Columbia Center on Sustainable Investment
A JOINT CENTER OF COLUMBIA LAW SCHOOL AND COLUMBIA CLIMATE SCHOOL

Columbia FDI Perspectives

Perspectives on topical foreign direct investment issues
Editor-in-Chief: Karl P. Sauvant (karlsauvant@gmail.com)
Managing Editor: Chioma Menankiti (clm2249@columbia.edu)

No. 401 January 20, 2025

Impact evaluation: an essential tool to improve FDI promotion

by
Sandro Zolezzi*

Monitoring and evaluation are essential for ensuring that any activity reaches its objectives. Managers and businesses routinely set objectives, identify key performance indicators and track the performance of their activities to improve effectiveness over time. Such monitoring also facilitates strategic decision-making when managers can use the gathered information and data to determine the most effective activity and reallocate staff and resources or make product and service adjustments accordingly. But there is a difference between monitoring and evaluation.

Most investment promotion agencies (IPAs) track their own activities and key performance indicators (e.g., new companies attracted to the host country, jobs created, FDI inflows, goods and service exports) and to some extent, those of their competitors, in addition to factors that can influence their business (e.g., qualified staff, balanced budget, number of mandates). However, few evaluate the impact of their activities and outcomes. While monitoring allows for continuous data gathering and control of everyday actions, evaluation can give strategic insights regarding the overall effectiveness of an agency and its specific programs and activities. In the digital world, data and feedback monitoring and collection are increasingly available. But the jump from data collection to meaningful impact evaluation is no small step and requires specialized knowledge and data.

This *Perspective* shows the importance of this impact evaluation and the fields where it might be relevant to improve an IPA's performance and to emphasize the attractiveness of host countries.

IPAs should carry out impact evaluations for several reasons. They make tangible results transparent for the local economy (i.e., making the invisible visible) and demonstrate the return on investment of funds from the public purse that have been allocated to IPAs. Additionally, impact evaluations improve IPA performance and show institutional excellence, both locally and internationally. They also help implementing remedial actions and help ensure continuous improvement based on intermediate indicators. Finally, impact evaluations by IPAs may also serve to promote similar practices in public institutions, to measure the impact of those institutions on the local economy.

Impact evaluations must focus on specific areas to be effective. Firstly, they must assess the impact of IPA activities and services on the behavior of targeted foreign companies. In this regard, evaluations should be conducted with a view to assessing whether IPA assistance increases the probability that MNEs will set up their first affiliates in a given host country. Such evaluations should also determine whether IPA assistance to MNEs already operating in a host country helps the latter expand their operations, hire more people, establish new production lines, and open new affiliates. In both cases, an increased probability must be compared with that of a control group comprised of foreign companies that have set up and expanded operations in the host country without assistance from the agency. For example, assistance from Costa Rica's IPA, CINDE, has been associated with an increase of 32 percentage points in the probability that these firms established a first affiliate in the country. The effect is primarily driven by the resolution of information asymmetries. Foreign investors often do not know how to do business outside of their borders. IPAs facilitate access to that information.

Impact evaluations should also assess MNEs' operations in the local economy. In particular, IPAs should evaluate whether such activities lead to increased productivity and technology transfers from foreign firms to domestic firms. Such transfers may result from greater value-added by input purchases from local suppliers and foreign suppliers operating in the host country (i.e., backward linkages). They could also be due to labor mobility of skilled personnel trained by foreign firms.

Moreover, impact evaluations should target direct IPA interventions in the local economy. These include policy advocacy to close the human talent supply and demand gap. Additionally, the promulgation of new laws and regulations should be evaluated to see if these have helped improve the employability of university, technical and vocational school graduates. This is important as the greater availability of appropriate human talent increases the probability of expansions by MNEs operating in the host country.

Finally, impact evaluations must assess government interventions that affect the performance of the labor market, international trade and FDI. To attract MNEs, governments pursue industrial policies that might encompass incentives for foreign firms in the form of income tax holidays, tariff exemptions and subsidies for infrastructure. Therefore, impact evaluations should assess how available tax and financial incentives improve a country's attractiveness for FDI and how the implementation of the global minimum tax (Pillar II) affects fiscal incentives. Minimum wage increases should also be assessed, as they can lead to unemployment and informality in a country's labor market, especially in rural areas.

FDI can facilitate access to international capital flows, new technologies and jobs creation. But the potential impact of government interventions should be assessed. Impact evaluations are key in helping IPAs improve their effectiveness and the competitive position of their respective countries in the highly competitive world FDI market.

* Sandro Zolezzi (sandro.zolezzi@outlook.com) is Associate Researcher at LEAD University in Costa Rica and Research Fellow of Academia de Centroamérica. The author wishes to thank Jaime Granados, Douglas van den Berghe and Carmen Gisela Vergara for their helpful peer reviews.

For further information, including information regarding submission to the *Perspectives*, please contact: Columbia Center on Sustainable Investment, Chioma Menankiti, at clm2249@columbia.edu.

Most recent *Columbia FDI Perspectives*

- No. 400, Sol Picciotto, 'Toward unitary taxation of MNEs,' *Columbia FDI Perspectives*, January 6, 2025.
- No. 399, Laura Yvonne Zielinski, 'Investment protection in outer space,' *Columbia FDI Perspectives*, December 23, 2024.
- No. 398, Sophie Meunier and Sarah Bauerle Danzman, 'Outbound FDI control: a new economic security tool for the European Union?,' *Columbia FDI Perspectives*, No. 398, December 9, 2024.
- No. 397, Jonathan Kallmer 'The FDI determinants for high-tech companies,' *Columbia FDI Perspectives*, November 25, 2024.
- No. 396, Premila Nazareth Satyanand, 'Sustainable FDI: What more can host countries do to attract and enhance it?,' *Columbia FDI Perspectives*, November 11, 2024.