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Investment Facilitation: A Practical Perspective

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ABSTRACT

The paper provides an overview of the practical services provided by investment promotion authorities (IPAs) to foreign investors, for the purpose of facilitating foreign investment inflows into the host state. Further to detailing different types of support measures, the paper highlights the frequent challenges faced by IPAs when implementing these services, and advances the use of select policy measures to counter these challenges and thereby increase the effectiveness of investment facilitation measures.

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LIST OF ABBREVIATIONS

FDI	foreign direct investment
HR	human resources
IPA	investment promotion agency
UNCTAD	United Nations Conference on Trade and Development

INTRODUCTION

Effective investment facilitation is essential for successful investment attraction. The term investment facilitation is often used to define both investment-related policies and regulations in a specific jurisdiction, and the support provided to potential investors. This think piece will focus on the second definition and will argue that investor support is a critical determinant of a location's ability to attract investment. It will also review different types of support provided to investors and outline the key success factors for successful investment facilitation.

DEFINITIONS

Depending on the context, there are two prevailing definitions of "investment facilitation." The first definition focuses on the policies, laws, and regulations that a jurisdiction enacts to enable foreign investors to establish and operate in a specific location, either through greenfield investment or other modes of entry, such as an acquisition or financial investment. In a recent research note, the United Nations Conference on Trade and Development defines investment facilitation as

the set of policies and actions aimed at making it easier for investors to establish and expand their investments, as well as to conduct their day-to-day business in host countries. It focuses on alleviating ground-level obstacles to investment, for example through improvements in transparency and information available to investors, more efficient and effective administrative procedures for investors, or enhanced predictability and stability of the policy environment for investors. (UNCTAD 2017, 3)

While this definition mentions "actions" and "information," the emphasis is on the policy and procedural aspects of investing. The definition also applies to investors in the broadest possible sense, as opposed to an individual investor with a specific project.

The second definition of investment facilitation refers to the activities conducted to support an investor. This involves a wide range of practical support provided to the investor through various phases of the investment process. This support is provided or coordinated through a central organisation—typically an investment promotion agency (IPA)—that directly assists the investor and organises the support of other relevant public or private sector organisations. While the objectives of facilitation under both definitions are similar (e.g. removing obstacles, streamlining the investment process), the emphasis

of the second definition is on the practical and operational requirements of an individual investor and their specific investment project.

The difference between the two definitions can be illustrated using examples of topics that are important to many investors: investment incentives and workforce hiring.

Using the first definition, investment facilitation in the case of incentives refers to the regulations and procedures that govern how and under what circumstances incentives are provided. These include eligibility criteria, the application procedure, reporting requirements, and the process for disbursement of funds. Effective investment facilitation implies that these regulations and procedures are clear, efficient, transparent, and unbiased. Under the second definition, investment facilitation refers to the support provided to the investor in securing incentives. This could include advice in identifying relevant incentive programmes, introductions to the responsible administrative agencies, and practical assistance in completing applications and preparing the necessary supporting documentation. The aim of this support is to ensure that an individual investor secures the benefits for which their project qualifies. This can be instrumental in determining whether the investor selects a location and goes on to successfully implement their project.

Using the example of workforce hiring, the first definition of investment facilitation refers to the administrative policies and procedures that a foreign investor must follow to hire employees in a location. Using the second definition, investment facilitation refers to the support provided to the investor to identify, recruit, and train the employees required for their project, taking into consideration the required level of qualifications and the investor's project timeline. This facilitation may involve assistance from workforce development agencies, universities, technical colleges and training institutes, as well as the IPA itself.

These examples show that there is a high degree of overlap and mutual reinforcement between the two definitions. Clear policies and procedures make it easier to provide the type of practical assistance that allows the investor to implement their investment successfully. It follows that in the absence of clear policies and procedures, the second type of facilitation becomes far more important, as practical support is required to assist the investor in navigating complex or inefficient rules and regulations. Even where policies and procedures are in place, these alone do not guarantee the attraction of successful investment. Practical support still plays a key role in determining whether the investor can implement the investment, or even whether they select a location in the first place.

This paper will focus on the second definition of investment facilitation, meaning the practical and operational support provided by an IPA. The existence of policies and regulations, although essential, will be assumed as given, beyond the immediate control of either the investor or the IPA for a specific investment project.

SIGNIFICANCE OF INVESTMENT FACILITATION

Investment facilitation is essential for investment attraction in several ways.

- The support offered by the IPA can act as a “door-opener” to potential investors, who may otherwise see no benefit in meeting or communicating with the IPA.
- Facilitation is key to winning projects, especially in situations where the IPA is competing with other locations for a specific investment.
- From an investment promotion perspective, the support offered by an IPA can help to differentiate the location and the IPA from other locations.
- In the eyes of some investors, the support or “service” provided by an IPA reflects the quality of the location itself, especially when this is the investor’s first experience or interaction with that location.
- Effective facilitation can increase the scope and scale of investment projects. By providing targeted support, the IPA can help the investor to identify opportunities for adding certain functions or activities to their initial investment plan.
- In some cases, facilitation can even create opportunities for investment where none previously existed. This happens when the IPA assists an investor to uncover or access opportunities that the investor would not have been able to identify or take advantage of without the IPA’s support.

Conversely, poor facilitation by an IPA can have several negative consequences.

- An inadequate offer of support will prevent the location from even being considered by some investors.
- Poor facilitation will result in projects being lost to competitors that provide more effective support.
- Poor facilitation will damage an IPA’s relationships with an investor and can negatively impact both the location’s and the IPA’s reputation.

Ultimately, facilitation must provide something of value to the investor. This “value” will increase the investor’s readiness to consider a location and engage with the IPA that represents it.

TIMING OF INVESTMENT FACILITATION

Facilitation is sometimes assumed to take place only once an investor has selected a location and begins to implement their project. However, facilitation also plays a key role prior to the location decision. As mentioned earlier, the support offered by an IPA can be an important aspect of the IPA’s efforts to promote itself to potential investors. Facilitation also plays a key role during the IPA’s efforts to attract a specific investor or project, especially in competition with other locations.

Many IPAs or governments will continue to support the investor once they have implemented their investment. This type of post-investment support does not form part of facilitation and is typically referred to as investor aftercare.

INVESTOR REQUIREMENTS AND TYPES OF INVESTMENT FACILITATION

The support provided by IPAs should reflect the requirements of the investors they are seeking to attract. In the broadest possible terms, investors require assistance in five areas:

1. Information: for example, market analyses, data about certain location aspects (e.g. workforce costs), and advice (e.g. on starting a business).
2. Contacts: for example, introductions to government agencies, research organisations, or potential suppliers that are relevant to the investor’s activities and investment plan.
3. Opportunities: for example, access to tenders or investment projects.
4. Money: for example, government incentives or venture capital.
5. Practical support: for example, securing permits or completing other administrative obligations.

The type of assistance that IPAs can provide to investors relates to the timing of investment facilitation. This can be

divided into three phases or scenarios, each with distinct objectives and types of support.

SCENARIO 1: THE INVESTOR HAS NO SPECIFIC INVESTMENT PLAN

IPAs can provide facilitation before an investor has even developed an investment project or plan, especially when the investor is an important target for the IPA. The objectives of facilitation under this scenario are:

- to establish a relationship with the investor;
- to explore or create opportunities for future investment.

The type of support that the IPA can provide under this scenario includes:

- information on specific business opportunities in the location;
- information on other unique opportunities (e.g. availability of certain skills, funding, or projects);
- introductions to potential partners;
- introductions to potential customers.

The facilitation provided under this scenario must be highly customised and have the appearance of “exclusivity” to be attractive to the investor. It follows that this type of support can only be provided selectively (if at all) to investors that are considered by the IPA to be strategically important.

SCENARIO 2: THE INVESTOR IS EVALUATING LOCATIONS

In the second scenario, the investor is actively considering locations for a specific investment project. The IPA will typically be competing with the IPAs of other locations for the investment. The objectives of the IPA's support are to ensure that the location is considered and ultimately selected for the project.

The support that the IPA can provide in this phase of the investment process includes:

- information on specific location factors (e.g. workforce, utilities, costs);
- information on regulatory procedures and requirements;

- identification of suitable properties;
- organisation of tailored site visits;
- introductions to local contacts (e.g. potential partners, suppliers, or employees).

The information and support provided in this phase should be carefully tailored to the requirements of the investor's project. Investors (or their consultants) may sometimes provide information requests outlining the information and support they need. Effective facilitation at this stage requires a clear understanding of the investor's project, which the IPA can gain through discussions with the investor's project team. IPAs should also have established tools or sources (e.g. property databases, human resources (HR) agencies) that allow them to respond and provide support quickly.

SCENARIO 3: THE INVESTOR HAS SELECTED THE LOCATION

In the third scenario, the investor has already selected the IPA's location. However, the project has not yet been implemented and there remains a risk that it may not go through. Facilitation is required to ensure that the project is implemented efficiently and successfully. Another objective of facilitation in this phase is to identify opportunities for the investor to expand or enhance the project.

The type of assistance that the IPA can provide in this phase includes:

- support with regulatory requirements (e.g. construction permits, customs compliance);
- support with employee recruiting;
- support with securing property and infrastructure;
- support with securing incentives (application and approval process);
- support with communications and public relations;
- support with expatriate issues (e.g. visas, housing, schooling, integration);
- introductions to relevant service providers (e.g. legal, HR, real estate).

It is during this phase that the support provided by the IPA is the most “hands-on” and has the greatest potential for providing value to the investor in terms of expediting or streamlining project implementation.

EFFECTIVENESS OF FACILITATION

Although most IPAs offer many or even all of the types of support outlined, there is little information about how effective investment facilitation is in practice. Few IPAs conduct customer satisfaction surveys to determine how valuable their support was considered to be by the investor. There is also very little research on the topic of “additionality,” meaning the degree to which government or IPA intervention (i.e. facilitation) played a role in determining whether an investment took place, as well as the timing and scope of the investment.

Press releases and “testimonials” released by IPAs often feature investors praising the IPA and highlighting the significant role that the IPA’s support played in enabling their investment. There is no doubt that many IPAs provide excellent facilitation, which is instrumental in securing investments.

However, in the author’s experience, the support provided by IPAs often falls short of investor expectations. In their eagerness to secure an investment, IPAs tend to overpromise and are then unable to provide the level of support that the investor has been led to expect. Investment facilitation can also seem slow and bureaucratic to private sector investors, reflecting government procedures and regulations. IPAs also often depend on the collaboration of other agencies and organisations which may not understand the significance of investor facilitation or share the IPA’s enthusiasm for providing high quality support.

In many cases, IPAs simply do not have the resources (especially personnel) to provide effective facilitation, particularly when this needs to be balanced with the IPA’s other responsibilities and the demands of ministers or other stakeholders on the IPA’s time. Some IPAs also lack the industry knowledge or understanding of the investor’s business model and project requirements (both technical and commercial) necessary to provide tailored support.

KEY SUCCESS FACTORS FOR INVESTMENT FACILITATION

Considering the challenges outlined, the key success factors for effective facilitation can be found in the following areas: qualifying investors; managing expectations; defining specific services; and working with partners.

QUALIFYING INVESTORS

Even well-resourced IPAs cannot offer the same level of support to all investors. IPAs therefore need to define the degree of support provided to different types of opportunities. This requires classifying potential investors or opportunities using criteria such as their potential economic benefit or their fit with the IPA’s investment attraction strategy. While many IPAs concentrate on the economic benefits of a potential investment (e.g. capital expenditure, employment and payroll creation, tax revenue), qualification can include a range of other non-financial criteria. Some of these may reflect the government’s development policies (e.g. attracting investment to rural or socially disadvantaged areas, stimulating innovation or the development of certain technologies). These other factors for qualification include so-called “sustainability criteria” for foreign direct investment (FDI) which can be used to assess the attractiveness and likely impact of a potential investment based on various social, environmental, or governance considerations (see also Sauvart and Mann 2017).

Qualification requires obtaining information from potential investors about their activities and plans, some of which (such as project financing or technical details) is likely to be confidential. Some IPAs seek to obtain this information through questionnaires, although in practice a structured discussion with the investor is usually more effective. Regardless of the method used, the objective of qualification is to enable the IPA to make a well-founded choice regarding the level of support—and therefore resources—that will be dedicated to a certain investor. One of the advantages of qualification is that it also generates the type of information about the investor that can help the IPA to provide better facilitation.

MANAGING EXPECTATIONS

In their discussions with potential investors, IPAs should make clear what type of support is available and under what circumstances it is provided. This will help manage the investor's expectations and reduce the risk of disappointment later in the process. Expectation management also extends to informing the investor about the timing of support, as well as the entities that will be involved in facilitation. From a legal perspective, it is also important for the investor to understand early in the process that facilitation does not imply a guarantee (that the investor will receive incentives or property, for example).

DEFINING SPECIFIC SERVICES

One way of managing expectations is for IPAs to define specific "service portfolios," much as private sector advisory firms do. An increasing number of IPAs are adopting this approach, which has several key advantages: the IPA is able to demonstrate through its service offering that it understands investor requirements; the IPA is able to develop a service offering that reflects its ability to actually deliver; and companies understand clearly what type of support they are able to receive as part of facilitation. On the other end of the spectrum, some IPAs still use open-ended offers of support ("we will assist you with all your needs"), creating unrealistic expectations and raising the risk of disappointing investors.

WORKING WITH PARTNERS

Even the world's largest IPAs rely on other entities to provide some aspects of investment facilitation. These can include a combination of public and private sector organisations, such as economic development agencies at other geographic levels, other government agencies or ministries, elected officials, chambers of commerce, industry or cluster associations, universities and research institutions, technology parks, local companies and existing foreign investors, as well as a range of professional services firms in areas such as real estate, human resources, law, tax, and accounting. The areas in which these partners can provide support are equally broad, and range from helping to develop arguments to attract investors (e.g. information on the availability of skills) to hands-on support during the implementation process (e.g. securing environmental permits). Many IPAs have developed a group of partners to cover various aspects of facilitation. This allows them to provide more responsive and comprehensive facilitation, especially when the roles and responsibilities of the various

partners during the facilitation process have been defined in advance. The ability to provide effective facilitation is further enhanced once the IPA and its partners gain practical experience working on investment projects and develop a joint understanding of what type of support investors require.

CONCLUSION

This paper has defined investment facilitation as the practical support provided to investors by IPAs and their partners, as opposed to the policies and regulations that govern investment in a particular jurisdiction. Rules and regulations tend to be broad-reaching and static, applying to large groups of investors and changing only infrequently. The support provided by an IPA to investors is dynamic and reactive, adapting to the needs of the individual investor and the exigencies of winning or implementing an investment project. The potential for things to go wrong in such a process is high, and IPAs would be well advised to develop a practical and structured approach to facilitation which reflects both the needs of the investor as well as the ability of the IPA to deliver effective facilitation.

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