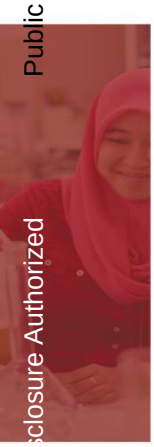
WORLD BANK GROUP
Trade & Competitiveness

INVESTMENT POLICY AND PROMOTION DIAGNOSTICS & TOOLS

Maximizing the Potential Benefits of Foreign Direct Investment (FDI) for Competitiveness & Development



SPIRA

SUPPORT PROGRAM ON INVESTMENT POLICY AND RELATED AREAS

IN ASSOCIATION WITH

Australian Government
Department of Foreign Affairs and Trade

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BMF
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About: Investment Climate Unit of the Trade & Competitiveness Global Practice, World Bank Group

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

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Table of Acronyms

DC	Developing Countries
DVA	Domestic Value Addition
FDI	Foreign direct investment
GVC	Global Value Chains
ICD	Investment Competitiveness Diagnosis
IPA	Investment Promotion Agency
IRM	Investment Reform Map
MNE	Multi National Enterprises
SIRM	Systemic Investment Response Mechanism
UNCTAD	United Nations Conference on Trade and Development
WBG	World Bank Group

Contents

1. Introduction

1.1. How can foreign direct investment help a country develop?

Why are some countries rich and others poor? This is a question that has been attempted to be answered in many different historical periods by numerous academics, politicians, social scientists and economists. Today we face a very interesting paradox. On the one hand, according to World Bank Statistics, the number of people in the world living on extreme poverty – that is, on less than $1.25 per day-- has decreased dramatically in the past three decades. While in 1981 on average half of the citizens in the developing world used to live in extreme poverty, in 2010 that figure had decreased to 21 percent - despite a 59 percent increase in the developing world population. On the other hand, the gap between the richest and poorest countries in the world is increasing. Indeed, in 1776, when Adam Smith wrote "The Wealth of Nations", the richest country in the world was approximately four times wealthier than the poorest country. The richest country in the world is now more than 400 times richer than the poorest country. What separates them? Knowledge, diversification and the composition of exports are part of the answer, all areas in which foreign direct investment (FDI) has an important role to play.

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

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

The difficulty starts when decision-makers try to identify what "investment policy" is, or should be. A huge range of stakeholders, problems, institutions, legal instruments, and administrative tools are captured in that concept. Countries get lost. Even if policy-makers can identify a destination, it can be difficult to know where to start, to know which concrete actions will have the most impact.

Investment policy encompasses a huge range of issues, and for a state that hopes to reap the benefits of foreign investment, it can be difficult to know where to start. A common mistake is that countries create investment policies to react to the challenges posed by the type of investment they are already receiving. Instead, a state needs to identify the opportunities to receive greater benefits from existing investments, and consider what other types of investment the country needs in order to develop. Many developing country governments face difficulties in investment policy formulation, coordination and implementation, thus undermining their competitiveness and compromising the ability to attract investment. Governments may lack the information and capacity to understand the quantity, quality and type of investment a country is receiving. Data on the quantity of FDI is often collected through multiple agencies using different sources and leading to data gaps and inconsistencies. Information on

the quality of FDI – referring to its direct and indirect effect on the local economy – is notoriously difficult to estimate.

Investment policy is dynamic – there is no "one size fits all" solution. An approach that works within one country for one type of investment at one particular time may need to be continually revised, adapted, and improved to take into account the changes in an economy, the transformation of different types of business, and the circumstances. Further in an increasingly globalized world, characterized by rising levels of international production, trade, competition and interaction, the need to connect the dots between international rulemaking, domestic reforms and development becomes increasingly evident.

Within this context, there is a need for a logical framework enabling policy makers to "connect the dots" among the numerous variables at different levels affecting how developing countries insert themselves into the international economy, and use investments to diversify exports, create more and better jobs and thus improve the standards of living of citizens. The World Bank Group (WBG) has developed a logical framework that purports to achieve three key steps in the complex process of investment policy making.

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

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

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

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

1.2. Why is an investment vision important?

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

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

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

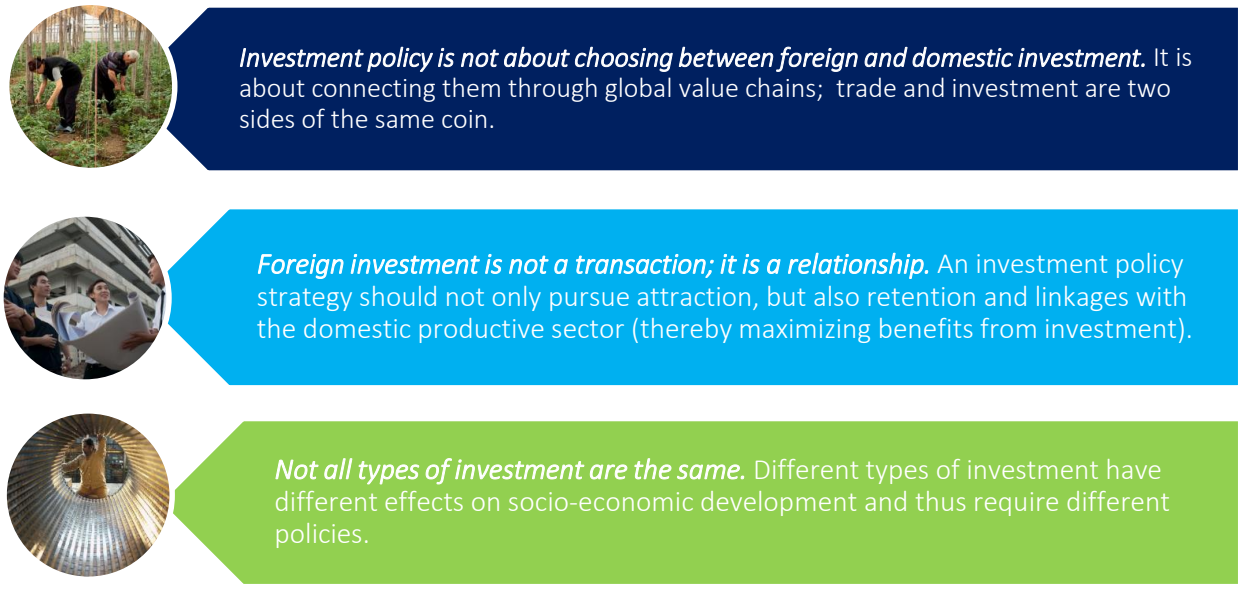
Because of this, it is equally important for governments to understand the specific political, economic, social and environmental challenges affecting different types of FDI so that appropriate policy measures can be undertaken to ensure that FDI makes a contribution to sustainable development of the host state's economy.

2. From an Investment Vision to an Investment Lifecycle

2.1. Three Key Ideas for an Investment Policy Framework

When defining a modern investment vision for development in the era of globalization, there are three fundamental propositions that policy makers should keep in mind and are illustrated in Figure 1 below. First investment policy and development is not about choosing to privilege foreign investment over domestic or vice-versa. It is about connecting both of them. Second, investments, and in particular foreign direct investment (FDI) are not homogenous phenomena. Different types of investment have different effects on socio-economic development and thus require different policies. Thus there is a need to come up with a typology of FDI that can be useful enough to distinguish among the different types of FDI and how they affect development. Third, investments are more than just transactions, they entail multi-staged relationships among different stakeholders. For instance, in the case of FDI, there are foreign investors, governments and domestic investors and civil society. Such relationships have multiple dimensions, but one way to visualize them is to follow a sequential approach, by which, in the case of FDI, the main objective of maximizing its potential benefits entail previous stages, covering the stage by which foreign investors are attracted to invest into the host country, the stage when such investment is materialized and it is established, then the stage when the investment starts to be managed, operated and once retained hopefully begins to expand, leading to linkages and thereby "rooting" the FDI with the domestic economy.

Figure 1: Three Ideas for an Investment Vision



2.2. Not all kinds of investment are the same, nor have the same effects on development: the FDI Typology

FDI has the potential to bring a wide range of benefits to a country – factors that are crucial to socio-economic development such as jobs, technology, skills and access to international markets. But some countries that receive large amounts of foreign investment fail to grow. Why? Because not all foreign investments have the same potential to provide these benefits, and because the benefits themselves are not guaranteed.

When considering investment policy reform, it is critical to acknowledge that the factors that motivate, dissuade, and impact investors are vastly different depending on the business they are in, and the markets they intend to target. The basic motivations of an investor provide an insight into the socio-economic impacts that the firm may have in the host country. Countries often make the mistake of designing investment policies around the type of foreign investments that they already have, rather than tailoring policies to suit the type of investment that they want to grow. How can a country identify those types of investors that are more likely to make a positive contribution to the domestic economy? What differences should policy makers be aware of when designing an investment policy regime?

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

Figure 2: The FDI Typology

The first type of investment discussed is **"natural resource-seeking"** investment. This type of FDI occurs when an investor is lured into a country to have access to natural resources, such as oil and gas, mining and minerals, or water or land for agricultural production. As this type of FDI is attracted by the quality or quantity or the natural resources located in the territory of the host country, naturally not all countries are equally attractive for this type of investment. To maximize the potential benefits of this type of FDI it is important that governments fully understand the dynamics of this type of investment in order to put in place adequate policies to deal with many issues. Although this type of FDI tends to be export-oriented –with all the related advantages in terms of foreign exchange earnings it may entail—governments should pay attention to the following challenges.

First, given that natural resources are part of the sovereign patrimony of a country, this type of investment raises the question of what should be the adequate distribution of gains and rents resulting from the exploitation of the natural resource. This is a delicate political issue which has to be properly dealt with, not only at a national level, but at a subnational level too, as natural resources are often located in remote areas where local communities may be affected by the economic activity and also expect to benefit from its exploitation. Second, as natural resource-seeking FDI tends to flow to resource rich countries, a typical challenge to properly maximize the potential benefits of this type of investment is to prevent the "natural resource course", that is, the tendencies for these activities to crowd out economic diversification. Third, in order to properly maximize the potential gains of this type of investment, governments must device transparent and adequate wealth management schemes to ensure that gains derived from the natural resource sector can flow to develop public goods such as infrastructure and education that can enable the country diversify its economy. In this regard, it is critical to develop linkages and preventing the exploitation of natural resources to become economic enclaves within the host country. Fourth, the very nature of the economic activity raises the need to address potential environmental degradation and the social impact the exploitation of the resources may entail.

Thus, natural resource-seeking FDI requires appropriate policies for its potential benefits to be maximized. Several countries have developed on the basis of this type of FDI on the basis of smart policies addressing the challenges mentioned above. This has been partly due to the existence of strong institutions that have enabled these countries properly administer the natural resources in the common good. However, unfortunately, in the case of many developing countries such institutions have not been in place, leading to many economies to stagnate in underdevelopment despite receiving important amounts of this type of investment.

"Domestic Market-seeking" investment is driven by the foreign investor's interest to serve the domestic market of the host country. Thus, FDI entails the establishment of production facilities of goods or services to satisfy the demand of the local market. Thus, it is the size or the growth rate of the domestic market what becomes the main magnet for this type of FDI. Countries with large markets or with high growth rates leading to booming domestic demand will naturally generate more "pull" for this type of investment than countries with little markets or with decreasing growth rates.

This form of investment can help to improve the competitiveness of a country, especially in terms of transfer of technology, know-how and pushing other suppliers of goods and services operating in the market to compete in providing better supply at lower costs. Thus, to maximize the benefits of this type of FDI it is important to ensure that effective competition in the local market takes place. This type of FDI has been used by many policy makers to promote import-substitution policies, often with mix results. As this type of investment is geared towards the domestic market, it does not generate exports.

Conversely, it may generate greater imports into the host economy in situations where it may need inputs for the local production.

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

For many reasons, this type of investment is the most desired by many governments. It is export-oriented, and thus generator of foreign exchange, and for the same reason it does not entail any risk of crowding out the local private sector. This type of FDI tends to be greenfield, that is, tends to entail the establishment of new facilities, and consequently, tends to be a net generator of jobs. Further, because it is oriented to competitive and sophisticated markets, evidence shows that this type of FDI is a formidable vehicle to help a country improve the productivity of its workforce, and move up the "value chain". The caveat with this type of FDI, is that as most countries fiercely compete to attract it, this is the most difficult to get. Further, contrary to natural resource-seeking FDI and domestic market-seeking FDI, where the natural resource endowments or the size of the domestic market can provide host countries with a lot of "pull" to attract FDI, in the case of efficiency-seeking FDI there is not inherent "pull factor", and countries must strive to be competitive and "push" this type of investment to locate within their borders.

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

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

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

Figure 3: Characteristics of types of FDI

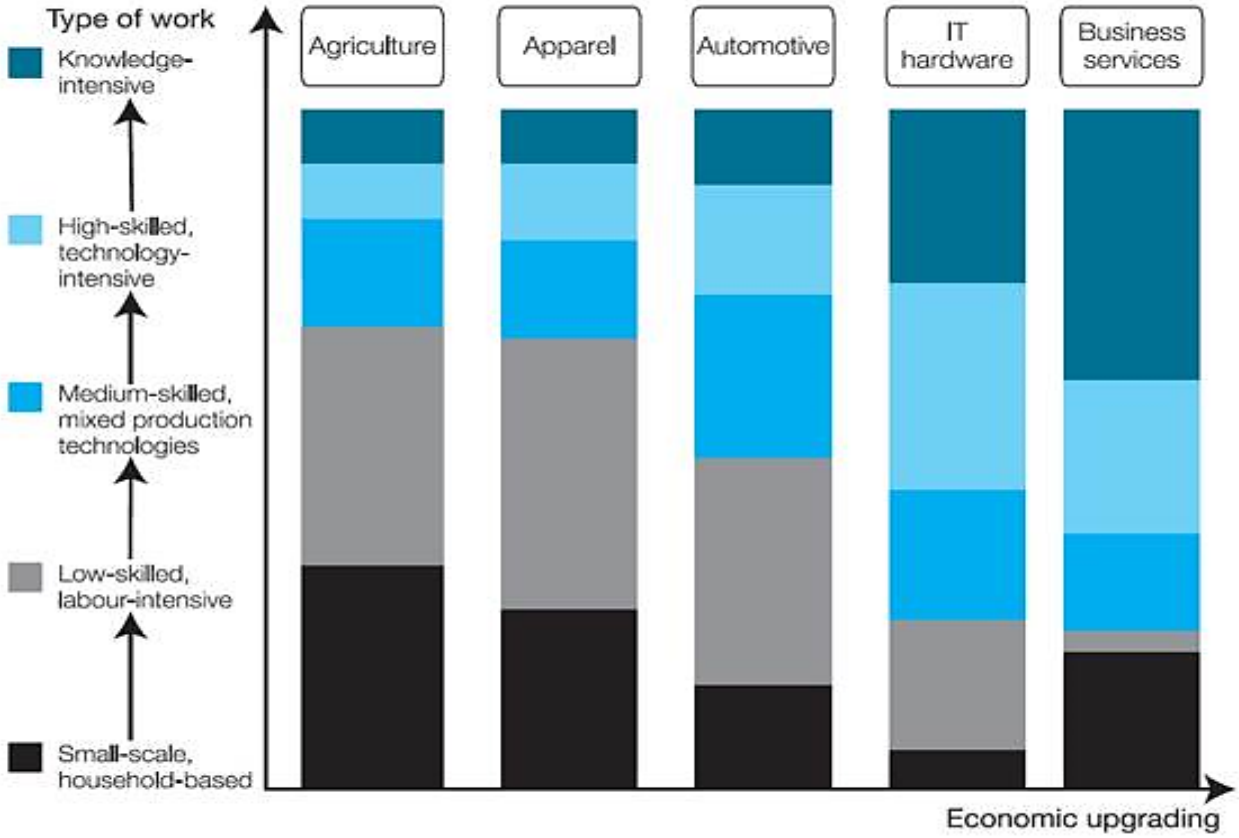
Type of FDI	Natural Resource Seeking	Domestic Market Seeking	Efficiency Seeking	Strategic Asset Seeking
Fundamental Factors attracting the investment into the host country	Location, quantity and quality of natural resources: oil, gas, minerals, land, water.	• Market dimensions and income per capita •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

Political Economy/Challenges	• Distribution of rents. Fair distribution of gains derived from exploitation of resources • Sovereignty over natural resources • Dutch disease • Rent-seeking political structures • Strong pressures for corruption • Labor rights and other social conditions of workforce (i.e.health) • Environmental matters	*Real or perceived effects over:* • Domestic production (crowding-out argument) • Reaction of domestic suppliers • Competition policy • National security	• Systemic competitiveness is difficult to achieve • Competition among countries (incentives?) • Importance of signals (vulnerability of smaller countries) • Increasing controversy in home countries	• Rising economic protectionism • More common South-North FDI • Reaction against SOEs and SWFs (Public investors)
Historical Perspective	• Oldest type of FDI • Rooted in colonialism • Origin of North-South divide • Currently growing because increased demand for raw materials and food supply	• Some initial flows in developing countries in the XIX century • Originally tended to focus among countries of the North • Changes with Import-Substitution Industrialization (I.S.I) policies • Currently growing and become another way to service a market (in particular given the rise in trade in services, and the rise of BRICs) • Increasing emphasis on pre-establishment issues	• Resulting of GATT's impact on liberalization of trade in manufactures • Currently in vogue through international value chains	• Traditionally limited to North-North FDI, in the last 20 years has started to become increasingly common in developing countries
Relationship with Trade	• Original vehicle for generation of trade • Generates international division of labor leading to the original North-South divide (that is currently changing)	• Protectionist policies (infant industry argument and currently protectionist stances in some BRICS) • Original perception that FDI substitutes trade (tariff jumping)	• Makes trade to grow exponentially • Fosters intra-firm trade	

		• Currently close links with international patterns of production generated by international competition • More market-seeking FDI leads to more trade not only of goods but also in services		
Implications for policy making/ How to integrate host country in value chain	• FDI may not necessarily translate in benefits to local economy • Most difficult FDI to manage in order to minimize drawbacks and maximize potential benefits (Norway vs. Nigeria) • Constant demand of governments to increase value added of exports • Need to increase beneficial spillovers and use these sectors to develop others. (Australia, Canada) • Export promotion diversification (niches) both in goods and in services. (Chile)	• Often strong resistance from local interest groups has to be overcome • Typical vehicle for SMEs from DC's to jump into international markets • Liberalization becomes the core topic around which the policy discussions tends to gravitate • Competition issues become critical.	• Given clarity of benefits, this is the kind of FDI that is more in demand • Systemic competitiveness becomes the core topic around which the policy discussions tend to gravitate • FTAs become critical • Logistics for integration with the international economy become key	

When deciding which type of FDI a country should focus on it is important to bear in mind the types of jobs that get created. Different types of FDI generate different kinds of jobs and thus have a different impact on the development of the local economy. As Figure 4 below shows, Natural Resource Seeking Investment typically generates rather small-scale and low-skilled jobs. The more a country moves towards efficiency-seeking and strategic asset-seeking investments the more knowledge-intensive and high-skilled jobs are created in the local economy.

Figure 4: Each type of investment generates different kinds of jobs and value

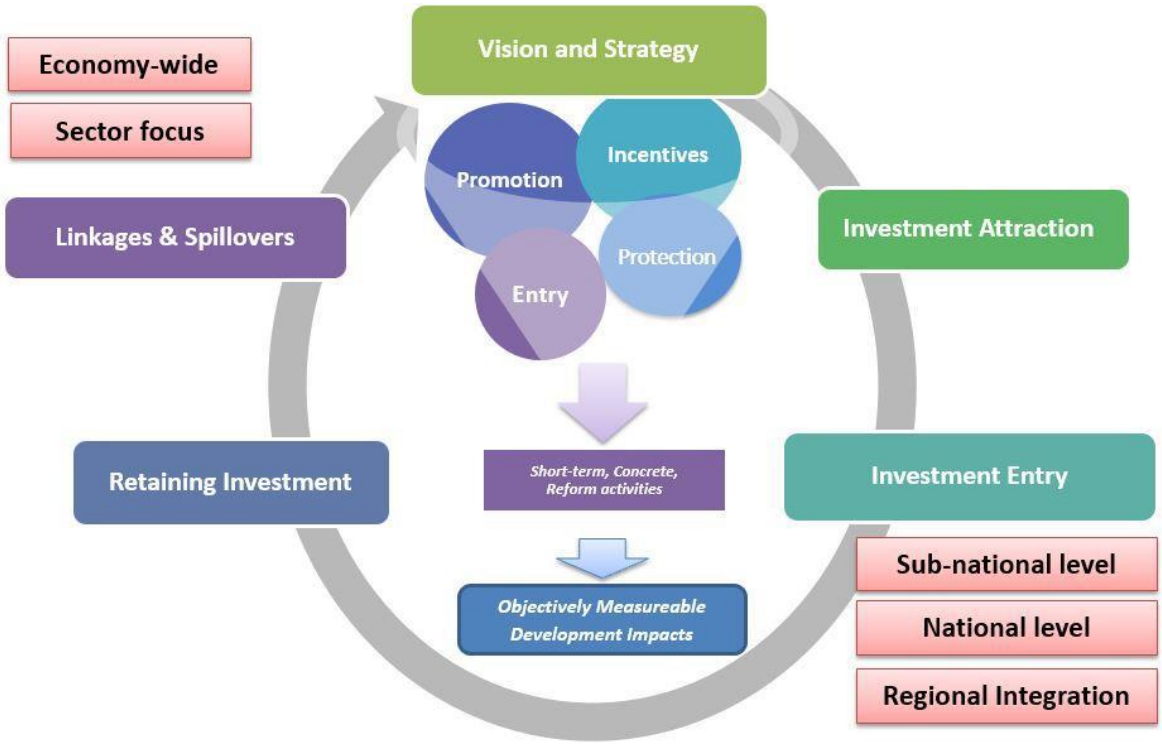


2.3. Investment is a relationship, not a transaction: The Investment Lifecycle

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

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

Figure 5: The Investment Lifecycle



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

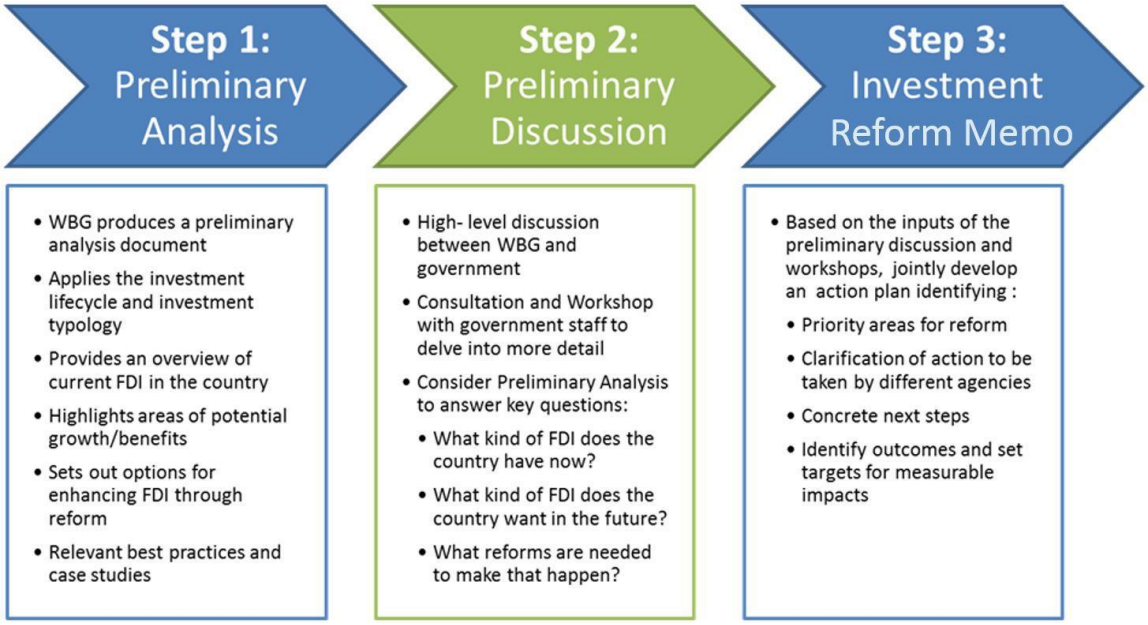
3. From the Investment Reform Map to reform oriented results on the ground

3.1. What is the IRM Process?

The WBG works alongside governments to engage in "Investment Reform Mapping". The details of this process may vary depending on the circumstances and needs of each country, but its purpose is to help the government set priorities, to assign responsibilities, to identify opportunities for collaboration, and to define the intended impacts of investment policy reform.

It is important to keep in mind that the IRM is not a single document or report, nor is it a static action plan. Instead, it is a process that allows a government to focus discussion, set priorities, and agree on defined activities. As a country's Investment Vision and strategy are refined over time, the IRM will also be adjusted to the changing circumstances. Graphically, the IRM process is illustrated by Figure 4 below.

Figure 6: Typical Investment Reform Map Process

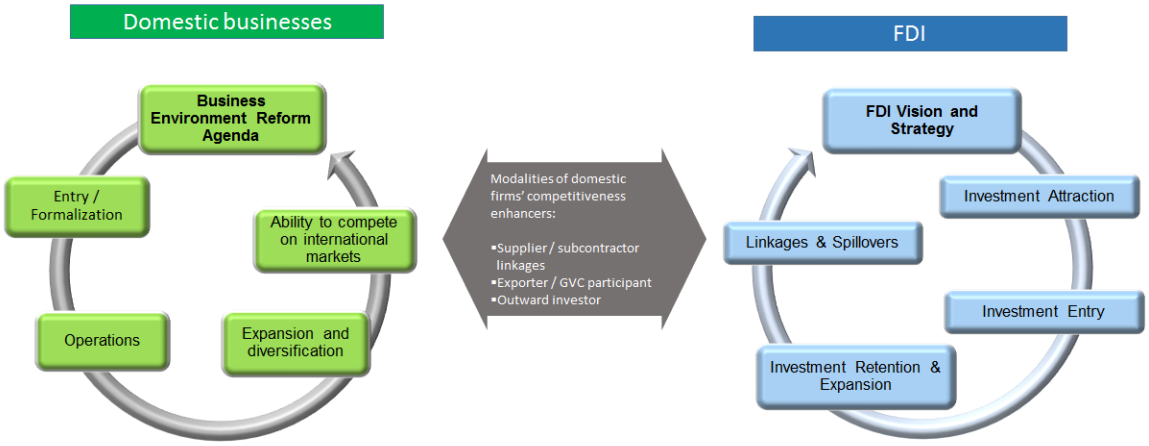


3.2. Investment Competitiveness for Business-Led Growth – The Investment Competitiveness Diagnosis

Through the IRM process, the WBG also helps client governments to improve the investment competitiveness, which refers to the capability to attract, retain, and leverage foreign and domestic investment for private sector-led growth.

The Investment Competitiveness Diagnostic (ICD) analyzes investment climate constraints and opportunities in client countries. It relies on a combination of economic data analysis, legal and regulatory review, and feedback from country stakeholders to identify specific investment climate barriers to private investment and business growth. The analysis and reform recommendations cover both domestic businesses and foreign direct investors, along their business lifecycles.

Figure 7: Business lifecycles domestic and foreign investors



The ICD is composed of 7 modules in 3 sections to allow for a customized and modular approach according to country needs.

A. Data Analysis			B. Policy and Regulatory Assessments			C. Subnational Diagnostic
(1) Economic and Policy Context	(2) Private Sector Performance	(3) Investment Sector Scan	(4) Doing Business Reform Memo	(5) Business Environment Deep Dive	(6) Investment Reform Map	(7) Subnational Benchmarking and Assessment

Data Analysis

Economic and Policy Context

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

Private Sector Performance

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

Investment Sector Scan

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

Good Practices: Investment Strategy
• Clarify the types of investment the country is receiving, the causes and the implications • Prioritize: Undertake a pre-sector scan exploring feasibility to diversify types of FDI the country could attract and benefit from and target concrete promotion, incentives, entry, retention & expansion and linkages steps focused in key priority areas • Set up minimum institutional coordination mechanisms for monitoring effective implementation, reform and impact • Let investors know about new directions in policy: consider using investment policy and promotion statements to announce progress. • Ensure coherence between trade and investment policy

4. Toolkits developed by the WBG targeting individual stages of the Investment Lifecycle

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

4.1. Investment Promotion

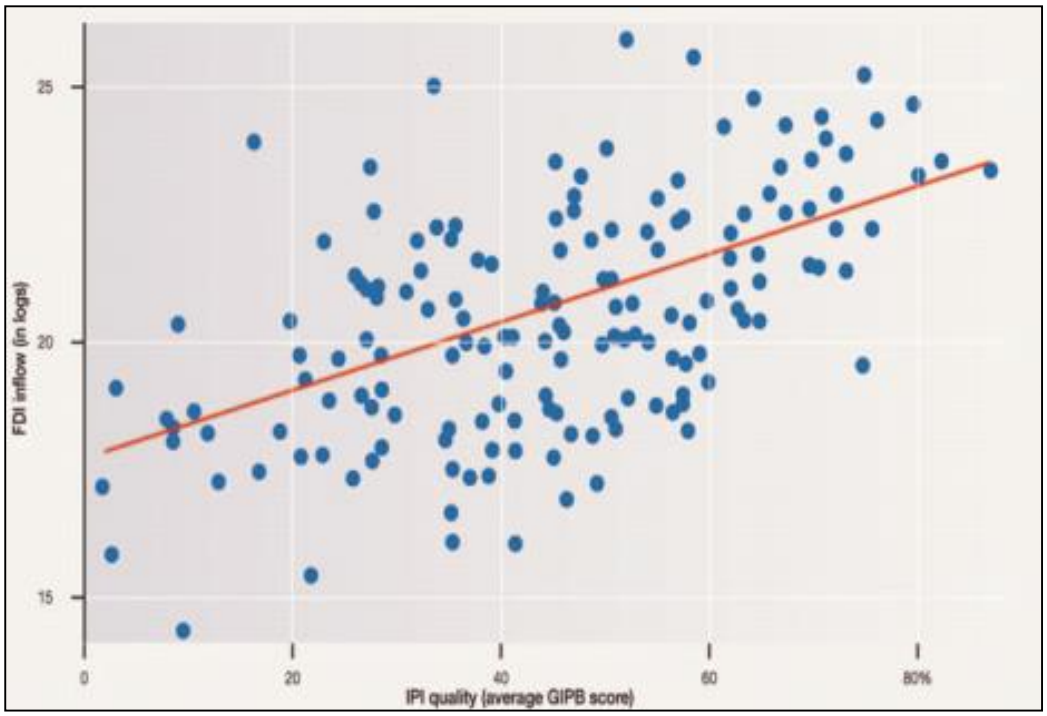
4.1.1. Why does investment promotion matter?

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

As a critical part of this process, countries need to define their value propositions as attractive investment locations and to proactively market investment opportunities to investors in sectors, subsectors, and even segments, highlighting their comparative advantages relative to other locations. Clear strategies and effective marketing are particularly important for countries with little track record of attracting FDI or with reputations as difficult places to invest.

As illustrated by Figure 8 below, research has shown that, when investment promotion activities are properly targeted, there are positive correlations between promotion and investment (Wells and Wint, 1990, Austrade 1996, Wells 1999, Morisset 2004, Jovorcik and Harding 2012). Targeted and efficient investment promotion activities include: servicing investors' information needs, strengthening host country's value proposition and location's image, facilitating the establishment and expansion process of the investor after establishment.

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



Source: T. Harding and B. Javorcik (2012), "Investment Promotion and FDI Inflows: Quality Matters," *CESifo Economic Studies*

Figure 8 above shows how the better the investment promotion services (horizontal axis) the higher the amounts of FDI that tend to be lured into the host economies.

4.1.2. How does the WBG country diagnostics work?

In this phase WBG examines what challenges do governments face, when trying to influence investors through investment promotion and which role do Investment Promotion Agencies (IPAs) play in this context. The diagnostic uncovers whether the government policies designed to attract FDI are efficient or whether they have rather negative unintended consequences on the inflow of FDI. The WBG also analyses the role of the IPAs in this process, their internal organization and the scope of their activities targeted at supporting investors and translating investments into development benefits.

4.1.3. What are our activities?

The WBG provides client governments with support to improve the investment policy framework, and to maximize the effectiveness of investment promotion efforts by (i) advising on how to create a strong IPA or how to reinforce an existing one, (ii) helping a country develop a national FDI Vision and Strategy, an Investment Reform Map, and investment promotion strategies, (iii) strengthening investor confidence to help retain and expand FDI through upgrading and improving legal and regulatory framework, promoting best practices in in tracking and resolving key regulatory issues and designing investor aftercare programs.

4.1.4. How do we measure the impact?

The impact of our work can be measured by the success of the IPA of a country. The key impact indicators include (i) implementation of investment promotion strategies and programs linked directly

to impact indicators, (ii) effective systems for measuring organizational and staff performance, (iii) reporting to stakeholders and clients

Figure 9: The need for diverse services to get investors from concept to project success and development impact

Our Work in Action

- Attracting FDI to **Brazil's** Frontier States: T&C supported APEX, Brazil's national IPI, to attract FDI to the poorer Northern regions of the country. T&C's investment promotion team helped build the capacity of APEX and two state IPIs in Para and Pernambuco to plan and implement targeted investor outreach. This led to the attraction of over $1.3 billion of new investment to Brazil, of which some 70% went to the two frontier states in sectors such as renewable energy and agribusiness.
- Enhancing Sector Competitiveness for FDI in **Rajasthan, India**: T&C supported the Government of Rajasthan to develop its investment competitiveness in four key sectors of the economy – automotive, IT enabled services, solar power manufacturing and tourism. Our support focused on defining Rajasthan's competitive proposition for each sector, reforming the investment environment to make the sector more attractive to investors and undertaking targeted sector outreach. The project team subsequently facilitated site visits and meetings for investors with the Government of Rajasthan and, as a result, investments of approximately $2 billion are currently in the pipeline in these sectors, with over $300 million of new investment having been achieved so far.

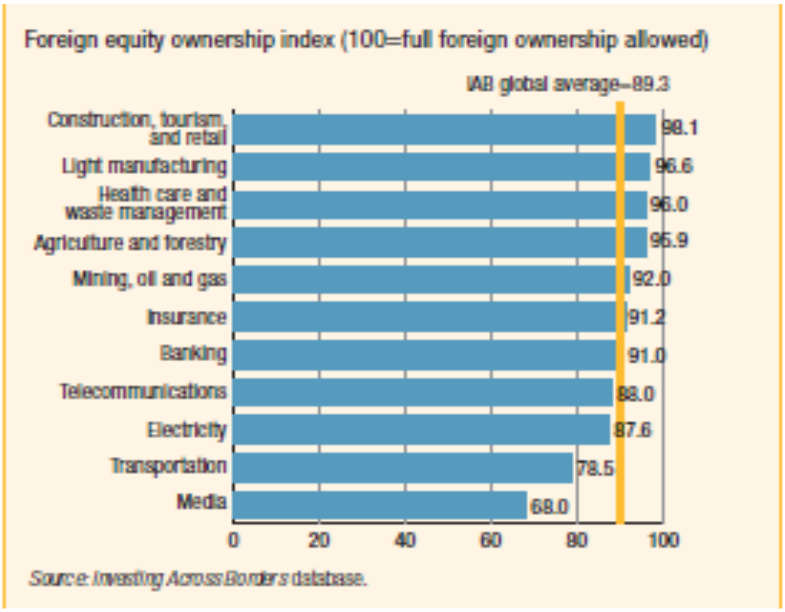
4.2. Investment Entry

4.2.1. Why does the reduction of investment entry barriers matter?

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

In some cases, these barriers are imposed intentionally with certain policy objectives in mind. For instance, Figure 10 below shows the sector that tend to be more restricted to FDI across the world. Paradoxically, one can observe that key areas such as telecommunications and electricity, which are key sectors to attract efficiency-seeking FDI are nevertheless restricted to foreign competitors.

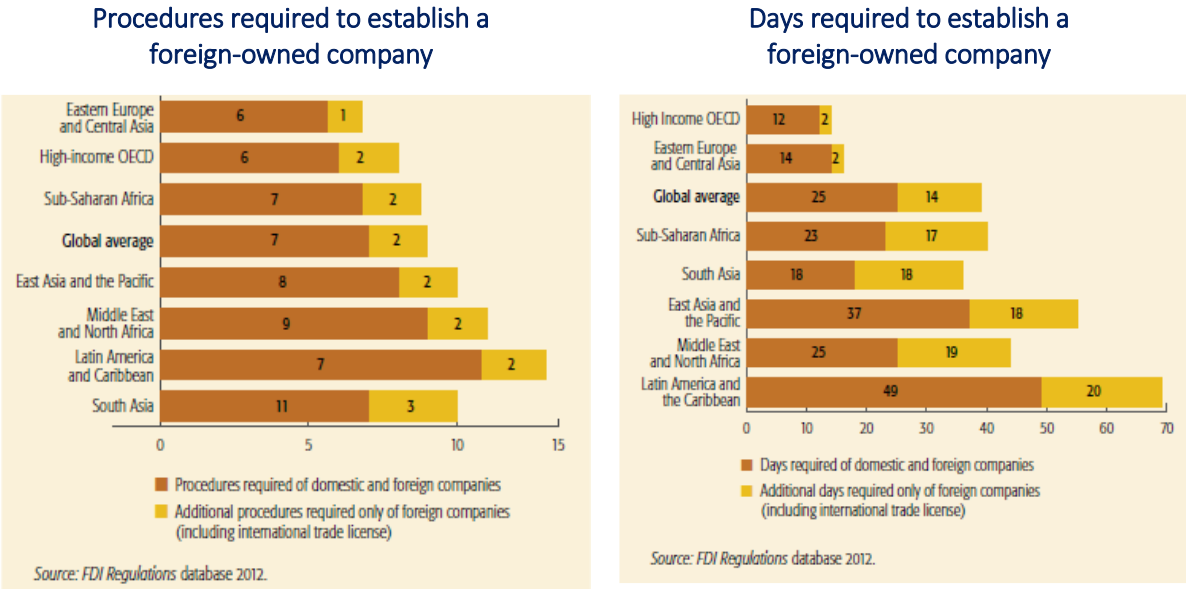
Figure 10: Restrictions on foreign ownership by sector



Entry barriers can also arise in the form of red tape, without clear policy objectives. Often, however, even the intentional barriers do not effectively serve the objectives that they are designed for, and in fact, generate additional costs for the host country.

Figure 11 below illustrates that even putting aside the level of access host countries may want to grant to FDI into their domestic economies, the fact is that red tape very often affects foreign investors when completing administrative requirements to apply, enter, and establish in a country. Figure 11 shows that although the number of procedures associated with the establishment of investments may not vary significantly among the different regions of the world, the time and associated cost of complying with those establishment procedures do vary substantially. Clearly such time and cost act as de facto barriers to potential FDI inflows.

Figure 11: Procedures and days to establish a foreign-owned company in different parts of the world



While in high income OECD countries it may in average around 14 days for a foreign company to get established, in other regions it may take up to 70 days, that is 5 times more. This fact shows that in many regions of the world, there is a clear opportunity for the G20 to promote concrete actions facilitating the establishment of investments

What are Investment Entry Barriers?

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

Figure 12: Investment entry barriers

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

4.2.2. How does the WBG country diagnostics work?

To ensure that host countries receive the benefits of foreign investment, policy makers need to pay increasing attention to minimizing and rationalizing the existence of barriers to investment entry. The WBG helps policymakers identify barriers to entry of investment and the establishment of foreign owned enterprises, rationalize the existence of these barriers, and improve the investment entry regimes in a manner that improves governance and serves the country's development objectives.

The reform process begins with a diagnostic assessment of the current situation. The WBG works alongside country authorities and other advisers to set a reform agenda and identify solutions that are appropriate for the country context. Technical assistance is focused to help countries to (i) decrease and rationalize the use of legal and regulatory barriers, (ii) identify and remedy procedural barriers by streamlining processes, (iii) discuss and address de facto regulatory barriers by promoting greater transparency, certainty, and improved governance in the investment entry regime.

4.2.3. What are our activities?

The WBG conducts diagnostic assessments and designs solutions based on a three step approach:

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

4.2.4. How do we measure the impact?

The WBG measures the impact of its engagement by benchmarking certain data available for the country, such as (i) flows of foreign investment or stock in the country, or within in particular sectors using the "investment generated" indicator (consider collecting historical data, where available, to identify trends), (ii) information about how a process is being done (agencies involved, permissions needed, and documentation required), (iii) how efficient a process is (e.g. time and cost taken, frequency of appeal), (iv) outcomes of the implemented processes (e.g. number of approvals/declines/withdrawals).

Good Practices: Entry / Establishment of Investment

- Avoid discriminatory treatment to FDI: negative lists complemented by standstill, ratchets and rollbacks.
- Eliminate mandatory performance requirements affecting the establishment of investments
- Measure the impact of potential liberalization
- Diminish red tape affecting entry/establishment of investment
- Diminish red tape affecting movement of investors and technical personnel
- Ensure existence of mechanisms to address barriers to market entry from incumbent

Our Work in Action

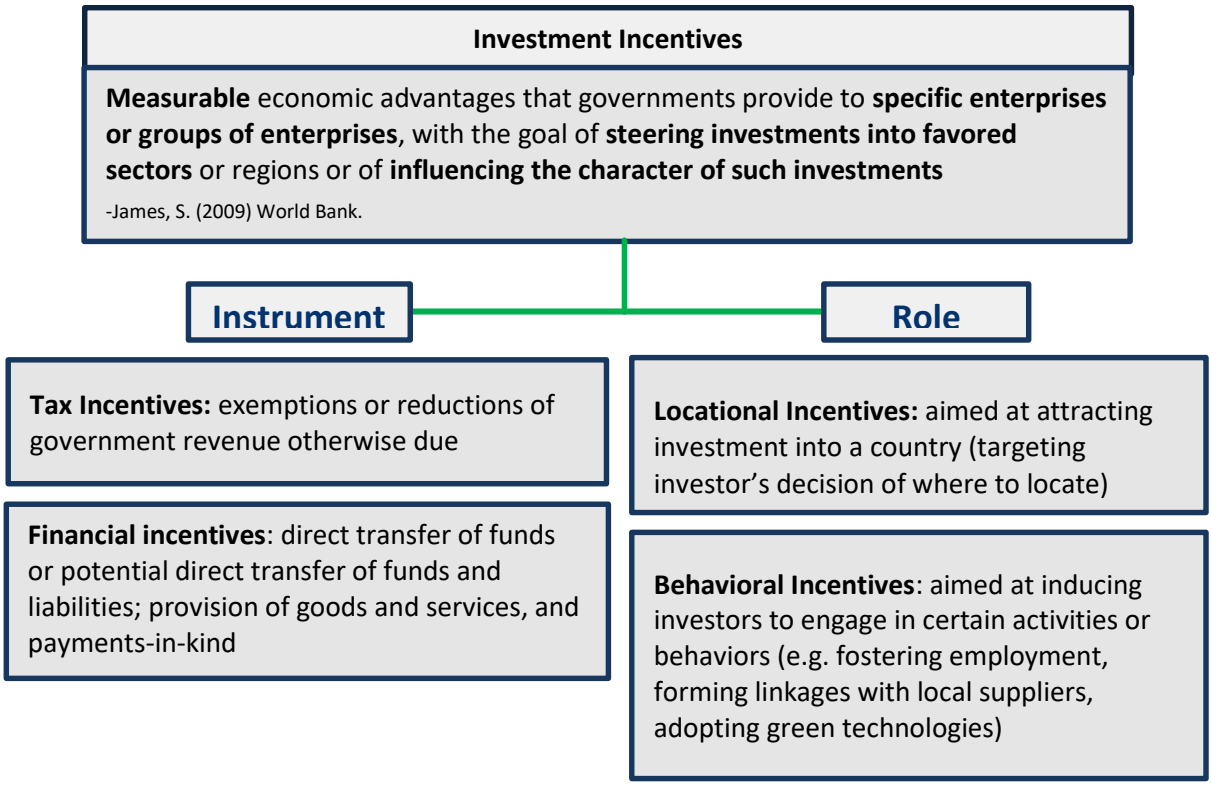
- In **Turkey**, reform of FDI policy and legislation led to the removal of minimum investment requirements and elimination of screening for FDI approvals. A simple registration system was established instead. Three years after the reform FDI inflows have increased by a factor of 10.
- In the **East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

4.3. Investment Incentives

4.3.1. Why do FDI investment incentives matter?

The role that FDI plays in enabling economies to join global value chains (GVCs) and in upgrading their domestic production is so critical, that governments across the globe compete to attract this type of investment. In this context, *locational incentives*, i.e. incentives designed to influence firms' locational decisions, play a prevalent role in governments' policy mix to attract investment. Once investments have been attracted to an economy, governments frequently resort to *behavioral incentives* to encourage certain investor behaviors, such as hiring local staff, investing in innovation, or using local suppliers to establish backward linkages.
Investment incentives are therefore widespread and used pervasively by governments across both the developed and developing world.

Figure 13: Types of Investment Incentives



4.3.2. How does the WBG country diagnostics work?

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

4.3.3. What are our activities?

A typical WBG assistance in rationalizing investment incentives consists of two stages:
Under *stage 1 – Assessment of country's investment incentives* - the WBG (i) prepares a comprehensive inventory of all tax and financial incentives available in the country, (ii) assesses the cost of investment incentives by measuring tax expenditures for tax incentives and consolidating the cost of financial incentives, (iii) conducts investor motivation surveys in order to assess the importance of investment

incentives for investors' decision, (iv) assesses the potential market distortions generated by investment incentives through evaluation of granted incentives and identification of competition distortions stemming from the investment incentive framework, (v) conducts a cost-benefit analysis of tax and financial incentives to measure the effectiveness of investment incentives and finally (vi) provides inputs and recommendations on a policy on tax and financial incentives.

Under *stage 2 - Implementation support* – the WBG delivers the report on incentive optimization to the client and starts a process of discussion and consultations with key counterparts to identify specific areas for reform implementation. If the authorities are committed to accepting at least some of the key recommendations the WBG would then provide implementation support (i.e. drafting legal amendments, subsidiary legislation and implementing regulations, as well as (re)designing of processes and procedures and underlying supporting systems, etc.). Technical advice, guidelines and training to (re)design incentive schemes and reduce distortions on market competition would also be part of implementation support

The output of this phase would be a report with findings and recommendations on how to make the incentives regime more efficient, cost-effective and transparent.

4.3.4. How do we measure the impact?

The WBG uses a number of indicator to measure the success of investment incentives reforms: Output Indicators, Outcome Indicators, and Impact Indicators.

- *Output indicators* - measure what the World Bank Group project team do and deliver in the course of investment incentives reforms (i.e. number of entities receiving advisory services, number of new laws/regulations drafted, number of reports and surveys completed, number of media appearances).
- *Outcome indicators* - measure what the Government does in response to recommendations and technical assistance provided by the World Bank Group project team. Certain of these indicators are relevant for calculating the "reform count" (i.e. number of recommended laws and regulations adopted, average number of days and costs to comply with regulations and procedures, number of entities that implemented recommended changes).
- *Impact Indicators – Cost-effectiveness Ratios of incentives* – interpret costs and benefits under reforms improving the cost-effectiveness of incentives allows governments rationalize expenditures on incentives to achieve targeted policy objectives.
- *Impact Indicators – Compliance Cost Savings* - assesses whether an investment incentives reform is achieving its purpose in decreasing costs associated with incentives for foreign and domestic investors.

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

Our Work in Action

- In **Sri Lanka**, we advised the government in streamlining and prioritizing the number of sectors that are eligible to receive incentives, while at the same time providing analytical support to implement more efficient incentive instruments.
- In **Serbia**, we conducted a detailed quantitative evaluation of a cash incentive program for investment promotion in order to assess its effectiveness and derive lessons learned for future program modalities
- In **Jordan**, we helped the government publish a comprehensive and up to date inventory of incentives on the internet that provides investors and other stakeholders easy reference to available incentive programs and application requirements.

4.4. Investment Protection and Expansion

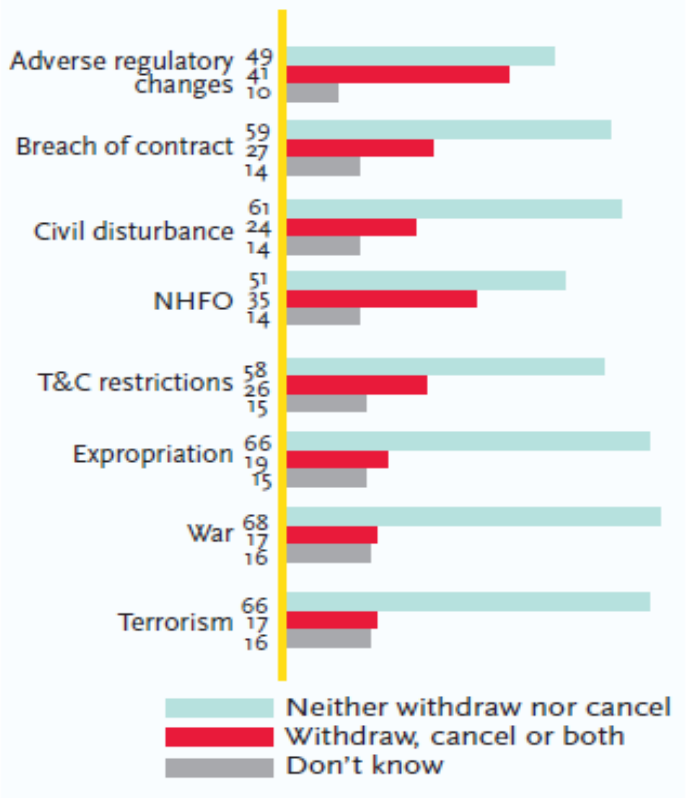
4.4.1. Why does Investment Protection and Expansion matter?

In today's global economy, companies have a multitude of location options and governments must compete to attract the investment mix that will yield the most suitable development benefits. It is typically easier to achieve development benefits through investors that have already established a presence in the country (i.e. existing investors). Encouraging investment expansion by ensuring a long and deep engagement of investors in the host country is therefore as critical as attracting new investment. Many reasons justify this assertion.

First, in a significant number of economies, the lion's share of the total annual FDI inflows is made by investors already established in the host country –both in the form of reinvested earnings or new investments. Second, positive testimonials of investors already established in the host country rank among the best investment promotion tools to attract new FDI. Last but not least, evidence shows that over time, satisfied investors tend to diversify their operations in host countries, evolving from lower value-added towards higher value added activities.

Countries' ability to retain investment is impacted by perceptions of political risk. Investment decisions are influenced not just by the costs of regulatory compliance but also by the risks generated in the investment climate. These risks may be actual or perceived. In either case, they affect the risk-return calculations and drive up the hurdle rate of returns for investors. Without risk mitigation, many investments that are commercially profitable and economically attractive do not materialize. Risks arise from a number of sources, making the regulatory environment unpredictable. As Figure 14 shows WBG research shows that around 25% of all investment established in developing countries and economies in transition either stops expanding or totally withdraws from host countries due to political risks arising from conduct of public agencies –in particular subnational ones or sector-specific regulatory authorities. In particular, these risks stem from four main categories of government conduct: (i) arbitrary/adverse regulatory changes, (ii) breach of contract, (iii) expropriations and (iv) problems related to transfers and currency convertibility.

Figure 14: Percentages of Investors who cancel their expansion plans or totally withdraw their investments due to political risks



In this context, there is a clear link between investor protection and investment retention and expansion. Without protection for investors, retention and expansion becomes virtually impossible- only very few investors with very specific objectives and plans will bear the risks associated with malfunctioning political, regulatory and legislative systems. Enhanced levels of investor protection will boost investor confidence, leading to generation of new investment and encouraging already existing investors to not only stay but also expand operations.

4.4.2. How does the WBG country diagnostics work?

Strong investor protection clauses in laws are amongst the first indicators of a country's commitment to respect investor rights. Thus it is important for the legal framework of a country to reflect not just the country's international obligations, but also good practice standards. As provisions dealing with investor protection are mostly found in a country's Investment Act/Code, Foreign Exchange Law, Property Law, Administrative Laws or in the Constitution, the WBG makes a diagnostic assessment and subsequent reform proposals of these documents. Benchmarking existing laws and regulations against international good practices will either confirm that the laws and regulations are adequate, or identify areas of potential reform, which can then be prioritized and tackled to improve the investment climate. Such reform may include the introduction of additional guarantees, but also improved coherence, simplification, or clarification of existing legal instruments.

4.4.3. What are our activities?

4.4.3.1. Legal Framework improvement

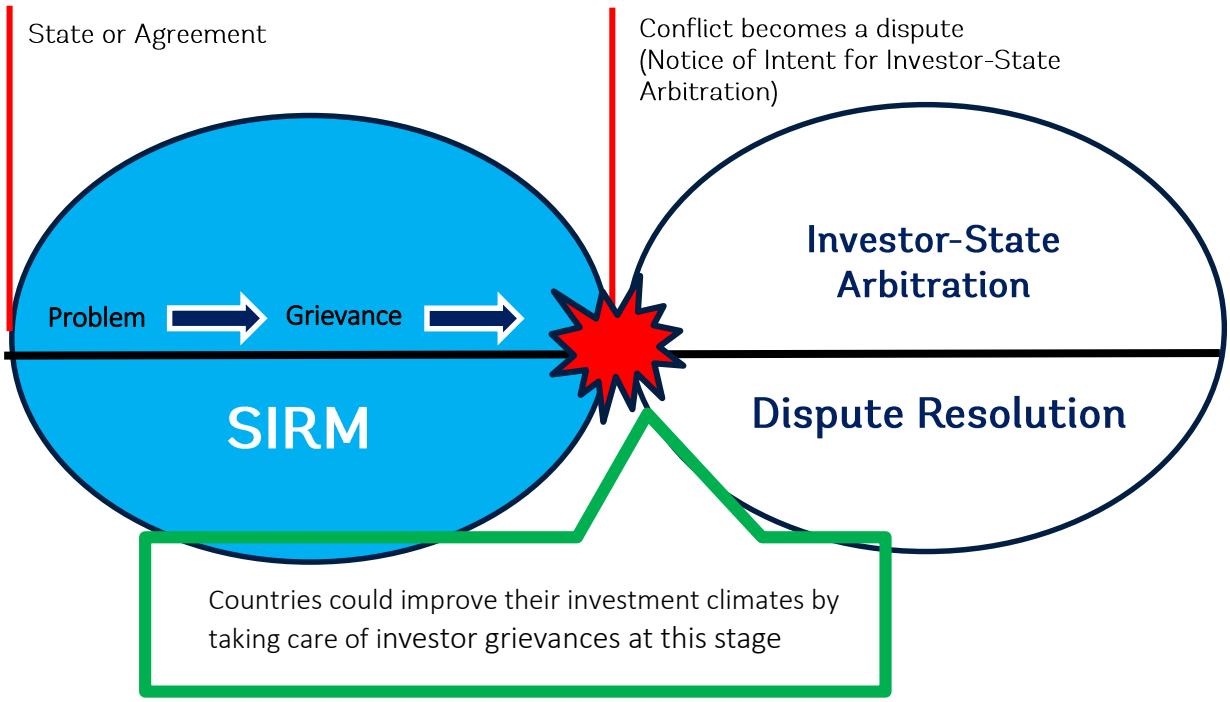
We help governments implement reforms to enhance the policy and regulatory framework on investor protection and its implementation on the ground. We draw on a set of tools and activities that help assess the quality of the legal, regulatory and institutional framework, its application, its objectives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

4.4.3.2. Ensuring of expansion of investment on the ground

The ***Systemic Investment Response Mechanism*** **(SIRM)** is an early warning and tracking mechanism to identify and resolve complaints/issues that arise from government conduct. It collects data and identifies patterns on the source of government-generated political risks affecting investments, and quantifies investment retained, expanded or lost as a consequence of addressing or not addressing those political risks. The SIRM ensures that governments respond to investor grievances in a timely and suitable manner and in accordance with the country's laws, regulations and international investment agreements.

The implementation of SIRM entails the empowerment of a reform-oriented agency of the government, the task of which is to influence other agencies' actions to effectively reduce political risk at its source. This Lead Government Agency brings to the attention of higher levels of government, problems affecting investments in order to address them before they escalate further. Operationally, the SIRM focuses on the following aspects (i) to identify specific patterns and origin of government conduct generating political risks; (ii) to measure affected investment as "evidence" to advocate for timely changes and resolutions of issues; and (iii) to strengthen capacity in relevant institutions to minimize the recurrence of these events.

Figure 15: Systemic Investment Response Mechanism (SIRM)



4.4.4. How do we measure the impact?

As impact indicators the WBG measures two values:

1. **Investment generated** and compliance cost savings of an investment transaction.
2. **Investment retained**, which captures the total values of assets of existing foreign and domestic investors facing severe investor-State grievances applying the formula "Investment retained = Investment at risk before reform implementation - Investment at risk at project completion"

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

Our Work in Action

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

4.5. FDI Linkages

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

According to UNCTAD, FDI flows to developing economies reached record levels at $681 billion in 2014 with a total FDI stock in developing countries exceeding $8.3 trillion. Governments are naturally concerned about attracting FDI and strengthening domestic value addition (DVA) to help spur economic diversification and growth, generate much needed employment and increase incomes. Research shows that FDI can trigger multiple direct and indirect benefits in a host country, most importantly the transfer of new technology, managerial capabilities and increased productivity. However, these benefits don't materialize automatically.

A combination of deliberate effort, targeted policies and hands-on support is required to facilitate FDI linkages. Understanding the specific contexts and transmission channels through which such benefits work is an essential precondition for effective policy-design so that FDI linkages work for development. The linkages potential varies dependent on the investment motivation (e.g. efficiency vs market seeking investments) and MNE sourcing strategies, the type of value chain (e.g. supplier tiers, tradables vs. consumables), as well as the capacity of local suppliers (e.g. technology intensity, absorptive capacity). To achieve economic and job growth, it is crucial that Domestic Value-Added (DVA) is increased on a competitive basis, i.e. not by increasing import barriers or local content requirements, but by enabling local firms to upgrade and compete.

4.5.2. How does the WBG country diagnostics work?

Interventions of the Investment Climate (IC) team can make a positive contribution to increasing local linkages and domestic value addition by (i) helping client countries ensure that their *investment climate framework* indeed encourages and facilitates linkage development and spillovers wherever possible and by (ii) providing advice to client governments on developing a *linkages strategy including tailored implementation solutions* for linking high potential domestic firms to foreign investors and global value chains.

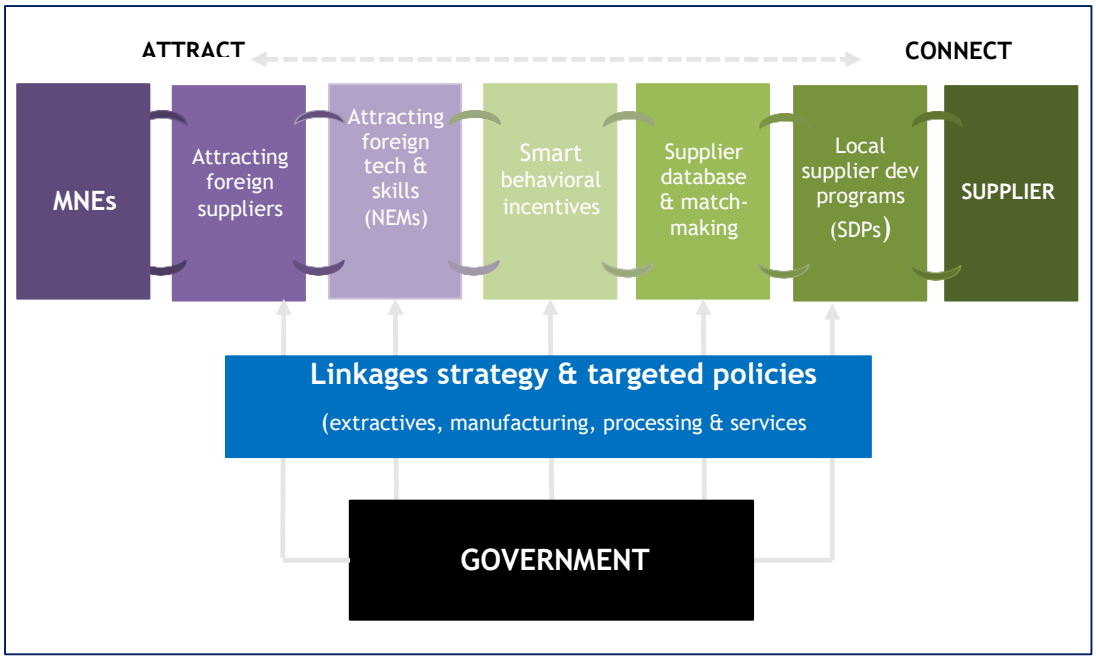
4.5.3. What are our activities?

Before going on scoping mission the WBG elaborates a *desk review* concentrating on identifying a country's (i) policy environment and priorities, (ii) economic background and rankings, (iii) institutional setup, (iv) tools and support programs used to favor linkages, (v) partners and relevant work already underway and (vi) relevant literature and press reviews.

As a next step the WBG prepares a template for *pre-mission diagnostics* of the country (i) analyzing (i) existing FDI activity, (ii) economy and trade, (iii) sectors of the economy and (iv) linkages as part of global value chains (GVC) dynamics.

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

Figure 16: The IC Linkages Solution Package



How do we measure the impact? The interventions aim at generating new contracts between local firms and foreign investors measured either in number of contracts and/or value of contracts as this should ultimately lead to increased jobs and domestic value added plus indirect spillover effects. If a targeted supplier development program is part of the intervention, increased local firm performance can be measured. Following either a dedicated focus on attracting international suppliers or through the academic argument that a more capable supply base also lures in new investment, impact on investment generated could be measured in these cases.

GOOD PRACTICES: **LINKAGES**

- Eliminate discriminatory performance requirements
- Ensure incentives regime do not conspire against local sourcing nor deter investment
- Prepare sector specific potential suppliers directories (both national and subnational level) and make them easily accessible to investors
- Focus on concrete mechanisms to upgrade capacities of domestic suppliers to needs of investors:

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

  B. Non-equity modes of investment (NEMs)
    - Assess regulatory framework to ensure they are facilitated
    - Assess NEMs along the cycle

Our Work in Action

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

Vietnam: As part of the government's efforts to attract a "second generation of FDI", it has requested the IC team's support in designing a strategy to better link local firms to the existing FDI stock and foster participation in regional value chains in sectors that are showing a critical mass of FDI (e.g. apparel, electronics, automotive). The design of a tailored linkages, incentives and supplier development program forms the core of the WBG's planned advisory support to Vietnam in order to help local firms improve their competitiveness and better link to MNEs in addition to investment policy interventions for improved market entry for investors and increased alignment of institutional roles and capacities.

5. Conclusion

The World Bank Group is currently assisting over 80 countries with framing their investment reform proposals and improving their investment competitiveness. They range from resource-rich countries, to low income economies, and to fragile and conflict states. In all countries, governments have found the World Bank Group's framework to be a useful stepping stone to design and implement a competitive investment policy agenda. Evidence shows the compelling case for host country efforts aimed at attracting, enabling the entry, retaining and linking FDI with the domestic economy. The benefits of FDI go well beyond providing additional capital, and include potential productivity improvements, export upgrading, knowledge generation, and wage increases. However, such potential benefits are not automatic. Policy interventions responding to the specific country and investment contexts may be required. There is also a strong case for building an investment climate to maximize these potential spillovers and for increasing countries' competitiveness for FDI, while bearing in mind that different types of FDI can generate different economic, social and other benefits in the short and long-term. But these benefits are not automatic. Investment policies are required to maximize potential FDI gains. One challenge, however, is that there are different kinds of FDI, and each one may have different economic, social, and environmental impacts.

This report has provided examples of the multidimensional complexity of investment policy. Not only there are numerous variables that may affect the attraction, retention, linkages and other spillovers of FDI, but also there are different types of FDI requiring differentiated policy mixes in order to maximize its potential benefits. Within this context, investment policy formulation requires on the one hand, a framework sophisticated enough to differentiate between the various kinds of FDI and their potential challenges and benefits for development, and on the other be simple enough to enable governments to clearly start organizing and prioritizing the multiple and complex variables affecting the maximization of benefits of investment.

This paper has presented a bird's eye overview of investment policy and promotion logical framework developed by the trade and competitiveness global practice of the WBG to address the challenge for more comprehensive yet targeted investment policy making. On the basis of three key propositions: i.e. (i) that investment policy should aim not to choose between but connect domestic and foreign investors, (ii) that investment policy making should be based on the whole investment cycle going beyond promotion and (iii) that not all FDI is the same nor it has the same development impacts, this report has attempted to summarize the logical backbone on the basis of which a concrete investment policy and promotion intervention in a time of globalization could be implemented and lead to measurable results. Achieving measurable result is critical, not only for governments to know whether their policies are actually working to pursue their public policy objectives, but also, because in a time when the benefits of globalization are being questioned, it is in the best interest of citizens and governments alike to become familiar with policies and tools that can contribute to improve the standards of living of the population by maximizing the potential benefits of foreign and domestic investment.

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