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**Review of donor experience to support  
private sector organisations and  
investment promotion agencies**

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# 1 Introduction

The UK Department for International Development (DfID) has commissioned a literature review on the experience of donor programmes in support to private sector organisations to lobby for reform and support to investment promotion agencies in stimulating investment.

Query 1: What lessons can be learnt from previous programmes by donors to help private sector bodies to lobby for investment climate reforms, both through capacity building and direct support for advocacy activities?

Query 2: What lessons can be learnt from previous programmes by donors to support investment promotion agencies in developing countries to attract and retain investment, both foreign and domestic?

The development community has been a strong support of the idea that a prosperous private sector and good investment climate are essential for economic growth. However, many countries still need to undertake significant reforms that will allow them to unleash their economic potential. Private sector bodies are increasingly seen as essential partners in efforts to reform, which has led to their support by a range of donors. Investment promotion agencies (IPAs) have also played an important role in improving national investment climates, and attracting and retaining foreign direct investment (FDI). The increasing number of IPAs around the world has created a competitive environment to attract FDI, with only the best IPAs being able to succeed, as long as complementary factors are in place.

This paper identifies key assessments and other studies that provide lessons learnt from donor support to private sector bodies and donor support to IPA in developing countries.

## 2 Methodology

The approach taken by this literature review includes conducting a broad-based search of relevant content, based on main focus of the paper, outcomes and lessons learnt, keeping a strict record of search strategies, inclusion/exclusion criteria such as time frame, focus of the paper, methodology, outcome, etc. The literature review covers the academic literature, research and technical papers, government reports and working papers which are considered to be useful to answer the main research questions.

The most relevant existing evidence on experience of donor programmes in support to private sector organisations to lobby for reform, and support to investment promotion agencies in stimulating investment is listed below, including several programme evaluations and impact assessments looking at these issues from both, a quantitative and a qualitative perspective.

As discussed with Dfid, the expected output seeks to identify key evaluations and other studies of the effectiveness of such programmes, rather than attempt to synthesise the results into general lessons learnt. Based on the queries sent by DfID, a series of relevant reports, studies and evaluations have been selected and a short abstract of each one is provided. The list below seeks to inform the reader about key findings, lessons learnt and best practices and experiences on donor support to private sector bodies and IPAs in developing countries. The selected studies have been divided in two sections: the first section contains selected reports, studies and evaluations and the second section on case studies provides specific examples from different countries at different development stages which could be used as models when designing policy and programmes.

## 3 Literature review

### 3.1 What lessons can be learnt from previous programmes by donors to help private sector bodies to lobby for investment climate reforms, both through capacity building and direct support for advocacy activities?

**World Bank - IFC Small and Medium Enterprise Department (2005) *Building the Capacity of Business Membership Organizations: Guiding Principles for Project Managers*. Washington, DC: World Bank.**

<http://www.publicprivatedialogue.org/papers/BMOGuideFullReport05.pdf>

The report, developed by the World Bank Group (SME Department) in collaboration with the Foundation for Economic Development and Vocational Training (SEQUA), provides guiding principles on how to design, implement, and evaluate a project aimed at building the capacity of business membership organisations (BMOs) to become a strong and reputable representative of the private sector in reforming the investment climate in the developing countries. It provides references to key documents, organizations, and other resources in the field of BMO development, a series of practical case studies and an analysis of typical issues faced by BMOs in developing and practical recommendations to solve these problems.

**Niederländer K., Hinton P. (2011) *Traps to avoid, lessons to be learnt. Private Sector and Development Profarco Magazine*. Paris: Profarco.**

[http://www.proparco.fr/webdav/site/proparco/shared/ELEMENTS\\_COMMUNS/PROPARCO/Revue%20SPD%20vraie/PDF/SPD11/SPD11\\_niederlander\\_hinton\\_uk.pdf](http://www.proparco.fr/webdav/site/proparco/shared/ELEMENTS_COMMUNS/PROPARCO/Revue%20SPD%20vraie/PDF/SPD11/SPD11_niederlander_hinton_uk.pdf)

The article by Niederländer and Hinton provides a critical examination of assistance programmes with a focus on private-sector support in Africa. The paper points to beneficiaries not being consulted, lack of local support for the project, absence of follow-up and poor coordination. They expose some of the most glaring problems and explore some avenues for improvement.

**Dirk Willem te Velde (ed.) (2013) *State-business relations and industrial policy. Current policy and research debates*. UK: DFID-ESRC Growth Research Programme.**

<http://static.squarespace.com/static/5167f6a2e4b0f1cbdee8d1c0/t/520bbceee4b0835de583c34f/1376500974972/DEGRP%20Policy%20Essays%20State-business%20relations%20and%20industrial%20policy.pdf>

These series of essays provide evidence of the links between state-business relations and industrial policy, discuss the role of state-business relations in industrial policy as well as the characteristics of effective state-business relations for good industrial policy.

**Dirk Willem te Velde (ed.) (2010) *Effective state-business relations, industrial policy and economic growth*. UK: DFID-ESRC Growth Research Programme.**

<http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/6126.pdf>

This collection of essays by internationally distinguished scholars discusses the nature of state-business relations (SBRs) and the links between SBRs and economic performance, it also examines two technical and methodological aspects that have been at the forefront of the study of SBRs: how to measure SBRs and how to deal with endogeneity concerns in the relationship between SBRs and economic performance.

**Bannock Consulting Ltd. (2005) *Reforming the Business Enabling Environment. Mechanisms and Processes for Private-Public Sector Dialogue*. UK: DFID/Bannock.**

[http://www.publicprivatedialogue.org/papers/Reforming\\_the\\_Business\\_Enabling\\_Environment.pdf](http://www.publicprivatedialogue.org/papers/Reforming_the_Business_Enabling_Environment.pdf)

The paper, commissioned by the DFID Policy Division's Investment, Competition and Enabling Environment (ICEE) team, examines how public-private sector dialogue (PPD) can support investment climate improvement. The paper focused on DFID's and the European Union's field experiences with PPD processes and mechanisms in their private sector development programmes. The paper examines dialogues spanning 12 countries, political and social systems, ranging from highly formal and structured to informal and ad hoc. It identifies success factors and lessons learnt, and includes a helpful list of dos and don'ts for donors.

**Herzberg, B., Wright, A. (2005) *Competitiveness partnerships – building and maintaining public-private dialogue to improve the investment climate: A resource drawn from the review of 40 countries' experiences*. Washington, DC: World Bank.**

[http://www.publicprivatedialogue.org/papers/Competitiveness\\_Partnerships.pdf](http://www.publicprivatedialogue.org/papers/Competitiveness_Partnerships.pdf)

Competitiveness partnerships are defined as the structured dialogue between the public and private sector to improve the investment climate. This paper examines the experience of 40 countries with competitiveness partnerships and seeks to identify common and replicable strategies and success factors in establishing, maintaining or improving a competitiveness partnership.

**Organization for Economic Co-Operation and Development (2001) *The DAC Guidelines: Strengthening Trade Capacity for Development*. Paris: OECD.**

<http://www.oecd.org/trade/aft/2672878.pdf>

The DAC Guidelines provide overall policy guidance and a common reference point for the trade, aid, and finance communities on capacity development for trade. They identify key principles and processes that shape the design and delivery of trade capacity building activities and show how donors can help developing countries build their capacity for trade.

**Sullivan, J., Bettcher, K, and Shkolnikov, A. (2008) Business Associations, Business Climate, and Economic Growth: Evidence from Transition Economies. *Economic Reform Issue Paper*. Washington DC: CIPE.**

<http://www.cipe.org/sites/default/files/publication-docs/IP%2008-07%20ISNIE.pdf>

This article by Sullivan, Bettcher and Shkolnikov from the Center for International Private Enterprise (CIPE), develops linkages between business associations and economic growth viewed through the prism of new institutional economics. The paper concentrates on the positive role of business associations and chambers of commerce in facilitating the development of a good business climate. It also presents a set of criteria used by CIPE in its work to distinguish redistributive from market-promoting interest groups and to build the capacity of interest groups to develop a business-friendly economic environment. The article provides case studies from Romania, Hungary, and Russia.

### **Case studies**

**Bettcher, K. (ed.) (2007) *Strategies for Policy Reform. Experiences from Around the World*. Washington DC: CIPE.**

[http://www.cipe.org/sites/default/files/publication-docs/PolicyReform\\_2007.pdf](http://www.cipe.org/sites/default/files/publication-docs/PolicyReform_2007.pdf)

This book presents case studies of effective, innovative reform programmes designed and implemented by business associations, think tanks, and other independent organisations in partnership with the CIPE. Particularly relevant to this review is the chapter on 'Building Capacity, Sharing Knowledge', which discusses CIPE's experience in developing the private sector through business associations in Afghanistan and Iraq.

**Herzberg, B. (2004) *Investment climate reform: going the last mile. The Bulldozer Initiative in Bosnia and Herzegovina*. Washington, DC: World Bank.**

[http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2004/09/09/000012009\\_20040909150058/Rendered/PDF/WPS3390.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2004/09/09/000012009_20040909150058/Rendered/PDF/WPS3390.pdf)

The paper examines the Bulldozer Initiative in Bosnia and Herzegovina, and reform methodology that successfully overcame the lack of political will and capacity at the government level through a bottom-up approach. Using an innovative grassroots and public awareness methodology, the initiative mobilised the local business community to bulldoze barriers by identifying concrete legislative changes and advocating for their adoption and implementation. The paper also looks at the specific role played by the international community and applicability of the process to different settings.



## 3.2 What lessons can be learnt from previous programmes by donors to support investment promotion agencies in developing countries to attract and retain investment, both foreign and domestic?

**Harding, T., Javorcik, B. (2007) *Developing Economies and International Investors: Do Investment Promotion Agencies Bring Them Together?* Washington, DC: World Bank.**

[http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2007/08/31/000158349\\_20070831103402/Rendered/PDF/wps4339.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2007/08/31/000158349_20070831103402/Rendered/PDF/wps4339.pdf)

This study by the World Bank uses data on national investment promotion agencies in 109 countries to examine the effects of investment promotion on foreign direct investment inflows. The empirical analysis first tests whether sectors explicitly targeted by investment promotion agencies receive more foreign direct investment in the post-targeting period relative to the pre-targeting period and non-targeted sectors. Second, it examines whether the existence of an investment promotion agency is correlated with higher foreign direct investment inflows. Results from both approaches point to the same conclusion. Investment promotion efforts appear to increase foreign direct investment inflows to developing countries.

**Moran, T. (2006) *Harnessing Foreign Direct Investment for Development*. Washington DC: Center for Global Development.**

<http://www.cgdev.org/sites/default/files/9781933286099-Moran-harnessing-fdi.pdf>

In his book Theodore H. Moran shows that FDI can make a contribution to development significantly more powerful and more varied than conventional measurements indicate. But it can also distort host economies and politics with adverse consequences.

Particularly interesting to this review are the sections ‘The New Model of Investment Promotion’ (pag 27) and Chapter 2 ‘Enhancing the Ability of Poor Countries to Attract and Harness FDI for Development’ (pag 45) where Moran analyzes how two initially low-income states—Mauritius and the Dominican Republic—became successful in attracting FDI in manufacturing and assembly. It also suggests how investment promotion efforts might be improved, and derives lessons for how contemporary poor states might get started, as Madagascar and Lesotho have done. The section on ‘Investment Promotion for Poorer States’ also discusses the work that different donors have been doing in the area.

**Morriset, J. (2003) *Does a Country Need a Promotion Agency to Attract Foreign Direct Investment? A Small Analytical Model Applied to 58 Countries*. Washington, DC: World Bank.**

[http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2003/05/23/000094946\\_03051404103335/Rendered/PDF/multi0page.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2003/05/23/000094946_03051404103335/Rendered/PDF/multi0page.pdf)

Using data from a survey on 58 countries, Morisset shows that greater investment promotion measured by FDI inflows is associated with higher cross-country foreign direct investment (FDI) flows, on top of the influence of the country's investment climate and market size. But, he argues this result depends on the effectiveness of the agency on the country's environment in which it operates and on the scope of activities that an agency undertakes.

**Investment Climate, The World Bank Group (2012) *Global Investment Promotion Best Practices 2012*. Washington, DC: World Bank.**

[https://www.wbginvestmentclimate.org/uploads/Global%20Investment%20Promotion%20Best%20Practices\\_web.pdf](https://www.wbginvestmentclimate.org/uploads/Global%20Investment%20Promotion%20Best%20Practices_web.pdf)

The Global Investment Promotion Best Practices (GIPB) project examines how investment promotion intermediaries perform when approached by foreign investors. The GIPB 2012 report, building on data and analysis from past editions, offers the most complete examination yet of how well investment promotion intermediaries accomplish the crucial task of information provision. The report also examines best practices from around the world and highlights ways in which investment promotion intermediaries could improve their performance across all investment sectors in all economies.

**Ortega, C., Griffin, C. (2009) *Investment Promotion Essentials: What sets the world's best investment facilitators apart from the rest. Investment Climate in Practice*. Washington, DC: World Bank.**

<https://openknowledge.worldbank.org/bitstream/handle/10986/10526/503560BRI0Box31actice1GIPB01PUBLIC1.pdf?sequence=1>

This survey, conducted by the Investment Climate Advisory Services of the World Bank Group, has identified 14 common practices of the top-performing investment promotion agencies. These practices, mostly related to priorities and management, help highlight low-cost, high-impact pathways for reforms.

**Organization for Economic Co-Operation and Development (2006) *Policy Framework for Investment: A Review of Good Practices. Chapter 2. Investment Promotion and Facilitation*. Paris: OECD.**

<http://www.oecd.org/daf/inv/investment-policy/40287315.pdf>

The Policy Framework for Investment provides policy advice on creating an environment that is attractive to domestic and foreign investors. This framework focuses on steps that could be taken to promote and facilitate investment in the host country, including that of encouraging any potential spillovers from foreign investment to local enterprise development. The policy framework reviews the work of different donor organisations and provides useful country examples.

**Organization for Economic Co-Operation and Development (2011) *Policy Framework for Investment User's Toolkit – Investment Promotion and Facilitation*. Paris: OECD.**

<http://www.oecd.org/investment/toolkit/policyareas/investmentpromotionfacilitation/41246119.pdf>

The Policy Framework for Investment (PFI) User's Toolkit provides specific and practical implementation guidance revealed from the experience of the countries that have already undertaken a PFI assessment. The toolkit assesses 9 key questions on investment promotion and facilitation and provides key considerations for each of these questions.

**Organization for Economic Co-Operation and Development (2002) Strategic Investment Promotion: Successful Practice in Building Competitive Strategies. *South East Europe Compact for Reform, Investment, Integrity and Growth*. Paris: OECD.**

<https://www.wbginvestmentclimate.org/toolkits/investment-generation-toolkit/upload/SE-Europe-CE.pdf>

This publication presents a framework of practice in strategy, based on extensive country experience and research, for use in the promotion of foreign direct investment and a benchmark against which individual countries can assess their existing or planned FDI promotion strategies. The strategic guideline derived from the work the leading organisation on the topic and presents the experiences of several countries.

**European Commission (2011) Trade and Private Sector Policy and Development Support programmes financed by EU external assistance. *Tools and Methods Series Reference Document N10*. Luxemburg: European Union.**

<http://capacity4dev.ec.europa.eu/t-and-m-series/document/reference-document-nr-10-trade-and-private-sector-policy-and-development>

The document examines support programmes financed by EU external assistance in the areas of Trade and Private Sector Policy and Development (TPSPD). Part II of the report contains ten specific thematic reviews dealing with all the major themes covered by TPSPD, Thematic Review 6 – Investment Promotion and Facilitation is of particular interest to this review.

**United Nations Conference on Trade and Development (2007) Aftercare: A core function of investment promotion. *Investment Advisory Series Series A, number 1*. New York/Geneva: United Nations.**

[http://unctad.org/en/docs/iteipc20071\\_en.pdf](http://unctad.org/en/docs/iteipc20071_en.pdf)

This UNCTAD publication takes a closer look at this core function in investment promotion. Attracting new investors is traditionally the main activity of investment promotion. But with a growing number of established foreign affiliates, UNCTAD argues, new investments can often be realized more cost-efficiently through another, often neglected activity – investor aftercare.

## **Case studies**

**Teague, P. (2009) *Research Paper No. 2009/24: Developing Ireland: Committing to Economic Openness and Building Domestic Institutional Capabilities*. United Nations University.**

[http://www.wider.unu.edu/publications/working-papers/research-papers/2009/en\\_GB/rp2009-24/\\_files/81295454513594432/default/RP2009-24.pdf](http://www.wider.unu.edu/publications/working-papers/research-papers/2009/en_GB/rp2009-24/_files/81295454513594432/default/RP2009-24.pdf)

This paper sets out to explain the factors behind Ireland's exceptional period of economic growth from the early 1990s to the mid-2000s and the role that Ireland's Industrial Development Authority had in this process.

**Kumar, S., Siddique, S. (2010) *The Singapore success story: public-private alliance for investment attraction, innovation and export development*. Santiago: ECLAC**

Singapore's success in export promotion can be traced to the creation of the Economic Development Board (EDB) in 1961 when the statutory board was the subsequent expansion of the economy through diversification set up. Since then the EDB has been at the forefront of Singapore's industrialization drive and into services. This case study looks closely at the case of Singapore and the role of the EDB in its economic transformation.

**The World Bank Group/MIGA (2005) *Competing for FDI Inside the operations of four national investment promotion agencies*. Washington, DC: World Bank.**

[http://siteresources.worldbank.org/INTEXPOMNET/Resources/2463603-1186602815060/Competing\\_for\\_FDI.pdf](http://siteresources.worldbank.org/INTEXPOMNET/Resources/2463603-1186602815060/Competing_for_FDI.pdf)

This series of case studies developed by the Multilateral Investment Guarantee Agency (MIGA) and Foreign Investment Advisory Service (FIAS), aims to document qualities evident in successful investment promotion agencies. The publication explores the characteristics of four investment promotion agencies from different regions presented as individual case studies, each focused around a particular strategy or initiative that characterizes the agency's critical path.

**Benacek, V. (2010) *Is the Czech economy a success story? The case of CzechInvest: the strategic promotion agency in Czech industrial restructuring*. Santiago: ECLAC.**

[http://www.eclac.cl/comercio/publicaciones/xml/6/38976/Czech\\_economy\\_strategic\\_industrial\\_restructuring\\_serie\\_101.pdf](http://www.eclac.cl/comercio/publicaciones/xml/6/38976/Czech_economy_strategic_industrial_restructuring_serie_101.pdf)

CzechInvest is recognised as the leading and most prestigious investment and business development agency in the Czech Republic. This study describes and analyzes the principles underlying the promotion of investment, restructuring and innovation in the country. The country is presented as an example for countries facing the challenges of growing openness to globalized markets and the need to restructure their international exchange patterns and institutional arrangements. The report shows how restructuring policies were channelled through the investment promotion agency with a flexible adjusting and "trial & error" approach to design policy instruments, while facing the dangers of corruption, bureaucracy and political capture.

**United States Agency for International Development/Deloitte Consulting LLP (2011) *Assessment of investment promotion capacity in Georgia: Recommendations for EPI support*. USAID.**

[http://www.rciproject.com/rcicaucasusgeorgia\\_files/Georgia\\_EPI\\_Assessment%20of%20Investment%20Promotion%20Capacity\\_11.pdf](http://www.rciproject.com/rcicaucasusgeorgia_files/Georgia_EPI_Assessment%20of%20Investment%20Promotion%20Capacity_11.pdf)

This report, produced by the United States Agency for International Development, examines the case of the Georgian National Investment Agency (GNIA), which despite significant donor assistance to build capacity to promote foreign investment still lacks mandate, capacity, and resources critical for strategic vision based targeting, investment generation, investment facilitation, comprehensive investor after-care, and continuity. The study provides a comprehensive set of recommendations, based on international best practices, for improving the GNIA's effectiveness in investment promotion based on an assessment of the approaches and capacity of relevant agencies active in this area

**The World Bank Group/MIGA (2006) *The Impact of Intel in Costa Rica: Nine Years After the Decision to Invest*. Washington, DC: World Bank.**

<https://www.wbginvestmentclimate.org/toolkits/investment-generation-toolkit/upload/Intel-Costa-Rica.pdf>

This report focuses on the post-investment years by tracing a series of impacts, directly and indirectly attributable to the introduction of Intel in Costa Rica. Intel's investment in Costa Rica had a profound impact and is seen as an example in demonstrating Costa Rica's successful approach to securing an individual project and sustaining momentum in growing others. This publication provides context into Intel's investment in the country, tracks the impacts and looks at challenges and strategies in moving forward.

**Manasoe, B., Mears, R. (2011) *Aftercare of inward foreign direct investment: a case study of South Africa*. University of Johannesburg.**

[http://www.econrsa.org/system/files/publications/working\\_papers/wp216.pdf](http://www.econrsa.org/system/files/publications/working_papers/wp216.pdf)

Recent trends have started to prioritise the retention and growing of existing investments to enhance the economic development agenda. This paper analyses the relationship between inward foreign direct investment and investment aftercare in South Africa. The main finding of the study is that although investment aftercare services are essential, they receive limited funding, staff and attention, and have not yet been developed in South Africa.

**United Nations Conference on Trade and Development (2009) *Aftercare Strategy for Investors in the Occupied Palestinian Territory*. New York/Geneva: United Nations.**

[http://unctad.org/en/Docs/gdsapp20091\\_en.pdf](http://unctad.org/en/Docs/gdsapp20091_en.pdf)

This paper, produced by United Nations Conference on Trade and Development (UNCTAD), proposes a tailor-made aftercare strategy to support Palestinian efforts to sustained economy recovery. The strategy outlines practical steps for retaining existing investments and increasing their contribution to Palestinian economic growth, based on a comprehensive needs assessment survey of local and foreign investors operating in the Occupied Palestinian Territory

## 4 Conclusion

The selected list of key findings, lessons learnt and best practices and experiences on donor support to private sector bodies and IPAs in developing countries presented in this review provides a broad perspective of how donors have engaged with and supported private sector bodies and IPAs. The selection offers a mix of lessons learnt, guiding principles, policy frameworks, strategies and case studies including different examples from multiple donors and regions to help illustrate the different mechanisms for engagement available when designing policy and/or programmes.