# What can governments do to facilitate investment?

## A menu of the most important measures identified through surveys

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### Context

This paper was prepared as a technical input to the World Trade Organization (WTO) Structured Discussions on Investment Facilitation for Development and presented during an expert workshop at the WTO on 11 December 2019. It was jointly written by the World Association of Investment Promotion Agencies (WAIPA) and the World Economic Forum (Forum) and benefited from peer review.[1] The aim of the paper is to present what investment practitioners identify as the most important measures to facilitate investment flows. Investment practitioners in this context are defined as either investment promotion agencies (IPAs) or firms. The premise is that it is the actors who day-to-day manage investment – whether from the public or private sectors – that are best placed to identify the measures that are most important to investment decision-making. While the WTO approach has excluded from the scope of discussion investment protection, market access, and investor-state dispute settlement (ISDS), the exact scope of investment facilitation is not yet defined. Through attempting to present succinctly the most important measures, the aim of this paper is to help define what might usefully be considered as part of facilitation and to provide a resource for WTO delegates developing a multilateral framework on investment facilitation for development.

### Methodology

The findings were drawn from surveys carried out separately by WAIPA and the Forum, but the findings have been combined in this paper to generate more robust evidence. The WAIPA surveys are broader in terms of number of economies but less focused on investment facilitation measures *per se*, while the Forum's surveys are narrower in terms of number of economies but are very focused on investment facilitation measures. This complementarity lent itself well to collaboration.

WAIPA has been conducting an annual survey of its IPA members since 2016, with the 2019 edition done jointly with the World Bank Group (WBG). The results used were from the 2019 survey, which took place between 30 June and 30 September 2019. This survey was sent to 195 IPAs, mostly at the national level, and received 77 responses.[2] In 2018, by way of comparison, the survey was sent to 154 IPAs and received 67 responses.[3]

The Forum carried out surveys in Ghana and Cambodia between May and July 2019, conducting in-person interviews with a detailed questionnaire that both included a checklist of 64 potential facilitation measures and open-ended questions for firms to suggest additional measures. The operative question was "Of the following potential measures to facilitate investment, which are most important?" In Ghana 35 total interviews were conducted while in Cambodia 47, though these interviews included policymakers, firms, and civil society. The subset of interviews with firms were used for this study, respectively 22 and 21 interviews in Ghana and Cambodia.

### Findings

The study reveals that there are a host of separate investment facilitation measures that are important to investment decision-making. The study finds that the categories that have been used by the WTO Structured Discussions on Investment Facilitation for Development are effective in capturing and grouping important measures.[4] At the same time, firms and IPAs increasingly consider the development dimension of investment – whether through Corporate Social Responsibility (CSR) initiatives or integrating FDI in national development strategies – and so considering provisions to directly address and support these efforts may be warranted. Empirical findings therefore both reinforce the utility of measures already being considered, while suggesting the consideration of some additional measures, as related below, if a potential framework is to successfully increase both investment flows and their development impact.

## Transparency and predictability of investment measures

### Maintaining an updated IPA website

A website helps IPAs disseminate useful information regarding the investment regime and promote their services to support investors, thereby playing a dual role in facilitating investment, as supported through empirical studies.[5] Other useful information – reported by investors – is a section on Frequently Asked Questions (FAQs) and their answers[6], information on economic, financial, and socio-political conditions, demographic and workforce statistics, a database of available buildings and sites using GIS technology[7], comparisons to competitor locations, a list of major employers, quality of life information, and staff contact information.[8]

### Focal point to respond to investment enquiries

The website can provide a focal point to respond to investment enquiries and coordinate the provision of facilitation services. Fully 86% of investors interviewed by the Forum stated that such a focal point was important to their decision-making.

### Publication of all relevant measures and information, ideally in English

The website can also be the medium to publish all relevant investment measures and information, as fully 90% of investors stated this was important to their decision-making. Box 1 provides examples of relevant measures and information.

### Box 1: Examples of relevant measures and information

#### Publication of procedures and requirements to start and operate a business

Information on the administrative procedures and requirements to start and operate a business is essential to facilitate investment.

#### Publication of all fees that the investor will encounter during the investment lifecycle

Knowing the totality of fees throughout the investment lifecycle is an important assurance that there will be no surprises or changes down the road, especially once the investment is made and becomes a sunk cost.

#### Publication of investment incentives

Publication of investment incentives – done by an increasing number of economies, currently 39% of IPAs surveyed – facilitates investment. 33% of investors stated this was important to their decision-making, especially for small and medium-sized enterprises (SMEs) that may have relatively fewer resources for internationalization.

#### Publication of outward FDI home-country measures

Home governments transparently outlining their measures to support outward FDI is increasingly important to facilitate investment, given that economies around the world are becoming simultaneously the destination and source of investment flows. 62% of investors stated this was important to their decision-making, again especially for SMEs for which this kind of support can make a difference to internationalization.

#### Publication of legal decisions regarding investment

Investors report that by having access to earlier legal decisions regarding investment, this increases trust in the judiciary as a mechanism to resolve potential future grievances, thereby facilitating investment. 48% of investors stated this was important to their decision-making.

#### Publication of national priority sectors

Knowing investment priority sectors, including opportunities within them, helps prospective investors make more viable investment decisions. 94% of IPAs target specific sectors, generally based on the national development plan or other similar high-level policy document.

#### Publication of investor evaluation criteria

IPAs evaluate investors before providing services or approvals for grants. 74% of IPAs evaluate investors for potential positive impacts on the economy and 54% evaluate investors for negative environmental and/or social impacts. Publishing investor evaluation criteria would ensure predictability and help investors adapt their investment projects as needed.

#### Publication of a “Customer service charter” of the IPA

A customer service charter introduces the public to the service delivery standards of the IPA and the way it operates. These charters instill confidence in investors by giving them insights regarding the delivery and quality of services, including time-lines. This can help to ensure predictability and facilitate investment.

Source: WBG-WAIPA 2019 Survey, Forum 2019 surveys.

### Keeping measures stable and unchanged for significant periods of time

Besides transparency on measures, investors report the key is for these to remain unchanged for a period of time, as frequent changes in requirements create uncertainty and risk which act as brake on investment. Investors can adapt to different regulatory requirements, so long as these are applied consistently and not changed too frequently.

### Safeguards for treatment of confidential information

Additionally, systems to adequately safeguard confidential information provided by firms may facilitate investment, especially regarding more technology-intensive activities. 57% of investors stated this was important to their decision-making.

### Frequency and content of audits

Investors express that frequent tax audits can be an irritant and potential deterrent to investment, requiring significant resources to comply with requirements. Clarity and predictability on the frequency and content of audits would, contrariwise, facilitate investment.

### Guarantees on the free transfer of funds out of the economy

Guarantees to investors that they can repatriate capital out of the country, whether seed capital or operating profits, can play a significant role in facilitating investment. By providing such guarantees at the outset, this measure can be viewed as clarity on investment measures rather than falling within investment protection.[9]

## Streamlining and speeding up administrative procedures and requirements

### Reduction and simplification of administrative procedures

Streamlining administrative procedures was one of the favoured measures to facilitate investment identified by investors, as they felt this would save precious time that they currently had to devote to administrative tasks rather than to running their business. 76% of investors stated this was important to their decision-making.

### Clear criteria/requirements for administrative procedures

Similarly, having clear criteria for administrative procedures is important to make the investment lifecycle more predictable, which in turn lowers risk while also removing opportunities for rent-seeking. 67% of investors stated this was important to their decision-making.

### One-stop shop or single window for administrative procedures, including business registration

If a one-stop shop (OSS) works well, it can make a significant difference to facilitating investment: 60% of IPAs currently operate a OSS, and 57% of investors stated the existence of a OSS was important to their decision-adding administrative procedures rather than removing them. This is an area where technical assistance can make a difference to effective implementation. Closely connected to a OSS is a business registration portal enabling investors to check the availability of a new business name and, if available, register the new business online.

### Relatively low fees and ability to pay them online

Administrative fees can deter investment if set very high or if paying them requires costly and complicated in-person procedures; being able to pay such fees online, however, acts in the opposite direction: 62% of investors stated low fees were important and 67% stated paying them online was important to their decision-making.

### Checklist to assist applicants

Investors report that a checklist of steps to complete administrative procedures would be very helpful. Even more helpful would be being able to see online where in the process the application stands, as this would reveal sticking points that would then make it easier to address those sticking points. 52% of investors stated that some form of checklist was important to their decision-making. Such a checklist could be provided both for business registration and any additional investment license or approval process.

### Use of e-mail for official communication

Some jurisdictions still require official communication between investors and officials through written paper correspondence, which adds time, cost, and uncertainty to administrative procedures. 67% of investors stated that being able to use e-mail for official communication was important to their decision-making.

### ‘Silent Yes’ for administrative approvals

One of investors’ preferred measures is the adoption of a ‘silent yes’ for administrative approvals, whereby approval is automatically granted after a certain period of time has elapsed, absent active intervention by authorities. 57% of investors stated this was important to their decision-making.

### Ability to resubmit rejected applications

By allowing investors to resubmit rejected applications, host governments provide a measure of confidence to investors that they will have an opportunity to address problematic issues, increasing their comfort level with the process. 52% of investors stated this was important to their decision-making.

## Contact/focal point/ombudsperson types of mechanisms, arrangements to enhance domestic coordination and cross-border cooperation

### Creation of national IPA

A national IPA, with the mandate to promote and facilitate FDI, is an indispensable part of most countries’ development strategies. The absence of such an institution can reduce the likelihood of an economy being considered for investment.[10] IPAs are often the first body contacted by potential investors.

### Creation of sub-national IPAs

Often a national IPA is not able to effectively promote all regions within an economy and provide facilitation and aftercare services across all locations. This is especially the case for economies with large territories. The absence of regional or city IPAs can significantly diminish the inflow of investments due to the lack of support services, diverting potential investment to other locations. However, when establishing sub-national IPAs it is important to also create a mechanism of coordination between national and sub-national IPAs to align their efforts, as discussed in the last entry of this section.

### Provision of IPA support services

IPAs provide a range of practical support services that can facilitate investment, including airport pickups, site visits, organizing working meetings with investors and other stakeholders, matchmaking between investors and local firms, assistance with various legal and administration procedures, etc.[11]

### Ombudsperson to help address investment challenges

The existence of a dedicated institution to help address investment-related challenges provides a mechanism for investors to resolve issues without having to resort to legal channels, which add cost and often result in the relationship between investor and host government being irrevocably strained. In contrast, an ombudsperson can quietly act as a neutral third-party and smooth over differences. The use of a tool to track and identify the most recurrent types and sources of challenges can help address issues at the root. 86% of investors stated an ombudsperson was important to their decision-making.

### Mutual recognition of standards between economies

Mutual recognition of standards between economies can play a significant role in facilitating investment. The reason is that while foreign investment enters and establishes in a single economy, it is often drawn to a regional market, such as through exports to neighbouring economies. Mutual recognition of standards between economies can therefore facilitate such exports and thus increase investment flows and development impact. 62% of investors stated this was important to their decision-making.

### List or pipeline of bankable projects

Investors report they have capital at their disposal but at times have difficulty finding bankable projects. A pipeline of bankable projects could act as a matching mechanism between capital and projects, helping to address this market failure. However, other investors report they do not have confidence in a government-created list, and need to assess the 'bankability' themselves, which is likely why a little more than half, or 57%, of investors stated this was important to their decision-making.

### Mechanism for public-private coordination

A mechanism to facilitate public-private coordination can ensure that policies and measures are designed to achieve their intended goals, as they are developed in consultation with the users of those measures: firms. Importantly, this mechanism may wish to include both foreign and domestic firms to ensure both perspectives and interests are addressed. Such a mechanism can provide assurances to firms that when issues arise, there will be ways to raise and address them with policymakers. As a result, 52% of investors stated this was important to their decision-making.

### Mechanism for coordination between domestic agencies

Investors report that often a lack of coordination between different agencies of government leads to mixed signals, lost time, or, at worse, conflicting decisions. This may be why 56% of IPAs desire reforms to enhance institutional coordination. Having a mechanism for alignment of policies and measures between different domestic agencies increases investor confidence that domestic policies will be adopted and implemented rationally and effectively. A full 90% of investors therefore stated this was important to their decision-making.

### Mechanism for alignment of subnational and national investment measures

Investors report that challenges can arise because of different interpretations between national and subnational institutions over investment policy and measures. In addition, the number of subnational investment institutions is growing rapidly. For both reasons, having a mechanism for alignment between these two levels in the implementation of investment policy and measures would facilitate investment decision-making.

## Sustainable investment

### Measure to support sustainable investment

Both firms and IPAs identify sustainability as increasingly important in their investment decision-making. In terms of firms, 24% stated that Corporate Social Responsibility (CSR) statements could both guide and facilitate their investment, the latter by better integration of, and support for, investment projects in host economies (it should be noted, however, that only larger firms generally have CFR statements, likely why this figure is relatively low, as interviews took place with a number of SMEs).

In terms of IPAs, they give increasing importance to the sustainability dimension of proposed projects: 54% of IPAs reported they evaluate investors for environmental and/or social impact before providing support, whether services or approval of grants. In fact, IPAs stated that increasing sustainable investment was the fourth most important change to promotion efforts, while reporting on impact investments[12] was also in the top half (see Box 2).[13] Additionally, home-economy governments are increasingly adopting guidelines[14] for their firms to undertake outward FDI sustainably (see next section). Policymakers are thus beginning to create frameworks to encourage sustainable investment from both the host and home perspectives.

## Box 2: Changes in investment promotion perceived by IPAs, ranked by mention

1. Impact of digitalization and technology disruptions
2. Increase of use of ICT/social media
3. New investment promotion methods
4. Increase of sustainable investments
5. New strategies about incentives and SEZs
6. Resurgence of protectionist actions
7. New deal structuring approaches,
8. Reporting on impact investments
9. Impact of global trade uncertainty on investment promotion
10. Tax competition
11. New marketing channels
12. Increase of M&A investments rather than greenfield projects
13. Mobile technology and ubiquitous capital
14. Greater focus on reinvestment
15. Intensifying competition
16. Geographical diversification of investment promotion activities sector
17. Change from promotion oriented to sector to project specific promotion
18. More SMEs involvement in cross border investments than the traditional MNEs

Source: WBG and WAIPA, "2019 Global IPAs Survey—Preliminary results", 7 October 2019.

As a result of the growing importance of sustainability considerations across both the private and public sectors regarding investment decision-making, a mechanism to support and enable these efforts may facilitate investment flows, and especially flows that contribute to sustainable development. This mechanism could be designed to enable coordination between firms and IPAs (host and home) on sustainable investment, while providing additional facilitation services to firms with a proven record of sustainable behaviour.

## Cross-cutting issues

### Smarter investment incentives

Incentives, if properly designed, can be effective for the promotion of Sustainable Development Goals (SDGs). In designing an incentive system, three qualities are important: simplicity, efficiency, and transparency. More targeted use of incentives may result in lower fiscal outlays or forgone revenue as well as potentially better quality FDI, as the FDI received matches the development goals of the host economy. 41% of IPAs desire reforms in this field as they perceive poorly designed incentive systems within their economies.

### Database or list of domestic suppliers

Foreign investors report that when deciding to enter or expand their investment it can sometimes be difficult to find domestic firms to supply goods and services at the right cost, quality, and volume. As a result, a measure to help foreign firms identify and contract with domestic firms, overcoming such information asymmetry, could play an important role in facilitating investment. Domestic business or professional associations could manage these lists, as it is often suppliers of professional services that foreign investors seek to contract, such as lawyers, accountants, marketing professionals, etc. 81% of investors stated this was important to their decision-making.

### Ease of business visas and work permits for high-skilled expats

Challenges related to speedily and easily acquiring visas for business travel can be a significant impediment to investment. This is especially the case when there are variations in visa policy between neighbouring economies, with those economies that have a more attractive visa and work permit policy – from the perspective of foreign investors – having an easier time in facilitating investment. Addressing this dimension could make a significant difference for investment decision-making: 26% of IPAs report that friendlier visa and work permit regimes would ease the investment process.

### Alignment of domestic law and regulation with international standards

Alignment of domestic law and regulation with internationally accepted standards can have both economic and normative reasons for facilitating investment: on the one hand it can reduce uncertainty, risk, and cost, while on the other it can serve to make host economies more attractive to investors seeking to invest according to sustainable investment principles.[15] At the same time, a weak domestic legal system can also attract greater investment that seeks an environment where side payments can avoid costly or complicated regulatory requirements. As a result, governments can play a role in providing clear standards and principles to their firms in how to carry out investment (e.g. related to corruption, environmental standards, labour standards, etc.), often by signing up to international standards (e.g. from the UN, OECD, ILO, etc.). The adoption of these standards, whether by host or home economies, may potentially result in a decline of (lower quality) investment, even while facilitating and encouraging other (higher quality) investment.

## Conclusion

This paper has tried to lay out what investment practitioners have identified are the most important measures to facilitate investment. However, the key will be implementation. The best measures on paper but not enforced in practice will not help increase investment flows and the sustainable development benefits of those flows. To support implementation, a program of technical assistance and mechanisms of public-private collaboration are critical. A successful WTO framework may thus wish to include technical assistance to help economies implement measures in practice, along with mechanisms for public-private collaboration to facilitate this process and ensure these efforts efficiently and effectively support an economy's sustainable development goals.

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## Endnotes

1. The authors are grateful to Andreas Dressler, Andreas Hora, and Karl Sauvant for their helpful peer reviews.
2. WBG and WAIPA, "2019 Global IPAs Survey—Preliminary results", 7 October 2019. The final report will be available in January 2020.
3. WAIPA, "Overview of Investment Promotion: Report of the findings from the WAIPA Annual Survey of 2018", January 2019, https://waipa.org/wp-content/uploads/Overview-of-Investment-Promotion-2019.pdf
4. These categories include: (a) Transparency and predictability of investment measures; (b) Streamlining and speeding up administrative procedures and requirements; (c) Contact/focal point/Ombudsperson types of mechanisms, arrangements to enhance domestic coordination and cross-border cooperation; and (d) Cross-cutting issues. See WTO, "Proposed Schedule of Meetings: September-December 2019", INF/IFC/W/8, https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S009-DP.aspx?language=E&CatalogueIdList=258904,258408,258332,258367,258244,258067,257637,257405,256934,256914&CurrentCatalogueIdIndex=8&FullTextHash=371857150&HasEnglishRecord=True&HasFrenchRecord=True&HasSpanishRecord=True
5. Torfinn Harding, Beata S. Javorcik, "Investment Promotion and FDI Inflows: Quality Matters", *CESifo Economic Studies*, Volume 59, Issue 2, June 2013, Pages 337–359, https://doi.org/10.1093/cesifo/ifs029
6. This can provide prospective investors with an understanding of the common issues faced by previous investors and their solutions.
7. GIS technology integrates geographical data with demographic and industry data, enabling investors to take a virtual tour of locations of interest. Maps of locations supported with related statistics are helping investors make better decisions, thereby facilitating investment.
8. Development Counsellors International (DCI), "A View from Corporate America: Winning Strategies in Economic Development Marketing", 2017, https://aboutdci.com/thought-leadership/winning-strategies/#download-report
9. To illustrate, Brazil's Cooperation and Facilitation Investment Agreements (CFIA) include provisions guaranteeing the free transfer of funds. See Ministry of Development, Industry and Foreign Trade of Brazil, "The Cooperation and Facilitation Investment Agreement", p. 2, http://mdic.gov.br/arquivos/CFIA-Presentation-EN.pdf For example, Article 10, paragraph 1 of the Brazil-UAE CFIA states that "Each Party shall allow that the transfer of funds related to an investment be made freely in convertible currency at the market rate of the exchange prevailing at the time of transfer and without undue delay, to and from their territory", https://investmentpolicy.unctad.org/international-investment-agreements/treaty-files/5855/download
10. Torfinn Harding and Beata S. Javorcik, "Roll Out the Red Carpet and They Will Come: Investment Promotion and FDI Inflows", *The Economic Journal*, Volume 121, Issue 557, 1 December 2011, pp. 1445–76, https://doi.org/10.1111/j.1468-0297.2011.02454.x Also see *op cit.* Harding and Javorcik, 2013.
11. Andreas Dressler, "Investment Facilitation: A Practical Perspective", 2018, E15Initiative. Geneva: International Centre for Trade and Sustainable Development (ICTSD) and World Economic Forum, https://e15initiative.org/publications/investment-facilitation-a-practical-perspective/
12. The number of impact investors globally is growing rapidly, creating new opportunities for targeted investment promotion by IPAs to impact investors to attract sustainable FDI. Please see Abhilash Mudaliar and Hannah Dithrich, "Sizing the Impact Investing Market", Global Impact Investing Network, April 2019, https://thegiin.org/assets/Sizing%20the%20Impact%20Investing%20Market_webfile.pdf
13. The question IPAs were asked was: "What in your view are the main changes taking place (currently and in the near term) in the field on investment promotion? (i.e. changes in the markets, changes in the impact of technology, new investment promotion methods, etc.)".
14. As examples, please see the *OECD Guidelines for Multinational Enterprises* (https://www.oecd.org/daf/inv/mne/48004323.pdf), China's *Guidelines for Environmental Protection in Foreign Investment and Cooperation* (http://english.mofcom.gov.cn/article/policyrelease/bbb/201303/20130300043226.shtml) , South Africa's *Guidelines for Good Business Practice by South African Companies Operating in the Rest of Africa* (https://www.tralac.org/images/docs/10106/guidelines-for-good-business-practice-by-south-african-companies-operating-in-the-rest-of-africa-dti-july-2016.pdf), and the United States *Overseas Private Investment Corporation's Environmental and Social Policy Statement* (https://www.opic.gov/sites/default/files/files/final%20revised%20ESPS%2001132017(1).pdf).
15. Adrian Blundell-Wignall and Caroline Roulet, "Foreign direct investment, corruption and the OECD Anti-Bribery Convention", 2017, *OECD Working Papers on International Investment*, No. 2017/01, OECD Publishing, Paris, https://doi.org/10.1787/9cb3690c-en