



**Global Investment and Competition Unit**

# **Offering of the Global Investment and Competition Unit:**

**Investment Policy and Promotion  
Markets and Competition  
Applied Research**

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# Investment Policy and Promotion

Attracting, retaining, growing foreign investment, and maximizing impact for the local economy

The World Bank Group supports client countries in attracting, facilitating, and retaining different types of foreign direct investment (FDI), as well maximizing the positive spillovers of FDI for the local economy.

## Context

Productive private sector investment is an important component of developing countries' competitiveness and growth strategies. Attracting FDI, in particular, helps to link a country's domestic economy to global value chains in key sectors. FDI brings not only investment and jobs, but also increased exports, supply chain spillovers, new technologies and business practices. These potential benefits require clear and effective implementation of investment strategies and policies that respond to the country's realities and aspirations.

Countries increasingly need to define their value proposition as attractive investment locations and proactively market investment opportunities to investors in sectors and sub-sectors in line with comparative advantages. This is particularly important for countries with little track record of attracting FDI or a reputation as a difficult place to invest.

## What the World Bank Group Offers

Support is provided to client governments to improve the investment policy framework, and to maximize the effectiveness of investment promotion efforts. This includes:

### *Developing a FDI Strategy and Investment Reform Map:*

- Provide client governments with a logical framework to enable them to visualize the

different types of FDI flowing into their economies and the different policy mixes and regulatory approaches required to maximize the benefits of each type of investment.

- Set priorities to design coherent and concrete investment policy and promotion reform agendas, at economy and sector levels, to attract, facilitate, retain and link FDI with the domestic economy.

### *Improving the effectiveness of policies and efforts aimed at attracting and facilitating FDI, including:*

- Establishing enhanced investor entry regimes by helping countries adopt and implement non-discriminatory treatment of foreign and domestic investors, reducing sectoral restrictions and performance requirements.
- Streamlining investment procedures.
- Enhancing investment promotion capacity, including targeted sector promotion to develop the competitive proposition for facilitating investment in key priority sectors and capacity building to undertake effective investor outreach and facilitation.

*Promoting good practices in improving the effectiveness of investment incentives* including helping clients identify whether and how incentives contribute to FDI inflows and policy objectives such as employment generation, export promotion and sustainable development.

### *Strengthening investor confidence to help clients retain and expand FDI through:*

- Upgrading and improving legal and regulatory frameworks to reduce investment risks by putting in place measures that address unlawful expropriation, protection against internationally recognized arbitrary actions or payment transfers, and currency convertibility.

- Increasing investment protection by promoting best practices in tracking and resolving key regulatory implementations issue, and investment grievance management.
- Designing and implementing investor aftercare programs that help clients build strong relationships with existing investors to facilitate company retention, expansion, and diversification, as well as deepening links with local suppliers.

*Promoting good policies and practices in maximizing linkages and positive spillover effects of FDI for the local economy.*

*Implementing good practices to help clients participate in wider regional markets for investment through regional integration processes that promote greater FDI flows within and into a region.*

### Relevant publications

- [Investment Policy Toolkit](#)
- [FDI Investment Generation Toolkit](#)
- [Promoting Foreign Investment in Fragile and Conflict-Affected Situations](#)
- [East African Common Market Scorecard 2014](#)
- [Providing Incentives for Investment: Advice for Policy Makers in Developing Countries](#)
- [Investment Incentives: An introduction to the main concepts and challenges](#)
- [Political Risk: The Missing Link in Understanding Investment Climate Reform?](#)
- [Investment Regulation and Promotion: Can They Coexist in One Body?](#)
- [Global Investment Promotion Best Practices \(GIPB\) reports and support resources](#)
- [Agribusiness Investor Outreach Guide](#)
- [Investment Promotion: Winning Tourism Investment Guide](#)

### Project examples

In **Turkey**, reform of FDI policy and legislation led to the removal of minimum investment requirements and elimination of screening for FDI approvals. A simple registration system was established instead. Three years after the reform FDI inflows have increased by a factor of 10.

In **Mongolia**, the development of a new investment law entailed the elimination of screening for FDI approvals. The introduction of good practices in investor protection boosted investor confidence, by protecting more than \$10 billion of existing FDI stock from being subject to expropriation.

In the **East African Community (EAC)**, a scorecard assessing compliance with regional obligations boosted national reform efforts. For example, in Tanzania it triggered the liberalization of regulations that had restricted the movement of capital.

**Brazil Frontier States:** The World Bank Group helped build the capacity of APEX (Brazil's investment promotion intermediary) and two state investment promotion intermediaries in Para and Pernambuco, northern frontier states, to undertake targeted investor outreach. This led to the attraction of over \$1.3 billion of new investment, of which some 70 percent went to the two frontier states.

In **Rajasthan, India** the World Bank Group helped define Rajasthan's competitive proposition to attract FDI in the automotive, solar power manufacturing and IT enabled services sectors, reforming the investment environment to make each sector more attractive to investors and undertaking targeted sector outreach. This helped to create a pipeline of approximately \$2 billion in investment in these sectors.

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# Markets and Competition

Competition policy fosters growth and shared prosperity by opening and transforming markets. The World Bank Group supports clients in understanding competition and market dynamics. We provide tailored advice on implementing pro-competition rules in key sectors, deterring anticompetitive business practices, and minimizing distortive government interventions in markets.

## Context

Many markets in developing countries do not yet fully benefit from healthy and effective competition. At the regional, national and subnational level, sector-specific rules and regulations frequently limit entry or reinforce dominance of few firms. In markets with economies of scale, regulatory frameworks often fail to ensure that more efficient market players can compete on a level playing field. State-owned enterprises (SoEs) also tend to be more significant market participants in developing countries and benefit from undue competitive advantage. Quantitative indicators that capture these forms of government interventions in markets suggest that inadequate regulatory frameworks – in particular in non-tradable services - are up to twice as restrictive to competition in developing countries and can cut already low GDP growth rates in half.

Globally, proliferation of world-wide price-fixing schemes in key input goods and services and cross-border mergers affect market dynamics and performance of major value chains in emerging markets.

In Latin America and South Africa alone, over 300 cartel agreements have been uncovered in the last decade in key goods and services such as transport, cement, basic staple goods, and medical supplies. Price-fixing and other cartel agreements raise prices of key goods by 50 percent on average. Labor productivity has been shown to grow 20 to 30 percent less in industries where cartels were active. Such lack of competition depresses income of poorest households by 20 percent more than richest households.

Addressing both public and private barriers to competition boosts the ability of firms to enter, expand and invest in markets, compete on a level playing field and thrive in global markets. World Bank Group (WBG) research shows that as a result, markets yield improved deals for consumer, create better jobs and promote shared prosperity.

Fostering competition is necessary and complementary to efforts to open markets to trade,

boost investment, and simplify business regulation. When implemented effectively, competition policy has proven to be a crucial driver of productivity and domestic growth.

## What we offer

The World Bank Group supports client governments in (i) understanding what stifles effective competition dynamics in specific markets, and how laws and policies shape incentives for firms to compete and invest, (ii) designing more effective competition policies, and (iii) assessing the expected effects of competition policy interventions.

Based on the WBG's Markets and Competition Policy Assessment Tool (MCPAT), we offer our clients a tailored combination of the following modules as analytical foundations for implementation:

- (i) Antitrust rules and enforcement
- (ii) Pro- competition market regulation
- (iii) Competition principles in broader public policies, including SoEs and competitive neutrality
- (iv) Economic analysis of market dynamics

With the help of our standardized tools, each of the products can range from a rapid assessment to a full-blown flagship report. Our analytical products focus on identifying priority opportunities for improvement – based on feasibility and impact of reforms - and enhancing effectiveness of existing and new competition policies.

Based on these modules, the WBG offers implementation support, technical advice and capacity building that includes:

- **Designing pro-competition market regulation:** Opening specific markets to competition, reducing government interventions that may shelter less efficient firms, protect incumbents or facilitate collusion and sector-specific regulatory design.
- **Embedding competition principles in broader public policies.** Implementing effective competition advocacy strategies, national competition policies, state aid, and infusing competition principles in regulatory reform,

- trade, investment and public procurement.
- **Reforming the competition framework and its implementation.** Design of anticartel programs (including leniency), merger control, market and competition analysis techniques, institutional effectiveness of competition authorities, and advocacy strategies across government agencies.
- **Fostering competitive neutrality in markets with direct state participation.** Designing mechanisms that minimize the distortive effects of incentives and state aid support and promote competitive neutrality among market players.

Recognizing the complex political economy of reforms, the WBG offers comprehensive analysis of expected effects of competition reforms. It also provides literature reviews, case studies, and technical papers to build analytical evidence on competition policy to convey results to policy makers and civil society. The WBG also generates knowledge and facilitates peer-to-peer learning in collaboration with external partners such as the International Competition Network (Competition Advocacy Contest) and regional competition platforms such as the Africa Competition Forum and the Regional Center for Competition in Latin American.

#### Relevant publications

- [Competition policy: encouraging thriving markets for development](#)
- [Combating Cartels in Developing Countries: Implementation Challenges on the Ground](#)
- [Transforming Markets through Competition: New Developments and Recent Trends in Competition Advocacy](#)
- [Breaking down barriers: unlocking Africa's potential through vigorous competition policy](#)
- [South Africa economic update : promoting faster growth and poverty alleviation through competition](#)
- [Tunisia - Opening markets](#)
- [Combatiendo regulaciones que restringen la competencia a nivel sub-nacional: estado de tabasco, México](#)
- [A Step Ahead : Competition Policy for Shared Prosperity and Inclusive Growth](#)
- [Strengthening Argentina's Integration in the Global Economy: Policy proposals for trade, investment and competition](#)

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#### Our work in action

In **Kenya**, the World Bank Group is advising the government on competition tools to break up cartels in key economic sectors. With the implementation of these tools, anticompetitive agreements will be stopped and prevented, generating private savings for firms and households. Already, 11 financial services and 7 agribusiness associations have come forward to openly align their conduct to competition law and stop information exchange that could facilitate collusion. Estimates indicate savings of about \$18 million annually in insurance markets alone. In addition, sector-specific work in agribusiness has helped unlock key markets that were closed to private investment because of statutory state monopolies.

After pilot engagements in 3 **Mexican** states, the country is now applying to each of its 32 states an innovative tool developed by the WBG to identify and eliminate restrictive regulation at the subnational level. Important reforms have already passed in the retail and urban development sectors: One municipality lifted restrictions on the operating hours of convenience stores and almost immediately, a national convenience store chain announced plans to open 24 new outlets in Oaxaca. According to a WBG study, this may increase the annual average rate of retail sales growth by 6.8 percent. Likewise, following reforms, in **Peru**, 45 state agencies eliminated 978 barriers that impede investment and affect competition dynamics in key sectors (telecommunications, construction, and the installation of infrastructure for the provision of public supply services). These reforms have significant spillover effects on the development of local markets and promoting investment across the economy.

In the **Philippines**, the World Bank Group has helped implement reforms that dramatically cuts the time needed to register new vessels. One result is that incumbent operators are no longer able to prevent new companies from serving certain routes. This translates into a potential 5 percent savings in transport logistics costs.

With help of the WBG, **Moldova** established an innovative state aid portal that shows the level of support to firms granted by 170 public entities and by reducing potentially distortionary measures to individual firms, the total support granted decreased to 4 percent of GDP in 2013 from 5.2 percent in 2011.

In **South Africa**, the World Bank showed that eliminating the anti-competitive price overcharges for key products generated by four cartels, effective competition policy could increase welfare to an extent equivalent to lifting 200,000 people out of poverty. Similarly, advisory services provided by the WBG contributed to deter cartels that harm consumers and raise the cost of doing business in **Colombia, Honduras and Peru**

# Applied Research

The Applied Research team produces new research, develops analytical tools, and implements novel diagnostic approaches in client countries with the objective of delivering on its three-prong agenda of:

- **Developing diagnostic and analytical tools** to better target, design, and measure investment climate policy interventions in WBG operations;
- **Advancing thought leadership and global advocacy** through filling gaps in data and knowledge;
- **Fostering outreach and partnerships** with research teams across the WBG, international organizations, development partners, think tanks, and academia.

The following are the main activities under each of its three program pillars.

## Pillar 1: Analytical and Diagnostic Tools

### Investment Sector Scan

This new methodology builds on a wide range of sector-focused diagnostic tools that have been developed by various WBG teams in the past. It is designed to help a country identify new sectors with a strong potential for investment and job creation, and is focused on the following dimensions of investment competitiveness:

- **Current status:** Where does a country currently stand in terms of economic diversification, what type of investment is the country receiving and what would be an appropriate prioritization between the development of new sectors vs. quantity upgrading vs. quality upgrading of existing sectors?
- **Desirability:** What benefits can a country expect from developing or transforming a sector in terms of quantity and quality of jobs, economic diversification, value added, and linkages with other sectors?
- **Feasibility:** In light of a country's overall factor endowments and existing investment climate constraints, is it possible to develop or transform this sector in the given time frame and with available resources? If so, what are the priority areas for action?

### Investment Competitiveness Benchmarking

This new tool benchmarks countries in terms of their competitiveness to attract FDI in specific new economic sectors or activities. The approach can be used in the context of identifying and removing binding constraints to FDI in a given sector that a country has already selected as a priority, or in the context of identifying sectors with a potential to attract FDI. The investment competitiveness benchmarking framework hypothesizes that a country needs to be competitive in terms of various characteristics, including (1) demand drivers, (2) production factors, (3) key inputs, and the (4) institutional and regulatory context,

in order to successfully attract FDI in a given sector. Country characteristics under these four pillars are measured and benchmarked through a set of 140 country level indicators.

### FDI Country Snapshot

The FDI Country Snapshot provides an assessment of a country's FDI performance to explore investment competitiveness challenges, opportunities and prospects. It benchmarks FDI performance and potential along each stage of the investment lifecycle, including FDI entry, FDI expansion, and linkages between multinational companies and local firms. In addition to the statistical information on FDI flows and stocks, the snapshot integrates new measures of FDI potential, concentration, complexity, motivation, volatility, and cyclicity developed by the team. All data are benchmarked over time and across comparator countries. The analysis employs public information on FDI, as well as proprietary information on FDI intentions (announcements) from the Financial Times' fDiMarkets and Thomson Reuters databases.

### Tax Incentives Database

The Tax Incentives Database is a panel database on the prevalence of tax incentives across countries and sectors. Specifically, the database provides information on 160 countries, broken down by 22 economic sectors, 4 types of fiscal incentives, for the period 2009-2015. The database provides the following information:

- The standard corporate income tax (CIT) rate.
- The availability and maximum duration of tax holidays.
- The availability and level of preferential rates below the standard CIT rate for a specific sector or type of investment.
- The availability of investment tax allowances or credits that grant investors the right to deduct investment expenses from taxable income or credit them against payable taxes. Information on the magnitude of these instruments was not collected owing to methodological challenges.

### Investor Surveys

An investor competitiveness survey assesses perceptions and experiences of business executives in the country. It evaluates the role of various policies and government programs in influencing investment decisions. Surveys target various types of investors – existing, potential, and exited -- regarding their perceptions and experiences with investment barriers and opportunities, perspectives on various investment competitiveness factors, and deal breakers in the country. Surveys usually focus on:

- Investor motivations for investing in developing countries
- Investor perspectives on a range of investment



climate topics, including ease of entry, investment incentives, linkages with domestic firms, investment protection guarantees, government transparency and predictability

- Investor experience of efficiencies in obtaining permits and approval
- Investor interaction with Investment Promotion Agencies
- Investor sources of inputs and programs with suppliers
- Investor experience of political risks and exiting investments

### Regulatory Risk Index

This new initiative aims to develop a new cross-country index to capture a country's investment risk due to its regulatory environment. The index abstracts from other types of risks such as those caused by political and macroeconomic instability. It focuses on aspects of the business and investment regulatory framework that affect investment risks through:

- Strength of the legal framework to provide adequate investor protection and contract enforcement provisions;
- Quality of mechanisms for recourse to investor grievances;
- Transparency and predictability of policy implementation.

### Pillar 2: Publications

#### Global Investment Competitiveness Report 2017 | 2018

This inaugural issue of the World Bank Group's [Global Investment Competitiveness Report](#) presents novel analytical insights and empirical evidence on foreign direct investment's (FDI) drivers and contributions to economic transformation. The report's ground-breaking survey of more than 750 executives of multinational corporations investing in developing countries finds that—in addition to political stability, security and macroeconomic conditions—a business-friendly legal and regulatory environment is the key driver of investment decisions.

#### Connecting Multinational Corporations to the Domestic Economic to Support Indigenous High-Growth Firms

Multinational Corporations (MNCs) have the potential to transmit spillovers to the host economy that help domestic firms increase their productivity. This [paper](#) disentangles the channel in which MNCs transmit knowledge and technology to different types of firms in the host economy and provides recommendations to increase FDI spillovers while considering the prevalent firm-level heterogeneity in terms of absorptive capacities in developing countries

### Mind the Skills Gap: Regional and Industry Patterns in Emerging Economies

The [paper](#) introduces an empirical analysis that uses two alternative specifications based on limited dependent variable analysis. The results place Latin America as the emerging region where firms have the greatest problems derived from the lack of adequate skills, well ahead of emerging Asia and Europe, but also of sub-Saharan Africa. In terms of sectors, two advanced manufacturing industries (machinery and motor vehicles) are particularly affected by this relative scarcity of adequately trained workers. Policy recommendations highlight the need to solve the mismatch between the provision of skills by educational systems and the needs of the economy.

### Pillar 3: Events and Partnerships

#### Investment Competitiveness Forum 2017

T&C GP brought together ministers and other senior policymakers from client countries, private sector executives, development partners and WBG staff for strategic discussions on advancing investment competitiveness in developing countries. The [Investment Competitiveness Forum](#) took place in Vienna, Austria, on October 24-27, 2017 and incorporated launches of the [Global Investment Competitiveness Report](#), and the Investment Reformers Network.

#### Learning events and BBLs

The AR program has organized or contributed to several [learning BBLs](#), including:

- International Trade Center: SME Competitiveness Outlook (see associated blog [Improving SME competitiveness: To target or not to target? What businesses, and how?](#) by Christine Zhenwei Qiang and Maria Andersen)
- World Economic Forum: How Benchmarking Data Can Catalyze Economic Performance
- Peterson Institute for International Economics: New Avenues for Empirical Analysis of Cross-Border Investments
- G20 / UNDP / IFC: Inclusive Business as a Private Sector Solution to the Twin Goals
- WBG Development Impact Evaluation Unit (DIME): Business-Support Programs for SMEs - Do they work? A Study of Impacts and Outcomes Across Programs

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