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EXPERIENCES GAINED IN TECHNICAL COOPERATION WITH RESPECT TO "BEST PRACTICES" IN INVESTMENT PROMOTION

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CONTENTS

Boxes

Tables

INTRODUCTION

1. During the second half of the 1980s and the beginning of the 1990s, the technical cooperation activities of the United Nations' Programme on Transnational Corporations (first carried out by the United Nations Centre on Transnational Corporations and now carried out by UNCTAD's Division on Investment, Technology and Enterprise Development - DITE) were primarily characterized by assistance to developing countries and those with economies in transition in connection with policy formulation related to the attraction of foreign direct investment (FDI). Since 1976, the Programme has helped to formulate foreign investment legislation for over 75 countries. The overall direction has been towards increasingly liberal foreign investment regimes.

2. Today, inward FDI policy regimes of most countries around the world, both developed and developing, have taken on many of the characteristics of what may be described as a broadly liberal FDI framework[1]. Ironically, with policy regimes becoming increasingly open and similar, many countries have found that they need to make further efforts to attract FDI in such a competitive climate. In a report to the twentieth session of the United Nation's Commission on Transnational Corporations, the Secretariat noted that "1993 evidenced a trend in that Governments increasingly tend to seek advice on not just how to attain the basic level of attractiveness for foreign investors, but more so how to be competitive among all the countries seeking the same investors[2]." This trend has continued.

3. As the level of public sector investment remains static, this is becoming more and more evident. Foreign direct investment is certainly now recognised as one of the most important potential sources of much needed capital and managerial, technical and marketing knowhow not only in new and viable manufacturing but also in services as well as resource based industry. Interestingly also, the geographical line between developed and developing countries is increasingly becoming blurred as far as competition for similar investment (in quantitative and qualitative terms) is concerned. According to the World Investment Report 1996, foreign direct investment in developing countries is now US$97 billion, accounting for more than 32% of total net flows in 1995. In 1976 when DITE's technical cooperation programme began, the developing country share was less than 20%. For a potential investor, the increasing scope of international investment opportunities brings various strategic advantages, such as diversification of supply, access to low cost local resources (labour rates, land costs), proximity to markets, natural resource availability, reduced taxation, etc. Worldwide liberalisation convergence also increases the locational choices.

4. All this, however, needs to be viewed in the context of a situation where notwithstanding extensive efforts at legislative and investment policy revisions to provide for attractive FDI regimes, a number of countries remain unable to attract foreign investors. Size and buoyance of the market, the availability of cheap and disciplined labour and the adequacy of the infrastructure are usually the factors providing the main reason why sufficient inward investment may not be forthcoming. Another reason, however, has been that a number of Governments seemed to assume that the mere enactment of new liberalizing and incentive granting Foreign Investment Codes would be enough to lure investors. The fact is that the increasing competition for FDI gives rise to the question of whether a country which today already has in place what would have traditionally been considered an attractive investment regime should seek to further enhance its competitive position and, if so, by what means and how far should it go. This implies that the knowledge of other similar country experiences should be a vital tool for the formulation of relevant policies. That, in turn, implies a need for regular dialogue between agencies responsible for promoting inward investment, concerning their activities, purposes and results. After all, it is noteworthy that policy strategies for investment attraction often seem to succeed at greatly varying degrees for countries with quite similar characteristics.

5. In this regard, UNCTAD supported an initiative for the creation of a world wide forum of experience sharing by Investment Promotion Agencies (IPAs) and invited IPAs around the world to attend a meeting of high-level officials during the twenty-first session of the Commission on International Investment and Transnational Corporations (see box 1). During the meeting, much discussion and debate centred on the topic of Best Practices in Investment Promotion.

6. UNCTAD's mandate pursuant to the Midrand Declaration includes, inter alia, "promoting opportunities for FDI in host countries by facilitating the exchange of experiences on investment promotion and the benefits from FDI."[3] This report has been prepared for that purpose. The survey was carried out by DITE through a questionnaire that focussed on certain basic objectives of investment promotion. The questionnaire was sent to all IPAs of UNCTAD Member States. Eighty-one countries responded to the questionnaire. This report discusses "Best Practices in Investment Promotion" drawing some conclusions from the findings of the survey. The report also indicates how DITE's technical cooperation programme supports developing countries' efforts to succeed in promoting investment.

Box 1

WORLD ASSOCIATION OF INVESTMENT PROMOTION AGENCIES

In April 1995, more than seventy officials, representing Investment Promotion Agencies (IPAs) of sixty (60) countries met at UNCTAD headquarters in Geneva. This gathering was a joint initiative of UNCTAD and an IPA Steering Committee comprising Canada, Ireland, Peru, Poland, the Philippines and Uganda. This global meeting of IPAs was deliberately timed to coincide with the 21st session of the UNCTAD Commission on International Investment and Transnational Corporations. The forum discussed ways to improve cooperation between IPAs on a regional and global scale and collective experiences in attracting inward investment. One of the central achievements of the meeting was the agreement to establish a World Association of IPAs (WAIPA). Among the objectives of WAIPA are the following:

a) to promote and develop understanding and cooperation amongst IPAs;

b) to strengthen information gathering systems and information exchange amongst IPAs;

c) to share country and regional experiences in attracting investment;

d) to assist IPAs to gain access to technical assistance and training through referrals to relevant agencies;

e) to facilitate access to funding and other assistance through referrals to relevant Bilateral and Multilateral agencies for the development and implementation of investment promotion programmes.

Since December 1995, IPAs from the following 70 odd countries have become WAIPA members on the submission of signed membership forms: Albania, Anguilla, Antigua and Barbuda, Aruba, Austria, Bahrain, Belarus, Belgium (Flanders/ Wallonia), Bolivia, Bulgaria, Cameroon, Cape Verde, Chile, Colombia, Côte d'Ivoire, Croatia, Cyprus, Czech Republic, Republic of Dominica, Estonia, Ethiopia, Fiji, Finland, Gambia, Ghana, Guatemala, Guyana, Hungary, Iceland, India (Rajasthan), Indonesia, Ireland, Israel, Italy, Jamaica, Jordan, Kenya, Kiribati, Kyrgyzstan, Latvia, Lithuania, Malta, Republic of Moldova, Mongolia, Morocco, Namibia, Nepal, Nicaragua, Pakistan, Paraguay, Peru, Philippines, Poland, Romania, Russia, Senegal, Seychelles, Sierra Leone, Sri Lanka, St. Lucia, Thailand, Trinidad and Tobago, Tunisia, Uganda , United Republic of Tanzania (Zanzibar), Uzbekistan, Western Samoa, Republic of Yemen, Zambia, Zimbabwe.

7. The objective of the survey forming the basis of this report was to provide comparative data on investment promotion practice in as large a number of countries as possible of differing economic strengths, developmental level, resource endowments, geographic locations, policies and experiences. The countries from which answers to the questionnaire were received do indeed provide, as envisaged, information across a very wide range of country characteristics. They include a broad array of developing and developed countries and cover Africa, Asia, Europe and the Americas.

8. This report is a first step towards developing criteria of what constitutes Best Practice in investment promotion. It does so by creating an analytical framework which permits a survey of a variety of critical components in an investment promotion strategy. It does not, however, enable UNCTAD to set out what Best Practices might yet be. To move towards this goal, research on the effectiveness of such policies and practices under the national conditions which these 70 countries represent must be analysed. What kinds of approaches work best in which kinds of situations is the ultimate objective.

9. This report, therefore, forms a part of a more comprehensive work programme of DITE. In the long term, the results of this report, together with the results of other forthcoming studies examining different aspects of the same subject matter, will be incorporated into a Best Practice Advisory Manual, which will, as part of DITE's technical cooperation programme, be made available to UNCTAD member country governments in a form capable of subsequent updating and expansion.

10. In particular, the Best Practice Advisory Manual will:

(i) provide continually updated comprehensive details on individual country practice;

(ii) identify the various problem issues that arise and the approaches adopted by the countries studied in approaching these issues;

(iii) based on a comparative evaluation of individual country practice, provide guidelines to assist individual governments in the formulation of a promotion strategy to secure increased foreign investment.

11. In this connection, it is important to note that the survey on which this report is based admittedly has one weakness which the longer term project will redress: the data gathered is primarily provided by Investment Promotion Agencies. That has two implications. First, while the questionnaire specifically requested that the answers must not be "promotional" in nature, there is some likelihood (considering the very nature of the job of an IPA) that some of the answers were not absolutely factual. Second, the data does not have the other side of the story; that is the views of the investors. To that extent, it may in some cases prove erroneous to make a comparative judgement of Best Practices in different countries based only on the answers in the Annex to this Report. Nevertheless, based on what is described in this Report as the main components of Best Practices, the Study offers suggestions for IPAs to develop some criteria for measuring the effectiveness of their own practices by reference to some common denominators.

12. Part I of this report defines Best Practice in relation to investment promotion strategy and examines the principal components in general terms. In that regard, the report identifies key issues and outlines possible approaches thereto, indicating a basis for the questions raised under the survey. Part II examines how the effectiveness of investment promotion practices can be measured, to provide a basis for the comparative evaluation of individual country promotional strategies. A separate document (available on request) contains the questionnaire and a compilation of the answers returned in a "Yes" or "No" format. Besides the "Yes" or "No" answers indicated in that document, additional comments were in some instances provided and a number of them are specifically mentioned in the main text of this report while others simply form the basis of various points made in the general discussion of the Report.

PART I

DEFINING AND COMPARING BEST PRACTICE

A. Taking account of the unique characteristics of every country

13. Defining and comparing Best Practice has to be accompanied by some caveats. No single best practice can be identified as generally applicable to all countries: what is good practice in one country may be superfluous or unnecessarily costly in another, if not based upon the particular strengths and weaknesses of the individual country concerned. These will include resource endowment, the quality and availability of managerial and technical knowhow and of skilled and unskilled labour, access to capital, geographic location and proximity to markets. Moreover, as the attractiveness of underlying investment conditions increase, the need for certain types of host country government promotion activities may decline.

14. Furthermore, where specific government measures are desirable to promote foreign investment, some measures may have a lower economic cost to one government than another. For example, import protection in one country may be an indefinite subsidy sustaining a non viable industry, while in another it may be limited to the start up period of a newly established viable industry. Moreover, some investment measures may be important or even crucial for one investor, but completely irrelevant to another. This is particularly relevant for those governments which rely heavily on fiscal incentives as the main investment promotion tool. For example, because the United States taxes income on a worldwide basis, the grant of a tax holiday to a US investor would not be attractive if the net result was to simply remove the corresponding US tax credit, that is, in effect to replace the host country tax by an equivalent home country tax.

15. Notwithstanding the above caveats, there are certain general factors which can be characterized as principal components of Best Practice in investment promotion. The essence of investment promotion is to sell a country or region as an attractive investment site to investors who are preferably not only most "suitable" in terms of a government's development objectives but who also offer long-term residence prospects. The principal components of Best Practice in investment promotion can, therefore, be described as: (1) the improvement of a country's image within the international investment community as a favourable investment climate; (2) the direct generation of investment (especially that investment capable of contributing to the development goals of the host country) utilising the least costly promotional measures; and (3) the provision of services to prospective and current investors with the aim of ensuring that entry of FDI is not only facilitated but also that FDI made at an earlier stage does not leave the country and, in fact, expands significantly overtime.

B. Principal components of Best Practice

1. The fundamentals of building a positive image

16. More often than not, effective investment promotion requires first and foremost, positive image building activities which are basically aimed at convincing the investor community that there exists, in a given country, a comparatively liberal and attractive environment for business operations. The desired result is to peak investor interest to discover more about that country. However, to be effective, disseminate information must be accurate, the existence of an environment that is actually conducive and business enabling is an essential prerequisite for image building activities. Otherwise, investors may significantly lose confidence in the country if initial inquiries reveal fundamental differences between reality and the publicized images of the promotional campaign. An IPA therefore needs tangible foundations on which to build credibility before taking on image building activities.

17. To start with, host country policies, laws and regulations relating to foreign direct investment together comprise a basic framework for the business enabling environment that is conducive to capital inflows. In terms of Best Practice, the effectiveness of policies, laws and regulations in attracting increased FDI requires that they be comprehensive, clear, and fair, affording the investor the opportunity

to establish and operate its business free from undue government interference and from subsequent unilateral change in the terms and conditions of the investment. A country's record in the implementation of its policy and legislative framework is also important, since its consistent application over time will enhance investor confidence in the country and contribute to the development of an attractive "investment climate".

18. Policies, laws and regulations comprising the investment framework of a country cover a wide range of subjects, but for purposes of judging Best Practices in investment promotion, the following are some of the most important:

(i) Laws and regulations governing the establishment of business by investors, such as company, partnership and business law, accounting requirements and any specific provisions relating to foreign ownership or participation are fundamental foundation stones of the investment framework. Sector specific requirements, for example in the petroleum or mining sectors, are other important considerations. Regulations affecting the general conduct of business such as those governing labour, expatriate staff immigration and other operational concerns also fall in this category. In addition, there are those regulations relating to land use, ownership and sale of property, and the supply of power, water, telecommunications, transportation and other services. Issues which an investor may be concerned with in that regard often include what rights or priority access the investor has to the continued supply of essential services; whether prices are controlled or regulated; and whether the investor is protected against tariff or supply discrimination.

(ii) Investment protection is an important consideration. Investment protection is usually based on bilateral or multilateral treaties, but is also sometimes based on specific constitutional protection, or general provisions against discrimination and assurances of governmental assistance. Such protection may include provision for international arbitration in case of disputes and prohibition of expropriation except in narrow well-defined circumstances and accompanied by proper compensation. In addition, in the case of a large investment, such as in the mining or petroleum sector, the investor may look for "protection provisions" in the general law under which government ministers are authorised to enter into specific investment agreements with investors. Such laws often prescribe limitations which a minister may be authorised to accept on the exercise of discretion given to him under the specific law. In such a case, an investment agreement might include "stabilisation provisions" under which the investor is protected against unilateral fiscal change, or the minister's rights to terminate an investment licence are restricted. All the IPAs of the countries surveyed state that, in the case of an investment dispute, there is the possibility of recourse to international arbitration.

(iii) The fiscal regime applicable to investors is a crucial factor. This includes matters such as income tax, corporation tax, capital gains tax, customs duties, Value-Added-Tax and sales taxes, export and import taxes, property tax and other local taxes. In judging the fiscal regime applicable under a country's investment framework, both the specific rates of fiscal impost and the basis of calculation of the amount to which the impost applies will be of importance to the investor. (For example, in the natural resources sector, an investment promotion strategy which relies on a regime which minimises front end costs (such as royalty rates and customs duties) when profits are low will clearly be more attractive to the investor than a regime which maximizes such costs. Ideally for the investor, the fiscal regime should generally impose low aggregate levels of Government take on low project returns, increasing progressively as profitability rises, but always allowing a sufficient level of investor return to justify the investment required for it to realise that higher return.) In judging the fiscal regime, other issues that are of considerable importance to foreign investors are double taxation treatment, foreign exchange control, accessibility to loans from the local banking system and the existence of a capital market.

19. DITE's FORINVEST technical assistance programme is aimed at supporting efforts of developing countries towards creating the necessary legal and economic foundations for attracting investment. (see box 2). At the same time, experience gained in the

technical assistance programme indicates that besides the legal and economic factors, a country must demonstrate a stable political environment that is decidedly positive to foreign investment. This is particularly crucial in the case of those countries that have previously gained a notorious reputation of being hostile to foreign investors. The credibility of an investment promotion programme will be much strengthened if the political establishment is clearly supportive of the promotional efforts. Ninety-seven percent (97%) of the countries surveyed have had their governments, either at the Presidential or Ministerial level, make a clear statement inviting foreign investors and spelling out the favourable terms and conditions awaiting them. The constitutional arrangements within the host country, particularly the allocation of powers and responsibilities between central, provincial and local authorities, will also be important to investors. Where powers and responsibilities relating to investment are devolved, the investment framework should clearly demarcate the borderlines.

Box 2

FORINVEST: A DITE Programme on Policy Frameworks for Attracting Foreign Investment

To assist developing countries, in particular their investment promotion agencies (IPAs), in strengthening their capacity to create and manage the policies and conditions in which foreign investment and international business can thrive, DITE's technical assistance programme, FORINVEST, provides advisory services and training packages related to: investment policy, investment codes and sectoral policies governing the participation of foreign investors in specific sectors. FORINVEST also assists countries in establishing IPAs or in strengthening existing institutions, as well as in developing and instituting mechanisms for promoting and facilitating investment and for gaining access to global market information.

During the 1995-96 period, components of the FORINVEST programme were implemented in the following economies: Albania, Algeria, Bangladesh, Bolivia, Cameroon, Colombia, Ethiopia, Ghana, Haiti, India, Indonesia, Kazakstan, Kenya, Lebanon, Pakistan, Palestine, Philippines, Sao Tome & Principe, South Africa and the United Arab Emirates. Furthermore, there were a number of regional and interregional initiatives with respect to the FORINVEST programme.

20. Once legal, economic, and political foundations have been laid, then an IPA can actively promote a country's image as an attractive investment site. Table 1 provides a comparative summary of the survey's findings on some of the most important legal and economic policies. Interesting to note is that, countries generally feel that they do have in place the legal and economic policies that are conducive to foreign investment attraction.

21. There are two main types of activities that can be used by IPAs to build a positive image of their investment climate. The first is the provision to the general public of timely, accurate information. Such information can be conveyed in a variety of mediums such as brochures, videos, and newspaper articles; and cover a variety of topics including country, market or sector data. Furthermore, the information can be presented in different degrees of detail, or can be standardized for all firms or the general public or it can be tailored to meet the needs of specific firms or specific private groups. The UNCTAD survey revealed a wide range of information formats. Albania's IPA first concentrated its efforts on producing effective brochures. The IPAs of Cape Verde and Cyprus rely heavily on the use of video tapes. Yet, as an addition to brochures and video tapes, the Investment Office of Ethiopia relies on the global network of Ethiopian Airlines to strongly advertise on the international flights of the national carrier. The selection of formats, modes and mediums for conveying information is ultimately a function of cost and

intent, since, for example, eye-catching marketing materials and customized information tend to be the most expensive. Whatever the expense may be though, it is important to note that ninety five percent (95%) of the countries surveyed prepare and distribute general country promotion literature.

Table 1

Investment promotion and FDI conducive policies

FDI Conducive Policies	As % of total countries surveyed	
	Yes	No
Legal Policies		
National treatment regarding public utilities	73%	19%
Transparent administrative and judiciary system	88%	4%
Recourse to international arbitration is possible	82%	5%
Economic Policies		
Low rate of income taxation	78%	13%
Liberal foreign exchange regime	90%	8%
Free access to local bank deposits	90%	5%
Existence of a capital market	68%	23%

22. The second main type of positive image building activity is more focussed on the business community in particular and making some contact with private firms for a specific or general purpose. Directories, referrals, as well as investment fairs, trade shows and trade missions are tools that support the process of initiating and securing contacts with private firms. (Interestingly, one very successful IPA, Malaysia's MIDA, suggested in its answers to the UNCTAD questionnaire survey that investment fairs and trade shows are not very effective means to promote investment because contacts tend to be primarily with marketing and sales people. Rather, MIDA prefers to "spend money on finding means of giving information to upper level management responsible for offshore investment decisions".) Advertising is another tool for initiating contacts. However, this often requires IPAs to advertise in foreign media.[4] Although it clearly is the most direct means to reach a large portion of potential foreign investors, it can be extremely costly especially for developing countries focusing on the media of the metropolitan capitals of the TNCs' home countries. Nevertheless, seventy one (71%) of the developing countries surveyed indicated that they advertise in foreign media.

23. It is important to note that there can be a significant time lag between a positive change in the legal, economic and political structures of a country and the investors' perception of this change. A crucial role of an image building programme is thus to shorten the time lag. It is also important to note that the "time lag" issue is particularly problematic for developing countries. The survey indicates that developing countries tend to carry out more positive image building activities than developed countries because they are often perceived as providing the more inhospitable investment climates, even long after individual circumstances have significantly changed. The problem, therefore, is that foreign investors have not always responded with enthusiasm to the promotional efforts at advertising the legislative and other changes that some developing country governments have recently implemented. Thus, in the early stages of an investment promotion campaign, it may be necessary to expend considerably more effort at improving the country's image than in trying to generate foreign capital inflows. A serious challenge for such

developing countries is the inability to shake off images based on negative but not necessarily correct perceptions by foreign investors. In some cases, this is a result of skepticism that past Government policy and performance have indeed changed for the better. In other cases, however, it is simply that a number of potentially attractive individual countries are grouped together with neighbouring, and relatively unattractive, countries to form together what are in the perception of investors unattractive or less attractive regions. In this regard, for a number of countries which are seemingly new attractive investment sites, a big challenge for policy makers is how to convince foreign investors that this is indeed the case.

24. This remains a particularly difficult problem for Africa. The African continent comprises a great variety of political and economic situations as well as very differentiated investment conditions grouping together 54 countries with significant diversity in investment potential[5]. Unfortunately, though, investors tend to have an almost automatic negative perception about the region as a whole, without differentiating between recent improvements in individual country investment climates and opportunities. Against this background DITE's technical assistance programme has included a new initiative called AFRICA CONNECT whose basic aim is to promote the business potential of the continent and enhance more positive images(see box 3).

Box 3
Africa Connect

Under a new UNCTAD programme called *Africa Connect*, a major international business conference took place 2-4 May, 1996 in Johannesburg, South Africa, with the aim of boosting trade and investment in Africa. About 500 participants attended the *Africa Connect* conference which was a special parallel event to the ninth session of the United Nations Conference on Trade and Development (UNCTAD). The Conference was co-sponsored by UNCTAD and the South African Council of the International Chamber of Commerce. The *Africa Connect* conference brought together African and international firms, national investment promotion agencies and business organizations, including chambers of commerce and manufacturers associations, as well as international economic agencies. Ministers and high-level government representatives also participated in the event. The participants exchanged experiences on doing business in Africa in various sectors and industries in the context of improving the investment and trade environment, and initiated numerous deals among themselves. Discussions concentrated on identifying business opportunities in (1) the agro-industry and clothing manufacture, (2) consumer durables manufacture, (3) telecommunications, power and transport and construction infrastructure, and (4) integrated tourism. Participants stressed the encouraging experiences of enterprises in the continent and took issue with the negative stereotyping of the region. In addition, African Investment Promotion Agencies and business people exchanged their experiences with a view to assisting the continent in arriving at "best practices" in investment promotion.

25. On the other hand, some countries in the ASEAN region, for example, have been so effective, as individual entities, in attracting foreign investment that they have begun to take synergistic steps in promoting the region as a whole, as an investment location. The decision that individual IPAs should promote not only their particular countries but, also the other member countries and the region as a whole, was endorsed and reinforced at 1996 ASEAN Fora in Bangkok, Jakarta and Singapore, as a means of intensifying the process of regional integrated production and supplier network arrangements. This shows that IPAs can both compete and cooperate in attracting foreign investment. UNCTAD is implementing a project which will strengthen linkages between investment promotion agencies (IPAs) in order to encourage greater capital flows from more developed to less developed countries in Asia and the Pacific. This project includes: training of IPA officials; regional investment promotion conferences/fairs; and, the establishment of a permanent association of IPAs in Asia & the Pacific to promote networking and exchange of experiences on "best practices" in investment promotion. (see box 4)

Box 4

Regional IPA Collaboration

Regional IPA collaboration was one of the central themes of two high-level regional training workshops for IPAs in Asia and the Pacific, which UNCTAD currently organized in cooperation with WAIPA, the ASEAN Secretariat and the Philippines Board of Investments (BOI).

The first workshop entitled "*Destination South-East Asia*" (23-25 September 1996), which was geared at IPA officials from the ASEAN group, was aimed at producing ideas and inputs for formulating a meaningful investment promotion strategy and a comprehensive marketing plan for promoting ASEAN's investment environment to investors within and outside the ASEAN region. Topics discussed included: issues influencing international investments, in particular in the ASEAN region; global and regional investment trends; implications of the Uruguay Round; negotiations on a multilateral agreement on investment; changing international business practices; and, decision making in transnational corporations.

The second workshop entitled "*Location Asia-Pacific*" (26-28 September 1996) targeted a large audience of IPA officials from the entire Asia and the Pacific. The objective of this workshop was to inform IPA executives from Asia and the Pacific on the increasingly competitive global economic environment and the evolving international investment and trade regimes. The workshop addressed issues relevant for policy makers in investment promotion as well as for officials who are dealing with the day-to-day work of promoting investment into their respective countries. Topics which were addressed included: investment promotion strategies; investment incentives; alternative investment arrangements; investments by TNCs from developing countries; computer based investment networks; and, cooperation among IPAs. Presentations were given by international experts and investment promotion practitioners as well as representatives of TNCs such as Nestlé and local companies such as Solid Group Inc. Philippines.

2. Being pro-active in the attraction of investment projects

26. Policy makers in developed and developing countries have been groping towards a definition of their day-to-day role following the setting up of a liberalised FDI regime. Most Governments still want to play an important role in channelling scarce capital into selected industries, stimulating and influencing the acquisition of foreign technology and skills, challenging and exhorting industry to upgrade and in some cases employing temporary protection to foster a local technological base, since openness to FDI does not necessarily imply an absolute laissez-faire approach to the functioning of markets. Government officials are, however, also keenly aware that these are not policies which are easy either to formulate or even to implement. What fascinates policy makers and prompts much interest in experience sharing is that seemingly similar policies have failed in some countries and yet succeeded in others.

27. Overall, however, Best Practices in investment promotion would seem on evidence to require a targeted approach. In the first place, an IPA which is proactive in targeting investment will be better able to attract the kind of investment that is most appropriate to the country's longer-term development objectives as opposed to those IPAs that are inactive, or who use a broad brush all industry approach, and whose countries may otherwise therefore receive disparate, non-complementary and unnetworkable kinds of investment. For example, countries such as Malaysia and Singapore no longer focus on attracting labour intensive industries and, with a fully employed and trained labour force, now focus on promoting higher value added and skill intensive activities. Thus, where a government has, within a liberal framework, priorities and special goals in terms of attracting FDI that will most positively affect the country's performance, then

a well targeted promotion programme by an IPA can provide the means to achieve those goals. Such priorities or special goals may relate to the country's level of development, regional development programmes, the labour intensity of the production, the size of the firm, and the level of technology, etc. Targeted investment promotion can in many instances be a crucial factor because potential investors may go through a period of locational indecisiveness, especially if the activity is not raw material based and therefore "footloose," where some promotional "push" is what is needed to tip the balance. Thus, experience indicates that notwithstanding the necessity to take account of specific characteristics of different countries most IPAs can adopt a certain core set of similar strategies in targeting investment promotion.

28. Implementation of the targeted promotion approach requires an IPA to directly contact a specific firm or group of firms within an industry to present the advantages for these firms to invest in the IPA's country. This usually takes the form of industry or sector investment forums and missions; but of a more specific nature than those aimed at positive image building. Such activities focus on specific potential at the industry or project level. It may, for example, include the provision of feasibility studies for potential investment projects. Fifty percent (50%) of the developed and developing countries surveyed provide feasibility studies for potential investment projects. However, the use of this promotional technique has had mixed results. Feasibility studies can be useful to the extent that they cover all the information a specific investor may be interested in and they are presented in a "ready-to-use" format. But, feasibility studies are expensive to make and require a long time to draw up. In addition, economic and business conditions change very quickly within a country, and as a result, by the time the feasibility studies are finished, they are often outdated and useless.[6] In any case, foreign investors are often sceptical of the data and figures provided and will frequently do their own calculations.

29. In targeting, host countries need to focus their promotional efforts on either investors' home countries from which investment is already coming or countries which are investing in economies similar to the host country's.[7] In any case, the targeted firms should obviously be those which are already interested in locating abroad and which are likely to find the particular investment climate of the specific country attractive. That is why a preliminary selection is useful before launching industry or sector investment forums and seminars. Monitoring the international business environment is, therefore, necessary to choose the right candidates. The process of selection necessitates a system for identifying and attracting investors as well as for determining their economic and financial strengths. Access to data bases abroad and computerization of available data can facilitate the monitoring of the international environment and thus greatly help in selecting potential candidates. However, the computerization of investment promotion information systems as well as gaining access to electronic data bases abroad can be expensive and that can be a disadvantage for the poorer developing countries. Evidence of this is provided by the UNCTAD survey. While only twenty eight percent (28%) of the developing countries surveyed have computerized investment promotion information systems, at least fifty three percent (53%) of the developed countries surveyed have such information systems. However, the trend is that both developed and developing countries are focussing more and more on computerization of information systems. A number of surveyed IPAs from countries such as Algeria and Lebanon intend to connect to the Internet while others like Mongolia intend to utilise the IPAnet.

30. In being pro-active and targeting investors, incentives perhaps form the most crucial part of the investment policy and legislative framework of most countries. By "incentive" is meant an advantage or concession offered to promote investment in the host country concerned. Potential incentives cover the entire range of business activity, including those affecting (i) revenues, (ii) inputs, (iii) capital, (iv) cost of debt, (v) cost of equity, (vi) corporate tax, (vii) labour and (viii) land. The incentive may be financial, for example a tax holiday or grant, or non financial, such as the ability to operate behind non-tariff barriers. Eighty six percent (86%) of the countries surveyed use incentives to attract foreign investors. Table 2 indicates some of the most widely granted fiscal incentives.

Table 2
Fiscal incentives for foreign investors, early 1990s
(Number of countries that offer a type of incentive)

Incentives	Developing countries			Developed countries				Total
	Africa	Asia	Latin America and the Caribbean	North America	Western Europe	Other developed countries	Central and Eastern Europe	
Number of countries	23	17	12	2	20	4	25	103
Reduction of standard income tax rate	18	13	12	2	16	2	20	83
Tax holidays	16	13	8	2	7	2	19	67
Accelerated depreciation	12	8	6	2	10	3	6	47
Investment/ Reinvestment allowance	4	5	9	-	5	-	3	26
Deductions from social security contributions	2	1	2	-	5	-	2	12
Specific deductions on gross earnings for income tax purposes or reductions in other taxes (e.g. VAT, sales)	14	12	6	2	9	-	2	45
Exemption from import duties	15	13	11	2	7	2	13	63
Duty drawback	10	8	10	1	6	2	12	49

Source: World Investment Report, 1995.

31. Incentives form such a crucial component of investment promotion programmes that they are often used by policy makers as the main yard stick to compare with other countries' investment promotion practices. Yet that often presents a number of problematic issues because in comparative terms, various issues that arise in relation to incentives make it difficult (from at least a cost effective perspective) to qualitatively judge their impact:

(i) Incentives may reward an investor for an investment which it would have made anyway. Evidence is rather limited as to the extent to which incentives give rise to investment which would not otherwise be made. In fact, the 1995 World Investment Report states that there is overwhelming evidence that, relative to other factors, incentives are only a minor element in the locational decisions of TNCs.[8]

(ii) Incentives may be too small to make a difference, the investment decision depending on underlying investment factors, such as markets, location, resource availability, and capital/operating costs.

(iii) Depending on the specific circumstances of each individual country, incentives may distort market signals and thus promote uneconomic investment. The issue that incentives can promote uneconomic development, is perhaps the most difficult to deal with in the design of incentives and comparison of different countries' practices. Incentives differ in character. Some may be inconsistent with an open market economy in offering import protection (tariff or non tariff barriers), or artificially low utility prices or export subsidies. Even then, however, the incentive may be justified if limited in application and duration so as to allow a new investment a reasonable period to become established, and is then withdrawn. Other types of incentives may in their nature conflict less with the principles of an open market economy, such as reduced tax or duty rates, or favourable depreciation treatment for tax purposes.

32. In analysing Best Practices, the important issues to consider are, therefore, that first, the impact of similar incentives may differ in different countries and, second, that incentives will normally have a direct financial and/or economic cost, such as a loss in government revenues or in the higher price of a local manufacture compared to its imported equivalent. The use of incentives should therefore be restricted by accurate targeting on potential investment that would not otherwise be made in the country and by the selection of incentives which have as low financial and economic costs as possible and a limited duration. In other words, incentives should be very carefully differentiated. Seventy five percent (75%) of the countries surveyed grant different incentives on the basis of export orientation, technological sophistication, etc. to attract some specific industries. Overall, eighty eight percent (88%) of developed countries compared to seventy one percent (71%) of developing countries use such targeting techniques. Thus, developed countries seem much more selective than developing countries.

33. In connection with incentives, a country can target and facilitate the entry of industries through the use of Special Economic Zones (SEZs). Eighty eight percent (88%) of the developed countries and sixty percent (60%) of developing countries surveyed have zones or parks such as Special Industrial Districts, Export Processing Zones or High-Tech Parks. Experience with such special districts or parks have widely differed among countries due to their different structures, government policies, types of management, host country's investment climate, promotion and costs. Overall, however, the districts or parks can provide a useful investment and targeting "device" because host countries can tailor their incentives to the types of industries they want to attract. Among developing countries, such parks have been particularly successful in the Asia-Pacific region.[9]

3. Facilitating the entry of new investment and the operations of old investors

34. Governments have a choice between allowing in foreign investment without specific approval or subjecting proposed investment to screening and approval against specific criteria. The relevance of this to investment promotion is that, in judging the attractiveness of an investment climate, foreign investors put much emphasis on "the hassle costs of doing business" (including the start-up) in a particular country. Thus, an important consideration for policy makers is how to ensure that there are no regulatory and institutional bottlenecks at the entry level that negate an otherwise overall attractive policy and legislative initiative; effectively equating policy with actual practice.

35. Fifty percent (50%) of the IPAs surveyed are engaged in investment screening activities. This is a large percentage taking into account that screening of investors and related procedures are issues that have often been used as the benchmark by investors for determining Best Practices in investment promotion. After all, where the objective of an approval requirement is to identify and exclude non viable investment before entry, a Government or its IPA has an alternative, namely to rely on economic/financial forces to bring about the termination of that investment. In an open economy where market prices and market forces are allowed to prevail, those forces would be expected to provide a more accurate assessment than an initial screening process. Yet, of course, in a protected market with, for example, import protection, subsidies, price controls or unrealistic exchange rates, market signals are excluded or distorted, and if these types of conditions are allowed to prevail, then non viable investment can survive. In such a situation, screening may be required to limit the level of undesirable investment.

36. Perhaps then what is most important to note for purposes of evaluating Best Practices in investment screening/entry practices is that both free entry investment ("liberal") and investment screening ("restrictive") approaches are in fact often modified to such an extent as to be rather less distinctive than the traditional formulation of the issue suggests. More relevant to investment promotion is, therefore, that overall limitations on total investment freedom may take a number of forms that blur the apparent advantages of one approach against the other.

37. The liberal approach may for quite important reasons relating to national priorities restrict or bar certain types of investment; for example, foreign investment may be disallowed in certain sectors on grounds of national security or reservation for domestic investors. Secondly, while there may be no requirement for a screening process for foreign investor entry per se, there may be numerous other governmental agency approvals required to start a specific business (whether foreign or locally owned) amounting to significant restrictions. The sector in which an investment is proposed may naturally require some form of screening. In natural resource projects, such as mining, petroleum, timber, etc, the environmental impact studies submitted by the foreign investor have to be very carefully appraised. Furthermore, even though initial investment will not generally be restricted, investment performance may have to be subsequently strictly monitored because incentives granted have been conditioned on attainment of specified performance targets (such as employment grants paid against evidence of increased employment levels after a specified period) resulting in an ongoing screening process.

38. In contrast, it is possible that under the restrictive approach, associated procedures and facilities may modify the restrictiveness of the screening process. Firstly, the approval criteria may be lenient, for example requiring no more than evidence of the financial strength of the investor and its submission of a credible business plan. Secondly, the screening agency may also be an investment promotion agency, implementing Government policy to promote investment generally. In this case, the requirement for investment approval may amount to no more than a direction of the potential investor to a "one stop" promotion agency. The function of the one stop agency may be simply to assist the investor to satisfy the investment criteria and thereafter to coordinate the grant of necessary permits and services by the various other governmental agencies concerned.

39. Ultimately however, whether a country adopts a liberal or a restricted approach, the various agency approvals required can in many cases amount to an investment constraint. Thus, the third and perhaps most important component of an investment promotion programme concerns investment facilitation activities. This is the provision of services to prospective investors in order to facilitate their start as well as to established foreign firms in order to keep them in the host country. Facilitation is the lynch-pin between the generation of investment and positive image building. Facilitation services convert the interest of investors into actual investments and ensure investor satisfaction with the business climate well into the implementation stage and beyond ("aftercare"). A satisfied investor becomes the best advertisement a country can offer to prospective investors.

40. The primary concerns of businessmen are the speed, predictability and transparency of the approval process and the subsequent issuance of permits, licenses and other paperwork. Speeding up the approval process is an important element of investment promotion programmes. Automatic approval or mere registration for certain investments can be the solution. Fifty percent (50%) of the IPAs surveyed grant automatic approval of applications for investment in specific cases. Alternatively, defining a specific time-span within which the screening has to be completed is another way of ensuring that the investor knows that he can expect an answer within a reasonable time frame. Sixty five percent (65%) of the returns received from countries surveyed indicate that the IPAs define a specific time span within which the screening should be completed after the investment application has been made. Table 3 provides some examples.

41. A substantial number of government agencies are usually involved in the investment process, even assuming the elimination and simplification of the approval process discussed in the foregoing paragraph. Depending on the sector in which the investment is being made, the sectoral agencies may include those overseeing industry, agriculture and transportation, as well as natural resource agencies unless separate promotional arrangements apply. In addition, functional and/or regulatory agencies involved may include Inland Revenue, Customs, Central Bank, Immigration, Labour, Health, Education, Telecommunications, Power, and Water. Both

sectoral and functional agencies may be at the provincial and local as well as the central level.

Table 3

Time-span for project approval

COUNTRY	PERIOD
Algeria	60 days
Antigua & Barbuda	3-4 weeks
Cape Verde	30 days
Cuba	60 days
Cyprus	30 days
Grenada	60 days
India	3-4 weeks
Italy	6 months
Latvia	maximum 1 month
Lebanon	maximum 1 month
Malaysia	2 months
Malta	4 weeks
Myanmar	6-8 weeks
Senegal	10 days
Togo	2 days
Turkey	2-3 weeks
Zambia	6 weeks
Ethiopia	10 days
Philippines	20 days

42. The number of agencies whose supervision, approval or other input is required in the investment process presents a government with a substantial task of coordinating/avoiding duplication for each phase of the promotion strategy, including image building, generating specific projects and most specifically, facilitation services relating to screening, approvals and follow up. To address this problem, governments may designate an existing agency or create a new agency with the responsibility for (i) coordinating the respective approval and supervisory functions of the various governmental agencies concerned in the investment process and (ii) implementing/advising on investment promotion strategy.

43. Whether existing or new, the coordinating/promotion agency should have sufficient authority to ensure that all governmental agencies involved (i) amend their policies and procedures and (ii) play their respective roles in the promotion, screening and approvals process, in accordance with government's overall promotion strategy. If one out of a number of equal status agencies is designated lead agency, the investment promotion process risks being bogged down in bureaucratic rivalry. To reduce this risk a number of Governments designate a powerful senior government agency, such as the Prime Minister's Office, which is able to give directions to the other agencies. On the other hand, the Government concerned may not wish to add a significant new range of responsibilities to the existing work load of such a senior agency but prefer to entrust the role of promoting and facilitating foreign investment to a single new centralising agency (a "One Stop Shop" or "OSS"). In this case the senior agency's own role would be to supervise and, where necessary, add back - up authority. Seventy nine percent (79%) of the

countries surveyed say that they have an OSS which assists investors in getting work permits and other licences.

44. The selection of an OSS enables a government to offer investors the ability to work with a single agency, at least up to the point of investment approval, rather than a number of different agencies all with different and possibly overlapping or conflicting requirements. Behind this external unity, however, bureaucratic pressure from the existing agencies often means that actual decision making power remains in their respective hands. Not surprisingly, therefore, fifty two percent (52%) of the countries surveyed say that they do not have a genuine OSS system, meaning that potential investors still have to deal with different governmental organizations. In its most extreme form, the danger is that the OSS is no more than a post office seeking various approvals from the other agencies concerned and reporting back to the investor. In this situation, the investor may find its interests better served by going to the other agencies direct. In other words, the OSS would have become the OMSS -- "one more stop shop".

45. To prevent this, some governments have made the OSS the sole point of decision making for the investment approval process, consolidating this simplification with legislative provision whereby related approvals, permits and licenses are not left to the individual discretion of the functional agencies but follow automatically from the basic approval. This can done by structuring the OSS as a board of representatives drawn from the other agencies and carrying decision making authority in the joint board rather than individual context. Structuring the OSS in this way requires substantial top level governmental authority as it amounts to a significant restriction of the individual agencies' powers and discretion. Some governments have gone further by transferring the decision making power to the OSS itself, which would then act through its own management rather than the representatives of the other agencies.

46. Besides accelerating the screening process, other types of facilitation services are government contacts, support for site visits, customs clearance assistance, and referrals to private businesses providing quality legal, accounting, recruitment and credit services. Usually, these facilitation services are provided by the IPA. These services are natural tie-ins with one stop shop operations but they should not be confused with the essential purpose of the OSS: the centralized processing, and hence, streamlining, of the paperwork related to investment screening. In other words, an IPA may not necessarily be the OSS but still be expected to carry out these other facilitative services.

47. Following commencement of operations, many IPAs will cease to play an active role regarding a specific investment. It is important, nevertheless, to have in place a monitoring system whose function is (i) to provide business troubleshooting assistance to encourage other investors to invest or an initial investor to reinvest and (ii) to verify that discretionary incentive conditions have been met (eg additional employment targets). If incentives are to be offered on attainment of performance criteria, the IPA should ensure that these are clearly spelt out before the investment is made and are straightforward to administer. Seventy eight percent (78%) of the IPAs surveyed state that they have tried to develop a process of encouraging foreign investors to re-invest via upstream and downstream linkage activities and, also, to develop joint venture and other contractual arrangements with local supplier firms. However, there remains for many developing countries a problem of inefficient or insufficient information databases necessary to facilitate the investment deepening process (see Table 4). Thus an important aspect with regard to which DITE is increasingly requested for assistance is to create investment-related information databases as well as to formulate the required policy framework to govern the institutional support necessary. (See box 5 for two such examples)

48. Finally, to ensure that the business climate generates investor satisfaction and consistency between the laws and their application to individual transactions, facilitation must be supported by continued policy reform. Policy reform addresses those facets of the national legal and/or regulatory framework that constrain trade and business growth, like for example transport rates, bureaucratic delays, levels of fiscal incentives, and exchange rates. Advocacy for policy reform may be carried out by a variety of public and private groups, including autonomous government entities and private business associations such as Chambers of Commerce, and it is often tied to the mandate of investment promotion and business facilitation organizations. These institutions can act as catalysts for those of their members whose voices may otherwise not necessarily be heard. Most of the IPAs surveyed

recognize this and stated that they keep strong relationships with Manufacturers' Associations and Chambers of Commerce.

Box 5

Strengthening institutional capacity and developing international competitive advantages

Albania: Assistance was provided by DITE to the Government of Albania through the organisation of study tours and training courses in Belgium and Ireland for senior staff of the Albanian Centre for Foreign Investment Promotion. The Centre was assisted in computerizing its investment registration and monitoring system and in carrying out financial analysis studies of 16 investment projects in Albania. Support was also given to investment promotion missions by high level government officials to Austria, Italy and Switzerland.

Bolivia: Technical assistance was provided by DITE to the Government of Bolivia, on how to design and implement a strategy to develop international competitive advantages. Specific sectors and products were identified. The role of Government in this process was examined, and specific recommendations were made to build the national capacity to increase the competitiveness of Bolivian goods and services in international markets, and to market Bolivia as an investment location for foreign companies.

Table 4
Availability of information databases

	Developing countries	Developed Countries
Existence of a system to identify investors*	65%	94%
The system is computerized and there is access to foreign databases**	41%	56%

** As a % of total developing or developed countries*
***As a % of the developing or developed countries that have a system to identify potential investors*

C. Promotion of Outward Investment

49. The survey focussed on inward investment and did not address the issue of the promotion of outward investment. However, inward investment is nearly the perfect statistical obverse of outward investment. Whether a country is successful in attracting foreign investment is somewhat dependent on the ease with which capital can move across national boundaries. Promotion of outward investment, whenever it does take place, may be the responsibility of parts of the government other than the IPA; in any event, it is unlikely to be central to the latter's functions.

50. Foreign investment flows have been a major factor in the world economy ever since the 19th century intensification of colonialism and only slowed down during the first half of the 20th century as a result of the two World Wars. From the 1950s onwards, controls on capital outflows were removed in most of the developed countries. Not many pro-active measures were taken by home governments to stimulate outward flows but when investment did occur the full backing of the state was expected in the event of a dispute. With increasing liberalization and resulting globalization, home governments have become somewhat less passive, as seen, for example, by the high incidence of bilateral investment treaties which are designed to gain both easier investor entry to host countries and more favourable operating conditions. In the European Union the process has gone even further in that a

number of support programmes have recently been devised to facilitate investment by European firms in Asia, a booming region in which they are perceived to be not well represented. The programmes include a "Business Priming Fund," an "Asia Enterprise and Asia Partenariat" to organize contacts and match making, an Asian Investment Facility" to identify investment opportunities and a "European Community Investment Partners" facility to part finance feasibility studies, prepare privatization and BOT infrastructure schemes, and participate in equity.[10]

51. Whereas governments in most developed countries see the need for their firms to invest abroad in order to remain globally competitive, not all elements of the civil society are similarly persuaded. For example, in the United States of America the labour unions are concerned about the export of jobs, an issue which now preoccupies even more some unemployment ravaged European economies. In relatively full employment Japan this has not become an issue; in fact, voluntary and non voluntary currency depreciation has encouraged greater Japanese investment abroad.

52. In the developing world, where investment outflows attained a level of US$47 billion in 1996, governments are giving increasing encouragement to their domestic firms to go abroad. For Hong Kong and Singapore the economy is so small that firms need to invest abroad for market enhancing and efficiency enhancing purposes. Access to raw material sources is another motivating factor and this is why, for example, Singapore is the biggest investor in Myanmar and Thailand. Malaysia too, has been urging its companies to invest and is Viet Nam's biggest investor.[11] Similar considerations inform the action of firms from Republic of Korea and Taiwan Province of China, inter alia. Even India has recently removed capital controls on investment abroad. The benefits to be derived from integrated regional production also inform the favourable treatment that the Latin American Governments of Argentina, Brazil and Chile accord to cross-border investment. The enhanced capacity of developing countries derived from investing abroad increases the strength of the home economy and its ability, in turn, to attract both wholly-owned and joint venture seeking inward investment.[12]

PART II

EFFECTIVENESS OF DIFFERENT PRACTICES

53. As indicated in Part I of this Study, the components of investment practice cover a wide field, including the overall investment framework, specific fiscal and other legislative provisions and the institutional set up and procedures for foreign investment entry and facilitation of ongoing operations. This diversity should necessarily be reflected in any suggestions for techniques of measuring the effectiveness of different investment promotional practices. At the same time, as was the case in defining "Best Practices", measuring effectiveness has to take into account the unique characteristics of every individual country or region concerned as well as the organisational structure of the IPA.

54. In view of the above, this Part of the report suggests possible techniques for measuring individual practices by reference to (1) the quantitative impact reflected in increased FDI; (2) the qualitative nature or composition of FDI; and (3) the reduction of "hassle costs" to an investor of doing business in a particular country. It then analyses the importance of the organisational structure of an IPA as well as the choice of emphasis between the main components of Best Practices discussed in Part I of the Report.

A. Measuring the quantitative impact of increased FDI

55. The success of an investment promotion programme as a whole, or an individual group of practices such as incentives, can in theory be measured by reference to the increase in the level of economically viable investment in the country attributable to those measures, less the economic/financial cost of those measures. Subject to recognising that achieving an accurate measure of this increase is fraught with a number of difficulties as illustrated below, it is recommendable to try such a measure to the degree practicable.

56. The first difficulty is in obtaining reliable data as to the level of investment over a reasonable period leading up to and following the introduction of the investment promotion strategy group/single promotional practice concerned. If the pre-strategy data is not available, measuring the additional level of investment attributable to a promotional strategy will founder on the hypothetical question of what would be the (reduced)level of investment in the absence of that strategy. An important element of investment promotional programmes needs therefore to be the development of adequate databases. Indeed, as mentioned before, this is an area of increasing relevance in DITE's technical cooperation programme.

57. Where data is available, the next difficulty is in establishing causality between the new practice(s) and the increased (or reduced) investment level. Causality may be reasonably established if other possible factors can be eliminated, for example, a significant change in the market for the product in question, such as the discovery of a new use (increasing demand) or the closure of a competing supplier, or technological change reducing production costs or overall change in economic conditions (such as the end of an economic recession). If another significant factor is involved, it is unlikely that the increased investment can be reliably allocated between the new strategy and that other factor. Where the main component of an investment promotional programme is specific targeting of certain countries or industries, the causality may also be easier to establish. In MIDA's early years, the principal promotional technique was specific investment missions to capital-exporting countries, particularly targeting the electronics sector of the United States. MIDA officials take direct credit for significantly influencing the first semi-conductor firms, such as National Semiconductor into investing in Malaysia.[13]

58. To measure the true value of an investment promotion programme, it is also necessary only to credit investment which is economically and financially viable. As suggested above, protection of an economy by subsidies, quotas, price controls, unrealistic exchange rates etc could lead to non viable investment incapable of generating a satisfactory return in the absence of such protection. It follows that measurement will be more reliable where the economy concerned is a liberal market economy. Furthermore, against the increased flow of investment attributable to the promotion practice should be offset its costs. There are usually, little mid or long term costs of establishing an attractive investment framework and admission procedures, but the financial and economic costs of providing incentives and of setting up a promotional agency may be substantial.

59. In measuring the quantitative impact of FDI, an IPA may also compare Best Practices by making a comparative analysis of the level of Government tax revenue in different countries for similar investment projects; and in that context compare,

for example, the cost or effectiveness of fiscal and financial incentives currently being provided.

60. To compare fiscal take properly may only require the preparation of a simple investment model, spelling out assumptions as to project revenues and capital and operating expenditures, timing and discount rates, and generating a given pre-tax investment return. Into this model, the fiscal treatment applicable in each of the countries that an IPA in a given country wants to compare with would be inputted, to arrive at a comparative evaluation of the impact of the alternative fiscal take regimes. Variations in costs and revenues would also be added as sensitivities to ensure the validity of the comparison across a range of project scenarios. If the input data was materially affected in the case of a particular sector, for example, a natural resource investment, an additional model could be prepared for that specific sector.

61. It is useful to keep in consideration the fact that an evaluation of the pre-tax fiscal attractiveness of a proposed investment is a function of projected pre-tax revenue over the investment period in relation to capital and operating costs. The resulting return on investment will then be adjusted according to the fiscal share taken by the host country government depending on general fiscal legislation, applicable fiscal incentives and individual negotiations. Because the level of investor return is primarily a function of underlying revenue and cost considerations, for a government to pitch its fiscal share below any of its competitors will not necessarily attract investment that would otherwise be made elsewhere. Furthermore, how government's fiscal share is composed will affect investments or investors differently. For example, accelerated depreciation will be relatively less attractive for a low capital investment project. Tax holidays will confer no benefit to the extent that the holiday simply transfers the tax obligation to the investor's home country. In other words, comparison of government fiscal share provisions by themselves is not necessarily meaningful.

62. Tax revenue loss considerations are not usually a primary concern of an IPA since the latter's effectiveness is typically judged solely by the quantity (and increasing quality) of investment inflows. This can lead to strategic tension and conflict of interest with the Inland Revenue authorities.

63. Finally, in recent years developed countries, in particular, have resorted to giving very generous up front financial and other incentives to attract very large investment projects in the motor vehicle, electronics and certain other industries. The capital-labour ratio in these industries has tended to be very high and so hundreds of thousands of dollars worth of incentives have been needed to generate each direct job. The implication is that the incentives can only be justified on the basis of stimulus to supplier linkages and technology spread effects. It also raises the issue of the power of state governments vis-a-vis the federal government, as in the case of the USA, and whether countries should collectively seek to set guidelines with respect to incentives so as to prevent excessive bidding against each other to secure certain types of investment.

B. Qualitative Nature or Composition of FDI

64. Recipients of inward investment would ideally like the capital inflows to generate significant value added, create backward and forward linkages (at both the national and regional local content levels), and transfer and diffuse technology both vertically and horizontally. At the same time, most countries would wish to combine such virtues associated with technological capacity building with certain equally important objectives, such as the maximization of employment and net foreign exchange receipts. Not all capital is associated with every one of these attributes and trade-offs may be necessary. In many cases local skill constraints may determine the focus of the promotional effort. Thus, in the early stages of development, emphasis may be placed on labour intensive activities, especially when foreign capital views the country as an export platform for marketing its products in other countries.

65. If a country succeeds in moving up the economic ladder, then a later stage may be reached where employment generation no longer is an over-riding objective; increasing skill development, technology absorptive capacities and shifting comparative advantages may be such that higher value added activities are sought. In recent years labour scarce economies with steadily rising wages, such as Malaysia, reached the stage where incentives and pro-active encouragement was being given only to skill and technology intensive industries and Mauritius is fast approaching such a situation. In the case of the relatively small economies of Ireland and Singapore, this strategy of selective targeting was adopted over a decade ago, accompanied by very intensive state subsidized training in electronic and other knowledge based skills. In very large resource based economies, with

moderate wage rates but yet reasonable skill endowment, such as China, India and Indonesia, a twin strategy of targeting both labour intensive and skill intensive industries may be pursued with a gradual shift over time in emphasis from sunset to sunrise activities.

66. Hong Kong and Singapore have recently reached an even higher stage where they actively seek investment associated with their status as regional design, R&D, and procurement centres and regional management and administrative headquarters for foreign firms operating in Asia. These experiences represent a successful policy of constant movement up the value added chain, continuous technological upgrading and active encouragement to indigenous firms to be innovative, efficient and internationally competitive.

C. Measurement by reference to the reduction of "hassle-costs" of doing business

67. As discussed in Part II, a key function of an investment promotion agency will be to assist a potential investor in securing the various approvals required, possibly for the investment itself and certainly in the course of preparation, development and operation of the plant or other project concerned. Some of the requisite approvals may lie in the discretion of the promotional agency alone. More often, the promotional agency will need to secure the cooperation of the other governmental agencies concerned.

68. To business people "time is money" and perhaps therefore a measurement technique directly related to time may best give an indication of how an investment promotion programme assists in reducing the hassle costs of doing business. The measurement technique should cover the time taken from the date of the investor's application for an approval to the date when the approval is given; including the time taken by both the promotional agency and other governmental agencies for whose performance it is also responsible, directly or via senior ministerial mandate. Measurement of the time and cost required for overseas investors to establish telephone contact with a responsible officer of the promotion agency and other government agencies concerned is also an important factor. Here the system would be measured to determine whether delays result from factors within or outside of the control of the agency concerned. For example, delay factors within the agency control could include insufficient internal telephone lines and failure to ensure that a responsible officer(s) is on office duty throughout normal working hours. On the other hand, delay factors outside of the agency's control could include inadequate country communications facilities and recurrent power outages. For this reason, the measurement technique should include provision to record the reasons for the delays.

69. To assess performance by relation to approval times taken requires a standard to which actual time can be compared. The Thailand Investment Authority, for example, publishes maximum periods within which approval processes must be completed by the various governmental agencies concerned, for example 90 working days for initial project analysis, 7 for clearance of machinery imports, 15 for factory operating permits and 45 days for permission for foreigners to work in investment promoted activities. As already indicated in Part II, a number of other countries included in the survey have specific time-spans within which the screening of an investment proposal should be completed after the investment application has been made.

70. It may also be possible to measure the costs directly resulting from the delay in the grant of an approval, depending on the type of investment and the stage at which approval is sought. Customs clearance approval is an example. If approval is not granted within a prescribed period, additional charges may be clearly identifiable, such as vessel demurrage and bonded storage costs. In other cases, for example a delay in grant of an immigration visa to a key staff member, direct costs may result but are nominal, while the real managerial or marketing costs are too indirect to quantify accurately.

D. The importance of an IPA's organisational structure

71. The efficiency of an investment promotion programme, whether in terms of image building, investment projects attraction or investment facilitation largely depends on the organizational structure of the IPA. There are three main types of IPA organizational structures: Government, quasi-government and private agencies.

72. Government IPAs are usually either a Department of a Ministry (eg. Trade and Industry), or a separate agency that reports to a Ministry, or an agency organized under a Prime Minister's or President's Office.[14] In such cases, the people in charge of investment promotion are civil servants. Since the investment

facilitation activities require numerous contacts with the government, a government IPA staffed by civil servants has the advantage of easy access to various other departments of the government bureaucracy. On the other hand, an IPA should speak the same business language as investors. Investment promotion requires the ability to maintain on-going contacts with the private sector, the flexibility to quickly adjust to changing needs and the ability to establish long-term relationships with investors. Unfortunately, civil service staff usually do not have any business background and often lack the management and marketing skills needed for this function. Investors are also sometimes reluctant to deal with the government when it comes to confidential matters because there is always the fear that information will be passed on to other official bodies.[15] Finally, government promotion organizations tend to combine screening and negotiating with foreign investors with marketing functions. As a result, promotion is sometimes a secondary function of the agency. When less attention is given to promotion, the results with respect to the attraction of FDI may be less successful than in the case of quasi-government and private IPAs.[16]

73. Investment promotion programmes are more successful when they are conducted by agencies which have been created for this sole purpose.[17] Private IPAs can easily fall into that category. However, there is one constraining factor to their possible set up. In many respects, investment promotion has a significant monetary cost. While an IPA may receive payment for some facilitation services, most other activities, especially image building and projects generation, can only be non-profit activities. Consequently, that limits the likelihood of the private sector being interested in setting up such agencies. However, such private agencies have in some few instances been set up with funding from international agencies. In such cases, they are perfectly suited to carrying out image building and investment projects attraction activities. To the extent that they have a good understanding of private sector needs , they can also be quite effective in providing investment facilitative services. But, they are weak when it comes to investment facilitation activities which require the help of the government. Being completely outside the system, private IPAs do not have the same easy access to government departments as government or quasi-government promotion organizations. As a result, they have difficulties in avoiding red tape and speeding up investment facilitation activities.

74. Quasi-government or quasi-private organizations usually have their own board of directors, recruit outside the civil service and report to the responsible Government Ministry without being part of it.[18] In other words, they combine the advantages of both government IPAs and private IPAs. First of all, such IPAs have some direct connection with the Government. Because they are in close contact with the public authorities such IPAs can easily carry out investment facilitation activities in an efficient manner. At the same time, they have the freedom of hiring people based on their marketing expertise and often motivate them by rewarding them on a performance-basis. As a result they are efficient in investment generating activities. In other words, the IPAs are not entirely autonomous but can adapt easily to market demands.

75. Finally, an important organisational issue is foreign representation of an IPA. In practice, a lot of countries choose the structure of their foreign representation on the basis of cost. Thus, consulates and embassies are widely used as vehicles through which to promote investment, since some organizational structure is already existent (see Table 5). In any case, the necessity of establishing IPAs abroad should be dictated by the investment promotion phase in which the host country finds itself.[19] For example, foreign representation is most effective in the case of project generating activities. These activities involve direct marketing efforts and thus demand closer geographical contact with potential investors. On the other hand, a country which is in the process of building or changing its investment climate image does not need to set up an IPA abroad. It would be a waste of resources since investment climate promotion activities do not require personal contacts. Similarly, there is no need for placing abroad representatives to carry out investment facilitation activities since such activities are primarily carried out in the host country for current investors or investors who have committed themselves to establish their presence in that country.

Table 5

Foreign representation in investment promotion

	Developing countries As a % of total developing countries	Developed countries As a % of total developed countries
IPAs have offices abroad	23%	47%
Embassies abroad are involved in investment promotion	95%	76%

CONCLUSIONS

76. As mentioned in the Introduction to this report, the description of the principal components of Best Practices in investment promotion indicate a basis for the types of questions posed under the UNCTAD survey. Thus the questions were put into three categories:

1. Investment Climate Promotion
2. Investment Projects Attraction
3. Investment Facilitation

    a. New investors entry facilitation
    b. Current investors assistance programmes.

77. A number of specific findings have already been referred to, but certain general observations need further mention.

- Of the three components of Best Practices, most diversity between countries relate to practices concerning investment project attraction.

- The emphasis put on any of the three main components of investment promotion activities vary from country to country.

78. The latter point raises the issue of whether IPAs need to necessarily put emphasis on certain types of investment promotion activities. Some countries actually follow "the image building- investment generation- investment facilitation" order. Investment Canada (the Canadian IPA), for example, implemented an investment promotion programme that closely followed that order and did so very effectively[20]. It was after a successful one-year campaign to promote Canada's investment image that Investment Canada switched to an investment attraction program through direct marketing.

79. On the other hand, some countries do not start with image building activities at all, but rather go directly into investment projects attraction. This, of course, can be a fundamental mistake in the case of countries whose image remains negative. The resources used are often wasted and would be better applied to positive image building activities. There are, however, cases where such an approach is justified. For example, this was the case in Scotland where the IPA started its promotion programme with investment projects attraction because it had already benefited from the image building activities of the British IPA, Invest in Britain Bureau.[21] Yet in other cases, it can be useful to continue with previous activities while transiting to a new phase. When the Irish IPA (IDA) made the transition to investment project generation, it continued to vigorously pursue image building activities because it perceived a need to still emphasize that the country provided an attractive investment climate.

80. Whatever the case may be, successful investment promotion relies on an IPA's ability to recognize the investors' stage of decision making and to tailor its campaign accordingly, since different promotional activities are more effective at different stages of the investment decision making process. As potential investors first show signs of awareness and interest in the possible opportunities of a given country or territory, investment promotion must focus on building a positive reputation about the local investment climate. Then, as the interest narrows down to possible trial and specific ventures, investment promotion can focus on investment projects attraction in order to trigger the actual action of investment. Once the investors have made a positive and definite decision, then the IPA should facilitate both the entry requirements as well as the longer term stay. Obviously, IPAs will not be dealing with investors who are all in the same investment decision stage. The most successful IPAs are those which effectively utilise their resources to focus on the activity corresponding to the decision making stage of the majority of their potential "customers".

References

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5. See UNCTAD, "Foreign Direct Investment in Africa"; (United Nations, 1995): p.63.
6. See Claudio Alhaique, Creation of an Industrial Promotion Service.
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21. Ibid.