



IMPROVED BUSINESS AND INVESTMENT CLIMATE IN WEST AFRICA PROJECT ECOWAS INVESTMENT POLICY AND PROMOTION (IPP) WORKSHOP

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Increasing the Effectiveness of Investment Incentives

The Investment Policy and Promotion work supports client countries in designing and devising incentives policies that can effectively achieve their desired policy objectives, are efficiently administered to reduce unnecessary burden on the private sector, and ensure transparency and accountability to harness their contribution to the economy's development goals.

Context

The role that foreign direct investment (FDI) plays in enabling economies to join global value chains (GVCs) and in upgrading their domestic production is so critical, that governments across the globe compete to attract this type of investment. In this context, *locational incentives*, i.e. incentives designed to influence firms' locational decisions, play a prevalent role in governments' policy mix to attract investment. Once investments have been attracted to an economy, governments frequently resort to *behavioral incentives* to encourage certain investor behaviors, such as hiring local staff, investing in innovation, or using local suppliers to establish backward linkages.

Investment incentives are therefore widespread and used pervasively by governments across both the developed and developing world.

The topic of investment incentives is complex, with many different variables and issues at play. T&C helps clients understand the role that incentives can play by providing solutions based on focused policy discussion and precise analysis that take into account relevant global developments as well as the domestic realities of a particular economy.

What the World Bank Group Offers

We help governments identify and implement reforms to improve the effectiveness their investment incentives. This includes:

Increasing the effectiveness of incentives in attracting investment and achieving policy objectives

The key question for *locational incentives* is to what extent, and under which circumstances, can incentives influence investors' decisions on where to locate. For *behavioral incentives*, the analysis begins by understanding the policy objectives (and desired investor behaviors) that governments pursue. Key deliverables for client governments include:

- An analysis of the effectiveness of locational incentives. The analysis differentiates between different manufacturing and services sectors.
- An analysis of the effectiveness of behavioral incentives from the perspective of the different policy objectives.
- Evaluation of the effectiveness of incentives going beyond the cost to governments (fiscal implications).
- The toolkit underpinning our advisory offering includes different evaluation tools such as impact evaluations; comparative case studies and practical examples; investor motivation surveys and associated cost-per job and/or cost per investment generated calculations.

Fostering transparency and better governance of incentives

Key deliverables for client governments include:

- Support with the collection and publishing of data on incentives to promote internal disclosure and public accessibility to information.
- Diagnostic tools and technical assistance to conduct a full mapping and generate a comprehensive inventory of investment incentives.
- An incentives software solution underpinning the data collection and publication of the inventory.
- Good practices and guiding principles for effective incentives administration to support limiting discretion in awarding and administering incentives.
- Amendments to laws, regulations and policies to minimize discretion and make incentives awards automatic to the extent possible.
- Investor perception surveys gathering information on procedures, time and costs of incentives.
- Good practices and guiding principles for efficient incentives administration.
- A methodology and toolkit for assessing compliance with international regulations on investment incentives.
- Compliance checklist with international investment agreements (WTO).

analyzing the role and effectiveness of incentives, it is only one of many different dimensions. IC is working on solutions that account for other benefits and objectives that governments might be targeting, but are not captured in the budget, such as social equity, better environmental standards, knowledge gains, and other spillovers.

Project examples

In **Kosovo**, the Investment Climate program has helped the government to undertake a comprehensive mapping of existing investment incentives on all government levels with the objective of fostering transparency and limiting discretion in awarding incentives. The project resulted in the publication of a comprehensive inventory of investment incentives provided by various government levels on a central government webpage.

In **Bosnia and Herzegovina**, the Investment Climate program worked at the subnational level on simplifying and streamlining the processes and procedures for businesses to apply for incentives in the tourism sector.

In **El Salvador**, the Investment Climate team was requested by the Investment Promotion Agency to help analyze and improve the effectiveness of the country's investment incentives regime.

What is new?

Focus on the global dimension of incentives. The role that FDI plays to enable economies to join GVCs and upgrade their domestic production is so critical that governments from developed and developing countries compete to attract this type of investment. Locational incentives play a prevalent role on this front. IC is working on supporting developing countries facing the challenges of an unlevelled global playing field and distortions in global FDI flows that is perpetuated by the use of incentives.

Looking beyond the fiscal implications of incentives. While fiscal sustainability is a critical aspect of

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