



THE IPA OBSERVER

INVESTMENT PROMOTION AND FACILITATION MONITOR



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INVESTMENT FACILITATION: The Perfect Match for Investment Promotion

H I G H L I G H T S

- Investment promotion and facilitation go hand in hand.
- Investment in the Sustainable Development Goals (SDGs) requires enhanced facilitation.
- Partnerships in investment facilitation dramatically improve a location's offer.
- UNCTAD's Global Action Menu for Investment Facilitation provides a guiding framework.

Investment facilitation is a set of policies and actions that seek to make it easier for investors to establish and expand their operations, as well as to conduct their day-to-day business in host countries. Measures usually focus on the alleviation of ground-level obstacles to investment, for example by introducing transparency and improving the availability of information, and by making administrative procedures more effective and efficient.¹ This is nothing new. Many governments have been doing this for years now, often through investment promotion agencies (IPAs), to improve the business climate and support promotion efforts.

A closer look, however, reveals that governments tend to favor investment promotion over facilitation. A recent UNCTAD study showed that since 2010 only 20% of investment attraction measures have been aimed at facilitating investment, while nearly 80% relate to incentives, special economic zones and the setting up of IPAs (figure 1). Furthermore, over a third of information portals currently in existence contain only a minimum amount of information to qualify as business registration portals, and only 10% of portals are complete or mostly complete.²

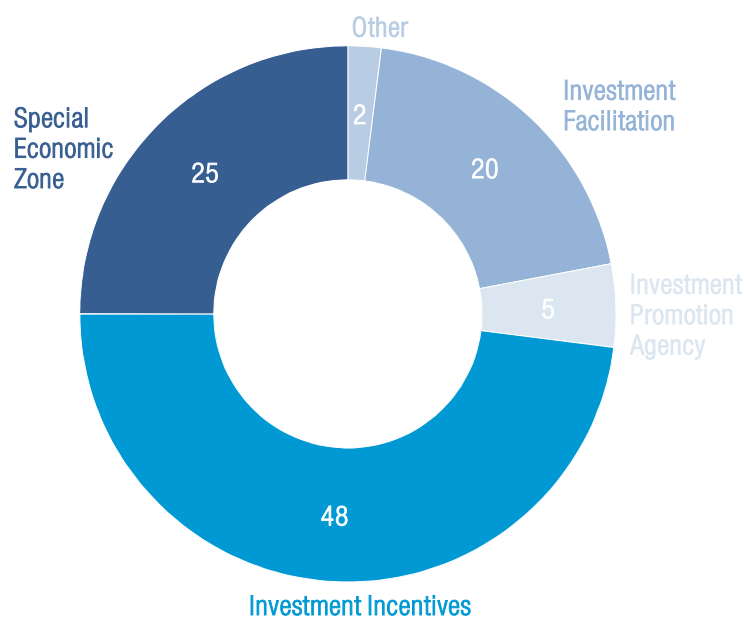
To fill this systemic gap, UNCTAD launched in 2016 the Global Action Menu for Investment Facilitation, comprising 10 action lines, each with several supportive actions, as key elements that can inform the development of a comprehensive investment facilitation strategy (box 1).

As illustrated in the Action Menu, IPAs have a range of options at their disposal to facilitate investment. To an extent, they represent low-hanging fruit. Firstly, many investment facilitation measures do not entail changes to policies and regulations. They fall within the realm of IPAs, and can be implemented rather swiftly. Secondly, unlike investment incentives, many facilitation measures do not incur a significant fiscal burden. Thirdly, investment facilitation incorporates a wide range of activities, which gives IPAs the flexibility to develop a service offering tailored to their circumstances and available resources.

¹ UNCTAD (2017), Investment Facilitation: A Review of Policy Practices.

² Ibid.

Figure 1. National policy measures related to investment promotion and facilitation: 2010–2016



Source: ©UNCTAD, Investment Policy Monitor Database

The challenge for an IPA is to reinvent its investment facilitation strategy, make it a key ingredient of its economic development efforts, and let it work hand in hand with investment promotion. By doing so, IPAs will be able to transform themselves into investment development agencies, driven by two equally powerful wheels: investment promotion and facilitation. This transformation is not only necessary for IPAs to succeed in a competitive international business environment, but also crucial to advance the SDGs. Sectors related to the SDGs tend to be more heavily regulated and investments usually face more barriers.³

Box 1. UNCTAD's Global Action Menu for Investment Facilitation

1. Promote accessibility and transparency in investment policies and regulations and procedures relevant to investors.
2. Enhance predictability and consistency in the application of investment policies.
3. Improve the efficiency of investment administrative procedures.
4. Build constructive stakeholder relationships in investment policy practice.
5. Designate a lead agency, focal point, or investment facilitator with a mandate to handle investor complaints and prevent disputes.
6. Establish monitoring and review mechanisms for investment facilitation.
7. Enhance international cooperation on investment facilitation.
8. Strengthen investment facilitation efforts in developing-country partners through support and technical assistance.
9. Enhance investment policy and proactive investment attraction in developing-country partners through capacity building.
10. Complement investment facilitation by enhancing international cooperation for investment promotion for development, including through provisions in international investment agreements.

Source: UNCTAD.

³ UNCTAD (2014), World Investment Report, pp. 135–194.

This paper presents three practical examples from IPAs that illustrate how some of the tools and techniques in UNCTAD's Action Menu and other policy instruments can be deployed. The first case shows how UNCTAD's eRegulations platform helps the Kenya Investment Authority (KenInvest) enhance transparency in investment-related procedures and improve the overall business climate. The second example demonstrates how the Jamaica Promotions Corporation (JAMPRO) goes beyond traditional facilitation services by using project development and packaging to prepare project proposals for investment in tourism. The third case displays how Germany Trade & Invest (GTAI) uses well-structured partnering services, rather than incentives, to facilitate foreign direct investment (FDI) in research and development (R&D) and in cluster development.

KENINVEST: BRINGING ADMINISTRATIVE TRANSPARENCY AND EFFICIENCY TO INVESTORS

KenInvest is committed to promoting transparency surrounding investment-related procedures. A game changer in accomplishing this goal has been the implementation of UNCTAD's eRegulations (kenya.eregulations.org). The portal, which was launched in December 2015, is bringing numerous advantages for both investors and public institutions, and has created an improved communications network to the benefit of the investment community in Kenya.

Box 2. UNCTAD's eRegulations platform

Many sectors related to SDGs tend to be more heavily regulated, with cumbersome administrative procedures for investment. UNCTAD's eRegulations platform can help overcome these barriers by introducing more transparency to regulations and administrative procedures, and by bringing together relevant government agencies online to offer well-coordinated services. These platforms also offer great potential in creating a more welcoming investment climate in SDG sectors through continuous simplification of administrative procedures. eRegulations platforms have been implemented in 30 countries around the world.

Source: UNCTAD.

The online portal of KenInvest provides a comprehensive guide to the country's investment-related procedures. The portal presents all application steps for various investment activities such as business creation, construction and taxation. The procedures are explained step-by-step from the investor's perspective: where to go, what requirements to fulfil, forms that need to be completed, associated costs, relevant legal justifications, and details of officials who can be contacted in case of a problem. Clear and complete information on procedures help streamline their completion, reducing barriers to the entry of investment and to subsequent business operations. As of January 2017, the KenInvest portal describes 89 different procedures that relate to investment in different sectors and sub-sectors involving varying establishment requirements.

By providing clear and complete instructions to investors, the portal addresses frequently asked questions on procedures and thus helps investment promotion officers to free up their time for more value-added assistance to investors who need customized support. Moreover, because the portal lists all investment requirements in detail, this provides a bird's eye view of procedures, allowing government agencies to evaluate and simplify their processes. For example, by applying the system's analysis and simplification methodology, KenInvest's eRegulations team, in collaboration with the Kenya Business Registration Service and the eCitizen programme, identified unintended hurdles and subsequently removed them. A key future challenge for KenInvest will be to keep information current and to detect and implement simplification measures. This requires adequate capacity and resources to maintain momentum in transparent service delivery.

The implementation of eRegulations has led to improved communication and collaboration between KenInvest and partner governmental agencies. This, in turn, allows KenInvest to assist investors faster in overcoming administrative problems and to disseminate new information quickly. The portal is also helping the Kenyan government to fight corruption. Better informed citizens and investors, aware of real costs and timeframes, are less likely to be pressed for bribes for the issuance of licenses. In addition, the portal allows users to report problems and complain online if they witness unlawful or irregular behaviour.

The portal is receiving an increasing number of comments and suggestions from the public, which also helps to improve public-private dialogue on investment. In 2016, more than a hundred suggestions were formally lodged and considered by KenInvest. Such feedback loops allow users' voices to be heard and ensure the implementation of constructive suggestions.

Thanks to the eRegulations system and its quick responses to investor enquiries, KenInvest is gaining popularity as an investment facilitation and promotion institution. On the Global Enterprise Registration Index (ger.co), which ranks government efforts to provide comprehensive information on business startup, Kenya now receives top marks for its information portal on business registration. Despite only having been active for one year, the website recorded 76,000 visits in 2016, rapidly becoming the most visited eRegulations portal in Africa. In addition, during UNCTAD's World Investment Forum 2016, the Kenya Trade Network Agency (KenTrade) launched a Trade Portal to offer full transparency on rules and regulations for trade operations, emulating the layout and methodology of KenInvest's eRegulation system. In another positive development, the Ministry of Lands of Kenya has announced that it will also start using the system for key administrative procedures.

JAMPRO: MAKING PROJECTS READY FOR INVESTORS

As a leading tourism destination in the Caribbean, Jamaica has attracted growing numbers of international tourists to its shores. Although the number of hotels and guesthouses established in Jamaica has almost doubled to over 26,000 rooms in the last decade, the demand for rooms continues to outstrip supply. The Shovel Ready Investment Programme (SRIP)⁴ was initiated by the Jamaican Government in May 2014 as a tool to spur economic growth through fast-tracking investments, domestic as well as foreign, in four key sectors: tourism, business process outsourcing, agriculture and manufacturing.

The programme was first implemented in tourism. Announced by the Minister of Tourism and Entertainment in 2015, the SRIP was designed to expedite the processing of investment in Jamaica. "Assistance will be provided with land acquisition, concept design, planning and approval, environmental permits and building approvals", the Minister stated.

The key components of the programme include: identifying high-potential projects with public and private land for tourism developments, providing resources for carrying out technical assessments of land suitability, fast-tracking development and planning approvals, and promoting Jamaica's shovel-ready tourism projects to specifically targeted investors. Under the decision of the Cabinet establishing the programme, all planning authorities and agencies are mandated to give a 10-day review of applications, thus significantly shortening the development approval timeline.

The SRIP is jointly spearheaded by JAMPRO, the national investment and export promotion agency, and the National Environmental & Planning Agency (NEPA) with funding support from the Tourism Enhancement Fund (TEF). Each brings its own value to the process. TEF provides funding through loans and sponsorship for project preparation, project packaging and SRIP promotion activities. JAMPRO packages the projects identified for the SRIP and promotes the opportunities to investors. NEPA conducts the technical assessment of projects submitted for the SRIP from a planning, environmental and legal perspective, and provides guidance to developers.

A unique feature of the programme is that, unlike traditional investment facilitation, it goes well beyond fast-track approval services and soft-landing support. It takes a more proactive approach and pushes the envelope to include project identification, project pre-clearance and project packaging, coupled with targeted investment promotion. In addition, landowners seeking to divest their properties are invited to participate in the programme. They welcome the opportunity to partner with government agencies to make their properties investment ready and more saleable.

Since inception, the initiative has achieved significant milestones. By the end of 2015, 15 potential tourism projects, with varying levels of approval for development, had been identified. These were then packaged and promoted by JAMPRO to international investors during a one-year promotion campaign funded by TEF. The campaign included participation in leading international tourism events, advertisement in special promotional tourism magazines, and promotional missions to target source countries.

Through the SRIP, JAMPRO has increased the number and quality of investment projects in its marketing programme, thus increasing investor interest. In total, projects in the SRIP portfolio are projected to create 20,000 rooms when developed, bringing jobs, business linkages and spillover effects as well as foreign exchange.

⁴ "Shovel ready" refers to large projects where the planning stage is advanced and implementation can start as soon as funding is secured.

For example, in August 2016, Karisma Hotels and Resorts announced an investment of US\$900 million for a mega hotel development project to build 10 hotels over 10 years, with a total of 4,000 rooms, in Llandoverly, Jamaica. Expected to create 8,000 jobs, this is the first landmark project realized under the SRIP. Thanks to the fast-track approval scheme of the SRIP, the project was scheduled to break ground in mid-2017. It only took a couple of months to get all the necessary government approvals, rather than the two to three years usually required for a project of this magnitude.

Given the labor-intensive nature of the tourism sector, which tends to employ a high percentage of women and young people, SRIP projects will significantly contribute to economic and social development, generating much needed jobs and linkages with the local economy, also in rural areas. The tool can further help reduce risks and uncertainties at policy and project levels, and thus make projects more attractive and commercially viable for investment. This is useful for SDG-related investments, since inadequate risk-return ratios constitute a major barrier for the realization of many such projects. Furthermore, investment projects in, for instance, infrastructure, renewable energy or agriculture, may require a process where political priorities need to be defined and where regulatory preparation is needed, e.g., planning permissions and licenses.

Through the implementation of the SRIP and related efforts, JAMPRO, with the support of other stakeholders, is transforming itself into an investment development agency. By bringing leading agencies and key stakeholders on board, the SRIP has also helped to foster a more coherent vision for the development of Jamaica's tourism sector, critical to the country's achievement of the SDGs.

GTAI: CATALYZING R&D RELATED INVESTMENT THROUGH PARTNERING SERVICES

Innovation and practical technological know-how, which is a core feature of the German brand, has been an important driver of FDI flows to the country. Germany's universities invest approximately 14 billion Euros annually in R&D. Four leading non-university research foundations in Germany—the Max Planck Society, the Fraunhofer Society, the Helmholtz Association and the Leibniz Association—have an annual research budget of some 9.5 billion Euros, with about 75,000 full-time research personnel working in more than 250 institutes. As a world manufacturing power, Germany has knowledge-intensive clusters across several advanced manufacturing and high-tech sectors, each consisting of large as well as small and medium-sized enterprises, and including technology leaders. Given the rising importance of access to skills and talents as a driver of FDI in manufacturing, Germany's leadership in innovation and research has been an alluring magnet for foreign investment in R&D and cluster opportunities in the country's manufacturing industries.

To leverage and further strengthen this location advantage, GTAI, the national trade and investment promotion agency, offers a wide range of partnering services to international investors from developed and developing countries looking for local technology partnership for business development. Such services are provided in a well-structured way to create and secure high value-added jobs and embed foreign investment in leading industry clusters, particularly in clean tech clusters that lie at the heart of Germany's High-Tech Strategy 2020 and its Industry 4.0 project. The focus areas of activity are advanced technology, innovation, increased value added through R&D cooperation, contract research and licensing, which can all contribute to the transition to a greener and more sustainable economy. Special attention is given to R&D activities that can potentially give rise to ensuing investment in prioritized areas. Attention is also given to investment that can enrich the ecosystem of a high-tech cluster. For example, GTAI assists foreign investors in looking for partnership with German enterprises or R&D institutions to evaluate and test new products that can result in further investment. In its partnering services, GTAI aims neither at distribution and sales agreements, nor at trade and commercial representations or franchising.

The major networks for partnering activities in Germany include industry federations, regional cluster groups, chambers of commerce, and research organizations. In its Customer Relations Management database, GTAI operates a list of potential qualified partnering organizations for target industries or sectors. It supports the creation of initial business contacts and matchmaking, and arranges meetings with experts and interested parties. GTAI works closely with all the sub-national IPAs from the 16 federal states of Germany to deliver these services.

In 2016, a medium-sized enterprise (about 1,000 employees) from Japan was looking for a German R&D organization that could assist in further material research and was evaluating options for possible investment in a plant to produce titanium powder for additive manufacturing (3D printing). Based on its knowledge, GTAI identified the Fraunhofer Society, a renowned applied research network, as a potential partner for the Japanese company. In collaboration with economic development agencies in six federal states, GTAI eventually provided the Japanese company a list of 20 enterprises from the aircraft, space and medical sectors, which expressed interest in cooperating. In the process of exploring all these options, GTAI arranged visits together with the Japanese client at the Fraunhofer Institute IWU in Dresden, in the State of Saxony. This visit and further negotiations resulted in an agreement that the Fraunhofer Institute would undertake contract research for the Japanese company. The client wishes to further explore product suitability and the market prospects of certain powders for 3D-printing in the European market.

TAKEAWAYS FOR IPAs

As highlighted by UNCTAD's Global Action Menu for Investment Facilitation and the above case studies, many options are at the disposal of IPAs. These options allow flexibility for agencies to design and implement their own investment facilitation package, tailored to their locations. Usually, these measures can be implemented at relatively low cost (compared to incentives) and within a short time frame (compared to enacting new laws and regulations). Takeaways for IPAs include:

Investment promotion and facilitation go hand in hand. Foreign investors are usually more concerned about improvements in the business climate than with direct subsidies, tax breaks or subsidized inputs. A better policy environment, reduced entry barriers and enhanced administrative efficiency, resulting from effective investment facilitation, can be a strong incentive for foreign investors, without incurring a significant fiscal burden to host governments. As demonstrated by the KenInvest and JAMPRO case studies, investment promotion and facilitation can and should work hand in hand, and innovative facilitation initiatives such as eRegulations and the SRIP can be valuable tools to brand a location as an investment-friendly, hassle-free investment destination. Investment facilitation also improves transparency, predictability and efficiency for investors. Transparent investment information, consistent application of rules, and efficient administrative procedures should become standard components of an IPA's strategy. To help developing countries implement online portals in a cost-saving manner, UNCTAD developed the eRegulations system as a turnkey project that can be replicated in host countries with minimal adaptation.

Investment in the SDGs requires enhanced facilitation. Investment in many SDG sectors, such as water, electricity health care and education, involves the provision of public services, and tends to be more intensively regulated. Investment facilitation measures, such as eRegulations, can play an instrumental role in streamlining regulations and administrative procedures in these sectors, and can help investors to overcome entry barriers by providing necessary assistance in navigating sector-specific regulations. In other cases, where policy uncertainties are hindering investment in SDG projects, project preparation and packaging can improve project visibility, speed up project implementation, and reduce project risks, as JAMPRO did with its SRIP programme. Equally important to sustainable development are technology upgrading, innovation and the introduction of green technologies. GTAI's international partnering service shows how an IPA can facilitate this process to the benefit of its local economy and foreign investors.

Partnerships in investment facilitation dramatically improve a location's offering. IPAs need to forge strong partnerships with stakeholders, public and private, to become an effective investment facilitator. Investment facilitation may not entail significant costs, but it requires strong and effective partnerships with key stakeholders to succeed. This is particularly true for investment in SDG projects, since often more government agencies are involved in their clearance and approval. In GTAI's case, the agency works together with a wide range of public and private sector stakeholders to provide partnering services for foreign investors. In KenInvest's eRegulations project, it is important for the agency to sustain a committed network to document all investment-related procedures online and provide well-coordinated services to investors. In JAMPRO's SRIP programme, effective collaboration with other leading agencies in designing and implementing the programme has proven crucial to its success.

CONCLUSIONS

Each IPA is involved in investment facilitation and there is a wide range of service options available to expand and improve an agency's performance. **UNCTAD's Global Action Menu for Investment Facilitation provides a guiding framework** to support a new generation of investment facilitation strategies that can mobilize investment in sustainable and inclusive development. Major economies, including BRICS countries, are using UNCTAD's Action Menu as a reference to improve their business environment and service offering to investors.



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