



what works centre for
local economic growth

Toolkit

Business Advice

Investment Promotion Agencies (IPAs)

What are they and what do they aim to do?

Investment promotion agencies (IPAs) aim to increase inward flows of foreign direct investment (FDI). Increased Foreign Direct Investment (FDI) may bring both direct and indirect local economic benefits (for example, by directly providing employment or indirectly improving productivity of domestic firms). IPAs may fund **image building** activities such as advertisements, PR, etc; undertake **investment generation** by identifying and encouraging potential investors; provide **investor servicing/facilitation** to help investors find business opportunities or navigate bureaucracy; or engage in **policy advocacy** – such as lobbying government.¹ IPAs can be based domestically or abroad and may target specific sectors.

In the UK, the Department for International Trade, or DIT (Formerly UK Trade & Investment, or UKTI) provide IPA services for foreign firms. DIT also provides support for UK firms exporting to foreign markets as covered in our toolkit on [export promotion agencies \(EPAs\)](#).

¹ This categorisation is based on Louis Wells and Alvint Wint, 2001, "Marketing a Country, Revisited", Foreign Investment Advisory Service Occasional Paper, number 13.

Key findings

- **Do IPAs increase FDI inflows?** Evidence suggests that IPAs may increase FDI inflows although in some cases support has no effect.
- **Should regions establish IPAs overseas?** The available evidence suggests that regional IPAs are no more or less effective than national support.
- **Can EPAs improve other aspects of firm performance?** IPA support may sometimes improve other aspects of firm performance, but most of the evidence suggests that schemes have little or no effect.
- **Which types of IPA support are most effective?** We don't know. We need to do more to understand cost-effectiveness of different types of support.
- **Should IPAs target specific sectors?** We don't know, which suggests that targeting would need to be based on theoretical considerations (such as barriers to entry) and may not necessarily improve scheme performance.
- **Could private sector involvement improve effectiveness?** Only one study looks at this, suggesting that IPAs are more effective when they are public-private partnerships and have members of the private sector on their supervisory board. Reporting directly to the head of government helps too.

How effective are they?

Three of five studies find a positive relationship between IPA activity and FDI. Two studies find no effect.

Two of these studies look specifically at regional IPAs located overseas, one finding a positive effect on FDI inflows to the region, and the other finding no effect.

IPA support may sometimes improve other aspects of firm performance, but most of the evidence suggests that schemes have little or no effect. One study looking at UK Aftercare, finds no impact on employment, profit, wages value added, total factor productivity or export activity for supported foreign firms operating in the UK. Another study considers total productivity at the country level finding a positive effect for countries that have an IPA, while a final study considers total exports at the industry level finding no effect for industries targeted by IPAs.

Two studies evaluate the impact of IPAs targeted at specific industries, with one finding that FDI increases in targeted industries compared with non-targeted industries, and the other finding no effect on exports.

One study looks at whether IPA characteristics change effectiveness. It finds that sole ownership by government reduces effectiveness, although reporting directly to the countries head of government helps partially offsets this. Private sector membership on the advisory board has a positive effect.

Only one study (looking at UK Aftercare and already discussed above) looks at a specific type of support, finding that investor servicing and facilitation has no effect on foreign firm performance. Unfortunately this is not very informative about the likely impact on the primary objective of most IPAs.

Are they cost effective?

Unfortunately, none of the studies provide credible cost effectiveness information to make an assessment.

Annex: Evidence on investment promotion agencies

How secure is the evidence?

This toolkit summarises the available ex-post evaluations of the effect of investment promotion agencies (IPAs) (i.e. quantitative studies that test the impact of the programme). This toolkit does not consider process evaluations, or evidence based on qualitative or case study methods. Instead, we focus on impact evaluations that identify effects that can be attributed, with some degree of certainty, to the support provided.

We looked for evidence on the effect of EPA support on firm, region or country level FDI as well as on other economic outcomes such as employment.

We focused on evidence from the OECD, in English. We considered any study that provided before-and-after or cross-sectional evidence controlling for differences between countries or firms. We also included more robust studies that compared changes to supported areas or firms with a control group or that used a source of randomness in provision of support to estimate a causal effect.² Throughout the toolkit, we've placed greater emphasis on studies with stronger methods.

We found eight evaluations that meet our minimum evidence standards: Five for the OECD as whole, one each for the UK, US and Canada. Three studies undertake analysis at the country-industry level, two at the country level, two at the regional level, and only one at the firm level. Five studies examine before-and-after changes in outcomes for supported countries/regions against a control group (SMS 3) while three examine cross-sectional differences in outcomes for supported countries/regions against a control group (SMS 2).

The evidence

Three of five studies find a positive relationship between IPA activity and foreign direct investment (FDI). Two studies find no effect.

Study 305 (SMS 2 – region) evaluates the impact of Canadian provincial IPAs located in China using a dataset of Chinese FDI by Canadian province. The study examines the impact of the number of years that the IPA office has been in operation abroad (which it argues captures experience). The number of years in operation is positively associated with both the value of Chinese FDI and the number of projects.

Study 372 (SMS 2 – country) evaluates the relationship between IPA budgets and FDI using a dataset of FDI by country and survey data on budgetary allocations. A ten per cent increase in the IPA budget is associated with 7.5 per cent higher FDI inflows.

Study 326 (SMS 3 – country/industry) evaluates the impact of IPAs targeted at promotion of investment from specific industries – e.g. IPAs having specialised staff for specific industries or only offering certain services

such as investor facilitation to firms from target industries. The study uses a dataset of FDI by industry in 28 OECD countries from 1990 to 2001 combined with survey information on industry-targeting. The study evaluates the before and after change in FDI in industries that were targeted, compared to industries that weren't targeted but had characteristics that were similar to targeted industries. IPA targeting of a specific industry increases FDI for that industry by 41 per cent.

Study 373 (SMS 2 – country/industry) is closely related to Study 326 using a slightly different set of countries (27 developed countries), a slightly different time frame (1990 to 2004) and a slightly different methodology. In contrast to Study 326, IPA targeting of a specific industry has no effect on FDI for that industry. It is unclear what explains these differences hence we report the findings from both studies.³

Study 374 (SMS 3 – region) evaluates the state-level impact of overseas US IPAs on Japanese FDI to the US using a dataset of FDI by 760 Japanese manufacturing firms in each US state from 1980 to 2002.⁴ Setting up a state IPA in Japan does not increase the probability that Japanese firms will choose to invest in that state. The study suggests one possible explanation is that Japanese firms may already be well-informed about potential locations for investment in the US.

Two of these studies look specifically at regional IPAs located overseas, one finding a positive effect on FDI inflows to the region, and the other finding no effect.

See studies 305 and 374 discussed above.

IPA support may sometimes improve other aspects of firm performance, but most of the evidence suggests that schemes have little or no effect. One study looking at UK Aftercare, finds no impact on employment, profit, wages value added, total factor productivity or export activity for supported foreign firms operating in the UK. Another study considers total productivity at the country level finding a positive effect for countries that have an IPA, while a final study considers total exports at the industry level finding no effect for industries targeted by IPAs.

Study 371 (SMS 3 – firm), evaluates the impact of the Aftercare programme on productivity in the UK using a dataset of foreign firms from 2003 to 2005. Aftercare is a government programme that provides ongoing business advice to foreign firms operating in the UK (i.e. investor servicing/facilitation). The study utilises a dataset of foreign firms from 2003 to 2005. This allows it to compare foreign firms that received support to firms that did not, before and after the support was implemented. The study finds that Aftercare support had no impact on employment, profit, wages value added, total factor productivity or export activity for foreign firms operating in the UK for both the service and manufacturing sectors.

Study 320 (SMS 2 – country) evaluates the effect of FDI inflows resulting from IPAs on total factor productivity using a dataset of 49 countries (25 of which are OECD) from 1974 to 2008.⁵ FDI resulting from IPA presence has a positive effect on total factor productivity.

Study 314 (SMS 3 – country/industry) evaluates the impact of IPAs targeted at promotion of investment from

³ Study 373 also uses data on 97 developing countries finding a positive effect. The study argues that this difference may be due to the fact informational asymmetries and bureaucratic hurdles are lower in developed countries, rendering IPAs less effective. As with all our toolkits we focus only on the findings for the OECD.

⁴ One third of the sample is for firms related to the auto industry.

⁵ The study ultimately aims to evaluate the effect of FDI, but it does so by using the number of years a country's IPA has been in operation to predict FDI inflows in an instrumental variables approach.

specific industries using a dataset of exports by industry for countries from 1984 to 2000. The idea is that extra investment generated by IPAs targeted at particular sectors can increase the productivity in a sector and boost exports. The dataset allows comparison of industries that were targeted by IPAs to industries that were not, before and after the establishment of IPAs. In contrast to the large effects reported in Study 326 (which considers a similar question using a different outcome variable (FDI), survey data and somewhat different methods) effects are small and mostly insignificant.⁶

Two studies evaluate the impact of IPAs targeted at specific industries, with one finding that FDI increases in targeted industries compared with non-targeted industries, and the other finding no effect.

See studies 314 and 326 discussed above.

One study looks at whether IPA characteristics change effectiveness. It finds that sole ownership by government reduces effectiveness, although reporting directly to the countries head of government helps partially offsets this. Private sector membership on the advisory board has a positive effect.

Study 372, discussed above, finds that IPAs that are solely owned by the government are associated with 0.79 less FDI, and IPAs that report directly to the prime minister are associated with 0.53 more FDI. Finally, it finds that having more members of the private sector on the advisory board is associated with higher FDI inflows.⁷

⁶ The contemporaneous effect of sector-targeting is small and insignificant, while the lag of sector targeting is significant but only at the 10% level. We treat this as evidence of no effect as in the text. The study separately examines developing countries for which it finds much larger and significant positive effects. The study suggests that the reason for this is that FDI impacts on exports by closing a technology gap between host and investor countries, and that this gap is likely to be smaller for high-income countries. As with all our toolkits we focus only on the findings for the OECD.

⁷ The study also looks at the impact of different types of IPA support (in addition to the effect of total budget described above). The study finds all four types of support (policy advocacy, image building, investor servicing/facilitation, investment generation) are associated with higher FDI. It is the only study we found that breaks down support by activity although, unfortunately, results are presented in such a way as not to allow comparison of relative effectiveness). The study presents elasticities only, which are not good for comparing across support type. A one percent increase in one funding for one form of support might be a much larger increase than a one percent increase in another form of support. The study doesn't present any statistics for base level funding that would allow for a direct comparison across types using based on the elasticity estimates.

Annex: Evidence Reviewed

Ref Number	Reference
305	Anderson, J., & Sutherland, D. (2015). Developed economy investment promotion agencies and emerging market foreign direct investment: The case of Chinese FDI in Canada. <i>Journal of World Business</i> , 50(4), 815-825.
314	Harding, T., & Javorcik, B. S. (2012). Foreign direct investment and export upgrading. <i>Review of Economics and Statistics</i> , 94(4), 964-980.
320	Baltabaev, B. (2014). Foreign Direct Investment and Total Factor Productivity Growth: New Macro Evidence. <i>The World Economy</i> , 37(2), 311-334.
326	Charlton, A., & Davis, N. (2007). Does Investment Promotion Work? <i>The BE Journal of Economic Analysis & Policy</i> , 7(1), 1935-1682.
371	Girma, S., Görg, H., and Pisu, M. (2005). Quantitative analysis and linked micro-data study of UKTI services - Final report. London, UKTI.
372	Morisset, J. P. (2003). Does a country need a promotion agency to attract foreign direct investment? A small analytical model applied to 58 countries.
373	Harding, T., & Javorcik, B. S. (2011). Roll out the red carpet and they will come: Investment promotion and FDI inflows. <i>The Economic Journal</i> , 121(557), 1445-1476.
374	Head, C. K., Ries, J. C., & Swenson, D. L. (1999). Attracting foreign manufacturing: Investment promotion and agglomeration. <i>Regional Science and Urban Economics</i> , 29(2), 197-218.

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