

# FDI Sector Scan Methodology

Knowledge Exchange on Foreign Direct Investments  
and Entrepreneurship Support for functional areas

March 2024



# Agenda

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- I. Why focus on FDI for economic growth and diversification?
- II. What is the role of sector targeting in FDI promotion?
- III. How to identify potential sectors for FDI attraction?

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# Leveraging FDI for economic growth and diversification

## Main transmission channels:



Access to new technologies and skills



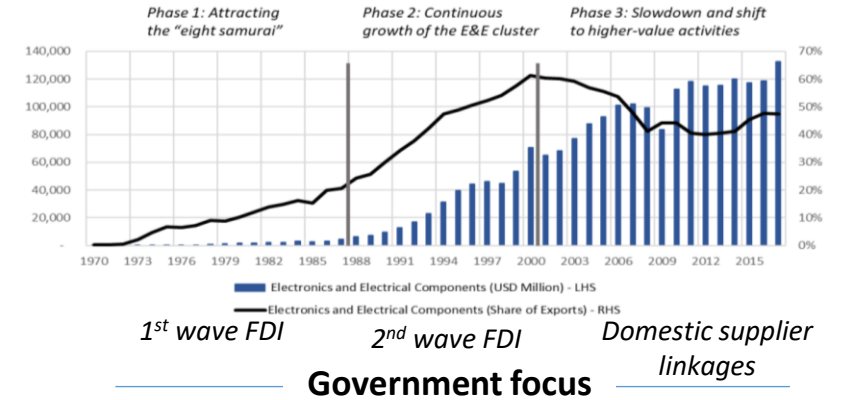
Access to new markets and global value chains



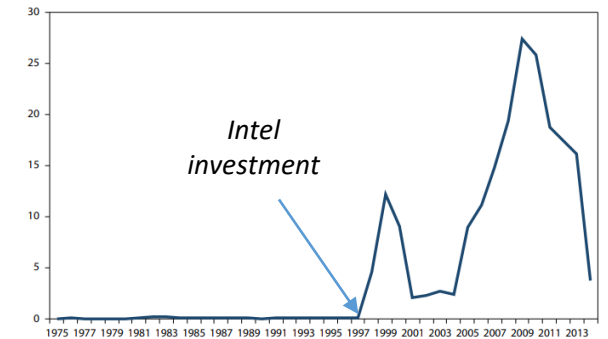
Source of fresh capital and finance

## Some country examples...

The rise of Malaysia's E&E sector



Office machines and parts in Costa Rica



Balassa index of RCA, based on COMTRADE database

Source: *Global Value Chains: An Investment Perspective*, World Bank, 2020  
*How Emerging-Market Governments Can Reshape Comparative Advantage*, 2017, Peterson Institute for International Economics Working Paper No. 17-1

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Why focus on FDI for economic growth and diversification?

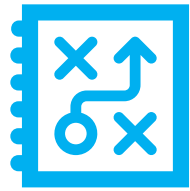
II.

What is the role of sector targeting in FDI promotion?

III.

How to identify potential sectors for FDI attraction?

# Foreign Direct Investment (FDI) promotion: How do successful locations do it?



Focus proactive promotion efforts on a small number of sectors with the strongest business case for investors

Develop 'Win, Win' propositions – good for the country AND good for the investor

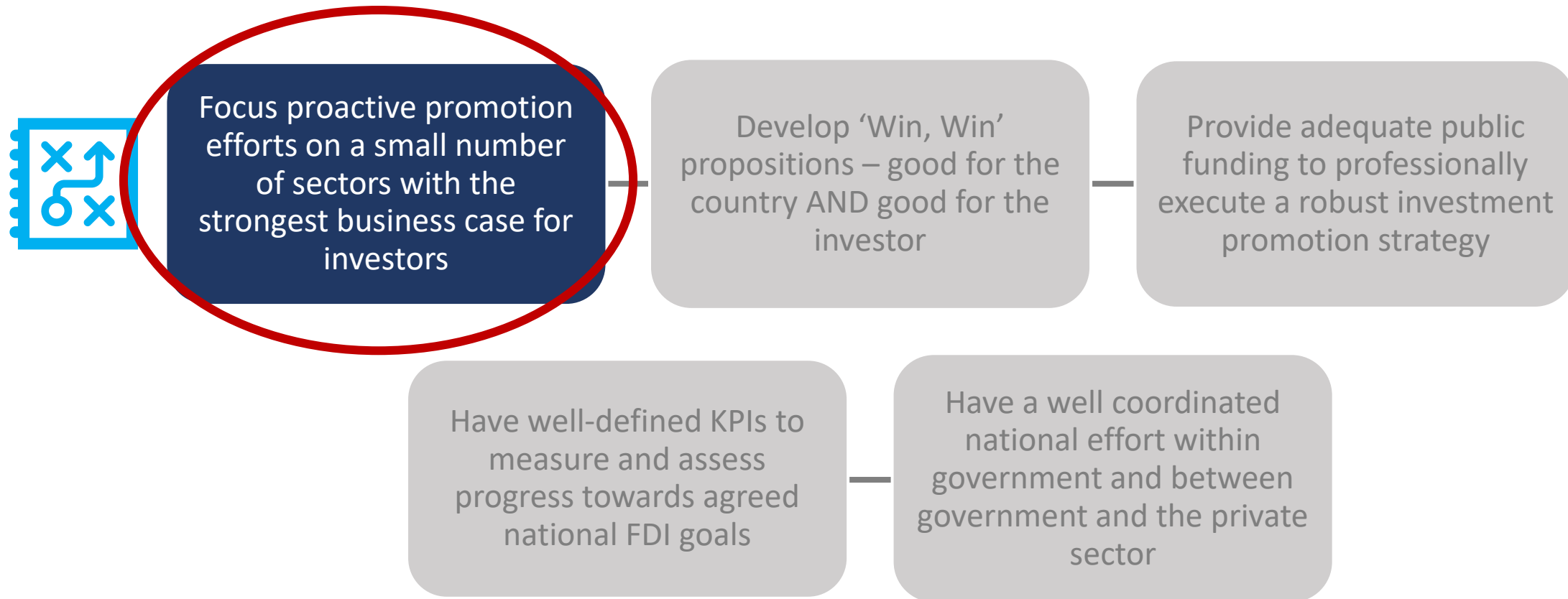
Provide adequate public funding to professionally execute a robust investment promotion strategy

Have well-defined KPIs to measure and assess progress towards agreed national FDI goals

Have a well coordinated national effort within government and between government and the private sector

Source: Adapted from [Global Investment Competitiveness Report 2019/2020](#). 2020. World Bank Group

# Foreign Direct Investment (FDI) promotion: How do successful locations do it?

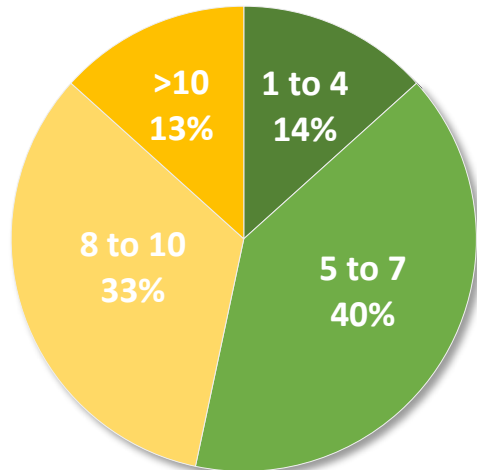


Source: Adapted from [Global Investment Competitiveness Report 2019/2020](#). 2020. World Bank Group

# Successful locations have a few, well identified strategic sectors (niches) to focus on

## Sector Targeting: Less Is More

% of Investment Promotion Agencies per number of priority sectors

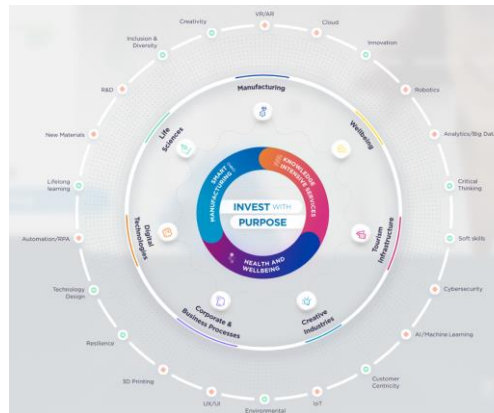


Source: Global Survey of Investment Promotion Agencies, 2017, World Bank Group

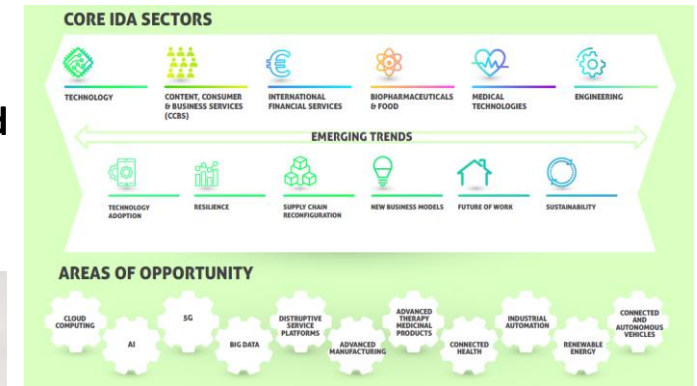
## Best performers have a few priority sectors

IDA Ireland

CINDE Costa Rica



Source: Oxford University Research (2011, 2012)  
How Emerging-Market Governments Can Reshape Comparative Advantage, 2017,  
Peterson Institute for International Economics Working Paper No. 17-1



✓ Research and experience show that economic upgrading and transformation come from attracting investment in a few strategic industries



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III.

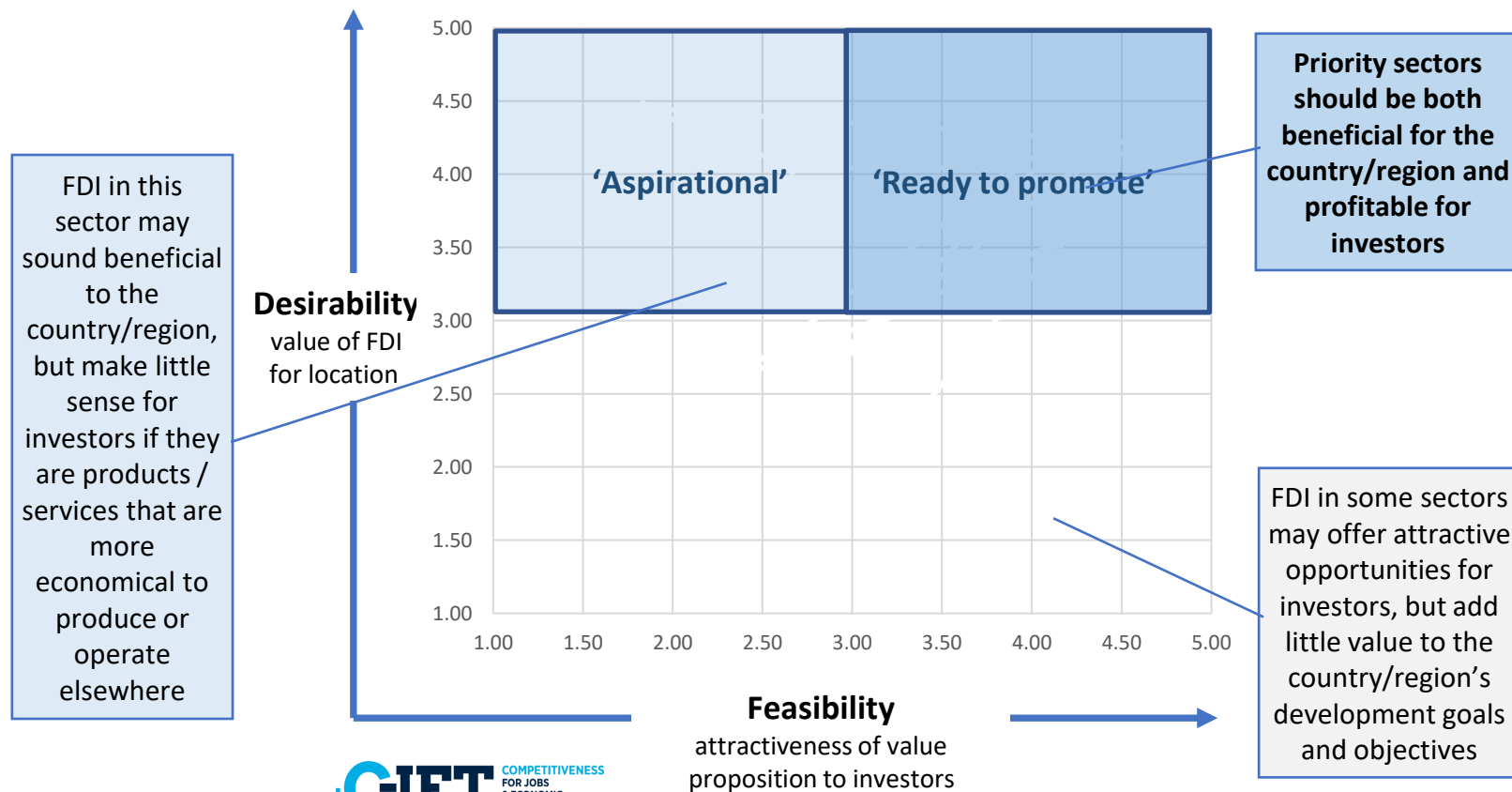
How to identify potential sectors for FDI attraction?

# The World Bank Group Sector Scan Methodology: identifying sectors / niches for investment promotion

A diagnostic tool and framework for systematically evaluating subsectors in two dimensions:

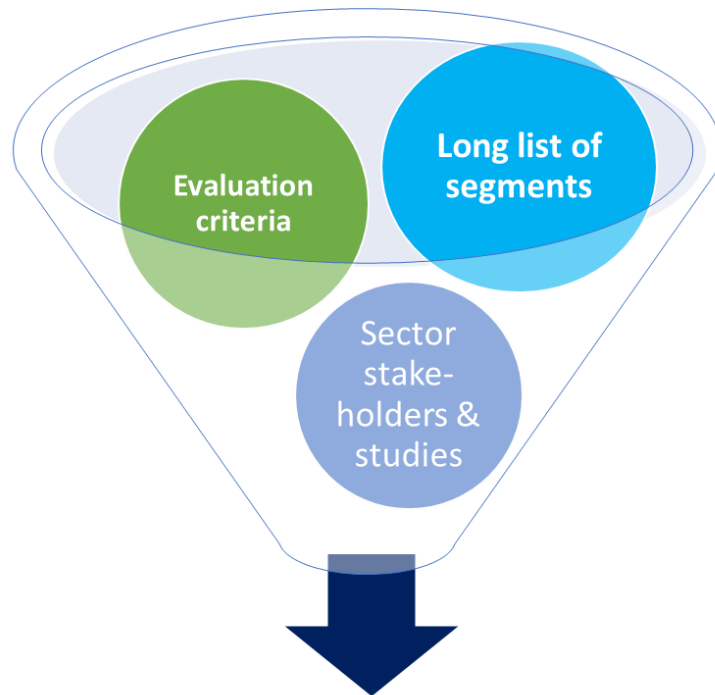
- I. Their attractiveness to international investors ('Feasibility')
- II. Their potential to contribute to the location's economic development objectives ('Desirability')

WBG Investment Sector Scan Matrix



# A systematic process of sector / industry analysis based on a combination of different quantitative and qualitative data inputs

## Sector Scan Assessment



### Quantitative data and tools

- World Bank Group curated data on FDI and competitiveness
- Product Space
- Competitiveness benchmarking

### Qualitative research

- Private sector consultations
- Extensive industry and expert interviews
- Government experts
- IFC / WB sector and country experts

### Existing literature review

- Global industry reports and trends
- Country reports and analysis

Ranking of sectors by desirability and attractiveness for FDI

# The methodology features a set of tools facilitating the assessment of sectors in a structured way customized to a location's specific context

Evaluation criteria / weights are selected in cooperation with the client to reflect the development priorities.

Example of sector evaluation evaluation matrix

## Sector "desirability" criteria (illustrative)

Contribution to:

- Economic growth/diversification
- Enhanced productivity
- Employment generation / developing specific labor skills
- Spillover effects / potential for linkages
- Increased export revenues
- Climate change/sustainability goals
- Value chain integration / cluster development

To what extent:	Evidence
<b>1. Desirability: Will additional FDI in sector X add value to Uzbekistan?</b>	
Will new investors help to improve the performance of the sector value chain as a whole?	<ul style="list-style-type: none"> <li>• Potential impact on other parts of the value chain (improved inputs or improved sales opportunities for domestic suppliers)</li> <li>• Quantity and quality of existing producers, SMEs, and investors already operating in the sector; impact of new investors on local SMEs in the sector</li> </ul>
Will new investors create additional jobs? Could new additional jobs be created in the regions?	<ul style="list-style-type: none"> <li>• Sector labor intensity</li> <li>• Potential jobs generated by new investments in the sector (skilled vs. unskilled)</li> <li>• Potential to tap into labor force in the regions, outside traditional urban settlements</li> </ul>
Will new investors create increased export revenues or reduce imports?	<ul style="list-style-type: none"> <li>• Potential export revenues – market vs. efficiency seeking FDI</li> <li>• Potential for import substitution</li> </ul>
Will new investor help to improve the economic well-being of Uzbekistan regions and reduce regional disparities?	<ul style="list-style-type: none"> <li>• Sector dependence on advanced physical infrastructure</li> <li>• Sector labor and skills intensity</li> <li>• Potential to tap into labor cost differential between major urban areas and regions</li> </ul>
Will FDI in the sector lead to positive spillover effects to local economy? Will new investors increase opportunities for domestic firms to supply their goods/services to foreign investors?	<ul style="list-style-type: none"> <li>• Improved opportunities for domestic firms to supply their goods/services to foreign investors and improved incomes generated by new investments in this sector</li> <li>• Potential for spillover effects into domestic economy</li> <li>• Potential for deepening integration into GVC</li> <li>• R&amp;D spending by industry, sector links with academia</li> </ul>
<b>2. Feasibility: Does investment in sector X offer an attractive proposition for foreign investors?</b>	
Are the local and regional markets attractive? Does Uzbekistan and/or the region have a strong FDI track record?	<ul style="list-style-type: none"> <li>• Demand, supply, and price trends in Uzbekistan and neighboring countries</li> <li>• Market growth, market access, degree of competition</li> <li>• FDI track record in Uzbekistan and FDI regional trends in the sector</li> </ul>
Is the global market attractive? Can goods/services be exported globally?	<ul style="list-style-type: none"> <li>• Demand, supply, and price trends in major global markets and their relevance to Uzbekistan (can goods / services be exported to global markets?)</li> <li>• Market growth, market access, degree of competition</li> <li>• FDI global trends in the sector</li> </ul>
Does Uzbekistan have competitive endowments (raw materials, location, funding etc.)?	<ul style="list-style-type: none"> <li>• Availability and quality of key production inputs (sector specific site selection factors) and suitable land parcels critical to the sector, proximity to key markets, access to funding, etc.)</li> </ul>
Does Uzbekistan have competitive infrastructure?	<ul style="list-style-type: none"> <li>• Availability, quality and cost of sector critical infrastructure and backbone utilities (e.g., power, transport, manufacturing sites, office space, internet connectivity, etc.)</li> </ul>
Does Uzbekistan have competitive skills and support services?	<ul style="list-style-type: none"> <li>• Availability and productivity of suitable workforce and support services</li> <li>• Labor market efficiency</li> <li>• Ability to continuously skills supply in case of growth</li> </ul>
Does Uzbekistan offer a competitive business (regulatory/institutional) environment?	<ul style="list-style-type: none"> <li>• Absence of regulatory of institutional barriers that might deter investors or hinder their performance.</li> <li>• Regulatory transparency and predictability.</li> <li>• Absence of corruption and red tape.</li> <li>• Openness of investment policy and protection of property (incl. intellectual property) rights.</li> <li>• Sector level playing field (sector monopolies, oligopolies, competition with SOEs, access to inputs, etc.)</li> </ul>

## Sector "feasibility" criteria (illustrative)

- Domestic and/or int'l market potential
- Geography/ Natural Resources
- Existing Capabilities
- Transport & Infrastructure, energy
- Finance
- Regulatory Barriers
- Rule of Law & Property Rights
- Market Contestability
- Macro & Political Stability
- Labor & Skills

	Desirability					Feasibility										
	Job Creation	Structural transformation/technological and GVC upgrading/diversification	Export Growth	Domestic value addition / benefits to other sectors	Alignment with other priorities	Demand	Production Factors			Key Inputs			Institutions			
	What types of jobs are needed (skills levels, occupations, etc.)? In what regions? For what groups (women, youth...)?	What are the current patterns of growth, investment (incl. FDI motivation) and structural change? Is there a need for new activities and/or upgrading within existing ones?	Has growth been exported led or primarily domestic? What is the BoP situation? Sector and geographic composition of existing exports?	What is the domestic supplier base/capacity? What are the priority needs for key inputs of domestic firms?	Are there other critical development priorities to which new investment might contribute (e.g. inclusion, sustainability, regional development)?	Domestic and/or international market potential	Labor & skills	Geography & natural resource endowment	Existing capabilities	Energy	Transport	Finance (cost & availability)	Regulatory barriers	Rule of law and property rights	Market contestability	Macro and political stability
Sector 1	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5
Sector 2	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5
Sector 3	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5	1 - 5

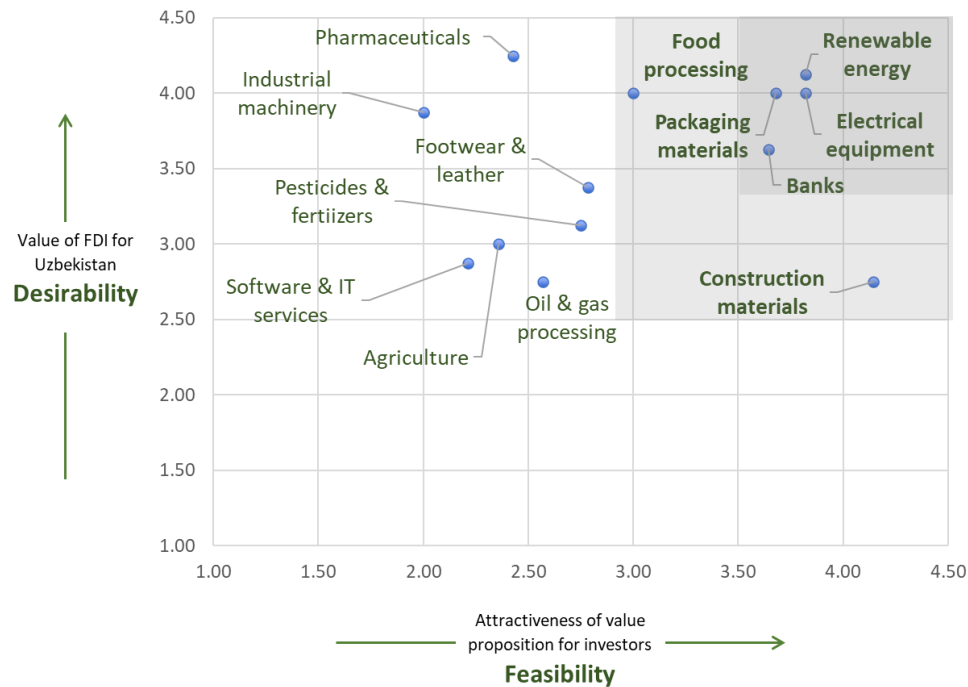
# Sector Scan in practice: Developing a strategy to diversify FDI inflows in Uzbekistan

- FDI attraction in Uzbekistan was concentrated in a small number of sectors and only diversifying slowly
- Matching those sectors that most readily meet Uzbekistan’s development goals and needs with those that represent the best opportunities to attract new investment

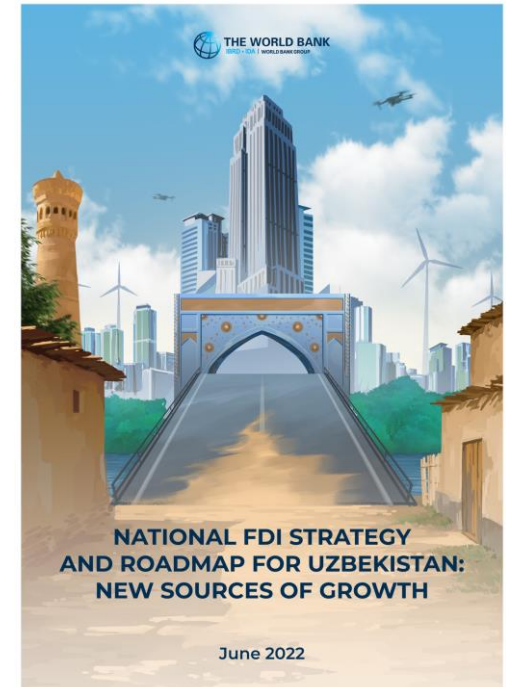
Sectors / Weights	Uzbekistan region perspective: Desirability / Benefit to Uzbekistan					Investor perspective: Feasibility / Attractiveness to investor					
	Will new investors help to improve the performance of the sector value chain as a whole?	Will new investors create additional jobs? Could new additional jobs be created in the regions?	Will new investors create increased export revenues or reduce imports?	Will new investor help to improve the economic well-being of Uzbekistan regions and reduce regional disparities?	Will FDI in the sector lead to positive spillover effects to local economy? Will new investors increase opportunities for domestic firms to supply their goods/services to foreign investors?	Are the local and regional markets attractive? Does Uzbekistan and/or the region have a strong FDI track record?	Is the global market attractive? Can goods/services be exported globally?	Does Uzbekistan have competitive endowments (raw materials, location, funding etc.)?	Does Uzbekistan have competitive infrastructure?	Does Uzbekistan have competitive skills and support services?	Does Uzbekistan offer a conducive business (regulatory/institutional) environment?
Sectors / Weights	0.5	1	1	1	0.5	1	1	0.8	0.8	1	1
Oil & gas processing	5	4	5	3.5	3	5	1	4	4	4	5
	4.13					3.82					
Pesticides & fertilizers	4	5	4	4	2	2	2	2	2	4	4
	4.00					2.71					
Packaging materials	4	5	5	2	5	2	1	2	2	2	2
	4.13					1.82					
Construction materials	4	4	4	3	4	4	5	5	5	4	5
	3.75					4.64					
Industrial machinery	4	5	5	4	1	3.5	5	4	4	4	5
	4.13					4.27					
Footwear & leather	4	2	2	4	3	2	4	3	3	2	4
	2.88					3.00					
Food processing	4	4	4	3	5	4	3	5	5	4	5
	3.88					4.29					
Pharmaceuticals	2	3	3	4	2	2	1	2	3	3	3
	3.00					2.32					
Software & IT services	5	3	4	2	3	4	4	5	3	4	5
	3.25					4.18					
Electrical equipment	2	2	3	2	2	2	2	3	5	4	4
	2.25					3.29					
Agriculture (silk sector)	2	2	3	2	2	2	2	3	5	4	4
	2.25					3.29					

# Uzbekistan Sector Scan results

Development of a new FDI strategy focused on a small number of sectors with strong competitiveness and potential for economic diversification.



- Tier I sectors**
- Electrical equipment
  - Packaging materials
  - Banking
  - Renewable energy
- Tier II sectors**
- Food processing
  - Construction materials



*Recommendations for a National FDI Strategy and Roadmap for Uzbekistan: New Sources of Growth*

# Sector Feasibility / Sector Desirability scoring: Examples from Invest in Pomerania

1. Desirability: Will additional FDI in this sector add value to Pomerania?		
Will new investors help to <b>improve the region's productivity</b> by using new technologies, implementing automation, lean manufacturing, waste reduction, AI, machine learning, data science, and so on?	1–5/1	<ul style="list-style-type: none"> <li>• Use of new Industry 4.0 technologies &amp; automation in the production cycle.</li> <li>• Sector technology intensity.</li> <li>• Share of highly qualified labor.</li> <li>• Sector's impact on region's total productivity (total value added).</li> </ul>
Will new investors <b>create additional high-quality jobs</b> , i.e., jobs providing high earnings and job security and low job strain?	1–5/1	<ul style="list-style-type: none"> <li>• Potential jobs generated by new investments in the sector (skilled vs. unskilled).</li> <li>• Labor intensity &amp; job security.</li> <li>• Sector earnings trends.</li> </ul>
Will new investors add value that is not already provided by local producers & existing investors, and <b>improve performance of the value chain</b> as a whole? Will new investors strengthen the <b>existing sector cluster</b> ?	1–5/0.8	<ul style="list-style-type: none"> <li>• Potential impact on other parts of the value chain (improved inputs or improved sales opportunities for domestic suppliers).</li> <li>• Quantity and quality of existing producers, SMEs, and investors already operating in the sector; impact of new investors on local SMEs in the sector.</li> <li>• Sector's impact on Pomerania global value chain integration.</li> <li>• Sector's position within global value chains.</li> </ul>
Will new investor help to <b>improve the economic well-being of Pomerania subregions</b> and reduce regional disparities?	1–5/0.4	<ul style="list-style-type: none"> <li>• Sector's dependence on advanced physical infrastructure.</li> <li>• Sector labor and skills intensity.</li> <li>• Possibility to place investment projects in the sector outside of Tri-City subregion.</li> </ul>
Will new investors help to <b>reduce carbon intensity</b> by using or producing clean technologies?	1–5/0.6	<ul style="list-style-type: none"> <li>• Potential carbon intensity impact of the sector.</li> <li>• Organization of the value chain, use of Industry 4.0 technologies in the value chain.</li> <li>• Energy intensity of the production cycle.</li> </ul>
Will new investors <b>promote a more socially inclusive society</b> by improving the ability, opportunity, and dignity of those disadvantaged on the basis of their identity?	1–5/0.6	<ul style="list-style-type: none"> <li>• Extent to which sector encourages employment of women.</li> <li>• Extent to which sector encourages employment of migrants (non-EU citizens).</li> <li>• Extent to which sector encourages employment of older workers (aged 55–64).</li> </ul>
<b>Subtotal</b>	<b>4.4–22</b>	

2. Feasibility: Does investment in this sector offer an attractive proposition for foreign investors?		
Is the market (in terms of demand, supply, and prices) attractive?		
Are the <b>local and regional markets</b> attractive?	1–5/1	Demand, supply, and price trends in Poland and neighboring countries. Market growth, market access, degree of competition. FDI local and regional trends.
Is the <b>global market</b> attractive?	1–5/1	<ul style="list-style-type: none"> <li>• Demand, supply, and price trends in major global markets.</li> <li>• Market growth, market access, degree of competition.</li> <li>• Global FDI trends.</li> </ul>
Does Pomerania offer competitive supply conditions for investors in this sector?		
Does Pomerania have <b>competitive endowments</b> (raw materials, location, funding and so on)?	1–5/0.8	<ul style="list-style-type: none"> <li>• Availability of suitable raw materials critical to the sector, proximity to key markets, access to funding, and so on</li> </ul>
Does Pomerania have <b>competitive infrastructure</b> ?	1–5/0.8	<ul style="list-style-type: none"> <li>• Availability, quality, and cost of sector-critical infrastructure and backbone services (for example power, transport, manufacturing sites, office space, internet connectivity, and so on).</li> </ul>
Does Pomerania have <b>competitive skills and support services</b> ?	1–5/1	<ul style="list-style-type: none"> <li>• Availability and productivity of suitable workforce and support services.</li> <li>• Labor market efficiency.</li> <li>• Ability to access continuous skills supply in case of growth.</li> </ul>
Does Pomerania offer a conducive business ( <b>regulatory/institutional environment</b> )?	1–5/0.6	<ul style="list-style-type: none"> <li>• Absence of regulatory or institutional barriers that might deter investors or hinder their performance.</li> <li>• Regulatory transparency and predictability.</li> <li>• Absence of corruption and red tape.</li> <li>• Openness of investment policy and protection of property (including intellectual property) rights.</li> </ul>
<b>Subtotal</b>	<b>5.2–22</b>	

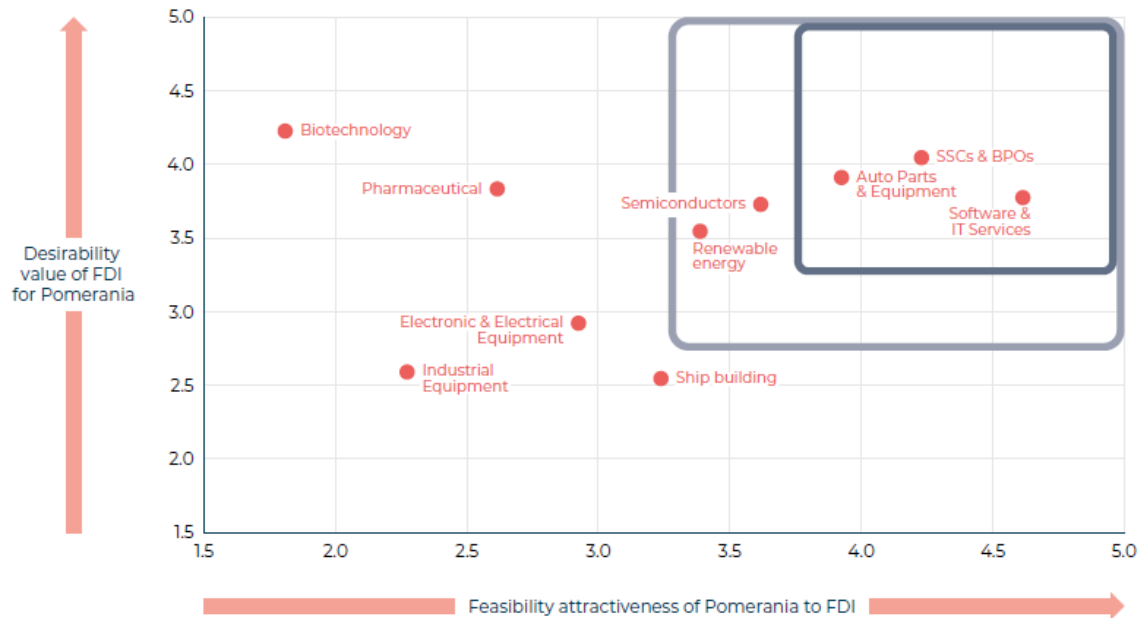
Source: WBG IC Unit and Invest in Pomerania analytics.

Evaluation key: 5=very positive; 4=positive; 3=neutral; 2=negative; 1=very negative.

# Example 2: Pomerania Region Sector Scan results

Development of a new FDI strategy focused on sectors with high potential for economic upgrading, greening the regional economy and strengthening inclusivity / regional development.

FIGURE 4.2 FDI sector targeting



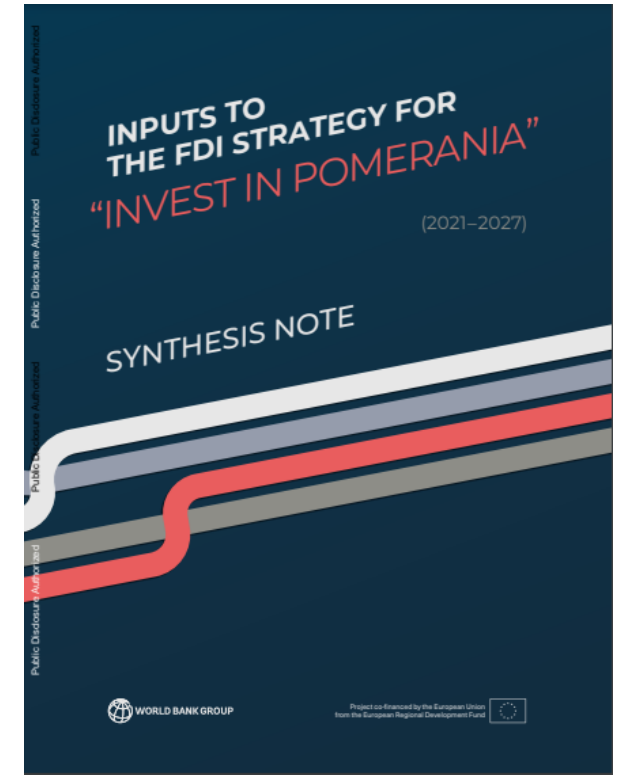
Source: World Bank Group calculations.

## Ready to promote

- SSCs and BPOs
- Auto parts & equipment
- Software & IT services

## Aspirational

- Semiconductors
- Renewable energy



*Inputs to the FDI strategy for Invest in Pomerania*



# Sector Scan outputs

## Scoring Sheets

To what extent:	Score / Weight	Indicators
<b>1. Desirability: Will additional FDI in this sector add value to Serbia?</b>		
• Will new investors help to improve Serbia's access to new technologies, knowledge, and know-how?	1.5 / 0.25	<ul style="list-style-type: none"> <li>Use of new key technologies / industry 4.0 technologies in the production cycle</li> <li>Sector R&amp;D intensity</li> <li>Number of patents in the sector</li> <li>Share of highly qualified labor</li> <li>Sector skills intensity</li> <li>Other:                             <ul style="list-style-type: none"> <li>Potential carbon / energy intensity of the sector</li> <li>Non-renewable resources usage of sector</li> <li>Polluting effects of the sector</li> <li>Contribution of sector to carbon reducing / clean technology</li> </ul> </li> </ul>
• Will new investors help to support the transition to net-zero and attraction of more sustainable investment to Serbia?	1.5 / 0.2	<ul style="list-style-type: none"> <li>Potential jobs generated by new investments in the sector (particularly higher skilled job creation)</li> <li>Share of highly qualified labor</li> <li>Sector earnings trends</li> </ul>
• Will new investment in this sector create more attractive, higher value-added, higher paying jobs?	1.5 / 0.2	<ul style="list-style-type: none"> <li>Potential jobs generated by new investments in the sector (particularly higher skilled job creation)</li> <li>Share of highly qualified labor</li> <li>Sector earnings trends</li> </ul>
• Will new investors support the development of linkages to local suppliers?	1.5 / 0.2	<ul style="list-style-type: none"> <li>Potential impact on other parts of the supply chain (improved inputs or improved sales opportunities for domestic suppliers)</li> <li>Quantity and quality of existing producers, SMEs, and investors already operating in the sector</li> <li>Impact of new investors on local SMEs in the sector</li> </ul>
• Will new investors support job creation and development of regions outside the capital?	1.5 / 0.15	<ul style="list-style-type: none"> <li>Sector's dependence on advanced physical infrastructure (e.g. technology / R&amp;D, transportation networks)</li> <li>Sector's labor and skills needs</li> <li>Possibility to place investment projects in the sector outside of major cities (e.g. existence of relevant clusters or education centers)</li> </ul>
SUBTOTAL	1-5	

Feasibility: Does investment in this sector offer an attractive proposition for foreign investors?		
To what extent:	Score / Weight	Evidence
• Are the local / regional and global markets attractive?	1.5 / 0.2	<ul style="list-style-type: none"> <li>Demand, supply, and price trends in Serbia / neighboring countries and major global markets</li> <li>Market growth, market access, degree of competition</li> <li>FDI local / regional and global trends</li> </ul>
• Does Serbia have competitive endowments (raw materials, location, funding etc.)?	1.5 / 0.2	<ul style="list-style-type: none"> <li>Availability of suitable raw materials critical to the sector, proximity to key markets, access to funding, etc.</li> </ul>
• Does Serbia have competitive infrastructure?	1.5 / 0.2	<ul style="list-style-type: none"> <li>Availability, quality, and cost of sector-critical infrastructure and backbone services (e.g. power, transport, manufacturing sites, office space, internet connectivity, etc.)</li> </ul>
• Does Serbia have competitive skills and support services?	1.5 / 0.2	<ul style="list-style-type: none"> <li>Availability and productivity of suitable workforce and support services</li> <li>Labor market efficiency</li> <li>Ability to access continuous skills supply in case of growth</li> </ul>
• Does Serbia offer a conducive business (regulatory/institutional) environment?	1.5 / 0.2	<ul style="list-style-type: none"> <li>Absence of regulatory or institutional barriers that might deter investors or hinder their performance</li> <li>Regulatory transparency and predictability</li> <li>Absence of corruption and red tape</li> <li>Openness of investment policy and protection of property (including intellectual property) rights.</li> </ul>
SUBTOTAL	1-5	

## Sector Analyses

**Shared services (SS) and business process outsourcing (BPO) sectors**

The sector of shared services (SS) and business process outsourcing (BPO) consists of all service businesses providing a variety of business support services to other businesses. This includes administrative, financial, HR, legal, compliance, purchasing or security for a dedicated 'client' organization either in-house or through a third-party provider. SS and BPO are often used interchangeably, but SS typically refers to a broader range of services, while BPO is more focused on specific, repetitive tasks.

**Figure 1: SS and BPO value added**

**Figure 2: SS and BPO employment**

**Figure 3: SS and BPO export**

**Figure 4: SS and BPO import**

**Figure 5: SS and BPO contribution to GDP**

**Figure 6: SS and BPO contribution to exports**

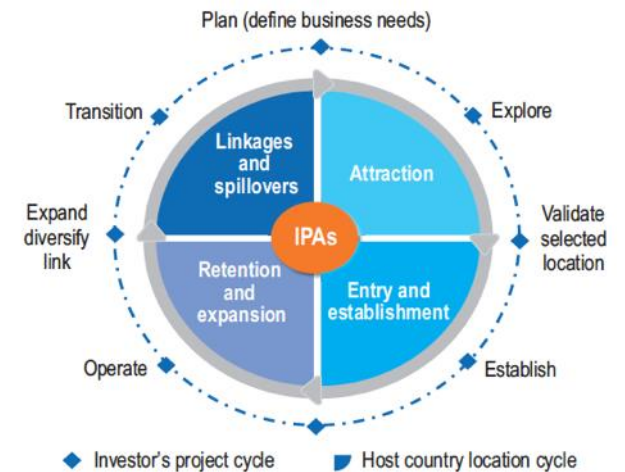
**Figure 7: SS and BPO contribution to imports**

**Figure 8: SS and BPO contribution to FDI**

**Figure 9: SS and BPO contribution to employment**

**Figure 10: SS and BPO contribution to value added**

## Sector Investment Promotion Services Mix



**Thank you for your attention!**

