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The World Of Investment Promotion At A Glance

A Survey of Investment Promotion Practices

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NOTE

UNCTAD serves as the focal point within the United Nations Secretariat for all matters related to foreign direct investment and transnational corporations. The Advisory Service on Investment and Training (ASIT) executes projects and programmes designed to strengthen the capacity of host countries, particularly developing countries, to attract foreign investment and benefit from it. It also assists countries in strengthening their investment institutions, especially investment promotion agencies.

The term "country" as used in this study also refers, as appropriate, to territories or areas. The designation employed and the presentation of the material do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delimitation of its frontiers or boundaries. In addition, the designations of country groups are intended solely for statistical or analytical convenience and do not necessarily express a judgement about the stage of development reached by a particular country or area in the development process.

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ABBREVIATIONS

ASIT	Advisory Services on Investment and Training
EDI	Electronic data exchange
EPZ	Export processing zone
FDI	Foreign direct investment
GDP	Gross Domestic Product
IPA	Investment promotion agency
IT	Information technology
LDC	Least developed country
M&As	Mergers and acquisitions
MIGA	Multilateral Investment Guarantee Agency
NIC	Newly industrialized country
OECD	Organization for Economic Co-operation and Development
SMEs	Small and medium-sized enterprises
TNC	Transnational Corporation
UNCTAD	United Nations Conference on Trade and Development
WAIPA	World Association of Investment Promotion Agencies

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EXECUTIVE SUMMARY

The growing attention paid by countries to foreign direct investment (FDI) is reflected in increased attention for the attraction of FDI and the establishment of investment promotion agencies (IPAs). The number of IPAs worldwide increased substantially in the 1990s and there are presently 164 national IPAs and well over 250 sub-national ones. These agencies operate in a dynamic and competitive environment. A vast majority of the IPAs expects to see changes in the nature of their work with significant consequences for the institutions and their functions. This study provides data on these developments, on IPAs and on the work carried out by these agencies. Information in this study is based on a survey of 101 IPAs.

Investment promotion covers a wealth of services, ranging from the provision of market information to the undertaking of feasibility studies and environmental impact assessments. The level of ambition partly reflects the resources available to the various IPAs and the presence of other complementing bodies that can provide services to foreign investors. Agencies in OECD countries apply the most focussed approach to investment promotion with investor targeting and after care as prime functions. IPAs in the category other developing countries follow suit, while IPAs in economies in transition tend to take up more tasks. LDCs have by far the largest portfolio. Across the board, investor targeting and investment policy advice were the first and second most frequent mentioned core functions.

Investment promotion is increasingly sophisticated. It is more than the simple opening up to foreign investors and general promotion of countries. IPAs are adopting more targeted approaches by focusing on selected industries, countries and companies. While there are major differences in the focus of IPAs activities, targeting strategies typically mirror the specific locational advantages of host countries and regions. Most IPAs still prefer FDI through greenfield investment and joint-ventures to other modes of entry.

An element in investor targeting is the size of the investment that the IPA focuses on. One-third of the agencies do not discriminate on the basis of project size and provide services to small, as well as large investments. Almost 20 per cent target only investments above \$5 million. Of those IPAs that maintain thresholds for targeted investments, the average level is particularly high in economics in transition (\$525,000) compared to LDCs (\$100,000), other developing countries (\$175,000) and OECD countries (\$50,000).

Investment promotion is a Government activity and most IPAs, national or sub-national, are financed by the public sector. IPAs strive more and more to gain greater autonomy and Government support for their activities. They try to supplement their income with revenues from other sources, such as service charges, private sector sponsorships and aid from international institutions. Yet, these contributions are relatively small and unpredictable and can, therefore, not sustain an agency. In 1999, annual IPA budgets worldwide amounted to \$1.1 million on average. Eight per cent of the agencies, mostly in LDCs, had an annual budget of less than \$100,000, while 21 per cent operated with a budget of over \$5 million.

IPA budgets not necessarily reflect the size of the agency and its personnel setting. OECD country IPAs with the largest budgets work with relatively small staffs of 22 people, including support personnel, while LDC IPAs with considerable smaller budgets, employ on average 33 people. Agencies in economies in transition and in the category other developing countries employ on average 26 and 29 people, respectively. OECD IPAs tempt to have more support staff compared to IPAs elsewhere.

Investment promotion is increasingly seen to be client-oriented. A commonly held view among IPAs is that personal contacts with investors are preferable to non-personal methods of promotion. Hence, a considerable share of promotional budgets is devoted to arranging meetings with foreign companies, attending conferences and trade fairs as well as undertaking missions abroad.

The Internet is widely seen as a critical tool in investment promotion. Web sites play a function as display windows on what countries and regions have to offer and, in addition, provide agencies with the opportunity to advertise their services. There are great differences in the use of the Internet. While in developed countries, the World Wide Web has become a prominent research and marketing tool for IPAs, there are still agencies, especially in LDCs, that do not have Home Pages or even connections to the World Wide Web. This situation widens the gap between IPAs and can put agencies without modern information technology at a permanent disadvantage.

A number of areas need closer attention by IPAs. One of them is related to the evaluation of their performance. Most IPAs still lack a systematic method of measuring their own achievements through the use of quantitative or qualitative indicators. Other issues that deserve future attention include approaches to enhancing the positive impacts of FDI, how to co-operate between national and sub-national levels and the role of incentives in investment promotion. Moreover, in order to improve the international dissemination of investor-related information in a cost-efficient manner, countries may also look at the use of the diplomatic service to this effect.