Best Practices Aimed at Attracting Quality FDI and Measuring it to Promote Sustainable Development Through the Execution of Physical Infrastructure

APEC Investment Experts Group

April 2025

Asia-Pacific
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1. EXECUTIVE SUMMARY

Within the framework of the Asia-Pacific Economic Cooperation Forum, The Private Investment Promotion Agency – PROINVERSION presented in 2023, a work project to the Investment Expert Group, a group of the Trade and Investment Committee, where the agency participates, this project obtained its approval on March 1, 2024.

The objective of this project is to generate voluntary recommendations on the application of good practices to measure and promote the positive impact of quality Foreign Direct Investment (FDI) oriented to physical infrastructure in the sustainable development of APEC economies.

In recent years, the behavior of FDI flows has behaved in a variable way, even though several economies continue to present a post-Covid economic recovery scenario. And for this, the policies for promoting FDI are extremely important.

It is important to bear in mind that FDI contributes significantly to development, including to the achievement of sustainable development goals. It is important to keep in mind that the reason for allocating public resources to the attraction of investments is the potential that FDI holds for promoting productive linkages, transferring technology and energy, and supporting economic growth.

The first part of the document is focused on showing the path that some economies (APEC and non-APEC) have followed to attract and promote FDI. There are several points in common: regarding institutionality, having a regulatory framework that promotes FDI, the existence of an investment promotion agency, implementation of incentives, and identification of prioritized sectors considering less developed areas.

In the second part, the survey carried out to find out how FDI is promoted in infrastructure and analyze its relationship with sustainable development goals. As with the first part, there are coincidences in the responses and mechanisms implemented.

In the third part, a summary was made regarding the workshop called "Best practices aimed at attracting quality FDI and measuring it to promote sustainable development through the execution of physical infrastructure" during the Investment Experts' Group - IEG 2 meetings at the Third Seniors' Official Meeting (August 18-20). This workshop allowed participants to learn about several aspects related to the FDI, also, the presentation of information platforms, the vision of international organizations and the existence of international certifications, as well as the consideration of variables that are closely linked to attracting quality investment to achieve sustainable development.

2. BACKGROUND

1. Investment Services Management (henceforth known as ISM) is the line agency tasked with promoting and facilitating diverse information, orientation and support services to both domestic and foreign investors. Furthermore, ISM works to create an attractive environment for private investors and monitors its efficiency in accordance with their economic plans and integration policy.

2. In the framework of the Asia-Pacific Economic Cooperation (APEC), The Private Investment Promotion Agency – PROINVERSION presented the project “Best practices aimed at attracting quality FDI and measuring it to promote sustainable development through the execution of physical infrastructure” in 2023 to the Investment Experts Group, which is a group of The Committee on Trade and Investment (CTI), and where the agency participates. The development of the project was approved on March 1, 2024.

3. The objective of this project was to generate volunteer recommendations about the application of best practices to measure and promote the positive impact of the foreign direct investment (FDI) oriented towards physical infrastructure in the development of sustainable APEC economies.

4. It consists of a survey to know the objectives (values) prioritized by economies when promoting sustainable development through physical infrastructure. Furthermore, it aims to compile practices and/or methodologies on how to measure this impact. Afterwards, a workshop will discuss the findings of the survey and exchange views on the topic with, have other global references with the purpose to then issue a document with the findings and recommendations of the project (Final Report).

5. On August 18, 2024, the workshop called “Best practices aimed at attracting quality FDI and measuring it to promote sustainable development through the execution of physical infrastructure” was held during the IEG 2 meetings at the Third Seniors’ Official Meeting (August 18-20).

6. This document is structured in the following topics:

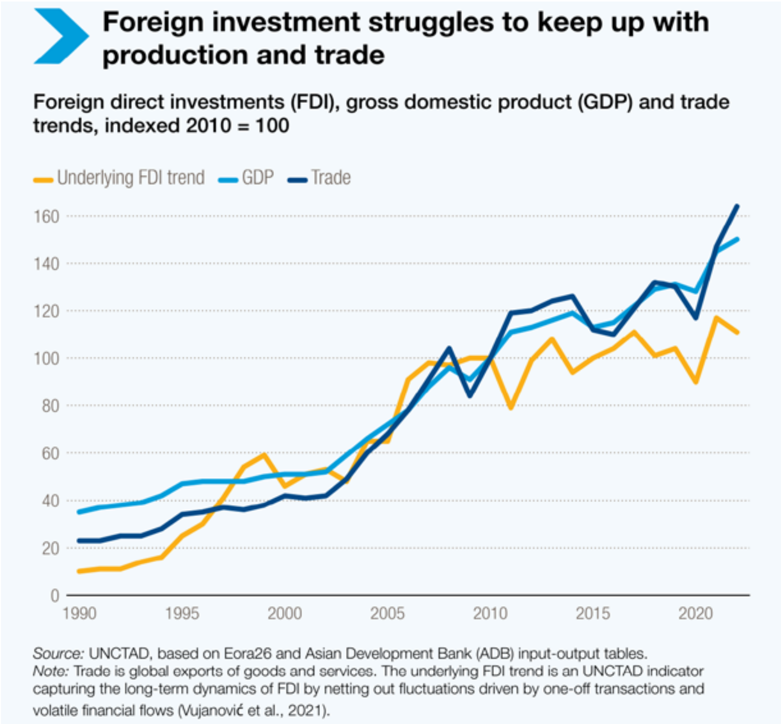
   a. Analysis of the current situation of APEC economies
   b. Survey results and findings
   c. Summary of the exhibits, methodologies and reference indicators presented by the experts of international organizations
   d. Key discussions of the workshop
   e. Best practices, conclusions and recommendations.

3. ANALYSIS OF THE CURRENT SITUATION OF APEC ECONOMIES

7. The United Nations Conference on Trade and Development - UNCTAD[1] report examines the complex landscape of global FDI. This report highlights key FDI trends that have evolved over the past two decades.

8. In the first place, the growth of FDI and global value chains (GVCs) is no longer aligned with GDP and trade growth, indicating a significant shift in the global economy. Since 2010, global GDP and trade have continued to expand at an annual average of 3.4% and 4.2% respectively, even amidst rising trade tensions. By contrast, FDI growth has stagnated near 0%, during rising protectionism, growing geopolitical tensions and increased investor caution.

Illustration 1



Source: UNCTAD (2024a)

9. Recall that in some economies, state intervention has been the main source of investment in SDG-related sectors that ensure access to affordable basic public services. Therefore, to attract additional investment needed to meet the SDG, policymakers should strike a balance between creating a legal framework that encourages investment and protecting the public interest, as well as promoting mechanisms to provide attractive investments for investors while ensuring universal access to services, that mix is necessary. On the one hand, there are measures to attract private investment and, on the other, provisions to complement additional public investments.

[1] UNCTAD (2024a). Global economic fracturing and shifting investment patterns.

Illustration 2 – Developing economies: investment in sectors relevant to the SDG (numbers and percentage)

	2015	2022	2023	Growth, 2015–2023 (%)	Growth, 2022–2023 (%)
Infrastructure[a]	730	945	1,022	40	8
Renewable energy	372	687	655	76	-5
Water, sanitation and hygiene (WASH)	32	36	30	-6	-17
Agrifood systems[b]	368	305	346	-6	13
Health and education	277	317	337	22	6

Source: UNCTAD, based on information from The Financial Times, fDi Markets (www.fdimarkets.com) and Refinitiv.

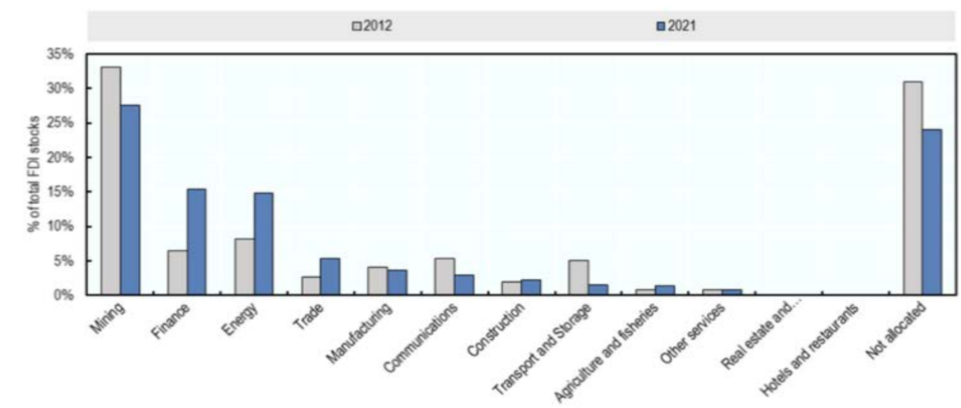
[a] Including transport infrastructure, power generation and distribution (except renewables) and telecommunication.

[b] Including agricultural production and processes; fertilizers, pesticides and other chemicals; research and development; and technology.

Source: UNCTAD (2024b)

10. The OECD[2] conducted a FDI Qualities Review of Chile. One of the most relevant aspects is the chapter on trends and impacts of FDI in Chile. Is the Central Bank of Chile that is responsible for compiling information on FDI. As a first analysis, the main sectors where FDI is concentrated were identified, as shown in the following table.

Illustration 3. Inward FDI stocks by sector



Source: OECD elaboration based on Central Bank of Chile (2022[4]), Foreign Direct Investment, https://www.bcentral.cl/en/home

11. FDI destined to financial services and energy, particularly renewable energy, is increasingly important for Chilean FDI, a significant part of the FDI stocks is called "unallocated" (24% in 2021).

12. Around 13% of FDI comes from Latin America, with Brazil and Colombia being the economies with the highest amounts of investment. Despite regional integration efforts, this is still weak and could be explained by the high costs of intraregional trade due to poor transport and logistics infrastructure, complex non-tariff measures and legal restrictions on trade in services.

[2] OECD (2023), FDI Qualities Review of Chile: Boosting Sustainable Development and Diversification

13. Recent studies are limited to showing an overview of the current situation of the economy without delving into the cause-effect relationships on the quality of investment in infrastructure and its impact on FDI.

14. In reviewing the quality of FDI for Chile, the OECD (2023) highlights the existence of InvestChile, which has evolved over time, and is increasingly focused on technological change and sustainable development. Since its creation in 2016, the agency's main functions and responsibilities are focuses in promoting FDI inflows and thereby contribute to the economic development of national and subnational regions. A main aspect of its mission is the provision of business consulting, information and facilitation services that promote high value-added investment and contribute to the diversification of Chile. During the period 2020-2022, several promotional activities were carried out in the Middle East and Asia regions, with an emphasis on encouraging investment in renewable energy, finance, infrastructure, technology services and agribusiness sectors. The prioritization of low-carbon, technology-intensive and high value-added FDI is reflected in InvestChile's client portfolio.

15. Currently, InvestChile monitors a set of basic key performance indicators (CDIs), mainly related to productivity and job creation, such as the total value of investment and the number of jobs. These indicators are common among OECD APIs: 90% of them use performance indicators in terms of productivity and innovation, and 87% of indicators related to job creation and skills.

16. Some of the available incentives are granted by public institutions such as: the Chilean Economic Development Agency (CORFO), the National Training and Employment Service (SENCE), among others. InvestChile, as the Government's FDI facilitation agency, will assist and guide investors at every step.

    - Investment & Working Capital Guarantees. This program is intended to improve the access and funding conditions for companies developing an investment project or requiring working capital. Guarantees are granted to lending institutions by the Chilean Economic Development Agency (CORFO).

    - VAT exemption. Projects that involve an investment of at least US$ 5 million can apply for a tax credit with regards to imported capital goods.

    - Remote areas: Tax credit and grants for projects in Chile’s northernmost regions of Arica – Parinacota & Tarapacá, as well as the southernmost Chilean zones of Palena Province (Los Lagos Region), Aysén and Magallanes (Chilean Patagonia).

17. Despite InvestChile's efforts, there is still room for improvement attraction and create more incentives to attract FDI to some sectors.

18. Finally, creating an enabling environment for low-carbon investments is a major policy priority for the Chilean government. Chile's long-term goal of generating 100% emission-free electricity and 80% renewable energy by 2050 will require maintaining a fast pace of investment in clean energy. Achieving this objective requires the implementation of targeted policies, especially in sectors where it is difficult to reduce emissions, and the attraction of private investment, including FDI, in emerging industries (e.g. green hydrogen). Thus, the current carbon pricing framework should be revised to raise carbon taxes to levels comparable to international standards and improve their sectoral coverage.

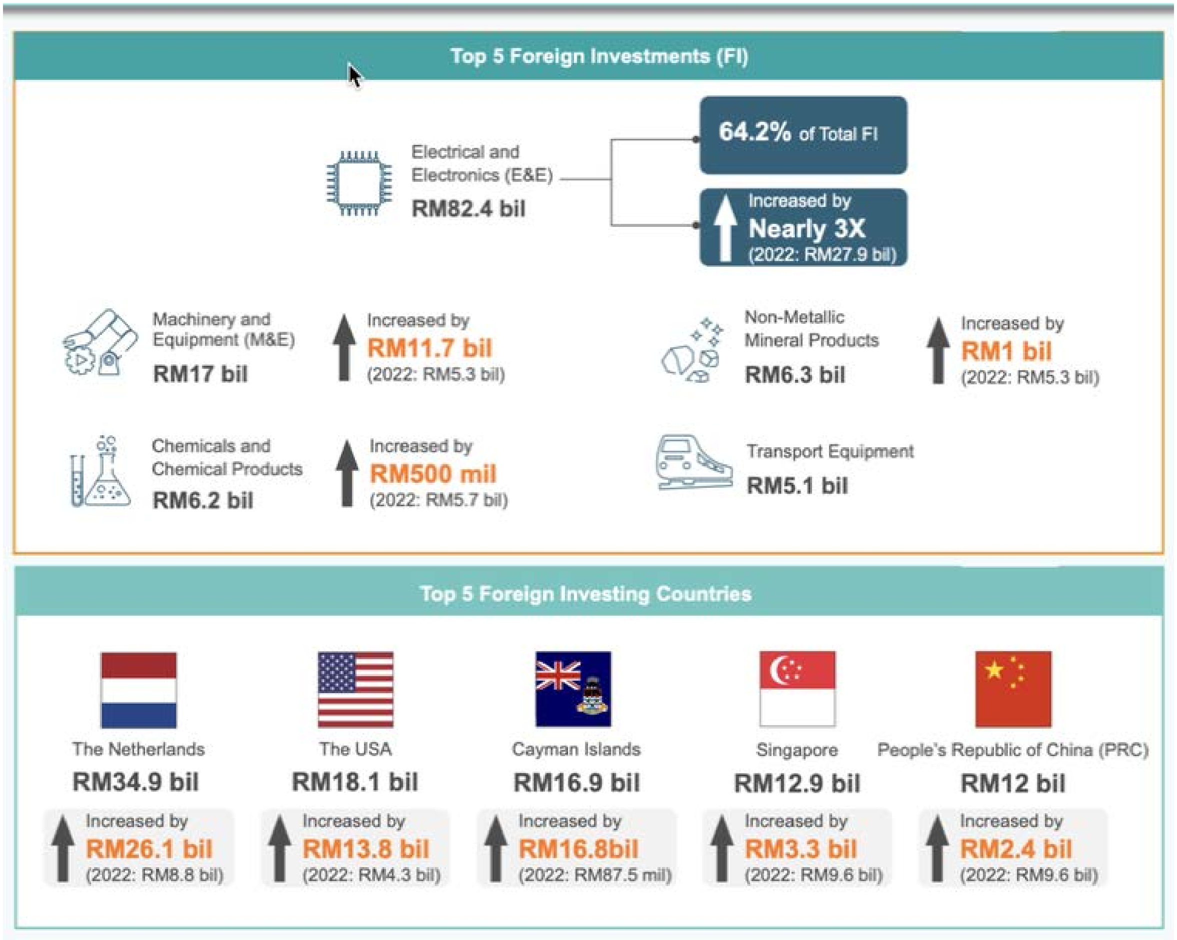
19. Although, Chile is developing its database to be able to analyze the current situation of the FDI, on the other hand, there are a series of measures, which, along with having information for decision-making, aim to promote and attract greater amounts of FDI for the development of its economy. A pending task, for entities such as ECLAC, IDB, UNCTAD, is to be able to find causal relationships between various variables from different sectors and how these affect FDI and the achievement of SDGs.

20. An additional economy that has a detailed compilation of aspects related to FDI is Malaysia. According to the information collected in the survey made in the project, the entity that collects this information is the Malaysian Investment Development Agency (MIDA).

21. The Malaysia Investment Performance Report 2023 (MIDA, 2023) [3] is available on the website. This document makes a statistical compilation not only of FDI flows, but also of domestic investment. As far as FDI is concerned, it collects information from more attractive sectors, as well as the economies with higher FDI amounts.

Illustration 5. TOP 5 Foreign Investments

[3] https://www.mida.gov.my/report/



Source: MIDA (2023).

22. The Electrical and Electronics sectors attract the most FDI, growing by nearly 300% compared to 2022 and representing nearly 64% of total FDI in that economy.

23. The document also presents a lot of information on the subsectors, mainly separated by services and manufacturing, comparisons are also made between domestic investment and FDI for each sector and subsector. However, no additional information has been found from the entity that analyzes the determinants and impact of the quality of infrastructure investment on FDI.

24. Relevant information on sectors and economies that promote FDI is used to produce reports with a comparative analysis of year-on-year developments, but from the review of the MIDA report (2023), a chapter has been found that would explain, in a similar way to the Chilean case, how new FDI investments are encouraged.

25. Guided by five core pillars, the National Investment Aspirations (NIA) serves as a compass for the New Industrial Master Plan (NIMP) and the New Investment Policy (NIP). The Government's confidence in the enacted policies and strategies is unwavering, as they are expected to enhance the investment

ecosystem, drive economic growth, and position Malaysia as a prominent investment destination in the region.

26. MIDA has created a Cost-Benefit Analysis (CBA) with the aim of assessing the potential impact of investments, providing a comprehensive and accurate assessment of the anticipated benefits to Malaysia's economy. This analysis considers the impact of investment on aspects such as capital intensity, added value, job creation, supplier development and collaborations with higher academic institutions. These indicators are used to assess how investments contribute to NIA pillars.

27. Clusters play an essential role in Malaysia's future strategy and remain an important driver for its growth, these clusters bring benefits to the ecosystem, such as the diffusion of key technologies, increased productivity, value creation, the generation of positive economic impacts, and the promotion of regional development and job creation.

28. Recently, Malaysia has launched its New Industrial Master Plan (NIMP) 2030, which charts the economy's industrial transformation from 2023 to 2030. The NIMP is based on four missions: Advancing Economic Complexity, Driving Technology for a Digitally Vibrant Nation, Moving Toward Net Zero, and Protecting Economic Security and Inclusion.

29. Finally, the NIMP is supported by 4 Enablers: mobilize financing ecosystem, foster talent development and attraction, establish best-in-class investor journey for ease of doing business and introduce whole-of-nation governance framework.

30. Costa Rica is a non-member economy of APEC, that has trade agreements with several APEC members. As will be seen below, in section V, Costa Rica has managed to change from being a traditional exporting economy to being a non-traditional exporting economy in almost 90% of the total. This is the result of a series of actions implemented over the last few years.

31. As in previous cases, Costa Rica has a Foreign Trade Promotion Agency called PROCOMER, which serves as the support pillar for the promotion of foreign investments and exports. It´s FDI[4] promotion agency has information about which sectors, how to invest and the benefits to make it.

32. It also has the identification of prioritized sectors such as agriculture, advanced manufacturing (it is the No. 1 exporter of high-tech goods in Latin America), services (digital technologies), semiconductors, health (medical devices) and tourism infrastructure.

[4] https://investincr.com/

33. A series of incentives are also offered to foreign investors such as:

- 100% exemption from customs taxes, both on imports and exports.
- 100% exemption from Value Added Tax (VAT) for local purchases. special social security rates outside the Greater Metropolitan Area (GAM) administrative simplification procedures.
- The Special Regimes are Free Trade Zone, Inward Improvement and Refund of Rights, which seek to show greater competitiveness at the international level and attract foreign direct investment.

34. In summary of this section, several economies have a special agency to promote investments, have an adequate regulatory framework and incentives to attract FDI, and there is information to be able to evaluate the impact of the measures implemented.

4. <u>SURVEY RESULTS</u>

35. This section will present and analyze aspects related to the survey conducted on APEC economies, such as the general characteristics of the survey, summary of the responses, report on the different sections of the survey and, finally, the main findings.

4.1 About the survey

36. The objective of the survey is to gather information on the mechanisms that APEC economies have implemented to promote sustainable infrastructure investments, as well as the practices and methodologies used to measure their impact. The results will serve as a basis for recommendations to promote sustainable development, the positive impact of quality Foreign Direct Investment (FDI), technical capacity building and continuous improvement in APEC economies.

37. The survey developed by the Private Investment Promotion Agency – PROINVERSION of Peru on attracting quality foreign direct investment and measuring it in infrastructure seeks to gather information related to institutional, legal, economic and registration aspects of the FDI through a semi-structured survey (i.e., it has closed and open-ended questions to gather as much information as possible on the mechanisms for attracting, registering and measuring FDI in infrastructure).

38. The survey is directed toward the government entities, ministries, and agencies responsible for promoting investments, registering FDI and overseeing the impact of investments, particularly in the context of sustainable development and infrastructure projects in each APEC Member Economy. It is expected that each contact point will be able to channel the completion of the questionnaire to the responsible officials of each governmental body they consider relevant to consult.

39. To standardize the results and to be able to gather the data for comparative analysis, the survey has been organized into 4 modules:
    - Section 1: "General information"
    - Section 2: "Aspects linked to the promotion and attraction of foreign direct investment" covers institutional aspects, public policies and regulatory framework, registration of foreign investment and linkage with the Sustainable Development Goals (SDGs).
    - Section 3: "Quality Foreign Direct Investment in Infrastructure" examines the instruments for attracting Foreign Direct Investment (FDI) in infrastructure and the principles of quality FDI in infrastructure.
    - Section 4: "Evaluation of the impact of foreign direct investment", focuses on methodological aspects, sources of information and institutions that carry out this type of evaluation.

40. It should be noted that Section 3.5 of the survey adopts some of the principles of quality FDI in Infrastructure established by the G-20 in 2019[5], as referenced by the World Bank in the 2023[6] Annual Report. Six (6) voluntary, non-binding principles have been presented in this forum to provide strategic direction for infrastructure investment. The QII (Quality Infrastructure Investment) Principles are based on the G20 consensus that infrastructure is an important driver of economic well-being, and that well-built, sustainable infrastructure maximizes the positive impacts of these high-value investments.

41. Section 3.5 also links the questions to the 17 Sustainable Development Goals (SDGs) established by UN member states in 2015 in conjunction with NGOs and citizens worldwide, which sought to achieve three dimensions of sustainable development: economic, social and environmental, in a balanced way.

4.2 Survey Summary

42. In relation to the promotion and attraction of Foreign Direct Investment (FDI), the most relevant issues to consider are:

Chile

- InvestChile prioritizes the following economic sectors in its promotional activities: energy, mining, global services, food and circular economy.

- The principal instruments of public policy to promote foreign direct investment (FDI) are legal stability, guarantees, and tax deductions for facets of I&D.

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5 G20 (2019) Osaka Statement G20 Leaders "Principles for Quality Infrastructure Investment (QII Principles)"

6 World Bank (2023) 2023 Annual Report. Quality Infrastructure Investment Partnership. Pag. 2.

Malaysia

- The MIDA, by way of their New Industrial Master Plan 2030, prioritizes the following economic sectors in its promotional activities: electrical and electronic, pharmaceutical, digital economy, aerospace and chemical.

- The principal instruments of public policy to promote foreign direct investment (FDI) are the exoneration of tax on rent and matching grants on a reimbursable basis based on eligible expenditures for training or R&D.
- The FDI is registered and published by MIDA. This entity registers investments from the manufacturing sector through The Industrial Co-ordination Act 1975. Additionally, upon the revision of the MIDA web site, one can also find available information about the primary sector and services, like principal merchants.

- Likewise, MIDA has a report which indicates the creation of jobs that links SDG and FDI.

Hong Kong, China

- The economic sectors prioritized for the promotion and attraction of the FDI are innovation and technology, financial services, family office, fintech, transport and logistic and creative industries.

- The principal instruments of public policy to promote foreign direct investment (FDI) are aspects of taxes and legal stability.

Viet Nam

- The prioritized sectors for the promotion of FDI are: High Tech, renewable energy, semiconductor, high-tech agriculture, electronics, digital economy, innovation – R&D and international finance center.

- The principal instruments to promote FDI are tax, exchange, legal stability, commercial incentives and task force dedicated to large FDI projects.

- According webpage information, It has incentives like lower tax rates for the whole duration of investment term or part thereof; exemption from and reduction of tax rates; import duty exemption for fixed assets; and reduction/exemption of land rental.

- Since 2009, they have a National Information System on FDI.

- Likewise, Viet Nam has a National Strategy on Green Growth 2021-2030 Period, Vision for 2050, the objectives of which are a green, carbon-neutral economy and contributing to the global temperature rise target.

43. Regarding the quality of FDI in infrastructure, the following stand out:

Chile

- To increase economic efficiency keeping in mind the focus on life cycle costs in these projects, the principal best practices with high rates of adoption are optimizing costs at every stage of the cycle of the project and the use of the building information modeling (BIM) methodology.
- The sectors that most use these best practices are transportation, health, and prisons.

- This economy evaluated the FDI contribution in the integration of environmental aspects for the SDG’s diverse aspect achievement. The objectives that generated a high impact in value chain generation were increasing access to safe and accessible transportation systems, cultural heritage protection, urban planning improvement, improvement of diverse environmental aspects (water, air), increasing access to green areas and parks, strengthening planning and land management, and mitigating the effects of climate change.

- The most used best environmental practices are: the development and approval of studies on environmental impact of previous stages, prioritizing the feasibility of obtaining permits and licenses, the measurement of carbon footprints, protection measures for areas with high ecological value, implementing infrastructure to control contamination, management of materials and dangerous waste based on international standards, ecoefficiency measures to reduce energy consumption, use of renewable energy.

- These best practices are principally used in the transportation, health, and prison sectors.

- In the evaluation of FDI contributions in the integration of best practices in social management of projects to achieve diverse SDG aspects, the objectives that had a major impact were increasing access to basic services, bettering the quality of health services, implementing early alert systems, increasing access to potable water, increasing access to sanitary services, and protecting water sources.

Hong Kong, China

- Hong Kong, China has "a dedicated team under Invest Hong Kong for promoting FDI to the infrastructure sector".

Viet Nam

- The sectors with a high level of prioritization for FDI infrastructure are energy, industry and trade.

- The mechanisms to promote FDI are: Public-Private Partnerships (transport) and traditional investment projects (energy, sanitation, health and education).

- Additionally, there are policies oriented towards raising economic efficiency in view of life-cycle cost approaches to FDI in infrastructure projects.
- If it is well-indicated that there are public policy instruments to integrate best practices for the environment, social management and government in FDI infrastructure projects, they do not mention which, nor what the impact is on the achievement of SDG.

44. Most of the economies surveyed do not measure the impact of the quality investment attracted. In the case of Viet Nam, is at the design stage.

4.3 Survey Report

45. In this section, a report will be made of the results obtained from the responses provided to the survey by around 20% of economies. The purpose of this is to identify good practices, current situation, to provide aspects for improvement for the collection of information that can help estimate the impact of investment in infrastructure on FDI. It is important to remember; the survey has been organized into four modules.

General Information

46. In this topic, the surveys were mostly answered by central government entities, except in the case of one, which explained that this type of classification did not apply to its structure as an economy.

47. It is important to highlight that in the case of Chile two institutions are identified: InvestChile, which is the public agency that promotes foreign investment; and the Ministry of Public Works (MOP), an entity that seeks to provide and manage infrastructure works and services for Chile.

    Other institutions with similar roles that we can mention are the Malaysian Investment Development Authority (MIDA), the Ministry of Planning and Investment in Viet Nam among others.

Aspects linked to the promotion and attraction of foreign direct investment

48. First, from the survey responses, it has been identified that all economies have a specialized entity that promotes and attracts foreign investment. This is of utmost importance, given that these specialized entities are responsible for executing the mandates on investment promotion issues within each economy.

49. It is important to recognize whether administrations have a specific legal framework to promote foreign investments, an aspect that is considered by investors when deciding on the destination of their investments, such as priority sectors and incentives.

50. Another question in the survey is related to the sectors prioritized for the promotion and attraction of infrastructure for foreign investment. In this section the answers were quite diverse, but a common point can be found for Asian economies, they strongly encourage activities related to the use of new technologies and those related to the digital economy.

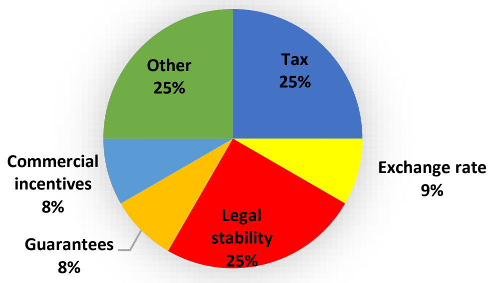
Chart 3. A brief example of economic sectors prioritized for the promotion and attraction of FDI

Economy	Economic sectors
Case 1	Energy, mining, global services and food and circular economy.
Case 2	Innovation, technology, financial services, fintech, family office, transport and logistics, creative industries.
Case 3	Electrical and electronics, pharmaceutical, digital economy, aerospace and chemical.
Case 4	High-tech, high-tech agriculture, electronics, semiconductor, innovation, electronics, renewable energy, digital economy, international finance center.

Self-elaboration using the data of this present survey.

51. In relation to responses related to the public policy instruments used to promote foreign investment, it can be noted that:
    a. The most used mechanisms are taxes, legal stability and others.
    b. The mechanisms described in the others are diverse, we can find tax credits for R&D, grants related to R&D and a task force for FDI projects

Illustration 10. Public policy instruments used to promote FDI



Self-elaboration using the data of this present survey.

52. The last item in this part of the survey is related to the FDI record, all economies responded that there is an entity that carries out the registration. In some cases, it is the same investment promotion entity as Hong Kong, China; Malaysia and Viet Nam, and in other difference as the case of Chile, the collection of information is carried out by another entity.

Chart 4. What methodology does your organization use for FDI registration?

Economy	Answer
Chile	IMF Balance of Payments Manual version 6, BPM6. InvestChile does not keep the FDI records of the economy, the Central Bank of Chile does.
Hong Kong, China	Using an internal computer system database to record FDI projects handled by Invest Hong Kong since 2007.
Malaysia	MIDA register investments in the manufacturing sector in Malaysia under The Industrial Co-ordination Act 1975.
Viet Nam	National Information System on FDI since 2009

Self-elaboration, using the data of this present survey.

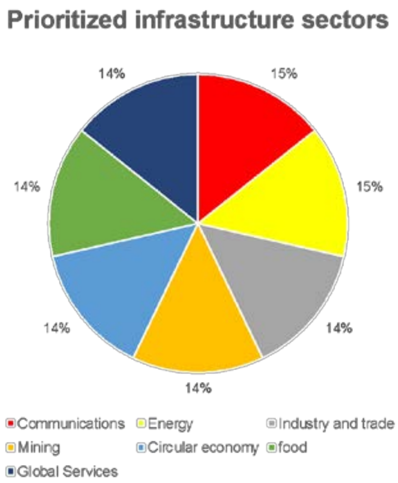
53. An important item to consider is that all the economies surveyed indicate that information on the origin and destination of FDI is collected and available on the web.

Quality Foreign Direct Investment in Infrastructure

54. Half of the responses have FDI promotion policies that help to encourage or attract infrastructure investment to its economy.

55. In the case of Hong Kong, China, there is a dedicated team under Invest Hong Kong for promoting FDI to the infrastructure sector. Unfortunately, they do not have information regarding the percentage of FDI in infrastructure of the total FDI.

56. For Viet Nam, this economy has a Decision No. 667/QD-TTg on approving the strategy for foreign investment cooperation for the period of 2021 – 2030. It was mentioned that FDI in infrastructure represents around 10-15% of the total amount of FDI.



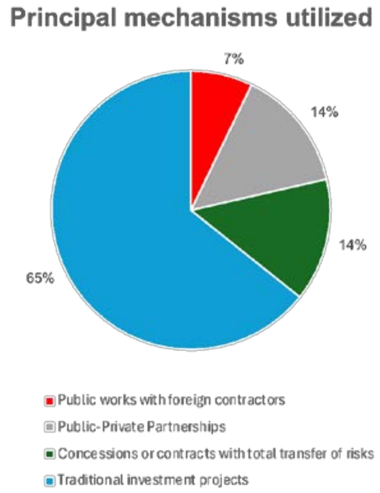
57. Other important information to analyze is the level of priority each organization's economy has assigned to FDI in infrastructure.

58. In the case of Chile, the most prioritized infrastructure sectors are communications, energy, mining, global services, food, and circular economy. Furthermore, the principal mechanisms used to accomplish FDI are public works with foreign contractors (sanitation), public partnership contracts (transport), concession and risk contracts transferred to the private sector (transport, health, and education) and traditional investment projects (communications, energy, sanitation, health and education).

59. In the case of Viet Nam, the sectors prioritized for FDI in infrastructure are energy, industry and trade. The principal mechanisms to promote FDI are: Public-Private Partnerships (transport) and traditional investment projects (energy, sanitation, health and education).

60. In summary, the main prioritized sectors were communications, energy, mining, and the circular economy, with similar amounts. In regard to the main mechanisms employed by the different economies, 65% used traditional investment methods, followed by projects under the Public-Private Partnership mechanism, where the private sector assumes some project risks and the government assumes the rest.

Illustration 12. Principal mechanisms and instruments used



Self-elaboration using the data of this present survey.

61. International advice has been available in the design or choice of methodology. For example. The OECD has contributed to the quality review of FDI. In one case, it is in the design stage of FDI impact assessment.

Evaluation of the impact of FDI

62. 25% of responding economies have methodologies they use in reporting to assess the impact of FDI.

63. Viet Nam has methodologies which they utilize on reports to evaluate the impact of FDI. This economy has received international advice in designing or choosing its methodology by The Organisation for Economic Co-operation and Development - OECD, in the FDI quality review. However, they are in the design stages of FDI impact assessment.

64. International advice has been available in the design or choice of methodology, as mentioned before, OECD has contributed to the quality review of FDI.

4.4 Findings

- Surveys were sent to all APEC economies. About 20% of them sent responses, and 50% accounted for the bulk of the survey.
- All economies that respond to the survey have an entity that promotes and encourages FDI, which allows them to receive more investment in many sectors with an impact on various areas of the population's life.
- Developing a database of FDI, origin and destination, as well as sectors, allows establishing a baseline as a starting point for research, as well as

conducting research on the impact of FDI on infrastructure in the several sectors of the economy.

- Another aspect that should be reviewed in the existing literature is the impact of various variables mentioned in the survey, such as which infrastructure sectors are prioritized, what are the incentives to attract infrastructure investments, the importance of having or not having a National Infrastructure Plan, as well as the contractual forms to promote infrastructure investments.

- Finally, Asian economies are mainly focused on modern sectors of the economy, such as technology, the digital economy, energy and R&D.

5. SUMMARY OF THE SPEAKERS AND METHODOLOGIES, REFERENCE INDICATORS PRESENTED BY EXPERTS FROM INTERNATIONAL ORGANIZATIONS

65. On August 18, the workshop “Best practices aimed at attracting quality FDI and measuring it to promote sustainable development through the execution of physical infrastructure” was held. This meeting took place in the Lima Convention Centre. In attendance were diverse Heads of Delegation, Delegates of APEC Economies, International Organizations, and Stakeholders.

66. The event consisted of six sessions, outlined below:
    - Session 1: Opening remarks.
    - Session 2: Importance of quality FDI and policies to encourage a positive impact on sustainable development.
    - Session 3: Findings on best practices of APEC economies.
    - Session 4: Best practices and initiatives in the inclusion of sustainable development components in infrastructure.
    - Session 5: Pushing forward an agenda of quality FDI and sustainable development.
    - Session 6: Concluding remarks

5.1 Session 2: Importance of quality FDI and policies to encourage a positive impact on sustainable development.

67. This session was hosted by the Investor Services Division Director of The Private Investment Promotion Agency – PROINVERSION.

68. During the presentation, the speaker highlighted the role of FDI in economic development. He emphasized diverse positive aspects of FDI, including:

    - Creation of jobs
    - More competitive economy

- Promotion of higher competence
- Access to new technologies that incentivize innovation
- Modernization and investment in infrastructure
- Promotion of international commerce.

69. Finally, the speaker explained that, due to the existence of investment promotion policies, these are implemented by way of diverse instruments like attractive regulatory frameworks and the promotion of legal stability for investments, fiscal incentives, and financial guarantee mechanisms, and finally, he highlighted the existence of an entity in charge of promoting investments.

70. Finally, he highlighted diverse strategies to attract FDI that was implemented in Peru, and in some cases, PROINVERSIÓN. On the economic level, in 2019,Peru implemented the National Competitiveness and Productivity Plan and National Infrastructure Plan for Competitiveness, and in 2022, the National Plan for Sustainable Infrastructure for Competitiveness was published.

71. On the PROINVERSIÓN level, we highlighted social responsibility initiatives that were implemented in various projects like the port terminals in Paracas and Salaverry, that have effects on health, education, tourism, and improvement on workforce productivity.

5.2 Session 3: Findings on best practices of APEC economies

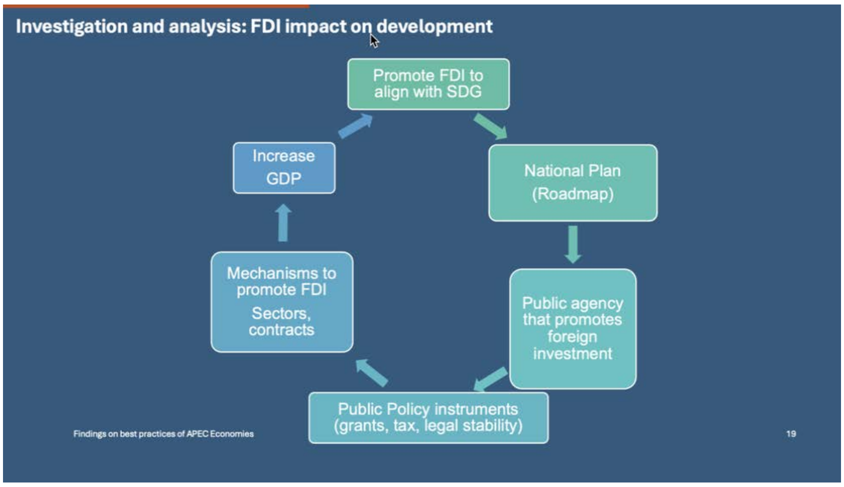
72. The presentation was "*Findings on best practices of APEC economies*". The presentation consisted of, in the first part, a summary of the main results of the survey that was discussed in large part in section 4 of this report.

73. Additionally, the speaker presented findings about the impact of FDI on development.

74. Impact FDI: creation of qualified jobs, the introduction of technology and innovation and better access to international markets. With greater investments in key sectors such as transportation, education, energy, and sanitation, the gap to achieve various SDGs such as 7, 9, and 11 is reduced.

75. Additionally, another important mechanism is how the project is promoted and how the private sector might participate in it: different agreements could involve public works, concession contracts, and public/private association mechanisms, among others. In this way, FDI flow that can attract ends up having a direct impact on GDP and on growth and development.

Illustration 15. Virtuous Circle to Attract FDI



Self elaboration.

76. The next section of the presentation was related to FDI impact oriented towards physical infrastructure. From the literature review, we identified that the main relevant sectors to accomplish SDG were infrastructure (of transportation, electricity generation and distribution, and telecommunications).

77. Upon looking at diverse documents from multilateral entities and researchers, we were able to identify and highlight diverse aspects:

- It is estimated that the introduction of reforms liberalizing FDI restrictions by about 10% as measured by the Index could increase bilateral FDI inward stocks by around 2.1% on average.
- Only having local policies may not be enough to encourage the necessary investments, attracting investment in roads must identify and facilitate the closing of other gaps in sectors such as health, education and work
- Increase coordination for the delivery of infrastructure investments.
- Improve the alignment between infrastructure investment planning and domestic strategies and priorities
- Improve the collection of information and the creation of databases.
- Increase funding and direct support for project preparation to improve infrastructure deployment
- The results indicate that variables related to the efficiency in infrastructure such as roads and railways have a positive impact on the inflows of FDI. Other variables with an important impact on FDI are the quality of human resources, market size as well as educational infrastructure.

78. To conclude this section, one aspect that should be studied is how variables mentioned in the survey have an impact, such as which infrastructure sectors are prioritized, what are the incentives to attract investments in infrastructure,

the importance of having or not having a National Infrastructure Plan, as well as the contractual forms to promote infrastructure investments.

5.3 Session 4: Best practices and initiatives in the inclusion of sustainable development components in infrastructure

79. Sustainable development is on the APEC agenda. For this reason, it's important to recognize all the efforts made towards promoting infrastructure deployment, but with sustainability components. This session was comprised of two panels. The first panel participants included officials from OCDE, IADB, and from the U.S. economy. The second panel participants were representatives of CAF, PROINVERSIÓN, and the Sustainable Infrastructure Foundation.

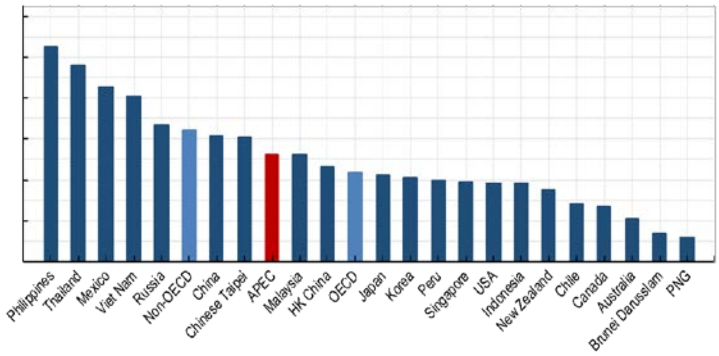
80. The main topic was how FDI can promote sustainable development and, in a similar way, how to accomplish SDG, given the large impact that infrastructure projects can have on economies.

81. OECD representative, presented on this topic. The first part of her presentation highlighted that FDI flows as PBI percentages have shown a slight downwards trend in the past few years on an average level of 2 percent. Notwithstanding, this trend at the APEC economy level is at a 3.5% rate.

82. It was indicated that in the past years, OCDE has created a toolkit to promote sustainable investments. This toolkit, called the FDI Qualities Initiative, has the goal of helping to accomplish SDG to 2030. This set of tools centers on IEd quality indicators, identifying the necessary policies to attract sustainable investments, and has networks to contact domestic and international investors.

83. One of the indicators presented is the quantity of job openings created by new projects. At the level of APEC economies, these indicators reach 2.5 job openings for every 2.5 million USD on greenfield projects. In economies that are more labor-intensive, like the Philippines, Thailand and Mexico, the indicator is greater than 4.

Illustration 16. Jobs per million USD of greenfield FDI (average 2003-23)



Source: OECD based on Financial Times FDI Markets database.

84. One additional indicator is related to energy efficiency, and one can appreciate that, in general, foreign businesses tend to be more efficient than local ones. A possible explanation for this is that foreign businesses have better processes and greater access to technology than their local counterparts. In comparing this indicator between OECD and non-OECD economies, we verified that this breach is smaller in [developed economies], while in developing economies, the difference increases due to less access to digitalization.

85. One indicator we can use as a proxy of FDI effects in digitalization of economies and their implications on sustainable development is the number of transactions performed through digital formats. There are economies that are less digitalized. This variable suggests that economies with increased access to digital tools have a smaller gap than economies where local businesses don't have access to the latest technologies.

86. With respect to how FDI impacts quality infrastructure, on the APEC side, FDI investments are concentrated primarily in manufacturing (50%), infrastructure (30%), and services (10%). Nevertheless, when we focus only on infrastructure from the past several years, a major part of FDI flows are directed towards energy, digital matters, and infrastructure.

87. If we only analyze the concept of energy, we can see that in the past years, FDI was focused on achieving energy transition. Every year, renewable energy achieves a major participation, especially other renewable energies. This helps us accelerate energy mix changes. In addition to highlighting the increase of FDI in renewable energy, this also opens a large quantity of job opportunities in "green" infrastructure.

88. Finally, the OECD session leader highlighted the existence of the Toolkit for investment in support of the digital transition. She highlighted the importance of this toolkit because she is focused on digital infrastructure, which, as we have said before, is a digital infrastructure that attracts increasingly FDI as time goes on. This toolkit will work on the following issues: governance, information & facilitation services, technical & financial support, international agreements & standards and domestic regulation.

89. IADB officer hosted the next workshop. Her session was centered on the importance of solid institutional frameworks and the preparation of sustainable infrastructure funding projects.

90. According to IADB estimates, the annual requirements to close infrastructure gaps in Latin America (LAC) in 2030 is approximately $2200 billion USD, or the equivalent to an annual investment of 3.12% of the region's GDP. The sector with the largest investment demands in order of magnitude are transportation, electricity, clean-up, and communications.

91. Given the relevance of these sectors to reach SDG goals in 2030, it is necessary to attract quality investments. Above all because in Latin America not investing is not an option, as it would have a negative impact on economic growth on the region's economies and on the homes of those in the poorest income quintiles.

92. It is important to mention that LAC is one of the regions with a large public debt, which reached its largest ratio during the COVID-19 pandemic, and which has shown a slight negative trend in the past years.

93. In this context, given the necessity of LAC to attract private, efficient and sustainable participation for the development of infrastructure, IABD proposes the PPP (public-private partnership) mechanism to be used, given that under certain conditions there can be a leverage of responsible investments to implement and better infrastructure.

94. In the following illustration, we can see that until 2014, the principal sources of finance for infrastructure projects were commercial banking (60%) and improved participation from multilateral and investment banks. Since 2015, with better conditions in some of the region's economies, the relevance of commercial banks was reduced by at least half. Nevertheless, other agents such as multilateral and investment banks, private businesses and investments funds for infrastructure have had a large amount of participation (duplicated in various cases).

95. The main challenges identified in attracting FDI to Latin America are the following: uncertain and unfavorable regulations, lack of transparency in project flows and viability in project finances and also elevated transaction costs.

96. According to the IADB document "Towards more sustainable and efficient infrastructure project preparation", project preparation is a bottleneck for attracting sustainable investments to developing economies. In this sense, the document mentions that ignoring aspects of sustainability in infrastructure projects, like the acquisition of terrains, and social and environmental conflicts, has a direct impact on cost overruns.

Illustration 21. Debt providers for infrastructure projects in LAC

Type of agent	2004-2014	2015-2021
Commercial Banks	60.34%	49.70%
National or State Development Banks	19.43%	19.94%
Multilateral Development Banks	8.71%	11.74%
Investment Banks	4.42%	8.97%
Export Credit Agencies	3.72%	2.38%
Private Companies	1.54%	3.06%
Government Agencies/Public Authorities	0.60%	
Investment or Infrastructure Funds	0.46%	1.24%
Construction, Engineer, or Development Companies	0.17%	0.22%
Insurers	0.07%	0.90%
Pension Funds	0.02%	0.05%

Note: For the 2004-2014 period, the assessment considers 99.49% of the sample that was classified. For the 2015-2021, the assessment considers 98.20% of total transactions.

Source: IADB

97. From the Singe Window of the APP, IADB supports regional governments in the development of PPP programs and projects in economic and social infrastructure sectors. Assistance and technical support are focused on two principal areas: upstream and downstream.

98. Regarding upstream, we seek to improve economic capacities to implement PPP that are profitable, fiscally responsible, and sustainable in all aspects, through regulatory reform and training.

99. On the downstream side, we advise the public sector in preparation for those projects focused on the best use of state resources (value for money), to make them attractive to the private sector. To generate "*sustainable PPPs*“ and attract sustainable financing it is an essential requirement to include sustainability components from the early stages of project preparation.

100. Finally, with the PPP Single Window, that can support specific infrastructure projects. To achieve PPP projects that attract FDI, it is important that they not only be sustainable projects, but that they also be financially sustainable. To reach this goal, it is important to incorporate the component of sustainability from the early stages of production.

101. The third presentation was about the Blue Dot Network and the Director Office of Development Finance. This project consists of a global certification for quality infrastructure investments.

102. This certification seeks to give information to investors, for projects to be environmentally and socially sustainable, transparent, and economically sustainable. It is focused on helping to close the infrastructure gap aligned with the SDG.

103. The certification considers various elements from more than eighty international standards from different entities such as the United Nations

(UN), OCDE, IFC, and Sustainable Development Goals, among others. This rigor allows for the Blue Dot Network to focus on ten principal elements.

Illustration 22. Blue Dot Elements

Source: Blue Dot

104. As you can see in the following illustration, Blue Dot's high standards are not limited to reaching international recommendations, but rather to surpass them. In the example, we see a project that seeks to reduce pollution. In an early stage of evaluation, we seek the proposal to comply with international standards.

105. Later, in the second phase, the evaluation seeks to exceed international standards and guarantees that the project will not have negative impacts on air, soil or water quality during its operation. Finally, the certification seeks to make its proposals to be the best of their kind, and in this case, they seek to ensure that the business contributes to ensuring the betterment of the environment.

106. Finally, this type of certification has a series of positive effects on the project, given that it increases its bankability, provides a valuation using clear criteria, supports risk management and improves the availability of information.

107. In another part of this session was presented the SOURCE tool. SOURCE is a global and scalable information technology platform, hosted by the United Nations, acting as a unique delivery system for the world's best practices in infrastructure project development. Its structured data-based approach is designed to strengthen accountability and transparency and support informed decisions that meet local, regional, and global needs.

108. The motivation to start this platform was evidence that many projects don't have a financial end due to the misallocation of risks. For example, in some less-developed regions, investors do not have security within their potential investment projects. So, when they check on the project to do their due

diligence, investors find that the projects were poorly formulated or have misallocated risks.

109. And so, we ask the question: how do we promote FDI? There is a series of tools to apply to projects. To that end, one crucial aspect is digitalization, given that it is a process of data recollection. This has worked well in Asia. Subsequently, once we can count on a database, information can be added for business intelligence.

110. When we compile information for the project cycle, projects end up better formed. This tool serves for consultation of diverse investors from distinct regions.

111. The platform Source covers diverse sectors such as energy, transportation, health, urban services, and sanitation. Each project is tailored to the processes of each economy. Using diverse questions and answers, appropriate risk allocations can be made, and we can verify indicators of such.

112. Source is a platform that offers information and standardized processes. It is not a document management system. It seeks the interoperability of diverse systems in governments as well as in private sectors.

113. On the other hand, CAF - Development Bank of Latin America and the Caribbean official, gave a presentation on "Powershoring: corporate strategy from decarbonization". The speaker explained that powershoring refers to the decentralization of production to economies that offer clean, safe, cheap and abundant energy and close to large consumption centers, in addition to other virtues to attract industrial investments. In other words, powershoring seeks clean economy as an engine for FDI. It is aligned with the SDGs that seek cleaner energy and new production models.

114. The speaker commented that greater relevance to the role of energy will be given in sectors that will change from the traditional matrix and fossil fuels to a green, cheap and abundant one. This will have direct effects on companies such as cost reduction, acceleration of the green model and distribution of clean production to the value chain (standards are required of suppliers). There will be a more affordable green future and more balanced growth in economies.

115. An example was discussed in Brazil. It is an economy with a large supply of water, windy areas, sunny areas, integrated energy systems, a resilient matrix and an abundance of minerals. Likewise, there are challenges such as greater stability, strengthening regulation, having a solid infrastructure for extensive logistics and ensuring temporary proximity to markets.

116. CAF works to finance infrastructure with new energies. There is a lot of pollution caused mainly by mobility systems, which has harmful effects on

people's health. This proposed change does not only imply a change in the energy matrix, but also in sectoral regulation to promote new forms of consumption.

117. To promote these energy transition schemes, LAC has an initiative to sell carbon securities in the private market. CAF structures investment funds and positions the region as an epicenter of clean energy, seeking inclusive and environmentally sustainable globalization.

118. CAF hopes that power shoring will meet the decarbonization and SDG objectives by 2030. In many cases it is necessary to modify the legal framework, which in some cases are barriers for investors, adapt the regulation according to the new energy sources. It is important to remember that energy transition, at the beginning, is costly and can desist from change. Existing rules could be affecting production relocation.

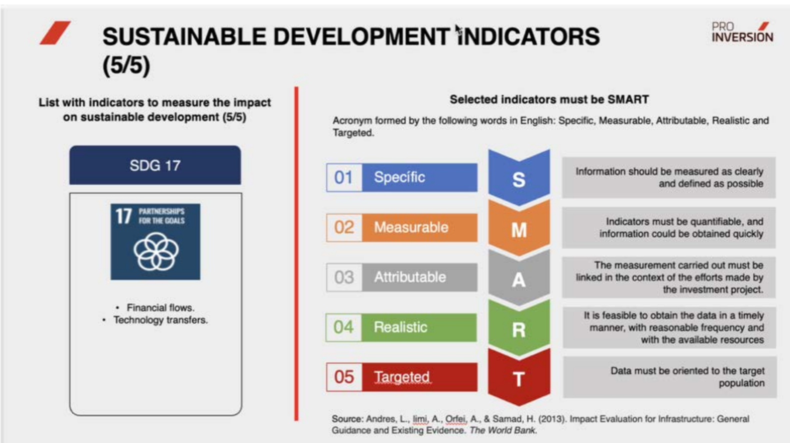
119. Furthermore, a Consultant of the Investor Services Division presented the Impact of infrastructure projects on sustainable development.

120. To carry out this evaluation, it is necessary to consider some issues such as:

- Which projects will be prioritized. Social evaluation is important for prioritizing projects and resources.
- Which have not been evaluated before and are innovative. The impacts are not immediate.
- Timing. When should the evaluation be performed?
- Cause-effect relationship. Revision of the theory.
- Sources of information. Have information, records, beneficiaries, scope of the project.

121. For the evaluation of the impact of projects, indicators related to the SDGs are used and must be selected in a way that is specific, measurable, attributable, realistic and targeted.

Illustration 26 – Risk Allocation



Source: PROINVERSIÓN (2024)

5.4 Session 5: Pushing forward an agenda of quality FDI and sustainable development

122. Sustainable development is not only a concern of governments, but also of the various stakeholders involved in the process of attracting sustainable IDFs. Their active participation and collaboration are essential in shaping an investment landscape that prioritizes long-term economic growth, environmental stewardship, and social inclusion.

123. In the first presentation, the topic was: "Stakeholders driving a quality and sustainable development agenda." Generally, FDI seeks to maximize investment for foreign investors. In recent years, this approach has evolved, also seeking to ensure that it is carried out with technology transfer and respect for human rights, in dialogue with the various stakeholders.

Illustration 27 – Role of Stakeholders

Source: CCSI.

124. From a governmental point of view, several economies resort to the promotion and attraction of FDI for investment in infrastructure, education and health in the search for more balanced and inclusive growth, however, these FDI flows must include environmental, social and governance (ESG) criteria for investors to incorporate standards for the execution of the investment.

125. Such concepts may reflect that, for example, in the cases of Public-Private Partnerships (PPPs) quality FDI can be obtained, along with the Sustainable Development Goals (SDGs), this is obtained by combining private expertise for basic infrastructure and natural resource use. PPPs can be a useful tool for promoting development and overcoming problems that may exist if resources are not well designed, so contracts should best consider the line of risks in their design.

126. Another tool that governments can use is Green Public Procurement (GPP), which enables the integration of procurement strategies that create a competitive environment for sustainable business, attracting FDI in green technologies and renewable energy. This tool encourages the adoption of sustainable practices by the private sector, leading to a broader shift towards sustainability and greatly enhancing the attraction of quality FDI.

127. The private sector is the main source of FDI, its strategies and operations significantly influence the sustainability results of its investments. In this regard, the case of shared-use mining infrastructure, the Carajás corridor in Brazil, was presented, where existing mine infrastructure (such as railway, port and telecommunications) is shared for different purposes, which promotes FDI that develops the area, improves connectivity, economic resilience and social inclusion. To achieve this, it is necessary to have a legal framework that clearly specifies the responsibilities of the different stakeholders.

128. Another case presented was the dismantling of oil and gas infrastructure, in which sub-abandonment may occur, and it must be regulated that adequate maintenance is carried out to avoid causing damage. In this case, the legal framework must have instructions on how these assets are maintained, as it may happen that closing the project is sometimes more costly than operating it. In these cases, infrastructure owners must guarantee mechanisms to manage these legal assets and liabilities.

129. Finally, there is the community and civil society, which are essential for investment projects, as they are the beneficiaries, their inclusion is not only a good practice but a fundamental requirement.

130. Their inclusion ensures that FDI contributes to social equity and addresses the needs and rights of those most affected by investments, as well as community participation, participatory decision-making processes and the inclusion of the rights of Indigenous peoples and local stakeholders in project planning and implementation. Civil society organizations monitor compliance with human rights and environmental standards, advocate transparency and raise awareness of the impacts of FDI on local communities.

131. The second presentation of this session was given by the representatives of Costa Rica, with a presentation entitled “A small economy with a big vision: Costa Rica's path to attract quality FDI”.

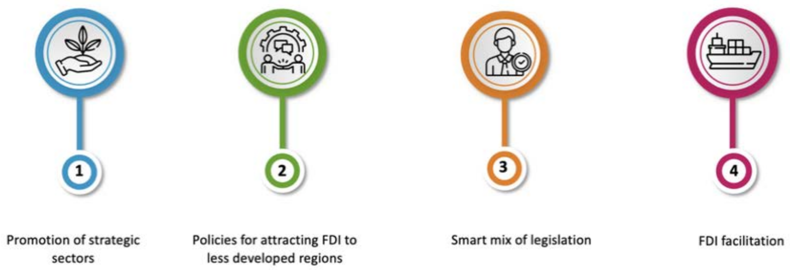
132. The presentation began by highlighting the long democratic tradition and the prioritization of the rule of law, fundamental elements for today's consumer market; In turn, they commented that they achieved a substantial transformation by evolving from a traditional export base (previously 60%) based on raw materials exported to neighboring economies in the Central American region, to a global center of advanced manufacturing and modern

first-class services, which now represent 90% of their exports, this has allowed them to forge sunny alliances with major industries that operate globally from Costa Rica and earn the reputation of being a reliable, safe and environmentally conscious partner that hosts more than 500 multinational companies in different sectors.

133. The representatives stressed that the first step was to generate a clear political consensus that economic development, FDI and sustainability are associated, and then decided that to enhance the positive impacts of FDI, policy actions were required to achieve those results. They focused on the value proposition of attracting investments oriented towards sustainability and well-being, i.e., that such investments not only generate economic benefits but also contribute to sustainable development and social prosperity.

134. To achieve this, Costa Rica implemented a series of actions to attract quality investment through a combination of efforts in four areas: i) the promotion of strategic sectors, ii) policies to attract FDI in less developed regions, iii) an intelligent combination of legislation that at the same time encourages compliance with international standards, and finally, iv) the facilitation of foreign direct investment.

Illustration 28 – Actions for promoting quality



Source: Ministry of Foreign Trade – Costa Rica

i) <u>The promotion of strategic sectors</u>

135. Costa Rica's public policy has focused on attracting investment in strategic sectors that have the potential to generate sustainable development, productivity and social inclusion in different areas. A sector that has been prioritized has been the health sector, this economy has more than 100 companies that operate in 14 different subsectors and has made Costa Rica the first exporter of medical devices per capita in the world, becoming a relevant aspect, because the manufacture of health products not only has positive impacts due to its effects on people's health but also because it promotes technical progress through an intense use of FDI that generates more than 50.000 quality jobs.

136. Another prioritized sector has been advanced manufacturing, which has provided opportunities to increase productivity and innovation thanks to its

intensive use of technology and knowledge, which is why Costa Rica is the leading Latin American exporter of high-tech goods, a good example is the semiconductor industry, which is a sector that has more than 25 years of experience and has earned recognition as a key participant in Latin America. Others Digital Technologies and Corporate Services and Tourism.

ii) Policies to attract FDI in less developed regions

137. Costa Rica has policies in place to attract foreign direct investment in disadvantaged regions. In 2002, a pioneering law was approved that established differentiated incentives to attract more foreign direct investment in less developed areas. The Presidential Council on Foreign Direct Investment was also created for these territories, whose main objective is to effectively solve the obstacles to attract FDI and work on addressing the main challenges such as investment in physical infrastructure and connectivity, which are required. Thus, these efforts are expected to increase the attractiveness of these regions for foreign investors so that the positive impact of these investments reaches more people, generating greater productive chains, more and better jobs, as well as training opportunities.

iii) An intelligent combination of legislation that at the same time encourages compliance with international standards

138. In addition, this economy has an intelligent combination of legislation, as mentioned above, the rules of law and legal certainty are a priority. In that sense, a legal framework was developed that incorporates international standards, in areas such as competition, labor rights, environment, human rights and simplification of processes.

139. Costa Rica has key laws for the promotion of foreign direct investment, such as: “Law on the protection of citizens from excessive administrative requirements and procedures” and “Law on Free Trade Zones”, together with other policies, managed to position Costa Rica as an attractive destination for foreign investors and the world community, contributing to facilitate FDI and at the same time includes international standards, without representing a burden for investment.

iv) Facilitation of foreign direct investment

140. The last area of action is investment facilitation, as a key element in attracting FDI is to improve the business environment and reduce barriers for foreign companies to operate effectively.

141. Costa Rica has several initiatives to facilitate investment, one of which is a legislative framework for administrative simplification to reduce bureaucracy and avoid duplication, which guarantees the right to petition and free access to public agencies. In addition, there is a National Catalogue of Procedures

that provides a list of the requirements and procedures offered by each public entity, as well as an Updated Database of the National System of Legislation.

142. Currently, the Single Window of Investment (VUI in Spanish) is being implemented, which aims to centralize, simplify and digitize the procedures for the creation and operation of companies in Costa Rica, which is in accordance with the World Trade Organization's investment facilitation agreement for development. According to the speakers, Costa Rica has found value in inter-institutional collaboration to improve the competitiveness of regulatory processes, in their simplification and digitalization.

143. Finally, the speakers highlighted the adoption of a holistic approach to attracting quality FDI which generates a virtuous circle in which the economy applies policies to attract and retain quality FDI and in turn increases the flows of this investment. FDI contributes to the sustainable and inclusive development of Costa Rica, the creation of quality employment, the promotion of an efficient and diversified economy, and the growth of disadvantaged regions.

144. The last presentation was related to "The challenge of due diligence in Peru: Towards responsible business conduct based on compliance with Human Rights".

145. In recent years, various treaties, principles and guidelines have been developed with special emphasis on sustainable development and human rights. These guidelines have protected various entities such as OECD, the UN, ILO, FTA, as well as several developed economies. There, lines of action are established for the private sector, but also how economies should act to guarantee the actions of companies.

146. In this way, the objective of economic development and the fulfillment of human rights no longer run in parallel but converge from these regulatory frameworks that we have mentioned in a single strategy that combines both objectives: economic growth on the basis of competitiveness and productivity policies that are necessary to guarantee growth, and at the same time, the fulfillment of human rights that guarantees the sustainability of business activity and that this takes place in a framework of social cohesion and stability, allowing all public and private sectors to benefit in a virtuous way from these processes so that business activity acquires legitimacy.

6. KEY DISCUSSIONS AND CONCLUSIONS OF THE WORKSHOP

147. During the presentations, several discussions were held on topics such as the Public-Private Partnership (PPP) model and project promotion, highlighting the role of investment promotion agencies such as PROINVERSIÓN and INVESTCHILE in attracting FDI from different regions, not only from those with which they have a greater affinity. It is a challenge to

attract FDI from those economies that are more developed, especially in technological and digital issues, to diversify the portfolio of current investors. Furthermore, the aspects that are considered when evaluating corporate companies to bring in foreign investment, such as the preliminary review of completed projects, compliance, corruption, good labor practices, social or environmental conflicts, were also discussed.

148. In the third session, practices to attract investment were considered, it was explained that in Peru there are tax stability agreements to avoid fluctuations that discourage investment, however, the risk that this minimum tax may discourage FDI in less favorable economies is latent. In turn, the effect of having investments in transport and education infrastructure was analyzed, identifying that having them has a positive effect on growth; and, on the contrary, not having adequate physical or digital connectivity affects the attraction of FDI or its impact on economic growth.

149. The fifth session focused on presenting a good practice of attracting quality Foreign Direct Investment, the case of Costa Rica, the criteria for selecting relevant sectors to attract FDI, and whether these included aspects of sustainability. In this case, human talent and social prosperity were prioritized, in the search to connect the value proposition with those sectors where they can have competitive advantages such as tourism, health and digital technology.

150. Likewise, the vision of the economies with respect to investment and the improvement of its regulatory framework and trade chapters was also highlighted, as was the recognition of the importance of the impact of FDI on development and the need to establish public policies with this objective in mind. One of the main challenges is the administrative simplification and digitization of processes to reduce costs. Costa Rica being a small economy, has the challenge of continuing to have the right human talent.

151. Issues such as the implementation of the State Policy and Legal Security were highlighted, as well as specific or general incentives, such as a free zone regime that provides benefits to investors in certain sectors, a new law to attract FDI in coastal and rural areas that provides incentives, differentiated from central areas (historically the most favored by FDI), with a longer period of tax reduction, lower social charges and incentive to the formation of talent. As for legal stability, it is by tradition, it is not a specific agreement, based on the institutional nature of the economy.

7. BEST PRACTICES AND CONCLUSIONS

152. Improving physical infrastructure in a sustainable manner not only attracts FDI but is also a catalyst for more technology, expertise and access to international markets that can drive economic growth in our economies, it can

also lead to the creation of high-quality jobs, reducing unemployment and improving equity.

153. Quality FDI helps develop the physical infrastructure essential to improve the quality of life and grow the economy. Sustainable infrastructure must be resilient and designed for climate change, ensuring its durability and ensuring no damage or failure, as well as minimizing negative environmental impacts by incorporating eco-friendly materials to avoid greenhouse gases, and social considerations that seek to improve access to essential services such as water, sanitation, etc.

154. Regarding the review of the best practices in APEC economies, the results and experience of different approaches used were discussed, highlighting the need to address the challenges of each economy, but with a common goal, which is to contribute to sustainable development.

155. With respect to sustainable development, it was shown how different organizations such as the OECD and the IDB contribute to this objective, as well as the search for alignment with international standards through a certification provided by an entity of recognized prestige (Blue Dot Network).

156. The Source platform explained that it helps ensure that infrastructure projects are aligned with the SDGs, which can be particularly valuable for developing economies looking to attract quality FDI.

157. In terms of the best practices identified, in the case of Costa Rica in attracting quality FDI, we can mention its transversal policy implemented, which has managed to go from 40% of exports of non-traditional products to more than 90% over the years. The policy of identifying strategic sectors, the awareness of identifying less favored regions so that they have a special regulatory framework, and their smart mix legislation are some aspects considered.

158. The generation of platforms that allow standardization of information and adequate risk management for project implementation.

8. RECOMMENDATIONS

1

Generate consensus at all levels and areas that make up the public administration, on the importance of attracting quality foreign direct investment as a vehicle to achieve the development of economies, due to its destination in strategic spaces and areas, which amplify its impact.

It is essential to have the commitment of the main institutions related to implementing and managing the attraction strategy, aligned towards the achievement of this goal, this can be materialized through the creation of a local council in charge of checking up on the issue. As described in this report, it is vital to foster the favorable internal context to start the design of a quality Foreign Direct Investment (FDI) attraction politics and plan.

2
Create a regulatory framework that establishes policies for attracting quality FDI, this will allow ordering the strategy and the actors, specifying, scopes, roles and responsibilities based on the project with a comprehensive vision.

The regulatory framework not only encourages FDI, but also supports entrepreneurial activities in an economy, such as tax regulations that provide beneficial provisions regarding special exemption regimes, zero rates and even non-taxation, which in practice are very relevant, as incentives for entrepreneurship.

3
Identifying sectors helps optimize investment towards areas that require further development in various topics, such as physical infrastructure and gap reduction. These sectors may include infrastructure, renewable energy, technology, among others.

Decentralizing investment is another key aspect, identifying regions in need of development and promoting investment flows with a specific destination.

4
Incentives are linked to priority sectors and regions to encourage the arrival of FDI.

Incentives can cover issues such as Investment & Working Capital Guarantees, taxes, fiscal credits and subsidies for projects in the most remote and least developed regions.

5
An investment promotion agency plays a key role in the whole process of attracting quality FDI.

6
Register and manage information related to quality FDI, through the creation of a database.

Systematization of processes to support administrative simplification.

Generate initiatives to facilitate investment, a legislative framework for administrative simplification to reduce bureaucracy and avoid duplications, which guarantees the right to petition and free access to public agencies in an expeditious manner.

Develop a National Catalogue of Procedures that provides a list of the requirements and procedures offered by each public entity, as well as an Updated Database of the National Legislation System.

Implement a “Single Investment Window”, with the objective of centralizing, simplifying and digitalizing the procedures for the creation and operation of companies.

Inter-institutional collaboration generates value by improving the competitiveness of regulatory processes and by simplifying and digitizing them.

7
With the information stored in the investment establishment, indicators can be designed to measure the impact generated by the investment.

To this end, the collaboration of international organizations that have already been working on implementing methodologies and models can be searched, as has been identified in the project. Some economies have sought collaboration and support to design these indicators and are in this process.

In 2024, Peru's investment promotion agency - PROINVERSIÓN published a guide on this topic entitled "Methodological guide for the assessment of the impact of infrastructure projects on sustainable development"[7].

[7] DT_Lecciones_Aprendidas_Infraestructura_Desarrollo_Sostenible.pdf