



the investment policy reviews



SHAPING INVESTMENT POLICIES AROUND THE WORLD



Preface

At the International Conference on Financing for Development, in March 2002 in Monterrey, Mexico, the United Nations and its development partners recognized the need for broadening and increasing finance to developing countries to assist them and achieve the Millennium Development Goals (MDGs). To this end, foreign direct investment (FDI) was considered as a major potential contributor of productive capital, particularly in countries with low domestic savings. Today, countries at all levels of development seek to attract FDI for development and adopt strategies to promote their investment potential.

The eleventh Conference of UNCTAD (Sao Paulo, Brazil, June 2004, paragraphs 53–56 of Proceedings) mandated the Secretariat to provide investment advisory services and capacity building assistance. This mandate was reiterated at the twelfth Conference (Accra, Ghana, April 2008, paragraphs 146–151). UNCTAD investment assistance and services are thus available to government ministries or agencies dealing with foreign investment for developing countries and economies in transition.

The UNCTAD mandate confirmed the relevance and importance of the Investment Policy Review (IPR) programme, which had been launched in 1999 in response to a growing demand from member States for strategic advice on FDI, with concrete and actionable recommendations. The IPRs provide an independent and objective evaluation of the policy, regulatory and institutional environment for FDI and propose customized recommendations to governments to attract and benefit from increased flows of FDI.

The benefits which countries have gained from FDI include jobs both in the foreign firms themselves and crucially also in local supplier firms; capital investment; and higher exports. Dynamic benefits accrue, for example, from the stimuli to entrepreneurship and innovation as local small- and medium-sized enterprises (SMEs) learn from the foreign investors. However, FDI may also entail risks; and the policy advice provided by the IPRs aims to ensure that the regulatory regime for investment adequately protects the public interest and promotes investment and sustainable socio-economic development.

To date, IPRs have been undertaken for over 30 developing and transition economies, in what has become a respected and influential programme in promoting investment for development. The objectives of the IPRs are to provide analytically-based, practical and effective policy advice to recipient countries on attracting and benefiting from inward FDI. This involves a multi-phase process incorporating a systematic review of the policy and regulatory environment, and the identification of strategic investment priorities for the host country; and, thereafter, implementation and follow-up technical assistance, including capacity building. The principle underpinning the IPRs is to create the preconditions for growth and poverty alleviation by promoting FDI and stimulating its interactions with the local private sector. The starting point has thus been to set in train a series of reforms to the investment framework in recipient countries around the world, and to identify specific policies and strategies for attracting and benefiting from FDI.

The purpose of the present document is one of stocktaking, following the preparation and implementation of more than 30 IPRs over 1999–2011. While this document does not constitute an in-depth economic evaluation exercise, it attempts to shed some light on the impact of IPRs. Its objective is to highlight best

practices in FDI policies for development, and to provide pointers for the future orientation of the programme. The specific objectives of this document are to:

- (1) Review and synthesize the experiences from the IPR programme in respect of the challenges facing developing and transition economies, the reform of countries' investment policy frameworks, and the strategies recommended for attracting and benefiting from FDI.
- (2) Examine the progress of implementation of IPR recommendations as host governments, assisted by UNCTAD and other development partners, take the necessary steps to enact laws and regulations, establish or reform institutions, and enhance marketing and promotion activities. Key areas requiring policy and regulatory reform are presented, innovative strategic programmes are highlighted, and progress with implementation is assessed critically.
- (3) Identify the principal lessons for foreign investment policy and for the role of FDI in the development process from the IPRs undertaken so far.
- (4) Highlight issues and challenges to be addressed in the future strategy for the IPRs, within the existing basic format for the programme.

This document was prepared under the supervision of Chantal Dupasquier and the overall guidance of James Zhan, Director of the Investment and Enterprise Division. It was drafted by Stephen Young, international consultant, and benefited from substantive inputs and comments from members of the Investment Policy Review team as well as UNCTAD colleagues under a peer review process. Irina Stanyukova provided statistical support.

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Abbreviations and acronyms

ACP	Africa Caribbean Pacific	IT	information technology
AGOA	African Growth and Opportunity Act	ITC	International Trade Centre
BITs	bilateral investment treaties	LDCs	least developed countries
BOI	Board of Investment	MDGs	Millennium Development Goals
CEI-RD	Centre for Export and Investment Promotion in the Dominican Republic	NGOs	non-governmental organizations
COMESA	Common Market for Eastern and Southern Africa	ODA	official development assistance
CIS	Commonwealth of Independent States	OECD	Organization for Economic Cooperation and Development
CSR	corporate social responsibility	OFDI	outward foreign direct investment
DTTs	double taxation treaties	PPPs	public-private partnerships
EAC	East African Community	R&D	research and development
EBA	Everything But Arms	RIAs	regional integration arrangements
ECOWAS	Economic Community of West African States	SADC	Southern African Development Community
EPZs	export processing zones	SMEs	small- and medium-sized enterprises
EU	European Union	SOEs	State-owned enterprises
FZ	Free Zone	TNC	transnational corporation
FDI	foreign direct investment	UN	United Nations
GAFI	General Authority for Investment and the Free Zones	UNECA	United Nations Economic Commission for Africa
GATS	General Agreement on Trade in Services	UNCTAD	United Nations Conference on Trade and Development
ICT	information and communication technology	UNDP	United Nations Development Programme
IFAD	International Fund for Agricultural Development	UNIDO	United Nations Industrial Development Organization
IP	Intellectual Property	USAID	United States Agency for International Development
IPAs	investment promotion agencies	VAT	value-added tax
IPR	Investment Policy Review	WTO	World Trade Organization

A. Introduction: The contributions of over a decade of Investment Policy Reviews

UNCTAD's Investment Policy Review (IPR) programme started in 1999 with the first comprehensive assessment of Egypt's investment climate and FDI strategy. Over the following decade, reviews have been undertaken all around the globe, from countries in South and East Asia to Central America, South East Europe and across Africa (see map 1, figures 1 and 2 and annex 1 for details). These projects, which are comprehensive, customized and innovative, have helped to shape the landscape for best practices in investment policy in developing and transition economies.

The IPRs are action-oriented both in terms of preparing an enabling investment environment, and in providing innovative strategies aimed at attracting and benefiting from foreign direct investment (FDI).

Highlights of the Investment Policy Reviews

In order to appreciate the impacts of the Investment Policy Reviews, the main highlights are as follows:

- The IPRs cover a global spread of least developed, post-conflict, middle-income countries and transition economies, with recommendations customized to specific country circumstances. Structured around a sound analytical framework, the Reviews provide expert and specific advice under all circumstances.
- IPRs are flexible and responsive to country requirements. They are initiated at the request of governments and are designed to meet the individual needs of the recipient country, the challenges it faces, and the opportunities it offers for attracting investment. Specific issues have been analyzed at the request of host nations, a pattern which is likely to grow into the future as countries become more sophisticated in their own national planning processes.
- IPRs both drive policy reform and respond to global trends and development philosophies. Of particular importance is the increased emphasis on policy reform designed to stimulate not only FDI attraction, but the growth of the local private sector, and the effective enhancement of co-partnerships for development.
- In the design of the IPRs, UNCTAD coordinates its activities with the work of other development partners (including other UN agencies such as the UNDP or UNIDO, the OECD, the World Bank, national and regional development banks, local development institutions and non-governmental organizations (NGOs)) in order to create synergies and avoid duplication of efforts. Similarly, a collaborative and partnership approach is pursued in the implementation of the recommendations of the reports. The capabilities of UNCTAD itself are provided to participant countries; and UNCTAD cooperates intensively with other development partners to support the implementation of the solutions proposed in the reports.

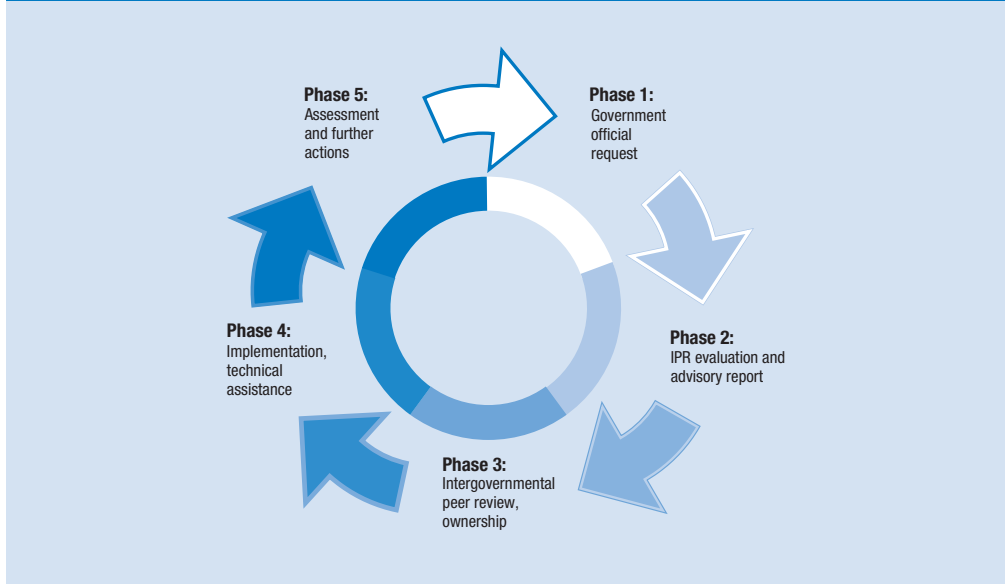
Overall, the IPRs have positively influenced standards for foreign investment policy for development by sharing best practices and consensus-building. At the country level, the publication of the IPR is the beginning of a review and consensus-building process, which entails country ownership of the findings and recommendations of the IPR, national workshops, peer-review mechanism at the UNCTAD Commission on Investment, Enterprise and Development, and the dissemination of the reports.

As illustrated in figure 1, the IPR process takes place in five consecutive phases as follows:

- (i) Request from the national government to UNCTAD, expressing commitment to policy reforms;
- (ii) Preparation of the IPR evaluation and advisory report and its presentation at a national workshop where the government and national stakeholders participate to review the findings;
- (iii) Intergovernmental peer review and sharing of best practices in investment policy in Geneva;
- (iv) Implementation and follow-up technical assistance, including capacity building; and
- (v) Preparation of an implementation report to assess impact and additional follow-up actions.

Throughout this process, UNCTAD interacts closely with relevant ministries and government agencies as well as other stakeholders within the recipient country for ideas, support and buy-in. Crucially the IPRs do not simply provide advice but also focus on implementation.¹

Figure 1. The five phases of the IPR process



Source: UNCTAD

¹ For additional details on the IPR process, see “*The investment policy review programme: A framework for attracting and benefiting from FDI*” www.unctad.org/ipr.

This document takes stock of the investment policy knowledge accumulated through the preparation and implementation of more than 30 IPRs over the years 1999–2011. Section B reviews and synthesizes the experiences from the IPR programme, including the challenges facing developing and transition economies; reforming the investment framework; and the strategies for attracting and benefiting from FDI. Section C reviews the implementation of the IPRs and highlights the role of technical assistance in implementation. Drawing upon the wide-ranging experiences from the IPRs, Section D then draws out the principal lessons for foreign investment policy and for the role of FDI in the development process from the IPRs. The document concludes with Section E which provides pointers for the future orientation of the IPR programme as it continues to shape investment policies in developing and transition economies around the world.

B. Experiences from the IPR programme 1999–2011

The challenges facing developing and transition economies

The challenges for economic development and poverty alleviation in developing and transition economies are well known, with the LDCs facing particularly severe constraints. Adverse geographical, economic and political conditions combined with poor infrastructure (roads, airports, energy and utility supplies and costs), low levels of education and skills, and an unfavourable business climate for private sector development and weak institutions, may interact to perpetuate a vicious cycle of under-development and poverty. Given the huge challenges and demands on resources, FDI has a potentially key role to play in breaking and reversing this spiral into one of positive reinforcement and the creation of virtuous cycles of growth and poverty alleviation. It is this ambitious objective which the IPRs seek to achieve.

A significant proportion of the IPR countries were facing a number of these threats. Small market size is a barrier to market-oriented FDI; and low skill levels acts as a constraint to export-oriented FDI. A landlocked geographical position operates as an additional obstacle given the huge infrastructure investments required to improve transport networks. Finally, political instability, conflict or security risks represent further challenges. Thirteen of the thirty two IPR countries are LDCs, of which eight had small populations (17 million or less) and five of these were landlocked (Burkina Faso, Burundi, Lesotho, Rwanda and Zambia). A number of the LDCs had recently emerged from conflict situations. Some of the larger LDCs were similarly trapped in poverty by factors such as small markets and unskilled labour (Uganda), political instability (Nepal), slow pace of market reforms, bureaucracy and weak institutions (Ethiopia, United Republic of Tanzania); and, generally, meagre infrastructure was a major constraint.

The country mix in the IPRs also includes developing and transition economies, where challenges are of a different nature. This is illustrated clearly in the area of human resources: compared with the challenge of a large pool of unskilled labour in poor countries, in the more advanced developing economies, at least, the human resource problems are associated with rising labour costs, and the requirement to upgrade education and skills (including graduate education) for higher value-added businesses.

A weak private sector was characteristic of many IPR countries, acting, therefore, as a barrier to FDI attraction and restricting the positive linkage and spillover effects. Thus an inadequate backbone of private enterprises limits the downstream benefits of FDI because of weak supply capabilities to meet the requirements of demanding transnational corporation (TNC) customers. Creating a beneficial symbiotic relationship between foreign and domestic enterprises in the development process requires a strong private sector. In addition, finance and banking problems were apparent in a number of countries, derived from banking failures or the need for reform of the financial services sector.

The aims of the IPRs are to make concrete recommendations to overcome some of these specific challenges in areas where opportunities are shown to exist. The IPRs are designed to set in motion a series of reforms to the investment framework in recipient countries around the world, and to identify specific strategies for attracting and benefiting from FDI.

Reforming the investment policy framework

A central element of the IPRs is the analysis of the legal and regulatory framework for investment, with recommendations for reform. The assessments and proposals concerning the investment framework have had a significant impact not only on the economic and business climate for investment, but also on overall private sector development in host economies. Influenced also by multilateral and international trade and investment agreements, the distinction between rules for foreign as opposed to domestic enterprises has substantially been removed. In these ways, the IPRs are playing a crucial role in stimulating overall private sector development and promoting symbiotic relationships between foreign and domestic enterprises.

The proposed reforms to country investment frameworks are tailored to: (i) the country's overall development strategy; (ii) the human and institutional capacity to absorb and implement reforms; and (iii) the country's stage of development. They cover all aspects of the investment framework, and aim to provide a clear strategic vision and a list of priorities.

The assessment is based on a standard set of components of the investment framework covering FDI entry, establishment, treatment and protection, and a wide range of general measures affecting (local or foreign) investment (annex 2).

Among the most critical issues dealt with in the IPRs are those which concern the overall regulatory framework and FDI laws, taxation, labour, competition, land and governance; although all aspects of the investment framework are reviewed and proposals presented for reform.

In some countries reviewed, an extensive reform of the investment framework was required to modernize outdated regulations or to liberalize regulations derived from a country's State-dominated past. And similarly an overhaul of the foreign investment code was proposed in various countries to ensure a more open environment for FDI attraction (Mauritania and Morocco). In Guatemala, particular emphasis was given to reforming the fiscal regime, improving the institutional capacity of government agencies and reducing bureaucracy (box 1). In about one half of the IPRs, governance issues were a major constituent of reform of country investment frameworks, encompassing the content of laws and regulations and their implementation, and the performance of the associated institutions.

Reform of the tax system represented a big challenge in many countries, with investment incentives being special targets. The latter have been criticized as being expensive and often distortionary. Box 2 summarizes

a number of the tax reform measures which were proposed in Nigeria to produce a simpler, more transparent and internationally competitive regime.

Box 1: Improving the general investment framework in Guatemala

Wide-ranging recommendations are presented to overcome major challenges in the areas of the fiscal regime, the institutional capacity of key government agencies, as well as red-tape and administrative efficiency.

I. The fiscal regime: The corporate tax regime fails to produce sufficient revenues to provide essential public services. Also, it favours tax engineering, arbitrage and evasion, and discourages business start-ups. The IPR proposes an integral package of measures aimed at restructuring corporate taxation, including making the current optional regime the standard tax regime; strengthening government powers regarding tax evasion; increasing royalty rates in mining; and introducing rules to regulate transfer pricing.

II. The institutional capacity of key government agencies: Although legislation is modern and liberal, gaps remain in respect of the effectiveness of institutional oversight in regard to:

- Investment policy – for example, introducing dispute alert and resolution mechanisms.
- Competition – dealing with unfair business practices by adopting a competition law and policy, overseen by an autonomous agency.
- Sector regulators – strengthening the agencies regulating sectors such as energy, mining and roads.
- Judiciary – overcoming the slowness and inefficiency of the judiciary by establishing specialized tribunals in the fields of commercial justice and land.
- Environment – strengthening the currently weak environmental agency.
- Intellectual property (IP) – capacity building and improved coordination among the IP authorities.

III. Red tape and administrative efficiency: Information and technology (IT) solutions have been adopted in some areas of government to reduce red tape and improve customer relations in the areas of tax payments, customs and property registration. These reforms need to be extended, focusing particularly upon:

- Company registrations – removing unnecessary steps and duplication by the use of a single electronic registration form.
- Entry of foreign labour – replacing cumbersome and restrictive permissions procedures by an active skills attraction programme to overcome skills shortages and increase the diffusion of know-how to the local workforce.
- Access to secure land titles – cadastral measurement and the identification of land rights should be continued to provide clear ownership titles to those in rightful possession of land. Current procedures are lengthy, complicated and expensive and should be streamlined. Poorer people should receive legal and technical assistance.

Source: IPR Guatemala (2010)

Improving infrastructure is probably the biggest challenge facing developing and transition economies. Infrastructure issues and the significance of the investment framework for infrastructure are assessed in virtually all IPRs. In some cases, detailed analyses of specific infrastructure challenges were undertaken.

Because of the vast costs and complexities of large infrastructure projects and their long timescales, private sector involvement is both necessary and desirable. However, potential foreign investors require a transparent and stable policy framework supported by the rule of law before committing to such projects; and the development of a strong legal and regulatory framework prior to embarking upon FDI attraction is vital for the host country. In effect this means a framework for public-private partnerships (PPPs – usually referred to as ‘concession agreements’) since these are the dominant arrangement for FDI in infrastructure. Box 3 highlights some of the challenges in devising and implementing regulatory arrangements, drawing upon the examples of the Dominican Republic and Guatemala. The box also illustrates the infrastructure bottlenecks associated with rapid growth, drawing on the case of electricity in Viet Nam.

Box 2: Reforming business taxation and fiscal incentives in Nigeria

In many countries, complex, discretionary and sometimes overly generous fiscal incentive regimes have evolved, which are open to manipulation and abuse; and the IPRs have made an important contribution through their assessments and recommendations concerning reform and rationalization.

In Nigeria, as of 2009, corporate income was taxed at a rate of 32 per cent, with a small minimum tax applicable for four years after start-up. The corporate tax base allows comprehensive deductions. Three different categories of fiscal incentives exist, namely:

- **Pioneer industry incentive:** 69 designated ‘pioneer’ industries may qualify for a five-year profits and dividends tax holiday. Minimum capital invested for foreign-owned companies is about \$40,000.
- **Sectoral incentives:** These relate to agriculture, agro-processing, mining, manufacturing and services, some of which are also eligible for pioneer status.
- **Outcomes’ incentives:** These cover exports, including firms located in export processing zones (EPZs); R&D, local sourcing, SMEs, and outward investment.

In addition to documented incentives, the President may exempt any project from income tax or vary allowances.

The IPR included a series of fundamental recommendations designed to provide internationally competitive taxes for all investors (not simply SMEs or those eligible for pioneer status) and obviate use of large-scale incentives, as follows:

- The introduction of a flat 15 or 20 per cent tax rate on corporate income, whilst maintaining and rationalizing current attractive capital allowances,
- Abolishing the pioneer industry scheme.

Restructuring value-added tax (VAT); abolishing the excess profits tax; and concluding double taxation treaties (DTTs) with key investment partners, and to aid Nigerian business within the Economic Community of West African States (ECOWAS).

A similarly comprehensive critique of the fiscal incentive regime is contained in the Investment Policy Reviews of the Dominican Republic, Mozambique and Viet Nam.

Source: IPR Nigeria (2009)

Box 3: Infrastructure development and private-public partnerships (PPPs)

PPPs (concession arrangements) have become the dominant arrangement for FDI in infrastructure and the IPRs are increasingly assisting with advice on existing and planned concessions in infrastructure.

The Dominican Republic has a relatively long history of offering concessions for private development of public facilities and services, including electricity generation, airports and port terminals; and, more recently, concessions have been granted for toll roads. A general law on concessions was introduced in 2006 to establish a universal set of principles and a comprehensive framework; and a number of improvements are contained in a new draft bill. A new statutory authority — Directorate-General of Concessions — was envisaged to plan and award concessions, and to monitor the performance of concession projects.

The IPR makes two key recommendations:

- Concessions should only be conducted where competitive outcomes are likely, including competitive bidding and structuring transactions to ensure competition in the market.
- Highly sensitive public services, such as water and sanitation services should not be concessioned as commercial outcomes would be in doubt.

In addition, questions were raised about the adequacy of dispute settlement provisions, stressing that the proposed conciliation panel should be composed of industry experts rather than academics.

The IPR of Guatemala deals with the attraction of FDI in electricity and roads infrastructure as well as mining as priority sectors at the request of the Government. Some of the issues to be addressed if road concessioning is to succeed include:

- A substantial project pipeline of well-prepared high priority projects should be established to attract investors.
- ANADIE (the national agency for partnerships in economic infrastructure) must be adequately and sustainably funded if it is to develop the capabilities to handle the complex issues involved.
- The prohibition on the concessioning of existing projects is undesirable, and existing roads could be commissioned in particular circumstances.
- Concession projects need political “champions” to overcome red tape barriers and ensure government obligations for project delivery are met.
- ANADIE should be empowered to review the terms of all significant concession contracts to ensure the balancing of public and private sector interests.
- Local capital markets play an important role in concessions; but reforms are necessary to build the local capital market in Guatemala which is poorly developed.

Having experienced huge growth in industrial output over the 1990s and 2000s, by 2008, electricity supply in Viet Nam was becoming a bottleneck, threatening to constrain economic growth and development. Although the Government had already attracted limited FDI in the sector, the IPR suggested reforms in the structure of the market in two stages in order to gradually introduce competition into different segments of the electricity sector. Additional operational recommendations were made to attract investors in power generation. Viet Nam has integrated some of these recommendations in its own long-term plan to guide the liberalization of its electricity sector

Source: IPR of the Dominican Republic (2009), IPR Guatemala (2010), IPR Viet Nam (2008)

Besides skills upgrading, the major issues in the area of labour law concerned labour severance and labour disputes and in particular the employment of foreigners. In the latter instance, regulations and mechanisms for approving work and residence permits required substantial liberalization to support foreign investment and overcome skills shortages. The significant number of countries requiring either new or enhanced competition regulations reflected the requirement to control potential monopolies following privatization and investments in infrastructure, and to provide protection for consumers. Finally, problems of land allocation, ownership and transfer, and specific restrictions on foreigners were also common challenges assessed in the IPRs.

Strategies for attracting and benefiting from FDI

Together with the recommendations concerning reform of the investment framework, the strategies for attracting and benefiting from FDI are the principal practical benefits from the IPRs. Recognizing the challenges facing countries, the proposed strategies provide a roadmap for the country to generate foreign investment, maximize benefits by stimulating the development of local enterprises, and minimize potential costs.

Table 1: Strategies for attracting and benefiting from FDI

Strategy	Number of countries	Overview
a. Developing an overall strategy to attract FDI and to reform the investment framework	6	Reforming the regulatory framework. For Nigeria, an action plan to reform the business climate, including using revenues from natural resources, is presented. The IPRs of Mauritius and Sierra Leone also provide overall FDI strategies based on sequenced priorities and realistic FDI attraction scenarios.
b. Reforming and strengthening investment promotion institutions and national promotion efforts	11	Investment promotion agencies are a major focus of reform efforts in some countries. Examples include: the Dominican Republic CEI-RD; Egypt's GAFI; Mauritania's investment promotion architecture, the creation of a Super IPA in Mauritius; support in the establishment of a one-stop-shop in Nigeria, and the overhaul of the Board of Investment in Sri Lanka.
c. Promoting investment in targeted sectors, including infrastructure	20	Wide range of sectors targeted: infrastructure (13); agri-business (8); hydrocarbons and mining (8); banking and financial services (5); ICT (5); tourism (5); business services (2); others e.g. marine, transport services (5). Some programmes were very focused, as in Guatemala with the attraction of FDI in electricity, roads and mining; others were wide-ranging sectorally (Algeria, Peru) or emphasized particular objectives (El Salvador, Sierra Leone). Nigeria was an exception in respect of country targeting (non-traditional investors such as China, and diaspora FDI).
d. Growing markets through regional cooperation	7	Regionalization strategies reflect small internal markets but opportunities from membership of regional integration agreements exist, including ECOWAS — Benin, Burkina Faso, Ghana, East African Community (EAC) and Southern African Development Community (SADC) — Burundi and Rwanda. TNCs are a driver for regionalization in some countries (Egypt, Nigeria).
e. Privatization, liberalization	5	Privatization programmes in countries with large, inefficient State-owned sectors (Egypt, United Republic of Tanzania, Uzbekistan); and sector deregulation (telecommunications in Mauritius)

Table 1: Strategies for attracting and benefiting from FDI (cont. d)

f. Enhancing private sector development, and collaboration with TNCs	11	(i) measures to develop and strengthen the domestic private sector and stimulate local entrepreneurship and increased absorptive capacity (Belarus, Ghana, Lesotho, Zambia); (ii) policies to promote linkages with TNCs (Algeria, Benin, El Salvador, Nigeria); and (iii) to promote the internationalization of local firms (Colombia, El Salvador).
g. Developing skills and human resources	9	Various programmes designed to build the skills base and upgrade skills (Colombia, Ghana, Mauritius, Morocco, Nigeria), and including the entry of foreign workers (Rwanda, Viet Nam).
h. Building local technological capacity	9	Domestic actions concerning national innovation systems, R&D and technological capacity (Colombia, Morocco); technology transfer (Algeria); technology policies (Ghana and United Republic of Tanzania); and attraction of technology-based FDI (Morocco).

Source: IPR publications, www.unctad.org/ipr

Table 1 summarizes the wide range of strategies proposed by the IPRs, particularly prevalent being strategies for reforming and strengthening investment promotion institutions and national promotion efforts; promoting investment in target sectors; enhancing private sector development, often in collaboration with TNCs; and developing skills and human resources. Proposals to grow markets through access to neighbouring regional markets are of major significance for countries where small internal markets are a barrier to FDI, especially market-seeking investment.

IPRs respond to widely varying country circumstances and two particular cases concerning Sierra Leone and El Salvador are presented in boxes 4 and 5 respectively. The civil war that ended in 2002 in Sierra Leone inflicted huge damage to a small, poverty-stricken country. Since the end of the war, the country has made sound progress in re-establishing the conditions for economic and social development. However, the timescale for overcoming the constraints to FDI attraction was uncertain at the time of preparing the IPR; hence two scenarios were developed to provide dynamic and realistic approaches to the reform process and FDI attraction. For each of the scenarios, guidance is provided on the way ahead to achieving the objectives set, including FDI promotion and targeting.

A different but similarly innovative solution is proposed in the IPR of El Salvador (box 5). As the Review states, El Salvador made a carefully considered and resolute strategic decision to pursue socio-economic development within an open market economy setting many years ago. Reductions in poverty and inequality were central elements of this approach. The IPR thus proposed two routes to attract FDI and generate catalytic benefits for the overall economy, namely, FDI in support of national competitiveness and FDI for sustainable development.

The IPA should have a central role in the marketing of the country to potential investors, from awareness raising and targeting to investment facilitation and aftercare services. Most countries had IPAs, but they varied greatly in their institutional effectiveness, hampered by limitations in funding and lack of professional staff; while others had been established in an era when bureaucratic control over investment decisions was the norm. Thus substantial overhaul of the agencies were sometimes required. In other cases, the IPA was regarded as the major driver of an intense effort to attract FDI as a focus of country reform and development,

Box 4: Tapping international best practices to stimulate investment in Sierra Leone

Two scenarios provide a dynamic approach for the implementation of an FDI attraction strategy:

Scenario 1: A moderate pace of reforms: Focus upon limited objectives by addressing the most serious constraints to FDI attraction, recognizing that FDI potential remains limited. Actions: (i) FDI attraction and promotion strategy focusing upon regional investors; (ii) Basic legal measures to improve the investment framework; (iii) Providing FDI facilitation and aftercare services; (iv) Easing entry visa requirements; (v) Image-building investment promotion.

Scenario 2: Successful reforms significantly improve the investment climate: Actions: (i) Tackling structural impediments to FDI: infrastructure e.g. port development, human capital; supportive legal and institutional reforms; (ii) Strategic sectoral initiatives: mining, commercial agriculture, fisheries, tourism; (iii) FDI promotion and targeting; (iv) Engaging fully in regional and investment development programmes.

The two scenarios are complementary elements of an overall strategy to stimulate investment; and guidance is presented in the IPR on implementation sequencing for these scenarios to address the country's shortcomings and undertake effective promotion and targeting (including country image-building).

Source: IPR Sierra Leone (2010)

and this importance was usually recognized by the central role played by the Presidency in FDI-related promotion activities. Prior to their IPRs, neither Burkina Faso nor Burundi had an IPA and the IPRs provided detailed recommendations for their establishment.

Table 1 also highlights the diversity of sectors targeted, with infrastructure being the most prevalent, followed by agri-business, hydrocarbons and mining; and then banking and financial services, information and communication technology (ICT) and tourism. Some programmes were very much focused; others were wide-ranging sectorally or emphasized particular objectives. Nigeria was an exception in its focus on country targeting (non-traditional investors, particularly China and India), and its proposed programme to attract diaspora FDI. Specific advice was offered to capitalize on the increasing opportunities arising from the surge in South-South FDI flows, which is common to all IPR countries (UNCTAD, 2011a).

The IPRs emphasize the importance of integrating strategies for FDI attraction with those for local private sector development, and proposed strategies, first, to develop and strengthen the domestic private sector and thereby increase absorptive capacity; and second, to promote linkages with TNCs. Among the middle-income countries, a third set of strategies related to promoting the internationalization of local firms, either through technological exports or outward FDI.

The programme recommended in the IPR Nigeria focused on enhancing the development value-added of foreign affiliates in the country (box 6). A strong TNC affiliate presence would help to: bridge capital, management, skills and technology gaps where they were most severe; develop the competence of local companies and the workforce towards international standards; and build world-class affiliate competencies to ensure global competitiveness within the TNC global system. With these ambitious objectives, and based on an affiliate development ladder framework, two developmental affiliates initiatives were proposed, first, an R&D and product development programme; and, second, a supplier linkages programme.

Box 5: FDI as catalyst for national competitiveness and sustainable development in El Salvador

Two broad strategies are proposed to promote the catalytic role of FDI, involving a mix of regulatory, policy and investment promotion measures:

- A. **FDI in support of national competitiveness:** Objectives and actions: I. Achieve global excellence in investment-related regulation and facilitation. Examples of measures: (a) review corporate taxation; (b) bring the customs office to global standards of excellence; (c) ensure an effective implementation and administration of laws and regulations. II. Leverage FDI for skills development and excel in building and training human capital. Examples of measures: (a) promote FDI in higher education; (b) facilitate temporary entry of expatriates with skills in short supply. III. Strengthen infrastructure through FDI. IV. Establish a thriving capital market. V. Foster linkages and internationalize local companies.
- B. **FDI to foster environmentally and socially sustainable development:** Objectives and actions: I. Reform and diversify EPZs, and II. Promote 'green and responsible' FDI. Examples of measures: (a) emphasize environmental, and social, labour and corporate social responsibility issues inside and outside the zones; (b) introduce targeted incentives (replacing current generous tax incentives in the zones) to promote a green and responsible profile for investment. III. Sectoral programmes in tourism and agriculture, focusing upon sustainable development and promotion of SMEs (through contract farming in agriculture).

Source: IPR El Salvador (2010)

Box 6: Innovative programmes to enhance the developmental value of TNCs in Nigeria

A "development ladder" framework highlights increasing value-added to the host economy through a long-term path to world-class manufacturing. Drawing upon this, two developmental affiliates' programmes are proposed:

- I. **R&D and product development programme:** This is a grant-supported programme to stimulate foreign affiliate R&D in collaboration with research institutes. Grant-supported, the objectives of the programme are to: localize/regionalize the product range of participating TNCs; increase the use of locally competitive raw materials in manufacturing; and encourage greater private sector orientation and funding by public sector research institutes.
- II. **Supplier linkages programme:** Learning from past experiences within the country and from best practices elsewhere. UNCTAD has extensive experience in assisting the upgrading of domestic linkages between SMEs and TNCs (as well as the creation of business linkages among SMEs) as evidenced from a number of IPRs.

In addition to these TNC affiliates' programmes, a series of other initiatives were proposed under the umbrella of "Obtaining more developmental value from FDI", namely, regional integration, free zones integration, and people quality programmes.

Source: IPR Nigeria (2009)

Reflecting the constraints posed by small markets, regionalization strategies were proposed for a number of countries as table 1 reveals. These were primarily countries within the ECOWAS or the EAC, and the SADC. Two example cases — Ghana and Kenya — are presented in box 7.

Box 7: Regionalization initiatives in East and West Africa

Ghana: Among a series of six objectives for FDI attraction, one aims to strengthen the Gateway strategy and link it to attracting FDI. The purpose of the Gateway project is to attract export-oriented FDI, through positioning Ghana as a West African hub for import, export and trans-shipment of goods, services and passengers. The IPR identifies potential in: (i) attracting export-oriented FDI in resource-based and labour-intensive industries for global/regional markets, linked to AGOA and ACP-EU partnership arrangements; (ii) attracting foreign investors seeking to establish manufacturing and service activities for the ECOWAS regional market, which is weak and fragmented; (iii) exploiting improving bilateral ties and tariff harmonization with Nigeria, to attract both foreign firms to supply the wider market, and investment from larger Nigerian firms into Ghana.

Kenya: The strategic agenda for FDI identifies four pillars of development, two of which relate to regionalization:

- I. Basic manufactures for the regional market. Despite its lack of global competitiveness, opportunities exist in regional markets as Kenya is relatively more industrialized than its neighbours, and preferential access is provided through membership of Common Market for Eastern and Southern Africa (COMESA) and the EAC.
- II. Kenya as a regional services hub. The growing internationalization of services offers opportunities for Kenya given its strengths in human resources. Kenya is well-positioned to serve as a regional “efficiency” or “excellence” centre.

Source: IPR Ghana (2003), IPR Kenya (2005)

C. The implementation of the Investment Policy Reviews

The preparation of the IPRs is crucial in identifying the requirements for regulatory reform and strategic opportunities, but it is only part of the process leading to FDI attraction and development. The subsequent implementation stage is of fundamental importance, as host governments, assisted by UNCTAD and other development partners take the necessary steps to enact laws and regulations, establish or overhaul institutions, and enhance marketing and promotion. The partnership approach and cooperation with UN agencies (e.g. UNDP, UNIDO and ITC) and other partners (e.g. the EU, the United States, and the World Bank, OECD and national donors) is essential in providing implementation support.

Reports on the implementation of the Investment Policy Reviews

Designed to evaluate the impact of the IPR programme in a given country, the implementation reports are an assessment exercise carried out after at least five years from the completion of an IPR. To date, five reports

on the implementation of completed IPRs have been published for Egypt (2006), Uganda (2007), Ghana (2010), Ethiopia (2011) and the United Republic of Tanzania (2011).

Egypt was the first IPR to be produced and the progress of reform instituted by the IPR in the area of investment promotion and facilitation, from the regulatory, bureaucratic 1990s to the liberalized, market-oriented 2000s is shown clearly in box 8. Although the emphasis is on the activities of the investment promotion agency, the IPR also provided recommendations for sectoral investment targeting in pharmaceuticals, textiles and garments, tourism, and electronics and information technology.

Since the implementation reports were prepared between five and nine years after the IPR, comparisons of degrees of implementation are not feasible. On a country basis, however, the implementation situation was as follows:

- *Egypt*: Implementation was impressive in areas where recommendations focused on the investment framework and investment promotion; although an enormous programme of management reform and training of the civil service was required. Weaknesses in implementation remained in some areas such as labour market, tax and general business administration, competition law, and privatization.
- *Uganda*: Implementation was good in the area of regulation, and mixed in respect of the quality and availability of services provided. Public investment in new capacity generation in electricity had not taken place as recommended; and this together with drought and dependence on hydropower had seriously affected all investors.
- *Ghana*: The overall conclusion was that policies were generally well conceived although implementation was not always consistent. Limited progress had been made on the required regulatory framework and institutions concerning infrastructure development and privatization. Furthermore, bottlenecks identified by the IPR still remained, and in the case of electricity supply, they had worsened significantly.
- *Ethiopia*: Seven of thirty recommendations had been fully implemented, with the majority of the rest at least partially implemented. This applied to the recommendations concerning the Ethiopian Investment Agency, economic development and the agriculture and leather sectors. Recommendations relating to SMEs had largely not been implemented.
- *United Republic of Tanzania*: One third of 49 recommendations had been fully implemented, one third partially and one third not implemented. In infrastructure development, the absence of an implemented PPP policy remained a bottleneck for many projects. Least progress had been made in human resource development and investment promotion.

Generalizing the results for these five countries, the findings indicate, first, that policy design was progressing reasonably well, particularly as concerned the investment framework, whereas challenges remained with implementation. Second, recommendations concerning IPAs and investment promotion were largely or fully implemented in Egypt, Uganda and Ghana, whereas progress was slower in Ethiopia and the United Republic of Tanzania. Third, progress with infrastructure projects remained a major challenge in most countries, a barrier both to the attraction of FDI and to development generally. Finally, in respect of inflows of FDI, these

were quite healthy in most countries; and further implementation of IPR recommendations suggested scope for continued FDI growth.

Box 8: Reforming and strengthening investment promotion activities in Egypt

Until the late 1990s, the General Authority for Investment and the Free Zones (GAFI) was a regulatory body mainly involved in granting business licences, and registering and monitoring industrial investment. Employing around 1,400 workers, its procedures were bureaucratic, time-consuming and inefficient. The IPR presented a set of recommendations for strengthening GAFI and reforming entry and establishment procedures and investment promotion, with four objectives:

Objective 1: To facilitate FDI entry and simplify establishment procedures;

Objective 2: To strengthen GAFI as a promotion agency, characterized by private-sector orientation and a strategy focusing upon investment facilitation, business support and after-care services;

Objective 3: To focus investment promotion on export-oriented FDI, through regional and possibly global export-oriented FDI, reinvestment, and partnerships; and

Objective 4: To upgrade FDI in the free zones.

The report on the Implementation of the Investment Policy Review of Egypt (2006) revealed a strong implementation record. Key actions included: (i) liberalization of FDI entry including the abolition of restrictions for foreign ownership of agricultural land; (ii) the creation of a Ministry of Investment to set performance targets on planned reforms and track their pace of implementation; (iii) reorientation of GAFI's mandate; (iv) the establishment of GAFI as a one-stop-shop including branches around the country; (v) development of a master plan on investment promotion strategy with private sector involvement; (vi) aftercare functions undertaken by the GAFI Investor Relations Unit.

Source: IPR Egypt (2009)

Technical assistance to these five countries has been wide-ranging, with major support (aside from UNCTAD) from the World Bank, which was involved, for example, in the Rift Valley Railways Consortium and the Kampala Business Park's general infrastructure in Uganda; and in the strengthening of the Fair Competition Commission in the United Republic of Tanzania. In Ethiopia, the EU and USAID were involved in disease control in conjunction with tanneries in the leather sector.

The role of technical assistance in implementation

Across the full range of IPR countries, implementation projects are ongoing or have been completed through UNCTAD technical assistance, in cooperation with other development partners. The latter include UNDP, UNIDO together with country donors (Germany, Ireland, Italy, France, Netherlands, Norway, Sweden, and Switzerland) and the Inter-American Development Bank. A number of recipient IPR countries themselves contributed to project funding alongside donors. Details of the completed follow-up projects are summarized for six countries (Botswana, Colombia, Ecuador, Lesotho, Peru and Sri Lanka) in table 2. One major theme in these technical assistance activities is the improvement of the investment framework, including regulatory reform, the drafting of a new FDI law, corporate taxation reform and the development of free zones. Ongoing projects range from the establishment of an Empretec Centre in support of entrepreneurship development

(the Dominican Republic), and the implementation of a skills attraction strategy (Rwanda), to the introduction of a new competition policy and agency (Belarus, the Dominican Republic, Guatemala).

Complementing the IPRs, UNCTAD received funding from the Japan Bank for International Cooperation to prepare *The Blue Books on Best Practice in Investment Promotion and Facilitation*. These Blue Books identified measures recommended by the IPRs which could be implemented within a period of 12–18 months, and have been prepared for eight countries. The measures included a range of support systems for IPA activities such as computerized tracking systems, establishing a digital one-stop shop, implementing a targeted investment promotion strategy, and training in client-orientation. In addition, pilot business linkage schemes were implemented in some countries; as well as revising and negotiating BITs and DTTs, and enacting new laws on competition, taxation, labour and transfer of land rights.

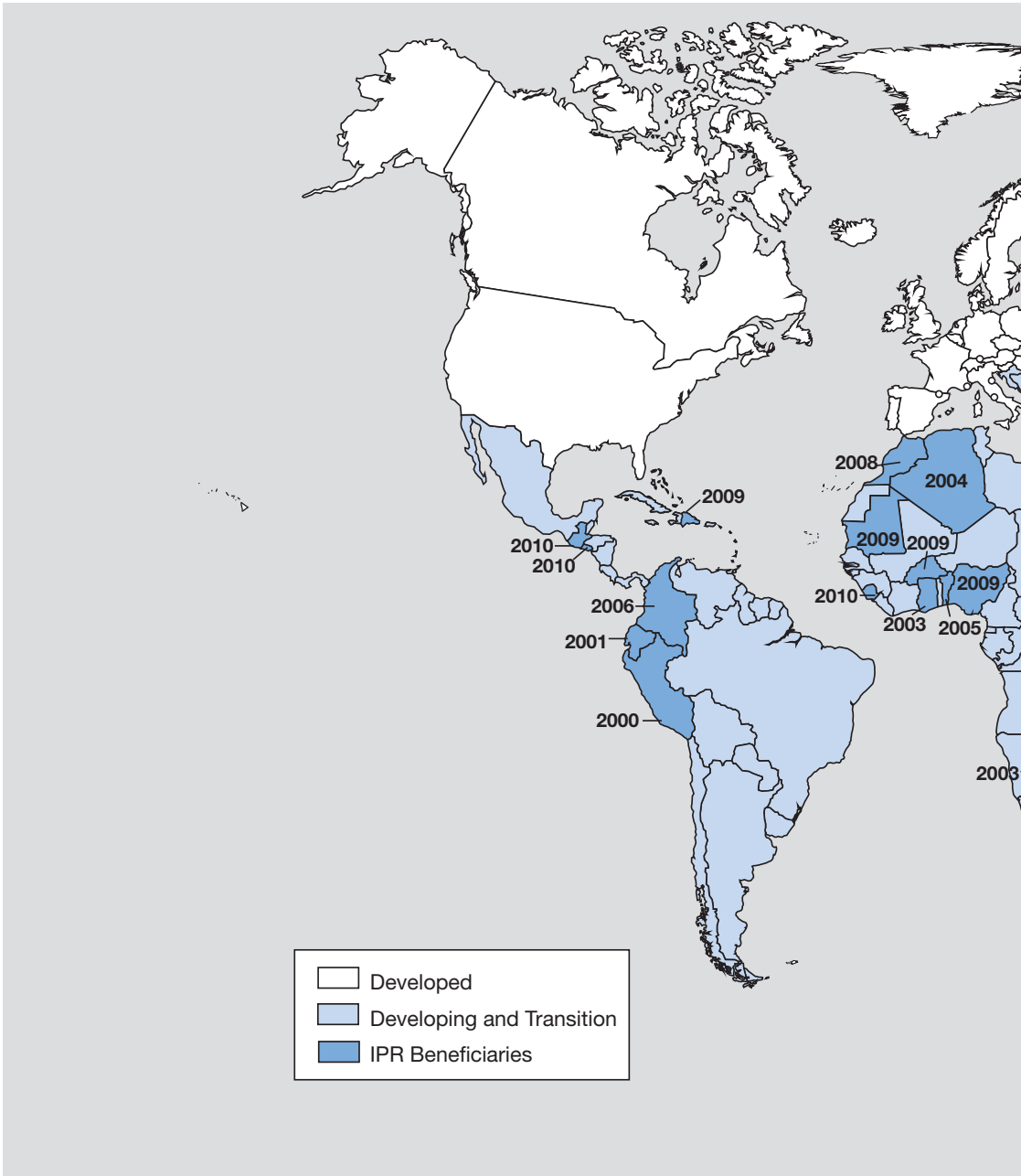
Besides, the activities implemented with UNCTAD's assistance (alone or in partnership), numerous IPR countries have also progressed with implementing the recommendations on their own, sometimes several years after the completion of the IPR. This is the case with fiscal reform in Mauritius, which followed the IPR recommendations several years after the report. A further illustration of the implementation of the IPR recommendations relates to Nigeria with its reform of the land code, as well as the review of fiscal incentives and other investment allowances designed to streamline the fiscal regime.

Overall the contributions of the IPRs in terms of programmes implemented are significantly positive. The focus on the investment framework in many of the projects is crucial in terms of establishing the preconditions for generating foreign and domestic investment. And the emphasis on investment promotion is similarly significant in informing potential investors that the country is “open for business”. The next section of this paper provides an assessment of the impact IPRs have had on beneficiary countries.

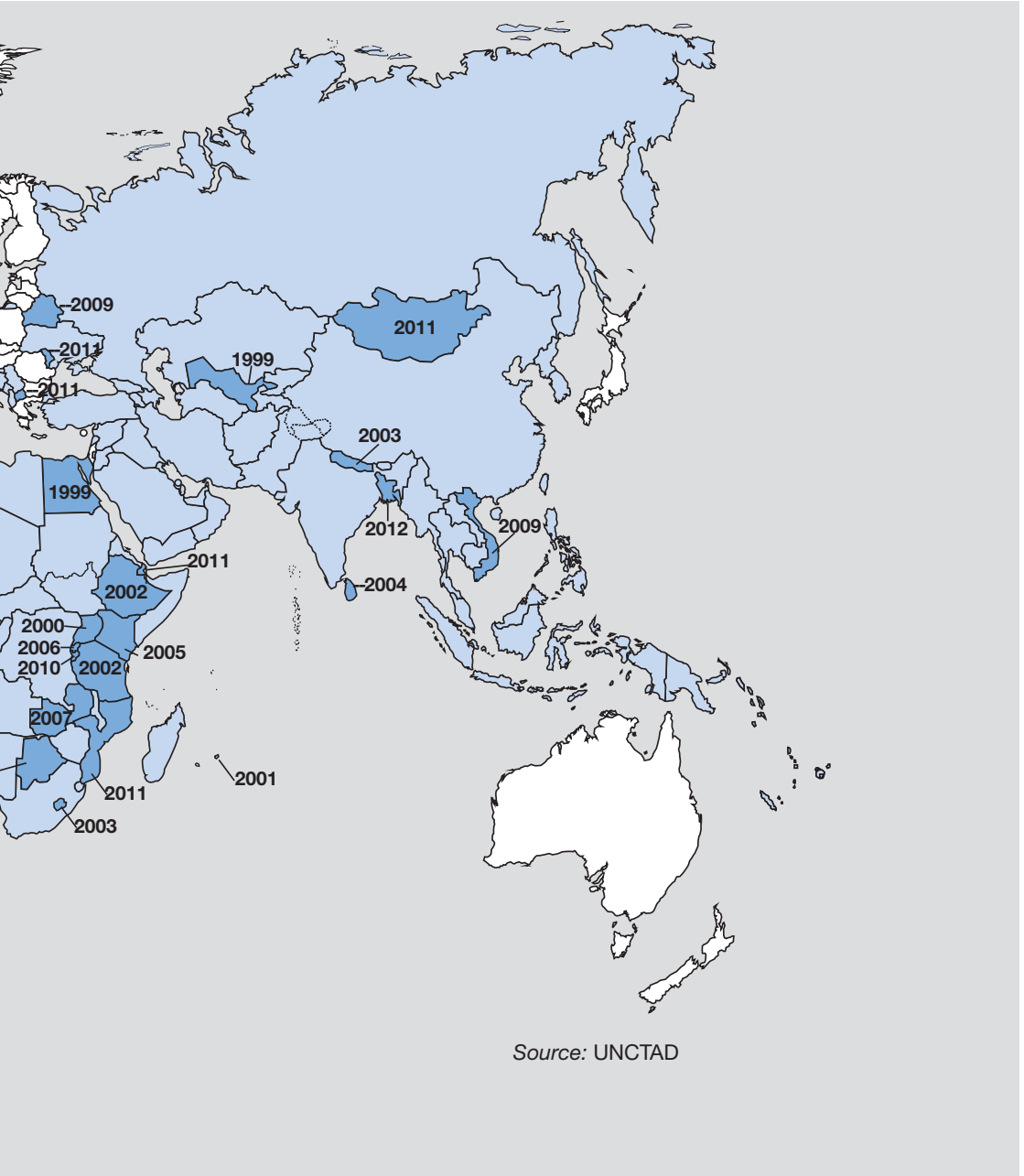
D. Assessing the impact of Investment Policy Reviews

This section sheds light on the quantitative and qualitative impacts of the IPRs. The country diversity, the incidence of external and internal economic shocks, the differing IPR completion dates and the challenge of attributing responsibility for results make it difficult to precisely assess impact. Taking into account these challenges, it is nevertheless possible to provide evidence of the IPR impact at three different levels — country's commitment and endorsement of recommendations, effect on investment flows, and improvement of the investment framework through implementation of recommendations.

Map 1: IPR B



ENEFICIARIES



Source: UNCTAD

Table 2: Completed follow-up technical assistance in selected countries

Country	Year of IPR completion	Examples of activities undertaken
Botswana	2003	<ol style="list-style-type: none"> 1. Investment promotion strategy and drafting investment law 2. Integration of FDI into national development strategy 3. Training of government officials on negotiations of bilateral investment treaties (BITs) 4. Assistance in the preparation of model BIT 5. Benchmarking study of best practice rules on entry of foreigners to the workforce 6. Investment promotion strategy for garments and textiles
Colombia	2006	<ol style="list-style-type: none"> 1. Workshop on methodology of FDI data collection and analysis 2. Support for national regulatory reform 3. Assisted government in drafting of new investment code 4. Training of government officials on issues in international investment agreements
Ecuador	2001	<ol style="list-style-type: none"> 1. Formulation and launch of investment promotion programme and development of the Ecuadorian Investment Gateway 2. Formulation of 10-year national plan on investment promotion and policy reforms 3. Training workshops on investment promotion, policy advocacy, governance, consensus, image building, aftercare
Lesotho	2003	<ol style="list-style-type: none"> 1. Drafting of FDI law 2. Benchmarking of work and residence permit systems 3. Training course on good governance in investment promotion and facilitation
Peru	2000	<ol style="list-style-type: none"> 1. Investment targeting strategy – general and agro-industry 2. Advice on corporate taxation reform, customs duty arrangements and free zones development 3. Investment Gateway tool and capacity building programme in investment promotion and targeting 4. Development of investment promotion tools and pilot investment promotion event 5. Investment promotion workshop for Peruvian diplomats 6. Investor targeting strategy
Sri Lanka	2004	<ol style="list-style-type: none"> 1. Advice on restructuring of Board of Investment (BOI) 2. Training workshop on investment promotion 3. Drafting of foreign investment law

Source: IPR publications, www.unctad.org/ipr

The importance and relevance of the IPR work is reflected by the positive feedback received from beneficiary countries and development partners (box 9) and by the involvement of Heads of States or Governments in the process and their commitment to implement its outcome. In most cases, the IPRs have been presented to and discussed with Heads of States and Cabinet Ministers. For example, the Minister of Economy of Guatemala discussed the IPR recommendations with the Secretary-General of UNCTAD and played an active role in the IPR national workshop in Guatemala City. The Minister also participated in the ensuing activities, including a high-level briefing session with Cabinet Ministers chaired by the Vice-President.

Box 9: The IPRs are recognized as a useful process by beneficiary countries and development partners

The declaration of the G8- Summit in Heiligendamm in June 2007 recognized the IPRs and follow-up actions as a *valuable mechanism* for investment climate assessment (par. 19).

FDI is a fundamental ingredient for development and the Investment Policy Review of Guatemala constitutes a key impulse to the national dialogue on the reforms necessary to attract much needed investment. Erick Coyoy, Minister of Economy, Republic of Guatemala.

...we welcome the findings of the IPR, many of which have already been mainstreamed in our national development strategy – the Agenda for Change. Samura M.W. Kamara, Minister of Finance and Economic Development, Sierra Leone.

We appreciate the work of UNCTAD on Investment Policy Reviews (IPRs) which have helped developing countries to create an enabling environment for investment, but also to provide the opportunity to learn lessons and best practices in a more in-depth and comprehensive manner. Desra Percaya, Ambassador and Deputy Permanent Representative of the Republic of Indonesia to the United Nations, WTO, and other international organizations in Geneva.

The LLDC group wishes to commend UNCTAD for their works on Investment Policy Reviews (IPRs), which have supported developing countries to create the conditions to strengthen the environment for investment. Federico Gonzalez, Ambassador and Permanent Representative of Paraguay on behalf of LLDCs.

The OECD in “The DAC Guidelines: Strengthening Trade Capacity for Development, 2001” endorsed UNCTAD’s Investment Policy Reviews as a useful mechanism to raise awareness of constraints to investment in developing countries, and help ensure coherence between regulatory regimes and overall development goals.

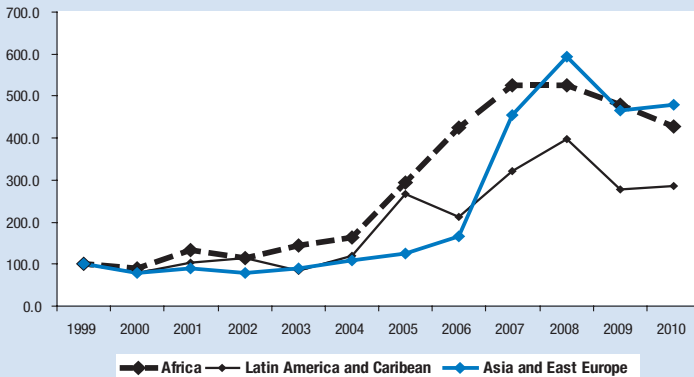
Source: UNCTAD

Furthermore, Cabinet Ministers and Ambassadors from beneficiary and partners countries systematically participated in the intergovernmental presentations of the IPRs which took place in Geneva in the context of the Investment, Enterprise and Development Commission. Another way to attest to the expression of interest in the IPRs is illustrated by the increasing number of requests for the programme, including its follow-up technical assistance.

With respect to investment flows, IPR countries across different regions experienced — in some cases sharp — increases in FDI inflows (figure 2). While these increases partly reflect the ongoing internationalization of production, they were also driven by greater openness towards foreign investment and more importantly by an improved investment framework due to effective reform.

In addition, as figure 3 suggests, African countries that have undergone an IPR have experienced lower volatility in FDI inflows between 1999 and 2010. While a causal relationship between FDI flows and the implementation of IPR recommendations cannot be directly assumed from the patterns observed, it is nonetheless pointing to the fact that these countries were ready and willing to reform their investment climate.

Figure 2. FDI flows to IPR countries on the rise, 1999–2010
(1999=100)



Source: UNCTAD

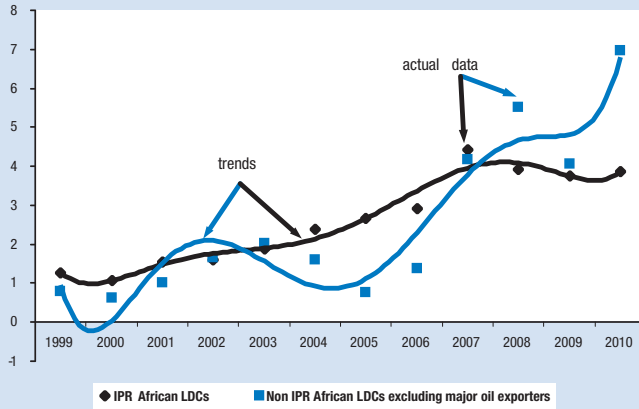
Looking at the FDI performance by country also suggests an overall positive impact of IPRs. All the 21 countries for which the IPR has been published more than three years ago have indeed experienced an increase in FDI inflows. And for 13 of them, such increase has been dramatic, with FDI inflows having more than doubled in the following years (figure 4).²

A different and perhaps more direct way of looking at the impact of IPRs over the years is to take stock of their incidence on national policies and on the ensuing reforms to the investment climate. This report contains several references to the policy reforms adopted by IPR countries and the implementation of IPR recommendations. International doing business indicators confirm the reform drive of IPR countries. For instance, among the 38 top reformers in the World Bank’s Doing Business indicators between 2005 and 2011, 16 of them are IPR countries.³

² The calculations are based on the percentage change between the average annual FDI inflows for the three years leading to the publication of the IPR and the years following it, up to 2010. Overall, the results lead to the same qualitative conclusion if we limit the sample to three years after the publication of the IPR. It is however legitimate to include more years whenever possible as the effect of reforms usually take time to materialize.

³ Based on *Who advanced the most in closing the gap to the frontier?* Figure 19 of “Doing Business in a more transparent world”, World Bank, 2012.

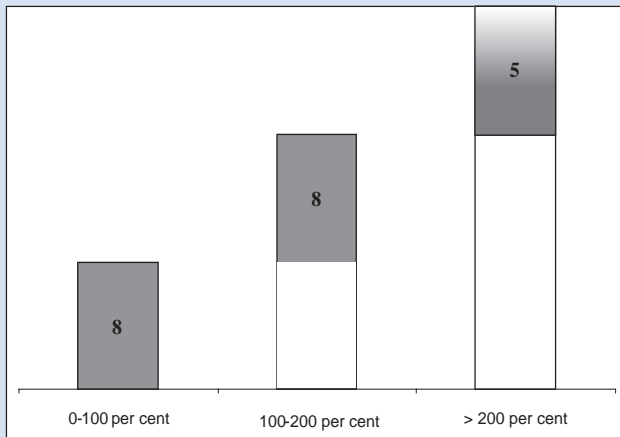
Figure 3. FDI flows to IPR countries display lower volatility
Billions of dollars



Source: UNCTAD

Notes: Polynomial regressions are used to estimate the trend FDI inflows in two country groupings: African LDCs that have benefited from an IPR and the African LDCs excluding oil producers that have not had an IPR. The definition of major petroleum exporters is based on UNCTAD Statistical Yearbook 2010.

Figure 4. FDI inflows increase after the publication of the IPR
(Number of countries experiencing positive FDI growth in each range)



Source: UNCTAD

E. Lessons from the Investment Policy Reviews

There is little question that the wide range of the IPRs and the lengthy history of the programme mean that important lessons can be drawn for the investment policy-making process and for development in LDCs, developing and transition economies. The evidence cited in this synthesis of the IPR programme reveals that inward FDI and TNCs do have a significant role to play: the huge infrastructure needs are one example of this, but the interactions of foreign investors with the local private sector are critical too. Attracting and benefiting from FDI, furthermore, places major responsibility on the host country government in devising and implementing appropriate policies and regulations in areas such as human resource development, taxation and other dimensions of the investment climate; and in creating effective institutions to ensure compliance and reduce corruption.

Ten key lessons emerge from the IPRs. These are:

1. FDI policies for development evolve,
2. Regionalization initiatives are of major significance, especially for the poorest countries,
3. Infrastructure matters greatly, and remains a formidable challenge,
4. Building human resources requires long-term commitment and policy innovation, including both internal and external initiatives,
5. Reform of the investment framework is a key precondition for both FDI attraction and private sector development,
6. Reform of fiscal regimes should focus on core principles,
7. The local private sector is critical to improving the benefits of FDI,
8. Effective institutions and implementation of laws matter greatly as part of improving public governance,
9. An effective IPA is a key institution for success in FDI attraction and facilitation, and
10. FDI can play a significant role in the development process, but it is not a panacea.

1. FDI policies for development evolve

Economic conditions change with development, and FDI policy — and perhaps regulations — need to be adjusted accordingly. Thus there are links between phases of economic development, the challenges facing countries and the required FDI policy responses. For the poorest countries (where political instability and conflict plus HIV/AIDS may add to the locational problems), the challenges concern the meagre infrastructure, unskilled labour and a range of investment framework issues such as basic laws pertaining to FDI.

Recent evidence indicates that violence is a primary cause of poverty (World Bank, 2011). However, with the cessation of hostilities, the experience of the IPRs in the post-conflict countries is cautiously optimistic. A period of stability can permit rapid progress towards the re-establishment of basic institutions and rule of law, and in providing a supportive environment for business, including FDI. In this context, targets for

FDI attraction have to be realistic but opportunities do exist. Rwanda and Mozambique constitute striking examples in this regard.

For the more advanced developing countries, infrastructure and human skills still represent challenges as they seek to move into higher value-added sectors and activities. However, these are of a different dimension, relating, for example, to the effects of infrastructure weaknesses in retarding competitiveness, reflected in high telecommunications charges; and to human resource development factors including rising labour costs, weaknesses in education in science, engineering and technology, and the limited pool of skilled professionals. Issues such as R&D financing and performance, attracting technology-based investment and outward FDI, are more significant in the advanced developing economies. Similarly, problems of weak governance come into sharper focus in the middle-income countries (although problems of poor implementation of laws and corruption exist in many economies). The IPRs of the Dominican Republic and Guatemala have identified these issues as key roadblocks to further developments.

The challenges for the economic development process are different again in transition countries — Uzbekistan, Belarus, and the former Yugoslav Republic of Macedonia — where the starting point is that of opening up and reforming the economy for all investors. It may be easier to encourage new privately-owned start-ups than it is to reform large, bureaucratic State-owned enterprises (SOEs) in such countries. Thus the IPR of Belarus focuses strongly on SME initiatives, namely, removing obstacles to SME development; and adopting targeted policy interventions to foster the developmental role of FDI for the SME sector (box 10). Empowering SMEs is recommended as a central policy plank in the former Yugoslav Republic of Macedonia too.

2. Regionalization initiatives are of major significance, especially for the poorest countries

Countries with small populations and low incomes, and particularly those that are landlocked and/or have a large land area are at a severe disadvantage for the attraction of market-seeking FDI. At the same time, LDCs, in particular, remain at the margin of global value chains, despite positive examples in agricultural products in Ethiopia and Mozambique.

In Africa, regionalization initiatives are becoming of major significance. The stimuli to regionalization are threefold: first, regional integration agreements (RIAs) are beginning to evolve into genuine free trade areas with large market potentials, although political rivalries and differences in income levels between countries still remain a challenge to progress. The expansion of the EAC to include Burundi and Rwanda has created a market of 130 million people with a combined GDP of over \$70 billion. Labour mobility should soon be possible. Second, development partners are promoting regional integration as a core of aid for trade programmes. The revised ACP-EU-Partnership Agreement, for example, is strongly promoting regional integration as a mechanism for fostering cooperation and peace and security, in promoting growth, and in tackling cross-border challenges. The continental dimension is also recognized with the African Union as a partner of the EU-ACP relationship. Third, the TNCs themselves are also integrating strategies regionally in Africa: as the IPRs revealed, this is occurring in East and West Africa where RIAs exist, as companies seek to expand markets and develop integrated value chains. In North Africa too there were illustrations from the IPR Egypt, as long ago as 1999, of TNC affiliates with regional export mandates, and of regional

product specialization, including continental Europe and North Africa. Regionalization programmes are recommended in a number of IPRs and will become increasingly common in future.

3. Infrastructure matters greatly, and remains a formidable challenge

The standard of physical infrastructure is of paramount importance for the provision of basic services to consumers and for facilitating business activity, both domestic and foreign, in the host country. The quality of infrastructure is also a major determinant of FDI attraction. Accessing the huge sums of money necessary for investment in telecommunications, transport and utilities is a critical challenge. The outcome is that specific proposals for FDI in infrastructure are presented in many of the participant country IPRs. Providing the legal and regulatory framework, accessing the international investors and undertaking the projects are proving formidable challenges as the IPR implementation studies reveal.

UNCTAD, through its country case studies on best practices, is developing the core expertise to assist developing countries attract FDI in critical sectors, and its lessons for FDI in infrastructure are presented in box 11. There are no panaceas or quick fixes in most areas of the physical infrastructure:

Box 10: Supporting SME development through FDI in Belarus

Private investment, both domestic and foreign, is low in Belarus compared to most other CIS countries; and, at the request of the Belarusian authorities, a strategy was devised to attract increased FDI flows and to support SME development through FDI. Features of this were as follows:

I. Enhancing the general investment climate in the areas of general taxation, labour, land, competition and licensing, as a precondition for stimulating both FDI and the Belarusian private sector.

II. Removing obstacles to SME development by addressing SME-specific constraints, namely, simplifying the taxation system, removing most price controls, reducing and simplifying the complexity of regulations and administrative barriers, and business education.

III. Adopting targeted interventions to foster the developmental role of FDI for the SME sector:

- **Attracting FDI to specific sectors** with the greatest development impact.
- **Strengthening the absorptive capacity of the local SME sector** through initiatives such as entrepreneurship and innovation capacity-building programmes (e.g. UNCTAD's Empretec programme), and fostering relationships between SMEs and academic institutions for knowledge transfer.
- **Designing specific linkage policies** involving local SMES, large domestic enterprises and TNCs. The recommended programme requires: (a) developing a 'critical mass' of buyers to ensure sufficient demand for backward linkages to take place; (b) fostering the emergence of a pool of qualified SMEs that can meet the requirements of large domestic enterprises and TNCs; and (c) developing a selection mechanism to ensure compatibility in competences and relationships.

Source: UNCTAD

- (i) Efforts to increase private sector involvement through PPPs remain of particular importance, with TNCs having a principal role;
- (ii) However, in the poorer countries, donor support and public investment remain vital to the provision of basic infrastructure services;
- (iii) Countries must develop a strong legal and regulatory framework, preferably prior to the entry of investors, and secure the capacity to facilitate and regulate the projects; and
- (iv) Opportunities for smaller-scale initiatives, involving new players and appropriate technologies should be sought, including, for example, “impact investments” (the explicit incorporation of social, environmental and developmental objectives into the fabric of business operations), Simon and Barmeier (2010).

McKinsey & Co. (2011) data indicate that the private share of investment in transport and energy in Africa is only 11 per cent, and as little as 6 per cent in water and sanitation. This compares with the upbeat story of ICT development in Africa, where the private share of telecommunications investment is as high as 62 per cent. Mobile telephony penetration is increasing dramatically in developing countries, with positive impacts upon employment in the industry itself and associated sectors; the development of labour force skills; higher productivity, including benefits to small and micro-enterprises; and new firm formation associated with new, innovative services.

Box 11: Best practice lessons for FDI in infrastructure

Stage	Lesson
Laying the foundation for FDI in infrastructure	<ul style="list-style-type: none"> • Develop a strong legal and regulatory framework prior to the entry of FDI • Secure the capacity and skills to facilitate and regulate private investment in infrastructure • Empower high level task force to catalyze necessary reform • Develop an integrated strategic infrastructure plan identifying key needs • Proactively address community and stakeholder expectations
Promoting and facilitating the entry of FDI	<ul style="list-style-type: none"> • Create a ‘pipeline’ of pre-assessed, commercially attractive projects that can be actively promoted • Open the bidding stage to as many investors as possible • Ensure that contracts take into account key issues over the project lifespan • Help mitigate political and regulatory risks faced by foreign investors
Ensuring effective and efficient project implementation	<ul style="list-style-type: none"> • Monitor and follow up on project implementation • Understand and pay attention to competition issues • Private and State-owned players can co-exist within a competitive framework

Source: UNCTAD, (2011b)

4. Building human resources requires long-term commitment and policy innovation, including both internal and external initiatives

Experience from the IPRs shows that building human capital is essential for a country's long-term development prospects. Building human capital is a process requiring long-term commitment and large-scale investments in the educational system at the primary, secondary, and tertiary levels as well as in vocational training. Externally, FDI can play a role through links with foreign universities at tertiary level. In addition, a carefully planned immigration policy can contribute by filling temporary gaps in skills and by promoting transfers of know-how and skills development.

The availability and costs of semi-skilled and skilled labour has been established as a major determinant of FDI attraction and contribution; and the deficiencies highlighted in the IPRs identify human resources as a key development constraint in developing and transition economies. The solutions proposed to challenges focus on three issues: (i) reform and liberalization of labour laws; (ii) work permits and residence systems, specifically designed for the entry of foreign workers and skills upgrading; and (iii) investment in education, especially at university level. Box 12 presents Rwanda's highly innovative programme developed in cooperation with UNCTAD for skills attraction and dissemination, including "investor permits" for skilled individuals investing in Rwanda, and business investment and mentoring initiatives.

The issue of facilitating the entry of foreign workers is highly sensitive in many countries; and rigid and restrictive systems of allocation of work permits for foreigners exist. Viet Nam operates such restrictive regulations even though it suffers from a shortage of skilled labour in a number of fields, which is likely to become more acute. This IPR develops detailed proposals for the employment of foreigners, encompassing a skills audit, and work permits and skills transfer policies.

In the development of local skills, some TNCs in Nigeria have resolved their problems of education standards through increased investment in training. Otherwise public investment in university education is regarded as the general response to skills shortages in the higher income developing countries of Africa and Central America. In the IPRs of El Salvador and Nigeria, however, proposals are presented for FDI in education, through the establishment of world-class business schools as joint ventures between leading global universities and local partners. Business schools are globalizing rapidly, aided in part by liberalization within the General Agreement on Trade in Services (GATS) in the WTO. The El Salvador IPR extends such proposals to develop a strategy for FDI in education incorporating regulatory, policy and institutional measures. Regulatory measures include removing barriers to FDI in education and strengthening quality controls on universities; while policy and institutional measures concern, for example, promoting region-wide recognition of qualifications, and building bridges between universities and the private sector. This provides a model which has transferability at least among the more advanced developing nations.

Box 12: Rwanda's Skills Attraction and Dissemination Programme

The IPR's highly innovative and unconventional recommendations for Rwanda comprise: (a) moving towards a centre of excellence in soft infrastructure (good governance, filling gaps in business regulation and taxation, and informing the world), and (b) a skills attraction and dissemination programme. These initiatives are designed to be at the core of Rwanda's FDI promotion strategy.

The **Skills Attraction and Dissemination Programme** aims to fill gaps in technical, managerial, entrepreneurial and professional skills which will not be easily closed by the formal education system, with three policy measures proposed:

- I. Skills dissemination and expatriate employee scheme:** (a) A revised expatriate employee scheme was proposed to ensure employers have access to the skills they need, whatever the formal level of education required. (b) Dissemination of skills would be optimized by company-wide training and localization obligations, linked to the number of expatriate workers and/or turnover.
- II. Full-fledged business talent scheme:** Recognizing the benefits of attracting individual investors, this initiative was based around the provision of "investor permits" for skilled individuals investing in Rwanda, with minimum capital requirements to prevent illegitimate use of permits by non-residents. Features of the permits include: (a) their extension to family members living abroad who could work in the business; (b) a requirement for permit-holders to set up training schemes for their national workers; (c) guarantees of permit renewals; (d) imposition of language requirements to promote the integration of newcomers into Rwanda's social fabric; (e) a range of attractive measures to incentivize investors.
- III. Business mentoring scheme:** This would link up (a) retired business executives who are willing to put seed capital into Rwandan companies and contribute their expertise part-time, with (b) promising Rwandan companies seeking additional capital and business expertise.

This programme was being implemented with the support of the German Government and the One-UN initiative.

Source: IPR Rwanda (2006)

5. Reform of the investment framework is key precondition for both FDI attraction and private sector development

A major contribution of the IPRs concerns the practical advice provided in reforming and modernizing the investment framework in host countries. Required reforms range from a complete overhaul of the investment code and general policies to stimulate private sector development, to a wide range of detailed business-related measures. These legal/regulatory reforms are of enormous value in providing a secure and stable environment for both foreign and domestic investors, as well as ensuring adequate protection of the public interest. The non FDI-specific components of the investment climate show how policy measures affecting all businesses (taxation, access to land etc.) have a strong impact on a country's FDI attractiveness. And generally there have been moves towards a uniform investment framework, under the influence, for example, of WTO rules concerning national and non-discriminatory treatment.

Among a range of significant conclusions are:

- (i) The frequent discrepancies between legitimate policy objectives, the policy tools utilized to achieve them and their implementation (e.g. labour protection, taxation or competition).

- (ii) An over-reliance on fiscal incentives and uncompetitive fiscal regimes.
- (iii) The requirement for competition policy and the creation or strengthening of the related institutions to avoid monopolistic behaviour, including improving protection of consumers.
- (iv) A requirement to strengthen the legal framework in land to facilitate access to and transfer of land titles (point 7 below).
- (v) Caution is required in signing up to international investment agreements, and the coherence of the international commitments with the domestic legislation and practice should be monitored so as to protect the country's policy space and avoid an upsurge in investor-State disputes. More generally in this regard, care is required in providing advice to countries when the outcome may be to weaken the rights and strengthen the obligations of countries vis-à-vis TNCs.
- (vi) Significant improvements in the investment climate will not be fully realized without concomitant improvements in institutional performance.

6. Reform of fiscal regimes should focus on core principles

The IPRs have also had an impact on the reform of fiscal regimes emphasizing core principles of simplicity, predictability, and the promotion of development goals, while ensuring adequate revenue streams to finance public expenditures.

Evidence from the IPRs reveals tax regimes and fiscal incentives which were:

- (i) Overly complex and hence lacking in transparency (Morocco), imposing very high administrative costs both upon investors and tax authorities (Nigeria, Viet Nam);
- (ii) Unstable and unpredictable, leading to investor confusion and loss of confidence (the Dominican Republic, Ecuador);
- (iii) Attractive for investors, but may encourage tax engineering, arbitrage and evasion, discourage start-ups and fail to produce sufficient revenue to provide essential public services and address the social and economic needs of the majority of the population (Guatemala); and
- (iv) Are not sufficiently targeted to promoting specific development goals, including technological upgrading, job creation and cluster development (El Salvador, Mozambique, Rwanda).

In a number of countries, general corporate taxation has been high but then significantly reduced by incentives, where, as in Viet Nam, almost everyone benefited. Hence the first basic lesson of reform has been to put in place a competitive general regime and in so doing simplify the tax system and reduce the transaction costs to investors. A competitive corporate tax regime is provided for all businesses, with the flexibility to support specific measures targeted, for example, at upgrading, innovation and value chain development.

This introduces a second key lesson which concerns the role of EPZs and free zones (FZs or multi-facility zones) in development. While many developing countries established such zones in past years, they have been widely criticized because of factors such as expensive fiscal incentives and other subsidies including

subsidized rent and services; bureaucratic policy frameworks; and inadequate coordination between private developers and governments in zone provision.

Lessons from international experience are that:

- (i) Zones need to be integrated within host economies as the direct and especially dynamic benefits are extremely limited when zones operate as enclaves.
- (ii) Associated with the above, the distinction between zone and domestic companies for tax purposes should be removed.
- (iii) Zones should not be viewed as substitutes for a country's wider trade and investment activities.
- (iv) The regulatory framework should provide streamlined procedures for business registration and operation.
- (v) Private rather than public development of zones increases the likelihood of success; and the operation of zones should be undertaken by the private sector on a commercial basis.

The implementation of these lessons is strongly evident in the IPRs. Thus general recommendations have been to: (i) change the profile of zones from EPZs to FZs (Rwanda) with unlimited market access; (ii) coordinate fiscal incentives inside and outside the zones (El Salvador, Guatemala); (iii) adopt measures to encourage supplier development and linkages in target sectors in FZs (El Salvador); and (iv) move to private development of zones. In the former Yugoslav Republic of Macedonia, the IPR recommended to reduce the reliance on fiscal incentives in favour of state-of-the-art industrial sites.

The approach in the IPRs is consistent with the WTO Agreement on Subsidies and Countervailing Measures which prohibits incentives directly linked to export performance. This has affected all the IPR countries in Central America (the Dominican Republic, El Salvador and Guatemala); the final transition period for reforming FZ and maquila laws which are incompatible with WTO rules into general regimes ends in 2015.

7. The local private sector is critical to improving the benefits of FDI

An important constituent of investment framework reform concerns private sector development. The aims are to encourage local entrepreneurship and the development of SMEs generally and also to enhance absorptive capacity to facilitate linkages with and spillovers from FDI.

The well established and successful Empretec programme of UNCTAD inspires entrepreneurs in developing countries to initiate, grow and develop their businesses. It has been in existence since 1988, and over 210,000 entrepreneurs (30 per cent of whom are women) have been trained in the 33 national Empretec centres worldwide. An evaluation of Empretec Guatemala indicated that 77 per cent of participants who did not have a business were able to start one within six months of taking the Empretec training workshop. In addition, 90 per cent of participants with established micro businesses saw their profits and sales increase.

Closely related to the Empretec work on entrepreneurship and business development is that on fostering linkages primarily between foreign investors and local suppliers (backward linkages) (UNCTAD, 2001). Such programmes should promote five areas where linkages bring particular benefits, namely: (i) suppliers/buyers identification; (ii) transfers of technology; (iii) training, technical and managerial; (iv) information sharing in

respect of technical requirements and future orders; and (v) financial support. Linkages programmes have been recommended or instituted in numerous countries (Belarus, El Salvador, Ghana, Guatemala, the Former Yugoslav Republic of Macedonia, Mauritius, Nigeria, Sierra Leone, and Viet Nam) as an outcome of IPRs.

Linkages programmes have not always been successful, especially those established as part of government requirements through local content programmes in the 1970s and 1980s. For example, the IPR Nigeria highlighted the failure of linkages programmes with Unilever in the areas of packaging, oil mills and palm oil extraction in this period. Conversely, Unilever currently has a highly successful Business Linkage Centre in Viet Nam which has led to domestic sourcing representing 86 per cent of total supplies. Local suppliers to Unilever now export 20 per cent of their output to 20 different countries. Contemporary linkages programmes seek open, collaborative arrangements between willing partners, with long-term commitment from government and both foreign investors and local enterprises. There are still challenges from suppliers' ability to meet cost and quality standards, to be able to supply in sufficient volumes to avoid production gaps among customer TNCs, and to maintain stable relationships in areas such as pricing policies. However, stimulating a symbiotic relationship between TNCs and SMEs is crucial in the generation of dynamic economic benefits from FDI.

Aside from the promotion of backward linkages, some countries are promoting the outward internationalization of their domestic enterprises, and as in El Salvador, IPRs have made recommendations to facilitate outward FDI.

...and reform of SOEs is required in some countries

In Belarus and Viet Nam there remains a philosophy of retaining a strong SOE presence. The IPR Viet Nam recommendation was to move from a "steer and control" approach to a "regulate, enforce and monitor" policy stance. Thus steps were proposed to separate the ownership and regulatory functions of the State to ensure a level playing field between private and public companies in commercial activities.

Elsewhere the challenge is to deal with poorly performing SOEs as part of a general governance issue; and to reform and modernize SOEs to facilitate their effective participation in the provision of key infrastructure and social services. The latter is especially significant when SOE involvement is being considered in evaluating alternatives for the implementation of infrastructure projects. UNCTAD data show that the public sector still accounts for half of infrastructure investment in most developing countries; while PPPs are the dominant arrangement for FDI in infrastructure representing 62 per cent of projects in developing countries in the period 1996-2006 (UNCTAD, 2011b).

There are also competition issues to be considered. The telecommunications case is positive, but water and energy show that a clear requirement is to strengthen regulatory capacity to ensure that public monopolies are not replaced by private foreign monopolies, without the incentives and competitive pressures to invest in and improve services. Similarly countries may wish to retain a level of control over some infrastructure alongside foreign and other private investors. This requires fair, transparent and effective regulation to ensure impartiality.

8. Effective institutions and implementation of laws matter greatly as part of improving public governance

Governance comprises two components: First, the design and effectiveness of laws and regulations; and second, the performance of regulatory institutions in the implementation of these laws. Evidence from the IPRs is that the latter are particularly problematic in the areas of judiciary, land, taxation, customs and competition; but governance challenges also exist in the performance of the police, prosecution services, correctional institutions, and legal and professional services. Improving public governance means restraining bribery and corruption (rent-seeking); establishing the credibility of institutions; fostering public trust and legitimacy; and ensuring that policy responses fit local conditions (World Bank, 2005).

Governance-related indices abound from organizations such as Transparency International (Corruption Perceptions Index), the World Economic Forum and the World Bank. Despite the inadequacies intrinsic in such indexes and rankings, their publication means that countries are exposed to global scrutiny to an unprecedented extent.

Among the extensive range of challenges associated with weak institutional performance and poor implementation of laws are: (i) design of the tax system and low rates of tax collection; (ii) weaknesses in the rule of law and in the performance of the courts and the judicial system; (iii) red tape and bureaucracy; and (iv) land issues and property rights. Competition policies are sometimes non-existent or inadequate to protect consumers; and corruption appears to be associated with weak institutions. One recommendation emerging from the IPRs to promote good governance is to establish a regulatory commission or equivalent.

Although these are long-standing issues in the context of FDI, both agriculture and land are high on the FDI and development agenda again. The challenges stem from fears of food security, with agricultural development being hampered by declining investment, and problems of access to credit; the negative impacts of climate change; inadequate energy supplies, including bio-energy; structural policy failures; and, in the current context of governance, problems of land tenure (UNCTAD, 2010). There are mounting allegations of problems associated with land acquisitions by TNCs, including ignoring traditional land-use rights, failures to generate the promised benefits of more jobs, better technology, improved infrastructure and extra tax revenues; neglect of environmental and social safeguards; and corruption. Secure property rights are vital in allowing private enterprise (both locally- and foreign-owned) to flourish. The substantial contribution that the IPRs have made in promoting secure land access, ownership and transfers will in future be increasingly directed to property rights for agricultural land.

9. An effective IPA is a key institution for success in FDI attraction and facilitation

Many of the IPRs tackle the weaknesses of IPAs — structure, governance, targeting and promotion strategies. In some countries (Egypt and Sri Lanka being good examples), the IPRs have been responsible for radical overhaul of investment promotion agencies; and in Mauritius a “Super IPA” was proposed. The importance of autonomy in IPAs has been shown to be important; and innovative programmes recommended include those relating to supplier development, diaspora attraction, targeting “new” investors from China and India, encouraging regionalization, and promoting technology exports as a complement to FDI.

However, a significant challenge is the relative lack of attention paid by IPAs to aftercare activities, in respect, for example, of linkages programmes and foreign affiliate development, and even the basics of

Box 13: Reforming the Centre for Export and Investment Promotion (CEI-RD) in the Dominican Republic

The IPR assessment identified a wide range of deficiencies in the CEI-RD, including: (i) promotion activities were too general; (ii) sector specific knowledge was too general; (iii) no systematic aftercare was undertaken; (iv) there were no programmes to develop linkages; (v) there was no tracking of investors.

Recommendations were made to overcome all of these challenges at the operational level; but aside from these, the dual role of the Secretary of State as both a Minister and CEO of CEI-RD was problematic. The solution at the leadership level was the proposal for a Minister for Investment who would report directly to the President and would be supported by a small, highly specialized ministry.

Accepting the importance of the latter, the establishment of a new Ministry was difficult politically. So the idea of a Presidential Committee was launched, albeit with a Minister in charge of CEI-RD. The Ministerial status for the head of CEI-RD is extremely important in establishing the status of the IPA in its relations with supporting agencies; and the role of the President has been crucial, both in terms of FDI attraction via overseas missions etc, and also in overcoming blockages in the investment process.

Source: IPR of the Dominican Republic and CEI-RD

understanding TNCs and their strategies (the latter is necessary for sectoral targeting too), given the evidence of the importance of reinvestment in FDI inflows. Tracking of investors both potential and established is not universally undertaken, which in turn requires improved collection of statistics on FDI. Other lessons concern the requirement for high quality professionals, and the related need for continued funding to ensure the sustainability of the intervention after setting up the IPAs. Many of these problems were apparent in the CEI-RD in the Dominican Republic which is reviewed in box 13.

With an increasing number of governments fostering the internationalization of domestic enterprises and a continued focus on the promotion of export-oriented FDI by IPAs, it may be useful to integrate investment and trade promotion activities in one agency (UNCTAD, 2009). A growing number of countries operate in this way, and future IPRs, at least in more advanced developing economies, are likely to address this important issue.

10. FDI can play a significant role in the development process, but it is not a panacea

Assisted by the strategic recommendations of the IPRs and their implementation, FDI has a potentially significant role to play in the development process. Apart from direct benefits in terms of employment, capital and know-how, the desirable function of FDI, however, is to harness the capabilities of the host country to attract and benefit from TNC activities, and to unleash the potential of indigenous enterprises for the benefit of all its citizens. Hence a central policy objective is to integrate foreign investors within the business and societal fabric of the host economy.

While TNC affiliates have a potentially catalytic role to play, government policies also have a key input into this process by stimulating local enterprise development (primarily private but potentially also SOEs). These enterprise development policies range from encouraging entrepreneurship and new firm formation; to formulating supplier development and export strategies, and cluster programmes; and to other efforts to help build absorptive capacity to facilitate knowledge transfer from the foreign-owned sector.

Local enterprise development policies may also have a positive impact on the FDI attraction process per se by showing that the country is supportive of and open for business. This is recognized directly in the IPRs of Belarus (box 9) and of the former Yugoslav Republic of Macedonia, where a thriving SME sector is seen to be necessary both to benefit from and to attract FDI.

The requirements for long-term sustainable development extend further to an all-inclusive, partnership approach which includes not only FDI and a flourishing private sector, but also official development assistance (ODA) and good public governance. Donor-funded initiatives have been highly valuable in the implementation of the IPRs; and have a major role to play alongside governments and foreign investors in PPPs in infrastructure.

These conditions for FDI-led, self-sustaining growth are highly challenging. Attracting FDI itself is a difficult task, and achieving the benefits highlighted above can only be part of a long-term vision. FDI per se is not a panacea for development, and what is required is an integrated approach to development involving the long-run commitment of all stakeholders. Host countries should be ambitious but also must be realistic in their aspirations for attracting and benefiting from FDI. The practical recommendations of the IPRs provide a platform for establishing the preconditions for private sector development (local and foreign), and building a robust local SME sector should be at least as high a policy priority as FDI attraction on the host country development agenda.

F. Conclusions: Shaping investment policies around the world in the next decade

The global spread of the IPRs, their wide-ranging country coverage, the provision of expert, customized analysis and proposals, and their lengthy history mean that the UNCTAD IPRs have contributed to shape investment policies across the world. Their contributions relate to all aspects of the processes of attracting and benefiting from FDI and, specifically: (i) establishing best practices in the legal and regulatory framework for investment, (ii) developing innovative proposals for FDI strategy; and (iii) facilitating and participating in the implementation of the actions proposed.

The world has changed considerably since 1999 and is likely to change again in perhaps unprecedented and unexpected ways in the forthcoming decade. In order to inform national policymaking and assist countries to face emerging and ongoing challenges, an investment policy framework for sustainable development is required. The experience gained through the IPR programme as well as the research and technical assistance work will form a solid basis for UNCTAD to develop such framework. Against this background, plans for the IPRs, while keeping the basic format of the programme, will remain flexible and integrate the core principles of the forthcoming new framework. They will also take into account the outcome of the Group of 20 (G20) work on issues related to measuring investment impact and promoting responsible investment.

1. An even stronger focus on the “development dimension”

The attraction of FDI per se is not an end but part of the development process. Thus even greater emphasis will be given to the mechanisms through which FDI provides a catalyst for private sector development, job

creation and poverty alleviation, including individual value-chains. In this regard, UNCTAD has developed a set of indicators to support developing countries in prioritizing specific sectors in order to maximize development benefits. Ultimately, the use of these indicators is to support a country's entry into the global value chains. Essentially, this means both helping to build a dynamic and growing domestic private sector in collaboration with foreign investors; and involving TNCs (and indeed all stakeholders) more closely in initiatives which are directly development-focused. Undertaking analysis and devising recommendations that better integrate the FDI strategies into national development priorities is a central aspect of this. Similarly greater consideration will be given to sectoral initiatives in manufacturing and agriculture where there is potential for strong linkages with local SMEs and, therefore, for poverty reduction.

2. Reflecting the 'new issues' in the global environment more fully in the IPRs

These issues include the following:

- *New sources of FDI*: South-South FDI (with the rapid expansion of China as a significant priority); *SOEs and Sovereign Wealth Funds*; *New business models*, particularly the emergence of "impact investors" who target social and environmental issues not directly serviced by existing international development efforts or investment opportunities, with both commercial and philanthropic objectives; and 'frugal innovation' focusing upon innovative but appropriate technologies and products (The Economist, 2011); and New sectors, including environmental issues in respect of trends, environmental regulations, and, where appropriate, strategies for attracting green and responsible FDI projects.
- *New modalities*: The IPRs have rightly maintained their focus on FDI, but growth in other modalities of TNC involvement means that the latter cannot be ignored in future Reviews. Examples of these non-equity modes of international production (UNCTAD, 2011a) include (i) international subcontracting; contract farming; international franchising; (ii) management contracts; and (iii) various forms of arrangements in infrastructure including build-operate-transfers and PPPs. The latter are of key potential importance because of infrastructure weaknesses, continuing demand for upgrading both to facilitate and to drive the development process, and the huge funding requirements involved.
- *Public governance*: Weak governance is a significant barrier to development efforts, and has become a more important theme, especially in recent IPRs. This focus upon improving public governance will be pursued systematically in future IPRs with a view to making concrete recommendations for improvements in the performance of institutions and the rule of law.
- *Business-government and stakeholder dialogues*. While still highly relevant, corporate social responsibility (CSR) has become somewhat outdated as a notion, with growing interest in ideas such as 'corporate societal responsibility' and 'shared value' (Porter and Kramer, 2011). UNCTAD is contributing to the definition and promotion of new principles based on the best existing standards (developmental, social and environmental) for responsible investment in value chains, as well as voluntary investor compliance with such standards. These concepts fit well with the objective of emphasizing even more strongly the development dimension of FDI in future IPRs.

- *New “traditional” issues:* Agriculture and land are important new “traditional” issues for the IPRs. The promotion of agricultural development is vital, especially in the poorest countries lacking in other natural resources. Assisting in providing secure land rights is fundamental to the attraction of foreign investors in agriculture; and a proper balance is needed to ensure that environmental, community-related and national concerns are addressed. To this point the IPRs have not addressed agriculture issues fully, largely because FDI per se has been rather limited in this sector. Given the prominence of the sector and the growing interest of international investors, UNCTAD, FAO, IFAD and the World Bank are jointly developing a set of principles for responsible agricultural investment that respects rights, livelihoods and resources. The principles will form a basis for the treatment of agricultural issues in future IPRs.
- *Outward FDI (OFDI):* A feature associated with the development process is the enhanced international competitiveness of local enterprises, generally reflected initially in improved export performance and evolving into OFDI (although sometimes outward investment may occur early in the internationalization process). In some cases this process is associated with network relationships with inward foreign investors, and represents a mechanism for the generation of dynamic benefits for the host economy. Since this investment development process is likely to become increasingly important, greater attention will be paid to OFDI in future IPRs, especially where there is an actual or potential link with TNC affiliates and opportunities for Government policy initiatives.

Some of these issues represent challenges for future IPRs in respect, for example, of political sensitivities. But even greater attention will be paid to interviewing all stakeholders (including private sector organizations and enterprises, NGOs and employees’ representatives) during the IPR country missions.

3. Regionalization and the IPRs

Countries and country groupings, TNCs and donors are all focusing on the opportunities associated with regionalization. Stronger emphasis will, therefore, be given, where appropriate, to recommendations to develop regionalization initiatives. This approach may in future evolve into Investment Policy Reviews focusing on FDI in regional blocks, as part of the continuing philosophy of shaping investment policies around the world.

4. Action Plans, stronger links with donors and continued focus on partnerships

The implementation of the IPRs depends heavily upon technical assistance from donors. Action Plans will be included in all future IPRs, incorporating outputs, key actions, indicators and baselines, and means of verification. They are designed to: (i) facilitate identification of technical assistance that the recipient country may require; (ii) expedite the approach to donors regarding funding opportunities; and (iii) assist monitoring and evaluation of the reforms undertaken to implement the IPR recommendations. In the Action Plan format envisaged, projects can be discussed with and submitted to donors soon after the IPR’s publication. A continued focus on partnerships is highly desirable, both externally and internally within the UN (in line with the One-UN project) in the implementation of the IPR recommendations.

While the IPR overall approach and format constitute a pillar of the programme's success, changes to the content, structure and process of the IPRs will be made to reflect new investment trends and thinking, to improve relevance as well as expedite technical assistance. The consultation process will be improved and further widened. Additional improvements will also include the utilization of new technologies, such as online tools, during the preparation of the IPR report and in the processes of international and intergovernmental peer review.

UNCTAD looks forward to continue working with stakeholders with interests and expertise in the role of FDI in development as the Investment Policy Review programme evolves.

Annex 1: The beneficiaries of the IPR programme

Country	Year	Region / Economy	Country category
1. Algeria	2003	North Africa	Developing country
2. Belarus	2009	CIS	Transition economy
3. Benin	2004	West Africa	LDC
4. Botswana	2003	Southern Africa	Developing country
5. Burkina Faso	2009	West Africa	LDC
6. Burundi	2010	East Africa	LDC (Post-conflict)
7. Colombia	2006	South America	Developing country
8. Djibouti	2011	East Africa	LDC
9. The Dominican Republic	2009	Caribbean	Developing country
10. Ecuador	2001	South America	Developing country
11. Egypt	1999	North Africa	Developing country
12. El Salvador	2010	Central America	Developing country
13. Ethiopia	2002	East Africa	LDC (Post-conflict)
14. Ghana	2003	West Africa	Developing country
15. Guatemala	2010	Central America	Developing country
16. Kenya	2005	East Africa	Developing country
17. Lesotho	2003	Southern Africa	LDC
18. The former Yugoslav Republic of Macedonia	2011	South-East Europe	Transition economy
19. Mauritania	2009	West Africa	LDC
20. Mauritius	2001	East Africa	Developing country
21. Morocco	2007	North Africa	Developing country
22. Moldova	2011	South-East Europe	Transition economy
23. Mongolia	2011	East Asia	Developing country
24. Mozambique	2011	East Africa	LDC
25. Nepal	2003	South Asia	LDC
26. Nigeria	2009	West Africa	Developing country
27. Peru	2000	South America	Developing country
28. Rwanda	2006	East Africa	LDC (Post conflict)
29. Sierra Leone	2010	West Africa	LDC (Post conflict)
30. Sri Lanka	2004	South Asia	Developing country (Post-conflict)
31. United Republic of Tanzania	2002	East Africa	LDC
32. Uganda	2000	East Africa	LDC
33. Uzbekistan	1999	CIS	Transition economy
34. Viet Nam	2008	South-East Asia	Developing country
35. Zambia	2006	East Africa	LDC

Source: IPR publications, www.unctad.org/ipr

Annex 2: The investment framework measures

The investment framework measures analyzed within the IPRs include:

I. Entry, establishment, treatment and protection of FDI

1. FDI entry and establishment
2. FDI treatment and protection

II. General measures for regulating and supporting business

1. Taxation (corporate and personal income tax; VAT; customs duties; export processing zones)
2. International trade and investment agreements
3. Foreign exchange arrangements
4. Competition regulations
5. Labour regulations
6. Employment of foreigners (immigration policy; access to skills; visa arrangements)
7. Land (land rights and transfers; land rights for foreigners)
8. Environmental regulations
9. Intellectual property law
10. Governance and the rule of law
11. Technology transfer issues
12. Selected sectoral regulations

Source: IPR publications, www.unctad.org/ipr

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