HOW TO SOLVE THE INVESTMENT PROMOTION PUZZLE

A MAPPING OF INVESTMENT PROMOTION AGENCIES IN LATIN AMERICA AND THE CARIBBEAN AND OECD COUNTRIES

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List of Abbreviations

BIT	Bilateral investment treaty
CRM	Customer relationship management
DTT	Double taxation treaty
ECLAC	United Nations Economic Commission for Latin America and the Caribbean
FDI	Foreign direct investment
GDP	Gross domestic product
GEI	Government effectiveness index
IDB	Inter-American Development Bank
IPA	Investment promotion agency
LAC	Latin America and the Caribbean
NGO	Nongovernmental organization
OECD	Organization for Economic Cooperation and Development
OLS	Ordinary least squares
RBC	Responsible business conduct
RTA	Regional trade agreement

Foreword

The investment promotion puzzle remains unsolved. Of the various instruments for investment attraction, nearly every country in the world aims to attract foreign direct investment (FDI) and has established an investment promotion agency (IPA). Public resources are allocated to these agencies and the IPAs themselves undergo frequent reforms to attract and retain FDI in both greater quantities and of higher "quality." Meanwhile, the literature has been virtually silent on investment promotion and its effects on FDI. As a result, we know little about what such agencies look like in different countries, what they do, how they do it, and whether and to what extent they make a difference.

There is some evidence that investment promotion can help countries attract and retain FDI. The few available studies suggest that investment promotion can indeed bring tangible results for host economies. For example, Harding and Javorcik (2011) use country–sector–level data to show that IPAs' priority sectors received 155% more FDI after being targeted, which translated into an additional annual FDI inflow of US$17 million for the median county-sector combination. Furthermore, IPAs that handle investors' inquiries in a more professional manner and have higher-quality websites also attract larger volumes of FDI (Harding and Javorcik, 2013).

However, little is known about the exact channels through which these effects can take place, in general, and the role of IPAs'

characteristics and activities in shaping these effects, in particular. For example, are certain kinds of institutional arrangements more prevalent than others among IPAs? Do IPAs differ in the activities that they undertake and services that they offer to firms? How do IPAs define and implement their targeting strategies? Finally, which of these dimensions render an agency most effective and translate into higher FDI flows and greater impacts on investor location decisions? Without answers to these questions, the IPA management teams and government experts to which IPAs report may not have all the relevant information they need to guide their strategic orientation.

This report is an early step toward answering these questions, as is "Mapping Investment Promotion Agencies in OECD Countries" (OECD, 2018) (see box 1.1). It presents rich new information on the organization, activities, and operative practices of IPAs in 51 countries, comprising 32 OECD countries and 19 Latin American and the Caribbean (LAC) countries (outside of the OECD area), providing a thorough understanding of who agencies are, what they do, and how they do it. The main aim is to provide IPA experts and their governments with an overview of the current status of investment promotion in different countries, in particular through a cross-regional perspective, and support reflection on their future strategic orientations. It is also hoped that it will become a building block for further research in the area of investment promotion, including proper impact evaluations.

Acknowledgments

The mapping exercise on which this document is based is the outcome of a collaborative research initiative involving staff at both the Inter-American Development Bank (IDB) and the OECD and the generous, invaluable cooperation of management and experts at IPAs featured in this study.*

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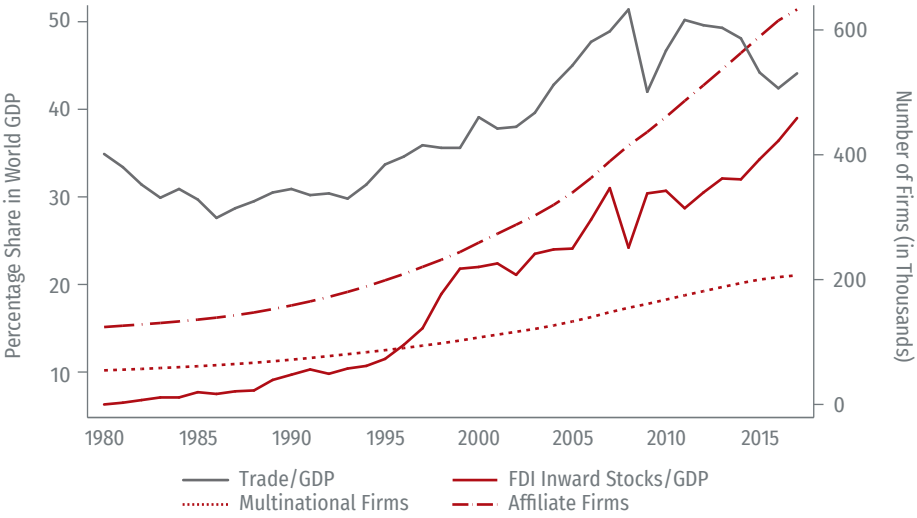
Finally, the OECD wishes to thank Chile, Costa Rica, and Peru for providing support to allow for a joint benchmarking of both LAC and OECD countries as well as the OECD LAC Regional Program for supporting this IDB–OECD cooperation initiative as well as all the participating IPAs for sharing the relevant information, insights and data, without which this study would not have been possible.

Overview: The Why and The What of Investment Promotion

Foreign direct investment (FDI) has increased substantially over the last four decades. When measured as a share of GDP, global FDI inward stocks grew from around 6% to almost 40% between 1980 and 2017, thus almost reaching the share in world output. Simultaneously, the number of multinational firms and their affiliates rose by more than 300% and 400%, respectively (figure 0.1).

Economic theory suggests that FDI can have multiple benefits for receiving economies. Thus, it can facilitate the access to international flows of knowledge, foreign technology, and other foreign resources, and can thereby foster economic growth and development and raise national welfare (e.g., Hanson, 2001; Alfaro, 2016). Available empirical macro evidence generally points to FDI having a positive impact on the host countries. This is particularly the case when these countries meet certain minimum conditions related to their degree of financial development, intensity of competition and level of openness, quality of infrastructure, availability of human capital, and local R&D and learning efforts (e.g., Alfaro et al., 2004; Wang and Blomström, 1992; Borensztein et al., 1998; Blalock and Gertler, 2002).

FIGURE 0.1 FDI INWARD STOCKS AND NUMBERS OF MULTINATIONAL AND AFFILIATE FIRMS



Source: Authors' calculations based on data from IMF-OECD-UNCTAD, Dun and Bradstreet's Worldbase, and the World Bank's WDI.

In addition, several micro-level studies confirm these positive effects of FDI on domestic economies and uncover the various channels through which they can arise, including demonstration and competition effects, labor turnover, and buyer–supplier linkages. For example, firms may imitate the business practices of foreign-owned rivals that would otherwise be too risky to adopt when exposed to them through the local presence (Wang and Blomström, 1992). By increasing local competition, foreign presence may also incentivize domestic-owned firms to upgrade their capacities or use existing resources more efficiently (Blomström and Kokko, 1998). As multinational firms tend to adopt efficient and competitive management practices and provide employees with higher-quality training, they may also benefit local firms via labor turnover, particularly of highly skilled workers (e.g., Balsvik, 2011; Poole, 2013), and can lead to spin-offs as former employees of multinational firms start their own businesses in their home countries (e.g., Muendler et al., 2012).[1]

[1] See also Keesing (1967); Bloom (1992); and Glass and Saggi (2002).

Another channel through which FDI affects the local economy are vertical production linkages with local firms in upstream sectors of the supply chain (e.g., Aitken et al., 1997; Javorcik, 2004; Alfaro and Rodríguez-Clare, 2004; Alfaro Ureña et al., 2019; and Carballo et al., 2019).[2] Multinational firms may transfer knowledge, provide suppliers with technical assistance, and allow for access to new (or improved) inputs by firms in downstream industries (Rodríguez-Clare, 1996). In particular, interactions between multinational firms, foreign buyers, and local firms in the context of global value chains can be a conduit for knowledge acquisition that can lead to process and product innovation and industrial upgrading—which, in turn, may spill over to other firms that are not participating in the same supply chain (e.g., Gereffi, 1999; Javorcik and Spatareanu, 2008). As a consequence, multinational firms can also help enhance domestic export activities, both in terms of increasing the export orientation of firms (e.g., Aitken et al., 1997; Greenaway et al., 2004) and upgrading the quality of their exported products (e.g., Harding and Javorcik, 2012).[3]

However, FDI and the aforementioned benefits for the receiving economies may be limited by prevailing trade and investment costs. Despite new and emerging technologies, one important component of these costs are information barriers. Firms seeking to invest abroad must learn about the general and sector-specific regulations that need to be complied with. They must then analyze the costs and conditions implied by these when establishing

[2] In contrast, FDI spillovers to local firms within the same industry appear to be more elusive (e.g., López-Córdova, 2002; Damijan et al., 2003). Evidence of positive horizontal spillovers is accordingly much weaker than evidence of vertical spillovers (Havránek and Iršová, 2010, 2013).

[3] Admittedly, spillovers are not ubiquitous. The externalities from FDI may be uneven across sectors, as some activities have stronger and more diversified linkages with the rest of the economy, and these linkages may differ across countries (Volpe Martincus and Gallo, 2009). Even within sectors, such externalities may arise only when "modern technologies" are used (Glass and Saggi, 1998; Harrison and Rodríguez-Clare, 2010). In this vein, for spillovers to occur there should be some technological gap between multinational companies and domestic firms (Findlay, 1978; Blalock and Gertler, 2002). If this gap is too large, however (Lipsey and Sjöholm, 2005), the superior technology of the multinational company may be out of reach for domestic firms that lack sufficient human capital. More generally, the national absorptive capacity needs to be above a certain threshold (Lipsey and Sjöholm, 2005).

and operating in the destination country, including tax treatments, projected demand for their products and services in that country and from relevant partner countries, the processes and costs of exporting and importing their inputs, and the network of local suppliers along with the quality of their products and services. Crucially, firms pursuing cross-border economic opportunities must engage in a costly process of identifying business partners and assessing their reliability, trustworthiness, timeliness, and capabilities (Rangan and Lawrence, 1999; Rangan, 2000).

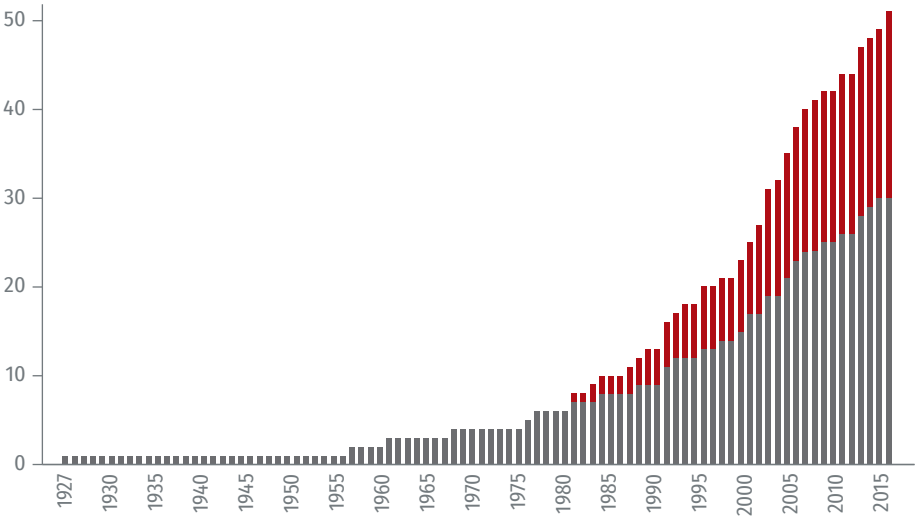
These nontrivial costs, when not addressed by public policies, may lead to suboptimal levels of investment. Given the virtual nonexcludability of knowledge acquired about new business opportunities abroad and its nonrival use, information can spill over to other firms, thus generating free-riding. For example, followers may eventually imitate the pioneering firms without incurring the pioneers' costs. In doing so, the followers obtain major benefits from the leader's initial investments (and, if they are competitors, can even reduce the value of potential benefits for leaders). These externalities—as well as those described above relating to possible learning and spillovers to domestic firms—are typically not included in multinational firms' private assessment of the costs and benefits associated with doing business overseas and investing abroad. More specifically, the returns accruing to the firms carrying out these new investments (private returns) would be lower than the corresponding returns for the economy as a whole (social returns), and investment in their development would then be suboptimal—thereby potentially providing a rationale for public intervention (Blyde et al., 2014).

To correct such market failures, governments around the world have resorted to several policies to attract FDI. A first generation of these policies included incentives to foreign firms in the form of income tax holidays, tariff exemptions, and subsidies for infrastructure, not infrequently bundled in the framework of free zone regimes (e.g., Greenstone and Moretti, 2003; Greenstone et al., 2010; Farole, 2011; Davies and Francois, 2015; Zeng, 2015; and

Davies and Desbordes, 2018). More recently, a second generation of policies involved a more tailored approach to investment attraction, including the use targeted firm support for innovation (OECD, 2011), such as R&D tax credits and the establishment of investment promotion agencies (IPAs).

Today, virtually each country has at least one IPA that seeks to attract and facilitate FDI. In Latin America and the Caribbean (LAC) and the OECD, the regions that this report focuses on, the number of countries with IPAs has quadrupled in the last 30 years (figure 0.2). In general, these agencies aim to attract and facilitate investment and provide assistance, primarily to foreign firms. These services can be grouped into four main categories. *National image-building* encompasses actions that aim to improve the perception of the country as an attractive location for FDI. *Investment generation* entails identifying and approaching potential investors. *Investment facilitation and retention* consists of providing investors

FIGURE 0.2 NUMBER OF COUNTRIES WITH INVESTMENT PROMOTION AGENCIES, 1925–2017



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the number of countries with national IPAs. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

with assistance in analyzing business opportunities, obtaining permits for establishing a business in the host country, and spreading information on available incentives. This category also entails providing support for accessing these incentives and investment aftercare for already multinational firms that have already set up operations in the country, which involves facilitation services and development support in tandem with the corporate evolution of these firms. *Policy advocacy* comprises all activities that seek to improve the investment climate, identifying the public inputs needed by the private sector, and coordinating with the rest of the public sector to deliver those inputs (e.g., UNCTAD, 2008a; Harding and Javorcik, 2011; Blyde et al., 2014).

***A priori*, these activities are significantly less expensive and are more aligned with the goal of correcting market failures that other investment attraction policies**. Thus, national image-building and investment generation are primarily information services that can be viewed as a means of subsidizing location searches, which counter the disincentives arising from potential free-riding. Similarly, aftercare and policy advocacy are essentially actions which aim to solve coordination problems in the provision of public-sector inputs that facilitate investments. However, despite how widespread IPAs are, little is known about the current landscape of investment promotion around the world and the role IPAs play in FDI attraction.

Unlike other aspects of public support for firms, including export promotion policies, there has been little comparative research on investment promotion policies in general and the activities of IPAs in particular in recent years.[4] As a result, there is limited information on *who* IPAs are (e.g., how they are organized, who they report to, and what resources they have); *what* do they do (e.g., what functions and activities they perform); and *how* they do it (e.g., whether and how they target investments, cooperate with

[4] The few available studies to present such information include Wells and Wint (2000), UNCTAD (2001, 2008b), Morisset and Andrews-Johnson (2004), Charlton and Davis (2006), and Javorcik and Harding (2011 and 2013), drawing on data from the early and mid-2000s.

other entities, and monitor and evaluate their own activities). The primary data gathered through the IDB/OECD survey (see chapter 1) allows for an up-to-date, accurate and detailed characterization of these IPAs' features, thereby helping fill in this major gap in policy knowledge. The main findings from the analysis of the original data are presented below, and the similarities and differences between LAC and OECD IPAs are highlighted.

WHO INVESTMENT PROMOTION AGENCIES ARE

- **The median IPA is an autonomous public agency reporting to one or several ministries**. In OECD countries, IPAs report about 1.5 times more frequently to multiple ministries than in LAC, particularly to the ministry of the economy or foreign affairs (45% and 25%, respectively). In LAC, a vast majority (72%) report to the ministries of trade, investment, and/or industry. Most IPAs have a board of directors whose composition varies, but LAC IPA boards tend to have higher levels of private-sector participation (63% compared to 38% in OECD IPAs) and tend to play a stronger role in the agency (almost half of LAC IPAs appoint the CEO or the general manager, as compared to 21% in OECD IPAs).

- **The median IPA has an annual total budget of US$7 million and an annual budget for investment promotion of US$3 million.** Generally, LAC agencies are significantly smaller than their OECD counterparts: the median IPA in LAC has a total budget of US$5 million while the OECD median is over twice as high—US$14 million. To put these numbers into perspective, the largest OECD IPA has a budget equivalent to 4.6% of Nicaragua's gross domestic product (GDP) or 3.7% of Jamaica's, for example, even though it still accounts for less than 1% of inward FDI flows into OECD countries. In LAC, a lower share of IPAs' investment promotion budget comes from government sources than in OECD countries (65% compared to 98%).

- **The median IPA employs 100 staff, 32 of whom work on investment promotion.** Some agencies have nearly 2,000 staff working on this area while others have a single employee. The median number of investment promotion staff is 41 in OECD and 20 in LAC countries, which again points to the smaller size of LAC IPAs. There are substantial differences in IPAs' internal structures as defined in terms of the distribution of their personnel across functional positions. In particular, LAC IPAs have significantly larger shares of managerial and administrative positions and lower shares of professional positions relative to their OECD counterparts. In addition, while in OECD IPAs managerial positions tend to be paid than the relevant public-sector (and even market) comparison, this is also the case for professional, administrative, and nonpayroll employees in LAC.

- **LAC and OECD IPAs also vary in terms of other relevant organizational dimensions.** OECD IPAs use a wider scope of planning and reporting tools (in particular, business plans and targets, which are less common in LAC) and also have a much wider network of overseas offices than LAC IPAs (the LAC median is 0 compared to 13 in OECD countries). LAC IPAs tend to be more independent on average, as measured by the proposed *IPA institutional independence index* (see box 2.3), However, it was found that this independence is more common in countries with lower government effectiveness. As such, in some cases, this independence may be compensating for a weaker regulatory framework.

WHAT INVESTMENT PROMOTION AGENCIES DO

- **IPAs tend to have several official mandates (six on average), besides promoting inward FDI.** There is a high variation across agencies but, on average, LAC IPAs tend to have a slightly higher number of mandates than OECD ones. It was also found that larger and more developed countries' IPAs tend to specialize more (i.e., have a smaller number of man-

dates), possibly because other agencies in the country can undertake certain functions. On average, adding a new mandate is estimated to cost US$1.3 million. In addition to inward FDI promotion, IPAs' most frequent mandates include export promotion, innovation promotion, green investment promotion, regional development promotion, and domestic investment promotion.

- **IPAs carry out multiple specific investment promotion activities to promote FDI.** The total number of such activities ranges from 13 to 55 and the median (of 39 for all IPAs) is similar in OECD and LAC IPAs. Overall, investment generation and facilitation and retention jointly account for roughly three-quarters of IPAs' investment promotion budget and staff. Most IPAs execute all the main specific investment generation activities, although there is greater differentiation across agencies within policy advocacy and investment facilitation. For example, OECD IPAs more frequently offer investors assistance in securing financing and the relevant business permits than LAC IPAs. The two proposed *functional specialization indices* (see box 3.4) suggest that IPAs spread their resources relatively evenly across the various functions—in other words, their levels of specialization are low.

HOW AGENCIES PROMOTE INVESTMENT

- **Virtually all IPAs target some investments over others when performing their functions.** While nearly all IPAs prioritize certain sectors and source countries, the majority also prioritize specific investment projects, and nearly 40% prioritize specific investors. Meanwhile, more than 20% exclude certain sectors, countries, and projects, with this share being predominantly accounted for by OECD IPAs. Still, IPAs' strategies entail different degrees of targeting intensity, as shown in the proposed *targeting intensity index* (see box 4.2). For example, some agencies neither prioritize nor exclude sector/countries,

projects, or investors (e.g., Colombia and Peru), whereas others do (e.g., Sweden and United Kingdom). Generally, OECD IPAs target more intensively than LAC IPAs—that is, they prioritize or exclude to a greater extent. In addition, IPAs look at various specific criteria to operationalize their targeting strategies. They also allocate differing shares of staff to target countries and sectors and have dedicated organizational units for this purpose. Interestingly, agencies that target more intensely also tend to have a narrower range of activities and larger budgets, suggesting that they may be able to offer higher-quality services.

- **IPAs cooperate with a varying number of organizations, but this tends to be relatively large.** More than three-quarters collaborate with more than 20 public, private, and civil society organizations to promote investment, and this is similar in both LAC and OECD IPAs. The actual number ranges from very few to more than 40. Interestingly, IPAs that use more targeting-intensive strategies collaborate with a broader range of entities. This suggests that collaboration can allow agencies to focus more narrowly or that the definition of multitier priorities often requires alignment with wider national economic objectives and thus implies reaching a consensus and coordinating with other stakeholders. The patterns of IPAs' institutional interactions are related to the mandates these have been assigned, their institutional independence, and their specialization and targeting intensity strategies.

- **Most IPAs have monitoring and evaluation systems, but the nature of their specific evaluation activities varies greatly.** About half of IPAs have a dedicated evaluation unit, and these are more prevalent in OECD than LAC IPAs. IPAs also apply different approaches to assess the effectiveness of their interventions—of these, proper impact evaluations in the form of econometric analyses are the least used. Instead, most IPAs resort to client satisfaction surveys, consultation with relevant stakeholders, and benchmark exercises to gauge their

performance. Assessments based on cost-benefit analyses are also rarer and used more often in LAC. The number of firms assisted is the most common activity indicator used. In addition, most IPAs have customer relationship management (CRM) systems, although there are large differences in the coverage, use, and capacity of these. Finally, IPAs' mandates and targets do not always correspond well to the type of information that is systematically gathered and evaluated.

The type of data and analysis presented in this report could pave the way for more detailed impact evaluations. Figure 0.3 summarizes the various dimensions addressed in this study, comparing LAC and OECD IPAs. This study is a starting point in this direction and suggests that there may be interesting relationships between IPA characteristics and FDI outcomes that could help guide policymakers' and IPA leadership's decisions on IPA design and operations. For example, as shown in chapter 5, there is a positive relationship (conditional on countries' size and level of development) between IPAs' budgets (per capita), their targeting intensity (as captured by an index developed in this study), and inward FDI, both in terms of total stock value (per capita) and the total number of multinational firm affiliates established in the country (per capita). Moreover, having a foreign office in a country is also associated with larger inward FDI stock values and a larger number of affiliates from that country, all else being equal. Further analysis undertaken in partnership with interested IPAs could help better assess the impact of their activities and specific types of services on inward FDI and the impact that assisted firms have on the local economy.

FIGURE 0.3 OVERVIEW OF THE CHARACTERISTICS OF THE INVESTMENT PROMOTION AGENCIES FROM LAC AND THE OECD

	Total				LAC				OECD			
	Mean	Min	Median	Max	Mean	Min	Median	Max	Mean	Min	Median	Max
Age	20	1	15	90	16	1	14	35	23	2	16	90
Reforms	2	0	2	5	2	0	1	5	2	0	2	5
Institutional Independence												
Legal status—mode (%): autonomous public agency for OECD; private or joint public–private agency for LAC	46 17	— —	— —	— —	24 29	— —	— —	— —	60 10	— —	— —	— —
Reporting to—mode (%): ministry for OECD; board of directors for LAC	56 56	— —	— —	— —	55 75	— —	— —	— —	57 44	— —	— —	— —
Board of directors (yes/no)—mode (%)	76	—	—	—	90	—	—	—	67	—	—	—
Board of directors—number of members	10	0	10	32	11	3	10	32	9	0	10	14
Board of directors—share of nonpublic members (%)	64	0	60	100	69	33	67	100	60	0	60	100
Budget—share of nonpublic sources (%)	14	0	0	100	30	0	0	100	2	0	0	30
Size												
Total budget (millions of US$)	57	0.5	7	448	19	0.5	5	147	79	0.9	14	448
FDI budget (millions of US$)	22	0.1	3	303	5	0.1	1	56	31	0.5	6	303
Total employees	296	2	100	2315	132	2	48	527	402	4	135	2315

(*continued on next page*)

FIGURE 0.3 OVERVIEW OF THE CHARACTERISTICS OF THE INVESTMENT PROMOTION AGENCIES FROM LAC AND THE OECD *(continued)*

	Total				LAC				OECD			
	Mean	Min	Median	Max	Mean	Min	Median	Max	Mean	Min	Median	Max
FDI employees	118	1	32	1773	43	1	20	288	160	3	41	1773
Total foreign offices	18	0	5	108	8	0	0	50	25	0	13	108
FDI promotion foreign offices	13	0	3	74	7	0	0	49	18	0	13	74
Specialization												
Share of FDI core functions—budget allocation (%)	64	0	60	98	60	0	50	97	66	0	70	98
Share of FDI core functions—staff allocation (%)	71	0	75	100	69	0	70	100	71	0	75	100
Total mandates	6	0	6	13	6	1.0	6	12	6	2	6	13
Total activities	38	13	39	55	37	13	39	44	39	17	38	55
Dedicated unit—mode (%)*	82	—	—	—	85	—	—	—	80	—	—	—
Dedicated staff—mode (%)*	52	—	—	—	62	—	—	—	43	—	—	—
Targeting Intensity												
Targeting criterion (country)—mode (%): source of high technology	56	—	—	—	72	—	—	—	32	—	—	—
Targeting criterion (sector)—mode (%): economics diversification	71	—	—	—	74	—	—	—	69	—	—	—
Targeting criterion (project)—mode (%): job creation and innovation	91 88	—	—	—	100 90	—	—	—	83 87	—	—	—

(continued on next page)

FIGURE 0.3 OVERVIEW OF THE CHARACTERISTICS OF THE INVESTMENT PROMOTION AGENCIES FROM LAC AND THE OECD *(continued)*

	Total				LAC				OECD			
	Mean	Min	Median	Max	Mean	Min	Median	Max	Mean	Min	Median	Max
Interaction Intensity												
Total partners	26	0	28	43	29	6	30	42	24	1	26	42
Strategic partners	16	0	17	36	21	1	21	36	13	0	13	29
Evaluation												
Evaluation unit (yes/no)—mode (%)	51	—	—	—	48	—	—	—	53	—	—	—
Monitoring strategies—number	3	0	3	8	3	0	3	7	4	0	3	8
Econometric analysis (yes/no)—mode (%)	14	—	—	—	10	—	—	—	17	—	—	—

Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: *Based on the responses of 15 OECD and 13 LAC IPAs that provided the relevant information.

1

THE EVOLVING INVESTMENT PROMOTION PUZZLE

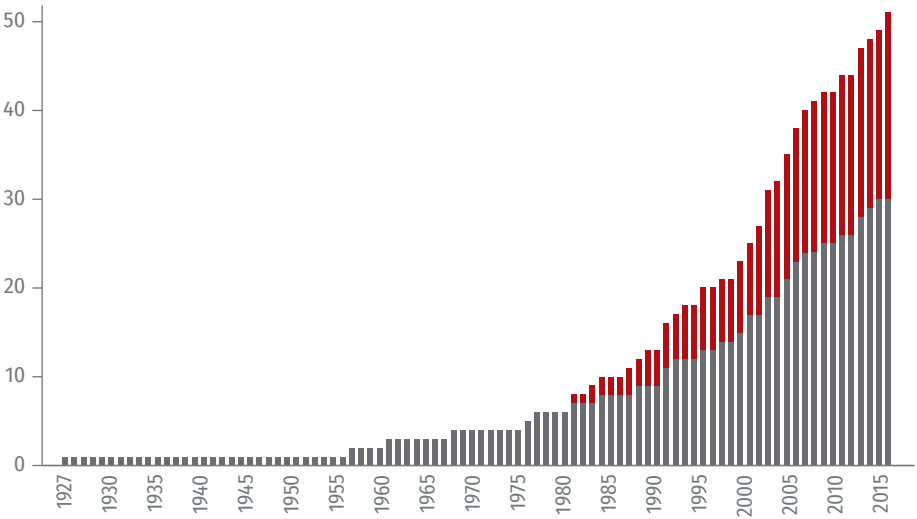
To date, little has been published on the current landscape of investment promotion around the world. Most governments worldwide aim to attract FDI. They do so through a variety of means, which include the activities of the agencies charged with promoting and facilitating FDI, which are typically referred to as IPAs.[5] Unlike other aspects of public support for firms, including helping them expand abroad through export promotion policies, there has been limited comparative research into investment promotion policies and the activities of IPAs in recent years.

Meanwhile, virtually all countries around the world have established dedicated agencies to promote inward FDI, and that number has increased significantly over time. The number of LAC and OECD countries with IPAs has quadrupled in the last 30 years. Notably, most IPAs in LAC countries were created in this period (figure 1.1).

IPAs have spread around the world following clear patterns over time. Countries have tended to establish their own national IPAs when distant and differently sized counterparts did so in previous years (figures 1.2 and 1.3).

[5] See OECD (2006).

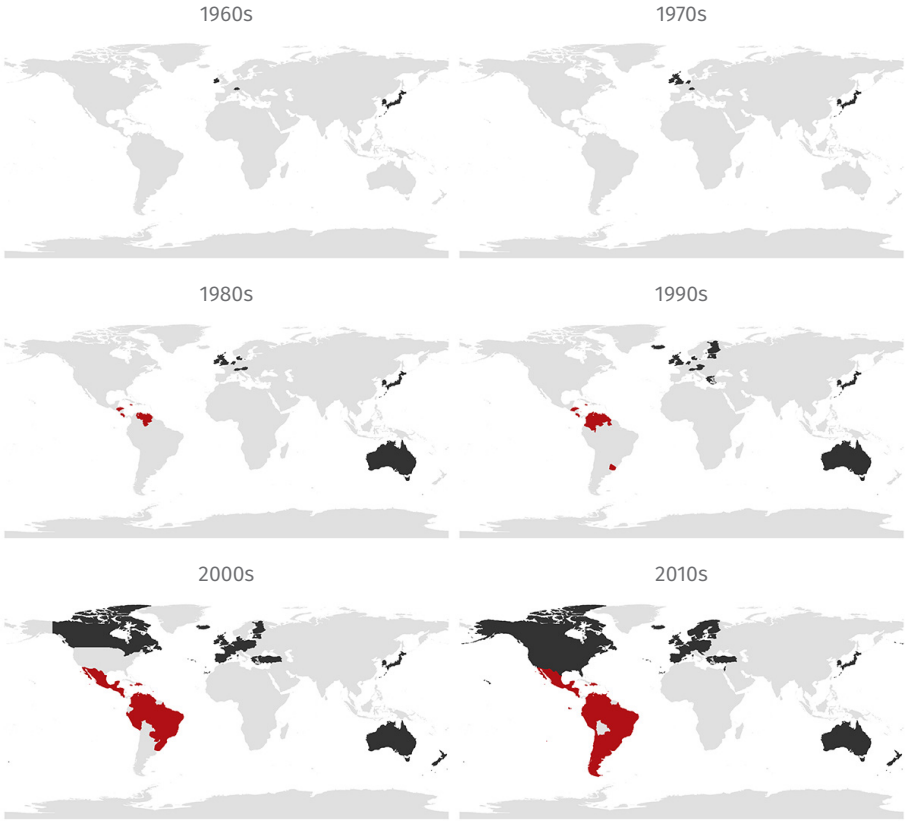
FIGURE 1.1 NUMBER OF COUNTRIES WITH INVESTMENT PROMOTION AGENCIES, 1925–2017



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the number of countries with national IPAs. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

Most existing IPAs have undergone major institutional reforms and restructuring in recent years. On average, more than six OECD and LAC IPAs experienced organizational changes every year between 2007 and 2016 (figure 1.4). This number increased to 8.4 in 2012–2017. This aggregate picture results from the fact that, on average, each IPA has been reformed more than once, and roughly one-quarter of them have been reformed three times since 2007, with these numbers being similar for both LAC and OECD IPAs (figure 1.5). These reforms include modifications in the institutional design of the IPA (i.e., internal organizational structure, changes in legal status or the entity they report to). Such modifications accounted for over 50% of all major reforms undertaken in the last ten years by IPAs, on average, while removals and additions of mandates, including mergers and demergers with other bodies, accounted for 36%.

FIGURE 1.2 WORLDWIDE SPREAD OF INVESTMENT PROMOTION AGENCIES BY DECADE

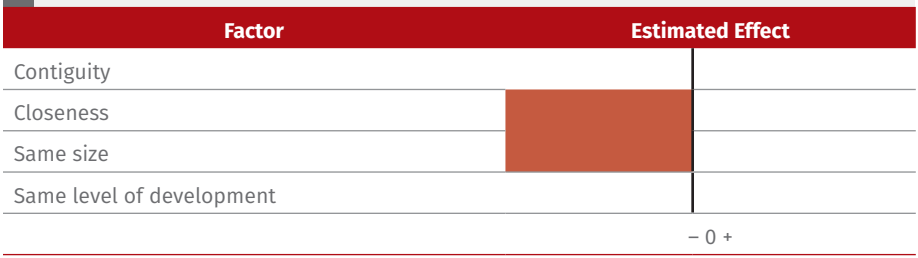


Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows world maps showing the countries with national IPAs in different decades. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

As with the spread of IPAs themselves, there are clear geographical patterns in how these reforms spread. In particular, countries appeared to have reformed their own national IPAs when counterparts that are far away and have different levels of development did so in previous years (figures 1.6 and 1.7).

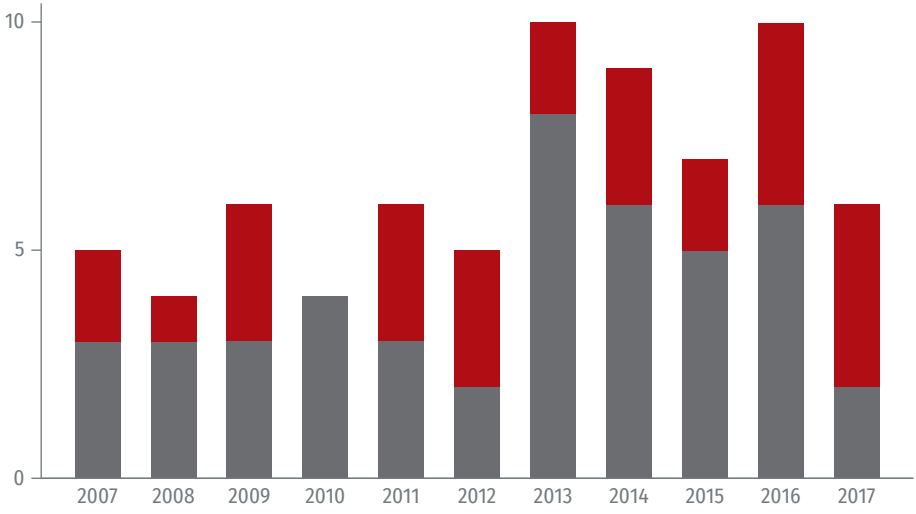
Building on this background, this report presents a comprehensive mapping of IPAs based on a rich, unique set of data gathered through an extensive survey of these organizations that covered

FIGURE 1.3 PATTERNS THROUGH WHICH INVESTMENT PROMOTION AGENCIES SPREAD WORLDWIDE



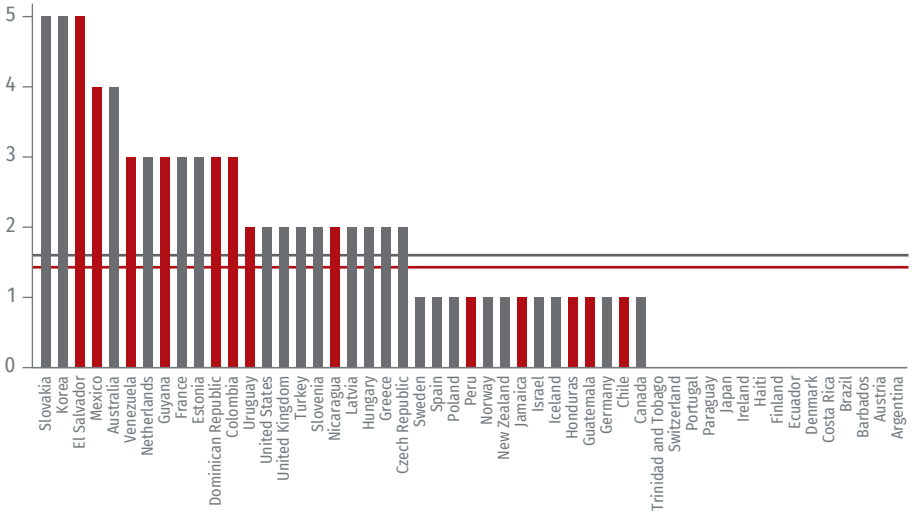
Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the sign of the estimated effects of different factors on the probability of a country having an IPA in the year in question based on a linear probability model with country and year fixed effects estimated for 1950–2016. Countries' GDP and GDP per capita are included as control variables. Factors whose estimated effects are nonsignificant at the 10% level are reported as having a zero effect.

FIGURE 1.4 NUMBER OF INVESTMENT PROMOTION AGENCIES THAT EXPERIENCED REFORMS, 2007–2017



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the number of IPAs that experienced reforms. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

FIGURE 1.5 ***REFORM INDEX OF INVESTMENT PROMOTION AGENCIES*, 2017**

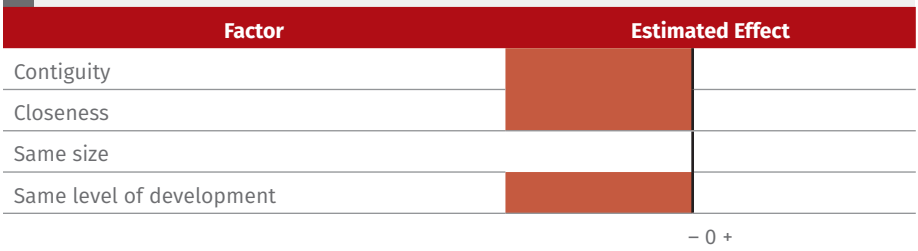


Source: Author's calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the total number of reforms by IPA in 2007–2017. The horizontal lines represent regional medians. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

FIGURE 1.6 WORLDWIDE SPREAD OF REFORMS AMONG INVESTMENT PROMOTION AGENCIES BY FIVE-YEAR PERIOD, 2007–2017

Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows world maps showing the countries that reformed their national IPAs in different periods. LAC countries are shown in red whereas non-LAC OECD countries are shown in dark gray.

FIGURE 1.7 PATTERNS THROUGH WHICH REFORMS SPREAD AMONG INVESTMENT PROMOTION AGENCIES



Source: Author's calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the sign of the estimated effects of different factors on the probability of a country reforming its IPA in the year in question based on a linear probability model with country and year fixed effects estimated for 2007–2016. The countries' GDP and GDP per capita are included as control variables. Factors whose estimated effects are nonsignificant at the 10% level are reported as having a zero effect.

their organizational structure, activities, and operational modalities (box 1.1). The dynamism of institutional changes described above stresses the importance of accurate and up-to-date information on investment promotion and points to peer-learning opportunities. For this reason, the IDB and the OECD conducted a survey of IPAs' existing institutional and operational practices across both LAC and OECD countries to identify current and emerging trends in this evolving policy area. Some 32 IPAs from the OECD and 19 from LAC (non-OECD) participated in the survey. The detailed new data obtained provide valuable insights into the "*whos,*" "*whats,*" and "*hows*" of investment promotion in these countries, the most important of which are presented in chapters 2, 3, and 4 of this report. This is followed by a preliminary assessment of whether and to what extent these factors influence the effectiveness of investment attraction, in chapter 5, and concluding remarks, in chapter 6.

BOX 1.1: THE IDB/OECD SURVEY OF IPAS—A RICH NEW DATASET

The IDB and the OECD have collaborated to design a comprehensive survey of IPAs to facilitate the gathering of comparative, up-to-date information on the current state of play in the world of IPAs. The survey was shared with IPA representatives from LAC and OECD countries in the form of an online questionnaire made up of nine parts:

- Basic profile
- Budget
- Personnel
- Offices (home and abroad)
- Activities
- Prioritization
- Monitoring and evaluation
- Institutional interactions
- IPAs' perceptions of FDI

National IPAs from 32 (of the 35) OECD countries and 19 IPAs from LAC countries (outside the OECD area) participated in the IDB/OECD survey and completed the questionnaire between May and September 2017. The participating OECD countries were: Australia, Austria, Canada, Chile, Czech Republic, Denmark, Finland, France, Estonia, Germany, Greece, Hungary, Iceland, Ireland, Israel, Korea, Latvia, Japan, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. The participating LAC countries (outside of the OECD area) were: Argentina, Barbados, Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Paraguay, Peru, Trinidad and Tobago, Uruguay, and Venezuela. The IDB/OECD survey of IPAs also serves as the main data source for a separate study, focusing on OECD economies only (OECD, 2018).[a]

The detailed data gathered through the survey, which is the basis for this mapping report, provides a rich basis for describing recent developments in the investment promotion and facilitation policy landscape and for providing a comparative perspective of IPAs' work in different regions and countries. In the future, the data could also serve as a basis for further research and to inform the public's understanding of the role of IPAs. Similar initiatives are currently being undertaken in other regions, including the Middle East and Africa, Southeast Asia, and Southeastern Europe.

[a] Chile and Mexico are treated as LAC economies for the purposes of this report and are included in the corresponding LAC medians and averages. As such, the OECD averages and medians reported in this study may differ slightly from those reported in the parallel report "Mapping of Investment Promotion Agencies in OECD Countries" (OECD, 2018).

2

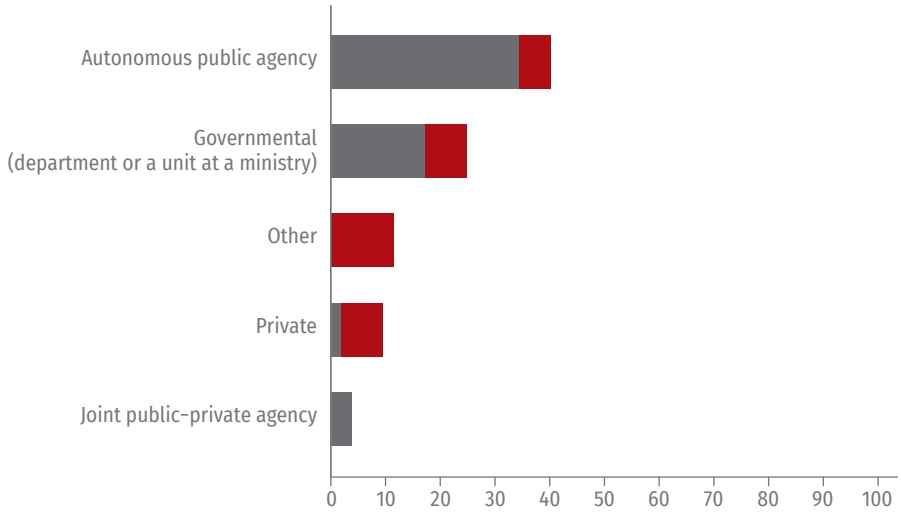
WHO INVESTMENT PROMOTION AGENCIES ARE

There are large differences between countries regarding the institutional choices they have made for their IPAs and how they organize these. Government institutional frameworks for investment promotion and facilitation, including how IPAs are set up and run, respond to the specific policy objectives each country sets and the sociopolitical environment in which they operate. This chapter provides a comparative analysis of choices made by governments regarding the institutional structure and organization of IPAs (legal status, reporting line, governance, internal organization, planning and reporting tools, and the use of a network of offices abroad and at home) as well as their use of available resources (budget and staff). As such, the chapter aims to answer the question of what the average IPA looks like, highlighting some common features and differences across LAC and OECD economies.

LEGAL STATUS AND REPORTING

The median IPA is an autonomous public agency. The majority of IPAs are organized as autonomous public agencies. The remaining ones are either part of the government, such as a unit in a relevant ministry, or private/joint public–private entities. The latter format is particularly common in LAC countries, accounting for nearly one-third of all the IPAs surveyed in the region (figure 2.1).

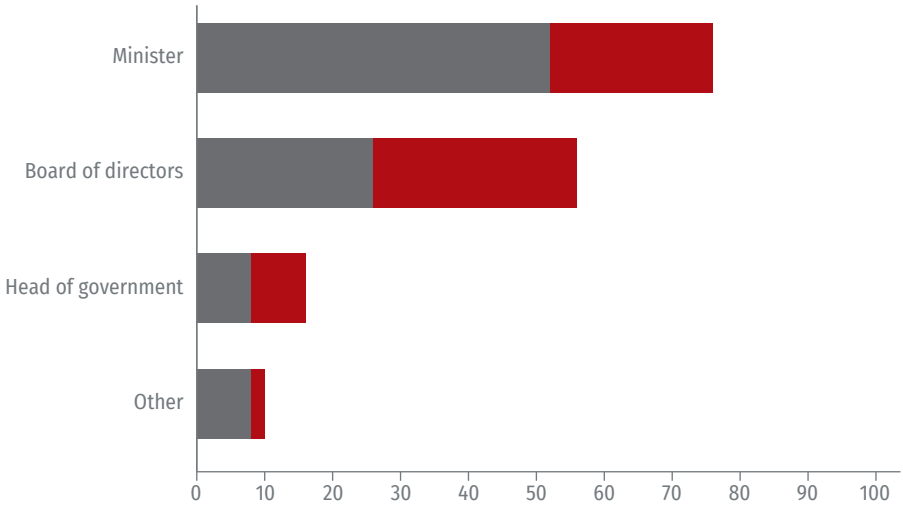
FIGURE 2.1 INVESTMENT PROMOTION AGENCIES' LEGAL STATUS, 2017



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the percentage share of IPAs with alternative legal statuses. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

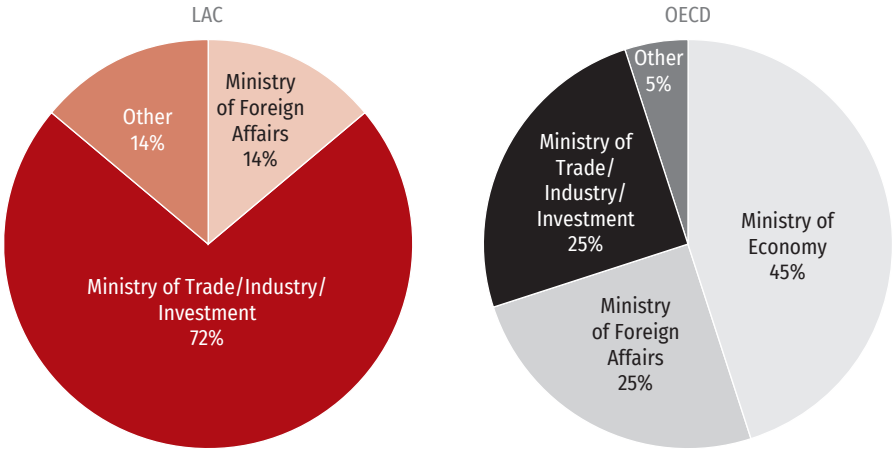
The median IPA reports to a single ministry, but there are significant differences regarding the specific ministry to which agencies report (figures 2.2 and 2.3). Most IPAs in LAC and OECD countries report to one or several ministries. Those reporting to multiple ministries account for almost one-third of the total and the share is higher in OECD than in LAC countries (45% of IPAs compared to 29%). There are also differences regarding the type of ministry IPAs report to. For example, while 45% of IPAs in OECD countries report to the ministry of the economy, in LAC, the vast majority (72%) report to the ministry of trade, investment, and/or industry. Moreover, in OECD countries, a higher share of IPAs report to the ministry of foreign affairs than in LAC (25% compared to 14%). When IPAs report to several ministries, this usually takes place via an interministerial taskforce or a council. For example, in LAC, APEX Brazil reports to the Deliberative Administrative Board and the Fiscal Council while Uruguay XXI reports to six different ministries. A significant share of IPAs also

FIGURE 2.2 INVESTMENT PROMOTION AGENCIES' REPORTING SCHEMES BY TYPE OF AUTHORITY, 2017



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the percentage share of IPAs reporting to alternative authorities. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

FIGURE 2.3 INVESTMENT PROMOTION AGENCIES' REPORTING SCHEMES BY TYPE OF MINISTRY THEY REPORT TO, 2017



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the percentage share of IPAs reporting to the specific ministries among those reporting to one or several ministries. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

report to a board of directors. In contrast, only a few agencies in LAC or OECD countries report directly to the head of state (president or prime minister). The agencies that do so include those of Germany, Nicaragua, El Salvador, Turkey, and the United Kingdom (figure 2.2).

Finally, the IPAs surveyed in this report sometimes coexist with other national or subnational agencies that perform the same or related functions (box 2.1). This may influence the way these agencies coordinate with other bodies and at times pose coordination challenges (see chapter 4).

BOARD OF DIRECTORS AND CEO

The majority of IPAs in LAC and OECD countries have a board of directors whose composition varies. The board is a body of elected or appointed members who jointly oversee the activities of the organization. Some 86% of LAC IPAs and 67% of OECD IPAs have an overseeing body of this sort (figure 2.6). The median size of this body is ten members in both LAC and OECD countries.

The composition of the board of directors varies from one IPA to the next, although the private sector tends to play a stronger role in LAC. Most boards have a chairperson (with an exception of Latvia and Guatemala) and are dominated by public- and private-sector representatives. These sectors account, on average, for 40% and 45% of total board members respectively, across all IPAs. The boards of LAC IPAs tend to have higher levels of private-sector participation than IPAs in OECD countries (63% compared to 38%, respectively) and lower levels of public-sector representation (figure 2.7). Interestingly, only a few agencies in either OECD or LAC have representatives from research institutions or universities on their boards (El Salvador, Estonia, Ireland, and Norway) and the same holds for representatives from civil society organizations, such as NGOs and trade unions (Finland, Norway, Slovakia, Sweden, and Uruguay).

BOX 2.1: ORGANIZATIONAL CHOICES: ONE COUNTRY, ONE IPA?

The organizational configuration of investment promotion varies from country to country. This configuration may feature different degrees of fragmentation. At one end of the spectrum are countries with a single IPA at the central government level that concentrates most relevant resources and can bring together most public- and private-sector efforts. In such cases, there is virtually no fragmentation at either the national or subnational levels. At the other extreme are countries where several agencies and other players are engaged in investment promotion at the central, regional, or other levels.

This fragmentation of responsibilities in this policy area may occur along several lines. One is horizontal, where different national public-sector organizations linked to different government units can be simultaneously involved in investment promotion (e.g., responding to the different ministries), each with its own specific support programs and personnel. Fragmentation may also be vertical, as separate public- and private-sector organizations may be active at both the national and subnational levels (e.g., in specific regions, municipalities, or cities), especially in federal or highly decentralized countries. For example, in France, Spain, and Brazil, subnational IPAs operate in each region and in larger cities, while in smaller countries like Sweden, there are over a dozen of agencies operating at the subnational level.

How fragmented the system is can have major implications for the resources assigned to investment promotion and the impacts this has. In more fragmented systems, the resources assigned to the main national IPA cannot be interpreted as being representative of the countrywide allocation of resources for investment promotion. More specifically, it may be the case that while one country's IPA is larger than another's, the latter country may, on aggregate, be devoting more funds to investment promotion. A given total amount of resources may also lead to different outcomes, depending on the specific assistance programs undertaken and how they are coordinated. Such initiatives can be articulated to reinforce each other, or they can overlap and lead to ineffective spending, producing a scenario where more resources do not necessarily ensure better results.

Horizontal organizational fragmentation is more prevalent in LAC than in OECD countries. Several national LAC IPAs coexist with other national-level entities that also promote FDI in Barbados, Brazil, Dominican Republic, Ecuador, Guyana, Honduras, Trinidad and Tobago, and Venezuela. Among the OECD countries, only Japan, Latvia, the Netherlands, and the United Kingdom have more than one

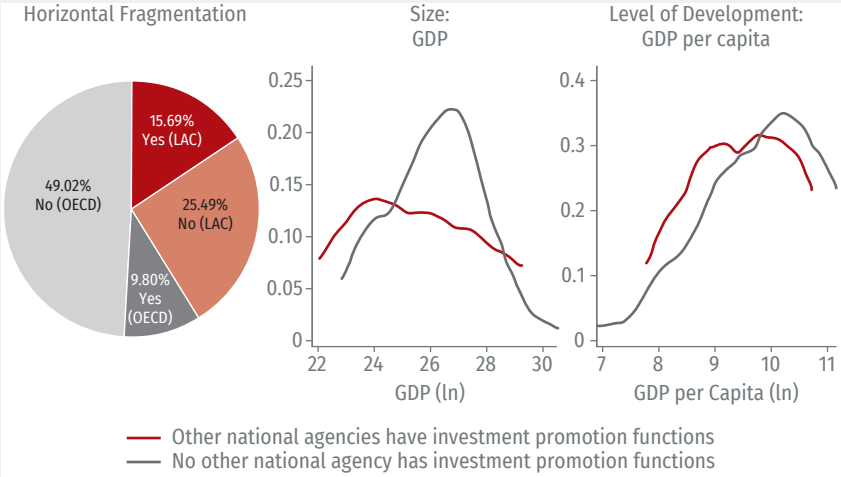
(*continued on next page*)

BOX 2.1: ORGANIZATIONAL CHOICES: ONE COUNTRY, ONE IPA? *(continued)*

agency with investment promotion responsibilities at the national level. Generally speaking, horizontal fragmentation is more prevalent in smaller and less developed countries (figure 2.4). Similar trends are found in other regions, notably the Middle East and Africa (OECD, 2019).

In contrast, vertical organizational fragmentation is larger in OECD countries than in LAC. In several OECD economies there are both national and subnational IPAs, including in Austria, Australia, Canada, Spain, Finland, France, Israel, Iceland, Norway, New Zealand, Poland, Portugal, Sweden, Slovenia, Slovakia, Turkey, the United Kingdom, and the United States. In LAC this is the case only in Brazil, Colombia, and Mexico. Overall, vertical fragmentation is more prevalent in larger and more developed countries (figure 2.5).

FIGURE 2.4 INVESTMENT PROMOTION: HORIZONTAL ORGANIZATIONAL FRAGMENTATION AT THE NATIONAL LEVEL AND COUNTRIES' SIZE AND LEVEL OF DEVELOPMENT, 2017

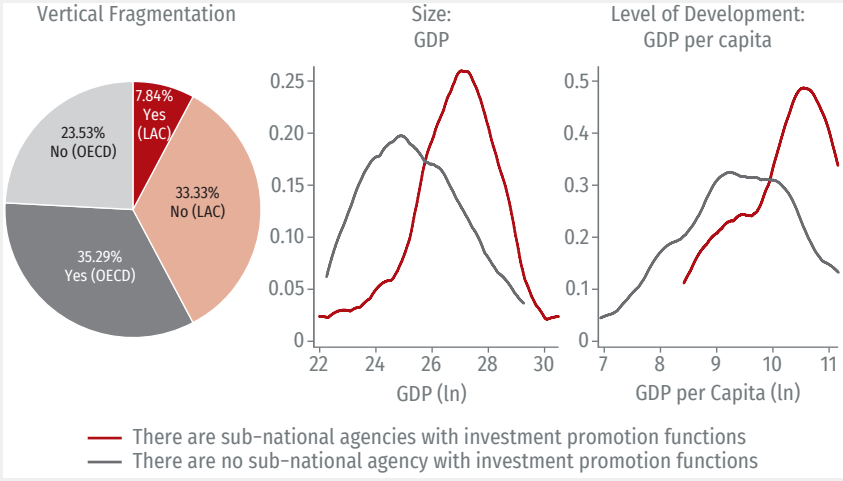


Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure in the left panel presents the percentage share of IPAs that coexist with at least one national-level entity that also performs investment promotion functions. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray. The figure on the center and right panels show kernel density estimates of the (natural logarithm of the) GDP (as a proxy for economic size) and of the (natural logarithm of the) GDP per capita (as a proxy for level of development) of countries that have more and do not have more than one national-level entity that promote inward FDI (red and dark gray lines, respectively).

(continued on next page)

BOX 2.1: ORGANIZATIONAL CHOICES: ONE COUNTRY, ONE IPA? *(continued)*

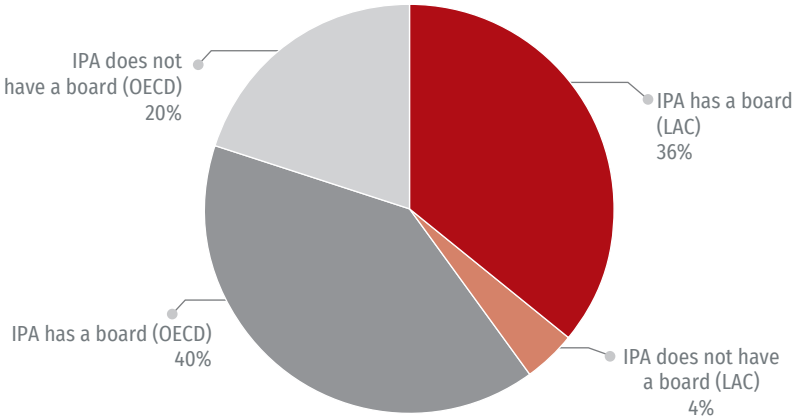
FIGURE 2.5 INVESTMENT PROMOTION: VERTICAL ORGANIZATIONAL FRAGMENTATION ACROSS GOVERNMENT LEVELS AND COUNTRIES' SIZE AND LEVEL OF DEVELOPMENT, 2017



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure in the left panel presents the percentage share of IPAs that coexist with at least one subnational entity that also performs investment promotion functions. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray. The figure on the center and right panels show kernel density estimates of the (natural logarithm of the) GDP (as a proxy for economic size) and of the (natural logarithm of the) GDP per capita (as a proxy for level of development) of countries that have more and do not have more than one national-level entity that promotes inward FDI (red and dark gray lines, respectively).

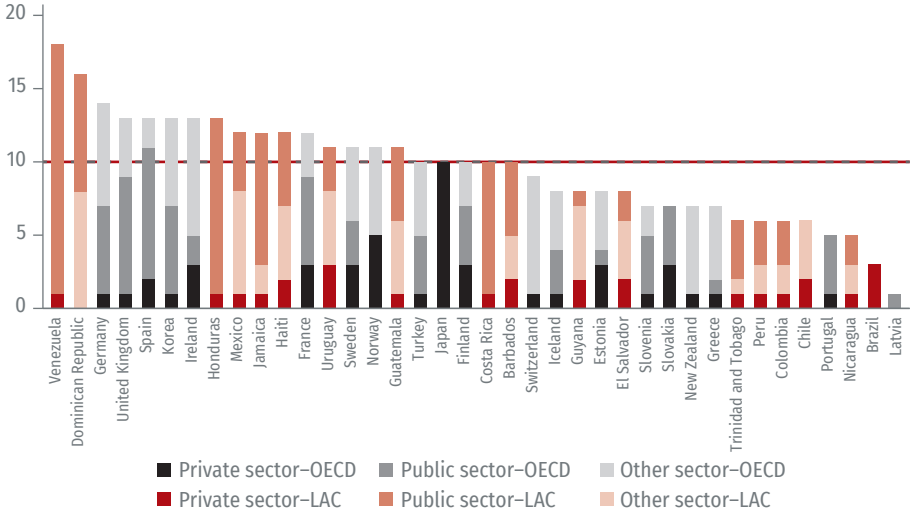
The board of directors can potentially play an important role in an IPA, performing tasks such as appointing the general manager and approving the IPA strategy and targets. In practice, the role of the board varies significantly from agency to agency: some are only consultative while others may have important responsibilities. Thus, in about half of LAC IPAs, the board appoints the CEO or general manager, but this share is much lower in OECD IPAs (21%) (figure 2.8). As will be shown below (box 2.4), the board also approves the IPA's strategy and other planning and

FIGURE 2.6 INVESTMENT PROMOTION AGENCIES' BOARDS OF DIRECTORS, 2017 – BOARD OF DIRECTORS: YES/NO



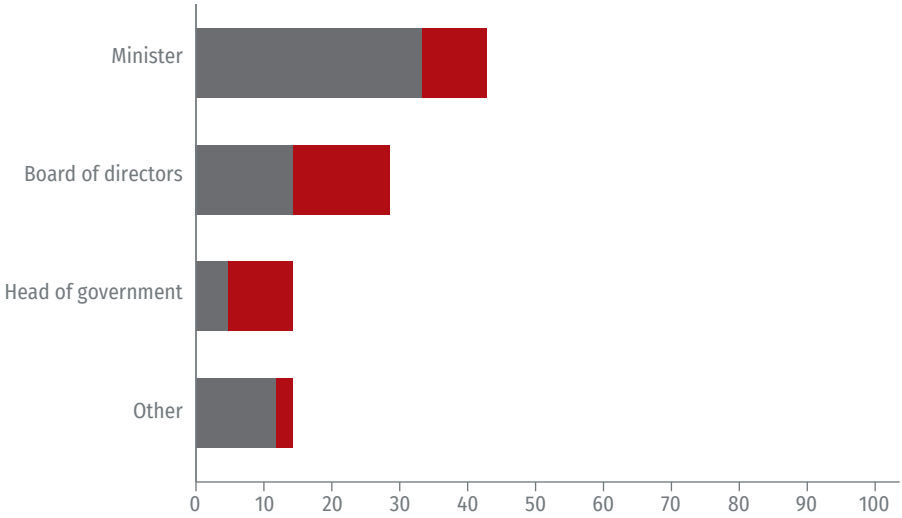
Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the percentage share of IPAs with a board of directors. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

FIGURE 2.7 INVESTMENT PROMOTION AGENCIES' BOARD OF DIRECTORS, 2017 – SIZE AND COMPOSITION OF THE BOARD OF DIRECTORS



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the size and composition of the board of directors by sector of representation for IPAs that have a board. The horizontal lines represent the regional medians. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

FIGURE 2.8 APPOINTMENT OF INVESTMENT PROMOTION AGENCIES' CEOs, 2017



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the percentage share of IPAs according to how the CEO is appointed. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

reporting documents in LAC more frequently than in OECD countries. Overall, it appears that the board may be playing a stronger role in agencies that are private or more independent from the government—indeed, all private and joint public-private IPAs and most autonomous public IPAs have a board in both LAC and OECD countries, but this is much less common among government-run IPAs.

PLANNING AND REPORTING TOOLS

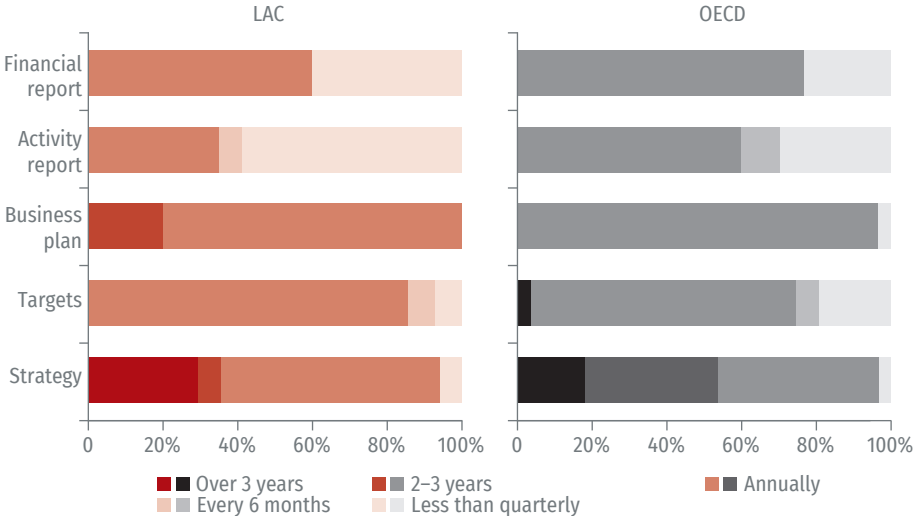
IPAs use several planning and reporting tools, the public availability of which varies. The majority of IPAs in OECD and LAC use five main tools: an IPA strategy, targets, business plan, activity reports, and financial reports, some of which are less frequent in LAC countries (figure 2.9, top panel). For example, only a minority of LAC IPAs have a business plan. Likewise, about

FIGURE 2.9 USE OF PLANNING AND REPORTING TOOLS BY INVESTMENT PROMOTION AGENCIES, 2017

Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017). Note: The figure shows the percentage share of IPAs that state they use a particular tool (top panel) as well as the percentage share of agencies using a tool that they also make publicly available (bottom panel). The horizontal lines represent the regional medians. The five planning and reporting tools shown above are all used by the majority of reporting IPAs in LAC and OECD countries, with the exception of the business plan, which is used by 85% of OECD IPAs but just 28% of LAC IPAs. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

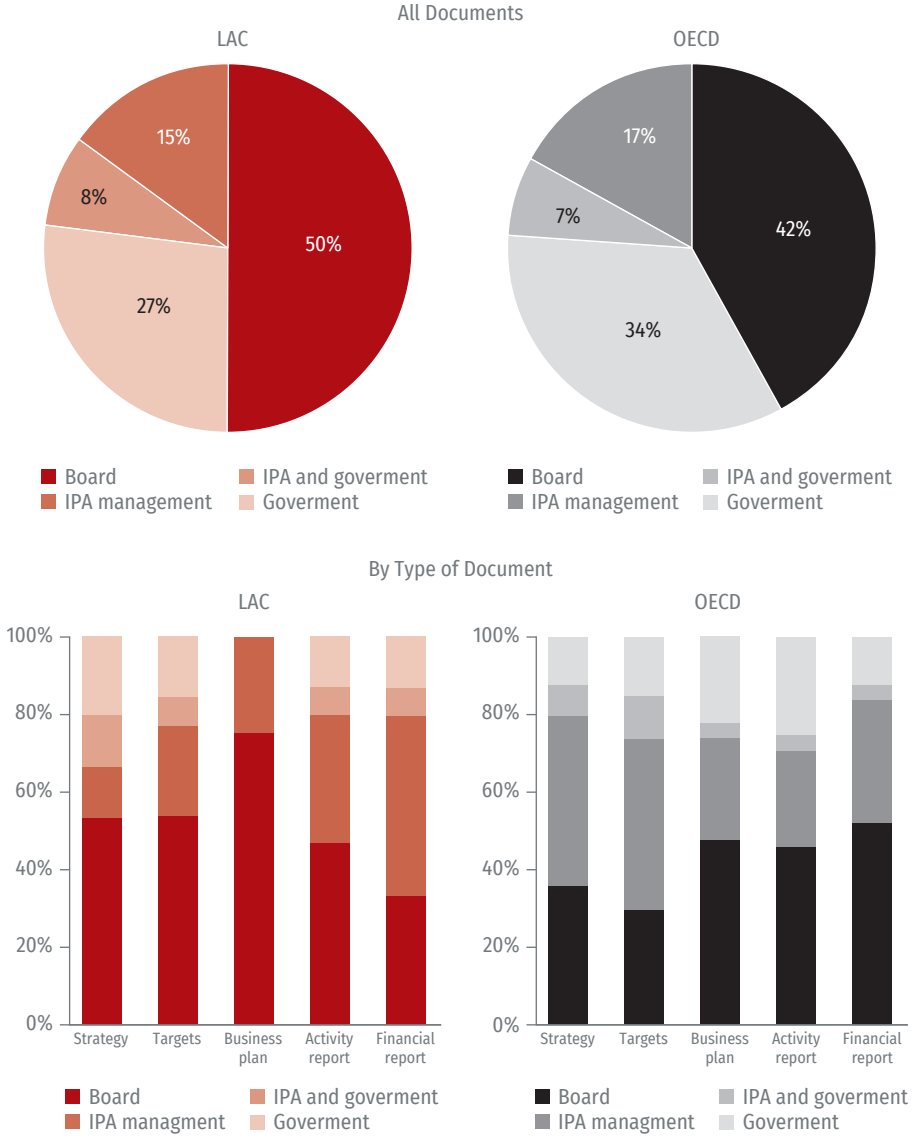
one-fifth of LAC IPAs do not appear to use specific targets to monitor the IPA's performance (Haiti, Guatemala, Uruguay, and Venezuela), while this is the case for only one OECD IPA (Czech Republic). Although the majority of IPAs in both regions do not make these documents publicly available, LAC countries do so even less than the OECD countries (33% compared to 44%). IPA financial reports and targets are the type of information most frequently made public (figure 2.9, bottom panel) and are often available on the IPAs' websites. In terms of frequency of planning and reporting, most plans are made on an annual basis in both OECD and LAC countries, with LAC agencies tending to revise their strategies and publish their activity reports more frequently (figure 2.10). Finally, on average, IPA boards play a more active role in approving these types of planning documents in LAC than in OECD countries: 52% of the former reported that the board approves such documents as compared to 42% in the latter (figure 2.11, bottom panel).

FIGURE 2.10 REPORTING FREQUENCY, BY TOOL, 2017



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

FIGURE 2.11 APPROVAL AUTHORITIES FOR PLANNING AND REPORTING DOCUMENTS ACROSS INVESTMENT PROMOTION AGENCIES, BY TYPE OF DOCUMENT, 2017



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: These five planning and reporting tools are all used by the majority of reporting IPAs in OECD and LAC, with the exception of the business plan, which is used by 85% of OECD IPAs but just 28% of LAC IPAs. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

OFFICES AT HOME AND ABROAD

The median IPA has a single office in the home country (typically the IPA headquarters) and 5 overseas, 3 of which promote inward FDI. There are, however, significant differences both across regions and specific IPAs. While most IPAs have only one office in their respective home countries, a few of them such as JETRO and the now-defunct PROMEXICO have 30 or more regional offices (figure 2.12, top panel). Moreover, IPAs in countries which higher GDPs typically have larger networks of overseas offices, as do older IPAs, which have accumulated these offices over time. Consistently, OECD IPAs have wider office networks than those of their LAC counterparts. Thus, whereas the median LAC IPA has no overseas office, the median OECD IPA has more than ten such offices. Furthermore, six IPAs have more than 50 overseas offices (all of which are from OECD countries), and 22 IPAs have no overseas presence at all (13 of which are from LAC countries) (figures 2.12, bottom panel).

FIGURE 2.12 NUMBER OF OFFICES AT HOME AND ABROAD BY INVESTMENT PROMOTION AGENCY, 2017

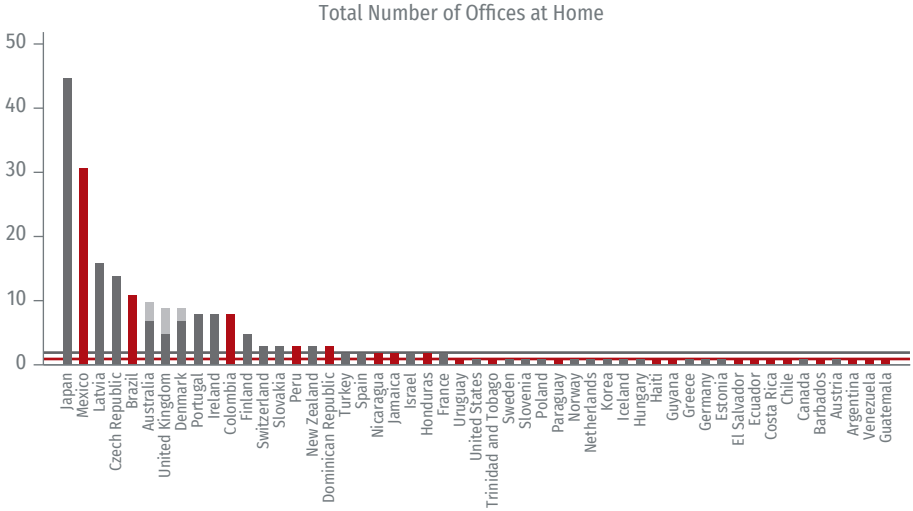


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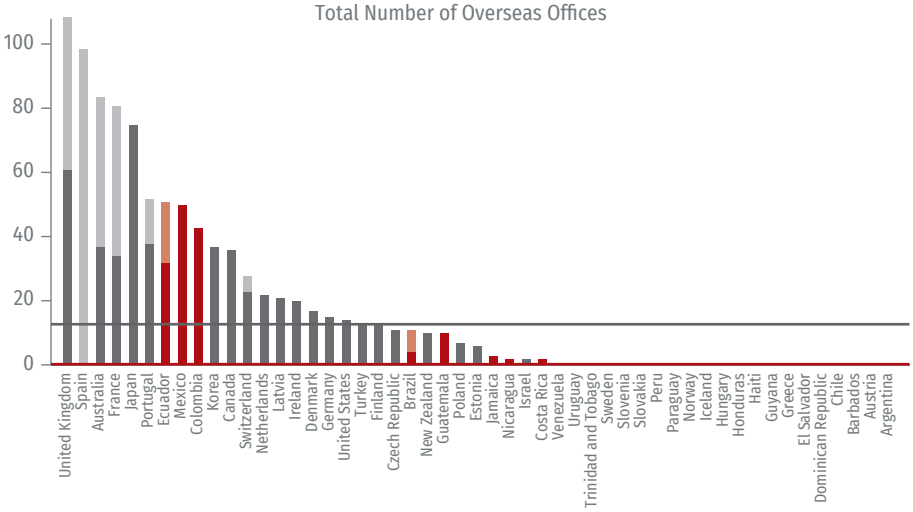
FIGURE 2.12 NUMBER OF OFFICES AT HOME AND ABROAD BY INVESTMENT PROMOTION AGENCY, 2017 *(continued)*



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the total number of IPAs' offices both at home (top panel) and abroad (bottom panel), along with the respective regional medians (horizontal lines). LAC countries are shown in red and non-LAC OECD countries are shown in dark gray. Dark tones correspond to offices with investment promotion responsibilities.

In addition, IPAs have different ways of setting up and organizing offices abroad, which depend on factors that include the location and forms of cooperation with existing embassies and other diplomatic units (box 2.2). In particular, LAC IPAs tend to rely more on sharing arrangements with the diplomatic corpus while OECD IPAs tend to have their own offices abroad. Given that IPAs and the diplomatic corps tend to report to different ministries, this may lead to certain coordination challenges. In general, as will be discussed in more detail in chapter 4, IPAs often look on consulates and embassies as strategic partners, and more specialized, targeted IPAs tend to cooperate more frequently with these.

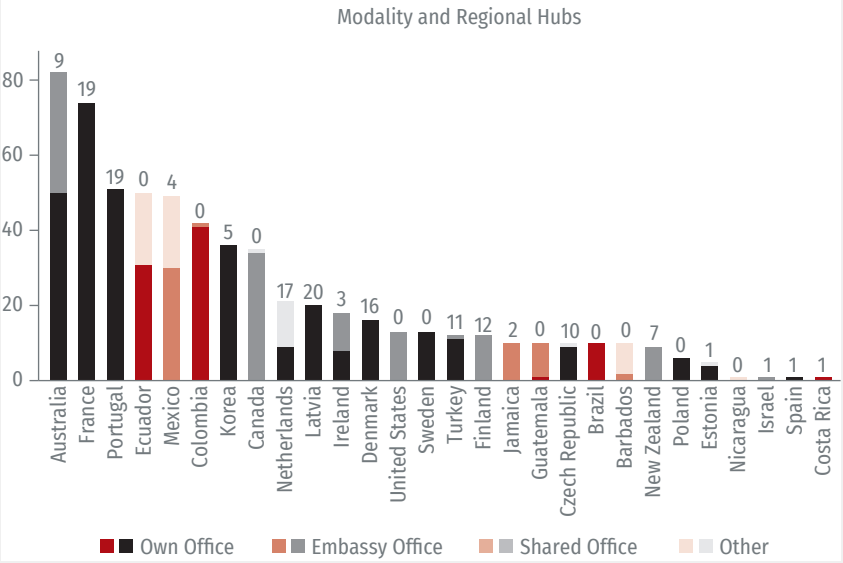
IPAs tend to differ in terms of the spatial distribution of their overseas offices (figure 2.14), but these offices are generally located in larger and more developed countries (figure 2.15). In particular, external offices specifically tasked with investment promotion

BOX 2.2: ABROAD ALONE? TYPES AND RELATIVE IMPORTANCE OF IPAS' OVERSEAS OFFICES

IPAs may have a presence abroad in forms other than operating their own overseas offices: they may operate through offices hosted by, or shared with, other organizations such as diplomatic missions, or they may even operate through individual consultants without a dedicated physical space. OECD IPAs rely more on their own offices in host countries than their LAC counterparts, which resort more to alternative office-space arrangements. Offices at embassies, shared offices, and other kinds of arrangements account for virtually all overseas commercial missions for Barbados, Guatemala, Jamaica, and Mexico, and a large portion thereof in Colombia and Ecuador (figure 2.13, left panel).

Unsurprisingly, the geographical distribution of these IPA offices overlaps almost exactly with that of the respective country's diplomatic missions. To be more precise, only exceptionally do IPAs have overseas offices in economies where their countries have no embassy or consulate. Interestingly, this also holds for a large number of OECD countries (Moons, 2017).

FIGURE 2.13 TYPES OF INVESTMENT PROMOTION AGENCIES' OVERSEAS OFFICES, 2017



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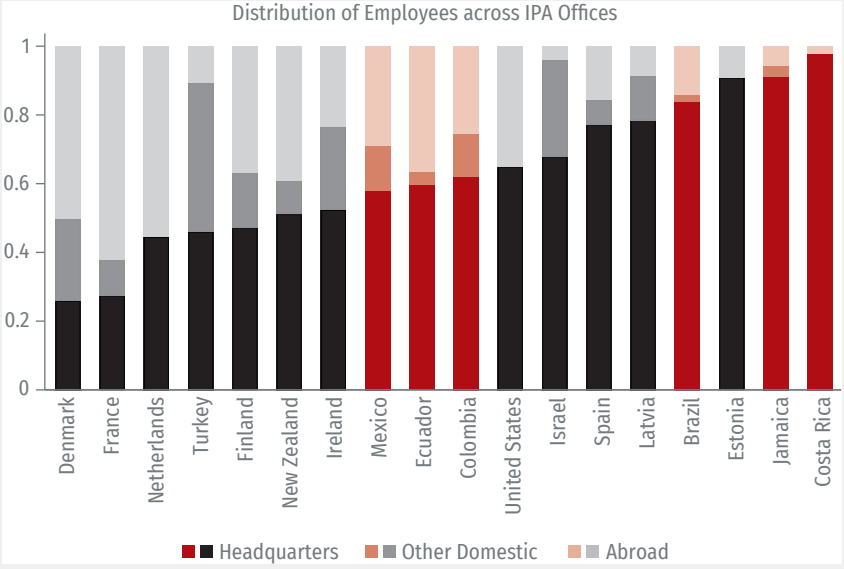
BOX 2.2: ABROAD ALONE? TYPES AND RELATIVE IMPORTANCE OF IPAS' OVERSEAS OFFICES *(continued)*

In addition, in some cases, offices serve as regional hubs and accordingly coordinate and manage the promotional activities not only for the actual host country but also for others with which that country typically has close economic ties. This scheme is more predominant among OECD IPAs (figure 2.13, top panel). London, New York, Tokyo, Beijing, and Dubai are the cities most frequently chosen by IPAs as regional hubs, in that order.

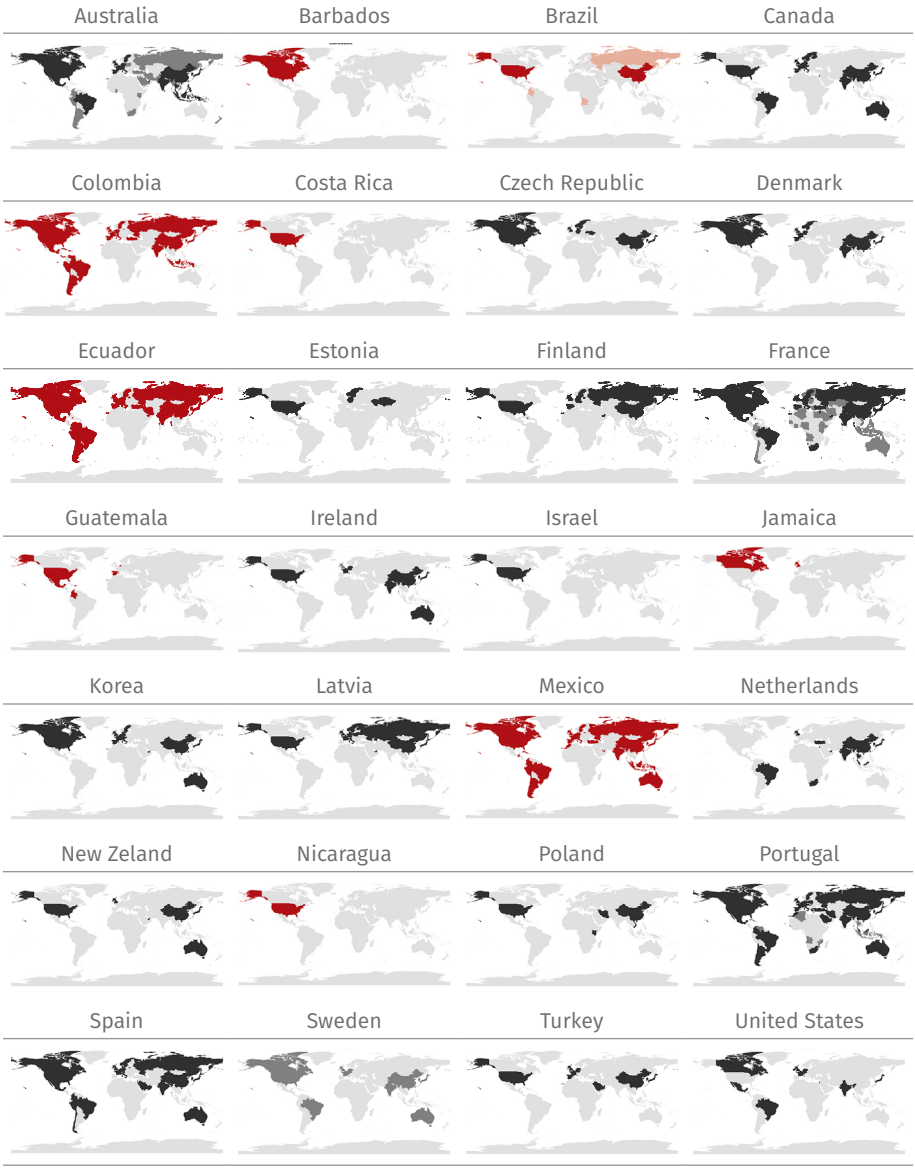
IPAs with a presence abroad assign different shares of their personnel to their overseas offices. In some OECD countries such as Denmark, France, and the Netherlands, more than 50% of the employees are based in these offices. This percentage reaches at least 25% for three LAC countries: Colombia, Ecuador, and Mexico. Finally, employees working abroad only make up 10% or less of the IPA's total personnel for Spain and, predictably, in a number of countries whose IPAs only have a few overseas offices, such as Barbados, Brazil, Estonia, and Latvia (figure 2.13, bottom panel).

FIGURE 2.13 TYPES OF INVESTMENT PROMOTION AGENCIES' OVERSEAS OFFICES, 2017 *(continued)*



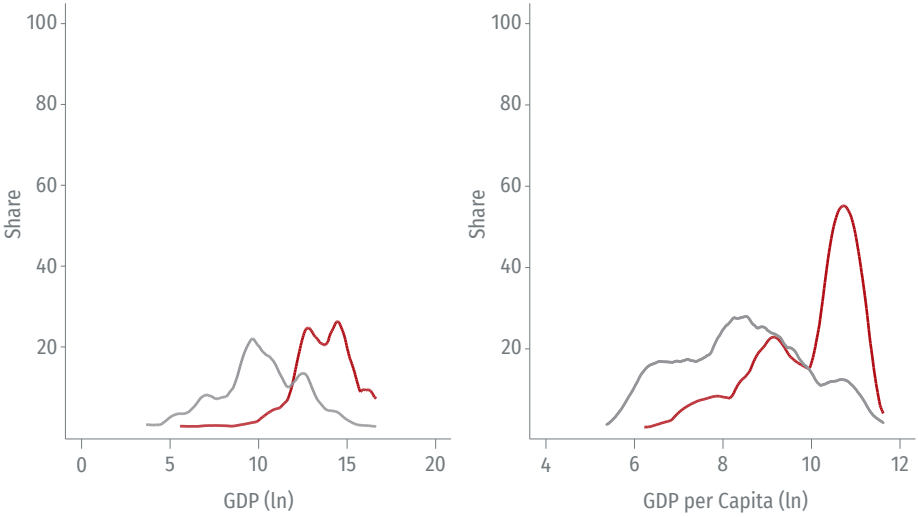
Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure in the top panel shows the distribution of the APIs' overseas offices by type (the number that appears above the vertical bar corresponds to the number of regional nodes), whereas the figure in the bottom panel presents the distribution of the APIs' employees across domestic and overseas offices for those APIs that have the latter offices and have reported such a distribution. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

FIGURE 2.14 SPATIAL DISTRIBUTION OF INVESTMENT PROMOTION AGENCIES' OVERSEAS OFFICES, 2017



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows maps showing the geographical distribution of IPAs' overseas offices for IPAs with at least one office. Offices specifically tasked with investment promotion are colored in darker tones. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

FIGURE 2.15 SIZE AND DEVELOPMENT LEVEL OF COUNTRIES WITH INVESTMENT PROMOTION AGENCIES' OVERSEAS OFFICES, 2017



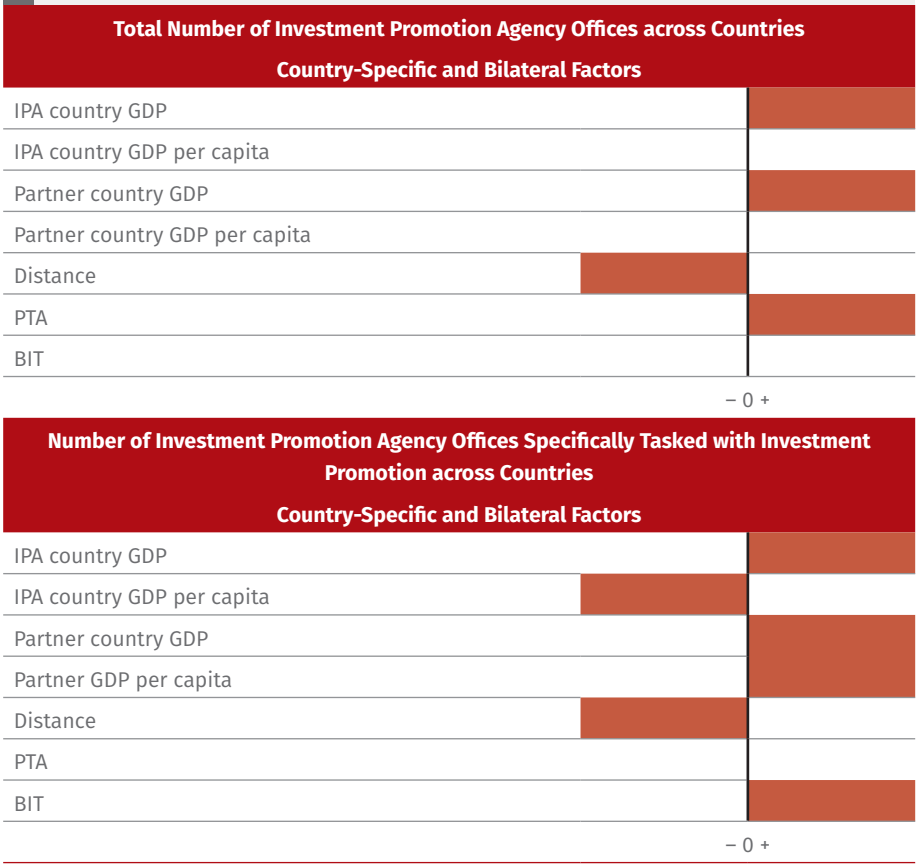
Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows kernel density estimates of the (natural logarithm of the) GDP (as a proxy for economic size) and of the (natural logarithm of the) GDP per capita (as a proxy for level of development) of countries with and without offices of IPAs (red and dark gray lines, respectively)

are more likely to be present in larger, more developed countries that are closer to the IPA's country of origin and are connected to it through a bilateral investment treaty (BIT) (figure 2.16).[6]

Far from being static, the spatial distribution of IPAs' overseas offices changes over time. The opening of these offices has accelerated substantially in the last few decades. The average IPA opened one overseas office per year and more countries opened new offices with time (figures 2.17–2.19). Some agencies may decide to open several offices in particular years (see e.g., Australia and Colombia in figure 2.20), but the process tends to be gradual. Over time, these developments have changed the landscape of IPAs' overseas office networks,

[6] In the case of IPAs whose mandates include export promotion, most of these offices, if not all of them, also provide export assistance for domestic firms. In these cases, overseas offices are generally responsible for export promotion but typically only a subset of these offices are actually involved in investment promotion—those located in countries meeting the criteria mentioned above.

FIGURE 2.16 SPATIAL DISTRIBUTION OF INVESTMENT PROMOTION AGENCIES' OVERSEAS OFFICES AND COUNTRY CHARACTERISTICS, 2017



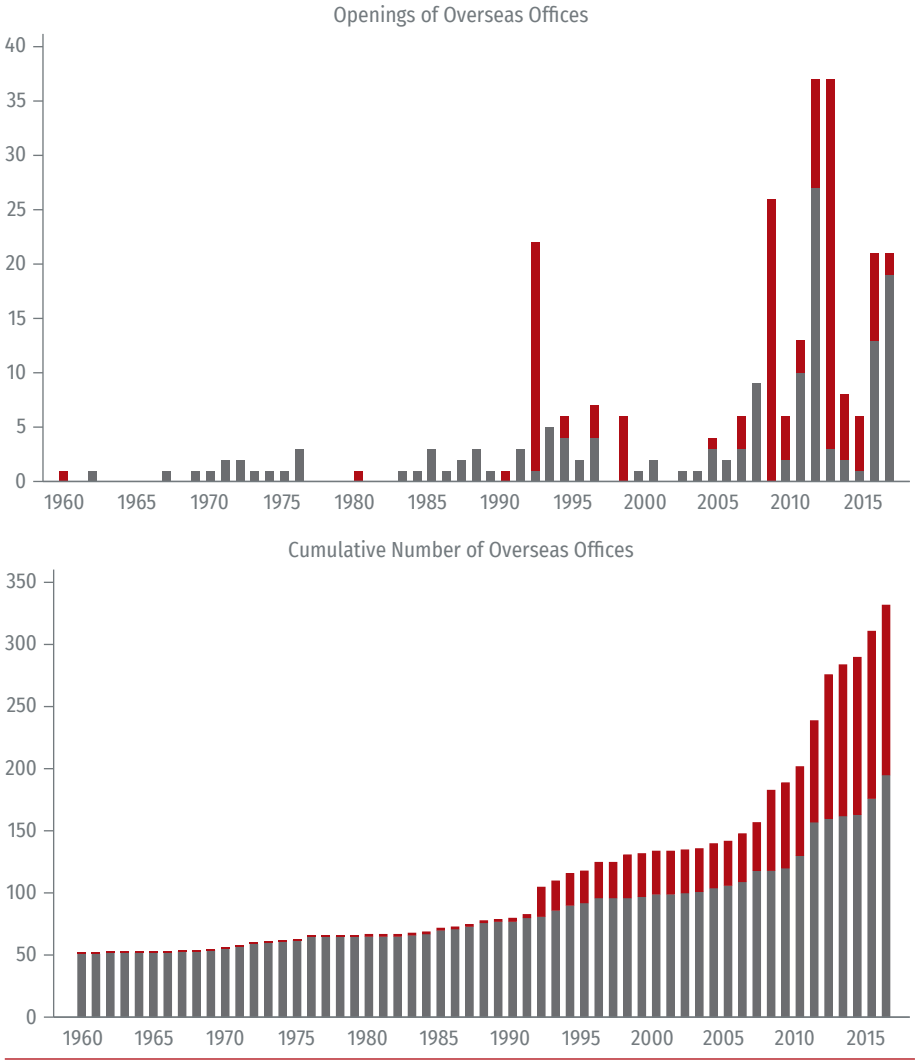
Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the sign of the estimated effects of country-level and bilateral factors on the number of offices of an IPA (upper panel) and on the number of offices of an IPA specifically tasked with investment promotion (lower panel) in a given country as estimated with a Poisson model. Factors whose estimated effects are nonsignificant at the 10% level are reported as having a zero effect.

resulting in an increase in their average number from about three in the 1960s–1970s to 15 in 2011–2015.

RESOURCES: BUDGET AND PERSONNEL

The median IPA has an annual total budget of US$7 million and an annual budget for investment promotion of US$3 million but

FIGURE 2.17 EVOLUTION OF THE NUMBER OF INVESTMENT PROMOTION AGENCIES' OVERSEAS OFFICES



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the total number of overseas offices opened by IPAs every year from 1960 to 2017 (top panel) and the cumulative number of these overseas offices over the same period (bottom panel).

there are significant differences across agencies (figure 2.21). While the largest total budget is US$447.8 million, the smallest is US$0.5 million. LAC agencies tend to have smaller budgets

FIGURE 2.18 OPENINGS OF INVESTMENT PROMOTION AGENCIES' OVERSEAS OFFICES: LAC AND OECD

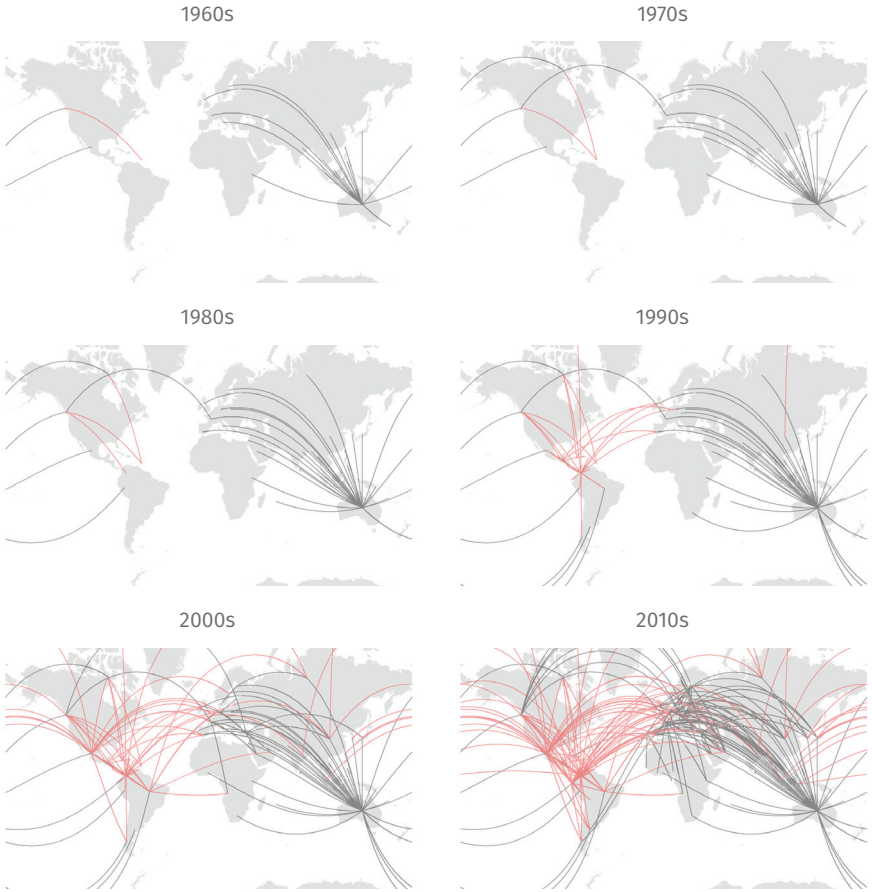
Period	New Openings, All Countries	Total Number, All Countries	New Openings, Average per Country	Total Number, Average per Country	Median Number of Offices Opened per Country
1961–1965	0.2	52.8	0.0	2.6	0.0
1966–1970	0.6	54.4	0.0	2.7	0.0
1971–1975	1.4	60.8	0.1	3.0	0.0
1976–1980	0.8	66.2	0.0	3.3	0.0
1981–1985	1.0	68.6	0.1	3.4	0.0
1986–1990	1.6	77.0	0.1	3.9	0.0
1991–1995	7.6	106.4	0.4	5.3	0.0
1996–2000	3.2	129.4	0.2	6.5	0.0
2001–2005	1.6	137.4	0.1	6.9	0.0
2006–2010	12.0	175.8	0.6	8.8	0.8
2011–2015	18.6	298.6	0.9	14.9	6.6

Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The table presents the total number of offices opened overseas, their cumulative number, the average number opened per country, the cumulative number per country, and the median number across countries, in all cases averaged over the respective five-year period identified in the first column and for countries with at least one overseas office.

than their OECD counterparts: the median IPA in LAC has a total budget of US$5 million while the OECD median is over twice as high—US$13.9 million.[7] To put these numbers into perspective, the largest IPA in the OECD area has a budget equivalent to 4.6% of Nicaragua's GDP or 3.7% of Jamaica's. On the other hand, the median OECD IPA's budget accounts for less than 1% of inward FDI flows into OECD countries. **The median IPA employees 100 staff, 32 of whom work on investment promotion.** Some agencies have nearly 2,000 staff focusing on this area while others have just one person doing so. The median number of investment pro-

[7] The investment promotion budget of the median LAC IPA is US$ 1.3 million whereas that of the median OECD IPA is more than four times larger—US$ 5.5 million.

FIGURE 2.19 SPATIAL DISTRIBUTION OF OVERSEAS OFFICES OVER TIME: LAC AND OECD

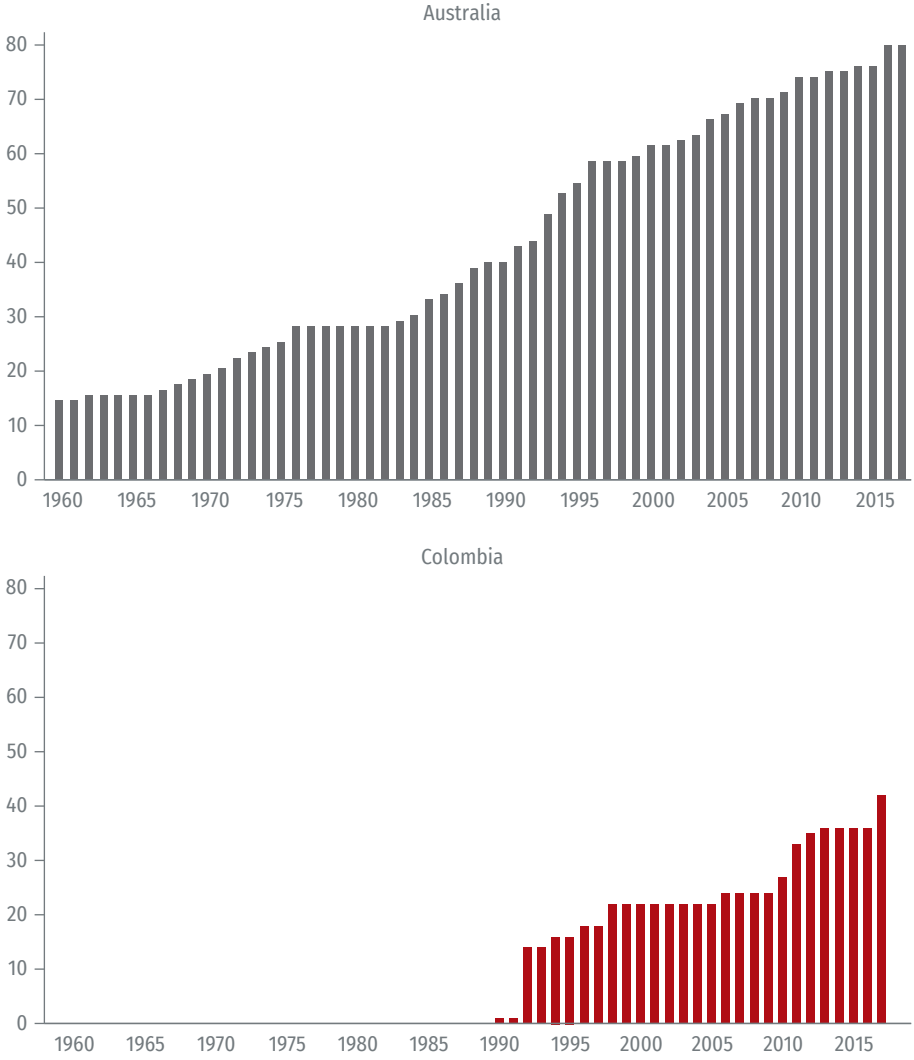


Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows world maps showing the IPAs' overseas office networks in different decades. Some overseas offices may correspond to predecessor agencies (e.g., Barbados). LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

motion staff is 20 in LAC IPAs and 41 in OECD IPAs, which once again highlights the fact that the former are smaller.

Larger and more developed countries tend to have larger IPAs (figure 2.22). While some countries may have larger or smaller agencies in terms of personnel and budget than implied by the size of their economy or per-capita income (those that are above or

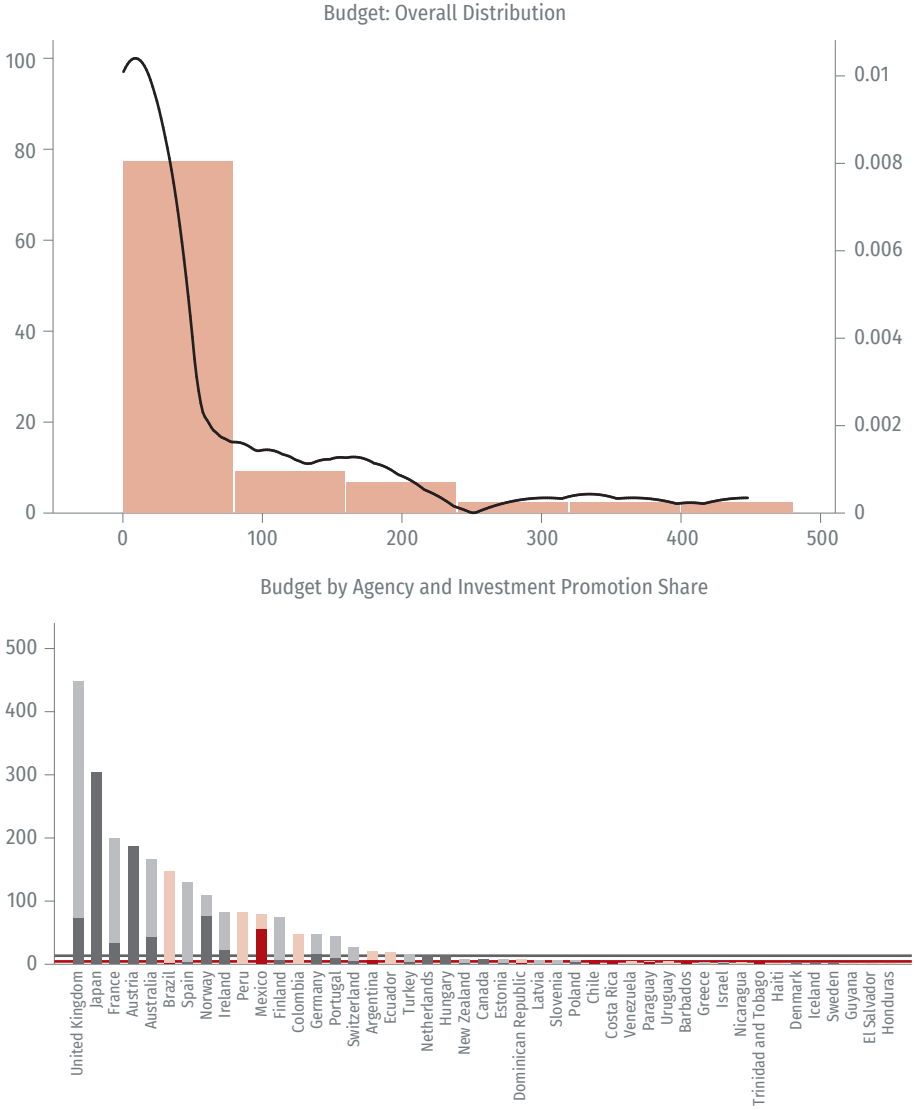
FIGURE 2.20 OPENING OF INVESTMENT PROMOTION AGENCIES' OVERSEAS OFFICES: SELECTED COUNTRIES



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the annual evolution of the Australian and Colombian IPAs' overseas office networks. In the case of Australia, some overseas offices may correspond to predecessor agencies. Colombia, a LAC country, is shown in red and Australia, an OECD country, is shown in dark gray.

below the dotted line in figure 2.22, respectively), generally speaking, the size and per-capita income of the country is positively associated with the size of the IPA.

FIGURE 2.21 INVESTMENT PROMOTION AGENCIES' BUDGETS AND PERSONNEL, 2016



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figures include a histogram of the distribution of IPA' total budget and the respective kernel density estimate (top panel) and each agency's total budget and the respective share of this assigned to investment promotion (bottom panel). In the histogram, the x-axis measures the agencies' budget and the y-axis measures the percentage of agencies. No data on the share of budget devoted to investment promotion is available for Colombia, Guyana and Peru. The horizontal lines represent the regional medians. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

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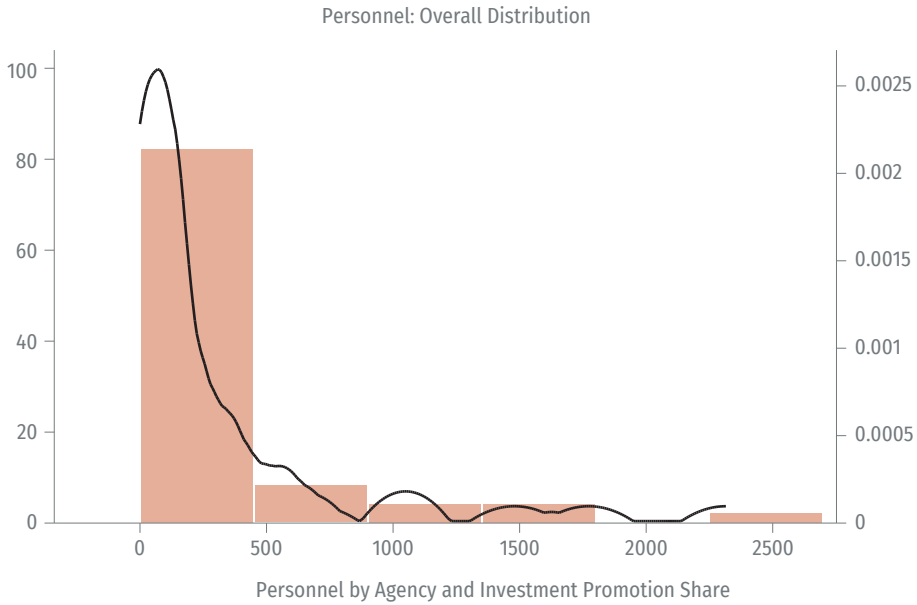
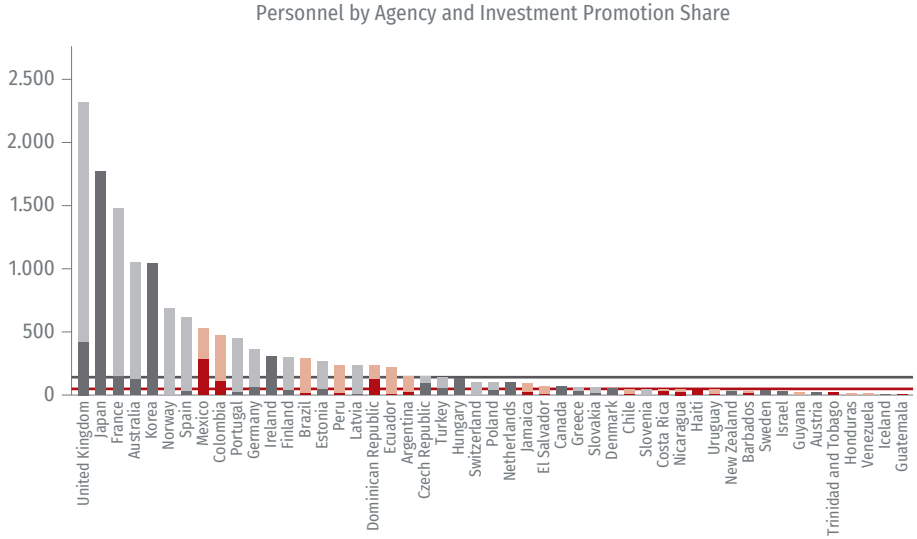
FIGURE 2.21 INVESTMENT PROMOTION AGENCIES' BUDGETS AND PERSONNEL, 2016 (*continued*)





Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figures include a histogram of the distribution of IPAs' total number of employees and the respective kernel density estimate (left) and each agency's total number of employees with the respective share of these assigned to investment promotion (right). In the histogram the x-axis measures the agencies' total number of employees and the y-axis measures the percentage of agencies. The horizontal lines represent the regional medians. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

FIGURE 2.22.A INVESTMENT PROMOTION AGENCY BUDGETS AND COUNTRY SIZE AND LEVEL OF DEVELOPMENT, 2016

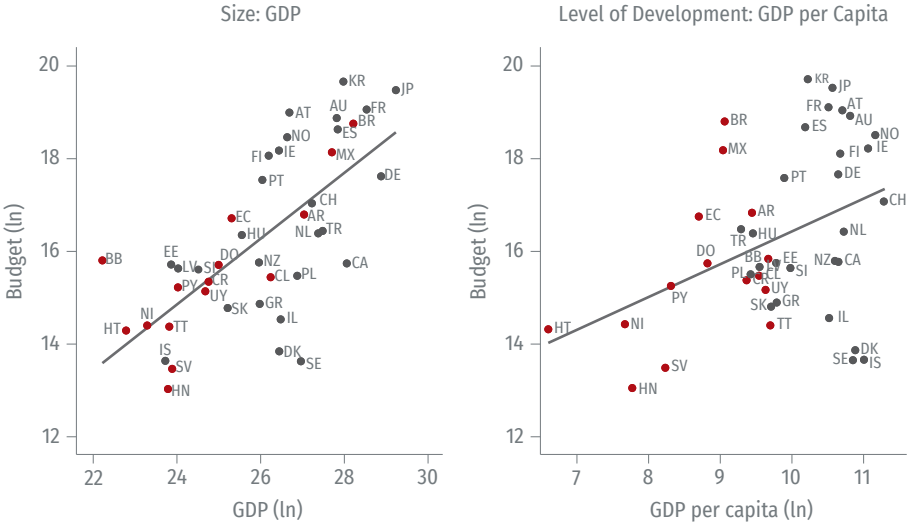
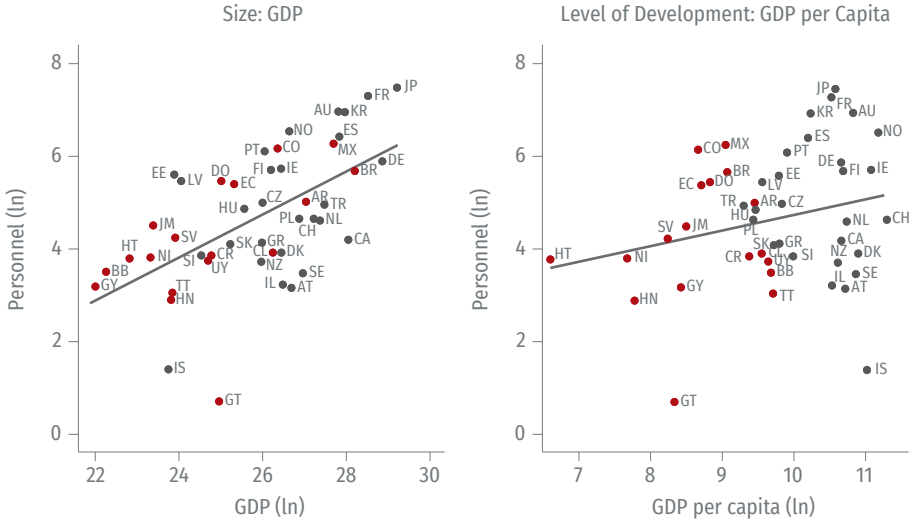


FIGURE 2.22.B INVESTMENT PROMOTION AGENCY PERSONNEL AND COUNTRY SIZE AND LEVEL OF DEVELOPMENT, 2016



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figures in the top panel are scatter plots showing the relationship between the (natural logarithm of) countries' GDP and GDP per capita (x-axis) and the (natural logarithm of) IPAs' total number of employees (y-axis) (left and right panels, respectively). The figures in the bottom panel are scatter plots showing the relationship between the (natural logarithm of the) countries' GDP and GDP per capita (x-axis) and the (natural logarithm of) IPAs' total budget (y-axis) (left and right panels, respectively). LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

Most IPAs rely primarily on financial resources directly assigned by the public sector and apply a large fraction of these resources to personnel and consultancy expenses (figure 2.23). Generally, the share of public sources in IPAs' budgets is lower in LAC countries than in OECD countries (70% compared to 98%, respectively) as more LAC IPAs earn an income from their own assets, international organizations and other sources. For example, Honduras's IPA earns income on its assets and endowments, and Costa Rica's IPA finances 30% of its budget from private sources, including by

FIGURE 2.23 SOURCES AND USES OF INVESTMENT PROMOTION AGENCIES' BUDGETS, 2016

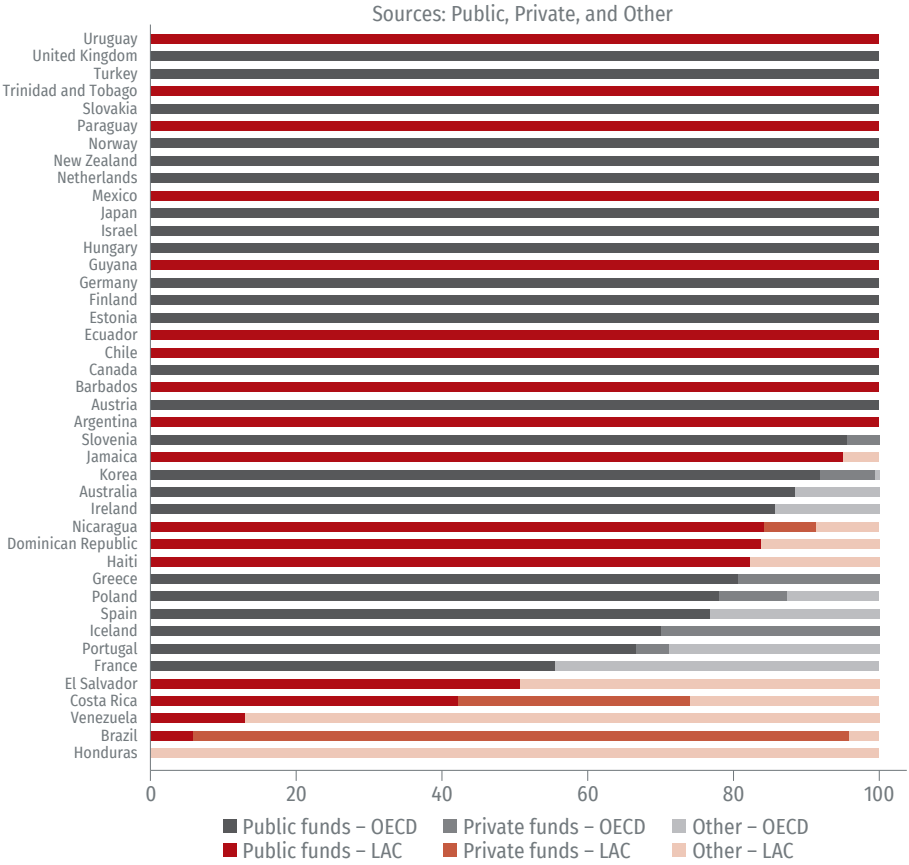


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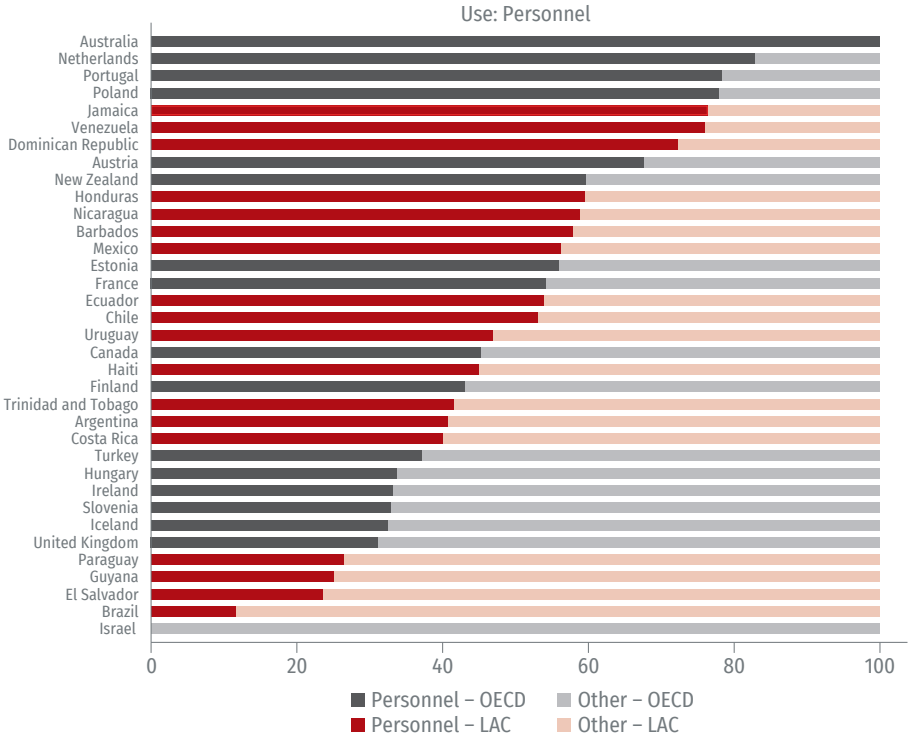
FIGURE 2.23 SOURCES AND USES OF INVESTMENT PROMOTION AGENCIES' BUDGETS, 2016 (*continued*)



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the sources (public, private, and other) and uses (personnel and other) of IPAs' total budgets (top and bottom panels, respectively). LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

charging domestic companies for inclusion in its register of local suppliers. In terms of budget use, about half of agencies' budgets go toward personnel costs in both regions.[8]

This highlights that human resources are one of IPAs' most valued assets. The quality of human resources is, in turn, determined by the staff's level of education and previous experience, among other factors. In general, IPA staff are highly educated and, to a

[8] Some countries also spend a relatively high share of their budgets on operational expenditure, which includes travel and promotional materials (e.g., Brazil, Guyana, El Salvador).

large extent, have relevant work experience. More than 97.5% of median IPA's personnel hold undergraduate or postgraduate degrees and one-third of its personnel has previous private-sector experience (figure 2.24).

All the same, IPAs show substantial differences in their internal structures and the distribution of their personnel across functional positions. Notably, LAC IPAs have significantly larger shares of managerial and administrative positions and lower shares of professional positions relative to their OECD counterparts (figure 2.25), which may affect how these agencies operate.

FIGURE 2.24 PERSONNEL PROFILE OF INVESTMENT PROMOTION AGENCIES, 2016

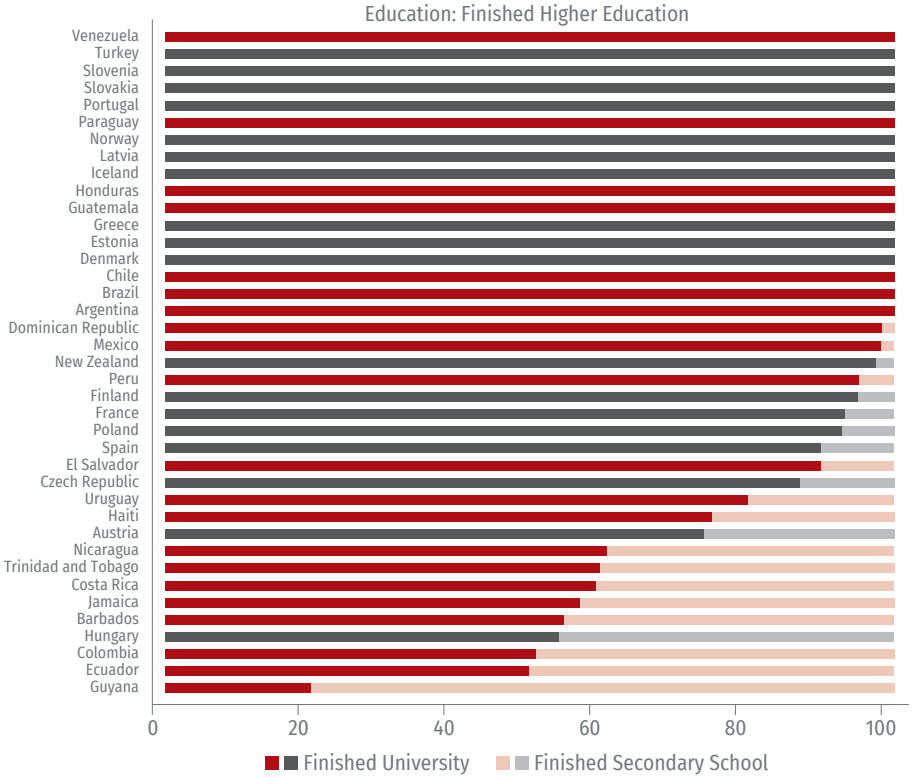


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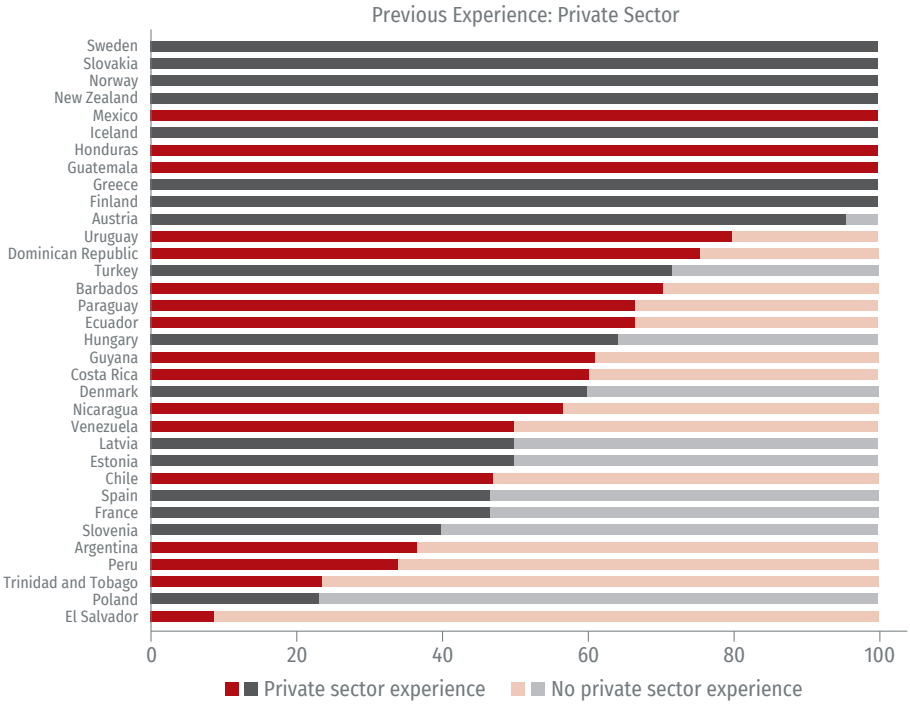
FIGURE 2.24 PERSONNEL PROFILE OF INVESTMENT PROMOTION AGENCIES, 2016 *(continued)*

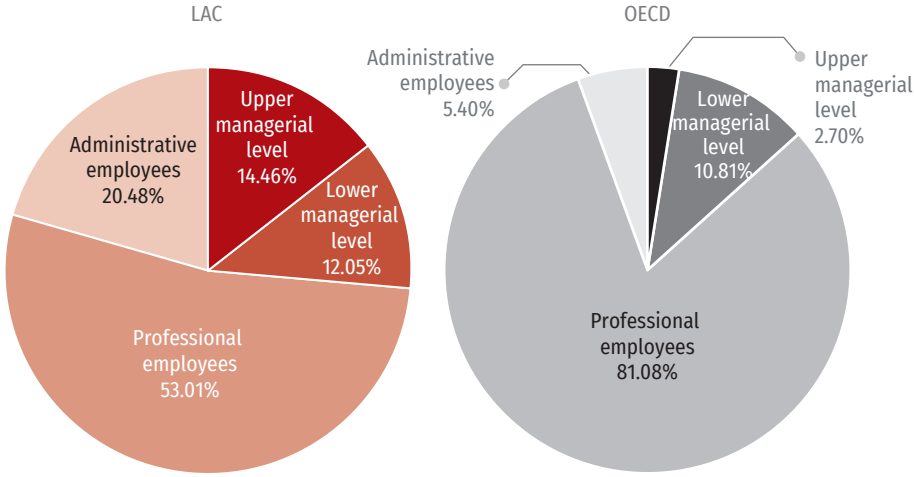


Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the distribution of IPAs' total number of employees by level of education (completed superior education vs. rest) and previous experience (private sector vs. rest) (top and bottom panels, respectively). LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

Several IPAs pay higher wages than the relevant public-sector (and even market) comparison. This is the case for managerial positions in OECD IPAs and for professional and administrative positions and nonpayroll employees in LAC IPAs (figure 2.26). When analyzed together with the previous figure, this suggests that there are relatively fewer investment officers in LAC IPAs but that these are better paid.

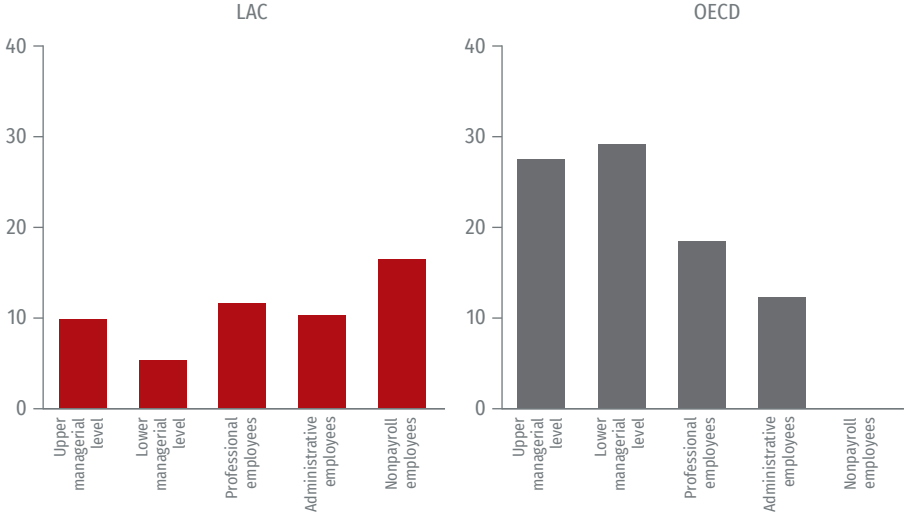
Finally, **both the financial and human resources that IPAs draw on to carry out their functions fluctuate over time.** In particular, some the resource base of some LAC IPAs varies greatly over time as measured by the coefficient of variation (i.e., the ratio of

FIGURE 2.25 INTERNAL STRUCTURE OF INVESTMENT PROMOTION AGENCIES BASED ON PERSONNEL FUNCTIONS, 2016



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the distribution of the total number of employees by position for the median IPA in LAC countries (left panel) and non-LAC OECD countries (right panel). LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

FIGURE 2.26 PERSONNEL REMUNERATION AT INVESTMENT PROMOTION AGENCIES, 2016



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the percentage share of IPAs that pay wages above that of the relevant market/public-sector comparison by personnel function in LAC countries (left panel) and in non-LAC OECD countries (right panel). LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

standard deviation to the average) of the agency's total budget and personnel over the past five years (e.g., Ecuador, Guatemala, Jamaica, Trinidad and Tobago, and Venezuela). This is also the case in some OECD IPAs (e.g., Estonia, New Zealand, Slovenia, and Sweden). When combined with the relatively high rate of staff turnover in some agencies every year, this varying resource base may pose significant management challenges.

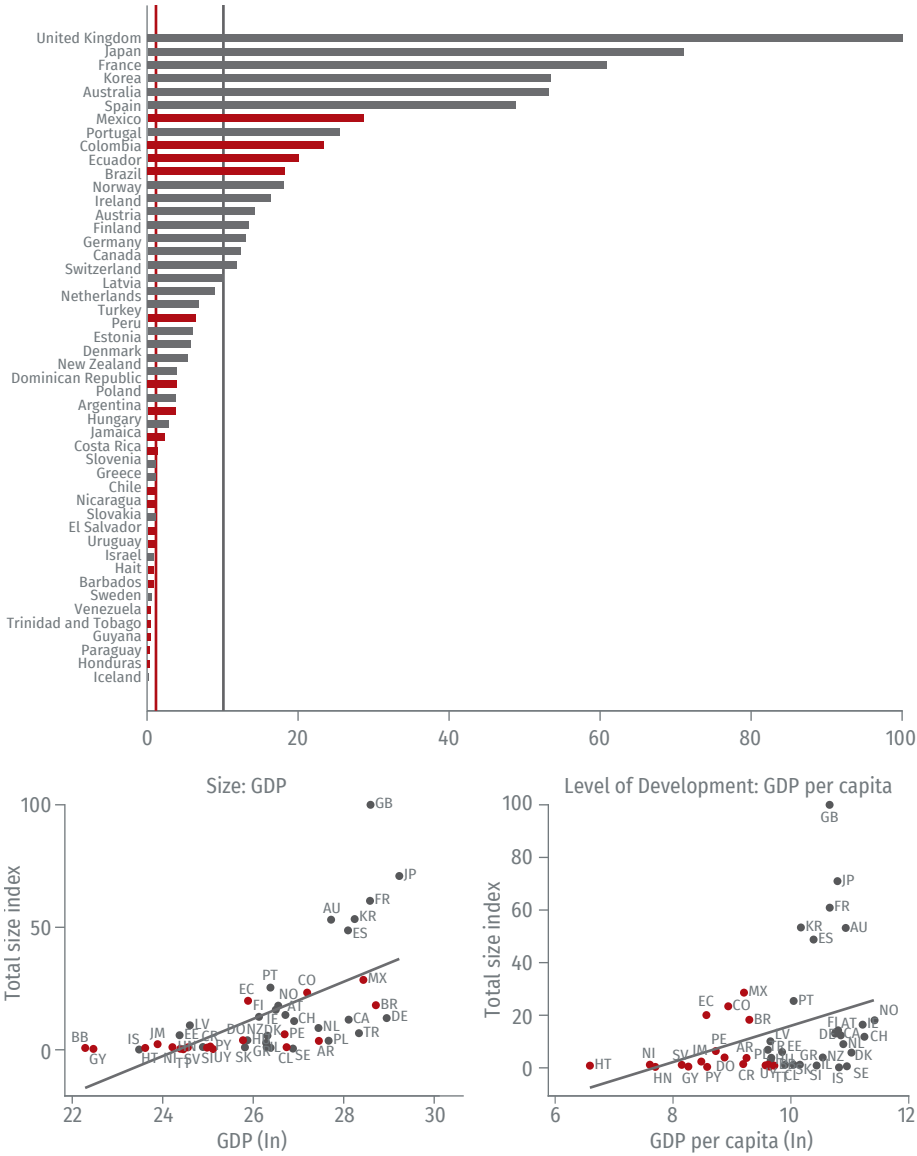
OVERALL SIZE

By way of summary, **there is a large dispersion in IPAs' overall sizes, but these tend to be greater when they belong to larger, developed countries (figure 2.27).** As was discussed above, IPAs differ significantly in terms of the financial and human resources available to them and the extent of their presence abroad. These aspects can be combined into a single *overall size index* (see box 2.3). This index highlights how IPAs differ in terms of the resources they can access to carry out their functions. Broadly speaking, in keeping with the relationship between IPAs' overall sizes and the size and level of development of the country they belong to, OECD IPAs are substantially larger than their LAC counterparts. Specifically, the IPAs of the United Kingdom, France, Australia, Korea, and Japan are the largest, while those of Haiti, Trinidad and Tobago, Honduras, Venezuela, and Paraguay are among the smallest. The largest LAC IPAs are those of Colombia, Mexico, Ecuador, and Brazil (figure 2.27).

INSTITUTIONAL INDEPENDENCE

Furthermore, as reflected in this chapter, there are multiple institutional differences among IPAs. Agencies vary in terms of their legal statuses, reporting schemes, funding sources, the role and composition of their boards of directors, and their freedom to set and pay wages. As a result, **IPAs display different degrees of institutional independence.** Those IPAs which (i) are private agencies; (ii) rely more on nonpublic resources; (iii) have a board of directors with a higher share of seats in hands of the private

FIGURE 2.27 ***INVESTMENT PROMOTION AGENCIES' OVERALL SIZE INDEX* AND COUNTRIES' SIZE AND LEVEL OF DEVELOPMENT, 2016**



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure in the top panel presents the OSI for each IPA for which this could be computed, based on reported data on relevant variables along with regional medians. The OSI is a simple average of the relative size of IPAs' budgets, personnel, and networks of overseas offices. The figures in the bottom panel show the relationship between this index and the (natural logarithm of) countries' GDP and GDP per capita (x-axis). LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

BOX 2.3: *THE OVERALL SIZE INDEX (OSI)*

IPA size can be proxied by the amount of budgetary resources each IPA has at its disposal, the number of employees it can deploy to carry out its activities, and the geographical spread of its presence abroad through overseas offices. While these different aspects of size are correlated with each other, this correlation is far from perfect. Thus, a given two IPAs may have exactly the same budget and the same numbers of personnel but one of the two may have overseas offices in more countries than the other. Similarly, two IPAs may have the same number of overseas offices (for instance, zero) but their financial means and human resources may be completely different. The *overall size index (OSI)* combines these three dimensions into a single, comprehensive measure of size to consistently identify the largest and smallest IPAs. Formally, the OSI is defined as follows:

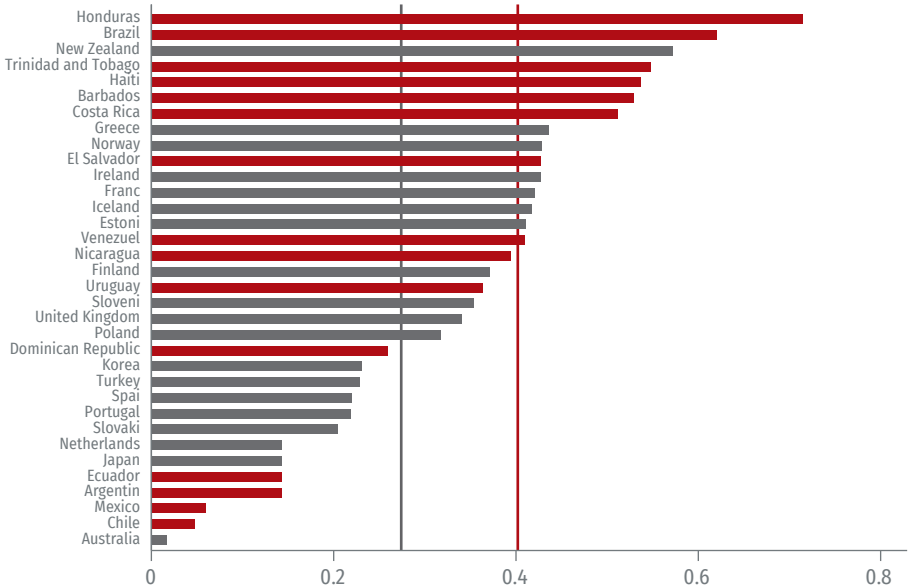
$$OSI = \left(\frac{1}{3}\right)\left(\frac{Budget}{Budget^{Max}} + \frac{Personnel}{Personnel^{Max}} + \frac{Offices}{Offices^{Max}}\right) * 100$$

where *Max* refers to the maximum value taken by the variable in question (i.e., budget, number of employees, and number of overseas offices) across IPAs. The index thus varies from 0 (smallest) to 100 (largest).

sector and the capacity to appoint the CEO or general manager to which the agency directly reports; and (iv) can pay salaries aligned with market levels instead of observing rigid generic payment schemes, can be considered, in principle, to be less subject to political cycles and thus more able to accomplish their functions independently. IPAs can thus be described through an *institutional independence index (III)* that summarizes their differences in terms of the factors described above. In this regard, LAC IPAs tend to be more institutionally independent than their OECD counterparts (figure 2.28).

IPAs tend to be more institutionally independent in countries where government effectiveness is lower (figure 2.29). In countries with solid institutions and a well-functioning public sector, IPAs may not need to be highly independent to perform well, but

FIGURE 2.28 ***INSTITUTIONAL INDEPENDENCE INDEX OF INVESTMENT PROMOTION AGENCIES*, 2017**



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the *institutional independence index* for each IPA for which this could be computed, based on reported data on relevant variables along with the regional medians. The *institutional independence index* is a simple average of a set of binary variables capturing legal status, reporting scheme, budget sources, composition and responsibilities of the board of directors, and contractual freedom. The index varies from 0 (least independence) to 1 (maximum independence). LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

this independence may become critical to their being able to successfully carry out their functions in less favorable institutional contexts. This independence can hardly be expected to compensate for severe institutional weakness, though.

BOX 2.4: *THE INSTITUTIONAL INDEPENDENCE INDEX (III)*

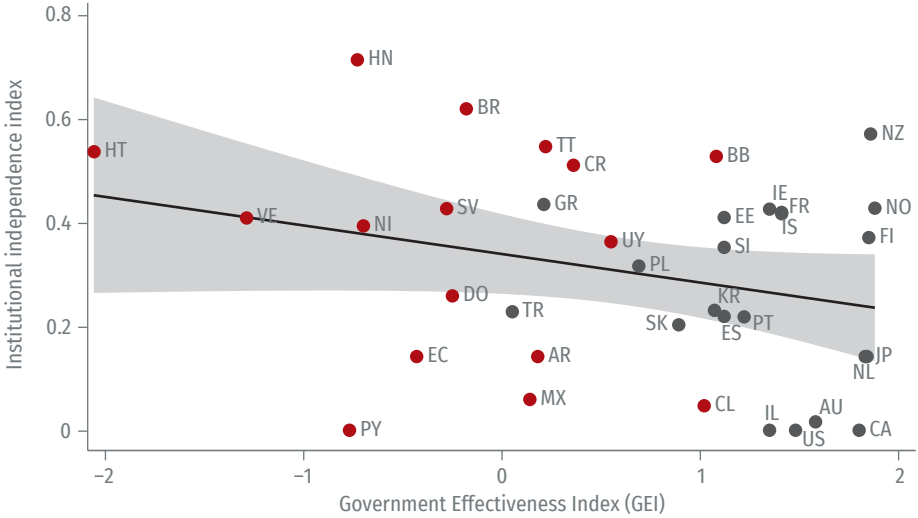
By their very nature, summary indices are approximative and do not necessarily reflect the full extent of multidimensional differences across whatever entities are being compared. When it comes to IPAs, this is the case with an organization's internal culture, for instance. Nevertheless, such indices are a useful departure point for cross-country comparisons and can facilitate an understanding of the role played by relevant underlying factors in shaping entities' effectiveness in performing their functions—in this case, IPAs' ability to attract investment (which is explored in chapter 5).

The *institutional independence index (III)* captures differences in several major institutional dimensions across IPAs, namely their legal status, reporting schemes, budget sources, the composition and responsibilities of the board of directors, and contractual freedom. IPAs that are private, rely less on public funding, have a board with nonpublic sector representation that can appoint managers and approve strategies, and have more freedom to set their wage policies score higher on the III. Formally, the III is defined as follows:

$$III = \left(\frac{1}{7}\right)\left(LS + Budget^{NP} + Board^{NP} + R + SA + ARM + WF\right)$$

where *LS* is a binary indicator that takes the value of 1 if the IPA is a private entity and 0 otherwise; $Budget^{NP}$ is the share of nonpublic sources in the IPA's budget; $Board^{NP}$ is the share of nonpublic members on the IPA's board; R is a binary indicator that takes the value of 1 if the IPA reports to the board and 0 otherwise; *SA* is a binary indicator that takes the value of 1 if the IPA's strategy is approved by itself (particularly through the board) and 0 otherwise; *ARM* is a binary indicator that takes the value of 1 if the manager is appointed and removed by the IPA (particularly by the board) and 0 otherwise; and *WF* is a binary indicator that takes the value of 1 if the IPA can pay wages that are higher than those of the public sector (in at least one category) and 0 otherwise. The index thus varies from 0 (least independence) to 1 (maximum independence).

FIGURE 2.29 INVESTMENT PROMOTION AGENCIES' INSTITUTIONAL INDEPENDENCE AND EFFECTIVENESS OF COUNTRIES' GOVERNMENTS, 2017



Source: Author's calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017) and the World Bank's Governance Indicators.
Note: The figure is a scatterplot along a fitted line that shows the relationship between the *IPAs' institutional independence index (III)* and their countries' scores on the government effectiveness index (GEI). The OLS estimated coefficient on the latter index is -0.068 and is significant at the 10% level. The estimate is similar when using robust regression to account for the presence of outliers in the small sample.

3

WHAT INVESTMENT PROMOTION AGENCIES DO

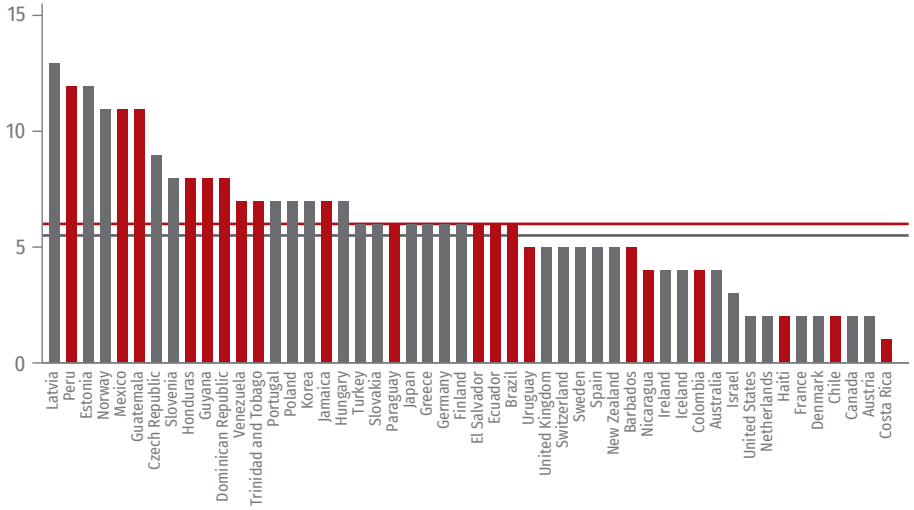
All IPAs were created with a core mandate to promote and attract inward foreign investment. Institutional, economic, and political environments differ from one country to another, however, which affects the exact mix of IPAs' official functions, the activities that they perform, their specialization patterns, and their strategic orientations. The following section explores this diversity in what agencies do and draws conclusions regarding the similarities and differences between IPAs from LAC and OECD countries.

MANDATES

IPAs tend to have several official mandates. In addition to promoting inward FDI, IPAs are typically tasked with several other functions (box 3.1 and figure 3.1). The median IPA has six different mandates, with LAC IPAs performing a slightly higher number of functions than their OECD counterparts. The total number of these mandates varies significantly across IPAs, though: some agencies have only one core mandate (i.e., inward FDI promotion) and some have more than ten (figure 3.1).

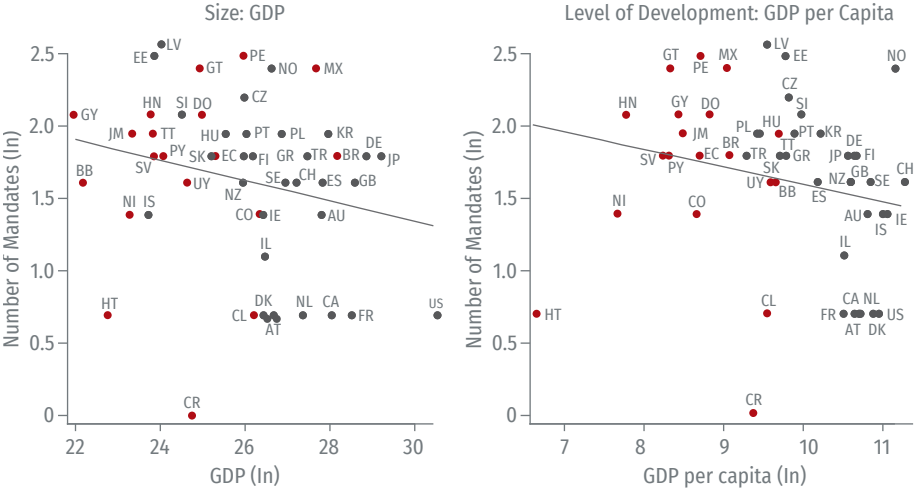
Larger and more developed countries' IPAs tend to specialize more (i.e., have a smaller number of mandates—figure 3.2). This is likely to be the case because, due to their size and available resources, these countries have a larger number of dedicated

FIGURE 3.1 INVESTMENT PROMOTION AGENCIES' TOTAL NUMBER OF MANDATES, 2017



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows IPAs' total number of mandates. The horizontal lines represent the regional medians. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

FIGURE 3.2 INVESTMENT PROMOTION AGENCY MANDATES AND COUNTRY SIZE AND LEVEL OF DEVELOPMENT, 2017



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figures are scatter plots showing the relationship between the (natural logarithm of) countries' GDP and GDP per capita (x-axis) and the (natural logarithm of) IPAs' total number of mandates (y-axis) (left and right panels, respectively). LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

BOX 3.1: POSSIBLE IPA MANDATES

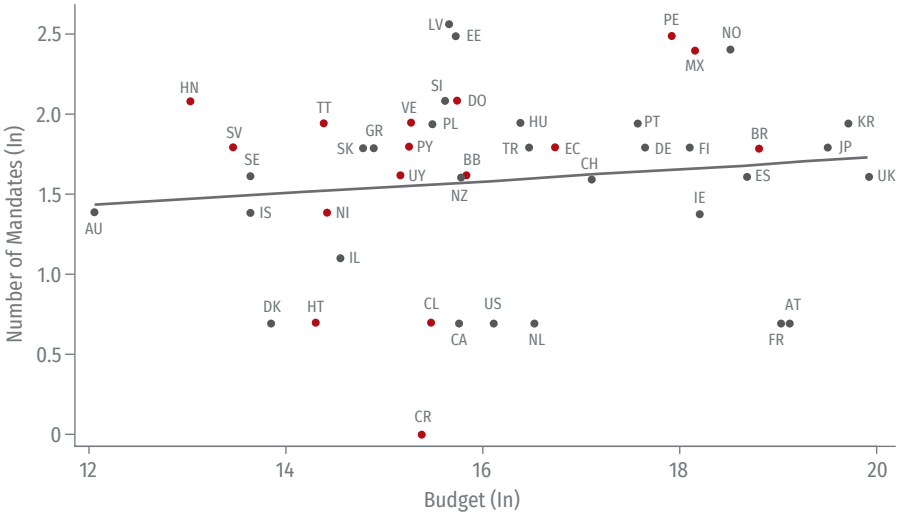
The types of mandates IPAs are tasked to perform tend to vary. While all IPAs have a core mandate to attract FDI, the mix of their secondary mandates may be wide and can vary substantially from country to country. The most frequently encountered official mandates of IPAs include:

- Inward foreign investment promotion
- Outward investment promotion
- Domestic investment promotion
- Operating a one-stop shop (e.g., business registration, permits, licenses)
- Screening/approval of investment projects with foreign participation/investor registration
- Issuing of relevant business permits
- Negotiation of international trade, investment, or other agreements
- Export promotion
- Trade facilitation (e.g., single windows for trade, assistance in customs matters)
- Innovation promotion
- Management of free trade or special economic zones or industrial parks
- Granting fiscal incentives
- Granting financial incentives
- Granting other incentives
- Management of privatization initiatives
- Management of public–private partnerships
- Negotiation and administration of public concessions
- Promotion of regional development
- Involvement in public procurement
- Promotion of responsible business conduct (RBC) among firms
- Tourism promotion
- Green investment promotion

entities that carry out several functions that are assigned to IPAs in smaller, less developed countries.

On average and across agencies, IPAs with a larger number of mandates have larger budgets (figure 3.3). The same holds true for given IPAs over time—in other words, the addition of mandates is associated with an increase in the IPA's budget. More precisely, controlling for systematic differences in country

FIGURE 3.3 INVESTMENT PROMOTION AGENCIES' BUDGET AND MANDATES, 2016

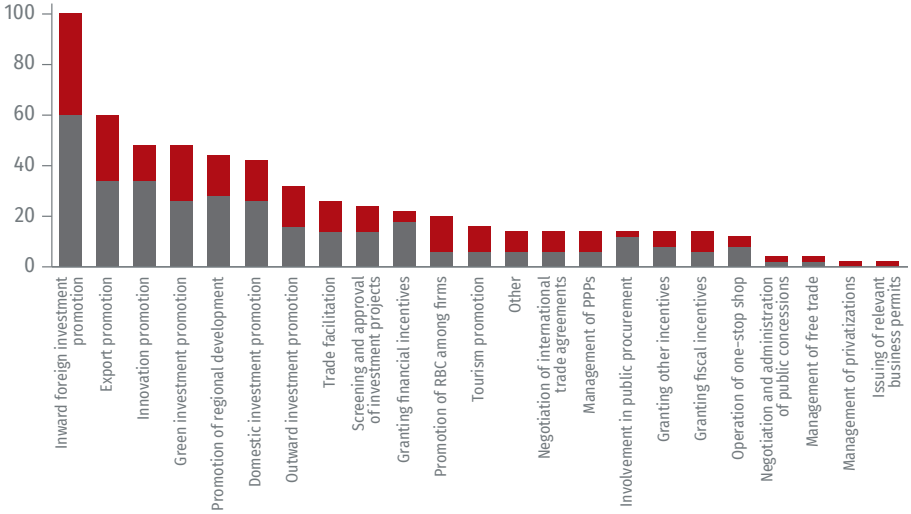


Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure is a scatter plot showing the relationship between the (natural logarithm of) IPAs' total number of mandates and the (natural logarithm of) their total budgets along with the respective fitted line. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

characteristics and common characteristics that change over time, adding a new mandate costs the median IPA approximately US$1.3 million.

In addition to inward FDI promotion, the most frequent IPA mandates include export promotion, innovation promotion, green investment promotion, regional development promotion, and domestic investment promotion. Mandates such as granting incentives, negotiating and administrating public concessions, operating a one-stop shop, managing privatizations, and issuing relevant business permits are rarely observed among agencies from the OECD and LAC countries (figure 3.4). Interestingly, LAC IPAs tend to perform certain functions relatively more frequently than their OECD counterparts. For example, while only 7% of IPAs in OECD countries promote RBC among firms, nearly 35% of LAC IPAs do so. Management of public–private partner-

FIGURE 3.4 FREQUENCY OF INVESTMENT PROMOTION AGENCIES' MANDATES, 2017



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the percentage share of IPAs with each mandate. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

ships, tourism promotion, negotiation of international agreements as well as green investment and export promotion are also more frequent in LAC countries. Meanwhile, OECD IPAs more frequently promote innovation and domestic investment and grant financial incentives more often than LAC IPAs (23% compared to 11%).

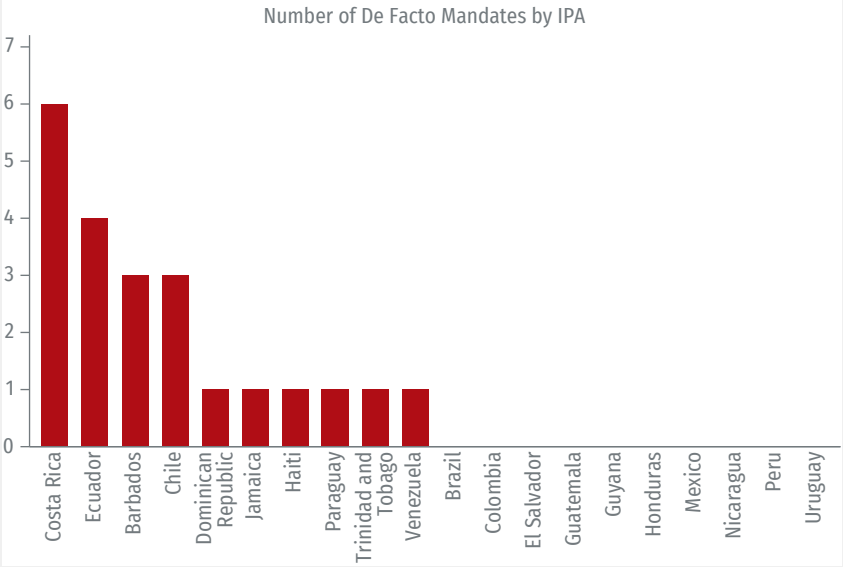
INVESTMENT PROMOTION FUNCTIONS

The core general functions of IPAs are investment generation and investment facilitation and retention. IPAs perform four broad investment promotion functions: image-building, investment generation, investment facilitation and retention, and policy advocacy. The scope of these functions is as follows. National image-building consists of activities that aim to improve perceptions of the country as an attractive location for FDI. Investment generation revolves around activities that seek to identify and

BOX 3.2: ABOVE AND BEYOND THE FORMAL TERMS OF REFERENCE: IPAS' DE FACTO MANDATES

As seen above, most IPAs have multiple explicit mandates as established in the relevant norms and documents. Some IPAs perform de facto functions in addition to these official ones. When this is the case—as it is with almost half of the LAC IPAs—the number of additional implicit mandates ranges between one and six and tends to be larger in relatively specialized IPAs, such as those of Chile and Costa Rica. In contrast, IPAs with a relatively large number of formal functions, such as those of Guatemala, Guyana, Honduras, Mexico, and Peru, do not have additional, nonwritten responsibilities (figure 3.5, top panel). The most common de facto mandates are tourism promotion, innovation promotion, and green investment promotion (figure 3.5, bottom panel).

FIGURE 3.5 INVESTMENT PROMOTION AGENCIES' DE FACTO MANDATES, LAC, 2017



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approach potential investors. Investment facilitation and retention (or investor servicing) entails assisting investors with analyzing business opportunities, obtaining permits for establishing a business in the host country, disseminating information on available incentives, providing support for accessing those incen-

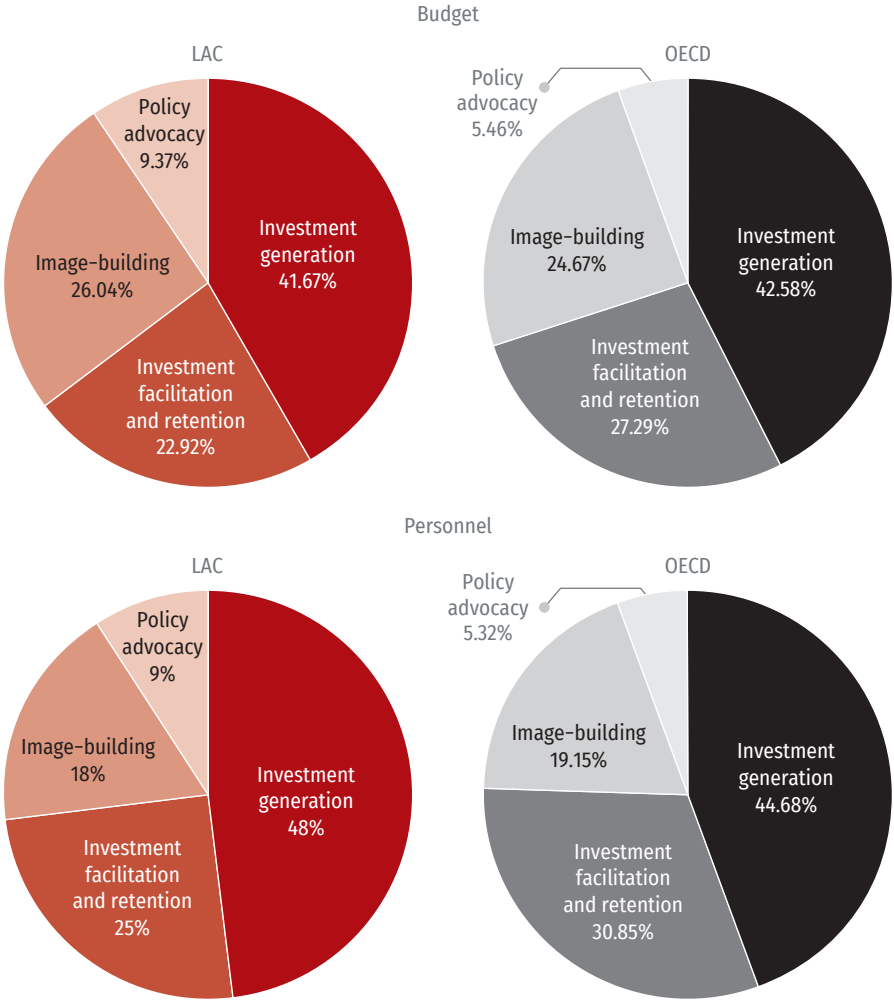
BOX 3.2: ABOVE AND BEYOND THE FORMAL TERMS OF REFERENCE: IPAS' DE FACTO MANDATES (*continued*)

FIGURE 3.5 INVESTMENT PROMOTION AGENCIES' DE FACTO MANDATES, LAC, 2017 (*continued*)

Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure on the top shows the number of de facto mandates of each LAC IPA, and the figure on the bottom reports the number of IPAs that perform each de facto function.

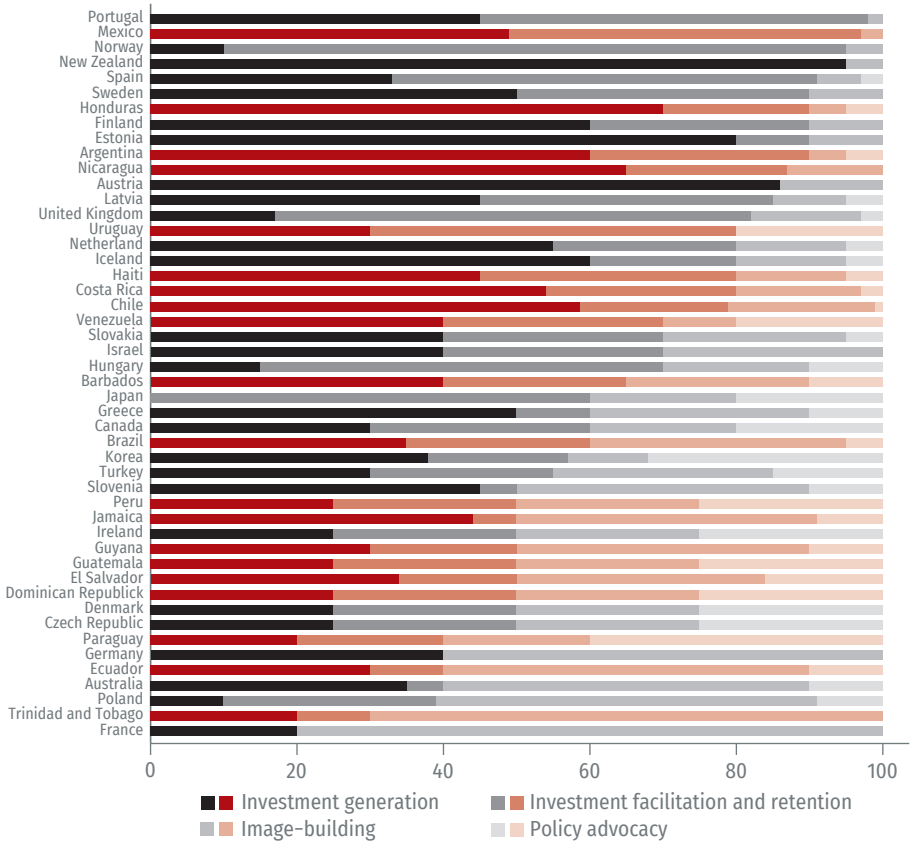
tives, providing investment aftercare for multinational companies that have already established operations in the country, and so on. Finally, policy advocacy involves activities to improve the investment climate, identify the public inputs needed by the private sector, and coordinate the delivery of those inputs with the rest of the public sector. **Overall, investment generation and investment facilitation and retention jointly account for almost three-quarters of the budget and staff IPAs assign to investment promotion.** This is broadly consistent across the two regions, although the median LAC IPA assigns slightly more financial and personnel resources to image-building and policy advocacy (figures 3.6 and 3.7).

FIGURE 3.6 INVESTMENT PROMOTION AGENCIES' MAIN FUNCTIONS BUDGET AND PERSONNEL OF THE MEDIAN IPA BY REGION, 2016



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows pie charts reporting the percentage shares of each core investment promotion function for the median IPA in LAC and OECD countries. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

FIGURE 3.7 INVESTMENT PROMOTION AGENCIES' MAIN FUNCTIONS – BUDGET, BY AGENCY, 2016



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the percentage share of each investment promotion function in each IPA's total investment promotion budget. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

SPECIFIC INVESTMENT PROMOTION ACTIVITIES

IPAs carry out multiple specific investment promotion activities across the aforementioned core functions. The median IPA executes approximately 39 different actions to promote FDI. The total number of such activities ranges from 13 to 55 (figure 3.8). Generally, the number of different detailed activities performed by OECD and LAC IPAs is relatively similar even if there are differences across individual IPAs.

BOX 3.3: IPAS' SPECIFIC ACTIVITIES

IPAs perform a varied mix of activities within their four main investment promotion functions (i.e., image-building, investment generation, investment facilitation and retention, and policy advocacy). Examples are listed below to illustrate the nature and scope of their operations and the types of services usually provided to firms:

IMAGE-BUILDING

- *Marketing activities:* website; international media; domestic media; promotion material; web services.
- *Public relations events:* attending general roadshows, business fora, fairs, etc.; organizing general missions abroad; hosting general incoming missions.

INVESTMENT GENERATION

- *Intelligence gathering:* raw data analysis; market studies.
- *Events:* attending sector-specific roadshows, business fora, fairs at home; organizing sector- or investor-specific missions abroad; hosting sector- or investor-specific incoming missions.
- *Direct contacts with investors:* one-to-one meetings initiated by the IPA; pro-active campaigns; one-to-one meetings initiated by investors; inquiry/request handling.

INVESTMENT FACILITATION AND RETENTION

- *Assistance with implementing projects:* airport pick-ups; information on local suppliers/clients; working meetings; site visits.
- *Assistance with administrative procedures:* assistance with business/tax registration; assistance with licenses; assistance in obtaining land and construction approvals; assistance in obtaining visas and work permits; assistance with utilities; assistance with legal issues; assistance in obtaining financing.
- *Aftercare services:* structured troubleshooting with individual investors; ombudsman intervention; conflict mitigation.
- *Matching, linkages, and other business support programs:* linkage programs; database of local suppliers; capacity-building support for local firms; matchmaking service between investors and local firms; cluster programs; personnel recruitment programs.

POLICY ADVOCACY

- *Actions to monitor investment climate:* tracking of available rankings; meetings with the private sector or business associations; surveys of IPAs' overseas offices

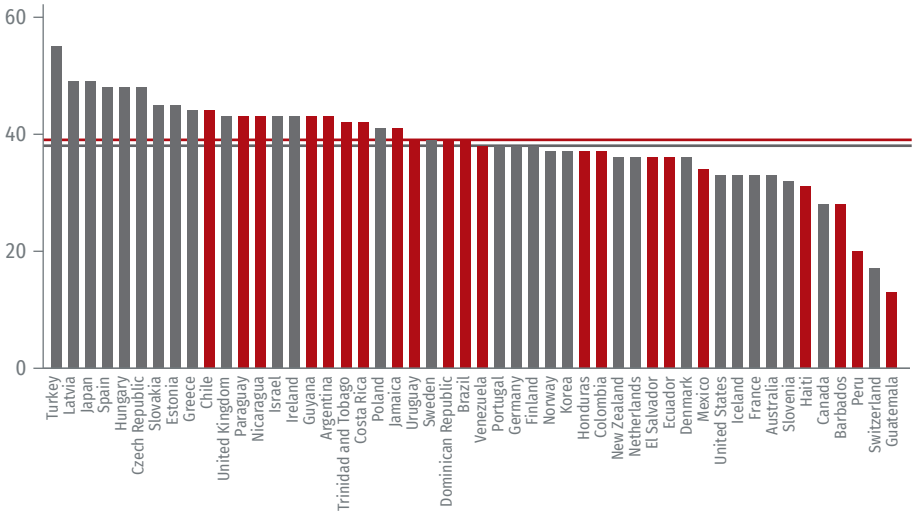
(*continued on next page*)

BOX 3.3: IPAS' SPECIFIC ACTIVITIES (*continued*)

or embassies and consulates; surveys of foreign investors; surveys of domestic firms investing at home/abroad; surveys of expats; inputs on regulatory impact assessment.

- *Formal feedback to government on how to improve investment climate:* meetings with the prime minister/president or other agencies; participation in an intergovernmental taskforce/council on investment climate reforms; production of reports or position papers.
- *Informal feedback to the government on investment climate*: participation in periodic meetings with the private sector; public awareness campaigns or events.

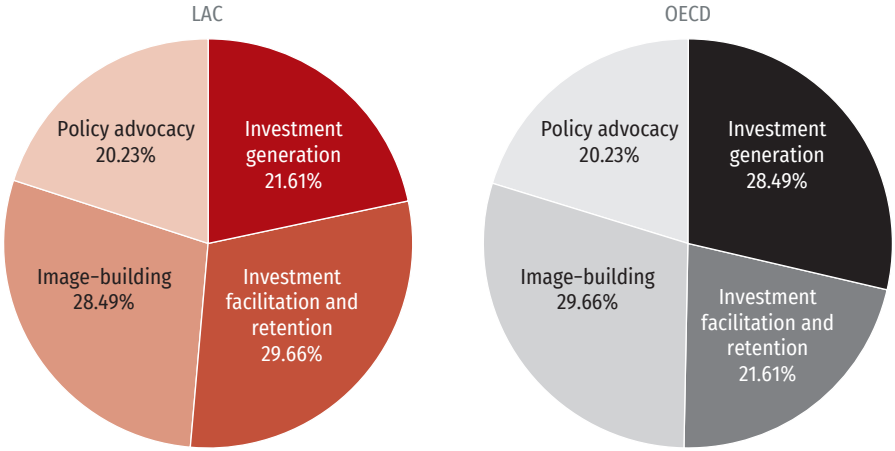
FIGURE 3.8 TOTAL NUMBER OF SPECIFIC INVESTMENT PROMOTION ACTIVITIES BY AGENCY, 2017



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the total number of specific investment promotion activities carried out by each agency. The horizontal lines represent the regional medians. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

The number of different specific activities performed is distributed almost uniformly across investment promotion functions. The median IPA carries out approximately the same relative

FIGURE 3.9 DISTRIBUTION OF SPECIFIC INVESTMENT PROMOTION ACTIVITIES ACROSS MAIN FUNCTIONS, 2017 – ACTIVITIES OF A MEDIAN IPA BY REGION

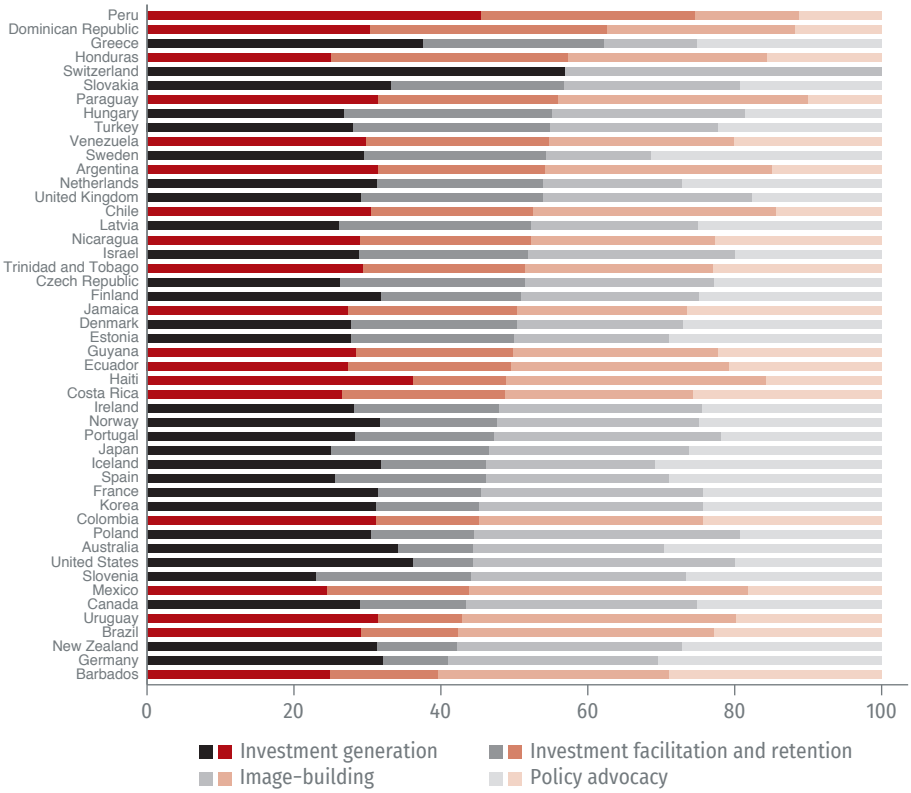


Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figures are pie charts reporting the normalized percentage share of each investment promotion function in the median IPA's total number of investment promotion activities in LAC and OECD countries.

number of specific activities to build the national image, generate investment, facilitate and retain investment, and advocate for policies that favor investment. These proportions do not differ significantly across regions, although LAC IPAs tend to execute relatively more investment facilitation and retention activities and relatively less investment generation activities than their OECD counterparts (figures 3.9 and 3.10).

Most IPAs execute the full range of possible investment generation activities, that is, activities that aim to maximize the pool of potential investors. However, there are significant differences in the types of activities IPAs perform around their other functions, particularly in investment facilitation and retention and policy advocacy (figure 3.11). For example, in the case of investment facilitation, while most IPAs organize site visits for prospective investors, provide information on local suppliers, and take part in meetings with local stakeholders, a smaller share of IPAs also

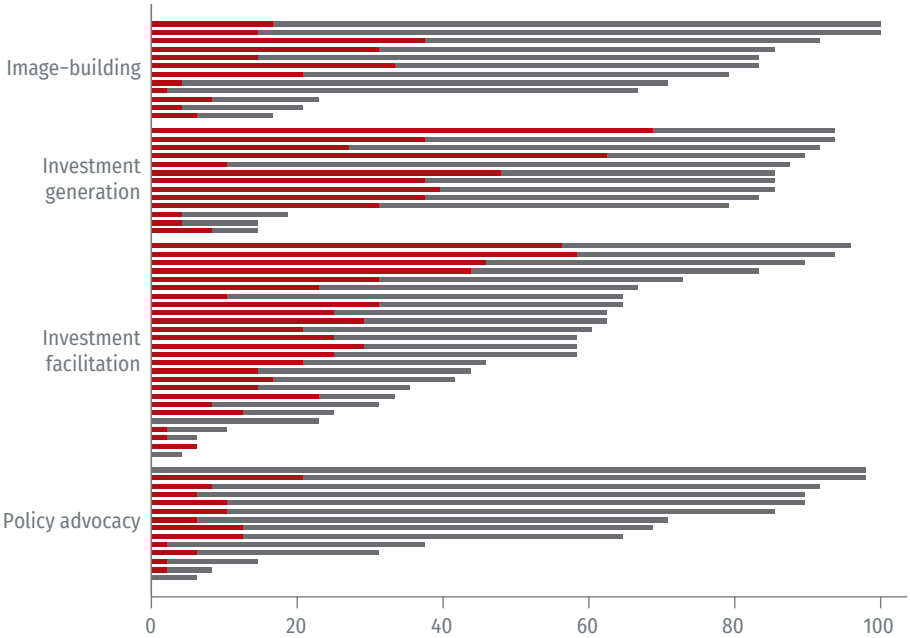
FIGURE 3.10 DISTRIBUTION OF SPECIFIC INVESTMENT PROMOTION ACTIVITIES ACROSS MAIN FUNCTIONS, 2017 – ACTIVITIES BY AGENCY



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the normalized percentage share of each investment promotion function in the IPA's total number of investment promotion activities. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

help firms to obtain the relevant business permits (e.g., business registration, land and construction permits, access to utilities). As such, services in some of these areas may be a differentiating factor among IPAs. For example, OECD IPAs support firms in securing financing and run matchmaking and cluster programs more frequently than LAC IPAs (investment facilitation and retention). OECD IPAs also tend more to organize awareness-raising campaigns, provide inputs into regulatory impact assessments for new regulations, and consult their overseas offices and embassies

FIGURE 3.11 NUMBER OF INVESTMENT PROMOTION AGENCIES CARRYING OUT EACH SPECIFIC ACTIVITY ACROSS MAIN FUNCTIONS, 2017

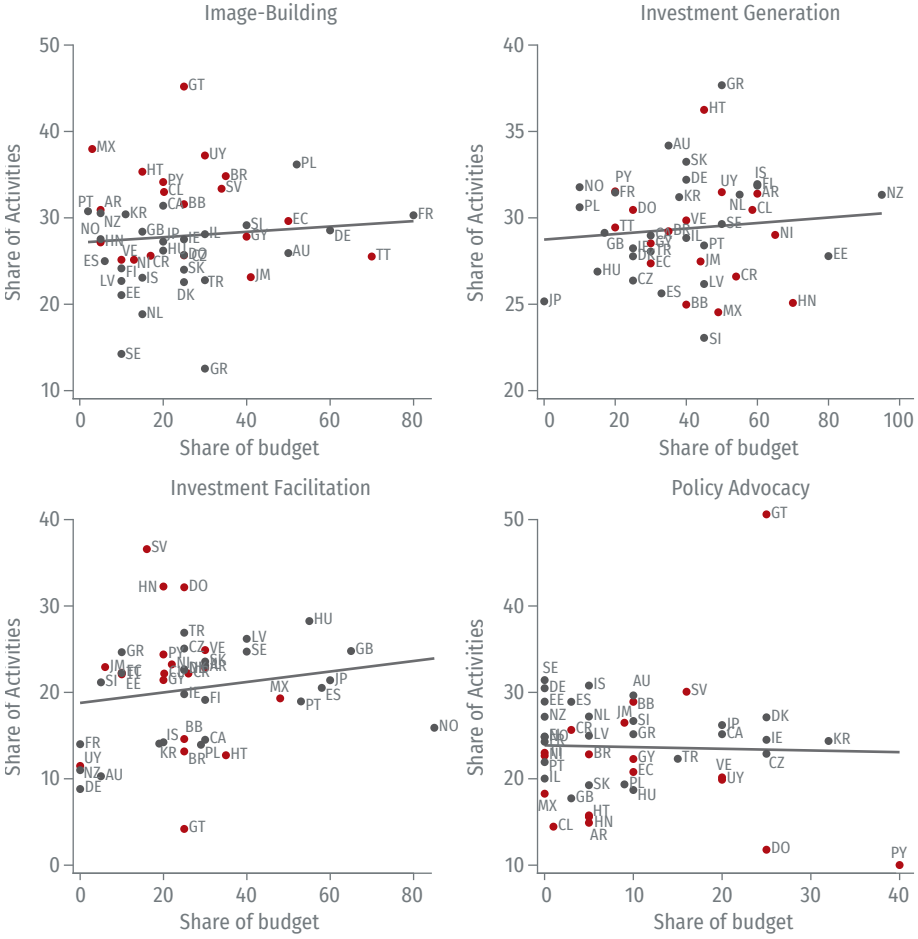


Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the percentage share of IPAs carrying out each specific promotion activity across functions. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

to obtain feedback from investors (policy advocacy). Conversely, ombudsman services and providing capacity-building support for local firms are more common among LAC IPAs.

Allocating a larger share of the budget to some (but not all) investment promotion functions is associated with a larger number of activities pertaining to the functions in question. In other words, greater financial resources translate into higher levels of activity in some areas but not in others. This is particularly the case with investment generation and investment facilitation and retention activities but not image-building and policy advocacy (figure 3.12). This could be explained by differences in budget reporting for these functions and by the fact that specific

FIGURE 3.12 RELATIONSHIP BETWEEN THE DISTRIBUTION OF SPECIFIC INVESTMENT PROMOTION ACTIVITIES AND THE DISTRIBUTION OF BUDGET AND PERSONNEL ACROSS MAIN FUNCTIONS, 2016



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figures show the relationship between the percentage share of their budgets that IPAs assign to a particular investment promotion function (i.e., image-building, investment generation, investment facilitation, and policy advocacy) and the normalized percentage share of the functions in question in agencies' total number of investment promotion activities. Outliers have been removed. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

activities within these categories are usually executed in close collaboration with other public- and private-sector organizations, which may attenuate the relationship between the allocation of

an IPA's own resources to those activities and the range of activities in question.

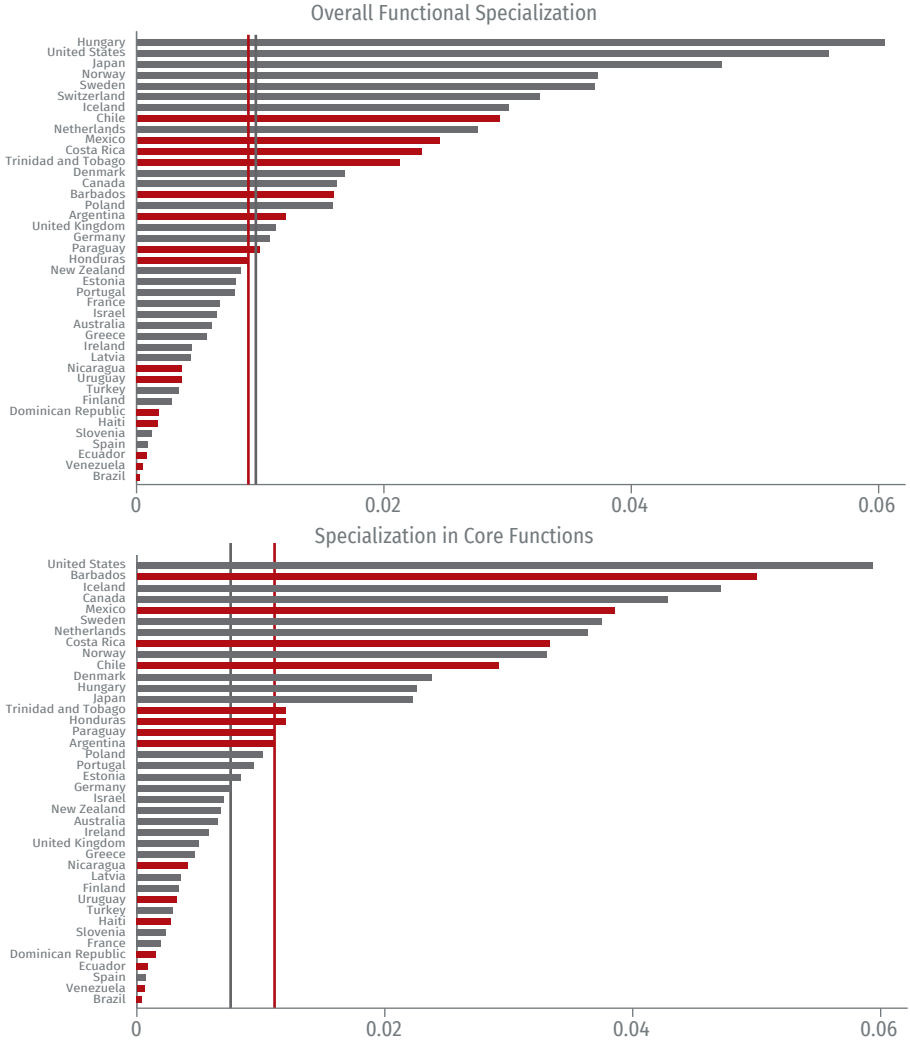
FUNCTIONAL SPECIALIZATION

IPAs have relatively low levels of specialization, both across all investment promotion functions and specifically in the core ones (i.e., investment generation and facilitation and retention), but there are differences across agencies (figure 3.13). The median value of the proposed *overall functional specialization index* and *core function specialization index* (box 3.4) for both OECD and LAC IPAs is below 0.1 (on a scale of 0 to 1), suggesting that agencies tend to generally spread their activities and financial resources relatively evenly across the different functions. However, there are still differences across IPAs. For example, among LAC agencies, Chile's and Costa Rica's score highest on the *overall functional specialization index*, which primarily reflects the fact that both agencies have a core mandate focused on inward FDI attraction and direct their entire budget toward that purpose. In the OECD, some agencies consistently top both lists, such as the USA's and Sweden's, which again reflects a relatively stronger focus both in terms of budget allocation and activities around the core mandate of inward FDI attraction as well as the core functions of investment generation and investment facilitation and retention. Overall, LAC IPAs appear to specialize more in these core functions than their OECD counterparts.

More independent IPAs tend to specialize less. If anything, controlling for IPAs' different budget sizes, there is a negative association between institutional independence and overall specialization, which would suggest that more independent IPAs tend to spread their resources over a wider range of mandates or distribute their activities more evenly across main investment promotion functions (figure 3.14).[9] This might potentially point to the fact that

[9] However, greater representation of the private sector on the board appears to be positively correlated with greater specialization. Conversely, IPAs whose strategy is approved by the board generally specialize less, both overall and in core functions.

FIGURE 3.13 INVESTMENT PROMOTION AGENCIES' FUNCTIONAL SPECIALIZATION, OVERALL AND IN CORE FUNCTIONS, 2016



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure in the top panel shows IPAs' overall specializations across investment promotion functions. The bottom panel shows their specializations in the core functions (i.e., investment generation and investment facilitation and retention), contemplating both budget allocation and the distribution of their specific promotional activities across these functions. The *overall functional specialization index* is the share of the IPA's total budget allocated to investment promotion multiplied by a sum of the square of the ratios of the share of the IPA's budget for investment promotion allocated to each function multiplied by the share of the IPA's number of activities for each function over its total number of activities. The *core function specialization index* is the share of the IPA's total budget allocated to investment promotion multiplied by the share of the IPA's budget for investment promotion allocated to investment generation and investment facilitation and retention and the inverse of the sum of the agency's total number of investment generation and investment facilitation and retention activities. The indices' scores range from 0 (least specialization) to 1 (maximum specialization). The horizontal lines represent the regional medians. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

BOX 3.4: *THE SPECIALIZATION INDEX (SI)*

The degree to which IPAs specialize in their investment promotion and facilitation activities depends on a number of factors. As has been seen above, agencies differ in the number of mandates and activities they perform, the share of their budget devoted to different core investment promotion functions, and the specific activities performed within them. In addition, as shown in the previous chapter, agencies can have different-sized budgets and personnel counts and allocate a different share of these resources to the inward FDI promotion function. These various aspects can be summarized through specialization indices.

The *overall functional specialization index* (SI^{OF}) captures the degree to which an agency concentrates its resources and focuses its activities on investment promotion, in general, and the different investment promotion functions, in particular (i.e., image-building, investment generation, investment facilitation and retention, and policy advocacy). This index takes a maximum value of 1 for an agency that allocates its entire budget to investment promotion rather than to other mandates, allocates all of its investment promotion budget to one of its investment promotion functions, and performs all of its activities around that function as well. Formally:

$$SI^{OF} = \left(\frac{Budget_{IP}}{Budget_{Total}}\right)\sum_{F}\left(\frac{Budget_{F}\ N_{F}^{A}}{Budget_{IP}\sum_{F}N_{F}^{A}}\right)^{2}$$

where *IP* denotes investment promotion, *F* stands for investment promotion functions, N^A and represents the number of specific investment promotion activities.

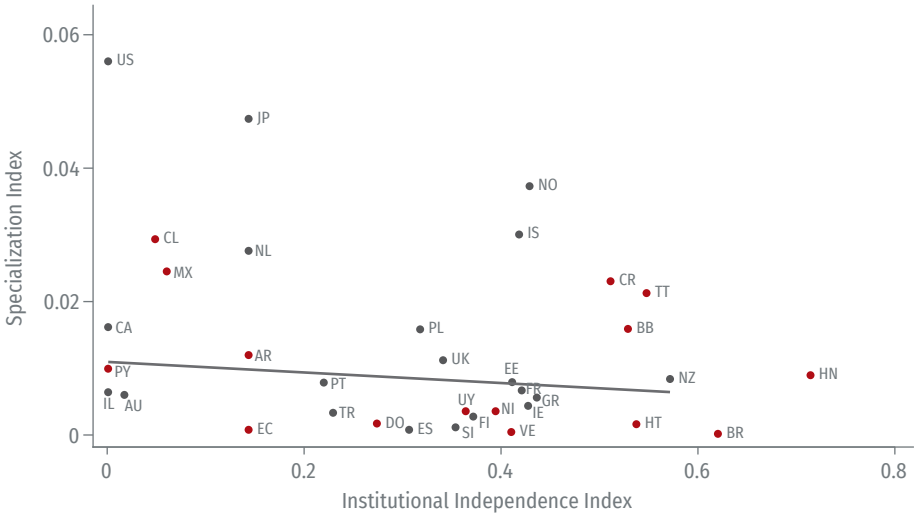
The *core function specialization index* (SI^{CF}), in turn, measures the degree to which an agency concentrates its activities in investment promotion, in general, and in the investment promotion functions found to be core for most IPAs (i.e., investment generation and investment facilitation and retention). The index would take the maximum value of 1 for an agency that allocates its total budget entirely to investment promotion rather than to other mandates, allocates its investment promotion budget to the investment generation and facilitation and retention functions, and performs only one activity within those core functions. Formally:

$$SI^{CF} = \left(\frac{Budget_{IP}}{Budget_{Total}}\right)\left(\frac{Budget_{IG} + Budget_{IF}}{Budget_{IP}}\right)\left(\frac{1}{N_{IG}^{A} + N_{IF}^{A}}\right)$$

where *IG* corresponds to investment generation and *IF* to investment facilitation and retention.

The indices' scores range from 0 (least specialization) to 1 (maximum specialization).

FIGURE 3.14 INVESTMENT PROMOTION AGENCIES' INSTITUTIONAL INDEPENDENCE AND SPECIALIZATION, 2017



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure is a scatter plot showing the relationship between IPAs' institutional independence and overall specialization indices. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

more independent IPAs do not, or cannot, rely on broad interinstitutional cooperation to perform their functions, or are required to specialize more by their more active and private-sector–oriented boards of directors, among other possible explanations.[10]

[10] No such a relationship seems to exist for specialization in core functions—or if one does, it is much weaker.

4

HOW AGENCIES PROMOTE INVESTMENT

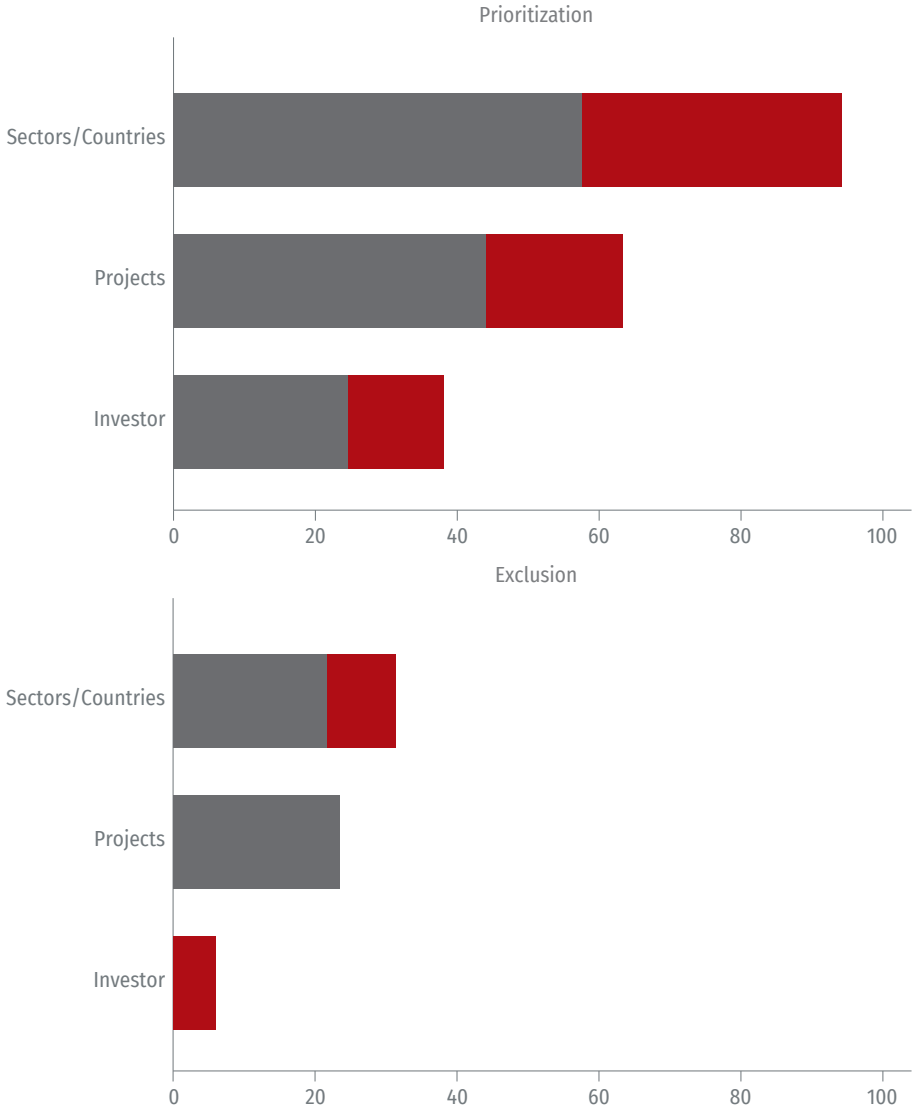
AS WITH MANY OTHER POLICY AREAS, IN INVESTMENT PROMOTION, THE "WHAT?" IS ONLY ONE PART OF THE RELEVANT QUESTION. Besides differences in IPAs' specific activities or mandates or the use of resources to perform their functions, agencies also vary as to how they mold their strategic orientation. For example, agencies may prioritize certain sectors, countries, or investment projects over others; coordinate more or less intensely with other relevant agencies, parts of the government, and other stakeholders to deliver on their mandates; and monitor and evaluate their activities to a varying extent. This chapter explores these dimensions, particularly identifying areas where IPAs' choices may potentially have the greatest implications for outcomes.

TARGETING

Virtually all IPAs target some investments rather than others as they perform their functions. Virtually all LAC and OECD IPAs prioritize certain sectors or source countries, the majority prioritize certain investment projects, and nearly 40% target specific investors. Meanwhile, more than 20% of IPAs exclude certain sectors, countries, and projects, most of which are from OECD countries (figure 4.1).

Still, the targeting intensity of IPA strategies varies, as is shown by the *targeting intensity index*, which was developed as part of

FIGURE 4.1 INVESTMENT PROMOTION AGENCIES' PRIORITIZATIONS AND EXCLUSIONS, 2017



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figures show the percentage share of IPAs that prioritize specific sectors/countries, projects, and investors (left panel) and that exclude (i.e., do not assist) specific sectors/countries, projects, and investors (right panel). LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

BOX 4.1: ***THE TARGETING INTENSITY INDEX (TII)***

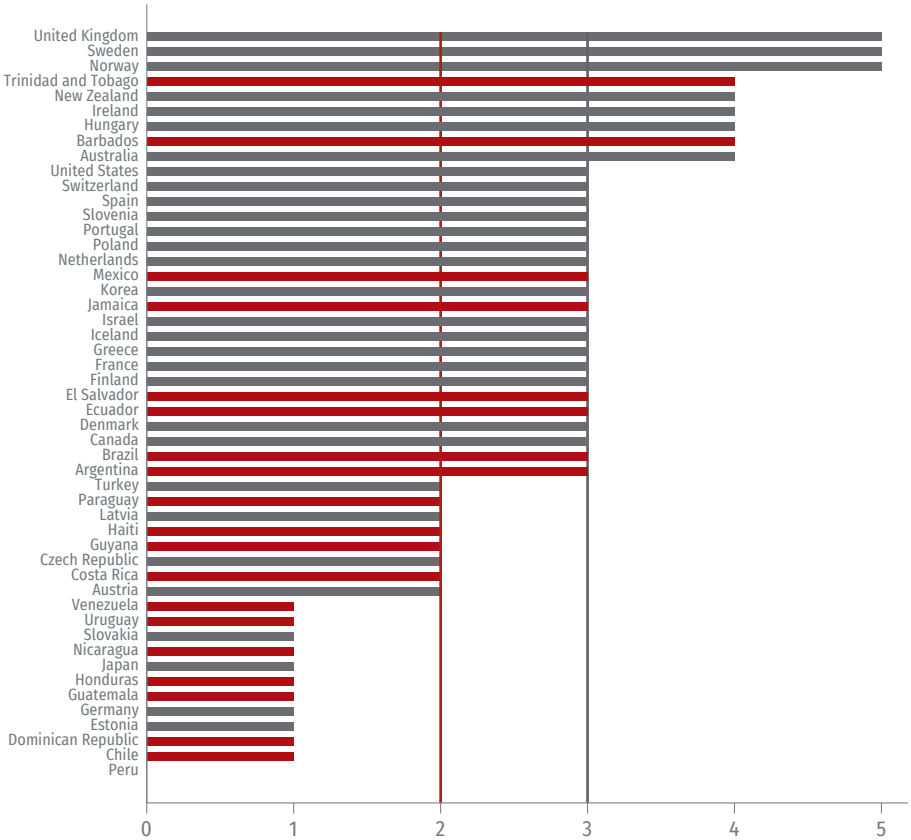
As was seen above, IPAs can prioritize and exclude based on three different dimensions: sectors/countries, projects, and investors. The *targeting intensity index* captures the number of dimensions that IPAs prioritize or exclude. The index is a count variable that ranges from 0, when the IPA neither prioritizes nor excludes sectors/countries, projects, or investors, to 6, when the IPAs prioritizes *and* excludes sectors/countries, projects, and investors, and can take any value in between, through the function on how far the agency prioritizes or excludes each dimension.

this study (box 4.1). Some IPAs neither prioritize nor exclude sectors/countries, projects, or investors (e.g., PROCOLOMBIA and PROINVERSION), whereas other IPAs prioritize and exclude different combinations of these (e.g., DIT, Business Sweden, Invest in Norway, and Invest TT). On average, OECD IPAs are more targeting-intensive than their LAC counterparts (figure 4.2).

More functionally specialized IPAs tend to target more intensively (figure 4.3). There is a positive association between IPAs' functional specialization levels, as captured by the index introduced in chapter 3 (see box 3.4), and IPAs' targeting intensity, controlling for other relevant factors such as agency size and the degree of institutional independence. Thus, given their size and institutional configuration, IPAs that focus their resources and activities on specific investment promotion functions (e.g., investment generation and investment facilitation and retention) also tend to serve a narrower set of sectors/countries, projects, and investors. This highlights the fact that an agency's overall strategic focus cuts through a number of management dimensions that can potentially interact with one another.

IPAs revise their targeting strategies at different intervals depending on whether the strategy in question is one of prioritization or exclusion. A large fraction of IPAs re-examine their priority sectors and countries annually—although

FIGURE 4.2 ***TARGETING INTENSITY INDEX FOR INVESTMENT PROMOTION AGENCIES*, 2017**

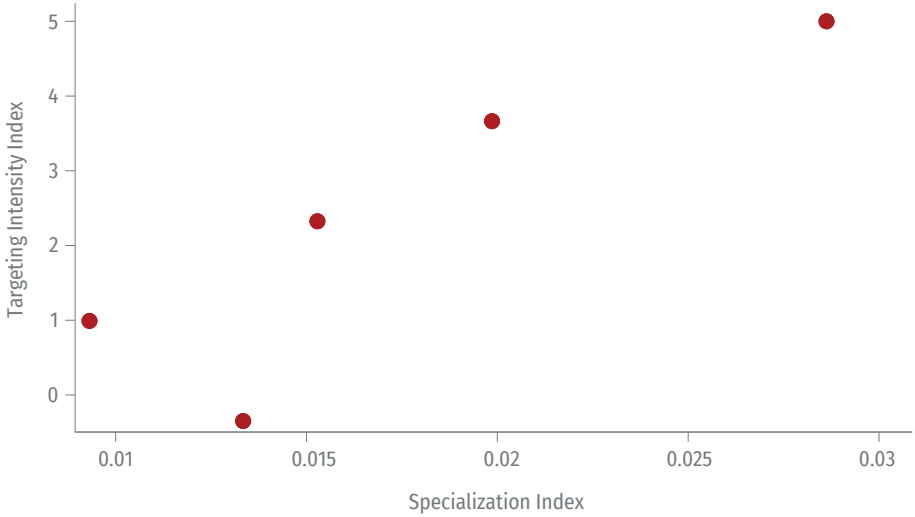


Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the *targeting intensity index* of each IPA. The index ranges from 0 (lowest intensity) to 6 (highest intensity). The horizontal lines represent the regional medians. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

they do not actually change these as frequently—but do not review the sectors and countries they exclude quite so often. Specifically, more than 75% of IPAs review their prioritized sectors and countries every three years at the most, whereas only 50% examine those they exclude this frequently (figure 4.7).

IPAs make use of multiple inputs when defining and revising their targeting strategies. Most IPAs consider opinions from

FIGURE 4.3 ***INVESTMENT PROMOTION AGENCIES' OVERALL FUNCTIONAL SPECIALIZATION AND TARGETING INTENSITY INDEX* SCORES, 2017**



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the average *specialization index* for each discrete level of the *targeting intensity index*.

BOX 4.2: WHAT IPAS PRIORITIZE: SPECIFIC TYPES OF INVESTMENTS, COUNTRIES, AND SECTORS

While some IPAs provide assistance with reinvestment, joint ventures, public–private partnerships, and even de facto mergers and acquisition, the vast majority in both LAC and OECD countries prioritize greenfield FDI (figure 4.4).

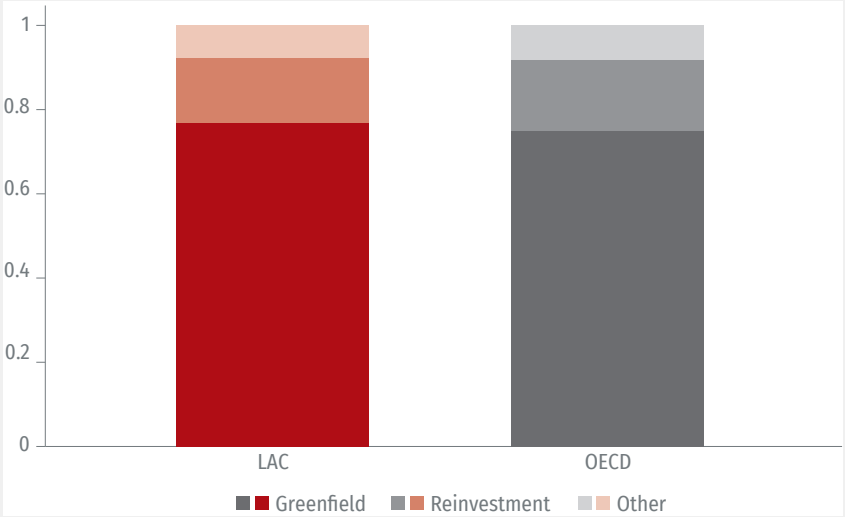
IPAs specifically prioritize greenfield FDI from particular countries and in particular sectors. There is a wide dispersion in the number of countries IPAs focus on. Some IPAs prioritize 20 or more countries of origin. This is the case for Brazil, Ecuador, Honduras, Jamaica, and Mexico in LAC, and Australia, Austria, Canada, Ireland, Slovenia, and the United Kingdom among the OECD countries. At the other extreme, some IPAs focus their promotional efforts on five countries or less, as is true of Chile, Guatemala, and Trinidad and Tobago in LAC and Norway and Sweden in the OECD area (figure 4.5, top panel). The economies that IPAs target most are OECD and Asian countries, including the United States, Germany, China, the United Kingdom, Japan, and France. This is true among both LAC and OECD IPAs. In contrast, LAC

(*continued on next page*)

BOX 4.2: WHAT IPAS PRIORITIZE: SPECIFIC TYPES OF INVESTMENTS, COUNTRIES, AND SECTORS (*continued*)

countries are primarily prioritized by other LAC IPAs. More precisely, although the largest countries in LAC (Brazil and Mexico) are targeted by OECD IPAs, the other countries in the region (Argentina, Chile, Colombia) are only a priority for LAC IPAs (figure 4.5., bottom panel).

FIGURE 4.4 INVESTMENT PROMOTION AGENCIES' FDI PREFERRED MODE OF ENTRY, 2017



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the share of IPAs that prioritize each specific type of investment. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

As with the countries of origin for FDI, the range of priority sectors varies significantly across IPAs. A group of LAC IPAs—those of Argentina, Guyana, Honduras, Jamaica, and Mexico—and that of Spain prioritize 70 or more sectors (in 4-digit ISIC terms) and thus have a broad focus, whereas a number of OECD IPAs—those of the Czech Republic, Denmark, Iceland, Israel, and Sweden—and that of Barbados target 25 sectors or less in terms of the aforementioned classification and hence tend to concentrate on a very narrow set of economic activities. Furthermore, beyond the total number of target sectors, IPAs differ in how precisely they define these sectors. While all sectors targeted by Costa Rica and the Czech Republic are specified

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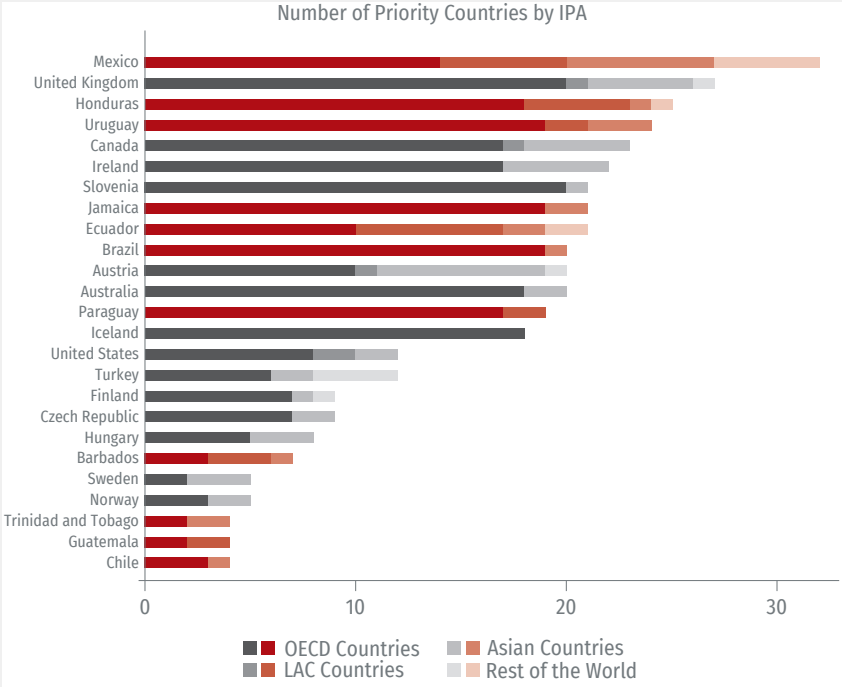
BOX 4.2: WHAT IPAS PRIORITIZE: SPECIFIC TYPES OF INVESTMENTS, COUNTRIES, AND SECTORS (*continued*)

in terms of 2-digit ISIC or more disaggregated codes, the IPAs of Honduras, Korea, and Slovenia identify target sectors using more aggregated categories (figure 4.6, top panel). The most targeted sectors include information and communication technologies (i.e., software, computer programming, web portals, data processing, computer consultancy, and computer facility management activities), energy and renewable energy, and food processing industries (i.e., agroindustry and agribusiness) (figure 4.6, bottom panel). The latter are primarily prioritized by LAC IPAs, whose targeting of forestry, mining, oil and gas, textiles, and light manufacturing is even more pronounced. The opposite holds true for life sciences, aerospace industries, and high technology manufacturing, which are virtually only targeted by OECD IPAs.

FIGURE 4.5 INVESTMENT PROMOTION AGENCIES' PRIORITY COUNTRIES, 2017



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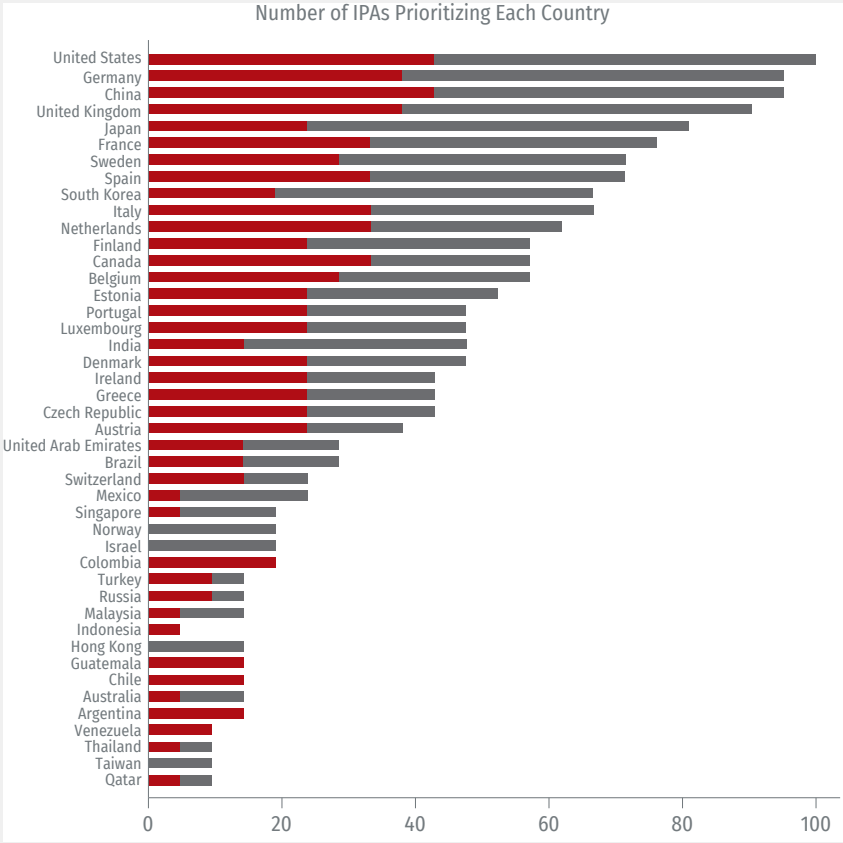
BOX 4.2: WHAT IPAS PRIORITIZE: SPECIFIC TYPES OF INVESTMENTS, COUNTRIES, AND SECTORS (*continued*)

FIGURE 4.5 INVESTMENT PROMOTION AGENCIES' PRIORITY COUNTRIES, 2017 (*continued*)



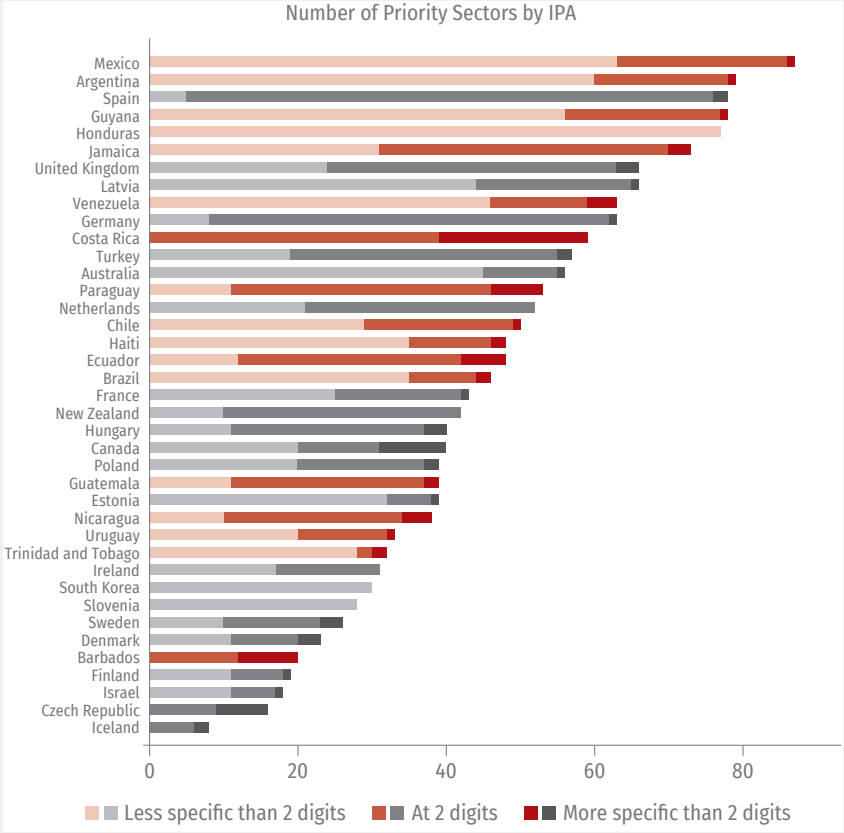
Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure in the top panel shows the number of countries prioritized by each IPAs, while the figure in the bottom panel reports the number of IPAs prioritizing each specific country. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

(*continued on next page*)

their own management and internal experts, international investors, external experts, and studies of their relative competitive positions when deciding which sectors and FDI source countries to prioritize (figure 4.9). In keeping with the relatively stron-

BOX 4.2: WHAT IPAS PRIORITIZE: SPECIFIC TYPES OF INVESTMENTS, COUNTRIES, AND SECTORS (*continued*)

FIGURE 4.6 INVESTMENT PROMOTION AGENCIES' PRIORITY SECTORS, 2017

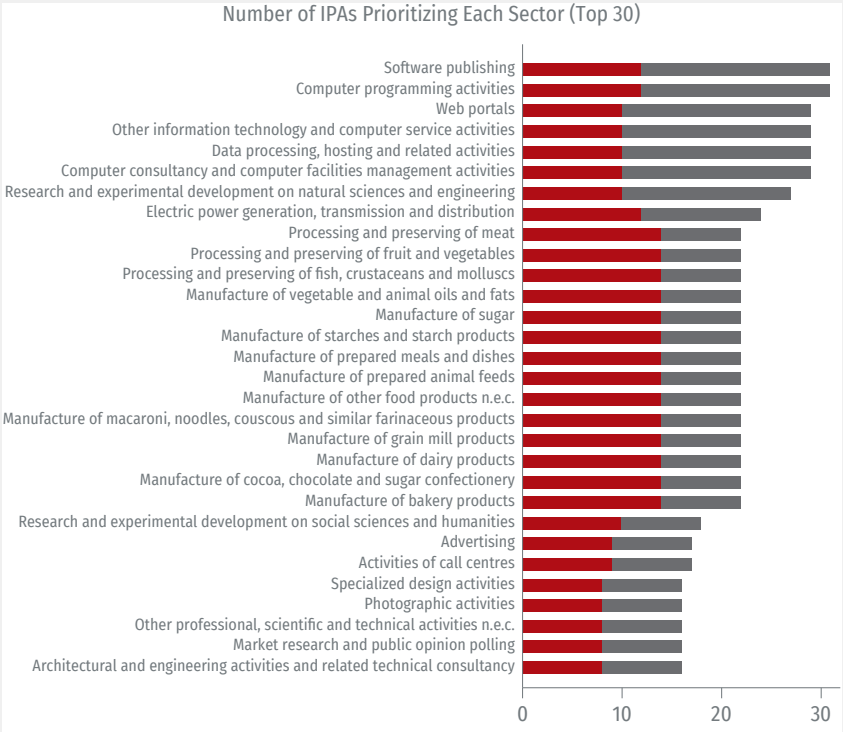


(*continued on next page*)

ger role that boards of directors have in LAC IPAs, as discussed in chapter 2, these also play a relatively more important role in defining IPA targeting strategies. Furthermore, in line with the relatively less frequent use of exclusion of certain activities in LAC countries, decision-making processes to this are also less developed.

BOX 4.2: WHAT IPAS PRIORITIZE: SPECIFIC TYPES OF INVESTMENTS, COUNTRIES, AND SECTORS *(continued)*

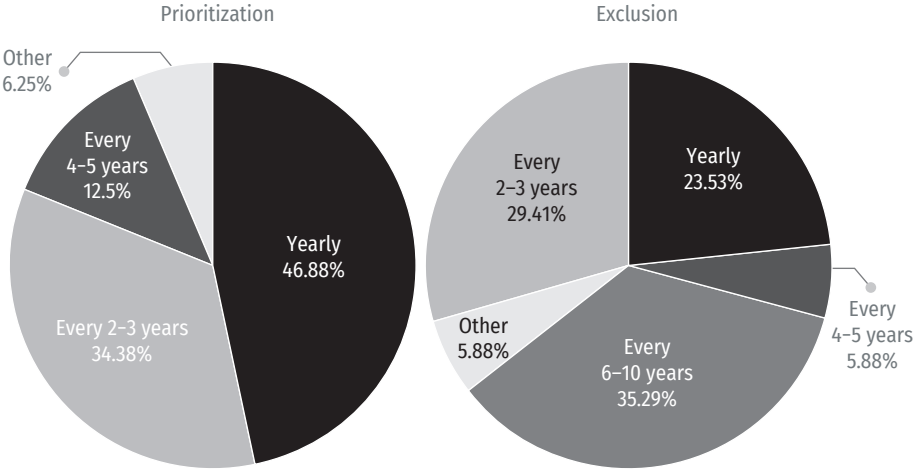
FIGURE 4.6 INVESTMENT PROMOTION AGENCIES' PRIORITY SECTORS, 2017



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The top panel shows the number of 4-digit ISIC sectors prioritized by each IPAs, while the bottom panel shows the number of IPAs prioritizing each specific 4-digit ISIC sector. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

IPAs look at various specific criteria to operationalize their targeting strategies. Most IPAs prioritize sectors with the potential to diversify the economy and in which they have a comparative advantage (i.e., strong domestic capacity) as well as countries that are large, fast-growing, and seen as a source of advanced technology (figure 4.10). In addition, LAC IPAs tend to focus more on economies with which their home countries have a free trade

FIGURE 4.7 INVESTMENT PROMOTION AGENCIES' REVISION OF TARGETING STRATEGIES, 2017



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figures show the percentage share of IPAs that revise prioritized and excluded sectors and countries with different frequencies (left and right panels, respectively).

agreement, which points to the importance of close trade ties within IPAs' attraction efforts. In terms of exclusions, when these exist, IPAs do not serve sectors that are perceived as not requiring intervention on the part of the IPA or that involve national security issues, nor do they target countries with reputational risk. It is noteworthy that the presence or absence of market failures do not appear to be governing criteria for prioritizations and exclusions, respectively.

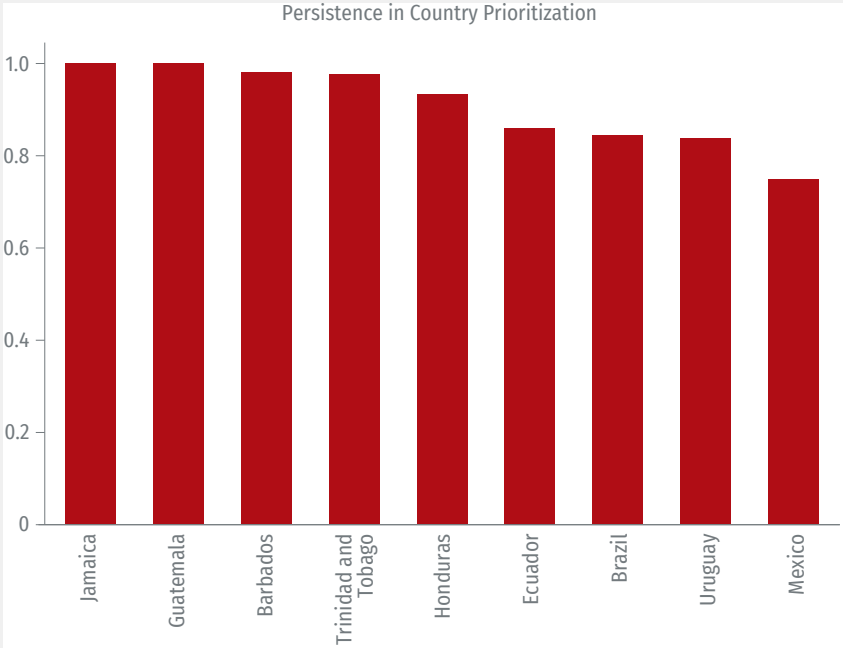
In terms of particular projects, the majority of IPAs prioritize projects that have a significant impact on innovation, have high potential for generating employment, and belong to priority sectors (figure 4.11). However, IPAs do not generally use predefined criteria to approve projects (52.1%). There are also interesting differences between LAC and OECD IPAs as regards project prioritization criteria. For example, RBC considerations are important for selecting priority sectors in IPAs from LAC but not in those from OECD countries (which is consistent with the differences in agen-

BOX 4.3: CONSISTENCY VS. ADAPTABILITY: HOW FREQUENTLY DO IPAS CHANGE THE COUNTRIES AND SECTORS THEY PRIORITIZE?

The answer to the question is clear: not very frequently. The available data on the specific countries and sectors that LAC IPAs have prioritized over time suggest that their focus is generally long-lived. On average, more than 90% of the countries targeted in a given year are also targeted three years later. The figure for priority sectors is similarly high: on average, around 85% of the target economic activities are still being targeted three years later. This continuity may respond to the notion that persistence in promotional efforts is required for them to be effective in attracting FDI.

Admittedly, there are differences across LAC countries in this regard. In particular, persistence is very high in Guatemala and Jamaica and relatively low in Mexico in terms of both origin countries and sectors. It is also very low for Brazil and, especially, Trinidad and Tobago in terms of sectors (figure 4.8. left and right panels). These differences may reflect differing approaches to targeting by those agencies and their governments, the productive structures of their economies, and other factors.

FIGURE 4.8 PERSISTENCE IN INVESTMENT PROMOTION AGENCIES' PRIORITY COUNTRIES AND SECTORS, LAC



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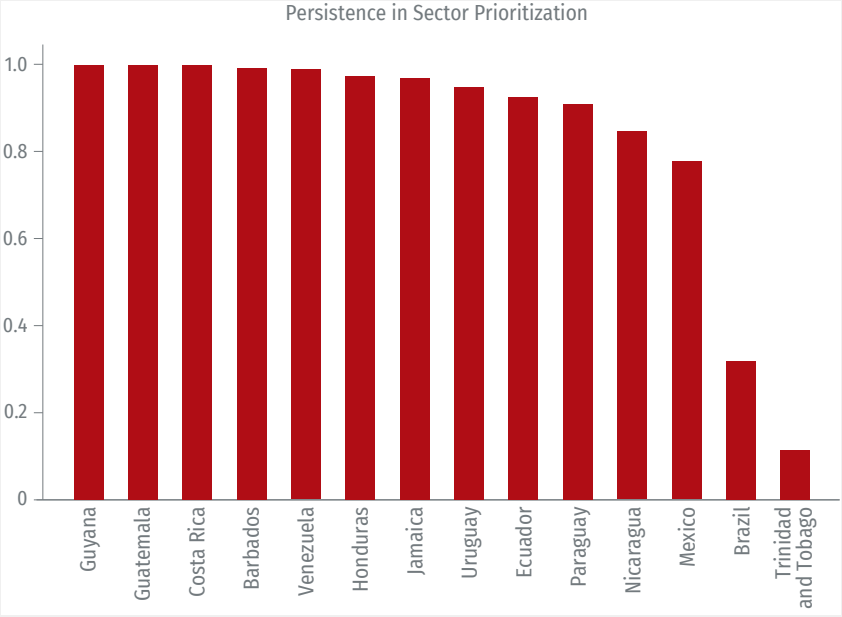
BOX 4.3: CONSISTENCY VS. ADAPTABILITY: HOW FREQUENTLY DO IPAS CHANGE THE COUNTRIES AND SECTORS THEY PRIORITIZE? (*continued*)

FIGURE 4.8 PERSISTENCE IN INVESTMENT PROMOTION AGENCIES' PRIORITY COUNTRIES AND SECTORS, LAC (*continued*)

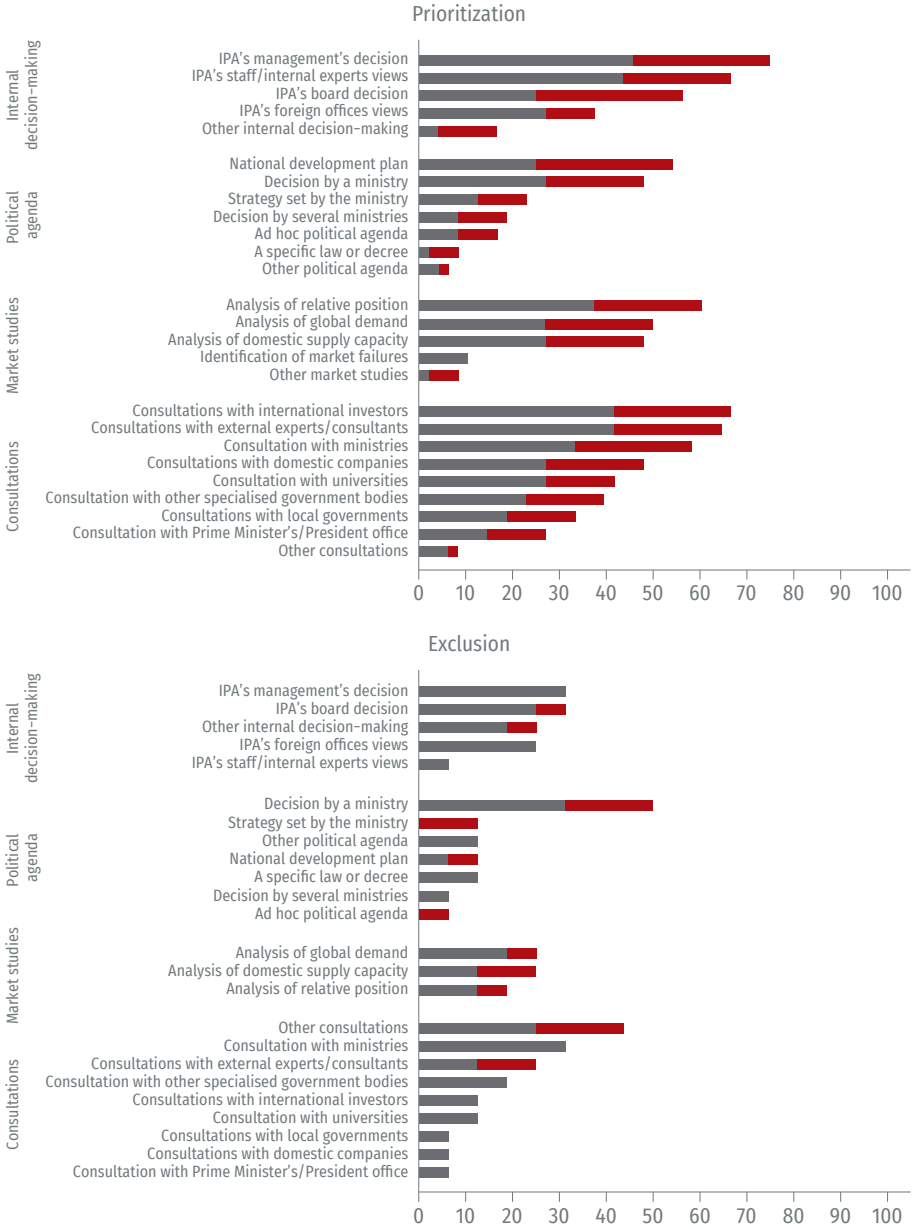


Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figures show the persistence of priority countries (top panel) and sectors (bottom panel) on the lists of IPA targets, as captured by estimates of a regression of a binary indicator of prioritization on the respective one-period lag on data at the (IPA) host country–home (investing country)–year level and at the host (IPA) country–sector–year level, respectively. Results are very similar if fixed effects accounting for unobserved host country–year, home country–year, or sector-year factors are included. The estimations could only be carried out for LAC countries for data availability reasons.

cies' reported mandates discussed in chapter 2 and the fact that several of the IPAs in LAC serve as National Contact Points under the OECD *Guidelines for Multinational Enterprises*).[11] LAC IPAs are less active around exclusion but, again, also consider RBC in addition to the factors highlighted for OECD countries.

[11] For more information on the instrument, the mechanism of National Contact Points or the role of individual agencies, see: http://mneguidelines.oecd.org.

FIGURE 4.9 INPUTS USED BY INVESTMENT PROMOTION AGENCIES TO DECIDE ON THEIR TARGETING STRATEGIES, 2017



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the percentage share of IPAs that use the different inputs to decide and revise prioritized and excluded sectors and countries (top and bottom panels, respectively). LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

FIGURE 4.10 INVESTMENT PROMOTION AGENCIES' CRITERIA FOR PRIORITIZING AND EXCLUDING SECTOR AND COUNTRIES, 2017

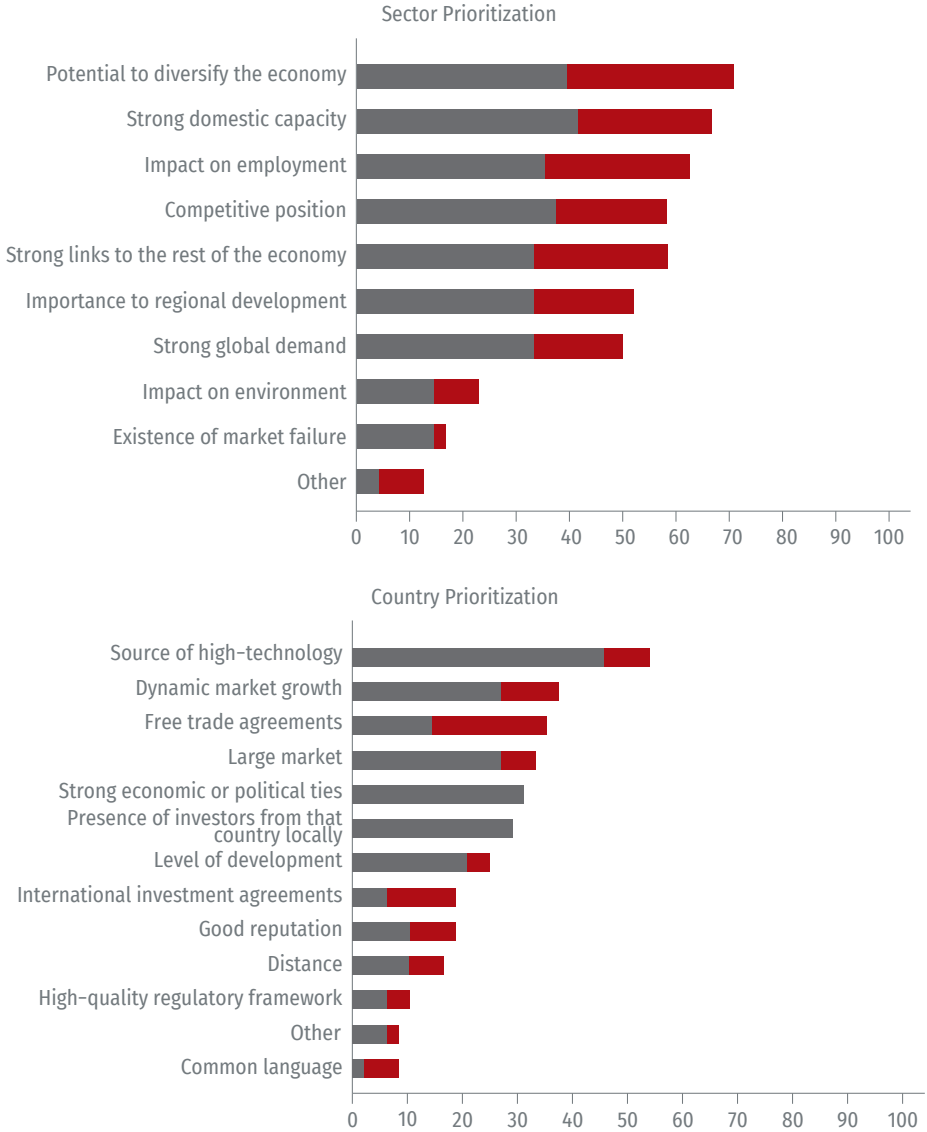


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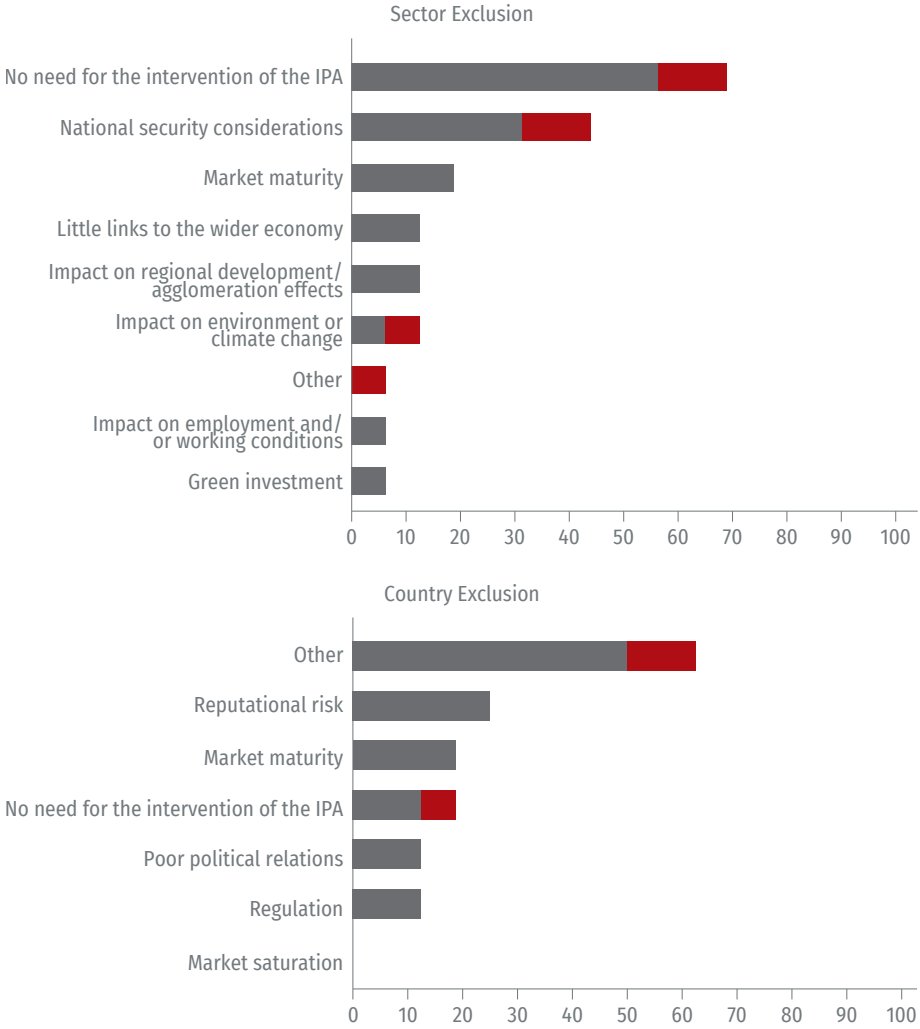
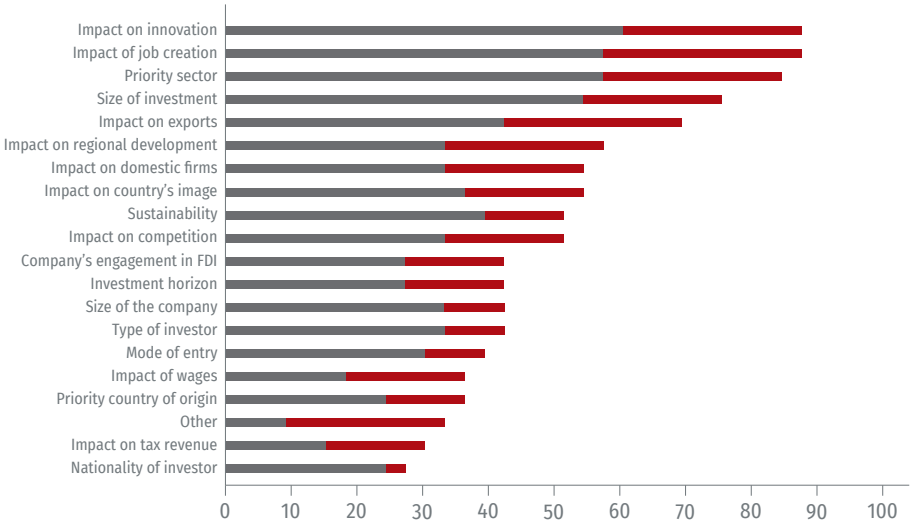
FIGURE 4.10 INVESTMENT PROMOTION AGENCIES' CRITERIA FOR PRIORITIZING AND EXCLUDING SECTOR AND COUNTRIES, 2017 *(continued)*



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the percentage share of IPAs using each criterion to select sectors and countries to prioritize and exclude. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

FIGURE 4.11 INVESTMENT PROMOTION AGENCIES' CRITERIA FOR PRIORITIZING PROJECTS, 2017

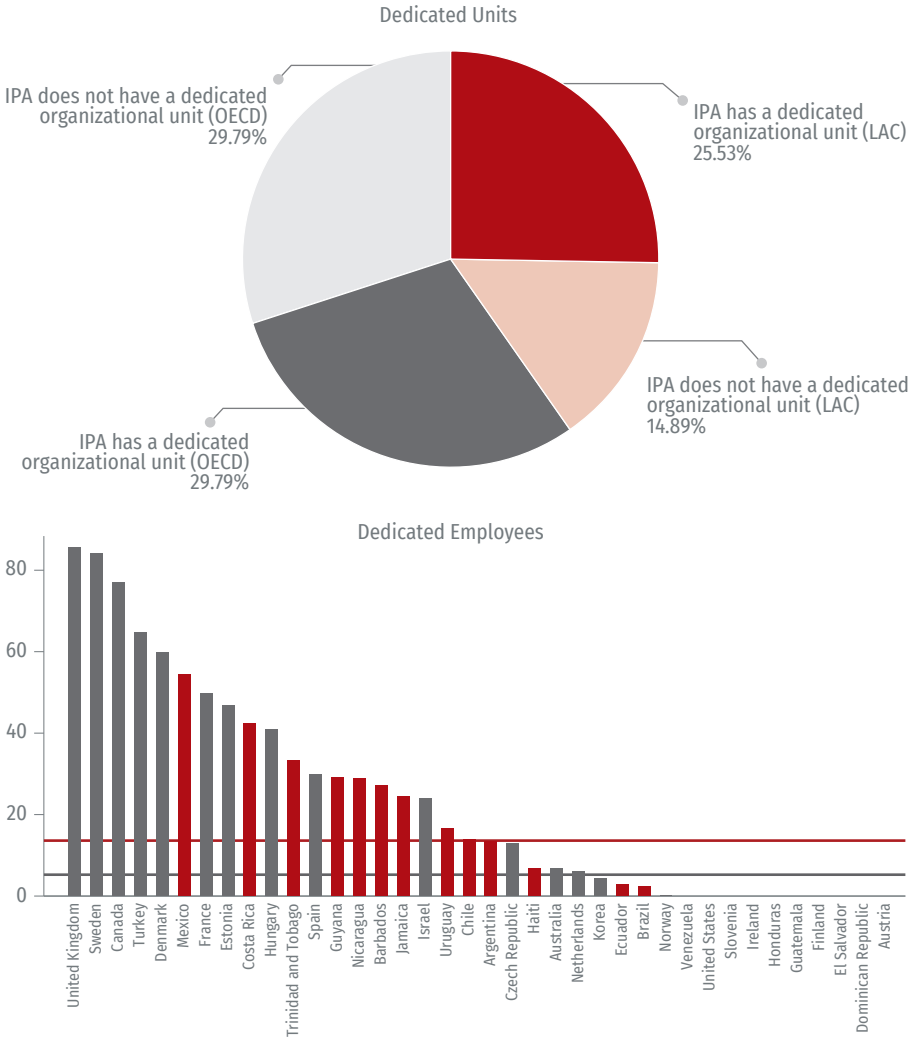


Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the percentage share of IPAs using each criterion to select prioritized projects. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

IPAs use different means to actually implement their targeting strategies. A large number of IPAs have dedicated organizational units for priority sectors and countries, and some of them assign relatively large proportions of their employees to these, more so in LAC than OECD IPAs (figure 4.12). Furthermore, several IPAs offer specialized services to priority investors such as dedicated staff, faster replies to inquiries, tailored policy advocacy activities, and investment facilitation arrangements (figure 4.13).

IPAs' targeting strategies correlate with their budget size but not with the range of investment promotion activities they perform. IPAs that prioritize projects and investors generally have larger budgets but do not carry out a larger number of specific activities (figure 4.14). Hence, in those cases, prioritization appears to be implemented through better-funded activities to assist selected projects and investors rather than through more

FIGURE 4.12 OPERATIONAL MODALITIES OF INVESTMENT PROMOTION AGENCIES TO TARGET SECTORS AND COUNTRIES: DEDICATED UNITS AND DEDICATED EMPLOYEES, 2017



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figures show the percentage share of IPAs that have dedicated units for priority sectors/countries (top panel) and the percentage share of investment promotion employees focusing on these sectors/countries (bottom panel). The horizontal lines represent the regional medians. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

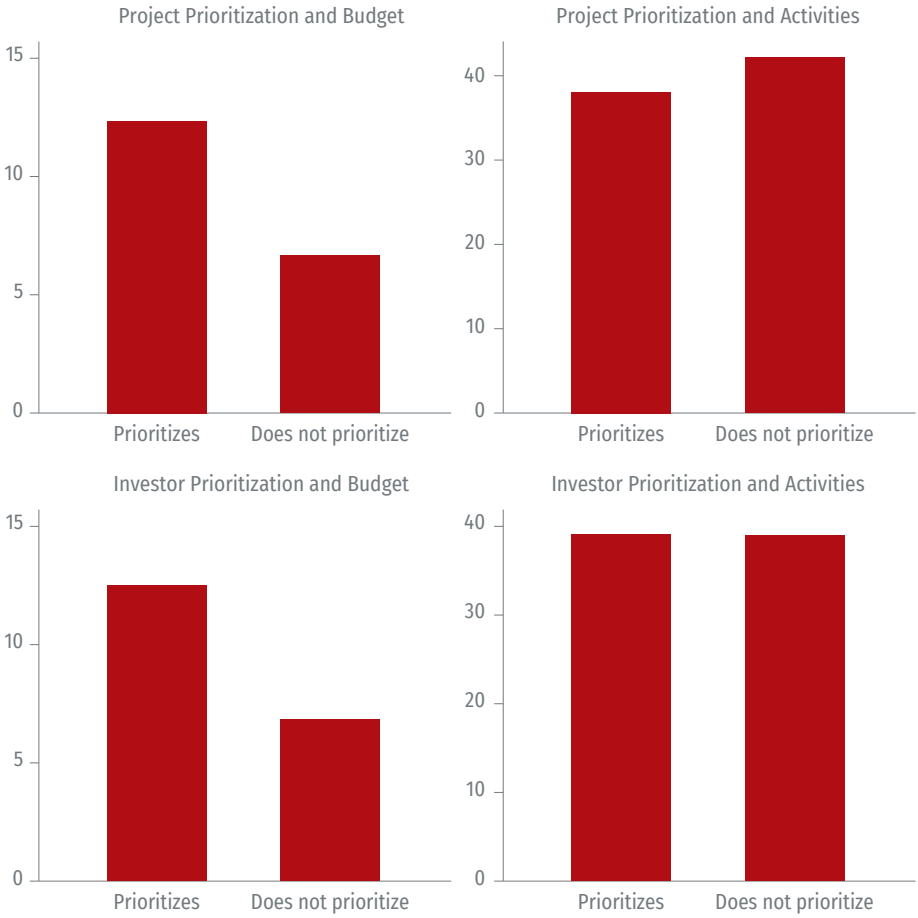
FIGURE 4.13 INVESTMENT PROMOTION AGENCIES' SPECIALIZED SERVICES TO (PRIORITY) INVESTORS, 2017

Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the percentage share of IPAs offering each specialized service to (priority) investors. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

activities, which can also potentially translate into more tailored or higher-quality services.

Finally, IPAs' targeting strategies are also reflected in the spatial distribution of their overseas offices, but not as much as might be expected. IPAs that prioritize countries that are large and seen as sources of high technology consistently have offices in countries with larger GDPs and higher GDP per capita, respectively (figure 4.15). Nevertheless, the tendency of these IPAs to have offices in such countries is not more pronounced and is, in fact, weaker relative to that of their counterparts that do not prioritize large, technologically advanced economies (figure 4.16). This raises the question of how far the criteria on which IPAs base their prioritizations overlap with the criteria they use to select locations for overseas offices.

FIGURE 4.14 INVESTMENT PROMOTION AGENCIES' BUDGET, ACTIVITIES, AND PRIORITIZATION STRATEGIES, 2016

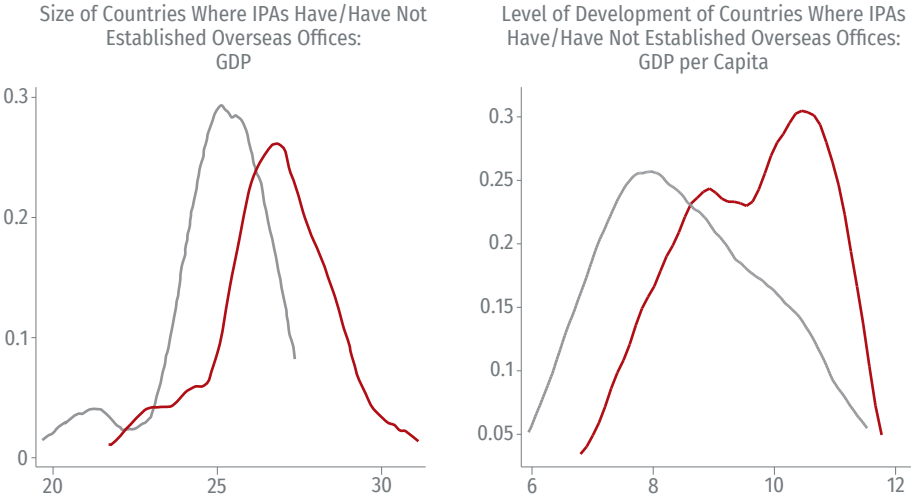


Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the median budget and number of activities for APIs that prioritize/do not prioritize projects and investors.

COOPERATION AND COORDINATION

IPAs cooperate and coordinate with a varying number of organizations, but, overall, they do so with relatively many (box 4.4). The actual number of entities they interact with ranges from very few (e.g., Japan, Finland, and Estonia) to

FIGURE 4.15 DISTRIBUTION OF INVESTMENT PROMOTION AGENCIES' OFFICES PRIORITIZING LARGE AND TECHNOLOGY LEADING COUNTRIES, 2017

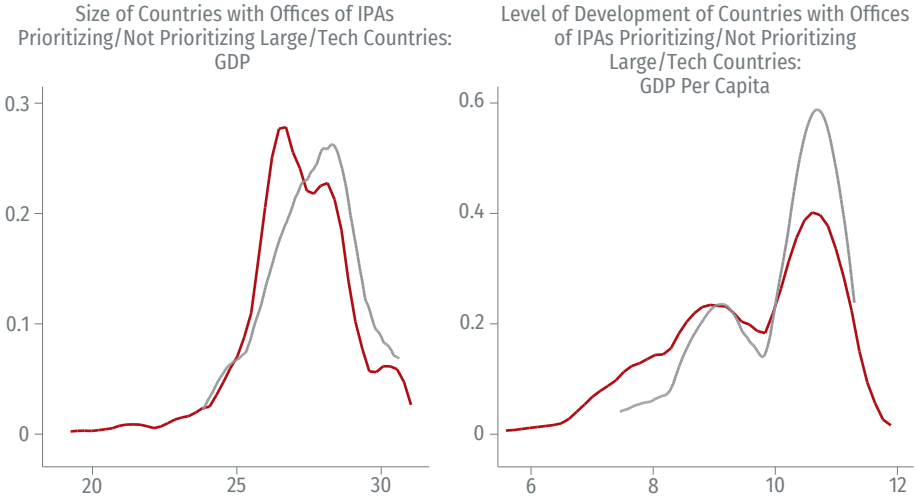


Source: Author's calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017) and the World Bank's World Development Indicators.
Note: The figures are kernel density estimates showing the distribution of the (natural logarithm of the) GDP and GDP per capita of the countries where IPAs that prioritize large countries that are considered a source of high technology have established (red line) and have not established (dark gray line) overseas offices.

more than 40 (e.g., Germany, Mexico, and Switzerland). However, more than three-quarters of the surveyed IPAs collaborate with more than 20 public, private, and civil society organizations to promote investment, and this number is similar for both LAC and OECD. IPAs consider a variable share of these organizations to be strategic partners in accomplishing their mission (figure 4.17).

Interestingly, IPAs whose strategies are more targeting-intensive collaborate with a broader range of entities. Once their countries' size and level of development are accounted for, the number of entities IPAs interact with increases the more targeting-intensive they are. This likely reflects the fact that defining and revising various multitier priorities (and exclusions) and delivering properly tailored assistance to consistently identified beneficiary firms is aligned with broader policy objectives, in general, and requires

FIGURE 4.16 DISTRIBUTION OF INVESTMENT PROMOTION AGENCIES' OFFICES AND THEIR PRIORITIZATION STRATEGIES, 2017



Source: Author's calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017) and the World Bank's World Development Indicators.
Note: The figures are kernel density estimates showing the distribution of the (natural logarithm of the) GDP and GDP per capita of the countries where IPAs that prioritize countries that are large or considered a source of high technology have offices (red line) and where IPAs that do not that prioritize countries that are large or are considered a source of high technology have offices (dark gray line).

reaching consensus, coordinating, and cooperating with a larger set of stakeholders, in particular.

In terms of the type and nature of their partners, IPAs collaborate closely with multiple government bodies, the private sector, civil society, academic institutions, and international organizations. In particular, the strategic partners with which IPAs interact frequently in carrying out their investment promotion activities include the ministry responsible for investment policy, embassies and consulates (both those of the IPA's country abroad and of other countries at home), and the ministry of foreign affairs. The same holds for industrial associations, relevant individual firms, and universities, among nongovernment entities. LAC IPAs tend to be in closer contact with international organizations than their OECD counterparts (figures 4.18). The size and density of the network of these interinstitutional links vary greatly across countries (figure 4.19).

BOX 4.4: IPAS' POTENTIAL PARTNERS AND *INTERACTION INTENSITY INDEX (III)*

IPAs routinely interact with a wide array of organizations and entities, including ones from the private and public sectors and international organizations. Some of these are considered strategic partners, while others may be subject only to occasional interactions, depending on the country. They are listed below for illustration purposes. The *interaction intensity index* captures the extent of IPA collaborations across these types of actors. The index is a count variable that ranges from 0, when the IPA reports that it does not collaborate with any public, private or other type of institution listed below, to 42, which is the maximum number of bodies with which IPAs have reported they interact.

GOVERNMENT BODIES

- *Government and public agencies responsible for investment*: ministry responsible for investment; interministerial investment committees; other national IPAs; subnational IPAs; entity responsible for investment incentives; entity responsible for free trade zones and industrial parks.
- *Other government bodies*: president/prime minister; ministry of finance; ministry of foreign trade; ministry of foreign affairs; embassies and consulates; ministry of education; ministry of infrastructure; subnational or local governments; entity responsible for export promotion; entity responsible for innovation promotion; entity responsible for business development promotion; entity responsible for tourism promotion.
- *Other public or semipublic organizations and agencies*: customs; tax agency; immigration agency/unit; border regulatory agencies; competition authority; sectoral or other regulatory bodies; central bank; national statistical office; embassies of foreign countries; chambers of commerce.

PRIVATE SECTOR, CIVIL SOCIETY, AND ACADEMIA

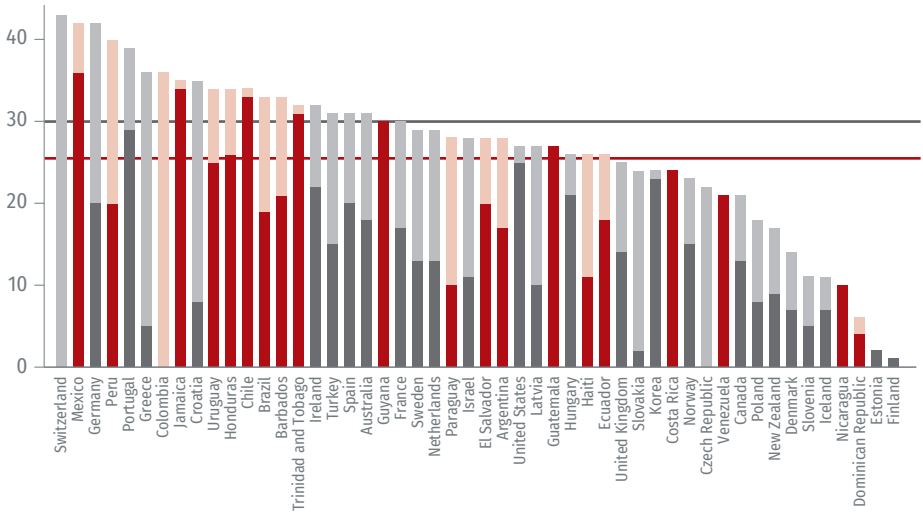
- Industry groups/associations; individual private firms; "influencers"; financial institutions; universities; other academic or scientific organizations; NGOs; workers' associations.

INTERNATIONAL ORGANIZATIONS

- African Development Bank; Asian Development Bank; ECLAC; European Union; FIAS; IDB; ITC; OECD; UNCTAD; WAIPA; World Bank; regional arrangements (e.g., Red Ibero, CAIPA, etc.).

[a] In all cases, if separate from the IPA or the reference ministry.

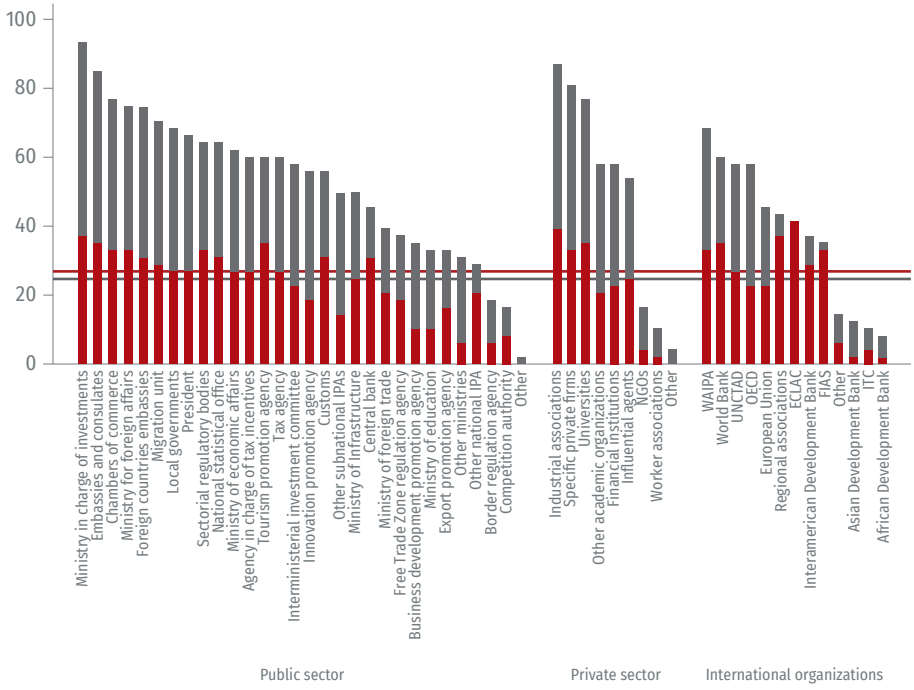
FIGURE 4.17 ***INTERACTION INTENSITY INDEX OF INVESTMENT PROMOTION AGENCIES*, 2017**



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the total number of entities IPAs interact (i.e., cooperate and coordinate) with, distinguishing between those they identify as being a strategic partner (darker tones) and those they do not (lighter tone). The horizontal lines represent the regional medians. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray. There is no available data for the promotion agencies of Colombia and Switzerland.

The patterns of IPAs' institutional interactions are related to the mandates these have been assigned, their institutional independence, and their strategies in terms of specialization and targeting intensity. IPAs tasked with green investment promotion thus tend to partner with the ministry responsible for investment but not with the finance ministry, whereas IPAs whose mandates include regional development work together with the agency managing free trade zones and industrial parks but are less likely to collaborate with subnational IPAs or the ministry of foreign trade. In keeping with this overall picture, IPAs that are more targeting-intensive interact with a larger number of government bodies and representatives from the private sector, civil society, and academia. The typical strategic partners for these IPAs include the office of the president or prime minister, interministerial investment committees, ministries of foreign trade and foreign affairs, the agencies responsible for tax

FIGURE 4.18 INTENSITY OF INTERACTIONS WITH INVESTMENT PROMOTION AGENCIES, BY ENTITY, 2017



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the percentage share of IPAs interacting with each entity by group. The horizontal lines represent the regional medians. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

and investment incentives, the innovation promotion agency, individual firms, academic institutions, and NGOs. Finally, the more independent IPAs are more prone to collaborating closely with the export and tourism promotion agencies but do not generally seem to have strategic relationships with subnational IPAs (figure 4.20).

MONITORING AND EVALUATION

About half of IPAs have a dedicated evaluation unit (figure 4.21). These are relatively more prevalent among OECD IPAs than among their LAC counterparts. Still, the nature of their specific evaluation activities varies greatly from case to case.

FIGURE 4.19 INVESTMENT PROMOTION AGENCIES' NETWORKS OF INSTITUTIONAL INTERACTIONS, 2017

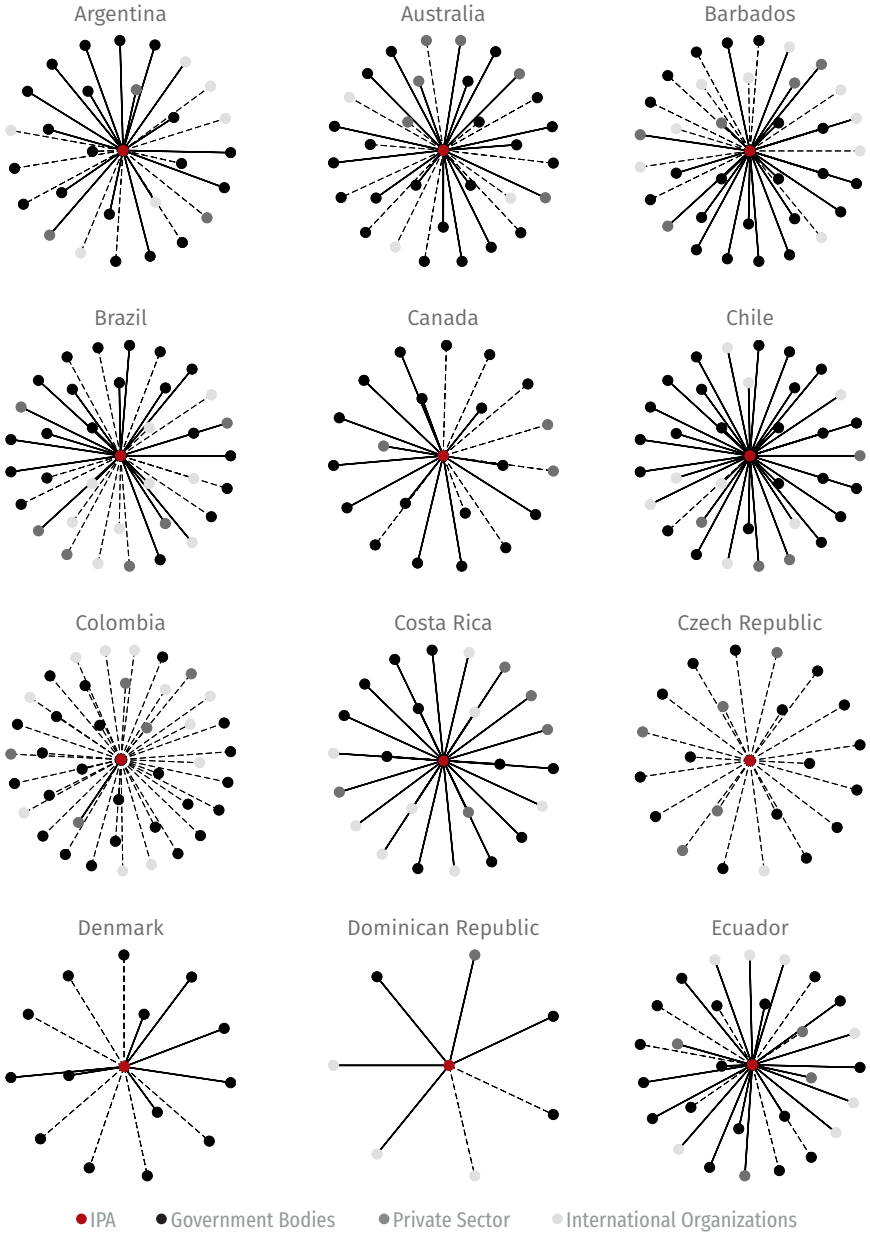


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FIGURE 4.19 INVESTMENT PROMOTION AGENCIES' NETWORKS OF INSTITUTIONAL INTERACTIONS, 2017 (*continued*)

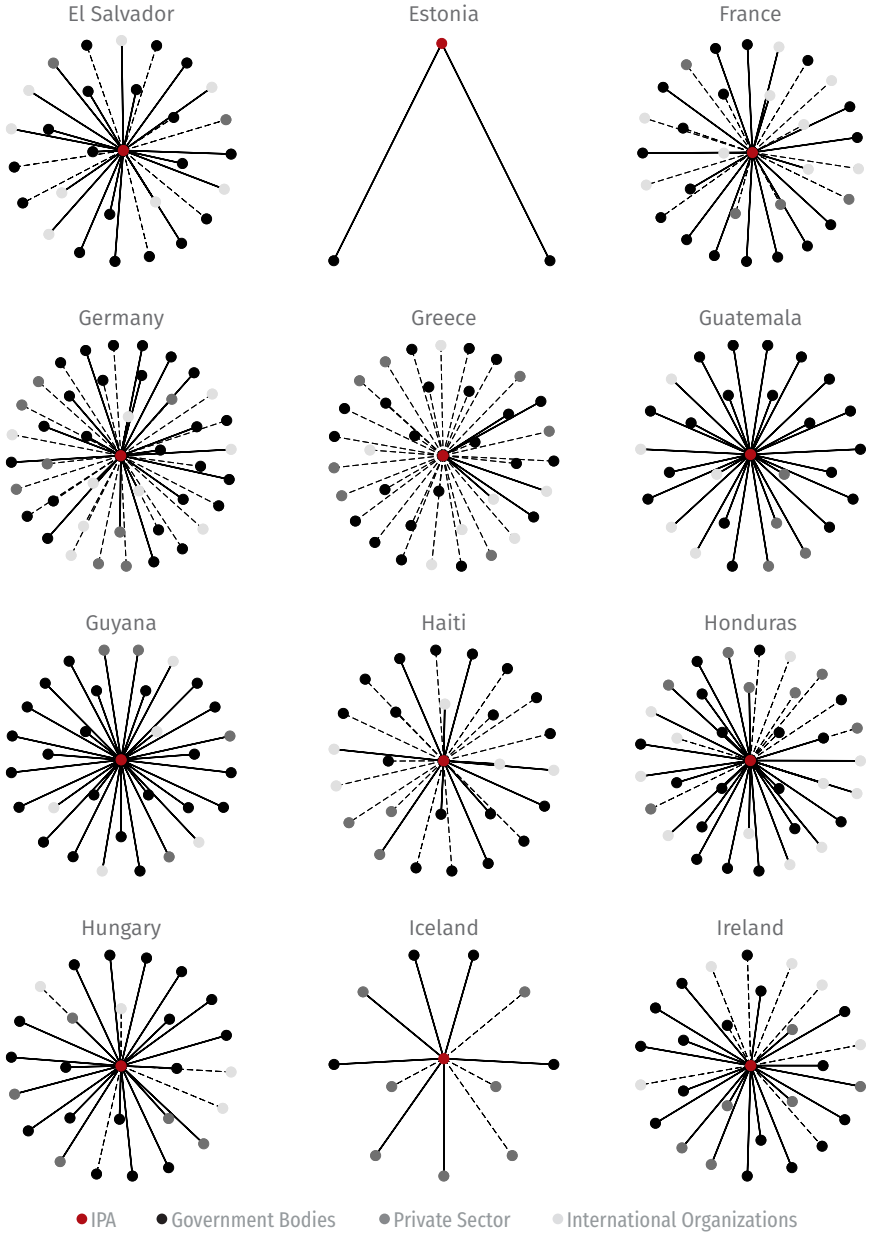

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FIGURE 4.19 INVESTMENT PROMOTION AGENCIES' NETWORKS OF INSTITUTIONAL INTERACTIONS, 2017 *(continued)*

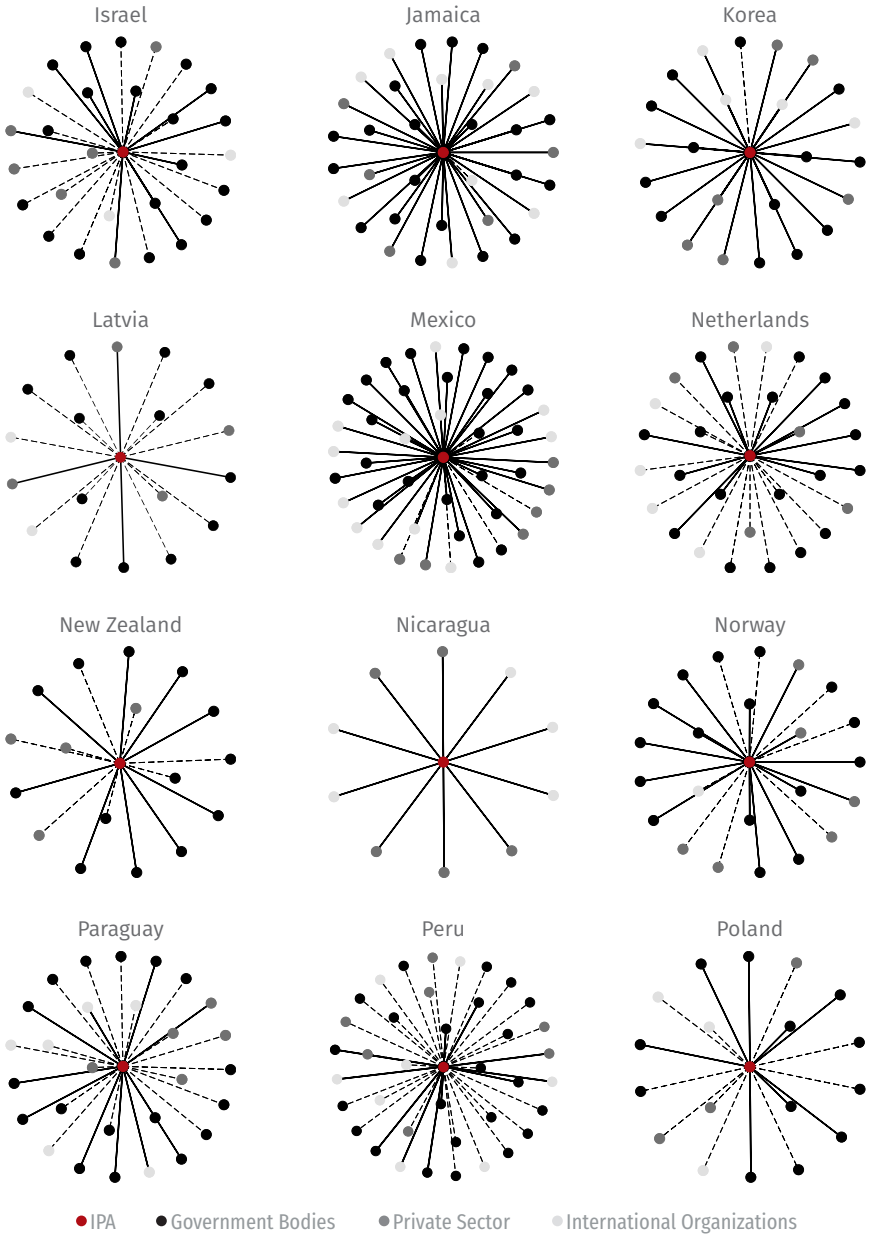

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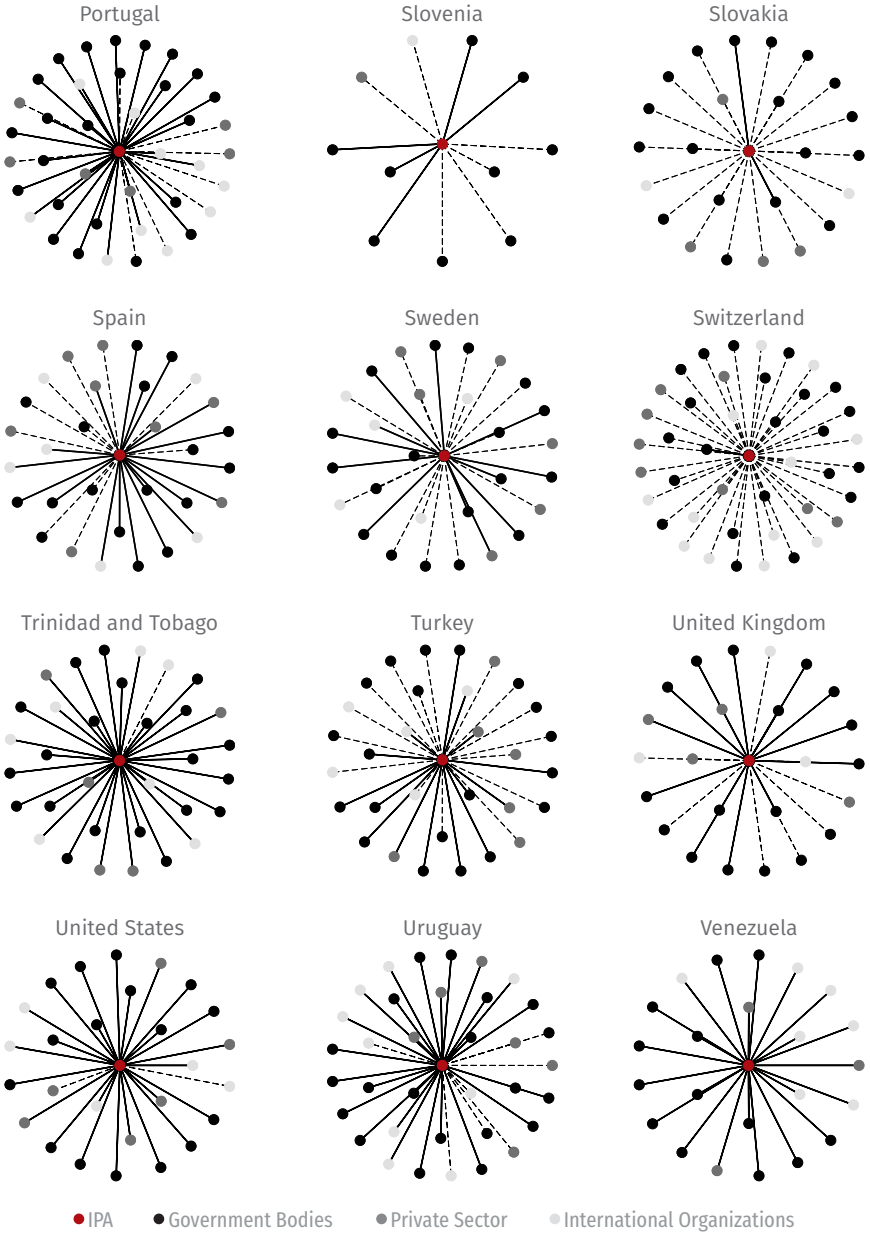
FIGURE 4.19 INVESTMENT PROMOTION AGENCIES' NETWORKS OF INSTITUTIONAL INTERACTIONS, 2017 (*continued*)



Source: Author's calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figures are network graphs that show the patterns of each IPA's interaction (i.e., cooperation and coordination) with different types of entities, distinguishing those identified as strategic partners (solid lines) and those that are not considered strategic partners (dashed lines).

FIGURE 4.20 INVESTMENT PROMOTION AGENCIES' MANDATES AND CHARACTERISTICS AND THEIR INSTITUTIONAL INTERACTION PATTERNS, 2017

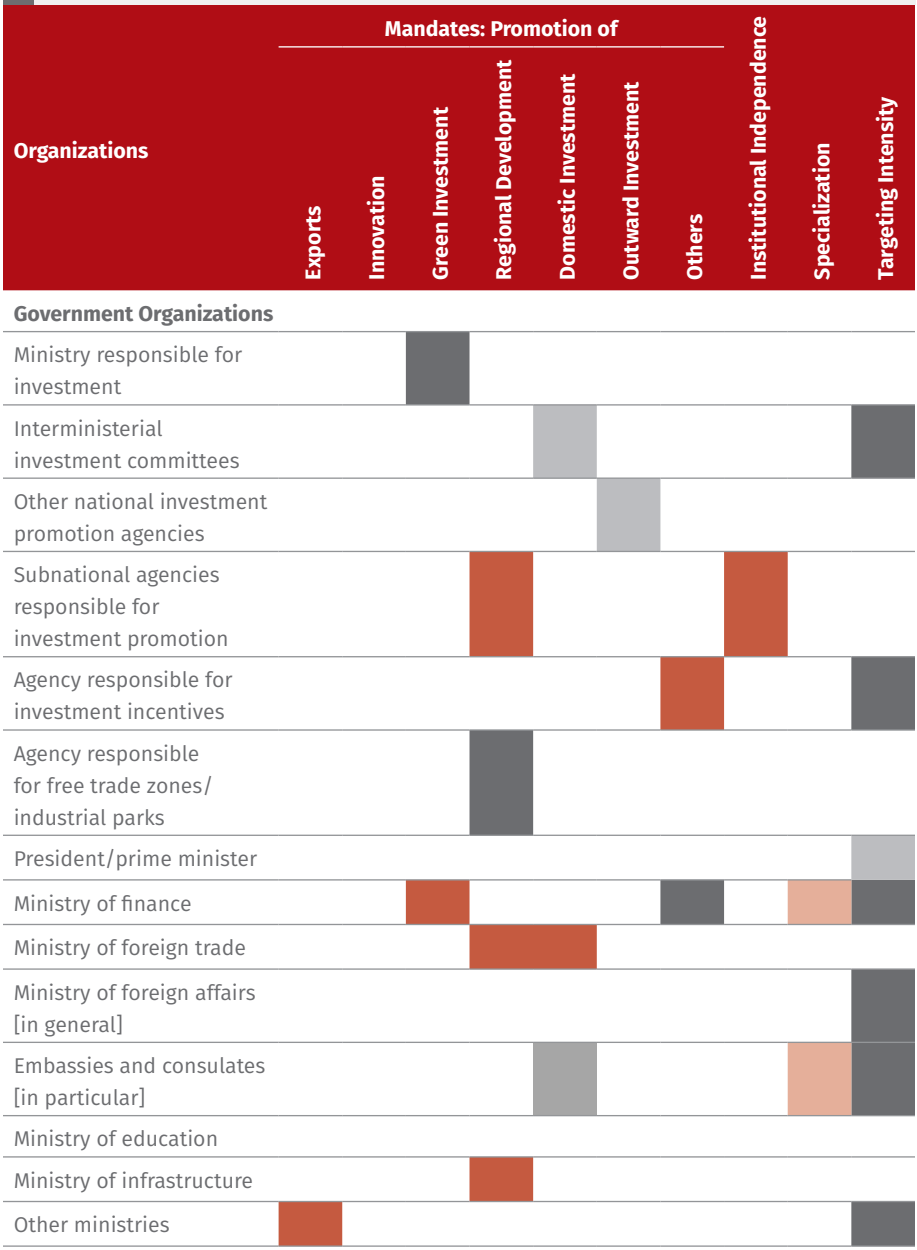


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FIGURE 4.20 INVESTMENT PROMOTION AGENCIES' MANDATES AND CHARACTERISTICS AND THEIR INSTITUTIONAL INTERACTION PATTERNS, 2017 *(continued)*

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FIGURE 4.20 INVESTMENT PROMOTION AGENCIES' MANDATES AND CHARACTERISTICS AND THEIR INSTITUTIONAL INTERACTION PATTERNS, 2017 *(continued)*

Organizations	Mandates: Promotion of							Institutional Independence	Specialization	Targeting Intensity
	Exports	Innovation	Green Investment	Regional Development	Domestic Investment	Outward Investment	Others			
Private Sector, Civil Society, and Academic Organizations										
Industry groups / associations										
Individual private firms (e.g., consulting or legal firms)										
"Influencers" (i.e., important opinion-makers)										
Financial institutions										
Universities										
Other academic or scientific organizations										
NGOs										
Workers' associations										
Others										
International Organizations										
African Development Bank										
Asian Development Bank										
ECLAC										
European Union										
FIAS										
Inter-American Development Bank										
ITC										

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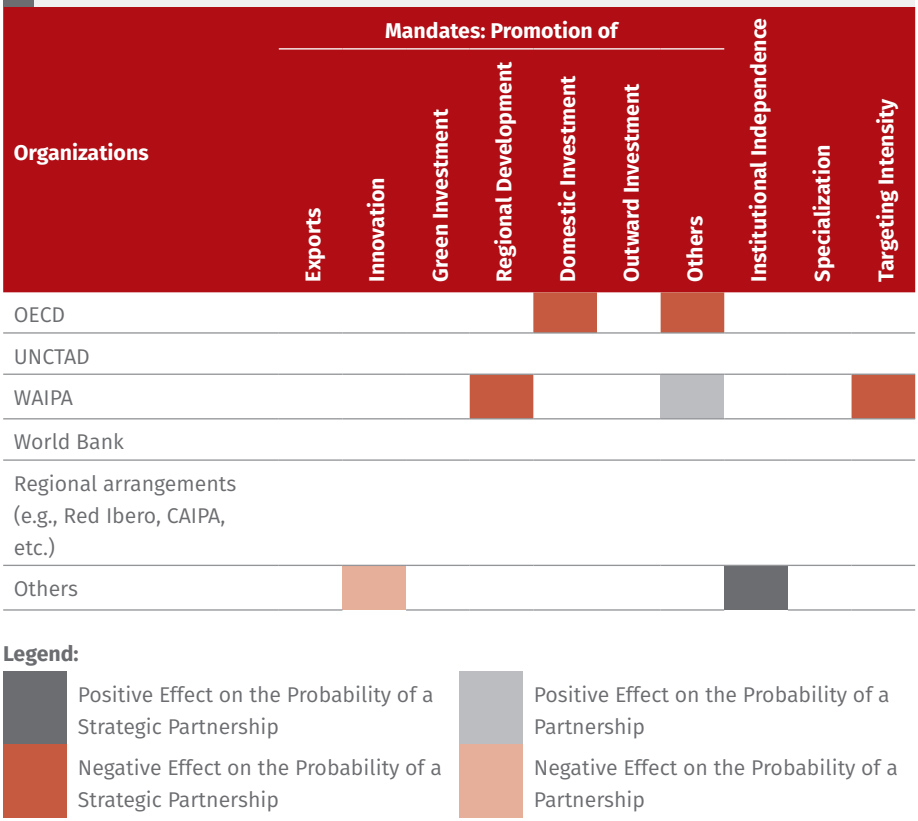
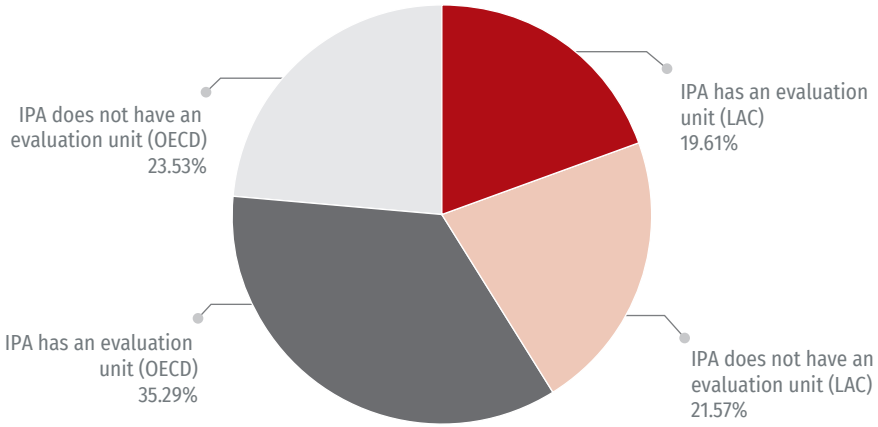
FIGURE 4.20 INVESTMENT PROMOTION AGENCIES' MANDATES AND CHARACTERISTICS AND THEIR INSTITUTIONAL INTERACTION PATTERNS, 2017 *(continued)*



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the sign of the estimated coefficients (dark gray/gray = positive and red/light red=negative) of binary variables for each of the mandates identified in columns 2 to 8 and the institutional independence, specialization, and *targeting intensity index* scores from a linear probability model where the dependent variable is a binary indicator that takes the value of 1 if the entities listed in the first column are a partner/strategic partner (gray or light red/dark gray or red) for the IPA and 0 if they are not. Variables whose estimated effects are nonsignificant at the 10% level are reported as having a zero effect (white).

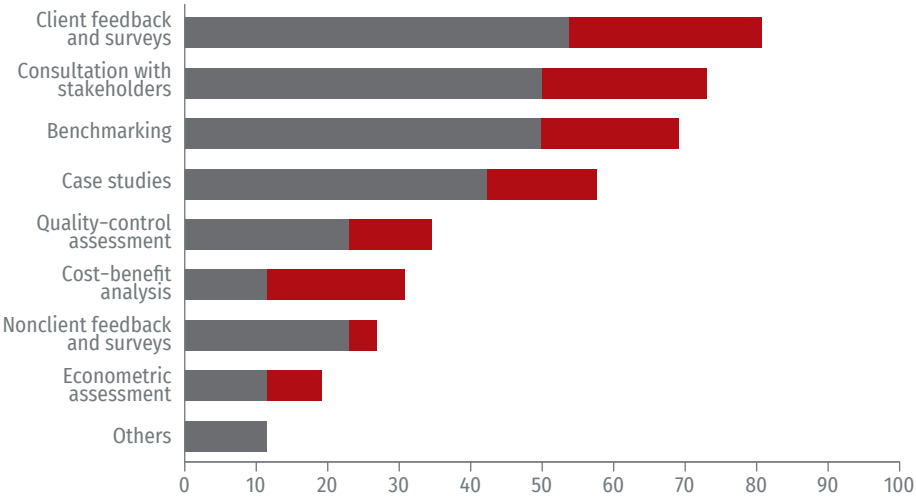
IPAs use different approaches to assess the effectiveness of their interventions, the least common of which are proper impact evaluations in the form of econometric analyses. Most IPAs resort to client satisfaction surveys, consultation with relevant stakeholders, benchmark exercises, and case studies to gauge their performance levels. Assessments based on quality controls and

FIGURE 4.21 PRESENCE OF EVALUATION UNITS AT INVESTMENT PROMOTION AGENCIES, 2017



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the percentage share of IPAs with and without explicit evaluation units. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

FIGURE 4.22 EVALUATION APPROACHES USED BY INVESTMENT PROMOTION AGENCIES, 2017



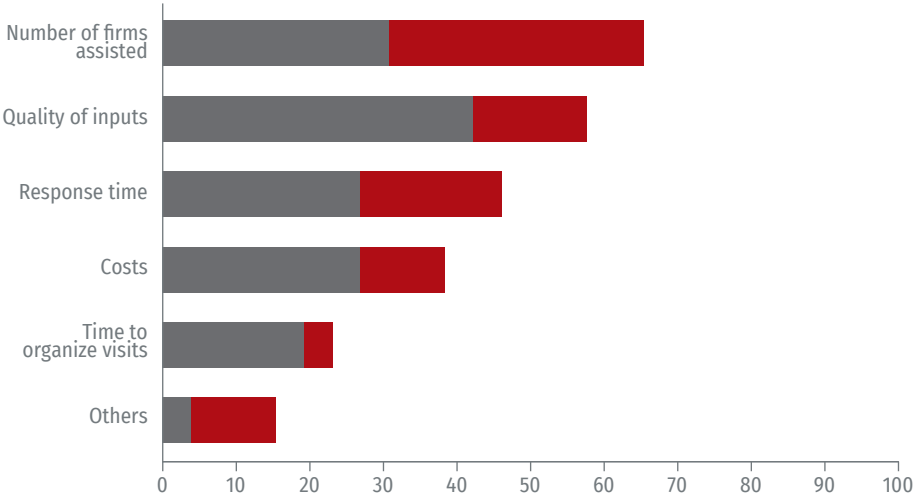
Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the percentage share of IPAs using each evaluation approach. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

cost-benefit analyses are rarer, with the latter being relatively more predominant among LAC IPAs (figure 4.22).

The number of firms assisted is the most common activity indicator used by both LAC and OECD IPAs. Input quality measures are also in widespread use, especially by OECD IPAs. Indicators related to costs and time, such as time to respond to inquiries and organize firms' visits, are used less frequently, particularly among LAC IPAs (figure 4.23).

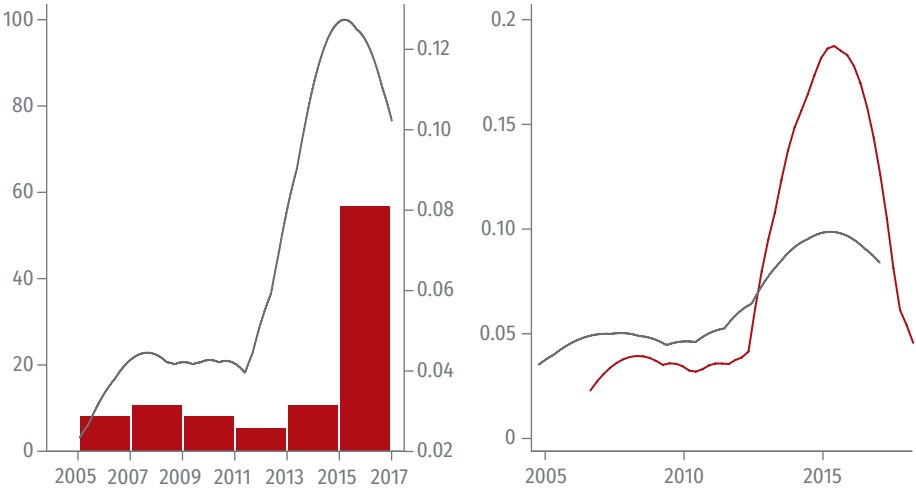
Where does the information on activities come from? It originates in IPAs' CRM systems. Most IPAs (around 80%) have a CRM system that enables them to record detailed data and monitor their activities with the firms they assist. IPAs are constantly upgrading these systems and improving their recording and monitoring capabilities, which is reflected in the fact that the latest version of most IPAs' CRM is only a few years old, particularly in the case of LAC IPAs (figure 4.24).

FIGURE 4.23 ACTIVITY INDICATORS USED BY INVESTMENT PROMOTION AGENCIES, 2017



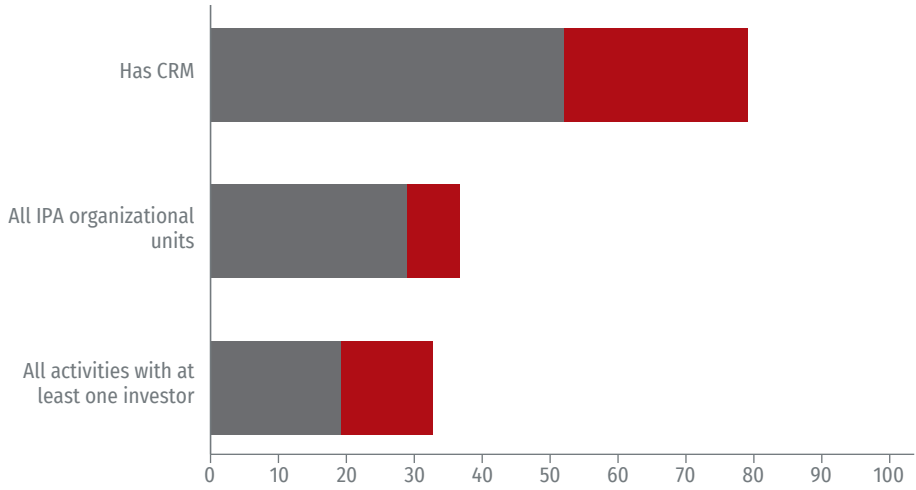
Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the percentage share of IPAs using each activity indicator. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

FIGURE 4.24 YEAR THAT INVESTMENT PROMOTION AGENCIES ADOPTED THEIR CURRENT CRM



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows a histogram and kernel density estimates that show the distribution of the number of IPAs according to the year in which their most recent CRM system was adopted. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray (right panel).

FIGURE 4.25 THE USE AND COVERAGE OF INVESTMENT PROMOTION AGENCIES' CRM SYSTEMS, 2017

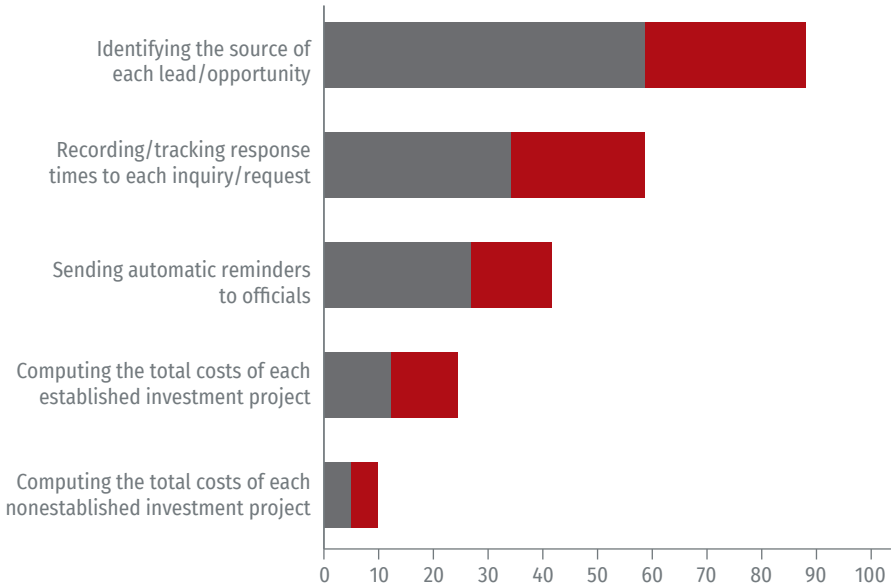


Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the percentage share of IPAs that use CRMs and the extent of the coverage. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

Nevertheless, only a minority of IPAs' CRMs cover all organizational units and even fewer monitor all their activities, and these are primarily observed among OECD IPAs (figure 4.25). Furthermore, while most IPAs' CRMs gather information on the source of each lead or investment opportunity, only a few keep records on the total costs of each established project, with this being proportionally more prevalent among LAC IPAs (figure 4.26). This points to operational challenges related to improving the capacity of CRM systems to allow them to be used as a strategic management and evaluation tool.

How far IPAs monitor and record specific activities for each of the four investment promotion functions varies substantially. The fact that specific investment generation and facilitation and

FIGURE 4.26 FUNCTIONALITIES OF INVESTMENT PROMOTION AGENCIES' CRM SYSTEMS, 2017

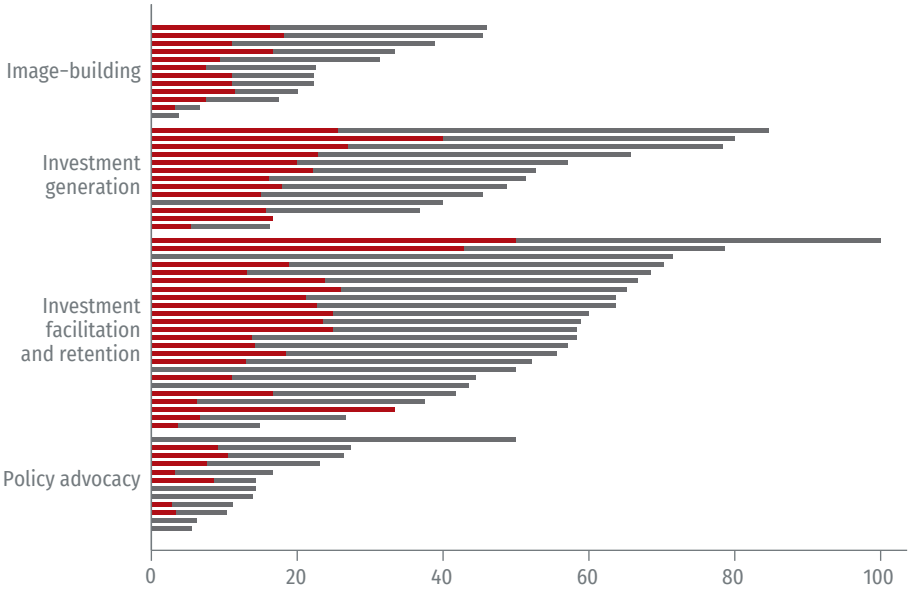


Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the percentage share of IPAs whose CRMs have each functionality. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

retention activities are better and more accurately tracked in IPAs' CRMs than specific activities that aim to build a national image and advocate for appropriate investment policies is consistent with the former being core functions in terms of budget and personnel allocation. The median coverage for these activities across IPAs is above 50% for investment generation and investment facilitation and retention, whereas the coverage for image-building and policy advocacy is 22.4% and 13.9%, respectively. Admittedly, these activities can be harder to track because some of them are not firm-specific and generally need to be completed with the support of and in coordination with several partner entities (figure 4.27).

IPAs have different evaluation capabilities, which are determined by the resources they explicitly assign to carry out assessments, the

FIGURE 4.27 INVESTMENT PROMOTION ACTIVITIES TRACKED IN INVESTMENT PROMOTION AGENCIES' CRM SYSTEMS, 2017



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the percentage share of IPAs that track each specific investment promotion activity in their CRMs. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

BOX 4.5: ***IPA EVALUATION INDEX (EI)***

To evaluate interventions properly, IPAs must allocate dedicated resources to this, gather comprehensive and accurate data on the specific activities involved in these interventions and the respective beneficiaries, and implement sound empirical approaches to establish whether and how these activities contribute to the desired outcomes, among other factors. The *evaluation index* combines these aspects formally thus:

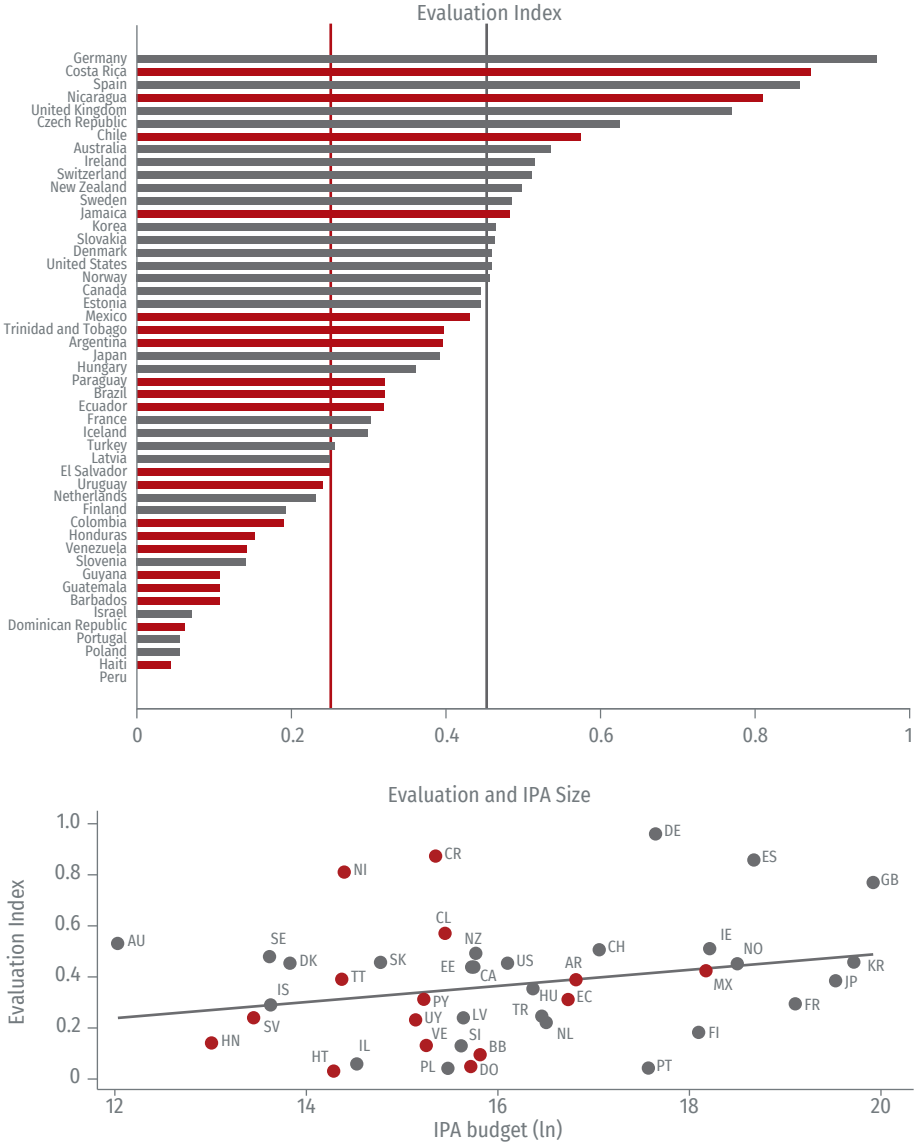
$$EI = \left(\frac{1}{4}\right)\left(EU + ECONOMETRIC + \frac{EM}{EM^{Max}} + \frac{NA^{CRM}}{NA^{Total}}\right)$$

where *EU* is a binary indicator that takes the value of 1 if the IPA has a dedicated evaluation unit and 0 otherwise, *ECONOMETRIC* is a binary indicator that takes the value of 1 if the IPA uses econometric methods for evaluation purposes and 0 otherwise, *EM* is the number of noneconometric evaluation methods used by the IPA, EM^{Max} is the maximum number of noneconometric evaluation methods that could be used by the IPA (as identified in the survey), *NA* is the number of investment promotion activities covered by the IPA's CRM, *NATotal* is the number of investment promotion activities carried out by the IPA. The index thus varies from 0 (least engaged in evaluation activities) to 1 (most engaged in evaluation activities).

type and range of methods they apply for this purpose, and the data they gather to feed into these respective exercises (box 4.5 and figure 4.28). In general, OECD IPAs are better prepared to carry out more sophisticated evaluations than their LAC counterparts. This is particularly the case with the IPAs of Germany, Spain, United Kingdom, Czech Republic, Australia, and Ireland. Among LAC countries, Costa Rica's IPA is one of the world's leading cases of the use of evaluations. Nicaragua and Chile also exhibit strengths in this area. In contrast, evaluation is an area for improvement for Barbados, Dominican Republic, Guatemala, Guyana, and Haiti in LAC and for Poland and Portugal among the OECD countries.

The number of investment projects, the total value of FDI, the number of investors, and the number of jobs associated with assisted investments are the IPAs' most broadly used outcome

FIGURE 4.28 ***INVESTMENT PROMOTION AGENCIES' EVALUATION INDEX AND SIZE, 2016***

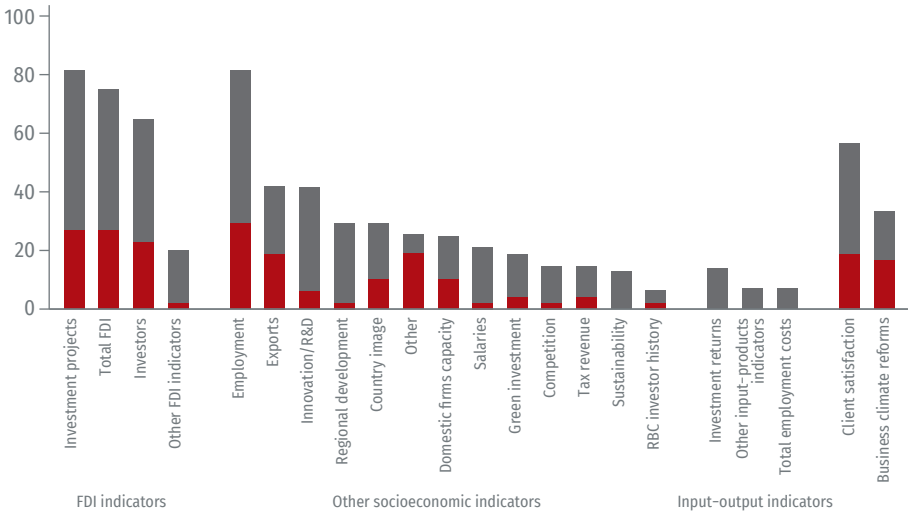


Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure in the top panel presents the *evaluation index* for each IPA for which it could be computed based on reported data on relevant variables along with regional medians. The *evaluation index* is a simple average of a binary indicator capturing the existence of an *evaluation index*, a binary indicator capturing the use of econometric approaches, the share of other evaluation methods, and the share of investment promotion activities covered by the IPA's CRM. The figure in the lower panel shows the relationship between such an index and the (natural logarithm of) IPAs' size as proxied by their budget (x-axis). The horizontal lines represent the regional medians. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

indicators. Export-, innovation-, and regional development-related variables are significantly less tracked. This holds even more true for other socioeconomic indicators such as wages, sustainability, and RBC, and input-outcome indicators such as returns on investment and cost per job. These indicators are virtually absent in LAC IPAs (figure 4.29).

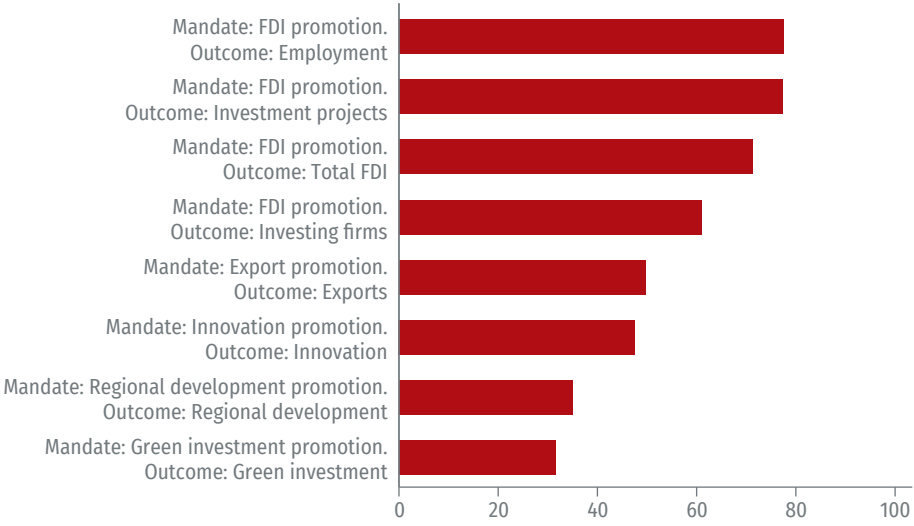
Outcome indicators used by IPAs are not always aligned with the functions that agencies perform according to their respective official mandates. Thus, only about three-quarters of the IPAs track investment indicators (i.e., total FDI value and number of investment projects). This percentage share is similar to that of the IPAs that track employment indicators. The alignment is even weaker for other mandates. For instance, only roughly half of the IPAs tasked with export and innovation promotion monitor variables related to these outcomes and only one-third of the IPAs responsible for promoting green investment and regional development do so with

FIGURE 4.29 OUTCOME INDICATORS USED BY INVESTMENT PROMOTION AGENCIES, 2017



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the percentage share of IPAs using each outcome indicator. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

FIGURE 4.30 INVESTMENT PROMOTION AGENCIES' MANDATES AND OUTCOME INDICATORS, 2017

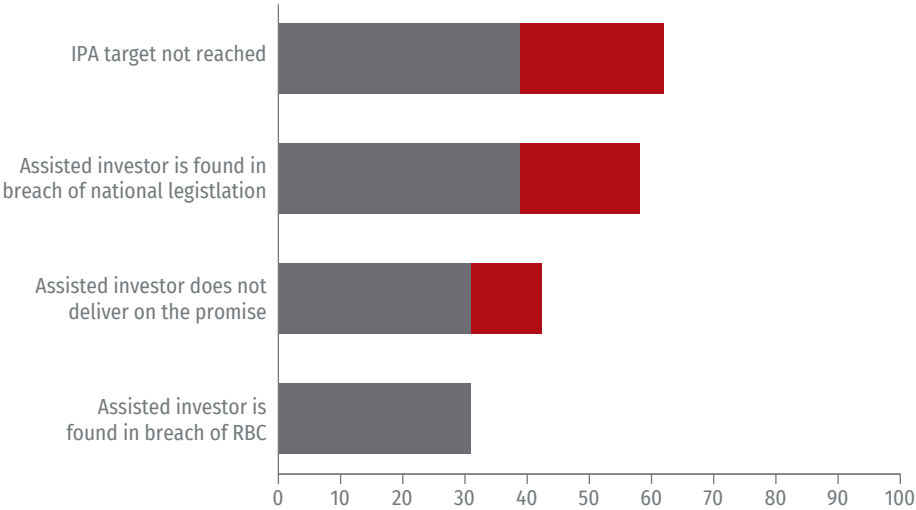


Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the percentage share of IPAs with a given mandate using the specific outcome indicator.

indicators referred to these outcomes (figure 4.30). This suggests that there may be scope for better aligning IPAs' strategic focuses and targeting approaches with everyday monitoring and evaluation efforts to help measure their impact more effectively.

IPAs take action in specific situations based on monitoring and evaluation results. This is particularly the case when the IPA's target was not reached and when the assisted investor is found to be in breach of national legislation (more than 60% of IPAs). Interestingly, less than half of IPAs react when an investor does not deliver on their promise, and those that do are primarily from OECD countries. Finally, even more noteworthy is the fact that only OECD IPAs take action when the investor is found to be in breach of RBC codes (figure 4.31), despite the reported focus of LAC IPAs on investors' RBC records in their targeting efforts and mandates, as explained in section 3.1.

FIGURE 4.31 SITUATIONS IN WHICH INVESTMENT PROMOTION AGENCIES TAKE ACTION, 2017



Source: Authors' calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the percentage share of IPAs that take action in each specific situation. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

The IPAs that take action in these specific situations have well-defined characteristics. Those with larger budgets and that are more independent and specialize more are more likely to take action in the specific situations in question, once their countries' size and level of development are controlled for. More generally, as will be discussed in chapter 5, the various IPA characteristics described in the preceding sections are associated with various outcomes, including the overall effectiveness of FDI attraction initiatives.

DO INVESTMENT PROMOTION AGENCIES MAKE A DIFFERENCE

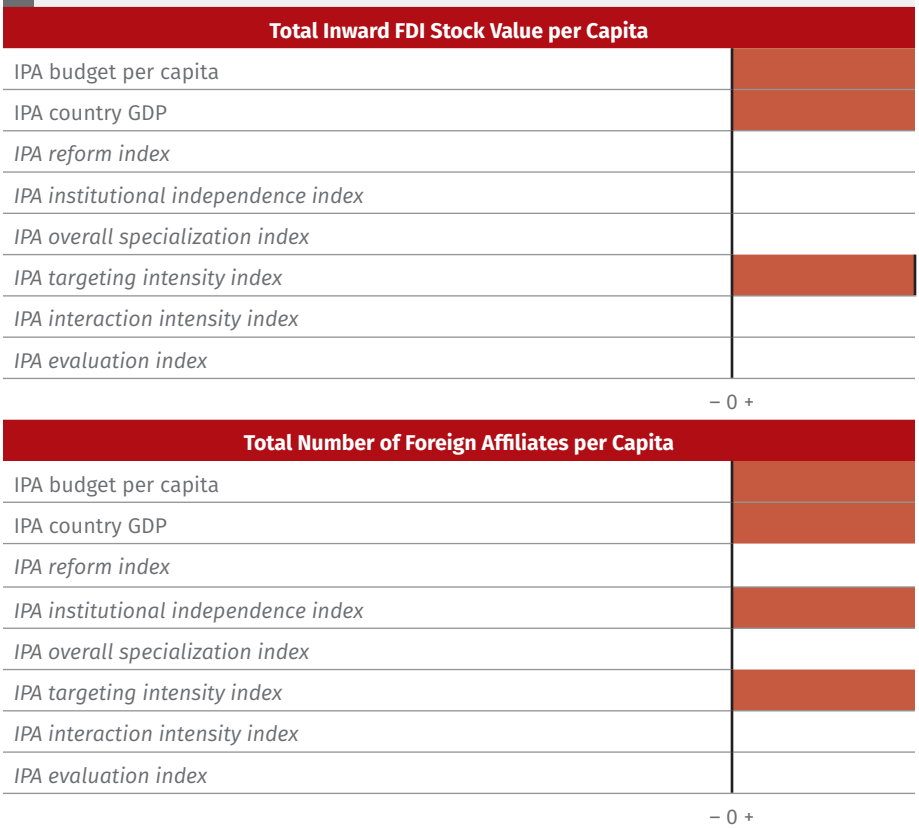
5

THE SHORT ANSWER IS YES. ALL THE SAME, IPAS' RELATIVE SIZE AND SPECIFIC STRATEGIES SEEM TO MATTER FOR THE EFFECTS OF THEIR INTERVENTIONS. Controlling for their countries' size (as proxied by the GDP), there is a positive relationship between IPAs' budgets (per capita) and targeting intensity and inward FDI, in terms of both total stock value (per capita) (*intensive margin*) and the total number of affiliates of multinational firms that establish operations in the country (per capita) (*extensive margin*) (figure 5.1). Institutional independence has some influence on the extensive margin.

The overseas offices of IPAs also appear to make a difference to their impacts. After controlling for the characteristics of FDI host and home economies, standard bilateral geographical factors such as distance and contiguity and economic agreements (i.e., preferential trade, investment, and taxation agreements) between the economies in question, operating an office in a country is associated with larger inward FDI stock values and larger numbers of affiliates of multinational firms from that country (figure 5.2).

Opening an overseas office seems to play a major role in creating new investment links between pairs of countries, especially in diversifying existing links along the firm dimension when combined with economic integration agreements. To be precise, netting out the influence of all factors specific to a given pair of countries that do not vary over time (i.e., distance, contiguity, colonial ties, com-

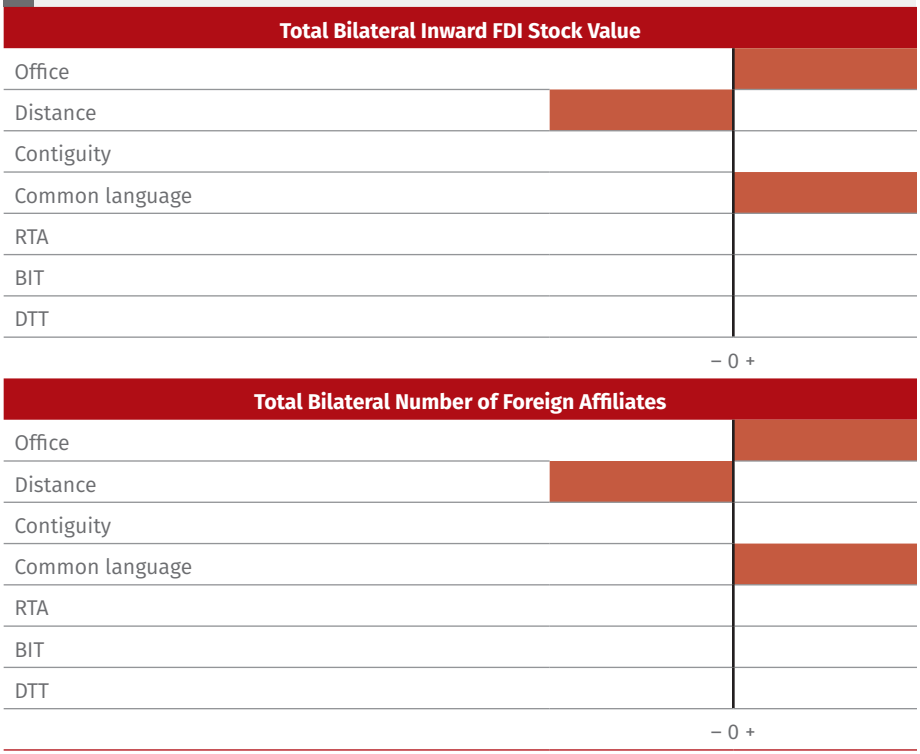
FIGURE 5.1 INVESTMENT PROMOTION AGENCIES' BUDGETS AND CHARACTERISTICS AND FDI OUTCOMES



Source: Author's calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017), UNCTAD, Dun and Bradstreet's Worldbase, and the World Bank's World Development Indicators.
Note: The figure presents the sign of the estimated effects of country-level and investment promotion agency-specific factors on (the natural logarithm of) the respective country's total value of inward FDI stock per capita and (the natural logarithm of) the total number of affiliates of foreign multinational firms established in the country per capita as estimated with OLS. FDI data corresponds to the last available year. Investment promotion agency-specific factors include the IPA's budget per capita, a binary indicator that takes the value of 1 if the agency's *reform index* score is above the median across agencies and 0 otherwise, a binary indicator that takes the value of 1 if the agency's *institutional independence index* score is above the median across agencies and 0 otherwise, a binary indicator that takes the value of 1 if the agency's *overall specialization index* score is above the median across agencies and 0 otherwise, a binary indicator that takes the value of 1 if the agency's *targeting intensity index* score is above the median across agencies and 0 otherwise, and a binary indicator that takes the value of 1 if the total number of entities the agency interacts with is above the median across agencies and 0 otherwise, a binary indicator that takes the value of 1 if the agency's *evaluation index* score is above the median across agencies and 0 otherwise. Factors whose estimated effects are nonsignificant at the 10% level are reported as having a zero effect.

mon language, etc.) and all time-variable factors pertaining to the investment host and home countries (e.g., size, level of development, real exchange rate, etc.) and to the respective IPAs (e.g., budget, num-

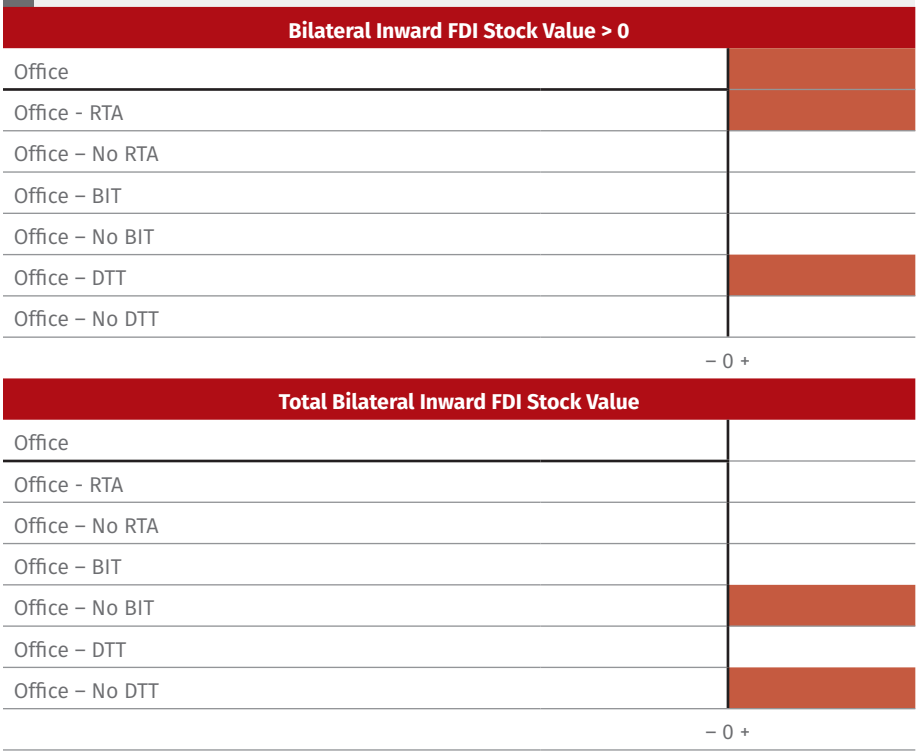
FIGURE 5.2 INVESTMENT PROMOTION AGENCIES' OVERSEAS OFFICES AND FDI OUTCOMES



Source: Author's calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017), UNCTAD, Dun and Bradstreet's Worldbase, CEPII, World Bank's World Development Indicators, Baier et al. (2014), Kohl et al. (2016), and OECD Global Forum on Transparency and Exchange of Information for Tax Purposes.
Note: The figure shows the sign of the estimated effects of country-pair factors on (the natural logarithm of) the total value of inward FDI stock from the home country into the host country and (the natural logarithm of) the total number of affiliates of multinational firms from the home country that have established operations in the host country, as estimated with OLS. FDI data is for the last available year. Bilateral factors include a binary indicator that takes the value of 1 if the host country's agency has an office in the home country and 0 otherwise, (the natural logarithm of) the distance between the home and host countries, a binary indicator that takes the value of 1 if the host and the home country share a common border, a binary indicator that takes the value of 1 if the host and the home country share the same language, a binary indicator that takes the value of 1 if the host and the home country have a trade agreement (RTA), a binary indicator that takes the value of 1 if the host and the home country have an investment agreement (BIT), and a binary indicator that takes the value of 1 if the host and the home country have a double taxation treaty (DTT). Countries' and IPAs' specific characteristics are accounted for by host-country and home-country fixed effects. Factors whose estimated effects are nonsignificant at the 10% level are reported as having a zero effect.

ber of employees, overall size of overseas offices, number of promotion activities and how they are executed, etc.), opening an overseas office increases the probability of firms from the country in question investing in the IPA country (*country-pair extensive margin*), especially when these countries are connected by RTAs or DTTs.

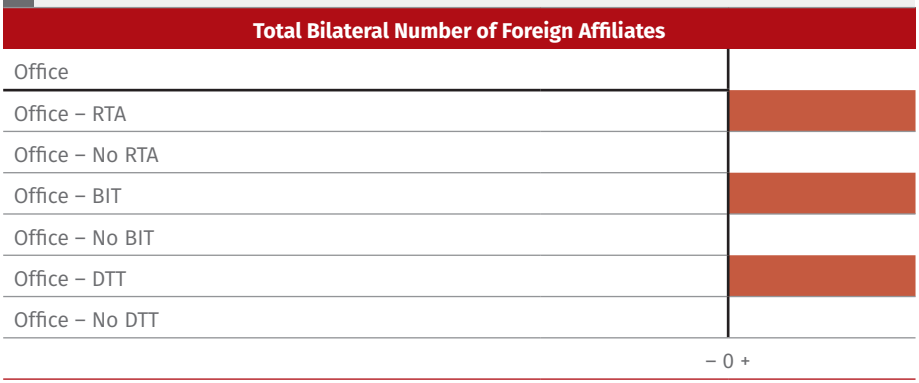
FIGURE 5.3 OPENING OF INVESTMENT PROMOTION AGENCIES' OVERSEAS OFFICES AND FDI OUTCOMES, 2000–2016



(*continued on next page*)

The same positive relationship is observed between the total number of affiliates of the home country in the host country (*firm extensive margin*) and establishing an IPA office along with there being an RTA, a BIT, or a DTT. In contrast, opening an IPA office only leads to larger inward FDI stock values (*intensive margin*) among country pairs with no BIT or DTT. In short, opening overseas IPA offices complements RTAs, BITs, and DTTs in generating new investment ties either at the country-pair level or in terms of firms operating across the bilateral border, whereas these offices seem to act as a substitute for these agreements when it comes to increasing existing investments (figure 5.3) (see box 5.1 on the interplay between the opening of overseas offices and sector prioritization).

FIGURE 5.3 OPENING OF INVESTMENT PROMOTION AGENCIES' OVERSEAS OFFICES AND FDI OUTCOMES, 2000–2016 *(continued)*



Source: Author's calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017), UNCTAD, Dun and Bradstreet's Worldbase, Baier et al. (2014), Kohl et al. (2016), and OECD Global Forum on Transparency and Exchange of Information for Tax Purposes.
Note: The figure shows the sign of the estimated effects of time-variable policy–country pair factors on a binary indicator that takes the value of 1 if the home country invests in the host country and 0 otherwise, (the natural logarithm of) the total value of inward FDI stock from the home country into the host country and (the natural logarithm of) the total number of affiliates of multinational firms from the home country that have established operations in the host country in the year in question, as estimated separately with OLS over the period 2000–2016. Only those countries whose IPAs reported the establishment of overseas offices were included. Bilateral policy factors include a binary indicator that takes the value of 1 if the host country's agency has an office in the home country in the year in question and 0 otherwise, a binary indicator that takes the value of 1 if the host and the home country have a trade agreement (RTA), a binary indicator that takes the value of 1 if the host and the home country have an investment agreement (BIT), and a binary indicator that takes the value of 1 if the host and the home country have a DTT, and the pairwise combinations of offices and economic integration agreements. Time-invariant country-pair specific factors and countries' and IPAs' time-variable specific characteristics are accounted for by host country–home country fixed effects and host country–year and home country–year fixed effects, respectively. Factors whose estimated effects are nonsignificant at the 10% level are reported as having a zero effect.

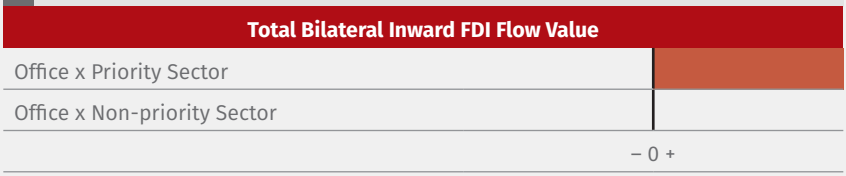
These insights point to potentially relevant interactions between different IPA characteristics as well as the overall policy environment in which they operate. The conditional correlations presented here connecting the various IPA features described throughout this report and summarized in the various indices, suggest that **interesting additional insights could be gained from further analytical explorations of the link between IPAs' features and services and FDI outcomes—including through undertaking IPA-specific impact evaluation studies (see box 5.2).**[12]

[12] This box is based on Volpe Martincus (2019).

BOX 5.1: ARE THERE SYNERGIES BETWEEN DE FACTO AND FORMAL TARGETING? OVERSEAS OFFICES AND SECTORAL PRIORITIZATION

Since IPAs' coverage of potential investing countries is far from perfect, the location of newly opened overseas offices could be seen as a de facto measure of their evolving country prioritization. As was seen above, IPAs also explicitly prioritize specific sectors, the list of which is also gradually adjusted over time. The question arises of whether and how these time-variable de facto country and formal sector prioritizations interact in determining inward FDI outcomes. Mexico's experience suggests that they do. In particular, controlling for all systematic differences across home country–sector pairs (e.g., certain origin countries tend to invest more in certain sectors abroad, etc.) and all home country and sector factors changing over time (e.g., countries' size or level of development and prevalent sectoral business strategies, etc.), opening an overseas offices is associated with increased inward FDI flows from the respective country in targeted sectors but not in nontargeted sectors (figure 5.4).

FIGURE 5.4 OPENING OF INVESTMENT PROMOTION AGENCIES' OVERSEAS OFFICES, SECTORAL PRIORITIZATION, AND INWARD FDI FLOWS, MEXICO, 2000–2016

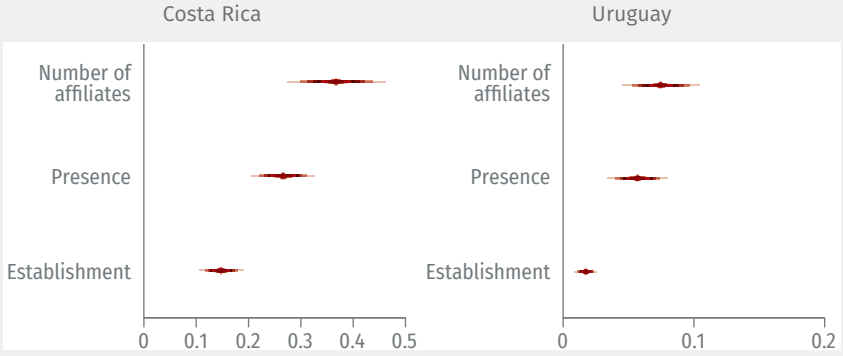


Source: Author's calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017), PROMEXICO, and Banco Central de México.
Note: The figure shows the sign of the estimated effects of overseas offices on inward FDI flows at the home country–sector–year level depending on whether the sectors are not prioritized by the IPA in the year in question or not. The main explanatory variables are an interaction term between a binary indicator that takes the value of 1 if the host country's agency has an office in the home country in the year in question and 0 otherwise and a binary indicator that takes the value of 1 if the host country's agency prioritizes the sector in the year in question and 0 otherwise and an interaction term between a binary indicator that takes the value of 1 if the host country's agency has an office in the home country in the year in question and 0 otherwise and a binary indicator that takes the value of 1 if the host country's agency does not prioritize the sector in the year in question and 0 otherwise. *Time-invariant* home country–sector-specific factors and home countries' and sectors' time-variable specific characteristics are accounted for by home country–sector fixed effects and home country–year and sector–year fixed effects, respectively. Factors whose estimated effects are nonsignificant at the 10% level are reported as having a zero effect.

BOX 5.2: THE IMPACT OF INVESTMENT PROMOTION: EVIDENCE FROM FIRM-LEVEL DATA

While there are almost two dozen studies using microdata to assess the effectiveness of countries' export promotion programs, a large number of which examine Latin American countries (e.g., van Biesebroeck et al., 2016), micro-econometric evidence on the impact of investment promotion assistance on multinational firms' location decisions was virtually absent until recently. A new IDB study focusing on Costa Rica and Uruguay presents evidence in this regard for the first time. The study reveals that investment promotion has been effective in attracting affiliates of these firms. In particular, firms supported by the respective national IPAs, CINDE and URUGUAY XXI, have been found to be more likely to establish and operate offices in these countries and to expand their activities—i.e., increase their number of affiliates—there (figure 5.5). These effects are generally stronger for investments from developed home countries, which predictably face high information barriers when investing in the region (Volpe Martincus et al., 2019).

FIGURE 5.5 THE IMPACT OF INVESTMENT PROMOTION ON FIRMS' LOCATION DECISIONS, COSTA RICA AND URUGUAY, 2000–2016



Source: Authors' calculations based on Volpe Martincus et al. (2019).
The figures present the estimated impact of investment promotion assistance on the probability of a multinational firm establishing operations in the country, the probability of a multinational firm being present in the country, and on the number of its affiliates in the country. A detailed explanation of the databases and the econometric strategies used can be found in Volpe Martincus et al. (2019).

6

CONCLUDING REMARKS

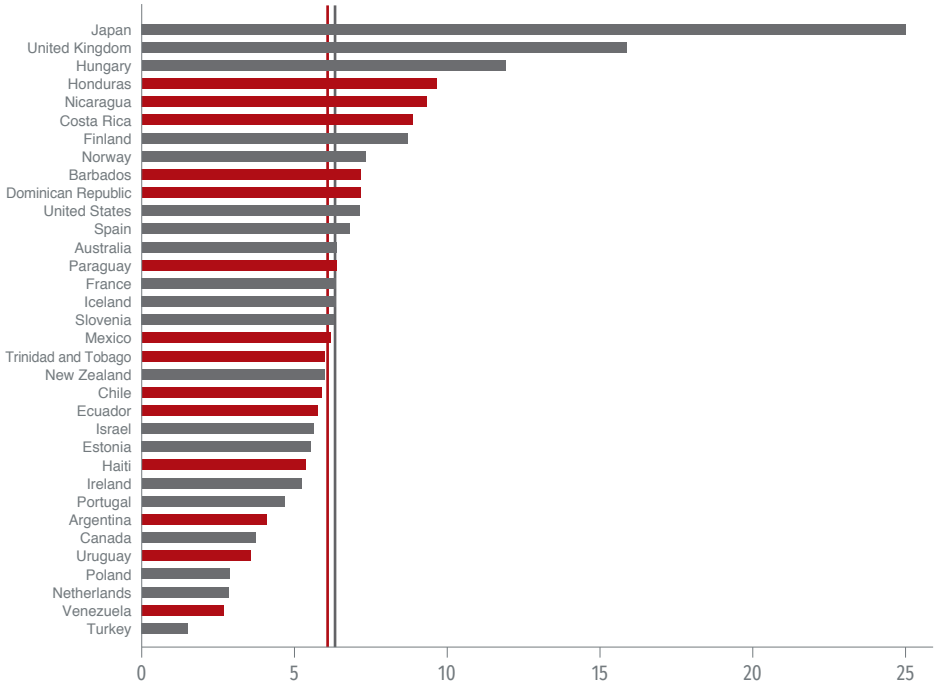
As has been seen in this report, the landscape of investment promotion is complex—no one size fits all. With time, IPAs have adapted to the specific economic and sociopolitical contexts of their countries, be it by choice or by obligation. Some have opted for greater independence from the government, at times actively reducing their sources of public financing or increasing the role of their board of directors to achieve certain objectives. Others have remained dependent on, or have become part of, the government. Today, different IPAs are organized in different ways and have a diverse set of mandates and activities that they perform. They also target investment, coordinate with other entities, and evaluate their activities to a varying extent.

The report has presented various novel indices—ranging from institutional independence to evaluation depth—summarizing the different organizational and operational characteristics of the IPAs. The purpose of this exercise was not just to meaningfully capture and describe the breadth of approaches to investment promotion, but also to provide a benchmarking exercise that can serve as a basis for reflection and provide operational guidance for IPAs. To answer the question "How is my agency faring vis-à-vis its peers?", the various indices developed in this study have been aggregated into the *Overall IPA Benchmarking Index,* which captures the various dimensions of IPAs presented earlier (box 6.1). The index measures

how similar (or different) agencies are to an average "benchmark" IPA. A high score means a high level of dissimilarity, while a low score means being close to the average. As such, the index provides agencies with a judgment-neutral diagnostic of the degree of differentiation (positive or negative) from their peers.

Agencies clearly differ in how far they are from the average IPA (figure 6.1). For example, Honduras, Nicaragua, and Costa Rica are the LAC countries that are furthest from the average IPA, while among the OECD countries this is the case for the Japan and United Kingdom. Meanwhile, Uruguay, El Salvador,

FIGURE 6.1 ***OVERALL BENCHMARKING INDEX OF INVESTMENT PROMOTION AGENCIES*, 2016**



Source: Author's calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows the *overall IPA Benchmarking Index* computed as a Mahalanobis distance taking into account all indices presented in the study. See box 6.1 for more information on the calculation. The vertical lines represent the regional medians. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

BOX 6.1: HOW DIFFERENT ARE YOU FROM YOUR PEERS? THE *OVERALL BENCHMARKING INDEX (OBI)*

"How different (or similar) is my agency to other IPAs?" This is the question that may prompt IPA experts to reach for this study. In an attempt to respond, this report has described and compared the various features of different IPAs, including their propensity to implement reforms, overall size, institutional independence, functional specialization, the intensity of their targeting and interactions, and the sophistication of their monitoring and evaluation initiatives, as captured by different indices presented in this study. All the same, agencies may wish to know how they compare *on aggregate*?

To answer this question, an IPA *Overall Benchmarking Index* was developed for the purpose of this study. It is based on an existing statistical measure of divergence between groups in terms of multiple characteristics, the so-called Mahalanobis distance[a]. In this case, these characteristics are the different indices presented throughout the report, and the measure allows all the agencies included to be compared to an average IPA.

The Mahalanobis distance captures the deviation, or distance, of a given observation on a number of relevant characteristics from the data center, and hence allows similarities and differences pertaining to several dimensions to be identified. The mathematical definition is given by the following formula:

$$\Delta^2 = \left(x - \overline{x}\right) S^{-1} \left(x - \overline{x}\right)$$

where x is a vector consisting of the multivariate measurement for an observation (i.e., the various indices), is the mean of the sample; and S is the variance–covariance matrix of the sample. A higher score implies a higher distance from the average and hence a higher degree of dissimilarity from the average IPA in the sample. Using this measure provides an elegant summary of differences across individual agencies without judging the relative merits of any of the approaches.

[a] Mahalanobis (1936) proposed this measure to gauge "likeness" across groups across several dimensions. Since then it has played a fundamental role in statistics and data analysis when multiple measurements are involved. It has become an important piece in statisticians' repertoires and has found applications in many fields, from archaeology to medical diagnosis to remote sensing, where classification, numerical taxonomy, and statistical pattern recognition problems are encountered (McLachlan, 1999).

and Venezuela are the LAC countries whose agencies most closely resemble the average IPA observed in the sample, while the Netherlands, Poland, and Turkey fall into this group among OECD countries.

The level of this aggregate heterogeneity can be traced back to differences of varying extent along alternative numbers of relevant dimensions, which shed light on aspects that may require further attention and thus provide the IPA management and respective governments with synthetic policy guidance. The individual IPA scorecards presented in figure 6.2 provide visual summaries that break down the individual factors that differentiate each agency from its LAC and OECD peers, thus clearly illustrating the distance from the benchmark IPA. It is worth mentioning that LAC IPAs score systematically below OECD on nearly all dimensions except institutional independence and interaction intensity. In particular, in LAC, Costa Rica clearly scores higher on evaluation, independence, and specialization. Chile also scores relatively well on evaluation efforts, specialization, and interaction (but relatively low on targeting and size). In contrast, evaluation is an area in which Barbados, Dominican Republic, and Guatemala all score relatively poorly. The same holds for Honduras and Venezuela across various dimensions. Among the OECD IPAs, United Kingdom scores above the average on size (as do Australia, France, Korea, and Japan), evaluation, targeting, and number of reforms. Ireland also scores above the average on multiple dimensions, including targeting, independence, interaction, size, and evaluation. Germany does likewise on evaluation and interaction. Unlike these agencies, those of Poland, Portugal, and Greece fare relatively badly at evaluation. Several smaller OECD agencies tend to specialize intensely, such as Hungary, Iceland, the Netherlands, Norway, Sweden, and the USA. The below- and above-average scores do not necessarily mean that the agency in question is under- or over-performing—instead, they point to statistical differences across agencies that may allow policymakers to reflect on underlying drivers and decide on possible lines of action.

FIGURE 6.2 INDIVIDUAL INVESTMENT PROMOTION AGENCIES' SCORECARDS

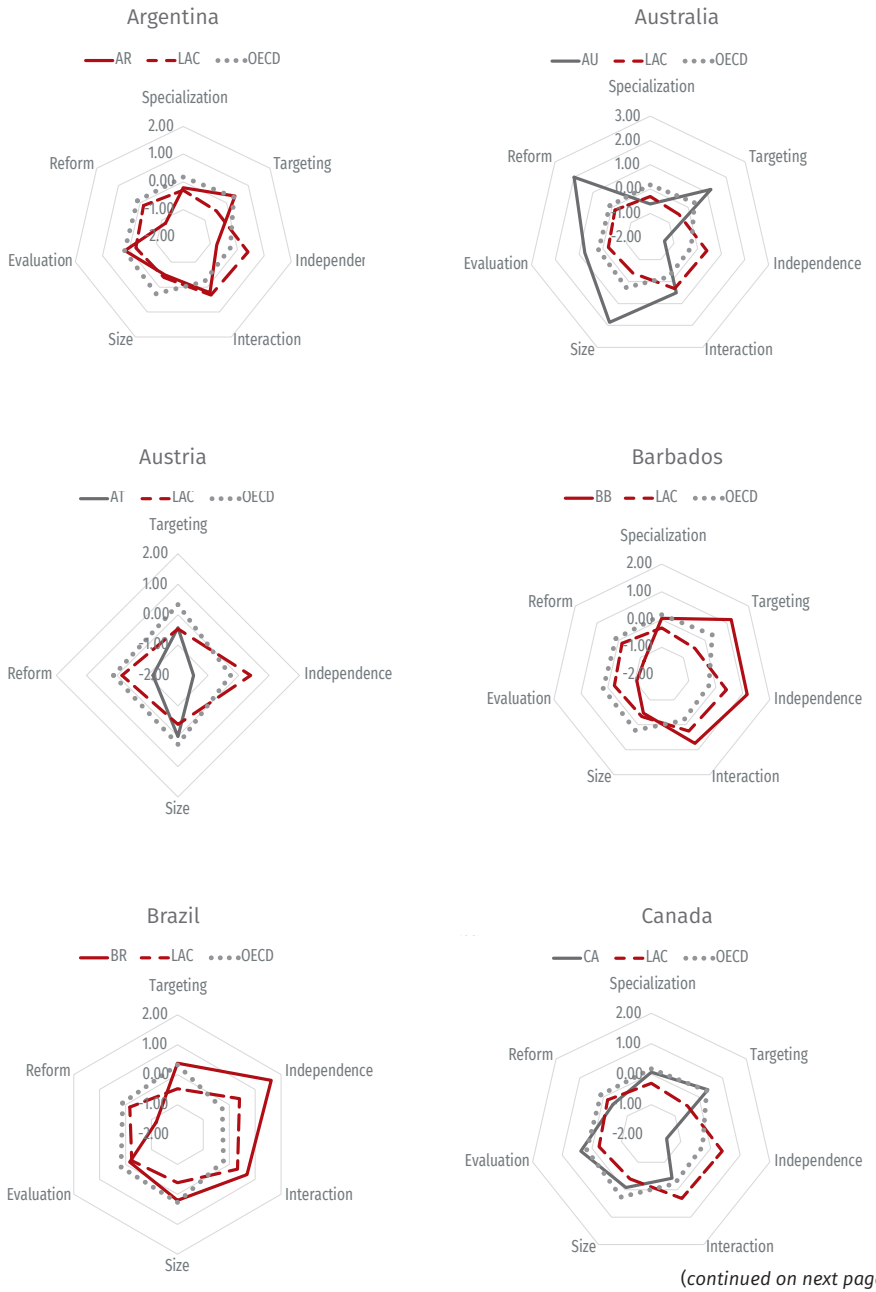


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FIGURE 6.2 INDIVIDUAL INVESTMENT PROMOTION AGENCIES' SCORECARDS *(continued)*

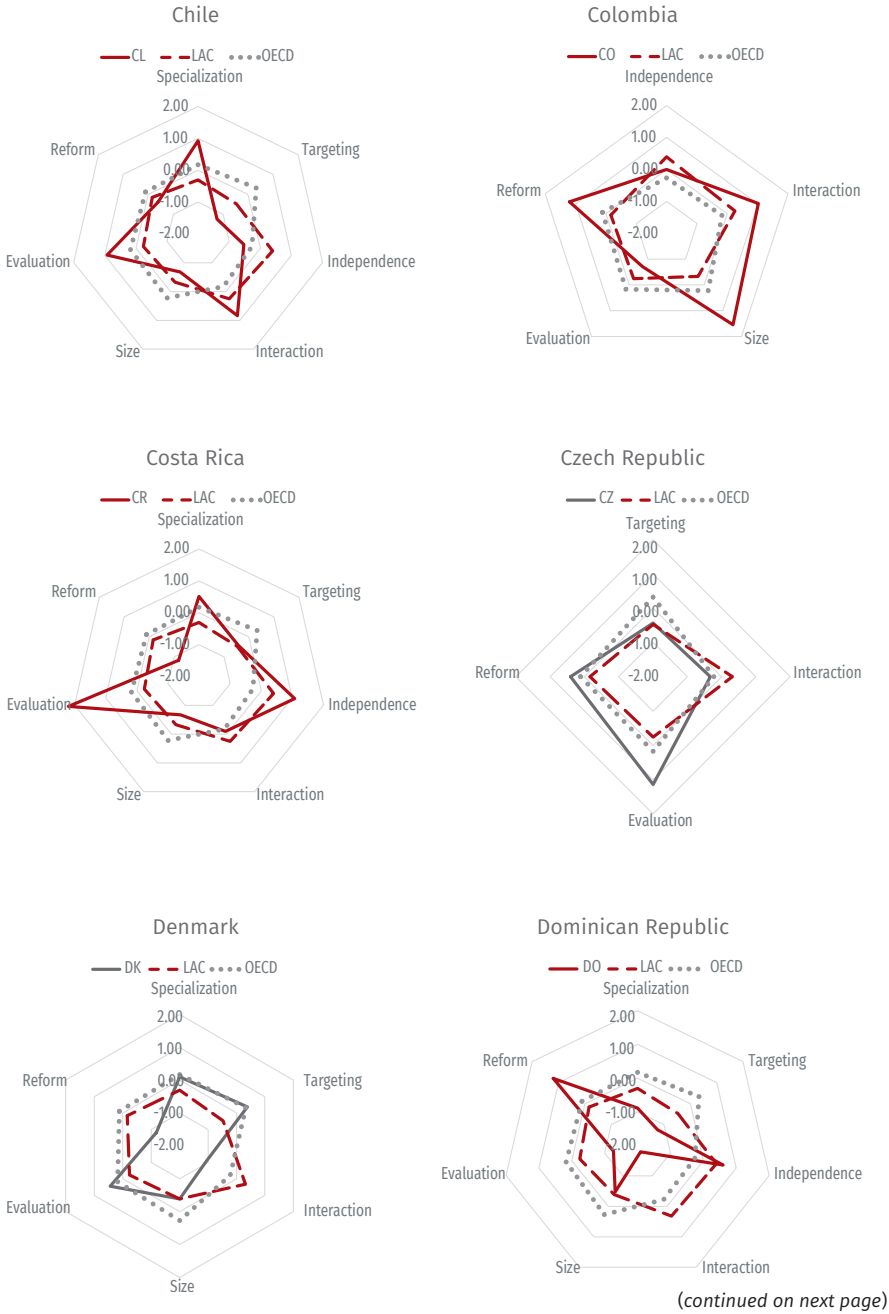

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FIGURE 6.2 INDIVIDUAL INVESTMENT PROMOTION AGENCIES' SCORECARDS *(continued)*

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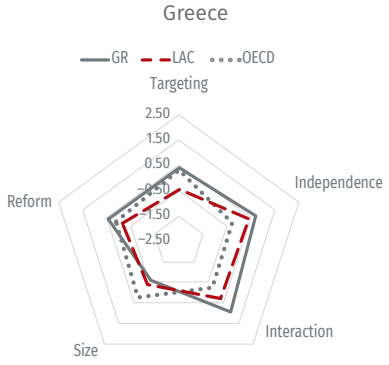
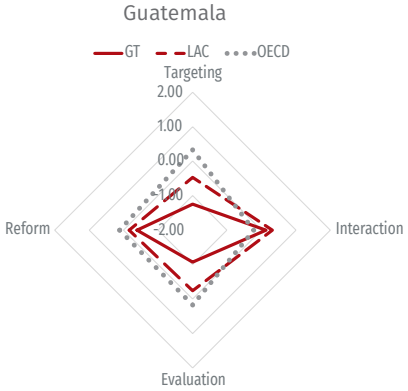
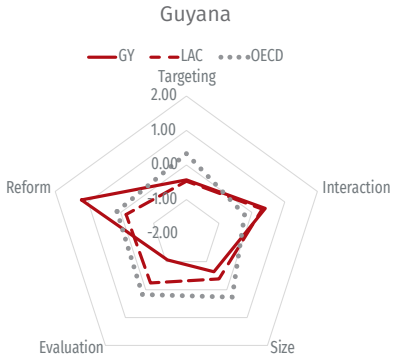
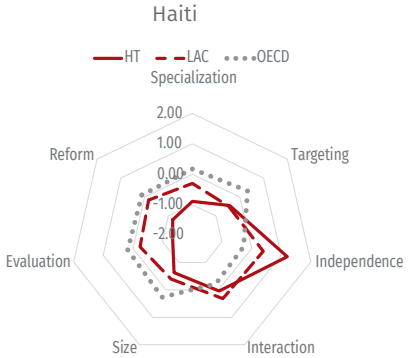
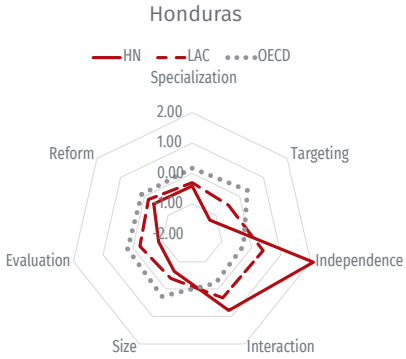
FIGURE 6.2 INDIVIDUAL INVESTMENT PROMOTION AGENCIES' SCORECARDS (*continued*)











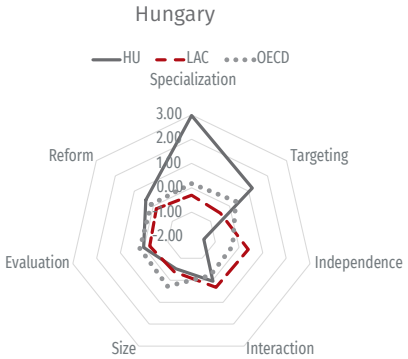


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FIGURE 6.2 INDIVIDUAL INVESTMENT PROMOTION AGENCIES' SCORECARDS *(continued)*

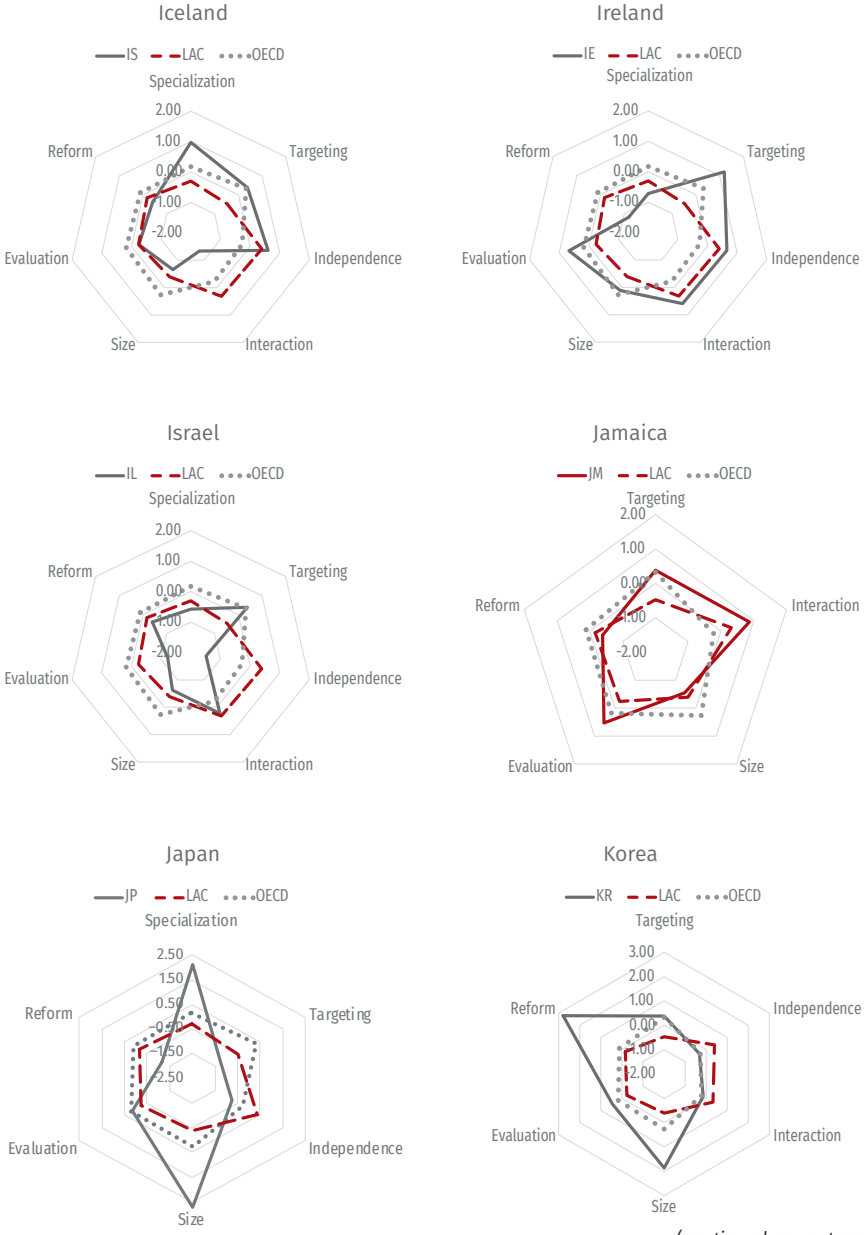

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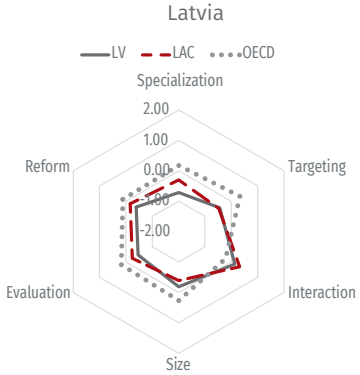
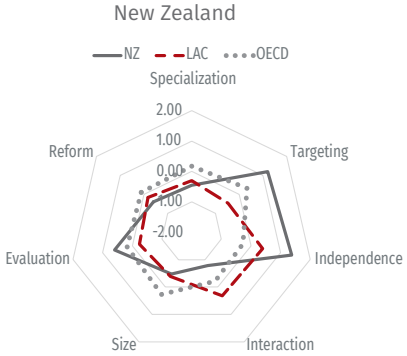
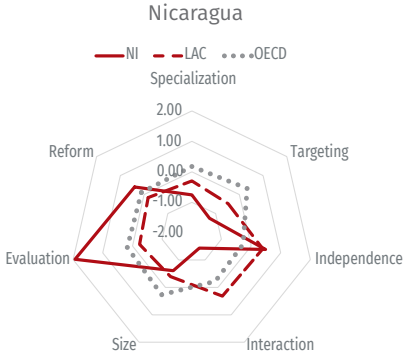
FIGURE 6.2 INDIVIDUAL INVESTMENT PROMOTION AGENCIES' SCORECARDS (*continued*)







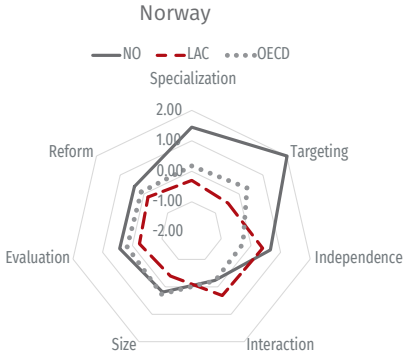


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FIGURE 6.2 INDIVIDUAL INVESTMENT PROMOTION AGENCIES' SCORECARDS *(continued)*

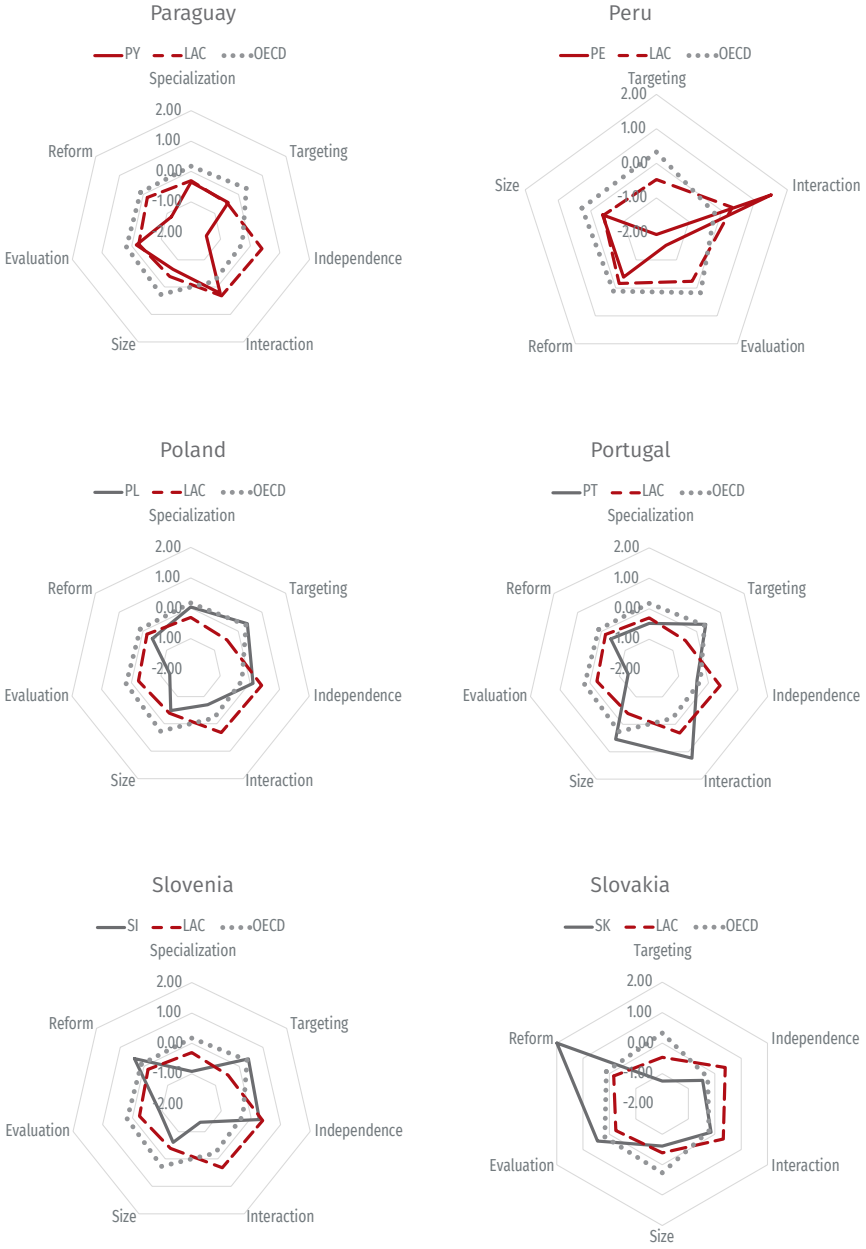

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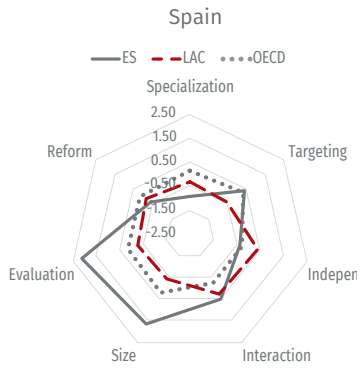
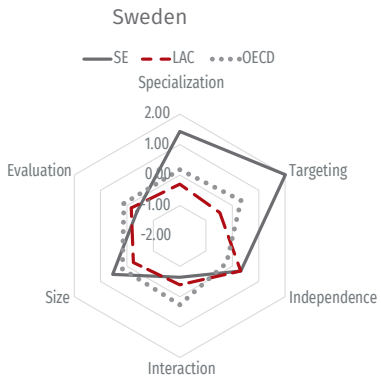
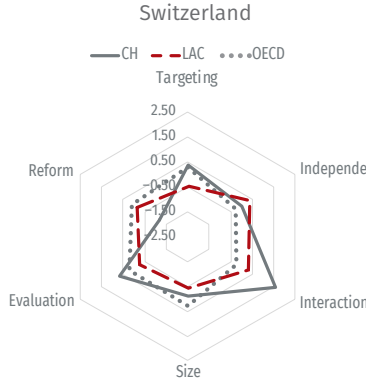
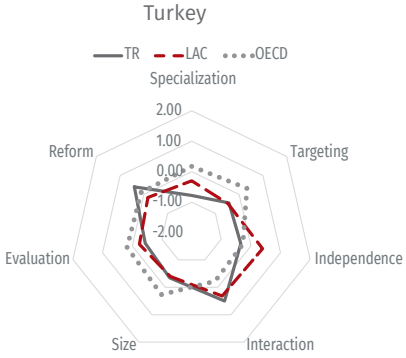
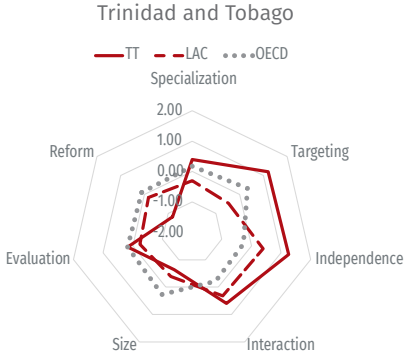
FIGURE 6.2 INDIVIDUAL INVESTMENT PROMOTION AGENCIES' SCORECARDS (*continued*)











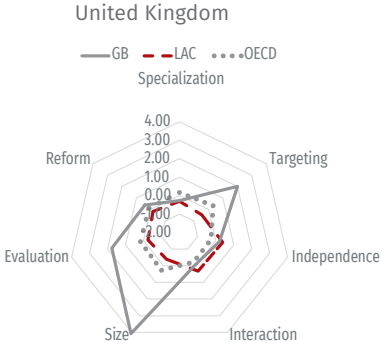


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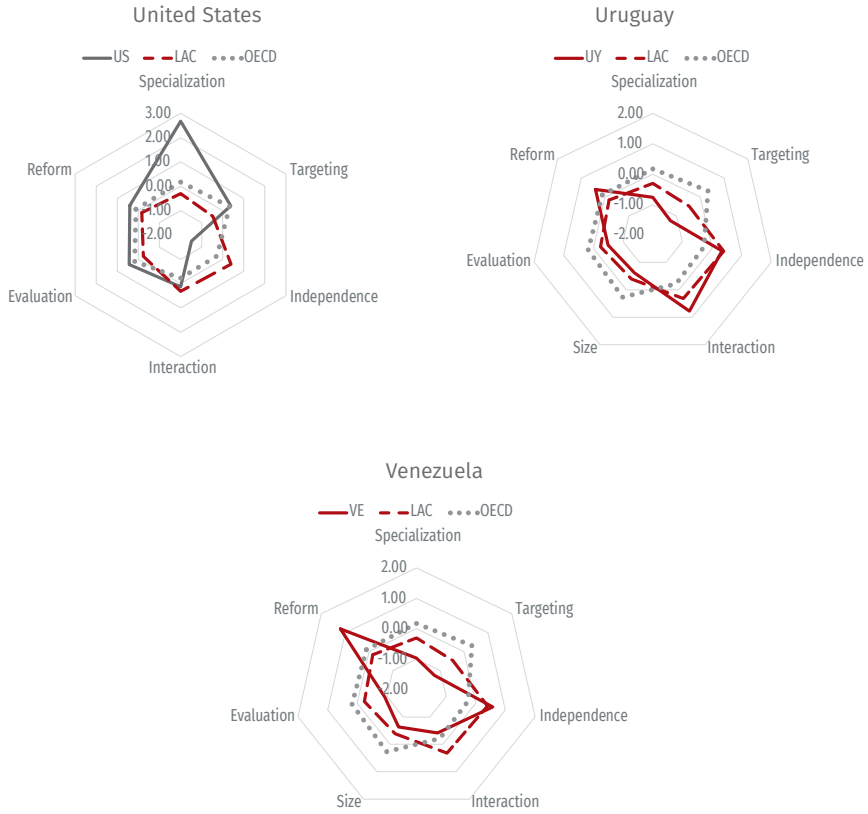
FIGURE 6.2 INDIVIDUAL INVESTMENT PROMOTION AGENCIES' SCORECARDS *(continued)*



Source: Author's calculations based on IDB/OECD Survey of Investment Promotion Agencies (2017).
Note: The figure shows radar graphs that compare each IPA with the LAC and OECD averages along relevant dimensions captured by the indices defined above. LAC countries are shown in red and non-LAC OECD countries are shown in dark gray.

The landscape of investment promotion is a dynamic one. Not only do the needs of investors change continuously, which affects the demands that IPAs and their competitors face, but so do those of the governments which they interact with and sometimes depend on. Consequently, new agencies are being established and existing ones are undergoing deep organizational change: they may acquire or lose mandates, merge or de-merge with other organizations, and open new offices at home and abroad. This constant change points to: i) the need for up-to-date cross-country information on

the status of IPAs; ii) clearer evidence on the impact of the different solutions, so as to provide policymakers and agencies a more accurate picture of the reforms that are needed; and iii) operational support and capacity-building to assist in the reform process. This mapping process set out to provide the former and pave the way for the latter. The IDB and OECD stand ready to assist IPAs as they make that journey.

The question that naturally arises from this kind of exercise is "What works best?" The agencies described in this report different in their internal organization and activities, the size and distribution of their resources, the specific activities they engage in, the degree of their institutional independence or functional specialization, their targeting and coordination strategies, and their approaches to performance assessment. What can be said about the link between these characteristics and FDI outcomes? This report has shown initial evidence on the relationship between these two factors. Notably, controlling for the size of the country's GDP, there is a positive relationship between the size of its IPA's budget and inward FDI both in terms of total stock value and number of affiliates. IPAs' targeting intensity—that is, the extent to which they prioritize or exclude investments—has similar effects. In addition, institutional independence is associated with a higher total number of affiliates established in the country (per capita). Finally, controlling for relevant factors, having an overseas office in a country is correlated with both larger inward FDI stock values and a larger number of affiliates of multinational firms from that country. While these findings are suggestive, further impact evaluations are called for to establish causal effects.

The results presented here provide a solid basis for more in-depth studies of specific aspects of IPAs' work, in general, and for conducting proper impact evaluations with individual IPAs, in particular. The latter would enable IPAs to better measure the effectiveness of their efforts and adapt dynamically to

the evolving needs of their clients. Early steps are already being made in this direction through novel studies using microdata on both multinational firms' location decisions and assistance status (Volpe Martincus et al., 2019). Jointly, these studies can help agencies, their CEOs, and responsible governments respond better to two key questions: "What works and what do I need to do differently?"

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