6 Investment promotion and facilitation strategies

This chapter provides an inventory of practices among Investment Promotion Agencies (IPAs) in eight MENA economies, allowing practitioners and policy makers to benchmark their institutions against those from other countries in and outside the region. The chapter addresses IPA's institutional environments, mandates, strategic priorities, and core investment promotion and facilitation activities. It also provides insights on investment promotion and facilitation practices at the sub-national level across the region.

Summary and policy considerations

Middle Eastern and North African (MENA) economies have the potential to leverage their strategic location, considerable market size and young workforce to attract FDI. Governments of the eight MENA economies covered in this report (MENA focus economies) have accelerated reforms over the last decade to improve the business climate and respond to increased competition for investment among emerging and developing economies. Some reforms have bolstered the roles of investment promotion agencies (IPAs) to raise awareness of existing investment opportunities, attract investors, and facilitate the establishment and expansion of businesses.

IPAs are often the focal points for investment promotion and facilitation but rarely concentrate solely on this core mandate. Recent reforms have broadened the mandates of most MENA IPAs, and more so than most agencies from other regions. Algeria, Egypt and Jordan have the largest organisations and their mandates go beyond investment promotion to cover a variety of objectives, including regulatory and supervisory goals such as free zones management or negotiating international agreements. The Lebanese, Libyan and Palestinian IPAs are substantially smaller, but also have a wide range of mandates. Morocco's IPA and one of Tunisia's agencies (FIPA) are more specialised and, in this sense, are similar to OECD agencies focusing primarily on foreign investment promotion activities, although the Tunisian institutional landscape includes other agencies (including the Tunisian Investment Authority).

Most MENA agencies have organisational autonomy and regulatory power to improve the business climate, a task that is often the responsibility of ministries in other countries. The breadth of their mandates, which has frequently evolved, may however affect MENA IPAs' ability to properly achieve their core mission of promoting and facilitating investment. Such wide mandates also mean that the responsibilities of IPAs often overlap with those of other government bodies, to a greater extent than in other countries. The fact that agencies have established boards to supervise their activities, advise their strategies or enhance inter-governmental co-ordination helps, but representation from non-governmental stakeholders is often limited.

MENA IPAs have priorities that are often in line with their national development goals, although investment promotion strategies, and related performance targets, are not always publicly available. Egypt, Lebanon, and Libya focus on building their image as attractive investment destinations, while Algeria and the Palestinian Authority devote a large share of the IPA resources to facilitate investors' establishment. The priority given to overcoming negative perceptions and reducing information gaps is prompted by challenging investment climates and the volatile political and security context in some economies. Except in Morocco and Tunisia, all IPAs run one-stop shops (OSS) but the extent to which procedures are centralised in practice varies across agencies. Jordan and Morocco devote large resources to generating investment (including by targeting specific sectors), with the objective of supporting the economy's participation in global value chains (GVCs).

In response to the Covid-19 outbreak, MENA IPAs have re-oriented their priorities to focus on existing investors and have expanded their aftercare services. The health crisis also pushed them to innovate and develop new digital tools and services that they could consider operating permanently. Policy advocacy may become even more relevant in a context where governments are rethinking their wider economic strategies and related business climate reforms. The pandemic and its consequences on the global economy is propelling many IPAs to revise their investment promotion strategies to support the recovery. Particularly relevant are the policy reflections taking place to assess the disruption of value chains and the future positioning of the MENA region within global investment networks.

Countries' institutional configurations influence the way they promote and facilitate investment at the subnational level. MENA governments have been seeking to attract FDI to less developed regions but these attempts have mostly involved strategies and tools designed at the national level such as tax incentives, sometimes not taking into account how each region is unique in the way it competes in global investment networks. The majority of MENA economies have a centralised approach to investment promotion and most IPAs work with their own local branches, when these exist, rather than with separate, decentralised entities. Even if the priority of local branches to facilitate investors' establishment is well justified in light of the burdensome procedures to start a business, developing tailored investment promotion tools could be equally relevant to attract businesses that support local development.

Policy considerations

- Clarify responsibilities and strengthen coordination over investment policy, promotion and facilitation to reduce institutional overlaps and conflicting objectives in settings where IPAs have numerous mandates and hold regulatory functions. Responsibilities should be balanced, sufficiently funded, explicit, and mutually understood by all actors. Clear and targeted reforms should be preferred to hastily executed institutional reorganisations as these hamper IPAs' daily operations and create uncertainty for investors.
- Spell out IPA mandates, activities and targets in a well-defined and publicly available investment promotion strategy, developed in consultation with other relevant government agencies and aligned with national development goals. Equip the strategy with key performance indicators (KPIs) to raise transparency about objectives and improve monitoring and evaluation of agencies' efforts.
- Examine whether the financial and human resources allocated across investment promotion and facilitation activities are well balanced. Digitisation of pre-establishment procedures can help agencies shift their efforts to aftercare services to support existing investors during the recovery from Covid-19 crisis. Envisage permanently operating relevant digital tools that were developed during the crisis.
- Review IPAs' board membership to have a more balanced representation between governmental and non-governmental stakeholders. The inclusion of private sector representatives and other stakeholders in boards is crucial to better reflect their priorities and keep abreast of their challenges. To avoid regulatory capture, membership needs to be based on transparent selection criteria and roles should be clearly defined.
- Give IPAs' subnational offices (or subnational IPAs in the case of Morocco) some latitude to conduct investment promotion and facilitation activities jointly, or in co-operation with, the national IPA, and include them in the elaboration of the national investment strategy and regional development plans.
- Nurture the skills of IPAs' staff by expanding capacity-building opportunities and promoting peer-learning and sharing of good practices with other agencies through participation in international fora (e.g. OECD IPA Network; EU-OECD Programme on Promoting Investment in the Mediterranean; ANIMA Investment Network; World Association of IPAs (WAIPA)).

Institutional choices and mandates

Large differences exist among IPAs in terms of institutional settings, governance policy, strategic priorities, and the tools at their disposal. The way governments around the world organise the institutional framework for investment promotion and facilitation reflects their policy objectives and the priority they give to investment. These choices can greatly influence success in attracting investment in the most efficient and effective manner.

The main institutions responsible for investment promotion and facilitation in the eight MENA focus economies are: the National Agency of Investment Development of Algeria (ANDI), the General Authority for Investment and Free Zones of Egypt (GAFI), the Jordan Investment Commission (JIC), the Investment Development Authority of Lebanon (IDAL), the Privatisation and Investment Board of Libya (PIB), the Agency for Investment and Exportation Development of Morocco (AMDIE), the Palestinian Investment Promotion Agency (PIPA), and the Foreign Investment Promotion Agency of Tunisia (FIPA). The Tunisia Investment Authority (TIA) was recently created as part of a government-wide reform of the legal and institutional landscape for investment.[1]

In the context of the EU-OECD Programme on Promoting Investment in the Mediterranean, the MENA agencies listed above participated in a 2018 survey of IPAs conducted by the OECD. The results serve as the basis of the comparative analysis presented in this chapter, which benchmarks the IPAs against agencies from other regions and expands on the findings of the report *Mapping of Investment Promotion Agencies: Middle East and North Africa* (Box 6.1).

Box 6.1. The Mapping of Investment Promotion Agencies: Middle East and North Africa

The report *Mapping of Investment Promotion Agencies: Middle East and North Africa* (OECD, 2019[1]) provides an inventory of existing practices among IPAs in the Middle East and North Africa region. It covers eight MENA economies: Algeria, Egypt, Jordan, Lebanon, Libya, Morocco, the Palestinian Authority, and Tunisia. The mapping exercise covers a wide range of areas pertaining to investment promotion and facilitation with a view to enhancing peer-learning among practitioners.

The objective of the mapping is to support heads of MENA IPAs and investment policymakers in understanding options for effective investment promotion and facilitation strategies, based on comparative analysis with other agencies, and statistics on their own organisational setting. It aims to help them improve their policy advocacy role, make evidence-based decisions and reflect on future strategic orientations with new insights and ideas.

The mapping is based on a comprehensive survey designed by the OECD and Inter-American Development Bank (IDB) to identify trends across IPAs and provide comparisons across regions. IPAs from more than 70 economies participated in the survey, including from the OECD (32 countries), Latin America and the Caribbean (LAC) (19), Middle East and North Africa (MENA) (8), Eastern Europe, the South Caucasus and Central Asia (Eurasia) (10), and Southeast Asia (2).

The survey is divided into nine parts, including: (1) Basic profile of IPAs; (2) Budget; (3) Personnel; (4) Offices (home and abroad); (5) Activities; (6) Prioritisation strategy; (7) Monitoring and evaluation; (8) Institutional interactions; and (9) IPA perceptions on FDI.

Governance of IPAs: the composition of boards could be more inclusive

MENA authorities have undertaken numerous reforms and organisational changes to IPAs since their creation to adapt to changing environments and new challenges. Reforms have often followed the adoption of new investment-related legislation (see Chapter 3 on the legal framework for investment). Some organisational reforms have given agencies greater political weight with the objective of improving the business climate. For instance, all MENA IPAs are autonomous public agencies, and their top strategic relationships are frequently with the president or prime minister. The majority report directly to the head of government, in contrast with OECD and LAC agencies, which mostly report to their line ministry (Volpe Martincus and Sztajerowska, 2019[2]) (OECD, 2018[3]).

The board is an important element of IPA governance; it allows an external and independent entity to supervise or advise the work of the agency. The decision-making power and composition of boards vary considerably from one agency to another (OECD, 2018[3]). In most cases, the legal framework that establishes MENA IPAs also clarifies the role and the composition of their boards. The board of most

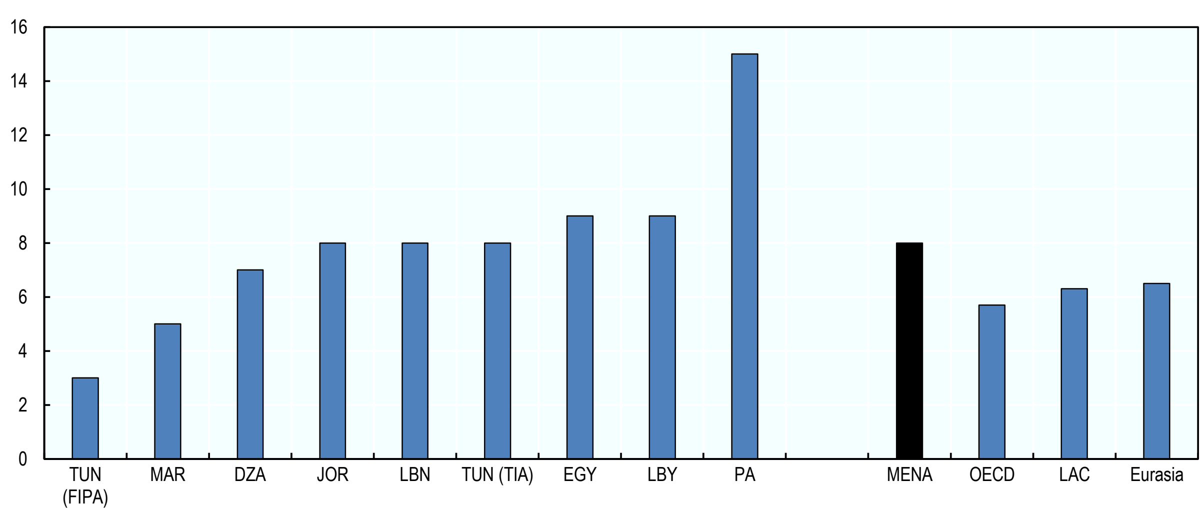
MENA agencies has a similar size (around 10 members) and composition (mostly public and private sector representatives) as most OECD and LAC IPAs. Only a couple of MENA IPAs have representatives from civil society or academia on their boards (Egypt and Morocco), a limited representation that is also observed in agencies in other regions.

Private sector representation on boards generally is weaker among MENA IPAs compared to agencies in other regions. There are two exceptions; Lebanon's IPA board is made up entirely of private sector members, and half of the Moroccan IPA's board is from the private sector. Including private sector representatives on boards ensures that businesses views are considered in strategic directions. Their inclusion should be based on transparent criteria and their responsibilities clearly defined as they may lobby for tax privileges or resist the entry of new competitors, particularly if they represent large or politically connected firms. Beyond boards, IPAs should regularly run surveys to gauge challenges faced by the private sector (OECD, 2020[4]).

Most MENA IPAs combine investment promotion with regulatory functions

MENA IPAs have broader mandates than agencies of other regions (Figure 6.1). They are often in charge of a wide range of responsibilities that go beyond inward foreign investment promotion and facilitation. Depending on the IPA, these can include investment functions such as screening of foreign investment projects or granting fiscal incentives and wider mandates related to export promotion or free zone management. Even if in lower proportions than in MENA IPAs, many agencies around the world have multiple mandates and conduct activities that go beyond foreign investment promotion, such as promoting exports and innovation. For instance, more than half of OECD IPAs combine one of these two mandates with their mandate of promoting inward foreign investment (OECD, 2018[3]).

Figure 6.1. Number of mandates by agency



Source: OECD-IDB survey of investment promotion agencies

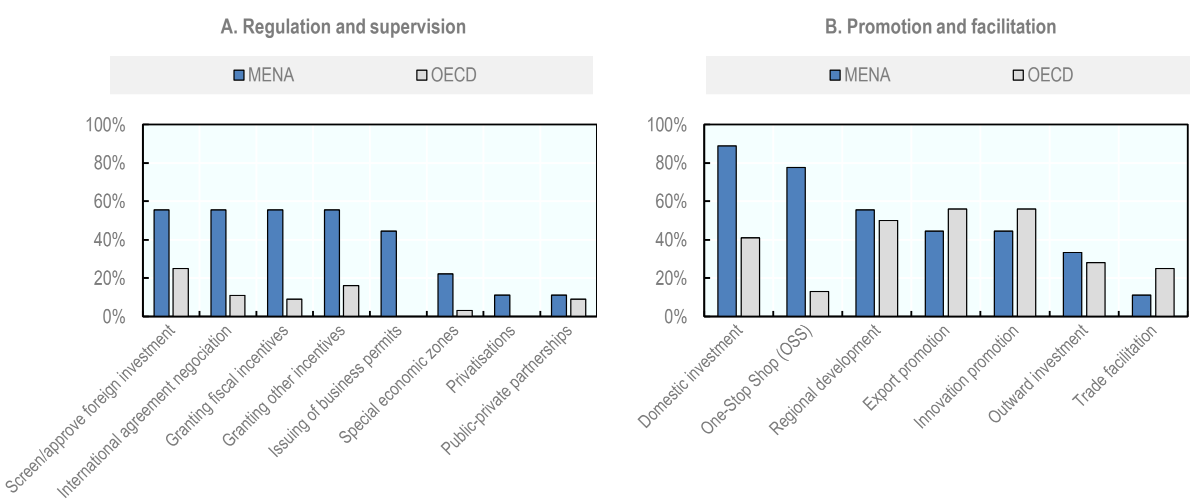
MENA agencies also differ from one another in terms of the scope of their mandates. Recent reforms have given some IPAs new mandates, such as operating one stop shops (Egypt), or expanded their responsibilities to include export promotion (Morocco) or zone management (Jordan). Only one recent reform involved removing a mandate – the mandate of granting tax incentives by the Algerian IPA was given to the Ministry of Finance in line with good practice. In Tunisia, FIPA only has three mandates, reflecting its role as a specialised agency focused on foreign investment promotion, but the recently created

TIA has wider mandates, including regulatory and investment facilitation functions. IPAs of smaller economies, such as the Palestinian Authority, often have more mandates than agencies in larger and wealthier economies, which tend to distribute mandates across other government bodies (OECD, 2018[3]).

Some MENA IPAs combine investment promotion with regulatory or supervisory responsibilities, such as screening foreign investment projects, issuing business permits, negotiating international agreements, granting tax incentives, or managing free zones (Figure 6.2, panel A). This may be prompted by a preference of IPAs to administer regulatory procedures themselves so that they can help investors better navigate them (World Bank, 2012[5]). IPAs in Southeast Asia, including Indonesia and Thailand, also perform regulatory roles, but this is rare among OECD IPAs (OECD, 2018[3]) (OECD, 2020[6]) (OECD, 2021[7]). Relatedly, MENA agencies often operate one-stop shops, aimed at centralising procedures to ease investors' entry. This is a key difference with OECD or LAC IPAs and is likely due to larger and complex institutional bureaucracies and business climates in some MENA economies. Furthermore, several MENA IPAs promote a variety of policy objectives that are adjacent to attracting foreign investment, such as supporting domestic investment, regional development or growth of export industries (Figure 6.2, panel B).

Figure 6.2. Beyond foreign investment promotion: other IPA mandates in MENA and OECD

In % of respondents



Source: OECD-IDB survey of investment promotion agencies

The multiplicity of mandates in most MENA IPAs may lead to a duplication of tasks with other public entities. For instance, often other bodies also have the mandate to negotiate international agreements or issue business permits, and notably, promote domestic investment. More specifically, the combination of investment promotion with regulatory or supervisory functions can generate confusion of roles and affect IPAs' credibility to properly voice private investors' concerns while they also regulate their establishment or monitor their operations. It also often leads to an organisational culture that serves regulatory functions well but is less suited to the marketing needs of promotion (World Bank, 2012[5]). On the other hand, as governments assess IPAs' performance based on their capacity to attract investors, agencies may opt for loose regulations to reach their objectives, including by having broad legal requirements and discretionary power to deliver permits or grant incentives. They may also have an incentive to negotiate international treaties that do not sufficiently take into account socio-economic priorities or environmental risks.

Strategic priorities and related resources

To promote countries as attractive investment destinations, IPAs can carry out a large variety of marketing and servicing activities. This mandate can be categorised into four core functions:

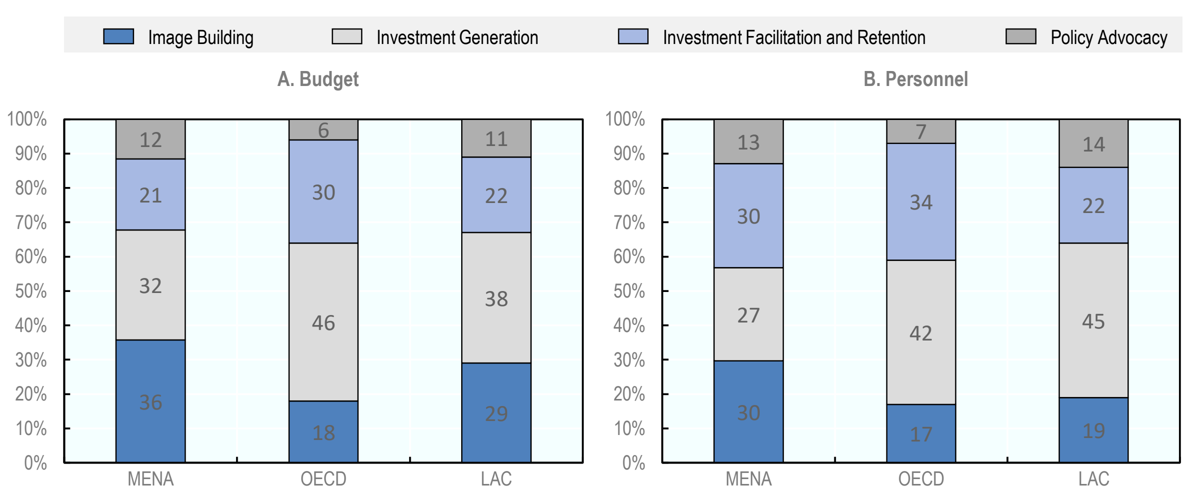
- *image building* consists of fostering the positive image of the host country and branding it as a profitable investment destination;
- *investment generation* deals with direct marketing techniques targeting specific sectors, markets, projects, activities and investors, in line with national priorities;
- *investment facilitation, retention and aftercare* is about providing support to investors to facilitate their establishment phase as well as retaining existing ones and encouraging reinvestments by responding to their needs and challenges; and
- *policy advocacy* includes identifying bottlenecks in the investment climate and providing recommendations to government in order to address them.

Image building and investment generation are meant to attract potential investors that have not yet selected an investment destination, whereas investment facilitation starts at the pre-establishment phase, when an investor shows interest in a location. The first two functions define what investment promotion stricto sensu is and are primarily the business of IPAs. Investment facilitation and policy advocacy are not limited to IPAs and involve a whole-of-government approach (Novik and De Crombrugghe, 2018[8]).

The way MENA IPAs allocate their resources is coherent with their priorities

IPAs require a wide range of skills and sufficient resources to fulfil their core investment functions. IPA budgets vary widely, reflecting the size of the economy and breadth of agencies' mandates. Many IPAs in the MENA region reported that their budgets did not change substantially between 2012 and 2017, though a few agencies experienced wide fluctuations in resources and substantial cuts. Only two IPAs saw their budget increase (IDAL in Lebanon and FIPA in Tunisia). Personnel decreased in half of the MENA agencies; Jordan and TIA in Tunisia were the only IPAs to increase their staff in six years.

Figure 6.3. IPA resource allocation across functions in MENA, OECD and LAC



Source: OECD-IDB survey of investment promotion agencies.

Resource allocation reveals an IPA's strategic priorities relative to other agencies. Among the core investment functions, the average MENA IPA allocates the majority of its budget (Figure 6.3, panel A) and personnel (Figure 6.3, panel B) to investment promotion, i.e. the combination of image building and investment generation, and, to a lesser extent, to investment facilitation, retention and aftercare. Whether among MENA IPAs or worldwide, policy advocacy is the function with the smallest amount of dedicated resources, both in terms of budget and personnel.[2]

Although MENA IPAs allocate their resources in a broadly similar order of priorities to agencies of other regions, some notable differences exist. Relative to OECD and LAC IPAs, the average MENA agency dedicates more resources to image building and less to investment generation. OECD IPAs usually use fewer resources to work on branding or improving their country's image and dedicate most of their promotion efforts to more sophisticated and targeted attraction and generation activities. LAC IPAs also allocate the greatest proportion of their resources to investment generation activities, but dedicate more resources to image building than OECD agencies. IPAs in emerging markets may privilege improving the image of the country as an attractive investment destination due to high competition from labour-intensive, low-wage markets.

Differences in the allocation of budget and personnel across the four investment functions exists in all IPAs. In the MENA region, agencies have much larger gaps between the budget and personnel allocated to investment facilitation compared to other IPAs. One explanation for this could be that most MENA IPAs run one-stop shops (OSS) (a key activity under investment facilitation), which are labour intensive but do not require high-skilled workers. Another explanation for the discrepancy is that, in some agencies, the OSS hosts employees seconded and paid by their line ministries and agencies (e.g. Egypt). That image building and investment generation receive more financial than human resources is due to costly advertisement campaigns (image building) and reliance on high-skilled staff (investment generation), particularly if they work in overseas offices.

The Covid-19 outbreak is reorganising the way IPAs' do business

At the start of the Covid-19 outbreak, MENA IPAs and agencies around the world re-oriented their functions and took emergency action to support and retain existing investors (OECD, 2020[9]). They redesigned and reinforced their aftercare services to focus on existing clients, in particular in strategic and essential sectors. As some of their activities were cancelled (e.g. fairs) and functions put on hold (e.g. marketing and prospection), most of their resources were directed to emergency retention programmes. For example, aftercare represented 70% of FIPA's activities during the outbreak while the agency usually focuses on attracting new investors (OECD, 2020[10]). Some agencies also responded to the crisis by extending fiscal incentives, as GAFI did in Egypt.

The speed of the economic recovery, changes to global FDI flows, and government policies may influence the way MENA IPAs "do business" in the long-term, and how they allocate their resources across their core functions. Some trends apparent before the Covid-19 crisis may accelerate, such as the use of digital means for investment promotion and facilitation. The creation or extension of e-services and digital platforms to support investors were notable among MENA IPAs during the crisis, a trend that is likely to continue. Policy advocacy, a function MENA IPAs dedicate more resources to than OECD IPAs, may become even more relevant in a context where governments are rethinking their wider economic strategies and related investment climate reforms.

Investment promotion: strategies and implementing tools

Investment promotion requires a well-defined and transparent strategy

Strategies define what to promote (i.e. sectors, countries, projects, investors) and how to implement this promotion in practice. They also set targets and related performance indicators to monitor success. It is important that the investment promotion strategy and its main features are developed through a whole-of-government approach as investment priorities need to be aligned with other major policy strategies – including trade, innovation and skills. These strategies are not always publicly available in MENA economies although they could help raise countries' positive image within the international business community and inform about investment opportunities (OECD, 2020[4]).

Prioritising investment promotion efforts should be conducted according to a set of criteria in line with national development objectives. The decision to prioritise should follow an evaluation of the economy's strengths, weaknesses, opportunities and threats, to ensure that it is based on carefully crafted economic rationales rather than political agendas. In the MENA region, prioritisation decisions often come from the highest levels of government, but some MENA IPAs have more autonomy in electing priority sectors, in line with the government's wider development goals. For example, Tunisian law sets out certain priority sectors, but government agencies also seek to prioritise investment that will further certain development goals. The Algerian agency on the other hand primarily executes the directives set by the executive branch.

Virtually all IPAs target some investment over others, even without a clear investment promotion strategy in place. In the MENA region, most IPAs target investment from certain countries (90%), in selected sectors (90%), as well as specific investment projects (70%). Egypt is the only country to prioritise specific investors as well, although the IPA uses the same criteria used to prioritise sectors, including whether the project can support job creation, technology transfer and export potential. Eurasia IPAs mostly prioritise sectors and projects; only a few target specific countries or investors (OECD, 202[11]). Less than half of OECD IPAs prioritise based on country, sector, project and investor (OECD, 2018[3]).

Countries shape their strategies to attract investment that is expected to generate the greatest benefit for the economy. All MENA agencies seek projects that will have a positive impact on domestic firms' production capabilities, the country's image, regional development, jobs and innovation. All agencies that prioritise by sector target industries that have the potential to diversify the economy, and the majority target sectors that promote regional development and reinforce their competitive position vis-à-vis other countries. This reflects an effort to find the right balance between diversifying the economy and tapping into strong domestic capabilities, an approach that is similar to OECD IPAs (OECD, 2018[3]).

MENA IPAs primarily favour partners in international investment and free trade agreements when they prioritise some countries or regions as sources of investment over others. This is similar to LAC agencies, but such agreements are a less important factor for OECD IPAs in their targeting strategy. This difference is probably due to higher barriers to trade and investment in MENA economies compared to OECD countries.

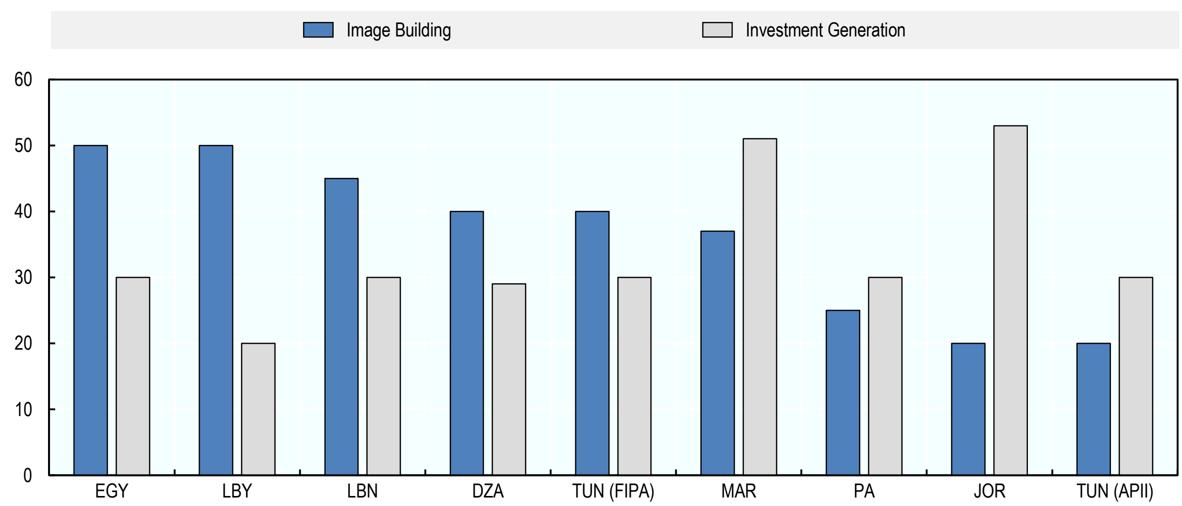
The Covid-19 pandemic and its consequences for the global economy may propel MENA agencies to revise their investment promotion strategies and related prioritisation choices. Particularly relevant are the policy reflections taking place to assess the disruption of value chains and the future positioning of the MENA region within global investment networks (OECD, 2020[10]). For instance, some MENA IPAs such as FIPA in Tunisia plan to adjust their strategies to focus on European companies relocating from China and, following the same logic, to attract Chinese firms to invest in their countries and export to the EU market.

Most economies focus on building their image as an investment destination

To implement a country's investment promotion strategy, an IPA dedicates resources to a variety of tools, including image building and investment generation activities. Most of the MENA agencies dedicate the greatest proportion of their budget to image building activities – between 40-50% – while proactive investor targeting and lead generation activities, i.e. investment generation, receive a higher proportion of budgets in Morocco, Jordan and the Palestinian Authority (Figure 6.4).

Figure 6.4. Investment promotion: image building and investment generation

In % total budget allocated to the core functions, 2017



Note: The functions are image building, investment generation, investment facilitation, and policy advocacy
Source: OECD-IDB survey of investment promotion agencies.

Egypt and Libya, for instance, allocate half of their budgets to image building activities. These often comprise general marketing activities (website and web services, TV, print, and promotion materials such as brochures), and public relations events (road-shows and fora as well as general mission abroad and incoming missions). The priority given to branding the country as an attractive investment destination may be explained by the political and security context in some MENA economies and high competition from other markets with similar capabilities but lower labour costs.[3]

Investment generation is the most important function for three MENA agencies, two of which (Jordan and Morocco) allocate more than 50% of their budget to generation activities. Morocco's focus on investment generation is coherent with AMDIE's recent reorganisation into sector-specific departments and the decision to merge investment and export promotion to promote specific value chains. This structure is similar to OECD agencies such as Business France. Germany, Greece, Poland and Spain also merged investment and export promotion relatively recently (OECD, 2018[3]).

Investment generation can hardly be outsourced as it encompasses sophisticated activities such as intelligence gathering (raw data analyses and market studies), sector and investor-specific events (such as road-shows and missions abroad and incoming missions) and direct targeting of investors (one-to-one meetings, pro-active campaigns and inquiry and request handling). Such activities are sometimes conducted by IPAs' overseas offices, when they exist, thereby increasing budgets allocated to investment generation (Box 6.2).

Box 6.2. IPAs' overseas offices: An effective but costly investment promotion tool

In the MENA region, only IPAs in Tunisia (FIPA) and the Palestinian Authority have overseas offices or dedicated staff in another government agency abroad. AMDIE in Morocco recently closed its six offices abroad because the cost of operating the offices outweighed the benefits, according to the government. Most LAC IPAs do not operate overseas offices. In Southeast Asia, Indonesia's BKPM operates seven offices abroad and BOI in Thailand operates 16 offices, mostly spread in Asia and the Pacific. Three out of four OECD IPAs have their own offices abroad, meaning that they have personnel abroad, dedicated to investment promotion, on their payroll. The average OECD IPA has 34 offices abroad but with wide variations across economies. The Korean, Irish, and Czech IPAs have respectively 36, 19 and 10 offices abroad.

IPAs' overseas offices can make a difference for the agencies' ability to attract FDI but they also strongly weigh on agencies' finances. IPAs have different arrangements to operate their secondary offices overseas with reduced costs. As several OECD IPAs are part of broader agencies covering other mandates, their overseas offices can perform different functions (e.g. trade, investment and tourism promotion). As such, OECD agencies with over 50 overseas offices abroad combine investment with other mandates. Some agencies with offices abroad hire local staff in foreign offices to lower costs. Other agencies do not have their own offices abroad, but place staff in the foreign diplomatic representations or entirely delegate the investment promotion tasks to commercial attaches. There is no consensus on how effective this last approach is; some IPAs with overseas offices report that in their experience staff at embassies are not equipped with the skills to best conduct investment promotion.

Source: (OECD, 2018[3]) (OECD, 2019[1]) (OECD, 2020[6]) (OECD, 2021[7]) (Volpe Martincus and Sztajerowska, 2019[2]).

Investment facilitation efforts and evolving priorities

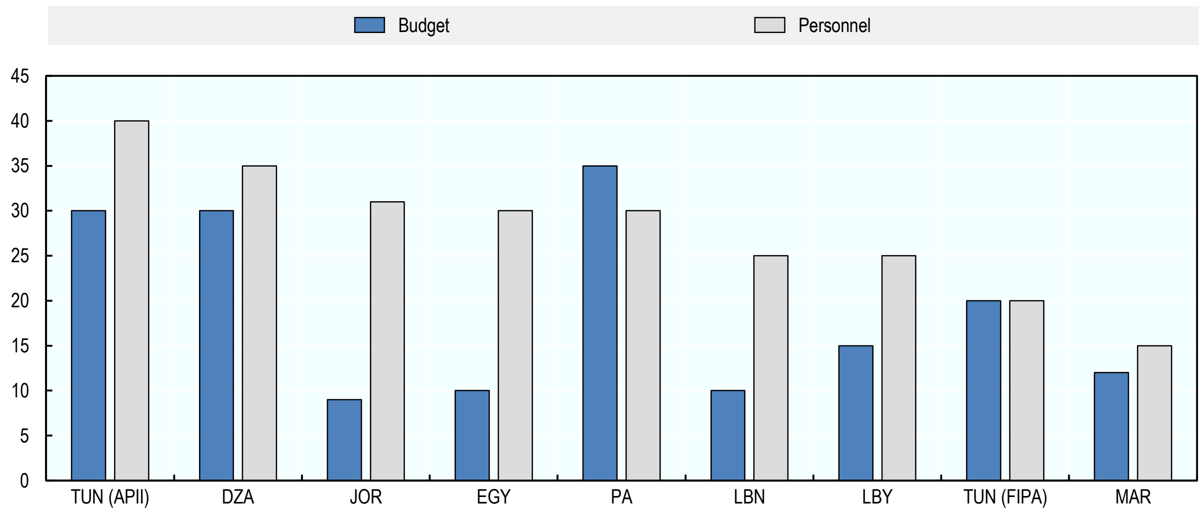
MENA governments dedicate sizeable resources to investment facilitation with the wider objective of improving the business climate. Investment facilitation starts when an investor shows interest in a location. It includes the way IPAs handle inquiries, and measures to reduce obstacles faced by investors once they have decided to invest. Facilitation is also about encouraging existing investors to expand, helping them overcome any operation challenges, and connecting them with suitable local suppliers. Aftercare measures such as structured troubleshooting, ombudsman, intervention, and conflict mitigation, can influence firms' decisions to stay in the country and reinvest.

Investment facilitation efforts are geared towards pre-establishment services…

MENA IPAs provide a wide range of investment facilitation services to investors, although most of them focus on pre-establishment services and less on aftercare and retention activities. This is coherent with objectives of cutting red tape and easing procedures to start a business, which is still a challenge in many MENA economies. The majority of IPAs offer assistance with business registration through their OSS, which are labour intensive but do not require high-skilled workers. The focus on labour-intensive services explains the large gap that exists between budget and personnel allocated to investment facilitation across most agencies (Figure 6.5). This gap is higher among MENA agencies compared to OECD and LAC IPAs, the majority of which do not run OSS.

Figure 6.5. Investment facilitation and retention: personnel and budget allocation

In % total personnel and budget allocated to the core functions, 2017



Note: The functions are image building, investment generation, investment facilitation, and policy advocacy.
Source: OECD-IDB survey of investment promotion agencies.

One MENA IPA with a strong focus on pre-establishment services is GAFI in Egypt. To address persistent doing business challenges, the IPA recently established investor services centres in different governorates of the country, offering a wide range of government services to incoming investors (Box 6.3). The Algerian agency allocates considerable resources to investment facilitation as it has an extensive network of subnational offices that support both foreign and domestic investors in establishing their business. The newly established TIA in Tunisia focuses on facilitating large investors' establishment and handling their incentives requests, and less on providing aftercare services than the other Tunisian IPA FIPA, although a better separation of the functions of each agency is still needed.

Box 6.3. One-stop-shops: The investor services centre in Egypt

One-stop shops (OSS) involve placing officials from different government agencies and ministries under the same roof to centralise administrative procedures and requirements for incoming investors. They are often established under the IPA and are frequently geared towards foreign businesses. OSS can reduce transaction costs for businesses if they are fully-functional but they can become "one-more stop" if officials from external ministries do not have sufficient decision power to issue themselves the permit and need to seek approval from their line ministry or ask the investor to directly contact the ministry. They can also be costly, as they force ministries to duplicate or multiply the number of officials to allow a presence in both their own administration and the OSS offices.

Egypt's Investors Services Centres (ISC) were set up in 2017 in several governorates to grant the approvals, certifications and licences that are necessary for establishing and operating a company. Depending on their level of development and geographic location, each ISC has a different number of external agencies and ministries represented. For example, 28 ministries and public agencies were represented in Alexandria's ISC as of 2018. The ISCs follow a number of good practices. First, they are not mandatory entry points for investors, providing an incentive for ISCs to remain efficient. Second, ISCs are equipped with a Customer Relationship Management system, which includes key performance indicators for monitoring performance. Third, the costs of the ISCs seem to be efficiently and equitably shared between GAFI and external ministries.

The ISCs have been welcomed by the business community but more time is needed to evaluate their long-term influence on the business environment. One of the main points is to ensure licensing decisions can be taken within the ISCs, without having to reach out to line ministries if a case is not straightforward. It is also important that the decisions to grant or refuse a business licence are based on transparent criteria and made publicly available, with a right of appeal for investors.

Source (OECD, 2020[4])

More specialised agencies such as Morocco's AMDIE and Tunisia's FIPA allocate fewer resources to investment facilitation and the gap between budget and personnel is smaller, probably reflecting the absence of a labour-intensive OSS service. In both countries, other bodies provide such assistance (e.g. the newly established TIA in Tunisia), potentially leaving more space for IPAs to offer more tailored business services. In addition, business registration procedures are more streamlined – both countries are in the top 50 in the World Banks' Doing Business ranking on the ease of starting a business – potentially reducing the need to set-up an OSS service.

…but during Covid-19 outbreak agencies focused on existing investors

The Covid-19 outbreak and the resulting health measures changed IPAs' modus operandi and the type of assistance required by clients. Immediate, short-term responses focused on existing clients and information provision (OECD, 2020[10]). Most MENA agencies set up crisis units to inform and communicate with existing investors, to respond to their queries and to follow up on production disruptions:

- GAFI in Egypt adopted new measures to facilitate the operations of the ISCs and set up electronic services to ensure that communication with investors was operational despite initial confinement measures.
- The Jordan IPA established a "Crisis Management Group" to communicate regularly with investors, discuss issues, devise solutions for the retention of investments, and provide support to investors as needed.
- The Lebanese IPA posted online all measures initiated to help businesses overcome the crisis, from tax incentives to targeted awareness campaigns, building on an earlier initiative to respond to the political and economic crisis Lebanon was facing prior to the pandemic. IDAL also created online legal and advisory services, free of charge, to support firms with health, financial and fiscal measures.
- AMDIE in Morocco set up a dedicated unit to provide information and aftercare services to investors and co-ordinate crisis responses with other institutions.
- FIPA in Tunisia created a crisis unit, including staff from overseas offices to inform on the situation and specific government measures, collect information on foreign investors' operations, co-ordinate with partners to respond to issues faced by investors, and support the implementation of solutions.

MENA IPAs' shift towards supporting existing investors and intense aftercare during the Covid-19 outbreak have pushed the agencies to develop new digital tools and innovative retention services that they were lacking before the crisis. As investment facilitation requires a whole-of-government approach, some IPAs had to intensify their co-ordination with other government agencies. MENA IPAs could consider operating some of these tools and services in the longer term, and adjust them to become permanent.

Monitoring and evaluation

Pressure on MENA IPAs to demonstrate success has been growing in the past few years, because of tighter budgets and uncertainties on the impact of FDI on inclusive and sustainable development (see Chapter 2 on FDI trends and benefits). Ensuring the efficiency and effectiveness of IPAs' actions is a constant preoccupation of governments in other parts of the world too. This trend is likely to accelerate following the Covid-19 outbreak as IPAs are more than ever pressed to attract FDI that can contribute positively to sustainable development. To ensure accountability, IPAs need to have accurate information about their activities and actions. Robust and formal monitoring and evaluation systems (M&E) are therefore required.

Before monitoring, there needs to be an evidence- and consensus-based decision on what is worth tracking, which is closely linked to the IPA's strategy; after that, it is necessary to define targets or key performance indicators (KPIs) (Sztajerowska, 2019[12]). According to the OECD-IDB survey, most IPAs in the MENA region report the existence of such target objectives. These targets are often not publicly available, however, nor is the strategy that underlies them. This may make it difficult to understand how targets are selected and defined and how objectives are linked to the IPA's overall strategy.

Some agencies such as IDA Ireland or CINDE Costa Rica devote an entire report to describe their strategy and how it translates to priorities and measurable targets. IDA's strategy includes quantified targets based on "a detailed assessment of the Global FDI marketplace, the outlook for sectors". The targets often relate to the amount of investment, the number of jobs created or spending on R&D. Although similarities exist with MENA IPAs strategies, such as the definition of key sectors, IDA and CINDE's reports are enriched with targets and a detailed action plan on how to attain them.

Most of the eight MENA focus economies report that their IPAs have an M&E unit and extensively use customer relationship management (CRM) tools to measure the agency's performance and impact on the economy. Such responses to the OECD-IDB survey are hard to reconcile with the fact that robust M&E is costly and difficult to implement, and thus often not well developed, including in OECD IPAs with higher budgets and more staff trained in evaluation techniques (OECD, 2018[3]). Qualitative discussions with MENA IPAs clarified that many agencies seem to have some sort of audit or quality control, but few have a proper horizontal unit dedicated to monitoring performance.

MENA agencies put more weight on monitoring how investment projects relate to development outcomes rather than monitoring their operational performance in providing adequate services. The majority monitor the number of jobs created and regional development, although some IPAs like PIB Libya report monitoring all outcomes, a response that contrasts with the resources of the agency and the type of FDI it receives (Table 6.1). Some agencies such as ANDI in Algeria or GAFI in Egypt require by law that investors granted tax incentives report on certain outcomes, such as the number of jobs created. This information allows them to take corrective action if investors do not deliver on their promises. MENA IPAs are more likely to take corrective action if investors do not deliver on their job creation promises than if they breach responsible business conduct (RBC) standards. This may differ for JIC in Jordan and AMDIE in Morocco as both IPAs host the National Contact Point (NCP) for RBC (See Chapter 10 for further details).

Another key aspect of the M&E organisational setting is the reporting process of the IPA to the government, and whether the reporting is publicly available. All agencies produce financial reports and most of them produce activity reports that are submitted to the government or the IPA board, although those reports are rarely available on the IPA's website. In the UK, the Department for International Trade includes in its annual report a dedicated performance section providing the list of objectives along with the key performance measures and a detailed assessment of its performance.

Table 6.1. Outcome indicators of MENA IPAs

		DZA	EGY	JOR	LBN	LBY	MAR	PA	Tunisia	
	% of OECD IPAs	ANDI	GAFI	JIC	IDAL	PIB	AMDIE	PIPA	FIPA	TIA
Total FDI	81%	✓	✓	✓	✓	✓	✓	✓	✓	✓
Jobs	88%	✓	✓	✓	✓	✓	✓	✓	✓	✓
Wages	28%		✓			✓		✓		
Exports	34%	✓	✓			✓	✓	✓		
Innovation / R&D	53%	✓	✓			✓		✓		✓
Regional Development	41%	✓	✓	✓	✓	✓		✓	✓	✓
Tax Revenue	16%	✓				✓		✓		
Capacity of Domestic Firms	22%	✓			✓	✓		✓		✓
Trainings of MNEs to their staff or to local firms	n.a.	✓				✓		✓		
Investors Record on RBC	6%					✓		✓		✓
Green Investment	23%	✓	✓			✓		✓		✓
Sustainability	19%	✓	✓			✓		✓		✓

Source: OECD-IDB survey of investment promotion agencies.

Promoting and facilitating investment in regions and provinces

With the international fragmentation of production and services, investors are increasingly attracted to what they get from a specific city or region (Crescenzi, Di Cataldo and Giua, 2019[13]). Locations within the same borders can differ greatly in their attractiveness due to varying productivity levels, skills attributes and other local ecosystem characteristics. MENA economies are no exception and those with access to the Mediterranean Sea have considerable inequalities between coastal areas and inland regions, which has also fuelled social tensions. Governments have been seeking to attract investors to less developed regions but their attempts have focused on national policies such as tax incentives in specific regions and less on developing, together with local institutions, subnational investment promotion strategies, thereby not taking into account that each region is unique in the way it competes in national and global investment networks.

The degree of state centralisation influences the local dimension of investment promotion and facilitation

A government's institutional configuration influences the way it conducts investment policy at the local level. This configuration is determined largely by the level of centralisation of economic policy and the related governance mechanisms between central and subnational government bodies (region, state, province or city). Some countries choose to centralise investment promotion at the level of the national IPA, which may or may not have a network of subnational offices. Others, often with more decentralised governance or economic systems, establish subnational IPAs that are partly or fully independent from the central agency.

All MENA economies are unitary states with a strong history of centralisation.[4] Accordingly, most of them have a centralised approach to investment promotion and facilitation. Around a third of MENA IPAs never contact agencies at the subnational level and report difficulties working with local governments, which often lack the adequate skills. Only a few consult them to integrate local development plans into their national attraction strategy. IPAs work with their own local branches, when these exist, rather than with separate, decentralised entities. Branches focus on the provision of facilitation and aftercare services and sometimes run OSS services. Among the eight MENA focus economies, Tunisia's FIPA and Morocco's AMDIE are the only IPAs with no subnational offices. In Morocco, the national IPA cooperates with the recently reorganised regional investment centres, which are under the authority of governorates (*wilayas*) and coordinated, at central level, by the Ministry of Interior. The regional investment centres are autonomous agencies that provide single window services, conduct economic intelligence, promote the regions, and offer dispute settlement services.

Many other countries have a centralised system of national IPAs that interact with subnational branches, including emerging economies such as Thailand and OECD economies including Japan, Ireland or the Czech Republic (OECD, 2018[3]) (OECD, 2021[7]). The approach of many other IPAs is to share investment promotion and facilitation responsibilities with governorates and institutions or, in some, cases, fully rely on them. This has been the approach followed by almost half of OECD IPAs as well as countries like Viet Nam, where provincial authorities were empowered to improve their own investment climate and develop investment promotion tools (Box 6.4).

Box 6.4. Decentralised investment promotion and facilitation: the experience of Viet Nam

In Viet Nam, the Investment Law of 2005 (subsequently superseded by the Investment Law of 2014) transferred the authority to issue investment certificates and business registration certificates, among other things, to the 58 provinces of the country. Provincial authorities were formally empowered to improve their own investment climate. Teams were charged with facilitating FDI in each province and many provinces were able make significant changes in the rules and regulations governing business activities. Each province has a Department of Planning and Investment (DPI), which is responsible for investment-related activities and reports to the province’s People’s Committee.

Provincial DPIs perform various functions pertaining to investment attraction, such as marketing their location as an investment destination, conducting promotional missions in overseas markets and organising site visits for prospective investors. Some provinces also have dedicated Investment Promotion Centres, which are either located under the DPI or directly under the authority of the People’s Committee. For example, the Investment and Trade Promotion Centre of Ho Chi Minh City provides local and foreign companies with required information and consulting services, and arranges match-making between domestic businesses and foreign affiliates. Some provinces, such as Hanoi City and Ho Chi Minh City, have opened representative offices overseas.

While provinces serve as the entry point for investors to establish businesses, their level of activity and efficiency in terms of investment promotion greatly depend on local capacities and resources. With decentralisation in place, peer learning among provinces helped to boost business climate reforms at the local level, although the decentralisation of investment promotion has also generated some opportunities for bribery and corruption.

Source: (OECD, 2018[14]).

After 2011, some MENA economies initiated reforms to address citizens’ demands for more participative governance and more efficient public services at the local level, with regional development as a central objective. Morocco introduced the objective of regionalisation in the 2011 Constitution and undertook advanced regionalisation reforms in 2015 but outcomes have yet to meet expectations (OCDE, 2018[15]). Tunisia’s 2014 Constitution dedicates a chapter to decentralisation and the government passed a decentralisation law and set up elected local councils in 2018. With the 2015 decentralisation law in Jordan, the country has undertaken a first step towards a bottom-up approach to the identification of service needs and policy priorities, based on the role of the new local councils. In Tunisia and Jordan, the creation of elected local bodies was not accompanied by a transfer of fiscal power, thereby limiting public action at the local level.

The rationale for conducting investment promotion activities at the local level

Investment promotion and facilitation should strike a balance between centralised strategic decision-making and sufficient leeway for subnational governments to exercise their power. The central government alone cannot foster economic attractiveness, suggesting the importance of a multi-level arrangement. At the same time, having a single point of entry for foreign companies and investors has demonstrated success (Pasquinelli and Vuignier, 2020[16]).

There are four main reasons for conducting investment promotion activities at a local level (Millenium Cities Initiative, 2009[17]):

- *Development objectives*: subnational bodies and the central government may have different economic development objectives and competitive advantages;
- *Knowledge of their location*: subnational bodies have greater knowledge of their area's strengths and weaknesses, and are thus better able to market them by providing accurate information to investors;
- *Facilitation on the ground*: as subnational bodies are closer to local decision-makers, they are better positioned to assist investors in their establishment and post-establishment phases; and
- *Attracting domestic investment*: for many regions, attracting companies from the same country can be as important as attracting foreign investors. Subnational bodies can apply the same principles and techniques as those used to promote FDI as well as more successfully link their operations to the local economy.

Whether there is a network of national IPAs with local branches or a system of independent subnational IPAs, MENA governments could give subnational bodies more room to conduct investment promotion and facilitation tasks. Evidence from the European Union's regions shows that FDI responds better to the activity of subnational IPAs operating in closer proximity to investors' operations (Crescenzi, Di Cataldo and Giua, 2019[13]). The experience of Viet Nam has shown that investment promotion measures carried out at the local level can help increase both domestic and foreign investment, and enhance the contribution of investment to local economic development. Some decentralisation of investment promotion has also provided Viet Nam's provinces with an incentive to become more efficient in their efforts to improve the investment environment (Box 6.4).

Even if the priority of subnational branches of MENA IPAs is to facilitate investors' establishment, developing more tailored investment attraction tools is equally relevant. The multiplicity of subnational investment promotion activities does not automatically lead to a race to the bottom between different locations. Evidence shows that neighbouring cities (or regions), including within the same country, can attract foreign investment from different geographical sources and in distinct economic activities or segments of the supply chain (Wall, 2019[18]). National investment promotion strategies often disregard their cities' specificities and competitors, and reflect the country's wider competitive advantages relative to other countries.

Casablanca and Cairo, for instance, do not necessarily compete over foreign investment because they attract different types of investors (Wall, 2019[18]). Casablanca's rivals are port cities spread over different continents and include Panama City, Danang (Viet Nam) and Valencia. Cairo's competitors are often cities like Algiers, Riyadh and Tunis. One reason Casablanca has global rivals is likely because the city is well anchored in global value chains and has access to maritime networks. Casablanca and its rivals compete over efficiency-seeking investment in automotive, business services and transport sectors. In Cairo, the world's 16th largest metropole, foreign investors are more interested in serving domestic consumers and in using the capital to reach the African or Middle Eastern market. Cairo, and its city rivals, compete over FDI in real estate, energy and financial services.

Comparative information on city competitors can help MENA IPAs, with their subnational branches, or subnational agencies, craft investment promotion strategies tailored to the competitive strengths and potential of each territory. It can also help in developing policy tools that connect foreign investors with local suppliers. For instance, smaller cities may concentrate efforts in attracting large companies (e.g. by offering generous tax incentives) instead of focusing their promotion strategies and tools on prospecting smaller investors that they can realistically attract. Investment promotion tools to attract such second-tier firms might prove useful as these firms may forge stronger linkages with local companies than large companies, because of lower absorptive capacity gaps and higher labour mobility.

Sharing investment promotion responsibilities across different levels of government can bring a number of challenges. Some regions may resist foreign-funded projects that were directed to the region by the central agency because of perceived environmental risks to the local population or concerns that local firms may suffer from increased competition. At the same time, because of inter-regional competition, national IPAs can be deliberately excluded from locally identified opportunities or, on the contrary, become arbitrators (i.e. deciding to which region should they direct a foreign investor) and face difficult decisions.

Co-ordination tools party help to overcome these challenges. In Sweden, a code of conduct agreement among the national IPA and the regions was established to better communicate opportunities and encourage exchange of information. The French IPA has a formal information-sharing process to increase the efficiency of the collaboration with subnational IPAs. The agency created a “marketplace” of projects and shares information weekly with its regional partners about new foreign investment projects identified, and requests made at the regional level (OECD, 2018[3]). Thanks to this platform, partners can coordinate their responses and identify areas for joint action. This framework guarantees the impartiality and neutrality of Business France vis-à-vis all the regions (not favouring one over the other when bringing new projects.

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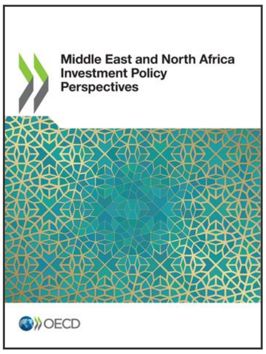
Notes

[1] The Tunisian institutional landscape for investment promotion and facilitation includes other agencies such as the Agency for the Promotion of Industry and Innovation (API).

[2] IPAs do not structure their investment budgets into the four categories, therefore the budget breakdowns are based on estimates provided by agencies, and should be treated as approximations. Budget allocated to fiscal incentives is not taken into consideration. Chapter 7 provides an inventory of tax incentive policies in MENA economies.

[3] For instance, Egypt marketing campaign during the 2018 FIFA World Cup aimed at reinforcing the branding of the country as an entry door for foreign investors to the Africa market.

[4] Unitary states are states governed as a single power in which the central government is ultimately supreme. Iraq, which is not covered by this chapter, is the only MENA exception as it is a federal state.



From:

Middle East and North Africa Investment Policy Perspectives

Access the complete publication at:

https://doi.org/10.1787/6d84ee94-en

Please cite this chapter as:

OECD (2021), “Investment promotion and facilitation strategies”, in *Middle East and North Africa Investment Policy Perspectives*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/884d5324-en