

AFTERCARE — REACHING OUT TO YOUR INVESTOR COMMUNITY

Attracting new investors is traditionally the main activity of investment promotion. But with a growing number of established foreign affiliates, new investments can often be realized more cost-efficiently through another, often neglected activity – investor aftercare. A new UNCTAD publication takes a closer look at this core function in investment promotion.

Untapped potential

Investor aftercare services are an often-neglected part of investment promotion. At the same time, an effective aftercare programme can significantly boost overall inward foreign direct investment (FDI) to a country. After all, according to UNCTAD's data, there are already some 850,000 foreign affiliates around the world. Every time a transnational corporation (TNC) needs to reorganize its international activities, it will carefully assess what role these affiliates can play in the future. By working consciously and proactively, investment promotion agencies (IPAs) can influence such TNC decisions.

In a new UNCTAD report, the untapped potential of aftercare is well illustrated through a survey of 69 IPAs. While the responding agencies devoted on average only 10 per cent of their resources to aftercare activities,

- 84 per cent of the agencies stated that aftercare had higher or equal priority to their other activities for generating reinvestment or expansion of existing activities, and
- 32 per cent of all inward FDI was estimated to come from reinvestment. Some other sources report an even higher proportion.

What is aftercare?

To use a private company analogy, the role of aftercare is equivalent to that of after-sales services, aimed at enhancing customer satisfaction and encouraging “repeat purchases”. The term aftercare has different meanings to individual IPAs, ranging from the creation of new leads for a foreign firm expansion, to fast-track land provision and facilitation of immigration paperwork. Its ultimate aim is, however, generally to maximize the contribution of foreign affiliates to local development. Supported by aftercare services, foreign investors may not only stay in

a location, but also expand their operations or move them further up the value added ladder.

A strong case can be made for IPAs to engage in aftercare. Firstly, it is a good way of making efficient use of IPA resources, since focusing on the established investors is less costly than marketing a location to new ones abroad. Secondly, aftercare services by IPAs may help to realize the potential benefits from inward FDI, such as technology transfer, local supply chain development and further job creation. In addition, satisfied TNCs can also be good promoters of a host location.

Different kinds of services

Aftercare services can be divided into three different categories:

- *Administrative services* that facilitate the operations of foreign firms. These may include obtaining business licences and work permits, finding housing for expatriates and schools for their children.
- *Operational services* that support the effective and efficient operations of foreign firms. They include support for training, identifying local suppliers and cluster development to improve productivity and competitiveness.
- *Strategic services* that influence the future direction of the firm, the development of new capabilities and the corporate development path in the host region. Their aim is to make sure that foreign affiliates stay and continue to expand or upgrade their business activities. They may include support to the development of new, higher value added products, nurturing local suppliers to international standards, and policy advocacy.

Strategic and organizational solutions

Depending on its resources, an IPA may consider different strategic and organizational

UNCTAD Investment Brief

Number 2 2008

options for its aftercare activities. These can be labeled as follows:

The company friend: In this case, aftercare is not well resourced, and relies primarily on the contacts and networks that one or two aftercare managers can muster. Activities tend to be *ad hoc* and driven by immediate needs. An example of this approach can be found at a regional IPA in the northern Netherlands.

The project-based approach: As in the previous case, aftercare is not well resourced. However, with this approach, resources and service delivery are focused on specific projects, such as CzechInvest helping Czech suppliers to link up with newly established investors.

The aftercare team approach: Here, the IPA offers a wide range of aftercare services, without being very structured in terms of regional or national economic priorities. This approach was previously used by UKTI in the United Kingdom.

The integrated approach: This can be seen as the most ambitious approach to aftercare. It aims at integrating foreign firms into the local economy and works in a structured, well-resourced manner to meet specific objectives in line with regional or national economic development goals. The work of the Industrial Development Agency in Ireland is a good example of this approach.

Challenges and best practices

Aftercare services are faced with a number of challenges. Among those listed in the new UNCTAD publication are IPA credibility, continuity and customer responsiveness. For an aftercare programme to be effective, it is necessary for an IPA to earn the trust and confidence of foreign firms' executives. Building *credibility* is thus crucial, and the support provided by UNCTAD's Good Governance in Investment Promotion programme may help IPAs to meet this challenge.

High staff turnover in IPAs can impede the development of long-term relationships with corporate managers. To meet this challenge of *continuity*, the EDB in Singapore for example, uses a model that relies on a few senior staff members to manage a corps of young, high-performing employees.

Customer responsiveness is a challenge related to the fact that IPAs often work on time-frames set by policymakers rather than those of their clients. In order to enhance responsiveness, staff members of some IPAs are obliged to respond to customer enquiries within given time-frames. This is the case at the national IPA in Egypt (GAFI).

Working with partners

In the UNCTAD IPA survey, 66 per cent of respondents stated that aftercare services were primarily offered at the national level, and 95 per cent indicated that they collaborated with other institutions in offering them. The relevant organizations need to work together on an agreed aftercare-driven programme. Sometimes partners set up protocols between each other to coordinate service delivery to investors.

What can UNCTAD offer?

UNCTAD offers a range of services for those IPAs that are interested in strengthening their aftercare activities:

- Advisory services in developing aftercare programmes and strategies;
- Training in aftercare for government agencies involved in servicing foreign companies; and
- Support in improving governance in investment promotion through special tools, such as client charters and Internet-based investment information and regulations systems.

Source: UNCTAD.

For more on this topic, see ***Aftercare: A Core Function in Investment Promotion.***

It is available on-line at www.unctad.org/en/docs/iteipc20071_en.pdf.