TRADE, INVESTMENT AND COMPETITIVENESS

EQUITABLE GROWTH, FINANCE & INSTITUTIONS NOTES

National-Subnational Coordination for Investment Attraction: The Case of Spain

María Jesús Fernández, Adrián Blanco, and Yago Aranda Larrey

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METROPOLIS

Background

Although the topic itself is not a new one, interest in studying investment attraction has significantly increased in recent years. Governments, both national and subnational, have long been interested in ways to promote investments and overcome the barriers to job creation and economic growth that confront their jurisdictions.

This paper is part of the broader World Bank Group (WBG) research initiative on Investment Climate matters, managed by the Finance, Competitiveness and Innovation (FCI) Global Practice of the WBG. Its objective is to create a knowledge base in the investment policy and promotion arena to help governments address questions on effective policies, by understanding what has worked elsewhere and what has not, and on how to organize for delivery in different contexts.

Spain is home to many international investors. The Mediterranean country is the 12th largest recipient of accumulated foreign investments in the world, and 5th in the European Union, highlighting the major role of foreign investment in its economy and its strong institutional framework.[1] This was not always the case. As recently as the early 1980s the presence of multinationals in many sectors was very limited. Over the past forty years, a "Spanish model" of national-subnational collaboration for investment promotion has emerged that combines legal, institutional mechanisms and Information and communications technology (ICT) tools to achieve success. This case study aims to document the emergence and evolution of this national-subnational institutional coordination model. It attempts to distill practical lessons from the Spanish experience for stakeholders in emerging economies who are working to improve their own mechanisms for investment promotion. To produce these lessons the WBG Investment Climate Unit partnered with ICEX-Invest in Spain, the national trade and investment promotion agency.

This paper was prepared with valuable contributions from María Jesús Fernández (Former Executive Director, ICEX-Invest in Spain) and Adrián Blanco Estévez (Manager Finance Unit, ICEX-Invest in Spain), with additional technical inputs and guidance from Yago Aranda Larrey (Private Sector Specialist, Finance Competitiveness and Innovation, WBG) and key support from Alex Sanchiz (Investment Policy and Promotion Consultant, WBG). The team would also like to thank the UK Prosperity Fund for their support in conducting research on this topic, and the World Bank Group professionals with whom we have been fortunate enough to collaborate in preparing this study.

1 See World Investment Report 2020 (based on 2019 data) (2020a).

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1. Introduction and Objectives

Foreign direct investment (FDI) is an important source of capital for economic growth in developed and developing countries. Not only does FDI generate jobs and economic growth, it can also trigger highly desirable positive externalities such as more advanced technologies and stronger management capabilities, which are often in great demand in developing countries.[2] FDI can also have positive multiplier effects for the economy in the form of additional jobs created through forward and backward linkages with domestic enterprises,[3] including employment opportunities in supporting sectors (such as business services, retail, essential supplies and others). It also increases the productivity of the multinational corporations (MNCs) domestic affiliates,[4] and contributes to integration in global value chains (GVCs).[5]

Given FDI's key role in economic development, governments have implemented numerous actions to draw such investment into their territories. One of the most important has been setting up Investment Promotion Agencies (IPAs). IPAs[6] operating at both the national and subnational levels have proliferated over the past two decades. Existing evidence shows that, when properly designed, staffed and mandated, IPAs can play a key role in attracting, retaining, and growing investment.[7] The contributions of IPAs are usually more pronounced in developing countries, where investors on many occasions know less about the location, reliable information may be scarce and regulatory environments more challenging.[8]

When thinking about investment promotion bodies and locations, the general public usually imagines country-wide policy and national-level institutions. However, FDI is usually closely linked to urban areas. Urban areas provide investors with agglomeration benefits, such as access to infrastructure and skills, access to transportation hubs, availability of support services, professional and academic training, and proximity to relevant institutions. In many country cases, it makes sense to have both national and subnational investment promotion bodies, but in those cases, coordination is key for success.[9]

There are many countries, usually of significant size and high levels of government decentralization, where the national IPA, which depends on the Central Administration, coexists with subnational IPAs or investment promotion units. These subnational IPAs reside within regional governments, or even belong to lower administrative levels such as municipalities. This coexistence requires strong collaboration and coordination between the different administrations in implementing investment promotion activities, as well as a clear distribution of functions and roles at different stages. Building a coherent institutional framework for investment is crucial to FDI effectiveness, and the institutional coordination guidelines and protocols are the main tools for these entities to succeed.

This paper has three objectives: First, to understand better the rationale behind having national and subnational IPAs. Second, to shed light on how national and subnational IPAs can cooperate to attract FDI. And third, to take a closer look at specific mechanisms that can generate significant synergies, benefits and opportunities for the host economies. In all cases this note draws on the example of the collaboration between the different Spanish national and regional administrations, a successful model showing how coordination efforts result in an improvement of the efficiency and effectiveness of overall investment policy and promotion efforts.

2 The UNCTAD 2018 World Investment Report estimated that MNE's foreign affiliates contributed to US$ 257 Billion of total value added (8 percent increase from previous year) and 76 million of total employment worldwide (annual growth rate of about 3 percent).
3 In the automobile industry in India, for every 100 jobs generated in automobile manufacturing, 300 more jobs are generated in auto-component and body-building manufacturing. Additional jobs are generated through auto services (such as dealerships, auto finance and auto insurance). See Bhasker (2013).
4 See Saurav and Kuo (2020).
5 See World Bank World Development Report (2020b).
6 IPAs across the world differ significantly in budget, size, legal set up or mandate, however they share the mission of promoting and increasing the attraction of FDI.
7 See World Bank Global Investment Competitiveness Report (2020a).
8 See Harding and Javorcik (2011).
9 See World Bank Global Investment Competitiveness Report 2020, chapter 5 (2020a).

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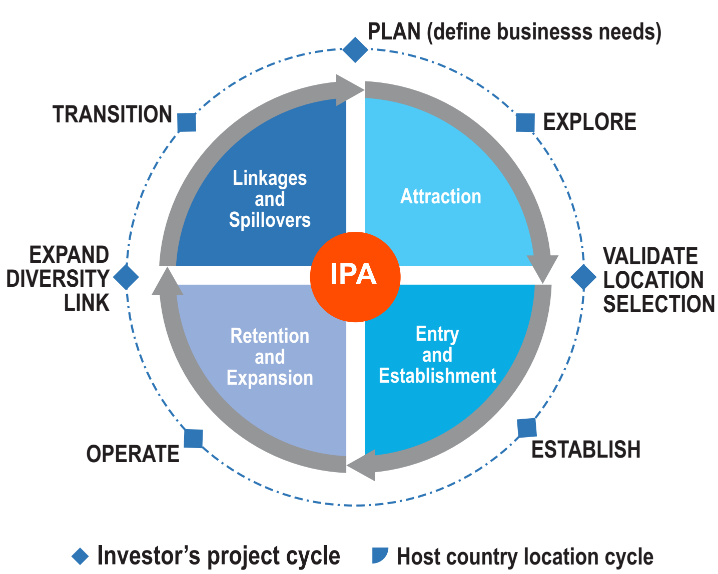
2. A Framework for National-Subnational Coordination: Evidence from Research and Global Operational Experience

Many countries have a national IPA that must coordinate with subnational IPAs and with other relevant agencies to ensure that investors' needs are satisfied. IPAs are essentially specialized marketing and service-providing agencies. Their focus lies in (a) identifying potential investors through articulating a convincing case for locating in their country or subnational location (that is, generate investments and build the location's image) and (b) providing high-quality, on-time services to prospective and established investors (for example, facilitate, retain and expand investments).

From an IPA's perspective, investor services begin with the proactive generation of an investment lead (the attraction stage), progress to supporting the investor's entry and establishment in a location, and eventually lead to supporting its retention or expansion. IPAs should also foster investor linkages and spillovers with the domestic economy, and they may need to help manage eventual transitions or divestments.

The most important services that IPAs should provide can be classified into four categories, according to the World Bank's Comprehensive Investors Services Framework.[10] These four categories are marketing, information, assistance, and advocacy. These services should be provided across the four stages of the investment life cycle (see Figure 1, below). This approach allows IPAs to establish long-term relationships with investors, thereby maximizing opportunities for investment, reinvestment, and embedding. See Figure 2.

FIGURE 1 - The investor lifecycle



Host country location stages

Attracting investors	By enhancing the overall investment climate, promoting the location and supporting investor's planning and exploration
Assisting their entry and establishment	By providing a transparent and predictable legal environment, and delivering information and assistance services
Securing their retention and expansion	By ensuring that investors operate without sudden legal and regulatory changes, and by assisting investors during operations and expansions
Fostering linkages and spillovers	By looking for win-win benefits for both the investor and domestic economy

Source: Investment Climate Unit, World Bank Group.

10 The Comprehensive Investor Services Framework (CISF) is a novel WBG framework that explores the different areas of the IPAs investor services offering per the different stages of the investment lifecycle. For more information please see the following WBG In Focus note: Comprehensive Investor Services Framework (Heilbron and Aranda-Larrey, 2020).

FIGURE 2 - Comprehensive Investor Services Framework matrix

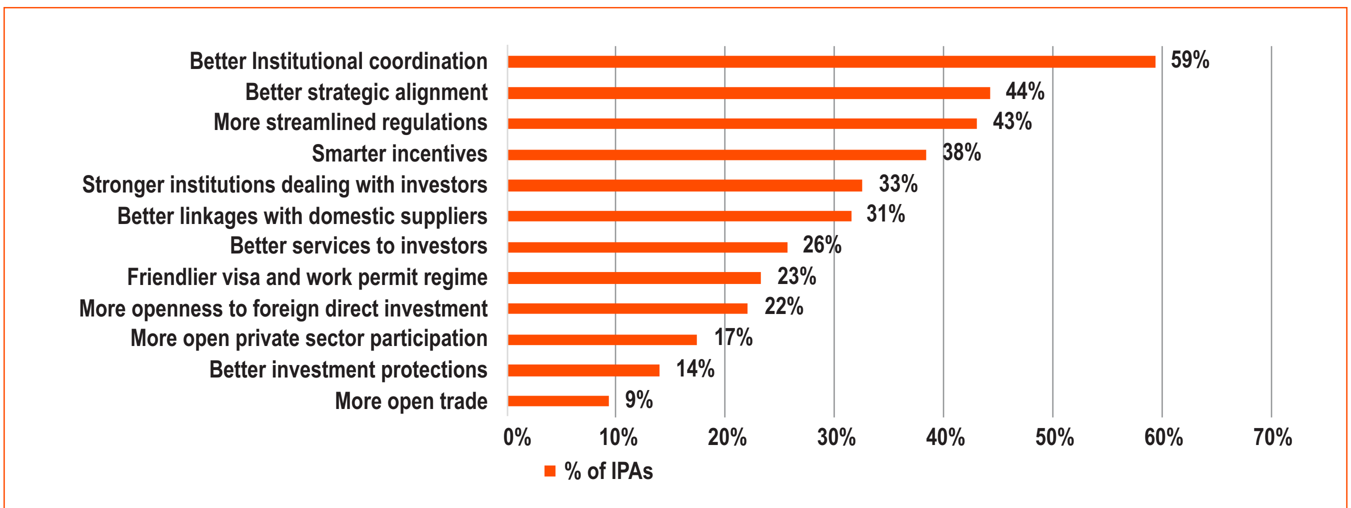
Category \ Stages	Attraction	Entry and establishment	Retention and expansion	Linkages and spillovers
Marketing	✔		✔	✔
Information	✔	✔	✔	✔
Assistance	✔	✔	✔	✔
Advocacy	✔	✔	✔	✔

Source: Investment Climate Unit, World Bank Group

According to global surveys of IPAs, the coordination needed between national and subnational IPAs for the effective implementation of investment promotion activities is often absent. The recent State of IPAs report, undertaken in 2020 by the WBG in partnership with the World Association of Investment Promotion Agencies (WAIPA)[11], found that 55 percent of responding national IPAs maintain close or regular contact with their subnational agencies, despite nearly all IPAs use coordination mechanisms with other entities such as memoranda 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. Some obstacles faced by IPAs may be explained by the presence of inadequate institutional coordination mechanisms and lack of clarity in the distribution of functions between different bodies. Furthermore, 59 percent of the IPAs surveyed desire better institutional coordination in their countries. See Figure 3.

Well-coordinated, complimentary national and subnational IPAs are key to avoiding downstream problems for investors and the duplication of services. For example, it is more efficient for the national IPA to dedicate resources to national branding and overall marketing efforts, especially when dealing with investors abroad. On the other hand, day-to-day problem-solving for an established investor can be better dealt with at the subnational level.[12] Table 1 below shows a few general examples of regulation and procedures that are decided by different levels of government.

FIGURE 3 - Reforms desired by IPAs



Source: Sanchiz, Alex; Omic, Ahmed. 2020. World Bank Group.

11 See Sanchiz and Omic (2020).
12 See World Bank Global Investment Competitiveness Report 2020, Chapter 5 (2020a).and body-building manufacturing. Additional jobs are generated through auto services (such as dealerships, auto finance and auto insurance). See Bhasker (2013).

TABLE 1 - Investment-related regulations by national vs. subnational administrations

The overall legal and regulatory framework for FDI is typically determined at the national level. Subnational entities must function within these frameworks. Examples of regulations, policies and administrative procedures at both levels include:

National	Subnational
Trade/Investment agreements	*Local one-stop shops*
Export/Import licenses	*Construction permits*
Customs	*Technical certificates*
Visas	*Environmental requirements*
Company registration	*Activity licenses*
Foreign purchase/ lease of land permits	*Property registration*
Sector incentives	*Land use certification*
FDI sector restrictions	*Local incentives*
Income taxes	

- Subnational entities can advocate central government for changes/improvements in conditions for FDI decided at the national level (for example, customs, export/import licenses, visas, and so on).
- Subnational IPAs, however, may have strong role in fast tracking investment procedures at the local level, for example, company start up licenses, construction and environmental permits, and so on.

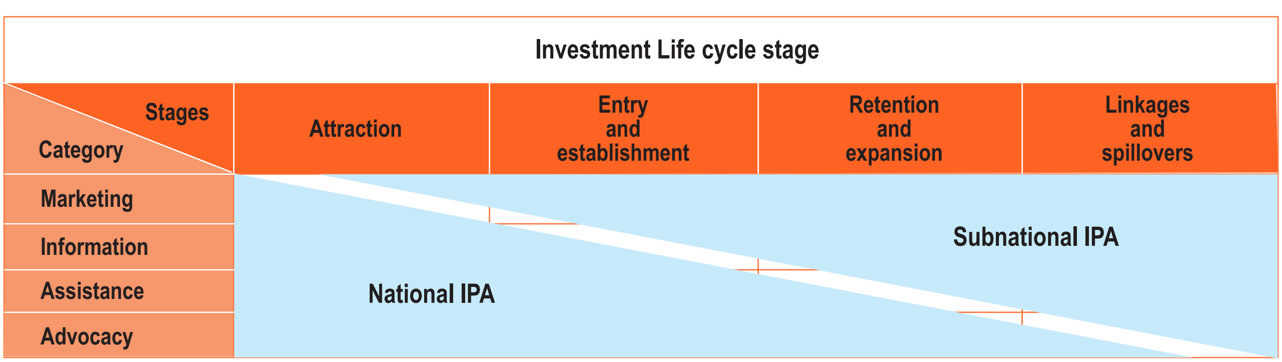
Source: Zhu, Tingting Juni; Aranda Larrey, Yago; Santos, Valerie Joy Eunice. 2015. World Bank Group.

In creating a country level effort for investment promotion, protocols should be in place to avoid “race to the bottom” behavior within the national jurisdiction, such as subnational IPAs competing for the same investors on the basis of aggressive fiscal incentives or other type of subsidy.

The national IPA is usually best placed to coordinate and interact with investors during the early attraction stages but could taper its role once investors become specifically interested or established in a particular location, especially if there is a subnational IPA that can take over in maintaining the relationship and servicing the investor. See Figure 4, below.

Subnational and national IPAs conduct similar activities and share the general objectives of FDI promotion to boost economic growth and development. However, subnational IPAs, due to their focus on a more specific location, have a deeper understanding of that location’s strengths and weaknesses and can therefore provide very specific assistance to international investors. Attention to detail and to the specific characteristics of the location (sector specialization, Free Trade Zones available, and so forth) can be key factors in promoting specific choices, especially during investors’ final decision-making process and their entry stages, should they decide to invest.

FIGURE 4 - Proposed division of national and subnational IPA roles for service delivery



Source: WBG Global Investment Competitiveness Report 2019/2020, (2020b).

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3. Spanish Decentralization and Investment Promotion Policies

In only thirty years, Spain evolved from a state with a highly centralized territorial model to a multi-layered federal state that consists of the national government, the autonomous communities (hereinafter CCAAs[13]) and local government. Spain's current administrative structure originated in the Spanish constitution of 1978, which allowed for the establishment of self-governing entities, each having its own statute of autonomy. Apart from different historical and political factors, the creation was based on the recognition of a greater degree of effectiveness in providing specific services at the subnational level.

The constitution established the powers given to the central government, stating that the CCAAs could assume those powers not explicitly assigned to the central government in their constitutions. It also recognized that the central government can delegate powers to these subnational entities, and that in certain cases it could enact laws to homogenize matters falling under their purview, while ensuring that—should there be a conflict—national legislation would always prevail over that of a CCAA.[14]

Over a period of nine years, the CCAAs established their governments and administrations, and the central government transferred services and economic resources to the regional governments. This transfer of powers, which has accelerated in recent years, has made Spain one of the most decentralized countries in the world. According to the Regional Authority Index,[15] Spain is the second most decentralized country among the 81 analyzed, only behind Germany.

The case of Spain: A successful story of national-subnational coordination to the benefit of international investors

While Spain has one of the highest levels of administrative decentralization in the world, it is also very active in undertaking investment promotion efforts. These efforts are executed by the national IPA, ICEX-Invest in Spain, dependent on the Ministry of Industry, Trade and Tourism, as well as by the different subnational IPAs operating in the country.

In order to respond to the need for coordination, ICEX-Invest in Spain, in conjunction with subnational IPAs, have developed several mechanisms, tools and activities that have enabled good collaboration between the central government and the regional governments. This efficient collaboration has resulted, among other advantages, in an improvement in the services offered to foreign companies.

The following sections of this note will provide more details about this successful example of national-subnational collaboration.

Although, in general, the transfer of competences affects the fields of education and health, there are other important areas in which the CCAAs have prominent space for action, such as economic development policies. These

13 CCAA stands for "Comunidades Autónomas", Autonomous Communities in English.
14 See Viver Pi-Suñyer (2010).
15 The Regional Authority Index (RAI) is a measure of the authority of regional governments in 81 democracies or quasi-democracies on an annual basis over the period 1950-2010. The dataset encompasses subnational government levels with an average population of 150,000 or more. Regional authority is measured along ten dimensions: institutional depth, policy scope, fiscal autonomy, borrowing autonomy, representation, law making, executive control, fiscal control, borrowing control, and constitutional reform.

BOX 1 - Investment-related Regulations by National vs. Subnational Administrations

ICEX Spain Trade and Investment is a public corporation at the national level created in 1982. Its mission involves promoting the internationalization of Spanish companies to support their competitiveness and add value to the economy, as well as attracting foreign investment to Spain. It is part of the Spanish Ministry of Industry, Tourism and Trade.

Invest in Spain is an Executive Directorate of ICEX Spain Trade & Investment, a Government Body chaired by the Secretary of State for Trade. Its core mandate is to attract FDI to Spain by promoting the country as a competitive investment location. The services it provides include information, advice and support to industrial and financial investors interested in the Spanish market. Invest in Spain serves as point of access to central and regional administrations, and to potential local partners. It renders its services through a network of 31 Provincial and Regional Divisions in Spain along with almost 100 Economic and Trade and Investment Offices around the world. It also boasts 16 Business Centres worldwide, offering Spanish companies temporary infrastructure and acting as incubators for internationalization.

comprise a wide range of activities, such as articulating an industrial policy or designing public aid to the private sector according to the needs of companies operating in different sectors. One area that has gained prominence in recent years are the policies related to the promotion of investments, channeled through different IPAs or investment promotion units that have been established in all Spanish CCAAs. See Figure 5.

In Spain, investment promotion policies rest both on the Central Administration and the CCAAs and involve a clear distribution of tasks as well as adequate communication and coordination between administrations. This affects investment attraction, entry and establishment, and retention and expansion stages, and involves the development of a complementary service offering by both national and subnational IPAs to ensure investors are accompanied by a competent and reassuring guide during their journey.

FIGURE 5 - Spain's CCAAs and their IPAs or Investment Attraction Units

Source: ICEX-Invest in Spain.

When it comes to marketing and image building, the cooperation implies putting together homogeneous messages that clearly present the country's advantages as a destination for FDI and include the specificities and strengths of the different CCAAs. On the advocacy front, the responsibilities regarding different elements that affect the investment climate and impact foreign companies are divided between the Central Administration and CCAAs. For example, rules that are applicable in areas such as taxes, labor issues or business incorporation regulations belong to the General Administration of the National Government. But competencies such as land or environmental policy are in the hands of the CCAAs or municipalities. In this context, ICEX-Invest in Spain, has sought to create a joint response, supported by the subnational IPAs, that accommodates the different areas of competence, with the aim of providing better service to foreign investors while ensuring cooperation between the different Spanish administrations.

Coordination mechanisms and tools

Coordination between the Spanish Central Government and the CCAAs in the attraction and promotion of foreign investment has materialized through various initiatives. The main coordination tools between ICEX-Invest in Spain and the CCAA's investment promotion bodies are: The Investment Attraction Committee (CAI), the Interactua ICT tool, and other key joint initiatives.

The legal framework that sets out the foundations for the coordination is the Law 6/1997, Organization and Functioning of the General Administration of the State, which established the Interterritorial Council for Internationalization[16] (CII) creating a framework for permanent collaboration be-

16 For additional details see: https://www.icex.es/icex/wcm/idc/groups/public/documents/documento_anexo/mde4/nzkw/~edisp/dax2018790062.pdf
17 http://www.investinspain.org/invest/en/regions/index.html.

tween the State Administration (AGE), the CCAAs[17] and the private sector. The objectives of the CII are as follows:

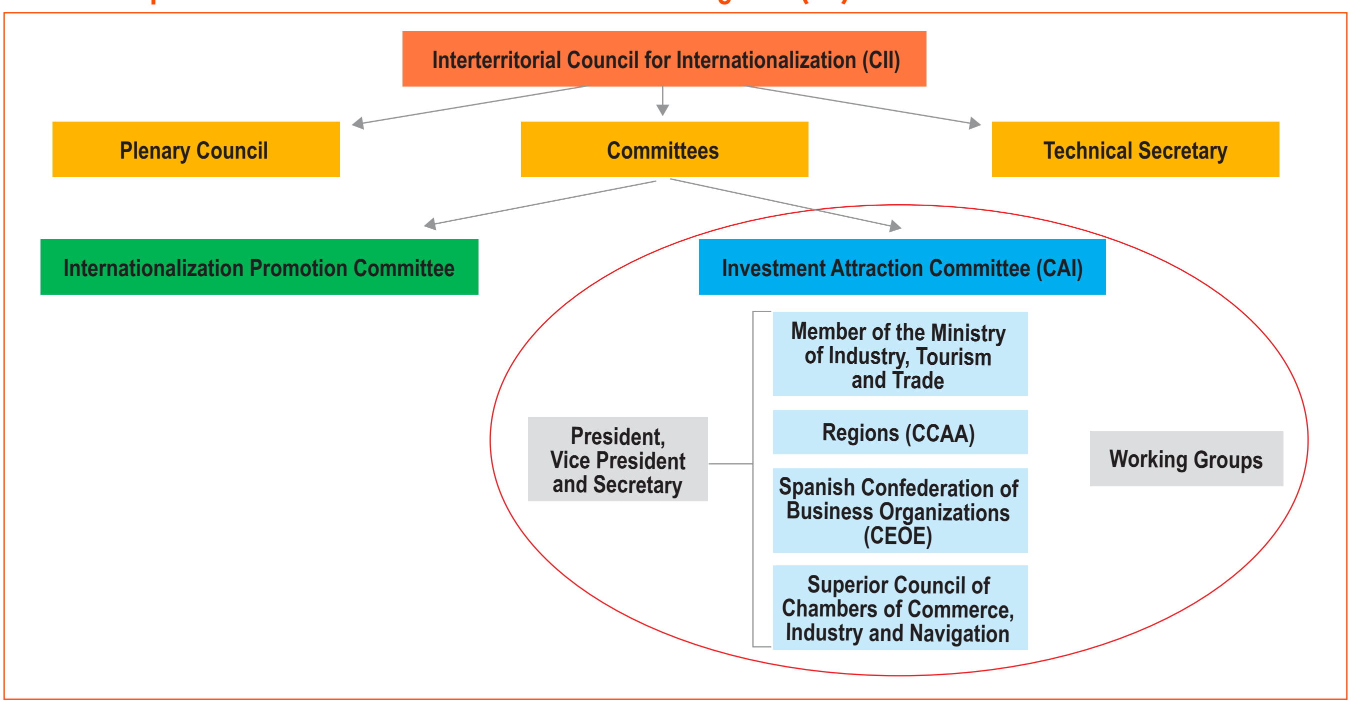
- Establishing a framework of permanent collaboration between actors driving internationalization that allows: (i) the use of economies of scale; (ii) the projection of Spain's image abroad, in order to minimize the costs of penetration into the international market.
- Advancing strategic collaboration, setting joint objectives and establishing policies and action plans to achieve them.
- Articulating collaboration in the promotion of goods, services and investments abroad.
- Promoting collaboration for the development of joint programs and activities, the design of shared promotion models, as well as the exchange of information on the respective policies and actions regarding the promotion of goods, services and investments abroad.
- Institutional cooperation in the area of FDI attraction, creating a forum for collaboration and participation for this purpose.
- Facilitating collaboration between the different institutional representations abroad (economic and commercial offices, representatives of the CCAAs and Cities, bilateral Chambers, and other relevant bodies).

The CII has two Committees, an Internationalization Promotion Committee[18] and an Investment Attraction Committee (CAI) (See Figure 6).

The CAI, exclusively focused on attracting investments to Spain, was created in 2006, with the aim of creating a framework for permanent inter-administrative collaboration. Today, the CAI plays primarily an executive role—the key to its success—and its members are mainly ICEX-Invest in Spain (which serves as permanent Secretariat), and the Investment Promotion Agencies of the CCAAs. All the Spanish CCAAs are represented,[19] participating actively in the meetings that take place every six months, each time in a different CCAA.

Over the years, the CAI has become the main channel of communication between the different administrations and the forum in which they discuss investment promotion issues in detail. Among the many aspects covered, joint pro-

FIGURE 6: Spain's Interterritorial Council for Internationalization (CII)



Source: ICEX-Invest in Spain.

17 http://www.investinspain.org/invest/en/regions/index.html.
18 This committee has the objective of promoting Spanish goods, services and investments in foreign markets.
19 Participating agencies are: IDEA/EXTENDA (Andalucía), AREX (Aragón), IDEPA (Asturias), IDI (Balearic Islands), PROEXCA (Canary Islands), SODERCAN (Cantabria), ADE (Castilla y León), IPEX (Castilla la Mancha), ACC1Ó (Catalonia), IVACE (Valencian Region), Invest in Extremadura (Extremadura), IGAPE (Galicia), ADER (La Rioja), Invest in Madrid (Madrid), INFO (Murcia), SODENA (Navarra) and SPRI (País Vasco).

motion activities abroad, technical workshops, business missions, improvements of the investment environment and the analysis of sectors hold prominent places. For example, in distant markets where some Spanish CCAAs are not very well-known, joint promotional actions have been carried out, which favors positioning strategies. This is the case for China, where joint initiatives have taken place to participate in the CIFIT (China International Fair for Investment & Trade), COFAIR (China Overseas Investment Fair) or CISMEF (China International Small and Medium Enterprises Fair). Further, other initiatives also involve national-subnational collaboration, such as in the promotional and information provision field (for example, ICEX-Invest in Spain created its Guide for State Incentives and State Aid, and its website includes relevant data and market intelligence on the different CCAAs). Additionally, two CAI working groups were launched in 2015: (i) good practices in attracting FDI, in which actors share experiences and lessons learned in the design and implementation of public programs and initiatives; and (ii) the automotive group; a sector of great importance to the Spanish economy, which is the second largest European vehicle manufacturer mainly due to the strong presence of foreign companies.

ICT coordination tools: *Interactua*

Coordination in the management of foreign investment projects involves action by both the national IPA and CCAAs' IPAs, as well as joint activities, for which communication and coordination mechanisms are needed. In order to create and enable these instruments, ICEX-Invest in Spain developed an ICT platform in 2007, Interactua. This platform, an innovative CRM-type software that integrates key stakeholders, has become a fundamental tool in the articulation of ICEX-Invest in Spain and CCAA IPAs interrelationships.

Interactua allows the joint management of numerous activities related to investment projects, the management of investment promotion activities, and the exchange of information (news, documentation or databases, among others). The most attractive functionality of this platform is a mechanism to announce foreign investors' expressions of interest to establish in Spain received by ICEX-Invest in Spain, and its subsequent dissemination through the platform between the CCAAs.

Interactua helps communicate and coordinate with the potential investment projects that come through ICEX-Invest in Spain, making the announcement of the potential investment project in Spain under the criteria of confidentiality with respect to the client and transparency with respect to the CCAAs, ensuring that the latter are all informed of the investment opportunities via this platform. Once the project information is received, the CCAAs can submit their proposals for attracting the foreign company by presenting their value propositions as potential locations for a specific investment project. They are the most knowledgeable when it comes to providing location- and locale-specific details of critical interest to foreign investors, such as physical location options, access to local talent or contact with local partners.

Interactua is therefore a good example of the necessary complementarity between administrations regarding service-provision to the foreign investor as well as the importance and advantages of collaborating with them to strengthen the overall location offering presented to the sought investor. Ultimately, Interactua generates value for the foreign investors, who may be naïve as to the differences between locations in-country, and at the same time strengthens fair competition between CCAAs, which have to put together strong and clear value propositions to win a project. ICEX-Invest in Spain acts as the primary gateway for many foreign investment projects into Spain and its intense promotional activity ends up generating leads that ultimately benefit the CCAAs, where the projects will eventually be established. Since the inception of the platform and until the end of 2019, a total of 695 projects have been managed through the platform.[21] See Box 2.

Complementary initiatives and instruments of collaboration between administrations: Subnational Doing Business, Barometer and European aid

In addition to the previous investment promotion efforts, several initiatives have been carried out between ICEX-Invest in Spain and the IPAs of the CCAAs in recent years. Acknowledging their important role in connecting investors and policymakers, two were in the field of knowledge generation and policy advocacy, which recent WBG research indicates is the service most valued by investors.[21] These initiatives are the Subnational Doing Business and Barometer. Further, the IPA contributes to the design, promotion and management of European aid (that is, the Smart Technology Fund).

- The Subnational Doing Business project was carried out in 2015,[22] with a great involvement and mobilization of actors by ICEX-Invest in Spain. Its objective was to carry out an analysis of the regulations of the Spanish CCAAs based on the Doing Business methodology of the World Bank.

- Over the last eleven years, ICEX-Invest in Spain, together with a Spanish business school and a business association,[23] have been conducting an annual survey of foreign companies in Spain. Their aim is to assess the business climate, identify existing strengths and weaknesses, and obtain investment and job creation prospects from multinationals. Further, ICEX-Invest in Spain works together with the CCAA of Andalusia for a specific subnational level exercise. A total of 120 foreign companies established in Andalusia are surveyed to identify those differential aspects that they consider positive, such as infrastructure, quality of life, human capital and market size, as well as relevant areas for improvement.

- ICEX-Invest in Spain manages European regional development aid for the establishment of foreign companies engaged in R&D activities in certain CCAAs. ICEX-Invest in Spain, through the design and management of the program,[24] channels European aid into CCAAs that, because of the special development needs of their territories, are eligible to receive assistance[25] from European Regional Development Funds (ERDF). These funds help strengthen and anchor the private sector to the territory, encourage the development of higher quality investments, and better position the CCAA in front of potential foreign investors.

20 Interactua has been recently integrated into a new Customer Relationship Manager (CRM) system. ICEX-Invest in Spain is working to ensure a smooth transition to this new tool to be able to provide all the services that were provided by the previous set up.
21 bid. no. 12
22 For additional information see: https://espanol.doingbusiness.org/en/reports/subnational-reports/spain
23 IESE Business School and the multinational business association “Marca España” participated in the last barometer. For more information see: https://multinacionalesmarcaespana.org/barometro-del-clima-de-negocios-en-espana-desde-la-perspectiva-del-inversor-extranjero-resultados-2019/
24 For additional details see: http://www.investinspain.org/invest/en/resources/information-services/erdf-funds-for-r-d/index.html
25 The financial aid is granted under co-financing and non-reimbursable grants up to EUR 200,000 per project.

BOX 2 - Cases of Cooperation between ICEX-Invest in Spain and CCAAs

Amazon Web Services (AWS): The US company, dedicated to providing cloud services for the Amazon group, and widely used by other important platforms such as Dropbox or Foursquare, contacted ICEX-Invest in Spain to explore the possibility of making a new investment in Spain to develop three new technological centers. With the various value propositions offered by the CCAAs received by Amazon through Interactua, the client analyzed which one would better satisfy the project needs and decided where to locate the project.

From there, an intense collaboration began between ICEX-Invest in Spain and the specific CCAA where Amazon finally decided to establish the project. In this case, the IPA worked together with the CCAA of Aragon and the Subnational IPA (Aragón Exterior) for three years while preparing the final package for the company, showing the benefits derived from complementarity between the IPAs. Some of these services and activities, which reflect joint accompaniment during the life of the project, were the provision of strategic advice and information on national state and regional regulations, incentives, plant location, land regulations, and access to different key players in the public and private sector. AWS' centers will be established in different locations of the Aragon CCAA in 2022, with an estimated investment of EUR 2.5 billion, generating 1,500 jobs.

Nokian Tyres: The Finnish company with over a century of experience in the tire manufacturing industry, met ICEX-Invest in Spain showing interest in opening an R&D center in Southern Europe. The company needed to find a well-connected location with warm temperatures for tire testing facilities. Again, the client made the localization decision based on the value propositions from the different CCAAs received through the Interactua platform. From this point, the collaboration for the development of the project started. ICEX-Invest in Spain and the CCAA, Castilla la Mancha in this case, worked together for the successful establishment of this leading company.

AOM and Genestore: The Argentine agricultural multinational AOM specialized in the production of plant phytosterols, chose the Valencian CCAA to enter the European market, establishing a new factory on a 30,000 m2 plot; the biotechnology Indian multinational Genestore, specialized in the application of large-scale genomic data, has recently established in the CCAA of Andalusia.

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4. Conclusions and Lessons Learned

The coexistence of national and subnational IPAs is very common in large and decentralized states. These two types of investment promotion bodies can support a country's overall FDI objectives and allow its territories to provide comprehensive services and specialized assistance to both prospective and existing investors. However, a model that ensures complementarity and coordination must be put in place.

The success of the Spanish model can be attributed to collaborations between key stakeholders in which each of them performs the role best suited to its expertise, and where there is alignment around the shared interest of attracting more and better FDI into the national territory. Maintaining the buy-in and shared vision of these national and subnational stakeholders was critical not only during the founding stage of Spanish investment promotion organizations, but also at each phase of the model's evolution. The importance of a stable, supportive stakeholder coalition should not be underestimated.

The collaboration between ICEX-Invest in Spain and CCAAs' IPAs on the investment promotion front is based on the advantages derived from opening coordination and communication channels in a highly decentralized State. The instruments described in this note were designed and implemented after different needs were identified and opportunities arose from the operational experience and daily work of different administrations. It therefore remains a work in progress, one in which Spanish administrations continually seek to increase the number of joint initiatives. This is particularly necessary in a rapidly evolving global economic and FDI environment, which requires great flexibility and innovation in the design and implementation of public initiatives to foster foreign investments.

Success in building a world-class national-subnational investment promotion model can be seen as a repeating cycle of four discrete elements:

1. The enabling legal, regulatory and institutional framework that allows the cooperation and mandates key stakeholders;
2. Building and maintenance of trust among a diverse range of relevant stakeholders;
3. Adherence to a set of design and management principles supported by specific tools and instruments (specialized committees, ICT tools, working groups) including governance, people and organization, administration, plan, design and funding; and
4. Results-focused execution that puts the principles into practice on a day-to-day basis and delivers superior results.

The professional capacity of government staff, including their ability to communicate national and subnational value propositions are very important for foreign investors. Governments' overall responsiveness to inquiries, and their knowledge of subnational offerings to match foreign firms' due diligence is key. An important element of location-choice decisions is the human-interaction dimension during the final stage of investor attraction as well as in the entry stage. The working relationships that investors develop with national and subnational officials are an essential part of providing the necessary verification and assurance that the foreign firm will be able to establish and operate successfully in the location.

The various initiatives described in this note have been very useful for Spain. The advantages of this model could be summarized as follows:

- Improved service delivery to foreign companies that are interested in investing in Spain throughout the entire lifecycle of the project.
- Introduced a more solid and attractive value proposition for Spain as a destination for FDI, supported both by a strong country-level offering and the diversity of the different territories within the country.
- Strengthened promotion and dissemination of the advantages of the different CCAAs for foreign investors through a variety of channels.

- Allowed the Spanish Administration to manage and channel European aid in favor of the CCAAs.
- Generated investment climate analysis tools and advocacy recommendations for the CCAAs.

Investors value national-subnational collaboration and partnership. Strategic partners and networks—such as national and subnational IPAs—are more than just data providers; they are ambassadors, facilitators and vital connectors. Best performing IPAs should always try to build effective relationships and networks that will eventually benefit international and domestic investors. International investors always highlight the importance of partnerships at the subnational level. It is this location specific "know-how" that can ultimately drive investors decisions.

Countries can extract useful lessons from the Spanish experience. First, the transparent exchange of information on new investment projects is very important, as this will generate greater business and market intelligence, as well as larger synergies, which will help optimize the value proposition to foreign investors. Second, the positive impact of greater levels of coordination in the field of advocacy. In contexts with highly decentralized administrations some of the key elements of the investment climate affecting foreign investors are managed by the subnational entities or even municipalities. In order to improve these processes it is important to increase the number of joint advocacy actions between national and regional administrations.

Finally, reinvestments are essential, particularly in light of COVID-19. According to UNCTAD, up to 60 percent of investment received is linked to a country's existing investment base. For this reason, considering the scenario that has arisen with COVID-19, which envisions a significant contraction of new investments, the expansion of activities by foreign companies already present in the country is key to achieve pre-pandemic FDI targets. In this sense, for better service provision and increased chances of reinvestment, a greater involvement of IPAs at both national and subnational levels in aftercare activities is key. It helps establish long-term engagements with foreign investors to foster reinvestment and linkages.

A high-level, four-phase framework for the evolution of national-subnational coordination models could be followed based on the Spanish experience. These phases are:

- **Pre-reform situation:** Often a fully or partially uncoordinated model that lacks a legal and institutional framework and has inefficient and ineffective administration.
- **Solid foundations for a model:** The founding stage of a new or reformed national-subnational investment promotion model can be the most critical. In this phase the legal and regulatory framework that will enable the existence of the model is set out. Consensus between stakeholders is built and an integrated approach to management and design, in which gradual progress is made in each of the key elements of running and overseeing the model, begins to be implemented.
- **Model with strong governance, mechanisms and operational tools:** Improvements in the legislative framework continue in parallel with the setting of specialized committees and the design of mechanisms and tools that will enable the model to be fully functional, effective and efficient.
- **Mature and sophisticated model:** Gradual progress has been made in each of the key elements of the model and it has reached a level of maturity and sophistication aligned with good practices. Reaching this stage does not mean that improvements are scarce or impossible. On the contrary, improvements at this stage will be key to the innovative solutions and ICT tools that will ensure and increase the efficiency of the model, taking into account challenges and opportunities ahead in the field of investment promotion.

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