Policy Insights

Investment Promotion in Eurasia

A Mapping of Investment Promotion Agencies

OECD

GLOBAL RELATIONS
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Policy Insights

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Foreword

Like most governments around the world, Eurasia governments have established investment promotion agencies (IPAs) to promote their countries as investment destinations, attract foreign direct investment (FDI), and facilitate foreign investors' establishment and expansion in the domestic economy. This report takes stock of Eurasia governments' efforts to attract foreign investment, and offers comparisons with investment promotion practices in the OECD, Middle East and North Africa (MENA) and Latin America and the Caribbean (LAC).

The report is part of a wider mapping of IPAs, based on an extensive survey designed and conducted by the OECD, in partnership with the Inter-American Development Bank (IDB). In Eurasia, the mapping was carried out by the OECD Eurasia Competitiveness Programme, with the support of the European Union's EU4Business initiative and the government of Kazakhstan.

This report is based on data from the OECD-IDB IPA database, which contains information on investment promotion agencies and practices from 69 economies in total, including 32 from the OECD, 10 from Eurasia, 19 from LAC, and eight from MENA. The respondent countries in Eurasia include Afghanistan, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan, Ukraine and Uzbekistan. The report also draws on discussions held with IPAs in the framework of various workshops and missions.

The aim of this report is to foster peer learning among IPA practitioners and policymakers by better understanding differences and similarities across agencies. The report also suggests avenues for Eurasia governments and their IPAs to consider in the future development of their investment promotion efforts. It paves the way for further analytical and evidence-based investment promotion work on topics of interest to OECD and non-OECD countries.

The OECD thanks all Eurasia IPAs that have participated in the mapping for their availability and their contributions to discussions held during workshops and seminars.

The report was drafted by Peline Atamer, Project Manager, and Fabio Ascione, Junior Policy Analyst, of the Eurasia Division of the OECD Global Relations Secretariat (GRS), under the leadership of Ana Novik, Head of the Investment Division of the OECD Directorate for Financial and Enterprise Affairs (DAF), and William Tompson, Head of the Eurasia Division (GRS). Valuable feedback and comments were provided by Alexandre de Crombrugghe, Economist and Project Manager (DAF); Alexander Böhmer, Head of the Southeast Asia Division (GRS); Arnault Prêtet, Project Manager (Eurasia/GRS); Daniel Quadbeck, Senior Policy Analyst (Eurasia/GRS); and Talisa zur Hausen, Policy Analyst (Eurasia/GRS).

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Key highlights

- **All Eurasia governments have established investment promotion agencies** (IPAs) as focal points of their investment promotion efforts. As these efforts are readjusted to adapt to an expected drop in FDI levels due to the COVID-19 crisis, the role of these IPAs will likely evolve. This report can provide guidance to policy-makers reflecting on how to strengthen their roles.
- **Eurasia IPAs are relatively young**: most were created within the last decade. Even so, many have already undergone important restructuring, which poses challenges for their development in terms of instability of mandates and institutional configurations, and high staff turnover.
- **IPAs' governance models are relatively homogeneous across the region**. A large majority are governmental IPAs, and few of them have advisory or strategic boards. Most report to a ministry in charge of investment policy or attraction.
- **Investment promotion in Eurasia is closely associated with regional development and economic diversification objectives**, as reflected in IPAs' mandates and prioritisation strategies. Strategic objectives, however, could evolve as the COVID-19 crisis unfolds. Their monitoring and evaluation tools, however, are not always well aligned with strategic objectives.
- **Eurasia IPAs operate with limited resources**, particularly when compared to OECD agencies. This is not surprising – IPA budgets tend to be correlated with GDP *per capita* – but it means that Eurasia IPAs need greater strategic focus than IPAs with greater resources.
- **The great majority of Eurasia IPA staff have short tenures in their agencies**, and in some countries, the staff lack private-sector profiles. Private-sector experience can be critical in functions such as marketing and sector-specific advisory services and can thus be a great asset for IPAs.
- **Half of Eurasia IPAs have a "balanced" profile**, meaning that their resource allocation across the four core functions of investment promotion is close to the average. Balanced IPAs typically try to cover all aspects of investment promotion, but do so with more limited resources than do their peers with strong facilitation and policy advocacy functions.
- **Eurasia IPAs tend to spend more resources on image-building** than their OECD peers. This trend reflects a shared perception that countries have not yet built an image of themselves as "places to do business" and must thus work harder to put themselves "on the map". The COVID-19 crisis is likely to affect activity mixes, however, as investor retention becomes critical in a context of declining FDI flows.
- **Messages regarding investment facilitation and policy advocacy are mixed**. While IPAs recognise the importance of these functions, they deliver significantly less assistance on administrative and business issues and engage in less structured dialogue with governments than OECD IPAs.

- **Their policy advocacy functions, in particular, seem weak when compared to OECD IPAs,** as they entail fewer and less formal activities. Although they recognise that domestic investment climates are both important and often a challenge, Eurasia IPAs' role in helping to address such challenges is not clear.
- **Sixty percent of Eurasia IPAs have mandates to operate as one-stop-shops, but they tend to spend fewer resources on facilitation and aftercare** activities than their peers. Although they spend more in policy advocacy than OECD IPAs, their roles seem rather informal and less structured.
- **Overall, Eurasia IPAs engage in monitoring and evaluation activities as much as their peers in other regions**. They however tend to focus more on output as opposed to outcome indicators, and few are equipped with data-tracking tools such as Customer Relationship Management (CRM).

Avenues to support the development of investment attraction in Eurasia

- Gradually granting Eurasia IPAs **more institutional independence** could enable them to establish themselves as go-to partners for investors and as policy influencers. This suggests **a need for autonomous budgets, shorter reporting lines and greater decision-making powers**. Shorter reporting lines could also contribute to greater whole-of-government coordination in dealing with critical issues such as large, complex projects and policy barriers to investment.
- In parallel, the contribution of Eurasia IPAs to the investment policy process could be enhanced. IPAs' **links with the private sector could be strengthened through both private-sector representation in IPA governance and greater recruitment of staff with relevant private-sector experience**. Further formalisation of the policy advocacy function of IPAs would also help ensure that IPA experience was used to facilitate investment and prevent disputes, but also to build institutional knowledge and capacity. Ultimately, it could support the effective implementation of broader reforms to enhance business climates across the region.
- **Strengthening aftercare** could also be beneficial. In addition to triggering re-investment, it would contribute to greater understanding of policy issues via an ongoing dialogue with existing investors. This dialogue may prove particularly important in the wake of the COVID-19 crisis, as MNEs reconsider their investment strategies.
- Further **strategic and business planning** would help align governments and IPAs on clear strategic targets and ensure that limited resources were aligned with key objectives. The effects of the COVID-19 crisis on international investment and the consequent need to rethink national investment strategies can provide a window of opportunity for governments to strengthen their approaches. Aligning objectives and resources will especially critical in a post-COVID context of increasing competition for investment.
- Eurasia IPAs would benefit from **enhancing their digital communications tools, including their websites**. More generally, they should seek to develop their digital capabilities as the COVID-19 crisis is driving the acceleration of the digitalisation of the economy.

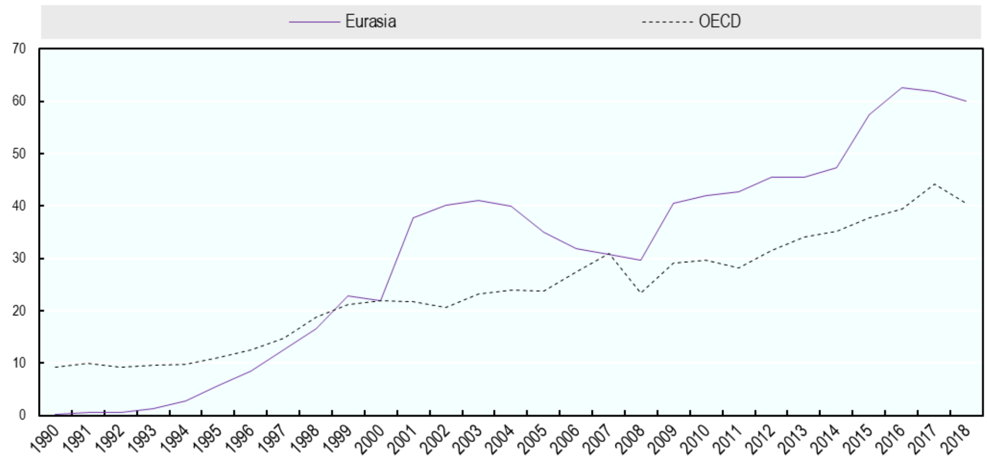
- Eurasia governments and IPAs could consider leading some **joint promotion initiatives as a means to enhance the visibility of the region as a whole**, when appropriate. This would serve the wider regional integration and connectivity agenda. The potential here is particularly great in Central Asia: though individually small economies, they together constitute a substantial regional market.
- The monitoring and evaluation function of Eurasia IPAs would benefit from **better data-tracking systems and tools, such as CRM software**. Reporting authorities should also make sure to work with manageable sets of meaningful indicators, i.e. indicators that can help determine whether the IPA actions generates expected economic and social outcomes. Developing this approach would help extend the investment promotion efforts' contribution to sustainable development and responsible business conduct, and can help maximise the contribution of foreign investment to economic recovery after a crisis.
- **Stronger links with sub-national stakeholders** would help IPAs better realise their missions to attract investment in the regions. This requires more co-operation processes, tools and mechanisms, such as informal or formal agreements (i.e. "codes of conduct") and shared CRM systems.

Introduction

Eurasia governments, like virtually all governments around the world, deploy ranges of policies, measures and tools to attract foreign direct investment (FDI). In recent years, they have been establishing Investment Promotion Agencies (IPAs) to promote their countries as investment destinations, attract investment, and facilitate foreign investors' establishment and expansion in the domestic economy. Exploring the roles and activities of these IPAs, and comparing them with international practices, based on surveys carried out between 2017 and 2019, is the purpose of this report. As the COVID-19 pandemic is provoking a worldwide economic crisis with repercussions for capital flows and global value chains, the work of IPAs is likely to be affected in a number of ways, although long-term impacts are impossible to predict at this point. This report highlights some early trends. The underlying principles of investment promotion, though, should remain relevant. This introductory chapter sets the scene by providing insights on the historical importance of FDI for growth and development in Eurasia, and on the overarching framework of investment promotion. It then presents the purpose and methodology of the comparative analysis at the heart of this report.

From the early 1990s until 2018, foreign direct investment (FDI) was a key driver of economic growth and transformation in Eurasia. It was instrumental for both state-owned asset privatisation and the attraction of greenfield investments (Deichmann et al., 2003[1]; Havlík, Hunya and Zaytsev, 2018[2]). While Eurasia economies started from very low FDI stocks in the early 1990s, FDI picked up and accelerated after the end of the 1990s, and eventually surpassed OECD levels, relative to GDP, at the turn of the century (Figure 1). The total FDI stock in Eurasia represented almost 60% of GDP in 2018, as opposed to around 40% in the OECD.

Figure 1. Evolution of inward FDI stock as a % of GDP



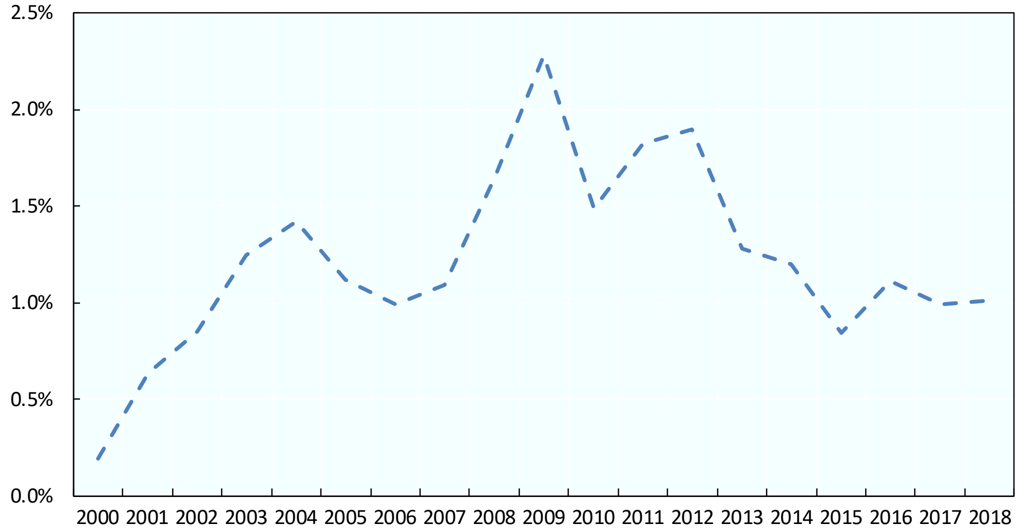
Note: Eurasia countries include Afghanistan, Azerbaijan, Armenia, Belarus, Georgia, Mongolia, Moldova, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.
Source: Author's elaboration based on UNCTAD Statistics (2020)

In 2018, FDI in the region remained highly concentrated in terms of sectors, destinations and, for some economies, countries of origin. Investments in the extractive sector still represented 68% of total FDI stocks in countries of Central Asia and 80% in Azerbaijan, whereas in Chile and Canada – two OECD countries with strong resource-based sectors – these shares were, respectively, 29% and 23%. In Ukraine, FDI is relatively concentrated in financial services, metallurgy and food processing. Kazakhstan is the main FDI recipient in the region as the country received 31% all of FDI inflows between 2014 and 2018, followed by Azerbaijan (18%) and Turkmenistan (14%). Ukraine is the main non-oil FDI recipient, receiving 12% of total 2014-2018 FDI inflows, along with Georgia (9%) and Belarus (8%). The Russian Federation is the main investing country in Belarus, Armenia and Moldova, and ranks among the top five investing countries in several other Eurasia economies. China accounts for respectively 43% and 40% of Tajikistan and Kyrgyzstan's FDI stocks, while the Netherlands account for 44% in Kazakhstan. Diversifying FDI to support industry upgrades and the development of new sectors and activities thus stands high on Eurasia countries' agendas.

The global COVID-19 crisis, which started in the first quarter of 2020, may hit Eurasia economies harder than the 2008 financial crisis did. Some of these economies have been following the trend of increasing global integration and are thus more exposed to the systemic effects of the pandemic, which are already expected to be worse than during the 2008 crisis. Energy-exporting countries of the region are also more vulnerable than in 2008, as the situation on oil markets is particularly difficult due to the compound effects of containment measures on demand and oil price war before the start of the pandemic.

Even before the COVID-19 crisis, the Eurasia share of FDI, after reaching peaks in 2009 and 2011-12, had fallen to 1% of global inflows in 2018 (Figure 2). Other emerging economies, particularly China and Brazil, had increasingly attracted the attention of international investors (OECD, 2018[3]). Falling oil prices and liquidity constraints in the domestic financial sector had had further negative repercussions for some Central Asian economies, including Kazakhstan, while Ukraine faced security challenges and resistance from powerful domestic interests to many reforms aimed at improving business and investment environments (Balás et al., 2018[4]). The COVID-19 crisis will bring more challenges. Even if effects on FDI will likely depend on the duration and impact of the pandemic across countries and regions, the OECD forecasts a sharp decline. Under the most optimistic scenario, global FDI flows should drop by -30% in 2020 (OECD, 2020[5]). Furthermore, primary sectors are expected to be particularly affected.

Figure 2. FDI inflows in Eurasia as a share of global FDI inflows



Source: Author's elaboration based on UNCTAD Statistics (2020)

Investment promotion and facilitation efforts and the role of IPAs

Eurasia countries have been building institutional capabilities and taking steps to improve their investment environments. All of them have – albeit to varying degrees – undertaken reforms to create more transparent and predictable frameworks for investment. These reforms include the signature of agreements with the EU that include fundamental rules of investor protection in Eastern Partnership countries, privatisation programmes and liberalisation measures in some Central Asian countries, and efforts from most governments to progress on indicators of the World Bank Doing Business ranking. Eurasia governments have also created dedicated investment promotion agencies (IPAs) to attract FDI, in particular.

As highlighted in the Policy Framework for Investment (2015[6]), investment promotion and facilitation can be a powerful means to attract FDI and maximise its benefits, in the context of broadly sound investment climates. Investment promotion consists in leveraging the strong points of a country's investment climate, highlighting profitable investment opportunities and identifying local partners. The rationale for investment promotion finds its roots in the need to correct or mitigate market imperfections, particularly to overcome information asymmetries (Wells and Wint, 1990[7]; Loewendahl, 2001[8]). Many countries have chosen to set-up dedicated IPAs to act as focal points in the institutional effort to attract foreign investment. The role of IPAs is to promote their countries as attractive investment destinations, bring new investors to the country, facilitate their establishment, and help existing investors expand in the economy. IPAs can also play a key role in the investment policy design through their policy advocacy functions, providing feedback to the government based on their field experience with MNE projects.

In Eurasia, investment promotion efforts are relatively recent. Governments have set up IPAs in the last decades, along with ongoing efforts to structure investment promotion strategies. These trends reflect the region's increasing interest in private sector development as a means to bring new capital and innovation capabilities, in a context of increasing connectivity with the rest of the world.

Governments and IPAs will need, however, to redouble their efforts to avoid a reversal of steps already taken to attract diversified FDI. Beyond the measures already undertaken to mitigate the immediate economic costs of the pandemic, governments will need to reflect on the longer-term effects of the crisis on investment and the best way to adjust their approaches in this particularly challenging context. Stiffer competition with other economies for FDI attraction and greater risk-aversion from MNEs, in particular, will more than ever require decisive action to address structural weaknesses and ensure favourable business climates (OECD, 2020[9]). The role of IPAs in communicating adequately with foreign investors, and their contributions to the necessary policy reforms, will be an important part of this effort.

Purpose of the OECD-IDB IPA mapping and report

This report builds on previous work done by the OECD and IDB on investment promotion agencies (OECD, 2018[3]; OECD, 2019[10]; Volpe Martincus and Sztajerowska, 2019[11]). It expands the existing knowledge with a regional focus on Eurasia countries by providing a comprehensive and comparative mapping of current investment promotion practices of IPAs in the region (see Box 1 for details). Its objective is to identify key trends across agencies and provide comparisons across regions using a database of IPAs in 69 economies, including 32 from the OECD, 19 from Latin America and the Caribbean (LAC), and 8 from the Middle East and North Africa (MENA). While region-wide comparisons are helpful for identifying trends, they should not be construed as systematic assessment against a "gold standard". The aim is to foster peer learning among IPA practitioners and policymakers, allowing them to better understand what drives differences and similarities across agencies, and to reflect on future strategic orientations with new insights and ideas. The report thus suggests avenues for Eurasia governments and their IPAs to consider in the future development of their investment promotion efforts.

Box 1. The OECD-IDB Survey of Investment Promotion Agencies

The OECD and Inter-American Development Bank (IDB) jointly designed a comprehensive survey of IPAs, which was rolled out in three groups of countries (OECD, LAC and MENA) between 2017 and 2019, before being conducted in countries of the OECD Eurasia Competitiveness Programme (ECP). Based on the survey results, this report provides insights and trends of current organisations and practices of 10 Investment Promotion Agencies (IPAs) from countries of Eastern Europe, the South Caucasus and Central Asia, here grouped under "Eurasia". Participating countries are Afghanistan, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan, Ukraine and Uzbekistan. Armenia and Moldova have not yet participated in the exercise, as their agencies were going through major changes and restructurings at the time the survey was carried out.

The survey is divided into nine parts:

- Basic profile;
- Budget;
- Personnel;
- Offices (home and abroad);
- Activities;
- Prioritisation;
- Monitoring and evaluation;
- Institutional interactions; and
- IPA perceptions on FDI.

IPA respondents completed the questionnaire between March and July 2019. The preliminary results of the survey were presented and discussed at an OECD workshop on investment promotion and facilitation on 22 October 2019.

This report is divided into three chapters. The first explores IPAs' institutional and organisational characteristics, including mandates, resources and strategic planning, followed by a discussion on IPAs' role in the wider institutional framework of investment promotion and economic development. Chapter 2 looks at how IPAs realise their mandates to attract FDI. It examines IPAs' specific activities performed within each core function, and presents different FDI prioritisation approaches, outlining methods, criteria and tools used across agencies and regions. Finally, the third chapter focuses on IPAs' monitoring and evaluation systems. It analyses their overall engagement in this area, and discusses their methodologies and indicators used.

1. Institutional settings and IPA roles

Although most Eurasia IPAs were created in the last decade, they have already undergone important restructuring, which poses challenges such as instability of mandates and high staff turnover. Their overall level of institutional independence is relatively low, compared to IPAs in other regions. Gradually granting Eurasia IPAs more independence could help them establish themselves as go-to partners of foreign investors and policy influencers. Shorter and adequate reporting lines, in particular, are essential in this regard, in addition to being a key enabling factor of a whole-of-government approach to investment attraction. Most Eurasia IPAs operate with limited resources, which requires strategic focus. In Eurasia, more than in other regions, investment promotion mandates have been associated with regional development, although IPAs' relationships with sub-national entities are not as formalised as they are in the OECD. As the COVID-19 crisis compels them to adjust their investment attraction strategies, governments can take the opportunity to strengthen their strategic frameworks and tools for implementation of investment promotion activities.

Governments assign national IPAs different roles with respect to investment promotion. The common denominator is that all IPAs have an objective to contribute to the location of multinational companies' investment projects in their domestic economies. Their positioning in the wider national investment promotion framework, however, can vary. Some are small agencies dedicated solely to the national branding of the country as an attractive investment destination, while others are entities within a larger organisation with an all-encompassing mandate to develop the domestic economy. This is important to keep in mind when comparing IPAs, their resources and their overall approaches: any benchmarking of individual agencies should account for the wider institutional context.

IPAs' structures and resources inevitably affect the way they conduct their missions and their ability to contribute to the wider effort of investment attraction and economic development. Their levels of institutional independence, available resources, and ability to co-ordinate and co-operate with a large range of stakeholders can determine their effectiveness. In particular, it is important that their mandates, strategies and resources are aligned, especially as some IPAs operate with limited resources.

This chapter focuses on institutional and organisational characteristics of IPAs in Eurasia. It first looks at their legal statuses and governance models, and then studies their mandates, resources and strategic planning. It finally provides insights on the way that Eurasia IPAs interact with the wider institutional framework of investment promotion and economic development.

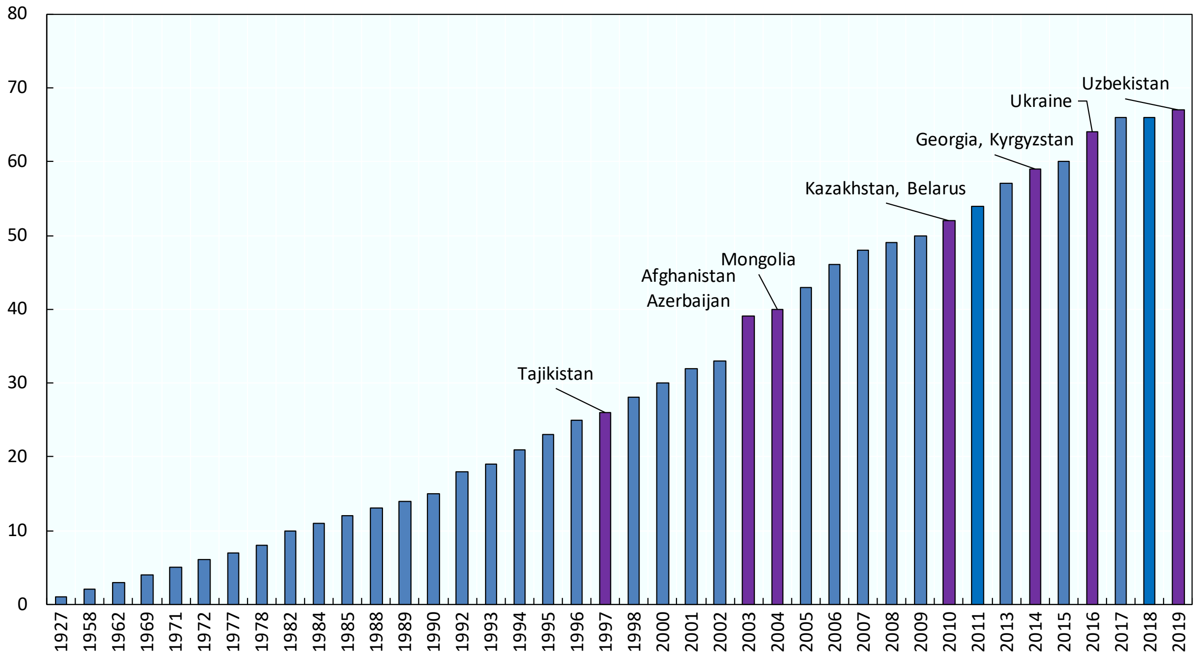
Organisational settings

Although different contexts call for different solutions and settings, the literature suggests that some conditions can contribute to IPAs' effectiveness. Their governance systems and reporting lines, in particular, can play a key role in their ability to fulfil their mandates. Their degree of institutional independence also seems to be a factor for effectiveness, especially in difficult institutional contexts (Volpe Martincus and Sztajerowska, 2019[11]).

Eurasia IPAs are relatively young, but they undergo organisational reforms as frequently as their peers from other regions, which can be a challenge

IPAs are a relatively recent phenomenon in Eurasia, compared with other regions (Figure 1.1). All the governments in the region have set up IPAs in the last 23 years, in the context of their transition to more open economies relying on market mechanisms. By contrast, most OECD countries established their IPAs in the 1980s, 1990s or 2000s – although some date back to as far as the 1950s (OECD, 2018[3]). In Eurasia, the most recent IPA is Uzbekistan's, created by Presidential decree on 28 January 2019. Its creation is one more step in the implementation of market-oriented reforms to develop Uzbekistan's economy. Tajikistan, on the other hand, reports that the first agency in charge of promoting investment in the country dates back to 1997. However, the State Committee on Investments and State Property Management (SCISPM) and the agency Tajinvest, in charge of investment promotion, were created in 2006 through a governmental decree. A number of countries have benefited from the assistance of international organisations when creating or reforming their IPAs, including Belarus, Georgia and Kazakhstan.

Figure 1.1. Yearly evolution of the number of IPAs in regions covered by the OECD-IDB survey



Note: The regions covered by the OECD-IPA survey are OECD, LAC, MENA and Eurasia.
Source: OECD-IDB survey of investment promotion agencies (2020)

As in other regions, most Eurasia IPAs regularly undergo organisational reforms. IPA reforms are very frequent and often reflect changes of government, as well as the need to adapt to new economic conditions and challenges. In OECD countries, 81% of IPAs have undergone organisational reforms in recent years (OECD, 2018[3]). Eurasia follows the trend, and apart from Azerbaijan and Belarus, all surveyed IPAs in the regions either were created (or re-created) or underwent major reforms in the past 5 years. These reforms entail changes in governance and status, mergers and separation of mandates (notably the export mandate), and changes in organisational structures. Ukraine completed the transformation of its IPA from a consultative body into an independent state body in 2018. Kazakhstan completely revamped its IPA Kazakh Invest in 2018 and separated its investment and export promotion mandates. Georgia merged its IPA Invest in Georgia with Enterprise Georgia, a large agency with a broad mandate to foster domestic economic development, in 2017. The same year, Kyrgyzstan reorganised its IPAand put it under the authority of the Prime Minister, after adding export promotion to its core mandates in 2016. At the time this report was produced (in 2020), Azerbaijan was creating a new export and investment promotion agency to replace its IPA Azpromo[1].

Even if very good reasons underlie reforms, they often confront IPAs with the usual challenges of organisational change, including resources spent to adapt and adjust to new structures, governance and processes, and potential higher staff turnover than usual. This is especially true of wide reforms. Recent examples in the OECD include Business France, which merged its "export" and "invest" entities in 2015. This merger required a planning phase of one year, an implementation phase of one year and a stabilisation phase of two years, with the whole process spanning between 2014 and 2017 (OECD and Business France, 2018$_{[13]}$). This example illustrates well the need to assess the costs and benefits when undertaking IPA reforms, and not to underestimate the resources needed to implement them, as well as their potentially disruptive nature. The merger of mandates, in particular export and investment promotion, is a recurring question among authorities in charge of economic development and accounts for a large share of organisational reforms, although reforms can also be driven by ministry portfolio reshuffling and changes in reporting lines, among others. The rationale for merging mandates is explored further in the next section of this report.

In Eurasia, more than in other regions, frequent reforms seem to be perceived as a major issue, as IPAs consider that the instability or inadequacy of their mandates is their number one challenge (Table 1.1). Their second biggest challenge concerns the lack of skilled and experienced staff, a difficulty that organisational changes typically tend to aggravate. In Georgia, for example, the IPA lost a large share of its staff during the merger with Enterprise Georgia, leaving it understaffed for a time. The agency has been recruiting new profiles and rebuilding its investment promotion staff in 2019-2020.

Table 1.1. IPAs' top three challenges: regional rankings

Top three IPA challenges by region, ranked within a list of seven propositions.

	Eurasia	OECD	MENA	LAC
Challenge n°1	Inadequacy or instability of the mandate	Inadequate resources	Inadequate resources	Wider business climate or regulatory reform
Challenge n°2	Inadequate staff	Inadequate staff	Emergence of new players in the market*	Inadequate resources
Challenge n°3	Wider business climate or regulatory reform	Wider business climate or regulatory reform	Inadequacy or instability of the mandate	Lack of political support for the IPA

Note: (*) e.g. new countries, new investors.
Source: OECD-IDB survey of investment promotion agencies (2020)

[1] Moreover, Armenia and Moldova did not participate in the OECD-IDB IPA survey because at the time it was carried out, the two countries were reorganising entirely their investment promotion effort.

Granting IPAs more independence and authority could give them more visibility and influence, and help them become true go-to partners of foreign investors

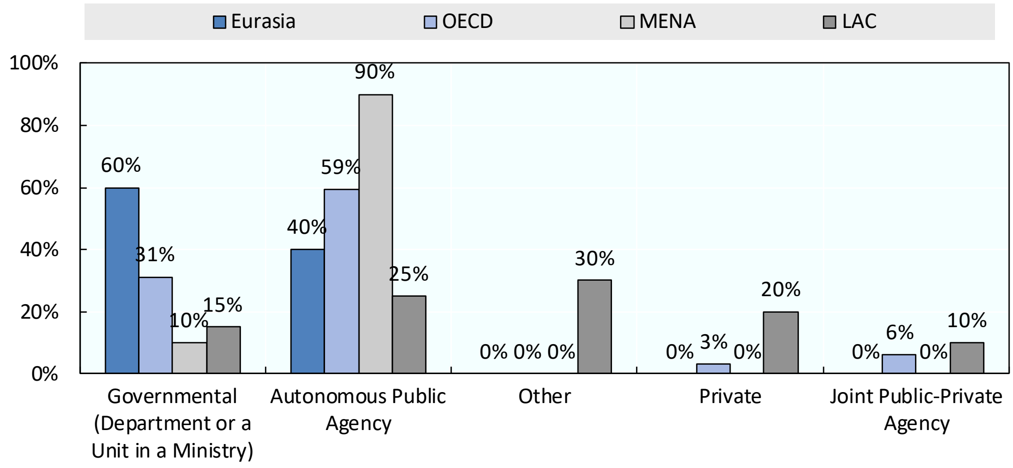
Overall, increased institutional independence could enable Eurasia IPAs to be more pro-active and focused on their efforts on attracting foreign investors and enhancing investment promotion overall. Empirical research suggests that autonomous settings, private sector representation in governance and strong links with central decision-making authorities can contribute to greater IPA success (Morisset and Andrews-Johnson, 2004[14]). Eurasia IPAs generally have low levels of institutional independence, which may reflect the centralised nature of most former Soviet states, a common feature of countries in the region. This can be seen in the prevalence of government agencies and relatively high frequency of reporting, compared with other regions. Many representatives of Eurasia IPAs express the view that shorter decision-making channels, increased flexibility and greater autonomy could enable better performance[2]. Striking a balance between the need for supervision and control, and the benefits of granting autonomy is always a challenge. In Eurasia however, the trends revealed by the survey suggest that governments could provide IPAs with greater autonomy as they become more experienced in the delivery of their mandates.

The links between Eurasia IPAs and their governments are strong. In contrast to other regions covered by the survey, where autonomous public agencies are the norm, most Eurasia IPAs (6 out of 10 in our sample) are government agencies (Figure 1.2). The size of the agency (considering all its mandates) can partly explain this trend. In the Eurasia sample, the difference in average budget sizes between autonomous and governmental agencies is very large (autonomous agencies' average budget is 4.76 times that of governmental agencies, excluding Kazakhstan, which is an outlier). There is a possibility that new investment promotion functions tend to be created within ministries, and that their chance of becoming an autonomous agency grows as the teams become larger and more experienced. Of the 69 countries in the OECD-IDB database, however, the difference in budgets between the autonomous and the governmental samples is much smaller (with only a 1.27 ratio vs the 4.76 calculated above), so size cannot be considered the only factor.

[2] This topic was discussed during an OECD workshop on investment promotion practices in Eurasia, in October 2019 in Paris.

Figure 1.2. Legal statuses of investment promotion agencies

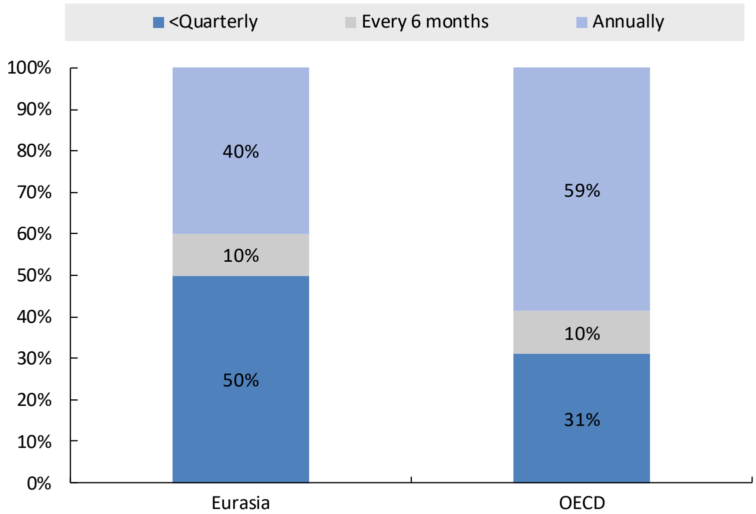
Comparisons across regions (%).



Source: OECD-IDB survey of investment promotion agencies (2020)

Reporting trends also illustrate the relatively low level of Eurasia IPAs' independence. On average, they report to their sponsors more frequently than their OECD peers (Figure 1.3). Half of Eurasia IPAs report more than quarterly. Reporting documents include activity reports (100% of the sample), and, to a lesser extent, financial reports (60%). As in the OECD, most IPAs in Eurasia (60%) report to a minister, either the Minister of Economy, the Minister of Trade or the Minister of Foreign Affairs. Five report to the Head of Government; only one reports at sub-ministerial level. In Central Asia in particular, most IPAs report to an investment committee within a ministry, including Kazakhstan, Tajikistan and Uzbekistan. In Tajikistan, when answering the survey, the authorities provided aggregated information on the State Committee on Investment and State Property Management (SCISPM) and Tajinvest, the official agency in charge of investment promotion.

Figure 1.3. Average reporting frequencies of IPAs in Eurasia and in the OECD



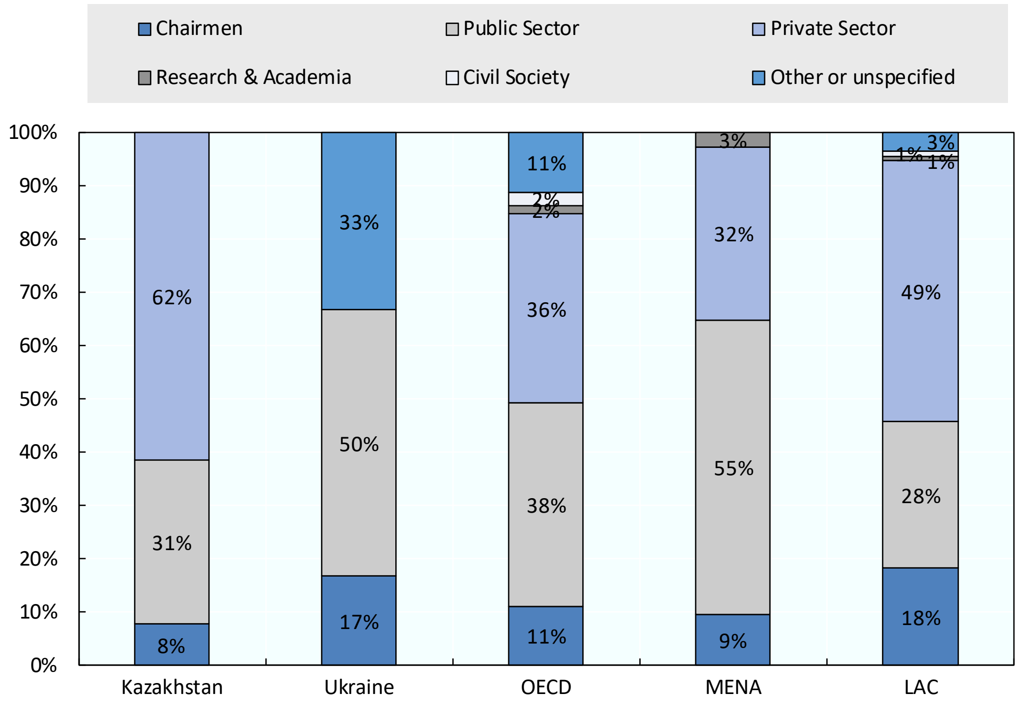
Source: OECD-IDB survey of investment promotion agencies (2020)

The reporting line is a particularly important aspect of investment promotion, especially in countries where powers are concentrated and institutions are weak. This is partly because the level of an agency's direct reporting authority can greatly determine its ability to influence and co-ordinate horizontally and vertically with other institutions. Resolving problems and removing institutional barriers to investment projects often require inter-ministerial coordination, and successful countries in FDI attraction typically have mastered a whole-of-government approach (OECD, 2015[6]). Foreign investors talking to the OECD also suggest that investors are sensitive to the level of representation of IPAs, especially in countries with strongly hierarchical systems. If they perceive the IPA as being far from where "true power" lies, they tend not to consider it as a credible partner, especially for large investment projects. This is why governments need to align their institutional choices with their objectives when establishing and reforming their IPAs.

Among Eurasia IPAs, only Kazakh Invest and Ukraine Invest (the two largest agencies of the sample in terms of budget) have supervisory boards, but only Kazakhstan's has a large share of representatives from the private sector (Figure 1.4). In general, supervisory boards can be a useful way to provide IPAs with strategic guidance from high-level representatives of different sectors with an interest in investment attraction. Boards are typically found more often in autonomous IPAs than in governmental ones (OECD, 2018[3]). Many Eurasia countries set up councils that bring together government representatives and foreign investors to work on foreign investment-related issues and challenges, and IPAs sometimes sit in these councils, or participate in some of their activities. The benefits of having private sector representatives in IPAs' steering instances, however, should not be neglected. Such representation could help Eurasia governments and IPAs align investment promotion strategies with the private sector's needs and expectations.

Figure 1.4. Board compositions

Composition of the supervisory board in Kazakhstan and Ukraine and comparison with regional averages.



Source: OECD-IDB survey of investment promotion agencies (2020)

Mandates, resources and strategic planning

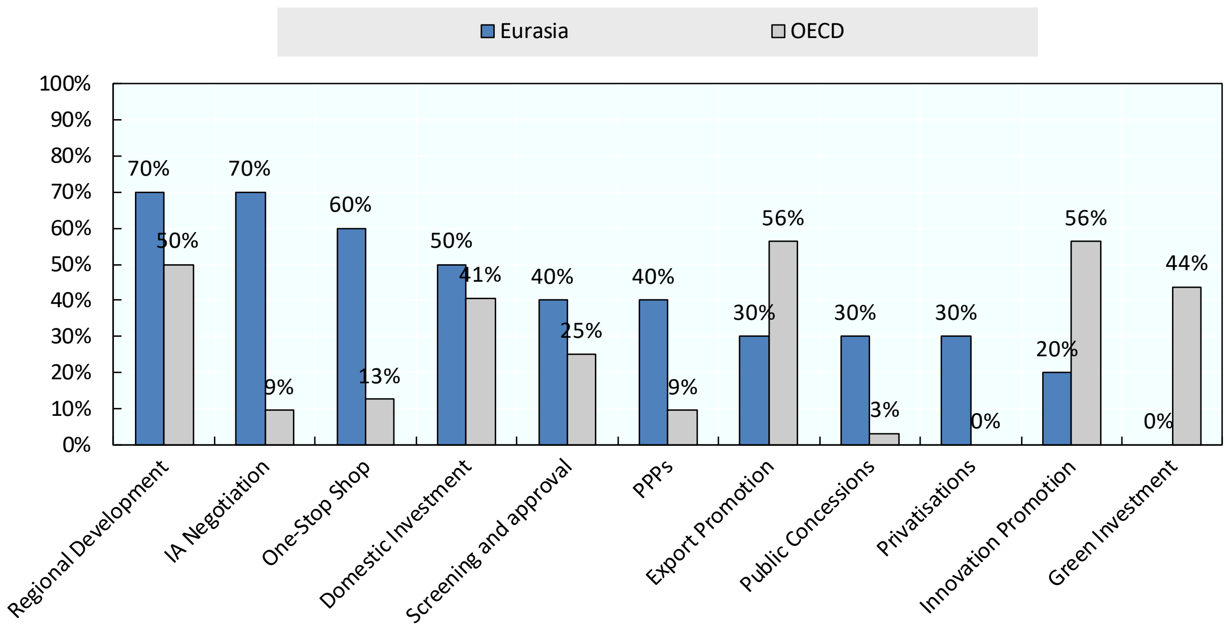
Governments assign different roles to IPAs, depending on the wider institutional environment and the policy objectives associated with FDI attraction. The allocation of financial resources, on the other hand, is more the product of available public budgets than political choice. Mandate and budgets largely contribute to defining an IPA's identity, as it will greatly affect the way that it conducts its operations. Staff are IPAs' most strategic assets and should represent a mix of public and private sector skills. Ideally, governments should make sure that IPAs' mandates, strategy and resources are aligned, but experience shows that this is more difficult to do when agencies are financially constrained.

IPAs have multiple mandates in Eurasia

After MENA, Eurasia is the region where IPAs have the highest average number of mandates. The average Eurasia IPA has 6.5 mandates, whereas its OECD peer has only 5.7. In LAC, this figure is 5.9, and it is 8.6 in MENA. The Eurasia average masks disparities, however: Tajikistan reports 12 mandates and Mongolia 11, whereas Uzbekistan only has three mandates. Compared to OECD practices, Eurasia governments typically combine more investment promotion mandates with regional development promotion, and less with export and innovation promotion (Figure 1.5). Moreover, Eurasia IPAs are more involved in international agreement negotiations and investment screening and approval, as well as in public-private partnership (PPP) projects, public concessions and privatisation programmes. On the other hand, among the surveyed IPAs, none has an official mandate to attract green investment.

Figure 1.5. IPA additional mandates in Eurasia and in the OECD

In % of respondents.



Note: IA = international agreement.
Source: OECD-IDB survey of investment promotion agencies (2020)

As mentioned above, the merging of mandates is a recurring discussion among authorities in charge of economic development. These mergers (and, sometimes, mandate splits) are responsible for a number of large organisational reforms. The merger of export and investment promotion, in particular, are frequent. Recent examples of IPAs in the OECD that merged their export and investment promotion mandates include Australia (2008), Switzerland (2008), Germany (2009), Spain (2012), Sweden (2013), Greece (2014), France (2015) and Poland (2017).The rationales for such mergers often include synergies and cost-savings, although achieving them can prove challenging (Box 1.1).

Box 1.1. The combination of export and investment promotion mandates: trends and strategic considerations

Fifteen percent of all reported reforms between 2013 and 2019 in the OECD-IDB IPA database mention the addition or withdrawal of the export promotion mandate. That is eight reforms in total, including two in Eurasia (merger in Kyrgyzstan and "split" in Kazakhstan). In OECD countries, France, Germany, Greece, Poland, Spain and Sweden merged their two "invest" and "export" entities in the recent past. Hungary and Lithuania, on the other hand, have split their agencies into two to separate the mandates, mainly due to problems relating to governance and coordination with multiple ministries.

The potential costs and benefits of combining export and investment promotion mandates have been discussed in a number of fora and meetings on investment promotion practices, including at recent OECD seminars. These discussions provided useful insights that can also apply to other mandate combinations, involving for example innovation and SME promotion.

Potential costs and pitfalls:

- Export and investment promotion entail very different activities, tools and competences, and target different audiences (domestic SMEs vs foreign investors). Synergies are therefore limited;
- The cost of merging (organisational change) results in a delay before the effect of potential organisational savings through shared means and functions (which are themselves not guaranteed) can take effect;
- Governments should ideally undertake such mergers in wider contexts of reforms, involving the creation of unified economic development strategies that clearly articulate the different mandates, their complementarities and synergies. Such a process is long and requires a true vision, as well as strong coordination within governments.

Potential benefits:

- Mergers can simplify and clarify public policies in favour of investment and trade, contributing to an integrated vision (e.g. export-led development strategy);
- They can help pinpoint potential synergies, for example in the context of global value chains (e.g. FDI-SME linkages and emergence of new economic activities);
- They can enable savings through resource sharing. This is particularly true when large networks of local and foreign offices can be shared;
- They can increase agencies' visibility and influence, notably for policy advocacy.

Sources: OECD and Business France, "Institutional Reforms of IPAs", report of the OECD seminar in Rabat in January 2018, https://www.oecd.org/mena/competitiveness/REPORT-Institutional-Reforms-Investment-Promotion-Agencies-20180130.pdf; OECD-IDB survey of investment promotion agencies (2020).

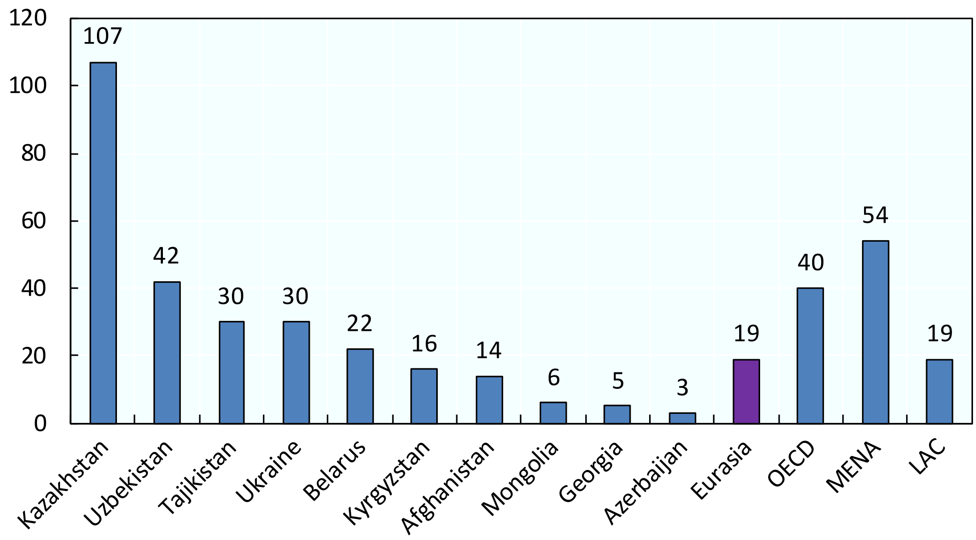
In Eurasia, 60% of IPAs have a mandate to operate as one-stop-shops (OSSs). This share is close to MENA (80%), and much higher than in the OECD (13%) or LAC (12%). One-stop-shops can have varying definitions, and comparisons can be difficult. In Eurasia, the term "one-stop-shop" often designates a service consisting of information provision in a single location. They usually are rooms with two or three desks and counsellors who provide leaflets and information about administrative procedures. This service aims to simplify access to information by offering a single-entry point, and to help investors navigate administrative procedures by addressing them to the relevant offices, sometimes centralising some of the procedures. As of end-2019, none of the investors' one-stop-shops in Eurasia consisted in bringing representatives of different agencies under one roof, which is how OECD and LAC IPAs, notably, tend to define OSSs. Some respondents have stressed that bringing together representatives of different ministries could be a challenge. In the context of investment promotion in Eurasia, the OSS role of IPAs are meant to address information asymmetries, as national and local administrative procedures can often be complex, and information is not always easily accessible.

On average, Eurasia IPAs have constrained resources

Most Eurasia IPAs operate with limited financial, human and organisational resources compared with IPAs in other regions (Figure 1.6). Kazakh Invest is a notable exception, as it operates with a large team and budget compared to standards in the region[3]. Data from the OECD-IDB survey show that, in general, IPA budgets are highly correlated with countries' levels of *per capita* GDP (Appendix 1), so this finding is hardly surprising. In Eurasia countries, as in the OECD, IPAs are largely funded from public budgets (public funding accounting for respectively 98% and 97% of the total). In the MENA and LAC regions, this share is lower. Some IPAs such as those of Honduras and Costa Rica have alternate sources of funding. These can be funds from international organisations, revenues from assets and endowment (Honduras), or service fees. Costa Rica charges domestic companies to be part of their domestic suppliers' registries (Volpe Martincus and Sztajerowska, 2019[11]).

Figure 1.6. Number of investment promotion staff in Eurasia and other regions

Staff size by country and regional medians, in number of full-time equivalents (FTEs)[4].



Source: OECD-IDB survey of investment promotion agencies (2020)

Eurasia IPAs typically have few – or no – affiliated offices. Only three out of the 10 Eurasia IPAs surveyed have affiliated sub-national offices. The difference between Eurasia and the OECD is even wider when comparing offices abroad, as only Kazakhstan reports having affiliated offices abroad, while 44% of OECD IPAs have such offices. Large networks abroad are a formidable tool to enhance a country's visibility toward foreign investors. As discussed in the next section, Eurasia IPAs largely rely on consular networks to advertise investment opportunities and reach foreign audiences abroad.

[3] Between 2018 and 2020 Kazakh Invest's budgets have been reduced, however.

[4] Since 2019 when the survey was carried out, the investment promotion staff of Enterprise Georgia has grown to reach 10 FTEs in summer 2020. The 2019 datum was kept in the graph for comparison purposes.

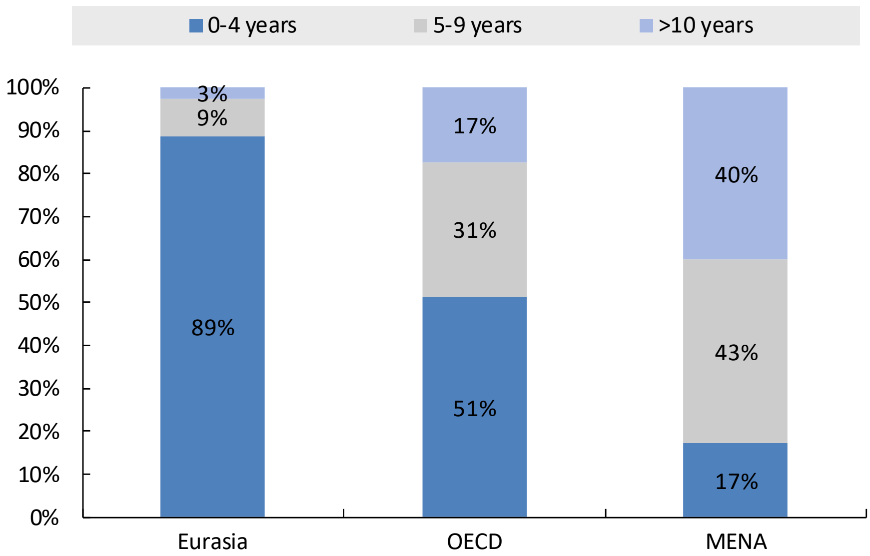
A great majority of Eurasia IPAs' staff have very short tenures, and some could aim to recruit more profiles from the private sector

Human capital is the most strategic asset of IPAs, which operations revolve around marketing and the provision of services (OECD, 2018[3]). Considering their broad range of activities at the crossroads of diplomacy, marketing, servicing and policy influencing, IPAs typically need staff with diverse backgrounds and skill sets. The literature on investment promotion agencies stresses the need for IPAs to acquire skills from the private sector to carry out their mission (Wells and Wint, 2000[15]), including by having staff with private sector backgrounds, in particular in target sectors of the promotion effort. The level of experience and length of tenure in IPAs' staff mixes are also key indicators of agencies' ability to recruit the profiles needed to attract FDI.

Eurasia IPAs' staffs have very short tenure in their agencies on average, compared with IPA staffs in other regions (Figure 1.7). In the region, 89% of IPA staff has been working with their agencies for less than five years. This share does not get much lower when removing agencies created in the last two years from the sample. This figure is the result of a high share of staff turnover, which itself is likely the result of the pace of reforms, as explained at the beginning of this chapter. Such high staff turnover must be challenging for Eurasia IPAs. It certainly is at least one of the reasons why IPAs rank inadequate staff as their second main challenge (Table 1.1).

Figure 1.7. IPA staff average tenure by region

In % of FTEs.



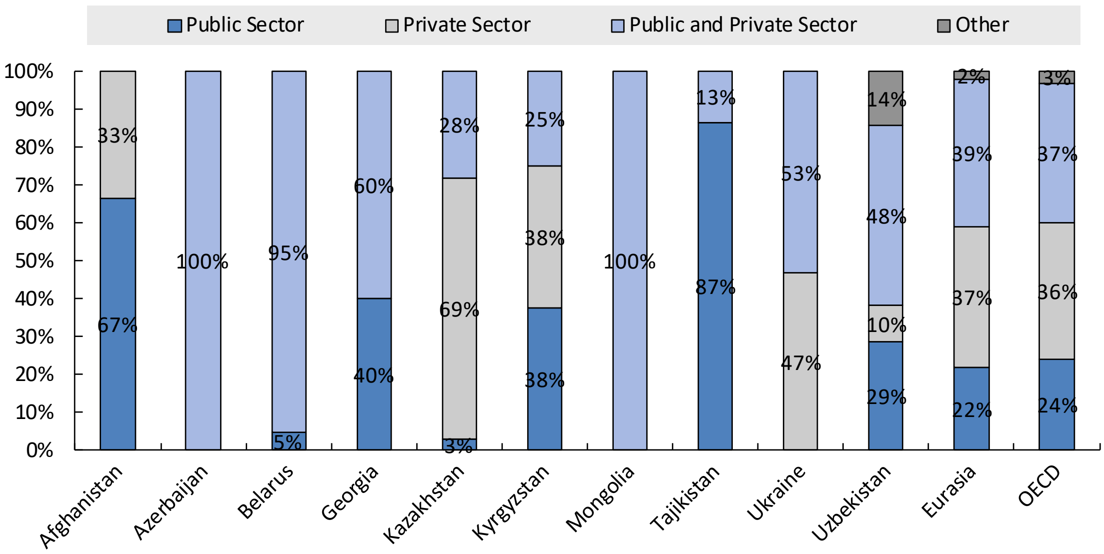
Source: OECD-IDB survey of investment promotion agencies (2020)

Some Eurasia agencies, such as SCISPM in Tajikistan and the Afghanistan Directorate of Investment Promotion and Support, could benefit from having more staff with experience in the private sector. Staff with private sector backgrounds can be an asset for certain IPA activities. The ability of IPAs to recruit experienced profiles in functions such as marketing and prospecting activities, for example, can enable them to bring in useful skills to attract foreign investors. Staff with previous experience in priority industries (prioritisation is discussed at length in the next chapter), can also bring valuable knowledge of sector business models and networks, which can help attract FDI projects and support foreign investors in the development of their projects. In Tajikistan, the SCISPM is currently working on a programme to attract more profiles from the private sector.

In some Eurasia agencies however, most staff come from the public sector (Figure 1.8), and in a number of them, the majority of staff have a mixed public and private background. For some agencies, recruiting profiles from the private sector can be challenging, because of remuneration gaps between the public and the private sector in favour of the latter, especially at higher levels of management. OECD findings suggest that IPAs with a higher level of institutional independence have more flexibility to align with private sector remuneration levels, although exceptions exist (OECD, 2018[3]). The limited available data collected in Eurasia tends to confirm this. Another challenge for Eurasia countries in this respect is their narrow private sectors, compared with OECD countries.

Figure 1.8. IPA staff background in Eurasia and the OECD

In % of FTEs.



Source: OECD-IDB survey of investment promotion agencies (2020)

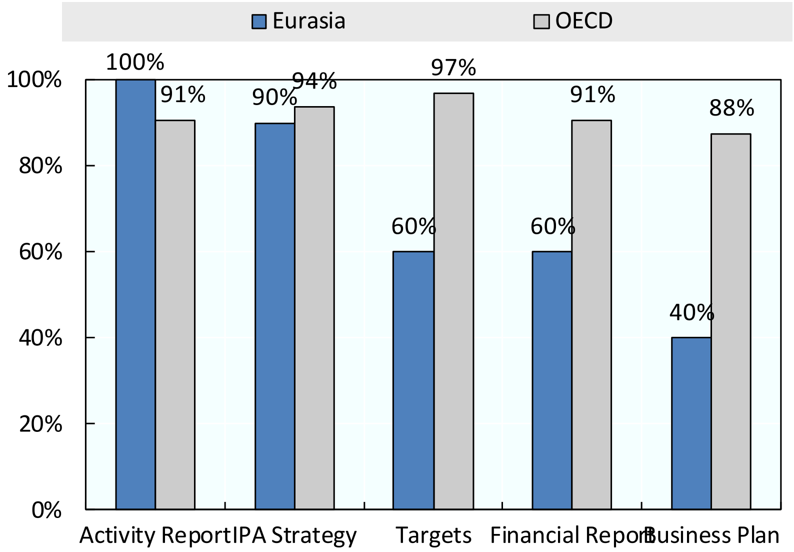
Strategic and business planning could help IPAs better align mandates and resources by prioritising targets and allocating resources in consequence

IPAs in Eurasia rely less on strategic target definition and business planning than their peers in OECD countries (Figure 1.9). Although most of them have broad guiding strategies, 40% do not have strategic targets. Business planning is also not a widespread practice in the region, as only 40% of IPAs do it. One explanation for this is that in some Eurasia countries, the budget for investment promotion is not separated clearly from budgets for other activities. This was a challenge when collecting budget information for the OECD-IDB survey in the region.

Eurasia IPAs could benefit from having well identified budgets for their investment promotion activities and establishing, together with their reporting authorities, clear strategic targets, on annual basis. Business planning is also a useful exercise to make sure that financial resources are aligned with target objectives, and to manage expectations. This is all the more relevant in Eurasia, where IPAs have relatively limited resources. A single task can be performed very differently depending on the level of staffing and financing that supports its realisation. Such strategic tools also have the virtues of enabling evidence-based reporting and discussions with the senior management, facilitating the monitoring and evaluation of activities, and setting learning curves for the staff.

Figure 1.9. Strategic planning and reporting in Eurasia and the OECD

In % of respondents.



Source: OECD-IDB survey of investment promotion agencies (2020).

The unfolding COVID-19 crisis can provide an opportunity for governments in Eurasia to strengthen their strategic planning for investment attraction, as they integrate the new configuration of the global economy. OECD IPAs have already started to adjust their approaches to answer the short-term constraints of confinement measures and travel restrictions on the organisation of their work, to address pandemic-related emergencies by contributing to the mobilisation of productive capacities in the health sector, and to provide support to ongoing investment projects and already established investors. Over the medium-to-long term, strategic plans should include the acceleration of the digitalisation of investment promotion activities, with the implementation of new promotion and facilitation tools, a re-balancing of the activity mix, and new priorities in terms of sectors and prospects (OECD, 2020[16]). As Eurasia IPAs and their sponsors undertake similar exercises of strategic redesign, they should aim to strengthen their approach and develop further the tools for their plans' implementation.

Institutional relationships

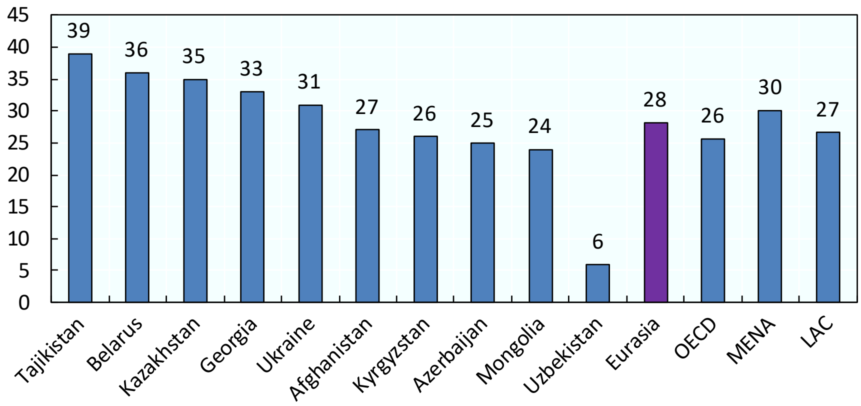
Most IPAs collaborate with a wide network of institutions involving mainly other governmental bodies and the private sector. These relationships are important. The whole-of-government approach needed to attract large investment projects in particular, or to solve problems, requires that IPAs have strong and efficient relationships with other ministries and public administrations. Co-ordination at the international and sub-national levels to promote the country as an attractive investment destination in a consistent fashion is also important. Exchanges with the private sector, finally, are also crucial to understanding, identifying and alleviating potential barriers to foreign investment.

Eurasia IPAs evolve in dense institutional networks, which can be challenging given their limited resources

The density and intensity of Eurasia IPAs' institutional relationships are at least as high as in other regions including the OECD, although most IPAs' resources in Eurasia are more constrained. They interact with 28 other institutions on average, in line with other regions (Figure 1.10), but the mapping of these interactions (Figure 1.11) shows that their intensity is, on average, higher than in the OECD. This is one more indication of the close relationships between IPAs and their institutional environments, which are particularly strong in countries of the Eurasia region. Uzbekistan is the only exception, with the number of institutional relationships limited to six.

Figure 1.10. Number of organisations with which IPAs interact

Eurasia countries and regional averages.



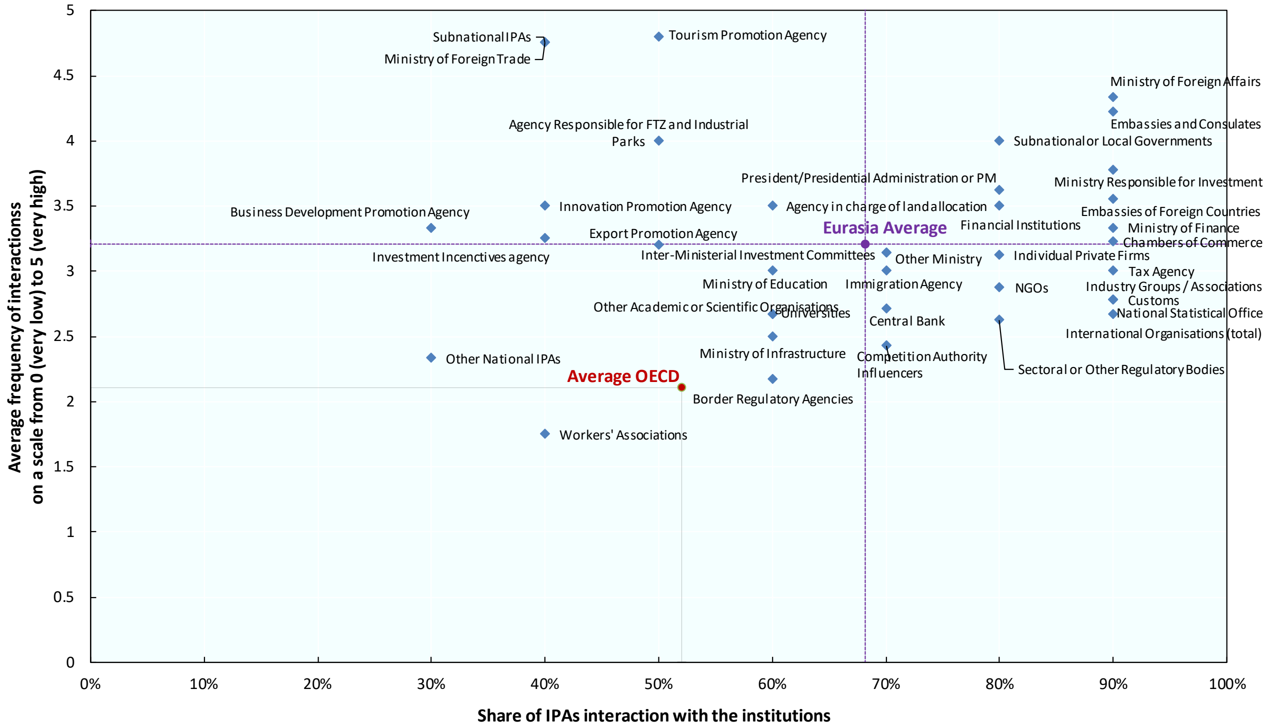
Source: OECD-IDB survey of investment promotion agencies (2020)

The fact that IPAs work as part of an institutional ecosystem with constant exchanges of information can put pressure on scarce IPA resources. Operating in such dense networks requires formal and informal means, tools and resources. With limited resources and broad activity portfolios, Eurasia IPAs may experience challenges in managing these relationships. To be efficient, OECD IPAs underscore the importance of clearly framed relationships with clear allocations of responsibilities (OECD, 2018[3]). Cooperation tools, such as "codes of conduct" or shared CRM, can also help, as discussed further in this section.

Like OECD IPAs, Eurasia IPAs have the strongest and most dense interactions with the public sector. Almost all of them nevertheless sustain working relationships with the public sector, civil society and academia. Uzbekistan is the sole agency that does not formally interact with such groups.

Figure 1.11. Mapping of IPA interactions

Share of interactions vs. frequency.



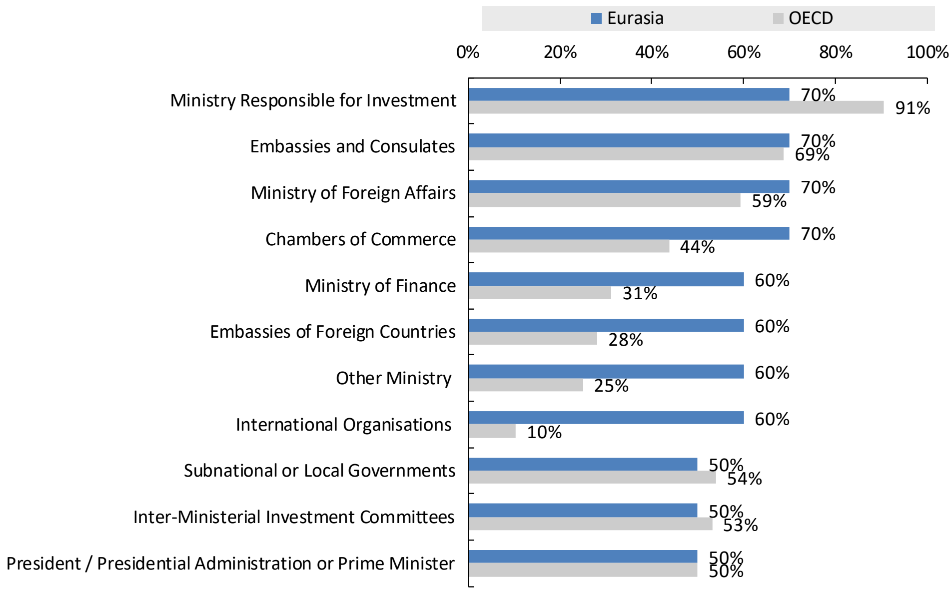
Source: OECD-IDB survey of investment promotion agencies (2020)

Eurasia IPAs could establish more strategic links with the private sector

Eurasia IPAs' "top ten" strategic relationships (Figure 1.12) show the importance of the ministry responsible for investment, the Ministry of Foreign Affairs and diplomatic networks abroad for investment promotion in the region. Coordinating with diplomatic missions in foreign countries is strategic for most IPAs, even those with dedicated foreign offices (OECD, 2018[3]). Diplomatic missions can notably contribute to the promotion effort of countries and support meetings with potential investors abroad. Some missions abroad have dedicated personnel in charge of trade and investment promotion, a solution that Georgia, for example, is currently considering. In addition to their national representation abroad, Eurasia IPAs also have strategic bonds with embassies of foreign countries. UkraineInvest, for example, reports that working closely with the French embassy in Kiev to solve problems raised by French-based MNEs helped reinforce the visibility of the agency abroad and ultimately contributed to the attraction of a large French industrial MNE in Ukraine. This case illustrates well how working relationships can create opportunities, although the time and resources they require is a barrier to their multiplication.

Compared to their peers in other regions, Eurasia IPAs engage less with business and industry associations, other than Chambers of Commerce, in strategic partnerships. Fifty-four percent of OECD IPAs rank their relationships with associations and industry groups as "strategic", and in the MENA region, this share is 70%. Although 90% of Eurasia IPAs interact with such groups, less than half of them qualify these relationships as "strategic". They do rank Chambers of Commerce as strategic partners. However, reinforcing the links with other industry and business associations and raising them to a strategic level could help Eurasia IPAs strengthen their approach. This converges towards the overarching finding that IPAs in Eurasia would gain in associating further the private sector to their activities, because FDI is a private sector activity. Understanding its underlying dynamics and motivations is crucial to support its development in a given territory.

Figure 1.12. Eurasia IPAs' top ten most strategic relationships

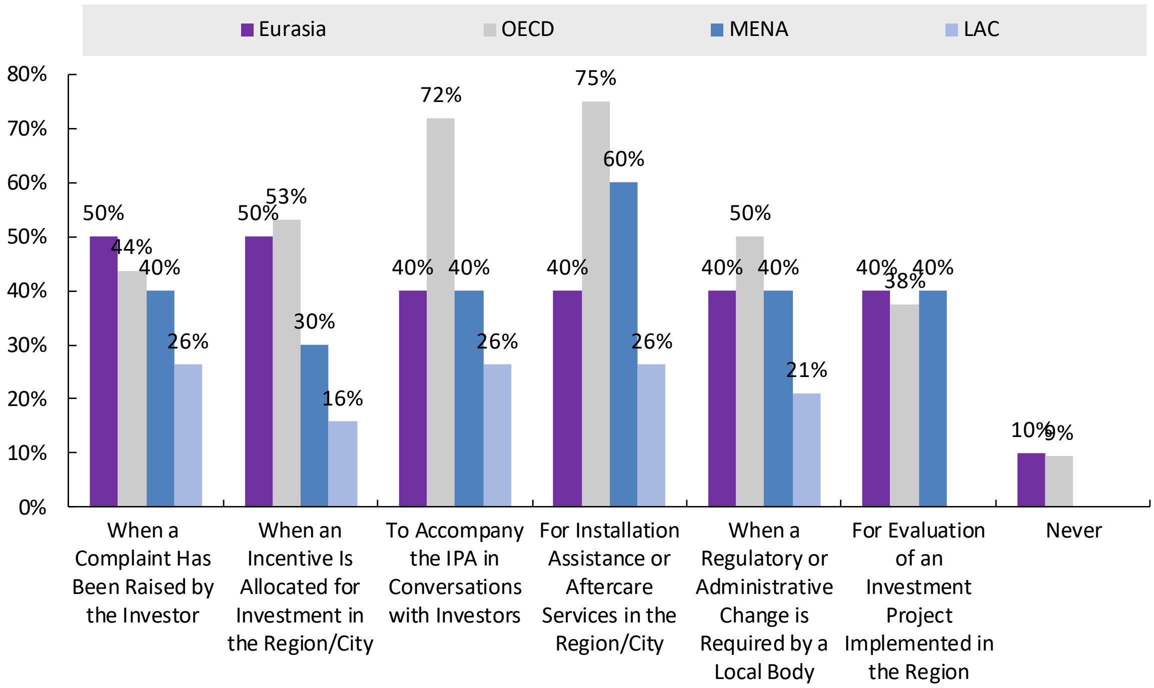


Source: OECD-IDB survey of investment promotion agencies (2020)

Eurasia IPAs' "strategic top ten" calls for another comment regarding the ranking of sub-national agencies. Considering that the combination of investment promotion and regional development mandates is frequent in Eurasia , sub-national and local governments do not rank as high in the "top ten" as one might expect. This can be all the more surprising, as investment promotion at the sub-national level tends to be less structured in Eurasia than in the OECD. Three countries (Kazakhstan, Ukraine and Uzbekistan) have affiliated sub-national offices, whereas in the OECD, nearly half of national IPAs have such networks. Kyrgyzstan is the only country operating with a network of regional teams in charge of investment facilitation, established as divisions or departments of local governments and thus independent from the IPA. In Georgia and Afghanistan, the IPA relies on other partners at the sub-national level to attract investment in the regions. The Afghanistan Directorate of Investment Promotion and Support co-operates with Chambers of Commerce or other stakeholders at the sub-national level, on an *ad hoc* basis. Enterprise Georgia works with local governments to bring new investment projects in the regions. A comparison of OECD and Eurasia IPA collaboration with sub-national agencies in charge of investment promotion indicates that investment facilitation, in particular, could benefit from closer or more formal links between the national and the sub-national levels in Eurasia (Figure 1.13).

Figure 1.13. Collaboration between national and sub-national IPAs

Reasons why national IPAs contact sub-national agencies in charge of investment promotion and facilitation (% of respondents).



Source: OECD-IDB survey of investment promotion agencies (2020)

Establishing and sustaining fruitful relationships with regions is one of the most challenging areas of institutional coordination, according to OECD IPAs (OECD, 2018[3]). Among listed difficulties are the absence of formal collaboration frameworks, unclear distribution of roles and responsibilities, and lack of tools. Some OECD IPAs have found ways to overcome such challenges. For example, Business Sweden has established a "code of conduct agreement" with Sweden's 15 regions to encourage exchange of information. Latvia designed a system of incentives to encourage people at the local level to share information about investment projects (OECD, 2018[3]). Business France has a very structured approach to collaboration with France's 13 independent regional development agencies (Box 1.2). Some OECD IPAs have also highlighted in workshop discussions that their roles could involve the training and coaching of sub-national agencies in investment attraction. Eurasia IPAs could consider taking inspiration from these OECD good practices to refine its approach for bringing investment in the regions.

Box 1.2. Business France's cooperation agreement with regional agencies

Business France cooperates closely with France's 13 regions to attract investment in sub-national territories and provide facilitation services to investors. A **formal agreement** with 13 regional agencies designated as "regional partners" provides a clear framework and facilitates this cooperation. Through its regional partners, Business France also benefits from regional networks composed of universities, public and private research centres, and businesses.

The **cooperation agreement** entails prospection and promotion activities, as well as support for project implementation. Shared trainings are organised in its framework. An annual performance survey monitors the results of the cooperation. This framework also guarantees the impartiality and neutrality of Business France vis-à-vis all the regions (not favouring one over the other when bringing new projects). This is essential to establish trusted partnerships.

As part of the cooperation, Business France has also developed a **dedicated information-sharing process for investment projects**. It consist of a "market platform" where Business France and its regional partners can enter information about new foreign investment projects identified, and requests made at the regional level. Thanks to this platform, partners can coordinate their responses and identify areas for joint action. In 2016, this system allowed to provide to investors 650 regional setting offers, and organise 220 business visits.

Source: Business France, presentation at the OECD seminar in Paris in October 2017, http://www.oecd.org/mena/competitiveness/REPORT-Regional-EU-OECD-IPA-Workshop-Paris-201710.pdf.

2. Activities

Eurasia IPAs tend to spend more resources on image building. This trend reflects a shared perception that countries have not yet built an image of themselves as attractive investment destinations and must thus work harder to put themselves "on the map". While the surveyed agencies recognise that domestic investment climates are both important and often a challenge, their role in helping to address such challenges is not always clear. Sixty percent of them have mandates to operate as one-stop-shops, but their facilitation and aftercare and policy advocacy functions are weaker or less structured than those of OECD IPAs. As in other regions, Eurasia IPAs prioritise sectors and projects. Primary sectors tend to hold an important place in their lists of prioritised sectors, because of their weights in domestic economies of the region.

Eurasia IPAs would benefit from stronger their digital communication tools, such as their websites, notably as the current crisis is accelerating the digitalisation trend across the global economy. Moreover, strengthening their aftercare and policy advocacy functions would enable Eurasia IPAs to reinforce their roles as policy influencers and would increase governments' institutional capabilities in identifying and responding to investment-related policy issues. The context of the COVID-19 crisis reinforces this need, as investor retention is expected to become a key concern for IPAs in the near future, and maintaining an ongoing dialogue with existing investors will be pivotal to understand and tackle emerging challenges. More broadly, IPAs could be leveraged to overcome obstacles in the broader implementation of agendas of reforms to enhance business climates in Eurasia countries.

The way IPAs operate can be characterised by two main dimensions. One is their activity mix, and the other one is their prioritisation pattern. Both dimensions are revealing of the strategy and coherence between the policy objectives underlying investment promotion and the realisation of the IPA's mandate. Having a clear vision on where an IPA stands on both these dimensions is thus very useful, in particular when resources are constrained and decision-makers need to make trade-offs.

To promote a country as an attractive investment destination, IPAs carry out a wide variety of marketing and servicing activities. These activities, following the classification of Wells and Wint (2000[15]), are traditionally categorised into four core functions with specific tasks and objectives (Table 2.1). IPAs' activity mix varies from one country to another, depending on several factors including the IPA's positioning in the overall institutional framework of investment attraction, its budget, and the overarching investment promotion strategy of the government. The OECD thus distinguishes four different "strategic profiles" of IPAs: "image builders", "generators", "facilitators", and "balanced". In the OECD, 42% of IPAs are generators, 29% and 26% are respectively balanced and facilitators, and only 6% are image builders. The COVID-19 crisis is currently affecting activity mixes across IPAs, however. It is notably encouraging agencies to focus resources on facilitation and aftercare to secure ongoing project implementation and strengthen relationships with existing investors.

Table 2.1. IPAs' four core functions

	Image building	Investment generation	Investment facilitation and retention	Policy advocacy
Main objective	Create awareness and generate positive feelings about a country as investment destination	Reach out to foreign investors and convince them to locate their investment in the home country	Facilitate the implementation of investment projects, maximise their economic benefits and generate follow-up investments	Monitor foreign investors' perception of the host country's investment climate and propose changes to improve the investment policy
Examples of activities	• Marketing plans • Media campaigns • Website • Brochures • General communications and public relations events	• Meetings with foreign investors • Reaching-out campaigns • Targeted communication and PR events (sector-specific or investor-specific)	• Provision of information • Site visits • Administrative support (including one-stop-shop services) • MNE-SME linkage programs	• Global rankings • Surveys of foreign investors and industry associations • Policy impact assessment • Meetings with the government

Source: OECD (2018), Mapping of Investment Promotion Agencies in OECD Countries

Virtually all IPAs prioritise countries, industries or even projects and investors when promoting FDI. Prioritisation, notably of sectors, seems to make sense, when looking to focus resources while maximising outcomes. Empirical research suggests that sector targeting could indeed generate better results in investment promotion (Harding and Javorcik, 2011[17]). On the other hand, the literature on economic development highlights that governments are not best-placed to identify economic sectors with the highest potential, and warn against a counter-productive "picking winner" approach (Rodrik, 2004[18]). In the context of concentrated economies with limited levels of sophistication of demand and technology, this contradiction can be difficult to manage, and making choices can be particularly challenging. In this area, too, the COVID-19 crisis is driving change by causing IPAs to readjust their priorities.

The objective of this chapter is to understand how Eurasia IPAs realise their mandates to attract foreign investment. It starts by investigating IPAs' specific activities, and then looks at their prioritisation approaches, including what IPAs in the region prioritise and why, outlining the methods, criteria and tools used. It also highlights some early observable trends in relations to the COVID-19 crisis and the way it can affect activities and prioritisation choices.

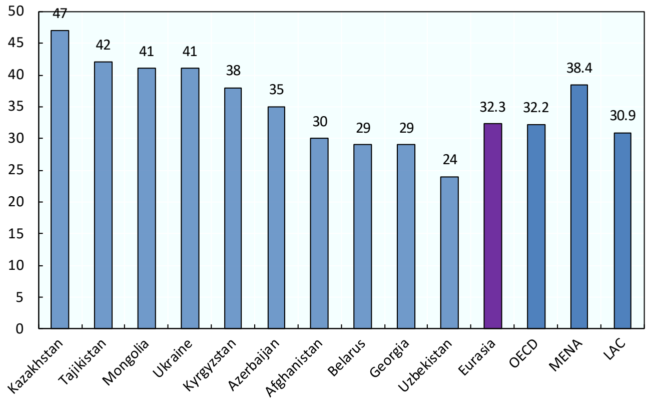
Functions and Activities

Activity mixes vary from IPA to IPA, although there are some common trends. All IPAs engage in the four core functions. All of them perform a majority of the image building and investment generation activities. It is in the investment facilitation and policy advocacy function that their approaches vary the most, reflecting choices on organisational settings, resource allocation and strategic focuses. The COVID-19 crisis, however, is affecting IPAs' activity mixes. In the OECD, IPAs have been strengthening facilitation and aftercare functions to secure the implementation of ongoing projects, while taking time to adapt their outreach and marketing approaches to new conditions. In the medium-to-longer term, some of them expect to focus more on investor retention and expansion than they have done in the past. The crisis is also triggering the acceleration of digital technology usage for investment promotion activities, as it is the case in many other sectors of activity.

On average, Eurasia IPAs perform a similar amount of activities as OECD IPAs, but they allocate more financial resources to image building than their peers do

Eurasia IPAs perform 32 investment promotion and facilitation activities on average (out of a list of 51), which is very similar to OECD and LAC IPAs (Figure 2.1). It may seem surprising that Eurasia IPAs' activity portfolios are as wide as those of OECD peers, as they have lower resources on average. Whether they carry out all these activities with the same level of intensity, though, is another matter entirely. Moreover, while some small agencies such as Mongolia perform the majority of activities listed in the survey, some larger agencies, such as Uzbekistan, perform very few.

Figure 2.1. Number of investment promotion and facilitation activities in Eurasia and other regions



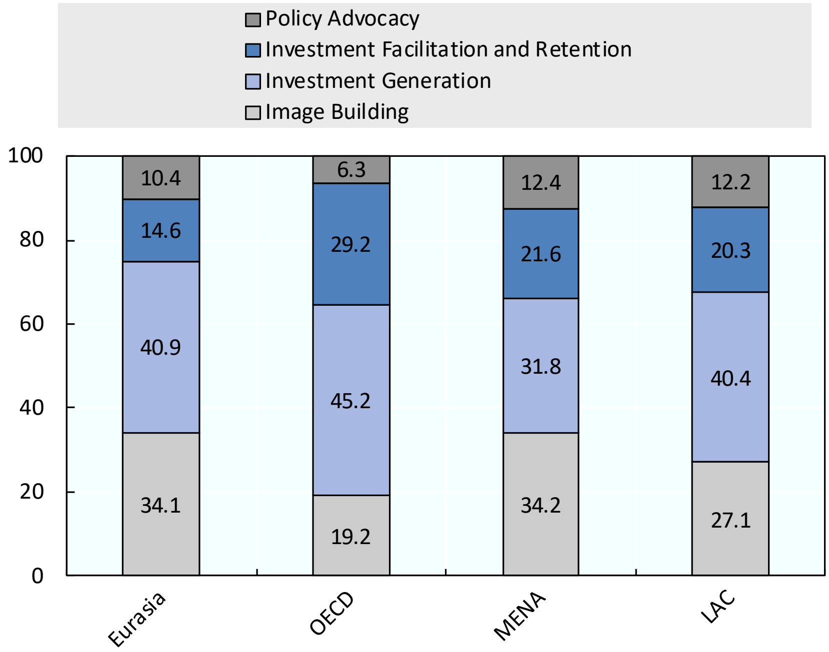
Source: OECD-IDB survey of investment promotion agencies (2020)

The way IPAs allocate their resources across the four core functions varies greatly across agencies, reflecting a number of factors. While certain functions tend to be more costly than others because they are more personnel-intensive, some IPAs tend to focus resources on specific areas, often tied to their mission statements and strategies, to achieve policy objectives. Finding an appropriate activity mix can be challenging, particularly for agencies with limited financial and human resources (OECD, 2018[3]). Reporting on their financials is not easy for some Eurasia IPAs, because either they do not have a delimited budget for investment promotion, and in this case, even total budget estimates are hard to get, or their organisation is too small to break down their activity into different functions.

Image building and investment generation jointly account for 75% of Eurasia IPAs' budgets (Figure 2.2). In particular, Eurasia IPAs allocate a higher share of their budgets to image building activities than their OECD counterparts, as do those in MENA and, to a lesser extent, LAC. OECD IPAs devote more budget to investment facilitation and retention (29%) than to image building (19%). The policy advocacy function receives the lowest financial resources, as in other regions.

Figure 2.2. IPA budget allocation across functions in Eurasia and other regions

In % of annual budget.



Source: OECD-IDB survey of investment promotion agencies (2020)

When exploring the investment promotion system, the OECD suggests that image building and investment generation can be bundled together in a broader "promotion" umbrella function, while "facilitation" brings together investor servicing, aftercare (including business linkage programmes) and policy advocacy. The discussion below follows this logic.

Image-building efforts could benefit from better online communication tools and greater regional co-operation

Eurasia IPA's emphasis on image building is part of an overall effort to put themselves "on the map" as attractive destinations. Wells and Wint (2000[15]) suggest that countries needing to position or re-position their images will invest more in such activities. OECD work on investment promotion tends to confirm this trend. Eurasia market economies are relatively young, most of their domestic markets are small, and a number of them have had limited success in attracting investments outside of resource-extraction sectors. Ukraine is a good example: the country has been facing severe security challenges in the past six years, and has been actively working to improve its image as an interesting location for business by promoting on its national talent in the information and communication technologies sector. Moreover, IPAs in their early stages of development tend to dedicate more resources to image building, which can also explain the observed trend in Eurasia.

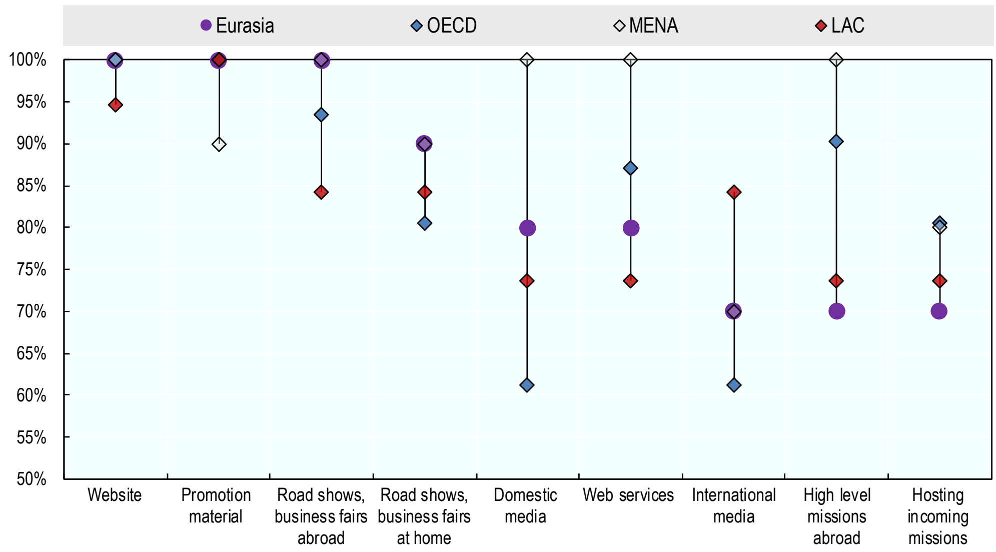
To build their images as attractive investment locations, Eurasia countries' IPAs use similar activity mixes as their peers from other regions, albeit in different proportions (Figure 2.3). All Eurasia IPAs have a website, produce and disseminate promotion material (such as brochures, investment guides, etc.), and attend general road shows and business fora abroad. They also use more domestic and international media advertising such as TV, print or radio than OECD IPAs. They participate less in high-level missions abroad and host fewer incoming missions than their peers, however.

Eurasia IPAs need better online communications tools for investors, particularly their websites. After causing the cancellation of many international investment events and fairs, the COVID-19 pandemic has resulted in the transfer of many promotional activities online, and the quality of remote communication tools is more important than ever. Well-designed websites in English, easy to find via internet searches of key words related to investment, and providing quality information to the international investor community, are especially important. OECD IPAs have rapidly put COVID-related information online to help foreign investors understand government measures and how they affect or apply to them. A quick internet search in English shows that websites of Eurasia IPAs can be difficult to find; at the time of writing (April 2020), only the IPAs of Kazakhstan and Ukraine have put information on COVID-related measures on their home pages.

In the longer term, Eurasia IPAs could consider following the example of Scandinavian countries, which undertake some joint promotion actions to attract foreign investment[5]. Although Scandinavian countries compete to attract investment, they co-operate to promote a regional image based on shared values and strengths in areas such as quality of life and innovation. The Boston Consulting Group makes a similar recommendation in its report on Investing in Central Asia, where it invites countries of Central Asia to co-ordinate their investment promotion strategies, along with other measures to drive regional integration, enhance connectivity and unlock economic potential (2018[19]). Co-ordinating some promotion actions, building on shared values and aspirations, but also complementarities, could benefit Eurasia countries by enabling them to reach a "critical mass" and enhance their visibility, while mutualising costs. Image building can yield positive effects on FDI, but the evidence suggests that the quality of the institutional environment is the key to investment attraction (Morisset and Andrews-Johnson, 2004[14]; Volpe Martincus and Sztajerowska, 2019[11]). Active promotion cannot make up for structural weaknesses impeding private sector development. Indeed, promotion based on false grounds can have a counter-productive effect, as getting back an investor who has had a bad experience is likely to be more difficult than attracting one with no experience at all. This has two implications: first, image building should rely on actual strengths of a country or region, and not on false promises. Claiming to have a very business-friendly environment will not go a long way, if a large share of investment projects encounter major difficulties in early phases. Secondly, along with their efforts to position themselves as attractive destinations via promotion activities, it is important that countries do their homework in removing policy barriers to business development, following international good practices such as those laid out in OECD's Policy Framework for Investment (OECD, 2015[6]). Although on that chapter, decisive action rests in the hands of policy-makers, IPAs have an important role to play via the policy advocacy function, as discussed later in this chapter.

[5] According to discussions with Business Sweden in the framework of the OECD IPA Workshop held in October 2017 in Paris, France.

Figure 2.3. Shares of Eurasia IPAs performing image building activities (comparison across region)



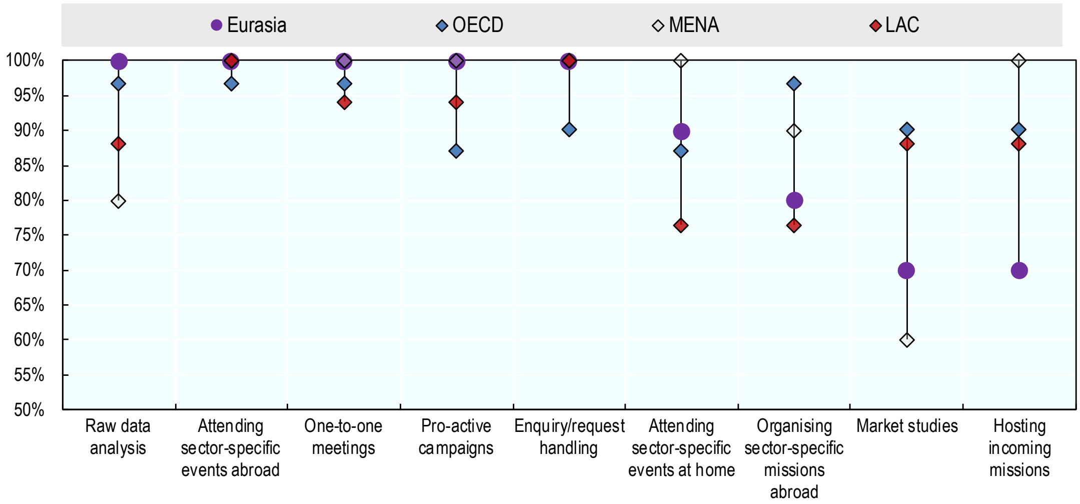
Note: The figure illustrates average shares of IPAs performing specific activities within the image building function.
Source: OECD-IDB Survey of Investment Promotion Agencies (2020)

Investment generation is the function to which Eurasia IPAs dedicate, on average, the largest share of their resources, albeit less than OECD and LAC IPAs. There are discrepancies across countries, however, as estimates range from 30% (Ukraine) to 50% (Tajikistan and Uzbekistan).

Eurasia IPAs carry out the majority (90%) of the activities classified under investment generation in the survey (see Table Annex 2.A), which is broadly in line with other regions, but they focus on different activities than their OECD peers (Figure 2.4). All Eurasia agencies undertake pro-active campaigns, engage in enquiry and request handling, and carry out raw analysis of data such as press articles and proprietary or company data, while MENA and LAC IPAs engage less in intelligence gathering and analysis. On the other hand, only 70% of Eurasia IPAs carry out market studies, compared with 90% in the OECD and 88% in the LAC region. They also participate less in sector-specific missions than their OECD peers.

In the OECD, the investment generation function has been greatly affected by the COVID pandemic and subsequent confinement measures. As a large part of the world has been under lockdown, agencies around the world, including in the OECD, have developed new, creative digital ways to reach new investors and engage with their target communities. Webinars, in particular, have replaced live events, and IPAs are adjusting their outreach strategies to adapt to expected lower levels of investment in the near future. Some of them are also engaging more resources to gather intelligence and conduct research on the impact of the crisis on investment. As mentioned above, IPAs are currently dedicating more resources and efforts to facilitation and aftercare, however, than to marketing activities.

Figure 2.4. Shares of Eurasia IPAs performing investment generation activities (comparison across region)



Note: The figure illustrates average shares of IPAs performing specific activities within the investment generation function.
Source: OECD-IDB Survey of Investment Promotion Agencies (2020)

Eurasia IPAs deliver significantly less assistance on administrative and business issues and engage in less structured dialogue with governments than OECD IPAs

Investment facilitation stands increasingly high on the agenda of international organisations and policymakers. The World Trade Organisation is engaged in a series of Structured Discussions on Investment Facilitation for Development. The purpose is to discuss and eventually develop a multilateral framework for investment facilitation. At the time this report was written (2020), 99 member economies participated in this initiative, including a number of Eurasia countries. Here, investment facilitation is understood broadly as regulatory and administrative measures and policies providing a transparent, predictable and efficient framework, conducive to investment for sustainable development (Novik and De Crombrugghe, 2018[20]). The investment facilitation activities of IPAs represent a small – but important – share of these measures and policies. Their policy advocacy functions, as detailed further in this chapter, also have a key role in this framework building process.

Furthermore, in the context of the COVID-crisis and declining FDI volumes, IPAs are expected to focus much more on retaining existing investors and helping them expand their operations than they have in the recent past. In the OECD, they have already increased their focus on facilitation activities to secure the implementation of ongoing projects. OECD IPAs have quickly put in place digital means to ensure service continuity, and provide, for example, virtual site visits. They have taken steps to strengthen their dialogue with existing investors, to monitor ongoing firm-level trends and dynamics, and to be able to respond quickly to potential problems by providing their support, acting as "liaison officers" between governments and MNEs.

In the recent past, governments in Eurasia have made important efforts to improve their business and investment environments, including through new strategies, regulatory simplification and digitalisation. For instance, Kazakhstan now ranks as the 25th country according to World Bank's Doing Business (DB) report, and Azerbaijan, Kyrgyzstan, Uzbekistan and Tajikistan were distinguished as top reformers in the 2020 edition. However, further action is still needed, in particular to address legal and regulatory hurdles, and to streamline administrative processes. In Central Asia especially, state control over the economy remains high, limiting firm entry and development in several sectors (OECD, 2020[9]). As already mentioned, IPAs can contribute to the identification of the most pressing problems and participate in the elaboration of solutions.

IPAs' specific roles to facilitate investment focus on a variety of tasks. The OECD typically distinguishes facilitation services, which support new investors' project implementation, and aftercare, or retention services, which help established investors develop and expand their activity, including by anchoring them in the local economy (Young and Hood, 1995[21]). Policy advocacy, on the other hand, consists in influencing the policy-making by using feedback from investors and providing recommendations to the government, to improve the investment climate.

On average, Eurasia IPAs devote fewer resources to investment facilitation and retention than other regions. Kazakh Invest, however, stands out as the agency outsources most promotional activities and dedicates most of its human resources to investment facilitation and retention, which it considers as its core mission. Eurasia IPAs perform more investment facilitation than aftercare activities, with the notable exceptions of Azpromo and NDA Mongolia (Table 2.2). This is in line with other regional trends. The number of aftercare activities performed in Eurasia varies across agencies, as Kazakhstan, Mongolia, Ukraine, Tajikistan, Georgia and Azerbaijan carry out a vast majority of the listed aftercare services, while Uzbekistan and Belarus perform only one or two. Three agencies provide average or higher-than-average aftercare *and* facilitation activities: Ukraine, Tajikistan and Kazakhstan.

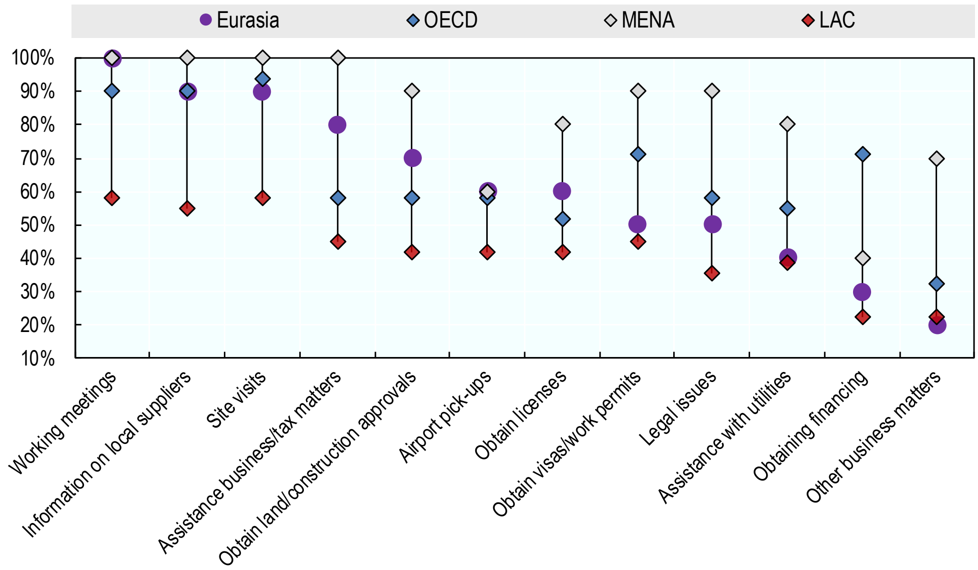
Table 2.2. Number of facilitation and aftercare activities performed by Eurasia IPAs

	Facilitation	Aftercare
Afghanistan	9	4
Azerbaijan	3	5
Belarus	7	1
Georgia	7	5
Kazakhstan	12	7
Kyrgyzstan	9	4
Mongolia	5	7
Tajikistan	10	5
Ukraine	9	5
Uzbekistan	3	1
Eurasia average	7.4	5.1
OECD average	7.6	4.1
MENA average	10.0	4.7
LAC average	8.3	4.1

Source: OECD-IDB Survey of Investment Promotion Agencies (2020)

Investment facilitation is the function with the highest dispersion figures across regions (Figure 2.5). For example, compared to OECD IPAs, Eurasia IPAs deliver significantly less assistance on a number of administrative and business issues such as with obtaining visa and work permits (50% in Eurasia vs. 71% in OECD), assistance with utilities (40% vs. 55%), and access to financing (30% vs. 73%). In addition, MENA agencies provide more assistance with land and construction approvals and help more with legal issues than Eurasia IPAs. In some Eurasia countries, such services are delivered by independent one-stop-shops, which partly explains this result.

Figure 2.5. Shares of Eurasia IPAs performing investment facilitation activities (comparison across region)



Note: The figure illustrates average shares of IPAs performing specific activities within the investment facilitation and retention function.
Source: OECD-IDB Survey of Investment Promotion Agencies (2020)

In terms of aftercare activities, most agencies (80%) deliver structured trouble-shooting services to foreign investors, which is also OECD's most widespread dispute prevention mechanism (81%) (Figure 2.6). Seven out of ten Eurasia IPAs engage in conflict mitigation (i.e., between investors and authorities), while 40% indicate having an ombudsman service. These results are significantly lower in the OECD (45% and 26%, respectively) and LAC (26% for both), but broadly in line with MENA practices (80% and 40%, respectively). In the OECD and LAC regions, some agencies may be outsourcing this activity to other organisations such as SME development agencies (OECD, 2018[3]).

In addition to supporting visits and meetings, and addressing investors' grievances, Eurasia IPAs tend to be relatively active in fostering linkages between foreign investors and the local economy, despite offering fewer cluster programmes than OECD IPAs (20% vs. 48%). A majority of IPAs in the region carry out matchmaking services between investors and local firms (90%), followed by other types of linkage programmes such as the provision of local suppliers database (70%). Again, these shares are significantly lower in the OECD (65% both) and LAC (32% and 39%), and broadly in line with MENA IPAs (90% and 50%, respectively). In most cases the database contains either a list of all products or services offered by local suppliers or other individual characteristics of local suppliers, including year of establishment, firm size, number of foreign investors supplied, among others. NDA Mongolia's database also includes a list of international and national certifications held by local suppliers. Some of these databases, however, are not updated regularly.

Promoting linkages between MNEs and small-medium-sized enterprises (SMEs) can be an important ingredient for transfer of technology, knowledge and skills, and business processes, but should not be considered as a self-sufficient measure (OECD, 2019[22]). To be effective, it requires a whole-of-government approach, including adequate measures to promote competitiveness of SMEs, such as business development services and targeted vocational training, as well as policies that allow SMEs to grow, notably facilitating access to finance, in order to enhance their absorptive capacity and ability to upgrade. Policies protecting intellectual rights are also critical. In addition, external factors can influence foreign firms' willingness to share their knowledge – some MNEs are contractually tied to international suppliers, for example. IPAs can, nevertheless, focus on targeting investment projects that support linkage programmes with local suppliers (OECD, 2015[6]). Czech Invest offers an interesting example of a well-running supplier development programme (Box 2.1).

Box 2.1. Czech Invest's Supplier Development Programme

In 1999, Czech Invest, the national IPA of the Czech Republic, established its 'Supplier Development Programme' to foster business linkages between its domestic SMEs and MNEs investing in the country. The programme entails the creation and maintenance of database of qualified suppliers, the provision of activities and services to MNEs, and matchmaking and networking events. In 2003, Czech Invest merged with the Czech Republic's national SME agency and strengthened its approach to improve the capabilities of SMEs to supply international investors. Since then, Czech Invest has brokered supplier contracts for a total amount of 250 million US dollars.

Czech Invest's supplier database covers about 3,500 profiles of Czech SMEs in key sectors such as automotive, aerospace, electronics, healthcare and energy. The database is freely accessible and allows MNEs to search for partners and suppliers by sector characteristics, modules, key technologies and locations.

In addition, Czech Invest provides services to MNEs including tailored recommendations to find suitable business partners, organisation of meetings with domestic firms, supplier forums, visits and business trips.

The agency also organises "supplier days", matchmaking events. Suppliers invited to these events are selected based on MNE's specific requirements, including functional specifications, source components, price, quality and quantities.

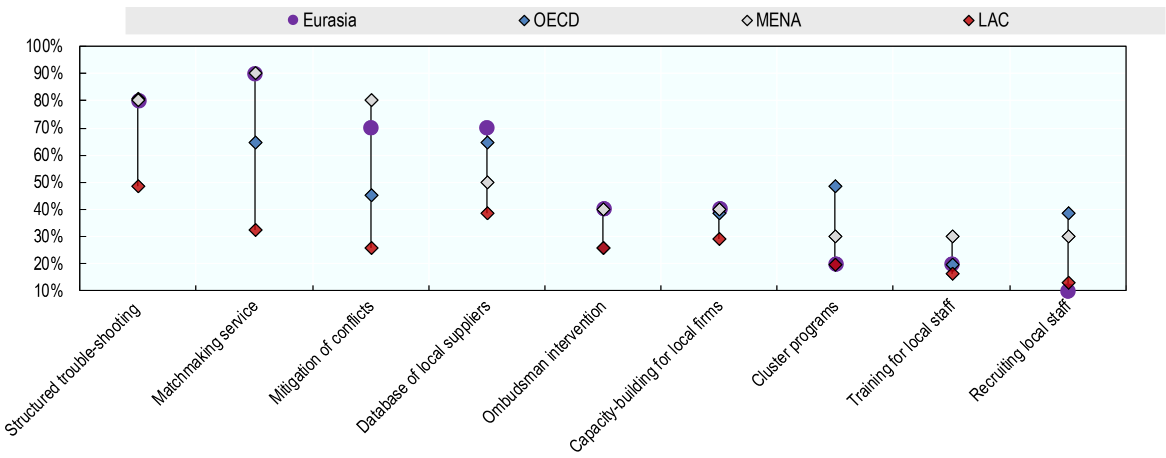
Sources: Loewendahl, H. (2018), *Innovations in Foreign Direct Investment Attraction*, Inter-American Development Bank, Washington D.C., http://dx.doi.org/10.18235/0001442.
Czech Invest (2018), *CzechInvest approach to multi-mandate : Making it work and maximizing the benefits,Workshop organised by the OECD*, Rabat, Morocco.
Pavlínek, P. and P. Žížalová (2016), "Linkages and spillovers in global production networks: firm-level analysis of the Czech automotive industry", Journal of Economic Geography, Vol. 16/2, pp. 331-363, http://dx.doi.org/10.1093/jeg/lbu041.

There are also areas where Eurasia IPAs are less active than other regions. For example, NDA Mongolia and Enterprise Georgia are the only agencies that provide training or educational programmes for local staff, while Enterprise Georgia is the only agency providing assistance in the recruitment of local staff. In some cases, these activities are carried out by governmental agencies other than IPAs (OECD, 2018[3]).

Focusing efforts on aftercare can have great benefits, for two at least reasons. First, getting existing investors to expand their operations can be less challenging and costly than trying to attract new investors (OECD, 2015[6]). Secondly, working with investors in the country, supporting them with existing operations and trying to solve their problems, can be extremely beneficial to the policy improvement process. UkraineInvest has applied this approach, focusing on existing investors' problems rather than trying to bring in new investors. This choice led to stronger ties with existing investors and stakeholders, and steps to address critical impediments to investment project implementation. It eventually contributed to bringing new investment projects. Adopting a "key account management" approach can be a good way to establish an effective aftercare function, as in the example of Business France (Box 2.1).

Aftercare is all the more important in the current context : as the COVID-19 crisis unfolds, retention and expansion of existing investors are acquiring a new strategic dimension. In Eurasia countries, there is a risk that recent investors seeing the region as a new frontier may divest themselves of their local operations. Maintaining an ongoing dialogue with existing investors can greatly contribute to the understanding of the crisis effects on their activities, and to the development of measures to mitigate negative impacts. As mentioned in the introduction to this section, OECD IPAs have already started to strengthen their aftercare function, and expect to continue doing so in the medium-term.

Figure 2.6. Shares of IPAs performing aftercare activities (comparison across regions)



Note: The figure illustrates average shares of IPAs performing specific aftercare activities.
Source: OECD-IDB Survey of Investment Promotion Agencies (2020).

Box 2.2. A structured approach to aftercare: The example of Business France

Re-investment projects account for 40-50% of all FDI in France. In recognising this opportunity, *Business France* has set up a dedicated aftercare team with the objectives of identifying new leads, trigger re-investment, and establishing and strengthening the relationship with international companies in France over the medium to long term.

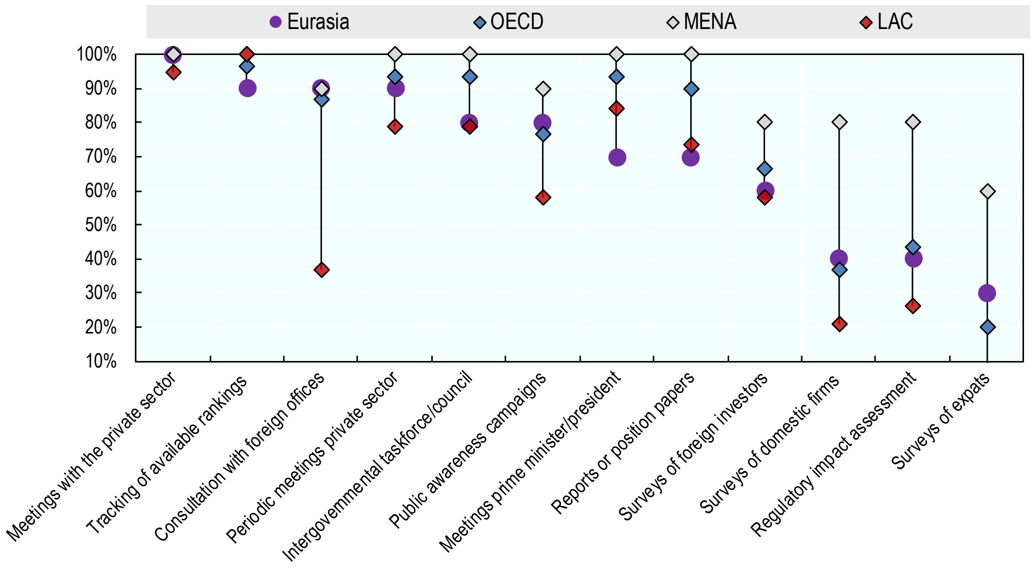
The agency follows a structured approach using a key account management system, through which the aftercare service team maintains an ongoing dialogue with established investors. It also attends VIP networking events to foster relationships with high-level decision makers, including cabinet ministers, among others. The agency provides services at both the operational level, helping investors deal with administrative issues, and the strategic level, supporting investment/reinvestment decisions. Customer satisfaction surveys, annual meetings with key accounts, customer satisfaction calls, and annual FDI surveys are all means that *Business France* uses to measure the impact of aftercare services.

Sources: Business France (2019), OECD workshop on investment promotion practices in Eurasia (2019)

Policy advocacy is an important function of the overall investment promotion effort, as it constitutes a feedback loop from field practice to policy-making. In particular, through their interactions with investors, IPAs can identify bottlenecks in the business environment, and channel this information to the government's decision makers to suggest improvements. IPAs can find it challenging, however, to contribute effectively to the policy-making towards an enabling institutional framework. Some degree of institutional independence seems an enabling factor in this respect, including adequate representation or support at the decision-making level. In addition, to further legitimate their policy advocacy action and clearly distinguish it from private sector lobbying, they need well-established institutional channels allowing for structured dialogue with, and formal feedback to, the government (OECD, 2017[23]).

Eurasia IPAs spend more on policy advocacy than their peers from the OECD (12% vs 6%), but perform fewer activities overall. This needs to be nuanced however, as Eurasia IPAs tend to be less active in providing formal feedback to the government on how to improve the investment climate but engage more in informal and less structured dialogue with the government (Figure 2.7). This suggests that, despite interacting with a wider range of government institutions than OECD IPAs, relationships might be less policy-oriented. For instance, nine out of ten agencies report participating in periodic meetings with the private sector and eight agencies organise public awareness campaigns or events. By contrast, only seven Eurasia agencies (70%) engage in formal dialogue with the government, including meetings with the prime minister, president or other government agencies, as compared to 93% in the OECD, 100% in MENA, and 84% in LAC. In addition, Eurasia IPAs produce fewer reports or position papers to provide inputs and influence policies that enhance the investment climate and foster reforms (70% in Eurasia vs. 90% in OECD, 100% in MENA and 74% in LAC).

Figure 2.7. Shares of IPAs performing policy advocacy activities (comparison across region)



Note: The figure illustrates the average share of specific activities performed within the policy advocacy function.
Source: OECD-IDB Survey of Investment Promotion Agencies (2020)

Eurasia IPAs and their sponsors could greatly benefit from stronger and better-structured policy advocacy functions. These would help governments execute and adjust reform agenda for better business climates, while OECD reports highlight the challenges of implementation of such reforms in countries of Central Asia and the Eastern Partnership alike (OECD, 2020[9]; OECD, Forthcoming[23]). Even in countries that have substantially simplified their business regulations to remove administrative hurdles, the impact on FDI flows, outside of resource-seeking investment, have not been sizeable, and foreign businesses report that important challenges remain in practice, especially for large and complex projects. IPAs that have strong relationships with both foreign business communities and governments can play a pivotal role in identifying impediments and advocating policy reforms to enhance the investment climate, including small measures, such as the creation of a VIP fast-tracking line at the airport, and larger regulatory work such as the revision of licensing requirements. As highlighted in the first chapter, such a role requires increased institutional independence, clearly established roles and resources, and access to high-level decision-makers in the government. In some countries, a reporting line to the Prime Minister or the Presidential Administration, for example, can make a big difference.

The categorisation of Eurasia IPAs according to the OECD classification shows that half Eurasia IPAs fall under the “balanced” category. This category groups IPAs that try to cover all four functions, but typically with more limited resources than facilitators. Kazakhstan has a profile of facilitator, as the agency outsources most promotional activities and focuses its human resources on investor servicing. It is the agency with the most resources in the sample, which is an enabling factor for pursuing such a strategy. The remaining four IPAs are equally distributed between the "image builder" and the "generator" categories.

Table 2.3. List of IPAs by strategic profiles in Eurasia and the OECD

	Image builders	Generators	Facilitators	Balanced
Eurasia IPAs	Azerbaijan	Kyrgyzstan	Kazakhstan	Afghanistan
	Belarus	Uzbekistan		Georgia
				Mongolia
				Tajikistan
				Ukraine
OECD IPAs	Germany	Austria	Australia	Canada
	Poland	Chile	Czech Republic	Finland
	Slovenia	Estonia	Denmark	Israel
		France	Hungary	Latvia
		Greece	Ireland	Mexico
		Iceland	Japan	Portugal
		Korea	Norway	Spain
		Netherlands	United Kingdom	Turkey
		New Zealand		
		Slovak Republic		
		Sweden		
		United States		

Source: OECD-IDB Survey of Investment Promotion Agencies (2020).

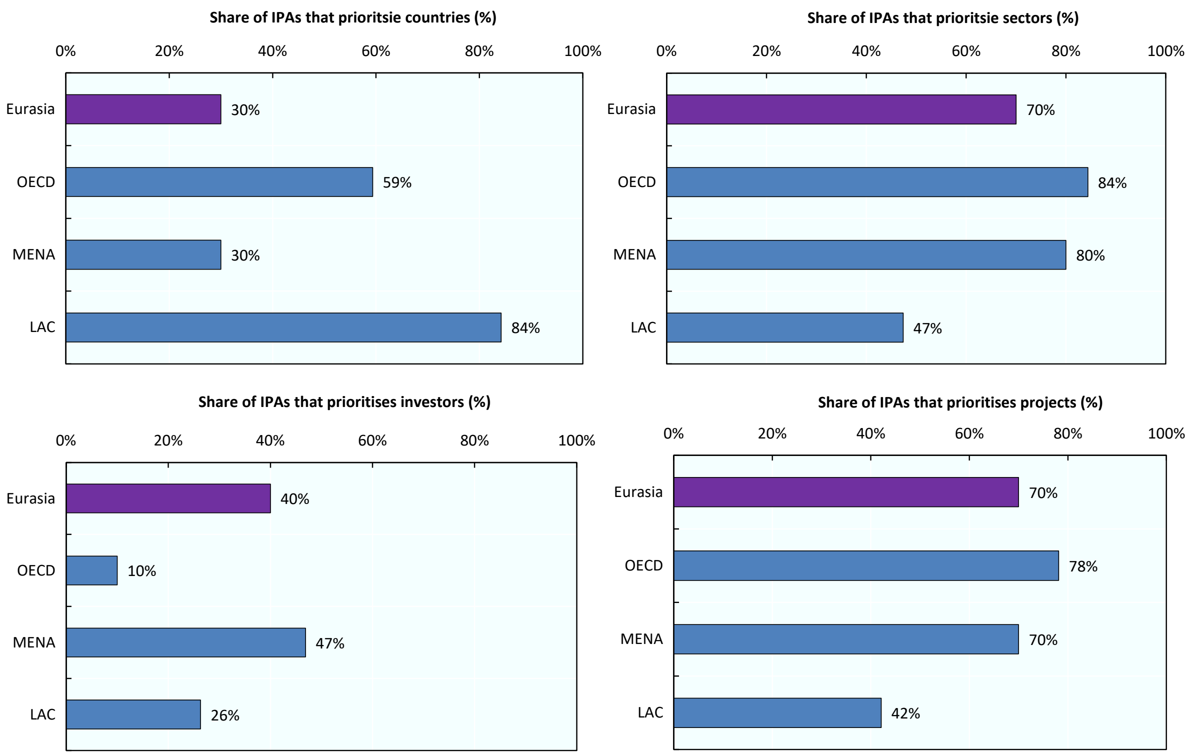
Prioritisation strategies

To attract and generate FDI, most IPAs prioritise specific sectors, countries, investment projects or investors over others. Prioritisation can involve targeted outreach and marketing efforts directed to specific industries. While considered a best practice in the world of IPAs (OECD, 2015[6]), the decision-making process, and criteria of prioritisation in particular, can represent a challenge.

Eurasia IPAs mostly prioritise sectors and projects; only few target specific countries or investors

All agencies prioritise some investment over others, with the notable exceptions of Azpromo and NAIP Belarus. Seven out of ten agencies prioritise certain economic sectors, compared to 84% in the OECD, 80% in MENA and 47% in LAC (Figures 2.8). By contrast, only three agencies prioritise specific countries. In addition to prioritising sectors and countries, the majority of Eurasia IPAs (70%) prioritise specific investment projects. Targeting individual investors, however, is less common in Eurasia.

Figure 2.8. Overview of IPAs' prioritisation strategies by region

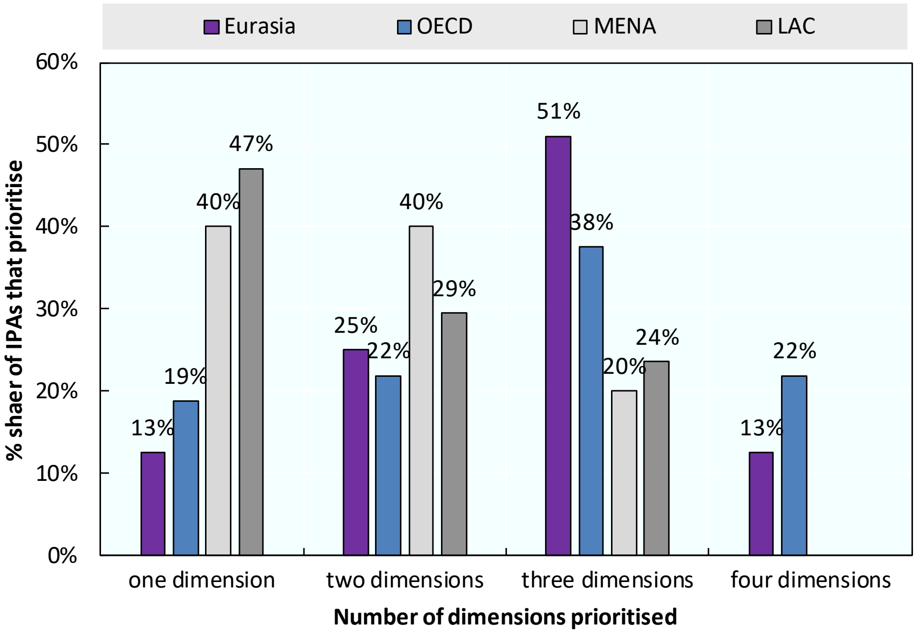


Source: OECD-IDB Survey of Investment Promotion Agencies (2020)

Overall, Eurasia agencies differ in their targeting intensity, i.e., how many dimensions of prioritisation they combine at the level of sectors, countries, projects and individual investors (Figure 2.9). Agencies that prioritise certain sectors often also prioritise projects and thus combine these two dimensions. Four agencies combine three layers of prioritisation. The Afghanistan Directorate of Investment Promotion and Support, Enterprise Georgia and the Investment Promotion and Protection Agency of Kyrgyzstan prioritise sectors, projects and individual investors, while Kazakh Invest focuses on sectors, countries and investment projects. Uzbekistan's Foreign Investment Promotion Agency is the only agency that focuses only on country prioritisation. Ukraine Invest appears to be the most focused IPA in the sample, as it combines all four prioritisation approaches in their FDI attraction efforts. A Table with the detailed targeting approaches can be found in Annex 2.A.

Figure 2.9. Targeting intensity by dimensions prioritised in Eurasia and other regions

% of surveyed agencies.



Source: OECD-IDB Survey of Investment Promotion Agencies (2020)

In addition to pro-actively prioritising certain sectors, countries, projects or investors, IPAs can also exclude certain types of investment from their promotion activities or assistance when approached by investors. However, this approach is less common in Eurasia, as only two agencies indicate excluding specific sectors or countries, as compared to 34% in the OECD and 50% in MENA.

Primary sectors rank high on Eurasia IPAs' priority lists, reflecting the weight of resource-seeking investment in the region. Georgia, Kazakhstan and Ukraine have also developed clear target sectors for economic diversification

All Eurasia IPAs that prioritise sectors focus on resource-intensive industries such as energy and mining, as well as agriculture, including agribusiness and agrifood, with the notable exception of Georgia. The latter focuses on some high-value added sectors such as aerospace and automotive, business process outsourcing (BPO), pharmaceuticals, hospitality and IT. Only two agencies mention renewable energy (Georgia and Mongolia) or advanced service industries such as information and communication technology (Georgia and Kyrgyzstan) (Table 2.4).

Ukraine's agency targets manufacturing industry and innovation technology more broadly, while Kazakhstan's has a narrower focus on oil and gas transformation, such as petro-chemistry. The number and specificity of priority sectors differ from agency to agency depending on the country's natural endowments and the process of setting priorities, among others. Overall, it appears that Eurasia IPAs' priority sectors are not defined as precisely as OECD IPAs', which mainly target life sciences, healthcare services, ICT, business support services, bio-, green and nano-technologies as well as advanced manufacturing and high-tech services, among others (OECD, 2018[3]).

Eurasia IPAs' focus on extractive industries reflects their comparative advantage, as most economies have rich natural resource endowments and attract the majority of FDI in these sectors. However, they should consider strengthening their diversification efforts, by attracting FDI with the potential to diversify their economy or upgrading existing sectors to develop higher value added industries.

Table 2.4. Priority sectors in Eurasia

	Afghanistan	Georgia	Kazakhstan	Kyrgyzstan	Mongolia	Tajikistan	Ukraine
Primary sector	Mining, Energy, Agriculture	Renewable energy, Mining	Mining & Metallurgy	Agriculture, Energy	Mining, Renewable energy	Energy, Mining, Agriculture	Energy
Industry	Infrastructure	Manufacturing of apparel and footwear, Automotive, Aircraft equipment, Electronics, Pharmaceuti-cals	Agribusiness, Machine building, Chemistry and Petro-chemistry	Manufacturing	Agribusiness	Industry*, Transport	Agribusiness, Manufacturing, Infrastructure, Innovation Technology
Services	Telecommunica-tion, Health, Education	Hospitality, BPO & IT		Tourism, ICT	Tourism	Education, Tourism, Finance	Innovation Technology

Note: (*) Including manufacturing and processing industries.
Source: OECD IDB IPA survey of Investment Promotion Agencies (2020)

Eurasia IPAs' prioritisation strategies mainly rely on criteria related to economic diversification and regional development

All agencies seek to diversify their economy and drive regional development when prioritising sectors (Table 2.5). This result is similar in the MENA region, but significantly lower in LAC (71%) and in the OECD (58%). This hardly comes a surprise, as diversifying the economic base is a common challenge across much of the region, particularly in Central Asia (OECD, 2018[25]). However, there seems to be a contradiction between the method, consisting in using criteria related to diversification, and the result, with the strong presence of primary sectors among priority sectors, as noted above. In addition to economic diversification, six out of seven IPAs (86%) indicate focusing on FDI driving regional development, in accord with their main mandate as discussed in Chapter 1.

Eurasia IPAs also try to target sectors in line with countries' needs, regional potential and domestic capabilities, and that offer opportunities to upgrade and drive integration into global value chains. Six out of seven IPAs (86%) thus attract FDI where the country has strong domestic capacities, suggesting that they seek to strike a balance between diversification objectives and leveraging domestic strengths.

Table 2.5. Criteria used for sector prioritisation by IPA and region

	AFG	GEO	KAZ	KGZ	MNG	TJK	UKR	Eurasia	OECD	MENA	LAC
Potential to Diversify the Economy	✓	✓	✓	✓	✓	✓	✓	**100%**	58%	100%	71%
Regional development/agglomeration effects		✓	✓	✓	✓	✓	✓	**86%**	48%	89%	41%
Strong domestic capacity	✓		✓	✓	✓	✓	✓	**86%**	64%	67%	53%
Competitive position vis-a-vis other countries	✓	✓	✓		✓	✓	✓	**86%**	58%	89%	35%
Strong global demand	✓	✓		✓		✓	✓	**71%**	48%	78%	35%
Impact on employment and/or working conditions	✓	✓	✓			✓	✓	**71%**	55%	78%	71%
Green investment	✓				✓	✓	✓	**57%**	27%	89%	0%
Importance/strong links to the rest of the economy	✓				✓	✓	✓	**57%**	48%	78%	65%
Impact on environment or climate change				✓		✓	✓	**43%**	21%	44%	24%
Existence of market failure					✓		✓	**29%**	21%	44%	6%
Investors record on RBC			✓					**14%**	0%	11%	0%

Source: OECD-IDB Survey of Investment Promotion Agencies (2020)

Eurasia IPAs also use a broad set of criteria to prioritise investment projects. Sector priorities, impact on job creation, impact on exports, sustainability and size of investment are their top five criteria (Table 2.6). Impact on innovation and R&D, regional development and country's image (all 86%) are also cited by the majority of IPAs. Overall, these criteria appear broadly consistent with the criteria used to target sectors, for example in the area of employement creation. In some areas, the alignment is less clear. For example, while few IPAs consider green investment, impact on environment and climate change as sector prioritisation criteria, all IPAs report considering sustainability aspects when prioritising investment projects.

The COVID-19 crisis is likely to have an impact on criteria driving IPAs's selection of target sectors and projects. The crisis is expected to have a major effect on Global Value Chains (GVCs), as it dramatically exposed their weaknesses, dependencies and bottlenecks (OECD, 2020[5]). Some governments have already shared possible intentions to relocate the production of essential goods and services in the name of national safety. Although, as recommended by the OECD and emphasised in the G20 Ministerial Statement, distortionary measures to address the health crisis should be temporary tools, longer-term GVC reconfigurations are likely. In the OECD, IPAs are already taking reshoring and near-shoring MNE decisions into account, and planning to adjust their prioritisation strategies in consequence. This situation entails risks for developing economies and can impede Eurasia governments' current plans for further integration into GVCs (e.g. in agro-food and manufacturing sectors). Policy-makers and IPAs will need to take these new constraints into consideration as they redesign their strategic priorities to adapt to the crisis.

Table 2.6. Criteria used for prioritisation of projects by IPA and region

	AFG	GEO	KAZ	KGZ	MNG	TJK	UKR	Eurasia	OECD	MENA	LAC
Priority Sector	✓	✓	✓	✓	✓	✓	✓	**100%**	88%	86%	78%
Impact on job creation	✓	✓	✓	✓	✓	✓	✓	**100%**	84%	100%	100%
Impact on exports	✓	✓	✓	✓	✓	✓	✓	**100%**	64%	100%	78%
Sustainability	✓	✓	✓	✓	✓	✓	✓	**100%**	52%	100%	44%
Size of investment	✓	✓	✓	✓	✓	✓	✓	**100%**	80%	86%	56%
Impact on innovation / R&D		✓	✓	✓	✓	✓	✓	**86%**	88%	100%	78%
Impact on regional development		✓	✓	✓	✓	✓	✓	**86%**	52%	100%	78%
Impact on country's image	✓	✓		✓	✓	✓	✓	**86%**	52%	86%	56%
Duration of commitment / investment horizon	✓			✓	✓		✓	**57%**	44%	86%	33%
Size of the company	✓	✓	✓		✓			**57%**	48%	29%	22%
Firm's engagement in internationalisation	✓		✓	✓			✓	**57%**	40%	86%	44%
Impact on competition		✓				✓	✓	**43%**	52%	71%	44%
Mode of entry	✓	✓					✓	**43%**	44%	43%	22%
Nationality of the investor		✓	✓				✓	**43%**	36%	14%	0%
Impact on wages					✓		✓	**29%**	32%	57%	44%
Impact on tax revenue				✓	✓			**29%**	20%	43%	56%
Impact on domestic firms' production capabilities				✓		✓		**29%**	52%	100%	56%
Priority country of origin			✓				✓	**29%**	40%	29%	33%
Type of investor (e.g. JV, Private Equity)	✓				✓			**29%**	40%	29%	44%

Source: OECD-IDB Survey of Investment Promotion Agencies (2020)

Overall, Eurasia IPAs rely less on internal consultation processes and market studies than OECD IPAs for prioritisation purposes

The process of identifying prioritisation strategies can be complex as it involves gathering a broad range of information, and requires co-ordination and communication with external partners.

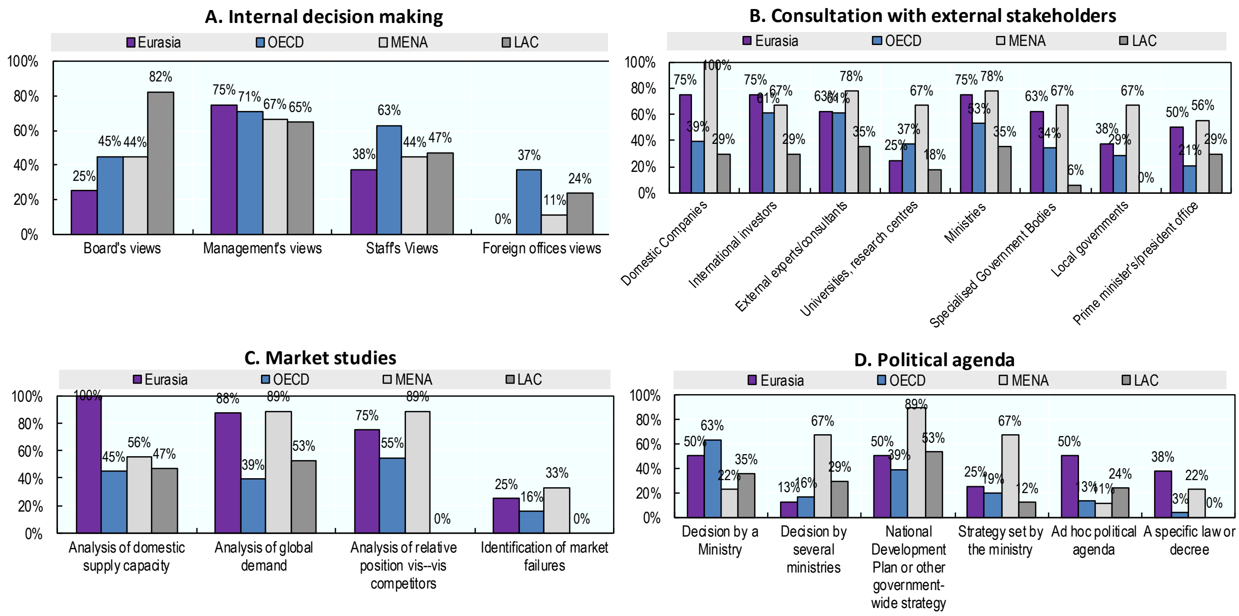
Eurasia IPAs rely less on internal decision-making processes than IPAs in other regions (Figure 2.10). For example, only 25% of the agencies that prioritise sectors or countries consider decisions or views from their supervisory board in their decision-making process, compared to 45% in the OECD, 44% in MENA and 82% in LAC. Staff views are also less considered in Eurasia than in other regions. Most agencies rely on inputs from the agency's management (75%), which is broadly in line with other region's practices.

As regards consultations with external stakeholders, Eurasia IPAs rely more on inputs from domestic firms than OECD IPAs but less on universities, technical institutes and research centres. While the views of international investors appear to be well taken into consideration, in line with the OECD and MENA, few agencies consult local governments (38%). Given the focus of Eurasia IPAs on regional development, further involvement of sub-national stakeholders in the prioritisation process could be considered.

It is noteworthy that market studies tend to be Eurasia IPAs' main source of information during the process of prioritisation and not for investment generation activities. All surveyed agencies carry out analyses of domestic supply capacity and seven out of eight agencies (88%) analyse dynamics and developments in global demand. These shares are significantly lower in other regions, notably in the OECD (45% and 39% respectively). Six out of eight agencies (75%) base their decisions on comparative positioning vis-à-vis competitors, as compared to 55% in the OECD. Identification of market failures features less in IPAs' decision-making process, as is the case in other regions. The results of the survey suggest that Eurasia IPAs tend to use more market studies for selecting priority sectors than for informing potential investors, which can seem surprising. Agencies concerned could envisage further using market data to produce targeted communications tools.

Political considerations also tend to play a prominent role in prioritisation processes. Half of IPAs rely on decisions by a ministry, and the same share rely on national development plans or other government wide strategy, which is broadly in line with OECD and LAC practices. The survey suggests that *ad hoc* political agendas (50%) and specific laws or decrees (38%) play a more important role in Eurasia than in other regions.

Figure 2.10. Inputs used in the process of sector and country prioritisation by region



Note: The figure illustrates the number of agencies of each region that considers specific inputs for their targeting strategies, as a share of all agencies that engage in sector or country prioritisation.
Source: OECD-IDB Survey of Investment Promotion Agencies (2020)

Annex 2.A. Shares of activities performed within each core function

Annex Table 2.A.1. Average share of activities carried out within each core function by region

	Eurasia	OECD	MENA	LAC
Image building	**84%**	84%	92%	82%
Investment generation	**90%**	92%	92%	90%
Investment facilitation and retention	**46%**	47%	52%	28%
Policy advocacy	**70%**	75%	90%	60%

Source: Authors' calculation based on OECD-IDB Survey of Investment Promotion Agencies (2020)

Annex 2.B. Overview of Eurasia IPAs' targeting approaches

Annex Table 2.B.1. Overview of Eurasia IPAs' targeting approaches

Country	Sectors	Countries	Projects	Investors
Afghanistan	Yes	No	Yes	Yes
Azerbaijan	No	No	No	No
Belarus	No	No	No	No
Georgia	Yes	No	Yes	Yes
Kazakhstan	Yes	Yes	Yes	No
Kyrgyzstan	Yes	No	Yes	Yes
Mongolia	Yes	No	Yes	No
Tajikistan	Yes	No	Yes	No
Ukraine	Yes	Yes	Yes	Yes
Uzbekistan	No	Yes	No	No

Source: OECD-IDB Survey of Investment Promotion Agencies (2020)

3. Monitoring and evaluation

Eurasia IPAs engage in monitoring and evaluation activities as much as their peers in other regions. More than half of Eurasia IPAs have dedicated evaluation units that report to the IPA head or investment committee, and the number of methods and indicators used are in line with OECD practices. They however tend to focus more on output as opposed to outcome indicators, although the latter are not clearly aligned with their mandates and prioritisation strategies. In addition, only few IPAs are equipped with data-tracking tools such as Customer Relationship Management (CRM), while such systems are particularly enabling in the digitalisation of processes. Enhancing the usage of and strengthening data-tracking systems in the region could facilitate the collection of good-quality data, enable IPAs to better track their activities and results, and allow extending investment promotion's contribution to sustainable development and the promotion of responsible business conduct. It would also enable Eurasia IPAs to "stay in the game" as the COVID-19 crisis is already accelerating the digitalisation of investment promotion activities in many economies.

The purpose of monitoring and evaluation (M&E), in the context of investment promotion, is manifold. First, like most organisations, the success of IPAs rely, among other aspects, on the efficient allocation of their resources, which can be guided by cost and benefit analyses. In this perspective, well-designed M&E methods and indicators can help improve overall investment promotion and facilitation strategies, and propose corrective measures to improve process effectiveness (OECD, 2015[6]). Second, systematic monitoring of the agency's performance will help to anchor a culture of results orientation, and provide a basis for organisational learning through experience, benchmarking exercises, and knowledge generation (UNCTAD, 2016[26]). Third, well designed M&E indicators can serve as an effective communication tool to report to main stakeholders, and ensure transparency and accountability, especially in the context of public spending (Schumann, 2016[27]). Demonstrating impact, efficiency and effectiveness can be particularly important during political cycles or economic downturns, when the nature of IPAs is often called into question (Loewendahl, 2001[8]), while tighter budgets have generally increased the pressure to report and demonstrate success (OECD, 2018[3]).

Monitoring and evaluating are two complementary actions both relating to performance assessment and improvement. While monitoring is a continuous process that focuses on ongoing activity and measures its progress, evaluation deals with completed tasks or activities. Both rely on the collection of appropriate data and information, and can provide guidance for performance improvement through corrective actions.

Enhancing M&E approaches is a popular topic among OECD IPAs, in a context of pressure to demonstrate effective use of public budgets but also to better measure the outcomes of foreign investment attraction. Among main challenges for performance measurement, IPAs mention the design and systematic usage of data tracking tools, access to relevant and reliable data, and engaging in partnerships with external stakeholders to improve the M&E function (OECD, 2019[28]). IPAs are also well positioned to contribute to the measurement of FDI benefits in relation to the Sustainable Development Goals (SDGs) in their domestic economies, in areas such as employment and job quality, innovation and green growth. Such contribution necessitates the design of new and relevant indicators. This specific topic is not discussed at length in this chapter, and is covered by recent OECD work on FDI Qualities (OECD, 2019[29]). It can nevertheless affect IPAs' M&E functions by calling for new definitions of performance and the emergence of new strategic goal definitions.

This chapter describes M&E trends among Eurasia IPAs. It starts by assessing their overall level of engagement in M&E activities by looking at their M&E function's organisational settings, as well as the volumes of methodologies and indicators they rely on. It then goes into the details of the how Eurasia IPAs conduct their M&E activities, and identifies areas where their capabilities could be strengthened.

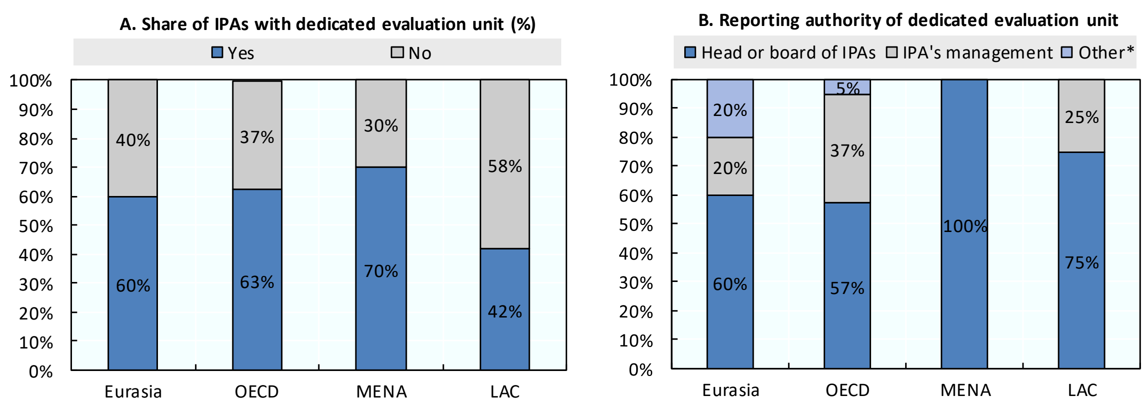
Overall level of engagement in Monitoring and Evaluation

The level of engagement of IPAs in M&E activities can be defined by the extent to which the M&E functions is structured and formalised, and by the number of methods and indicators on which IPAs rely. This comparison enables to identify overall trends, but has its limits, as it does not go into the details of processes, methodologies and indicators' quality.

Eurasia IPAs' overall level of engagement in M&E activities appears in line with practices of their peers in other regions

As in other regions, more than half of Eurasia IPAs have dedicated evaluation units that report to the IPA head or investment committee. Having a dedicated unit for M&E can help ensure relative independence and neutrality of the function, a sensitive topic in most organisations (Weaver, 2010[30]). It can also be a horizontal function in agencies carrying multiple mandates. Six out of ten Eurasia IPAs indicate having a dedicated evaluation unit (Figure 3.1). This share is very similar in the OECD (63%) and MENA (70%) region, but significantly lower in LAC (42%). Sixty percent of these evaluation units report directly to the IPA's head or board, and the rest report either to the IPAs' management or to the Chair of the Investment Committee that oversees the IPA. Some of the smaller or recently created IPAs of the regions, like Afghanistan and Uzbekistan, do not have an evaluation unit. Even when the agency is small and does not have the resources to have a dedicated evaluation unit, having a focal point for M&E can be useful (UNCTAD, 2016[26]).

Figure 3.1. IPAs with dedicated evaluation unit and reporting lines

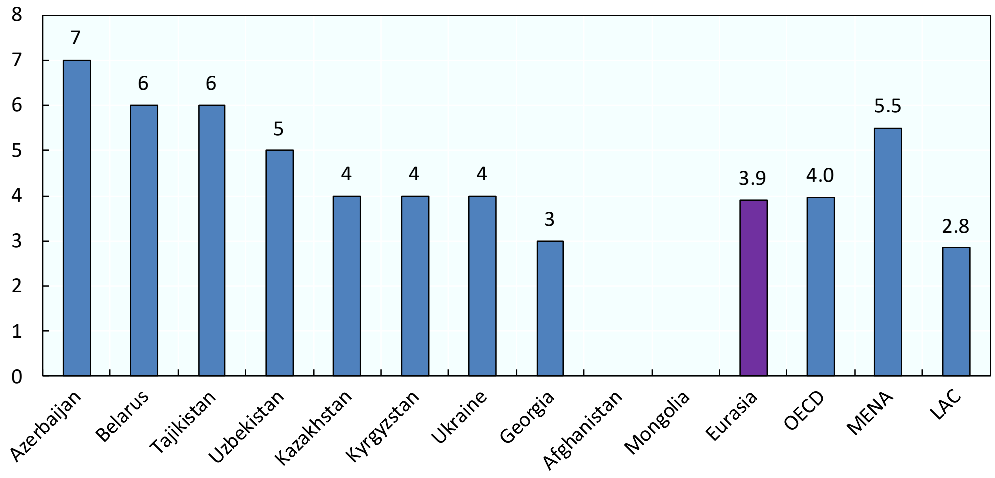


Note: Panel B answers for Eurasia are based on five IPAs; (*) Chair of the Investment Committee to which the IPA reports.
Sources: OECD-IDB Survey of Investment Promotion Agencies (2020)

On average, Eurasia IPAs use as many different M&E methods as their peers in the OECD. To assess their effectiveness and impact in attracting inward FDI, IPAs can rely on a wide set of evaluation methodologies, such as benchmarking, econometric assessments, and client feedback collection. Eurasia IPAs employ, on average, 3.9 methods (out of a list of 8 propositions), compared to 4 in the OECD, 5.5 in MENA and 2.8 in LAC (Figure 3.2).

Figure 3.2. Total number of M&E methods

Eurasia IPAs' figures and regional averages.

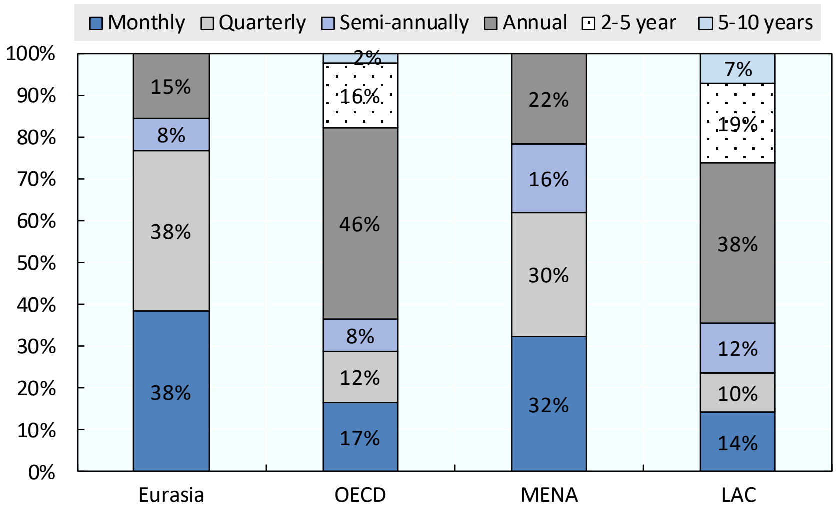


Source: OECD-IDB survey of Investment Promotion Agencies (2020)

Most agencies use these methodologies on a monthly or quarterly basis, which is more frequent than in the OECD, where most evaluation analysis is conducted annually (Figure 3.3). This is consistent with the fact that IPAs in the region tend to produce more activity reports than their peers (cf. Chapter 1).

Figure 3.3. Frequency of M&E indicator generation by region

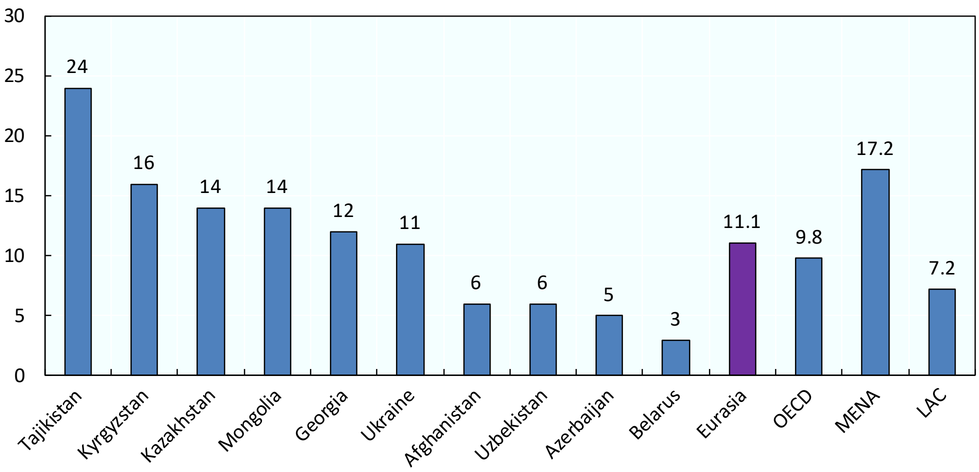
Average shares of indicators produced within indicated timeframes.



Source: OECD-IDB Survey of Investment Promotion Agencies (2020)

Eurasia IPAs use on average 11 different key performance indicators (KPIs) to measure their performance and impact on the economy, in line with OECD practices (Figure 3.4). This average hides wide discrepancies across IPAs however. KPIs are metrics that measure organisational performance and success in reaching target objectives. They can measure performance at the level of an entire organisation, a unit, an activity or a project (OECD, 2018[3]). Broadly speaking, Eurasia IPAs can be divided into two groups: IPAs using 11 or more indicators, and those using 6 or fewer. The existence of a dedicated evaluation unit may have to do with the breadth of indicators used, as agencies with such a unit use 14 indicators on average, whereas the average is seven among the remaining IPAs. In Tajikistan, the SCISPM not only uses the highest number of indicators in Eurasia, it also surpasses Latvia, the OECD agency with the highest number of indicators (23).

Figure 3.4. Total number of indicators used



Source: OECD-IDB survey of Investment Promotion Agencies (2020)

Monitoring and Evaluation activities

To conduct their M&E activities, IPAs can rely on a number of data tracking and collection tools, methods and indicators, as well as processes to use results and improve the performance. The quality of these different elements are pivotal in the effectiveness and impact of the M&E function, and eventually contribute to the transparency and accountability of IPAs.

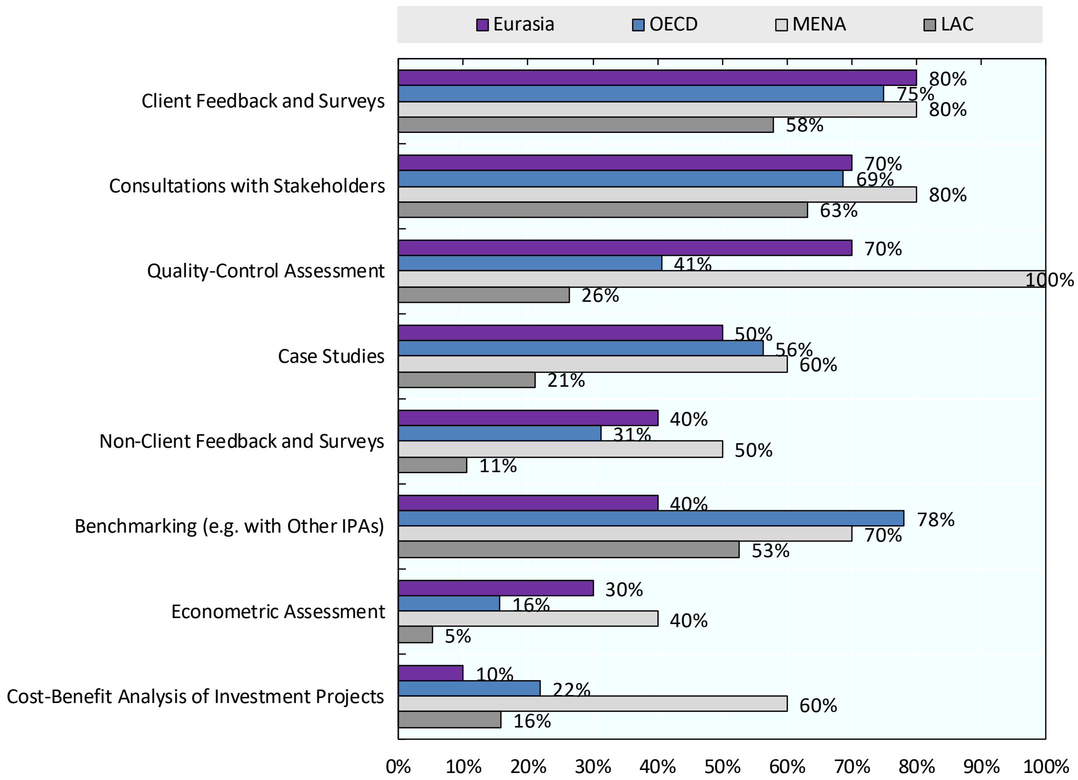
Eurasia IPAs rely on client surveys, consultations and quality control assessments, but resort less to benchmarking than OECD agencies

Overall, IPAs in Eurasia mainly rely on customer satisfaction surveys (80%), client consultations (70%) and quality-control assessment (70%) to rate and assess the agency's performance (Figure 3.5). Although these can be good tools to measure the agency's effectiveness, they entail a number of challenges, notably related to design quality, response rates, data reliability and quality of answers, among others. Quality-control assessments involve the measurement of time to answer requests, as well as response quality. The data collection process supporting quality-control assessment is unclear as few IPAs have CRM tools, as discussed later in this chapter. There are good chances that these indicators are required in IPAs' activity reports to their Ministry in charge. In MENA countries, such assessments are required by law (OECD, 2019[10]). On the other hand, less than half of Eurasia IPAs use benchmarking, contrarily to IPAs in the OECD (78%), MENA (70%) and LAC (53%). This report could be a stepping-stone in this regard, and encourage Eurasia IPAs to engage further in peer-to-peer exchanges as a basis for self-evaluation, as well as identification of new ideas and practices in their field.

As in the MENA region, there are more IPAs in Eurasia using econometric assessments than in the OECD (respectively 30% and 16% of the samples). In addition, two out of three Eurasia agencies using econometric techniques have fewer financial resources than the average Eurasia IPA, while these types of methodologies tend to be relatively resource- and skill-intensive. In the OECD, some leading IPAs use econometric assessments every few years, typically to support the definition of strategic orientations (Sztajerowska, 2019[31]). Overall, this finding is somewhat surprising.

Figure 3.5. IPAs' evaluation methodologies

In % of IPAs.



Source: OECD-IDB Survey of Investment Promotion Agencies (2020)

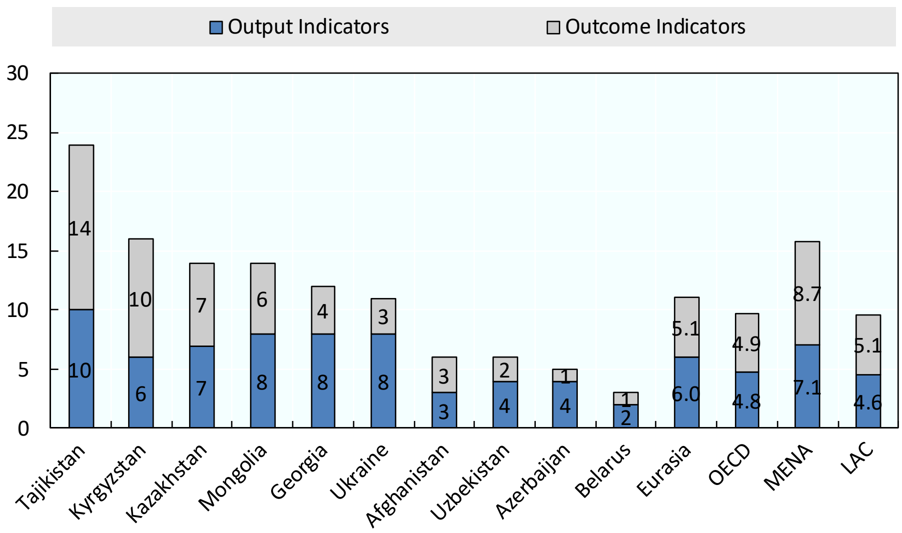
In contrast to other regions, Eurasia IPAs use more output than outcome M&E indicators on average

M&E indicators can be categorised into output and outcome indicators. Output indicators directly relate to the agency's activities (i.e. number of campaigns launched), processes (i.e. time to respond) and results (i.e. number of assisted firms), and measure IPAs' effectiveness and efficiency in achieving their target objectives (OECD, 2018[3]). In contrast, outcome indicators measure the realisation of expected effects of IPA's actions. They typically reflect the policy objectives underlying IPAs' actions, such as job creation, regional development, or business climate reforms (Schumann, 2016[27]).

In contrast to other regions, Eurasia IPAs tend to use more output than outcome indicators, with the notable exceptions of Tajikistan's SCISPM and the Investment Promotion and Protection Agency of the Kyrgyz Republic (Figure 3.6). Some of the Central Asian countries use a high number of output indicators compared to regional averages, notably Tajikistan, which uses 14 different indicators. OECD work with governmental agencies in the region has found, in some instances, that there could be tendencies to "flood" reporting systems with long lists of indicators, mostly focused on process.

While reporting is a fundamental process in any organisation, focusing on a limited number of meaningful indicators has its advantages. Reporting can be time- and resource-consuming both for the entity producing the report, and for the administration at the receiving end. Targeting a lower, but meaningful number of indicators can help convey strategic directions and better focus organisational efforts according to the policy priorities of the decision-makers. In this regard, the definition of strategic targets has its importance, because as it provides directions for operations, it also guides the definition of M&E indicators. As highlighted in the first chapter, strategic target definition is not as widespread in Eurasia as it is in the OECD.

Figure 3.6. Number of output and outcome indicators used by IPAs

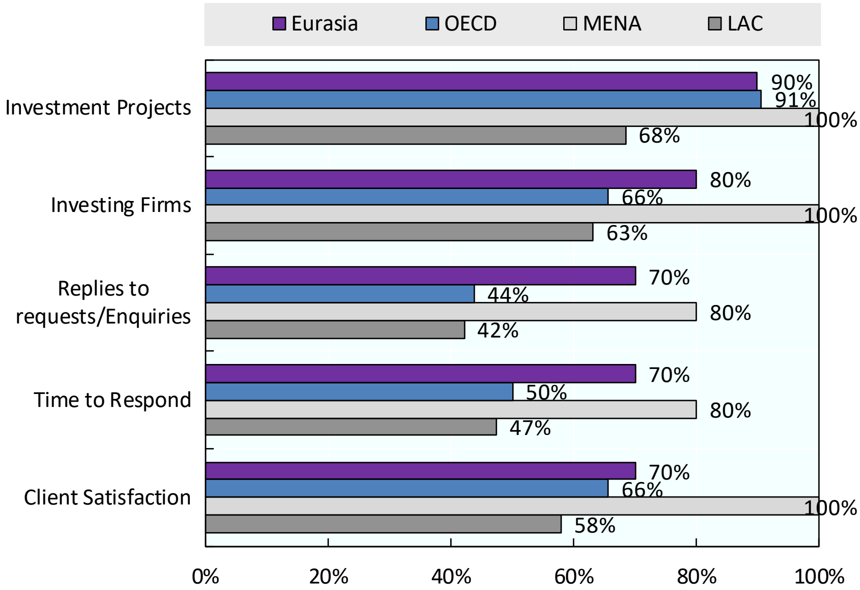


Note: Breakdown between outcome and output indicators based on OECD definition.
Source: OECD-IDB Survey of Investment Promotion Agencies (2020)

Eurasia IPAs' top five output indicators focus on internal process performance (Figure 3.7), whereas, as in other regions, productivity measures are less followed. There are strong similarities across regions, as a large majority of IPAs track the number of projects and investing firms, followed by client satisfaction and the time to respond. Uzbekistan's IPA is the only agency that does not monitor the number of investment projects. The agency focuses on tracking the time to respond and replies to enquiries, as well as time to organise visits and market studies. The overall focus of Eurasia M&E functions on tracking internal processes may reflect the need to encourage and improve staff performance in relatively new organisations, although, as highlighted above, IPAs should make sure to strike a balance between the costs and benefits of their M&E approach.

Figure 3.7. Top five Output indicators in Eurasia and usage comparison with other regions

In % of IPAs.



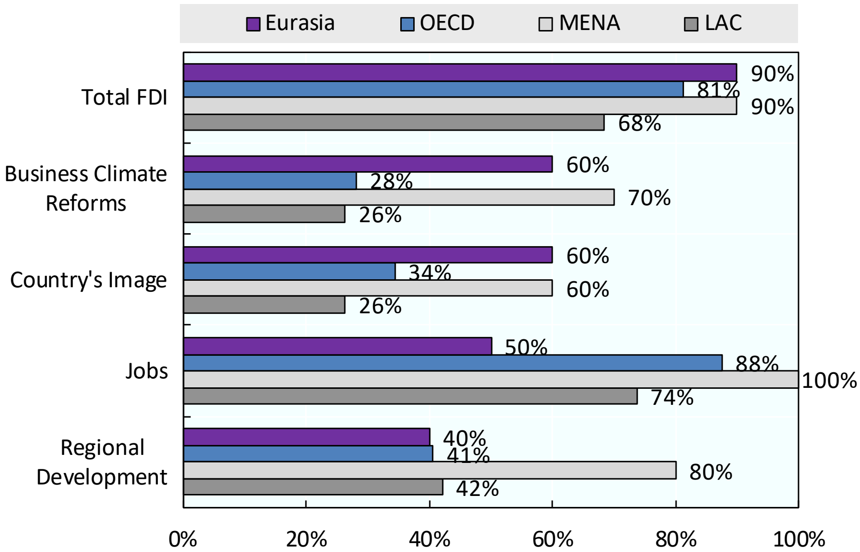
Source: OECD-IDB Survey of Investment Promotion Agencies (2020)

Better data would enable Eurasia IPAs to better track outcome indicators in relations to their strategic priorities

Similar to OECD IPAs (81%), most Eurasia IPAs focus on tracking the total amount of FDI inflows received (90%) (Figure 3.8). Their second most favoured indicator relates to country's image, which is consistent with their tendency to focus on image building in general, as detailed in Chapter 2. Eurasia IPAs also monitor business climate reforms more closely than OECD IPAs (respectively 60% and 28% of the samples). By contrast, they track job and innovation related indicators less than their peers in other regions. It is also noteworthy that in spite of their mandates to contribute to regional development, only 40% of Eurasia IPAs track related indicators. As in the OECD, the tracking of indicators related to green investment and Responsible Business Conduct (RBC) are marginal in Eurasia.

Figure 3.8. Top five Outcome Indicators

In % of IPAs.

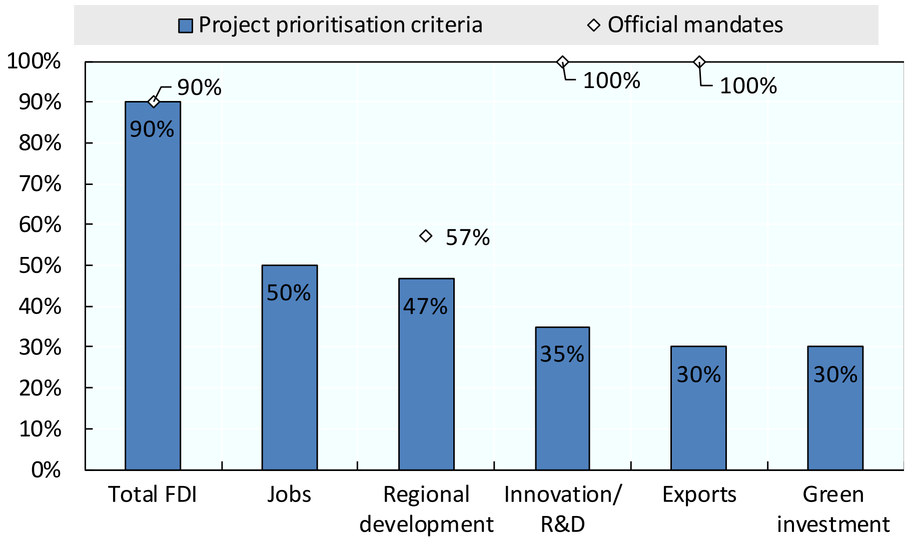


Source: OECD-IDB Survey of Investment Promotion Agencies (2020)

For M&E indicators to be relevant, they should be consistent with the agency's overall mandates, as well as the target objectives of the unit, activity or project they relate to (OECD, 2018[3]). The majority of surveyed IPAs use total FDI as outcome indicator (90%) and have some corresponding prioritisation criteria (i.e. size of investment) (Figure 3.9). The alignment is much weaker regarding remaining evaluation indicators such as jobs (50%), regional development (47%), innovation (35%), exports (30%) and green investment (30%). In contrast, outcome indicators align better with the agency's formal mandates, as the same share of agencies tracking innovation related and export related indicators indicated innovation and export promotion as official mandates. Overall, regional development appears to be among the least aligned outcome indicators. Similar gaps between target objectives and outcomes indicators used for M&E are observed in OECD countries, and find their explanation in a lack of data-availability (OECD, 2018[3]). This is particularly true of sub-national data. In Eurasia, the development of better systems to track and collect reliable statistical data based on international standards is a pre-requisite to the development of more robust outcome indicators, including relating to the SDGs. This is a rather long-term endeavour. It could however help governments monitor the effects of policy measures on foreign investment and contribution of FDI to economic recovery.

Figure 3.9. Strategic alignment of IPAs' outcome indicators

In % of IPAs.

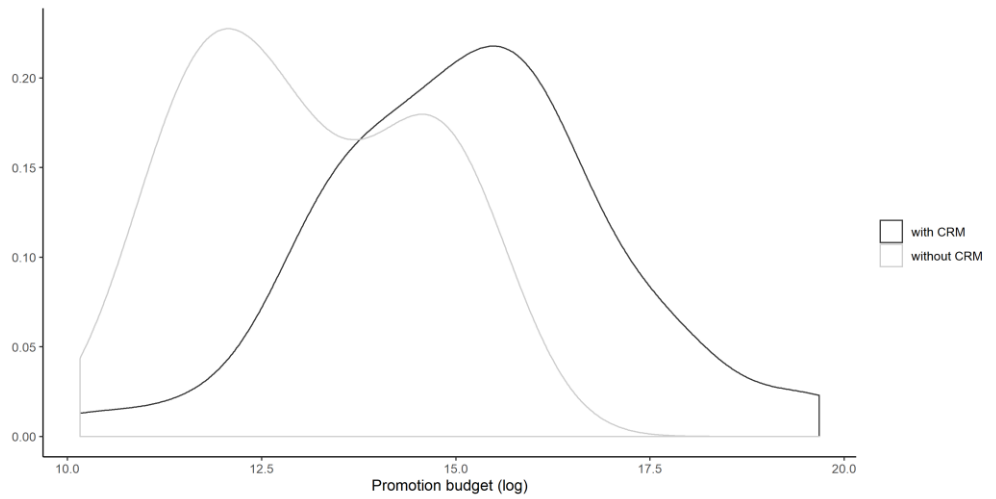


Note: The figure displays the share of IPAs that use a specific outcome indicator that corresponds to a given mandate/targeting strategy. In particular, the following project prioritisation criteria were used (following the order of columns in the graph): 1) size of investment, 2) impact on job creation, 3) impact on regional development, 4) impact on innovation/R&D, 5) impact on exports, and 5) sustainability. Regarding mandates, we used FDI promotion to align with total FDI, regional development promotion to match with regional development indicators, innovation promotion for innovation related evaluation indicators, export promotion to match export related indicators and green investment promotion to align with sustainability related evaluation indicators.
Source: OECD-IDB Survey of Investment Promotion Agencies (2020)

Eurasia IPAs could consider investing in CRM systems to enhance their data tracking systems, improve their M&E functions and strengthen their digital capabilities

As discussed in the previous section, the collection of good quality data is a critical element in the area of monitoring and evaluation. Well-designed tools and processes, such as Customer Relationship Management (CRM) systems, can greatly facilitate this collection. In Eurasia, only 60% of IPAs rely on a CRM system to track and monitor their activities. By contrast, 91% of IPAs in the OECD do so, as do 80% in the MENA region and 63% in LAC. Data shows that CRM systems usage is correlated with budget size (Figure 3.10). CRM implementation is indeed an investment, as it not only requires purchasing software licences, but also transforming existing processes and training staff. It is nevertheless worth weighing its costs and benefits, considering the potential gains in data reliability, time, and overall efficiency.

Figure 3.10. Existence of a CRM system and IPAs' promotion budget



Note: The graph illustrates kernel density estimates reflecting the distribution of investment promotion budgets of agencies with and without CRM systems in 2019.
Source: OECD-IDB Survey of Investment Promotion Agencies (2020)

Eurasia IPAs equipped with CRM systems could consider expanding their usage as they gain experience with their systems. The results of the OECD-IDB survey suggest that they tend to use them less than IPAs from other regions, although this can be partly due to recent CRM software acquisition (Table 3.1). CRM systems in three Eurasia countries - Georgia, Ukraine and Tajikistan - cover all organisational units, whereas half of OECD IPAs' CRM tracking have a full coverage. At Kazakh Invest, the CRM covers some units of the agency, notably the investment generation and investment facilitation departments, which are the two core functions in which OECD IPAs track most activities (OECD, 2018[3]).

Table 3.1. Overview of Eurasia IPAs' CRM systems

	Azerbaijan	Georgia	Kazakhstan	Mongolia	Tajikistan	Ukraine
Developed in (year)	2016	2019	2018	2019	2017	2020
Covered units	N/A	All organisational units (related to investment promotion)	Investment Generation and Investment Facilitation	N/A	All organisational units	All organisational units
Covered activities	Some activities with each investor	All activities with one investor	All activities with one investor	Some activities with each investor	Some activities with each investor	Some activities with each investor
Allows to track investors at each stage of the investment process	No	Yes	Yes	Yes	Yes	Yes

Source: OECD-IDB Survey of Investment Promotion Agencies (2020)

The main application of CRM tools in OECD countries is by far the identification of each project lead (84%).In Eurasia, four out of six agencies use it for this purpose. Eurasia agencies also use their CRM to track response times to enquiries (Table 3.2). According to the survey, Tajikistan's SCISPM and Enterprise Georgia track the total cost of each established investment project. In the MENA and LAC regions, respectively 57% and 42%

of IPAs track this indicator. Azpromo mainly uses its CRM system to gather data from national companies in order to facilitate B2B meetings with foreign investors. The remaining IPAs track and monitor all activities with one investor (Kazakhstan) or track several activities with each investor (Mongolia, Tajikistan).

Table 3.2. CRM functionality usage by region

In % of CRM users.

Country (% of CRM-equipped IPAs)	**Eurasia (60%)**	**OECD (94%)**	**MENA (80%)**	**LAC (80%)**
Tracking response times to enquiries	67%	52%	100%	67%
Identifying the Source of Each Lead	67%	86%	100%	83%
Computing the total costs of established investment project	33%	17%	57%	42%
Computing the total costs of non-established project	33%	7%	57%	17%
Sending automatic reminders to officials	33%	41%	86%	50%

Source: OECD-IDB Survey of Investment Promotion Agencies (2020)

Overall, these findings suggest that CRM implementation, in particular for investment generation and facilitation functions, could enable IPAs to better track their activities and results. CRM is an investment, nevertheless, which benefits do not accrue automatically and depend on organisations' institutional capacities (i.e. degree of customer orientation), financial and human resources, and training (i.e. to build digital capabilities) (Rababah, Mohd and & Ibrahim, 2011[32]; Schellong, 2005[33]). Agencies with resource constraints can choose to opt for off-the-shelf packages or free, open-source versions that can yield short-term efficiency gains, besides being adaptable to learning during the deployment process (Foss, Stone and Ekinci, 2008[34]). Once fully implemented, its potential benefits include structuring activities, developing relationships with current investors, and enhancing the agency's retention strategy thanks to more responsive and tailored services to foreign investors. CRM can also greatly facilitate information sharing internally and with external partners, as highlighted in Chapter 1.

Moreover, CRM plays a key role in enabling the development of digital investment promotion activities. COVID-19 has not only forced agencies to move their activities online temporarily, it is also accelerating the development of digital tools to enhance investment promotion. In the OECD, IPAs have been developing new tools since the beginning of the crisis to adapt and seize opportunities to innovate. Their CRM systems have facilitated this shift, including by enabling them to use readily available contact information and data.

On average, Eurasia IPAs take less corrective action than OECD and MENA IPAs when targets are not met

Generating and using feedback from evaluation and monitoring actions is a critical process, as it informs the management about identified problems and proposes corrective actions to overcome them. IPAs can also use the feedback gathered to feed their policy advocacy reports and recommendations, as well as their strategic plans (OECD, 2018[3]).

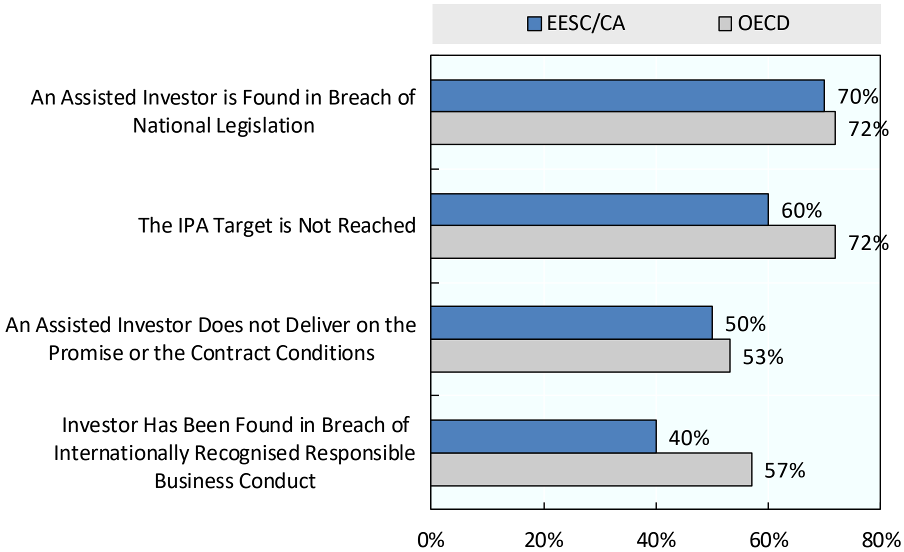
According to the OECD-IDB survey, 60% of Eurasia IPAs take action when they do not reach their targets, while this share is 72% in the OECD, 80% in MENA and 53% in LAC

(Figure 3.11). In some instances, reporting entities can decide to reduce IPAs budgets, but in a majority of cases, follow-up actions are decided on an ad hoc basis.

Five out of ten agencies take action when investors fail to deliver on promises (e.g., number of jobs created, etc.) or contract conditions. These shares are higher in the OECD (53%) and in the MENA region (80%), but lower in LAC (42%). Moreover, only 40% of agencies intervene when foreign investors do not comply with RBC principles, compared to 57% in the OECD. In these two cases, IPAs or relevant bodies usually undertake relevant legal procedures and revoke their support to the incriminated investor. In contrast, OECD IPAs also redefine strategic objectives or review internal operations to establish improvement plans.

Figure 3.11. Cases triggering corrective actions

In % of IPAs.



Source: OECD-IDB Survey of Investment Promotion Agencies (2020)

4. The way forward

This report has presented regional trends on investment promotion practices in Eurasia. It highlights avenues for the development of the region's investment attraction efforts, based on data collected from 69 IPAs in four different regions including the OECD. As countries will be looking for measures to mitigate or recover from the impacts of the COVID-19 crisis, it paves the way for further peer-to-peer exchange and OECD work on how Eurasia governments can strengthen their approaches to investment promotion as part of such efforts. Further work and exchanges could address the following issues, among others.

Guide Eurasia IPAs in their efforts to strengthen their institutional and strategic frameworks

The OECD mapping of Eurasia IPAs shows that most agencies have limited institutional autonomy, compared with other regions. They also have wide mandates, while operating with limited resources. Future work could address how internal organisational choices and characteristics of Eurasia IPAs affect their investment promotion strategies, core functions and activities – and vice-versa. IPA organisational characteristics to be further analysed would mainly cover their reporting lines; their boards (existence, role and composition); their mandates (diversity and scope); their strategic programmes (strategic plans and targets); and their resources (human resources in particular).

Peer-learning events could cast light on the relationship between certain organisational characteristics of Eurasia IPAs and their investment promotion strategies. This work could support Eurasia agencies in enhancing their positioning and visibility in the wider institutional framework of investment promotion, aligning resource allocation with target objectives, and improving their co-ordination with other institutions, in particular at the sub-national level. It could also help them strengthen their strategic frameworks and tools.

Help Eurasia governments to strengthen their investment facilitation and policy advocacy frameworks

While Eurasia IPAs recognise that domestic investment climates are both important and often a challenge, their role in helping to address such challenges is not always clear. Six out of ten agencies have mandates to operate as one-stop-shops, but they tend to spend fewer resources on facilitation and aftercare activities than agencies in other regions. Although they spend more on policy advocacy than OECD IPAs, their roles seem rather informal and less structured.

Future work could support efforts to enhance Eurasia IPAs' investment facilitation and aftercare frameworks, and address policy impediments to FDI attraction and retention. For example, regional peer-learning seminars would allow Eurasia policymakers to have a comparative overview of existing investment facilitation practices and services. It would also give them an opportunity to reflect on how IPAs can further contribute to facilitating investment, preventing disputes and strengthening linkages between MNEs and local ecosystems, but also to building institutional knowledge and capacity. Finally, it could foster knowledge sharing on the formalisation of policy advocacy processes, and on making the best of their position to foster sounder investment climates.

Provide Eurasia IPAs with recommendations to strengthen monitoring and evaluation

The mapping shows that Eurasia IPAs would benefit from better data-tracking systems and tools, such as Customer Relationship Management (CRM). Reporting authorities should also make sure to work with manageable sets of meaningful indicators that help determine whether the IPA actions generates expected economic and social outcomes. Developing this approach would help extend the investment promotion efforts' contribution to sustainable development and responsible business conduct.

Further work could provide Eurasia agencies with guidance on how to improve their monitoring and evaluation systems to permit meaningful impact of their performance. It could address practical questions raised by the results of the mapping such as on the effectiveness of IPAs activities in different countries, and which services have the greatest impact on attracting FDI (e.g. image building vs. investment generation activities). It could also support strategic thinking about the digitalisation of investment promotion tools and processes.

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INVESTMENT PROMOTION IN EURASIA

A MAPPING OF INVESTMENT PROMOTION AGENCIES

Like most governments around the world, Eurasia governments have established investment promotion agencies (IPAs) to promote their countries as investment destinations, attract foreign direct investment (FDI), and facilitate foreign investors' establishment and expansion in the domestic economy.

This report takes stock of Eurasia countries' efforts to attract foreign investment, and offers comparisons with investment promotion practices in the OECD, Middle East and North Africa (MENA) and Latin America and the Caribbean (LAC). It provides a detailed understanding of Eurasia IPAs' structures and settings, strategies and activities. It suggests options for strengthening investment promotion efforts in Eurasia and adapting them to the new context being defined by the unfolding COVID-19 crisis.

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