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UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
Division on Investment, Technology and Enterprise Development
Advisory Services on Investment, and Training - ASIT

Survey of BEST PRACTICES IN INVESTMENT PROMOTION

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NOTE

The United Nations Conference on Trade and Development (UNCTAD) serves as the focal point within the United Nations Secretariat for all matters related to, *inter alia*, transnational corporations and technology development. In the past, the programme on transnational corporations was carried out by the United Nations Centre on Transnational Corporations (1975-1992) and the Transnational Corporations and Management Division of the United Nations Department of Economic and Social Development (1992-1993). In 1993, the programme was transferred to UNCTAD and became that organization's Division on Investment, Technology and Enterprise Development. One of the programme's mandated objectives is to strengthen the capacity of host countries, particularly developing countries, in their dealings with transnational corporations. This involves devising foreign investment policies and enhancing legislative and institutional structures in order to attract new investment; evaluating specific contractual arrangements; and building skills by training policy makers, officials, managers and local entrepreneurs as regards what they can offer foreign investors, how to attract them and how to negotiate with them.

The present publication is another of the Series B Advisory Studies publications. In contrast to the research-oriented studies of Series A, Series B primarily contains works with a "how-to" focus that provide guidance on policy issues and answers to questions as they arise in the relationships between transnational corporations and host country entities. This series is meant, therefore, to be of direct relevance to practitioners in the field of foreign direct investment field.

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PREFACE

Today, virtually all countries are actively seeking to attract foreign investment, because of the expected favourable effect on income generation from the inflow of capital, advanced technology, management skills and marketing know-how. These countries are also more acutely aware of the conditions that are conducive to a favourable business environment and the requirements of the transnational corporations as a condition of entry.

However, knowledge of what constitutes a favourable business climate is not always translated into practice, owing to socio-economic exigencies or bureaucratic rigidities. Even when these constraints do not obtain, the promotion of foreign investment is often not nearly efficient enough, in terms of the mix of modes, mechanisms, media and information systems. The investment promotion is also sometimes not sufficiently proactive. It is not enough for a country to establish appropriate investment legislation and an adequate macroeconomic framework and to sit back and wait for foreign investors to rush in. The international investment scene has become much more competitive than hitherto, especially since all countries have undergone similar market-based reforms.

But despite the competition, there is also room for cooperation. By a process of exchange of experiences, countries could learn from one another and derive greater benefits from their efforts to make their investment locations an attractive destination for transnational corporations. It is in furtherance of this synergistic spirit of mutual cooperation and cross-fertilization that UNCTAD has produced this *Survey of 2Best Practices in Investment Promotion1* and has been organizing global and regional conferences, involving investment promotion agencies and other interested parties, as part of its technical assistance programme. The present survey was conducted in cooperation with the World Association of Investment Promotion Agencies (WAIPA).

Rubens Ricupero
Secretary-General of UNCTAD

Geneva, February 1997

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INTRODUCTION

Today, the foreign direct investment inward (FDI) policy regimes of most countries around the world, both developed and developing, have taken on many of the characteristics of what may be described as a broadly liberal FDI framework [1]. Ironically, with policy regimes becoming increasingly open and similar, many countries have found that they need to make further efforts to attract FDI in such a competitive climate.

Foreign direct investment is now recognized as one of the most important potential sources of much- needed capital and managerial, technical and marketing know-how, not only in new and viable manufacturing but also in services and resource-based industry. Moreover, worldwide liberalization convergence increases the locational choices.

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

In this connection, UNCTAD, in line with its programme of technical assistance to countries on foreign investment issues, supported an initiative for the creation of a worldwide forum of experience-sharing by investment promotion agencies (IPAs) and invited IPAs around the world to attend a meeting of high-level officials during the twenty-first session of the Commission on International Investment and Transnational Corporations (see box 1). At that meeting, much discussion and debate centred on the question of best practices in investment promotion, and further investigation was recommended.

UNCTAD1s mandate pursuant to the Midrand Declaration includes 5promoting opportunities for FDI in host countries by facilitating the exchange of experiences on investment promotion and the benefits from FDI.4 [2] The present study has been prepared for that purpose. It discusses best practices in investment promotion, drawing some conclusions from the findings of a survey carried out means of a questionnaire focusing on certain basic objectives of investment promotion. The questionnaire was sent to all IPAs of UNCTAD member States, 81 replies were received.

WORLD ASSOCIATION OF INVESTMENT PROMOTION AGENCIES

In April 1995, more than 70 officials, representing investment promotion agencies (IPAs) from 60 countries, met at UNCTAD headquarters in Geneva. This gathering was a joint initiative of UNCTAD and an IPA Steering Committee comprising Canada, Ireland, Peru, Poland, the Philippines and Uganda. It was timed to coincide with the twenty-first session of the UNCTAD Commission on International Investment and Transnational Corporations. It discussed ways of improving cooperation between IPAs on a regional and global scale, and collective experiences in attracting inward investment. One of the central achievements of the meeting was the agreement to establish a World Association of IPAs (WAIPA). Among the objectives of WAIPA, as reflected in its statute, are the following:

(a) to promote and develop understanding and cooperation amongst IPAs;
(b) to strengthen information gathering systems and information exchange amongst IPAs;
(c) to share country and regional experiences in attracting investment;
(d) to help IPAs to gain access to technical assistance and training through referrals to relevant agencies;
(e) to facilitate access to funding and other assistance through referrals to relevant bilateral and multilateral agencies for the development and implementation of investment promotion programmes.

Since December 1995, IPAs from the following 79 countries (plus Aruba) have become WAIPA members upon the submission of signed membership forms: Albania, Algeria, Angola, Anguilla, Antigua and Barbuda, Aruba, Austria, Bahrain, Belarus, Belgium (Flanders/Wallonia), Bolivia, Bulgaria, Cameroon, Cape Verde, Chile, China, Colombia, Costa Rica, Côte d1voire, Croatia, Cuba, Cyprus, Czech Republic, Republic of Dominica, Estonia, Ethiopia, Fiji, Finland, Gambia, Ghana, Guatemala, Guyana, Hungary, Iceland, India (Rajasthan), Indonesia, Ireland, Israel, Italy, Jamaica, Jordan, Kenya, Kiribati, Kyrgyzstan, Latvia, Lesotho, Lithuania, Malaysia, Malta, Mongolia, Morocco, Namibia, Nepal, Nicaragua, Pakistan, Papua New Guinea, Paraguay, Peru, Philippines, Poland, Republic of Moldova, Romania, Russian Federation, Saint Lucia, Senegal, Seychelles, Sierra Leone, Slovakia, Sri Lanka, Thailand, Trinidad and Tobago, Tunisia, Uganda , United Republic of Tanzania (Zanzibar), Uzbekistan, Western Samoa, Yemen, Yugoslavia, Zambia, Zimbabwe.

Survey of Best Practices in Investment Promotion

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

This study is a first step towards developing criteria regarding what constitutes best practice in investment promotion. In that connection, it creates an analytical framework which permits a survey of a variety of critical components in an investment promotion strategy. It does not, however, enable UNCTAD to set out what best practices might be. To move towards that goal, it is necessary to analyse research into the effectiveness of policies and practices in the national conditions of the countries and territory that responded to the questionnaire. The results will be set out in a forthcoming Best Practices Advisory Manual. Determining what kinds of approaches work best in which kinds of situations is the ultimate objective.

In this connection, it is important to note that the data gathered under the survey on which this study is based were primarily provided by IPAs. That fact has two implications. First, although the questionnaire specifically requested that the answers not be 5promotional4, there is some likelihood (considering the very nature of the task of an IPA) that some of the answers were not absolutely factual. Second, the data do not reveal the other side of the story, i.e. the views of investors. To that extent, it may in some cases prove erroneous to make a comparative judgement regarding Best Practices in different countries based only on the answers in annex II of this study. Nevertheless, on the basis of what is described herein as the main components of Best Practices, the study offers suggestions for IPAs to develop criteria for measuring the effectiveness of their own practices by reference to a number of common denominators.

Part One of this study serves as the statistical and analytical backdrop to the survey. It ranks both developed and developing countries on the basis of quantitative inflows of foreign investments, while acknowledging that qualitative factors are also important. Part Two defines Best Practice in relation to investment promotion strategy and examines the principal components in general terms. In that regard, the study identifies key issues and outlines possible approaches to them, indicating a basis for the questions raised in the survey. Part Three examines how the effectiveness of investment promotion practices can be measured, so as to provide a basis for the comparative evaluation of individual country promotional strategies. Annexes I and II contain the questionnaire and a compilation of the answers supplied in a 5Yes4 or 5No4 format. In many instances, comments were also provided and a number of them are specifically mentioned in the main part of the study, while others simply form the basis of various points made in the general analysis.

This study was prepared by Maurice Odle and John Gara, UNCTAD staff members, under the supervision of Lynn Mytelka.

PART ONE

COUNTRY PERFORMANCE IN ATTRACTING FOREIGN INVESTMENT

A. Investment flows and determinants

Liberalization and deregulation have produced an explosion of foreign investment within the last decade or so. Whereas during 1983-1987 the total yearly investment inflow for all countries averaged US$77.1 billion, in 1995 the figure was US$314.9 billion - a fourfold increase. For developed countries alone, the equivalent figures were US$58.7 billion and US$203.2 billion, and for developing countries, US$18.3 billion and US$99.7 billion. The rate of increase was faster for the developing countries, with the result that their share of world flows rose from 24 per cent in 1983-1987 to 32 per cent in 1995 (peaking in 1994 at 39 per cent).

Some developed and developing countries have done considerably better than others in attracting foreign investment. The factors affecting their performance are myriad.[3] The pull factors exerted by inward recipient countries can be classified as natural endowment, institutional structures and practices, and policy permissive. The push factor determining the extent of transnational corporations, desire to make outward investment is the need to take advantage of, and also to safeguard, certain capital and technological advantages.

Natural endowment factors typically include market size; the rate of growth and buoyancy of that market; the adequacy of the physical infrastructure; the location and accessibility of certain natural resources; and the existence of a reasonable supply of low-cost, skilled and disciplined labour. With many countries adopting an export-oriented development strategy in a rapidly globalizing world, the price/quality labour ratio has taken on increasing importance. Global production is being premised on the availability of globally unlimited supplies of labour. This competitiveness-driven quest to minimize production costs is occurring in a context of very rapid technology change and an all-encompassing information age. Since labour costs do not remain static, and since a significant proportion of foreign capital is potentially mobile and footloose, there can be a dynamic process of shifting comparative advantage between recipient countries, as the South-East Asian experience has shown.

Institutional structures and practices include the fair and equitable nature of the judicial system; the existence of the rule of law; good governance, and general friendliness towards both local and foreign investors; political stability; and macroeconomic stability and predictability of the investment regime. For certain types of investment, for example those with heavy capital outlay and a long gestation and payback period, as in the case of mining projects, stability and predictability are of critical importance.

Policy permissive factors include right of establishment and related entry requirements; implementing regulations; and operating rules and administrative practices and procedures concerning the fiscal regime and incentives, repatriation of profits, dividends and capital, among others. These factors are the ones over which governments have the most control, and most countries have undergone a process of policy reform or structural adjustment which has made their economies more attractive to foreign investment.

The above host country factors are not the sole determinants of foreign investment inflows. Also important are the policies pursued by capital-surplus countries, most of which no longer apply capital export controls and, in some cases, whose governments actually encourage outward foreign investment by various direct and indirect means. The transnational corporations in these home countries also more vigorously and aggressively seek out investment opportunities abroad in order to retain their competitive edge, secure their global market share and satisfy, by way of profits and dividends, an increasingly demanding shareholder community. The more receptive and risk-free atmosphere for foreign capital in host countries also encourages foreign investors to exercise more often the option of direct investment rather than either trade or the non-equity investment form of contracting out technology and management know-how. This non-equity form pertains not only to cutting-edge or recent-vintage know-how, in respect of which the transnational corporation would naturally want to safeguard the ownership of its technological

advantage for as long as possible, but also to many types of mature technology.

Even in this context of cold, corporate calculations, less objective and somewhat more sentimental factors may still play a part. For example, cultural affinity is said to have had a favourable effect on foreign investment flows within the Asian region, both between the newly industrializing countries (NICs) and near-NICs and within these developmental groupings themselves. Of course, geographical proximity must also have been an important contributory and strategic factor in investor decision-making. Later in this study, a fuller listing (in the form of questions which an investor may ask) is given of the factors that affect location decision-making.

B. Ranking of investment recipients

The constellation of pull and push factors determines the absolute amount of foreign investment flowing annually to individual developed and developing countries. This amount can vary from one year to another, depending on whether, for example, a natural resource project has come on stream, a large privatization has been effected, a merger and acquisition has taken place, a recession is about to threaten or a political change is about to occur. Outside these circumstances, however, the change from one year to another is not likely to be very significant, especially in a manufacturing and services-oriented economy.

Table 1, on inflows, shows the foreign investment absorption (FIA) ranking for countries during the 1990s. On the basis of the average of the six-year period, 1990-1995, the highest FIA ranking goes to the United States, since it is by far the largest recipient, with a figure which is twice that of its nearest rival, the United Kingdom, closely followed by China and France. Two developing countries - China and Mexico - are ranked among the first ten recipients. It is worth noting that the world's second and third largest economies - Japan and Germany - have a 27th and 17th ranking, respectively. This is partly explained by the fact that Japan remains a fairly closed economy with respect to foreign investment and import trade, and by the fact that Germany's cost of production is quite prohibitive.

A relatively large number (ten) of developing countries - six in Asia and four in Latin America and the Caribbean - feature among the first (25) countries, reflecting the relatively skewed or concentrated nature of investment flows to developing countries. The largest transitional economy recipient is Hungary in 25th place, while the largest African host country - Nigeria - is ranked 30th.

Table 1
Ranking of host countries and territories with respect to FDI inflows, 1990-1995
(Millions of dollars)

	Host country/territory	1990	1991	1992	1993	1994	1995	1990-1995
	Ranking based on 1990-1995' annual average							Annual average
1	United States	47 918	22 020	17 580	41 128	49 760	60 236	39 774
2	United Kingdom	32 430	16 208	14 934	14 475	10 085	29 910	19 674
3	China	3 487	4 366	11 156	27 515	33 787	37 500	19 635
4	France	13 183	15 153	21 840	20 752	17 136	20 124	18 031
5	Spain	13 984	12 493	13 276	8 144	9 359	8 250	10 918
6	Belgium and Luxembourg	8 047	9 363	11 286	10 750	7 464	9 107	9 336
7	Netherlands	12 349	6 316	7 656	6 521	4 369	9 850	7 843
8	Canada	7 855	2 740	4 517	4 997	6 043	11 182	6 222
9	Sweden	1 982	6 351	-79	3 885	6 247	13 672	5 343
10	Mexico	2 549	4 742	4 393	4 389	7 978	6 964	5 169
11	Singapore	5 575	4 879	2 351	5 016	5 588	5 302	4 785
12	Malaysia	2 333	3 998	5 183	5 006	4 348	5 800	4 445
13	Italy	6 411	2 401	3 105	3 749	2 199	4 347	3 702
14	Argentina	1 836	2 439	4 179	6 305	1 200	3 900	3 310
15	Switzerland	4 961	3 178	1 249	899	3 684	2 292	2 710
16	Bermuda	819	2 489	3 321	2 960	2 923	2 900	2 569
17	Germany	2 689	4 071	2 370	277	-2 993	8 996	2 568
18	Denmark	1 132	1 553	1 017	1 713	5 006	3 360	2 297
19	Brazil	989	1 103	2 061	1292	3 072	4 859	2 229
20	Indonesia	1 093	1 482	1 777	2 004	2 109	4 500	2 161
21	New Zealand	1 686	1 698	1 090	2 200	2 796	2 483	1 992
22	Thailand	2 444	2 014	2 116	1 726	640	2 300	1 873
23	Portugal	2 610	2 448	1 873	1 502	1 270	1 386	1 848
24	Hong Kong	1 728	538	2 051	1 667	2 000	2 100	1 681
25	Hungary	..	1 462	1 479	2 350	1 144	3 500	1 656
26	Chile	590	523	699	841	2 518	3 021	1 365
27	Japan	1 753	1 730	3 490	234	908	39	1 359
28	Taiwan Province of China	1 330	1 271	879	917	1 375	1 470	1 207
29	Poland	89	291	678	1 715	1 875	2 510	1 193
30	Nigeria	588	712	897	1 345	1 959	1 340	1 140
31	Greece	1 005	1 135	1 144	977	981	890	1 022
32	Korea (Republic of)	788	1 180	727	588	809	1 500	932
33	Colombia	500	457	790	960	1 667	1 200	452
34	Saudi Arabia	1 864	160	-79	1 369	1 341	890	162
35	Philippines	530	544	228	1 025	1 457	1 500	218
36	Norway	1 003	-398	716	2 003	623	1 313	157
37	Austria	653	360	891	770	1 309	1 040	446
38	Turkey	684	810	844	636	608	1 037	597

Table 1 (continued)

	Host country/territory	1990	1991	1992	1993	1994	1995	1990-1995
	Ranking based on 1990-1995' annual average							Annual average
39	Venezuela	451	1 916	629	372	764	245	410
40	Finland	812	-233	396	864	1 496	897	456
41	Egypt	734	253	459	493	1 256	1 000	324
42	Czech Republic	..	..	..	568	862	2 500	239
43	Peru	41	-7	145	371	2 326	900	242
44	India	162	141	151	273	620	1 750	225
45	Morocco	227	375	503	590	555	417	445
46	Russian Federation	..	..	..	..	637	2 017	107
47	Israel	101	351	539	580	421	501	415
48	Pakistan	244	257	335	354	422	639	375
49	Yemen	-131	583	719	903	17	20	352
50	Former Czechoslovakia	207	600	1 103	..	..	..	135
51	Ecuador	126	160	178	469	531	400	311
52	Angola	-335	665	288	302	350	400	278
53	Trinidad and Tobago	109	169	178	379	516	274	271
54	Tunisia	76	126	371	238	194	250	209
55	Costa Rica	163	178	226	247	87	265	194
56	Dominican Republic	133	145	180	183	190	250	180
57	Virgin Islands	18	5	-131	675	183	242	165
58	Romania	..	40	77	94	340	373	154
59	Libyan Arab Jamahiriya	159	160	150	160	80	90	133
60	Paraguay	76	84	137	111	180	200	131
61	Sri Lanka	43	48	123	195	166	195	128
62	Jamaica	138	133	142	78	117	154	127
63	Ukraine	..	..	200	200	159	200	127
64	Oman	141	149	87	99	130	150	126
65	Kazakstan	..	..	100	150	185	284	120
66	Papua New Guinea	155	203	291	1	4	15	111
67	Ghana	15	20	23	125	233	245	110
68	Slovakia	..	..	..	199	203	250	109
69	Estonia	..	..	82	162	214	188	108
70	Guatemala	48	91	94	143	38	160	96
71	Ireland	99	97	102	89	90	90	94
72	Uruguay	42	32	1	102	170	200	91
73	Cyprus	127	83	93	83	76	80	90
74	Latvia	..	..	29	45	215	250	90
75	Zambia	203	34	50	55	60	66	78
76	Slovenia	..	..	111	113	84	150	76
77	United Arab Emirates	-116	26	130	183	113	110	74
78	Gibraltar	36	37	89	107	77	91	73
79	Syrian Arab Republic	71	62	67	70	76	77	71

Table 1 (continued)

	Host country/territory	1990	1991	1992	1993	1994	1995	1990-1995
	Ranking based on 1990-1995' annual average							Annual average
80	Bulgaria	4	56	42	55	106	135	66
81	Viet Nam	16	32	24	25	100	150	58
82	Malta	46	77	-3	69	89	60	56
83	Swaziland	39	79	69	49	46	54	56
84	Namibia	29	121	79	32	30	45	56
85	Honduras	44	52	48	35	70	77	54
86	Former Yugoslavia	67	118	64	25	..	..	46
87	Saint Lucia	45	58	41	34	32	63	45
88	Liberia	225	8	-11	30	9	10	45
89	Fiji	80	15	50	49	35	35	44
89	Croatia	..	..	..	74	98	86	43
90	Uzbekistan	..	..	40	45	50	115	42
91	Cambodia	..	..	33	54	69	80	39
92	Lao People's Democratic Republic	6	8	9	60	60	75	36
93	Antigua and Barbuda	61	55	20	15	25	25	33
95	Albania	..	-1	20	58	53	70	33
96	Qatar	5	43	40	29	37	35	31
97	Nicaragua	1	11	15	39	40	70	29
98	Bolivia	11	25	35	25	20	50	28
99	Bangladesh	3	1	4	14	11	125	26
100	Mozambique	9	23	25	30	33	36	26
101	Saint Kitts and Nevis	49	21	13	14	15	40	25
102	Vanuatu	13	25	26	27	30	25	24
103	Equatorial Guinea	10	42	20	23	26	20	24
104	Mauritius	41	19	15	15	20	25	22
105	Saint Vincent & the Grenadines	8	9	19	31	51	15	22
106	Seychelles	20	19	9	26	31	26	22
107	Netherlands Antilles	8	33	40	11	22	10	21
108	Lithuania	..	..	10	30	31	50	20
109	Grenada	13	15	23	20	19	24	19
110	Guinea	18	39	20	3	-	35	19
111	Cameroon	-113	-15	29	5	105	102	19
112	Azerbaijan	..	..	..	..	0	110	18
113	Dominica	13	15	21	13	22	25	18
114	Zimbabwe	-12	3	15	28	35	40	18
115	Kenya	57	19	6	2	4	20	18
116	Aruba	131	185	-37	-18	-73	-80	18
117	Sierra Leone	32	8	-6	-7	39	41	18
118	El Salvador	2	25	15	16	20	19	16
119	Madagascar	22	14	21	15	6	18	16

Table 1 (continued)

	Host country/territory	1990	1991	1992	1993	1994	1995	1990-1995
	Ranking based on 1990-1995' annual average							Annual average
120	New Caledonia	31	3	17	20	10	10	15
121	Belize	17	15	18	11	14	15	15
122	Solomon Islands	10	15	14	15	17	17	15
123	Republic of Moldova	..	..	17	14	23	32	14
124	Lesotho	17	8	3	15	19	23	14
125	Jordan	38	-12	41	-34	3	43	13
126	Iceland	6	35	14	8	0	14	13
127	Kuwait	-6	1	35	13	16	15	12
128	Bahamas	-17	..	7	27	27	27	12
129	Barbados	11	7	14	9	10	12	11
130	Gabon	74	-55	127	-114	-103	135	11
131	Algeria	0	12	12	15	18	5	10
132	Lebanon	6	2	4	6	7	35	10
133	United Republic of Tanzania	-3	3	12	20	0	27	10
134	Cayman Islands	49	-9	27	-18	0	3	9
135	Belarus	..	..	7	10	15	20	9
136	Malawi	23	18	2	3	1	1	8
137	Gambia	0	10	6	11	10	10	8
138	Maldives	6	7	7	7	8	9	7
139	Haiti	8	14	8	8	2	2	7
140	Mauritania	7	2	8	16	2	5	7
141	Ethiopia	12	1	6	6	7	7	6
142	Mongolia	..	2	8	8	10	10	6
143	Panama	-147	138	173	-658	549	-18	6
144	Benin	1	13	7	10	5	1	6
145	Chad	..	4	2	15	7	7	6
146	Brunei Darussalam	3	1	4	14	6	7	6
147	Guyana	8	13	0	7	3	3	6
148	Nepal	6	2	4	6	7	8	6
149	Cuba	1	10	5	4	5	7	5
150	Senegal	-3	22	1	1	8	1	5
151	Mali	-7	4	-8	-20	45	15	5
152	Togo	18	7	-2	1	2	0	4
153	Myanmar	5	0	3	4	4	10	4
154	Western Samoa	7	3	5	5	3	3	4
155	Kyrgyzstan	..	..	..	..	10	15	4
156	Tajikistan	..	..	..	..	10	15	4
157	Congo	7	5	4	3	4	1	4
158	Rwanda	8	5	2	3	1	1	3
159	Armenia	..	..	..	..	8	10	3

Table 1 (continued)

	Host country/territory	1990	1991	1992	1993	1994	1995	1990-1995

	Ranking based on 1990-1995' annual average							Annual average
160	Macau	1	3	2	3	3	2	2
161	Uganda	-6	1	3	3	5	7	2
162	Somalia	6	0	3	2	1	1	2
163	Djibouti	0	0	2	3	3	4	2
164	Comoros	0	3	1	2	2	2	2
165	Guinea-Bissau	2	2	6	-2	0	1	2
166	Tonga	0	0	1	2	2	2	1
167	Zaire	-12	15	1	1	1	1	1
168	Burundi	1	1	1	1	1	2	1
169	Burkina Faso	1	1	0	0	1	1	1
170	Niger	-1	1	0	1	1	1	0
171	Democratic People's Rep. Of Korea	0	0	0	0	0	1	0
172	Cape Verde	0	1	-1	0	0	0	0
173	Bosnia and Herzegovina	..	..	..	..	..		..
174	The former Yugoslav Rep. of Macedonia	..	..	..	..	..	..	..
175	Georgia	..	..	..	..			..
176	Afghanistan	..	0	0	0	0	0	..
177	Kiribati	0	..	..	..	..		..
178	Iraq	0	-3	-1	1	0	-	-1
179	South Africa	-5	-8	-5	-8	6	4	-3
180	Central African Republic	1	-5	-11	-10	4	3	-3
181	Sudan	-31	-1	0	0	0	0	-5
182	Bahrain	-4	-7	-9	-5	-31	6	-8
183	Côte d'Ivoire	48	16	-231	40	18	45	-11
184	Islamic Republic of Suriname	-43	10	-30	-47	-30	15	-21
185	Botswana	96	-8	-2	-287	-48	70	-30
186	Iran	-362	23	-170	-50	-10	-30	-100

Source: Ranking computations based on UNCTAD data.
.. = not available.

When flows are considered for a longer period, i.e. the 12 from 1984 to 1995, there are some small changes in the ranking of the first 50 countries (see table 2). China slips from third to fourth position because it is only in recent years, with investors assured that policy reforms are permanent and the country is market-friendly, that the herd effect has begun to manifest itself. But developing country representation has improved. Three developing countries are now among the first ten largest investment recipients, 11 are ranked among the first 25, and Nigeria moves up one notch to 29th position. Hungary, however, slips from 25th to 30th position in the FIA ranking.

As will be discussed more fully in part three, the quality of investment is just as important as the quantity of investment. Investment that is associated *inter alia* with the transfer of high technology or with the creation of backward and forward linkages is more desired and valued by host countries. Although host countries are all actively seeking more foreign investment, they are still concerned about the terms and conditions related to such investment. In this regard, the above-mentioned investment recipient rankings lack a weighted developmental impact factor, because the value added and productivity factors are not reflected in them.

C. Weighted importance of capital inflows

One proxy index of the importance of transnational corporations in the development process is the relationship of foreign investment to capital accumulation (FICA). Table 3 shows the FICA ranking for countries, based on the ratio of inward foreign investment to gross capital formation for the 1984-1989 and 1990-1994 periods. Whereas during 1984-1989, there were only 22 countries with a double-digit FICA ratio, for 1990-1994 the number had increased to 39, partly because of greater liberalization and deregulation with respect to foreign investment. In this latter period, the first 11 countries are developing countries, as are 35 of the first 50 countries. This very high incidence of developing countries in the upper FICA rankings suggests that foreign investment is generally more critical to the developing countries than to the developed countries. At the same time, there are only two developing countries for which the FICA ratio exceeds 50 per cent and only eleven developing countries for which the ratio exceeds 25 per cent (the 12th position being occupied by a developed country, New Zealand, with 24.2 per cent). Which suggests that, in quantitative terms, the reliance on foreign investment is still generally not very excessive. Nevertheless, as one commentator has suggested, there is a 5threshold level (say 7-10 per cent) beyond which the 2outside to domestic leverage effect1(ODLE) is becoming considerable4,[4] and there are 50 countries in this situation.

Table 2

Ranking of first 50 host countries and territories with respect to FDI inflows, 1984-1995
(Millions of dollars)

	Host country/territory	1984-1989	1990-1995	1984-1995
	Ranking based on 1984-1995 annual average	Annual average	Annual average	Annual average
1	United States	43 938	39 774	41 856
2	United Kingdom	13 545	19 674	16 610
3	France	5 364	18 031	11 698
4	China	2 282	19 635	10 959
5	Spain	4 535	10 918	7 726
6	Belgium and Luxembourg	2 793	9 336	6 065
7	Netherlands	3 787	7 843	5 815
8	Canada	4 718	6 222	5 470
9	Mexico	2 436	5 169	3 802
10	Singapore	2 239	4 785	3 512
11	Sweden	982	5 343	3 162
12	Italy	2 560	3 702	3 131
13	Malaysia	798	4 445	2 622
14	Germany	1 833	2 568	2 201
15	Switzerland	1 620	2 710	2 165
16	Argentina	653	3 310	1 981
17	Bermuda	1 144	2 569	1 856
18	Brazil	1 416	2 229	1 822
19	Hong Kong	1 422	1 681	1 552
20	Denmark	323	2 297	1 310
21	Indonesia	406	2 161	1 283
22	Thailand	676	1 873	1 275
23	Portugal	639	1 848	1 243
24	New Zealand	176	1 992	1 084
25	Saudi Arabia	1 084	924	1 004
26	Chile	614	1 365	990
27	Taiwan Province of China	691	1 207	949
28	Egypt	1 085	699	892
29	Nigeria	624	1 140	882
30	Hungary	0	1 656	828
31	Greece	624	1 022	823
32	Republic of Korea	592	932	762
33	Colombia	563	929	746
34	Japan	81	1 359	720
35	Norway	408	877	642
36	Poland	16	1 193	605
37	Philippines	326	881	603
38	Austria	318	837	578
39	Finland	314	705	510
40	Turkey	245	770	507
41	Venezuela	71	730	400

Table 2 (continued)

	Host country/territory	1984-1989	1990-1995	1984-1995
	Ranking based on 1984-1995 annual average	Annual average	Annual average	Annual average
42	Czech Republic	0	655	328
43	India	133	516	325
44	Peru	9	629	319
45	Israel	147	415	281
46	Morocco	73	445	259
47	Pakistan	136	375	256
48	Angola	172	278	225
49	Russian Federation	0	442	221
50	Ecuador	105	311	208

Source: Ranking computations based on UNCTAD data.

Table 3

Ranking based on the ratio of inward FDI to gross fixed capital formation, by country/territory, 1984-1994.

		(Percentage)		(Percentage)
		1984-1989		1990-1994
	Country/territory	(Annual average)	Country/territory	(Annual average)
1	Liberia	100.0	Equatorial Guinea	67.6
2	Saint Kitts and Nevis	35.9	Liberia	55.5
3	Seychelles	32.7	Vanuatu	48.3
4	Angola	31.3	Trinidad and Tobago	42.2
5	Swaziland	31.1	Angola	40.8
6	Zambia	28.4	Saint Vincent and the Grenadines	39.7
7	Singapore	28.3	Swaziland	33.8
8	Vanuatu	25.9	Nigeria	29.7
9	Chad	24.8	Argentina	29.3
10	Dominica	23.7	Saint Kitts and Nevis	28.6
11	Papua New Guinea	20.0	Singapore	28.4
12	Grenada	17.7	New Zealand	24.2
13	Nigeria	16.5	Grenada	23.7
14	Saint Vincent and the Grenadines	15.7	Dominica	23.4
15	Chile	15.6	Sierra Leone	23.3
16	Botswana	13.4	Fiji	22.4
17	Belgium and Luxembourg	13.0	Belgium and Luxembourg	22.3
18	Solomon Islands	12.6	Seychelles	22.1
19	Belize	12.3	Zambia	21.9
20	Hong Kong	12.2	Estonia	21.5
21	Guatemala	12.0	Malaysia	21.1
22	United Kingdom	11.5	Yemen	18.8
23	Netherlands	9.9	Hungary	17.6
24	Fiji	9.7	Papua New Guinea	13.5
25	Costa Rica	9.5	Namibia	13.4
26	Equatorial Guinea	8.9	Gambia	12.9
27	Malaysia	8.8	Costa Rica	12.9
28	Bahrain	8.8	Netherlands	12.2
29	Australia	8.6	Belize	11.8
30	Colombia	8.5	Jamaica	11.7
31	Spain	8.1	China	11.6
32	Portugal	8.0	Maldives	11.1
33	Greece	7.9	Sweden	11.1
34	Mexico	7.8	Portugal	10.7
35	Malawi	7.7	Ecuador	10.6
36	Maldives	7.7	United Kingdom	10.4
37	Malta	7.6	Colombia	10.2
38	Cyprus	7.3	Spain	10.1
39	Gambia	6.2	Chile	10.0
40	Oman	6.0	Denmark	9.7
41	United States	5.8	Czech Republic	8.5

42	Saudi Arabia	5.7	Dominican Republic	8.4
43	Rwanda	5.6	Venezuela	8.2

Table 3 (continued)

		(Percentage)		(Percentage)
		1984-1989		1990-1994
	Country/territory	(Annual average)	Country/territory	(Annual average)
44	Comoros	5.5	Slovakia	8.0
45	Trinidad and Tobago	5.5	Greece	7.9
46	Egypt	5.5	Paraguay	7.9
47	Honduras	5.4	Peru	7.8
48	Canada	5.4	Ghana	7.7
49	Dominican Republic	5.3	Australia	7.7
50	Panama	5.2	Malta	7.6
51	Philippines	5.1	Mexico	7.4
52	Ecuador	4.8	France	7.1
53	Gabon	4.7	Morocco	7.0
54	Lesotho	4.6	Oman	7.0
55	Côte d'Ivoire	4.5	Poland	6.8
56	Switzerland	4.5	Hong Kong	6.8
57	Thailand	4.4	Egypt	6.7
58	Mauritius	4.3	Honduras	6.6
59	Congo	4.3	Cyprus	6.2
60	Uruguay	4.1	Philippines	6.2
61	Tunisia	4.0	Guatemala	5.7
62	Argentina	3.8	Nicaragua	5.2
63	Central African Republic	3.5	Tunisia	5.2
64	Niger	3.5	Former Czechoslovakia	5.0
65	France	3.5	Chad	4.9
66	Sweden	3.4	Canada	4.8
67	Taiwan Province of China	3.3	Switzerland	4.7
68	Barbados	2.8	Barbados	4.7
69	Jordan	2.6	Sri Lanka	4.6
70	El Salvador	2.5	Madagascar	4.5
71	New Zealand	2.5	Guyana	4.5
72	Madagascar	2.4	Thailand	4.3
73	Jamaica	2.4	Uruguay	4.3
74	Israel	2.3	Finland	4.2
75	Mauritania	2.3	United States	4.1
76	Sri Lanka	2.3	Saudi Arabia	4.1
77	Brazil	2.3	Romania	4.1
78	Guinea	2.2	Pakistan	3.6
79	Cameroon	2.2	Indonesia	3.5
80	Kenya	2.1	Guinea	3.4
81	Denmark	2.0	Norway	3.3
82	Haiti	2.0	Comoros	3.3
83	Norway	2.0	Malawi	3.1
84	Italy	2.0	Taiwan Province of China	3.0
85	Pakistan	2.0	Bolivia	3.0
86	Morocco	1.9	Mauritania	3.0
87	China	1.8	Benin	2.9
88	Ireland	1.8	Qatar	2.8

Table 3 (continued)

		(Percentage)		(Percentage)
		1984-1989		1990-1994
	Country/territory	(Annual average)	Country/territory	(Annual average)
89	Indonesia	1.6	Guinea-Bissau	2.8
90	Finland	1.6	Israel	2.7
91	Togo	1.5	Mozambique	2.7
92	Republic of Korea	1.4	Mauritius	2.5
93	Turkey	1.4	Bulgaria	2.5
94	Austria	1.4	Lesotho	2.4
95	Guinea-Bissau	1.4	Haiti	2.3
96	Lebanon	1.3	Brazil	1.9
97	Namibia	1.2	Turkey	1.9
98	Syrian Arab Republic	1.1	Austria	1.8
99	Ghana	1.1	Cameroon	1.7
100	Yemen	1.0	El Salvador	1.6
101	Germany	1.0	Libyan Arab Jamahiriya	1.6
102	United Arab Emirates	0.9	Italy	1.6
103	Senegal	0.9	Rwanda	1.4
104	Mali	0.8	Bahamas	1.4
105	Bahamas	0.7	Djibouti	1.3
106	Former Czechoslovakia	0.7	Ireland	1.2
107	Venezuela	0.7	Congo	1.2
108	Burundi	0.6	Ethiopia	1.2
109	Cape Verde	0.5	Syrian Arab Republic	1.1
110	Sudan	0.5	Kenya	1.1
111	Paraguay	0.5	Zimbabwe	1.1
112	Burkina Faso	0.5	Iceland	1.0
113	Mozambique	0.4	Somalia	1.0
114	Guyana	0.3	Nepal	0.9
115	Djibouti	0.3	United Arab Emirates	0.8
116	India	0.2	Mali	0.8
117	Nepal	0.2	Senegal	0.8
118	Peru	0.1	Republic of Korea	0.7
119	Benin	0.1	Jordan	0.7
120	United Republic of Tanzania	0.1	United Republic of Tanzania	0.6
121	Iceland	0.1	Burundi	0.6
122	Poland	0.1	Lebanon	0.5
123	Myanmar	0.1	India	0.5
124	Ethiopia	0.1	Togo	0.5
125	Libyan Arab Jamahiriya	0.1	Zaire	0.4
126	Bangladesh	0.1	Former Yugoslavia	0.4
127	Afghanistan	0.0	Germany	0.4
128	Bulgaria	0.0	Kuwait	0.3
129	Japan	0.0	Niger	0.2
130	South Africa	0.0	Uganda	0.2
131	Algeria	0.0	Bangladesh	0.2
132	Former Yugoslavia	0.0	Japan	0.1
133	Uganda	0.0	Myanmar	0.1

Table 3 (continued)

		(Percentage)		(Percentage)
		1984-1989		1990-1994
	Country/territory	(Annual average)	Country/territory	(Annual average)
134	Iraq	0.0	Algeria	0.1
135	Kuwait	0.0	Cape Verde	0.1
136	Iran (Islamic Republic of)	-0.1	Burkina Faso	0.1
137	Nicaragua	-0.2	Russian Federation	0.0
138	Zaire	-0.4	South Africa	0.0
139	Bolivia	-0.4	Iraq	0.0
140	Qatar	-0.6	Afghanistan	0.0
141	Zimbabwe	-0.9	Panama	-0.0
142	Somalia	-1.6	Iran (Islamic Republic of)	-0.2
143	Sierra Leone	-25.2	Sudan	-0.3
144	Suriname	-30.9	Bahrain	-0.8
145	Czech Republic	..	Botswana	-1.3
146	Estonia	..	Gabon	-1.3
147	Hungary	..	Côte d'Ivoire	-2.3
148	Romania	..	Central African Republic	-3.1
149	Russian Federation	..	Suriname	-4.2
150	Slovakia	..	Solomon Islands	..

Source: UNCTAD database.
.. = not available.

However, besides the share of foreign investment in total domestic investment, it is equally important to determine the latter1s share in gross domestic product (GDP), since economies with high investment rates tend to achieve higher growth rates, ceteris paribus. Over time, the accumulated stock of foreign investment can be expected to exert a developmental leverage and, despite generally being a dependent variable, may even serve as an engine of income growth in certain economies at particular times. Table 4 shows that 41 developing countries are ranked among the first 50 countries. Only 23 of these were also among the 41 largest developing country recipients (see table 4) of foreign investment during 1990-1995, partly because in certain cases social upheaval has caused a free fall in GDP growth and, consequently, a relatively high ratio for these otherwise non-prime investment locations. Of the nine developed countries (including Estonia) among the 50 countries with the highest foreign investment stock to GDP ratios, only five were also among the nine largest developed country recipients during 1990-1995, partly because of the changing relative country performance in attracting investors since the 1980s. The highest ranked developed country is Belgium, in 22nd position. The average percentage for developed countries in 1994 was 8.6 and, for developing countries, 12.5. These percentages reflect the generally greater dependence of developing countries on foreign investment for income generation, even when allowance is made for any inaccuracies or other discrepancies in the data.

Qualitatively, other factors ought to be taken into consideration. For example, in many countries, particularly the developing ones, there is considerable dependence on foreign investment in the high-technology sectors with significant spillover benefits for the rest of the economy. Foreign investment also has a rather large weighting in the export-oriented sectors. On the other hand, a significant proportion of foreign investment is of an ownership change, rather than a greenfield, nature (with no immediate net accumulation to the capital stock) as a result of the high incidence of privatization and mergers and acquisitions within the past decade. Most mergers and acquisitions have taken place in the United States and Europe, involving American, European and Japanese corporations. Among developing countries, the incidence of privatization was probably the greatest in Latin America, particularly in Argentina and Peru. On the other hand, the bulk of foreign investment in Asia is of a greenfield nature. Except where foreign investment has a mere displacement or crowding-out effect on local investment, rather than a stimulative one, it should normally contribute towards host countries1efforts to attain the magic target of a total domestic investment share in GDP of 30 per cent. An assessment of the developmental role of foreign investment therefore requires a number of both quantitative and qualitative factors to be taken into accounts.

D. Does investment promotion make a difference

A case can be made for investment promotion and the creation of an investment promotion agency (IPA) purely on the basis of market failure. Conditions in a particular host country (including resource endowment, policies and practices, and feasible projects and their likely outcomes) are not known to all foreign investors; and any one foreign investor (particularly its international track record and capabilities) is not known to all host countries. Similarly, all potential foreign investor partners are not known to all prospective local joint venture partners, and vice versa. It is not surprising, therefore, that virtually every developed and developing country has a type of IPA(s), most of which have some degree of government involvement.

However, in some countries the IPA is less passive and more proactive than in others. Some IPAs are also said to be considerably more effective than others, and this assessment may be based on the efficiency of their practices, rather than on the mere size or volume of operational activities. Some large federal countries find it useful to have a number of IPAs, rather than a single IPA controlled by the central government. The reason for this decentralization is that it is felt that individual provinces or States may be more aware of the investment potential and prospects in their particular subregions and more enthusiastically able to make this information available to prospective foreign investors.

Table 4
Share of inward FDI stock in GDP, by first 50 country/territory, 1994
(percentage)

Rank	Country	1994
1	Liberia	2.15
2	Vanuatu	1.20
3	Saint Kitts and Nevis	1.08
4	Antigua and Barbuda	1.07
5	Saint Lucia	0.94
6	Saint Vincent and the Grenadines	0.81
7	Namibia	0.74
8	Equatorial Guinea	0.73
9	Singapore	0.73
10	Swaziland	0.69
11	Trinidad and Tobago	0.69
12	Dominica	0.67
13	Seychelles	0.58
14	Grenada	0.57
15	Solomon Islands	0.52
16	Malaysia	0.46
17	Zimbabwe	0.42
18	Papua New Guinea	0.39
19	Maldives	0.36
20	Chad	0.35
21	Fiji	0.33
22	Belgium and Luxembourg	0.32
23	New Zealand	0.32
24	Nigeria	0.31
25	Jamaica	0.30
26	Angola	0.30
27	Malta	0.28
28	Australia	0.28
29	Netherlands	0.28
30	Gabon	0.27
31	Estonia	0.27
32	Indonesia	0.26

Table 4 (continued)

Rank	Country/territory	1994
33	Egypt	0.26
34	Costa Rica	0.26
35	Spain	0.25
36	Congo	0.24
37	Gambia	0.24
38	Zambia	0.24
39	Belize	0.24
40	Greece	0.23
41	Tunisia	0.23
42	Bolivia	0.21
43	Saudi Arabia	0.21
44	United Kingdom	0.21
45	Hong Kong	0.21
46	Togo	0.20
47	Chile	0.19
48	Canada	0.19
49	Cameroon	0.19
50	China	0.18

Source: UNCTAD, Division on Transnational Corporations and Investment, based on the Division's FDI database and data provided by UNCTAD's secretariat (excluding data for the Netherlands Antilles and the Virgin Islands).

Investment promotion may account for a not insignificant proportion of foreign inflows. However, it would be difficult to quantify the contribution of investment promotion *per se*, since the latter is linked up with all the other determinants of foreign investment. For example, promotion is meaningless if the investment climate is not appropriate. Nevertheless, even when favourable conditions obtain in the investment locations, the effectiveness of the investment promotion process could vary considerably between countries, depending on the efficiency with which IPAs channel information to foreign investors about business prospects.

There are certain questions, both generic and specific, that prospective investors would typically ask about conditions in a host country. The generic questions are those that would tend to be asked by any investors, regardless of the sector or industry in which they are operating. These, as table 5 indicates, would pertain to the investment climate, investors1rights and obligations, operational conditions, the administrative and legal system, and business support services and infrastructure. Host countries try to provide such information via investment brochures, embassies, promotion offices, advertisements etc; and it is also increasingly being supplied by electronic means. Investors attach even more importance to this information when it is provided by objective third-party sources. What investors are therefore seeking is to minimize the uncertainty associated with entering a new investment location.

However, before going ahead with a particular project, an investor is likely to ask a number of more specific questions in order to supplement the above. For example, with a mining project and a petroleum project (and certain other resource-based activities) the investor is likely to ask questions about requirements such as environmental impact assessment studies and any mandatory monitoring and reporting arrangements. The investor would also tend to ask a number of more in-depth financial questions and to inquire about certain guarantee arrangements, because of the greater risk associated with a huge outlay and a long gestation period.

Large investments in the manufacturing sector also tend to give rise to greater scrutiny of the host country environment. For example, when General Motors recently reached the final stage of its location decision-making for its ASEAN country subsidiary and was left with a choice between the Philippines and Thailand, the latter country was chosen the determining factor, after careful examination of relative capabilities, being the more developed nature of the local supplier network system in Thailand for motor vehicle parts and components. Similarly, Mercedes, in its decision-making process for the setting up of a subsidiary in North America, used a number of 5killer4criteria to eliminate possible locations so as to arrive at a possible short list. Such criteria included the adequacy of potential site areas, the age and size of available buildings, the closeness to a residential area, and the existence of another (rival car plant) within a 50-mile radius. At this stage, locations had been considered in 50 American States and 3 Canadian States, involving 545 existing buildings and over 100 individual sites. Thereafter, 5qualifying4criteria were used to systematically reduce the number of contenders until the stage of final negotiations with public sector utilities in three US State locations - had been reached, the eventual choice being the State of Alabama. In this process, different weighting or ranking is given to criteria at the various stages of choosing between countries, between regions of a country, and between alternative sites.[5]

Similarly, with a high-technology investment project, the investor may be swayed not only by the existence of a pool of highly skilled workers with specific types of training, but also by the existence of supplier industries producing speciality parts, components and other related materials and products, and of R&D facilities and even a technology park. Geographical proximity to main export markets may also be a factor.

Table 5

50 questions foreign investors most frequently ask

Investment climate

1. What is the political situation like? Is there stability? Do governments come and go. If so how often and with what kind of predictability or disruption? Do policies change when governments change?

2. What is the current administration1s attitude towards the following: private enterprise and privatization/ foreign investment/foreigners? Are foreigners treated differently from local investors?

3. Is there much foreign investment? Who has already invested in your country? Who else is thinking of investing?

4. How well is the local private sector treated, and is it consulted by the government in the shaping of economic policy? Is it open to doing business with foreigners?

5. Does your country have a double-taxation treaty and an investment treaty with my country? Are there any special commercial arrangements (automatic visas, preferential trading privileges)? Do our respective embassies, in your country and mine, provide support to business people?

6. How cordial are the relations between our governments? Are there any ongoing political or trading disputes? How large are the community of my fellow citizens in your country and the general expatriate population?

Investors1rights and obligations

7. What corporate organization forms are possible?

8. Can I own land/real property? If so, how are my property rights protected?

9. Do you have any limitations on foreign investment entry?

10. Do you have special requirements/limitations as far as foreign equity ownership is concerned? Do I need a local partner?

11. Are there any requirements for notification, registration, approval or authorization of foreign investment? If so, how complicated are they? How long does it take from beginning to end? Do you have a 5one-stop shop4to help me comply with your procedures?

12. Does your country allow free convertibility and repatriation of funds (capital, profits, royalties and fees)?

13. Are there any special incentives available for certain investments?

14. Can foreign investors access local credit and finance?

15. Do you have any other specific operational requirements - regarding training and technology transfer, for example?

16. Is there available a set of the laws applicable to foreign investors, in the main working languages of international business?

Operational conditions

17. What is your trade regime like? Are there any conditions, restrictions or requirements concerning import and/or export?

18. Is there a regime in your country for the protection of industrial and intellectual property rights (e.g. patents, trade marks)?

19. Are there any conditions, restrictions, or requirements (e.g. for work permits) regarding the use of foreign personnel?

20. Do you have a minimum wage policy or restrictive labour regulations? Are worker disputes or strikes common? What is the strength of the trade union movement?

21. What is the average hourly wage rate?

22. Is there any special sectoral policy for the sector in which I am interested?

23. Do you have specific environmental limitations on industrial production (disposal of waste, pollution controls, etc.)?

24. Are international quality standards and quality control procedures applicable in your country (e.g. ISO 9000)?

Administration of government, the justice system and the general legal framework

25. How efficient is the bureaucracy? Is there any corruption?

26. How does the justice and court system work? Is it efficient and independent? Does it tolerate foreigners?

27. Does your country allow recourse to international arbitration?

28. Does the legal system provide for the recognition and enforcement of foreign arbitration awards?

29. Does your country guarantee foreign investors against nationalization and expropriation?

30. What internationally recognized control agencies operate in your country?

Key business support services and infrastructure

31. What international banks do you have?

32. What international accounting firms do you have?

33. What international insurance companies do you have?

34. How extensive are the local supplier base (availability of raw materials, design and engineering services, machine maintenance and repair, printing, marketing, advertising, etc.) and the local supplier network system?

35. Do you have a stock exchange/equity market?

36. Do you have any seaports? If so, do they handle container cargoes? Do you have an Export Processing Zone?

37. What air links do you have and which international airlines fly to your country?

38. What are the telecommunications services like? Are they reliable? How long does it take to install a telephone?

39. Do you have stable and adequate power and water supply? How many brown-outs have there been in the last six months? What are the plans for upgrading these and other utilities?

40. Do you have a developed road network and inland transportation facilities? If so, are they safe?

41. What are the basic prices of your public utilities?

Economic conditions

42. What is the foreign exchange rate? Is it fixed or pegged to the dollar or other major currency? Has it been stable during the last 12 months? Is foreign exchange easily accessible? If so, at what rate? What is the debt service ratio?

43. What are the level and the structure of taxation?

44. What is the inflation rate?

45. How productive is the workforce? What basic education and skills does it have?

46. What is the real growth rate? How is the economy doing: is it depressed, stagnant or expanding? What is the level of unemployment? What has been the rate of migration? Where do you see this economy 10 years from now?

47. What is the size of the population and what is the GDP per head figure for last year?

Quality of life

48. What are expatriate living conditions like: how are the hotels? is there an international school? Do expatriates have easy access to housing? Can foreigners travel freely in your country?
49. How modern are your health care and hospital services? Is the water drinkable? Is the climate bearable? What are the recreational facilities like?

50. What is the crime rate?

PART TWO

DEFINING AND COMPARING BEST PRACTICE

A. Taking account of the unique characteristics of every country

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

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

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

B. Principal components of Best Practice

1. The fundamentals of building a positive image

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

To start with, host country policies, laws and regulations relating to foreign direct investment together comprise a basic framework for the business-enabling environment that is conducive to capital inflows. In terms of Best Practice, the effectiveness of policies, laws and regulations in attracting increased FDI requires that they be comprehensive, clear and fair, affording the investor the opportunity to establish and operate its business free from undue government interference and from subsequent unilateral change in the terms and conditions of the investment. A country's record in the implementation

of its policy and legislative framework is also important, since its consistent application over time will enhance investor confidence in the country and contribute to the development of an attractive "investment climate".

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

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

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

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

Besides the legal and economic factors, a country must demonstrate a stable political environment that is decidedly positive with regard to foreign investment. This is particularly crucial in the case of those countries that have a notorious reputation for being hostile to foreign investors. The credibility of an investment promotion programme will be much strengthened if the political establishment is clearly supportive of the promotional efforts. Ninety-seven per cent of the countries surveyed have had their governments, either at the presidential or ministerial level, make a clear statement inviting foreign investors and spelling out the favourable terms and conditions awaiting them. The constitutional arrangements within the host country, particularly the allocation of powers and responsibilities between

central, provincial and local authorities, will also be important to investors. Where powers and responsibilities relating to investment are devolved, the investment framework should clearly demarcate the boundaries.

Once legal, economic and political foundations have been laid, an IPA can actively promote a country's image as an attractive investment site. Table 6 provides a comparative summary of the survey's findings as regards some of the most important legal and economic policies. It is interesting to note that countries generally believe they have in place the legal and economic policies conducive to attracting foreign investment.

There are two main types of activities that can be used by IPAs to build a positive image of their investment climate. The first is the provision to the general public of timely, accurate information. Such information can be conveyed in a variety of media, such as brochures, videos and newspaper articles, and cover a variety of topics, including country, market or sector data. Furthermore, it can be presented in different degrees of detail, standardized for all firms or the general public, or tailored to meet the needs of specific firms or specific private groups. The UNCTAD survey revealed a wide range of information formats. Albania's IPA, for example, first concentrated its efforts on producing effective brochures. The IPAs of Cape Verde and Cyprus rely heavily on the use of videotapes. As an addition to brochures and videotapes, the Investment Office of Ethiopia relies on the global network of Ethiopian Airlines to vigorously advertise on the latter's international flights. The selection of formats, modes and media for conveying information is ultimately a function of cost and intent, since, for example, eye-catching marketing materials and customized information tend to be the most expensive. Whatever the expense, however, it is important to note that 95 per cent of the countries surveyed prepare and distribute general country promotion literature.

Table 6

Investment promotion and FDI - conducive policies

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

The second main type of positive image building activity is more focused on the business community in particular and on making contact with private firms for a specific or general purpose. Directories and referrals, as well as investment fairs, trade shows and trade missions, are tools that support the process of initiating and securing contacts with private firms. (Interestingly, one very successful IPA - Malaysia1s Malaysian Industrial Development Authority (MIDA) - suggested in its answers to the UNCTAD survey questionnaire that investment fairs and trade shows are not very effective means of promoting investment, because contacts tend to be primarily with marketing and sales people. Rather, MIDA prefers to "spend money on finding means of giving information to upper level management responsible for offshore investment decisions".) Advertising is another tool for initiating contacts. However, this often requires IPAs to advertise in foreign media.[6] Although it is clearly the most direct means of reaching a large portion of potential foreign investors, it can be extremely costly, especially for developing countries focusing on the media of the metropolitan capitals of the transnationals1home countries. Nevertheless, 71 per cent of the developing countries surveyed indicated that they advertise in foreign media.

It is important to note that there can be a significant time lag between a positive change in the legal, economic and political structures of a country and investors1perception of this change. A crucial role of an image building programme is thus to shorten that time lag. It is also important to note that the time lag issue is particularly problematic for developing countries. The survey indicates that developing countries tend to carry out more positive image building activities than developed countries because they are often perceived as providing the more inhospitable investment climates, even long after individual circumstances have changed significantly. The problem, therefore, is that foreign investors have not always responded with enthusiasm to the promotional efforts at advertising the legislative and other changes that some developing country governments have recently implemented. Thus, in the early stages of an investment promotion campaign, it may be necessary to expend considerably more effort on improving the country1s image than on trying to generate foreign capital inflows. A serious challenge for some developing countries is the inability to shake off images based on negative but not necessarily correct perceptions by foreign investors. In some cases, this is a result

of scepticism about whether the government policy and performance have really changed for the better. In other cases, however, the fact of the matter is simply that a number of potentially attractive individual countries are grouped together with neighbouring, and relatively unattractive, countries to form what are in the perception of investors unattractive or less attractive regions. In this regard, in a number of countries which are seemingly attractive new investment sites, a major challenge for policy makers is how to convince foreign investors that there has indeed been a positive change in government policy and performance.

This remains a particularly difficult problem for Africa. The African continent comprises a great variety of political and economic situations as well as very differentiated investment conditions grouping together 54 countries with significant diversity in investment potential [7]. Unfortunately, however, investors tend to have an almost automatic negative perception about the region as a whole, without taking into account of recent improvements in individual country investment climates and opportunities.

On the other hand, some countries in the ASEAN region, for example, have been so effective as individual entities in attracting foreign investment that they have begun to take synergistic steps in promoting the region as a whole as an investment location. The decision that individual IPAs should promote not only their own countries, but also the other member countries and the region as a whole, was endorsed and reinforced at 1996 ASEAN fora in Bangkok, Jakarta and Singapore as a means of intensifying the process of regional integrated production and supplier network arrangements. This shows that IPAs can both compete and cooperate in attracting foreign investment.

2. Being proactive in attracting investment projects

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

Overall, however, Best Practice in investment promotion would seem on the available evidence to require a targeted approach. In the first place, an IPA which is proactive in targeting investment will be better able to attract the kind of investment that is most appropriate to the country's longer-term development objectives than to those IPAs that are inactive, or which use a broad-brush all-industry approach, and whose countries may otherwise therefore receive disparate, non-complementary and unnetworkable kinds of investment. For example, countries such as Malaysia and Singapore no longer focus on attracting labour-intensive industries; instead, with a fully employed and trained labour force, they now focus on promoting higher value added and skill-intensive activities. Thus, where a government has, within a liberal framework, priorities and special goals in terms of attracting FDI that will most positively affect the country's performance, a well-targeted promotion programme by an IPA can provide the means of achieving those goals. Such priorities or special goals may relate to the country1s level of development, regional development programmes, the labour intensiveness of production, the size of the firm, and the level of technology, etc. Targeted investment promotion can in many instances be a crucial factor because potential investors may go through a period of locational indecisiveness, especially if the activity is not raw material based and is therefore 5footloose4, where some promotional 5push4 is what is needed to tip the balance. Thus, experience indicates that notwithstanding the necessity of taking account of specific characteristics of different countries, most IPAs can adopt a certain core set of similar strategies in targeting investment promotion.

Implementation of the targeted promotion approach requires an IPA to directly contact a specific firm or group of firms within an industry to present the advantages for them of investing in the IPA's country. This

usually takes the form of industry or sector investment forums and missions, but of a more specific nature than those aimed at positive image building. Such activities focus on specific potential at the industry or project level. They may, for example, include the provision of feasibility studies for potential investment projects. Fifty per cent of the developed and developing countries surveyed conduct feasibility studies for potential investment projects. However, the use of this promotional technique has had mixed results. Feasibility studies can be useful to the extent that they cover all the information that a specific investor may be interested in, and are presented in a "ready-to-use" format. But they are expensive and require a long time to prepare. In addition, economic and business conditions change very quickly within a country, and as a result, by the time the studies are finished, they are often out of date and useless.[8] In any case, foreign investors are often sceptical about the data and figures provided and will frequently do their own calculations.

In targeting, host countries need to focus their promotional efforts on investors' home countries from which investment is already coming or on countries which are investing in economies similar to the host country's economy.[9] In any case, the targeted firms should obviously be those that are already interested in locating abroad and that are likely to find the particular investment climate of the specific country attractive. That is why a preliminary selection is useful before launching industry or sector investment forums and seminars. Monitoring the international business environment is therefore necessary for choosing the right candidates. The selection process requires a system for identifying and attracting investors as well as for determining their economic and financial strengths. Access to databases abroad and computerization of available data can facilitate the monitoring of the international environment and thus greatly help in selecting potential candidates. However, the computerization of investment promotion information systems as well as gaining access to electronic databases abroad can be expensive, and that can be a disadvantage for the poorer developing countries. Evidence of this is provided by the UNCTAD survey. While only 28 per cent of the developing countries surveyed have computerized investment promotion information systems, at least 53 per cent of the developed countries surveyed have such systems. However, the trend is that both developed and developing countries are focussing more and more on computerization of information systems. A number of surveyed IPAs from countries such as Algeria and Lebanon intend to connect to the Internet, while others such as Mongolia intend to utilize the IPAnet.

In being proactive and targeting investors, incentives perhaps form the most crucial part of the investment policy and legislative framework of most countries. By "incentive" is meant an advantage or concession offered to promote investment in the host country concerned. Potential incentives cover the entire range of business activity, including those affecting (i) revenues, (ii) inputs, (iii) capital, (iv) cost of debt, (v) cost of equity, (vi) corporate tax, (vii) labour and (viii) land. The incentive may be financial, for example a tax holiday or grant, or non-financial, such as the ability to operate behind non-tariff barriers. Eighty-six per cent of the countries surveyed use incentives to attract foreign investors. Table 7 indicates some of the most widely provided fiscal incentives.

Table 7

Fiscal incentives for foreign investors, early 1990s

(Number of countries offering a type of incentive)

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

Source: World Investment Report 1995.

Incentives form such a crucial component of investment promotion programmes that they are often used by policy makers as the main yardstick for comparison with other countries1 investment promotion practices. But that often presents a number of problematic issues, because in comparative terms various matters that arise in relation to incentives make it difficult (at least from a cost-effective perspective) to qualitatively judge their impact:

(1) Incentives may reward an investor for an investment which it would have made anyway. Evidence is rather limited about the extent to which incentives give rise to investment which would not otherwise be made. In fact, UNCTAD1s 1995 *World Investment Report* states that there is overwhelming evidence that, relative to other factors, incentives are only a minor element in the locational decisions of transnational corporations.[10]

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

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

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

In connection with incentives, a country can target and facilitate the entry of industries through the use of Special Economic Zones (SEZs). Eighty-eight per cent of developed countries and 60 per cent of developing countries surveyed have zones or parks such as Special Industrial Districts, Export Processing Zones or High-Tech Parks. Experience with these have differed widely among countries owing to their different structures, government policies, types of management, host country's investment climate, promotion and costs. Overall, however, they can provide a useful investment and targeting "device" because host countries can tailor their incentives to the types of industries they want to attract. Among developing countries, parks and the like have been particularly successful in the Asia-Pacific region.[11]

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

Governments have a choice between allowing in foreign investment without specific approval or subjecting proposed investment to screening and approval against specific criteria. The relevance of this to investment promotion is that, in judging the attractiveness of an investment climate, foreign investors put much emphasis on the 5hassle costs of doing business4(including start-up) in a particular country. Thus, an important consideration for policy makers is how to ensure that there are no regulatory and institutional bottlenecks at the entry level that negate an otherwise overall attractive policy and legislative initiative, thus effectively equating

policy with actual practice.

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

Perhaps then what is most important to note for the purposes of evaluating Best Practice in investment screening/entry practices is that both free entry investment (5liberal4) and investment screening (5restrictive4) approaches are in fact often modified to such an extent as to be rather less distinctive than the traditional formulation of the issue suggests. More relevant to investment promotion is, therefore, that overall limitations on total investment freedom may take a number of forms that blur the apparent advantages of one approach as against another.

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

In contrast, it is possible that under the restrictive approach, associated procedures and facilities may modify the restrictiveness of the screening process. First, the approval criteria may not be stringent, for example requiring no more than evidence of the financial strength of the investor and its submission of a credible business plan. Secondly, the screening agency may also be an investment promotion agency, implementing government policy to promote investment generally. In this case, the requirement for investment approval may amount to no more than the potential investor1s being directed to a "one-stop" promotion agency. The function of such an agency may be simply to assist the investor in satisfying the investment criteria and thereafter to coordinate the grant of the necessary permits and services by the various other government agencies concerned.

Ultimately, however, whether a country adopts a liberal or a restrictive approach, the various agency approvals required can in many cases amount to an investment constraint. Thus, the third and perhaps most important component of an investment promotion programme concerns investment facilitation activities. This is the provision of services to prospective investors in order to facilitate their start-up as well as to established foreign firms in order to keep them in the host country. Facilitation is the linchpin between the generation of investment and positive image building. Facilitation services convert the interest of investors into actual investments and ensure investor satisfaction with the business climate well into the implementation stage and beyond (5aftercare4). A satisfied investor becomes the best advertisement a country can offer to prospective investors.

The primary concerns of business people are the speed, predictability and transparency of the approval process and the subsequent issuance of permits, licences and other paperwork. Speeding up the approval process is an important element of investment promotion programmes. Automatic approval or mere registration for certain investments can be the solution. Fifty per cent of the IPAs surveyed grant automatic approval of applications for investment in specific cases. Alternatively, defining a specific time-span within which the screening has to be completed is another way of ensuring that the investor knows that an answer can be expected within a reasonable period of time. Sixty-five per cent of the completed questionnaires received from the countries surveyed indicate that the IPAs define a specific time-span within which the screening should be finished after the investment application has been made. Table 8 provides some examples.

A substantial number of government agencies are usually involved in the investment process, even assuming the elimination and simplification of the approval process discussed in the previous paragraph. Depending on the sector in which the investment is being made, the sectoral agencies may include those overseeing industry, agriculture and transportation, as well as natural resource agencies, unless separate promotional arrangements apply. In addition, functional and/or regulatory agencies involved may include the Central Bank and Customs, and those dealing with immigration, labour, health, education, telecommunications, power, taxation and water. Both sectoral and functional agencies may be at the provincial and local levels as well as at the central level.

Table 8

Time-span for project approval

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

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

Whether existing or new, the coordinating/promotion agency should have sufficient authority to ensure that all government agencies involved (i) amend their policies and procedures and (ii) play their respective roles in the promotion, screening and approvals process, in accordance with the government's overall promotion

strategy. If one out of agencies with a number of equal status is designated as the lead agency, the investment promotion process risks being bogged down in bureaucratic rivalry. To reduce this risk a number of governments designate a powerful senior government agency, such as the Prime Minister's Office, which is able to give directions to the other agencies. On the other hand, the government concerned may not wish to add a significant new range of responsibilities to the existing workload of such a senior agency but prefer to entrust the role of promoting and facilitating foreign investment to a single new centralizing agency (a "one stop shop" or (OSS)). In this case, the senior agency's own role would be to supervise and, where necessary, add back-up authority. Seventy-nine per cent of the countries surveyed indicated that they have an OSS which assists investors in obtaining work permits and other licences.

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

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

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

Following commencement of operations, many IPAs will cease to play an active role regarding a specific investment. It is important, nevertheless, to have in place a monitoring system whose function is (i) to provide business troubleshooting assistance to encourage other investors to invest or an initial investor to reinvest, and (ii) to verify that discretionary incentive conditions have been met (e.g. additional employment targets). If incentives are to be offered on attainment of performance criteria, the IPA should ensure that these are clearly spelt out before the investment is made and are straightforward to administer. Seventy-eight per cent of the IPAs surveyed state that they have tried to develop a process of encouraging foreign investors to reinvest via upstream and downstream linkage activities and, also, to develop joint venture and other contractual arrangements with local supplier firms. However, there remains for many developing countries the problem of which are ineffecient or insufficient information databases necessary for facilitating the investment-deepening process, (see table 9).

Finally, to ensure that the business climate generates investor satisfaction and consistency

between the laws and their application to individual transactions, facilitation must be supported by continued policy reform. Policy reform addresses those facets of the national legal and/or regulatory framework that constrain trade and business growth - example, transport rates, bureaucratic delays, levels of fiscal incentives, and exchange rates. Policy reform advocacy may be carried out by a variety of public and private groups, including autonomous government entities and private business associations such as Chambers of Commerce, and it is often tied to the mandate of investment promotion and business facilitation organizations. These institutions can act as catalysts for those of their members whose voices may otherwise not necessarily be heard. Most of the IPAs surveyed recognize this and stated that they maintain a strong relationship with Manufacturers1Associations and Chambers of Commerce.

Table 9

Availability of information databases

	Developing countries	Developed countries
Existence of a system for identifying investors [a]	65%	94%
Computerized system, access to foreign databases[b]	41%	56%

[a] *As a percentage of total developing or developed countries.*
[b] *As a percentage of developing or developed countries with a system for identifying potential investors.*

C. Promotion of outward investment

The UNCTAD survey focused on inward investment and did not address the issue of the promotion of outward investment. However, inward investment is nearly the perfect statistical obverse of outward investment. Whether a country is successful in attracting foreign investment is somewhat dependent on the ease with which capital can move across national boundaries. Promotion of outward investment, whenever it takes place, may be the responsibility of parts of the government other than the IPA; in any event, it is unlikely to be central to the latter1s functions.

Foreign investment flows have been a major factor in the world economy ever since the nineteenth century intensification of colonialism and only slowed down during the first half of the twentieth century as a result of the two world wars. From the 1950s onwards, controls on capital outflows were removed in most of the developed countries. Not many proactive measures were taken by home governments to stimulate outward flows but when investment did occur the full backing of the State was expected in the event of a dispute. With increasing liberalization and resulting globalization, home governments have become somewhat less passive, as attested, for example, by the high incidence of bilateral investment treaties which are designed to gain both easier investor entry into host countries and more favourable operating conditions. In the European Union the process has gone even further in that a number of support programmes have recently been devised to facilitate investment by European firms in Asia, a booming region in which they are perceived to be not well represented. The programmes include a Business Priming Fund, an Asia Enterprise and Asia Partenariat to organize contacts and matchmaking, an Asian Investment Facility to identify investment opportunities and a European Community Investment Partners facility to part-finance feasibility studies, prepare privatization and Build-Operate-Transfer infrastructure schemes, and participate in equity.[12]

Whereas governments in most developed countries see the need for their firms to invest abroad

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

In the developing world, where investment outflows attained a level of US$47 billion in 1996, governments are giving increasing encouragement to their domestic firms to go abroad. In Hong Kong and Singapore, the economy is so small that firms need to invest abroad for market-enhancing and efficiency enhancing purposes. Access to raw material sources is another motivating factor and this is why, for example, Singapore is the biggest investor in Myanmar and Thailand. Malaysia too has been urging its companies to invest and is Viet Nam's biggest investor.[13] Similar considerations inform the action of firms from the Republic of Korea and Taiwan Province of China, among others. Even India has recently removed capital controls on investment abroad. The benefits to be derived from integrated regional production also inform the favourable treatment that the governments of Argentina, Brazil and Chile accord to cross-border investment. The enhanced capacity of developing countries derived from investing abroad increases the strength of the home economy and its ability, in turn, to attract both wholly owned and joint-venture-seeking inward investment.[14]

PART THREE

EFFECTIVENESS OF DIFFERENT PRACTICES

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

In view of the above, this part of the study suggests possible techniques for measuring individual practices by reference to (i) the quantitative impact reflected in increased FDI; (ii) the qualitative nature or composition of FDI; and (iii) the reduction of "hassle costs" to an investor of doing business in a particular country. It then analyses the importance of the organizational structure of an IPA, as well as the choice of emphasis between the main components of Best Practices discussed in part of the study.

A. Measuring the quantitative impact of increased FDI

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

The first difficulty is in obtaining reliable data about the level of investment over a reasonable period leading up to and following the introduction of the investment promotion strategy group/single promotional practice concerned. If the pre-strategy data are not available, measuring the additional level of investment attributable to a promotional strategy will founder on the hypothetical question of what would be the (reduced) level of investment in the absence of that strategy. An important element of investment promotion programmes needs therefore to be the development of adequate databases.

Where data is available, the next difficulty is in establishing causality between the new practice(s) and the increased (or reduced) investment level. Causality may be reasonably established if other possible factors can be eliminated - for example, a significant change in the market for the product in question, such as the discovery of a new use (increasing demand) or the closure of a competing supplier; technological change reducing production costs; or overall change in economic conditions (such as the end of recession). If another significant factor is involved, it is unlikely that the increased investment can be reliably allocated between the new strategy and that other factor. Where the main component of an investment promotion programme is specific targeting of certain countries or industries, the causality may also be easier to establish. In the early years of Malaysia's MIDA, for example, the principal promotional technique was specific investment missions to capital-exporting countries, particularly targeting the electronics sector in the United States. MIDA officials take direct credit for significantly influencing the first semiconductor firms, such as National Semiconductor, to invest in Malaysia.[15]

To measure the true value of an investment promotion programme, it is also necessary to credit only investment which is economically and financially viable. As suggested above, protection of an economy by subsidies, quotas, price controls, unrealistic exchange rates etc. could lead to non-viable investment incapable of generating a satisfactory return in the absence of such protection. It follows that measurement will be more reliable where the economy concerned is a liberal market economy. Furthermore, against the increased flow of investment attributable to the promotion practice should be

offset its costs. There are usually few mid- or long-term costs of establishing an attractive investment framework and admission procedures, but the financial and economic costs of providing incentives and of setting up a promotional agency may be substantial.

In measuring the quantitative impact of FDI, an IPA may also compare Best Practices by making a comparative analysis of the level of government tax revenue in different countries for similar investment projects, and in that context compare, for example, the cost or effectiveness of fiscal and financial incentives currently being provided.

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

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

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

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

B. Qualitative nature or composition of FDI

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

If a country succeeds in moving up the economic ladder, a later stage may be reached where employment generation no longer is an over riding objective; increasing skill development, technology-absorptive capacities and shifting comparative advantages may be such that higher value added activities are sought. In recent years labour-scarce economies with steadily rising wages, such as Malaysia, reached the stage where incentives and proactive encouragement were being given only to skill - and - technology intensive industries. At the present time, Mauritius is fast approaching such a situation. In the case of the relatively small economies of Ireland and Singapore, this strategy of selective targeting was adopted over a decade ago, accompanied by very intensive state-subsidized training in electronic and other knowledge-based skills. In very large resource-based economies, with moderate wage rates but reasonable skill endowment, such as China, India and Indonesia, a twin strategy of targeting both labour-intensive and skill-intensive industries may be pursued with a gradual shift over time in emphasis from sunset to sunrise activities.

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

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

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

For business people "time is money", and perhaps therefore a measurement technique directly related to time may best give an indication of how an investment promotion programme assists in reducing the 5hassle costs4of doing business. The measurement technique should cover the time taken from the date of the investor's application for an approval to the date on which the approval is given, including the time taken by both the promotional agency and other government agencies for whose performance it is also responsible, directly or via senior ministerial mandate. Measurement of the time and cost required for overseas investors to establish telephone contact with a responsible officer of the promotion agency and other government agencies concerned is also an important factor. Here the system would be measured to determine whether delays result from factors within or outside the control of the agency concerned. Delay factors within the agency1s control could include an insufficient number of internal telephone lines and failure to ensure that a responsible officer(s) is on duty in the office throughout normal working hours. Delay factors outside the agency's control could include inadequate country communications facilities and recurrent power outages. For this reason, the measurement technique should include a provision for recording the reasons for the delays.

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

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

D. The importance of an IPA's organizational structure

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

Government IPAs are usually a department of a ministry (e.g. the Trade and Industry Ministry), a separate agency that reports to a ministry, or an agency organized under a Prime Minister's or President's Office.[16] In such cases, the people in charge of investment promotion are civil servants. Since the investment facilitation activities require numerous contacts with the government, a government IPA staffed by civil servants has the advantage of having easy access to various other departments of the government bureaucracy. An IPA, however, should speak the same business language as investors. Investment promotion requires the ability to maintain ongoing contacts with the private sector, the flexibility to adjust quickly to changing needs and the ability to establish long-term relationships with investors. Unfortunately, civil service staff do not usually have any business background and often lack the management and marketing skills needed for this function. Investors are also sometimes reluctant to deal with the government when it comes to confidential matters, because there is always the fear that information will be passed on to other official bodies.[17] Finally, government promotion organizations tend to combine screening and negotiating with foreign investors with marketing functions. As a result, promotion is sometimes a secondary function of the agency. When less attention is given to promotion, the results with respect to the attraction of FDI may be less successful than in the case of quasi-government and private IPAs.[18]

Investment promotion programmes are more successful when they are conducted by agencies which have been created for the sole purpose of investment promotion.[19] Private IPAs can easily fall into that category. However, there is one factor constraining their possible establishment. In many respects, investment promotion has a significant monetary cost. While an IPA may receive payment for some facilitation services, most other activities, especially image building and projects generation, can only be non-profit activities. Consequently, that limits the likelihood of the private sector being interested in setting up such agencies. However, private agencies have in a few instances been set up with funding from international agencies. In such cases, they are perfectly suited to carrying out image building and investment projects attraction activities. To the extent that they have a good understanding of private sector needs, they can also be quite effective in providing investment facilitation services. But they are weak when it comes to investment facilitation activities that require the help of the government. Being completely outside the system, private IPAs do not have the same easy access to government departments as government or quasi-government promotion organizations. As a result, they have difficulties in avoiding red tape and speeding up investment facilitation activities.

Quasi-government or quasi-private organizations usually have their own board of directors, recruit outside the civil service and report to the relevant ministry without being part of it.[20] In other words, they combine the advantages of both government IPAs and private IPAs. Such IPAs have some direct

connection with the government. Because they are in close contact with the public authorities, they can easily carry out investment facilitation activities in an efficient manner. At the same time, they have the freedom to hire people on the basis of their marketing expertise and often motivate them by rewarding them on a performance-basis. As a result they are efficient in investment- generating activities. In other words, the IPAs are not entirely autonomous but can adapt easily to market demands.

Finally, an important organizational issue is an IPA's foreign representation. In practice, many countries choose the structure of their foreign representation on the basis of cost. Thus, consulates and embassies are widely used as vehicles for promoting investment, since some organizational structure already exists (see table 10). In any case, the necessity of establishing IPAs abroad should be dictated by the investment promotion phase in which the host country finds itself.[21] For example, foreign representation is most effective in the case of project-generating activities. These activities involve direct marketing efforts and thus demand closer geographical contact with potential investors. On the other hand, a country which is in the process of building or changing its investment climate image does not need to set up an IPA abroad. It would be a waste of resources to do so, since investment climate promotion activities do not require personal contacts. Similarly, there is no need to place abroad representatives to carry out investment facilitation activities, as such activities are primarily carried out in the host country for current investors or investors who have committed themselves to establishing their presence in that country.

Table 10

Foreign representation in investment promotion

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

CONCLUSIONS

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

1. investment climate promotion
2. investment projects attraction
3. investment facilitation

   a. new investors entry facilitation
   b. current investors assistance programmes

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

- As regards the three components of Best Practices, the greatest diversity between countries is in respect of practices concerning investment projects attraction.

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

The latter point raises the issue of whether IPAs need necessarily to put emphasis on certain types of investment promotion activities. Some countries actually follow "the image building - investment generation - - investment facilitation" order. Investment Canada (the Canadian IPA), for example, implemented an investment promotion programme that closely followed that order and did so very effectively.[22] It was after a successful one-year campaign to promote Canada's investment image that Investment Canada switched to an investment attraction programme through direct marketing.

On the other hand, some countries do not start with image building activities at all, but instead go directly into investment projects attraction. This, of course, can be a fundamental mistake in the case of countries whose image remains negative. The resources used are often wasted and would be better applied to positive image building activities. There are, however, cases where such an approach is justified. For example, in Scotland the IPA started its promotion programme with investment projects attraction because it had already benefited from the image building activities of the British IPA - the Invest in Britain Bureau.[23] But in other cases, it can be useful to continue with previous activities while transiting to a new phase. When the Irish IPA (Irish Development Authority) made the transition to investment project generation, it continued to vigorously pursue image building activities because it perceived a need still to emphasize that the country provided an attractive investment climate.

Whatever the case may be, successful investment promotion relies on an IPA's ability to recognize the investors1stage of decision-making and to tailor its campaign accordingly, since different promotional activities are more effective at different stages of the investment decision making process. As potential investors first show signs of awareness and interest in the possible opportunities of a given country or territory, investment promotion must focus on building a positive reputation for the local investment climate. Then, as the interest narrows down to possible trial and specific ventures, it can focus on investment projects attraction in order to trigger the actual investment action. Once the investors have made a positive and definite decision, the IPA should facilitate both the entry requirements and the longer-term stay. Obviously, IPAs will not be dealing with investors that are all at the same investment decision stage. The most successful IPAs are those which effectively utilize their resources to focus on the activity corresponding to the decision-making stage of the majority of their potential "customers".

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