Columbia FDI Perspectives

Perspectives on topical foreign direct investment issues

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Launching a program for investment partnerships

by

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Growing opportunities exist for win-win collaboration on investment between governments in different economies. Policymakers should seize these opportunities to develop partnerships that build capacity, increase investment flows and promote sustainable investment. International organizations, in turn, can provide platforms and support to such partnerships.

The benefits of partnerships are being increasingly recognized. The clearest evidence is the growing number of memoranda of understanding (MOUs) signed between investment promotion agencies (IPAs) of different economies. Between 2010 and 2018, IPAs signed a steady trickle of MOUs a year, growing to nine in 2019 (not including an MOU signed by the BRICS).[1] These MOUs are generally broad in nature and do not often include work-programs. This *Perspective* proposes a two-part Program for Investment Partnerships to leverage political will and nascent frameworks and move to action.

Part 1: IPA-IPA partnerships on knowledge sharing and good practices. There is a natural twining that can occur between IPAs in developed and developing economies to share knowledge and experience. This could range from effective institutional arrangements to measures to increase investment's contribution to sustainable development, from attracting digital FDI[2] to new digital tools. IPAs from developed and developing economies could pair up for peer-learning activities, with WAIPA potentially facilitating such pairings. The costs could be covered by official development assistance as forms of technical assistance and capacity building. IPAs have expressed they would be keen on this kind of cooperation (e.g., Business France and the Burundi Investment Promotion Authority), as well as members of the OECD IPA Network (which includes IPAs from developing economies) in their annual October 2020 roundtable.

For example, knowledge sharing can concern how to evaluate large-scale investment projects. This is often a challenge for IPAs in developing economies, where specialized knowledge may be needed to evaluate, for instance, long-term infrastructure investments. Yet, these investments are precisely those that institutional investors from developed economies are seeking to make; hence, it is in the interest of IPAs in developed economies to share knowledge and good practices, unblocking bottlenecks.

Part 2: IPA-Outward Investment Agencies partnerships on two-way investment. The above example presages opportunities for partnerships that facilitate two-way investment through IPAs' cooperation with outward investment agencies.[3] Crucially, one economy's outward FDI is by definition another economy's inward FDI, leading to opportunities for win-win collaboration. These opportunities are real: firms from developing economies are increasingly undertaking outward FDI, resulting in their share of outward FDI reaching 45% of global flows in 2018, the highest level ever recorded.[4]

The challenge to such partnerships is institutional and two-fold. First, not all economies have given institutions responsibility for supporting OFDI, with around 60% of IPAs having this function.[5] Second, the natural home of OFDI support may be in export promotion agencies (EPAs) rather than with IPAs when these are separate institutions, given that domestic firms often progress from exporting to investing overseas.[6] As a result, EPAs need to be part of this effort. The recognition of this growing opportunity led the World Bank Group and WAIPA to sign an agreement to foster collaboration on two-way investment. According to anecdotal evidence, this is already happening: for instance, IPAs from Israel and the U.A.E. are discussing how to increase two-way investment.

So how can two-way investment be facilitated in practice? The key is to develop joint activities between IPAs and outward investment agencies, as this assures their win-win quality and that institutions see value in their participation. Possibilities include:

- Joint business missions, promotion campaigns or roadshows.
- Joint standing committees to help with aftercare and policy advocacy.
- Joint matchmaking, linkages and supplier-development programs.
- Joint financial support by host and home institutions (e.g., joint equity).
- Jointly developed investment projects.

With jointly developed investment projects, for instance, IPAs in host economies can identify investment opportunities aligned with their development goals, while home economies' outward investment agencies can provide local firms this information and operational support. The collaboration helps ensure that only projects contributing to sustainable development are supported, while the engagement of both host and home economies makes success more likely.

In conclusion, it is worth underscoring that investment partnerships can help advance the SDGs. SDG 17 calls for "global partnerships" to help achieve the other SDGs, and IPA-IPA or IPA-outward investment agency partnerships are excellent examples. Restarting investment flows following COVID-19 requires all hands on deck.

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[1] Estimates from original research by WAIPA. Mauritius is exceptionally prolific, having signed 47 MOUs since 2003.

[2] Matthew Stephenson, *Digital FDI: "*Policies, regulations and measures to attract FDI in the digital economy", September 2020, World Economic Forum.

[3] The term "outward investment agency" is used because the function of promoting OFDI is sometimes placed with IPAs and sometimes with EPAs. Between 1999 and 2015, the number of outward investment agencies increased from around 15 to 28, and is now about 50. Armando Heilbron and Hania Kronfol, "Increasing the development impact of investment promotion agencies" (Washington D.C.: WBG, 2020).

[4] UNCTAD, *World Investment Report 2019* (Geneva: UNCTAD, 2019), p. 5.

[5] See Heilbron and Kronfol, *op. cit*., pp. 188-192.

[6] Armando Heilbron and Robert Whyte, "Institutions for investment: establishing a high-performing institutional framework for foreign direct investment (FDI)" (Washington D.C.: WBG, 2019), p. 4.

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