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THE EARTH INSTITUTE AT COLUMBIA UNIVERSITY

Handbook for Promoting Foreign Direct Investment in Medium-Size, Low-Budget Cities in Emerging Markets



VALE COLUMBIA CENTER
ON SUSTAINABLE INTERNATIONAL INVESTMENT
A JOINT CENTER OF COLUMBIA LAW SCHOOL AND
THE EARTH INSTITUTE AT COLUMBIA UNIVERSITY

Handbook for Promoting Foreign Direct Investment in Medium-Size, Low-Budget Cities in Emerging Markets

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Foreword

The Millennium Cities Initiative (MCI) is one of a number of efforts to help achieve the Millennium Development Goals (MDGs), adopted by world leaders during the United Nations Millennium Summit in 2000, and re-affirmed by the United Nations General Assembly in September 2005.

Under the umbrella of the Millennium Project (<http://www.unmillenniumproject.org>), two efforts launched by The Earth Institute at Columbia University aim to help achieve the MDGs in rural and urban areas: the *Millennium Villages Project* (<http://www.earth.columbia.edu/millenniumvillages/>) assists a number of villages throughout sub-Saharan Africa to escape the poverty trap, while the *Millennium Cities Initiative* (<http://www.earth.columbia.edu/mci/>) assists a number of cities in the same region to become viable economic centers. The Millennium Cities Initiative was launched in 2006 with the strong support of the Governments of the participating countries.

This *Handbook for Promoting Foreign Direct Investment in Medium-Size, Low-Budget Cities in Emerging Markets* is intended as a tool for city administrators in cities of low-income countries to attract investment. Both domestic investment and foreign direct investment advance rural and urban economic growth and development. The distinctive role of foreign direct investment – on which this *Handbook* is focused – is that it brings scarce capital, know-how, technology, and access to foreign markets. Furthermore, if well embedded in the economic strategies of host economies, foreign direct investment can help improve the competitiveness of domestic enterprises as well, a core foundation of economic growth.

Attracting foreign direct investment to Africa is difficult. It is even more difficult to attract it to locations outside a country's capital. Yet, promising investment opportunities abound, in the cities themselves and especially if considered in conjunction with the agricultural sectors of their surroundings. Cities that seek foreign direct investment need, therefore, to make a determined and well-focused effort at investment promotion around viable and promising industries, tailored both to local conditions and world markets. This *Handbook* therefore offers an important tool to support cities in their efforts to attract foreign direct investment. I am confident that the present volume will be of considerable help not only to the Millennium Cities, but also to cities of low-income countries across the world. I heartily commend the authors for this important contribution.



Jeffrey D. Sachs
Director
The Earth Institute at Columbia University
November 2009

Preface

We take this opportunity to congratulate the Millennium Cities Initiative (MCI) for assisting Kisumu, the first Millennium City, to attract much needed investment to enhance economic development in the region. Many medium-size, low-budget cities are greatly constrained by their disadvantageous location. They are often located far away from their countries' capitals (where usually most of a country's investment—and in particular foreign direct investment—is located). These cities also often lack direct access to the sea and are often badly connected to the country's road and railway networks. They are not well known to the global business community and suffer from the generally unfavorable perception of sub-Saharan Africa that prevails in the media and the minds of many people.

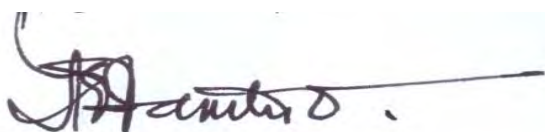
With support from MCI, we are trying to change this perception and place the Millennium City of Kisumu on the map of local, regional and foreign investors. More specifically, the cooperation with MCI focuses on the identification and promotion of commercially viable investment opportunities, the targeting of potential investors and the strengthening of local capacities to attract investment and increase its contribution to development.

The ultimate goal of MCI's investment-related efforts is to enable a city to undertake these activities independently. Therefore, helping the local administration through capacity building is a particularly important part of these efforts. In this regard, this *Handbook for Promoting Foreign Direct Investment in Medium-Size, Low-Budget Cities in Emerging Markets* should serve as the first guide to building capacity for investment promotion in Kisumu. Similarly, this guide is a contribution to a broader effort, namely to help Kisumu formulate an integrated development strategy that also covers the social sector.

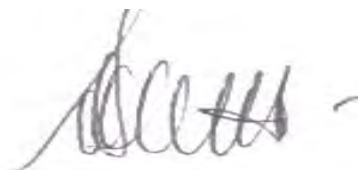
It is crucial that a city assumes ownership of investment promotion, in close collaboration and coordination with the national investment promotion agency and other national institutions. For Kisumu City, the success of these efforts also strongly depends on how effectively the city forges partnerships with the local private sector and other local stakeholders, as well as other interested domestic and foreign partners.

We feel that other under-resourced cities in Kenya and, indeed, other countries can benefit from this *Handbook* and the experiences reflected in it. It will enable these cities to develop their own capacity for investment promotion.

We would like to thank the Government of Finland, which has, through its financial contribution to the Government of Kenya, made the development of this *Handbook* possible. We thank UNDP for its support in preparing and publishing it. And we thank the MCI investment team for helping Kisumu and Kenya to attract investment.



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Samuel Okello
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Special thanks go to Hon. Wycliffe Ambetsa Oparanya, Minister of State for Planning, National Development and Vision 2030; Edward Sambili, Permanent Secretary, Ministry of State for Planning, National Development and Vision 2030; Samuel Okello, Mayor of Kisumu; Gideon Mailu, National Coordinator, MDGs Unit, Ministry of State for Planning, National Development and Vision 2030; Joseph Masila, Ministry of State for Planning, National Development and Vision 2030; Theresa Zitting, Deputy Head of Mission, Embassy of Finland in Kenya, and Heikki Haili, former Minister Counsellor, Embassy of Finland in Kenya.

The lead consultant on this *Handbook* was Henry Loewendahl, an international expert in FDI and investment promotion who has worked with over 50 investment promotion agencies in 30 countries. In addition, international experts contributed to the preparation of this volume, in particular during a workshop that took place in London in December 2008. These include Persa Economou, Saida Maki-Pentilla, Laban Mburu, Mesfin Moges, Martin Mutuku, Samuel Okello, Carolyn Okul, Ahmed Maalim Omar, Edward Sambili, Festus Wangwe, and Feseha Zerihun. Paulo Cunha and Wouter Schmit Jongbloed were also instrumental in bringing this volume to fruition.

Any questions or suggestions should be directed to Karl P. Sauviant (karlsauvant@gmail.com) or Joerg Simon (suma2306@yahoo.com).

New York, November 2009

Definitions and abbreviations

AGOA	African Growth and Opportunity Act
ASEAN	Association of South East Asian Nations
BPO	Business process outsourcing
CEE	Central and Eastern Europe
CEO	Chief Executive Officer
CINDE	Costa Rican Investment Board
CIS	Commonwealth of Independent States
CRM	Customer relationship management (system)
EIU	Economist Intelligence Unit
EU	European Union
FDI	Foreign direct investment
FIAS	Foreign Investment Advisory Service (of the World Bank)
GDP	Gross domestic product
HQ	Headquarters (of a company)
ICT	Information and communications technology
IFC	International Finance Corporation
IPA	Investment promotion agency
IT	Information technology
LDCs	Least Developed Countries
M&As	Mergers and acquisitions
MCI	Millennium Cities Initiative
MIGA	Multilateral Investment Guarantee Agency (of the World Bank)
MNEs	Multinational enterprises
OECD	Organisation for Economic Co-operation and Development
PA	Personal assistant
PR	Public relations
R&D	Research and development
SMEs	Small and medium-sized enterprises
SWOT	Strengths, weaknesses, opportunities, and threats (analysis)
UIA	Uganda Investment Authority
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
VCC	Vale Columbia Center on Sustainable International Investment
WAIPA	World Association of Investment Promotion Agencies

Executive summary

This *Handbook for Promoting Foreign Direct Investment in Medium-Size, Low-Budget Cities in Emerging Markets* is meant to be a practical tool intended to assist under-resourced cities in increasing investment and, in particular, attracting foreign direct investment (FDI). At the same time, policy makers in city administrations and at the national level should also benefit from recommendations made in this *Handbook*, as recommendations made in it can help in determining city development strategies and making decisions on budget allocations. This *Handbook* is tailored to medium-size cities with limited resources and little experience in attracting investment and establishing an investment promotion agency.

Of utmost importance to policy makers and city officials will be what foreign direct investment can bring to a city, from providing capital, jobs, skills, technology, and exports, to increasing productivity, innovation and wages.

A company's decision to invest overseas is typically part of a number of strategic investment drivers to grow overseas markets, lower costs or access natural resources and technological assets – and often a combination of the above. In addition, the location determinants of FDI depend on the attractiveness of the sector and the individual investment project.

If, for example, a city is seeking to attract investment from a particular industry or specific target companies, it needs to understand both the strategic and project specific investment drivers and location determinants. In addition, it needs to identify the key steps in an investor's decision-making process to ensure that the city is considered for an investment and wins projects it can effectively compete for.

In order to do so, the national investment promotion agency (IPA) can be a source of guidance and information, as well as qualified human resources to assist the city in its endeavors. Each city is advised to cooperate closely with the national IPA.

A good starting point for investment promotion is to attract investment that has a significant positive impact on the local economy. Investment promotion can have a high return on its funding. There is therefore a clear rationale for a city to engage in investment promotion, through a city investment promotion agency, not only because of the economic benefits to a city, but also because the city can add value to national investment promotion activities, in particular through its knowledge of the city and on-the-ground support for investment facilitation and after-care. A city IPA is also essential to attract domestic companies to invest in the city.

Typically, a city IPA should undertake, in close cooperation with the national IPA, the following activities to attract investment: (1) the formulation of a city investment promotion strategy; (2) the establishment of an appropriate and effective organization to define and implement the strategy; (3) the identification of commercially viable investment opportunities; (4) the preparation of materials to promote the city; (5) pro-active targeting of carefully identified investors and investment intermediaries; (6) effective project facilitation to ensure concrete investment prospects are converted into realized projects; and (7) after-care and policy advocacy to retain and expand existing investors and improve the investment environment.

A city investment promotion strategy should be developed in coordination with, and taking into account, the national IPA's investment promotion strategy. The strategy needs to be focused on key sectors and, equally importantly, business activities. It should include targets for attracting inward investment, including targets for the amount of investment the city should aim to attract in terms of, for example, number of projects, number of new jobs and amount of investment. The strategy should also consider targets for the activities of the city IPA (e.g. number of new and existing investors contacted; specific marketing actions to be completed; number of leads to be generated). The city IPA should strive to achieve a 20% conversion rate. This means that 20% of targeted companies become leads (i.e. have a

project now or forthcoming that the city can compete for), and 20% of the leads are converted into realized projects.

For cities with limited budgets and an initial low level of inward investment, a first step toward beginning investment promotion would be to establish a new division with responsibility for investment promotion within an existing government department or a division with an expanded investment promotion department. All staff should have a strong grasp of business. The staff will need to be highly focused to ensure resources are not spread too thinly. The size of the city IPA's budget should relate to its inward investment performance targets.

Additionally, the city IPA should foster close collaboration with the national IPA to help promote the city and provide expertise in attracting and facilitating foreign investment. Further, it should forge alliances with the private sector, business associations and other partners to help secure financing and attract foreign investors.

With regards to marketing a city, the main focus should be on developing a marketing theme combining the key features and benefits of the city into a short, simple and persuasive slogan. This is complemented by effective marketing messages, which are most effective when they are sector-specific and offer a value proposition to the investor, and are not just a list of location attributes or features. Key marketing materials include brochures for each targeting sector, an inward investment newsletter and, most importantly of all, a website that helps in image building, the provision of information and generating new business inquiries.

The most important activity of a city IPA is the pro-active targeting of investors and generating leads. Investor targeting as a method of investment promotion has a greater chance of success than other methods, as companies being targeted have been pre-selected by the city IPA and are approached with a customized proposition. The most effective methods of lead generation are after-care services (existing investors), business networks, targeting brokers, and targeting a country's and city's diaspora abroad. The diaspora is increasingly recognized as an untapped source of potential inward investment, which can be effectively mobilized to increase investment in a city. Managing investment contacts is an important aspect of a city IPA's work. To this end, a customer relationship management system is recommended for a city IPA in order to build and strengthen relationships with potential investors and the investment community over time.

Inbound inquiries are a key source of new investment opportunities for a city. It is critical that the city IPA handles these inquiries as effectively as possible. Once a city IPA receives a serious inquiry from a high quality investor, the information provided to the investor may determine whether or not the company decides to invest. It should respond to all the investor's information requirements (which need to be presented in a highly professional manner), positioning both the city and the city IPA as offering the best investment solution for the investor. Once the investor has confirmed its definite interest in investing, a site visit by the potential investor follows. It will often determine whether the investor selects this city or a competing city. Once investors have signaled that they will invest in the city, they will have to navigate many regulatory and administrative hurdles to make their investment. The city IPA plays a key role in handholding investors, working with them to gain the necessary permits and licenses, and making the right contacts with services providers, at both the national and city levels. The city IPA will need to prepare a clear road map for facilitating the investors' projects.

Once an investment project is up and running, after-care services are another key function of a city investment promotion agency. It is a proven method to generate new investment for a city in a cost effective manner, in addition to being an excellent promotional tool. For cities with a well-established base of investors, up to 70% of inward investment can come from (or be connected to) existing investors. The after-care program of a city should be coordinated with the national IPA and be focused on a limited number of existing investors with the best potential for further investment and linkages in the local economy. Policy advocacy is a key

tool to provide policy recommendations to the national government and city authorities on how to improve the investment environment. Establishing an investors' association is a key tool to gain the involvement of, and gather feedback from, investors.

The city IPA can play an important role in advancing economic development. One of its most important responsibilities is to establish and implement a mechanism for monitoring and evaluating its success in meeting inward investment targets. Simple metrics, such as the number and value of investment projects secured, with the accompanying new jobs created, should be reported annually, and should be monitored continuously, ideally in the form of a constantly updated inward investment database.

The world FDI market is highly competitive. Investment promotion agencies around the world – at the national and sub-national levels – fiercely compete for international investment. Cities that want to be successful in this competition need to put in place a capacity, modest as it may be, to attract investors and benefit from their investments. This *Handbook* is meant to help cities do just that.

Module I. The *Handbook*

A. Background

The growth of foreign direct investment (FDI) and the positive impact such investment can have on economic growth and development lead locations around the world to seek to attract inward investment to secure new capital, new jobs, new technologies, and new skills, and to improve their infrastructure, export capacity and competitiveness.

Until a few years ago, FDI was undertaken overwhelmingly by western firms in western locations. The world economy has changed since then, and emerging markets—developing countries and the former socialist countries—are rapidly moving to the forefront of global investment and commerce. In 2009, in fact, emerging markets may, for the first time ever, attract more FDI than developed countries.

Cities are becoming ever more important actors in the global marketplace. As the axis of the world economy shifts eastwards and southwards, and as globalization erodes national borders, cities are becoming the key nodes of the global economy.

Investment is always local, and the growth of services and the search for talent is further increasing the prominence of cities – the key geographic units that supply pools of skilled workers, pools that companies need to access wherever in the world they can be found in order to maintain or increase their own competitiveness.

Whereas talent used to move out of developing countries to seek employment in developed countries, the rapidly growing importance of emerging markets for the profits and resources of international companies, and the strong growth of FDI from companies headquartered in the East and South,¹ mean that companies are now investing more and more where the talent is located.

Companies increasingly are assessing and comparing the attractiveness of cities rather than countries when considering where to place a new investment project.

Cities are responding to their growing importance in the world economy and in the investment decisions of international investors by developing their own capabilities for attracting and facilitating inward investment, rather than depending on their national governments to do this.

As a result, there has been a substantial growth in recent years of regional and city level investment promotion agencies (IPAs)² – an estimated 8,000 around the world today. While the vast majority is in developed countries, more and more cities and regions in the developing world are establishing sub-national IPAs. This can be seen across Latin America and Asia, and in Africa from Morocco to South Africa.

To understand how cities in developing countries and elsewhere can benefit from these changes in the world economy and the growing opportunities for foreign investment and economic development, the Millennium Cities Initiative, jointly with the Vale Columbia Center on Sustainable International Investment, the Ministry of State for Planning, National Development and Vision 2030 of Kenya, the Government of Finland, and the United Nations Development Programme, has developed this *Handbook*.

¹ Outward FDI from emerging markets amounted to about US\$350 billion in 2009. See Karl P. Sauvant, with Wolfgang A. Maschek and Geraldine McAllister, *Foreign Direct Investment from Emerging Markets: The Challenges Ahead* (New York: Palgrave, forthcoming).

² Throughout the text, the term “city IPA” is used, regardless of whether its organizational form is a division, department or agency.

B. Rationale

Over the past 15 years, there has been considerable research on the importance of cities in economic development. Many universities have dedicated departments researching regional and urban development, and there are specialist websites dedicated to tracking the competitiveness of cities.³ The interest in cities stems from their growing economic weight, the recognition of their importance in developing competitive advantage and rapid urbanization.

In terms of economic weight, Cape Town, Durban and Johannesburg account for some 50 percent of South Africa's gross domestic product (GDP) -- but represent only 20 percent of the nation's population. Lagos produces 60 percent of Nigeria's non-oil GDP. The same trend is seen not just in Africa, but in all regions of the world. The over-contribution of cities to GDP has been explained by agglomeration and cluster theories, which point to the competitive advantage of having activities co-located in one geographic area.⁴

The importance of cities is being hastened by urbanization trends. China will add at least 342 million people to its cities by 2030; India, 271 million; and Latin America 169 million people. However, in sub-Saharan Africa, 395 million people will be added to the region's cities over the same period, over double its current population, and a larger absolute increment than China will experience.⁵ If the trend from the rest of the world is mirrored in Africa, urbanization will offer huge opportunities for accelerating economic development in Africa.

While the economic significance and contribution of cities has been thoroughly researched, the role of foreign direct investment at the sub-national level and how cities can maximize FDI inflows are subjects that have received minimal research. This is despite the fact that FDI in the most successful countries in the world has been concentrated in key cities. For example, over one-third of FDI in South Africa and China has been in two cities, in India in three cities and in the UK and Ireland in just one city.⁶

With Africa experiencing rapid urbanization, there is a critical need to understand how cities can attract FDI to exploit growing economic development opportunities.

This *Handbook* therefore fills a major gap in research to inform policy makers in under-resourced cities in Kenya, Africa and elsewhere on how to attract FDI to their cities and how they can work with their national investment promotion agencies.

C. Objectives

The main objective of this *Handbook* is to provide cities with a practical framework and easy-to-follow guidelines on how to increase inward investment into their cities.

The emphasis of the *Handbook* is on best practices in investment promotion and facilitation, rather than a dictionary of everything about investment promotion. The focus is on practical suggestions and tips on how to actually "do" investment promotion, rather than theory.

The *Handbook* does not cover every dimension of investment promotion – it selectively focuses on the areas of investment promotion most relevant for, and which can be realistically implemented in, under-resourced developing country cities. Therefore, areas

³ For example, <http://www.citymayors.com>.

⁴ See the work on clusters at <http://www.isc.hbs.edu/econ-clusters.htm>.

⁵ Sourced from

http://www.citiesalliance.org/ca/sites/citiesalliance.org/files/CA_Docs/resources/cds/cds-guidelines/role_of_cities.pdf.

⁶ Based on greenfield FDI projects 2003-2008 (Source: Financial Times Ltd, www.fdimarkets.com).

such as public relations and advertising have been given only limited coverage – the cost of public relations and advertising is far beyond what most under-resourced developing country cities can afford, and would be a misallocation of very limited resources. Likewise, wider economic development tools related to investment promotion (such as supplier linkage programs and cluster development) have also received only limited mention – as these are mostly relevant only for more mature, well operating, well resourced investment promotion agencies – which are not the target audience for this *Handbook*.

The key objectives are to provide practical guidelines on how to establish an investment promotion agency, how to develop an investment promotion strategy and accompanying marketing materials, and how to develop and implement investor targeting, after-care and policy advocacy programs, within a framework of effective investment facilitation.

The *Handbook* is aimed at small to medium-size cities in Africa and other emerging markets with limited resources and experience in attracting inward investment which are establishing an IPA for the first time. However, the best practices and more advanced areas covered in the *Handbook* will be equally useful for larger, well resourced cities and for existing IPAs to evaluate their current arrangements and to develop additional capability for attracting inward investment.

While the focus is on how to attract FDI, many of the modules will be equally useful for attracting domestic investment, especially modules discussing investment facilitation and after-care.

D. Structure and uses of the *Handbook*

The structure and key uses of the *Handbook* are shown in Table 1.

The *Handbook* has ten core modules. The first two modules provide a background to the *Handbook* and include an overview of the latest trends and issues in foreign direct investment. Module III provides an overall framework for investment promotion and introduces cities to the main principles of attracting inward investment. It should be read before Modules IV-IX, which provide practical guidelines on each of the main components of investment promotion. Finally, Module X draws together the previous modules and provides a self-assessment framework for prioritizing actions to attract inward investment, with suggestions on accessing resources and support to implement the action plan.

Where relevant, case studies from developing country cities have been used to illustrate the best practices and guidelines provided. However, given that city-level investment promotion is still at a very early stage in developing countries, only examples that are genuinely best practice are provided. As more and more cities develop the institutional capability for investment promotion, future editions of this *Handbook* will have many more examples of best practices from developing country cities.

Table 1. Structure and uses of the *Handbook*

Module	Subject	Key uses
I	Background and objectives	Outlines the growing importance of cities in the national and international economy
II	Trends in foreign direct investment	Introduces policy makers and investment officers to what FDI is, its benefits and latest trends in FDI
III	Framework for investment promotion	Provides policy makers with an overall framework for how to attract FDI
IV	Developing a city investment promotion strategy	Shows policy makers how to develop an investment promotion strategy, useful for both new and existing IPAs
V	Building an investment promotion agency	Provides different options for how to set up a new IPA, depending on a city's resources; is also useful for existing IPAs to ensure they meet best practices
VI	Marketing a city to inward investors	Shows IPAs how to develop marketing materials to attract inward investment
VII	Targeting investors and generating leads	Shows IPAs how to identify potential investors using a variety of methods, including direct targeting and business networks
VIII	Facilitating inward investment	Explains best practices in how effectively to facilitate inward investment, including how to prepare an investment proposal for an investor
IX	After-care and policy advocacy	Outlines how an IPA can develop an after care and policy advocacy program, essential to retaining and expanding existing investors and improving the investment climate
X	Next steps to bringing investment to a city	Provides a framework to assess the areas a city needs to prioritize to attract FDI and develop an action plan and on how to access resources to implement the action plan

Sources: Millennium Cities Initiative (MCI) and Vale Columbia Center on Sustainable International Investment (VCC).

Module II. Introduction to foreign direct investment

A. Key elements of foreign direct investment

1. Topics addressed

The key topics addressed in this module include:

- What is foreign direct investment?
- What are the different types and modalities of FDI?
- What are the FDI drivers, location determinants and investment decision processes?
- How can FDI contribute to economic development?
- What are the global and regional trends in FDI?
- What are some of the current issues regarding FDI?

2. Objectives

The objective of the module is to provide a general overview of foreign direct investment definitions, determinants, benefits, trends, and issues. It is essential background reading for investment officers and FDI policy makers wanting to understand the world of FDI.

B. Definitions

1. What is FDI?

Foreign direct investment (FDI) is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate).⁷

For statistical purposes, the IMF defines foreign investment as “direct” when an investor holds 10% or more of the equity of an enterprise abroad – usually enough to give the investor some say in its management.

The OECD identifies three main types of FDI:⁸

- The creation or extension of a wholly-owned enterprise, subsidiary or branch, or the acquisition of full ownership of an existing enterprise.
- Participation in a new or existing enterprise.
- A long-term loan over five years.

⁷ UNCTAD, *World Investment Report 2008: Transnational Corporations and the Challenge of Infrastructure* (Geneva: UNCTAD, 2008), Annex A, based on OECD, *Detailed Benchmark Definition of Foreign Direct Investment*, third edition (Paris: OECD, 1996) and fourth edition (OECD, 2008) and International Monetary Fund, *Balance of Payments Manual*, fifth edition (Washington, D.C.: IMF, 1993).

⁸ OECD, *Code of Liberalisation of Capital Movements, adopted by the Council on 12th December, 1961* (Paris: OECD, 1961) cited in OECD, *Code of Liberalisation of Capital Movements* (Paris: OECD, 2009), Annex A, p. 27.

What is the difference between FDI flows, stocks and projects?

There are three main statistical measures of FDI used by governments and international organizations:

- **FDI flows:** the amount of FDI capital invested by a parent company in a foreign affiliate over a specified period of time, e.g. a year.
- **FDI stock:** the cumulative amount of FDI capital invested by a parent company in a foreign affiliate over a specified period of time, regardless of whether the finance consists of FDI or capital raised in national or international capital markets (although often calculated cumulative total of FDI invested each year).
- **FDI projects:** the actual operations (manufacturing plants, offices, hotels, ports, etc.) in which foreign investors have a controlling voice. There are four main types of FDI project:
 - **Greenfield projects:** new projects established in a location by a foreign investor.
 - **Expansion projects:** investments made by a foreign affiliate or its parent company in an existing operation (e.g. new equipment, new production facilities, new activities), generally involving increased headcount.
 - **Brownfield projects or mergers and acquisitions (M&As):** investments made when a company purchases an existing production facility to launch a new production activity.
 - **Joint venture projects:** new projects involving joint participation by a foreign company and a local company.

Attracting greenfield projects is particularly important for an investment promotion agency. A city IPA will have difficulty influencing FDI flows and stocks unless it can secure new, expansion or joint venture projects to its city. It is these projects that generate new capital inflows and new jobs. Projects are undertaken by companies and, more specifically, key executives in these companies. The primary activity of an IPA is therefore targeting specific executives in specific companies and trying to secure projects from these companies.

2. What are the different modalities of FDI?

As well as FDI flows, stocks and projects, there are different modalities of FDI. Four main modes of FDI can be identified:

- **Mergers and acquisitions:** when a foreign company acquires at least 10% of the equity in a local company. It is the most direct method a foreign company can use to gain market share and resources overseas, as well as strategic corporate assets such as brands and R&D. In developed countries, M&As have been the biggest component of FDI flows.
- **Privatization:** the full or partial sales of equity in state-owned enterprises to investors. It is essentially an acquisition involving a state-owned rather than private company. This has been an important component of FDI in emerging markets.
- **Greenfield and brownfield investment:** as discussed in Section II.B.1.
- **New forms of investment:** these include joint ventures, strategic alliances, licensing, franchising, and other partnership agreements. They do not necessarily involve FDI flows, and therefore may not show up in official FDI data. However, there are hundreds of thousands of these agreements, and they can influence economic

development, with the foreign company providing branding, marketing, technology, and access to markets to local companies.

It is important to note that FDI may be undertaken by individuals as well as business entities. This is particularly the case in developing economies in the form of diaspora inward investment.

C. Drivers of foreign direct investment

Research on FDI⁹ has identified three main groups of motives making a location attractive to multinational enterprises (MNEs) and inducing them to invest abroad:

- Market seeking FDI.
- Efficiency seeking FDI.
- Resource/asset seeking FDI.

1. Market seeking FDI

Market size is a primary determinant of the global distribution of FDI flows, with the size of a country's GDP having a major impact on FDI flows.¹⁰ The typical internationalization process for a company is to export to a foreign country; once market penetration and profitability reaches a certain level, the company will consider FDI better to serve the local market. Initially, the company will likely establish local sales and marketing offices and over time may consider local production, especially in large local or regional markets, in order to lower costs and better adapt products for the local market. In services sectors, being close to customers is typically more important; market-seeking FDI is therefore very important. In addition to market-seeking FDI better to serve local markets, preferential trade agreements give access to other markets (including those of developed countries) and hence can be a key driver of investment in cities in developing countries – especially in Africa, which benefits from various preferential trade agreements.

2. Efficiency seeking FDI

This corporate strategy emphasizes differences in unit costs among locations as the key driver for FDI, and is especially seen in investment by companies from developed countries into developing countries in order to lower costs. As companies increasingly have regional strategies, a company will often look for the most efficient location within a region to serve both local and regional markets. In many cases, companies consider not only unit costs in the local market but also its size and growth potential in determining where to invest. As a result, when deciding where to invest, market size *and* efficiency are typically given similar weight by companies. Exchange rate changes and corporate tax levels can also have a significant influence on the decision to invest overseas to lower costs and/or improve profitability.

⁹ See John H. Dunning, "Location and the multinational enterprise: a neglected factor," *Journal of International Business Studies*, 29 (1) (1998), pp. 45-66.

¹⁰ For example, see UNCTAD, *World Investment Report 1998: Trends and Determinants* (New York and Geneva: United Nations, 1998) and Stephen Thomsen, "Investment patterns in a long term perspective," *Working Papers on International Investment*, No. 2000/2 (Paris: OECD, 2000), mimeo.

3. Resource/asset seeking FDI

This corporate strategy seeks to exploit natural resources or technological assets abroad. Resource seeking FDI involves companies expanding internationally to access raw materials available in a host country, and can be seen, for example, in FDI in Africa. Asset seeking FDI involves companies buying firms with technological capabilities or brand names, to increase their ownership advantages, or establishing themselves in a location to gain access to local science, technology and skills, in this manner enhancing the company's global capabilities for technology development, innovation and learning.¹¹

D. Key location determinants

Section II.C examined the main strategic drivers of FDI, which can be categorized into market, efficiency and resource/asset seeking investment. Apart from these strategic drivers, each company and each investment project has its own unique location determinants.

Some of the typical location requirements for investors for different types of investment project are shown in Table 2. It also indicates some of leading location (destination) and source (origin) countries for investment.

¹¹ See Manuel Serapio, with Donald Dalton and Phyllis Genther Yoshida, "The globalisation of R&D enters a new stage as firms learn how to integrate technology operations on a world scale," *Research Technology Management*, 43 (1) (January/February 2000), pp. 2-4.

Table 2. Location determinants for inward investment projects, by economic activity

Groupings of economic activities	Key common requirements	Top locations	Top sources
1. Emerging industries <ul style="list-style-type: none"> Media/multi-media Biotechnology Nanotechnology 	<ul style="list-style-type: none"> High propensity to cluster Access to leading technologies and an innovative environment Presence of universities, researchers and skilled labor Susceptible to catalyst initiatives and government support Prestige locations in a quality environment Excellent infrastructure and accessibility to customers/markets 	United Kingdom United States Germany India Singapore China	United States Germany United Kingdom Japan France Canada
2. High tech manufacturing <ul style="list-style-type: none"> Semiconductors Telecommunications equipment Pharmaceuticals and fine chemicals Advanced materials Aerospace 	<ul style="list-style-type: none"> Existing skill base vital Access to large and growing markets and key customers Track record in attracting high tech manufacturing Sensitive to differences in operating costs and tax/incentives High quality communications Fast track, purpose-built premises with full government support 	China United States United Kingdom Canada Singapore Germany	United States Japan Germany United Kingdom France Netherlands
3. High level services <ul style="list-style-type: none"> Information technology (IT) services and software Headquarters (HQ) functions Research and development (R&D) Financial and business services Telecommunications services Publishing 	<ul style="list-style-type: none"> Appropriate skills availability Rapid market access Propensity to cluster in IT and software, HQ and R&D Low operating costs becoming increasingly important Access to advanced technologies and university research for R&D High quality facilities in a prestige location for HQ functions Wide variety of countries, but concentration within countries 	United Kingdom China India United States Canada Germany France	United States United Kingdom Germany France Japan Netherlands India
4. Mainstream manufacturing <ul style="list-style-type: none"> Electronics and office machines Plastics and rubber Automotive assembly and components Medical devices Textiles and food processing Wood and paper products/packaging Mechanical engineering 	<ul style="list-style-type: none"> Quality market, labor and supplier access Operational cost sensitivity Increasing requirement for an educated and skilled workforce High quality infrastructure and logistics is essential Prefer high quality locations with a good track record in industry Favorable regulations governing labor laws, operations, etc. Can be sensitive to grants and other incentives Shift to high quality emerging markets with large markets 	China United States United Kingdom Russia Canada Hungary Brazil Czech Republic	United States Japan Germany France United Kingdom South Korea Sweden Netherlands
5. Office services <ul style="list-style-type: none"> Call centers and shared service centers Back office Government agencies 	<ul style="list-style-type: none"> Appropriate labor availability vital Increasingly cost sensitive Multi-lingual language skills often critical Access to customer (internal as well as external) can be important Good quality information and communications technology (ICT) and physical infrastructure is also a requirement Prestige locations not essential; can be grants sensitive Can be influenced by IPA initiatives to support the sector 	Canada United Kingdom India Ireland Spain Germany United States	United States Germany United Kingdom Benelux France Switzerland India
6. General services <ul style="list-style-type: none"> Transport, logistics and distribution Printing Healthcare support services Trade centers/building services, etc. 	<ul style="list-style-type: none"> Market (customer) access critical Infrastructure and logistics also critical for distribution activities Skilled labor availability is important Cost sensitive Purpose built facilities and large sites is also important 	China United States Netherlands United Kingdom France	United States Germany United Kingdom Japan Netherlands
7. Leisure and tourism <ul style="list-style-type: none"> Hotels Attractions 	<ul style="list-style-type: none"> Market (customer) access and growth potential is critical Labor availability is also a consideration, including language skills Regulations governing construction and operation Infrastructure quality and logistics Quality and attractiveness of the environment (rural or urban) 	China United Kingdom India Brazil Russia	United States United Kingdom Spain France Italy
8. Processing industries <ul style="list-style-type: none"> Paper and pulp Mineral products (building materials), etc. Forestry products Major foodstuffs Oils processing Extractive industries Steel and aluminum 	<ul style="list-style-type: none"> Accessibility to large growth markets and key customers Adjacent to natural resources Good quality road, rail and port infrastructure and logistics Low operating costs Appropriate labor force Presence of related and supporting industries Pro-business regulations Substantial and reliable water and power requirements 	China United States Canada Russia Mexico Brazil Australia United Kingdom	United States Canada United Kingdom Australia Russia Netherlands Germany Japan

Sources: PricewaterhouseCoopers and OCO Global Ltd.

E. Location decision-making process

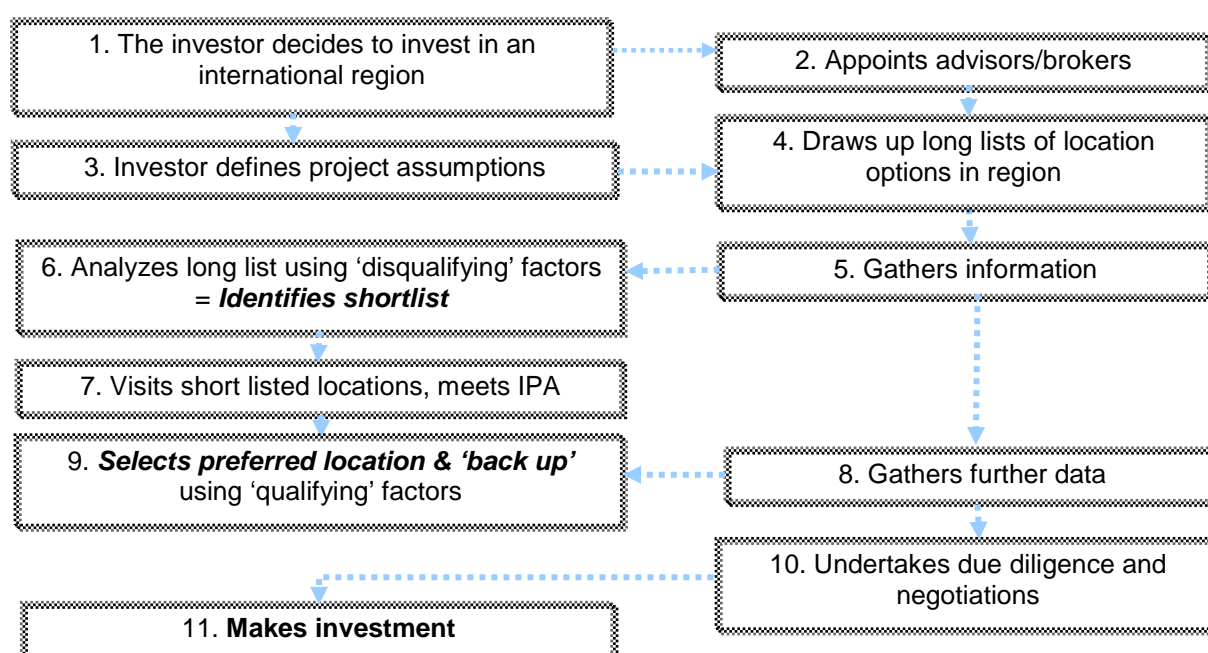
The typical investment location process for a company is shown below. The first step is strategic, and generally depends on the overall corporate strategy of the company, e.g. “we need to invest in the emerging markets of Africa” or “we need to secure more natural resources in Africa”. A city IPA will only have very limited ability to influence the strategic decision to consider the wider region for investment.

Steps 2-4 are when the investor, with the support of its advisors, identifies which countries and cities to consider for investment. For some types of projects, e.g. natural resources and privatization, the investor may only have one location option, but for most projects the investor will have a larger number of location options.

The promotional activities of an IPA in marketing its city (see Module VI) and in targeting specific investors (see Module VII) can make a critical difference to whether or not the city is included in the “long list”. The role of advisors in the location decision process also shows why an IPA should be targeting advisors as well as the investing companies directly.

Once the investor has drawn-up its list of locations to consider, it will collect data and analyze these locations to identify a short list of often just 2-3 locations.¹² The IPA may be contacted in step 5 to provide information and data to the company. The investor and/or its advisors will visit the short-list of locations for more detailed analysis and select the preferred location. Further due diligence will be done on the locations, including negotiations with suppliers, partners and possibly the city itself if incentives are sought. The effectiveness of an IPA in investment facilitation (Module VIII) can often be critical in securing the investment.

Figure 1. Location decision-making process



Source: PricewaterhouseCoopers.

F. How does FDI contribute to economic development?

There has been extensive research on the contribution of FDI to economic development. Inward investment can deliver many economic development benefits for a city. Some of the key potential benefits are indicated below:

¹² There are tools such as www.fdibenchmark.com and www.competitivealternatives.com that assist investors (and IPAs) in collecting data and benchmarking locations for different sectors and investment projects.

- **Job creation:** FDI can create direct jobs in the operations of foreign affiliates. It also can create indirect jobs in suppliers and partners. It is estimated that foreign companies created over 4 million jobs in greenfield and expansion investment in 2008.¹³
- **Export market access:** FDI is often more export intensive than domestic investment and can lead to local company exports through fostering international supply chain opportunities for local companies supplying foreign investors.¹⁴
- **Increased domestic investment:** through local linkages, FDI can have a significant impact on increasing investment in domestic companies.¹⁵ In some regions with strong manufacturing bases, programs to foster local supply linkages with foreign companies have led to domestic investment equivalent to 50% of the value of the initial inward investment.¹⁶ At the same time, through local linkages, FDI becomes more “embedded” in the local economy, which increases the roots of the foreign investors in the city, reducing the risk that they will close down their affiliates in the longer-term.
- **Higher productivity:** foreign investors on average have higher productivity than domestic companies, which raises overall productivity and therefore competitiveness of the local economy.¹⁷ At the same time, local companies, through working (and competing) with inward investors, are exposed to the latest management practices, which can encourage local companies to implement new productivity-raising practices.
- **Access to technology:** MNEs are typically more R&D intensive, and control much of global R&D and patenting activity. Inward investment through greenfield investment and new forms of investment is a key source of R&D for an economy, and there are multiple spillovers to local enterprises and research institutions.¹⁸
- **Innovation:** FDI can intensify local market competition, creating the stimulus for innovation.¹⁹
- **Foreign exchange:** FDI can be a key source of foreign exchange in countries with low savings or access to capital.
- **Wage premium:** Foreign owned companies generally pay higher wages – which has multiplier effects for the local economy.

¹³ See: fDi Markets database, Financial Times Ltd., www.fdimarkets.com/index.cfm?page_name=markets.

¹⁴ For example, see Brian Aitken, Gordon H. Hanson and Ann E. Harrison, “Spillover, foreign investment and export behavior,” *Journal of International Economics*, 43 (1997), pp. 103-132.

¹⁵ For example, see Nigel Driffield and Dylan Hughes, “Foreign and domestic investment: regional development or crowding out?,” *Regional Studies*, 37, 3 (2003), pp. 277-278. See also UNCTAD, *World Investment Report 2001: Promoting Linkages* (New York and Geneva: United Nations, 2001).

¹⁶ See Henry Loewendahl, *Bargaining with Multinationals: The Investment of Siemens and Nissan in North-East England* (London: Palgrave, 2001).

¹⁷ Research has shown that productivity differences depend on whether an enterprise is national or multinational, not foreign or domestic (see Ben Ferrett, “Intra- and inter-firm technology transfer in an international oligopoly,” (Nottingham, UK: University of Nottingham, 2003). Attracting MNEs and encouraging domestic companies to become multinational are key policy implications.

¹⁸ For example, see Robert Lensink and Oliver Morrissey, “Foreign direct investment: flows, volatility and growth in developing countries,” University of Groningen, Research Institute SOM (Systems, Organizations and Management), Research Report No. 01E16 (Groningen, Netherlands: University of Groningen, 2001).

¹⁹ For example, see the work of Michael Porter e.g., M. Porter, *The Competitive Advantage of Nations* (New York: The Free Press, 1990).

The above benefits point to the catalytic role of inward investment. As well as raising productivity and creating additional capital investment and direct employment, wealth and exports, inward investment can act as a powerful catalyst for follow-the-leader investment, supply chain development, cluster development, and raising the brand value of a location.

At the same time, of course, FDI can have negative effects, such as crowding out domestic enterprises, abusive transfer pricing, delocalization of R&D, negative competition, environmental effects, and the like. Country and city officials need to be aware of these possibilities and deal with them through appropriate policies.

G. Global investment trends²⁰

The ever more globalizing world economy is based on international production undertaken by MNEs. Table 3 shows that global FDI inflows have grown from just US\$58 million in 1982 to nearly US\$1 trillion in 2005 and over US\$1.8 trillion in 2007, and a global estimated stock of over US\$15 trillion. The table shows that cross-border M&As have been the key driver for FDI flows.

Table 3. Indicators of FDI and international production, 1982-2007 (US\$ billion, current prices)

Indicator	1982	1990	2005	2007
FDI inflows	58	207	946	1,833
FDI outflows	27	239	837	1,997
Inward FDI stock	789	1,941	10,048	15,211
Outward FDI stock	579	1,785	10,579	15,602
Income on inward FDI	44	74	759	1,128
Income on outward FDI	46	120	845	1,220
Cross-border M&As	...	200	716	1,637
Sales of foreign affiliates	2,741	6,126	21,394	31,197
Gross product of foreign affiliates	676	1,501	4,184	6,029
Total assets of foreign affiliates	2,206	6,036	42,637	68,716
Exports of foreign affiliates	688	1,523	4,197	5,714
Employment of foreign affiliates (in thousands)	21,524	25,103	63,770	81,615

Sources: UNCTAD, *World Investment Report 2007: Transnational Corporations, Extractive Industries and Development* (New York and Geneva: United Nations, 2007); UNCTAD, *World Investment Report 2008: Transnational Corporations and the Challenge of Infrastructure* (New York and Geneva: United Nations, 2008).

According to Economou et al., “there are more than 80,000 MNEs in the world today, and they hold ownership stakes in more than 800,000 foreign affiliates all over the world. These are important actors in today’s global economy, employing around 82 million people in their affiliates overseas, and with total assets of US\$69 trillion, sales of some US\$31 trillion and exports of around US\$6 trillion as of 2007. MNEs account for about half of the world’s total R&D expenditure and more than two thirds of the world’s business R&D. They are

²⁰ The text in this section draws on Persa Economou et al., “Trends and issues in international investment,” in Karl P. Sauvant, ed., *Yearbook on International Investment Law and Policy 2008-2009* (New York: Oxford University Press, 2009), pp. 3-34. See also UNCTAD, *World Investment Report 2008*, op. cit.

responsible for much of the world's trade, about one-third of which takes place within their international corporate networks."²¹

The world economic downturn in 2008-09, along with financial turmoil and reduced credit availability, has led to a recession in key home and host countries. As a result, FDI flows have decreased considerably, by about 50%.²² While emerging markets have not fared as badly as developed ones, the world market for FDI has become even more competitive as a result – increasing the challenges for IPAs to attract investment.

More specifically, Table 4 shows that FDI flows declined by 21% in 2008. A larger decline is forecast for 2009. The financial crisis will restrict the ability of firms to finance M&As, and the value of M&As will decline in 2009 as share prices - and hence the values of companies - has declined, depressing the value of FDI flows. Greenfield FDI projects, which peaked in 2008 at nearly 15,500 projects recorded, are also forecast to decline in 2009, albeit at a slower rate of 14%. Job creation by greenfield investment is forecast to fall from a peak of US\$4 million in 2008 to US\$3.1 million in 2009.

Table 4. Latest trends and forecasts for foreign direct investment, 2007-2009

Indicator	2007	2008 ^a	2009 ^b
FDI inflows (US\$ billion)	1,833	1,449	735
Greenfield FDI projects ^c	11,916	15,456	13,300
Greenfield direct job creation (million) ^c	2.9	4.0	3.1

Sources: MCI and VCC, based on UNCTAD, "Assessing the impact of the current financial and economic crisis on global FDI flows" (New York and Geneva: United Nations, 2009); fDi Markets database from the Financial Times Ltd.; EIU Global Forecasting Service at gfs.eiu.com/about/.

^a Preliminary estimates. ^b Forecasts as of January 2009. ^c Barometer of trends in greenfield FDI. Data capture major, but not all projects. Jobs data include estimates.

H. Regional investment trends

Globally, the growth of FDI is highly correlated with economic growth, which had been averaging around 4% since the beginning of this decade; developing countries have been faring much better, with growth rates of around 7% annually.²³ The higher growth rate of developing economies had not, until 2008, led to developing countries catching up with developed economies in terms of their share of FDI flows, projects and M&As. However, in 2008, while FDI flows in developed economies fell, FDI into emerging markets continued to rise and, in 2009, emerging markets are likely to attract more FDI than developed countries.²⁴

More specifically, the global market share of developing countries in FDI flows rose from 27% in 2007 to 36% in 2008, and of FDI projects from 42% to 48%. Africa recorded the fastest increase in FDI flows and projects of any other region in the world.

²¹ Economou et al., op. cit., p. 4.

²² Laza Kekic, "The global economic crisis and FDI flows to emerging markets: for the first time ever, emerging markets are this year set to attract more than half of global FDI flows," *Columbia FDI Perspectives*, No. 15, October 8, 2009, available at www.vcc.columbia.edu.

²³ See Economist Intelligence Unit at www.eiu.com.

²⁴ See Kekic, op. cit.

Table 5. FDI in developed and developing economies, 2003-2008 (US\$ billion)

Indicator	2003	2004	2005	2006	2007	2008
World FDI inflows	558	742	946	1,306	1833	1,449
<i>Developed economies</i>	359	419	590	858	1,246	840
<i>Developing economies</i>	175	283	314	379	500	518
Africa	19	18	30	36	53	62
Latin America and Caribbean	46	94	76	84	126	142
Asia and Oceania	111	171	209	260	320	314
West Asia	12	21	42	60	72	56
South, East & South East Asia	98	149	167	200	248	256
<i>Transition economies</i>	24	40	41	69	86	92
World FDI projects^a	9,446	10,221	10,481	12,166	11,914	15,454
<i>Developed economies</i>	3,919	4,378	4,688	5,431	5,669	6,447
<i>Developing economies</i>	4,513	4,845	4,482	5,311	4,973	7,384
Africa	335	279	459	446	383	819
Latin America and Caribbean	800	808	560	576	786	1,094
Asia and Oceania	3,378	3,758	3,463	4,289	3,806	5,471
West Asia	426	409	505	712	580	1,092
South, East & South East Asia	2,952	3,349	2,958	3,577	3,226	4,379
<i>Transition economies</i>	1,014	998	1,311	1,424	1,272	1,623
World cross-border M&A (sales)	297	381	716	881	1,637	1,184
<i>Developed economies</i>	244	316	605	728	1,454	981
<i>Developing economies</i>	40	55	94	127	153	177
Africa	7	5	11	18	10	26
Latin America and Caribbean	12	24	24	38	31	30
Asia and Oceania	22	25	60	72	112	121
West Asia	1	1	14	18	30	32
South, East & South East Asia	20	24	45	54	82	89
<i>Transition economies</i>	2	10	17	25	30	25

Sources: MCI and VCC, based on UNCTAD, *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development* (Geneva: UNCTAD, 2009), pp. 212-214, 247-250; UNCTAD, *World Investment Report 2008: Transnational Corporations and the Infrastructure Challenge* (Geneva: UNCTAD, 2008), pp. 199-202, 253-256; UNCTAD, *World Investment Report 2007: Transnational Corporations, Extractive Industries and Development* (Geneva: UNCTAD, 2007), pp. 207-210, 251-254; and fDi Markets database, Financial Times Ltd.

^a Barometer of trends in greenfield FDI. Data capture the major, but not all projects.

While the much higher growth rates of developing economies should encourage growing levels of FDI, it is not growth alone that determines the flow of FDI, its geographical distribution and its sectoral allocation. While the economic growth scenario is negative for the time being, equally important have been the investment plans of MNEs, defined by a narrower focus on industry-specific factors, strategies of competitors and cost and

profitability considerations, among others. Paramount amongst them has been the integration of local production into international production systems and global value chains, facilitated by technological developments, declining transport costs, a greater focus on improving business environments, and openness to FDI.

I. Current investment issues

As these developments unfold, new players are emerging and old actors are evolving. First and foremost are the MNEs themselves: they are becoming more agile, more able to compete internationally, more open to new forms of investing around the world, but also more aware of new risks and challenges. Many of them are now based in emerging markets, and are making their first forays to investing abroad in both developed and developing countries. Some of them are state-owned and as such enjoy different privileges compared to their private sector counterparts, such as access to cheap financing, information and government support.

Sovereign wealth funds, state-owned funds for investing primarily oil surpluses or accumulated foreign exchange reserves abroad, are also new players in the world FDI market; they control an estimated US\$3.8 trillion (according to the Sovereign Wealth Fund Institute),²⁵ a figure that may well more than double in another five years.

1. MNEs from emerging markets

Emerging markets are becoming key sources of inward investment – especially in other developing countries. Table 6 shows that FDI outflows from developing countries were US\$253 billion in 2007, accounting for 13% of global outflows. This is up from US\$212 billion in 2006 and just US\$29 billion in 2003. In 2007, over three-quarters of FDI outflows from developing countries were from MNEs based in Asia and Oceania.

Measured in terms of greenfield FDI projects, the significance of emerging markets in outward FDI is similar, with developing countries contributing 14% of FDI projects in 2007, and 17% in 2008, with some 2,572 projects recorded. Looking at greenfield FDI projects, over 80% of developing country outward FDI projects are from Asia and Oceania. However, Africa and West Asia are the two regions with the fastest growth in outward FDI projects.

²⁵ See Sovereign Wealth Fund Institute at www.swfinstitute.com.

Table 6. FDI from developed and developing economies, 2003-2008

Indicator	2003	2004	2005	2006	2007	2008
World FDI outflows (US\$ billion)	617	877	881	1323	1997	NA
<i>Developed economies</i>	577	746	749	1087	1692	NA
<i>Developing economies</i>	29	117	118	212	253	NA
Africa	1	2	2	8	6	NA
Latin America and Caribbean	11	28	36	63	52	NA
Asia and Oceania	17	88	80	141	195	NA
West Asia	-4	8	12	23	44	NA
South, East & South East Asia	21	79	67	118	151	NA
<i>Transition economies</i>	11	14	14	24	51	NA
World outward FDI projects^a (number of projects)	9,446	10,221	10,481	12,166	11,914	15,454
<i>Developed economies</i>	7,824	8,707	8,943	10,110	10,005	12,557
<i>Developing economies</i>	1,449	1,323	1,337	1,830	1,698	2,572
Africa	65	49	70	83	60	191
Latin America and Caribbean	154	176	103	180	252	270
Asia and Oceania	1,230	1,098	1,164	1,567	1,386	2,111
West Asia	209	179	240	432	288	577
South, East & South East Asia	1,021	919	924	1,135	1,098	1,534
<i>Transition economies</i>	173	191	201	226	211	325
World cross-border M&A (purchases, US\$ billion)	297	381	929	1,118	1,637	NA
<i>Developed economies</i>	257	341	778	930	1,411	NA
<i>Developing economies</i>	31	38	100	157	180	NA
Africa	1	3	19	24	6	NA
Latin America and Caribbean	12	15	12	34	42	NA
Asia and Oceania	19	21	70	99	133	NA
West Asia	2	1	20	42	43	NA
South, East & South East Asia	17	19	49	57	89	NA
<i>Transition economies</i>	9	1	23	11	18	NA

Sources: MCI and VCC, based on UNCTAD *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development* (Geneva: UNCTAD, 2009), pp. 212-214, 247-250; UNCTAD, *World Investment Report 2008: Transnational Corporations and the Infrastructure Challenge* (Geneva: UNCTAD, 2008), pp. 199-202, 253-256; UNCTAD, *World Investment Report 2007: Transnational Corporations, Extractive Industries and Development* (Geneva: UNCTAD, 2007), pp. 207-210, 251-254; and fDi Markets database, Financial Times Ltd.

^a Barometer of trends in greenfield FDI. Data capture the major, but not all projects.

Globally, a handful of countries account for the bulk of FDI from emerging markets. Asia is home to four-fifths of the top 100 MNEs from emerging markets. With support from their

governments, some of them have pursued internationalization strategies, as exemplified by the surge in outward investment by Chinese MNEs in response to the country's "go global" policy launched in 2000.²⁶ Part of that investment has been resource-seeking, with sub-Saharan Africa becoming an important destination. In manufacturing, most South-based FDI is regional, but in services and especially in infrastructure and natural resources, there is considerable inter-regional investment.

The universe of South-based MNEs is quite diverse, with the majority comprising of SMEs investing mostly in other developing countries, often in the same region; but it also includes many large, globally diversified firms investing in other developing and industrialized countries. Overall, the motives behind their outward investment drive stem from the process of globalization of trade and production and are similar to those of MNEs from the industrialized world. About a quarter of the top 100 MNEs based in emerging markets are state-owned enterprises, including some of the largest ones, such as Gazprom (Russia) and the CITIC Group (China). China's outward FDI is dominated by state-owned enterprises (which may well account for 80-90% of the country's total outward FDI), whose average investment size is much larger than that of private Chinese firms.²⁷ The largest Chinese MNEs are state-owned, and more than half of them operate in the extractive industries.²⁸

Increasingly, cross-border M&As feature more prominently as a mode of investing by South-based MNEs, alongside the traditional greenfield investments. In 2007, developing country firms engaged in US\$180 billion of cross-border acquisitions. This was up from US\$157 billion in 2006 and accounted for 11% of the global total. And while large investors dominate the headlines, much South-based investment is carried out by small and medium-size enterprises and is relatively small on average, as exemplified by the majority of Chinese manufacturing investment projects in Africa.

While emerging markets are becoming key sources of investment – especially for developing countries – the table above shows that developed countries account for 84% of greenfield projects, 85% of FDI outflows and 86% of cross-border M&A in 2007. MNEs from developed economies will remain the key source of investment for cities in Africa and globally.

2. Political risk

The period of rapid liberalization that began in the late 1980s and continued throughout the 1990s had helped to diminish perceptions of political risk that were present in earlier years as the result of nationalizations and other state interventions. However, over the past few years, the perception of political risk by MNEs seems to be growing again. A survey of 602 corporate executives worldwide carried out by the Economist Intelligence Unit (EIU) provides evidence to support this, with political risk viewed as the biggest investment constraint for emerging market destinations.²⁹ The 2008 Global Risk report by the World Economic Forum, focusing on supply chain disruptions among other things, also lends credence to this

²⁶ Qiuzhi Xue and Bingjie Han, "The role of government policies in promoting outward foreign direct investment of emerging markets: China's experience," in Sauviant et al., op. cit. See also, Katherine Xin, and Arthur Yeung, "Go global: the next challenge for corporate China" (Lausanne, Switzerland: IMD, 2007), <http://www.imd.ch/research/challenges/TC087-07.cfm?bhcp=1>.

²⁷ Ken Davies, "While global FDI falls, China's outward FDI doubles," *Columbia FDI Perspectives*. No. 5, May 26, 2009, available at www.vcc.columbia.edu. For leading Argentinean, Brazilian, Chinese, Indian, Israeli, and Russian MNEs, see <http://vcc.columbia.edu/projects/#Emerging>.

²⁸ See Press Release by the Vale Columbia Center on Sustainable International Investment and the School of Management at Fudan University, www.vcc.columbia.edu/projects/documents/PressRelease-ChineseMNEsmakesteadypgress.pdf, October 22, 2008.

²⁹ Laza Kekic and Karl P. Sauviant, eds., *World Investment Prospects to 2011: Foreign Direct Investment and the Challenge of Political Risk* (London: Economist Intelligence Unit (EIU), and Columbia Program on International Investment, 2007), available at www.vcc.columbia.edu.

finding. Aon, a leading political risk management services provider, reports that political risk remained elevated in 25 of the world's 50 largest economies in 2008; Control Risks, a risk consultancy firm, rates 57% of emerging markets at medium or above medium political risk; and Ernst & Young also presents evidence of rising political risk in the world today.³⁰

Breach of contract, creeping expropriation, the rise of resource nationalism in commodity exporting countries, and fear of war, terrorism and civil disturbance are again forcing MNEs to rethink their approach to risk management and mitigation tools. More and more companies are becoming aware of the need to integrate and manage political risk, in addition to commercial risks arising in the normal course of doing business, into their overall risk exposure. But in contrast to commercial risks, such as unanticipated changes in interest rates or prices, operation failures and liquidity risks, political risk is caused by specific government actions. Even MNEs based in emerging markets, with traditionally greater tolerance for political risk, are becoming more conscious of its presence as they invest in resource-rich economies in regions further away from home. Their response has been a growing use of political risk insurance from public providers, exemplified best by the rapid growth of business for Sinasure, China's state-owned export credit agency.³¹

3. New actors

Recent years have seen several new, non-traditional entities engaging significantly in FDI. Amongst them are private equity funds and venture capital funds, the diaspora and sovereign wealth funds. While some of these new actors follow the traditional North-to-South flow pattern, the reverse flow pattern also takes place (as in the case of sovereign wealth funds), giving rise to more critical attitudes toward such investments in the industrialized world.

According to the Emerging Markets Private Equity Association, private equity and venture capital funds raised primarily in the United States for investment in emerging markets have risen from about US\$6 billion in 2004 to about US\$59 billion in 2007 (Table 7). Private equity funds are often able to put together large sums of money from banks and pension funds to invest in companies outside stock markets. Large private equity firms, such as Blackstone, the Texas Pacific Group and the Carlyle Group, hold portfolios of companies with significant combined revenues. Access to bank credit makes them able to carry out large transactions.

³⁰ See *ibid.*; World Economic Forum, "Global risks 2008" (Geneva: World Economic Forum, 2008), available at (<http://www.weforum.org/pdf/globalrisk/report2008.pdf>); Control Risks, *RiskMap 2008* (<http://www.crg.com/default.aspx?page=1096>); Aon, *2008 Political & Economic Risk Map* (<http://insight.aon.com/?elqPURLPage=983>); Ernst & Young, *Risk Management in Emerging Markets, 2007* (London: Ernest & Young, 2007); Multilateral Investment Guarantee Agency (MIGA), *South-South FDI and Political Risk: Challenges and Opportunities* (<http://www.pri-center.com/feature/index.cfm?fid=24>).

³¹ See MIGA, *South-South FDI and Political Risk: Challenges and Opportunities*, Online feature (<http://www.pri-center.com/feature/index.cfm?fid=24>).

Table 7. Emerging markets private equity fundraising totals, by region, 2003–2007

Year	Emerging Asia ^a	Central and Eastern Europe (CEE)/ Russia	Latin America and Caribbean	Sub-Saharan Africa	Middle East and North Africa (MENA)	Pan-Emerging Markets (EM)	Total
2003	2,200	406	417	350 ^b		116	3,489
2004	2,800	1,777	714	545 ^b		618	6,454
2005	15,446	2,711	1,272	791	1,915	3,630	25,765
2006	19,386	3,272	2,656	2,353	2,946	2,580	33,193
2007	28,668	14,629	4,419	2,340	5,027	4,077	59,161

Source: Emerging Markets Private Equity Association (<http://www.empea.net/>) estimates. Detail may not sum to totals due to rounding.

^a “Emerging Asia” excludes funds focused on investment in Japan, Australia and New Zealand.

^b Reported together as Africa/Middle East in 2003 and 2004.

Investments by venture funds are in the form of equity capital and tend to be concentrated in certain sectors, typically those involving advanced technologies. Venture capital can have positive effects on development by providing the necessary capital, alleviating possible bottlenecks, helping a country develop new comparative advantages, boosting exports, and upgrading its industry. However, like private equity funds, venture capital and similar funds usually do not fall under national regulatory frameworks for FDI, although steps are under way in some countries (e.g. India) to change that.

Diaspora FDI, investment from immigrants back into their country of origin, is being courted actively, especially in the cases of China and India, the countries with the largest diasporas, but also by various African countries. China has been quite successful in attracting investment from ethnic Chinese communities within the region, especially in labor intensive operations. India is also taking steps to facilitate such investment, although in terms of size it lags behind China.

Sovereign wealth funds, growing in size and diversifying their investment portfolios to include not only troubled financial institutions but also private companies, are a new player in the FDI market whose impact has yet to be felt and assessed fully. Major oil exporters transferred around US\$135 billion of their oil revenues to such funds in 2006 alone, and the value of all sovereign wealth funds has edged up to nearly US\$4 trillion (Sovereign Wealth Fund Institute).³² Their size is now bigger than that of hedge funds and private equity funds combined, and new funds are being created. Their similarities with an array of direct investment funds launched in the past decade, as well funds launched by such entities as the Overseas Private Investment Corporation and the International Finance Corporation, lie in the fact that they also make direct equity investments into private companies. Recently such funds have been buying non-controlling shares in support of major financial institutions in industrialized countries, providing further evidence of their willingness to diversify their portfolios away from foreign government bonds to equity. While all these types of funds can help channel capital to emerging markets and other countries, issues of transparency related to strategy and size of investments do not allow a thorough analysis of the extent and impact of such potentially significant capital flows on FDI.

³² See Sovereign Wealth Fund Institute at www.swfinstitute.com.

J. Key take-aways and resources

1. Key take-aways

Key take-aways from this module, “Introduction to foreign direct investment,” include understanding:

- The definition of FDI and the different types and modalities of FDI a company can undertake, including the difference between FDI flows, stocks, projects, and greenfield projects, M&As and new forms of investment.
- The decision to invest overseas is typically part of the strategic investment drivers to grow overseas markets, lower costs or access natural resources and technological assets – and sometimes a combination of the above. In addition, the location determinants of FDI depend on the sector and individual investment project. When a city is seeking to attract investment from a particular sector and from specific target companies, it is essential to understand both the strategic and project specific investment drivers and location determinants.
- The typical investment decision process of a company and the key interventions that a city IPA can make at key steps in the process to ensure the city is considered for investment and wins projects it can effectively compete for.
- The key benefits FDI can bring, from providing new jobs, exports, capital, and technology to raising investment, productivity, innovation, and wages in the local economy.
- Global and regional trends in FDI, including the growing importance of developing economies in inward and outward FDI and the impact that the current economic climate is having on global FDI flows.
- Current issues in FDI related to how emerging market MNEs, political risk factors and sovereign wealth funds are impacting the world of FDI.

2. Resources

For additional results, consult the UNCTAD *World Investment Reports*,³³ which are released annually in September, for the most authoritative insight into FDI trends, impact and implications. For the most comprehensive intelligence on where companies are investing worldwide, consult the fDi Markets database with the Financial Times Ltd.³⁴

³³ See UNCTAD, *World Investment Reports*, Division on Enterprise and Development, www.unctad.org/wir.

³⁴ See: fDi Markets database, Financial Times Ltd., http://www.fdimarkets.com/index.cfm?page_name=markets.

Module III. A framework for investment promotion³⁵

A. Introduction

1. Topics addressed

This module of the *Handbook* provides an introduction to the principles of investment promotion. The main topics to be addressed are:

- Why a city should do investment promotion.
- The key investment promotion activities.
- Developing an investment promotion strategy.
- Building an investment promotion organization.
- Marketing a city.
- Investor targeting as a method to attract a greater volume and quality of investment.
- Investment facilitation to realize investment projects.
- After-care and policy advocacy.
- Key take-aways and resources.

2. Objectives

The primary objective of the module is to provide city officials with a complete overview of “how to do” investment promotion, as well as the rationale and importance of this activity.

This module is important to read before using the practical toolkits in the remaining modules, which provide a step-by-step guide on how your city can attract inward investment.

B. Why a city should do investment promotion

1. Impact on the economy

Investment promotion can have a big impact on the level of foreign direct investment in a location. World Bank studies³⁶ show that:

- A 10% increase in an investment promotion budget leads to a 2.5% increase in FDI.
- The net present value³⁷ of pro-active investment promotion is almost US\$4 for every US\$1 expended.

At the same time, as Section II.F shows, FDI can make a strong contribution to the local economy. It is estimated that US\$1 in FDI leads to US\$1 in domestic investment.³⁸ Also,

³⁵ This module uses as its structure Henry Loewendahl's “A framework for investment promotion,” *Transnational Corporations*, 10 (1) (2001), pp. 1-42.

³⁶ See Louis T. Wells and Alvin G. Wint, “Marketing a country: promotion as a tool for attracting foreign investment,” *FIAS Occasional Paper* No. 1 (Washington, D.C.: Foreign Investment Advisory Service, 1990) and their 2000 update “Marketing a country: promotion as a tool for attracting foreign investment,” *FIAS Occasional Paper* No. 13 (Washington, D.C.: Foreign Investment Advisory Service, 2000).

³⁷ “Net present value” is the difference between the cost of an investment and the discounted present value of all future earnings from that investment.

³⁸ See Driffield and Hughes, op. cit., pp. 277-288.

research shows that, in some industries, one manufacturing FDI job creates 3 indirect jobs in the local economy, and the productivity of foreign investors is 40% higher than domestic investors.³⁹ Marco Comastri, Vice President of Microsoft Middle East and Africa, estimated that for every US\$1 Microsoft invests in a country, another US\$10 in investment for the economy is created.

2. Investor information asymmetries

A key reason why investment promotion can make an impact on the level of foreign direct investment is that companies only have imperfect information on which cities to invest in around the world.

When considering cities for new investment, companies do not have knowledge of every possible location option, and typically will consider cities that:

- They have invested in before.
- Their competitors have already invested in.
- Major customers or suppliers have a presence in.
- Appear in location attractiveness rankings.
- They have read positive reports about in the business press and media.
- They have visited on business trips or even on vacation.
- They have family roots in.

While there is growing interest in investing in emerging markets (including in Africa), companies have very little experience or awareness of the specific business opportunities in small or medium-size cities in Africa or other emerging regions of the world.

The information base of companies is far from perfect, and the decision-making process can be subjective and biased. As the International Finance Corporation (IFC) states: "Most companies consider only a small range of potential investment locations."⁴⁰ Likewise, investment advisory companies (real estate firms, consultants, accountants, lawyers) are notoriously risk averse in which cities they recommend their clients invest in, reducing further the range of cities an investor will consider for investment.

Therefore, any activity that increases the information pool and the awareness a company has of a city increases the likelihood of that city being considered for investment.

The importance of investment promotion is not just confined to attracting foreign direct investment – local companies from the same country may also not have access to full information on investment opportunities in small and medium-size cities within their country; the principles of investment promotion can be applied equally to attracting domestic investors from other parts of the country. Indeed, many city investment promotion agencies have a strong focus on attracting investment from domestic companies elsewhere in their country.

3. Benefits for a city conducting investment promotion

Almost every country has set up a dedicated investment promotion agency to promote and facilitate inward investment into the country. It is therefore important to understand the benefits and added value for a city conducting investment promotion activities over and

³⁹ See Loewendahl, *Bargaining with Multinationals*, op. cit.

⁴⁰ International Finance Corporation, "Foreign direct investment (Lessons of Experience 5)" (Washington DC.: World Bank, 1997), p. 62.

above those of the national IPA. There are several key benefits for a city engaging in investment promotion, in coordination with national efforts:

a. Different economic development objectives

Each city has its own unique competitive advantage and economic development objectives, and it knows them best. These may not always align with those of the national IPA, which will be promoting only a limited number of sectors, in which the country as a whole has the strongest competitiveness and prospects for inward investment. There are likely to be niche opportunities for inward investment in each city, which are outside the core focus of a national IPA. A city can promote these opportunities to inward investors.

b. Greater knowledge of the city

A city investment promotion agency, due to its proximity and sole focus on the city, understands its strengths and weaknesses better than the national IPA. As a result, the city has a key role in providing information on its competitive advantage to the national IPA and investors and for promoting the city more effectively.

c. Facilitating investment on the ground

Facilitating investors can only be successful when an investor understands the local environment and has access to, and the support of, local decision-makers. City IPAs usually make an effort to understand all the local processes and are often close to decision-makers, and so they can assist investors with this knowledge and their contacts.

d. Attracting domestic investment

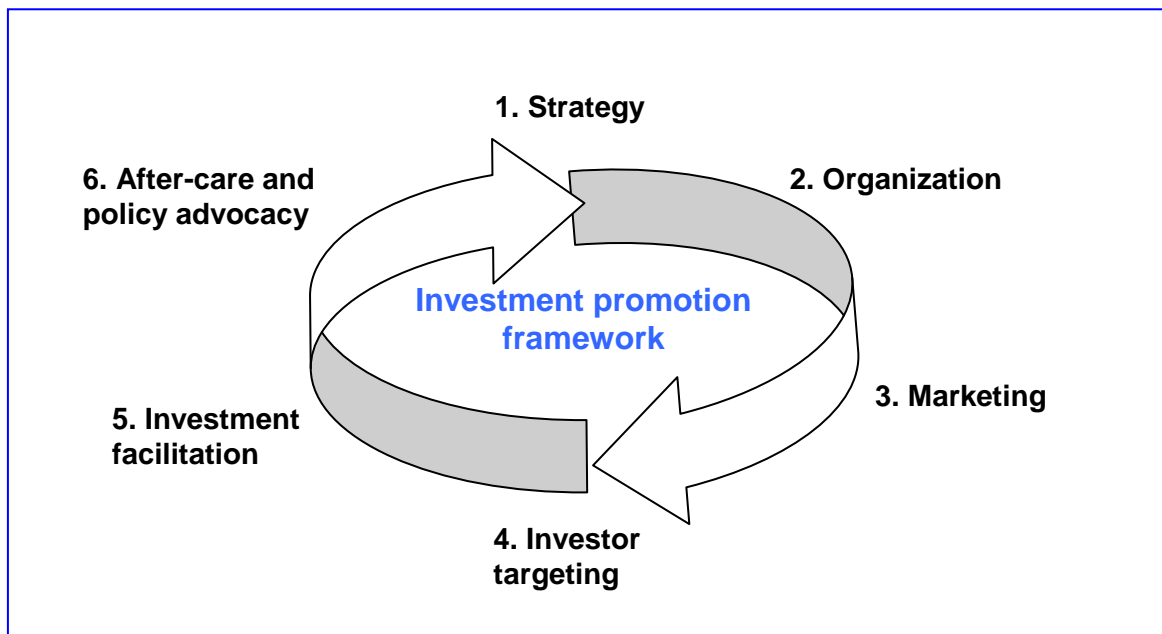
For many cities, attracting domestic investment can be equally if not more important than attracting foreign investment. UNCTAD data show that, for least developed countries (LDCs), FDI flows in 2007 accounted for at most 15% of domestic investment, showing that most investment is by local companies.⁴¹ The principles and techniques of attracting foreign investment can be applied to attracting domestic investment. The national IPA does not have a remit for domestic investment, and it is up to the city to identify, prospect and facilitate investment by companies from the same country.

C. The key functions of an investment promotion agency

The key functions of an investment promotion agency fall into six main functions, as Figure 2 shows. While the framework applies equally to national as well as regional and city IPAs, the key investment promotion issues and best practices are often different at the city level compared to the national level. Regardless of the size of the city or its resources, each city needs to consider how to address each of the six main functions of investment promotion, which are discussed in the sub-sections covering the main issues and best practices. Sections III.D in this *Handbook* provides detailed guidelines on how to implement the framework.

⁴¹ UNCTAD, *World Investment Report 2008*, op. cit.

Figure 2. Framework for investment promotion: functions of an IPA



Source: Henry Loewendahl, "A framework for investment promotion," *Transnational Corporations*, 10 (1), (2001), p. 3.

D. Strategy

A city should develop its investment promotion strategy. This requires a clear understanding of the national and local policy contexts and how this affects the potential for attracting inward investment; it also requires the identification of key sectors (and their rationale), to target for inward investment.

1. Understanding the policy context

The national policy context is an integral part of effective investment promotion. A city will find it difficult to market and promote its location unless the basic national policies to facilitate foreign direct investment are taken into account.

These basic national policies include:

- Macroeconomic policies, which set a positive framework for the attraction of foreign investment. Key policies include an appropriate trade and payments regime, as well as a tax and incentives regime.
- Economic stability is essential for attracting significant inward investment.

But the city policy context is important as well. While the national policy context will have a significant bearing on whether a foreign company selects a country for investment, the local context plays a critical role in determining which city within the country wins an investment.

Key parts of the local policy context include:

- Provision of essential investment in the physical infrastructure. The supply of sites and properties for industrial and commercial use, good quality roads and other transportation links (including a good quality airport) are distinct advantages for attracting inward investment.

- Provision of essential investment in the energy and communications infrastructure, to ensure reliable supply of electricity, gas, water, telecommunications, and Internet.
- Investment in the human infrastructure, in particular in the education system, to provide a well-trained and educated workforce to investors.

The city has an important role in influencing national and local policies to ensure that they provide an attractive enabling framework for foreign and, for that matter, domestic investors. How the city can influence national policies is discussed in more detail in Module IX below.

The city also needs to work closely with related national and local agencies. If a country has a national investment promotion agency, building strong links with this agency helps position the city for inward investment and also provides support and advice for the investment promotion efforts of the city. At the local level, investment promotion should be closely coordinated with the industry development priorities of the city government. Section III.E.2 explores the relationship between the city IPA and national agency in more detail.

2. Sector strategy

Successful investment promotion requires clear strategic direction and effective marketing. A sector-based strategy allows agencies to focus limited resources on the sectors that make the biggest contribution to the local economy and in which the probability of actually being able to secure inward investment is the highest.

The sector strategy should identify sectors in which the city is best placed to attract investment and which meet inward investment objectives. Industries should be targeted:

- That offer the largest market opportunities in terms of volume of contestable FDI the city can attract (i.e. size and growth of the FDI market).
- That match the location strengths of the city, whereby the city fulfills the location requirements of inward investors in the sector (i.e. location advantages).
- Where the city has distinct strengths in the sector compared to other cities that are competing for an investment (i.e. competitive advantages).

E. Organization

A city needs to create an effective investment promotion agency that is responsible for attracting inward investment. While the type of agency and its functional remit depend on the size and resources of the city (see Module V), there are some well-defined best practice principles for developing an IPA. In all cases, the city IPA needs to cooperate at some level with the national investment promotion agency.

1. Best practice principles

A common element of successful investment promotion is the establishment of a dedicated agency or department. There are three key preconditions for the effective operation of an agency:

- The agency has a clearly defined role, which is more likely if the agency has a functional mandate (i.e. to attract investment).
- Operational autonomy will be greater if functional responsibilities for a given area are clearly assigned to a single agency (i.e. a dedicated agency or department for attracting and facilitating investment).

- The agency requires independent access to expertise and information in order to act autonomously from firms, sectoral associations and other interest groups (i.e. the agency has its own marketing and research resources and in-house experts).

The investment promotion agency or department needs to have the autonomy and flexibility to develop strong links to stakeholders, both public and private. For example, utility providers, industrial parks, education establishments and professional advisors, such as accountants, lawyers, property developers and consultants, are important for promoting and facilitating investment.

For significant investment projects, the agency or department should be able rapidly to mobilize senior city leaders to meet with an investor to create policy certainty and demonstrate the seriousness with which the project is viewed. For major projects, ministers from the national government should also be involved.

To be effective at investment promotion, it is recommended that a single, dedicated agency or department be created with a clear mandate for attracting and facilitating investment into the city. Module V explores in more detail how to build an investment promotion agency, taking into account the size and resources of a city.

2. Relationship between the national and city levels

When developing a city level investment promotion agency, the national IPA should be involved in the decision-making to ensure maximum coordination and synergy between the national and city agencies. Many countries also have regional development agencies, which have a geographical remit wider than the city; in this case, the regional development agency should be closely involved in establishing a city IPA.

A city can benefit from the resources, expertise and experience of the national IPA, while at the same time the national IPA has much to gain from cooperating with the city.

There is no set rule for how a city IPA should work with the national investment promotion agency. It depends on the resources and scope for cooperation of each organization. Cooperation may occur through an informal or formal partnering agreement or, in some cases, the national IPA may post a member of its staff permanently in the city, which will significantly facilitate coordination. (The latter has been done in a few of the Millennium Cities.) The national IPA may even take on the exclusive role of promoting the city overseas, with the city focusing on defining its strategy, preparing marketing materials, and undertaking facilitation services and after-care, rather than conducting investor targeting activities itself.

Section F.2 in Module V examines in more detail the relationship between a city and national investment promotion activities.

F. Marketing

Marketing has two main functions:

- To create awareness of the city as a location for new investment among potential investors and multipliers (organizations that advise investors, such as consultants, lawyers and real estate companies).
- To provide sales and marketing materials to investors to demonstrate that the location is an excellent candidate for their investments.

Marketing as an awareness creation tool aims to build the image of the location and put it on the investor's map. Ideally, marketing helps develop an internationally recognized brand name that overseas investors can recognize. Brand and image can be very important in attracting inward investment as overall perceptions by companies and multipliers

(investment advisors) of a particular location may prevent the location from being on the investor's map of cities being considered.

There are different marketing techniques to create awareness of a location, from developing an inward investment website, to hosting events, to conducting a public relations campaign. While evidence suggests that effective marketing can raise the profile of a location, there are always questions over the level of resources required and how much value marketing produces. This is especially the case for public relations, which is generally very expensive; a city should be cautious when considering public relations campaigns as the cost may not justify the results. A good quality website and carefully planned investor targeting (see section below) is typically more effective in attracting inward investment, especially for smaller and less well-resourced cities that have difficulties in generating an international brand image and reputation.

Sales and marketing materials can vary from general information on a location (e.g. on a website or in a brochure) to "business propositions," which outline in detail the benefits a city offers an investor in a specific sector. Generally, the more sector-specific the sales and marketing materials, the more effective they are in convincing an investor to invest. For practical guidelines in developing sales and marketing materials, see Module VI.

G. Investor targeting

At the end of the nineteenth century, Thomas Jefferson stated that: *"Merchants have no country. The mere spot they stand on does not constitute so strong an attachment as that from which they draw their gain."*⁴²

Jefferson emphasized the footloose nature of international companies. It is this mobility that provides the possibility to attract inward investment – but at the same time creates competition between countries and cities for this investment.

Section B.2 showed that companies have imperfect information, and decisions are influenced by perceptions. Through direct marketing, information can be provided to companies on commercially viable business opportunities in a location, and encourage an investor to consider investing.

To contact the tens or even hundreds of thousands of companies that may potentially want to invest overseas would be impossible - just contacting a few companies each day requires significant effort. Marketing resources have to be focused on companies with the highest potential for investment in a city.

Investor targeting is a technique to attract inward investment in greater quantity and quality, making the most effective use of limited resources. Investor targeting involves targeting specific companies in carefully identified sectors (see Section D.2.).

Investor targeting involves well-researched and planned approaches to specific managers in the targeted companies about niche "business opportunities" in a city.

The major advantages of investor targeting are:

- Focuses effort on the best prospects.
- Can greatly increase investor and broker (investment advisors) awareness.
- Investors respond best to material relevant to them.
- Can help develop local industry clusters.

⁴² Thomas Jefferson to Horatio G. Spafford at, <http://etext.virginia.edu/jefferson/quotations/jeff1650.htm>.

- Cost effective – takes time more than money.
- Can be outsourced to specialist providers where resources allow.

Experience demonstrates that the most successful methods of investor targeting involve establishing links to existing investors and business and personal networks with target companies and intermediary organizations, including industry associations and investment multipliers like real estate companies and location consultants.

When companies are first contacted by a city investment promotion agency or department, it is unlikely that the companies will have immediate FDI projects that the host location can compete for.

The key to successful investor targeting is staying in contact with the targeted companies on a sustained basis, so that, when they do have an investment project, the city is well positioned to be considered for the investment.

Module VII provides a detailed step-by-step manual on how to develop and implement an investor targeting strategy.

H. Investment facilitation

No matter how effectively an agency markets its location, targets investors and generates investment leads, this is unlikely to result in realized investment unless there is effective investment facilitation and project handling.

The aim of investment facilitation is to convert an investment inquiry into an actual investment. Key issues to consider in inquiry and project handling include:

When handling inquiries, most agencies assign a key account contact or project manager to every serious investment inquiry or potential project. This enables clear leadership and coordination. They act as the central point of contact for the investor. As well as being able to develop professional respect and personal rapport with the investor, the project manager needs good contacts with government bodies and private sector advisors to facilitate the project.

1. Understanding investor requirements

To win a project requires the full and accurate understanding of an investor's location requirements. It is important at this stage to win the trust of the company. The project manager should gain confirmation from the company on what information should remain confidential vis-à-vis what person.

2. Information provision

Depending on the size and complexity of an investment, the investor may request information ranging from site and property availability, to local supplier quality, to the number of graduates in certain disciplines, to the nature of the transport and communications infrastructure, to the availability of energy resources and prices, and to labor costs, labor availability and recruitment costs. Accurate information should be supplied in a well-presented format as quickly as possible, which often depends on the quality of links between the investment promotion agency and other stakeholders, especially local agencies.

3. Package offer

Successful investment locations develop ready-made packages of incentives and services for rapid response to inquiries that also cater to sectoral initiatives. The investor should be

presented with high quality, customized information, effectively and succinctly addressing all information and project-specific requirements. Any unique or distinctive arguments for investing can also be outlined, and the use of high quality photographs of sites or buildings and location maps can be provided.

4. Visit handling

An investor is likely to make one or more visits to the proposed location, and it is very important that the city investment promotion agency or department facilitates this process together with other key stakeholders. As well as information provision, an investor will want to look at potential sites for the investment. The professionalism of the agency in preparing an itinerary and coordinating visits can be crucial for winning the investment.

5. One-stop shop

Most investment promotion agencies offer some kind of “one-stop-shop” for facilitating investments. The range of services offered can include consulting, expediting applications and permit processing, screening or evaluating the project, and providing incentives negotiation and approval. The speed and cost of obtaining post-approval permits, licenses and planning permissions are often crucial to an investor. The key to fast, efficient facilitation is not only the professionalism of the investment promotion agency, but also its links and influence with government ministries and other stakeholders. Facilitation may take weeks, months or even years, but throughout the process it is important for the project manager to maintain a relationship with the investor.

I. After-care and policy advocacy

1. After-care

After-care refers to the post-investment services that an investment promotion agency can offer to existing investors. It is a key area of policy for many agencies for generating new investment and for expanding existing projects – a satisfied investor is a city's best ambassador.

Key objectives of after-care typically include:

a. Investment retention

Solving problems investors are facing to ensure that they have successful and profitable operations is the first priority of after-care.

b. Investment expansion

Most FDI is in the form of re-investment or expansions by existing investors. The knowledge that the city IPA will provide effective support in meeting any difficulties that arise can be a critical factor in winning an investment, especially in cities located in developing countries.

c. Generating new leads

Using existing investors as “ambassadors” who will influence other firms to consider the country as an investment site is a key method of lead generation. Developing good links with

local managers has been central to investment promotion in the most successful locations. Happy and profitable clients are good promotional tools!

d. Attracting overseas suppliers

Having a good relationship with existing investors opens the possibility to work with these investors to attract overseas suppliers to locate in the city. This type of cooperation can have major economic benefits and position the city for sustained future investment and job creation.

e. Building a local supply network

Likewise, a city investment promotion agency or department can work with existing investors to utilize local companies in their supply chain, to strengthen linkages and the success of indigenous businesses. In some cities with very successful local supplier linkage programs, the new business generated for local suppliers has exceeded the value of the initial investment by the foreign investors.

2. Policy advocacy

Policy advocacy involves consulting with existing investors to identify the key obstacles to future investment in the city and to propose recommendations for improving the attractiveness of the city for investment.

By consulting with a significant number of existing investors – which can also include important domestic investors – the most frequently cited obstacles can be identified, rather than those that perhaps only one or two companies mention.

Typical obstacles identified by investors relate to entry approvals, issues with land and site development, and issues relating to utilities and operational requirements. Policy recommendations may look at areas related to infrastructure, property and skills development.

Some of the obstacles may have to do with national legislation or policies which require close linkages between the city IPA, national investment promotion agency and government, if these are to be addressed. Many obstacles relating to land, site, utilities, infrastructure, and labor supply should be addressed by the city.

J. Key take-aways and resources

1. Key take-aways

The key take-aways of this module, “A framework for investment promotion,” are as follows:

- Attracting investment has a significant impact on the local economy. Research shows that effective investment promotion has a high return on investment on its funding requirements.
- There is a clear rationale for a city to engage in investment promotion, not only because of the economic benefits to the city, but also because the city can add value to national investment promotion activities, in particular through its knowledge of the city and on-the-ground support a city IPA can give to investment facilitation and after-care. A city IPA is also essential to attract domestic companies to invest in the city.

- There are typically six main functions of a city in attracting inward investment: (1) developing an investment promotion strategy for the city; (2) developing an appropriate and effective organization to define and implement the strategy; (3) marketing activities and materials to promote the city; (4) pro-active targeting of carefully identified investors and investment intermediaries; (5) effective project facilitation to ensure concrete investment prospects are converted into realized projects; and (6) after-care and policy advocacy to retain and expand existing investors and improve the investment environment.

2. Resources

a. Reference literature

Some of the key literature examining the impact, rationale and functions of investment promotion include:

- Battat, Joseph Y., Frank Isaiah and Xiaofang Shen, "Suppliers to multinationals: linkage programs to strengthen local companies in developing countries," *FIAS Occasional Paper*, No. 6 (Washington, D.C.: Foreign Investment Advisory Service, 1996).
- Driffield, Nigel, and Dylan Hughes, "Foreign and domestic investment: regional development or crowding out?," *Regional Studies*, 37 (3) (2003), pp. 277-278.
- Loewendahl, Henry, *Bargaining with Multinationals: The Investment of Siemens and Nissan in North East England* (London: Palgrave, 2001).
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- Moran, Theodore H., *Foreign Direct Investment and Development* (Washington, D.C.: Institute for International Economics, 1999).
- Spar, Deborah, "Attracting high technology investment: Intel's Costa Rican plant," *FIAS Occasional Paper* No. 11 (Washington, D.C.: Foreign Investment Advisory Service, 1998).
- Wells, Louis T., and Alvin G. Wint, "Marketing a country: promotion as a tool for attracting foreign investment," *FIAS Occasional Paper* No. 1 (Washington, D.C.: Foreign Investment Advisory Service, 1990).
- Wells, Louis T., and Alvin G. Wint, "Marketing a country: promotion as a tool for attracting foreign investment," *FIAS Occasional Paper* No. 13 (Washington, D.C.: Foreign Investment Advisory Service, 2000).
- Wint, Alvin G., "Promoting transnational investment: organizing to service approved investors," *Transnational Corporations*, 2 (1) (1993), pp. 71-90.
- Young, Stephen, Neil Hood and Alan Wilson, "Targeting policy as a competitive strategy for European inward investment agencies," *European Urban and Regional Studies*, 1 (2) (1994), pp. 143-159.

b. Consulting resources

International organizations with extensive expertise in advising governments on developing investment promotion capability include:

- UNCTAD.
- FIAS.
- UNIDO.
- WAIPA.

Private sector consulting companies with extensive experience advising countries and cities on attracting inward investment include:

- OCO Global Ltd.
- Boston Consulting Group.
- PA Consulting.
- PricewaterhouseCoopers.
- Ernst & Young.
- KPMG.
- Nathan Associates.
- The Services Group.
- Buck Consulting International.
- Chemonics.
- IBM-Plant Location International.

Module IV. How to develop a city investment promotion strategy

A. Key elements of an investment promotion strategy

1. Topics addressed

The key topics addressed in this module include:

- How to conduct a SWOT analysis as a key input into developing an investment promotion strategy.
- How to develop a sector-based investment promotion strategy - identifying, evaluating and prioritizing target sectors for attracting investment.
- How to set investment targets to monitor and evaluate the success of a city and its IPA in attracting inward investment.

2. Objectives

This module is designed to help policy makers develop an investment promotion strategy for their cities, preferably developed in conjunction with the national IPA. The city investment promotion strategy can use the templates provided in this module, with a key emphasis on making the strategy sector-based and focused on achieving clear targets that can be monitored and evaluated. By the end of the module, investment officers should know:

- What a SWOT analysis is and how to conduct one.
- The difference between sectors and business activities.
- How to identify and prioritize target sectors and business activities.
- Investment target metrics that can be used to monitor and evaluate performance.

B. What is a SWOT analysis?

A SWOT analysis refers to an assessment of the strengths, weaknesses, opportunities, and threats (SWOT) that face a city when seeking to attract FDI. It is typically the first step toward developing an investment promotion strategy, because a SWOT analysis provides a general perspective of the overall position of a city seeking to attract investment. A SWOT analysis is also a key tool for identifying an initial list of target sectors that offer potential for investment. The results of a SWOT analysis are usually presented in the form of a matrix, as in Table 8.

Table 8. SWOT matrix

Strengths	Weaknesses
Opportunities	Threats

Sources: MCI and VCC.

When reviewing and identifying the entries under strengths, weaknesses, opportunities, and threats, it must always be remembered that it is the comparative status of the city that is important. How does your city rate against other similar cities – which are generally those in the same country/region (e.g. medium-size cities in Kenya, East Africa and Africa for the city of Kisumu)?

1. Strengths

Strengths are those resources, skills, experiences, or other factors within a city that a realistic analysis suggests are superior to similar features in competitor cities. Examples of competitive strengths are:

- Access to a large and growing consumer market.
- A large, readily available skilled workforce.
- Low-cost energy.
- Good levels of education.
- Multi-lingual language skills.
- High quality transportation and ICT infrastructure (e.g. Internet bandwidth).
- Availability of suitable industrial land, sites or office space.
- Strong industrial clusters in specific sectors.
- Track record of attracting large investors in specific sectors.
- Major reserves of valuable minerals, oil and gas close by.
- A pro-business government offering high levels of support to inward investors.
- Cultural and natural attractions and a good climate conducive to tourism and expatriate lifestyle.

2. Weaknesses

Weaknesses, the opposite of strengths, are features of a city (or features of the national policy context – see Section III.D) that compare unfavorably to competitor cities. Examples of competitive weaknesses are:

- Underdeveloped or poorly maintained transport and ICT infrastructure.
- Unreliable energy supply.
- A corrupt and/or unpredictable city government or legal system.
- Weak base of domestic companies or poor track record of inward investors.
- Small, uneducated or unreliable workforce.
- High-cost energy, property and sites, or labor force.
- Civil unrest or high crime levels.

3. Opportunities

Opportunities are the positive external business, market and economic changes that can be pursued by a city, which have the potential to generate new inward investment for the city. Examples of comparative opportunities are:

- Technological innovations of direct relevance for the city and aligned with the city's strengths (e.g. in solar power).
- New flight routes from wealthy countries, providing new avenues for tourism and FDI.
- Major projects in the city, such as a new port, free zone, property development, or university, which can act as a powerful catalyst for inward investment.
- Rapid economic growth in neighboring cities and in the country where the city is located; or in cities and countries in close proximity or with close economic, cultural or historical ties.
- Major international events taking place in the city or neighboring cities that are likely to attract international businesses.
- An increase in long-term demand for the city's near-by natural resources.

4. Threats

Threats or challenges are the potentially negative external developments that might reduce a city's international competitiveness and/or visibility to investors, or developments that remove existing important sources of competitiveness or economic and business growth. Examples of such threats are:

- A significant and prolonged slowdown in economic growth and outward FDI in the key sources of inward investment into the city.
- The emergence of new, better-resourced competitor cities in the same region.

C. How to conduct a SWOT analysis

A SWOT analysis is based on data collection and the insights of experts on the city. The most important experts to consult when conducting a SWOT analysis are the investors themselves.

Most SWOT assessments take place through interviews with existing investors and investment multipliers (consultants, accountants, lawyers, developers, etc.).

A SWOT analysis can be conducted relatively cost-effectively and quickly. A carefully designed questionnaire, which is used to interview 20-30 of the main investors and multipliers in the city, would be sufficient to gain considerable insight into the strengths, weaknesses, opportunities, and threats facing a city, as well as into the main sectors in which investors see the best opportunities for inward investment.

Such a questionnaire should be as concise as possible, and the interviewer should be listening and recording in detail the opinions of investors, rather than just ticking boxes. Provided below are some sample questions that can be used to conduct a SWOT analysis. The results from the investor survey can be compiled to identify the most commonly cited strengths, weaknesses, opportunities, and threats, and can be combined with insights from experts in the city, as well as data research, to produce the SWOT analysis.

Strengths of the city – what do you consider to be the main investment strengths of the city as an investment location compared to other cities in the country and the region (at least 3 strengths should be cited)? (Add the full opinions of the company.)

1. _____
2. _____
3. _____
4. _____
5. _____

Weaknesses of the city – what do you consider to be the main investment weaknesses of the city as an investment location compared to other cities in the country and the region (at least 3 strengths should be cited)? (Add the full opinions of the company.)

1. _____
2. _____
3. _____
4. _____
5. _____

Opportunities for the city – what do you consider to be the main opportunities arising from external changes or events for the city to attract inward investment? (Add the full opinions of the company.)

1.

2.

3.

4.

5.

Threats facing the city – what do you consider to be the main threats arising from external changes or events for the city to attract inward investment? (Add the full opinions of the company.)

1.

2.

3.

4.

5.

Best sectors for inward investment – in which sectors does the city have the best opportunities to attract inward investment (at least 3 sectors should be cited)? (Add the full opinions of the company.)

1.

2.

3.

4.

5.

D. How to identify target sectors

Section III.G discussed the principles of developing a sector targeting strategy. The core component of any investment promotion strategy is identifying the key sectors to target for investment.

1. Drawing up a list of potential sectors to target

When drawing up a list of potential sectors to target for inward investment, it is important that a city IPA not only target industries (e.g. light manufacturing, financial services, beverages), but also *business activities*. The location of FDI projects is often driven by its *business*

activity rather than its *industry*. For example, call centers, logistics, IT support, and regional headquarters functions are all business activities; the same activity can be established by companies operating in many different industries.

There are four main methods for identifying target sectors and activities, discussed below. Section IV.F provides examples of research resources that can be used.

a. The leading sectors in a city

The SWOT analysis should identify the major sectors in a city and the most promising sectors for investment based on the opinion of current investors and experts. In addition, data research should be conducted. Key tasks include:

- Identifying the top 5-10 sectors in the city, ranked by size of the sector (e.g. by employment).
- Identifying the top 5-10 sectors that have already attracted investment, or that contain the largest and most successful firms.
- Identifying the top 5-10 fastest growing sectors in the city.
- Identifying the top 5-10 sectors that existing investors see as having the best opportunities.

b. Sectors that align with the strengths of the location

The SWOT analysis will also identify the main “supply-side” strengths of a city (e.g. size of labor force or good ICT infrastructure) that can be matched against sectors in which these supply-side factors are very important in determining an investment decision (see Module II). This is particularly the case for targeting business activities, for which the location requirements are often very specific and well known. Key tasks include:

- Listing the key strengths of the city resulting from the SWOT analysis.
- Identifying the 5-10 sectors that would be attracted to these strengths (e.g. a logistics or export-oriented manufacturing company would be attracted to a city with quality transportation links).

c. Sectors with the best prospects for FDI

When identifying target sectors, it is essential to consider which sectors have the highest volume of FDI that your city could potentially compete for. There is little point in targeting a sector, even if it is a strong sector in your city, if the sector has a low level of FDI growth potential. Key tasks include:

- Identifying the 5-10 largest sectors / activities for greenfield FDI in a country, region and globally.
- Identifying the fastest growing 5-10 largest sectors / activities for greenfield FDI in a country, region and globally.

d. Sectors that can make the highest contribution to the local economy

When selecting sectors, it is important to consider which sectors have the highest positive impact on a city’s economy. The impact of FDI depends on the sector and type of project an investor has. In general:

- Larger projects make a bigger contribution than smaller projects. However, if a smaller project helps further develop an existing sector in the local economy, then it has wider economic benefits in creating competitive and sustainable industries.
- Service activities (e.g. call centers) create higher paid and higher quality jobs than manufacturing sectors, which is good for the local economy - and tax revenues.
- Inward investment projects that improve the underlying supply-side competitiveness of a city are very important to attract, especially when there are key bottlenecks in the economy. Examples could be investment by an Internet company to improve the Internet infrastructure, or a property company building a new office complex that provides high quality space for inward investors.

2. Evaluating and prioritizing sectors

A table such as Table 9 can be used to evaluate the results of the research to identify target sectors.

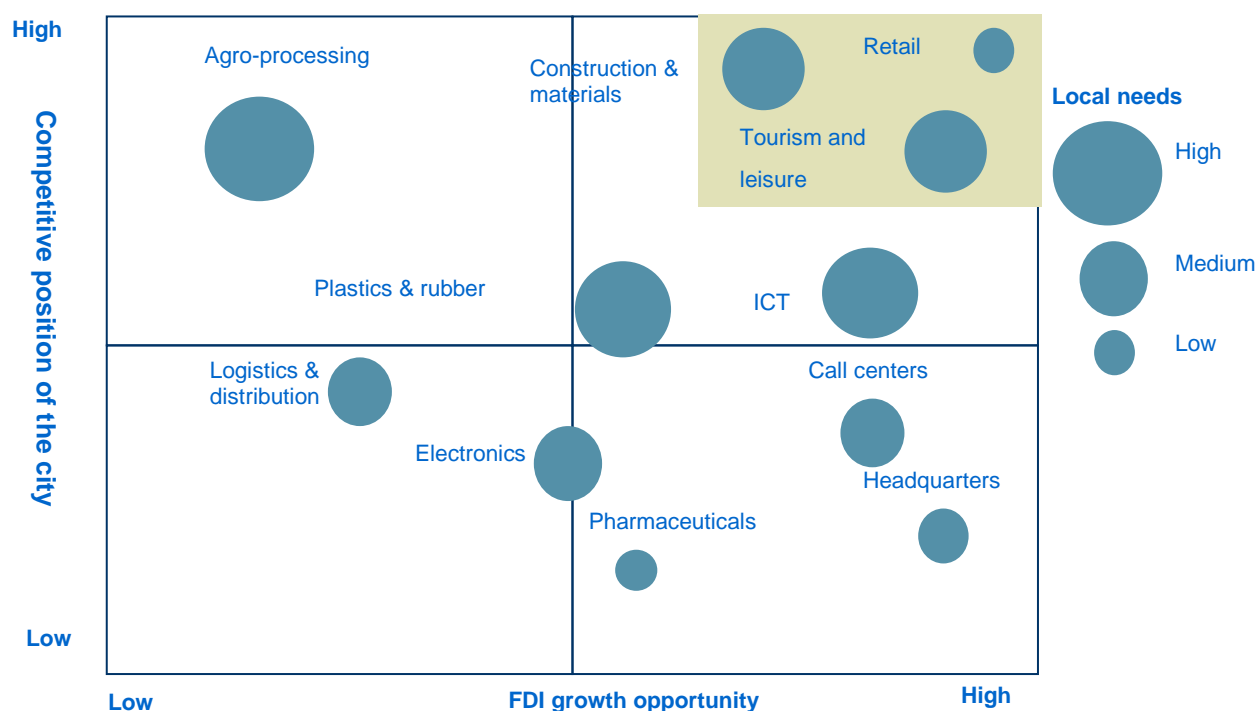
Table 9. Identifying priority target sectors

Sector / activity	Strengths of the city	Weaknesses of the city	Size of the FDI market	Contribution to the local economy
....				
....				
....				
....				
....				
....				
....				
....				

Sources: MCI and VCC.

The objective should be to prioritize the sectors in rank order. At the most, there should be five primary target sectors, on which a city should focus. There can also be a secondary list of up to five sectors, for which the city is more reactive. In total, ten sectors is the maximum recommended. The fewer the sectors being targeted, the more resources can be spent on them, and the better the results (assuming the right sectors are selected in the first place). The results of the sector research can also be presented graphically, as captured in Figure 3.

Figure 3. Sector targeting framework (example for illustration only)



Sources: MCI and VCC.

E. How to set investment targets

It is important for a city IPA to have clear performance targets for attracting inward investment. Targets can be grouped into inward investment targets and activity targets.

1. Inward investment performance targets

There are three main inward investment performance targets used by city investment promotion agencies:

- Number of greenfield FDI projects attracted.
- Number of direct jobs being created by these FDI projects.
- Amount (value) of capital investment these FDI projects are making.

To track inward investment results, an Excel database can be used to record each project success. One person in an IPA should be given the responsibility for maintaining the database. An example project database is shown in Table 10.

Table 10. Database template for recording inward investment project successes

Project reference number	Name of investing company	Date of investment	Country of origin of the investor	Joint venture partners	Value of investment US\$ '000	Number of jobs being created	Sector of the investment	Business activity of the investment	Detailed description of the project	Type of investment	Name and contact details of key contacts in the firm	Source of the investment lead	Other important project information

Source: Loco Software Ltd.

A city IPA should set an annual target for how many inward investment projects it aims to attract to the city. The target is typically based on:

- The number of inward investment projects attracted in the previous year, with the objective to increase the number each year in line with increased resources in the agency.
- Global market trends in FDI, and the estimated number of FDI projects that the city could attract realistically.

It is also possible to set more sophisticated targets, for example:

- Number of new FDI projects from new inward investors.
- Number of expansion FDI projects from existing inward investors.
- Number of FDI projects segmented by sector/activity.
- Number of jobs being created (by sector/activity).
- Amount of capital investment (by sector/activity).

Many cities publish an annual report, outlining their annual results in attracting inward investment. This is an important element of good governance and policy advocacy (see Module IX).

2. Activity performance targets

Inputs lead to outputs, and unless there is enough activity to generate an investment, the end results may not be achieved.

Key activity targets include:

- The number of potential new investors who need to be targeted for a new investment to materialize.
- The number of existing investors who need to be met for an expansion investment to take place.
- Other key marketing actions, such as launching a new website or event.
- Number of business leads to be generated. A lead is defined as a company with a confirmed interest in investing in a given region within the next 24 months, and which would consider a given city for investment.

To calculate what an activity target needs to be, a city IPA can work back from its inward investment targets, applying the rough 20% rule in investment promotion.

For example, if the inward investment target was to attract 10 FDI projects, then on average one would need to generate 50 business leads (as 20% of 50 leads would be 10 projects). To generate 50 business leads, one would need to be in contact with 250 carefully identified and targeted companies (as 20% of 250 companies is 50 leads). Several investment officers working full time would be required to identify, prospect and build relations with that number of companies. To this end, a city IPA might need to cooperate with the national IPA.

In summary, most cities would need to set annual targets for:

- The volume of inward investment they aim to attract.
- The number of companies they will need to target to achieve this aim.

F. Key take-aways and resources

1. Key take-aways

The key take-aways of this module, “How to develop a city investment promotion strategy,” are as follows:

- A SWOT analysis should be used to assess a city’s attractiveness for inward investment and to provide key input into the investment promotion strategy. A SWOT analysis can be undertaken by structured interviews with existing investors and investment multipliers combined with desk research.
- The most effective investment promotion strategies are focused on key sectors and, equally importantly, business activities.
- To identify and prioritize sectors and activities, the key techniques are to focus on sectors that: (1) are the leading sectors in a city; (2) best align with the strengths of a location; (3) have the best prospect for inward investment; and (4) can make the highest contribution to the local economy.
- A city investment promotion strategy should be developed in coordination and taking into account the national IPA’s investment promotion strategy.
- A city investment promotion strategy should include targets for attracting inward investment. There should be targets for the amount of investment a city should aim to attract in terms of, for example, number of projects, number of new jobs and amount of investment, as well as targets for the activities of the city IPA (e.g. number of new and existing investors contacted, specific marketing actions to be completed, number of leads to be generated).
- City IPAs should strive to achieve a 20% conversion rate. This means that 20% of targeted companies become leads (i.e. have a project now or forthcoming that the city can compete for), and 20% of leads are converted into realized projects.
- City IPAs should try and leverage the capabilities and resources of the national IPA in implementing their targets.

2. Resources

a. Data and intelligence resources

In addition to a survey of existing investors, there are several useful resources for assisting in developing an investment promotion strategy:

- UNCTAD publishes the annual *World Investment Report* (www.unctad.org/wir) and many other publications on FDI, which can be used to identify investment trends. These publications are available for free.
- MIGA, an agency of the World Bank Group, has a free information resource for investment promotion (www.fdi.net), which can be used to publicize investment opportunities in a city, raise awareness of a city's investment environment, and find sector reports and other information related to business conditions and FDI.
- Google, Yahoo and other resources, such as www.ft.com, can be used to search for information on particular industries and trends in FDI.
- FDI databases are available from organizations such as the Financial Times Ltd. (www.fdimarkets.com) and Ernst & Young (www.eyeim.com) that track the size and growth of the FDI market and can be used to identify target sectors (and target companies). Note that these are fee-paying subscription services.
- The national IPA may also be a good resource for market intelligence and assistance in developing the city's investment promotion strategy.

b. Consulting resources

International organizations with extensive expertise in advising governments on developing an investment promotion strategy include:

- UNCTAD.
- FIAS.
- UNIDO.
- WAIPA.

Private sector consulting companies with extensive experience advising countries and cities on developing an investment promotion strategy include:

- OCO Global Ltd.
- Boston Consulting Group.
- PA Consulting.
- PricewaterhouseCoopers.
- Ernst & Young.
- Nathan Associates.
- The Services Group.
- Buck Consulting International.
- Chemonics.
- IBM-Plant Location International.
- KPMG.

Module V. How to build a city investment promotion agency

A. Key elements of a city investment promotion agency

1. Topics addressed

Investment promotion is a resource intensive activity. It is also very challenging, requiring a diverse range of skills and above all a high level of professionalism and commitment. When investment promotion is done well, the benefits for the local economy can be high, and for staff working in the investment promotion agency it can be satisfying and rewarding, and often opens up excellent career prospects.

The following sections provide options for how a city can organize itself to attract investment, a description of the type of staff that is needed, and what kind of costs are incurred. An estimate of the typical budget that will be needed is also provided. This module also offers suggestions for how a city can fund investment promotion. The emphasis is on setting-up an IPA in small to medium-size cities with very limited budgets.

The key topics addressed in this module include:

- Options for organizational structure, with two options provided depending on the resources of a city.
- Vision, mission and client charter for a city IPA.
- Funding of a city IPA, with sample budgets and budget breakdowns provided and potential sources of funding highlighted. How the budget relates to investment targets to deliver value for money is also discussed.
- Staff positions, skills and roles and responsibilities required for investment promotion.
- Networks a city IPA should develop within the city, within the country and overseas, with a particular focus on relations with the national IPA.

2. Objectives of the module

The module is designed to inform cities on how to establish a new investment promotion agency. The practical illustrations of the organizational structure, vision, mission, and client charter of an IPA are laid out, as are budgets and funding. Also discussed are the staff, skills and roles, as well as the importance of IPA networks. Together, these elements should provide a thorough foundation for establishing the essential elements of a successful city investment promotion agency.

B. What are the options for organization structure?

There are two main options for a city investment promotion agency:

- Creation of an *investment promotion division* within an existing government department, which works in close collaboration with other related departments. This option is most suitable for cities with very limited resources and which can afford to employ only 2-3 specialists for attracting inward investment. Cities with more resources may wish to expand the division into a new department.
- A new, autonomous *city investment promotion agency*, with the exclusive authority for promoting and facilitating inward investment into the city. This option is typically the preserve of the national government, as it will require a significant budget and a

minimum headcount of 10+ staff. However, some larger and well-resourced cities, including several in Latin America and South Africa, are establishing investment promotion agencies.

The following sections discuss in more detail each of these different options for a city investment promotion agency.

1. Investment promotion division or department

a. Investment promotion division

For city governments with a very limited budget and an initial low level of inward investment, a first step toward starting investment promotion activities would be to establish a new division with responsibility for investment promotion within an existing government department.

For many cities, the division is placed within the economics department of the administration. Generally, a small team of two-to-three people work in the new division, who over time become experts in investment promotion. The team reports typically to the head of the department.

Table 11 indicates the type of staff, their role and skill sets required. The two core positions are that of the project manager, who handles investor inquiries (facilitation) and has the responsibility to generate new inquiries (investor targeting), and that of the marketing and research manager, who provides the research and marketing collateral in order to promote the city and meet the information requirements of investors. If a city can afford additional staff, the more junior position of investment promotion officer is a key role to support the work of the project and marketing and research managers.

Table 11. Staff of a city IPA

Position	Role	Skill sets
Project manager	Handling investor inquiries, facilitation and site visits; actively targeting new potential investors.	Experience in industry, ability to build rapport with investors, has a pro-active, can-do attitude. Experience working in a foreign company is an advantage.
Marketing and research manager	Conducting research on the city's location attributes, developing marketing materials, supporting the information needs of the project manager, organizing events.	Strong research and organization skills. Experience in marketing, events and graphics an advantage. Ability to work with close deadlines.
Investment promotion officer	Supports the project manager and marketing and research manager. Position involves hands-on experience working with investors and research activities.	Flexibility and adaptability to do varied types of work. Strong communication skills, including willingness to conduct telemarketing-type work.

Sources: MCI and VCC.

The salaries paid to staff working in the investment promotion division are typically close to private sector salaries in order to attract staff with the appropriate skill sets. This is especially the case for manager-level staff.

With only 2-3 staff, the division will need to be highly focused to ensure resources are not spread too thinly. The division should have the following priorities:

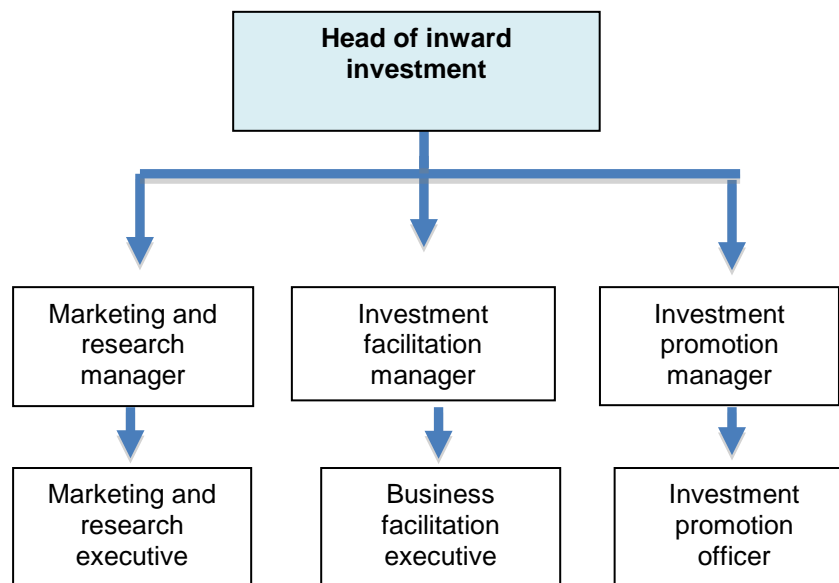
- The main focus of the division should be facilitating investor inquiries, as these are investors who have contacted or were referred to the city and have the highest chance of actually investing. The project manager should take the lead in handling these inquiries, with support from an investment officer where resources allow.
- The most effective method of generating new inquiries is through developing an inward investment website for the city, networking with other organizations and after-care.
- The marketing and research manager should have the task of developing the promotional website and related content, along with a budget. The content can also be used for developing other marketing materials (see Module VI). The marketing and research manager should, over time, build up a databank of information on the city.
- The project manager should be tasked with identifying and networking with other organizations (see Section 2.e below) and for building relations with the leading foreign and domestic investors already in the city, and with the best chance of re-investment.
- Other activities such as developing a database and pro-actively prospecting investors, developing a full suite of marketing materials, organizing and attending events, and policy advocacy should only be pursued once facilitation, the website, networks, and after-care are working effectively and there are free resources to engage in other activities.

b. Investment promotion department

If a city has the resources for more staff, the division can be expanded into an *investment promotion department*. This would be a new department with responsibility for promoting and facilitating inward investment. The department will typically be co-located in existing offices, which reduces costs as the new department has a shared overhead (office, utilities, administration staff, etc.) with other government departments.

The new department would have responsibility for both investment promotion activities (strategy, marketing, investor targeting) *and* investment facilitation activities, including dealing with the regulatory issues of permitting, licenses, etc. This will enable the department to have the functional mandate for attracting inward investment – and be a performance-driven department. An example organizational structure for a small (5-10 staff) department is shown in Figure 4.

Figure 4. Departments/teams in a typical investment promotion department



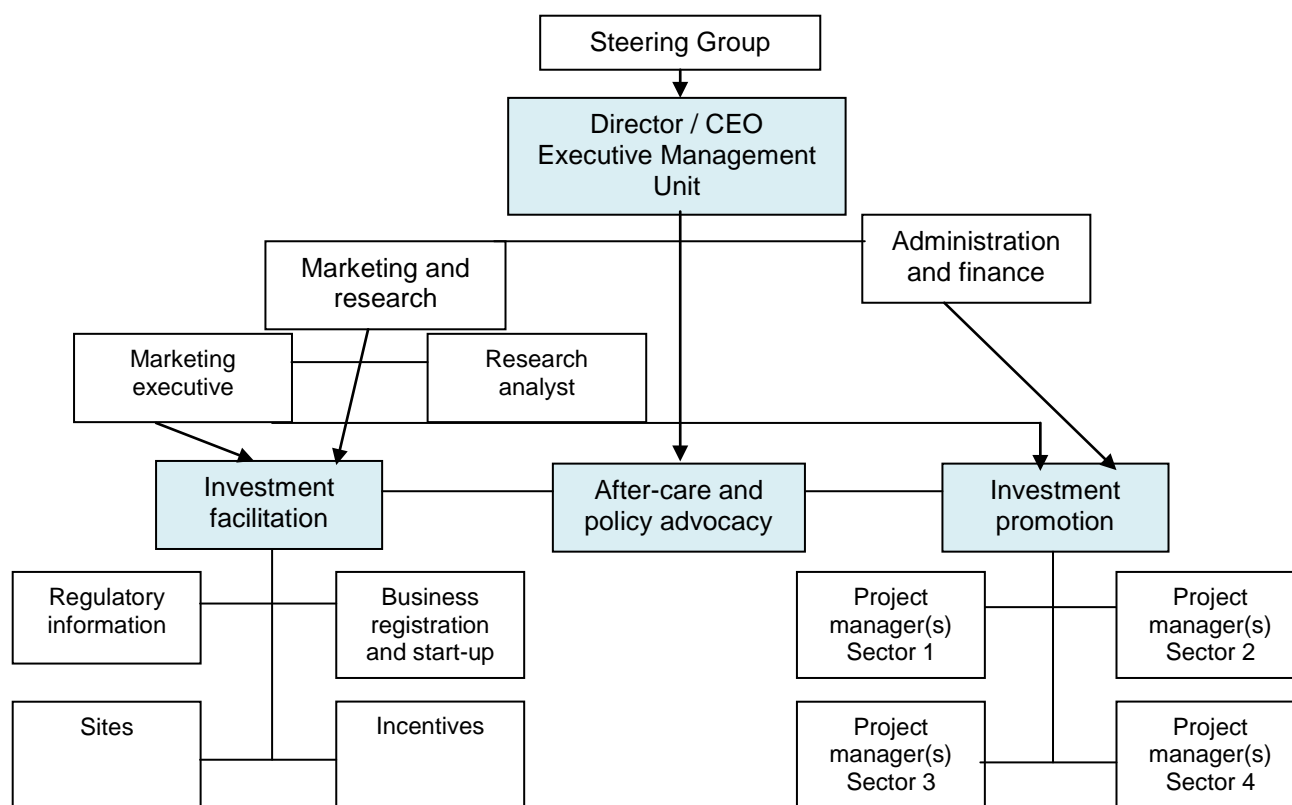
Sources: MCI and VCC.

With additional staff, the department will be able to separate responsibilities for marketing and communications, investment facilitation and investment promotion. Section 2 below provides further detail on the teams and positions in a larger investment promotion agency.

2. City investment promotion agency

This is the preferred organizational structure for well-funded cities. An autonomous agency with full responsibility for promoting and facilitating inward investment is proven in practice to be most effective. However, this option is the most resource intensive, and requires significantly higher budgets to cover the cost of additional staff and a dedicated office, utilities, etc., separated from the rest of a city's offices. At a minimum, a full-fledged city investment promotion agency would need 10+ full time staff to justify this option. Larger cities (i.e. 1 million inhabitants and more) are starting to establish dedicated investment promotion agencies, since they can justify the cost (as they have larger budgets) and achieve a return on investment (with the higher volume of inward investment that the IPA can be expected to attract). A sample organization structure for an IPA is provided in Figure 5.

Figure 5. Departments/teams in an investment promotion agency



Sources: MCI and VCC.

a. Steering Group

A small (3-5 people) Steering Group provides a reporting focus for the city investment promotion agency, enables co-ordination with other government and private sector stakeholders and gives strategic advice. The Steering Group is typically comprised of senior figures from the private sector and government. For large or strategic inward investment projects, members of the Steering Group may get actively involved in meeting investors to ensure the city wins the project.

b. Director / Executive Management Unit

The Director is responsible for strategy development and overall management of the city investment promotion agency. The Director will be actively involved in meeting major inward investors and in ensuring that everything is done by the project managers to facilitate their investment. For larger organizations, there will be an Executive Management Unit, with core functions centered on the board secretariat, strategic (and business) planning, monitoring and evaluation and stakeholder relations. The Unit collates and sends reports (e.g. monthly) to the appropriate stakeholders and funders.

c. Administration and finance

Headed typically by a Finance Director or Chief Financial Officer, the Unit is responsible for finance, human resources, systems, and infrastructure.

d. Marketing and research

The marketing team plays a key role in a city investment promotion agency. Its members have responsibility for the marketing programs, which can include: provision of promotional propositions, organizing and attending events and formulating a communications strategy. For small and medium-size agencies, marketing also has a responsibility for research. Research is a critical function and includes: design, introduction and maintenance of FDI and city location databases; conducting research and data provision for individual investors; and identifying and profiling target investors. Marketing therefore has a key role in supporting the activities of the project managers. In larger IPAs (30 staff+), research may be separated from marketing into its own department, given how critical research is to the activities of an IPA.

e. Investment promotion - project managers

Project managers are responsible for handling investor inquiries, working with investors to implement their projects, and for pro-active investor targeting. Project managers also form the team with responsibility for delivering after-care. For larger organizations, project managers can be divided into sector targeting teams, with dedicated project managers for each sector being targeted.

f. Investment facilitation

Facilitation services include a team with responsibility for processing any permits, licenses, etc. that investors may need to make their investments, as well as other facilitation services such as incentives applications and site acquisition and leasing. Depending on the size of the organization, the investment facilitation team may also get involved in areas such as immigration. The team can also act as the main source of information on the regulations that investors need to observe to implement and operate their investment projects. It is important that this team works as efficiently and transparently as possible, and that there is very close coordination with the project managers to ensure seamless implementation of investment projects.

g. After-care and policy advocacy

Except for large organizations that can afford and justify a dedicated after-care team (e.g. agencies with 20+ staff), after-care is typically led by the project managers, working in close coordination with the investment facilitation team to address any regulatory issues investors may face in operating and expanding their investment in a city. Where resources permit, it is preferable to have a dedicated after-care team, even if this is just one senior project officer with responsibility for overall coordination of the after-care program and the project managers delivering it.

C. Vision, mission statement and client charter

1. Vision

Each city IPA should consider the vision for its organization and city. Most mission statements involve the achievement of sustainable economic development and benefits to the people of a city through the attraction of inward investment. For example, in Cape Town, the vision of the Western Cape Investment and Trade Promotion Agency, Wesgro, is “to grow the economy through trade and investment opportunities to benefit the people of the Western Cape.”⁴³

2. Mission statement

The mission statement outlines in more detail how the city IPA will achieve its vision. For example, the mission statement of Wesgro is:

- a. “To fulfill our City and Provincial Government mandates of attracting and retaining direct investment, growing exports and marketing Cape Town and the Western Cape as a business destination globally;
- b. Contribute to the growth and development of Africa through our commitment to NEPAD (New Partnership on Africa’s Development);
- c. Facilitate linkages between business and government decision makers; and
- d. Provide service excellence in all our business support functions.”⁴⁴

3. Client charter

The client charter sets targets for service delivery by the city investment promotion agency. The example of Uganda is shown in Box 1. It outlines targets in terms of the time to be taken to respond to the needs of investors. The cost for the inward investor is also shown. As can be seen, the cost for all services is zero. This is typical across IPAs – services are provided to inward investors at no cost.

⁴³ See Wesgro, http://www.wesgro.org.za/index.php?view_page+377.

⁴⁴ Wesgro Mission Statement, *2008 Annual Report*, <http://www.wesgro.co.za/userfiles/1/file/Annual%20Reports/Wesgro%202008%20Annual%20Report.pdf> (last visited October 22, 2009), p. 4.

Box 1. Best practice example: Uganda Investment Authority's Client Charter

The Uganda Investment Authority (UIA) is known to be one of the most successful IPAs in Africa. The Authority attributes part of its success to its client charter. UIA's mission is to *"make a significant and measurable contribution on Uganda's economic development by stimulating local and foreign investments, promoting exports and creating sustainable employment in all regions of Uganda."* The Authority has translated this mission in its client charter by setting specific targets for its services. Part of this charter deals with investment promotion and targets set for service delivery by UIA officials:

Services	Time	Cost
Investment promotion		
(a) Response to investor inquiries		
(i) Email inquiries	15 minutes	Free
(ii) Fax and letters	1 day	Free
(iii) Walk in	10 minutes	Free
(iv) Meetings	Instant	Free
(v) Business appointment	One day	Free
(b) Provision of information		
(i) Electronic	Immediate	Free
(ii) Printed	Immediate	Free
(iii) Website update	Monthly	Free
(c) Preparation and confirmation of Itinerary for potential investors	Three days	Free

Sources: Uganda Investment Authority, <http://www.ugandainvest.com/uia.php?uhpl=services&&uhpl1=Services> (last visited November 16, 2009), and UNCTAD, "Good governance in investment promotion and facilitation: Tanzania," (Geneva: UNCTAD, 2002), mimeo.

D. How to fund an Investment Promotion Agency

1. The costs of investment promotion

The essential cost items of a city investment promotion agency, ranked from most expensive to least expensive, include:

- Staff costs.
- Office costs and related overheads, including Internet for all staff.
- Computers for all staff, and ideally laptops for project managers.
- Developing and maintaining an inward investment website.
- Marketing materials development and printing.
- Company car for taking investors on site visits.
- Telephone (local and international), postage, stationary and printing costs.
- Traveling locally to meet investors and stakeholders.

Depending on budget, other core cost items include:

- Travel for overseas investment missions.

- Attending key international industry events.
- Using a firm specializing in FDI to develop the website and marketing materials.
- Purchasing/subscribing to some key sources of data and company intelligence.

In terms of the total budget needed for investment promotion, for a typical city in a developing country a very rough guide would be:

- Minimum budget of US\$100,000-200,000 for a 3-5 person investment promotion division, conducting only the essential items above.
- Budget of around US\$250,000-500,000 for a dedicated investment promotion agency/department with 5-15 staff carrying out essential and other core cost items.
- Budget of US\$500,000-\$1 million+ for a fully-fledged city investment promotion agency with 20+ staff able to compete internationally for investment and engaged in full investment promotion activities.

For example, KenInvest (the national investment promotion agency in Kenya) established a regional office in Kisumu which provides assistance to the city of Kisumu and to Nyanza Province. The office is staffed with a director and three experts responsible for investment services, investment promotion, and research, planning and policy. In addition, it employs an administrator and a driver/messenger. The recurring budget amounts to US\$127,125 with one-time expenses (e.g. for buying a car, personal computers, and furniture) at US\$48,125.⁴⁵

The Blantyre regional office of the Malawi Investment Promotion Agency has operated for a number of years and services Blantyre and the southern region of Malawi. The office employs a head of operations, and two experts on investment promotion and investment services. In addition, it has an administrator, driver and messenger. The office has a recurring annual budget for the core cost items of US\$128,500.⁴⁶

Exact costs should be thoroughly researched. They vary, of course, depending on the city and scale and scope of the city IPA. A detailed three-year budget should be prepared, taking into account all costs. The budget should be closely aligned with the inward investment performance targets as outlined in the investment promotion strategy (see Section IV.D) and links to national and other government agencies.

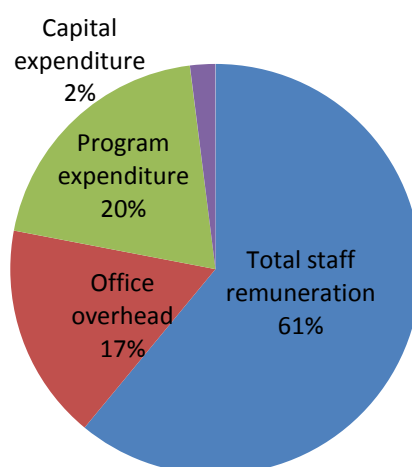
To ensure the city administration receives a high return on investment, as a rough rule, the cost per job created by inward investment in a city should be around US\$250. So if the budget is US\$250,000, the investment promotion department should be expected to facilitate inward investment creating 1,000 direct jobs, which equates to attracting around 10 average sized projects.

The typical breakdown of an IPA budget is shown in Figure 6. The bulk of expenditure is for staff salaries, followed by program expenditure (e.g. travel, marketing costs, database acquisition) and office overheads. Capital expenditure (e.g. computers) is only a small part of the total budget.

⁴⁵ Based on information provided by KenInvest.

⁴⁶ Based on information provided by the Blantyre office of MIPA.

Figure 6. Typical breakdown of an IPA annual budget



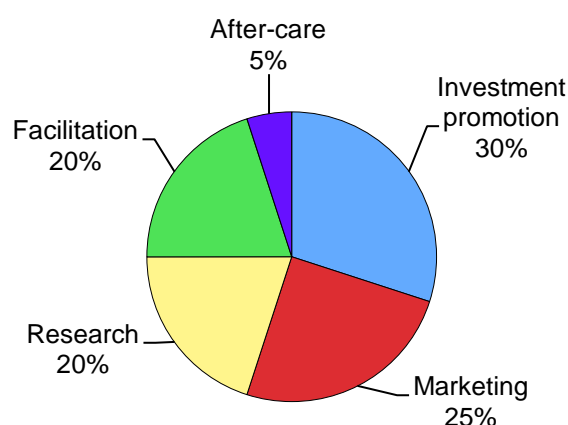
Sources: MCI and VCC.

In terms of budget allocation to the main functions of an investment promotion agency, there are considerable differences depending on the specific situation of each city:

a. New IPA in a small or medium-size city with limited inward investment to date

Most of the budget should be allocated more or less equally to investment promotion (investor targeting), marketing (website and materials development) and research. Facilitation and after-care are less important, assuming a low volume of inward investment projects into the city (Figure 7).

Figure 7. Budget breakdown, by core function of a city IPA, small/medium-size city with limited investment

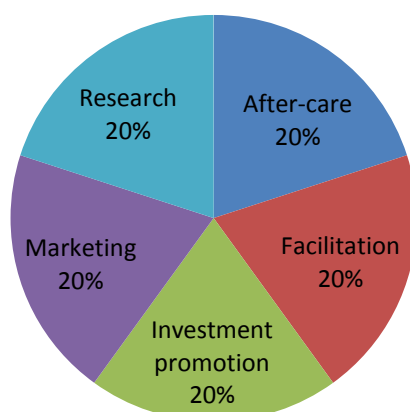


Sources: MCI and VCC.

b. New IPA in a city with a significant base of inward investors

In this case, a city already has a track record in securing inward investment and facilitation, and after-care should receive a similar budget to investment promotion, marketing and research (Figure 8). In a market downturn (e.g. global recession), facilitation and after-care gain added importance.

Figure 8. Budget breakdown, by core function of a city IPA, small/medium-size city with significant investment



Sources: MCI and VCC.

2. Source of funding

As shown above, doing investment promotion is not cheap, especially for small and medium-size cities in emerging markets. However, the benefits can be high, in terms of job creation and the economic wealth this generates for the local economy, as well as other benefits such as linkages with local suppliers.

If, with a US\$250,000 budget, the investment promotion agency can secure 1,000 inward investment jobs paying combined salaries of US\$1 million, the return on investment for the local economy is at least 4:1.

There are many stakeholders who benefit from bringing inward investment to a city and who, consequently, could potentially help finance a city IPA, in particular:

- The city administration, as it receives tax revenue from the salaries of the workers and from the profits of the company. By creating jobs and strengthening the local economy, inward investment can play a key role in economic development and social stability. It is in the administration's interest to fund investment promotion. Both the city and national government can provide financing.
- Professional services companies, including banks, lawyers, accountants, and consultants, as they will gain new business from inward investment.
- Industrial and business parks, ports and airports, as all get more customers.
- International organizations and development agencies that promote economic development in cities in poorer regions.

As each of the above stakeholders is a clear “winner” from a city attracting inward investment, they could each potentially contribute toward the costs of a city investment promotion agency.

The source of funding does vary significantly across cities; in most cases, though, the city administration assumes most if not all costs. However, there are certainly examples of the private sector contributing to the funding. Each professional service firm could provide a reasonable annual donation in return for their organization being listed as a provider of professional services for inward investment on the website and in marketing materials. Industrial and business parks, airports and ports could also contribute.

International organizations, such as those listed in Section III.J.2.b., can potentially help with funding an investment promotion agency as well as providing advisory services, especially in the first few years of start-up. It is therefore recommended that a city contact the key international organizations and major international development agencies in countries that are being targeted for inward investment to provide funding. The disadvantage is that it may take a year or even longer to secure the funding, which is lost time for attracting investment.

E. Type of staff needed

City investment promotion agencies require a broad mix of skills. All staff should have a strong grasp of business and be professional and trustworthy. Specific skills vary by department/team, but the staff is generally expected to do more challenging work than typical in a city administration. The salaries paid are therefore normally higher than in other departments, and for project managers they are similar to private sector salaries.

1. Marketing team

Staff should, where possible, have the following skills:

- Degree or diploma in marketing.
- Private sector experience in marketing.
- Excellent writing skills.
- Excellent communication skills.
- Excel database skills are an advantage.
- Understanding of, and interest in, international business.

It is also very useful to have an IT proficient staff as part of the marketing team to maintain and update a city’s inward investment website. Language skills are also an advantage.

The main duties of the marketing team include:

- Coordinating the development of an inward investment website for the city, including content provision.
- Preparing marketing materials, outlining the advantages of the city in key sectors being targeted for inward investment.
- Conducting research and providing information to the project managers in response to investor inquiries.
- Developing over time a databank of information on the city, to capture knowledge of the city so that information can be quickly provided to investors.

For large, well-funded cities, the marketing team may also:

- Conduct research on companies to identify companies for the project managers to target and provide intelligence on targeted companies.
- Organize events, conferences and coordinate public relations campaigns.

2. Project managers

Project managers are the link to clients. Their job is to contact, meet and build relationships with inward investors and to secure investments from them. This is a challenging and demanding job, requiring a wide range of skills. The ideal profile of a project manager is:

- Business or economics degree.
- Previous management and sales experience in the private sector.
- Excellent communication and influencing skills.
- Trustworthy character able to build rapport and credibility with investors.
- A basic knowledge of finance to understand investor decision making.
- Industry expertise in one or more of the main sectors being targeted.
- Good contacts in the city administration and even government are an advantage.
- Language skills of the major countries being targeted is an advantage.

The main duties of project managers are:

- Handling investor inquiries and site visits, managing inquiries and helping to implement investors' projects.
- Delivering after-care services directly to key existing investors.
- Networking with relevant organizations that can refer leads to the project manager.
- Directly prospecting carefully targeted investors. For small city IPAs, project managers are likely to have to do the research themselves to identify target companies.
- For cities with more resources, the project officer may also attend investment related and industry specific events.

3. Facilitation services

The staff required for providing facilitation services (such as obtaining permits and licenses) do not need to have the same level of experience and skills as marketing and project managers. Nevertheless, their job is very important, and the selection of staff should be thorough. Key skills and attributes to look for are:

- Good level of education, high school or higher.
- High quality reading and writing skills.
- Discipline and trustworthiness, able to work within tight deadlines.
- Experience or interest in the legal area is an advantage.
- A team player, able to work well with project managers and with other government stakeholders.

The main duties of facilitation managers and officers are:

- To research and provide information on the regulatory environment and how to do business.
- To provide information on how to set up a business.
- Over time, to build an information toolkit that provides information on all the regulatory requirements and steps for an investor to establish and operate, as well as frequently asked questions.
- Conduct research on sites and properties in response to investor inquiries.

F. The importance of networks

Networks are critical to the success of a city IPA in fulfilling its mission statement and investment targets. There are three main types of networks a city IPA should foster:

- Networks in the city to help facilitate inward investment on-the-ground, and to gain referrals for new potential inward investments leads.
- Networks in the country to facilitate inward investment by helping investors to gain the necessary permits and approvals from the relevant government ministries and cooperation with the national IPA to promote the city more effectively.
- Networks outside the city with overseas governments, international organizations and the private sector to promote the city.

1. Networks inside the city

There are many stakeholders involved in promoting a city for inward investment and facilitating investment projects. The investment promotion agency cannot do everything on its own -- it is dependent on the quality of support and the assistance of other stakeholders. It is therefore important that a city investment promotion agency builds an extensive network of high quality contacts with relevant stakeholders in its city.

Major stakeholders include:

- City administration and government departments responsible for permits and approvals that investors need; electricity, water, gas, telecommunications, transportation, land and property, environment, and employment departments are particularly important.
- Private sector providers of utilities, ports, airports, ICT logistics, property, and sites.
- Professional organizations, especially lawyers, accountants and consultants.
- Industry bodies and associations.
- Leading existing foreign and domestic investors and suppliers.
- Newspapers and journalists.

It is recommended that the marketing department in a city investment promotion agency develop and maintain a database of all stakeholders, classified by type of organization, with contact details of the main contacts in the stakeholder.

2. Networks with the country

For a city investment promotion agency, it is equally important to have very strong networks with the national government ministries and departments related to foreign direct investment,

to ensure that the national government facilitates a given investment – especially related to permits, licenses and immigration – as efficiently as possible.

If a country has a national investment promotion agency or bureau, this will be the key partner for the city, both in terms of helping to promote the city and in providing expertise on attracting and facilitating foreign investment. The national investment promotion agency may also have access to research to help develop the city's investment promotion strategy.

The city can benefit from the resources, expertise and experience of the national IPA, especially as regards:

- The knowledge of the national IPA of overseas markets, industry trends and dynamics, as well as foreign investors.
- The influence and expertise of the national IPA on national legislation and (if required) in gaining regulatory and other approval for an investor to establish and operate a new project.
- Awarding incentives to investors as, in many cases, incentives are determined nationally, and the city will need to work closely with the national IPA.
- The marketing activities of the national IPA, such as domestic and overseas events, which the city could get involved in at far lower cost and effort than organizing its own events.
- Linkages the national IPA has overseas with other governments, chambers of commerce, investment brokers etc., into which the city could tap to promote itself.
- The website of the national IPA and promotion literature that could be used to promote opportunities in the city.

At the same time, the national IPA has much to gain from cooperating with the city:

- The information and knowledge the city has on its location advantages and investment opportunities for investors.
- Ability to facilitate inward investors on-the-ground.
- For cities with a well articulated and presented investment offer to investors, the national IPA will have more “products” to “sell” to foreign investors. Experience shows that if a city can demonstrate to the national IPA that it has an excellent offer for foreign investors, then the national IPA is willing to promote the city.
- The city IPA is best placed to deliver locally the after-care program of the national IPA, as the city IPA can meet with key investors regularly and solve local problems or obstacles quicker.

It is also good practice for a city investment promotion agency to network with foreign embassies and consulates located in the country, especially those of the major source countries from which the city hopes to attract inward investment. In particular, the economic, investment and trade arms of embassies or consulates are likely to be a good source of intelligence on which companies are likely to invest in the city; they are also generally helpful in facilitating meetings with potential foreign investors or visits to their country.

3. Networks overseas

Some of the larger, well-financed city investment promotion agencies establish overseas offices and direct representations to target foreign investors on the ground. But this is very expensive, and most cities – even in rich countries – do not have overseas offices. A more cost effective alternative is to outsource overseas investor targeting in key markets to a

consulting firm specializing in this area (see the list of resources at end of this module and Module VII), but this is only an option available for larger, well-resourced cities.

For the vast majority of cities, building networks overseas is the most cost effective method of conducting investment promotion overseas. There are several categories of overseas organizations to network with, which can be a good source of investment leads.

a. International development and trade promotion agencies

These include a country's international development agency and national, regional and city trade promotion agencies, whose remit it is to help domestic firms expand internationally, including through FDI. Building networks with major agencies in key source markets for investment can be an effective source of investment leads and facilitate bilateral cooperation in FDI. It can also potentially be a source of funding for a city agency. For a useful directory of the main trade and development agencies see www.waipa.org/inv_organizations.htm.

b. Major professional services firms

The leading global accountancy, consultancy and real estate firms play a key role in advising their corporate clients on where and how to invest overseas. In fact, it is estimated that the majority of multinational enterprises use a professional services firm at some stage in their site selection process. Some of the most important professional services firms include PricewaterhouseCoopers, KPMG, Deloitte, Ernst & Young, DTZ, CB Richard Ellis, Mercer, and Atisreal. City IPAs should build networks with professional services companies in their own countries and in their main source countries for investment. Most of these companies have specialist units responsible for advising companies on cross-border investment and/or have dedicated country desks. These are generally quick to identify by going on the companies' websites or speaking to local branches.

c. Embassies and consulates overseas

As well as networking with foreign embassies and consulates in a city's own country, a city should ensure that the country's own embassies and consulates overseas know about the city's IPA and that they are actively promoting the city for investment from the country in which they are located. Embassies and consulates overseas are also useful when it comes to organizing visits to companies or for attending overseas events.

d. International organizations

There are several major international organizations very active in helping cities in developing countries to attract inward investment. The most prominent organizations are UNCTAD (www.unctad.org), the World Bank (www.fias.net) and UNIDO (www.unido.org). These organizations have access to extensive research resources and advisory services to help cities in developing countries attract inward investment. Other organizations involved in supporting inward investment into developing countries and cities are WAIPA (www.waipa.org), the European Union (www.acpsec.org) and the regional development banks (www.waipa.org/inv_organizations).

G. Key take-aways and resources

1. Key take-aways

The key take-aways covered in this module, “How to build a city investment promotion agency,” include understanding:

- The typical organization structures suitable for an IPA for small and medium-size cities with limited budgets.
- The main departments of a city IPA, and the roles and responsibilities of each department.
- What is a vision, mission statement and client charter for a city IPA.
- How much it will roughly cost per annum to establish a city IPA, depending on the scope of the agency.
- How the size of the budget should relate to the inward investment performance targets of a city IPA to ensure it delivers value for money.
- How to allocate the budget to the different functions of a city IPA, depending on the circumstances of the city.
- Sources of funding for establishing and operating a city IPA.
- What staff positions and skills are needed, and what the roles and responsibilities of each staff position should be.
- Why networks within the city, nationally and internationally are so important for a city IPA, and the win-win benefits of fostering close coordination and cooperation with the national IPA.

2. Resources

For further information on how to build a city investment promotion agency, it is suggested that international organizations such as UNCTAD, FIAS, UNIDO, and WAIPA are consulted. Equally important is that a city contacts other cities that have already established city-level IPAs to learn from their experience. Examples include cities/regions in South Africa, such as Cape Town and Durban; in Morocco, such as Casablanca; and across Europe, with London, Manchester, Stockholm, and Copenhagen particularly successful examples. As of early 2009, cities in Brazil have also begun to establish IPAs, with the support of the World Bank.

There are also specialist inward investment consulting firms with extensive experience in advising on establishing investment promotion agencies. Leading advisors include: OCO Global, Boston Consulting Group, PricewaterhouseCoopers, Ernst & Young, The Services Group, and Chemonics.

Module VI. How to market a city to foreign investors

A. Key elements of marketing a city

1. Topics addressed

The key topics addressed in this module are:

- Introduction to image building and branding a city.
- Developing a marketing theme for the city.
- Developing marketing messages for the city.
- Developing marketing materials for the city.

In addition to an introduction to the principles of marketing a city, practical templates are provided for developing marketing materials to communicate with investors.

2. Objectives

The main objective of the module is to raise awareness of the importance of marketing in attracting inward investment to a city, and to provide best practices and templates for developing the most important marketing materials so that a city new to investment promotion can quickly assemble high impact sales and marketing collateral for promoting the city. The module also cautions small and medium-size cities to spend very limited resources on expensive image and brand building campaigns. Image is important, and can be communicated cost effectively using the national IPA's networks (Module V), direct investor targeting (Module VII) and after-care to existing investors (Module IX).

B. Introduction to image building and branding a city

There has been extensive research on how countries should assess and build their image and develop an inward investment brand for the country as well as for the investment promotion agency. The seminal work by Louis T. Wells and Alvin G. Wint should be read by any investment promotion agency considering image building and branding.⁴⁷ More recently, there has been extensive research on branding a city, with books by Richard Florida becoming international best sellers, such as the *Rise of the Creative Class* and *Who's Your City?*⁴⁸ Indexes comparing city brands have been developed.⁴⁹ Numerous private sector companies are advising countries and cities, including in Africa, on branding.⁵⁰

Image and brand building for attracting inward investment are generally only conducted at the country level, due to the high cost, indirect impact on inward investment and the sustained campaign needed to generate an image and brand in the investment community.

At the city level, large and well-funded cities, especially in North America and increasingly Europe, are engaging in image and brand building. However, these are generally not specific to inward investment attraction, but part of a holistic strategy to raise the image and brand of a city as a place for people to live and work, and for tourists to come to, as well as for the

⁴⁷ Wells and Wint, "Marketing a country: promotion as a tool for attracting foreign investment" (2000 update), op. cit.

⁴⁸ See Richard Florida, *Rise of the Creative Class* (New York: Basic Books, 2002) and Richard Florida, *Who's Your City* (New York: Random House, 2008).

⁴⁹ See <http://www.simonanholt.blogspot.com/>.

⁵⁰ For example, see <http://www.placebrands.net> and <http://www.gfkamerica.com>.

purpose of investment promotion.

For medium-size, low-budget cities, especially those with limited funds, conducting an image and brand building campaign to attract inward investment is not recommended, as this would not deliver a return on investment compared to other investment promotion activities. It should only be considered as part of a holistic approach encompassing not just inward investment but wider promotion of a city. It should not, therefore, be led by a city IPA.

However, there is some rationale for small and medium-size cities to understand their current image, so that they can take steps to improve it through improvements in the investment environment, and communicate these changes directly to targeted existing and potential new investors.

To understand the image of a city, a SWOT analysis of the city (and of the IPA, once it has been established for several years) can be conducted by interviewing or surveying investors, business representatives, government officials, journalists, and academics. A review of press coverage of the city can be conducted as well.

Based on the results of the SWOT analysis and press review, a strategy can be developed for addressing myths and misconceptions, focused on highlighting the positives. The desired image is the ideal picture of the city's strength and opportunities designed to attract foreign investors. It must be based on reality to have credibility. To communicate the image, it is recommended to speak directly with targeted companies and the city IPA's networks in the city, country and overseas. International news coverage and events can also be considered for larger, well-funded cities. Ideally, professional help from specialist image-building and branding companies should be considered, but this is very costly and only really an option for large cities.

C. How to develop a marketing theme for a city

Philip Kotler has identified six key characteristics of a well-designed message:⁵¹

- It must have an objective.
- It must be valid - the image should be based in reality.
- It must be believable - make certain that what one says is true.
- It must be simple.
- It must have appeal.
- It must be distinctive.

To create the marketing theme for a city, a useful exercise is to conduct a features and benefits analysis. Table 12 shows an example.

Table 12. Features and benefits analysis

Feature of the city	Benefit for the investor
E.g. good quality airport	E.g. can export to the world
E.g. close to major cities	E.g. strategic location next to important markets
E.g. an effective city investment promotion agency	E.g. efficient regulatory environment
E.g. presence of a free zone	E.g. import-export without import duties/taxes
E.g. low cost workforce available	E.g. cost effective for assembly and manual work

Sources: MCI and VCC.

⁵¹ Philip Kotler, *Marketing Management*, 11th edition (Upper Saddle River, New Jersey: Prentice Hall, 2002).

The messages coming out of the features and benefit analysis can be used to create an overall marketing theme. The theme can then be cross-referenced against Kotler's six key points above to ensure that it meets all the characteristics of an effective theme. In the example above, the marketing theme could be "Hub of East Africa." In terms of fulfilling the six points, Table 13 shows how to assess this theme.

Table 13. Evaluation of the marketing theme: "Hub of East Africa"

Kotler success characteristics	Effectiveness of the theme
Objective	Yes – to position the city for hub activities
Valid	Yes – the city meets investors' requirements
Believable	Yes – the city has a good quality offer
Simple	Yes – clear and succinct
Appeal	Yes – will fix in the investor mind
Distinctive	Yes – no other city is using this theme

Sources: MCI and VCC.

While few cities in developing countries have developed marketing themes, it is nevertheless an important part of branding and image building. An example of a marketing theme for a city is the theme used by the investment promotion agency for Stockholm: "Stockholm: The Capital of Scandinavia."⁵²



This example is clearly designed to position Stockholm for regional hub activities like logistics, headquarters, call centers, and financial services. Scandinavia is a region not a country, and as such does not have a capital city. But by saying that Stockholm is the capital of Scandinavia, the city is cleverly positioning itself against competitor cities.

Stockholm's biggest rival in the region, Copenhagen, has adopted a very different marketing theme:

*"Copenhagen is a city where productivity is redefined in a way that supports technology and style, decisions and creativity, happy employees and high performance, and career and family."*⁵³

Copenhagen is using this marketing theme to differentiate Copenhagen from Stockholm and other competing cities, by focusing on the technology, creativity and quality of life in the city. This marketing theme is clearly aimed at investors operating in technology and innovation-based industries.

⁵² See Stockholm Business Region Development at www.stockholmbusinessregion.se.

⁵³ See Copenhagen Capacity at <http://www.copcap.com/composite-9.htm>.

The marketing theme can also promote a city investment promotion agency itself. For example, “Think London,” the agency for London, uses the following marketing theme:

“Think success. Think London. We connect your expanding business to this amazing global city.”⁵⁴

This theme is both informing the investor that London equals success and that, by working with Think London, this will ensure success of the business when expanding in London. The theme also emphasizes that London is a global city and the word “amazing” alludes to the “wow” factor of doing business and living in London.

The investment promotion agency of Cape Town, WESGRO, also combines the popular image of the city as a beautiful location with its theme for attracting inward investment, by saying that Cape Town is “an inspired” place to do business.



As the above examples show, the most effective marketing theme builds on the current image, but also seeks to differentiate a city from other cities competing for inward investment. The theme is also focused on the main target group of investors the city seeks to attract.

D. How to develop marketing messages

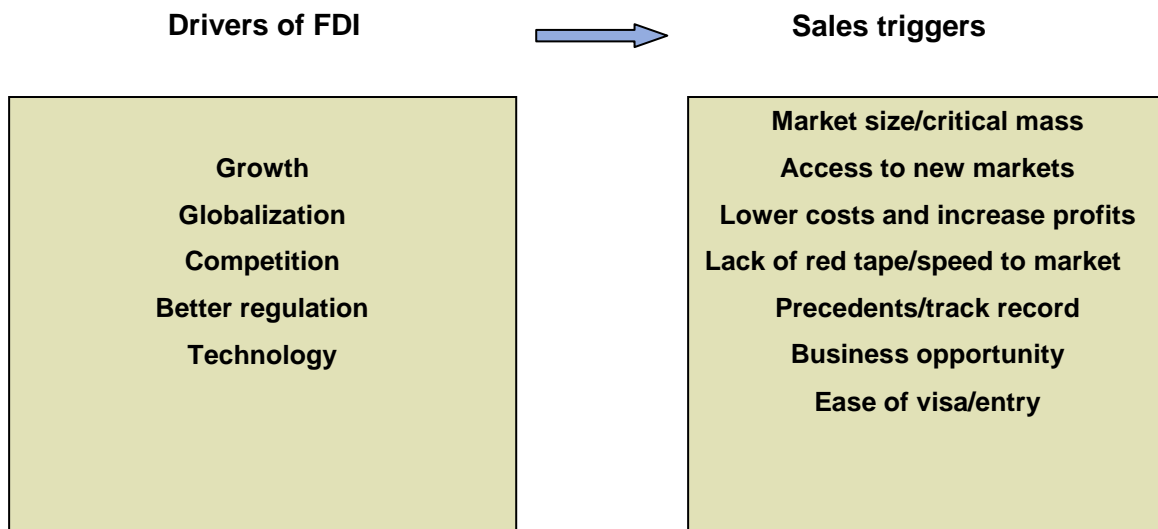
The section above discussed how to develop a marketing theme. A theme will be broad in character – addressing image, perception and positioning issues. A marketing message needs to appeal to investors in the same sector or sub-sector. Marketing messages relate to the features of a city that provide benefits to firms in specific sectors.

When developing marketing messages, it is essential to focus on the benefits a city offers. Investors generally respond to specific (profitable) business opportunities, market access and technologies – not location features.

It is important to understand what is driving a company’s foreign investment plans, so that the appropriate sales triggers can be developed. Figure 9 shows core drivers of FDI and some example sales triggers.

⁵⁴ See Think London at <http://www.thinklondon.com/>.

Figure 9. Drivers of FDI and sales triggers



Sources: MCI and VCC.

The sales trigger or “hook” is the value proposition for an investor – the “what’s in it for me?” about a city or specific business opportunity. Investors will only be interested if there is something in it for them. The value proposition applies the features, benefits and advantages of an opportunity to the particular needs of an investor.

Creating a hook or a compelling value proposition is a challenging task. The problem lies in knowing what will specifically interest an investor. The value proposition has to be enough to interest an investor in discussions about a city or a specific business opportunity in the city. To this end, it is wise to have a proposition that is simple and flexible. Box 2 provides a sample proposition for Cape Town.

Box 2. Marketing messages for the ICT sector in Cape Town

Compared to the key European cities, Cape Town is the most competitive location for IT centers and the leading city in sub-Saharan Africa for software and IT services....

- **Achieve major cost savings:** In Cape Town, operating costs for a 50 person IT center average €1 million per annum, which is a savings of €2-3 million per annum compared to London and Dublin, and over €1.5 million per annum compared to major Eastern Europe cities.
- **Find the IT staff needed for your operation:** 17,000 people are employed in ICT services in the Cape Town region. Additionally, with 45,000 students, Cape Town has a large supply of educated people entering the workforce each year.
- **Number one location for software and IT services in sub-Saharan Africa:** Cape Town is the leading location for software and IT services FDI in sub-Saharan Africa, with investors including Amazon.com, Computer Sciences Corporation, Propel Software, End2End, Amcat, Tamar, and Escrow Europe. In addition, there are over 200 IT and software companies in Cape Town.
- **Large and vibrant market:** Cape Town has a €40 billion economy, which is larger than the economies of Dublin, Budapest, Warsaw, or Prague. Strong economic growth will ensure Cape Town will continue to offer many business opportunities for ICT companies

Source: Based on fDi Benchmark, Financial Times Ltd., compiled by Financial Times Cape Town, South Africa.

In the above example, the value proposition and accompanying marketing messages for Cape Town are based on two major hooks:

1. Companies can save millions of Euros each year by locating their IT centers in Cape Town instead of Europe.
2. Given that companies can make such a large saving by relocating to Africa, the marketing messages make clear that Cape Town is the prime location within sub-Saharan Africa for IT and software.

The value proposition also informs investors that Cape Town has a very large and skilled labor pool in ICT, which is the most critical location requirement within the sector, as well as a large and growing market.

This value proposition is a good example of a best practice – a succinct value proposition with clear hooks for investors and with marketing messages demonstrating the benefits of the city, and that the city fulfils investor requirements. The proposition also provides factual evidence for why the city is better than competing locations. It focuses on the clear strengths and benefits of Cape Town for the ICT sector.

E. How to develop marketing materials

Investment promotion requires access to different sets of marketing materials, of which the most important are:

- Marketing brochure / fact sheet – promotional brochures for each sector.
- Sales presentation – a sales presentation for each sector being targeted.
- Newsletter – a newsletter sent out to investors and the investment community.
- Website – a dedicated website for promoting inward investment into the city.

The following sections provide practical guidance and templates for developing each set of marketing materials.

1. Marketing brochure / fact sheet

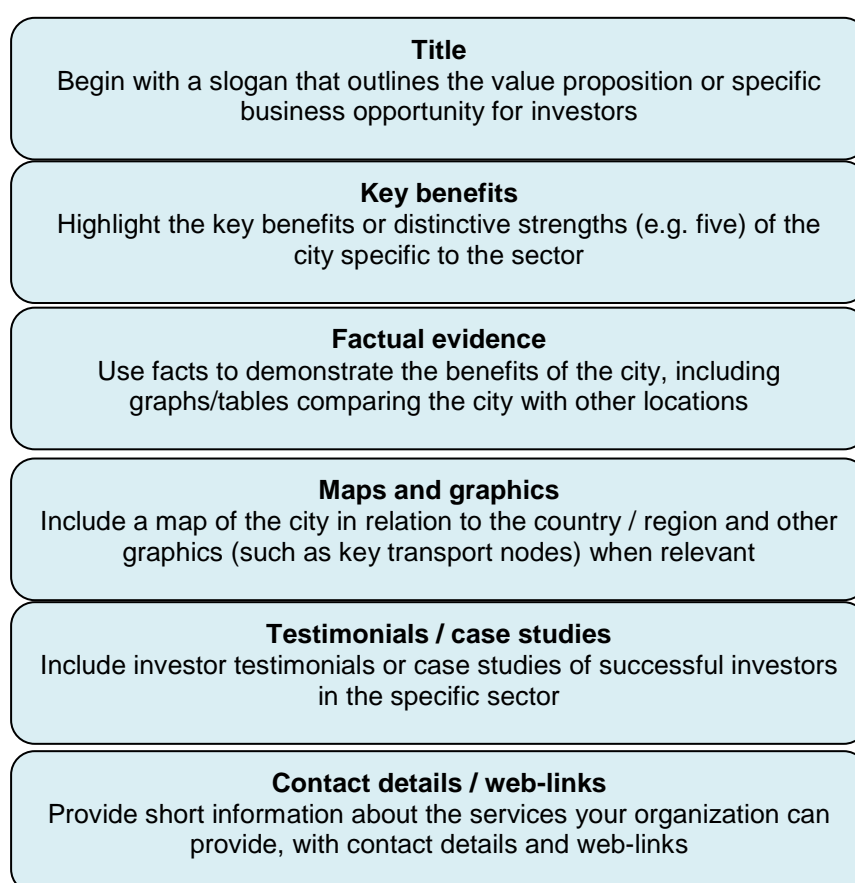
Marketing brochures are designed to inform an investor about the general opportunities and benefits of investing in a city in a given sector. They are for general marketing campaigns – not for handling specific investor inquiries – when a tailored presentation or proposal should be provided (see sections below).

The format for a marketing brochure should be as concise and readable as possible. A two-page fact sheet on each target sector and a general fact sheet outlining the overall benefits of a city are sufficient in most cases. The brochure should be factual and demonstrate the key benefits and strengths of a city for inward investment in the sector.

The brochure should be available in both hard copy and pdf formats. It should also be available in a format so that a city IPA itself can update the brochure over time.

A suggested structure for a sector-based marketing brochure / fact sheet is as follows:

Figure 10. Example structure for a marketing brochure / fact sheet



Source: OCO Global Ltd.

2. Sales presentation

a. Preparing a presentation

The sales presentation can be used for:

- Sending tailored information to investors.
- Giving presentations to investors.
- Giving a presentation at an investment conference or similar event.

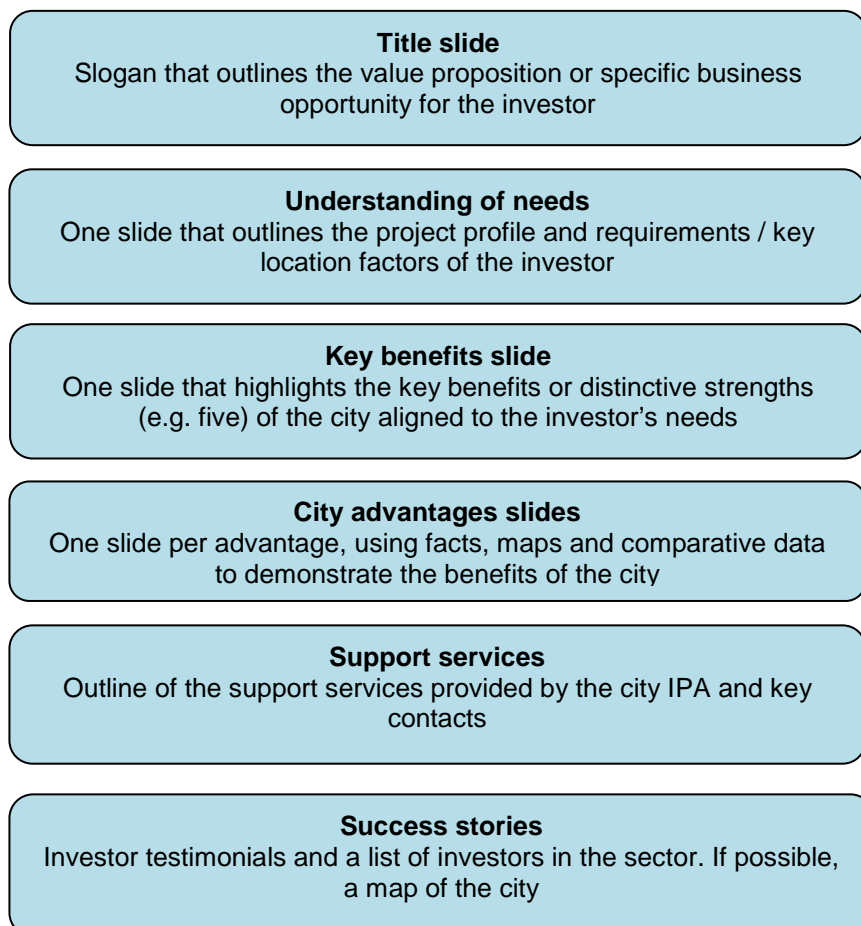
The objective of the presentation needs to be determined before it is prepared. Objectives may include:

- Increasing general awareness about a country/city.
- Increasing awareness about specific investment opportunities.
- Increasing or developing interest in opportunities.
- Responding to specific questions by investors.
- Answering objections raised in earlier meetings.
- Learning more about requirements of investors.

The main type of presentation is responding to specific questions by investors. This should be seen as a sales presentation, and is more focused on the individual investor's needs than a brochure, and is almost always produced in Microsoft Power Point format.

A typical presentation would be 10-20 slides long, with 20 slides being the maximum advisable length. A suggested structure for the sales presentation is provided in Figure 11.

Figure 11. Example structure for a sales presentation



Source: OCO Global Ltd.

When preparing a presentation, a city IPA should make use of recent, reliable data from recognized sources wherever possible. It can also be effective to show how the city compares with competing cities across location factors important for the investor - and where the city comes out best. The presentation should be very focused on the needs of investors – and not a dictionary of general information about how to invest and about the city.

b. Delivering the presentation

Key best practices in delivering the sales presentation include:

- Rehearse and review the presentation before it is delivered. Ideally, if more than one investment officer from the city is attending the presentation, they should do a dry-run together.
- Agree with the investor the time the meeting will start and finish, and ascertain whether the investor has a tight schedule so as to plan the presentation accordingly.
- If more than one investment officer from the city is attending the presentation, whoever is not the main presenter should be tasked with writing notes, especially the precise questions and key issues the investor has.
- Before going through the presentation, each investment officer should give a brief introduction to his/her role and to the organization, covering why the meeting was sought and what it seeks to achieve.
- The presentation should be concise and aligned to the critical needs of the investor.
- It is good practice to have a pre-prepared list of frequently asked questions with the answers written down, separate from the main presentation. If the complete answer to a question is not known, one should note it down and tell the investor somebody will get back to them.
- Investors are almost always concerned with their profits and costs and, for service operations, with the quality and availability of labor. The presentation should make sure it covers these key issues.
- At the end of the presentation, the IPA staff should ask key questions related to the international strategy of the company and whether they are likely to consider your city for investment and in what timeframe. If the investor has already pre-selected the city, one can ask the investor whether the city IPA could assist in a site visit.
- Confirm at the end of the meeting the next steps the city IPA will take; after the meeting, follow up with information and actions agreed.

3. Newsletter

A newsletter is a key marketing instrument for communicating with existing and potential investors and with stakeholders and the wider investment community. It allows a city IPA to communicate on an ongoing basis and build the image and awareness of the city and the benefits it offers for inward investors. It is disseminated to an individually selected audience, and is more targeted than advertising and public relation campaigns.

The contents of the newsletter will vary in each issue. Example contents are shown below:

- Trends in investment, e.g. an annual or quarterly data stream.
- Major companies announcing investments or being implemented.
- Major changes in the policy environment.
- Case studies.

- Activities of the agency, e.g. trade shows, new staff, etc.
- New sector studies or studies on the city.
- Headline news on the city.
- Findings from international studies on the city, country or region.
- Interviews with investors and other stakeholders.
- What the international press says about the city.

The newsletter should be produced by the investment promotion agency and disseminated to its mailing list by e-mail and posted on the inward investment website of the city. The frequency of publication depends on resources and on how much is happening in the city. Generally, a bi-monthly or quarterly newsletter is sufficient.

4. Website

A high quality inward investment website is critical for a city to promote itself to inward investors. The website is the city's door to the outside world. The Internet has become the primary method companies use for site selection research – a website is not only about information provision and image-building, but it is a primary tool for generating investment leads and increasing inward investment in a city.

In fact, typically 60-80% of inward investment leads come through the inward investment website or from referrals from other parts of the inward investment network. A high quality website can make a significant difference to the level of investment inquiries a city receives.

Research on “best in class” inward investment websites used by cities around the world shows that, while the structure of the website varies depending on the specific services of a city IPA and characteristics of the city, there is a broadly common design template being used. Two website templates are provided in Box 3 and Box 4. These should be used as the initial templates for developing the inward investment website for a city. They can provide the basic template for the minimum information that should be included in a website.

Box 3. Basic inward investment website design template

- **About us** [information about the city investment promotion agency]
- **Our services** [information on investment facilitation services]
- **Doing business in city X** [summary with below sub-navigation]
 - **City economy overview** [summary of key aspects of the city economy and FDI in the city with fact sheet for download]
 - **Country economy overview** [summary of key aspects of the country's economy and FDI in the country with fact sheet for download]
- **Business opportunities in city X** [summary with below sub-navigation]
 - **Sector A** [summary of value proposition and key benefits of the sector with fact sheet for download]
 - **Sector B** [summary of value proposition and key benefits of the sector with fact sheet for download]
 - **Sector C** [summary of value proposition and key benefits of the sector with fact sheet for download]
- **Investor network** [information on the after-care program with contact points]
- **News and publications** [below sub-navigation]
 - **News** [what's new in the city]
 - **Publications** [links to relevant publications]
- **Inquiry form** [e-mail inquiry form and telephone / fax contact points]

Source: Loco Software Ltd.

An advanced template for designing an inward investment website for a city is provided in Box 4. The advanced template provides more detailed and continuously updated information on a city, as well as more comprehensive downloads and links.

A city should develop the advanced website only if it has the budget and resources to produce *and continuously update* the website at a very high standard. Otherwise, it is better to develop a more limited, but better quality basic website. This is important as the website is in most cases the first introduction to a city for investors, and the impression they get from it influences their investment decision.

Box 4. Advanced inward investment website design template

- **About us** [summary with below sub-navigation]
 - **Management team** [description of the management team]
 - **Organization structure** [presentation of the organization structure]
 - **History** [key milestones in the organization's history]
 - **Whom to contact** [contact points in the organization with telephone, fax and email]
 - **Meet us at events** [list of events the organization is going to attend and contact points]
 - **Partners** [links to partner organizations in the city and outside]
 - **Annual report** [link to download the annual report of the organization]
- **Our services** [summary with below sub-navigation];
 - **Legal entity and registration** [description of permits and licenses needed and help provided]
 - **How to set up a business** [description of each phase with links to relevant organizations]
 - **Immigration** [description of policy and help provided]
 - **Recruitment** [help – if any – the organization provides]
 - **Land and premises / property search** [description of help the organization provides]
 - **Taxes and incentives** [description of policies and help provided]
- **Doing business in city X** [summary with below sub-navigation]
 - **Business climate** [summary with below sub-navigation]
 - **City overview** [social-economic overview and overall value proposition for FDI]
 - **Country overview** [social-economic overview and overall value proposition for FDI]
 - **Inward investment** [FDI trends, data, performance, and list of leading investors in the city]
 - **Testimonials** [testimonials provided by well-known inward investors]
 - **Key industries** [value proposition of the main industries with links to industry sections]
 - **Tax and incentives** [description of benefits of taxes and incentives available in the city]
 - **Population and workforce** [key strengths of the population and workforce with facts]
 - **Infrastructure and logistics** [key strengths with description]
 - **Quality of life** [key strengths with description]
 - **Real estate** [summary with below sub-navigation]
 - **Land** [details of land available for development and contact points / links]
 - **Office facilities** [details of offices available for lease / purchase and contact points / links]
 - **Industrial parks and free zones** [details of parks and zones with contact points / links]
 - **Business information** [summary with below sub-navigation]
 - **Annual reports** [link to download annual report on the city]
 - **Business lists / directory** [lists of foreign and local companies with web-links]
 - **Economy** [key facts and figures on the economy of the city]
 - **Education** [key facts and figures on education levels in the city]
 - **FDI** [key facts and figures on FDI in the city]
 - **Government** [key information on government departments and agencies in the city]
 - **Healthcare** [key information on healthcare in the city]
 - **Incentives and taxes** [key information on taxes and incentives available in the city]
 - **Maps** [maps of the city, city in relation to the country, city in relation to the world region]
 - **Population** [key facts and figures on population of the city]
 - **R&D** [key facts and figures on R&D in the city]
 - **Real estate** [key facts and figures on land and real estate in the city]
 - **Telecommunications and Internet** [key information on telecommunications and Internet in the city]
 - **Transportation** [key information on transportation and logistics in the city]
 - **Utilities** [key information on electricity, gas and water supply in the city]
 - **Workforce** [key facts and figures on the workforce in the city]

...

To increase hits on the inward investment website, an investment promotion agency can consider sponsoring search engine ad words (e.g. with Google). This is a paid service that will direct traffic to the website, and can be effective in raising awareness of the website.

Typical ad words to sponsor would be related to FDI in the country, e.g. “FDI in Kenya” or FDI in the region, e.g. “FDI in Africa.” If a company types FDI in a given city in a search function, it should be directed straight to the inward investment website of that city, which has been indexed by the search engine, without a need to sponsor an ad word for FDI in that city. However, a professional company or expert with knowledge of search engine ad words should advise the organization on website and search engine optimization and ad words.

(Box 4 continued)

- **Business opportunities** [below sub-navigation]
 - **Sector A** [summary of value proposition with below sub-navigation]
 - **Facts and figures** [overview of the sector in the city, in the country and even regionally]
 - **Case studies** [2-3 case studies of inward investors and list of all main firms in the sector]
 - **News** [latest news on the sector in the city, including country and international news]
 - **Events** [list of events related to the sector the organization is attending]
 - **Fact sheets** [downloadable fact sheet outlining the value proposition and key benefits]
 - **Useful links** [links to related sector organizations and sector networks in the city]
 - **Sector B** [summary of value proposition with below sub-navigation]
 - **Facts and figures** [overview of the sector in the city, in the country and even regionally]
 - **Case studies** [2-3 case studies of inward investors and list of all main firms in the sector]
 - **News** [latest news on the sector in the city, including country and international news]
 - **Events** [list of events related to the sector the organization is attending]
 - **Fact sheets** [downloadable fact sheet outlining the value proposition and key benefits]
 - **Useful links** [links to related sector organizations and sector networks in the city]
 - **Sector C** [summary of value proposition with below sub-navigation]
 - **Facts and figures** [overview of the sector in the city, in the country and even regionally]
 - **Case studies** [2-3 case studies of inward investors and list of all main firms in the sector]
 - **News** [latest news on the sector in the city, including country and international news]
 - **Events** [list of events related to the sector the organization is attending]
 - **Fact sheets** [downloadable fact sheet outlining the value proposition and key benefits]
 - **Useful links** [links to related sector organizations and sector networks in the city]
- **Investor network** [information on the after-care program with contact points and link to newsletter]
- **News and publications** [below sub-navigation]
 - **What's new** [latest news / press releases in the city relevant for FDI, e.g. latest investments]
 - **News archive** [access to historic archive of news stories searchable by time period]
 - **Newsletter** [overview of newsletter and sign-up box to receive the e-mail newswire service]
 - **Publications** [links to all relevant publications]
 - **Media relations** [contact point in the organization for all news and media relations]
- **Inquiry form** [e-mail inquiry form and telephone / fax contact points]

Source: Loco Software Ltd.

F. Key take-aways and resources

1. Key take-aways

The key take-aways from this module, “How to market a city to foreign investors,” are as follows:

- Image and brand building are important at the country level and for large and well-funded cities, but for other cities these should be low on the list of priorities due to the cost and low return on investment. However, image is important, and an assessment of a city’s image and concrete actions to improve that image and disseminate it to target investors, networks and existing investors is recommended at some stage in a city IPA’s marketing activities. Branding initiatives should be part of a wider, holistic approach to increasing the attractiveness of a city, not confined nor led by a city IPA.
- Developing a marketing theme for a city helps with image building and promotional activities. The marketing theme should combine the key features and benefits of a city into a snappy slogan for companies to invest in the city. It should be simple and believable.
- Marketing messages are critical to “hook” investors, i.e. gain their interest. The most effective messages are sector-specific and offer a value proposition for investors – business opportunities resulting in real benefits – not just a list of location attributes or features.
- Key “must-have” marketing materials for a city IPA are: marketing brochures for each target sector; a sales presentation for each target sector; an inward investment newsletter, essential to keep in contact with potential and existing investors and the IPA’s network; and, most of all, an inward investment website, which is essential for image building, information provision and generating new business inquiries.

2. Resources

For a detailed introduction to marketing, see the work by Wells and Wint already mentioned. For literature on branding see the work by Richard Florida and Simon Anholt as a first step.⁵⁵

To assist with developing a marketing strategy and materials, organizations to approach include FIAS and private sector consulting companies specializing in the area, including OCO Global Ltd., Buck Consulting International and IBM-Plant Location International. For branding advice, leading private sector companies include GfK and placebrands.

The World Bank also provides an excellent online resource, where a city IPA can view and download the marketing materials and studies of other agencies (www.fdi.net). There may even be resources on your country/city.

⁵⁵ See Wells and Wint, op. cit., and their 2000 update, op. cit. Also, see Florida, *Rise of the Creative Class*, op. cit., and Florida, *Who’s Your City*, op. cit. Also, see Simon Anholt, *Place Branding and Public Diplomacy* – the Quarterly Journal, <http://www.palgrave-journals.com/pb/index.html>.

Module VII. How to target investors and generate leads

A. Key elements of investor targeting and lead generation

Investor targeting and lead generation are the most sophisticated and challenging activities of a city investment promotion agency. There are relatively few IPAs that are genuinely best practice in their approach and delivery, and even many private sector companies are weak when it comes to direct sales.

This module is therefore considered the most advanced module in this *Handbook*. To implement effectively all of the topics in this module in a city IPA takes at least 12 months, and considerable leadership and resource mobilization, as well as training of staff by organizations specializing in investor targeting and lead generation.

To prioritize which topics to implement first by a city IPA depends on the specific circumstances of the IPA. For example:

- If a city has a large diaspora, implementing a diaspora strategy first may make sense (see Section VII.F).
- If a city has a competitive advantage in export-oriented services, manufacturing and in sectors like pharmaceuticals, then implementing a broker strategy would be high on the list, as companies in these sectors are often advised by brokers (see Section VII.D.4).
- If a city already has a reasonable volume on investment inquiries, then the section on profiling companies (Section VII.C) may be most relevant to start with.

However, regardless of specific circumstances, it is recommended that all city IPAs read this module when they are considering any lead generation initiative. Also, Section VII.E on managing contacts should be implemented as a priority for all cities, as this is instrumental for the long-term success of a city IPA in pro-actively attracting investment.

1. Topics addressed

The key topics addressed in this module are:

- What is investor targeting.
- Successful methods and key success factors.
- How to identify target companies.
- Building a database of target companies.
- Using networks to identify potential investors.
- How to profile target companies – screening and prioritizing companies and identifying decision-making contact people in companies.
- How to prospect (contact) target companies.
- Direct mail and telemarketing.
- Outward events and shows.
- Inward missions.

- Broker strategy.
- How to manage contacts – using a customer relationship management system and relationship building techniques.
- Using the diaspora to attract inward investment.

2. Objectives

This module is intended to provide city IPAs with a comprehensive toolkit for developing and implementing an investor targeting and lead generation strategy and individual campaigns. By following the main topics and proven best practices in the modules, city IPAs should, over time, increase the volume of investment into their cities.

3. Investor targeting

Most of the world's leading IPAs now target carefully identified investors in specific sectors. This requires a pro-active approach to investment - actively trying to identify investment prospects before inquiries are generated.

The objective is to generate good quality business leads of investors who otherwise would not have considered the location, and through relationship-building and effective facilitation secure a greater quantity and quality of inward investment projects.

By pro-actively targeting specific companies, investment promotion contributes to an economic development strategy by stimulating the highest quality companies to invest in priority industries.

Investor targeting requires not only segmenting the market to identify target sectors and companies, but building networks with decision-makers in the target companies and the brokers who advise companies on investment decisions. As a technique, it can greatly increase investor and broker awareness of a location.

A survey by PricewaterhouseCoopers (Table 14) of the most successful investment promotion agencies showed that investor targeting, including targeting existing investors (after-care), is the most successful method of lead generation. Least effective are directory listings.

Table 14. Most effective methods of lead generation

Method	Number of agencies using method (percent)	Average rating for lead generation (max score=5)
After-care services for target firms	40	5.0
Links to target firms and networks	60	4.8
Links to industry associations etc.	40	4.1
Direct mail to targeted brokers	50	4.0
Sales representatives overseas	30	4.0
PR companies	30	4.0
Conferences, seminars	70	3.6
Outward missions	50	3.6
TV commercials	20	3.5
Organizations in source countries	20	3.5
Conventions, exhibitions	80	3.4
Trade press advertising	50	3.2
Direct mail to targeted companies	90	2.8
Inward missions	40	2.8
Directory listings	40	2.5

Source: PricewaterhouseCoopers survey of IPAs, 2000.

Investor targeting involves well researched and planned approaches to specific managers in the targeted companies about niche business opportunities in a host city. As companies have been pre-selected by a city, investors can be provided with marketing materials relevant to their business, which increases the likelihood of success.

As a company is unlikely to have an immediate project that a given city can compete for, results are achieved by sustained approaches to selected companies, often over several years. It typically takes 18-24 months from the first contact with a new company to when it has a project a city can compete for. Investor targeting is a long-term approach, which evidence from investment promotion agencies suggests can increase the volume of FDI into a city by at least 20% over a period of time. The chances of winning an inward investment project from investor targeting are higher than other promotional techniques as a city will be the first to discuss a project with the investor.

More recently, an increasing number of cities and regions are also targeting their diaspora population living overseas, which has become a major source of capital inflows and inward investment in many locations. The approach to attracting diaspora investment is different to mainstream investor targeting, and is examined in Section VII.F.

4. Key success factors

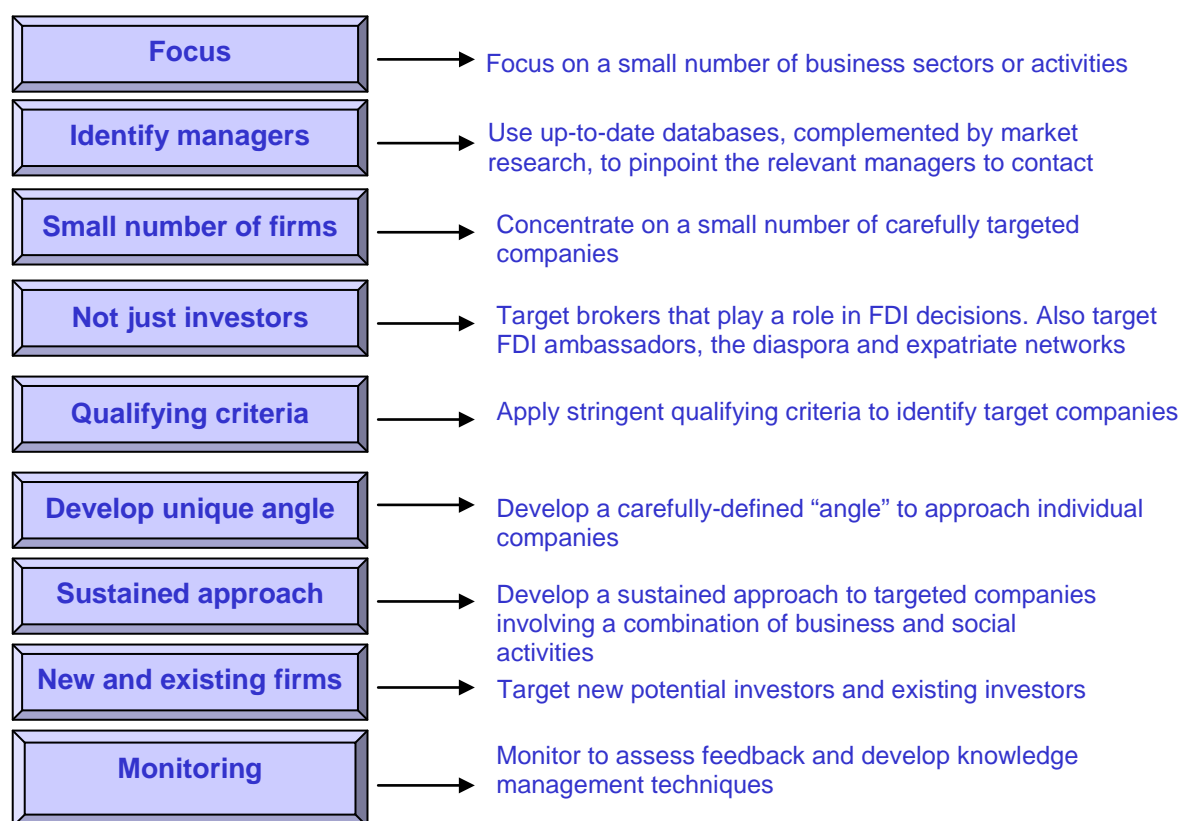
Investor targeting, while more cost effective than promotional marketing (PR and advertising), requires more dedicated resources and greater sector-specific and commercial understanding. It takes more time than money. As it is very time intensive to identify, contact and build relations with key investors, the key success factor is that a selective approach is required to maximize use of limited resources.

Investor targeting can generate a large amount of interest, and a city IPA needs to make sure it has the capacity available to respond to inquiries. There is nothing worse than spending a huge amount of time and effort over a long period of time in generating high quality investment leads, when there is not the capacity to provide the support investors need to facilitate their investment. Many cities, including those in the richest countries, have failed to attract investment due to lack of capacity in investment facilitation.

The key to success is what the private sector calls “managing the sales pipeline.” This means that, while one should always ensure having a strong enough sales pipeline (i.e. a number of good quality investment leads) that will help to achieve the level of inward

investment sought, at the same time one should not generate a sales pipeline bigger than that which a city IPA can facilitate – as this will be counter-productive to securing projects. Figure 12 shows best practices for investor targeting.

Figure 12. Best practices in investor targeting



Source: OCO Global Ltd.

B. How to identify target investors

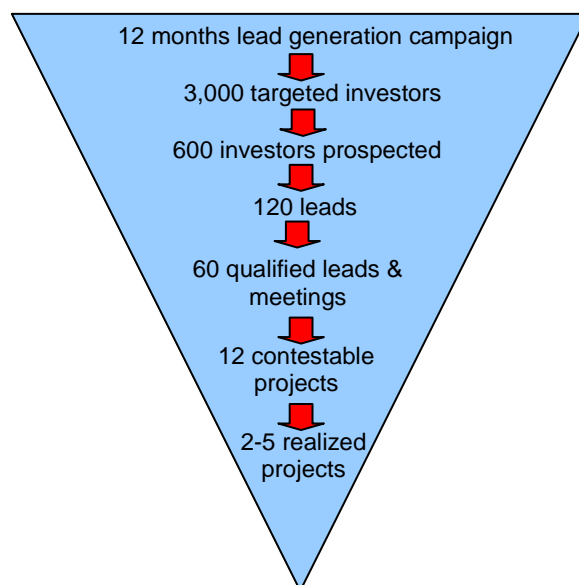
There are two main approaches a city investment promotion agency can use to identify target investors:

- Carefully conducted research to build a database of potential investors.
- Networks with relevant organizations to identify investment leads.

Both approaches are required to maximize inward investment potential. The first approach adopts scientific methods to ensure that the highest quality, most relevant companies are being contacted. The second approach uses business networks to generate investment leads. The following sections discuss each of the approaches and related techniques in more detail.

The objective is to identify high quality target investors that can be prospected for inward investment projects. Figure 13 gives an example of the typical results that should be expected in Year 1 of an investor targeting program. The figure shows that, to achieve 2-5 realized projects, it will typically be necessary to identify 3,000 carefully targeted companies, of which, following screening, prioritization and profiling, 600 are prospected.

Figure 13. Investor targeting metrics



Source: OCO Global Ltd.

The research provided by OCO Global Ltd., a company specializing in providing outsourced lead generation solutions for investment promotion, proposes a “20% rule,” i.e. at each stage in the process, a success rate of 20% should be sought. For new investment promotion agencies or locations with a weak track record in attracting FDI, a 10% rule would be more realistic, increasing to 20% after two years.

Results in investor targeting are only achieved after a concerted period of pro-active lead generation over a number of years. Year 1 of a campaign mainly achieves intelligence gathering and awareness creation. Year 2 starts to see results coming in from the lead generation in Year 1, as well as new leads being generated in Year 2. In Year 3, strong results should be expected. Three years should be the minimum number to engage in investor targeting and achieve results.

1. Building a database of potential investors

Three main techniques are commonly used to build a database of potential investors to prospect for investment. When combined, they result in a comprehensive database of high quality companies to target:

- Existing database of investor contacts.
- Companies in target sectors.
- Companies in major FDI home and trading countries.

a. Using existing contacts with potential investors

Contacts with potential inward investors need to be captured by a city IPA. Ideally, some form of customer relationship management system should be used to capture, record and update contacts with companies (see Section VII.E.1), as well as to record information on the quality of companies. Many of these existing contacts will not have had an investment project at the time of the initial contact or decided not to invest in the city.

The highest quality of existing contacts can be “re-activated” over time. The circumstances of the companies and their investment strategies are constantly evolving, and existing contacts may well have projects, which a city can compete for over a period of time.

b. Identifying investing companies in target sectors

The primary method to develop a database of companies to target is to identify high potential investors in each of the designated key target sectors.

As there are hundreds of thousands of companies in the world that potentially could invest overseas, a filter is needed to draw-up an initial list of target companies. The filter can be applied to screen the universe of companies and identify potential companies to target. A typical city IPA would use this technique to identify initially 50-200 companies per sector, depending on the available resources to conduct further research and prospect these companies.

Key filter criteria include:

- **FDI track record of a company.** Recent FDI by a company is the best indicator that a company is likely to invest again. It is the key indicator that a company is in international expansion mode. Examining a company’s FDI allows one to draw up a database of companies ranked by the volume of greenfield FDI they have had each year. This identifies the major “repeat investors” in each target sector who dominate the global FDI market and are strategic firms to attract to a city. A company’s FDI strategy can be analyzed in more detail to see where it has invested before and what type of projects it has. For example, if a company has recently invested in other regions but not yet in the city’s region, there are likely to be opportunities to attract FDI. Likewise, if a company has recently invested in neighboring countries, it may consider investment in the country. It is also possible to look at the international mergers and acquisitions (M&As) of a company, which show that it is actively expanding into international markets, especially when M&As are in the region the city is located.
- **Companies with recently established headquarters in the region.** A key tactic for identifying potential investors is to track companies establishing headquarters and regional sales and marketing offices in the wider region and in the capital city of a country. The typical expansion plan of a company within a region and country is first to establish its regional headquarters or sales and marketing office, and then to expand from this office into other cities. For example, many companies establish sub-Saharan African regional headquarters in South Africa, which is a prelude to further expansion in the region. By identifying on a continuous basis regional headquarters being established, these operations can then be targeted to attract next stage expansion projects.
- **Size and growth of a company (turnover and/or employment).** The size of a company is a key indicator that the company has both the need and the resources for FDI. The growth of companies shows the most dynamic companies, which are prone to international expansion over time.
- **Financial position of a company.** To engage in FDI, a company needs to have the financial resources for investment. Better funded companies have much more scope to engage in FDI. Stock market capitalization is a key indicator. Other key indicators include the total profits of a company and its profitability (profit rate).

The above techniques will identify the present “Global Players” in each sector - large, international companies with a high volume of FDI each year. They will also identify the

emerging “Challenger Players” – regional companies with locations abroad, which are market leaders in their local area but not, yet, globally.

c. Companies in major FDI home and trading countries

The highest potential investors in a given target sector (see above) should be cross-referenced against companies in the FDI home countries that have a strong track record of investing in a city and its country. One can also look at competitor countries to identify the main FDI home countries investing in them. If companies from a particular FDI home country are already investing in a city, country or its regional competitors, there is a strong likelihood that other companies from the same FDI home country will also want to invest there – as they will be following their customers, competitors and suppliers overseas. Therefore, the probability of success is likely to be higher if companies in the main FDI home countries are targeted.

Trade is often a precursor to FDI. The typical (but not universal) internationalization process of a company is to export to a location first. Once exports reach a certain volume, the company will consider FDI in the location. It generally sets up sales and support functions first, to service better the local market, followed by logistics. The company may also establish import-substitution manufacturing operations when the size of local and regional markets is large enough so that costs can be lowered by producing locally rather than importing.

Due to a lack of data on company specific exports, trade links can be used to identify target FDI home markets for investment – but not the individual companies to target (see Section VII.B.1 for this). To use trade links to identify target FDI home markets is relatively straight forward:

- Import data from the national statistics organization allows one to identify the major imports into a country, by sector, and the main source countries for each of these sectors. Generally, the higher the level of imports into a country in a given sector, the more likely that foreign companies will consider FDI to serve better the local market and lower costs.
- Import data from the national statistics organizations of neighboring countries in the region, or regional trade databases (such as those provided by the International Trade Centre), allows one to identify the main sectors for imports within a region and the main source countries for these imports. As companies typically have regional market and FDI strategies, examining the import patterns at the regional rather than the country level is likely to be a reliable approach toward identifying the sectors and countries to target for market serving and import-substitution FDI.

The data on the size of local and regional import markets by sector are also useful information to include in the value proposition for potential investors – as they are an indicator of the size of the market that investors can serve.

Note that most FDI home countries are likely to be strong in only a few sectors – one cannot typically identify companies in every sector in every country. A “matrix” approach is most commonly used, whereby one only targets certain sectors in certain countries. The only exception is the US market, which is strong in almost all sectors. In the case of the US, given the size of the market, it is necessary to focus on particular states and cities; and within the US there is a strong degree of sector specialization.

Once the key FDI home countries have been listed, the next step is to identify the key companies to target in these countries, using the same approach as used to identify target sectors as discussed above.

This will yield additional companies to target. These additional companies will not necessarily be the leading companies in key target sectors, but they will be from FDI home countries that have a proven track record of investing in a given city, country or region; therefore one will have a higher probability of success when targeting these companies.

2. Networking with relevant organizations to generate leads

As Section VII.A. has shown, business and personal networks are considered key mechanisms for lead generation. The main networks that can be used for lead generation include:

- Existing foreign investors.
- Local companies.
- Cross-border partnerships with IPAs elsewhere.

In addition, diaspora networks can be key sources of investment leads. They are covered in Section VII.F.

a. Existing foreign investors

Existing foreign investors are essential to target for new investment, as part of a city IPA's after-care program. Existing investors are not only a source of expansion and for upgrading investment projects, but, through their networks of suppliers, customers, competitors, and advisors, one can often gain considerable insights into, and influence on, investment decisions made by other companies. As Section VII.A.3 showed, after-care is rated the most effective method of lead generation. After-care is covered in more detail in Module IX of this *Handbook*.

b. Using local companies

Local companies, especially those with international activities, will be a good source of intelligence as to which foreign companies may potentially consider investing in a city.

The big international accounting, consulting, real estate, banking, and legal firms are also likely to be a source of intelligence on potential investors from overseas. They should be receptive to cooperating with a city IPA since inward investment represents new potential business for them.

Key to tapping into the knowledge of local companies is networking. Lots of socializing and mixing in the right circles is important to have access to influential local companies and their decision makers. Having regular contacts with local companies through meetings, telephone conversations, newsletters, and social exchanges is required.

c. Using partnerships with governments and international organizations

In the key FDI home countries, trade and enterprise development agencies and chambers of commerce have access to intelligence on companies considering to expand overseas. In the case of trade and enterprise development agencies, they often have a specific remit to internationalize their domestic companies.

Trade and enterprise development agencies generally work with small and medium-size companies (SMEs) – “new players” that may become important future foreign investors. The national trade and enterprise development agencies should be contacted in the main FDI

home countries. In addition, sub-national regional development agencies may also be willing to partner with a city to facilitate investment flows.

Chambers of commerce typically have strong networks with the large companies in a country. Building relations with the chambers of commerce in key FDI home countries may yield positive results in identifying investment prospects and at least in facilitating greater awareness of a city.

Moreover, many international organizations have a specific remit for supporting inward investment into developing countries, in particular UNCTAD, UNIDO, MIGA, and FIAS. These organizations can be contacted to get advice on how to target investors, and there may be program funding available to support specific investor targeting initiatives.

C. How to profile target investors

By following the techniques outlined above in Section VII.B, a city should have a comprehensive database of intelligently identified target companies. It should also have put in place business and personal networks to identify companies with immediate investment potential.

Before contacting companies, it is necessary to:

- Screen and prioritize companies and focus efforts on the companies with the greatest potential for investment.
- Identify the contact decision makers in each company.

1. Screening and prioritizing companies

Before being contacted, companies should be screened and prioritized in terms of importance. Companies can be screened using the filter criteria in Section VII.B.1 to rank companies in order of importance.

Further research should be conducted on each company prior to them being contacted to build a more detailed knowledge of companies. Information to gather includes:

- Investment strategy of a company.
- Segmentation of businesses, technologies, products, application fields, etc.
- More detailed analysis of the location and type of operations a company has around the world.

Desk research, especially on a company's website, can be used to find much of the above information. Newswire services (especially the main business press) are also very useful for finding more information about a company. Box 5 contains an example for a French company. It had recently received significant funding (demonstrating that the company has the financial ability to expand overseas), and the company states it is planning expansion into Asia and the United States, indicating it has a strategy to internationalize.

Box 5. Example research on a company

Paris, France--January 30, 2006 – DxO Labs, a French software company developing advanced image processing technologies for the mobile imaging industry and other digital consumer imaging markets, today announces the closing of a 10.6 million Euro round of funding. Apax Partners France leads the new investment, joining historic investors including Société Générale Asset Management, SPEF Venture, Thalès Ventures/ACE Management as well as Japanese funds, CSK Venture Capital and Hitachi Venture.

"Apax Partners' investment and international network will help us continue to pursue our aggressive approach to business development in Asia and in the United States and our growth in the digital imaging marketplace," says Jerome Meniere, founder and CEO of

Source: OCO Global Ltd., *Training program delivered for Croatian Government* (Geneva: UNCTAD, 2003), mimeo.

Information collected on a company prior to contact does not need to be exhaustive, but a city IPA should have a good understanding of the company's main businesses and current overseas operations, and as much information as possible on the company's international expansion strategy – which is often a good justification to use with the company when speaking to them for the first time.

2. Identifying contacts in target companies

There are many people within a company involved in the decision to invest overseas and in specific location decision (Table 15). Who is the most relevant decision maker depends on the type of company and the type of projects a city is targeting. Typically, especially for larger companies, investment promotion agencies target multiple contacts within a company.

Table 15. Decision making contacts in companies

Position	Type of FDI project
CEO	All major projects
Marketing director	Most projects
Operations director	Most projects
Finance director	Most projects
Business development manager	Most projects
Human resources director	Call centers and labor intensive projects
Purchasing managers	Logistics and manufacturing projects
Regional directors (in the region the city is located)	Most projects
Country managers (in the country the city is located)	Most projects
R&D directors	R&D projects
Director for strategic alliances	Software companies

Sources: MCI and VCC.

While Table 15 is a good starting point, one will likely need to speak with many people within a company until one finds the right contact – which can be a long process, as companies are often reluctant to provide contact information.

To identify the names of the decision-makers, there are several approaches:

- Internet sites will have thousands of pages on every major corporation; company executives may have personal web sites; and there are on-line indexes to most financial newspapers, business journals and trade magazines. It is increasingly difficult for corporate executives to remain invisible and unknown.
- One of the best methods of finding out who to talk to in a company is through a network of current investors, industry players and their suppliers. Auditing or consulting firms know who has the relevant responsibilities for investment in their sector – they may well be happy to share that information. They might (but only might) be prepared to make the introduction themselves. If one has good relations with relevant people in the industry, these should be used to get names and introductions.
- Third party referrals are more *ad hoc* and can result from an approach. When one contacts a potential investor, but gets the wrong people or companies – they should be asked if they know who is the right person. If one fails to get through to the right person, one can also contact the PR Department in the company and ask with whom to speak. Other third party referrals can come from the government, donor organizations and others.
- If one has access to international media concerning the industry sector in which a city IPA has an interest, one should look out for names, companies, quotes, and advertising. That information should be noted down in the database for follow up. The financial pages of newspapers and conference agendas and speaker lists are informative as well.
- Attending industry-specific trade shows to meet sales people who can direct a city IPA person to the right contacts is another technique employed by investment promotion agencies.

D. How to prospect investors

When a city IPA first approaches a potential investor, the mindset of the project officer is crucial. If investment promotion officers believe that it is simply a case of asking a company if it has a FDI project and then they move on to the next company, they will not only be unsuccessful, but they will also very quickly have their morale and commitment eroded.

Approaching companies should therefore not be seen as a methodical exercise; it is not about one-off approaches to a fixed number of companies each day, but rather a market intelligence gathering and relationship building campaign.

Four main alternative approaches for prospecting companies are:

- Direct mail and telemarketing.
- Trade shows / outward missions.
- Inward missions.
- Investment broker and advisor strategy.

Each of these approaches is discussed in the following sections.

1. Direct mail and telemarketing

a. Direct mail

Direct mail refers to letters, emails and/or faxes being sent to a database of companies with the objective to elicit a response. The database is typically bought off-the-shelf from providers like Dun & Bradstreet and Hoovers or from specialist magazines and consultants, and will typically include thousands of companies.

Direct mail (direct marketing) ranks close to the bottom in effectiveness for lead generation in the table in Section VII.A.3. While direct mail may be more effective in image-building, as an investment generation channel it has not proven to be very effective as the response rates are very low. A 1% response rate to a letter sent by a city IPA would be considered as very good.

An example of an introductory letter to be sent to companies is shown in Box 6. This is a real life example used by OCO Global Ltd., which conducted investor prospecting on behalf of Enterprise Florida (the investment promotion agency for the State of Florida).

Box 6. Sample letter

Dear Sir,

I have recently been made aware of your raising funds and would congratulate you on this operation.

I am making contact with you because these new means of finance will probably be dedicated partly to your international development and in North America which will surely be considered one of your priority destinations.

OCO Global is a consultancy firm specialized in international investment and – among its activities - it supports states and regions in researching and finding information on international investments. Among these partners, we count the State of Florida and its economic development agency **Enterprise Florida**, which we represent in Europe (www.eflorida.com).

Florida indeed to us seems to have been a particularly relevant location for your activity, in particular because of:

- *its cluster dedicated to the field "**Photonics-Optics**", which counts nearly 10.000 people working specifically in this sector, in nearly 150 companies (including Lambda-Physik, Lockheed-Martin, MeshNetworks, Nortel-Networks...)*
- *an environment of costs much lower than the potential alternative locations like the West Coast or the North-East,*
- *a strategic location from a point of view "**HQ Americas**", including North America and also Latin America,*
- *a quality of life allowing to attract the best professional profiles ("**talents**")...*

I thus invite you to first look at the information on your sector on the Enterprise Florida website: <http://www.eflorida.com/keysectors/it/it.asp?level1=22&level2=114&level3=321®ion=nc>

And I am fully at your disposal to help your carry out your project, through services – free and confidential to companies wishing to develop a location in Florida, from formalization of a project through to its realization.

Waiting for your response...

Source: OCO Global Ltd., *Training program delivered for Croatian Government* (Geneva: UNCTAD, 2003), mimeo.

For investment generation (even reactive investment generation and the generation of inquiries), direct mail is not an effective choice, unless combined with a sustained telemarketing and follow-up campaign. The main exception to this is when using direct mail to target investment brokers and advisory companies, which is discussed in Section VII.D.4 below.

b. Telemarketing

If an investment promotion agency mails 50 letters and brochures to a group of targeted investors, and then follows that mailing with a telephone call, conference appointment or visit that is not “direct mail,” it is direct contact – telemarketing. Direct contact is interactive -- direct mail is not.

Before contacting an investor, an introductory letter should be sent, such as that shown in Box 6. When contacting potential investors by telephone, every company and executive contacted must understand:

- Why the company has been contacted, that is to say:
 - It was not contacted randomly.
 - A first analysis was made of its needs.
 - An opportunity (solution) in relation with its assumed needs can be proposed to it.
For example:
 - General logic, sectoral or individual, to invest in the city (e.g. value proposition / 5 reasons to invest or a specific business opportunity such as a site, changed business environment, potential business partner...).
 - Specific event particular to the company (e.g. company has new funding for international development or a new role has been created for business development in the region).
 - General events that could have effects on the company and which make the city more attractive (e.g. a new trade agreement).
 - Specific event related to the territory, which can be of interest for the company (e.g. a competitor, customer or supplier has recently invested).
 - Recommendations by a third party.
- Who is contacting the company and the reasons for contacting it:
 - Presentation of the organization, its nature, its mission – to facilitate the setting-up and the development of the company – and its services.
 - Proposal of a next step to go further in the analysis of the offer.

The project officer should validate the contact (her/his role in the research and decision making relating to a project); if the city IPA has worked with the company before, examples of previous experiences, should be given.

When contacting investors by telephone some best practices are:

- No rush needed. People will ask a person what he/she wants and for more details (sometimes to try to help the person, in other times to find ways to tell the person to go away).

- The objective needs to be kept in mind and prepared answers to questions – like what exactly do you want? – need to be handy. A person should always be polite and calm and keep trying. If he/she fails once, a different angle needs to be tried.
- One needs to be brief and to the point: more in-depth conversations will take place in later stages of the process.

Conversion rates in making direct contact with investors are low. Often investment officers will need to speak with several people within a company until they reach the right decision-maker, who then may not be available or is not interested. Telemarketing requires a systematic, sustained approach, with companies only ticked off the list when relevant decision-makers have said definitely that they have no interest in investing in the region now or in the future. Despite the low response rate, the intelligence gained on company contacts is very valuable and should be captured in a customer relationship management system (see Section VII.E.1), so that these contacts can be reactivated over time.

2. Industry trade shows / outward missions

Attending industry trade shows or conducting outward investment missions can be a valuable source of intelligence on companies and decision-makers. It can also contribute to image-building, lead generation and after-care. It is often difficult to reach decision makers at the event itself – but one can get referrals from the company officers attending the event.

Research by OCO Global Ltd.⁵⁶ shows that there are three key aspects to running a trade show / outward mission:

- Show pre-preparation.
- Show management.
- Post-show follow-up.

a. Show pre-preparation

Best practices for pre-show preparation are to:

- Research the conference (websites, companies, presentation etc.). A list of participants and their profiles should be obtained. Companies should be prioritized.
- It needs to be checked to see if the city IPA has had any prior contact with companies attending.
- All stakeholders in the city should be spoken with, to determine if there are any linkages with companies attending.
- It should be determined whether any companies attending are competitors/suppliers to existing investors, have exports to the country or operations in the city or country.
- Target companies should be identified, and meetings arranged with them before the conference.
- If resources permit, a room should be pre-booked and companies invited to attend a presentation on the city. Also a business lunch with major companies attending should be considered.

⁵⁶ OCO Global Ltd., “Report on how to organize trade shows for investment promotion” (Geneva: UNCTAD/Costa Rican Investment Board (CINDE), 2003), mimeo.

- Experts and existing investors in the city should be used to raise the profile and make it easier to arrange meetings.
- The project team, including individual targets, should be fully prepared. The show should be managed effectively – there should be a team leader, and a clear division of who is contacting which companies and who is “walking the floor” on which part of the trade show among the team.
- The development of marketing materials and business cases should be customized to the audience.
- If there is a booth, it should be designed to maximize impact, even building on well-known national attributes.
- Meeting rooms/restaurants for meetings with companies should be booked.
- Appropriate questionnaires for use in meetings should be prepared – a pro-forma profile should be completed for each company met, and their business card stapled to the profile.

b. Show management – during the show

The key best practices for show management are to:

- The floor should be worked, and all companies that have been targeted should be spoken to, leaving them some information and a business card.
- Meetings should be arranged, or if not possible at least some questions (questionnaire) should be asked to understand if there is investment potential.
- One needs a compelling reason to talk to companies, e.g. company X is at the booth, and is interested in talking to potential suppliers, expert X from the city will be presenting on subject X. Would you be interested in attending? Company X has recently invested in the city. Is it a customer of yours?
- It should be ensured that someone senior is present in meetings with companies; even an investor or expert can attend the meeting.
- If there is a booth available, it should be made sure that it stands out and gets the attention of the target market.
- Enough business cards should be made available.

c. Post-show follow-up

The key best practices for post-show follow-up are to:

- All leads and meetings with companies should be reviewed and all questionnaires entered into a company tracking system.
- Follow-up proposals/information packages to companies should be immediately prepared.
- Clear responsibility should be established for agency officer(s) to follow up with specific company after the proposal has been sent.
- Each lead should be tracked over time, with regular contact with the company depending on timescale of its project/potential project.

- Compelling ways to build relationships with companies attending the conference should be considered. Responding to immediate opportunities is just the start of the process.
- An evaluation review of the conference, straight after and six months later, should occur to see what leads and projects have been generated.

3. Inward investment missions

An inward investment mission brings a group of companies, typically in the same sector or from the same country, to a city. Successful inward investment missions have the following characteristics:

- Homework on the companies attending should be done – this is very important.
- First impressions count – an enjoyable and well-organized mission should be prepared.
- A team leader for the mission should be designated.
- The agenda should be arranged and agreed with the companies beforehand. The agenda typically includes site visits, presentations, etc.
- The mission should meet successful cases of existing foreign investors.
- The mission can also meet local companies (potential suppliers, customers and business partners). This will require research to identify the most suitable matching local companies.
- Experts to present to the mission companies should be identified. This could also be done by the team leader.
- The city IPA or city government should speak about the business climate, success stories, etc.
- Follow-up meetings and help with feasibility studies (proposals) should be established if possible.

4. Investment brokers and advisors

Brokers and advisors are used by over 60% of major investors at some point in their investment process. Brokers and advisors include:

- Location / site selection consulting companies.
- Major commercial property agents.
- Management consulting companies.
- Major accounting firms.
- Major banks.
- Major lawyers.
- Government officials in FDI home countries.
- Government officials overseas.

Small groups of individual brokers and advisors normally dominate the advisory services provided. This means one will need to identify and target the right people in the broker companies.

The use and type of advisory service varies by sector and size of firm. Very large firms frequently engage a site selection consultant, management consultant or property agent for location assessment, business plans and real estate search. Smaller companies will generally use banks, accountants and lawyers for advice, supplemented by their own data research.

Sectors that are driven by a search for human resources and low costs – such as medical devices, business process outsourcing and IT – typically use brokers for a significant part of their location assessment. Capital-intensive sectors – such as chemicals, mining and energy - rely more on in-depth financial analysis and use accountants more than site selection consultants.

The role of brokers also varies significantly at different stages of the process. Often, a consultant will be engaged for a high level location screening and assessment, and then the company will use in-house resources or other specialist brokers for due diligence and project implementation.

Many brokers are relatively ill-informed, especially about developing country locations. They are also concerned about risk management – they are frequently “safety” driven – which means they are unlikely to recommend to their clients locations that have not yet proven successfully to have attracted FDI. Brokers have a major need for qualitative, comparative data (especially independently sourced) – and many are also looking for opportunities to sell their services to an IPA.

Given the importance of brokers in FDI decision-making and the issues discussed above, applying the same investor targeting approach to brokers is highly recommended. The table in Section VII.A.3 shows that direct mail to brokers is ranked the fourth most effective method of lead generation.

Desk research can be used to identify most of the relevant brokers. Then it is a question of contacting the companies to find the persons responsible for advising companies on foreign direct investment decisions and sending them information on the city.

The broker contacts should be entered into the customer relationship manager system, and they should be sent updates on the city, e.g. the inward investment newsletter.

E. How to manage company contacts

1. Customer relationship management database

Customer relationship management systems are databases that are used to record and capture information on the companies and contacts a city IPA has with existing and potential investors and their advisors. They are essential for all investment promotion agencies.

The key benefits of customer relationship management systems are:

- Captures all of the contacts, which are saved in the system, and can be used at any time in the future.
- Stores contact the history with investors, so one can look at a company and trace back all of the contacts a city IPA has had with the company.
- Shows how many companies a city IPA is in contact with, and the size of its sales pipeline (number of investment leads), so one can evaluate on a continuous basis the activities of the city IPA.
- Provides alert functions to remind project officers to follow up with “their” companies.

- More advanced customer relationship management systems can manage inbound inquiries from the website and marketing campaigns and events, and be used for storing company-related documents (e.g. proposals).

When procuring a customer relationship management system for a city IPA, the key features to look for are:

- User management – to manage the users in the organization (some providers charge a fee per user).
- Company records and profiles – to store basic information on companies, and company profiles with file upload function.
- Recording communications and action points – to store all communications with contacts and companies and raise action points, with a reminder function.
- Inquiry handling – to handle inquiries coming through the website and by telephone.
- Marketing campaign / event management – to send out customized mailings to groups of companies and contacts in the customer relationship management system.
- Integration with a city IPA's email system.
- Report function – to produce reports and downloads, including performance evaluation reports.
- Training and ongoing support and a help manual / user guide.

2. Relationship building

As discussed in the introduction to this module, inward investment only comes over time, after a concerted approach to specific decision-makers in carefully targeted companies.

A city IPA needs to maintain and build its relations with targeted companies so that, when they do have a project, they are already in contact with the city IPA.

Techniques to build a relationship with target investors include:

- Drip-feeding companies with regular information updates on the location, tailored to the individual company's requirements.
- Organizing networking events that bring together the city IPA, key target companies and the wider investment community. These can revolve around formal sector specific conferences and more informal events, for example related to important national celebrations and cultural activities. The use of embassies is one way to attract more attention and reduce costs. Contacts in the investment community, e.g. through expatriates, can be leveraged to support networking events.
- Attending industry trade shows where target investors are present.

F. Using the diaspora to attract inward investment

1. Importance of the diaspora

According to estimates by the International Organization for Migration, Africa lost in excess of 20,000 skilled individuals per year between 1990 and 2000.⁵⁷ In many developing

⁵⁷ Cited in Yohannes Woldetensae, "Optimizing the African brain drain: strategies for mobilizing the intellectual diaspora towards brain-gain," Paper Submitted to Association of African Universities (AAU), presented at the Conference of Rectors, Vice Chancellors and Presidents of African

countries, often over 50% of graduates in ICT subjects move overseas when they graduate.⁵⁸

While the brain drain is a major impediment to economic development for African cities, the talent (such as engineers and scientists) that moves overseas represents an untapped pool of inward investment opportunities. An extreme case is the Indian diaspora: there are more than 200,000 millionaires of Indian origin in the US, and the Indian community constitutes the highest average family income group.⁵⁹ Remittances from migrant workers are fast outpacing official aid flows and even FDI, with remittances to India rising from an estimated US\$12 billion in 1996-97 to about US\$27 billion in 2007.⁶⁰

The phenomenon of skilled individuals moving overseas is not just confined to developing countries – in a globalized world economy, skilled people are increasingly mobile. City and regional IPAs in developed countries have also seen the opportunity to use their own diaspora to attract inward investment.

The approaches that these cities and regions have taken offer many examples for cities in emerging markets to leverage their own diaspora to attract inward investment.

2. Developing a diaspora FDI strategy⁶¹

Key elements of developing a strategy to attract diaspora investment include:

- Establishing a database of the diaspora from the city.
- Facilitating conditions for inward investment by the diaspora.
- Improving information provision to the diaspora.

a. Establishing a database of the diaspora from the city

The availability of reliable and constantly updated data is central to the successful engagement of the diaspora. The development of a database is not straight forward. Multiple methods are required. These include:

- Making use of, or establishing, a university alumni list to keep in regular contact with graduates who move overseas.
- Using business and personal networks to identify prominent business people overseas who originate from the city or region and could become advocates for helping to attract inward investment into the city, through their own networks.
- Contacting the country's embassies in key countries to inform them of the city's new initiative and use the embassies to collect preliminary information on key individuals or diaspora networks in the country.
- Developing a dedicated website for attracting talent back to the city. For example, the diaspora website for Scotland quickly had over 5,000 members signing up (see <http://www.scotsin.com/>).

Universities (COREVIP) in Tripoli, Libya, October 21 – 25, 2007, http://www.aau.org/corevip07/papers/sec-docs/Yohannes_Woldentensae.pdf.

⁵⁸ Based on research by OCO Global Ltd. in Africa and the Middle East.

⁵⁹ *Indian Express Finance*, "Diaspora dividends," <http://www.financialexpress.com/news/diaspora-dividends/406278/0>, January 4, 2009.

⁶⁰ Ibid.

⁶¹ Parts of this section draw on material in Woldetensae, op. cit.

b. Facilitating conditions for inward investment by the diaspora

Efforts are needed to create conditions that will attract businesspeople abroad to come back to the city and establish new businesses. Support might be given to returnees that includes:

- Airfare.
- Relocation allowances.
- Initial salary support.
- Matchmaking with domestic and foreign firms in the city.
- Provision of contacts in relevant business networks.
- Placement in positions suitable to their areas of expertise.

A city IPA can also lobby at the national level to improve the general business environment to encourage professionals to return in their home country and invest. Examples include reduced import duties, foreign exchange accounts and stronger private ownership laws.

c. Improving information provision to the diaspora

The provision of clear, accurate and timely information on local conditions and opportunities is important to mobilize the diaspora to invest in the city. Regular newsletters can be sent to contacts in the diaspora database. The potential of the Internet needs to be exploited for improving the provision of information on investment opportunities and support available in the city. The creation of a diaspora website with all pertinent and updated data will need to be actively publicized (for example through overseas embassies and diaspora networks). For an example, see <http://www.scotsin.com/>.

G. Key take-aways and resources

1. Key take-aways

The key take-aways of this module, “How to target investors and generate leads,” are as follows:

- Investor targeting as a method of investment promotion has a greater chance of success than other methods as companies being targeted have been pre-selected by a city IPA and are approached with a customized proposition.
- The most effective methods of lead generation are after-care (existing investors), business networks, targeting brokers, and targeting the diaspora.
- Key success factors for investor targeting and lead generation are to have a sustained focus on specific managers in a relatively small number of firms carefully selected in sectors or business activities with the best prospects for inward investment into a city, and also to target the advisors to these firms.
- There are two main methods to generate investment leads: (1) to develop a database of target companies, which are then prospected; and (2) to develop business networks that can refer leads to the city IPA. Both methods should be used by the city IPA, where resources allow.
- To develop a database of target companies, a city IPA should consider existing contacts; high potential companies in target sectors; and leading companies from major home countries and trading countries. Key business networks to develop

include existing investors, local companies, overseas government and chamber of commerce partnerships, and diaspora links.

- Target companies and inquiries should be screened and prioritized – not all companies should get the same level of service from a city IPA. The potential of companies for inward investment is higher if a company is in a target sector or from a major FDI home country or trading partner, and if a company has the following characteristics: a track record of FDI, recently established headquarters in the region or country, high revenues and growth, and a strong financial position.
- Before prospecting a high potential company, a city IPA should produce a brief profile of the company – in particular relating to its international strategy, operations and business units – and identify key decision making contacts in the company.
- There are various techniques to prospect companies, including direct mail, telemarketing, outward missions and events, inward missions, and prospecting investment brokers. A combination of techniques is likely to deliver the best results, and there are best practices for each technique covered in this module.
- All city IPAs should consider how to manage their investment contacts, which is the most critical intelligence an IPA needs to capture. A customer relationship management system is recommended for every city IPA. City IPAs should consider how they build relationships with potential investors and the investment community over time.
- The diaspora is increasingly recognized as an untapped source of inward investment, which, through a specific diaspora strategy, can be effectively mobilized to increase investment in the city.

2. Resources

There are many research resources to assist with investor targeting, of which some of the key resources are shown in Table 16. While most of these are paid-for services, most providers offer some information for free, and Internet search tools such as Google can be used to gather intelligence at no financial cost, just time spent filtering information.

Table 16. Research resources for investor targeting

Investor targeting area	Module	Component	Resources
Building a database of target companies	VII.B.1	FDI track record	Research of a company's website and specialist FDI databases such as www.fdimarkets.com and www.eyeim.com
		Recently established HQs	Research of a company's website and specialist FDI databases, such as www.fdimarkets.com and tracking of business press in the region
		Size and growth of companies	Research of a company's website and company databases, such as Dun & Bradstreet, Hoovers, OneSource, Kompass, and BVD
		Financial position	Research of a company's website and company databases, such as Dun & Bradstreet, Hoovers, OneSource, Kompass, and BVD
		Import data	National statistics organizations and International Trade Centre
		Government and international organizations	See www.waipa.org for a list of organizations. Most prominent organizations are UNCTAD, UNIDO, MIGA, and FIAS and the development agencies of the major home countries. Embassies, chambers of commerce and industry bodies also have company information
Screening and prioritizing companies	VII.C.1	All	Business newswires, such as FT.com, Factiva and Lexus Nexus
Identifying decision-making contacts in companies	VII.C.2	All	Internet research, business newswires, company databases, and specialist FDI databases. Many of the contacts in these databases are inevitably out-of-date as executives move frequently to other firms. Telephone work is generally needed to find the right people
Customer relationship management systems	VII.E.1	All	Specialist providers of customer relationship management databases for investment promotion such as Loco Software and general customer relationship management systems from a wide number of companies

Sources: MCI and VCC.

There are also specialist consulting companies like OCO Global Ltd., Frenger International, and Oxford Intelligence that offer outsourced lead generation services to city IPAs. The World Bank (MIGA) also offers investor information services to help investors invest in developing countries.

Module VIII. How to facilitate inward investment

A. Key elements of investment promotion

1. Topics addressed

The key topics addressed in this module are:

- Handling investor inquiries – how to screen inquiries and handle inquiries professionally.
- Developing a proposal for an investor – how to prepare a proposal for an investor in response to a request for information.
- Site visit – how to organize a site visit and what to do after the visit to secure the investment.
- Investment facilitation – good governance practices for facilitating inward investment, covering one-stop shops, investment road maps and awarding incentives.

2. Objectives

Investment facilitation is essential for every city IPA to ensure seamless entry of investment into the city. Effective investment facilitation ensures that:

- The investment is completed (and not cancelled).
- Investors are happy, which adds to the image and reputation of the city and its IPA - a satisfied investor is the most effective promotional tool possible.
- Reinvestment is encouraged.

Investment facilitation services must coordinate with a large number of agencies, both developmental and regulatory, and at the same time create a bridge between investors and all service providers.

This module is designed to assist city IPAs in understanding how to handle investor inquiries, provide information to an investor in the most effective format, organize a successful site visit, and consider the options for the facilitation services the city IPA can provide to an investor.

B. How to handle investor inquiries

The first impressions of a location, company, event, or person always shape the long-term perceptions of those an investment promotion officer is promoting to and negotiating with. Therefore, it is important that city IPAs and their staff carefully consider the initial impressions that they may give to international investors, executives and advisors. Producing professional correspondence and brochures, responding promptly and comprehensively to inquiries, turning up for client meetings on time and with the required information, and being well briefed on the client investor all help to create and maintain a positive and lasting first impression.⁶²

⁶² UNCTAD, “Third generation investment promotion: investor targeting” (Geneva: United Nations, 2002), mimeo.

Handling investor inquiries as professionally and effectively as possible is critical to the success of a city in attracting inward investment – in most investment promotion agencies up to 50% of leads come from “in-bound” (reactive) inquiries, and this proportion is expected to increase as the web becomes more important.

1. Screening an inquiry

When an investment inquiry is made to a city IPA, the first step is to check the company making the inquiry against the city IPA’s list of targeted investors. Is the enquiring company on the list of targeted investors? If it is, the inquiry should be answered as rapidly as possible (Section VIII.B.2). If it is not, then the city IPA should consider if it should be. Why has the company made the approach? Is the company a high quality company? Due diligence on the company determines how much time and energy a city IPA should spend responding to the inquiry.

Module VII outlines key factors to look at to assess a company’s potential, including the FDI track record of the company, the sales and growth of the company, and its financial position. A city IPA needs to assess whether the inquiry is genuine and whether the investor and investment would be beneficial to the city. This is relatively straightforward for most corporate inquiries.

However, in developing countries a significant volume of FDI is by individuals based overseas, especially from the diaspora. If the inquiry is from an individual, the IPA should conduct as much research as possible on the individual, possibly using overseas embassies if it is from the diaspora. Key questions include: Has the individual successfully made investments before (with sufficient evidence)? Does the individual have the financial position to make an investment (with evidence)? Are there credible references for the individual? Does the individual have credible linkages in the city?

A city IPA should focus its limited resources on the best inquiries. Not all inquiries should receive the same level of response. If an inquiry is frivolous or the investment a company is looking at is not at all realistic for the city, the IPA may wish either to supply limited information and promotional material or to ask for more information before committing the resources of the organization to servicing the investor.

2. Handling an inquiry

Inquiries should be replied to as soon as possible, confirming that the city IPA has received the inquiries, and that a full response will be sent shortly. Ideally, the city IPA should specify, in its initial response, the timeframe for a full response. Research should be done on the company, to find out more about its motives for investing in the city. Direct contact with the company should continue, in the form of a teleconference, meeting or presentation to deliver the features, benefits and proofs of the location to the company; even a site visit could be arranged. The potential investor becomes one of the targeted prospects and should receive as much if not more attention as regular targeted investors.

More experienced agencies prepare a project brief when they receive a serious inquiry, which includes a description of the company, its strategy, expansion plans, and exact project specific requirements, and the information is entered into the customer relationship management database.

Best practices in handling an inquiry include:

- Understanding an investor’s requirements.
- Appointing a single client executive to respond to inquiries.
- Rapidly providing accurate, timely information and data.

- Ensuring the confidentiality of the investor's project and strategy at all times – limiting the number of people involved and even signing a confidentiality agreement.
- Gently encouraging already established foreign affiliates to be positive to the investor.
- Ensuring an understanding of the project in key ministries and agencies at the national level (for major projects).
- Encouraging diplomatic service visits to corporate headquarters (for major projects).

C. How to develop a proposal for an investor

The investor proposal is the response a city IPA gives to an investor's inquiry and project requirements. It is the single most important document a city IPA gives to an investor.

The investor proposal is a formal opportunity to position the location and agency in the mind of the investor as a business solution. Few investment promotion agencies - including those from developed countries - fully exploit this opportunity to differentiate themselves and their offer at this moment.

Preparing a winning proposal is a combination of creativity, inspiration and fact. A proposal is a sales document (not a market research or a real estate review). Essential elements in preparing a proposal are

- A good brief from the investor.
- Provision of relevant data on the market/business opportunity.
- Provision of comparable data on the competition.
- A clear commitment from the city IPA to deliver the project.

To produce a high quality investor proposal, often several weeks of research and preparation are required. This time is well spent – the quality of the proposal is a critical factor in determining whether or not a company will invest in the city.

The proposal is also a key method of differentiating a city and city IPA from the competition. Most investment promotion agencies produce rather weak proposals. The guidelines and templates provided in this section will ensure that a proposal is best practice.

Figure 14. Best practice structure of an investor proposal

Method of response	Is a formal report needed, or will a presentation with a few slides of data be enough?
Cover and contents	Date, report status (draft/final), project name, logo and name of agency, contents page
Introduction	Introduction to the proposal, history of contacts, putting the proposal and the company in context
City snapshot	1 page overview of the city with fast facts on the city and possibly a map of the city
Key issues – understanding of needs	Demonstrate your understanding of the sector and industry issues
The project brief	Revisit your understanding of the project objectives and requirements
The city X solution	Demonstrate the business case and value proposition, with sections for each benefit
Project team and resources	Mandate, key services, previous experience working with similar companies, key contacts for this proposal
Existing investors and references	Provide evidence of the sector in the city, with list and/or case studies of existing investors with testimonials
Why city X?	Provide 5 key reasons why the company should invest – include the support your organization can provide
Follow-up action	Suggested timetable for follow-up actions, e.g. site visit, processing permits and licenses, etc.
Appendices – supporting information	Additional data, maps, information on sites, regulatory environment and other technical information required

Source: OCO Global Ltd.

The Figure 14 template for writing an investor proposal very much mirrors the approach of the private sector when submitting a bid to win a major contract. And it should be just as professional. The proposal will be reviewed by senior executives in private sector companies. It is the document by which they will judge the organization and city.

Time is money for investors. If a proposal and overall professionalism convince an investor that the city IPA can make a project happen faster than anywhere else, the city IPA is more than half way to winning the project.

In terms of the content of a proposal, this will depend on the exact nature of an investor's inquiry and how much detail one has about the potential investment project. The proposal should always be focused on the information the investor has requested.

D. How to coordinate a site visit for an investor

After the proposal has been sent to the investor, the follow-up step is to secure and arrange a site visit for the investor.

1. Importance of the site visit⁶³

The professionalism of a city IPA in preparing an itinerary and coordinating site visits can be crucial in winning an investment, especially because the executives from the potential investor are likely to have senior positions in the company, and possibly will be based in the location where the new investment is to be made.

Furthermore, meeting the city IPA will sometimes be the first contact that an executive will have with the host country/city. If the agency makes the right impression, then this can reflect on the location as a whole. As with conferences and investment missions, the (agreed) presence of a major existing investor at one stage during the visit can create a comfort factor.

A site visit should be planned. It is important for the investor to meet existing investors in the same or related industries; selective company visits can be beneficial. However, these should be few and only involve the more visible units. Travel times should be kept to a minimum. It is important that people are identified in advance and are properly briefed on how to handle the investor.

Once a site has been selected, the investor is likely to list additional requirements. Site requirements of the investor must be listed out in detail, and a clear schedule must be set up to provide all the facilities promised. For instance, if there is a need to provide a wide drain from the proposed site to carry away treated effluent, steps to construct this should be taken immediately. The list given by the investor could include physical infrastructure enhancement required, such as the augmentation of water supply, the provision of electricity through dedicated power lines, and the installation of telecommunications systems. Human resources may also need to be developed: special training courses might have to be offered.

For investors investing in a location for the first time, it can be difficult to understand the nuances of government, administration or culture. Even the language barrier should not be underestimated. Therefore, “handholding” of investors is an important function of the promoter.

2. Planning a site visit

The key points to consider when planning a site visit include:

- Appointment of a project manager to manage the entire visit.
- Agreement on the dates the company would like to visit.
- Agreement on the key objectives of the visit.
- Ascertaining the detailed information required on the property or site the company is looking for and other critical information it would like to gather.
- Finding out the timeframe for deciding when to invest / start date and value of the investment.
- Knowing whom from the company will be attending.
- Finding out which organizations the company would like to meet.

⁶³ UNCTAD, “Third generation investment promotion,” op. cit.

- Ascertaining whether the company wants the city IPA to arrange hotels, airport pick-up etc., and what type of hotels are needed.
- Checking of travel times in the city to ensure they are kept to a minimum.
- Sending of the itinerary to the investor to review and agree on *before* the visit.
- Identifying the individuals who will be visited and properly briefing them on how to handle the investor.
- Sending reminders to the individuals the day before the visit to ensure they do not forget and are on time.

3. After the site visit

After the visit, the key action points are:

- Follow-up letter – thanking them for their interest and provision of further information.
- Provision of a report with a summary of the visit and with additional information and materials required and listing of contacts the investor has met with.
- Reminding the investors of what they need to do to invest, with information on how to establish their business.
- Provision of a time line – what should happen when.
- Outlining the steps the city IPA has already taken since the visit – to demonstrate that it is going to make this investment happen.
- Following-up between the agreed contacts in the company – to maintain continuity of the relationship.
- Courtesy call a week later.
- Addition of action points into the customer relationship management system.

E. How to use good governance to facilitate investment

1. One-stop shop for investment facilitation

Investment facilitation covers the whole range of regulatory requirements and hurdles for investors to establish and operate their business. Best practice is for a city IPA to set up a dedicated one-stop center.

The range of services offered can vary from consulting, expediting applications and permit processing, screening or evaluating a project, and providing incentives negotiation and approval. Box 7 contains an example case study for the city of Casablanca, Morocco.

Box 7. Casablanca's Regional Investment Center

The Regional Investment Center of Casablanca provides investors with all the relevant information necessary for investment in the region and deals with their permits and license applications and all administrative tasks necessary to carry out their projects. The Center is also tasked with studying any draft agreements to be concluded with the State.

The Regional Investment Center commits itself to between 2 and 5 days from the filing of the complete dossier to completing the formalities for setting up businesses. The objective is to execute, in due time, the on-line completion of formalities. The clearing house dedicated to company relations coordinates the approach to all concerned administrations:

- * The Moroccan Office of Industrial Property.
- * The tax administration subdivision.
- * Commercial Court.
- * The National Social Security Fund.

A single application form is made available to the investor within the Center. It consists of a request for patent registration, registration statement within the Trade Register, Tax Identification, and request for affiliation within the National Social Security Fund (Employer Identification Number).

Sources: MCI and VCC.

The speed and cost of obtaining post-approval permits, licenses and planning permissions are often crucial to the investor. Key to fast, efficient facilitation is not only the professionalism of the investment promotion agency, but also its links and influence with government ministries and other stakeholders.

The facilitation may take weeks, months or even years, but throughout the process it is important for the project manager to maintain a relationship with the investor.

A city IPA can play a key role in facilitating an investment by informing investors and handholding them through the investment process, liaising with the central government to get the required permits and licenses, and (at the local city level) to fast track planning permissions and other local permits and licenses required, such as those related to employment or utilities.

2. Investment facilitation services

While a city IPA should provide facilitation services for the critical regulatory requirements to establish and operate a business, there are many other areas in which it can potentially offer value-added services. Some of these are:

- Property ownership issues.
- Labor employment and related legal issues.
- Availability of skilled work force issues.
- Productivity/profit issues.
- R&D and technical/support issues.
- Logistics issues.
- Work permits/entry permits.
- Transport linkages.
- Environmental impact assessments.

- Site location.
- Housing.
- Schools for children.
- Investment incentives.
- Entertainment, shopping, club membership, restaurants, security, sports, cultural activities.

Box 8 contains an example for Cape Town's immigration support service, which was identified as a key issue for investors and one for which the city's investment promotion agency, Wesgro, could provide a value-added service to investors. In doing so, it improved the attractiveness of Cape Town as an investment location, and the reputation of Wesgro.

Box 8. Cape Town's immigration support service

Wesgro, Cape Town, launched a dedicated immigration support service, which offers tailor-made advice. The regulations set out by the Department of Home Affairs often vary for each individual, based on their particular circumstance or situation. The agency's dedicated immigration practitioner handles the entire application process on behalf of investors and helps them to determine which permits best suit their needs and how to apply accordingly.

According to Wesgro's CEO, Angelo Manzoni, part of the immigration support service includes individual consultations, the completion and submission of all applications to the Department of Home Affairs and assistance in obtaining and submitting applications to the appropriate departments. Wesgro is committed to accelerating investment into the Western Cape and to creating a favorable investment climate. The new immigration support unit aids investors successfully to do business in the Western Cape.

Sources: MCI and VCC.

3. Investment facilitation road-map

Once an investor has confirmed interest in a project or location put forward by a promoter, a detailed road map should be prepared.

The road map should include a checklist of all clearances and approvals required for the project, which should be drawn up at the outset. Each sector requires different types of clearances and approvals. In a dynamic situation, laws and rules are modified, amended or repealed all the time. So often even a city IPA may not be fully conversant with different requirements, procedures, etc. for getting approvals from different authorities. A comprehensive checklist, which is constantly updated, should be available in a city IPA.

To ensure predictability in the receipt of approvals and clearances, it is useful to set schedules for each department/agency, which often takes the form of a client charter (see Module V.C.3.). It gives comfort to investors if the approval is given as promised – even if it is promised for a long time in the future.

An example from the city of Kisumu, Kenya, is shown in Box 9.

Box 9. Road map and facilitation services for investing in Kisumu, Kenya

The Kenya Investment Authority (KenInvest) established a regional office in Kisumu, entrusted with the following facilitation services for investors:

- 1) Registration:
 - a. Registration of a business entity: (i) limited liability company; (ii) partnership; or (iii) sole proprietorship.
 - b. Registration with the Kenya Revenue Authority to obtain the Personal Identification number for the company (PIN) and the Value Added Tax certificate (VAT).
- 2) Registration with KenInvest.
- 3) Project approval by KenInvest as per the Investment Promotion Act 2004, based on the criteria below:
 - a. Security - projects touching on security, or those that have significant concern relating to public security, must be cleared by the relevant government department before implementation.
 - b. Health - projects that touch, or have an impact, on health must get cleared from the relevant department/ministry.
 - c. Environment - all new big projects are required to undertake an Environmental Impact Assessment or Strategic Impact Assessment. This is in accordance with the National Environment and Management Authority, NEMA.

Acquisition of a Single Business Permit from the local authority. In Kisumu, the Municipal Council of Kisumu issues the Single Business Permit and approves all the building plans as per the city plan.
- 4) Project implementation.
- 5) Business Operation.

There are other steps involved, like land acquisition and licenses, depending on the project specifics. The Kenya Investment Authority coordinates the issuance of these licenses. There is a good working relationship between the various stakeholders in Kisumu to ensure timely project implementation.

Sources: MCI and VCC.

4. Awarding incentives to an investor

There has been extensive research on incentives awarded by public authorities to inward investors.⁶⁴ Most of the research is centered on incentives awarded by national governments. The incentives a city can offer are mainly determined by the national incentives policy. Depending on the country, incentives are either controlled centrally by the national government, or cities and regions may be given some remit for allocating incentives to investors. The main exceptions are special economic and free trade zones, which offer tax and other benefits to investors.

a. Types of incentives

For cities that offer incentives to investors, a city IPA may have the remit for conducting due diligence and negotiations with investors for awarding incentives.

There are many different types of incentives that cities offer investors. Examples include:

- Job creation grants (typically provided to operations engaged in knowledge-based services, which provide high quality jobs, but are not capital intensive).
- Capital investment grants (typically provided to manufacturing and capital intensive operations).
- Investment loans (typically provided to smaller companies).
- Corporate tax breaks and tax credits (especially in special economic and free trade zones, which encourage investment in footloose industries, like textiles and other manufacturing sectors).
- Training and recruitment services (which can deliver significant benefit to both services and manufacturing investors).
- Property and site provisions (including government owned subsidized sites and property, or sites and property for sale at preferential rates).
- R&D incentives (especially tax incentives, with tax deductions, credits or cash paid for R&D expenditure).

In practice, job creation grants, capital investment grants, tax breaks, and R&D incentives are typically administered at the central government level or by regional governments and less frequently at the city level. At the city level, training and recruitment services and property and site provisions are key incentives a city IPA can consider for encouraging inward investment.

Whatever type of incentives are awarded, the city IPA should refuse to engage in “extraordinary” measures, as it can undermine the professionalism of the agency in the eyes of the investor, and it may also act against the interests of the city if the agency tries to “pick winners” by offering over-sized subsidies.

There is also a decision to be taken as to whether incentives should be across the board (mandatory) or discretionary (i.e. based on negotiations with companies). Mandatory incentives create policy certainty as investors are automatically awarded incentives if they meet obligations set out on the basis of pre-determined criteria, while discretionary incentives allow focused support for projects that meet inward investment objectives, but involve less predictability for investors. Incentives can be awarded up-front, or they can be

⁶⁴ For example, see OECD, *Checklist for Foreign Direct Investment Incentive Policies* (Paris: OECD, 2003) and UNCTAD, *Incentives and Foreign Direct Investment* (Geneva: United Nations, 1996).

dependent on continuous upgrading of an investment project, with the latter being more advantageous from a city perspective.

b. Allocating incentives

Criteria need to be put in place for allocating incentives to investors. The most straightforward criteria are based on capital investment and employment creation, which can be measured accurately. Typically, the value of a grant given is a percentage of the capital investment, or a grant is given per full-time job created.

Many cities differentiate the availability and size of incentives based on strategic and quality criteria:

- **Strategic criteria:** incentives may only be available to companies operating in specific sectors, which have been prioritized as offering the highest potential for economic development.
- **Quality criteria:** incentives may vary depending on the quality of jobs created (measured by the level of wages paid and whether these significantly upgrade the wage level in a sector); the type of activity (R&D and headquarters are generally considered the highest quality projects); export intensity (volume and percentage of exports); and the functional mandate of a project (projects serving wider regional markets are considered higher quality).

Allocating incentives requires the provision of a comprehensive business plan from the company and clear protocols for monitoring and evaluation.

F. Key take-aways and resources

1. Key take-aways

The key take-aways of this module, “How to facilitate inward investment,” are as follows:

- Inbound inquiries are the key source of new investment opportunities for a city. It is critical that a city IPA handles these inquiries as effectively as possible. This does not mean that every inquiry is treated the same: the city IPA should screen inquiries to focus its efforts on the highest quality companies and best inward investment prospects.
- When a city IPA has a serious inquiry from a high quality investor, the information provided to the investor by the IPA may determine whether or not the company decides to invest. The “investor proposal” should respond to all the investor’s information requirements and be presented highly professionally, positioning both the city and the city IPA as offering the best investment solution for the investor.
- Once an investor has confirmed its definite interest in investing, the city IPA should organize a site visit for the investor. The site visit will often determine whether or not the investor selects this city or a competing city. The site visit should be very well planned, with a designated project manager from the city IPA, and the itinerary should be agreed beforehand with the investor and all stakeholders the investor will meet. After the site visit, the city IPA should follow up with the investor to encourage the investor to start the investment process.
- When investors have signaled that they will invest in the city, investors will have to navigate many regulatory and legal hurdles to make their investments. The city IPA has a key role in handholding the investors and working with them to gain the necessary permits and licenses, and to make the right contacts with service

providers, at both the national and city levels. Ideally, a city IPA will offer a one-stop shop service and a clear road map for facilitating the investor's project.

- The city IPA may also have a role in allocating incentives to the investor. The IPA should follow precisely the rules of its incentives regime in awarding incentives, and not engage in extraordinary measures to secure a project. For a particularly high quality investment and when the city is competing against other cities, softer kinds of support such as assisting with training and recruitment and with sites and property can deliver genuine added value to the investor and help secure their investment.

2. Resources

International organizations, in particular UNCTAD and FIAS, have extensive expertise and experience in helping IPAs set up the appropriate structures for facilitating investment. The appropriate divisions can be found on their websites.

For incentives policies, the OECD has conducted studies on the subject, which can be found on the organization's website. The major accounting companies (such as Deloitte, Ernst & Young, KPMG, and PricewaterhouseCoopers) have specialist expertise in incentives.

Module IX. How to develop after-care and policy advocacy

A. Key elements of after-care and policy advocacy

1. Topics addressed

The key topics addressed in this module include:

- The rationale for after-care.
- How to develop an after-care program.
- How to conduct a strategic meeting with an investor.
- How to improve the investment environment through policy advocacy.

2. Objectives

The objective of this module is to inform medium-size, low-budget cities in emerging markets of the importance of after-care and policy advocacy and provide guidelines for how a city investment promotion organization can develop an after-care and policy advocacy program.

3. Definition of after-care

After-care is defined as comprising all potential services offered at the company level by investment promotion organizations, designed to facilitate both the successful start-up and continuing development of a foreign affiliate with a view toward maximizing its contribution to local economic development and to ensuring the success and sustainability of the company's investment.

These services include both post-establishment facilitation services to improve the implementation rate of investment projects and follow-up investment to enhance the development impact of the investment.

4. Rationale for after-care

According to UNCTAD, there are at least 800,000 foreign affiliates worldwide,⁶⁵ while *Financial Times* data shows there are 20,000 or so new greenfield FDI projects each year.⁶⁶ The investment potential is therefore far higher from the existing stock of investors than from prospective investors. In developed countries, up to 70% of investment is linked to the existing investment base; around the world, many of the largest and most strategic projects are expansions by existing investors.

The business case for providing an after-care service is that:

- Existing investors are a “captive audience” – quicker and generally easier to attract new investment from.
- After-care is less costly than attracting new investors, as there are lower sales and marketing and travel costs.

⁶⁵ UNCTAD, *World Investment Report 2008*, op. cit. p. 212.

⁶⁶ See: fDi Markets database, Financial Times Ltd., http://www.fdimarkets.com/index.cfm?page_name=markets.

- Happy and profitable investors are the best promoters of a city.
- After-care contributes to an investment promotion agency's policy advocacy work.

The economic development case for after-care is that it:

- Helps protect existing investment from closure – especially important in today's economic climate.
- Stimulates second generation activity – expansions, broadening and deepening.
- Supports foreign affiliates to win new investment from corporate headquarters.
- Can lead to inward investment by suppliers.
- Supports, if accompanied by strategically chosen interventions (e.g. sector initiatives and training programs), economic development objectives.

5. Critical dimensions of after-care

After-care is now regarded by investment promotion agencies as a vital service to maximize the value of inward investment. It is a key program element for virtually all successful agencies. Best practices in after-care include:

- Frequent visits to investors.
- Taking a pro-active, not reactive approach.
- Focusing on company growth and maximizing opportunities, not just problem solving.
- Taking a coordinated, long-term view that involves all key players.
- Targeting specific companies -- not approaching comprehensively all investors.
- Involving high-level client engagement.

B. How to design an after-care service

1. The relationship between national and city after-care programs

After-care programs are typically developed by the national IPA, with city IPAs having a key role in implementing the after-care program on the ground. There should be close coordination between the national IPA and city IPA, covering:

- An agreed list of after-care companies and decision-making contacts.
- The key account manager for each company.
- Profiling of companies.
- Reporting mechanisms and frequency of meetings.
- Coordination between the city and the national IPA.
- Understanding of how contacts with the parent firm's headquarters are coordinated.

In many cases, however, a national IPA may not yet have an effective after-care program, and the city IPA may need to develop a stand-alone program, especially in cities that already have a significant base of existing investors and hence where after-care is likely to be a key function of the city IPA.

The sections below examine at a high level the principles of developing an after-care program, and explore the specific role of a city IPA.

2. Objectives and services to be provided

a. Principles of an after-care program

A successful after-care program requires the development of objectives, a strategy and an action program with performance indicators.

The objectives will vary across organizations. Generally, they include a target for the amount of new investment to be secured from existing investors. Other targets may relate to specific after-care initiatives, such as a supply-chain linkage program, which in this case would have targets relating to the number and value of contracts awarded to suppliers or to the investment secured from new suppliers investing in the city.

There are three main categories that after-care services of a city IPA can offer, as Table 17 shows.

Table 17. After-care services

Item	Short term	Medium term	Long term
Strategic	Help to establish a firm so that it operates successfully and performs its mandate	Competition legislation, product development, R&D capabilities	Where does the foreign affiliate want to be in five years time – regional hub, strategic leader?
Operational	Find office space, factories, recruit staff, install ICT equipment, power, etc.	Staff training, new premises, improve connectivity, local supply chains	Local R&D, university collaboration, deep relationship with unions
Administrative	Visas, import permits, operate in free zone, provide work permits for spouse, etc.	International school, obtain certification and license approvals (e.g. patents)	Agreement with tax authorities, collaboration with public sector on planning and transport

Source: UNCTAD, “Aftercare: a core function in investment promotion” (Geneva: United Nations, 2007), p.16.

b. Specific services of a city IPA in delivering after-care

A city IPA has a key role in delivering either a nationally orchestrated or a city-led after-care program. From a simple logistics perspective, it may not be manageable for a national IPA to meet with key investors around the country on a regular basis; typically the city IPA can fulfill this role better. A city IPA also has a better understanding of issues in the city and wider region, and better networks and contacts to solve issues or to develop new initiatives and programs that will allow investors to expand their investments in the city.

A city IPA should typically take a central role in delivering the after-care services on the ground. This is likely to include:

- Appointing a key account manager for each after-care company in the city.
- Meeting regularly with key executives from the after-care companies (see Section IX.B.4. below).
- Providing information requested by existing investors.

- Assisting with expansion projects.
- Providing information on local services and suppliers.
- Feeding suggestions by investors into the policy advocacy program.
- Liaising with the national IPA for serious issues or opportunities or when a company has several operations in the country.
- Overseas networking through embassies to contact a parent firm's headquarters if the company does not fall into an operational national after-care program (in which case the national IPA should be coordinating contact with the parent firm's headquarters).

3. Identification of target groups

With limited staff resources, prioritization is essential – there needs to be clear market focus and targeting of support on “key account” investors that can generate the largest gains for a city. The number of key account investors one can effectively service depends on staff resources. One staff should be able to account manage six investors and establish a “watching brief” on a further 30.

Companies should be designated as key accounts based on criteria for determining the potential for new investment from these companies. Key indicators include:

- Size of the company's investment in a city.
- Size of the company (globally).
- Clear potential to expand existing operations.
- Clear potential to expand into new business activities.
- Dynamism of the sector the company has invested in.
- Competitiveness of a city for the sector.
- Potential for having linkages with local suppliers or bringing in new suppliers.

For the key accounts identified, detailed (confidential) case profiles should be prepared on each company explaining the nature of the business and local operations; the global corporate organization and priorities; the development achievements since investing; government support provided; supply and procurement linkages; employment, human resource development and training; and the latest available financials. Current knowledge of key local, regional and corporate executives should be included in the profile. These profiles should be regularly updated.

4. Meeting schedules

A meeting scheduled with key account executives is recommended, even where no current investment projects exist. Brief face-to-face meetings are important - perhaps 2-3 meetings a year. It is necessary to read up on the firm's operations and especially the global parent company before the local meeting, and to take one positive idea or suggestion along. Meetings need to be confirmed by letter beforehand; a thank-you letter needs to be sent afterwards; and the city IPA needs to deliver on the actions agreed at the meeting.

For strategic meetings with the most important investors (i.e. when there has been a major event in the company, such as a takeover, or major external changes), the meeting should be approached more comprehensively (see Section IX.C).

When visiting the FDI home country of a key account, corporate headquarters should be visited. The relevant client executive from the city IPA should attend the meeting.

Meetings should always be scheduled to suit the company; city IPA representatives should not be late and should not let meetings degenerate into idle chat, gossip or personal issues. The aim of after-care is to help a company's competitiveness.

An account management (or customer relationship management) system should be used to record all interactions with key accounts.

5. Staff skills

The most important requirement for success with after-care is having the staff resources and budget necessary to provide a professional client executive service for key account investors. After-care will only be as good as the people delivering it. Ideally, client executives should have some of the following attributes:

- Management experience in the private sector, especially in large companies.
- Experience in one or more of the target home countries.
- A business or manufacturing-based professional qualification.
- A pleasant, determined, organized personality.
- The capability to maintain confidentiality and client confidence.

It is unlikely that potential candidates for an after-care program will have all of the above characteristics. A city IPA may also be able to find candidates among the local expatriate community abroad.

C. How to engage with a strategic investor

As part of an after-care program, there will be some very important meetings that a city IPA has to prepare carefully. Examples of strategic meetings include:

- A local company has just been acquired by a foreign investor, and the first meeting with the new foreign owners has been scheduled.
- A major international company has just invested, and senior executives from headquarters are coming to appraise the investment and further opportunities.

The following sections provide best practices for preparing, conducting and following up a strategic meeting with an investor.⁶⁷

1. Preparation for the strategic meeting

Key action points when preparing for a strategic meeting include:

- Nominating a key account manager and other managers in government and stakeholder organizations likely to be important.
- Preparing initial information on the company, including: business strategy; operating structure; and major issues. Research needs to be undertaken on company managers, but heavy briefing material that will add little value to the meeting or outcome needs to be avoided.

⁶⁷ The best practices described here are based on workshops provided to UK Trade and Investment in the summer of 2007 by OCO Global Ltd. and a WAIPA/UNCTAD workshop led by the Financial Times Ltd. for Latin American and Caribbean investment promotion organizations in November 2008.

- Ensuring homework is done on key managers – it can be equally as important to know about the individual one is meeting as about the company for the initial meeting.
- Identifying objectives – short and long-term, as well as the business focus.
- Setting the agenda well in advance and keeping the objectives simple and attainable.
- Identifying who will be attending the meeting from the investor's side.
- Verifying the venue and ensuring travel arrangements are made to arrive in good time.
- Avoiding, in the case of preliminary meetings, the use of formal presentations; however, an advance outline should be made to structure the discussion.
- Keeping the home team relatively small; key roles need to be identified for the meeting, and a dry run is advisable. The account manager should be at the meeting.

2. During the strategic meeting

a. Ice breakers

When first arriving in a company's office, tactics include:

- Building a relationship with the personal assistant (PA) of the corporate executive. The "walk" to the meeting room can be used to pick up information on the company/managers.
- Adopting a more informal approach.
- Avoiding risky jokes; but one can embrace a wide range of topical issues involving the company, the economy or social/sporting events, taking account of the company's culture.
- Referring spontaneously to non-business areas.

b. Business opener

The business opener should include a brief introduction to the city IPA and staff present at the meeting, together with a clear statement of the objectives, examples of value-added services provided to companies of similar background to enhance credibility, policy on strategic companies, and a brief overview of the current understanding of the company. There should be:

- A leading teaser question (worked out prior to meeting) to probe in a general sense the company's strategy – but the question should not be too penetrative.
- Preferably no notes should be taken during the meeting; instead, the meeting should be reviewed afterwards.
- A simple structure for the meeting (unless it is part of an agreed series).
- Sufficient time should be allowed to give a company the opportunity to respond before entering into more detailed discussions. The city IPA representatives are listening more than talking.

c. Tone of the meeting

An effort should be made to go to the next level with more probing questions (pre-prepared, based on the agenda for the meeting). These can include:

- The strategy for current and future operations – and how the new strategy (e.g. acquisition or investment in the city) fits into the company's regional and global strategy.
- Gauging the willingness of the company to divulge information to see if the city IPA representative should continue probing.
- Cautioning against giving instant responses if the company states some concerns; the city IPA is in a listening and get-to-know-the-company mode and not in a selling or acting mode.

d. Closure

Tips for closing the meeting include:

- Keeping the meeting short and avoiding getting into a sales mode.
- The lead person for the city IPA gives an overview of key areas discussed (reiterating key points to pin down the agenda), giving the client the opportunity to add to the overview.
- Determining what happens next. Next steps should not be left open.
- Giving a suggestion for how to take this forward in terms of information and actions to be taken, including something that can be delivered rapidly that is not highly strategic.
- Agreeing on specifics – a letter, call and/or meeting.
- Taking the onus on to control the strategic agenda.

3. After the strategic meeting

After the meeting, the following actions should be undertaken:

- Sending an early letter or e-mail to the company with a focus on the business agenda and actions to be taken by the city IPA in a short timeframe.
- Deciding on how the city IPA handles the relationship. Establishing fairly regular contact with the company.
- Gauging whether it is sensible to involve other stakeholders.
- Reviewing feedback from initial discussions and considering how the relationship can best progress, taking company views into account.
- Adding the investment to the marketing literature – subject to the company's agreement.
- Ensuring that contacts with the company are recorded and assessed through the use of a customer relationship management system.
- Channeling of the company's correspondence/contacts through the key account manager (or at least ensuring involvement before action).
- Carrying out regular reviews of the engagement process and impact to ensure the relevance to the company and the effective use of resources.

- Developing propositions to encourage high added value investments by the company and assessing its response and follow-up actions.

D. How to improve the investment environment

1. The importance of policy advocacy

“Policy advocacy” refers to the efforts of a national and/or city IPA to shape the investment climate to attract greater inflows of FDI, to promote policies that will allow greater benefits to be extracted from FDI, and to build the competitiveness of a city.

A city IPA, through its contacts with potential and existing investors, has excellent knowledge of the main issues limiting investment in its city, as well as of the opportunities for increasing inward investment.

Key areas of policy advocacy can be divided into national level and city level issues. A city IPA can feed national level policy recommendations into its national IPA and city level policy recommendations into the relevant city authorities. Examples are shown below:

- National level:
 - Investment regulations, laws and policies.
 - Work/residence permits.
 - Taxation.
 - Intellectual property protection.
- City level:
 - Physical infrastructure improvements (roads, airports, ports, etc.).
 - ICT infrastructure improvements (telephone, broadband, etc.).
 - Utility improvements (electricity, water, etc.).
 - Labor supply and quality.
 - Education levels and training.
 - Licensing, local taxes and incentives – services by the local administration.
 - Real estate availability, quality and regulations.
 - Supply chain quality and availability.

2. Implementing policy advocacy

Most IPAs conduct policy advocacy on an ad hoc basis – collecting investor complaints and requesting appropriate changes directly or bringing the investor together with relevant officials. The typical approach is therefore re-active rather than pro-active. This approach has some success in changing policies, but could be more successful if it were more structured and pro-active in not just dealing with complaints but also looking strategically at how to improve the investment environment and competitiveness of a city.

To improve the ability to conduct policy advocacy, many locations establish investor associations – consultative committees with foreign affiliates that are already operating in the

locations. Regular meetings of such committees not only create confidence amongst foreign investors but also provide policy makers with useful insight into the perceptions of investors.

An example of a major policy to attract inward investment is shown in Box 10 below, which involves both government representatives and major investors as stakeholders. This example involves a “catalyst project” – in this case a major property development designed to improve the competitiveness of a location for inward investment in a specific sector.

Box 10. Catalyst project: Mauritius’ Cyber City

The Government of Mauritius has the vision of making the island a regional IT hub. “Cyber City” is a governmental project launched to attract foreign (and especially Indian) companies to establish call centers, back-office operations and programming centers.

Support for companies investing in Cyber City is provided in the form of financial credit and technical expertise.

Hewlett Packard is a partner for this project, bringing private sector expertise and an anchor client.

Cyber City combines offices and residential property, training and other educational premises with sports, shopping and entertainment facilities and back-up centers for disaster recovery services.

The Government addresses the issue of the availability of skilled labor through a specialized training program provided by the Vocational Training Board to call centers and BPO agents.

Incentives available for call center investment include a uniform corporate tax of 5%, duty free import of equipment and 50% relief on personal income tax for a specified number of IT specialists. There are also regulations on the fast tracking of visas, as well as work and resident permits for expatriates.

Sources: MCI and VCC.

E. Key take-aways and resources

1. Key take-aways

The key take-aways of this module, “How to develop after-care and policy advocacy,” are the following:

- After-care is a key function of a city IPA. It is an established method to generate new investment for a city, cost effective and a great promotional tool. For cities with a well established base of investors, up to 70% of inward investment can come from, or be connected to, existing investors.
- The after-care program of a city IPA should be coordinated with the national IPA, and should be focused on a limited number of existing investors with the best potential for further investment and linkages in the local economy.
- A city IPA should prepare thoroughly for a strategic meeting with an investor; after the meeting, it should follow up fully with the company.
- Policy advocacy is a key tool to provide policy recommendations to the national IPA and government, as well as to city authorities, on how to improve the investment environment. Establishing an investors association is a key tool to gain the involvement of investors and gather feedback from them.

2. Resources

UNCTAD provides comprehensive guides on after-care and policy advocacy.⁶⁸ WAIPA⁶⁹ also provides dedicated training programs on after-care, as do consulting companies such as Ernst & Young, PricewaterhouseCoopers and OCO Global Ltd.

⁶⁸ See UNCTAD, “Aftercare: a core function in investment promotion” (Geneva: United Nations, 2007) and UNCTAD, “Policy advocacy in investment promotion” (Geneva: United Nations, 2006).

⁶⁹ See WAIPA training workshops archive on after-care at http://www.waipa.org/works_programme1.htm.

Module X. Next steps: moving city investment promotion forward

A. About this module

1. Topics addressed

The key topics addressed in this module include:

- Setting priorities for investment promotion.
- Monitoring and evaluating success.
- Establishing a check list for assessing progress.

2. Objectives

The objective of this module is to assist a city set up an investment promotion agency and implement investment promotion activities.

B. Setting priorities for investment promotion

This *Handbook* has outlined how a medium-size, low-budget city in an emerging market can develop an investment promotion strategy and establish an agency to implement it. It has provided best practices and templates for marketing a city, conducting investor targeting and lead generation to increase inward investment, facilitating investment effectively, and developing after-care and policy advocacy.

For a city considering a comprehensive investment promotion initiative for the first time, it is essential to prioritize the areas of investment promotion to be addressed initially and to develop a clear action plan and timeframe for implementation.

1. Strategy, organization and funding

The first steps required to begin pro-actively attracting inward investment to a city are to develop an appropriate investment promotion strategy and put in place the organizational and human resource capacities needed to implement the strategy. However, critically, funding needs to be secured first.

A city's first priority should be to produce a scoping study that outlines the rationale, objectives and expected results (impact) of attracting inward investment for the city, together with initial recommendations on an investment promotion strategy, the appropriate organization required to implement the strategy and expected costs.

The scoping study can be disseminated to key potential stakeholders and funders to secure funding for the new city IPA. International organizations and advisory companies can assist in this process. The scale of possible funding available determines the type of city IPA that can be established. Once funding is secured, a full investment promotion and organization strategy can be developed. A city will require approximately three months to develop a strategy, and another 3-6 months to recruit staff and set up the IPA, depending on the size of the organization. Attraction and retention of skilled staff are key challenges for any IPA; hence, salaries are generally near private sector levels, as Module V discussed. Once staff is recruited, there will be an immediate need for training. The cost of recruiting and training

staff should be incorporated into the scoping study budget, and the city itself should take advantage of regional trainings provided by organizations such as WAIPA.

2. Marketing and investment facilitation

The key function of a city IPA is to promote and facilitate inward investment into the city. Once an investment promotion strategy and organization structure are in place, the city should develop activities for marketing and facilitating investment into the city. However, the scope of activities largely depends on the budget. For small and medium-size cities with limited budgets, the recommended key marketing priority should be to develop an inward investment website for the city, with sector-specific fact/sales sheets. The key facilitation priority should be to develop a roadmap of the investment process for investors and to make the appropriate contacts with people at the local and national levels responsible for permits, licenses, etc. At least three months are needed to develop an inward investment website and accompanying marketing material. Three months are also required to develop the investment road map. These tasks can be conducted simultaneously.

3. Investor targeting, after-care and policy advocacy

It may be too ambitious for many small and medium-size cities lacking in resources to attempt all the investment promotion activities identified in this *Handbook*. However, once a city IPA is well-established, marketing and facilitation activities are underway and investment officers are more experienced, a city IPA could consider a pilot investor targeting and after-care program, focused on a limited number of companies. An investor targeting campaign requires at least 12 months to measure success, and results may only come after 18-24 months. Policy advocacy is typically the last investment promotion activity to be addressed, as it requires an existing base of investors, significant experience in inward investment, and established networks between the city IPA and city and national government officials, as well as with service providers.

C. How to monitor and evaluate success

There are several key metrics a city IPA can use to monitor and evaluate success. These metrics can be further segmented by sectors and source markets, including:

- Number of FDI projects recorded in the city.
- Amount of capital invested by foreign companies in the city.
- Number of jobs created by foreign companies in the city.

To assess an after-care program, the above metrics can be broken down by new and expansion investments. A further breakdown can be made for FDI by key account investors.

Other relevant metrics, used by the most successful investment promotion agencies, include:

- Number of investment inquiries (e.g. through the website).
- Number of investment leads generated.
- Number of site visits.

The success of a city IPA can also be measured by looking at key milestones achieved. This could include, for example, launching a new service or website.

The specific monitoring and evaluation metrics should be linked to the annual investment targets of the agency (see Module IV). Most IPAs report their results with respect to

attracting inward investment on an annual basis. As Module IV discussed, a city IPA should ideally have an “inward investment results database” for recording investment successes over time. However, the database is not a tool for evaluating performance. Rather, it can be used to analyze long-term inward investment trends in the city, thereby helping inform a city’s investment promotion strategy.

D. Check list for assessing progress⁷⁰

To check progress with respect to investment promotion, a self-evaluation framework is provided below. The framework is divided into four sections:

- Strategy and organization.
- Marketing and investor targeting.
- Investment facilitation.
- After-care and policy advocacy.

⁷⁰ This section is based on Loewendahl, *Bargaining with Multinationals*, op.cit., pp. 120-121.

1. Strategy and organization

Table 18 provides a framework for assessing a city IPA's strategy and organization arrangements for attracting FDI. It should be used to ensure that the city has effective investment promotion and organization strategies. It can also be used to identify the key areas that need to be addressed over time.

Table 18. Self-assessment framework for strategy and organization arrangements

Dimension	Factor	Effectiveness of current arrangements (Score of 1-5, 5=best practice)
Policy context	Coordination with city agencies	
	Joint promotion with national agencies	
	Policy advocacy, status, visibility, and control	
Objectives	Clear functional mandate	
	Agreement with respect to business planning, budget and targets	
Sector/market strategy	Sector targeting strategy and research	
	Market (geographic) strategy and research	
	Links to wider economic development strategy	
Organization	Coherent, effective structure of the investment promotion agency	
	Recruitment and development of relevant skills and people	
	Coordination with national and overseas stakeholders	
	Sales focus and customer orientation	

Source: Based on Henry Loewendahl, *Bargaining with Multinationals: The Investment of Siemens and Nissan in North-East England* (London: Palgrave, 2001), pp. 120-121.

2. Marketing and investor targeting

Table 19 provides a framework for assessing a city IPA's marketing and investor targeting arrangements for attracting FDI. It should be used to ensure that the city has effective marketing and investor targeting strategies. It can also be used to identify the key areas that need to be addressed over time.

Table 19. Self-assessment framework for marketing and investor targeting arrangements

Dimension	Factor	Effectiveness of current arrangements (Score of 1-5, 5=best practice)
Sector research and marketing materials	SWOT assessment of each target sector	
	Clear marketing theme	
	Marketing messages for each sector	
	Brochure/fact sheet for each sector	
	Sales presentation for each sector	
Image-building and awareness creation	High quality inward investment website	
	Visibility and commitment of senior government officials in the city and country	
	Networking with investment intermediaries (brokers and international organizations)	
	Event/trade show program with effective planning, monitoring and evaluation	
Investor targeting and lead generation	Company target identification and research	
	Contacting, prospecting, and making pitches to companies	
	Relationship-building with target companies	
	Policies to attract talent back home	
	Effective customer relationship management system	

Source: Based on Henry Loewendahl, *Bargaining with Multinationals: The Investment of Siemens and Nissan in North-East England* (London: Palgrave, 2001), pp. 120-121.

3. Investment facilitation

Table 20 provides a framework for assessing a city IPA's arrangements for investment facilitation. It should be used to ensure that the city has an effective investment facilitation approach. It can also be used to identify the key areas that need to be addressed over time.

Table 20. Self-assessment framework for investment facilitation arrangements

Dimension	Factor	Effectiveness of current arrangements (Score of 1-5, 5=best practice)
Approvals	Roadmap to assist investors	
	One-stop shop service	
	Clear approval systems	
	Speedy and predictable approvals	
	FDI database systems	
Incentives	Coherent and predictable incentives policy	
	Clear role and ability of the city IPA to negotiate incentives	
Project handling	Efficient project handling by the city IPA	
	Effective coordination of project handling with the national IPA and related ministries	
	Coordination with other city stakeholders (real estate, recruitment, suppliers, etc.)	
	Due diligence on inquiries	
	Inquiry prioritization	
	Quality and consistency of proposals made for investors	
	Customer relationship management and key account management systems	

Source: Based on Henry Loewendahl, *Bargaining with Multinationals: The Investment of Siemens and Nissan in North-East England* (London: Palgrave, 2001), pp. 120-121.

4. After-care and policy advocacy

Table 21 provides a framework for assessing a city IPA's after-care and policy advocacy arrangements for attracting FDI. It should be used to ensure that the city has effective after-care and policy advocacy. It can also be used to identify the key areas to address over time.

Table 21. Self-assessment framework for after-care and policy advocacy arrangements

Dimension	Factor	Effectiveness of current arrangements (Score of 1-5, 5=best practice)
After-care	Priority of after-care in FDI strategy and organization	
	Coherent after-care policy and organizational delivery arrangements	
Policy advocacy	Clear framework for policy advocacy	
	Supplier attraction and supplier development and linkage program	
	Initiatives to increase the city's competitiveness for FDI (e.g. property, infrastructure and education initiatives)	
Monitoring and evaluation	Clear monitoring and evaluation of overall organization and FDI performance	
	Clear monitoring and evaluation of events and trade shows	
	Clear monitoring and evaluation of after-care program	

Source: Based on Henry Loewendahl, *Bargaining with Multinationals: The Investment of Siemens and Nissan in North-East England* (London: Palgrave, 2001), pp. 120-121.

E. Key take-aways and resources

1. Key learning points

The key take-aways of this module, “Next steps: moving city investment promotion forward,” are:

- The first priority is to outline why a city wants to attract inward investment, what the benefits will be and what are the expected costs, as well as to secure funding for establishing a city IPA. This *Handbook* should be of help in this respect.
- Once a city IPA has been established, its main priorities should be to develop an inward investment website and accompanying marketing materials and establish an investment roadmap. These priorities will have maximum impact on promoting the city and attracting inward investment.
- Investor targeting and after-care are advanced investment promotion activities. They should only be conducted by those city IPAs that have already gained some experience in attracting inward investment. A pilot project focusing on a limited number of companies is recommended, ideally with the support of expert advisors. At least 12 months are required to evaluate results.

- Policy advocacy is about improving the underlying investment environment. It assumes that a city IPA has the arrangements in place to not only effectively promote and facilitate investment into the city, but also to have influence with city and national authorities and service providers. It is therefore recommended that a city IPA engage in policy advocacy after at least one year or more of successful work.
- A city IPA should have mechanisms in place for monitoring and evaluating success in meeting its inward investment targets. Simple metrics, such as the number and value of investment projects secured with the accompanying new jobs created, should be reported annually, and should be monitored continuously, ideally in the form of a constantly updated inward investment database.
- A city IPA should monitor its progress not only in terms of results, but also in terms of becoming a best-in-class agency. This module provides a simple self-assessment framework.

2. Resources

a. Organizations that can support a city

There are several key international organizations that can support setting up and improving the investment promotion activities of a city. Several private sector organizations are also well placed to give advice and help attract investment to a city. The national IPA should be able to give advice and even provide resources to help set up a city IPA. This could include a training and mentoring program.

UNCTAD, UNIDO and FIAS (part of the World Bank group) are the key organizations to consult when developing a city IPA and evaluating and improving investment facilitation. UNCTAD offers, among other things, investment policy reviews, whereas UNIDO provides investment promotion and FIAS offers a wealth of experience with investment facilitation. These organizations can also assist with developing and implementing a city investment promotion strategy.

Moreover, where resources allow, there are high-quality private sector consulting companies that specialize in this area and can also assist a city. The major consulting companies (including AT Kearney, PA Consulting, PricewaterhouseCoopers, and Ernst & Young) all have experience in developing investment promotion strategies. fDi Intelligence (part of the Financial Times Ltd.), OCO Global Ltd. and Oxford Intelligence Ltd. are specialist FDI companies that have significant expertise in developing marketing collateral, investor targeting, lead generation, and after-care. Even if there are limited resources to hire a specialist consulting firm, these firms typically have free material and studies that they can provide, and they work closely with other international organizations on donor-funded projects that can provide additional assistance.

Contacting UNCTAD, UNIDO and FIAS is recommended as a first step in determining what support is available.

3. Additional resources for investment promotion

There are many free resources that cities can use to assist in investment promotion. Some of the main resources include:

- www.fdi.net.
- www.waipa.org.
- www.fdipromotion.com.

- www.fdimagazine.com.
- www.fdi.developmentgateway.org.
- www.vcc.columbia.edu.
- www.miga.org/services.
- www.fdiintelligence.com.
- www.ocoglobal.com.
- www.hoovers.com.



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