

# THE GEOGRAPHY OF FOREIGN INVESTMENT IN OECD MEMBER COUNTRIES

How investment promotion agencies support regional development



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Foreign direct investment (FDI) can play a major role in supporting regional development, but it can also exacerbate existing regional disparities. This paper explores the geography of FDI disparities in OECD member countries, across countries and over time, as well as the role of investment promotion and facilitation. It reviews the governance settings, co-ordination mechanisms and strategic approaches used in national investment promotion agencies (IPAs) and presents classifications of countries based on the regional disparities of FDI and selected IPA characteristics.

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# Foreword

This policy paper explores the geography of greenfield foreign direct investment (FDI) disparities in OECD countries and the role of investment promotion and facilitation. The first part of the paper provides a comparative analysis of the geography of FDI disparities in the OECD as whole, within-countries and over time. The second part reviews the governance settings and strategic approaches adopted by investment promotion agencies (IPAs) to support regional development. It is based on the results of the *OECD survey on investment promotion and regional development* completed by the national IPAs of 36 OECD countries. The third part presents classifications of countries based on the regional disparities of FDI and selected IPA characteristics.

The paper is part of a two-year project conducted under the aegis of the OECD IPA Network that aims to explore the relationships between FDI, regional development and investment promotion. It was discussed with IPAs, policy makers and experts at the seventh OECD IPA Network Meeting on 17 October 2022 and has been revised to reflect the outcomes of the discussions. It was shared with delegates of the OECD Investment Committee as well. The paper also aims to feed into OECD cross-cutting work contributing to the broader objective of better understanding how investment policies can support sustainable regional development. This includes ongoing and future projects of the OECD Investment Division, notably in co-operation with the OECD Centre for Entrepreneurship, SMEs, Regions and Cities (CFE). One of these horizontal projects also involves the OECD Working Party on International Investment Statistics, who, in collaboration with colleagues from the OECD CFE, is conducting exploratory work on the measurement of subnational foreign investment and related challenges.

This paper has been prepared by Fares Al Hussami, Alexandre de Crombrughe and Taufeeq Khan Marcos from the Investment Division under the supervision of Ana Novik and Stephen Thomsen, respectively Head and Deputy Head of the Investment Division. The authors are grateful for the useful comments received by Fernando Mistura from the Investment Division and Dorothée Allain-Dupré and her team from the Regional Development and Multilevel Governance Division in the OECD Centre for Entrepreneurship, SMEs, Regions and Cities. The paper benefitted also from valuable comments and feedback from IPAs and from the Chair of the Working Group on International Investment Statistics. It also benefitted from earlier discussions with Riccardo Crescenzi, Professor of Economic Geography at the London School of Economics, and Andreas Dressler, Managing Director at FDI Center.

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# Introduction and key findings

Geographic aspects are essential for understanding inequalities in investment opportunities and people's living standards. Regional disparities – notably the situation in remote or lagging regions – have been receiving growing public attention in many OECD countries. In one-third of them, productivity growth has been concentrated in a single, already highly productive region, further increasing regional imbalances (OECD, 2019<sup>[1]</sup>). The effect of regional inequality has become a source of increasingly visible public discontent and a driver of political polarisation (OECD, 2022<sup>[2]</sup>). The COVID-19 crisis further accentuated these disparities and moved the issue higher up on the policy agenda. While the scope of the crisis has been global, its impact on people and businesses has often depended on local factors (Königs and Vindics, 2021<sup>[3]</sup>).

Foreign direct investment (FDI) can play a major role in supporting regional development by creating jobs, fostering productivity, enhancing skills and innovation, and supporting digital and low-carbon transitions. At the same time, it can exacerbate existing regional disparities, as investors are often attracted to leading regions with larger markets and better infrastructure and services.<sup>1</sup> This has become particularly a concern – but also a source of opportunity – in a world of increasingly fragmented production lines where multinational firms do not just choose countries or sectors, but select regions. Leveraging FDI for balanced regional development may have become even more difficult in a context of continuous decreasing global FDI flows over the past years, despite a rebound in 2021 (OECD, 2022<sup>[4]</sup>; Thomsen, 2022<sup>[5]</sup>).

Beyond resource based FDI, attracting investment outside of the main economic hubs is thus a major challenge for many governments and investment promotion agencies (IPAs) in particular. Using FDI as a catalyst to promote sustainable regional development depends on the pertinence and coherence of investment promotion strategies and institutional settings. While the former relates to the extent to which investment promotion initiatives consider the local specificities and complementarities of host regions, the latter deals with how public agencies share responsibilities and co-ordinate activities across different levels of government. National IPAs, subnational agencies and local authorities can all play an important role in attracting, facilitating and servicing foreign investors, but there is also a risk of redundant activities, a misuse of public resources, inconsistent messages to investors and harmful competition across regions, which would ultimately lead to fewer FDI projects and related benefits if there is a lack of policy coherence and effective co-ordination.

This policy paper explores the geography of greenfield FDI disparities in OECD countries and the role of investment promotion and facilitation, specifically from a national perspective. The first part of the paper provides a comparative analysis of the geography of FDI disparities in the OECD as whole, within-countries and over time. The second part provides a comparative analysis of the governance settings, co-ordination mechanisms and strategy-making processes used across OECD countries for investment promotion and facilitation in support of regional development. It is based on the *OECD survey on investment promotion and regional development* and focuses on the role of national IPAs. The third part presents classifications of countries based on the regional disparities of FDI and selected IPA characteristics.

### **Key findings on the geography of FDI disparities in OECD countries**

- **Attractiveness factors strongly shape the geography of FDI in the OECD, leading investment levels to vary considerably across regions.** The top 10% of regions with the highest greenfield FDI attracted on average 700 times more FDI than the bottom 10% of regions. A top OECD region has, on average, a GDP per capita 2.3 times larger than a bottom region, spends 3.6 times more on R&D relative to GDP and hosts twice higher shares of tertiary educated people. Agglomeration effects have led FDI to be highly concentrated in a few hubs. Considering the OECD as whole, the top 10% of regions attracted half of greenfield FDI, but they host only one-third of the population.
- **FDI per capita disparities across OECD regions are large and driven by differences within countries** – within-country differences accounted for nearly two-thirds of regional FDI per capita disparities in the OECD as a whole over the last decade. Overall, lower investment barriers have led to a narrowing of FDI disparities between OECD countries, but regions are now at the frontline of competition for global investment. This has exacerbated within-country FDI disparities between 2003 and 2008, a period of strong globalisation where prosperous regions were better able to compete, before starting to narrow after the Global Financial Crisis.
- **The economic crisis generated by the COVID-19 pandemic is associated with a dramatic increase in within-country FDI disparity in the OECD as a whole.** The pandemic may have slowed the regional convergence process. Ongoing global instability may further accentuate this trend. Higher levels of uncertainty can push foreign investors to cancel projects in “riskier” regions such as infrastructure projects in remote or economically challenging regions. The rise of remote work may help to narrow regional dispersion in investment but this remains to be seen.
- **At the country level, regional FDI per capita disparities are the largest in Australia, Canada, Chile, Colombia, Iceland, and Israel,** while disparities are generally the lowest in the Czech Republic, Italy, Slovenia, Sweden, the United Kingdom and the United States. Regional FDI per capita disparities seem to have increased in Austria, Germany, Ireland, the Slovak Republic and Switzerland, particularly in the last few years. Large disparities in FDI per capita are not always the result of highly urbanised areas but also of natural resources such as in Australia or Chile.
- **Regional imbalances in FDI are considerably larger than disparities in GDP and productivity in nearly all OECD countries, potentially taking a toll on inclusiveness.** The gap between FDI per capita and GDP per capita disparities is greatest in Australia, Canada, New Zealand, and Chile, countries that are at the periphery of global production networks and where FDI agglomerates in few places with high productivity but low density (e.g. regions with mining). It is lower in European countries, where disparities are mostly driven by economically challenging, albeit populated, regions. Chile, Colombia, the Slovak Republic and Türkiye have the largest regional disparities in productivity.
- **FDI significantly contributes to job creation but its impact is largely uneven within countries.** Greenfield FDI in the OECD area generates 2.5 direct jobs per million USD invested, but this varies by a factor of three between the top (4.1 jobs) and bottom (1.3 jobs) of regions. Disparities in FDI impact on employment are partly driven by regional industrialisation patterns, skills availability and R&D activity – FDI in metropolitan areas is often more skills-intensive. Colombia, Costa Rica and Türkiye have the largest regional disparities in the impact of FDI on jobs.
- **Measures of FDI disparities used in this report have their limitations.** They rely on non-official sources of FDI statistics. Furthermore, they assess disparities in large regions, at “Territorial Level 2” and, thus, do not capture the increasing concentration of economic activities in cities and the difficulties of small remote regions to keep pace with the best performing regions. Further analysis is needed to better understand the role of FDI as catalyst of regional development or inequalities and it should consider investment impact on various sustainability aspects, beyond job creation.

### **Key findings on the role of national IPAs to promote and facilitate investment in regions**

- **Regions are not always affected in the same way by national policies, including investment policies.** Yet policy makers still lack a comprehensive policy framework that can help them think in an integrated manner, i.e. across different policy dimensions, how investment can support sustainable regional development. This report focuses on one policy dimension – investment promotion and facilitation – that is essential towards developing such policy framework.
- **Promoting investment in support of regional development is a high priority for OECD governments.** Many OECD countries (72%) have regional investment promotion strategies and 94% of national investment promotion strategies have a regional development dimension. National investment promotion agencies (IPAs) and ministries in charge of investment are usually leading the national strategy design and involve subnational partners. Local authorities are more systematically involved in regional strategy design.
- **The vast majority of OECD national IPAs have put regional development high on their agenda, regardless of the size of their economy.** Fully 92% of national IPAs have the mandate to promote and facilitate FDI in support of regional development, and 50% to do so in specific regions. Seventy-one percent have recently increased their focus on regional development.
- **Investment promotion strategies need to consider the challenges but also the reasons for FDI to locate in different regions,** including remote or less developed regions. IPAs report that adequate skills and quality infrastructure are the most important criteria for FDI to locate in regions. While the provision of state support does not seem to be key, investors are often attracted to regions because of lower business costs. At the same time, IPAs report that, beside their own services, countries also use non-tax incentives, tax incentives and industrial parks to promote, facilitate and retain FDI in remote or less developed regions.
- **The architecture for investment promotion and facilitation at subnational level is often multi-layered, involving several decentralised entities.** Forty-two percent of countries have dedicated subnational IPAs while 86% have subnational economic development organisations (EDOs) with a broader mandate that includes investment. Local authorities often play an important role as well. Additionally, national IPAs have their own subnational offices in 61% of cases, although not always focusing on investment matters. Large economies have a higher share of subnational agencies in charge of investment promotion and facilitation compared to other countries.
- **National IPAs have overall good relationships with subnational entities, which is key to achieve successful results.** For example, three-quarters of OECD agencies provide them with FDI intelligence. National IPAs and their subnational partners face obstacles of a different nature in their relationships, but the main challenges reported are technical, financial or operational rather than a lack of willingness to co-operate. In their relationship, complementarity tends to be stronger than collaboration, suggesting that working in silos or competing is a higher risk than overlapping.
- **Although fewer countries have subnational IPAs, their co-operation with national IPAs tends to be stronger than EDOs and local authorities.** Activities are more often performed jointly, and co-ordination mechanisms are more widely used, suggesting that co-operation is easier with agencies that have a similar mandate. National IPAs also report that the lack of a formal mandate to co-ordinate subnational initiatives is the main challenge to work with EDOs, indicating a risk of uncoordinated activities.
- **For national IPAs, investment generation and investment facilitation (including aftercare) are the most important functions to support regional development.** The latter is more frequently conducted in co-ordination with subnational institutions than are other IPA functions, as such services are often provided at the local level. Subnational offices are involved entirely or to a large extent in all investment promotion and facilitation functions, except policy advocacy.



- **Regional development is widely included in national IPA monitoring and evaluation systems**, as 69% use FDI distribution across regions as a key performance indicator and two-thirds monitor and evaluate the impact of FDI on regional development. These shares are even higher in large economies. Much fewer IPAs measure the performance of their subnational offices or partners or connect their customer relation management systems.

# 1 The geography of FDI disparities in OECD countries

Policymakers seek to reduce regional economic disparities in their countries, a source of growing public discontent. Therefore, it is crucial to assess whether private investment, including foreign investment, is promoting regional development or, to the contrary, exacerbating territorial disparities. Governments also attempt to assess investment policies against their effects on regional disparities. In spite of the high policy relevance, international evidence on geographic disparities in FDI and its impact on sustainable development remains scarce. Little is also known about how regional FDI disparities compare with regional inequalities in broader economic activity.

This section provides a comparative overview of the geography of FDI disparities in the OECD. It describes what attractiveness factors have shaped the geography of FDI in the OECD. It then provides measures of regional FDI disparities in the OECD as whole, across OECD countries and over time. The section also examines how impact of FDI on sustainable development can vary across regions. Box 1 describes what data have been used, the selected unit of territorial analysis and the coverage of the compiled database.

## Box 1. Foreign investment in OECD regions: data, methodology and coverage

### Data sources

FDI data have been sourced from the Financial Times' fDi Markets database that covers 'greenfield' investments (both new projects and expansions). The reason for focusing on greenfield FDI (and excluding mergers and acquisitions) is not only that greenfield project investment is a strong indicator of the attractiveness of a region, and thus of the regional disparities that arise, but also because IPAs – the focus of this note – often exclude merger and acquisitions from their mandate and focus on attracting greenfield projects (OECD, 2018<sup>[6]</sup>).

One potential difficulty is that there may be a 'headquarters effect' where the greenfield FDI is recorded at the business's headquarters, but the economic activity (such as a new factory) takes place in another region. While this affects the distribution of FDI within countries, this bias exists in all countries. The OECD Regional Database is the source of other statistics used in this report such as population, GDP, labour productivity, R&D expenditures, and the level of educational attainment.

### Territorial levels

One challenge at the subnational level is the unit of analysis. The word "region" can mean very different things both within and between countries. The OECD classifies regions on two territorial levels reflecting the administrative organisation of countries. The Territorial Level 2 (TL2) represents the first administrative tier of subnational government and covers 433 OECD large regions. The Territorial Level 3 (TL3) corresponds to 2 414 OECD administrative regions that are contained in a TL2 region (for Costa Rica, Israel and New Zealand, TL3 level is equivalent to TL2). This classification, which, for European countries, is consistent with the EUROSTAT classification, facilitates comparability between

regions at the same territorial level. These levels are officially established and relatively stable across countries, and they are used as a framework for implementing regional policies in most countries.

The Financial Times' fDi Markets database reports greenfield FDI for regions that largely correspond to OECD's TL2. This level is also likely to be more pertinent from a policy perspective since the devolution of responsibilities related to regional or investment policy usually takes place at the first administrative tier of subnational government. The number of TL2 regions varies between two regions (Iceland, Lithuania and Slovenia) to 51 regions (the United States).

### Coverage

The compiled database covers 432 TL2 regions from 35 OECD countries over the period between 2003 and 2021. The OECD territorial grids do not include a TL2 for Estonia, Latvia and Luxembourg. Future iterations of this work could potentially include analysis for these countries depending on the availability of regional statistics from national sources.

## 1.1. Attractiveness factors strongly shape the geography of FDI in the OECD

FDI levels vary considerably across OECD regions. The top 10% of regions with the highest greenfield FDI – 43 out of 432 regions – attract on average 700 times more FDI than the bottom 10% of regions (Table 1). The majority of the top FDI regions are concentrated in few geographically large and leading OECD economies such as the United States, the United Kingdom, Australia, Canada, Germany, and Spain (Figure 1, Panel A). Regions with low or no FDI are scattered across a more diverse group of countries including Canada, Colombia, Costa Rica, New Zealand, Norway, France, and Türkiye (Figure 1, Panel B). Most of these regions are either largely remote (e.g. Mayotte in France), weakly populated with little economic activity (e.g. Nunavut in Canada), or economically less advanced than other OECD regions (e.g. Chocó in Colombia). The “headquarters effect” may, however, overestimate greenfield investments in some top FDI regions and understate those in regions at the bottom of the distribution.

**Table 1. FDI attractiveness of OECD regions: key indicators**

Distribution of OECD regions by greenfield FDI amounts between 2003-21

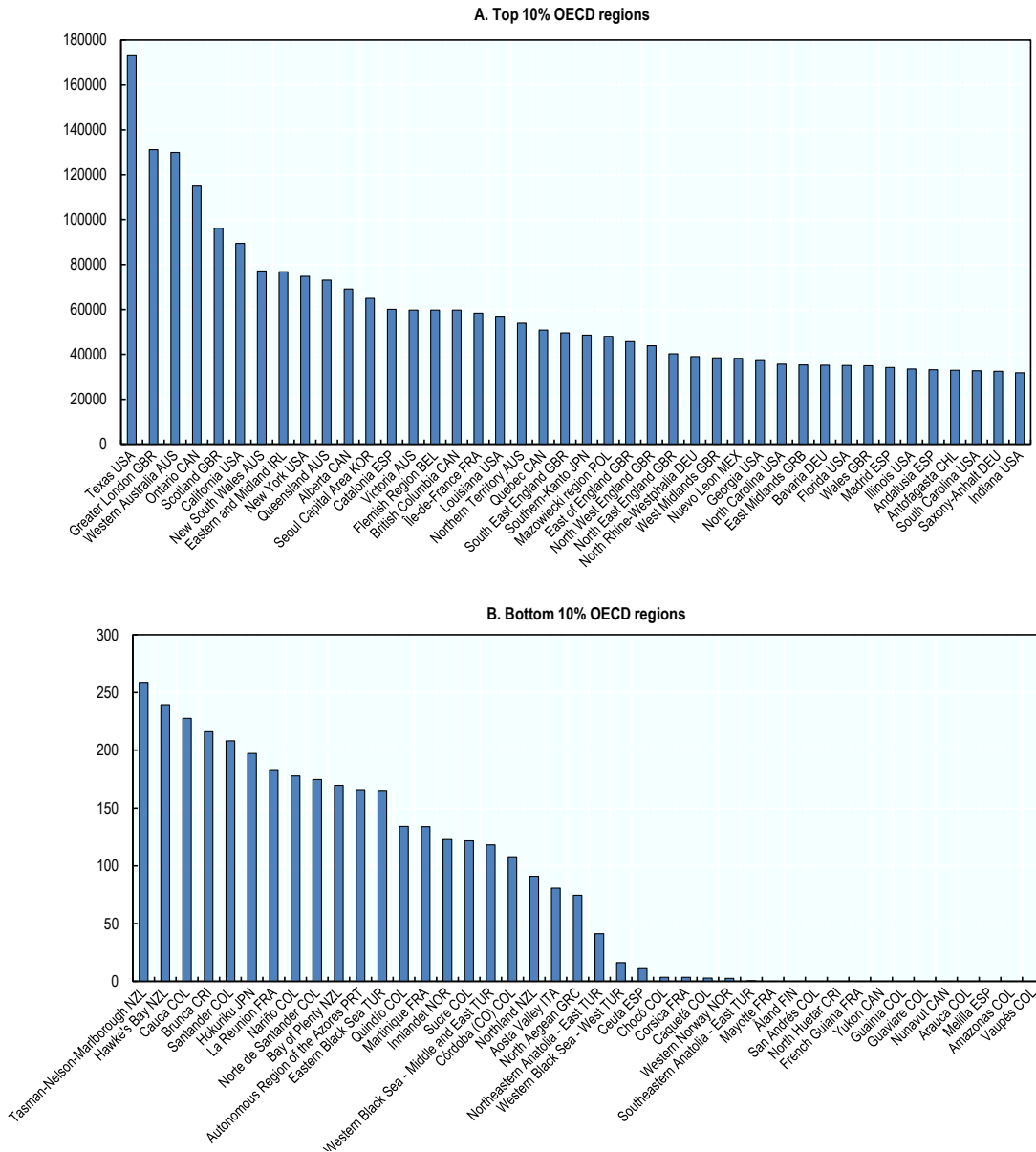
|   | Top 10% regions | Top 90-10% regions | Bottom 10% regions |
|---|-----------------|--------------------|--------------------|
| Greenfield FDI (USD million)                  | 58 182          | 7308               | 80                 |
| Size (Square km)                              | 310 559         | 57 575             | 79 823             |
| Population (Million)                          | 9.5             | 2.5                | 0.8                |
| GDP (USD PPP)                                 | 459 289         | 89 897             | 16 610             |
| Labour productivity (USD PPP)                 | 92 880          | 73 475             | 58 397             |
| Employment rate (%)                           | 83.8            | 82.7               | 83.0               |
| Share of tertiary educated (%)                | 38.5            | 26.8               | 19.9               |
| R&D expenditure (% GDP)                       | 1.8             | 1.6                | 0.5                |
| R&D expenditure by business sector (% GDP)    | 1.2             | 1.0                | 0.2                |
| Patent applications (per million inhabitants) | 115             | 80                 | 21                 |

Note: numbers correspond to averages for each FDI distribution group.

Source: OECD based on Financial Times fDi Markets and OECD Regional Database.

Figure 1. Top and bottom 10% of OECD regions by greenfield FDI amounts

Cumulative greenfield FDI between 2003-21 (in USD millions)



Note: Top and bottom 10% FDI regions correspond to the top and bottom 43 regions among the 432 NUTS regions covered.  
 Source: OECD based on Financial Times fDi Markets.

Multiple factors influence the location choice of investors, thereby shaping the geography of FDI in the OECD and, in turn, creating the stark differences observed across regions. The top FDI region has on average a regional economy 27 times larger than the bottom region, is 12 times more populous, geographically four times larger, and 1.6 times more productive (Table 1). Top regions also spend 3.6 times more on R&D relative to GDP and have twice as many people with a tertiary education. Top and bottom FDI regions are roughly at equidistance from regions closer to the middle of the FDI distribution (top 90-10% regions) in terms of the various attractiveness indicators, except for the size – top regions are relatively vast – and for R&D spending and patent applications, the performance of bottom regions is significantly weaker.

Broader evidence indicates that foreign investors are attracted to locations with an already large pool of domestic and foreign investors, the presence of clients and suppliers within the investor's industry, hard and soft infrastructure (transport, electricity, ICT), a skilled labour force, and geographical proximity to the foreign investor home region (Faeth, 2009<sup>[7]</sup>). Furthermore, if a region is embedded into global value chains (GVCs), foreign companies will be able to tap into new networks. These factors are part of an agglomeration effect that drives investors to locate in areas where sources of knowledge and labour are high and where access to specialised inputs is cost-effective. They create a self-reinforcing loop with positive externalities, i.e. the establishment of a foreign activity in a given location attracts other activities, generating a virtuous circle. For instance, firms tend to reinvest and co-locate in the same region they have invested in before (Crescenzi and Harman, 2022<sup>[8]</sup>). The OECD recently developed a framework for measuring the attractiveness of regions to investment, talent and visitors, with a dashboard of indicators to better understand regions' strengths and gaps in terms of attractiveness (OECD, 2022<sup>[2]</sup>). Beyond agglomeration effects, the framework also considers, inter alia, the quality of subnational governance, digital infrastructure or the availability of land as drivers of regional attractiveness (Box 2).

### Box 2. Measuring the attractiveness of regions: an OECD analytical framework

The OECD has recently developed a diagnostic tool for measuring and assessing the drivers of regional attractiveness and, in turn, supporting public actors in identifying available assets and potential challenges to strengthen the attractiveness of territories. The framework includes 14 dimensions representing six domains of territorial attractiveness towards three core targets: investor, talent and visitors (Figure 2). Various tools including toolkits for monitoring, co-ordinating and evaluating attractiveness policies, as well a dashboard comprising 55 indicators, can help policy makers to better understand regions' strengths and gaps in terms of attractiveness towards international targets.

Figure 2. Assessing regional attractiveness: A framework



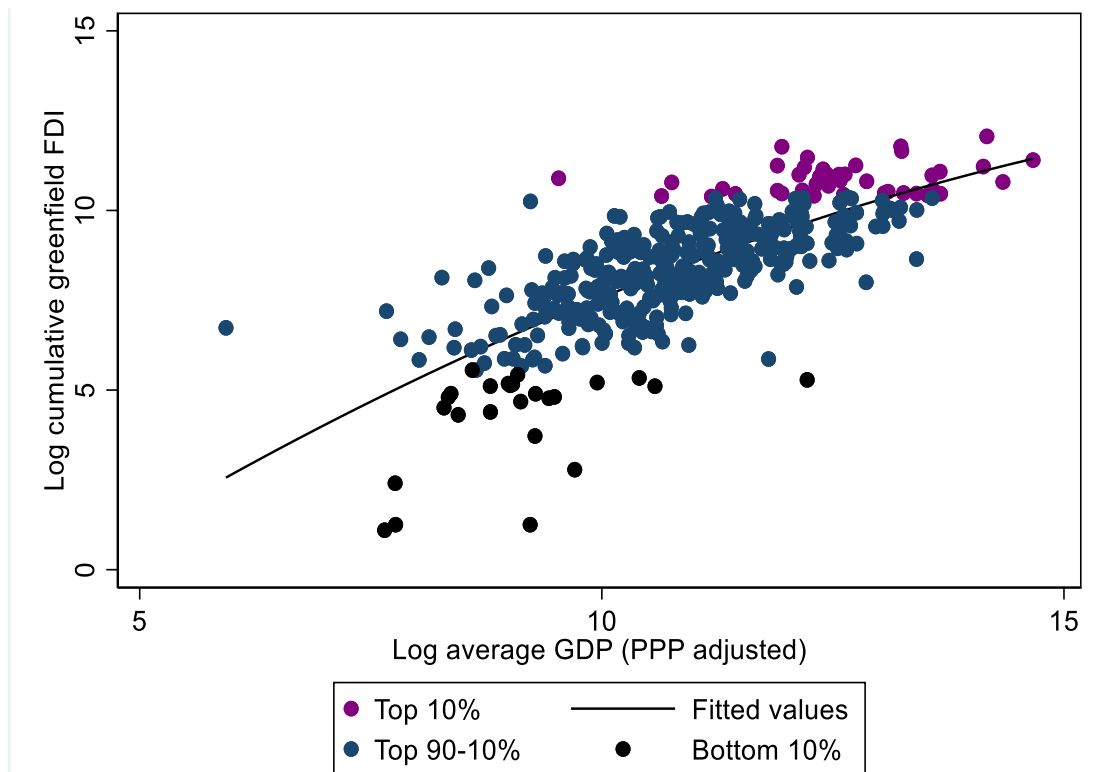
In its first iteration, the framework allows regions to compare their ‘attractiveness’ against the average of the country’s regions and the average of EU or OECD regions. These profiles do not aim to produce rankings but rather to provide policy makers with useful evidence to make informed decisions based on the various levers at their disposal to attract talent, investors and visitors. It can also signal to policy makers areas where attractiveness can be strengthened. The indicators are diagnostic and, as such, need to be considered in the context of a region’s development priorities, trends and ambitions.

Note: This is an output of the OECD’s work on Regions in Globalisation. available here: [oecd.org/regional/globalisation.htm](https://oecd.org/regional/globalisation.htm)  
 Source: OECD (2022), “Measuring the attractiveness of regions”, *OECD Regional Development Papers*, No. 36, OECD Publishing, Paris, <https://doi.org/10.1787/fbe44086-en>; OECD (forthcoming, 2023), “Rethinking Regional Attractiveness in the New Global Environment”, OECD Publishing, Paris.

The level of economic activity is a good, albeit only partial, indicator of greenfield FDI levels across OECD regions (Figure 3). Top regions often receive higher FDI than what their regional GDP level would predict, hinting to agglomeration effects, in contrast with regions at the lower-end of the FDI distribution. Top regions are often world-class metropolitan areas like the Greater London region or host several large cities such as the State of Texas that has five cities with 1 million inhabitant or more. This is not always the case, however. Despite the unfavourable geography, the mostly desert region of Antofagasta is the most attractive FDI destination of Chile due to strong activity in the copper mining sector. Similarly, Western Australia, a geographically vast but sparsely populated State with significant natural resources, is the top FDI destination of the country (and the top 3rd in the OECD).

**Figure 3. The relationship between greenfield FDI and GDP across OECD regions**

Distribution of OECD regions by greenfield FDI amounts between 2003 and 2021



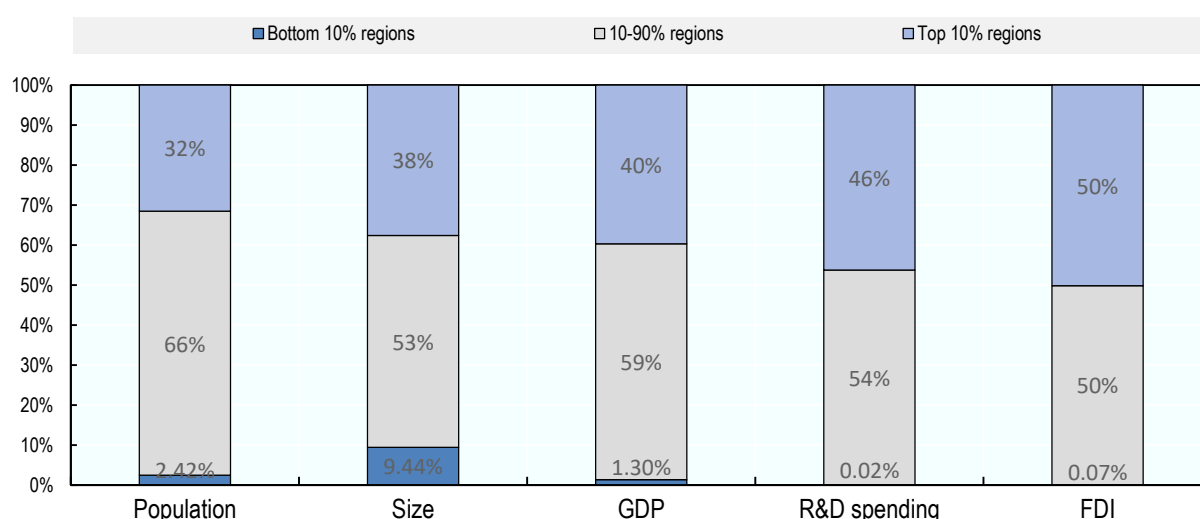
Note: Cumulative greenfield FDI and average GDP between 2003 and 2021. The figure excludes regions with no reported FDI.  
 Source: OECD based on Financial Times fDi Markets and OECD Regional Database.

Agglomeration effects and other determinants of FDI location have led foreign multinational activity to be significantly concentrated in a few economic hubs, and potentially more so than other aspects of economic activity. Considering the OECD as whole, top FDI regions attracted half of greenfield foreign investments between 2003 and 2021, but they host only one-third of the population and account for 40% of GDP (Figure 4). On the other hand, the regions receiving the lowest amounts of foreign investment concentrated less than 1% of greenfield FDI, although they account for nearly 10% of the OECD geographical surface and host 2.5% of the population (31 million inhabitants).

If FDI concentrates in only a small fraction of OECD regions, it does not mean that all regions compete for the same investors and in the same sectors (Burger, van der Knaap and Wall, 2012<sup>[9]</sup>). Some regions compete with peers within the same country, while others compete with regions of neighbouring countries and only a few regions, most often with large metropolitan areas, have rivals at the global scale. Neighbouring regions, including within the same national borders, are not necessarily rivals as they may attract FDI in distinct economic activities or in different segments of the supply chain. From a policy perspective, this implies that the multiplicity of investment promotion activities at the subnational level – the focus of the second section of this report – does not unavoidably have to generate a race to the bottom.

**Figure 4. The concentration of economic activity in OECD top FDI regions**

Distribution of OECD regions by greenfield FDI amounts between 2003 and 2021



Note: Cumulative greenfield FDI and average population, GDP and R&D spending between 2003 and 2021.

Source: OECD based on Financial Times fDi Markets and OECD Regional Database.

## 1.2. FDI disparities across OECD regions are large but declining

FDI plays a major role in promoting regional development, but it could likewise exacerbate existing regional disparities. Therefore, it is relevant that policies are assessed against their effects on regional FDI disparities. The previous numbers hint at large FDI disparities across the OECD as a whole, but they are silent on how these disparities have evolved over time and whether they are due to differences between or within countries. Furthermore, they focus on disparities at the top and bottom of the FDI distribution and only consider FDI levels, limiting comparability across regions.

The next two sections use different statistical measures to assess regional FDI disparities in more depth (Box 3). Population and GDP were chosen as indicators for whether the benefits of FDI are felt for the population of the region – FDI per capita – and for the economic activity of a region – FDI over GDP. The

baseline measure is FDI per capita since the objective is to examine how FDI contributes to sustainable regional development. Furthermore, assessing disparities in FDI per capita follows conventional measures of income inequality such as the Gini coefficient. There are important caveats to consider when measuring regional disparities, however, and future iterations of this work will attempt to provide further analysis to ensure robustness of the results.

### Box 3. Measuring regional FDI disparities

Making meaningful comparisons among regions is a challenge. Three measures of disparity are used in this analysis: the coefficient of variation, the Gini coefficient and Theil's index – Annex A provides a definition for each measure. They each have their own statistical properties, benefits and limitations.

The coefficient of variation, for instance, when compared with the Gini coefficient, is more sensitive to large differences in levels of FDI per capita between regions. The advantage of the Gini coefficient is that it looks at regional differences not only on the highest and lowest levels of FDI, but also takes into account differences among all regions in the country. On the other hand, the Gini coefficient can underestimate disparities in larger regions. Theil's index is frequently used for its fairly straightforward decomposition of inequality between and within countries.

Theoretically, inequality indexes provide an appropriate measure of territorial disparities. There are, however, a number of problems arising from the application of inequality indexes to the issue of regional FDI disparity (OECD, 2003<sup>[10]</sup>). Inequality indexes are constructed for the analysis of income inequality between individuals rather than disparities between regions. While it is relatively straightforward to compare personal income among individuals, it is more difficult to measure disparities in, for example, FDI per capita among regions. One common disadvantage of the three measures used is that their calculation does not take into account the different spatial sizes of regions.

The approach followed here is to consider each region as an "individual". While this gives the same importance to all regions, estimating regional inequality weighted by regions' proportion of the population provides an estimate of interpersonal inequality among the whole population of a country rather than an estimate of regional inequality (Gluschenko, 2017<sup>[11]</sup>). Measures of inequality included in the flagship publication *OECD Regions and Cities at a Glance* follow the same approach, i.e. of not weighting disparity measures. This method also has its limits, as, in practice, policy makers are probably more concerned by low FDI per capita in a populous region than in a region with few inhabitants.

Another challenge is comparability across countries. The number of regions differs across countries. This generates some statistical biases and renders cross-country disparity measures incomparable – the maximum disparity level depends on the number of regions. Therefore, the measure should be independent of the number of regions considered (Lessmann, 2013<sup>[12]</sup>). Relatedly, in order to judge how high the inequality is from an obtained estimate, it is fundamental to know how far it is from the perfect inequality.

To address the issue of comparability across countries, measures of disparity are adjusted (or normalised) so that they range between 0 (perfect equality) and 1 (perfect inequality), by dividing the measure of disparity in each country by its maximum value (Deltas, 2003<sup>[13]</sup>; Gluschenko, 2017<sup>[11]</sup>). The coefficient of variation is particularly sensitive to such an adjustment while it is much less the case for the Gini coefficient.

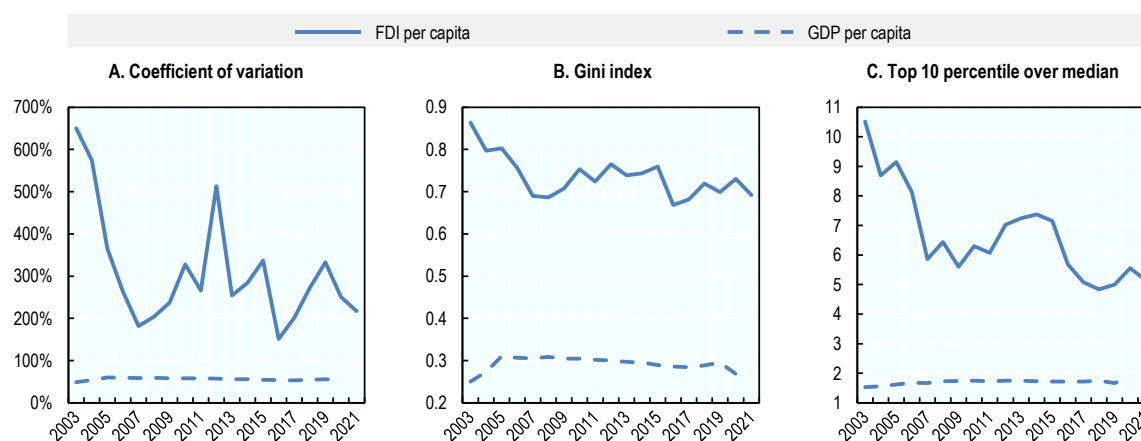
The different measures confirm that FDI disparities across OECD regions are large but reveal that they have narrowed in the past two decades (Figure 5). Regional FDI per capita disparities are much higher than disparities in broader economic activity. The coefficient of variation, for instance, shows that the standard deviation in FDI per capita exceeded the average value by 300%, while it was around 50% for



GDP per capita. Regional FDI disparities across OECD regions have declined over time, however – the standard deviation was 200% larger than the average value in 2021. Similarly, the gap in FDI per capita between the top 10% of regions and the median OECD region was halved between 2003 and 2021, hinting at sizeable adjustments in the upper part of the FDI distribution.

**Figure 5. Trends in FDI and GDP disparities in OECD regions**

A higher value corresponds to higher regional FDI disparity



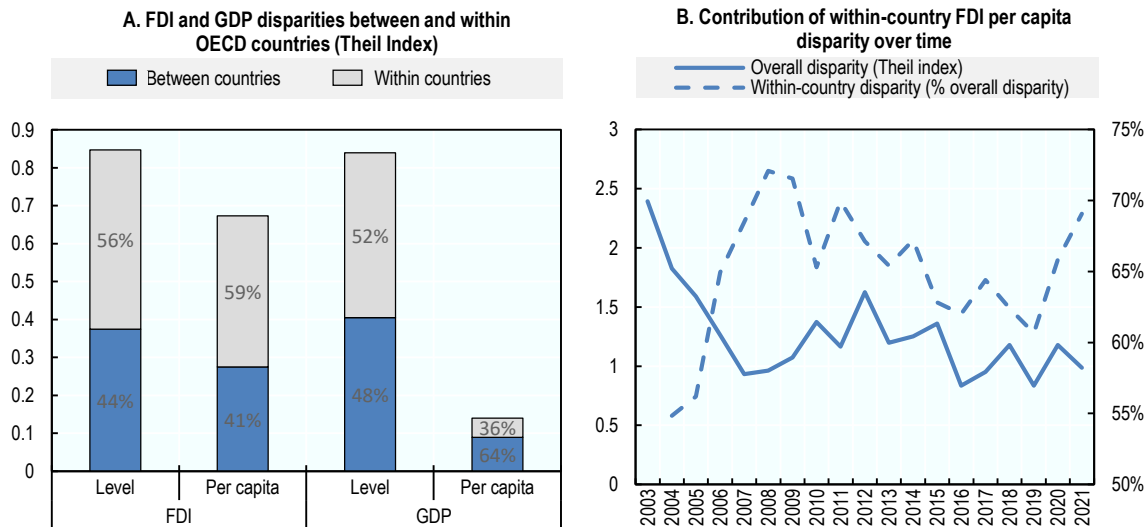
Note: See Annex A for further details.

Source: OECD based on Financial Times fDi Markets and OECD Regional Database.

The large, albeit narrowing, regional FDI disparities in the OECD are driven by differences within countries more than between countries (Figure 6, Panel A). The dismantling of national trade and investment barriers in the OECD contributed to the narrowing of FDI disparities between countries, while at the same time implying that regions became directly involved in the competition for global investment. Overall, this has exacerbated within-country inequalities (Iammarino, 2018<sup>[14]</sup>). The decomposition of Theil's index shows that within-country differences accounted, on average, for 65% of regional FDI per capita disparities in the OECD as a whole over the last decade. The contribution of within-country FDI disparity largely increased between 2003 and 2008, a period of strong globalisation, before starting to decline after the Global Financial Crisis (Figure 6, Panel B).

The economic crisis generated by the COVID-19 pandemic affected the geography of FDI and may have slowed down the convergence process across OECD regions. Ongoing global instability may further accentuate this trend. Within-country FDI per capita differences increased dramatically during the pandemic, accounting for 70% of overall disparities in the OECD as a whole (Figure 6, Panel B). Higher levels of uncertainty can push investors to cancel projects in riskier sectors or regions such as infrastructure investments in remote areas with poorer institutional and socio-economic conditions. Broader analysis highlighted the widening regional disparities in the OECD due to the pandemic (OECD, 2020<sup>[15]</sup>). People living in cities were, for instance, more able to shift to remote working, in contrast with some regions that were already struggling economically before the crisis while others strongly relied on the tourism sector.

**Figure 6. The contribution of between and within countries FDI disparities across OECD regions**



Note: Panel A shows measures of FDI per capita disparities excluding Australia, a country where natural resource attracted very large amounts of foreign investment in one specific region. Variables in Panel B are expressed as 2-year moving averages. See Annex A for details. Source: OECD based on Financial Times fDi Markets and OECD Regional Database.

### 1.3. Assessing regional FDI disparities and impacts within OECD countries

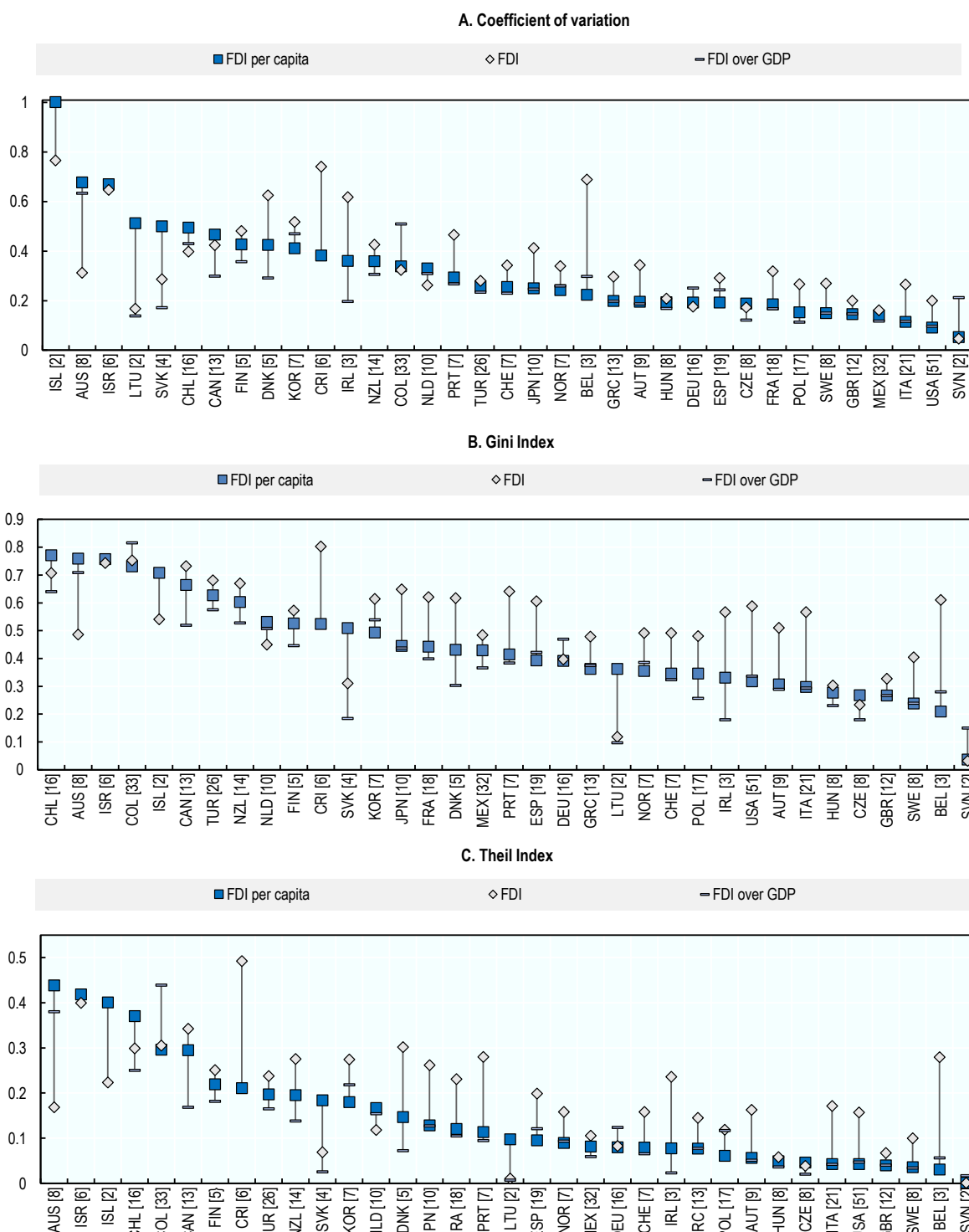
#### 1.3.1. Indicators on regional disparities in FDI

From a policy perspective, governments try to attract FDI in order to foster regional development, but also aim to reduce economic inequalities within their own borders. The different indicators of disparity show that within country disparities in FDI per capita vary strongly from one country to another (Figure 7). The Gini coefficient, for instance, ranges from nearly 0 in Slovenia (perfect equality in the regional distribution of FDI per capita) to almost 0.8 in Chile (1 corresponds to perfect inequality). Overall, the measures do not strictly yield the same ranking but Australia, Canada, Chile, Colombia, Iceland, and Israel are often the most unequal countries, in terms of regions, while disparities are lowest in the Czech Republic, Italy, Slovenia, Sweden, the United Kingdom and the United States. At first sight, there are no common features to the countries of each group – both include countries with different geographical sizes and development levels. If anything, one can note that there is only one European country in the group of the highly unequal countries, in contrast with the group of countries with low disparities.

Disparity indicators using regional FDI levels and FDI over GDP provide additional insights, showing that large disparities are not always the consequence of highly urbanised areas but also of natural resources. For most OECD countries, regional disparities in FDI per capita are systemically lower than disparities in FDI levels, while in countries with high FDI per capita disparities it is often the opposite (or at least both measures are at the same level). This either implies that population is fairly distributed across regions or that foreign projects are not where people live. This is the case of Australia, where the top FDI region (in level) – Western Australia – is only the fourth most populated, but also of a far smaller country like Iceland, where the capital region accounts for 64% of the total population but only 25% of greenfield FDI.

Figure 7. Regional FDI disparities in OECD countries

A higher value corresponds to a higher regional FDI disparity; 1 = highest level of disparity



Note: Disparity measures are calculated with equal weight to each region regardless of its size. Numbers in brackets correspond to the number of TL2 regions. See Box 2 and Annex A for further details.

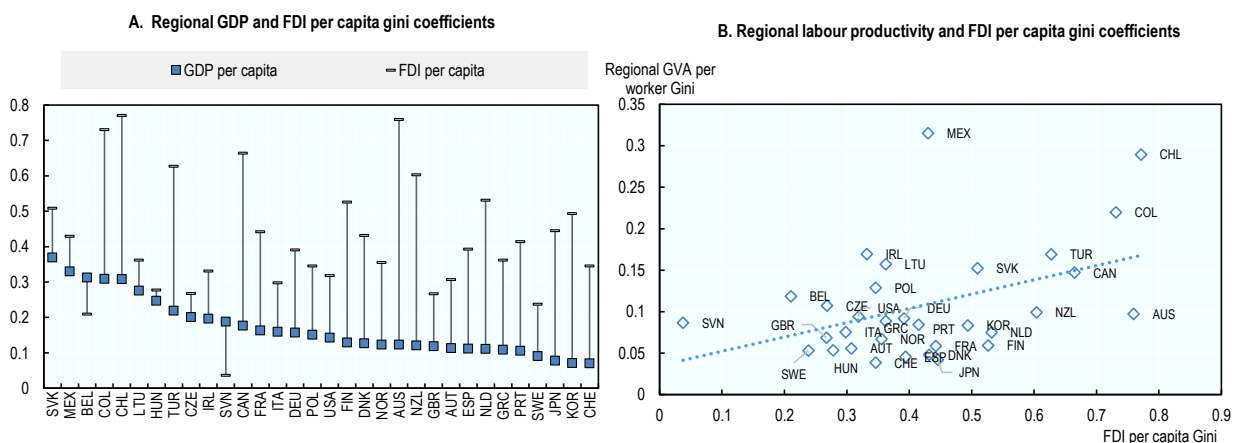
Source: OECD based on Financial Times fDi Markets and OECD Regional Database.

Disparity measures of FDI over GDP and FDI per capita are highly correlated, but some interesting differences arise, for instance, in small open economies such as Lithuania or the Slovak Republic. In the Slovak Republic, the capital region Bratislava accounts for 12% of the total population but attracts 30% of the FDI and generates around a third of the national GDP. The region of East the Slovak Republic – the least developed region of the country and geographically furthest from the capital region – accounts for 30% of the population while only attracting 13% of the FDI and generating a fifth of the national GDP.<sup>2</sup> This is a typical pattern where the major urban hub of the country concentrates most of the business activity, while less developed, albeit well populated, regions struggle to attract investment.

One aspect that policy makers monitor is the process of regional economic convergence, which in this context could be simply defined as whether FDI per capita is converging across regions within a country. In line with the trend observed for the OECD as a whole, within-country FDI per capita disparities have decreased (or remained stable) over the past two decades in many but not all OECD countries. Regional FDI disparities seem to have increased in Austria, Germany, Ireland, the Slovak Republic and Switzerland, particularly in the last few years (Annex B). In other countries, such as Chile, Colombia, Costa Rica, Greece and Israel, regional FDI disparities were consistently higher than the OECD average (not to be confused with the OECD as whole), which is to a large extent aligned with the previous, cross-country, disparity measures.

Examining regional disparities in FDI and comparing them with GDP differences sheds further light on how foreign investment affects the process of regional convergence – one assumption is that FDI that is more unequally distributed than GDP automatically increases regional income inequalities. Regional imbalances in FDI per capita are larger than imbalances in GDP per capita in nearly all OECD countries, except in Belgium and Slovenia (Figure 8, Panel A). The difference is greatest in Australia, Canada, New Zealand, and Chile. These countries do not suffer from severe regional income imbalances, with the exception of Chile, but they all are at the periphery of global production networks. Therefore, FDI may tend to flow into few sectors with strong comparative advantages (e.g. mining) that are located in specific territorial hubs with quality infrastructure and transports. On the other hand, Belgium, Slovenia and countries with small gaps between FDI and GDP disparities such as the Czech Republic, Lithuania and Ireland are all geographically small and strategically located in Europe. Regional FDI disparities are, in their case, mostly driven by the economically challenging, albeit populated, regions.

**Figure 8. Comparing regional disparities in FDI, GDP and productivity in OECD countries**



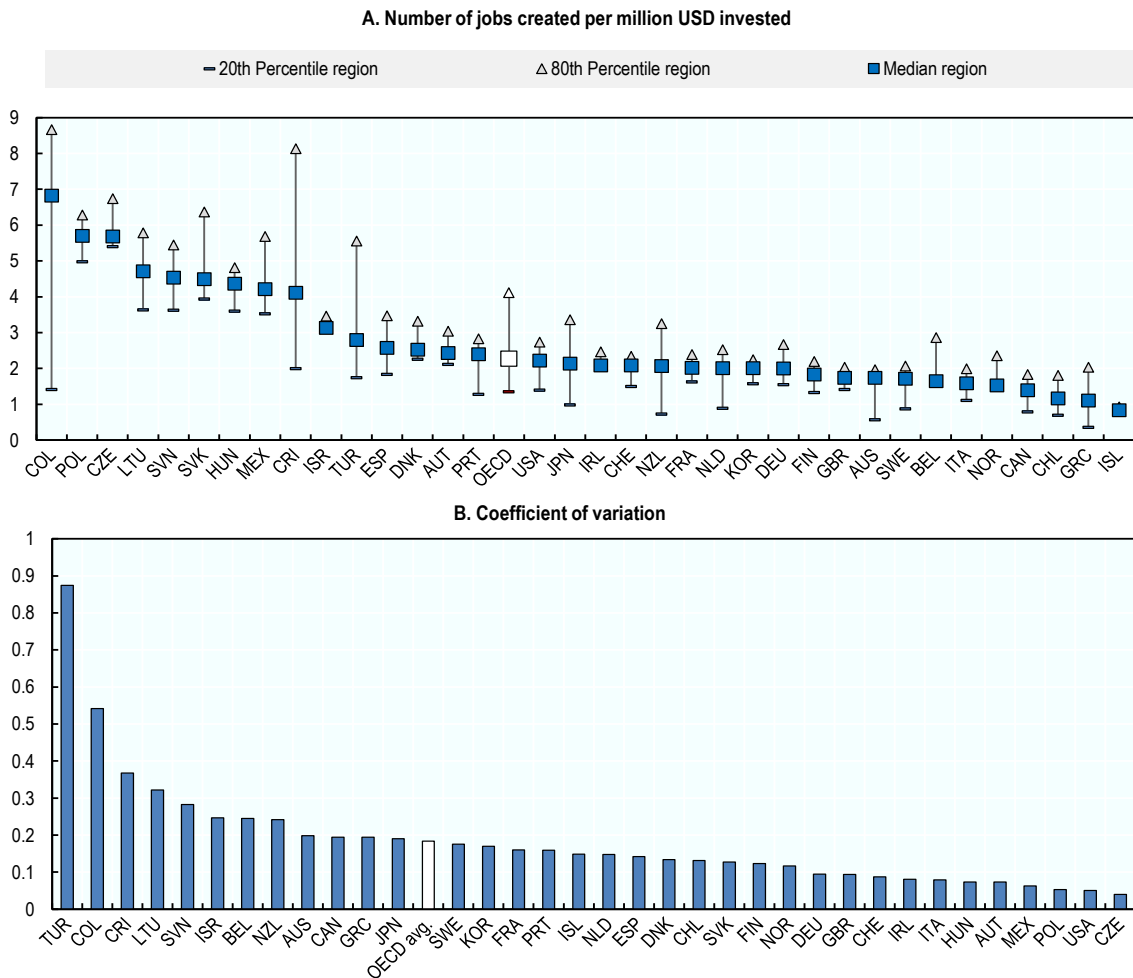
Note: The adjusted Gini coefficients are calculated with equal weight to each region regardless of its size. See Annex A for further details.  
 Source: OECD based on Financial Times fDi Markets and OECD Regional Database.

Regional productivity growth is the main driver of living standards and an important determinant – but also a key positive outcome – of FDI. OECD countries with the largest regional differences in labour productivity, such as Chile, Canada, Colombia, the Slovak Republic and Türkiye, are also those with the highest regional disparities in FDI (Figure 8, Panel B). Regional imbalances in FDI are also significantly larger than spatial productivity gaps in most OECD countries, which may reinforce existing spatial asymmetries in production structures and capabilities. If productive locations attract the most productive firms (e.g. multinationals), then firm sorting acts as an amplifier of spatial inequality, i.e. more productive firms settle in more productive regions (Lindenlaub, Oh and Peters, 2022<sup>[16]</sup>). These “superstar” firms are often concentrated in cities with a large service sector or in regions with natural resources, with self-reinforcing patterns of productivity growth and consequently in GDP per capita (OECD, 2020<sup>[15]</sup>; 2016<sup>[17]</sup>). Furthermore, FDI in less productive regions may have a low potential for positive spillovers as the knowledge distance between foreign and domestic firms can be too important to allow for effective knowledge diffusion (OECD, 2022<sup>[18]</sup>).

### **1.3.2. Indicators on regional disparities in FDI impact on job creation**

The way FDI contributes to regional development but also shapes regional disparities depends not only on how unequally FDI is distributed within the country, but also on the qualities of investment in regions. While it is well established that the contribution of FDI to sustainable development varies greatly across countries, less is known about differences in FDI impacts within countries (OECD, 2022<sup>[19]</sup>). Among numerous benefits that both national and subnational policy makers expect from FDI, job creation is one of the most important. In the OECD as whole, greenfield FDI generates 2.3 direct jobs per million USD invested in the median OECD region, but the intensity of job creation varies by a factor of three between the top 20% and bottom 80% of regions (Figure 9, Panel A). From a policy perspective, it is a clear indication that governments must consider the regional dimension when examining FDI impact on labour market outcomes and designing policies aiming at enhancing this impact.

Figure 9. Regional disparities in the impact of FDI on job creation in OECD countries

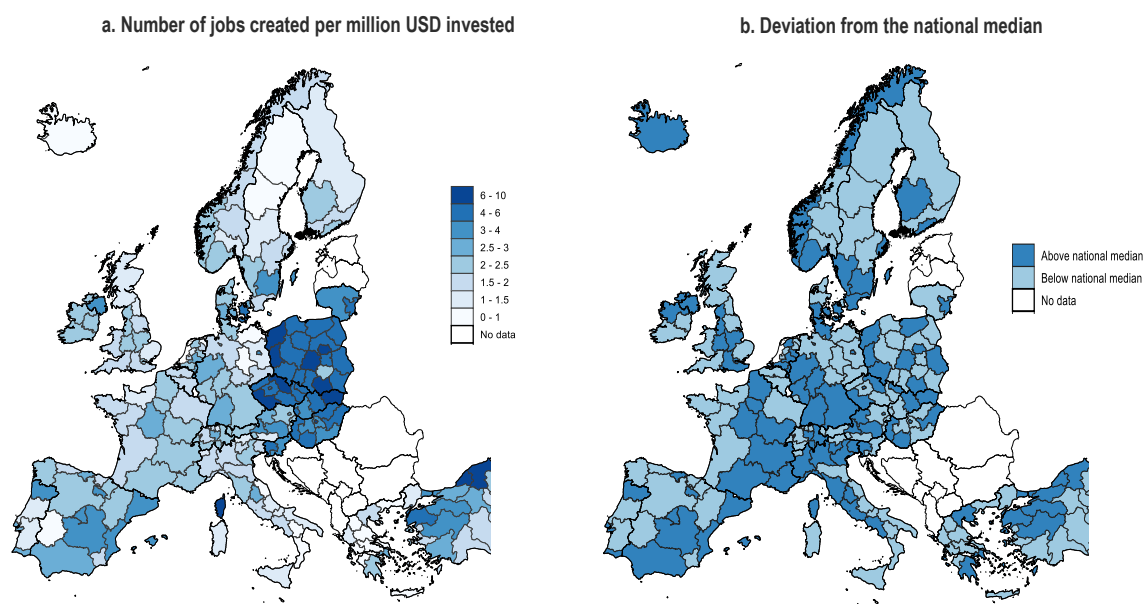


Note: The adjusted coefficient of variation is calculated with equal weight to each region regardless of its size. See Annex A for further details.  
Source: OECD based on Financial Times fDi Markets and OECD Regional Database.

Across OECD countries, Colombia, Costa Rica and Türkiye have the largest regional disparities in the impact of FDI on job creation (Figure 9, Panel B). Some regions of Costa Rica and Türkiye attract disproportionately more job-creating FDI than other regions, while in Colombia it is the regions that attract less job-intensive FDI that are behind the disparities. Regional disparities in FDI impact are the lowest within the Czech Republic, Poland and the United States. In general, regional disparities in the impact of FDI on jobs tend to be higher in countries with larger regional disparities in FDI. Differences in FDI impact are likely to be driven by sectoral heterogeneities across regions. FDI projects in mining, for instance, generate much fewer jobs per USD invested than those in garment manufacturing (OECD, 2022<sub>[20]</sub>).

Observing disparities across different regions of Europe reveals how both the national and subnational economic and geographical features matter for shaping FDI impact on job creation. Eastern European countries or Türkiye attract foreign projects that are considerably more labour-intensive than projects located in Western Europe (Figure 10, Panel A). At the same time, Polish, the Czech or Slovenian regions at the door of Western Europe attract FDI with larger impact on jobs than regions in the rest of these countries (Figure 10, Panel B). Differences are also visible within Western European countries. They reflect, in part, different levels of industrialisation, such as between East and West Germany or South and North of Italy.

**Figure 10. Regional disparities in the impact of greenfield FDI on job creation in Europe**

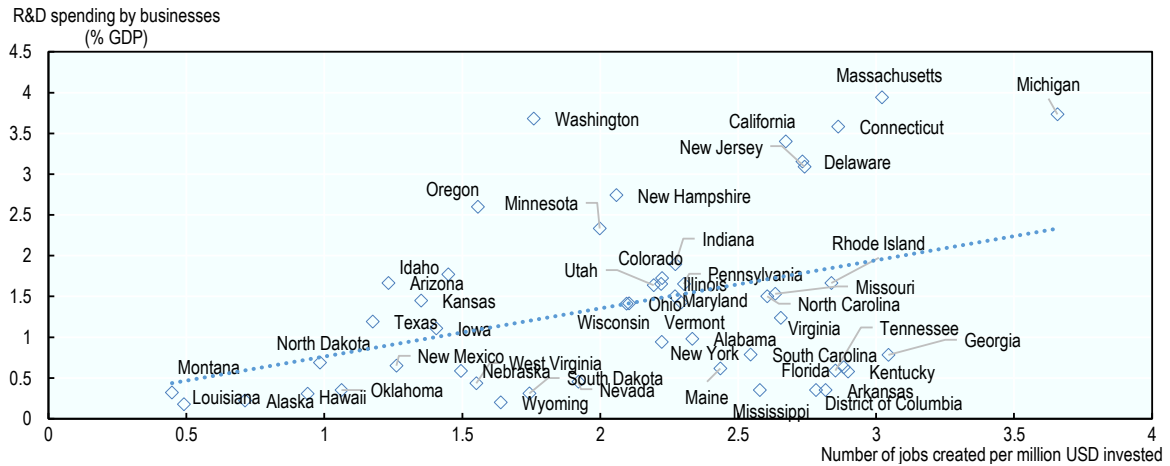


Source: OECD based on Financial Times fDi Markets and Eurostat NUTS 2 Map.

Beyond sectoral differences across regions, other key factors are behind the disparities in FDI impact on job creation, including the availability of talent and, relatedly, the agglomeration of R&D activity. Greenfield FDI projects in regions with important metropolitan areas are often more labour and skill-intensive than projects in other regions – this is the case for the European regions of Ile-de-France, Greater London, the city state of Berlin, and Central Greece, among others (Figure 10, Panel B). Similarly, in the United States, the job creation intensity of FDI projects tends to be higher in states where R&D spending by businesses are larger such as in the Massachusetts, Michigan and California compared with Texas – a state that attracts large amount of FDI – or Alaska (Figure 11). The larger impact of FDI on job creation in these regions or states is related with foreign investment in high-tech and services sectors that create many high-skilled jobs. Broader evidence show that that R&D expenditure that fosters product innovation can have a job-creating effect, particularly in high-tech sectors (Bogliacino and Vivarelli, 2012<sup>[21]</sup>).

Measures of regional FDI (and FDI impact on jobs) disparities have their limitations. First, the measures rely on non-official sources of foreign investment statistics. Second, they do not give more importance to more populated regions to ensure that they are meaningful measures of regional (and not interpersonal) inequality. In practice, however, policy makers are probably more concerned by low FDI per capita in a populous region than in a region with few inhabitants. Furthermore, the measures do not consider FDI inequalities within regions, i.e. at more granular levels (e.g. TL3 or city level), while empirical studies show that within-regional income inequalities are comparatively larger than inequalities between regions (Königs and Vindics, 2021<sup>[31]</sup>). Further analysis that complements these measures is needed to better understand the role of FDI as catalyst of regional development or inequalities.

**Figure 11. Jobs created by greenfield FDI and R&D spending per state in the United States**



Source: OECD based on Financial Times fDi Markets and OECD Regional Database.

#### 1.4. A brief overview of place-based policies to reduce FDI disparities and support regional development

Regional disparities imply a need for place-based policies (OECD, 2019<sup>[1]</sup>). Regions are not always affected in the same way by national policies, including investment policies. Trade and investment liberalisation, for instance, is in aggregate positive for a country, but not all regions benefit equally from it. In many OECD countries, lower entry barriers benefited locations with a comparative advantage in tradable services, but harmed regions with strong industries that faced new competition from abroad (Autor, Dorn and Hanson, 2013<sup>[22]</sup>; OECD, 2019<sup>[1]</sup>). More broadly, while the place-blind nature of some policies is often unavoidable and mostly desirable, it is difficult to use them to address challenges in specific regions (OECD, 2019<sup>[1]</sup>).

Examining the range of policies that can act on regional FDI disparities and support regional development is beyond the scope of this report but, overall, governments use various measures to attract investment to specific regions. These policies encompass broad regional business climate policies, such as public investment in skills and infrastructure, support to local firms – including advice on how to enter foreign markets, financing of R&D activities and policies to favour labour mobility (OECD, 2018<sup>[23]</sup>). By improving the local ecosystem, a region not only becomes more attractive but can also benefit more from FDI, including through high-skilled job creation and higher productivity spillovers (Fu, 2008<sup>[24]</sup>; OECD, 2022<sup>[18]</sup>). Other policies influence directly the location choice of firms. They can include granting tax and financial incentives, establishing industrial parks or special economic zones and creating dedicated subnational bodies in charge of promoting and facilitating investment.

Governments lack a comprehensive framework that integrates all these policies and provides directions on how investment can support sustainable regional development. The next section sheds light on one policy aspect – investment promotion and facilitation – that is essential towards developing such a framework. Policies and institutions striving at informing investors about the attractiveness of regions and improving the local business climate, for example by reducing regulatory burdens, proved to be effective (Crescenzi, Di Cataldo and Giua, 2019<sup>[25]</sup>). They can ensure that the geographical distribution of FDI is governed by local market conditions and potential, and not information asymmetries or transaction costs.

Foreign firms prospecting potential investment locations face information asymmetry and business uncertainties that create information costs. When information is scarce, investors mimic the decisions of already established firms and, in turn, existing agglomerations of investments become signals that reduce



information costs (Mariotti, Piscitello and Elia, 2010<sup>[26]</sup>). IPAs' activities in regions, in particular subnational agencies, can cut operational or search costs of foreign investors (for example when setting up a training centre or contributing to its creation), reducing transaction costs when interacting with local actors. The relevance of IPAs is stronger when information asymmetries are more severe, markets less transparent and institutional conditions generally weaker (Crescenzi, Di Cataldo and Giua, 2019<sup>[25]</sup>). More broadly, the quality of local institutions can be a strong factor of FDI attractiveness, including higher quality FDI (Cole, Elliott and Zhang, 2009<sup>[27]</sup>; Zakharov, 2019<sup>[28]</sup>; Amendolagine, Crescenzi and Rabelotti, 2022<sup>[29]</sup>).

## 2 The role of national IPAs in promoting sustainable regional development: Governance, co-ordination and strategies

The institutional architecture for investment promotion is often multi-layered and highly diversified from one country to the other. With the sole exception of Belgium, all countries in the OECD area have a national IPA, which can take a different role across jurisdictions (OECD, 2018<sup>[30]</sup>). Some governments rely heavily on their national IPA to promote and facilitate FDI in regions while others, often in more decentralised forms of state, see subnational agencies take a more prominent role. This second part of the policy note leverages the results of the *OECD survey on investment promotion and regional development* received from 36 national IPAs from the OECD (Box 4). The results provide comparative evidence of investment promotion practices and experiences across OECD countries.

### Box 4. The OECD Survey on Investment Promotion and Regional Development

The OECD IPA Network is exploring how governments can promote, facilitate and retain FDI in support of regional development and what is the role of IPAs. In this light, the OECD designed a survey to collect systematic information on investment promotion and regional development. It focuses on the role of national IPAs, their relationships with subnational bodies and their main objectives and priorities with regards to attracting FDI in support of regional development.

The survey was shared with IPA representatives from OECD countries in the form of an online questionnaire, which was completed between April and June 2022 with a response rate of 97%. The dataset includes national IPAs from the following 36 countries: Australia, Austria, Canada, Chile, Colombia, Costa Rica, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Mexico, the Netherlands, New Zealand, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Türkiye, the United Kingdom, and the United States.

The survey results are most often presented in their aggregated form, with some individual data also disclosed when possible. Considering OECD members' variations in size and geography, the note also classifies them in three groups: (1) OECD G20 countries with 11 IPAs, (2) OECD non-G20 countries with 25 IPAs, and (3) OECD European Union (EU) with 21 IPAs.<sup>3</sup>

## 2.1. National IPAs' main priorities for regional development

IPAs can have different types of objectives when they promote and facilitate investment, which reflect their governments' priorities and national development goals. Governments are increasingly taking into consideration how FDI influences emerging challenges or trends, such as the low-carbon and digital transformations as well as income and regional disparities. According to the survey results, the average IPA in the OECD places regional development at 7.3 on a scale from 1 to 10 in terms of priority, which reflects the great importance given to the subject. When asked the same question about sustainability in a different survey in 2021, IPAs placed it at 6.8 on the same scale, suggesting that regional development constitutes an even higher priority. Interestingly, it is not necessarily in larger economies that the importance of regional development is reported as the highest, as OECD G20 countries have a lower score than their non-G20 counterparts (Table 2). It is amongst OECD EU countries that regional development has the highest importance for IPAs.

**Table 2. Importance given to regional development by OECD IPAs**

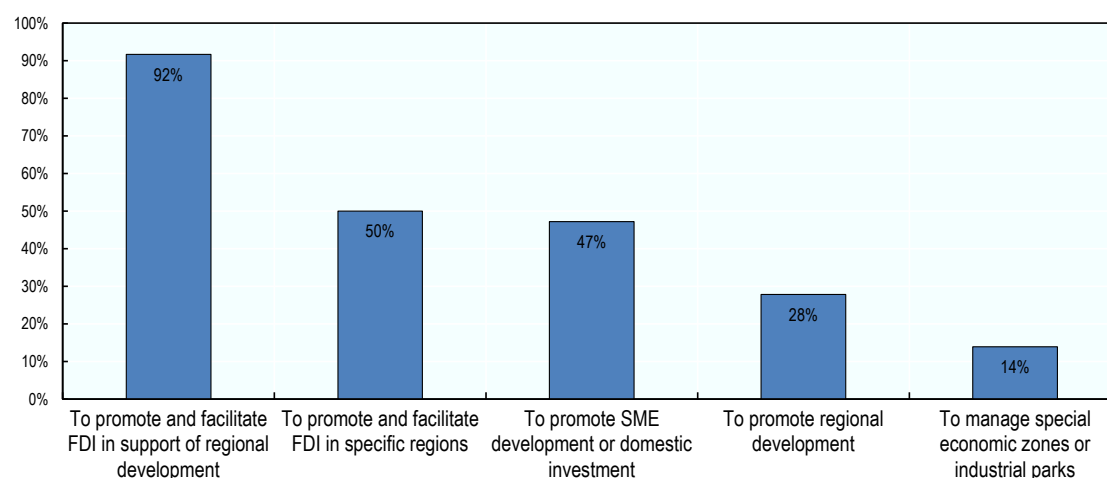
(on a scale from 1 to 10, where 1 is low priority and 10 is high priority)

| OECD average | OECD G20 | OECD non-G20 | OECD EU |
|--------------|----------|--------------|---------|
| 7.33         | 7.18     | 7.40         | 7.52    |

Source: OECD survey on investment promotion and regional development, 2022.

In OECD countries, 28% of national IPAs have the broader mandate to promote regional development and a large majority (92%) are specifically mandated to promote and facilitate FDI in support of regional development (Figure 12), the only exceptions being Austria, Canada and Switzerland. Half of IPAs are mandated to promote FDI in specific regions of their jurisdictions. Other functions that can be traditionally associated with local economic development feature lower in the mandates of IPAs, however. This is the case of SME development or domestic investment promoted by less than half of IPAs and, more significantly, the management of special economic zones or industrial parks executed by only 14% of agencies.

**Figure 12. IPAs' mandates in relation to regional development**



Source: OECD survey on investment promotion and regional development, 2022.

## 2.2. Multi-level governance and co-ordination mechanisms

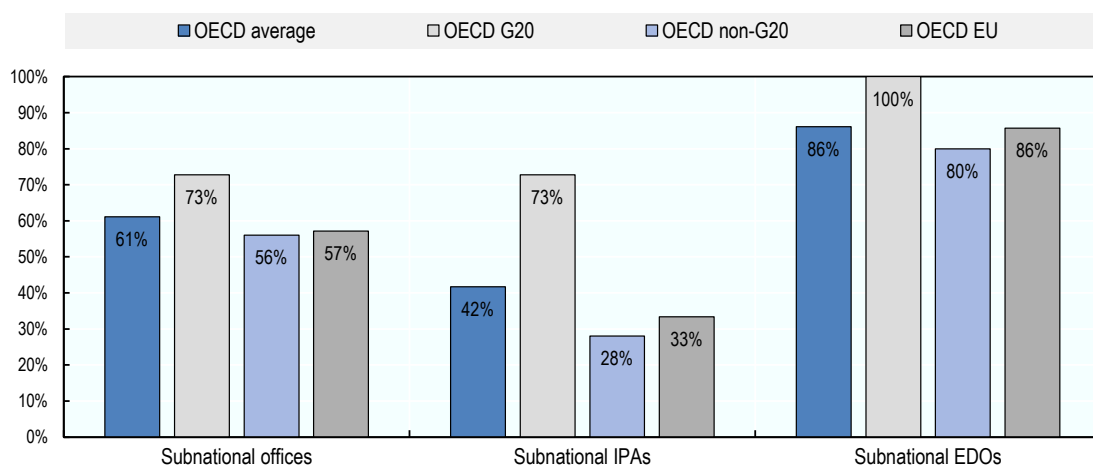
### 2.2.1. Institutional architecture

The architecture for investment promotion and facilitation varies greatly from one country to the other. It can be multi-layered and involve several types of subnational entities. These can include:

- Subnational IPAs, which are organisations fully or principally dedicated to the promotion and facilitation of FDI in their region, state, province, municipality or city, independent from the national IPA or the central government, and usually reporting to subnational authorities.
- Subnational economic development organisations (EDOs), which are also independent entities from the central IPA and government, reporting to subnational governments, but with a broader portfolio that often includes investment promotion and facilitation.
- Subnational authorities, many of which are directly involved in economic development issues that sometimes include an investment promotion or facilitation component.
- Subnational offices of the national IPAs, which are sometimes established in specific or all regions of their jurisdictions.

Most OECD countries have subnational EDOs (86%) while a minority have subnational IPAs (42%) (Figure 13 and Table 3). Unsurprisingly, large economies (OECD G20 countries) rely the most on subnational entities to promote and facilitate investment. All of them have subnational EDOs, but the difference with smaller economies is particularly striking for subnational IPAs, which are present in almost three-quarters of OECD G20 economies. EU countries follow a similar trend as the OECD average, but they have fewer regional offices and subnational IPAs. Large economies have usually a higher number of subnational institutions (e.g. over 1 000 EDOs in the United States and approximately 200 in Germany) but some small countries also have proportionally a high share (e.g. 98 EDOs in Denmark and 43 subnational IPAs in Latvia). This could be explained by the fact that subnational IPAs and EDOs report to different tiers of government, with subnational EDOs reporting to a wider spectrum of government levels (e.g. regions, provinces, cities, municipalities). On average, OECD IPAs consider that, in the overall institutional architecture, they are the main agencies responsible for promoting and facilitating FDI in support of regional development in their countries, followed by the subnational IPAs, then the subnational EDOs and finally the local or regional authorities.

Figure 13. Overview of investment-related subnational entities in the OECD



Source: OECD survey on investment promotion and regional development, 2022.

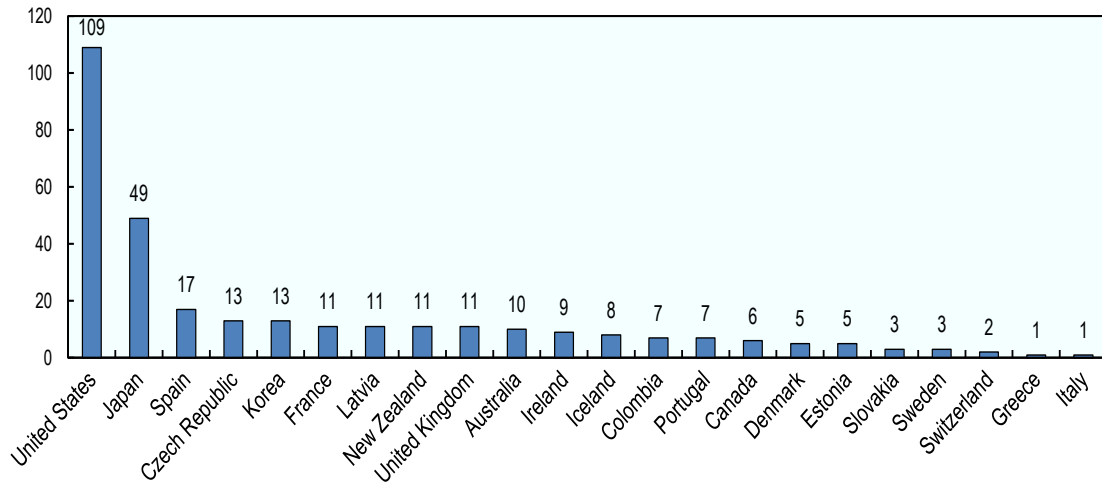
**Table 3. Investment-related subnational entities across OECD countries**

|                 | Subnational offices<br>(under the national IPA) | Subnational IPAs<br>(independent) | Subnational EDOs<br>(independent) |
|-----------------|---|-----------------------------------|-----------------------------------|
| Australia       |   |                                   |                                   |
| Austria         |   |                                   |                                   |
| Canada          |   |                                   |                                   |
| Chile           |   |                                   |                                   |
| Colombia        |   |                                   |                                   |
| Costa Rica      |   |                                   |                                   |
| Czech Republic  |   |                                   |                                   |
| Denmark         |   |                                   |                                   |
| Estonia         |   |                                   |                                   |
| Finland         |   |                                   |                                   |
| France          |   |                                   |                                   |
| Germany         |   |                                   |                                   |
| Greece          |   |                                   |                                   |
| Hungary         |   |                                   |                                   |
| Iceland         |   |                                   |                                   |
| Ireland         |   |                                   |                                   |
| Israel          |   |                                   |                                   |
| Italy           |   |                                   |                                   |
| Japan           |   |                                   |                                   |
| Korea           |   |                                   |                                   |
| Latvia          |   |                                   |                                   |
| Lithuania       |   |                                   |                                   |
| Luxembourg      |   |                                   |                                   |
| Mexico          |   |                                   |                                   |
| Netherlands     |   |                                   |                                   |
| New Zealand     |   |                                   |                                   |
| Poland          |   |                                   |                                   |
| Portugal        |   |                                   |                                   |
| Slovak Republic |   |                                   |                                   |
| Slovenia        |   |                                   |                                   |
| Spain           |   |                                   |                                   |
| Sweden          |   |                                   |                                   |
| Switzerland     |   |                                   |                                   |
| Türkiye         |   |                                   |                                   |
| United Kingdom  |   |                                   |                                   |
| United States   |   |                                   |                                   |

Source: OECD survey on investment promotion and regional development, 2022.

There are 61% of agencies in the OECD that have subnational (or regional) offices. The number of subnational offices varies greatly from one IPA to the other and is not necessarily correlated with the size of the country or economy, except in large economies such as the United States and Japan, where the number of offices is significantly higher (Figure 14). In all countries, these offices cover all the regions of the national territory, with the exceptions of Colombia (50% of the regions) and Italy (5%). IPAs' subnational offices, which report directly to the headquarters, may sometimes be less involved in investment activities and focus on other mandates of the organisation, such as export or SME promotion (e.g. in IPAs from Greece, France, New Zealand, Sweden, Switzerland).

Figure 14. Number of IPAs' subnational offices in OECD IPAs



Source: OECD survey on investment promotion and regional development, 2022.

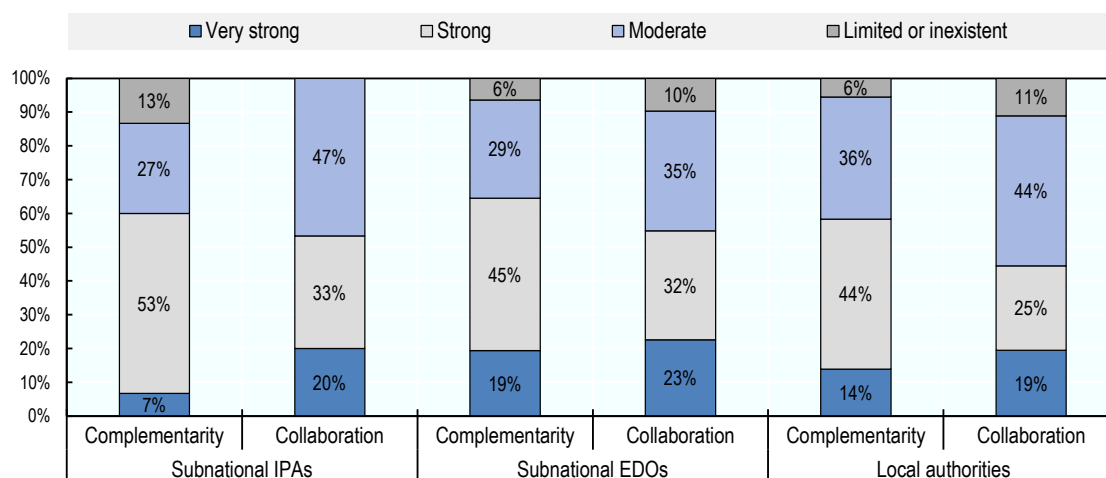
### 2.2.2. Relationships with subnational bodies

Considering the often-times complex institutional architecture involving national and subnational agencies involved in investment promotion and facilitation, maintaining a good relationship with peers is key to achieve successful results. IPAs can have different modes of co-ordination, which are determined by their geographical, economic and institutional contexts. These relationships can consist of:

- Collaboration, where the national IPAs and the subnational bodies decide to work together to achieve a result or produce something jointly (e.g. sharing information, co-ordinated activities); or
- Complementarity, where the national IPAs and the subnational bodies bring different qualities that are improved or accentuated by the relationship (e.g. exploiting synergies, ensuring mandates and activities reinforce each other).

The nature and the quality of these relationships also depend on the different subnational entities, whether they are IPAs, EDOs or local authorities. The survey results show that IPAs in the OECD have good relationships with subnational entities overall, particularly with subnational IPAs and EDOs, but that there is a large scope for improvement (Figure 15). There is often higher complementarity than collaboration, reflecting the different roles national IPAs and subnational bodies can play vis-à-vis foreign investors. It also suggests that working jointly is more complex than conducting complementary activities. Collaboration with local authorities is the weakest relationship overall.

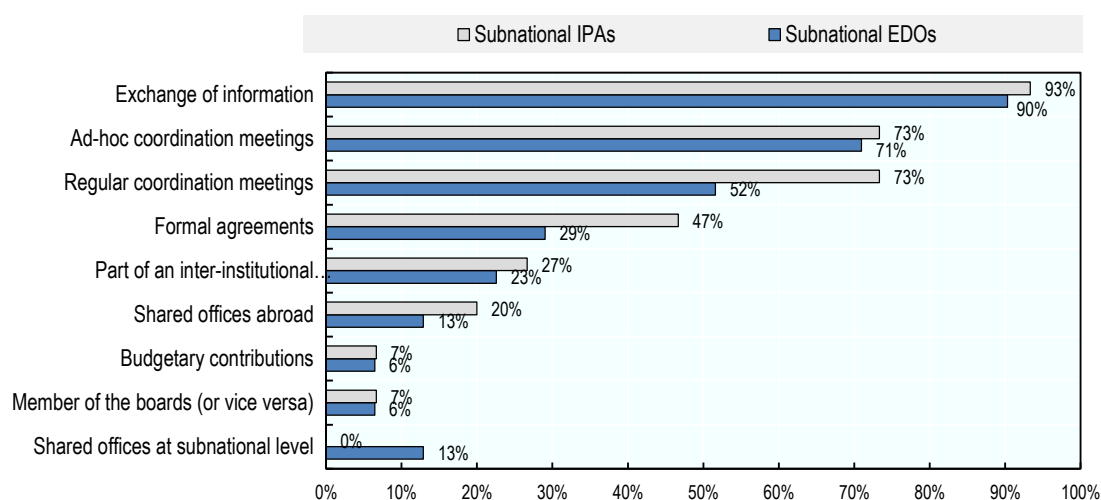
Figure 15. Relationships between national IPAs and subnational entities



Source: OECD survey on investment promotion and regional development, 2022.

IPAs have at their disposal a number of co-ordination mechanisms with subnational agencies, but not all are used with the same intensity. On average, IPAs use much more commonly mechanisms that are informal or do not require a high level of financial or human investment, such as information exchange and co-ordination meetings, as opposed to more constraining mechanisms such as budgetary contributions and board membership, which are much rarer across the OECD (Figure 16). These informal mechanisms can sometimes be perceived by IPAs to be more effective. In Türkiye, for instance, the IPA had originally a dedicated department whose main mandate was to develop co-operation mechanisms with subnational IPAs. Eventually, the department did not go beyond organising “co-operation meetings” and could not present any concrete results. It was hence dissolved, and the responsibility was given to an operational department of the agency that is now able to carry out concrete activities in co-operation with subnational IPAs. The IPA of Costa Rica adopted the opposite approach and established a specialised division for investment promotion outside of the Greater Metropolitan Area. This unit works with several constituencies in the community, including municipalities and private-public development agencies as well as academia and training institutions.

Figure 16. Co-ordination mechanisms between the national IPAs and subnational agencies

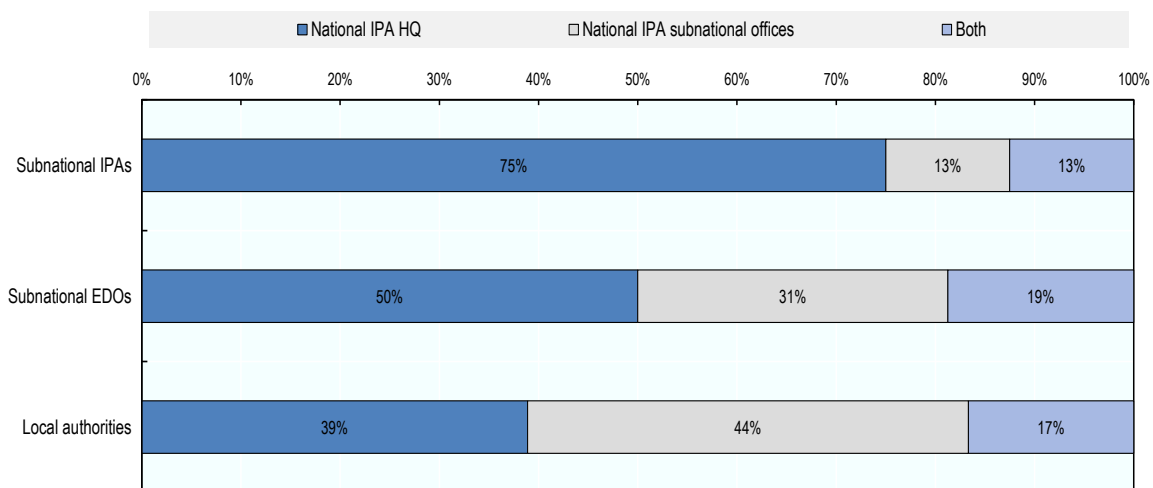


Source: OECD survey on investment promotion and regional development, 2022.

Additionally, almost half of IPAs in the OECD have formal agreements with subnational IPAs, but only 29% with subnational EDOs. To improve co-operation with regional agencies and local authorities, some national IPAs have created collaborative networks and events (Box 5). Approximately one national IPA out of five shares its offices abroad with subnational IPAs, but none has the same approach at subnational level, except with a few EDOs (13%). In general, there are more co-ordination mechanisms with subnational IPAs than with EDOs. The difference is particularly striking in the cases of regular co-ordination meetings, formal agreements and shared offices abroad. This reinforces the fact that co-ordination tends to be easier with agencies that have similar mandates and objectives.

When IPAs have subnational offices, the responsibility for the relationship with subnational entities is divided between the headquarters and these offices. Survey results show that the more similar the mandate of the subnational entity, the more often it is the IPA headquarters that maintains the relationship (Figure 17). The headquarters are indeed dealing with subnational IPAs in three-quarters of the cases and with EDOs in half of them but leaves the responsibility for the relationship with local authorities to their subnational offices in most cases. The latter are better anchored in local territories and economies and are thus best placed to interact with local authorities. This could also suggest that subnational IPAs operate at higher tiers of government than others.

**Figure 17. Headquarters vs. subnational offices: who is maintaining the relationship with subnational entities in national IPAs**



Source: OECD survey on investment promotion and regional development, 2022.

### Box 5. Examples of collaboration networks between national and subnational bodies

#### France – Team France Invest

The Team France Invest system aims to mobilise all the economic development actors to rely on common tools to strengthen the attractiveness of investments in France. It brings together the French authorities in charge of France's attractiveness at regional, national and international level, and aims to support new investors and to anticipate the needs of already established firms and of territories. It is above all a question of supporting the co-ordinated action of public actors at different levels of government to ensure better clarity of the available offer vis-à-vis foreign targets.



### **Greece – Synergassia Programme**

The Synergassia Programme aims to foster co-operation between the national IPA, Enterprise Greece, and the Commercial and Economic Counsellors of Foreign Embassies in Greece to promote the country's different regions. The programme encompasses a “Regional Compass” that provides foreign investors with information on demographics, available talent pools and economic activity per region. During a Synergassia mission, Enterprise Greece hosts workshops to present the macroeconomic and investment profile of the region along with its comparative advantages. Its objective is to tackle common issues investors face when choosing a location, such as tax, labour and availability of infrastructure.

### **Netherlands – Invest in Holland Network**

The Invest in Holland Network is a collaborative group formed by the Netherlands Foreign Investment Agency, the regional EDOs, the local governments of certain large cities and the Holland International Distribution Council. The objective of the network is to provide free and confidential support to investors looking to start or expand their operations in the Netherlands. They assist in areas such as talent recruitment and the development of public-private partnerships.

### **Portugal – National Economic Internationalisation Programme**

In 2021, Portugal launched the National Economic Internationalisation Programme, which aims to strengthen the promotion of territories and the skills of territorial agents in their investment promotion and follow-up processes. The programme promotes inter-institutional action to increase FDI flows and achieve a balanced distribution of investment across the country. AICEP Portugal Global closely collaborates with local authorities, promoting different locations across regions to foreign investors.

### **Sweden – Team Sweden**

Team Sweden is a network of public organisations, local agencies and companies that promote investment in Sweden. Business Sweden co-operates with the network to identify business opportunities, provide support to potential investors and achieve regional complementarity.

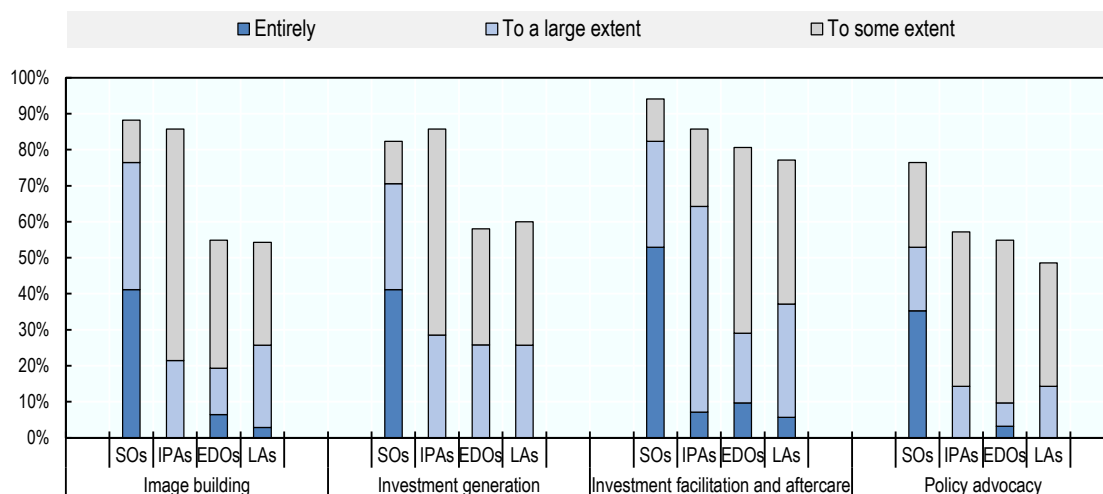
### **United States – SelectUSA Investment Summit**

The SelectUSA Investment Summit is an event dedicated to promoting FDI in the United States. It serves as a platform for investors to engage with regional EDOs, industry experts and business start-ups. During the event, multiple sessions are organised, with topics ranging from regional incentives and workforce development to innovation and technological progress. The attendees can meet and form partnerships with businesses and agencies across the United States.

Source: OCDE (2022<sup>[31]</sup>), L'internationalisation et l'attractivité des régions françaises, <https://doi.org/10.1787/6f04564a-fr>; IPAs' websites; and OECD survey on investment promotion and regional development, 2022.

When national IPAs and their regional peers decide to work jointly on certain activities, they can focus on certain functions more than others.<sup>4</sup> The extent to which these functions are carried out jointly varies considerably depending on the nature of the subnational entity but also, to some extent, on the function itself (Figure 18). As such, investment facilitation and aftercare is the main function performed jointly with the four types of subnational institutions. It is particularly high for subnational IPAs, which are involved in this function entirely or to a large extent in 70% of cases. Those IPAs with subnational offices rely on them entirely in more than half of the cases for this function.

**Figure 18. National IPA functions carried out jointly with their subnational partners**



Note: “SOs” refer to national IPAs’ subnational offices and “LAs” to local authorities. The “SOs” category does not include Greece, France, New Zealand, Sweden and Switzerland, which subnational offices are little or not involved in investment promotion.

Source: OECD survey on investment promotion and regional development, 2022.

Investment facilitation starts at the pre-establishment phase, when an investor shows interest in a location, and includes tools and services provided by the host government to help investors navigate through the various regulations and procedures when investing (Novik and de Crombrughe, 2018<sup>[32]</sup>). These services are often provided at the local level and can hence more easily be provided by – or jointly with – subnational entities. IPAs often divide roles and responsibilities so that the national agencies welcome investors and provide them with all the necessary information needed and the subnational agencies take over to support them in the administrative procedures on the ground. Other studies also find that subnational IPAs play a particularly important role in attracting FDI in less developed regions, particularly by addressing local market and institutional failures and acting as institutional facilitators (Crescenzi, Di Cataldo and Giua, 2021<sup>[33]</sup>).

The role of subnational IPAs specifically is quite prominent in investment promotion functions (i.e. image building and investment generation). Indeed, 85% of national IPAs report that the image building and investment generation functions are conducted largely or to some extent jointly with subnational IPAs. This shows again that co-operation with subnational IPAs tends to be easier than with other subnational autonomous entities on average, but this represents a minority of cases since countries with subnational IPAs are significantly less numerous than those with subnational EDOs (see above). Conversely, policy advocacy is less frequently performed jointly with subnational institutions. The very nature of this function – interacting with government officials to support business environment improvements – makes it more common to be conducted from a national perspective.

Relationships between national IPAs and their subnational partners can face obstacles and bottlenecks of a different nature. They are also different depending on the subnational institution with which they interact, be it IPAs, EDOs or local authorities (Table 4). Overall, the main challenges seem to be technical, financial or operational rather than a lack of willingness to co-operate and find common objectives. The main challenges relate principally to the lack of knowledge, of resources, of communication and of clarity of mandates. Conversely, the option suggesting a ‘lack of willingness to co-operate at technical level’ is placed at the bottom of the list of potential challenges for all three subnational entities.

**Table 4. Main challenges faced by national IPAs in their relationship with subnational entities**

|   | <b>Subnational IPAs</b>  | <b>Subnational EDOs</b>  | <b>Local authorities</b>   |
|---|--|--|--|
| 1 | Lack of knowledge of strategies and activities                                 | No formal mandate from the national IPA to co-ordinate subnational initiatives | Lack of knowledge of strategies and activities                                 |
| 2 | Lack of resources to co-operate properly                                       | Lack of resources to co-operate properly                                       | Lack of resources to co-operate properly                                       |
| 3 | Lack of communication or inefficient communication channels                    | Lack of knowledge of strategies and activities                                 | Lack of communication or inefficient communication channels                    |
| 4 | Lack of clarity of mandates  | Lack of clarity of mandates  | Lack of clarity of mandates  |
| 5 | No formal mandate from the national IPA to co-ordinate subnational initiatives | Lack of communication or inefficient communication channels                    | No formal mandate from the national IPA to co-ordinate subnational initiatives |
| 6 | Lack of willingness to co-operate at political level                           | Contradictory political or economic development objectives                     | Lack of willingness to co-operate at political level                           |
| 7 | Contradictory political or economic development objectives                     | Lack of willingness to co-operate at political level                           | Contradictory political or economic development objectives                     |
| 8 | Lack of willingness to co-operate at technical level                           | Lack of willingness to co-operate at technical level                           | Lack of willingness to co-operate at technical level                           |

Source: OECD survey on investment promotion and regional development, 2022.

It is for subnational EDOs that a more strategic challenge comes in first place, however, stressing the fact that national IPAs do not have a formal mandate to co-ordinate subnational investment promotion and facilitation initiatives. As EDOs are more numerous and present in more countries than subnational IPAs, this challenge reflects that co-ordination is not yet optimal and might weaken the contribution of FDI to regional development. It is further undermined by the fact that there are fewer formal co-ordination mechanisms with EDOs (see Figure 16 above). Uncoordinated activities at regional level can lead to redundant activities, conflicting messages to investors, a misuse of public spending, unhealthy competition across regions and increased regional disparities.

### 2.3. Investment promotion strategies and activities

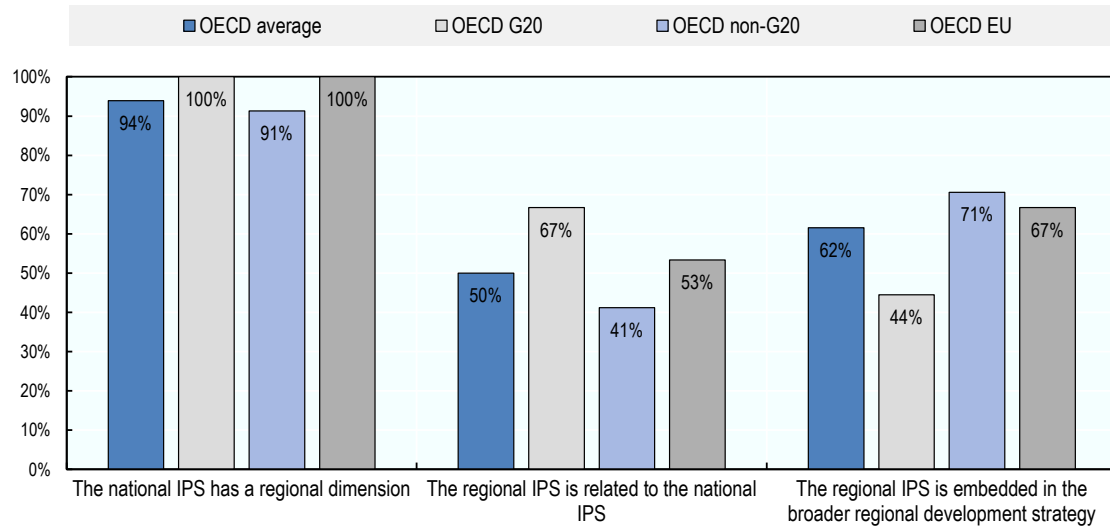
Governments design investment promotion strategies to set objectives and targets that reflect their FDI attraction priorities as well as tools and activities to implement them. They are designed based on several criteria, which take importance depending on the country, notably the existence of strong domestic capacities, the potential to diversify the economy, the positioning of the country vis-à-vis competitors or the impact on employment (OECD, 2018<sub>[30]</sub>). These strategies should consider local specificities while also ensuring a balanced approach across the different regions. The emphasis on regions and the actors involved in the strategy design process can be very different from one country to another.

#### 2.3.1. Strategy design

In the OECD, 72% of countries have regional investment promotion strategies and a large majority of national investment promotion strategies have a regional development dimension (94%). This regional dimension can vary in intensity from one country to another. For instance, Ireland, Japan, Latvia and Lithuania have regional development as a central pillar of their national investment promotion strategy. Germany has a dedicated team responsible for the breakdown strategies to support regional development. In other cases, notably in Australia, Israel and Colombia, the regional dimension is only broadly and implicitly present in the national strategy. The link between regional and national investment promotion strategies is well established in only half of OECD countries and in 62% of cases between the regional investment promotion strategy and the broader regional strategy (Figure 19). In smaller economies, regional investment promotion strategies are less systematically embedded or referring to national ones (in 41% of the cases) but more often integrated in broader regional strategies (71%). Conversely, the

integration of national and regional investment promotion strategies is the strongest in large economies (67%), but regional strategies are well interconnected only in 44% of cases.

**Figure 19. Extent of integration of national and regional strategies in OECD countries**



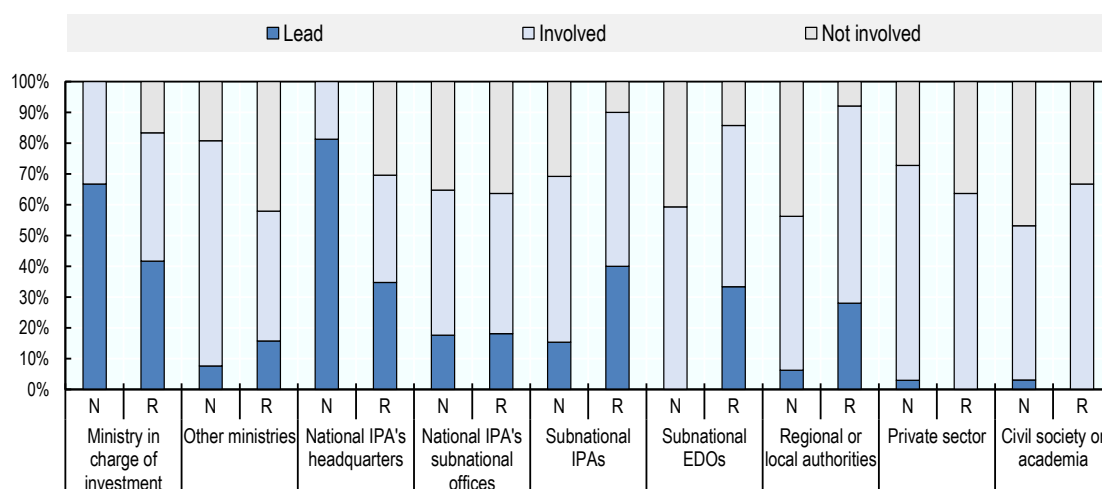
Note: "IPS" stands for Investment Promotion Strategy.

Source: OECD survey on investment promotion and regional development, 2022.

The growing importance given to regional development is also striking, as 71% of national IPAs in the OECD reported to have recently increased the focus given to this topic. For example, Ireland has published investment targets for each of its regions since 2015. Similarly, Chile created a regional unit to act as a focal point for the co-ordination of activities and capacity building in investment promotion. More recently, and as a result of the COVID-19 crisis, Estonia has increased the focus on aftercare services, with a particular emphasis on the regional dimension. Other countries, such as Luxembourg, do not need to increase the focus on regional development, however, notably given their small size.

Different government and non-governmental bodies can be leading – or be involved in – the strategy design process of national and regional investment promotion strategies. It is most often the national IPA (in 81% of the cases) that is leading or co-leading the national strategy design, followed by the ministry in charge of investment in two-thirds of the cases (Figure 20).

Figure 20. Entities involved in investment promotion strategy design



Note: "N" stands for national investment promotion strategy and "R" stands for regional investment promotion strategy.

Source: OECD survey on investment promotion and regional development, 2022.

Subnational entities, particularly IPAs in 69% of the cases, are also often either leading or involved in the national strategy design. The results are more dispersed for the regional investment promotion strategy. While the subnational IPAs (40%) and the ministry in charge of investment (42%) are most often leading the regional investment promotion strategy design, local authorities are those most frequently leading or involved in it (92% of cases combined). It is also encouraging to observe that the private sector and civil society or academia are involved in most OECD countries in both the national and regional investment promotion strategies.

### 2.3.2. Tools and activities

Different measures and policy tools can be used by governments to promote, facilitate and retain FDI in remote or less developed regions. The services provided by the national IPA is the measure most frequently reported, followed by non-tax incentives, tax incentives and industrial parks, while local and regional fairs as well as special economic zones are the least frequently used (Table 5). There are few differences across the different categories of countries, except that OECD G20 economies use tax incentives slightly less than other countries and that OECD EU members tend to use industrial parks slightly more frequently. While regional incentives are commonly used by OECD countries, the schemes vary significantly from one country to another depending on their policy objectives (Box 6).

Table 5. Policy tools and measures to promote FDI in remote or less developed regions

| Ranking | Tools  |
|---------|--|
| 1       | The IPA services   |
| 2       | Non-tax incentives (e.g. grants, subsidies, loan guarantees) |
| 3       | Tax incentives   |
| 4       | Industrial parks   |
| 5       | Provision of infrastructure                                  |
| 6       | Local/regional business environment improvements             |
| 7       | Special economic zones                                       |
| 8       | Local/regional fairs   |

Source: OECD survey on investment promotion and regional development, 2022.

### Box 6. Examples of incentives for less developed and remote regions

One of the tools most used by IPAs to promote, facilitate and retain FDI in remote or less developed regions are incentives, both tax and non-tax based, which vary greatly in scope and nature, even within the same country.

#### Tax incentives

Some countries provide tax cuts and credits for companies investing in remote areas or underdeveloped regions. For example, Italy offers tax credits to investment located in the southern regions, ranging from 25% to 40% depending on the size of the company. Hungary uses an incentive scheme that provides aid in different intensities depending on the region, with a maximum possible tax allowance of 50%. Under certain conditions, Switzerland provides tax relief to investors to support structurally weak regions. Korea provides businesses investing in specific areas (such as Jeju Island) with a property tax exemption of 100% from the date of business commencement and 50% reduction for two years thereafter.

#### Non-tax incentives

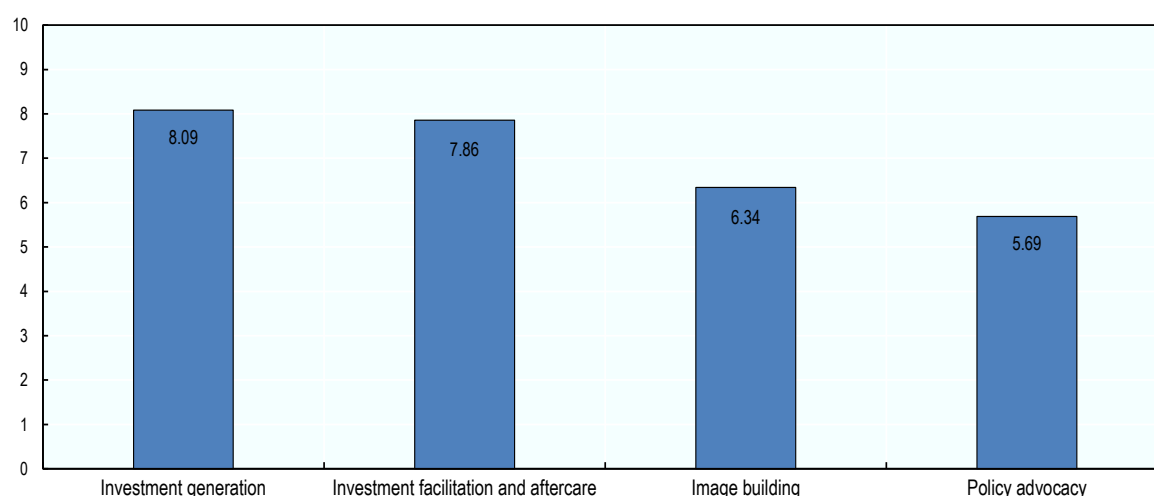
Australia has instituted business-friendly reforms committed to developing long term growth in northern regions. Chile grants manual labour bonuses and investment subsidies, equivalent to 20% of the investment, for investors who choose to locate their companies in remote areas. Iceland delivers training aid up to a maximum of EUR 2 million for investments done outside the capital area. Poland provides employment and training cash grants for investments in medium-sized cities with high unemployment rates as well as in voivodeships (regions) of Eastern Poland. In Canada, the federal government provides funding to a diverse group of industry clusters leveraging regional strengths, such as Protein Industries Canada, located in the Prairie Provinces, which received a total funding of CAD 173 million.

Source: IPAs' websites and OECD survey on investment promotion and regional development, 2022.

Among the different IPA services, investment generation and investment facilitation and aftercare are on average more useful functions than image building and policy advocacy to promote regional development (Figure 21). When it comes to attracting FDI, many IPAs use digital tools to provide information on their regions' specificities and business opportunities (Box 7).

**Figure 21. Key functions to promote, facilitate and retain FDI in remote or less developed regions**

(on a scale from 1 to 10, where 0 is not important and 10 is more important)



Source: OECD survey on investment promotion and regional development, 2022.

### Box 7. Increasing regional visibility through digital tools

IPAs in the OECD have been increasingly using digital tools to promote and facilitate investment (de Crombrughe and Moore, 2021<sup>[34]</sup>). IPAs can further use their online websites and platforms to increase the visibility of their regions.

For example, the CzechInvest and SARIO – Invest in the Slovak Republic, have digital maps with the contact information for their regional offices across the country. Alternatively, KOTRA – Invest Korea, ICEX – Invest in Spain and Germany Trade and Invest present maps with direct links to the subnational IPAs' websites for each of their regions.

Other IPAs, such as ABA – Invest in Austria, ProColombia, SPIRIT Slovenia and Business Sweden, provide an interactive map in which investment sites, supporting infrastructure and industrial clusters can be identified in the different regions of the country.

Digital maps are not the only way to increase the visibility of regional locations. For instance, Invest Lithuania, the UK Department for International Trade and Business France have published investment guides and factsheets for each of their regions with relevant FDI information. The Directorate-General for Global Investment of Mexico created a Prospective Territorial-Industrial Atlas for Investment Attraction. JETRO – Invest Japan and Switzerland Global Enterprise have developed analytical tools that present comparative data across their regions.

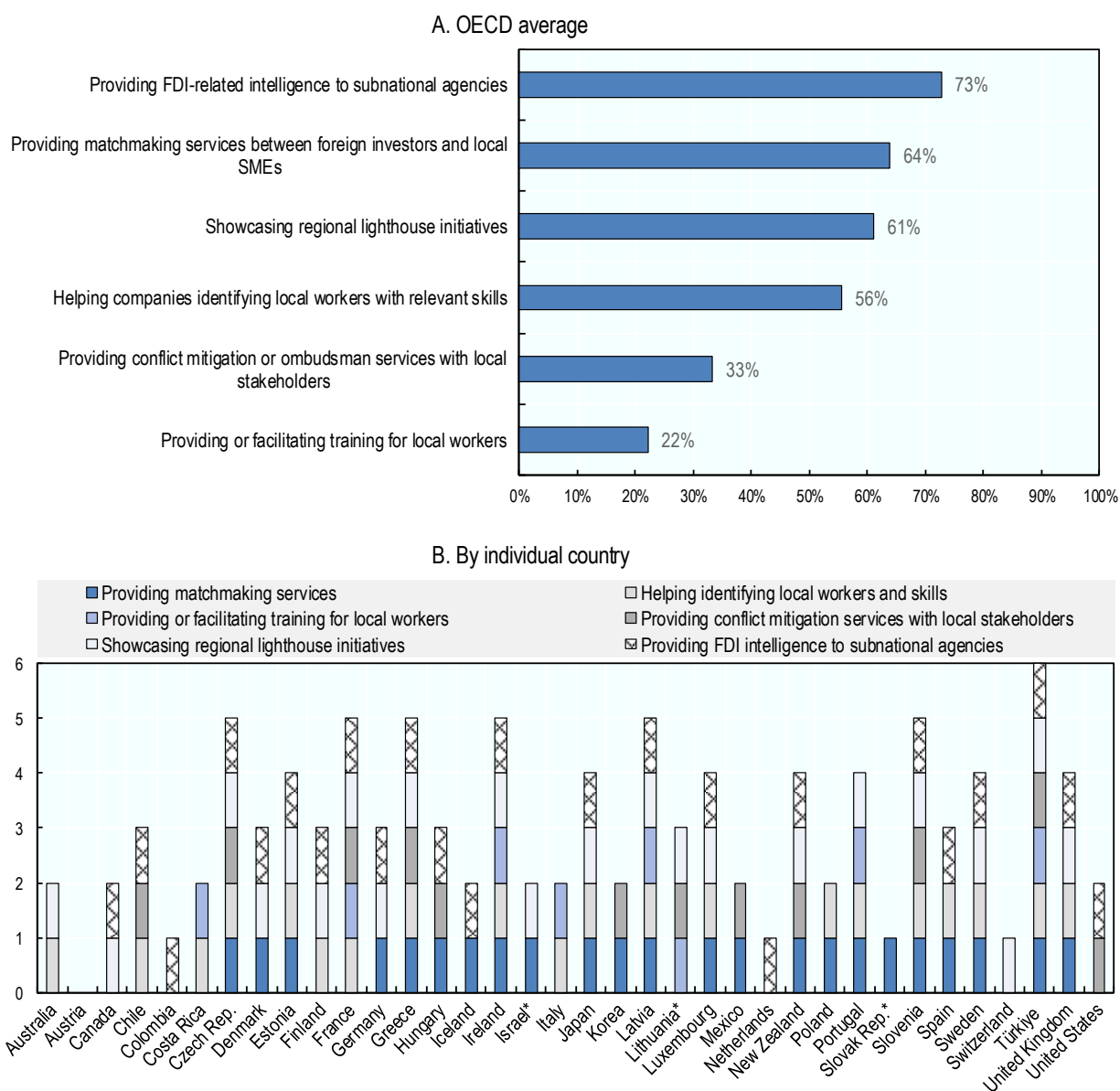
Digital tools can help national IPAs provide easily accessible information about their regions' characteristics and investment opportunities. They can help investors quickly identify local contact points to obtain additional information.

Source: OECD based on OECD Survey on Investment Promotion and Digitalisation (2021) and IPAs' websites.

In addition to their core activities, IPAs can also provide other services to investors or subnational partners that can make FDI work for regional development. The top activity is the provision of FDI-related

intelligence to subnational IPAs or EDOs, which is performed by three-quarters of OECD IPAs, thus reflecting a good degree of collaboration between national and subnational agencies on this front (Figure 22, Panel A). Almost two-thirds of national agencies also provide matchmaking services to investors, which can help the development of the local economy through the creation of business linkages between multinational enterprises and local SMEs that can act as suppliers. In most cases, the IPAs that provide these services are the same as those that are mandated to promote SME development or domestic investment (see Section 2.1). A majority of national IPAs also showcase regional lighthouse initiatives and help investors identify local workers with relevant skills, but much fewer provide or facilitate training for these workers. The IPAs from the Czech Republic, France, Greece, Ireland, Latvia, Slovenia and Türkiye have the widest array of such activities (Figure 22, Panel B).

**Figure 22. Additional IPA activities to promote FDI in support of regional development**

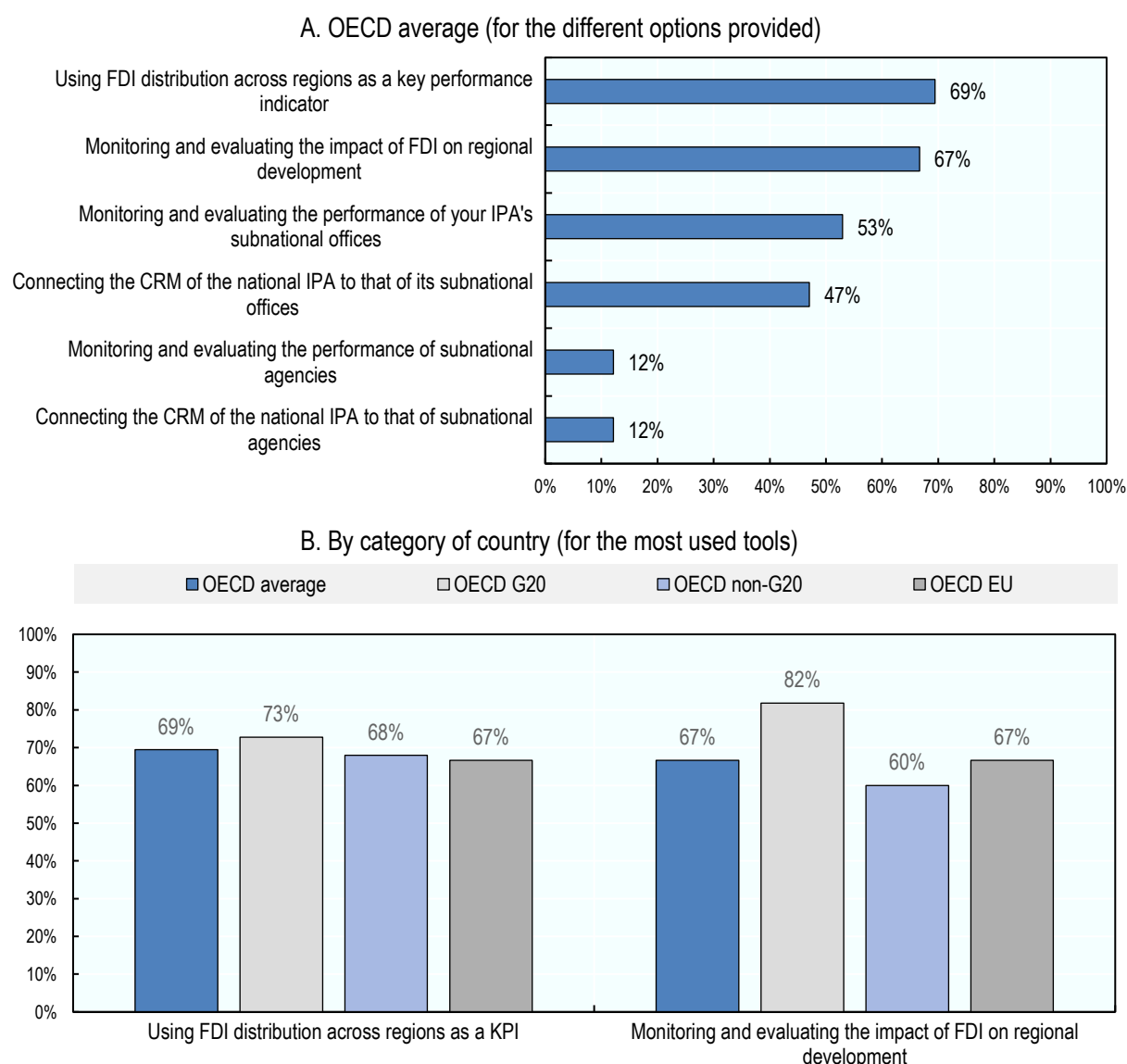


Note: Countries with an asterisk have no subnational IPAs or EDOs and are therefore excluded from the category “Providing FDI intelligence to subnational agencies”.

Source: OECD survey on investment promotion and regional development, 2022.



**Figure 23. M&E tools used to measure the impact of IPA activities on regional development**



Note: For Panel A., the data on subnational offices only concerns IPAs with subnational offices (it does not include Greece, France, New Zealand, Sweden and Switzerland, which subnational offices are little or not involved in investment promotion); the data for subnational agencies (IPAs or EDOs) only concerns countries with subnational IPAs or EDOs.

Source: OECD survey on investment promotion and regional development, 2022.

To ensure that investment promotion activities are effective and contribute to the desired outcomes, it is important to have a strong monitoring and evaluation (M&E) system with relevant key performance indicators (KPI). Most IPAs use a customer relationship manager (CRM) system to track the implementation of activities (OECD, 2018<sup>[30]</sup>). Overall, national IPAs have largely integrated the regional development dimension in their M&E system, as 69% of them use FDI distribution across regions as a KPI and 67% monitor and evaluate the impact of FDI on regional development (Figure 23, Panel A). IPAs can also evaluate the performance of their own subnational offices or that of subnational IPAs and EDOs in the promotion of FDI in regions. Fewer do so in practice, however. Amongst IPAs with subnational offices, just over half monitor and evaluate the performance of these offices, whose CRM is connected to the headquarters' CRM in only 47% of cases. These percentages are even lower in the case of subnational

agencies (whether IPAs or EDOs), where only a minority connect their CRMs and monitor their performance.

The differences between categories of countries are not highly significant, but IPAs from OECD G20 countries are proportionally more numerous in taking into consideration the regional development dimension in their M&E system, particularly with regards to measuring the impact of FDI on regional development (Figure 23, Panel B). This suggests that the size of the economy affects the will of national IPAs to better understand the role, the trends and the impact of FDI in their countries' different regions.

### 2.3.3. Challenges and opportunities

There are challenges but also reasons for FDI to locate in different regions, particularly remote or less developed regions that investment promotion strategies need to consider. Overall, IPAs report that adequate skills and quality infrastructure are key criteria for FDI to locate in regions, as they appear in the top two challenges and in the top three attractors (Table 6). The existence of a relevant pool of suppliers and clients is also cited as an important challenge to invest in regions. The provision of state support does not seem to be an important criterion for FDI to locate in regions. Conversely, and importantly, investors are also significantly attracted to regions because of lower business costs.

**Table 6. Challenges and opportunities to attract FDI in regions**

| Main challenges for FDI to locate in remote or less developed regions | FDI attractors to regional locations            |
|---|---|
| Lack of adequately skilled labour                                     | High level of educated workforce / R&D activity |
| Poor infrastructure or connectivity                                   | Lower business costs                            |
| Distance to suppliers and clients                                     | Good infrastructure or connectivity             |
| Difficulties in interacting with regional or local authorities        | Provision of state support                      |
| Lack of dedicated state support                                       | Large size of clients and suppliers             |
| Unfavourable image  | Existence of natural resources                  |
|   | Lower employee turnover                         |

Source: OECD survey on investment promotion and regional development, 2022.

# 3 An attempt to categorise countries based on their FDI regional disparities and main IPA characteristics

Countries have different approaches in the way they integrate the regional development dimension in their strategies and the way they organise their institutional framework for investment promotion and facilitation at subnational level. This paper does not intend to provide prescriptive recommendations to IPAs, but some considerations can be drawn from the analysis, potentially helping IPAs better understand where they stand on investment promotion and regional development and better positioning themselves accordingly.

While Section 1 of this paper presented an overview of the FDI regional disparities across OECD countries, Section 2 examined how national IPAs address institutionally investment promotion and facilitation at subnational level. The below mapping intends to show the relationships between these two elements, i.e. how OECD countries' FDI per capita regional disparities – categorised in three groups – relate to different components of their IPA institutional characteristics, notably: i) the priority given to regional development by national IPAs; ii) the IPA institutional complexity at subnational level; and iii) the institutional relationships between national IPAs and subnational partners. The tables below provide country classifications on each of these areas.

**Table 7. FDI regional disparities vs. priority given by IPAs to regional development**

|  | Regional development is top priority for IPA  | Regional development is moderate priority for IPA | Regional development is low priority for IPA |
|--|---|---|--|
| Strong regional disparities of FDI per capita (top third)      | <b>Chile, Costa Rica</b> , Colombia, Finland, Israel, the Netherlands, New Zealand, Türkiye (25%) | Canada, Iceland (6%)                              | <b>Australia</b> (3%)                        |
| Moderate regional disparities of FDI per capita (medium third) | <b>France, Greece, Japan</b> , Mexico, Portugal, the Slovak Republic, Spain (21%)                 | <b>Denmark, Germany, Korea, Lithuania</b> (12%)   |  |
| Low regional disparities of FDI per capita (bottom third)      | <b>Czech Republic, Ireland, Italy</b> , Slovenia, United Kingdom, <b>United States</b> (18%)      | Hungary, <b>Poland, Sweden</b> (9%)               | Austria, Switzerland (6%)                    |

Note: FDI regional disparities use the Gini Index; countries in bold reported a stronger focus by the IPA on regional development recently; Estonia, Latvia and Luxembourg are not listed as they have only one TL2 region; Belgium and Norway did not respond to the survey.

Source: OECD based on FT fDi Markets, OECD Regional Database and OECD Survey on Investment Promotion and Regional Development.

Table 7 confirms that a majority of OECD IPAs consider regional development as a top priority, as mentioned in Section 2 of this paper, and that many have recently increased their efforts accordingly. The largest category of countries, representing a quarter of OECD members, are those with strong FDI regional disparities and a high priority given to regional development by IPAs. This could suggest either that regional development is a top priority of IPAs because of the strong disparities of FDI per capita in those countries or that IPAs have contributed to keep FDI disparities at a moderate or low level because they have been considering regional development as a top priority.

Another dimension is the institutional complexity at subnational level, in other words the different types of entities involved in investment promotion and facilitation beyond the national IPAs and the local authorities, whether national IPAs' subnational offices (involved in investment matters), subnational EDOs and subnational IPAs. Most countries have one or two types of subnational entities, with little correlation with the regional disparities of FDI per capita (Table 8). Large economies have all, at least, two types of subnational entities and are overall equally distributed across the three categories of FDI regional disparities.

**Table 8. FDI regional disparities vs. IPA institutional complexity**

|  | Three types of subnational entities exist     | Two types of subnational entities exist   | One type of subnational entity exists                                | No type of subnational entity exists |
|--|---|---|--|--------------------------------------|
| Strong regional disparities of FDI per capita (top third)      | <b>Australia, Canada,</b><br>Colombia<br>(9%) | Iceland, Türkiye<br>(6%)  | Costa Rica, Chile, the Netherlands,<br>New Zealand, Finland<br>(15%) | Israel<br>(3%)                       |
| Moderate regional disparities of FDI per capita (medium third) | Denmark, <b>Japan,</b> Spain<br>(9%)          | <b>France, Germany, Korea, Mexico,</b> Portugal<br>(15%)                        | Greece, the Slovak Republic<br>(6%)                                  | Lithuania<br>(3%)                    |
| Low regional disparities of FDI per capita (bottom third)      | <b>United Kingdom</b><br>(3%)                 | Czech Republic, <b>Italy,</b> Ireland, Poland,<br><b>United States</b><br>(15%) | Austria, Hungary, Slovenia, Sweden,<br>Switzerland<br>(15%)          |                                      |

Note: FDI regional disparities use the Gini Index; countries in bold are large economies (G20 members); subnational entities include national IPAs' subnational offices, subnational IPAs and subnational EDOs (subnational governments are not considered here); Estonia, Latvia and Luxembourg are not listed as they have only one TL2 region; Belgium and Norway did not respond to the survey.

Source: OECD based on FT fDi Markets, OECD Regional Database and OECD Survey on Investment Promotion and Regional Development.

Another way to examine IPA characteristics in light of FDI disparities is to look at the institutional relationships between national IPAs and subnational entities, notably their collaboration with local authorities (Table 9), subnational EDOs (Table 10) and subnational IPAs (Table 11). The tables confirm that, in general, national IPAs tend to have moderate to strong collaboration with subnational entities, particularly in the case of subnational EDOs and IPAs.

Additionally, the figures below show that there is a correlation between the level of regional disparities of FDI per capita and the quality of the relationships with local authorities (Figure 24), subnational EDOs (Figure 25) and subnational IPAs (Figure 26). For all three types of subnational entities, the better the collaboration, the lower the regional disparities of FDI per capita. The relationship is the strongest for subnational IPAs, followed by subnational EDOs and then local authorities. This shows that maintaining strong relationships with subnational organisations, particularly those that have a bearing on investment matters, is particularly important to keep FDI regional disparities as low as possible.

**Table 9. FDI regional disparities vs. IPA institutional relationships (local authorities)**

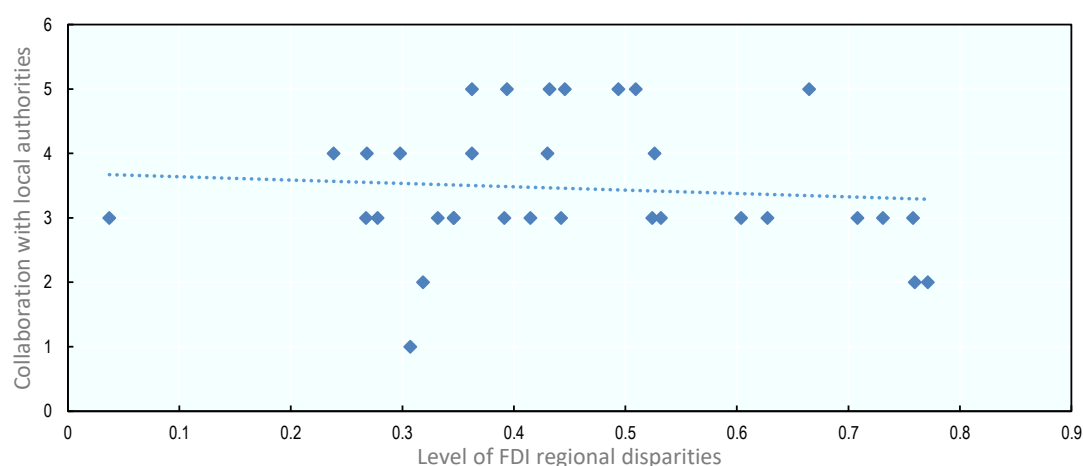
|  | Strong collaboration   | Moderate collaboration   | Limited collaboration |
|--|--|--|-----------------------|
| Strong regional disparities of FDI per capita (top third)      | Canada, Finland (6%)   | Colombia, Costa Rica, Iceland, Israel, the Netherlands, New Zealand, Türkiye (22%) | Australia, Chile (6%) |
| Moderate regional disparities of FDI per capita (medium third) | Denmark, Greece, Japan, Korea, Lithuania, Spain, Mexico, the Slovak Republic (25%) | France, Germany, Portugal (9%)   |                       |
| Low regional disparities of FDI per capita (bottom third)      | Czech Republic, Italy, Sweden (9%)   | Ireland, Hungary, Poland, Slovenia, United Kingdom, Switzerland (19%)              | Austria (3%)          |

Note: FDI regional disparities use the Gini Index; Estonia, Latvia and Luxembourg are not listed as they have only one TL2 region; Belgium and Norway did not respond to the survey; the US requested its data to remain anonymised.

Source: OECD based on FT fDi Markets, OECD Regional Database and OECD Survey on Investment Promotion and Regional Development.

**Figure 24. Relationship between FDI regional disparities and the quality of collaboration between national IPAs and local authorities**

A higher value corresponds to a stronger collaboration and a higher regional FDI disparity



Note: FDI regional disparities use the Gini Index; Estonia, Latvia and Luxembourg are not listed as they have only one TL2 region; Belgium and Norway did not respond to the survey.

Source: OECD based on FT fDi Markets, OECD Regional Database and OECD Survey on Investment Promotion and Regional Development.

**Table 10. FDI regional disparities vs. IPA institutional relationships (subnational EDOs)**

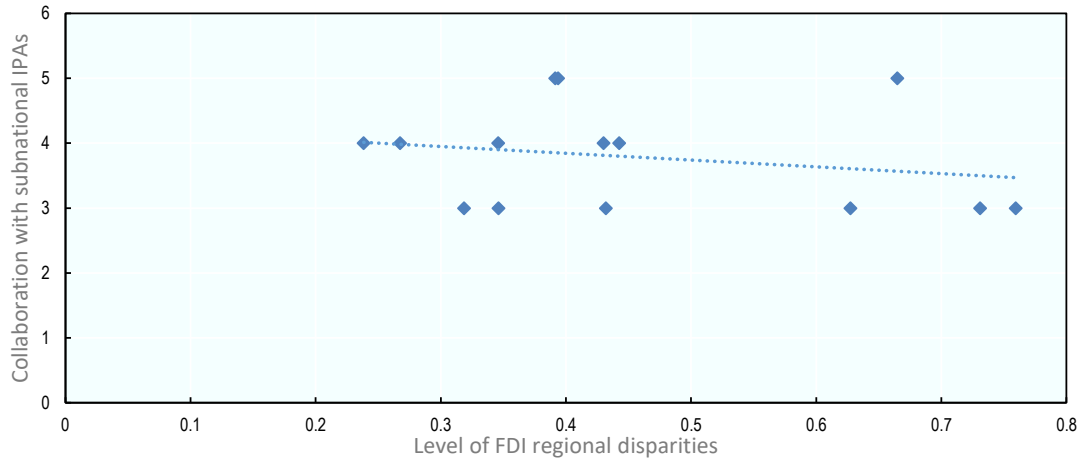
|  | Strong collaboration   | Moderate collaboration                                | Limited collaboration |
|--|--|---|-----------------------|
| Strong regional disparities of FDI per capita (top third)      | Canada, Costa Rica, Finland, the Netherlands (15%)           | Australia, Chile, Iceland, New Zealand, Türkiye (18%) | Colombia(4%)          |
| Moderate regional disparities of FDI per capita (medium third) | Denmark, Greece, Korea, Japan, Portugal, Mexico, Spain (26%) |   | Germany, France (7%)  |
| Low regional disparities of FDI per capita (bottom third)      | Czech Republic, Italy, United Kingdom (11%)                  | Austria, Ireland, Hungary, Poland, Slovenia (18%)     |                       |

Note: FDI regional disparities use the Gini Index; only countries with subnational EDOs are listed; Estonia, Latvia and Luxembourg are not listed as they have only one TL2 region; Belgium and Norway did not respond to the survey; the US requested its data to remain anonymised.

Source: OECD based on FT fDi Markets, OECD Regional Database and OECD Survey on Investment Promotion and Regional Development.

**Figure 25. Relationship between FDI regional disparities and the quality of collaboration between national IPAs and subnational EDOs**

A higher value corresponds to a stronger collaboration and a higher regional FDI disparity



Note: FDI regional disparities use the Gini Index; only countries with subnational EDOs are indicated; Estonia, Latvia and Luxembourg are not indicated as they have only one TL2 region; Belgium and Norway did not respond to the survey.

Source: OECD based on FT fDi Markets, OECD Regional Database and OECD Survey on Investment Promotion and Regional Development.

**Table 11. FDI regional disparities vs. IPA institutional relationships (subnational IPAs)**

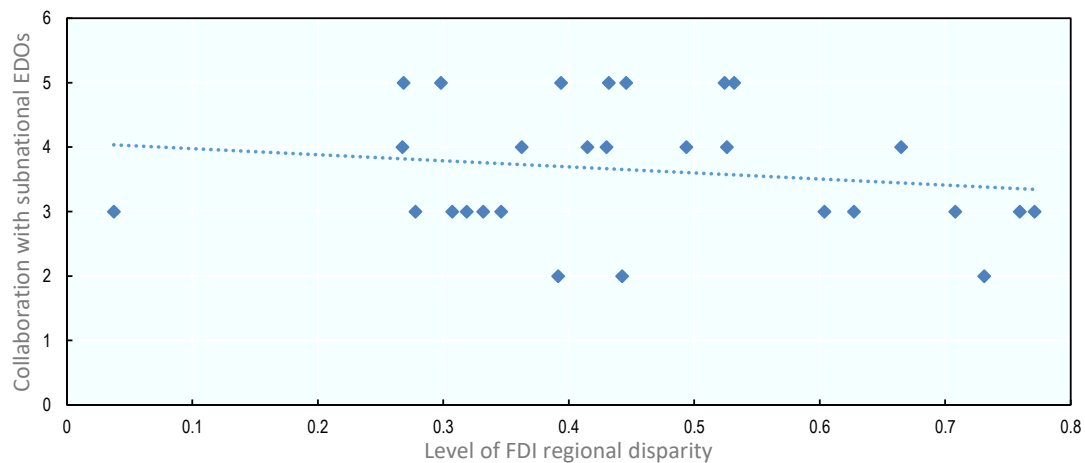
|  | Strong collaboration                | Moderate collaboration             | Limited collaboration |
|--|-------------------------------------|------------------------------------|-----------------------|
| Strong regional disparities of FDI per capita (top third)      | Canada(9%)                          | Australia, Colombia, Türkiye (27%) |                       |
| Moderate regional disparities of FDI per capita (medium third) | France, Germany, Mexico, Spain(36%) | Denmark, Poland(18%)               |                       |
| Low regional disparities of FDI per capita (bottom third)      | Sweden(9%)                          |                                    |                       |

Note: FDI regional disparities use the Gini Index; only countries with subnational IPAs are listed; Latvia is not listed as it has only one TL2 region; Belgium and Norway did not respond to the survey; the UK and US requested their data to remain anonymised.

Source: OECD based on FT fDi Markets, OECD Regional Database and OECD Survey on Investment Promotion and Regional Development.

**Figure 26. Relationship between FDI regional disparities and the quality of collaboration between national IPAs and subnational IPAs**

A higher value corresponds to a stronger collaboration and a higher regional FDI disparity



Note: FDI regional disparities use the Gini Index; only countries with subnational IPAs are listed; Latvia is not listed as it has only one TL2 region; Belgium and Norway did not respond to the survey.

Source: OECD based on FT fDi Markets, OECD Regional Database and OECD Survey on Investment Promotion and Regional Development.

## Annex A. Measures of regional disparity

The following definitions of measures of regional disparity are largely based on definitions provided by the OECD Regions and Cities at a Glance flagship publication.

### Coefficient of variation

Definition: Regional disparities are measured by the coefficient of variation. The coefficient is defined as:

$$\frac{1}{\bar{y}} \left[ \frac{1}{N} \sum_{i=1}^N (\bar{y} - y_i)^2 \right]^{\frac{1}{2}}$$

Where:

$N$  is the number of regions,

$\bar{y}$  is the country's average greenfield FDI.

and  $y_i$  is the greenfield FDI of region  $i$ .

Interpretation: The standard deviation of greenfield FDI divided by the mean. Its dimensionless form makes it convenient for summarisation.

### Gini index

Definition: Regional disparities are measured by an unweighted Gini index. The index is defined as:

$$\frac{2}{N-1} \sum_{i=1}^{N-1} |F_i - Q_i|$$

Where:

$N$  is the number of regions,

$$F_i = \frac{i}{N},$$

$$Q_i = \frac{\sum_{j=1}^i y_j}{\sum_{i=1}^N y_i},$$

and  $y_i$  is the value of greenfield FDI in region  $j$  when ranked from low ( $y_1$ ) to high ( $y_N$ ) among all regions within a country.

The index ranges between 0 (perfect equality: greenfield FDI is the same in all regions) and 1 (perfect inequality: greenfield FDI is nil in all regions except one).

Interpretation: The index assigns equal weight to each region regardless of its size; therefore differences in the values of the index among countries may be partially due to differences in the average size of regions in each country. Only countries with more than one region are included in the computation of the Gini index.



## Theil's index

Definition: Regional disparities are measured by a Theil entropy index, which is defined as:

$$\frac{1}{N} \sum_{i=1}^N \frac{y_i}{\bar{y}} \ln \left( \frac{y_i}{\bar{y}} \right)$$

Where:

N is the number of regions,

$y_i$  is the value of greenfield FDI in region  $i$ ,

and  $\bar{y}$  is the mean of greenfield FDI across all regions.

The Theil index can be easily decomposed in two components: one is the disparities within subgroups of regions – where for example a subgroup is identified by a set of regions belonging to a country; another one is the disparities between subgroups of regions (i.e. between countries). The sum of these two components is equal to the Theil index.

In order to decompose the Theil index, let's start by assuming  $m$  groups of regions (countries). The decomposition will assume the following form:

$$\frac{1}{N} \sum_{i=1}^N S_j \frac{y_{ij}}{\bar{y}_j} \ln \left( \frac{y_{ij}}{\bar{y}_j} \right) + \frac{1}{M} \sum_{j=1}^M S_j \ln \left( \frac{\bar{y}_j}{\bar{y}} \right)$$

Where the first term of the formula is the *within* part of the decomposition and it is equal to the weighted average of the Theil inequality indexes of each country. Weights,  $s_j$ , are computed as the ratio between the country average and the OECD average of greenfield FDI. The second term is the *between* component of the Theil index and it represents the share of regional disparities that depends on the disparities across countries.

Interpretation: The Theil index ranges between zero and  $\infty$ , with zero representing an equal distribution and higher values representing a higher level of inequality. The index assigns equal weight to each region regardless of its size; therefore differences in the values of the index among countries may be partially due to differences in the average size of regions in each country.

## Adjusted measures of regional FDI disparity

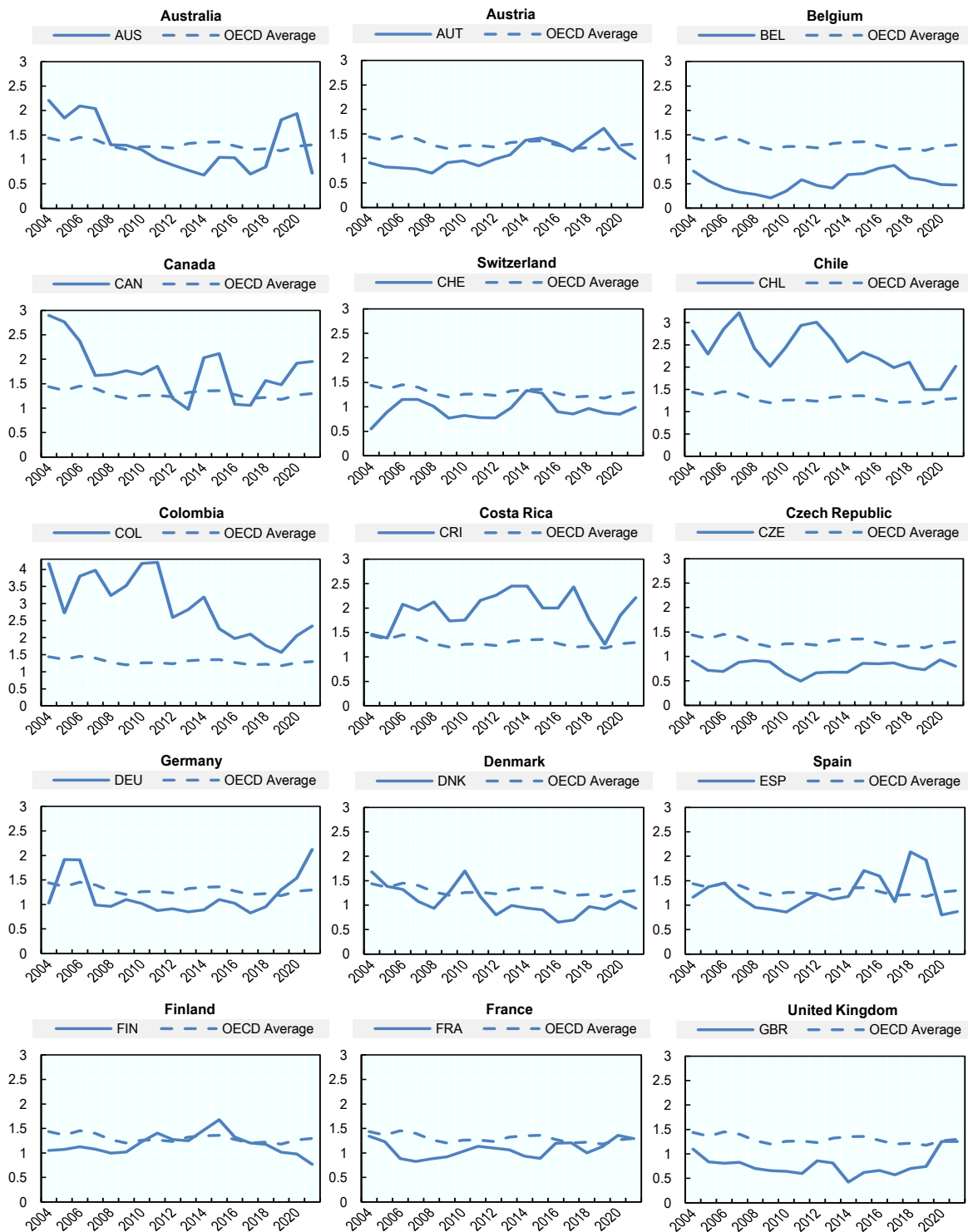
To ensure comparability across countries, each measure of disparity is adjusted (or normalised) so that it ranges between 0 (perfect equality) and 1 (perfect inequality), by dividing the measure of disparity in each country by its maximum value.

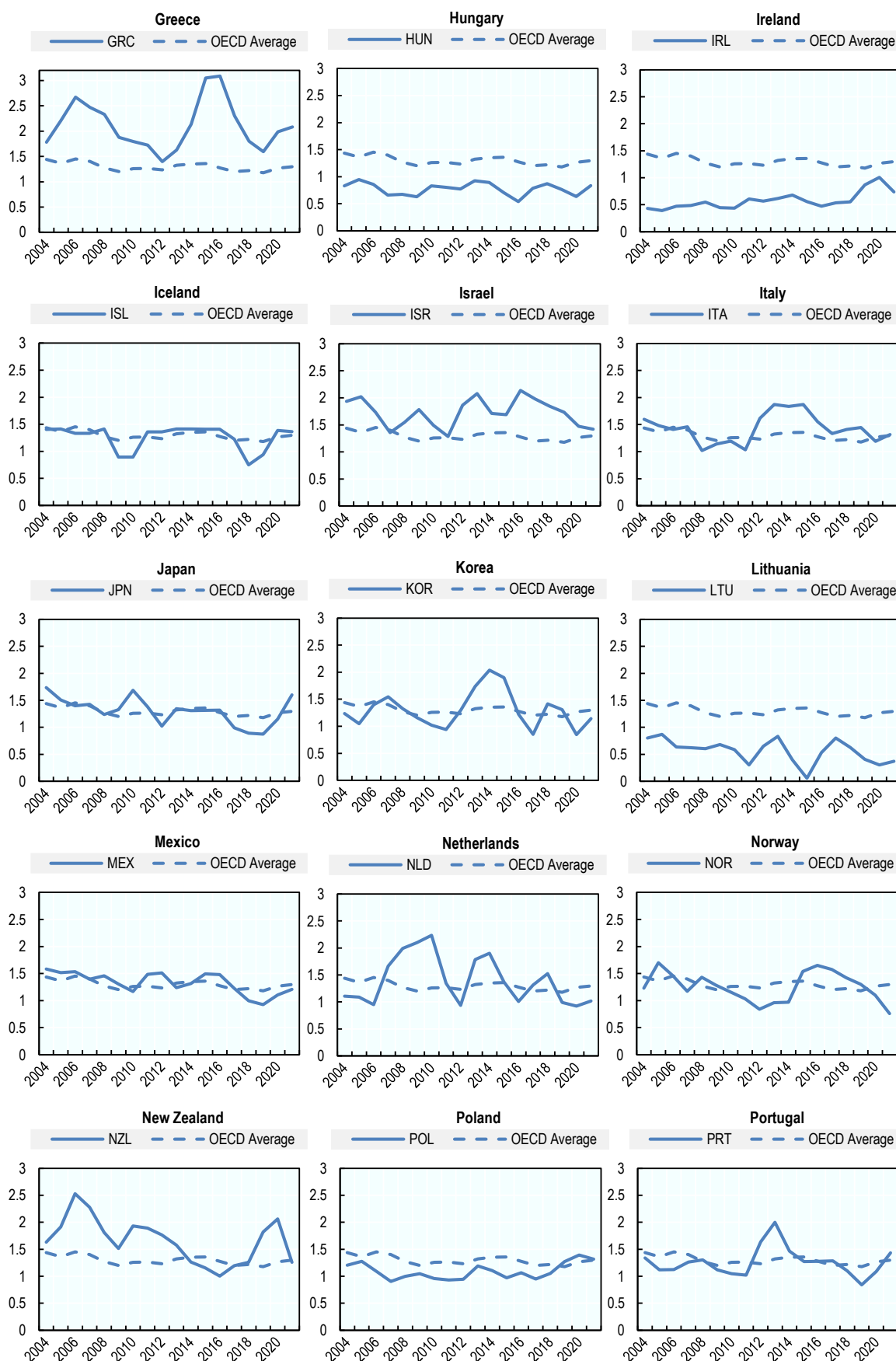
|                          | Maxima of the disparity indices |
|--------------------------|---------------------------------|
| Coefficient of variation | $\sqrt{n-1}$                    |
| Gini Coefficient         | $n - 1/n$                       |
| Theil's Index            | $\log(n)$                       |

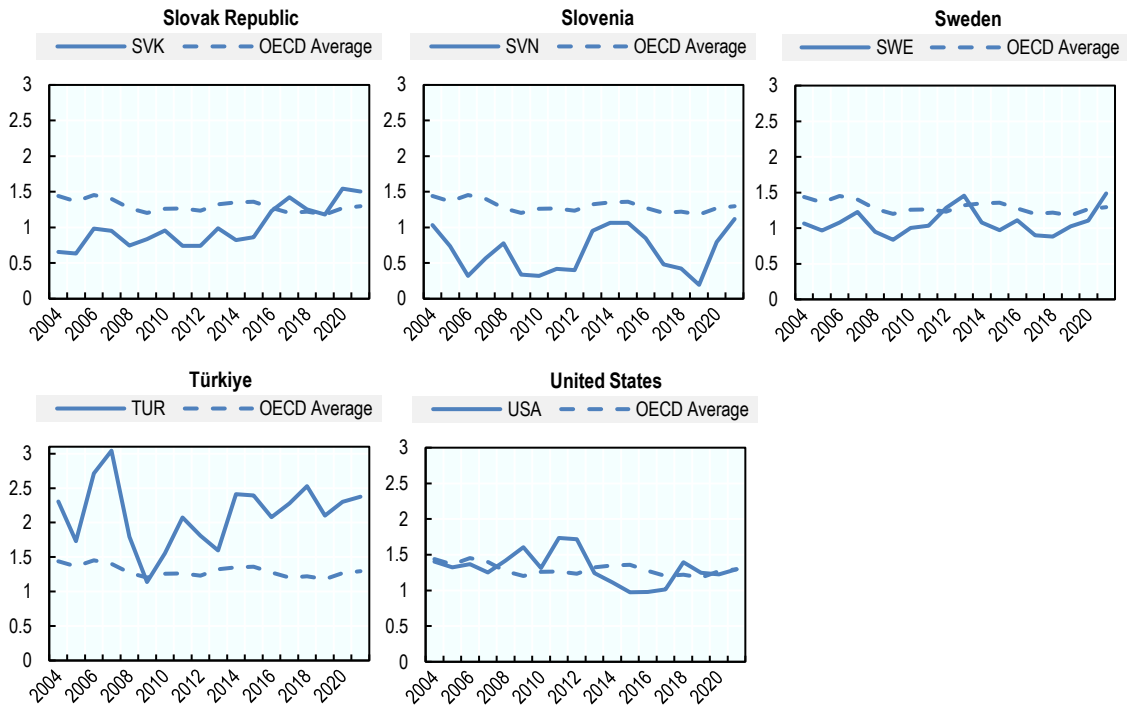
Source: Gluschenko, K. (2017), "Measuring regional inequality: to weight or not to weight?", *Spatial Economic Analysis*, Vol. 13/1, pp. 36-59, <https://doi.org/10.1080/17421772.2017.1343491>.

# Annex B. Changes over time in regional FDI disparities in OECD countries

Figure A B.1. Regional FDI per capita disparities over time in OECD countries







Note: The coefficient of variation is calculated with equal weight to each region regardless of its size and without adjusting the range between 0 and 1. It is expressed as a two-year moving average.

Source: OECD based on Financial Times fDi Markets and OECD Regional Database.

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# Notes

<sup>1</sup> Regional development is a broad term but can be seen as a general effort to enhance well-being and living standards in all region types, from cities to rural areas, and improve their contribution to national performance and more inclusive, resilient societies. For more information on OECD work on regional development, visit: <https://www.oecd.org/regional/regionaldevelopment/regionaldevelopment.htm>.

<sup>2</sup> OECD (2022<sub>[35]</sub>), “Strengthening FDI-SME linkages in Slovak Republic” includes a chapter with a regional focus on Banská Bystrica in Central Slovak Republic and Košice in Eastern Slovak Republic.

<sup>3</sup> IPAs are grouped in three categories of countries: (1) OECD G20 countries include: Australia, Canada, France, Germany, Italy, Japan, Korea, Mexico, Türkiye, the United Kingdom and the United States; (2) OECD non-G20 countries: Austria, Chile, Colombia, Costa Rica, the Czech Republic, Denmark, Estonia, Finland, Greece, Hungary, Iceland, Ireland, Israel, Latvia, Lithuania, Luxembourg, the Netherlands, New Zealand, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden and Switzerland; and (3) OECD European Union members: Austria, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, the Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain and Sweden.

<sup>4</sup> The work of IPAs is usually categorised into four core functions (OECD, 2018<sub>[30]</sub>): (i) image building consists of fostering the positive image of the country and branding it as a profitable investment destination; (ii) investment generation deals with direct marketing techniques targeting specific sectors, markets, projects, activities and investors; (iii) investment facilitation and retention is about helping investors establish, operate and expand; and (iv) policy advocacy aims to identify investment climate bottlenecks and provide recommendations to address them.





