TRADE, INVESTMENT AND COMPETITIVENESS

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EQUITABLE GROWTH, FINANCE & INSTITUTIONS INSIGHT

The Role of Subnational Investment Promotion Agencies

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WORLD BANK GROUP

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Executive Summary

Successful subnational investment promotion agencies (IPAs) have operated in different parts of the world since the 1980s. However, in recent decades there has been relatively rapid growth in the number of subnational IPAs worldwide and in many countries, both in the developed and developing world. Nevertheless, with the notable exception of Crescenzi, Di Cataldo, and Giua (2021), relatively limited empirical evidence is available on the strategies, structures, and services of these subnational IPAs.

As an aid to policy makers, as well as a prompt to future research on the topic, this note seeks to draw together what we know about subnational IPAs. The note is based on a review of the available research literature on this topic and interviews with a limited number of subnational IPAs across the world. The survey was qualitative in nature, and it does not seek to be a representative sample of all subnational agencies. Rather, it is designed to surface some greater understanding of the rationale, nature, form, and functions of subnational IPAs and to raise important policy questions.

The note concentrates on identifying the main factors that define the differences between national and subnational IPAs. Yet this note contends that many of the established best practice features of national IPAs, for example as set out by The World Bank (Heilbron and Whyte. 2019; Heilbron and Kronfol. 2020) also apply to these subnational entities.

However, there are some significant additional factors relevant to the subnational level that need to be considered by policy makers. In particular, the dynamics – in terms of position, functions, and powers – between the national IPA and the subnational IPAs in the same country are complex and will vary substantially across different countries. These relationships need to be defined very carefully and will influence the relative success or failure of the subnational model adopted in any country.

The note starts by examining the rationales—economic and other locational factors—that have led to the creation of subnational IPAs in the past. This is an important issue because the exact rationales not only define the need for a subnational IPA but also point clearly toward its specific goals and functions and the key performance indicators of the agency. Of particular importance is how the subnational IPA fits within a strategy for regional economic growth.

Subnational IPAs, by definition, report to local and provincial governments with their different operating modalities, funding structures, and governance arrangements. They also need to work with different types of local bodies, and the ability to create and sustain networks is a core aspect of subnational IPAs. The mandate, structure, and funding of subnational IPAs, as well as their operational rules and actions, must be designed very carefully to reflect these different circumstances.

Given their proximity and local networks, subnational IPAs are able to establish close and long-lasting relationships with their investors. These connections can help support investors directly while also ensuring that the investors become active participants in shaping future regional economic strategies. The ability to establish and maintain strong local networks is not just necessary for subnational IPAs, it can be a source of competitive advantage, allowing investors to integrate quickly into local economic systems. The interview sample highlights a number of interesting coordination models and practices.

The note also draws out the importance of providing high-quality investor services across all four stages of the investor life cycle. Services that offer tailored and accurate information and assistance—and thus help overcome information and coordination asymmetries—are core to subnational IPAs. Yet the qualitative research identified that these agencies also play an active role in investor attraction.

There is one significant risk in the establishment of subnational IPAs. Although they clearly play an important and growing role in the investment promotion landscape, regional IPAs must be wary of strategies that might lead to unwanted negative effects through unhealthy cross-regional competition for investments—for example, competition based on bidding up incentives.

Finally, the note also offers suggestions to further research into this topic.

Introduction and Purpose

Background

Investment promotion agencies (IPAs) are playing an increasingly more significant role in the development of the national and regional economies in which they operate. They have the potential to generate larger foreign direct investment (FDI) inflows, including the attraction of higher-quality FDI, and to deepen the integration of their economies into global value chains (GVCs) (Harding and Javorcik 2011; Heilbron and Kronfol 2020).

Research suggests that the presence of foreign firms can improve the competitiveness of a region, bringing high-quality jobs, new technologies, and new management practices that assist productivity growth (Copenhagen Economics and Blomström 2006). The considerable growth in the number of IPAs operating at subnational levels over recent decades is therefore unsurprising. Successful subnational IPAs have operated in Europe since at least the 1980s and have been an important feature of the North American economic development landscape since the 1990s. One of the interesting phenomena over the past decade, however, has been the rapid growth in the number of subnational IPAs worldwide. Many countries, in both the developed and the developing world, now have subnational IPAs operating at provincial, state, and municipal levels. They have become an established part of the economic institutional landscape.

Although the existence of such agencies is known, surprisingly little is known about them. Limited empirical evidence is available on the structures, forms, functions, and impacts of subnational IPAs.

Most studies and surveys of IPAs have concentrated on national IPAs (OECD 2018; Sanchiz and Omic 2020); although they share common characteristics with national agencies, little evidence to date specifically describes the diverse nature of subnational IPAs.

One recent exception has been the work of Crescenzi, Di Cataldo, and Giua (2021), which demonstrates the significant economic value added that subnational IPAs can create for their regions. That research points out that because of their greater knowledge of local economic conditions and their physical proximity to investors within their economies, subnational IPAs can make a significant contribution to foreign investment attraction, retention, and growth, particularly in relation to knowledge-intensive industries—hence, to regional economic performance.

Purpose and Methodology of This Note

As an aide to policy makers and a prompt to future research on the topic, this note seeks to draw together what is known about subnational IPAs. The note is based on a review of the available research literature on this topic (see References) as well as interviews with a limited number of subnational IPAs undertaken by the World Bank Group (WBG) to support the development of this note.

Staff of the World Bank Group undertook interviews with 16 subnational IPAs between February and April 2022. Those IPAs (see table 1) were selected to seek representation across the regions of the world and to cover subnational IPAs at provincial, state, and municipal levels. Where possible, more than one IPA in a country was interviewed.

The survey was qualitative and, as such, it has limitations and draws on evidence from some of the longer-standing and high-performing subnational IPAs. The list of interviewed IPAs does not seek to provide a representative sample of all subnational agencies; rather, it is designed to surface some greater understanding of the rationale, nature, form, and functions of subnational IPAs and to raise important policy questions.

Details of the subnational IPAs interviewed for this exercise are provided in table 1. Those interviews, combined with other evidence and existing IPA best practice guidance (mainly derived from national IPAs), have been used to shape the insights for policy makers presented in this paper.

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TABLE 1. Subnational IPAs Interviewed (in alphabetical order)

Metropolitan IPA	Country	World Bank Region	Website
Copenhagen Capacity	Denmark	Europe and Central Asia	https://www.copcap.com/
Invest in Bogota	Colombia	Latin America	https://en.investinbogota.org/
Invest HK	Hong Kong SAR, China	East Asia and Pacific	https://www.investhk.gov.hk/en/home.html
InvestKL	Malaysia	East Asia and Pacific	https://www.investkl.gov.my/
Toronto Global	Canada	North America	https://torontoglobal.ca/

Provincial/State-Level IPA	Country	World Bank Region	Website
Catalonia Trade & Investment	Spain	Europe and Central Asia	http://catalonia.com/about_us.jsp
Invest Minas	Brazil	Latin America and the Caribbean	https://www.indi.mg.gov.br/en/home/
Invest Ontario	Canada	North America	https://www.investontario.ca/invest-ontario
Invest Pacific	Colombia	Latin America and the Caribbean	https://investpacific.org
InvestPenang	Malaysia	East Asia and Pacific	https://investpenang.gov.my/investing-in-penang/
Invest in the West Midlands	United Kingdom	Europe and Central Asia	www.investwm.co.uk
Maharashtra Industrial Development Corporation (MIDC)	India	South Asia	https://www.midcindia.org/investors/guide-to-investing/
One Columbus	United States	North America	https://columbusregion.com/our-organization/
ProBarranquilla	Colombia	Latin America and the Caribbean	https://probarranquilla.org/
Scottish Development International (SDI)	United Kingdom	Europe and Central Asia	https://www.sdi.co.uk/
Wesgro	South Africa	Africa	https://www.wesgro.co.za/corporate/home

Structure of the Note

This note looks at why subnational IPAs exist and the (mainly economic) rationales that have influenced their creation (section 2). It also explores how subnational IPAs align with established good practices in investment promotion in terms of their strategies, their institutional structures, and the services they provide to investors across the investor life cycle (section 3).

The note also considers the nature of institutional relationships and partnerships that subnational IPAs seek to develop at the national level and within their own regions (section 4). Finally, based on its findings, the note sets out some key factors for policy makers to consider when seeking whether and how to establish and enhance subnational IPAs and ways to maximize the impact they might have on their regional economies (section 5), along with conclusions and a suggested agenda for further research on this important topic (section 6).

Why Do Policy Makers Establish Subnational IPAs?

As mentioned, evidence shows clearly that the number of subnational investment promotion agencies worldwide has grown significantly over the past couple of decades (World Bank Group 2020), with the geographic proximity between local IPAs and investors becoming more important. In addition, with changes in global value chains following the COVID-19 pandemic, subnational factors play an increasingly important role in the location and expansion decisions of many investors (Crescenzi and Harman 2022).

As the Organisation for Economic Co-operation and Development (OECD) notes, “Different activities, approaches and strategies are suitable for different countries, even with similar economic contexts” (OECD 2018). Although that quote refers to national IPAs, the same seems to apply at the subnational level. Despite that heterogeneity, evidence gathered from the interviews with selected subnational IPAs[1] highlights that a clear economic rationale exists for their establishment and that other factors (such as the extent of devolution and the relative strengths of the existing institutional landscape) also play an important role in decisions to create subnational IPAs and influence the nature and scope of their services.

The rationale for creating a subnational IPA seldom stems from one factor only. Most often, a mix of those contributing factors creates a compelling case.

That finding is important because, once identified, the relevant factors usually lead not just to a decision to establish an agency with respective mandates, but also to the shaping of its goals and objectives, hence determining the IPA’s investment strategy. In turn, the goals and objectives shape the specific sectors to be targeted for investment by a region and the services to be provided by those agencies to their investors, therefore influencing the key performance metrics for those IPAs. The evidence gathered suggests that action to establish IPAs at the subnational level without due consideration of the following factors is likely to lead to suboptimal performance.

1 Interviews were conducted from February to April 2022 with 16 selected subnational IPAs.

Economic Rationales Influencing the Establishment of Subnational IPAs

Regional Economic Growth Strategies

Aspirations for higher levels of economic growth are almost always a key factor in considering the role that might be played by a subnational IPA. Policy makers should consider what role FDI might play in helping achieve the goals of the economic growth strategy of the region and, hence, what role a subnational IPA might play in attracting new FDI and in retaining and growing existing investors.

Research into FDI and regional growth in Europe concludes that FDI forms an integral part of regional growth policies and is increasingly integrated into regional growth strategies (Copenhagen Economics and Blomström 2006). The IPA interviews for this note clearly show that many subnational IPA mandates are set within a wider regional economic strategy. Investment promotion forms one key pillar of the growth plans for the territory, usually alongside policies that promote trade, improve skills, support small and medium enterprise (SME) development, and enhance infrastructure for the region. In theory, that positioning enables the subnational IPA to influence wider regional competitiveness and attractiveness factors, making advocacy for investment reform more straightforward.

For example, One Columbus, undertakes investment promotion work as part of a shared economic strategy for growth and prosperity across the region.

> The One Columbus mission is to lead a comprehensive regional growth strategy that develops and attracts the world's most competitive companies, grows a highly adaptive workforce, prepares its communities for the future, and inspires corporate, academic, and public innovation throughout the 11-county Columbus region.

A similar approach can be seen with other subnational IPAs interviewed, such as Invest in the West Midlands and Copenhagen Capacity. Previous work by the World Bank Group revealed the importance of this shared strategic vision for FDI across government and that the absence of it will weaken FDI efforts (Heilbron and Kronfol 2020; Heilbron and Whyte 2019).

Work on FDI and regional development also highlights that by enhancing the local supply of human capital and modern infrastructure and by improving other fundamentals for economic growth, not only do regions become a more attractive host location for foreign firms but the extent of benefits those foreign firms generate can increase through spillover mechanisms (Ecorys 2013).

Within that wider goal, however, and depending on the economic health of the region, several distinct economic rationales were evident from the IPAs interviewed (illustrated in figure 1). The rationale for many of the cases interviewed were related to specific economic challenges or opportunities that a region faced (for example, industrial restructuring leading to the need for sector diversification and new job creation). IPA creation may also be influenced by situations in which national and subnational economic goals and priorities are different, for example, in relation to the focus on different priority sectors.

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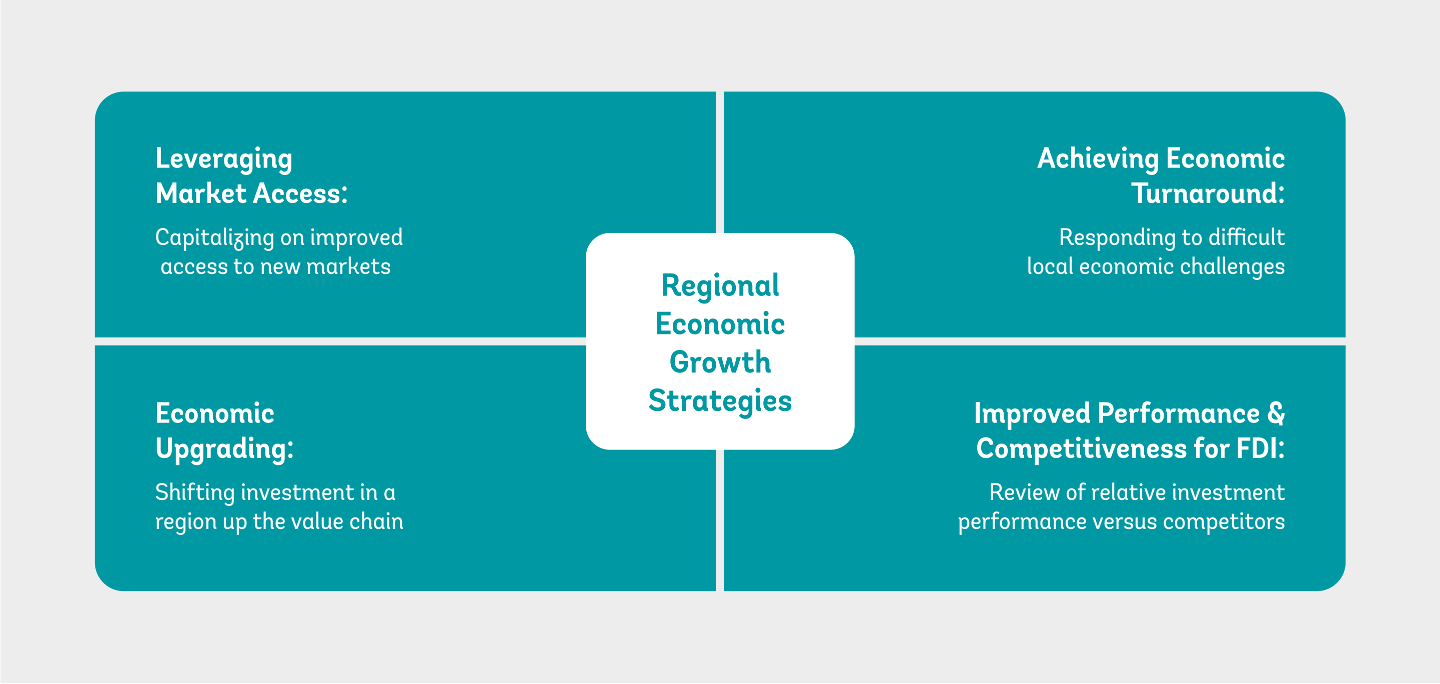
FIGURE 1. Economic Rationales for Establishing Subnational IPAs



Source: World Bank illustration.

Contributing to (or Leading) an Economic Turnaround

Some subnational agencies were formed in response to specific regional economic challenges. For example, during the significant industrial restructuring that took place in Scotland in the early 1980s, the government established a dedicated IPA (then named Locate in Scotland) to attract new investment and jobs to Scotland.

More recently, following the financial crash of 2007–08, Columbus, Ohio, established a new entity to lead the plans for economic transformation, including inward investment (One Columbus). A similar rationale can be seen in the establisment of Invest Pacific in 2011, as a response to the economic challenges Colombia experienced in previous decades.

Improving the Positioning or Competitiveness of a Region for FDI

Subnational agencies have also emerged following an assessment of the relative FDI performance of a region. For example, InvestKL (Kuala Lumpur) was established in 2011 following work to consider the relative competitiveness of the national capital region to attract regional headquarters compared with other locations, such as Singapore or Hong Kong SAR, China. An assessment of the FDI attraction performance of the Greater Toronto Area in 2015 supported the case for the creation of Toronto Global, an IPA focused on attracting more new investment to the metropolitan region.

Supporting Targeted Economic Upgrading in Sectors Where Investment Has Already Been Attracted

Regions that have been successful in attracting certain types of FDI have used the opportunity to increase value from those investments as a rationale for establishing a dedicated subnational agency. For example, since the 1970s, Penang (Malaysia) has been a leading location for the attraction of electronics to the Asia Pacific region, bringing in significant international investments. More recently, the regional economic strategy set out to increase the value added from inward investment, and, in 2004, InvestPenang was established to lead a strategy of economic upgrading through FDI.

Leveraging Market Access Opportunities

FDI often is driven by access to market factors, and a change in the positioning of a region can influence the rationale for establishing a subnational agency. Catalonia Trade & Investment was formed as a focused FDI organization in 1985, one year before Spain formally joined the European Economic Community, significantly improving access to European markets from Catalonia. Although all parts of Spain benefited from the increased market access to European markets, regional IPAs have been established at different times to try to increase the benefits of such EU access to individual regions.

As illustrated by those specific rationales, the case for establishing a subnational IPA comes with clear indications of the strategic goals and key performance indicators (KPIs) of the agency and the range of services delivered. This topic is described further in sections 3 of this note.

This latter point can be illustrated through the following example:

> Malaysia's Vision 2020 called for the country to reach developed nation status by the year 2020. InvestKL was established in 2011 as part of this national agenda to strategically position Greater Kuala Lumpur for regional hub investments by large global multinationals and fast-growing companies.

Establishing a clear economic rationale for a subnational agency is an important first step for policy makers, setting out the nature of the regional economic challenge and what role FDI will play alongside other policy measures.

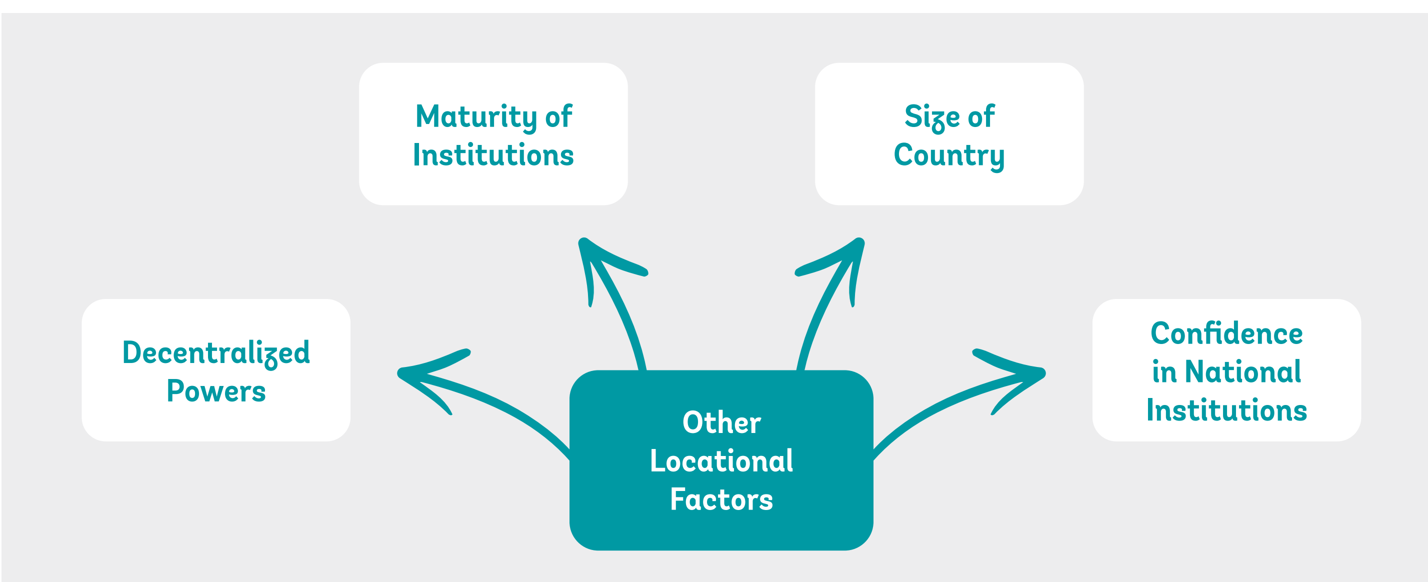
Other Locational Factors Influencing the Establishment of Subnational IPAs

Regional economic conditions and growth aspirations directly affect the case for and focus of a subnational IPA. Other locational factors (figure 2) also influence whether an agency might be created and the scale and scope of its activities.

From the interviews, the following locational factors appear to have played a significant role in the decision to create some subnational IPAs and should be considered by policy makers looking at the role, remit, and scale of subnational IPAs (section 5).

> > >

FIGURE 2. **Other Relevant Factors When Considering the Establishment of a Subnational IPA**



Source: World Bank.

Decentralization (Devolution of Economic Powers)

Some countries—such as Brazil, India, Spain, and the United States—have high levels of subnational power, and, over decades, more countries have devolved economic powers from national to subnational governments, often increasing the direct role of those territories in economic development. For example, regional devolution in Indonesia in the late 1990s led to the creation of several subnational agencies with investment promotion mandates. More recently, in the greater Birmingham metropolitan region in the United Kingdom, the creation of an elected regional mayor in 2017 led to the establishment of a dedicated IPA for the territory (Invest in the West Midlands). Ontario, Canada, recently formed Invest Ontario, moving out of direct government control, in part driven by an intent to remove investment promotion from the effects of political cycles (Nelson 2009, cited in Heilbron and Whyte 2019). Decentralization is also evidently a factor in shaping subnational IPAs in South Africa (Wesgro) and Colombia (Invest Pacific; Invest in Bogota).

The degree of decentralization also influences the scope and size of subnational agencies. For example, in part because of the significant degree of devolution of economic powers, Scottish Development International (SDI) and Catalonia Trade & Investment both have a scope of functions and services that are similar to those of many national IPAs.

Decentralization of economic powers also often extends to critical investment factors, such as access to skills, infrastructure, and SME support, with those factors aligned as part of a coherent regional economic growth strategy, as previously discussed.

Maturity of Existing Institutions

IPAs play a key role in coordinating the response of a location to the needs of an investor. Existence of a well-established and highly collaborative national IPA affects the form and scope of a subnational IPA, with any agency likely to directly offer more limited investor services. Conversely, several subnational IPAs interviewed were established before a national agency had been created in the country, and their functions and services provided reflect that fact—for instance, covering more of the front-end investor attraction services, such as marketing and information and assistance at the attraction stage.

The quality and maturity of state or provincial and metropolitan (city-level) institutions also influence the scope and services provided by a subnational agency. For example, the provincial IPA for the Western Cape, Wesgro, uses the resources and expertise of the city authority (Invest Cape Town) and the special economic zones and provincial economic development departments to support investor facilitation at the entry stage, demonstrating a clear and complimentary division of roles between those subnational entities. In regions where the local institutional landscape is less well developed, a subnational IPA can play an important role in ensuring that investors are able to access the information and support they need (Crescenzi, Di Cataldo, and Giua 2021).

Size of the Country

In many situations, geography matters. Large countries often have a strong case for the existence of substantial subnational IPAs to undertake investor support functions that would often sit at the national level in smaller nations. For example, in India, the Maharashtra Industrial Development Corporation (MIDC) covers an economy valued at around US$402 billion and attracts more than a quarter of India's FDI flows.[2] The agency demonstrates characteristics similar to many national IPAs elsewhere. Conversely, the ease of connectivity with the national IPA in some smaller countries, such as Denmark, often leads to a more focused range of investment promotion services provided at the subnational level.

Confidence in the National IPA to Represent Regional Priorities

Finally, the degree of confidence that regional actors have in the ability (or willingness) of the national IPA to represent their priorities can influence the need for and scale of a subnational IPA. In several of the regions interviewed, the political parties in power at the national level were different from those in power in regions. In some cases, that difference has led to the creation of subnational IPAs that are less reliant on the national IPA for key investor services, especially at the attraction stage of the investment life cycle. That factor can be accentuated where different sector priorities exist at the national and subnational levels—a topic that is explored further in section 3 of this note. In addition, in a recent survey by the WBG and the World Association of Investment Promotion Agencies (WAIPA) only 48 percent of national IPAs reported having their own regional offices within a country, and even if they did, often those offices would do not cover every region, which could potentially leave some regions unattended. In such cases, coordination between national and subnational IPAs might be a challenge (Sanchiz and Omic 2020).

Another consideration is the risk of poorly designed subnational IPAs, which can lead to unhealthy competition for investment and poor returns for the public investment made (Christiansen, Oman, and Charlton 2003). That issue is explored further in the sections that follow.

2 See the IPA website at https://www.midcindia.org/about-maharashtra/.

3.

How Do Subnational IPAs Align with Best Practices in Investment Promotion?

The World Bank Group has identified three core pillars for successful investment promotion (Heilbron, forthcoming; Heilbron and Kronfol 2020; Heilbron and Whyte 2019; World Bank Group 2020):

1. Strong strategic alignment and focus;
2. Coherent institutional structures or arrangements; and
3. Strong investor service delivery.

This section will consider the evidence gathered on subnational IPAs against those themes.

Strategic Alignment and Focus of Subnational IPAs

As shown in section 2, all the subnational IPAs interviewed were established within a clear economic rationale; consequently, each of those agencies has an explicit strategy that describes the contribution they will make to regional economic growth, the main activities they will undertake, and the way in which they will measure success via key performance indicators (KPIs).

Mandates

Subnational IPA mandates should reflect the strategic growth plans for the region. In fact, several IPAs interviewed operate within wider regional economic development organizations (EDOs), which influences their mandates and can lead to evolution in mandates over time as the EDO's strategy evolves. For example, Scottish Development International (SDI) has direct responsibility for investment promotion and trade development and is integrated into the regional EDO for Scotland, Scottish Enterprise. Similarly, Catalonia Trade & Investment has direct mandates for investment promotion, trade, and innovation and is integrated in the regional EDO (ACCIÓ—Agency for Business Competitiveness).

Both the Scottish and Catalonian EDOs carry a range of wider, devolved economic powers covering such areas as innovation, SME support and sector development. An important consideration is that both agencies operate in highly decentralized regions within the national context. The model of federal or centralized government within a country will affect the presence, form, and mandate of subnational IPAs.

Most subnational IPAs, however, are initially structured with a focused mandate on investment promotion, as was the case for Catalonia and Scotland as well as for Wesgro (the investment promotion agency for the Western Cape in South Africa). Over time, additional relevant mandates have been added as the agencies have matured and demonstrated their ability to deliver for stakeholders. Examples of additional mandates include responsibility for trade, tourism (including business tourism and conventions), and wider place promotion.

Wesgro, for example, now has responsibility for trade and tourism as well as for investment promotion. Invest in Bogota, which started as an agency focused on inward investment, has additional mandates related to entrepreneurship and conventions, and Copenhagen Capacity has a mandate for talent attraction alongside its core inward investment remit. In all cases, however, whatever the range of mandates held, the subnational IPAs interviewed have all retained specialist FDI functions and dedicated resources working to deliver high-quality investment promotion services—an important factor in the design of subnational IPAs.

Policy makers should consider the question of mandates carefully when establishing IPAs. Evidence shows a negative correlation between the number of mandates of an IPA and FDI flows, especially in developing countries (Heilbron and Whyte 2019; World Bank 2020). Globally, the WAIPA–WBG surveys of national IPAs suggests that they have an average of eight mandates (Sanchiz and Omic 2020), with developing-country IPAs tending to have more mandates than their developed-country peers (World Bank 2020).

For most of the subnational agencies interviewed, **domestic direct investment (DDI)** was also a part of their overall mandate. The emphasis on DDI varies considerably, however, with some agencies only responding reactively to domestic investor inquiries, whereas in other cases, DDI forms a significant part of the investment promotion pipeline and annual outputs (up to 30 percent of projects[3]), with proactive DDI outreach activities undertaken within the country.

One critique of the wrong kind of investment promotion (for example, incentives driven) is that it can encourage negative competition between locations and a "race to the bottom" (Olney 2013), particularly in the context of competition for domestic direct investment. Evidence from the OECD highlights the potential positive benefits of competition to efficient capital allocation, but it also reinforces the potential negative aspects of "investment poaching"—in other words, simply moving investors from one part of a country to another, with no added value to the overall economy (Christiansen, Oman, and Charlton 2003). The same risk can exist within regions. That situation should be avoided when setting the focus and mandate for subnational IPAs. It was Interesting to note that although DDI forms part of their mandates, all the subnational IPAs interviewed reported seeking to avoid simply relocating existing investors from one region to another within the same country, where no net increase in jobs or investment for the nation may exist.

New Forms of Investment

Of increasing interest to the subnational IPAs interviewed was a specific mandate to attract high-growth and high-potential companies. Typically, those entities are early-stage firms operating in knowledge-intensive sectors where rapid scale-up is possible. Those firms require distinct types of support compared with established multinational enterprises. For example, access to risk capital becomes an important part of the offer to those high-growth firms, as does access to networks that can support the firm's rapid entry into the regional ecosystem and strong connections to academic and research institutions. Many of the agencies interviewed identified this segment of the market as a priority, and it is reflected in their strategic focus and in the services they provide. Examples of those IPAs include Copenhagen Capacity, InvestKL, Invest Ontario, Invest Pacific, InvestPenang, Toronto Global, and Wesgro.

The same can be seen in IPA mandates around skills and talent attraction (for example, Copenhagen, Penang, and Scotland). Those additional IPA mandates reinforce the value of aligning investment promotion with wider regional economic growth objectives (Crescenzi, Di Cataldo, and Giua 2021).

Key Performance Indicators

The strategic direction for the region also influences the KPIs selected by subnational IPAs. Whereas most agencies continue to report number of jobs, capital investment, and number of projects won, a growing number of KPIs are becoming more clearly linked to specific regional economic priorities. For example, most FDI tends to concen-

3 This information was obtained in subnational IPA interviews with WBG.

trate in certain places in a region, often major urban centers. To ensure greater **regional equity** across a territory, some subnational IPAs have introduced regional indicators to encourage investment into other parts of their territory (for example, Maharashtra Industrial Development Corporation and Toronto Global).

Some subnational IPAs focus on meeting **quality thresholds** for the type of jobs and investment attracted (for example, Catalonia Trade & Investment, One Columbus, InvestKL, and SDI), whereas others have KPIs that reflect a focus on adding value via local content (for example, InvestPenang) or sustainability goals[4] (for example, Copenhagen Capacity). This effort provides a clear link back from KPIs and investment strategy to the economic rationale for the IPA.

InvestKL targets regional investments that meet quality investment criteria in Malaysia's National Investment Aspiration. Quality investments are those that increase economic complexity, create high-value jobs, extend domestic linkages, develop new and existing clusters, and improve inclusivity.

Scotland sets a KPI threshold for high-quality jobs that is set at 20 percent above the average salary level in the country (reviewed annually) and has KPIs reflecting jobs that pay the real living wage.

Copenhagen Capacity has KPIs built on quality thresholds for business investment focused on stronghold areas, research and development, cross-border activity, and the size of investment and sets KPIs to encourage investment that meets defined sustainability criteria.

A focus on sustainable development goals was evident in many of the subnational IPAs interviewed. That finding is consistent with evidence from the United Nations Conference on Trade and Development (UNCTAD), which identified that city and provincial IPAs play an important role in positioning and packaging sustainable development investment opportunities for their regions (UNCTAD 2019).

4 FDI is increasingly seen by many countries as an important route to helping achieve the United Nations Sustainable Development Goals (SDGs).

Institutional Structures or Arrangements of Subnational IPAs

Considerable variation exists in the institutional structures of subnational IPAs. For IPAs generally, "one size does not fit all" (OECD 2015), and efficient institutional arrangements must adjust to the setting within the country (Baurele Danzman and Gertz, quoted in Heilbron and Whyte 2019).

The majority of subnational IPAs interviewed are publicly owned state, provincial, or metropolitan agencies and are typically funded by state and municipal governments—similar to the funding of most national IPAs (Sanchiz and Omic 2020; World Bank Group 2020).

A few exceptions to those institutional structures exist, however. Public–private partnership arrangements can be found in some territories, reflecting either specific institutional shareholders or the role of the private sector in that region. For example, One Columbus in Ohio, United States, is a successful public-private partnership and secures substantial support from partners in the private sector alongside investment from public bodies.

In Brazil, Invest Minas is a joint venture between the state government and the state investment bank, and in Colombia, Invest Pacific is a successful public–private partnership between regional public bodies and approximately 50 private sector companies in the region. Invest in Bogota is a public–private initiative between the Bogota Chamber of Commerce and the Bogota city government. In many of those cases, the private sector funding is secured and renewed on an annual cycle, like that for public funds.

Consistent with best practice principles (Heilbron and Whyte 2019), most of the agencies interviewed have formal governance structures, overseen by independent board members. The composition of boards varies; some comprise only public sector representatives, some a mixture of public and private; still others operate a "triple helix" approach, bringing government, industry, and academia together (Etzkowitz 2005). In all cases, the boards support operational executives in delivering the strategic focus of the agency and provide a direct route for reporting to ministers and senior officials in government.

Several of the subnational IPAs interviewed highlighted the benefits of this "arms-length" relationship with government. They emphasized the importance of not only cushioning the agency from political cycles but also supporting an explicit customer focus within the organization, allowing the agility to respond to the investors' time frames.[5] An arms-length relationship can also assist the advocacy role of the IPAs, enabling them to more easily advocate for improvements in the investment climate—an activity that is highly valued by investors (World Bank 2020).

Copenhagen Capacity, although funded by federal and regional governments, uses its status as an arm's-length organization to participate in public policy advocacy to improve the business environment for investors.

For Invest Ontario, a key justification for the establishment of this new agency was to create an institution that has operational autonomy and the ability to act in line with investors' needs. An arms-length relationship exists with the state (provincial) government, as funder and key stakeholder.

Whatever the formal governance arrangement, previous World Bank Group research has identified the importance of autonomy and operational independence of IPAs (Heilbron and Whyte 2019).

5 This information was obtained in subnational IPA interviews with WBG.

Strong Investor Service Delivery across the Investor Journey

The WBG developed a comprehensive framework for investor services (Heilbron and Aranda-Larrey 2020), describing those services across the four stages of the investor journey, from attraction to entry and establishment to investor retention and expansion and on to linkages and spillovers into the wider economy (figure 3).

> > >

FIGURE 3. Comprehensive Investor Services Matrix

Stage / Category	Attraction	Entry and establishment	Retention and expansion	Linkages and spillovers
Marketing	✓		✓	✓
Information	✓	✓	✓	✓
Assistance	✓	✓	✓	✓
Advocacy	✓	✓	✓	✓

Source: Heilbron and Aranda-Larrey. 2020.

WBG research highlights the importance of IPAs providing relevant, high-quality services to investors across all stages of the investor journey to meet investors' needs (World Bank 2020). Nevertheless, the WAIPA–WBG surveys indicate that many IPAs tend to place the greatest emphasis on services at the attraction stage, with the provision of high-quality investor services declining rapidly in later stages of the investor journey (Sanchiz and Omic 2020).

Investor Services at the Subnational Level

Many of the services valued most highly by investors (pre-investment information; assistance in setting up and with ongoing operational issues; investor advocacy) align with a recognized role for subnational agencies, with increasing responsibility taken by the subnational IPA as the investor moves along the four stages of the investor journey (World Bank 2020). As Crescenzi, Di Cataldo, and Giua (2021) note, the smaller territorial size of subnational IPAs should enable them to develop more in-depth knowledge of local conditions relevant to investors, close ties to key local actors, and a strong ability to overcome operational bottlenecks, all of which are valued by investors. That proximity of subnational agencies to investors and the local business environment can result in more effective influence.

Indeed, several subnational IPAs interviewed highlighted the value to investors from the agency maintaining strong networks into regional eco-systems that enable investors to enter and to establish quickly. This networking service is evident in agencies such as Copenhagen Capacity, InvestPenang and Toronto Global. Crescenzi, Di Cataldo, and Giua (2021) point out that subnational agencies can be particularly important in locations where institutions are less developed and coordination mechanisms weaker. This networking capability for subnational IPAs is also particularly important for regions looking to attract higher-value and knowledge-intensive industries.[6]

Tailoring Services to Meet the Needs of Investors

Previous work has demonstrated that the quality of IPA services is linked to FDI performance (World Bank 2020). In addition to providing high-quality generic investor services, many of the IPAs interviewed reported more tailored services, focused on the needs of the specific type of investors they sought to attract.

Those services often are built around an understanding of the main motives for investors locating to a region (such as access to talent) or services that align with the strategic drivers for the agency (such as linkages to the local economy). Those assistance services include practical, hands-on support to connect investors to local partners alongside online information resources.

Marketing Services: Generating Investment Leads

The interviews conducted revealed that most subnational IPAs play a highly active role in the investment attraction phase. In all cases, those agencies generated more than one-half of their leads from their own attraction services—in some cases, more than 90 percent of leads were generated directly by the subnational IPA. That lead generation work is highly targeted rather than generic promotion, and most have been investing significantly in their analytical capacity to allow them to better research and target the right investors. At a time when face-to-face engagement has been constrained because of the pandemic, targeted outreach has been particularly important.

That highly proactive role in investment attraction for many subnational IPAs, however, sits alongside the more traditional role in responding to inquiries led by the national IPA.

Information Services

Ultimately, all investment is local in nature; that is, it occurs in a chosen locality. Many IPAs interviewed spoke about an information hierarchy, in which more specific and tailored information is required the closer the investor gets to a decision for a particular location. A critical role for subnational IPAs is, therefore, to capture and curate this more detailed and specific information in ways that are easily accessible and relevant to investors, accurate, and up to date.

Effective investor information systems typically form a core part of an agency's toolkit. Crescenzi, Di Cataldo, and Giua (2021) have identified the importance of the subnational IPA in overcoming potential "information asymmetries," particularly in less developed regions, where information may be less available or from sources that are not validated by credible institutions. In doing so, subnational IPAs can reduce the costs of entry and remove barriers to investors.

> Invest in Bogota has invested heavily in investor information systems, and access to accurate information is a key offering from the IPA. Its online portal, https://en.investinbogota.org/why-bogota/investor-information-system/, provides information on 200 indicators based on six investment themes and provides comparative information, allowing investors to benchmark Bogota with competitor locations in Latin America.

Assistance Services: Supporting Ongoing Investor Operations and Embedding Investors into Regional Economies

Most IPAs interviewed provide services that help attract, establish, and expand investors in their region. Recent research has also highlighted the role subnational IPAs can play in embedding investors into economies through upgrading

6 This information was obtained in subnational IPA interviews with WBG.

of global value chains and linking investors with other regional actors (Crescenzi and Harman 2022). InvestPenang has that effort as a core mandate for the agency, and other IPAs interviewed were also focused on generating such linkages.

Invest Pacific is connecting existing multinational companies in the province that have expertise in sustainable packaging and exporting to agro-industry companies looking to grow their exports from the region. A particular focus has been in the avocado industry, where demand is increasing for the export of "ready-to-eat" fruits. Invest Pacific uses its networks to facilitate the transfer of knowledge between companies, sharing social, environmental, and logistics best practices for exporting industries. This initiative also allows Invest Pacific to maintain close ties with many of the existing international investors in the agro-industry exporting sector, supporting their connections into the local economy and future growth.

Advocacy Services: Improving the Investment Climate:

Advocacy is the service that investors value most highly (World Bank Group 2020). It helps ensure that the investment climate remains competitive and attractive to the needs of all investors and has been particularly valuable during the COVID-19 pandemic. Many of the subnational IPAs interviewed used informal mechanisms to capture and communicate investors' views to policy makers; however, some of the subnational IPAs included structured investor engagement around key investment climate issues. This engagement is one key to the successful retention and expansion of existing investors and supporting actions to attract new investors to a region.

Columbus, Ohio, is working with more than 300 investors to help implement the regional economic growth strategy, including senior representatives from private sector companies, educational partners, and government.

In Catalonia, one of the principal drivers for investment is access to talent, and the subnational IPA collaborates with partners in the city of Barcelona to take part in an annual talent survey that is used to inform investors and shape policy.

InvestPenang uses a variety of formal and informal channels to engage with investors. The use of chatgroups, for example, with human resources leads or with facilities management professionals in key investors, allows for regular and real-time engagement, enabling issues to be captured and resolved.

Invest in Bogota has created an online tool that facilitates the identification, monitoring, and management of the main obstacles faced by existing and potential investors. The system provides firsthand information, at general and sector levels, to analyze and prioritize issues and the immediate actions required across public and private partners. Recently established, the tool has registered more than 130 cases by foreign companies and aims to provide regular, up-to-date views from investors on the investment climate, enabling the IPA to share the information with relevant municipal departments and with the government agency ProColombia for national-level policy reforms.

The ability of subnational IPAs to effectively influence the policy agenda at the national level can, however, have limitations. National–subnational IPA coordination mechanisms provide one route to elevate subnational investment climate concerns (section 4).

National versus Local Services

The WBG has developed a framework showing the typical relationship between an investor and the national and subnational agencies across the investment project life cycle (figure 4).

Subnational IPAs, particularly in developing countries, working in lesser-known locations (for example, beyond the country's capital) often face more difficulties getting the attention of an investor. National IPAs may have a much better chance of securing interest from some investors and are thus potentially able to open doors for the subnational IPAs when the investor wants to explore that country further.

This model suggests that the majority of investor attraction work is usually undertaken at the national IPA level, with the subnational agency contributing more to later stages of the investor journey—typically once the investor has selected the agency's region as the preferred location.

Although this model is a useful starting point for the discussion of their respective roles, however, the interviews conducted (see previous comments regarding investor lead generation) clearly indicated that subnational IPAs often are heavily involved at the attraction stage, often generating most inquiries through their own investment attraction activities.

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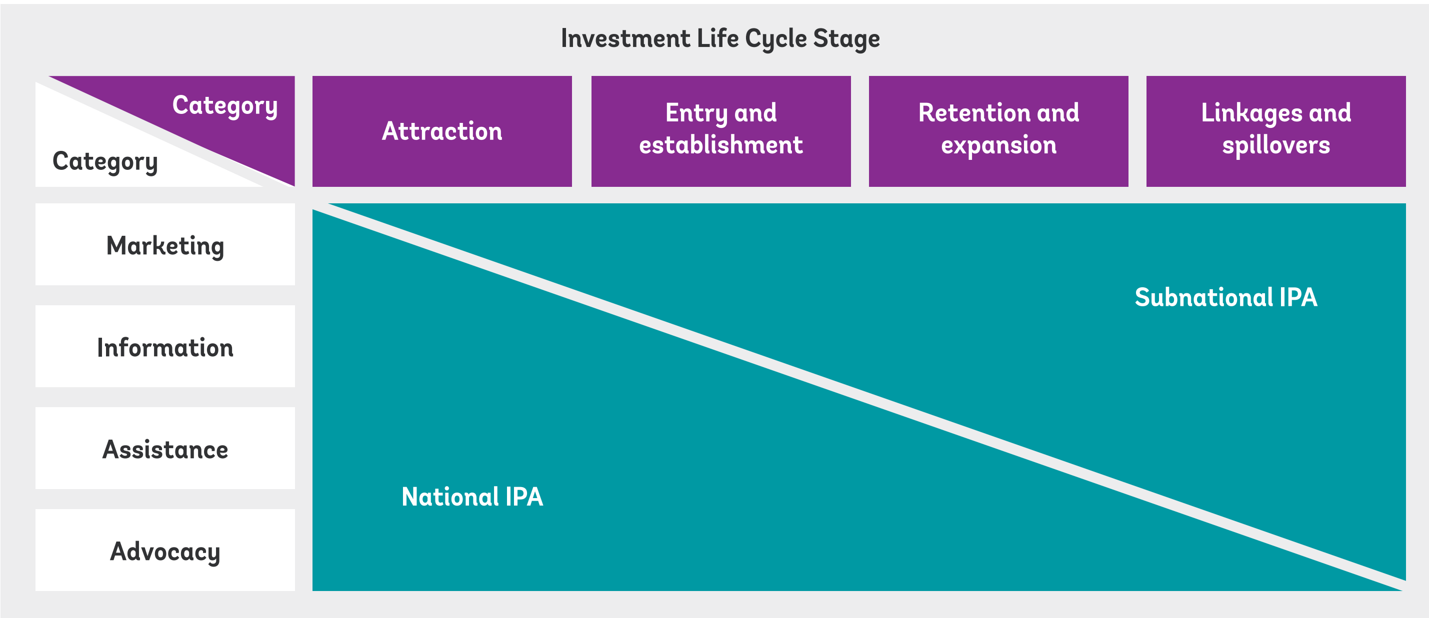
FIGURE 4. Framework for National–Subnational Relationships



Source: Heilbron and Kronfol 2020

Note: The complementary triangles in light blue depict the level of effort by each national or subnational IPA as investors move along their investment project life cycles, from the Attraction stage on. The principle is that national IPAs are best placed to provide services at the Attraction stage, such as international outreach, whereas the subnational IPAs are best placed to cater to the needs of the establishing and established investors. In between, roles and services could be provided by any of them, with a clear protocol to ensure seamless provision of services to investors, still following the logic of decreasing/increasing level of effort as the investor moves along.

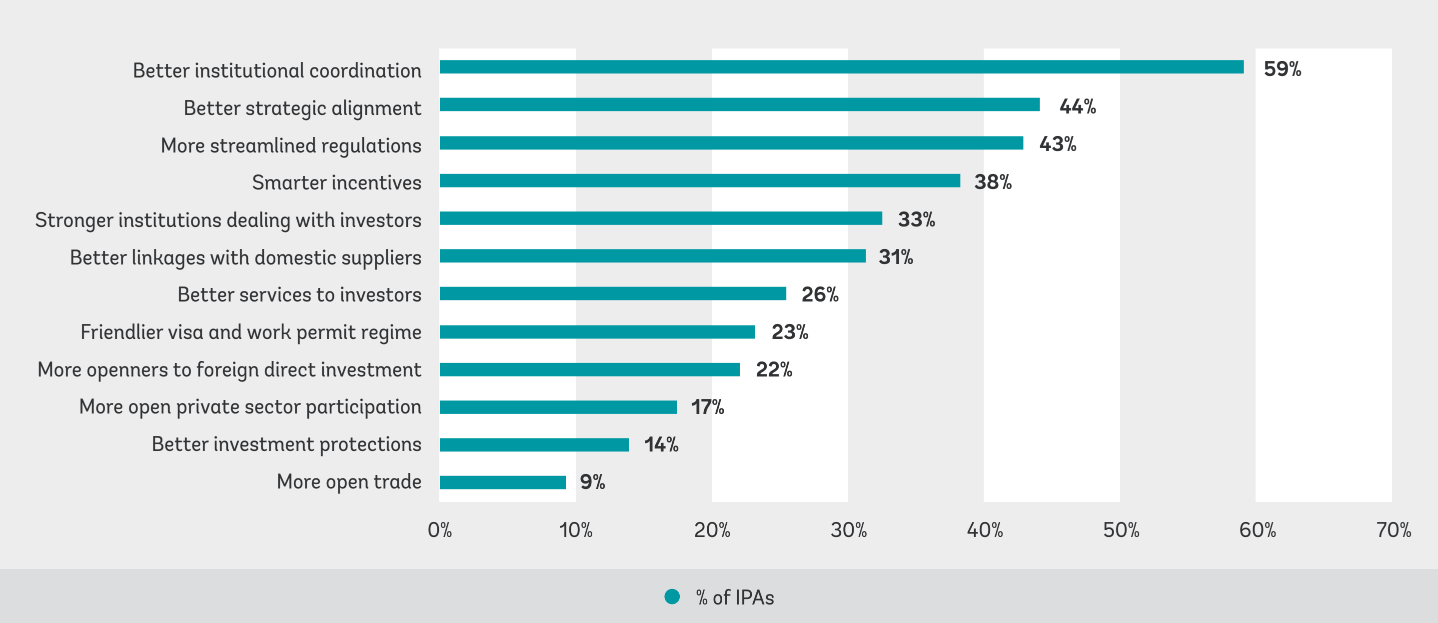
This active role of a subnational IPA at the attraction phase, identified in the interviews, does not seem to be dependent on the development status of the country or region for those IPAs interviewed. IPAs interviewed in both high- and middle-income economies played an active role in the attraction phase of the investor lifecycle; however, those findings may not apply in the case of low-income economies or where institutional capacity is less developed. The findings may also reflect the status and strong performance levels of the subnational IPAs interviewed.

How Do Subnational IPAs Collaborate with Other Agencies?

IPAs typically perform a role as intermediaries between investors and policy makers (Crescenzi 2018, cited in chapter 5 of World Bank Group 2020). They also play a key role connecting investors to regional business and sector ecosystems. Given that investment involves so many different aspects and institutions, collaboration is central to successful investment promotion efforts, with the IPA playing a coordinating role for both investors and a wide range of partners in a region. For example, professional service providers (financial, legal, accountancy, human resource firms); real estate advisors and developers; skills and education providers; universities; business organizations, such as chambers of commerce and trade associations; government ministries and agencies; existing investors; and potential supply chain partners.

> > >

FIGURE 5. Reforms Indicated by IPAs to Improve the Attraction and Retention of Investments in Their Country



Source: Sanchiz and Omic 2020

The WAIPA–WBG survey of IPAs identified better institutional coordination as the most important reform to improve performance (Sanchiz and Omic 2020). As can be seen in figure 5, better institutional coordination is also the top (59 percent) reform cited by IPAs to improve the attraction and retention of investors. Although the WAIPA–WBG survey of IPAs relates mainly to national IPAs, based on the survey of subnational IPAs undertaken for this note, that factor is also likey to be very important at subnational level.

To provide a full service for investors, IPAs necessarily need to collaborate with various types of organizations: national agencies, local government, regulatory bodies, local service providers, academic and research bodies, existing investors, and others. The following paragraphs, based on information from the interviews, identify various approaches to collaboration.

Before proceeding to describe the different types of collaboration that IPAs use, a point worth highlighting is that a key underlying principle of any collaborative effort is trust. All the agencies interviewed talked of the importance of building trust between organizations to enable effective collaboration and investing time to build that trust. Although in the busy world of investment promotion time to build trust may seem a luxury, it is seen by most of the interviewed IPAs to be an essential condition for effective collaboration.

Collaborating with National Agencies

Figure 6 suggests an overall framework for collaboration between national and subnational IPAs, which is beneficial for several reasons:

- It can assist with creating consistent and complementary messages to investors about the rationale for locating in the country and into specific regions;
- It enables more holistic options involving partners to be presented to investors and for them to receive the specific, granular information they require about an individual location;
- It ensures that investors are not just successfully attracted to a location but are supported to successfully establish, operate, and, in the future, expand their businesses; and
- It enables richer bottom-up policy recommendations to be advocated by the subnational IPA feeding into regional and national policy makers.

Although the form of collaboration between national and subnational IPAs varies, a number of common mechanisms were evident from the interviews and available research.

> > >

FIGURE 6. National–Subnational IPA Collaboration Mechanisms

Source: World Bank

National versus Local Services Partnership Agreements

In the UK, the national IPA—the Department for International Trade—collaborates with IPAs from the devolved governments of Scotland, Wales, and Northern Ireland, drawing on a formal partnership agreement. Although each country has substantial IPAs that generate most of their own investment leads, those agencies also collaborate to ensure that an investor comes to the UK. In practice, that means that if a part of the UK cannot meet an investor's needs, then that lead is opened to other parts of the country to compete.

ProColombia has a similar approach with subnational agencies, and Apex-Brasil, the Brazilian national IPA, established the Brasil Investment Forum in part to support collaboration with and between subnational IPAs.

Executive Forums

Several IPAs have developed forums at which national agencies can engage with their subnational counterparts to share experience and align priorities and plans—for example, in South Africa, Spain, and the UK.

In other countries, such forums have been less successful. Evidence suggests that they require both senior-level commitment and dedicated resources within the national IPA to ensure that they achieve impact.

Shared Pipelines

Shared investment pipelines are a feature of some national–subnational collaborations. In the UK, the national IPA has an online database that allows all agencies to view leads, identify those they would like to compete for, and notify the national agency. A similar approach operates in Spain (Fernández, Blanco, and Aranda-Larrey 2021), and mechanisms are also in use by Copenhagen Capacity and Invest Ontario.

Promoting Regional Investment Opportunities

National IPAs often enjoy a wide external market reach and can collaborate with subnational agencies to ensure promotion of the assets and opportunities within different regions. Whereas the national IPA uses its reach to present those opportunities to an international audience, the subnational IPA leads on developing the investor propositions and providing information and hands-on support to inquiries that are generated.[7]

Joint Capacity Building

A common feature of national–subnational coordination includes capacity building to ensure that all agencies and their staff can operate at the highest level to support investment opportunities. For example, the Netherlands developed a skills academy to support its subnational IPAs, and India has a similar model, in which extensive capacity building support has been provided by Invest India to support many subnational IPAs in the country (Phillips, Heilbron, and Kher 2021).

Some subnational IPAs also support capacity building among their local partners. Wesgro in South Africa's Western Cape and One Columbus in Ohio offer shared training for staff from other regional organizations.

Subnational IPAs Taking the National Lead Roles for Specific Services

In some cases, subnational IPAs are mandated to lead for the whole country on specific areas of business. For example, Copenhagen Capacity has a mandate on talent attraction for all of Denmark. In other cases, the subnational IPA delivers some investor services in a region on behalf of the national IPA; for example, Invest in the West Midlands on investor aftercare support.

7 Examples based on access to investment promotion collateral and marketing tools include the India Investment Grid run by Invest India for state IPA opportunities (https://indiainvestmentgrid.gov.in/) and the UK Department for International Trade (DIT) Investment Atlas (https://www.great.gov.uk/international/investment/).

Reducing the Negative Effects of Regional Competition

As mentioned earlier, although the rise of subnational agencies in investment promotion reinforces the importance of collaboration, it also creates a risk that unhealthy internal competition might develop between agencies in the same country. The same can apply within regions where municipalities display characteristics of unhealthy competition. The negative effects of competition can be seen in some situations—for example, where employment rights are affected (Olney 2013) or where incentives become a key bargaining tool between different location options within the same country. Those negative situations can be exacerbated where subnational agencies are heavily reliant on domestic direct investment (DDI) to achieve their performance targets. As the OECD notes, that strategy is risky and can affect the value for money of attraction policies where inter-regional bidding is present (Christiansen, Oman, and Charlton 2003). Such competition can lead to an overall loss in economic value for countries and regions.

The IPAs interviewed recognized that risk, and some have introduced measures to avoid such competition. For example, the United Kingdom seeks to avoid incentives being offered while competition for an investment is still present between regions. In other words, only the preferred location—once selected by the investor—negotiate for incentives.

Other agencies have established explicit criteria to assess the eligibility for, and nature of, any incentives. The criteria typically focus on attracting higher-quality investments with wider spillover benefits, which align with regional economic priorities. Catalonia Trade & Investment, Copenhagen Capacity, InvestKL, MIDC, and others interviewed take that approach.

Consideration should be given to the need for, and targeting of, investment incentives. Where incentives are justified, they should be highly targeted to address specific gaps in regional economies; generic incentives should be avoided.

Collaboration within Regional Borders

Given the unique role that subnational IPAs play and the type of investor services they provide, collaboration among the agencies within a region is essential (World Bank Group 2020). Several agencies interviewed saw their ability to connect investors quickly to their local business or sector ecosystem as a key element of their value proposition and overall competitiveness.[8]

Some subnational IPAs have formal provincial/state–local partnerships, such as those in Ontario (Invest Ontario and Toronto Global) and Ohio (One Columbus and Jobs Ohio), which support collaboration on investment leads.

Partnerships are also formed with other government agencies. In Scotland, the number one motive for investors to locate is access to skills. In response, the IPA (SDI) has formed a partnership with the national skills agency, which has created a dedicated skills inward investment unit that engages with new investors and supports work on investor aftercare and advocacy. The unit has helped position the region for continued investment into sectors such as finance and technology.

Subnational IPAs typically have multiple local partners on which they rely in relation to real estate, skills, and local regulations, and they invest considerable time in building strong local partnerships. Copenhagen Capacity works with 46 municipalities, Wesgro with 30; and Toronto Global established a "Mayors and Chairs" forum to support engagement with their 24 municipalities. Such engagement is not just about keeping local partners informed; it also allows the agency to understand the assets and capabilities of local areas. In the case of Scotland, it has led the establishment of a subregional investment prospectus for each main regional economic entity.

Wesgro works with about 30 municipalities, covering all five districts in Western Cape province. In 2019, Wesgro established a dedicated district unit within the investment promotion agency to work with the five districts outside the Cape Town metropolitan municipality. The unit provides economic promotion support and capacity building, aligned to inward investment, export, and film and media production to all rural municipalities.

Regional Collaboration Produces Results

The IPAs interviewed reported that collaboration pays dividends in the attraction of new investors, which see the benefits of local agencies collaborating to support their needs. A notable recent example is in Ohio in the United States:

Intel–One Columbus:
Investment into Licking County

In 2021, investment into one of the 11 counties of the Columbus region was secured from Intel, comprising US$20 billion into new semiconductor fabrication plants. The investment aims to create 3,000 direct jobs and 7,000 indirect jobs in Licking County, Ohio. Although an example of DDI, the investment also reflects a shift in global value chains, where reshoring of strategic industries is creating greater resilience in supply chains. Collaborative effort between state, metropolitan, and local agencies, supported by the federal government, helped secure this investment. The stakeholders are now working on successful establishment of the investment and securing spillover benefits for the regional economy (skills and supply chain benefits).

8 This information was obtained in Subnational IPA interviews with WBG

Collaborating around a Shared Brand

Several subnational IPAs are collaborating around shared regional brands, working with other key agencies to set out a common narrative about what the region offers investors. This narrative can be used by partners, public and private, to build awareness of a region in priority markets and in their dealings with individual investors. This approach recognizes the importance of consistent messaging and design to influence investor perceptions. Examples can be found in Bogota, Scotland, Toronto, and Columbus, Ohio, where the economic partnership is also responsible for brand development.

Collaborating with Other Regions

Some subnational IPAs also collaborate with agencies in other regions. For example, InvestKL supports investment attraction into other, more remote regions of Malaysia, and Copenhagen Capacity works on talent attraction with all other subnational agencies in Denmark.

Another example is InvestHK, which proposed a collaborative investment promotion effort for China's Greater Bay Area initiative.

> The Guangdong-Hong Kong-Macao Greater Bay Area (GBA) is a vibrant city cluster that includes the Special Administrative Regions of Hong Kong and Macao and nine municipalities in Guangdong Province, China. The GBA comprises a population of about 86 million and an economic area with a GDP of more than US$1,900 billion in 2021. The objectives are to deepen cooperation among Guangdong, Hong Kong, and Macao; leverage the advantages of the three places within the region; and promote coordinated regional economic development. In this context, InvestHK proposed a collaborative approach among its counterparts, resulting in a Pan-GBA Inward Investment Liaison Group, which aims to develop and offer a full range of GBA value propositions to investors.

<?> This information was obtained in Subnational IPA interviews with WBG

What Steps Should Policy Makers Consider in the Establishment of Subnational IPAs?

Evidence from the interviews undertaken with subnational agencies from around the world and from the available research highlights the following steps that policy makers might take when considering the establishment and enhancement of effective subnational IPAs. Figure 7 illustrates the key steps.

1 Define the Economic Rationale, and Formulate the Right IPA Strategy and Mandate

- What is the specific economic rationale for establishing a subnational IPA, and what are the best options for fulfilling the identified economic need? Those issues must be articulated carefully and based on available evidence.
- Once the economic rationale has been set out, policy makers must consider what would be the specific mandate of the IPA to meet the identified needs, what investment functions would the IPA need to undertake, and what would be the desired structure and size. The exact mandate, form, and functions of the subnational agency will depend on the degree of decentralization of economic powers to the region and other location factors and should be cast in the context of the mandates, roles, and capacity of existing institutions, both at the national level and within a region.

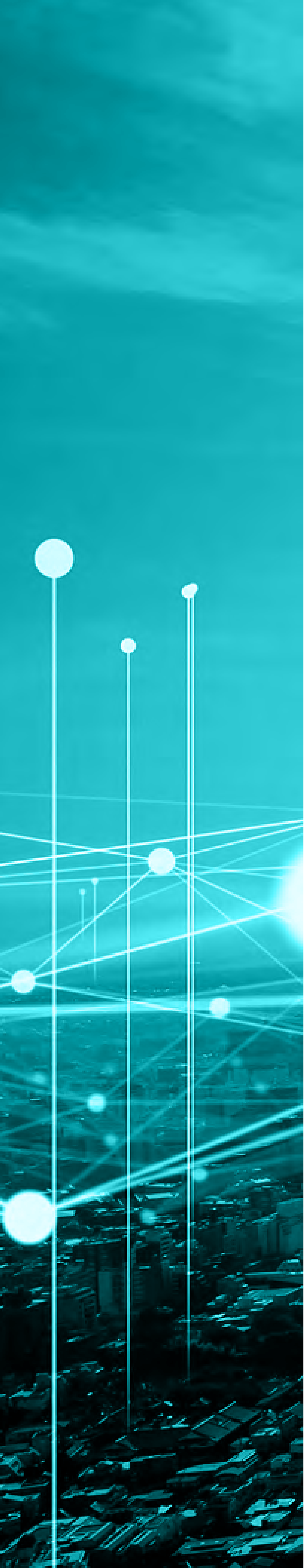


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FIGURE 7. Steps for policy makers to consider in the establishment of subnational IPAs

1
Define the economic rationale for establishing an IPA and its mandate, aligned to regional economic goals

2
Decide on the right institutional structure/form, reflecting locational factors

3
Define which investor services are required, across the investor journey, and how they will be delivered

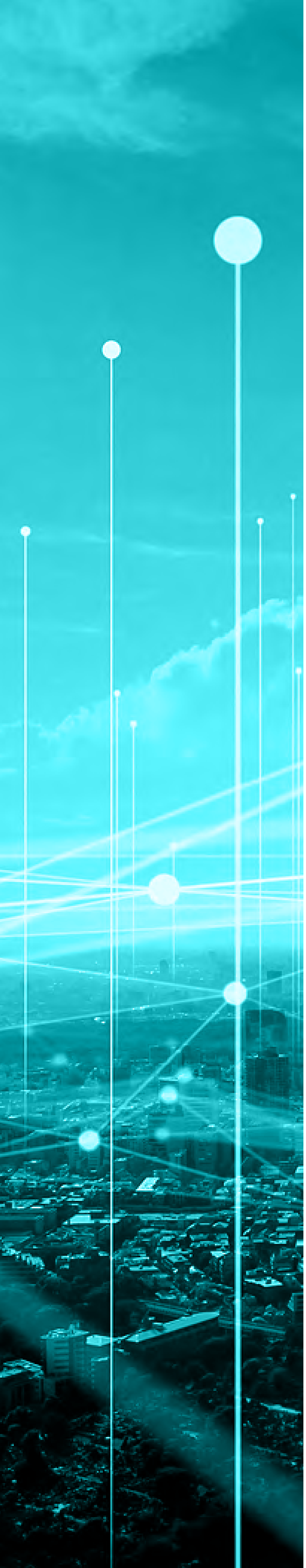
4
Develop and build into plans essential collaboration mechanisms, regionally and nationally

5
Establish appropriate KPIs to measure the progress and success of the new IPA, and build in M&E mechanisms to capture results

Source: World Bank.

Note: IPA = investment promotion agency. KPI = key performance indicator. M&E = monitoring and evaluation.

- Mandates for subnational agencies should be set in the context of a wider regional economic growth strategy, ensuring that investment promotion and investment climate reform (for example, in regulation, skills, innovation, or infrastructure) happen in a manner that is fully consistent with the wider economic growth efforts.
- Attention should be paid to the focus of the institution to ensure that the risks of unhealthy competition, between regions as well as within the region, are minimized.
- KPIs for subnational agencies should reflect those regional economic growth priorities and can complement traditional measures around jobs and capital from inward investment. This effort can help the IPA focus on the right types of investment opportunities.
- A fundamental question to be considered is, what will the future relationship be between the national IPA and the new subnational IPA? How would they work together going forward, and, in terms of the identified regional needs, what would the subnational IPA do that the national agency does not?



2 Decide on the Right Institutional Structure and Form

Subnational IPAs can vary considerably in their overall structure and size; however, no matter the form adopted, the following best practice principles should be built into the new agency (Heilbron, forthcoming; Heilbron and Whyte 2019; World Bank 2020):

- The IPA should be designed with governance arrangements that support operational independence, supported by a non-executive board with both public and private sector members that reflects the diversity of the region.
- The IPA needs sufficient resources to fully deliver its agreed-on strategic goals over multiyear cycles, reflecting the time frames of investor decisions. Typically, the agency will be funded mostly by state and municipal governments, although some joint public-private funding options exist.
- Having high-quality talent matters, so the IPA should be able to recruit staff with the required experience at the market or near-market wage rates; best practice IPAs typically attract staff with private sector experience, which may be more challenging in some regions given their economic circumstances (Heilbron, forthcoming).
- Given that most subnational IPAs cannot afford to have their own overseas offices or representatives, leveraging the overseas presence of others—such as the national IPA—is important to give the subnational agency better market reach. The rise of digital investment promotion services, however, means that the online presence of all IPAs, including subnational, allows them to reach a global audience directly. Ensuring that the online presence and digital channels of IPAs are created and maintained in line with best practice agencies is therefore important for all subnational IPAs.

3 Define Which Investor Services Will Be Required and How They Will Be Delivered

- On the basis of the identified economic rationale for the subnational IPA, and following the strategy agreed for the new IPA, decisions must be made about the range of investor services the IPA will provide. Most IPAs operate across all four stages of the investor journey—attraction, entry and establishment, retention and expansion, and linkages and spillovers—and decisions must be made about the balance of services at each stage.
- Subnational IPAs must tailor their services to the distinct needs of investors from their priority sectors and markets. For example, a number of best practice agencies focus their services to target small, high-growth/high-potential investors, whereas others target more established multinational enterprises, and some focus on both of those segments. Others also work on talent attraction as a driver for investment. Each distinct group of investors may require a different range of investor services tailored to their needs.
- Most subnational agencies play a highly active role in investor attraction, generating the majority of their own investment leads. The IPA will target specific sectors for which the region is competitive to win FDI. The strategy of the agency must focus specifically on a highly targeted approach to attraction and be funded to implement the agreed strategy.
- Where the subnational agency is mandated to support domestic direct investment, it must focus on business expansion—rather than merely relocation of existing firms—to avoid the negative national impacts of boundary hopping (Olney 2013; Christiansen, Oman, and Charlton 2003).

- Successful subnational IPAs invest significantly in the provision of specific and up-to-date information systems, providing the range and level of detailed information investors demand. They also investment in the “softer” assets of investment promotion—namely, customer relationship management tools and standard operating procedures.
- Subnational IPAs play a leading role in coordinating the response of a region to the needs of investors across all stages of the investor life cycle. Networking is therefore a core capability for subnational IPAs and can help investors quickly embed into regional economic ecosystems.

4 Develop and Build Essential Collaboration Mechanisms into Plans

Best practice agencies invest time and effort to establish collaboration mechanisms that improve their support to investors and avoid the negative effects of competition. Those collaborations exist at multiple levels:

- With the national IPA for sharing leads, investor information, and aftercare services;
- With regional agencies to ensure effective service provision to investors and the management of investor enquiries and to build the skills and capacity of partners in a region; and
- With partners—for example, around common brand messages, joint marketing efforts, and, possibly, lead sharing.

5 Establish Appropriate KPIs to Measure the Progress and Success of the IPA and Build In Monitoring and Evaluation Mechanisms to Capture Results

Best practice agencies also invest time and resources in developing and using a relevant monitoring and evaluation (M&E) framework designed to monitor progress of agency activities against the goals and objectives set out in its strategy.

A key element of the M&E framework will be the key performance indicators adopted and monitored by the agency and providers of its funding. The results should be reported on a regular basis to IPA management, its board, and government and other stakeholders so that any necessary adjustments to the IPA strategy and its activities can be discussed and taken.

Subnational IPAs should consider how they will monitor the realization of investor plans over time and develop mechanisms that help them measure investor satisfaction in the services they provide.

Given the collaborative nature of FDI, subnational IPAs should consider how they would recognize the contribution of other partners in the region and the national IPA to KPIs.

6 Conclusions and Suggestions for Further Research.

Conclusions

This note presents findings from the limited available research on subnational IPAs and the results of a preliminary qualitative survey of subnational IPAs. WBG operational experience based on work with multiple subnational agencies over several decades has also provided useful insights into the nature, role, and effectiveness of subnational IPAs.

Although subnational IPAs have been active since at least the 1980s, the rapid growth of such agencies has been a relatively more recent phenomenon, driven by a variety of economic and political factors, as previously described in section 2.

This note has concentrated on trying to identify factors that define the differences between national and subnational IPAs, although many of the established best practice features of national IPAs set out by The World Bank (Heilbron and Whyte. 2019; Heilbron and Kronfol. 2020) also seem to apply to subnational IPAs.

Some significant additional factors relevant to the subnational level must be considered by policy makers (discussed in sections 2 and 3). In particular, the dynamics—in terms of position, functions, and powers—between the national IPA and the subnational IPAs in the same country are complex and vary substantially across different countries. Those relationships must be defined very carefully and will influence the relative success or failure of the model adopted in a country.

Subnational IPAs, by definition, report to local and provincial governments, with their different operating modalities, funding structures, and governance. They also need to work with different types of local bodies, and the ability to create and sustain networks is a core aspect of subnational IPAs. The mandate, structure, and funding of subnational IPAs, and their operational rules and actions, will have to be designed very carefully to reflect those circumstances.

Given their proximity and local networks, subnational IPAs have the opportunity to establish close, long-lasting relationships with their investors. Those relationships can help support investors directly while ensuring that those investors also become active participants in shaping future regional economic strategies.

Finally, subnational IPAs can play an important added role in the investment promotion landscape; however, in their design and operation, they must take into account the potential negative effects of unhealthy competition.

Suggestions for Further Research

This note was based on mostly qualitative information on subnational IPAs, following a small-scale interview methodology. As such, it provides a partial picture with an inevitable risk of bias because of the choice of agencies and their locations. Quantitative research and analytics would give policy makers a fuller understanding of the differences between subnational and national IPAs, ways to better collaborate and synergize, and the critical factors to achieve the expected contribution to regional development.

The following are suggested areas for further research:

- Quantitative research to understand the population (and variations within it) of subnational IPAs, built on a more substantive and statistically representative global survey of the characteristics of subnational IPAs.
- More rigorous (econometric) work to further establish how effective subnational IPAs are as tools of subnational economic growth and diversification efforts, extending recent work done on subnational IPAs in Europe to other territories.
- A more rigorous examination of the relationships between national and subnational IPAs. What factors determine how well such relationships work? In what areas of activity can synergies be found, and what are the downsides of unreasonable competition?
- Work to help better understand the implications that growth in subnational agencies has for the role of national IPAs. Research into how that dynamic is changing would be beneficial to policy makers at both national and subnational levels.

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