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# **EVALUATING INVESTMENT PROMOTION AGENCIES**



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## Note

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## **Preface**

The *Investment Advisory Series* provides practical advice and case studies of best policy practice for attracting and benefiting from foreign direct investment (FDI), in line with national development strategies. The Series draws on the experiences gained in, and lessons learned through, UNCTAD's capacity- and institution-building work in developing countries and countries with economies in transition.

*Series A* deals with issues related to investment promotion and facilitation and to the work of investment promotion agencies (IPAs) and other institutions that promote FDI and provide information and services to investors. The publications are intended to be pragmatic, with a how-to focus, and include toolkits and handbooks. The prime target audience for Series A is practitioners in the field of investment promotion and facilitation, mainly in IPAs.

*Series B* focuses on case studies of best practices in policy and strategic matters related to FDI and development arising from existing and emerging challenges. The primary target audience for Series B is policymakers in the field of investment. Other target audiences include civil society, the private sector and international organizations.

The *Investment Advisory Series* is prepared by a group of UNCTAD staff and consultants in the Policies and Capacity-building Branch, under the guidance of James Zhan.

This guide was prepared by Jan Smit (UNCTAD consultant) under the supervision of Paul Wessendorp, Chief of the Investment Facilitation Section. Inputs and advice were received from Andreas Wigren and Carlos Griffin. The guide benefited from comments made by Rory Allan, Chantal Dupasquier and Nisha

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## Contents

<b>Abbreviations.....</b>	<b>vii</b>
<b>Executive summary.....</b>	<b>ix</b>
<b>Introduction.....</b>	<b>1</b>
<b>1. The rationale for evaluating IPA performance .....</b>	<b>7</b>
1.1 Why evaluate?.....	7
1.2 External and internal drivers for evaluation.....	9
1.3 Challenges to effective evaluation .....	14
1.4 Key requirements for successful evaluation .....	16
<b>2. Information sources and basic tools .....</b>	<b>19</b>
2.1 Information and data required for evaluation .....	19
2.2 Basic evaluation tools .....	25
2.3 Evaluation challenges for low-budget IPAs.....	30
<b>3. Method and approaches.....</b>	<b>31</b>
3.1 Doing the right thing: Evaluating the IPA's role .....	31
3.2 Doing the thing right: Evaluating main management areas ...	42
3.3 Doing evaluation.....	58
<b>4. Conclusions .....</b>	<b>61</b>
<b>Annex I. A draft survey questionnaire .....</b>	<b>63</b>
<b>Annex II. Invest in Sweden Agency questionnaire.....</b>	<b>67</b>
<b>References.....</b>	<b>69</b>
<b>Selected UNCTAD publications on TNCs and FDI .....</b>	<b>71</b>

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### **Boxes**

1. IPA evaluation and Good Governance in Investment Promotion.....	8
2. Challenges to effective evaluation.....	14
3. Evaluation of an IPA: The London Development Agency .....	39
4. Invest in Sweden Agency’s “follow-up system” .....	41
5. Evaluating proposals to obtain funding at Greater Helsinki Promotion .....	44
6. SWOT analysis of a hypothetical IPA.....	49
7. Evaluating aftercare at an Eastern European IPA.....	51
8. Evaluation targets for operations at ProsperAr (Argentina) .....	56
9. Performance evaluation at the Tanzania Investment Centre.....	57

### **Figures**

1. Intervention logic for an IPA .....	34
--	----

### **Tables**

1. Market failures that can underpin the rationale for an IPA .....	11
2. Data and information used for evaluation.....	23
3. Basic tools for IPA evaluation .....	28
4. The logic chain .....	38
5. Indicators for human resources evaluation .....	45
6. Example of a balanced scorecard for an IPA project manager .....	46

## **Abbreviations**

CATI	computer-assisted telephone interviewing
CRM	customer relationship management
DIAE	Division on Investment and Enterprise
DTI	Department of Trade and Industry (United Kingdom)
FDI	foreign direct investment
GGIP	Good Governance in Investment Promotion
GHP	Greater Helsinki Promotion
HM Treasury	Her Majesty's Treasury (United Kingdom)
HR	human resources
ICT	information and communication technology
ISA	Invest in Sweden Agency
LDA	London Development Agency
MIGA	Multilateral Investment Guarantee Agency
OECD	Organisation for Economic Co-operation and Development
ProsperAr	National Investment Development Agency (Argentina)
R&D	research and development
RHQ	regional headquarters
SWOT	strengths, weaknesses, opportunities and threats
TIC	Tanzania Investment Centre
TL	Think London
UKTI	UK Trade and Investment
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNEG	United Nations Evaluation Group



## Executive summary

Investment promotion agencies (IPAs) are potentially key institutions for delivering increased levels of welfare. There has been a rapid increase in the number of IPAs operating throughout the world and a growth in the resources dedicated to investment promotion since the 1980s.

However, there is evidence to suggest that this growth in the number of and resources employed by IPAs has not been matched by a corresponding emphasis on evaluation of performance and development of performance evaluation systems. Yet there exists a set of well-defined methodologies for evaluating public programmes, as well as private sector performance evaluation tools that are readily applicable to IPAs. This guide sets out what some of those tools are and how they can be used in IPAs.

It is also recognized that while there is a need for evaluation, driven both by external stakeholders such as funding ministries or donors, and the internal needs of management, there are some human and technical barriers that may have to be overcome for effective evaluation to take place.

The publication takes two different approaches to evaluation: (a) “doing the right thing” and (b) “doing the thing right”. From the *first* approach, the IPA is looked at in terms of its reason for being: why is it in operation? One reason for being may be to counter specific, identified market failures. Once such failures are identified, it can be set out how, in a logical way, the IPA intends to deal with those market failures. When this is clear, it is possible, through the evaluation methodology set out in this guide, to evaluate whether the IPA is doing the right thing, what it should be doing more of, less of, or not at all.

The *second* approach to evaluation is that of “doing the thing right.” That means, given the rationale for its existence, evaluating if the IPA is carrying out the appropriate activities to implement its mandate and if this is being done in the best possible way. This approach to evaluation is considered in terms of core

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management areas in the IPA: funding, human resources management, strategy, marketing and operations. Several tools are presented for evaluating whether the IPA is “doing the thing right”.

An underlying theme is the relationship between the two approaches to evaluation. They continually inform each other, as borne out by the fact that they use the same basic tools, data and information sources. The types of tools, data and information required for evaluation are listed, along with their respective advantages and disadvantages. Throughout the text, case studies are provided for illustration. The annexes provide a draft survey questionnaire and an example of an actual survey questionnaire used by an IPA.

The overall conclusion of this report is that successful evaluation will enable the IPA to identify the best use of the resources at its disposal. There is a sound body of evaluation methodology that can be applied to help IPAs do this.

Successful evaluation requires attention to both “hard” factors such as data collection and interviewing and “soft” factors such as dealing with people and organizations to obtain their collaboration by being open, inclusive, unbiased and objective.

One key implication of IPA evaluation in terms of the methodology presented in this guide is that good performance does not necessarily mean that the best “return on investment” within an IPA is being achieved: “doing the thing right” does not necessarily mean “doing the right thing”.

Ultimately, the value of evaluation is measured by the changes that result from such exercises.

## Introduction

Investment promotion agencies (IPAs) are potentially key institutions for delivering increased levels of welfare through the attraction of foreign direct investment (FDI). To this end, IPA managers and staff exercise great efforts, often with great ingenuity in a highly competitive environment. As far back as 1986, Encarnation and Wells said: “Indeed, competition among governments for foreign investment involves strategies that are as complex as those adopted by private firms”.<sup>1</sup> Since then, competition has intensified. In the absence of ready indicators such as profit or return on capital, IPAs are required to develop specific measures for performance evaluation.

Having said this, the reality is that in 2000 an UNCTAD survey found that “most IPAs...state that they do not have any clear performance indicators, either qualitative or quantitative, for evaluating their achievements”.<sup>2</sup> Rapid growth in the number of IPAs has fuelled a corresponding expansion of funds and employment. This, coupled with countries’ and regions’ need for effective marketing strategies to target investors, makes it imperative that funding organizations obtain better insight into what the outcomes of their funding activities are. It is also necessary for the executives and managers of IPAs to determine how they are most useful and allocate their resources accordingly.

There are well-developed procedures for the evaluation of public sector programmes, with established methodologies that have been developed over time by governments and donor organizations. Guidelines have been published and are readily available from national governments and organizations, such as the

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<sup>1</sup> Encarnation D J and Wells L T Jr (1986). “Competitive Strategies in Global Industries: A View From Host Governments”, in Porter M E (ed): *Competition in Global Industries*. Boston: HBS.

<sup>2</sup> UNCTAD (2002). *The World of Investment Promotion at a Glance*: 32.

## **Introduction**

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Organisation for Economic Co-operation and Development (OECD), the United Nations (UN) and the World Bank.<sup>3</sup>

This guide presents a generic methodology for evaluation of IPAs, based on a body of accepted research, which can be adjusted to fit the specific circumstances of IPAs worldwide. The primary objective of evaluation is to learn from experience, leading ultimately to improved performance and returns on public and private funds invested. Evaluation achieves this through two basic mechanisms:

- (a) *Accountability* – looking backward, evaluation helps to explain to stakeholders what has been achieved by a programme and the use made of public funds;
- (b) *Improving future programmes* – looking forward, evaluation helps ensure that lessons from the past are learnt and used to improve existing and future programmes.

### **Defining “evaluation”**

Evaluation involves determining as systematically and objectively as possible the relevance, efficiency, effectiveness, sustainability and impact of activities in light of their objectives. Evaluations can assess both processes (for example setting up, managing and implementing a programme to deliver an outcome) and outcomes themselves (the ultimate objectives that a programme is seeking to achieve). A variety of things can potentially be subject to evaluation: a project (e.g. a specific inward investment), a programme (e.g. a new marketing initiative for a specific sector), an organizational function in the IPA (e.g. aftercare), a process in the IPA (e.g. enquiry handling), the whole IPA organization, or the economic impact of the IPA. However, evaluation does not stop there. It also asks, “Are there better ways of doing it?” and makes a

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<sup>3</sup> See the references for this guide.

critical contribution to organizational learning and institutional performance.<sup>4</sup>

The definition of “evaluation” used in the UN system is: “...an assessment, as systematic and impartial as possible, of an activity, project, programme, strategy, policy, topic, theme, sector, operational area, institutional performance, etc. It focuses on expected and achieved accomplishments, examining the results chain, processes, contextual factors and causality, in order to understand achievements or the lack thereof. It aims at determining the relevance, impact, effectiveness, efficiency and sustainability of ... interventions and contributions.... An evaluation should provide evidence-based information that is credible, reliable and useful, enabling the timely incorporation of findings, recommendations and lessons...”<sup>5</sup>

In this guide, the term “evaluation” is used in two different senses: to assess (a) if the IPA is “doing the right thing” and (b) if it is “doing the thing right”. In the *first* sense of the word (sometimes called “existential” evaluation), evaluations can be carried out before launching a programme (ex ante), in the course of a programme (mid-term), or once it is concluded (ex post). The focus of this guide is on mid-term and ex post evaluation, “retrospective analysis of a project, programme or policy to assess how successful or otherwise it has been, and what lessons can be learnt for the future”,<sup>6</sup> but the same method could be used for ex ante evaluation as well.

The *second* sense in which the term is used, “doing the thing right”, assesses the effectiveness of achieving those goals identified as the “right” things. Evaluation in this sense aims to

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<sup>4</sup> UNEG (2005). *Norms for Evaluation in the UN System*: 4.

<sup>5</sup> Ibid.

<sup>6</sup> HM Treasury. *The Green Book. Appraisal and Evaluation in Central Government. The Stationery Office*: 102.

## **Introduction**

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answer questions such as: How many resources are being used to win specific investment projects or access a particular target market? How does that compare with other target markets? How productive is our team? How useful is our website? What are the barriers to our organization's improved performance? This kind of evaluation is closely linked to performance measurement<sup>7</sup> and is carried out continuously, rather than at periodic intervals of a few years, as in the first case.

Answers to the question "Are there better ways of doing it?" are mainly obtained from examining the organization internally but often also from looking at what others are doing and comparing the IPA with them through benchmarking exercises. The elements are, however, interdependent: good goal-setting and activity definition make it easier to track performance, which then makes it easier to compare goals and activities with other IPAs.

Furthermore, evaluation should be seen as part of an ongoing organizational learning process, not a one-off exercise, and organizations should develop a culture of evaluation.

### **Aims of the guide**

The aims of this guide are to:

- (a) Make clear why it is important to evaluate the IPA, and identify some challenges to evaluation;
- (b) Consider the advantages and disadvantages of different information sources and tools;
- (c) Set out a sound methodology to evaluate IPA performance, including both quantitative and qualitative measures, and taking into account differences among IPAs.

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<sup>7</sup> Useful guidance on monitoring in an IPA is provided in MIGA (2000). Investment Promotion Toolkit 8. Monitoring and Evaluation Activities in Investment Promotion Agencies.

### **The challenge of IPA evaluation**

A foreign investment decision made by a firm is the result of a wide range of factors, both internal and external to the organization. In such a context, evaluating the IPA's contribution to inward investment can be quite complex. The central question is one of attribution – what has been the role of the IPA?

Once this question has been answered, the IPA should know:

- (a) What it should be doing but is not;
- (b) What it should be doing and is, but should do more or less of, or better;
- (c) What it should not be doing at all.

Only when this is clear can the IPA develop effective options and select optimal strategies for the future.

### **The structure of the guide**

Chapter 1 of this guide looks at the rationale for IPA evaluation and some challenges to such evaluation; chapter 2 deals with various information sources and evaluation tools; chapter 3 sets out an evaluation methodology; and chapter 4 concludes the guide.



## **1. The rationale for evaluating IPA performance**

The aim of this chapter is to make clear the importance of carrying out evaluation exercises. We ask why there is a need for evaluation and consider who has an interest in evaluation of the IPA, both internally and externally. We then address some evaluation challenges and discuss key requirements for successful evaluation.

### **1.1 Why evaluate?**

IPA managers are continually faced with making decisions such as:

- (a) Should we carry out general awareness programmes or focus on targeted investment generation?
- (b) How do we ensure that we have the appropriate mix of staff, and how do we motivate them?
- (c) Do we establish or close down foreign offices?
- (d) What do our clients value most?
- (e) What do we think is the most valuable role we can play?
- (f) What should we be doing better? How can we do it better?
- (g) What should we do to ensure that the benefits of our intervention are maximized in terms of, for example, job creation or technology transfer?
- (h) How is our region doing compared to others?
- (i) Do we invest more in attracting new firms to our region or in working with those already established here?

These are just some questions that, to be answered, require some type of evaluation. The common themes underlying these questions are those of increased effectiveness, improved performance, and better value for money. These will ultimately contribute to justifying the existence of the IPA and help its management decide what services it should offer and how it should deliver them. However, it is not just IPA managers who have an interest in securing best returns on the investment in the IPA: external organizations with a stake in the IPA have a similar

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**Chapter 1. The rationale for evaluating IPA performance**

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interest. In addition, evaluation contributes to good governance, which is a high priority for many governments (see box 1).

**Box 1. IPA evaluation and Good Governance in Investment Promotion**

In addition to providing direction for the improvement of an IPA's efficiency and impact, evaluation adds to the quality of a country's investment climate by promoting Good Governance in Investment Promotion (GGIP).

Revisiting IPA goals, processes and performance through evaluation provides a basis for holding its managers and government accountable when they do not adequately meet their mission. To maximize accountability, negative evaluation results should be followed by remedial action whenever possible, and by adequate explanations whenever not.

Making evaluation results public is a big step towards transparency. Publicity keeps pressure on the IPA to meet its mission in relation to investors and the country. It acts as its own penalty and reward, embarrassing poor performers into doing better and giving good performers the encouragement and political recognition to continue. Here, transparency refers to the process of evaluation as well. If the integrity of an evaluation is suspect, its results may not be trusted and its benefits may be lost – for IPA performance and GGIP.

*Source:* UNCTAD.

Evaluation activities stem from the desire to understand and ameliorate shortcoming and build on strengths, enabling improvements to be brought about by learning and applying lessons from experience. The reasons for evaluation can be external and internal. These two drivers for evaluation will now be discussed in turn.

## **1.2 External and internal drivers for evaluation**

### *External organizations*

It is possible to distinguish four groups of external organizations that have an interest in IPA evaluation. These are:

- (a) Government departments that provide funding for IPAs;
- (b) Other external organizations or stakeholders that provide funding or other forms of support for IPAs;
- (c) Donor organizations;
- (d) Other affected organizations.

The nature of these groups' interests will be discussed below.

### *Government finance departments*

Having an IPA is not just a matter of national or sub-national prestige – it needs to be useful, and to be able to *prove* that it is useful. Thus for example, a World Bank paper asks: “Does a Country Need a Promotion Agency to Attract Foreign Direct Investment?”<sup>8</sup> The author suggests, based on a survey of 58 countries, that greater investment promotion is associated with greater FDI flows. Findings also suggest that IPA effectiveness is related to investment climate; the scope of activities the IPA undertakes (in particular the role of policy advocacy increases effectiveness, when compared with investment generation and targeting strategies that can be risky and expensive); and, that the closer the reporting is to the highest policymakers or the private sector, the more effective is the IPA. The point is that having a special agency for the marketing of a location and generation of

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<sup>8</sup> Morisset J (2003). “Does a Country Need a Promotion Agency to Attract Foreign Direct Investment? A Small Analytical Model Applied to 58 Countries”, Policy Research Working Paper 3028. FIAS, World Bank. Washington, DC.

## **Chapter 1. The rationale for evaluating IPA performance**

inward investment is under scrutiny and being questioned by policymakers.

In most market-oriented economies, finance departments or treasuries need a strong economic *rationale* before they are prepared to intervene in the economy. In such economies, the rationale for intervening is built on identification of a failure in the market to produce what are considered optimal outcomes in terms of resource allocation, production and distribution. Typical market failures in an inward investment context, and how they can underpin the rationale for an IPA, are presented in table 1.

For example, the creation of the Invest in Britain Bureau (now UK Trade and Investment, UKTI) was based on a rationale of information problems. Research at the time (late 1970s) found US investment that would traditionally have gone to the United Kingdom (UK) was going to Germany instead. The British authorities took the view that this was due to incorrect perceptions of what was happening in the UK (based on TV, press and other media reports). An institution that would provide an “accurate” portrayal of developments in the UK to foreign investors would counter such misperceptions and ensure a continued flow of US investment to the UK. In addition to providing information to foreign investors, the IPA would coordinate the activities of sub-national IPAs in the UK to produce better results for the country as a whole.

Different countries are faced with different circumstances that would justify intervention. For example, if there is only one monopoly supplier present, the IPA may assist a foreign company to enter the host market to change the competitive situation. Or it could be the case that a whole economy is transforming from a planned to a market economy, and this requires not only

**Table 1. Market failures that can underpin the rationale for an IPA**

Market failure	Description
<b>Public goods and services</b>	It may be impossible to exclude non-clients from consuming IPA services. If, for example, an IPA carries out an advertising campaign that improves the country's image abroad, all inhabitants may benefit as a result. But if it were left up to the clients to pay for the services, the funding would only reflect their benefit from the IPA. The benefit of its services to others would not be taken into account. In such a case, the IPA may become underfunded. If, on the other hand, the IPA is publicly funded, non-clients benefiting from the IPA's work would also be paying for the services (through taxes). In theory at least, the greater supply of IPA services would then better reflect the total benefit to society.
<b>Externalities</b>	Positive externalities occur when benefits accrue to those not involved in a transaction. In the case of inward FDI, a foreign company may bring e.g. new technologies or management techniques to the host country. The establishment of a foreign firm can also contribute to the development of suppliers, better training, and transfer of skills. In some cases, other companies and individuals in the host country can also benefit from these.
<b>Information problems</b>	Insufficient (or incorrect) information can lead to inefficient markets. This means that people may be better off if these information gaps can be filled. An IPA can act as an information provider to foreign investors. There are several situations in which the IPA can fulfil this role, including: <ul style="list-style-type: none"> <li>• Smaller firms or individuals rarely have resources to acquire knowledge about location decisions;</li> <li>• Larger firms do not always have access to knowledge or know where to find it, even if they have resources;</li> <li>• International perceptions of a region may not reflect business realities;</li> <li>• The business sector rarely has sufficient knowledge of the public sector to find its way around. Especially for foreigners, an IPA providing a "road map" may be very useful;</li> <li>• There is a role for a "trusted intermediary" to introduce the foreigner to the domestic business and private sector networks.</li> </ul>
<b>Coordination problems</b>	Coordination problems may prevent market participants from overcoming the above-mentioned problems or their consequences. Market-driven initiatives to solve these may not be forthcoming (e.g. to reduce or coordinate sub-regional competition for FDI). The IPA can act as a centre for dealing with coordination between economic agents.

## **Chapter 1. The rationale for evaluating IPA performance**

competition-related interventions by the IPA but also interventions pertaining to information and coordination problems. IPAs could incorporate the rationale in their mandate or founding charter, which would then become the yardstick against which they are evaluated.

As IPAs evolve and their budgets grow, pressure will increase on them to justify their continued public support. This is quite reasonable, as governments have to be sure that public funds are being spent in the best way. It would be wise of IPAs to preempt government questions about continued funding, and any justification should be based on a sound economic rationale.

### *Other external organizations or stakeholders that provide resources*

Other external organizations that provide funding or other forms of support (such as chambers of commerce and industry), including in-kind support for IPAs, need to be assured that the resources they are providing are being used effectively. Members of their organizations are competing with IPAs for funding to support what may often be very deserving projects relating to, for example, trade development programmes or industry cluster development.

Such organizations need robust, transparent, objectively verifiable evaluation results to support their claims for further support. The evidence must be tangible, and be able to provide justification for the continued allocation of resources to support the IPA and the path it wishes to pursue.

*Donor organizations*

Donor organizations have a distinct interest in knowing that their funds have been put to best use. They need to report to their governments and sometimes parliaments or equivalent institutions. In this political environment, they need to be able to make a case for continued support of their programmes, often against other pressing domestic needs.

*Other affected organizations*

Principal among these would be the inward investor's competitors and suppliers. There have been instances where IPA marketing initiatives abroad have had to be curtailed due to pressure from native firms concerned about competition. An evaluation could provide insights into the IPA's programmes and may reveal, for example, if foreign investors are given an unfair advantage over domestic firms due to the activities of the IPA.

*Internal purposes*

From an internal point of view, robust evaluation of performance underlies and must inform all organizational activities, from strategy development through marketing, human resources, communications, finances and administration. Only then will it be possible to allocate resources in the most effective manner.

For example, one IPA thought that it was doing a great job generating inward FDI. In the course of an evaluation, it was found that many of the projects coming in were in fact of low contestability – investments would have come to that location anyway. It was found that what inward investors actually valued most was set-up support: introduction into local business networks so that they could get up and running. As a result, resources were reallocated to where they could make the most difference, and a

## **Chapter 1. The rationale for evaluating IPA performance**

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service was developed to support rapid set-up. In addition, the IPA was given some new targets for attracting FDI in more challenging sectors. This example shows how evaluation can serve to prioritize allocation of resources to where they are most effectively deployed.

Of course, it is not desirable or even possible to conduct an annual “wall-to-wall” evaluation of an IPA, looking at all of the different parts of the organization in detail. However, periodic IPA-wide evaluations will often identify specific areas that need to be looked into in more detail and thus set an agenda of specific projects, such as recruitment profile, information and communication technology (ICT) and customer relationship management (CRM) systems.

### **1.3 Challenges to effective evaluation**

IPAs have mentioned the points presented in box 2 as examples of challenges they have faced in evaluation.

#### **Box 2. Challenges to effective evaluation**

- (a) The performance of an IPA depends on many issues beyond its competence;
- (b) Lack of capacity to register all evaluation factors;
- (c) Information is not readily available and its collection is very time-consuming;
- (d) Lack of a structured approach for data collection;
- (e) It is not considered a priority;
- (f) There is no standard format developed to evaluate the performance of the organization;
- (g) Lack of sufficient funding to carry out effective evaluation, especially to engage an external professional.

*Source:* UNCTAD, based on information provided by selected IPAs.

Challenges to evaluation are discussed under the following headings: institutional and contextual factors, practical matters, organizational challenges, and conceptual issues.

***Institutional and contextual factors***

There are many different types of IPA. Some are small marketing operations; a number focus on administrative aspects of inward FDI; others are part of larger economic development organizations; and some allocate and manage financial support. Evaluation methodology needs to be able to accommodate such differences, and these must be allowed for and borne in mind when carrying out an evaluation. More will be said about this topic in chapter 3. But the different mandates and structures of IPAs also underline the importance of defining, up front, the rationale against which each IPA's results will be evaluated.

In addition, firms are complex organizations. They contain complexity in decision-making, operating requirements, aspirations, etc. All firms are not the same, and inward investment from or by one firm may have a very different result when compared to another. This too needs to be accounted for in IPA evaluation. Contexts may also change greatly over time due to external factors. These include effects of the business cycle, major changes in stock valuations, and political change.

***Practical matters***

An evaluation can only be as good as the evidence it is based on and data is often incomplete or inaccurate. Obtaining data and information, and then interpreting it, requires time and incurs costs. IPA executives and staff must set aside time for interviews, meetings, reviews and discussions with those carrying out the evaluation, whether internal or external. The nature of data and information to be collected for evaluation will be looked at in more detail in section 2.1.

## **Chapter 1. The rationale for evaluating IPA performance**

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### ***Organizational challenges***

An organization such as an IPA, with its stakeholders, funders and donors (where appropriate), can be seen as a group of competing and cooperating sub-systems: they compete for external and internal resources, and cooperate to achieve organizational goals. If the tension created by this process is healthy, the organization will perform well; if not, it will fail.

However, an organization may lack internal consensus on how to proceed. This could lead to formation of coalitions for or against the evaluation programme and its results. Some may feel threatened by being evaluated and this can have negative effects on the IPA. At the same time, others may respond positively to the idea that an evaluation is taking place and improve performance accordingly. Because of this, it is considered important for an IPA to prepare its staff and management when undertaking an evaluation and keep all informed about the progress.

### ***Conceptual issues***

In principle, the evaluation exercise can be relatively straightforward; in reality, it may be very complex. All the foregoing points have implications for some difficult conceptual issues: Is there enough accurate, robust data? Have the key people been consulted? Are the views obtained unbiased?

So at the end of the exercise, the question is whether there is enough evidence to build a sound case for the conclusions with regards to causality, attribution, options and recommendations.

#### **1.4 Key requirements for successful evaluation**

There are some best practice guidelines to overcoming challenges to evaluation and ensuring that the evaluation and its results are accurate. These include:

- (a) Defining and stating the aims of the exercise as clearly as possible;
- (b) Preparing the organization and its external partners for the coming evaluation by advising them of it, its aims, its expectations and the roles of those involved in the process;
- (c) Consulting as widely as possible with those that have an interest or can provide valuable inputs; being as inclusive as possible;
- (d) Striving for transparency with progress, methods, and ultimately findings.

The United Nations Evaluation Group (UNEG) has defined some “Norms for Evaluation in the UN System”. These include impartiality, independence, transparency and contribution to knowledge-building.

There is a generally held view that it is best if the evaluation is carried out by an external organization. This could be a private company or a part of the public sector tasked with similar activities, such as a national audit office. It is also important to know the audience for the evaluation. Is the evaluation’s ultimate client the IPA itself, the government department that sponsors it, the department of finance, or a donor organization?



## **2. Information sources and basic tools**

The aim of this chapter is to describe the types of information and data required for evaluation; present basic evaluations tools; and consider their respective advantages and disadvantages. Finally, the chapter addresses evaluation challenges for low-budget IPAs.

This guide takes two different approaches to evaluation: “doing the right thing” and “doing the thing right” (see chapter 3). However, underlying both approaches is the use of the same basic information sources and tools.

### **2.1 Information and data required for evaluation**

To carry out rigorous, robust evaluation requires the collection and interpretation of a good deal of information and data. This section describes the types of information and data required for evaluation, why it is sought, and presents some examples of the type of information involved as well as where it can be found. An IPA may – or should – already hold a good deal of this information, for example in its CRM system, but some may have to be created or bought in.

A factor to keep in mind when gathering information and data is the ease of storing, codifying and updating it. If the information can be used to build a time series, for example, it would also be more useful than if it is just a one-off exercise. Furthermore, it is worthwhile to consider the side effects of gathering the information. Can it, for example, provide a basis for building stronger relationships with other stakeholders or clients, or with other parts of the IPA? A summary of the information and data described below can be found in table 2.

## **Chapter 2. Information sources and basic tools**

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### ***Stakeholder views***

Through interviews and consultations with partners or stakeholders, people in key sectors or government departments, the evaluators can obtain views, at an early stage of the evaluation, on the extent to which the IPA and the firms it is attracting contribute to policy targets. Information from stakeholders will also reveal how the IPA meshes with other public sector organizations working in investment promotion and other fields and how the IPA integrates with national, regional or sector policies and institutions, both public and private. Furthermore, the views of stakeholders will make clear and help prioritize issues to be addressed in the evaluation. Useful information can be obtained from trade associations, chambers of industry and commerce, ministries, small business development organizations, sub national authorities, etc. If the IPA has regional commitments, it should consult with other national IPAs as well, and if it is a national IPA, it should consult with sub-national and even key city IPAs (if such exist). The information obtained can be used, for example, to assess the effect of inward investment on property markets, competition or competitiveness in key sectors, or labour force flexibility.

### ***IPA views***

Information obtained through consultations and interviews with key IPA managers, as well as with staff (through staff satisfaction surveys) can be used to understand the development of the IPA, its strategic position and operating conditions, systems, targets, and constraints. It can also help clarify which external organizations the IPA works with and how the agency works with them. The IPA may, for example, until recently have been a purely promotional agency but has now been integrated into a larger economic development organization with new strategies, goals and targets, financial and staffing policies. In such a case, IPA interviews can be used to determine the implications of this type of restructuring.

***Client feedback***

Feedback from IPA-assisted investors can be obtained through interviews and surveys (face-to-face, by telephone, online, or as a mix of these). The composition of the target sample is the key to a valuable survey. Direct qualitative and quantitative feedback from beneficiaries of the IPA's programme is crucial and will inform key evaluation drivers such as deadweight, displacement, multipliers, etc (see chapter 3 for an explanation of technical terms). The most common practice is to carry out a survey with one individual in the firm. However, especially in larger firms, an investment is often a group decision. It is therefore important to obtain (if possible) responses from more than one person involved in the decision. This will lead to multiple questionnaires within one firm. As an alternative, all decision-makers can be interviewed as a group (if joined with others, as a focus group).

***Non-client feedback***

Surveys can be carried out with investors who have not used the IPA to establish in the location. Similar techniques and questions can be used as those in the investors' survey mentioned above. Firms that did not invest should also be surveyed – both those that did and did not consider the location. This is important for understanding why such firms did not use the IPA, if they might have, or what the IPA should have done to make the firms want to use it. A survey of non-clients helps define the economic rationale for the IPA, targeting, and development of the service offering. It may also help to identify wasted resources. Annex I presents a questionnaire for investors that can be used (with modifications for specific circumstances) both for established and non-established investors who have and have not used the IPA. Depending on the time available and how willing survey respondents are to be interviewed, it may be possible to add on more questions about

## **Chapter 2. Information sources and basic tools**

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other matters such as the perception of the location in relation to other specific locations in order to obtain a competitor review.

### ***Case studies***

Information obtained through case studies can help identify how investment decisions are made, where the IPA can be helpful – and *most* helpful, and what investors value most. The cases should be selected on the grounds of being representative or as examples of best practice. Useful topics to explore include decision-making processes and establishment or post-establishment experiences of inward investors. A case study should involve some background research on the company and interviews, ideally with several people from the firm as well as others involved in the process, both from the public and private sector. This will serve to gain insight and lessons into what drives the process, what the stages are, and how and where support can be best provided in the course of the client journey.

### ***Benchmarking***

Benchmarking is about developing reference points or standards against which performance can be assessed. It can be for overall organizational performance or for specific functions in the organization. The aim is to compare and learn. When developing benchmarks, it is important to keep in mind that they must be comparable and suitable for implementation. From an organizational point of view, the aim of benchmarking would be to compare performance and practice with other IPAs and private firms, selected against various criteria. From a functional point of view, an IPA could benchmark, for example, lead generation or aftercare services.

**Table 2. Data and information used for evaluation**

Type	What	Why	Examples
Stakeholder views	Views from partners and stakeholders	Find out to what extent the IPA contributes to policy targets, how it fits into the wider context.	Consultations with chambers of industry and commerce, ministries, other IPAs, etc.
IPA views	Views from IPA managers and staff	Understand the development of the IPA, its strategic position, operating conditions, external partners etc.	The IPA may recently have been integrated into a larger economic development organization.
Client feedback	Feedback from investors using IPA services	Obtain feedback from the beneficiaries of the IPA's services.	Survey(s) of the individual(s) involved in the investment decision
Non-client feedback	Feedback from investors that did not use the IPA	Understand why some firms did not use the IPA.	Most questions are the same as those used in the inward investor survey.
Case studies	Detailed studies of some representative inward investors	Identify where the IPA can be helpful – and <i>most</i> helpful, and what investors value most.	Background research on the company, interviews with people from the firm and others involved in the process
Benchmarking	Reference points against which performance can be assessed	Compare and learn.	Study of performance and practices of national IPAs in competitor countries
Literature, reports and documents	Publications, etc. on subjects relevant to the IPA	Understand changes in the environment that may influence evaluation; develop a theory of causation.	OECD, UNCTAD, World Bank publications, newsletters, reports on specific policies
Performance-monitoring data	Data measuring attainment of IPA objectives	This constitutes the basis for evaluation of the IPA's performance.	Number of project successes, jobs saved or created, number of visits from firms, number of overseas presentations, etc.
Financial inputs	The funding of activities to be evaluated	Determine the funding of the IPA.	Other authorities than the main sponsoring department, or private organizations may contribute financially to the IPA.

## **Chapter 2. Information sources and basic tools**

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### ***Literature, reports and documents***

Academic literature and published or unpublished reports can help evaluators understand and incorporate various changes in the environment that may have an influence on the evaluation. It can also help in developing a theory of causation that underlies the evaluation as a whole. Relevant material to review includes UNCTAD's *World Investment Report* and *Trade and Development Report* as well as publications from the OECD and the World Bank. Reports on specific policies (e.g. industry clusters or sectors such as agri-food or automotive) may also be useful.

### ***Performance-monitoring data***

Performance data against which attainment of IPA objectives is assessed needs to be as complete as possible. Typical IPA performance data would be presented in a hierarchy with the number of project successes, jobs saved or created at the top, and then cascading down to data such as number of presentations to and visits from firms in target markets, number of overseas presentations, or number and value of incentive applications approved, depending on the nature of the IPA.

A very wide range of internal performance measures exists, most of which are very valuable and without which it would be impossible to manage the IPA. Many of these measures, however, may be focused on efficient rather than effective management (i.e. "doing the thing right" rather than "doing the right thing", see chapter 3).

### ***Financial inputs***

Financial inputs (both monetary and in-kind) include funds paid directly to the IPA, the costs of administering the funding, and any other additional public or private sector funds that may have been leveraged or included to finance the IPA's activities.

Financial inputs are used to determine the cost of the activity to all involved. Local authorities, municipalities, or even government departments other than the main sponsoring department may have contributed financially to the IPA. In some instances, private sector funds are also leveraged, in which case they must also be considered.

## **2.2 Basic evaluation tools**

The aim of this section is to describe general evaluation tools and their respective advantages and disadvantages. More particularly, it focuses on which tools are most practical on the one hand, and most effective as regards contributing to evaluation in the cost-constrained environment that most IPAs operate in, on the other.

### *Criteria for assessing evaluation tools*

When it comes to assessing which tools are potentially most useful, the following criteria can be used:

*Ease of obtaining information:* for example, it is probably relatively easy to obtain feedback about an investor's experiences when the IPA has provided support. However, care needs to be exercised when evaluating such feedback, as it may be biased if the investor believes that the nature of the feedback could be advantageous or prejudicial, either to the firm or to the IPA staff involved. This is why it is often useful to get external organizations to carry out such exercises, and even to have them act as a "control" as regards feedback already obtained by the IPA. So there is a trade-off between ease and reliability.

*Cost* is always a key issue. Therefore, it is useful if the IPA can obtain some of the information itself. When information has to be acquired, it should be as useful as possible (in the sense that it may be used for several purposes). For example, when

## **Chapter 2. Information sources and basic tools**

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interviewing investors, evaluators should not just ask them about their experience with the services of the IPA, but also about their perceptions of the host location and competitors. It may also be that there are low-cost options available for gathering data – for example through web-based surveys. However, as is pointed out in table 3, there are advantages and disadvantages to this.

There may also be possibilities of sharing costs and knowledge with other organizations. Some stakeholders may have an interest in the information, and some government departments may as well. For example, the Ministry of Tourism may have an interest in obtaining feedback from inward investors in that sector or may be prepared to share the cost of buying reports on trends in tourism.

### ***Tools for IPA evaluation***

Below, different tools for IPA evaluation are described in detail, together with their advantages, disadvantages and areas of use. A summary is given in table 3.

#### ***Interviews and surveys***

These tools can be used for surveys of perception, salaries, customers, non-customers, IPA staff or stakeholders. Other areas where interviews and surveys can be of use include case studies, competitor research, and benchmarking. There are several different types:

- (a) *Face-to-face interviews* (by external or IPA staff) provide an opportunity for direct feedback and are potentially more accurate than other forms of interview. They also leave room for wider exploration of issues and may potentially be used as the basis for relationship development if conducted by IPA staff. One major disadvantage is the cost in terms of time (set

up, travel, interview, write-up, interpretation) and funds if external organizations are contracted to undertake the interviews.

- (b) *Telephone interviews* (by external or IPA staff) are somewhat similar to face-to-face interviews, but to a lesser extent: albeit less costly, they are still quite expensive if outsourced to external contractors.
- (c) *Computer-assisted telephone interviewing (CATI)* is relatively inexpensive, and makes it possible to reach a very wide range of respondents. Data is presented in a readily analysable format, but the interviewers may not have expertise in the subject matter so the script must be very well defined. Furthermore, there is no possibility of exploring potentially interesting and important subjects that are not part of the script.
- (d) *Web-based surveys* can be very inexpensive and reach a wide range of respondents. As with CATI, data is presented in a readily analysable format. In this type of survey, however, one cannot “persuade” respondents to participate. Other major issues are incomplete interviews, misunderstandings, and different interpretation of questions.

For all survey-based tools, a good database of organizations or people to contact is essential. There is also a trade-off between the cost and the quality of the information obtained.

#### *Literature reviews*

Surveys of literature can be useful for environment assessment, competitive positioning, learning about trends and external factors, competitor research and benchmarking.

## Chapter 2. Information sources and basic tools

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**Table 3. Basic tools for IPA evaluation**

<b>Interviews and surveys</b>			
<b><i>Used for</i></b>	<b><i>Types</i></b>	<b><i>Advantages</i></b>	<b><i>Disadvantages</i></b>
<ul style="list-style-type: none"> <li>• Measuring perceptions</li> <li>• Customer feedback</li> <li>• Non-customer feedback</li> <li>• Obtaining stakeholder views</li> <li>• Salary research</li> <li>• Measuring staff satisfaction</li> <li>• Case studies</li> <li>• Competitor research</li> <li>• Benchmarking</li> </ul>	Face-to-face	Direct feedback, potentially more accurate	Costs in terms of time and funds
	Telephone	Similar to face-to-face interviews, but less costly	Still quite expensive
	CATI	Relatively inexpensive, possible to reach a wide range of respondents	Interviewers may not have expertise. Not possible to explore subjects beyond the script.
	Web-based surveys	Can be very inexpensive and reach a very wide range of respondents.	Cannot persuade respondents to participate. Risk of misunderstandings
<b>Literature reviews</b>			
<b><i>Used for</i></b>	<b><i>Types</i></b>	<b><i>Advantages</i></b>	<b><i>Disadvantages</i></b>
<ul style="list-style-type: none"> <li>• Environment assessment</li> <li>• Competitive positioning</li> <li>• Learning about FDI and other trends</li> <li>• Learning about external factors</li> <li>• Competitor research</li> <li>• Benchmarking</li> </ul>	Published reports	Cheaper than commissioning “from scratch”. Often topical and up to date.	Not always contextually relevant. May be expensive.
	Trade magazines	Can be very useful, focused, and up to date. Relatively inexpensive.	May have “partisan views”.
	Academic papers	Can be inexpensive and useful. May inspire new ways of thinking.	Often not as relevant as they may appear at first
	Press reports	May bring to light points that have been overlooked.	Sometimes biased, inaccurate or incomplete
	Former internal reports	Often provide useful information about issues in the IPA. May help avoid “reinventing the wheel”.	Circumstances may have changed. May deal with related yet different issues.
	Public sector reports	Usually free, may be up to date and topical. Tend to provide useful background.	Can be out of date and not contextually relevant.

There are a number of sources to be reviewed, each of them with their specific advantages and disadvantages:

*Published reports* may be expensive but are cheaper than commissioning reports “from scratch”. Often they are topical and up to date (or they would not be produced), and those writing them are usually expert in the area or have contacted experts. It may also be possible to contact those involved for more information. While topical, reports may not always be relevant in terms of the specific IPA context. They can also go out of date quite quickly.

*Trade magazines* can be very useful, focused, up to date and relatively inexpensive, but they may also have partisan views or need to express the views of their owners.

*Academic research/papers* may also be very useful, inspiring new ways of thinking about problems, and in general should not be expensive. Cutting-edge ideas may challenge the conventional wisdom of the IPA and its stakeholders. Academic papers can, however, be hard to follow, and are often not as relevant as they may at first appear as the assumptions may be very restrictive with a view to obtaining rigorous conclusions.

*Press reports* may bring to light overlooked points and can be quite informative, providing new leads for enquiry or new opportunities. Press material may, however, be biased, inaccurate, or incomplete. It is therefore sometimes necessary to follow up press reports for verification purposes.

*Former internal reports* are often overlooked, but just as often provide very useful information and insights into continuity as regards the emergence of issues in the IPA. As a result, it may not be necessary to “reinvent the wheel”, and it is useful to check whether former recommendations made have been implemented or not. The main disadvantages are that circumstances may have

## **Chapter 2. Information sources and basic tools**

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changed since the reports were written or that the reports deal with related yet different issues.

*Public sector reports* are usually free and may be up to date and topical. They tend to provide useful background on policies, trends and context that are important for defining the evaluation framework. However, they may also be very out of date and not contextually relevant for the IPA.

### **2.3 Evaluation challenges for low-budget IPAs**

The majority of IPAs are small and have low budgets. In such an environment, even more than in a resource-rich one, it is essential that the IPA use its resources in the best possible way. Evaluation in terms of a well-defined organizational rationale is essential.

For low-budget IPAs, the cost issue can easily become a problem. A cost-constrained IPA could gradually improve its evaluation capacity, initially using funds for the most useful tools, such as a detailed investor survey. Then one need only supplement that information periodically with work by external contractors, helping to keep costs down and making sure that a lot of the knowledge gained in the process stays inside the organization as well. However, issues concerning objectivity and bias must be dealt with in such a case. In addition, one should obtain financial support from funding organizations, stakeholders or donors. In many cases, evaluations are actually initiated and funded by those groups.

### **3. Method and approaches**

The aim of this chapter is to present generally accepted methodology for evaluation in IPAs. Two different approaches to evaluation are presented: the “doing the right thing” approach is dealt with first. A framework for carrying out such evaluation is outlined; technical evaluation terms are set out; and the critical evaluation logic chain used to identify attribution and causation is presented. In the final section of the chapter, the evaluation of key management areas in the IPA is discussed – the “doing the thing right” approach. Tools for evaluation of these specific areas are also presented, in addition to the basic tools outlined in chapter 2.

#### **3.1 Doing the right thing: Evaluating the IPA’s role**

The key questions that evaluation deals with include the following:

- (a) What should the IPA be doing to address identified market failures?
- (b) How should it do this?
- (c) What should the IPA be doing more of, less of, or better?
- (d) To what extent is the IPA meeting its goals or fulfilling the rationale for its existence?
- (e) What is the relationship between resource inputs and results?
- (f) What is the role of the IPA in realizing these results?
- (g) What are the options available for improving effectiveness?

The method presented below addresses these questions directly.

#### ***A framework for IPA evaluation***

IPAs operate in a specific context, and it is important to understand this and make it explicit when evaluating one or comparing it to another. The evaluation programme must therefore gather information to define a clear and explicit framework. Setting out the IPA’s context helps answer the key evaluation questions

### **Chapter 3. Method and approaches**

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above and ensure the transferability of lessons and good practices when carrying out benchmarking exercises.

The IPA context is defined by factors external and internal to the IPA. External factors include the global environment, regional trends and developments, national circumstances, and various sub-national factors. Internal factors are the nature or type of IPA, its resources and stage of development. These external and internal factors are outlined below. The attention to be devoted to these and their impacts will vary for each IPA.

#### *External factors*

External factors can be grouped into four categories corresponding to different geographical levels:

- (a) Global: If the country of an IPA is globally well known, resource-rich and accessible, the IPA should develop a service offering that reflects these realities. This could mean, for example, a focus on support for establishment or aftercare. If, on the other hand, the country is relatively unknown and lacks resources, the IPA may have to focus on awareness creation and investment generation in target industries.
- (b) Regional: The country may be part of a region with good or bad infrastructure, high or low degree of political stability, market integration, etc. As a result, foreign investment may be either positively or negatively affected through no direct role of the IPA. Such factors must be identified and made explicit when setting out the evaluation framework.
- (c) National: It may be that an IPA has a mandate to support specific national development programmes for certain industries. On the other hand, the IPA may be given a free rein to pursue what it has itself, through research, found to be areas of opportunity.
- (d) Sub-national: Powerful industry-driven factors, such as the presence of strong industry clusters, may have a great impact

on inward investment. IPAs need to be aware of these effects, both positive and negative, when carrying out evaluations.

*Internal factors*

IPAs are often in a continuous state of evolution but can generally be categorized in terms of the following types:

- (a) Investment promotion/facilitation organizations;
- (b) Investment promotion/facilitation organizations integrated with broader economic development organizations;
- (c) Investment promotion/facilitation organizations integrated with broader economic development organizations that are also responsible for administering financial support of various kinds;
- (d) Any of the above, but in addition acting as a single entry and registration point for foreign investment into the country.

These organizational types need to be taken into account in an evaluation. For example, the size and role of the promotional department as compared to the aftercare department may differ among IPA types, as could the staff composition.

***A generic method for IPA evaluation***

This sub-section presents a generic method for evaluation that has been tried and tested and can be tailored to fit the various contexts or frameworks described above. The aim is to identify and separate factors that cannot be attributed to the IPA's activities. This, however, necessitates the introduction of some technical terms.

Once this has been done, the logical sequence into which the terms fit is discussed. This is followed by a case study of an actual IPA evaluation using the described methodology.

### Chapter 3. Method and approaches

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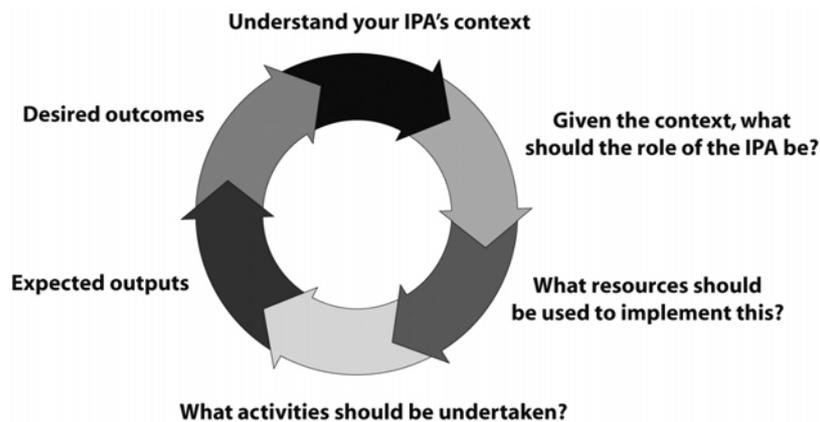
#### *Intervention logic and performance indicators*

The first step is to understand the intervention logic (sometimes called the “programme theory” or “theory of action”). It sets out what the IPA’s programme of activities is supposed to achieve and how it is supposed to achieve it. The intervention logic explains the *intended causal relationship* between inputs, the activities of a programme, and the outcomes.

The intervention logic is driven by the market failures identified (see table 1). For example, if it is considered that the reason for insufficient inward investment into a country lies in its low profile among transnational companies (TNCs), the intervention logic would be to raise the country’s profile with the aim of realizing more inward investment. Alternatively, if a country wants to diversify its types of investors to include those involved in higher value-added activities, an IPA’s intervention logic may call for investor-targeting efforts.

It is useful to set out the intervention logic for an IPA in diagrammatical form as in figure 1.

**Figure 1. Intervention logic for an IPA**



The intervention logic will also determine the appropriate performance indicators. It is against these that the programme will be assessed. Performance indicators should:

- (a) Reflect the programme's intervention logic and capture different stages in the implementation process (inputs, processes, activities, outcomes);
- (b) Ideally be quantifiable, although this will not always be possible or appropriate.

Performance indicators related to a programme's outcomes are especially important. It is necessary to distinguish between outputs and outcomes (see below for a definition of these terms). Indicators also need to be designed in a way that is consistent with the programme objectives.

*Review of technical terms*

The technical terms<sup>9</sup> involved in evaluation of an IPA are explained below as they relate to IPAs.

*Additionality* is an effect that would not have occurred in the absence of the IPA's intervention. This can be in terms of investment *size*: (e.g. more employment), *scope*, (e.g. not just manufacturing but also research and development) or *timing* (e.g. quicker start-ups).

*Counterfactual* cases are those where a targeted output of an IPA was realized without the involvement of the IPA.

*Crowding out* refers to a decrease in private sector demand as a direct result of the IPA's activities. For example, crowding out exists if, due to the presence of the IPA, less private sector location

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<sup>9</sup> Some key sources of technical terms are: Her Majesty's Treasury (UK), OECD, Department of Trade and Industry, UK (2006).

### Chapter 3. Method and approaches

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consultancies are in operation than would otherwise have been the case. The opposite effect – *crowding in* – would be the case if more law firms in the host location develop services to meet the needs of foreign investors attracted by the IPA.

*Deadweight* means expenditure to promote investment that would in fact have occurred without the expenditure, for example, if a firm received support from the IPA even though it would have established without the support in question.

*Displacement* refers to reductions in productive capacity resulting from activities supported by the IPA. An example would be if an indigenous firm is disadvantaged or even goes out of business because a foreign investor has established in the country with the IPA's support. Thus displacement refers to indirect negative effects, whereas crowding out refers to direct negative effects of IPA activity.

*Gross attributable outputs* are the total number of outputs delivered by the programme. These include the number of inward investment projects assisted, new jobs created or safeguarded as a result, new products developed, surface area occupied by offices and factories, R&D-driven investment, website visits, and number of visits by potential inward investors.

*Leakage* refers to IPA efforts and resources spent on a potential investor who in the end does not invest in the location.

*Multipliers* refer to further economic activity generated. One example is income multipliers from additional economic activity associated with the income earned by those employed by the investor. Another example is supply multipliers from additional local purchases of, for example, IT equipment or other business services.

*Outcomes* are the eventual benefits to society that the IPA's activities are expected to achieve. Since outcomes are often difficult to measure, the achievements are sometimes expressed as outputs, as intermediate steps along the way. Thus, an IPA may wish to create a certain number of new jobs, but instead of reporting the actual outcomes it reports (gross attributable) outputs, as it has not subtracted deadweight, displacement, leakage, etc from the gross number of jobs recorded.

*Substitution* occurs where a firm substitutes one activity for another to take advantage of public sector assistance. For example, an inward investor expands by replacing an existing worker with a jobless one to obtain incentives for providing jobs to the unemployed; or moves from an urban to a peripheral area to take advantage of employment and other grants.

*Unintended or unforeseen effects* could be positive or negative, for example, if inward investment facilitates the recovery of an ailing industry, leading subsequently to export growth and significant expansion.

*Wider effects* are effects on sustainable development through the "triple bottom line": economic, social and environmental development.

*Identifying causality and attribution: The logic chain*

The logic chain is the process whereby that which is really attributable to the IPA's activities is identified. The process, described in more detail in table 4, can be summarized as follows:

1. Identify all inputs (financial and non-financial);
2. List gross attributable outputs (from performance reporting);
3. Using feedback from the investor and counterfactual surveys and research, subtract the effect of deadweight, leakage and substitution from those gross outputs;

### Chapter 3. Method and approaches

**Table 4. The logic chain**

Stage	Item	Type of Item	Information source
Inputs	Financial and non-financial	Financial, in-kind, from IPA, stakeholders, and others	From funders/donors, and other stakeholders
<i>Gross attributable outputs</i>	<i>As identified in performance reporting: usually related to employment created, safeguarded and value added</i>		
	(-) Deadweight	Deadweight (would have happened anyway)	From surveys and case studies
	(-) Leakage	Leakage (e.g. left despite – or because of – intervention)	From follow-up activities on enquiries
	(-) Substitution	Substituting activities that do not produce a net positive result	From interviews with investors/ surveys
<i>Gross direct outputs</i>	<i>Usually less than gross attributable outputs</i>		
	(-) Displacement	Displacement (competitor closes down – due to IPA support of – inward investor)	Surveys, press reports, industry contacts
<i>Net direct outputs</i>	<i>Need not be very different to gross direct outputs if well targeted interventions by IPA</i>		
	(+) Income multipliers	Income multipliers: jobs created through additional expenditure from income of those newly employed or with safeguarded jobs	Usually determined by value of jobs created (salaries), use survey and national statistical data
	(+) Supply multipliers	Supply multipliers: jobs created through effects on supply chains	Usually determined by value of company purchases, use survey and national statistical data
<i>Net outputs</i>	<i>Usually the multipliers in developed economies are in the region of about 1.1. to 1.5</i>		
	(+/-) Dynamic multiplier effects	Dynamic multiplier effects: from extra economic effects through crowding in versus crowding out	Surveys and interviews with investors and non-investors, press reports, industry contacts
<i>Total net outcomes</i>	<i>This will depend on the balance between the plus/minus effect listed above.</i>		

4. From the gross direct outputs thus arrived at, subtract displacement, to arrive at net direct outputs;
5. To arrive at net outputs, apply income and supply multipliers (values are usually available from the national statistical office);
6. Then consider any dynamic/multiplier effects from crowding in/out to arrive at total net outcomes (based on research and interviews).

An evaluation can become very detailed and include research on where jobs are created/safeguarded (regions, or even areas within towns and cities), the nature of jobs created (skills/remuneration), the role of expansion, contribution to new product development and innovation, and much more, depending on resources available for the work and the quality of the data available. There is, potentially, substantial scope for quantification.

One of the key results of using the logic chain described above is that it is possible to develop a notion of the cost of the outcomes, which can then be compared to those of other programmes and other IPAs. In addition, the surveys and interviews will help identify areas of opportunity for the future, where net outcomes are maximized and deadweight, substitution, leakage and displacement can be minimized. This could lead to a significant redesign and realignment of the IPA's service offering.

An example of an evaluation using the logic chain methodology is presented in box 3.

**Box 3. Evaluation of an IPA: The London Development Agency**

The London Development Agency (LDA) has the responsibility for promoting inward investment to London, which it carries out in coordination with the UK's national IPA, UKTI. The LDA outsources its inward investment promotion activities to the agency Think London (TL).

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### Chapter 3. Method and approaches

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**Box 3 (concluded)**

A review of inward investment and business retention was undertaken in 2006/7 in order to establish priorities and understand future delivery options. The review was conducted within the evaluation framework as set out above, as this was a specific requirement of the project specification. The research ascertained that some US\$29 million had been provided to TL over the period of 2003/4 to 2007/8.

The survey of firms assisted by TL found that a very large share of them would have established in London anyway (deadweight). The majority of firms were in corporate functions to which London was ideally suited (headquarters, sales and marketing and other service operations); they tended to establish in the expected areas (the City, Westminster); and projects (reflecting pan-European trends as reported in Ernst & Young's European Investment Monitor) were getting smaller and smaller. In addition, the main source of TL's leads was UKTI. Deadweight was thus estimated to be in the neighbourhood of 70 per cent or more, and few projects were really considered contestable.

Displacement was not significant, as most firms brought in new products or services or were following clients they had been supplying from their home locations. Substitution was insignificant, as London is not a major area for government grants and other forms of intervention. Leakage was estimated at some 10 per cent, and multiplier effects were considered to be at 1.5.

The consequence was that it was decided that service delivery for the future would be redesigned and realigned to reduce deadweight, increase value for money and bring the promotional activities of the LDA and TL more into line with identified market failures and the LDA's overall economic development strategy.

*Source:* UNCTAD, based on information provided by LDA.

Invest in Sweden Agency (ISA) has developed a very useful "follow-up system" that makes use of key elements of the logic chain methodology without going into great detail. The system (subsequently reviewed and updated) set out in box 4 has been in use since 1999. The overall aim is to obtain an equivalent to the return on investment figure of the private sector for public sector inward investment promotion.

**Box 4. Invest in Sweden Agency's "follow-up system"**

The system has the following elements:

- (a) Registration of all contacts, both qualified and non-qualified, on the CRM database, followed by tracking until a decision has been reached.
- (b) Completion by the inward investor of a short feedback questionnaire (sample included as annex II). The questionnaire has two parts: one confirming the facts of the investment and another evaluating ISA's services and involvement.
- (c) Evaluation of results by the Audit Committee. The Audit Committee consists of two external representatives and the Director General. Implemented investments are reviewed and evaluated by the Audit Committee in terms of the size of the investment; its importance (using a five-point scale that considers various factors weighted together); and the impact of ISA's involvement (a three-point scale: low, medium and high). Points are awarded to each investment accordingly.
- (d) An annual "investor perception survey", carried out by an external company, on how investors perceive ISA's services. This identifies areas for improvement.
- (e) Annual follow-up of how the past three years' new establishments have progressed. This is to obtain a picture of how earlier reported investments have progressed.
- (f) A "scorecard". Special summaries are produced annually for countries, focus areas and projects. Scorecards draw together the accumulated resources (staff and funds) that are used for the accumulated results from those countries, focus areas and projects. Findings are then reviewed from the point of view of future operations. This is seen as the equivalent of the statement of earnings in a private company.

Only investments that have been quality assured through registration in the database, a filled-in questionnaire from investors, and evaluation by ISA's Audit Committee are included in ISA's official reporting.

*Source:* UNCTAD, based on information provided by ISA.

### Chapter 3. Method and approaches

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#### *Strategic added value*

A term that has recently entered the evaluation vocabulary is “strategic added value” (SAV).<sup>10</sup> The idea is that organizations can create value in ways that are very real even if sometimes very hard to quantify. Ways in which this is done include:

- (a) Strategic leadership and acting as a catalyst: for example creating confidence in a region’s prospects through press briefings and other forms of public support;
- (b) Strategic influence: by organizing cross-regional partnerships and alignment with national economic goals;
- (c) Leverage: drawing more resources into the activity – both financial and non-financial;
- (d) Synergy: sharing of information and best practices between national and sub-national agencies;
- (e) Engagement: active roles working with clusters or other economic initiatives such as innovation.

Clearly, these roles can be important, and even if they are hard to quantify they must be identified and spelt out.

#### **3.2 Doing the thing right: Evaluating main management areas**

In this section, another approach to evaluation is outlined. Here, evaluation is considered from the perspective of “doing the thing right”. If it has been established through the type of evaluation set out in 3.1 that there is an economic rationale warranting the establishment and operation of an IPA, the nature of the market failures has been identified, and the requirement of addressing those market failures is written into the IPA’s mandate, then the task of the IPA is to carry this out as well as possible.

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<sup>10</sup> DTI (2006). *Evaluating the Impact of England’s Regional Development Agencies: Developing a Methodology and Evaluation Framework*: 19-21.

This approach to evaluation should be applied to some of the main management areas of an IPA: (a) funding, (b) human resources, (c) strategy, (d) marketing and (e) operations.

In practice, many organizations have developed their own customized tools for evaluation in these areas. The sub-sections below consider some well-known tools and how they can be used to evaluate performance.<sup>11</sup> The intention is to illustrate core principles in a generic manner that can then be modified as required by the particular operational realities of individual IPAs.

### ***Funding***

Most IPAs are financed predominantly through public funds. However, some may receive private funding or raise funds from public sector organizations other than their main sponsors. In such cases, it is useful to evaluate the funding by tracking these ratios over time, and, as importantly, from the point of view of cashflow and the balance/timing between outgoing and incoming funds.

Some IPAs are also responsible for granting incentives. This raises questions about where the funding comes from: are funds given to the IPA to disburse or are they kept in a different organization until disbursement? The granting of incentives, and any strategic objectives relating to these, may be affected by the system in place.

An example of how agencies can link funding to implementation, commitment and results is the system used by Greater Helsinki Promotion (GHP), a new company set up by cities in Finland's capital region – Espoo, Helsinki, Kauniainen and Vantaa together with Uusimaa Regional Council. Box 5 presents part of a GHP project proposal form.

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<sup>11</sup> There are some useful web-based learning tools available.

### Chapter 3. Method and approaches

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#### **Box 5. Evaluating proposals to obtain funding at Greater Helsinki Promotion**

The following is a funding application form used by GHP.

##### **Description**

This section briefly describes the project. The info in this section will form content for Helsinki Opus, so be as clear and concise as possible. [Provide:] Name/Description/Communications links/Links to other projects/Notes.

##### **Expected outcomes**

This section deals with the expected outcomes of the project. It allows targets to be set and enables measures to be defined. [Provide:] Description/Targets/Measures/Notes.

##### **Team – Helsinki Alliance**

List the Helsinki Alliance organizations that are (likely) committed to the project. This group is the de facto project steering group. Each organization identifies a project contact.

##### **Team – Subcontractors**

List the possible subcontractors that have been contacted to potentially provide services (or are otherwise likely to provide services) to the project. This information is not binding.

##### **Resources**

Commitment to a project is achieved through an organization's promise to spend resources on the project. Estimate the percentage of total commitment for each organization and list it in the "Percent of total" column.

##### **Evaluation – Project categories**

According to the GHP modus operandi, identify the category where the project is most relevant. Projects may be relevant in multiple categories. Projects listed under 'Generic' or 'Other' require explanation.

##### **Evaluation – FDI focus areas**

If this is an FDI project, specify the FDI focus area that the project relates to. If the project relates to multiple focus areas, please list the focus areas in the Notes section below and assign an approximate weight (in percent). If the project does not relate to any focus area, please select N/A.

##### **Evaluation – Cost centres**

According to the GHP competitiveness framework, identify the cost centre where the project outcomes will have their expected impact. Projects may have an impact in multiple cost centres.

*Source:* UNCTAD, based on information provided by GHP.

***Human resources***

People are the most important assets of an IPA, and evaluation of the human resources (HR) management component will have a key bearing on its future success.

*Staff profile*

A wide range of indicators can be tracked to evaluate if the IPA's HR management is successful. Depending on the nature of the IPA and its strategic orientation, different weights would be placed on the indicators. Some possible indicators are listed in table 5.

**Table 5. Indicators for human resources evaluation**

<b>Indicator</b>	<b>Example</b>
Skills	Is there a good mix of researchers, generalists, specialists, etc?
Experience	How many years of experience do staff members have? In the public sector? Private sector? Where? In what position?
Education	Does staff have degrees in marketing?, engineering?, languages?, or are they generalists?, etc.
Seniority	What is the mix of senior, middle-level, and junior staff members? What mix best suits the IPA's operating model?
Retention	How many years of service in the IPA do employees have? What is the average? By different staff categories, etc?
Secondment	How many IPA staff members have been seconded? From the public sector/private sector?
Training	To what extent are staff members continuing with further training or education?
Careers	What is the career path in the IPA? After leaving the IPA?
Salaries	How do the IPA's salaries (including benefits) compare to other parts of the public sector? To the private sector?
Motivation	Are there any staff motivational initiatives at the IPA?
Satisfaction	Findings from employee satisfaction or feedback surveys
Roles	What are the individual preferred team roles and aptitudes? How can the IPA develop the right, balanced mix of roles in the team?

### Chapter 3. Method and approaches

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To evaluate the staff profile, a matrix that presents desired as opposed to actual staff profile can be drawn up (in terms of the indicators above), helping to highlight areas for intervention.

#### *Staff performance*

One important truth that evaluation often reveals is that there is very rarely, if ever, a straightforward and direct causal link between an individual staff member and an inward investment outcome. This is why balanced scorecards are increasingly adopted when evaluating individual performance, and a reason why team performance is also evaluated. The idea behind this tool is that staff should not only be evaluated against external output targets such as the number of projects facilitated, but also in other areas like customer relationships, activities relating to the organization itself (internal); and the learning and personal growth that employees have undertaken in the course of the period under review. The targets on the balanced scorecard for teams and individuals should read across from those of the IPA as a whole, and includes both quantitative and qualitative elements. Table 6 presents a hypothetical example of a balanced scorecard for an IPA project manager.

**Table 6. Example of a balanced scorecard for an IPA project manager**

<b>External</b>	<b>Internal</b>
Traditional IPA targets such as number of projects facilitated, number of aftercare visits, exhibitions attended, presentations for and to prospects, types of projects, sector and country of origin	This could include presentations to other parts/teams of the IPA on what his or her team is doing; developing collaborative projects with other parts of the IPA; support provided to the IPA.
<b>Customer</b>	<b>Learning and development</b>
Number of customer feedback forms (such as those in annex II, for example) obtained; specific problems dealt with or solved for customers (and feedback if possible); evidence of improved customer relationships, for example through initiatives for established investors (e.g. an investor's forum)	Courses attended (both theoretical and people-related). Private study undertaken, evidence of personal development (e.g. how to deal with difficult people, or customer relationship management)

There is no easy solution to the challenge of improving the performance and motivation of IPA staff members. However, the key to doing so lies in making work meaningful for the individuals and teams involved. By being able to link their performance to those of the IPA when it is “doing the right thing” as identified in an evaluation exercise, it is possible to make real progress towards this goal.

### *Strategy*

Evaluation can be useful both before and after the implementation of a strategy. Before developing a strategy, an evaluation of the IPA’s operating environment can be carried out to inform the formulation of strategic goals. After the strategy has been spelled out and implemented, evaluating goal realization is a logical step.

#### *The IPA’s operational environment*

It is worth remembering that the word strategy is derived from *strategos*, the Greek word for a military commander. Evaluating the environment is like a commander assessing the strength of his or her troops, taking stock of the lay of the land, and deciding which targets to seek out and how to proceed. A well-known and useful tool for evaluating the IPA’s operational environment is the SWOT analysis. The SW – strengths and weaknesses – refer to the capabilities, or *internal* operating environment of the IPA, and its offering.

- (a) *Strengths*: these could be both quantitative and qualitative, for example stable funding, a good reputation, supportive stakeholders, or good ties to the country’s consular and diplomatic corps. The IPA may also have good relations with established investors, skilled and dedicated staff, a highly capable and respected leader, and sufficient funds to carry out its mandate. It may also have a good product to market – ample

### Chapter 3. Method and approaches

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land and business sites, skilled labour, generous incentives and good connectivity.

- (b) *Weaknesses*: the agency may be new, not well resourced, and still finding its feet in terms of recruitment and operating; there might be high staff turnover, or a situation may exist where different Government departments are involved in a “turf war” over who is responsible for the organization or exactly what its role should be. The location being marketed may also present challenges: contaminated soil, unskilled labour, archaic industrial practices, an unstable exchange rate, and limited accessibility.

The OT – opportunities and threats – refer to the *external* environment of the IPA.

- (c) *Opportunities*: for example, trends identified in global investment flows that favour the region, such as firms offshoring to lower-cost locations or the presence of a leading biotech institution in the locality; or a leading competitor location may be experiencing problems from “overheating” due to large inward investment flows that are pushing up costs.
- (d) *Threats*: these could include a lack of skilled staff, cost pressures, negative political developments, an economic slowdown, or a wide variety of factors.

An evaluation of the operational environment may also be of use to an IPA’s *proactive* policy advocacy. Such an evaluation can help to identify problems in the investment climate, and serve as input to the development of policy remedies. Box 6 shows a SWOT statement for a hypothetical IPA.

<b>Box 6. SWOT analysis of a hypothetical IPA</b>	
<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• The IPA has a good international reputation.</li> <li>• Skilled and dedicated staff</li> <li>• Good links between the IPA and established investors in the location</li> <li>• Strong base of original equipment manufacturers</li> <li>• Innovative domestic companies</li> </ul>	<ul style="list-style-type: none"> <li>• High staff turnover</li> <li>• Insufficient funding</li> <li>• Lack of coordination with other government agencies</li> <li>• A complex tax system that discourages foreign investment</li> </ul> <p>High concentration of ownership in some sectors is perceived as a barrier to entry of foreign companies.</p>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• Marketing still undeveloped</li> <li>• Undeveloped brand for inward investment</li> <li>• Development of a fast-track system for dealing with inward investors</li> <li>• Regulatory liberalization</li> <li>• Leverage intellectual and industrial strengths into global clusters, e.g. in biopharmaceuticals</li> </ul>	<ul style="list-style-type: none"> <li>• Active promotion and emergence of competitor regions</li> <li>• Increased clustering of inward investment projects around already well-established locations in neighbour countries</li> <li>• Inertia of current system prevents change and repositioning.</li> <li>• Time compression and conservatism of FDI decision-making favours already well-established destinations.</li> </ul>
<i>Source: UNCTAD.</i>	

*Realization of strategic goals*

The output of the SWOT analysis described above is a list of issue statements that makes it clear what the key issues that should inform strategy are. These can then, further, be ranked in terms of importance. In the evaluation of strategy, it is against these issue statements that performance and goal realization will be tested. At regular intervals, but at least quarterly, thought should be given to whether the strategic initiatives and various programmes in the IPA are dealing with the issues identified in terms of their relative importance.

### Chapter 3. Method and approaches

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Once a strategy has been selected, the key issue is to identify the indicators for measuring strategy implementation, based on a logic model along the lines of the one set out in figure 1 above. From the point of view of evaluating the IPA's progress towards meeting its strategic goals, good data, both quantitative and qualitative, is essential. Examples include:

- (a) Absolute performance data (e.g. number of projects, sectors, employment, value added, and exports);
- (b) Market shares, where available (e.g. percentage of investment projects into a specific part of Asia);
- (c) Customer feedback (e.g. perception, value of services, contestability of projects).

The aim of these indicators is to assess the extent to which the strategic targets have been achieved. For example, if the strategic aim (or one of the aims) had been to develop an effective aftercare service, performance would be evaluated against the indicators selected to measure the development of such an offering, e.g. number of aftercare visits made, number of new leads identified, number of leads converted, results in terms of jobs safeguarded or created; as well as some more qualitative criteria such as for example the nature and extent of IPA involvement, whether the results involved moving higher up the value chain, the relationship to targeted sectors, and feedback from surveys of established firms targeted by the aftercare programme. Box 7 presents how an Eastern European IPA evaluates the success of its aftercare programme.

Box 7 also illustrates how evaluating goal realization can provide input to *reactive* IPA policy advocacy. In the course of the evaluation, complaints from existing investors can be registered, and based on this feedback the IPA can advocate changes that improve the investment climate. The most successful policy

advocacy will be both proactive and reactive,<sup>12</sup> and as the above sub-section has shown, strategy evaluation can be useful for both.

**Box 7. Evaluating aftercare at an Eastern European IPA**

The success of the aftercare unit and its staff is evaluated using a matrix that measures achievement on three main dimensions (these are also weighted):

**Client investor services:** This includes a range of activities such as visiting and meeting with investors, troubleshooting, consultancy, providing assistance, liaising with other government departments and agencies, organizing seminars, etc. Measurement criteria used include the number of reports, letters and e-mails generated etc.; seminars run; number of attendees; and the results of customer satisfaction surveys.

**Structural issues:** These relate to the formal reporting of structural obstacles (and related suggestions for improvement) to inward investment identified as a result of undertaking aftercare duties. Measurement criteria used include the number of reports generated and the number of suggested solutions made.

**Client investor performance:** This relates to the expansion activity of client investors. The measurement criteria include: The number of jobs, and the annual percentage change in the number of jobs, associated with expansion leads in manufacturing, business support services and technology centres; the level and annual change in employment for all existing investors receiving financial incentives; the amount and/or annual change in the revenues, exports, profit and investment made by all existing investors receiving financial incentives. These metrics are also calculated for the economic gain “additional” to that associated with the investment incentive.

*Source:* UNCTAD, based on information provided by an Eastern European IPA.

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<sup>12</sup> UNCTAD (2008). *Investment Promotion Agencies as Policy Advocates*: 15.

### **Chapter 3. Method and approaches**

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#### ***Marketing***

In a sense, everything an IPA does is marketing. It is its reason for being. Below some key marketing aspects for an IPA to evaluate are described:

#### ***Location***

- (a) What do existing foreign investors think of the IPA's "product", the location? It is important that the IPA receive investor feedback both on physical attributes (e.g. demographics, growth prospects, or transport) and qualitative factors (e.g. government, regulation, or security).
- (b) How do non-investors perceive the location in terms of the same attributes as established investors? Is there a difference (a "perception gap") between the groups?
- (c) Who is establishing in the location? The IPA may want to know, for example, the investor's country of origin, sector, type of activity, size of operation, space occupied, spatial needs, capital/labour mix, skill requirements, source of inputs, destination of outputs, use of grants/incentives, or relationship to other companies in the parent firm.

On the basis of the answers to the preceding questions, the IPA should be able to understand how investors and non-investors perceive the product it is trying to sell, whether there are gaps or issues to be addressed and, importantly, if the perception of the product is as presupposed in the strategy. Does it fit in with what targeted investors are looking for? How can the product be developed or enhanced as required? How can the IPA contribute to this? Perception-tracking surveys can create quantifiable data that can be regularly monitored to measure the success of marketing initiatives.

*Channels*

A critical issue for the IPA is to evaluate its “routes to market”. Should it establish foreign representation? Should staff be based in the field or in a central office? What role should an electronic presence play in the overall marketing strategy? What should be the role of trade shows, exhibitions and other events? Many of the answers to these questions will be related to contextual matters, such as the age and the size of the IPA and the perception of the location represented. Whichever channels are selected, it is important to track and evaluate, for those channels, the following key indicators that are very simple but can be very revealing: number of leads generated; origin of leads (e.g. through an overseas embassy, from a lead-generating firm, unsolicited walk-ins, etc.); quality of leads (value/conversion ratios); costs incurred by those channels; and non-quantifiable aspects of channel presence.

For evaluating this aspect of marketing is useful to ask established firms or those that gave serious consideration to the location, how and why they heard of it and how the location came to be on the “radar screen” of the investing firm. The results of such an exercise can be more useful – and cheaper – than tracking the number of business cards sales teams bring back from trade shows in foreign locations or the number of companies that attended a luncheon hosted by the IPA in some major capital.

*Advertising and public relations campaigns*

The design of advertising and public relations campaigns can be outsourced, but it is essential that providers be given good briefs and test their campaigns before launch. It is only if goals are well defined that they will be readily measurable, and realization of goals can be evaluated. The acid test for such campaigns comes when personal sales contact is made with target prospects and it can be determined whether or not they were exposed to the messages in question and whether or not they recall them.

### **Chapter 3. Method and approaches**

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Good recording and tracking over time of the sources of incoming enquiries at the IPA that are not from personal sales contacts can be invaluable: just asking where the enquirer heard of the IPA or region in question (they may even be given a few options) and recording this on the CRM database could be extremely useful. More in-depth information could be obtained from the investor and non-investor surveys (see chapter 2).

#### *Grants and incentives*

The role of various grants and incentives in the investment decision varies with the nature of the investment in question: for example, a reduced rate of tax on profits is not of much value if the investment is a cost centre,<sup>13</sup> while it may be very useful for a company using the location as an export platform for final goods.

Different grants and incentives have different impacts and often cause unintended results, for example attracting foreign firms established in urban areas to outlying regions where incentives or grants are available when the aim was to attract new foreign investors. The role and importance of grants and incentives can be assessed in the course of the investor survey. Thought can then be given to whether they are appropriate, how desirable and important their effects are, and whether they need to be modified.

#### *Operations*

From an operational point of view, it is useful for an IPA to track and evaluate the behaviour of the project “pipeline”. This involves tracking the number of enquiries that come in and their progress along the different stages of the pipeline. One example includes the following stages: (a) enquiry; (b) lead; (c) qualified

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<sup>13</sup> A cost centre is a unit that adds to the cost of a company, but only indirectly adds to its profit. Research and development (R&D) and customer services units are typical examples of cost centres.

lead; (d) prospect; (e) first visit; (f) second visit; (g) establishment; and (h) aftercare.

Each IPA can develop its own staging system to reflect its specific operating conditions. Some IPAs may develop separate pipelines for different services (e.g. aftercare), or differentiate clearly between these within the pipeline.

The project pipeline is critical for evaluating whether the IPA is “doing the thing right”, for the following reasons:

- (a) It can be used to track ratios between the different stages over time to determine whether the targeting and promotional campaigns are reaching the right people and whether or not the ratios are improving;
- (b) If combined with information about costs, it is possible to ascertain whether resources are being used to greater effect over time;
- (c) It is possible to see whether projects tend to get stuck at specific stages or where bottlenecks develop. If bottlenecks appear, it is possible to develop a solution by reviewing what is happening at that stage. Also, it might be that certain types of project get stuck or actually leave the pipeline altogether at specific stages. Reasons for this can be determined;
- (d) It should be possible to identify which projects absorb the most IPA time and to make decisions about the desirability of pursuing such projects in a rational, evidence-based manner;
- (e) Resource/staffing requirements can be tracked and forecast;
- (f) Trends can be identified to evaluate performance over time.

Other important operational factors that can be tracked include quality of information provided and speed of response of the IPA to enquiries. Box 8 presents evaluation targets for the operations of Argentina’s National Investment Development Agency, ProsperAr.

### Chapter 3. Method and approaches

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#### **Box 8. Evaluation targets for operations at ProsperAr (Argentina)**

- (a) Number of inquiries answered on time in relation to the total number of inquiries received;
- (b) Number of investment projects advised and facilitated on time in relation to the total number of advice and facilitation requests;
- (c) Number of investments that have materialized with agency involvement and advice;
- (d) Level of fulfilment regarding the monitoring of investment projects that received advice from the agency;
- (e) Investment missions conducted abroad;
- (f) Number of firms proactively contacted by agency personnel;
- (g) Preparation of an Investment Announcement Report every six months;
- (h) Preparation of a report using balance-sheet information of those firms operating in the country every six months;
- (i) Number of actions conducted by the agency aimed at promoting an entrepreneurship culture in the country.

*Source:* UNCTAD, based on information provided by ProsperAr.

#### ***Putting all the pieces together***

It is important that all evaluation of management areas (as set out above) forms part of an integrated, mutually supportive whole – from strategy development to the individual officer working on a case. The performance evaluation at the Tanzania Investment Centre (TIC), as summarized in box 9, illustrates how performance can be tracked in terms of both external objectives (e.g. FDI inflows, technology transfer, employment creation and competitiveness) and internal objectives at the departmental and individual staff levels.

**Box 9. Performance evaluation at the Tanzania Investment Centre**

Six **key objectives** form the basis for the continuous evaluation of the TIC's performance:

1. Raise the profile and image of Tanzania as a business location;
2. Increase FDI flows in key sectors;
3. Maximize the benefits of new investment to the Tanzanian economy;
4. Ensure a competitive business environment;
5. Develop and promote sites and infrastructure that meet investor needs;
6. Ensure a conducive work environment for TIC staff.

TIC performance is measured on how its targets contribute to the goals of the national development strategy (MKUKUTA): increased gross domestic product (GDP) and productivity, inward technology transfer, employment creation, empowerment, poverty reduction and increased competitiveness in attracting FDI. The TIC's evaluation of its own performance can be broken down into three levels:

**Institutional level**

- (a) The Research and Information Systems Department conducts a census of all companies investing in Tanzania every four years with annual sample surveys in between;
- (b) Investment site visits (part of an aftercare programme) to capture investor perceptions of TIC services;
- (c) Participation in annual surveys/studies to feed UNCTAD's *World Investment Report* and other international studies.

**Departmental level**

- (a) Number of inquiries generated from investors (e-mails, website visits, phone calls, or physical visits);
- (b) Number of start-up and expansion projects registered by TIC;
- (c) Number of successful projects: all investors registered with TIC are required to provide six-monthly progress reports that are collected and analysed.

**Staff level**

- (a) The Automated Workflow Management System tracks how many projects each staff member of the Facilitation Department has assisted for approval (e.g. daily, monthly, annually);

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### Chapter 3. Method and approaches

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**Box 9 (concluded)**

- (b) The Automated Customer Relations software tracks the number of enquires received and the number of issues attended by specific staff members in the Promotion Department;
- (c) Research staff performance is measured by the number of research issues and reports written.

*Source:* UNCTAD, based on information provided by the TIC.

#### ***Relationship between “doing the right thing” and “doing the thing right”***

“Doing the right thing” and “doing the thing right” are complementary in the overall evaluation of the IPA. For example, if it is found in the course of evaluating promotional materials and strategies that in reality lavish marketing materials end up in office rubbish bins and that it is in fact due to personal executive networks that the location has been favoured, this has implications for how to do marketing right. But it also suggests that the service offering of the IPA should be changed by spending less on such promotional materials and spending more on activities that access executive networks – that is, doing the right thing.

### **3.3 Doing evaluation**

The final section of this chapter relates to the actual doing and management of the evaluation. While internal staff may be used for the “doing the thing right” evaluations – in fact, this would be part of their daily work or job descriptions – the generally agreed view is the “doing the right thing” evaluation is best carried out by an external organization (whether public or private) to ensure impartiality and unbiased findings.

Having said that, evaluations should not be seen as a series of external, discrete, one-off exercises, and it is a good idea to

appoint a person as the evaluation manager or the person responsible for evaluation, in order to foster an “evaluation culture” and see to it that data and information are continuously gathered to that end, and to ensure the integrity of such data, so that when an evaluation does take place, much data is already available, reducing the cost and potential disruption that may be caused by such an exercise.

The ultimate aim of evaluation exercises is of course to ensure the best use of resources. Therefore it is critical that the findings of the exercise and recommendations be implemented, or else the exercise may turn out to have been worthless or even worse. If it is seen that good recommendations are not being implemented, this may have a negative impact on the morale and motivation of staff and managers.



## **4. Conclusions**

The main conclusion of this publication is that successful evaluation means that the IPA will be able to identify what activities are most appropriate for it to do, in its specific environment and circumstances, and ensure the best use of the public (and private when present) resources employed. Evaluation helps to identify the public sector equivalent of the private sector's "return on investment". As globalization continues, the field of investment promotion is growing more and more competitive. Evaluation can increase accountability to the IPA's stakeholders and provide input for improvements of the agency's services to investors. When viewed from this perspective, those IPAs that regularly evaluate their activities and implement recommendations from such evaluations will have a competitive advantage over IPAs that fail to assess their performance.

There is a body of accepted research that supports the method and tools presented in this publication. What is done here is to apply that body to the specific situation of the IPA.

Successful evaluation has both a "soft" and a "hard" side. On the soft side is the need to deal with human/organizational issues to ensure that all those involved can contribute so that the process is seen to be unbiased, objective, inclusive and transparent. On the hard side is the need for the collection of evidence: robust data and information, both quantitative and qualitative, its elaboration and interpretation, to support any conclusions, options or recommendations.

A key implication of the evaluation approaches presented in this publication is that a successful narrow performance-focused approach may in fact not be providing the most valuable application of funds. Evaluation is about "doing the right thing", in addition to "doing the thing right".



## Annex I. A draft survey questionnaire

There are different ways to administer a questionnaire such as the one outlined below (e.g. outsourced face-to-face interviews or CATI). However, it will have to be preceded by an explanation of why the research is being conducted, who is conducting it, and assurances will have to be given as to the confidentiality of results in terms of responses not being attributable to individual, identifiable firms. Moreover, it is always important to make sure that one is speaking to the appropriate person in the organization.

Questions may be asked in different orders, and the questionnaire can be structured differently, but key questions are listed below.

Questions for IPA evaluation: for interviews – beneficiaries and counterfactual, also for case studies	
Number	Questions
<i>Decision-making</i>	
1	What was respondent's role in the decision to establish/invest?
2	Who else was involved? Where are they based? [try to understand who else is in the decision-making unit and the decision chain and speak to them as well if possible].
3	What was the business driver behind the location search and the investment [e.g. resources, costs/ efficiency/markets business reorganization]?
<i>The investment – obtain/confirm details of the investment:</i>	
4	Confirm the sector. Link this to Standard Industrial Classification (SIC) or equivalent code in use. This can be invaluable for linking to other industry policy analysis).
5	What type of operation is it? What is the main operation (and if relevant, what is secondary): e.g. mining, metals processing, importing, manufacturing, sales and marketing, contact centre, shared service centre, logistics, regional headquarters (RHQ), headquarters (HQ), R&D. Obtain details if possible, for example: if R&D – what? – a global product mandate, localization of software, or process improvement?; if a shared service centre, what countries or languages are covered, what

## Annex I

	firm functions and processes are present?, etc ... (The more detailed the better!)
6	When was the operation established, when will it be fully operational?
7	Was it a new establishment/an expansion of an existing operation/co-location of new function with other existing function/relocation of an operation from elsewhere (where?)/related to a merger and acquisition transaction?
8	Size of site/space occupied/type of site and space.
9	How many are employed? (Location of where employees live may also be useful).
10	Breakdown of employment into skill/remuneration groups/levels.
11	Developments – current/planning, future of establishment (3-5 years time) [e.g. plan to expand, export, RHQ, etc.].
<b><i>Contestability and investment support</i></b>	
12	Did you consider any other locations to establish at? If yes, which were they (countries/cities)?
13	Did you contact any IPAs from those regions? Yes/No, which.
14	What services did they provide? (Let respondent select from a list and leave an option for “other”).
15	How do they compare to what we (the IPA) provided? (Use a scale or percentage, allow room for additional comments).
16	Were external contractors (e.g. consultants) used to help? If yes, who and what was their role?
17	Why was this location selected? (Provide a list of specific location factors, including supply of other firms in their network and following customers, etc). If they mention several, ask them to identify the three most important, ranking them in terms of 1, 2 and 3).
18	What were the main barriers, if any, to investing?
<b><i>IPA services and other support</i></b>	
19	It is understood that you worked with the IPA when establishing? Yes/No. How was initial contact made with the IPA? How did you learn about the IPA's existence?
20	What role did the IPA play? What support did you receive from this IPA (list e.g. site visits, market research, introduction to suppliers, etc.)? What was most useful?
21	Did you work with any other public or private sector

*Evaluating Investment Promotion Agencies*

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	organizations in establishing here? Which ones (e.g. sub-national IPAs, chambers of commerce)?
22	What role did they play?
23	Which was the most useful in undertaking this investment? Why was that?
24	Was the project set up more quickly, or larger, or of a wider scope than had been initially planned due to the role of the IPA? (additionality)
25	<ul style="list-style-type: none"> <li>○ What role did the IPA play in the location decision?</li> <li>○ Unimportant, we would have invested here even if we had not met them;</li> <li>○ It made a contribution, but not a great deal – neutral overall;</li> <li>○ It was useful and had some influence in the company selecting this location;</li> <li>○ It was critical – without it we would not have selected this location.</li> </ul>
26	What was the most valuable thing the IPA did? What should it have done more of less of, not at all, or what it is not doing that it should?
27	How would you rate the overall quality of the support from the IPA? Why?
<b><i>Additional impact-related questions</i></b>	
28	Are there going to be additional local purchases as a result of this investment? (What? How much? From which sources?)
29	What will be the ratio between foreign/domestic staff? Are any training programmes envisaged (company or government-funded)?
30	Will there be any other social spin-offs from this project?
31	Will there be any other economic spin-offs (e.g. cluster development, increased productivity/new technologies applied, land regenerated, etc.) from this project?
<b><i>Finally...</i></b>	
32	Confirm the firm's country of origin.
33	The size of the firm in this country (employment)
34	The size of the firm (global employment)



## Annex II. Invest in Sweden Agency questionnaire

We would very much appreciate if you would provide us with some basic information about your investment in Sweden. The information is for internal ISA purposes only and does not constitute a commitment or obligation of your company. Thank you.

1. Contact details - investing company	2. Contact details - company in Sweden
Name of company investing in Sweden	Name of company/entity in Sweden
Contact person	Contact person
Telephone no.	Corporate registration no.

3. Type of investment <i>(please choose one)</i>
<input type="checkbox"/> New establishment <input type="checkbox"/> Joint venture <input type="checkbox"/> Expansion <i>(of existing business in Sweden)</i> <input type="checkbox"/> Acquisition <input type="checkbox"/> Franchise <input type="checkbox"/> Strategic alliance <input type="checkbox"/> Venture capital <input type="checkbox"/> Other:

4. Jobs at the entity in Sweden	
a) If acquisition, please indicate number of existing jobs at the acquired entity	
<i>For any type of investment (incl. acquisition), please indicate:</i>	
b) Number of <b>new</b> jobs created <b>at the time of</b> the investment	
c) Expected number of <b>new</b> jobs created <b>one year after</b> the investment (in total)	
d) Expected number of <b>new</b> jobs created <b>two years after</b> the investment (in total)	

5. Capital	
Approximate capital investment (SEK)	

6. Type of services provided by ISA		
<input type="checkbox"/> Advice and counseling in the decision process.	<input type="checkbox"/> Information especially tailored to your needs.	<input type="checkbox"/> Publications/fact sheets
<input type="checkbox"/> Contacts with regional and local authorities, companies and others.	<input type="checkbox"/> Practical assistance in the actual establishment process.	<input type="checkbox"/> Other:

## Annex II

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7. Quality										
Overall quality of assistance	<i>Poor</i>									<i>Excellent</i>
	1	2	3	4	5	6	7	8	9	10
	<input type="checkbox"/>									
Quality of publications /fact sheets provided	<i>Poor</i>									<i>Excellent</i>
	1	2	3	4	5	6	7	8	9	10
	<input type="checkbox"/>									

8. ISA participation										
To what extent did ISA contribute to your investment in Sweden?	<i>Not at all</i>									<i>Substantially</i>
	1	2	3	4	5	6	7	8	9	10
	<input type="checkbox"/>									

9. Please feel free to comment on the questions above and your perception of ISA's services										

Signature (if on paper): ..... Date: .....

Name (in block letters): ..... Title/Position: .....

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## Questionnaire

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