



MEASURING IMPACT

KEY PERFORMANCE INDICATORS **IN** **FDI ATTRACTION**

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TABLE OF CONTENTS

1.	Why Report KPIs?	1
1.1.	Why is Monitoring Important?	2
1.2.	Why Now?	3
2.	What are the Most Common KPIs?	5
2.1.	Economic Impact	6
2.1.1.	Direct Effect	6
2.1.2.	Indirect Effect	8
2.2.	Sustainability	10
2.3.	Activity	13
3.	How to Report KPIs?	15
3.1.	Data Availability	17
3.2.	Data Quality	19
4.	Conclusion	23
	References	27
	Appendix: IPA Annual Performance Reports	31



FOREWORD

Investment promotion agencies (IPAs) are under more pressure than ever to generate results. In addition to their core mandate of attracting capital and creating employment, they are increasingly being asked to contribute to a greater number of economic and social objectives, including innovation, digitalization, regional development, inclusiveness, sustainability and talent attraction.

Measuring performance is essential for all IPAs, both for enhancing their strategy and internal operations as well as for communicating their impact to stakeholders. In many cases, the performance indicators that IPAs use have not caught up with the broader set of objectives that IPAs are being asked to achieve. This creates the risk that the value of IPAs (and of attracting investment) is not fully captured and understood.

This study is intended to provide IPAs with practical information and advice to enhance their performance measurement and communication. In addition to a review of frequently used performance indicators, the study offers advice on data collection and analysis and provides examples of best practices in IPA performance evaluation.

IPAs can have a tremendous impact that should not be underappreciated. We hope the study will allow IPAs to enhance their performance measurement and demonstrate the true value they generate for their countries, regions and cities.

ACKNOWLEDGEMENTS

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1

**WHY REPORT
KPIs?**



KEY PERFORMANCE INDICATORS OVERVIEW AND BEST-PRACTICE

1. WHY REPORT KPIS?

Within the last decade, changing perspectives on the role and benefits of foreign direct investment (FDI) have greatly impacted investment promotion agencies (IPAs). Many IPAs have moved away from a rather unconditional to a more selective approach to investment attraction, following the rationale “quality over quantity”. This still ongoing transition brings about many challenges. First, defining “quality” FDI is not an easy task. While academia and the OECD provide extensive analyses on the qualities of FDI, the definition of quality is ultimately subjective.¹ In addition, most qualities of FDI are somewhat elusive and hard to measure. This poses a significant challenge to IPAs, which depend on such measures to identify quality investments and monitor their success at attracting quality investors. The performance measurement aspect seems to have fallen behind so far in the transition. A recent survey among OECD IPAs shows that much of the monitoring is still geared towards the quantity of FDI, focusing on the number of investments and jobs created as key performance indicators (KPIs). Indicators for assessing the quality of FDI are still rare. For instance, only 23 percent of IPAs track their contribution to mitigating climate change, and only seven percent track their effect on gender equality. On average, only 16 percent of IPAs track their contribution to the sustainable development goals (SDGs).²

The aim of this report is to support IPAs in their transition toward assessing their efforts to attract quality FDI by:

- Providing an extensive list of current key performance indicators (KPIs)
- Identifying key problems and pitfalls in performance monitoring
- Presenting best-practice examples
- Recommending solutions to major hurdles in data availability and quality

Our research is based on a thorough review of the academic literature and resources provided by international organizations and the analysis of 51 publicly available performance reports from IPAs worldwide. Additionally, the report was informed by interviews with leading IPAs, their statistical offices, and experts in IPA evaluation.

1.1 WHY IS MONITORING IMPORTANT?

Implementing a monitoring process that recognizes quality FDI is crucial to completing the transition to quality-based FDI attraction. Ideally, each of an IPA's mandates should be associated with at least one measurable objective. This way, IPAs can assess their performance relative to their specific objectives and make necessary adjustments when achievements and objectives do not align. Tracking the achievement of objectives with KPIs can help guide resource allocation and inform strategic decisions. According to the OECD survey, 66 percent of OECD IPAs base their priorities on the previous year's monitoring and evaluation (M&E) results. This makes M&E the most important input to prioritization decisions, ranking even higher than the political agenda.³

1 See for example OECD (2019, 2022b), Kline (2012), Sauvart and Mann (2019), and Dadkhah (2021).

2 Volpe Martincus and Sztajerowska (2021).

3 Volpe Martincus and Sztajerowska (2021)

Sound monitoring holds the IPA accountable to public donors. It provides the IPA with a clear track record of its efforts and accomplishments and attests to the return on investment of public resources. But M&E can accomplish more than just demonstrating cost-effectiveness. Some IPAs do not confine their reporting to their direct achievements but include indicators that measure positive spillover effects on the economy and their contribution to sustainable development goals (SDGs). This allows IPAs to convey a much more comprehensive picture of their economic and societal impact and their value to stakeholders and the public. Beyond that, promoting results can also help to enhance the image of the IPA as a valuable service provider to potential investors.

Tracking progress on selected KPIs can also increase the efficiency of the IPA itself. Having a clear goal to work towards cultivates a results-driven mentality within the organization, and taking stock of annual achievements and acknowledging staff members' performance fosters a good working atmosphere.

Lastly, taking a long-term perspective, a carefully constructed monitoring framework can create opportunities for more sophisticated evaluation analyses. Having detailed data on assisted companies is necessary for almost all econometric analyses. These analyses can help demonstrate value by revealing the indirect economic impact of multinational corporations (MNCs) attracted by the IPA.⁴ They can also identify services that impact investment decisions most and help predict which firms are the most likely to set up an affiliate in the IPA's country.⁵

1.2 WHY NOW?

There are a number of reasons why improving the M&E framework is more important now than it ever was.

Increased public deficits in many countries, coupled with rising interest rates, point to a probable contraction of government spending. Being dependent on public financing, IPAs could be affected by this development and face increasing pressure to demonstrate value. A good monitoring framework can showcase the return on investment of the IPA and contribute to securing public financing during challenging economic times.

Many governments and IPAs are placing greater emphasis on attracting investment that contributes to societal goals, including sustainability (in the broad sense of the sustainable development goals) and innovation. Traditional performance measures that only reflect the "hard" economic impact of FDI are not sufficient to capture these broader objectives and benefits of attracting investment.

Chapter 2 of this report provides an overview of the different KPIs used by IPAs. Chapter 3 discusses the most prevalent problems in monitoring and presents best practice examples.

4 See for example Volpe Martincus, Marra de Artiñano, Sztajerowska, and Carballo (2021).

5 For a detailed discussion, see chapter 3 of this report.



2

**WHAT ARE
THE MOST
COMMON KPIs?**



2. WHAT ARE THE MOST COMMON KPIS?

This chapter provides an overview of the KPI landscape and the types of indicators used by IPAs around the world. Our list is primarily informed by the analysis of 51 performance reports published by IPAs. Additionally, we consulted the OECD and IDB publications on monitoring and evaluation. To structure the discussion, we ordered all KPIs into one of three categories: Economic Impact, Sustainability, and Activity.

2.1 ECONOMIC IMPACT

Traditionally, most KPIs fell into this category. Facilitating FDI and securing jobs and economic development is seen as the core mandate of IPAs. Despite the most recent reorientation towards sustainability and digitalization, IPAs still define fostering innovation, productivity, and high-quality jobs as their most important objectives.⁶

2.1.1 DIRECT EFFECT

Figure 1 depicts the relative frequency of capital- and employment-related KPIs.⁷ According to our sample, the **value of investment** and the **number of investment projects** are among the most reported KPIs. Roughly 63 percent of reports contain the investment value and 53 percent measure the number of investments. It is evident that the total amount of FDI attracted represents an important measure of IPA performance. At the same time, it is well-known that volume alone does not guarantee positive externalities. The academic literature has long established that other factors, like the FDI type, host- and home-country characteristics, and the linkages to the domestic economy moderate the effect of FDI on the host's

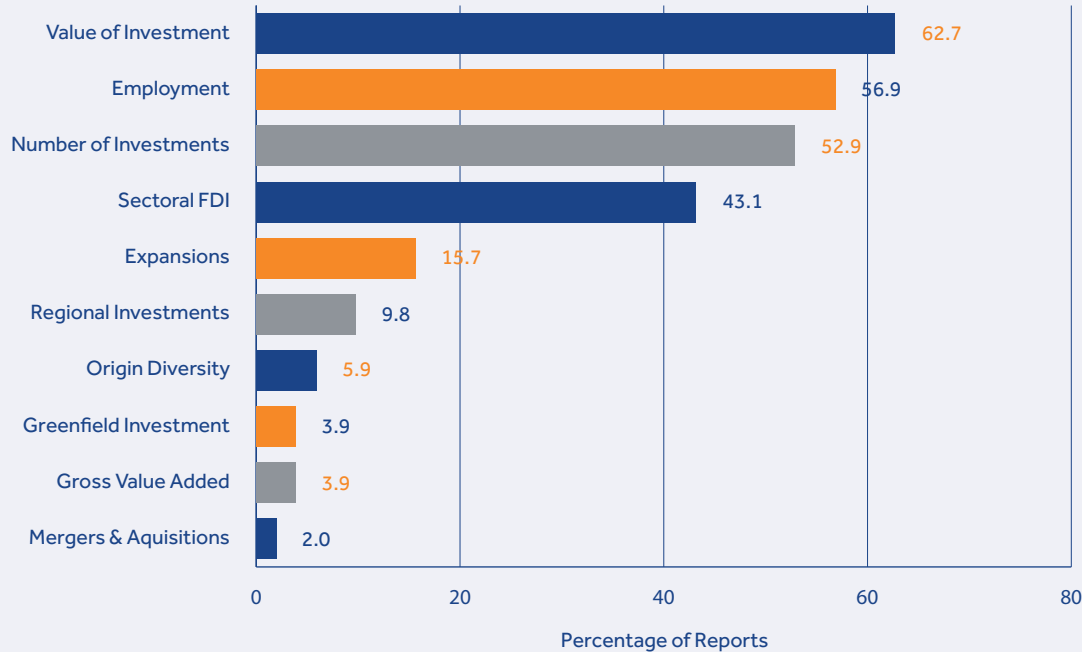
economy. Hence, most IPAs follow a more nuanced approach in their priorities and monitoring.

A common issue with indicators of the value of investments is data validity and accountability. Some IPAs report aggregate FDI inflows for the whole economy instead of the projects they assisted. When screening the performance reports, we found that 47 percent of IPAs that reported data on investment value either reported national aggregates or did not clearly indicate that their data covered assisted firms only.

The **creation of employment** is the second most commonly used KPI. About half of our sample reported this indicator within their performance reports. While IPAs should evaluate themselves on the number of jobs they created, the devil is in the detail. Many IPAs source the employment information directly from companies, usually before the company is even operational. Companies may overstate the employment they plan to create, both for publicity reasons and to obtain greater government support. Not many IPAs follow up on the announced job numbers once the investment has been implemented.

6 De Crombrugge and Moore (2021).

7 See Appendix for a detailed description of the sample.

Figure 1 Key Performance Indicators related to Capital Investment and Employment


Source Own calculations based on 51 publicly available performance reports

As alluded to above, a significant share of IPAs complements their core KPIs with measures tailored to their prioritization. In particular, 43 percent of IPAs break down **FDI flows by sector** as a supplement to reported volumes. According to recent OECD surveys, the most common prioritization criteria are the sectoral and geographic origin of the investment.⁸ While the selection (and granularity) of sector-prioritization differs among IPAs, the manufacturing sector is targeted the most, followed by the information and communications sector and professional services.⁹

Another important aspect of IPAs' mandate to promote economic development is the

regional distribution of investments.

Regional disparities represent a persistent problem in most countries, regardless of their development level. Diverging population dynamics, unequal employment opportunities, and productivity discrepancies are some of the most pressing issues related to the concentration of economic activity in urban areas.¹⁰ In many development strategies, FDI represents an important tool for overcoming these disparities and IPAs can and should take credit for their contribution to higher regional equality.¹¹ It is therefore surprising that the regional distribution of FDI flows is only reported by 10 percent of IPAs.

8 OECD (2018).

9 Volpe Martincus and Sztajerowska (2021).

10 Iammarino, Rodriguez-Pose, and Storper (2019).

11 Iammarino (2018).

From an academic perspective, distinguishing between **greenfield investments and mergers & acquisitions** would also be advisable. Whether the parent company sets up a new affiliate from scratch or takes over a domestic company has important implications for the repercussions within the economy. Some researchers argue that greenfield investments are preferable to mergers since greenfield investments increase the capital stock of a country while mergers & acquisitions merely represent a change in ownership.¹²

Other types of FDI that tend to be overlooked are **expansions and reinvestments**. According to a survey of IPAs by the World Bank, IPAs' efforts are mainly focused on generating new investments rather than retention and aftercare.¹³ In contrast, expansions and reinvestments are surprisingly well covered in our sample of performance reports, with a 16 percent reporting rate. One possible explanation might be the availability of aggregate data on reinvested earnings, which central banks usually provide within the balance of payments.

2.1.2 INDIRECT EFFECT

The true impact of FDI on the local economy can only be assessed by considering indirect effects. The linkages between foreign-owned and domestic companies generate spillover effects which can enhance productivity and economic growth.¹⁴ From that point of view, it is reasonable to foster the development of supply chains involving foreign companies and domestic suppliers. Figure 2 displays the KPIs related to linkages with the domestic economy.

Many IPAs assist investors in identifying domestic suppliers, and in 12 percent of the performance reports, the number of **offered linkages** were showcased. Equally important but less common is the actual number of linkages between foreign and domestic companies. Presumably, data on suppliers is hard to come by because it usually requires regular surveying of companies that were assisted in the past. If such surveys were used, IPAs might also report the **total expenditure** on domestic products and services since monetary measures can be compared to an IPA's budget and hence contribute to demonstrating value.

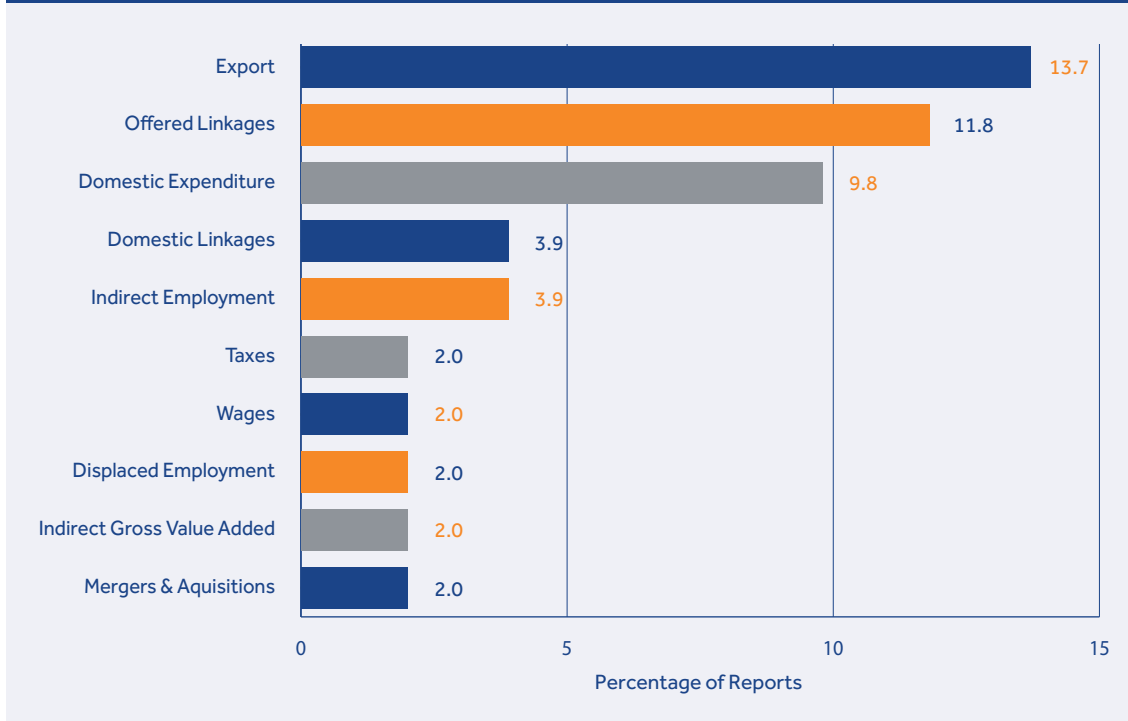
An even more precise approach to measuring the economic gain of domestic companies through incoming investors is the indirect value-added, i.e., the output of domestic companies reduced by the consumed intermediates. In contrast to the total expenditure on domestic products, the indirect value-added indicates the revenue and wages that are eventually generated due to the expenditure of foreign companies. The major difficulty lies in the estimation of this metric. To our knowledge, Aderly in France is the only subnational IPA to report this measure.¹⁵

12 See Calderón, Loayza, and Servén (2004), Harms and Méon (2018), Wang and Wong (2009), and Ashraf, Herzer, and Nunnenkamp (2016).

13 Heilbron and Aranda-Larrey (2017), and OECD (2018).

14 Blomström and Kokko (1998).

15 Aderly (2021).

Figure 2: Key Performance Indicators related to Linkages


Source Own calculations based on 51 publicly available performance reports

The direct employees an MNC hires is just one of multiple ways the company affects national employment. For instance, there could be **indirect effects on employment** up the supply chain through increasing demand. Similarly, increased competition could cause a **displacement of employees** among domestic competitors. Academic research has found evidence of both effects.¹⁶ IPAs rarely publish information on these effects. These indicators require detailed data on the expenditure profile, economic linkages, and sound econometric methodology.¹⁷ Yet, the merit might be worth the effort. Aderly conducted a study with an external consultancy, which

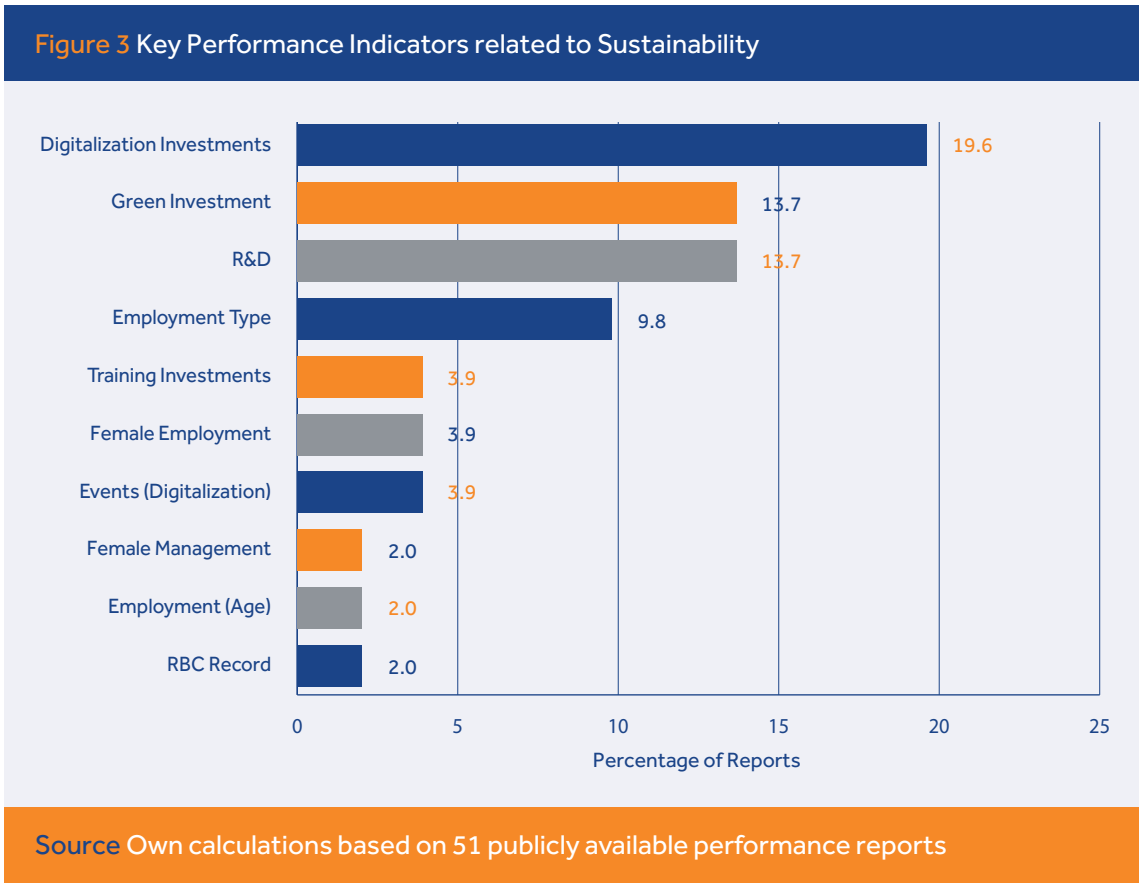
estimates that for every job created through a foreign company, 2.5 jobs are sustained in French companies – a remarkable testament to the IPAs positive effect on the economy.¹⁸

Data on linkages require some effort to obtain. However, once this hurdle is overcome, these indicators allow for better monitoring of the IPAs performance and improve the grounds for impact evaluation. For instance, CINDE in Costa Rica regularly collaborates with researchers to empirically evaluate its performance and impact on the economy. One of the latest studies finds that domestic companies increase their employment and

16 See Saurav, Liu, and Sinha (2020) for a literature review.

17 The subnational IPA London & Partners has implemented a feasible and straight forward approach to measuring displacement effects. We present their methodology in chapter 3 of this report.

18 Aderly (2021).



productivity after starting to supply an MNC.¹⁹ Another study evaluated the impact of CINDE's services on international investors' entry decisions and identified which services most effectively attract foreign investors.²⁰ These results help CINDE to allocate its resources more efficiently.

2.2 SUSTAINABILITY

With the development of the SDGs, policymakers and IPAs alike started implementing sustainability concepts into their strategy. Following the nomenclature of the SDGs, most IPAs contribute to decent

work and economic growth (Goal 8), industry, innovation and infrastructure (Goal 9), and affordable and clean energy (Goal 7). However, incorporating SDGs into the monitoring framework still challenges many IPAs.²¹ According to the OECD, on average, only 16 percent of OECD IPAs measure and report their contribution to SDGs. For some, like gender equality (Goal 5), the reporting rate is below five percent.²²

19 Alfaro-Ureña, Manelici, and Vasquez (2022).
 20 Carballo, de Artinano, and Volpe Martincus (2021).
 21 Volpe Martincus and Sztajerowska (2021).
 22 Sztajerowska (2019).

Figure 3 displays the sustainability-related KPIs we found in the performance reports of 51 IPAs. The relative frequency of the different KPIs matches the survey results of the OECD. Indicators related to innovation and clean energy take the first spots in terms of frequency. While still relatively rare, **investments in digitalization, green technology**, and R&D are the most common sustainability-related KPIs.

Far less common are KPIs related to foreign companies' **training and education efforts**, presumably due to a lack of available data. Yet, these investments are highly important for measuring the impact of MNCs on the productivity of domestic companies, as training investments represent an essential precondition for knowledge spillovers.²³ Trained individuals might switch to domestic companies or start a company themselves. Hence, training investments are likely to increase domestic productivity over time.

Like training investments, the progress towards gender equality is only rarely tracked. The share of **female employment** and the share of **female management positions** are among the most seldomly reported KPIs. Presumably, there are multiple reasons for this. For one, detailed data on employment is fairly difficult to obtain, and IPAs reporting these indicators have strategic partnerships with other governmental institutions or invest in surveying clients.²⁴ Also, not many IPAs might commit to working towards gender equality in the first place. According to the OECD survey, roughly 23 percent of OECD IPAs report contributing to Goal 5.²⁵ Yet, the academic literature suggests working toward gender equality is not only socially desirable

but can also have significant positive effects on economic growth.²⁶ Similarly, few IPAs report the age diversity of employees in attracted companies. Here again, the benefits possibly go beyond mere social inclusiveness, as academia suggests that a diverse age composition of employees can increase a company's productivity.²⁷

Overall, the reported KPIs cover only a fraction of the many aspects that constitute a "sustainable" investment. IPAs predominantly focus on a handful of SDGs and cover only certain aspects. For example, while tracking the number of investments into renewable energy is one approach to facilitating a greener economy, it ignores the environmental impact of other attracted foreign companies. On another note, SDG 8 "decent work" constitutes more than full-time employment and the average salary.

The absence of more detailed KPIs on sustainability probably has multiple reasons. First, IPAs only have limited resources and focusing on all 17 SDGs at once may not be feasible. Further, it might be difficult to translate some SDGs into measurable indicators or to obtain the necessary data.

A recent ESCAP working paper discusses how project proposals can be evaluated according to sustainability concepts.²⁸ Some of the proposed metrics could also be integrated as KPIs into the monitoring framework. For instance, the **number of workers provided with health care** insurance within their contracts or the recognition of **ILO labor standards**. Some IPAs already report similar indicators: IDA Ireland tracks the share of businesses that follow a **corporate social responsibility agenda**.²⁹

23 Rojec and Knell (2018).

24 See chapter 3 for best-practice examples.

25 Volpe Martincus and Sztajerowska (2021).

26 See Cuberes and Teignier (2014) for a review.

27 Wegge, Roth, Neubach, Schmidt, and Kanfer (2008).

28 Dadkhah (2021).

29 IDA Ireland (2020).

Box 1 Scottish Development International (SDI)

With the implementation of Scotland's Inward Investment Plan 2020, SDI's monitoring was recalibrated to account for direct and wider spillover effects.³² Among other KPIs, SDI tracks the number of R&D investments and the number of jobs that support fair work, i.e., pay a high enough wage to make a living. This box introduces two innovative approaches that SDI uses to measure the environmental impact of its client companies.

SDI tracks how many **green jobs** each client firm creates. These are defined as jobs in businesses that produce goods or provide services that benefit the environment or conserve natural resources or jobs in which workers' duties involve making their establishment's production processes more environmentally friendly.

SDI also calculates **CO₂ emission savings** per client company. It employs a team of nine environmental specialists that assess the cumulated tonnage of CO₂ savings in any company assisted or project supported by SDI. CO₂ savings might accrue from improved resource or process efficiency, the installation of onsite renewable energy

generation, or the production of a technology product that will decrease emissions when consumed. In particular the latter is an interesting expansion of the usual approach to measuring GHG emissions, as it accredits emission savings to the technology's inventor instead of its applicants.

A recent example of a green investor who received SDI support is Royal DSM, a health, nutrition and bioscience company. DSM plans to increase its production capacity for its novel methane-reducing feed additive, Bovaer®, in Glasgow. Since methane is 80 times more potent at warming than carbon dioxide, this product can significantly impact GHG emissions and climate change. Following the SDI methodology, the approximate equivalent CO₂ savings are attributed to DSM in Scotland and not to the dairy producers using the product.

32 Scottish Government (2020).

A good addition to the environmental KPIs could be Greenhouse Gas **(GHG) emissions or waste production** per output unit. Firm-level data for GHG emissions can be purchased from several data providers.³⁰ Where this approach is not feasible, industry aggregates could be a solution. For example,

GHG emissions and waste production by sector are freely available for OECD countries, and a higher coverage can be obtained using subscription data from the IEA.³¹ Yet another approach to obtaining data on GHG emissions is demonstrated by Scottish Development International (SDI), which is described in Box 1.

30 These include Bloomberg, CDP, ISS Ethix, MSCI, Sustainalytics, Thomson Reuters, and Trucost. See Busch, Johnson, and Pioch (2022) for a comparison between the them.

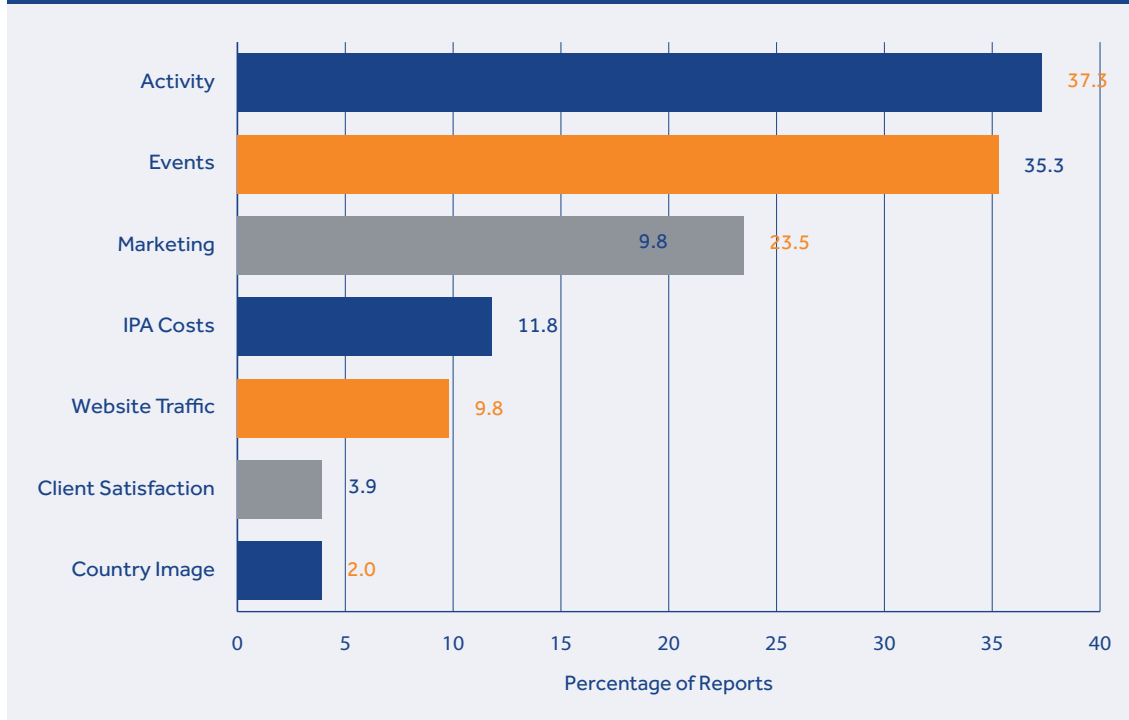
31 OECD (2022a), IEA (2021).

2.3 ACTIVITY

The last category we consider contains activity-related KPIs. We pooled all KPIs in this category that are related to services and

activities performed by the IPA. Additionally, we included indicators on feedback which directly refers to the activities of IPAs.

Figure 4 Key Performance Indicators related to Activity



Source Own calculations based on 51 publicly available performance reports

Figure 4 shows that activity reporting is an essential part of performance reporting for IPAs worldwide. In our analysis, **Activity** includes, for example, the number of **services provided**, the number of **inquiries answered**, or the number of **events participated** in. We found such metrics in one-third of all reports, making them the fifth most common type of performance indicator. As some activities were reported more frequently, we decided to list them separately. In particular, the number of events hosted was present in 35

percent of performance reports. Similarly, marketing activities like media posts, tweets, press interviews, and press article appearances were included in roughly one quarter of reports.

The above statistics reveal that activity-based monitoring is essential to IPA performance reporting. In line with the findings of the OECD surveys, we find that some IPAs tend to focus more on activity-based monitoring and evaluation than others.³³ However, a high

33 OECD (2018).

activity score alone does not necessarily indicate a successful performance. As with investments, the quality over quantity notion should be applied. Against this backdrop, some IPAs complement the reporting of activities with actual outcome variables. A significant share of IPAs uses **website traffic** as an indicator of successful marketing. Less common outcome-related indicators are **client satisfaction, country image** and **conversion rates**. Presumably, the underreporting of these three indicators does not stem from the lack of data or the disregard of IPAs, but simply the decision not to report these measures. In fact, OECD surveys suggest that client satisfaction is one of the most important inputs to service evaluation, with 66 percent of OECD IPAs factoring this into their results.³⁴

34 OECD (2018).

3

**HOW TO
REPORT KPIs?**



3. HOW TO REPORT KPIS?

The previous chapter has provided a detailed overview of the KPIs used by IPAs. In this chapter, we provide guidelines on selecting KPIs to be included in the M&E framework and then present limiting factors and best-practice examples to overcome them. In our analysis of performance reports, we distinguished between 36 KPI groups. While including more KPIs into the M&E framework can lead to more efficient and target-oriented services, including all 36 of them might be excessive. That raises the question, which KPI should be adopted and which not?

According to the 2022 Handbook on Policies, Promotion and Facilitation of Foreign Direct Investment, a good organizational practice would be to design the monitoring framework with the intended results and eventual evaluation plans in mind.³⁵ The selected KPIs should first and foremost reflect the targets the IPA wants to achieve. In particular, each goal should be accompanied by at least one KPI. If the translation of the target into a measurable indicator proves to be difficult, a combination of indicators should be used. The OECD further suggests synchronizing the KPIs used for monitoring with the indicators used for prioritization, which reduces data requirements and makes the monitoring process more transparent. Secondly, the selected KPIs should also reflect evaluation plans since a good monitoring framework is a precondition for evaluation. Depending on the evaluation design and purpose, data requirements will differ. For example, an econometric evaluation of offered services requires detailed data on clients, services and potential investors. In contrast, an impact evaluation of spillover effects requires data on linkages and expenditures of already settled companies.³⁶ Ideally, these measures should be collected

well in advance of the planned evaluation, since a sufficiently large sample helps to control for unobserved influences and increases the precision of estimates.

Not all indicators are equally well suited to be KPIs, and the ease of data collection alone should not influence the selection of indicators. Generally, good performance indicators can be identified following the "CREAM" selection criteria:³⁷

- **C**lear: Indicators should be clear and unambiguous.
- **R**elevant: Indicators should be related as directly as possible to the desired outcome.
- **E**conomic: Indicators should be feasible. Costs and benefits should be balanced.
- **A**dequate: Indicators should provide a sufficient basis to assess the performance.
- **M**onitorable: Indicators should be independently verifiable.

In our analysis of performance reports, we found that most KPIs fulfil the requirements of **clarity** since they usually are numerical, implying a certain precision. That said, some KPIs lack a universal definition and are difficult to compare and benchmark against other IPAs' results. A prime example of this issue is the reported number of employment. Some IPAs report three-year estimates, others current year estimates or cumulative employment. The definitions behind KPIs should be carefully picked, as they determine the overall data quality and avoid measurement errors. For instance, the Irish Department of Business, Enterprise, and Innovation is currently revising its definition of "assisted companies" to synchronize how IDA Ireland and its sister agencies define their client group in evaluation studies.

35 ESCAP (2022).

36 See Sztajerowska (2019) for the prerequisites of evaluation.

37 Zall Kusek and Rist (2013).

Relevancy refers to the direct translation of goals into measurable KPIs and is best explained by an example. An IPA whose goal is to establish a green economy might track its progress using two KPIs. Investments into renewable energies could be tracked as an output variable, and aggregated GHG emissions could be tracked as an outcome variable. The latter is more relevant to the goal, yet the former is more feasible and makes it easier to hold the IPA accountable.³⁸ IPAs must strike a balance between feasible output and more relevant outcome indicators. For example, CINDE follows a set of nine primary KPIs to monitor its efforts and allocate resources but also tracks more than a dozen secondary KPIs on its sustainability goals. Similarly, IDA Ireland loosely distinguishes between KPIs and supporting measures based on their importance for stakeholders.

Presumably, the **economics** of KPIs pose a more significant hurdle to adopting specific measures. Many of the more sophisticated KPIs require cost-intensive data collection or engaging third-party service providers and might not be used by some IPAs for that reason. Looking at the relative frequencies of KPIs in performance reports, measures related to wider spillover effects on the economy or requiring detailed firm-level data on employment are extremely rare.

The **adequacy** refers to the suitability of a measure as a basis for operational and strategic decisions. This requires the measure to be directly connected to the efforts of the IPA and not influenced by other factors. For example, using aggregate data on FDI inflows as a KPI might suffice regarding clarity, relevance and economics. Still, it is not necessarily sufficiently related to the IPAs actions, depending on how much of the inflow can be attributed to the IPA.

Another major issue of many KPIs is their **monitorability**. This criterion requires the

indicators to be valid and reliable. The former implies that the indicator precisely measures what it claims to measure. The latter is fulfilled if the data collection delivers the same results when executed independently under the same circumstances. Since most of the data IPAs use to construct their KPIs is directly sourced from the assisted companies, KPIs are potentially flawed with biases. For instance, the companies may be incentivized to overstate their employment expectations, especially when doing so increases the chances of government support.

Overall, most KPIs fulfil the criteria of clarity, relevance and adequacy. However, the economic feasibility and monitorability criteria pose significant problems. In the following subchapter, we investigate how leading IPAs obtain relevant data for KPIs and whether there are cost-effective approaches to make such KPIs feasible for other IPAs as well. Additionally, we discuss ways to improve the data quality.

3.1 DATA AVAILABILITY

Data availability is one of the most prevalent issues we came across during our research. The following points present possible ways to enhance the data available for monitoring and evaluation:

- **Surveying:** While surveying allows IPAs to gather precisely the data they need, it is usually a time-consuming and costly process. Partnering with other governmental organizations could be possible, as they might share an interest in engaging with foreign companies and be willing to contribute to the data collection. A prime example of professionally conducted surveys is Ireland, where IDA Ireland collaborates with the Department for Enterprise, Trade and Employment (DETE) to collect data from foreign companies (see Box 2 below).

38 Schiavo-Campo (1999).



- **Partnerships:** Forming partnerships with governmental organizations that can provide the needed data is probably the quickest way to obtain verified data. However, in most countries, strict data security policies forbid the disclosure of firm-level data. The Costa Rican IPA CINDE has been able to form partnerships that allow it to base its reporting on official data from the social security agency and the Costa Rican central bank (see Box 3).
- **Using aggregates as proxies:** When neither option is feasible or delivers the data needed, using sector aggregates instead of firm-level data could be a solution. Especially for indicators capturing sustainable investments, statistics of the origin country on the sector level could be used as a proxy for firm-level data.

Box 2 IDA Ireland

IDA Ireland is among the few IPAs that report extensively about their annual progress and contribution to the SDGs. IDA Ireland stands out in this regard, as they cover (i) the number of jobs, employment type and female employment, (ii) detailed data on companies' expenditure, including salaries and domestically sourced inputs, and (iii) the performance of assisted companies in sales, exporting, and the value-added.

Such extensive reporting is made possible by the Department of Enterprise, Trade and Employment (DETE) and its efforts to evaluate the impact of its agencies on the Irish economy. Most of the data reported in IDA Ireland's annual report is sourced from two surveys, the Annual Employment Survey (AES) and the Annual Business Survey of Economic Impact (ABSEI).

Both are conducted over four months each year. A committee of representatives of different government bodies and partner agencies reviews the previous surveying process and adjusts data needs. Online questionnaires are disseminated by a research contractor, who handles inquiries, follows up on non-respondents, and prepares the output tables following the survey. In total, 4,200 companies are surveyed for the ABSEI, while 7,000 companies are contacted to complete the AES. Due to the close partnership between the surveyed companies and the agencies,

the response rate is far higher than usual: 65 percent of companies report data to the ABSEI and over 70 percent report to the AES. Data quality is ensured through a multi-step procedure, which includes a thorough line-by-line checking of the microdata, formal reviews, and the supervision of a trained statistical coordinator. Additionally, the contractor performs statistical methods to detect abrupt changes in the time series. The methodology is constantly revised and improved upon by the dedicated evaluation unit of DETE with the support of the Central Statistics Office.³⁹

Conducting such large-scale surveys is costly. The services of the contractor alone amount to roughly 170,000 Euros per year, and that does not include the work put in by the steering committee, the agencies which conduct the extensive line-by-line validation check, and the dedicated evaluation unit of DETE, which is constantly improving the methodology behind both surveys. However, the benefits of having such data go far beyond the detailed monitoring and evaluation of IDA Ireland and its partner agencies. DETE uses the surveys to collaborate with researchers and universities to conduct evaluation studies of all kinds of government support programs. Therefore, the data has a strong influence on Ireland's economic policy.

39 DETE (2022).

Box 3 CINDE

The Costa Rican IPA CINDE has been recognized as one of the most successful IPAs for several years. Besides its services, its reporting stands out as well. CINDE reports data on employment by sector, gender and age and the precise capital flow attached to all investment projects.

In contrast to IDA Ireland, CINDE gathers information on its client companies through partnerships with governmental institutions. In particular, CINDE collaborates with the Costa Rican social security agency, which provides detailed and verified data on the employees of companies supported by CINDE. Another important partner is the central bank of Costa Rica, which provides information on the exact FDI in- and outflows of client companies.

To comply with data security policies, CINDE receives only anonymized data for companies it supported. Using firm identifiers instead of company names, Costa Rica's social security agency maintains the privacy of each company, while still providing CINDE with the detailed employment data. DEFE in Ireland is currently working on a similar solution to make governmental data available to its agencies for cross-validation.

When approaching governmental organizations with a request for data, it can be helpful to lay out the benefits the data would have for the IPA and for the governmental organization itself. CINDE proposed joint research projects that could be carried out using the data and eventually formed research partnerships with its institutional partners. The Costa Rican central bank and CINDE evaluated the impact of backward linkages of MNCs attracted by CINDE. They found that these firms source at least 58 percent more inputs locally than domestic firms and thus indirectly create 41 jobs at their suppliers for every 100 of their own employees. Such figures are a significant demonstration of the value CINDE brings to Costa Rica.

But there is more use to the econometric analyses than demonstrating value. They also inform management decisions and help improve the efficiency of CINDE. In another joint research project, the IDB analyzed, among other things, which services provided by CINDE have the most significant impact on the investors' entry decision. This information helps CINDE better allocate its resources and ultimately increase its conversion rates.

3.2 DATA QUALITY

A second issue inherent to most of the data sourced directly from client companies is data quality. In particular, this regards the validity of employment data and FDI values. Many IPAs collect these data before the actual investment project is carried out. Therefore, values for these indicators are mostly based on projections made by the client company. This causes a potential conflict of interest: the client might be tempted to report a somewhat optimistic projection of investment

value and job creation, especially when the outcome determines the level of IPA or government support. The following are a few ways to combat this bias:

- **Ex-post data validation:** Some IPAs contact their clients after the investment has been set up. In this case, the response bias is clearly reduced since the investment officer is not asking for the *projected number of jobs* but the *actual number of employees*. While this procedure might deliver more accurate results, it also has



some disadvantages. First, it does not help monitor the IPA's performance in a given year since the validated information is received much later. Second, getting in touch with former clients is another task that consumes valuable resources. While it could be combined with aftercare activities, some IPAs have decided to outsource this task to an external contractor. Third, since the investment is already carried out, some clients might have lost interest in cooperating with the IPA. This would lead to a reduced response rate, a necessity for chasing non-respondents, and higher data collection costs.

- **Cross-validation using official data:** As described in the previous chapter, data from other governmental institutions can be very useful to any monitoring and evaluation framework. In most countries, data privacy and security regulations are restricting factors, which explains why only a few IPAs use official data for cross-validation.⁴⁰ While the central banks or social security agencies might not consent to disclose data on individual firms, they might be willing to provide sector aggregates for client firms that can support the IPA's performance measures.
- **Discount rates:** The two previously presented approaches to higher data quality come with restrictions. Surveying clients ex-post is costly, and obtaining data from governmental agencies is usually restricted by data policies. A practical solution could be to validate just a sub-sample of clients and use that information to apply a discount factor to the aggregate data. Doing so could reduce surveying costs significantly, especially for larger IPAs with hundreds of clients.

The subsample of clients should be selected randomly, and the individual discrepancies between the projected and the actual data should be weighted according to client characteristics. For example, it could be reasonable to assume that smaller firms tend to have a higher bias in relative terms, as the number of employees is subject to higher fluctuations.

An exemplary application of ex-post surveying and discount rates can be found in the evaluation methodology of London & Partners.

40 For example, Business Finland and Invest Chile use official data for that purpose (Volpe Martincus and Sztajerowska, 2021).

Box 4 London & Partners

London & Partners is responsible for attracting international investors, tourism, and events to London. To measure their impact on the economy of London, London & Partners estimates their contribution to gross value added (GVA) in a straightforward and cost-effective way. This approach allows L&P to account for job displacement and over-optimism and discount investments that would have come to London anyway without the agency's intervention. The following is a summary of London & Partners' solution for over-optimism and accountability.⁴¹

London & Partners' impact evaluation is based on information obtained through surveying their clients twice. The first survey is conducted right after the investor has completed the investment project in London. This survey inquires, among other things, about the expected number of employees in one year and in three years. The second survey takes place three years after the completion of the investment project and verifies the information obtained in the first survey. Equipped with the completed survey, London & Partners derives the expected number of employees as follows:

- Calculating an over-optimism discount factor by dividing the actual employment after three years by the expectations of companies when they set up in London. Taking a rolling average over several years ensures the robustness of this measure.
- Applying the over-optimism discount factor to the employment expectations of companies that settled in London in the current year to derive the expected number of additional employees over the next three years.

In addition to correcting for the over-optimism of companies, London & Partners also estimates the impact it had on the final decision to set up in London. This is accomplished by the following measures:

- Companies are asked to report whether (i) they considered any other locations other than London, (ii) they were considering investing at all, and (iii) they faced obstacles while looking to invest in London but were unable to overcome them. This information helps London & Partners to exclude investments that would have been completed without their contribution.
- Further, companies are asked what they would have done if they had not received support from London & Partners. The survey offers companies four predefined answers ranging from "definitely not invested in London" to "definitely invested in London anyway". London & Partners takes credit for 0, 20, 50, or 100 percent of the investment, depending on the client's response.

London & Partners' approach is designed to be cost effective and has some built-in assumptions. For instance, the evaluation outcome is sensitive to the percentages London & Partners assigns to the survey answers. An econometric approach using firm-level data may allow for a more precise estimation of that impact. Yet, the necessary data for such a sophisticated approach is not a given in many countries. Therefore, London & Partners' method represents a feasible alternative to econometric impact evaluation.

41 London & Partners (2021).



4

CONCLUSION



4. CONCLUSION

The current global environment is characterized by high uncertainty and an urgent need for transformation. Foreign investors can contribute to and accelerate this transformation by providing new technologies and spillover effects. To attract the right investors and advance the sustainability agenda, IPAs need to constantly review their strategy and monitor the success of their activities. Therefore, developing a monitoring framework that reflects current mandates with suitable KPIs is imperative.

In this report, we took stock of KPIs used by IPAs and presented the most and least frequently used indicators. Despite shifting toward SDGs, many IPAs still focus on a minimal set of KPIs. The number and value of investments and the number of jobs created are the most common indicators in performance reports. In contrast, outcome- and sustainability-related KPIs are scarce. To assist IPAs in improving their monitoring, we identified two common problems in performance reporting, data availability and data quality, and illustrated how leading IPAs master these issues. Based on our analysis, we propose the following actions for IPAs to enhance their performance evaluation:

1. **Review your current KPIs** critically using the “CREAM” selection criteria. If in doubt about the data quality, consider conducting an **exploratory survey** to calculate discount rates and assess your data’s reliability. If the review reveals insufficiencies, improve the quality of your **core KPIs first**.
2. **Work with other governmental organizations** that have data that is relevant to you. These agencies are more likely to cooperate if you:
 - **Explain how data-sharing can be mutually beneficial.** Provide ideas for collaboration and point to overlapping interests. Joint research projects might be particularly interesting for central banks.

- **Showcase the success of other IPAs**, such as CINDE and its partnerships. Emphasize the competitive nature of investment promotion and explain why higher data quality is advantageous. Present the results of the exploratory survey to demonstrate the limits of conventional data collection.
 - **Minimize the necessary effort of your potential partner.** If possible, offer to provide the necessary code for matching and analysis in conventional statistical software.
 - **Acknowledge data privacy concerns** and ask for anonymized data or sector aggregates for your client firms.
3. **Survey your clients** if official data is unattainable. Carefully plan your survey, keeping in mind data requirements for evaluation. Consider surveying only a subsample if resources are limited. Integrate your survey in aftercare activities, if possible. Alternatively, consult with experts on study design and sample selection and hire a contractor to execute the survey.
 4. **Review your auxiliary KPIs on sustainability.** Make sure you have at least one indicator for each of your mandates. If possible, align prioritization with monitoring. Consider adopting one of the KPIs presented in this report. Data can be purchased from private data providers or proxied using freely available sector aggregates. Use job descriptions to identify the number of green jobs to substitute for firm-level data on sustainability.
 - 4.5 **Communicate your results.** While the findings of your evaluation may be useful for internal purposes, such as revising your strategy and services, they also play an important role in demonstrating the impact of FDI and the value of your agency

to key stakeholders and the public at large. Some of the most successful IPAs do not limit their communication to an annual report, but communicate results on a more frequent or even ongoing basis throughout the year. In addition to annual reports, options for communicating results include regular updates on social and traditional media and maintaining a “dashboard” of results on the IPA’s website.



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APPENDIX



APPENDIX

APPENDIX IPA ANNUAL PERFORMANCE REPORTS

To map the landscape of KPIs used by IPAs, we searched a total of 143 websites and retrieved 51 performance reports. Table A1 presents the list of IPAs that publicly reported KPIs and thus were included in our analysis.

In contrast to other studies on IPA monitoring and evaluation, particularly the OECD/IDB

mapping reports, our sample is determined by the availability of performance reports. Because only relatively few IPAs publicize such information (43 percent), we assume that our sample suffers from selection bias. That is, IPAs that perform better and have a higher budget for monitoring might be overrepresented.

TABLE A1 IPA SAMPLE

Austrade	Invest Minas (INDI)	Malaysian Investment Authority (MIDA)
Azerbaijan Export and Investment Promotion Foundation (AZPROMO)	Invest Saint Lucia	Marshall Islands Office of Commerce and Investment (OCIT)
Bahrain Economic Development Board (EDB)	Invest South Africa - Department of Trade & Industry (DTI)	Mauritius Economic Development Board (EDB)
Bangladesh Investment Development Authority (BIDA)	Invest in Austria (ABA)	Moroccan Investment and Export Development Agency (AMDIE)
Botswana Investment and Trade Centre (BITC)	Invest in Canada	Netherlands Foreign Investment Agency (NFIA)
Brazilian Trade and Investment Promotion Agency (Apex-Brasil)	Invest in Comoros (ANPI)	New Zealand Trade and Enterprise (NZTE)
Costa Rican Investment & Development Board (CINDE)	Invest in Denmark	Niger Investment and Strategic Projects Promotion Agency (NIPC)
Czechinvest	Invest in France	Pakistan Board of Investment (BOI)
Dubai FDI	Invest in Sharjah	Probarranquilla
Enterprise Georgia (LEPL)	InvestCayman	Rwanda Development Board (RDB)
Enterprise Greece	InvestChile	Singapore Economic Development Board

Gauteng Growth and Development Agency (GGDA)	Investment Fiji	Slovak Investment and Trade Development Agency (SARIO)
Germany Trade and Invest (GTAI)	Investment Promotion Agency Cameroon (CIPA)	Tatarstan Investment Development Agency (TIDA)
Ghana Investment Promotion Centre (GIPC)	Investment Promotion Agency of Qatar (IPA Qatar)	Trade and Investment KwaZulu-Natal (TIKZN)
ICEX Invest in Spain	Investment Promotion Agency Uzbekistan (UZIPA)	Tshwane Economic Development Agency (TEDA)
IDA Ireland	Kuwait Direct Investment Promotion Authority (KDIPA)	Uganda Investment Authority (UIA)
Invest Lithuania	Macao Trade and Investment Promotion Institute (IPIM)	Zambia Development Agency (ZDA)

Despite the selection bias, our sample is rather heterogeneous, including countries from various regions and income groups. Figure A1 presents the sample distribution by region and by income group. While the

regional distribution appears balanced, the income distribution indicates a slight overhang of high- and upper-middle-income countries while low-income countries are underrepresented.

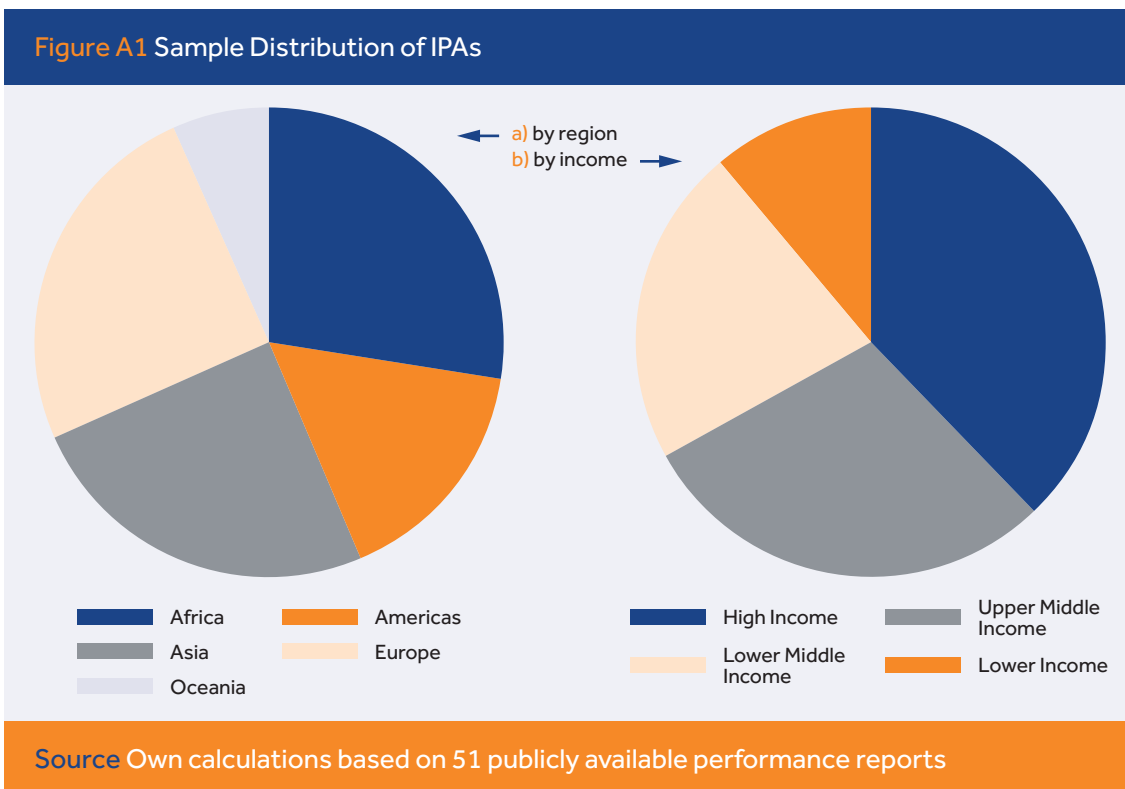


TABLE A2 KPI DEFINITIONS

KPI	Description
Value of Investments	Value of investments in monetary units.
Number of Investments	Number of investments realized/announced. Also includes the number of investors that entered the country or were attracted.
Employment	Number of estimated/actual jobs created over a specific time span or a precise point in time.
Displaced Employment	Negative employment effects at domestic companies due to increasing competition.
Female Employment	Share or absolute number of female employees.
Female Management	Share or absolute number of female management positions.
Employment Type	Measures indicating full-time employment or position details related to quality of work aspects.
Employment Diversity	Measures indicating the age structure of employees.
Indirect Employment	Indirect employment generated through expenditure of foreign companies on domestic products and services.
Gross Value-Added	Output minus consumption of intermediates of foreign-owned companies.
Indirect Gross Value-Added	Domestic output generated through expenditure of foreign companies minus the consumption of intermediates.
Wage	Measures indicating salaries paid by foreign-owned companies/attracted companies.
Domestic Expenditure	Expenditure on domestic products and services of foreign-owned companies/attracted companies.
Taxes	Taxes paid by foreign-owned companies/attracted companies.
Export	Exported products and services by foreign-owned companies/attracted companies.
R&D	R&D spending/investments of foreign-owned companies/attracted companies.

Linkages	The number of linkages between foreign-owned companies/attracted companies and domestic companies.
Offered Linkages	The number of offered linkages between foreign-owned companies/attracted companies and domestic companies.
Sectoral Investments	Sectoral distinction of investments.
Green Investments	Investments into industries defined as "green" by the IPA.
Digitalization Investments	Investments into the ICT sector, including start-ups.
Greenfield Investments	Number or value of greenfield investments.
M&A	Number or value of mergers and acquisitions.
Reinvestments/Expansions	Number or value of reinvestments or expansions.
Regional Investments	Regional distribution of investments.
Source Diversity	Number or value of investments from a novel origin country.
Costs	Total costs of inputs or costs per job created.
RBC Record	Share of investors adhering to established guidelines of responsible business conduct.
Client Satisfaction	Client satisfaction scores.
Country Image	Home country's score in image ratings.
Marketing	Number of posts, press releases and interactions with media.
Events	Number of hosted events and participants.
Website Traffic	Metrics associated with website traffic.
Activity	Number of inquiries, meetings, visits, time to respond, provided studies, etc..
Investment Reforms	Contribution to any reforms towards a better investment climate.
Training Investments	Number or value of training investments by foreign-owned/attracted companies.

