

Attracting Private Sector Investment at the City Level - Mekelle

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Investment Promotion Strategy

Dr. Karin Millett, Millennium Cities Initiative,
Earth Institute, Columbia University, New York

Private Sector Investment Types and Sources

- There are two major categories of private sector investment:
 - Mobile investment—meaning it is a type of activity, e.g., manufacturing, that has many choices of locations
 - Fixed investment, which generally means that the investment is in a natural ‘non movable’ resource, e.g., mining, oil and gas. The ‘deposit’ in these cases cannot be moved.
 - There are also some ‘in between’ categories of investment, such as tourism, where the tourism ‘assets’ are not movable; however, the investor could choose to develop opportunities in other countries

Sources of Private Sector Investment

- The majority of private sector investment in Mekelle is likely to be from within Ethiopia, with some also coming from the diaspora
- Hard to say ultimately what percentage of investment in Mekelle would be FDI –perhaps around 10 – 15% over time, though it could go higher
- The area around Addis may be the best target of efforts to promote investment from within Ethiopia
- FDI, on the other hand, can come from anywhere in the world—that is the good and the bad news for your efforts!

Strategy in context: Understanding the drivers of location decision by sector

<i>Primary sector</i>	<i>Manufacturing sector</i>	<i>Services sector</i>
Access to natural resources	Size of local market	Size of local market
Stable investment environment	Growth of local market	Growth of local market
Government effectiveness, incentives	Government effectiveness, incentives	Stable investment environment
Access to international/regional markets	Low labor cost	Access to international/regional markets

Source: UNCTAD World Investment Prospects Survey 2007-09

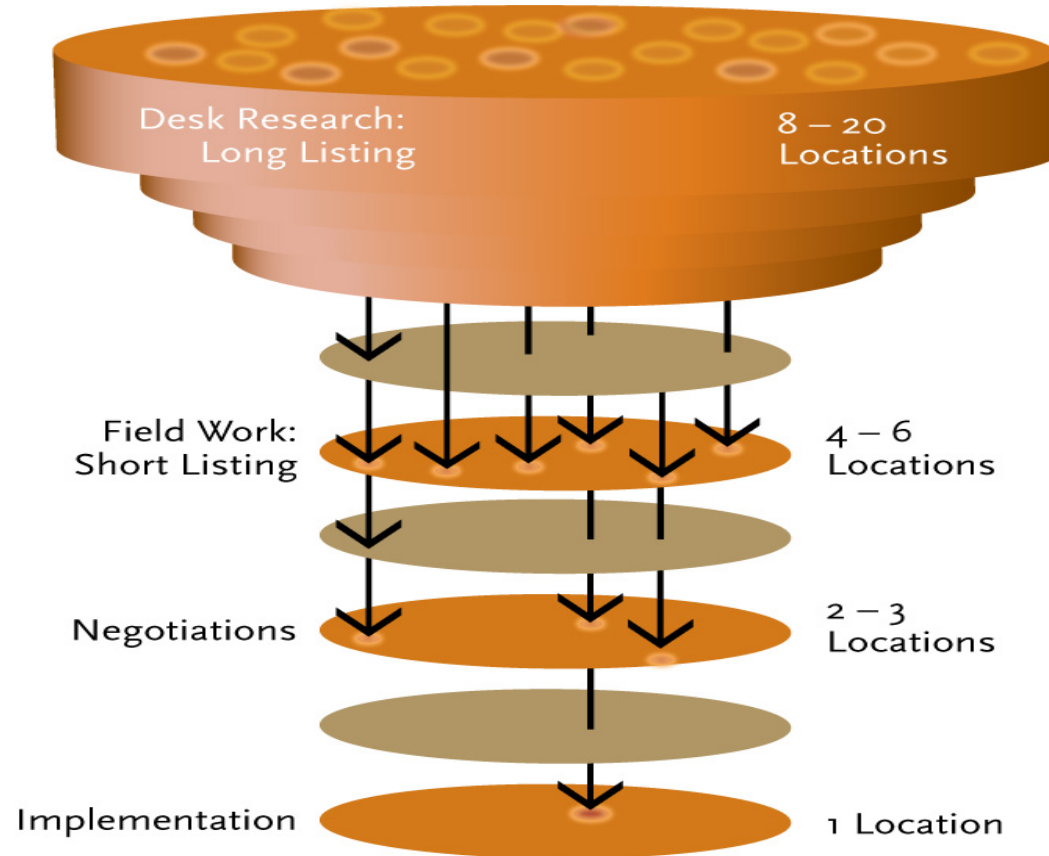
FDI Strategy : Understanding the drivers of location decisions for Mobile Investments

Most important factors influencing location of companies in 2009-2011 (by per cent of TNC responses)

- 1. Size of market (17%)**
- 2. Growth of local market (16%)**
- 3. Access to international/regional market (10%)**
- 4. Presence of suppliers and partners (10%)**
- 5. Business friendly environment (9%)**
- 6. Availability of skilled labour force (8%)**

Source: UNCTAD World Investment Prospects Survey 2009-2011

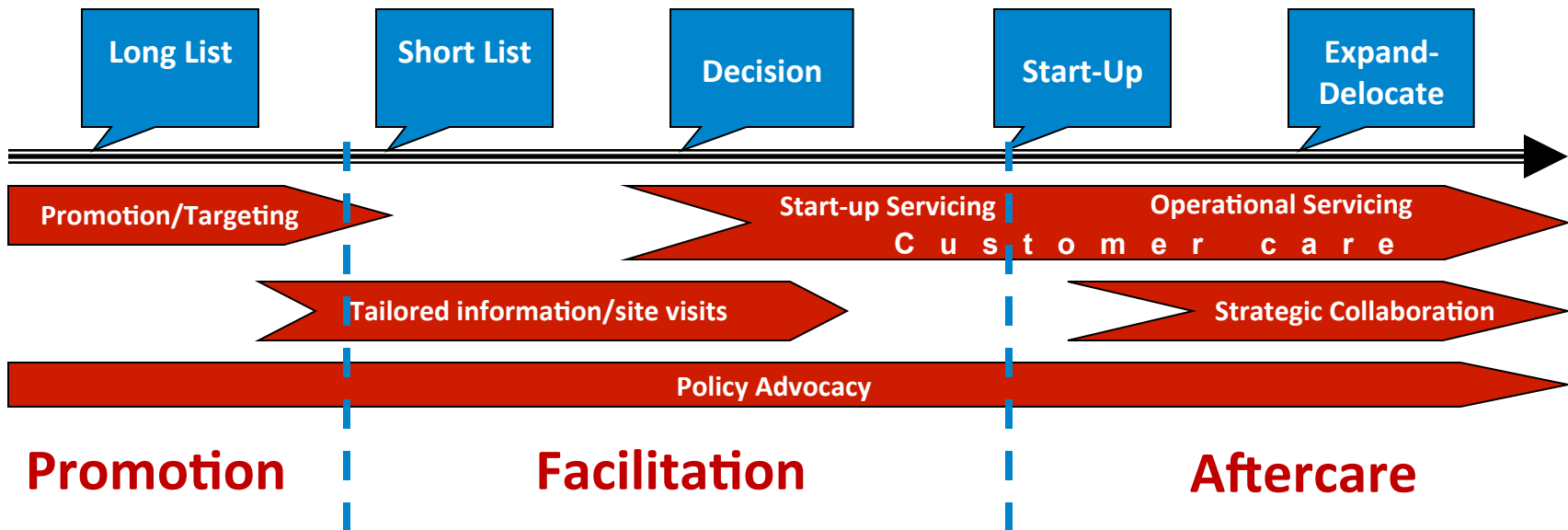
Investor Decision Making Process



If a country does not make it into the long list...

Providing services along the decision making route for investors.....

Investor decision process



Matching services to be provided

Attracting FDI at Sub-National Level: Challenges and Opportunities (1)

■ Challenges:

- Overall legal and regulatory framework for FDI is determined at the national level. Sub-national entities have to function within those frameworks.
- Sub-national entities have to 'lobby' central government for changes/improvements in conditions for FDI investment.
- Often the national Investment Promotion Agency (IPA) has lead responsibility for attracting and winning FDI, regardless of where in the country it will go.

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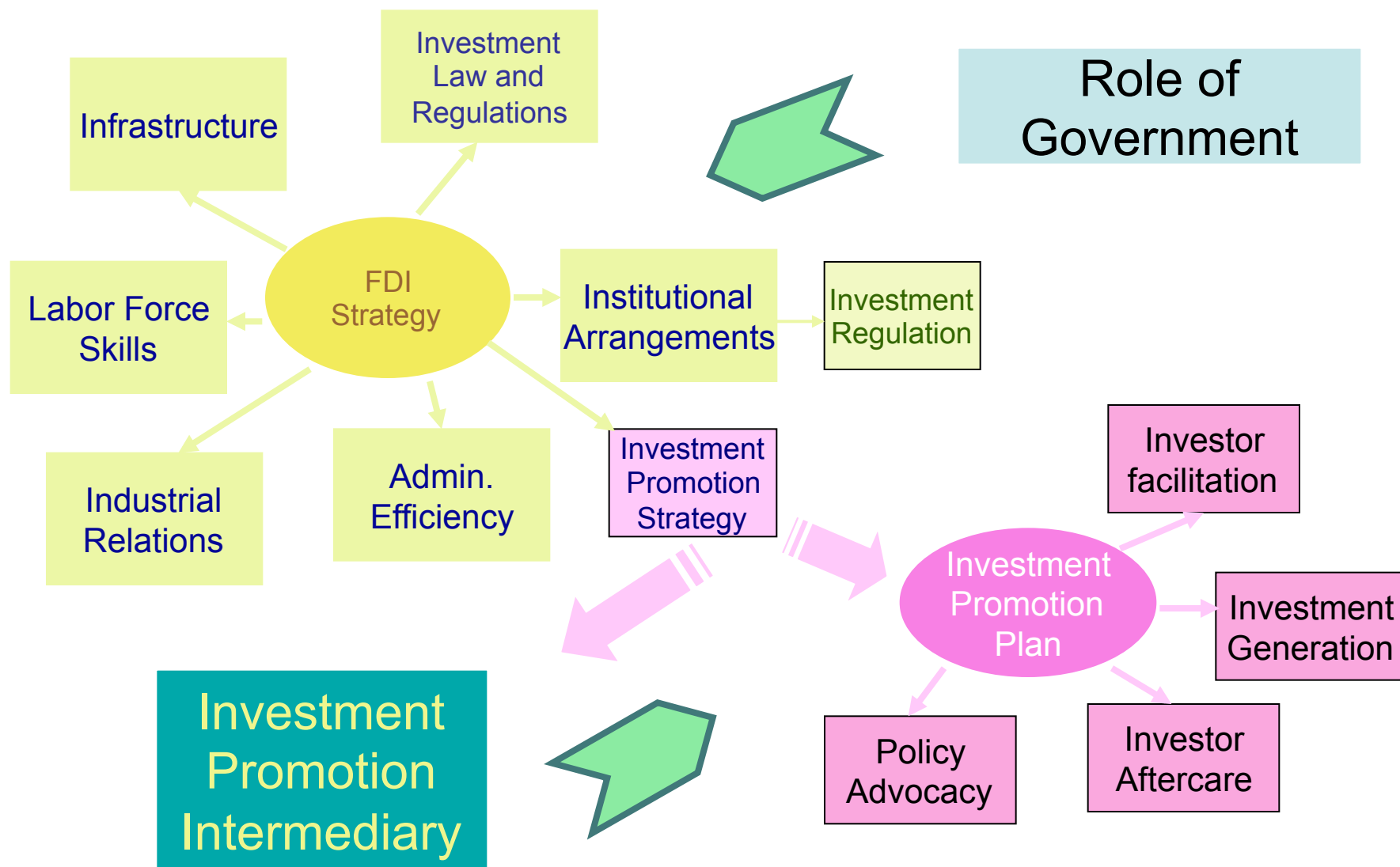
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Attracting FDI at Sub-National Level: Challenges and Opportunities (2)

- Even if a sub-national investment body has a mandate to promote FDI directly (which it may not), its financial and human resources they have may be limited.
- Opportunities:
 - Sub-national investment promotion bodies know their 'product' better and may have stronger interest in promoting it.
 - Sub-national entity, however, may have strong role in fast tracking investment procedures, e.g., company start up licenses, permits, etc.

Linking FDI Strategy and Investment Promotion Plan



Why seek FDI?

- Motivations for seeking to attract FDI
 - Benefits associated with FDI inflow include an increase in the production base—and often exports-- introduction of new skills and technologies, and creation of employment—as well as the infusion of capital.
- **Overarching goal:** generate positive externalities at intra- and inter-industry level
 - *Horizontal spillover* (intra-industry level), improve performance and competitiveness of domestic companies
 - *Vertical spillover* (inter-industry level), technology transfer, higher standards to domestic suppliers

Strategic Approach to Targeting FDI

- Developing a strong private sector at the city level requires both domestic (local, regional and national) as well as foreign direct investment (FDI)
- Key to attracting FDI is defining city's own goals for private sector development and identifying how and where FDI can play an role in achieving these goals, i.e., developing a strategy.
- Identifying and targeting key prospective investors for priority investments

What does it take to target and win FDI?

- The 'package' for targeting and winning productive FDI:
 - Favorable investment climate—level playing field for local and foreign investors
 - Commitment from highest level of government to FDI as a key component of economic development
 - Clarity of the value proposition in priority sectors
 - An effective investment promotion body or bodies at the national and local level
 - Professional, high-quality investment promotion, investor servicing, and investor aftercare at the city level

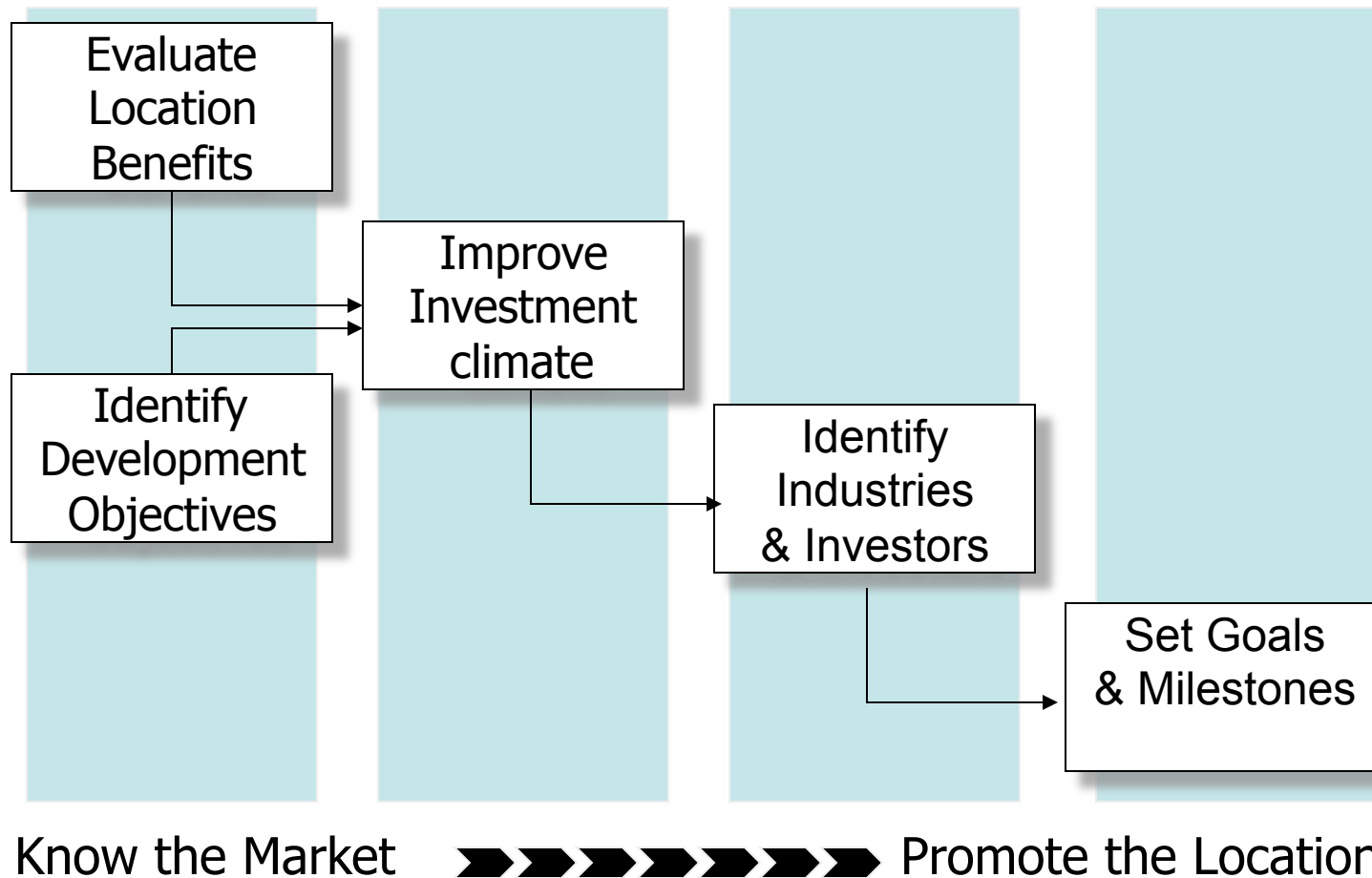
FDI Strategy and Investment Promotion Strategy

- Evidence from global experience suggests there is merit to having an FDI strategy for ‘mobile’ investment
- The difference between an FDI strategy and investment promotion strategy:
 - FDI strategy identifies priority sectors where country can likely compete for and win FDI and realistically assesses strengths and addresses weaknesses, particularly vis-à-vis competing locations.
 - Investment promotion strategy is how your ‘outreach arm’ goes about identifying the potential target companies, crafts a value proposition to propose to them, and actively conducts a targeted marketing campaign.

What is the role of an Investment Promotion Body?

- ❑ translates FDI strategy into a concrete plan for identifying companies that are credible targets of their marketing efforts;
- understands how to take the value proposition to the marketplace in each of the priority sectors and is able to engage knowledgeably with investors on the opportunities in the FDI host environment;
- clearly understands the 'locational' decision making processes of companies and knows how to service potential investors' needs, both during the initial investment phase as well as onward to expansion and reinvestment (Investor Aftercare).

Five Steps in Developing a FDI Strategy



Operationalizing FDI Strategy (taking the product to market)

- Investment Promotion Intermediary (usually public sector agency) :
 - Develops promotional plan consistent with priorities set out in the overall FDI strategy and based on active market intelligence
 - Articulates the value proposition of the sector/industry and location
 - Identifies likely potential targets of investor outreach, geographically and at the firm level.
 - Ensures availability of accurate, reliable information on laws, regulations, infrastructure and factor costs for potential investors
 - Provides for facilitation services for site visits, helps with getting permits and provides post-investment 'aftercare' services
 - Providing post-investment service to smooth out operational difficulties, anchor investment (aftercare)

Secret of success in winning FDI

Targeting, targeting, targeting.....

When FDI Strategy and Investment Promotion Work Together....

