Lessons from Five Small-Country Successful Investment Promotion Agencies Part I: The Activities

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KEY TAKEAWAYS

The Investment Promotion Agencies (IPAs) in Singapore, Ireland, Mauritius, Rwanda, and Costa Rica are regarded as highly successful organizations that have contributed to the economic success of their host countries and are based in small (population and area) sized countries.

Successful IPAs engage in general promotion of investment and provide incentives related to taxation, visas, infrastructure provision, access to land, promotional activities, policy advocacy, and efforts to improve the ease of doing business.

Successful IPAs also engage in more focused efforts to promote investment (with foreign rather than domestic investment), work with a clear list of priority sectors, and pro-actively target individual Foreign Direct Investment (FDI) firms that fit the criteria identified by priority sectors.

Executive Summary

Introduction

✧ IPAs have become central to contemporary globalization in both developed and developing countries.

✧ The IPAs in Singapore, Ireland, Mauritius, Rwanda, and Costa Rica are widely regarded as successful organizations that have contributed to the economic success of their host countries and are based in small (population and area) sized countries.

The Economic Success of Five Small Countries

✧ All five small countries have sustained rapid (6% plus) economic growth over several decades.

- This rapid economic growth has not always been associated with industrialization. A key lesson here is that IPAs should not be dogmatically attracted to promoting industrialization; the IPA in Costa Rica, for example, also promoted non-traditional agricultural exports.

- Economic success in small countries is closely associated with globalization and a rising share of imports and exports in GDP. Openness is crucial to sustaining rapid economic growth.

What IPAs Do (I): General

- All five IPAs are mandated to implement incentives related to taxation, visas, infrastructure provision, and access to land.

- There is evidence that these incentives offered by IPAs have a positive impact on FDI.

- Promotional activities by IPAs (such as advertising in global newspapers) have a positive impact on FDI.

- Policy advocacy is the most effective policy intervention undertaken by IPAs, but may be hard to manage unless the IPA has a more arms-length relationship with the government.

- IPAs are mandated to undertake activities that improve the ease of doing business. All five IPAs studied in this policy brief contributed to a rapid improvement in the ease of doing business in their own country.

What IPAs Do (II): A Focused Strategy

- Successful IPAs focus their efforts on attracting FDI rather than domestic investment.

- IPAs have a clear list of priority sectors upon which to focus their efforts. Those sectors should emerge from a national strategic effort to identify them.

- Successful IPAs engage in pro-active targeting of individual FDI firms that fit the criteria identified by priority sectors.

Introduction

This is the first in a two-part series of policy briefs looking in detail at general and case-study evidence on the role of Investment Promotion Authorities (IPAs) in promoting economic growth and development. It can be read in conjunction with Part II or as a standalone report. Much of the information contained in this Introduction is common to both parts of the series.

An often-neglected aspect of contemporary globalization is the growing role of IPAs. Between 2002 and 2018, the number of national and subnational IPAs registered in the World Association of Investment Promotion Agencies (WAIPA) grew from 112 to 170, encompassing both developed and developing countries[1]. While involved in promoting domestic investments, IPAs tend to focus on attracting FDI, which is a crucial marker of globalization.

Sub-national IPAs are common in those countries with a strong federal system and devolved economic responsibilities such as the US, India, Spain and Tanzania (including Zanzibar), or regions with particular economic needs, for example, post-industrial regions[2]. IPAs are not expensive; a survey of IPAs across the Organisation for Economic Co-operation and Development (OECD) and Latin America found they had a median budget of only $ 7million with a staff of 100 (the largest have budgets of over $200 million and staff of 1,000 plus)[3]. However, IPAs can provide a role that transcends their budgetary resources in targeting investors, offering a quick service to provide the bundle of necessary government licenses and associated incentives. IPAs can also monitor and assist investors over the long-term.

This policy brief studies the organizational set-up and policy practice of five IPAs. The first is the Economic Development Board (EDB) in Singapore, established in 1961 as a statutory body mandated to deal with the private sector, especially large foreign corporations4. In Ireland, the Industrial Development Authority was founded in 1949, took on a role in both attracting FDI and formulating industrial policy in the late 1960s, and was restructured as the Industrial Development Agency (IDA) Ireland in 1994[5]. The Rwanda Development Board (RDB) was created in 2008 by merging eight existing government agencies[6] and was mandated to facilitate and promote investment in Rwanda[7]. In Costa Rica, the Coalicion Costarricense de Iniciativas de Desarrollo (CINDE) was founded in 1983 as a private, non-profit organization by 76 prominent business people, supported by the government of Costa Rica and financed by grants from the United States Agency for International Development (USAID)8. In Mauritius, the Economic Development Board (EDB) is mandated to both provide support to the government for strategic economic thinking, as well as more narrowly to promote Mauritius as an investment destination. The EDB was set up in 2017, though has other earlier incarnations, such as the Board of Investment from 2010[9].

These five IPAs have been chosen because they are all operating in small countries (by population and physical area) making comparisons between them more applicable (see Table 1). They also span the range from wealthy developed to low-income developing countries and are located across four continents.

Table 1: Population and GDP Per Capita in Five Small Countries

Country	Population, 2022 (m)	Land Area (km^2)	GDP per capita, 2022 ($)
Rwanda	13.78	26,338	966
Singapore	5.6	734.3	82,807
Costa Rica	5.18	51,100	13,365
Ireland	5.13	84,421	103,983
Mauritius	1.26	2,040	10,256

Source: World Bank (2024)

This policy brief is focused on learning from examples of success. These five IPAs are widely cited in academic literature, policy documents, and media sources as globally successful IPAs that have made a positive contribution to the economic transformation of their host countries. Specifically, the IDA in Ireland and EDB in Singapore are regarded as being among the best in the world[10]. CINDE in Costa Rica has maintained a high global profile, especially since its successful efforts to attract the semiconductor manufacturer Intel in the mid-1990s[11]. CINDE was ranked as the world's top organization for attracting FDI for 5 consecutive years by the International Trade Centre[12]. The EDD in Mauritius and the RDB in Rwanda are credited with contributing to the rapid and sustained economic growth in both countries, and in the case of Mauritius, to industrialization; this, despite the recent genocide in1994, the landlocked geography of Rwanda, and constraints of near total dependence on a weakening sugar cane crop in Mauritius in the 1970s[13].

This policy brief is organized into two sections. The first section starts by highlighting some of the key economic achievements of the five countries included in the sample. The second section highlights the key activities conducted by their respective IPAs that contributed to this economic success. These cover general activities, investment incentives and access to land, promotional activities, policy advocacy and the ease of doing business, as well as focused activities attracting FDI (not domestic investment), targeting priority sector and pro-active targeting. The policy brief draws lessons at each stage of the discussion.

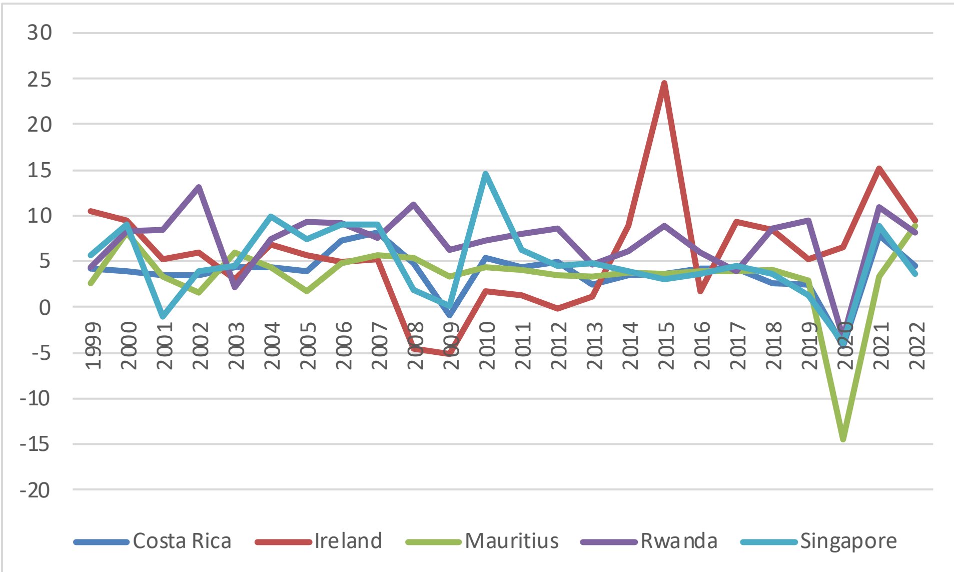
Summary Points

- ✧ IPAs have become central to contemporary globalization in both developed and developing countries.
- ✧ The IPAs in Singapore, Ireland, Mauritius, Rwanda, and Costa Rica are widely regarded as successful organizations that have contributed to the economic success of their host countries and are based in small (population and area) sized countries.

The Economic Success of Five Small Countries

Figure 1 shows that all five countries have experienced rapid and (or) stable economic positive growth over the last two decades, except for the worldwide slowdown experienced during the 2008 Global Financial Crisis and the COVID-19 global recession in 2020.

Figure 1: GDP Growth %, p.a.

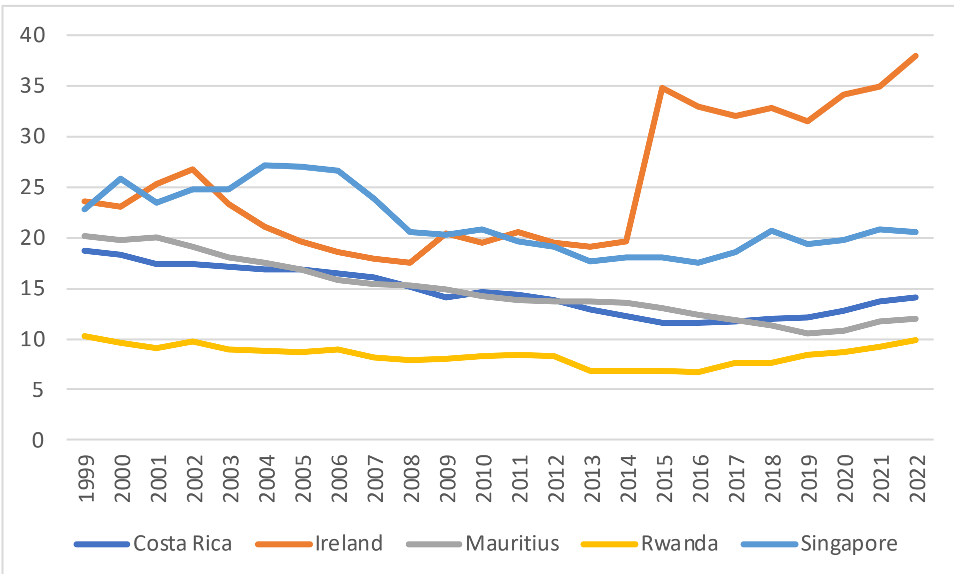


Source: World Bank (2024)

Singapore achieved sustained economic growth between 6% and 7% p.a. between 1960 and the late 1990s, driven by an investment ratio that exceeded 40% of GDP in the 1980s. Singapore rapidly industrialized, with manufacturing exports reaching 70% of GDP in the 1980s, of which more than 70% were receiving tax exemptions from the EDB[14]. Until the 1980s, Ireland was characterized as being much poorer than its neighbor the UK, and as a country of high unemployment and mass outward migration. The 1990s brought an economic transformation, with Ireland becoming one of the fastest growing economies in the world[15]. IDA Ireland was restructured and re-launched in 1994 and became a key player in this transformation. Between 1973 and 1999, real GDP in Mauritius grew by almost 6% p.a. on average, more than double the average in Sub-Saharan Africa[16]. During the late 1960s, as the country moved towards independence, Mauritius was one of the poorest countries in Africa, with a GDP per capita around $200[17]; by 2022, it was one of the richest countries on the continent, with a GDP per capita of almost $10,000[18].

Figure 2 shows that Singapore and Ireland had achieved high levels of industrialization by the late 1990s, around 25% of GDP, which was declining as both economies shifted into high-value added services. At the time of independence in 1968, Mauritius was a mono-crop economy dominated by sugar production, which comprised 70% of export earnings even as late as 1977. Economic reforms in the early 1970s promoted manufacturing, which finally replaced sugar as the largest contributor to foreign exchange by 1985[19]. By the late 1990s manufacturing was declining, as Mauritian firms re-located production overseas in response to rising wages and the economy shifted towards five-star tourism, financial and business services, information and communication technology, seafood processing, real estate, and education/training[20]. On the other hand, the economic successes of Rwanda and Costa Rica over the last two decades have not been associated with rapid industrialization. Figure 2 shows that manufacturing output as a share of GDP was declining steadily in Costa Rica, and remained below 10% of GDP and stagnant in Rwanda.

Figure 2: Manufacturing, value added (% of GDP)



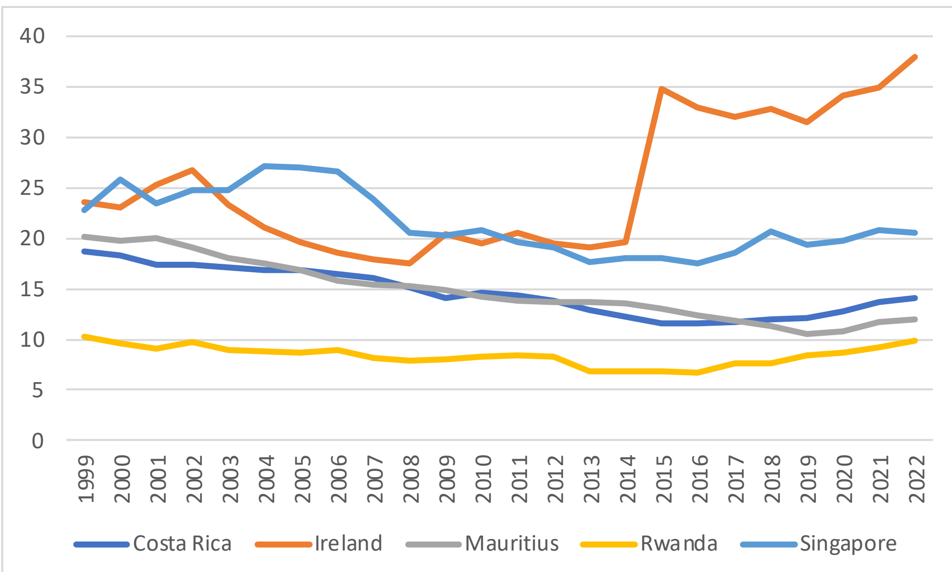
Source: World Bank (2024)

Though not directly relevant for this paper, these five case studies offer some interesting additional insights into the economic impact of the political system. Lee Kuan Yew, the long-serving Prime Minister of Singapore, and the dominant post-independence political figure, famously argued that democracy was often not-compatible with a developing country achieving rapid economic growth. These claims were supported by various scholars, with the proposition becoming known as the 'Lee Thesis'. Supporters have argued that rapid economic growth requires an authoritarian state or dictator with the power to take tough, long-term decisions, such as diverting resources from consumption to investment, and the construction of long-term infrastructure.

Of note is that all five countries here have sustained democratic political systems of various natures. In Singapore and Rwanda, elections are won (and manipulated) by a single dominant political party (and a single leader) remaining in power for decades, Lee Kuan Yew and Paul Kagame respectively. In Ireland, Costa Rica, and Mauritius the democratic political system is long-established and competitive, with regular changes in political leadership. Costa Rica has been democratic since 1889, in a region better known for brutal military dictatorships. Ireland has been a competitive democracy since its constitution was promulgated in 1937. Mauritius has sustained a fair and highly competitive democracy since independence in 1968. This is despite being in Sub-Saharan Africa, a region with a poor history of democratic practice, and a highly participative political system amidst a very diverse social structure divided by caste, religion, and ethnicity. These case studies show that successful IPAs are compatible with competitive democracy.

Small countries generally have a higher trade share in terms of imports plus exports as a share of GDP. Due to their size, it is unlikely that FDI will target the local market but, rather, seek to use these countries as an export platform. In this respect, the success of IPAs is closely related to international trade. This is borne out by Figures 3 and 4. Figure 3 shows that the trade share reached extremely high levels (100-400% of GDP) in the three more developed countries in our sample – Singapore, Mauritius, and Ireland. In Mauritius, there has been a downward trend since around 2000 as the country has started offshoring its export-oriented textiles manufacturing.

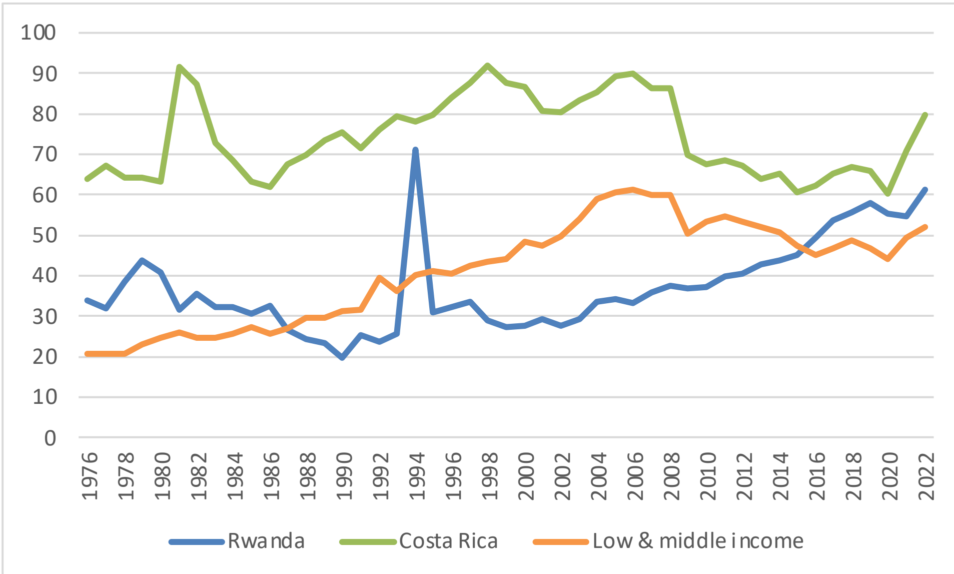
Figure 3: Trade Share (% of GDP) in Mauritius, Ireland, and Singapore, 1976-2022



Source: World Bank (2024)

Figure 4 shows that the trade share was rising steadily in Costa Rica between 1976 and 2006, followed by a decline thereafter, though it remained resolutely above the average for low- and middle-income countries. The trade ratio has been steadily rising in Rwanda since 2000; despite being a poor developing country, it overtook the average for low- and middle-income countries in 2016. As the poorest country in the sample, Rwanda is at a much earlier stage of globalization. For example, in 2010 only 14% of firms in a survey exported[21]. Figures 3 and 4 make clear that all five countries have either higher levels or more rapid growth in the trade share than the average of low and middle-income countries.

Figure 4: Trade (% of GDP) in Rwanda, Costa Rica, and Low- & Middle-Income Countries, 1976-2022



Source: World Bank (2024)

Policy Lessons

- All five small countries have sustained rapid (6% plus) economic growth over several decades.

- This rapid economic growth has not always been associated with industrialization. A keylesson here is that IPAs should not be dogmatically attracted to promoting industrialization. Costa Rica, for example, also promoted non-traditional agricultural exports.

- Economic success in small countries is closely associated with globalization and a rising share of imports and exports in GDP. Openness is crucial to sustaining rapid economic growth.

What IPAs Do (I): General

This policy brief draws on two sources of data. Two surveys of IPAs, one conducted by the World Bank in 2002 of 75 IPAs and the other by the 2020 Global Investment Promotion Agencies Survey of 91 IPAs, which was jointly conducted by the World Bank and the World Association of Investment Promotion Agencies (WAIPA)[22]. The second data source is a wide range of both empirical and case studies of IPAs and other organizations, such as management authorities of Special Economic Zones (SEZs), that attempt to derive or empirically measure successful policy practice or organizational structure that best promote investment to support rapid economic and export growth and structural change.

The analysis here is organized into two main sections. The first focuses on the general policy engagement of IPAs. Topics covered include: 'incentives and access to land', 'promotional activities', 'policy advocacy', and 'the ease of doing business' and the second section on the more targeted policy engagement of IPAs.

Incentives and Access to Land

Another policy brief (focused on SEZs) published by CCI found that IPAs across the world tend to offer a very similar package of tax incentives to investors, but differ greatly in terms of the access they offer to world class utility and transport connections and the quality of the business regulatory environment[23]. This is echoed by the IPAs studied in detail in this policy brief. Each of these five IPAs offer similar packages of tax incentives, ranging from exemptions on corporation tax in Singapore[24] to very low rates in Mauritius[25], and the free repatriation of profits, duty-free access to imported inputs and capital equipment, and easier visa-access for expatriate workers.

All five IPAs offer assistance in accessing land, which is most pronounced in Singapore. In 1966, Singapore passed the Land Acquisition Act, which gave the government sweeping powers to make compulsory land purchases. The EDB had a central role in marketing these land parcels to potential investors[26]. Once acquired, this land was leased to incoming industrialists for 30 years at low prices and lease extensions were freely available[27]. The EDB has been closely involved with large-scale land reclamation projects specifically designed for new investors. In the 1960s, a large area of coastal swamp was drained to create the Jurong Industrial Park. In the 1970s, the waterfront district was reclaimed to extend the banking and financial district, and in the 1990s small islands to the south were amalgamated to create Jurong Island, a center for the petrochemical sector[28].

All five IPAs have promised that investors will have access to world class infrastructure, including ports, roads, airports, and an efficient power supply. This was most obviously realized in the case of Singapore[29], while investors frequently cite problems with infrastructure provision in Rwanda, but tend to agree that it is improving rapidly[30]. By the 1990s, Ireland was able to offer investors access to a world-class telecommunications system and a young, well-trained (often from new colleges focused on technology), English speaking labor force[31].

One study used data from the 2020 World Bank survey of IPAs and found that investment incentives (especially those related to tax incentives and subsidized infrastructure) had a positive impact on FDI[32].

Promotional Activities

Information is an example of a public good that has a fixed cost to acquire or create, and zero or very low marginal costs to disseminate. There is a striking market failure here; no individual firm wants to incur the initial cost and each firm has an incentive to wait for a pioneer firm to acquire information (such as discovering whether it is profitable to invest in Rwanda), and then follow their lead. This market failure may be more profound in a poor developing country where statistics are scarce, or of poor quality, and there are fewer other global investors from which to learn. An IPA has an important market-creating role through the dissemination of information about potential investment opportunities[33]. Information dissemination by IPAs can take various forms, including advertising, production of promotional material, and participation in events such as trade fairs and conferences[34].

93% of IPAs surveyed by the World Bank in 2022 promote priority sectors at business events and overseas conferences. 77% of IPAs give guidance to investors on government regulations and other aspects relevant to new firms at the time of investor entry[35]. The websites of all five IPAs examined in this policy brief are full of information about the host country and investment services offered by the IPAs. However, there is little detailed case study evidence regarding the effectiveness of these promotion efforts. One rare example is a survey of potential and existing investors in Rwanda. Among potential investors, only 14% had heard of the RDB but 75% of existing investors rated the performance of RDB as good or excellent. There is a general perception that the RDB does particularly well in promoting Rwanda as an investment destination[36].

Wider empirical evidence from the early 2000s shows promotional efforts by IPAs are both significant and effective. Participation in public events such as conferences and the creation of promotional materials constitutes about 30% of the budget of developing country IPAs, with IPAs reporting sending out an average of over 2,500 information packages to foreign investors every year[37]. In addition, IPAs spend around 10% of their total budget on advertising, placing on average nine advertisements in the international media per year to promote FDI[38]. These promotional activities appear to be successful. Using data from the 2022 World Bank survey of IPAs, one study found that high-level managers from the 1,000 largest global firms of countries were more likely to look favorably on a country as a potential destination for FDI if that country's IPA was placing adverts in the UK Financial Times newspaper and spending on general advertisements in the global press[39].

The ability of an IPA to promote their host country as an investment destination is closely linked to the presence of overseas offices of that IPA. This is discussed in detail in the second policy brief in this series - *Lessons from Five Small-Country Successful Investment Promotion Agencies Part II: The Organizational Framework*.

Policy Advocacy

Policy advocacy by IPAs consists of activities through which the IPA "*supports initiatives to improve the quality of the investment climate and identifies the views of the private sector on that matter. Activities include surveys of the private sector, participation in task forces, policy and legal proposals, and lobbying*"[40]. A survey of 75 IPAs conducted by the World Bank in 2002 found that almost every IPA reported engaging in some form of policy advocacy. 80%

of IPAs surveyed said they used participation in government task forces as a form of policy advocacy and 60% said they undertook investor perception surveys (most annually) to gauge how investors were coping[41]. Policy advocacy is also the service that investors value most highly and so helps create a real partnership between the IPA and investors[42]. Empirical work shows that policy advocacy has a positive, and much stronger, association with FDI inflows than promotional activities such as image building[43]. Despite the evident success, IPAs surveyed spent less than 10% of their budget on policy advocacy[44].

The five IPAs analyzed in this policy paper are highly regarded variously, for their successful efforts to implement government policy (Rwanda), policy advocacy (Costa Rica, Mauritius, and Ireland), and for making and implementing policy themselves (Singapore).

In Costa Rica, CINDE undertook independent research combined with a pro-active approach in advocating for policy reforms. During the early 1990s, the Ministry of Trade relied heavily on CINDE as a source of policy advice, which had a consequent impact on investment and trade policy[45]. In the mid-1990s, for example, CINDE hired a foreign consultancy firm, FIAS, to develop a strategy to attract FDI in electronics into Costa Rica. FIAS also recommended promoting support services for the electronics sector, such as plastics, metal working, mold making and equipment service and repair, as well as more general reforms related to intellectual property rights, telecommunications and transport infrastructure, and technical and engineering training. CINDE accepted the FIAS study and used it to inform its own strategic plan for engagement with the government of Costa Rica[46].

The results of the 2022 World Bank survey, specifically those related to sub-national IPAs, showed how useful a more arms-length relationship with government could be. The survey suggested that this gave IPAs more freedom from political pressures, more scope to engage in policy advocacy, and a greater ability to respond to the needs of customers, particularly the commercial time-frames associated with investment[47]. The second policy brief in this series explains how this creates a trade-off.

There are also advantages to having a closer relationship with government in the form of acquiring the authority associated with being based in the office of the President or Prime Minister, or a powerful line ministry such as Finance that may allow IPAs to impose a degree of policy coordination and timely implementation across other ministries and agencies of government.

General Outcome: Ease of Doing Business

It is difficult to trace the link between the activities of a single IPA and the evolution of the overall ease of doing business in a country. A committed government may create an IPA as part of its wider efforts to create a more investor-friendly environment. We noted elsewhere in this policy brief that all five of the IPAs studied here do have a mandate for improving the ease of doing business, especially for foreign investors, and all undertake various forms of policy advocacy, which is highly regarded by investors. In Rwanda, for example, when the RDB was established in 2006 it brought together all government agencies responsible for investor experience under one organizational roof. This included those key agencies responsible for business registration, investment promotion, environmental compliance clearances, export promotion, and other necessary approvals. This enabled new investors to register online at the RDB website and receive a certificate in a few days. The RDB was able to act as a onestop-shop, to assist firms to acquire all the necessary permissions, visas, and connections to utilities[48].

We can say that the efforts of all five IPAs studied in this policy brief have been compatible with the evolution of investor-friendly environments in all five hosting countries.

In 2001, Mauritius compared well to African and other developing countries in indices related to investor protection and risk[49]. In 2010, Mauritius rated first in Sub-Saharan Africa in the Rule of Law Index produced by the World Bank[50]. In 2022, Mauritius rated first among 47 countries in Sub-Saharan Africa in the Index of Economic Freedom produced by the Heritage Foundation[51]. Singapore rates at or near the top of many global indexes of good government, transparency, and ease of doing business. The process of establishing a foreign-owned company in Singapore through a single-online-window for business registration is among the fastest such processes in the world[52].

While Singapore's efforts are long-standing, those in Rwanda are much more recent. The RDB, along with the wider government of Rwanda, have worked to improve the regulatory and governance environment for investors. Between 1996 and 2019, there were sharp improvements in the effectiveness of policy implementation as measured by World Bank Governance Indicators and measures of regulatory quality[53]. By 2019, Rwanda ranked second in Sub-Saharan Africa and 38th in the world for the ease of doing business[54]. Specifically, in relation to starting a business, by 2019 Rwanda had surpassed the performance of the average high-income country[55]. The number of days required to start a business was reduced from 18 days to only 3 days. The cost of starting business was reduced from 235% of per capita income to 4%[56].

Policy Lessons

- All five IPAs are mandated to implement incentives related to taxation, visas, infrastructure provision and access to land, all of which have a positive impact on FDI.

- Promotional activities by IPAs, such as advertising in global newspapers, have a positive impact on FDI.

- Policy advocacy is the most effective policy intervention made by IPAs, but may be hard to undertake unless the IPA has a more arms-length relationship with the government.

- All five IPAs studied in this policy brief are mandated to undertake activities that improve the ease of doing business, and all five IPAs contributed to the rapid improvement in the ease of doing business in their own country.

What IPAs Do (II): A Focused Strategy

The previous section focused on general activities undertaken by IPAs that affect all forms of investment. This section focuses on more targeted efforts that affect specific sectors or even individual firms. The section covers FDI, priority sectors, and pro-active targeting.

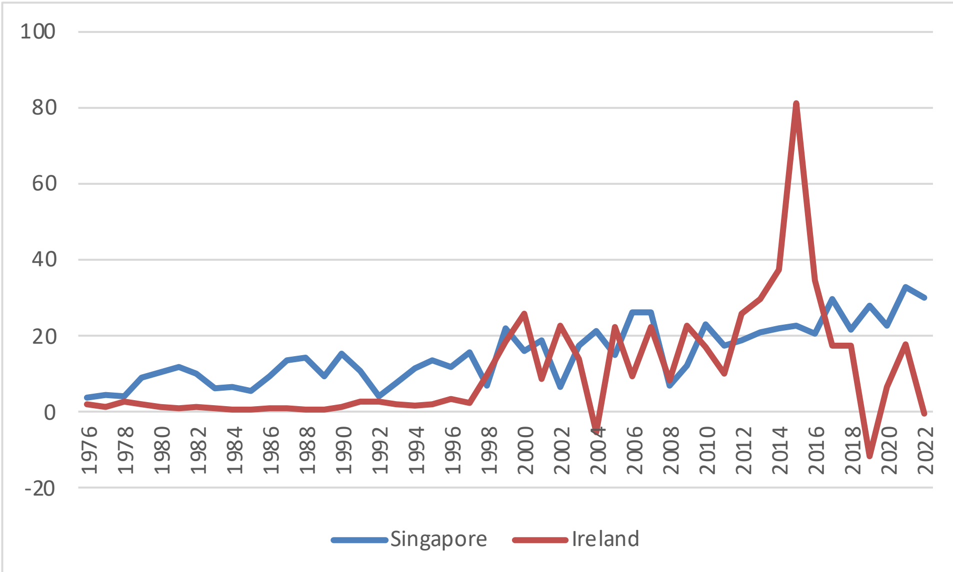
FDI (not Domestic Investment)

The mandate of successful IPAs in general, and of the five IPAs studied in this policy brief, is focused narrowly on attracting FDI rather than domestic investment. Only 10% of successful IPAs with a focus on attracting FDI report a responsibility to promote domestic investment, versus almost two-thirds of all IPAs[57]. It may be easier for IPAs to impose investment conditions on FDI than on local firms who have a range of political influence and connections.

In Singapore, the EBD has always had a closer and more engaged relationship with FDI than domestic firms[58]. Despite its population of around 3.5 million people, during the 1980s, Singapore received more FDI than any other developing country, including India and China[59]. By the late 1990s, Singapore hosted investment from more than 5,000 MNCs[60], and by 2021, Singapore held a stock of $300 billion in FDI from the US alone[61]. In Ireland, the IDA has a clear mandate to focus on FDI while Enterprise Ireland (EI) is responsible for supporting Irish firms, particularly with their efforts to export[62]. The IDA has built up considerable expert knowledge about international markets and has a very close relationship with FDI firms[63]. The US government has acknowledged this role, noting that: "*IDA in Ireland is widely credited as the driving force behind the fact that over 950 U.S. subsidiaries are operating in Ireland, in high-tech sectors including chemicals, biosciences, pharmaceutical and medical devices; computer hardware and software; internet and digital media; electronics, and financial services*"[64]. IDA has helped ensure these FDI firms, and manufacturing more generally, is export-oriented. One survey showed that 94% of manufacturing firms in Ireland are engaged in international trade[65]. In Costa Rica, CINDE started with a focus on encouraging domestic firms to export and lobbying government to enact more pro-export policies. The effort was not successful and from the mid-1980s onward CINDE switched its focus to attracting FDI[66].

Figures 5 and 6 show that while all five IPAs were successful in attracting FDI, there are two distinct clusters. Figure 5 shows that Singapore has been successful in attracting FDI since the 1970s, while FDI flooded into Ireland after the creation of the IDA in the mid-1990s. These two developed countries' IPAs attracted some of the largest inflows of FDI in the world (20% plus of GDP in both cases), though this was more stable in the case of the EDB in Singapore.

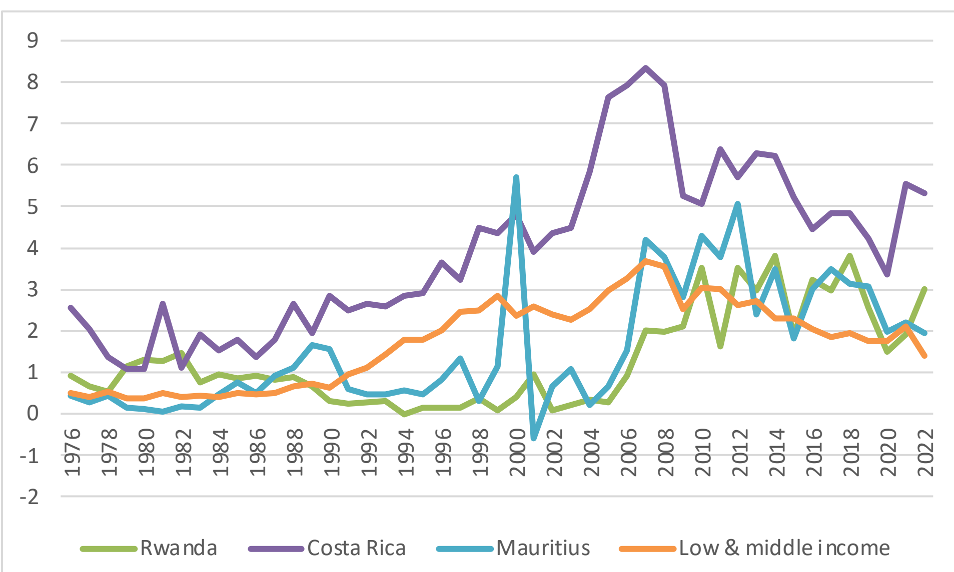
Figure 5: FDI Net Inflows (% of GDP), Singapore and Ireland, 1976-2022



Source: World Bank (2024)

Figure 6 shows that the other three countries each had significantly lower inflows of FDI as a share of total GDP. In Costa Rica, this share has always been higher than the average for low- and middle-income countries, while in Rwanda and Mauritius that share increased rapidly after 2005 to exceed that average, though the gap had narrowed by 2020.

Figure 6: FDI Net Inflows (% of GDP), Mauritius, Costa Rica, Rwanda and Low- and Middle-Income Countries, 1976-2022



Source: World Bank (2024)

Promoting Specific Priority Sectors

Successful IPAs are clear about the priority sectors they are targeting. The 2020 World Bank survey of IPAs found that an IPA has 11 priority sectors on average. The most popular sectors targeted by IPAs are renewable energy (68% of IPAs) and information technology (IT) services (62% of IPAs)[67]. The 2002 World Bank survey of IPAs in 109 countries found that targeted sectors received more than twice as much FDI as non-targeted sectors[68]. Where an IPA is clear about the identity of those targeted sectors, the survey found no significant difference in the number of sectors targeted between high-performing IPAs and other IPAs[69]. What does seem to matter is that those priority sectors have emerged from a rigorous process of deliberation. Target sectors are mainly selected on the basis of a national development plan, or a similar high-level policy document (81%), or on the basis of comprehensive research on global demand and FDI emerging trends (49%)[70]

In Singapore, the targeted sectors have evolved over time. In the 1960s, the EDB focused on low-end labor-intensive manufacturing such as textiles. In 1980, the government introduced a new national economic policy, the Industrial Upgrading Programme[71]. The policy allowed wages to rise and so pushed low-end, labor-intensive manufacturing to other countries and encouraged firms to invest in higher-technology. After the 1997 Asian Financial Crisis, Singapore intensified the shift to "knowledge-based" industries, especially in financial services, biosciences and pharmaceuticals[72]. Today, in 2024, the EDB has a clear list of priority sectors, now high-technology manufacturing and service sectors, which, according to the website, include education, financial services, ICT, life-sciences, renewable energy, aerospace, pharmaceuticals and biotechnology, precision engineering, medical technology, and the creative industry[73].

In Ireland, the IDA began to target hardware companies in the 1980s, but real success came in the 1990s when it shifted to targeting software and attracted Microsoft, Lotus, Novell and Corel[74]. The IDA website in 2024 lists priority sectors as engineering, green economy, media, medical technology, bio-pharmacy, business services, technology and financial services[75].

Until 2004, scarred by images of the 1994 Genocide, Rwanda generated little tourism. By 2015, tourism was Rwanda's largest foreign exchange earner, generating $318 million in 2015, with 60% of this related to gorilla-trekking activities alone. Through the Office for Tourism and National Parks (ORTPN), which was later subsumed within the Rwanda Development Board (RDB), the government launched several initiatives, including the annual gorilla naming ceremony, Kwita Izina, which was launched in 2005, and the Remarkable Rwanda campaign[76]. The Visit Rwanda organization has become famous for its sponsorship of top European football teams, Arsenal, Bayern Munich, and Paris Saint-Germain[77]. The current (2024) RDB website lists agriculture, energy, manufacturing, infrastructure, global business services, mining, ICT, real estate and construction, tourism, financial services, health services, education, and green economy as priority sectors78. The sectors have emerged from high-level national plans, in particular the 2011 Industrial Policy for Rwanda highlighted a near-identical list of priority sectors[79].

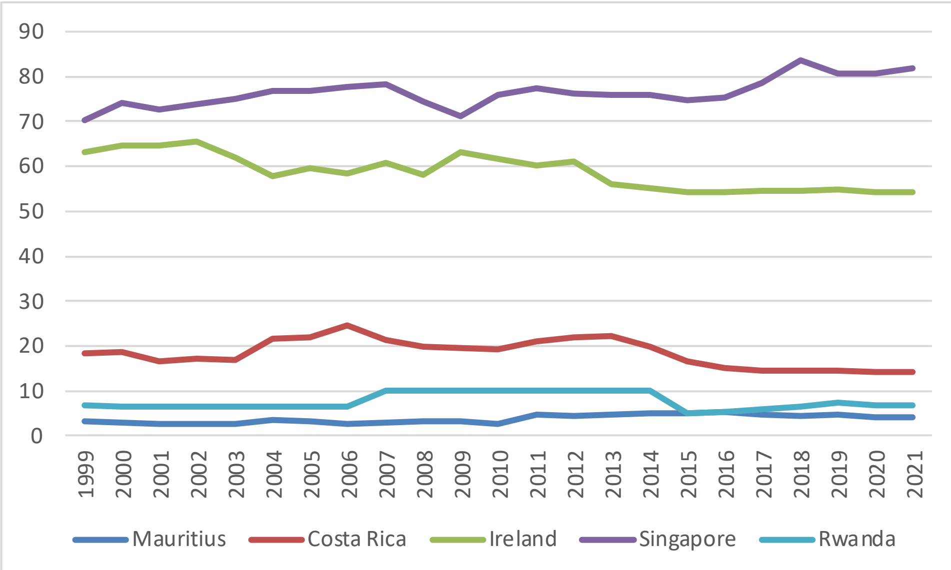
In Costa Rica, CINDE supported its policy advocacy with careful analysis of those sectors that could be competitive and accorded with Costa Rica's comparative advantages related to input availability, labor skills, relative factor costs, location, and transport costs. In manufacturing, priority sectors included more labor-intensive and less skill-intensive sectors, such as plastics, metal-mechanics, agro-processing, electro-mechanical and electronics. In agriculture, priority sectors were based on trying to diversify and increase value-added and included non-traditional agricultural products such as asparagus, strawberries, melons, broccoli, cacao, hot chilies, macadamia nuts, tomatoes for processing, black pepper, ornamental plants and flowers. CINDE also successfully concentrated on developing ecotourism. Through its pro-active approach to policy advocacy, CINDE was able to translate its priority plans into practical policy changes at the government level[80]. By the 1990s, CINDE shifted priority sectors away from low-skill, labor-intensive sectors where Costs Rica was losing competitiveness to those sectors requiring the use of educated labor, such as engineers and technicians that the country had been successful in creating; these newly emerging priority sectors included electrical, electronic, and telecommunications industries[81]. By 2024, priority sectors, according to the CINDE website, include high-technology manufacturing and services, as well as digital technology, creative industries, life sciences, well-being, and eco-tourism[82].

In Mauritius, by the late-1980s the highly successful export-oriented clothing and textile sector accounted for more than 90% of employment in SEZs. The government simultaneously promoted a shift from basic cutting and sewing operations to higher end technology in textiles, as well as broader diversification into leather products, precious stone cutting, electronics, and other niche industries. Tourism was also promoted through investment incentives, air transport development and foreign advertising[83].

One way of summarizing the approach to choosing priority sectors among the five successful IPAs is that they accord to comparative advantage. Figure 7 shows that there is a clear distinction between firstly, high income Ireland and Singapore where medium and high-tech manufacturing accounts for a large (60-80%) share of total manufacturing output, and secondly, Mauritius, Costa Rica, and Rwanda where it accounts for a much lower share (0-20%). These figures demonstrate that poor developing countries can sustain rapid GDP growth for decades on the basis of low-technology manufacturing or other sectors.

The poorest country IPA in our sample, Rwanda, has focused on promoting low-skill, labor-intensive manufacturing sectors and tourism. Middle income Costa Rica has a well-established base of medium and high-tech production, and the two high-income countries, Singapore and Ireland, have largely upgraded their domestic manufacturing base into medium and high-technology manufacturing. In Ireland, technology also revolves around software, where the country emerged as a crucial part of global production networks in the 1990s84. In comparison, Mauritius, though middle-income, has focused on off-shoring its labor-intensive domestic manufacturing of textiles to Madagascar and other locations. Instead of upgrading the technology of domestic manufacturing, it has shifted to high-technology services such as financial services, business consultancy, and textiles R&D.

Figure 7: Medium and High-tech Manufacturing Value Added (% manufacturing value added)



Source: World Bank (2024)

Pro-active Targeting

Sub-national IPAs in particular are very adept at targeting specific sectors or even individual firms. Survey evidence showed that sub-national agencies generated more than one-half of their leads from their own outreach efforts – in some cases, more than 90% of leads were generated by activities of the subnational IPA[85]. The five IPAs studied in this policy brief have at times been highly selective and purposeful in attracting particular foreign investors.

In 2001, the EBD in Singapore launched the Biomedical Sciences Initiative, which included four sub-sectors: pharmaceuticals, medical technology, biotechnology, and healthcare services. The EBD proactively targeted large biomedical MNCs and offered a wide range of tax incentives and subsidies to those corporations willing to set up operations in Singapore. Outside the EBD, between 2001 and 2004, 276 post-graduate scholarships were awarded for doctoral programs in various areas of biomedical sciences. Singapore also amended its labor and immigration laws to fast-track migration of skilled foreign professionals for employment in the MNCs. The number of highly qualified researchers and personnel in the biomedical sector increased from under 100 in 2001 to over 4600 by 2006. The government invested $550 million to launch the Tuas Biomedical Park and Biopolis, a 183-hectare site dedicated to supporting the biomedical industry[86].

In 1985, CINDE launched a new foreign investment promotion program (PIE) focused on identifying and contacting individual foreign companies that might be interested in investing in Costa Rica. In 1990, USAID commissioned Price-Waterhouse to evaluate the extent to which CINDE's efforts were a "*significantly influential*" factor in persuading foreign investors to invest in Costa Rica. The evaluation concluded that: "*CINDE's activities had influenced positively nearly 80% of their claimed foreign investment between 1986 and 1990 and 61.3% of the $566 million of direct foreign investment flowing into Costa Rica during those years. In 42 percent of the cases the decision to invest offshore had not been made when CINDE* *approached the company to promote Costa Rica's advantage as an offshore manufacturing location and 58% the companies had already decided to invest offshore but had not yet determined in which country when CINDE approached them*"[87].

The case of CINDE and the US semi-conductor manufacturer Intel has become famous. CINDE discovered it was not on the Intel long-list of possible locations for a new plant to manufacture chips in the early 1990s. After extensive lobbying and an effective presentation by CINDE, Costa Rica did make the list in late 1995. CINDE hosted a visit to Costa Rica by Intel in 1996, facilitated meetings with key government authorities, and proved a consistent partner in conducting the research and providing detailed information needed by Intel[88]. Intel invested in 1997 and today employs 2,000 at its production facility in Costa Rica[89]. In a 1999 survey among possible investors, 72% of respondents claimed that they had heard, seen, and read more about Costa Rica as an investment prospect after Intel's decision to set up a plant in the country[90].

Policy Lessons

- Successful IPAs focus their efforts on attracting FDI rather than domestic investment.
- IPAs need to have a clear list of priority sectors upon which to focus their efforts, which should emerge from a national strategic effort to identify priority sectors.
- Successful IPAs should engage in pro-active targeting of individual FDI firms who fit the criteria identified by priority sectors.

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