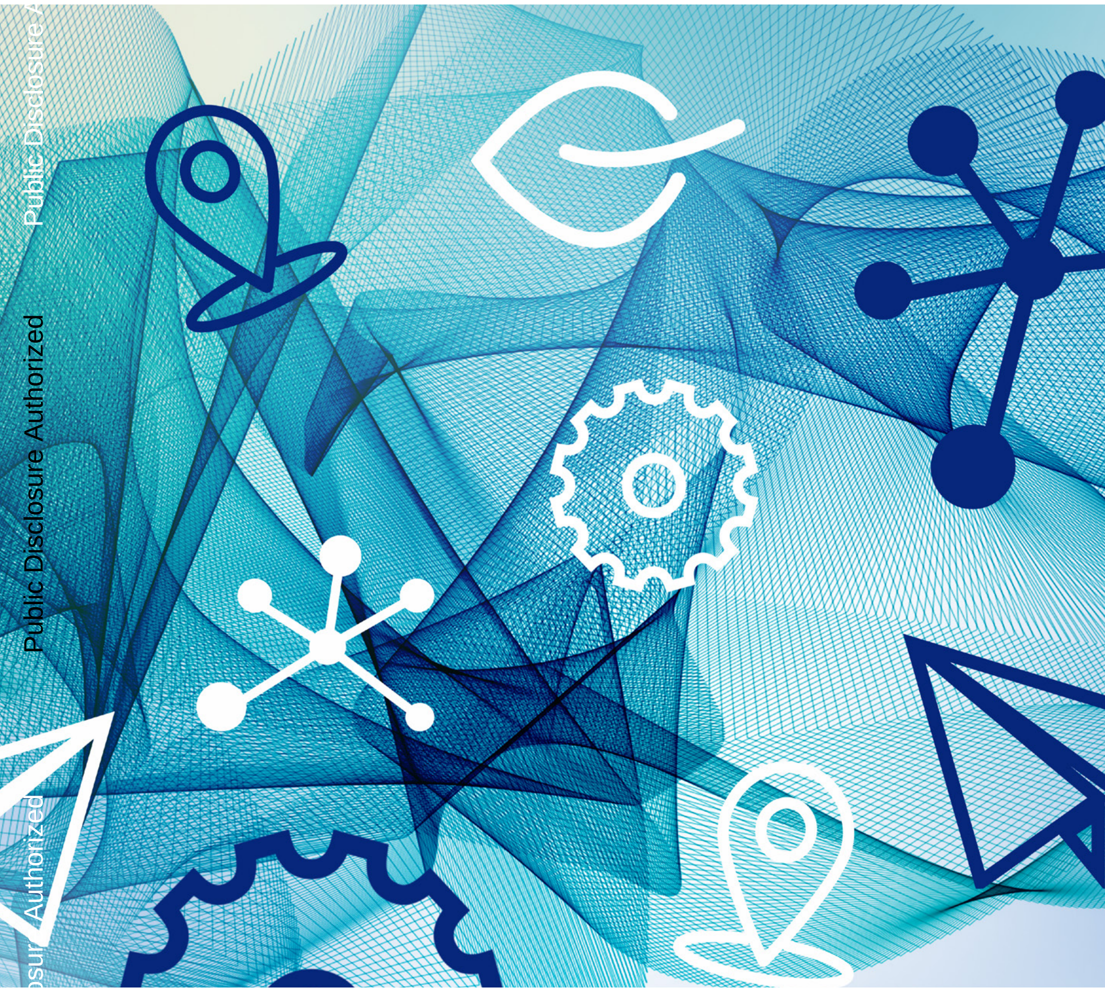
Investment Policy and Promotion Operational Guide



FINANCE COMPETITIVENESS & INNOVATION

INVESTMENT CLIMATE

WORLD BANK GROUP
Finance, Competitiveness & Innovation

Table of Contents

Table of Figures

Abstract

Foreign direct investment (FDI) provides benefits to host country firms and citizens by creating jobs, promoting technology transfer, and helping develop stronger linkages to global value chains (GVCs). Most countries around the world want to attract and retain FDI to complement domestic investment, to modernize or upgrade their economy, or to reach specific socio-economic objectives. Countries that plan to use FDI to meet these objectives must engage in an increasingly fierce competition to convince foreign investors to invest or to reinvest in their territory. Governments play a critical role in designing and implementing regulations and institutions that will help attract and establish private investment. However, many economies, particularly low- and middle-income economies, have not yet been able to fully harness their potential to attract, retain and link FDI with domestic firms to obtain its economic benefits and achieve their development objectives.

The World Bank Group Investment Climate Unit works to support countries in using FDI to achieve economic transformation and meet their development objectives. This guide thus explains how and why FDI should be leveraged for development and provides an overview of the Investment Climate Unit's key investment policy and promotion related analytical and implementation activities aimed at helping client countries provide support to investors around the investment project lifecycle, including investment attraction and promotion, entry and establishment, protection and retention, and linkages to domestic firms. It presents context and rationale for the support areas and provides an inventory of related knowledge products and publications.

Acknowledgements

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Introduction

Foreign direct investment (FDI) provides benefits to host country firms and citizens by creating jobs, promoting technology transfer, and helping develop stronger linkages to global value chains (GVCs). Most countries around the world want to attract and retain FDI to complement domestic investment, to modernize or upgrade their economy, or to reach specific socio-economic objectives (e.g., more jobs, upgraded skills, new technology, better integration into regional or global value chains, greater competitiveness, and others).

Countries that plan to use FDI to meet these objectives must engage in an increasingly fierce competition to convince foreign investors to invest or to reinvest in their territory. Governments play a critical role in designing and implementing regulations and institutions that will help attract and establish private investment. Many economies, particularly low- and middle-income economies, have not yet been able to fully harness their potential to attract, retain and link FDI with domestic firms to obtain the economic benefits and achieve their development objectives.

The global crisis stemming from the COVID-19 pandemic has exacerbated existing inequalities and it presents additional challenges for countries. Global foreign investment flows bounced back in 2021 after a 40 percent drop in 2020, but recovery has been uneven with flows to most developing countries remaining weak. Climate change and the pressing challenges posed by global warming highlight the importance of sustainable green growth. At the same time, digitalization and technology-related mega-trends are creating a new and shifting environment for the private sector and governments, which presents an opportunity for policymakers. Economic growth and recovery must prioritize sustainable, green private investment as a key dimension of competitiveness, address legal gender inequities to foster inclusion, and adapt for the unbound future of the digital economy along with its accompanying risks.

The World Bank Group Investment Climate Unit's Investment Policy and Promotion (IPP) team works with regional teams and client countries to take advantage of FDI to achieve economic transformation and reach development objectives. The team examines FDI performance and a country's existing policy framework for investment promotion, investor entry, investment related legal frameworks, investment incentives, and linkages of FDI with domestic firms to develop a strategy to attract and retain new sources of FDI. Since IPP is a component of investment climate, the IPP team coordinates closely with teams working on the environment for domestic investment and firms as well as those working on trade, markets, governance and the macroeconomic environment, among others.

Facilitating FDI attraction and retention is part of the broader World Bank Competitiveness, Jobs and Economic Transformation (CJET) Agenda as well as the framework for green, resilient, and inclusive development (GRID). Economic transformation is key to creating more and better jobs, with the private sector and FDI is often a critical engine of job creation. In addition, the Investment Climate Unit's diagnostics and implementation activities aim to equip client countries to be more resilient in the face of challenges such as the COVID-19 pandemic and recovery, affirming the importance of utilizing integrated GRID strategies to repair the structural damage caused by COVID-19, accelerate climate change mitigation and adaption, and underpin a robust and durable recovery.

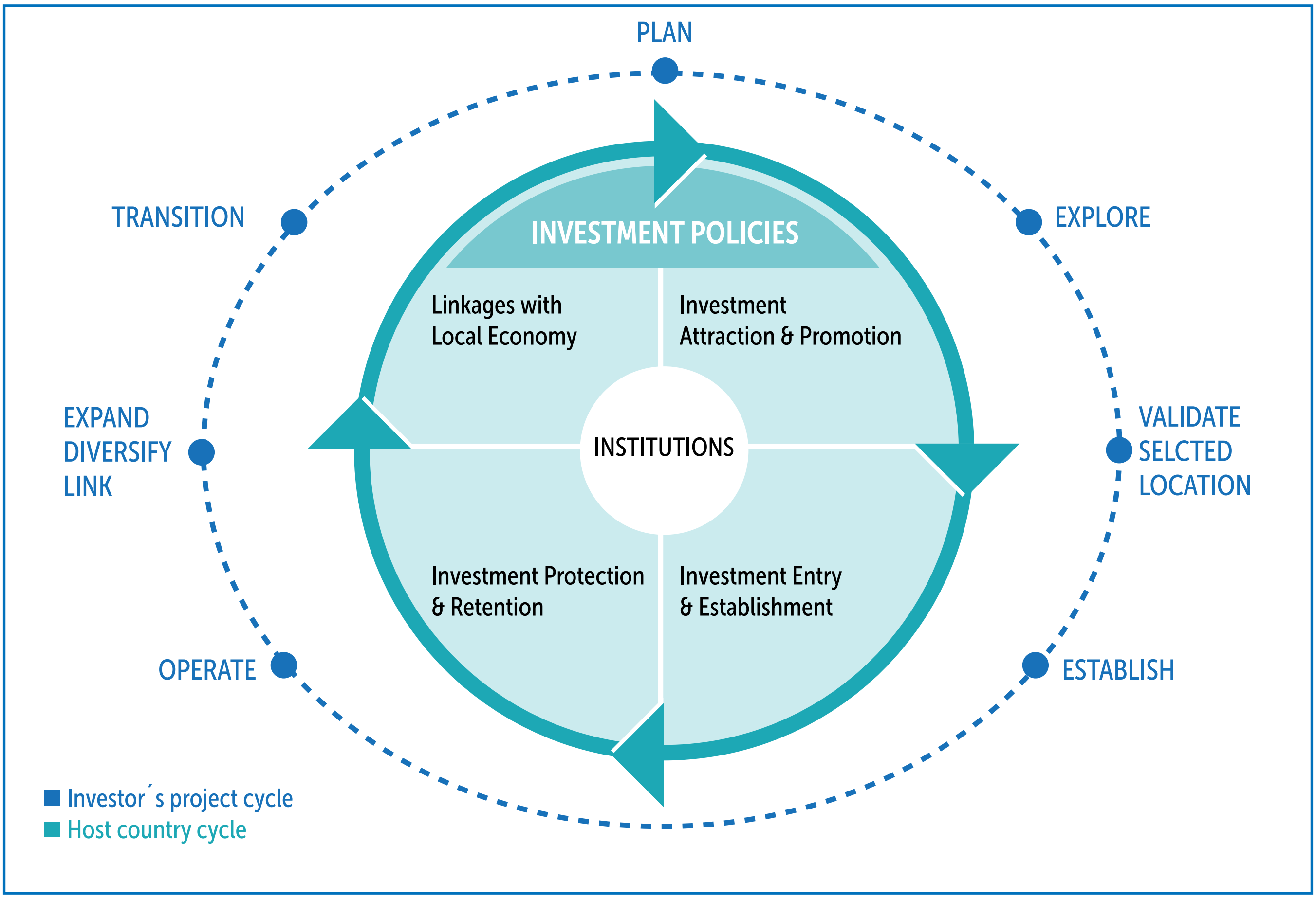
This guide introduces how FDI can be leveraged for development and provides an overview of the Investment Climate Unit's key investment policy and promotion analytical and implementation activities. These tools and approaches aim to support WBG regional teams and help client countries to provide support to investors throughout the investment lifecycle (see Figure 1). It presents context and rationale for the support areas and provides an inventory of related knowledge products and publications.

The Guide covers the following areas, which largely correspond to the investment lifecycle:

- Investment Reform Map (a diagnostic tool focused on the entire lifecycle)
- Investment Promotion
- Investment Entry
- Incentives
- Investment Protection
- Investment Retention
- Investor Grievance Management
- Linkages

Figure 1.

The Investment Lifecycle



Source: Author updated based on the World Bank 2019/2020 Global Investment Competitiveness Report

Each section provides an overview of the relevance of the implementation activities for client countries, a description of the support provided by the Investment Climate Unit, and country examples demonstrating the impact of IC Unit support.

The guide also highlights emerging trends in key cross-cutting areas of importance in investment climate and provides overviews of the IC Unit's analytical and implementation activities focused on these areas through topical boxes throughout the document. These topics include nearshoring, green growth, the WTO's trade facilitation agreement, and regional integration, particularly in the context of the African Continental Free Trade Area (AfCFTA), and are relevant to multiple areas of the investment lifecycle covered in this guide.

Leveraging FDI for development: Evidence, Trends and Policies[1]

Foreign Direct Investment (FDI) is of great significance for developing countries. Together with domestic investment, it can help raise capital, stimulate exports, and boost domestic firms' productivity. Nevertheless, FDI is distributed unequally across the world, with low-income countries lagging behind. The pandemic and recent shocks have further undermined global investment. Business regulatory reforms and investment promotion should be leveraged to harness the benefits of FDI for development. This requires dedicated policies that should be customized across countries, based on global value chain (GVC) characteristics and a country's level of income.

FDI is a major driver of development, and helps raise capital, stimulate exports, and boost productivity.

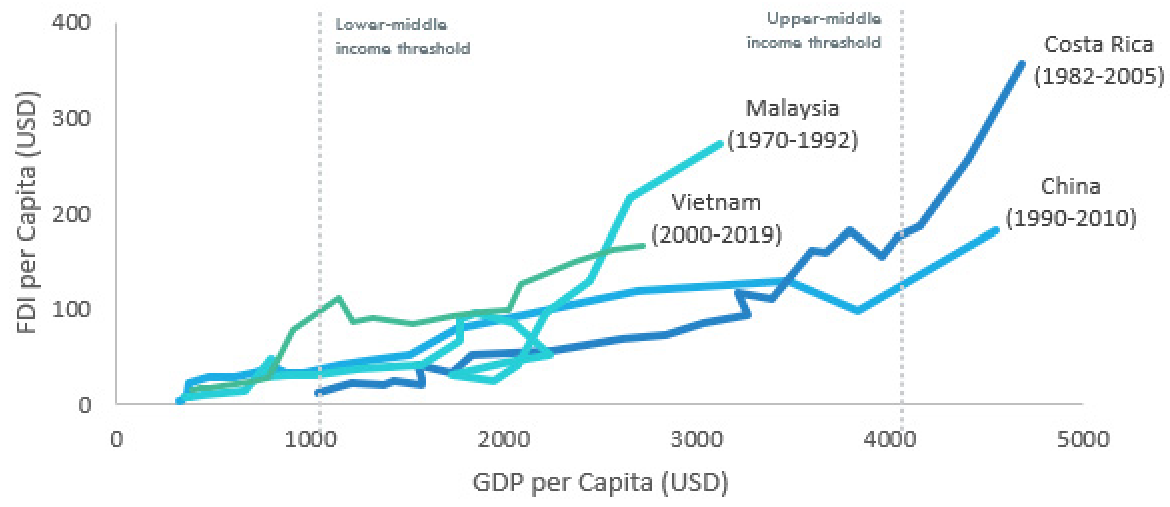
FDI has played a critical role in achieving rapid growth for select developing countries. There is a significant body of literature that confirms the close relationship between FDI and economic growth[2]. Much of this grew out of the positive experience that select East Asian countries had in the 1970s, 1980s and 1990s[3]. At the same time, it is understood that some countries, especially those that experienced colonization, have a negative perception in their collective memory of a foreign presence on their territory. Nevertheless, economic liberalization has been a significant predictor of sustained growth acceleration, partly by increasing investment and trade[4]. Figure 2 highlights the correlation in a few examples of countries of FDI per capita growth and broader economic growth and transformation. Key channels through which FDI contributes to development outcomes include:

- **Providing a source of capital.** FDI has been the largest capital flow to developing countries, exceeding both remittances and official development aid[5]. Inflows in low- and middle-income countries (LMICs) totaled US$503 billion in 2020.
- **Building connections to global markets.** Current GVCs have been largely shaped by the investment and relocation decisions of multinational corporations (MNCs), who, together with their affiliates, contribute up to two-thirds of global exports[6].
- **Catalyzing domestic productivity.** FDI creates new market opportunities for domestic firms and encourages firm upgrading through technology spillovers and the need to adhere with global product standards. FDI can increase domestic firms' productivity through demonstration effects, linkages effects, market reallocation, among other channels[7].
- **Creating jobs and lower consumer prices.** Employment opportunities in MNCs and linked firms create more and better-paid jobs[8]. Competition induced by FDI can lower consumer prices and improve household welfare[9].

1 This section was prepared by Victor Steenbergen, Yan Liu, Elwyn Davies and Priyanka Kher and has benefitted from review inputs from Ivan Nimac and Peter Kusek, ETIIC unit. It was prepared under the guidance of Asya Akhlaque (PM, ETIIC unit), and Mona Haddad, (Global Director, ETIDR).
2 Heimberger 2021
3 World Bank 1993
4 Hausmann, Pritchett and Rodrik 2005
5 World Bank 2019
6 Qiang, Liu & Steenbergen 2021
7 Javorcik 2004; Alfaro-Urena, Manelici and Vasquez 2019; Alfaro and Chen 2018; World Bank 2018
8 Dix-Carneiro & Kovak 2017; Atkin 2017
9 Atkin et al 2018

Figure 2.

Examples of FDI-driven growth: Malaysia, Vietnam, China and Costa Rica. FDI per capita and GDP per capita, selected countries and years.



Source: Authors' calculations using WDI. Note: FDI = Foreign Direct Investment. GDP = Gross Domestic Product.

Costa Rica provides a compelling example. By strategically using investment promotion and incentives to attract pioneer firms like Intel, Costa Rica attracted a robust inflow of FDI allowing the country to diversify exports in higher value-added commodities and knowledge-intensive services. Domestic firms in Costa Rica that started to supply to MNCs saw increases in productivity and subsequently also expanded sales to non-MNCs and expanded their workforce[10] .

However, not all forms of FDI contribute equally to growth and transformation. There are large differences in impacts across sectors[11]. For example, in Malaysia, FDI led to employment growth in export-oriented manufacturing and tradable services, but not in agriculture and mining. Another example of unproductive investment is "phantom" investment decoupled from real economic activities, such as special purpose entities (SPEs) set up by MNCs for purposes of tax minimization. Targeting the right type of FDI is crucial to harness its benefits for development. The benefits of FDI do not flow automatically but require a favorable policy environment, conducive legal and regulatory framework and capacitated implementing institutions, as set out further in this guide.

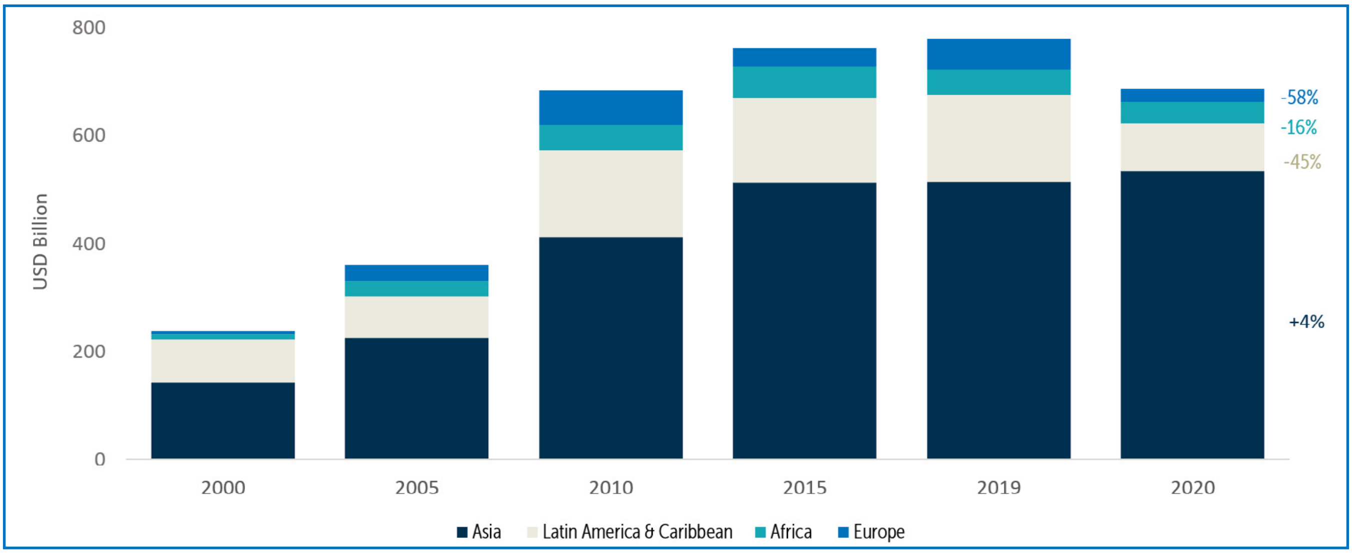
FDI is distributed unequally, with low-income countries lagging behind and COVID-19 suppressing global investment even further.

There is considerable scope for increasing FDI in low-income countries (LICs) in the aftermath of the pandemic. Not all countries benefit equally from FDI. Most FDI is directed towards Asia, with little flowing to Africa (Figure 3). Total FDI inflows to low-income countries remain small ($13 billion in 2020). The pandemic has suppressed this even further. Investment projections suggest that aggregate (private and public) investment will be 4 percent below pre-pandemic trends by the end of 2023[12] . This is also reflected in global FDI, which has decreased, with the exception of Asia

10 Alfaro-Ureña et al 2019
11 Alfaro and Charlton 2007
12 World Bank 2022

Figure 3

FDI in developing countries concentrates on Asia, and outside of Asia has seen a decline during the pandemic. FDI inflows by region in USD billion, developing countries only, 2000-2020.



Source: Authors' estimates using UNCTAD data. Percentages indicate changes during the initial year of the pandemic.

To attract and leverage FDI for development, an enabling business environment supplemented with dedicated FDI policies is essential.

Harnessing FDI requires a coordinated approach to strengthen the business environment supplemented by dedicated policies. While geography, endowments and economic fundamentals remain primary determinants of a country's ability to attract FDI, governments can play a key role in unleashing the potential of FDI by creating an enabling business environment and engaging in active investment promotion, especially in sectors that contribute more to job creation, GVC participation, and growth in their country.

A transparent and balanced regulatory environment is crucial to attract and retain foreign investment. The provision of legal protections (against expropriation, arbitrary and unpredictable government conduct, and breach of contract), honoring of property rights; and predictability of laws, regulations, and policies significantly affect a country's investment attractiveness[13] . A 2019 World Bank survey of 2,400 foreign investors found that an enabling regulatory environment is the top consideration for global investors. Nine out of ten respondents rated legal and regulatory environment, political stability and macroeconomic stability as "important" or "critically important", ahead of other considerations such as low tax rates, low labor and input costs, and access to resource endowments[14] .

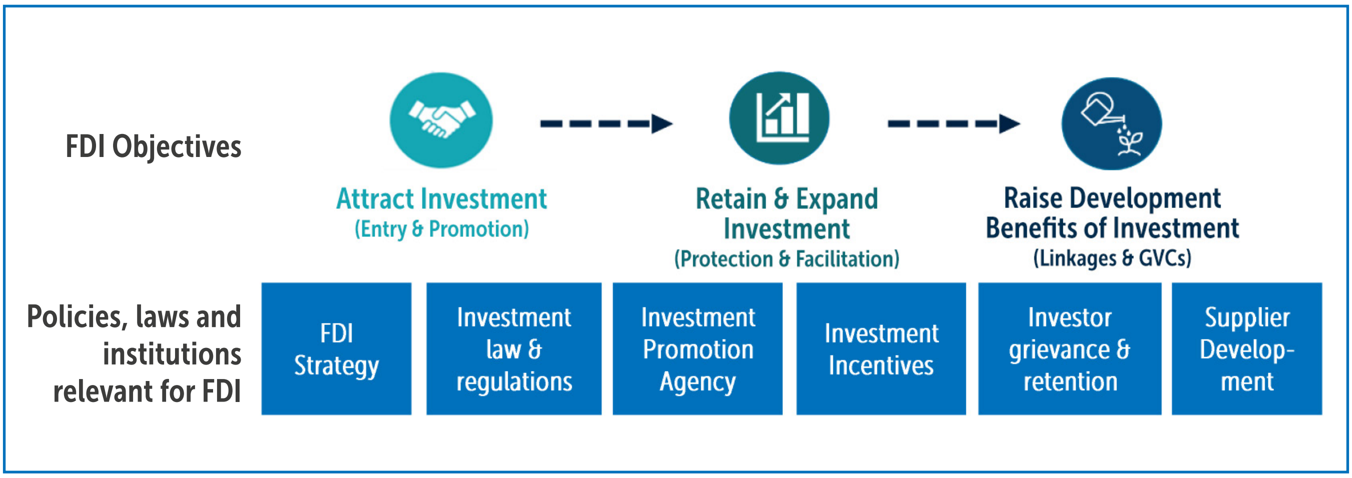
Compared to trade, FDI faces an even more dispersed international regulatory framework. Investment, like trade, is governed by a plethora of regulatory instruments both at the national and international levels. For trade, the WTO provides a strong international legal framework influencing domestic rules, but FDI is governed by a patchwork of international investment agreements (IIAs), exacerbating challenges around coherence, compliance and harmonization. Domestic restrictions, such as foreign equity ceilings, screening mechanisms, or restrictions on expatriate managerial personnel, play a large role suppressing inflows[15].

13 Hebous, Kher and Tran 2020; Akhtaruzzaman, Berg and Hajzler 2017; Azzimonti 2018
14 World Bank 2021
15 Mistura & Roulet 2019

In addition, the specific nature of FDI may require dedicated policies to attract high-value FDI and link it to the wider economy. The cross-border nature of FDI means that the constraints differ slightly from domestic investment, requiring a dedicated approach to reform regulations to address specific market failures that hold back investment[16]. Policy actions could include providing better information to MNCs through *investment promotion agencies*, compensating for positive externalities associated with R&D through *investment incentives,* or helping tackle coordination problems between MNCs and domestic firms through *supplier development* initiatives. An FDI strategy can ensure coherence of these initiatives within a government's wider economic policy framework (Figure 4).

Figure 4.

Major policies, laws and institutions relevant for FDI



Source: World Bank Investment Climate Unit.

While some policy makers may see facilitating domestic and foreign investment as an 'either/or" proposition, it is the connection between foreign and domestic firms that can bring most benefits to the local economy.

Reformer countries that managed to increase investment despite the crisis have demonstrated that FDI can assist with a rapid recovery from COVID-19.

A few reformer countries were able to continue to increase FDI despite the COVID-19 pandemic. Building on the momentum of past policy reforms, a few countries were able to attract FDI when others could not. This illustrates g the potential of policy reforms to increase investment:

- **India** started actively courting foreign investors in the 2010s by launching a new Investment Promotion Agency (IPA), signing various bilateral investment treaties (BITs), and adopting major investment climate reforms. In the wake of the COVID-19 pandemic, India undertook several ambitious structural reforms including enacting new labor codes, reforming the agricultural sector and liberalizing the insurance sector to foreign owners. Together, these actions helped increase FDI inflows by 27% in 2020, against a global drop of 35 percent[17].

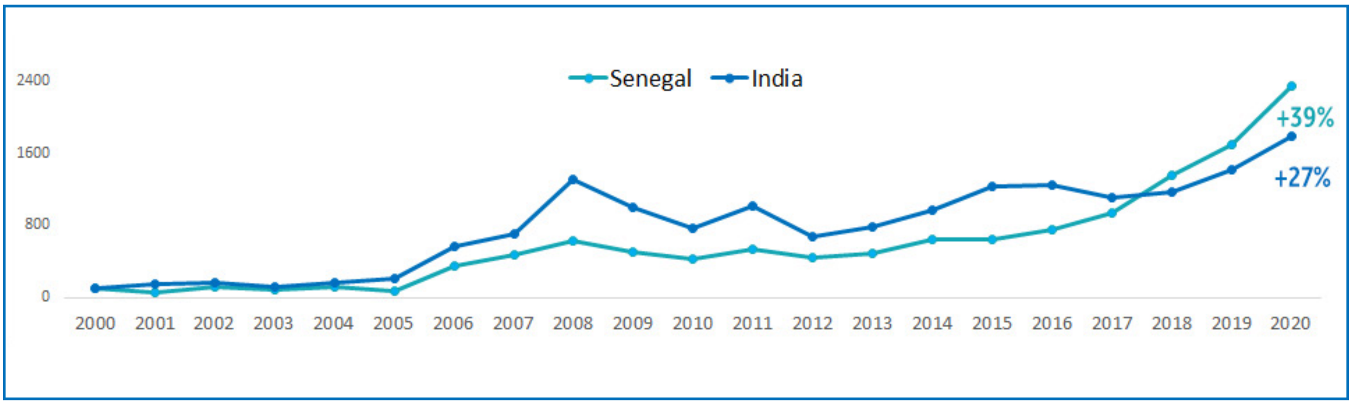
16 Stiglitz and Norman 2015
17 Phillips et al 2021; Figure 5

- **Senegal** adopted an ambitious development program in 2012, the Plan Senegal Emergent ("PSE"), which helped attract FDI by removing foreign investment barriers, improving infrastructure, and by reducing regulatory hurdles. Special Economic Zones and IPA facilitation have further helped increase foreign investment in the manufacturing sector. All this led to sustained growth in output and investment that persisted into the pandemic, when FDI increased by 39% in 2020 (USDS, 2020; Figure 5).

Figure 5.

India and Senegal increased their FDI inflows in 2020, despite the pandemic.

(FDI inflows for Senegal and India, Index. 2000 = 100)



Source: Authors' estimates using UNCTAD data.

Policymakers should take into account trends such as the increase of non-equity modes (NEMs) of production by MNCs and the rise of services FDI.

Global expansion for MNCs is happening increasingly through non-equity modes (NEMs) rather than traditional FDI. NEMs are contractual agreements, such as licensing, franchising, or management contracts. Unlike traditional FDI, they do not entail equity ownership. NEMs have driven much of the expansion of international production since 2010. Compared with FDI, NEMs have lower up-front capital requirements, less exposure to risk, and greater flexibility to adapt to change. NEMs can be an important vehicle for technology transfer, job creation and improved product or process standards. There are nevertheless concerns that NEMs are less permanent and they tend to be tied to lower-value-added segments of the economy. Taking advantage of NEMs requires a strong regulatory environment pertaining to intellectual property, repatriation and contract enforcement. It also requires the right domestic partners with the capability to engage in such contracts.

FDI in services offers new opportunities, but the sector remains significantly restricted. FDI in global innovator services, such as ICT, professional and financial services, has been outpacing FDI in manufacturing in many countries. FDI is one of the most prominent forms through which trade in services occurs ("mode 3" under the GATS framework), but it remains often quite restricted as shown by OECD, World Bank, and WTO Services Trade Restrictiveness Indices[18]. Removing services restrictions remains an area with a scope for major policy reform.

18 Borchert et al. 2019

FDI policies should be customized to each country. GVC characteristics and a country's level of income can help design the approach.

While there is no blueprint, the characteristics of specific GVCs as well as a country's income level can offer guidance for suitable approaches to leveraging FDI. Successfully attracting and leveraging FDI for growth, exports, and productivity, requires a long-term coordinated approach tailored to the specific needs of the country, types of firms, and relevant value chains. For example, for simpler GVCs where inputs can be supplied at arm's length, it might be more effective to focus on strengthening MNC-supplier linkages. In GVCs that are dominated by a few global firms, targeted investment promotion may be more influential. For LICs, policy should focus on first principle reforms – specifically, simple reforms to enable entry of new investment, retention and expansion of existing investment and overall improvements in transparency.

The World Bank's Global Investment Climate Unit supports country teams to identify and expand opportunities for productive and growth oriented FDI. Through leveraging data, analytics, and operational support, the unit can help partner countries expand investment for development. This includes support on FDI, but also extends to broader issues of business regulation and firm dynamics. The team has supported World Bank and IFC projects in over 100 countries.

Investment Diagnostic and Reform Map

Diagnostic Overview

The investment reform map (IRM) is an investment diagnostic and client engagement tool designed to assist World Bank Group teams and client governments in assessing a country's investment performance and identifying actionable reform measures to increase investment competitiveness.

As an investment diagnostic, the IRM leverages investment-related data and tools to clarify the current positioning of an economy for international investors and to understand factors contributing to economic growth, participation in GVCs, and opportunities for knowledge transfer, job creation and other economic and social benefits for FDI.

As a client engagement tool, the IRM includes a consultative process involving high-level policymakers and investors aimed at defining the focus for investment policy reform and signaling to current and potential investors the government's commitment to those reforms. These processes are a necessary precondition for reaching consensus and ensuring the successful subsequent reform implementation by the government.

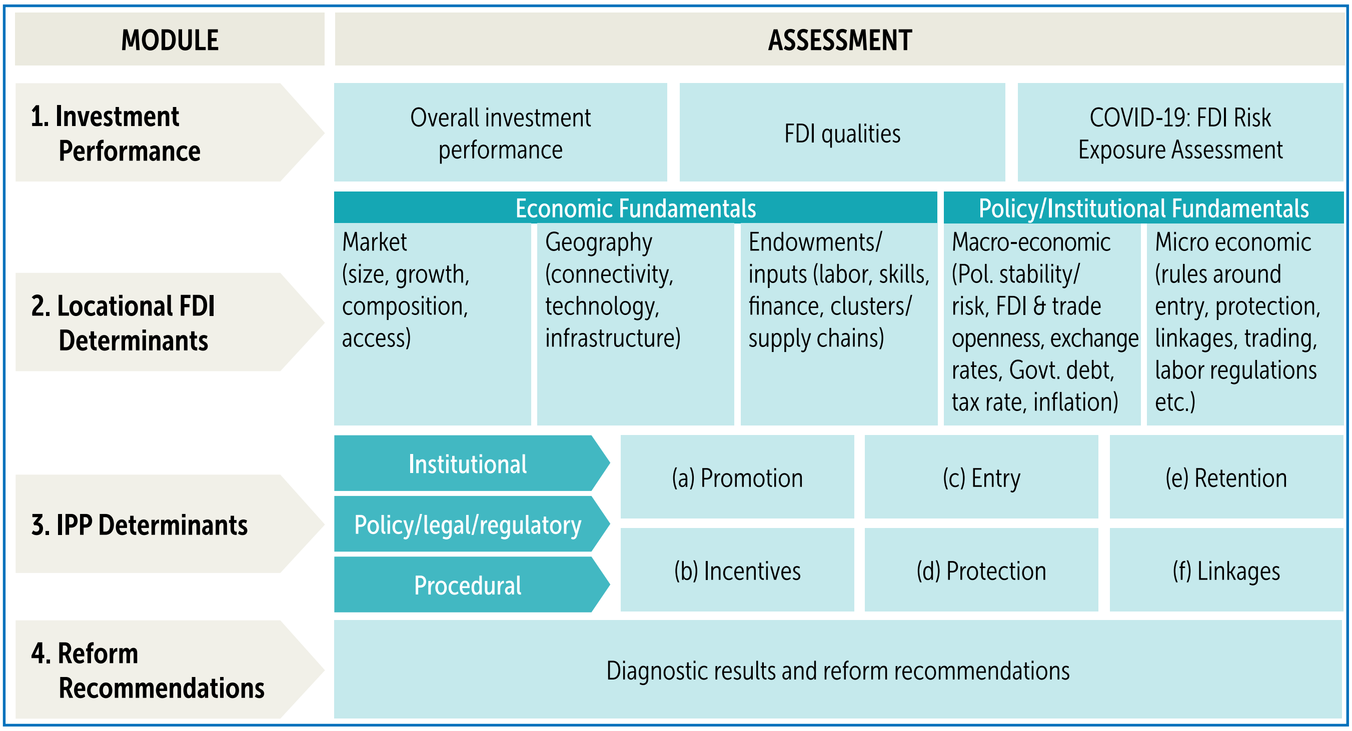
Analytical framework

Understanding a country's investment performance can be a complex and lengthy task. Investment comes in many forms that can contribute to economic and social development. Moreover, investment data is often scarce and outdated. The IRM provides a pathway for undertaking a comprehensive, yet effective investment diagnostic. It provides multiple avenues for examining FDI performance to counter potential country-level data limitations and it allows for the identification of policy reforms linked to specific objectives. It is composed of four data-driven modules focused on answering key questions related to a country's investment performance and reform priorities in the context of international good practice and country peers:

- **Module 1 - Investment performance:** What is the country's overall investment performance including public and private, and foreign and domestic investment? What are the contributions and characteristics of FDI in relation to economic growth, GVC participation, job creation and other outcomes? How vulnerable is an economy's FDI performance to the impact of COVID-19?
- **Module 2 - FDI locational determinants:** How does the country compare with peers on key economic and policy indicators? What factors contributed to FDI attraction to date, and what are the most likely macro- and microeconomic policy constraints that limit FDI potential and benefits?
- **Module 3 - Investment policy and promotion (IPP) determinants:** How does the country compare with international best practice on conditions for investment promotion, entry, incentives, protection, and linkages? What are the key institutional, legal, and administrative constraints to FDI in these areas?
- **Module 4 - Reform recommendations:** What are the high-priority reforms to unlock investment after COVID-19 in the short-term and promote implementation of the GRID framework over the longer term, and what other structural constraints are required to fully unleash the development potential of FDI?

Figure 6.

Analytical framework



Data sources & tools

The IRM applies a range of country-, sector- and firm-level data sources related to investment stocks and flows, as well as the contributions of investment to other outcomes such as GDP, development finance, imports and exports, GVC participation, productivity, employment and others. Modules 1 and 2 leverage Investment Climate diagnostic tools, and module 3 applies best practice policy checklists to benchmark an economy's position along economic, policy, regulatory and institutional parameters**.** The analytical framework can be applied at the national and regional level, and at an economy-wide or sector-level.

IRM process & outputs

There are three stages involved in developing an IRM – initial analysis, consultations, and finalization of outputs. Given the cross-cutting nature of investment reforms, it is good practice that an IRM embeds a high-level multi-stakeholder consultative process led by an interdepartmental committee as well as capacity building support on investment topics by the WBG.[19] The scope of consultation processes is contingent on research questions and available resources.

IRMs can consist of one or more modules and take the form of rapid or in-depth investment diagnostics for World Bank Group documents or publications, standalone chapters and background papers for country diagnostics (e.g. country economic memoranda (CEMs), country private sector diagnostics (CPSDs), systematic country diagnostics (SCDs), growth studies, etc.), lending and advisory operations, and fully-fledged technical notes and investment reports feeding into Governments' national investment policies, strategic documents and reform programs. An IRM is typically followed by a lending operation or technical assistance program designed to support reform implementation.

19 Typically, a relevant investment and economic agency, such as the ministry in charge of investment, industry, economy and/or trade, leads the process and engages a wide range of stakeholders who commit to reform implementation.

Country Examples of IRM Work

Moldova Country Economic Memorandum – Rekindling Economic Dynamism – Investment Chapter (2019)[20]

The challenge: The CEM identified decelerating total factor productivity growth as a key challenge for sustained economic growth. Within-sector productivity growth was found to be particularly slow. With less productive firms, Moldova found itself less able to compete in foreign export markets. The first priority for policymakers was therefore to change industrial organization – diminish the role of less productive state-owned enterprises (SOEs), and increase the role of more productive private companies, especially FDI.

Why promoting FDI? The IRM found that foreign firms have productivity levels more than 80 percent greater than SOEs. Foreign firms accounted for a substantial share of jobs and exports, and FDI spent more on R&D and employee training, thereby offering opportunities for labor force upgrading. Yet, Moldova's overall FDI performance had stagnated in recent years and showed significant potential for improvement when compared to peers. The IRM also identified a challenge in forging FDI linkages, with 90 percent of all production inputs imported, and locally sourced inputs including only basic goods and services.

What should policymakers do? The IRM found that increasing the role of FDI would help raise productivity levels in the economy, as foreign firms were found to be more productive. They also bring with them access to foreign markets and more advanced technology, and they elevate the pace of productivity gains in the economy. The IRM identified five reform areas: (1) Develop a more robust strategy to attract more FDI including through expanding the privatization initiative already underway. (2) Upgrade its investment promotion office, which was understaffed and underutilized by FDI. (3) Evaluate and adjust tax incentives to increase their effectiveness. (4) Strengthen investor protections by reducing opportunities for corruption and sudden regulatory changes that discouraged many investors and resulted in disputes. (5) Develop sophisticated supplier development programs to link up Moldovan enterprises with foreign companies, particularly exporters and firms in the SEZs. Policies such as these could rekindle investor interest and result in FDI led private sector growth as well as informed lending and technical assistance operations in Moldova.

Albania Country Economic Memorandum - Strengthening the Sustainability of Albania's Growth Model (2021)

The challenge: Firm productivity was identified as key driver for creating more and better job opportunities for all Albanians. Much of Albania's recent economic expansion has occurred in relatively low-productivity and low-pay sectors such as basic manufacturing and small-scale tourism. Higher productivity would encourage firms to increase hiring, compete for workers, and raise labor compensation. This would in turn create more and better job opportunities for all Albanians.

The role of FDI: Given its small domestic market, integration into the global economy— through both increased trade and FDI—is crucial for Albania. Access to international markets can unlock economies of scale in production, increase access to global know-how and finance, and spur market competition. When coupled with smart private and public investments, deeper integration into the global economy could enable Albania to build a more internationally competitive economy. While Albania had attracted significant FDI flows in recent years, these were concentrated mainly in large utilities and mining projects, providing little spillovers and benefits to the domestic economy. There is opportunity to expand FDI in manufacturing and services, which could stimulate GVC integration and upgrading

20 Source: Moldova-Rekindling Economic Dynamism (2019)

Policy recommendations: In response to the COVID-19 crisis, MNCs are revisiting their supply chain arrangements, which could represent an opportunity for Albania to attract some of these 'nearshoring' investments aimed at integrating with European value chains. To take advantage of changes in global supply chains, Albania needs to adopt further reforms aimed at attracting and retaining FDI. The main reform areas identified through the IRM to achieve this objective include: (1) Focus on emerging sectors and segments from the COVID-19 pandemic for increased FDI attraction – review current sector priorities for promotion and focus targeted attraction efforts on identified sectors; (2) Scale up existing investor outreach and expansion programs – strengthen the IPA, focus its mandate and ensure adequate resources; (3) Leverage technology and digital solutions for FDI attraction and providing better investor services – expand online platform for investor services, leverage social media and digital platforms for outreach; (4) Strengthen the legal basis for investment – Modernize investment legislation and international investment agreements, and enhance implementation through an effective investor grievance mechanism.

Knowledge Management and Tools

- Investment Reform Map 2.0 (IRM)– Finalized new template for the IPP product's basic analytical tool, in order to provide a modularized, cascading set of analytical tools on FDI for projects. It will also lead to more comparable and standardized data for reform implementation. This work will be piloted in advisory projects in the coming period.
- Publication on Maximizing the potential benefits of FDI for competitiveness and sustainable development: World Bank Group report on investment policy and promotion diagnostics and tools (2017)

Topic in Focus

Assessing and Leveraging Nearshoring Opportunities for FDI Attraction

The COVID-19 pandemic has accelerated pre-existing trends that have been causing the reconfiguration of global value chains (GVCs) and affecting the behavior of FDI, including trends of nearshoring investment. Recent investor perception data indicate that the disruptions to global supply chains and production networks caused by COVID have contributed to nearshoring trends, with unprecedented delays in global shipping, increasing labor costs in East Asia, and changes in production technologies also playing a contributory role. Multinational firms may seek to regionalize production to lower costs, reduce supply chain risks, decrease their dependence upon single locations for production, and make their global value chains more resistant to external shocks.

Initial findings from the IC Unit's 2022 Multinational Enterprise (MNE) Pulse survey, which collects insights from a sample of over 700 MNEs, show that investors perceive the reliability of global supply chains to have worsened in their post-COVID recovery, with over 60 percent of respondents having reported increases in supply chain lead time and over 40 percent having experienced supply-chain interruptions. Around half of respondents expect changes in investment in their host country in the coming year, with around one-third citing nearshoring as the reason for such changes.[21] Evidence from other business surveys show more nuanced potential for nearshoring, with some pointing to limited evidence of significant changes to GVCs,[22] while others still find significant potential.[23] It's important to understand that at present the available data is based upon perception surveys.

Support to Governments

The IC Unit is providing just-in-time advice in support of regional teams and client countries in assessing the potential for attracting and leveraging nearshoring FDI. Such assessments utilize FDI and GVC trend data, including trade and FDI statistics, competitive sector benchmarking and investor surveys, to help identify nearshoring opportunities. Once potential priority sectors are identified, support with targeted investment promotion plays a key role in operationalizing the results of such assessments. For example, in the Dominican Republic, the Unit has supported the region with the development of a comparative study to determine which manufacturing sectors could present the greatest potential to take advantage of nearshoring trends. The analysis examined the potential for FDI attraction by sector taking into consideration relevant trends in trade patterns and exports as well as factors that affect trade flows (e.g., trade preferences) to better understand the revealed comparative advantage of the sectors analyzed.

21 World Bank 2022 (Forthcoming). MNE Pulse Survey, Round 7.
22 https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/attractiveness/ey-europe-attractiveness-survey-2021-hr-v1.pdf
23 AHK World Business Outlook, Spring 2021. Survey by the Network of German Chambers of Commerce Abroad

Investment Promotion

Rationale and Context

The success of investment promotion endeavors rests substantially on the strength of a country's value proposition. The value proposition is in part a function of a country's investment ecosystem, which includes related policies, discussed in subsequent sections. Investment Promotion (IP) is a key activity and Investment Promotion Agencies (IPAs) are a key instrument used by governments to achieve their goals of attracting, retaining and expanding FDI. IPAs provide a wide range of services to investors and, being at the forefront of the investor relationship, they can become an effective connector between investors and governments and influence the continuous improvement of their location's investment competitiveness. The literature also supports the importance of investment promotion to boost FDI inflows. Studies show that well-organized IPAs and targeted investment promotion efforts correlate with higher levels of FDI.

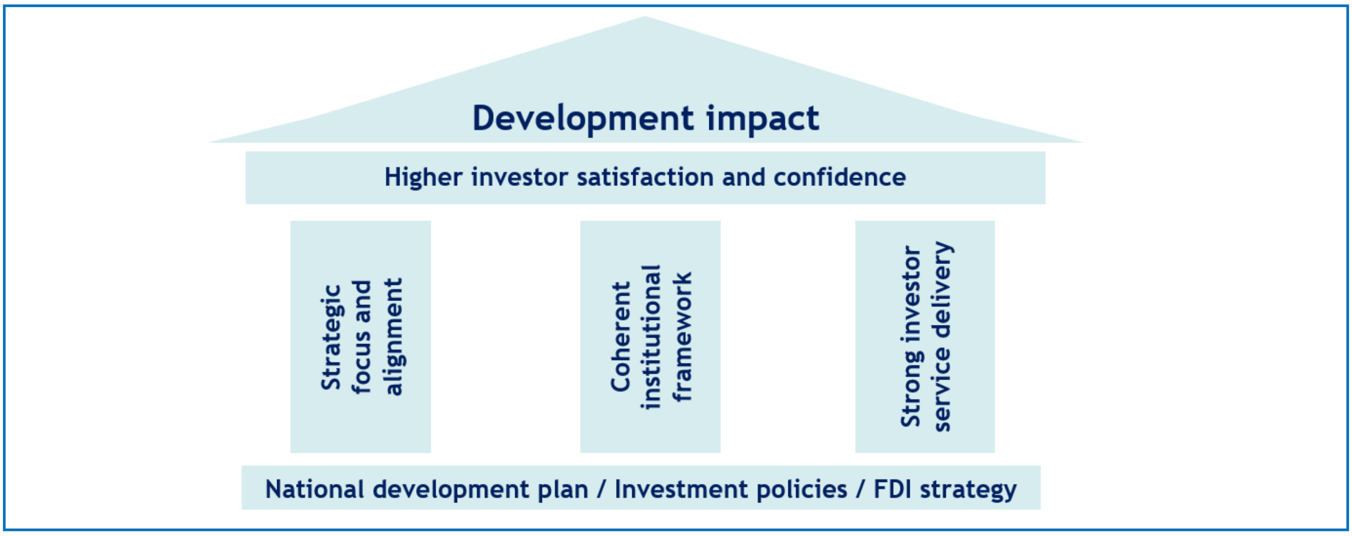
The investment promotion theory of change (Annex 1) demonstrates a clear link to the CJET agenda. The impact of IP assistance includes increased investment generated and retained which supports economic transformation, as well as direct contributions to job creation and retention. IP plays a key role in the COVID-19 context by helping to retain FDI, and investors in general, while also reviewing the location's strategy and value proposition to reflect market signals and changing investor preferences, advocating for needed reforms, and continuing to promote and attract new investors in dynamic segments. These efforts are also supportive of the GRID framework, as they prioritize supporting viable firms and retaining and expanding private investment.

Implementation Activities

Investment promotion implementation activities provide support to client governments to organize their investment promotion efforts to maximize FDI attraction. figurepillars: strategic focus, institutional framework, and service delivery (Figure 7).

Figure 7.

WBG three pillars for effective investment promotion



Source: Global Investment Competitiveness Report 2019/2020, World Bank Group

Pillar 1: Sharpening the strategic focus and alignment. The IC Unit works with regional teams to help governments design or upgrade their strategies to attract, retain, and grow investment, cascading from the national development strategy to an FDI strategy, to the corporate strategy or plan of the location's IPA. Then, more specific outreach or aftercare strategies may follow. This pillar has become critical for accelerating economic recovery.

Pillar 2: Building a coherent institutional framework. The IC Unit helps governments establish or strengthen their institutional arrangements for investment promotion, including reviewing the legal charter to create or revamp the location's IPA, reinforcing its organizational structure and institutional capacities, and building institutional collaboration mechanisms.

Pillar 3: Strengthening investor services delivery. The IC Unit works in collaboration with regional teams to guide client national and subnational IPAs to deliver effective marketing, information, assistance and advocacy services throughout the four stages of the investment cycle following the framework introduced within the Comprehensive Investor Services Framework (CISF). The work includes specific capacity building to establish systems and train staff on online information, inquiry handling, site visit assistance, competitive value propositions, outreach campaigns, networking, aftercare and advocacy services, investor follow up, and partnerships.

These efforts improve the investment ecosystem, making the location more competitive for FDI, increasing investment project numbers, and ultimately increasing investment generated and creating more and better jobs. Investment Promotion-related diagnostics and assistance provide support to assess countries' institutional frameworks for investment and investor service delivery. They guide development of a reform agenda and road map to improve outcomes and impacts. In most projects, the IC Unit also supports regional teams in advising client countries and providing implementation support and financing under WBG lending projects. Examples of the types of tools and mechanisms for IP assistance include:

i **Diagnostic tools.** Offering rapid diagnostics leading to practical recommendations and action plans.

   a. Institutional assessments of the effectiveness and capacity of the client's institutional framework for investment promotion, which provides detailed recommendations for enhanced performance.

   b. FDI Competitiveness Sector Scans that use investment promotion expertise combined with sector specialists to identify readiest sectors for proactive FDI promotion, an action plan for promotion, and a list of improvements and reforms needed to increase sector attractiveness.

ii **Peer-to-peer learning.** The IC Unit's global knowledge and wide network of investment promotion intermediaries across the world offers significant opportunities for peer-to-peer learning in the form of focused workshops and conferences, benchmark studies, and learning visits.

iii **Implementation Support and Technical Assistance.** The IC Unit supports regional teams in providing assistance to client governments to establish and improve their investment promotion competitiveness according to the three pillars described above.

Investment Promotion Theory of Change

Challenges

- Information asymmetries affecting investors, locations and institutions
- Inexistent/ poor investor services
- Weak/low institutional capacity
- Institutional coordination failures
- Strategic void/ misalignment

Outputs

- Investor surveys
- Assessment reports
- Sectoral reports
- Investor services (CISF) recommendations
- FDI, Inv. Promotion, IPA & sectoral strategies
- IPA law/regulations
- IPA organizational structure
- Institutional framework set-up
- Institutional coordination recommendations
- Systems support: M&E/KPIs, SOP, IIS, IRMS/CRM, Website, promotion materials
- Capacity building
- Technical and P2P exchange to support implementation

Outcomes

REFORM 1. CREATED/ STRENGTHENED IPA/IPI OR INSTITUTIONAL FRAMEWORK:

- Clear mandate for investment promotion
- Autonomy and strong governance arrangements
- Adequate financial and human resources
- Best-practice, investor-centric procedures, systems and tools (M&E/ KPIs, SOP/IRMS/CRM and other systems/tools)
- Strong National-Subnational Institutional Framework for Investment Promotion

REFORM 2. IMPROVED INVESTOR SERVICES DELIVERY:

- Implemented a service category: Marketing, Information, Assistance, Advocacy
- Implemented a service program: investor outreach, facilitation, aftercare
- Implemented investment retention mechanism

DURING IMPLEMENTATION:

- **# of investment leads/ opportunities**

DURING/AFTER IMPLEMENTATION:

- **# of commitments to invest** (announcements)

Impacts

AFTER IMPLEMENTATION:

- **# of firms that invest (includes expansions of existing investments)**
- **$ investment generated (IG)**
- # of direct jobs created
  - of which for women

DURING IMPLEMENTATION:

- **# of investment projects retained**
- **$ investments retained (IR)**
- # of direct jobs created
  - of which for women

OUTCOME EXAMPLES:

- Law or regulation enacted establishing a new IPA/IPI or strengthening an existing IPA/IPI
- Investor Aftercare Program implemented, resulting in increased number of expansion/diversification investment leads/opportunities

VALIDATION BY M&E OF IPP-PROMOTION REFORMS REQUIRES:

1. Evidence per Reform Checklist

2. For IG: Increased number of investment leads/opportunities: for a new IPA, 10 or more leads; for a strengthened IPA, 10% increase from baseline

3. For IR: # of investment projects at risk (of divestment at entry, establishment, or operations) and $ of investment and # of jobs linked to investment projects at risk; and first signs of outcomes (# of issues addressed/resolved).

Country Examples of Investment Promotion Work

Invest India: Building a High-Performing IPA from the Ground Up in Record Time[24]

Invest India illustrates how a new investment promotion agency (IPA) can be built up over just a few years by taking a few critical steps and avoiding typical mistakes. Invest India was established in 2009 but had lain dormant for many years. Even as recently as 2015, it had no more than a handful of staff answering investor queries and little or no traction with potential foreign investors. In September 2014, the "Make in India" initiative was launched to encourage global companies to manufacture their products in India.[25] During this time, the government decided to reinvigorate "Invest India," recognizing the need for a government agency to proactively tackle the attraction of foreign firms.

Utilizing inputs and advisory support from the Investment Climate Unit that leveraged global good practices, Invest India began making extensive reforms and enhancements to the agency with the full support of senior-level government officials. A new CEO was appointed and given direct access to the line minister and the prime minister's office. The IPA's goals were linked to the country's broader development goals, and it was officially mandated to lead the country's national investment promotion as the single point of contact for foreign investors but without regulatory responsibilities. It was given sound financial support and a functioning board with 51 percent private sector representation. It was permitted to take a much flatter organizational structure than typical Indian civil service entities. It adopted a consultancy-style operating model designed to offer quality services to investors. It also set about developing strong relationships with state-level IPAs across India. The agency has now developed into a dynamic, service-oriented organization with highly qualified staff. As of mid-2021, 52 percent of the staff were women and 90 percent of its 231 dedicated promotion staff had private sector experience. Since the agency's rejuvenation in 2015, Invest India has been transformed into an award-winning IPA. (See case study publication).

Tunisia: Attracting FDI through outreach campaigns[26]

After the Arab Spring, Tunisia was faced with an urgent need to create productive jobs and economic opportunities for its young population. Attracting FDI in priority sectors was a key pillar of the Government's strategy to deliver its jobs agenda. As part of this effort, the Government engaged in proactive outreach campaigns to Canada, China and Japan targeting automotive, aerospace, and business process outsourcing (BPO) investors. Investor outreach involves a government normally through their IPA proactively seeking face-to-face meetings with target investors to discuss investor's = projects and persuade the investors to consider their location. The Tunisian outreach campaigns led to contacts with 30 companies, resulting in 21 investment leads, 3 announced FDI projects, including 2 manufacturing plants by Japan's Sumitomo and China's SAIC Motor, confirmed despite the pandemic.

The example of Tunisia shows that well-planned and executed investor outreach campaigns can lead to concrete investment results and contribute to a country's development objectives. Now more than ever, in a post-COVID-19 world, outreach can play a key role for countries in their efforts to reposition and take advantage of new investment opportunities from nearshoring and emerging sectors. Other countries can learn from the factors that led to Tunisia's success, specifically the importance of having a compelling value proposition27 for each target segment; effectively identifying promising source markets and specific FDI leads; and tips on implementing a seamless campaign execution with periodic follow up until investors are persuaded to take the next step. (See case study publication).

24 Full case study available online: https://documents.worldbank.org/en/publication/documents-reports/documentdetail/979801625833848120/lessons-in-investment-promotion-the-case-of-invest-india
25 http://www.makeinindia.com
26 Full case study available online: https://openknowledge.worldbank.org/handle/10986/34443
27 The value proposition is a specific message aimed at persuading the investor of the compelling benefits of establishing a presence in the prospective location, in comparison to competing locations.

Knowledge Management and Tools

Investment Promotion Framework:

- "Increasing the Development Impact of Investment Promotion Agencies", Chapter 5 of the Global Investment Competitiveness Report 2019/20 (2020)
- "Institutions for Investment" (2019)
- Strengthening Service Delivery of Investment Promotion Agencies: The Comprehensive Investor Services Framework (2020)

IPA research:

- Joint WAIPA-WBG "Global IPA Survey Report" – a 70-page survey report of investment promotion agencies globally to gather information on IPA activities, mandates, and practices. (2020)

COVID-19 Related publications:

- COVID-19 and FDI: How should governments respond? (2020)
- "Initial IPA response to COVID-19 and some observed effects on FDI" (2020)

Global IPA Advocacy competition:

- Website https://www.worldbank.org/en/events/2020/12/10/strengthening-ipa-advocacy-services-2021-awards
- Complete video announcing all 2021 winners: WAIPA - World Bank Strengthening IPA Advocacy Services 2021 Awards

Case Studies:

- Lessons in Investment Promotion: The Case of Invest India (2021)
- National-Subnational Coordination for Investment Attraction: The Case of Spain (2021)
- Attracting Foreign Direct Investment into Tunisia through Outreach Campaigns (2020)

Forthcoming notes:

- IPA Advocacy for Investment Climate Reform: Good Practice Principles and Case Studies
- High-level Structures Supporting the Institutional Framework for Foreign Direct Investment Promotion
- Planning for Success: Strategies of Investment Promotion Agencies (IPAs)
- The Role of Subnational Investment Promotion Agencies
- Divestment Drivers & FDI Retention
- IPAs' Investor relationship Managers (IRMS)/Customer Relationship Managers (CRMs)
- Scottish SDI case study

Topic in Focus

Supporting Investment in Sustainable Sectors and Investment Policy for Climate-Compatible Private Sector Growth

Developing countries today confront an unprecedented combination of challenges: the need for inclusive growth, worsening environmental degradation, and the impacts of the COVID-19 pandemic. A successful response must be founded on the principles of sustainable development, circular economic systems, and green growth. By transforming private sector activity through sustainable investment, countries can accelerate recovery and stimulate growth.

The ability to reduce carbon emissions and adapt to climate change is directly related to country-level development prospects. In the next few decades, adaptation to climate change and the path to net zero for countries and businesses globally is the most important collective climate action. Global greenhouse gas emissions nonetheless continue to rise, threatening catastrophic climate change.[28] Pollution is also a pervasive problem for developed and developing countries. In the absence of mitigation, climate change may reduce global GDP by as much as seven percent by the end of the century.[29] Cognizant of the risks, governments have committed to a green transition through their Nationally Determined Contributions (NDCs). The private sector, through trade and investment, is a major contributor. At the same time, many have argued that the COVID-19 crisis presents an opportunity to increase transformative green investments, both to help recovery and to set out on a more sustainable path.

Even so, investment for decarbonization and climate change adaptation remains beset by market failures. The benefits from such investment do not only accrue to the early investor who absorbs the risk, but to others in the market who can observe the viability of this investment and enter the market later on with more confidence of success, and to society at large which enjoys the environmental benefits of this investment. Furthermore, environmental quality is a public good that is currently underprovided, as discussed above. These market failures create a free rider problem that constrains green investment below its optimal level for society overall. Investment decisions are also impacted by political and operational risks that can result from government actions. Such risks often lead to the cancellation of investment projects, withdrawal of investment, or costly investor disputes with host countries.[30]

Priorities of the Investment Climate Unit

The IC Unit's work has focused on exploring the ways in which traditional investment climate solutions can be re-designed to better target environmental sustainability and green growth. Building on the foundation of a white paper on Catalyzing Investment for Green Growth, the team has developed a broader program to include analytics, diagnostics, and policy guidance to inform investment climate policies and business regulations that attract and enable green private sector investment, both foreign and domestic.[31] This responds to demand from WBG operational teams for policy approaches that promote private sector investment for economic growth that accounts for environmental goals.

The three key components of this work include: (1) developing and piloting a diagnostic to identify regulatory barriers to green investments, (2) assessing the role of MNEs in shaping the environmental performance of domestic firms, and (3) examining the role of tax incentives to promote green investments. The deliverables will enable the WBG to provide timely and evidence-based operational support to developing countries. Various elements of this work have already provided inputs into World Bank projects in Cameroon, Gabon, Indonesia, Philippines, China, and others.

28 United Nations Environment Program (UNEP) 2019. Global Environmental Outlook 6: Healthy Planet, Healthy People. Nairobi: UNEP.
29 Kahn, Kamiar, Ng, Pesaran, Raissi, and Yang 2019. "Long-Term Macroeconomic Effects of Climate Change: A Cross-Country Analysis." IMF Working Paper 19/215, October 11.
30 World Bank 2019. Global Investment Competitiveness Report 2019/2020 : Rebuilding Investor Confidence in Times of Uncertainty.
31 Saurav and Viney 2020. Catalyzing Investment for Green Growth : The Role of Business Environment and Investment Climate Policy in Environmentally Sustainable Private Sector Development. Equitable Growth, Finance and Institutions Insight;. World Bank, Washington, DC. © World Bank.

Investment Entry

Rationale and Context

Regulating the entry of foreign investment and investors into any economy is a prerogative of sovereignty. This means that governments have the right, and policy space, to determine how foreign investors can come and invest into the country, what sectors are open or closed, totally or partially, along with deciding upon other conditions that apply to their admission and establishment in the economy[32].

It is, however, important that host governments and policymakers become more aware of the effects, positive and negative, that the entry policies and regulations have on the country's reputation as an investment destination, on the decisions of existing and potential foreign investors, and on the levels of FDI into the economy. In this context, the Investment Entry diagnostics and implementation activities constitute an important and valuable contribution to the dialogue that the World Bank Group's regional teams, through a lending or Technical Assistance program, have with policymakers in charge of economic affairs, private sector development, or foreign investment.

The IC Unit's activities related to investment entry help to raise awareness and build consensus for reform within the client government or country. Awareness-raising entails showing clients how the main entry barriers that exist at the policy and procedural levels compare relative to peer or competitor countries, and how consistent or not the entry regime may be with the other economic policies of the country. The team's analysis can reveal that the country's entry regime is not as favorable as the regime of peers or competitors, which are often competing for the same foreign investments. They can also reveal inconsistencies between two key policies, for instance, the promotion strategy and incentive policy may prioritize certain sectors seen as critical to achieve some of the country's socio-economic objectives in terms of skills, economic upgrading, innovation, sustainability or diversification for instance, while the entry regime may actually prevent or considerably impede foreign investment in these sectors.[33]

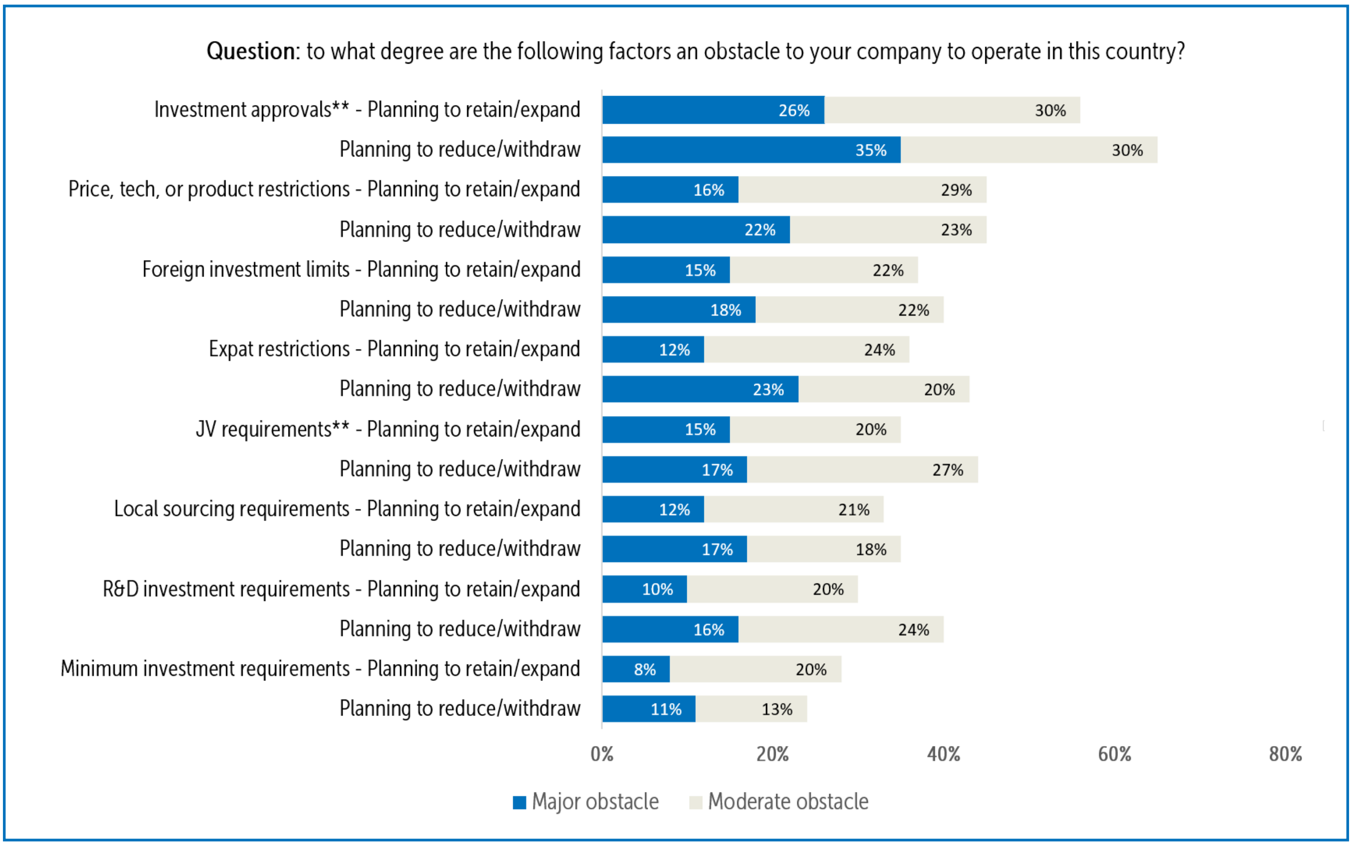
Awareness-raising also entails explaining how these entry barriers affect investors and their decisions to invest or expand into the economy using a range of tools including surveys of investors. For instance, the World Bank Group's Global Investment Competitiveness (GIC) survey of global investors provides illustrations of the types of entry barriers that exist and the negative impacts they can have on plans by foreign investors to invest or expand (Figure 8).

32 FDI "entry" concerns the phase of admission of a foreign investor into the host country and FDI "establishment" is the phase in which the foreign investor establishes its operations in the host country.

33 An hypothetical example of policy inconsistency would be a country where the government (or IPA) wants to attract more FDI into "green" sectors, as a national development strategic goal, and has adopted new promotion and incentives tools to pursue this goal, while the entry regime in place either prohibit or severely restrict the participation of foreign firms in key activities such as solar/wind power generation (or other renewable energy-related activities); or production of electric vehicles (EV) and batteries, etc.

Figure 8.

Importance of Various FDI Entry Obstacles for Foreign Investors



Source: GIC Survey, World Bank Group 2019

Economic studies show that countries that have made their entry regime more open tend to be more successful at attracting FDI than economies that maintain high barriers to entry.

The process of FDI entry reform, or opening the economy to further foreign participation, is a very complex one that often generates resistance from vested interests and important stakeholders in the country. Client governments therefore highly value receiving support to make a strong case for reform. Once there is a good degree of consensus for a more open entry regime, the team can help the client agency design a new framework for the entry and establishment of foreign investments into the country that is less restrictive, more transparent, but still preserves certain strategic interests.

The theory of change for the investment entry implementation activities (Annex 1) shows the link between the analytical and advisory activities undertaken in the area of investment entry and establishment, the outcomes that can be achieved, and some of the impacts that can be expected or pursued in terms of investment generated (IG) and/or compliance cost savings (CCS).

Implementation Activities

The investment entry diagnostics and implementation activities provide technical assistance to governments to improve the FDI entry regime by:

- Assessing the country's FDI entry regime and benchmarking it, regionally and/or globally.
- Advocating for the design of more open and transparent entry and establishment regimes, based on good practice, lessons and experience from economies around the world.
- Promoting transparency-enhancing tools such as Negative Lists that clearly list sectors where restrictions and prohibitions exist.
- Promoting faster and more automatic entry for FDI in sectors that are not sensitive, strategic, and on the Negative Lists, relying on existing regulatory processes (such as company registration).
- Helping client governments to conduct stakeholder consultations and focus groups to build consensus around the reform and address the political economy of reform.
- Providing assistance to design and implement or streamline new or more transparent FDI entry regimes.
- Helping to remove inconsistencies and promote greater congruence between various economic policies that have a bearing on entry (e.g., private sector/economic development strategy; FDI promotion strategy; incentive policy; strategies and policies to promote green, digital, responsible, inclusive and resilient investment).[34]

A number of learning tools can be shared with client countries, including:

- ***Investment Entry Toolkit.*** This defines FDI entry, explains its importance, describes the main barriers to entry, both according to the law and in reality, and shares best international practices for the design of competitive FDI entry regimes. It is complemented by the **Services Toolkit** providing similar information with regard to services sectors.
- *Investment Law Reform: A Handbook for Development Practitioners*.[35] This practical guide on reforming investment legislation also discusses good practice elements of the investment entry regime and the negative list as a tool.
  - The above toolkits and handbook are complemented by a series of policy notes on specific topics within investment entry that can be shared with client governments: Note on **"FDI Screening and National Security Review"** (2021 update underway); Two policy guidance notes on ***"Preparing a Negative List"*** and ***"Sectoral Restrictions to FDI Entry"*** and a regional note on ***"Restrictions to Entry in East Asia Pacific".*** A study on "***FDI Entry in the SADC region"*** currently under development will complement the previous tools and shed light on entry restrictions in place in the countries that form part of the Southern Africa Development Community economic group.
  - In 2021, the team developed a tracking tool on foreign investment entry and screening measures taken by countries in response to or in the context of the Covid-19 pandemic. The tool uses a range of sources to inventory and monitor measures on entry that have been proposed and/or enacted since February 2020, when many countries began implementing policy measures in response to the pandemic, both in terms of measures making entry easier and measures strengthening existing controls. The tool shows what regions or countries are most active, the types of measures they tend to rely on. The tool is publicly available through the World Bank Equitable Growth Finance and Institutions Covid-19 Portal under the "Economic Recovery" section.[36]

34 An hypothetical example of policy inconsistency would be a country where the government or IPA wants (for instance) to attract more FDI into "green" sectors, as a national development strategic goal, and may have promotion and incentives efforts in place to pursue this goal, while the entry regime in place would either prohibit or severely impede participation of foreign investors in key activities such as solar/wind power generation (or other renewable energy-related activities); production of electric vehicles (EV) and batteries, etc.

35 Co-authored by Xavier Forneris and Kobina Daniels, published by the World Bank Group in 2010. Available at: https://openknowledge.worldbank.org/handle/10986/25206

36 Available through the EFI COVID-19 page or at https://dataviz.worldbank.org/views/FDI-COVID19/Overview?:embed=y&:isGuestRedirectFromVizportal=y&:display_count=n&:showAppBanner=false&:origin=viz_share_link&:showVizHome=n

Investment Entry Theory of Change

	Outputs	Outcomes		Impacts
SUBSTANTIVE	• Assistance to identify, analyze and remove policy restrictions impeding the entry of foreign investors • Awareness-raising, economic research, capacity-building	**POLICY FRAMEWORK THAT:** • Opens new sectors to FDI • Removes or reduces ex ante screening • Removes or reduces minimum investment requirements	Investors have improved access to new markets Improved transparency in the investment entry restrictions and processes	**Investment generated**
PROCEDURAL	• Assistance to assess, streamline or reengineer entry procedures • Awareness raising & capacity building to support implementation	**REGULATORY FRAMEWORKS THAT:** • Streamline entry procedures • Make screening more objective and transparent • Coordinate the entry processes (FDI approval, company registration, sectoral licensing)	Investors have more confidence/greater readiness to invest or re-invest (expand) due to clarity	**Investment generated**
			Investors accrue significant time and cost savings related to uncertainty/ cumbersome procedures	**Compliance cost savings**

OUTCOME EXAMPLES:
Investment law, Negative list, rules on entry and screening procedures, and rules on work permits.

VALIDATION OF REFORMS BY M&E REQUIRES:
1. Effective passing of the relevant law, regulation, or other equivalent instrument/s (one or a combination)
2. Evidence on the first signs of impact (e.g., # and $ of potential or existing investors have increased).

Country Examples of Investment Entry Work

Liberalization of the Maintenance Service Sector in Ethiopia

Ethiopia's investment legislation (including its Investment Proclamation (No. 769/2012) and Investment Regulation (No. 270/2012) as amended) was overly restrictive and in various areas not in conformity with international good practices. This is particularly true in the case of the investor entry regime. Due to the positive listing approach adopted (i.e., stating approved areas for investment, unlike a negative list that clearly indicates specific restrictions), important and cross-cutting sectors such as maintenance services were closed for foreign direct investment. The limited availability of maintenance, repair and servicing operations in the country imposed serious burdens on domestic and foreign investors in various sectors and industries especially those operating large factories, machinery and most importantly medical devices. Due to this the cost of extended downtime has a big impact on firm operations, efficiency and ultimately profitability. In addition, cost of importing maintenance and repair services from aboard created serious financial strain on management and operation of establishments and machineries that demand continuous follow-up such as the case of medical devices.

In 2017, based on the request of the Ethiopian Investment Board, the WBG supported the preparation of the reform agenda. The Board unanimously approved this agenda designed to liberalize maintenance, repair, and servicing operations in two major areas: general industrial maintenance services (e.g., for machineries, factories etc.) and maintenance and services operations of medical devices. In general, the reform allows 100 percent foreign ownership of firms that that will provide broad aspects of maintenance and serving operations including scheduled maintenance, servicing, after-care, preventive maintenance, technical advisory etc. (Investment Board Directive, 2017). The reform has already attracted several foreign firms that have experience in industrial machineries manufacturing and maintenance, and medical device manufacturing and maintenance. The project team provided initial support in facilitating entry of the first foreign investments in the sector by creating leads and providing technical advisory support for potential investors. - Krones AG: A German based packaging and bottling industry firm (Krones AG) is the first company to enter the market with specialized services among others targeting industrial bottling-machineries maintenance and repair services. The country's budding food and beverages industry will benefit greatly from entry of this globally leading industrial firm. In its initial investment the firm has already committed US $300,000.

Work permits reform aimed to facilitate foreign investment in Moldova

The WBG conducted a comprehensive review of the legal framework covering labor migration and regime of foreigners in Moldova. The review identified that the procedure to obtain work permits for foreigners in Moldova was cumbersome, time consuming and costly. The WBG provided tailored recommendations based on the findings of the review. Based on these recommendations the Government of Moldova amended its legal framework for labor migration in 2017. The most important component of the new law is the elimination of the requirement for the foreign worker to be present in-person during the procedure of application for work and residence permit, which contributed with more than 90 percent to the cost that business incurred for these procedures before the reform. In addition, the new law also reduced the processing time for work and residence permit application.

Knowledge Management and Tools

- Investment Rules in Developing Countries: Trends and Approaches (English). Washington, D.C.: World Bank Group. 2021.
- Research note on FDI screening and National Security (distilling lessons of experience and better practices). (2021, unpublished)
- WBG *Investing Across Borders* (IAB) Report. Investment Climate Advisory Services, World Bank Group, Washington, DC. 2010. (Note: IAB was discontinued but can still be useful for historical assessments of entry barriers).
- World Bank Group. 2010. Investment Law Reform: A Handbook for Development Practitioners.
- A global online tracker of FDI screening and other entry measures adopted by countries since the start of the COVID-19 pandemic was designed and launched in November 2020 on the World Bank's EFI COVID Portal. Link to the tracker: EFI COVID-19 page (Internal link).

Forthcoming:

- The team is updating the 2021 note on FDI Screening and National Security, adding measures taken in response or in the context of Covid (See Tracking Tool above) for publication in 2022 (forthcoming).

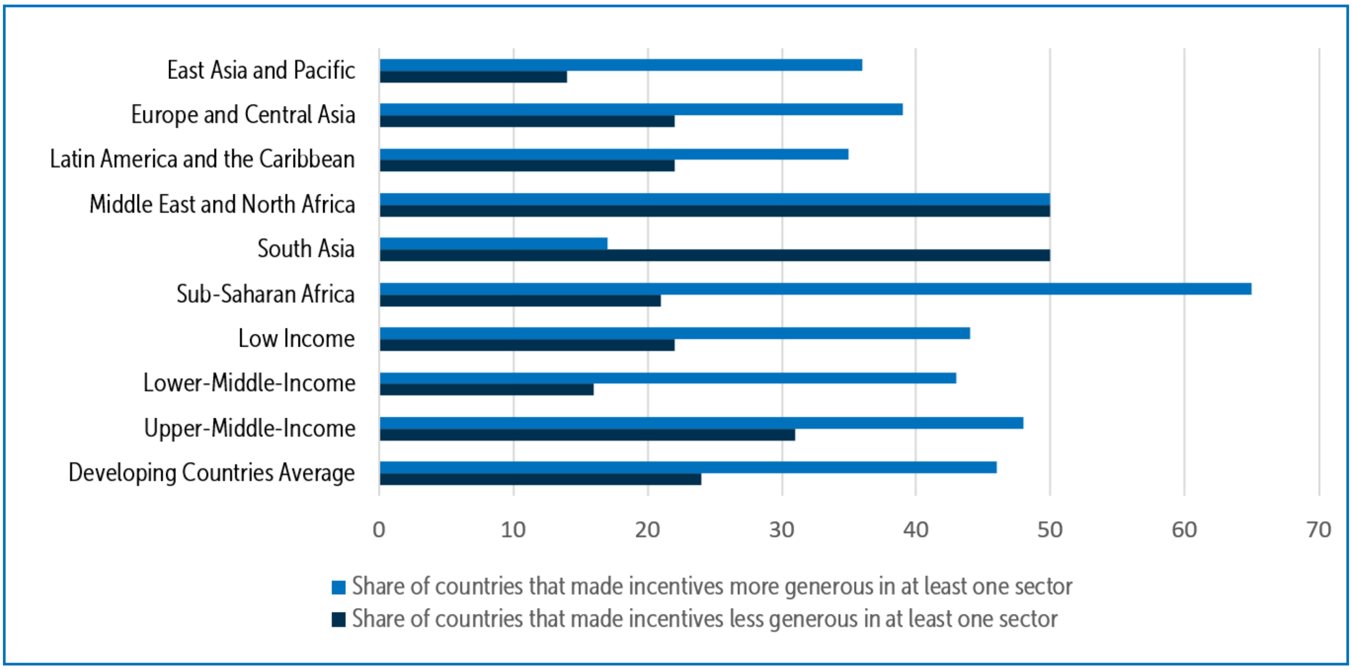
Investment Incentives

Rationale and Context

In the face of fierce global competition for FDI, developing countries around the world are increasingly turning to investment incentives,[37] such as tax breaks and allowances, as way a way to lure investors and stand out. Between 2009 and 2015, out of 107 developing countries, 46 percent adopted new tax incentives or made existing ones more generous, demonstrating how widespread the use of incentives are as tools for investment attraction.[38]

Figure 9.

Nearly Half of Developing Countries Introduced New Tax Incentives or Increased the Generosity of Existing Ones from 2009-15



Source: Maria R. Andersen, Benjamin R. Kett, and Erik von Uexkull, World Bank Group (2018), "Corporate Tax Incentives and FDI in Developing Countries" in Global Investment Competitiveness Report 2017/2018: Foreign Investor Perspectives and Policy Implications.

At the same time, empirical evidence suggests that the role of incentives in influencing investor location decisions is a narrow one. Incentives typically come into play in the final stage of the site selection process, when investors are wavering between like options, and after deeper competitive features like political stability, regulatory quality, and market opportunities are considered.

37 Investment incentives are defined as Measurable economic advantages that governments provide to enterprises or groups of enterprises with the goal of pursuing different development policy objectives. Policy objectives may include, for example, steering investments into strategic sectors or regions or of influencing the character of such investments.

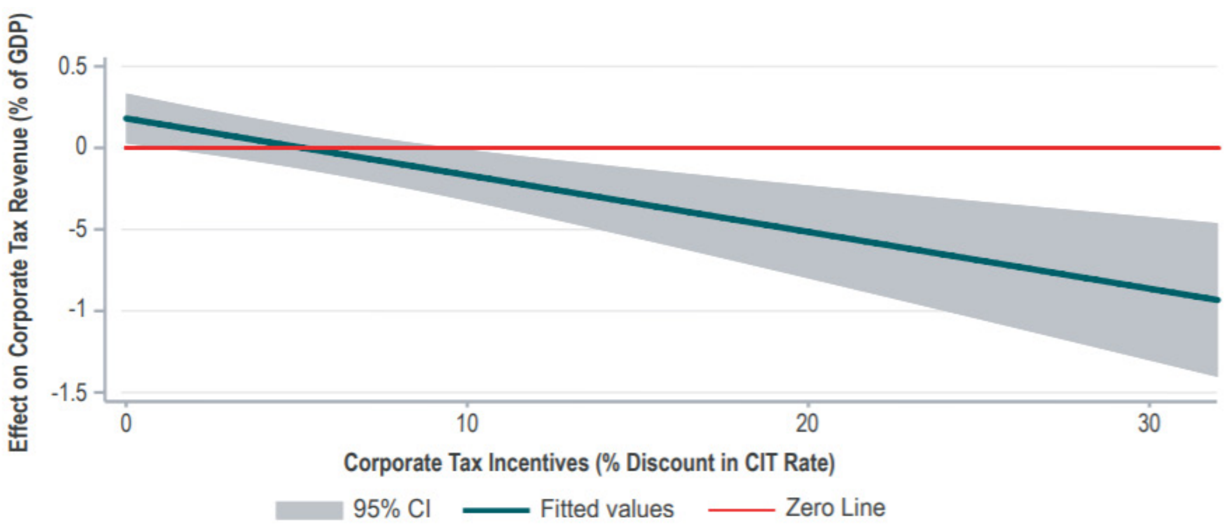
38 While the data presented focuses on developing countries, the use of incentives is widespread and not exclusive to developing countries.

All too often, policymakers overestimate the role of incentives in swaying investor decisions, and in turn, their projected benefits translate into a windfall for investors at the expense of lost tax revenue for governments. At the global level, there is a strong, negative relationship between the generosity of countries' corporate tax incentives and their corporate tax revenue as a share of GDP. For each 10-percentage point increase in corporate tax incentives, corporate tax revenue goes down by around 0.35 percent of GDP. The stakes are most pronounced for developing countries who can least afford such fiscal losses. While the tax-to-GDP ratio averages around 26 percent in advanced economies, about half of developing countries have ratios below 15 percent.[39]

Most recently, the COVID-19 pandemic has introduced unprecedented challenges to domestic revenue mobilization, while businesses have been struggling with income and cash-flow constraints. The situation presents a dual challenge to revenue systems for providing relief for affected taxpayers and to simultaneously manage a sudden, large drop in collections. Beyond the budgetary implications, incentives carry other costs and risks, including potential rent-seeking when firms engage in non-productive or corruptive practices to attain a benefit, potential for tax planning and evasion if firms shift profits by manipulating internal transfer prices to minimize their tax liability, high administrative burdens for investors and governments associated with incentives application procedures, tax filing and monitoring, potential economic distortions that can hurt the efficiency of markets and put other competing business at a disadvantage, and possible retaliatory behavior otherwise known as a "race-to-the-bottom," when countries (or even regions within a country) provide increasingly generous incentives to undercut the competition.

Figure 10.

More Generous Tax Incentives are Associated with Lower Corporate Tax Revenue



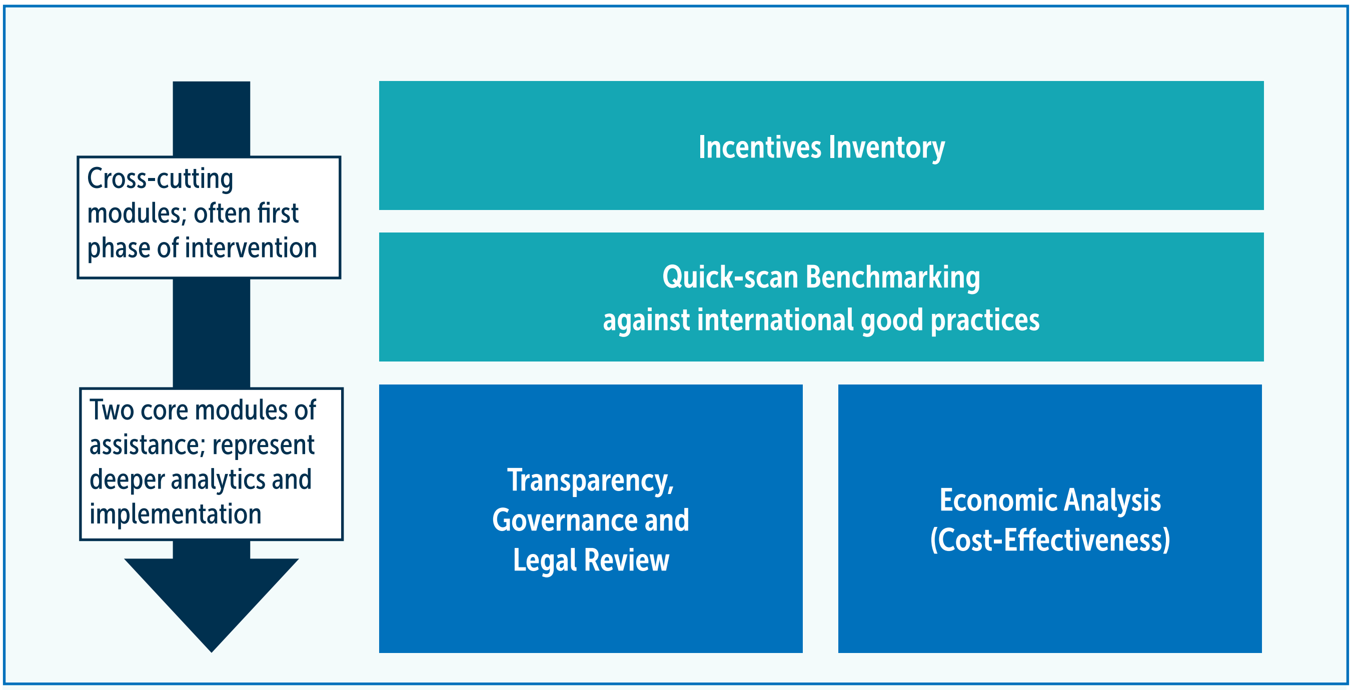
Source: Kronfol, Hania, and Steenbergen, Victor. 2020. Evaluating the Costs and Benefits of Corporate Tax Incentives: Methodological Approaches and Policy Considerations (English). FCI in Focus Washington, D.C.: World Bank Group.
Note: CI is confidence interval. CIT is corporate income tax rate.

39 International Monitor Fund (April 2017), "Fiscal Monitor. Achieving More with Less," http://www.imf.org/en/Publications/FM/Issues/2017/04/06/fiscal-monitor-april-2017.

A key policy challenge facing client governments centers around how investment incentives can be adopted and implemented strategically in a way that promotes transparency, provides a level playing field for investors, maximizes their value for money, and minimizes the risks. Incentives also can provide key motivation for investments in sustainable and green sectors, and understanding how to utilize them to encourage such investment presents a key policy opportunity for governments.

Figure 11.

IC Unit Diagnostics and Implementation Activities for Investment Incentives



Implementation Activities

The IC Unit's investment incentives diagnostics and implementation activities are designed to help client countries:

- Identify and improve features of their incentives framework;
- Maximize the benefits generated by incentives;
- Optimize the efficiency of government spending ; and
- Minimize distortions to competition.

The Incentives theory of change shows that activities undertaken and support provided by the IC Unit can have direct impacts in terms of compliance cost savings and fiscal savings, while also contributing to investment generated. The assistance covers incentives policy, design, implementation, and monitoring and evaluation. It combines different complementary tools in a modular approach, which can include developing or conducting:

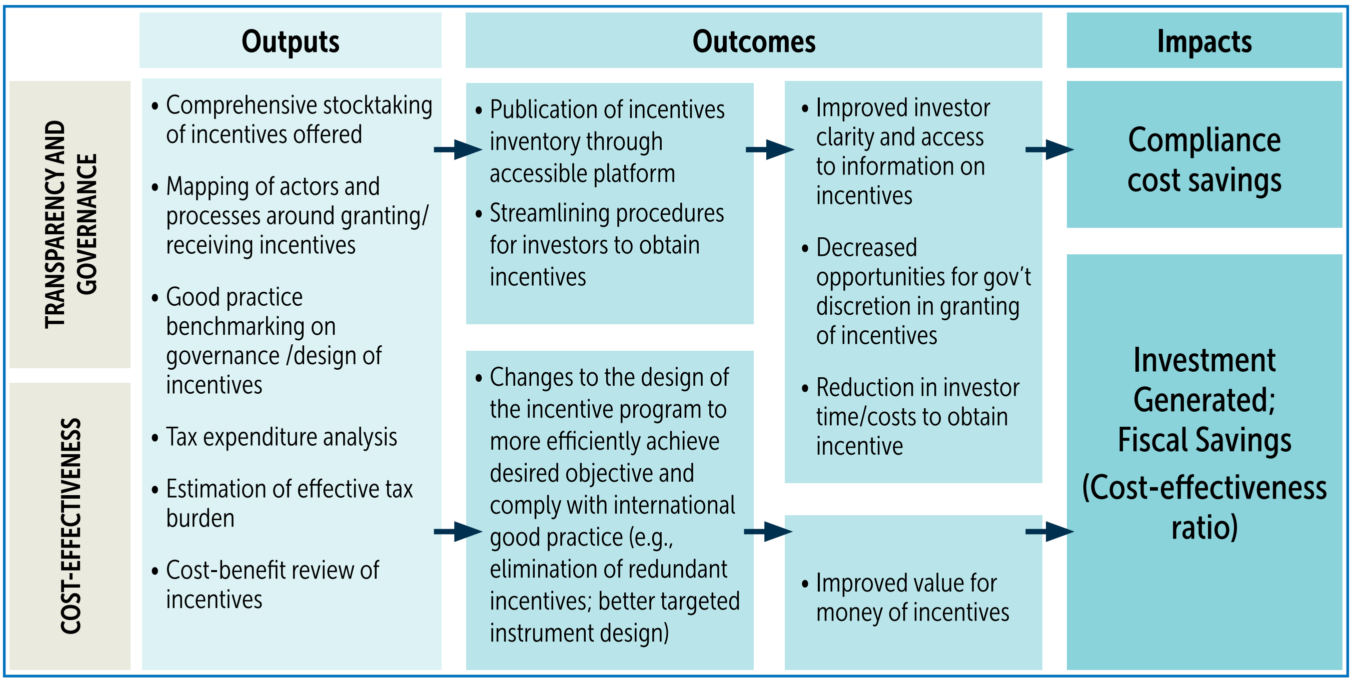
An incentives inventory, which is a comprehensive listing of all incentives offered including information on eligibility criteria, nature of the benefits, legal sources, application process, etc. Supporting client countries develop and publish such an inventory typically provides an entry point for further discussion and a deeper country engagement on incentives. It is also often a key first step in promoting transparency and access to information on incentives.

Quick-scan benchmarking against international good practices, which is a high-level analysis that benchmarks the existing incentives regime against important principles of good practice relating to objectives, design, governance, and implementation. This assistance typically leads to preliminary policy recommendations and the identification of priorities for more in-depth work.

Transparency, governance, and legal review, which may involve more targeted analysis and recommendations regarding incentives transparency principles, discretion, discriminationandor roles and responsibilities of key actors from an institutional perspective (Ministry of Finance, Investment Promotion Agency, line ministries, etc.). It also may cover process mapping to help minimize the time and processes required to obtain and approve incentives, as well as guidance and capacity-building on data collection and methodologies for monitoring and evaluation of incentives.

Economic analysis that encompasses a broad range of approaches to assess and compare the costs as measured through government expenditures and benefits based on policy objectives to gauge their value for money. It may involve analysis of the revenue effects of incentives, causal outcomes in terms of firm performance, and/or competitor benchmarking on effective taxation.[40]

Incentives Theory of Change



40 See Kronfol, Hania; Steenbergen, Victor.2020. Evaluating the Costs and Benefits of Corporate Tax Incentives: Methodological Approaches and Policy Considerations. FCI in Focus. Washington, D.C.: World Bank Group.

Country Examples of Investment Incentives Work

Improving Transparency in Ghana: Publication of Incentives Inventory

Ghana offers a wide range of investment incentives, and before this project, there was no single place, physical or virtual, that investors could rely on in order to get comprehensive, up-to-date information about the incentives available to them. This project supported the Ghana Investment Promotion Centre (GIPC) to develop and publish an inventory of incentives. Its objectives were to support investor certainty, improve access to information and create a level playing field for both foreign and domestic investors by developing a platform where incentives could be accessed transparently.

The inventory was compiled in collaboration with the Attorney General's Department, the Ghana Revenue Authority (GRA), Ministry of Finance (MoF), and Ministry of Trade and Industry (MOTI). In January 2019, GIPC's Chairman Mr. Yofi Grant signed an Executive Order mandating the publication of the inventory on the GIPC website, and requiring that the inventory be updated on a bi-annual basis by a dedicated team within GIPC in order to reflect the Government changes to the incentives policy including amendments to existing incentives and the introduction of new incentives. The finalized version was featured prominently on the GIPC homepage main menu and continued to be available as both an Excel file and online publication.[41]

Now, investors have a comprehensive online source for accurate, up-to-date, clear information on the range of investment incentives available to them. They can easily find these incentives according to their sector of operations and access the information most relevant to them quickly and conveniently. This information includes the legal text granting the incentives and the organization that is responsible for allocation. The implementation of this incentives reform sends an important message to investors about the direction of the Government of Ghana's (GOG's) policy and dedication towards a more investor-friendly environment for both foreign and domestic investors and the importance of transparency in this effort.

Sri Lanka: Moving toward a more targeted and cost-effective incentives framework

Investment incentives were being widely used by the Government of Sri Lanka as an instrument to generate FDI, and in parallel, create jobs and promote social welfare. However, in the mid-2000s, the role of incentives in promoting these objectives had increasingly come into question. Despite operating a relatively generous incentive regime, Sri Lanka was underperforming on FDI among comparable countries. At the same time, the Government was facing heightened pressure to adopt reforms in light of a long-term decline in fiscal revenue. The incentive regime relied heavily on tax holidays and CIT reductions; forms of profit-based incentives that are generally considered less cost-effective than cost-based incentives like allowances.

With IMF technical assistance, the Government was drafting a new Inland Revenue Act, which was to include revisions to the incentives regime. At the request of the Ministry of Development Strategies and International Development (MoDSIT), the WBG team conducted an analysis submitted in October 2016, providing evidence-based recommendations to (1) evaluate the performance of the existing incentive regime; (2) suggest broad directions and priorities for a cost-based incentives framework targeting firms and sectors that generate investment, jobs and exports, while ensuring that the Government will meet its corporate income tax revenue targets under the new IR Act; and (3) provide suggestions on how to implement the new framework and evaluate its effectiveness.

41 http://www.gipcghana.com/invest-in-ghana/why-ghana/tax-regime-and-incentives.html

A new Inland Revenue Act was passed in 2017, which covered some key revisions to the incentive regime that were in line with the World Bank's recommendations. It introduced a simplified, more transparent incentives regime and supported the centralization of its administration under the Ministry of Finance. The regime shifted toward more cost-effective, cost-based incentives (notably allowances) in the place of tax holidays. While the incentives still favor large investments, there is not a minimum investment threshold for capital allowances, which would have discriminated against SMEs. And the Special Development Projects Act, that provided for costly and poorly targeted tax holidays, was suspended.

Knowledge Management and Tools

- Evaluating the costs and benefits of corporate tax incentives: Methodological approaches and policy considerations. World Bank In Focus Note, 2020
- Women at Work: How can investment incentives be used to enhance economic opportunities for women?
  World Bank Policy Research Working Paper, 2019
- Corporate tax incentives and FDI in developing countries, World Bank Global Investment Competitiveness Report 2017/2018
- Investment linkages and incentives: Promoting technology transfer and productivity spillovers from FDI World Bank In Focus Note, 2020
- Cents and sensibility: Three takeaways on investment incentives from Amazon HQ2, World Bank Private Sector Development Blog, March 2019
- Lessons from Five Years of Helping Governments Foster Incentives Transparency, World Bank Private Sector Development Blog, January 2017
- Taxing Times: The Role of Investment Incentives in Economic Recovery and Growth, Webinar, May 27, 2021
- Leveraging corporate tax incentives to attract FDI: design and implementation considerations, Columbia FDI Perspectives: Perspectives on topical foreign direct investment issues No. 279 June 1, 2020

Topic in Focus

Enhancing Investment Attraction, Entry and Protection by Supporting Regional Integration and the AfCFTA

FDI is beneficial to the host countries because it helps to increase exports and integration into global markets. It does so by bringing in the necessary capital, knowledge, and connections needed to enter into new types of global production processes.[42] Stimulating firms to begin participating or to upgrade in global value chains (GVCs) can ultimately help developing countries industrialize more rapidly. By supplying intermediate inputs to global production networks, firms no longer have to wait for the emergence of an in-country industrial base, or the upstream capabilities formerly required to compete internationally. The rapid development of newly industrialized Asian economies in the last few decades strengthened the belief that attracting FDI is key to accelerating the economic transformation of low-income countries.[43]

High barriers to GVC participation have made policymakers turn to regional markets as a drivers for economic transformation. To engage with the world economy, countries need to address a host of challenges simultaneously to ensure that MNCs can invest, produce and trade at low costs and with minimum disruption to their global production networks.[44] Yet, the requirement to adjust a wide range of policies at once represents a very challenging task for states; only a few countries can accomplish this, thus making some skeptical of the potential of GVCs for economic transformation.[45] Regional value chains (RVCs) are increasingly proposed as alternatives to GVCs as a primary model for industrialization.[46] Trading within the region is argued to serve as a training ground for learning to export and producing higher-quality goods, thus allowing countries to leverage integration into regional markets as a steppingstone to global markets. Countries can thereby collectively strengthen their position to climb a specific GVC as a regional block, propelling structural transformation and growth in the process.[47]

The African Continental Free Trade Area (AfCFTA) agreement showcases the potential benefit that regional integration could provide. The creation of a unified market could have very significant benefits for the African continent.[48] If the AfCFTA's goals are fully realized and countries opt for a comprehensive trade agreement that includes goods, services, investment and competition, intra-African exports are expected to grow by over 109 percent, while intra-African FDI can increase by up to 68 percent. Jointly, this would potentially raise real income in Africa by 8 or 9 percent by 2035, lift 50 million people out of extreme poverty and create 17.9 million new jobs.

42 Toone 2013; Gammoudi et al. 2016
43 WDR 2020
44 Qiang, Liu and Steenbergen, 2021
45 Whittaker et al. 2010
46 Barrientos et al. 2016
47 Barrientos et al. 2016; Hallward-Driemeier and Nayyar 2017
48 Echandi, Maliszewska and Steenbergen 2022

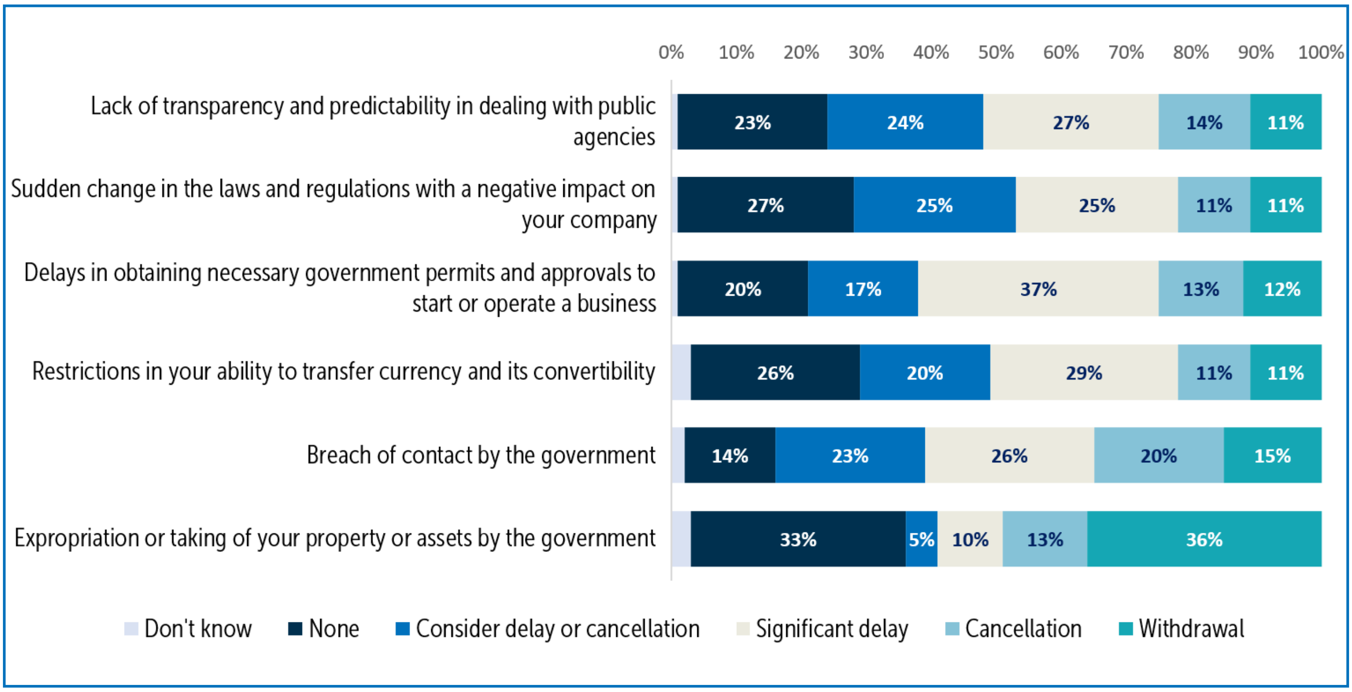
The IC Unit's expertise in identifying barriers to investment, promoting FDI in strategic value chains, and providing access to and knowledge sharing on global good practices makes it well placed to support regional teams in accelerating implementation of the AfCFTA. As the AfCFTA calls for the removal of cross-border barriers to investment, it will be important for countries to first systematically identify such barriers through legal and regulatory reviews and for public administrations to plan and prepare for the necessary adjustments in their legal and regulatory environment, both of which the IC Unit's work can support. The AfCFTA also opens up new opportunities for attracting FDI and stimulating regional value chains, which will require analytical studies and strategies to help identify such opportunities and successfully promote investment in these strategic areas, with which the Unit is well placed to provide assistance. The IC Unit's global expertise also serves as a perfect platform for relevant peer-to-peer learning and knowledge exchanges that can help identify the necessary cross-regional ideas and reforms that would allow the AfCFTA to stimulate intra-African FDI and boost regional value chains.

Investment Protection

Rationale and Context

A recurring finding of Global Investment Competitiveness (GIC) surveys, confirming earlier research,[49] is that the conduct of host governments that violates core guarantees of investment protection may lead investors to withdraw from an existing investment or cancel new investment plans (Figure 12)

Figure 12.
What would make investors cancel their plan or exit an investment?



Source: GIC 2017, WBG.

There is then a direct connection between the level of investment protection granted to investors in a given host economy and the level of investor confidence, which is a key factor in investors' decisions to invest in a new location, expand their existing operations, or withdraw from a given investment location. Accordingly, host governments seek to provide good practice investor protections that balance the evolving rights and obligations of incoming investors.

There are many legal guarantees that can be extended to foreign investors. However, some are more important than others. The six core guarantees that should form part of a robust investment protection framework are:

49 WBG MIGA surveys show in the last 25 years, all but 6 international arbitration claims in over 1000 projects (and 4 of those claims were due to war/civil disturbance) have been avoided by offering adequate level of protection to investors and that around 80% consider investor guarantees as important or critically important when deciding either to invest or not.

1 National Treatment (NT)
2 Most-Favored Nation Treatment (MFN)
} Non-discrimination
3 Protection against expropriation (direct/indirect)
4 Freedom to convert and transfer capital/currency
5 Fair and Equitable Treatment (FET)
6 Access to effective dispute resolution mechanisms

The content of an *international legal framework on investment*, and in particular the International Investment Agreements (IIAs) and Free Trade Agreements (FTAs) with investment chapters, has evolved in recent years. For instance, many such agreements try to rebalance the content and effect of the agreement by including *obligations* for investors as a counterpoint to their rights and guarantees. Other agreements are trying to better define the scope of the core guarantees to limit the host state's exposure, preserve policy space, and avoid the risk of the host government not being able to regulate around the evolution of its investment flows. For example, the attempt to define *indirect expropriation* in some IIA/FTAs by stating specific conditions and criteria which a given governmental decision needs to meet before it can be considered a case of "indirect expropriation".[50] Other IIAs attempt to limit or do not include recourse to investor-state dispute settlement (ISDS).[51]

In addition to 'rebalancing' the guarantees, IIAs are also introducing new provisions related to environmental, social and labor standards, corporate social responsibility (CSR) or even broader and more complex concepts such as *Sustainable Development*[52], *Green Investment*, and *Competitive Neutrality*.[53]

Implementation Activities

The IC Unit's advisory work focuses on design and implementation phases, supported by tools that assist in issuing targeted recommendations. Investment already established in the country is fundamental for reinvestment in the country. The IC Unit's implementation activities and support can contribute to enhancing investor confidence through reducing legal uncertainty, resulting in compliance cost savings for investors.

The diagnostic phase involves verifying whether a client country or region recognizes in its policy and regulatory framework the core guarantees. It typically involves the analysis and benchmarking of investor protections and the legal framework for investment, assessing the domestic legislation's consistency with international best practices and international commitments made by the country in International Investment Agreements (IIAs) and/or Free Trade Agreements (FTAs) within investment chapters. Participation of the host economy in major applicable international conventions dealing with investment-related disputes – such as the New York Convention (on the recognition and enforcement of foreign arbitral awards) and the ICSID Convention – is also verified.

The solution design phase follows the diagnostic phase and consists of formulating recommendations on how to improve the policy and legal framework in order to "fill the gaps", remove inconsistencies in the legal framework, and bring it closer to best practice. Recommendations can consist of amending the investment law or applicable legislation and secondary legislation or supporting adherence to certain international conventions that will help strengthen the framework and bring more confidence to investors.

50 See Annex 2 of the ASEAN Comprehensive Investment Agreement – ACIA- and Annex 10-B of the Regional Comprehensive Economic Partnership - RCEP
51 See for instance the new US-Mexico-Canada -USMCA- agreement, the RCEP, the EU-China CAI
52 Sometimes with a reference to specific Sustainable Development Goals or SDGs
53 Agreements such as the EU-China Comprehensive Agreement on Investment (CAI) or the Regional Comprehensive Economic Partnership (RCEP), which were recently signed by a number of Asia-Pacific nations, includes several of these concepts; and assessments of these new IIAs are being carried out to ensure the team's ability to be an up-to-date source of knowledge on IIA's and FTA's.

The implementation support is the last phase and may take different forms such as:

- Reviewing drafts of legislative amendments;
- Providing guidance to and sharing best practices with local lawyers tasked with the drafting of new investment legislation or the reform of existing legislation; and
- Supporting the implementation of legislation with training and capacity building events.

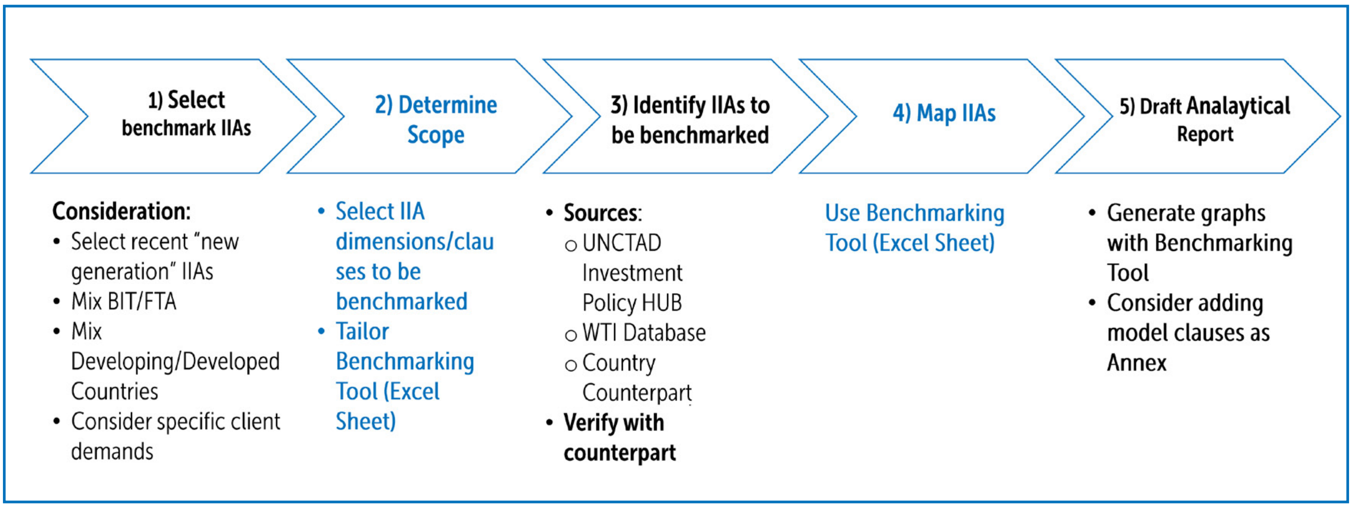
Several tools support investor protection reforms in domestic legislation and international treaties. See below the most notable ones (a comprehensive list is available in the annex).

Database of Investment Laws: This database of investment laws identifies whether the legislation includes the core guarantees among other elements typically found in an investment legislation. The database relies on UNCTAD data extensively, and currently includes 130 national-level investment laws[54]. At present time, this is an internal tool used for research and analysis, though clients of the WBG can benefit from it through the technical advice they may receive.

The Gap Analysis tool: The gap analysis is a qualitative assessment that leads to a comprehensive and detailed report on the 6 core guarantees with summary graphs. It compares the guarantees offered to investors in the domestic law, for instance the Investment Code, with those provided in key IIAs signed by the host economy directly or through its membership in regional groupings. It can also be tailored to identify possible variations between (a) some of the main IIAs of the country or (b) between the IIAs of the country and certain benchmarks or best practice IIAs. This tool is adaptable to the country context and client's objectives.

Figure 13.

The 5-Step Process in an IIA Benchmarking Gap Analysis



Source: World Bank Group

54 Developed and maintained by Priyanka Kher (pkher@worldbank.org), Ramprakash Sethuramasubbu, Philippe Armand De Bonneval and Maximilian Philip Eltgen.

Investment Protection Theory of Change

	Outputs	Outcomes		Impacts
SUBSTANTIVE	• Improve primary and/or secondary legislation concerning investor protection	• Introduce or strengthen investor **protection guarantees** • Improve consistency or compliance **with the International Investment Agreements (IIAs)** (e.g., BITs, FTAs)	Investors have more confidence/greater readiness to invest or re-invest due to clarity/predictability	Investment Confidence (under development)
PROCEDURAL	• Mapping and reengineering procedures on investment protection	• Improve processes and procedures to **implement** the guarantees • Address **gaps and obstacles** in the **implementation** of the guarantees.	Investors accrue time and cost savings related to uncertainty/cumbersome procedures	Compliance cost savings

Country Example of Investment Protection Work

Improving investor protection at the regional level

Following a request from Economic Community of West African States (ECOWAS) Commission and its member states, the WBG provided technical assessments and drafting support for the two key ECOWAS common market legal instruments (the ECOWAS Common Investment Code and the ECOWAS Investment Policy) considering all Member States' perspectives in accordance with international good practice standards. With the enactment of these two (2) instruments, the ECOWAS region has now achieved a homogenous investment regime that binds all 15 Member States by virtue of the ECOWAS revised treaty of 1993. The ECOWAS Common Investment Code (ECOWIC), which received technical assistance support from WBG, were formally adopted in December 2018 by fifteen members States. The adoption of the new investment code brought about the following changes: i) inclusion of free transfer of funds/Profits (repatriation) by investors (Article 12) ii) Guaranteeing expropriation and compensation protections for investors (Article 11) iii) Recourse through dispute settlement mechanisms for investors (Chapter 16) and iv) Guaranteeing national treatment provisions (Article 6).

On December 22nd of 2018, 13 members signed the adoption of the "Supplementary Act adopting the ECOWAS common investment code" at the 54th Ordinary Session of the Authority of Heads of State and Government of ECOWAS. In accordance with ECOWAS Protocol, signatures obtained from a minimum of 9 member states suffices for adoption into law. Following the adoption of the ECOWIC which conferred immediate enforceability at national level, the ECOWIC has improved the investment framework for member state investors by providing additional strengthened investment protections for investors. An important role of the ECOWIC is to complement the gaps in national investment codes, which may otherwise provide weaker investor protection.

IIA reform in Ethiopia

The Ethiopian Investment Commission (EIC) requested the WBG to support its efforts to use IIAs a key instrument of enhancing investor confidence in the country by, among others, analyzing the existing IIA obligations of the country, developing a model BIT, as well as providing capacity development support to EIC in-house legal team. WBG undertook a review of the country's existing IIA obligations giving emphasis to recent developments, both in the area of local developmental strategy and investment policy context as well as the developments in IIA practice, in particular investment dispute settlement. Emphasis was also given to the fundamental benchmarks which are also driven from recent work and recommendations of UNCTADs Investment Policy Framework for Sustainable Development. Based on this and other benchmarks the WBG provided policy recommendations and a set of policy options with the overall objective of increasing sustainable investment flows into the country with the attempt to create optimal balance between investment promotion, protection and domestic policy/regulatory space to achieve legitimate policy objectives. As a result, the EIC has developed a Model Bilateral Investment Agreement as per the new generation treaty models, and created coordination and engagement with other government stakeholders such as Ministry of Foreign Affairs (MoFA) for effective negotiation of IIAs. This intervention boosted EIC and Government of Ethiopia's confidence as well as ability to engage in negotiating IIAs with various countries. EIC was also able to clearly navigate and express the country's position in multilateral IIA negotiations including those of the Pan African Investment Code as well as the Investment Chapters of the Continental Free Trade Area. Particularly, Ethiopia signed BITs with Morocco, United Araba Emirates and Qatar, based on the new generation/model BIT that it has adopted. Following this trend EIC in house legal team is currently negotiating more than 10 BITs with various countries.

Knowledge Management and Tools

- Reforming Investment Law: A Handbook for Practitioners: a practical guide defining the core content of Investment Laws/Codes, including what constitutes a robust investment protection framework, and offering concrete tools and recommendations on how to go about reforming or improving investment laws.
- Investment Protection Along the Belt & Road. A special report on the quality of investment protection in B&R countries.
- Database of International Investment Agreements (IIA's), developed in partnership with Swiss National Science Foundation and the World Trade Institute (WTI) (Internal)
- Database of domestic Investment Laws developed by the IC Unit which includes a total of 130+ investment laws across the world. (Internal)
- Tool to benchmark the IIAs of a country or region (to assess variance amongst IIA's in terms of investment entry and protection or gaps between the IIAs and the domestic investment legislation. (Internal)
- Investment Rules and Investor Experience: Do They Converge?. A paper focused on examining the relationship between investment rules and the experience of foreign investors in middle-income countries.

Topic in Focus

Enhancing Investment Entry and Retention by Supporting Implementation of the WTO's Investment Facilitation for Development Agreement

Ongoing WTO negotiations on the *Investment Facilitation for Development Agreement (IFA)* present an opportunity for countries to generate reform momentum to improve their investment facilitation frameworks. At the Eleventh WTO Ministerial Conference held in Buenos Aires in December 2017 (MC11), 70 WTO members co-sponsored a Joint Ministerial Statement calling for the start of structured discussions with the aim of developing a multilateral framework on investment facilitation. Since its inception, the initiative has made steady progress – it is now anticipated that negotiations are proceeding towards a conclusion by the end of 2022, with more than 110 WTO members actively supporting the current draft. The main focus of the agreement is to improve transparency, efficiency, and effectiveness of investment-related administrative procedures.

The WBG Investment Climate Unit has developed a targeted offering to help regional teams in supporting client countries in acceding to and implementing the IFA. Based on an in-depth review of the agreement and more than 30 years of experience implementing investment facilitation reforms, the unit offers three different types of support to countries:

- **Support for developing countries' and LDCs' notification process of their commitments to the WTO,** which will require conducting gap analyses that assess countries' level of compliance with the agreement and needs assessments to gauge the appropriate technical assistance and capacity building needs for implementation;

- **Implementation support for specific commitments under the agreement,** including developing M&E frameworks to measure reform progress; and

- **Capacity building for every step of the process,** which includes information about the different investment facilitation measures and best practice approaches of how countries deploy them, approaches on how to organize multi-stakeholder diagnostics and reform processes, how to develop reform action plans/ implementation plans, how to institutionalize reforms, etc.

Investment Retention

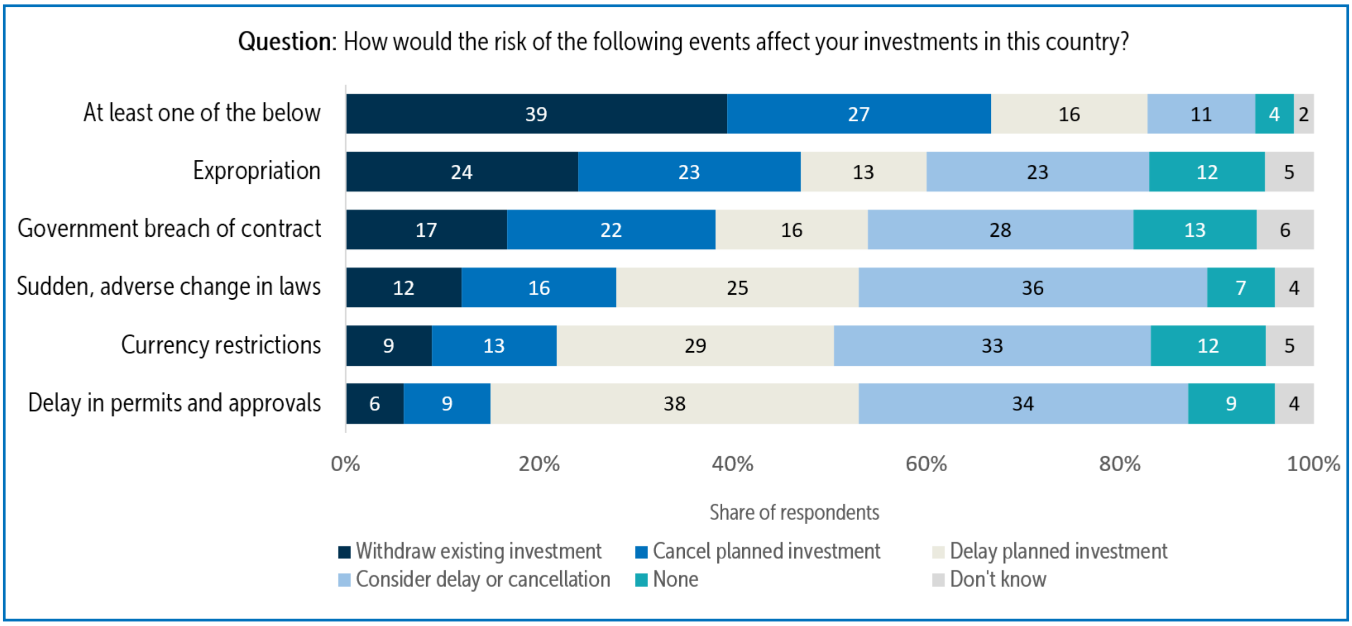
Rationale and Context

Investment retention moves from the legal rights and obligations of investment protection towards active measures for keeping investors in a jurisdiction, including by better implementation of the laws on the books. If an investor decides to divest from a location, or cancel an expansion plan for the location, the reasons may sometimes be beyond the immediate control or action of the government, however, there may also be issues that are within the government's immediate control that can be addressed through effective coordination and problem-solving that utilizes advocacy services and works to bridge information asymmetries. If these issues are detected and tackled early-on, the investment can be retained.

There are two types of high risk or severe issues that can lead to divestment: political risk and certain operational risks. Political risk that arises from government conduct may generate liability of the State, leading to legal disputes. In global investor surveys conducted by the World Bank Group, investors have consistently ranked political risk as the most important FDI constraint when considering investing in developing economies, next to macroeconomic stability.[55] When investors were asked to specify the most concerning type of political risks, investors consistently identified those related to governmental actions, such as adverse regulatory changes, expropriation, breach of contract, and/or transfer and convertibility restrictions.[56]

Figure 14.

Factors impacting investor decisions to continue operations



Source: WBG, Global Investment Competitiveness Report 2019-2020. Calculations based on the 2019 GIC Survey. Note: Affiliates of multinational enterprises were surveyed in 10 middle-income countries: Brazil, China, India, Indonesia, Malaysia, Mexico, Nigeria, Thailand, Turkey, and Vietnam.

55 World Bank Group, Global Investment Competitiveness Report 2017-18, 2019-20; MIGA World Investment and Political Risk Report 2009-2013. World Bank Group, Report on Retention and Expansion of FDI.

56 Ibid.

Investors are generally protected against major political risks such as expropriation, transfer restrictions, sudden regulatory changes and breach of contract under investor protection guarantees, which are part of domestic investment laws and international investment agreements (IIAs).57 Individual investors who experience violations of these protections can sue states using investor-state dispute settlement (ISDS) mechanisms, mainly international arbitration, demonstrating the importance of addressing investor grievances related to political risk in a timely manner. On other hand, operational risks are issues linked to the country's operating environment that are under the government's control. They put the survival of the company or of its division in the country at risk and may lead to withdrawals or closing of investment, though these operational risks do not trigger the potential liability of the State or legal disputes. The COVID-19 global pandemic has further exacerbated concerns around loss of investment. Recent surveys conducted by the World Bank Group indicate that during the pandemic, existing foreign investors have been consistently experiencing negative impacts on production, revenues/sales, employment, supply chain flows and investment volumes.58 Issues have ranged from shortages of or delays receiving inputs from suppliers to delay in outbound logistics.

Implementation Activities

The IC Unit's investment retention implementation activities focus on building government capacity for more effective problem-solving, to help them retain materialized investments and expansion plans, when there are issues putting the investment at risk. Most countries lack the institutional infrastructure, including the necessary coordination protocols and capacity, to detect and resolve issues in a timely manner. They also typically do not collect systematic data on investor issues and their impact on investment decisions. Setting up the minimum institutional framework to address investor issues effectively can ultimately lead to better retention and expansion of investment. Through early detection and resolution of such high-risk issues, governments can also prevent their escalation into legal disputes thereby preventing disputes and reputational damage to host countries.

The Investment Retention theory of change shows that retaining investment by addressing political and operational risk has positive effects upon investor confidence that contributes to the retention of investment and FDI projects and is directly supportive of the WBG's GRID framework to promote resilience.

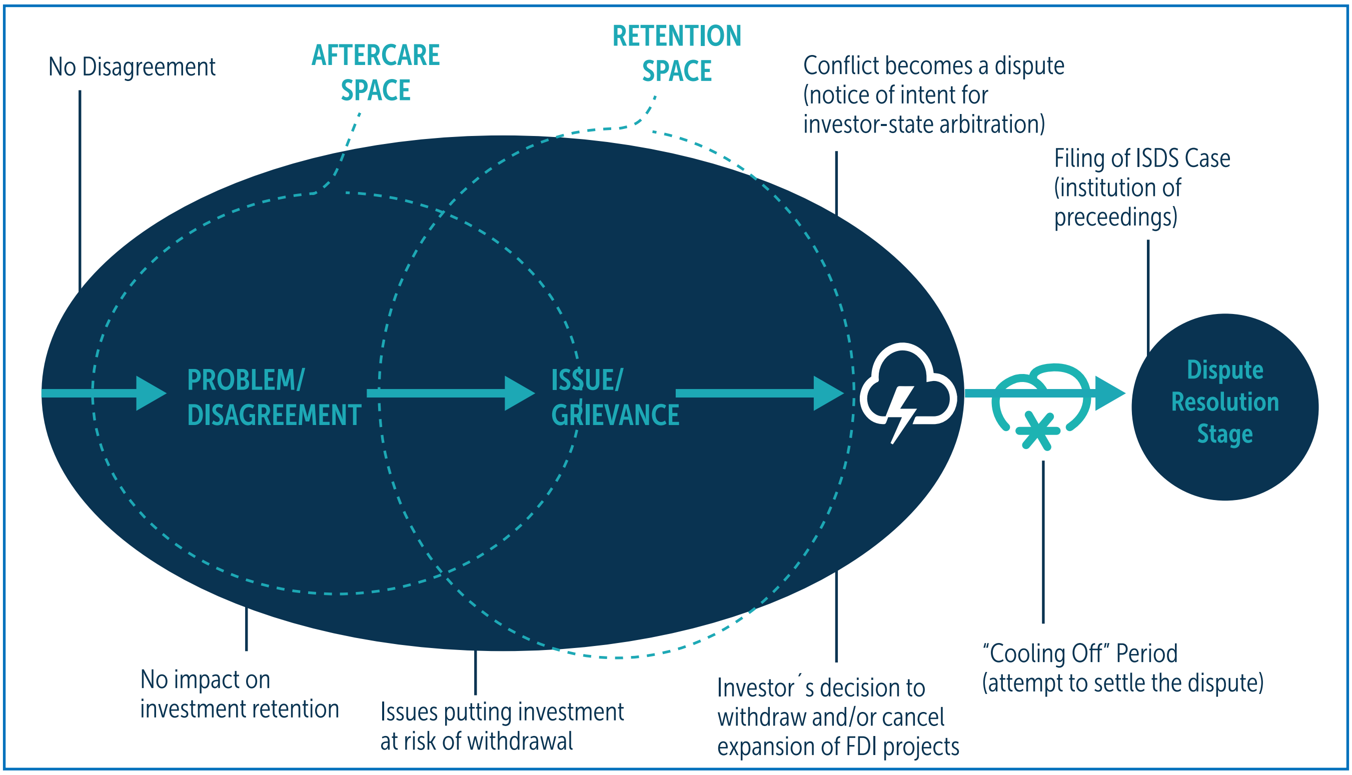
The IC Unit's support distinguishes between the notion of investor problems on the one hand, and a full-blown legal dispute. These are shown on either end of the investor-State conflict continuum (Figure 15).

57 Kher, Priyanka; Chun, Dongwook. 2020. Policy Options to Mitigate Political Risk and Attract FDI. Finance, Competitiveness and Innovation in Focus;. World Bank, Washington, DC. https://openknowledge.worldbank.org/handle/10986/34380

58 The World Bank MNE Pulse Survey. https://openknowledge.worldbank.org/handle/10986/35803.

Figure 15.

Investment Retention and Investor-State Conflict Continuum



Countries typically focus on the beginning of the spectrum, meaning the problems faced by investors to make their investment operational through aftercare programs. Other times, they focus on the other end of the spectrum on mechanisms to manage investor-State disputes. Support on investment retention encompasses the missing middle of the entire conflict continuum (Figure 16).

Figure 16.

Implementation Activities Supporting Investment Retention

WBG support is provided to help governments build their capacity to:

i address operational risks through setting up **targeted aftercare programs,**

ii address political risks through setting up **grievance management mechanisms,** and/or

iii address both types of risks through a **comprehensive retention program.**

The specific type of WBG support provided to governments is based on their needs and capacity. In all three cases, support to client countries entails three components, including the development of an institutional setup, operating procedures, and measurement and evaluation.[59] Broadly, this entails the following:

- **Empowering a Lead Agency:** There should be a government agency with power and attributions ideally conferred by laws or regulations that is responsible for implementing measures to improve retention of investment. This Lead Agency should coordinate problem solving processes and the diffusion of relevant information to national, subnational, and sector-specific agencies more likely to generate or become involved in investment issues. The Lead Agency should also have recourse to advocate for the reform and improvement of investment conditions. Where needed, establishing access to an escalation mechanism for raising issues requiring high level political decision making is important.
- **Detecting and recording of investor issues:** The Lead Agency's response can be proactive (e.g., Lead Agency visits the private sector) or reactive (e.g., private sector communicates with the Lead Agency). To support proper data collection and monitoring of the resolution process, a tracking tool is developed and customized to client's needs. It helps monitor whether the problem is resolved and how much investment is retained and expanded as a result of the resolution of the problem.
- **Conducting Legal and economic assessments:** For political risk, it is crucial that the grievance be analyzed from an economic and a legal perspective before the Lead Agency coordinates with other agencies to resolve the grievance. The economic assessment estimates the potential impact of the grievance in terms of the amount of investment and the number of jobs at risk. The economic assessment is complemented by a legal analysis to determine the likelihood of liability of the host state should the grievance escalate into a full-blown investor-State dispute. In this area, support is provided to build government capacity to understand investment rules, both domestic and international, including investor protection guarantees. For operational risks, the economic assessment is important to be able to advocate for the change.
- **Using a Variety of Problem-Solving Methods:** Based on the political economy of the country, government capacity is built to empower the Lead Agency to use different problem-solving methods to directly address and negotiate a solution with the agencies involved in the problem. These methods range from simple exchanges of information to mechanisms of peer pressure or legal advisory opinions.
- **Making Wise Political Decisions:** Often the Lead Agency may not have the political authority to discipline another peer agency. In this case, the problem is elevated to higher political levels, such as the Ministerial Cabinet and in some countries special Ministerial Councils chaired by the President or Prime Minister. Support is provided to determine the right institutions for such escalation as well as processes for the Lead Agency to monitor and track the resolution process.

59 Innovative Mechanisms to Redress Investor Issues (Kher, Obadia and Chun, Forthcoming)

Investment Retention Theory of Change

Market Failures	Interventions	Outputs	Outcomes		Impacts
Identified recurring and specific risks affecting investment retention & expansion. Lack of coordination, processes, information, service delivery within the government for timely detection and resolution of investor issues	Institutional Set Up Improvement in retention services delivery	• Diagnostics: Assessment of the types of investor issues, their impact, existing resolution/ service delivery • Strategy/ Design Proposal • KPIs • SOPs/operating manual • Capacity building materials • Tracking tool • User Manual for Tracking Tool	• # of implemented changes: establishment of IRM, SOPs, manual, strategy, KPIs adopted, escalation, coordination protocols adopted, problem solving techniques • Improvement in institutional functioning/service delivery: (# issues recorded) • # issues addressed/resolved • reduced time in resolving issues/disputes # projects retained, investment at risk recorded)	• Improved investor confidence due to effective handling of investor issues • Improved service delivery (reduced timelines for resolving investor issues) • At completion/post implementation -# projects retained Effective handling of investor issues, preventing their escalation into legal disputes	**At completion: $ Investment retained (IR)** (in development) **# investment projects retained**
Lack of systematic collection of data on investor issues and their impact	Electronic Tracking Tool (with retention features)		Electronic tracking tool with retention features implemented	Efficient processes to facilitate resolution of investor issues	

- Outcome examples: Administrative provision establishing IRM, adoption of operating manual; SOPs, coordination protocols, Electronic Tracking Tool, MOUs and SLAs with partners
- Criteria for reform validation: 1. Meet the reform count criteria 2. Evidence on the first signs of outcomes (i.e., # issues registered, issues resolved)

Country Examples of Investment Retention Work

Grievance Management and Systematic Advocacy in Jordan

Jordan has experienced a general decrease in FDI inflows for the last ten years, including a drastic drop in 2018. The Government is embarking on efforts to ensure the sustainability of investments and attract new, diversified long-term investments that generate beneficial spillovers. As part of this effort, the government recently established within the Jordan Investment Commission (JIC), a grievance committee focused on political risks. The Grievance Committee composed of five staff from different units of the JIC was formed to manage and track investors grievances. The World Bank provided support towards establishing an appropriate institutional set up, clear operating procedures as well as a tracking tool to record information and monitor resolution of the investor grievances. An investment grievance management mechanism (IGM) was formalized by two legal instruments. The primary mandate of the Grievance Committee is to address issues faced by an investor due to government conduct that potentially impacts the investor's rights or guarantees contained in a domestic law, IIAs, or contracts between the investor and the government entity. Importantly, the Grievance Committee was established to include links to the PPD platform. It will coordinate with the PPD platform regarding any systemic issues and concerns received from investors. The platform is particularly relevant to lead in policy advocacy to ensure proper consultations of the private sector for new regulations and pursue broader investment climate reform.

Investment Ombudsman in Brazil

Although Brazil receives the largest foreign direct investment (FDI) flows of any country in the region, investments are mostly directed toward exploiting natural resources or setting up subsidiaries to serve the domestic market and are geographically concentrated in large and developed states. Efficiency-seeking FDI to establish stages of production in regional value chains remains limited. In order to increase efficiency-seeking FDI and address bottlenecks faced by foreign investors, which included increased operational costs, corruption, frequent changes in laws and regulations as well as issues with the implementation of investor rules, Brazil established the Direct Investment Ombudsman (DIO) with the support of the World Bank Group and the UK-funded Improving Business Environment for Prosperity Program. Access to the DIO was broadened to include investors from all counties even in the absence of a ratified Cooperation and Facilitation Investment Agreement with a particular country. In April 2019, the Brazilian government issued Decree No. 9770 establishing the DIO covering all investors regardless of their nationality. DIO's two main functions are to address (i) inquiries to provide information to potential and existing investors concerning legal and regulatory procedures to enter and operate in the country and (ii) investors' grievances. Both inquiries and grievances are jointly addressed with the public agency responsible for the specific matter at the federal, state or municipal level with the help of a Network of Focal Points designated across the government. In addition to providing recommendations on the establishment and operating procedures of the DIO, the World Bank provided support towards implementation at the subnational level through engagement with the local governments of 5 states and through extensive dissemination. The DIO also benefits from a grievance tracking tool and external website. Through this website and tool, officials can receive, track and follow up on all investors' issues and grievances from the time they are submitted by investors to their resolution—capturing all actions taken by the government towards the resolution of each grievance. The platform also allows the government to obtain aggregate data on the most recurring types of grievances, the agencies involved, the time it takes to solve grievances, and other measures. Between April 2019 (launch of the DIO portal) and November 2021, a total of 25 cases were received (13 consultations for information and 12 investors' grievances).

Knowledge Management and Tools

- Global Investment Competitiveness Survey 2019
- Policy Options to Mitigate Political Risk and Attract FDI (2020)
- Retention and Expansion of Foreign Direct Investment: Political Risk and Policy Responses (2019)
- Regulatory Risk and FDI, Chapter 4, Global Investment Competitiveness Report (2020)
- Reducing Regulatory Risk to Attract and Retain FDI (2021)
- Institutions for Investment (2019)
- Innovative Mechanisms to Address Investor Issues (Forthcoming)
- Joint WAIPA-WBG Global IPA report (2020)
- Investment Retained Methodology Note for project M&E purposes (2021)
- Global databases on (I) Investment Laws (2) Regulatory Risk

Forthcoming:

- Drivers of Divestment and FDI
- Reducing regulatory risk in Renewable Energy

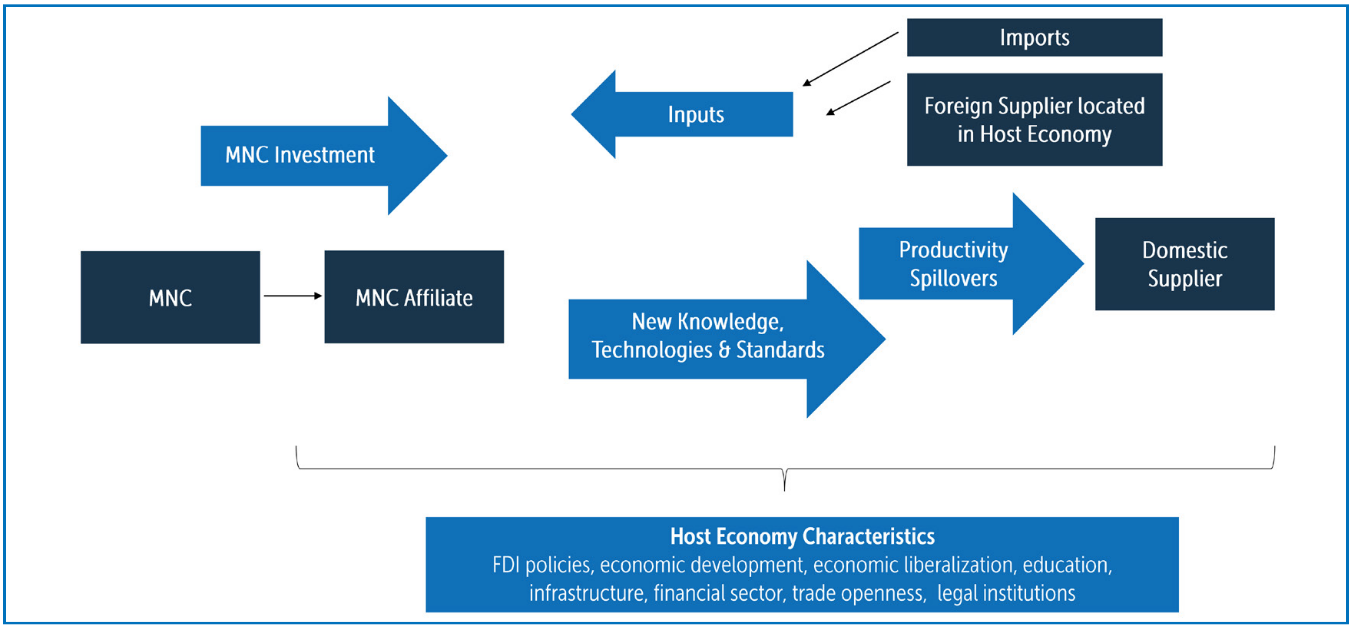
Linkages

Rationale and Context

Vertical linkages between FDI and local firms are an important channel to transfer new technology, knowledge, and improved standards to local firms in host countries. Closing the information gap between domestic firms and multinational enterprises (MNEs) and investing in supplier development programs can be a key step to increase competitiveness. Furthermore, a competitive domestic supplier base is attractive to potential new investors and increased local linkages help embed foreign investors in the local economy, encouraging them to apply a more long-term strategic vision for their investment in the country. As a result, greater domestic value addition and more income is generated in client countries.

Figure 17.

Attracting and facilitating MNC investments: Backward linkages between MNC affiliates and domestic suppliers[60]



Source: WBG 2020

International experience suggests that investing time and resources in promoting FDI linkages and upgrading local firm capacity pays off. The presence of foreign firms in the host economy can become a major driver of local firm productivity growth and offers opportunities for local firms to integrate into international production networks. Backward linkages between MNEs and domestic suppliers can promote the diffusion of knowledge, spread good management practices, and help domestic suppliers upgrade their technical and quality standards.[61] These linkages offer a direct channel for positive FDI spillovers and technology transfer for local firms in developing countries[62]. This dynamic effect is increasingly seen as the most important impact of FDI, fostering technological development and long-term growth in host economies.[63] What is more, such linkages are a key step towards internationalization of host country firms.[64]

60 The terms MNC (multinational corporation) and MNE (multinational enterprise) are used interchangeably for this note.
61 Du, Harrison, and Jefferson 2011; Javorcik and Spatareanu 2009; Javorcik and Li 2013
62 Jordaan, Douw, and Qiang 2020; Farole and Winkler 2014
63 Keller 2010, Alfaro 2017
64 Qiang, Lu, and Steenberger 2021.

Despite the evidence of positive spillovers generated by FDI linkages, proactive effort and assessment is necessary to ensure that policy measures support these linkages. The process of creating supply chain linkages is by no means automatic. It is a function of multiple factors that can broadly be summarized as: (i) the spillover potential of FDI, (ii) the absorptive capacity of domestic firms and (iii) the host country's business policy and institutional environment. The scope and scale of FDI linkages and technology transfer can therefore vary significantly between countries. In order to realistically assess the opportunity and determine which policies to prioritize, these factors need to be understood.

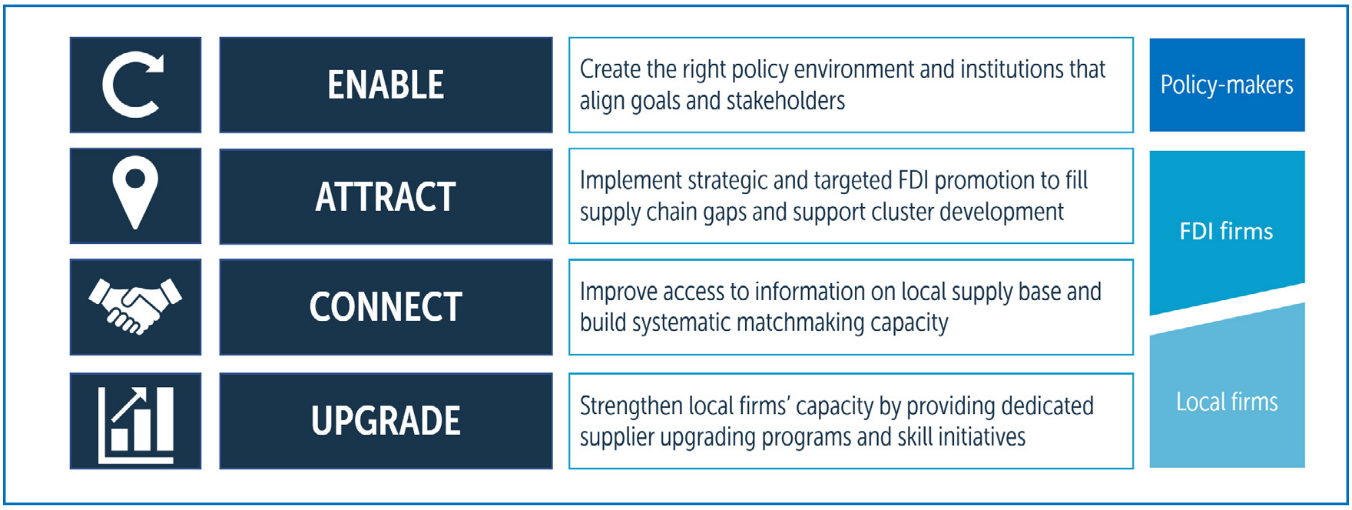
Implementation Activities

Interventions geared towards supporting host country governments to strengthen the development of FDI linkages include:

- Assessing the scope and size of the opportunity for FDI linkages and identifying policy constraints preventing that potential from being reached.
- Providing advice to client governments on developing a strategy including tailored implementation solutions for linking high potential domestic firms to foreign investors and GVCs.
- Providing capacity building to leading institutional stakeholders to implement FDI linkages policies in their service offering.
- Providing support for the design and implementation of Supplier Development Programs (SDPs) that aim to connect actors and improve firm competitiveness.

Figure 18.

Strategic pillars of FDI linkages promotion



Source: World Bank Group

The approach is built on four broad pillars that offer a mix of policy instruments and measures to address specific market failures and constraints: (1) an enabling investment environment, (2) targeted FDI attraction, (3) linkage promotion services and (4) local firm capacity upgrading. Host economies that manage to expand the integration and participation of local firms in FDI supply chains typically employ a mix of policy interventions along these four pillars. Interventions to encourage linkages directly support the JET agenda through contributing to increases in productivity, and impacts can include generating investment, increasing local sourcing and domestic value addition, creating jobs within local suppliers, and improving local firm management and operational performance.

Enable: policy environment and institutional landscape

Government institutions should increase coordination and policy focus. A first step in leveraging the presence of MNEs to develop internationally competitive local firms is to have a clear vision and policy framework in place that fosters investment attraction and private sector entrepreneurship. The vision should be informed by a realistic assessment of the linkage opportunity, the needs of MNEs, capabilities of local firms, and global industry trends. Findings then should be aligned with relevant national policies related to industrial and sectoral development, trade, education, and labor markets. Policy measures should not interfere with sourcing strategies of business per se since those that try to 'enforce' the integration of host economy firms into FDI supply chains (e.g., using local content requirements, import restrictions) tend to hurt overall productivity, value-addition, and the location attractiveness for FDI to enter or expand.

Attract: strategic and targeted FDI promotion

Attracting foreign suppliers may fill supply chain gaps and increase the potential for FDI linkages. In case competitive local firms cannot be found or developed to meet the needs of MNEs in the host economy, a strategic and targeted investment promotion approach is recommended to attract international competitive suppliers that can fill gaps in the supply chain or broader business eco-system that supports MNE operations. Thus, FDI promotion provides an avenue for complementing and strengthening the existing domestic supply base. Such international suppliers help anchor MNEs in the host economy and have sourcing needs of their own, thus creating additional market and spillover opportunities for local firms.

Connect: provide up-to-date information and matchmaking support

Overcoming information asymmetry between MNE demand and availability and the capabilities of local firms can lead to improved linkages outcomes. Digital marketplaces and capacity-building to conduct matchmaking services are practical steps to foster linkages. The rise of digital technology and B2B platforms has transformed buyer-supplier relationships, offering new ways for buyers and suppliers to connect and network.65 Many governments have used a variety of digital tools to reduce search costs and contract frictions. Access to reliable information on local suppliers can help sensitize foreign investors to local sourcing opportunities that could potentially reduce their operating costs – thereby making the location more attractive to potential new FDI. Matchmaking implies a more proactive role than information provision and focuses on the specific needs of MNEs based in the country, the capabilities of relevant local firms and working closely with them to ensure targeted introductions. Results of the 2017/2018 Global Investment Competitiveness (GIC) Survey show that 68 percent of investors find information on local suppliers important, and 42 percent find matchmaking events facilitated by government to be important.66

Upgrade: implement targeted supplier development programs

Upgrading the capabilities and competitiveness of local firms in host economies is the cornerstone of an effective FDI linkages program, and global experience confirms that targeted SDPs can substantially increase competitiveness of local MSMEs.[67] Meeting international standards in terms of quality, cost, delivery, flexibility and technology is essential for local firms to enter into business relationships with MNEs. All international best practice examples of linkages programs therefore include some aspect of demand-led and targeted local SDPs, albeit with varying degrees of MNE involvement, focus and success.[68] Similarly, skills

65 Empirical studies show that helping firms discover new markets and building relationships with clients can improve productivity and likelihood of linkages. (Atkin, Khandelwal, and Osman 2017, Cai and Szeidl 2017, Bisztray et al. 2018).

66 World Bank Global Investment Competitiveness Report 2017/2018.

67 An assessment of the magnitude of the linkages channel as a means to internalize MNE spillovers confirms that, when targeted on high growth firms, an increase of 1 percentage point in the share of inputs sourced domestically by MNEs is correlated with a 0.6 unit increase in output growth and about 60 percent increase in sales of two years. World Bank Group (2018)

68 See WBG 2019 for a summary of best practice case studies (http://documents1.worldbank.org/curated/en/770581571378770416/pdf/Expanding-FDI-Localization-and-Linkages-in-the-Russian-Federation-Perspectives-of-Firms-and-Lessons-from-Global-Experience.pdf)

development policies will simultaneously increase local firms' absorption capacity as well as an economy's overall competitiveness and attractiveness for FDI. In addition, the GIC Survey shows that the skills and capacity of suppliers in their host country is the most important factor in their sourcing decision as three-quarters of investors indicated.

Linkages Theory of Change Theory of Change

	Outputs	Outcomes		Impacts
DVA policy	• FDI linkages policy/ strategic action plan. • Note on reform options around distortive policies, e.g., LCRs, incentives.	• Enhanced policy coordination and distortive policies removed.	A more conducive business environment for linkage development and productivity spillovers.	• **Local firm management & operational performance improved** *(Indicators:* improved benchmarking score, annual sales revenue, export revenue). • **Increased local sourcing and DVA** *(Indicators: increased* value of contracts for goods and services provided to MNC by domestic suppliers). • **Investment generated** *(Indicators: $ investment by new international suppliers attracted)* • **Jobs created** *(Indicators: # of new direct jobs created by firms attracted or new suppliers to MNCs all/women)*
Information & matchmaking	• Local supplier database / online platform. • Building matchmaking services capacity at IPA.	• Supplier database and matchmaking services implemented (investors and suppliers registered on portal, new business connections & leads facilitated).	Investors have improved access to information on local suppliers and local sourcing opportunities (and vice-versa).	
Access to competitive suppliers	• SDP design and operational manual. • Targeted investment promotion to attract global suppliers. • Removing entry barriers (services).	• SDP implemented, improving local firm QCD performance and generating leads and site visits, policy reform.	Investors have access to a more qualified and competitive pool of domestic suppliers. Benchmark center.	

Country Examples of Linkages Work

Vietnam: Support to the Ministry of Industry and Trade (MoIT) in implementing a Supplier Development Program

In 2018, the Ministry of Industry and Trade (MoIT) of Vietnam, with support from IFC and the World Bank, launched a pilot Supplier Development Program (SDP) to address a long-term paradox in the economy, i.e., success in attracting FDI, yet limited benefits spilling over into the wider economy. The pilot SDP focused on upgrading the supplier network for electronics, automotive, and household appliances and collaborated with 8 MNEs (Toyota, Ford, Denso, Bosch, Canon, General Electric, Datalogic, Panasonic) to provide strategic guidance, market perspective, and business opportunities. The program aims to expand the participation of Vietnamese firms in the MNEs' supply chains, leading to increased linkages and business between them. It was anchored around the provision of targeted and systematic business consulting and upgrading support, designed in close collaboration with the MNEs to ensure alignment with industry needs.

Each participant supplier was individually assessed, benchmarked, and received an improvement plan identifying performance gaps based on MNE sourcing requirements. The assessment looked at the whole of the business to identify those improvement areas most important for stability and long-term competitiveness of the firms. Senior international experts had been working with each firm to assist them in the implementation of these improvement plans over a 2-year period, while also coaching local consultants on the job to strengthen the business development services available in Vietnam. More formal group training workshops on common topics of learning were also part of the pilot SDP.

The Government of Vietnam adopted the proposed approach and methodology for supplier development and linkages promotion which is a novelty and the first time that the government is implementing such a program. By the end of the program, Vietnamese firms improved their performance in key competitiveness areas, measured by an increase over the benchmarking score of 20 percent on average. The results of an online survey of SDP participants confirmed the improvement of Vietnamese firms' competitive positions. More than 70 percent of firms reported that they enhanced their capacity and applied new standards and management tools and 50 percent reported that they increased profits and turnover. Nearly half of the cohort has qualified as new suppliers and established new linkages with MNEs. The pilot SDP also helped to improve institutional coordination between the public and private sector through the establishment of a public-private Advisory Board to guide the design and implementation of the program. This established a new platform for dialogue and contributed to enhanced focus and market-orientation of public support programs for private sector development. The government of Vietnam since decided to replicate the SDP approach for a broader group of sectors and firms.

Guinea: Promoting mining spillovers to create local jobs and increase domestic value addition.

The WBG supported the Government of Guinea in promoting FDI linkages to generate more opportunities for the large-scale investments in the mining sector to benefit the Guinean private sector and spur growth and diversification. The technical assistance provided to the Government included several analytical pieces that helped explain the potential and conditions needed to strengthen FDI linkages in the mining sector and advised on policy reforms needed to encourage FDI linkages development. The FDI Linkages Program for Guinea started with a clear focus on closing the information gap and introducing a platform that encourages broad participation. A multi-stakeholder governance mechanism was set-up together with the Ministry of Mining and Geology and the online marketplace designed based on the feedback received from consultations with FDI and Guinean business representatives, the public sectors and civil society. Furthermore, an operational manual on how to use and maintain the marketplace was prepared and capacity building on marketing and business opportunities was facilitated through the platform provided.

In 2019, the digital marketplace was launched and by June 2021 had resulted in USD 17 million in total contracts facilitated through the platform from which 44 Guinean firms benefitted. Registration expanded to include 1,600 local firms, including 111 women-owned businesses, and five major mining operators. To address a critical access to finance constraint of Guinean firms trying to meet FDI buyers, six commercial banks were brought onto the marketplace and provided USD 9 million in loans for upgrading technology, skills, and capacities. The Government of Guinea has recognized the digital marketplace as a tool to engage the domestic private sector and to complement regulatory measures to increase local content with those that enable connections and emphasize competitiveness improvements.

Knowledge Management and Tools

- Multinational Corporation Affiliates, Backward Linkages, and Productivity Spillovers in Developing and Emerging Economies: Evidence and Policy Making (2020)
- Investment Linkages and Incentives: Promoting Technology Transfer and Productivity Spillovers from Foreign Direct Investment (2020)
- Foreign Direct Investment, Backward Linkages, and Productivity Spillovers: What Governments Can Do to Strengthen Linkages and Their Impact (2020)

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Annex 1. Investment Climate Unit Flagship Publications

- Global Investment Competitiveness Report 2019/2020: Rebuilding Investor Confidence in Times of Uncertainty.
- Global Investment Competitiveness Report 2017/2018: Foreign Investor Perspectives and Policy Implications.

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