Promotion Agencies (WAIPA) annual surveys; OECD 2018.
Note: For details about the data sources and methodology, see annex 5B. IPA = investment promotion agency; *n* = sample size (number of IPAs). Because the data are sourced from samples, the statistical significance of the increase over time is presented: $^{*}p < .10$, $^{**}p < .05$, $^{***}p < .01$

targeting by IPAs,[16] a misalignment appears between the sectors that IPAs are prioritizing and the global trends in the FDI landscape (figure 5.6).

This trend suggests that IPAs may not be engaging in an evidence-based approach to their proactive promotion efforts—focusing on historical priorities rather than targeting those segments with higher traction—or very likely, they could be under pressure from their governments and local interest groups to promote the primary sector regardless. The growth in IPA sector targeting in the primary sector from 2005 to 2017/18 also suggests a continued prioritization of natural-resource-seeking FDI, which means that IPAs may be missing opportunities to support their home countries in leveraging efficiency-seeking FDI for development impact, especially given its potential role in GVC integration and economic upgrading.

Nor have IPAs evolved much in their targeting of source countries for FDI despite the global shift toward increased investment flows from developing countries to other developing countries. Although IPAs should be consistent in their targeting efforts, they also need to adapt and revisit their strategies every year.

Looking at selected performance indicators over time—drawing on the World Bank Group's Global Investment Promotion Best Practice (GIPB) reports from 2006 to 2012—IPAs have responded poorly to inquiries, a basic information service to investors.[17] Service delivery ratings for inquiry handling were quite low in 2006, did not improve in 2009, and surprisingly declined in 2012, the year of the last GIPB report (figure 5.7). Another basic service IPAs need to provide is information available through their websites. Between 2009 and 2012, the average website score remained relatively low and stagnant, only reaching 61 percent in 2012.

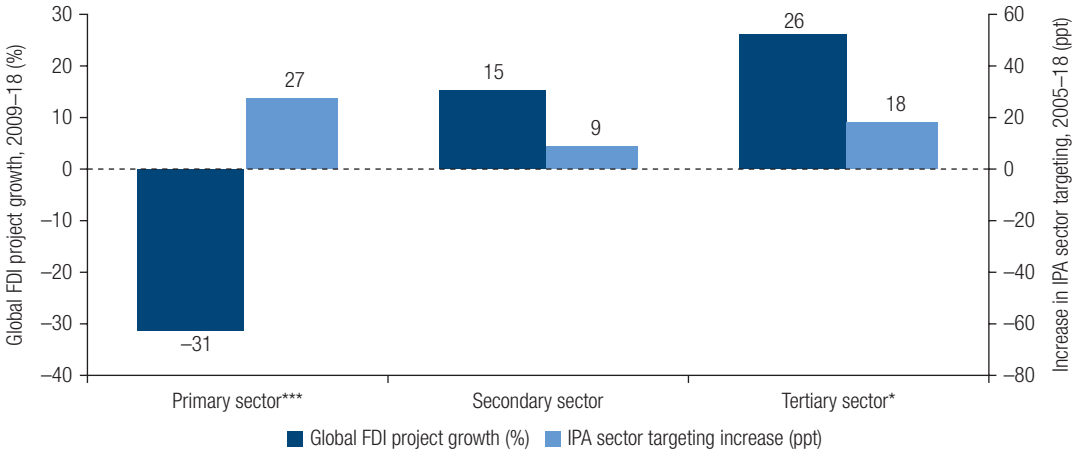
In addition, as of 2012, only 3 percent of all national IPAs provided good-practice inquiry handling.[18] Of 181 IPAs included in the GIPB report, 165 had a website, but only 102 provided an email address, and only 53 replied to investor inquiries in a reasonable, business-like time frame. Only 24 provided an adequate response, and only 6 followed up afterward to help convert interest to investment.

Common Challenges Prevent IPAs from Performing Better

Uneven Investor Service Coverage

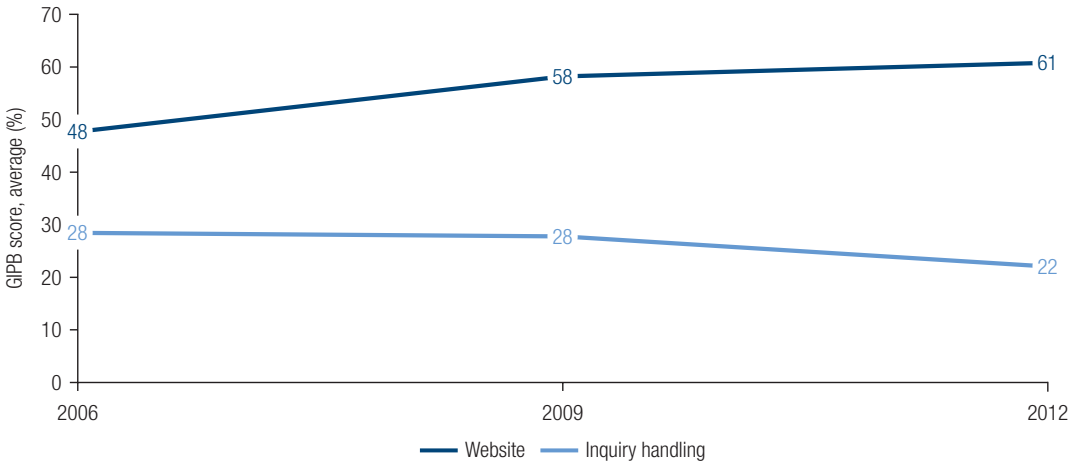
As part of their goal to harness more and better investment for their locations, IPAs

FIGURE 5.6 IPA Sector Targeting Maintains a Traditional Focus on the Primary Sector, Indicating a Misalignment with Evolving Global FDI Trends



Sources: FDI project data from fDi Markets, a *Financial Times* dataset (https://www.fdimarkets.com/); sector targeting data from the 2005 World Bank Group IPA Census and a combination of 2017/18 IPA surveys from the World Bank Group, World Association of Investment Promotion Agencies (WAIPA), and Organisation for Economic Co-operation and Development (OECD). (For more information, see annex 5B).
Note: Because of open responses to sector targeting in later investment promotion agency (IPA) surveys, the sector groups have been defined by the authors to allow concordance between fDi Markets data (comparing total global projects by sector over time) and the IPA surveys. The comparison date range uses the longest reliable information available in each of the data sources, so foreign direct investment (FDI) projects start in 2009 and sector targeting in 2005. For IPA sector targeting, the sample size of national IPAs varies by sector depending on available comparison data over time (51 IPAs for the primary sector; 45 for the secondary sector; and 44 for the tertiary sector). The number of FDI projects is a global figure. "Primary sector" refers to raw materials, "secondary sector" to manufacturing, and "tertiary sector" to services. ppt = percentage point(s).
Significance levels: Given that the IPA surveys are samples, changes in targeting are presented with statistical significance (*$p < .10$, **$p < .05$, and ***$p < .01$) and represent percentage point changes in the fraction of IPAs targeting that specific sector. (The authors believe this is more informative than a percentage change, given that a 1–2 percent change would otherwise represent a 100 percent increase in targeting.)

FIGURE 5.7 IPA Inquiry Handling Deteriorated in 2012 from an Already Poor Level in 2006



Sources: World Bank, using data from MIGA 2006b and the Global Investment Promotion Best Practices/Benchmark (GIPB) studies (World Bank 2009, 2012).
Note: Average scores for website and inquiry handling were compiled by using the three rounds of the World Bank Group's GIPB reports. Highest possible score = 100 percent. IPA = investment promotion agency.

are supposed to provide quality services to investors throughout the investment life cycle (box 5.1.). However, the 2017 World Bank Group Global IPA Survey finds that most IPAs are providing services predominantly at the attraction stage, with decreasing coverage starting at investment entry and establishment, followed by the retention and expansion stage. Services to foster linkages between MNEs and domestic firms are rarely covered by IPAs (table 5.1).

This distribution of effort reflects the focus of IPAs on the attraction stage but leaves important gaps in terms of investor needs. The World Bank Group is piloting detailed investor service satisfaction surveys in client countries. Preliminary findings show investors attach a high relevance to investment assistance, advocacy, and information services provided by IPAs, but at the same time, investors largely do not give good satisfaction ratings in those three service categories. Poorly serviced investors may decide to discontinue investing or divest. In contrast, well-serviced investors may decide to reinvest, either to expand the current activity or to diversify into new activities.

Inadequate Sector Prioritization and Focus

Based on the 2017 World Bank Group Global IPA Survey, the vast majority of IPAs (84 percent) list five or more "priority" sectors for investment promotion; 44 percent have more than eight (figure 5.8).[19] Moreover, IPAs show varying levels of specificity when designating their priority sectors—with some identifying broad economic categories (for example, manufacturing) and others, mostly in more advanced economies, selecting specific segments. (See box 5.2 on the need for more precise targeting.) World Bank Group experience in developing countries suggests that IPAs working with more than five priority sectors or segments may be diluting their scarce resources, making it more difficult to provide high-quality services demanded by investors, thus achieving weaker results.

Wide Range of Mandates

Many IPAs are taking on too many mandates that cover a wide range of functions, requiring very different skill sets (figure 5.9). The 2017 World Bank Group Global IPA Survey finds that the average number of mandates is 7.8 globally, with developing-country IPAs pursuing more (8.1, on average) than developed-country IPAs (7.0, on average). Developing countries are more likely to be mandated to support domestic direct investment (DDI), negotiate investment agreements, issue licenses, promote exports, negotiate public concessions, and administer public-private partnerships (PPPs), in addition to providing core investment promotion functions.

Pairing data from the 2017 World Bank Group Global IPA Survey with FDI figures reveals a strong negative association between

TABLE 5.1 IPAs Self-Report Providing Services Mostly at the Attraction Stage, with Service Delivery Rapidly Declining in Later Stages of the Investment Life Cycle

Share of respondents (percent)

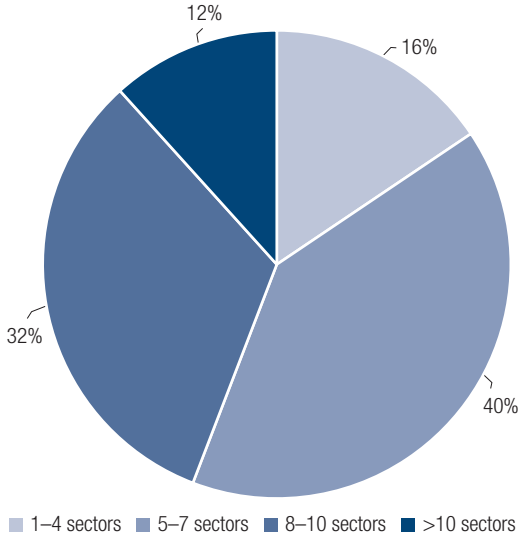
Service type	*Attraction*	*Entry and establishment*	*Retention and expansion*	*Linkages and spillovers*
Marketing	92	52	39	20
Information	94	61	49	23
Assistance	78	78	63	29
Advocacy	93	53	36	22

Source: Adaptation of Heilbron and Aranda-Larrey 2020.

Note: The figures presented in this table are computations based on the 2017 World Bank Group Global IPA survey. The survey received responses from 83 national IPAs globally. (For more information, see annex 5B.) Stages are drawn from the World Bank Group's investment policy and promotion life cycle (attraction, entry and establishment, retention and expansion, and linkages and spillovers). IPAs were asked which specific services they provided to investors. Their responses were grouped across the four investment life cycle stages and four service categories. IPAs = investment promotion agencies.

FIGURE 5.8 Eighty-Four Percent of IPAs Have Five or More "Priority" Sectors

Share of IPAs claiming to have the indicated number of strategic sectors (percent)



Source: World Bank Group 2017 Global IPA Survey.
Note: The survey received responses from 83 national IPAs globally. (For more information, see annex 5B.) IPAs = investment promotion agencies.

BOX 5.2

From Sectors to Segments: Making IPA Targeting More Precise

Most sophisticated investment promotion agencies (IPAs) have evolved from promotion during the 1980s of broad economic sectors—such as the primary sector (natural resources) or the secondary sector (manufacturing)—to more specific industries within sectors. This evolution mirrored the advent in the 1990s of better, more detailed data such as the Standard Industry Classifications and commercial databases.

In the 2000s, the focus has sharpened toward subindustries and specific business activities within industries or global value chains (GVCs), such as "assembly of electronic components," that could be clustered under an "advanced manufacturing" sector.

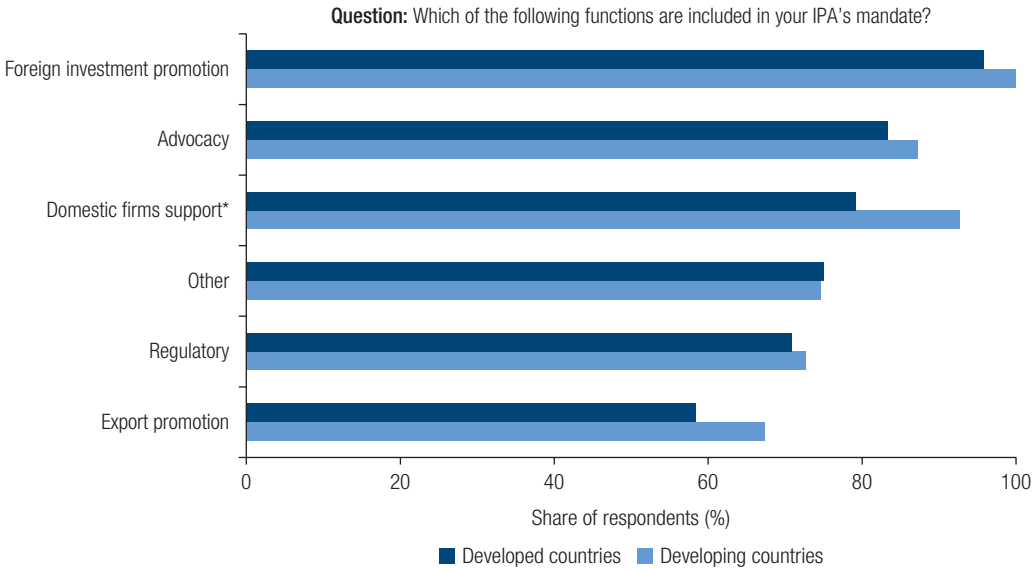
For example, the Costa Rican Investment Promotion Agency (CINDE) has been promoting segments such as the assembly and sterilization of therapeutic devices. IDA Ireland focuses its promotion efforts by using a matrix of sectors and activities—for example, research and development (R&D) within the life sciences sector.

Many policy makers and practitioners in the field often still refer generically to sectors, especially in the developing world. Refinements toward more precise identification of target segments follow good-practice techniques for marketing segmentation and can effectively improve IPA impact.

the number of IPA mandates and FDI inflows in developing countries (figure 5.10). This suggests that the more mandates IPAs in developing countries cover, the more challenges they may face in attracting FDI.

Findings from World Bank Group operational experience reflect this trend, especially at the early stages of an IPA's development. For instance, the Rwanda Development Board, which has multiple mandates, has achieved important results but has taken many years to ramp up FDI inflows.[20] The same association for developed-country IPAs does not seem to exhibit a significant statistical correlation, suggesting that the relationship between the

FIGURE 5.9 Most IPAs Cover a Wider Range of Mandates than Just FDI Promotion, Especially in Developing Countries



Source: Computation based on 2017 World Bank Group Global IPA Survey.
Note: The survey received responses from 83 national IPAs globally. (For more information, see annex 5B) "Advocacy" includes mandates related to policy advocacy as well as investment climate reform. "Domestic firms support" includes mandates related to domestic investment promotion and development of small and medium enterprises and local suppliers, as well as matchmaking between foreign investors and local suppliers. "Regulatory" includes mandates related to incentive administration and investment project screening or approval, as well as issuing other licenses or permits. "Other" mandates include outward investment support, administration of public-private partnerships, special economic zones, industrial parks, or other state assets, as well as negotiation or administration of investment agreements or public concessions. All country income categories use World Bank-defined classifications; "developing countries" refers collectively to all low- and middle-income countries and "developed countries" to high-income countries. FDI = foreign direct investment; IPAs = investment promotion agencies.
Significance levels:*$p < .10$, **$p < .05$, ***$p < .01$.

number of mandates and FDI inflows is not clear. IPAs may be able to adopt more mandates without curtailing FDI as they mature.

Resource Constraints

Despite growing budgets and staffing over time, the 2017 World Bank Group Global IPA Survey reveals that the biggest challenges facing IPAs in developing countries are related to financial resources (52 percent of respondents citing it among their top three challenges), government support and public policies (49 percent), and human resources capacity (44 percent), as shown in figure 5.11.

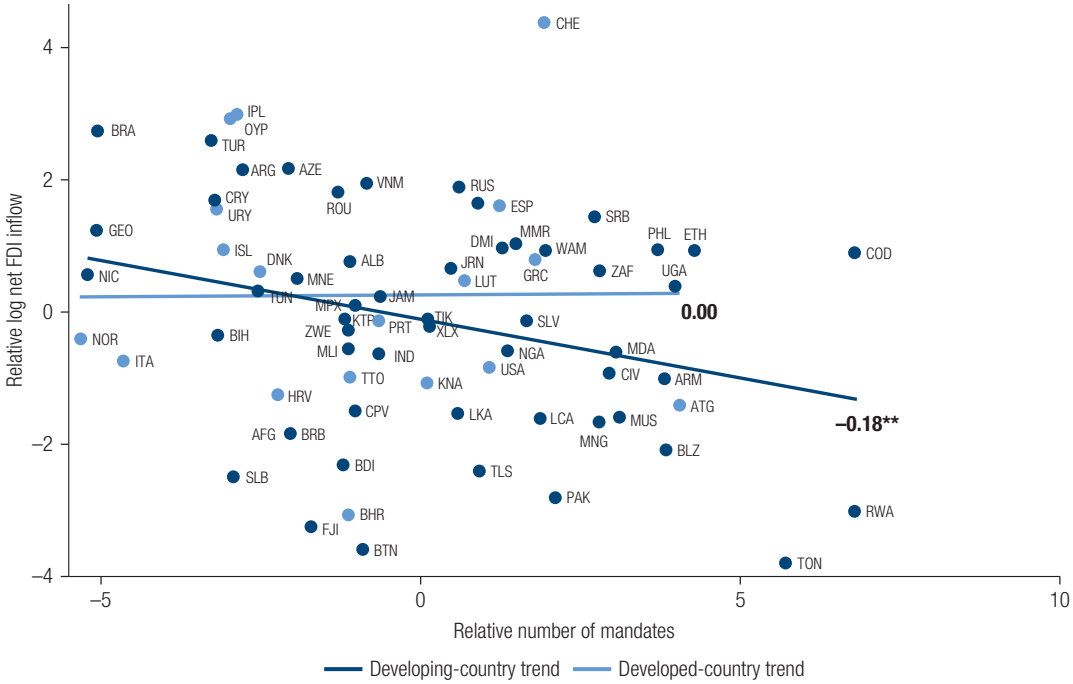
Developed-country IPAs indicate that they are most concerned with the economic environment (57 percent), followed by processes and bureaucracy (43 percent), and then by financial resources (33 percent). The challenge pertaining to limited resources is more pronounced for IPAs in developing countries, which also carry wider mandates, in turn putting more pressure on scarcer resources.

Inadequate Institutional Coordination

Institutional coordination and partnerships are critical for IPAs to effectively service investors. Based on the 2017 World Bank Group Global IPA Survey, 77 percent of respondent national IPAs maintain close or regular contact with their subnational agencies (box 5.3).

Nearly all IPAs use coordination mechanisms with other entities such as memorandums of understanding (MoUs) or regular inter-agency meetings. Nevertheless, IPAs still face significant obstacles in their institutional coordination efforts: 65 percent cite having unresponsive partner entities, and 64 percent cite the absence of mandate or power to ensure effective cooperation.

FIGURE 5.10 IPAs in Developing Countries that Have More Mandates Also Have Lower FDI Inflows



Sources: Computation based on 2017 World Bank Group Global IPA Survey; World Development Indicators database.
Note: The figure is a scatterplot of the regression of log net FDI inflow and number of mandates, controlling for total investment promotion staff, country gross domestic product (GDP), and country population. "Relative number of mandates" refers to the number of mandates after partialing out the effects of the predictor variables used. The survey received responses from 83 national IPAs globally. (For more information, see annex 5B.) All country income categories use World Bank-defined classifications; "developing countries" refers collectively to all low- and middle-income countries and "developed countries" to high-income countries. Country labels are International Organization for Standardization (ISO) codes. FDI = foreign direct investment; IPAs = investment promotion agencies.
Significance levels: $^{*}p < .10$, $^{**}p < .05$, $^{***}p < .01$

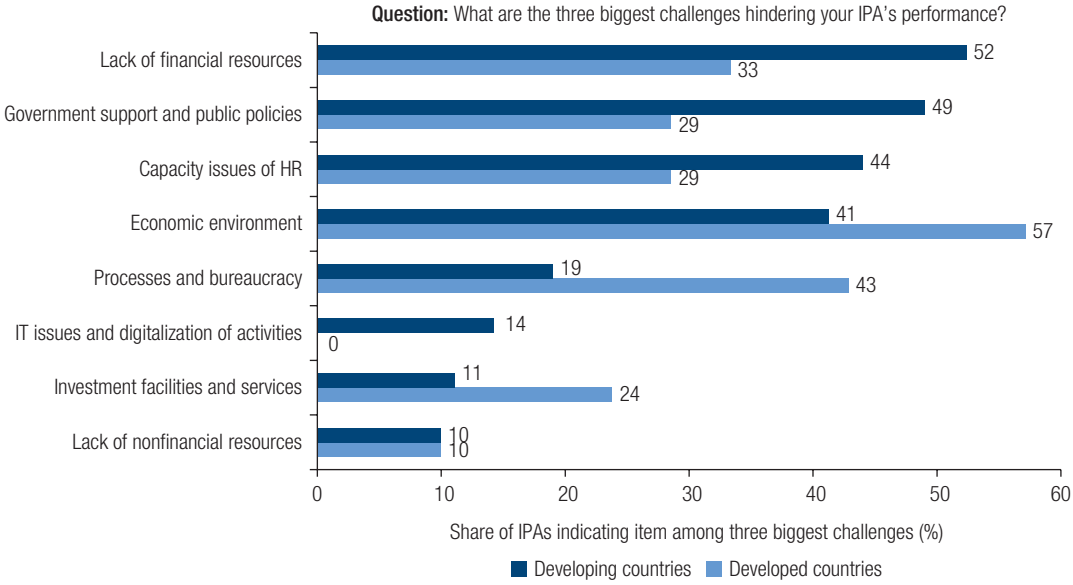
What Can Governments Do to Improve the Development Impact of Their IPAs?

The World Bank Group proposes a new framework to help countries establish or strengthen their IPAs' ability to achieve development objectives, especially through increased and higher-quality FDI inflows (Heilbron, forthcoming). This framework is based on the literature as well as on the World Bank Group's research and operational experience.[21] It consists of three thematic pillars that IPAs should consider to increase investor satisfaction and confidence as a means toward higher development impact (figure 5.12):

1. Strategic alignment and focus
2. Coherent institutional framework
3. Strong investor service delivery.

The three pillars should have a strong foundational base—that is, a national development plan or vision, coupled with corresponding investment policies or FDI strategy. The pillars are also interrelated: the strategies should inform the institutional framework, not the other way around, and both would determine service delivery strength. The framework is proposed to serve as an assessment tool to help determine how an IPA is performing on each of the specific indicators under each pillar. It is also intended to function as a road map for IPA improvement.

FIGURE 5.11 IPAs in Developing Countries Indicate that Financial and Human Resources, as well as the Economic Environment, Are Their Top Challenges



Source: Computation based on 2017 World Bank Group Global IPA Survey.
Note: The survey received responses from 83 national IPAs globally. (For more information, see annex 5B.) All country income categories use World Bank-defined classifications; "developing countries" refers collectively to all low- and middle-income countries and "developed countries" to high-income countries. HR = human resources; IPAs = investment promotion agencies; IT = information technology.

BOX 5.3

The Role of Subnational IPAs in Attracting FDI

The field of investment promotion is increasingly taking on a local focus, with subnational investment promotion agencies (IPAs) growing in prominence alongside their national counterparts. In parallel, investors are becoming increasingly sophisticated in evaluating the benefits of particular cities, provinces, or regions within a country, particularly in larger countries.

Subnational IPAs play unique roles and have distinct characteristics compared with national IPAs. Given their smaller jurisdictions, these agencies often have deeper knowledge of the local business environment and its value proposition to investors, as well as stronger ties to local agencies more heavily involved in the day-to-day operational needs and issues facing investors. Despite these benefits, subnational IPAs may raise particular concerns for policy makers about a "race to the bottom" within a country, whereby subnational locations compete on the basis of incentives for new investments coming into the country or even displace investment from one jurisdiction to another.

Despite the apparent importance of these local entities, the literature on subnational IPAs is almost entirely absent. A recent study by the MASSIVE (Multinationals, Institutions and Innovation in Europe) project, funded by the European Research Council at the London School of Economics, has taken a more thorough look (Crescenzi, Di Cataldo, and Giua 2019a). It leverages a survey on national and subnational IPAs in Europe to systematically evaluate the impact of investment promotion efforts to attract foreign direct investment (FDI) toward areas and sectors that would otherwise not be targeted.

Box continues next page

BOX 5.3

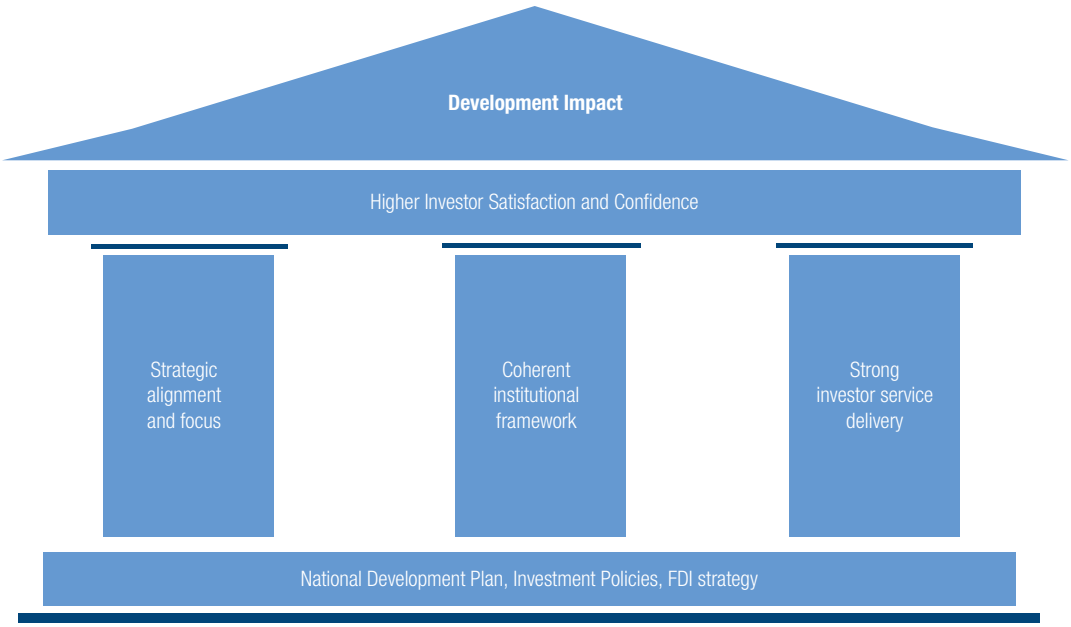
The Role of Subnational IPAs in Attracting FDI *(continued)*

The study finds that subnational IPAs help generate FDI inflows at the local level, in terms of both the probability of receiving FDI and the total amount of FDI received. This impact is more pronounced in less-developed jurisdictions, likely pointing to the role of subnational IPAs in helping investors address information gaps, inadequate transparency, and weaker institutional conditions in these areas. Moreover, subnational IPAs in the study have demonstrated a better capacity for attracting FDI in knowledge-intensive sectors than in other sectors.

Although further analysis and global coverage is needed to address this underresearched topic of subnational investment promotion, these findings suggest that policy makers ought to carefully consider and potentially highlight the unique role that subnational IPAs can play in fostering FDI.

Source: Crescenzi, Di Cataldo, and Giua 2019a.

FIGURE 5.12 Core Elements for Increasing the Development Impact of Investment Promotion Agencies



Source: World Bank. See Heilbron, forthcoming for more information.
Note: FDI = foreign direct investment.

Pillar 1: Sharpen Strategic Alignment and Focus

Sharpening a country's strategic alignment and focus is a key pillar to strengthen the development impact of IPAs. Doing so requires developing a shared vision while making difficult strategic decisions.

A strategic planning framework should foster stakeholder dialogue among the public and private sectors, organized labor, academia, and civil society on national priorities and the role of each of them in development. However, this process is difficult. Many countries lack key pieces of this strategic framework, leaving stakeholders to deal with

investment in an uncoordinated fashion, sometimes duplicating functions or leaving important gaps in the investment ecosystem and investor services.

Adopt a Cascading Strategic Framework for Investment

Several levels of strategic planning should cascade down from an overarching national development plan that would likely aim at achieving the Sustainable Development Goals (SDGs) of the United Nations' 2030 Agenda for Sustainable Development. The planning process should help clarify expectations and roles for each stakeholder based on a broad consultation.[22]

This step provides the opportunity for countries to discuss sentiment concerning FDI, evaluate pros and cons, and decide how to best leverage FDI for development. The resulting national vision, strategy, or development plan should clearly indicate the roles of the private sector and FDI while providing direction for more coherent policies and institutional frameworks for investment. That has been the case in Ireland since the 1960s, in Malaysia since the 1990s, and more recently in Colombia, Myanmar, and Rwanda.[23]

The strategic process should continue cascading down to develop the country's investment and industrial policy as well as its FDI strategy. The latter should identify, through a data-intensive process, the country's most competitive segments to promote, the reforms or measures to help improve the country's competitiveness for desired segments, and the target markets and investors.

These high-level strategies should inform the more specific institutional strategies, such as the IPA corporate plan and investment promotion strategies for individual targeted segments. Scotland's IPA, Scottish Development International (SDI), illustrates this strategic development process well, with the added layer of alignment at the UK level. An IPA's corporate plan (also called an IPA business plan or strategy) is the road map for the IPA to achieve meaningful developmental goals, with clear milestones for each key performance indicator (KPI) along the way. It lays out actions to establish the IPA (if new) or reinforce it (if existing), giving it a stronger strategic focus, institutional capacity, and commensurate resources.

IPAs need to monitor global trends—including changing sources and modalities of FDI, dynamic segment and GVC trends, technological advances, geopolitical tensions, and other global opportunities or threats to inform the strategic development process. Notably, for example, in the context of the COVID-19 pandemic, strong strategy, coupled with business intelligence, can help IPAs identify changes in GVC activities and advocate for needed reforms to support struggling businesses, while proactively promoting new opportunities. This type of data-driven, proactive approach is needed for IPAs to foster their influence to reposition their locations, respond to investor needs, and capture higher levels of FDI.

IPAs should become active providers of feedback on policy making and identification of strategic segments, banking on the valuable insights the IPAs gain from their daily contact with investors and by connecting investors and policy makers. Highly desirable segments that remain unattractive to investors in the short-term require the IPA to advocate for related reforms or improvements in the investment ecosystem. When economic conditions turn unfavorable, including times of global crisis like the COVID-19 pandemic, IPAs should emphasize measures that support business continuity—by bolstering investor services around investor communications, retention, and advocacy.

Define Target Segments, Source Markets, and Investment Types

IPAs need a strong focus on a few segments, markets, and even investment types, which is achieved as part of the strategic planning process and based on strong analytic capacity. Fortunately, GVCs have broken down products and services into business activities. At the same time, data are increasingly available, allowing countries and their respective IPAs to identify more specific "segments" and develop investment promotion strategies

for focused business or GVC activities (such as manufacturing, marketing and sales, customer support center, headquarters, and R&D), as discussed in box 5.2. These activities determine motivation and location selection factors (Crescenzi, Pietrobelli, and Rabellotti 2014).

Although countries may foster investment in many segments, IPAs should focus on just a few (three to five) competitive segments for proactive promotion efforts and high-level service offerings. Such a focus does not mean that IPAs would ignore or reject FDI in other segments but that a much higher level of resources would be dedicated to seeking and supporting projects in those identified strategic segments. Evidence suggests that the number of targeted segments an IPA can manage varies with its level of maturity and resources (see figure 5.10). Developing or fragile and conflict-affected contexts may require further focus (Whyte and Griffin 2014).

Identifying dynamic and competitive segments to proactively promote requires an evidence-based approach. The United Kingdom recently launched an approach to prioritize segments on the basis of the value that FDI will have on the economy, as estimated by an econometric model that includes several impact indicators (DIT 2018). Robust research and consultation with investors help IPAs understand trends, investor factors, challenges, and needs as well as how a country's location compares with competing locations for these segments so that the IPA can build compelling value propositions and effectively attract FDI into these segments. CINDE (box 5.4) and IDA Ireland (box 5.5) are examples of IPAs that have successfully operated this way for years.

World Bank Group experience indicates that a top-down imposition of target segments on an IPA by higher authorities often does not yield the expected results, likely because these segments have not been properly validated on competitiveness. As mentioned, IPAs can still provide services reactively to investors.

IPAs should also take into account the SDGs when designing their strategies and considering the type of investment they are seeking to attract. Good alignment with SDGs will result in higher-quality FDI, with investment projects that go beyond economic considerations to integrate social and environmental dimensions. To date, IPAs have mostly focused on the economic development and environmental dimensions (Filippov and Guimon 2012; VCC and WAIPA 2010).

To maximize their impact, IPAs should not only target MNEs (for example, PVH in Ethiopia or Volkswagen in Rwanda) but also consider their global suppliers to more fully develop the respective cluster. IPAs could offer a linkages service by mapping MNE demand and introducing domestic suppliers to MNEs. However, building suppliers' capacity should not be part of an IPA's mandate.

In certain countries, IPAs could consider brownfield forms of investment, beyond attracting and retaining greenfield FDI, their traditional domain (see chapter 2). Governments have various development motives and means to foster the potential of brownfield FDI ventures. IPAs could provide services, for example, of connecting foreign investors to potential mergers and acquisitions (M&A) or joint venture candidates.

Develop a Strong Investment Promotion Mandate

Developing-country IPAs and most disadvantaged regions in developed countries should strengthen their strategic focus on the investment promotion mandate (Crescenzi, Di Cataldo, and Giua 2019a). This clarity and focus of mandate are especially important for young IPAs or those that need to be strengthened. Policy makers need to carefully consider the pros and cons when adding either an investment promotion mandate to other entities or nonpromotion mandates to the IPA, especially in developing countries.

Examples of good-practice IPAs exclusively focused on investment promotion include the Austrian Business Agency (ABA-Invest in Austria); CINDE; Invest in Bogotá (Colombia's subnational IPA);

BOX 5.4

Costa Rica's IPA (CINDE) Follows Several Good Practices, Particularly around Strategic Focus

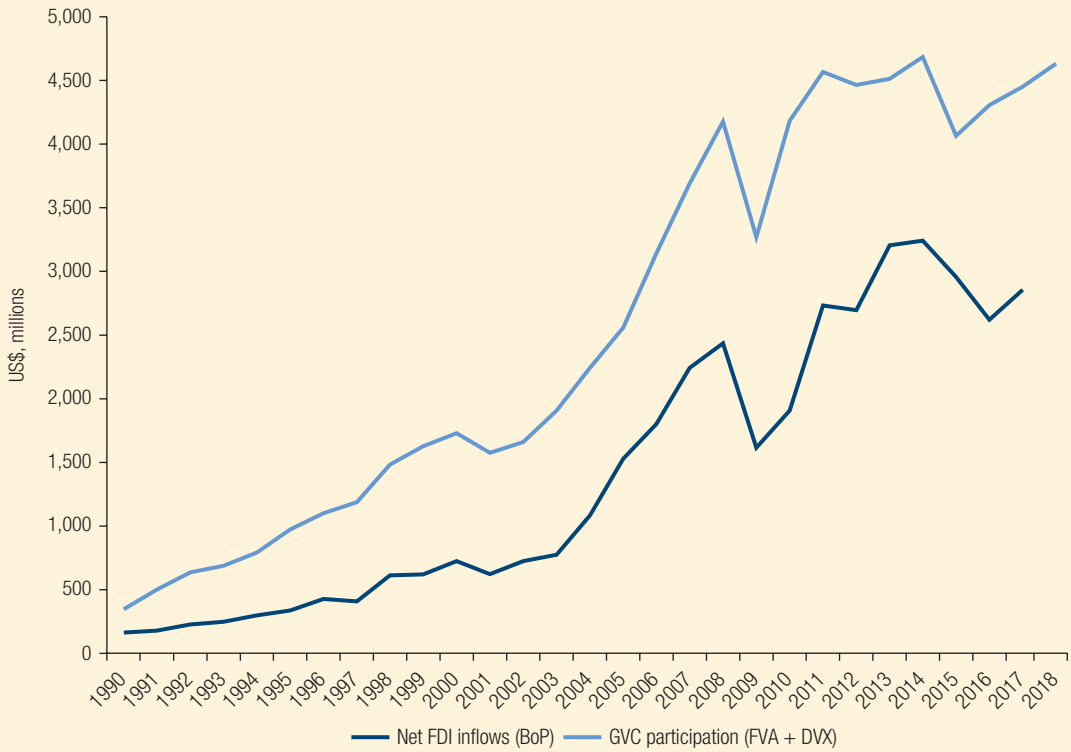
Although the Costa Rican Investment Promotion Agency (CINDE) is a private sector-led IPA with significant autonomy, it has benefited from high levels of government support and strong partnerships since the late 1990s. These factors helped the IPA land not only technology giant Intel in 1996—which subsequently shaped the country's economic landscape (MIGA 2006a; Nelson 2000, 2005, 2009; Spar 1998)—but also Abbott Laboratories (now Hospira), P&G, and other anchor investors in the country's most dynamic segments (health sciences and information technology [IT]-enabled services).

CINDE has continuously sharpened its strategic focus, evolving from an all-purpose development agency when founded in the mid-1980s to a fully focused IPA attracting and expanding foreign direct investment (FDI) projects by the turn of the century.

It has also refined its sectoral focus from broad light manufacturing in the early 1990s to strategic and specific global value chain (GVC) links by the late 1990s, including the assembly and testing of electronic circuits, assembly and sterilization of therapeutic devices, and legal and financial global shared services.

At the same time, CINDE improved its service offerings beyond the initial stage of attracting investment. It now proactively accompanies strategic investors throughout their investment journeys. Advocating on behalf of investors and proactively connecting investors and government, CINDE has helped catalyze key reforms, unlock strategic investments and increase the country's participation in GVCs tenfold in the past three decades (figure B5.4.1).

FIGURE B5.4.1 Costa Rica's FDI Inflows and GVC Participation Have Increased Tenfold since the 1990s



Sources: World Development Indicators Database; United Nations Conference on Trade and Development (UNCTAD)-Eora GVC database (https://worldmrio.com/unctadgvc/).
Note: Global value chain (GVC) participation is measured by adding foreign value added (FVA) and domestic indirect value added (DVX). BoP = balance of payments; FDI = foreign direct investment.

BOX 5.5

Learning from the Success of a 70-Year-Old IPA: IDA Ireland

Founded in 1949 and incorporated as an autonomous state-sponsored body in 1969, Ireland's investment promotion agency (IPA), known as IDA[a] Ireland, has a decades-long track record of consistent achievement. When IDA Ireland was restructured in 1969, Ireland was not regarded as an attractive investment destination (because of economic stagnation, limited natural resources, one of the lowest incomes per capita in Europe, and a total population of just 2.9 million). IDA Ireland managed to change global perceptions and helped transform Ireland into a foreign direct investment (FDI) powerhouse and a US$383 billion economy.[b]

Ireland's cumulative FDI stock of US$909 billion (UNCTAD 2019) is 237 percent of GDP and 2.6 times the European Union (EU) average. IDA Ireland reports that the 1,444 FDI companies it helped attract have generated 229,000 jobs (up to 2018), spent about US$20 billion in the Irish economy (in 2017), and represent 67 percent of the country's total exports.[c] Several key elements contributed to this success.

Clear mandate and sector strategy. With the focused mandate of attracting FDI, IDA Ireland has developed a deliberate strategy to promote industrial development by targeting three sectors and three business activities (resulting in strategic segments) in which Ireland could achieve a competitive advantage. In 2018, IDA Ireland reported having created 124,000 jobs in international and financial services; 64,000 in life sciences; and 22,000 in computers, electronics, and optical equipment. It has managed to build a critical mass of firms in each of these sectors, which has a self-reinforcing clustering effect (IDA Ireland 2018).

Commitment toward improving the investment climate and forging effective partnerships. IDA Ireland's success would not have been possible without a national commitment to free trade from the 1960s onward and a social partnership agreement whereby government, employers, labor, farmers, and nonprofit organizations collaborated closely to reach a consensus on development priorities, moderate wage increases and cut taxes, and share efforts to achieve national goals.

In addition, having identified low labor skills as a main constraint, the government invested significantly on education (amounting to 13.5 percent of public spending in 2016).[d] The Irish government focused education and training on the key technology sectors that the IPA was targeting. An expert group on future skill needs was formed in 1997 to guide these decisions. Today, one-third of college graduates specialize in sciences and engineering, and one-fourth are in business.

The government also created a combination of well-funded state agencies and advisory councils with specialized functions, such as (a) IDA Ireland, which focused on FDI attraction; (b) Forfás, which focused on strategic planning for enterprise, trade, science, technology, and innovation—absorbed by Enterprise Ireland in 2014; (c) Enterprise Ireland, which supports indigenous industry and export development; and (d) Science Foundation Ireland, which fosters innovation.

In addition to their own synergies, these agencies have good working relationships with key regulatory agencies at the national and local levels as well as with private sector organizations. All employ professional and permanent staff who do not change when the government changes.

Strong monitoring and evaluation (M&E) capabilities. Government support for FDI attraction was greatly helped by IDA Ireland's development of a simple cost-benefit model, which demonstrated to the government and taxpayers the economic benefits and the inherent self-funding nature of investment promotion.

The model uses a simple economic table to calculate the costs and benefits over a period of seven years (to allow sufficient time for investment projects to build up to full production capacity) for every individual project supported by the government. IDA Ireland has established a target cost-benefit ratio of four to one—that is, the value of the future benefits over seven years must be at least four times greater than the (shared) costs to the state of running IDA Ireland and the cost of all financial incentives to the specific investment over that period. IDA Ireland publishes the results of its aggregate cost-benefit analyses every year to show that economic benefits exceed costs over time. This model is now a standard tool used by IDA Ireland in its requests to the government for funding.

Adequate institutional and financial autonomy. IDA Ireland has a separate legal mandate that grants it a substantial degree of institutional and financial autonomy and a sufficient and sustained budget, year in and year out.

Box continues next page

BOX 5.5

Learning from the Success of a 70-Year-Old IPA: IDA Ireland *(continued)*

Its board of directors counts on private sector representation, but board members are clearly appointed to represent public interests instead of private ones. Staff are paid at market rates and have both public and private experience. The stability of senior management has avoided frequent changes at the top level—for example, IDA Ireland has had only six chief executive officers (CEOs) since its creation.

IDA Ireland has sector-based staff both in its headquarters and in 20 offices in 13 countries. Its overseas offices are staffed by about 40 professionals. Targets are set annually by sector, by country, by office, by Irish region, and by staff member. Staff are offered merit bonuses tied to their performance against these targets. The strong support received from the government has enabled long-term, strategic, and consistent policies to survive outside political or electoral time frames.

Sources: IDA Ireland 2018; IDA Ireland website: http://www.idaireland.com; interviews with former IDA Ireland staff; UNESCO Institute for Statistics data: http://uis.unesco.org; UNCTAD 2019; World Bank's World Development Indicators database.
a. The agency was founded in 1949 as the Industrial Development Authority.
b. Ireland economic data from the World Bank World Development Indicators Database.
c. FDI impact data from the IDA Ireland website: http://www.idaireland.com.
d. Education spending data from United Nations Educational, Scientific and Cultural Organization (UNESCO) Institute for Statistics 2016 data: http://uis.unesco.org.

InvestHK (Hong Kong SAR, China); Invest India; and Scottish Development International (SDI). Standard components of an investment promotion mandate include the following:

- *Attract FDI inflows* by influencing investor location decisions with marketing, information, and assistance services (such as an outreach program)
- *Support investments from announcement to start-up* with information and assistance services (such as an establishment program)
- *Retain and foster expansion of existing investors* with marketing, information, assistance, and advocacy services (such as full-service aftercare programs)
- *Encourage and facilitate business linkages* between foreign firms and domestic ones as well as other mechanisms for the spillover of skills, technology, know-how, and international market networks (such as a linkages program)
- *Advocate for improvements to the location's competitiveness, general investment climate, and sectoral ecosystems* before the government, private sector, and any relevant stakeholders (such as an advocacy program)
- *Inform the national vision for FDI, and develop and implement an investment promotion strategy,* in collaboration with relevant public and private sector partners in the country.
- *Monitor, research, and gather intelligence* about investment.

There could be a case for placing trade or export promotion and investment promotion under the same agency when there are strategic synergies, as in the case of a country looking to attract and expand investment geared toward exports. Such functions should not merge solely as a budget-cutting measure (Heilbron and Whyte 2019; UNCTAD 2013). Each division must have sufficient resources to deliver on its specific mandates. Cost savings may accrue from combining common back-office functions—administration, finance, IT, human resources, legal—and some international offices (when the market is a target for both functions). However, this is rarely successful when institutions are starting up or have low capacity. Policy makers need to recognize the differences between the two mandates (different goals, company targets, company decision levels, markets, sales cycles, promotion instruments, job requirements, and budgets).

Support for outward FDI (OFDI) is a natural extension of export promotion, as domestic firms move from exporting to establishing a presence in that foreign market. IPAs, especially in developing countries, should not include or add a mandate to promote OFDI because the needs of such domestic firms are quite different from those of foreign investors coming into the home country (Heilbron and Whyte 2019).

IPAs, particularly in the developing world, should also ideally not have mandates covering regulation, investment incentives, small and medium enterprise (SME) development, special economic zones (SEZs), or PPPs. Governments often struggle when delivering support to private sector investors. At times, mostly to cut costs, they combine several functions within the same institution. However, especially in developing countries, this may create issues—such as conflict of interest when the promoter is under the same roof as the regulator or incentives approver or when resources favor domestic investment to the detriment of FDI promotion (Heilbron and Whyte 2019). Table 5.2 summarizes this guidance for IPA mandates in the developing world.

The World Bank Group's operational experience has shown that separation of investment promotion function from other government units—including those dealing with regulatory and incentive approvals, SME development, SEZ supervision, SEZ development, and PPP administration or concessions—produces better results for both the investment and the specialized mandates in developing countries. At the same time, strong intergovernmental cooperation between the IPA and the specialized units is essential to improve effectiveness.

If the IPA is assigned mandates beyond promotion, sequencing the mandates over

TABLE 5.2 Dos and Don'ts of Mandates for IPAs in Developing Countries

Category	*Institutional function*
Investment promotion services	Marketing
	Information
	Assistance
	Advocacy
Other promotion types	Foreign investor and local supplier matchmaking
	Export promotion
	Support for outward investment
	SME development
Administration or regulation	Administration of incentives
	Screening or approval of investment projects
	Issuance of noninvestment licenses or permits
	Administration or negotiation of government concessions (such as in infrastructure or extractive industries)
	Administration of public-private partnerships
	Management of state land or assets

■ Must do ■ Okay to do, but with care[a] ■ Do not do

Source: World Bank.
Note: This table captures general guidelines based on more than 30 years of World Bank Group operational experience in developing countries. Country-specific characteristics may warrant different approaches and considerations. FDI = foreign direct investment; IPA = investment promotion agency; SME = small and medium enterprise.
a. These functions can be included with certain strict organizational prerequisites to avoid impeding investment promotion.

time may produce the best results. Many of the IPAs that have added mandates beyond investment promotion have struggled to adapt effectively to their expanded portfolios without losing promotional effectiveness. Among the few with decades-long success in managing additional mandates is IDA Ireland, which includes incentives and property management. More recently, the Rwanda Development Board has been forging a solid international reputation in this regard (See box 5.6 for more information on the mandates of IDA Ireland and the Rwanda Development Board). These cases appear to have at least the following characteristics in common:

- Their mandate expansions were deliberate and motivated by strategic objectives—as opposed, for example, to cost-saving or political motives.
- Different mandates (promotional and nonpromotional ones like regulatory functions) have been sequestered, allowing promotional staff to operate somewhat autonomously according to their own strategies and resources, and with a private sector mindset.
- Promotional staff have been held accountable for performance against their own impact indicators.
- There are no mandate overlaps with other agencies, especially for investment promotion.

Pillar 2: Build a Coherent Institutional Framework

Building a coherent institutional framework for investment is crucial to FDI effectiveness, even if it takes significant time and effort. This is especially important when setting up an IPA or restructuring the existing one. The right institutional setup varies, depending on the country's political economy, the government's existing institutional framework, available legal institutional formats, the civil service culture, and the institutional collaboration culture (Heilbron and Whyte 2019).

In determining the right institutional framework for investment promotion, policy makers should address the following key elements and consider the recommendations described in more detail below:

- A common vision and strategic alignment
- Corresponding institutional network KPIs
- Clearly identified institutional partners with focused mandates, division of roles, focal points, joint promotion activities, and some shared assets (such as an information library, online portals, and tracking tools)
- Institutional coordination/collaboration guidelines and protocols
- Capacity building in the area of investment promotion.

Provide High-Level Government Support to FDI and the IPA

If the government is serious about leveraging FDI for development, it must build an institutional framework with a strong IPA at its core. This IPA should integrate key institutional characteristics that are associated with stronger performance, starting with the highest level of government support (from the president or prime minister) directly or indirectly championing the needed legal, regulatory, and institutional reforms.

As part of its high-level support, the government should send clear signals that instill confidence in investors and back the IPA with the appropriate legal status and hierarchy within the government for the difficult task of mobilizing stakeholders typically required to bring about significant or transformational investment. Being a unit of a department or ministry may, in most developing countries, undermine the IPA's influence to mobilize stakeholders to reform and obtain investment. The right attachment—but more importantly, the right support from the highest levels of the government—gives the IPA a certain stature and visibility in the country. It also sends strong signals to investors and government alike about the priority the government places on investment and FDI.

BOX 5.6

How Different Institutional Setups Respond to Multiple Mandates: The Cases of Ireland and Rwanda

IDA Ireland

IDA Ireland[a] has undergone several major reforms to its mandate in the 70 years since its creation, as government priorities have shifted and as good practices in investment promotion have emerged. IDA Ireland was established in 1949 as a subministerial unit, during a period of protectionism, to stimulate the development of exporting enterprises. Nine years later, its focus was changed to foreign direct investment (FDI) and export promotion. Recognizing the need for a more private-sector-like approach and greater operational flexibility, the government changed IDA Ireland's legal form in 1969 from a subministerial unit to an autonomous state-sponsored body. Twenty-five years after that, in 1994, enterprise development and export promotion were moved out of IDA Ireland so that it could be dedicated to the promotion and development of high-quality FDI. Two of its prior mandates, seen as assets in landing FDI, were retained: the regulatory function of incentive administration and the management of industrial estates.

In short, IDA Ireland came to its current set of mandates not by addition but by subtraction. Although it does more than other leading IPAs today, its mandates have actually decreased over time—the result of many years of policy experimentation and lessons learned. In its current form, IDA Ireland organizes its promotional work through 11 units, mostly focused on sectors, reporting to the chief executive officer (CEO). Its nonpromotional work is conducted through nine units, mostly functional units, under a single executive director in charge of all noncore functions such as human resources, legal affairs, finance, and corporate strategy and planning as well as incentives and real estate management.

Rwanda Development Board

Rwanda went the other way, by expanding mandates. Since the Rwanda Development Board (RDB) was founded around 2008, it has accumulated functions, building on those of its predecessor body, the Rwanda Investment and Export Promotion Agency (RIEPA). Today, the RDB includes a one-stop shop for investment-related procedures; sector development of two of the government's highest-priority sectors, information and communication technology (ICT) and tourism; and the administration of special economic zones (SEZs), public-private partnerships (PPPs), and special projects with international donors and partners. It reports directly to the president of Rwanda.

Given the RDB's strong track record of economic reform and growth, the decision to add the one-stop shop was seen as a way to extend its influence and good performance to areas that were impeding investment (such as procedures for establishment). This is a common motive for the assignment of one-stop shops to IPAs. At the same time, a shift in organizational culture away from promotion in favor of regulation is also a major reason for IPAs not performing on their promotion mandate. The RDB tries to mitigate this risk by dividing its investment division into (a) a promotion department with 11 sector-focused units, which list proactive outreach to potential investors as their first activity; and (b) its "one-stop center," which has limited its focus to business registration, duty exemptions, work permits, and environmental impact assessments. SEZs, PPPs, and sector development have their own divisions. Close attention and high expectations from the president are also seen as having much to do with the RDB's continued success.

Sources: Interviews with RDB staff and former IDA Ireland staff; RDB website (https://rdb.rw/); IDA Ireland website (http://www.idaireland.com).
a. The agency was founded in 1949 as the Industrial Development Authority.

Ethiopia's recent tenfold growth in FDI stems from a high-level engagement by the former prime minister and his economic adviser in opening the economy to foreign investors and restructuring the institutional framework for investment. This restructuring, guided by the government's Growth and Transformation Plans I and II (covering the five-year periods of 2010/11–2014/15 and 2015/16–2019/20, respectively), included elevating the Ethiopian Investment Commission to report to a newly created Investment Board, chaired by the prime minister.[24]

Turkey offers another good example of a national IPA with a high position in government. The country's Investment Office is situated within the Presidency of the Republic of Turkey and reports directly to the president. In India, Prime Minister Narendra Modi's support of Invest India helped transform the country's IPA from a small, uninfluential 10-person unit to a vibrant operation with more than 100 staff that has contributed to higher levels of FDI and is in the process of upgrading the capacity of Indian subnational IPAs (box 5.7).

Some countries achieve high-level visibility by attaching the IPA to the president's or prime minister's office. However, policy makers need to be aware of the risk that the IPA may get little attention from an already busy president or prime minister and become unstable in a political transition. Accordingly, an empowered autonomous unit reporting to a formal board of directors, investment board, or advisory board chaired by the head of state or by a strong ministry may be a good combination of high stature with a more sustainable approach.

Grant the IPA a Sufficiently High Level of Autonomy

IPAs tend to perform better when they have a high degree of financial and operational autonomy or independence. IPAs should be allowed to operate following an approved strategic plan with minimal political interference; hire staff with private sector experience independently from the civil service (as do CINDE, Invest Bogotá, and Invest India); be accountable and report results to a board of directors; and maintain continuity throughout political cycles.

In addition to top government officials, the IPA board needs to have active and strong private sector representation (ECORYS 2013; Miškinis and Byrka 2014) from key chambers of commerce or business associations, foreign private sectors, and professional advisers. Their expertise helps the IPA better understand investors and deliver relevant services to them. Nonautonomous IPAs should at least have an advisory board with functions and composition similar to a board of directors, even if it does not have legal authority over the IPA's operations.

Ensure the IPA Is Staffed with the Right Expertise

IPAs need a good mix of IPA management and staff with private sector experience. Many IPAs are already incorporating more private sector expertise as both empirical research and operational experience highlight the need for IPAs to develop transnational learning capacity and adopt an investor-minded, service-oriented, and consultancy-like democratic organizational culture (ECORYS 2013; Nelson 2009; Ortega and Griffin 2009). The IPA's CEO, promotion director, and key promotion staff should have private sector experience, international exposure, and fluency in relevant languages, as well as strong interpersonal abilities. The CEO needs to enjoy a high level of credibility with both the private and public sectors. For this to happen, the IPA requires independence from the civil service restrictions for human resources.

Invest India, for example, rapidly ramped up from a weaker promotional unit with little impact to an award-winning IPA that has helped raise FDI inflows to new levels after hiring high-caliber management and staff (90 percent of whom come from the private sector) and adopting an operating model that mirrors consulting firms, with young talented staff providing data-driven support to investors (box 5.7).

Provide Sufficient and Sustained Financial Support to the IPA

To perform effectively, IPAs require reliable funding over a three- to five-year period, given the long-cycle nature of investment promotion. In the 2017 World Bank Group Global IPA Survey, IPAs indicated that their most important challenge concerns financial resources and that financing comes mostly from public funds. Charging fees to investors is not a good practice because investment promotion should be seen as a public good. Fees can send a wrong signal to investors that FDI is not prioritized or encouraged.

BOX 5.7

Invest India: Building a High-Performing IPA from the Ground Up in Record Time

Invest India illustrates how a new investment promotion agency (IPA) can be built up over just a few years by following a few key principles while avoiding many typical mistakes. Invest India was established in 2009 as a joint venture of the Department of Industrial Policy and Promotion (DIPP) of the Ministry of Commerce and Industry, the Federation of Indian Chambers of Commerce and Industry (FICCI), and state governments of India. The agency lay dormant for many years and, even as recently as 2015, had no more than a handful of staff reactively answering investor queries, with little or no traction with potential foreign investors.

Then, in September 2014, Prime Minister Narendra Modi launched "Make in India," a government initiative to persuade and encourage companies globally to manufacture their products in India (http://www.makeinindia.com). As part of this initiative, the government decided in 2015 to reinvigorate "Invest India," recognizing the need for a government agency to proactively tackle the attraction of foreign firms. Invest India was mandated to ramp up its investment promotion efforts and capitalize on the potential of India's economy.

Following international good practices, Invest India received the full support of senior-level government officials. A new chief executive officer (CEO) was appointed and given direct access to the line minister and the prime minister's office. The IPA's goals were linked to the country's broader development goals, and it was officially mandated to lead the country's national investment promotion as the single point of contact for foreign investors. Following global good practices, it was not assigned any regulatory functions. It was given sound financial support from the Department for Promotion of Industry and Internal Trade (DPIIT, formerly DIPP) and a functioning board with 51 percent private sector representation.

Invest India was permitted to adopt a much flatter organizational structure than typical Indian civil service entities and to recruit high-caliber management and staff outside the normal civil service recruitment procedures. It adopted a consultancy-like operating model designed to offer quality services to investors. The agency has now developed into a dynamic, service-oriented organization with highly qualified staff. As of mid-2019, 51 percent of the staff were women, 90 percent of its 138 dedicated professional staff had private sector experience, and 60 percent had graduate degrees.

Invest India also set about developing strong relationships with state-level IPAs across India. It took a proactive approach to better understand the strengths and the needs of each state in terms of competitiveness to attract new investment and capacity to support incoming investors. It provided direct support to subnational IPAs and invited all state IPAs to participate in a World Bank Group IPA assessment designed to further strengthen capacity. Confidential reports were delivered in March 2018 to 21 state IPAs offering tailored advice on areas for improvement.

Since the agency's rejuvenation in 2015, Invest India has been transformed into an award-winning IPA, receiving the United Nations Conference on Trade and Development's (UNCTAD) global award for best-practice IPA in 2016 and for sustainable development investments in 2019. It was also named best IPA in South Asia, East Asia, and Oceania at Dubai's Annual Investment Meeting (AIM) in 2016, 2017, 2018, and 2019, and was elected as co-vice president of WAIPA for 2019–20.

By mid-2019, Invest India had responded to more than 193,000 business requests from 126 countries and 41 sectors, 92 percent of which were answered within 72 hours. Working with some 760 companies, it had generated a project pipeline of US$138 billion, of which an estimated US$22.7 billion had been executed, with 135,000 direct jobs in the process of being created and contributing to making India the world's top-five greenfield destination in 2018.[a]

Sources: Invest India website: https://www.investindia.gov.in/; interviews with Invest India management.

a. Data on Invest India's outcomes from fDi Markets, a *Financial Times* dataset (https://www.fdimarkets.com/).

Develop Strong Partnerships

IPAs need to develop strong partnerships with both the public and private sectors at the national and subnational spheres to harness FDI. They are interacting on average with 25 different organizations (OECD 2018).

Strong partnerships develop through consultation and working together on common issues. For instance, jointly developing an investment vision or FDI strategy for the country helps strengthen these partnerships and improves effectiveness, stemming from aligning stakeholders behind a few priorities for economic (and social) development. Strong intergovernmental cooperation between the IPA and specialized units dealing with permits, incentives, and other noncore IPA mandates is essential in effectively delivering services to investors. Other national and subnational stakeholders playing a role in investment—such as sectoral ministries, environmental protection agencies, and utility providers—should also be integrated into the institutional framework.

Strong national IPAs in larger countries tend to have closer and more systematic working relationships with subnational IPAs—or at least more regular cooperation and contact with them. Institutional coordination mechanisms are essential to avoid investor confusion and frustration stemming from duplication or gaps in service delivery. Well-coordinated national and subnational IPAs complement each other and avoid such issues—taking on roles and delivering investor services based on their position within the typical investment cycle. For instance, it is most effective and efficient for the national IPA to devote resources to marketing, especially when dealing with investors abroad, as in the case of Apex-Brasil, Austrade (Australia), and Germany Trade & Invest (GTAI). In contrast, the day-to-day problem solving for an established investor is generally better dealt with at the subnational level (for example, by the SEZ or municipality).

Importantly, in creating a "national team" spirit for promotion, protocols should be in place to avoid "race to the bottom" behavior within the country, such as subnational IPAs competing for the same investors on the basis of incentives or concessions. Protocols of engagement and coordination mechanisms should help in this regard. India provides a good example (box 5.7).

Pillar 3: Strengthen Delivery of Investor Services

The 2019 GIC Survey reveals that investors value IPA services: 90 percent of responding investors value at least one IPA service, and two-thirds or more appreciate IPA services across different stages of the investment life cycle, not just at attraction or entry. World Bank Group experience and empirical research demonstrate that IPAs are mostly engaged in investment promotion events while underdelivering services beyond the attraction stage.

IPAs should aim at improving their service delivery across the investment cycle to increase investor satisfaction, especially for the services that strategic investors consider most relevant. The World Bank Group offers a new, comprehensive investor services framework linking four service categories (marketing, information, assistance, and advocacy) across four stages of the investment life cycle (attraction, entry and establishment, retention and expansion, and linkages and spillovers). The framework should be applied strategically to each of the targeted segments. (Heilbron and Aranda-Larrey 2020). The aim is to provide a well-balanced mix of services depending on the development level of the segments, with (a) proactive outreach and relevant information in carefully identified segments; (b) hands-on support to help investors establish and expand (aftercare programs); and (c) advocacy to continuously improve the investment ecosystem through fundamental reforms. For instance, quality IPA information would increase transparency, and the IPA's provision of effective assistance across all stages would build investor predictability. Both improve investor confidence, which can support FDI growth (see chapter 4).

Well-respected IPAs such as ABA–Invest in Austria, CINDE, IDA Ireland, InvestChile, InvestHK, and SDI all seem to apply the new framework's principles and most of the services listed under it.[25] The most notable differences of approach among these leading IPAs relate to the retention and expansion stage, as some of these national IPAs seem to be working in partnership with subnational IPAs taking care of such services.

As noted earlier, IPAs need to collaborate to provide services to investors seamlessly throughout their investment journeys. The national IPA is best placed to interact with investors during the attraction stage but could decrease its role once investors get established in a particular site if qualified subnational IPAs can take over. At that stage, the subnational IPAs can take ownership of the relationship and service provision, and consequently provide a higher level of attention. This suggested framework with a diminishing role for the national IPA and an increasing role for the subnational IPA in different stages of the investment life cycle is illustrated by the triangles of figure 5.13.

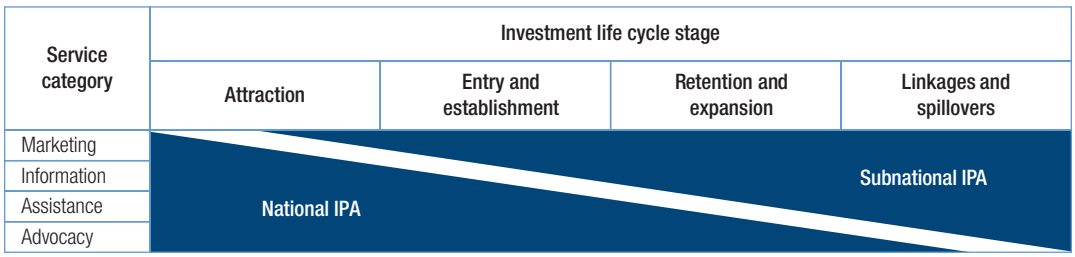
IPAs are (or could be) active connectors between investors and policy makers, channeling business-to-government (B2G) feedback and highlighting the role IPAs can play in delivering advocacy services. The 2019 GIC Survey revealed that investors consider advocacy to be the most critically important service IPAs provide.

Delivering top-quality, on-time services to investors across all stages of the investment life cycle requires systems, such as M&E on key KPIs; standard operating procedures; templates for repetitive tasks; a virtual library of the most frequently used documents; a website where investors can meet their initial information needs and download key documents and data; an investor relationship management system with CRM software at its core to track these interactions over long periods; and investor surveys. The United Kingdom has developed a monitoring, reporting, evaluation, and learning (MREL) framework to assess the effectiveness of all IPAs in the union, including its national Department for International Trade (DIT) and several subnational IPAs in achieving impact relative to their respective regions' characteristics (DIT 2018, 2019). Spain has a portal to share investment inquiries broadly with all qualifying subnational IPAs.

During the extremely uncertain times of the COVID-19 pandemic, selected IPAs from around the globe were showing resilience by operating remotely and delivering key services to investors. A WBG rapid survey, conducted in April 2020, showed that some IPAs were responding in the following ways:

- Strengthening communication via websites, newsletters, and social media to update investors daily on developments related to the virus and government responses

FIGURE 5.13 Proposed Division of National and Subnational IPA Roles in Service Delivery to Investors



Source: World Bank.
Note: IPA = investment promotion agency.

- Bolstering direct assistance (aftercare) services to established investors to solve their individual issues
- Boosting advocacy services to systematically solve pressing issues facing investors.

IPAs have a pivotal role to play in helping governments respond to the COVID-19 pandemic. This role extends beyond the immediate term to include the post-outbreak recovery phase—providing relevant services to help investors return to operations as quickly as possible, while encouraging new investment and expansions into emerging strategic segments.

Conclusions and Future Research

The principal role of IPAs continues to be too often misunderstood, even by policy makers, as an exercise in simple marketing. At the same time, most IPAs are struggling to reach their full development impact because they lack strong support to evolve quickly with FDI market trends and more sophisticated investor needs, they lack strategic focus, and they do not adequately cover the services that investors value.

For IPAs to improve their contribution to development, several policy recommendations are key:

- *Provide the IPA with high-level government support* (from the president or prime minister), giving high priority to investment (or FDI) and directly or indirectly championing the needed legal, regulatory, and institutional reforms for investment.
- *Foster strong strategic alignment*, stemming from consultations with the public and private sectors and cascading from a national plan, vision, FDI strategy, or industrial strategy that clearly states the role of the private sector. These higher-level national strategies also need to consider IPA feedback and permeate the IPA corporate plans and sectoral strategies, which focus proactive investment promotion efforts on a few properly identified competitive segments.
- *Grant the IPA a clear, uncontested mandate focused on investment promotion,* especially when starting or restructuring the IPA to empower the IPA and avoid unnecessary duplication.
- *Grant the IPA a high degree of institutional and financial autonomy* (or semi-autonomy), emulating the private sector's flexibility to act according to strategic plans and hire staff according to specified and transparent job qualifications. This should avoid political interference and disruptions during political transitions. Having the IPA report to an independent and functioning board of directors or advisory board with strong and active private sector representation would help it better understand investors and provide direction in catering to their needs.
- *Foster a strong, investor-centric service orientation at the IPA and with partners.* This includes allowing the IPA to hire management and key promotion staff with strong private sector experience, international exposure, and language skills as well as building capacity for the IPA and its partners to design and provide relevant, high-quality services to those strategic investors throughout the investment life cycle.
- *Provide sufficient, sustained financial resources to the IPA* over three- to five-year periods to ensure continuity of strategic efforts over the long-cycle nature of investment promotion and to avoid struggling over funds every year or having to charge fees.

Regarding future research, emphasis should be placed on more rigorously assessing IPAs' performance, especially to identify which IPA characteristics (autonomy, staffing, budgets, and so on) are most effective at maximizing their development impact. More can be done to analyze the links between IPA services (type and quality) and investor satisfaction (and potentially investor confidence) and their effect on FDI.

To date, such research has been sparse, not only in the context of developing

countries but also in picking up on nuances across different stages of economic development. In this vein, econometric analysis at the global level should be pursued and anchored in better collection of data across a wide international sample of IPAs, with time-series information on different IPA attributes and services, and critically, on performance indicators (ideally with firm-level data, or alternatively, with information on IPA segment targeting to link with data on FDI inflows).

Other areas that warrant deeper consideration include further analyses on the role of subnational IPAs as they become more prevalent in developing countries; the mechanisms for better national-subnational institutional collaboration and avoidance of "race to the bottom" behavior; the role of IT and digitalization on investment promotion; and the contribution of IPAs to countries' resilience in times of crisis (notably, for example, the COVID-19 pandemic), integration into emerging GVCs, and in achieving the SDGs.

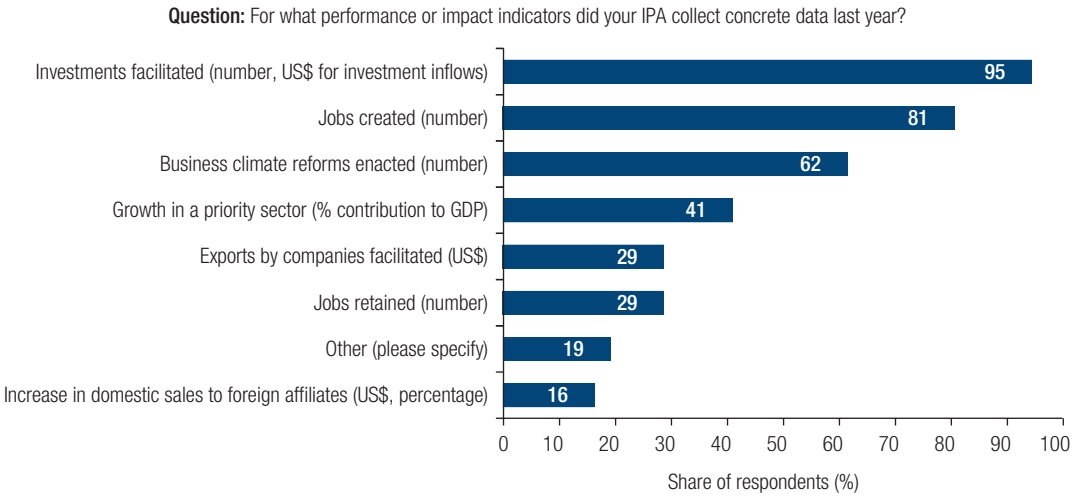
Annex 5A. Key Measures of IPAs' Impact

Investment promotion agencies' (IPAs') top performance indicators, in terms of their direct contribution to development, are investment facilitated or generated (including foreign direct investment [FDI] inflows) and jobs created. Worldwide, 95 percent of IPAs responding to the 2017 World Bank Group Global IPA Survey reported collecting data on their contribution to FDI, and 81 percent collected data on job creation (figure 5A.1).

IPAs are especially concerned about economic development (the dimension most featured in IPA strategies), particularly employment creation (VCC and WAIPA 2010). However, most IPAs only collect information on *announced* investment and jobs, with few tracking FDI and employment levels that are *achieved* (based on established investments).

A few sophisticated IPAs such as IDA Ireland and the United Kingdom's Department for International Trade (DIT) have been measuring return on investment of public funds, using a basket of indicators that include FDI

FIGURE 5A.1 Nearly All National IPAs Collect Data on the Amount of Investment Facilitated and Jobs Created as Indicators of IPA Performance



Source: 2017 World Bank Group Global IPA Survey.
Note: The survey received responses from 83 national IPAs globally. (For more information, see annex 5B.) GDP = gross domestic product; IPA = investment promotion agency.

inflows, gross value added, wages, and employment levels (DIT 2018; IDA Ireland 2018). Only a few developing countries measure the degree of embeddedness of the investments and their local impact in terms of additional growth and jobs generated directly and indirectly. The United Kingdom is moving to net value added and employment.

Most studies use the value of FDI inflows (Harding and Javorcik 2011, 2012; UNCTAD 2001; Wells and Wint 2000) or the number of FDI projects as the IPA's measure of performance, reflecting data availability. A more recent study proposes using four variables to measure the IPA's performance as perceived by survey respondents on the Likert scale, which measures intensity of feeling: (a) FDI inflows, (b) target investment amount, (c) investment promotion efficiency, and (d) survival rate of new invested ventures (Lim 2018).[26]

Soft and hard factors (perceptions, FDI amounts, job numbers, and wages) need to be considered when evaluating IPAs (UNCTAD 2008). That said, data in general, but especially for indirect impact and qualitative aspects, are not easily available. Such data issues are even more pronounced in the developing world.

Annex 5B. Analysis of IPA Surveys: Overview and Approach

2017 World Bank Group Global IPA Survey

From October 2016 to March 2017, the World Bank Group contacted 147 investment promotion agencies (IPAs) to gather information on their characteristics and activities through a web-based survey. Eighty-three national IPAs responded (a response rate of 56 percent). A regional breakdown of the respondents is presented in table 5B.1.

Comparison of Global IPA Surveys over Time

To compare IPA characteristics over time, data from five different surveys[27] are leveraged:

- 2005 World Bank Group IPA Census
- 2017 World Bank Group Global IPA Survey
- 2017 World Association of Investment Promotion Agencies (WAIPA) Annual Survey

TABLE 5B.1 Regional Coverage of the 2017 World Bank Group Global IPA Survey

Region	*Distribution of IPAs contacted (%)*	*Response distribution (%)*	*Number of respondents (number of IPAs)*
East Asia and Pacific	14	13	11
Europe and Central Asia	33	35	29
Latin America and Caribbean	18	18	15
Middle East and North Africa	10	7	6
North America	1	1	1
South Asia	4	6	5
Sub-Saharan Africa	21	19	16
Total	100	100	83

Source: 2017 World Bank Group Global IPA Survey.
Note: The survey received responses from 83 national IPAs globally. "North America" includes Canada and the United States.
IPA = investment promotion agency.

- 2018 WAIPA Annual Survey
- 2018 OECD report, "Mapping of Investment Promotion Agencies in OECD Countries" (OECD 2018).

Changes are evaluated across the following key areas: governance structure, activities and services, sector and country targeting, budget, staff, systems and tools, and foreign presence. Because country and question coverage of the different surveys vary dramatically, precise comparison across time posed challenges. The 2005 World Bank Group IPA Census covered the widest range of IPAs (106 in total) and provides a baseline for comparison over time. To maximize sample size, the analysis combines the remaining four surveys into single observations for the period 2017–18. The trend analysis is restricted to the subset of IPAs observed in both time periods, so conclusions are not swayed by changes in sample composition. Changes over time are calculated using IPA fixed effects to identify within-IPA changes.

A few caveats are in order. Sample size varies by question (based on presence and format of questions in the survey). More broadly, caution should be exercised when considering generalizability of results because the sample is nonrandom, and changes may be associated with other unobserved characteristics.

Annex 5C. Additional Data on Evolution of IPA Institutional Characteristics, 2005 to 2017/18

TABLE 5C.1 Selected IPA Characteristics with No Significant Changes between the 2005 and 2017/18 IPA Surveys

Topic	*Question*	*2005*	*2017/18*	*Sample size (number of IPAs)*
Governance structure	% of IPAs that are government run	93	89	52
	% of IPAs reporting to more senior levels of accountability (for example, prime minister's or president's office)	12	16	58
	% of IPAs with a board	71	75	56
	% of IPAs with private sector members on their boards	52	55	21
	% of IPAs that advertise in the media	78	90	40
Activities	% of IPAs engaging in analysis or policy advocacy to improve the investment climate	98	95	41
	% of IPA's budget devoted to image building	26	25	24
	% of IPA's budget devoted to investment generation	36	33	25
	% of IPA's budget devoted to investor servicing	25	32	18
	% of IPAs that target specific countries	66	63	35
Country targeting	Average number of countries targeted by IPAs	6	4	32
Staff	Average number of staff focusing on investment promotion	31	42	52
Systems and tools	% of IPAs with private sector database	96	100	25
	% of IPAs using an investor tracking system	53	55	38
Foreign presence	% of IPAs with overseas representation	74	78	27

Sources: 2005 World Bank Group IPA Census and 2017 World Bank Group Global IPA Survey; 2017 and 2018 World Association of Investment Promotion Agencies (WAIPA) annual surveys; OECD 2018.
Note: For details about the data sources and methodology, see annex 5B. Changes over time are calculated using IPA fixed effects to identify within-IPA changes. Significance of changes across time is calculated using IPA samples for which the question is commonly available in both 2005 and 2017/2018 to avoid changes being driven by changes in the sample composition. This table summarizes selected features where no significant changes, up to the 10 percent level, are observed. Nonsignificant changes do not necessarily indicate that no meaningful changes have occurred but may indicate that the sample size is too small to draw generalizable conclusions. Discrepancies in the phrasing of questions across surveys means that the authors have matched questions across surveys based on their judgment of sufficient comparability.

Notes

1. Throughout the chapter, investment promotion agencies (IPAs) refer to institutions that include an investment promotion function or mandate (covering both dedicated agencies as well as units that do so within larger institutions, such as economic development boards).
2. As throughout this report, "developing countries" refers to low- and middle-income countries, and "developed countries" to high-income countries, based on World Bank Group classifications: https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups.
3. FIAS—now called the Facility for Investment Climate Advisory Services (still abbreviated as FIAS)—is a joint service of the World Bank and the International Finance Corporation (World Bank Group) that focuses on helping countries attract foreign direct investment, supporting reforms in more than 100 countries over three decades. For more information, see the World Bank's FIAS web page: https://www.worldbank.org/en/topic/competitiveness/brief/facility-for-investment-climate-advisory-services-fias.
4. WAIPA, the World Association of Investment Promotion Agencies, is an international nongovernmental organization, established in 1995 by the United Nations Conference on Trade and Development (UNCTAD), that acts as a forum, provides networking, and promotes best practices for IPAs. For more information, see the WAIPA website: https://waipa.org/.
5. For this section, the authors reviewed a wide range of resources to provide a broad overview of the literature on investment promotion and then classified them by topic but not by empirical strength.
6. Crescenzi, Di Cataldo, and Giua (2019a) find a positive impact of subnational IPAs in attracting FDI and a mixed impact of national IPAs, based on empirical research in Europe.
7. "Cultural distance" is defined as differences between one country and the United States in terms of language and business conduct. The 2011 study by Harding and Javorcik uses U.S. FDI outflows, for which cultural distance from the United States might be relevant. This may not be the case for FDI sourced from other countries, such as China.
8. CINDE identified the right competitive segment to target, engaged in one-on-one strategic outreach, and provided top-notch individualized services to investors.
9. "Efficiency-seeking" FDI leverages cost savings and competitive features of a location to serve as an export base.
10. For more information about the 2017 World Bank Group Global IPA Survey, see annex 5B.
11. At the same time, Bauerle Danzman and Gertz (forthcoming) also indicate that autonomous IPAs are less likely to align their activities with other government priorities.
12. Transnational learning capacity, in this context, refers to the IPA's capacity to understand multinational enterprises and learn from them, usually by leveraging the expertise of staff who have had experience working with, or for, such enterprises.
13. The 2017 GIC Survey data were collected through telephone interviews with 754 business executives involved with operations in developing countries (picked from among 8,000 eligible companies in the Dun & Bradstreet database). The survey captures perceptions of international business executives on the role that investment climate factors play in their FDI decisions.
14. The 2019 GIC Survey data were collected through telephone interviews with over 2,400 business executives of MNE affiliates in 10 developing countries: Brazil, China, India, Indonesia, Malaysia, Mexico, Nigeria, Thailand, Turkey, and Vietnam. The survey captures perceptions of international business executives on the role that investment climate factors play in their FDI decisions.
15. IPA data are from the 2005 World Bank Group IPA Census and the 2017 World Bank Group Global IPA Survey (see annex 5B). Regarding the comparison in IPA budget size, the 2005 World Bank Group IPA Census asks about the "FDI promotion" budget, while the 2017 World Bank Group Global IPA Survey asks about the "investment promotion" budget. Values are presented in 2018 U.S. dollars, adjusted for currency convertibility and inflation.
16. FDI project growth from 2009 to 2018 was calculated from the *Financial Times*' fDi Markets

dataset (https://www.fdimarkets.com/), representing that survey's coverage of more reliable data (through systematic collection of information on FDI project announcements). Data to measure changes in IPA sector targeting were sourced from the 2005 World Bank IPA Census and a combination of 2017/18 IPA surveys from the World Bank Group, World Association of Investment Promotion Agencies (WAIPA), and Organisation for Economic Co-operation and Development (OECD). (For more information, see annex 5B.)

17. GIPB reports are based on the review of each IPA's website and its responses to investor requests for information. These inquiries are made using a "mystery shopper" approach, whereby a global site selection firm submits GIPB inquiries as the inquiries of a supposed anonymous investor. Each IPA receives a confidential report with results.
18. The GIPB was discontinued after 2012. There have been no similar evaluation data since then.
19. The question in the 2017 World Bank Group Global IPA Survey was phrased as an open-ended question to IPAs to write in which sectors they are prioritizing. Consequently, there were variations in how sectors were described and classified. But the numbers still indicate a comparable magnitude of the number of sectors considered to be a "priority" for investment promotion efforts.
20. Rwanda's FDI inflows have increased over time, from US$14 million in 2005 to US$398 million in 2018, according to UNCTAD *World Investment Report* data.
21. The World Bank Group has over 30 years of operational experience in the field of investment promotion, providing assistance to countries across the world.
22. Countries are increasingly linking their national plans with supranational visions and development plans. For instance, the Association of Southeast Asian Nations (ASEAN) community is working toward its common Vision 2025. Rwanda has supranational commitments through the African Union Agenda 2063 and East African Community Vision 2050.
23. Malaysia developed "Wawasan 2020" (Vision 2020), a 30-year national development plan spanning 1991–2020. Colombia's National Development Plan 2018–2022 and Myanmar's Sustainable Development Plan 2018–2030 take steps toward the SDG targets for 2030. Although Rwanda is still within its 20-year plan (2000–20), it is now preparing a 30-year plan (2020–50).
24. These reforms, which continue under the current government, have helped the country move toward needed labor-intensive industrialization (a significant achievement in Sub-Saharan Africa) and contributed to boosting FDI inflows from US$279 million in 2012 to US$3.6 billion in 2017 (UNCTAD 2018).
25. This finding is based on two-hour, one-on-one detailed interviews carried out with the mentioned IPAs in 2019.
26. A Likert scale is a psychometric scale widely used to gauge responses in survey research. Specifically, it measures how people feel about something by asking respondents to choose from five to seven balanced responses.
27. The analysis drew on the full datasets (only available internally) of the 2005 World Bank Group IPA Census; the 2017 World Bank Group Global IPA Survey; and the 2017 and 2018 World Association of Investment Promotion Agencies (WAIPA) Annual Surveys. More information on the 2005 WBG IPA Census, and the WAIPA 2018 Annual Survey can be found in Harding and Javorcik (2011), and WAIPA (2019), respectively. Any data leveraged from the 2018 OECD report, "Mapping of Investment Promotion Agencies in OECD Countries" were drawn from the figures and charts included in the publicly available publication (OECD 2018) as the authors did not have access to the full dataset.

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