InvestChile

InvestChile Executive Summary

Study Title: High-Level Structures Supporting the Institutional Framework for Foreign Direct Investment Promotion

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This study is prepared by the World Bank with external contributions, which do not necessarily reflect the opinions of The World Bank, its Executive Board or the countries they represent.

The document analyses the features, conditions, and strengths of five high-level institutional structures that can help improve the performance of the institutional framework for investment promotion.

It concludes that applying international good practice can address underperformance of the institutional framework for foreign investment promotion. The report emphasizes gaps are caused by a selection based on consultations with the private sector and effective interdepartmental coordination. Finally, the note acknowledges that the research on high-level structures is at an early stage and encourages further research on the topic.

Case Study: Chile

The document uses the approach adopted by Chile as a case study to explain the topic. The document recommends the institutions Chile uses to organize DFI, including the Ministerial Committee for Foreign Investment, a Public-Private Council for Foreign Investment and the existence of subnational entities.

The structure shown as an example of good practice for organizing foreign direct investment promotion is:

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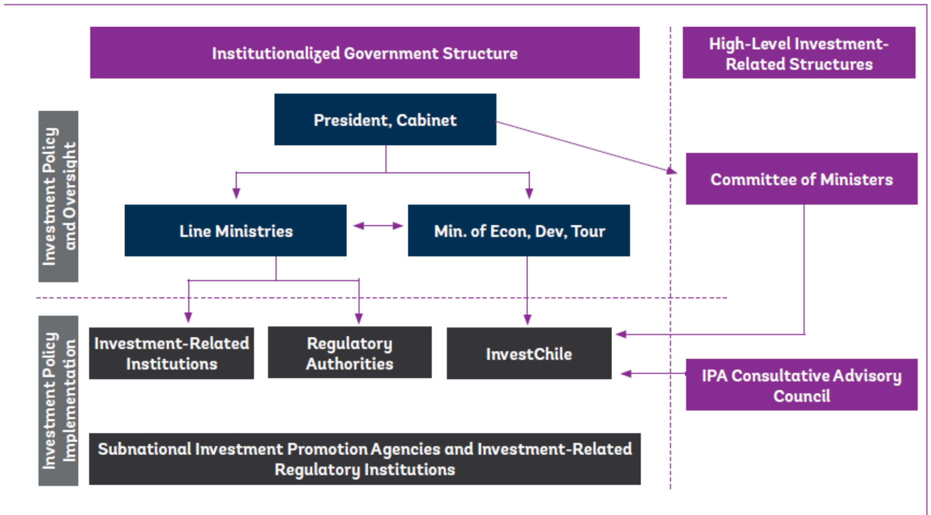
Figure 6. Institutional landscape for investment promotion and its implementation in Chile



Source: World Bank Group elaboration with inputs from InvestChile.

The study describes the options available to governments for establishing high-level institutional structures that can be used to improve the performance of their institutional framework for foreign investment promotion. It discusses the context in which each of the options presented may be the best response to a specific problem or need.

The document is principally aimed at policymakers charged with ensuring that the institutional structures for investment promotion operate effectively and successfully. It aims to help policymakers consider the options and select the most suitable setup to improve institutional performance. The note provides a series of good practice examples to assist policymakers in their deliberations.

According to the report, underperformance in the institutional framework for investment promotion may result from various causes, one of the most common being gaps, overlaps, or duplications of functions between institutions, coupled with poor coordination and communications between the relevant players. A second common reason is a lack of understanding of how effective key aspects of the investment policy are at achieving policy goals, compounded by a lack of or scarcity of feedback mechanisms from the private sector.

In that context, a key responsibility of such institutions is the ongoing monitoring of competitiveness to better understand the constraints investors face and to devise and implement improvements to speedily address those constraints.

This note addresses five types of high-level institutional structures that can improve a country's investment promotion performance:

1. Investor Roundtables

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2. Investment Councils
3. Ministerial Committees
4. Investment Promotion Agency (IPA) Boards
5. Expert Commissions

Main government functions and institutions required for effective investment promotion

The successful attraction, retention, and growth of FDI requires governments to consider and deliver a variety of related conditions and functions, which can be grouped in different ways.

The document lists the following:

1. Strong investment policy that involves investment attraction, retention, and growth
2. Coherent investment strategy
3. Effective institutional coordination
4. Effective and relevant policy feedback, advocacy, and reform
5. Effective investment dispute resolution management

Those functions are typically delivered by a range of investment policy, oversight, and implementing institutions, including the head of state, cabinet, lead and line ministries, national and subnational investment promotion agencies, and various specialized sector-focused and regulatory institutions.

The document emphasizes the services that must be delivered at each investment phase, which the World Bank defines as:

1. Attraction
2. Entry and establishment
3. Retention and expansion
4. Linkages and spillovers

The services that Foreign Investment Promotion Agencies must provide at each stage are Marketing, Information, Assistance and Policy Advocacy.

The study shows that the World Trade Organization launched an Investment Facilitation for Development Agreement (IFS) to ensure a minimum level of service delivery quality is offered to investors in every country.

For effective FDI institutional structures, consider the following principles:

1. A clear national development plan or objective, vision, or strategy at the government level
2. Government support from the highest level
3. Systematic and reform-oriented consultation with the private sector
4. A mandate for each institution so they are aligned with national development objectives
5. Sufficient and sustained financing and human resources

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6. Focus on results
7. Strong public-private partnerships and coordination mechanisms

High-level institutional options to enhance system performance

Depending on the types and their setup, high-level institutional structures may improve the overall performance of the institutional framework for investment promotion with the following functions—which are not exclusive—typically working in parallel or sequentially:

- Improve coordination functions with all stakeholders
- Set Key Performance Indicators (KPIs) in consultation with the private sector. These can be based on regular surveys and case study development.
- Improve insight sourced from multinational enterprises
- Knowledge provision function. Knowledge from domestic and international experts, as well as international bodies.

The aforementioned main defining characteristics of high-level investment promotion structures can vary depending on:

- Mandate: specific or broad
- Decision-maker or advisor
- Degree of formality
- Permanent, temporary or ad-hoc
- The extent of private sector participation

Conclusions

A well-functioning institutional landscape for investment promotion is important to help achieve a country's development goals. A government typically has a range of institutions established to set investment policy and to implement policy for the attraction, retention, and growth of foreign investment. Those institutions typically include a lead ministry responsible for investment; a national IPA; subnational IPAs, where relevant; and dedicated investment-related regulatory institutions.

In addition, governments have other options to increase the effectiveness and efficiency of the institutional framework for investment promotion through the addition of cross-cutting, high-level institutional structures. Those options range from informal to formal, public only or public-private, and ad hoc or permanent structures that have decision powers or an advisory role. Such bodies would typically include Investor Roundtables, Investment Councils, Ministerial Committees, IPA Boards, and Expert Commissions.

The government may decide to introduce one of these higher-level bodies or a combination of several of them, in parallel or sequentially, depending on the need at hand. Governments should

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first identify weaknesses in the current institutional structures, review whether they can be reformed or seek new entities with better practices. The first reform option for a government would be to adopt measures to improve performance of the existing institutions. This effort is faster, less costly, and often politically easier than establishing a new institution. Sometimes, however, establishing a new high-level institutional arrangement might be the most effective option to address certain shortcomings, particularly if the existing institutional framework for investment promotion lacks primary functions like leadership and inputs from high-level public and private sector representatives.

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