



Leveraging FDI for Development The case for Investment Policy Reform

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Outline

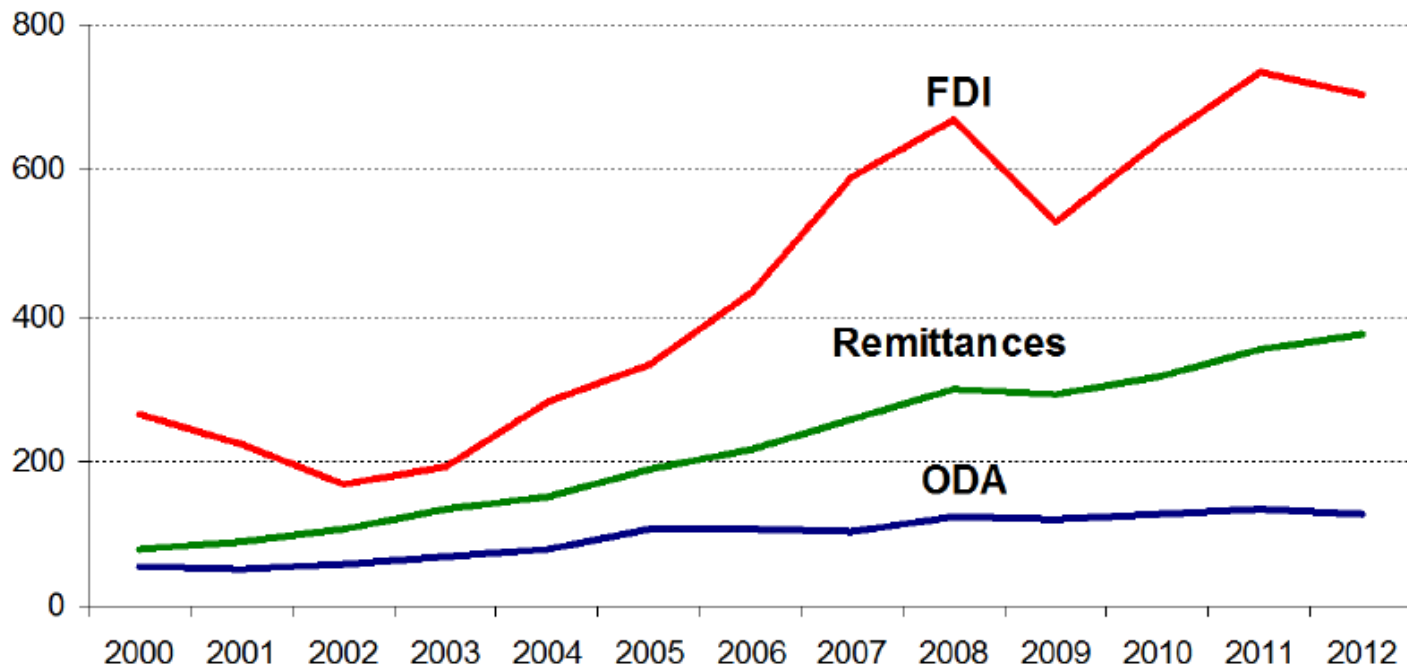
- ▶ Foreign Direct Investment and Development
- ▶ The role of Investment Policy
- ▶ Reforms to Maximize Investment Retention and Expansion

Foreign Direct Investment and Development

A prime source of finance and know-how

FDI is the largest source of development finance

FDI, remittances and ODA to developing economies, 2000-2012
(Billions of dollars)



Source: UNCTAD for FDI and remittances and OECD for ODA.

Note: ODA from DAC members.

In 1776, when Adam Smith wrote „The Wealth of Nations“...

Why are some countries rich...



...and others poor?



... the wealthiest country in the world was 4x richer than the poorest.

▶ Today, the difference is...

<i>US\$ per capita</i>	At market prices	PPP
Congo, Dem. Rep.	99	297
Burundi	111	354
Guinea-Bissau	128	497
Eritrea	147	584
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Hong Kong, China	34587	40599
Switzerland	37789	37780
United States	38206	43179
Japan	40481	31484
Norway	42684	49711

x160

So what has changed?



- **Countries grow because they produce new and improved goods and services...**
- Or because they find better ways to produce those goods and services
- And they retain more of the value added...
- **How do countries learn how to produce new goods and services?**
- **Where is the productive knowledge obtained? At school?**

Where is productive knowledge obtained?

Not only at school, but through experience, **in the productive process:**

Enterprises facilitate transfer of productive knowledge

- Training workers
- Importing people with experience
- Learning as a team

In this process, the key is how to connect the domestic private sector with the international private sector in the productive process...

The Role of Investment Policy

Connecting countries to the international economy

Investment Policy



Investment policy is not about choosing between foreign and domestic investment

It is about connecting them through global value chains. Trade and investment are two sides of the same coin. Both domestic and foreign investment must be regulated.



Foreign investment is not a transaction; it is a relationship

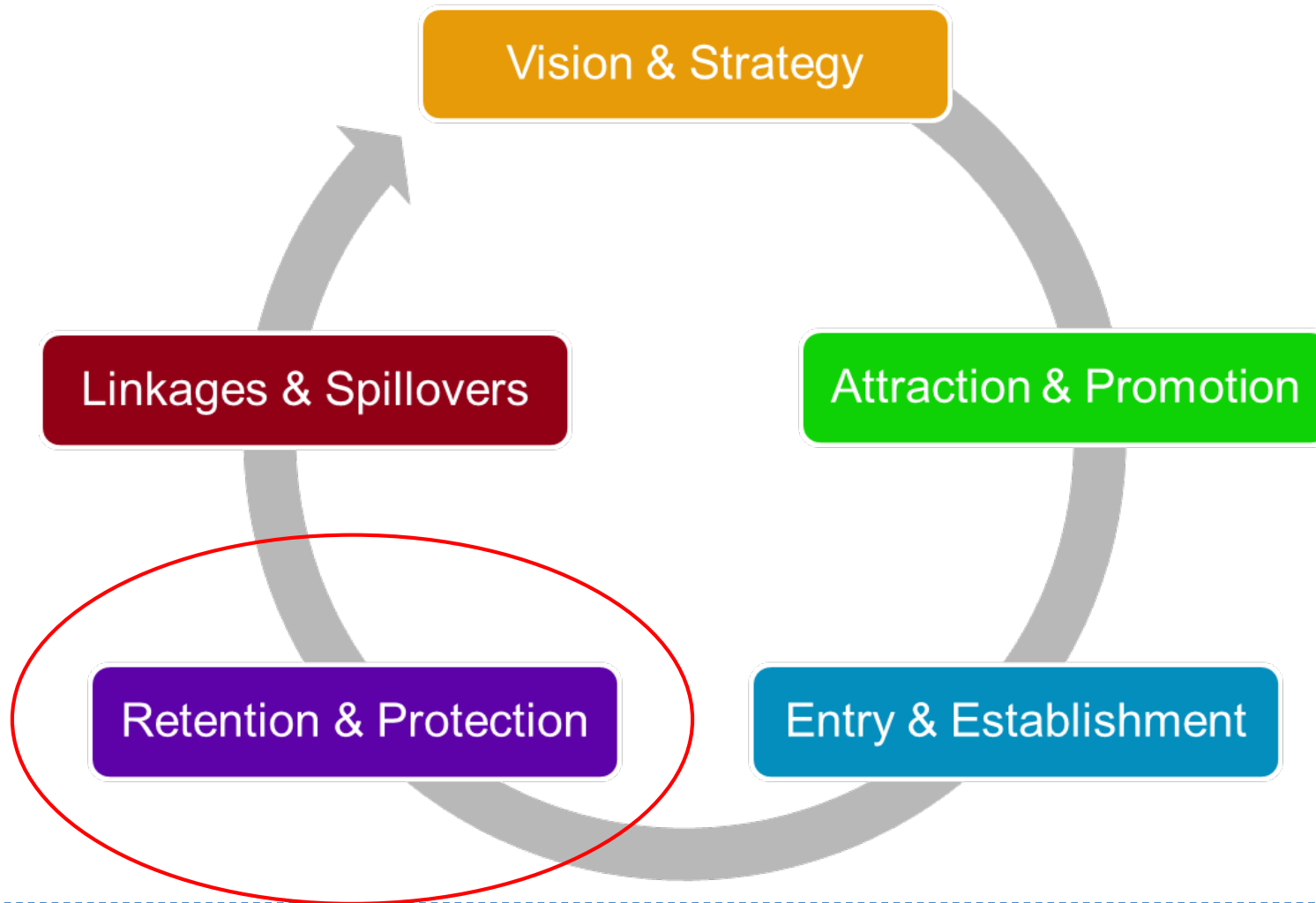
An investment policy strategy should not only pursue attraction, but also retention and linkages with the domestic productive sector, thereby maximizing benefits from investment.



Not all types of investment are the same

Different types of investment have different effects on socio-economic development and thus require different policies. Countries should align the type of investment with different policies. Different competitive drivers in different sectors.

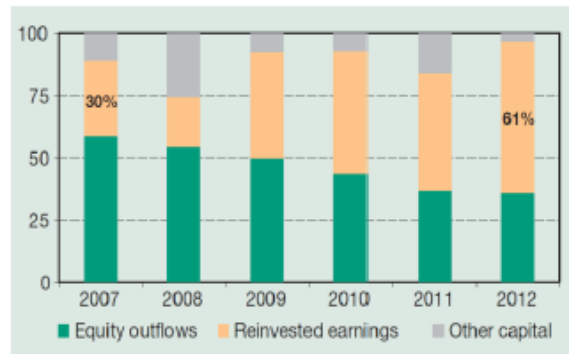
Framework for investment policy



The importance of retention: The carrot...

- In developed countries, most of the FDI inflows every year come from expansion of investors already established in the host country.

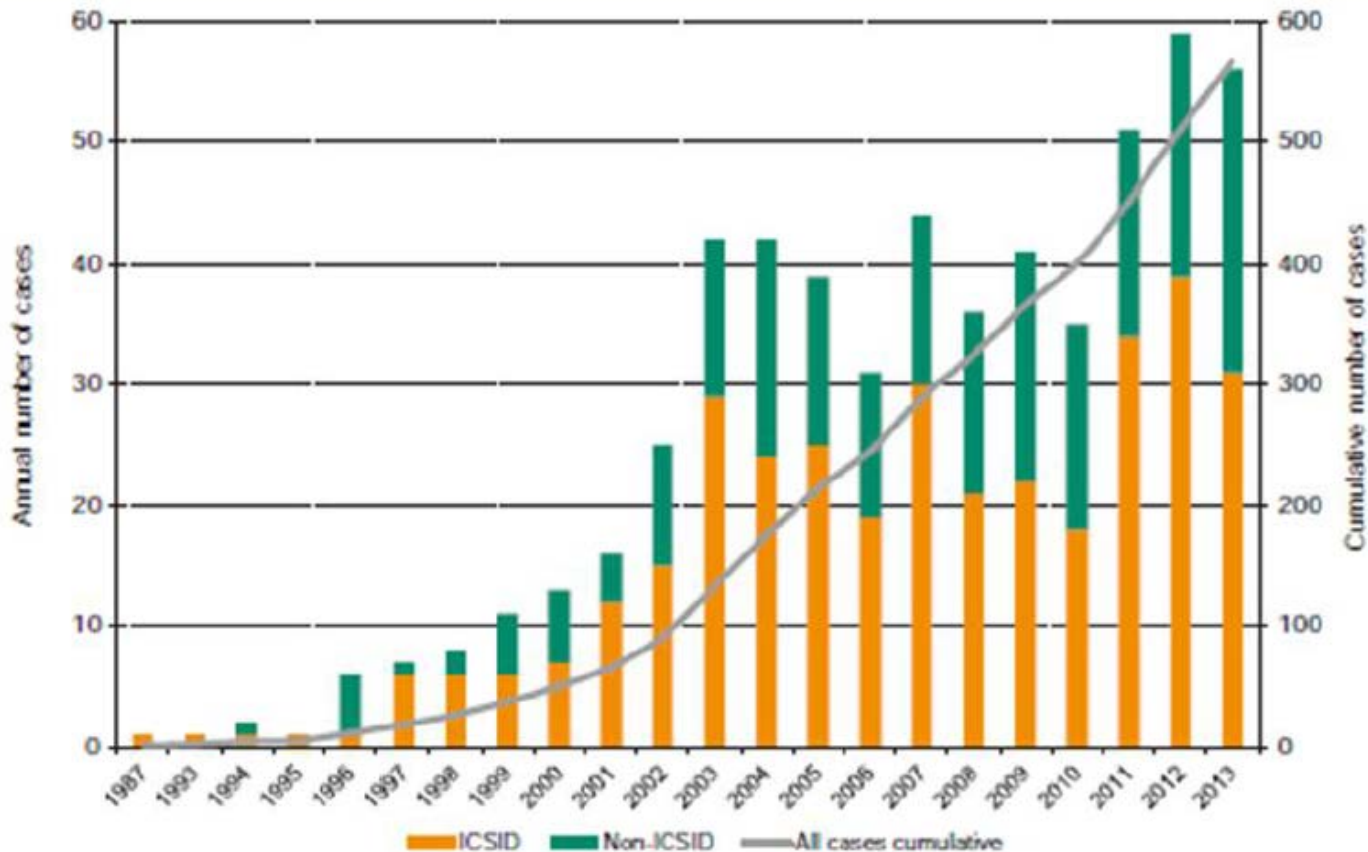
Figure 1.7. FDI outflows by components for 37 selected developed countries, 2007–2012
(Billions of dollars)



- Retention of existing investors should be a key priority for developing countries.
- However, countries tend to focus efforts on attraction of new investors.
- Investment retention is important not only to expand FDI, but also key for generating investment confidence in new investors

... and the stick: investor-state litigation.

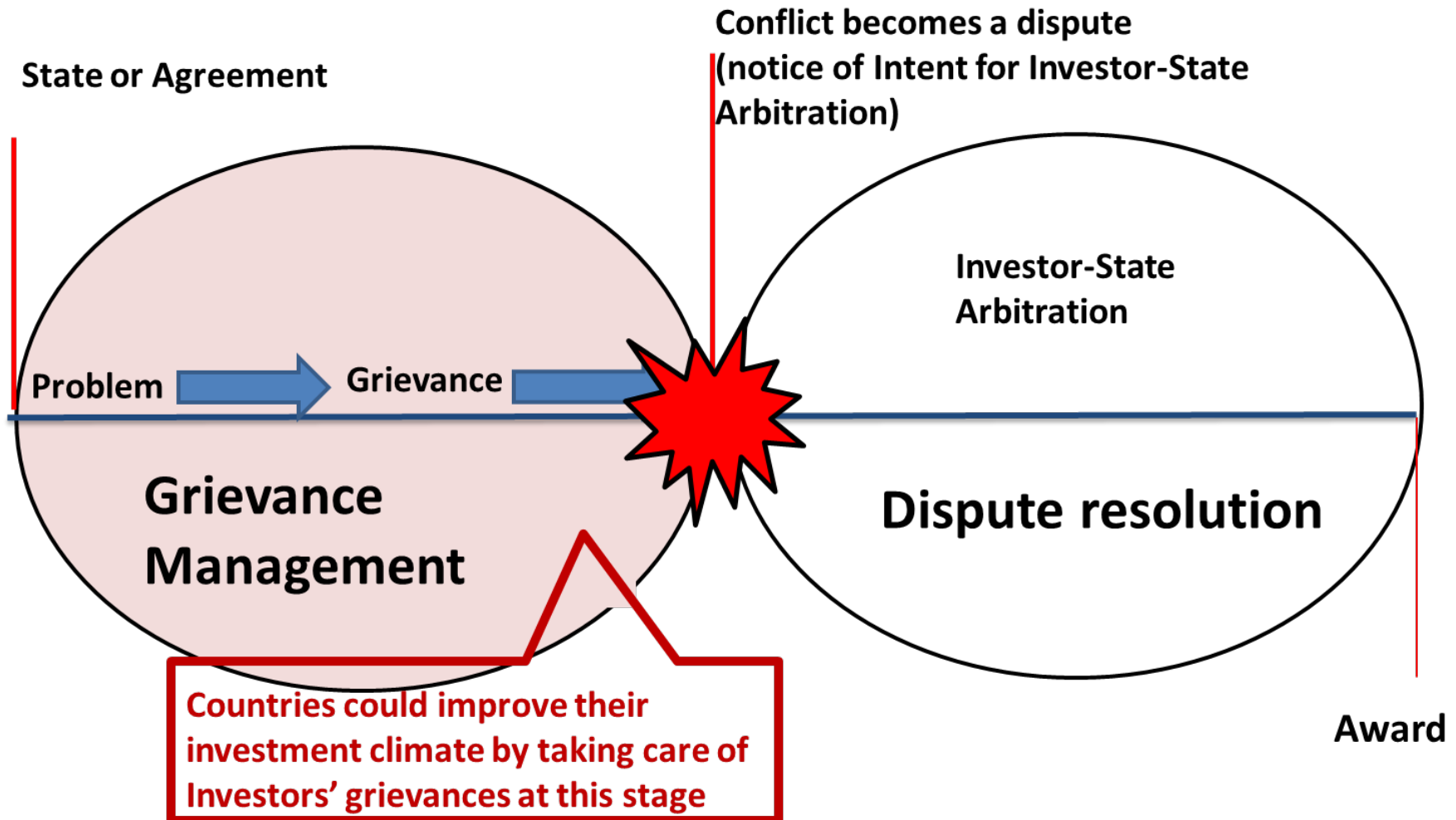
Figure III.13. Known ISDS cases, 1987–2013



Source: UNCTAD, ISDS database.

Note: Due to new information becoming available for 2012 and earlier years the number of known ISDS cases has been revised.

Grievance Management: preventing grievances from escalating to disputes.



Reforms to Maximize Investment Retention and Expansion

Investment retention in practice

Bosnia and Herzegovina



- ▶ Pop.: 3.871.643 (2014)
- ▶ Area: 51.197 km²
- ▶ GDP/cap: \$10.670 (est.)
- ▶ Currency: BAM
- ▶ Landlocked
- ▶ FCAS country
- ▶ Administrations:
 - ▶ 2 entities, (FBiH, RS) and
 - ▶ 1 district (Brcko)
- ▶ Biggest cities:
 - ▶ Sarajevo: 438.443 (2013)
 - ▶ Banja Luka: 199.999 (2013)

The Collaborative Network for Investor Aftercare.

- 2013: Establishment of a **collaborative institutional framework** including State, Entity, Canton and Municipal level governments
- Key objectives:
 - Overcome the complexity of the administrative reality in B&H
 - Proactive joint outreach to companies, to bring solutions straight to the investors' doorstep



How does the network operate?

- ▶ Network of select municipalities and cantons led by investment promotion agency FIPA and Ministry of Economy of RS
- ▶ 4 core areas of collaboration:
 1. Joint aftercare company visits: Network members identify strategic companies and select the composition of team members for visits, including joint visit preparation
 2. Follow-up: Each network member takes on the responsibility to work on solving identified investors' open issues within their own competence and jurisdiction
 3. Investor feedback: Consistent and on-going follow-up with investors on open issues throughout resolution
 4. Monitoring: Periodic meetings among network members to discuss open issues; share experiences and support each other for greater effectiveness

Key Success factors

- ▶ Proactive outreach to investors
- ▶ Grievance resolution at appropriate level
- ▶ Feedback loop: consistent follow-up and seamless communication with investors
- ▶ Issue tracking, effective monitoring and evaluation; 'peer pressure'

Results.

In 1.5 years of operations (mid 2013 – end 2015)

52 total members of the collaborative network

210 companies visited

(Ttl capital investment \$ 1.82 Bn, Ttl jobs 26.952)

418 investor open issues identified

20% solved, 42% in progress of being solved

\$45 million investment and 1.578 jobs retained

**68% of visited companies said they were planning to
reinvest / expand**



Thank you

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Our delivery model

Activities

- Assisting governments in identifying and prioritizing investment policy and promotion measures
- Concrete recommendations
- Implementation support



Outcomes

- Updating regulatory and institutional frameworks
- Streamlining processes and procedures
- Developing systems that foster transparency and predictability.
- Incorporation of new technologies to improve government delivery of services



Impacts

- Generation of foreign and domestic investment
- Investment retention
- Compliance cost savings
- Greater regulatory transparency
- Increased productivity
- Jobs created/retained
- Increased local value addition