**Facilitating Sustainable Investment: The Role and Limits of Investment Promotion Agencies**

Sarah Bauerle Danzman and Geoffrey Gertz

Sarah Bauerle Danzman is an Assistant Professor of International Studies at Indiana University Bloomington. Geoffrey Gertz is a Fellow in the Global Economy and Development Program at the Brookings Institution. The authors would like to thank the World Bank Group for making data available for analyses included in this chapter; the views presented here are those of the authors’ alone, and should not be attributed to the World Bank Group.

# Introduction

The Sustainable Development Goals (SDGs), agreed to in 2015 by the members of the United Nations, set out an ambitious agenda for global development over the subsequent 15 years. Given the scope and scale of these global goals, achieving the SDGs will require significant financial investments, including private investment. The UN has estimated an additional $2.5 trillion in annual public and private finance will be needed to meet the SDG targets.

The need to catalyze private investment to developing countries has generated considerable interest in new international financing mechanisms, including various blended finance projects that bring together public and private funds (Kharas and McArther 2016; World Economic Forum 2015). In this chapter, we examine the potential contributions of one mechanism which has been relatively unstudied in both the policy and academic literature: developing countries’ own investment promotion agencies (IPAs), which almost every country has and which are tasked with promoting and facilitating greater inward foreign direct investment (FDI).

In principle, IPAs are an appealing mechanism for catalyzing FDI, one that is aligned with the aid effectiveness principles of the Paris Declaration (Paris Declaration on Aid Effectiveness, 2 March 2005). These principles stress that development cooperation should privilege country ownership, reflecting the fact that host country governments, rather than donor agencies or other outside actors, should be in the driver’s seat of their own development strategies. If the international development community wants to help catalyze FDI to achieve the SDGs, then partnering with developing country IPAs will allow them to do so in a way that is country-led, works through domestic institutions, and is aligned and integrated into the government’s own development strategy.[[1]](#footnote-1)

To date, however, relatively little is known about the potential development contributions of IPAs, and specifically how the political economy of IPA governance influences their activities. In this chapter, we assess what role IPAs could play in advancing the sustainable development agenda. We argue that IPAs’ potential contribution is shaped by how they manage a fundamental tension in their work. IPAs have a dual nature, functioning both as the face of government to foreign investors and as an advocate for foreign firms within the bureaucracy. Both of these roles are important for achieving IPAs’ underlying goal of promoting economic development by attracting foreign investment. By having a foot in the private sector, IPAs can better understand the needs and constraints facing would-be investors, gaining crucial (and often implicit) knowledge that government bureaucracies frequently lack. And by having a foot in the public sector, IPAs can also see the bigger picture of how foreign investment can contribute to broader development strategies. Yet this dual nature also creates tensions, as the interests of governments and foreign investors are not always aligned, and IPAs thus must make choices on whether to privilege the concerns of investors (such as advocating for a more business-friendly investment climate) or those of the government (such as regulating foreign investment to serve broader policy agendas).

We develop a theory that explains how variation in IPAs’ governance structures shapes how they manage these tensions, and in turn how these choices influence their strategies and activities and ultimately their contributions to the sustainable development agenda. We argue that when an IPA’s governance structure is designed to be highly autonomous from the rest of the government bureaucracy, it is more likely to align itself with the interests of foreign investors. Autonomous IPAs are likely to be highly professionalized, staffed with more private expertise, and interact more fluently with potential investors; yet are less likely to internalize a government’s developmental agenda. Conversely, when an IPA’s governance structure is more integrated into the government bureaucracy, it is more likely to align itself with the interests of the government. Integrated IPAs are thus more likely to actively build linkages between foreign investors and domestic firms, and to consider the social and environmental impact of potential investments; yet they may be less effective at attracting potential foreign investors in the first place.

This is the trade-off at the heart of contemporary investment promotion. It follows that there is no single ‘best practice’ approach to investment promotion, but rather a number of varying approaches that privilege different sets of interests and consequently have different effects. If IPAs are to play a more substantial role in discussions on financing the sustainable development agenda—as we argue they should—these policy debates should focus on grappling with these trade-offs, rather than advocating for a single ‘best practice’ model.

The remainder of this chapter is structured as follows. First, we briefly survey the small existing literature around IPAs and investment attraction. We emphasize the tendency in this literature to place analytic focus on the ‘best’ institutional form of IPAs. In contrast, we argue a political economy perspective allows us to develop insights into how and why IPA structure and behavior differs in various domestic institutional and policy contexts. Second, we develop a framework clarifying the tensions between investors’ and governments’ interests in IPAs, and argue that the extent to which an IPA is integrated or autonomous from the government will shape how it navigates these tensions. Third, we present suggestive quantitative and qualitative evidence that IPA governance structure helps explain variation in IPA behavior.Finally, we conclude by discussing the policy implications of our framework, particularly with respect to strategies to achieve the SDGs, and by considering avenues for future research and policy implications.

# The Rise of Investment Promotion Agencies

While today almost every country has an IPA, these agencies were not always so prevalent. The diffusion of IPAs followed from the rise of neo-liberalism and the aftermath of the Cold War. Countries which had previously been skeptical of foreign investment embraced a view of attracting new capital to ensure their countries remained “competitive” in a rapidly globalizing economy (Linsi 2016). The creation of IPAs was one among a suite of policy interventions to attract new FDI, along with liberalizing domestic regulations, privatizing state-owned companies, and signing onto trade and investment agreements (Bauerle Danzman Forthcoming).

IPAs carry out a range of activities to attract FDI. At a minimum, agencies provide marketing and advertising functions that assist in the attraction phase of the investment life cycle. Traditionally, IPAs have invested the core of their budgets and person-power to such activities. They market their country as an attractive destination to investors, for instance through advertising in foreign media and participating in trade shows around the world. They also act as business generation agents, actively seeking out foreign firms that are potential investors and recruiting them to the country.

As IPAs became a standard component of governments’ investment attraction strategies, their remit also widened as practitioners realized aggressive marketing had limited potential to attract high quality investment. Many IPAs began helping investors navigate bureaucratic and regulatory red tape, often through a ‘one stop shop’ for licensing. Today, many IPAs also have responsibilities over promoting, negotiating, approving, and managing investment incentives, such as tax holidays. Additionally, contemporary IPAs often provide ancillary aftercare services such as matchmaking foreign firms with domestic suppliers and partners, serving as an ombudsman to address investor complaints and disputes, and providing other ‘aftercare’ activities to assist already established foreign investors.

IPAs’ activities interact with a number of SDG-related policy priorities. The most immediate links are to Goals 8 (Decent Work and Economic Growth) and 9 (Industry, Innovation and Infrastructure). IPAs influence employment both directly, in terms of jobs created by new foreign investors, and indirectly, in jobs created by domestic companies that are suppliers and customers to the new foreign investors. More generally, the decisions IPAs make in terms of what sectors to target and how successful they are in encouraging linkages between foreign and domestic firms influence both the quantity and quality of jobs created per dollar of FDI attracted. Similarly, IPAs’ ability to attract investors in infrastructure and other strategic industries, and their success in promoting spillovers from FDI to the domestic economy, shapes their contributions to industrialization and technological innovation. Finally, at a more general level, new foreign investments can either improve or worsen a country’s progress toward the gender (Goal 5), energy (Goal 7), inequality (Goal 10) and environmental (Goals 13,14 and 15) goals. Thus variation in IPAs activities impact many SDGs by facilitating foreign investment projects that either contribute to SDG-compatible development or worsen environmental, socioeconomic, and gender equity concerns.

Despite the near ubiquity of IPAs, there is only limited literature on their operations and effectiveness. In one of the earliest studies of IPAs, Wells and Wint (2000) focus on marketing and image-building to promote inward FDI. They find that investment promotion can successfully attract export-oriented FDI, and that the most effective IPAs tend to have quasi-government organizational structures, combining elements of public and private governance. Morriset and Andrews-Johnson (2004) also find some suggestive evidence that countries that spend more on investment promotion do in fact receive more inward-FDI, though that this relationship only holds in countries with strong investment climates. Harding and Javorcik (2011) show that when IPAs target a particular sector of the economy, FDI subsequently increases in that sector (relative to others within the same economy). While these studies provide some evidence that IPAs can have an important effect in helping countries attract more FDI, research on the use of investment incentives points in the opposite direction: a number of recent analyses on incentives suggest they rarely play a catalytic role in generating new investment (Jensen 2017; Jensen and Malesky 2018; Tavares-Lehmann et al. 2016). Furthermore, since investment incentives narrow the tax base, there are real concerns that attracting investment in this way can undermine broader sustainable development goals. For example, governments tend to offset the revenue losses associated with investment incentives through reducing education and other social welfare spending and through increasing regressive sales taxes (James 2010, Jensen and Malesky 2018, Tavares-Lehmann et al. 2016). The budgetary squeeze that incentives produce, then, can directly counteract SDGs associated with human development and income equality. This further underlines the need for more information on what specifically IPAs are doing, and disaggregating any investment effects among these various activities.

Another line of research grows out of a World Bank effort to benchmark best practices for IPAs. Scholarship in this vein tends to be applied rather than theoretical and emphasizes the importance of political independence to IPA effectiveness. In a series of studies (2006, 2009, 2012), the World Bank developed a framework to measure IPA performance on basic promotional activities, such as having a user-friendly website and responding to investor requests for information in a timely fashion. This research has generally found that IPA performance varies significantly, and though levels of economic development are correlated with IPA performance there is still substantial variation across countries of similar income levels. Using the same benchmarking data, Whyte, Ortega and Griffin (2011) find that IPAs whose mandates include tasks related to investment regulation, rather than a narrower focus on promotion, tend to perform worse on the promotion benchmarking metrics. Meanwhile, Harding and Javorcik (2013) demonstrate that IPAs that perform better on basic benchmarking tasks—such as prompt, professional, and accurate handling of project inquiries—tend to attract more FDI. Nelson (2005, 2009) uses comparative case studies of Brazil, Chile, and Costa Rica to argue that operational independence is crucial for IPA effectiveness. He emphasizes that effective investment promotion rests on the ability of the government to shield IPAs from special interests, the extent to which technocrats have operational autonomy necessary to implement ‘best practices’ rather than respond to the particularistic interests of politicians or specific firms, and the extent to which the IPA can engage in transnational learning to better anticipate the needs of new and high growth transnational firms.

While the scholarship outline above conceptualizes IPA performance as contingent on insulating IPA officials from political pressures, another strand of research emphasizes the importance of integrating investment promotion activities into broader governmental strategies on targeting high-value investments that complement existing and growing domestic comparative advantages. Scholars embracing this perspective tend to emphasize the role of FDI in technological upgrading and the importance of well-considered industrial policy integrated and coordinated across multiple government ministries. For example, Egan (2018) finds that when IPAs pursue more active policies, including strategically discriminating between sectors and directly incentivizing linkages with domestic firms, foreign investors are more likely to invest in innovation and produce valuable spillovers for the local economy. Moran et al. (2018) are more skeptical of the effectiveness of state-led development strategies, but do advocate for a ‘light touch’ industrial policy in investment promotion, including targeting specific strategic sectors and explicitly strengthening spillovers and linkages with the domestic economy, such as through trainings and matchmaking services connecting suppliers to client firms.

Overall, the current literature on IPA activities and performance is under-theorized and fragmented. One strand, which is mostly focused on assessing the cost-benefit of investment incentives, tends to view IPAs as functional equivalents cross-sectionally. That is, research that explores whether the presence of IPAs and incentives increase FDI flows implicitly assume that IPA activities are similar enough to generate analytic insights from measuring IPA efforts without regard to their differences in strategies or tactics. However, IPA targeting may have heterogeneous effects on potential investors depending on whether the IPA chooses appropriate sectors to target and how it goes about targeting those sectors. Another strand, which emphasizes the importance of insulating IPA officials from special interests provides evidence for how IPAs can become captured by particularistic interests, but does little to explain why IPA officials may have more public-interest oriented preferences to begin with, or how IPA officials generate beliefs over what is the ‘correct’ technocratic solution. A third literature emphasizes the importance of integrating IPA activities to broader development goals of the state, but with little treatment of when the state is able to focus on broad versus particular interests.

We argue more can and should be done to integrate the insights from these literatures in order to build a richer, more theoretically-grounded understanding of the roles and limits of investment promotion. In particular, while many policy-oriented treatments of IPAs focus on identifying best practices and a totalizing ‘correct’ IPA structure and strategy, recent developments in global political economy suggest a more ecumenical vantage point has several advantages. First, a theory that explains why governments approach investment promotion in different ways embeds our understanding of IPA structure and behavior within the broader political economy in which these agencies operate. Second, as economic nationalism and the returning legitimacy of industrial policy become more central to political realities in the global economy, it is useful to more fully develop a theory to explain differences in investment promotion among governments that embrace different beliefs over whether it is better to manage capitalism or defer to markets. Third, a theory of IPA structure and behavior that is rooted in political economy frames allows researchers to better explore the distributive implications – at both the national and international levels – of investment promotion. Finally, our approach shifts analysis from ‘effectiveness’ to behavior. This reorientation is important because ‘effectiveness’ is in itself a contested concept. Different countries may have varying goals for their IPAs. For example, low-wage countries such as Bangladesh may prioritize investments in low-skill, labor-intensive industries. Middle income and emerging markets, however, may wish to avoid such investments all together and instead use FDI projects to facilitate technical upgrading. Conceptualizing and measuring effectiveness in a cross-national context is even more problematic when we consider how countries may decide to forego some kinds of foreign investments – in mining and resource extraction as an example – in service to their broader SDG commitments. By centering our analytic gaze on behavior, we avoid these pitfalls.

# The Dual Nature of Investment Promotion Agencies

Our understanding of IPAs begins with the insight that they act as agents serving two different principals. On the one hand, IPAs are agents of their host government, tasked with carrying out the government’s preferences in its economic development strategy. These preferences include attracting and retaining foreign investors, but also (potentially) imposing obligations on investors to encourage technology transfer, high labor standards, environmental protection, and other policy objectives. On the other hand, IPAs are agents of existing and would-be foreign investors, tasked with communicating the views and concerns of investors to the government and advocating for pro-investment policies.

On some issues, the preferences of the government and the foreign investor community will be relatively similar, and thus IPAs can reasonably act as agents of both of these principals. Yet on many important questions, these preferences might diverge. This is most obvious on explicit distributive issues between the two parties, i.e. the government will want to minimize the amount of an investment incentive (conditional on the investment being made), while an investor will want to maximize it. But it is also true for many broader policy questions. Consider, for instance, the widespread adoption of ‘one stop shop’ offices, where new investors are able to quickly and seamlessly achieve all of the licensing requirements that are needed to operate. Such policy reforms are frequently billed as creating efficiencies and reducing red tape, which is unambiguously positive for the investor. For the government, however, eliminating steps of regulatory review may ultimately make it more difficult to implement strong and effective social and environmental regulatory regimes. Thus the drive to streamline regulatory processes may benefit investors at the expense of government control.

On issues where the preferences of foreign investors and governments diverge, IPAs will need to choose which principal’s interest they seek to advance. These are both explicit and implicit decisions; IPAs choose what to focus on and, as importantly, what not to focus on. These decisions drive how IPAs interpret their mandates, and in turn the activities they pursue and ultimately the extent and manner in which they may contribute to their country’s development.

We argue that IPAs’ governance structures play a crucial role in shaping these decisions. The key dimension is the extent to which IPAs are autonomous or integrated into the government bureaucracy. Highly autonomous IPAs may either be non-governmental agencies, or stand-alone, professionalized government agencies. They are typically overseen by a board of directors and/or advisory board featuring private sector representatives, and mimic private sector companies. They tend to recruit staff from the private sector and have performance-based promotion and compensation policies, and are funded outside of the government’s typical budgeting process, either through fee-for-service charges assessed on private sector beneficiaries or through foreign aid.

IPAs with an integrated governance structure, conversely, look much more like any other government agency. Rather than existing as autonomous agencies, they are typically integrated into existing ministerial hierarchies, for instance operating as an office within the Ministry of Economy or Ministry of Planning. Their staff recruitment and compensation policies are similar to those found in other government agencies, and their budgets are set as part of the normal government budgeting process. Staff are evaluated based on policies and procedures applied throughout the bureaucracy, and are usually not subjected to market-driven key performance indicators during annual review for promotion and compensation. While integrated IPAs may have some channels to receive information from the private sector, private actors have no formal role in setting the agency’s agenda or strategy.

IPAs’ governance structures can influence three levels of their operations: their mandates, strategies, and activities. An IPA’s mandate provides its overall mission statement and sets the general parameters for its work. It can be either narrow (for instance, focused explicitly on foreign investment) or broad (for instance, including domestic investment and export promotion in addition to foreign investment). IPA mandates are defined externally, typically in the domestic legislation creating the agency. An IPA’s strategy is the broad vision of how it interprets its mandate, and typically includes for instance what industries the IPA wants to target. IPA strategies are set by the agency’s leadership, though often with oversight from and in response to demands from an external authority, such as the agency’s board of directors or a government minister. Finally, an IPA’s activities are its day-to-day operations and policies, including questions such as how to allocate staff time and resources amongst priorities, how to define and measure agency effectiveness, and recruitment and promotion policies. An IPA’s choice of activities reflects its decision on how to execute the agreed upon strategy.

Choices over the governance structure of IPAs entails trade-offs, and policy makers as well as international development organizations hold differing opinions over the relative benefits and costs of each structure. On one side, some groups such as the World Bank’s Investment Policy and Promotion team often suggest IPAs should be as autonomous from the government as possible (Oretega and Griffin 2009). Such agencies have the benefit of developing their own investment promotion priorities and strategies, and their distance from their governments confers upon them legitimacy in the eyes of potential investors, who view autonomous agencies as allies in negotiations with government officials. Yet, autonomy also entails costs. Because these IPAs are less integrated into government, they may find themselves without a strong voice within policy making circles of the government; this limits their ability to coordinate investment promotion strategy and activities among multiple agencies and ministries such as those responsible for export promotion, trade, finance, and labor. Because of these costs, other groups view integration as vital for IPA performance. For example, UNCTAD officials tend to advise governments to integrate their IPAs closely into their governments and to make the head of these agencies a cabinet-level official (interview with UNCTAD official 18 July 2016; interviews with multiple IPA officials 14 October 2016).

We contend that the trade-offs associated with IPAs’ governance structures are also evident in their strategies and activities. Autonomous IPAs are likely to focus on improving the climate for inward investment and marketing their country as an attractive destination to potential new investors. They work within the government policymaking process to represent the views and interests of foreign investors, encouraging the government to ease general constraints to doing business. Their close connections to foreign investors provide them with accurate insights into the most important obstacles to increasing investment, and they can work with government bureaucracies to prioritize and address these issues. They tend to view foreign investors as clients, and the services they provide will be driven by ‘consumer’ demand. Crucially, autonomous IPAs develop any targeting strategy they employ in-house, and have the authority to make their own assessments about how to best attract ‘high quality’ FDI without much government involvement. Accordingly, they may be better insulated from political considerations when pursing investment, but that also means they areless likely to target specific firms based on a broader government mandate or to coordinate investment promotion efforts with other developmental strategies.

Integrated IPAs, on the other hand, take their direction from the government rather than treating foreign investors as clients. They tend to play a more active direct role in managing inward FDI flows, targeting specific firms and partnering closely with them in pursuit of developmental goals. Integrated IPAs place more specific demands on new investors, such as commitments to create new jobs and supply linkages with domestic firms, particularly small and medium sized firms. They often receive strategies for targeting specific industries and firms from above. That is, cabinet-level ministers generate beliefs over what investment attraction strategies are most beneficial to achieving state development objectives and then direct IPA officials and staff to align their activities with these state-led objectives. While integration may make coordinating investment targeting easier, it also leaves such agencies susceptible to bureaucratic inefficiencies and interest group lobbying that often characterize top-down planning.

In brief, variation in IPAs’ governance structures lead to distinct configurations of power and interests within IPAs, which in turn leads to different assessments of which priorities should be privileged. As we demonstrate in the next section, the distinction between autonomous and integrated agencies helps us understand what roles different IPAs can and should play in attracting sustainable FDI, and how these agencies manage the tension between investors’ and state’s interests. The goal of this exercise is not to make a judgement claim as to the superiority of integrated or autonomous agencies; indeed the optimal IPA institutional framework will likely vary by context and may be best characterized as an exercise in balancing two competing priorities. Understanding IPA behavior in this way allows policymakers to assess whether the governance architecture surrounding their IPAs facilitates or hinders agencies’ ability to fulfill the development objectives that political leaders have tasked them with. While this chapter largely leaves questions of ‘effectiveness’ to the side in favor of instead explaining variations in IPA behavior, it is worth noting that how to measure agency effectiveness should ultimately depend on governance structure because autonomous and integrated agencies are incentivized to prioritize different sets of development goals.

# Explaining Variation in IPA Strategies and Activities

In this section we leverage World Bank surveys of IPAs in 2009 and 2017 to examine how agency structure influences their behavior. We find IPA activities vary systematically with the degree of autonomy afforded to the agency. Even as IPAs have converged over time on several ‘best practices’ such as hiring staff with professional backgrounds and prioritizing advocacy for foreign investors, autonomous and integrated IPAs retain distinctive patterns of activities. In contrast to autonomous IPAs, integrated agencies spend more time on activities designed to enhance positive spillovers from FDI into the local economy and are also more likely to consider broader social objectives when targeting potential investors. These findings complicate a previous policy consensus that IPAs become increasingly effective the more autonomous they are from government. Instead, governments must find a balance between providing their IPAs with sufficient autonomy to respond to the needs and desires of potential investors and integrating the agency enough so that investment promotion officials are incentivized and given the tools necessary to align investment promotion strategies and activities to broader development goals.

## Leveraging Survey Data of IPA Activities

Since 2002, the World Bank’s Facility for Investment Climate Advisory Service (previously called the Foreign Investment Advisory Service ) has conducted occasional cross-national surveys of IPAs. These surveys ask respondents a series of questions concerning their governance structures and operations as well as their strategies and investment promotion activities. Unfortunately for our purposes, these surveys are neither panel nor trend data; the population of IPAs included in the surveys changes across survey waves as do the questions asked of them.[[2]](#footnote-2) Therefore, direct comparisons across surveys are challenging. Nevertheless, we conduct analysis on the two most recent survey waves (2009, 2017), first assessing the waves independently and then by matching IPAs that are included in both rounds of surveys. Our approach allows us to provide descriptive data of IPA operations and activities and changes in these attributes over time.

We begin by providing basic descriptive statistics of the governance and operational structure of IPAs in 2009. This survey round asked respondents to identify the legal status of their agency as a sub-unit of a ministry (which we identify as a marker of bureaucratic integration) or as an autonomous public agency or a non-governmental entity (both of which we identify as autonomous agencies). Table 1 reports average responses for agencies subset by governance structure. The column ‘integrated agency premia’ reports coefficient estimates for ordinary least squares regressions in which the dependent variable is the characteristic described in the respective row, the main explanatory variable is an indicator variable equal to ‘1’ if the IPA is integrated and ‘0’ if it is autonomous, and control variables include indicator variables for country income group as defined by the World Bank in 2009 with lower middle income being the excluded, referent group. These results illustrate that, as expected, many operational characteristics of IPAs were statistically significantly different across governance structures. Autonomous agencies were more likely to have a board, have a greater share of employees with university degrees and private sector experience, and to pay salaries on par with the private sector. In contrast, integrated IPAs tended to have more employees relative to the size of their budgets and pay scales at par with the public sector.

Table 1: Operational Attributes of IPAs by Governance Structure, 2009

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Integrated Agency | Autonomous Agency | All Agencies | Integrated Agency Premia |
| Has a board? | 71% | 87% | 82% | -0.21\* |
| With public sector representation | 60% | 57% | 58% | -0.17 |
| With private sector representation | 42% | 43% | 43% | -0.00 |
|  |  |  |  |  |
| Budget | 4,422,268 | 14,560,572 | 11,382,895 | -1.11\* |
| Number of employees | 174 | 114 | 133 | -0.35 |
| Operational Employees | 52 | 71 | 71 | -0.53 |
| Employee intensity (staff per $1 mil budget) | 79 | 31 | 46 | 0.87\*\* |
|  |  |  |  |  |
| Share of staff with private sector experience | 28% | 45% | 45% | -0.23\* |
| Share of staff with university degree | 77% | 86% | 86% | -0.11 |
| Share of staff with > 5 years experience | 32% | 28% | 28% | 0.05 |
|  |  |  |  |  |
| Pay at par with private sector | 4% | 17% | 17% | -0.17+ |
| Pay between public and private sector | 17% | 37% | 37% | -0.31 |
| Pay at par with public sector | 78% | 46% | 45% | 0.48\*\*\* |
|  |  |  |  |  |
| Age as of 2009 (years) | 16 | 11 | 13 | 0.34 |
|  |  |  |  |  |
| GIPB Score | 0.439 | 0.532 | 0.504 | -0.10\* |
| GIPB Website Score | 0.633 | 0.693 | 0.675 | -6.27 |
| GIPB IH Score | 0.246 | 0.382 | 0.34 | -14.07\*\* |
|  |  |  |  |  |
| N | 24 | 53 | 77 | 77 |
| *Note: Average values reported in each cell. + p < 0.1, \* p < 0.05, \*\* p < 0.01, \*\*\* p < 0.001 two tailed tests. Regressions include World Bank country-income group fixed effects with lower middle income as the referent group. Source: Authors’ calculations based on data provided by the World Bank.* |
|  |

To what extent did these differences in operational structure influence agency activities? We find some evidence that autonomous IPAs were more effective in ‘client-facing’ aspects of their job, as measured by the World Bank’s Global Investment Promotion Best Practices (GIPB) system (see Table 1). GIPB assesses IPAs on the quality of their website and their timeliness in responding to potential investors’ requests for information. A similar World Bank analysis of this data concluded that IPAs’ with a ‘private sector-minded culture’ that prioritized hiring from the private sector, paying higher salaries, and rewarding a client-centered approach to investment facilitation and promotion tended to score better on the GIPB (Ortega and Griffin 2009, p 2).

Moreover, we also find compelling evidence that IPAs’ governance structure influenced how they interpreted their mandates. The 2009 survey wave asked respondents to identify the top three activities they were mandated to perform. Figure 1 shows that, among IPAs most integrated into the government bureaucracy, 42 percent prioritized regulatory aspects of managing FDI, such as issuing licenses and permits. In contrast, autonomous IPAs were less likely to prioritize regulatory aspects: only 21 percent of these agencies listed this as a core activity. Meanwhile, we see that IPAs less integrated into the government bureaucracy were more likely to emphasize policy advocacy: 25 percent of autonomous agency IPAs prioritized policy advocacy, while only 8 percent of those integrated into government bureaucracies did.

Figure 1: Governance Structure and IPA Priority Activities

*Source: Authors’ calculations based on data provided by the World Bank.*

Finally, it is also notable that in the entire survey, only one IPA mentioned linkages and other elements of industrial policy as one of its core activities.

## IPA Convergence and Continued Differences in Recent Years

The data from the 2009 IPA survey suggest that agencies’ governance structures can exert a powerful influence on both operational characteristics and interpretation of investment promotion mandates. Indeed, at least partially motivated by the results of the 2009 survey, the World Bank subsequently advised IPAs to undertake a variety of reforms, in particular to adopt a more private-sector minded approach (Oretega and Griffin 2009). In line with this emerging consensus and international advice, IPAs began to adopt several characteristics associated with autonomous agencies, as results from the 2017 survey suggest.

Unfortunately, differences across the two survey waves make it difficult to compare across time: questions change across survey waves as do respondents. Notably, the 2017 survey did not ask respondents to identify their legal status as either integrated or autonomous, our key explanatory variable of interest.[[3]](#footnote-3) For this reason, we limit our analysis to the 36 IPAs that are included in both survey waves—an unfortunate but unavoidable decrease in sample size—and assume that the legal status of agencies has not changed in the intervening years.[[4]](#footnote-4) We focus on comparing questions across the two waves that are either identical (such as the presence of a board and its make-up as well as the percentage of staff with private sector experience) or conceptually similar (for instance, the 2017 survey asks IPAs to place their agencies’ budgets into discrete categories while the 2009 survey asked for exact budgetary appropriation).

Table 2 reports the average values of operational attributes in 2017, grouping IPAs by their governance structure. Overall, we see that IPAs have become more alike in their operations and staffing decisions. In contrast to Table 1, no characteristics display statistically significant differences across groups in the 2017 data.[[5]](#footnote-5) While autonomous agencies are more likely to have a board and a larger operating budget, these differences are not statistically significant. Most telling, both types of agencies seem to have substantially increased the share of staff with private sector experience; from 28 to 58 percent for integrated agencies and from 45 to 59 percent for autonomous ones.

Table 2: Operational Attributes of IPAs by Governance Structure, 2017

|  |  |
| --- | --- |
|   | Governance Structure |
|  | IntegratedAgency | Autonomous Agency | Difference |
| Has a board? | 55% | 76% | -21% |
| % Public sector representation | 44% | 46% | -2% |
| % Private sector representation | 55% | 51% | 4% |
| Budget | 1-2 Million | 2-5 Million |  |
| Share of staff with private sector experience | 58% | 59% | -1% |
| Share of staff with public sector experience | 43% | 59% | -16% |
| Share of staff with technical background | 43% | 41% | 2% |
| Share of staff with foreign language | 79% | 79% | 0% |
|  |  |  |  |
| N | 11 | 25 |  |
| *Note: Average values reported in each cell. No group averages are statistically significantly different from the other. Source: Authors’ calculations based on data provided by the World Bank.* |

Despite the convergence in operational characteristics across IPA governance structures, however, further inspection illustrates that the integrated-autonomy dichotomy remains relevant for explaining variations in IPA activities. Unlike in 2009, the 2017 IPA survey asked respondents to identify whether they had engaged in a list of investment promotion and facilitation activities over the previous six months rather than to identify their top three mandated activities. Table 3 reports the average number of activities related to attraction, entry, operations, and linkages in which IPAs engaged, accounting for agency governance structure. In general, integrated IPAs report carrying out a greater variety of activities than autonomous agencies, and these differences are statistically significant in one-tailed tests even accounting for a small sample. Both integrated and autonomous agencies report far less linkage activities than other types of investment promotion, and in the aggregate the difference between the two is not statistically significant. However, more fine-grained analysis shows that a larger percentage of integrated IPAs engage in a variety of domestic firm, educational, and technological linkage activities than do autonomous agencies and that this difference is statistically significant for programs designed to link domestic suppliers to foreign firms. Additionally, the difference between integrated and autonomous IPAs with respect to educational linkage activities slips just under traditional levels of statistical significance with a p-value of 0.11.

Table 3: Activities of IPAs by Governance Structure, 2017

|  |  |  |
| --- | --- | --- |
|   | Governance Structure |   |
|   | IntegratedAgency | Autonomous Agency | Difference |   |
| Number of Attraction Activities | 11.5 | 9.8 | 1.7 | + |
| Number of Entry Activities | 12.3 | 8.7 | 3.6 | \*\* |
| Number of Operations Activities | 10.5 | 7.8 | 2.7 | \* |
| Number of Linkage Activities | 5.5 | 3.8 | 1.7 |  |
| % With Domestic Linkage Activities | 82% | 52% | 0.3 | \* |
| % With Educational Linkage Activities | 91% | 72% | 0.19 |  |
| % With Technological Linkage Activities | 55% | 52% | 0.03 |  |
| N | 11 | 25 |   |   |
| *Note: Average values reported in each cell. + p < 0.1, \* p < 0.05, \*\* p < 0.01, \*\*\* p < 0.001 one tailed tests. Source: Authors’ calculations based on data provided by the World Bank.* |

Finally, we look beyond IPA activities to examine the association between governance structures and agencies’ budgetary choices, mandates, and evaluations of investment projects. Table 4 presents descriptive statistics and difference in means tests for these behaviors; a few findings stand out.

To begin with, there appears to have been considerable convergence among IPAs with respect to their regulatory and advocacy mandates.[[6]](#footnote-6) Yet, despite this seeming convergence in mandates, important differences in behavior continue to persist. Autonomous agencies are statistically significantly more likely to devote more resources to wooing large foreign firms than are integrated IPAs. The average autonomous agency in our sample spends about 34 percent of its resources on attracting and maintaining investments from large foreign firms, while the average integrated agency spends just 22 percent of resources on these sorts of projects. In contrast, integrated IPAs spend more resources on cultivating joint ventures between foreign and domestic firms than do autonomous agencies; this difference is again statistically significant. Finally, we also find some suggestive evidence that integrated IPAs are more disposed to evaluating investment proposals for their impact on society-wide economic, socio-environmental, and gender objectives than are autonomous IPAs. While these differences are not statistically significant, the difference between governance structures approaches significance for gender-based evaluation criteria (p=0.1287).

Table 4: Other Behaviors of IPAs by Governance Structure, 2017

|  |  |  |
| --- | --- | --- |
|   | Governance Structure |   |
|   | IntegratedAgency | Autonomous Agency | Difference |   |
| Regulatory Mandate | 55% | 52% | 3% |  |
| Advocacy Mandate | 82% | 92% | -10% |  |
| % Resources Devoted to: |  |  |  |  |
| Large Foreign Firms | 22% | 34% | -12% | \* |
| SME Foreign Firms | 20% | 22% | -2% |  |
| Joint Ventures | 18% | 10% | 8% | \* |
| SME Domestic Firms | 18% | 22% | -4% |  |
| Large Domestic Firms | 12% | 11% | 1% |  |
|  |  |  |  |  |
| Investment Projects evaluated on: |  |  |  |  |
| Economic Impact | 91% | 80% | 11% |  |
| Environmental/Social Impact | 73% | 68% | 5% |  |
| Gender Impact | 27% | 12% | 15% |  |
|  |  |  |  |  |
| N | 11 | 25 |   |   |
| *Note: Average values reported in each cell. + p < 0.1, \* p < 0.05, \*\* p < 0.01, \*\*\* p < 0.001 one tailed tests. Source: Authors’ calculations based on data provided by the World Bank.* |

Taken together, what can we conclude from these survey results? We find that as of 2009 autonomous IPAs were more likely to adopt a client-focused approach to investment promotion—such as prioritizing policy advocacy—than integrated IPAs. More recently, however, this gap appears to have narrowed considerably, consistent with the definition of a best practice for investment promotion that mimics private-sector agencies.

Yet we also find that some differences have persisted between integrated and autonomous agencies—differences that may have important implications for policy advice encouraging countries to adopt more autonomous IPAs. Indeed, the differences between integrated and autonomous IPAs described in Tables 3 and 4 are particularly important when viewed through the lens of the growing literature on the links between FDI and local economic growth. This research has generally found that FDI’s positive effect on domestic growth is not automatic, but instead depends on the absorptive capacity of the local economy as well as the extent to which foreign firms develop backward and forward linkages with domestic firms (Alfaro et al. 2004, Havranek and Irsova 2011, Irsova and Havranek 2013). There is a growing understanding that to foster more inclusive growth through FDI, governments often need to provide capacity building among local firms, facilitate mutually beneficial joint ventures, and fill informational gaps to assist foreign firms searching for local suppliers (Alfaro and Chen 2018, Javorcik and Spatareanu 2005, Javorcik and Spatareanu 2008). These realities, combined with a growing understanding that ensuring FDI is SDG-compatible means evaluating potential projects through their impacts on gender (SDG 5), the environment (SDG 6, 7, 11, 12, 13), inequality (SDG 10), and labor (SDG 8), suggest that integrated IPAs have important advantages over autonomous agencies that are less likely to prioritize these goals through their activities. Moreover, these differences persist despite the convergence of IPAs across operational characteristics and mandates. These results suggest that IPA autonomy entails tradeoffs, and governments interested in restructuring their IPAs should carefully weigh how increased autonomy may influence the degree to which investment agencies can help fulfill sustainable development objectives.

## Case Study Evidence: Investment Promotion in Costa Rica

In this section we examine qualitative evidence on how IPAs’ organizational structures influence how they define their missions and in turn the activities they carry out. We use a single case study of Costa Rica’s national IPA, Coalicion Costarricense de Iniciativas de Desarrollo, known by its acronym CINDE. We choose CINDE as our case because it is one of the most prominent and well-known IPAs, and is frequently cited within the investment promotion literature for embodying best practices (Spar 1998; Nelson 2009; OECD 2013, p 104). By focusing on temporal, within-case variation, we can better identify how changes in the agency’s organizational structure are associated with shifts in its approach to facilitating sustainable development, while holding other country-level factors constant.

We examine variation in CINDE’s activities across three periods: from its inception in 1982 to 1996; from 1996 until 2010; and from 2010 through 2018. As discussed in further detail below, this periodization corresponds to changes in CINDE’s funding and organizational structure, changes which saw CINDE move from being completely autonomous to the Costa Rican government to becoming moderately more integrated. This within-case variation is more modest than the across-case variation that exists in comparing different IPAs: while CINDE is more integrated into the government today than it was a few decades earlier, it is still far more autonomous than most other IPAs. By showing that even relatively small steps from autonomy toward integration are associated with different policy priorities, this research suggests that the larger cross-country variation will have even more prominent effects.

### The USAID era: 1982-1993

CINDE was created directly out of an alliance between the US Agency for International Development (USAID) and a small group of executives from Costa Rica’s private sector. The country had experienced a sharp recession in the early 1980s, leading to the ouster of the previous government and a new administration taking power in 1982. The same year, a new director of the USAID office, Daniel Chaij, arrived in Costa Rica, and began holding twice a week breakfast meetings with local business executives, to discuss the roots of the crisis and possible economic recovery strategies (Clark 1997, p 80-81). It was at one of these meetings that Chaij proposed a new initiative to promote non-traditional exports, the agency that would become CINDE. Chaij and the Costa Rican executives hand-picked the members of CINDE’s board, a group of “nationally respected independent businessmen and intellectuals” (Clark 1997, p 82).

From its inception, then, there was significant distance between CINDE and the Costa Rican government. CINDE was created by a foreign aid agency partnering with local business executives, neither at the direction of, nor reporting to, the government. Moreover, USAID provided 100% of CINDE’s budget, and as a result, USAID exerted significantly more control over the agency than any local Costa Rican constituencies. Indeed, it was USAID officials that pushed CINDE to make attracting foreign investors its primary focus, in 1985; this was considered the best way to achieve the agency’s original goal of promoting non-traditional (i.e. non primary product) exports (Clark 1997, p 85).[[7]](#footnote-7) This autonomy allowed CINDE (and its funders at USAID) to define its own mandate and set its own agenda.

During these early years, CINDE’s activities focused overwhelmingly on changing Costa Rican government policy, in line with how our theory suggests autonomous agencies will act. The agency effectively served as a conduit for USAID suggestions to the Costa Rican government on how to liberalize the economy, and operated far more as the voice of the business community toward the government than vice versa. Clark (1997) describes CINDE’s hands-on approach in ushering through government reforms: “Consultants contracted by CINDE drew up these sections of the legislation [providing incentives for investors and simplifying regulations for exporting], and CINDE board members led the way in lobbying them through the Legislative Assembly by meeting with government functionaries, congressional representatives, ministers, and the president himself, usually on an informal and individual basis” (p 86-87). Crucially, while CINDE was autonomous from the government, its leaders were still respected and well-connected to high-level officials; these high-level connections contributed to CINDE’s success in shifting government policy.

In addition to lobbying for policy changes, from the late 1980s into the early 1990s CINDE also began to target particular sectors for increased FDI. The agency initially focused on attracting US textile and apparel firms to Costa Rica (Clark 1995, p 183), and later also began to target the electronics industry (Spar 1998, p 14). During this era Costa Rica was successful in diversifying its export base to non-traditional products; between 1985 and 1995, the share of primary products in Costa Rica’s exports fell from 65 to 38 percent (UNCTAD 2002, p 167). While this was part of a broader shift in the economy, many observers at least partially credit CINDE with this shift (Clark 1995; Clark 1997; UNCTAD 2002). CINDE itself claimed responsibility for attracting 146 individual FDI projects to Costa Rica between 1886 and 1990, accounting for 18,000 jobs – just over half of which were in the textile industry (quoted in Clark 1995, p 183).

### Becoming a self-sufficient agency: 1993-2010

By the early 1990s, USAID was beginning to withdraw some of its financial support to Costa Rica, and in 1994 the agency announced it would soon be leaving Costa Rica altogether. USAID’s withdrawal forced a deep restructuring of CINDE. With USAID funding, the agency had expanded to include 8 overseas offices and some 300 employees; at the lowest point following the restructuring, CINDE closed all its overseas offices and had only around 10 employees (interview with former CINDE official, October 2018). The agency managed to string together enough funds to cover a bare bones budget, drawing on a number of sources (Clark 1995; OECD 2013 p 104; Lanza 1995; CINDE 2011; interview with former CINDE official). These included an endowment, which the agency had built up from USAID’s initial contributions and which was further buoyed by selling the company’s main office building. Another important source of funding were fees assessed to Costa Rican industrial parks; these parks were seeking foreign investors as tenants, and collectively benefited from a centralized marketing strategy to attract new companies. Yet CINDE’s scaled back operations made it difficult to generate the quantity of new leads the industrial parks demanded, and thus in turn they were inconsistent in their funding (interview with former CINDE official). A final source of funding was support from the Costa Rica United States Foundation for Cooperation (CRUSA), a Costa Rican non-profit agency created as part of USAID’s exit strategy.

While USAID’s withdrawal forced CINDE to shift strategies, it did not lead the agency to become more integrated with the Costa Rican government. Throughout this period, CINDE did not receive any substantial financing directly from the Costa Rican government. CINDE also continued to hire private sector workers, and reported to a board made up primarily of business executives. This institutional set-up ensured CINDE continued to enjoy considerable autonomy. During the 1990s the agency developed a strategy to target high-technology firms, with a particular focus on electronic component manufacturing. A former CINDE official confirms that this strategy was set “entirely independently” of the government, and that the government was “reactive” to CINDE’s initiatives, rather than CINDE following the government’s lead (personal interview).

CINDE helped bring a number of smaller electronics firms to Costa Rica in the mid-1990s, and then in late 1996 landed the deal that would establish the agency as a world-class IPA: Intel’s major Latin American expansion. CINDE beat out a number of larger, more established markets in this competition, including Brazil, Mexico, and Chile. Several case studies examine why Intel chose Costa Rica, and what role CINDE played in the decision (see, for example, Nelson 2000, Spar 1998, Hilb and Roitstein 2005). These analyses suggest that CINDE’s business-like approach to wooing Intel’s executives, combined with the direct personal involvement of Costa Rica’s president, convinced the company that the country provided a business-friendly environment for its Latin American plant. CINDE took a pro-active approach, making the initial contact with Intel, organizing and coordinating site visits for company executives, and eventually lobbying the Ministries of Transportation and Education to make policy changes that would alleviate some of Intel’s concerns about infrastructure and workforce skills (Spar 1998, 18-20). Throughout the process CINDE treated Intel as a potential client, and worked with the company to ensure its needs were met. The agency’s private sector experience and culture allowed it to successfully execute this strategy, while an IPA more tightly integrated into the government bureaucracy would likely have struggled to partner so seamlessly with a multinational firm. At the same time, the strong support from Costa Rica’s president gave CINDE’s appeals to Intel more credibility, highlighting the importance of political backing for autonomous IPAs. Indeed, a former official noted that without the president’s personal commitment to the project, CINDE would have struggled to engage other government bureaucrats, as CINDE had “no clout” with any other ministries-another drawback of autonomous IPAs (personal interview).

The successful Intel recruitment gave CINDE a new lifeline, with CRUSA agreeing to increase funding and the Costa Rican government for the first time providing some public financial support to the agency, $300,000 to open an office in Silicon Valley (personal interview). In the years after CINDE successfully recruited Intel, a number of other technology and medical services companies also invested in Costa Rica, establishing a small cluster of high technology firms. Yet, while CINDE’s success in attracting these firms demonstrates some of the advantages of autonomous IPAs, Costa Rica’s broader experience with FDI during this period also reveals the downsides of such an approach. There were only limited spillovers and linkages between many of the foreign investors CINDE helped bring in and the domestic economy, limiting the positive impact FDI had on the country’s broader development. For instance, even a generally very positive World Bank assessment of Intel’s impact on the country notes that locally acquired direct materials make up only 2 percent of the total value that Intel exports from its Costa Rican factories (MIGA 2006, p 16). An analysis from the Economist Intelligence Unit concluded that Costa Rica’s “focus on high-tech effectively created a dual economy since the spillovers to the rest of the domestic economy were never particularly strong. On one hand was a vibrant, highly productive, export-oriented sector working at the cutting edge of technology. On the other hand was a mass of unproductive, mostly service-related firms with little or no export prospects. These ultimately accounted for the bulk of employment” (Aguilera 2014). Similarly, another study found that even where some backward linkages did exist between foreign investors and local suppliers, these relationships did not result in any significant knowledge transfer; instead, knowledge transfers occurred primarily horizontally, within the community of foreign investors (Giuliani 2008).

This outcome at least partially reflects CINDE’s limited interest in proactively building linkages and spillovers between foreign and local firms. Ciravegna (2012) notes that in the ICT sector in Costa Rica, “MNCs interact mainly with CINDE … which also assists them after their initial investment. CINDE, however, has no contact with local producers, as this falls outside its mission” (p577-78). CINDE is responsive to foreign investors, and understands their needs and ways of doing business, but is not similarly knowledgeable of domestic firms. There is in fact a separate matchmaking service in the country, Costa Rica Provee, part of the export promotion agency PROCOMER (discussed further below). Ciravegna (2012) notes that Costa Rica Provee has a small budget insufficient to hire experienced professionals, and thus “its capacity to interact with MNCs was lower than that of CINDE” (p571). Another analysis of Costa Rica’s FDI strategy finds that “the proaction aimed at FDI attraction has not been matched by analogous consistent policies to promote indigenous linkage capabilities” (Paus and Gallagher 2008, p76). While it is difficult to say what if any effect a more active linkages strategy might have had on Costa Rica’s development, it is clear that facing a hard budget constraint CINDE chose to focus on attracting new investors rather than promoting linkages between foreign and domestic enterprises. Again, this follows our expectations of how autonomous IPAs will interpret their mandates and choose to privilege certain interests over others.

### Small steps toward greater integration with the government: 2010-2018

More recently, CINDE has taken some steps to establish closer ties with the Costa Rican government, and has become marginally more integrated into the bureaucracy. In 2010, CINDE signed a formal partnership agreement with two sister agencies: COMEX, the Ministry for External Trade, and PROCOMER, the export promotion agency (OECD 2013, p 104). The agreement has become an important source of funding for CINDE, and has also increased cooperation between the three agencies. Moreover, CINDE’s current head, Jorge Sequeira, previously served as the head of PROCOMER – thus he brings greater awareness and experience of the needs and concerns of domestic Costa Rican firms seeking to enter global value chains. To be sure, the agency is still quite autonomous relative to most other IPAs – it remains a non-profit private organization, and receives only a small share of its financing from its agreement with the government. But it is less autonomous than it used to be.

There are some signs that, as CINDE has become more integrated in to the government, it is adapting its operations to put more emphasis on implementing the state’s development strategy, rather than focusing on serving foreign investors as clients. For instance, CINDE has adopted an explicit goal to attract investors to less-developed rural areas of the country, places that have traditionally received less investment. A former CINDE official described this as a ‘compromise’ the agency had accepted as part of a funding agreement with the government, and noted that it could in principle create a conflict for CINDE if the agency was encouraging firms to locate in rural areas even if those locations weren’t necessarily in the investors’ best interest (personal interview). CINDE is also placing greater emphasis on linkages between foreign investors and the domestic economy, including through closer collaboration with PROCOMER. CINDE’s three-year strategic plan adopted in 2015 identifies promoting productive linkages as one of seven core objectives for the agency (CINDE 2015). And at a July 2018 forum organized by CINDE that brought together high-level government officials and representatives from multinational companies, Costa Rican President Carlos Alvarado remarked that “our challenge is to promote linkages with the rest of the economy to generate more and better employment opportunities in all the country, specially, in the most vulnerable regions” (CINDE 2018).

Finally, it should be noted that CINDE is also in the midst of revising its strategy and evaluation metrics to better incorporate the SDGs. A current CINDE official confirmed that the agency is currently discussing how to measure its contributions to the SDGs, and how to revise its key performance indicators along these lines (private phone interview, Costa Rica, November 2018). Sustainability already features prominently in the country’s “Essential Costa Rica” branding, which is managed by CINDE. Companies hoping to use the brand must be certified by the agency, which requires adhering to a particular set of environmental and corporate social responsibility standards. As CINDE further develops its SDG strategy, it continues to balance its autonomy and its relationship with the central government. Though CINDE does not directly take direction from the central government, a CINDE official noted that the agency does seek to align its activities and contributions to the broader Costa Rican SDG strategy developed by the central government.

These developments all suggest that CINDE has somewhat rebalanced its activities in light of its evolving positionality relative to the government. Though overall the agency still has a client-first approach to investment promotion, as its links to the government have strengthened, so too has its interest in promoting linkages and ensuring incoming FDI serves a broader development strategy organized around the SDGs.

# Conclusions and Policy Implications

In this paper, we explain why research on IPAs’ contributions to sustainable development must consider how the structure of such agencies influences the activities in which they engage. We develop a new framework for exploring variation in how IPAs manage these tensions as intermediaries between investors and governments. We argue that agencies’ governance structures lead them to privilege certain ideas and interests over others, which in turn incentivize IPAs to approach their mandates of investment attraction in different ways. We differentiate between two ideal types of IPAs: integrated IPAs, that sit within the government bureaucracy and function like any other public sector office, and autonomous agencies, that have more independence from the government. While autonomous agencies are likely to better understand investors’ needs and more effectively work alongside private sector actors, their strategic distance from the government’s economic development policy team makes it less likely that they will closely align their activities with other government priorities. Consequentially, the degree to which an IPA is integrated or autonomous from the bureaucracy influences the extent and manner in which it contributes to its country’s sustainable development agenda.

We interrogate these claims in two ways. First, we use data from World Bank surveys of IPAs to demonstrate that variation in IPAs’ governance structures help explain variations in their activities and investment promotion strategies. Autonomous IPAs spend more time courting large foreign projects and prioritize activities that are designed to increase overall inflows of foreign investment. In contrast, integrated IPAs are more likely to structure their activities in ways that privilege their countries’ industrial policy priorities, such as by emphasizing joint ventures, by devoting more resources to developing local linkages, and by considering broader social goals when evaluating the desirability of investment proposals. Second, we use the Costa Rican experience with investment promotion from the 1980s until 2018 to explore how changes to the country’s IPA governance structure influenced its activities and the development outcomes associated with investments it helped attract.

Ultimately, we argue that these variations in promotional strategies and tactics condition IPAs’ potential and limits in contributing to sustainable, inclusive development. Over the past decade, the development community has pushed IPAs to become more autonomous from government in order to achieve the operational authority and private-sector mindset thought necessary to best serve the needs of potential investors. Indeed, more autonomous agencies fare better on metrics of IPA performance, which are largely conceptualized as how responsive agency officials are to the requests of investing firms. The Costa Rica case also demonstrates how bureaucratic autonomy can provide IPAs insulation from politicized investment promotion activities so that they can more effectively implement highly targeted, long-term facilitation strategies. Preventing IPAs from becoming a political tool of governing parties is necessary to ensure that investment promotion adds value to the local economy rather than is used to pander to politically important constituents (Jensen and Malesky 2018).

However, our analysis demonstrates there are important tradeoffs associated with autonomy. More autonomous IPAs are less likely than their bureaucratically-integrated peers to allocate time and resources to activities designed to enhance the positive spillovers that FDI can, under certain circumstances, generate for local economies. Additionally, integrated IPAs demonstrate a greater commitment to social and environmental justice oriented criteria when evaluating and prioritizing specific investment projects. In the context of the SDGs, integrated IPAs are better poised to balance the exigencies of economic growth with larger social goals of equality, economic protection, and stronger rights for labor and marginalized groups. As governments increasingly turn to targeted investment promotion in the service of their industrial policy goals (UNCTAD 2018, chpt. 4), they will find that institutional form conditions the ability of IPAs to effectively assume a central role in the achievement of sustainable development goals. The policy implication here is not that integrated IPAs are necessarily superior to autonomous ones, but that individual countries will need to calibrate their IPAs’ institutional framework to balance the competing priorities of fostering business acumen and translating broad sustainable development objectives into agencies’ strategies and everyday activities.

While this chapter speaks to the link between governance structures and IPAs’ strategies and activities, we have only touched on one part of a broader process. For now, we have treated the choice between governance structures as exogenous and have bracketed the processes through which these institutional configurations emerge. However, a fuller understanding of the political economy of IPAs should interrogate this further. Where do governance structures come from and why do some countries set up particular types of IPAs? Do variations in governance structures influence how successfully IPAs can administer mandates beyond investment attraction such as stimulating exports, policy advocacy, and local business linkages? How does governance relate to how IPAs conceptualize, measure, and perform with respect to effectiveness? And, how can we move beyond a dichotomous conceptualization of IPA governance to instead explore how agencies might carefully balance operational autonomy with strategic integration into broader governmental objectives? While these issues are beyond the scope of the current study, they are important questions for future research.

The analysis we present in this chapter also suggests a rich policy research agenda related to ensuring investment promotion activities contribute to a country’ sustainable development.

First, through what processes can IPAs undergo meaningful governance reform? The Costa Rican case indicates that the degree of autonomy afforded to IPAs can shift over time. What political calculations affect these structural transformations? How do evolutions of IPA governance relate to broader changes in political and policy orientations toward global markets? Under what conditions can states best balance the tradeoffs associated between autonomy and integration?

Second, how does policy learning and mimicry function across IPA governance models? Many IPA officials strive to replicate the success of a few particularly efficacious agencies such as Ireland’s and Singapore’s. But, the institutional forms of aspirational IPAs may not lend themselves well to replicating the particular functions of these well known cases. How does the institutional form of IPAs, then, condition the adoption and implementation of best practices around investment promotion? Rather than coalescing around one exemplary model, is it the case that multiple successful models of investment promotion can coexist?

Finally, while policymakers often consider how weak rule of law and corruption can stymie investment promotion activities, it is worthwhile to consider the reverse causal pathway. Under what conditions, if at all, can the structure and activities of IPAs create new opportunities for corruption and cronyism? As IPAs become increasingly autonomous organizations for connecting foreign and domestic firms with resources of the state, what organizational and political structures guard against capture? We look forward to exploring these questions further in future work.

# References

Aguilera, Rodrigo. 2014. “Costa Rica: Life After Intel.” *The Huffington Post,* May 1, 2014.

Alfaro, Laura, Areedam Chandra, Sebnem Kalemli-Ozcan, and Selin Sayek. 2004. “FDI and Economic Growth: the Role of Local Financial Markets.” *Journal of International Economics,* Vol. 64, No. 1, pp. 89-112.

Alfaro, Laura and Maggie X. Chen. 2018. “Selection and Market Reallocation: Productivity Gains from Multinational Production.” *American Economic Journal: Economic Policy*, Vol. 10, No. 2, pp. 1-38.

Bauerle Danzman, Sarah. Forthcoming. *Managed Interests: Domestic Firms, Financial*

*Constraints, and FDI Policy.* Cambridge University Press.

CINDE. 2011. “Annual Report 2011.” Available online at https://www.cinde.org/en/resources.

-----. 2015. “Strategic Plan CINDE 2015 – 2018.” Available online at https://www.cinde.org/en/resources.

-----. 2018. “Press Release: Government reaffirms its support to Foreign Direct Investment in a high-level dialogue with more than 250 representatives of multinational companies.” July 27, 2018. Available online at https://www.cinde.org/en/news.

Ciravegna, Luciano. 2012. “Linkages in the New ICT Clusters of Latin America.” *Journal of Latin American Studies,* Vol. 44, No. 3, pp. 553-580.

Clark, Mary. 1995. “Nontraditional Export Promotion in Costa Rica: Sustaining Export-Led Growth.” *Journal of Interamerican Studies and World Affairs* Vol. 37, No. 2, pp. 181-223.

-----. 1997. “Transnational Alliances and Development Policy in Latin America: Nontraditional Export Promotion in Costa Rica.” *Latin American Research Review*, Vol. 32, No. 2, pp. 71-97.

Egan, Patrick J.W. 2018. *Globalizing Innovation: State Institutions and Foreign Direct Investment in Emerging Economies*. Cambridge, MA: MIT Press.

Giuliani, Elisa. 2008. “Multinational Corporations and Patterns of Local Knowledge Transfer in Costa Rican High‐Tech Industries.” *Development and Change*, Vol. 39, No. 3, pp 385-407.

Harding, Torfinn and Beata Javorcik. 2011. “Roll Out the Red Carpet and They Will Come: Investment Promotion and FDI Inflows.” *Economic Journal*, Vol. 121, No. 557, pp 1445-1476.

Harding, Torfinn and Beata Javorcik. 2013. “Investment Promotion and FDI Inflows: Quality Matters.” *CESifo Economic Studies*, Vol. 59, No. 2, pp 337–359.

Havranek, Tomas and Zuzana Irsova. 2011. “Estimating Vertical Spillovers from FDI: Why Results Vary and What the True Effect Is.” *Journal of International Economics*. Vol. 85, pp. 234-244.

Hilb, Michael and Florencia Roitstein. 2005. “Intel in Costa Rica: A Success Story?” INSEAD Case 205-092-1.

Irsova, Zuzana and Tomas Havranek. 2013. “Determinants of Horizontal Spillovers from FDI: Evidence from a Large Meta-Analysis.” *World Development*, Vol. 42, pp. 1-15.

James, Sebastian. 2010. “Providing Incentives for Investment: Advice for Policy Makers in Developing Countries.” Investment Climate in Practice Note 54017, the World Bank Group.

Javorcik, Beata Smarzynska and Mariana Spatareanu. 2005. “Disentangling FDI Spillover Effects: What Do Firm Perceptions Tell Us?” in *Does Foreign Direct Investment Promote Development?* Ed. By Theodore H. Moran, Edward M. Graham, and Magnus Bloström. Washington D.C.: Institute for International Economics. pp. 45-72.

----- . 2008. “To Share or Not to Share: Does Local Participation Matter for Spillovers from Foreign Direct Investment? *Journal of Development Economics*, Vol. 85, No. 1-2, pp. 194-217.

Jensen, Nathan. 2017. “Job Creation and Firm-Specific Location Incentives.” *Journal of Public Policy*, Vol. 37, No. 1, pp. 85-112.

Jensen, Nathan and Edmund Malesky. 2018. *Incentives to Pander: How Politicians Use Corporate Welfare for Political Gain*. Cambridge: Cambridge University Press.

Kharas, Homi and John McArthur. 2016. “Links in the chain of sustainable finance: Accelerating private investments for the SDGs, including climate action.” *Brookings Global Views*, No. 5, Sept 2016.

Lanza, Kenneth. 1995. “Institutionalizing export and investment promotion organizations: The case of Costa Rica's CINDE.” CIDR Working Paper Series, November 1995.

Linsi, Lucas. 2016. *How the Beast Became a Beauty: The Social Construction of the Economic Meaning of Foreign Direct Investment Inflows in Advanced Economies, 1960-2007.* PhD thesis, The London School of Economics and Political Science (LSE).

Multilateral Investment Guarantee Agency (MIGA). 2006. “The Impact of Intel in Costa Rica: Nine Years After the Decision to Invest.” Washington, DC: The World Bank.

Moran, Theodore, Holger Görg, Adnan Serič, and Christiane Krieger-Boden. 2018. “Attracting FDI in middle-skilled supply chains.” *Economics E-Journal Discussion Paper*, No. 2018-2.

Morisset, Jacques and Kelly Andrews-Johnson. 2004. “The Effectiveness of Promotion Agencies at Attracting Foreign Direct Investment.” FIAS Occasional Paper No. 16, The World Bank Group.

Nelson, Roy. 2000. “Case Study: Intel's site selection decision in Latin America.” *Thunderbird International Business Review*, Vol. 42, No. 2, pp. 227-249.

-----. 2005. “Competing for Foreign Direct investment: Efforts to Promote Nontraditional FDI in Costa Rica, Brazil, and Chile.” *Studies in Comparative International Development*, Vol. 40, No. 3, pp 3–28.

-----. 2009. *Harnessing Globalization: The Promotion of Nontraditional Foreign Direct Investment in Latin America*. University Park, PA: The Pennsylvania State University Press.

Organization for Economic Cooperation and Development (OECD). 2013. *OECD Investment Policy Reviews*: *Costa Rica*. Paris: OECD.

Ortega, Celia and Carlos Griffin. 2009. “Investment Promotion Essentials: What sets the world’s best investment facilitators apart from the rest?” World Bank Investment Climate in Practice Policy Brief No. 6, Summer 2009.

Paus, Eva and Kevin Gallagher. 2008. “Missing Links: Foreign Investment and Industrial Development in Costa Rica and Mexico.” *Studies in Comparative International Development*, Vol. 43, pp. 53–80.

Spar, Debora. 1998. “Attracting high technology investment: Intel's Costa Rican plant.”Foreign Investment Advisory Service Occasional Paper No. 11. Washington, DC: The World Bank.

Tavares-Lehmann, Ana Teresa, Perrine Toledano, Lise Johnson, and Lisa Sachs (editors). 2016. *Rethinking Investment Incentives: Trends and Policy Options*. New York: Columbia University Press.

Wells, Louis and Alvin Wint. 2000. “Marketing a Country: Promotion as a Tool for Attracting Foreign Investment (Revised Edition).” FIAS Occasional Paper No. 13, The World Bank Group.

Whyte, Roberta, Celia Ortega and Carlos Griffin. 2011. “Investment Regulation and Promotion: Can They Coexist in One Body?” World Bank Investment Climate in Practice Research Note No. 16, March 2011.

United Nations Conference on Trade and Development (UNCTAD). 2002. *World Investment Report 2002: Transnational Corporations and Export Competitiveness.* Geneva: United Nations Publications.

-----. 2018. *World Investment Report 2018: Investment and New Industrial Policies*. Geneva: United Nations Publications.

World Bank. 2006, 2009, 2012. *Global Investment Promotion Benchmarking Report*. Washington, DC: The World Bank Group.

1. In emphasizing IPAs, we do not diminish the role that other geographic, regulatory, and governance factors play in structuring investment flows. IPAs cannot entirely compensate for weak local institutions or trade rules that discourage MNEs from developing local linkages. Nor can they impose regulatory requirements on firms to influence the social and environmental sustainability of investor activities. However, IPAs can and do target particular industries and firms, use an array of techniques to entice firms they view to be particularly `attractive,’ and are generally the arm of the government most actively engaged in trying to influence the type of investment a country receives. To the extent that countries view IPAs as tools to discriminate between and differentially support some kinds of FDI over others, the strategies and activities these agencies undertake can have important implications for the sectoral and business activity composition of investment inflows. [↑](#footnote-ref-1)
2. These surveys were designed for purposes other than cross-national, time series analysis, which explains their structure. [↑](#footnote-ref-2)
3. Instead, the 2017 survey asks respondents to which ministry or government agency the IPA reports, which is an imperfect measure of IPA governance because it does not specify how autonomous the agency is from the rest of government. [↑](#footnote-ref-3)
4. It is of course possible that some IPAs have changed their governance structure since 2009. Given the development community’s growing belief in the importance of autonomy, we would expect more IPAs to have become autonomous over the time period than for IPAs that were previously autonomous to become more integrated into government, which would likely bias our analysis against finding any significant differences between governance structures. Second, a long lag in measurement of IPA governance allows us to ascertain the effect of institutional histories – even if governance structures undergo de jure changes, an IPA that was previously integrated into the government bureaucracy will have developed institutional cultures and memories that persist over time. [↑](#footnote-ref-4)
5. While this is partially due to the smaller sample size, results presented in Tables 2 and 3 show that statistically significant differences are perceptible even given the limited sample. [↑](#footnote-ref-5)
6. Note that the 2009 survey asked respondents to identify their top three mandated activities, while the 2017 survey asked respondents to check all boxes that applied with respect to their mandate; thus comparisons between the two waves of surveys should be interpreted very cautiously. In supplemental analysis, available upon request, we analyze whether governance structures are statistically significantly associated with differences in agency mandates. We find no evidence to support this, which further supports our interpretation that IPA governance continues to influence agency *activities* even as agency *mandates* and *operational characteristics* converge. [↑](#footnote-ref-6)
7. This decision was taken after hiring experts from the Ireland Development Authority, Ireland’s very successful IPA, as consultants. [↑](#footnote-ref-7)