SUBNATIONAL INVESTMENT PROMOTION AND DECENTRALISATION IN THE OECD

Strategies and institutions

OECD

Subnational investment promotion and decentralisation in the OECD: Strategies and institutions

This paper explores different frameworks of subnational investment promotion and facilitation. It focuses on these frameworks and their link with the degree of decentralisation of countries, their role in fostering regional FDI attractiveness and local development, and looks at their relations with levels of FDI regional disparities. The paper also examines specificities of different subnational investment promotion strategies and the quality of institutional relationships within regions, across regions and with the central government.

Foreword

This policy paper examines investment promotion strategies and institutional dynamics in regions across OECD member countries and the measures taken to leverage foreign direct investment (FDI) for sustainable regional development. It explores different frameworks of subnational investment promotion and facilitation and focuses on these frameworks and their link with the degree of decentralisation of countries, their role in fostering regional FDI attractiveness and local development, and looks at their relations with levels of FDI regional disparities. The paper also examines specificities of different subnational investment promotion strategies and the quality of institutional relationships within regions, across regions and with the central government. The analysis is based on data collected from national investment promotion agencies (IPAs) of OECD member countries and on the results of the *OECD survey on subnational investment promotion and facilitation* completed by a sample of 49 subnational IPAs, economic development organisations (EDOs) and similar institutions in 27 OECD member countries. It also uses data developed by the Regional Development Policy Committee.

This paper is the second deliverable of a two-year project, conducted under the aegis of the OECD IPA Network, which aims to explore the relationships between FDI, regional development and investment promotion. It follows a first policy paper exploring the geography of foreign investment in OECD member countries and the role of investment promotion and facilitation, which provided new indicators measuring regional disparities of FDI within countries and reviewed the governance settings, co-ordination mechanisms and strategic approaches of national IPAs to address regional development. This second paper aims to bring the subnational dimension to complete the picture and better understand the mechanisms of investment promotion and facilitation in support of regional development.

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1 Introduction and key findings

FDI can play a major role in supporting regional development objectives by creating local jobs, fostering productivity, enhancing skills and innovation, and supporting digital and low-carbon transitions in their host regions. FDI is rarely equally distributed within countries, as investors are often attracted to leading regions with larger markets and better infrastructure and services. In the OECD, the top 10% of regions with the highest amount of greenfield FDI attracted on average 700 times more FDI than the bottom 10% (OECD, 2022[1]). Regional imbalances in FDI are also considerably larger than disparities in gross domestic product (GDP) and productivity, potentially exacerbating existing territorial inequalities. Attracting FDI in regions – particularly outside of major economic hubs – is a key challenge for many governments and IPAs at both national and subnational levels.

Regional development has become a top priority for the investment policy community in recent years. Almost all national investment promotion strategies in OECD countries have a regional development dimension and almost three-quarters have regional investment promotion strategies (OECD, 2022[1]). Investment promotion practitioners are also seeking to attract FDI to the different regions of the countries they serve and have put regional development high on their agenda, regardless of the size of their economy. Across OECD countries, 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. This trend is growing, as almost three-quarters have recently increased their focus on regional development.

However, IPAs often operate in a complex and multi-layered institutional framework for investment promotion and facilitation. Almost two-thirds of national IPAs have their own subnational offices, but subnational governments and agencies increasingly take a leading role in attracting and facilitating investment in their regions. Most OECD countries, particularly large economies and those in more decentralised contexts, have subnational IPAs or EDOs, or both. Local authorities and regional development agencies can also play an important role in investment matters.

In this context, investment promotion institutions and strategies at subnational level can help frame the whole country's ability to attract and retain FDI. From a regional development angle, national IPAs are intended to attract FDI in a balanced manner to all regions of the countries they serve while sometimes supporting specifically less developed or remote ones. Subnational investment agencies are, by definition, focused on their own areas and tend to better know the economic and institutional specificities of their regions. This is increasingly important as subnational factors are assuming a progressively significant role in the location decisions of investors due to shifts in global value chains triggered by the COVID-19 crisis (Crescenzi and Harman, 2023[2]; OECD, 2023[3]). While regional investment promotion strategies are key instruments to attract FDI in regions, countries adopt different models to divide responsibilities and co-ordinate activities across public agencies of different levels of government to properly implement them.

This policy paper explores the framework for investment promotion and facilitation at subnational level. It looks at it from a regional and decentralisation angle to complement the work on the geography of FDI in OECD countries and the role of national IPAs conducted in 2022. The first part of the paper provides a comparative overview of investment multi-level governance and institutional arrangements in OECD countries and how they relate to decentralisation. The second part explores subnational strategies and institutional relationships across OECD regions based on the results of the *OECD survey on subnational investment promotion and facilitation*.

Key findings

- **The growing degree of decentralisation and the increasing role that subnational authorities play in economic development have reshaped the framework under which national and subnational agencies operate and interact on investment promotion.** Subnational organisations actively competing for foreign investment are numerous across OECD countries, with IPAs (mandated to promote and facilitate FDI) and EDOs (with a broader portfolio of responsibilities) operating in 55% and 92% of them, respectively. Large economies have more subnational agencies, with 42% of them located in the 11 OECD countries part of the G20.
- **The regional ecosystems for investment promotion are highly diversified and multi-layered across OECD members,** partly depending on the country's institutional composition. Subnational organisations vary greatly depending on the country's political, administrative and fiscal frameworks. The responsibility for investment promotion is increasingly shared across levels of government, although most agencies operate at the regional or state level, as compared to lower levels. EDOs are more prevalent than IPAs at all government levels and have a higher geographical reach. At regional/state level, they operate in 76% of OECD countries, where 96% of regions are covered. In contrast, IPAs operate in 45% of countries, covering 79% of regions.
- **Federations, which are more decentralised by nature, have a higher number of subnational agencies across the board and rely more on dedicated subnational IPAs.** While 78% of federal countries have dedicated IPAs at the regional/state level, this is only the case in a third of unitary countries. Similarly, IPAs present in unitary countries cover a little more than two-thirds of regions while they cover 91% of regions in federations. The investment promotion framework in unitary countries, particularly smaller ones, is more commonly linked to the national IPA. Decentralised countries are also twice as likely to have functional agencies operating in geographical areas with strong value propositions but that do not follow traditional regional borders.
- **There is no clear trend on how decentralisation affects regional FDI attractiveness and disparities.** Subnational agencies possess key information on investment opportunities, helping to allocate FDI more effectively across regions, but multiple layers of government may lead to more complex investment promotion frameworks, overlapping mandates or unhealthy competition. Initial analysis suggests no clear patterns between regional FDI disparities and different decentralisation models or forms of the state. What matters most is the quality of decentralisation, including whether subnational agencies mandated to promote investment are adequately funded.
- **FDI plays a significant role in most regions surveyed, as subnational organisations have prioritised international investment as a key strategic objective.** Investment promotion strategies can be stand-alone programmes but are, in most cases, integrated within the region's overall development strategy. They tend to be well-elaborated strategies with well-defined sectors, markets, key performance indicators and governance mechanisms.
- **More decentralised countries typically allocate greater autonomy to subnational organisations in their investment promotion decision-making and service delivery.** As such, agencies in federations more frequently possess their own self-standing investment promotion strategies compared to agencies in unitary countries, where strategies generally form a pillar of the region's overall development. Subnational agencies in federal countries also more commonly lead the design of investment promotion strategies than their counterparts in unitary countries.
- **National and subnational agencies share the view that the high level of educated workforce and R&D activity are the top FDI attractors to regional locations.** Good infrastructure and low business costs are also perceived as key drivers. Subnational organisations perceive the size of clients and suppliers as an important criterion, reflecting the importance of building a local

ecosystem to attract FDI projects. It also reflects that these agencies, more than their national peers, often cover a higher number of mandates that can include education and innovation. Subnational organisations consider the provision of state support as the least important factor to attract FDI, possibly demonstrating the lack of trust in the support provided by national authorities.

- **Enhancing the local business environment stands out as a pivotal factor for attracting FDI to regional locations.** Subnational agencies prioritise actions that improve the local business environment more than their national counterparts, who lean more heavily on both non-tax and tax incentives. Operating a one-stop shop and facilitating access to land constitute the most important policy tools available to subnational agencies for advancing local business environment reforms. Given their higher degree of autonomy, agencies in federations are more frequently mandated to operate a one-stop shop. Most agencies also commonly offer aftercare services to existing investors, further underlining their role in improving local ecosystems.
- **Competition across regions is identified as the primary challenge in effectively executing subnational investment promotion strategies, particularly in federal countries.** This challenge is substantially more prominent than other obstacles, alongside the lack of financial resources for agencies. Nearly two-thirds of surveyed agencies perceive a large level of competition to attract FDI between regions in their country. Competition across regions is high across the board, but it is more pronounced in large and more decentralised countries, possibly because subnational agencies are both more autonomous and more numerous in such countries.
- **To mitigate regional competition, information exchange is most frequently used, yet evidence indicates that more sophisticated mechanisms can have a stronger impact.** While competition can, to some extent, incentivise regions to improve their local business environments and become more attractive investment destinations, it can also lead to a race to the bottom with investment incentives, redundant government services, inconsistent messaging to investors, and ultimately, an increase in FDI regional disparities and inefficient use of public resources. The survey results also show that a higher number of co-ordination mechanisms is associated with a lower level of regional disparities of FDI per capita. National and subnational authorities should support the establishment of co-ordination platforms and national guidelines, for example.
- **The quality of relationships with national authorities is an important factor to avoid unhealthy regional competition and achieve successful FDI promotion results.** While collaboration with national IPAs is generally regarded as relatively positive, almost half of the surveyed agencies highlight the risk of duplication of roles, essentially for reasons related to confusion and unclear mandates. The same is valid within regions, where co-ordinated efforts for FDI attraction are essential to clarify mandates and achieve successful results.
- **Although competition across regions is stronger in federations, co-operation with central authorities is more systematically an obstacle in unitary countries.** The greater autonomy from the central government that subnational agencies enjoy in more decentralised countries allows them to execute their operations and strategies with little influence from national IPAs, but a stronger link between national and subnational investment promotion strategies is necessary to ensure alignment of goals and responsibilities.
- **Engaging subnational organisations at the national level substantially contributes to promoting regions as attractive investment destinations.** Surveyed agencies consulted on selected national investment policies – most frequently the choice of priority sectors for FDI – tend to have a more favourable opinion of how their region is represented in the national investment promotion strategy compared to those not consulted. This underscores the importance for central authorities to involve subnational institutions when designing national investment policies, ensuring better alignment of their priorities with national investment promotion objectives.

2 Multi-level investment promotion and decentralisation in the OECD

In the context of growing regional inequality, the advent of megatrends, and the "geography of discontent", governments at all levels must work in a strategic, collaborative and evidence-based manner (OECD, 2023[4]; OECD, 2023[5]). This is particularly true for private investment, including foreign investment, as FDI levels vary considerably across regions and regional imbalances in FDI are much larger than disparities in GDP and labour productivity in nearly all OECD countries. These disparities reflect the wide variations within OECD regions' economic structure, performance and living standards (OECD, 2022[6]). The top 10% of regions with the highest greenfield FDI have, on average, a GDP per capita 2.3 times larger than bottom regions, spend 3.6 times more on R&D relative to GDP and host twice higher shares of tertiary educated people (OECD, 2022[1]).

Reducing regional disparities in foreign and domestic investment call for robust multi-level investment promotion governance arrangements among national, regional and local governments as well as with other stakeholders such as business representatives, universities and training facilities. Relatedly, this also calls for more comprehensive policy frameworks to support the design and implementation of effective regional development and investment policies.[1] Some countries choose to centralise investment promotion at the level of the national IPA while, in others, often with more decentralised governance or economic systems, subnational IPAs are partly or fully independent from the central agency. The way governments and institutions are organised have an important bearing on achieving policy objectives, including related to promoting and facilitating investment. This can require adapting inter-governmental roles, relationships and institutional frameworks to improve the quality of public services (OECD, 2019[7]).

Decentralisation and subnational investment promotion

Overview of decentralisation models and forms of the state in OECD countries

Over the past decades, decentralisation stands out as one of the most significant reforms and a key tool to support regional development, including through private investment (OECD, 2019[7]). The OECD defines decentralisation as the transfer of various powers, responsibilities and resources from central government to subnational governments, which are legal entities elected through universal suffrage and possess a certain level of autonomy. The results of decentralisation – in terms of democracy, fiscal resources, efficiency, accountability, regional and local development – depend greatly on the way decentralisation is designed and implemented.[2] Decentralisation processes can take different forms depending on the form of the state (OECD, 2019[7]; OECD, 2022[8]):

- In **federal countries**, sovereignty is shared between the federal government and self-governing regional entities (the federated states), which have a higher degree of autonomy. Powers and responsibilities are assigned to the federal government and the federated states either by provision of a constitution or by judicial interpretation. In general, federal governments have exclusive and listed responsibilities such as foreign policy, defence, money and criminal justice system while federated states have extensive competencies. The self-governing status of the states or provinces may not be altered by unilateral decision of the federal government. In addition, state governments, not the federal government, have authority over the local authorities of which they are composed.

- In **unitary countries**, a state governed as a single power in which the central government is ultimately supreme. This does not preclude the existence of subnational governments, also elected directly by the population and with some political and administrative autonomy. But subnational governments exercise only the powers that the central government chooses to delegate or devolve. Some unitary countries recognise autonomous regions and cities, which have more powers than other local governments because of geographical, historical, cultural or linguistic reasons (e.g. Finland, France, Portugal). In the United Kingdom, while the country is unitary, the devolved nations have various degrees of autonomy and power, and some have authority over the local councils under their jurisdictions.
- There is an intermediate situation, that of "**quasi-federal**". This status is not recognised as such but applies to unitary countries with federal tendencies. Autonomous regions have less room to define and reform local government functioning than regions in federations. This is the case of Spain, which is constitutionally a unitary state, but can be considered as a "quasi-federal" country with powerful autonomous communities. In this report, quasi-federal countries are included in the classification as federal countries.

In the OECD, there are 9 federal countries and 29 unitary countries (Table 1).

Table 1. Forms of the state in OECD member countries

	Federal countries	Unitary countries
Australia		
Austria		
Belgium		
Canada		
Chile		
Colombia		
Costa Rica		
Czechia		
Denmark		
Estonia		
Finland		
France		
Germany		
Greece		
Hungary		
Iceland		
Ireland		
Israel		
Italy		
Japan		
Korea		
Latvia		
Lithuania		
Luxembourg		
Mexico		
Netherlands		

New Zealand		
Norway		
Poland		
Portugal		
Slovak Republic		
Slovenia		
Spain		
Sweden		
Switzerland		
Türkiye		
United Kingdom		
United States		

Source: (OECD, 2022[9]).

Federal countries may not be the most decentralised and some unitary states may be more decentralised than federal ones (OECD, 2019[7]). For example, the OECD has categorised countries according to the level of decentralisation when measured by fiscal indicators. It reflects that, based on this measure, some unitary countries can be more decentralised than federations (Table 2). The general tendency is, however, for federations to be more decentralised fiscally. Among the nine countries under this category, seven are also more decentralised when measured by fiscal indicators (i.e. Australia, Belgium, Canada, Germany, Spain, Switzerland and the United States).

Table 2. Types of countries by level of decentralisation when measured by fiscal indicators

Most decentralised (Type 1) to most centralised (Type 4)

	Spending and tax revenues	Countries
Type 1	High decentralised spending and high tax revenues	Australia, Belgium, Canada, Denmark, Finland, Germany, Japan, Spain, Sweden, Switzerland, United States
Type 2	Medium decentralised spending and medium tax revenues	Czechia, France, Iceland, Italy, Korea, Latvia, Norway, Poland, Slovenia
Type 3	Medium decentralised spending and low tax revenues	Austria, Estonia, Mexico, Netherlands, United Kingdom
Type 4	Low decentralised spending and low tax revenues	Chile, Greece, Hungary, Ireland, Israel, Luxembourg, New Zealand, Portugal, Slovak Republic, Türkiye

Note: Colombia, Costa Rica and Lithuania are not included, as the analysis was conducted before these countries became OECD members.
Source: (OECD, 2019[7]) based on (Allain-Dupré, 2018[10]) and OECD Regional Database.

The growing role of subnational authorities in the investment promotion field

Notwithstanding the form of the state, economic development and innovation are often a regional competence, and, in recent years, subnational authorities have begun to actively compete for foreign investment, a task once carried out almost exclusively by national governments (OECD, 2019[7]; OECD, 2022[9]). 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. This has contributed to exacerbated within-country regional FDI disparities (Iammarino, 2018[11]). Within-country differences accounted for nearly two-thirds of regional FDI per capita disparities in the OECD as a whole over the last decade (OECD, 2022[1]).

The growing degree of economic decentralisation and the increasing role that subnational authorities play in economic development vis-à-vis the national authorities have reshaped the framework under which subnational agencies operate on investment promotion. Rather than a clear-cut separation of responsibilities, the role of investment promotion is increasingly shared among multiple levels of government. The devolution of economic powers also influences investment factors such as access to skills, infrastructure, finance and support for small and medium-sized enterprises (SMEs), depending on whether they are aligned to a coherent regional economic growth strategy (Lewis and Whyte, 2022[12]). The need to share such responsibilities arise for practical reasons – as is common between different tiers of government around issues of transport, environment or economic development (OECD, 2019[7]).

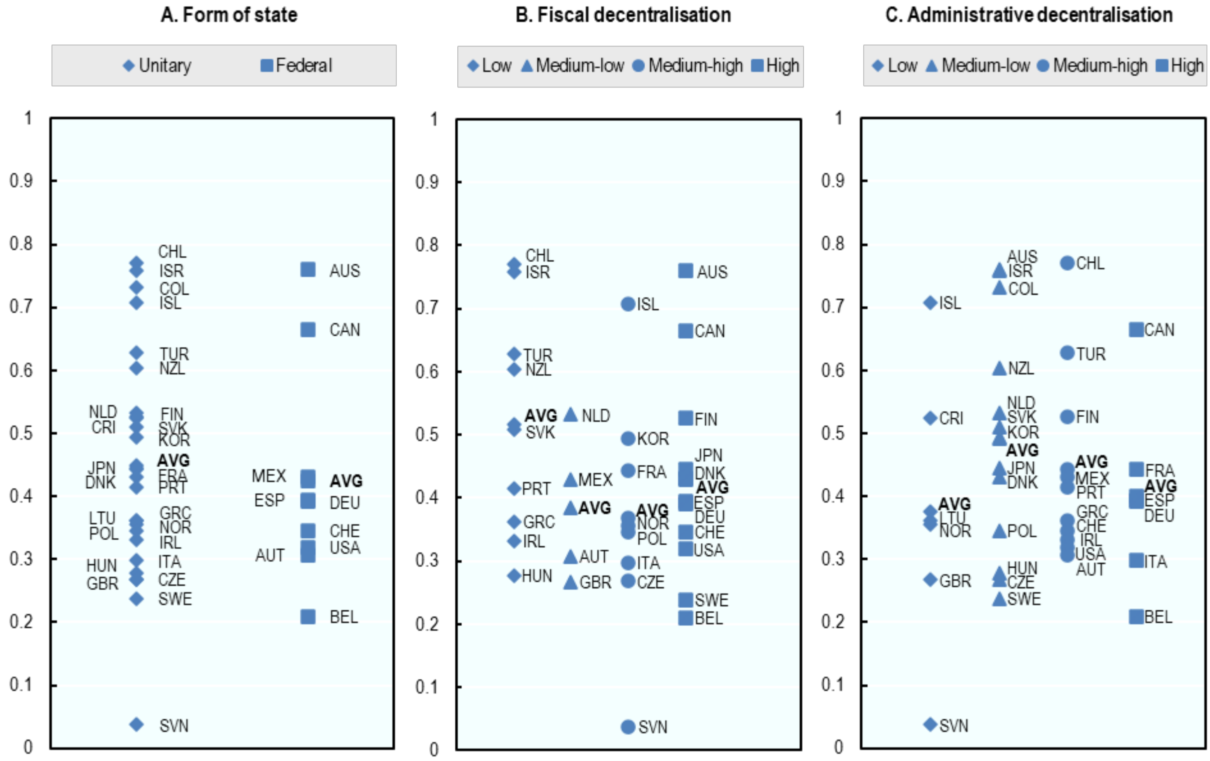
It is unclear how decentralisation – or different forms of state – shapes multi-level investment promotion institutional arrangements, affects regional attractiveness or contributes to reducing regional FDI disparities. The central government cannot foster economic attractiveness alone – local governments have better knowledge regarding local conditions, along with universities, chambers of commerce and other local stakeholders. Decentralisation of investment promotion can provide an incentive for subnational authorities to become more efficient and innovative in their efforts to attract investment. Subnational agencies can convey critical information about the attractiveness of their regions to potential investors, help reduce information asymmetries and, in turn, improve the allocation of FDI across regions – FDI responds better to the activity of subnational IPAs operating in closer proximity to investors' operations (Crescenzi, Di Cataldo and Giua, 2021[13]). With tax autonomy, local governments are also able to set their tax rates, providing them with additional tools to promote investment into their region (Feld et al., 2021[14]). Relatedly, balanced fiscal structure, where local spending is mainly financed by local taxation, can reduce regional disparities by providing an incentive to better use local resources and implement policies that favour economic development (Bartolini, Stossberg and Blöchliger, 2016[15]).

On the other hand, the involvement of multiple government layers may lead to the creation of many subnational agencies involved in investment promotion and, in turn, to more complex investment promotion frameworks, with higher risks of co-ordination failures, exacerbated competition and duplication of mandates. More decentralised systems may also deter FDI if they lead to overlapping or conflicting central and local government regulations and increase the number of authorities an investor has to deal with (Kessing, Konrad and Kotsogiannis, 2007[16]). Furthermore, variable capacity of regional governments to formulate, implement and enforce economic development policies, including investment, may reinforce regional FDI disparities.

An in-depth assessment of the impact of decentralisation on regional FDI disparities is outside the scope of this paper, but descriptive statistics suggest no clear-cut patterns. Levels of regional FDI per capita disparities in OECD countries that are unitary or federal are similar (Figure 1.A). When grouped by fiscal decentralisation indicators, highly fiscally centralised countries tend to have slightly higher regional FDI disparities than their more decentralised counterparts (Figure 1.B). The opposite trend is observed for administrative decentralisation, which refers to the extent to which a regional government is autonomous rather than deconcentrated; countries which score higher on administrative centralisation present lower regional FDI disparities (Figure 1.C).

Figure 1. Decentralisation forms and regional FDI disparities in OECD countries

Forms of decentralisation (from left to right) and level of regional FDI disparities (where 1 = highest level of disparity)



Note: Regional FDI per capita disparities use the Gini coefficient and are based on OECD Territorial Level 2 regions. For panel C, the institutional depth dimension of the Regional Authority Index (RAI) is used to measure administrative decentralisation.
Source: Authors' compilation based on OECD Regional Database; (OECD, 2022[17]); (OECD, 2019[7]) based on (Allain-Dupré, 2018[10]); and The Regional Authority Index 2018.

Notwithstanding the form or intensity of decentralisation of investment promotion, what matters most is the quality of the institutional framework in place to support it. The overlapping of policies and institutions that have an impact on regional attractiveness should be reduced through a clear delineation of responsibilities and mandates (OECD, 2023[3]). Proper functioning communication channels need to be established to co-ordinate the actions of the different government levels and provide regional authorities and organisations with sufficient funding to carry out their functions (Kessing, Konrad and Kotsogiannis, 2007[16]). Evidence indicates that for the positive economic effects from decentralisation to materialise, it is crucial to ensure that mandates are followed by adequate financial capacity (Rodríguez-Pose and Vidal-Bover, 2022[18]).

Multi-level investment promotion models in OECD countries

The architecture for subnational investment promotion

Multi-level investment promotion mechanisms are articulated in their respective countries' multi-level institutional mechanisms. The structure, geographical coverage and autonomy of subnational entities vary greatly based on countries' political, administrative and fiscal frameworks. The architecture for subnational investment promotion is thus highly diversified across OECD countries and is often multi-layered, involving several entities operating at different administrative levels (Table 3). For example, the regional/state administrative level corresponds to states in Australia, Mexico and the United States, provinces in Canada and the Netherlands, Länder in Germany, autonomous communities in Spain, and regions in Chile, France, Italy, Korea and Türkiye. Lower administrative levels include intermediary and municipal or local levels. As such, agencies that promote investment in cities can operate at both levels – depending on the size of the city and the institutional framework of the country. The regional/state level is likely to be more pertinent from a policy perspective since the devolution of responsibilities related to regional policy usually takes place at this level, although that is the case for some large cities/metropolitan areas as well.

Subnational entities involved in investment promotion mostly consist of: (i) subnational IPAs, independent from the national IPA or the central government and that are fully or principally dedicated to the promotion and facilitation of FDI in their region, and (ii) subnational EDOs, which are also independent entities from central authorities by reporting to subnational governments, but that have a broader portfolio of responsibilities that often includes investment promotion and facilitation (OECD, 2022[1]). When they are no IPAs nor EDOs, subnational governments or regional development agencies, are responsible for economic activities and may also oversee investment-related tasks.

Table 3. The architecture for subnational investment promotion in OECD countries

Country	Regional/State level		Lower administrative levels	
	IPAs	EDOs	IPAs	EDOs
OECD	**45%**	**76%**	**47%**	**61%**
Australia				
Austria				
Belgium				
Canada				
Chile				
Colombia				
Costa Rica				
Czechia				
Denmark				
Estonia				
Finland				
France				
Germany				
Greece				
Hungary				
Iceland				
Ireland				
Israel				
Italy				
Japan				
Korea				
Latvia				
Lithuania				
Luxembourg				
Mexico				
Netherlands				
New Zealand				
Norway				
Poland				
Portugal				

Slovak Republic				
Slovenia				
Spain				
Sweden				
Switzerland				
Türkiye				
United Kingdom				
United States				

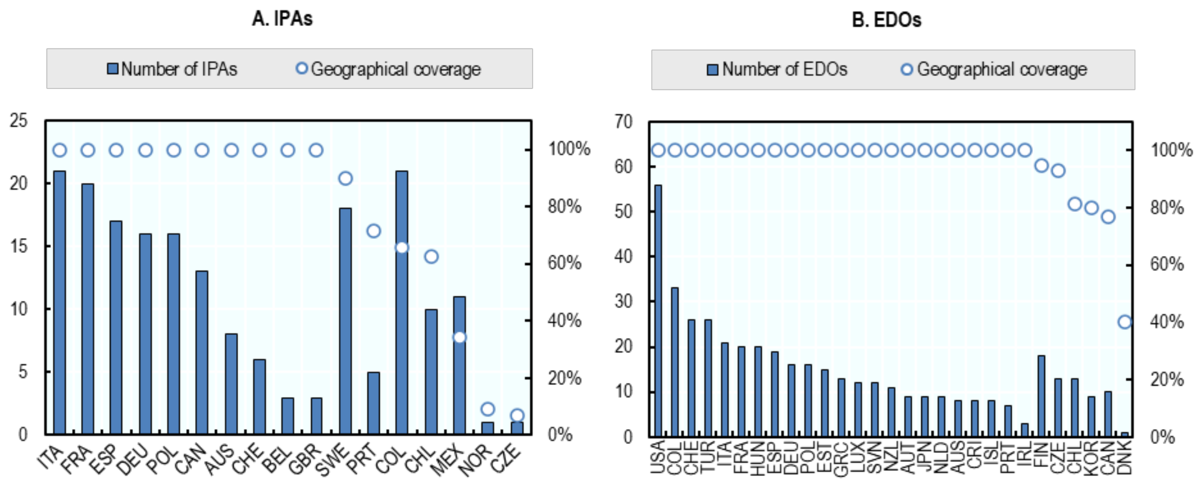
Note: The number of regions/states corresponds to the 3rd administrative level of the territorial organisation of the SNG-WOFI database, except for Costa Rica, Estonia, Finland, Iceland, Ireland, Japan, Korea, Luxembourg, Portugal, Slovenia and Türkiye. For these countries, the number of regions is based on national definitions of statistical or administrative regions that allow for a better representation of the countries' multi-level administrative structures.
Source: Authors' compilation based on (OECD, 2022[9]) and data collected from national and subnational agencies and their official websites.

To understand the architecture for subnational investment promotion, the type of agencies is more important than the administrative level in which they operate. Over half of OECD countries (55%) have subnational IPAs, regardless of the administrative level and with no significant differences between the regional/state level and lower administrative levels of government. EDOs are more frequently established, with 92% of OECD member countries having at least one, with a stronger presence at the regional/state administrative level (76%). The geographical coverage of subnational EDOs operating at the regional/state level also tends to be higher than that of subnational IPAs, encompassing respectively 96% and 79% of the regions covered by these agencies on average.

Having subnational IPAs or EDOs does not mean that these agencies cover the full territory of the country. For example, countries with subnational IPAs at the regional/state level have their full territory covered by these agencies in 60% of cases, while almost a fifth of these countries have less than half of their country covered (Figure 2.A). In turn, countries that have subnational EDOs, have their full territory covered in 80% of cases, with only one covering less than half of the country (Figure 2.B). Given that EDOs engage in broader economic activities than IPAs, this reflects that not all subnational divisions have the technical or financial capacity to set up a dedicated IPA.

Figure 2. Number and geographical coverage of subnational IPAs and EDOs in OECD countries

IPAs and EDOs operating at regional/state administrative level



Note: Regions/states correspond to the 3rd administrative level of the territorial organisation of the SNG-WOFI database, except for Costa Rica, Estonia, Finland, Iceland, Ireland, Japan, Korea, Luxembourg, Portugal, Slovenia and Türkiye. For these countries, this level is based on national definitions of statistical or administrative regions that allow for a better representation of the countries' multi-level administrative structures. EDOs in the UK are not represented due to the nature of the subnational divisions in the country and the difficulty in distinguishing agencies and organisations in each administrative level.
Source: Authors' compilation based on (OECD, 2022[9]) and data collected from national and subnational agencies and their official websites.

Countries may have IPAs and EDOs that operate in the same subnational administrative level but with different roles. In Poland, for example, large regions have both IPAs (Investor Assistance Centres) and EDOs (Agency for Regional Development). While both carry out investment promotion and facilitation activities, the IPAs closely co-operate with the Polish Investment and Trade Agency – the national IPA – by providing services and relevant information to investors. The EDOs, in turn, focus on creating, supporting and promoting regional development initiatives, which include attracting FDI through co-operation with foreign counterparts and investors.

Not all subnational organisations follow traditional regional borders. Functional IPAs and EDOs operate in a geographical area with a strong value proposition that is not defined by any political or administrative division – attractiveness factors such as business density, skilled labour, transport, and local supply chains hardly follow administrative borders (Box 1). These organisations are usually more recurrent at lower administrative levels. They can also be a means of inter-municipal co-operation between a few smaller cities or regions within larger regions. In Canada, for instance, smaller EDOs have merged to form a larger one connecting several towns and cities, leading to new regional development architectures.

In some instances, only specific regions in the country do not have subnational IPAs or EDOs that engage in investment promotion activities. This is usually the case for very remote or less developed regions. For example, in Sweden, all regions have an IPA, except for the island of Gotland, as it is considered very remote and without any real FDI opportunities. In Spain, all autonomous regions have IPAs, except for the cities of Ceuta and Melilla. In other cases, the capital region operates differently from the rest of the regions. As such, in Czechia, the capital region of Prague is the only one without an EDO. Instead, its regional investment promotion activities are carried out directly by the municipal authorities. In Iceland, while all regions do have an EDO, only the one operating in the capital area is not active in investment promotion, leaving this function to the government of the city of Reykjavik.

Box 1. Functional IPAs and EDOs

Regional IPAs and EDOs typically report to a subnational political entity such as a state, province or municipality. In some instances, however, the geographical area of operation of these organisations goes beyond traditional administrative borders. Functional agencies can operate in, and report to, a group of subnational administrative divisions, metropolitan areas or to several levels at the same time.

Switzerland

In Switzerland, there are four regional IPAs that cover 22 out of the 26 cantons. Due to their geographical, cultural and economic proximity, the cantons jointly created their respective IPAs. While these agencies represent all of their member cantons, they are usually centred around the largest urban areas (i.e., Geneva, Basel and Zürich). The other four cantons are not represented in any functional IPA and undertake investment promotion and facilitation activities individually.

Denmark

Copenhagen Capacity is a functional subnational EDO in charge of attracting international investors and promoting professional talent in the Greater Copenhagen Region. This region is comprised of two regions, the capital region of Copenhagen and the region of Zealand. Hence, Copenhagen Capacity's scope of activities goes beyond the Copenhagen Metropolitan Area, as it represents its surrounding rural areas as well.

Colombia

Some IPAs in Colombia operate in, and report to, different administrative levels: departments (regional/state level) and municipalities (municipal/local level). For instance: Invest Pacific (Valle del Cauca and Cali), Invest in Cartagena y Bolívar (Bolívar and Cartagena), and ACI Medellín (Antioquia and Medellín). The agencies promote and attract investment in conjunction with both levels of government and other actors, such as chambers of commerce, local businesses and universities.

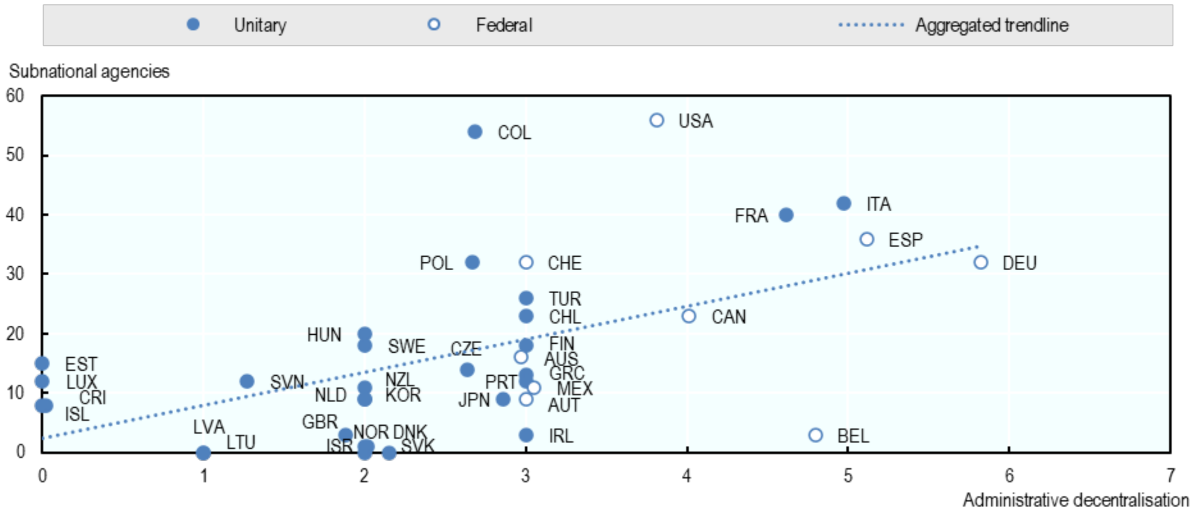
Source: OECD survey on subnational investment promotion and facilitation, 2023, and IPAs' official websites.

The role of decentralisation models on the number and types of subnational agencies

Countries with more decentralised models, such as federal countries and those with a higher degree of administrative decentralisation, present a larger number of subnational agencies compared to unitary countries with low administrative decentralisation (Figure 3). This highlights that regions with higher autonomy possess the political and technical capacity to establish and operate their own investment agencies. Additionally, the number of subnational agencies is also affected by the size of jurisdictions, as large countries are often more decentralised than smaller ones. As such, the 11 countries of the OECD that are members of the G20, while representing less than a third of OECD membership, possess 42% of all subnational agencies.

Figure 3. Number of subnational agencies engaged in investment promotion as compared to the degree of decentralisation

Administrative decentralisation and the form of the state

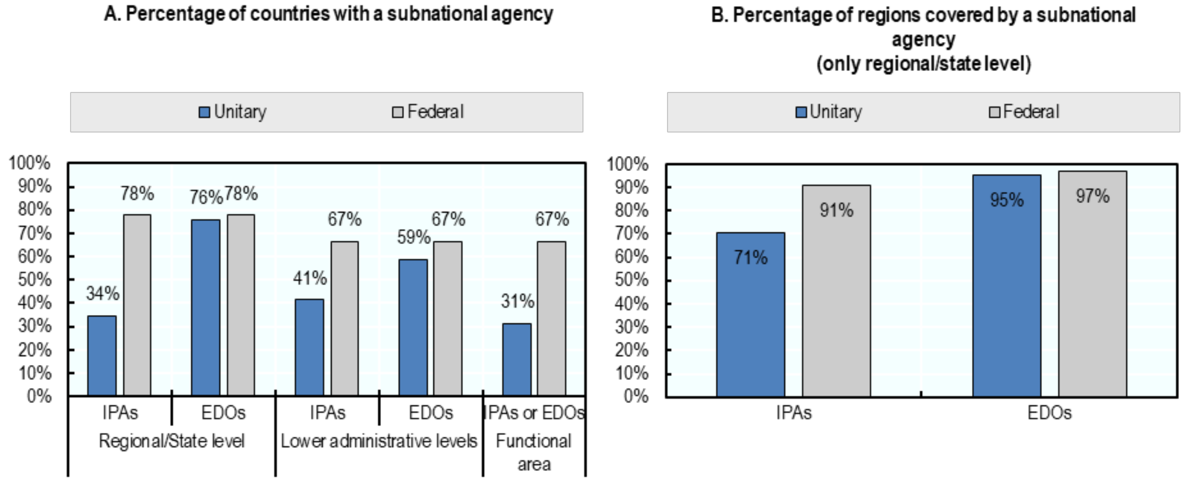


Note: Decentralisation is represented twofold, by the form of the state (unitary vs. federal) and administrative decentralisation (institutional depth dimension). Subnational agencies refer to both IPAs and EDOs at the regional/state level.
Source: Authors' compilation based on data collected from national and subnational agencies and their official websites; and Regional Authority Index (RAI), 2018.

The extent to which regions rely on subnational IPAs or EDOs to promote FDI in regions significantly differ between unitary countries and federal countries. For instance, only a third of unitary countries have IPAs at the regional/state level and less than half do at lower administrative levels (Figure 4.A). Conversely, three out of four federal countries have IPAs at the regional/state level and two-thirds at lower levels. Overall, federations have higher numbers of subnational organisations on average, partly because they tend to be larger in size and with more subnational divisions. In the same way, subnational IPAs in these countries have a higher geographical coverage and are usually found across most, if not all, regional divisions (Figure 4.B). Trends for EDOs, at all administrative levels, behave similarly between unitary and federal countries. The latter are also more likely to have subnational agencies operating in geographical areas with strong value propositions, but that do not follow traditional administrative or political borders, namely functional areas. Functional IPAs and EDOs are twice as common in these more decentralised countries than in their unitary counterparts.

In federal countries, the regional framework for investment promotion tends to be more decentralised and subnational organisations are more autonomous. In the United States, for instance, most subnational governments have their own EDOs involved in investment attraction, which sometimes work in several counties or municipalities as well as for tribal and rural areas. As a result, there are more than a thousand subnational organisations at all levels of government. In Switzerland, the national IPA is jointly funded by the federal and regional governments. The latter independently design and implement their investment promotion strategies. Some cantons have come together to establish joint IPAs while others carry out their activities individually. Belgium carries out investment promotion and facilitation exclusively at the subnational level. Since there is no national IPA, each region leads its own activities to promote FDI into their respective territories while only tax incentives are managed at the national level. In Mexico, the Economic Development Secretariats at the state and municipality levels oversee the promotion of economic activity, including investment attraction.

Figure 4. OECD subnational agencies engaged in investment promotion by the form of the state



Note: A functional area refers to an area not delineated by regional borders.
Source: (OECD, 2022[9]) and authors' compilation based on data collected from national and subnational agencies and their official websites.

In unitary countries, the institutional framework tends to be more tightly linked to the national level. For example, in Türkiye, EDOs report to the national Ministry of Industry and Technology, which approves, monitors and evaluates regional agencies' activities. In Iceland, while regional EDOs provide investors with knowledge of their area's opportunities and operate as investment facilitators, they rely on Business Iceland for global outreach and marketing activities. In other cases, subnational organisations must adhere to a national strategy. In Colombia, EDOs operate under the National System of Competitiveness and Innovation, which co-ordinates the activities carried out by national and regional entities on the formulation, implementation and monitoring of policies related to economic development. In smaller countries, the national IPA also generally plays a substantial role in regional investment promotion activities. For example, in Latvia, Estonia, and the Slovak Republic, the responsibility for investment attraction primarily lies within the national IPA. Investment promotion in regions is carried out by their subnational offices. Despite regular co-operation with local representatives, the offices ultimately report to the national IPA.

On the other hand, more centralised countries, even relatively small, may decide to devolve a certain degree of autonomy to the regions. For example, in Chile, regional governments have the legal mandate for investment attraction and each region has an investment attraction unit. In Ireland, FDI attraction is co-ordinated nationally with local authorities (cities and counties) contributing to FDI facilitation through placemaking initiatives to encourage improvements in the local business environment.

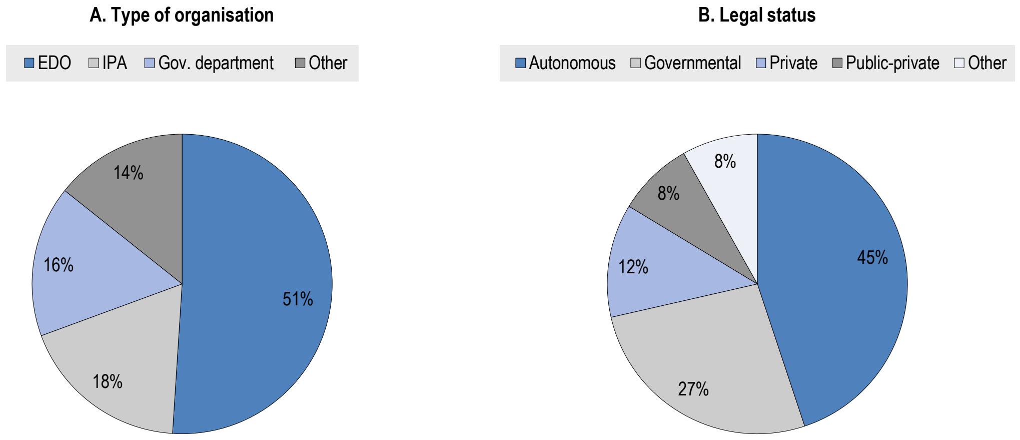
3 Subnational strategies and institutional relationships: evidence from an OECD survey

Composition of survey respondents

To understand the dynamics of investment promotion and facilitation at subnational level, the OECD conducted a survey of 49 subnational organisations in 27 OECD member countries.[3] The surveyed agencies are located in countries with different decentralisation models, economic sizes and geographic contexts. As such, 39% emanate from federations, 53% operate in the European Union and 47% are from large countries.[4] The regions they represent are also of varying sizes, located in diverse geographic areas and of different economic contexts. A complete list of participating institutions can be found in Annex A. Unlike national IPAs, which were surveyed in 2022 as part of the same project, the vast number of subnational agencies across OECD countries makes it unfeasible to conduct an exhaustive survey. Hence, the purpose of this survey is to gather data from a representative sample of subnational organisations responsible for investment promotion and facilitation.

The agencies included in this survey represent institutions of diverse forms, with different legal statuses, operating at various administrative levels of government and having a range of distinct mandates. As illustrated in Figure 5.Panel A, the sample predominantly consists of EDOs, indicating that they are agencies with multiple mandates related to economic development, including investment promotion and facilitation. Dedicated IPAs constitute a smaller portion of surveyed organisations, slightly surpassing those defining themselves as departments of a subnational government or those being of a different nature. The latter include city councils, municipalities and regional development agencies. In terms of legal status, slightly less than half of the surveyed institutions are autonomous public agencies, while a quarter possess governmental status and a smaller but noteworthy share are joint public-private or private organisations (Figure 5 Panel.B).

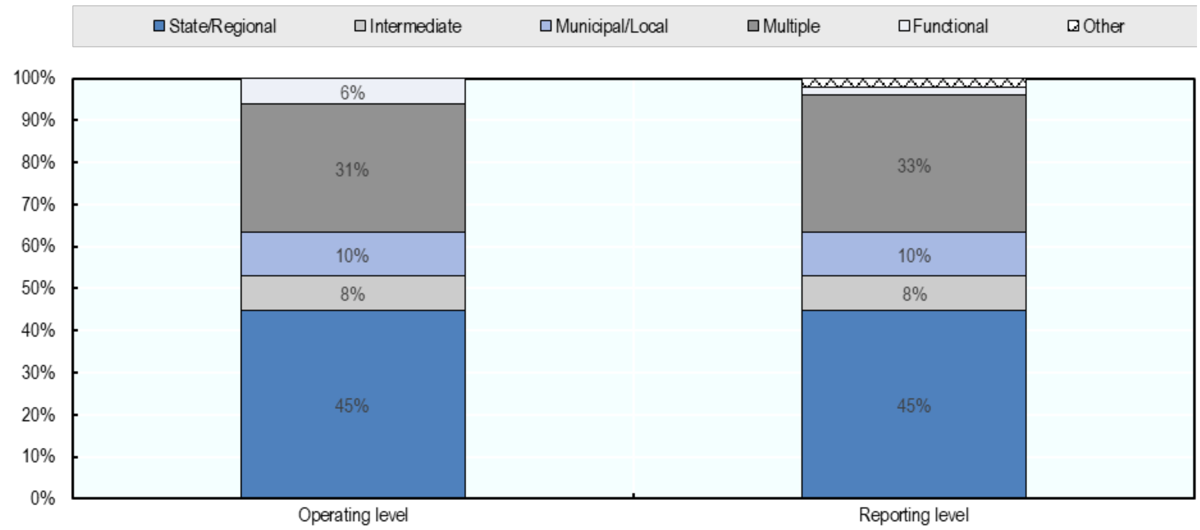
Figure 5. Organisational characteristics of surveyed agencies



Source: OECD survey on subnational investment promotion and facilitation, 2023.

Subnational agencies are also present at different levels of government. In the surveyed sample, most of them operate in, and report to, the regional/state administrative level (Figure 6). They are followed by multiple levels, which often entail a combination of the regional/state level, lower levels within the same region and at times the central government. Functional agencies may operate in, and report to, different regions and levels at the same time. Agencies that promote investment in cities typically work at the intermediate or municipal/local level – depending on the institutional structure of the country. In specific instances, agencies do not report to any governmental levels, but to a board or an independent committee.

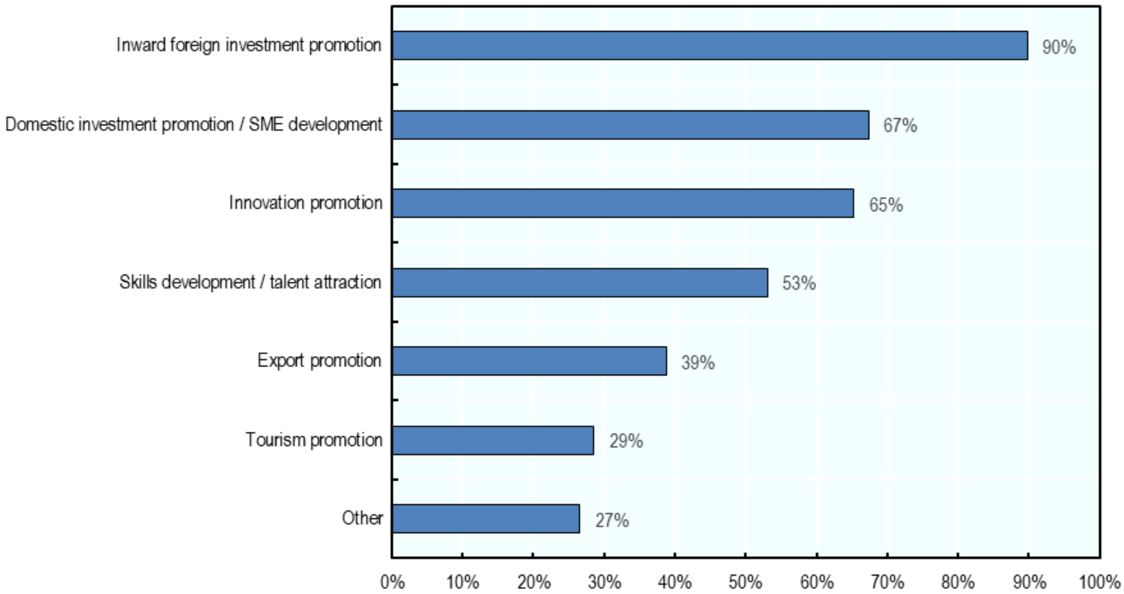
Figure 6. Operating and reporting levels of surveyed agencies



Note: Regions/states correspond to the 3rd administrative level of the territorial organisation of the SNG-WOFI database, except for Costa Rica, Estonia, Finland, Iceland, Ireland, Japan, Korea, Luxembourg, Portugal, Slovenia and Türkiye. For these countries, this level is based on national definitions of statistical or administrative regions that allow for a better representation of the countries' multi-level administrative structures.
Source: (OECD, 2022[9]) and OECD survey on subnational investment promotion and facilitation, 2023.

While nearly all surveyed agencies have the mandate to promote inward foreign investment, they also have various other mandates related to economic and regional development (Figure 7). Around two-thirds of respondents are tasked with promoting domestic investment or SME development, or both, along with innovation promotion. Just over half of the agencies are also mandated for skills development and talent attraction. Export and tourism promotion are undertaken by a smaller portion of agencies. Under the “other” category, there are diverse mandates such as urban development, diversity and inclusion, international branding promotion, cluster programmes, promotion of film and audio-visual industry and labour policies. The 10% of organisations that do not report the mandate to promote and facilitate inward investment have mandates of similar nature such as domestic investment promotion or innovation promotion.

Figure 7. Main mandates of surveyed agencies



Source: OECD survey on subnational investment promotion and facilitation, 2023.

Strategies to promote and facilitate investment at subnational level

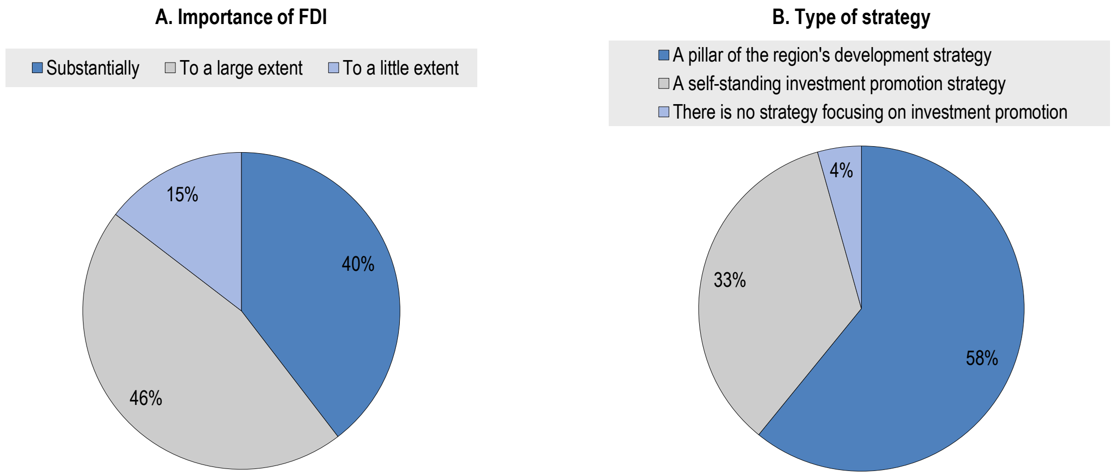
Rationale for subnational investment promotion strategies

Governments design investment promotion strategies, as they recognise the key role that FDI can play to boost economic development, competitiveness and broader societal benefits. Applied at subnational level, these strategies can be important levers for regional development. Subnational IPAs and EDOs, with their understanding of local specificities and proximity to investors, play a crucial role as key contributors to investment promotion and facilitation, and, consequently, regional economic development (Crescenzi, Di Cataldo and Giua, 2021[13]; OECD, 2023[3]).

Subnational investment promotion strategies must therefore respond to the specific objectives that their constituencies aim to achieve through FDI. In order words, they need to align with the strategic goals of their governments – be it at the local or national level. Additionally, these strategies should carefully consider the comparative advantages of host regions while tackling the specific challenges they face. Identifying these strengths and weaknesses is a key role for subnational organisations. It is also a core part of smart specialisation strategies, which would benefit from a greater alignment with international investment promotion (OECD, 2023[3]).

FDI plays a significant role in most regions surveyed (Figure 8 Panel A), indicating that regional agencies have prioritised international investment as a key strategic objective. The 15% of organisations who responded a little role for FDI consist of regions that are either already well-developed, with a robust ecosystem of local and foreign firms (e.g. Basel Area, North Rhine-Westphalia, Vienna) or smaller remote regions for which it is more challenging to attract FDI (e.g. Limón in Costa Rica or Nordland in Norway). Among the respondents, approximately one third of organisations have their self-standing investment promotion strategy, with the majority having incorporated investment promotion as a pillar of their region's development strategy (Figure 8 Panel B). In line with the greater autonomy they usually enjoy, agencies in federal countries tend to have more often their self-standing investment promotion strategies (in 47% of cases) compared to those in unitary countries (23%).

Figure 8. Role of FDI in regional development objectives

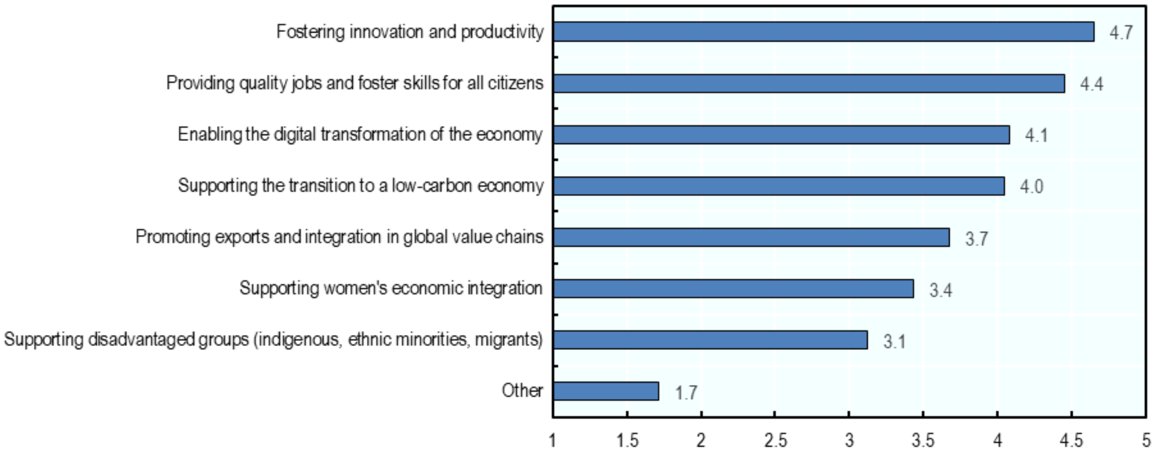


Source: OECD survey on subnational investment promotion and facilitation, 2023.

In addition to economic growth and job creation, subnational agencies are in majority promoting FDI to foster innovation and productivity and to provide quality jobs and foster skills for all (Figure 9). These objectives are closely followed by enabling the digital transformation and supporting the low-carbon economy. Agencies particularly emphasise the need to diversify the business ecosystem, attract new industries and strengthen value chains. These goals are aligned with the main objectives of national IPAs, which put innovation and productivity and quality jobs and skills on top of their agenda (Sztajerowska and Volpe Martincus, 2021[19]).

Figure 9. Main objectives sought by subnational IPAs through FDI

(On a scale from 1 to 5, where 1 is low priority and 5 is high priority)



Source: OECD survey on subnational investment promotion and facilitation, 2023.

National and subnational agencies share the view that the high level of educated workforce and R&D activity is the top FDI attractor to regional locations (Table 4). Good infrastructure or connectivity and low business costs are also perceived as key drivers. Subnational organisations perceive, however, the size of clients and suppliers as an important criterion, reflecting the importance of building a local ecosystem to attract FDI projects. Agencies also highlight the quality of life as well as a good business environment to attract investment. These findings demonstrate what was already highlighted by national IPAs, i.e. that creating the enabling framework conditions for a sound business environment is key to attract FDI in regional locations, whether they are prosperous or less developed (OECD, 2022[1]). This is corroborated by other recent OECD findings showing that investors prioritise good infrastructure and skills when selecting a regional location, particularly the presence of digital infrastructure and quality universities (OECD, 2023[4]; OECD, 2023[3]).

Table 4. Main reasons to invest in regions according to national and subnational agencies

	According to national agencies	According to subnational agencies
1	High level of educated workforce / R&D activity	High level of educated workforce / R&D activity
2	Lower business costs	Good infrastructure or connectivity
3	Good infrastructure or connectivity	Large size of clients and suppliers
4	Provision of state support	Lower business costs
5	Large size of clients and suppliers	Lower employee turnover
6	Existence of natural resources	Existence of natural resources
7	Lower employee turnover	Provision of state support

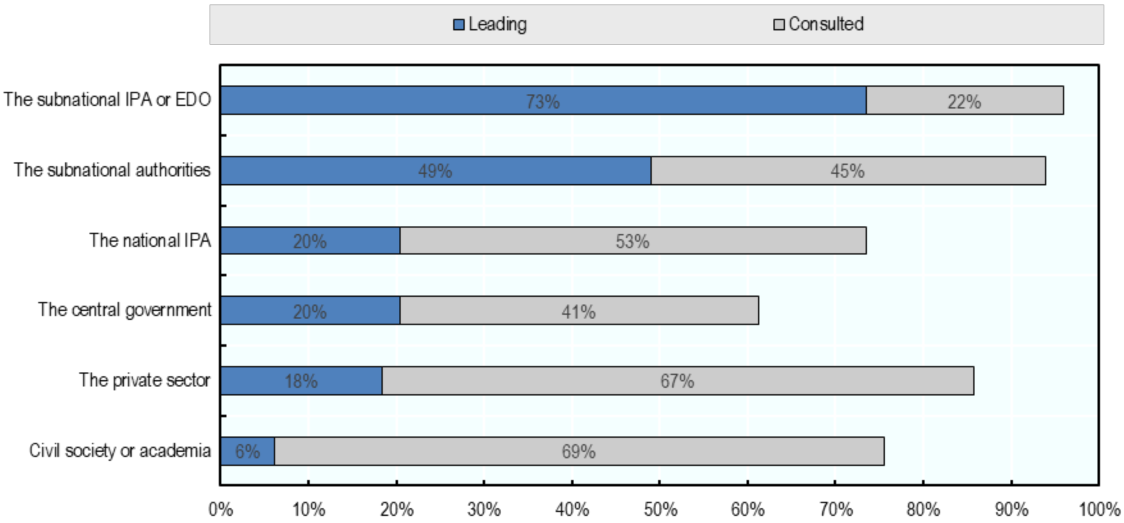
Source: OECD survey on investment promotion and regional development, 2022; OECD survey on subnational investment promotion and facilitation, 2023.

On the other hand, regional agencies consider the provision of state support by the central government as the least important factor to attract FDI, possibly demonstrating the little faith they show in the support provided by the national authorities. This is corroborated by the fact that they also view the lack of state support as one of the most important challenges for investors to locate in their region, only second to the lack of adequately skilled labour.

Strategy design process

A collegial process involving multiple stakeholders to design investment promotion strategies, whether at national or subnational level, is a common approach. According to survey respondents, subnational agencies overwhelmingly take the lead in designing subnational investment promotion strategies with nearly three-quarters of them being in the driving seats (Figure 10). This is particularly true for agencies located in federal countries, which are leading them in 84% of cases as compared to 63% for those in unitary countries.

Figure 10. Entities involved in subnational investment promotion strategies



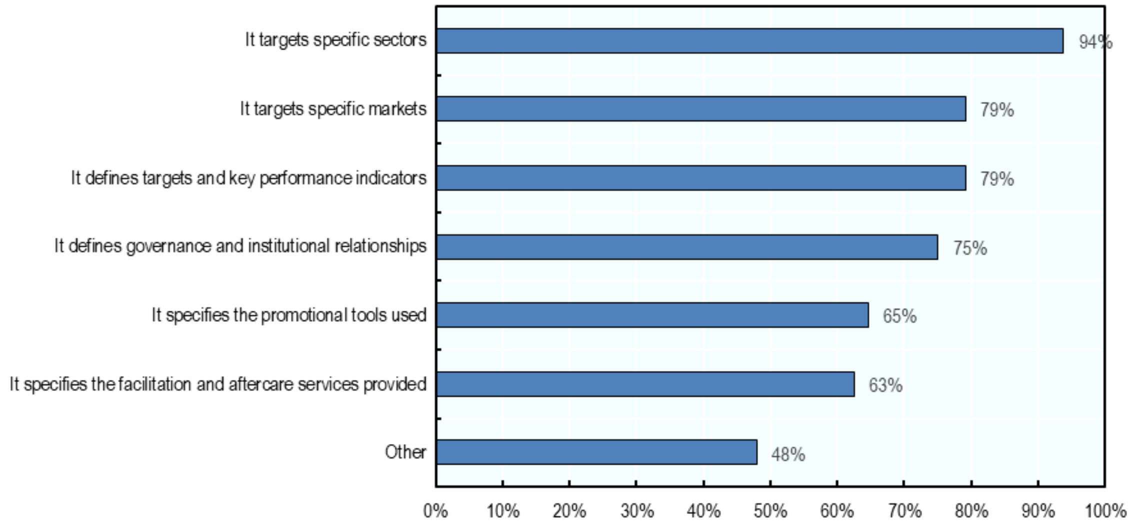
Source: OECD survey on subnational investment promotion and facilitation, 2023.

While subnational authorities are leading the strategies in almost half of the cases, according to respondents, the national IPA and the central government only lead the process in 20% of cases. Interestingly, the national IPA is not involved at all in over a quarter of cases. This differs from the findings of the survey of national IPAs where they indicated to be leading the design of regional investment promotion strategies in 35% of cases (OECD, 2022[1]). This could reflect a different interpretation or duplication of roles on the elaboration of regional investment promotion strategies. The survey results also highlight a high level of stakeholder involvement in the subnational strategy design, with the private sector and civil society leading or being consulted in 86% and 76% of cases respectively. This involvement surpasses that observed in national investment promotion strategies. Chambers of commerce, technology parks and foreign representatives are among other stakeholders mentioned by respondents.

Characteristics of subnational investment promotion strategies

Subnational investment promotion strategies, whether stand-alone or a pillar of the regional strategy, are often quite elaborate and contain a variety of detailed features (Figure 11). Nearly all these strategies focus on specific sectors, with a significant majority targeting dedicated markets. The primary sectors targeted include high-tech, healthcare and manufacturing, while the markets targeted are predominantly in Europe or the United States.[5] Approximately three-quarters of these strategies also define governance structures and institutional relationships, such as the creation of public-private advisory boards and the organisation of regular meetings with local stakeholders.

Figure 11. Main features of subnational investment promotion strategies



Source: OECD survey on subnational investment promotion and facilitation, 2023.

Most strategies possess a component related to specific targets and key performance indicators (KPIs). The most used KPIs are the creation of jobs (specifically highly skilled jobs), the number of projects attracted and the amount of invested capital. Other KPIs also mentioned are talent development, number of linkages created between foreign and domestic companies, and share of R&D intensive investments. Strategies may also feature specific services offered by agencies, which, generally, revolve around providing investors with up-to-date information on local trends, support on acquiring permits and aftercare services. Some strategies are particularly well integrated in the region's development strategy and provide a detailed plan for the attraction of FDI (Box 2).

Box 2. New South Wales Regional Investment Attraction Strategy

The government of New South Wales (NSW) in Australia has set out the priorities and plans to achieve long-term social, economic and environmental success for regional communities across the state. To support this broad economic plan, the Office of Regional Economic Development designed the Regional NSW Investment Attraction Strategy 2022-27, which establishes the key vision, objectives and priorities to bring private sector investment, support talent, and foster an environment for future industries to establish and flourish. This investment attraction strategy is supported by the Regional Investment Activation Program, which includes the following four initiatives:

1. Investment Attraction Support for Local Government Areas – Training and resources to upskill local councils.
2. Targeted Workforce Development Scheme – Bespoke training solutions for businesses to increase the number of skilled workers.
3. Data Analytics & Insights – A regionally-focused data platform of relevant and up-to-date information to support investor decision-making.
4. Enhanced Investor Support Services – Provision of tailored assistance to investors and delivery of investment attraction marketing campaigns.

The main targeted industries include advanced manufacturing, agri-food, defence, clean energy, medical technology and knowledge services.

As of 2023, the strategy has yielded positive results according to regional Departmental officials. For example, it has attracted investment into greenfield plastic recycling facilities, establishment of strategic partnerships between multinationals and regional universities and development of state-of-the-art petfood manufacturing capability. Furthermore, it has raised the interest of foreign defence companies to commence operations in the region due to its proximity to a skilled workforce and other defence projects.

Source: Consultations with NSW Government and official website.

A broad range of policy tools and government services can be adopted to promote and facilitate investment in a particular region. These can encompass the services offered by the subnational or national agencies, the implementation of incentives packages and the establishment of economic zones. National and subnational agencies perceive that the services offered by their own organisations are the main success factors to promote and facilitate FDI in regions (Table 5). Interestingly, while national IPAs place non-tax and tax incentives high on the list of criteria, subnational organisations consider that local business environment improvements and the provision of infrastructure are more important. Tax and non-tax incentives play a slightly more important role in federal than in unitary countries. National and subnational agencies also agree that local and regional fairs as well as special economic zones are less used tools. The latter could be explained by the fact that many city agencies, for instance, do not have the possibility to rely on this policy tool.

Table 5. Main policy tools and measures used to promote and facilitate FDI in regions

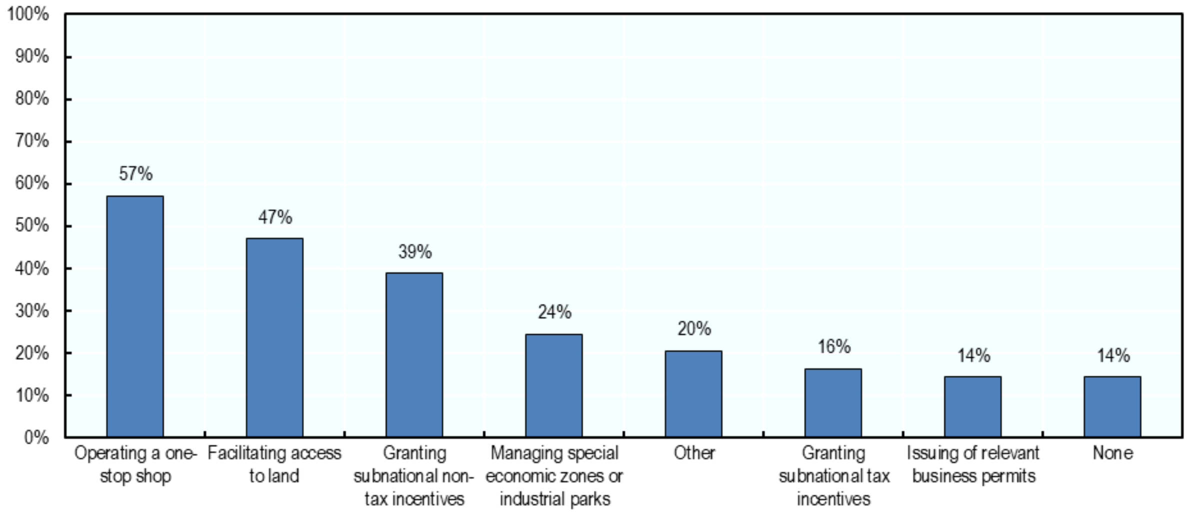
	According to national agencies	According to subnational agencies
1	The national IPA's services	The subnational agency's services
2	Non-tax incentives	Local business environment improvements
3	Tax incentives	Provision of infrastructure
4	Industrial parks	The national IPA's services
5	Provision of infrastructure	Tax incentives
6	Local business environment improvements	Non-tax incentives
7	Special economic zones	Industrial parks
8	Local and regional fairs	Local and regional fairs
9	Others	Special economic zones
10		Others

Source: OECD survey on subnational investment promotion and facilitation, 2023.

To implement the strategy, subnational institutions place equal importance to image building, investment generation, and investment facilitation and retention, while policy advocacy is considered less important compared to these three functions. This is a similar tendency observed with national IPAs as well, where investment generation and investment facilitation and retention are the main two core functions (OECD, 2018[20]).

Additionally, IPAs are also mandated with specific policy tools to implement their strategic objectives. For example, across respondents, 57% are mandated to operate a one-stop shop while just below half are facilitating access to land (Figure 12). These are important elements to facilitate the establishment or expansion of investors and is well-aligned with the perception by subnational organisations that local business improvements are key policy measures to attract, facilitate and retain FDI in regions. In line with their higher autonomy from the central government, there is a higher proportion of subnational organisations in federal countries that are mandated to operate a one-stop shop (63%) than those in unitary countries (50%). The provision of subnational non-tax incentives, such as grants, loans and subsidies, are much more often provided by regional agencies than tax incentives, which most probably remain the prerogative of central authorities. Around a quarter of these agencies are mandated to establish and manage special economic zones or industrial parks, which are often a policy tool used to incentivise international firms to locate outside of the main urban areas. Other policy tools include facilitating job recruitment and providing access to finance, including with loans or grants.

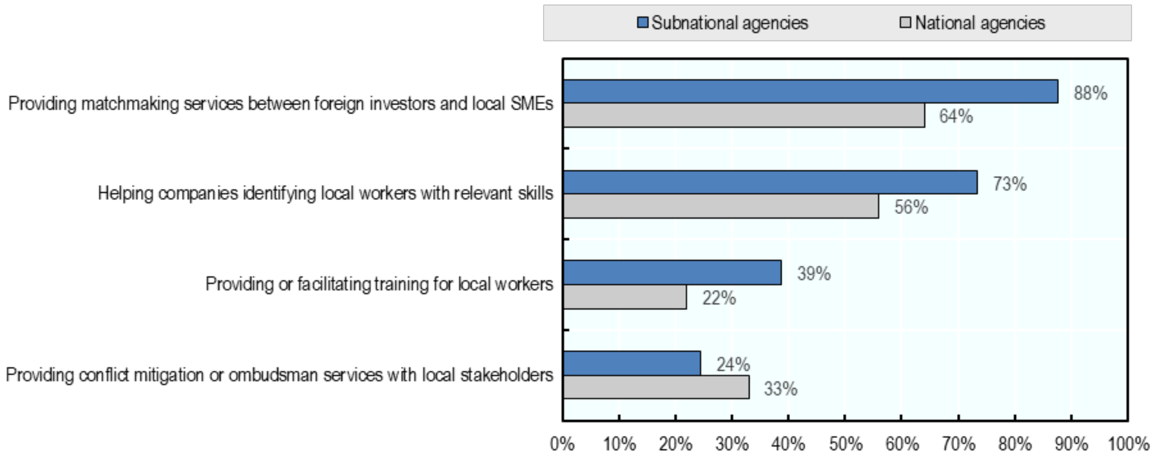
Figure 12. Policy tools at the disposal of subnational agencies



Source: OECD survey on subnational investment promotion and facilitation, 2023.

As part of their aftercare function, agencies also offer additional services to support investors throughout their establishment, operations and expansions (Figure 13). These services include, for example, the provision of matchmaking services between foreign affiliates and local SMEs, performed by the large majority of subnational agencies. This activity is conducted by a smaller portion of national agencies, which are in majority also mandated to promote domestic investment or SME development (OECD, 2022[1]). Similarly, they assist companies in identifying local workers with relevant skills, a responsibility taken up by nearly three-quarters of the surveyed subnational institutions. This demonstrates not only the significance of local ecosystem conditions (e.g. suppliers, clients and skilled workers) but also the necessity of proactive aftercare measures to help companies overcome potential information asymmetries. By better knowing the local specificities, subnational organisations are particularly well-placed to help reduce transaction costs when interacting with local actors and can act as institutional facilitators (Crescenzi, Di Cataldo and Giua, 2021[13]).

Figure 13. Aftercare services provided at national and subnational level

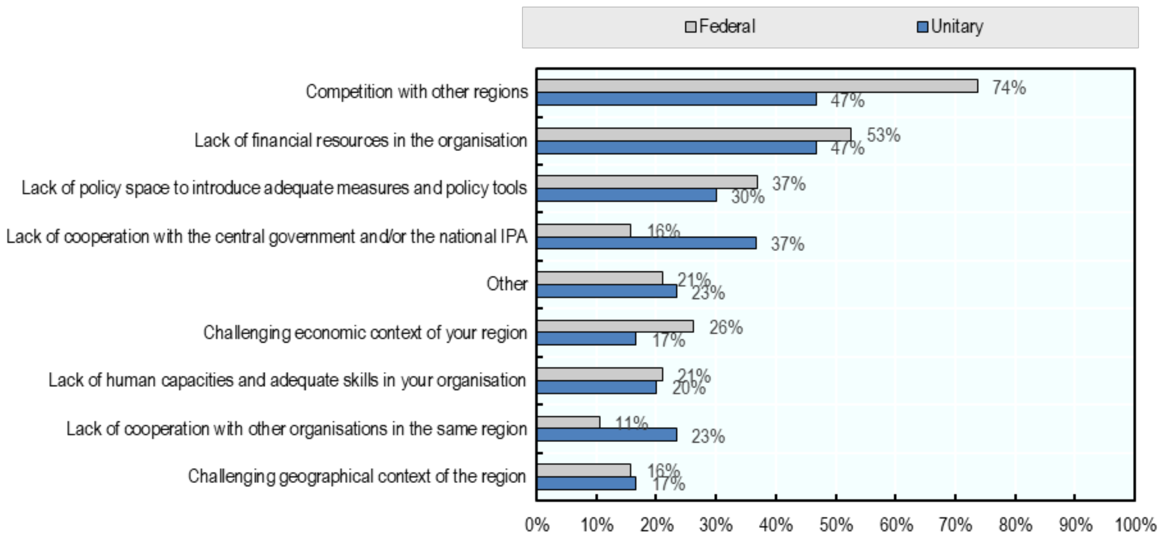


Source: OECD survey on investment promotion and regional development, 2022; OECD survey on subnational investment promotion and facilitation, 2023.

Challenges and strategic co-ordination needs

The challenges to successfully implement subnational investment promotion strategies may include difficulties related to internal resources, strategic co-ordination or the business environment. As such, the top challenge identified by subnational organisations is competition with other regions, as indicated by 57% of respondents (Figure 14). It is followed by the lack of financial resources for their organisations, highlighted as a significant challenge by approximately half of the respondents, and the lack of policy space to introduce measures and policy tools, selected by a third. This demonstrates the importance of equipping regional agencies with sufficient resources and policy space to effectively attract and facilitate FDI. The lack of co-operation with the national IPA comes next, followed by other challenges that include difficulties faced by companies in their business operations, notably intermediate costs (e.g. energy, land), transaction costs (e.g. procedures) and market failures (e.g. lack of awareness).

Figure 14. Main challenges identified to ensure effective implementation of the strategy



Source: OECD survey on subnational investment promotion and facilitation, 2023.

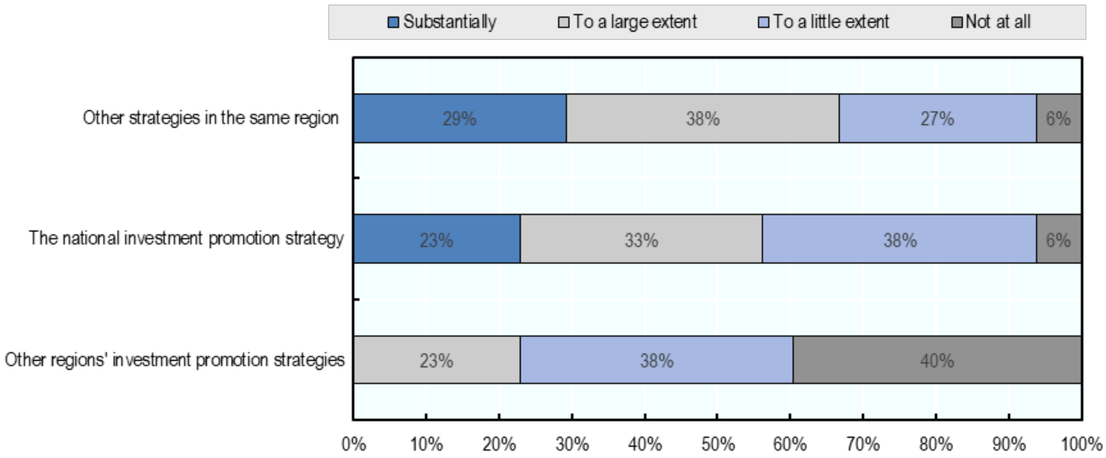
As indicated on the figure, some of the challenges identified by the surveyed agencies vary highly depending on the degree of decentralisation of the countries where they operate. For instance, half of the agencies that identified competition with other regions as a top challenge operate in federations – even though they represent less than 40% of respondents (and a quarter of OECD member countries). This suggests that more decentralised forms of state can lead to higher competition across regions, notably because subnational agencies are both more autonomous and more numerous in such countries. Similarly, competition across regions is a challenge that is more recurrent in large economies (in 63% of cases).

On the other hand, important challenges like the lack of policy space and the lack of co-operation with the central government or national IPA also relate to the relative autonomy of agencies vis-à-vis the central government but seem to be more significant problems for agencies in unitary countries. This is particularly true for the latter, which is selected by a much higher number of agencies in unitary countries (79% of agencies facing this obstacle), reflecting that more decentralised forms of governments allow for more room for manoeuvre for subnational agencies. Similarly, although the lack of co-operation with other organisations in the same region is identified as a top challenge by fewer organisations, the proportion of agencies facing this issue is much higher in unitary countries (78% of all agencies facing this issue), suggesting that federal countries may have a higher level of sophistication in co-operating with subnational governments. This should not come as a surprise given their generally higher level of autonomy.

The lack of financial resources is a challenge that affects agencies from unitary and federal countries alike. Around half of the respondents report that insufficient funds hinder their capacity to ensure the effective implementation of their investment promotion strategy in their respective regions. This may hint to a mismatch between the powers transferred to subnational authorities and agencies, and the resources allocated to them. It corroborates what is indicated above, i.e. that official mandates need to be accompanied by adequate financial capacity to maximise the benefits from decentralisation (Rodríguez-Pose and Vidal-Bover, 2022[18]).

These challenges pertain to how subnational strategies interact with, or refer to, other investment promotion strategies in the country. Figure 15 indicates that subnational investment promotion strategies mostly relate to other strategies within the same region, either substantially or to a large extent in two-thirds of the cases. It is followed closely by the national investment promotion strategy, with a strong connection to the subnational strategy in 56% of cases. These results are broadly aligned with the findings from national IPAs, which report the same connection with other strategies in the region in 62% of cases and with the national strategy in 50% of them (OECD, 2022[1]). It is, however, much less common for subnational investment promotion strategies to be related to those from other regions, as it is the case in less than a quarter of cases. This again demonstrates the intense competition across regions within countries to attract FDI.

Figure 15. Extent to which the strategy relates to other strategies in the country



Source: OECD survey on subnational investment promotion and facilitation, 2023.

Although the lack of co-operation with the central government or the national IPA was rarely identified as a top challenge by agencies located in federations (Figure 14), the same agencies also report that their strategies relate poorly to the national investment promotion strategy in most cases (63% to a little extent or not at all). Conversely, two-thirds of subnational organisations in unitary countries mentioned that their strategies refer strongly to the national strategy. In other words, it is the agencies operating in unitary countries who refer most to the national strategy but also who suffer most from a lack of co-operation with the national government, demonstrating their weaker autonomy from the central authorities.

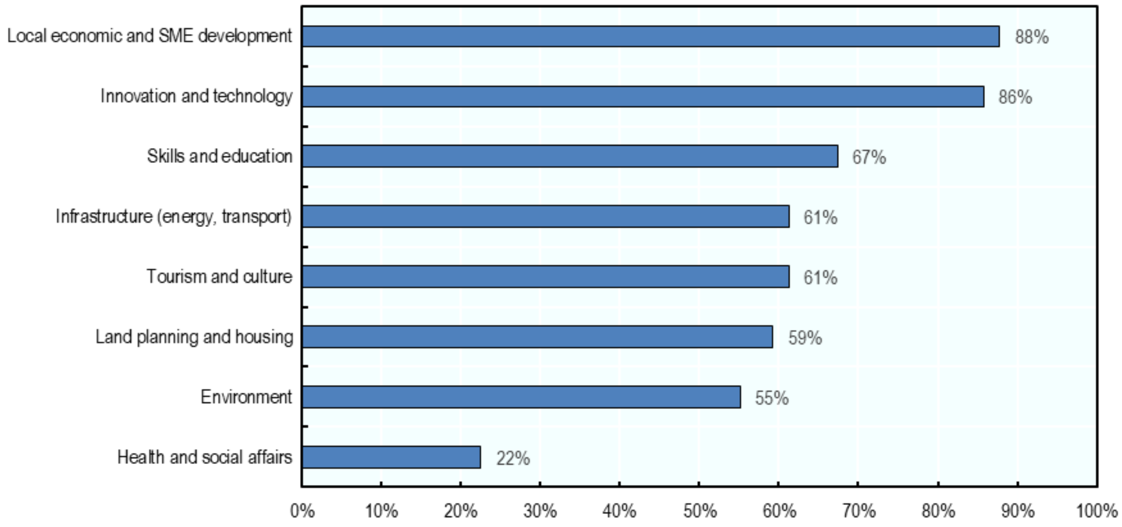
Institutional relationships

Quality relationships across institutions are important to achieve the intended policy objectives, including in terms of investment promotion and facilitation. Robust multi-level arrangements among national and subnational organisations are essential and can require adapting inter-governmental roles, relationships and institutional frameworks to improve the quality of public services. These relationships can take place within the same region, with other regions of the country and with the central level – notably the national IPA.

Within regions

Institutional relationships within the same region are crucial to align regional policy goals and, in the case of investment, to ensure that the attraction and facilitation of FDI contributes to the broader socio-economic and sustainable development objectives of the region. Collaboration with different parts of government is important and, across the surveyed agencies, it is with departments and agencies representing local economic and SME development as well as innovation and technology that collaboration is the strongest (Figure 16). It is followed closely by skills and education, selected by two-thirds of respondents. As mentioned above, an adequate workforce is the main factor to attract and retain FDI in a location. Only health and social affairs is the area where a much smaller share of organisations see the necessity to collaborate.

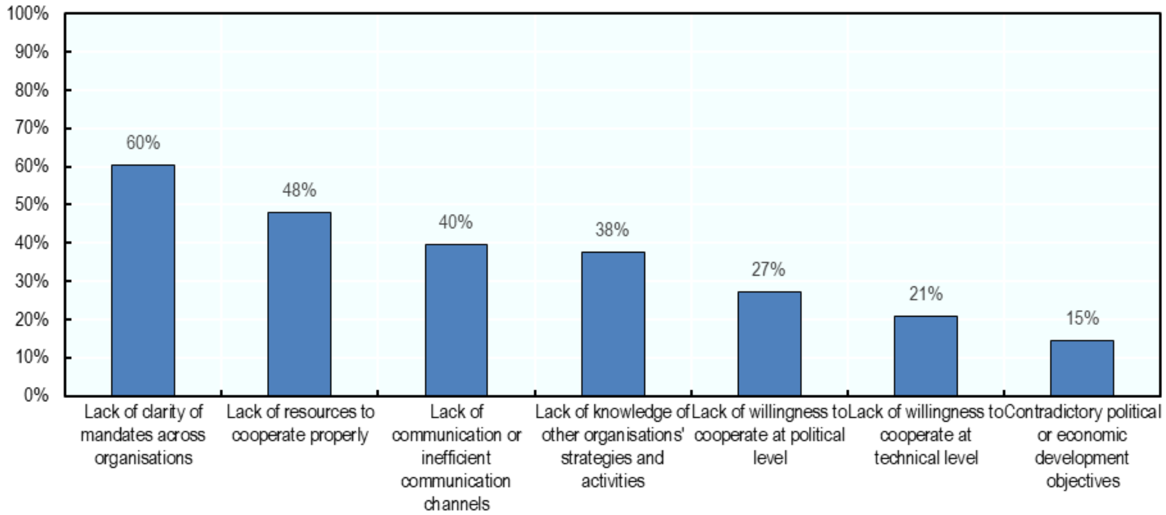
Figure 16. Collaboration with other policy areas in the same region



Source: OECD survey on subnational investment promotion and facilitation, 2023.

There are challenges for a proper horizontal collaboration, however, which can take different forms. The most frequent challenge reported by surveyed agencies is the lack of clarity of mandates across organisations (Figure 17). While insufficient resources to co-operate properly is reported as the second most important challenge, the lack of willingness to co-operate, both at political and technical level, stand low on the list of challenges. Nonetheless, evidence shows that co-ordinated FDI attraction efforts among regional partners is essential to generate job creation, infrastructure improvements, spillovers for local businesses and support for regional industrial transitions (OECD, 2023[4]; OECD, 2023[3]).

Figure 17. Main challenges to collaborate across different parts of the same region



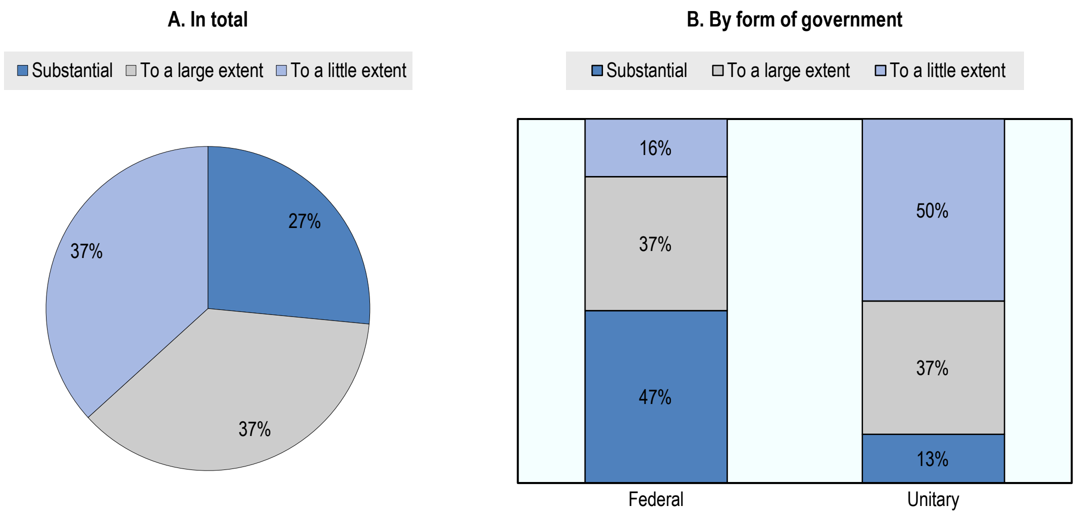
Source: OECD survey on subnational investment promotion and facilitation, 2023.

With other regions

Interactions between institutions of different regions will depend on the extent to which regions compete against each other and whether proactive co-operation mechanisms are put in place to mitigate potential harmful competition.

Almost two-thirds of surveyed agencies consider the level of competition to attract FDI between regions in their country to be substantial or high (Figure 18 Panel A). This is aligned with the results presented above highlighting competition across regions as the main challenge in successfully achieving the investment promotion strategy at regional level. While competition across regions is high across the board, it is particularly significant in federal countries, where almost half of respondents consider it to be substantial as opposed to only 13% in unitary countries (Figure 18 Panel B). Conversely, competition across regions is less considered as prevalent in half of the respondents in unitary countries as compared to 16% in federations. This demonstrates once again the higher level of competition in countries with a more decentralised form of government.

Figure 18. Extent of competition between regions

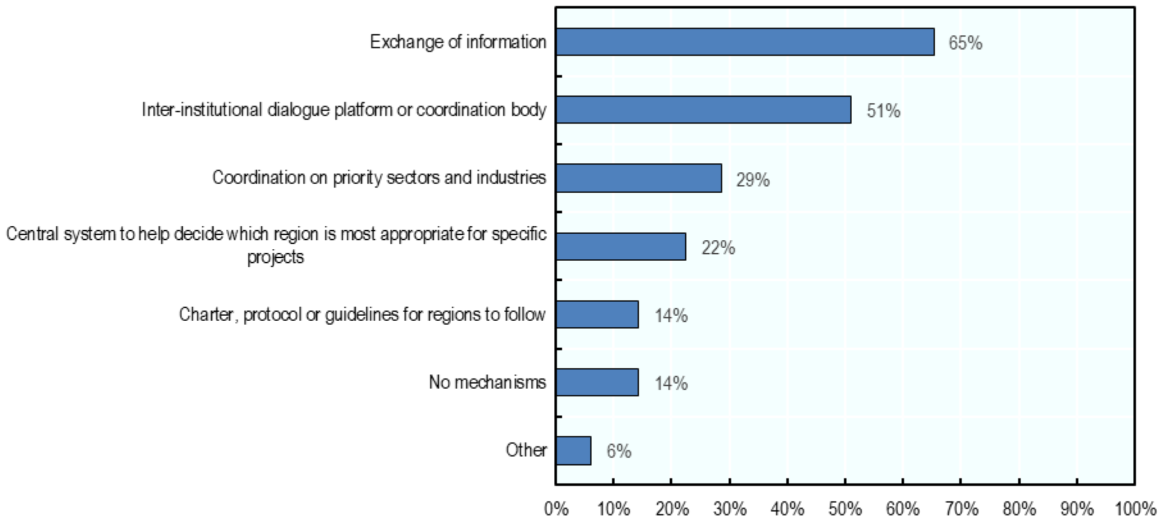


Source: OECD survey on subnational investment promotion and facilitation, 2023.

While a certain degree of competition between regions can incentivise them to improve their respective local business environments and become more attractive investment destinations, it can also lead to a race to the bottom with investment incentives, duplication of government services, inconsistent messages to investors and, eventually, an increase in FDI regional disparities and a misuse of public resources.

National authorities often recognise the risk of unhealthy competition across regions and different mechanisms can be put in place to avoid such competition. The most frequent mechanism is also the less formal one, which is a simple exchange of information (Figure 19). Although this is an important element of good co-operation, it lacks a binding aspect to ensure that this co-operation is effective. Another informal mechanism, used only by 29% of agencies, is the co-ordination on priority sectors and industries. The only formal mechanism reported by a short majority of respondents is the use of inter-institutional dialogue platforms or co-ordination bodies. These may include a nation-wide forum, network or body, such as the CNER in France, the DVWE Network in Germany, the Invest in Holland Network, the Japanese Business Federation, the Association of Finnish Development Companies, and the SelectUSA Investment Summit, among others. Other formal, more sophisticated co-ordination mechanisms are used by only a minority of subnational agencies, demonstrating their little involvement in the economic development objectives of other regions. While this seems a natural development, it will not help tackle competition across regions and reduce FDI regional disparities.

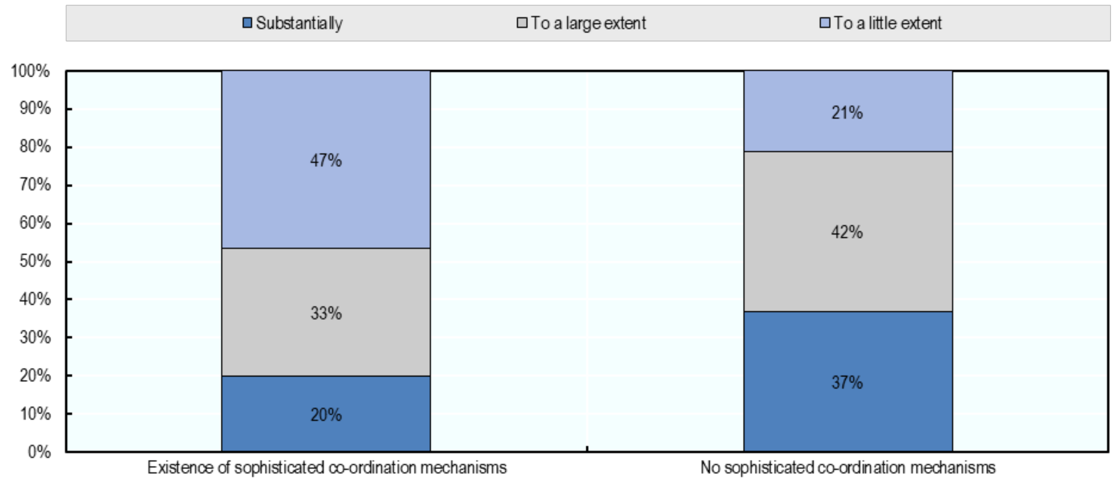
Figure 19. Co-ordination mechanisms across regions



Source: OECD survey on subnational investment promotion and facilitation, 2023.

In this context, evidence from the survey also shows that subnational agencies perceive significantly more competition across regions when no sophisticated co-ordination mechanisms are in place (Figure 20). As such, competition across regions is considered important in 79% of cases where no sophisticated mechanisms are in place, as opposed to 53% in those where such mechanisms are in place. This suggests that sophisticated co-ordination mechanisms that go beyond the exchange of information or co-ordination on priority sectors can help reduce unhealthy competition across regions to attract FDI. National and subnational authorities should thus support the establishment of these mechanisms, including co-ordination platforms and national guidelines, for example. In some cases, government measures seek to address specific aspects of competition across regions, notably to avoid a race to the bottom in terms of investment incentives. For instance, the United Kingdom provides incentives only after the investor selects a preferred location, avoiding offering incentives during the ongoing competition among regions (Lewis and Whyte, 2022[12]).

Figure 20. Competition across regions with and without sophisticated co-ordination mechanisms

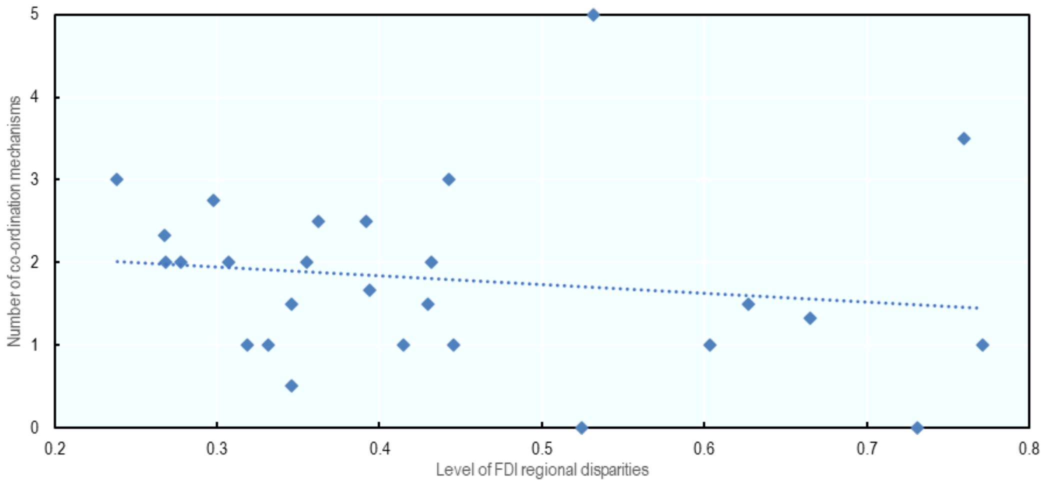


Note: Sophisticated mechanisms include those from Figure 19 except information exchange and co-ordination on priority sectors and industries.
Source: OECD survey on subnational investment promotion and facilitation, 2023.

In addition to supporting a healthier competition between regions, the adoption of co-ordination mechanisms can also have an impact on existing FDI disparities across regions. Evidence from the survey shows that the existence of co-ordination mechanisms, whether formal or informal, can help reduce the level of regional disparities of FDI per capita in OECD member countries (Figure 21). Although the correlation is not particularly strong, there is still a tendency indicating that the more co-ordination mechanisms are adopted the lower the level of FDI regional disparities. National and subnational authorities should hence adopt sound mechanisms to enhance institutional co-ordination not only to lower the intensity of unhealthy competition across regions but also to reduce the level of FDI disparities. This is particularly important in high-disparity countries to help lagging regions.

Figure 21. Relationship between the number of co-ordination mechanisms and FDI regional disparities

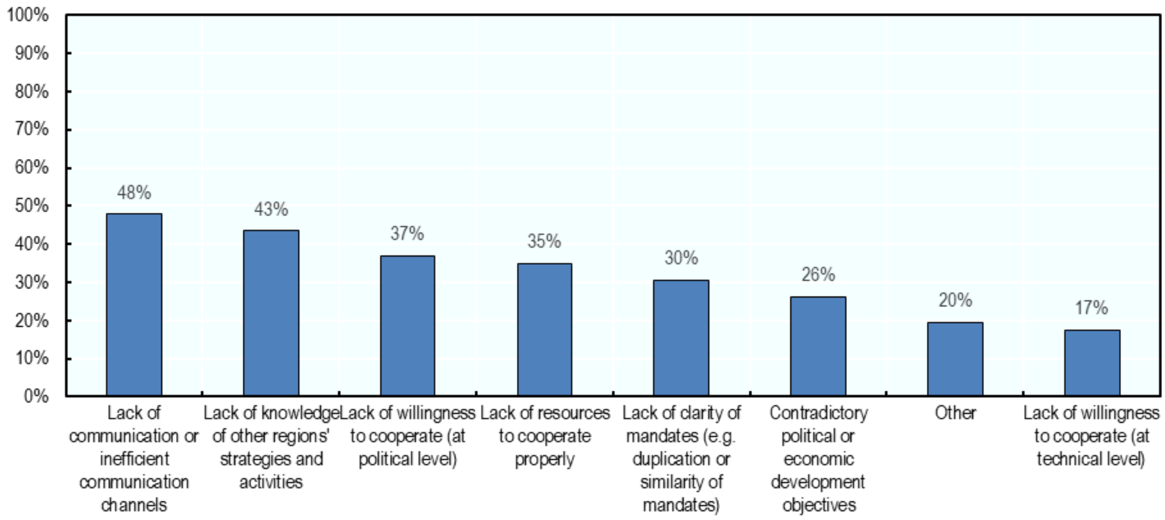
A higher value corresponds to a greater number of co-ordination mechanisms and higher regional FDI disparities



Note: Disparity measures are using adjusted Gini coefficients, which are calculated with equal weight to each region regardless of its size. Only countries with participating agencies in the survey are represented (27 countries). The number of co-ordination mechanisms is an average of those reported when multiple agencies from the same country responded.
Source: OECD based on Financial Times fDi Markets and OECD Regional Database (2022) and OECD survey on subnational investment promotion and facilitation, 2023.

Improving institutional relationships across regions can also help reduce unhealthy competition for FDI, but several challenges exist (Figure 22). The most important ones are related to a lack of communication or awareness, demonstrating capacity issues rather than willingness to collaborate, but the third most important challenge identified is the lack of willingness to co-operate at political level, which provides the opposing message and a more worrying one.

Figure 22. Main challenges to improve the relationships with other regions



Source: OECD survey on subnational investment promotion and facilitation, 2023.

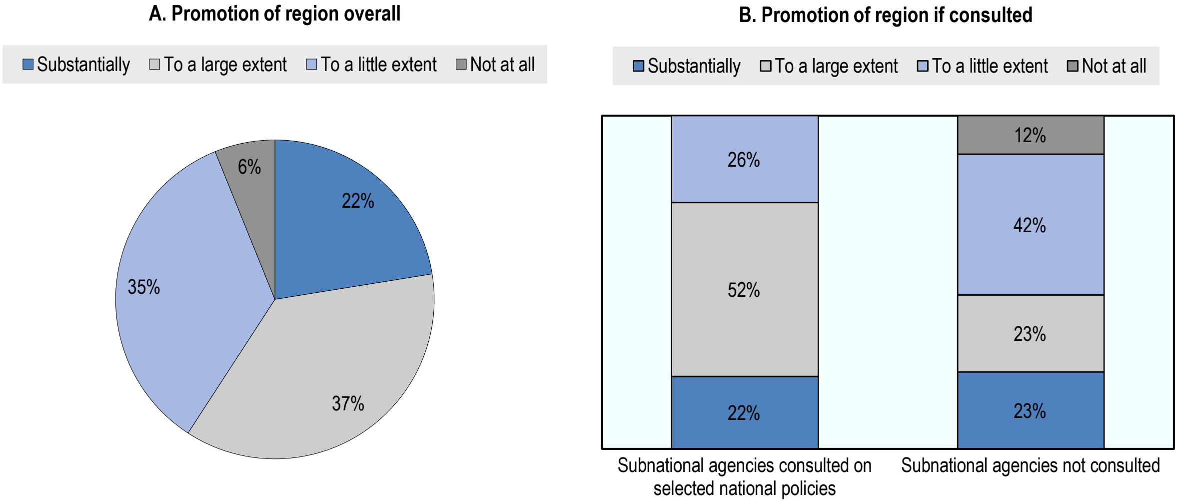
With the national IPA

The quality of institutional relationships with the central government – and the national IPA in particular – is a key aspect of the national framework for investment promotion and facilitation and can be crucial to avoid unhealthy regional competition and achieve successful results. National and subnational agencies 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 and subnational organisations decide to work together to achieve a result or produce something jointly, or complementarity, where the national and subnational agencies have different roles and bring different qualities that are improved by the relationship (OECD, 2022[1]).

A majority of subnational agencies (59%) consider that their region is well represented and promoted in the national investment promotion strategy (Figure 23 Panel A), confirming a relatively positive perception of national-subnational collaboration described also below. It is interesting to note, however, that in many countries, subnational agencies may have opposing opinions of how their region is promoted nationally. This is the case of most countries with more than one region represented in the survey sample, namely Australia, Austria, Canada, France, Germany, Italy, Mexico, Portugal, Spain and the United Kingdom. This may be attributed either to a perception or information gap across regions or, more worryingly, to an unequal treatment of regions by national IPAs.

Subnational organisations can also be engaged in the design of national investment policies, ranging from the choice of priority sectors to consultation in policymaking (e.g. incentives, restrictions on FDI) or involvement in the negotiation of international investment agreements. Overall, subnational agencies are rarely consulted in the design of those policies, as about half of respondents are not consulted on any of them. Only the selection of priority sectors is an area where regional organisations are more often consulted, in almost 40% of cases. The other areas are all selected by less than 10% of respondents.

Figure 23. Promotion of the region in the national strategy



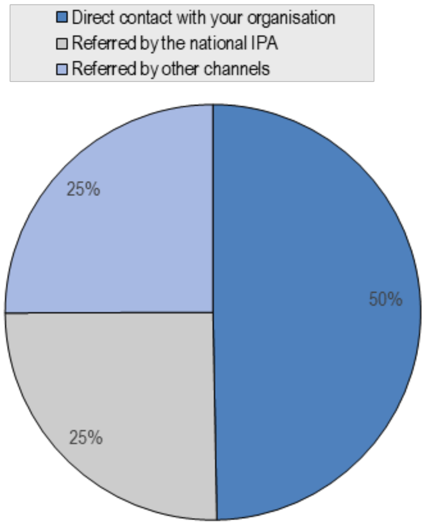
Source: OECD survey on subnational investment promotion and facilitation, 2023.

At the same time, there is also a clear indication showing that agencies that are consulted on some of these national policy areas perceive to be better promoted or represented in the national investment promotion strategy (Figure 23 Panel B).

As such, almost three-quarters of the subnational agencies that are consulted on at least one national investment policy consider that their region is represented substantially or to a large extent in the national investment promotion strategy, as opposed to 46% for those which are not consulted at all. Conversely, more than half of those agencies that are not consulted view their region as poorly or not represented at all in the national strategy, as opposed to roughly a quarter for those that are consulted. This is a substantial difference, highlighting the importance for central authorities to consult subnational institutions when designing and implementing national investment policies, not only to provide them with sufficient leeway to effectively conduct their tasks but also to better integrate them in the national investment promotion objectives.

The quality of relationships between national and regional agencies is also translated by the channels through which investors decide to prospect about a regional location and establish contact with the authorities on a potential investment. In some cases, investors will directly contact the regional agency while in others they will first liaise with the national IPA which may then refer them to their subnational counterparts. Across survey respondents, agencies estimate that, in total, half of prospective investors contact them directly and that an additional quarter are referred by the national IPA (Figure 24). Other channels mostly include the private sector (businesses and chambers of commerce), but also national and local authorities as well as other representatives of their own networks. In the case of agencies that operate at the second or third administrative levels, prospective investors are also sometimes referred by organisations operating at higher level, i.e. at the level of the large region. This is notably the case in Canada, where city agencies report relying on their provincial counterparts rather than on the national IPA.

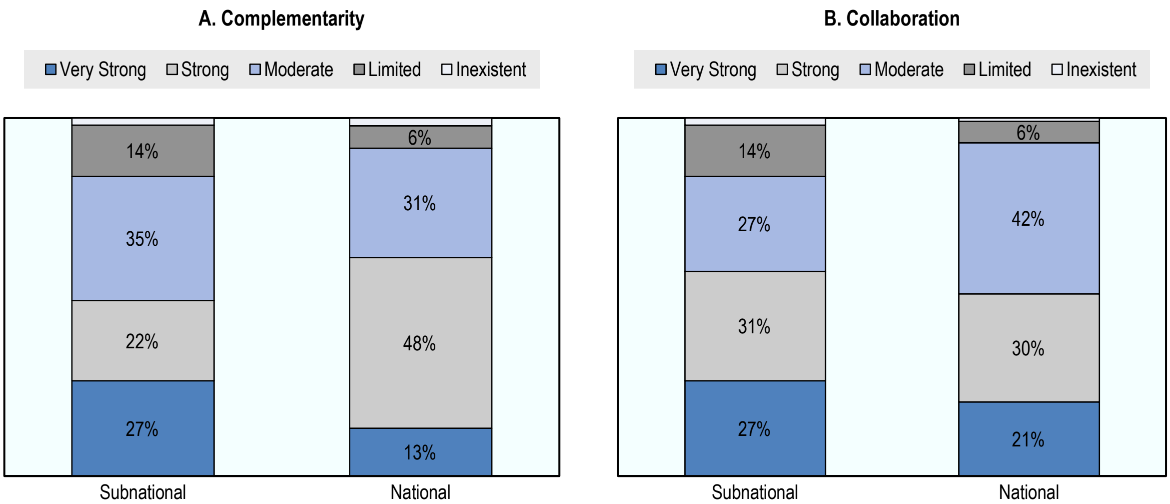
Figure 24. First contact of prospective investors



Source: OECD survey on subnational investment promotion and facilitation, 2023.

About half of subnational organisations view their complementarity with national counterparts to be strong or very strong (Figure 25 Panel A), with an even higher share (58%) perceiving their collaboration with national IPAs to be positive (Figure 25 Panel B). National IPAs surveyed in 2022 share a relatively similar perception but the trend is the opposite with a higher proportion of agencies considering strong complementarity rather than collaboration with subnational agencies. This may suggest that national IPAs put more emphasis on the different and complementary roles they play vis-à-vis foreign investors while regional agencies stress the importance of exchanging information and co-ordinating activities.

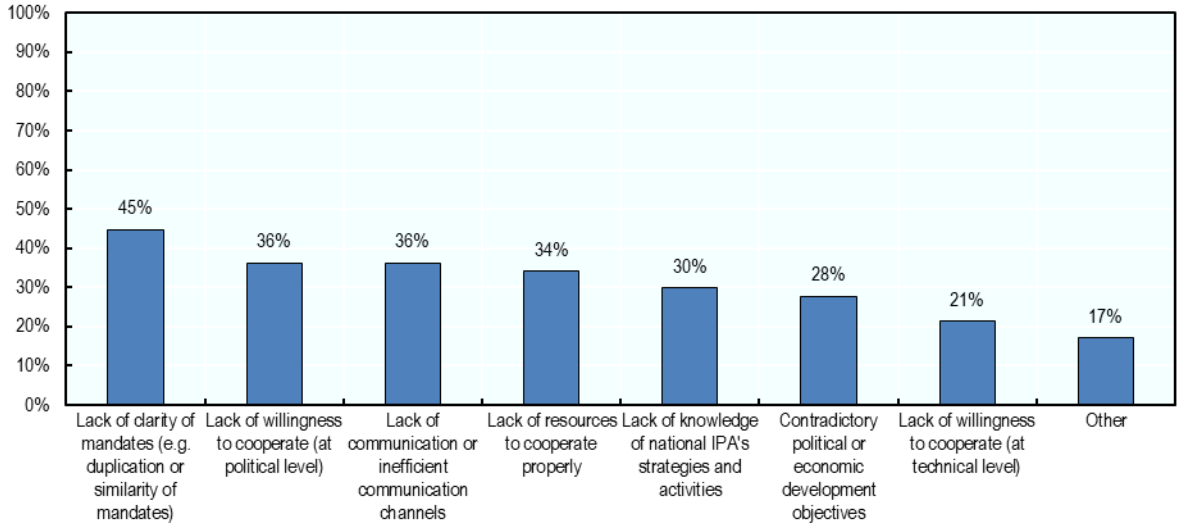
Figure 25. Relationships between national and subnational agencies



Source: OECD survey on investment promotion and regional development, 2022; OECD survey on subnational investment promotion and facilitation, 2023.

The fact that approximately half of subnational organisations believe that complementarity with national agencies is moderate, low or inexistent suggests that there may often be a duplication of mandates with national IPAs, as also evidenced by Figure 26, where the clarity of mandates is the challenge selected by the highest number of survey respondents. It is followed by the lack of willingness to co-operate at political level, which poses the problem of political will, and the lack of efficient communication channels. Encouragingly, the lack of willingness to co-operate at technical level features as the least frequent challenge to enhance the quality of national-subnational relationships.

Figure 26. Main challenges to improve the relationships with the national IPA



Source: OECD survey on subnational investment promotion and facilitation, 2023.

Interactions between local partners and national IPAs can also take place through IPAs' regional offices. In OECD countries, 61% of national IPAs have their own regional offices (OECD, 2022[1]). The existence of regional offices under the national IPA can also help in the quality of relationships. Although there is no impact of their existence on effective collaboration or complementarity, subnational offices can help national IPAs in attracting FDI in regional locations and supporting regional development objectives (Box 3). They can be particularly effective in countries with few, or no subnational agencies dedicated to investment promotion and facilitation.

Box 3. Subnational investment promotion through regional offices

In some instances, due to the geographical and political nature of some countries, investment promotion and facilitation activities at the subnational level are mainly carried out by the national IPA, usually through their regional offices.

Slovak Investment and Trade Development Agency (SARIO)

SAIRO conducts subnational investment promotion activities through its three regional offices, each of them serving a group of self-governing regions (*samosprávne kraje*). These offices offer a wide range of services to foreign investors, such as identifying real estate offers, organising meetings with local authorities, providing information on available state support and facilitating connections with universities and research institutions. Although each office works within its particular region (*oblast*), co-operation mechanisms have been developed to maintain cohesion. For instance, weekly meetings are organised to discuss common issues and strategies, build stronger relationships between the regions and avoid unhealthy competition.

Korea Trade-Investment Promotion Agency (KOTRA)

KOTRA has Support Centres located in most of their large regions. These offices closely collaborate with local governments to provide specialised investment promotion and facilitation services. For instance, KOTRA employees assist officials from local ministries and agencies to find potential investors, support investment projects and provide after care services.

Estonian Investment Agency (EIA)

In Estonia, there are no subnational IPAs. Regional investment attraction is done directly by the national IPA. The country is divided into five distinct regions, each made up of one or more region (*maakonnad)*. These regions are represented by EIA's regional advisors, who provide support and detailed information to investors regarding core advantages and business opportunities in their particular region.

Source: OECD survey on subnational investment promotion and facilitation, 2023, and IPA's official website.

Beyond the relationship with the national IPA, it is also important to build strong partnerships with other central government agencies, particularly with those that have an important bearing on the local investment environment. In Scotland, for instance, as the top factor for investors to locate is access to skills, Scotland Development International has established a partnership with the national skills agency, which has created a dedicated skills inward investment unit that engages with prospective investors and supports aftercare and advocacy activities (Lewis and Whyte, 2022[12]). The unit has helped position Scotland for sustained FDI into sectors such as finance and technology.

Annex A. List of survey respondents

Table A A.1. Respondents to the OECD survey on subnational investment promotion and facilitation, 2023

By alphabetical order of OECD member countries and regions

Name of agency	Region	Country	Type of organisation
NSW Office of Regional Economic Development	New South Wales	Australia	Department
Trade & Investment Queensland	Queensland	Australia	Agency
Vienna Business Agency	Vienna	Austria	EDO
Wirtschafts-Standort Vorarlberg	Vorarlberg	Austria	EDO
Invest Alberta Corporation	Alberta	Canada	IPA
Edmonton Global	Edmonton Metropolitan Region	Canada	EDO
Saskatoon Regional Economic Development Authority	Saskatoon	Canada	EDO
Gobierno Regional de Aysén	Aysén	Chile	Subnational government
Invest in Bogotá	Bogotá	Colombia	IPA
Asociación Agencia para el Desarrollo de la Región Huétar Caribe	Limón	Costa Rica	EDO
Brno City Municipality	Brno	Czechia	Municipal authority
Euroregio Pomoraví	Southern Moravia	Czechia	Association of municipalities
Copenhagen Capacity	Eastern Denmark	Denmark	EDO
Team Nice Côte d’Azur	Côte d'Azur	France	EDO
Choose Paris Region	Île-de-France	France	IPA
NRW.Global Business	North Rhine-Westphalia	Germany	EDO
Saxony Trade & Invest	Saxony	Germany	EDO
Municipality of Pécs	Pécs	Hungary	Municipal authority
Cork City Council	South West	Ireland	Department
Select Friuli Venezia Giulia	Friuli Venezia Giulia	Italy	EDO
Invest in Lombardy	Lombardy	Italy	Agency
Piemonte Agency for Investment & Export	Piedmont	Italy	EDO
Invest in Tuscany	Tuscany	Italy	Department
Osaka International Business Promotion Center	Osaka City	Japan	EDO
Klaipėda ID	Klaipėda	Lithuania	IPA
Go Vilnius	Vilnius	Lithuania	EDO
ProCampeche	Campeche	Mexico	Department
Secretariat of Sustainable Development of Querétaro	Querétaro	Mexico	Department
Brabant Development Agency	North Brabant	Netherlands	EDO
Tataki Auckland Unlimited	Auckland	New Zealand	EDO
Bodø Kommune	Nordland (Salten)	Norway	Department
Opolskie Economic Development Centre	Opole	Poland	EDO
Invest in Pomerania	Pomerania	Poland	IPA
Invest Lisboa	Lisbon	Portugal	IPA
InvestPorto	Porto	Portugal	IPA

SPRI Group	Basque Country	Spain	EDO
ACCIÓ Catalonia Trade & Investment	Catalonia	Spain	EDO
Invest in Madrid	Madrid Region	Spain	IPA
Invest in Skåne	Skåne	Sweden	Department
Basel Area Business & Innovation	Basel Area	Switzerland	EDO
Greater Zurich Area	Greater Zurich Area	Switzerland	IPA
Ankara Development Agency	Ankara Region	Türkiye	EDO
Zafer Development Agency	TR33 Region (Afyonkarahisar, Kütahya, Manisa and Uşak)	Türkiye	EDO
London & Partners	Greater London	United Kingdom	EDO
Invest Northern Ireland	Northern Ireland	United Kingdom	EDO
Scottish Development International	Scotland	United Kingdom	EDO
Invest Atlanta	City of Atlanta	United States	EDO
Texas Economic Development Corporation	Texas	United States	Non-profit organisation
Washington State Department of Commerce	Washington State	United States	Department

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Notes

[1] Recognising the need to provide countries with a comprehensive policy framework to support the design and implementation of effective regional development policies, the OECD Council adopted the Recommendation on Regional Development Policy on 8 June 2023. The Recommendation considers that regional development policy is a long-term, cross-sectoral, multi-level policy that aims to improve the contribution of all regions to national performance and reduce inequalities between places and people. It recommends that adhering countries promote and implement effective place-based regional development policy to support inclusive and sustainable development and well-being for the benefit of all.

[2] To assist countries identify conditions that help make decentralisation work, the OECD has developed ten guidelines for implementing decentralisation conducive to regional development (OECD, 2019[7]).

[3] Subnational agencies were contacted, directly or indirectly, in all OECD member countries to complete the survey and 49 of them in 27 countries provided their responses.

[4] For consistency purposes, large countries in this report are members of the G20.

[5] This bias could be attributed to the sample of surveyed agencies, which are largely based in Europe (where the majority of OECD membership is located).

OECD