

SESSION 1: WHAT IS AN INVESTMENT PROMOTION STRATEGY (IPS)?

9:30-10:15



Investment promotion strategy – introduction

WHAT IS AN INVESTMENT PROMOTION STRATEGY (IPS)?

- The prime function of IPAs is to develop and implement an effective investment promotion strategy
- In order to do that, the IPA requires a clear and comprehensive understanding of both the national and international policy contexts and how these affect the country's potential to attract the desired quality and quantity of FDI
- An Investment Promotion Strategy is active investment promotion, targeting and facilitation of a region by an IPA
- The content of the investment promotion strategy revolves around the question of “**what to promote**” and depends on the balance between the country's business competitiveness and attractiveness for investment opportunities on the one hand, and the perceptions and investment intentions of investors on the other hand

Investment promotion strategy – 10 key components

WHAT IS AN INVESTMENT PROMOTION STRATEGY (IPS)?

- 1. Vision and mission statement**
- 2. Strategic objectives**
- 3. Benchmarking and image building**
- 4. Sector and market strategies**
- 5. Marketing and promotion**
- 6. Product development:** activities to improve the local investment climate
- 7. Budgets and resource allocation**
- 8. Organization of resources:** organizational diagram showing each department with functions and staff members and their responsibilities
- 9. Key performance indicators (KPI's) for monitoring and evaluation**
- 10. Action plan:** short-term, medium-term and long-term actions required for each target and goal, outlining investment promotion tools and budgets

Group brainstorm – BKPM's FDI strategy

WHAT IS AN INVESTMENT PROMOTION STRATEGY (IPS)?

1. Why attract FDI / objectives in attracting FDI?

- Capital inflows, job creation, tax income, technology transfer
- Bigger picture: how to maximize the benefits?
- GDP growth, exports
- Regional development

2. What type of FDI is BKPM is trying to attract?

- Greenfield, Brownfield, M&A (increasing mode so we need strategy)

3. How much FDI does BKPM want to attract?

- 765 trillion – FDI and DDI- 60% FDI realization – commitment figures approx. 3x higher
- (2017 \$30 billion)

IPA vision and mission statement – examples

WHAT IS AN INVESTMENT PROMOTION STRATEGY (IPS)?

- **Vision:** concise but clear statement of what the organization intends to become and to achieve at some point in the future
- **Mission:** inspiring statement of how the vision will be achieved. A mission statement can also refer to a particular set of higher level goals that need to be achieved in order to realize the vision
- **Malaysian Investment Development Authority (MIDA):**
 - + *Mission:* To ensure Malaysia achieves its goal in economic transformation and its aspiration of a developed nation by 2020
- **Sri Lankan Board of Investment:**
 - + *Vision:* To make Sri Lanka the most preferred destination for sustainable investment in Asia

Strategic objectives – example

WHAT IS AN INVESTMENT PROMOTION STRATEGY (IPS)?

Sri Lanka Board of Investment objectives:

- Foster and generate economic development
- Widen and strengthen the base of the economy
- Encourage and promote investment, specifically Foreign Direct Investment
- Promote interdisciplinary interaction and collaboration
- Help existing enterprises in dealing with macro socio economic challenges and help in their transformation
- Diversify the sources of foreign exchange earnings and increase export earnings
- Promote innovation and the adoption of new technologies and generate new employment
- Establish Investment Promotion Zones (IPZs) throughout the country especially through public and private partnership
- Promote Sri Lanka as a trading hub

The client charter - example

WHAT IS AN INVESTMENT PROMOTION STRATEGY (IPS)?

Malaysian Investment Development Authority *We are committed to provide services in a professional, efficient and ethical manner to industrialists and potential investors in the manufacturing and services sectors by:*

- Responding to all investment enquiries in a prompt and courteous manner
- Disseminating accurate and up to-date information on investments
- Assisting investors in the implementation of their projects

We are committed to answer relevant enquiries, and to complete the evaluation of applications from the date of complete information received, within the stipulated time-frame as follows:

- Enquiries received via website – 2 working days
- Manufacturing license
 - Normal track – 4 weeks
 - Fast track – 7 working days
- Incentives – 6 weeks
- Tax exemption from custom duties – 4 weeks
- Principal hub – 6 weeks
- Regional Office and Representative Office – 4 weeks
- Expatriate posts
 - Normal track – 4 weeks
 - Fast track – 7 working days

Three main types of FDI

WHAT IS AN INVESTMENT PROMOTION STRATEGY (IPS)?

The OECD states that “FDI involves the acquisition of a lasting interest and effective voice in the management of an enterprise in a host country” and that “This generally considered achieved with more than 10% ownership of the foreign enterprise”. Most international businesses are engaged in many types of FDI and often consider multiple types at the same time when considering how to enter a new market

1. Greenfield & Expansion

- New physical operation
- Brownfield (in existing site, typically by a new company)
- Expansion/Re-Investment (of an existing operation)

2. Equity investments

- Mergers & Acquisitions (M&As)
- Joint Ventures (JVs)

3. New forms of investment (NFI)/Non-equity modes (NEM)

- Subcontracting, licensing, production sharing
- Franchising, management, and turnkey projects

Economic development benefits by type of FDI

WHAT IS AN INVESTMENT PROMOTION STRATEGY (IPS)?

The type of FDI to target depends on the desired benefits

Type of FDI	Job creation	Fixed capital formation	Technology	Access to export markets	FX earnings	Long term finance
Greenfield FDI	High	High	High	High	High	High
M&A	Low	Low	Low	High	High	Medium
NFI/NEM	Medium	Medium	High	High	Low	Low

Source: WAVTEQ

- The type of FDI to target also depends on:
 - + The sectors in the economy (e.g. R&D and tech sectors are driven more M&A and NFI/NEM types of FDI)
 - + The existence of local firms both suitable for, and which have a clear desire for, engaging in M&A and/or NFI/NEM transactions with foreign investors
 - + The capability of the IPA to promote and facilitate non-Greenfield types of FDI

Key issues in measuring FDI and IPA performance

WHAT IS AN INVESTMENT PROMOTION STRATEGY (IPS)?

“Those who oversee and lead [US Economic Development Organizations] EDOs need to confront the fact that their performance metrics [jobs and investment] are deeply flawed...They need to recognize that the current standard for performance metrics is, by and large, an illusion...EDOs exaggerate their responsibility for outcomes...EDOs buy metrics by providing financial assistance...EDOs overstate how accurately they can measure impact”

Brookings, “Performance measurement in economic development – even the standard can’t live up to the standard” (August, 2016)

“Most IPAs do not know the criteria that should be used for qualification of FDI successes or for evaluating their role in the success”

“If the Government is going to give you \$10m you need to show the return on investment!”

Quotes from IPAs based on a WAVTEQ survey on FDI Evaluation (Loewendahl, 2016a)

“The quality of inward FDI is more important than its quantity. FDI quality cannot be assessed simply by looking at aggregate FDI statistics”

Columbia FDI Perspectives, Perspectives on topical foreign direct investment issues, No. 184 (October 10, 2016)

IPA performance – example targets to monitor

KEY PERFORMANCE INDICATORS

Example key performance indicators for an IPA

- | | |
|--|---|
| <ul style="list-style-type: none">• Number of investments;• Value of investment projects;• Number of jobs created;• Increase in tax revenue;• Per capita income growth;• Number of successful linkages with domestic companies;• Investors' perceptions of the location;• Investors' rating of IPA's services;• Retention and expansion rates of investment projects;• Conversion rates of...<ul style="list-style-type: none">– Contacts becoming leads;– Leads making site visits;– Site visitors becoming investors. | <ul style="list-style-type: none">• Policy or regulatory improvements in the investment environment• National or provincial growth rates• Sector growth rates• Quality of investments (e.g., moving up the value chain)• Sources of investment (greater diversity is better than reliance on one or two main sources)• New spin off industries• Sources of leads (forum, mailing, advertisement, etc.).• Number of TNC headquarters established;• Number of R&D facilities established by TNCs. |
|--|---|

Source: ESCAP (2017)

It is expected that IPAs will increasingly target FDI to achieve the **UN Sustainable Development Goals (SDGs)** relevant for their location

Tools to measure FDI and IPA performance

KEY PERFORMANCE INDICATORS

WAVTEQ was established in 2010 in Hong Kong, China by Dr. Henry Loewendahl as a spin-off from the Financial Times Ltd. to specialize in FDI consulting and product development. Among its products is the fDi greenfield database developed for the Financial Times and “FDI Accounting”, an investment project performance tracking and recording database software which allows IPAs to monitor and evaluate the economic impact and organization of a particular investment. The software uses a cloud-based, easy-to-use data entry platform and front-end application and a methodology based on official IMF and OECD definitions and IPA best practices. It provides qualification of project successes to ensure they meet international standards in FDI.

The software has the following features:

1. Monitors and records FDI projects;
2. Contains company details;
3. Contains project details and status;
4. Location and sector information;
5. Investment and employment;
6. Qualification that announced investments will happen
7. Evidence of IPA involvement in securing the investment;
8. Measures economic impact and “quality” of investment;
9. Measures return on investment;
10. Generates automated reports on FDI performance and return on investment.
11. Seamless integration with WAVTEQ’s lead generation CRM database and the Financial Times fDi database.

Access to the database and demos are available at <http://www.fdiaccounting.com>.

Source: Available from <http://www.wavteq.com/ias.cfm>; <http://www.fdiaccounting.com>.

Source: ESCAP (2017)