1. FDI and its role for growth and development

Foreign direct investment (FDI) and cross border investment flows are a key driver of economic growth and development. At the same time, they bear a great potential for generating growth and development, contributing to the economic advancement of the host and home countries and supporting the achievement of the UN 2030 Agenda and the Sustainable Development Goals (SDGs).

Apart from supplying capital and providing infrastructure, firms investing abroad can contribute to the prosperity of the host country by fostering a diversification of the host economy, creating jobs, enhancing the host country’s skills base, providing technology, knowledge and expertise (technology spill-overs), boosting economic productivity and establishing linkages with local firms, thereby helping domestic business to access new markets and become integrated into global value chains. In addition, FDI can also help spreading good practices, for example in the areas of responsible business conduct and environmental management systems as highlighted by the OECD FDI Qualities project.

2. The OECD’s work matters for investment

The OECD has developed a number of powerful instruments, which can make a major contribution to improve the quality of a country’s enabling environment for investment, including

- The Policy Framework for Investment, which provides guidance to policymakers in all policy fields that affect the investment environment (i.e. legal framework/international conventions/dispute settlement mechanisms etc.).

- The OECD Declaration on International Investments and MNEs, which is a commitment by adhering governments to provide an open and transparent environment for international investment. The Guidelines for Multinational Enterprises, which are supplemented by a number of due diligence guidance documents, represent a comprehensive government-backed responsible business conduct instrument covering all major areas of business ethics.
• The **OECD Codes of Liberalization of Capital Movements**, which constitute a framework for countries to progressively remove barriers to the movement of capital, while allowing them to keep some reservations.

• The **OECD Guidelines for Recipient Country Investment Policies Relating to National Security**, which recommend that investment policies designed to safeguard national security should be guided by the principles of non-discrimination, transparency and predictability of outcomes, proportionality of measures and accountability of implementing authorities.

The OECD also maintains an **FDI restrictiveness index** that serves as a tool for benchmarking countries in a number of domains relevant to FDI.

Moreover, **Business at OECD** welcomes the OECD’s work on investment facilitation and promotion and its Investment Promotion Agency (IPA) network, including the organization of annual workshops and surveys on the management of IPAs. These surveys provide helpful information on the IPA’s institutional choices and organizational characteristics, strategies for investment attraction, monitoring and evaluation tools as well as their approaches to cooperate with external partners.

### 3. Assisting businesses in establishing their operations abroad

Both investment promotion and investment facilitation are key to attracting and retaining FDI. Investment promotion focuses on efforts in promoting a country’s suitability for FDI. Investment facilitation, on the other hand, supports the establishment and operation of FDI with tools (e.g. information portals, online business registration services etc.), policies (e.g. investment protection, good governance laws etc.) and processes (e.g. public-private dialogue, capacity building for IPAs etc.).

IPAs play an important role in this respect. They carry out important functions in the fields of both investment promotion and facilitation:

1. Image building: promoting the host country as a profitable investment destination
2. Investment generation: targeting specific industries, activities, companies and markets
3. Investor servicing: providing practical support to potential investors
4. Policy advocacy: identifying obstacles and barriers in the investment climate and providing recommendations on how they could be resolved
5. Aftercare: retaining investments by supporting investors in the challenges they face after having established their operations
On an additional note, whereas aftercare plays an important role, it is equally important that host countries do not unreasonably block “voluntary divestment”, i.e. investors wishing to withdraw from or cease operation in the host country, which could be perceived as a disincentive to invest in the first place.

The legal status, organizational structures, management practices and resources of IPAs vary greatly across countries. While there is no ‘one size fits all’ approach and consideration must be given to the local economic context, IPAs can also benefit from peer learning and the exchange of best practices.

4. Recommendations for leveraging IPA’s efficiency

Unfortunately, businesses still face a number of barriers in establishing their operations abroad – varying with the target region. On a general note, businesses frequently cite as obstacles:

- Regulatory deficiencies, such as limits on foreign ownership and foreign equity restrictions
- Absence of well-designed investment protection measures and dispute settlement mechanisms
- Insufficient protection of intellectual property (IP)
- Discriminatory screening or approval mechanisms
- Duplicative testing and data requirements
- Informational barriers and lack of legal certainty
- Lack of transparency in law-making such as timely notifications of new regulations
- Constraints on foreign personnel and operational freedom
- Inefficiencies created by forced localization policies
- Low levels of skills among domestic workers
- Insufficient or outdated infrastructure
- High costs of bureaucracy and red tape
- Problems in finding suitable business partners
- Weak safety conditions for infrastructure and personnel
- A lack of good governance and problems with corruption and bribery
- Insufficient management capacity, a lack of foreign experience and linguistic barriers. This is especially relevant to small and medium sized enterprises (SMEs).

IPAs can help address these obstacles provided that their programs are well-designed. Governments should therefore ensure that measures are tailored to investors’ needs and that IPAs:
• Provide comprehensive information on the conditions of business in the host country, ranging from information on infrastructure and labor supply conditions to advice on administrative procedures and regulatory requirements,
• Link investors with potential suppliers and service providers,
• Inform businesses on the availability of financing options and other local investment incentives, and
• Offer practical support in establishing operations, i.e. in obtaining permits and meeting administrative hurdles.

IPAs may further help maintain an active public-private dialogue, which gives businesses, specifically small- and medium sized enterprises (SMEs), a voice. Beyond that, IPAs may contribute to the policy debate, raising awareness of how inward FDI contributes to prosperity and living standards, and emphasizing the importance of implementing existing OECD instruments.

Governments thus need to ensure that IPAs can carry out their functions efficiently, that IPAs do not operate in isolation and that they can act as a linkage between businesses and government officials. IPAs should therefore be granted:

• Sufficient financial resources and capacities for service-provision and investor support,
• Platforms and channels for reaching out to businesses and the public,
• Adequate attention by the part of the government and tailored reporting channels (i.e. regular consultations) for IPAs to provide policy makers with feedback on investors’ needs and concerns.

IPAs often depend on the collaboration with other agencies and organizations - and ultimately, the government. Hence, an IPA’s operations may be hampered by slow and bureaucratic government procedures and regulations. Governments should thus engage in initiatives to reduce administrative hurdles and take into account the specific feedback from IPAs.

Business at OECD underlines the important role that IPAs can play as platforms that provide investors with clear and reliable information. It is therefore important that IPAs possess a good knowledge of the local market conditions, have a good understanding of the investor’s project requirements, maintain an active dialogue with the administration and both local and foreign businesses. IPAs should provide feedback of their practical experience so that policy makers can take it into account as they consider policies that impact the investment policy environment.